Transcript –Q2, 2018

Ladies & Gentlemen, Good Afternoon! Thank you for standing by, and welcome to Kirloskar Brothers Ltd. Second Quarter of Financial Year 2018-19 Earnings Call.

Joining us in this conference room are the Chairman and Managing Director - Mr. Sanjay Kirloskar, Director - Mr. Alok Kirloskar, Director - Ms. Rama 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 result highlights for the year ended September 30, 2018. All participants are requested to refer to the presentation which is available on the company's website www.kirloskarpumps.com before the meeting.

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 *0 on your telephone.

Please be advised that this conference is being recorded today.

I will now hand the conference over to Mr. Mate. Over to you, Sir."

Mr. Mate: Hello. Good Afternoon everyone and a welcome for this meeting. I will start reading the presentation which we have uploaded on the system. First is the disclaimer statement.

This material may contain forward looking statements regarding Kirloskar Brothers Limited, our corporate plans, future financial conditions, future results of operation, future business plans and strategies. All such forward looking statements are based on our management's assumptions and beliefs in the light of information available to them at this time. These forward looking statements, are by their nature, subject to significant risks and uncertainties and actual result, 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 impact, war, acts of terrorism, development and use of technology, acts of competitors and other changes to business conditions. KBL undertakes no obligations to revise any such forward looking statements to reflect any changes in KBL's expectations with regard thereto or any change in circumstances or events after the date hereof.

Now, I would start reading sector-wise highlights. Water and Irrigation sector received Letter of Intent worth INR 1,999.81 Mn from Municipal Corporation of Greater Mumbai (MCGM). We also received various orders for supply of total 22 Autoprime pumpsets. Our Power sector successfully manufactured and dispatched 2 Canned Motor pumps worth INR 60 Mn. On Project Execution front, we achieved 5 physical and 4 financial closures in Q2. In the second quarter, we collected bank guarantees worth INR 100 Mn. The bank guarantees collected during H1 stands at 424 Mn. On WIP front, we collected INR 144 Mn in Q2. For H1, the WIP collection stands to

INR 165 Mn. We surpassed recovery target in Q2 by collecting 323 Mn. Our year-to-date recovery on project front is INR 644 Mn. On Oil & Gas, major orders booked in Q2 are from Indian Oil Corporation, HMEL, etc. With continual efforts, we also bagged orders from Bharat Petroleum for supply of LLC pump sets. Valves – This sector has achieved booking of INR 512 Mn in H1, which shows a growth of 27% on previous year. Marine & Defence sector bagged orders worth INR 125 Mn and has achieved its booking target for half year. Export Excellence Cell – On Export front, we doubled our sale to INR 448 Mn for Q2 from INR 203 Mn for previous year. Major orders dispatched in Q2 were for supply of 3 nos. of large VT (Vertical Turbine) pumps for South Bangkok Power Plant and supply of 21 nos. of multi-stage pumps for MEDEA, Algeria. The Solar Pumps business is also on growth path. It has achieved a sale of INR 62 Mn through sale of 3,545 numbers of pump units in H1, which is volumetric growth of about 55%.

About plant highlights, Kirloskarvadi (KOV) plant achieved 11% growth over previous year in first six months and Large Pump division registered growth of 28%. Small Pumps business plants - Dewas achieved growth of 19%; Sanand plant achieved growth of 20% and Kaniyur plant achieved growth of 10% (all figures are as compared to previous year same quarter). In Q2, Kondhapuri plant successfully executed large size valves order such as 10 nos. of BF valve of 2400 mm size and 3 nos. of SLVs of 1500 mm size.

Now, sheet no. 6, sector-wise pending orders are given. This is the position as of 30th September and earlier columns give position as of December-end, March-end, June-end. All these figures are Rupees (INR) in crores. At the end, there are values of orders received for KBL on standalone basis and orders received on a consolidated basis. These orders exclude orders kept on hold and for which work has not commenced.

Now coming to financial highlights, Profitability – Profit Before Tax (PBT) is 51 crores in first half of the year, which is the highest in last five years. Return on capital employed of 11.7% is highest in last five years. Sales for half year 2018-19 are higher by 10% as compared to first half year of 2017-18. This is after regrouping previous year's figures to make them comparable with current year. Previous year's sales include sale of KPML make motors of INR 35 crores. If we remove this from previous year's sales, real growth is 15%. Sales for the current quarter were INR 480 crores as against INR 430 crores in the same quarter in the previous year. Revenues from project activities in this period were 5% of total income. On profitability, PBT is at 51 crores against 30 crores in the previous year. Profit has increased over by 70% over the previous year. Current year PBT include impact of following items :

net forex gain - INR 10 crores, interest received on Income Tax Refund (ITR) – INR 8 crores against Rs. 4 crores in PY and provision made for doubtful debt / liquidated damages and credit loss of INR 23 crores.

About Balance Sheet, during the current year, the company has made an investment of INR 24 crores in Kirloskar Brothers International B.V. (KBI B.V.). Debtors as well as creditors in terms of number of days sales are lower than as of 31st March. Working Capital Borrowings are at

INR 139 crores as against INR 118 crores as of 31st March and INR 165 crores as of September, 2017.

Now I come to Sheet no. 9. Here we have given key financials on standalone basis. These numbers are Rupees in crores. We have given three columns: September 2018, September 2017 and September 2016. So, these are for half year, current year and previous two years for comparison and the last column shows figures for the year 2017-18. This statement shows total income, Profit before depreciation, interest & tax (PBDIT), PBT, PAT, cash profit key ratio. Next sheet shows Balance Sheet summary for 30th September 2018 and comparative figures for earlier two years and 31st March. Page 11 shows key financials on a consolidated basis. The numbers are in Rupees in crores and the same parameters are given as mentioned earlier on page 9. Last page no.12 is summarized Balance Sheet on a consolidated basis. The figures are Rupees in crores.

Thank You, I request to start with your questions please.

Host: Sure, ladies and gentlemen. We will now begin the Question & Answer session. If you have a question, please press * and 1 on your push-button phone and await your turn to ask the question when guided by the facilitator. If the question has been answered before your turn and you wish to resolve your request, you may do so by pressing 1 on your phone.

Participants please press * and 1 for any question. The first question is from Mr. Balchandra from Anand Rathi. Please go ahead, Sir.

Mr. Balchandra: Sir, regarding your provisioning which you have mentioned in the PPT that is around INR 23 crores, is it more related to the legacy orders or it is also related to the ongoing orders?

Mr. Mate: I would say these provisions are for total business, not only Projects business. We have a policy that any inventory, any receivables from customers, we analyse, and looking at the age we go on making provisions. It is basically both ways; one is age of the item which we provide and secondly, case-to-case, if there is any doubt about its recovery we provide.

Mr. Balchandra: But is it recoverable or it is what (which) we have to write it off only?

Mr. Mate: It is our effort to recover. If it becomes unrecoverable then we write it off. But, first we provide based on the age of the item in our Balance Sheet. But we continue our effort to recover it. So, today, I cannot say that this INR 23 crores is a clear loss. This is recoverable and when it would be received, we take credit again in the subsequent period. As per the accounting practice, we provide it, every year.

Mr. Balchandra: Ok. Because during the last con-call we mentioned that we might not face more provisioning and, this INR 23 crores provisioning, it wouldn't have been there then our margins would have been much better. So, would like to know whether it is (on) a recurring basis on the provisioning or it's just a one-off case where we are taking major hit on the provisioning?

Mr. Mate: Look, review of age-wise analysis of our receivables and inventory is an ongoing process which we do at every quarter-end and wherever there is an item which crosses certain threshold of age we provide, but the amount of provision may be differ (from) quarter to quarter. But the policy to make provision is a permanent policy.

Mr. Balchandra: But is there any possibility of higher provisioning in coming quarter.

Mr. Mate: If it had been there we would have provided because we don't take any discretion. If it has crossed certain age, we do provide every quarter. We don't keep anything aside to be kept for provision for the next quarter.

Mr. Balchandra: And, Sir, regarding this press release which we released on 12th October regarding that 'Kirloskar Proprietary Limited' filing for trademark related issues, how serious can it be? Will it be the case where we may have to drop the brand or there is not any serious concern in that?

Mr. Sanjay Kirloskar: You know, we have informed the stock exchanges that we have received this letter asking us to discontinue the usage of certain trademarks. And we have also mentioned in the disclosure that KBL has instituted a suit in the commercial court against KPL (Kirloskar Proprietary Limited) to secure a interest in this matter. But KPL has not, to the best of our knowledge, initiated any proceedings against the company and therefore we cannot provide any clarification about the estimated impact or possible future litigation or whatever. The matter is sub judice and that's all that I can say at the moment.

Mr. Balchandra: And, Sir, regarding SPP Pumps, with the crude prices at current level, do we see higher order inflow in SPP Pumps and will they be able to continue with a better performance on foreign subsidiaries? And though our margins were better, but relatively our PBT level profits have come down on the subsidiaries level. What might be the reasons for that?

Mr. Alok Kirloskar: Just to answer your question, because the oil prices are higher, and they have gone up and have been stable for the last few months, we are seeing a lot of new inquiries coming through. There are a few large jobs that we have bagged with BP and a few other companies. There were quite a few jobs because of how the market (condition) was and a lot of oil companies have been badly dented through this process. And so only the big ones are putting up projects. Of the big ones, we have been very selective because what happened when the prices went down is that we took a lot of jobs at not the best margins because we needed, obviously work to do. But as you are aware and as the number of jobs increased, the amount of head-count required to execute those jobs also increased and so we took a double hit because we had jobs that have very average margin received even if we have to call it that but higher cost to execute these jobs. So, what we are doing is that we are being very very selective in taking the jobs. There are fewer jobs to start with but we are being more selective while taking the jobs. And then we control the overhead costs in the plant because that is also extremely important. That said, the other area where we are really focusing is on is that while the market was down we really needed to get our act together on spares and service because that's an area where traditionally we have made more money. So, we are seeing a lot more happening there slowly now because the platforms coming back online and then operating and then having no maintenance for the last 2-3 years, which has been quite tough for the last 2-3 years because I think they were not buying spare parts or maintaining them. Now, all of a sudden they are maintaining and they want to do some work on them and so slowly they are seeing a rise in that kind of business which actually, technically, is better any way from a margin point of view.

We have also reinitiated all the agreements that we have. So, we have a five year agreement with Petronas for managing all the pumps for Petronas for their platform. We also have a….I think that was for five years…five years with Carigali which is CPOC…Carigali Petroleum is in Singapore…and we have a three year agreement with Shell and after Shell sold the assets to Chrysaor, we have the continuation of the agreement with Chrysaor for .. assets..for the pumps, maintenance of the pumps. So truly we have seen some business coming up there. That's the good side of the business. Your question was about margin getting better but still not the best numbers. So, yes (you know) we have controlled and pushed down the cork everywhere and we have done headcounted reduction, although at some places even though we did headcounted action we had to get temporary labour in to execute the jobs which didn't work out very well but it is better to have less people in the long run. So, I would say, the long run is still alright. But, that said, you mentioned about lower margin, so one of the reasons is that we had a massive recall in the UK for some of our fire-sets and we found that in that Amazon warehouses in UK we had some issues with what we call FM/UL listed sets where we are the leader in the world which actually we should have entitled about the listed product and as an initiative, being the leader in this market, we went ahead and analysed, based on our engineering team, which are ones that could be possibly affected and as a preemptive decision we went ahead and replaced about 232 sets which generally are the ones which we can fit into the category that tend to be able to fit into the 2-3 tonnes of product… and may be the numbers don't massive in terms of automotive recall because thankfully we don't sound that numbers because they are millions. But for a company like us even 231 is a large number because it's a lot of work and a lot of cost and these products go across the UK, across Spain, across Portugal, Italy, Czech Republic, Romania, Poland and Germany and so it is a big effort getting all this….going to sites and getting the things refitted and all the labour cost and the new products that we are going to replace because they don't issue the coupling made by a company called Centa, which is a German company. So, while we have to incur the cost upfront we will now have to see what we can extract through the regional route or any other route… through the suppliers who have made this mistake.

Mr. Balchandra: And Sir, will we be able to break-even on PBT level in this year or it's still….

Mr. Alok Kirloskar: It is really difficult right now given the number of jobs, we have quite a few number of jobs in the pipeline and a lot of…. (I mean) we have about less than 45% turnover to do in the last three months or last two and half months. So, we are pushing hard, it is not very easy but we are trying to get as close as possible to that.

Mr. Balchandra: Ok. Thank you. I will come back for further questions.

Mr. Alok Kirloskar: Alright, Sir.

Host: Thank you, Mr. Balchandra. The next question is from Mr. Anuj from ValueQuest Research. Please go ahead, Sir.

Mr. Anuj: Hello. Alok, if you could just give some flavor on what is happening in Rodelta and Thailand?

Mr. Alok Kirloskar: Sir, Rodelta (I should have mentioned Rodelta) we have been truly building up the order book in Rodelta. We are building up the Water order-book and the likes of that process order-book because of the issues in the Oil & Gas industry. But that said, we have truly getting Oil & Gas orders in Rodelta. Rodelta's special focus is on the Oil & Gas industry but they do have a large population of Water products in the Benelux market, which is Belgium, Luxemburg and The Netherlands. So, we are trying to build up that so we have an other size of the business to fall back on. We have a small issue right now (muted) with Rodelta. One of the other issues with Rodelta that you remember is that it had quite a large presence in Iran and we had bagged quite a large order in Iran which was about 7.2 Mn Euros and now with the deadline coming when we are in a very big push to ship out most of that order. So, most of the parts are almost complete and in the process of pushing it out. But that is a concern for us right now. Because (we are trying to say how)… the financial transaction would stop on the 4th of November but the banking transactions for all practical purposes will stop on 2nd of November. So, we are trying to see how fast we can get everything out without having any issues created for ourselves there. But given the order books that have been building up in Rodelta slowly we are getting better from a number point of view. KBTL is slowly moving away and if you remember it used to be completely project oriented, which is just large pumps and selling and trading large pumps for KBL and installing them. But now we have moved that business. Almost 80-90% of the business to everyday daily products small pump, which is also one of the reasons that we are now seeing a little bit more stabilised revenue coming from KBTL. One of the reasons we also (you remember putting some money into KBTL) was to set-up a manufacturing facility, which is not a kind of a manufacturing but an assembly facility and it is a leased facility and a small debt facility because of the new RC and route coming into effect where there is now duty on products which are not classified as RCR . I mean 35 to 40% local contact for RC and requirement. So, now slowly they are seeing that change happening in KBTL.

Mr. Anuj: Okay. So, overall the result of these would be visible in next year? Is that correct?

Mr. Alok Kirloskar: I mean you should see profit in this year in KBTL also. I think we are expected to see the numbers way better than the last year in KBTL. And I am hoping if everything is alright than I am hoping that even Rodelta also should be much better than last year. So, those are the two questions you asked. South-Africa, I think also… I think you didn't ask that question…but before someone asks us, let me give you the update. South Africa, as you know has been suffering from the black-empowerment and all those kind of things going on there. We did set-up a black empowerment company little bit separate from our main company and we are trying building up the orders for South Africa now at a PBIT level, it's becoming profitable. That is a big change for us, even given the hard market conditions and you know the lethargy in the market. But we have controlled the cost and are now slowly raising that business coming out of the woods.

Mr. Anuj: And, domestically, these slow moving orders that were there or these legacy orders that we call it, what would be the situation there?

Mr. Sanjay Kirloskar: I think you are talking about that company-wise pending orders and the update excluding order kept on hold (INR 229 crores) and orders for which work has also not commenced. So, orders which are kept on hold (229 crores) is the same number as March while orders for which work has not commenced has reduced by 40 crores. We have been able to get one more order cancelled officially.

Mr. Anuj: Ok, so that 40 crores order has been cancelled?

Mr. Sanjay Kirloskar: Reduction is there. Yeah

Mr. Anuj: Alright, Sir. I'll get back to you.

Host: Thank You, Sir. Participants having any questions please press * and 1. Our next question is from Mr. Manish Goyal from Enam Holdings. Please go ahead, Sir.

Mr. Manish Goyal: Yeah, very good afternoon, Sir and thank you very much. Just on the domestic front, how are we seeing the emerging liquidity crisis which is happening? So, are we seeing any impact at company level or (say) market level?

Mr. Mate: No, we are not witnessing any such issue.

Mr. Manish Goyal. Okay, okay.

Mr. Mate: Basically, that liquidity crunch may be to those who borrow from NBFCs and such institutions. It may affect to some extent housing and consumer goods, but we haven't experienced any such issue.

Mr. Manish Goyal. Okay.

Mr. Alok Kirloskar: I think, after all our experiences, the credit control has been extremely strong. We also evaluate the private sector companies which we have dealt with in the last few years. So, we don't have exposure to any of those companies matter before NCLT.

Mr. Manish Goyal: Okay. And if you can provide insights as how B2B and B2C segments have done? Which is growing faster and how is the outlook?

Mr. Anurag Vohra: Manish, I think the outlook is quite positive on both the segments. As far as the B2C segment is concerned, you know, it's an excellent growth which we have got over 20% + and that's also because we introduced certain new products, we improvised on the certain existing products and the product performance has gone up far beyond what even the customer expected and it's also with a less consumption of energy. So, the new products are good of uplift and then on our channel strategy, we are moving now making deeper inroads into the rural market. That is helping us a lot.

Mr. Anurag Vohra: And we see this growth to continue as far as the B2C business is concerned and as far as B2B is concerned, you know as Mr. Alok Kirloskar mentioned that we are, I would say, cautiously optimistic in keeping the credit under control. We have a good order book available with us and there also we have registered a growth of 15% and we don't see any slowdown coming very soon.

Mr. Manish Goyal: Sorry, what growth you mentioned

Mr. Anurag Vohra: 15%. In B2C, the result is 20%+ and B2B it is close to 12-15%

Mr. Manish Goyal: Okay, because in presentation it is mentioned that projects is 5% of the revenue. So, doing a back of hand calculation I am getting that products business I am seeing 32% growth…from 352 crores to 464 crores. Is it a right assessment?

Mr. Mate: I don't know from where it is coming but….

Mr. Alok Kirloskar: Yeah, but hey, Manish, we discussed this once before, the definition of 'product' has changed significantly in KBL now where I think now majority of Irrigation, Water, Power, which if you remember, in the past, we called 'Projects', all that is now 'Products.' So, we are saying that, actually, and we are also saying something else. Now, majority of the projects or business done in, let's say done in, Irrigation, Water and Power are products, where there is no project. So, we are mainly saying the same thing but calling it differently.

Mr. Manish: And Alok as you were mentioning our Rodelta's large order in Iran…so, (like) 4th November is very close now..just a week away. So, is it that we will probably wait? because of the payment issue, we may not dispatch? or what exactly……

Mr. Alok Kirloskar: Manish we have an LC, and so we are trying desperately pushing today… to dispatch everything right now…before the deadline. So, there's a shipment going out yesterday, today. It's just about getting it fast enough so that we get the last led billing document so that we can claim under LC. That's the main thing that we are doing.

Mr. Manish: Okay. So, any positive on achieving the same in the current year itself?

Mr. Alok Kirloskar: We are cautiously optimistic. (laughs).. yeah, we will try our best to push everything out. You know how these things are…..

Mr. Manish: Yeah, because our expectation was that the overseas subsidiary would…kind of we were looking to breakeven in the current year, so I was just wondering because even Thailand, Rodelta and SPP…..So, overall, Alok, if you can give us a sense (about) that… because almost 9 months are over in UK and you said 40% of the revenues had to be booked in Quarter IV. So. is it that we would meet our target of breaking even or we will fall short of that?

Mr. Alok Kirloskar: No..No..I think, Manish we are trying to do that but, as you can understand, that puts a lot of pressure on the plants.. and lot of this is built up in WIP or almost in finished goods..even then, a lot of it, when we say, these numbers, a lot of these are constituted in our 15 orders and the entire 40% is across 50 orders to just give you a number. So, the 50 orders constitutes all that and among that about 15 are very large orders….and so getting them out very often is a difficulty because sometimes the Oil & Gas customers are being difficult. The industry has gone through a really hard phase..and many oil & gas companies are short of cash. So, very often we are trying to push the orders out a little bit here and there to manage their cash and so they don't allow us to dispatch. So, it's a combination of a few things but, yeah, like we said, we are trying our best to get everything out.

Mr. Manish: Sure, and now with scenario inferring on Oil & Gas, going forward, say, next year…how do you see this…(like) can SPP go back to its old days in terms of growth and profitability?

Mr. Alok Kirloskar: I don't think it will go back to about 6 Mn….I think, you are referring to the rate of 5 Mn or 5 and half Mn Pounds standalone profit?

Mr. Manish: Correct, yeah…

Mr. Alok Kirloskar: I think it will be a difficult right now because the oil prices at that time had crossed over $100 a barrel, actually $140 a barrel, and just to put it in context for you, in those years, we used to do 9.5 Mn Pounds of spare business and now we are doing just about 4 Mn and there you know we generated over 50% profit. So, I mean, thats probably the focus that we are driving to get the sale back up and that's why we are trying to have this frame of agreement. Of course, in a frame of agreement, you can make the same amount of profit but you can make much higher profit on that then you can from selling products. So, that's something that we are trying to do to start getting back to that level but it will not get to that level unless the oil prices are, like you say over a $100 or $110 a barrel.

Mr. Manish: Sure, okay. But it can definitely be better than currently?

Mr. Alok Kirloskar: It will be more in line with the 2006-2007 numbers, where oil prices were around 72-73.. that level.

Mr. Manish: Sure, sure. And on coming back to domestic, on project side, now as we see, on every quarter we are closing few projects on both the commercial side and the financial side….so, just wanted to get a sense about how many more projects are there and what's the target for the current year and would it be that a lot of these legacy projects would be completed by year end?

Mr. Sanjay Kirloskar: I don't have the exact numbers, Manish, but I call tell you, we are ahead of our targets, in number of projects to be closed and amount of money to be collected. I can send you the numbers exactly may be by mail or something.

Mr. Manish: Sure. Sure, Sir.

Mr. Sanjay Kirloskar: I could say that things are moving faster, but you never know in this business, sometimes it moves fast and sometimes it slows down but atleast for this half year, we are ahead of our target for the year.

Mr. Manish: So, Mr. Kirloskar, do you expect that a large part of these legacy projects business or legacy projects would probably get completed in the current year?

Mr. Sanjay Kirloskar: We will try our best, but if you remember what the number was, a large part of it is over and now the smaller part is left.

Mr. Alok Kirloskar: So, we are sure, you will remember what the numbers were back then.

Mr. Manish: Sure, sure, okay

Mr. Sanjay Kirloskar: I think what we have done is that every single one that has been closed has been closed to the entire satisfaction of not only the customer but also all the suppliers that we have dealt with. So, we value the brand, we value the name, and we will make surely that everyone at the end, will walk away from the project, whether it is closed, whether it is completed, whether the order is cancelled, all the stakeholders will be happy that whatever they expected from KBL, has been done properly.

Mr. Manish: Sure, sure, Sir. And last question, how is the execution on the export orders of Senegal and Suriname, Sir?

Mr. Sanjay Kirloskar: Senegal and Suriname are going a bit slow. The reason for that is because the Government of Senegal has not been able to exactly identify the land that they want irrigated. And Suriname, I think, a part of the problem….one is mostly over….. I mean what we call Suriname-I is (mostly) over, supplies have been made and all the last few items are in transit.

Mr. Manish: Okay, thank you, so much, Sir.

Mr. Sanjay Kirloskar : Manish, it's not been billed yet because it is in transit, and we can only bill it after it reaches the site.

Mr. Manish: Fair point, Sir. Thank you, so much, Sir.

Mr. Sanjay Kirloskar: Thank you

Host: Thank you, Mr. Goyal. The next question is from Mr. Pawan Parakh from Reliance Investments. Please go ahead….(dead air) Mr. Pawan, you can proceed, Sir….(dead air) Hello, Mr. Pawan, are you there?

Mr. Pawan: Yeah, yeah, yeah.. Hello, Hi Sir. This is Pawan from Reliance Investment. Yeah, am I audible?

Mr. Sanjay Kirloskar: Yeah, yeah, completely.

Mr. Pawan: Yeah….

Mr. Sanjay Kirloskar: Hello…

Mr. Pawan: Yeah….

Mr. Sanjay Kirloskar: Yeah, you can go ahead.

Mr. Pawan: Yeah, so I understand we have made 23 crores of provision, which is higher than what the provision we made for the entire year FY18. In FY18, we made a provision of about 21 and half crores. So, I am trying to understand why is the number so high in particular quarter?

Mr. Mate: There are two aspects. One is the normal provisions which we make for our slow moving inventories based on age or receivables and the second is the new accounting standard Ind AS 115 which has come, which requires provisions to be made. Particularly for expected credit loss or the WIP work for which billing has not happened over a certain period, and we have made provisions as per that also. The total for half year has increased.

Mr. Pawan: Okay, okay. But, Sir, in general, are we seeing delays in payments from customers?

Mr. Chittranjan Mate: (from) for our normal customers, there are no delays.

Mr. Pawan: Okay. So, the payment terms or the payment, actually as per the traditional terms, but there's a new accounting standard that's made us to this

Mr. Chittranjan Mate: Yes, Yes

Mr. Pawan: Okay, so, essentially this could haunt us in future quarter also?

Mr. Mate: The effect may go slowing down. Initially, we had to provide as per new standard the entire amount, and thereafter only incremental amount, if any, will be provided.

Mr. Pawan: Okay, okay. And Sir, as we highlighted on the call that we had to recall pumps for some of the firefighting sets in SPP, what is the expenditure we would have done for this?

Mr. Alok Kirloskar: The budget and expenditure for just doing the recall was little over 600,000 Pounds, but they are other fees some other that we added on top because now we will have legacies, we will have in case anything on the customers, we will have to also have some fees for us going after the suppliers because it is not our part that had a mistake, it is an externally supplied part that had an issue. So, there are couple of aspects like that. And, also a big issue for us was the heavy loss in service business. Because the only way we could get it done immediately was redeploying our entire service team. Normally, it is privileged business, due to the replacement jobs on this recall. So, almost our entire service team which normally does off-shore servicing at 2000 Pounds a day if not more than that, plus all the cost and plus all the parts that they sell….for the last few months, it is busy doing these recall replacements.

Mr. Pawan: Okay, so, 600 thousand Pounds essentially covers everything? Had this not been for this particular event or the PBT would have been higher…..

Mr. ALok Kirloskar: No, 600 thousand Pounds was the cost of replacement

Mr. Pawan: Okay, …In addition …the additional deployment

Mr. Alok Kirloskar : The additional cost than we have kept aside, because the individual cost, legal, etc., etc. cost as I mentioned and there is a few intangible costs that I cannot give you the number, I mean I could give you the number but it is basically a lots of opportunity costs and not a number. I am not going to give you, I can give you a number but that is not in our account, but that number is the number that we have lost, that we have not done service one basically, because…..a very profitable division for us.

Mr. Pawan: But, Sir, had it not been for this event our profits would have been higher by atleast about, in INR terms, about 6-7 crores?

Mr. Alok Kirloskar: Possibly, more that that because we would have also done service work. So, we would have done atleast 2 Mn Pounds or 2 and half Mn Pounds of service work at 50% margin.

Mr. Pawan: Hhmm.hhmm. Right, Right, Right, and Sir, finally, just to clarify, as of now what all do we include in projects?

Mr. Alok Kirloskar: Sorry, what all to be included?

Mr. Pawan: In terms, of break-up between products and projects, yeah, right, in that…

Mr. Alok Kirloskar: Yeah, I mean, as I did make a point where Manish has been involved with the company for many years. So, he understands, in the past Irrigation, Water and Power were Projects division because we booked a full project so if did a Power sector we got an order for Power …it will necessarily not mean that we got the pumps it would mean that we got the civil work for the intake water systems and the pump and the pump itself and the pump house and all the civil works and valves and travelling screens and everything else that goes with it, cranes, and all that stuff, transformers and all that in the Power plant. If you said, we got a Water Supplier project that includes a large pump house, pipeline, pumps, the entire pump house with all the amenities that go inside a pump house and all that kind of stuff. Similar with Irrigation. Now, when we say that we don't mean that we are getting order for all those civil and piping and all that stuff, we only have an order for a pump and a motor to drive that pump.

Mr. Pawan: And, Sir, regarding the 229 odd crores of project in hand, is there any…so there is no revenue booking happening for those orders. Is there any cost setting with respect to those projects?

Mr. Mate: Which are kept on hold is one thing

Mr. Pawan: Yeah

Mr. Mate: Where work has not commenced, it is another. Wherever the work (is) kept on hold, if it is incomplete work, then the Government again lift the hold, we have to keep it intact. So, we have to see that it is properly insured, watch and ward all is there. So, some costs are there.

Mr. Pawan: Okay, and wherever work has not commenced? There there's no cost?

Mr. Mate: There's no cost. Yes

Mr. Pawan: Okay, and Sir, one final thing, in our presentation wherein we have given the order book based on Irrigation, Water Resource Management and others, there has been a jump in the Water Resource Management orders. So, basically that number in terms of order book has been anything between 90 to 100 crores. Now that has moved to around 300 crores.

Mr. Sanjay Kirloskar: Yeah, so if you see the first item on page 3 of the presentation…

Mr. Pawan: Yeah, it shows close to 200 crores.

Mr. Sanjay Kirloskar: Yeah

Mr. Pawan: Okay, okay, okay. And Sir, what is the execution period for this 200 crores order?

Mr. Sanjay Kirloskar: 36 months.

Mr. Pawan: Okay, okay, and this order includes only the product value or the maintenance and other things…

Mr. Sanjay Kirloskar: See, mainly product value and some civil work.

Mr. Pawan: Okay, okay. Great, Sir. Thank you so much.

Mr. Sanjay Kirloskar: Thank you

Host: Thank you, Mr. Pawan. Participants (with) any further questions, please press * and 1. Ladies and Gentlemen, please press * and 1 for any questions.

The next questions is from Mr. Shrimant Duderia from Unify Capital. Please go ahead, Sir.

Mr. Shrimant: A very good afternoon. Thank you for the opportunity, this again is a question to Alok. On the cost of the recall, you mentioned 600,000 Pounds for the Quarter 1 by how much more would be the cost coming because of this recall in the subsequent quarters?

Mr. Alok Kirloskar: The cost that I mentioned is the direct cost. As of now, we have completed the recall. So, we have to see what comes up. We don't know if there will be any legal issues as of now because, obviously, when we did the recall, I mean, you never know (how) some customers can be difficult because they said that they are building like in which we have pump operating for those few hours and they will be doing the change out and things like that, so, as of right now we aren't expecting anything. That's the number we have budgeted in for the time being. The legal cost is because we are going to go up with the suppliers who have provided sub-standard products that have led to this issue and, obviously, hurt us in the market and hurt our profitability. So, there will be some additional costs for the legal charges to go after the suppliers and recover our money.

Mr. Shrimant: Sir, Thanks. My second question (is) on the Small Pumps division. How significant was the contribution of solar pumps in that segment?

Mr. Anurag Vohra: The total segment, of course, it won't be that high but there's a growth of almost over 50% which has happened. But if you look at the total pump sale which has happened the contribution of Solar Pumps Business (as a contribution) won't be high. But whatever we have done we have done in a profitable business, we have done here. I mean, we have gone for money in advance, cash in advance, it's a product sale which we have done and that's what we are looking at in this business.

Mr. Sanjay Kirloskar: We are not doing a system sale, you know, what we see sell is only the pumps, to many system integrators because that's the only way to ensure that we receive our money before time.

Mr. Shrimant: Sure, Sure. So, you don't deal with the respective state governments participating in the tenders

Mr. Sanjay Kirloskar: No, we don't deal with them.

Mr. Shrimant: Sure

Mr. Anurag Vohra: You know now what has happened is that the demand for our pump has started moving up. In fact, in some of the tenders it has now started coming in also…the Kirloskar solar pumps. I mean that's how the system integrators are taking it forward because the product performance is good.

Mr. Shrimant: Sure, Great. So, you know the good growth in the volumes in the Small Pumps Business (SPB), was it driven by any market share gained from the unorganised segment or the industry itself has grown to that extent?

Mr. Anurag Vohra: See, it's like this. Yes, there also has been a consolidation which has happened in the market after the GST has come in, because there is a lot of unorganised market was there in the SPB business, but largely if you look at in the smaller pump business, as we mentioned, we have grown by almost close to 20% +. It has largely happened because of addition of new products which came in the market, improved products which came in the market, with over 25-30% I would say, improvement in the next competitor in terms of the discharge in terms of performance and around 20-25% less consumption of electricity. So, that has helped us a lot and then the other thing what has happened is, as we mentioned, our rural ingress, the dealer channel ingress into the rural market has been from cities to towns to villages...now, that foray has also let us have good penetration in the depth in the channel which we have, which has given good returns. The other thing is that last year, our small pumps business, also included the motors. We were also selling the house motors and this year it has not included that. So, this growth is remarkable and, I think, we would have left or we don't have organised data as such coming in as it comes in periodically but we would have left behind various competitors far behind as far as the growth is concerned. The products are, as you know, as the times as the consumer is also getting….this consumer is also getting more and more educated our unique strength in terms of the good product and the brand value is helping us a lot in improving our market share in this segment – Small Pumps Business.

Mr. Shrimant: Sir, but is there any specific geography within the country, which is showing much much volume growth as compared to the rest of the country?

Mr. Anurag Vohra: It has actually happened all over the country I would say. I mean, be it UP, Bihar or even the in Southern States, Western states, it has come from all over, I would say. I mean there is not one specific state that we can highlight that it has had a larger growth of over 50% or so or the decent growth coming all across, even from East also.

Mr. Shrimant: Okay, okay, Sure, Thank You and All the Best

Mr. Anurag Vohra: Thank you.

Host: Thank you, Sir. The next question is from Mr. Satish from Edelweiss. Please go ahead, Sir.

Mr. Satish: Yeah, hello, Sir. This is Satish from Edelweiss. Sir, one the standalone if we address for provision and net for exchange, our EBITA margins are above 9% on a standalone level and close to 10% probably. So, this kind of margin has come in after a long time and if we remove the loads can we sustain the margins at this level going forward?

Mr. Sanjay Kirloskar : We believe that and also in saying the same and improving as we seem to be….we should be able to maintain that

Mr. Satish: Okay. Fine on the provisions, now that we have executed most our businesses, primarily the Products business, then why the issue of receivables for inventories….it is in the system for a long time…. coming up because execution cycle is not that high compared to projects business in a short-term cycle. So, why is this issue coming up and probably from which sector is it coming up, Sir?

Mr. Mate: About inventory, what I would say, even if we are in Products business, our major products are made-to-order products (right) and if it is a made-to-order product, it has a long order execution period. During order execution, there can be some engineering changes, there can be some imbalances and that creates some slow-moving inventories. Efforts are made to connect it to some next order or change its usage but it gets generated. So, even if we are on Products business also there can be slow moving inventories, some delays in customer inspection receiving payments.

Mr. Sanjay Kirloskar :This is mainly for large products, but also on the Projects side, there are still Irrigation and Power sector orders, there are still quite a large number of Power companies that have not been able to finish/complete their projects. And KBL had a very high market share in all kinds of pumps supplied to thermal power plants. So, there are some issues on the Power side as well as the known issues with the state Irrigation department.

Mr. Satish: Right, Sir, these are ongoing orders right, not from the legacy orders?

Mr. Sanjay Kirloskar: No, these are a lot of legacy orders as well. Ongoing orders, actually, I am very happy that all of the new orders are moving without any issues.

Mr. Satish: Sir, and these legacy orders will be below 200 crores mark?

Mr. Sanjay Kirloskar: Yeah

Mr. Satish: Okay. And receivables from the retention money stuck with the government, it would have also probably perhaps fallen below 200 margin with recover of 60 odd crores?

Mr. Mate: No, these still are around 300 and odd crores.

Mr. Satish: Okay. Sir, despite…(interruption)

Mr. Mate: As was mentioned.. these are all not stuck projects. Certain work is been completed and we are closing project and it would be recovered as we go on closing the projects. 300 and odd crores are project dues but all are not old projects. Old projects, and which are stuck ones.

Mr. Satish: How much are the old projects which are some…like…

Mr. Mate: About 200 crores

Mr. Sanjay Kirloskar: About 200 crores is the old projects.

Mr. Satish: Right, right

Mr. Sanjay Kirloskar: Actually, it was very close to 550 crores at one time.

Mr. Satish: Yeah Yeah. And, Sir despite recovery of retention money of 60 crores, our borrowing have not fallen by that much for this…it has gone up slightly on a year-on-year basis in standalone. Sir, is it mainly because of our working capital requirement?

Mr. Mate: There is one thing, if you see last three years, then year-on-year our borrowings have come down. Borrowings at one time used to be in the range of 250-300 crores in the last three years and prior to that it (they) were around 500 crores. Only the current six months, the borrowings have gone up because we are having some capital expenditure and our inventory has gone up and….(interruption)

Mr. Sanjay Kirloskar: Suriname has also not…

Mr. Mate: Yeah and Suriname….because (in) Suriname….we have supplied but it is yet to be billed because it is on a CIF basis, and it takes more than 2 months in transit and handing over.

Mr. Satish: Okay, okay. Sir, for the next quarter, the borrowings will fall?

Mr. Mate: Yeah, we are making all efforts to bring it back.

Mr. Satish: Okay. And Sir, in the small pumps business, I think, other companies are also reporting good results. Just wanted to understand whether we are the leaders in this segment or how big is it? If not, then how big is the difference in terms of revenues, overall?

Mr. Anurag Vohra: We are among the top 2 in this. Between us and CG (Crompton)

Mr. Satish: Okay

Mr. Anurag Vohra: And also in…

Mr. Satish: Yeah, yeah,

Mr. Sanjay Kirloskar: CRI, CG and us. That depends on the sector.

Mr. Anurag Vohra: See, as far as the small pumps business Industry sector is concerned, we are no.1.

Mr. Satish: Okay

Mr. Anurag Vohra: When it comes to the Domestic sector, CG would be no. 1 and when it comes to Agriculture, CRI would be no.1, but then…(interruption)…when it comes to the Retail sector, as such overall we would be no.1, but when it comes to Agriculture, there we would be at no.3 position.

Mr. Satish: Okay, so Retail and Agriculture…..

Mr. Anurag Vohra: Yeah, but in Agriculture, there we are getting a maximum growth now, as I said, new products coming in, very well being accepted in the market and I think in the couple of years, you would see a good position there also we get.

Mr. Satish: Yeah, but I am not sure, the margins from your point of view are the best in Agriculture but better in Industry in Retail.

Mr. Sanjay Kirloskar: Yeah, Yeah. But growth will be faster, overall?

Mr. Satish: Yeah, yeah.

Mr. Satish: And there also you will be selling on 100% advance

Mr. Anurag Vohra: In fact, I think, for all these ventures also, we are probably the only company in small pumps business which does business on cash and be it only small pumps. All others are on credit, one month, two months, three months, I mean, quite unorganised in that manner.

Mr. Satish: Okay. Okay, Sir, Thanks a lot.

Host: Thank You, Sir. As there are no more questions, I would like to turn the conference over to Mr. Mate. Please go ahead, Sir.

Mr. Mate: I take this opportunity to thank all the investors for their interest in KBL and I close this meeting. Thank You.

Mr. Sanjay Kirloskar : Thank You.

Mr. Anurag Vohra : Thank You.

Everyone: Thank You

Host: Ladies and Gentlemen, this concludes the conference for today. We thank you for your participation and connecting with Tata Tele Business Services. You may please disconnect your lines now. Thank You. Have a great day!!