

**Kirloskar Brothers Ltd**  
**Conference Call with Analysts**  
**28 October, 2015**

Moderator: Ladies and gentlemen, good afternoon. Thank you for standing by and welcome to Kirloskar Brothers Limited, second quarter ending September 2015 earnings call. Joining us today in this conference room are the Chairman and Managing Director Mr. Sanjay Kirloskar, Director Mr. Alok Kirloskar, Vice President Finance Mr. Chittaranjan Mate and Company Secretary Mr. Sandeep Phadnis. Mr. Chittaranjan Mate will take us to the result highlights for the period ending September 2015. All participants are requested to refer to the presentation available on the company website [www.kirloskarpumps.com](http://www.kirloskarpumps.com). As a general reminder, during the duration of the presentation all participants are in Listen Only mode. There will be an opportunity to ask a question 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 over to Mr. Chittaranjan Mate, over to you sir.

Mr. Mate: Thank you madam. Good afternoon ladies and gentlemen. We have already loaded the presentation and I believe it is before you. Before I start commenting on that presentation I request you to refer to our sheet number 2 'Disclaimer' mainly about forward looking statements and subject to this disclaimer, I would be reading out the remaining slides. The company highlights indicate what has been related to company and what company has to say. Central Government investments in infrastructure and power, seems to have started making roads. Organization has restructured itself and has created dedicated team for execution and closure of projects. KBL continues to have a focus on selective sale depending upon customer's financial position, pricing and terms of payment. Company has launched other new initiatives for focused marketing to increase market and customer reach, presence in global markets and rationalization of product range. I would now move to sector specific highlights. Due to formation of two different states, Telangana and Andhra Pradesh there is a fast tracking of certain new projects. Lift irrigation scheme opportunities are also emerging in states like Madhya Pradesh and Haryana. Water resource management segment - Jawaharlal Nehru National Urban Renewal Mission Funding has been discontinued and there are no funds being dispersed from Atal Mission for rejuvenation and urban transformation. As far as Project Power Sector is concerned, Chinese manufacturers are aggressively capturing a share of Indian hydroelectric market. We are witnessing consolidation phase in power sector, which consists of PSUs and few established private players. There is no improvement in legacy issues including pending decisions, land acquisition and coal linkage in private sector.

Next I come to oil and gas sector. Oil prices are expected to stay around \$50 for at least one year affecting investments in upstream projects. Big investments in refineries are planned, but progress is very slow. Government has given approvals for expanding capacities of phosphate based fertilizers like IFFCO. Approvals for urea based fertilizers may be given in Q4. No major

capex is expected over next two years in petrochemical sector. ONGC will continue their policy of replacement of old equipment, which should provide good opportunities to KBL for fire water packages. About Defence & Marine sector, market is slowly showing signs of opening because of Make in India initiative. However, it would take six to eight months to fructify order. In Industry sector, capex in steel industry has picked up. New sugar projects are declared, but only 30% have started because of drop in sugar prices and lower profitability. Big ticket capex was expected since formation of new government, but it has not seen major movement or progress on the ground. Building & Construction sector, commercial real estate market continues to de-grow due to which HVAC market has been down, residential market growth continues to be stagnant and firefighting and HYPN system demand is subdued. The current situation is likely to continue for next two years. For our Customer Service & Spares sector, main spare business comes from power sector. State government run power plants are being closed due to high generation costs and cheaper power available from private producer. Generation cost for private power producers is higher than their selling price, but they are running their plants due to power purchase agreements and they are incurring losses. As a result, they are restricting their purchases. In Valve sector, water, power and irrigation projects continue to face operational and financial challenges thereby affecting manufacturing clearances and finalization of new orders. Small players are becoming more competitive and getting various approvals. Highly indebted large EPC contractors are preferring such suppliers who give long credit periods.

I now move to factory highlights. Kirloskarwadi plant has won excellent energy efficient unit award in a national competition for excellence in energy management. Kirloskarwadi plant has achieved an N/NPT certification. Dewas factory has received award in regional level Manufacturing Today competition.

I now come to companywide pending orders. This statement shows segment wise pending orders for December-14 quarter, quarter ending March-15, quarters ending June-15 and September-15. Our September-15 pending order position is Rs.1, 576 crores and segment wise breakup is also given in the last column. Now I come to financial highlights. Positive factors, in H1- there is a 9% growth in sales as compared to previous year. If we compare only Q2 the growth is 6%. In H1 PBT is 2.3 crores as against a loss of 23 crores in H1 of previous year. There was net reduction in retention debtors by Rs.9.9 crores in H1. During H1 we also realized PVC and extra work claims of Rs.11 crores. Net reduction in bank guarantee exposure is 51 crores as compared to last quarter ending June 15. Of course there are some concerns. Results from operations are still negative, but after considering other income there is a profit of 2.3 crore. There is a rise in inventories of Rs. 24 crores in H1, borrowings have increased by 20 crores as compared to March-15 and pure result of Q2 show a loss of 3.3 crores. Sales were 737 crores in H1 as compared to 677 crores in previous years. Product sector sales are at Rs. 583 crores as against Rs. 494 crores in previous year, which is a rise of 18%. Project sector sales were Rs.150 crores as compared to Rs.178 crores in previous year, which is a reduction of 16%. The product mix shows product sector sales are now 79% of total sales. Material cost for H1 remains same at

63.9%, for Q2 it has increased as against previous year. Employee benefit expense, there is an increase of 10% on account of wage settlement at plants and normal increments and promotions to staff and managers from June-15.

Depreciation was Rs.20 crores as against Rs. 24 crores in previous year. This is not comparable, because previous year depreciation included one-time impact on account of restatement of depreciation based on useful life as prescribed under the Company's Act 2013. Finance cost - total finance cost including bank charges was Rs.17 crores as against Rs.20 crores in previous year. The reduction is on account of control over utilization of borrowing limits and impact of lower interest rates. Non-operating income was 11 crores as against 6.8 crores due to higher dividend from subsidiary companies. On Balance Sheet side, additions to fixed assets was 7.4 crore, inventories increased by 24 crores. The main inventory increase was at Kirloskarwadi plant due to material procured for execution of some large pump orders. Debtors, receivables are at Rs. 362 crores as against Rs. 394 crores in March 2015. Investments have increased by Rs. 10 crores as company had subscribed to preference shares issued by Kolhapur Steel. Loan funds – short term borrowings have increased to Rs.250 crores as compared to Rs. 234 crores in March. This increase is mainly in September. Creditors for suppliers were at Rs.355 crores as against Rs.405 crores, that is net reduction of Rs.50 crores. Next two slides show key financials on standalone basis, total income, profit before depreciation, interest and tax, PBT, PAT for September-15 half year and comparable figures for earlier two years. Next slide shows total assets, current assets, current liabilities and borrowings and the last two slides show key financials on consolidated basis on the same parameters that is total income, profit before depreciation, interest and tax, PBT, PAT and cash profit and total capital employed and breakup. Thank you. We are open for questions and answers.

Moderator: Certainly sir. Ladies and gentlemen we will now begin the questions and answer session. If you have a question please press \* and 1 on your push-button telephone and await your turn to ask your question 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. Our first question comes from Mr. Neerav from BNK Securities. Mr. Neerav, please go ahead.

Mr. Neerav: Thank you very much for the opportunity sir. My first question pertains to the legacy order book that we have in the project segment. Would it be possible for you to quantify the quantum of the projects which are still in legacy stage, which are still there in the order book?

Mr. Mate: If you refer page 9 of our presentation, it shows project sector wise pending order position, irrigation Rs. 777 crores, water management Rs.179 crores and power Rs.307 crores and these are excluding Rs.395 crore orders which are not moving ahead and which are on hold.

Mr. Neerav: So 395 crores is the legacy order that we are having at this point.

Management Response: 395 crores are the legacy orders which have been put on hold, because nothing is moving. There are other orders in irrigation and in power sectors, which are moving very slowly, but there is movement every month on those orders.

Mr. Neerav: And sir regarding the retention money that I believe we are very well focused on getting our retention money, so just wanted to understand what the steps that we are taking are and what is the target that we are having for collection of retention money in this financial year?

Management: One is we have a target to reduce the WIP, what we call the WIP debtors in our annual report. So, every quarter we monitor all the projects to see how we can move those projects towards closure and every month in the three sectors there is movement of money which reduces month to month. In H1 there is a reduction of Rs. 99 crores in WIP debtors, but you have to understand that that is not the net figure. This is the reduction from the old projects. As we execute new projects there will be some percentage that will be stuck in WIP, but as I think all our analysts are aware, that the new orders are usually with much better payment terms, they are with less retention money being stuck towards the end of the project. So while there is a reduction there is also an addition which results in a lower net figure than Rs. 99 million or Rs.9.9 crores.

Mr. Neerav: Sir just wanted to get an idea on the debt reduction schedule that we are – debt reduction plans that we have. So on consolidate basis we are having net borrowing of 347 crores as on September 2015. So for this year do we have any target in terms of debt reduction?

Management: Yes, year on year it is going down and this year we will try and bring it below 300 crores or so.

Mr. Neerav: So 50 crores is something that we are expecting in the second half.

Management: Yes.

Mr. Neerav: Thank you very much sir, my queries have been answered.

Moderator: Thank you sir. We have a next question from Mr. Ravi Swaminathan from Spark Capital, Mr. Ravi please go ahead.

Mr. Ravi: Sir, thanks for taking my question. We have done considerable growth in the product segment, 18% growth year on year. This is for the first half, right?

Management: Yes, it is for the first half.

Mr. Ravi: Yes and what has been the growth in the second quarter for FY16.

Management: The growth in the second quarter – let me just go through that.

Mr. Ravi: Yes, because first quarter we had seen north of 25% growth I believe. So just wanted to see whether that kind of similar momentum has been sustained.

Management: We will have to get back to you on what is the growth in products in the second quarter.

Mr. Ravi: Sure sir and this 18% growth, what has been the driver behind the growth? Have we added more distributors, have we introduced new products, because market level growth itself has not been that great, right? What is the reason behind this growth?

Management: Number one is the company is concentrating on product sector sales and therefore whether it is distribution sector or other sector, industry sector or building and construction we have had far greater movement of our people around the country meeting customers, dealing with our dealers, we have been working quite hard to make sure that every single requirement is brought to us and it is basically what we said earlier, widening and deepening of the footprint that has resulted in us getting aware of more opportunities and being able to meet them.

Mr. Ravi: Okay, but have we increased our dealer count year on year?

Management: Yes, the dealer count year on year as well as the retailer count year on year has been increasing.

Mr. Ravi: And we have looked at outside India markets?

Management: Yes, some of the sale is also from outside India. So our international subsidiaries now are contributing quite a bit and there has also been some movement in other markets historically where we were present but for some years we had not participated.

Mr. Ravi: Okay and what are the EBITDA margins for this particular segment, products alone?

Management: I do not know whether we give those details.

Mr. Ravi: Okay, but rough ballpark number also should be okay sir.

Management: No, no, it should be okay for you, but I do not think we give that number out.

Mr. Ravi: Okay.

Management: Yes, we give it as a company.

Mr. Ravi: Okay. In the project segment what is the quantum of loss that we have made in this quarter?

Management: That again is a number that we do not give. We give you consolidated numbers for the company, but yes what we are doing as we have told earlier is quite a few of these projects are old projects and we are executing them, basically the company's intention is to close

the projects as quickly as possible and we are writing to the customers saying that we need to get more money or whatever else, but the intention is to close it and then talk to the customer to make sure that he is fair to us and give us the money.

Mr. Ravi: Okay, but these 359 crores or whatever it is the non-moving orders they are typically your irrigation orders or...

Management: All are irrigation orders.

Mr. Ravi: And they would be pertaining to a single state like AP or Telangana?

Management: No, no, they would be pertaining to Andhra Pradesh, Telangana as well as Maharashtra.

Mr. Ravi: And you had mentioned that due to the formation of two separate states lot of new projects are coming.

Management: Yes, there are some new projects that have come up like Pettiseema and that wasn't there earlier, that was put on the fast track. So there are older projects which are not moving but newer projects which are moving.

Mr. Ravi: Okay, but what would be the addressable market size, I mean what is the quantum jump that ordering pipeline has seen?

Management: We have shown you the pending orders, right?

Mr. Ravi: No, I mean the market opportunity itself might have expanded, say this many crores of orders are given out last year by these two states put together, this year it has increased by...

Management: This year it is only Pettiseema that has come up, but as I have told you KBL is not now doing the large civil plus electromechanical projects and quite a few of these are now being divided into two like first doing only the civil and then the electromechanical. So I cannot answer your question properly.

Mr. Ravi: Okay and the orders in this quarter, 344 crores that we have received, from which segments we have received these orders?

Management: You see the sectors that are listed, every single sector is a live sector and we get orders every month. Now the question is the irrigation, water resource management, power, gas, oil and defense, marine and defense to a great extent are long term orders while industry, building and construction, distribution, customer service and valves to a great extent the orders are executed within a few weeks. So that is why you see large numbers for the three project sectors and not so large numbers for the other sectors.

Mr. Ravi: Okay, thanks sir, I am done.

Moderator: Thank you sir. We have a next question from Mr. Mahesh Bendre from Way 2 Wealth Securities. Mr. Mahesh please go ahead.

Mr. Mahesh: Many thanks for the opportunity. Sir, as per the presentation in first half 79% of revenues is from product business. So are we content with this kind of mix between product business and project business or would you like to further improve on the contribution from the product business going forward?

Management: I believe that the project business can be very profitable, but at current the way it is organized right now where customers believe that a product company should invest or a project company should invest in customers project by not paying you all the amount as the work is done, that is a situation we do not want to be in. So, we are participating in project orders and these are project orders which are outside the country, we find that outside the country we are paid 100% for the products and as the work is done for civil or whatever, we get paid again 100% and that basically ensures that those customers' projects are done on time and they are beneficial for both the customer as well as the supplier. In India there seems to be a situation where customers are sought to be paid as late as possible. So, if that situation changes and in certain sectors wherever we find that customers are ready to pay you when your work is done, we are taking project orders, but I think to a great extent from 60% to now 79% reflects the fact that it is far better to be in the product sectors to ensure that every month your cash flow is very good.

Mr. Mahesh: And sir the project sector contribution is around 150 crores for the first half. So, do you think this is bottomed out or do you think there will be further decline going forward?

Management: It all depends on the customers because even in these 150 crores we have not taken up – we could have done more, but we did not go forward because there was a question mark about financing. So if the money is made available surely you will see a rise, if the money is not made available you will not, because you do see there is an order backlog.

Mr. Mahesh: Sir, our companies' business model completely changing from a project based company to a product based company now?

Management: Yes.

Mr. Mahesh: So over the next two years do you think the balance sheet of our company also changed dramatically, I mean we may not carry a debtors and inventories that currently we are into.

Management: I will share your hope, because some of these projects are from 2006-2007 and I would just as much as you would like to see closure for these projects which results in money coming back to us.

Mr. Mahesh: Sir last question, out of 1,576 crores orders, how many orders will be older than three years?

Management: The 395 is not considered, of the rest I think probably 20% or so would be older than – I can give you a number, just give me a minute or so.

Mr. Mahesh: Sure.

Management: We will give that number to you later.

Mr. Mahesh: Sure, thank you sir.

Management: We will put it up on the same website.

Mr. Mahesh: Thank you sir.

Moderator: Thank you sir, we have a next question from Mr. Manish Goyal from ENAM, Mr. Manish please go ahead.

Mr. Manish: Hello sir, very good afternoon.

Management: Good afternoon to you.

Mr. Manish: Sir, just to understand, now as we are not looking to participate in project based orders...

Management: We do get into project based orders, but not the kind that we were in.

Mr. Manish: Agreed, so assuming that like this one large project which you mentioned Pettiseema Lift Irrigation project which is probably very large project, so in such cases if payment terms and other conditions what we usually look at are not favorable for us, then what would be our strategy to participate in that basically to get a share in the pie in terms of for the pumping station.

Management: So what we have done in Pettiseema for example, earlier I guess eight, nine years ago we would have tried to take part in the big project, now what we have done is we have participated only for electromechanical and our conditions to the end contractor were very clear, advance and LC and I am very happy to tell you that the contractor not only gave us an advance but also opened an LC and placed not all the orders but most of the order on us.

Mr. Manish: So basically when say the main contractor gets the order, does he float a tender or is it on a negotiated basis?

Management: It is on a negotiated basis with three or four pump manufacturers, but we were the only ones who offered such terms, others were ready to give whatever credit they wanted.



Mr. Manish: And despite that we have managed to get a larger pie in the order.

Management: Yes, I would like to believe it is because we give a much better product and we are a much better company to work with.

Mr. Manish: Definitely sir, so for us in such projects now, for us the addressable market would be how much?

Management: About 10% of the total value.

Mr. Manish: Of the irrigation projects right?

Management Response: Yes.

Mr. Manish: So this would be for lift irrigation I believe.

Management: These are lift irrigation projects.

Mr. Manish: But for a normal irrigation project it would be little low?

Management: No, lift irrigation actually would have the lowest pump content.

Mr. Manish: Okay, so this particular order, Pettiseema order we have already got from the main contractor.

Management: And we have delivered part of it.

Mr. Manish: Okay and what we probably also see and read is that lot of water related projects have been given out in Telangana, in fact I think they have a plan of around 25,000 crores ordering where out of which 6,000-8,000 crores worth of ordering has been done for the water projects. So how are we participating in water projects?

Management: Again over there we would participate with equipment, electromechanical equipment.

Mr. Manish: Have we also got orders from...

Management: To the best of my knowledge orders for electromechanical equipment have not been released.

Mr. Manish: Okay.

Management: It is civil and piping that has been released.

Mr. Manish: Okay and even power sector we have seen that lot of projects have been announced by Telangana and also by Andhra Pradesh also. So within power sector have you probably started seeing enquiries or it is still some time away?

Management: In power sector actually we have received orders from NTPC, three orders in the last one year for three new projects.

Mr. Manish: With better terms sir?

Management: Yes, with better terms. NTPC is with better terms and with Andhra Pradesh and Telangana what I do know is BHEL has got orders for those projects on nominations or almost nomination basis.

Mr. Manish: Right.

Management: So we are talking to BHEL, but BHEL as you might know is also a pump manufacturer.

Mr. Manish: Okay, yes but some of those projects are to be executed on fast track, so maybe would probably look to outsource.

Management: We will try our best.

Mr. Manish: And sir, coming to the profitability, basically we are under the impression that with the contribution from product segment growing, our profitability should be looking much better. Now we are almost near to 80% contribution from the products, so this quarter also we have seen that at EBITDA level our margins have been fairly subdued and the input cost has been on a higher side. So, I was just wondering that is it that products segment is not meeting our expectation on the profitability or is it that the projects losses still are very high and reasonably covering all the profits of the...

Management: You have analyzed the situation well. The project sectors are still not contributing a profit and the product sector as you can well imagine when business is less there is a huge amount of competition in the market and we are seeing that despite the drop in commodity prices, we do have to reduce our prices in the current scenario.

Mr. Manish: Okay, but still with deduction in input prices and your contribution margin, you should be able to hold on, right, despite competition and...

Management: Yes, we are doing our best.

Mr. Manish: So sir, last year in Q2 we had basically incurred a 32 crore loss in projects business, so what could be in this quarter?

Management: I do not know, I thought we did not give the numbers.

Mr. Manish: Okay, so let us put it the other way round.

Management: I have already let on that, we are still not making a profit in the project sector.

Mr. Manish: No, so what I would probably want to understand is that at least products business we are seeing growth in the profits, that is probably – let us put it in the other way round that...

Management: Product sectors are profitable.

Mr. Manish: No, but the profit number as such...

Management: Profit is under pressure.

Mr. Manish: Okay and sir in the order book this year we have created a separate line item, export excellence cell with order book of roughly 65 crores, so I would just like to know the thought process behind putting that separately and is it that now we are seeing a larger traction in the exports business.

Management: No, I will tell you what we have done. We are going through a restructuring exercise. After we have acquired the large number of companies outside, what we are now trying to see is how we can work together in the different sectors. So some of the sectors that you see, that are listed over there, whether it is power or oil and gas as well as customer service and spares, these are run at a global level, because power sector operates at a global level because there are companies like Siemens, Alstom and everyone else and the Bechtel of the world who do work all over the world and they are also our customers. Similarly oil and gas, what we have done is we have put together the businesses not in these accounts, but as KBL we have put together the businesses of SPP, the business of Kirloskar Ebara and KBL and the numbers you see here are only KBL's numbers, let me ensure that you understand that right, but as a business we are running it under one head, one global head who addresses requirements around the globe. So these export excellence sale numbers that you see are from those global sectors what we have taken out and we are saying that that is export. This is not to say that industry does not have export, industry also has export, but industry is done more on a local basis in different countries.

Management: Manish, we have sort of restructured to have management accounting and legal entity accounting, so as a management level we have like our Chairman said one unified power sector worldwide. We report all the numbers into that one sector, which is only a management entity but not a legal entity so that we can group our sales team across the world who operates in power sector as one team and like it was said earlier the orders are placed in different territories although work has to be done in completely different territories because your EPC company based in one country, your consultant is based in another country and your actual end user where the site is, is in a third country. Everybody needs to work together. So to ensure that everyone is incentivized and works together in a synergistic way we have this management entity, which has a different kind of incentive structure to motivate people to work together in order to get orders across the world and some of those orders are manufactured and come out of India. So the ones that do have to be booked into a legal entity that owns a manufacturing plant, so in this case these orders, maybe they could be for power, they could be for industry or for sale, are coming

out of India and hence they are booked on an Indian manufacturing plant and hence they are shown separately as EEC.

Mr. Manish: Okay, so basically this piece of the business will be for the international market.

Management: Yes.

Mr. Manish: Okay and how much now this piece of the business should be contributing on a company as a whole now?

Management: Exports out of India or total international business?

Mr. Manish: No, exports basically where we probably work together but the business comes to India and we export from India.

Management: Exports now are only of pump and pump components from India. Earlier we would be exporting motors, panels and other items as well. So pump as part of a pump set or a pumping system is a small part and what we have done now is we have made our products – if you could call them Dutch, Thai, American or British, so the pump or pump component goes from India and the product actually could be an EU product to meet local requirements. So what 65 crores show is the exports out of India which is 4% of the total turnover, but on a consolidated basis now KBL's international business is about 35% of its consolidated turnover.

Management: I think Manish if you look at last year's annual report you will see in the consolidated results, you will see the numbers for KBI which is about 120-125 million euros.

Mr. Manish: Okay, yes so I was coming to that now, next question on the – basically when I dissect from the consolidated numbers I dissect the standalone numbers, what I see is that that subsidiary levels seems to be done well as compared to last year and on a Q on Q basis also. So, the first thing is on...

Management: See, there actually overseas subsidiaries are not done well, because our year runs January through December and the biggest subsidiary of course is SPP, UK. It contributes probably 55% odd to the total number, 60% to the total number and almost 45% of our revenues in the UK come out of oil and gas and because of the drop in the oil and gas prices down to sub-\$50 levels the business in the UK has been hammered very badly, because the last six months of last year almost no orders were placed by any oil company because they were going through all their layoffs and all those things. So while today the order backlog position looks good, as you are probably aware from past discussions the usual cycle for executing these orders for us is 45-48 weeks. So, that is only going to show up in our numbers next year, but this year we have seen number one very low order intake on 45% of our revenue.

Mr. Manish: 45% of the SPP you are saying, right?

Management: Yes, because that is oil and gas revenue.

Mr. Manish: That includes lot of spares also, right, spares and services?

Management: No, that excludes spares, yes but spare is also being hit because all the maintenance budgets have been slashed in the oil and gas companies. So the biggest contributor traditionally has been SPP, UK and SPP, UK is not doing very well at all this year and while other divisions have sort of done better in the UK the exception oil and gas. The oil and gas division being so large has been very hard to offset and so it is not in very good state financially, which is what you will see in the numbers which is why at a consolidated level they are showing a loss for KBL.

Mr. Manish: So the other divisions, the rest 55% should be water and other...

Management: So water desalination, industrial fire which is doing very well and Auto Prime, which is our dewatering division which is doing reasonably. So those are doing alright. We also have good business in Europe doing quite well and our business in Russia doing quite well, but we have seen obviously huge headwinds on the oil and gas which is SPP, UK and the UK business generated huge amount of profit from the offshore oil and gas side as well as the spare side for offshore oil and gas again. So that is where we have been hit. We have obviously tried to make up in the other divisions, but we had obviously budgeted some amount of sale even this in the low order book, but then even more orders went on hold. So lot of companies put projects on hold that they had already awarded. So that affected us even more. So the UK numbers are not good, that is one and while American numbers are fine UK numbers are bad and South Africa also we are having a problem, because of the mining industry. The huge strikes going on in the mining industry is there and we specialize obviously in copper, gold and uranium mines. These had again very low offtake in those areas which has led to South Africa also doing very poorly and while South Africa was not large but obviously when you want a profit in every area when the main area is doing badly, South Africa doing badly does not help us.

Mr. Manish: So Alok just to put in perspective that if probably we were looking at some growth in the rest of the business and de-growth in oil and gas, would it be possible to probably cover up the de-growth in the oil and gas or it would be challenging and we may see SPP or the international business degrowing in the current.

Management: Yes, this year you will see it degrowing, the international business, but we will make it up in the next year based on the current order backlog that we have.

Mr. Manish: But you did mention that order inflow has been fairly subdued, so then how come...

Management: Inflow last year, in the second six months of last year was probably 2 million pounds when normally it is close to 18 million pounds. That affects us this year, but order inflow this year because the oil price stabilized a little bit more, while it is less than historic highs it is still much higher than last year. So we think that we can probably make up some of it

in the next year, because obviously the cycle to process those orders is between 45 and 48 weeks or between 40 and 48 weeks rather. So we cannot execute that order book this year anyway.

Mr. Manish: And on the margins front Alok, how would it be because globally input prices have been down and so is it that the competition again is hitting you and you are probably not able to pull up the margins?

Management: No, we have two problems. I think in some areas we are obviously a niche player like on the offshore side. So over there our big hit is on the fact that offshore projects have reduced, because obviously exploration offshore you need obviously higher oil prices, so people are now exploring onshore. If you are offshore we are one of four suppliers worldwide, so price is obviously a concern but not the biggest concern, but as it is moving onshore we have ten other competitors which makes us very very competitive and that is when we find price is a problem, but our current issue is not just that, our current issue is not having orders large enough to cover our breakevens and this is a problem, because especially in the UK itself, while that problem does not exist in America and elsewhere where probably we are newer with lower overheads, of course in the UK we are UK's largest pump manufacturers, so we have a huge overhead and obviously where you operate large plants in the UK. So we need a certain amount of inflow to reach that breakeven point. The thing is that while we can look at doing redundancy, then reducing breakeven points, we see that opportunities slowly are arising again and as I said to you our order backlog for this year which is executable next year looks a lot better than the last year. So given that background we cannot just lay off people because the oil and gas industry obviously is very specialized and that skill is not easily available and obviously having being subject to European regulations we will have to pay redundancy packages etc. and that makes sense if they are going to do a layoff for a longer term, but if they are looking at laying them off for one year and hiring them back next year then that really does not make sense.

Mr. Manish: Okay, got your point and last question on the API Pumps where we have built competencies from India now and we also have a JV with Ebara and related to that that now probably we also are establishing our base in US, so is it that going forward we can see a fairly decent growth on exports front driven by API Pumps?

Management: Yes, of course we have Kirloskar Ebara, but we also have Rodelta Pumps in Hengelo which makes API products and together I think yes we will have a good installed base and we have a good reference list with obviously the big companies like Statoil and BP and ConocoPhillips and Exxon and all the big players. So that helps us supply either as Kirloskar or as Rodelta or even as SPP depending on acceptability of different end users, but we are already seeing that pick up. We are seeing that pick up especially in Russia, we are seeing that pick up in Europe and we are also seeing that pick up in the UK on the offshore side, because the issue was in the past that Kirloskar Ebara did not have a reference list for offshore, they of course had a very, very large reference list for onshore, but not a one for offshore. So now with the Rodelta acquisition we have got entry into offshore and then in addition to the Rodelta product of course

we can package additional KEPL product for offshore requirements. So we are expecting that should grow, but you know where the oil industry is today, so we do not know what level of investment we will see because it would not be the right time to make that commitment that we will see an increased turnover when the whole industry is going to degrowth and as you are probably aware Shell has laid off close to 7,500 people in Europe and British Petroleum is going to announce very shortly similar numbers in terms of layoffs. So obviously all of them have put lot of projects on hold and are obviously trading very carefully.

Mr. Manish: Fair enough and last question on the domestics of...

Management: Yes, Manish the other thing I would like to tell you is the fact that we are now designing our own products is also acceptable to a large number of foreign players. So API products designed by KEPL, now no one is asking us do you have – outside India by the way, no one is asking us what is your technological backup, pumps designed in India are working well across the world.

Mr. Manish: Yes, I did read the news about some successful installation at Saudi Arabia.

Management: Yes, Saudi Aramco being possibly the top reference where they are buying pumps which are designed in India and they have been supplied and they are working well.

Management: I think one of the benefits is that the overseas market does not ask so much about PTR, I mean if they see your processes and your technology and your technology development capabilities are strong then like India they give you that opportunity. It is also why we have been able to supply into an Abu Dhabi power company, boiler feed pumps as well for a 1,600 megawatt power station. So I think that allows us to look at new market opportunities but of course our home markets have not been as receptive, they are more concerned with old socialist era PTR requirements.

Mr. Manish: Agreed, thank you so much, but last question on the domestic subsidiaries, the motor business and the...

Management: The motor business and the construction business were combined or merged; I think your question relates to that. That company, the motor business, the stator rotor business as well as the motor business, I can tell you that it has absorbed whatever losses were there in the project division and we expect it to be profitable this year. It was profitable last year also, but there are only two projects left in the old projects division, one of them actually we have given the final bill and this is the GAIL project and we are hoping for a resolution quickly and the other project is a municipal project in Tamil Nadu, there also step by step we are taking it towards closure.

Mr. Manish: So probably this year we should see a closure to both of these legacies.

Management: I am keeping my fingers crossed, but finally it takes two hands to clap.

Mr. Manish: Sure sir, thank you so much for all the answers, thank you so much.

Moderator: Thank you sir. We have a last question from Mr. Kunal Sabnis from VBC Investment Mr. Kunal please go ahead.

Mr. Kunal: Hi, I am Kunal from VBC Investments. Thanks a lot for the opportunity. I have a couple of questions, firstly on the domestic solar pump opportunity. Many state governments have come out with tenders, some are in the process of coming out with solar pump tenders, how big could be this opportunity and are we actively looking at tapping this business space?

Management: What is the second question?

Mr. Kunal: The second question is in terms of the differentiation in terms of cast iron as well as stainless steel pumps are for irrigation as well as submersible pumps, do stainless steel pumps have an edge and especially for solar and how do you view your product portfolio in terms of that category?

Management: Okay, the first question I will take. Kirloskar Brothers has been in the solar pump business since 1980s and yes we are aware that many state governments are looking at coming out with tenders for solar pumps business. Big question in our minds is where is the money going to come from and we hope that they are not going to ask manufacturers to put up the money and tell us that we are going to be paying you after five years or ten years. Yes, there are individual orders, KBL is participating in supplying solar pumps to individual customers to certain institutions, but like the project business we want to be very clear that when we deliver we do deliver a quality product and we expect to be paid quickly for it, do not expect us to wait five years and ten years. Lot of state governments are putting up such conditions is what I have heard, I might be wrong. As far as the stainless steel pumps are concerned, it is a very good question because it looks like pumps which do not last for a very long time are being specified. There is inherently no advantage; the pumps are not as efficient as the pumps that we make. We believe that if they want to buy – the stainless steel is actually not available in India, it is not eco-friendly. There is only one major manufacturer in India, the process is not eco-friendly. It does not last for a very long time and unfortunately in an area where customers who are farmers are supposed to be supplied these pumps, we foresee that there is going to be an issue going forward.

Management: I think also if you look at the construction of these products, these pumps are not cast, they are fabricated like you make a utensil and you fit the impeller in with spot welding. So in terms of using these over time obviously it tends to have higher vibration and also in terms of the way they are used in India, longevity would be obviously an issue given that we do not yet have the same level of boring techniques, etcetera which would have sand, etcetera coming through the pumps. We do not believe they are durable over the long term for the kind of use that they require. Stainless steel pumps tend to be better for clear water applications more towards domestic applications and that is traditionally where fabricated sheet metals have been used, pumps have been used, which are for circulator duties inside homes or inside office



buildings, etcetera for clear water requirements. So obviously while there is only one or two players who have probably pushed these requirements down MNRE's throat or whoever else's throat, but we do not believe this is the right specification to be used for the kind of duties that you are going to be using them for and in the kind of places where probably it is impossible to service them historically. The other thing is that I do not know if they have shown a proven track record for using these pumps in these duty conditions for four, five years or six years, which is actually surprising because normally government of India always requires you to show a PTR like they ask us with regards to power station pumps or whatever else. So it is quite surprising to us also that they are using these pumps without any proven track record for these applications.

Mr. Kunal: So basically performance of cast iron pumps what you are saying is better.

Management: It is far more efficient a product, it takes less energy to make. If you look at it from the sustainability point of view stainless steel for this application is wrong, fabricated stainless steel.

Mr. Kunal: And with the application you mean for irrigation as well as for solar use.

Management: Yes. It is good for clear water, like Alok mentioned water that is supplied by municipalities into homes, it is good for that kind of water, not for the water in the fields and my worry is that they will go for these and a few years later since we know how they work, even for clear water a few years later we are going to see problems where people who have been supplied these pumps are going to be complaining.

Mr. Kunal: Okay and previously you mentioned that the payment requirement, so is there no though process in terms of how the state government is going to pay for these projects or nothing is crystallized till date.

Management: Yes, as far as I know there is not much clarity on how a pump supplier is going to be paid.

Mr. Kunal: Okay, great sir, thanks a ton.

Moderator: Thank you sir. I would now like to hand the conference back to Mr. Chittaranjan Mate for his concluding remarks, over to you sir.

Mr. Mate: Thank you for your participation and interest shown in KBL. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, that concludes your KBL's earnings call for today. Thank you for participating, you may all disconnect now.

