

Operator

Ladies and gentlemen, good evening. Thank you for standing by. And welcome to Kirloskar Brothers Limited Fourth Quarter and Full Year 2011-'12 Earnings Call. Joining us today in this conference room are the Chairman and Managing Director, Mr. Sanjay Kirloskar; Executive Director, Mr. R. K. Srivastava; Vice President, Finance, Mr. Umesh Shastry; and Vice President, Legal, Mr. G. P. Kulkarni. Mr. Umesh Shastry will take us through the result highlights for the period ending March 2012. All participants are requested to refer to the presentation available on the company website www.kbl.co.in As a general reminder, during the duration of the presentation, all participants are in a listen-only mode. There will be an opportunity to ask questions at the end of the presentation. [Operator Instructions]. Please be advised that this conference is being recorded today. I will now hand the conference over to Mr. Umesh Shastry. Please go ahead sir.

Umesh R. Shastry, Vice President, Finance

Good evening, ladies and gentlemen. Before we begin this earnings call, we would like to remind you that the discussions and overview that follows may include a few forward-looking statements that need to be viewed in conjunction with the risks that we face. As usual initially, we will run through the slides in the presentation that were loaded on our website yesterday and then we will have the Q&A session at the conclusion of the presentation. Taking a look at the overall scenario at the company level. As you are all aware, there was instability in some states and at the center during the course of the entire year.

And this did lead to a slowdown in decision making that affected the overall business environment and consequently our business environment as well. As far as the power sector is concerned, which is one of our major business verticals, there was a cash crunch and as you are aware there were issues relating to court and certain other problems, which arose. Now, we expect that the major policy reforms will boost further investment in this sector and also liquidity problems will ease. So, the power sector which did not do too well in the year 2011-'12 will probably fare better in the year 2012-2013.

We are glad to tell you that we completed work on about 68 projects that we're currently working on and 27 sites were also closed during the course of the year. We continued to have focus on balance sheet improvement, because of which we had selective sale in the sense that the fieldwork done by us based on the recovery from the customers and the sale was matched with recovery. The cost of the company being primarily on ensuring that recovering improves and we do not just make sales for increasing the top line and consequently turning those sales into debtors. So the improving the quality of the balance sheet as we've we telling you throughout was a very important point on our agenda throughout the course of the year.

Piece of good news is that the Andhra Pradesh government has slowly started releasing money for pending an old projects and we did get a little bit of money in the month of March from the State of Andhra Pradesh. Regarding the big projects booking we did not have much project booking and whatever orders were booked by the projects were mainly product orders only.

One other good news for all of you and for all of us is that the distribution sector which is again one of our big business verticals crossed a significant milestone of Rs.500 crore sale of that particular business vertical alone.

I move on to the next slide where we will talk about the individual sector highlights. The irrigation sector, our thirst continue to be on closure of sites and recovery or retention money as I mentioned a little earlier, which continued. And we did a pre-bidding for Karnataka & for Odisha lift irrigation schemes and also for OLIC, Bhubaneswar. We will know the status of that in due course of time.

Moving on to the power sector. The first primary heat transfer pump is being assembled and is being tested at our Kirloskarvadi plant. And the second heat transfer pump for the Bhavini project have already been dispatched during the course of the year. Three pumps have been actually dispatched.

We successfully commissioned CW systems at different projects which you may would have probably seen on the screen mainly SR, Tata's, Adani's et cetera. We also successfully completed the PG test at NTPC Sipat. Our first Pelton turbine was successfully manufactured for a particular hydro project during the course of the year.

Moving on to the water business vertical. We had some VT pumps in duplex material which was supplied for Tamil Nadu during the course of the year.

And one more good news is that we have this prestigious Manglore water supply and -- project. Again for what we actually made a claim for and were able to collect PVC 94 million or roughly around 9.4 crores during the course of the year.

The gas oil in different sector which is another important business vertical of ours. Where we successfully completed string test and dispatched all the eight offshore fire fighting pump sets to both U.S. and the UK And also we received cooling water pumps order

from BPCL and this was by changing the specifications from API to non-API which is quite a significant achievement.

We also received seawater cooling pump order from HPCL and we for -- we conducted a feasibility analysis to ascertain whether we could tie up with Danfoss Semco Denmark for High Pressure Water Mist System. So this could mean for the future.

Regarding the industry sector we did numerous presentations across the country in the coal as well as mining industries. As we have been telling you in our last few earnings call we have been focusing on the LLC pumps and we did see an improvement in the orders which we have received both in the LLC pumps and for auto-prime. And Siemens Baroda registered us for the condensate extraction pump.

The building and construction sector also bagged 42 sets of which is a multistage multi-outlet orders throughout the country. This also was a fact which we mentioned to you in our last couple of analysts presentation and our continued promotions has helped us bag these orders. And we also got orders for the HYPL integration units 18 number through significant marketing initiatives that we did.

In distribution sector successfully completed the Pilot project on synchronized manufacturing and distribution system in the west zone. This covered of about seven dealers and about 98 models of our pumps. We successfully launched new series of submersible and in selected price sensitive bottom of the -- market this has helped and will help to increase KBL's market share.

We did a lot of roadshows in Maharashtra and Gujarat because we thought this was a good way to reaching potential villages as well as major towns and increasing our reach and making the people aware of the pumps that we have. And the solar business which we also did talk about in the last analyst meet when the cumulative booking has now crossed five crore and we expect the solar business to be a good -- have good potential in the future.

The customer support and spares which is primarily spares and refurbishment we have established one center known as Kirloskar Refurbishment Center at Baroda. This has pump testing and facilities and this center will definitely help us for getting more business on this business vertical in the future. We also started CRM implementation for integration for the execution of our spare part orders. And for the sugar industry we initiated a particular project which will help us build better relations and improve our order flow to the sugar industry. We also identified a few gaps during the course of the year for the business verticals, which also our senior management has taken cognizance of and we are trying our level best to see how we could mitigate these gaps moving forward. Regarding the irrigation sector, well, we did take a strategic decision of restricting supplies to AP. This was of course because of the sluggish recovery and though the, like I said in the beginning the situation has improved, it did improve only during the end of the year. And this sluggish recovery also led to lower sales in the sector, because of our continued focus on not just pushing on sales, but to ensure that we had adequate recoveries, which are matching with the sales before we actually made the sales to the State of Andhra Pradesh.

We also had some delays in certain site closure and commissioning in AP. This also led to reduced collection of money than we had planned, which again also, which again affected our sales, because had we collected this money, we would have been able to push further sales into the State of Andhra Pradesh, which would have increase the sales of this particular business vertical. As far as the power sector is concerned, well, you people are also aware of the situation, but we had to constrain, we were constrained to hold some orders for a few private sector players during the course of the year, because of not recovery from those private sector players.

This did lead to reduced sales for that particular sector, because we had to ensure that we actually collected the money first, before we actually send the pumps out to those players. And the slowdown in industry naturally because of the issues related to core linkage and land acquisition et cetera led to a lower booking in the power sector as well during the course of the year. The water resource management, well, we were expecting the HMWSSB order to start during the course of the year, but there was a hold on the execution as well as on the PHED-Shillong orders.

Now, this resulted in lower sales as compared to planned. These orders are with us and we will be executing them, but instead of the year '11-'12, the order execution will commence in the current financial year, which is '12-'13. And we also had lower bookings in this sector, mainly because a large EPC projects include cross-country pipelines and distribution network, which KBL today really does not have the pre-qualification to do. And we had to, lot of projects we had to sort of turn back, because the payment terms were not as per our requirement. So, since we had decided that we would only going for those projects, where the payment terms were suitable to our requirement, we had to turn down these project orders.

Regarding gas oil and defense, there was these ONGC offshore packages which were to be executed during the course of the year, but there was a delay in the receipt of these packages, of the order, as a result of which from again from the year '11-12 the execution of this moves to '12-13. So that has resulted in a lower sale and lower recovery in the gas oil and defense sector. Similarly it's a major fertilizer projects which we were banking to the deferment of those projects. This also led to lower booking in the particular sector. Industry sector similarly payment terms as an issue because of which we had lower order booking during the course of the year.

We did collect, also some of the old orders. There was certain retention terms and LD which also led to little bit of low recovery in this particular sector. Regarding building and construction we find that in the market in the last six months there has been a bit of a slowdown. This impacted the order booking as well as the sales.

And lot of customers demanded higher credit from us and we have taken a cautious decision not to increase the credit period for the customers because of which we had to restrict a few orders that we would have otherwise got because our emphasize again was ensuring as much of cash and carry business as possible or going to customers without actually increasing our credit period. The distribution sector though the sales crossed 500 crores our plan was little higher and there was a slowdown in the market in the second quarter which basically led to reduction in secondary sales because of which the sales were lower than plan though as I said we believe that crossing the 500 crore mark in this sector is definitely a significant milestone that we've achieved.

Moving on to our factories, the Kirloskarvadi factory the large pumps division dispatched the secondary heat transfer pump to the Bhavini project along with spares for the secondary heat transfer pump and as I mentioned a little earlier we also had the first Pelton turbine which was 2 megawatt which was successfully completed the assembly of the same.

In the small pumps division we did change in the lay out for the split case the process pumps in a multistage pump division. This was done with lean techniques and this change in the lay out is definitely helping as far as productivity and efficiency is concerned and we'll be able to churn out pumps with a better speed in the current year and with better efficiency of operations. The productivity in the split case division has also improved and we established a warehouse for spare parts of the Kirloskarvadi factory so that there will be no shortage and the availability of those spare parts will be much better as a consequence of this.

The Dewas factory one of the important things is we had a survey which was conducted by an external agency for knowing for our employee engagement and knowing the people how the people feel about the organisation and their engagement in the organisation and 87% of the employee -- we achieved an 87% employee engagement who were working in the factory are completely or fully engaged in their operations which as informed to us by the external agency is a kind of a is practically close to the benchmark that they have from this particular -- for this particular perspective.

The DB pump manufacturing setup has been now established in Dewas plant. The Shirval plant we have HYPN system manufacturing setup created. Our solar controller which was named JALVERTERS was tested and these are also approved by the ERDA. And the other important thing all our manufacturing zones and offices including the support offices have achieved the 5S certification in the Dewas factory.

The Kondhapuri Valves factory had its severance audit for FM approval which is completed without any NCRs. We had first orders for the FM valves which is again a good achievement. We developed 1500 mm valves for the BWSSB project and we also had an Integrated Management System surveillance audit or the EHS audit which was conducted and very few minor NCRs were raised for the same.

The Coimbatore plant now 20,000 pumps single shift basis capacity -- production capacity has been established at this plant and this plant is working in full swing. You will see a few photographs of our Ahmedabad plant which has started production in this month though not in its full speed but the production has started and the photographs will show you the way, the way in which the plant has actually been setup.

I'll move on to slide 16 of the presentation where I'll show you the pending orders of the company quarter-on-quarter. Here you will notice that we had a pending order of 2,949 crores at the end of Q1 which by the end of Q4 has come down to 2,484 crores which is a drop of just under 500 crores.

But we believe that the quality of the orders have definitely improved. And if you look at the bottom of the slide also after two quarters that we had lower orders received during the quarter in the quarter four order inflow have actually gone up to 366 crores. So that is a decent figure as far as the inflow of the orders for the quarter is concerned.

Some of the major orders which you got on also given in the next slide which include orders for rural electrification, solar pumping systems and I won't go through each of one of them but you will find sector wise list of along with their values given in slide 17.

Now moving on to the financials for the particular year. Firstly I would like to tell you that few figures which we are shown in the presentation have been given us for the presentation have been given us for the old schedule six format, so that they will be consistent with the previous year. As a result, these figures will not exactly match with the published results, because our published results are in the revised schedule six format. But from the ease of the comparison perspective, we felt that it will be better to give the figures in the old format, not all of them, a few of them are like that.

The sales of the company have actually dropped by about 9% compared to the previous year, from 1,937 crores to 1,769 crores. And all the sectors have actually crossed the sales over the previous year, except the three project sectors, which are irrigation, water and power. But as said before, this was because of our emphasis on collection of money over top-line growth and recovery was given the prime importance in the course of the year.

Distribution sector, as mentioned earlier, has crossed the significant milestone of 500 crore of sale during the course of the year. We continue to be selective with our orders and with our execution in order to improve our product mix, which is something which we have been stating right through the course of the year. And because of this, the own product sales went up to 58% of the total sales vis-à-vis 51% in the previous year. Our material cost actually went up from 69.3% in previous year to 71.6% in the current year, this was mainly because of increase in prices of inputs for foundries and a shift in the sales mix. The shift in the sales mix is, because the orders for the large engineered pumps actually reduced at a proportion with the total orders and the material cost for the large and engineered pumps is significantly lower than the material cost for the small engineered pumps.

As a consequence, the material cost percentage has gone up in the current year. Beside, we had projects with significant POC in the previous financial year, which is '10-'11, because of which we were able to recognize the profitability on those. In the current year, lot of projects have not yet reached the stage, where the POC has been completed as compared to the year 2011, because of which also we have raw material cost increase in the current year. The other expenses are at about 285 crores as against 303 crores in the previous year. This is because in the current year we have provided for doubtful claims of 15 crores and we've also written off claims of 48 crores. Of the claims which were assigned by KCEL to KBL in the previous year.

If you would remember, in the last year in May 2010, KCEL had assigned claims receivable of about 73.5 crores to KBL and we have ascertain, we have actually, out of 73.5 crores about 6.25 crores of claims have been recovered, about 6.25 crores of claims are recoverable and the remaining claims we have either written-off or provided for. The claims which have been provided for, are those claims that there are legal cases in existence. The other claims we believe will not be recovered and hence we had to write them off during the course of the year. You would remember that the previous year's expenses also included about 67 crores of write-off of the advance given by us to KCEL. So, we had 67 crores written off last year and about 63 crores which also impacted our profitability in the current year on account of KCEL.

As per the guidelines of the revised schedule six, the foreign exchange gain or loss on borrowing is considered in finance cost now. And this along coupled with the rise in the interest rates and the impact of rupee depreciation our finance cost shows an increase of about 18 crores is the published results that you see as compared to the previous year.

And as we have been telling you for the last three quarters, the increase in the other income is mainly because of our profit on sale of investment in Gondwana Engineering in the first quarter of the year, which is for which the profit is 35 crores.

So for the current year, our profit before tax is 34 crores, as compared to 103 crores in the previous year. After the adjustments for KCEL as well as Gondwana and profit before tax, without the profit on sale of investment in Gondwana and the KCEL provision and write-off is 62 crores in the current year, vis-à-vis 170 crores in the previous year.

Regarding the effective tax rate, it is low in the current period. Because the long term capital gain on sale of Gondwana is subject to concessional rates of tax. So that is one of the biggest reasons, why the effective tax rate is low in the current year. You would notice that because of our emphasis on improving the quality of the balance sheet, the gross current assets of the company has actually come down from 1,662 crores in the previous year to 1,398 crores in the current year, which means there has been improvement or reduction in the gross current assets. And the net current assets have also reduced from 630 crores in the previous year to 567 crores in the current year, which is again the drop a 10%.

So, our move of trying to improve the quality of the balance sheet by reducing our working capital and giving faster recoveries has resulted in an improvement in these two areas. Our inventory is higher then last year was about 17 crores, mainly because of our decision of holding back of dispatches as I've said earlier since the customers did not pay their dues, we have these pumps ready and assembled but we did not dispatch them because they did not pay us the earlier moneys in bank. And these dispatches would effective only after the earlier recoveries from those customers have been made.

Because of our focus to improve collections you'll notice that the trade receivables has significantly improved from 449 crores in the previous year to 219 crores in the current year and this not only is because of lower sales but there has been a definitive improvement in the day sales as can be seen.

And loan funds despite the pressure on working capital throughout the year have remain more or less flat our loan funds are at 350 crores including the CapEx loan as compared to 349 crores in the previous year. So we have managed to hold on to the situation during the course of the year despite all the pressures that we faced.

You can take a look at the five year financial these are the standalone financials which are appearing in the next slide where you would see a movement or a period of the last five years starting fro '08 to FY12 I will not read all the figures they are available for you to see.

The total assets currently also as compared to 1,096 crores last year stand about 1,101 crores in the current year. You can see the decrease in the net current assets from 630 to 567 and the fixed assets are up from 299 to 319 mainly because of the investment in the Coimbatore and Ahmedabad plant. We have also provided you with the gross of these standalone numbers at the end of the presentation. So a graphical representation of the same is also available for those who would like to see it in graphical format.

Regarding the shareholders' fund on the standalone basis we stand at 754 crores as compared to 743 crores last year. And our results are at 738 crores now as compared to 728 crores in the last year. I have already told you about the borrowings they remain more or less flat they are 350 crores as compared to 349 crores in the last year.

The EBITDA is down from 163 crores to 128 crores and a percentage of sales is down from 8% to 7% primarily because of the reduction in the business volumes as well. And the EBITDA without the extraordinary income and the expenses of Gondwana and effect of Gondwana and KCL stands at 156 crores or 9% compared to 230 crores or 12% in the last year.

The PBT is 34 crores as we have already spoken about in the current year and again without the extraordinary income expense is at 62 crores or 3% compared to 170 crores or 9% in the last year. The path similarly is at 31 crores compared to 61 crores in the last year and without the effect of the extraordinary items it's at 59 crores in the current year vis-a-vis 128 crores in the last year. And the cash profit which is nothing but the simple plus depreciation stands at 61 crores in the current year vis-a-vis 91 crores in the last year.

The earnings per share have now drop to Rs. 4 from Rs. 8 and the cash earning per share have also drop to Rs. 8 rupees Rs. 12 rupees. We have announced a 100% dividend in the current year as well because the dividend payout is Rs. 16 crores and the book value per share has remained more or less flat at Rs. 95 as compared to Rs. 94 in the last year.

If we move on to the consolidated financials which are appearing in slide 25 you will find that the turnover as compared to 2,670 crores in the last year is at 2,554 crores in the current year and the major drop is because of the drop in the KBL turnover and not because of the drop in the turnover of the subsidiary companies per se. The total assets are at about 1,268 crores as compared to 1,255 crores. The net current assets remained the same at 730 crores as compared to last year and the fixed assets have slightly increased from 439 crores to 462 crores on a consolidated basis.

The EBITDA at a consolidated level is at 194 crores or 8% again this EBITDA drop as compared to last year is mainly because of KPL our subsidiary performance has gone up in the course of the year. There are certain slides subsequently which show you the performance of our subsidiary companies both our domestic and the international subsidiary companies.

The PBT on a consolidated basis currently is at 75 crores or 3% and the PAT is at 51 crores or 2% compared to 98 crores or 4% in the last year. The shareholders' funds are at 887 crores compared to 855 crores in the last year and the reserves have now gone up to 871 crores as compared to 839 crores in the last year. The borrowings on a consolidated level have dropped by 15 crores from 392 crores to 377 crores.

The next slide -- slide 27 shows you actually the consolidated accounts which gives you the income and the PBT and the PAT by subsidiary company. Here you will notice that I have already spoken about the KBL which is a pairing company in the subsidiary companies you will notice that the Kirloskar Brothers International BV which is direct subsidiary company under which the total companies that is SPP and Kirloskar Brothers Thailand has actually improved its income from 428 crores to 591 crores and also improved its PBT from 23 crores to 43 crores.

It's again Kirloskar Construction and Engineers whose income has actually dropped from 124 crores to 62 crores and whose loss has increased from 1 crore to 16 crores in the course of the year. If you have a look at the other subsidiary companies, you will notice that Hematic Motors Private Limited which is our again a 100% subsidiary company manufacturing motors has significantly improved its income from 167 crores to 216 crores and also its profit before tax from 7 crores to 21 crores.

So after looking at each of these individual numbers, you will find that at the end, you will find our total income which is at 2,603 crores as compared to 2,689 crores in the previous year and the PBT at 75 crores as compared to 159 crores after elimination of the Intragroup transactions between the Group companies.

Slide number 28 gives you the details of the subsidiary companies which are the subsidiaries of Kirloskar Brothers International BV and over there you will find SPP pumps has improved its performance from 408 crores to 526 crores and its PVT has also gone up from 26 crores to 37 crores. Micawber which is nothing but the company which holds pumps in South Africa which was at practically no profit no loss last year has achieved a profit of 2 crores in the current year and has practically shown a double increased it's turnover by double of the previous year and Kirloskar Brothers Thailand which did not make a profit last year has now made a 1 crores and Kirloskar Brother Europe, which is the fourth subsidiary company in Kirloskar Brother International has also improved its income from 9 crores to 23 crores. And after having a loss of 2 crores in the previous year it has now shown a profit of 3 crores in the current year.

So Kirloskar Brothers International BV has improved its income from 428 crores to 591 crores and it's profit before tax is increased from 23 crores to 43 crores in the current year. After looking at all these financial numbers as well as the highlights and gaps for the current year. The way forward that we see for ourselves on an individual sector basis as well as the company basis is given in the subsequent slide. As far as irrigation sector is concerned, our thirst will continue to be on collection of the retention amounts and focusing on project execution and site closures. We also will focus on product orders, so that more and more retention money is not created going forward.

Regarding the power sector, the ASME stamp and the ASME audit is required to be done. And also frees the technology tie up for the boiler feed months. Closing of sites and collection of retention amount will continue to be a focus on water resource management sector as well, as well as targeting LLC orders, for getting more product order in this particular business vertical.

Gas, Oil and Defense will focus on promoting FMU and LLC products and also focus on the water mist resolution for Indian Navy and for oil and gas for valve approvals. The industry sector's basic focus going forward will be optimization of product mix. So, that the realizable margin for this particular business vertical increases and also identifying new markets and upgraded markets for existing products and increasing replacement business at the same time.

The building and construction sector didn't will have a product differentiation which it will establish in the market in order to have better sales realization. Distribution sector will have a PAN India implementation of its synchronized manufacturing and distribution sector as well as tie up opportunity in the expanding fast expanding solar market.

The customer support and sales, we will be establishing three more Kirloskar refurbishment centers. As far as the manufacturing units are concerned, we already spoke about the plant layouts at Kirloskarvadi, we will now be leveraging these plant layouts for increased productivity and efficiency at the plants. We will also be fully exploiting our production facilities at Coimbatore and Ahmedabad to improve the turnover, the profitability of the distribution sector. Conversion cost improvement or reduction will be a big focus area and of course continue to work on enhancing product quality, reliability as well as the aesthetics at all the plants and for all our products.

At a general level or at a overall company level, we will continue to focus on improving our return on capital employed, improving our cash flow and increasing the cash generation for the organization. As far as our project business is concerned, we will work, continue to work on selective basis and with sound partners. We will match recovery with sales. We will also ensure that we are able to close as many projects as possible during the course of the year. We will also focus on projects, where there is a positive cash flow and where the payment terms will be such as we desire, which is something we have been telling you over the last couple of earnings call as well.

We would definitely like to increase the product business inflow, so as to increase the product business and increase the leveraging of, improve the leveraging of cost at the plant and ensure that they are fully exploited. The international subsidiaries, which have done well during the course of the year, we would like to improve their business even further. So, that the global presence of Kirloskar Brothers increases and we get better revenue, better profitability and better cash coming in from the international operations. The project management office is something which we are establishing currently with the objective of improving our project management capabilities. And we would like to ensure that this is done quickly and it gives the necessary, gives us the necessary advantage that we are contemplating it will give.

And we will also take the decision as far as KCL is concerned on either disposal or merger into KBL during the course of the year going ahead. This is all we have in our presentation. With this, the presentation has to come to a close and I hand you back to the moderator from the perspective of starting the Q&A session. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we'll now begin the question-and-answer session. [Operator Instructions]. The first question comes from Mr. Kamlesh Kotak from Asian Market. Please go ahead sir.

Analyst

Hello. Good afternoon everybody.

Corporate Participant

Good afternoon.

Analyst

Sir just let me begin with the pain point Kirloskar Construction and Engineering. What is the status? How much of the order book still remains to be executed on that?

Corporate Participant

There are primarily three orders with Kirloskar Construction amounting to 135 crores of which the main order is of 96 crores is with NIOT that is for desalination plant. Okay. Other two orders are from Kale that is in Moradabad and also from Dindigul which is in Tamil Nadu. These are the two orders worth about 35 crores.

Analyst

So is there any further write-offs or are they in the normal profitability kind of orders?

Corporate Participant

The main orders which is in NIOT has a adequate profitability on a BB level that is no profit no loss

Analyst

So out of the remaining advances how much our company the Kirloskar Brothers now still has advanced to this what amount of write off can be expect from here on?

Corporate Participant

There are no more advances or anything of that sort no everything is zero. So as of today there are no loans nothing receivable from them nothing is to them it is status quo

Analyst

Okay. So you mean 73 crores sir was due from this company so remaining amount still stands recoverable that means

Corporate Participant

No no. There is 73.5 crores was the claims receivable which KBL had been assigned by KCL in May 2010.

Analyst

Okay

Corporate Participant

And out these 73.5 crores we have recovered about 6.2 crores during the course of this period about 6.25 crores we believe are recoverable because of all the communication which we have had with the the parties from whom these claims are receivable and based on that the balance amount have either been provided or written off.

Analyst

Okay. And over what period these orders are going to be executed 135 crore sir?

Corporate Participant

The two small orders would probably get over within the next two month that is by May 31st maximum but the NIOT order will actually start in the month of October and will go on thereafter for a period of 2.5 years.

Analyst

2.5 years from October?

Corporate Participant

Yes that's right.

Analyst

Okay. And sir what is the way forward you have mentioned there can be merger or there can be a disposal option so what we are looking at now?

Corporate Participant

We still to take a call on the way ahead.

Analyst

But are we incrementally booking orders into this entity sir?

Corporate Participant

No, no.

Analyst

Okay. So besides these two orders there will be no further business which will go into this entity as it stands.

Corporate Participant

Absolutely right.

Corporate Participant

As the company has been dump sized to ensure that only these orders can be executed.

Analyst

What are the number of peoples working there sir?

Corporate Participant

72 at the moment.

{Analyst:} Okay. So is it safe to assume that all the pain from this side is over now sir?

Corporate Participant

I hope so.

Analyst

Okay.

Corporate Participant

Because when we take that decision we will have so have to look everything --.

Analyst

Okay. Secondly, sir coming to your core business, how much is the order book pending from Andhra and dues from Andhra orders I mean?

Corporate Participant

Yeah about 700 crores is the order, the dues from Andhra most of them have actually come. As far as the retention dues are concerned, we do have about roughly around 200 crores of retention money which is should start there, but that is because that I told you it is not because of any reasons on our part. It is because those projects are still in the stages where the commissioning erection all those issues are still being handled and unless those issues are actually settled, it will become difficult rather further movement is kind of slotted by the inactivity.

Corporate Participant

And these have to be settle by the either the government or the contractors over there. So, the work that we have done actually the providing of the pumps and electromechanical is complete, but we can't get the rest of the money unless we are able to number one erect these pumps in the locations which are yet to get ready and then the water has to come, the power has to come.

So that's all depending on the Andhra government. There is movement that we see on that side as well, because they have started paying, so the contractors have started working as well.

Analyst

So any time line by which we see this amount significantly getting released?

Corporate Participant

Well we would like it to come as fast as possible, but we definitely anticipate during the course of this year, maybe Q2, Q3. We would believe that a lot of it should be released if the government shows the same momentum going forward that it has shown in the last two months.

Analyst

Okay, okay.

Corporate Participant

And we have also been talking to various people in the government that we should not be suffering because of other people from us. So that we have brought to their knowledge.

Analyst

Okay, all right. Okay. And sir, you mentioned -- about the solar pumps. Wanted to understand, how big is opportunity and how we see this market growing?

Corporate Participant

The solar pump actually Government of India is having very big plant for almost 20 megawatt, but we are going for the small section. There we are much more going for pumping system. In the pumping system, they are trying for the, really for rural areas in every state attributing at various locations. So, I think in every state, it can be in thousands. Some tenders has come in fact Bihar and other locations for more than 600, 700 pumps. In the Gujarat also, it has gone almost to 400, 500 pumps. But we are going in the small towns, where we have to supply 10 pump, 20 pump, 30 pumps, like that we are doing it.

Analyst

Typically, how much each pump would be costing sir?

Umesh R. Shastry, Vice President, Finance

It depends on the kind of pump and the energy that is required to drive it, the size of the panel and all that.

Analyst

No, what I want to understand was, sir, how big is the revenue in terms of the opportunity?

Umesh R. Shastry, Vice President, Finance

Last year was 5 crores.

Corporate Participant

So, we are trying 10 crores.

Umesh R. Shastry, Vice President, Finance

May be 10 crores, 15 crores. The difference is, we are one of the few, may be the only one, who has a pump with an AC motor, our solar controller is U.S. patented and it converts DC power into AC power. So, our motor is an AC motor, which can be, which is very easily.

Corporate Participant

Conventional pump.

Umesh R. Shastry, Vice President, Finance

And it's like the conventional pump. So, we believe that this is something that's far simpler to use in rural India and much easier to repair, much easier to install, not very complicated

Analyst

Okay, okay. And sir, as regards the boiler feed pump, how much headway you made in that technology tie-up and getting that business?

Umesh R. Shastry, Vice President, Finance

We do not participate in that business at all on the boiler feed side. This is a technology that we don't have at the moment. We are looking at developing such products in the future.

Analyst

Okay, okay. And sir, what is the guidance you would give for the next year in terms of revenue, margins and of course debt reduction?

Umesh R. Shastry, Vice President, Finance

Like we've said, our emphasis will be on ensuring that we recover more. So, I can always throw a safe number at you, but that number may not necessarily be a number, which we can probably say, will happen with certainty. Because we want first to collect all

the money that is owe to us in Andhra Pradesh as well as in other places. So, we will ensure that we continue to match recovery with sales. And our revenue figure will be equivalent or less than the amount of recovery that is generated during the course of the year. So, the thrust will be on ensuring that recovery improves, inventory reduces, working capital reduces, consequent to which we will be able to reduce our borrowings and improve our balance sheet, which will be the priority one. And the revenue will be the priority two.

Analyst

So, any specific numbers you could put in terms of the growth target sir, may be revenue at least on the revenue front?

Umesh R. Shastry, Vice President, Finance

Most probably on the project side, I will not give you any, I can't give you any numbers, because it's going to depend on how customer like us, as we go forward and become more and more clear that we want the money upfront rather than anything else. But what you will see is that we are pushing our product business as much as possible. Yesterday, as one of our director said, that has grown by 20% in the last one year and we will try and grow that by another 20%. And the good thing about our product business is cash and carry. So that, and it is profitable. So, what happens with that is as that becomes a higher and higher part of our turnover, you will see the balance sheet improving. And because that is really the focus.

Analyst

Okay, okay. And sir, how much of our debt is coming from the ForEx loan side? And what was the M2M loss or ForEx loss, if at all we have accounted for in this year?

Umesh R. Shastry, Vice President, Finance

Okay. I will try and give you that number. Just give me a second. It was about, roughly around 5.8 crores, if I remember correctly loss. You can take it, it was about 6 crores.

Analyst

Sorry?

Umesh R. Shastry, Vice President, Finance

About 6 crores was the loss, yeah.

Analyst

And what is the total ForEx borrowing sir as of now,
last year it was around 200 crore?

Umesh R. Shastry, Vice President, Finance

No, no. no. Okay, yeah. You're talking about a combination of both the long-term.....

Analyst

Sure, yeah.

Umesh R. Shastry, Vice President, Finance

That is the working capital and non-working capital.

Analyst

Right.

Umesh R. Shastry, Vice President, Finance

Yeah. So, for the working capital, the borrowings are actually, foreign borrowings have come down by about 30 crores. And for the CapEx also, we have to repay the first tranche in the current year, out of the money which we had borrowed from Credit Agricole Bank. So, we repaid 28 crores there also. So, the total exposure has come down by about 60 crores. But let me also tell you something, which we have told you before, the CapEx, ForEx loan is fully hedged for the period of four years.

Analyst

Okay.

Umesh R. Shastry, Vice President, Finance

So, whatever is the foreign exchange loss, which is there, is only on the working capital foreign currency loan, because that is a short-term loan, which is unhedged.

Analyst

Okay, okay sir. And sir, any headwind on the export front, our exports have been dipping. So, particularly from the African side or any major orders, which we are having in the pipeline?

Umesh R. Shastry, Vice President, Finance

Really no. All of North Africa and Middle East last year was quite disturbed and historically that has been one of our larger markets. We also were not very pushy with line of credit orders, though I believe we have received a small one of about 8 crores, which will be executed in the first quarter. But as you see the KBI results, both Thailand and Europe are doing much better. The product acceptance in Southeast Asia and Europe is improving to a great deal. The South African operation is also growing. So I think the fact that we have any line of credit order. This was quite a good performance in the view of the fact that there is not much investment going on in Western Europe or North America and the

Analyst

Okay sir I'll get in the queue again. Thank you very much

Corporate Participant

Thank you.

Operator

Thank you for your question sir. We have next question from Mr. Manish Goel from Enam Holdings. Please proceed sir

Manish Goel

Yeah very good evening sir.

Corporate Participant

Good evening.

Corporate Participant

Good evening.

Manish Goel

Sir just to take it forward on Kirloskar construction want to know what is out exposure from Kirloskar Brothers standalone balance sheet to Kirloskar Constructions now equity plus any other exposure?

Corporate Participant

There is no direct exposure equity of course whatever is invested in the company continues to remain so whatever decision we take based on that either the consideration or the merger they will be definitely be an effect as far as that is concerned. But there is no other loan or anything currently given all that as far as the current asset current liabilities, loans everything is concerned it is all zero currently.

Manish Goel

So equity last year was 71 crores so is it same or equity contribution has gone up for Kirloskar Constructions?

Corporate Participant

Yeah we have also subscribed to preference 25 crores if you remember during the course of the year. So the amount is 71 crores equity and 25 crores of preference capital which is 96 crores.

Manish Goel

How much you've said 30

Corporate Participant

25 crores of preference share capital and 71 crores of equity share capital so totally 96 crores

Manish Goel

Okay, okay. So we haven't decided on taking provisions on this equity exposure ?

Corporate Participant

We cannot take provisions of this because unless either a sale or a merger is done

Manish Goel

Okay.

Corporate Participant

We will not be able to take a provision on that

Manish Goel

Okay. Okay. And this 95 crore one order you said for desalination this would be executed over two years?

Corporate Participant

30 months yeah.

Manish Goel

Okay. On merger it will come to Kirloskar

Corporate Participant

Absolutely.

Manish Goel

Okay. And sir on just to probably get more sense because you mentioned that most of the segments have done well for us and but power irrigation and water has not done well but these are the three largest segment for us and largely the project related.

So if you can get probably just give us some sense in terms of how -- say you mentioned distribution was 500 crores more than 500 crores so how is it grown last year? What is the size of each segment basically it would help us to know that going forward what can we expect because how much the projects have been scaled down in each of the segments and what is the base of irrigation segment and power segment and so if you can help us?

Corporate Participant

On a consolidated basis the project business has come down from about 900 crores to 700 crores.

Manish Goel

Okay.

Corporate Participant

These three sectors from last year to current year.

Manish Goel

Okay.

Corporate Participant

And last year our turnover about 1,950 crores so about a 1,000 crores plus of product business and this year turnover is about 1,788 crores so about 1,100 crore. So that is about 10% growth in the value as far as product sectors is concerned and the remaining is the drop in the project sector.

Manish Goel

Product okay so 1,800 crores is roughly this year so out of which you said 700 crores -- 1,100 crores is the product is the

Corporate Participant

Projects

Corporate Participant

1,100 is products.

Manish Goel

Yeah. Okay. Got it sir. Okay. So in last two three years we have seen this product segment has been growing for us very well

right?

Corporate Participant

Yes.

Manish Goel

So just again I'm asking repeating it why is it then we are not seeing operating margins improvement operating profit? So is it that even if the projects revenue contribution is falling it continues to impact our operating profits proportionately sir?

Corporate Participant

Yes to a large extent the irrigation sector is impacting the profitability from the profit perspective because all these orders are still old orders and whatever work we are doing despite the drop in sales most of these are like I said are the orders without price escalation clauses or variation clauses in them. So till such time these orders continue to get executed and till we come out of these, we will continue to see a situation of lower profitability in the irrigation sector. But the main thing which happened in the current year was primarily the power sector, which did not actually perform as well as we had anticipated or even as compared to the previous year, which genuinely impacted our profitability in fact the power sector profitability last year was significantly high. And this year we did not have any power projects, mega power projects which either which cross the POC because of which we could not get profitability and the overall power business also shrunk considerably as compared to previous year, because of the overall situation in the country. Otherwise, you would have definitely found our profitability would have improved had the power sector grown the way in '11-12 the way it grow in '10-11.

Analyst

Yeah. So that was a reason I was asking on the some kind of revenue breakup, which gives us a sense that earlier it was only irrigation now I think so how much because what I understand was power use to contribute 400 crores turnover did contribute some 400 crore turnover last year. So that has fallen to how much sir?

Corporate Participant

It was actually 417 crores last year which fell to 367 in the current year.

Analyst

And what about irrigation sir?

Corporate Participant

Irrigation was about 450 crores last year it fell to 225 crores in the current year.

Analyst

Okay, sir. Water issue sir last one.

Corporate Participant

I beg you pardon.

Analyst

In water resource management how much revenue.

Corporate Participant

Yeah water had about 320 crores last year and about 260 crores in the current year.

Analyst

Okay. Okay. So now sir out of this order book of roughly 2,500 crores how much is projects and how much is products and within projects till how much been the value of orders in projects we have which is still probably going to have pressure on our margin going forward?

Corporate Participant

If you see slide 16, you will find the breakup of the pending orders by sector.

Analyst

Right.

Corporate Participant

So in that out of the 1,310 crores irrigation sector orders. We had told you last time also that about 700 crores of these orders we have not even commenced work actually. So those orders are there in the order book for which we are not commenced forth and the remaining orders are those orders, where we still have an issue as far as the profitability is concerned till the time those orders are actually executed.

Analyst

How much you said?

Umesh R. Shastry, Vice President, Finance

700 crores of orders we have not even started work on them.

Analyst

Correct.

Corporate Participant

And the remaining orders, which we are working on practically all of them are at still without price escalation clause kind of order. So till such time, those orders are completed. There will be an issue as far as the profitability on those orders is concerned.

Analyst

Sir entire 600 crores, you mean to say has...

Corporate Participant

Very difficult to break up but probably about the may be roughly 50-50 you can say would be half of those order would be definitely loss -- kind of loss making kind of orders and the remaining we will see as much of how much we can improve from the perspective of going beyond the break even point to negate the effect of remaining half of the order.

Analyst

Okay. So on the 700 crore order why is it that we have been probably like is that we have the firm order and we have received the

advance and we are not executing or what is the status on the 700 crore orders?

Corporate Participant

These orders has not at all from the government perspective. So though we have receive the order form the government there is no movement as far as the site mobilizing the site et cetera in order for the project to...

Corporate Participant

Apart from this Andhra government is trying to take the support from the central government and one by one they are clearings on financial angle and most of the jobs which they are already doing on the support of the central government half the order and half the order on state government. So, as soon as they go on getting the finance clearance from the central government, they are moving on their job and that is how they have improved the situation and really in payments.

Analyst

So, the 700 crores order is also a pretty old order so, does it ever price escalation or?

Corporate Participant

No these orders which are the latest order of the 700 which we were taking later on is all --.

Analyst

Okay, okay. So, coming back to the whole point is that still because we're despite products revenue growing up we are seeing improvement in profitability, when do you think the inflection point during the year expect that FY13 is time where probably the profitability of the products will overcome the losses in project business because for last two three years we are seeing the profit downturn continuing. So just want to get a sense that do you think probably this year we can see that turn happening?

Corporate Participant

Yes we would definitely like to see that because as for the reforms which have been announced in the power sector are concerned those reforms will definitely boost the economy and will lead to a improvement in the power sector situation in '12 '13 which will help us reaching good levels of profitability in the power sector in '12 '13 and this compensated by increased revenue and profitability coming out of the distribution sector in Coimbatore and Ahmedabad and our emphasis on improving the and the LLC and the FMUL and the multistage multi-outlet pumps in the building construction and the industry sector we would believe that it will definitely be a much better situation in '12 '13 than we had in '11 '12

Manish Goel

Okay. So like on basically this 1,200 crores 1,234 crores precisely the order inflow we had in the FY12 can we expect that this order in flow is largely products and does not have any significant projects?

Corporate Participant

You are absolutely right actually more than 1,000 crores of this total would be products

Manish Goel

Okay. So that means this FY13 we should see a margin improvement looking at the order inflow which has been higher than the previous year and qualitatively it's largely products related so we should that's the conclusion can we draw sir

Corporate Participant

Yes

Manish Goel

Okay. And one question on the interest cost basically what we see is that it has been restated like in FY11 earlier it was 30 crores now as for the latest table what we see is that interest cost has gone up to 45 crores for the last year and for current year it is 63 crore

Corporate Participant

Yeah it's because of the revised schedule because till last year we were showing interest cost which was net. Now we have to show the gross interest separately the interest income separately. So what showing you are seeing in the finance cost is basically the gross interest plus the foreign exchange gain plus the bank charges everything put together as per the revised schedule fixed requirements.

Manish Goel

Okay, okay. And coming back to yeah -- so on the power sector in the power segment of this 616 crores is that anything like which is non-moving or something that the visibility on execution is very poor for next six to 12 month?

Corporate Participant

No actually the most of the project which is expensive is on hold in private sector especially let us say Lanco Punj Lloyd what they are doing is step-by-step they are getting finance reviewed and then they will get clear and then they will go. Otherwise if we start they are not officially asked us to stop if we do something then the money is not available and that is how we are putting a halt.

Manish Goel

Okay. And sir just to get more sense on the subsidiaries what we see that SPP and Hematic has done extremely well for FY12 how do we see both of this companies doing well?

Corporate Participant

Yes continued good performance from both these companies is on and current financial year as well

Manish Goel

So SPP despite issues in Europe just wanted to get a sense that how is the order book and what kind of growth can be expected on SPP?

Corporate Participant

I think SPP is -- it will continue to grow. One of the things that SPP is very not so dependent on Europe and UK if you look at their business

Manish Goel

Okay

Corporate Participant

There is a huge amount of business in North America and the Middle East and also in Southeast Asia and China. And they are growing with the offshore firefighting pumps with the price of oil being at the level that -- the oil industry continues to invest. And as we've told you SPP has a very higher global market share in that product line. So that is one area that they are growing and other area that they are growing is service and support for the oil and gas sector. Third area is the what we call our lowest life cycle cost pumps, which are the first choice of the UK water companies. So that's another area where we are growing.

Analyst

And on Hematic motors, what is driving growth and how do we?

Corporate Participant

The distribution sector to a great extent is driving the growth of Hematic motors as well. which uses status, I mean KBL uses status and rotors made by Hematic motors. KBL also uses motors that are made by Hematic motors. Though we do have other customers and significantly large customers. Probably 30% of our business is with others. And these companies are -- Climate Technologies and Siemens and other companies. So we believe that Hematic will also continue to grow.

Analyst

And on other side, we saw that Kolhapur Steel and Kirloskar Corrocoat as well as Ebara saw profit falling significantly. So...

Corporate Participant

Yes.

Analyst

Just if you can throw some more light on that?

Corporate Participant

Sure Kirloskar Ebara if I can take the one, which has had the greatest drop, has introduced a new product line, which is turbo generator sets and this was introduced for the first time by this company. What happened was a large number of their customers for the initial sets after giving the order insisted that they wanted part of the critical part of the turbine to be made by the collaborator and hence costs went up.

Therefore, the profits that they made on their normal business were actually wiped out by the other business, the new business that they have gotten into. But the products are now operating and they offer the customers significant benefits over the competition. And therefore, Kirloskar Ebara is now able to get far better prices for the same product. So, I expect that going forward this is going to be an aberration they were suppose to sell for the four turbines that they sold, two were suppose to go last year and two were suppose to go this year, which would have ensure that we wouldn't have seen this kind of drop in profit.

Analyst

Okay.

Corporate Participant

But what happened was since the customers insisted these parts had to go from India to Europe and come back. So all these four turbines came in the same year.

Analyst

Okay.

Corporate Participant

And Kolhapur Steel to a great extent depended on the power sector orders of KBL here again I think the business break up is 50-50 approximately 50-50 or 60-40 with KBL having the higher percentage. So with the control or because they make large very large castings which are required by our projects division, we're encouraging them to go out and get orders from other companies who are not necessarily our competitors and companies on similar businesses I mean in other kind of businesses not similar businesses.

Kirloskar Corrocoat their product mix changed and hence this is what has happened less customers who wanted certain products from Kirloskar Corrocoat and that why it struck we've taken actually we've started taking actions to make sure that we return to the kind of profitability that we have.

Analyst

And sir last question on the -- we have said that we have bided for the Karnataka and Orissa lift irrigation.

Corporate Participant

No we didn't say we have bid for it. We said that, we are meeting the departments in those states to show what KBL is capable of. Very innovative schemes that have been delivered to certain states. So what is possible when they work with KBL, this is what we are trying to show them. That's why we have said bidding for Karnataka and Orissa.

Analyst

Okay, thanks sir. Thanks a lot for answering all.

Corporate Participant

Welcome.

Operator

Thank you for your question sir. We have the next question from Mr. Mahesh Bendre from Quantum Securities. Please go ahead sir.

Analyst

Good afternoon sir.

Corporate Participant

Good afternoon.

Analyst

Sir. I just missed the number, I mean what was the contribution for product business last year sir in our standalone business?

Umesh R. Shastry, Vice President, Finance

Last year was about 1,000 crores, which increased to 11,00 crores in the current year.

Analyst

Sir, this is the standalone business?

Umesh R. Shastry, Vice President, Finance

Yes.

Analyst

Okay. And sir, the contribution you have mentioned about the power and irrigation and water, these all contributions are in standalone business?

Umesh R. Shastry, Vice President, Finance

That's right.

Analyst

Okay, okay. Sir, also you just mentioned that I mean in the annual report, we have mentioned that we have closed on 68 projects and closed 27 sites.

Umesh R. Shastry, Vice President, Finance

Yes.

Analyst

So, current order book of 2,500 crores is spread over how many projects and how many projects are expected to cross the threshold of profitability this year?

Umesh R. Shastry, Vice President, Finance

I think it will be close to about a 100 projects.

Analyst

Okay.

Umesh R. Shastry, Vice President, Finance

And we have planned on closing at least about 40 to 45 sites during the course of the year.

Analyst

Okay.

Umesh R. Shastry, Vice President, Finance

But as far of the POC is concerned, may be we would have POC of may be about 9 or 10, which we have currently planned during the course of the year.

Analyst

Okay, okay, okay. And sir, in your initial remark, I mean it was mentioned that probably product business will grow somewhere between 15% to 20%. So, on the project business side, I mean based on tentative project completion schedule, what kind of growth envisage in a project business, I mean assuming the current situation prevailed?

Umesh R. Shastry, Vice President, Finance

It would probably be flat.

Corporate Participant

Flat.

Analyst

Flat, okay.

Corporate Participant

Anything, what I would say is we will play it as it goes.

Umesh R. Shastry, Vice President, Finance

Based on collections.

Corporate Participant

Based on collections. That's what we've been following, we've decided that positive cash generation is what we want to see. So, projects will be done for customers, where money is assured and available.

Analyst

But will it decline compared to last year or it will remain more or less same, I mean?

Corporate Participant

The order board is such that it can increase also and I'm saying this looking at the order board of 2,400 crores. But we will control, like I said, we will control it in a manner that we end the year with the much stronger balance sheet.

Analyst

Okay, okay. Sir, another I mean question is regarding, last two years we have been faced problem with our subsidiaries, especially Kirloskar Construction. Sir, for this particular year, do you anticipate any one-off item or extraordinary item, maybe like write-offs or anything to be booked in, either in our subsidiary company or maybe in our one of our projects in standalone business?

Corporate Participant

There will be no write-off as such in the subsidiary company, but as we have stated based on our decision of whether will dispose off the Kirloskar Constructions or merge it in into KBL.

Analyst

Okay.

Corporate Participant

I'm sure, you will understand that there is bound to be an impact on KBL's balance sheet either on sale, because of the difference in value between the investment and the sale price or even if we merge it, because of the investment that we have made in that, which will get wiped out once we merge it into KBL

Analyst

Okay, okay, okay. Sure, sure. And sir, what kind of debt level one would expect by this financial year end?

Umesh R. Shastry, Vice President, Finance

We have always been saying that we would like to reduce it by at least half of current year's level, but it all depends upon the improvement in the recovery and how much the Government of Andhra Pradesh helps us in irrigation and how much the power sector liquidity improves during the course of the year, which will help us to manage our working capital in such a way that we will be able to substantially reduce that and reduce our borrowings at the same time.

Analyst

Hello?

Umesh R. Shastry, Vice President, Finance

Yeah.

Analyst

I'm through with my question. Thank you sir.

Corporate Participant

Thank you.

Corporate Participant

Welcome.

Operator

Thank you for your question sir. We have our next question from Mr. Rohit from ICICI Pru. Please go ahead sir.

Analyst

Good evening sir.

Umesh R. Shastry, Vice President, Finance

Good evening.

Analyst

My question is out of this 2,484 crore, what is the -- project with price escalation and without price escalation?

Umesh R. Shastry, Vice President, Finance

Approximately 300 crores is without price variation. The rest of it is with price variation.

Analyst

Okay. And this exclude the 300 crore, 2,100 crore would be at a secured table over two years?

Umesh R. Shastry, Vice President, Finance

See, for the project business like we have been continuously saying, it depends on actually the recovery.

Analyst

Okay.

Umesh R. Shastry, Vice President, Finance

Because we will do it based on the improved inflow, otherwise if it was as per the original terms, many of these projects were actually being completed by now.

Analyst

Okay.

Umesh R. Shastry, Vice President, Finance

But the fact remains is that since the money has not come in, we are holding back the -

Analyst

Okay. And last question the Kirloskar KCL is a 100% subsidiary?

Corporate Participant

Yes.

Analyst

Okay. Thank you.

Corporate Participant

Welcome.

Operator

Thank you Mr Rohit for your question. We have our next question from Mr. Ashit Seth from ASK Investments. Please go ahead sir.

Analyst

Hi sir.

Corporate Participant

Hello.

Analyst

I just wanted to know one thing when we look at our financials over last two years what we see is our sales have dropped by 10% I mean cumulatively on last two years. While employee cost has gone up by almost 70% so wanted to understand what has changed significantly so that our employee cost has gone up significantly?

Corporate Participant

Number one we saw the need to increase the number of people that have been employed in order to go up and to complete

the jobs we've opened new plants. We need to complete the project so this has resulted in an increase in employees

Analyst

This hasn't resulted in increase in sales?

Corporate Participant

Yeah this hasn't resulted in increase in sales but we've had to complete the jobs that we have taken up so that's one. Number two the Coimbatore plant and the Ahmedabad plant which has started again have more employees in these plants since they are in the start up phase and not fully producing what they should be producing.

Analyst

Okay. If one were to -- or rather let me put it this way what was their employees strength two years back in FY10 end and what is it now?

Corporate Participant

Just give me a minute the employee strength in the previous year was 2,965 including workers offices and trainees which is now at 3,053 and the year before the previous year it was around 2,850.

Analyst

Sir employee strength have gone up by 10% or

Corporate Participant

Not 10% from 2,850 in FY10 to 3,050 in FY11 which means

Analyst

There are 200

Corporate Participant

200 people. Yeah.

Analyst

About 8%

Corporate Participant

7% to 8% that's right.

Analyst

So is it the significant increase in contract labor that has meant increase in employee cost?

Corporate Participant

No see you will appreciate that normally as our CMD already told you Coimbatore and Ahmedabad plant both these plants put

together roughly there would be about 100 people who have increased for these two new plants alone. The remaining 100 people increase is because normally when you plan for your next year you plan for a particular level of business and the people who are required for that business are normally inducted into the organization at the earlier stage based on your plan for the subsequent year if you get what I'm saying.

So our business has not really grown which is a fact but our plans have been for a growth in the business which unfortunately have not materialized because of which the employees today are more than what we would have otherwise required for this level of business. And the year before that is FY10 FY11 we did have a major salary rise which we gave to our employees which was to the extent of about 30%.

This was based upon a survey which was carried out by an independent consultant based on the salaries that were prevailing in the market and in order to land at the market median as we call it at the middle of the spectrum of the salaries, the increase of salaries by about 30% in FY10 FY11

Analyst

Okay, okay. Sir if we are looking to grow our product business and assuming that project business remains flat which means that next year probably we would see some growth would -- can we assume that our employee cost probably remain at similar level given that they are already slightly overstaffed?

Corporate Participant

It would depend on whether we would increase our employee cost in the current year at least to the level of inflation or not. It's a call which we have to take at the top management level and that call will be taken because normally our increment cycle is July June July so in this month or so we will have to take a decision on that

Analyst

Okay okay. And what is the margin in project business in incremental orders?

Corporate Participant

I have not understood that question

Analyst

In the incremental orders that we are bagging right now which are relatively stable margin order so what is the margin percentage there on an average at operating level?

Corporate Participant

What do you mean by incremental orders?

Analyst

The new orders that we are bagging. So let's say 400 crores or 366 crores or...

Corporate Participant

Okay. In this like we said more than 1,000 crores are only product orders. The remaining are project orders where we would have a margin of anything close to 20%. Because otherwise we would not be taking those orders at all.

Analyst

20% margin?

Corporate Participant

Yes.

Analyst

So this would be at site level.

Corporate Participant

This would be at?

Analyst

Project level margins.

Corporate Participant

Yeah.

Analyst

Okay. Fair enough. Thanks a lot sir.

Corporate Participant

Welcome.

Operator

Thanks for your question sir. At this time, there are no further questions from the participants. I would like to hand over the conference back to Mr. Umesh Shastri for his concluding remarks. Over to you sir.

Umesh R. Shastri, Vice President, Finance

Okay. Thank you ladies and gentlemen for attending this earnings call of ours. We hope that we were able to satisfy your questions to the best possible extent. And with that we would see how the next year goes by we will do our best to ensure that we perform as best as we can depending upon the overall business scenario and the economic situation. And with that I'll close this conference and wish you all the very good evening. Thank you very much.

Sanjay Kirloskar

Thank you.

Operator

Ladies and gentlemen, that conclude the KBL's earnings call for today. Thank you for participating. You may all disconnect now.