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Kirloskar Brothers Limited

Q2 & H1 FY24 Earnings Conference Call

November 08, 2023

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LIMITED
MR. ALOK KIRLOSKAR – MANAGING DIRECTOR
KIRLOSKAR BROTHERS INTERNATIONAL B.V.
MS. RAMA KIRLOSKAR – JOINT MANAGING DIRECTOR
AND 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 Kirloskar Brothers Limited Q2 and H1 FY24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectation of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded.

I now hand over the conference to **Mr. Sanjay Kirloskar, Chairman and Managing Director of Kirloskar Brothers Limited**. Thank you, and over to you, Mr. Sanjay Kirloskar.

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 hope you've had the opportunity to go through the financial results and the investor presentation, which have been uploaded on the stock exchange and on the company's website.

I'm pleased to report that during the quarter, consolidated revenue grew by about 6% to INR913 crores, and EBITDA grew by about 46% to INR97 crores with EBITDA margin at 10.6%, an increase of approximately 290 basis points.

For H1 FY24 consolidated revenues grew by 10% to INR1,813 crores, and EBITDA grew by 85% to INR213 crores with EBITDA margins at 11.7%, an increase of 480 basis points. I'd like to highlight that the growth in the EBITDA outpaced revenue growth on the back of strong performance in international business, cost control initiatives and softening of material costs.

For the half year, our domestic business grew by 8.5%, and international business grew by 12.9%. Oil & gas, fire, and defence and marine industries continue to witness growth.

In addition to the ongoing strong demand for make-to-order and engineered to order pumps, we've also observed a notable increase in mix of stock orders. This is a positive indicator of our ability to meet the diverse needs of our customers. Looking ahead, we expect this growth momentum to continue in the coming quarters, primarily due to the strength of our order book.

So we recently concluded quarter, maintained a consistent upward trajectory in our consolidated order book, which reached INR3,084 crores, representing an 8% YoY growth. This growth in the order book was predominantly driven by irrigation, water, and Building & Construction segments, highlighting the increasing demand for our products and our strong market presence.

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



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Alok Kirloskar:

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I'm pleased to report the international businesses, which we refer to as KBIBV witnessed a growth of 4% in Q2 FY24 and 15% in H1 FY24. Most of the international upstream reflect a healthy growth on the top line, along with expansion of operating profits.

SPP UK and SPP US. witnessed marginal growth on top line. However, on the operating profitability side, both the subsidiaries witnessed strong performance.

The UK business, as previously mentioned, we are looking to reshape our business mix, and to increase the share of services. Therefore, we're shifting our focus on the service side of our operation, which offers greater margin. Currently, the breakdown of our product is service mix stands at 62% for products and 38%. On the product side, we primarily serve the water supply, fire-fighting, oil and gas, offshore, chemical and industrial sectors, which make up 60% of our business. We are committed to exploring cost-saving opportunities. The SPP UK operates on a global scale with 70% of local UK production being exported serving customers in various regions. In line with this, I just want to highlight that last year in July '22, we moved to hedge accounting.

The US business has recently introduced many new products. We have a special emphasis on the fire segment and for data centres. These products have performed quite well, and we gained recognition from major players like Google, AWS and Microsoft for our specialized offering. Our focus will be to stand on meaningful water and commercial real estate, while there are investments happening across various sectors, we remain focused on these. It's important to note that our US operations are centered around commercial real estate and municipal water. Unlike other regions, there is no service component in the US business.

The Dutch business continues to go through the restructuring exercise. We have mainly retained the water supply and services part in the Dutch entity, along with the Kirloskar Brothers trading entity. The other parts of the business are being restructured and aligned to other businesses within the International group.

Our South African business is performing well. South Africa has signed further framework contracts in the power and mining sectors for services. Overall, the business is doing well on the operational and financial side.

Thai business, as we said last time, we are continuing to follow our model very similar to India by looking to add more distributors in the region. Our focus is on real estate, fire and industrial sectors, which are the key sectors that we look to grow our business in going forward.

Furthermore, our international business has made significant investments in services and framework service contracts. Currently, we have over 100 active long-term framework contracts across all our international subsidiaries. We remain committed to expanding the set of our business in areas like AI, IoT and AR and capitalizing on our 3D printer capabilities which has been a competitive edge. Our overall strategies and top priorities are listed to a strengthening offering and extending our geographical reach and expanding our market share.

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



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Rama Kirloskar:

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Thank you, Alok. Our domestic business is witnessing continuous traction. The industrial market has strong growth, and we are seeing a lot of orders. We have indeed secured a substantial number of orders for both Kirloskar Brothers and Ebara indicating a strong demand in the market. However, one of the challenges we are facing is a limited number of vendors available to meet the growing demand. However, the situation is coming under control and we expect things to normalize soon.

In the small pumps business, we've experienced a 7% YoY growth during the first half of FY24. In water and irrigation, we have successfully secured orders for over 1,000 solar pump sets. We have obtained contracts for more than 80 vertical turbine pumps and one order for over 100 pumps. We have also gained more than 200 multistage pump contracts for various water supply projects.

In the power sector, we have successfully commissioned two horizontal Kaplan turbines for the State Electricity Board. In building and construction, our fire-fighting pumps were chosen for installation in the prestigious 'New Parliament House.'. Our HVAC pumps were selected for the largest convention center in Asia, 'Yashobhoomi.'

Customer service support sector demonstrated a remarkable 11% increase in sales compared to the same period in H1 FY23 YoY. In the Engineering Services division, we have experienced substantial growth with a 22% increase in sales compared to H1 FY23 YoY. As far as oil and gas sector is concerned, we witnessed a robust growth with a 7% increase in YoY sales during H1 FY23. These positive results are a testament to our dedication to innovation, product quality and customer satisfaction.

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

Chittaranjan Mate:

Thank you. Good afternoon. Let me start with a consolidated financial performance highlights. For Q2 of the current year, net revenue from operations grew by 6% YoY to INR913 crores. EBITDA grew by 46% YoY to INR97 crores while EBITDA margins grew by 290 basis points to 10.6%. Profit after tax grew considerably by 66% YoY to INR51 crores.

For H1, net revenue from operations grew by 10% YoY to INR1,813 crores. EBITDA grew by 85% YoY to INR213 crores, while EBITDA margin expanded by 480 basis points to 11.7%. Profit after tax grew considerable by 148% YoY to INR115 crores.

Now coming to standalone performance for Quarter 2 for the current financial year. Net revenue from operations grew by 0.6% YoY to INR595 crores. EBITDA grew by 33% YoY to INR62 crores, while EBITDA margin expanded by 250 basis points to 10.5%. Profit after tax grew considerably by 71% to INR35 crores YoY.

For H1 FY24, net revenue from operations grew by 4% YoY to INR1,176 crores. EBITDA grew by 56% YoY to INR121 crores, while EBITDA margin expanded by 350 basis points to 10.3%. Profit after tax grew considerably by 141% YoY, INR69 crores.

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



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

Sunil Kothari: Hearty congratulations to the team for achieving now a very reasonably respectable margin which you are trying by cost efficiency, removing some non-profitable business and products, really commendation job. Sir, my question is to you is 2. One is on just macro view, we are hearing a lot of engineering and industrial products, projects and products ordering going up. So your macro view will be very helpful.

And just last question is on, to basically now we have done reasonably good consolidation in terms of our cost and profitability. So when we should think about you also growing, KBL also growing at a really respectable rate. I'm not asking any rate, but maybe double-digit higher or lower double digit. That's my question.

Sanjay Kirloskar: So as far as we are concerned, we are participating in all the projects that you can see in the different sectors, whether it's irrigation, water supply industry, which is the new investments that are taking place in steel or all the other sectors of the economy which we handle by our building and construction sector, we also seeing a large order booking. So we are basically getting large numbers of orders for our business from different sectors of the economy. And as far as the numbers are concerned, I think I will ask Mr. Mate to explain the way the numbers have played out, so that there is better understanding for all of us.

Chittaranjan Mate: Okay. First, it was a double-digit margin.

Sunil Kothari: Which already we achieved here. Now I'm trying to understand, focus will shift to growing revenue growth a little bit higher because our competitor, other industrial products are growing that way. So I'm just trying to understand how is the scope. And particularly, I think nuclear exports and this railway is helping a lot to grow the people, the other players. So your thought process, I'm qualitatively trying to understand the growth possibilities and our preparedness.

Sanjay Kirloskar: In different sectors, of course, we are growing. I think even where government is involved, we take orders where we are sure about proper cash flow and that the projects move like we would like them to move. And we are more conscious of cash rather than top line.

Chittaranjan Mate: And Mr. Kothari, one company out of those some companies who have declared their results, have registered growth, what you are talking about a high double digit. But on the contrary, there are other companies which have shown negative growth. And that is because in both sides, where it is high growth and low growth, high dependency on a government project order, whether it is for nuclear or solar pumps, suddenly, there is a growth, suddenly, there is a fall. And as our CMD sir explained, we are more focused on JV business where profitability and cash flow is ensured and not a big government project order.

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

Mahesh Bendre: So sir, on a stand-alone business, we have been growing in single digits for the last three quarters. And for the last quarter, the growth was almost flat. So if we see around our other peers, and then they have been growing 20%-plus for the last, if I look at the last nine years. So where the growth is missing? I mean why they are growing and we are not growing with a higher rate?



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Sanjay Kirloskar:

Can you repeat your question? Sorry.

Mahesh Bendre:

Sir, last three quarters, our stand-alone business is growing in a single digit. In fact, last quarter, the growth was -- there was -- I mean almost flat revenue growth. So if we see around our largest peer, which is growing 20% plus for the last three quarters, so I mean just trying to understand where are we missing in terms of these two difference.

Sanjay Kirloskar:

I believe that where they are getting their business from is possibly FGD that is flue gas desulfurization. That could be one strong driver of their growth. And I think they have been talking about the nuclear business. So maybe there is there have been some shipments over there. So Mate said that the only player that seems to have that kind of growth.

Mahesh Bendre:

Sure. Sir, in terms of outlook for next year, I mean, do you think that given the current order book we will grow in double digits on the stand-alone side?

Sanjay Kirloskar:

We have, I think, given you an idea of the order book growth and both on stand-alone as well as consolidated basis. And most of the orders are to be executed in the current year. And that also that order book doesn't include the made-to-stock pumps, which is a large proportion of our business.

Mahesh Bendre:

Okay. And sir, last question from my end is, the operating profit has been stabilizing. So is there any further case for us to there is any potential further to improve those? Or are we stabilizing what they currently they are, maybe a small difference because of the efficiency.

Sanjay Kirloskar:

As we have always said, we will strive to increase the profitability quarter-on-quarter.

Moderator:

The next question is from the line of Akshay Mokshe from Axis Securities.

Akshay Mokshe:

Sir, my first question is on the consol level. We have seen a significant increase in the employee cost. So what was the reason for it, first? And secondly, will we see the same trend in the H2 of this year?

Chittaranjan Mate:

As far as employee costs, first, I will cover KBL standalone and then come to other companies because your question is consolidated. In KBL, there are two factors. There were wage settlements at all the plants. So that has an effect. That is a onetime effect. And part of it was the wage arrears and partly increase in current wages.

The second part is after Corona, everywhere in manufacturing industries and other software, consulting, there is an attrition rate. So we have to be at par with industry. So we had to rationalize our salaries to control the attrition rate. And on overseas companies also, after corona, whatever the growth they are anticipating for that they had to rationalize manpower as well as scale.

Sanjay Kirloskar:

Hello, Akshay, has that answered your question?

Akshay Mokshe:

So will we see the same trend in the H2 as well, sir?



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- Chittaranjan Mate:** Whatever is the onetime effect for these arrears, that will not be repeated in subsequent quarters. But wherever the salaries or wages have increased, it would. So part of the increase, what you see in Q1 to Q2 was one time. It will not be repeated.
- Akshay Mokshe:** Okay. Sir, on the order book front, which are other sectors which those capability would grow further?
- Chittaranjan Mate:** Which sectors?
- Akshay Mokshe:** Yes. So with a sector like, so are you seeing any demand more demand from the power sector or say, defence sector?
- Sanjay Kirloskar:** We are seeing better demand from the power sector. We're seeing better demand from the oil and gas sector, industry, what we call our building and construction sector.
- Akshay Mokshe:** Okay. And this will be the lowest performing sector amongst all of the sectors like we have number of inquiries, must have dropped something like that?
- Sanjay Kirloskar:** No, that we are not seeing any reduction in demand. There are some that are lumpy, like defense and marine, where suddenly you might get an order. Again, I think in power sector also tends to be a little lumpy. But the order board as far as the company is concerned is higher across the board.
- Moderator:** The next question is from the line of Anish Jobalia from Girik Capital.
- Anish Jobalia:** So my question is around the order inflow that we saw in H1 at the consolidated level. So if you compare to the last year H1, we are almost flat in terms of the order inflow. So can you just, if possible, try to give some understanding of whether we are seeing a reduction in the momentum versus the last year because in the last year, we grew our total consolidated order inflow at 17-odd-percent for the full year. So it would be very helpful to know if there was any onetime big order in the last H1 base or they just on in the momentum.
- Chittaranjan Mate:** Are you talking about order book or top line?
- Anish Jobalia:** No, I'm talking of the order inflow, order inflow at the consolidated level.
- Sanjay Kirloskar:** Orders tend to be looking at our kind of our business tends to go up and down quarter-over-quarter. So I suggest you don't get carried away by one quarter.
- Anish Jobalia:** So we can just take it -- take this away that there is no slowdown in the momentum in the business in terms of the order inflows, right, even though H1 could be probably benign from the numbers per se?
- Chittaranjan Mate:** Yes. In fact, if you see overseas orders...
- Anish Jobalia:** Yes, they are up by 20%, but the stand-alone is down by 9%, 10%.
- Chittaranjan Mate:** It has gone to 30%. So there is a 15% growth, it could be quarter 2 YoY.



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- Anish Jobalia:** Yes, sir. So obviously, I can see that there is a...
- Sanjay Kirloskar:** Basically, we saw pent-up demand in the previous year. So that resulted in some of the sectors suddenly having a large order board because even things like real estate started picking up. So there were many orders that have come in. So I think you should let it see it over the course of the year.
- Anish Jobalia:** Okay. That's really encouraging to hear. Secondly, sir, even the MTS business, I think you have provided the numbers in H1, we have grown by 7%, versus the 15% in the last year. So it would be very helpful to know about the same that whether the momentum is picking up over there, how should we think about the business growth going forward? So I think in the presentation, you've given that the MTS has grown by 7% in H1.
- Rama Kirloskar:** So there were certain areas, as we had said earlier, we are trying to enhance our market share quite aggressively in certain regions. And we did notice that certain markets in the country were down in the last quarter. But we do expect to have been revived shortly in coming quarters. So we will and the sales will pick up shortly.
- Anish Jobalia:** Okay. If I can just ask one last question. So if you see the revenue execution, right, so what has turned out is that we saw a revenue growth of 10% in H1 versus the last year. But if you look at the FY23 order book end, was up by 17% versus FY22. So again, we are seeing that the execution of the existing order book as of FY23 end also is not getting completely converted into revenues. Probably we can expect to see even a 17% growth in H1 also, right, versus the last year, given that the order book itself was up by 17%. So is there any thing to note down here that the execution itself is also slowing down because of some reasons.
- Chittaranjan Mate:** Hello. Our order board, you see, which consists of various sectors. But there are certain sectors where the delivery period is long. So even if we see the opening order book is there at the beginning of the half year or quarter, not necessarily everything would get converted into revenue because we have different products.
- Some are delivered within two months to three months, whereas there are oil and gas, irrigation, power where delivery period is even 10 months, 12 months. I mean large power projects even two years. So this healthy order board may not immediately reflect in the same revenue growth in that coming quarter.
- Moderator:** The next question is from the line of Kunal Sheth from B&K.
- Kunal Sheth:** Sir, my first question is pertaining to the standalone business. We have grown flat this quarter. And we did mention that there are some players that have grown, but some sales also have grown quite slowly. So sir, can you give us some indication what would be the market growth in the current quarter? Would it be right to assume that market was flat or maybe 1%, 2% growth, and therefore, we are in line with the market growth. Is that the right way to look at it?
- Sanjay Kirloskar:** Yes. I think that would be the right way to look at it.



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- Kunal Sheth:** Okay. And sir, what should you attribute this slow growth in the market to be, specifically in this market segment because in most of the other market segments and in other market segments are essentially I mean other industrial products, the growth seems to be quite reasonable. So would you attribute and you did mention that you were focused on cash flow. So are you seeing any delayed payments or execution in any of the projects? Or how should we think about this, sir?
- Rama Kirloskar:** So there are a couple of reasons. One is there have been number one, there is a change in the product mix. So there are more orders that take long lead times, which is why it's not really comparative from last year same time, same quarter. Second is, there were floods in certain parts of the country, which is why we did not get a response from certain customers. And third is some of the inspection activities were delayed, which is why we have certain orders that are ready but not dispatched.
- Kunal Sheth:** Okay. Got it. And as far as the order book is concerned or order flow is concerned, there also we have seen some degrowth. So like Sanjay sir mentioned, we should think about this as quarterly variation, but the order inquiry pipeline is healthy. Is that right to assume?
- Sanjay Kirloskar:** It is.
- Rama Kirloskar:** Yes.
- Kunal Sheth:** Okay. And Rama, a question to you. How should we think about the growth in the standard product business from a medium-term perspective? Is it a 10%, 15% growing market overall, or it is more like a single-digit 7%, 8% growing market?
- Rama Kirloskar:** I'm sorry, your voice is a bit muffled. Can you repeat that slowly?
- Kunal Sheth:** Sure. I was just referring to how should we think about the growth in the standard product business? Is that market 8% to 10% growth market? Or is it a 15% growth market?
- Rama Kirloskar:** So that is an 8% to 9% growth market to answer your question.
- Kunal Sheth:** Sure. And should we assume that the Kirloskar Brothers will grow faster than the market, because we are increasing our distribution network and putting out basically filling the white spaces?
- Rama Kirloskar:** Yes. We strive to do so, and we are quite aggressive in enhancing our footprint. So I believe we would like to grow faster than the market.
- Kunal Sheth:** Sure. And my last question, Mate, sir. Sir, you did mention that there is some arrears in the wage in this quarter. Can you quantify that number?
- Chittaranjan Mate:** Sorry, we cannot give details more than what has been published.
- Moderator:** The next question is from the line of Mahesh Bendre from LIC Mutual Funds.



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Mahesh Bendre: I mean just taking a question from the previous participant regarding the employee cost, which has grown 29% on Y-o-Y basis where our sales are almost flat. So you said that includes both the...

Sanjay Kirloskar: We have signed agreements with all our plants in KBL as well as domestic subsidiaries. And our previous contract ended before we signed it, I think it ended at the end of in December last year, I think. And therefore, we had made some provisions, but those were not enough. Therefore, there was a one-off charge that we had to take when we signed the agreement in the last quarter, that is Q2.

Mahesh Bendre: So that's what. Actually, then arrears will be much higher than what we have reported because there is a one-off in the employee cost.

Sanjay Kirloskar: Yes, there is a one-off in the employee cost. That's what was explained a few minutes ago.

Mahesh Bendre: Yes. Because your gross margins have seen a significant improvement, but at EBITDA levels, margins are low because the employee cost there is onetime in employee cost.

Sanjay Kirloskar: Yes.

Mahesh Bendre: Sir, regarding this Kolhapur steel, it continues to bleed. I mean continues to make losses. Generally, we have seen foundry industries are doing well now in India. So, what's the plan in this? This is a one company in our group.

Rama Kirloskar: Right. So let me answer that. As we mentioned earlier, we are in the process of getting prequalified. Our order booking has improved, but we're still waiting for a few major customers to give us that routine load that we need month-on-month. But certain prequalifications have been completed. So this should improve.

Sanjay Kirloskar: To explain further, the foundry needs a base load and it needs loads like what we give. The reason why Kirloskar Brothers has invested in Kolhapur Steel is its ability to make exotic castings exotic steel castings. While we may give them orders and some other companies may give them orders, our orders tend to be orders which are one-off, 5 off, 3 off. But in the last few years, we have been identifying customers who can give us orders for castings, which are repeat castings in 10, 20, 30, 40, 50 to be shipped to them every month and the same casting.

So KBL might give at the most 3 to 5 per month, but we need a baseload. And that's what we've been doing in the last two years or three years, where, unfortunately, due to COVID, we couldn't do it, but we have now qualified ourselves with some players who can give us such orders. And we've gotten the approval. Now we are expecting that they will be building orders on us.

Mahesh Bendre: Sir, currently Kolhapur Steel, the demand is made for the group. I mean, how much is contributed by the external customers?

Rama Kirloskar: I'll just answer this last question. I think maybe some of our investors are not aware of the background. So we bought this foundry in 2009, essentially to meet large steel castings for certain sectors like oil and gas, power and maybe certain subsidiaries like Kirloskar Ebara. But



most of the load came from the power sector for this foundry, it is a captive foundry. But with the slump in the power sector, essentially, the orders that went to this foundry reduced substantially, creating an issue there, because we were not able to make the breakeven point because of the lack of orders.

And that is when late 2019, we took up a GTM project, where we decided that since it has state of the art infrastructure, we should actually develop this as an independent foundry and ensure that it gets orders from other sectors as well because it's the foundry business to make large steel castings for critical applications and hence can't be dependent solely on KBL and companies. It should look at other sectors. And some of the sectors that we shortlisted were in the earthmoving space, in the shipbuilding space, turbomachinery, valves and other companies like us in the pump business.

And that's what this was but unfortunately, though, the minute we started this project, 2020 to 2022, we had this COVID issue where a lot of the customers that we had approached would not actually make the prequalification audit visit to this foundry. And there was a 2-year delay in customers actually visiting the foundry to get us audited.

This activity started late 2022. And it takes around 18 months to get qualified by any of these customers because the castings are very large. They expect audit. They expect us to then make certain sample castings after which if the sample casting qualified, then they will put us on their approved vendor list and give us certain loads every month.

And that is essentially the process we are going through presently. We have been qualified by one or two customers, but that's still not enough. We're in the process of being qualified by many more customers, especially in the export market. And once the prequalification process is done, we should be getting orders in the future. So it should have, in fact, more external customers than just being dependent on KBL and the group companies. I hope that answers your question.

Mahesh Bendre:

Yes. Ma'am, I was asking this question because if one group comes through pulling the performance of overall Group. And secondly, on castings, we are hearing a lot about the demand, a very strong demand from the international market. In fact, all the casting companies, almost everyone is expanding their capacity. So in that context, I mean, this company can play a major role from all the way losses. So a significant change in the profitability that can change I mean, what numbers we are looking at the profitability level.

Rama Kirloskar:

Right.

Moderator:

The next question is from the line of Manish Goyal from Thinkwise Wealth Managers.

Manish Goyal:

I have a few questions. First, on what Rama mentioned in the opening remarks in terms of seeing challenges from the vendor side, availability of the vendor side for the growth. So maybe if you can elaborate on that, what kind of challenges we see and also trying to understand that when our revenues have been flat, then like what kind of challenges actually we are facing because we haven't been seeing growth. That was the first question.

Rama Kirloskar:

Right.



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Sanjay Kirloskar:

You want to ask all the three questions or four questions or one is...

Manish Goyal:

So second question is related to what you have mentioned in the press release in terms of execution of primary heat transfer pumps. I believe that is for nuclear power. So like maybe if you can update us on what is the status of tenders which have been floated for main boiler feed pumps as well as for the ancillary pumps? And are we in process of getting any orders from nuclear? That was two questions largely from the domestic side.

And then I have probably a question for Alok in terms of, he did allude in terms of about various markets, but we could not capture a lot of things. If you can probably give us growth trends in the various markets in the overseas business. And we have seen very good improvement in margins in last one year. So hopefully, should we be able to maintain that and continue with this margin trajectory going forward? Yes, these are the questions.

Rama Kirloskar:

To answer your first question in terms of the vendor bottleneck, we noticed that there was a huge bottleneck in steel and steel system vendors. As you know, there are only two to three players in the market, and most of them are approved with all our major customers. And we are seeing the debottlenecks there. There is a capacity constraint.

Secondly, the other area is in instrumentation, whether it's some of the temperature transmitters, , special transmitters, TMA system. Again, this is a huge bottleneck. And many of our customers now don't allow short supply. They don't do billing breakups and therefore, entire consignment cannot get dispatched because of these items not being available. So I hope that answers your question.

Sanjay Kirloskar:

Regarding your second question on heat transfer pumps, these are heat transfer pumps that we need for the fast feeder reactor. They were completely designed in India. They were completely manufactured in India. There are, I think, two or three primary heat transfer pumps, which from liquid sodium at 550 degrees, which is much higher than the pressurized water reactors temperatures that are there, are present in a pressurized water reactor. So those are these were delivered a few years ago. And slowly, they are being commissioned.

I think it's a testimony to the company's skills of the people that we have over here that we are one of, I think, four companies in the world that can make the main pumps and the secondary pumps for the fast feeder reactors. We are hoping that, that program will be that once these pumps run and once the reactor is commissioned, there will be a requirement because as you are aware, the Government of India's program is based on pressurized heavy water reactors, fast feeder reactors for engaging the spent fuel and the light water reactors that are also being installed.

As far as the other feed ordering, I had mentioned earlier also that we had stopped the development of this pump. However, last year, we reached an agreement with NPCIL and we have taken up the development of the primary heat transfer pump by KBL. We are going as per the schedule that we have promised. And we hope that when the time comes for ordering these pumps, we will also be allowed to participate. As far as boiler feed pumps are concerned, again, in KBL, we have developed boiler feed pumps.



Again, the first indigenously designed and manufactured boiler feed pump for the feed program. And we hope that when these orders are also released, they will be looking at us. As far as orders are concerned, for the fleet, they're still going very slowly, but definitely, we will be participating in it. Only the one for Haryana has been ordered to date, where, again, while we don't have the main pumps, we have part of the pump requirements in those tenders.

It's been explained earlier that now KBL can possibly give the entire range of pump required for a nuclear power plant, including the types of I mean, the ones that government wants to order a fleet of. And we hope that when finally, when the orders are placed by companies, I believe it will be offloaded to EPC contractors that we will be a participant in those tenders.

Alok Kirloskar:

Yes. I mean the other point which you asked was what are the markets that are interesting to us. I think one market in the US. As you know, we are mainly focused on fire and water and we discussed why in previous calls. And so we find that with the Inflation Reduction Act, there are obviously more opportunities there, and we're looking to see where we can capitalize. The biggest opportunities of course are in pure chemicals. And as you probably know, a lot of chemical companies are moving out of Germany into either America or China.

And people like Bayer or BASF, etc, because of certain provisions under IRA making it quite effective for them. But we don't have the requisite chemical pumps for America. So that's not a missing opportunity for us. But all the other pumps have around those pumps, we can, of course, support. So I would say from that point of view, there are opportunities. And similarly, other areas like infrastructure growth in America for municipal water, there are opportunities in that space.

So I would say that is one market that's interesting to us. The other, of course, is the Middle East, Saudi Arabia, because there is a lot of investment going on in probably at especially on cities. Last time, I had mentioned that we've been getting jobs from Neom City as well as HITB complex, which is the hydrogen development complex in Neom city. So these are two areas that we think are interesting and growing.

Of course, the other markets like Asia, where we are located like Thailand or Vietnam or Cambodia are seeing more inward investment. But they are assessing how much of that really would be beneficial to us directly because some of it is manufacturing, some of it is other kinds of investments that don't nearly definitely pop.

So we are assessing that. The specific area I mentioned in the talk is data centers and they're quite strong in data centers. So for fire fighting. So that's an area that we see as upcoming. Large number of data centers coming around the world. And until now, we've been a very preferred supplier with many of the data center owners like BOL, AWS and Microsoft.

So out to doing the key areas that we find are interesting. Oil and gas still there are investments in oil and gas, and there seems to be investment on upstream oil and gas. But as of now, apart from maybe some licenses, we are not yet seeing effect on the ground of that.



We do see feed studies. Of course, there are more orders than they were back in 2015 and 2016, when the oil exploration was almost in cold storage. But I would say that's where things stand. Is there any specific question you had?

Manish Goyal:

No, that's helpful. Maybe on the UK market and also like are we seeing any disruptions due to the ongoing war and disturbances in the Middle East and Europe area? So one is UK market, if you can also talk about.

Alok Kirloskar:

Yes. So 30% of our business is in the UK market, like I mentioned, 70% of SPP's business is outside of the UK. So in the UK market, we see the water supply business and the water business has stronger investments. There is a new SPA alliance, strategic pipeline alliance, that is happening right now, which is moving a large amount of water from the Northeast to the Southeast of the UK. And we have been in a very good position until now. I mean getting most of the contracts that were on that drop and obviously, a lot more of the job is still left.

So that's one area which is water supply where we see investment in different sectors within water supply as an area of interest to us. The other one is within the UK, we see our service business because we see that slowly we are picking up more sites under management. We do have sites like Inox in the north, and we are adding and we have sites like British Corp, Tata Chemicals, like I mentioned, all the water companies.

And clearly, we are looking to partner deeper with more of the water companies of how we can work with them in terms of maybe doing optimization of the product, reducing inefficiencies, not just by the pump upgradation, but by system changes.

So those are some things that we're working on. Yes, those things are what we're working on to enhance their efficiencies in the water segment. So I would say that is -- those are some of the key areas within the UK that we're looking at. We do see that we have some new pumps coming out in the fire segment. As you know, we've had historically a very strong presence in high-rise buildings. We recently bought a new listing on one of those spots, which is our multi-stage multi outlet pump. Though that pump has helped us get a good presence in almost every high-rise building in the UK.

And of course, the twin towers in Azerbaijan, the new World Trade Centers in America, both the Burj Haras and the Burj Khalifa buildings and also the buildings in Southeast Asia. Now we've added a new certification on that. So we are hoping that we can see a few more markets with that product.

Manish Goyal:

And last question, which is pending in terms of the margin improvement, what we have seen, do we it sustainable?

Alok Kirloskar:

The margin improvement that you've seen, I assume you're looking at the margins normalized annualized because, as you know, because of changes to hedge accounting, last quarter to this quarter, last year is not exactly comparable. But I would say if you are considering annualized margins then yes. I mean that's really what we are looking at right now. We see to be okay.



The US margins, I would say the US has had a little stronger level of business because of their supply chain issues getting resolved earlier this year. So I would say the US business is probably a little stronger than normal. If you ask me that question.

The UK business has more potential because a lot of jobs were not shipped out in the quarter and they've moved around. So I would say those probably negate each other.

Moderator: The next question is from the line of Varun Bang from Bryanston Investments.

Varun Bang: My first question is for Alok. Alok, how do you see your position in the US market versus other leading players in the fire and water pump segment? How strong is our distribution reach as of now? And where do you intend to take it over the next few years? What gaps do you see at overall level? And how do you look to improve our position in the market?

Alok Kirloskar: Are you asking me European market in particular or you are ask...

Varun Bang: US.

Alok Kirloskar: US markets?

Varun Bang: Yes.

Alok Kirloskar: So the US market, we have added another two distributor on exclusive basis, Core & Main. So they are a major national distributor that we've added. And that we feel also will add to our further penetration into the market. So we are continuing our growth in the US with adding these distributors like we mentioned. We are also adding new products.

Earlier, I mentioned our multi-pad multi-outlet product was one product, and we've got a new listing on that product recently, which would make it applicable to the US. Till now, we have not sold that product in big numbers in the US apart from maybe a handful of buildings, which were okay to take a European listing.

But generally, the US obviously, we need the US listing, and now we have got that. So we hope that we can open up some new markets within the US with that product. And that product really has been one of our workhorse products across Europe and in the Far East because it's the one where we are the only one that have that technology where we are able to make from the basement of a building pump about 1.2 miles high in the air upwards and then also have different pressure points coming out of the same pump. Because, as you know, building is divided into different zones, and we can have up to 11 zones coming out of one pump.

And usually, the obviously, the numbers change, but between 5 and 7 stories can be a zone. But of course, it's dependent on the European legislation. Some places are up to 10 stories also. So I would say that these kinds of products will help us also strengthen our network and also help us bundle the services and provide a better bundling solution when we go and meet the contractors and contractors with this business.

In fact, in India, when we introduced this product in India, just to give you a example. We obviously are the only company with this product, and we were able to bundle the product with



other products, which are not fire products, non-fire products, and we told the contractors that if you want this product, you need to buy the other products as well.

So I would say that products like the new distributors, like I mentioned, like Core and Maine and of course, some presenting within the supply chain to be more cost effective, should help us get better market share in America, and that's really what we're focusing on. There are also some segments in America where we're doing direct sales, which are near the plant. So some states near the plant, we're doing direct sales, and we're doing this because one is we have the reach because they are close to our plant and secondly the margins are different from distribution sales.

But at the same time, we're not going to keep enhancing it because America is a huge market and really distribution is the way to go in that market. So we will be continuing on that journey, but some areas we will cater directly where we believe that we can do a good job and they're not compromising our distributors in any way. Does that answer your question?

Varun Bang:

Yes. Sir, second question, Sanjay, sir, I think given nature of our business, there is a lot of volatility on a quarter-on-quarter basis. So I have a broad question. What message would you like to give to a shareholder who is looking to invest from a long-term perspective, given we have a global presence and how would you define the overall opportunity landscape for the company as a whole? And where would you want to see Kirloskar Brothers eight years to 10 years from now? And lastly, what parameters would you like a long-term shareholder to focus on when he is looking at our performance?

Sanjay Kirloskar:

Yes. The company is an old company, and it's a company that's been paying dividends for the last 80-plus years without fail. So I believe that it is a strong company. The balance sheet is strong. And not only does it have the widest range of products, but it also has the capability to design products from scratch in India and design products for the world from India. And that's what we've been doing. Our products are sold all over the world. It's not that only products that are made in UK or Netherlands or elsewhere that are being exported. It is products that are being made in India and exported all over the world.

So this is a capability that we have, which I think is a real strength. We also have stickiness as far as people are concerned. There are many people who despite the ups and downs have been with us for decades, contributing to the growth of the organization. If you remember, about 10 years ago, we had problems in our Projects division. And we had to turn the company around to go more towards products rather than projects. And to come out with I mean, last year, I think we came out with 206 new products across the board.

I also mentioned a little earlier that we've developed pumps totally within India for the world. So it is a strong company. There is going to be volatility on a quarter-to-quarter basis, partly because almost half the business is seasonal business, if you see it that way. We just had the monsoon quarter that has its own implications on sale.

So I'd suggest that you look at it on an annual basis. See how the company performs for the last four years or five years on a quarterly basis and then reach a conclusion as to whether you want to invest on us. Because our aim is to make this a national champion out of India.



Our brand is recognized all over the world. And that is the aim that we have. We are where all our global competitors are coming that is coming to India to make for the world, we are already here. We are present in all the trading blocks of the world. Slowly but surely, despite all the disadvantage of being an Indian brand, we are growing our market share. You talked to Alok about fire-fighting. I think we are now one of the top three players or top two players in the US market as far as fire-fighting is confirmed.

So we have the ability to get into new markets, get into developed markets and reach positions like this. Of course, each country, as you can see, has become more and more nationalistic, more and more protective of its domestic industries. And we are in a situation where I think now in every region, we have value addition, which is upwards of 50% bookings despite spending out of India. I think more than that, I can't give you any numbers. I can't give you, I can't make, I shouldn't be making forward-looking statements. It is up to you to see how the company performed in the last few years. You can look at the fine print and then decide.

Varun Bang: So I think we've done there. Is there a way which is the opportunity likely for the company as a whole? And where do you want to see KBL, eight years to 10 years down the line?

Sanjay Kirloskar: Is there a what? Could you repeat the question?

Varun Bang: Yes. I mean, how would you define the overall opportunity landscape for the company as a whole? And where would you want to see KBL eight years to 10 years down the line?

Sanjay Kirloskar: We would like to see, I mean, as long as there are humans on the planet, pumps are going to be required. And that's what drives us regardless of whatever we do, we are going to be there and - our product is going to be required. It's not just hydronics that we are looking at. We are also looking at electronics. We talked to you about AR/VR, we talked to you about IoT.

There's actually no one in the country that's offering these kind of services, subscription services, which we've already started offering. For me, I don't want to give a number because it's something that's forward-looking, but we will definitely be one of the biggest players in the world, that's all I can say.

Moderator: Thank you. We take that as a last question. I would now like to hand the conference over to Mr. Rama Kirloskar for the closing comments. Please go ahead.

Rama Kirloskar: Thank you. In conclusion, we take immense pride in being the only company that designs and manufactures our products here in India, serving the needs of customers across the globe. Our commitment to excellence ensures that our products meet the highest global standards, be it in terms of quality, performance or delivery.

We are known for producing some of the most efficient pumps in the world and our dedication to innovation and quality will continue to drive our success on a global level. Having established the groundwork for our transformation, we are enhancing our competitiveness and achieving sustainable growth going forward.



Enriching Lives

Kirloskar Brothers Limited
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Thank you for joining the call. If you have any further inquiries, please get in touch with any of us or with Strategic Growth Advisers, our Investor Relations partner. Wishing everyone a very happy Diwali. Thank you.

Moderator:

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