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"Kirloskar Brothers Limited
Q3 FY '23 Earnings Conference Call"

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CHORUS CALL

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MS. RAMA KIRLOSKAR - JOINT MANAGING DIRECTOR OF KBL & MANAGING DIRECTOR OF KIRLOSKAR EBARA PUMPS LIMITED
MR. CHITTARANJAN MATE – CHIEF FINANCIAL OFFICER – KIRLOSKAR BROTHERS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Kirloskar Brothers Limited Q3 FY '23 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 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjay Kirloskar, Chairman and 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 this call today. I'm sure you've had an opportunity to go through the financial results, which have been uploaded on the stock exchanges and on the company's website. You must have seen the numbers, stand-alone as well as consolidated as well as the order book. So I thought I would ask Alok and Rama to speak more about the international and domestic businesses, following which Mr. Mate will make a short presentation. Thank you. Of course, I'll be available for the question-and-answer session. Alok?

Alok Kirloskar: Thank you. The overseas operations had reported a good performance in Q3 FY '23, healthy revenue growth as well as improvement in operating profit margin. The company's Thai, UK and African business has shown resilience over the last few months amid multiple uncertainties and in fact, has gone from strength to strength. The Dutch business too is at inflection point, and we are expecting the business to do better after the changes that we've made over the last year. The company's focused efforts in developed markets in water, fire and industrial and services has helped it get more regular business rather than be dependent on large product jobs coming from oil and gas.

That said, there's been an uptick in the oil and gas market and more new orders have been booked in the sector compared to the last few years. That said, those orders are not reflected in the sales as yet. We expect those orders reflecting in our order book will come into sales over the next few quarters. There have not been any major high-value product sales in the year-to-date sales of the international companies. It's mostly been regular daily business. The company's framework services business has picked up pace and is witnessing increased adaptation by the customers.

The South African business has signed major framework contracts for services in the power and mining sectors. The Thai business has signed services in the steel and offshore oil and gas sector. The British business has continued and signed on more companies in chemicals, water and oil and gas space. The company is well positioned and is able to build up this business going forward. The order book position just from a point of interest for KBI B.V. company's opening in January 1st, 2022, was about GBP 52 million. And the opening order book position on 1 January, 2023, is about GBP 84 million.

There are new projects coming up in the pipeline. And as we have focused on developing standard business or regular business, we are now pushing our dewatering autoprime products so that we can further build another layer of base business in the company, which will help give consistent performance. With this, let me invite Miss Rama Kirloskar, Joint MD, KBL and MD, KEPL to take you through the performance of domestic companies.

Rama Kirloskar: Thank you, Alok. On the domestic operations side, we see an improving demand for our made-to-order and engineered-to-order products. The market is also picking up for our retail segment. We continue to invest in modernization and productivity improvements at our plants in Dewas, Sanand and Kaniyur. We expect to reduce lead times for delivery through such productivity improvements and ensure no sales losses.

We have launched many new products, including numerous energy-efficient pumps and we'll continue to do so in the subsequent quarters. We continue to be the only player in the retail segment with IE4 and IE5 motors, which are the most efficient motors available in the market. Most of our retail competitors offer IE2 motors at most. As all of you are aware, the company's recently launched APOEM program aimed towards reducing our turnaround time continues to gain momentum from the dealers and distributors.

We expect this program to propel growth going forward. The government, in the recently announced budget, has focused on increased capital expenditure, which augurs well for the company's products in the agriculture, water and oil and gas sectors. We firmly believe that with the sharp uptick in the government and public capex, the growth of the private sector capex will follow. Major private capital expenditure is expected towards data center, healthcare, energy and industrials. The company is putting extra efforts to reinforce the presence and expand its product offering for these sunrise sectors.

The growth in public and private capex cycle is expected to aid the growth for the domestic business. Now coming to the domestic subsidiaries, Karad Projects and Motors Limited continued its healthy growth pace. KPMLs revenue grew by 11% while PBT grew by 6% in 9 months FY '23. The company is well on track to turn around the Kolhapur Steel Limited, which is witnessing a sharp growth in revenue as well as production.

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

Chittaranjan Mate: Good afternoon. Thank you, Rama. Before I share my views on the financial performance of the company, please note that during Q3 FY '23, one order of the company has crossed threshold for recognition of revenue as per rules that follows consistently. Consequently, there is a favorable impact of INR 31 crores on profit before tax during the quarter and 9 months ended on 31 December 2022.

Let me start with consolidated financial performance highlights, starting with Q3 FY '23. The top line grew by 23%= (**Note:** To be read as 32%) year-on-year to INR 957.5 crores. EBITDA grew by 160% year-on-year to INR 153 crores, while EBITDA margin expanded by 787 bps to 16%. Profit after tax grew considerably by 308% year-on-year to INR 88.9 crores.

EBITDA without the impact of revenue recognition referred above of INR 31 crores would have been INR 122.1 crores. That is 12.8% margin compared to 8.1% of previous year and a growth of 107% in value terms on year-on-year basis. Now coming to 9 months financial performance, top line grew by 24% year-on-year to INR 2,606 crores. EBITDA grew by 91% year-on-year to INR 268.1 crores. EBITDA margin improved 362 basis points to 10.3%. Profit after tax grew by 240% year-on-year to INR 135.1 crores.

EBITDA without the impact of revenue recognition referred above of INR 31.3 crores would have been INR 236 crores, that is 9.1% margin as compared to 6.7% margin in previous year, and it's a growth of 69% in value terms year-on-year basis.

Now coming to standalone performance. Q3 FY '23 revenue stood at INR 611.9 crores as compared to INR 521 crores, a growth of 17% year-on-year. This contributed approximately 60% to consolidated turnover. EBITDA was at INR 79 crores, a growth of 115% year-on-year, while EBITDA margin expanded by 584 basis points to 12.9%.

PAT for Q3 stood at INR 44.6 crores, which is a growth of 148% year-on-year. And on 9 months performance, revenue stood at INR 1,745.9 crores as compared to INR 1,403.1 crores, which is a growth of 24% year-on-year. This contributed approximately 67% to the consolidated revenue. EBITDA was at INR 156.9 crores, a growth of 65% year-on-year. EBITDA margin expanded by 219 bps to 9%. PAT for 9 months FY '23 stood at INR 73 crores, which is a growth of 79% year-on-year. This is all from our side. We can now begin question-and-answer session. Thank you.

Moderator: The first question is from the line of Mahesh Bendre from LIC Mutual Fund.

Mahesh Bendre: Very impressive performance. Sir, one clarification is that we said that we have received INR 31 crores of benefit at PBT level because of threshold level in one of the projects we achieved. Is this happened in domestic business or its international business?

Sanjay Kirloskar: It's a special order for domestic business.

Mahesh Bendre: Okay. Sure. And sir, the margins have been very significantly gone up. So what could be normalized margin one could see from both domestic and operating -- export side?

Sanjay Kirloskar: I think we have consistently maintained that since all the investors felt that margins could be improved, we've said that we feel margins will rise consistently over a period of time. It's all the efforts that has been put in by the entire team that's resulting in this performance.

Mahesh Bendre: Because, sir, operating performance for even international business, our margins are -- EBITDA margins are showing around 19%%. So I'm just trying to understand, is there any one-off item in the international business as well?

Alok Kirloskar: No, there's not been any one-off item. I mentioned that when I was speaking, that it's just the main daily business. The service business continues to creep up and become a larger share of the overall portfolio. And I think the main difference is that the other businesses have helped the business cross breakeven. I think in the past, someone had asked me this question that there's so much service business, but why is it not coming to the surface. It's maybe because at that time, the service business was compensating for all the regular business, which were not performing as well. But as the regular business, which is our baseline business, starts getting over to breakeven, then we get that effect in the business in general.

Mahesh Bendre: So these margins are sustainable going forward?

Alok Kirloskar: You're asking in the context of international or domestic?

Mahesh Bendre: International.

Alok Kirloskar: Yes. I mean the margins, you have to also see that what you're seeing is 9-month margins, they don't exclude – they exclude our first quarter. And for the international business, the third quarter of KBL, which is the quarter that just passed, is their last quarter and then the first quarter. So I mean, I would look at it from an annualized point of view rather than just a 9-month point of view. That's what I would say to you.

Mahesh Bendre: Okay. And last question that you mentioned that at the beginning of the last year, we had an order book for international business of around GBP 52 million, and now it has gone to GBP 84 million. So do you think the execution will be very strong over the next 3 to 4 quarters?

Alok Kirloskar: I mean, yes, I mean, like I mentioned, we opened at GBP 52 million, which roughly translates into INR 520 crores last year. And this year, the opening order book is about GBP 84 million, which roughly translates into INR 840 crores. So yes, I mean, definitely there is more pressure for them to deliver. And there will be some -- hopefully some in and out business as well.

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

Renjith Sivaram: Hi sir, congrats on good set of numbers. Sir, if I look at your -- this threshold to these cost associated --

Moderator: Sorry to interrupt you Mr. Sivaram, the audio is unclear from your line. Please use your handset.

Renjith Sivaram: Yes, I'm using handset only, is it audible now? Hello?

Moderator: Yes, sir.

Renjith Sivaram: Yes. So in this INR 31 crores additional which we have told, this cost till the threshold will be booked in the previous quarters, and now we are booking the profit? That's how it works, right, as per the accounting standard?

Chittaranjan Mate: Yes. As per the accounting standard, when the percentage of completion exceeds the 25% of whatever is set by the company, that time, we book a pro rata income also. Earlier only cost was booked, cost at equal amount of revenue.

Renjith Sivaram: Okay. So in the previous first quarter and second quarter, the corresponding cost was booked and this quarter the margins are also booked, right?

Chittaranjan Mate: Yes.

Renjith Sivaram: So how much --

Chittaranjan Mate: As well as the pro rata margins would be booked in subsequent quarters.

Renjith Sivaram: Okay. And how much the spending was? What percentage of this is over?

Chittaranjan Mate: No that we cannot disclose because it is as disclosing margin percent on that order

Renjith Sivaram: Okay. But this is a one-off quarter, no, like it won't repeat, right?

Sanjay Kirloskar: Yes, we believe it's a one-off quarter.

Renjith Sivaram: Okay. And sir, one more thing which I noticed in your presentation is that, the standalone order intake is showing a INR 485 crores compared to INR 814 crores last quarter and INR 624 crores last year same quarter. So why is that reduction in order intake?

Chittaranjan Mate: If you see the trend, last year, Q3 was INR 624 crores, then it went to INR 721 crores, and came down to INR 596 crores, again INR 814 crores, basically part of our business is against made to stock, so their order booking is not there. And there it is made to stock -- sorry, made to order and engineered to order, it depends on the -- based on order finalization by the customer. Inquiries would be there, but the time which they take for finalizing, accordingly, there will be ups and downs quarter-on-quarter.

Renjith Sivaram: So it's -- I should read me it more as a timing issue and probably structurally this will come back in the fourth quarter? Is that right?

Sanjay Kirloskar: Yes. What we have given is funnel, order funnel and like Mr. Mate said, it depends on when the customers finalize.

Renjith Sivaram: Okay. So probably, it might come back in the next quarter? Is that reading right in our understanding?

Sanjay Kirloskar: Yes lets hope so.

Renjith Sivaram: Okay. And sir, is there any forex impact in your international margins in this quarter? How much was that, if you can quantify?

Alok Kirloskar: Yes, I think there's a forex impact in the 9 months, and we have recovered some of that impact -- or will be, I think, 20% of that impact will be recovered in this third quarter. But year-to-date, what the 9 months, there is still quite a significant forex impact.

Renjith Sivaram: Okay. So how much was that impact for the 9 months?

Chittaranjan Mate: Approximately INR 25 crores.

Renjith Sivaram: So INR 25 crores of your 9 month profit in the overseas subsidiaries is kind of impacted -- hello?

Chittaranjan Mate: As per accounting standard, they are loss booked under the head forex loss was INR 25 crores. But while dispatching the goods and realizing, we got some benefit of increased sales realization. So I won't say the entire INR 25 crores was the forex loss. Part of it was already recovered through increased revenues.

Renjith Sivaram: Okay. So for this quarter, there was a recovery in this forex this quarter Q3 FY '23?

Alok Kirloskar: Yes.

Renjith Sivaram: How much was that?

Chittaranjan Mate: Roughly INR 10 crores.

Renjith Sivaram: Okay. So roughly INR 10 crores is the kind of gains that we got in this quarter. But despite that, your margins are looking healthy. That .means structurally you believe that the things are falling in place?

Alok Kirloskar: Yes,

Chittaranjan Mat: Yes.

Renjith Sivaram: Okay. That's good to hear. And in terms of this irrigation projects, we are hearing a lot of announcement that at least from the government and from some of the large companies like L&T, so in that market, like what is your overall visibility? Seeing good order finalization happening and because we have a good product, are we still able to maintain your market share there? What's your overall thoughts in this irrigation market?

Sanjay Kirloskar: Whether it's irrigation, water supply or power, as we have explained earlier, out of the total number, the amount that is announced by the government, roughly 1% to 1.5% is what is the pump content in any large project. And we remain the preferred supplier of choice as far as large players in this market are concerned. And I think I've also explained that we take the orders on our terms, which is advance and letter of credit. So even when we supply on a monthly basis 10-plus large pumps, and large we define as more than 1 megawatt to 1.5 megawatts.

Renjith Sivaram: Okay. Great. And sir, lastly on the small pumps business, what's your overall feel in terms of the market? Are you seeing good demand and do you believe that the trend will continue in the small pumps? And anything on the pricing you can share like, pricing, have you taken any pricing action and market share?

Rama Kirloskar: Yes. I'll answer that question. So the market is picking up as far as the retail segment is concerned. We have not increased our prices and we don't foresee any price increase as of now. But we do see that there is a lot of healthy booking from customers. So that should not be a problem going forward.

Renjith Sivaram: Okay. And what will be your utilization there in small pumps?

Rama Kirloskar: It would be anywhere between 65% to 70% utilization.

Renjith Sivaram: And how much of an increase in that has happened over the last 1 year?

Rama Kirloskar: How much of an increase in --

Renjith Sivaram: Utilization of your small pumps?

Rama Kirloskar: No, I think it's gone from around 55% to 70%.

Renjith Sivaram: Okay, okay. Sure, thanks, I'll join for further question, thank you.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique Portfolio Management.

Pratik Kothari: Sir, first question, again on international. Being after a gap of 2 years, we're seeing the margins that we are in profitability. Alok, if you can just throw more like -- and is this just a quarter three phenomenon? Or how should we read into these numbers?

Alok Kirloskar: Pratik, I would look at the 9-month number, and also, as you know, generally, and I'm not making a forward-looking statement here, but generally, the first quarter in any company tends to be a little slower. And what you're looking at, and I'll not look at the Q3 number at all in here, I'd look at the 9 months and then consider what a Q1 would be like. So that's really how I look at the numbers, if you want to look at the international holistically.

And -- but I would say that the main -- like we've said earlier, there's no major job that's gone through. In fact, just to put it in context, SPP as an example, used to do GBP 25 million just in oil and gas revenue in its peak days, back in 2013, 2014. At its lowest we did GBP 4.5 million. Last year, we did GBP 7 million. So we're actually closer to the lower end than to the higher end. So from that point of view, I would say that it's basically all the other businesses that like we've been saying, we're trying to develop and stabilize the baseline of the business, and that's really what's really slowly kicking in.

Our services business anyway had picked up, and we were touching 35% to 40%. But the services business in a way was cross subsidizing all the other businesses. So now that I think most of them are back over break-even, you get that effect that you see in the numbers. And I think it's actually more visible in our South Africa business, where they are at 50% service business.

Pratik Kothari: Fair enough. Sir, just one clarification on this project. You mentioned that it has crossed 25% completion against your book. So this would be, I mean, recurring in the future also, right or this was one-off and this is done?

Chittaranjan Mate: Pratik, let me clarify. This is not a turnkey project, the way we were undertaking earlier. This is our order development, order with long delivery period. So as per accounting standard, we follow POC. And yes, in subsequent quarters, there would be impact, but it won't be in such a big and amounts of 25% and like that, because it would be a slow impact.

Pratik Kothari: Okay. Sir, any light that you'd like to throw, what kind of development order is this for whom, the customers, the use?

Chittaranjan Mate: We cannot disclose.

Pratik Kothari: Okay. Fair enough. And sir, last question on the stand-alone part. We spoke about the cyclicality in terms of orders that we get. But in terms of decision-making, the confidence on ground, any color you would like to throw on that?

Sanjay Kirloskar: So I believe that these things happen year-on-year. There's nothing adverse that we are seeing.

Pratik Kothari: Great. All the best.

Moderator: Thank you. The next question is from the line of Vikram Rawat from East Lane Capital.

Vikram Rawat: Sir, 2, 3 questions from my side. One thing is on the overseas side, the margins which you are now saying on a sustainable basis would be around 9%, which comes on a 9-month basis for our future? Is that the correct one?

Alok Kirloskar: I think what I just said earlier was that you're seeing it on a 9-month basis. And effectively, in these numbers, the first quarter of KBI BV is not included. I've just mentioned that, traditionally first quarters are not always the strongest quarter for most company. I'm not making it at any forward-looking statement on that. But I think we should factor that in when we look at general margin for rather than just looking at second, third and fourth quarter of the company.

Vikram Rawat: Okay. So probably, it will be somewhere between the 5% to 7%. Is that the correct assumption -- at the end of first quarter?

Alok Kirloskar: Yes. I mean it's our -- like, I don't want to make a prediction about it.

Vikram Rawat: Okay. Because we don't have the fourth quarter -- your last year first quarter number calendar year, okay. And second, on the domestic side, can you just highlight what is the inquiry pipeline on MTO and ETO and what was it in last year?

Moderator: Ladies and gentlemen, the line for the management has got disconnected, request you all to please stay online, while we reconnect them. Thank you.

Ladies and gentlemen, the line for the management is reconnected. Thank you, and over to you. Mr. Rawat, please repeat your question.

Alok Kirloskar: Mr. Rawat, sorry, I was answering your question. And I think all I was saying is that, one should consider it from a 12-month point of view.

Vikram Rawat: Sure. Another question on the domestic side. So can you just highlight what is the inquiry pipeline on an MTO and ETO order side currently outstanding? And what was it 1 year back?

Sanjay Kirloskar: You want to know the inquiry pipeline?

Vikram Rawat: Yes.

Sanjay Kirloskar: We don't have the numbers here

Vikram Rawat: And can you just also highlight how is the working capital and the cash position or net cash position in the book on net debt?

Sanjay Kirloskar: On the domestic side, I would say that we are cash positive.

Moderator: Thank you. The next question is from the line of Manish Goel from ThinkWise Wealth Management. As there is no response from the current participant, we'll move on to the next question from the line of Himanshu Upadhyay from O3 Capital.

Himanshu Upadhyay: See, I had two questions, okay. The first was, after a very long period of time, we are seeing the capex cycle recover, okay? And last time was 2002 to 2010, okay? How different is this cycle versus the previous one? And is the intensity of competition similar or you think the intensity of competition is less or more? And scope to increase the pricing, especially on the industrial side of the business, can you give some of your thoughts of current cycle versus historical, how it has been?

Sanjay Kirloskar: I think the capex cycle is quite strong in certain parts of the business, whether it's steel industry or industry, building and construction. I think in all these areas we see a very strong -- I mean people are coming towards asking for products, etc. And what was the other question? -- Price rise. Price rise, actually, we are doing consistently over the last year. And luckily, I think the commodity prices are softening. So we've been able to hold on to our prices. And the third question was about competition. I think competition is still there. I mean there's no -- there are many more players who have come in, not only coming in from outside, but setting up inside India and competing with us. That is not an issue.

Himanshu Upadhyay: Okay. And the second thing is on the order book accretion in the domestic market, the type of accretion we are seeing for other capital goods, let's say, a boiler turbines, we are not seeing that much in our case, okay. Even when we look at our foreign subsidiaries, like Alok mentioned, there has been a 60% growth in KBI BV, these book in last 1 year, okay, opening order book, so which was INR 600 crores, what I see is currently INR 900 crores consol minus standalone. The standalone, the accretion is much lesser, okay, it has grown by 10%. So -- what am I missing? Because what we are seeing is pretty strong growth in order books across the place.

But -- and even in our own outside India book, it is pretty strong, but on the stand-alone entity, it is not showing that much traction and accumulated book. Where are we missing something or can you give some light on it?

Sanjay Kirloskar: No, I think, number one is the question of timing. Number two, I think you're looking at just one quarter. Don't look at it quarter-to-quarter, is all I can tell you.

Himanshu Upadhyay: No. See, I'm not talking about quarters, but let's say, Q3 FY '22 versus Q3 FY '23, the cumulative order book growth on the standalone is 10%, okay? And if I look at our consol minus standalone, that INR 600 crores has come to something like INR 900 crores, okay? In 1 year, what we have seen is accumulation is much stronger. But on standalone, we are not seeing, okay, and this is similar in other companies also where we are seeing 30%, 40% order book growth and our cumulative order book growth is some 10%. That was the way I was looking at it.

Sanjay Kirloskar: Well, let's look at next quarter what happens.

Himanshu Upadhyay: Let us see that. And let us wait for better.

Moderator: The next question is from the line of Ravindra Nayak from Sunidhi Securities and Finance.

Ravindra Nayak: Yes. Sir, the results are good, maybe the international operation has been good. Can you please highlight the SPP UK's performance in this quarter vis-a-vis the 9-month period? You have reported EBITDA of INR 34 crores and a sales of INR 140 crores, whereas the 9-month period, the INR 365.7 crores sales, INR 30 crores EBITDA, how we will reconcile it? How -- what are the change in this business? That is question number one.

Secondly, about -- what is your contribution for the services in the stand-alone business for the 9 months and how it is growing in the -- in 9 months and also how you are expecting the service business to grow, the standalone business?

Alok Kirloskar: Thank you for the question. I think what -- when you mention that, I think we should look -- I mentioned it earlier also, we should look at the company's -- when you're saying 9 months, it's excluding our first quarter. And usually, most engineering companies, the fourth quarter is stronger. So I would say that that's probably why you're seeing the effect. Yes. So that's why you are seeing -- if you look at it last year to this year, I would say the difference in margin is only coming from the fact that the company's main businesses, which are fire, water, dewatering, transform oil pumps, all the other businesses also have -- are doing better and all of them are above the break-even point.

Like I mentioned last time, that ensures that all your base costs are taken care of. And then we have the service business, which obviously has been growing over the last few years. It's touching between 38%, sometimes 40%. So you get that multiplier effect because now that additional profit that that's generating is coming directly to the bottom line and not cross subsidizing any of the other businesses. So I would say that's why you're seeing that effect. I think I mentioned this earlier to someone else as well. Did that answer your question?

Ravindra Nayak: SPP UK is actually the service business has improved. That is why we are seeing a better margin in SPP UK or it is something else we can look at?

Alok Kirloskar: Yes. So that's what I was saying. It's not the service business has jumped up significantly. The service business has been growing, and we've been saying this quarter-on-quarter that last few years, in fact, that from 12% is up to 38% to 40%. But people would ask me why is it that we can't see that. And the answer to that is that the other businesses were not having that level of order book, and so they were not covering all their costs, which is a regular product businesses.

Last year, we've seen slowly the rise into other businesses as well because they've been focusing on various areas, and they've managed to get slow break throughs on standard business, which is our fire pumps, which is our water pumps, which are our transform oil pumps. And as those have crossed break-even point in their respective areas, the profitability, which is there before as well of the services business has now just come down to the bottom line. So, that's what I've been saying.

Ravindra Nayak: Okay. No, my worry is that, this -- in the last 6 months, for the 6 months, you have a loss EBITDA, loss in this business, SPP UK. And this quarter, it has completed turnaround with a significant profit. So whether it is some forex impact there, because the pound has also appreciated on the rupees, so you are reporting the currency in the rupees. So how should we reconcile the forex PAT and also the service PAT? That is my worry.

Alok Kirloskar: I think Mr. Mate mentioned earlier that we actually have a negative forex impact in the 9-month number. But you're right, I mean, the currency has depreciated, and there is some impact in terms of the multiplier factor from the depreciation. But I don't think that has been very significant from last year to this year.

Ravindra Nayak: Okay.

Chittaranjan Mate: Pound to rupees, a year back it was almost same INR 100. It had dipped in between, but again recovered.

Ravindra Nayak: So about the service business and the standalone business, what is the contribution of service in the total 9 month and also how you are looking at the service business going ahead?

Alok Kirloskar: You're talking in which business, the international business now or the standalone?

Ravindra Nayak: No, no. Standalone, standalone business.

Alok Kirloskar: In the standalone business also the service business has been slowly increasing, but I think we should also appreciate that it's different markets. I mean, in countries like India, I mean, any -- I'll just give you an example, many refineries or power plants, they service their own products. While overseas, you'll appreciate that because of lack of labor, usually the service is outsourced to other companies. And there is no local maintenance team that the company's at one service is having on its pipeline. So the model is little different.

And so in India, it tends to be more spare parts focused while overseas, we're focused on developing the maintenance contract, 3 and 5-year maintenance contract with these companies like oil companies, like chemical companies, like water companies and then supplying not just the spare parts, but the actual service, which is retrofit, refurbishment, upgradation, all kinds of other services on the base of just -- of the service contract that we have. And we only include the 3- to 5-year service contracts in what we call our baseline business, because there we have an agreement of an offtake amount rather than it just being a one-off service agreement with some customer who wants some pump repaired.

Ravindra Nayak: Okay. So is there any chance, because if you compare with your competitors and Indian competitors, KSB and also the other competitor here. So the gross margin for them, it is around, you can say 50%, but yours is 40% currently. So whether it can go up to that level or it is very difficult to achieve to that level?

Sanjay Kirloskar: I think what we have been saying consistently is that we will be working on ensuring that our margins are equal to or better than our competitors.

Ravindra Nayak: Okay. Okay. And can you get the way you have presented in your PPT, made to stock, made to order, engineered to order and projects, this segment for the 9 months in the quarter itself, is it possible?

Chittaranjan Mate: Are you referring to a chart, which is a part of our presentation?

Ravindra Nayak: Yes, you have made the segment of made to stock, made to order, different segments. So can you -- is it possible to give that for the 9 months and also for the quarter?

Chittaranjan Mate: So, only we present on annual basis, but we can consider presenting --

Ravindra Nayak: So, it's not possible?

Chittaranjan Mate: Yes. Page 23 of our presentation.

Ravindra Nayak: Hello? So is it not --?

Chittaranjan Mate: -And, you are comparing international companies. And if you see consolidated results of KBL, there also you will see, we are around 49% for 9 months and 51% for the quarter, because standalone, you cannot compare with KSB and others. But if you see our consol results, those are close to 49%.

Ravindra Nayak: Okay, so it is comparable on a consolidated basis with the - of peers?

Chittaranjan Mate: Yes.

Ravindra Nayak: Okay. Understood.

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

Riddhesh Gandhi: Just to triangulate the 9 month financial adjusting for this incremental revenues, which came in this quarter. So the impact of incremental revenue for which there is no related expenses this quarter is about INR 30 crores odd, is it?

Sanjay Kirloskar: Can you say that again?

Riddhesh Gandhi: No. I think the amount, which effectively we have recognized as revenues for which we don't have the corresponding expenses in this quarter is about INR 30 crores odd, is it?

Chittaranjan Mate: I won't say there is no corresponding cost, I would say that the margin has been recognized for the first time after crossing threshold and that margin has been INR 31 crores. -There is our cost and revenue, which was booked, but margin was not booked, but as per the accounting standard, after crossing the threshold, we have started to recognise it.

Riddhesh Gandhi: Got it. So to put in another way, we are effectively slightly overstating the revenues of PBT in Q3, but we have actually understated it in the first half. So if we look at 9 months of revenues of the profitability, we'll be adjusting for this order effectively. Is that right?

Chittaranjan Mate: I won't say understated, it is as per the accounting standard.

Riddhesh Gandhi: Yes, yes, I'm just talking about in terms of -- I'm not saying that we are doing anything which is in the closure as per accounting standards. I just want to understand the economic accounting of this so that we can understand how we should be looking at it. As to they'll normalize the run rate, if you will, of the PBT.

Sanjay Kirloskar: Yes.

Riddhesh Gandhi: Okay. So H1 would have ideally been higher by INR 30 crores and the Q3 would have been lower by INR 30 crores at the PBT level. Is that accurate in my understanding?

Chittaranjan Mate: No, no. That is not accurate. Because the job of this happened only in Q3 in certain stage, otherwise, we would have recognized in H1 only. The progress of this order crossed certain stage only in Q3, it had not crossed that stage in the half year.

Riddhesh Gandhi: Okay. So then just to understand, so how does the accounting exactly -- if you could maybe just run us through this. So we understand it and more granularly primarily to understand the run rate at which the company is on a normalized basis.

Chittaranjan Mate: I won't call it a run rate. Basically, for a long delivery period, there is a separate method of recognizing revenue, which is called percentage of completion. And there is a threshold which is defined by accounting standards, income tax act guidelines and company regulations. On crossing that threshold, over and above recognizing cost and equal amount of revenue company start recognizing pro rata margins, which are anticipated on this order and which is audited. So we crossed that threshold in Q3, so we have recognized that margin in Q3. And in future, it would -- the recognition of revenue and margin would depend on the progress happening in each quarter.

Riddhesh Gandhi: Got it. Okay.

Sanjay Kirloskar: So this is like I explained an order, which is a long-term order and we will be delivering parts of it over a period of time. We can't tell you exactly when we will be delivering the next slot. But whenever it does, we both know that we've crossed 25%, both the revenue, as well as the cost will be recognized together. Until now, we could not recognize roughly margins because we have not crossed a threshold which has been defined in the accounting standards.

Riddhesh Gandhi: Got it. Got it. So that if we -- so the question is, if we were to then look at 9 months accounts, is that a more accurate reflection of what your PBT is than if we just look at the Q3 effectively?

Chittaranjan Mate: Yes. If you see 9 months, yes, that would show the correct cumulative position.

Riddhesh Gandhi: Got it. All right. And the other question is with regards to going ahead, so I mean, even adjusting all of this, we've had a great quarter, both from a revenue angle and effectively profitability angle as well. But we are -- so I've been able to hit, I guess, about the 11% EBITDA at a marginal level. So is that something which we expect, we should be able to maintain going ahead?

Chittaranjan Mate: Comment about our EBITDA margins for future, I think it would be a futuristic thing, but as our CMD sir has been telling in earlier meetings also, our endure is always to cross double-digit EBITDA margin. That is our effort, but when it would happen, it's not possible to give any prediction.

Moderator: Thank you. Mr. Gandhi, may we request that you return to the question queue for follow-up questions. The next question is from the line of Raj from Arjav Partners.

Raj: Looking at FY '24, so how will your figures are going to look like? Are you expecting any incremental growth?

Sanjay Kirloskar: I don't know whether we are allowed to answer questions --

Raj: No, no, just an overview of your operations, it would be nice.

Sanjay Kirloskar: Well, we are preparing for growth. I think the country is also preparing for growth. So yes.

Raj: All right. And how much of the cash do we have at the end of Q3?

Chittaranjan Mate: This would become an unpublished information, because we are supposed to publish balance sheet only half yearly and yearly. So what we have not published our balance sheet position, I cannot disclose at the moment.

Moderator: Thank you Mr. Raj.

Chittaranjan Mate: We are controlling working capital tightly, that's what I can say.

Moderator: Thank you. Mr. raj, may we request that you return to the question queue for follow-up questions.

The next question is from the line of Manish Goyal, an Individual Investor.

Manish Goyal: Yes. So I have 2 questions, one for Alok and a couple for Rama. So Alok, just on the international , you did mention that our order book has grown from GBP 52 million to GBP 84 million. So is it that now as you were discussing earlier that this is more short cycled in nature and which implies that we should be booking revenues at more regular interval than to a calendar -- quarter 4 calendar year phenomenon?

And also, if you can also highlight that aftermarket or maybe framework contracts now we are bidding more contracts. So do you see revenue contribution increasing? And always, we were a product company in SPP as well. So why is it that we're probably saying that the services business was cross-subsidizing the product business earlier? And I have questions for Rama as well, so I have to come back.

Alok Kirloskar: Manish, I'll answer your second question first, because I' have not really fully understood your first question. So I may ask you to explain it. But your second question is that, we're a product business that is correct. And that's why a majority of the sale is of products, more than 50%, in fact 60%, maybe a little bit more than 60% also is products. But the product business, as you know, SPP was heavily dependent on oil and gas, and I give the benchmark numbers that the lowest we've done in '20 -- I think 2017 was 4.5 million and the highest we did in oil and gas was close to 25 million in about 2014. So -- and this year, we did 7 million, in the whole calendar year, which is Jan '22 to December '22. So it's closer to the lower end of the scale, right?

So I mean, that business has to be offset by other businesses to grow to be able to cover all the fixed costs. And so that business effectively was that -- that role was taken over by other businesses like industrial, fire, which grew,. And obviously, while we cut cost significantly and we've cut 1/3 of the staff, 1/3 of our workforce, not the staff, 1/3 of our workforce to cover the costs. We still managed to keep the top-line more or less the same through all kinds of productivity efficiencies.

So I would say that even after that, it was difficult for the other business to make up that gap immediately, and it takes some time, as you will appreciate, is taken a while actually for us to cover all those that difference in revenue and the other businesses. But as they have covered that difference, we are able to now ensure that they are also profitable, but of course, the real profit comes from the aftermarket, which, of course, comes now to the bottom line rather than, like it did in the past, where it was basically covering all the other costs of the business. Because to have the aftermarket business, we obviously need the new product business because unless you are installing products, you're not probably going to get just the aftermarket like that.

Our strategy, as you know, has been identified areas where pumps are there, even if the population is small, approach the customer and then try and get a service contract on not just our pumps, but all the pumps. And that's really how we've been entering that business. So I would say that's -- I hope that answers the second part of your question. Can you explain to me what your first question was? I didn't understand it.

Manish Goyal: See that now we are focusing more on the standard products business and services line to a longer cycle, so I presume that in our order book also now that portion of standard products would be higher than probably the larger size orders. And what it implies is that the execution would be faster than the long cycle products. So that means we'll have a more even out revenue booking during the year or how should we read into it? And maybe if you can also give us a perspective like, this is quite a historical high order book for us in SPP. And if you can broadly give us a sense of a broad breakup from the segment, which you discussed?

Alok Kirloskar: Yes, Manish, I think our CMD also had mentioned the same to me, that we got evenized sales through the -- through all the quarters, because otherwise, even in the good year SPP used to be loss making in first and second quarter and then it would break-even in third quarter and do well in the fourth quarter. So our objective also has been the same that we try and even out quarter-on-quarter.

And you're right, it's slowly happening where we are slowly trying to even it out quarter-on-quarter. But I cannot commit to that this year because like I mentioned, there has been an uptick in the oil and gas business. And generally, we are well placed in many large jobs coming up. So based on that, I won't say that is the case maybe in the near future. But definitely, that is our objective that with the service business, where we have agreed offtakes, we try and even out the sales quarter-on-quarter and through the years, so that we are more stable as a company.

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

Mahesh Bendre: Sir, you mentioned that around 20 -- I think INR 31 crores benefit we received at the standalone level because of the change in threshold level for one of the projects. So if I slip aside from the standalone business, our standalone margins are around 7.4%. So is it a right way to look at?

Chittaranjan Mate: Actually, this is a genuine margin. So there is no need to reduce it. But if at all, you want to compare it, yes, the standalone margin for 9 months, which is at 7.1% it would go down to around 1.5%. (**Note:** To be read as which is at 9.0% it would go down to 7.2%)

Mahesh Bendre: Okay. Sure, sure. And one question to Alok. I mean, if I look at last 4 quarters for international operations, I mean, if I look at all the subsidiaries and if you remove the foreign exchange gain, I mean then the margins are around 11.5%. So is it the margin we look at for international business?

Alok Kirloskar: How are you looking at it, because it actually has been -- if you look at 9 months, there has been a loss on forex. So I'm not sure how you're looking at it. Because you're taking the first quarter in from KBL's last quarter, when you say 4 months.

Mahesh Bendre: To December, fourth -- last consecutive 4 quarters.

Alok Kirloskar: So yes, I mean, if you're including January, from January '22 to December '22, then that would be the margin, but I'm not sure that number is correct. I need to get it checked whether what you're comparing is correct from January '22 to December '22.

Mahesh Bendre: Or at least double-digit margin possible and given the uptick in the product business and the servicing business?

Alok Kirloskar: I mean nothing impossible. But I think we have been managing to get to double-digit margins everywhere. And I think like I mentioned last time, the international business has to have that mix of services, because finally, the margins generated there will be compared to the Indian cost of capital. So it has to make sense from an Indian point of view as well. So I think that's definitely in our sights and it's something that we want to achieve.

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

Renjith Sivaram: Yes. Hi sir, just on the small pump business, I'm just trying to understand because some of the --

Moderator: Mr. Renjith, the audio is unclear from your line.

Renjith Sivaram: Okay. Hello, is it clear now? Hello?

Moderator: Yes, sir.

Renjith Sivaram: So in the small pumps business, like we are seeing some of the farm-related, irrigation-related that small pumps but submersible pumps through -- companies are doing well. So for us, that portion has been showing good growth on traction?

Rama Kirloskar: Yes, we do sell submersible pump sets in our retail sector as well, and we have seen growth. And we do see healthy growth in both submersible, as well as mono blocks.

Renjith Sivaram: Okay. And in the other portion of the small pumps, have we seen market share gains or we believe that the overall market has seen such kind of growth?

Rama Kirloskar: See, we have been continuing to grow. I think you can see from our numbers. I believe it says, we have grown by around 13%.

Renjith Sivaram: While the market growth would have been?

Rama Kirloskar: We believe the market growth is less than that. It's around 10%.

Renjith Sivaram: Okay. So we would have had some market share gains?

Rama Kirloskar: Yes.

Renjith Sivaram: Okay. And any expansion which has -- now that we have 70% utilization, so formally by -- is that -- are we looking at expanding any of our portfolio in the small pumps?

Rama Kirloskar: Expanding the product portfolio?

Renjith Sivaram: No, in terms of --

Rama Kirloskar: I'm sorry, we could not hear you.

Renjith Sivaram: Capacity expansion, any capacity expansion on the cards?

Rama Kirloskar: Yes, we have already started, and we're gradually doing that every year.

Renjith Sivaram: Okay. And that's --

Rama Kirloskar: Debottlenecking or modernization to enhance productivity.

Renjith Sivaram: Would be a capex or how much?

Rama Kirloskar: I don't believe it will be a substantial capex every year.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we will take that as the last question. I would now like to 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 our Investor Relations consultant Strategic Growth Advisors. Thank you.

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