Moderator: Ladies and gentlemen, good afternoon. Thank you for standing by and welcome to Kirloskar Brothers Limited, second quarter of financial year 2016-2017 earnings call. Joining us today in this conference room are the Chairman and Managing Director Mr. Sanjay Kirloskar, Director Mr. Alok Kirloskar, India Business Head Mr. Anurag Vohra, Vice President Finance Mr. Chittaranjan Mate and Company Secretary Mr. Sandeep Phadnis. Mr. Mate will take us through the results highlights for the period ending September 2016. All participants are requested to refer the presentation which is 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. Mate, over to you sir.

Mr. Mate: Hello, good afternoon and I welcome everyone for this presentation. I would start with first disclaimer statement. These materials may contain forward looking statements regarding Kirloskar Brothers Limited, our corporate plans, future financial conditions, future results of operations, future business plans and strategies. All such forward looking statements are based on our management's assumptions and beliefs in the light of information available to them at this time. These forward looking statements are by their nature subject to significant risks and uncertainties and actual results, performance and achievements maybe materially different from those expressed in such statements. Factors that cause actual results, performance or achievements to differ from expectations include but are not limited to regulatory changes, future levels of industry product supply, demand and pricing, weather and weather related impacts, wars, acts of terrorism, development and use of technology, acts of competitors and other changes to business conditions. KBL undertakes no obligation to revise any such forward looking statements to reflect any changes in KBL's expectations with regard thereto or any change in circumstances or events after date thereof.

So, with this disclaimer I start reading out company highlight, Page 3 of the presentation is overall company highlights. Irrigation sector has witnessed good growth mainly due to progress in Telangana irrigation projects. However, there is continuous stress in power projects and oil and gas market. First order received for AT pumps, Canned Motor pump order received from an OEM for ammonia transfer application. Kirloskarwadi factory designed and successfully developed a pump to comply with Underwriters Laboratory standards. These were main highlights. Now there are sector wise highlights. I will not read each highlight but I would refer major ones. In water resource management, our main order booking was from product orders which consisted of value added products like LLC pumps, auto-prime pumps, etc. In irrigation, we successfully completed certain projects. Also, we have signed a Penganga project which would help us to reduce our WIP debtors for Indira Sagar project. On project execution, we have given list of projects completed.

Our focus has been to complete the projects and in this half year we could complete physical closure of three projects and financial closure of four projects. Export Excellence Cell they received orders from Toshiba as well as Spanish PPC contractor. Building and construction sector, they commissioned first FM/UL pump in Bangladesh for textile industry. Marine and defense sector, they executed orders for Goa shipyard and Cochin shipyard. Next page has achievements of our plants at Kirloskarwadi, Dewas, Sanand, Kaniyur, etc. Then I come to page 7 which are company's sector wise pending orders. This does not include orders for small pump business because these are not manufactured against order. There are orders from irrigation which are of Rs. 661 crores, water management Rs.189 and power Rs.275 crores. Then coming to financial highlights, income from operations is almost at same level at Rs.763 crores. Sale of product sectors was Rs.611 crores which is about 80.5% and project sector sales at Rs. 152 crores are roughly 19.5%. Current year profit before other income and finance cost was Rs. 20 crores as against Rs. 9 crores in the previous year.

PBT was Rs.15 crores as against profit of Rs.3 crores mainly due to reduction in material cost and reduction in operating and other expenses. In this six months' period, we have reduced our borrowings by Rs.11 crores. WIP debtors have come down by Rs.17 crores but new WIP was generated for Rs.11 crores leading to net reduction in WIP debtors of Rs. 6 crores. Then page 9 shows standalone financial results that are total income, PBDIT, PBT, PAT. Page number 10 shows standalone total assets, liabilities and borrowing position. Page 11 shows total income, PBT, PAT for consolidated results and last page 12 shows assets and liabilities on consolidated basis. Thank you. I would like to start question and answer session, so you can start asking questions one by one.

Moderator: Certainly sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your push button phone and await your turn to ask the question when guided by the facilitator. Participants, if you have a question please press * and 1 on your phone. First question from **Mr. Ranjit from Antique Stockbroking,** please go ahead sir.

Mr. Ranjit: Good evening sir. Congrats on good set of numbers. If you can throw some light on the subsidiaries performance it would be useful because in the last con-call we had couple of subsidiaries which were making loss, how many of them have come back profitable or what is your outlook there?

Mr. Alok: Let me start with the international subsidiaries. As you know we have SPP UK which is still under pressure. Except for SPP UK, most of the other subsidiaries, by end of the year, mean December 2016 as for all our international business the year end is in December will make money and so there's still pressure on SPP UK. As you know I think we have discussed this in the last meeting as well, that SPP UK is heavily dependent on the oil and gas market and within the oil and gas market, especially on the offshore market. So, we continue to see significant head winds in that industry and while we have diversified away and obviously trying to narrow our losses in that particular company, we have another situation of course which is with the pound collapsing we have a lot of offsite positions and many futures contracts. So, that's another concern. So, while of course we have not made a loss because it's a futures contract but being a futures contract it's Mark to Market and since we have to declare the result in the IFRS format, as per IFRS we need to book at loss into our income statement as against UK GAAP where we booked it into the balance sheet. So, we continue to have that problem this year especially with the pound going down from 1.56 to 1.21 to a US dollar and of course 100 to 81 to a rupee. So, that's one significant issue which is skewing the result little bit on the international side for us.

Mr. Ranjit: How much was the loss in SPP if you can throw any figure to that?

Mr. Alok: Yes, the loss is of course less than last year, year to date but approximately it will be around, just in SPP UK it will be 18 crores but obviously the profits and other subsidiaries which will erode that because you're seeing it at a KBI which is Kirloskar Brother International level number. So, SPP USA is obviously making money and other KBTL is making money, other companies are making money but you will probably see that at a KBI level you will not see the whole number but SPP UK which is the main area where we're having a drag is about 18 crores.

Mr Sanjay Kirloskar: If I look at the domestic subsidiary we expect that Karad Project and Motors will be in a profit like last year. Kirloskar Corrocoat will be in a profit at the end of the year. Kolhapur Steel had a relatively large loss last year; we are trying to see how we can bring it to breakeven level. This year we expect it to be close to breakeven and Kirloskar Systech you may know that merger has been allowed and that came very recently to us, the decision. The joint venture Kirloskar Ebara last year at this time had large loss, the loss is much lower this year and at the end of the year we expect it to be in a profit.

Mr. Ranjit: Any major order wins in Kirloskar Ebara and how the overall outlook of Kirloskar Ebara is, is there any good…

Mr. Alok: For Kirloskar Ebara I think given that Kirloskar Ebara is on the onshore side, I think the potential is still quite good on the onshore side even though obviously the Indian market is very slow. So, you know one of the areas, I mean the entire international companies as well as KBL are working together on mainly onshore orders. So, we continue to be optimistic there. We have of course got some large orders with Saudi Aramco and many other companies and I think last year also we had a lot of large orders in Saudi Aramco, so those continue. The other side where Kirloskar Ebara works with the company is on the boiler feed side and we have got few orders again in boiler feed, slightly smaller orders from large Japanese EPC contractors. So, that's another area where we are I guess focusing but of course majority of the KBL business comes from the petroleum products, onshore petroleum products. Given the slowdown obviously the number of opportunities is clearly lower but there are opportunities. Lot of opportunities have significant price pressure because everybody is competing, you may have obviously looked at our competitors like American competitors who have already said that they are shutting down 35% of their manufacturing footprint around the world. So, they are also desperately trying to pick up orders wherever they can to fill capacities. While there are opportunities on onshore side, while we are competitive on onshore side, most of the international competitors also desperate to pick up those orders because there are very limited number of orders available or opportunities available but that said, I think the order booking position for Kirloskar Ebara as of now is quite strong. So, I think they should have majority of the order book for the year already. So, I think generally we would be mildly optimistic on it.

Mr Sanjay Kirloskar: What really makes me very happy is the fact that we have possibly more than 50% of our orders coming in from overseas, repeat customers or maybe it's even higher than 50%, it's around 70%. Repeat customers, EPC contractors as well as end customers and the reputation that company has got now are very high. So, I believe that for a long time KEPL will be in the international business and get orders internationally.

Mr. Alok: I think just to add to that, if you look at Saudi Aramco and Saudi Aramco is one of the most stringent oil companies maybe after Shell. If you look at their new projects we have got a majority of the pumps in all those projects. So, I think it shows that we are not only competitive but obviously our quality is equal to any international company, technically or in terms of efficiencies our products are as good as if not better than all the international companies. So, we do continue to have strength on that side.

Mr. Ranjit: And sir just to add, in your last PPT you used to give the performances of some of the subsidiaries but this time it is missing, so in case you can add that, will be really helpful for us to understand how the major headline numbers had or you give it only for the full year or what for the subsidiaries?

Mr Sanjay Kirloskar: We only give it for the full year, we do not give it at the half year level and we have given only consolidated last year also.

Mr. Ranjit: Because I was referring to the 4Q PPT.

Mr Sanjay Kirloskar: Yes, for Q4 PPT you will see that.

Mr. Ranjit: Okay and lastly on the Andhra projects, what is the outlook, are we seeing any positive development there?

Mr Sanjay Kirloskar: Yes, Andhra as we have been meeting – it is more Telangana because when the orders were received and they were way back in 2008 it was Andhra Pradesh, now most of our projects are in Telanagana and if you look at the bifurcation we have some projects which are partly in Andhra and partly in Telangana. So, my belief is those projects are going to take some time to get resolved as soon as the two states agree but we are meeting the concerned people and we are trying to see how the old things can be taken care of. This is not to say that nothing is moving, over a period of time we are collecting money slowly, we are closing certain projects but there are some projects which are as we always show you in this Power Point Presentation, there are some projects which are just stuck there, maybe about 324 crores worth of orders were projects where the work has not commenced and 234 crores of orders where we have kept the work on hold as per customer's advice but as far as two projects were concerned Indira Sagar and Rajiv Sagar Lift Irrigation Schemes the government has looked at those projects and together with our help we have found that there was a new project that they wanted to do, it is called Sitaram Lift Irrigation Scheme and Sitaram Lift Irrigation Scheme pumps which have already been delivered to the state will be utilized and therefore that will allow us to reduce our – that is work in progress, so the work in progress that is shown on the debtor side by about close to 70 crores. So, one by one we are approaching the government, working with the government to see how those old orders, the old money that has been stuck for years can be resolved. I believe that if you – a few calls ago I had already told you that the government has come out with what they call the GO which is Government Order where they have now said that they are ready to give us price variation, insurance for certain regular payments from the year 2013. So, we are working and we will see how quickly, obviously, we would like to do it as quickly as possible, we can get this result.

Mr. Ranjit: What is the total quantum of amount which is in that receivable from these Andhra projects?

Mr Sanjay Kirloskar: I think it is about 220 crores or so.

Mr. Ranjit: Okay and of that we are hopeful that 70 crores will be liquidated by end of this year.

Mr Sanjay Kirloskar: Yes, close to 70 crores will come out of this. It is obviously something that is not going to happen overnight, it has its own timeline because this new project, the pump houses are to be built, there is a period of I think 18 months that they have given since the time that they placed the contract. So, some months are already over, so we may see it sometime during the next year.

Mr. Ranjit: Okay, thank you very much sir, in case of anything I will come back.

Mr Sanjay Kirloskar: Sure.

Moderator: Thank you for your questions sir. Next question from **Mr. Manish from Enam Holdings,** please go ahead.

Mr. Manish: Good afternoon and thanks a lot sir, very nice to hear after long time that irrigation has started doing well. Just continuing from the earlier question, so the presentation mentions that successfully signed terms of project contract, so are you referring to the same Sitaram Lift Irrigation?

Mr Sanjay Kirloskar: Yes, that is the same one.

Mr. Manish: Okay, so basically the pump which we have supplied for our Indira Sagar project…

Mr Sanjay Kirloskar: Indira Sagar and Rajiv Sagar.

Mr. Manish: Okay, this 70 crores worth of pumps would be now utilized for this new project.

Mr Sanjay Kirloskar: No, this is the installation and commissioning job which was left. The pumps have already been made and they are sitting in Telangana. So, the same pumps will be diverted and we will get the rest of the money.

Mr. Manish: Okay and this you expect to be over next 18 months.

Mr Sanjay Kirloskar: 18 months and we are not doing the construction of the pump house.

Mr. Manish: And the pending receivable amount of 220 crores includes this or excluding that?

Mr Sanjay Kirloskar: Yes, it includes.

Mr. Manish: Okay, because you have mentioned WIP debtor, okay. Sir, also what Alok was mentioning earlier that agreed that Kirloskar Ebara is doing well but when I look at the consolidated order inflow number and probably subtract the standalone number the order received for subsidiaries continue to be quite low, what I arrived at a number is 74 crores versus 268 crores in quarter 2 and for the first half it is almost down by 70%, so still we are not seeing any pickup in the overseas subsidiaries?

Mr Sanjay Kirloskar: We are seeing pickup in overseas subsidiaries in South East Asia and in Europe, not so much in America and UK, but there some of the business is day to day, so the order will come and it will go.

Mr. Alok: Yes, I think Manish if you look at the different companies, I mean the long lead times happened now, I think when you look at this I think our business is changing. If you look at traditionally I think SPP UK would have big order books like KBL where you had the big offshore oil and gas contracts and normally the lead time used to be between 45 weeks and 60 weeks. As you would know there is very little movement on offshore platforms and most of the jobs are onshore. So, our lead times have changed now to maybe between 16 weeks and 18 weeks for our oil and gas portfolio. The remaining jobs which were always there which was higher, which traditionally eight weeks which is industrial fire basically is or if you look at water which has been about 15 to 18 weeks, transformer oil which again is about 12 weeks. So, you know the orders profile has changed for SPP UK which used to be the big chunk of it. The other one of course is SPP USA and the order profile has not changed but it is the same like it does fire business, it does HVAC, it does booster packages and all those are in between that 10 and 15 weeks, so 10 and 17 weeks lead time. The only other area now where we do have long lead time items are in Kirloskar Pompen and Kirloskar Thailand because those two I guess the longer lead time products are mainly power projects and there again we see lead times up to 30 weeks, 35 weeks but the drop that we have seen on the offshore side has not been offset on the other side. So, you will not see the change here, you will not see the positive change here, you will probably see more of a negative change.

Mr. Manish: So historically Alok we used to see that Q4 typically used to be heavy for SPP as well which gets reflected in quarter 4 of Kirloskar Brothers consolidated numbers here. So, now if the cycle is shorter then probably again we will not see a heavy Q4 in the current year, that is what I can presume and then overall numbers may continue to look subdued as compared to last year?

Mr. Alok: Yes, I mean overall numbers are subdued. I think I mentioned it earlier, as you know we lag one quarter from KBL because the year end for international companies is December and of course KBL is March. So, yes this year it is there, the end of the year is heavy but from a sales point of view SPP UK has had one or two big contracts slip into next year, in the February-March timeframe mainly because again it is big oil and gas companies and they are just trying to waste our time and delay us because they do not want the equipment at site. So that is one issue. The second issue of course is there little offshore work and our other business which is spare parts, refurbishment in our five service centers in the UK and field service, all those have reduced in value compared to before because obviously people are not even operating many of the platforms. So, that we have seen a hit there and the third hit that we are seeing right now is obviously the offsite position on the futures contracts the contract has been hedged, so we have not lost money but we will get out money when the products are dispatched, but obviously it looks like we have lost money because they are Mark to Market like I said earlier and so we need to take it into our income statement.

Mr. Manish: Okay, so that number what you mentioned 18 crores is for first half which has already been taken on a reported basis, right?

Mr. Alok: Yes.

Mr. Manish: Okay and on the standalone numbers, just couple of clarification. We have seen a substantial decline in the raw material cost in this quarter if I just look at this quarter. So is it pertaining to some particular profitable order which has been dispatched or is it that now the lower raw material cost is sustainable?

Mr. Mate: This is mainly, on account of lower raw material cost achieved by negotiation as well as some downward trend in commodity prices, but mainly because of negotiation and change in product mix where spare sale has increased which has helped us to have reduced MSR.

Mr. Alok: Also Manish the fact that there is no civil – the civil business is significantly down and as you know the projects now constitute a much lower portion of the sales.

Mr. Manish: So then should I probably say that we are on a – probably directionally we will see that raw material cost trending downwards? Maybe not strictly at what we are seeing at 59% as compared to 65% but directionally we see that we will continue to see because of better revenue mix raw material costs to be lower.

Mr Sanjay Kirloskar: Yes, that will be our intention, we will continue to put pressure on our vendors and suppliers and also drive the business towards the better product mix, but let me also point out that certain commodities have started going up in price level.

Mr. Manish: And on other expenses also we continue to see other expenses going up. Last year we had large consultancy expenses, is it still continuing or it is over, number one and number two…

Mr Mate: It is over, last year it was a one-time thing that we had paid certain consultancy charges, so that was one-time payment and that is not in current year.

Mr. Manish: Okay, because still we see that other expenses continue to go up despite your revenues are flat, your other expenses are going, so are there any one-time expenses which we have booked in quarter 1 and quarter 2?

Mr Mate: Our other expenses are lower than last year.

Mr. Manish: This quarter shows 75 crores versus 69 crores on quarter 2.

Mr Mate: Okay, I am saying total half year if you see there is a reduction in overall expenses.

Mr. Manish: Okay.

Mr Mate: Only ERE has gone up because every year what agreements we make or salary revisions we make, it has a small impact of about 6-7%.

Mr. Manish: How much provision have we taken in first half?

Mr Mate: About 7%.

Mr. Manish: 7% of the sales?

Mr Mate: I am saying only ERE cost has increased by around 7%.

Mr. Manish: ERE means…

Mr Sanjay Kirloskar: Employee related expenses.

Mr. Manish: Okay and sir on the LOC orders are we seeing any traction from say Africa or from some other places?

Mr Sanjay Kirloskar: You know, we got one from Vietnam which I think has already been started. Africa we are still, these things you know they go very slowly, so we will see how that moves but what I really like now is that Exim Bank has started, they would like to see manufacturers participate and they are also encouraging manufacturers to take part in LOC. For the last few years as you are aware we had not taken part because there were certain trading companies that went ahead and got a lot of jobs but I believe that both the government as well as Exim Bank have realized that brand India is not being built, brand India is what really should be built, manufacturing champions should be promoted from India. So now they are saying that government as well as Exim Bank is encouraging good companies to come forward and participate. So, we are looking at a few projects but there is really nothing that I can tell you just now.

Mr. Manish: Okay, fine sir, I am done, thank you so much. Just one more thing, on the orders exclusion, earlier we had excluded only 324 crores of order, now the current presentation talks about another 234 crores which are kept on hold as per customer advice, because this was not there earlier as per my understanding.

Mr Mate: Q1 if you refer it was there, orders excluded 324 crores and kept on hold it was 189 crores, now we are showing 234 crore, but last quarter we had given both these figures.

Mr. Manish: Okay, so for this 234 crores do we have any outstanding in terms of receivables or inventory at our end?

Mr Mate: To some extent because we had started the work and then we have put on hold.

Mr. Manish: Okay and how much would be retention money outstanding as on date sir?

Mr Mate: Overall retention is what we have shown in our WIP data, that is 400 crores, that is in totality.

Mr. Manish: Okay, fine sir, thank you so much.

Moderator: Thank you for your question sir, next caller is **Mr. Bhalachandra**, please go ahead sir.

Mr. Bhalachandra: Good evening sir and congrats for your good set of numbers. Sir, regarding our project orders, means like in our presentation we have mentioned that in irrigation we are procuring more product orders. So, earlier we used to say that irrigation, water resource and power is more likely a project order, so how much will be pure project orders and product orders in current order book?

Mr Sanjay Kirloskar: In the results that have been declared I think more than 80% is now product orders and if you look on the project side also possibly about 50% would be products only. Whatever is civil and piping is all coming from the old project orders that we have received. The new project orders that we are taking are all for products only, large engineered products and which could be pumps and valves and they are all against very strict commercial terms that we have introduced for quite some time now.

Mr. Bhalachandra: Sir, one more thing regarding EESL orders which we see that energy efficient pumps EESL is trying to implement. When we see their vendor list Kirloskar Brothers name does not get highlighted though I think Kirloskar Brothers will be obviously having some products related to that. Are we not participating in those tenders because overall those tenders will be pretty big enough and I believe based on the payment terms also it might fall into our stringent norms also. So, are we not participating in those tenders?

Mr Sanjay Kirloskar: Yes, so we have been in solar pumps since the year 1985 and we were possibly the first Indian company to introduce solar pumps. We also have very good products that are available, obviously this would be pump and motor as well as what we call Jalverter which is a trademark product which is different kind of an inverter which has also received US patents. So, yes energy efficiency as well as solar pumps, governments and different state governments are coming out with their own tenders. We have looked at those tenders, in fact for energy efficiency also we looked at those tenders and then decided that based on payment terms we did not want to take part in it. Then those tenders also got withdrawn because I think the end customer also realized that these payment terms were possibly not fair. EESL yes, I think the first tender came out, we participated in it or we were ready to participate in it but before it could go forward some manufacturers complained that their names were not on the list and therefore that has got stalled for some time. The small pump business that we do is done mainly through dealers or almost exclusively through our dealers and we have a very wide dealer network in the country. These people some of whom have been our partners for more than three generations and work very closely with us pay us before we dispatch the goods and therefore when these government tenders are coming out we are trying to be very careful because in some cases they are saying that the money will be received over a period of time and manufacturers of pumps are going to be held responsible for any defect that can take place and end of the day the end customer has to say whether the pump is up again and sign off on that contract. So though our pumps are running with private customers for years around the world, not only in India but around the world, we get worried when there are such conditions that are imposed. So, we will be very careful when we participate. I think we have one of the best offerings in the market and we will try and participate if it meets our conditions.

Mr. Bhalachandra: But the other way, will it affect overall pricing conditions because what we have seen on the LED front also that when EESL actually started this bulk tendering and introducing energy efficiency products, the overall pricing of the LED bulbs actually started showing the decline in trend. So, will it affect our other business also which might not be through energy efficient pumps but since because energy efficient pumps pricing will get affected because of bulk tendering, those other pricing may also get affected?

Mr Sanjay Kirloskar: You know pump is not like a light bulb. Pump runs at different duty points during a day and therefore you cannot compare it to a light bulb, even an LED bulb which is really at the start of its lifecycle and there are not too many manufacturers, the volumes are increasing now and therefore the prices of light bulbs as the manufacturers reach economies of scale, will drop significantly. Here I think with the material costs being much higher as a percentage of the final sales price, the ability and the way it is being governed, the standards being set, the reduction in weight as well as what can be done through manufacturing, process improvement, I do not believe you are going to see the same kind of reduction in price as you would have seen in an LED bulb. On the other hand, when it comes to solar pump sets, the largest component of a solar pump set is the panel. We might say if the volumes and they will have to be at a global scale, but if the volumes rise over there, then the greatest chance for drop in price of a solar pump set would come from the solar panel.

Mr. Bhalachandra: So pump's prices might not affect but solar panels' prices may affect.

Mr Sanjay Kirloskar: Yes, that is my belief.

Mr. Bhalachandra: And sir, on the subsidiary level I believe post oil and gas orders our major chunk is also on the fire fighting pump sets. So, what is the outlook on those front and what triggers we should actually look at to see a growth in those fire fighting pump sets?

Mr Alok: Just correct me if I am wrong, I am assuming you are asking me this question from the international point of view.

Mr. Bhalachandra: Yes, international point of view.

Mr Alok: So, when we say oil and gas, our pumps also go for fire, so when we say oil and gas platform I mean we supply the fire pumps, the seawater lift pumps, the jockey pumps and sometimes the seawater injection pumps. So there are four different packages that are going on there and the fire pump of course is quite a big package because apart from the pump there is lot of automation, there is lot of specialized systems, there are things like air start systems on the engines because the engines cannot have a spark when they start in the platform, all that stuff needs to be put together, packaged by us which is the pump manufacturer along with specialized control systems as well as canopies that can withstand direct flame for about four to five hours to ensure that the pumps are operating. So, the fire package can be between 3 million to 8 million or maybe 9 million pounds at a time and it is a big package compared to the other packages on a platform. So, fire pump is also going on the platform, I just wanted to clarify that point that it is important part of that platform package. Today we see, obviously the other areas we can focus on are fire pumps for power plants, fire pumps for onshore refineries, fire pumps for downstream processes and that is the area we are focusing on today, but of course when you start focusing on those areas the price drops. The average price of a specialized fire pump on an onshore project which is basically a refinery could possibly be only 500-700,000 pounds and so it is much smaller compared to offshore project and of course it is not as profitable either because offshore they have only probably three companies including us competing and onshore there are probably seven. So, the value drops but there are opportunities because obviously we are seeing power plants, we are seeing downstream processes, chemical processes and downstream refineries expanding. So they are areas for us to look at. The other major area where focusing on from an SPP fire pump standpoint is our strong area which is buildings. So, we are pushing obviously pumps into all sorts of buildings and increasing the revenues, going to Europe, of course the downside of the exchange rate like I mentioned earlier was the fact that we had offsite position and obviously you have to book a loss because of Mark to Market conditions, but the upside also is that we are a lot more competitive going into Europe. So today we find that we are able to sell lot more into the European market for fire pumps, this is an example and obviously, we have experience of selling into Europe. The European Union say it is not one standard, Europe has a different standard everywhere, every country has its own standard for fire pumps and we have got supply to most of the European countries, so we are able to supply to those standards. We do see an uptake there, we are pushing harder to increase revenue there. Just to give you a number just so you know, about three years ago we did 7 million pounds from the UK in our industrial fire business. Last year we did about a 11 million. So we have pushed that area to try and offset a little bit of what oil and gas does. Tall buildings are another area that we have, touch wood, to date a monopoly product which we call our multistage multi-outlet product, fire pump, means these are LPCB marked as well as the new FM/UL listed. We have every major building in the world, whether it is the World Trade Center, the Burj Towers, Marina Sand in Singapore, Frame Towers and the old Channel Tunnel, the new Marmaray Tunnel, anything long or anything tall that requires a fire pump, we have it. So, that is another trigger for us which you can look at. That is something that we focus on, we target and we have a competitive edge on because we are giving a solution to a customer that is a lot more competitive than any of our competitors can offer.

Mr. Bhalachandra: So now in our international subsidiaries, what would be the percentage related to oil and gas industries and non oil and gas?

Mr Alok: Are you looking at a KBI level or you are looking at SPP level?

Mr. Bhalachandra: SPP level.

Mr Alok: SPP level oil and gas is about, at a consolidated SPP level about 40%, at a standalone level maybe close to 48-50%.

Mr. Bhalachandra: And what was the case one or two years back in oil and gas?

Mr Alok: That was the case one or two years ago. What we have done now is that we have diversified a significant amount where oil and gas now, if you look at oil and gas by itself it is already down to 25% and of that also a good chunk is coming from onshore. So, that is an area where we still see opportunities. If you look at just offshore in the past this entire 48% or whatever came from offshore. Today a good amount of that 25% of that comes from onshore, I will say majority of it comes from onshore. So even it means that transition but of course onshore is not as profitable, so that still remains a downside for us. Another integral part, when we talk about oil and gas, it is not just new products. For us a big important part is the aftermarket. So, the spare parts, the refurbishment of the pumps which come into our service centers and of course the field service which is very expensive to a client and of course quite profitable to us which is when we send our 25 specialized field service engineers on various platforms around the world for either commissioning, servicing or pulling off a lot of these pumps and refurbishing these pumps and then putting them back in and that is an integral part and that we see as a business that we cannot let go off because that is our core business, our pumps are already on these platforms. We have over a 35-40% market share on every platform in the world, so that is an area we have to keep because that is where a lot of the profits can come from.

Mr. Bhalachandra: Sir, lastly about borrowing we would like to know, by a two years timeframe, two years or three years timeframe what kind of a reduction we are targeting in borrowings?

Mr Mate: If you see our last year end results, the total borrowings at consolidated levels were 365 crores. Today's borrowings include some temporary borrowings, roughly 46 crores and we expect that those would be repaid by March '17, so by end of this year. On standalone basis we do not have plans to have increase in borrowings, whatever our capital expenditure would be from our own funds, would be in fact reducing to some extent and overseas also we do not have any major expansion envisage as of now, only temporary borrowings which would be clear by end of this year, even for working capital for our orders on hand being executed.

Mr. Bhalachandra: Okay, so full year how much capex we are planning on consolidated basis?

Mr Mate: Roughly 50 crores.

Mr. Bhalachandra: Okay, thank you sir, thank you very much.

Moderator: Thank you for your question sir. Next question from **Mr. Nikunj from BA Capital, please go ahead sir.**

Mr. Nikunj: Good evening, this is Nikunj Doshi from BA Capital. Just wanted to understand this latest guideline on arbitration by the government, will you have any benefit of that in any of your pending arbitrations or contracts or anywhere?

Mr Sanjay Kirloskar: I do not believe so, even if we do I think we are way down the list because our numbers are very small compared to anyone else.

Mr. Nikunj: Okay and another thing is…

Mr Sanjay Kirloskar: You know the numbers for the other companies are tens of thousands or crores.

Mr. Nikunj: Yes, yes, the smaller number will be cleared first I suppose.

Mr Sanjay Kirloskar: I hope so, but that I think I believe that is at the national level. We are working at the state level and therefore I do not think there is anything offered like this at the state level.

Mr. Nikunj: Okay and another thing, just from your gut feel do you think the worst is over for the company?

Mr Sanjay Kirloskar: I guess that is a question I ask personally to me, yes I do. In the last so many years we have tried to change the entire product profile of the company and people have worked very hard on one side, on the product side as well as on the project side. I mean we blame the projects but we also have to understand that there are people who once the company decided to move in a certain way need not get disheartened but work to ensure that the new policies were followed, whatever needed to be done at every single project was done and projects were closed one by one despite all the difficulties and despite all the pain that they had to go through. So, on the project side good work was done, on the product side the new retail outlets, the dealer development, the new product development and the plants. We have large number of new products and forward looking products, for the renewal industry or the canned motor pumps, the magnetic drive pumps, the molten sulfur pumps. This kind of work has been done to make sure that the company's products are forward looking. We continue to be the only Indian company making metallic volute pumps in the country which are being used for the new irrigation schemes where concrete volute pumps have – though they are for projects we have become the world's largest concrete volute pumps manufacturer. Even in Bangkok we are accepted as the large concrete volute pump manufacturer. We are doing product supply over there to one of the big contractors who will set up a pumping station to ensure that Bangkok at least with one pumping station may not make such a difference but these are large 20,000 liter per second pumps which are being installed. So across the company work has been done and you asked about gut feel, I think definitely the worst is over at least on the domestic side, the standalone results. Alok, if you want to say anything.

Mr. Alok: Yes, I just wanted to add something on the domestic side. As a company we are either three or four companies in one company, I mean if you look at it that way. We have a retail side, we have a make to stock side, we have a make to order side and as part of the company of course we have a project side of the company which is the big infra project that we have done. I think lot of people, I am sure you are familiar but when we stop taking any projects, completely stopped and I think you are probably familiar, you are familiar with the project companies, the advances normally keep a lot of companies going in a cash flow perspective because there has been lot of advances from one area, help funds, other projects as well but when you stop taking new projects altogether there is no incoming funds and if you remember in 2010 we were over 70% of project business and only 30 or less than 30% of product business and so in the initial years, 2011, 2012 there was a huge shortage of cash in the business. Then obviously there was a push on the product side to grow that and ensure that cash flow is at least maintained even as profitability is continued to be under pressure and kept being under pressure going forward and then obviously the next phase which is obvious is that as the projects stop, the cash flows stop then the next thing is that your overheads on the product side are ballooning because they are also on the project side, there is a cost base on the project side and all that is being funded by products which are maybe at that point in time 40% of turnover or maybe 35% of turnover and obviously that put a lot of stress on the business. Today I guess you go through that entire cycle and then you have today where products are over 80% and then you are able to predict the performance also a lot better because when projects were 70% and we depended on the government, we really did not know what would happen because they could put stuff on hold, they could stop things and what happened could be 180 degrees different from what we said because the government decided they had not money that month or they had no money for that quarter. Now obviously with only 20% dependent on the government that changes significantly, but also it puts us at a different trajectory from that perspective where now 80% comes from products. If you remember, we thought that the large pumps are not making enough money which is why we went into projects to begin with, but we have to accept that large pumps do not make as much money because lot of the money in large pumps is made in spares and that is how it is the world over and so obviously now your profitability is now dependent more on the specialized products, the smaller engineered products that go into critical applications, but the large pumps let us say go to irrigation or water or the cooling water side of power plants will be sold at a very competitive price and you will make your money back maybe in a year or two years or three years when you get the spares and that is how the business cycle will now move going forward. So I think that probably gives you a trajectory, but on the international side I think we do have head wind on the oil and gas side but as I said earlier we are diversifying that away from oil and gas and we will look at other markets to focus on, but of course our service side and field service side will continue to depend on oil and gas because it is a critical area and they pay us a lot of money to do it when they are operating the plants. In many areas on the service side we used to be a tier 3 supplier, there used to be Schlumberger or Baker Hughes on the platforms that as a tier 1 supplier. Then there was someone in between and that someone in between bought our spare parts or contracted us for service. One of the good things about the oil crisis is that all the platform operators have suddenly decided they do not want all these tiers and they do not believe Schlumberger and Baker Hughes and all these people can handle all services on a platform and now they are saying, let us get the specialist for each area in and let us contract with them directly. So, slowly we are seeing in some places we are the tier 1 service supplier or spare parts supplier or platform or somewhere we are tier 2, you know right under Schlumberger or Baker Hughes. So that is also making a difference from the profitability standpoint, so we are making those changes on the international side.

Mr. Nikunj: But I think Alok in the last call you had mentioned that for SPP at least for this year you have some visibility, for next year you do not have visibility, so you still maintain that or there is some change to that outlook?

Mr. Alok: No, there is a little bit change in that outlook as in we have better visibility but our issue is that even this year while we have the order book, like I mentioned last year we have the order book for this year, we had a lot of customers who were just trying to mess around. They did not want those products because the oil prices I feel in the beginning of the year went down to 29 and then for majority of the year stayed in the early 40s, so they just did not want those products and they were just wasting our time and just not allowing us to dispatch those products until now where they see oil prices back at 50 and now they are saying, oh my God you are late, now you need to deliver immediately which obviously cannot happen on all these complex packages. So, we had obviously a few big jobs that we shifted into January-February of next year. So, we have lost some revenue out which would have actually helped us this year given all the pressures we are facing this year.

Mr. Nikunj: And do you see any movement happening on Ganga Cleaning Project, any kind of package is coming out or anything which can benefit you?

Mr Sanjay Kirloskar: Yes, we actually have received one package but let us remember that in a package like this or even in a power project where the most critical pumps are used, the value of the pump as a percentage of the project is about 4% and this is with boiler feed pumps and the condensate extraction pumps and large circulating water pumps which tend to be the high end of the product portfolio. Water supply, sewage are not really that expensive and they do not own that part that is high percentage of a total project. So, we are in the game, we have received orders, you know but when you see government and all saying tens of thousands of crores, it is actually,by the time it comes to us, it is much smaller.

Mr. Nikunj: Okay, thanks and all the best.

Mr. Sanjay Kirloskar: Thank you and I think this was the last question, right?

Moderator: Yes sir.

Mr. Sanjay Kirloskar: So, I would like to wish everyone a very Happy Diwali and a Prosperous New Year. Thank you for being with us.

Moderator: Ladies and gentlemen, that concludes KBL's earnings call for today. Thank you for your participation. You may please disconnect your lines now. Thank you and have a great evening.