Transcript – 11th May, 2018

Host: Good Evening, Ladies and Gentlemen. And thank you for standing by and welcome to Kirloskar Brothers Limited's Fourth Quarter of Financial Year 2017-18 annual call. Joining us in this conference room are the Chairman and Managing Director (CMD), Mr. Sanjay Kirloskar, Director, Mr. Alok Kirloskar, Director, Ms. Rama Kirloskar, India Business Head (IBH), 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 March 2018. All participants are requested to refer to the presentation, which is available on the company's website i.e. www.kirloskarpumps.com before the meeting. As a gentle reminder, during the duration of the presentation, all participants are (in) Listen Only mode. There would 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 phone. Please be advised that this conference is being recorded today. I will now hand over the conference to Mr. Mate. Over to you sir.

Mr. Mate: Good afternoon and welcome everyone!! Firstly, let me apologies for the delay in uploading the statement. (First thing) our board meeting got over at 04:00 p.m. and then we uploaded it. I would start with the disclaimer statement. This material may contain forward looking statement regarding Kirloskar Brothers Limited, our corporate plan, future financial condition, future results of operation, future business plans and strategies. All such forward looking statements are based on our management's assumptions and beliefs in the light of information available to them at this time. These forward looking statements, are by their nature, subject to significant risks and uncertainties and actual results, performance and achievements may be materially different from those expressed in such statements. Factors that may cause actual results, performance or achievements to differ from expectation include but are not limited to regulatory changes, future levels of industry, product supply, demand and pricing, weather and weather related impact, wars and acts of terrorism, development and use of technology, acts of competitors and other changes to business conditions. KBL undertakes no obligations to revise any such forward looking statements to reflect any changes in KBL's expectations with regard thereto or any change in circumstances or events after the date hereof.

Now, I start with sector-wise highlights. First, I would take Water sector. With focus on products business, this year, the total order booking done under Water sector is only for products business. We continue to book orders for value added products like LLC and Autoprime. We commissioned specially designed largest HSC pump with bottom suction arrangement under Calcutta (Kolkata) Environmental Improvement Investment Programme. Under the Irrigation sector, despite stiff competition on price basis in the domestic market, we were successful in booking product orders for projects like Sauni, Piyaz and Orissa cluster. With increased focus on the order for smaller and medium sized VT pumps, we booked various orders from Haryana and other states. About Power sector, the low order intake is mainly because of sluggish growth in the thermal power segment. Of the planned fifteen ultra-mega power projects of 4000 MW each, only two projects (UMPP) have been commissioned till date. All other UMPP's are on hold due to environmental, land and financial issues. On the backdrop of above scenario and continued stiff competition, we received order for supply of concrete volute pumps (CVPs) for Jawaharpur Port and Obra projects. The estimated potential of small hydro projects (SHPs) in India is about 21 GW. The Ministry of New and Renewable Energy (MNRE) has set-up targets for adding about 5 GW per year through installation of new SHP's. However, the actual speed of project completion is very slow since the developers continue to face financial and project clearance issues resulting in long delay in project initiation and execution. Regarding Oil & Gas sector, prestigious order received for FM/UL pumps from Oil India Limited. In the Marine & Defence Sector, this year, we received major order to supply water-mist system for a Defence project. In the industry sector, we successfully entered the critical application segment in steel plant with order for Rourkela Steel Plant for thermic fluid process pumps. In the Building and Construction (B&C) sector, we continued to promote hydro Pneumatic systems, which have yielded good results. We have received orders for Lucknow, Jaipur and Nagpur Metro projects. We have received order for our fire sprinkler system from SPP UK. In the Valves sector, the major orders received in this year were PHED Rajasthan, Sauni Yojana, Mohanpura, etc. In the Small Pumps business, despite challenging market conditions ~~was~~ due to aftermath of demonetisation coupled with knee jark reaction of market to adapt to new tax regime, we have closed the year with a fair growth over previous year. The new products introduced in the last two years and the current year have enabled us to improve our sales. About plant highlights, Kirloskarvadi –This plant has registered 18% growth by value over previous year. Kirloskarvadi plant has, during the year, executed several prestigious orders like YeH in hole package 1, 2, 3 and 4, Al Majiis, Oman, Telengana project, Sonia Sugar in Thailand, etc. Small Pump business plants include Dewas, Sanand and Kaniyur. Dewas plant has been awarded with the Green Co. Gold certification by CII, with TPM being implemented and improvement initiatives in place, this plant is expected to improve production volumes to meet the market demand. The plant capacity utilization has improved in this year. A total of 30 new products have been developed and productionized during the year. Kondhapuri- This year, we received approval from agencies such as AECOM, MJP and MIDC. Kondhapuri plant won 2nd Prize in 12th State Level Awards for Excellence in Energy Conservation and Management under SME sector for year 2016-17. Shirwal- KBL is the only company in India to have fully automated test set-up for HYPN systems. This year, the plant manufactured new products like fire sprinkler system, skid-mounted HYPN system, CPBS pump wave model. Next page 7 shows pending order position as of 31st March. Here we have given column wise quarter-wise comparison as at (on the basis of) pending order as of June end, September end, December end and March end. As of March end, we had total pending orders of Rs. 1482 crores. At the end of this statement, we have shown value of orders received in each quarter for KBL standalone as well as KBL consolidated. These orders exclude orders which were kept on hold and where work has not commenced. Coming to financial highlights, first I would start with standalone highlights, revenue from operations was Rs. 1,913 crores as against Rs. 1,736 crores in the previous year, which is a growth of 10%. On sale of product sector, it was Rs. 1,487 crores as compared to 1,282 crores in the previous year showing increase of 16%. Sale of project sectors was Rs. 418 crores as compared to Rs. 453 crores, which shows a decrease of 8%. Ratio of project sector sales to total sales now stands at 22% as against 26% in the previous year. Further, product sales in the projects sector were 72% as against 66% in the previous year. Less than 7% of revenue came from pure project activities. KBL continued with the policy of dispatch only against recovery of money for projects business. Composite material cost has increased by 1.8% over previous year. Material cost of manufactured products has increased to 53.9% from 50.5% in the previous year mainly due to change in product mix. Share of spares sales in total sales has come down as compared to last year. Impact of rise in input material prices previous year's sales included execution of few orders where MSR was very low. Finance cost and depreciation for the year are Rs. 25 crores and Rs. 35 crores as against Rs 32 crores and Rs 40 crores in the previous year. Operating profit for the year is Rs. 96 crores as against Rs. 70 crores in the previous year. Profit Before Tax (PBT) for the year is Rs. 92 crores as against profit of Rs. 53 crores in the previous year, which shows a rise of 74% over the previous year. Inventories have increased to Rs. 312 crores from Rs. 260 crores, as at 31st March, 2017. Despite rise in sales by 10%, total receivable including retention have remained at same level with decrease in retention by Rs. 36 crores. Working capital borrowings as ~~of~~ at end of the year were Rs. 118 crores as against Rs. 190 crores in the previous year. Return on capital employed has improved to 11.1% from 8.3% in the previous year. The subsequent sheet would show financial figures which ~~are~~ I am not reading individually but which you can see. Sheet number 10 is about three years comparative data on turnover, total assets in the last three years. Sheet number 11 shows shareholder's funds, borrowings and important ratios like EBDITA / PBT / PAT to sales and cash profit earned. Next slide, slide number 12 shows earning per share, dividend payout, dividend percentage, book value of share, market capitalization and number of employees. Slide No. 13 is about consolidated Financial highlights. Consolidated turnover has increased by 9% to Rs. 2,742 crores In CY as against Rs. 2,526 crores In PY. PBT of domestic subsidiaries is Rs. 23 Cr. As against Rs. 8 Cr. In PY. Turnover of overseas subsidiary companies has increased by 8% to Rs. 847 crores from Rs. 786 crores in PY. International subsidiaries made loss of Rs. 40 crores as against the loss of Rs. 45 crores in PY. With stabilisation for up-trending global oil prices, we expect further improvement in performance of overseas subsidiaries. Total consolidated PBT is at Rs. 73 crores as against Rs. 16 crores in the previous year. Total group borrowings stand at Rs. 346 crores as against Rs. 369 crores in the previous year. Next slide shows financial data about consolidated results. i.e. turnover assets, investment, borrowings, reserves, PBT, PAT. Slide 16 shows company-wise total income PBT, income Tax (IT) and Profit After Tax (PAT) for parent company as well as subsidiary companies. And the next two slides show the summary of balance sheet for parent company and other subsidiary companies. Thank you.

I would (now) like to open the session for questions and answers.

Mr. Balchandra: Hello

Mr. Mate: Yes

Host: Mr. Balchandra, please go ahead

Mr. Balchandra. Yup. Hi Sir. Good Evening. Sir, regarding consolidated figures, just wanted to recheck; in the presentation, we have not mentioned SPP Pumps. So, will it come under Kirloskar International BV head?

Mr. Mate: Yes, you are right. In consolidation, if you see, Kirloskar Brothers' investment we have shown, Kirloskar Brothers International BV (as) consolidated. So that includes the results of all overseas subsidiaries.

Mr. Balchandra: Okay. And Sir, regarding our SPP Pumps, I would like to know, when we say the book-wise consoles (consolidations) minus standalones, will it be majorly related to SPP Pumps or there will be other subsidiaries also which will be having some share in it?

Mr. Alok Kirloskar: The others would have a share in it. I think, majority of it possibly in that point of time would be SPP Pumps. Because this is ending December.

Mr. Balchandra: Okay

Mr. Alok Kirloskar: Majority would be SPP, but there would be others also having a share

Mr. Balchandra: And Sir, in SPP Pumps, again, because crude oil prices are going up, (but) is it fair to assume that in CY 18, probably, the Oil and Gas industry related we may see jump in order inflow or improvement in overall demand?

Mr. Alok Kirloskar: Yeah, I think, in the numbers, SPP had a loss of (this year) approximately Rs. 4 crores. It (the loss) has reduced significantly over the last two years. And, I think, this year, like we had mentioned, last time we had done a lot of cost-cutting, etc. like redundancy and things like that. And, of course, those cost-cuts (amounted) for a good amount of money last year. The redundancy cost. And, of course, those are included in our numbers. But, this year, I think, as of course like you said, the oil prices are lot higher. We are seeing renewed activity in new products but also in spare parts and service. I mean one of our focus areas has been spares parts and service. Because as soon as oil has crossed about $40-50 a barrel, the offshore platform comes back alive. And majority of SPP's traditional base has been in the offshore market. As I said before also we have 45% market share in any offshore platform in the world. But when the oil prices went below $45, most of the platforms were not operational, which meant we did not get any spare parts and nor did we get any services. It was quite detrimental for the company. But as the prices have come up, (I think) one of the important things that we have noted is that people have been operating them and to operate them they need to buy some spare parts and that's an area where we have seen that the order book there has seen growth. And of course, there's been order book growth on new products as well on the offshore side because our margins are much better on the offshore side. On the onshore side, they are not so competitive.

Mr. Balchandra: Further, will it be fair to assume that we may be able to revive our profitability back to what we used to generate prior to the fall in oil prices (…that we generated in 14-15)?

Mr. Alok Kirloskar: Yeah, but it is not FY 15. FY 15 from SPP point of view was a loss. But if you look from KBL point of view, FY 14 numbers were above SPP's. But, (I mean) at that point of time, as you are aware, oil prices were close to $140 a barrel and then that was a whole different ball game. But, I will say that we can look at numbers close to SPP's FY 10, FY 11.. those numbers..where oil prices were equivalent. Because, obviously, at $85, people can't afford to spend money like they spend at $110 or $140. But, they are spending money and they would spend that $80-85 a barrel. So, right now, it is obviously between $70-74. They are spending money in that range as of right now. And still a lot of oil companies are recovering. I mean the only ones doing extremely well, as you probably are aware, are (is) BP and we need to see if that the numbers shift significantly but other companies like CNR and all these other companies are not yet at the level that they were when you are comparing the numbers (for) 2013 or 2014.

Mr. Balchandra: Okay..Okay…Also on the standalone side, on the domestic side, wanted to know two things. On the order book side, in projects, as you were mentioning about (that) we have now got more product orders. If you can share the percentage (like) in project orders, now how much will be the percentage-wise product orders in that order book?

Mr. Mate: If you see pending order position, as at March end, it is Rs. 1,482 crores. Out of that, roughly, I would say, Rs. 1,200 crores for project sector orders. We believe that the real project orders would be hardly ¼ of that, (i.e.) Rs. 370 to 380 crores. Other are product orders (were) booked through project sector.

Mr. Balchandra: Okay

Mr. Mate: And another thing…

Mr. Sanjay Kirloskar: For projects in those sectors and not for other sectors

Mr. Balchandra: Yeah..yeah I got it.

Mr. Sanjay Kirloskar: The Irrigation sector, or the Power sector or for Water…

Mr. Balchandra: Sure, and would like to know your comment on solar pumps and new initiative which the government has started, like the Kusum initiative. So, how do we see ourselves here onwards in solar pumps especially and the other initiatives…means Kusum initiative is (I think) related to that only. But, how we see coping up with that? Because, (I think) we have slightly lagged because of the payment terms. But, do we see a growth in that sector?

Mr. Sanjay Kirloskar: The Solar Pumps sector will grow. KBL has been growing the Solar Pump sector but I would add that all the orders that have been executed have been against almost immediate payment or payment before we get it. We are looking at the government tenders. We will make sure that money is assured. At the end of the day, there is no point in doing something which you are not going to get paid for. But we have a full range, possibly, far better than anyone else. Because our pumps also run on AC motors. So, we will be able to do 100-200 kW pumps and we have also got orders for very large pumps for Solar. I will ask Mr. Vohra also to brief you on the different activities that are being done.

Mr. Vohra: Yeah so, you know, (with) keeping this premise that the payment and all, we are very careful, within this premise, we have doubled our volume in the last year in the Solar business. We are maintaining close touch with the system integrators (you know) and as the success rate is registered and the product performance which is performing extremely well, we are getting more and more support from the system integrators. More and more they are coming and joining us and very cautiously and optimistically we are moving on Solar business. So, we have doubled the volume, we have doubled the turnover in Solar business and going forward we look (at) it to be one of the prominent lines in our small pumps business.

Mr. Balchandra: Okay…and Sir, is there any difference in payment terms state to state-wise? Because (I think) MP and Chhattisgarh were very good on the payment terms and few of the players had really shown a very good growth in the solar pumps. So, if at all, say Maharashtra or Gujarat or Rajasthan comes out with a tender, do we (get) to see a similar kind of payment term or (there is a relatively…) you are expecting much better payment terms that what it is exactly right now?

Mr. Sanjay Kirloskar: As of now, (there) variation does exist. I mean, between the states, there is a variation which exists in terms of the payment terms. And Chhattisgarh has been perhaps the best which we have experienced (in the) last year.

Mr. Balchandra: Okay. Okay, Sir. I will come back for further questions. Thank You.

Host: Thank You for your question. We have our next question from Mr. Nirav from B&K Security. Please go ahead.

Mr. Nirav: Hello Sir and Thank You very much for the opportunity. My first questions pertains to the discovery of pricing of the conventional pumps which are sold in India. Sir, I just wanted to get some idea. Now, which GST things being in place, are we seeing a clear price differentiation across the standardised firms between the organised and the unorganised sectors? If we can just throw some qualitative comments on this thing..

Mr. Vohra: We are definitely you know I would see there used to be, the unorganised sector was operating at almost close to less than… (we have been experiencing in small pumps business) at less than 30% or 35% of the prices of the organised sector. That gap to some extent is getting breached. And, when I say this, still the difference exists for around close to somewhere between 20-25%. (but) still the difference is there. But that difference is getting narrower… (Mr. Nirav interrupts)… target change which is happening. And going forward, we see that this gap should further get breached down.

Mr. Nirav: (I) get your point, Sir. Sir, apart from that, any other sector… segments specially in the Oil & Gas, Domestic. Now the big CAPEX is also undergoing …. undergoing the consultancy of Engineers India. So are you seeing increase in tendering activities from these projects in this part and by what time are you seeing (expecting) these tenders to come in the market?

Mr. Sanjay Kirloskar: Yeah. These tenders are… (I mean) they have started coming out already. Some have also been finalised and, as you may be aware, KEPL participates in this kind of business. So, they are seeing large amount of activities and orders.

Mr. Nirav: Sir, based on an estimate, how big can be the market opportunity existing coming from this domestic CAPEX?

Mr. Sanjay Kirloskar: For Oil & Gas?

Mr. Nirav: Specially Oil & Gas. Yes. Refinery upgradation?

Mr. Sanjay Kirloskar: So, it is the same as (you know) pump value forms normally from 1 to 1 and half percentage of the entire budget plan. So, if it is Rs. 60,000 crores, then the opportunity would be Rs. 650-900 crores..for pumps..

Mr. Nirav: Get your point, Sir. My last question is pertaining to the outstanding debt. The outstanding consolidated debt is of 346 crore Rs. And if I see that number from last 3 years, it has been between 360 and 350 crore Rs. only. So, any idea.. sorry any comments as to how in this year this amount to be repaid or this number (it) can be made stagnant?

Mr. Mate: Are you referring to standalone balance sheet?

Mr. Nirav: Consolidated?

Mr. Mate: Okay.

Mr. Nirav: PPT slide no. 15

Mr. Mate: Yes..Yes

Mr. Nirav: It has… it shows 3 years financial.. consolidated borrowing of 346 crore Rs.

Mr. Sanjay Kirloskar: We expect that that will come down. (You know) the number has been coming down in the domestic business, the international business higher because of the price of oil, we have take action…but I expect that that number will also start coming down. For the consolidated basis also, it will come down.

Mr. Nirav: Sir, any number that you would be looking for? Any amount of repayment that you are targeting in this financial year?

Mr. Mate: Basically, most of these are working capital loans. These are not where the repayment is scheduled repayment is not fixed. Except the term loan taken by Kirloskar Brothers for CAPEX, which is of Rs. 50 crores. All other are working capital loans. So, repayment is not stipulated.

Mr. Nirav: Get your point, Sir. Thank you very much.

Mr. Mate: As we improve our utilization of working capital loans would come down

Mr. Nirav: Perfect, Sir. Get your point. Thank you very much, Sir. My queries have been answered.

Mr. Mate: Thank You.

Host: Thank you for your question. We have our next question from Mr. Ravi from Star Capital. Please go ahead, Sir.

Mr. Ravi: Hello

Everyone: Yeah

Mr. Sanjay Kirloskar: Yeah, could you speak a little louder please?

Mr. Ravi: Yeah, am I audible now?

Everyone: Yeah

Mr. Ravi: Yeah, Sir, we have seen some improvement in project margins in this quarter. So, that is a good thing. But for the full year, if you see, the margins, we are just breakeven at a EBT level. I know, historically, we have been increasing our product content in the project orders also. But still, margins haven't seen our recovery completely on a Y-o-Y basis. So, can you explain as to why is it that… the legacy order still are having an impact on the margins? If so, when will it turn around?

Mr. Sanjay Kirloskar: Yeah, legacy orders still have an impact and as I have said earlier it depends on how quickly the end-customer also allows us to finish. We have, also in our accounts, to show the work in progress debtors, and those have come down significantly this year and the old one's will comes down this year as we close projects. I have also mentioned earlier that, with elections looming next year, some of the state government projects, mainly on the Irrigation side, and Irrigation being a state subject, with elections coming up, hopefully we will be able to work together with our partners, which is the state government, and can bring these numbers down.

Mr. Ravi: Okay. And what would be the kind of recurring loss that has been incurred in these legacy orders on an annual basis that we have seen so that we can differentiate between the regular orders good margins and these legacy order losses?

Mr. Sanjay Kirloskar: You know, earlier this number was quite large, in three digit crores. Now it is in two digit crores. So, between (I don't know) about 40-60 crores.

Mr. Ravi: Okay, at an EBITA level?

Mr. Mate: As far as legacy orders are concerned, today it is very difficult to say, because how long it would take to complete the project, I don't know much cost escalation government customers would agree is uncertain. But, today, whatever estimated cost which we have before us, that has been worked out and based on that we have made provision for losses if we see any apparent loss.

Mr. Ravi: Okay

Mr. Ravi: Okay, Okay. Got it, Sir. And what is the kind of margin in the incoming orders that are there in the project business? Domestics projects like products business that we have seen?

Mr. Sanjay Kirloskar: It depends, sector to sector, but anything between 8 to about 15.

Mr. Ravi: 8 to 15 is the margin that we assume?

Mr. Sanjay Kirloskar: Yes

Mr. Ravi: Got it, Sir. And, Sir, we have seen very good growth in the product business. We have done close to 1,500 crores of sales in products. What is the proportion of B2C and B2B? So, basically, the small pumps sale and the sales which we do to (with) industries and etc.

Mr. Sanjay Kirloskar: 50-50

Mr. Ravi: 50-50. Got it. And the B2C small pumps is largely agri-related or residential is also there? Will we be targeting that also?

Mr. Sanjay Kirloskar: No, it is both, agri as well as residential. And to a certain extent industry.. small scale industry.

Mr. Ravi: Got it, Sir. And, are we seeing any improvement in traction from industrial space with the product business?

Mr. Sanjay Kirloskar: Our Industry sector, we have seen quite a large improvement in the last one year. A part of it was the fact that the company's output also increased also the sentiment is better. And a large number of new products have also been introduced into the market. Last year, in our Annual Report, we have spoken about our Magnetic Drive pump, Canned Motor pumps, Thermic Fluid Pumps. So, that is helping us. I think, all of you would also be quite happy to know that (note that) in March, the India Design Mark, for good design, five of KBL's products got the India Design Mark. This is for good design, innovation, etc. And most of them were for Industry as well as for Domestic products.

Mr. Ravi: Got it. And my final question would basically be, at an EBITA level, segmental level, the un-allocable expenses have increased this quarter, 30-50% increase Y-o-Y, at a standalone level. So, just wanted some clarity, Sir. What is the composition of the unallocable expense and why is it increasing a lot and will it decrease going forward?

Mr. Mate: Un-allocable expenditure is expenditure which is not for any specific sector but total company, which includes expenses on IT development, R&D, new products, strategic consulting and such other initiatives.

Mr. Sanjay Kirloskar: Last year, major one was on ERP system. We are one of the first companies, possibly in the world, to go on to SAP S4 HANA. So, that is also included in the unallocable expense.

Mr. Ravi: Got it, Sir. But, Sir, in FY 17 also, we had done some computer related service and some expenses charges were also there. So, basically, will it stop this year, or continue till FY 19?

Mr. Mate: Last year, we paid for the basic software required for S4 HANA from SAP. And this year, we got it implemented through an implementing agency.

Mr. Ravi: Okay.

Mr. Mate: As well as purchased required hardware required for that.

Mr. Ravi: Okay. What was the quantum of that, Sir, in FY 18? So, the software related…or installation related spent

Mr. Mate: It was approximate(ly) Rs. 6 crores.

Mr. Ravi: 6 crores..and any other large items were there because unallocable total was ….not of 130 crores… so that's why….

Mr. Mate: No, as I mentioned it is not only IT but R&D expenditure, other corporate items and all such other expenses which are not directly allocable to any sector

Mr. Ravi: Got it..Got it…And is there any chance of it (being) remaining flat or come(ing) down?

Mr. Sanjay Kirloskar: Yeah, it can remain flat and come down.. yeah.

Mr. Ravi: Got it, Sir. Thanks a lot, Sir.

Host: We have our next question from Mr. Harsh Shah. Please go ahead.

Mr. Shah: Hi from Edelweiss. So, my question is on international projects that you had in Suriname and Senegal? So, what is the progress there and could it be executed completely?

Mr. Sanjay Kirloskar: No, I think, we will be, the Senegal project, there were a few issues. So, that is going to be executed partly in the current year. (In) Suriname, we started execution in the current year…and that will (be) complete(d) in the current year.

Mr. Shah: Okay. But Senegal will go to FY20?

Mr. Sanjay Kirloskar: Partly this year and partly next year.

Mr. Shah: Okay. Sir, regarding Rodelta. So, what is the situation now? (means) last year, actually it was (facing) losses…would it come into profit this year and what is the order book there?

Mr. Alok Kirloskar: Yeah, Rodelta, they are expecting this year, based on the order book, that it will come into profit. It will be a marginal profit, but it will come into profit. The current order book at Rodelta is about 8 Million Euros…between 8 and 8.2 Million Euros depending when it is counted…that is about the current executable order book and that should move it into profitability.

Mr. Shah: 8 Million Euros as on today or as on January?

Mr. Alok Kirloskar: As on January… the executable order book as on January. They have executed some of it, but it will be about the same because a good chunk of that is from a single large order.

Mr. Shah: Okay. So…

Mr. Alok Kirloskar: The data can turn positive this year.

Mr. Sanjay Kirloskar: Yeah…Yeah

Mr. Alok Kirloskar: We are working to turn around and make it positive this year because there is an order… and executable order backlog to execute for us.

Mr. Shah: And what about South African operations? There were some issues regarding ownership…black ownership?

Mr. Alok Kirloskar: Yeah, South African operations, we had decent month in the first 4 months.. each month has been..as of now on target…so, as of now it is looking better…like we said, the efforts have been made in the last 2 or 3 years mainly to move away from government business, because that's black empowered or it requires black empowerment, down into retail business.. And, so, there's a lot more business done with distributors and through distributors. And that's the main focus that they are doing right now… to ensure that we get back to a level where they can (achieve a) break-even or make money.

Mr. Shah: Okay, and in the domestic business what is the progress on the retention money? You have mentioned that we have been able to reduce it but what is the amount which is still being retained by the government?

Mr. Mate: As on today, I would say, it is about Rs. 370 crores still remaining. But this year, we had a net recovery of Rs. 36 crores. As we go on completing projects, some amount is shifted to retention, and as the old projects get cleared, money comes back.

Mr. Shah: So, this Rs. 370 crores will include the current projects as well, right?

Mr. Mate: Yes…Yes…retention…

Mr. Shah: I am asking about the legacy project where the money has been stuck for a long time.

Mr. Sanjay Kirloskar: Yeah, the legacy projects in the last three years, the deduction has been around Rs. 130 crores out of which Rs. 60 crores have come in this year. So, I am hopeful that (you know) now we will be able to reduce that money.

Mr. Shah: Okay…Sir, that means total will be around Rs 200-225 crores? legacy?

Mr. Mate: Yes, if you are saying out of total 375 retention, roughly, 250 would be legacy projects and some would be coming every year as we go on executing orders related to old projects also and 10% to 15% gets shifted in retention.

Mr. Shah: Right..Right..and Sir, standalone business has, I believe, you have invested around Rs. 45 crores in the international business, right, in SPP?

Mr. Sanjay Kirloskar: KBI…KBI…

Mr. Mate: I would say about Rs. 34 crores…

Mr. Shah: 34 crores..okay, Sir that will be used for the growth of the international business this year?

Mr. Sanjay Kirloskar: Yeah

Mr. Shah: And Sir, what is the order book for international business as on today?

Mr. Sanjay Kirloskar: One moment

Mr. Mate: Roughly, to 600 to 700 crores.

Mr. Shah: Sir, that was March end. Has it improved in last 2-3 months? in international business?

Mr. Alok Kirloskar: In the last 1 month, it will be (was) marginal but it will be possibly about 4 and half Million Pounds higher, but it's marginal. That's approximately how much it will be. Because usually SPP…run rate is about 4 million a month but if there wasn't a very good month, it will be around 3 odd million and the remaining would have done an additional million or so.

Mr. Shah: But the orders which doesn't (don't) get into order book such as the smaller orders or the spare parts business will not get added here, right, in the order book? I am asking this only because in the last three months we have seen oil prices rising rapidly. So, would that…are they connected?

Mr. Alok Kirloskar: But our opening order book also had a lot of spare part orders because oil prices started rising actually from the end of last year and that's when the orders started actually coming in..from the end of last year. From October, November..that time. So, the opening order book was also quite large in terms of spare. And, again, I think, January was a big month in spares and February and March were just about average. April was a poor month for spares and this month (May 2018) looks like it will be a good month as of now.

Mr. Shah: Okay. So, looking at the current order booking internationally can we maintain a decent growth of more than 10% in the international business, for this year and the next?

Mr. Alok Kirloskar: I think, we may get 10% but one of the things we are looking at more importantly is the profitability and cash flow. So, that is the main focus area. So, there are lot of orders to be bagged, if we want orders but we are also trying to see the working capital because one of the things that even we have also looked at is that the working capital is rising. So, the kind of orders that we want.. the order profile has changed. And with the oil prices going up, the Middle East is also more buoyant, and there are lot of projects going on in places like Qatar where we have done a good number of jobs for (I think)… continuously got orders for all the Metro lines in Qatar. But, for our new orders coming up, for which if we see Qatar as an example or in Saudi, we are not taking the orders, because the payment terms with 120 days or something like that are not very suitable for what we want to do, which is to reduce the working capital. So, we are mainly focusing on ensuring that we can get better orders. The only orders that we are taking with lower margins are some offshore oil and gas orders. So, we have one offshore oil and gas order, which is at a lower margin. And the main reason it because if we want the spare business to continue, it is also important that the offshore business is feeded because that's where all the spares come from. All of SPP's spare sales come from all oil platforms.

Mr. Shah: Right.. right..okay..okay..and out of the current order book, how much will be contributed by the oil sector?

Mr. Alok Kirloskar: Presentation for the board today earlier, for SPP, our current order book is at a record level. It is at the same level as it was in 2012, which is when the last time that it was at this level, and in 2012, it was about 76% of our order book. And, today I would say it is about 41% and oil and gas as much as possible…but the oil & gas market tends to be more lucrative. But at the same time we don't want to keep going boom and buzz cycle

Mr. Shah: Yeah.. Yeah..And on the nuclear power pumps….the order that we had, has the execution started?

Mr. Sanjay Kirloskar: Laughs..(You know) there the orders that we got were actually development orders. So, we got orders for (I think) primary sea (water) transfer pumps. It was something that we had not made earlier. And for the boiler feed pumps. So, both are development orders. There is a schedule by which we have to deliver them. And we want to ensure that we increase the confidence level of the nuclear establishment by ensuring that we take less time than what has been given to us.

Mr. Shah: Sir, would those be developed in this year or it will go to next year again?

Mr. Sanjay Kirloskar: The cycle is (I think) about 48 months.

Mr. Shah: Okay..Okay…

Mr. Sanjay Kirloskar: So, I don't think too many orders have been released yet on the nuclear side. I know, my competitor has got an order for one project for a product that he already has in his product basket for Haryana. But, as far as I understand: 1. Government of India wants a huge local content in the new nuclear power plants that are coming up and they are also encouraging Indian companies to participate and develop technology within the country. And as you are aware, KBL has been, right from the start, being an innovative company making new products for the first time in India. So, we expect that all the orders that we have been given, the technology will be developed in-house and we will deliver to our customers.

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

Mr. Sanjay Kirloskar: Thank You

Host: Thank you for your question. We have our next question from Mr. Manish Goyal from Inam Holdings. Please go ahead.

Mr. Goyal: Yeah, very Good Afternoon, Sir. Just to clarify on what you said earlier on the project related provisions, you mentioned 40 to 60 crore losses in projects in last year?

Mr. Mate: Approximately

Mr. Goyal: Okay, and how do you see this going forward now, Sir?

Mr. Sanjay Kirloskar: Like I said (you know) we expect to see it coming down. It used to be three digits, now it is two digits. And, we are also making sure that the government understands our pain and writing, I mean, we have got all the documentation together to ensure that wherever possible we can claim the money from the government.

Mr. Goyal: And value wise, what would be (say) outstanding to be executed, probably couple of years back, we were at 400 crores. So, what would (it) be now, Sir?

Mr. Mate: We have orders for about 500 crores which we have not taken up in execution.

Mr. Goyal: Okay, no..but something which is to be executable going forward?

Mr. Mate: to be executed orders. Around 370 crores roughly are pending orders but all are not legacy orders. Some are current orders also.

Mr. Goyal: Okay..okay..okay.. No, I was just trying to get sense about these legacy orders…probably what is the quantum left and by when can it get over?

Mr. Sanjay Kirloskar: Manishji, the idea is that we close all these projects. And the new projects that we are taking are actually only supply of products to only EPC contractors. So, bit by bit, (I think) every month we look at how many projects we close financially, physically to make sure that whatever we are going to be held responsible for, we do, and so, like I said, (you know) because of that the reduction in WIP that is for the old projects was by 60 crores. There was some new work that was done on legacy orders or orders that were taken earlier which are not product orders. So, because of that the net number is different. So, that is where the issue lies.

Mr. Mate: Out of the projects orders in-hand, there are certain outside India, like what we discussed earlier like Senegal, Suriname. There we are not facing issues which we faced in India.

Mr. Goyal: Like if you probably want to get a chance on the segmental reporting that we have done…so, this year it has been, at PBIT level, more or less broken-even. This PBIT level of almost just 1 crore… is this after this 40-50 crores provision or this line item comes later on?

Mr. Mate: No, after making all provisions allocable that's it…

Mr. Goyal: Okay..So, this PBIT includes losses of 40-50 crores?

Mr. Mate: Yes

Mr. Goyal: Okay..And, Mr. Mate, also like as per the balance sheet what we see is that every year we make provisions for doubtful debts and liquidated damages. So, would it be possible to give number for current year? What will be the provision for doubtful debts and liquidated damages?

Mr. Mate: Once our Annual Report is published, you would get those. Because in summarized results we don't show it. But in our detailed balance-sheet, it would appear. You won't see them as of now

Mr. Goyal: No problem. And on overseas subsidiaries, Alok, if you can provide some outlook in terms of…you did talk a lot..but this Rs 40 crore loss…is it possible that we can probably see break-even in overseas subsidiary with improvement in quality in terms of orders (which) what we are getting and probably the times can get better?

Mr. Alok Kirloskar: Yeah (I think..you know).. we are trying exactly to do that. Last year, even SPP loss was reduced to 4 crores out of the 40 crores. So, I mean, at one time (you know) that was the biggest issue. But, like you said, we alone used to contribute 60 crores in profit at one time.

Mr. Goyal: Correct.

Mr. Alok Kirloskar: So, it is important that we get back to that level as soon as we can. So, it is important that. Like I said, initially rather than looking at growth what we are looking at is a better order profile and better payment term because that's what is important right now (as) we have to manage working capital and things like that. So, we are focusing on that…we are focusing on other areas where the large losses have happened...areas like South Africa, Thailand and of course Rodelta and Kirloskar Pompen…because that was another large number over there. We are looking like we are getting better in South Africa. (In) Thailand (we) should be adding into the profit number by June this year, looking at the order profile and very very strong order backlog for this year. So, (you know) the main areas that we are looking at managing carefully, at the current time, is Rodelta and SPP, because we want SPP to be giving a positive contribution, this year, because it is extremely important and it is also our largest single subsidiary outside the country. So, like you said, we are focusing more on the aftermarket, because (in) the after-market margins are good. There (is) are still growth in the other areas but unless the aftermarket and the oil & gas area contributes something and moves at least to small a negative if not a positive, it doesn't (won't) show you the big changeover.

Mr. Goyal: So, Alok, you said, losses in SPP have come down from 40 crores to 4 crores?

Mr. Alok Kirloskar: Yeah

Mr. Goyal: So, ideally what that means is that the other subsidiaries losses have increased from 5 crores to almost 35 crores? Because if I do the balancing, overseas subsidiaries' losses have come down from 45 crores to 40 crores, but if SPP has done only 4 crores, the remaining 4-5 subsidiaries have done losses of 35 crores?

Mr. Alok Kirloskar: That is approximately correct.

Mr. Goyal: Ok, so, ideally, then this 35 crores number we are saying that Rodelta would be how much, Sir? Because Rodelta you are saying is likely to see marginal profit

Mr. Alok Kirloskar: In Thailand, I think I said in one of my meetings, we had approximate loss of 11 crores. That is because of one order that was cancelled and one order that was declined by us and that caused the big gap in the numbers last year. And they also had certain disruptions because they moved onto the SAP system last year. So, the budgetary sales… what they have also done is also they didn't do…in terms of budgetary sales…so, that caused quite a large loss over there, which was much bigger than we had expected. The other one was Rodelta.

Mr. Goyal: Rodelta loss was how much, Sir?

Mr. Alok Kirloskar: About 10 crores between KPBV and Rodelta

Mr. Goyal: Sorry…

Mr. Alok Kirloskar: KPBV and Rodelta together was about 10 crores

Mr. Goyal: Okay..okay, okay. Sir, that means, ideally, looking at that (the scenario), probably Thailand should improve by mid of the year and Rodelta should be (marginally profitable)….so this 40 crores loss can..like in (case) SPP going positive, there is a fair possibility that this 40 crores loss can be more or less….break-even?

Mr. Alok Kirloskar: Yeah, Yeah..I mean, that's of course our intention, that's what we are working today

Mr. Sanjay Kirloskar: We need to see how this year all the foreign subsidiaries are in profit. And, like Alok said, in South Africa, they had a good four months (business). We moved away from government business and we are doing business which gives us the ability to build every pump. Similarly, in Thailand, our daily business, i.e. the new distributors that we have added in the last one and half year, they have started contributing through a large number of orders for standard products. And they have also done a large amount of cost-reduction. SPP, I believe, it is the cost-reduction is in there, the cost of which has been absorbed last year (you know) we reduced a number of people over there…redundancy and everything.. which is why this number has been accounted for…And KBPV and Rodelta is concentrating on product business. We are quite confident that all of them should be doing better this year.

Mr. Alok Kirloskar: And Americas also is doing better this year.

Mr. Goyal: So, but is Americas positive?

Mr. Alok Kirloskar: It was positive last year also, Americas, but that in the SPP numbers.

Mr. Goyal: And, Sir, Kirloskar Ebara, we had seen that Ebara is having some ownership change and we had certain challenges. So, if you can brief on that.

Mr. Sanjay Kirloskar: 1. They have gone to NCLT for change of ownership they sold the shares in a way that was not allowed under the article of association and supposed…. and our reading of the situation. The company actually has developed all the products it needs..so, technologically, there is no challenge before us.

Mr. Alok Kirloskar: Also, Manish, all the products that Kirloskar Ebara has given are paid-up licences. So, Kirloskar Ebara owns all these products now. So, there is no licensing issues either on all the existing products.

Mr. Goyal: Yeah…so, we will continue to own 45%?

Mr. Sanjay Kirloskar: Until further notice.

Mr. Sandeep Phadnis: To answer it properly, we don't intend to sell our shares.

Mr. Goyal: And coming to domestic market, just wanted to get a sense, because, in presentation it has been mentioned that spares revenue has declined and I think it is probably due to GST implementation. So, just wanted to get a sense about how things have unfolded post GST? Have we seen any movement from unorganised to organised? How do you see spares revenue growing, if you can provide some sense?

Mr. Sandeep Phadnis: Yes, spares revenue has gone up.

Mr. Mate: If you see the spares sales as a percentage of total sale has declined. In absolute value, spare sale has not come down. Our manufacturing of pumps increased at a much faster pace than spare sales. So, as a percentage it has come down.

Mr. Goyal: How much would be that, Sir, roughly?

Mr. Mate: Percentage, here I do not have at present.

Mr. Goyal: Okay..Okay..Sir, and if you can just give some sense (about) that are we seeing any shift from unorganised to organised post GST? Any improvement in market outlook now?

Mr. Vohra: We definitely see, I mean that's something which is supposed to happen and it is inevitable. And we are seeing that shift also. It has already (you know) started happening. So, we definitely see that there is a positive element for the organised sector. Because, with the various taxes through GST, now getting absolutely refined and absolutely clean…so, there would be the differentiation between these…The prices will definitely come down.

Mr. Goyal: And, Sir, in FY 18, we have seen product business growing 11%. So, (do) we expect the growth momentum to better in FY19, Sir?

Mr. Sanjay Kirloskar: Good question… Your guess is as good as mine… (laughs..) Mr. Mate says no forward looking statement at all.

Mr. Goyal: Sure, Sir…And, last question, on any CAPEX plans…

Mr. Sanjay Kirloskar: and you will get an idea when we have our next annual report… (laughs all around)

Mr. Goyal: okay…and any CAPEX plans in domestic and overseas?

Mr. Sanjay Kirloskar: I think, domestic, yes, we will have some CAPEX plans because: 1. There are these new development orders for which we need to ensure that we build all the facilities. I think that is included in the price of the product.. And as far as the growth is concerned, it will be key bottle making for organization and whatever that needs to be done to ensure that that plant continues to be on top of the industry and, similarly, in Dewas and small pumps business.

Mr. Goyal: And last question, Sir, based on the domestic subsidiary we have seen an improvement on both Karad Motors and even the foundry. So, how do we see (this) going forward, Sir?

Mr. Sanjay Kirloskar: Both these subsidiaries (I think) will grow with KBL. Both of them to a great extent are dependent on KBL's business. Because, KPML, most of the work that they do is for KBL..they supply the stator rotors for all our motors that are used in monobloc pumps, in submersible pumps, in coupled pumpsets as well as canned motor pumps. So, that will grow with KBL and, similarly, Kolhapur Steel, to some extent is dependent on KBL for its specialised castings and they have got most of the approvals in the last financial year. So, there have been quite a few foreign companies that have come and visited them and audited them, but I would reckon to add that there are no orders yet but we are hopeful that the percentage of business that KBL gives them will reduce.

Mr. Goyal: Okay, so independently, both these companies can also grow?

Mr. Sanjay Kirloskar: Yeah

Mr. Goyal: Thanks Sir, Thank you so much.

Everyone: Thank You.

Host: Thank You for the question. Sir, further we don't have any question.

Everyone: Thank you so much.

Mr. Sanjay Kirloskar: Have a Good Day!!

Host: Ladies and Gentlemen, this concludes the conference call. We thank you for your participation in the conc call of Tata Tele Business Services. You may please disconnect your lines now. Thank You.