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“Kirloskar Brothers Limited
Q3 FY '24 Earnings Conference Call”
February 15, 2024

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Moderator:

Ladies and gentlemen, good day, and welcome to Kirloskar Brothers Limited Q3 FY'24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinion and expectation of the company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and 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, sir.

Sanjay Kirloskar:

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

On this call, I have with me Alok Kirloskar, Managing Director of Kirloskar Brothers International B.V., Rama Kirloskar, Joint Managing Director of KBL and MD of Kirloskar Ebara Pumps Limited; Mr. Chittaranjan Mate, CFO; and Strategic Growth Advisors, our Investor Relations Advisors.

To begin with, let me inform you that during Q3 of last financial year, that's FY'23, one sales order of the company had crossed the threshold for revenue recognition as per accounting standards, which led to a favorable impact of Rs.31.3 crores on revenue as well as profit for Q3 and 9M of fiscal year 2023. If you take out the effect of this from Q3 FY'23 results, you will see that the real growth in sales for Q3 FY '24 is 11% and in profit before tax for Q3 FY'24 of 121% over the same period. The results for Q3 and the 9M of FY'24 do not include any such items and the results represent normal operations and could be considered as sustainable in the coming quarters.

Numbers for 9M as well as consolidated results need to be seen after making this adjustment to understand real growth in sales and profit. On the domestic business, KBL stand-alone results show a growth of 5%. This growth is driven by steady demand for made-to-order and engineered-to-order models, along with the rise in made-to-stock orders.

Looking at our business prospects, we expect this positive trend to continue in the coming quarters supported by our robust order book. As of December 2023, stand-alone pending order book stands at Rs.1,943 crores. On the international business for the quarter, we reported a growth of 5%. The majority of our international subsidiaries reported growth in revenues. SPP U.K. and SPP U.S.A. reported growth of 4% and 27%, respectively. South Africa and MENA regions business is picking up and reported a growth of 10% and 32%, respectively.



We are witnessing a sequential uptick in the Marine and Defense and Industrial segment. Our international business has made substantial investments in services, which is a high-margin business and is evident in the numerous framework contracts currently active across all our subsidiaries worldwide. The consolidated pending order book stood at Rs.3,111 crores, a growth of 9% on a year-on-year basis.

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

Chittaranjan Mate:

Good afternoon, everyone. Let me start with our consolidated financial performance highlights for Q3 FY'24. Net revenue from operations grew by 1% year-on-year to Rs.965 crores. However, after adjusting the onetime impact of Rs.31.3 crores, which our Chairman explained to you just now, the real growth was 4% year-on-year at consol level. EBITDA de-grew by 10% year-on-year to Rs.138 crores, but after adjusting the EBITDA for the last year same quarter, there is a growth of 13%.

Profit after tax was at Rs.82 crores. Now coming to 9M number. The net revenue from operations grew by 7% year-on-year to Rs. 2,777 crores. And after adjusting onetime impact of Rs.31 crores, the growth is 8%. EBITDA grew by 31% to Rs.351 crores. And after adjusting last year's impact, it is 48% growth. Profit after tax grew by 46% and stood at Rs.197 crores. These are the major points from our side. Now we can begin questions and answers. Thank you.

Moderator:

Thank you very much. First question is from the line of Himanshu Upadhyay from Buglerock Rock. Please go ahead.

Himanshu Upadhyay:

I had a small question on this KPML motors business. We see the sales of KPML down Y-o-Y, both Q-on-Q and for the 9M. When we are their primary customers and when we have grown, what is the reason for them to not grow especially in the 9-month period? Can you just see what is happening there?

Rama Kirloskar:

So as far as KPML is concerned, I believe there was some delay in certain orders going out. And therefore, you see this slight depression in their sales figure. But most of these orders should go in the subsequent quarter.

Himanshu Upadhyay:

See, generally, this KPML is into the smaller-sized motor.

Rama Kirloskar:

So KPML serves our small pumps business, but it also serves the industrial clients of KOV. So that's where we saw some delays. It was essentially delays from our APOEMs, so you see that slump here.

Himanshu Upadhyay:

And secondly, to Rama only. Rama, last time when the capital good cycle was at peak, our power was the major revenue contributor or the order book, okay? We used to have Rs.1,000 crores type of order book from power segment itself. And we are seeing, again, a lot of stock which is happening on the power side.

Do you think we are looking to see similar level of capex and the inquiry levels, what is there in the industry. Can you reach beds to those numbers? Or do you think the competitive intensity in



that segment has increased and that kind of revenue and market share may not be feasible in this cycle? So, some thoughts on that.

Sanjay Kirloskar:

Yes. We see a lot of change on the power side. And it's not only the thermal power, which seems to be picking up again, but also on the nuclear power side we also see that there are opportunities. The company's products have only been recognized over the last few years as possibly the best in industry, best for efficiency, best for sustainable efficiency.

And I think with life cycle cost gaining importance, we will only be in a better situation than what we were before. The company has, in the meantime, developed a bigger product range. We now have supplied boiler feed pumps, in the market which we were not in earlier, in addition to all kinds of other secondary cycle pumps in the nuclear as well as the thermal field.

The pumps for the fleet order. We've restarted work on the primary heat transfer pump, an order for which we had received from Nuclear Power Corporation. And that development order is going as on track or maybe a little faster than what we expected.

Himanshu Upadhyay:

So, can we get back to that order book of Rs.1,000 crores, what we used to see in power in last cycle?

Sanjay Kirloskar:

We never had an order board of Rs.1,000 crores. It was always around Rs.300 crores, Rs.400 crores. And that is why what I would like to tell you is that Rs.1,000 crores were with projects, right? And we are out of the project business. We would supply complete systems, including civil and piping and everything else. So, I think you will not see that kind of order board, but just like in the products business, you will see that KBL will be supplying more pumps and more pumps for a power plant than before.

Himanshu Upadhyay:

Okay. Thank you for your explanation. And one last question, historically, we have aspired for getting into top -- few pump manufacturers globally, okay? We have -- also used to historically give some guidelines also that among this number we want to win. To realize the dream, what are the top three areas as a company we need to focus on for the next three to five years means. We want to be there, what we have always aspired to be?

Sanjay Kirloskar:

So, one is to be very strong balance sheet-wise. I think we are getting there. Number two, our products have always been globally competitive. And that, I think you can see from our annual reports over the years that we have been able to and continue to supply some of the top companies in the world. And we also want to ensure that we are present in the markets where in more segments than we are today. So, for that, our international business is building up product portfolio. It is going to take time, but we believe that we are on the right track.

Within the plant, as you are aware, we've put up a mega store. We are implementing total quality productive maintenance. We have a Japanese individual who has been working with us for the last two years. That is what is modernizing our plants, so that not only do we debottleneck them, but we are far more consistent in our deliveries to our customers and at the end of the day, many customers around the world want to ensure that you may be able to supply the product, but the service facilities have to be in place.



And that is something that we've been discussing for the last many quarters, about the work that's being done internationally for after sales. I hope that answers your question.

Himanshu Upadhyay:

Yes. One, just follow up on that. See, the way we look at it as a group, we cater to different segments in each geography, okay? So, in some geographies, we are focusing more on HVAC, mining, some place again, retail, some place, power. How do we drive synergies in various operations and especially product development and plant level, okay? And as an outsider, how should we think about this means? And is it the normal pattern for most large pump companies that in certain segments, in certain geographies, they are strong and in certain, they may not be present. So how do you think about that? And what should be my understanding?

Sanjay Kirloskar:

I think that is the case with most companies with wide product ranges, that you get an entry into certain markets based on -- so if you see in Europe, we had gotten entry with large pumps for the power sector. That helped us get into the irrigation sector. So, it has to be done step by step. I can give some tools closer to home. Toyota has a huge product range. But when they came to India, they brought only the Qualis vehicle. And over a period of time, they are putting together a service network and increasing the product range in India.

But if you look at the global product range, do you see all the products being made in India? They don't even offer all the products in India. If you look at company closer to a company in India, which everyone talks about during this call, they offer pumps for the API refinery business. But globally, they do not have an API range, which is acceptable as a true API product line.

They do not have -- if you go to their website, you see our website and we talk a lot about MSMO pumps, the multistage multi-outlet pumps for firefighting. The parent company doesn't have it. The Indian company has it, right? So, it depends on what you feel is the right entry into that market and you slowly build your business in each geography going forward.

Himanshu Upadhyay:

Thank you for your detailed reply. I appreciate. And best of luck for the coming quarter.

Moderator:

Thank you. Next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please proceed.

Bhagyesh Kagalkar:

Sir, this question is again, regarding the nuclear pumps. Now again, world over is -- the talk has started that these smaller nuclear plants are a solution and sustainable solution, 50-megawatt, 100 megawatts. But how big is that market in the next three to five years? And what can our share be? And apart from KBL or I may be wrong in case, who are the main competitors over there in this 50 to 100-megawatt product where we can offer solutions?

Sanjay Kirloskar:

So, world over, currently, I think only the Russia and China have developed. I think they have commercialized these small modules. I believe you're talking about small modular reactors.

Bhagyesh Kagalkar:

Yes, the small -- that 50 – 100 MW is what we are talking about.

Sanjay Kirloskar:

Yes. So, I think UK has just placed an order on Westinghouse for their API 300 model. And in India, there is work going on small modular reactors. We believe that we will be able to deliver



whatever is required when the time comes because we have that experience of delivering such pumps already. So, if you look at the small modular reactor, at the end of the day, the design will have to be approved by the IAEA, the International Atomic Energy Association, I guess.

And something like that, I understand even Westinghouse has taken close to 10 or 12 years. There could be ways of kick-starting the process by making it as close as possible to an existing reactor. If you look at the Westinghouse reactor, it's a 300-megawatt reactor. And that's what we call a small modular reactor because globally, the reactors are 1,000 megawatts, the French Superphénix designed 1,300 megawatts. The one that -- at Jaitapur, I think is, I believe, is going to be that size. So, anything actually around 300 and below would be a small modular or could be called a small modular reactor, it's made in a modular form.

Europeans have now come with a nontariff trade barrier, which they call the European Carbon Border Adjustment Mechanism. And my belief is that it is going to hurt us because so much of our power is based on thermal power or on coal. We possibly need to increase our nuclear component of power generation in a big way. I think Britain has talked about going to 20%, nuclear component.

Because if you look at it, solar takes a lot of land, plus it doesn't generate at night. Wind is not consistent in India like it is consistent in the North Sea or some parts of the world. And therefore, it is my personal belief that for India, we will probably need to have coal replaced by nuclear in a big way going forward.

Today, nuclear generates 2% of India's energy. So, if you have to take it to 20% and if you have to take it to whatever 20% means in the year 2035 or 2040, it means that there is a huge requirement, there would be a huge requirement for nuclear power because you need something for base load generation. And you won't be allowed to go with coal because that will make Indian products, engineering products, Indian textiles, whatever, Indian commodities very expensive, we will not be able to export it. So, we need to move very quickly into the nuclear arena.

The fleet order program needs to be activated or energized or whatever to ensure that these new 700-megawatt nuclear reactors that are being put up by NPCIL are going on stream faster, and small modular reactors need to be developed one way or the other. And I hope that we will do it within India because BARC, the entire Indian nuclear establishment, is extremely capable when it comes to design.

And I believe that Indian companies are also very capable. If you look at the company, KBL, I believe that KBL has now almost every single pump that's required for a nuclear reactor that would help government of India also because there would be two or three players available to place orders on, because the program is going to be huge. And no single company will be able to deliver everything that is required.

Moderator: Next question is from the line of Nishit Master from Axis Securities. Please go ahead.

Nishit Master: Sir, a couple of questions from my side. One is if you can give some kind of a flavour on volume growth this quarter and nine months. If you can term it in HP or whatever? And what is the kind



of growth we've seen in after sales service, component of the revenue? And second part is, so if you can answer this, and then I'll take my second question.

Sanjay Kirloskar: We normally never disclose that number because it's a very confusing number. I'll probably confuse you at the end of the day because we make so many different kinds of pumps and we make them in so many varieties that any kind of answer would be confusing. And the rate of growth, and I'll say it's growth. I would say, is the growth is different in different ranges.

Nishit Master: Now if I could -- is there a way to tell me that for a similar pump, what is the kind of pricing reduction or increase we've seen in last one year on an average?

Sanjay Kirloskar: We've only had price rises, except for small pumps. No price rise for small pump. Made-to-order, there's moderate price rise. But instead of 3-inch pumps, I am supplying 4-inch pumps, the price per pump would go up. The volume may go down. If supply it in cast iron instead of steel last year, the price per unit would go down because supply rate in steel instead of cast iron this year, then the value per unit would go up. So, it's a very -- it's difficult to answer. Our capacity utilization has gone up, that I can say.

Nishit Master: Sir, one more thing. On exports, have we seen any kind of bottlenecks which have led to delayed in shipments because of the Red Sea issue?

Sanjay Kirloskar: No.

Nishit Master: No, right?

Sanjay Kirloskar: No.

Nishit Master: Okay. Thank you.

Moderator: Next question is from the line of Ravi Shah from Opal Securities. Please go ahead.

Ravi Shah: Sir, in the previous quarter, in the previous quarter call, there was an expectation that employee costs would decrease, but they have remained unchanged. So, could the company provide some clarity on when we can see a reduction in employee costs and discuss any plans to address the situation?

Chittaranjan Mate: Mate here. If you see the standalone numbers, the employee cost last quarter, which was Rs. 883 million, this quarter it has come to Rs. 830 million. So, it has decreased. But if you compare with last December, yes, there is increase because there are two effects. One is step up because of the new wage agreements and revision in salaries. But what was the onetime extra increase, which we had talked in last quarter, that effect has gone. So, if you compare with our Q2, there is a decrease of Rs. 50 million, Rs. 53 million.

Ravi Shah: Revenue on order book has not grown as per industry, how the industry has grown. So, I was just trying to understand why is that?



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Chittaranjan Mate:

If you see this particular quarter, then our standalone results indicate 11% growth in sales. And recently, you would observe in the CMI note, they have shown that general engineering industry growth this year has been around 5% and the pumps are growing at around 6%.

Moderator:

Next question is from the line of Manish Goyal from Thinkwise Wealth Management.

Manish Goyal:

I have a few questions, sir. First on -- I would like to congratulate on the very good margins on the stand-alone result at 11% probably now move to double digits on normalized operations. Hope that we will be able to maintain these double-digit margins going forward. So maybe you can comment on that.

Second question on domestic order inflow in the domestic market. Probably if I look at standalone on 9-month basis, it probably in close look, a bit muted. And really, the inflows are equal to the revenues. So maybe if you can give us a perspective that how do we look at going forward, in terms of growth in the order inflow. And maybe if you can give us perspective as to are there any industrial sectors, which are slowing down on one side or which are the ones which offer optimism?

I have a couple of questions on the international operations, particularly for SPP U.K. So last quarter, we had mentioned that numbers were a bit subdued as some dispatches were delayed and would probably happen in this quarter. But if I look at SPP U.K. numbers, it seems to be quite muted with 2% revenue growth. And we did have a very strong order book over there as well. So, what could be the reason for such muted growth? And ideally, December quarter is a peak quarter for our international operations. So that was one thing.

And then related to SPP again on the margin side, we have seen profits have come down by 47% in this quarter and margins have also declined significantly. So, if you can also give us perspective as to pertaining to certain onetime or is it normal? And how do we see it going forward in the coming quarters? Dutch operations and Thailand operations again seem to be struggling in the first 9 months. So maybe if you can throw some light on that as well.

Sanjay Kirloskar:

I will only begin by continuing to say what I have said before that we will strive to have better results quarter-on-quarter. I hope that is recognized for many quarters now, we've been doing that. And I'll ask Mr. Mate to respond on the sector growth. But I look at -- our building is not very tall, you -- I think many years ago, you were here.

And when I look out from the terrace, I only see a large number of cranes with new buildings coming up. That the volumes for building and construction for us keep going up. Power is looking up. Irrigation and water supply, again, we are supplying most of the projects now through various EPC contractors.

As you are aware, we are now only delivering our products. And I think in various other sectors also, we are seeing very positive trends. So, I'll ask Mr. Mate to talk to you sector-by-sector, and then Alok will respond on international.

Chittaranjan Mate:

Mr. Manish, I am Mate. Your first question about margins. Our Chairman has already responded. Your second question was about order book. Actually, order booking fluctuated on quarter-to-



quarter based on various factors. If you see our order board position. Last year, Q3 order booking was Rs.485 crores. And this year Q3, the order booking is Rs.615 crores. So, it has improved. But then in between last year Q4, it has gone up to Rs.695 crores. Again, it came down.

So, there is a cyclic effect. And it may be that certain companies decide certain period for booking orders or some people wait for government being formed, elections. But our marketing team confirms that the inquiries and the number of tenders being submitted, there is no slowdown.

Then coming to your next question about SPP. Yes, SPP there is a growth of 4% moderate growth. But again, there were certain orders which couldn't be executed because of supply chain issues. And if you are talking about margins. If you consider last year, this quarter, the margin included certain onetime items. But if you consider 9 months margins of SPP U.K., those have improved from 8% to 11%. Coming about your Dutch and Thailand businesses, Mr. Alok may explain this.

Alok Kirloskar:

Manish, on SPP side, you are right, the last quarter sometimes is stronger. But this year, we've had exceptional issues with a particular engine supplier based in America. And so, a lot of large jobs have not gone out and they'll probably go out in -- I mean, they are hoping like we said earlier this quarter and maybe part of the next quarter because there's been heavy delay on those engines.

These are specialized engines that normally go offshore, and the capacity was reserved for those jobs because it was expected that they will come. And while some of the engines came, they did not come to our level of satisfaction. So, a lot of work had to be done on them by that supplier. So, it's caused us some issue because that capacity could not have been used for anything else. And at the same time, we didn't get the sale of those items.

So that said, I think, but at the same time, you will, as Mr. Mate, appreciate that over the last few years, we've been trying to even out the numbers. And so even with that hit, that was taken because of change in sales. The net margins are still better than the previous year.

Coming to Thailand and the Dutch entity, I'll start with Thailand. Thailand has had some issues in the first half of last year, even though they went in the decent order book position, the first half, there was elections in Thailand. And unfortunately, the elections, as you might know, does not take place for until July. And so, a lot of jobs and a lot of work was on hold in Thailand, especially which is their home market, which caused lot of delay. But that said, the opening order book for this year has been -- for January has been very strong. And so, we are hoping that we can turn the corner in those operations, even though they had a late start to the year.

For the Dutch operations, we are still managing the cost. We had a lot of jobs that actually did not go at the end of December as expected, but they'll probably be delivered now. So, we've had some delays on some jobs that have caused the numbers to look a little off sided it.

But on -- as research operation, we have three companies, one is Rodelta where we are really focusing on cost management. But the other two companies, KP BV i.e. Kirloskar Pompen BV



and Rotaserve are quite strong and have a good order book. So, we are expecting them to recover going forward. Does that answer your question?

Manish Goyal:

Yes, yes, Alok. So just also if you can give us a perspective as to, we probably keep hearing that quite a bit of slowdown in Europe markets and elsewhere. So how do we see our international operations going forward? And also, like one more point -- one more thing, which I also wanted to point is that we were seeing improvement in our revenue mix particularly for U.K. operation, which I forgot to mention in terms of when I spoke about the margin decline. So, it was a bit surprising that quite a lot of variation was visible, there is a visible point, I wanted.

Alok Kirloskar:

I mean I think like I said, there's a huge number of large jobs that did not go out. Not really numbers. There are a few large jobs or very large numbers that didn't go out, like I mentioned, and that created a bit of a dent in December when it would have normally gone out. And there's nothing more than I can mention on that. I mean that's what the situation is, and we expect that will recover.

On Europe, like you're mentioning, I mean, yes, it is definitely a slow market. It's been a difficult market, but to be fair, that's been the situation for the last 2 or 3 years and probably especially after the war in Ukraine, where energy prices have been sky high. So even in those situations until now, the team has managed and done reasonably all right.

As you can see, the opening order book position for the international companies is still quite strong. So, I mean, you can put it into context how strong the order book is compared to previous year's revenues and so. So that will give you a perspective of what the future would look like. That said, I will say that also in UK, 70% of our product production is exported. It is going mainly to the Middle East and Thai. And in the Middle East, we do see certain countries that are doing well like Saudi and few others. Because of investments in areas like NEOM City, where we have got big jobs in HIDC complex, which is hydrogen complex as well as NEOM City itself. So, I think that while we are cautious at the moment, the order book position is still giving us a good level of confidence as it stands at the moment. Does that answer your question?

Manish Goyal:

Sure.

Moderator:

Next question is from the line of Suhrid Deorah from Paladin Capital.

Suhrid Deorah:

In India, we are moving more towards make-to-stock. And that business is short cycle inherently. So is the order book, which is published, is that a relevant metric?

Rama Kirloskar:

Yes. The only make-to-stock business that's not shown in the order book is the small pumps business that is delivered within the month. Here, these are all long lead items, the made-to-stock that is shown in the order book is all long lead items. So anywhere up to 4 months.

Alok Kirloskar:

But I think the point that you made is that as we move our made-to-order business also towards make-to-stock through our APOEM model, all the traded components, which we used to sell -- like in the past, we used to sell a whole pump set, which included a pump. But all the other accessories, including a motor, which would sometimes -- the pump in that package was no more than 20%.



So now that we are focusing on the pump itself and selling them to APOEMs stocking them by bringing the made-to-order business into the make-to-stock category, we will not be trading all those items. So, I think if that's the point you're mentioning, yes, the order book would reduce because we are not including all the traded components into the sale.

Suhrid Deorah: Right. So, the order book, volumes might be the same, but it may reflect only the flow through in the margins and not so much on the top line as well as it won't be because of short cycle, it may not be in order book. It will be sort of higher ROC, this is a shorter lead time for delivery.

Rama Kirloskar: Volume of the pumps means is not going to change. It might take the value because all the accessories now are going to be done by the APOEMs.

Alok Kirloskar: And the volume could increase also. And yes, you're right. It will show you a better margin, better ROC but not necessarily a big, bigger order book or top line.

Suhrid Deorah: So, the business has become a higher ROC business, and that may not reflect my higher top line, it could just affect in terms of a smaller balance sheet and higher margins?

Sanjay Kirloskar: Yes. The balance sheet will also be smaller as working capital required would be less.

Moderator: Next question is from the line of Varun Bang from Bryanston Investments. Please proceed.

Varun Bang: Congratulations for steady performance during the quarter. Just two, three questions. Firstly, in SPP in both U.S. and U.K, would you see firefighting and water pumps would be largest end market for us?

Alok Kirloskar: You're saying that firefighting and water is the largest segment in the business? Is that what you're asking me?

Varun Bang: Yes, in SPP.

Alok Kirloskar: In America, yes. I don't know, are you seeing in broken out? In SPP America, yes, firefighting would be the largest segment. And within SPP Incorporated, we have another company called SyncroFlo, where the water would be the main segment.

Varun Bang: Just to get some numbers, what portion would be from building and construction segment?

Alok Kirloskar: Where? In the U.S.?

Varun Bang: Yes. In U.S. and UK.

Alok Kirloskar: So, in the U.S. business, I would say about 70% of what you are seeing at SPP Incorporated is the SPP business. The remainder is SyncroFlo. And of that half would be the building and construction business.

Varun Bang: Okay, got it.

Alok Kirloskar: And in the SPP UK, about 20% would be the firefighting business.



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- Varun Bang:** Okay. And that would be largest or some other segment...?
- Alok Kirloskar:** No, that's not the largest segment.
- Varun Bang:** Okay. What would be the largest segment for us in UK?
- Alok Kirloskar:** The largest segment for us now in the UK would be our services business.
- Varun Bang:** Okay, got it. And we shared the order book breakup at stand-alone level. Is it possible to get sector-wise mix of pending orders at the consolidated level?
- Alok Kirloskar:** No.
- Varun Bang:** Okay. And we have stated that MSMO is a unique offering that we have in both domestic and international markets. And recently, we also got U.S. listing. So how do you see prospects for MSMO pumps over the next three to four years?
- Alok Kirloskar:** You're asking in domestic or international?
- Varun Bang:** Both, domestic and international market.
- Alok Kirloskar:** So yes, we did get MSMO listing. We are the only company in the world to have that listing for FM requirements. So, I mean, we see that now whichever markets we did not cover with MSMO, we will now be able to cover it. So historically, MSMO was concentrated in the UK, in the Czech Republic. Of course, in India, but without a listing, in Singapore and in Malaysia. With the listing -- and all these were covered under a different listing called LPCB, which is a British listing, and these countries accepted the LPCB listing.
- Now with FM listing, which is an American listing, we believe the U.S. market is now open to us. The Middle Eastern market is open to us, entire Middle Eastern market because they accept the U.S. standard, and most of the Southeast Asian countries are open to us. So, we feel that it's a very large opportunity. And already, we are seeing a good amount of interest in the U.S. market for high-rise buildings as they're going up.
- Moderator:** Thank you. The next question is from the line of Khadija Mantri from Capri Global. Please go ahead.
- Moderator:** It seems that we have lost the connection from the current questioner. Meanwhile, we'll move to the next question from the line of Puja Mehta from JC Securities. Please go ahead.
- Puja Mehta:** So, I have a couple of questions. So, my first question is, can you give some more highlights on SPP UK and U.S. regarding new orders? And are we entering in new products? Like how is the margin profile evolving in this business?
- Alok Kirloskar:** When you ask me that question, I think you see the KBI BV order book position, which is a little over INR1,000 crores and majority of that is SPP UK and USA. So, your question to me was, are there any new products and any new markets? Is that what you're asking me?



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Puja Mehta:

Yes.

Alok Kirloskar:

So, I think the previous person who asked the question, I was surprised really that he had done so much homework and was aware that we have listed new products. But yes, that is a very important new product for us, which is the multistage, multi-outlet product. which is now listed with the U.S. factory mutual standard and opens up a large number of markets for us for firefighting. And we are the only company that has that kind of product and also with a listing. So that is a very important opportunity for us going forward.

We've also pushed quite strongly on our fish-friendly pumps because now we see the regulations across Europe, including the UK, adapting to the NEN standard for all pumps in canals or rivers or pumping in or out of these canals or rivers to be fish-friendly. So, we do see a large number of upcoming projects coming up in this area. And that's something we're really focused on because as we've mentioned in previous calls, we have a very strong fish-friendly product that we already have it installed in the Netherlands since the last two years.

So that's another opportunity and it fits very well with our sustainability initiatives of having these fish-friendly products. That's the second one that we are focused on. The third is expansion of our framework contract business. As you know, we already have over 100 framework contracts, which are either three-year or five-year contracts with major companies like BP, Shell, Apache, INEOS in the UK, etc., Petronas, etc.

So, our focus is now to expand these across Europe, across Southeast Asia and also try and get a few, just a handful in America to set some routes down in that area in America. So that's our next focus area. So, we have sort of three focus areas, two in products, one in services to sort of get into new markets going forward. Does that answer your question?

Puja Mehta:

Yes. That was helpful. And one more question, sir. The company has experienced around 28% decrease in order inflow. So, are there any disruptions in the supply chain distribution like attributed to factors like Red Sea incident or any other issues?

Alok Kirloskar:

No, there is nothing in particular that has happened, that has changed this at all actually. I think it just fluctuates sometimes from quarter-to-quarter. And we are not as of now, touch wood, seeing any slowdown in any of the areas that we are focused on. So, I can't comment on this as of now. There's nothing for me to say because it's not contributed or it's not unusual.

Moderator:

Next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth:

My question is to Alok. Alok, you've seen significant improvement in the international business profitability. And in the annual report, we have mentioned a few factors like improved mix, improved volumes, focus on service business. So, first question is as an outsider, there are so many international businesses. And therefore, for investor, it becomes very difficult to judge how the margins move.

So, if you can help us understand what is the biggest factor that will move the margins in the international subsidiaries? Should it be in the mix or volumes or scale up of service business, what will swing the margin either way in the international business?



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Alok Kirloskar:

Really, there's -- I mean, we've had these calls as you know, last few times. And there are two areas that we've really seen the impact because, I mean, over many previous years, we have focused on the cost when as you know, we lost oil and gas business in SPP because of the oil price going down, etcetera, and is diversified. So, we already redone the costs and we have managed the costs and there is not very much more we could do with those cost levels, if we want to retain the identities and the skill sets that the company has had.

So, I would say the real differentiator for us is one is mix, in terms of getting more services business and framework business, not just a random service contract here or there. But really a three or five-year service contract where we are able to put down some stickiness with the customer.

Like I mentioned to you last time, now we do the diagnostics. Most of our customer sites, we have an augmented reality, all his changes we have in a digitalized format. And he has to come on our platform to access any of those things. So, we have to have that much time with the customer to have that level of stickiness. So that's a really important factor.

And the second factor of course is operating leverage. Having the revenues grow up to this level, which have now gone to a point where we are getting the additional gains because the revenues are higher, have made a massive difference. But if you ask me in priority, obviously, one is the more profitable business and sticky business, which was the service business. And second is the operating leverage we get out of the higher revenue. Does that answer your question?

Kunal Sheth:

So, what I was mentioning was that do you think that the change in mix can move the margin significantly now? Or change in mix can now at best impact the margin either way in that 30, 50 bps corridor?

Alok Kirloskar:

No. I think that if the service businesses continue to grow, we can definitely continue to move the needle. That's really the factor. But of course, it's not as easy as before because now we have to get more and more service contracts. Like I said, we've got close to 105 now. So, we have to keep getting more of them.

But definitely because the margin profile is totally different is number one. And number two, the reason why it moves the needle more is because we can see into the future because these are three or five-year contracts and we have an understanding of what the spend will be. So, we are able to plan better.

And having that baseline business and the cash flow cover our baseline cost effectively gets you to the operating leverage position faster, right? So having that sustainable kind of business, almost like how software companies take your percentage of implementation costs for maintenance or whatever they choose to call it, we're basically just stealing money from you. If you have that baseline kind of business, then it basically helps you. So, I think it does make a difference.

Moderator:

Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to Ms. Rama Kirloskar for closing comments.



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Rama Kirloskar:

In conclusion, I would like to state that we will continue to pursue a multidimensional approach to value creation in order to consolidate our market position, increase profitability and maximize our strong potential, thereby unleashing stakeholder value. Having established the groundwork for our transformation, we are enhancing our competitiveness and achieving sustainable growth going forward.

Thank you for joining the call. If you have any further inquiry, please do get in touch with any of us or with Strategic Group Advisors, our Investor Relations partner. Thank you.

Moderator:

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