

EARNING CALL – 1st November – 3.30 p.m. to 4.30 p.m.

Moderator: Ladies and gentlemen, good afternoon, thank you for standing by and welcome to Kirloskar Brothers Limited, first half of financial year of 2014-15 earnings call. Joining us today in this conference room are Chairman and Managing Director-Mr. Sanjay Kirloskar, Executive Director-Mr. Jayant Sapre, Director-Mr. Alok Kirloskar, Vice President-Finance Mr. Umesh Shastry, Company Secretary-Mr. Sandeep Phadnis. Mr. Umesh Shastry will take us through the result highlights for the period ending September 2014. All participants are requested to refer to the presentation available on the company website www.kirloskarpumps.com. As a gentle reminder during the duration of the presentation all participants are in listen only mode. There will be an opportunity to ask questions at the end of the presentation. If you wish to ask a question please press * and 1 on your telephone. Please be advised that this conference is being recorded today. I will now hand over the conference to Mr. Umesh Shastry, over to you sir.

Mr. Umesh Shastry: Good afternoon ladies and gentlemen, as usual we will start with the presentation that we have loaded on our website yesterday afternoon. I would invite your attention first to slide 2 which is a disclaimer slide before I go ahead and start with the rest of my presentation. If you look at the overall company level highlights, the sluggishness continued in Q2 as well as far as the economy was concerned but the overall mood we felt was looking up but it had not really translated into the real business going up as such. As far as KBL was concerned our focus on continuing to improve the balance sheet quality was there and you will find that there has been a drop in gross current assets and gross current liabilities compared to March'14 in the first six months and this endeavor has been going on for the last three years, as you are aware of. Our selective sales position continues because we are pushing our sales out only when we receive the money, from the customer. That is one of the reasons why there has also been a little bit of an increase in the inventory numbers because we did not ship out the inventory since we did not get the payment from the customers before we could ship it out. As far as the project business is concerned, our focus on closing the old projects as well as recovering the retention money that is there in those projects continues. You would remember we had told you earlier on the presentation loaded on our website for Q1 that we have rationalized or rather merged the irrigation in the power sector as such in the organization and we have rationalized the manpower in these two project verticals consequent to their restructuring and we had a self certification on the code of ethics which we considered very important in our organization and this was completed by all our employees not only in KBL standalone but also in all our domestic subsidiary

companies where there was a self-certification done based on the examination and this was carried out for all the employees in the organization.

If we move on to the sector level highlights, as far as the irrigation sector is concerned, we received an order for the domestic pumping station from the Department of State Hydraulic Works, Turkey. We also received an order from the Odisha Lift Irrigation Scheme or OLIC. There was a pumping station at MED Egypt which was successfully handed over during this quarter. We also successfully closed Lift Irrigation Scheme at MKVDC and some of the rural electrification projects which we have been closing over a period of last one and a half, two years we were able to financially close one project and also we have physically closed another project and it will be financially closed in this coming quarter. The water resource management sector saw us receiving an order from the Pune Municipal Corporation for 200 MLD water treatment plant. We closed ten sites during this first half of the year which was pretty significant because it was the execution of the sites and completely handing them over to the customer. Four of them were closed physically; six of them were also closed financially. Whatever booking targets we had for the water sector in each one were achieved as per the plan which was something which went off well and there was a project at Bhandup and also at Chembur which we financially closed during the first half of the year. The power sector saw order from Abir Infrastructure involving five sets of CV pumps. We also received export orders from Philippines, Senegal and Bangladesh in the power sector in this first half of the year. We participated in the Nuclear Energy Summit at Mumbai. KBL also presented a paper on pumping solutions on nuclear power plant at this Nuclear Energy Summit. We participated in a hydro mission project which was promoted by the Ministry of Power by the Government of India of course.

At Tuticorin we were successfully able to commission two sets of CW pumps and for the projects of Reliance, Paints, Jindal and Adani we were able to complete the performance guarantee tests for these projects. We also financially closed two, three projects and this was being done due to our careful monitoring and execution of these projects over a period through our project management office. The gas, oil and defence sector saw us completing pre-engineering activities for augmentation of our fire-fighting pumps at Ratnagiri Power. This involved also supply of additional engine driven fire-fighting pump sets along with pumps and valves. We submitted a proposal to the Vehicle Research Development Establishment for development of axial flow pumps during this first half of the year. These were the two developments which actually happened as far as the gas oil and defence sector was concerned. The industry sector saw orders in the sugar from Tirupathi Sugar Mills and Hari Nagar Sugar due to our renewed emphasis on focusing on the sugar sector during this particular half of the year. We also received our first LLC order from the Gujarat region in the industry sector. We also received an order for the complete automated pumping system from

Jain Irrigation Systems and this was for LLC pump sets in the industry sector and we participated in exhibition in Chennai which comprised of pumps, valves and compressors. The building and construction sector saw about 23 FMUL orders back for various projects in this sector and you would remember that we have been continuously saying that FMUL is one of our fortes and we are really banking heavily on promoting this particular concept in the market. We successfully commissioned the primary variable systems at an ITC hotel in Bangalore and we also bagged orders for the DMRC phase 3 in the building infrastructure sector during H1 of the year.

The distribution sector or the dealer business saw us achieving about 90% of our planned sale. We appointed some dealer distributors, the numbers are given in the slides. We collected a first order from Nepal for this sector during the first half of the year and the export network expansion is on, this was something we had mentioned to you earlier and we have appointed three distributors in Nepal, Bangladesh and Myanmar consequent to our focus on exporting to these countries. The customer services and support sector saw us commencing our warehouse at Kirloskarwadi for improving the delivery. This has definitely helped in improving the delivery and we believe this will be a good USP going forward and the CSS sector also has a pretty healthy pending order board currently.

Moving out from the sectors to the various plants that we have out of the factory highlights, the Kirloskarwadi plant as I said a little earlier saw the spares warehouse which was started. This was primarily at the Kirloskarwadi factory. One of our workmen was awarded with the Gunawant Kamgar Puraskar of the Maharashtra Kalyan Mandal Government of Maharashtra which was a significant feather in our cap and we also executed certain prestigious orders the names of the important customers for whom these orders have been executed are there as part of our presentation which is loaded on this website. The Dewas plant also had a couple of our workers receiving the Uttam Shramik Award, so this was also prestigious as far as the workmen in the Dewas plant was concerned and we received a Greentech Foundation Gold Award and the Manufacturing Today Award for Safety for the Dewas plant during the first half of the year. The Kaniyur plant saw us achieving the first position and the Best Productivity Award in the Coimbatore Productivity Council Competition. We received 5th Asia's Best Employer Award for Women Talent Development at the World HRM Congress in Singapore. This was again a very significant feather in our cap and we received three orders from Manufacturing Today for innovation excellence, for sustainability excellence as well as for Best Plant Head of the Year. Our Kaniyur plant head Dr. Rajkumar was awarded with this during couple of months back. The Sanand plant also had an award from the Manufacturing Today for the excellence in sustainability. It executed an export order for Mali during this quarter 2 and we have also registered the Sanand plant for the Green Course certification.

The Kondhapuri plant which is our valves manufacturing unit won the first prize at the State Level Award for excellence in energy conservation management. We received approval from Udhe for valves of the Kondhapuri plant during the quarter and we also had certain high pressure valves which were approved by the NTPC during this particular quarter. Slide 11 has the pending order board given in detail which is there for last four quarters as well as the sector wise bifurcation of the same. It also gives you bi-quarter the KBL standalone order board as well as the orders received as well as the KBL consolidated orders and the order sheet. One thing I would like to say at this point in time is you would remember that every time we talk about irrigation sector order board and we have this point where about 750-800 crores of order book in this is actually orders which we have received but which we have not even commenced execution. So from next time what we will actually do is we will eliminate these orders from this order board. We will probably put an asterisk and put a statement at the bottom saying, this order board does not include this amount of orders which had been received by us many years back but whose execution has not yet commenced because that would give you clear idea of the orders which are actually executable and which we are going to be able to execute going forward rather than complicating the numbers by showing you these orders and having questions raised and having similar issues cropping up each time on these particular orders.

Slide 12 onwards lists some of the financial highlights. A few positive things that happened during the quarter 2 as well as H1 is during quarter 2 we were able to reduce our retention debtors by about 6 crores and in the first half the total retention money which were recovered net was about 25 crores. There was an improvement in the export sales by 22% compared to each one of the previous year and we have also seen our composite material cost going down by about 2% as compared to previous year. So the efforts that we are doing as far as the material cost improvement and sustainability is concerned are definitely bearing fruits. Of course, there are a few concern areas. The sales have dropped by about 12% as compared to Q2 of last year and compared to H1 of last year our sales are actually down by 18%. There has been a rise in inventory by about 39 crores compared to March. Lot of this inventory is because of FG which like I said earlier we were unable to ship out to our customers because they did not pay us. Our project sector execution recovery issues do continue because there are still a lot of projects which we have not been able to execute for want of reasons which are not really in our control which we have been talking about to you in all our analyst conference calls. As far as the sales are concerned the sales that we actually did in H1 was 674 crores against 819 of the H1 of the previous year.

The product sector sales were more or less similar as that of the previous year. Previous year's sales were about 496 crores, this year it was 493, so it was more or less same. It was primarily the project sector sales where you will notice that the sales have dropped by 45%, from 320 crores in H1 of the previous year to 177 crores in the current year and again this is primarily due to reasons of non-payment from the customers, non-availability of liquidity, the power sector issues as well as the fact that we were unable to execute the projects for reasons that were not really attributable to us. Our sales mix has improved consequent to the product sector sales improvement and now 72% is the total sales of our manufacturer products in the total sales mix of KBL which was around 63% in H1 of the previous year. So all this resulted in a cumulative loss of 23 crores for the first half of the year for KBL standalone as against a profit of 19 crores which we had in the previous year. The main reasons for this drop in PBT are of course the drop in sales which consequently led to a drop in the contribution by about 34 crores and we also had a higher contribution on the ONGC sales of the gas, oil and defence sector which we executed in H1 of the previous year which we had spoken to you about in our earlier conference calls. We also had a reversal of provisions in the last financial year in H1, three crores each for Sick Leave and ESOPs which actually gave us six crores to the bottom line which were included in the profit of 19 crores of course of H1 of the previous year.

So if you look at the table which shows the half-year ending figures for September 12, 13 and 14 as well as for the year ended on March 13 you would find that the PBT has actually gone down – we have actually got a loss of September'14 as we have already told you a little earlier as compared to the PBT which we had in the previous two H1s though there is a small amount of cash profit. The key financial ratios actually consequent to the losses are not showing very great numbers. Similarly if you look at the balance sheet numbers, over here you would find as we mentioned earlier about the improvement in the balance sheet quality, the gross current assets have been going down and from September'12 of 1532 crores we are now down to 1348. Similarly the gross current liabilities which were 970 crores in September'12 are now down to 881 crores. The borrowings which were 354 crores in September 12 are now down to 260. So all these parameters as far as balance sheet are concerned you will see a movement year on year. If you look at the consolidated financials you will find that consequent to the loss that KBL reported the total consolidated numbers are also showing a loss of 29 crores for the first half of the year and here also there is a small level of cash profit consequent to the depreciation being added to the profits. The balance sheet here, you will notice that the gross current assets and the gross current liabilities have reduced compared to the previous years but the borrowings have gone up slightly. These borrowings have primarily gone up because of certain capex which has been incurred in our subsidiary companies as well as the fact that we had to invest some money in our two subsidiary companies which is Kolhapur Steel Limited as well

as Kirloskar Systech Limited. Kirloskar Systech Limited was consequent to share valuation where we had to put in a certain amount of money and for the Kolhapur Steel Limited we invested about 15 crores in redeemable preferential shares in order to augment their capacity as well as to fund their working capital and capex expansions as a result of which the borrowings on a consolidated level have gone up.

This is all we have as far as our presentation is concerned. We would now like to throw the floor open to you to ask any questions that you may have and we will be glad to answer them. Thank you very much.

Moderator: Ladies and gentlemen, we will now begin the question answer session. If you have a question please press * and 1 on your telephone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request you may do so by pressing 1 on your phone. Ladies and gentlemen, to ask a question please press * and 1 on your phone. We have a first question from Mr. Balachandra Shinde from Batlivala & Karani. Mr. Balachandra Shinde, please go ahead.

Mr. Shinde: Good afternoon sir. First of all I would like to know the provisions, how much was the provision for this quarter and first half?

Management: Provisions as in what, because as far as normal policy we have a policy for making provisions for doubtful debts based on their ageing as well as for inventory based on their ageing. So as per the policy that we have laid down the necessary provisions have been made in the books of accounts which have also been checked by our auditors...

Mr. Shinde: Actually what I wanted to know is like why the other expenses were high.

Management: There have been two or three significant expenses that we have incurred. One of them is a donation which we have made to the Kirloskar Institute of Advanced Management Studies which was to the tune of about 4 crores. We also have engaged a professional consultancy firm which is the Boston Consultancy Group in order to help us plan our strategies moving ahead where there has been a certain amount which has been paid and we also had to pay certain money for our SAP licenses which needed to be renewed. So, all these three factors put together led to an increase in the expenses.

Mr. Shinde: So what I wanted to know approximately what are the one-offs in other expenses, total cumulative

Management: Yes, these would be the one-offs compared to the previous year.

Mr. Shinde: Okay, regarding on the consolidated level results we incurred a loss on the subsidiaries also I guess, so which are the exact subsidiaries which faced losses?

Management: Actually the only subsidiary which has really made losses is Kolhapur Steel Limited. In fact Kirloskar Corrocoat as well as the motor division of the Karad Projects and Motors Limited has done better than the previous year. As far as our foreign subsidiaries are concerned – as you know our results for our foreign subsidiary companies are consolidated three months behind us in the sense the January to June numbers have come in our H1 Financials. Normally the foreign subsidiaries do very well going ahead in quarter 4 especially and a bit in quarter 3, so as we move on to our H2 numbers we would notice a significant change occurring even in the consolidated numbers as far as the foreign subsidiaries are concerned.

Mr. Shinde: And Sir, regarding this new GYs or Ganga Purification Projects, what kind of potential you see for pump industry and especially Kirloskar Brothers from this...

Management: Normally what they say is any projects of this magnitude the requirement of pumps is probably 0.5% to 1%. How much of that would finally come to us depends on how well we perform and how well our products meet their requirements.

Mr. Shinde: You mean to say that there will not be much potential...

Management: You know, 1% to 0.5%, whatever, if they are spending 100, 000 crores then 1000 crores is what comes to pumps. Most of the money I think would go for civil construction, piping, and other mechanical equipment because there is a huge amount of mechanical equipment also requires filtration plants, things like this.

Mr. Shinde: Sir, one more question regarding the project sales, it was a very steep fall of around 45%, was it as a result of lesser execution or our execution itself is going slow?

Management: No, as we have informed you at every single call we are very selective when it comes to whether to dispatch or not to a customer. We want to ensure that money is available. We want to ensure that money is available actually even before we take it up for manufacture. So if we see there are certain infrastructure sectors which are having problems, so we are closely in touch with our customers. If they can pick it up then we make it, if they cannot we do not want to burden them either.

Mr. Shinde: So we do not face problems in product segment, their receivables are quite okay for us.

Management: Yes, product sector there is no problem as far as the receivables are concerned. In fact as you know the dealer business is basically cash and carry business.

Mr. Shinde: Okay, thank you sir, I will come back for any other questions.

Moderator: Thank you sir, we have a next question from Mr. Manish Goel from Enam Holdings. Mr. Manish please go ahead.

Mr. Goel: Very good afternoon sir. We saw that raw material cost is falling significantly in the quarter on a standalone basis, so if you can probably provide insights as to what actually led to it number one and number two how do you see that going forward in a scenario where commodity prices are also falling?

Management: The material cost that you see dropping is because the project business has come down. To a certain extent the project business civil and piping turnover that we got was that 90% plus material cost and product sales are much lower than that. So as the product sale takes up a higher part of the company's sale, higher percentage of company's sale material cost will move towards the percentage of product cost other than the project material cost. So if the project sales have come down significantly the material cost has come down.

Mr. Goel: But now with commodity prices softening, so for your product business do you expect that margin should probably look up going forward, because even if I look at first half numbers and...

Management: Yes, it will be in line with your market Manish.

Mr. Goel: Okay and my second question is on the subsidiaries what I see is that if I probably look at quarter 2 number, we are seeing a significant improvement from quarter 1 what is reported, so which all subsidiaries has done well and how do you see that going forward and specially if you can also comment on SPP because last year SPP had a very good revenue growth and how do we see that in the current year also?

Management: Okay, in this H1 actually the Kirloskar Corrocoat we had an increase of about 23 crores in the sale and in Kirloskar Systech we had about 8 crores and in Karad Projects and Motor Limited also we had about 18 crores. So these are the three major contributors as far as the revenue rise is concerned compared to the previous year and similarly on the profit also, consequent to the revenue growth these three companies had an improvement in the profitability also. As far as SPP was concerned, SPP is more or less at the same level of last year as far as these results are concerned from

the profitability perspective, but moving ahead we definitely feel that it should probably hit last year's numbers as far as revenue is concerned.

Management: Manish, on SPP side I think we believe we will be pretty close to on both revenue and hopefully profit as last year's numbers. This year was a hard year for us because we opened the year with a very small order backlog and we believe that most of this order backlog that we have which has got a strong order backlog as of now but most of it has come in the middle of the year. So we started the beginning of the year with accumulating a lot of losses because the plant was running empty and now we have obviously now crossed over into the black but obviously we only have two months left and there is lot of pressure on the plant to meet last year's revenue which is – even last year's revenue is quite hard for us given when we have received all these orders in this year, but obviously we have the order book and will try our best to meet those numbers but going forward, as you are aware about 30% of our revenue comes from oil and gas and the fact that oil and gas prices are falling is very concerning to us because obviously that means oil companies will not invest like they have been investing in the past. We have seen significant investment in the North Sea where we have done many million pounds worth of business as well as in South China Sea in this area, but with China softening the oil prices softening all over we have not yet seen any projects go on hold but we already see lot of customers talking about projects going on hold. So that is a major concern for us going forward.

Mr. Goel: But, how do you see that, probably you look to compensate that because we have now put up a facility in US also and probably we are looking to – so do we have a strategy to probably in case we have a slowdown from the...

Management: Yes, we have diversified now into desalination and recently we have supplied all the desalination pumps to the Burj Khalifa in Dubai. So we have good references also but we have to remember that oil and gas has been SPP's traditional business for almost 30-35 years and getting to that level even though desalination contracts are large and they are large enough to offset oil and gas contracts our reputation and our history in desalination is not the same like in oil and gas. So oil and gas we always get the last look as far as the customer is concerned. You will not place an order without giving us the last chance. That obviously is not going to be the case in desalination because we are not the major player in the offshore sector like we are in oil and gas. So it will take time but we do have other industries that will be looking to build into to offset that, but of course those will not come to a level of being mature overnight. We are still obviously pushing all the traditional other divisions which have not been as large to expand, to compensate the difference in oil and gas along with desalination which will compensate an additional difference but we have already got - oil and gas business is normally a one year ahead order book business, so we already have a

number of orders that help us in next year. The question now obviously will be the year after for the oil and gas business.

Mr. Goel: Are you also worried with the ongoing slowdown in the European markets especially and probably impacting SPP in other areas like water and other areas?

Management: Yes, yes, of course we are. We are obviously concerned about industrial fire which goes into Europe, water that goes into Europe as well as regular industrial that goes into Europe, but also the same time we find that lot of our customers are exporting out of Europe. So we are taking solace in the fact that they will continue to get business in markets outside Europe which will demand our products but obviously on the whole we are concerned because we have seen a good rise in the last few years and we want to continue that rise across SPP. So we are seeing whatever we can do but at the same time we have to keep in mind that a good chunk of our business has come from oil and gas and where oil and gas is currently we are obviously facing pressure. At the same time European major like Sulzer which are very, very heavily oil and gas dependent are now coming into other sectors that we are dominant, like you said water sector or industrial sector, because they will feel even greater heat in the oil and gas division. So we will see even more aggressive competition in the other divisions that we have apart from oil and gas. So we have to also take that into account.

Mr. Goel: Great, so just wondering that exports you mentioned that in first half were up by 22%, so how do we see, what was that number in the first half for exports and how do we see in the entire year as a whole?

Management: This was basically the exports that are from KBL to its international subsidiaries because like the pumps or the spares are sold at transfer price to our subsidiary companies and from them they sell to the end customer. So this figure of export sales was an improvement of 8 crores compared to the previous year was KBL to its international subsidiaries.

Mr. Goel: But do you see that growth to be sustainable going forward?

Management: Yes, at least for the rest of the year yes but beyond that we will have to see.

Mr. Goel: And two more questions, one on, have we made any progress on some of the LOC orders which we have been pitching and do we see any positive news?

Management: Not much of progress on the LOC orders. Those we have also – it happens when they happen and unless they are signed it really is – actually there is no progress.

Mr. Goel: And last question on the amount of inventory which we would have probably held up due to say non receipt of money or things, what could be that amount which would you have held up in this quarter?

Management: Approximately around 20 crores.

Mr. Goel: Okay fine, thank you everyone, thanks a lot, thank you.

Moderator: Thank you sir, we have a next question from Mr. Sameer Rach from Reliance Mutuals, Mr. Sameer please go ahead.

Mr. Sameer: Good evening sir, I have couple of questions on project business. What are the numbers of projects or sites which are still to be closed and what is the value of those orders?

Management : The order board that you see, if you exclude the irrigation sector of 800 crores of non-started orders as such, the rest of it is the value of the orders which are currently in various stages of execution for the project sector. As far as the numbers of orders are concerned, the number of big orders would probably be about say around 25 to 30 and there would be various small orders also which would...

Management: I think irrigation itself would be around 250 crores.

Management: Yes, more than that.

Management: I think he was talking about open orders.

Management: Yes, open orders.

Mr. Sameer: Is it safe to assume that the closing of these projects will take at least couple of years?

Management: Yes, it will take more than a couple of years because as we have explained earlier some of these sites we actually do not even have – have not even been given the land to put the pumping station, so they are in Telangana mainly, out of the totally erstwhile Andhra Pradesh I think 90% of the orders are in Telangana and there are quite a few issues pending which do not allow us to move forward.

Mr. Sameer: What is the quantum of losses on such projects which you would have booked in Q2?

Management: Are you just asking about the project losses?

Mr. Sameer: Yes, project losses.

Management: The project losses which we booked in Q2, just give me a second, the total losses which we booked in H1 on project sectors was about 70 crores. So this is both Q1 and Q2 combined.

Mr. Sameer: So I think Q1 it is around 40...

Management: Yes, it is about 30 odd crores in Q2.

Mr. Sameer: So as we execute these projects, I think this kind of losses will continue in the coming quarters also?

Management : For projects which are under execution for the last so many number of years or projects which are really not moving where our expenses have to continue because of the need to continue to hire people there, warehouses there, make sure that our ward security, etc, so the expenses will continue, so they will continue to bleed us. So for these kinds of projects the losses will continue till such time that they are completely executed.

Management: Anyhow the equipment also needs to be maintained over there, there is electrical equipment, there is rubber equipment because all these orders were for jobs that were to be completed in two years or three years and most of the equipment has been there since 2008-2009. So these expenses have been going on since then.

Mr. Sameer: And going forward, economic environment again improving, what will be our strategy for project business in terms of growth, taking new orders and all?

Management: As we have said before and as we have said in our annual report we will be selective with orders. We have implemented very strict commercial terms which if the customer does not want to accept we will not take those orders. In fact we are promoting the FIDIC based terms. It is an international set of terms done by the development consultants for projects done in – I think it is based in France and it is an international body of people who look at such business. Unfortunately no Indian government accepts such terms.

Mr. Sameer: How far this stock order book, large part of it will be the government orders?

Management: Yes, state government orders.

Mr. Sameer: And there was some news released by some Sri Lankan minister that we are about to get some large order in Sri Lanka.

Management: I can give you a lot of old such news articles where we still have not received any order.

Mr. Sameer: No, because some of the other companies like Ion Exchange has actually got the orders.

Management: Whenever it comes, let us see.

Mr. Sameer: So those are false news, right?

Management: Yes, we have to wait for it, I do not know how long.

Mr. Sameer: Okay, as far as product business and other – with the economic environment improving are we seeing some early signs of improvement, by when you think the growth will come back in our product side.

Management: You know the other day I was looking at shares of companies who are in infrastructure and after a peak in June, the share prices went up, up to June and then slowly they are reducing. So, the statements and the actions that we see being taken I believe are the right steps, how long it will take to actually have its effect on companies like us, I do not know, I cannot make a guess at the moment, but the old projects actually need to get unclogged, every single one will have to be seen individually to see what the issues are and then sit across the table and sort them out.

Mr. Sameer: Okay. For the last couple of years we have done lot of changes in our factories in terms of improving the efficiency and all, so what will be revenue capability of our existing factories, I mean with our existing asset base and setup we have what is the maximum revenue which we can do?

Management: You know pumps can be in different materials which affect the output of the plant. So it could be – if they were all cast iron it would be one number, if it was all going towards high value steel and stainless steel and duplex steel it would be another but it is very difficult to predict a number.

Mr. Sameer: If I had to ask this question in other way, what will be our capacity utilization?

Management: Currently maybe 60, 65, 70, I do not know, that is where we would be at.

Mr. Sameer: So basically we can go to 90, 100% without any significant capex.

Management: Theoretically you can say that but there are many other things that – you know, what is the bottleneck in the plant that is what needs to be seen. A process plant is very clear; every single machine in that process plant is made to come out with one product and so many tons or whatever of that product. Here every individual pump is different; the same machines can be used for different products. So, while we try to make sure that we use them optimally the customer may not place orders in that manner.

Mr. Sameer: Lastly as far as subsidiaries are concerned, earlier we were hopeful that we will be able to at least maintain last year's performance in the current year but the way things are going I think we may not be able to achieve it seems like that. So, what is your call on that?

Management: No, actually if you heard on the call Manish had actually spoken about the subsidiaries performance improving compared to last year and I also gave an explanation for the same. There has been an improvement in the performance of the domestic subsidiaries, Kirloskar Corrocoat, then the Motor Division of Karad Projects and Motors...

Mr. Sameer: Yes, you said three-four companies are improving but when one looks at overall contribution of all subsidiaries put together.

Management: Yes overall also if you remember I mentioned that normally for the international subsidiaries it is the performance of their quarter 3 and quarter 4 which determines the annual performance. So what you are seeing right now is the performance of those companies only from Jan to June.

Mr. Sameer: Okay, got it. Fine, that is all from my side, thank you so much for taking time.

Moderator: Thank you sir. We have our next question from Mr. Sandeep Tulsian from JM Financials. Mr. Sandeep, please go ahead.

Mr. Sandeep: Hello, are you able to hear me now?

Management: Yes.

Mr. Sandeep: Good afternoon sir. My first question is about margin, so you did mention that it is a function of better mix, the product sales are much higher than the project sales but simultaneously we have also seen the material cost actually coming down for most of the larger commodities. So do you imply that this benefit is yet to reflect in the gross margin?

Management: No, not really. The benefit of whatever we have done, I mean whatever is the effect of the material cost improvement is definitely reflected in the gross margins but the overall margin is lower primarily because our sales are lower. So it is a question of the leveraging of the fixed expenses also because there is a conversion cost of the factory, there is a capacity utilization which has to take place, there are certain fixed costs which are – they are fixed irrespective of whether you produce a single pump or not. So I think it is the function of the sales which has actually resulted in the gross margins really not going up despite a reduction in the material cost.

Mr. Sandeep: But for forthcoming quarter, I mean has your Steel purchase cost actually come down or is it yet to reflect for you, is it yet to come down?

Management: What cost are you talking about?

Mr. Sandeep: Your Steel purchase cost, actually the rate at which you buy your material has that actually come down or it should improve in the quarter?

Management: Yes, there has been a little bit of reduction which has been seen already.

Mr. Sandeep: Alright, second question is more on the recent orders being awarded on the power sector. There are a lot of large PSU companies has placed the nail plant equipment orders on larger companies, so following orders for pumps be it in boiler feed or PW how do you see yourself placed against larger MNCs, what share would you target out of the total orders that would come through the power sector from these orders awarded recently?

Management: See, in fact what we see is in private companies there is a status quo, no private companies today are coming and talking. The other day we met the senior officials, Adani, they have a big plan of going from 12000 megawatts to 25,000-30,000 megawatts but there is nothing on cards. They are talking more about acquisitions, they want to buy power companies which are not doing well and take over them. They have plans of putting new plants but they are not PSU. PSUs you know NTPC also there are couple of this thing – we have taken part but nothing has materialized as yet.

Management: In fact we are promoting in NTPC concrete volute pumps but they are still in their, they are going for VT pumps; I think they have placed some orders on a competitor.

Mr. Sandeep: All these state government orders that were placed...

Management: You are talking about state government SEBs?

Mr. Sandeep: Yes, who have placed orders for power projects in generation side which is Gujarat, Madhya Pradesh, and Tamil Nadu.

Management: No, we are not aware of these. Pumps are equipment that comes up last because the time-table for – in a power plant the boiler and turbine package actually takes the longest, has the longest lead time, pumps do not have that kind of lead time, number one. Number two, we normally participate in NTPC or private sector power plant business. It has been quite a few years since we got orders from electricity board.

Mr. Sandeep: So basically plant has been awarded over the past two, three months, so obviously there would be a six to eight months...

Management: So maybe in the future it will come out for pumps.

Mr. Sandeep: Okay, but our share you are saying on the SEB has not been as strong as...

Management: No, no, not at all. They do not have money, most of them.

Mr. Sandeep: Sir lastly you mentioned on the exports which are up 22% but as a percentage of your total space where do they stand now?

Management: Again at the cost of reputation, I would like to say that when we speak about exports this is the exports which KBL makes to its international subsidiaries at a transfer price. Actually if you see what the international subsidiary subsequently said to the end customers, the value addition on that is not included when we talk about KBL's standalone export sales. So if you look at the international operations or the international business that is definitely improving compared to the earlier years.

Mr. Sandeep: Okay, so probably one should not look at the exports out of the standalone and refer to the international subsidiaries...

Management: Absolutely right, yes.

Mr. Sandeep: Okay sir that is it from my side, thank you so much for taking my question.

Management: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, to ask a question please press * and 1 on your phone. We have a question from Mr. Sameer Rach from Reliance Mutual, Mr. Sameer please go ahead.

Mr. Sameer: Yes sir, just one follow-up. You mentioned that in the project business you incurred losses of around 70 crores in half 1, so can losses in half 2 also be more or less similar?

Management: It really depends on whether the project gets executed, because we would like to execute those projects. If the customers do not have the ability to pay us or the ability to provide us with the infrastructure necessary to complete those projects then we will continue to have the losses on those projects going forward. So as of today it is – we can only wish that we complete those projects and come out of it but whether that will actually happen or not is more or less resting more on the customer's hands than in our hands. So the loss could be 50, 60, 70 or it could be even 20, we really do not know depending upon how those projects pan out over a period of next six months.

Management: Sameer, I think another good thing to add here is the fact that our order backlog exists with projects from 2006 all the way up to projects of 2013-14. So which projects move ahead and obviously if we start executing projects of 2007 the quantum of the loss will be huge, while if we execute a project on 2013 then there probably will be no loss, in fact there will be a profit. So it depends which projects are moving and when that order was taken.

Mr. Sameer: As an outsider, since we do not have all the details of the projects and all, since we have to arrive at a figure, like what is a worst case scenario for these project losses, how do we figure out that?

Management: It is really a moot question. Like I said it could be 20-25 crores, it could be 70-80 crores also depending on which projects really moves.

Mr. Sameer: This is annual or...

Management: No, for next half.

Management: You know Sameer, what we have been explaining for the past few years is a large portion of these orders from Andhra Pradesh, about 800 crores I think which are still on our books were placed on us in 2006, 2007, 2008 and they were placed on the terms and conditions as they existed at that time and as you are aware at that time Mr. Vayasar Reddy had made irrigation a priority and all the projects were moving very fast, the government machinery was moving very fast to ensure that whatever government was supposed to do would be done. So whether it was land acquisition, whether it was providing electricity to sites, whether it was all the rest of the infrastructure which was canals or whatever. They were all taken on top priority and everything was moving forward. Once the gentleman passed away the priorities changed and we still have some of these orders were executed by us where we have delivered the goods because in those days you had to deliver all the pumps within two years or face liquidity damages. Now those pumps are at different sites, they are under storage and in some cases the pump houses are coming up, in some cases there is no land that is acquired for that pump house and if that land is acquired tomorrow and it is

not at the same level as was earlier expected the pump may need to be changed. So we are still, we are talking to the government of Andhra Pradesh because we have to – I mean of Telangana because most of the jobs are in Telangana and currently we are still being told that your banker guarantees have to be renewed, we are not going to change the prices, you will have to do whatever has to be done and unfortunately it is a one-sided contract. Yes, but this we have been explaining for the last few years and I can understand that people sitting on the conference call can be different but this is actually the situation.

Mr. Sameer: Right, but new government is not very hopeful.

Management: We are waiting, I mean we are hopeful, waiting but we really do not know. We have asked for an appointment but we have not received any call for a meeting.

Mr. Sameer: But can we allow our bank guarantees to get encashed and get out of that project in some manner?

Management : Not only there are bank guarantees, there is a risk purchase clause as in all government contracts which means that if I get out of – even if my bank guarantee is encashed and I think last time we had said that bank guarantee is given to Andhra Government are in excess of a 100 crores. Tomorrow if for a job of 400 crores they invoke the risk purchase clause and the next guy who comes in says my cost is 800 crores then someone will have to make up that difference, right?

Mr. Sameer: Yes, I think we will have to give it more time it looks like.

Management: Wait and see what happens.

Mr. Sameer: Great, thanks for answering in detail, thanks.

Moderator: Thank you sir. We have a last question from Mr. Manish Goel from Enam Holdings. Mr. Manish please go ahead.

Mr. Goel: Sir, you mentioned that we are carrying out manpower restructuring in irrigation and power, so what kind of layoffs you are looking and what kind of cost saving we can see probably going forward?

Management: We have put power and irrigation together and we have created some redundancies but it is not on a very large scale.

Mr. Goel: And second question on the Kirloskar construction basically the projects which are going. So any progress on that?

Management: As we explained last time there was two projects that were left. One was with GAIL Gas Authority of India and the other one was Dindigul Municipality. Now everything else is closed, number one. Number two, I think although the bank guarantees that we had given have reduced and now whatever is left actually through reflux of time should be returned to us. These two jobs, the customer is in the process of taking over. So maybe I can tell you in the next analyst call that this nightmare is over.

Mr. Goel: Okay, so at least that losses which we were incurring on these two projects would probably get over in Q3 possibly.

Management: Possibly Q3 of this year or possibly Q3 of next year. Now this project business, I am really – it is most unpredictable.

Mr. Goel: Sure and in Kolhapur Steel as mentioned that we incurred some loss, so by the end of the year is it possible to kind of breakeven?

Management: No, we do not expect a breakeven by the end of the year.

Mr. Goel: But can the losses as compared to last year, I believe we incurred some 15, 16 crore loss in Kolhapur Steel, so...

Management: They will be lower than that.

Mr. Goel: They will be lower than that.

Management: Yes, they will be lower.

Mr. Goel: Okay thanks, thank you so much.

Moderator: Thank you sir. At this time there are no further questions from the participants, I would now like to have the conference back to Mr. Umesh Shastry for his concluding remarks, over to you sir.

Management: Thank you ladies and gentlemen. I just like to once again repeat that please have a look at our disclaimer on slide number 2 as far as the forward looking statements are concerned because I think a few of them were made during the question and answer session right now and with that we call a close to this meeting. So thank you very much for listening in and have a pleasant weekend going ahead. Thank you.

Moderator: Thank you sir, ladies and gentlemen that concludes KBL's earning call for today, thank you for participating, you may please disconnect now. Thank you.