Kirloskar Brothers Limited
Conference call
(April 25, 2014)

Moderator: Ladies and gentlemen, good afternoon. Thank you for standing by and welcome to Kirloskar Brothers Limited Fourth Quarter & Full Year 2013-14 Earnings call.

Joining us today in this conference room are the Chairman and Managing Director Mr. Sanjay Kirloskar; Executive Director – Mr. Jayant 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 March 2014. 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 handover this conference to Mr.Umesh Shastry. Over to you, sir.

Management: Good afternoon everyone. Before we begin with the presentation, I would as usual like to draw your attention to page 2 of the presentation we have uploaded on the website, where you have the disclaimer statements coming in from us. Now, I will generally start with the overall highlights of the company for the entire year. You would have all noticed that the standalone PBT for Kirloskar Brothers is more or less equal to the PBT of the previous year, despite a 7% fall in revenue. Now, this has primarily happened because of our focused efforts at improving contribution and bottomline. You would have also noticed that there is a significant drop in gross current assets and gross current liabilities as compared to March 2013; borrowing has also declined by about Rs. 45 crores compared to the previous year.

Our position on having selective sale, depending upon the customer's financial position continues in the sense, we have been specifically making sales only upon receipt of money from the customers and not otherwise, as we have been continuing to do over the past two years or so. As far as the projects business is concerned, our focus on closing up old projects and recovering retention money has also been continued with vigor in this particular year. You would have also noticed that there is a reduction in the retention debtors, little later you will find that number in the financials. Apart from our regular projects, we have also had a strategy in the current year to close down our old rural electrification projects. Three of the RE projects have been closed during the year; four more are still pending out of which two of them will be closed probably in the next two months and the other two by the end of first half of the financial year.

Just like all the other companies in India, the slow growth rate of the economy continued to affect the overall business environment, as a result of which we find the revenue increase has not been there compared to the previous year and the power sector which continued to have a lot of issues over a period of last about six seven quarters, it continued in this quarter as well because the cash crunch continued to remain and the project execution especially for the project business was extremely slow. I move on to the individual sector level highlights now. As far as the irrigation sector is concerned, we were able to close 16 projects this year as against a 30 that we had planned because of our concentrated efforts on closing an execution of the old projects, as well as to recover the old retention money. The political turmoil in Andhra Pradesh as well as the government change in Karnataka did affect projects for finalization and execution in these two states and in Andhra Pradesh the situation still continues.

Moving on to the water sector, we were again able to collect our retention money as planned because of our focused efforts at closing the old projects. Twenty four sites we were able to close during the year and we successfully commissioned the Kalyan-Dombivli Municipal Corporation project. The third project sector which is the power sector, one of the major highlights is the supply of three sets of the sodium pumps for the fast breeder reactor at Kalpakkam in Tamil Nadu which took place during the current financial year. We also designed and supplied the largest capacity vertical turbine pumps for the Vizag thermal power project being setup by Hinduja National Power Corporation at Simhadri in Andhra Pradesh. We also supplied 12 sets of CW pumps for Adani Power Limited and we successfully commissioned India's first condensate extraction pump for the thermal plant through Larsen & Toubro Limited at the Damodaram Thermal Power Project of Andhra Pradesh Power Development Corporation.

So as far as the power sector was concerned, the highlights are more from the execution and technical perspective. As far as the gas, oil and defense sector is concerned, we received an order for the water mist firefighting system from DRDO but however the order booking was primarily low from the fertilizer business in line with the overall slowdown in the industry. And we also received an order from Reliance Industries for the phase 3 expansion of their Jamnagar Refinery during the year. The industry sector moved very, very slowly in the current financial year. There was a very slow change in offering more competitive products especially to the chemical process industry and also in the steel and coal industry, there was a complete slowdown as a result of which new expansion projects did not materialize and this was one of the major reasons why the industry sector did not see any kind of growth in fact it is quite a lot of a de-growth during the current financial year.

The customer service business also had an issue from the perspective of the business that we had anticipated from the real estate segment basically it did not materialize as the assembled pump sets which had earlier supplied actually were not commissioned and many of them were not put in to operation as well. There was an agitation of the sugar segment in Maharashtra State and as well in UP which led to a delay in the sugar crushing season which also affected our business to some extent. As far as the refurbishment centers are concerned, you will be aware that we have already setup four of them and now the fifth one has been inaugurated at Hospet during the quarter 4 of the current financial year and in Madurai we had a service center which was established with all women employees for rewinding and repairs of the Dewas range of pumps.

The building and construction sector also saw a bit of slowdown because the risk appetite of investors shifted because they found better investment opportunities elsewhere. As a result of which the developers had a high level of inventory with them and there is an overall slowdown in the sector. Liquidity issue has also contributed to the fact that the sector really did not grow. From the KBL perspective, we booked the Delhi Metro third phase orders during the quarter and also our focus on innovative products resulted in orders for Auto Prime Dewatering sets from the Delhi International Airport and the HVAC system orders for variable speed pumping from different hotel groups in the country.

The distribution sector was one where we found that the business did improve during the year on a year-on-year basis despite the economic slowdown. However, the extended monsoon created a bit of a slowdown in demand for the Agri Pumps. The assembly elections in five major states also led to a slowdown in the overall demand for the pumps otherwise we would have probably seen the sector growing much more than the small growth that it actually did. There is one problem as far as price war and worsening credit terms are concerned in the market because the competition is resorting to this which has led to a lot of turmoil in the market and our Sanand and Kaniyur plants which were setup about in the last two and three years had a good share in this distribution sector and we found that more than 40% of the sales which took place for the distribution sector actually took place from the new products which were manufactured at these two plants.

Moving on to the factory level highlights at the Kirloskarvadi factory, we have started a supplier improvement program in order to make our supply chain more strong and we are working hand-in-hand with various suppliers for this. We also organized a supplier meet in March We also manufactured the largest VT Pumps for the Hinduja National Corporation Limited project of the power sector and one of the interesting things and good things that happened was we bagged the global CSR Excellence & Leadership Awards in the category of best corporate social responsibility practices by the World CSR Congress. The Dewas factory has now started manufacturing as per the SMDS, WIPET and SAP KANBAN at all the plants, we have been mentioning about this in our earlier analyst calls as well. We also won the best renewable energy project award for the Kirloskar Group Energy Conservation Competition. The Dewas plant is where we won the third Asia's best CSR practices award which was given by the World CSR Congress and we also won the Greentech Gold Award for the best safety practices in engineering industry. So this quarter was a quarter of a lot of awards and accolades at our various plants.

Moving on to Kaniyur, where you will find some more awards and accolades, where the Mahila Mission 20 was recognized by the 'Limca Book of Records' for setting up benchmarks at the national level for women involvement and producing a pump in the lowest cycle time of less than 20 seconds. The Kaniyur plant also won the second runner-up price at the Kirloskar Group Energy Conversation Competition. We also received the third Africa Women Leadership Award for the best organization in women talent development at the Kaniyur plant and an outstanding performance and excellence award was also won as far as the state level Kaizen competition was concerned for the Kaniyur plant.

The Sanand plant received the ISI license from BIS authorities for about 126 models for submersible pumpsets and also Star labeling permission was also received from BEE for about 53 models of pumps manufactured at the Sanand plant. Regarding our valves plant at Kondhapuri the thrust on cost reduction continued as a result of which we did see a drop in our material cost during the year. We also strengthened our marketing team for valves in order to tap new business opportunities and new product development initiatives continue so as to achieve higher growth in the valves business.

Moving on to slide number 11 in the presentation, you will find the company wide pending orders. You will find on a quarter-on-quarter basis from Rs. 1,958 crores in quarter one of June 2013, we are now the fourth quarter please read it as March 2014 not as April 2014. We are at Rs. 1,736 crores right now, but if you see the quality of the orders the products sectors orders if you see, the share has improved quite well. There is a good order board for the gas, oil and defence for the industry for the distribution as well as for the CSS sector the fall has primarily been in the irrigation sector where we have been able to execute and close a lot of projects and as a quarter-on-quarter the order received you will find that in quarter four we have actually received Rs. 432 crores of orders against Rs. 317 crores in quarter three. Similarly, on a consolidated basis, we have received about Rs. 784 crores of orders as against Rs. 723 crores in quarter three and our consolidated order board currently stands at Rs. 2,307 crores.

Now moving on to the financial highlights, these are the standalone highlights that I am talking about right now. The revenue from operations, this is the revenue which is the sales plus the other operating income has actually dropped from Rs. 1,872 crores to Rs. 1,752 crores which is about 6% drop. The product sectors have dropped from Rs. 1,079 crores to Rs. 1,002 crores which is about 7% and the project sector sales have also dropped from Rs. 776 crores in the previous year to Rs. 721 crores in the current year which is also a fall of 7%. But as we have been continuously endeavoring we continue to be selective with orders and execution and to improve our sales mix. As a result of which the sale of manufactured products which was 60% in FY13 has now gone up to 66% in FY14. Another good improvement that has happened is our composite material cost percentage has decreased from 71% in the previous year to 67.6% in the current year. So there is a drop of about 3.3% in the material cost. The profit before tax stands at Rs. 70 crores for FY14 as compared to Rs. 72 crores in FY13 now this is despite a fall of 7% in the sales due to our focused efforts on improving our contribution and bottomline. And this PBT of Rs. 70 crores is despite two one off items which you are aware of & actually happened in the H1 which is a Forex loss of about Rs. 20 crores and the BG encashment for the National Institute of Ocean Technology of about Rs. 10 crores. So if you exclude these two one off items of Rs. 20 crores and Rs. 10 crores which is Rs. 30 crores our operating profit would have been approximately Rs. 100 crores in the current year against the Rs. 70 crores that we have actually shown.

Similarly, from the balance sheet perspective you would find that our company's initiatives to improve the balance sheet continues to show results because our borrowings have reduced by Rs. 45 crores compared to the previous year. Our inventory have reduced by Rs. 51 crores compared to the previous year and our retention debtors have reduced by Rs. 35 crores net compared to the previous year. I am saying net because we have actually collected about Rs. 94 crores of retention money during the year but because of the project execution for the other projects we have also generated about Rs. 59 crores during the current year which makes the net reduction Rs. 35 crores.

Our gross current assets have reduced by about Rs. 147 crores during the year and gross current liability also by about Rs. 120 crores compared to the previous year. So this shows our endeavor to continue to improve the quality of our balance sheet by reduction in both the GCL and the GCA.

Slide number 14 actually shows the standalone financial highlights. I will not go through each and every one of them. The gross of these numbers are also available subsequently in the presentation that is where actually you see a hyperlink. Yes, the turnover has been going down year-on-year but as we have always said our focus over the last two years or two-and-half years has primarily not been on revenue but as primarily been on improving our bottom-line, increasing our cash generation and improving the quality of the balance sheet. So you will find that the net current assets have actually decreased from Rs. 594 crores in FY10 to Rs. 473 crores in FY14. So this is where you will see the gradual improvement as far as the quality of the balance sheet is concerned. Our fixed assets currently stand up about Rs. 336 crores.

I am moving on to slide 15 now where you will find the shareholder's funds have gone up from Rs. 713 crores in FY10 to Rs. 800 crores now and the borrowings have reduced from Rs. 357 crores to Rs. 224 crores over the period of FY10 to FY14. The EBITDA even though it is lower than previous year at Rs. 145 crores last year was Rs. 148 crores in percentage terms it is slightly up to 8.3% from 7.9%. The PBT also is up from 3.8% to 4% even though in absolute value it is down from Rs. 72 crores to Rs. 70 crores. And similarly the PAT is up from 2.3% to 2.7% or up from Rs. 43 crores to Rs. 48 crores. There is a slight increase in the cash profit also as compared to FY13.

The EPS is now out from 5.5 in the previous year to 6, the dividend payout as you all know this year we have declared a dividend of 125% after a 100% dividend outflow in the previous two years. The market caps stands at about Rs. 1,309 crores currently as compared to Rs. 1,179 crores in the previous financial year.

Moving on to the consolidated five year financials which are available in slide number 18, even as the consolidated financial you would find that the turnover has remained more or less the same. Now here there has been an increase in the net current assets over a period of the last few years, but the main reason how the increase in the net current assets is because of the increase in the billing which normally takes place in the last month of the financial year in most of the international subsidiaries as a result of which lot of the money gets accumulated in debtor so as a cut short figure as at the end of December which is the year end you will find that there is an increase in net current assets but subsequently the money does come into the organization as per the expected payment terms.

The fixed assets at the subsidiaries are also growing with the increasing expansion as far as the international business operation is concerned. If you look at the EBITDA on a consolidated basis, it is at 7.9% more or less the same in value terms at FY13 it was Rs. 215 crores in FY13 it is Rs. 212 crores now. Our PBT is at Rs. 105 crores in the current year as compared to Rs. 112 crores in FY13. In percentage terms, it is down from 4.3% to 3.9% and the profit after tax is down from 2.5% to 2.4%. In value terms it is down by about Rs. 1 crores. But the cash profit has improved from Rs. 115 crores to Rs. 120 crores. And the total shareholders fund on a consolidated basis now stands at Rs. 996 crores. Here also you will find that the borrowings have come down from Rs. 398 crores in FY10 to Rs. 297 crores in FY14. So there has been approximately Rs. 100 crores reduction in the consolidated borrowing also over a period of the last four or five years despite the increased business that are going on in the international and subsidiary companies.

Slide 20 actually gives you a picture of the consolidated accounts by company. Here you will find the figures of the income, the PBT, the PAT as well as the ROC percentage for each and every company. We have already spoken about the parent company which is KBL earlier. Moving on to the Kirloskar Brothers International BV which is our international subsidiary company we find that the income has actually gone up from Rs. 658 crores in the previous year to Rs. 882 crores in the current year. But the PBT has gone up from Rs. 44 crores to Rs. 52 crores and the PAT up from Rs. 31 crores to Rs. 37 crores and the ROC has actually gone down from Rs. 21.2 crores to Rs. 18.4 crores. I will dwell more on this when I come to the next slide because the details of the international queries which make up this, I think is presented in the next slide.

We had a major problem with Kolhapur Steel. Our foundry in the current financial year because of which we took a hit on our consolidated results. If you see the total income actually dropped from Rs. 38 crores to Rs. 23 crores but we had a loss of about Rs. 15 crores in Kolhapur Steel in the current financial year. We have also spoken about this at the time of our previous meeting with the analysts and I think our H1 Analyst call as well but this was primarily because of a lot of rejections which took place for deliveries which were made in the earlier financial years and we have to book those rejections in the current year and a lot of efforts also went at rework of those items and also some sales returns which took place for again the sales which you made in the previous years because of which we took the hit of Rs. 15 crores in the financial year FY14. However, we believe that all the exceptional hits that we had anticipated or all these hits are now are beyond us and from the current financial year, we should not be seeing these kinds of hits as far as Kolhapur Steel is concerned.

Kirloskar Corrocoat had a very good year its income moved up from Rs. 27 crores to Rs. 37 crores and the PBT also moved up from Rs. 2 crores to Rs. 8 crores. If you see last year it actually had a loss after tax but this year from Rs. 1 crores loss last year it is up to Rs. 6 crores profit in the current financial year. Kirloskar Systech of course is the systems engineering company very small numbers I will not dwell into them. Karad Projects & Motors Limited is company in which Hematic Motors and Kirloskar Constructions are now part of one company. You will find that, the erstwhile Kirloskar Construction & Engineers Limited or the projects business had a loss of Rs. 16 crores in the previous financial year, they had a loss of Rs. 17 crores in the current financial year as well. The revenue was only Rs. 9 crores and currently we have only revenue of about Rs. 8 crores still to be done from Kirloskar Constructions & Engineers after which all the business that this project division basically has will primarily be over.

Hematic Motors had a drop in business from Rs. 270 crores to Rs. 194 crores and a drop in profits also from Rs. 14 crores to Rs. 10 crores. This was primarily because there was a reduction in the business of stampings from one major customer which was Emerson during the current financial year because of which the income also went down and profitability was also lower than the previous financial year. Kirloskar Ebara in which our share of 45% is shown in the slide had a share of the income dropped from Rs. 58 crores to Rs. 38 crores and there was a loss of Rs. 3 crores as compared to a loss of Rs. 2 crores in the previous financial year. So primarily the loss from Kirloskar Ebara and the loss from Kolhapur Steel were the two major reasons why the consolidated results took a bit of a beating in the current financial year as compared to the previous financial year because this is something we had not earlier anticipated.

If we go on to slide number 21, you will find the net worth borrowings and total liabilities of similarly for the consolidated accounts where you will find that how the total borrowings of Rs. 297 crores or the total net worth of Rs. 1,000 crores is made up by company. I will not read each one of them as the slide is available for you. Similarly, you find the net current assets, fixed assets, and investments and total assets in slide number 22 where again you have the complete details by company of the total numbers again. I will not go in to the details of the same they are available for you on the net.

Now moving on to the way forward, as far as the overall company is concerned what we believe is that the continued effort at reducing working capital has to be there because that is primarily what is going to help us improve the quality of the balance sheet and also reduce our borrowing going ahead into the future. Focus as far as the projects business is concerned on execution and closure and recovering retention money is also something which is going to continue and we are going to try and expand our foot print in the domestic markets through different initiatives which will be different in for each of the various sectors that we primarily have.

From the irrigation sector perspective, we have to wait and watch and see post bifurcation of the Andhra Pradesh state what will be the situation and work around the way in which the developments take place. Of course, the focus on project execution and collecting retention money will continue as well as the claims and contract management focus will also continue. The power sector we will continue to concentrate on customer driven and market driven solutions and contract management and of course recovery of retention and project closure is something which needless to say will continue for all the project sectors.

In the water resource management sector, we will focus on sewage treatment and recycling plant and also on value added products. The gas, oil and defense sector will also see focus on targeting consultants working on competitive offshore fire water packages and strengthening customer intimacy. The building and construction sector will work on improving key account management and increasing footprint in the HVAC business. The industry sector will also focus on key account management and tie ups with major vendors. The customer space and service will focus on irrigation and water supply utility organizations. We are also planning to setup four more refurbishment centers for value added services during the year. Our distribution sector or the dealer business, we will ensure that 100% channel partners we have established the SMDS system. We will also expand our market net worth through new dealers and distributors as they always have been doing and we will also promote the energy efficient series pumps.

Our Kirloskarwadi plant will see effective supply chain management and if you see all the plants, sustainability initiatives is something which we are going to concentrate on and you will find that at all our plants sustainability initiatives will continue on various fronts and on various areas. The Dewas, Shirwal, Kaniyur and Sanand factories will also see LEAN tools been practiced and obsoleting of low volume low margin products and the valves business at Kondhapuri will see improvement in manufacturing capabilities for products and enhancement of market footprint as far as the valves business is concerned.

With this, I come to the end of our presentation. We will now throw open the floor for any questions that you may have and we will be glad to answer them. Thank you.

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 pushbutton phone and await your turn to ask the question when guided by the facilitator.

We have our first question from Mr. Mahesh Bendre from Quantum. Please go ahead, sir.

Mahesh Bendre: Sir, as mentioned in the presentation, in the last three financial years, we were impacted because of two, three reasons. One is that, one of the items in the standalone business and even the poor performance in Kolhapur Steel and Kirloskar Engineering. So, if we have to look into next year, if these do not appear, do you think there will be a substantial scope for the improvement in the financial performance next year?

Management: Our endeavor is going to be that because as we always being saying we are going to focus on improving contribution and cash generation. So that will definitely be our focus and barring any one of our exceptional items definitely everybody would like to see more and more growth coming in as far as the bottomline as well as cash is concerned.

Mahesh Bendre: But sir, however in the last two to three years, we find exceptional items are appearing in one way or the other and some companies whether it is standalone business or its subsidiary. So, going forward, do you think that all the write-offs or any extraordinary items are behind, and seeing the present situation, will there be any surprises going forward?

Management: I would hope so. And that is why basically they are exceptional because they were exceptional or they are surprises. It is very difficult to quantify exceptional or surprises but as far as we are concerned, we are definitely doing our best to mitigate whatever known risks or whatever known elements of debtors or inventory or any of such issues are concerned.

Mahesh Bendre: And sir, there has been a remarkable improvement in the balance sheet over the last three, four years; our debt levels have come down. So in consolidated level the debt is around Rs. 297 crores. So do you think there is a possibility that the debt level can go significantly down over the next 12 to 18 months?

Management: Yeah definitely because we are basically endeavoring to probably drop debt, you will see in this year we have already dropped by Rs. 45 crores at a standalone basis and on a console basis over a period of last four years we have dropped to Rs. 100 crores so next year also we will endeavor that on a standalone basis we will have a debt reduction of about at least Rs. 60 crores to Rs. 70 crores on a consolidated basis by may be about Rs. 75 crores to Rs. 100 crores.

Management: It depends on what you mean by significant, because it might have two different meanings for you; one for you and one for me, but like we have been saying for the last few years, our attention is going to be on improving the balance sheet.

Mahesh Bendre: And sir, irrigation orders have come down significantly, so going forward, I mean if you could quantify that project orders, where we see there is a possibility of some cost runs or any extraordinary item that might have occurred?

Management: The new orders are all we are basically we have done away with participating in civil works and we are all mainly product orders. So as such, all the orders that have been received in the last couple of years, since they are product orders, we believe that there are less chances of cost over runs or any other surprises coming up. As far as the open ones are concerned we are await to what happens in Andhra Pradesh because the picture is not very clear yet.

Mahesh Bendre: Sir, the last question. Sir, net worth of Kirloskar business international has gone up from Rs. 169 crores to Rs. 234 crores. So is there any change or is there anything missing?

Management: I do not know what reflection; I mean how much difference does this make, foreign exchange, I believe has made a huge difference.

Moderator: Thank you for question, sir. We have our next from Mr. Balachandra Shinde from B&K. Please go ahead, sir.

Balachandra Shinde: Sir, regarding international subsidiaries, I would like to know your view, how the growth prospects are seen over the next two, three years in Europe and all the other subsidiaries?

Management: The growth last year was quite good. We do not know how long it will continue. And there were one or two orders which were from the power sector which were one of coming out of America. So the attempt is to make sure that we have consistent business every year and consistent growing business every year. I expect that Kirloskar Brothers Thailand as well as Europe will put in a better performance than last year. SPP which is consolidated, they have a few challenges in South Africa as well as Europe still there are issues and most of SPP sales are outside the UK. So while the UK economy is doing well, we are a little insulated from that.

Balachandra Shinde: Sir, and since rupee as we know that for last one year has been higher does it help us to do any exports from a standalone entity or we majorly manufacture most of the requirement in our international subsidiaries only?

Management: The pumps all go from here, other than the few that are manufactured at SPP in numbers most of them go from here. And there is a lot of localization as far as the bought outs are concerned motors, engines, couplings, panels they are all done locally. So yes, we are getting things out of India. It does help having a higher value of rupee.

Balachandra Shinde: And sir, majorly which segment is catered more like product segment or project segments?

Speaker: On exports, it is mostly the product segment. One odd project which we have done from power is there, for instance, we have done recently a power project in Venezuela but most of the exports are related to products.

Balachandra Shinde: Sir, what will be the utilization level across all facilities for us?

Management: Approximately 55%.

Balachandra Shinde: And sir, what kind of growth guidance we see, the growth target we see with the improving economy on the Indian side especially, means on the short cycle orders on the product cycles?

Management: For products, we see a growth of about may be 12% to 15%. Hoping that the elections would probably bring in the right effect on the market. But, you know, especially for power and irrigation, even if the new government comes in the policies put in place it is going to take some time, before the market really reacts to those initiatives. So power, even if we have a new government will probably be effected only in 2015-16. The Andhra Pradesh irrigation, God only knows, when it is going to be settled and some of these projects where land acquisition and other things have not happened, that will happen after there is a clear segregation of these project entities and so on. So Andhra Pradesh still looks very uncertain. Any effect on the new government coming in will be only seen in 2015-16.

Balachandra Shinde: Sir, and in product cycle orders we can see…..

Management: The product sector, I think will grow by 10% to 15%.

Balachandra Shinde: But probably we may see in second half of FY15 or it will be also in FY16?

Management: It will be mainly, I do not foresee any change immediately. It will be mainly in the second half. For us industry sector has been a big disappointment, because industry has been going through problems and also on one side you see the improvement in the balance sheet but you do see a lots of reduction in revenues, and that is because we are insisting on certain commercial terms, which for us are more important than just booking orders for the sake of booking orders.

Balachandra Shinde: And just wanted to know means like since our project business were going sluggish for last two years and our product sales were really actually doing well and that is the reason why we were actually enjoying the better margins. By improvement in economy, will it affect this way that higher project sales might deteriorate our margins?

Management: You know like I said earlier, our project sectors are also currently only doing large product sales and those are also being quoted on the basis of very strict commercial terms which is we want an LC before we take manufacturing up I mean take the products up for manufacturing, we want 95% of the payment up front; 5% on commissioning or within 'x' number of months whichever is lower. And that does raise the project companies do not like that at all, but for us right now the financial help is far more important. So whether even if tomorrow the projects start in a big way I believe we will continue to quote only the products unless you see a situation where a customer values what we bring to the table and it is things like reduction in number of pumping stations, reduction in power requirement. In Gujarat as well as in Andhra Pradesh we have been able to significantly reduce the amount of power required to drive the pumps in double digit megawatts. Now if the irrigation department is more interested in working with the civil engineering companies and making a huge project rather than looking at what is sustainable then we will only supply the products. If someone says, to design the scheme for us and show us the benefit I think then we will participate but even then we will not get in to the civil engineering work, we will do the design of the same scheme and we will supply the products.

Balachandra Shinde: So, out of total order intake which is new for last say one or one-and-half year how much will be the product or it is totally product right now?

Management: It is almost probably 85% to 90% product. There is no civil, there is trading where we are supplying motors or we are supplying panels and things like that; no civil, no piping.

Balachandra Shinde: Sir, last question regarding CAPEX. How much CAPEX was done in FY14 and how much is expected for FY15?

Management: About Rs. 50 crores was done last year and we expect probably something similar this year.

Moderator: Thank you for question, sir. We have our next question from Mr. Manish Goyal from Enam Holdings. Please go ahead, sir.

Manish Goyal: Sir, just to carry on the exports front, we are seeing that exports have been declining for last couple of years. So, I just wanted to know out of Rs. 115 crores export number what you have shown, how much is to the SPP and third party and how do you see that going forward?

Management: Practically, you know Manish; all the exports have been to our own international subsidiary companies. As we have mentioned before also in the last two, three years we have started dispatches to our international subsidiaries at transfer pricing and what you see growth in the international subsidiaries business is basically what we should be looking at as an international business not just the export from KBL. Because the real international business is the exports from KBL to them plus the value addition which they do and their sale. So just looking at it as an isolated figure of exports from KBL is not really the right way of judging whether our international operations are actually going up or not.

Manish Goyal: So, basically the international markets will now be addressed by our international subsidiaries and –

Management: Absolutely, yes.

Manish Goyal: So that is how one should look at it, okay. Coming back to the exports if you can just the order inflow was very strong as far as overseas subsidiaries. If I just look at the last folio numbers it is around Rs. 1,300 crores against Rs. 960 crores which is almost 40% up. So basically looking at the order inflow and outstanding order book it looks like that FY15 should also look good for overseas subsidiaries. So if you can help us understand what kind of growth we can see on the revenue front; number one, and number two; I have a concern on the margins. What I see is that margins have come down. So if you can help us understand that also and how do you see that going forward?

Management: I will answer your question in two parts. First, as far as the growth is concerned, we will probably see a growth of about 8% to 10% that is what we perceive today. And on the margin perspective as I mentioned a little earlier to somebody else the margins have primarily come down because of Kolhapur Steel in which we had a in a consolidated because we had Rs. 15 crores then in the Kirloskar Ebara we had not anticipated.

Manish Goyal: Sorry Umesh, I am not referring to domestic subsidiaries I am just looking at the international number what you have reported for KBL International and I am just trying to arrive at number where it shows that our margins have somewhat come down. I will just try to give you the exact number.

Management: The margins have actually gone up from Rs. 437 crores to Rs. 524 crores. I am sorry I will just read it out to you in one minute.

Manish Goyal: Absolute profit has gone up but the margins have actually come down?

Management: You are talking in percentage terms?

Manish Goyal: Yeah, percentage to sales it has come down.

Management: See that depends on the mix of the businesses as well because you know the businesses of the international operations also is split between the oil and gas the customer support service; the power sector etcetera. So the margin on each of them is quite different from each other. So based on, which business is done more there will be a difference as far as the margin percentage is concerned. But here we are basically focused on increasing the margin and value terms more and making sure that it increases year-on-year rather than just focused on the percentage because sometimes by focusing just on the percentage you lose sight of some orders because of which you are able to make more money even though in percentage terms it may be slightly lower.

Manish Goyal: And if you can just share some thoughts on the recent small acquisition which you did in US, how does it provide in terms of synergy?

Management: There is a recent acquisition based in Atlanta or near Atlanta actually very close to our own facility. They make pumping systems, so solution that would be required for a building for example pressurized booster system for a building or for a group of buildings or for a small farm or a golf course. They put together packages some of them are built into containers. So you can literally build them in the factory and drive them to the location and set them up over there. So Syncroflo is a company that is been in operation for about 25 years or so. Last year they did about 12 million in revenues and we believe that it will help us not only in America to grow our business but also some of the things that they do can be supplied to customers in India in the new buildings that are coming up in the Middle East as well where there is great reference for American goods. So that is why we have taken it over.

Manish Goyal: And is it profitable 12 million?

Management: Last year it was in a loss, a marginal loss but we expect it to be profitable this year.

Manish Goyal: And sir, coming to domestic market, just looking that last full year the order inflow was slightly lower than previous year but if you can just give us some sense in terms of the breakup of the order inflow in terms of what is driving our order inflow and just to get a sense that going forward how do we see what segments can lead to the growth and also my second point was that if we try to break up our outstanding order book where almost half of the order book is on the project is kind of dormant then going forward the project based revenue would see challenges in terms of growth or if you can just give some sense on it?

Management: See the growth we expect is in the product sector. The distribution sector is slightly looking up; we expect that there would be growth in the industry sector. We are also concentrating on service centers and spare parts and so on. See, last year we did about a Rs. 1,000 crores turnover in what you call the product sector and the profitability also has been reasonably good. We expect that the growth will come here. Power sector has been really in the dumps. And even if the new government comes it is going to take a long time before the power sector can take off. And irrigation, I think Andhra Pradesh is the key when that situation will improve is very, very difficult to project. Of course, in irrigation we are also concentrating in Karnataka and in Gujarat and so on but these projects will take a long time before we start supplying the products. We are again concentrating on products and not concentrating on civil at all.

Manish Goyal: Sir, would it be possible to share in terms of now in terms of the loss making projects what would be the pending order book on loss making projects and when do you expect to complete?

Management: See, some of the projects that in Andhra Pradesh, the land acquisition has not been done so we do not know.

Manish Goyal: No, I am not talking about the projects which are dormant but at least the projects which are there on the ground where we have been probably part of the work has been done and which is somewhat stuck in the….

Management: No Manish, as far as water and power is concerned there would not be any loss making projects as such in this pending order board. The power projects may turn out into loss making projects if the delay in the project execution continues even further than what we are basically anticipated it to be. But as of now whatever is there are not really those orders which are going to have any big losses. But as far as irrigation is concerned yes, even the pending running orders which are about approximately Rs. 225 crores to Rs. 250 crores are the orders in which we would probably not have profits, they would be loss making orders perse because we have been in execution for a very long period of time and based on our best judgment we have anticipated on the timelines that we feel will happen for the completion of the projects, we have provided for those anticipated losses, as far as making a provision for the POC or the material cost is concerned going ahead. But if again there is a further delay and if there are any other surprises or pitfalls which come because of certain other things which the customer enforces upon us in those projects, then the value of the losses could go up. So that is how it basically stands today.

Manish Goyal: Okay so this rural electrification projects which four are under execution which you expect two of them to get complete. Have we provided for any incremental losses which in as the probably year gone by?

Management: Yes, we have actually already in the ones which we have closed we have about Rs. 10 crores of losses and in the four projects which we are going to execute in the current year also we anticipate there will be about Rs. 12 crores to Rs. 15 crores of losses.

Manish Goyal: Okay that is not provided for?

Management: No because the Rs. 10 crores which are already done for which we have closed and the remaining will happen for the ones which we are going to close in the current financial year.

Manish Goyal: So basically overall the project losses there are a probability that in FY15 we may see the number coming down?

Management: Yes.

Moderator: Thank you for question, sir. We have our next from Mr. Kamlesh Kotak from Asian Markets. Please go ahead, sir.

Kamlesh Kotak: Sir, just wanted to have some qualitative sense in terms of the ordering and the execution over the last six months and going forward do you see for the next two quarters anything that is going to materially change or you see any kind of an uptake across the business segment as we are offsetting?

Management: We do not have a crystal ball.

Kamlesh Kotak: But you do not have any sense in terms of whatever visibility we have as of now? Nothing has changed so to say?

Management: Nothing has changed. Just we are expecting hoping for a stable government.

Kamlesh Kotak: Secondly, sir how much of our business would be aligned towards industry and you can say Agri side is that break up which you can some ballpark number if you can give?

Management: About 40% to 45%.

Kamlesh Kotak: Is for?

Management: Agriculture, irrigation, industry.

Kamlesh Kotak: No, my point is sir that if at all we are like today I&B said that we may have below average monsoon. So in that case our business will have some impact just wanted to understand on that part?

Management: When it rains sometimes people say that you need more pumps to take away the water. When it rains they say that they do not require pumps because the water is already there and it is the same thing works when it does not rain. If you need pumps because there is no water or there is no water to pump so we do not need pumps. Our intention is to see that regardless of what happens we try and we will get higher fields. But we will never believe that because there is going to be some kind of monsoon that is predicted we should worry about that.

Kamlesh Kotak: And sir, how is the face of the projects wherein Kirloskar Construction and Engineer?

Management: There are only two projects that are left for execution. The total value of the orders is about Rs. 8 crores. And we hope that we will be able to complete them this year.

Kamlesh Kotak: And sir, what is our current amount of retention money could you just get that?

Management: The amount of retention money is about Rs. 450 crores.

Kamlesh Kotak: How much was for last year?

Management: It was Rs. 520 crores on the 450 Rs. crore. Mr. Shastry has given a figure of Rs. 95 crores collection of retention money and Rs. 54 crores in the new generation of retention money. So about Rs. 40 crores to Rs. 45 crores, Rs. 50 crores it has reduced by.

Moderator: Thank you for question, sir. We have our next from Kirti Dalvi from Enam AMC. Please go ahead, sir.

So I believe the line got disconnected. Shall we go over with the next one?

Management: Yes please.

Moderator: This is the last one, sir. This is from Mr. Nishit Rathi that is Trust Capital. Please go ahead, sir.

Nishit Rathi: I just wanted to know what the loss was for the project for the full year and for quarter, you have been given that number out, right the loss making projects what is the loss amount?

Management: The losses for the entire year were Rs. 54 crores.

Nishit Rathi: And the same number last year was Rs. 60 crores, right?

Management: That is right.

Nishit Rathi: And for the last quarter this number is gone up again?

Management: It is Rs. 20 crores because primarily out of the Rs. 20 crores; Rs. 10 crores was for completing and coming out of the rural electrification project.

Nishit Rathi: So rural electrification projects but the other irrigation loss making projects is only Rs. 10 crores?

Management: That is right.

Nishit Rathi: And if we go by the same run rate do we expect this similar Rs. 50 crores kind of number coming next year as well?

Management: We will try and reduce that number.

Nishit Rathi: And sir, I just wanted to understand, if you look at it in your standalone numbers your gross margins were steadily going up, it was 32.5% in June 2013 which went up to 34.2% to 34.3% in September and December and this number has come down in March. So just wanted to understand what are the product mix what exactly led to the reduction in gross margins and what should we expect going forward?

Management: It was primarily related to these project losses because most of these losses have been booked under material cost. So that is the only reason why it happened.

Nishit Rathi: So this could be treated as a one off and you would cut back to your the term line which was about 34% is what you could be expecting going forward, right?

Management: I would not make any promises because our main intention is to get out of these projects as quickly as possible. So even if there is a cost overrun we will be completing the project and shaking hands with the customer and coming out of it as soon as possible.

Nishit Rathi: Sir, completely with you, but just wanted to understand that the key product business which has been growing the margins every quarter-on-quarter that margins is still intact you are not in any erosion in those margins?

Management: You are absolutely right.

Nishit Rathi: So that part is there. And the second thing is there has been a very, very healthy order booking in your international business that has gone up now I understand it is Rs. 1,300 crores. So though the margins are substantially lower as compared to your Indian margins, right? Is that going to be the same way?

Management: No, from where did you get the Rs. 1,300 crores number because if you see the pending orders on a company level are Rs. 1,736 crores and on console level are Rs. 2,307 crores. So the difference is only Rs. 600 crores.

Nishit Rathi: No, you were just mentioning that sorry, so that is where I said, sorry. So what would be your international orders perse full year it will be around Rs. 600 crores, Rs. 700 crores?

Management: Yeah, currently pending is Rs. 600 crores that is right.

Nishit Rathi: So those Rs. 600 crores, I assume will be do well get executed in the next year so the margin is basically, the point I am trying to make is your international margins are substantially lower than your Indian margins. So that will continue to be that way or will the gap reduce between the two?

Management: See in the international business about 85% or 90% of the business primarily comes from SPP and margin on SPP is more or less similar to the margin that we make in KBL.

Nishit Rathi: So KBL products or KBL both companies?

Management: KBL as an entity as a company.

Nishit Rathi: KBL as an entity?

Management: Exactly but in the other an international subsidiary which is mainly Kirloskar Brothers Thailand and Kirloskar Brothers Europe where we are really not seeing very good figures in the earlier years but this year we have broken events. It is fine that the breakeven actually gets converted in to a higher level of green going ahead. So, on an overall basis you would definitely find that the profitability of the international operations will continue to grow.

Nishit Rathi: But KBL as an entity also has some amount of losses which are coming. So which is also kind of the reason why your margins are kind of subdued in KBL as an entity, right? Means KBL when you say compare the margins of SPP to KBL are you comparing only the profit making part or you are comparing all of it?

Management: No, our business to business.

Nishit Rathi: So, product to product, the margins would be substantially higher than what you are reporting right now?

Management: No, we are saying Kirloskar Brothers is a company which has both products and……

Nishit Rathi: So including the losses whatever it is it is comparable? Right now whatever KBL is making the margin the same margins are being made in SPP and there are certain losses in Thailand and other which you will get reverse sooner or later?

Management: There were losses in the previous financial year and the current year we have broken even at both places but it is about broken even the profits are not very high.

Nishit Rathi: So you expect that with the orders that you have in hand the next year could be some profit?

Management: Yes.

Moderator: Thank you for your question, sir. At this time there are no further questions from the participants. I would like to handover the conference back to Mr. Umesh Shastry. Over to you, sir.

Umesh Shastry: I would like to thank all of you for attending this call at this point in time. I would also like to let all of you know that we have decided that we will have this analysts call now twice in a year as against four times in a year that we were having in the past. So we will have one such call after each one results and one such call after each two results. So I would just like to all of you to take note of that fact. Once again thank you all for joining in the conference and wish you all a very good evening and once again I would like to point out your attention to the disclaimer statement that in case there are any forward-looking statements or anything like that which have been made, there could be some deviation going ahead. Thank you very much and have a great day.

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