

Investors' Conference Call, Q2 2017-18, 13th November, 2017

Host: Good Evening ladies and gentlemen, thank you for standing by and welcome to Kirloskar Brothers Limited second quarter of financial year 2017-18 on this call. Joining us in this conference room are the Chairman and Managing Director, Mr. Sanjay Kirloskar; Director, Mr. Alok Kirloskar; Director, Ms. Rama Kirloskar; Vice President - Finance, Mr. Chittaranjan Mate and Company Secretary, Mr. Sandeep Phadnis.

Mr. Mate will take us through the highlights of the period ended on September, 2017. All participants are requested to refer the presentation which is available on the Company's website www.kirloskarpumps.com. Before the meeting, as a gentle reminder, during the duration of this presentation all the participants are in a "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 "*1" on your phone. Please be advised that this conference call is being recorded today. I will now handover the conference call to Mr. Mate. Over to you, Sir.

Mr. Mate: Thank you. Good evening, let me start with our disclaimer statement. This material may contain forward looking statement regarding Kirloskar Brothers Limited, our corporate plan, future financial condition, future results of operation, 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, achievements may be materially different from those expressed in such statements. Factors that may cause actual results, performance or achievements to differ from expectation include but are not limited to regulatory changes, future levels of industry product supply, demand and pricing, weather and weather related impact, wars and acts of terrorism, development and use of technology, acts of competitors and other changes to business conditions. KBL undertakes no obligations to revise any such forward looking statements to reflect any such changes in KBL's expectations with regard there to or any change in the circumstances or events after the date thereof.

Now, I come to sector highlights. First is Power sector. In the Thermal segment, sector was successful in negotiating two packages with Dussan Power. Irrigation sector successfully commissioned KBL's largest suspension length (30 metres) vertical turbine pump at HNSS pump station in Andhra Pradesh. Execution of Senegal project has commenced. In Water sector, sector had success with its Telengana Grid Water order for supply of pumps with order received in second lot in Q2 - we shall be supplying 364 nos. HSC VT and multi-stage pumps in Q3. On Project Execution, we physically closed three projects and financially closed two more. In the oil and gas sector for Chennai Petroleum Corporation Limited, dewater intake pumps in super duplex stainless steel construction were shipped to site. Indian Oil Corporation's order for firefighting pumps package was executed to its satisfaction. Building and Construction sector - we experienced the market to be sluggish not only due to GST issues but also due to enforcement of real estate regulation and development act and its provisions that have come into effect from July 2017. Value added products like FM-UL systems, MSMO pump set, HYPN and auto prime system contributed about 30% of total

booking in Q2. Engineering services registered revenue of 278 Mn. Industry segment- overall growth in H1 booking is 11%. Along with standard products, the sector is also actively pursuing opportunity for KEPL make boiler-feed pumps. A breakthrough order was received for 18 HSC pump sets and 11 solid-handling pump sets. Apart from orders of standard pumps, we received orders for Lowest Lifecycle Cost (LLC) series from Tata Steel (Jamshedpur) and critical application thermic fluid system from Rourkela Steel Plant. In M&D sector, an order for CFD analysis of water-mist firefighting system has been successfully executed. Our small pump business sector achieved 12% growth over previous year though the market has been stagnant. Small pump business executed its first institutional order from the Bangladesh Water Supply Board for centrifugal motor coupled with end-suction pumps.

Plant highlights:

Kirloskarvadi which improved productivity, plant utilisation and alignment of supply chain continues its growth trajectory and registered a new high on almost all parameters. Growth in production was 40% over last year.

Kondhapuri: The Kondhapuri plant registered growth of 9% over previous year. The product confirmatory audit by BVQI was successfully completed for small and medium butterfly valves.

Small pump business plants registered growth of 10% in the previous year.

Company-wise pending orders are given in a table on slide no. 7. On slide no.8. we have given financial highlights. Total income in first half year was Rs. 866 crores as against Rs. 740 crores in previous year. It shows a rise of 17%. These figures are adjusted considering that, last year, excise duty element was included in turnover whereas this year it is not there from first July. So the figures are adjusted figures. Sale of product sector is at 689 crores as against 572 crores in previous year. Project sector sales were 157 crores as against 148 crores in previous year H1. Project sector has figures included sale of products of 104 crores, profit before tax for H1 for 30 crores as against 19 crores in first half of previous year. Net working capital reduced from 475 crores as at March end to 468 crores as of September end. Borrowings as at September end were 166 crores as against 189 crores as of 31st March. Slide no. 9 gives us key financials on standalone basis. Slide no. 9 is about sale and profit. Slide no.10 is about balance sheet items. Coming to slide no. 11, it gives key financials on total income, profit before depreciation interest tax, profit before tax on a consolidated basis and last slide no. 12 is about balance sheet items on a consolidated basis. Thank you.

I would request questions from participants, so, we can answer them.

Host: Certainly Sir, we will open a forum for Q&A session. Ladies and Gentlemen, we will now begin our question and answer session. If you have any questions, request you to press “* and 1”. Thank you. So, we have our first question from Mr. Ranjeet Shivraman, ICICI Securities. Please go ahead, Sir.

Mr. Shivraman: Yeah, hi!! Good Evening. Congratulations on good set on numbers given the challenging environment. So, I just wanted to understand like.. the consolidated PAT is still at a loss. so, which all..

Mr. Shivraman: So, which all, if you can explain like the overseas subsidiaries, how they have performed and what's their outlook on this end?

Mr. Alok Kirloskar: Hi, this is Alok Kirloskar. I will give you a general outlook of where the different companies stand. You know, most of our American operations are fine. Their profits are on track. Our Thai operations are currently showing negative but they should be fine by the end of the year, and our UK subsidiary is currently showing a small loss but majority of their sales will be in the next Nov-Dec. So, we expect them to be okay. The issue has been mainly in Rodelta, which is a new company that we acquired where we have now built up a strong order book, but the order book is only built towards the end of the year. And so, we are trying to execute as much as we can to try and get towards profitability but that's the only one that we see that is concerning at the current moment. Kirloskar Pompen BV, which is the holding company for Rodelta and of course the trading company for Kirloskar Brothers products, should be all right by the end of the year as well from the profit point of view. But at the current moment, like I said, mainly the US subsidiary is the one that's profitable. The other ones are showing small losses, except Rodelta which is showing a slightly larger loss.

Mr. Shivraman: Sir, at the year end, we expect, with this is the current order book and the execution rate, we expect all of them except Rodelta and out of African operations to be in profit?

Mr. Alok Kirloskar: Rodelta is quite touch and go. Depends on the how much we can execute out of the order book that we have, which is a good number but which unfortunately is built up quite late in the year from mainly from August and September onwards.

Mr. Sanjay Kirloskar: That being said, most of the companies are at their higher stage of order bookings as we go towards the year end.

Mr. Alok Kirloskar: Yes, SPP is back at order books that is close to its peak order books which was at 2014. Rodelta has an order book of approximately 9 Mn Euro, which was close to zero last year. And KBTL, which is our Thai subsidiary, also has a very strong order book, higher than previous year. So, I mean, from an order book point of view we are stronger and that also reflected in the consolidated numbers, compared to previous year. But, yes, execution in many other subsidiaries has been slow and that's one focus area we have to try and execute the orders faster to get them out by the end of the international calendar year which ends in December.

Mr. Shivraman: Okay, and we have also seen the consolidated borrowings also going up. So what are our targets in terms of our console debts.

Mr. Mate: By year end, we expect to come back to 350 Crores which was as of last year end.

Mr. Shivraman: Okay, and lastly, just wanted to understand, like we saw a lot of companies showing higher debtor days due to this GST related impact. So, did we also see higher debtors due to GST related payment delay.

Mr. Mate: We have not seen any significant increase in debtors as such but, yes, part of our working capital is blocked as we pay higher rate of tax to our supplier. Instead of typically 11% which used to go for excise plus service tax, now we are paying 18% to the supplier and we can take credit only after sale happens at that particular location. So, our money is invested in current asset. Current asset level has gone up, but about debtor's recovery from customers, we don't see any issue as such.

Mr. Shivraman: Okay, Sir, thanks I will join for further questions.

Mr. Alok Kirloskar: Just to add one point, since you asked about debt, most of the overseas subsidiaries don't have long term debt commitments with the exception of our American facility where the long term facility is against the land and building. And, Rodelta has a long term arrangement. But no other company has any long term debt.

Mr. Shivraman: Okay, Sir, thanks. I will join the further course.

Host: Thanks for your question. We have our next person and that's Mr. Manish Goyal from Enam Holdings. Please go ahead, Mr. Manish.

Mr. Manish Goyal: Yeah, Thank You. Very Good Afternoon, Sir.

Mr. Sanjay Kirloskar: Good Afternoon

Mr. Manish Goyal: Just to clarify, Alok. On UK operations, you mentioned that we have seen, in the first half, small losses. Is that right?

Mr. Alok Kirloskar: Yes

Mr. Manish Goyal: Okay. And, by year end, you expect it to be quite profitable?

Mr. Alok Kirloskar: I mean, we expect it to be back in profit just because of the order book position. I mean, the order book position, touch wood, has been quite strong this year. And, the order book even at the end of September has been close to about 34 Mn Pounds, which is quite strong compared to the previous year. I mean, it's about 1.6 to 1.7 times previous year. So, you know, if you look at other companies in our segment in the UK, I mean, our closest competitor is possibly SPX, Clyde Union and if you look at news on BBC for SPX Clyde Union, you will see that their sales have dropped by 39% and they are under 45 Mn Pounds of sale and their losses are close to 12.4 Mn Pounds in loss at the current moment. So, I mean, given that background, I feel, that we have built out the order book over the last two years, like we said, we have diversified away from oil and gas. At one time, 80% to 85% of the company's revenue, either new products or service or spare parts, came from oil and gas. Today, we brought that down to about 35%.

Mr. Manish Goyal: Okay.

Mr. Alok Kirloskar: So that diversified, and overall, we have been able to build out the order-book. The main thing now is, you know, getting lot of the orders out. And I think, that's an area, execution has been an issue for us. As I said to you, last year, we were into redundancy and we did do a redundancy in February. We reduced about 35 people in February which accounts for about 12% to 14% of our workforce in the UK. And then obviously due to the configuration in our sales-mix which started growing, from June onwards, we saw huge rise in the sales book, and so it will be a little bit struggling to cope up with execution. So, we brought in temporary workforce in September, October and November and we will continue having them into December to help us execute those orders. But, of course we have changed the model where we will have a slim fixed employee base and we will have a variable floating employee base now...

Mr. Manish Goyal: (Interrupts) Sure

Mr. Alok Kirloskar: (Continues)... depending on the order book. Because, you know, we have configured the employee base based on certain kind of sale per year and the expectancy is that they will bring in temporary workers. But, yes, I feel that, we are probably at the current moment short of 12 Mn pound of sale which should have happened a month ago. So, we are lagging by that 12 Mn, which is also reflected in the loss because of a lower turnover.

Mr. Manish Goyal: Okay, so, ideally the numbers reported herein consolidated a quarter lag? So, now we are already in the month of November (yeah), which is probably a peak for SPP?

Mr. Alok Kirloskar: November and December.

Mr. Sanjay Kirloskar: Yeah. For all the outside companies, not just SPP. November and December.

Mr. Manish Goyal: So, like, on a full year reported basis, would SPP probably still report loss or it will be marginally profitable? Only marginally profitable?

Mr. Alok Kirloskar: I expect, the current moment, with the execution of what we have said we will execute, it should be in profit.

Mr. Manish Goyal: Okay and overall on overseas subsidiary numbers may not be profitable because of Rodelta and South Africa operations or overall...

Mr. Alok Kirloskar: I mean, South Africa is a smaller loss; my main concern is Rodelta operations. But, like I said, they are very touch and go, because it depends on how much we can execute. We do have some large orders, like I mentioned earlier and we are trying our best to execute those orders. But they came only in August and September, September and October. So, yes as much as possible we will execute them. There is a possibility it will be all right but, you know, I don't want to make it too optimistic, you know. So, it's better to be on the pessimistic side. So, I would say, yeah, that could drag the numbers down significantly.

Mr. Manish Goyal: And what is the break-even revenue for SPP? In Million Pounds, Sir?

Mr. Alok Kirloskar: SPP UK?

Mr. Manish Goyal: Yeah

Mr. Alok Kirloskar: 3.4 Mn, a month.

Mr. Manish Goyal: Okay...And on standalone numbers, if I probably look at the segmental numbers, little bit surprising on the project side that on similar turnover what we have reported there has been a loss in first half, basically in Q1 and Q2 as well, whereas in last year first half there was a profit. So, and on other side we are seeing that the product sales within projects has been going up. So, if you can probably provide some insights as to why the losses? Is there some one-time provision or if you can please clarify?

Mr. Mate: If you see the project business, the growth in sales is marginal from...

Mr. Manish Goyal: Yeah..

Mr. Mate: Only 9 Crores...

Mr. Manish Goyal : Correct

Mr. Mate: but the common expenses and the project expenses....

Mr. Mate: Those allocation remains constant or increases and the contribution from sale was not sufficient to meet fix its cost.

Mr. Manish Goyal: Okay.

Mr. Mate: There are some write-offs but that's not a big amount. That's somewhat 5 Crores. The major contribution is not sufficient to meet its cost.

Mr. Manish Goyal: So the 5 Crores is in Q2 or first half?

Mr. Mate: No, overall, first half.

Mr. Manish Goyal: Okay. No, because I was just wondering that the revenues are same and then still the losses have gone up from 4 Crores to 20 Crores in first half. So....

Mr. Mate: Contribution is not sufficient to meet these costs.

Mr. Manish Goyal: Okay. And within that segmental what I probably see is that there has been some restatement in terms of the profits which products reported last year when you reported segmental and now what you have reported, the segmental profit in the project business has been on the higher side at 47 crores as compared to some 40 crores. On the other side what has happened is that unallocable expense has also been increased. So is there some restatement of expenses from products and moved to unallocable expenses?

Mr. Mate: If you are referring to last year's public statement and comparing with this year?

Mr. Manish Goyal: Yes, Yes.

Mr. Mate: Last year, in the month of November, we got permission to merge Kirloskar Systech. So, this year, whatever figures we have stated for last year are adjusted figures. These are not which were published in last October.

Mr. Manish Goyal: Okay. So Kirloskar Systech was merged in November last year?

Mr. Alok Kirloskar: Yes, but it was with retrospective effect. So, this year when we are showing previous year's figures they are stated figures after making necessary adjustments

Mr. Manish Goyal: But, Sir, would it impact the product profitability?

Mr. Mate: Yes, to some extent because the way Kirloskar Systech expenses are allocated for the services rendered by them to various sectors.

Mr. Manish Goyal: Right.

Mr. Mate: that would also undergo change.

Mr. Manish Goyal: Okay, and one more related question is another unallocable expense in this quarter at 38 Crores has been significantly higher as compared to previous quarter at 26 Crores. It's gone up by 47%. So, does this include, say, any consultancy charges or one time provisions or anything that sort of, Sir?

Mr. Mate: Last year, we have received certain interest from income tax, sales tax and this other income is netted. This year there is no such income. In this year we have incurred expenses from GST implementation because we had to modify our IT systems. We had to pay consultant and then we are upgrading our SAP from ECC to H4HANA...

Mr. Mate: So, that cost has also incurred in Q2.

Mr. Manish Goyal: Okay. fine, I will come back for more questions, Sir. Thank you so much.

Mr. Mate: Thanks.

Host: Thank you for your question Mr. Manish. Next question is from Ms. Neha from P Square Invest Link. Please go ahead, Ms. Neha.

Ms. Neha: Yeah, thank you for the opportunity. What would be our target order book for this year and how much of this do we expect to execute by FY18?

Mr. Mate: Madam, if you please refer page 7, that shows pending order position as of 30th September, i.e. 1,651 Crores. Now, certain project orders have a long execution period. So, part of these orders would be executed in current year and part would be executed in next year. But product sector orders we expect to execute in this year itself. Like oil and gas, marine,

industry (all these). And there are certain sectors where there are no pending orders. Like our distribution sector or spare parts.

Ms. Neha: Okay. All right. And what would be our guidance in terms of top line and bottom line

Mr. Sanjay Kirloskar: We don't give guidance normally.

Ms. Neha: But do you expect to close the year on a positive note?

Mr. Sanjay Kirloskar: Of course, we all are working, trying our best to do it on a positive note.

Mr. Mate: So far, we have executed 17% growth.

Ms. Neha: Okay. Okay. Another thing...since our oil and gas sector comprise of 35% as you said, would the increase in oil prices impact us in any way?

Mr. Alok Kirloskar: Yes, I think, we are talking on the context of SPP Pumps. So, today, oil and gas is about 35% of our order books. Yes, I mean, oil price going up is always welcome. If you take it 200, I will be the happiest person in the world. But again that value could be stuck up to 55-65 for some time.

Ms. Neha: Okay, Okay.....That is a positive change for us,

Mr. Alok Kirloskar: Higher the better...(laughs)

Mr. Sanjay Kirloskar:for the company.

Ms. Neha: Of course. And, lastly on the plant highlights, can we get the capacity utilization for each of them and how much is each of the plant considered to be overall revenue.

Mr. Mate: Ma'am, on Kirloskarvadi plant, this is a very complex because we manufacture a large variety of products and we do lot of subcontracting. So, to mention exact capacity is difficult.

Mr. Sanjay Kirloskar: I would say that Kirloskarvadi has two plants over there. One is for small and medium pumps and the other one is large pumps division. In the small one, possibly about 65-66% capacity utilisation or delivery can go much higher. Large pump plant- it is lower because, you know, the company follows a policy of not participating directly in EPC business. And where it does participate in the EPC business it does as a subcontractor with possibly the strictest commercial terms available in the market, which is advance and Letter of credit before delivery, before we offer products for inspection. So there are a lot of EPC contractors who would prefer to work with manufacturer's who go by their payment terms and hence the amount of business that we get for large pumps from the domestic market is not as high as it was earlier and not as high as the capacity is. That being said, we are getting order from outside the country but they are not as much as we would like. So I'd say that possibly about 50% capacity utilisation takes place in the large pumps business. The small pumps business which is our retail business, we have taken a decision to start 3rd shift at two of the plants, in Sanand and in Kaniyur, and Dewas is operating around 75-80% of capacity utilisation.

Ms. Neha: Okay. And, we see any improvement in near terms or its going to happen after FY18?

Mr. Sanjay Kirloskar: Yeah, I think the rest of the year obviously has good orders and capacity utilisation will increase.

Ms. Neha: Okay, That's it from my side. I am going back

Mr. Sanjay Kirloskar: Specially, since now for the small pumps business there is, if you go into the season, for both Rabi crop as well as before summer, there is a season for the small pump business.

Ms. Neha: Okay, Sir, how much is the small pumps business's overall revenue share?

Mr. Sanjay Kirloskar: Quite large. We don't give sector wise breakdown. So small pumps business is one of the significant success that we have.

Ms. Neha: And the better margin business, of course, you say?

Mr. Sanjay Kirloskar: It's a high volume lower margin business.

Ms. Neha: High volume low margin.. and the focus is on this one or you will try to diversify into some other verticals where the margin will be higher?

Mr. Sanjay Kirloskar: Well, this does give us large volume. So, we do focus on it but we do also focus on other product sectors which have higher margin.

Ms. Neha: And largely retail as you said?

Mr. Sanjay Kirloskar: Yeah, retail.

Ms. Neha: Okay, Alright, that's it from my side. Thank you so much.

Mr. Sanjay Kirloskar: Thank you.

Host: Thank you for your question, Ms. Neha. Next question is from Mr. Ritesh from Lucky Investment. Please go ahead Mr. Ritesh.

Mr. Ritesh: Yes, so, I was just trying to understand the response to one of the participants who gave on the project business side and its possibility about more execution on higher fixed cost. Understanding the reconcile between the P&L and segmental, there is hardly any increase in cost line that I see. So, Sir, if you could share more light on the possibility of the projects business and incremental how does this rectify itself also? First of all, I was unable to comprehend the response that you gave and second how does it rectify itself in the future?

Mr. Mate: To rectify this, as our volumes of order execution go up, the contribution would improve and fixed cost would remain at more or less same level. So, higher contribution would give a better result. You know that many project orders... it's a long lead time item. And various

orders are due for completion or dispatch in second half of the year. We expect that the second half results of the projects sector would improve.

Mr. Ritesh: Okay, and what explains the increase in loss in the first half? Because I don't see a big jump in any expense line in the P&L.

Mr. Mate: Now if you see the P&L you would see that the material cost has increased. So, the contribution percent has come down. That is one thing and another is the allocation of direct cost to the project. So, certain projects which are not come to the billing stage but the expense of allocation is there on POC. So that has increased losses and one reason is that some write-offs were there. Last year there were some orders where we had very low material cost. So, that had helped last year's results

Mr. Ritesh: Okay. How do we stand on the order backlog inflows visibility at this juncture and how do you see the execution and growths panning out?

Mr. Sanjay Kirloskar: As you can see, on slide no.7... I am assuming that you are talking about the project sectors...

Mr. Ritesh: Yeah, the project sector, and I don't have the excel sheet.

Mr. Sanjay Kirloskar: Yeah, the order posed for the Irrigation (sector) now stands at 644 Crores. For Power, it stands at 530 Crores and for water it stands at around 159-160 (Crores). These numbers are increasing and I would like to inform you that most of these are for products. Other than the old Irrigation orders and some orders in the Power sector, most of them are for products. Products have a lower cycle time for execution and therefore we expect that a higher proportion of these orders will be executed in the next...coming 4 and half or whatever months that are left. And that should improve the situation.

Mr. Ritesh: (interrupts) and how are you placed. (Stops) Go ahead, Sir. Sorry.

Mr. Sanjay Kirloskar: As far as the products sector are concerned, you know, most of these orders that are in hand or executed within three months. So, we still have another two months of order intake to make sure that there is continued business throughout the period.

Mr. Ritesh: How were you placed same time last year in terms of that figures if you have to compare and see and traction.

Mr. Sanjay Kirloskar: Actually, I have over here the Q3 numbers for last December. The total order board was at 1417 and in Q2 and this September end, it now stands at 1,651. It has been rising throughout the period.

Mr. Ritesh: Okay, okay.

Mr. Sanjay Kirloskar: So it has gone up by about 240 Crores in the last 9 months.

Mr. Ritesh: Any changes in competitive dynamics to take those orders or the competitive dynamics are the same?

Mr. Sanjay Kirloskar: Those are the same.

Mr. Mate: I think policy we have changed...

Mr. Ritesh: Okay, it's fair to assume that the orders will at least not be at an inferior possibility?

Mr. Sanjay Kirloskar: Yeah.

Mr. Ritesh: Right.. seem to execute more. We might have offered immediate margin expenses. But first time we order never based in... at least not ... in inferior possibility is the competitive dynamics is the same

Mr. Sanjay Kirloskar: Yeah.

Mr. Ritesh: Okay, Thank you.

Mr. Sanjay Kirloskar: Thank You.

Host: Thank you, Mr. Ritesh for your question. Next question is from Mr. Bhalchandra Shinde. Please go ahead, Sir.

Mr. Bhalchandra Shinde: Bhalchandra Shinde here from Anand Rathi.

Mr. Sanjay Kirloskar: Yeah.

Mr. Bhalchandra Shinde: Sir, regarding the oil and gas industry whatever the order close will happen, are we sufficiently placed across the line wherever the CAPEX will happen. Means like, I think, there are four and five stages where pumps are utilised in the oil and gas industry CAPEX. So, do we have that kind of a sufficient product portfolio?

Mr. Alok Kirloskar: Yeah, I think, our product portfolio, like I said earlier, is spread between SPP, Rodelta and Kirloskar Ebara Pumps Ltd. SPP focuses on upstream and midstream. So, our specialty is for exploration as well as the midstream, where there is pumping and refining. So, SPP has a good strength there. Rodelta has a good strength is midstream and downstream and Kirloskar Ebara has its strength in downstream. So, we cover all the products across these three companies. Across these three companies, we have approvals with Saudi Aramco where we have done significant business last year. With KNPC, which is Kuwait National Petroleum Company, QP which is Qatar Petroleum, Shell, Stat Oil, BP, ConocoPhillips, Exxon. So, we have a good base in terms of the references. In India, we were closely working with Reliance Industries, Essar Oil etc. So, you know, we have a good relationship with all of them. We have references with all of them and we have a product that covers their requirement. So, I think, if you are asking if we have good coverage, yes, we have good coverage, but even more important than good coverage, we also have references and we have reference history with all the major explorers as well as refiners.

Mr. Bhalchandra Shinde: And Sir, regarding domestic PSUs, OEMs related CAPEX will happen, will we be able to offer this product portfolio through Kirloskar Brothers or we need to do something, means, as I heard, for 1 and half year back we have got approvals from the

Engineered India. So just wanted to check which kind of a product portfolio we can offer in this PSUs, OEMs orders.

Mr. Alok Kirloskar: So, for domestic market, they are obviously the refiners and ONGC explorers. So, we supply all the ONGC products from SPP because ONGC has a preference for foreign products. We supply them from there. For the domestic refining PSUs, the products are supplied by Kirloskar Ebara. Now I will ask Rama to speak after a second because Kirloskar Ebara has references and has been doing business with the PAQs since 1988. And it has also been approved by EIL since 1988. So, I will just give to Rama, I think, if she can talk about what they are doing in the constituent segment in PSU refiners.

Ms. Rama Kirloskar: Hello, this is Rama Kirloskar. So, regarding domestic PSUs in terms of refinery jobs, we don't have much of an issue but when it comes to pipeline we noticed that there are some issues regarding proven track record. So, we are trying to get our product references outside India for those orders. But, I think, majority of the jobs, we are able to do.

Mr. Bhalchandra Shinde: Okay, and Sir, those orders will not be included into our pending order book which we reflected in our PPT, right? Means, it will be in the books of Kirloskar Ebara?

Mr. Sanjay Kirloskar: Yeah, those orders that go to Kirloskar Ebara will show up there. If there are orders received by Rodelta then they will show up in the consolidated numbers for KBL. SPP orders will also be reflected in the consolidated orders in KBL.

Mr. Bhalchandra Shinde: Okay, but not Kirloskar Ebara related orders will also not reflect in the consolidated book also, right?

Mr. Sanjay Kirloskar: No, I don't think so, as the consolidated says at 45%, only a defining result, we do not consolidate.

Mr. Bhalchandra Shinde: Ok, Ok, and, Sir, industrial application side, especially on the retail side, we are aware that most of the retail side will decline over a period of time because of new ESL orders and even solar pumps. So, how we see ourselves because, it's like, on both the sides we are slightly on the backfoot? So, how we take it forward?

Mr. Sanjay Kirloskar: I have not understood your question because.....

Mr. Balchandra Shinde: Because, see, on the retail side obviously the ESL related orders will come. So, obviously, in most of the regions PAT is declined.

Mr. Sanjay Kirloskar: When will they come?

Mr. Bhalchandra Shinde: Next, like in 5 days, it is quoted that 70 lakh pumps might come. So, if at all that comes, means, all that tendering happens then, obviously retail part demand might decline because of all this. What do you think?

Mr. Sanjay Kirloskar: I will rather wait for that to come than not, because to the best of my knowledge, the Indian Pump Manufacturers Association has its own views on whether to participate or not in those tenders and ultimately on the solar pump tenders.

Mr. Bhalchandra Shinde: But, Sir, your peers specially on the MP side or the Chhattisgarh side are really showing a good growth because of the solar pump related demand. So, how we are looking forward to meet for all those demand?

Mr. Sanjay Kirloskar: We are supplying solar pump sets. In fact, we have had more than 200% rise, but we will participate where money is paid upfront. Where money is not being paid upfront and competitors do not mind giving ten years guarantee, I have no desire to participate in such demand.

Mr. Balchandra Shinde: Ok, fine, fine. Ok, Sir. Thank you, Thank you very much. Welcome. I will come back for another question.

Mr. Sanjay Kirloskar: Yeah

Host: Thanks for your question, Mr. Bhalchandra. Next question is from Mr. Jaten Joshi from Enam Holdings, Sir. Mr. Jaten Joshi, please go ahead with your question. Well, he's not on the line. We will move on to the next question. Mr. Nitin Mehta from Lucky Investment. Please go ahead, Mr. Nitin.

Mr. Nitin Mehta: Hi, Good Evening. Hi Alok. How are you?

Mr. Alok Kirloskar: Very well, thanks.

Mr. Nitin Mehta: Yeah, Alok, this question is regarding the recapitalisation of your subsidiaries. So, 50 Crores has been planned for your subsidiaries. So, if you can elaborate on these investments.

Mr. Alok Kirloskar: 50 Crores is being given to KBI and it is available for support to, little bit to Rodelta, but I would not say a complete recapitalisation, because if you look at SPP, I mean, SPP has quite a large network and, if you look at the network of KBI, it's a positive network. So, it is not really for recapitalisation because KBI network stands for 14 Mn Pounds approximately. So, it's not a negative net worth. But, yes, we are looking at seeing if we can provide some support with our subsidiaries because, as you are aware, the total investment in the subsidiaries...international business, since 2003 has been about 46 Crores and the international business has returned back to KBI... close to 60 Crores in dividends. And, it is felt that for growing the international business, given the size of the current order book which, for smaller companies like Rodelta, for KP BV and KBTL, has grown significantly over the last year. As well as some CAPEX that is required in Rodelta in terms of testing facilities...it makes sense to invest some money. Of course, we will not be using all the money but the board decided that it is better to have money in KBI, in case, any support is required to any company or any investment is required in any other company for the test facility. Because, the only initial investment that was provided back then was in the acquisition of SPP (SPP UK), but all the

other facilities, whether it's SPP USA or every other plant that we have was funded out of that plant, out of the profit from that plant. So, it makes sense at this point of time, given the growth in the order book of all the other companies in KBTL, Rodelta, KPBV to have an investment in order to meet working capital, etc. and the other requirement.

Mr. Nitin Mehta: Yeah, and once we execute your domestic business that's 1600 Crores, the order book has large part of it, let's say, we execute in the remaining 6 months and of course your small pumps and other pumps would also contribute, is it fair to assume that our opening order books for India business will be higher than last year opening order books?

Mr. Sanjay Kirloskar: I believe the India order book will be higher than last year's opening order book for execution in the next year. But, if you look at Irrigation, those, projects or those orders tend to be now, from between 6 months to 14-15 months for delivery. If I look at water resource, those tend to be 3 or 4 months, other than the one order that is there, I think, which has a civil component. And Power may be a little longer, because there are concrete volute pumps and we have also, as you may be aware, we have a nuclear business, and some orders for the fleet.. the main fleet ordering hasn't begun but some development orders are there. So, that might take much longer than to complete them by the end of the March 2018. So, I expect that part of this will be executed. Quite a...may be around 50% of this will be executed by the March end and 50% would remain and, plus, we expect some more orders before the end of the year (as far as project sectors are concerned). Oil and gas and marine and defence also tend to be lumpy businesses. You suddenly get orders, large orders. There is no standard orders that we get for oil and gas or marine and defence. So, I really don't have a view as to where that number would be and the main customer again being government, there is a chance that before the year end whatever tenders are pending, orders might be placed. Industry sector has been growing for us as well as building and construction and all the other project sectors, yes, every month we get orders and the delivery time could be anything from 4 weeks to 12 weeks.

Mr. Nitin Mehta: Sir, your order book of 1,600 Crores doesn't include small pumps, right? Those are regular business which is coming and going?

Mr. Sanjay Kirloskar: Yeah, Yeah, Yeah!! That's regular business.

Mr. Nitin Mehta: So, are you saying that's enough traction there on the smaller...? because I am indicated that you are trying to start shift 3. So, obviously the traction looks quite good. So...

Mr. Sanjay Kirloskar: Yeah, because, every year, actually half year, we do between 42% to 45% of the annual turnover. So, like I mentioned there is seasonality now and it comes into seasons and therefore we will expect to do between 55% to 58% of the annual plan for that business.

Mr. Nitin Mehta: It is as a percentage also, overall product business, right?

Mr. Sanjay Kirloskar: No.

Mr. Nitin Mehta: On the total business, which includes projects as well as products?

Mr. Sanjay Kirloskar: No, No,for.....what I was talking about was the small pumps business, if that's what your question was about?

Mr. Nitin Mehta: Yeah, Yeah. So, small pump is 42% of the overall product business or.....

Mr. Sanjay Kirloskar: No, No, No... I said, "of the small pumps business for the year." And 42% happens in the first 6 months and 58% happens in the next 6 months.

Mr. Nitin Mehta: Okay, and as a percentage of the overall products business, how much it will be?

Mr. Sanjay Kirloskar: We don't calculate that actually, and we don't give out sector-wise numbers anyway.

Mr. Nitin Mehta: Okay, but are you seeing double digit growth rate in the small pumps business?

Mr. Sanjay Kirloskar: Actually, the company has seen double digit growth across the board. So...

Mr. Nitin Mehta: Okay, thank you very much, Sir. Thank You.

Mr. Sanjay Kirloskar: Yeah

Host: Thank you, Mr. Nitin for your question. Next question is from Mr. Ranjeet Shivram from ICICI Securities. Please go ahead, Sir.

Mr. Ranjeet Shivram: Yeah. Hi Sir, just wanted to understand, like, you had mentioned that the small pump business, you had grown 12% and the market has been stagnant. So, does this imply that we have increased our market share or should we believe that the organised market has improved. So, what is the right way to interpret this?

Mr. Sanjay Kirloskar: It's too early to give you an exact answer whether this is the reflection of GST implementation or what. But we do see a 12% rise in this area. We also, from what we hear in the market, not too many of our competitors have achieved this kind of growth in the organised sector.

Mr. Ranjeet Shivram: Okay, so we can infer this as we have improved our market share?

Mr. Sanjay Kirloskar: Yeah, we have been actually improving our market share in the small pumps business for the last 3-4 years.

Mr. Ranjeet Shivram: So, any particular area which we had focused and because of that this has been achieved and.....

Mr. Sanjay Kirloskar: Across the board, if you remember, it was in 2011 that we decided that all these products in the small pumps business were being manufactured in one plant. And

then we decided that we would have separate plants for the surface pumps, for the submersible pumps and for the pumps that go into homes. And so there is a greater degree of focus on the different product line that we offer in the small pumps business. And similarly as we have told you earlier there is a focus on the marketing side as well to widen and deepen our footprints. So, I think (these are) this is the result of what has been going on for the last few years.

Mr. Ranjeet Shivram: And these are kind of sustainable initiatives where we can see further improvements?

Mr. Sanjay Kirloskar: Yeah, I believe so.

Mr. Ranjeet Shivram: Okay, and Sir, this thermal order which you had mentioned, from (some) Dusan...so, is that pertaining to boiler-feed pumps?

Mr. Sanjay Kirloskar: No, these are concrete volute pumps. As you know KBL is the world's largest producer of concrete volute pumps and this is the latest order for such pumps from a Power sector player. We have also recently completed concrete volute pump order in Bangkok. You know, Bangkok also had huge floods about 3-4 years ago. And unlike what we see over here, they decided to do something about it, even if it was going to be a "1-in-a-100-year-flood." So, we got the order for dewatering large portion of Bangkok as flood control for a large portion of Bangkok. Here, again there were six large concrete volute pumps, each one of about, I think, 15-20,000 litres per second in order to ensure that no area got flooded in Bangkok. So, as far as boiler-feed pumps are concerned we have recently supplied and they are now working at Mirfa Power Station. This is a 1600 mega-watt combined cycle power station. So, 6 pumps are running over there at that station.

Mr. Ranjeet Shivram: And, so, Sir, won't we also try to participate in that portion of that Dusan Power where there is a requirement for boiler-feed pump also. Are we also looking at participating in that tender?

Mr. Alok Kirloskar: No, I think, we are quite building out the references because you know large boiler-feed pumps are an area where we have pure references and most of our references are outside of India. And, you know, all the Indian companies, many of the Indian companies want references for, you know, they want to someone else to use before they try out the product. So, most of our references are with the more progressive foreign companies. And that way we built out our references and then sell in India.

Mr. Ranjeet Shivram: Okay, and this concrete volute pump will be what size in terms of value?

Mr. Sanjay Kirloskar: The value of the order is about close to 30 Crores, I think. 32 Crores.

Mr. Ranjeet Shivram: Okay, and two packages are there?

Mr. Sanjay Kirloskar: Yeah

Mr. Ranjeet Shivram: Okay, thank you, Sir.

Mr. Sanjay Kirloskar: Thank you.

Host: Thank you for your question Mr. Ranjeet. Ladies and Gentlemen, I will now hand over the conference call to Mr. Mate. Over to you, Sir. Please go ahead.

Mr. Mate: Thank you. I would like to thank all of you for joining me and having showing interest and confidence in Kirloskar Brothers Limited. Thank you.

Everyone: Thank you.

Host: Thank you, Sir. Ladies and gentlemen, this concludes your conference call for the day. Thank you for your participation and for using Tata Docomo's conference call service. Thank you and have a great day.