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## Kirloskar Brothers Limited

Q4 FY '23 Earnings Conference Call

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**Moderator:**

Ladies and gentlemen, good day, and welcome to the Kirloskar Brothers Limited Q4 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 the guarantees of the 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** of Kirloskar Brothers Limited. Thank you, and over to you, sir.

**Sanjay Kirloskar:**

Thank you. Good evening, everyone. On behalf of Kirloskar Brothers Limited, I extend a very warm welcome to everyone who is joining us on this call. I hope you've had an opportunity to go through the financial results and investor presentation, which has been uploaded on the stock exchanges and the company's website.

The company's financial results for the fourth quarter and the fiscal year were good. This was primarily the result of an improved product mix, increased operating leverage, reduced input costs, along with a sharp turnaround at our key international subsidiaries.

During fiscal year '23, the company has witnessed a sustained increase in demand for made-to-stock pumps in addition to continued momentum of demand for made-to-order and engineered-to-order pumps. The top line and bottom lines, both saw improvements in performance in the domestic and international subsidiaries. The growth was driven by major sectors like small pump business, building and construction and industry sectors.

Our company's consolidated order book as of 31st March 2023 was higher by 17% year-on-year at INR 2,888 crores, which was mainly driven by factors such as irrigation, water resources and power. Please note that this order book does not include our make-to-stock pumps business, which contributes approximately to 50% of our standalone revenue.

We continue to increase our share of products business while reducing exposure towards EPC business, which again is close to about 5% for the year. I'd like to remind all the participants that these EPC orders are legacy orders. We do execute something or the other as sites open up. The company, as we have mentioned, is not taking any fresh EPC orders.

I now request Alok Kirloskar, Managing Director, Kirloskar Brothers International B.V. to share his thoughts on the performance of the international business.

**Alok Kirloskar:**

Thank you. The company's key international subsidiaries have shown resilience amidst the challenging business environment, driven by ongoing China-Ukraine conflict, supply chain



issues, currency movements, U.S. dollar shortages in certain North African countries and inflationary pressure. In fact, revenue and more importantly, bottom line of the subsidiaries grew considerably, mainly driven by the improvement in the product mix.

Our Thai and South African business continued to do well on the operational and financial side. As communicated earlier, South African business has signed major framework contracts in the power and mining sectors. Our South African business is now getting a good share of revenue from service business, which is creating a steady and consistent cash flow. We are implementing similar strategies in our other international business and especially starting slowly with the Thailand business.

The U.K. and U.S. business also witnessed growth in the top line. The company continued to focus on cost rationalization and increasing the penetration within the market as well as enhancing its framework contracts business for services. The company is getting contracts from diversified sectors.

Our Dutch entities, we are launching unique and innovative products, which will be focused on the Benelux region. We believe this unique value proposition would be a growth driver for the turnaround of this business.

The international order book now stands at GBP 97.03 million, which is about EUR 109 million. Going forward, our focus remains on turning around the Dutch business further diversifying the order book by creating more daily business and growing our share of the framework contracts in the service businesses.

With this, let me invite Miss Rama Kirloskar, Joint MD, KBL and MD, Kirloskar Brothers -- Kirloskar Ebara Pumps Limited to take you through the performance of the domestic subsidiaries.

**Rama Kirloskar:**

Thank you, Alok. The company's domestic operations continued to grow at a healthy pace. The company has outperformed the industry growth during FY '23, thus further reinforcing our leadership position. The healthy pace of growth was mainly driven by new product launches across applications and energy-efficient pumps. The company has a good product launch pipeline for FY '24 as well.

The company's made-to-stock pumps, which cater to agriculture, housing and MSMEs maintained a healthy growth. The company also continues to debottleneck and modernize various plants to reduce cost and increase efficiency.

Our EBITDA margins expanded mainly on account of operating leverage, continuous focus on cost rationalization and process optimization. We continue to witness a healthy order inflow, which is getting reflected in our order book. Our order book is expected to grow by the uptick in public and private capex.



Coming to domestic subsidiaries and JVs.:

Karad Projects and Motors Limited continued its healthy growth pace. KPML's revenue grew by 8%, while its PAT grew by 20% in FY '23.

Kirloskar Ebara Pumps Limited also reported robust performance for FY '23. KEPL continues to maintain high margins.

We had multiple customer visits and audits for our high-grade casting subsidiary, TKSL. We have received approvals from many customers during FY '23. As a result, TKSL is expected to improve its performance over the next few quarters.

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

**Chittaranjan Mate:**

Hello, good afternoon. Let start with consolidated financial performance highlights. Starting with Q4 FY '23. The company had a strong year-on-year growth from operations at consolidated level at 18% to INR1,125 crores, majorly driven by KBIBV, which grew by 77%. EBITDA grew by 61% year-on-year to INR158 crores, while EBITDA margin expanded by 380 basis points to 14.1%. Profit after tax grew considerably by 84% year-on-year to INR101 crores.

Now coming to full year FY '23. Net revenue from operations grew by 22% to INR3,730 crores. EBITDA grew by 79% year-on-year to INR426 crores, while EBITDA margin improved by 360 basis points to 11.4%. Profit after tax grew by 150% to INR236 crores.

Now coming to standalone performance for Q4. Revenue stood at INR794 crores compared to INR763 crores, which shows a growth of 4%. This contributed approximately 71% of the consolidated revenue. EBITDA was at INR121 crores, a growth of 24% year-on-year, while EBITDA margin expanded by 240 basis points to 15.2% PAT for Q4. PAT for Q4 stood at INR80 crores, a growth of 113%.

For full year FY '23, revenue stood at INR2,540 crores compared to INR2,166 crores, which is a growth of 17% year-on-year. This contributed approximately 68% of the consolidated revenues. EBITDA was at INR277 crores, which is a growth of 44% year-on-year while EBITDA margin expanded by 200 basis points to 11%. PAT for FY '23 stood at INR153 crores, a growth of 95% year-on-year.

This is from our side. Now we can begin with question-and-answer session.

**Sanjay Kirloskar:**

We can start the question-and-answer session now.

**Moderator:**

The first question is from the line of Sunil Kothari from Unique PMS.



**Sunil Kothari:** Congratulations for really, very solid improvement in performance in terms of profitability, international operation and all these things. Really, very commendable performance. So, my question is broadly, we're talking more about cost rationalization, process improvement, new product launches. So combining all these things, the objective of yours was to achieve a very respectable margin, which we achieved in quarter 4, international and local, both. So how far we are away from those cost reduction, process improvement, productivity improvement? And what is your objective during this year to do on those lines?

**Sanjay Kirloskar:** Thank you, Sunil bhai. I think for the last many quarters, I've been saying that we'll strive to go higher and higher in our performance, especially in relation to EBITDA and bottom line. So these are all ongoing projects. And I believe that as we go forward, you will see improvement quarter-on-quarter. That's what we said that we will strive to achieve better performance quarter-on-quarter.

I don't think there's an end to what can be done, but it might grow faster, it might grow lower, but our attempt is to keep growing performance.

**Sunil Kothari:** And sir, domestic, the overall growth of -- particularly during last quarter, Q4 and I mean, standalone, and order year-on-year, if you compare our order size is also modest compared to last -- Q4FY22 and Q4FY23 also. So what is your observation about domestic demand, domestic order flow and competition?

**Sanjay Kirloskar:** Things tend to fluctuate quarter-to-quarter. I think that's what I mentioned last quarter also. So I don't think we should be overly worried about this.

**Sunil Kothari:** But do you see, sir, any major competitive pressure because our competitor is getting a little bit higher order books, higher growth. So just your thoughts, what is happening?

**Sanjay Kirloskar:** Well, I don't know what -- I can't comment on the competitor. Our business will continue to grow.

**Sunil Kothari:** And sir, last one question is on this Karad project. It seems that those products have very good and very interesting potential. So some comments on what we want to do maybe over next 2, 3 years at this product segment?

And second is related to Kirloskar -- sorry -- Kohlapur Steel, which is draining very heavily. So by when you expect that there will be a positive something?

**Sanjay Kirloskar:** What I'll do is I'll ask Rama to answer both these questions on KPML and TKSL and after she answers, if anything needs to be added, I will add. But I would only say one thing with regard to your previous question. And that is, we've said that we are very selective on our order booking and we continue to be that way for both projects. We don't take any projects, but even for products business.



When it comes to large pumps, we are very clear that the customer has to have money, he has to pay us in advance and he has to have an LC. I think you've seen the improvement in the balance sheet. And I think customers, when we first stopped taking orders for large pumps based on these terms, we actually had almost no orders because EPC contractors do not like to deal with a vendor who demand such terms. But I believe that our products deserve that. And that's the policy that we have stuck to and that we will continue to stick to that.

We have to be very careful, what happens at the end of the day because unless the money is collected, no sale is done, complete. So that's been our philosophy. And I don't think we should worry too much about it.

**Sunil Kothari:**

Sanjay bhai, your observation on macro environment demand scenario, looking at the orders, which is flowing in from the infrastructure projects, railways, government, would you feel any better environment -- or how -- what's your thought process?

**Sanjay Kirloskar:**

I would not like to comment on either the state government or national government. I think all the other EPC contractors and the people doing large projects, their balance sheets might better reflect that. But we are quite bullish about the future, not only domestically, but also internationally. There are huge number of projects coming up.

And one thing I would like to again mention is that pumps that we deal with or all the centrifugal pump business is 1 to 1.5 percentage points of the size of projects that you hear. So I think that should be kept in mind, and that is not only for us, that is for all pump manufacturers in the end. So we continue to be bullish. Rama, would like to answer on KPML and TKSL?

**Rama Kirloskar:**

As far as your question for KPML. So as you know, KPML is our captive motor manufacturing company, and it mostly supplies to our -- motors for our small pump business as well as to our APOEMs. So we are targeting year-on-year growth in both of these businesses, and they are large businesses for KBL. So if you see year-on-year growth there, KPML will have healthy growth as well.

As far as new products are concerned, we have come out with new high-efficiency IE5 motors, which specifically our industrial customers are very happy to take because they're efficient and essentially, the opex cost is a lot less. So we are seeing a good uptake in those products as well.

As far as TKSL is concerned, as we had mentioned in the earlier calls, our main activity for TKSL is to add new customers. And this last year, that precisely what we have been doing is adding new customers, ensuring we get our prequalification and audits done, and it takes around 6 to 8 months to get each of those audits done, and it's a long process. Fortunately, this year, we've completed a lot of those audits for many customers. So we should see the benefit of that in this coming year. I hope I've answered your question.



**Sunil Kothari:** Yes. And just last thing is on this. We are talking about some product expansion at Karad Projects, and electronic, some smart system. Just without any numbers, if you can talk more about what we are planning to do.

**Rama Kirloskar:** Yes. No as far as KPML is concerned, we are mostly focusing on motors because we feel that there's still a lot that we can do with motor efficiency. It helps with cost optimization. So we are focusing more on motors and their efficiency rather than the electronics that go around it.

We are focusing on electronics in KBL. We have our new KirloSmart system, which is a remote conditioning, remote monitoring system, which goes with all our pumps. And we can do real-time monitoring of performance parameters of our pumps, and that goes into many of our power, nuclear as well as oil and gas customers. So that is our focus in KBL, but not in KPML.

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

**Moderator:** As the line of the current participant is disconnected, we move to the next question. The next question is from the line of Varun Bang from Bryanston Investments. Please go ahead.

**Varun Bang:** Congratulations on good set of numbers. My first question is on services business. Increasingly, what I'm seeing is we are talking a lot about our framework services. It seems it is becoming a key part of our offering. So based on your experience in managing these contracts, what value we have been able to add? And how are these contracts getting renewed?

**Alok Kirloskar:** So on these contracts, usually, we find that we go into -- let me say, who do we have these contracts with. So usually, these contracts are with oil companies like Petronas or like the new players who are the private equity players have got into this like Apache or a Harbour Energy or industrial players like INEOS or water companies -- private water companies. So usually, we would look at all the pumps because it's not just our pumps. We look at all the pumps and we go in there and we see how we can maintain them. And initial agreement is just to have a reduced downtime. And we start to maintain those pumps with a reduced downtime.

With that, we obviously build up a lot of data on all those pumps. And the next step is really in terms of efficiency enhancements that we can do on those pumps, which obviously is for an additional charge that we do this work. And then from there, we start building up data about what is in those plants, how those pumps are operated, where pumps are located, what changes we've made to those pumps. And that data resides with us because we manage the contract.

And at the end of five years, usually, it goes for automatic renewal sometimes or sometimes the customer wants and as part of the process, we will go for a tender again. But usually, what we find in the tender is that most of the new people who come in usually don't have all the data that is required to quote on these pumps. We have noticed slowly in both SPP and in South Africa. So in SPP, U.K., we've seen slowly this is rising up from about 8% to 12% of our total



revenue to about 35% to 38% of our total revenue. And in South Africa, we've seen this rise from maybe four years ago from 0% to close to 45% of our total revenue. So this is generally how they operate. Have I answered your question?

**Varun Bang:** Yes. That's a good explanation. Just in the same context, how's the traction in the new services? I mean, last year, we had some 20, 25 contracts. How is it growing? And how do you see scalability in this services business going in the next two to four years?

**Alok Kirloskar:** We do see definitely there is a growth in the business. I mean, I'm sure you have all seen in the newspapers that there is a huge skill shortage across Europe and also in America. And while we don't have service presence in America, but we have sales presence, we don't have service presence. But we have service presence in Europe and, of course, over Southeast Asia. We do see slowly that companies are outsourcing this more-and-more because that technical expertise does not exist as it used to be in the past. So we do see rise. It's not like there's a huge rise every year, like it's rising 50% or something like this. But there is a rise because obviously, the skill sets are reducing.

And in places where we have got the contracts, we find it slowly we are able to -- by ensuring obviously, cooperation with the customer, able to have a deeper-and-deeper foothold within where we are. So that's how we're slowly seeing the growth there. And our focus there really is more on the margins rather than just top line growth.

**Varun Bang:** Okay. Got it. And we have seen strong orders coming for VT pumps on state irrigation departments. So how large is this segment for us? And what is the outlook given there is increased focus on improving rural infrastructure? And also using our strength in VT pumps, how can we look at growing irrigation business internationally through our subsidiaries?

**Alok Kirloskar:** We already sell VT pumps through our subsidiaries. I think what the question you're asking is already reflected in our order book under irrigation and water management section. So you can see what we're doing there for the projects, like the large irrigation projects that you mentioned. It will give you a picture of what's happening.

But as my father mentioned earlier, we are very selective on those jobs because there are a large number of contractors many of them who we are not familiar with. And we have very stringent terms of how we deal with those contractors in terms of payment terms as well as the margin we expect. So we are quite selective there.

**Varun Bang:** One broad question...

**Sanjay Kirloskar:** Despite selectivity, I guess, the other people, they've had experienced other people and are still placing orders on a set of commercial terms which are very different than any one else.





**Varun Bang:** Okay. Got it. One last question, just a broader one. In exports, what I sense is for one to be successful, product has to be better in quality. And because we are competing with international players, it has to be lower in terms of price. So where do we stand on both aspects? If you can just share your thoughts, that would be helpful.

**Alok Kirloskar:** I think that apart from those two, the other important aspect also is service and serviceability of those products because like I mentioned earlier, there's definitely slowly a skill shortage of those countries. And so they do want that you are local and you are able to support locally.

Separately, as you are aware, apart from those points, there is also an additional point of localization. And countries across the GCC, even very small countries like Qatar are asking for local content. So I think there's a lot more than just those two points you mentioned, which are important.

But that said, the fact that we are getting a large number of orders overseas, I mean, it highlights to the fact that we are able to -- we have that level of quality. And more than just the quality, we have the technology that we can have high efficiency products, which is what the customer values in those markets along with the requisite features, which has differentiating features in those markets. So we have that.

And while price is important, I would not say that we are -- we want to be perceived as a low-cost supplier from India. That's not what they're going for. They're going for really a premium product, a product that is equivalent to any other European or American product. And that's really we are focusing on. I mean even in the U.K., we have close to 85% of the private water market and all the water companies that you know are private, and there we sell at a 20% premium over the competition, which is Germany. So really, that is what our focus is, and we say that our total cost of ownership is lower. And that's the philosophy we sell on.

**Sanjay Kirloskar:** I think, I would add to that by saying that we have developed the lowest life cycle cost products. And recently, I was in the Middle East, where the main water utility of that country bought pumps from KBL at almost 30% higher price than German manufacturer. And they have come to check two of our Kirloskarwadi factory at the test facility that we have over there. And they were not only very happy to see that, but they were even happier to see that the efficiency that we had committed to was it -- we went over that efficiency, higher than whatever we had committed.

So like what Alok has said, I don't think, we do not sell at a low price just because we are from India. We are able to get higher price because we are KBL.

**Varun Bang:** That is so encouraging. Thank you very much. I'll join back the queue. All the best.

**Sanjay Kirloskar:** Thank you.



**Moderator:** Thank you. The next question is from the line of Khadija Mantri from Sharekhan. Please go ahead.

**Khadija Mantri:** Yes. Hello, sir. Congratulations on good set of numbers. So my first question is regarding the EBITDA margin. So you've done 10.7% for FY '23. But in the last two quarters, the margins are about 15% and 12%. So my question is, would we be growing at more than 12% margin from current level, or it is, you are saying that the growth will come on the FY '23 EBITDA margin?

**Sanjay Kirloskar:** You know, this is a forward-looking statement. I said that we will strive to do best as we can.

**Khadija Mantri:** Yes, given that decline in commodity costs and also the increase in volumes, we should be doing better than at least 11% of the overall margin that we have done for FY '23.

**Sanjay Kirloskar:** Your words, not mine.

**Khadija Mantri:** Okay, sir. And also last week, you said that you are seeking opportunities in solar and nuclear and other emerging sectors also. So is there any update on that, particularly in NPCIL's decarbonization plan, we were looking at the small medium modular reactors?

**Sanjay Kirloskar:** Solar will continue to grow, but as I mentioned, we are not a system integrator. We supply pumps to system integrators on, again, our terms, which is money upfront. We are not going to wait for state governments or whoever is the end customer to pay and then get paid.

As far as nuclear is concerned, I think last time itself, I mentioned that KEPL had made the first Indian design, Indian manufactured pump for boiler -- main boiler feed applications. We had received a development order from Nuclear Power Corporation, which is part of the requirements for the fleet ordering of the 700-megawatt reactors. This pump has been dispatched. And I mean, not only -- I mean, it has been dispatched after all these requisite trials and tests and everything else has been done. And I guess, all things considered and we're meeting all the requirements, we are qualified now to participate in those tenders which will come up for the fleet order. This is for main boiler feed pump.

We had stepped out of the primary heat transfer pumps development program because of the conditions that were created for who they were going to order on after giving us a development order. We have agreed with Nuclear Power Corporation that we will now get back in and develop this pump for them. As you're aware, many years ago, we, again, completely designed in India and manufactured in India, the primary heat transfer pumps for the past fleet of reactors and these were delivered over a decade ago.

So we are -- we believe that we are quite capable and will be able to deliver and qualify for the requirements of the primary heat transfer pump for their fleet requirements as well.



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

**Renjith Sivaram:** Yes, hi, sir. Sorry, I got disconnected. Congrats on good set of numbers and very hearty to see such performance continuously from last quarter onwards. So just wanted to ask Alok, the overseas have been one of the major reasons when we see in terms of this performance. So what is the current mix of the services in the overall order book or in terms of the revenues also, if you can throw some color just to get an idea on is this kind of number sustainable or will there be any kind of one-off in those numbers?

**Alok Kirloskar:** Mr. Renjith, can I repeat your question, tell me because there's a lot of disturbance. Was your question how much of this order book in service, is that what your question was?

**Renjith Sivaram:** Order book in service and also if you can give any clarity, is there any kind of a onetime or an exceptional thing in these numbers, because the 9% kind of margin because is that a sustainable trend you see?

**Alok Kirloskar:** So I would say that approximately, if I look at the service business component, and now you've asked me this question off hand, so I'm going to give you a very round number. It is probably less than -- because as I said in the earlier question that we don't have any service within the U.S.. So that's zero. Our main service business is in SPP U.K., which is a U.K. entity, which is the largest amount of servicing business, which is about 35% to 38% of U.K.'s turnover. And we have about 45% of the South African business in service.

So at an overall level, I'd probably say the service business component is a little under 20% in the total sales. And obviously, our aspiration, as I've always said, is to go towards 50%.

To answer your second question or subpart second question is that neither in last quarter, neither in this quarter, has there been any special job that got through or anything of that sort. I mean, I mentioned that last time also that there was no large oil and gas job. Oil and gas turnover is pretty low compared to our peak oil and gas turnover which was in 2011, 2012, 2013 and 2014. Compared to that, our oil and gas turnover is less than 1/4 compared to those years. So there is no single amount -- something special that has gone through in these numbers.

But what I will say is that we have been reducing the costs year-on-year. And the top line has crossed that threshold of breakeven points quite significantly, and that's sort of generating a little higher margin now. So I would say that's really the driver. Mr. Mate had a point. Does that answer your question, Mr. Renjith?

**Renjith Sivaram:** Yes. Was there any forex gain or loss in this quarter?



**Alok Kirloskar:** Yes, Mr. Renjith. I think that in this particular quarter, as you know, we had some forex losses last quarter. We had some forex gains from last quarter to this quarter. But we have moved to hedge accounting in July '22. So I expect that probably after the June quarter, there should be less volatility.

That said, as you know, all our forex contracts are hedged. So anything that we release as profit or as loss, definitely loss is not real because we will get the money back because its hedged. Anything that is profit would be whatever we should get because contract is hedged, and that's the value we should receive with that.

**Renjith Sivaram:** Okay. So should we assume that the kind of margin, the overseas business is still kind of the normalized margins from here on, we should assume if probably this kind of revenue continues, is that the right way to look at it?

**Alok Kirloskar:** I would say, it is really dependent on the revenue, Mr. Renjith. Like I said, it's basically the fact that we've crossed a certain threshold and it depends on what the revenue is in those quarters.

**Moderator:** Mr. Sivaram, may we request that you return to the question queue for any follow-up questions. The next question is from the line of Himanshu Upadhyay from O3 PMS. Please go ahead.

**Himanshu Upadhyay:** Yes. Hi, good afternoon. And congrats on good set of numbers. This question is to Alok, okay? See, Alok if you look at the Braybar last two years, consistently, the profit -- it has been the most profitable, okay, let's say, something like 20%-plus EBITDA, okay? Will it be also the company having highest return on capital employed?

And secondly, you stated that Braybar would have 45% of services contract and SPP U.K. would be something like 30%, 35%, but the profitability of U.K. is much lower than Braybar. Is there something which is special in Braybar and that we have been able to hit consistently this 20%-plus EBITDA whereas in other places, which are still about 30% services contract we are not reaching that number?

And secondly, on this only, is the Braybar's revenue very different from what it was in FY '19 because at that period of time and similar revenue, the margins were 3% and currently, it is 20%-plus? So just some thoughts on that.

**Alok Kirloskar:** Yes. To answer your question, one is Braybar, of course, is much smaller as a company. The second point is that in Braybar like, you said and like I said earlier, the percentage of services is much higher. So that -- and that's really been brought through over the last few years. In 2019, the percentage is much lower. But of course, they started the process, but they had not bagged some large contracts that we have now on the services side, which are three years to five years framework contracts.



So yes, I mean after the -- mix of revenue is totally different between 2019 and 2020 and FY '23 in Braybar. The value of services is also close to 45%, like I mentioned. And that's really what's helping it really from 2021 when a lot of those revenues have come through.

If you're comparing it to SPP, what you're seeing there is SPP U.K. plus SPP USA. And like I mentioned earlier, there is zero services in SPP USA. So if I consolidate the two entities together, the service revenue would be probably under maybe 18% to 19% mark, the services revenue. So if you look at it, the service revenue is much lower and SPP U.K. is much larger in terms of the sizes.

Also, in the numbers you are seeing in SPP U.K., there's a comment there about forex. So every time we've been having this conversation. So maybe if you see a few of the transcripts, you will see what level of forex adjustment and mostly it was forex losses have been there in the SPP U.K. business, mark-to-market forex losses. So I would say maybe factoring those risk and also the fact that the service business is a lot lower, the SPP business is quite different from the Braybar business. Does that answer your question?

**Himanshu Upadhyay:**

Okay. Yes. It is -- so means what Braybar has achieved, for others subsidiaries, it may take considerable amount of time to reach in terms of revenue mix?

**Alok Kirloskar:**

Yes. I mean if we want services to be at that level, yes, it will take -- I don't think considerable amount of time, but it will take us a little while to get us to that level. All of them are working to get that mix for sure. And each company is at a different level to get there. So I would say, yes, it will take them a little bit of while to get there. And I think that -- I think they're on that path to focus on it.

**Himanshu Upadhyay:**

But the intent of competition is similar across the markets. So let's say, South Africa versus U.K. or Netherlands or Thailand. The competition of services remains the same? Or you find there is drastic difference from the developed market to emerging market for services and for pricing also?

**Alok Kirloskar:**

I mean, if you look at South Africa, it's a developing market. And if you look at the U.K., we're a developed market. So I mean, you have the examples there. So Thailand really is the focus. Like in South Africa, we were really focused on that business. In Thailand, the first thing we were doing is focusing on a distribution business because we were at, I would say, in terms of the hierarchy, a much lower level in Thailand, when we started this process. So the first step was to get a distribution business to get the products into the field, into the volumes.

Once you have that level of volume in the market, then you approach the customer, first you service your products, then you say I want to service everybody else's products, and that's really how the progression is, right? So I mean that's where we are now in Thailand where we have the installed base. And now we are meeting customers and we're saying you know, let us service our products and you know what, while we are servicing ours it seems like we can



service the others as well. And that's really how you keep enhancing the circle, right? So I would say that's what we are doing in Thailand at the moment.

**Moderator:** Mr. Upadhyay, may we request that you return to the question queue for the follow-up questions. The next question is from the line of Paras Adenwala from Capital Portfolio Advisors. Please go ahead.

**Paras Adenwala:** I have a few broader questions. One is I think its a tremendous turnaround for the company. So what would you attribute it to? Is it largely the tailwinds and also, to some extent, you know those efficiencies that you're eking out? I'm asking this question, the objective is if current tailwinds convert into headwinds, what would the kind of decline be that once can expect in the business?

**Sanjay Kirloskar:** I mean we tend to think that it is a combination of both. And with the initiatives that we have taken, we will try our best to ensure that whatever headwinds we might get, we should be able to take care of most of that.

**Paras Adenwala:** Okay. All right. And secondly, I've been observing the Kirloskar group for a while, for a fairly long period of time. And suddenly, I'm seeing this huge spurt of energy within the group. And let me be specific about Kirloskar Brothers. For the last 10 years, business wasn't going anywhere. And now suddenly, we are seeing this spurt. What would you attribute this huge amount of change and the way the business has been run?

**Sanjay Kirloskar:** Yes, maybe you have attended for the first time but about 14 years ago, we were mainly in the EPC business, where large pumping stations as against products contributed to our turnover to the extent of 75%. And we stopped taking orders for that kind of business at that time. And what we saw over a period of time was that the 25% of business going to now 95% of the business and 75% coming to 5%.

So yes, we were going nowhere if you look at it as a company, but there has been tremendous growth on the products side. And that too with the strictest commercial terms in our industry. So what we have done in the last few years is as the project business declined, we came out with many new products, we increased the capacity at our plants and we'll try to ensure that regardless of anything else, the cash situation improves.

So that's what has happened. On gross level, you saw turnover stagnating. But internally, as I have pointed out earlier as well, the EPC business has come down and the product business has gone up. So that's the change.

**Paras Adenwala:** Okay. Excellent. And just finally, the kind of top line growth that we've notched up in FY '23, would you say that it's largely because of the low base that you had earlier? Or do you think this probably seems to be a normalized kind of growth?



- Sanjay Kirloskar:** Yes, it could be because of the low base we had earlier.
- Moderator:** The next question is from the line of Sujal Chandaliya from Girik Capital. Please go ahead.
- Sujal Chandaliya:** Yes. Firstly, congratulation on this great set of numbers. I had a couple of questions from my side. Firstly, on a standalone basis, the order intake was, some what lower than the overseas, of course. Are we seeing any slowdown in any particular vertical, like for say building and construction or industrial segment?
- Alok Kirloskar:** On -- in the domestic area, industrial or B&C, we're actually not seeing a slowdown. As you probably are aware, there is a lot of investments in distilleries, steel plants, cement plants. So I think that business is quite strong and similar situation in B&C.
- I would say that sometimes, I think quarter-to-quarter, the situation changes. And as you know, very often, there are a lot of delays in order placements. But in terms of opportunities, I think the number of opportunities in the domestic markets still seem strong. But at the same time, maybe on the infrastructure projects like irrigation water, we are more selective and we will only pick up the orders where our terms -- our commercial terms and our profitability thresholds are met.
- Sujal Chandaliya:** Okay. And the second question was around -- so the presentation you have got in that 23 slide, the breakup in made-to-order, made-to-stock and engineered-to-order, is it on a consolidated basis or a stand-alone basis?
- Chittaranjan Mate:** Stand-alone basis.
- Moderator:** The next question is from the line of Vignesh Iyer from Sequent Investment. Please go ahead.
- Vignesh Iyer:** Just two questions from my side. First is, I just wanted to know, just from a perspective of this quarter, on our small pump business, what was the utilization of the small pump business that happened only for quarter 4?
- And the second question is our tax rate on blended basis for the entire year was around 29%. So what would be going forward in FY '24, what would be the estimated tax? Or you would be maintaining at the same rate?
- Rama Kirloskar:** So as far as capacity addition was concerned, it would be around 70% for small pumps for Q4. And I'll let Mr. Mate answer your second question.
- Chittaranjan Mate:** The tax rate is 25%, plus charges, so roughly 25%. But it looks differently because of various provisions and additions made like that. Because the profit as per book and taxable income varies on quarter-to-quarter.
- Moderator:** The next question is from the line of Aditya Deorah from Divisha Investments. Please go ahead.



**Aditya Deorah:** Sir, in the stand-alone balance sheet, we have a capital work in progress of around INR78 crores. So is there any capacity addition we are doing?

**Chittaranjan Mate:** I would say there are two things. One thing is that our Kirloskarvadi plant, we are modernizing and rationalizing some capacities. And at Dewas we are putting one additional line.

**Aditya Deorah:** Okay. Sir, just on a generalized note, like over the last 10, 15 years, this particular year, the amount of cash that we have generated, maybe around INR 250 crores free cash flow in the standalone books, maybe around INR300-plus crores in the consolidated books. So what would be the capital allocation policy for the company going ahead? Because I'm sure we are not going to put this money into trade receivables. So what could be the thought process behind using this cash going ahead for the company?

**Sanjay Kirloskar:** I think that's a very good question. We will see whatever opportunities come up. If you look at -- we are controlling our inventories. We hope to continue to be as profitable. And if you look at our debtors, actually, we have both current debtors as well as the vessels which are -- I mean, in the total debtor number, which are still to be collected from various state governments for projects that were done by us in 2010 to 2015. So our attempts is to collect that cash, collect those debtors. And the commercial terms are quite tight. I mean, like I said, the best in the industry for a manufacturer. So we'll continue with that. I mean why would we give away money.

**Aditya Deorah:** Okay. Your numbers were a very, very pleasant surprise.

**Moderator:** Thank you. The next question is from the line of Devansh Nigotia from SIMPL. Please go ahead.

**Devansh Nigotia:** Congratulations on a great set of numbers. In your subsidiaries, the orders enclosed has increased 20%, 30% closely Y-o-Y. So this is related to which segment or industry?

**Rama Kirloskar:** Which subsidiaries are these, international or domestic?

**Devansh Nigotia:** Subsidiary, like so if I break down the order book, the major increase has happened from increasing order inflow in our subsidiary. Is that right?

**Alok Kirloskar:** Yes. So I would say the main increase in the international subsidiaries is coming from SPP, both SPP U.K., USA. as well as from Thailand, KBTL. These mostly are coming from jobs in water supply, fire as well as certain segments in storm water drainage, which is in Thailand.

In the U.K., we have some from service, and we also have some new orders now come in for firefighting for regasification platforms. So that's something that was not seen in our order book, probably in the last quarter, but that's something that's coming in this quarter.

**Devansh Nigotia:** And how is the demand on the ground for residential pumps as well as the agricultural pumps?





- Rama Kirloskar:** So the demand is actually quite healthy. In fact, a lot of growth this year was attributed because of our focus on the agri sector. We were really aggressively pushing our agricultural pumps into some of the most rural parts of the country, and that has really given us a lot of growth this year.
- Devansh Nigotia:** And how you measure of competitive intensity in both these segments?
- Rama Kirloskar:** So this segment is extremely fragmented, but I mentioned this earlier in the call. We have quite a large breadth and depth of product range, which others don't. And I think that's one of the main advantages of KBL in the agri sector.
- Devansh Nigotia:** In case of oil and gas, are you seeing any kind of demand moderation incrementally?
- Alok Kirloskar:** In the case of?
- Devansh Nigotia:** Oil and gas. Oil and gas sector.
- Rama Kirloskar:** So there are quite a few expansion projects going on. And in fact Kirloskar Ebara which specializes in the API oil and gas pumps, they have quite a healthy order booking of around INR500 crores this year. So I think we are seeing quite a bit of uptick in this area, both in the international and the domestic area.
- Moderator:** The next question is from the line of Rabindra Nath Nayak from Sunidhi Securities.
- Rabindra Nath:** Sir, my question is regarding this Kolhapur Steel Limited. We have -- we are actually making losses in this subsidiary. And despite rising in turnover, the loss is also expanding. So what is the plan there that is first question? And also when we will expect that we are having a better traction in the U.S. market?
- Rama Kirloskar:** Sorry, your second question was satisfaction in what?
- Rabindra Nath:** U.S. markets. And when we are looking at the growth impact from the U.S. market in particular.
- Rama Kirloskar:** Okay. I'll answer your first question. So TKSL in the last year was focusing more on getting its customer approvals. That could not happen in the year before because of COVID. In fact, for the last 2 years, we were not able to do customer audits or approvals. And like I mentioned earlier, it takes around 6 to 8 months to get the approval, the prequalification and the sample casting ready for the end customer to release orders on this foundry. So we should see an improvement in this year.
- Alok Kirloskar:** Can you repeat your second question about the U.S. business.
- Rabindra Nath:** Yes, actually you mentioned that your service and also the business in the U.S. is almost very limited. How should we grow in the U.S. market? So that is my second question.



**Alok Kirloskar:**

In the U.S. market, we are very focused on a limited range because, as you know, the U.S. market footfall is very large in size and in terms of market size, also very large in terms of physical size and is full of our global competitors. Many of them it is their home country. So when we entered the U.S. market, we only entered into very select segments because we can't fight everyone in all segments. So we are mainly in firefighting, and we are in municipal water.

We cater to these segments for two companies, one is SPP Pumps Incorporated and the other is SyncroFlo Incorporated. One does fire SPP and one does water is SyncroFlo. So at the moment, we are not looking at service business there because, first of all, fire pumps, which we sell into the real estate segment as well as the industrial segment, generally don't require such service. And the large water supply pumps that we have, at the moment, they are still quite new and our population is quite small in the general American market. So we're not yet looking at service there.

While we do service fire pumps in the U.K. and in the Middle East, in countries like -- in Emirates, like Dubai and UAE etc, generally, fire pump services are not very profitable if you have to travel long distances. So usually, we have our FireEye system, which is a remote diagnostic system on the fire pump. We have an AMC and we visit them once or twice a year. So if you have volume like in the U.K., we have about 1,600 such contracts, then we will -- as whenever the engineer is in the area, he goes and visits one of these and completes the contracts, visiting once or twice a year.

So -- but the contract itself is not very profitable just on fire. So that's not a focus area right now in our U.S. business until we build up the critical mass in terms of volume and installations.

**Rabindra Nath:**

Okay. So it will take some time to grow in the U.S. market, isn't it?

**Alok Kirloskar:**

For services, yes, because the market is massive, as you know, both in terms of physical size as well as in numbers. And so we are going -- we have presence in certain -- very good presence in certain states. And in certain states, we don't have a lot of presence in when I'm talking about new products. So I would say first is feeding the products and then after that, we get the services step by step. And that's really how we try to see that we are ensured that the unit -- that the company makes profit in the U.S.

**Moderator:**

Mr. Nayak, may we request you return to the question queue for follow-up questions. The next question is from the line of Pratik Kothari from Unique Portfolio Managers. Please go ahead.

**Pratik Kothari:**

First of all, congratulations to the team for a such a outstanding execution. My first question to Alok. Look, historically, you've always mentioned that quarter 4 is usually a weak quarter for international business. I did take your comment that there was no extraordinary one-offs or no oil and gas large orders and nothing on the services side. So just -- because we see this in our execution in the order book -- in our order inflow, etc, I mean, very large jump even on a



quarter-on-quarter basis, which is unlike in the past. If you can just highlight what is driving this? Where are we getting the business from?

**Alok Kirloskar:**

Thanks, Pratik. Pratik yes, the reason why I always say that is because quarter 4 for KBL is actually quarter 1 for the international companies. And as we know, usually, quarter 1 is not always the strongest quarter. So that said, I would say that one thing that we've been really pushing for is increasing the baseline business, which is our turbine business and our fire business and our water business, which are the core businesses. So these are something that we're trying to inch up in terms of how much we do per month because we have very clear product mix and breakeven levels for getting -- for especially SPP U.K. as well as each of the other companies. So that has been our main objective over the last 2 years, and that's slowly coming up as a service business and the other product business is also enhanced to that level. So I would say that is one factor.

The other factor, as I mentioned, is that we do have slowly built up over the last year and coming into this year, a larger order base on Middle East projects as well as some oil and gas projects. So the Middle East projects are mainly in water supply for large expansions being done in many Middle Eastern, Emirates countries. And the other is for oil and gas, which is normally FSRU units right now, which are quite popular as well as some expansion in offshore installations.

So I would say that the order book now, which I think you've seen the size of earlier has a mix of these two. And this is why we're seeing that jump in the top line. Does that answer your question?

**Pratik Kothari:**

Yes, absolutely. Absolutely, yes. And my second question is in the cash flow, if you look at it, we have taken about INR35 crores of provisioning for some advance rates of bad debt. So this -- is it related to projects, sir?

**Chittaranjan Mate:**

Not necessarily it's related to projects. Given certain large orders where customers are having problems in arranging funds, so we have to make provisions. And some provision we have made for expected credit loss, which is as per policy. So there are delays from customers in paying. But as we go on collecting, we reverse those provisions. So it's a mix.

**Pratik Kothari:**

The reason I ask it is because it's a large number, it is double from what it was last year and almost 1% of sale. So this is an expected number to go ahead also?

**Chittaranjan Mate:**

At present, it is not expected to go up.

**Moderator:**

Due to time constraint, that was the last question. I would now like to hand the conference over to Ms. Rama Kirloskar for closing comments.

**Rama Kirloskar:**

Thank you very much.



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*Kirloskar Brothers Limited*

*May 12, 2023*

**Sanjay Kirloskar:** I'd like to thank all the people who attended the call for their good wishes and look forward to all of us having greater growth in the coming years. Thank you.

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