



Kirloskar Oil Engine

Q4FY12 Earnings Call on 4th May 2012 hosted by ENAM Securities Pvt Ltd

Moderator

Ladies and gentlemen, good day and welcome to the Kirloskar Oil Engines limited Q4 and FY12 Earnings Conference Call hosted by Enam Securities Private Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Bhavin Vithlani of Enam Securities. Thank you and over to you sir.

Bhavin Vithlani

Good afternoon everyone and welcome to Kirloskar Oil Engines earnings call. We have with us today Mr. R.R. Deshpande Executive Director and Mr. Sanjay Parande the Chief Financial Officer. We have sent across the presentation link along with invite, we request everyone to refer to the link so Management would briefly give an update on the business and the earnings on the quarter ended year gone by and then we can open the floor for Q&A. Over to you sir.

Sanjay Parande

I think before we start to proceed on the business, I will just give you the key financial so that will set the tool for the discussion. Our sales for the quarter are 573 crores on the account of last quarter, as against previous year's quarter of 596 crores. And then on cumulative basis we are at 2276 crores as against 2364 crores that is all about our sales and then profit before tax before exceptional items for the quarter is 71 crores as against 64 crores so in terms of percentages it is 12.3% for the quarter as against previous year last quarter of 10.8%. We have done well on the profitability and on year-to-year basis, our profit is 233 crores against 247 crores which is in terms of percentages 10.3% against 10.5%. So on year-to-year basis, in spite of more or less the same level of sales, we have been able to keep the profitability more or less the same that 10.3 against 10.5 of last year and after if you consider exceptional items than our profit before tax for the quarter is 74 crores against 66 crores of last year quarter and on year-to-year basis we have 281 crores against 244 crores so in terms of percentage for the quarter is 12.9% , on cumulative basis it is 12.3% as against 10.3% for the year of the previous year. So this is exceptional items, of course, I will give the details, it is the profit on sale of bearing business which is about 48 crores which we have accounted for during the year, so this is basically the internal exceptional item. So I think, I will cover the key figures of sales and profitability. I think now we can go into the question and answer session.

- Moderator** Thank you very much sir. We will now begin the question and answer session. We have a first question is from the line of Pritesh Chheda of Emkay Global, please go ahead.
- Pritesh Chheda** Good morning sir and thank you for the opportunity. My question is actually with regards to the market per se, we are listening that there is some improvement in the power co gen set based engines demand in the marketplace. First of all is it correct, and to what extent would that be visible in the current scenario?
- R. R. Deshpande** Typically, if you see in the power generation when the summer starts the season starts. So it is for normally if you see the sales of power generation which April, May, June are normally good months so you see good demand. This is only I can say but when the rainy season will start from July onwards so this demand will further go down but as on date I can say yes, there is a good demand.
- Pritesh Chheda** Okay is it exceptional or it is routine which happens in the months?
- R. R. Deshpande** Yeah, I will tell you, typically in Tamil Nadu it is exceptionally good, but in other parts of the country it is normal.
- Pritesh Chheda** And how much should south be as a percentage of the total national demand?
- R. R. Deshpande** South can be hardly 10% to 15%.
- Pritesh Chheda** Okay, so this phenomenon is only restricted to South and it is not something which is across...?
- R. R. Deshpande** When I say 10% to 15%, typically it is coming from Tamil Nadu and around area because South when you say there are other states also but what the abnormal demand is there typically from Tamil Nadu, not from Karnataka, not from Kerala like.
- Pritesh Chheda** So whatever exceptional pickup you have seen currently is seen in the Tamil Nadu state.
- R. R. Deshpande** Yes, right.
- Pritesh Chheda** Could you also help us in understanding if there is any mix related change in the demand in sense the KVA set sizes?
- R. R. Deshpande** Typically, if you asked me over a kVA arranged demand the lower kVA is adding to demand.
- Pritesh Chheda** Okay, thank you sir, I will come up in the follow-up queue.
- Moderator** Thank you very much. Our next question is from the line of Kirti Dalvi of Enam Asset Management, please go ahead.

- Kirti Dalvi** Good morning sir and congratulation for a good set of numbers. Two questions primarily first one is the change in the emission norms so there is a lot of ambiguity currently in terms of what the position will be if the company in the future. So if you could elaborate on this question in terms of first what is the change in the norms, what part of the business gets impacted because of this in terms of adoption of this technology where are we, any tie-ups and how much cost we have incurred till date and how we are placed in terms of competition in this new change in the emission norms and whether the cost will go up because of this, and we will be able to pass on this cost and general, what is the lead time to adopt this new technology? And the second question is your outlook for the next year in terms of your margins and the growth? I will come back with few questions later.
- R. R. Deshpande** Okay, your first question having there are tens sub questions actually. The point is CPCB stage II norms are going to come in June-July 2013 and everybody has started preparing not only KOEL but also our competitors also and we are sure and we are confident that we will hit this position and there will not be any issue as such. In the meantime, from the cost point of view, I cannot say today because we are working under a different solution depending on what type of fuel injection equipment and other different parts of the engine. So fast part I cannot tell you today the only point is, yes, there will be some increase in the cost but not I cannot say, even in percentage also. I think, it will depend on a different component.
- Kirti Dalvi** But it should not be like a 25% or 30% jump in your costs, it could be around 10% to 15%. That would be the fair range to assume as of today?
- R. R. Deshpande** See, I cannot tell you this also because stage II to stage III when we BSA stage 2, BSA stage 3 when we went for off high way engines the difference was much higher. Today, I cannot tell you because the projection can go wrong because the situation is there is a limited scope onto the fuel injection equipment. As you know in India we do not have more actually fuel injection manufacturers so they govern the prices and therefore I cannot tell you today what is the percentage but definitely there will be rise for sure because components are all they are having the supply power is more onto these components.
- Kirti Dalvi** Okay and will be tying up with what domestic or international or have we done already and we have already started, any kind of R&D on that front?
- R. R. Deshpande** See, we work on our own R&D, we have got a very strong R&D and whatever we have done till date the development of engines we are doing on our own. Rest assured with our own R&D we will shift this timeline also.
- Kirti Dalvi** So we will be in a position by June, July 2013 to implement it?
- R. R. Deshpande** Yes.
- Kirti Dalvi** Sir, the part of this question was how much part of our business gets impacted because of this new emission norms?

- R. R. Deshpande** In power generation typically all the engines will be get impacted on this and we have seen around 800 crores business out of 2200 is for power generation.
- Kirti Dalvi** Okay, nothing on the industrial sector?
- R. R. Deshpande** No right now already BSA 2, BSA 3 norms are already started from April 2011 so there will not be any impact as such on to the emission norms for industrial, it will be only for power generation.
- Kirti Dalvi** And we have not tied up with any guys. Lastly, if I remember I think couple of quarters con calls you had mentioned that we had tying up with Stanadyne and other Delphi or some somebody like that?
- R. R. Deshpande** Yes, these are all fuel injection manufacturers, Stanadyne is now also in India, Delphi is in India, and Bosch is in India. So now everybody is in India so what I said was these people are here, but 2 to 3 alternative that we have to try.
- Kirti Dalvi** So lead time is not quite high for this kind of emission norms to get implemented, to adopt?
- R. R. Deshpande** No we have already started working six months around back it will take around 1 year for adoption.
- Kirti Dalvi** Okay and the last question was on the growth outlook and margin front? I mean, we have improved our margins on a sequential basis, as well as in this quarter so, and we had some plans in terms of moving as per the facilities to a low-cost, I mean locations and improve the capacity utilization which will lead to improve the margins and in terms of the sales growth, what do you see next year?
- R. R. Deshpande** Typically is few see last year there was some demand in the fourth quarter, that is why we can see good figures, but it depends are again on if you see the overall asset we have not grown in the power generation last year we were at around 820 this year we did 790 around. So almost we are flat in the power generation. So it depends totally on the demand though you will see good numbers as compared to the last fourth quarter last year, but it may go down in the new season, we really do not know because there is a lot of things that depends on the thermal power station availability, the hydel power stations availability all this governed the that demand supply gap in the power situation.
- Kirti Dalvi** Sure and on the margin front?
- R. R. Deshpande** Margin, I cannot comment at this stage because it is a total thing I can say not say because it is our total competitive market all the now there are 20 players in power generation. So I can say a very competitive market that is much of only I can get.
- Kirti Dalvi** Okay. Thanks and thanks a lot. And I will get back in the queue for more questions, thank you.

- Moderator** Thank you very much. Our next question is from the line of Mahesh Bendre of Quantum Securities, please go ahead.
- Mahesh Bendre** Good morning sir. As you mentioned CPCB norms are likely to be implemented by June-July next year and there is a belief in the market that there is some realignment and consolidation in the industry will happen. So do you think in terms of total market out of that 30 KVA segment and below segment of the market is likely to be candidate for consolidation or do you think the impact will happen across all the categories?
- R. R. Deshpande** See typically CPCB stage II definitely will be more stringent than CPCB stage I so if the other manufacturers do not have technology attaining to this emission norm no doubt their business is going to go down so most probably yes, the consolidation will take place and it will not take place only on the lower kVA it will be on a total up to the higher kVA because this CPCB stage II is also stringent on higher KVA also so both on a lower and a higher kVA the consolidation will take place because some people may not have technology. Today people are dependent on some imports and when we talk about imports it is just cost, and that those people if they want to have a better technology will be having more cost they will not be competitive. So today the situation is yes, there may be is chance of consolidation into both lower and the higher kVA.
- Mahesh Bendre** Sir, out of total gen set market how much is contributed by this 30 kVA and below. Anyone ballpark?
- R. R. Deshpande** You can say any 25 to 30%.
- Mahesh Bendre** Okay and last question is what is the current capacity utilization on your manufacturing facilities?
- R. R. Deshpande** Around I can say 60%.
- Mahesh Bendre** Thank you sir.
- Moderator** Thank you very much. Our next question is from the line of Sanjay Doshi from Reliance Mutual Fund, please go ahead.
- Sanjay Doshi** Thanks for the opportunity. My first question is on a higher kVA engine or the larger engines where we are in terms of the product rollout into different segments and what will be our market share roughly?
- R. R. Deshpande** See on the higher kVA's we are not regularly making 100 engines from 100 gen sets a month and besides power generation we are now already entered into the industrial segment. This year we will be trying hard in the different other segments and what is all the others...?
- Sanjay Doshi** In terms of market share or new client addition?

- R. R. Deshpande** Today we might be at 18 to 20%.
- Sanjay Doshi** We would be looking at adding is some specific client in this segment so any talks which are moved ahead with any particular segment?
- R. R. Deshpande** No, at this stage we do not, we have already entered into the marine segment.
- Sanjay Doshi** The last question would be on the agricultural side since the competition is very high from one organization in Chinese in that segment. So is there anything which can be done to improve competitiveness apart from the price point, which is appreciated by the market?
- R. R. Deshpande** Yes, we have got plans for this year but right now I cannot speak about it and definitely we have got plans to become more competitive in agriculture and other market segment in this year.
- Sanjay Doshi** Okay sir. Thank you very much and all the best.
- Moderator** Thank you very much. Our next question is from the line of P Sachdev of Aadhar Securities, please go ahead.
- P Sachdev** My question pertains to one of your associates namely Swaraj, could you throw some light on what kind of volumes you had towards the Swaraj brand last year versus FY11?
- Sanjay Parande** Yes, again FY11 it was around 9000 we supplied around 13,000.
- P Sachdev** 13,000 fiscal 12?
- Sanjay Parande** Yes.
- P Sachdev** I mean, what is the strategy going forward are you looking to monetize the investment or what?
- Sanjay Parande** Now we are sound vendor for them, and we want to continue there is no issue.
- P Sachdev** So what is the kind of volume growth towards the Swaraj brand going forward?
- R. R. Deshpande** See it is are again what Mahindra will grow to that particular segment Punjab Tractor, pervious Punjab Tractor area, so whatever the growth will happen the same growth will come to us also because we have got a specific agreement with them that accordingly the numbers will go up for us also.
- P Sachdev** So certain percentage of volume will have to be catered by Kirloskar, right?
- R. R. Deshpande** Yes.

- P Sachdev** Thanks.
- Moderator** Thank you very much. Our next question is from the line of Balchandra Shinde of Batlivala and Karani Securities, please go ahead.
- Balchandra Shinde** Hello sir good set of numbers. Just wanted to know in power generation due to see CPCB norms will there be any pre-buying effect taking place in FY 13? And also, I would like to have some market share percentages for low and mid KVA for Power Gen for Kirloskar Oil in this?
- R. R. Deshpande** Can you repeat your first question I could not understand?
- Balchandra Shinde** Sir due to CPCB norm do you see any pre-buying it affects in FY 13 for Power Gen business?
- R. R. Deshpande** No, it will not happen because typically people cannot that this is a capital item and people cannot have more stocks of this. That is why they will continue to have buy whatever they want. So I cannot see any prebuying because of the CPCB norms certainly.
- Balchandra Shinde** Sir, can you throw light on the market share percentage for low and mid kVA for Kirloskar Oil in this?
- R. R. Deshpande** Yeah, we have got around all we can say 40% for the lower horsepower and around the can say 35% in the middle and on the higher kVA around 20%.
- Balchandra Shinde** Okay, thank you very much sir.
- Moderator** Thank you very much. Our next question is a follow-up question from Kirti Dalvi of Enam Asset Management, please go ahead.
- Kirti Dalvi** Hi sir, just few questions. In terms of your sales breakup which used to give earlier segmental breakup within your power gen set industrial OEM's and off highways, could you give us the details of that for the quarter and or the whole year or even say for the whole year will do?
- R. R. Deshpande** Yeah, actually the thing is we can give you in terms of engines and Gen sets. So engines if you see in terms of the value if I'm just talking about power generation.
- Kirti Dalvi** You have given for private and cellular?
- R. R. Deshpande** I am just talking about engines if you see private and cellular are given and here we have given you defense also I think separately, right?
- Kirti Dalvi** No new have not given defense?
- R. R. Deshpande** So what is your question?

Kirti Dalvi If you could give us within agriculture also you have Varsha and the other segments as well whereas industrial use to give OEMs, tractors and larger engines you used to give earlier in the marine parts if it is there or spares?

Sanjay Parande In agriculture we as far as our volumes have come down actually so our Varsha sales is about

31 crores in agriculture.

Kirti Dalvi For the whole year?

Sanjay Parande Yeah, for the whole year, 43 crores last year.

Kirti Dalvi And for the industrial, how much was the OEM and tractor?

Sanjay Parande OEM sale is about 287 crores.

Kirti Dalvi FY12 and tractor?

Sanjay Parande Tractor is 94 crores against 29 crores. Tractor volume has also gone up.

Kirti Dalvi Okay and in larger engines what was the breakup in terms of your Marines spare services.

Sanjay Parande In large engine marine service that is what I was saying you're talking about large engine Nasik.

Kirti Dalvi You have reported 141 crores sales in that.

Sanjay Parande Out of that spares and services businesses about, the total sale for large engine is 141 crores against that it is 115 crores on account of spares and services.

Kirti Dalvi 115 crores.

Sanjay Parande Yes.

Kirti Dalvi You did mention about the Tamil Nadu demand which has suddenly shown some spike up what was the quantum and Q4 and the year as a whole as well, as if you could give the DV series sales in Q4 and FY 12?

R. R. Deshpande DV we have sold about 100 crores engines plus gen sets.

Kirti Dalvi Okay, how much was the Tamil Nadu accounted for us in Q4?

R. R. Deshpande Total sales are about 100 crores.

- Kirti Dalvi** No , I am saying this southern part of your how much of that is accounted in your sales this year this quarter or year also will do?
- R. R. Deshpande** In Tamil Nadu basically there is a good demand no doubt we have sold more in normal circumstances you can say it is 25% hike that much I can tell you.
- Kirti Dalvi** So 25% growth has happened in Tamil Nadu in Q4?
- R. R. Deshpande** Yes.
- Kirti Dalvi** And is that our account for a large part of our business in Q4?
- R. R. Deshpande** No we told you in the total power generation market it is about 10% to 15%.
- Kirti Dalvi** Okay congratulation for your working capital and balance sheet improvement you have repaid the debt as well as you have improve the working capital as well. What is the plan going forward in terms of your repayment of your debt schedule?
- Sanjay Parande** We have got about 180 crores of our balance sheet just now, we have prepaid 57 crores this year will be paying out of 180 crores, 80 crores this year and 90 crores next year and I am talking about 12-13 will be 18 crores and the 13-14 will be 80 crores. Total outstanding is about 160 crores, half in 13-14 and half in 12-13.
- Kirti Dalvi** Tax rate was lower because of those R&D benefits..?
- Sanjay Parande** R&D benefits and we are expecting before September. We have already complied all the formalities and we expect tax saving of about 7 crores.
- Kirti Dalvi** Yeah, but our tax rate was lower in Q4, we had about 25% tax rate adjusted basis if you remove those extra ordinary...?
- Sanjay Parande** No specific reason because our effective tax rate is about 32% as against 30 point something last year. So there is not much of a difference.
- Kirti Dalvi** So next year also one can expect the similar kind of tax?
- Sanjay Parande** I think this 6 crores almost 7 crores benefit now they we will be claiming it back from the income tax department which will give us when we file the revised later.
- Kirti Dalvi** Sure any planned CapEx for the next year?
- Sanjay Parande** Yeah, we have got a plan off around 100 crores.
- Kirti Dalvi** Is this any because we are operating already at 60% capacity utilization, could you just give us what is the individual facility utilization like Kagal specifically and Khadki and Nasik?

- Sanjay Parande** Typically our major operations are from Kagal, I have given the percentage of utilization. Others are again, it depends upon different months on an average we will say, it is 60%.
- Kirti Dalvi** On an average across all facilities?
- Sanjay Parande** Yeah.
- Kirti Dalvi** Thanks sir. Wish you good luck thank you.
- Sanjay Parande** Thank you.
- Moderator** Thank you very much. Our next question is from the line of Sachin Trivedi of UTI Mutual Funds, please go ahead.
- Sachin Trivedi** Two or three questions on foreign exchange related movements which are happening does it help us what is the kind of impact you have been seeing in the market because of currency because some of the guys have been importing and selling in the market may finding it expensive to there will be forced to increase the prices because of currency movement and does it help us to increase prices or retain some of these?
- R. R. Deshpande** See we do not have any significant impact because till our exposure is foreign currency is on ECB's and there we just based on the present rate but actually there is no impact on the profit and loss account.
- Sachin Trivedi** No sir, I'm talking more from the market perspective where some of the guys may be importing the component...?
- R. R. Deshpande** Are not typically, I will tell you the Chinese product definitely is going to be costlier, if rupee today whatever we are seeing the moment in last two or 3-4 days or a week or so definitely the imported products are going to be costlier and whatever is the competition no doubt there will be having a negative impact on this, so we want to maintain the profitability they have to increase the prices, and that definitely will give opportunity for the guys who are manufacturing in India to increase the prices or increase more market share. So ultimately, but it happens again for a small period because if you are seeing it was stable for the last 3 to 4 months it has shot up again in last one week I do not know how much stable it is going to be there in this position but for the last 3 to 4 months it has been stable around 50 which was then people are now tuned to now 50 it has gone to 53 or 54, it is the temporary phase that is what we feeling.
- Sachin Trivedi** Just trying to understand assuming the current levels sustains or the way it is moving does it give us opportunity to raise prices or based on your historical experiences?
- R. R. Deshpande** Yes.

- Sachin Trivedi** Okay. The second question is with respect to you also during the call sometime the back, you mentioned that the competition level has increased and therefore do not want to comment on margins going forward, have you seen some of the players who are leaders in higher horsepower becoming aggressive in our area and what kind of are they cutting prices?
- R. R. Deshpande** Yeah, the competition is definitely fierce into the higher horsepower the present competition there are 2-3 also added in last say one year into this which are actually are imported engines and no doubt everybody wants to have more market share. So they are cutting down the prices and which is difficult one for us to sustain that is what the issues are therefore I do not really comment on the margins because it only depends upon how the market moves it is a dynamic situation and the price is decided by the market condition.
- Sachin Trivedi** If I were, just to ask you a ballpark versus last year to this year. I know lots of things are moving in between raw material prices are moving but is it a 5 to 10% or less than that kind of price cut, which would have happened overall generally in the market?
- R. R. Deshpande** I can comment only on this that last year it was risen by 5%.
- Sachin Trivedi** Lastly in our area which is medium and low horsepower where we are very strong compared to have we seen some of the large horsepower players also entering in our market and trying to cut the prices there?
- R. R. Deshpande** No, not really. The higher horsepower people they are aggressive in their area only as far as the competition in the lower horsepower the competitions are different.
- Sachin Trivedi** Okay, thank you very much.
- Moderator** Thank you very much. Our next question is from the line of Ram Hegde of Primus Investment Advisors, please go ahead.
- Ram Hegde** Just a couple of questions one is on the DV series today have be hit breakeven or are the profitable at the current volumes?
- R. R. Deshpande** Yeah, we are.
- Ram Hegde** And what the margins be comparable to the company average or it is still below the company average margins?
- R. R. Deshpande** It depends because there are different model, once it is together, I can say it will be around that.
- Ram Hegde** And 100 units this has been fairly stable, I think even in December period around that that time also it was the same level. So are we seeing any ramp up beyond that, all anything that you want to comment on that?

- R. R. Deshpande** No as the demand will increase we will confirm.
- Ram Hegde** And you also talk of moving this into off-highway applications did I hear correctly on that?
- R. R. Deshpande** Yeah, I know some applications we have found out, some shed applications.
- Ram Hegde** And next was really on the nuclear power order that you have when will you start executive and that?
- R. R. Deshpande** Second half of this year.
- Ram Hegde** And last question from my side was on the sales tax really can you give us is sense of how much is pending to be received and how much you have received in FY 12?
- Sanjay Parande** I think FY 11-12 we have received about 130 crores, quarter-ended 2009-10 and 2010-11. So total amount received so far is 142 crores. And we had absolute totally as on date 185 crores so balance is about 43 crores to be received. Total amount accrued as on 31st March, 2012, 185 crores that is receivables, we have received 142 crores out of that and the rest of 43 crores will be getting it in phases as soon as our assessments are over and all those formalities are complete. What they do is they release immediately 85% and the rest their release later.
- Ram Hegde** Thank you very much.
- Moderator** Thank you very much. Our next question is from the line of Gagan Thareja of Sunman Investments, please go ahead.
- Gagan Thareja** Good afternoon sir based upon any feedback from gen sets OEM's who service you, is it possible to understand what sort of growth numbers they are talking for the foreseeable future?
- R. R. Deshpande** OEM growth for what industrial?
- Gagan Thareja** For both gen sets and industrials?
- R. R. Deshpande** Gen set if you see it totally depends on the power situation in the country and it moves quarter-to-quarter in the last fourth quarter and in the first quarter of this year it was a good situation good demand was there but if you see over the period of time if the rain start happening then how the hydel power projects come in, how these coke prices are they are the availability of coke.
- Gagan Thareja** But these seasonal aspects will be there are each year. The seasonal blips and dips that you're talking of are a normal feature of every year so it is not that this will change the course of demand, especially in this year what I'm trying to understand is that keeping out the seasonality last year we saw a dip in demand there was a drop in the number of gen sets sold compared to that as of today, how

does the demand seen you might have budgeted something based upon feedback from your own gen set OEs. In their assessment is the market and discernibly better, I'm not talking about the seasonal feature, I'm just..?

Sanjay Parande Apart from the seasonality whatever you are asking is, we do not see much growth in the market.

Gagan Thareja Okay you feel that it will be more or less similar. And this is pertaining to both the...

Sanjay Parande Both.

Gagan Thareja Also in industrial I think last year you added 4 or 5 OEs into your fold now that you have already seen a few quarters supplied to them, do you feel that there is a case for ramp up in terms of demands from these OEs for you?

R. R. Deshpande But they are also in the share market. So we have a broader customer base but growth pattern in this total market as such is again it decides to their off take but only thing is no doubt we have increased our customer base and they are taking normal volumes and there is no issue.

Gagan Thareja In agri what is your assessment of keeping Varsha out because agri is a significant chunk you have reported 343 crores in agri related sales for the year out of which Varsha was 30 odd crores, so where is the risk tractors you are adding up in the industrial segment and what is your outlook there?

R. R. Deshpande Varsha alone there is a fierce competition with Chinese and the prices as compared to Chinese our prices are very high so it depends upon typically I can say the experience of the customer and from that point of view, we do not see any growth in the numbers of Varsha but still as a single product in our agricultural product range as such Varsha is number one till date also.

Gagan Thareja Excluding Varsha the other segment..?

R. R. Deshpande Excluding Varsha again yes, we have sold, I can say almost similar numbers in the other segments other than Varsha.

Gagan Thareja When you talk about change in the gen set norms. Technically speaking, what is changing in the engine or the gen sets, what additional features need to be added to comply with the norms and you have to modify this fuel injection system, you have to change the valve. What is it that is needed to be changed?

R. R. Deshpande When there are stringent emission norms ultimately it is the combustion so the combustion related component are going to be changed, so it is the piston, the piston cavity, fuel injection pump equipment than the manifold so many things are there, cylinder head, cavity, so many things.

Gagan Thareja It is essentially a question of redesign or it is significant addition of components?

R. R. Deshpande No typically you can say tightening of the design parameters.

Gagan Thareja So it is not significant addition of new components, it is simply modification of the existing..?

R. R. Deshpande Yes.

Gagan Thareja Okay, thank you sir.

Moderator Thank you very much. Our next question is from the line of Shubhabrata Mitra of Jet Age Securities, please go ahead.

Shubhabrata Mitra Yeah, just wanted to know whether it is possible to give the volume numbers across the segments?

Sanjay Parande Volume numbers, we do not share we share only values.

Shubhabrata Mitra Okay fine.

Moderator Thank you very much. Our next question is from the line of Mahesh Bendre, a follow-up question of Quantum Securities, please go ahead.

Mahesh Bendre Just wanted to know the information regarding the new launches do you anticipate the launches of 750 kVA gen set this fiscal?

R. R. Deshpande Yes, that will happen.

Mahesh Bendre And maybe a 1000 kVA?

R. R. Deshpande Next year.

Mahesh Bendre Okay, thank you Sir.

Moderator Thank you is very much. Our next question is from the line of Pritesh Chheda of Emkay Global, please go ahead.

Pritesh Chheda This is just a follow-up of the one of the questions asked, could you just tell us what could be the import as the percentage of the total engine market and this import will it be more prominent or the low in the medium horsepower?

R. R. Deshpande In the higher horsepower the import is more and in the lower horsepower the import is less as compared to the higher horsepower. So percentagewise all put together, I can say around 15 to 20% is the import all put together.

Pritesh Chheda Of the total engine market and if you can quantify in value?

R. R. Deshpande Right now I do not have the figures.

- Pritesh Chheda** Second in the Agri engine market are the grow drivers currently weak considering the fact how other related Agri products are behaving is it fair to assess that and could you tell us what would be the market size in Agri and what would be our market share there?
- R. R. Deshpande** I can say as on date our market share in the total Agri because see there are so many products into the Agri. If you see pumps sets it is diesel driven pump set, petrol driven pump set, petrol kerosene driven pump set so all put together, I can say different type of market but all put together whatever we manufacture in that range we have got around I can say 16% market share.
- Pritesh Chheda** Lastly in the segment that we operate is there a case that you are seeing for market share changes to come up in the incremental based on whatever competition is happening?
- R. R. Deshpande** Yeah, in the industrial we want to increase our market share. In the power generation in the higher kVA we want to increase our market share.
- Pritesh Chheda** Okay. Many thanks to you and all the best to you.
- Moderator** Thank you very much. Our next question is from the line of Prerna Jhavar of Emkay Global, please go ahead.
- Prerna Jhavar** Thank you Sir my questions have been answered.
- Moderator** Thank you very much. We have our next question from the line of Prashant K of Zen Securities, please go ahead.
- Prashant K** Good afternoon Sir. My question is regarding Cummins India like if you consider that company as your competitor and on checking the financial they seem to be having higher margins than what we clocked. So is it because of the different segment that they cater to more or is it that they get premium pricing? Which one of these two factors plays an important role if at all they can be considered as a competition for us?
- R. R. Deshpande** I did not understand you exactly where you are coming from. There are different segments and some competitions are in specific segments we are in specific segment so competition is for industrial it is different, for power generation it is different.
- Prashant K** Okay as in like does Cummins India come in as a competition to us and if yes, in which segment?
- R. R. Deshpande** Cummins we compete in the higher kVA, so our competition is only in the higher kVA because their lower kVA numbers are low and our kVA numbers are high. So if you compare this than their margins are higher because I can say that higher kVA numbers are high. This is the comment only that I can give.

- Prashant K** Okay, thank you so that is it. Thank you.
- Moderator** Thank you very much. Our next question is from the line of Vikram Suryavanshi of Antique Stock Broking, please go ahead.
- Vikram Suryavanshi** Good afternoon Sir. I wanted to know what is the strategy to grow in exports or which are the sectors or segments you are keen to capture the export market?
- R. R. Deshpande** See as on date and we have got some focus countries and we are actually working towards it. For the last two or three years continuously we are increasing our market share in those areas and in the specific countries and what happens is one of this is in Middle East. In Middle East typically the UAE the market has gone down. So we depend on other countries in Middle East like Saudi Arabia and other Qatar, Kuwait. So if you ask me whatever our focus countries, African countries and Middle East, we see our market share improving so there is a growth because of the market share improving.
- Vikram Suryavanshi** And are there majorly for power generation or any other applications basically which is driving...?
- R. R. Deshpande** They are both in power generation, as well as in the industrial generation.
- Vikram Suryavanshi** Okay sir. Thank you.
- Moderator** Thank you very much. Our next question is from the line of Kirti Dalvi of Enam Asset management, please go ahead.
- Kirti Dalvi** Couple of questions. How do you see this month on month demand in April and May because probably you have said that is this summer is a very good season so you must have seen already that demand in your Q4 of last year? So on a month-on-month basis are there growth in the enquiries?
- R. R. Deshpande** Yes it is.
- Kirti Dalvi** Okay, across segments?
- R. R. Deshpande** Only in power generation not in industrial.
- Kirti Dalvi** But how is the industrial doing then?
- R. R. Deshpande** Industrial is I must say, it is almost flat.
- Kirti Dalvi** Sir, you did mention about in the competition scenario, but you must be obviously keeping track that they also must be adopting to this new CPCB emission norm change. So have we done any R&D on that front, what are the technology is probably, they are adopting and how they are reacting to the market or the change in this norms?

- R. R. Deshpande** No we are focusing on our own engines first we had to comply with that. We are not looking at what others are doing because the design of different manufacturers are different and that is why the solutions are different so we are only focusing on our solution which will ultimately to comply with the emission CPCB stage II.
- Kirti Dalvi** And in terms of your launching of this new 1000 kVA engine probably next year can we see it in the beginning of the year itself the launch?
- R. R. Deshpande** I cannot comment because it is too early to comment but it will be next year, I do not know whether it will be which half, first half or second half.
- Kirti Dalvi** Sir , the last one you had given the breakup off Mr. Parande can answer this question within the if you could help us with the industrial OEM's and tractors how much because there is a YoY change in your what you have disclosed in your presentation last year as per your con call data or the presentation for the quarter last year your agriculture was like a 280 crores which is showing as 350 crores so there is a classification change, which must have happened so on are like-to-like basis can you just give us the details sir?
- Sanjay Parande** See agriculture last year was 324 crores which include spares of 70 crores. And this year it is 306 crores total out of that it is 76 crores, is spares.
- Kirti Dalvi** And just OEM in tractor data in industrial?
- Sanjay Parande** OEM is 287 crores against 354 crores of last year.
- Kirti Dalvi** And tractor?
- Sanjay Parande** Tractors is 54 crores against 79 crores.
- Kirti Dalvi** Sir I think the order of nuclear power was something like 396 crores and they are starting in the second half and this order should be completed by FY 13?
- Sanjay Parande** It is about 42 months, out of 16 gen sets, but it is 42 months.
- Kirti Dalvi** So '13-14 will be the key delivery for you then?
- Sanjay Parande** Yes '13-14 should be I think significant time.
- Kirti Dalvi** Sure sir. Thank you very much and wish you good luck.
- Sanjay Parande** Thank you.
- Moderator** Thank you very much. Our next question is from the line of Gagan Thareja of Sunman Investments, please go ahead.

- Gagan Thareja** Sir, my previous question pertains to what technical changes needs to be incorporated to meet the new and emission norms, I would just like to understand and dwelling still more into that does that mean that the three dimensional tolerance of the components become more stringent and therefore look for unit manufacturing cost of each of these components increases does it also involves changes in casting that you do, whereby you now need to have new patterns and moulds and consequently there is some upfront investment and also if you outsource the casting this there is something in pricing because of that?
- R. R. Deshpande** Yes, some of the casting they definitely do change and for that you need investment, at the same time machining also gets changed because as I said the tolerance becomes tighter and ultimately the combustion related parts, I told somebody asked about it, combustion related because it is ignition combustion related parts normally piston, liner, fuel injection pump, equipment, piston cavity, cylinder head, valve all this comes into picture.
- Gagan Thareja** If I had to just take the combustion related parts in a ballpark either by weight or by value what would they be as a percentage of the total engine?
- R. R. Deshpande** I cannot actually give you this figure. Normally we don't do this type of working but it depends upon engine to engine if you really ask me because for the low horsepower fuel injection equipment percent may be different, for the higher horsepower it will be higher or lower whatever so you cannot have this percentage as such because it depends upon how many parts do they change, what intricacies in the design will come so percentagewise I cannot tell you.
- Gagan Thareja** Just to understand one of your competitor indicates a staggering things in prices because of whatever needs to be done to meet the emission norms probably of the order of 20% to 25%, you feel is that attainable and is that the ballpark change which cost and prices will consequently move up and if that is the case will it remain viable to your gen set will it not be possible to shift away from gen set and into something like micro-turbines because already the gen sec per unit cost for operating it would have been what around Rs. 13-14 per unit or probably even more than that as of now?
- R. R. Deshpande** Typically for the gen set using one component, the other component still remains the same. So the impact on the engine ultimately, we have impact on the gen set there will be two different impacts. Engine whatever you are talking about or the competition is giving some figure but whatever you say ultimately previously it was open gen set, now it come with the canopy gen set almost the price was doubled but still due to the demand and the supply gap situation I know they have two afford this product when it was open gen set regime and then CPCB came into picture to a price were almost doubled but still if you see number of gen sets what we were making previously and today still today we make more than what we're making so it doesn't depend upon typically because it is a problem for everybody, it cannot be bifurcated because everybody has to find out solution for CPCB stage II and that is why whatever is the increase everybody is today accepting. If you can see the diesel prices those days it were Rs. 12- Rs. 15- Rs.20 it have gone to beyond Rs. 40 but ultimately if want to have an interrupted supply of power which

is sure shot 100% guarantee then people look at these solution and then as we go along on to the I can say under the lifestyle, everybody wants uninterrupted power supply and lifestyle is also looking at, people are affording to buy gen set and that is why still the market has got a growth of 5% -10% every year.

Gagan Thareja But there is no technology to substitute to gen set in case of lack of grid supply, one could not shift to smaller rated turbines for that?

R. R. Deshpande Today still if you see gas as an alternative, the availability of the gas and see the gas prices also so still there are issues, it is not that there is a 100% solution, alternate solution has found against gen sec, still gen sec has got a good demand.

Gagan Thareja But what would you consider as technical substitute to gen sets, I mean, irrespective of availability of gas or something, I am just talking purely in terms of....

R. R. Deshpande No-no, there are so many, there is a renewable energy, solar energy, wind turbines so many things are there but ultimately what happens today solar is again with the subsidy if the power rate comes down, it is subsidy so it is again a limited thing. So as on date I can say, uninterrupted power supply if you wants with 100% guarantee and which is easily available, it is still gen set.

Gagan Thareja It is not a new question it is just a, I just seek this comment and his assessment, what the competitors are saying 20% price increase, do you really think that is realistic estimate....

R. R. Deshpande I really don't know how much increase will happen but I told you the story, where 100% hike was there. See, people were not having any alternative and they still wanted to work with a gen set.

Moderator Thank you very much. Our next question is from the line of Balchandra Shinde of Batlivala and Karani Securities, please go ahead.

Balchandra Shinde Sir, marine applications, I wanted to know, we have a tie up with Daihatsu as you mentioned in last call we are going to start with a order. Have we started with it and what kind of growth you see in that segment?

R. R. Deshpande Could you please repeat the question, I couldn't hear you?

Balchandra Shinde Sir, we have a tie up with Daihatsu and as you mentioned in the last con call that you have got a new order which will start in the next year so have we started with it and what kind of outlook you see in marine applications, sir?

R. R. Deshpande This area is called merchant Marine and the market is still there, it is a good market and this year definitely we will have our first order completion in this fiscal year.

Balchandra Shinde Sir, what kind of potential you see in this business?

- R. R. Deshpande** There is a good potential because today if you see more and more shipyards are coming, more and more ships are being built and I think Daihatsu is one of the good name, good brand, good history which is there but good population also and from that point of view it is a good market so we see good revenue income from this area.
- Balchandra Shinde** Sir, your ballpark number makes any target that think you will achieve in marine segment for next year?
- R. R. Deshpande** Today when we say marine we have different segments of marine, one is typically for the Indian Navy and just one which has come down. The merchant Marine will be starting with Daihatsu this year and the other area is typically lower horsepower gen sets and wind propulsion which today we have a good beginning and we see at least 15% to 20% growth into that area in the marine segment.
- Balchandra Shinde** Okay, thank you very much sir.
- Moderator** Thank you very much. Our next question is from the line of Ram Hegde of Primus Investments Advisor, please go ahead.
- Ram Hegde** Sir, could you give us sense of the spares even in agri, than in marine all of that but what is the total spares revenue across all categories?
- Sanjay Parande** Total spare business that is 440 crores.
- Ram Hegde** 440 crores and what was the previous year?
- Sanjay Parande** That I have included in.....
- Ram Hegde** Okay and what was this last year?
- Sanjay Parande** Last year was 400 crores.
- Ram Hegde** My second question was really if you look at the fuel injection system, I mean, as a percentage of the total cost of an engine, what would that be like typically in the medium-range?
- R. R. Deshpande** It can be around 20% to 25%.
- Ram Hegde** Last time when the emission norms changed on the off highway side and we saw the sharp increase, which part of the business engine really saw the maximum cost push?
- R. R. Deshpande** It was on the industrial side.
- Ram Hegde** Was it again a fuel injection system with change really dramatically?

- R. R. Deshpande** Yes, it was the fuel injection equipment and typically when BSA II to BSA III is again emission norms so emission norms is standard of components.
- Ram Hegde** What should it go from like, originally what was the cost as a percentage of the total and what did it become later on?
- R. R. Deshpande** I don't exactly know the numbers.
- Ram Hegde** Ballpark over like 500-600 basis points increase on what sort of, some broad range, not exact?
- R. R. Deshpande** Can say 20% increase in the fuel injection components.
- Ram Hegde** Okay, that's from my side. Thank you very much.
- Moderator** Thank you very much. I would now like to hand over the conference back to Mr. Bhavin Vithlani for closing comments.
- Bhavin Vithlani** We thank the management of Kirloskar Oil Engines for answering the questions patiently and giving us the opportunity to host the call and we wish them best of luck for the future. Over to you sir, for the final comments.
- Sanjay Parande** Bhavin, thanks you very much.
- Moderator** Thank you very much. On behalf of Enam Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.