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**“Kirloskar Oil Engines Limited Q4 FY 2016  
Earnings Conference Call”**

**May 27, 2016**



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**ANALYST: MR. BHAVIN VITHLANI -- AXIS CAPITAL**

**MANAGEMENT: MR. R. R. DESHPANDE – JOINT MANAGING DIRECTOR-  
KIRLOSKAR OIL ENGINES LIMITED  
MR. T VINOD KUMAR - CHIEF FINANCIAL OFFICER –  
KIRLOSKAR OIL ENGINES LIMITED**



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**Moderator:** Ladies and gentlemen good day and welcome to the Kirloskar Oil Engines Limited Q4 FY2016 Earnings Conference Call, hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Bhavin Vithlani of Axis Capital. Thank you and over to you Sir!

**Bhavin Vithlani:** Thank you Karuna. Good morning everyone and welcome to the fourth quarter and FY2016 earnings conference call of Kirloskar Oil Engines. From the management today, we have Mr. R. R. Deshpande, Joint Managing Director, and Mr. T. Vinod Kumar – Chief Financial Officer. I would request everyone to refer to the presentation during the opening remarks from the management. Post which the floor I will be open for Q&A. Now without much ado I like to all hand over the call to the management. Over to you, Sir!

**T. Vinod Kumar:** Thank you Bhavin and good morning ladies and gentlemen. We are pleased to host and discuss the results of the fourth and final quarter of 2015-16 and also for the full year for Kirloskar Oil Engines Limited. As you would have seen from presentation and the results, which were announced earlier in the month, the fourth quarter has been better one for KOEL both in terms of topline and profitability. While it is still early days and we do hope that the current fiscal has more to offer than what we saw in the previous one, we have seen some positive traction in the industrial sector.

That having said competition has remained intense and pricing pressures have continued unabated. Our sales for the quarter at 663 Crores was sequentially higher by 11% and 7.5% higher vis-à-vis the same quarter year ago.

On a sequential basis power generation, industrial, customer support and large engines saw a gain, while there was a marginal drop in the agricultural sector and exports. For the full year however, sales at 2420 Crores was about 2% less than the previous year. This drop was largely attributable to the large engines sales being about 131 Crores lower than the previous year as you know we had already completed the NPCIL order in the previous year.

Despite another year of poor monsoons we saw gains in agri of about 13% and some amount of this was brought about Mega T which was introduced and had a full year of operation and also because of the better penetration into the rural markets. As compared to the previous year we also saw gains in exports of about 12%. This was despite huge de-valuation in currency in some key markets like South Africa. We also commenced operations out of office in USA in February 2016. WSales from our subsidiary KOEL Americas was a marginal Rs.3 Crores and this has been reflected in our consolidated statement of accounts which we had published earlier in the month.

EBITDA for the quarter at Rs.90 Crores was substantially higher both on a sequential basis as well as compared to the previous year. Last quarter was 48 Crores and the previous year was



about 51 Crores. However, yet again on year-on-year basis the EBITDA at 240 Crores was approximately 4% lower than the previous year, again largely attributable to the lower large engine sales.

The profit before tax at 60 Crores sequentially doubled as compared to the Q3 and 42% higher compared to the previous year same period. PBT for the year was 177 Crores as compared to Rs. 205 Crores in the previous year. Our substantially better tax planning ensured that profit after tax 141 Crores was in line with previous year figure of 143 Crores.

For the eight consecutive quarter, we operated on negative operating working capital. I would like to point out few exceptional items year-on-year, but for which profit would have been even better. Notable items are voluntary separation scheme which we talked about last quarter which had an impact of about 10 Crores. We had made provisions for stamp duty resulting from the KBIL merger and this is about 15 Crores. We also talked about shifting of Pune plant to Kagal and some of the other shifting expenses entirely which have accounted for about 5 Crores so that is about 30 Crores exceptional items.

On the flip side we also got favorable order in sales tax for which we had made a provision in the previous year of 10 Crores and this had a positive impact of 10 Crores in the quarter's EBITDA. During the year, the company has launched several new products or variants: the 750 kVA, which was launched early this year; KCC range of petrol and diesel gensets now we are the full range from 3kVA to 10kVA; Mega T variants; the univator; high discharge pump sets for agri were some of the new product introduction.

We also extended the KCC range to cover alternators and control panels. It is worth mentioning that in the first full year operation we sold about 1500 number of Mega T and this is without recourse to any subsidy, which we had not yet got last year. As result of it as I mentioned earlier also we have had a revenue cost mismatch and we do hope with state subsidy slowly falling into place that the sales of Mega T would be ramped up in the coming year.

I believe that KOEL team as operated extremely well under the difficult external circumstances and have continued to focus on cash, delivery of quality products to our customers and working capital now holds us in good stead and has the economy opens out we hope that the current fiscal will be a better one. So with that will open up to question and answers.

**Moderator:**

Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Manish Goel from Enam Holdings. Please go ahead.

**Manish Goel:**

Very good morning Sir. Sir, I just wanted to get more sense on the gross margin improvement what we saw in the Q4 particularly so is it due to change in revenue mix with higher sales of agri and industrial or if you can throw some light as to what was the reason and how do you see going forward?



- T. Vinod Kumar:** Couple of things : yes what you said is one of them. There was a better sales mix, higher sales itself, has accounted for about a sizable amount. So if you compare to the previous quarter we are talking roughly about 45-48 Crores and about 20 to 25 Crores is on account of better mix and the higher sales itself, in fact more than that actually about 27 Crores on account of that and we did have a lower variable expenses because we closed down the March quarter with a very low finished inventory as a result of which the opening and closing inventory effect itself is about 5 to 6 Crores. Besides this, I talked about an exceptional item where I said that we had sales tax benefit so that accounted for about 10 Crores. Largely these are ones which had a positive impact besides which I think through the year we have been closely monitoring our fixed cost and our variable expenses and I think while that has been kind of through the year what happens is when you have a larger volume base, you have a better absorption also. To your question going forward, I think see basically our cost base is not going to change much and whatever volume we are going to generate additionally and we do hope that this year the volumes will be better than the previous year, will only help in that much better fixed cost absorption. **Manish Goel:** On the genset business if you can give insight as to how were the DV sales, how have they performed and second question is on the power tiller sales how do you see that now we have present in 12 states are we qualified for the subsidy in the all this states?
- T. Vinod Kumar:** Yes, I will take the power tiller first, yes we are qualified for the subsidies and in fact subsidy in some of the states have already come through and because of the election which were there, some have got delayed. But, by and large wherever we do want to participate we are hopeful that the subsidy will come through. So we did 1500 tillers last year and the looking it about 6000 this year.
- Manish Goel:** Okay, and on the DV series Sir?
- T. Vinod Kumar:** DV series last year as against the previous year engines and genset put together we were probably more or less almost flat compared to the previous year.
- Manish Goel:** In terms of volumes and numbers?
- T. Vinod Kumar:** Volumes and numbers.
- Manish Goel:** What was the number Sir roughly if you can?
- T. Vinod Kumar:** Close about 900.
- Manish Goel:** But Q4 seems to be higher?
- T. Vinod Kumar:** That is because in the DV you will also have 750kVA, Q4 there were 10 numbers of 750kVA which is sold that we is getting ramped as the year progresses this year.
- Manish Goel:** Q4 particularly can you please give the number for DV series volume and sales numbers particularly and respective numbers as well?



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- T. Vinod Kumar:** 275.
- Manish Goel:** 275 as compared to last year Sir in Q4?
- T. Vinod Kumar:** I do not have that off hand.
- Manish Goel:** Sir, just sales value in Q4?
- T. Vinod Kumar:** DV about 40 Crores.
- Manish Goel:** Thanks Sir. I will come back in queue. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Gaurav Sanghavi from Bajaj Allianz. Please go ahead.
- Gaurav Sanghavi:** Good morning Sir. Sir, just you mentioned in the opening remarks that this year the sales are predominantly declined on account of large engine genset what is the progress there, any new orders in the pipeline from NPCL or any other customers?
- R. R. Deshpande:** Last year, I can say was the first year, when we were focusing on the marine and defense area and this is basically handled by the LEBG business because this is the more or less a project type of business and our large engine business group is are working with project type of business. Now this is the second year and we can already see order booking of almost 30 to 40 Crores for this year. So this year should be good year I can say growth year at least of 70% to 80% for the marine and defense section
- Gaurav Sanghavi:** Just wanted to understand better the power generations segment what is strategy because we are moving up in the value chain in higher kVA genset at the same time we are seeing increasing competition in the low kVA segment where you know Mahindra and other players are entering and putting pressure so what is your thought process on that line?
- R. R. Deshpande:** Last year on the higher kVA we maintained the market share & some quarters we have gained also 0.1% to 0.2% also. So looking at the total we are maintaining the market share for the higher horsepower. For our 750kVA which we introduced in last quarter we are getting good response and have a good order board and this gives us good confidence going into the 1010 kVA which be plan to launch in the second quarter of this fiscal So looking at the total power generation - higher kVA we are definitely focusing with the new products of 750kVA and 1000kVA and on the lower kVA yes, definitely we are maintaining the market share and it is a challenge because of the intense competitive pricing pressures. Hence overall we expect modest growth of around 5-6%.
- Gaurav Sanghavi:** Sir, we have seen some traction in the export this year so it is overall strategy and thought process on that line, any new markets or any new products we were targeting for export?



- T. Vinod Kumar:** While last year yes, we saw about 12% to 13% growth in export, but I think towards the end of the last fiscal , in fact the last quarter the exports vis-à-vis the previous quarter we have actually seen a dip and the our major markets like Saudi, UAR & Africa for different reasons, seem to be contracting. I mentioned in my introductory remarks itself the currency is so badly devalued in countries like Africa & Mexico where we have orders, but we cannot ship at those kinds of prices because you are talking about 40% to 60% devaluation in the currency. Country like Saudi Arabia there has virtually been no off take in March quarter because the government has kind of said that there is going to be no orders which are going to go to go out and that continues even in the current quarter so the markets are tight. That having said we are seeing our FMUL engines being well accepted in the markets we have introduced in and we do hope that our strategy of entering the US market pays off. We have got some very good enquiries and while our engines have to get EPA certified which will happen during the course of the year, we do hope that going forward we would have created enough both in terms of awareness of our products as well as acceptability in some of the markets in the US so that in the coming years we get fair share of the US market also.
- Gaurav Sanghavi:** Just last question, the cash on the balance sheet is significant and so what is plan out there cash and cash equivalent is around 825 Crores so what is the strategy on that are we looking for higher dividend payout or expansion if you can?
- T. Vinod Kumar:** We have already done. We declared an interim dividend of 250%, so I do not think there is going to be higher dividend payout but yes the board is engaged and we are looking at options including inorganic growth. We do hope this will become more clear as we progress with the year.
- Gaurav Sanghavi:** Thanks a lot.
- Moderator:** Thank you. We have next question is from the line of Balchandra Shinde from Anand Rathi. Please go ahead.
- Balchandra Shinde:** Good morning Sir. Congrats for a good set of numbers. Sir in power generation business actually would like to know how much was traded components in those sales for fourth quarter and full year? The traded components like alternators, which we have, those sales I wanted to know? The other thing which I wanted to ask is these traded components actually I want to know the arrangement means like are we buying from a genset dealer?
- T. Vinod Kumar:** Traded was about 220 Crores for the full year.
- Balchandra Shinde:** Sir, how growth is expected in this traded components?
- T. Vinod Kumar:** See, lot of it is captive only, we are giving it to our own GOEMs, it is not that we are actively selling these outside.
- Balchandra Shinde:** But from where exactly we are sourcing these?



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- T. Vinod Kumar:** As power generation business grows this will also grow in the same lines.
- Balchandra Shinde:** Sir in infrastructure especially in the industrials we have introduced three new engines. We would like to know for what applications we have introduced these engines?
- R. R. Deshpande:** Balchandra, this industrial application typically all are again going for the road construction equipment, and I can say we have added two new customers into this and the numbers is coming up because of outside. If you see transit mixtures, two customers have grown considerably last year and that I can say little bit growth in the segment, but the tractor as such has gone down considerably because the last year was a degrowth year for the tractor, but otherwise the impact as a whole if you see transit mixture, concrete that area is picking up and now since the road construction kms per day has also improved to 17 to 18, and government is talking of more than 20 to 25 in the coming year, I think that will give us a boost. Backhoe and excavator markets are slowly coming up, it has not yet come to the normalcy as compared to the last buoyant years of 2012 and 2013, but they will come up because of the road constriction and overall as such we could see that this year should be a good year for the industrial market.
- Balchandra Shinde:** Sir regarding our low kVA that is 5kVA gensets which we use it for telecom towers and NPCIL order would like to no the update what kind of scenario we see for next two years?
- R. R. Deshpande:** NPCIL the first order I think finalized somewhere in the second quarter of this financial year because that is going to be coming and as we go along there are projects in pipeline. Today it takes time to finalization of the NPCL orders. But the smaller petrol gensets or diesel gensets they normally go for the small shops and small like in say jewelers or something in the villages or in the small cities, but the point is that we are sustaining good numbers and good market share for the smaller kVA and 5kVA gensets for diesel.
- Balchandra Shinde:** The bids which we are expecting to the good in the next two years. So how we see because what we have heard through market survey that of our competitors, which was really good, has used Chinese engine and is facing problem on their brand recognition so will we get that kind of advantage in those markets?
- R. R. Deshpande:** Yes, see government today, they are working with the different projects for the schools, colleges and police stations, courts etc. So the government orders will come for the smaller kVA genset where the small establishments are there, the requirement will come there.
- Balchandra Shinde:** Thank you Sir. I will come back for any further questions.
- Moderator:** Thank you. We have next question from the line of Ranjeet Shivram from Antique Stock Broking. Please go ahead.
- Ranjeet Shivram:** Good morning Sir. Congrats on good set up numbers. Sir, last call we had mentioned under our power tillers we had a subsidy pending I think from West Bengal, Odisha and Bihar so any colour on the approval?



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- R. R. Deshpande:** Subsidy is a long drawn process. Yes some of the states in the approval pipeline are Tamil Nadu, Odisha, Karnataka, West Bengal and Assam . There is an approval process then a fund release process which all takes time. Currently there is a slowdown in the process as a result of the election process in some States. We do hope, we have 5 to 6 states covered this year as that will be crucial.
- Ranjeet Shivram:** You had mentioned you had done 1500 numbers under power tillers for FY2016 and are expecting this to grow to 6000 numbers in FY2017 is it right now out understanding?
- T. Vinod Kumar:** Yes.
- Ranjeet Shivram:** Thank you.
- Moderator:** Thank you. The next question is from the line of Balchandra Shinde from Anand Rathi. Please go ahead.
- Balchandra Shinde:** Sir, regarding our tractors would like to know the arrangement since we have 17% annual requirement we do it Swaraj engines so with new introduction obviously as you said in previous concalls also that we will continue to supply, but is there any plan to reduce the stake in Swaraj engine from our end or we will continue to maintain that stake?
- R. R. Deshpande:** No, this is our understanding. Swaraj Engines is the promoter, and percentage share of engines to be supplied by Kirloskar Oil Engines has been done based on mutual understanding.
- Balchandra Shinde:** Sir, regarding the customer support would like to know few years back means like 1.5 year back we were started with parts where we were giving 10 years lifetime warranty so in that process will be take bearing the cost of servicing for next few years because of this or the arrangements is only for the services spare cost will add up to the revenue is it like that?
- T. Vinod Kumar:** **Within a year & a half of declaring the 10year warranty, CPCB II came into force. These were completely new engines which needed to be established and proven in the market. Hence, we continue the warranty for all engines sold under the scheme prior to CPCB II**
- Balchandra Shinde:** Is it because of that are all customer is not growing to that extent?
- R. R. Deshpande:** See customer support basically work for the service contract and maintenance service contract for spares and oil. If you see today the running has gone down considerably, the gensets, the products, equipments they do not run and because of that running is not there even the annual maintenance contract year you have to have competitive rates, if the previously were monthly or once in two months now the visits are once in three months or once in six months so lot of impact has come in, because of reducing the number of visits and ultimately the usage, oils and that why difficult times also actually if you ask me we are maintaining customer base or increasing customer base and maintaining the revenues.





- Balchandra Shinde:** Sir regarding our larger kVA when which you introduce 750kVA for the process which I have heard every genset is recommended by a consultant to for a particular project so are these consultants exclusive for every year genset OEMs or genset manufacture or consultant can recommend any kind of gensets?
- R. R. Deshpande:** Previously there were very few players so consultants were yes, they were actually related to different OEMs, but today, since there are so many consultants and so many manufacturers they do not have exclusivity as such and they actually work with the project, the owners and they on case to case basis recommend the gensets at the point of time and looking at this we are getting good orders from 750kVA only because these are the consultants aggressively working with our competition, but looking at genset features, genset footprint, the fuel consumption, the price everything put together they recommend the gensets so it is not exclusive at all nowadays.
- Balchandra Shinde:** Are we price at parity to our competitors or at discount in 750kVA?
- T. Vinod Kumar:** We are almost at par with the competition.
- Balchandra Shinde:** I will come back for any further question.
- Moderator:** Thank you. The next question is from the line of Manish Goel from Enam Holdings. Please go ahead.
- Manish Goel:** Coming back to on the cost so we have shifted the Pune plant to Kagal so what good be the cost saving in the coming times purely based on this Sir?
- T. Vinod Kumar:** That wasn't done just to save cost, it made sense to consolidate our operation into one place and so it will be very difficult to say what exactly will be the cost savings; practically the entire 15-16 fiscal, production was entirely from Kagal, hence savings have already been factored in. The real savings will come when volumes pick up and cost absorption is better.
- Manish Goel:** So we pay some rent to Kirloskar Industries for the land at Pune for some 20 to 21 Crores so will it continue or that will discontinue?
- T. Vinod Kumar:** No it will continue.
- Manish Goel:** It will continue, and employee cost particularly in Q4 has declined so is it that employee cost in Q4 has declined by 17% so is it just because we have made some higher provisions in earlier quarters and Q4 number is adjusted number for that?
- T. Vinod Kumar:** Yes, to some extent the provisions made are based on estimates and often the actual payout may be less especially the Variable Payouts. Also, Actuarial valuations for Gratuity & leave can vary. The full impact of our VRS would have also come in the March quarter.



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- Manish Goel:** Going forward now with more or less similar revenue mix we can see these margins sustainable because 13% margins we have seen after eight quarter coming back so can we expect this margin to be sustainable?
- T. Vinod Kumar:** 13% may not be sustainable because if you look at the year as a whole we are talking about is 10% and like I said it earlier also it totally depends on if our volumes go up by about 7% to 8% at least we do not have any cost to incur for those volumes. The absorption gets better so yes in that case we will see better margins. But I am being a little cautious because we got see I think increased competition and the entire pressure on pricing is going to be intense. So if you have to maintain market share or grow market share it may come at the cost of margin.
- Manish Goel:** Sir this NPCL order, which you mentioned about in Q2, what could be the order size?
- R. R. Deshpande:** This first order may be of around 8 to 10 Crores.
- Manish Goel:** Sir compact genset for Army what could be the potential markets in the near future over period of next one to two years?
- R. R. Deshpande:** Around 100 Crores.
- Manish Goel:** These are completely imported today.
- T. Vinod Kumar:** Previously imported now we are started making here.
- Manish Goel:** Sir, one thing I missed on the DV series sales value for entire FY2016 that I missed?
- T. Vinod Kumar:** DV for entire?
- Manish Goel:** FY2016 sales value?
- T. Vinod Kumar:** Close to about 900 on volume, value 120 to 125 Crores.
- Manish Goel:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Ranjeet Shivram from Antique Stock Broking. Please go ahead.
- Ranjeet Shivram:** Sir, just wanted to get your sense on this telecom tower you had mentioned this 4G we are expecting so, just want get your sense is that through or you see any risk in that around 4000 and 5000 from Reliance that we were expecting?
- R. R. Deshpande:** Yes, we are expecting for 4G, but still I think there is no movement there on that side and we are also expecting this year, I can say good sale for the telecom tower on the 4G sector.



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- Ranjeet Shivram:** Sir, broadly if you can throw some sense on the pricing part because have you seen the worst of the pricing or you see that pricing still be challenging and will that impact our gross margins going forward?
- T. Vinod Kumar:** I just mentioned that earlier that pricing is going to be challenging.
- Ranjeet Shivram:** How much was the price cut largely this year, if you see can give the some idea on that?
- T. Vinod Kumar:** Price cut I don't know how to say. Basically let me put it differently. Post CPCB it was expected that because of virtually no price increases in product cost & pressure on input costs, there would be an appropriate price correction taken. While initial price correction did take place, soon there was deep discounting and soon the floor priced were dropped by 8-12 % wiping off all possibility of gains.
- Ranjeet Shivram:** Thanks.
- Moderator:** Thank you. Next question is from the line of Renu Baid from IIFL. Please go ahead.
- Renu Baid:** Good morning Sir. Sir two questions; one I think, I joined a little late, so missed on your initial remarks on what is the outlook on the domestic powergen market and do we share of business in the heavy duty and the higher power segment improving with our expanded product range now?
- R. R. Deshpande:** Overall I can say the market segment for power generation, we feel that this year rest will be maximum 5% growth as compared to the last year because if the power deficit with respect to the demand has come down to almost 1% to 1.5% and only thing is the standby power applications are coming up because it is a mandate for the high rise buildings or malls or whatever. The point is this market is going to have hardly 5% growth.. Second is the on the higher kVA, yes we are maintaining and slowly improving the market share. Already around 750 kVA we are at 5% market share and we want to grow it through at least 10% in this year and on the 1000 kVA at the end of this financial year we should be at least 10%. This is what we are looking for.
- Renu Baid:** Sir, in the standby power application market, are we seeing this demand coming in largely from the IT, the data center's part or are you see a much more broad base recovery coming in from the hospitals, education institutions and other segments of the market?
- R. R. Deshpande:** Data centers normally the requirement comes from 1000 kVA onwards, 1000 to 2000 kVA and may be second quarter onwards we are launching this 1000 kVA but otherwise looking at the hospitals, malls, common business, I can say high rise buildings, that market is going to be there, which is going to be the standby application.
- Renu Baid:** On the export side, if you can share how has been the growth been so far and if one has to take a view for the next 12 to 24 months, how are we expecting the export portfolio to strengthen both with respect to our channels, reach, and the markets in which we are likely to further expand?



- R. R. Deshpande:** Actually in exports, last year we have seen 12% growth and our base is small. But the point is looking at the different markets the demand from specific markets are coming down like wherein the currency has devalued and still there is no stability in Africa, South Africa, and other African countries. Then because of low oil prices Middle East budgets are down, typically if you take Saudi Arabia, government has not paid major contractors so the requirements are not coming up. But looking at this already whatever we have launched the products and this year will be the major I can say activity will start from US office and we could say that the demand should come from there and we will be also ready with the initial norm compliance for US it is the EPA norms and at the same time we are already going aggressively into the firefighting pump set engines which is again, I can say mandatory for the high rise buildings and with FMUL certification and we have I can say very few manufacturers who has got taken FMUL certification.
- Renu Baid:** But then overall this segment or the export portfolio can double in the next three to four years or you think it could take much longer?
- R. R. Deshpande:** In the next three to four years we would certainly like to see it doubled.
- Renu Baid:** Sir, overall on the agri tiller side, are we seeing some better offtake now that monsoons and seasons apparently seems to be coming much better?
- T. Vinod Kumar:** Well right now it is only sentiment that the monsoon is expected to be good. The real test for the tiller is going to be when the subsidy disbursements start in full swing and now with most of the state elections over we have already got some of the subsidy.
- Renu Baid:** Yes, otherwise it is going to be really tough if the monsoons do not turn out good. Thank you so much. All the best.
- Moderator:** Thank you. We have the next question from the line of Bhavin Vithlani from Axis Capital. Please go ahead.
- Bhavin Vithlani:** Good morning Sir. A very quick question on your view on new capital goods policy being announced recently, as there was some mention about emission norms for gensets in that?
- T. Vinod Kumar:** What exactly are you looking for Bhavin?
- Bhavin Vithlani:** We saw the announcement of the new capital goods policy recently so how are they talking about pushing the capital goods sector. So, if you could throw more light what exactly are you seeing from the government?
- T. Vinod Kumar:** I think we will be making guesses in the dark, honestly because a lot of the policies are in the right direction, how quickly they get implemented and more than that actually it depends on money and the people. You can have a conducive environment but at the end of it if you look at the corporate they are so highly leveraged, the ability, capability to spend, expand etc., capacity is also really nobody is looking for major capacity, so what we look at from more than this thing is spending on infrastructure and we hope that whatever is promising in terms of roads, in terms



of construction that kind of takes off a general boost in the economy, while it will take some amount of time before our sales start really picking up because we are down in the pecking orders in terms of growth when it comes to these segments but otherwise just per se a capital good policy, I am not sure whether I would like to read too much into this.

**Bhavin Vithlani:** Sir, actually where I was pointing towards areas that the government talked about correcting the inverted duty structure, more make in India so we have always been talking about Chinese gensets and Chinese imports.

**T. Vinod Kumar:** So the make in India is very different, because no doubt about it, because when it comes to let us say marine, defense segments, we certainly feel that for us it will auger well when we will have an edge whatever discussions we have had also at different forums and different levels, we do feel that yes, that will make a difference, but like I said most important is that this traction is coming in bits and parts and the next couple of orders we will actually see whether this is getting translated into real orders and whether people are now willing to put that money on capex which is kind of being withheld for quite a while now.

**Bhavin Vithlani:** Sir my next question is you have highlighted that powergen market could grow by about 5%-odd but from what I understand your efforts in the last two-three years of going higher up the range, going lower down the range, focusing more on the export and we saw the industrial segment picking up. Sir, as a company do you believe higher double-digit growth is sustainable now from FY2017, may be say 15% to 20%?

**T. Vinod Kumar:** No.

**Bhavin Vithlani:** What could be the number that we should be focusing on because these efforts?

**T. Vinod Kumar:** Focus on any numbers, unfortunately Bhavin, basically you know as well as I know that we are not insulated from what is happening in the economy. You are not insulated from the growth whether it is domestic or export. Exports the international markets are also under a lot of pressure, some on account of currencies, and some on account of their own government policies, etc., and domestic while yes we have seen some traction and in some sectors, but if there is a wave and the growth is going to be in double-digit certainly we will ride the wave, but it will be very difficult to me to say good double-digit growth based on future expectations of what the economy is going to look like. I would say that I would err on being cautious.

**Bhavin Vithlani:** I do understand. Basically my question was because you have done tremendous effort not just to rationalize cost but new products, lower down the range, higher down the range and focusing on exports.

**T. Vinod Kumar:** I always say that we are equipped to cater to the entire segment and the entire range, should there be an opening up and also we are trying to keep our cost as flexible as possible because if there is a downside, I cannot be caught napping.

**Bhavin Vithlani:** My last question is we have seen strong growth in the industry segment.



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- T. Vinod Kumar:** Not strong, we have seen growth.
- Bhavin Vithlani:** Because in the presentation it was mentioned about 18%-odd at the industrial segment.
- T. Vinod Kumar:** Full year?
- Bhavin Vithlani:** No for the quarter and the tractor sales were negative, Sir, if you could give us some color how much is tractor as a share of the industrial and excluding of this tractor, what was the growth for the construction and the other industrial business?
- R.R. Deshpande:** Bhavin, first of all this 18% comes from a quarter-to-quarter comparison. This quarter, fourth quarter industrial, last year Q4. If you have seen a lot of government orders also were piling up, so we cleared a lot of orders in the last quarter and this year the orders actually have got delayed. Second is on the tractor, if you ask me the first half of the last financial year was almost 20% degrowth and then the second half was I can say come back to normalcy, so all put together was a degrowth of almost I can say 8% to 10% in the tractor industry of the last year, which they are saying that this year it should come back to normalcy, so this is what I can say the sentiment that the tractor industry will come back to normal, but typically the road construction equipment and that was I was explaining previously that some segments like transit mixers, then concrete pumps it is growing and it is growing definitely in good numbers and the excavators, the backhoes, the road compactors that I can say has given a good sign that it has started moving because now the per day construction of the roads has come up to 17 to 18 which I think the government is targeting at the end of this year we should be crossing 20 or around 25 so if it is like that definitely industrial is going to grow. We have got good capacities. We have added I can say two to three customers in tractors, in backhoes, and even transit mixers. So with this there is a good scope to increase the numbers in the industrial segment.
- Bhavin Vithlani:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Sir, Good morning. I joined in a bit late. Can you just let me know the reason behind the improvements in our margins? We have seen a good improvement in our margins. What contributed to that?
- T. Vinod Kumar:** I think I had answered that right upfront in the beginning. Large portion of that was on account of a better sales mix and higher sales (about Rs 27 crores). So that itself gives you a contribution. That was one and then of course I did mention that we ended the year with a very low finished good stock so the whole impact on opening and closing inventory had added about 4 to 5 Crores to it and we had an exceptional income by way of the sales tax order which went in our favour for which we had made a provision last year that is about another 10 Crores. These are the main factors. The rest was largely because of higher sales where our cost absorption was better.



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- Ravi Swaminathan:** We also do a considerable sales of K-OIL, probably there could have been expansion because of lower commodity prices there? Was it also one of the reasons?
- T. Vinod Kumar:** To some extent yes because we cannot keep retaining all that, you need to keep passing it on.
- Ravi Swaminathan:** Sir, how much will that be out of the overall customer support segment and K-OIL sales?
- R. R. Deshpande:** Total oils business for the last year was almost I can say 130 Crores for 12000 kiloliters to be specific, for the last year.
- Ravi Swaminathan:** 120 Crores. Sir, can you give me a flavour of how many units we have sold in 750 kVA gensets in the powergen?
- T. Vinod Kumar:** What was that?
- Ravi Swaminathan:** 750 kVA, the newly launched higher rating?
- T. Vinod Kumar:** In the whole year?
- Ravi Swaminathan:** For the whole year?
- T. Vinod Kumar:** The whole year we sold 17 numbers
- Ravi Swaminathan:** 17 numbers and next year going forward what would be the count that we can look for? Have we reached all markets for this particular product?
- R. R. Deshpande:** We are targeting 100 numbers.
- Ravi Swaminathan:** 100 numbers you are targeting. In Chhota Chilli what is the volumes we have?
- T. Vinod Kumar:** What is that?
- Ravi Swaminathan:** Chhota Chilli, what is the value wise and volume wise? The revenue last year full year?
- T. Vinod Kumar:** I do not have it off-hand.
- Ravi Swaminathan:** DV series how much Sir?
- T. Vinod Kumar:** DV series what do you want, numbers?
- Ravi Swaminathan:** Full year numbers.
- T. Vinod Kumar:** Full year number is about 900.
- Ravi Swaminathan:** 900 Crores.



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- T. Vinod Kumar:** 900 Crores is not numbers.
- Ravi Swaminathan:** Value wise.
- T. Vinod Kumar:** Value wise about 120 Crores or 125 Crores.
- Ravi Swaminathan:** Sir, the effective tax rate was lower this time for the quarter at around 17%?
- T. Vinod Kumar:** Effective tax rate will have factor also the R&D expenditure where we get a weighted deduction.
- Ravi Swaminathan:** Going forward what would be the effective tax rate what we can expect?
- T. Vinod Kumar:** I cannot really comment at that right now because it depends on how much. We know the normal rate and then it depends on how much of R&D expenditure is actually incurred during the year to get benefit of the weighted reduction.
- Ravi Swaminathan:** Thanks.
- Moderator:** That was the last question. I would now like to hand over the floor to Bhavin Vithlani for closing comments. Over to you Sir!
- Bhavin Vithlani:** Thank you Karuna. We would like to thank all the participants for joining in the call and on behalf of Axis Capital specially, I would like to thank the management to giving us the opportunity to host the call.
- Moderator:** Ladies and gentlemen, with this we conclude today's conference call. Thank you for joining us. You may now disconnect your lines.