Kirloskar Oil Engines

Date: 18th February 2025

BSE Scrip Code: **533293**

To
Corporate Relationship Department
BSE Limited
1st Floor, Rotunda Building,
Dalal Street, Fort,
Mumbai – 400 001

NSE Scrip Code: **KIRLOSENG**

To
Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza, C -1, Block G,
Bandra-Kurla Complex, Bandra (E),
Mumbai – 400 051

Dear Sir/Madam,

This is to inform you that:

Pursuant to Regulations 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 including amendments thereunder and in continuation of earlier communication vide letter dated 5th February 2025 and 12th February 2025, we hereby inform that the Transcript of the Conference Call for Investors and Analysts held on Wednesday, 12th February 2025, at 4.00 p.m. (IST) to discuss the Unaudited Financial Results of the Company for the quarter and nine months ended 31st December 2024, has been uploaded on the website of the Company, viz. www.kirloskaroilengines.com.

The same is also enclosed herewith.

You are requested to take the same on your record.

Thanking you,

Yours faithfully,
For Kirloskar Oil Engines Limited
Farah Tehmton Irani
Digitally signed by Farah Tehmton Irani
Date: 2025.02.18 14:39:05 +05'30'
Farah Irani
Company Secretary

Encl.: As above.

Kirloskar Oil Engines Limited
A Kirloskar Group Company

Regd. Office: Laxmanrao Kirloskar Road,
Khadki, Pune, Maharashtra - 411 003 India.
Tel: +91 (20) 25810341, 66084000
Fax: +91 (20) 25813208, 25810209
Email: info@kirloskar.com | Website: www.kirloskaroilengines.com
CIN: L29100PN2009PLC133351

"Kirloskar Oil Engines Limited
Q3 FY '25 Earnings Conference Call"
February 12, 2025

MANAGEMENT:	**MS. GAURI KIRLOSKAR – MANAGING DIRECTOR – KIRLOSKAR OIL ENGINES LIMITED** **MR. RAHUL SAHAI – CHIEF EXECUTIVE OFFICER – KIRLOSKAR OIL ENGINES LIMITED** **MR. SACHIN KEJRIWAL – CHIEF FINANCIAL OFFICER – KIRLOSKAR OIL ENGINES LIMITED** **MR. SAMRAT GUPTA – CHIEF EXECUTIVE OFFICER – ARKA FINCAP LIMITED** **MR. AMIT GUPTA – CHIEF FINANCIAL OFFICER – ARKA FINCAP LIMITED** **MS. FARAH IRANI – COMPANY SECRETARY – KIRLOSKAR OIL ENGINES LIMITED**
MODERATOR:	**MR. AMIT SHAH – ANTIQUE STOCK BROKING LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Kirloskar Oil Engines Limited Q3 FY '25 Earnings Conference Call hosted by Antique Stock Broking Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during this conference, please signal for an operator by pressing star followed by zero on your touchtone telephones.

I now hand the conference over to Mr. Amit Shah from Antique Stock Broking Limited. Thank you, and over to you, sir.

Amit Shah: Thank you, Farah. Good afternoon, everyone. On behalf of Antique Stock Broking Limited, I welcome you all to the 3Q FY '25 Post Earnings Call of Kirloskar Oil Engines Limited. To discuss the results, we have senior management team of the company represented by Ms. Gauri Kirloskar, Managing Director of the company; Mr. Rahul Sahai, CEO of the company; and Mr. Sachin Kejriwal, Chief Financial Officer of the company.

I would now hand over the call to Ms. Gauri Kirloskar for her opening remarks, post which we can open the floor for Q&A. Over to you, ma'am.

Gauri Kirloskar: Thank you, Amit. Thank you, Farah. Good evening, everyone. I am Gauri Kirloskar, Managing Director of Kirloskar Oil Engines. Thank you all for joining today's call. Rahul Sahai, CEO; Sachin Kejriwal, CFO; Samrat Gupta, CEO of Arka; Amit Gupta, CFO of Arka; and Farah Irani, Company Secretary, are also on the call with me.

As usual, I'll start with business update, followed by a financial overview from Sachin, and then we'll take your questions. On the B2B side, Q3 has seen subdued results, mainly due to our performance on the Power Gen business. As the effect of the CPCB IV transition plays out, we saw a correction in demand and market volumes on the low and medium horsepower segments. That is the segment of the market that we are strong at. This was expected after prebuy, and the emission norms change.

The demand for LMHP is expected to pick up in the coming quarters, and we expect this to come back to the pre-emission norm change level. We also saw some decline in our market share on the LMHP side, and I see this as a temporary change, and I'm sure that we will recover our earlier market shares once the market stabilizes on the demand side.

On the high horsepower side, the market demand has been very strong, and we are slowly making progress. We have seen an improvement of our market share in this segment, but it is still early days here, and we will continue with our growth in this segment in the coming quarters.

From a product standpoint in Kirloskar Power Gen, we now have the largest range of gensets from 3 kVA to 3,000 kVA. And through Kirloskar Industrial, we offer specialized industrial power systems with 6.3 megawatt gensets. Our Optiprime range of products continue to show promise with very positive feedback coming from the market. With the portfolio starting from 117 kVA going up to 3,000 kVA, this has the best value proposition for most of our customers. On the B2C segment, we have completed our plant transition this quarter.

As I had briefly mentioned in our earlier calls, it was a complex transition wherein we have consolidated five of our manufacturing units in Ahmedabad to a single plant at Sanand. This entire transition was a complicated one involving planning over quarters. We had to build significant inventory to take care of the blackout period of no production and transition to the new plant while moving machinery, manpower and materials.

As expected, this had some impact on the numbers. However, the entire shifting process is complete, and our new plant is fully operational. With the production ramped up, we are now manufacturing at the levels that we have planned for. We will see improvement in performance in the coming quarter.

On the international side, as I had mentioned in my earlier calls, building out the right model for international business is our focus, whether it comes to channel, people or processes. We will continue on this journey. And while we have made some critical steps in some key geographies, it will take time in building out this business to ensure that we are making sustainable moves.

With all of these complexities in the backdrop, for the stand-alone business, we witnessed 3% growth as compared to the same quarter last year. B2B sales grew by 3%, while B2C sales dropped by 3%. These are the highest Q3 numbers we have achieved. On the margin front, EBITDA at INR117 crores registered a 10.1% margin. Net profit for KOEL standalone was INR65 crores.

Now coming to year-to-date performance. Sales for the 9 months year-to-date is INR3,672 crores, a 7% growth. EBITDA is at INR438 crores, which maintained a double-digit margin at 11.8% and stand-alone net profit was INR280 crores. That's a 10% growth year-on-year. The numbers are after excluding the effect of onetime provisions or reversals. Now coming to business updates. B2B sales for the quarter were at INR1,006 crores. Power Gen sales were at INR418 crores.

As I mentioned earlier, this is primarily due to the prebuy effect in the segments where KOEL is traditionally strong. The overall market at these segments corrected by -- and by corrected, I mean, contracted by around 40%. We see the demand levels coming back to the earlier levels in the coming couple of quarters.

On the industrial side, we continue to witness double-digit growth. Sales were INR268 crores for the quarter, registering a 16% growth year-on-year. With CEV BS-V going live from January 1 of this year, we continue to see strong demand from the infrastructure sector.

Distribution and aftermarket business at INR208 crores registered a 15% growth for the quarter, driving service penetration and improving the capabilities of our service dealers continue to remain key focus areas for us.

On the international side, the same quarter last year had some large onetime orders, which gave a significant upside to the numbers then. This quarter did not see a similar impact. And hence, at a quarter level, we saw a slowdown with sales at INR112 crores, which is a 17% decline year-on-year.

The primary focus for our international business continues to be setting up sustainable operations across channels, people and process. On the B2C side, stand-alone sales were at INR148 crores, marking a 3% year-on-year decline. WMS sales grew 3% year-on-year. The business is steadily growing. We saw some headwinds with demand in the agri sector and supply concerns. However, overall, the business is making steady progress.

International B2C grew by 18% to INR10 crores, primarily driven by growth in agri engines and pump exports to Middle East and North Africa, Africa and the Americas region. The export side of the B2C business is showing steady growth, and we expect the same to continue in the coming quarters as well. On the Farm Mechanization business, as you all know, profitability of the business was a concern for some time.

We have taken a conscious call to address this issue. And in that process, we are evaluating the way we approach that business, including our manufacturing strategy, product line, channel and our overall business strategy. As part of this, we have taken a pause in some of the sales that we do, and we are in the process of getting our business model corrected for this business.

As a result, Farm Mechanization sales nearly halved from INR19 crores to INR9 crores this year. Moving to the consolidated business update. Revenue from operations for the quarter was INR1,454 crores, showing a 4% year-on-year growth. As I mentioned, the complex task of consolidating our manufacturing plants at Ahmedabad was completed in Q3.

This has had some impact on the Q3 numbers as we were not able to produce at the levels to meet the demand. Given where we stand now, we are past that phase and the LGM plant stabilization is going as planned. Overall, B2C business consolidated revenue from operations for the quarter were at INR224 crores, witnessing a 14% decline year-on-year.

Our Financial Services business, Arka's quarterly revenue grew 43% year-on-year to INR212 crores. As of December 31, 2024, the assets under management stood at INR6,740 crores. I'm also happy to share that the Board of Directors has approved the interim dividend of 125%, that is INR2.50 per share.

This concludes the quarterly update. At an overall level, the quarter has been challenging for us, both on the B2B and the B2C side. However, I see these as temporary bumps in the road in our journey, and I'm very confident that we will recover along with the market in the coming quarters. Overall, our business fundamentals remain intact. Our product portfolio caters to the entire range of the market. Our products have performed well in the post- emission norms change.

Our channel remains strong and resilient, and we have a very strong first-fit and aftermarket channel. All of these continue to remain strong for us, and therefore, I see a strong future in front of us. The coming quarter is the last quarter of our 2X-3Y journey, and I'm very proud and excited of our journey so far, and we will see where we land against what we envisaged 3 years ago.

We have already announced our next 5-year strategy. And at Q4, we will give you an update on our journey, our learnings, what went well and what could have been better. Making sure that we have a strong end to the 2X-3Y journey is a focus area for all of us. And I'm sure that together as a team, we will achieve that. Thank you for your continued support and commitment. With these key business updates, I now hand over the call to Sachin for a quick financial overview.

Sachin Kejriwal: Good evening, everyone. Thanks, Gauri, for the update. I will now give a quick walk-through of the financial performance for stand-alone and consolidated business. The results and the presentation for today's call has already been uploaded on the exchanges and our website. Q3 top line registered year-on-year growth of 3%. There was a degrowth of 3% quarter-on-quarter.

Coming to the financial performance, I will start with the stand-alone performance first, review of Q3 FY '25 financial performance. Net sales at INR1,154 crores for quarter 3 FY '25 versus INR1,125 crores for quarter 3 FY '24, that is 3% increase year-on-year. EBITDA at INR117 crores for quarter 3 FY '25 versus INR128 crores for quarter 3 FY '24, that is 9% decline year-on-year.

EBITDA margin at 10.1% for quarter 3 FY '25 versus 11.3% for quarter 3 FY '24. Net profit at INR65 crores for quarter 3 FY '25 versus INR79 crores for quarter 3 FY '24, that is 17% decrease year-on-year. Cash and cash equivalents as at end of quarter 3 was INR159 crores. Please note, the cash and cash equivalent is net of debt and includes treasury investments.

With payables of 70 days and receivables of 43 days, we are maintaining comfortable working capital levels. However, inventory level at 77 days is on the higher side due to CPCB norm changes and the upcoming BSI upgradation for the industrial engines. However, we continue our efforts to bring this down.

Now here is the further breakdown of the stand-alone sales for the quarter. The B2B sales were at INR1,006 crores, that is 3% growth year-on-year. B2B Power Gen was at INR418 crores, which was 2% decrease year-on-year. Industrial at INR268 crores, that is 16% increase year-on-year. Distribution and aftermarket was at INR208 crores, 15% increase year-on-year and IBG, that is our international business of B2B was at INR112 crores, that is 17% decline year-on-year.

The B2C sales were at INR148 crores, registering a 3% decrease year-on-year. Within B2C, WMS was at INR129 crores, that is 3% increase year-on-year. International business of B2C was at INR10 crores, that is 18% increase year-on-year and FMS business at INR9 crores witnessed a 55% decline year-on-year. Now looking at the consolidated performance for the quarter. Revenue from operations at INR1,454 crores for quarter 3 FY '25 versus INR1,391 crores for quarter 3 FY '24, that is 4% increase year-on-year.

Net profit at INR58 crores for quarter 3 FY '25 versus INR108 crores for quarter 3 FY '24, that is 37% decrease year-on-year. Please note, these numbers are excluding exceptional items and provision reversals for overdue receivables made for a customer towards sales made in previous year. And the number for the previous periods have been regrouped wherever required to make them comparable with those of the current period.

Let us have a look at consolidated segment performance now. B2B segment revenue for the quarter was at INR1,018 crores, which is 3% growth year-on-year. The segment PBIT was at INR91 crores, reflecting approximately 14% decrease year-on-year. B2C segment revenue for the quarter was at INR224 crores, which is 14% degrowth year-on-year. The segment registered a loss before interest and tax of approximately INR21 crores.

Financial Services segment revenue for the quarter is at INR212 crores, reflecting 43% year-on-year growth. The segment EBIT, including -- excluding exceptional item was at INR29 crores, that is 23% decrease year-on-year. With this overview, I would like to conclude that Q3 was subdued performance as we moved into second quarter post the emission norm changes.

As Gauri also mentioned in her remarks, we believe it will take a couple of quarters more to see the Power Gen demand going back to the original levels. We are confident in our products and ability to quickly react to changing marketing -- market dynamics. We remain focused on the key strategic areas like high horsepower, genset markets and international business in key geographies.

With this key update, now we will open the forum for Q&A session.

Moderator: The first question is from the line of Jason Soans from IDBI Capital.

Jason Soans: My first question just pertains to the Optiprime kVA series. Just wanted to know how is the demand outlook tracking plus we are foraying into the high horsepower segment through this series. So just wanted to know and take an update on how is the demand outlook tracking from the data centres or the high power requirements in various infra verticals?

Rahul Sahai: Thanks, Jason, for that question. So, the Optiprime product range has been very exciting for us. We are getting not just a lot of interest, but also a lot of confirmed orders that we are executing. And those orders are honestly starting at about 117 kVA and today, we are executing orders of about 2,500 kVA also, so that the range is very large.

And we completely and truly believe that with this product, the value proposition of flexibility, better cost of ownership that is offered to our end customers, especially if you look at the segment that you mentioned of real estate or even data centres, I think that is -- that's a big differentiator.

So, there is going to be effort needed to explain the solution and sell it because as you're aware, this high horsepower market operates through not just customer and us, but then there are other people also involved like consultants and contractors and things like that. But I'm fairly confident that it's the product that our customers would value. And we have seen a lot of interest, and our order book is pretty strong.

Jason Soans: Just my next question pertains to just wanted to know, I mean, for LGM, our La-Gajjar machines. The last time around when we look at the financials, for FY '24, we have clocked in around INR540 crores and a PBT margin of 6.4% and a PAT of around -- so we clocked in around INR247 million. So, I understand that this time around in FY '25, there's been a consolidation into Sanand and all those onetime restructuring has taken place. So, would it be possible to share the numbers for 9 months ending FY '25 for LGM in terms of PAT or PBT and revenue as well?

Rahul Sahai: Sure. We'll just check the number. Just give us a minute. We'll just check the numbers and get back to you. I think we can just move to the next question. We will update on this response shortly.

Jason Soans: Sure. Okay. So, my next question pertains to -- just wanted to understand, see, from -- I mean, we started the year pretty strongly. We clocked in -- I'm just talking from a stand-alone basis; we clocked in a PAT of INR135 crores. And from there on, of course, CPCB 4+ has kicked in, and we have seen a performance on profitability sort of weakening.

So here from -- just from a broader sense, I understand, and Gauri did touch upon it. But so, the outlook for Q4 FY '25, this has been historically a very strong quarter for capital good companies and a lot of infra activity tends to pick up in that quarter. So, what are we looking at? How is the year-end looking at, especially after a subdued Q3? Just wanted some qualitative commentary on it.

Rahul Sahai: Sure. So just qualitatively speaking, because otherwise, that information is proprietary. But just qualitatively speaking, we're expecting the early indicators seem to be positive. Whatever residual inventory of CPCB II may have been there in the channel and the larger ecosystem, all of that has been subdued. So, we are fairly positive that we should see a better Q4, and we will work towards that.

Jason Soans: And just from this -- from a demand perspective, in PG, in Power Gen and Industrial segment, which are the verticals you are seeing good traction in? And just lastly, just a clarification, Gauri did mention a 40% number. That was a volume decline for PG, and does that pertain to that? Just a clarification on that perspective as well. And what sort of verticals are we seeing good demand in both PG and industrial?

Rahul Sahai: Right. So, if you look at Power Gen, I mean, if you broadly just say you look at below 250 kVA LHP, below 750 as MHP and above 750 as HHP, that's just a broad classification. What you are seeing is that the LHP and the MHP side, the portion of the portfolio that is influenced by CPCB norm, that has degrown in terms of market demand by close to about 40% to 45%. And I mean, we're fairly positive we will come back to normal levels. But for these -- for the immediate last 2 quarters, we have seen that happening.

And a lot of it is also because there is a residual CPCB II inventory available in the channel somewhere and so that all of that has to go up because we are coming off a fairly hot period. There was a lot of prebuy happening before these emission norms changed. So, there will be a cooling off, which, in my opinion, has happened over the last 2 quarters. And so, we should see a better Q4.

If you look at the HHP business, that has grown from a market standpoint pretty rapidly. It's not a segment where traditionally, we've had a very strong portfolio. And while we are seeing positive impact of that, but the overall product mix that we have is largely on the LHP, MHP side in terms of the Power Gen revenue case. So even if I compare it to our industrial business, which is growing at double digits growth. So, we are seeing improvement on construction side.

We're seeing improvement or significant demand coming from our defence business. But the sheer size and scale of the Power Gen business basically influences the overall blended EBITDA.

Jason Soans: Sure. Those are all my questions. Thank you so much for answering them.

Management: Jason, coming back to your question on LGM year-to-date performance. From year-to-date basis for LGM, we did a sales of INR350 crores with EBITDA of 1.4%.

Jason Soans: EBITDA of 1.4%.

Rahul Sahai: Yes.

Moderator: The next question is from the line of Teena Virmani from Motilal Oswal Financial Services.

Teena Virmani: Rahul, this question is for you on the Power Gen segment, like you mentioned that volumes have degrown by 40% to 45%, particularly in the LHP and MHP range. So, when we compare the Power Gen segment revenues versus 3Q of last year, there is a decline of nearly 2%. So, what could have been the pricing impact because the pricing has not increased to an extent of 40% -- or 35%, 40% in the LHP and MHP ranges. So, I mean, I just want to understand the growth or the degrowth like flattish trend if volumes have declined by 40% during the current quarter. So, what is the impact of pricing in this?

Rahul Sahai: Yes. So, I mean, if I just look at a thumb rule, I would say you can take 35% to 40% increase in scope of the product because the CPCB IV product is very different compared to what it was in CPCB II. And if you look at on an average, about a market dip of about 42% to 45% in terms of volume, that will give you a broad understanding of what happened in the last quarter.

Teena Virmani: So, is there a portion of HHP sales also in this particular quarter, which may be higher in 3Q '25 versus 3Q of '24?

Rahul Sahai: There would be portions of HHP sales, but because our portfolio is so heavily, I guess, on the LHP and MHP side, that HHP sale will not have a significant or will not be very significant in terms of the impact. So, the HHP -- I mean, because of the HHP, we've not degrown drastically on the Power Gen side, but it wouldn't be something very significant at this point.

Teena Virmani: Okay. So, when we look at overall demand, how is the demand scenario currently panning out, particularly in the month of January and, let's say, 10 days in February? Are volumes coming closer to the volumes of same period last year or they are still down by 15%, 20% or any number which you can attribute to?

Rahul Sahai: So, if you look at -- and I'll try and answer this question as clearly as I can. See, if you look at Q2, the overall volumes that the industry had in Q2, they were 28,000 units. Now in Q3, the volumes have increased to close to about 32,000 units, but bulk of the increase has happened in Telecom segment. And Telecom segment, as you're aware, is extremely commoditized price-sensitive segment, where we are cautious around where we want to participate and where we don't.

And if I look at Q4, I would -- I mean, I can't really give a clear forecast here, but I would see a further improvement to the 32,000. So, we would -- I mean, I would say we should be in the range of 36,000 to maybe 38,000. If you look at last year same time, the overall industry demand was upwards of 40,000. We were operating in large prebuy quarters, and the demand was in excess of 40,000 units. So that's just to give you a sense of what's going on.

Teena Virmani: Okay. But has the pricing normalized now overall in general, not particularly referring to Telecom segment, but general pricing, has it normalized or there can still be some kind of pricing impact maybe in this particular quarter, quarter 4?

Rahul Sahai: I mean we're waiting for all the forces to play out. But at this point, we do see that there is a general convergence of pricing in every node. So, we're not really seeing too many unknowns at this point.

Teena Virmani: And my last question is regarding the other expenses and gross margin trend going forward for the company. So, we understand that there were some costs associated with this B2C division also and even B2B margins were also down. So, what can be the normal range for other expenses for the company going forward as a percentage of sales? Or what can basically be your target to maintain on the gross margin side and even on the other expenses side going forward, once things normalize, let's say, from Q1 or Q2 of FY '26 onwards?

Rahul Sahai: So, Teena, in terms of our raw material cost and the other variable costs, we don't see much variance. And we are able to maintain our contribution margin to the same level as we were maintaining in the earlier quarters. However, we have seen impact on EBITDA because of operating leverage loss, due to lower sales, and we'll recover that in coming quarters once the sales come back.

Teena Virmani: Because last few quarters, you had margins in the range of broadly around 12% or so, taking into account the adjustments also. So, can we go back to those 12% type of margins maybe in 4Q?

Rahul Sahai: So, Teena, I will not be able to give you any specifics, but definitely, with the higher sales, we will see a better operating leverage gain and that will improve our margin.

Moderator: The next question is from the line of Charanjit from DSP.

Charanjit: So, my first question is regarding the Power Gen itself. So, you have talked about the inventories in the system. So how are the inventories now for the CPCB II in the system? Because when we look at the other competitors, they have said that inventories have now completely depleted. So, if that is the scenario, can we see our market share again inching up? How is the product from the LHP and the MHP segment from the other competitors who have been in this market? So that's my first question.

Rahul Sahai: Charanjit, this is Rahul. So, what I was saying is that if you look at our market share for the last quarter in Q3, we were at roughly at about 30.3%, excluding Telecom segment. So just removing the telecom side of that business. But -- so market share as such, we are -- I mean, while it's something we track very closely, we are not as worried about the market share per se, but there are opportunities on the HHP side where we have to focus on to ensure our growth.

So that's perhaps the one key point for us as we move forward. So, while we are growing, but the market opportunity is much larger on that -- on the HHP side, and that's something that we have to work on.

Charanjit: So CPCB II product inventory in the system, is it still there? Or is it like totally depleted? So, which can help players like ourselves who have a better product in CPCB IV scale up and regain that market share?

Rahul Sahai: Yes. So, we are not allowed to keep CPCB II -- I mean, as a manufacturer, I cannot sell CPCB II in the market. So, the CPCB II inventory in our system is completely consumed. As far as the entire -- I mean, the larger industry is concerned, we did see different players liquidating CPCB II in the last 2 quarters also. But all of that seems to have depleted now.

Charanjit: And sir, when you talked about that the growth can resume from Q4, so how we should look at this growth in terms of Jan, Feb, from the industry perspective itself, how you are seeing the growth momentum?

Rahul Sahai: So, what we're seeing is that there is an improvement in -- so if I look at Q3 versus Q2, we have seen an improvement in the overall demand scenario for Power Gen. So, if you look at the Q2 volumes, they were at about 28,000, which is extremely subdued for this industry, which used to operate at about 40,000 to 45,000 gensets per quarter.

Now in Q3, we see that number has increased to about 32,000 units from an overall demand standpoint. And in Q4, our anticipation is we'll be closer to around 36,000 to 38,000. That's the anticipation. So, we are seeing improvement. The segment that is growing rapidly is the HHP side of the business on Power Gen. And that is where we solely have products built out, and we have to focus more on from a sales standpoint.

Charanjit: Okay. So just lastly, on the HHP side, in terms of our product portfolio, sir, if you can touch on like which are the most prominent nodes we have. And from the data centre perspective, also, we remember that there was discussion on the certification being there. So, from a ramp-up perspective, it could take 6 months, 1 year. How is the pipeline of the orders for the HHP segment right now?

Rahul Sahai: Yes. So, I mean we are seeing a strong pipeline in the sense -- in the context of what we do. So, I just want to make sure the context is clear. See, we are largely a company that has historically been in LHP primarily and who had some products in MHP. Now over the last 2.5, 3 years, we have very aggressively built out and refined our product portfolio. And today, we are executing orders of 2,500 kVA gensets also and 3,000 kVA gensets also.

So, it's just that the contribution of HHP is relatively smaller in our overall revenue mix. At this moment, what's panning out is the HHP market is growing rapidly. So, if you talk about the portfolio that we have today in HHP, we start at 750, 910, 1010 kVA, 1,250, 1,500. And then with our Optiprime range of products, we go up to 3,000. So, we have a fairly strong portfolio is what I would say. But there is a lot of internal, I would say, upskilling that's needed to be able to sell these products, and that's what we are working on now.

Moderator: The next question is from the line of Mihir Manohar from Carnelian Asset Management.

Mihir Manohar: You mentioned in the opening remarks that there was some decline in market share for us. What led to the decline in market share? Is it because of competition getting aggressive on pricing or because of lower inventory available for buyers? How to understand this? And why should one see that reversing back?

Rahul Sahai: This is Rahul. So, if you look at the Q3 market share, we have improved our market share over last year and marginally, I mean, last year, in Q3, we were at about 30%. This year, we are at 30.3% in the same -- I mean, Q3 to Q3. So, I'm not quite sure about the question.

Mihir Manohar: I think in the opening remarks, Gauri mentioned that on a Q-o-Q basis, you saw a decline in market share.

Rahul Sahai: So, we've not seen a decline in market share.

Mihir Manohar: Just second was on the pricing side. I mean how -- have you had the pricing over the last 3 months, 6 months for our LHP and MHP, CPCB IV products?

Rahul Sahai: Can you just repeat the question?

Mihir Manohar: On the pricing side, so basically, the CPCB IV+ products for the MHP and LHP segment, I mean what is the change in pricing, which is there over the last 3 months, last 6 months?

Rahul Sahai: So, if you look at CPCB IV versus CPCB II, the pricing difference is about 30% to 40%...

Mihir Manohar: Sir, I'm asking only for CPCB IV, I mean CPCB IV like-to-like for last 3 months, are the prices same for you or have they gone up or gone down?

Rahul Sahai: So, there's a process of price discovery that I'm sure each organization is doing. So, node by node, there are variations. In some cases, the prices have gone down. In some cases, they get revised upwards.

Moderator: The next question is from the line of Darshil Jhaveri from Crown Capital.

Darshil Jhaveri: So, I just wanted to -- from what we gather, I think Q4, we are expecting things to go a bit better. So, I just wanted to ask like we mentioned like 5-year, next plan. But in terms of revenue growth, what do we expect like it to be in the next 1 or 2 years, if you could help guide for that, like maybe a shorter-term FY '27 target or in terms of revenue and margin, that would be helpful, sir.

Rahul Sahai: I'm afraid I won't be able to give out that information, that's proprietary at this point. But we will strive to move towards the target that we had mentioned last time.

Darshil Jhaveri: Okay. Fair enough, sir. And sir, just in terms of our market, like in terms of Q4, like we'll be better than last year's Q4? Or how should we look at it, sir?

Rahul Sahai: Unfortunately -- please go ahead.

Darshil Jhaveri: Yes, like just qualitatively or even if no numbers, but then just how do we see if you're comparing because you're saying last year, I think there were a lot of more units in play, right, than currently. So, I just wanted to see how would -- sequentially, will we be better or compared to last year, will we be better Q4 if you could...

Gauri Kirloskar: Sorry, we can't answer that question. Even qualitatively, it becomes a forward-looking statement, so we won't answer that.

Moderator: The next question is from the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: Yes, just on the Power Gen business, so you said that market was around 40,000 units plus, and now it's about 34,000, 35,000. So, is the difference attributable to the CPCB II+ inventory still being in the system for the last 2 quarters?

Rahul Sahai: Yes. So right, in the last quarter, the market was roughly at about 32,000. In Q2, it was about 28,000. And the last 6 months, because of the transition, there has -- and there was a prebuy prior to that. So, there was some surplus inventory in the larger ecosystem in the industry, I'm saying, not with us in this case. So, it has taken some time for the overall demand to normalize.

So, we are seeing improvements quarter-on-quarter in terms of the demand. And we are expecting that in the quarter 4, the demand will be better than what it was in quarter 3. So, we may end up at about around 36,000, 38,000 units, but we are slowly inching back to the pre -- before the transition took place. So, we expect the market demand to normalize soon.

Parikshit Kandpal: So, my question was more on like what in your internal assessment would be last 2 quarters, CPCB II+ engine supply in the market just to get a sense on actual how much demand is down because of that and how much it is down because of actual slowdown?

Rahul Sahai: I'm afraid I don't have that answer clearly. A lot of this information is also anecdotal because formally, you cannot sell CPCB II gensets.

Parikshit Kandpal: Yes. But your target customers, they won't be buying, right? Now I mean, at least in there -- I mean, they are in the clean system, so they won't be buying the CPCB II engines anyways, right? So, your target TAM would not get impacted because of the CPCB II+ engines still being sold in the market for the last 2 quarters?

Rahul Sahai: No, it could because if you look at a lot of the retail business that we do on the Power Gen side, the TAM definitely gets impacted depending on the state and depending on the level of enforcement of the emission change. So, the TAM definitely gets impacted.

Parikshit Kandpal: Okay. And second question is on the pricing side. So, on the demand side of the pricing. So, we're seeing now with these nodes being introduced by most of your peers. So, do you still think that the market or the customer has absorbed the pricing or still you believe that there's still some pushbacks on the pricing side?

Rahul Sahai: I mean pricing will keep playing out. We're not seeing any significant change or significant pushback. We're also very practical when it comes to pricing.

Parikshit Kandpal: Okay. And just last question, incrementally on the per unit of CPCB IV+ engines being sold. So, do you -- the profitability will be much better than the CPCB II plus per unit gross margins, per unit profitability?

Rahul Sahai: I think at an overall system level; I would say the profitability improvement opportunities will be there because of CPCB IV. And this includes both in terms of the product and the aftermarket opportunities that it provides.

Moderator: The next question is from the line of Sagar Parekh from One Up Financial.

Sagar Parekh: So, when I look at your sequential Power Gen numbers, the revenue has gone down from INR481 crores to INR418 crores, right? When you said that the market has gone up sequentially, and you mentioned that you have not lost market share. So, can you just help me understand what exactly is this?

Rahul Sahai: Sure. We just check -- we'll take another question, and we'll revert back to this question.

Sagar Parekh: Yes. And secondly, on the export market, we have not been able to scale up meaningfully as we had envisaged when we charted out our 3-year plan, where we had envisaged that our export revenues would be INR1,500 crores to INR2,000 crores broadly. What exactly has gone wrong? Why is it taking so much time? And what is the outlook on this going forward? If you can highlight on that, that would be helpful.

Rahul Sahai: Sure. So, when we started out with a 2X-3Y ambition, we were -- we looked at different ways and levers that we could deploy for the growth. And if I look back, largely, a lot of the bets that we made have gone in our favour. Certain areas where -- which didn't pan out the way we thought were the time taken and the level of engagement and deliberation required to develop channels outside India and the maturity time that they take.

So, I wouldn't say that things have been -- there is a major issue or anything of that sort. It's an ambition. And if you look at the 2X-3Y journey that we've had until now, we've done fairly well against that ambition.

Sagar Parekh: But export for us is still about growth annually. Any qualitative outlook on which geographies you are seeing, some growth maybe in 2 years, which can help us gauge some exports?

Rahul Sahai: Yes. So, if you -- and I'll just go back to the previous question and answer in context of that. If you look at where exports were when we started this journey, we have doubled our exports more or less, if you look at this year versus FY '22. Now good years and bad years will happen. I mean, for instance, we had demand in South Africa, which is coming in and the power deficit situation in South Africa has improved.

So, we will have those changes play out. But directionally, we have definitely moved in the right direction. Exports definitely, I mean, we've almost doubled our exports.

Sagar Parekh: U.S. and Middle East still continue to not see meaningful change in revenues. Is it fair?

Rahul Sahai: Yes, correct. So, at this point, perhaps not. But if you look at Middle East over the next few quarters, we are pretty confident that will pick up sooner than what the Americas will.

Sagar Parekh: Understood. And if you can answer on that Power Gen sequential, when you said that the market has gone up sequentially, our revenues have not gone up. So, if you can provide some clarity on that, it would be helpful.

Rahul Sahai: Yes, that's just a mix, honestly. So, there are certain orders that we execute in HHP. But if you look at the overall volume base, sometimes -- I mean, there is a mix change that happens, and which is why you see that difference.

Sagar Parekh: But the difference is significant as in there is a sequential growth in volumes, whereas there is a 20% decline sequentially or maybe 15% decline sequentially in the revenues.

Rahul Sahai: Yes. I mean -- so are you asking the market share information doesn't seem to correlate to the revenue?

Sagar Parekh: Yes, yes. Something is off it seems, yes.

Rahul Sahai: Yes. I mean, so at this point, what I can answer is that it's a mix change. Yes, that's it about that.

Sagar Parekh: 28,000, 32,000 whatever number you're referring to is basically below 1,000 kVA market, right?

Rahul Sahai: It's all of it. But if you look at the lower end of the -- say, if you look at, say, below 750 kVA, the large volumes are there. And as you move upwards, that there's an inverse relationship, the volumes become lower, but revenue is much higher.

Sagar Parekh: Because you also said 40% decline in the volumes. So even if I correlate that 40%, that should be about 50,000, 55,000 kind of volumes, then if it's down 40%, then it comes to 32,000. So, something -- and you're saying that the average market is about 40,000, 45,000. So, something is not right. I mean, math, it's not working out, so.

Rahul Sahai: So, if you -- see, there were periods of prebuy also. So, we've had -- I mean, we've had quarters where the demand has been at about 48,000 also. So right now, the numbers I'm giving to you are initial estimates that have come in from our own research agencies, but the formal reports are not out. So, if something doesn't add up, these are directional inputs.

Moderator: The next question is from the line of Mohit Pandey from Macquarie Capital.

Mohit Pandey: Sir, firstly, on the domestic Power Gen business, just wanted to understand if there is any seasonality also in the business. So, would it be fair to say that from here on, we are entering into seasonally strong quarters, adjusting for any CPCB impact as well? So, would the April to June quarter be the strongest typically because of weather, etcetera? Is that a fair understanding?

Rahul Sahai: Generally, we have seen the demand be strong in quarter 4. So, I wouldn't necessarily attribute that to a specific seasonality per se. A lot of times, there are budgets available for capex and people try and consume it in quarter 4. So that's the way I would see it.

Mohit Pandey: Understood, sir. That is very helpful. And sir, secondly, just wanted to understand your comments on the HHP market a bit better. So, you mentioned it's growing -- the demand is strong there. So, beyond data centres, what is driving this demand strength, if you can qualitatively give colour there?

Rahul Sahai: Yes. So, I mean, there's real estate, infrastructure growth that is driving a lot of this demand, too. So that's another segment that is contributing to this.

Mohit Pandey: And within infra, HHP would be consumed majorly by which subverticals for you, sir? That would be my last question.

Rahul Sahai: Sorry, within infra?

Mohit Pandey: Yes. Any particular verticals where traction is stronger for your offerings because infra is very vast, right, so.

Rahul Sahai: For example, real estate developers, IT, IT parks, you look at -- basically all these real estate companies, the large corporate ones, they -- and larger projects, so they take up a lot of HHP themselves.

Moderator: The next question is from the line of Sourabh Arya from Oaklane Capital.

Sourabh Arya: So, I have a couple of questions. First is, what do we -- I mean to say, think about industrial segment now when government has reduced certain capex, etcetera, for this segment. So, in that context, obviously, industrial has done very good till now. So, what are our expectations, let's say, going ahead?

Rahul Sahai: So, if you look at our industrial business, it's actually comprised of a few key segments. There is construction. So, we partner very closely with our construction OEMs. There is our defence business, there's a lot of work that we do with the Army and the Navy. There's railways and then we have other segments such as mining, oil and gas, etcetera.

So, if you look at each of these segments, defence continues to be a strong growth area. And we are fairly bullish in that segment. We are partnering very closely with the armed forces. We don't expect any major softening to happen there. From a construction standpoint, our -- the emissions change that has happened, so we moved from CEV BS-IV to CEV BS-V. And that emissions change has helped us gain market share with our -- with the construction OEMs, too.

And we find ourselves in a spot where a lot of companies want to work with us with our offerings. So, some of these segments and of course, there's a lot of work that we're doing in railways. We're not expecting any immediate slowdown. We do think that from a demand standpoint, these will be growing segments.

On the railway side, maybe in the medium term, we do see an impact of electrification. So, the power car demand may potentially go down, but we are looking at different avenues to -- for driving growth in that segment.

Sourabh Arya: Second is like you used to mention about HHP market share, like I think you mentioned a couple of quarters back that market share is 12% for us. So, can you give some qualitative or maybe any quantitative also would be very helpful, how is our market share in HHP?

Rahul Sahai: Sure. So unfortunately, I don't have all the information on the market data yet. We'll try and compile that. But if you look at our HHP market share in the last quarter, we have seen some deterioration on the HHP side, but it's not -- I mean, it wouldn't impact the overall business too much. So, there is some deterioration that has happened on the HHP side.

Sourabh Arya: Okay. Perfect. I have one question on B2C also. So maybe -- so that is on -- again, going back to the -- maybe on the margin side of it on B2C, there like obviously, last quarter, we had minus 2%, minus 3%. And this quarter, obviously, it came around whatever, minus 9%. So -- and I asked something similar last quarter. So how would be this normalization towards normal margin in B2C business? Will it be sharp going ahead from Q4 now that everything is normalized? Or it will be a slow journey of going towards 8%, 9%, what we were thinking to achieve?

Rahul Sahai: I would say that now the fact that this consolidation has happened at the plant, we should see a recovery back to the pre-consolidation levels as far as the EBITDA profile is concerned.

Sourabh Arya: Okay. So immediately, it should jump towards...

Rahul Sahai: Yes. So, if you look at, say, quarter 2 and quarter 3, these were the transition quarters. So, if you look at the margin profile prior to that, we should get pretty close to that.

Sourabh Arya: Okay. Maybe very lastly, if I can squeeze something on the export side. So, Gauri, maybe you mentioned in the call that there was some onetime impact in last year Q3. But -- so how should we think about export going ahead? I mean to say, is this the base of exports from which growth should be visible? Or I mean to say this is still not -- this is still not in the base, I mean to say.

Rahul Sahai: Can you just repeat the question?

Sourabh Arya: Something like I think Gauri mentioned that last year, Q3, there was some one-off order, which impacted the export growth in this particular quarter. So, this quarter number becomes the base on which there is no one-off left? Or how should we think about it?

Rahul Sahai: So, you're saying if I remove the one-offs or the one-timers from last quarter, how would the performance of this quarter be?

Sourabh Arya: Yes.

Rahul Sahai: So, I mean, obviously, it's a little hard to do, but last year, we had executed some one-timers of about, say, INR40-odd crores.

Sourabh Arya: So, adjusted for that also -- fine, that is fine and helpful.

Moderator: Ladies and gentlemen, that was the last question. I now hand the floor over to the management for closing comments.

Gauri Kirloskar: Thank you very much for your participation and questions, and we look forward to speaking with you again next quarter. Thanks.

Moderator: Thank you. On behalf of Antique Stock Broking Limited, that concludes this conference call. Thank you all for joining us, and you may now disconnect your lines. Thank you.