Kirloskar Brothers Limited
Investors/Earnings Conference Call
(October 28, 2013)

Moderator: Ladies and gentlemen good afternoon. Thank you for standing by and we welcome you to Kirloskar Brothers Limited Second Quarter 2013-14 Earnings Call. Joining us today in this conference room are the Chairman and the Managing Director, Mr. Sanjay Kirloskar; Executive Director, Mr. JR Sapre; Vice President, Finance, Mr. Umesh Shastry and Company Secretary, Mr. Sandeep Phadnis. Mr. Umesh Shastry will take us through the result highlights for the period ending September 2013. All participants are requested to refer to the presentation available on the company website www.kirloskarpumps.com. As a gentle reminder during the duration of the presentation all participants are in 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 "*" and "1" on your telephone. Please be advised that this conference is being recorded today. I will now hand the conference over to Mr. Umesh Shastry. Over to you, sir.

Umesh Shastry: Good afternoon ladies and gentlemen. As usual we will run quickly through the presentation that we have uploaded on our website. I once again invite you to the attention of the Slide No. 2 where you find the disclaimer statement from our side.

Moving on to the overall company level highlights: As everybody is aware the economic scenario still continues to be grim and because of that bearish under currents also affected revenue and profitability for KBL just like it probably did for most of the industries around the country.

The KBL's agenda of improving the quality of its balance sheet continues to be the main thrust area and we are continuously following the same for the last about 8 or 12 quarters & working upon it and will continue to do the same. Similarly selective sale continues depending upon the customer financial position in the sense that the recovery and the sale are being matched and we are not unnecessarily increasing our revenue where the customer is not giving us the money in time.

For the project business the focus continues to be closing of old projects and recovering of the retention money to the maximum possible extent. I would also like to highlight that new entity by the name of Karad Projects and Motor Limited is now in existence after the merger of Hematic Motors Private Limited with KCEL. All the approval and everything is now in place and the new entity is also officially in existence now.

I move on to the sector level highlights. As far as the Irrigation sector was concerned the 25th concrete volute pump was successfully commissioned at the Sardar Sarovar Nigam site at Pump Station 2. This sector also received the first order from the Haryana Irrigation Department which was a hitherto untapped status for us as far as we were concerned for this particular business vertical and we also successfully completed the commissioning of the Ainapore Lift Irrigation Scheme in the State of Karnataka.

Regarding the water resource management sector retention money of about 24 crores was collected during the quarter which was significant because lot of the projects in this particular sector did manage to move to some extent and we had planned to close 11 sites in H1 in which we managed to close 10 sites. So this is one sector where the movement has been fairly good as far as H1 is concerned and with respect to all the project business of KBL.

Moving on to the third project sector business - the power sector where we have signed the supplier of choice agreement with the SNC Lavalin in Canada for supplying the pumps for their global project and other current good news is that we have received a repeat order from the Bechtel operation in USA for service pumps for some of their projects in USA and similarly India's first ultra mega power project was also commissioned at CGPL, Mundra where the PG test for the concrete volute pump was successfully completed.

Moving on to the product sectors regarding Gas, Oil and Defence, basically we conducted lot of workshops and seminars during the quarter at major installations like Paradip, CL Chambal Fertilizers, etc. This was primarily done for promoting our LLC pumps about which we have spoken about in the last couple of earning calls as well. And we also completed the final testing of two fire fighting packages at the ONGC offshore platforms.

The industry sector we have visited Kargil India in order to see whether we can have a strategic tie up for their refineries right across the globe. We have also received first order for auto prime engine sets from Trimex Sands, and we conducted a dealers meet at Lucknow for explaining special pump business and see how we could primarily grow in that particular range of pumps.

The Building and Construction vertical saw four orders received for replacement business of standard fire versus the FM/UL set and we also received order for DMRC for its third phase. The distribution or the dealer business saw the SMDS or the synchronized manufacturing and distribution system implemented across all the plants, regional offices as well as all the dealers and training is also being completed to all the dealers based on this. Due to this we expect a smoother flow as far as the distribution of the pumps are concerned, better inventory management, better distribution and control and also an improvement in the delivery schedules and better inventory management at the dealer side as well along with KBL. And we also developed Android based application for productivity enhancement, market research, surveys and reporting in this particular business sector during the quarter.

Our spares business or the Customer Service and Support vertical as we call it saw the inauguration of refurbishment center at New Delhi as well as at Jamshedpur during the quarter.

As far as the factory highlights are concerned The Kirloskarwadi factory won the National Award for excellence in energy management 2013. We also started on an endeavor for improvement as far as the suppliers are concerned and we organized a meeting with key suppliers during this particular quarter. The O-SOJI implementation has also been generated right across the Kirloskarwadi plant. The inclined testing for primary sodium pump has also been successfully completed during the quarter. We dispatched three pumps to Linde which was a prestigious order that we got from prestigious International customer and we also had delegates from Indonesia to assess technical capability for assessing their small upcoming power plant in Indonesia.

The Dewas, Coimbatore and Ahmedabad factories with their small pump operations saw the highest ever production which was achieved ever as far as the history of these small pump operations is concerned. The Kondhapuri of the valves factory won the second prize at the State Level Conservation Award from MEDA for 2011. We also had a few developments as far as the rubber seated valves is concerned. We received the UL listing for the gate valves and we also developed some resilient seated valves in the 15 mm and 18 mm size during the quarter.

Slide 10 basically displays the companywide pending orders moving quarter-on-quarter and you can see that at the end of the second quarter ended September 2013, our total order book now stands at 1,895 crores which is slightly down from quarter 1, but if you see the quality of the orders you will find that in Gas, Oil and Defence in Distribution etc the orders are either increased or more or less the same. There has been a decrease in the orders in Power, Irrigation and Water Resource Management on the project sectors so as far as the quality of the orders is concerned it is more inclined in favor of the product sectors. Similarly if you look at the orders which we received during September 2013 you will find that we actually received 332 crores of orders in Q2 which was higher than 278 crores in Q1 so as far as the order inflow is concerned also there is an improvement and the pending orders on hand on KBL consolidated basis stands at 2,462 crores as at the end of September 2013 with 689 crores of orders actually received in Q2 vis-à-vis 485 crores in Q1. So there also you will find that the order inflow has actually improved though the pending orders on hand are slightly decreased because the delivery commitments have been better because the orders have been supplied at a slightly faster rate in Q2 as compared to what we were doing in the past.

Moving on to the financial highlights this is as far as the KBL standalone entity is concerned. There was a reduction in the borrowings by 3 crores compared to March 2013 but if you compare it to last year's September 2012 we had 89 crores of reduction so on a year-on-year basis the reduction is close to 100 crores. Similarly we generated a cash of about 28 crores in H1 of these this year as compared to negative 8 crores of H1 of last year. This negative 8 crores is excluding income tax refunds of Rs.35 crores which we actually got last year so if we include that the cash generation of 27 but the cash generation from operations was only 8 crores and this year the cash generation from operations is 28 crores so there has been a four-fold increase as far as cash generation is concerned.

Our retention debtors have reduced by 17 crores net during the quarter while there has been a substantial reduction there also has been an increase because of the execution of certain projects during the quarter so the cumulative effect of the receipt as well as the addition is a net reduction of 17 crores during H1.

Our gross current assets have reduced to 39 crores over March 2013 and by 86 crores over September 2012. Similarly there has been a reduction in gross current liabilities too so when we say that we are focusing on improving the quality of our balance sheet it can be evidenced by the reduction in both the GCA as well as the GCL figures.

Well we had an hit of 20 crores in H1 due to the rupee depreciation and this hit was an actual hit which has been taken into the P&L account because we have repaid this foreign currency loan during the quarter and replaced it with a loan in Indian rupees but this has actually resulted in a decrease in the profitability of KBL during H1 because out of the total profitability the negative impact is 20 crores because of this hit that we took on the foreign currency loans that we had taken in February of 2013.

Looking at the total revenue there has been a fall of about 10% compared to the previous year from 920 crores to 828 crores but the good thing is that the sale of manufactured products has actually gone up to 62% against 55% of H1 of last year so again here it is the quality of the revenue that is better than the quality of the revenue last year.

And the profit before tax is 19 crores against 31 crores of H1 in the previous year but if we remove the hit of 20 crores of the foreign exchange borrowing the operating level profit is higher than H1 of the previous year despite being reduction in the revenue by about 10% so from that perspective the operating results are definitely positive and we see that our focus on improving the quality of the product business vis-à-vis the project business and our thrust on improving our working capital is taking us in the right direction.

Slide 12 gives a comparative picture of the key financials which has September 2011, September 2012 and September 2013, half-year ended numbers as well as the year ended, March 2013. If you see the income has dropped to 830 crores in September 2013 and the PBDIT is at 50 crores, the PBT is at 19 as I have already explained in the earlier slide but that is mainly because of foreign currency hit and because of that the ratio is also little lower than what they were in the previous year.

If you look at the balance sheet numbers on a standalone basis you will find that the total assets which were 1,132 crores on September 2012 have dropped to 1,053 crores in September 2013.

The gross current assets have also dropped from 1,532 crores to 1,446 crores and the gross current liability is from 972 to 948. The net current assets from 562 to 498 and the borrowings from 354 to 265 so all this are basically evidencing the improvements as far as the quality of the balance sheet is concerned.

On a consolidated basis because of the drop in the revenue of KBL the total consolidated revenue is also lower than that of September 2012 numbers so also the profitability numbers and the percentage profitability numbers. But if we compare it with September 2011 we should remember that September 2011 had the profit on sale of investment in subsidiary company Gondwana which was to the extent of 35 crores in so the September 2011 numbers have to be reduced by 35 crores for apple-to-apple comparison.

The balance sheet on a consolidated basis over here there has been a slight increase as far as the total assets is concerned. The decrease in the current assets and current liabilities has not been as significant as it had been for KBL but by the year end we would definitely expect to see an improvement in these figures moving ahead because as you know primarily most of these results are dependent upon our international subsidiary which is STP pumps and our international subsidiaries close in December and normally Quarter 4 invariably happens to be a better quarter for all the international subsidiary companies.

That is all as far as our presentation is concerned. I now throw the floor open to questions that any of you may have and we will be glad to answer them. Thank you very much.

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 telephone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request you may do so by pressing "1" on your phone. Ladies and gentlemen to ask a question please press "*" and then "1" on your phone. We have our first question from Mr. Mahesh Bendre from Quantum. Mr. Mahesh, please go ahead.

Mahesh Bendre: Sir in the second quarter the subsidiary performance seems to be declined to 98 crores compared to probably 219 crores. Why the substantial down fall?

Umesh Shastry: You are talking about the income, right, Mahesh?

Mahesh Bendre: Yes.

Umesh Shastry: Okay. First I would like to apologize because there has been a slight mistake as far as the income number which was reported for Q1 is concerned. In Q1 we had actually reported 281 which actually should have been 181 and not 281. So the income in Q2 is not 93 it should be read as 193 crores.

Mahesh Bendre: Sir and the profitability is also still negative on the subsidiary side, which subsidiary is responsible for this?

Umesh Shastry: Actually in Quarter 2 we took a major hit in domestic subsidiary company which was Kolhapur Steel Limited. There had been a lot of rejections. We actually took a hit for some of these pertaining to the previous year but we took the hit of that in Q2 and we would believe that this is only a one time aberration which has happened as far as Kolhapur Steel is concerned. As far as other subsidiaries is concerned there is nothing really to worry about but the hit we took in Kolhapur Steel was close to about 2.5 crores which affected the profitability for the subs all put together.

Mahesh Bendre: Sir looking at the order book position for the past many orders one observation is that Irrigation order book is consistently declined and over the last many quarters. It is currently around 1,100 crores and we have seen consistently a drop of around 160 crores on an average per quarter so if we go by similar rate going forward probably by year end your order book would be around 1,000 crores so basically is it fair to assume that majority of the orders excluding the 700 crores of the Andhra orders will get executed in the current year going by the rate what we are executing now?

Umesh Shastry: As you know our CMD had actually answered this question in the last quarter also that we are willing to move ahead and complete these orders to the extent possible but there has to be a reciprocation coming in from the other side as well. And what we find is that the reason why these orders are not getting completed at a quick pace is because the governments customers are on the other side don't seem to be in a very great hurry to get the orders completed. So to answer your question, yes, we would love to have these orders complete it during the year but that depends upon the willingness of the customer to get these orders completed as well as pay the money so that we can go ahead and get these orders executed and completed.

Management: Especially in Andhra Pradesh we see that even though we are in a position to supply the government itself is saying that don't supply right now because of the mess that the whole government machinery is in.

Mahesh Bendre: But sir given our track record, I mean the order book is consistently declined, I mean are we comfortable with this kind of execution on the irrigation side?

Management: You know there are some projects which came up for tendering but we found that the payment terms are ridiculous. If I tell you, you will laugh. The Government of Orissa floated a tender which was for 700 - 800 crores and the tender condition said that as soon as you supply the equipment you will get only 39% money and then subsequently you will send the material and so which is like we told the Orissa Government that we are not going to invest in your project so right now some of these EPC contractors have taken these contracts. So we will be supplying to them at an appropriate time with our own payment terms.

Management: I think what we have been saying for the past few quarters is that we have been selective with the orders and we want all of them to be cash positive. So if the order book actually reduces we are not that worried because we don't want to get into a kind of trouble that we were in earlier by back rolling the projects of other parties. When a person who wants to put up a project is ready to paper his own project I think you will see us participating.

Mahesh Bendre: Sir the last question is the order inflow from the subsidiary side seems to be very strong. It has grown by about 75% from 200 crores to 357 crores so any specific areas where the order is coming from?

Umesh Shastry: Kirloskar Brothers, Thailand; Kirloskar Brothers, Europe and SPP, all of them seen a good rise so it is not any particular international subsidiary. I think all are combination of all of them which is good because it also means that we will have a healthy order book starting in their next financial year as well.

Moderator: Thank you sir. We have our next question from Mr. Balachandra Shinde from Baltiwala and Karani. Mr. Balachandra, please go ahead.

Balachandra Shinde: Sir regarding with the sale of execution as we have seen our project business have almost declined by 30% - 35% and the product side have stayed flat for Q2. Was our margins better off because of the lower execution of the project side or what?

Umesh Shastry: No actually the margins have definitely improved because the product sector business has grown and the mix of the products in the product sector has also been to our advantage because the manufactured products sale and the plants having a higher volume as far as the overall mix is concerned. The RM-SP for the raw material to sales percentage has improved which has resulted in a higher contribution giving us a better profitability.

Balachandra Shinde: That is regarding our own legacy orders. Is there any way for us to drop all these orders or means we have to continue to take it on our books and continues with these orders whenever the government will say. Obviously these will be at a higher cost over runs but we will be in a scenario where we will come out clean from these orders and we can start out with a new clean slate.

Management: You know we have been trying all options, trying to see how we can wriggle out of these orders but as of now we have not found out the way but we are constantly looking out at options where we can go and tell the customer some reason or the other that the project is not being started so cancel the order. But most of these orders are in Andhra Pradesh and you know what is happening in Andhra Pradesh so the issue is still pending.

Balachandra Shinde: Sir I mean to say if the scenario continues then after the elections in FY15 project execution comes out to be better then why executing these orders? Will it erode our margins or we will be able to maintain our margins at the current levels?

Umesh Shastry: We are definitely making a pitch to ensure that if these orders continue and we have to fulfill them there would be some change as far as the terms are concerned because these orders have been accepted may be 3, 4 or 5 years back. Whether that will happen or not is a question today but we are definitely going to make all possible efforts and try and try and convince the authority as to why the situation has changed over the last so many years that would probably necessitate either retendering these contracts altogether or ensuring that there is a price variation, price escalation and change in payment term clause going ahead.

Balchandra Shinde: By when exactly you think these project orders will get executed means like do we see any timeline in FY15 or FY16 these orders will get executed.

Management: Were you there for the analyst meeting last quarter?

Balchandra Shinde: Yeah.

Umesh Shastry: Did you read the transcript? We have covered this many times since we really don't know which way the government is proceeding. It is difficult for us to give you an idea. It comes in the newspapers actually what is happening in Andhra Pradesh.

Balchandra Shinde: I mean to say that if at all in Andhra situation improves than do we see a project execution happening at that time means it will take after that also sometime.

Management: Yeah once who is ready to meet the commitments on that side I am sure that we will go ahead and meet whatever commitments we have made we will also fulfill.

Balchandra Shinde: And sir here onwards regarding the product business what kind of growth scenario you see for next one or two years?

Umesh Shastry: That would remain dependent on how the economy moves over a period of next two to three quarters because if you remember at the beginning of the year we had said that we were anticipating about 10% to 12% growth in the product sector but H1 to H1 you will find that it has not happened because the economy has not moved in the right direction so even though we would like it to move we will definitely move in line with the way rest of the country and rest of the economy is going. So our wish is definitely to see atleast a 12% kind of growth but today looking at the overall macroeconomic situation it is very difficult to put a number to your question.

Balchandra Shinde: And sir good monsoon, how much will it help for product business out of total? Will it help or?

Umesh Shastry: It does help. In fact our distribution sector or the dealer business has grown as compared to the previous year in the product sector business. So there has been a growth in that business.

Balchandra Shinde: Okay sir so the growth major will be in the Distribution sector because of the monsoon.

Management: Because of monsoon. That also on the Agri part of the distribution part of the sector.

Moderator: Thank you sir. We have our next question from Mr. Ram Hegde from Primus Investments. Mr. Ram, please go ahead.

Ram Hegde: Sir could you just come back on the subsidiary level. What exactly was the issue I mean we understand that part better. The revenue decline you said there was some error in Q1.

Umesh Shastry: That's what in Q1 we had actually reported 281 crores income it should have read 181 crores so if we reduce that from H1 income you will find the income in Q2 is actually 193 and not 93.

Ram Hegde: My second question was if you look at the subsidiary on H1 level it seems to be running at a loss of around 6 plus 7 around 13 to 14 crores. Just curious what are the parts which are underperforming there? What's the outlook on SPP? I mean could you just throw some more color there.

Umesh Shastry: This loss that you are talking about 6 crores is between the subsidiaries like I mentioned a little earlier about 2.5 crores hit is primarily a one-time kind of hit which is coming due to Kolhapur Steel Limited where we booked a lot of rejections during the particular quarter and the other losses are something which has just happened because there is no adverse impact or anything of any particular issue. It is just that the overall situation was such that many of the orders which were dispatched were of not a very high profit kind of orders but again as I mentioned at the beginning of my speech while going through the slides which we have uploaded Quarter 4 generally is a good quarter for our international subsidiary operations because that is our Quarter

3 and that is their Quarter 4. So you will definitely find that there is a substantial change in these numbers over a period of next one quarter. And we see this trend not, normally every year where Quarter 4 of the international subsidiaries sees a sea change as far as their profitability is concerned.

Ram Hegde: If I look at a 1H to 1H basis, you have gone from the profit at the subsidiary level to a loss. What you are implying is you know last year if I recollect full year the subsidiary has contributed close to Rs 40 crores at the PBT level. Given that you are starting with this sort of a headwind do you think you will be able to at least maintain profitability at the subsidiary level I am talking.

Management: Most definitely.

Ram Hegde: Could you just quantify on the Kirloskar Construction part. Now that is part of Hematics but what are the sort of losses that books specific on Kirloskar construction and what is remaining there in terms of all execution?

Management: You know unfortunately we have not been able to move ahead as far as Kirloskar Constructions, there were remaining two projects are concerned as we have been telling you about because again the customer has really not shown a willingness for those two projects to move ahead. So there has hardly been any billing in Kirloskar Construction during this particular quarter and we had actually a loss of about Rs 5 crores which was booked in Kirloskar Constructions during this entire H1 because there was hardly any billing which was also up to the tune of maybe about 4 or 5 crores. That is about it.

Ram Hegde: And how much is remaining now finally?

Management: The total amount of remaining revenue is approximately about 18 crores, out of which 5 crores is executed so about 13 odd crores is remaining. And we had anticipated we will complete that in each one. But like I said those two customers are still not showing willingness to move and well we really do not know how much more time it will take to execute this 13 crores off these two orders.

Ram Hegde: On the SPP could the management throw some color in terms on a medium to long term business. How do you see that the things have set up in terms of operations and all of that. How is that coming about?

Management: The Company is growing; the orders are also coming in quite well. It is doing well across all the geographies and like you said in America we have just opened a new plant and we are getting good orders for America from the rest of SPP also because as you are aware FM/UL fire fighting pump sets is one of their strengths and most of the components are available much cheaper in America than anywhere else. So that plant is actually turning out to be quite a source of strength for us in doing business globally. So SPP, South Africa, is also doing well. I think they have also had good growth in the last 6 months or 9 months and in South East Asia also they seem to be picking up good orders n China though increasingly we find that China is trying to localize large amount of off shore fire fighting sets. But going forward it seems to be quite well set.

Ram Hegde: And lastly on the product business again some color in terms you know given that the macro still seems to be weak. How do you see the future planning are done on it the next 6 months, let us say slightly longer term, both in terms of top line and in terms of your ability to hold margins.

Management: On the product sector you know actually the second half is always better because distribution is the large part of the product sector and their season is actually December, January and February. So we are looking forward to seeing some growth over there. We expect that on the industry side we will pick up because there was a hick up in the first 6 months but that seems to be resolving itself. On Building and Construction sector is growing. Oil and Gas is actually less because last year we executed some 8 or 9 large fire fighting sets for ONGC. And that order was not there this year. But what they have been able to do is, they have been able to get business consistently throughout the year. And not for big ticket items like they did last year but consistent business. So I expect that over a period of the next few years, this Oil and Gas sector also will do well.

Ram Hegde: And in terms of your market share position on the product side across the industrial side and all of these, is it steady?

Management: Yes it is very steady.

Moderator: We have our next question from Mr. Kamlesh Kotak from Asian Markets. Please go ahead.

Kamlesh: Sir just wanted to have some more color on weak segments we get the order intakes and which segments are showing pace in terms of execution, can you please help us understand that better?

Management: The order improvement is definitely there in the product sector. So there are hardly any order intakes in the project sectors but you know the Distribution sector, the Industrial sector, the Gas, Oil and Defence, Building and Construction the order intake continues to be good. In fact we have already said as you see in slide 10, the orders which we have received in Q2 are better than the orders which we received in Q1.

Kamlesh: And on the execution side on particular Power and Irrigation and Water side?

Management: There are hardly any orders. Irrigation we have not taken any orders, water there has been a few orders and power also the order inflow has been hardly anything because of the overall situation the power sector is in.

Kamlesh: So do you see any improvement at the ground level across the factors in terms of the pipe line building up. How you see the inquiry levels may be from now two, couple of quarters down the line?

Management: It depends on how the economy moves.

Kamlesh: But as of now things have not changed much as it was in the last two quarters may be or is it worsened?

Management: In Quarter 1 we have 278 crores worth of orders and Quarter 2, I think it is into 332. So hopefully, things work out well I think possibly elections are playing a large part, policy is another issue and especially with regard to the power sector. So hopefully that will grow up, continue to go up.

Kamlesh: Sir, can we look forwards to sustain kind of a double digit margins at EBITDA level like we had in this quarter may be.

Management: You know our board will obviously want to us to do that as well, there are lot of other things so we try to explain to them like, irrigation sector not moving and power sector issues so we will strive to do whatever is possible to the best of our ability.

Kamlesh: Sir we come to understand from the media that they are quite many number of orders that have been released in the water space by Rajasthan and some other state Governments. Have we also got some part of it or how?

Management: Yes we have got some of which you know where we have accepted their terms, they have accepted our terms, the better way of saying it.

Kamlesh: So they would be EPC orders or how?

Management: No they are all product orders. We have worked with EPC contractors and we have set the terms under which we will work. So some of the orders have come now.

Kamlesh: And in Forex loans, any further loans scheme from the overseas market?

Management: Yes there were a total of 112 crores of foreign currency loans which have been completely switched over to Indian rupee loans. This was for working capital but we do have Forex loans for capex which we have taken more than 3 years back. But this was hedged at that point in time at Rs 46 to a dollar.

So when I repay it, the last instalment in March 2014, I will still be repaying at Rs 46 to a dollar only.

Kamlesh: Can you help us understand the utilization at the two product facilities. The Coimbatore and Ahmedabad are there stabilize and how the insulation and utilization are now moving?

Management: Hopefully the season will be now, the next six months is the season. There should be showing at least for 50-60% more production than last year.

Kamlesh: From utilization what it could be in terms of the

Management: Well the utilization in Coimbatore is around 65-70%, Ahmedabad would be 55-60% and above.

Kamlesh: And Sir leading towards Andhra power side, out of the order book do you identify any orders which are really slow moving or stalled orders across the overall orders that we have?

Management: The power sector orders are moving very slowly.

Kamlesh: Do we have any visibility in terms of how or what time and when they will be executed over or still they are treated as stalled just for the time being?

Management: They are moving but the pace of movement is very slow. It would not be at the kind of pace that which you know, it goes originally every sort and at the pace which we would like those orders to get completed. Because the moment the customer pays us a certain amount of money, we are fulfilling that part of the delivery. So that is how it is going on. So liquidity is the primary reason why these projects are moving at a very slow pace.

Kamlesh: And most probably all this would be in private sector?

Management: Yes all would be private sector. We do not have any issues with NTPC or NPCL.

Kamlesh: So Sir in the light of what you said in terms of the execution not moving that great way and overall weakness prevails in the economy, order book also is one time book to bill. So we can continue to see this kind of a trend wherein the top line growth may not be there. There may be some de growth and decay and we can improvise on the margins at least. Could we summarize that Sir? And that could also spill over to FY15 as well going by the run rate of the order intake and the execution that we have.

Management: You know it is very difficult just before the election. I hope you remember the slide number 2 that is there in the presentation on forward looking statement. We are very queasy about making such statements because we really do not know what is happening. We are trying our best to see, like you know we have been saying for the past 8 or 9 quarter. The idea is continuous improvement of the balance sheet rather than the top line.

Kamlesh: And still any major scope in terms of improving that Sir. Balance sheet improvement any further we can improvise?

Management: Definitely.

Kamlesh: Any traction in order Sir African or other markets, other than SPP which you talked about.

Management: At the moment I do not think there is anything going on over there.

Moderator: Thank you Sir. We have our next question from Mr Samir Rach from Reliance Mutual Fund. Samir please go ahead.

Samir: Can you just provide some color on our exports in Q2 first and overall?

Management: You know Samir we have been saying this exports we are only meeting to our International Regional Officers at transfer price over a period since the last two years or so and they in turn sell it to the end customers. So if you see only KBL's export number, it does not look very high but if you look at the overall revenue because of the sales from the International Regional Offices to the end customer, the total consolidated revenue would be much better. So just looking at the KBL's exports you know as a standalone number really does not make any much sense.

Samir: But the way the rupee at level at which it is, we have export prospects improved significantly first.

Management: I repeat, we are just selling it to the international region at the transfer price so whatever is the rupee depreciation gains, on the transfer price we have got, but nothing more than that because they in turn would sell it to their end customers. When they are quoting then we will see that difference.

Samir: So has our competitiveness improved significantly because of the rupee?

Management: Yes of course.

Samir: So going ahead can we see much better prospect, I think you already highlighted some part of it when you replied that question on SPP?

Management: In fact you will find a subsidiary performance going up significantly at the end of the year.

Samir: Is it possible for you to give six monthly performances, at least on major subsidiary in terms of sales and profits?

Management: We would not normally like to share that at this point of time.

Samir: On your slide 5, you may sell out this agreement which you signed with Lavalin of Canada, so does this offer open up some significant opportunities for us in terms of….

Management: Yes it does, it is a framework agreement and we are one of the three pump manufacturers with whom they have this agreement. So they have now started forwarding us the inquiries.

Samir: So how large this opportunity could be?

Management: It is very difficult to say.

Samir: So lastly on this unexecuted order book which we have, suppose today is overall inflation rate and all, can you provide for all losses as of September or if we were to execute these orders today what kind of losses we need to provide on this unexecuted order book.

Management: As per the accounting standards we have to recalculate the cost of the projects at the each month end and provide it at the end of each Quarter so we are definitely re calculating the cost of the project and whatever the incremental cost there have been, so all those have been adequately covered in our profit and loss because the auditors will not sign off these statements anyways without the requirements on the accounting standards getting fulfilled.

Samir: Within the first quarter and the second quarter there is no significant increase in losses it seems.

Management: You are absolutely right on that front.

Samir: So this Quarter any sense on an amount which you would have provided on that account? On this increase in cost?

Management: I cannot tell you exactly how much it is because like I said it depends on, you know, it is a combination of all the projects put together but like you said the variation between Q1 and Q2 is not very significant.

Moderator: We have our next question from Mr Vinay Rohit from ICICI Prudential. Vinay please go ahead.

Vinay: Sir we have 10 crores of interest expense this quarter, right, on a standalone basis? On a 265 crore loan so just wanted to know is it not pretty high? Does it include anything else also, apart from interest expenses?

Management: Normally the interest on a finance cost is normally clubbed together so there would be an element of bank charge, the bank charges and the interest on LCs, BGs, etc. which would also be coming into that account.

Vinay: Sir if I look at the segmental statement, there is pump revenue and then 'others'. So what does this 'others' include?

Management: Other than pumps we have valves and we have motors, so all that goes into the 'others'.

Moderator: Thank you Sir. We have our next question from Mr Mahesh Bendre from quantum. Mahesh please go ahead.

Mahesh: Sir this a follow up question. Is it possible for you to share the overall contribution from the project sales during this quarter?

Management: Yes, I can do that. The total project revenue in Quarter 2 was 157 crores and product sector was 237 crores. The H1 is 320 crores for projects and 497 crores for products.

Mahesh: If we assume that the contribution from the product business goes up as we are not accepting any major project orders and currently executing the majority of orders so with the contribution of the product business goes up, there is a scope for margin expansion going forward?

Management: Definitely the margins will grow as the product business grows but you must remember at the same time that we have the old projects which we have to complete. So for the execution of the old projects though we have provided for all possible cost and losses as of date, the more the time which is taken for completing of the projects, there is always a variable or an unknown which may hit the project sectors which could probably cause a deterioration in the profitability going forward even if the profits on the product sectors actually increase.

Mahesh: What could be a tax rate once you have assumed for the current financial year?

Management: Actually right now the tax provision has been made under the MAT provision for the H1 but going ahead by the end of the year we will recalculate but I think you should just safely assume probably 30% and go ahead as of now.

Moderator: We have a last question from Mr Ram Hegde from Primus Investments. Ram please go ahead.

Ram Hegde: Just in terms of the project losses that you have booked in 1H, could you give us?

Management: It is actually more or less flat because in Quarter 2 we have booked 15 crores of loss and the total H1 loss is 30 crores. So respectively 15-15 spread over both the quarters.

Ram Hegde: And the way it is running it seems to be, going to be higher than last year. Is that right or would you think the losses at opposite level would sort of come up a little bit in the second half?

Management: If the power sector segregation improves, we could definitely have positive results. But we also have a few projects in the water sector which are going to complete the POC, the percentage of completion because of which we will have some positive effect in H2.

Ram Hegde: And the other question was, on the balance sheet shrinkage because all the Kirloskar Construction, that is the sort of merger to Hematic, would have been any write-off of investments which has led to that?

Management: Nothing. The improvement in the balance sheet is because of measures taken on our part to reduce inventory, reduce debtors, reduce creditors so it is a constructed effort to basically reduce the working capital.

Ram Hegde: Because there was some, I think 70 crores plus investment from the standalone at least into construction with equities I think so. It should have to be netted off at some point of time.

Management: I will come back to you on this. But as far as I know it has already been done in the last year.

Ram Hegde: But the formation happened now, this quarter presumably.

Management: It was basically the merger of Hematic Motors into Kirloskar Constructions. As far as KBL is concerned, whatever is the investment which was there basically of Kirloskar Brothers in Hematic, is basically now transferred to the new entity which is Karad Projects and Motors Limited based on the valuation which was done for the new company because of this merger which was to take place.

Ram Hegde: On the irrigation side, if I recollect, close to I think 700, 800 crores of the irrigation was limited to AP. That is indicated is not moving at all and one looks at business mix from here on, does not mean that you do not add further too much on irrigation side. Is this margin that you have reported and this was not the best of the quarters for you. At least on the standalone, is this sort of a 'the double digit margin'? Is this sort of starting off and would remain at this level?

Management: It is a tough question to answer. It is definitely our desire to have those kind of margins and depending on the situation the customer, the payment terms, and the price, the different factors. It will probably determine the end result.

Moderator: Thank you Sir. I would now like to handover the conference back to Mr Umesh Shastry for his concluding remark. Over to you Sir.

Umesh Shastry: Thank you Ladies and Gentleman for listening into our earnings call for Quarter 2. I wish you all a pleasant evening and a Very Happy Diwali. Thank you.

Moderator: Ladies and Gentleman that concludes KBL's Earnings Call for today. Thank you for participating. You may all disconnect now. Thank you.