KIRLOSKAR BROTHERS LIMITED - EARNINGS CALL - Q4 2016 - 17

25th MAY, 2017 4:00 – 5:00 PM

Moderator: Ladies and Gentlemen good evening, thank you for standing by. Welcome to Kirloskar Brothers Ltd. fourth quarter of the financial year 2016-17 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 for the period ending March 2017.

All the participants are requested to refer to the presentation which is available on the company's Web site www.kirloskarpumps.com before the meeting. As a gentle reminder during the duration of the presentation, all participants are in the 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 may I advise that this conference is being recorded today. I would now hand over the conference Mr. Mate. Over to you sir.

Mr. Mate: Thank you ma'am. Before the start of the presentation, let me read the disclaimer statement.

"These materials may contain forward-looking statements regarding Kirloskar Brothers Ltd. (KBL), our corporate plans, future financial condition, 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 may be materially different from those expressed in such statements. Factors that may 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 and 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 the date hereof"

Now coming to sector highlights. First is irrigation sector, for the year, order booking has surpassed Rs. 400 Cr. This includes major orders from countries of Senegal and Suriname, besides other local orders like Penganga project, Yettinhole LIS project, Garoth and Mohanpura LIS etc. In power sector we received break through order for main boiler feed pump for 700 MW project. Received order for 400 MW project Bibiyana combined-cycle power plant in Bangladesh. We successfully commissioned four numbers of CW pumps at Balingasag Thermal Power Project in Philippines. And coming to product sectors, Oil and Gas sector obtained Engineers India Ltd's approval for KEPL drive turbines for API market., and also got order for drive turbine from BHEL for Indian oil Haldia Project. This sector also received orders for BS IV project for Indian Oil Corporation and Chennai Petroleum. In Marine and Defense sector, we successfully completed design and supply, erection, and commissioning of cooling piping System for ISRO. We also completed design, supply, and commissioning of FMUL, BHR 34C and other smaller and medium Pumps for Goa Ship Yard. In industry sector, sale of our pumps for process application increased by over 30% over previous year. In Building and Construction sector, we achieved sale of 246 sets of HYPN registering a growth of 25% over previous year, and we also executed order for second containerized fire set.

On project execution side, we physically closed 9 projects and financially closed 17 projects.

Our exports during the year were of Rs. 167 Cr. Some of the major orders executed include an order from a Spanish company for Saudi Aramco project. This was for 8 nos of Fire Water Pump Sets, Large Split casing pumps for a project in Turkey, and Six CVP pumps for BMA Thailand. We got repeat order from Al Majis SOHAR Oman for Vertical Turbine Pumps.

Our Small Pump Business recorded a growth of 13% over previous year. In March we achieved highest number of pumps dispatched from all plants for small pump business. We also started channel financing scheme for our dealers and we launched some additional schemes for customer support, that is 'We Care' Portal and we appointed additional 54 authorised service centers.

In Valves, we have manufactured largest size, multi-door non return valve of 2000 mm weighing 48 tonnes and 1000 mm Knife Gate Valves. We developed 1200 mm fabricated flap valves.

Our pending order position as at Q4 end, i.e March end was of Rs. 1513 Cr. Quarter wise and sector wise breakup is given on page 7 of this presentation. It indicates that the order book which was declining up to Q3 has now again increased in Q4 in spite of higher dispatches in Q4. Our order book does not consider orders which are kept on hold or where we have not started working as requested by the customer, the values of such orders are given at the end in the foot note.

Coming to financials, this is the first year where the financial statements are made as per new accounting standards called as IND AS. Also previous years' figures have been regrouped to make them comparable. However, figures for earlier three years i.e. 12-13 13-14 and 14-15 are as per old Indian GAAP.

Revenue from operations in the current year has increased to Rs. 1823 Cr from Rs. 1721 Cr, registering a growth of 6% over the previous year.

As far as project sector sales is concerned, it continues to be 25% of total sale and product sector sale was 75% of total sale. Out of project sector sale, again 66% of sale came from sale of products, where there is no civil work or other such activities. The project activities account for less than 10% of revenue for the company. Company continues to have a policy of dispatches, against recovery of money for project business as well as to be selective on booking new project orders.

For last year, composite material cost has come down by 2.8%. Various factors have contributed to this, such as increase in sale of spare parts, better negotiations and change in terms with dealers. Similarly cost of finance has come down from Rs. 38 Cr to Rs. 32 Cr, on account of lower utilization and change in facilities used. As a result of all these, for the year 16-17 Profit Before Tax was Rs. 53 Cr as against Rs. 7 Cr in the financial year 15-16. These figure are after merger of KSL, and as per IND AS, so not strictly comparable with last published annual report. Rise in inventory is Rs. 54 Cr however debtors have come down during this period, and borrowing has come down from Rs. 254 Cr to Rs. 189 Cr.

Consolidated turnover is almost at the same level as Rs. 2657 Cr as against Rs. 2642 Cr in P.Y Turnover of overseas subsidiaries declined by about 10% mainly due to downturns in oil industry on a global scale. In fact, here I have not stated but the decline in Oil and Gas Sector and pump industry was universal and most of the global pump companies have reported lower sales and profits for FY 2016. Total consolidated PBT was Rs. 16 Cr as against last year's loss of Rs. 15 Cr. PBT of domestic subsidiaries including JV company is of Rs. 13 Cr as against loss of Rs. 7 Cr in previous year. International subsidiaries made loss of Rs. 45 Cr as against loss of Rs. 15 Cr. Main reasons are loss made by Rodelta Pumps which was acquired in 2015 which is about Rs. 10 Cr and in SPP, where there was a decline in sales by 16% due to overall recession in global Oil and Gas markets. SPP controlled their cost and achieved small operating profit. However, after considering the foreign exchange loss which is resultant of IFRS norms is Rs. 18 Cr. Major portion of this foreign exchange loss is expected to be recouped in the current year. Total group borrowing were at Rs. 359 Cr as against Rs. 362 Cr.

Refer various figures on page No 11. We have given major Financial Numbers such as turnover domestic and export, total assets, net current assets, investments and net fixed assets for last five years. Next page shows shareholders' funds which includes subscribed capital plus reserves and borrowings. Subsequent slide shows ratios like EBDITA to sales, PBT to sales, PAT to sales and cash profit. Page 14 this gives additional ratios about Earning per Share, dividend payout, book value of share and number of employees. Page 15 is giving figures about turnover, total assets, net current assets, investments for total company on consolidated levels. These figures are for last five years. Page 16 is showing position at consolidated levels about shareholders' funds, borrowings and EBDITA to sales, PBT to sales ratios. Subsequent pages give subsidiary wise details of Total Income, Profit Before Tax, Income Tax, and Profit After Tax. Subsequent pages show within the KBI, subsidiary wise details of income, profit, income tax and PAT. Subsequent three pages are about balance sheets for subsidiary companies and consolidated balance sheet which are matching with final results. Thank you.

Before concluding this, let me tell the major changes in the presentation of accounts. In this year, sales are including excise duty net of cash discounts, trade discounts and other incentives given to dealers and retailers. Similarly in material costs there are changes as compared to earlier years. The indirect material expenses are grouped as manufacturing cost. Similarly, the current year figures are including Kirloskar Systech. Similarly in consolidated accounts also these changes are incorporated. Thank you.

Now we will take questions from investor one by one.

Moderator: Thank you sir. Ladies and Gentleman we will now begin the question and answer session. If you have a question please press * and 1. Thank you. We have our first question from Mr. Bhalchandra Shinde from Anand Rathi. Please go ahead sir.

Mr. Shinde: Good evening sir, regarding projects, now how many total projects are pending to be closed out, in the next financial closure or physically closed.

Mr. Mate: If you go to the pending order position, which is on page number 7, this would give value of pending project orders. So whatever is the value of order received, less dispatches made or billing made, these are the pending values. So on irrigation the value is roughly Rs.677 Cr. Water resource is Rs. 168 Cr ……

Mr. Shinde: What I meant is you said that you have successfully physically closed some projects and financially closed some projects. That number will keep on decreasing or it will be rolling over as per the order book.

Mr. Mate: It would be rolling over but the overall trend would be decreasing. So whatever project orders are on hand…as we go on supplying the equipments and site work starts then number of pending project nos would increase but simultaneously we are closing the projects where we have supplied pumps in the past. But the rate of closing is more than new projects being added.

Mr. Shinde: In irrigation if you see our order book has been constant over last three to four years. It is like, where we on one side are saying that we are adding up new orders from different countries. I would like to know why our order book stays at these levels where currently it is Rs.670-700 Cr. Is it a cautious approach or its like we don't want to go ahead of above certain levels.

Mr. SCK: As you are aware, we are very selective with the orders, we don't take any EPC contracts in the country and whatever we have taken now, in the last few months, are orders for large pumps for different projects where the terms are advance and Letter of Credit. And I would also like to look at that last line on the slide #7 which tells excluding orders kept on hold Rs. 188 Cr are and orders for which work has not commenced of Rs. 421 Cr in irrigation and Power sectors. So the new orders what we find is, now customers are coming back to us and we are only taking orders for pumps and these are orders that can be executed much quicker. These orders are also split whereby we get paid for the equipment when it leaves the factory and we get paid for the installation and commissioning when that part starts. We do have now orders which are under Line of Credit of Government of India. I think both Senegal and Suriname have been reflected here. And therefore you see the number again going up.

Mr. Shinde: Okay. And so the Oil and Gas, when we say that we have got the order from BHEL and other orders for upgradation, so is it included in the figure with we are reflecting in the pending orders of Oil and Gas and with the other projects which is lined up in different Oil and Gas refineries. How you see that Oil and Gas order book to grow over next one to two years?

Mr. SCK: Oil and Gas is done both in Kirloskar Brothers as well as Kirloskar Ebara. And therefore we say that Kirloskar Ebara drive turbines have been approved for the API market. And that's where the BHEL order comes in from. Projects of Indian oil in Baroda and Chennai Petroleum are for the BS stage IV. So in India the potential is quite good. We are one of the few players in this industry, similarly if I could also mention over here that for Kirloskar Ebara the business is mainly from outside. Almost 70% of its turnover is from outside. So there also is increasing acceptance of KEPL main products which we are now promoting now in a big way for the last two years and has resulted in business. So we see both KBL and KEPL increasing their sale in this field.

Mr. Shinde: And last question regarding SPP pumps, how do you see it outlook wise…how do you see the performance of SPP pumps panning out over next one to two years. Do we see an improvement on the profitability or is it still a distant factor for SPP pumps.

Mr. Alok: Over the last year, We are moving the business back from offshore on to onshore. As you know, where SPP in the past, at UK level used to generate about 8% profitability, we are trying to bring back to that level of profitability or higher. High Profitability was on offshore contracts on O&G side and on the aftermarket, which again was also heavily dependent on equipment's sold in those offshore contracts sold in the past.

Mr. Shinde: So by when do you expect this profitability to come back in SPP pumps?

Mr.SCK: I would just like to point out what we have said in the presentation that with the steps that were taken in SPP, they actually did move back to operational profitability and though they have the projects in the Oil and Gas sector they were on hold. They had to take mark to market losses as per the new accounting rules in the UK. So I expect that this year as the pending orders are taken up and move out of the plant, I expect that we will have better results.

Mr. Shinde: Okay sir, I will go in for further questions.

Mr. Alok: The important perspective, business of SPP UK standalone which generated majority of the SPP profit, in 2014 was about Rs. 620-630 Cr. And last year we were about Rs. 410 - 420 Cr. So that is the drop we saw in UK alone because of the Oil and Gas market.

Mr. Shinde: So by when we expect to go back to our old levels in SPP pumps? Will it be a gradual improvement or we see that because of this new business addition, there will be a significant growth in the SPP pumps.

Mr. Alok: You know, we are expecting supply and growth to get better this year and next year. We should hopefully get back to those golden terms . And that's what we are pushing for the change. The market of course continues to be hard. It is not like it used to be and traditionally it was a big chunk of a business. What I think is that if you are asking from a margin perspective, it will be gradual because it is not easy to offset the Oil and Gas business you know, both offshore and after sales aren't easy. So I think we expect margins to recover over a few years. But the problem in other businesses, we will try and recover within this year or next year.

Mr. Shinde: Okay thank you sir. Thank you very much.

Mr. SCK: Thank you.

Moderator: Thank you Mr. Bhalchandra. Next question from Ms. Renu from IISL. Please go ahead Ms. Renu.

Moderator: No response from the client, we will go to the next question. Mr. Manish from Enam Holdings. Please go ahead sir.

Mr. Manish: Sir, on the projects business, what we are seeing in the current year is that substantial improvement on the profitability side. So do we expect this trend of improvement continuing in the current year, number one and have we probably seen more issues resolved on the legacy projects and have you seen more projects, like one project we have seen last quarter that it was kind of the pumps were moved to a new project, so are we seeing many more such resolutions happening sir?

Mr. SCK: Yeah I think to answer the first question…projects, I would say that the losses are lower than the previous year. The expenses that we book because every quarter we take a re-look at the project and try and estimate what the cost would be to complete them. So that I think we need to do less of. I'll break this into three different answers looking at all the three projects sectors. Water, we have very few projects left which are civil and piping. All the new projects are for products only. So I see that division coming out of problems soon. The next one is Irrigation. Irrigation, mainly the order…the old orders are from Telangana and to a small extent from Andhra Pradesh. Telangana has large plans to execute and complete the project so they are a very actively trying to ensure that whatever equipments they have from all the pump manufacturers and whatever projects are in the incomplete stage, are actively going towards settlement. So I had a meeting with the Irrigation minister where he also…at least I saw keenness in him on this part to look at every single project that is pending and to see that it is closed as soon as possible. In my mind I think also the fact that elections are on in the two and half years and these are large projects that need to be completed and people need to be shown something or the other. Maybe putting some pressure on the powers that we saw, possibly this is going to help us going forward. The last one is the Power sector. Power sector I think possibly everyone knows by 4-5 years, power sector is dead in this country. That was a big sector for us in the past. We continue to do a lot of work outside the country. There are co gen plants Also the old ones are slowly but surely coming to a close. But what I am more excited about is the fact that Government of India now has the plan for ten nuclear power plant units and that excludes one that was already going on which is two in Haryana, so actually there are 12 which they are going to go forward with. Here you know, we historically have been approved there for almost all the pumps in the nuclear power sector. And recently we also received order for boiler feed, so that is really the product offering needed for nuclear power. So we hope that with lead ordering that they are doing, which we have been suggesting for a long time. Because what happens is when you have nuclear power plants coming in one unit at a time, we can't really keep our best people over there all the time because there is not much work. Lead ordering, we believe that many…if we are given the orders, and we hope to be given large number of orders that people will be very excited and people will have many projects because this is now a 700 Mw unit. We have done 500 Mw, we've done 235 Mw, we have also supplied pumps for 600 Mw unit and 800 Mw unit on the thermal side. So I don't expect that as far as track record is concerned or anything that we should have a problem with being able to supply.

Mr. Manish: So do you expect that in FY18 the project losses to come down further substantially or probably turn profitable at the net level?

Mr. SCK: You know, the first slide that we presented are about forward looking statements. And you know I am a very cautious person.

Mr. Manish: Directionally can we expect that losses to decline sir?

Mr. SCK: Then you can see which direction it is going and I hope there are no surprises.

Mr. Manish: Sure sir, and on the products side what we are seeing is that at least on the PBIT level on the segmental numbers what we report, the margins have been under pressure so, is it purely due to competition or if you can comment on that number one and number two also how is the industry growth for the products, both in the small pumps and the industry pumps and how have we done as compared to the industries.

Mr. SCK: You know, on the products side there are a large number of players. And the customers are all under pressure to lower cost as much as possible and as a company we'd like to promote our lowest lifecycle cost pumps which initially are expensive but pay back in 12-15 months. And in India there is a culture of buying the lowest priced even if it consumes more power. I won't take everyones time on this but for the pumps only 6% is the initial cost as far as cost of ownership is concerned and balance is running cost. So we are trying to do that and tell people that you know, they should really be looking at good quality pumps rather than anything else. But having said that we have had growth in the distribution sector which is double digit and on the Industry side also

Mr. Vohra: Bookings have whooped by close to around 25% on the Industry sector. We have also had growth on the Building and Construction sector while we continue to see that the infrastructure is stable but you know, as it was communicated, there are many customers who are also coming back to us. Even if the price pressure point is high. So that has also helped us in continuing with this growth and as far as the small pump business is concerned where we have registered a growth of 13%, now. This small pump industry also has lot of unorganized players in the market, playing down the price points but we you know, with the strong lineage, I mean in-house designing and in-house foundry and in-house manufacturing, in-house engineering have been able to command a premium over these players, and also registered a good growth. But at the same time yes, there has been pressure on the profitability because as we see that the customer demand has been for the lowest product cost but at the same time we have been able to maintain a niche and a premium products and registered this growth of 13% in small pump which is to our expectations, formal data is not available but its more than what has been in the industry.

Mr. Manish: Okay. You used to give revenues on a domestic subsidiaries and on the international subsidiaries so is it possible to share the number for FY17? What was the domestic subsidiaries revenues and international subsidiaries revenues?

Mr. SCK: Those are there.

Mr. Manish: Revenue number is not there, what we have shared is the PBT number.

Mr. Mate: You turn to page 17, you will find that total income, for each domestic subsidiary is given on page 17 and on page 18 we have given revenue for each international subsidiaries. We have given Total Income, Profit Before Tax and Profit After Tax.

Mr. Manish: Okay no problem sir. And on the international subsidiaries, we have spoken about the PBT level losses increasing on SPP as well as Rodelta but there is a third segment in terms of Kirloskar Pompen where the losses is Rs.14 Cr, so if you can explain what is it due to and how do you see that going forward.

Mr. Mate: Kirloskar Pompen includes Rodelta because Rodelta is a subsidiariy of Kirloskar Pompen.

Mr. Manish: Okay. The orders received from Senegal and Suriname, what would be the size of these orders and when do you expect them to be executed?

Mr. SCK: The order from Suriname is about 9.5 million dollars. The order from Senegal is about 36.9 million dollars and that’s why you see the irrigation order board going up so the normal orders have come down, the old orders have come down, the new ones have gone in their place

Mr. Manish: Suriname you said 9.5 million dollars. And Senegal is 36.9 million dollars.

Mr. SCK: Yeah. Roughly it is around that number.

Mr. Manish: And this entire portion will get executed in FY18?

Mr. SCK: What should I say, if wishes were horses, beggars would ride. No it won't be, it will be partly this year, partly next year.

Mr. Manish: Fine sir, last question is on the other expenses, what we see is that the number is still continuing to increase. What we probably thought was that, last year we had very high expenses on the consultancy side and probably this year there is not much then it would see a decline but somehow these other expenses number has increased so, is there any one time or any other such expenses sir?

Mr. SCK: Yeah there are. We have made the provisions for some of the losses that we expect.

Mr. Manish: Would you be able to quantify?

Mr. Mate: Approximately Rs. 28 Cr.

Mr. Manish: As compared to last year?

Mr. Mate: Last year? Rs. 13 Cr.

Mr. Manish: Thank you, thanks a lot. I will come back in the queue for few more questions.

Moderator: Thank you Mr. Manish for your question. Next question from Mr. Ritesh Cheda from Lucky Investments. Please go ahead sir.

Mr. Ritesh: My question is on the profitability of the projects business, so if the profitability adds to improve from here on, what are the key milestones that you have to achieve, if you can throw some light there. And similarly on the international business side, one of the reasons highlighted for drop in profitability was that top line decrease itself.

Mr. SCK: Yeah,

Mr. Ritesh: So if the profitability has to be improved then what are the milestones to be achieved?

Mr. SCK: I don't know what you mean in terms of milestone. But I would rather say that it was in 2007 that we realized that the project might be getting into a problem the way we were doing it at that time which was taking large EPC contracts. And therefore since 2009-2010, 2009 onwards we took orders only for products and even in those cases we ran into a problem because projects just did not move afterwards.

Mr. Ritesh: When was this stage in the last three years? My question was pertaining after this improvement what you have shown in FY17 last one and half years

Mr. SCK: The only milestone would be the large orders for products. That we are only taking large orders for products so as more and more customers come back to us you will say that profitability will improve.

Mr. Ritesh: Which means magnitude of business or you know, more business executed is the only way out to improve the profitability of the project.

Mr.SCK: And closure of the old ones.

Mr. Ritesh: And closure of the old ones? So closure of the old ones, does it bring down the cost associated with it or the closure of the old business how would it influence your profitability?

Mr. SCK: As long as these projects are open we have to maintain you know, whatever expenses are required to be done at sites and whatever financial implications that are like bank guarantees, those have to be taken care of, so when these projects close, our liabilities will be eliminated.

Mr. Ritesh: So basically bring down the cost heads on those projects.

Mr. Alok: I think we should add one more point which is that those projects were fixed priced contracts because they are meant to be finished within that year or two years like they would have been before YSR Reddy passed away.

Mr. Ritesh: So those projects have a certain revenue line which keeps on recurring and cost line which keeps on recurring?

Mr. Ritesh: So can you quantify…or is it possible to give a certain idea as to the extent of this difference which you keep on booking or let's say you booked in FY17?

Mr. Mate: Actually in FY17, whatever project revenues we have booked, I would say 66% has come from sale of products which we sold to other EPC contractors and not any project execution. And whatever are the pending orders, whatever expected revenues, and expected costs we compare quarter by quarter and there are no cases where more cost would be incurred than revenue

Mr. Ritesh: So basically 30% of the projects business is EPC or ESD.

Mr. SCK: Yeah.

Mr. Ritesh: And as of now the last year you did have a deficit or let's not say deficit but you did have a loss on that corresponding

Mr. Mate: At gross level compared to the direct cost incurred, the sales value was more. What you can see in our segment wise results, there is 14 Cr of surplus of revenue over direct cost for those projects.

Mr. Ritesh: So then which means that gives me an indication that the only way out to improve the profitability of this business, is either you cut down cost or you increase the volume of the business. These are the two way outs.

Mr. SCK: Yeah these are the two ways.

Mr. Ritesh: Increase in volume of business is dependent on what activity happens in the macro…what happens in the economy, what happens with the businesses but is there a way out that you can cut incremental cost which is probably you know, what company might have written behind.

Mr. SCK: Yeah we have cut a lot of cost. from our projects business I don't think we have even…the number of people we had on that side is way down but we still have a facility that is capable of making 20 large pumps a month and the current load is around 8, 9 10, it used to be 4, 5 but now it is going higher and higher. So which is why you see that the factory overheads, the personal overheads. The factory overheads can now distribute over a larger number, the number of people is lower, so actions to reduce cost and also through design have been taken where we are reducing the material cost of these products. So my expectation is as the economy picks up, as the company's acceptability in the global market increases, we will see this change taking place on the large pumps side.

Mr. Ritesh: So it is fair to say as of now that old projects' influence on the P&L is lower

Mr. SCK: It is much lower than what it was would be the right way of saying it.

Mr. Ritesh: My second question was on the international subsidiaries reported. What could be the Milestones to achieve profitability for international business.

Mr. Alok: I think international subsidiaries are concerned, there are different companies in different areas. Especially SPP USA is profitable and you know, in this context we don't need to talk about that. The issue is SPP UK which used to historically generate majority of the international profits. And it has come down substantially due to fall in offshore markets. As explained we already cut cost in the business field. The revenue of SPP UK standalone like I said, was down from Rs 610 -620 Cr to last year between Rs. 410-420 Cr. So the fall in contribution and profits was tackled by reducing costs. We further reduced cost this year as well. In UK mainly we were able to find that there could be a lot of large oil and gas contract, and the really the oil and gas contracts are issued in dollars and we are manufacturing in

British pounds, we obviously have a lot of hedges and we don't buy a plastic hedge but we buy a contract hedge for every contract. And because of Brexit last year the pound depreciated by 35%. And in the past as per UK accounting practice we could bring that loss what we call mark to market loss into the balance sheet. But as per IFRS we need to take into account these loses in P&L account we see a big dent there in the UK because of that. As far as Rodelta Pumps is considered we bought it out of bankruptcy. One of the benefits we got it at a very good price but downside was it was closed. So we have to put some efforts and money to restart it and we expect to bring it back to normal. But we are optimistic of Rodelta. But we need to grow the volume of the business to get into profitability which we are working on this right now. The Thai business is profitable and is making money. The other that is not making money is South Africa. And a combination of issues. More than anything we have an issue with black empowerment enterprise rules where the government is forcing people to give 51% of the shares to Black entrepreneurs. And as a share of Black companies you get 40% price premium in the government. So in 2014 or 15 we were able to skip the issue by taking orders from private players in the market. But now the government is forcing even the private companies in South Africa to buy from black companies, by saying they don't want issues with licenses with vendor base which is 50 or 60% black empowered. So have a slowdown, we are working up with lawyers to have a via media solution to ensure that we are compliant and we have a good control of the business. So that is the main reason for the big slowdown there and 2016 .So we have two entities causing issues right now.

Mr. Ritesh: SPP and Rodelta?

Mr. Alok: Rodelta and business in South Africa. SPP UK is in operating profit and we expect this year the order book is significantly high, it is quite a bit high than the last year. So we're hoping that it is better this year. I think it is not that much of an issue. SPP UK is not having operating loss. We have a loss of Forex.

Mr. Ritesh: Forex number doesn't come this year right?

Mr. Alok: Forex number is seen found in this loss that you have seen. That 18 Cr is the Forex loss.

Mr. Ritesh: The FX loss is there a possibility of a recurrence of FX loss in subsequent year?

Mr. Alok: No. I don't see that because the new contracts have been taken at the end of 2016 post Brexit. So I don't expect it be a significant FX loss unless there is some new phenomenon going on in the world. But that said, FOREX loss is a mark to market loss. So these are not actual losses. So when we dispatch the goods, that loss should get reversed. Out of 18 Cr very little could be real loss.

Mr. SCK: I think what Alok was saying that these losses are mark to market losses which have to be recognized in the end of this year. As the contracts are executed, in the current year we expect these losses to reverse or to be recouped.

Mr. Ritesh: Thank you sir.

Moderator: Thank you Mr. Ritesh for your question. Next question from Mr. Salil from Edelweiss. Please go ahead sir.

Mr. Salil: Good evening sir, just want a view on solar pump. Some players are saying there are a lot of activities are going on like this so are you participating in those contracts, just wanted your view on that.

Mr. SCK: Yeah there is a lot excitement about solar pumps. Kirloskar Brothers has been making solar pumps since 1985. And we have a full product offering. As you are aware we participate for tenders where the terms are good, for manufacturers and therefore each one is carefully looked at. Having said so we in the last year have also supplied thousands of solar powered pumps.

Mr. Salil: So these pumps would also include a panel?

Mr. SCK: They are with panel and with inverter and everything else.

Mr. Salil: Okay. So how much portion would be there in our revenue from solar?

Mr. SCK: Last year it was Rs. 10 Cr or so.

Mr. Salil: Okay sir you mentioned about the opportunity in nuclear segment, so what would be the value of the opportunity for Kirloskar?

Mr. SCK: Value of Pumps in any case as I have said earlier, is between 1 and 1.5% of the total project. So I think they have mentioned some Rs. 60,000 Cr. It is the opportunity for Indian industry so 1 to 1.5%.

Mr. Salil: What was the revenue reported by Kirloskar Ebara last year?

Mr. Mate: Revenue of Kirloskar Ebara since we don't show it over here, is about Rs. 177 Cr and they also recorded a profit of about Rs. 12 Cr.

Mr. Mate: since this is not a subsidiary there is not a line by line consolidation. We only take our share in profits in our results.

Mr. Salil: So our share is Rs. 5 Cr.

Mr. Mate: That's right.

Mr. Salil: So there is a swing from loss of Rs. 12 Cr to profit of Rs. 5 Cr?

Mr. Mate: Yes. In our books it is a swing of Rs. 17 Cr and in their books it is closer to Rs. 28 Cr + Rs. 12 Cr. so about Rs. 40 Cr difference.

Mr. Salil: Kolhapur Steel is still in losses so what is the plan going forward? Because you are significantly invested in it for last two years.

Mr. SCK: Kolhapur Steel was bought because in around 2008- 2009 the power sector was moving up. And after Power sector collapsed including the infrastructure in India, they also had a shortage of orders and that's why the losses took place. But now we are seeing that they are coming back. KBL also as we are telling you the orders have increased, the Kolhapur Steel orders have also increased, the bookings have increased, plus Kolhapur Steel also has started talking to other customers to reduce their dependence on Kirloskar Brothers and its subsidiaries. So this year I expect that they will also be surprising all of us.

Mr. Salil: Okay and what could be the effective tax premium in FY18, do we have any credit for losses are sustained

Mr. Mate: No as it is there are no major unabsorbed losses, but current year whatever capex we incur, we may get some tax shield on that. And as you know now that Government is almost waiving off all the tax exemption schemes, various concessions and deductions so it would be normal tax rate. Full tax rate for standalone companies.

Mr. SCK: The finance minister asks if you want too much complicated system or lowered simplified tax rate. We are all for it and so the effective rate that they themselves say 22-24% and that's the kind of rate that we will have with absolutely no exemptions, no special dispensation, favors we are all for it, across the industry.

Mr. Salil: Would GST impact the industry significantly?

Mr. Mate: Today it is difficult to say but we don't see any adverse impact coming to us.

Mr. Salil: Okay but would it be positive to us because there is a lot of unorganized sector

Mr. Mate: That we could reduce various cost, particularly compliance cost it may reduce material cost. How much impact it would be it is difficult to say now.

Mr. Salil: Is there any demonetization impact lingering around even today…

Mr. SCK: Not at all. I think last time we had said. We had impact for about a month. Only the month of November.

Mr. Salil: Okay. So has borrowing reduced in the domestic business so the domestic cash flow has been good but is there a recovery of retention money also in this year.

Mr. Mate: Both. Retention money, better collection of loans and advances outstanding.

Mr. Salil: How much was the retention money recovery around Rs. 40 odd Cr?

Mr. Mate: That s what I think. Recovery was Rs. 46 Cr, but addition was Rs. 40 Cr.

Mr. Salil: Okay sir thank you.

Moderator: Thank you for your question. Ladies and gentlemen there are no more questions and we will conclude the call. Thank you sir for your time.

Mr. Mate: Thank you.

Moderator: Ladies and gentlemen this concludes the conference for today. We thank you for the participation and for using Tata Docomo conferencing services. Thank you and have a great day.