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“Kirloskar Brothers Limited Q2 FY23 Earnings Conference Call”

November 14, 2022

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**MANAGEMENT: MR. SANJAY KIRLOSKAR – CHAIRMAN & MANAGING
DIRECTOR, KIRLOSKAR BROTHERS LIMITED
MS. RAMA KIRLOSKAR - JOINT MD, KIRLOSKAR
BROTHERS LIMITED & MD, KIRLOSKAR EBARA
PUMPS LIMITED**



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Kirloskar Brothers Limited
November 14, 2022

**MR. ALOK KIRLOSKAR - MANAGING DIRECTOR,
KIRLOSKAR BROTHERS INTERNATIONAL BV
MR. CHITTARANJAN MATE - CFO, KIRLOSKAR
BROTHERS LIMITED**



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*Kirloskar Brothers Limited
November 14, 2022*

Moderator: Ladies and gentlemen, good day and welcome to Kirloskar Brothers Limited Q2 FY23 Earnings Conference Call.

This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 over the conference to Mr. Sanjay Kirloskar - Chairman & Managing Director at Kirloskar Brothers Limited. Thank you and over to you, sir.

Sanjay Kirloskar: Thank you. Good afternoon, everyone. On behalf of Kirloskar Brothers Limited, I extend a very warm welcome to everyone for joining us on our call today. I hope all of you have had the opportunity to go through the financial results and the industrial presentation which has been uploaded on the stock exchange and also on our company's website. The company reported healthy performance along with significant improvement on operational parameters driven by excellent operational execution across geographies, easing pressure on input costs, operating leverage and improved product mix.

Domestic as well as international operations witnessed good topline growth. Growth in the international markets was driven by oil and gas, industry water management while growth in the domestic market was driven by pumps required for various sectors including building and construction, industry, domestic, etc. On a consolidated basis, Q2 FY23 revenue grew by 15% on a year-on-year basis. EBITDA and PAT grew by 72% and 403% on a year-on-year basis for Q2 FY23 respectively. The financial performance is expected to improve going forward as well driven by seasonality impact, wherein the second half of the financial year is typically stronger for the company, healthy orders in hand, cost rationalization as well as softer commodity prices.

Our company has continued to build the momentum in order inflows driven by oil and gas, industry, irrigation and building and construction. The order book as of 30th September 2022 stood at Rs. 2,848 crores up 30% year-on-year. We are witnessing green shoots across geographies and sectors especially for our value-added products. Many countries where KBL operates including India have shown resilience through ongoing global uncertainties. Many of these geographies are expected to deliver a V-shaped economic recovery along with increased public and private sector investment. The company has also not witnessed any significant impact on business operations due to these global uncertainties. Apart from improvement on operational



parameters, the company has also focused on cost rationalization, working capital optimization, and debottlenecking at the plant level to further improve profitability.

I shall now request Mr. Alok Kirloskar - Managing Director, Kirloskar Brothers International BV to share his thoughts on the performance of the international business.

Alok Kirloskar:

Thank you. On the international operations front, the company continues to do well operationally and has shown resilience to various headwinds such as political uncertainties in the UK, the ongoing conflict between Russia and Ukraine and raising interest rates across the various geographies and the volatility in the currencies. This resilience is a clear testimony of the company's operational excellence, diversified product offering and strong brand recall.

Thailand, US, UK and South Africa have performed well in operational parameters, however, the constant devaluation of the pound sterling GBP, the South African ZAR and the Thai Baht against the strengthening USD affected the financial performance. This is mainly due to unrealized mark-to-market losses of Rs. 20 crores arising out of FOREX loss on forward contracts Rs. 14.5 crores taken for off balance sheet items and mark-to-market loss on loan revaluation which amounts to Rs. 5.5 crores out of the Rs. 20 crores. SPP UK has implemented hedge accounting with effect from 1st July 2022. Since hedge accounting is permitted to be implemented only prospectively, SPP UK has booked MTM losses on forward contracts pertaining to hedges taken prior to July 2022 which will be offset by way of higher sales realization in future periods. As such, the group has robust foreign exchange risk management policy and hence these impacts are largely transitional in nature and the group is well insulated going forward from such moves in currency markets.

The momentum in order inflow continued in Q2 FY23 as well. The order book grew 43% year-on-year to Rs. 1,267 crores driven by a significant pickup across geographies led by robust growth in inquiries and conversions. A point to note here is that the product mix also changed in H1 compared to the previous year where we have had 20% lower oil and gas sales in SPP UK compared to the previous H1 same time, but the difference has been made up by other businesses. That said, on the oil and gas side continues to be robust going forward because the effect of all the oil and gas uncertainty or investments both in the market will only be effective from the future year given the way the orders have come in. Apart from this, the company scaled up the subscription platform, spare and maintenance business considerably which provides scalable recurring revenue upfront cash payments and increased engagements with the customer. The company's primary goal remains to scale up this business going forward.

With this, let me invite Ms. Rama Kirloskar - Joint MD, KBL and MD, KEPL to take you through the performance of domestic subsidiaries.

Rama Kirloskar:

Thank you, Alok. The company's domestic operations continue to grow at a healthy pace driven by improved product mix and sustained momentum for retail pumps across the country. We are



witnessing an encouraging trend in recent order inflows as well as consumer sentiments for the retail pumps. The private sector CAPEX is on the rise along with significant pickup into government spending especially towards the agriculture, irrigation and waste water management. The company's APOEM program has performed well since its scaleup during the past few months. KBL's unique initiative is expected to reduce the turnaround time significantly which would further improve the customer stickiness along with improved engagement with dealers and distributors.

Now, coming to the domestic subsidiaries, Karad Projects and Motors Limited continued its healthy growth pace. KPML's revenue grew by 27% while its PBT grew by 9% in H1 FY23. The company is well on track to turnaround with Kolhapur Steel Limited which is witnessing sharp growth in revenues as well as production.

With this, let me invite Mr. Chittaranjan Mate - our CFO for the financial performance highlights.

Chittaranjan Mate:

Thank you, Rama. Let me start with consolidated financial performance highlights for Q2 FY23. The topline grew by 15% year-on-year to Rs. 864 crores. EBITDA grew by 72% year-on-year to Rs. 66.6 crores while EBITDA margin improved by 256 basis points to 7.7%. Profit after tax grew considerably by 403.3% year-on-year to Rs. 30.7 crores while PAT margin expanded by 274 basis points to 3.6%.

Now, coming to H1, the topline grew by 20% year-on-year to Rs. 1,648 crores, EBITDA grew by 41% year-on-year to Rs. 114.7 crores while EBITDA margin improved by 107 basis points to 7%. Profit after tax grew considerably by 158.1% year-on-year to Rs. 46.2 crores.

Now, coming to standalone performance, Q2 FY23 revenue stood at Rs. 591.6 crores compared to Rs. 484.6 crores, a growth of 22% year-on-year. This contributed approximately 68% to the consolidated revenue. EBITDA was at Rs. 46.9 crores, a growth of 25% year-on-year while EBITDA margin stood largely stable at 7.9%. PAT for Q2 stood at Rs. 20.6 crores, a growth of 18% year-on-year. H1 FY23 revenue stood at Rs. 1,134 crores compared to Rs. 882.1 crores, a growth of 29% year-on-year. This contributed approximately 69% to the consolidated revenue. EBITDA was at Rs. 77.9 crores, a growth of 33% year-on-year while EBITDA margin stood largely stable at 6.9%. PAT for H1 FY23 stood at Rs. 28.6 crores, a growth of 24% year-on-year.

This is all from our side. We can now begin question and answer session. Thank you.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Mahesh Bendre from LIC. Kindly proceed.



Mahesh Bendre: Congratulations for the great performance across income statement, balance sheet and cash flows, you have done phenomenally well and I think this performance is commendable after long time. So, the first question is the gross margin during the quarter has improved by 374 basis points for the quarter, so how sustainable they are going forward? Sir, you mentioned in your opening remarks that going forward also, you are seeing a positive business environment across geographies and expecting financial performance to improve year-on-year going forward, so what kind of growth outlook you see over the next 18 months at a consolidated level? And third question is, the KPML is doing phenomenally well, but during the quarter, the topline of this company has remained almost flat and even the profitability has come a bit under pressure, so what could be the reason for the same?

Sanjay Kirloskar: I believe that the gross margin improvement is sustainable going forward. We have told you that the order board is increasing, we told you that we are trying to reduce, doing cost rationalization, etc., so it is our belief that you will see that this is something that is sustainable. Business environment from what we see now at the current movement is that the order board has risen significantly. Over the last year, the order funnel is also quite good. So, we are expecting that the growth momentum will continue. As far as Karad Projects and Motors is concerned, they are very closely tied to our small pumps business and as you are aware, the seasonality is such that the business reduces when the rain start which is actually in this Q2 and KBL also tries to ensure that there is not too much inventory that we don't get stuck with when we don't need it. So, that is why you see the topline as flat. The profitability would have had some effect because of the commodity price hikes, but we expect that this company too will continue to do well going forward.

Majesh Bendre: Sir, last question from my end, the cash flow side, we are doing phenomenally well, during the quarter also, the change in working capital is almost negligible in terms of growth we have reported, so do you think there is further scope to generate, change working capital remaining at this level and generating high cash flows?

Chittaranjan Mate: Yes, we do expect, because as Chairman sir explained, Q2 is generally lean season for small pump business which is a cash and carry, but we also have to build inventory, so as not to lose production capacity. So, our inventories, you would see that are higher than margin and in the remaining H2, we expect inventories to come down and cash flow being under control.

Moderator: Thank you. The next question is from the line of Renjith Sivaram from Mahindra Mutual Fund. Kindly proceed.

Renjith Sivaram: Congrats on robust performance given the environment and given the challenges we had in Q1, so good to see margins coming back, so in that when I look into your presentation like your US and Thailand has done exceptionally well compared to UK and others, so both in terms of revenue growth and in terms of EBITDA, so is there any currency gains because rupee had depreciated much versus dollar, so what portion of this might be due to that currency related



games? And also, if you can give some view regarding the other geographies like what had led to this decline in the overall revenues in UK and other geography and how do you see that going forward?

Alok Kirloskar:

Thank you Mr. Sivaram, thank you for your question, let me start with the US business since you mentioned that. In terms of dollar terms, we are seeing, the difference you are seeing is \$4 million between last year and this year, \$2 million is coming from currency appreciation in the revenues and \$2 million is coming from the growth in the business. This is mainly, I think as we said before it is purely a distribution business and last few years, we have really been consolidating that business and also releasing new products. So, we have some, we have quite a few new products in the pipeline, but we have released a few of the new products and they touchwood have done exceptionally well in the market and we are just seeing a part of that right now in the numbers. So, that is why the US numbers looks like that. Thailand, actually Thai Baht as you know has depreciated significantly against the dollar from early last year of 30 to 38 at the time when this presentation was made. So, there has been significant deterioration in the Thai Baht, so actually the performance is hidden of how well it has actually done. So, I would say that again, nothing special happened this year. I think we have been seeing every year that the companies like Thailand and South Africa as well as the continental European countries which are Kirloskar Pump and Rodelta and Rotaserve, these three entities are operating in these three geographies. Our objective really has been to grow the baseline business and grow the distribution part of that business and that is really what has been happening. Year-on-year, we have been increasing that business and we have seen the growth coming in more and more year-on-year and as we tip over those, let me call them margin barriers in terms of, after which you get a huge rise in margin, we are really at that stage and that is why you are seeing the numbers come through in a lot better way, but I don't think something has significantly changed from 2 years ago to today apart from the fact that today we have reached that level where we are able to grow and show the growth in margins for Thailand.

UK was your next question, there is a decline, the decline is coming from the fact that UK currency has depreciated significantly in this time period from last year at 1.34 to 1.11 to a dollar. So, that is where you are seeing quite a huge amount of reduction. There is a minor reduction year-on-year, but I would say that I would not really pay too much attention to that because as you know the UK numbers tend to be skewed towards the last quarter, so I would judge the UK based on what the numbers come out in the last quarter more than just H1 number.

Renjith Sivaram:

So, what is your outlook is there for the full year, if I looked at overseas business, do you believe this momentum will continue or there will be some adjustment because of this currencies have been, our advantage have been just for this quarter and it will normalize, how do you see the overall growth for the full year?

Alok Kirloskar:

When you say overall, I would say actually we have taken a massive hit, like we have said we have taken Rs. 20 crores hit on the bottomline because of FOREX, so currency has only helped



us marginally in America, but overall it is a huge hit, so you got a 2 million gain in topline in America and Rs. 20 crores hit across gross margins across everyone else. So, in the scheme of things, I don't think currency has helped us, but if you ask me the business point of view, we see the business quite strong, I mean this says that the order intake, we have given the number, 1,267, so that has been quite strong and as it stands we are seeing the mix that we want to see in terms of, as we have always said we want the services business to deliver more, we are seeing that. You can see that in the margins also when you add back the FOREX mark-to-market situation which like I said is transitory and similarly, you see that across other geographies where the numbers have picked up. So, overall, if you ask me, I think it is reasonably strong, we have also made the point about hedge accounting which I am sure you have taken the cue of what that means.

Chittaranjan Mate: Sivaram, Mate here. If you see Thailand numbers, the growth whether it is Q2, it is more than 100% growth. I am referring to slide 56, H1 the growth is more than 50%, I would say 60%. So, even if you take out the currency depreciation, one thing the currency depreciation, they would be only for export business what is going out of Thailand and that too the currency has depreciated over last 12 months by around 17 to 18%. So, I would call at the most some gain on currency depreciation by around 10%, but the rest is because of higher order, higher execution, so there is a real growth, not only due to currency depreciation.

Alok Kirloskar: Just to add to that point is Sivaram, there is no project orders over there.

Renjith Sivaram: In UK?

Alok Kirloskar: No, in Thailand, I think Mr. Mate was mentioning was mentioning Thailand, so there were no project orders. These are all basic regular day to day orders.

Chittaranjan Mate: I will just respond to Mr. Sivaram, the UK slight decline whatever is there because UK it depends on the order getting released by customer, so orders even if it is ready if it goes delivery in October, you would say one quarter fall, another quarter pickup, but overall looking at strong order board, we would anticipate UK to go up over previous year.

Moderator: Thank you, sir. The next question is from the line of Sunil Kothari from Unique AMC. Kindly proceed.

Sunil Kothari: Congratulations for really good commentary and this press release. Sir, across the sector, your commentary talks about very positive momentum and order book, so with your vantage point, would you like to comment some in detail that this turnaround you see in inquiries and orders, how sustainable these are and something which you feel after coming long this orders, this type of inquiries and orders, what is your thought process? And sir, second question is on, as a shareholder I would like to know is the recent again this controversy on legal fees and legal matter and all these things, would you like to comment on those things and is it possible that this



matter Kirloskar Brothers as a listed entity can be kept away, how this can be rectified, that is my question?

Sanjay Kirloskar:

I will answer the first question, I will ask Mr. Mate to respond to the second because I think in the interest of good corporate governance I shouldn't be responding to that. For the last few quarters, we have been saying that the company is taking various actions, not only on the side of improving our reach, improving our product line and taking whatever actions that need to be taken to have better topline, but we have also been working on the bottomline in the sense that the company has had some baggage in the pumps with its old project sectors and we have been telling you that Rama has been working on that to reduce the impact to ensure that we close every single project to the full satisfaction of the customer. To a great extent, we need to wait for the customer to do certain actions, so that we can go forward with our action. So, it is a combination of that the company is in a better place today, the products are well accepted, not only in India, but around the globe, so the products are all world class products, so to speak and that is resulting in customer acceptance of what we are doing. On the other side, various initiatives that are being taken with the help of, earlier we had worked with BCG, we worked with KPMG, there are many things for improvement. We are an old company and we are doing a lot to improve ourselves to see how going forward, everything can become more sustainable. So, for me, it is something that is work in progress, but I think I have said that to the best of our ability, we will ensure that our ratio scheme is improving quarter-on-quarter, year-on-year and I think what you are seeing is just a part of that.

Sunil Kothari:

Sir, my question is more related to outside wealth, how you see this situation, is it really outside changed or it is just internal?

Sanjay Kirloskar:

Outside India or outside KBL?

Sunil Kothari:

No, outside, I mean internally whatever you have done the benefits is shown because of better products, cost control optimization, operating leverage, but do you see overall momentum, macro things also changing?

Sanjay Kirloskar:

We see things changing in the sense, I mentioned a little earlier that the inquiry funnel has improved quite a bit and I think that is also something that is helping us and Mr. Mate will respond to the other question.

Chittaranjan Mate:

Kirloskar Industries Limited along with Mr. Atul Kirloskar and Mr. Rahul Kirloskar who collectively holds 24.92% of the company's voting capital had sent to the board of the company a special notice and requisition under section 100 subsection 2 clause A of the Company's Act 2013. This requisition dated 21st October 2022 for convening an extraordinary general meeting of the shareholders of the company to pass a resolution for the conduct of an external forensic audit into the affairs of the company which is for the propounded object inter alia of verification of the participation and role of the independent directors of the company in respect of or in



connection with certain legal proceedings initiated by the company which according to them are stated to have resulted in huge legal expenses being incurred by the company aggregating to Rs. 274 crores. Based on the legal opinions of obtained from two eminent former judges of the Supreme Court of India. The board of company on 10th November 2022 approved to convene an EGM of the shareholders of the company on 8th December 2022. In pursuance of the said resolution of the board convening the EGM, a notice along with a statement of material facts will be issued by the company to all the shareholders of the company.

Sonil Kothari: I am sorry, but as a minority shareholder, I would like to understand your view that can this be brought to end or can it be removed from Kirloskar Brothers the balance sheet and P&L, any of your thoughts will be really grateful?

Chittaranjan Mate: At the moment, this is all that we can say.

Moderator: Thank you. The next question is from the line of Riddesh Gandhi from Discovery Capital. Kindly proceed.

Riddesh Gandhi: Congratulations on the numbers, just wanted to understand if you look while all of this is happening at the promoter level, this is not impacting our operations or any of that in any way, right? Just wanted to clarify that at first.

Sanjay Kirloskar: I think if it is impacted, you would have seen it, on performance of the company, there is no way, the company will continue to move forward on the same path

Riddesh Gandhi: Sir and the other question was with regards to, you guys obviously have to turn a reasonable amount of optimization to sort of bring up actual level of profitability and margins, so just wanted to understand that going forward, what are the incremental drivers to sort of bring us to may be a double-digit EBITDA margin and potentially higher as some of the other industry player?

Sanjay Kirloskar: operating or beginning to operate all the levers that are possible, there are many programs which I obviously can't mention over here, that are on in the company, whether it is product development or cost reduction exercises, better working capital management, all of these activities are going on within the company, I think time and again at different investor calls, I have been asked when will you reach double digit margins and I hope you feel that we are on the way to getting there.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from O3 Capital. Kindly proceed.

Himanshu Upadhyay: Congrats on good set of numbers, I have three sets of questions, one is, on the power segment, in most capital goods which are on the power segment, we are seeing very strong order book



growing and for us also in the last cycle, it was a big segment, it is main driver of the thing, but when we look at our order book in power segment it is not so much growing versus other segments, so what is happening on the power side, secondly related to power only, we see a lot of reach to heat and other segments also growing, especially in Europe and some of the geographies where we are present, even in India captive power plant and all those things, so is there some product gap or so that we are not growing and can you elaborate on this power segment both in India, what is the scenario currently and what is the scope for us to grow our business in Europe especially on the power segment? And one small thing related to this only, we give a standalone order book breakup, can you give the consolidated order book breakup also, so that we just note which segments are the top 3-4 growing overall in the company level, so that was on power related? Second was related to Kolhapur Steel and Rodelta Limited, my question is more on the Kolhapur Steel, we have been spending a lot of energies on Kolhapur Steel breakeven in growing that business and in last 5 years what we have seen is Rs. 45-Rs. 50 crores and even if we believe that the company will double or let us say even triple, can it really move the needle for us, we are nearing Rs. 3,000 crores, so what is the strategic advantage or thought process on this business, why not focus on getting Rs. 150 crores of revenue in other businesses which are our core businesses or my understanding is completely wrong, you can just elaborate on that and it will be helpful especially on Kolhapur Steel Limited? And third and final, in the Karad Power and Motors Limited, what percentage of revenue would be from the Kirloskar Brother itself and what is the scope of selling motors outside also, because we are seeing very strong traction for other companies which are in the motor segment even for small and large motors, both the segments we are seeing very strong traction, what is the business development opportunity for us on the KPML outside Kirloskar Brothers? These were the three sets of questions, if you can elaborate on them, it would be helpful.

Sanjay Kirloskar:

Just you mentioned that we were big in the power segment where coal fired power was large and we see movement in the power segment, we see orders, inquiries coming in, orders being received and I am also very happy to tell you that I have been told last time that the first Boiler Feed Pump for nuclear power plant which has been totally manufactured in India was done by KEPL and has been accepted by NPCIL, so we expect that this product line, something that KBL was not in before, we will be able to go forward and have much broader product line for the nuclear segment.

As far as thermal power, I think there are inquiries coming from not only in India, but also around the world. Maybe Alok can talk about that. We have also entered into the renewable energy segment; we see many inquiries coming for pumps set turbines and for hydro turbines and for our small pico turbines. So, as far as we are concerned, the power sector has a large order board, it is about I think right now about Rs. 486 crores. Some of that has not moved because there are development orders that are behind that which are slowly, you see that moving in the quarters ahead.



As far as Kolhapur Steel is concerned, yes, it has not done well in the last 4 or 5 years and we have had large losses. For us, it is important strategically because our IP especially for impellers and what we call impeller walls or casings, it is very important for the large pumps to have that in-house. Similarly for the nuclear pumps we believe it is extremely important to have a company like Kolhapur Steel with us. That being said, I will ask Rama to also speak about the work that is being done to turnaround Kolhapur Steel because we see that coming out well as we move towards the rest of the year, but before I hand it over to her, KPML is the supplier of motors for our motor block pumps and they do a lot of stator rotor units as well as motors for KBL. You may know that Kirloskar Brothers being the original company in the group had offloaded electrical business to Kirloskar Electrics Limited and therefore there are agreements in place which we cannot go against, however, KPML does make the latest high efficiency or what would call ultra-high efficiency motor for KBL Pumps. I believe we are the only Indian manufacturer with IE4 and IE5 pumps which are available in the market and these are induction motors, these are not BLDC or whatever, TMFM motors, these are induction motors with the same level of efficiency that qualify as IE5 motors. So, for us, KPML is the company that is very important for our growth and it is also a company that is doing very well. Other than KBL, with our agreement with Kirloskar Electrics, KPML is also able to supply electrical equipment to GE as well as Siemens they are one of three I think global suppliers for medical devices wherever they need these electric motors, KPML supplies them, they also supply to pump elevator, motor manufacturers and they supply complete motors to KBL when we supply through our APOEMs complete pump sets. So, every Kirloskar pump, we would like to be coupled with KBL supplied motor or a KPML supplied motor. So, that is why KPML comes in. Rama will talk about Kolhapur Steel.

Rama Kirloskar:

As you are aware, TKSL was a very strategic acquisition and very dependent on good quality castings especially for critical sectors like oil and gas, M&D, power and nuclear customers as there are some very stringent quality norms. That being said, we have mentioned earlier that we have some very ambitious plans for TKSL and the market potential is there. We have undertaken a go-to-market strategy for this foundry because we are actually transitioning TKSL from being a captive foundry which it was up to 3 or 4 years ago to a standalone foundry that caters to outside customers. We essentially had acquired this foundry to cater to specific sectors such as the power sector, but as you know as power sector demand went down and actually had a huge impact on TKSL's order booking which is why we see the financial issues as of today. I think the only problem with TKSL today is not having a healthy order board and through our go-to-market strategy that essentially what we are trying to do is get external customers in other spaces, such as earth moving, ship building, turbo machinery and valves and I believe that with those orders and there is no dearth of those orders, we should be able to turn this foundry around. That being said, this foundry is a very important part of our group because it allows us better quality control over our castings, it allows us to do very stringent quality checks on our castings such as radiographic testing or magnetic particle testing and that being in-house is a huge advantage for us in terms of stringent quality control as well as ensuring that the kind of products that go out



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of a Kirloskar company abide to the norms that our customer's expect. I hope that answers your question.

Himanshu Upadhyay:

Yes, it helps and on the power prospects in Europe and where we are positioned, like?

Rama Kirloskar:

Yes, we should be able to get a lot of orders from outside, we are expecting as simply because the foundry's is there are going to have huge cost, they are not going to be viable, so we are also targeting customers abroad.

Alok Kirloskar:

Yes, I think in terms of entire full pumps that we supply in Europe, we see two kinds of business, one is replacement where the same plant is being updated in Europe in the current environment and the other are new coal fired power plants or cash fired power plants. So, we don't see so many of those right now in Europe, most of them are being done through Turkish contractors when the depreciation in the Lira many of them have taken jobs, some replacement upgradation jobs in Europe, but majority of the new jobs that we are doing are mainly in the old CIS countries which are not aligned to Russia like Kazakhstan and Tajikistan, all these countries as well as some North African countries. So, actually we are working closely with them and we have already got orders from them for the power segment. The other area that we also looking at when you talk about power is hydrogen. So, our delta has also supplied to a major company in the Netherlands, oil and gas company for the hydrogen process pumps where they have orders at the moment and we have also supplied to Shell for the red to green project which is the new biofuel project. So, they are quite closely aligned with both biofuels as well as green hydrogen.

Moderator:

Thank you. The next question is from the line of Devansh Nigotia from SIMPL. Kindly proceed.

Devansh Nigotia:

Sir, regarding the order intakes, if you can dissect between all the sectors and give a perspective and also share your outlook for irrigation, oil and gas, building construction and power, how do you see the order inflows going forward?

Sanjay Kirloskar:

You are asking for a forward-looking statement, I guess.

Devansh Nigotia:

Yes, so you specifically mentioned that the inquiries have been very strong, but if sectoral you can just, your deeper perspective?

Sanjay Kirloskar:

You know what has happened in water resource management, I think we are the only company that does pump manufacturers, takes orders on our own terms which is we say that these are all terms, we will need the advance, we want a letter of credit, we will not sign a joint venture agreement where are what severally and jointly responsible, so there are the terms that we have set our ourselves. Even then, we continue to get large number of orders for big pumps as well as small pumps and there are many projects going on in different parts of the country and we are there in every single state wherever irrigation and water resource management is taking place. One good thing that I see especially in water resource management is they have now started



asking us for our predictive maintenance and remote monitoring system. You may be aware that our KirloSmart System is the only system available from an Indian company or from any company for monitoring pump on a remotely, it also allows people from an app on the phone not only can you monitor your own pump and many parameters on your own pump, but also you can order spare parts if you need to do some quick maintenance, the entire way to do maintenance is come across through augmented and virtual reality. We are one of the few companies, I would say, in the world where such a system is available and I am very happy that whether it is Varanasi or whether it is Angul in Orissa or whether it is Bombay, our system is working very well across the country and it works in Indian conditions especially because we have had over a decade long experience of having it worked in Indian conditions and it is not just private sector that is buying this system, but also public sector that is buying such a system. So, this is something that is very encouraging going forward. We have dispatched quite a large number of very big pumps, I believe to Madhya Pradesh in the last quarter and there are more orders that we can see in the pipeline.

As far as building and construction is concerned, I think we have mentioned that there is quite large growth in that. In the investor release, we have said that sales have increased 30% year-on-year basis and there is a 62% growth in the pending order board. This basically is either the way the construction industries moving in India where there are requirements for modern systems and as you are aware, our pumps are used globally whether it is in South East Asia, North America or Western Europe, some of the most iconic buildings in the world have pumps made by Kirloskar Brothers, so as Indian buildings become smarter and smarter, I believe that with this business will continue to grow going forward. Power, I believe I have already answered. I will now ask Rama to speak on oil and gas especially since she is also Managing Director of Kirloskar Ebara and maybe Alok can also talk after her about oil and gas around the world.

Rama Kirloskar:

So, we do see a healthy order board for oil and gas. There are quite a few upcoming projects both domestically as well as internationally. Domestically, I believe there are quite a few pipeline projects, pipeline expansions and refinery expansions happening. We are seeing good inflow of orders from outside as well whether it is the Central Asia or it is the Middle East, so as far as order booking is concerned, oil and gas has been quite healthy.

Devansh Nigotia:

Just in oil and gas, when we look at our peers, they have been winning really large orders, especially in oil and gas, but when we look, our order inflows have not been as strong, so I am just trying to understand where is the gas here?

Rama Kirloskar:

So, I think the way you need to look at it is not on for oil and gas, KBL and KEPL together need to be seen. So, if you look at the KEPL order booking, pending order board as of the Q2 was around Rs. 363 crores along with the KBL aspects, so if the KBL sector only does non-API which is non-American Petroleum Institute oil and gas pump, so essentially it is all the utilities that go into a refinery, but the refinery pumps and the pipeline pumps itself are catered to by



KEPL. So, when we look at oil and gas, it has to be the KEPL order booking as well as the KBL order board for oil and gas.

Devansh Nigotia: And the order book which you mentioned for irrigation and water resource management that does not include the agricultural standard pumps, right?

Sanjay Kirloskar: That comes under our small pump business and as we have informed earlier as well that is made stock business, it does not reflect in the order board because pumps are dispatched during the month and the other thing is that we continue to be the only company in the country that does not give credit to customers, whether they are dealers or end customers.

Moderator: Thank you. The next question is from the line of Sanjay Kumar from ithought PMS. Kindly proceed.

Sanjay Kumar: We are very glad that you have asked for the extraordinary general meeting by requisition of certain shareholders, keeping in mind the spotless reputation of the Kirloskar we are sure we shall be voting in favor of the forensic audit asked by the shareholders. As you have nothing to hide, given the strong legacy over the 130 years, it will only reinforce the great legacy of Kirloskar to be voting in favor of the audit?

Sanjay Kirloskar: Is that a question or what, when Mr. Mate spoke, that is all that we will say about that resolution.

Sanjay Kumar: First question on nuclear pumps, your MNC peers won orders from NPCIL for coolant pumps, why have we not been to participate in these orders, any commentary on the future orders, are we on NPCIL's approved list of manufacturers for both primary and secondary, auxiliary pumps? There was a bidding on Bharat Pumps & Compressors and may be Rama can answer this because in the first bid, we were only 2 lakh short of the winning bid and then in the rebidding the MNC player won it, so we had Rs. 145 crores cash, so it does not make sense to go for it, so any commentary on that too would be helpful?

Sanjay Kirloskar: As you may be aware, the company has provided primary coolant pumps through fast bidder reactor and hence the company decided to go to NPCIL for the development order for primary coolant pumps and what happened was they took about 7 years to give us that order and within 8 months of that, we came out with a tender for 24 pumps and also that we were disqualified from getting into that bid. So, we didn't know whether we should continue for that or not and therefore we have told them that it doesn't make any sense for us to participate in the tender. They believe that only suppliers even if they had got designed pump are not (49.50)made all the components in India should be qualified and someone who has made primary coolant pump for the fast breeder reactor is qualified. So, we have taken ourselves out of the primary coolant pump business or the tenders and we still haven't received the response from NPCIL as to what they would like to do. Since there is only one bidder left in the contention. So, that is as far as primary coolant pumps are concerned. As far as BPCL is concerned, I think, Rama will answer.



Rama Kirloskar:

Just now, we had taken part in the auction for BPCL. I believe that tender was won by an entity called Vasavi Powers during the first auction, but from what I heard from various sources was for some reason they have to retender this simply because I believe the payment was made by third party which was not in line with the tender condition, however, our board had only approved up to a certain amount simply because our legal counsels had brought to our notice that there were a lot of, various aspect of the tender terms and conditions which were not very conducive to doing business. There is no, number one the technology and the IP was given to us on as in basis. Number two is, there were little time to actually do due diligence and that was given, I think barely any time was given to all the parties and number three, our legal counsels as per the tender conditions told us that there was actually no rights that were transferred. BPCL was not actually in position to transfer rights on many of that technology to us and that we felt was a bit of risk in taking part in such an auction, simply because I believe their contracts with their partners which they had year go and few other European pump companies that they had got in various technologies from those contracts did not allow the BPCL to transfer that technology to any peers. So, with some of these risks in mind there was a gap or a limit to the amount that we were able to spend and the gap was enforced by our board. So, that was the reason why we stopped at a certain amount. I hope that answers your question.

Sanjay Kumar:

And so does that pull us out of the NPCIL race because we have disqualified some primary and we have lost access to the existing set of pumps installed at NPCIL, will we participate in future primary or at least the secondary and auxiliary pumps going forward?

Rama Kirloskar:

There were two reasons why we took part in this, one was for that there were some nuclear pumps and there were some oil and gas pumps, but as it happens, we are already a developing both nuclear and oil and gas, so it does not really harm the company very much because at the end of the day, as far as the BPCL pumps are concerned, PSUs already do only on the L1 basis. They have older technology and as far as nuclear is concerned, we are taking developmental orders anyway, so we don't believe that it is going to hurt our future.

Sanjay Kirloskar:

To answer your question, we have a design for PCP. We can make every other pump for the nuclear business. So, our withdrawal from the PCP process was on the maximum of principle that if you are going to take if you want to only a supplier and not a designer, because they basically want Atmanirbhar Bharat and for that everything needs to be done here and if only qualified party is the supplier who has never made such pumps, I don't think they can design the water pump to India. That is the kind of vendors that you want, then please go ahead with it. if it's taken with every pump or fast breeder or what is it called pressurized heavy water reactor.

Sanjay Kumar:

Sir, second was on solar pump orders that you received from large EPC contractor, so is it if you could name it is Tata Power or Adani, can you talk about the order scenario and the pipeline?



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Sanjay Kirloskar: We don't talk about other companies, but we get orders for solar pumps. We do not supply completely integrated units, we supply our pumps to integrators who then, this was a single order, that is why it was mentioned, but otherwise continuously we are supplying.

Sanjay Kumar: So, this one continues in future?

Sanjay Kirloskar: Yes, this we can continue in future.

Sanjay Kumar: And since it is only the pump, the realizations will be about 30,000 per pumps?

Sanjay Kirloskar: Approximately, I guess.

Sanjay Kumar: In solar pumps, you did talk about motors for IE4, IE5, but in specific to solar pumps, from my understanding, it is that PMSM is more important than the pump itself.

Sanjay Kirloskar: We supply whatever is required for the solar pump.

Sanjay Kumar: So, do we make those motors in-house or?

Sanjay Kirloskar: I think we buy them apparently .

Moderator: Thank you. The next question is from the line of Mahesh Bendre from LIC Mutual Fund. Kindly proceed.

Mahesh Bendre: Sir, the question is for Mr. Alok Kirloskar, the domestic entities most of the time are doing clearly well in terms of growth margins and there is some predictability in terms of how that is going to behave in the future, in the international operations there is some unevenness in terms of growth and margin, so what kind of initiatives we are taking, bring some stability in the operations in terms of investor view point some predictability in terms of growth, margins and how this business are going to go, so steps your taking for that? Secondly, one third of the revenue comes from the international operations now, globally we were talking about the capital expenditure cycle, globally is coming back, I mean most of the countries are investing hugely in infrastructure, so how do you think that we will be able to capture at the international entity, how it will benefit to us? And third is, there is a possibility of India UK free trade agreement might sign probably in near term, but how this will benefit to us, is there any benefit that will come with Kirloskar Brothers side?

Alok Kirloskar: So, I think the first point you mentioned is in terms of predictability in sales and margins. One thing that we have been saying that we are doing continuously, I think in multiple calls is that for SPP UK as you remember it is very oil and gas dependent and really that is where we are trying to focus on services business, develop a baseline business in every company independently. In the baseline business can be products through distributors, it can be services, where you have a framework on track, 2 or 5 year framework on tracks again, so as predictability



and that is really what we are looking at in every individual legal entity. You see that coming through and I mentioned that earlier even in SPP UK where our project sales for UK were 20% down over last year. When I say projects it is mainly large pumps, engineered pumps, but even then the topline has been more or less the same because it has been taken over by other sides of the business and the margins actually are far better which you can see when you add back the FOREX losses compared to last year. So, I would say that every entity has an objective. Thailand as an example has an objective to develop a baseline business, so Thailand is a much newer company and one issue there historically is we didn't have a baseline business, there used to be lot of volatility because there was large jobs that were going through, but year to date, there have really been no large jobs that have gone through has really been all baseline business and we are seeing that underlying business come through in H1. So, I think one thing we are doing is developing a baseline business in every country, it has not been done since today or yesterday, we have been saying we were doing this for a while. You are seeing the result of that now and we are trying to get the right mix in terms of the product versus services because operating in European countries especially, the product's EBITDA margins are not at the level that we want KBL EBITDA margins to be, when you look at the Indian side of it and that is why we blend them with services to get the right EBITDA margin while in South East Asia, we see margins to be a lot better, so I would say that this is really what we are doing, managing the product mix as well as developing baseline businesses in different geographies to deliver that sustainable and consistent numbers that investors craves for. On the capital cycle, I would say that we are in different zones, one is the US, one is UK and Europe, one is South Africa and one South East Asia. So, every area we have something different that caters to the business and we are taking advantage of those capital cycles in those respective geographies. Just to give an example in the US where it is happening, it is happening in water supply which is infrastructure and it is happening in real estate. We are in both those geographies and we have those products with us. In the UK and Europe, it is happening especially in oil and gas as well as floating LNG platform which are really important at the moment as well as offshore exploration as well as green energies, like things like hydrogen and areas like that we have products and we are working with the largest companies in these segments. In South East Asia, we are in Thailand, working closely because there is a lot of outward movement probably from China and lot of investment in Thailand as well as Vietnam. We are again are in these territories, we cater to industrial, we cater to real estate and we cater to services in this segment which basically cater the key areas that are coming out of China and in South Africa, we cater mainly on the services side because we see slowly a lot of movement towards OpEx from CAPEX and that is something that we have been seeing for the last 2-3 years that we are pushing that as development of our strategy and we see that in the South African business, when you look at the EBITDA margins where over the last few years, from a real basket case business, they're delivering 12% and that is really coming from the services side of the business. I hope that answers your key points.

Your last point was FTA, I think with or without FTA we worked quite well between the British company and the Indian side of the business. We have products like our multistage multi outlet products which my father alluded to earlier when we talked about iconic buildings around the



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world having our pumps, any major buildings had these pumps whether the new world trade centers, Burg towers, so the same pumps are anyway working in India through KBL. We have another patented product called Autoprime. It has made a bid dent in the Indian market for water supply, so whether there is FTA or there isn't a FTA, I think that has not really stopped us. We have a good IP policy and companies across the group are able to leverage the IP to use them as anchor products and develop around them in their respective markets. I hope Mr. Bendre that covers your point.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Rama Kirloskar for closing comments.

Rama Kirloskar: Thank you all for joining us on this call. For any queries, please feel free to reach out to us or Investor Relation consultant, Strategic Growth Advisors. Thank you.

Moderator: Thank you. On behalf of Kirloskar Brothers Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.