"Kirloskar Oil Engines Limited Q4 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Kirloskar Oil Engines Limited post Q4 Results Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhirendra Tiwari from Antique Stock Broking. Thank you and over to you Sir!

Dhirendra Tiwari: Thank you Aman. Good afternoon ladies and gentlemen. I am glad to welcome you to the post earnings conference call of Kirloskar Oil Engines Limited. I am pleased to have with us today the management of Kirloskar Oil led by Mr. Sanjeev Nimkar – Managing Director and Mr. Pawan Kumar Agarwal – CFO. With this I will hand over the call to Mr. Pawan Agarwal for his opening remarks following which he will open the call for question and answer. Thank you and over to you!

Pawan Agarwal: Thanks.. Good afternoon everyone, and welcome to Q4 FY2021 earnings call of Kirloskar Oil Engines Limited. My name is Pawan Agarwal and I am the CFO of the company. Today, I have with me the Managing Director of the company, Mr. Sanjeev Nimkar. Our two other colleagues have also joined this call, but from different locations, Mr. Rahul Prabhudesai who heads the strategy and new businesses has joined this call from his residence in Pune and Mr. Amit Gupta who leads corporate finance function at our subsidiary company ARKA Fincap Limited has joined this call from Mumbai. As the second wave of COVID pandemic rose through our country we are all in a somber mood and we thank you for being with us in these trying times.

We sincerely hope that all of you are safe and healthy and picking abundant precaution against the second wave of the pandemic. The need of the hour is to remain safe and the priority for KOEL is more about safety of our employees, customers, suppliers and all other stakeholders. We wish to state that during the call, we may make some forward-looking statements. These statements are considering the business environment we see as of today and therefore, there could be risks and uncertainties that could cause actual results to vary materially from what we are discussing on the call today and we would not always be able to update on these forward-looking statements.

During first half of FY2021, the economy and various industries were severely impacted. Thereafter business activity started to recover on the backdrop of improved customer sentiment and visibility of vaccination program. Financial year 2021 saw the full impact of COVID-19 on life and business in a manner we could have never imagined as we remained persistent to grow we quickly adapted to the new normal for working and ensured continued supplies to our customers without any major interruption or shortages. This has enabled us to achieve a satisfactory performance in a very difficult year.

There is some potential pushback in demand as we see, but from our experience of the first wave, we do expect volumes to recover soon especially with the increase in coverage of COVID vaccination program in the country in coming months. Overall, in our assessment rural demand is expected to be good on the backdrop of normal monsoon prediction, but it is also dependent upon the intensity of spread of second wave of COVID in rural parts of the country. On the supply side, there could be some loss of production and sales in the current quarter due to the micro lock downs and restrictions imposed by various state governments and local bodies. Other constrains such as delays in supply of certain raw materials and availability of manpower are also likely to impact the business performance. Currently, except Nashik all our plants are operational of course we are taking all safety precautions as mandated by various authorities. We are also providing guidance and support to our employees for testing and vaccination.

I would now like to discuss the highlights of our fourth quarter and standalone financial performance. We concluded the year on a positive note with quarter four revenue from operation and PAT growth of 29% and 56% respectively on year-on-year basis.

Part of the growth is attributable to lock down in post during last week of March in the previous year. We have been able to achieve growth in quarter four of the financial year 2021 in many business divisions we operate. However, the impact of COVID is visible in our results especially on the top line for the financial year as above. While the top line in the profits decline in the first half of the fiscal year we were able to reverse this trend and achieve growth and better margins in the second half of the financial year 2021. KOEL delivered highest ever sales in quarter four of FY2021, revenue from operation for the fourth quarter stood at 915 Crores against 711 Crores in the same quarter previous financial year.

Total income of 923 Crores for the quarter was approximately 28% higher compared to 720 Crores in the previous financial year. EBITDA was Rs.117 Crores for the quarter was 70% higher compared to the EBITDA of 69 Crores in quarter four of last year. PBT before exceptional item for the quarter stood at 107 Crores as appose to comparable PBT of Rs.61 Crores in quarter four of FY2020 thereby registering a growth of 76%. Except institutional and project solution what we call IPS business, all other businesses have delivered growth in quarter four on year-on-year basis.

In fact industrial and which includes engine supplies, OEMs in tractor, construction equipment and other segments and customer support business divisions delivered highest ever sales in quarter four of FY2021. On an overall basis, the domestic business grew by 31% whereas 7% growth was seen in exports in quarter four. Momentum gained in GCC and other Middle East countries in preceding quarters in the current financial year was maintained in quarter four. As far as KOEL standalone annual financial performance is concerned, the total revenue from operation for FY2021 is at 2694 Crores, which is 6.4% lower against FY2020.

EBITDA for FY2021 is reported at 282 Crores vis-à-vis 242 Crores in the previous financial year. Profit before tax before exceptional item for the financial year 2021 stood at 240 Crores as appose to PBT of Rs.209 Crores in FY2020 delivering a 15% growth year-on-year. The company generated 526 Crores of cash from operations in FY2021, which is more than 3 times the PAT for the year against 228 Crores of previous year number representing 1.3 times the PAT of FY2020. The liquidity position of the company continues to remain very strong. I would now like to briefly touch upon the financial performance of our three subsidiaries, La-Gajjar Machineries Private Limited, in short LGM, KOEL Americas and ARKA Fincap Limited.

In the financial year 2021, LGM registered more than 12% year-on-year growth in sales despite COVID-19. The revenue from operations grew to 520 Crores in FY2021 from 467 Crores in FY2020. PBT for the year was 26.7 Crores versus 23.3 Crores in the previous financial year. Retail and export segments grew by 14% and 17% respectively at LGM. OEM segment however, saw a decline of 3% year-on-year basis. LGM has formed a wholly owned subsidiary by the name Optiqua Pipes and Electricals Private Limited in February 2021, to tap the market opportunities in the light segment and in the water management solution division. There were no material transaction in Optiqua in FY2021 because the company was formed in February. Optiqua has recently acquired an Ahmedabad based partnership from by the name Optiflex Industries on a slump sale basis at an enterprise valuation of approximately 15 Crores. Optiflex manufactures and sells winding and electrical wires used primarily in submergible pumps, flat cables, fully coated tapes and UPVC column pipes. The acquisition of Optiflex is expected to strengthen the company’s position as the solution provider in the electric pump segment. It would also help the company in expanding its existing electric pump segment and extend value chain through backward integration into select raw materials.

The Optiflex business also has operational synergy with the water management business division of KOEL. The closing of transaction happened on April 16, 2021. As far as KOEL Americas is concerned its revenue from operations grew from $2.5 million in FY2020 to $3.8 million in 2021 and it reported a profit before tax of nearly $116000 in the year 2021 compared to approximately $129000 in the previous financial year. The growth in revenue was predominantly seen in agriculture and industrial segment at KOEL Americas. Now, I will come to ARKA. ARKA has been delivering profits quarter-on-quarter. Total income for FY2021 increased from 48 Crores in FY2020 to 102 Crores and the PBT rose from 10 Crores in the previous financial year to more than 23 Crores in FY2021.

As you aware, KOEL has infused 124.82 Crores of share capital in ARKA FY2021 and the total investment of KOEL in ARKA stands at approximately 651.31 Crores as on March 31, 2021. ARKA is an asset under management AUM of Rs.1124 Crores as on March 31, 2021 versus 447.5 Crores as at March 31, 2020. There have been no over dues in the portfolio of ARKA and on the liability side ARKA established relationship with 16 institutional lenders and raised more than 750 Crores during the year. As on March 31, 2021, outstanding borrowing was approximately 666 Crores at ARKA. ARKA continues to enjoy credit rating of AA- for its long-term borrowings and A1+ for its short-term borrowing from Crisil.

Now I will touch upon the consolidated result. At a consolidated levels the revenue from operations in Q4 jumped by 31.5% from 827 Crores in FY2020 to 1087 Crores in FY2021; however, on an annual basis revenue from operations reduced marginally by 2.5% from 3379 Crores in FY2020 to 3296 Crores in FY2021. The profit before tax before exceptional item for Q4 FY2021 stood at 114 Crores versus 63 Crores in Q4 last year registering a jump of nearly 80%. For the full year FY2021, the group delivered PBT before exceptional item of Rs.278 Crores versus 228 Crores in FY2020 representing almost 22% increase, so that was the quick snap shot on financials and now I request Sanjeev to share with all of you the strategic direction and thrust areas of KOEL and its subsidiary for next few years. Sanjeev, over to you!

Sanjeev Nimkar: Good afternoon to all of you and a warm welcome and thank you for joining on this call. This is Sanjeev Nimkar, MD of KOEL on this call. Thanks Pawan for giving detailed briefing to the investor team here on this call and all the analysts. What I will do in the next 5 minutes is pick up some nuggets and give my side of the assessment as we stand here. If you look at last quarter specifically, this was a quarter for BS-4 transition for our industrial engines and even in our last investor call I had clarified that this time were extremely well prepared for this transition and that point in time I had talked about we clocked 17000 to 18000 hours of field trial before going to the market and when actually we hit the market that is April this year, 25000 plus successful field trials were completed and that shaped us for this transition extremely successful and this acts as a foundation for our preparation for BS-5 going forward down the line 3 years and even CCB 4 plus, which is may be down the line 1 year, which is coming through. So that is a very positive homegrown technology is what we have given to customers and all our OEMs are extremely happy with that move.

Not only that, BS-3 pre-buy, which was there in the last quarter almost on a weekly basis the demand from OEMs are continuously going up and thanks to our robust supply chain we could cater to the all rise in demand into the Q4 and they were extremely happy with that. Last quarter on a power generation side, specifically our 750 and 1000 range, this is almost like 4 years we have entered giving this range to the market and now it is well stabilized. Last year this range has grown by around 50%, so which is like indication that these products are well accepted by the market and we are clear number 2 in this segment in the market. Tractor engines were continuously on a high demand and one of the highest numbers we delivered to our biggest OEM as well as to the open market, so that was also a very positive story on the tractor side. As I informed even earlier that our strategy to cater to global need of firefighting segment through FM-UL range has been runaway success in last 2 to 3 years.

As we speak in the Middle Eastern market we are close to 40% market share. We are now planning to replicate the similar market share in the US and the Latin market so those actions are on track so that is a very positive story for us and this gives us further scope to extend our offerings even into the non-listed domain and firefighting range we have just introduced in the last month or so and we expect good traction on that. As Pawan was just talking about, our water management solution story of last 3 to 4 years the way the company is aggressively capturing marketing share is a classic example that when the industry was at 15% to 20% decline last year, our subsidiary LGM and our KOEL electric pumps, which we sell through Kirloskar main company, so both the segments shown tremendous growth and LGM could get double digit. Probably in our assessment that is the only company in this space who has gone double digit and with that kind of a size, so that is a very, very positive story and all our strategies are coming to there working fine for us.

As Pawan just talked about Optiqua in detail, that is a new subsidiary what we have created under LGM. This is primarily looking at allied products opportunities in water management space and those are primarily control panels, flex cables, and column pipes and these go along side this pumps. Pumps is the electric pumps is the main carrier and this product accessories go along side that and it becomes a complete solution, so the company is making a transition from selling just a product to giving a complete solutions to our target audience. So that is how the Optiqua acquisition there comes very handy, which is a unique company, which we could get this industries what we have acquired, so under one roof we could get all these three together so that was a unique advantage what we got out of this and going forward we expect this to add up to good revenues in water solutions.

Coming to the farm mechanization side, last year and some questions came on this call as well, there were some government regulations coming in for importing from China and we had some products, which were coming from that side in this farm mechanization space. I am very happy to report here that almost 90% plus products are localized here and we have started using our own engines here. Not only that, through our own engines the kind of power tiller, which we have made right now their performance is one of the best in the country right now, so compared to any competition they are the best performing power tillers. Not only that on the weeder segment we are leading the pack, so we are holding close to 40% plus market share in weeder and going forward along with diesel weeders we will be also offering petrol weeders starting this quarter so that completes the range and all small and marginalized farmers will have very cost competitive offerings coming from Kirloskar house through this petrol and diesel weeder segment.

Along with this weeders, we have also come out with some unique product, the weeder and reaper as in a one product we are giving the solutions. Currently, all the farmers are required to buy this product separately that costs them very high. When they go for this unique product so they get huge cost advantage as well as the same product can be used for both the applications, so we are the unique company giving this solution in the market. Coming to Kagal plant we have received many green awards last year and our story of green manufacturing continues from Kagal. As we speak, we also installed 2.8 megawatt solar plant at Kagal, which brings the renewable sourcing of Kagal plant to 12% to 65% now and in the industry that may be one of the highest.

Coming to the research and engineering side next 2 years we will be directing our focus towards offering CNG and PNG based products to the market so that before this market shifts to some more advance technologies, we clearly see a transition happening on that side of the story and the company is completely gearing up for that so with that I hand over back to the organizer.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Good afternoon Sir and thank you for the elaborate presentation at the start of the call. I have 3 questions, the first question is to understand a bit more on the domestic power side of the business where you are now stating that you are clearly number 2 in terms of market share so what are the key grow drivers that you anticipate for FY2022 and to what extent one should look at the industry growth and the company as a segment given that second wave impact has been there initially in the first quarter since and I will share my next two questions subsequently?

Sanjeev Nimkar: Thanks, Renu for this story. When I said we are clear number 2 that is in UHHP segment that is 750 and above, the remaining segment if you look at the quantity market shares we are clearly number one in LHP, MHP this segments. Only HHP we are clear number 2, so that is a small correction out there. Going forward now the second wave has hit hard otherwise till March we have the indications that the capital formation in the country after a long time we are seeing positives in that side, infra projects were coming up very well in the country like lot many ports and airports were also coming up very well lot many, the hospital segment was also going very well, so that continues the momentum, but I do not know in this quarter or next quarter how is the decision making can be little bit slowed, but we look at it as a temporary slow down and the moment this wave subsides down, the demand will be coming back on that side, so we are still quite bullish on this year may be JVP, which was projected towards 11 to 11.5 kind of thing, we still anticipate 9 to 9.5 that will be very good for power generation business.

Renu Baid: Sir, the second question is on the industry segment where we have a strong pre-buy from the emission norms, so, a, would it be possible to quantify the incremental sales or demand, which you witnessed because of pre-buy and also given that some of the end markets are now looking to grow construction on fast track, so can industrial segment continue to grow by high double digits of 20% to 30% even next year given the new emissions and the core construction and demand we see?

Sanjeev Nimkar: Again, this is a very good question actually. See, at the time of pre-buy the growth, which happened in this quarter, the demand which was there was upwards of 25% to 30% for the quarter-on-quarter for that specific segment, which were undergoing for the emission non-transition and our own assessment was that in this Q1 of this FY2022, first 2 months will be slow because there will a lot of stocks in the market and then it will pickup that was our estimation, but fortunately for the industry all those pre-buy got consumed by mid of April actually, most of that and the BS-4 which are higher pricing in fact we are seeing that the industry leader and ourselves all the players have behaved very, very reasonably as far as the end customer pricing is concerned on BS-4 and that is a very positive news and the prices have stabilized to a large extent and the demand has started picking up, so we ourselves are little surprised that by end of April the demand for the BS-4 started coming up, which we are actually anticipating, will come in June first week, 6 weeks it got preponed, which is a very good sign and that also indicates that the thrust of the government on the infra will continue to be very good going forward, so in the month of March it had hit almost 38 kind of kilometers per day was the government announcement, which was a very good sign and it continues, and I expect this COVID wave, this is second wave or may be third wave coming up that can have momentarily blip, but the direction in which the government is operating this space will continue for this coming year; so that is our anticipation.

Renu Baid: Sure and Sir, third question would be overall in terms of capital allocation capex across businesses, we are seeing strong growth in the agri segment, tillers from your expanding capacity same for the diesel genset as well where we have emissions and second lag of CTCV also coming along so broadly if we have look at the capex or the investment as a company would be doing in various businesses over the next 2 years, if you can give us some broad roadmap of which are the areas and what could be the quantum of capex that we are expecting in the space, thank you?

Sanjeev Nimkar: Again, good question. Yes, we are at the cross roads of allocating the resources and we are looking at this entire decade actually;, we are in 2021 and the whole decade we are looking at, but if I break down into two, the first 5 years our focus will be now managing the initial norms whatever required so whatever capex required for that will be allocated, so we are already done a lot of work on BS-4 side, which will be useful for BS-5 and specifically 4 plus, but still there will be some capex required so that will go on that side. For gasification of some of engines and coming out with the range there will be capex allocation for that side well post that we will be putting good amount of capex into developing the very high quality R&D for our water management solution division because in this space the kind of traction, which we are getting, our strategies are coming good, so we will be coming out with our own integrated factory, which is one of the best in the country or may be we are targeting to be best in the Asia so that kind of factor will come, which can be supplying to a global markets and for domestic as well. So R&D as well as excellent manufacturing setup so the way we have dominated the space of 5 year market into the engine segment in terms of our Kagal plant, the state of art plant, one of the best things are there and we dominate the market share. We will be replicating similar things in water management domain as well so our capital allocations will be on that side also. On the farm mechanization side also the traction is very good. If you look at our last year’s performance, although we could not come to complete back, but we had wiped out a lot of problems in that businesses and lot of sustainable solutions will be coming into farm mechanization space and specifically targeting towards the small and marginalized farmers that is the space we will be playing our cards and whatever investment is required for that it will be allocated for that.

Renu Baid: But, would you have any numbers in mind in terms of the next 5 years investment that you are planning to look across all the segments broad number, would it be something like 500 Crores plus?

Sanjeev Nimkar: Yes, more than that actually and we will also actually looking at MND options into related space, we will not go for non-related domains, but related spaces we will be investing to MND options.

Pawan Agarwal: So, Renu, this is Pawan here. As far as numbers are concerned typically next 2 to 3 years anywhere between 75 Crores to 100 Crores plus kind of capex would be continuing, give and take 5 to 10 Crores, on some of the areas that Sanjeev talked about and of course over and above that we are actively exploring the market for the right opportunities and once we identify right asset, obviously we will be exploring those opportunities.

Sanjeev Nimkar: When you talked about the 75 to 100 that is per annum. Further the setup and the emission norms what I talked about.

Renu Baid: Thank you, Sir and all the best.

Moderator: Thank you. The next question is from the line of Sandeep Mehta from Value Ad Research. Please go ahead.

Sandeep Mehta: Congratulations on a strong results. The company has a large net cash position on a standalone basis as well as consolidated basis so why not pay a higher divined or you looking to deploy more capital into the ARKA subsidiary?

Pawan Agarwal: This is Pawan here. Thanks for the question. Yes, you are right. There is substantial cash sitting on the balance sheet. Our dividend policy is very clear and we have announced it, board has approved it and we are adhering to the dividend pay out range which is defined over there and in the near term, next 2 to 3 years, we believe that the dividend payout would be maintained. As Sanjeev just talked about acquisitions, growth opportunities, adjutancies in water management, expansion of water management and also the other potential acquisitions, so this cash that we are holding would be utilized and put to work in a rightful manner going forward. As far as ARKA investment is concerned, we have intimated to the stock exchange also yesterday in our filing that as of now the Board has capped the investment at 1000 Crores and out of that some 651 Crores we have already invested and we are committed to invest another 350 Crores over the next couple of years something will be contributed in the current year and the remaining in the next year, so that is the investment plan for ARKA.

Sandeep Mehta: If I look at your EPS annualized, if you take the Q4 in your annualizes your EPS level is Rs.21.6 per share, if I take the last two quarters that you are reported, the annualize EPS is Rs.20 per share, is that a normalized basis or run rate looking for the user as a base and expect the company to grow from this base from that sort of earning in EPS level, thank you?

Pawan Agarwal: It is a good question. This quarter four has been an exceptional quarter for KOEL and that is visible in our earnings per share, but you would appreciate that this Q4 profitability is a function of lot of factors and minimal cost was one of the reason because of COVID related restrictions many of the administrative overheads were not incurred to the fullest extent and if the situation normalizes going forward the cost would go up and also there could be some pressure on margin probably for next few months. We are actively watching the space as far as the input costs are concerned and we are engaging with our customers in all the segments. In FY2021 we have taken price increase in various segments that we operate and in the current quarter also looking at the crazy input cost increases, we are in touch with our customers for a possibility of price increase. So, obviously, the EPS that you are seeing in quarter four may not be a sustainable EPS, but certainly the numbers that we will be delivering in this year subject to COVID pandemic second wave or third wave whatever, we are quite optimistic about the superior financial performance of the company.

Sandeep Mehta: Great, thank you so much.

Moderator: Thank you. The next question is from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Very good afternoon, Sir.

Sanjeev Nimkar: Good afternoon, Sandeep.

Sandeep Tulsiyan: Sir, my first question is pertaining to the Optiqua acquisition that we have done of this Ahmedabad base company, if you can just share some more light on that what is the amount that we have paid and in terms of end usage of these products, what percentage of the entire solution does it form say for example, we do 500 Crores of sales though LGM and 100 Crores through Kirloskar electric, this 600 Crores pump, what percentage of this would start getting cater from Optiqua and will we sell to other companies if you can give a broad outlook on that business per se?

Sanjeev Nimkar: Sandeep thanks for this question. The first part I will ask Pawan to answer that, but I will answer the second part, which is what percentage and what kind of positioning, so this company primarily makes winding wires, which goes as input into making of the rotator and these things so that one side, so the drawn cooper wire is one production of this company and they have flat cables and column pipes. So flat cables and column pipes goes along with the solution to the customer whereas the winding wire goes as an input into the making of the motor, so let us not discuss the winding wire because that will be going as a input from their side, so I am more talking to you on the flat cables and column pipes side, so when we are talking about the 600 Crores, our play in this flat cable and column pipes right now is not even to 2 Crores, 3 Crores or 4 Crores not beyond that, but there is a possibility that in the best of the scenario 3 to 4 years down the line this 4 Crore can be taken to another 100 Crores; so that much possibility exists and once this 600 Crores moves to 1000 this 100 can move to 150 or 175 so that is the addition, which this Optiqua can do to the business and it goes along with the solution, so when someone is buying the pump the column pipe and this cable goes along side that so that is how the combination goes. That is the answer for this.

Pawan Agarwal: And the first question regarding the amount spent on acquisition, as I mentioned earlier it is 15 Crores Enterprise Valuation and we have taken over a debt of roughly 11 Crores and 4 Crores is the net assets.

Sandeep Tulsiyan: Got is and second question was pertaining to the margin, so you have guided that there might be an impact of 100 to 150 basis point on gross margin in Q4 versus what was delivered, but actually has been margin expansion for that is very commendable, however, what I noticed is although engine segment margins are improved, the pump segment margins have consistently been coming down over the past two quarters, so if you can explain have we taken the price increase in engine, which is delayed in pumps or is there a mix in that year if you could share some more light on these two assets?

Pawan Agarwal: Yes, Sandeep, this is Pawan Agarwal. Yes, your observation is correct. In LGM you are seeing some margin pressure through segment result in the last 2 quarters. There are 2 to 3 reasons for this. Number one: you would recall that we had announced that in LGM we have migrated to Oracle ERP and the old ERP system had some challenges in terms of overhead loading etc on the inventory, etc., etc., so the calculation has been now regularized if I can say so. This has had one time impact in quarter three and little bit on quarter four. Secondly copper prices are going through the roofs and there have been multiple cost increases, which LGM has got from the supplier side and they have been able to pass it on to the market in some of the segments, but still the full passing on of the price increase has not happened. This will again get addressed in quarter one, but there is a timing issue of 2 to 3 months, 2 months roughly in terms of passing on the input cost increase. So there has been some pressure on margin, but this is temporary in nature.

Sandeep Tulsiyan: Okay, fairly explained and Sir, lastly if you can just share numbers of the diesel pump set sales or may be the electric pump set sales that with under KOEL in the current quarter and also the overall USHP sales what we have done for full year versus how it has been on FY2020, those data points, thank you?

Pawan Agarwal: So, KOEL electric pump sale in March quarter 2021, is 49 Crores and the full year sales is 127 Crores, LGM for the quarter 156 Crores, and full year is 519 Crores coming from segment revenue. What was your next question, Sandeep?

Sandeep Tulsiyan: Second one was on that UHHP that 750 plus overall if you can share the numbers for full year versus last year?

Pawan Agarwal: So, full year revenue for FY2020 is 60 Crores and Q4 is 26 Crores.

Sandeep Tulsiyan: Got it, alright. Thank you so much.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Thank you for the opportunity and congratulations for a good set of numbers. The question is on ARKA Fincap if you could give us what was the AUM during the quarter and in the fiscal year?

Amit Gupta: So, with the permission of Pawan and Sanjeev, can I take this question?

Sanjeev Nimkar: Yes, go ahead.

Amit Gupta: Bhavin, just to give a brief perspective on the performance of ARKA Fincap, AUM as on March 31, 2021, I like to highlight the fact that for the first year this is in fact the second year of the full fledged operation. ARKA Fincap revenue base of more than 100 Crores, year-on-year the company has been delivering the profit just in a last financial year FY2021, the company has delivered 17 Crores of PAT, which is more than double as compared to the last fiscal year, which is FY2020. As compared to the AUM in FY2020 we had an AUM of 447 and this financial year we have closed the AUM 1124 Crores. The broad breakup of the AUM is basically split into three different business segments, 55% is constituting from a big corporate, 40% constitutes real estate and allied activity when I am saying real estate and allied is a two different domain out of this 380 Crores is into the real estate and 71 Crores is into the allied and the balance 5% is coming from the SME and MSME space.

Bhavin Vithlani: Sure, thanks and couple of years ago we have highlighted that the target market could be a challenge, so any update on that how are we able to capture our challenge, which is impacting the progress?

Amit Gupta: Bhavin, if I take you to, yes we have been started during the supply chain finance, but it is only one of the target segments as we have already been saying that we will be doing little bit of business within the Kirloskar ecosystem and our major focus will also be on outside of the Kirloskar ecosystem. Among the various products we have started doing a little bit from

Kirloskar ecosystem on a supply chain finance and yes, this 51 Crores of SME and MSME includes the small portion from that particular channel also.

Bhavin Vithlani: The second question is the way the commodity you talk what was the kind of pressure we are seeing on the profitability if you could talk about the price increases that you would taken across power gen or industrial or the other segments?

Sanjeev Nimkar: Bhavin, good afternoon and thanks for your compliment. Nice to hear your voice after a longtime, yes you are right, this commodity pressure is definitely there and this whole story started from the month of October 2020, and October to December we have seen close to 6% to 7% kind of collective pressure coming up in all commodities put together and in the month of January and February we tried passing out closer to 75% to 80% of that to the industrial channel as well as on the power generation channel and also water management side. Unprecedented things continued in April and now even today it is continuing so in a very quick succession this kind of a commodity price rise at least I had not seen in last decade actually. There was a gradual price rise and then flat and then declining that is a normal cycle, but this time it is very different and it is also linked to the global cycles,. So all the commodities are almost linked with the global commodities right now and we expect that it may continue for another quarter, but actually this quarter and may be up to mid of the next quarter. We are quickly working out that wherever possible like power generation or water management side, very quickly we will be passing on this increased prices to the market and as always we will be taking a lead in doing that. Whereas in industrial side we find it little tougher where the discussions will be initiated immediately because unfortunately the industrial OEMs are not able to pass on the price rise to the market because with BS-4 also there is already some price rise, which has already happened for the end customer. On top of that this commodity price rise, they have to pass on very heavily so there is resistance coming in there, but we are able to settle down at least mid part from there so that is what we had done till February-March and we will again be initiating in this month and probably by June we will close further, but there will be little bit of pressure, yes.

Bhavin Vithlani: So, from October till let us say end of April what is the kind of price increases that you would have seen in power generation, industrial or water management?

Sanjeev Nimkar: Water management side at least we have gone up by 8% to 9%, power generation up to 5% to 5.5%, and almost similar percentage on industrial side also.

Bhavin Vithlani: Thank you so much for taking my questions.

Moderator: Thank you. The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar: The question is regarding CPCB 4 plus, what is the timeline the government wants it done now, secondly we have excellent technical capabilities as we have said, so going forward do we expect further gaining market share that our solution is slightly affordable compared to the peers?

Sanjeev Nimkar: Are you through?

Bhagyesh Kagalkar: Yes.

Sanjeev Nimkar: Thanks for question and I appreciate that you are tracking our calls very, very closely otherwise you would not have given the second comment. Thanks for that compliment and yes, indeed our solutions will be cost competitive compared to anybody in the market that is for sure. As far as CPCB 4 plus is concerned our current estimation is July 2022, so that is what it will, but it is the circular is yet not out and there is unwritten rule that whenever the circular is out generally government gives one year window so we expect circular to be out maybe somewhere in June and July 2022 can be reality, but what has happened because of this COVID lot many government department functioning has been paralyzed today, so we do not know whether the authorities are following the right file because the programs are getting shifted to a different priorities and obviously right because different departments have different priority, so we do not know, but looking at BS-4 thing what has happened that there is also some attempts from some of the construction equipment lobby to postpone this, which government did not accept. So that gives us some confidence that may be July 2022 can be 70% to 80% probability can be a reality and as you said, we are geared up for that. There will be some price increase that point in time, but compared to whatever will be the industry increase ours will be reasonably competitive in that space as well and yes, we do anticipate with this transition we will be far different than what happened in CPCB 2. CPCB 2 most of the players could transit that. At this time, we expect there will be some consolidation and this is again I am putting my probability of 60% to 70% on that, there will consolidation and KOEL will gain because of that.

Bhagyesh Kagalkar: Can you quantify how much can the price rise will be and second question is others are saying since they are doing CPCB 4 plus, that give extra advantage in export market, in the developed world, so same thing applies to us on the export side?

Sanjeev Nimkar: CPCB 4 plus gives extra advantage to the developed world may be in few countries only because right now whatever CPCB 2 we are giving that itself is very few countries are ahead of this right now globally, may be you can count on fingers, only those many countries are ahead of us. So that much competitiveness is there even with CPCB 2. Now coming to the price rise question, it will be too early to comment on that because there will be a lot of things to flow first, but if you ask me ballpark number it can be anywhere between 20% to 25% minimum even upwards to 30% also because there will be a lot many new technologies coming in this space and this is the bare minimum I am talking about it, will be only upwards.

Bhagyesh Kagalkar: So, it will be a substantial jump, okay?

Sanjeev Nimkar: Yes, it will be a substantial jump.

Bhagyesh Kagalkar: Thanks from my side and all the best.

Moderator: Thank you. The next question is from the line of Arun Nahar from Alpna Enterprises. Please go ahead.

Arun Nahar: Hi, Sanjeev and Pawan. Just one question, if you could clarify how much of our sale is direct to consumer segment wise when I say that how much in power gen, surely industrial it will not be there, but how much in power gen, how much in the pumps, as a total percentage number and with the followup on that and do we have the liberty of rising prices there faster than the others?

Sanjeev Nimkar: Yes, both the questions are linked with each other and you are absolutely right there that on the consumer side, we definitely get a higher liberty to rise our prices faster, you are absolutely right. We did this calculations may be few days back, we ourself wanted to check how much is our businesses are dependent on B2B kind of a scenario and B2C directly going to the end consumer side so right now we are 30% on the end consumer side, I will give the examples to you, we have our electric motor based all pumps going into almost like 70% to 80% plus going into end consumer side only whatever that OEM segment is there, which goes to our some government in there goes to the B2B route otherwise entirely in the B2C space, then we have farm mechanization also goes through majorly with the B2C route and then we have on our crop irrigation businesses we have this diesel engine base pumps those also go to B2C route, so those are the space we are directly into the B2C space and it adds to around 30%.

Arun Nahar: I have a followup, the followup is how much of your exports is B2C and what is the total volume of your exports?

Sanjeev Nimkar: Total volume of our exports in terms of percentage you are asking to the total sales or actual value?

Arun Nahar: Percentage to total sale, I presume it is...

Sanjeev Nimkar: 9% of our total sales of KOEL comes from export, but if you add and on a water management side I think our percentage is much better, we are around 25%, our La-Gajjar Machinery exports are 25%, so that is a very significant there and our products are very well accepted in that space whereas the power generation and industrial side, main frame KOEL side we are at around 9%.

Arun Nahar: And what are your targets there and I presume La-Gajjar would be what geography mostly Africa, Middle East or...

Sanjeev Nimkar: La-Gajjar primarily Africa, and Middle East you are absolutely right, these are the two geography. Middle East we are almost 10% plus market share, and in Africa many countries we are doing reasonably good, target there in next 4 years horizon we are targeting around 35% to 40% on La-Gajjar side and around 20% on the KOEL side that is our aspiration.

Arun Nahar: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Dhiral from PhillipCapital. Please go ahead.

Dhiral: Good afternoon Sir and thanks for the opportunity. This is the first time I am attending this conference call, so my question is regarding the overall growth opportunity for the next 2 to 3 years?

Sanjeev Nimkar: Good afternoon to you. This question can be as broad as broad can be, but yes, there are definitive plans we have started down in terms of growth opportunities. Individual business wise as well as the MNA space as well, so all the business is like right from industrial engines to power generation to water management to farm mechanization each business has charted out the plans for the next 3 years, so if I get into this details of the every domain, but actually each of this vertical is planning for year-on-year growth of at least 15% to 20% that at a planned level, but of course the environmental factors come into the picture, but if you ask me generically, we will be targeting for double growth CAGR for the next 3 years as an organized level.

Dhiral: Got your point. Thank you so much, Sir.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that would be the last question for today. I now hand the conference over to Mr. Dhirendra Tiwari for closing comments. Thank you and over to you!

Dhirendra Tiwari: Thank you Aman. Let me take this opportunity to thank the management of Kirloskar Oil for the conference call. I also thank all the participants for active interest in the call. Thank you very much and now we can close the call.

Moderator; Thank you very much. Ladies and gentlemen, on behalf of Antique Stock Broking that concludes this conference. Thank you all for joining us. You may now disconnect your lines.