"Kirloskar Oil Engines Limited Q2 FY 2016 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Kirloskar Oil Engines Limited Q2 FY 2016 Earnings Conference Call hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" and "0" on your touchtone phone. I now hand the conference over to Mr. Bhavin Vithlani from Axis Capital. Thank you and over to you Sir!

Bhavin Vithlani: Thank you. At the outset, I would like to thank all of you for dialing into Kirloskar Oil Engines Limited Q2 FY 2016 Earnings Call. The management team would be represented by, Mr. R. R. Deshpande, Joint Managing Director and Mr. T. Vinodkumar, Chief Financial Officer. I would now request the management to take us with the results and would request everyone to refer the power point presentation which is on the company's website post which we will open the floor for Q&A. Over to you Mr. Deshpande and Mr. Vinod Kumar.

T Vinodkumar: Thanks Bhavin and good morning ladies and gentlemen. We are pleased to present to you and discuss the results of second quarter and the first half of 2015-2016 for Kirloskar Oil Engines Limited. Before we get through the financial numbers I thought let us look at some of the macro indicators of the first half that have had an impact on the company's performance.

GDP growth has been a little over 7%, power deficit has been at about 2.2% to 2.3%. The monsoon deficit so far has been around 14% and the dollar rate has been at about 65.5. The first two indicators, which I talked about both the GDP and the power deficits actually indicates that the economy revival has still been sluggish. This as you know has a direct impact of power generation and industrial business segments. That having said, as mentioned in the last quarter, the telecom sector seems to be picking up and with big players all set to roll out their 4G network it is expected that there will be momentum in this space.

Competition in the sub 125 kVA space has been intense & everybody seems to be scrambling for a share of the pie. Delayed, disperse & deficit rainfall has been a huge source of National concern & farmer sentiment is at a low ebb.
KOEL being an net exporter, we've seen some exchange gains but not without pressure of lowering international prices.
We continue to be optimistic about the future & believe that we have set ourselves a strong foundation & platform for a take off as the economy opens up.

Coming to the financials, sales for the quarter @ Rs 584 crores was marginally better than the previous quarter figs of 577 crs but 6% lower vis-à-vis the same quarter a year ago (623 crs). With this the H1 sales stood at Rs 1161 crs as against Rs 1252 cr which of the PY which is a 7% drop. Significant portion of this drop was on account of lower LEBG sales of Rs 70 cr. having completed execution of the NPCIL order. Power Gen was also lower by Rs. 26 cr, on a/c of some of the factors mentioned earlier. The silver lining is that our continued focus seems to be paying off & International business was higher by Rs 18 cr. (18%).

EBITDA @ Rs 48 cr was 9% lower than the previous quarter figure of Rs. 53 crores. For H1 the EBITDA @ Rs 101 cr was significantly lower than that of the PY fig of Rs 139 crores. This was a combination of lower contribution on a/c of lower sales & change in sales mix, despite better RM to sales ratio & higher fixed cost – mainly one time consultants fees, plant shifting expenses of Pune to Kagal & higher employee costs. It is also pertinent to mention that as against the PY where our CSR spend was all in the last quarter, we now incur it evenly across quarters & in H1 it was Rs 2.8 crs.

The PBT for H1 stood at Rs 87 crores as against Rs 115 for the PY. The good work on working capital management continued & we continue to operate consistently on negative operating WC.

So, with that we'll open it up to your questions. Thank you.

Moderator: We will now begin the question and answer session. We will take the first question from the line of Bharat Subramaniam from Sundaram Mutual Fund. Please go ahead.

Bharat Subramaniam: Good morning Sir. My first question is on the Power Gen business from some of our dealership we understood few nodes of Kirloskar Oil could not get the clearances in this quarter on new CPCP norms. Any update on that? Have we got the clearances say probably next quarter we will be hitting the market and how significant were they in our performance operations?

R. R. Deshpande: First of all, all our engines passed the CPCB II tests at the right time. There was no issue whatsoever. Unfortunately there was a lot of half cooked and misleading information that was being circulated by some elements with the intention of misleading the public which had no sanctity. Business continued unhampered.**Bharat Subramaniam**: So last quarter all the nodes were available for same?

R. R. Deshpande: Yes.

Bharat Subramaniam: Second, how was the DV series performance in this quarter?

R. R. Deshpande: In this quarter we have done around 175 nos. of DV.

Bharat Subramaniam: Year-on-year how much is the growth?

R. R. Deshpande: Last year was actually better and hence as compared to the PY it was lower by around 30%.

Bharat Subramaniam: Any reason that you would like to attribute for the decline?

R. R. Deshpande: Typically the market has gone down because our market share in the second quarter for DV remains intact.

T Vinodkumar: I think you should also remember that resulting from the CPCB II introduction in July 14, there was some amount of pre-buying, which has happened in the first half, and obviously to that look at last year first half to this year first half that effect would be there.

Bharat Subramaniam: That I will take offline. You have mentioned in the presentation that you have taken 4% to 5% price cut in HHB and MHB segment. Is it in line with the commodity price fall?

R. R. Deshpande: We have not said that we have taken 4% to 5%. We said that the market have generally compressed by 4% to 5%.

Bharat Subramaniam: Is it in line with the commodity price fall or it is there is some bit of margin negation that is possible.

T Vinodkumar: I would tend to think there is margin erosion, which has taken place. Commodity prices have not fallen by 5%.

Bharat Subramaniam: Thank you so much Sir.

Moderator: Thank you very much. We will take the next question from the line of Manish Goel from Enam Holdings.

Manish Goel: Very good morning Sir. Sir continuing from the previous question you said that 5% cut was taken by the industry. So I believe KOEL would have been in line with the industry?

R. R. Deshpande: We talked about HHB and MHB cut of 4% to 5%. We have not cut prices.

Manish Goel: So Kirloskar Oil has not cut prices?

R. R. Deshpande: Not yet.

Manish Goel: So when we said that market decline 4%, was is it volume terms?

R. R. Deshpande: Price cuts we talked about.

Manish Goel: Second related question. So you did mention that power gen market declined 4% in the first half. So was it in volumes and this is despite?

R. R. Deshpande: This is volume.

Manish Goel: So if we exclude the growth in telecom what would the decline look like?

T Vinodkumar: I do not have that I will come back to that or I will certainly give you an answer offline, Manish. Another way to look at what has happened in the first quarter and in the second quarter is, if we exclude telecom then as far as KOEL is concerned we have maintained or marginally improved our market share.This however changes when you add on telecom, although we'd like to believe its largely a single customer, single order and one supplier. If you go into public domain and look at a Frost and Sullivan or any of the other market share report and dwelve into the details of that report what I'm saying will become apparent to you.

Manish Goel: So basically you are saying single order and single supplier.

T Vinodkumar: Yes.

Manish Goel: Sorry I joined a little late so I do not know if you have addressed this. Your other expenses have increased in the current quarter and on other side the input prices basically raw material to sales has declined. So just wanted to get a sense what is it due to and how do we see it going forward?

T Vinodkumar: If you look at other expenses two, three things. One, I talked about is we have got some projects which we are working on. I cannot divulge details on this call but we have got consultants working with us on some of our projects and consultancy fees accounts for about Rs 7 to 8 Crores of the expenditure. Now there is going to be a cost – benefit mismatch because the gains which you are going to get in terms of cost and efficiency is going to take about 15 to 18 months to pan out but the fixed part of the consultation fee has already been paid upfront and the first half it is already expended. That is one part. The other part is that as you probably know, we have spun of our IT into an independent company called kloud works and a large amount of our IT is now with the Kloudworks, where we pay consultation charges. So that has come as other expenses whereas it would have been into salaries and employee related expenses earlier. That is another Rs 7-8 Crores of expenditure. The third head, which I mentioned again in my opening remarks is that CSR expenses which we used to incur only in the end of the in the last quarter we now started spending on regular basis. So that is almost about 3 Crores of spend which is there.

Manish Goel: Sir I missed what is the 3 Crores.

T Vinodkumar: CSR. So we had to spend in only the last quarter. Now we have decided to proportionately spend it across the quarter. So it was virtually negligible 10-20 lakhs in the first half of last year and now it is almost 3 Crores in the first half.

Manish Goel: So last year how much was it?

T Vinodkumar: Whole of last year it was about Rs 5.7 Crores and we have similar amount this year but last year first half it was about 20 lakhs.

Manish Goel: Thank you so much.

Moderator: Thank you. We will take the next question from the line of Bhalchandra Shinde from Centrum Broking.

Bhalchandra Shinde: Regarding the consultation, which you said that, we are paying the fixed part of the fees. Can you elaborate what exactly consultation you are paying?

T Vinodkumar: As mentioned earlier, I cant divulge details at this stage.

Bhalchandra Shinde: On the large engine side after the tie up with the MTU are we looking out any large orders the NPCIL order, which we have finished post that do we see any good orders coming in next 6 to 12 months or in one to two years?

R. R. Deshpande: Right now we are working on four inquiries , of which one is likely to get cleared may be in the next quarter. The new orders are yet to come.

Bhalchandra Shinde: But will it be able to compensate that NPCIL order?

R. R. Deshpande: The previous order was of around 400 Crores crores and this big an order may not come. The current order under last leg of discussion is around Rs 20-30 crores. **Bhalchandra Shinde**: Last question about DV series engines, which we have launched but still would like to know the prospects because we have seen a decline in this quarter and about the industrial what I have heard is like Swaraj has launched two new products in tractors. Have we seen benefit in tractors because of that or we are yet to see benefit in that?

R. R. Deshpande: First, I will answer about the tractor. We have got a clear understanding with Swaraj that whatever their volumes, a fixed percentage of volume they buy from us and that is what has been their offtake from KOEL in the last 4-5 years. So , if the tractor industry is doing good, we automatically benefit. If tractor industry is down we may get less number but point is as per the understanding they are giving the orders and we are happy with that. There is no issue.

Bhalchandra Shinde: About DV series engine Sir.

R. R. Deshpande: DV series actually Vinod talked about. Last year there was an element of pre-buy & in comparison, this years numbers are lower. In SL it is 5% drop. DV it is around 30% drop.

Bhalchandra Shinde: About the traded component how much was the figure? Thank you.

T Vinodkumar: Traded?

Bhalchandra Shinde: Yes components in power generation?

T Vinodkumar: You are talking about.

Bhalchandra Shinde: Alternaters and all which we said?

T Vinodkumar: In the quarter.

Bhalchandra Shinde: Yes.

T Vinodkumar: Quarter was around 50 Crores.

Bhalchandra Shinde: Thank you very much.

Moderator: Thank you very much. We will take the next question from the line of Renu Baid from IIFL.

Renu Baid: Good morning Sir. One thing want to understand we have seen now that the impact of pre-buy on CPCB range and everything is broadly done in the first half of this year and marked has broadly remained flattish. So if we exclude the trade component that has been directly weak for us. So what is the outlook telecom with respect to the growth outlook of the domestic market? Are we seeing a residential and other retail market relatively improving in the lower HP segment and what is your assessment on the demand outlook for the next 6 to 12 months?

T Vinodkumar: Couple of things, one is you are right in saying that in the private segment we are not seeing much and hence we too are not very optimistic of growth in this segment. However, from KOEL's perspective we do expect our H2 to be better than our H1 for power generation and this is more because some of the products like KCC our 3KVA, 5KVA, which is the petrol and diesel variants and some of the DGS&D orders which we have got etc., which had not kicked in completely or not at all in H1 will be kicking in H2. So less to do with the market but more to do with our internal ability and new products which would be there in full force. We do expect H2 to be better than H1. We expect the private segment to be flattish even in H2 over H1. The other one is that we are now fully geared on our 750KVA and so we do expect our orders in hand to get executed in the second half. The other more generic answer is that your projection is as good as mine as to how the economy is going to open up but we continue to remain optimistic and our guess is that by the end of the third quarter and the last quarter it should start looking a little better.

Renu Baid: Sir which would be some of the segments in your view which will drive volumes. Are you seeing orders picking up from IT data center or the allied business?

T Vinodkumar: **The momentum in telecom will continue into the second half , with other players like Bharti also opening up their 4G. Its possible that there is some additional competition in this space.** I do not wish to get into names but even fringe players are very active in the sub 125KVA segment and what we do not want wish to do is engage in a price war because we are the market leaders and we are confident that with our superior products and service we would continue to dominate in the long run. So telecom certainly you will see a bit of lull for the next couple of months and then you will see again a pickup happening, which will be there when the Airtel order comes out. **Renu Baid**: Right so essentially the flattish performance that we have seen in the power gen probably that will reverse and we will see at least a single digit growth coming in if not double digit?

T Vinodkumar: Yes.

Renu Baid: Just a bit more clarification. Sir just a 750KVA segment from a medium to long-term perspective in the HHB what is the kind of percentage proportion we expect this business can scale up in our portfolio. So can it be 10%, 15% or would it be still be lower?

T Vinodkumar: I would not want to answer it from how much percentage but I think the good part is at a higher KVA it is less price sensitive and less driven by price and more driven by quality and service, and consultants role etc., and hence I think it is a much fairer game and we feel that we will in due course have a relevant market share.

Moderator: Thank you very much. We will take the next question from the line of Sandeep Tulsiyan from Enam JM Financial.

Sandeep Tulsiyan: Good afternoon Sir. Sir my first question is on the agri business basically just wanted to understand how the diesel pump set business is contracting while tiller volumes are picking up. So if you could give some sense how the mix in the segment is and also how your monthly tiller volumes are panning out now?

R. R. Deshpande: Typically in agri pump set last time also I have said in that the diesel pump set volumes are going down and electrical pump set volumes are actually growing because of increased rural electrification. So, while we may not lose market share, the t point is that the market is shrinking.

As regards power tiller, as you know this is still a relatively new business. We have now appointed about 160 dealers in four or five states and as on date I can say around 600 power tillers have been sold in the first half. The two major points that will help us gain momentum is subsidy & retail financing. We have applied for subsidy in a few states and await a favourable outcome. We have also ties up with multiple banks to offer retail finance at competitive rates to our Mega- Tcustomers. Subsidy, unfortunately is a long drawn process and differs from state to state.

Moderator: Thank you very much. We will take the next question from the line of Viraj Kachariya from Securities Investment Managers.

Viraj Kachariya: Follow up on the tillers so we had a guidance of around 5000 units for FY 2016, so I am assuming that is unlikely under the current circumstances and product being not qualified for subsidy, so are we looking at something similar kind of things for FY 2017?

R. R. Deshpande: Yes.

Viraj Kachariya: Okay and primary driver would be subsidy approval and channel financing?

T Vinodkumar: Yes there is a small correction its not channel financing but retail financing. We have already tied up with four large banks and we expect a fair amount of traction when this picks up. Funding is still a necessity for the marginal farmers and so also credit. Both of which we plan to address through this route. The third aspect is that we are working on further improved product features and efficiencies. I think all those put together we certainly see that yes we would be able to look at the numbers at an average of let us say 500 a month in the next financial year.

Viraj Kachariya: Sir just two questions on the process first is you highlighted on the retail financing aspect of it, given the kind of challenging condition which is there in the agri, are we looking at again broadly expanding the portfolio in tillers because it is a 15 HP and it is around 1.75 lakh per tiller versus in the market you are getting up?

T Vinodkumar: You will see two things happening. One is you will see a variant coming and the other thing is you will also see other farm mechanization equipment also coming and that you will see probably in this financial year itself.

Viraj Kachariya: My second question was on the other farm equipment, which we find, in the last call you highlighted that, probably our goal in agri is to move from power gensets probably our goal is to moving from power gensets to end products in agri?

R. R. Deshpande: Its from engines to end products

Viraj Kachariya: From engine to end products in agri, currently the share of agri is around 15%, 16% and so would it be right that bulk of the growth at the corporate level will be from these end products in three to five years?

T Vinodkumar: It is one of the strategic objectives and it is not necessarily only in the agri products, so it is one, but I would not say bulk of the growth will come from here, not in the next four, five years, but a reasonable amount of that will come from here.

Moderator: Thank you very much. We will take the next question from the line of Charanjeet Singh from BNK Securities.

Charanjeet Singh: Hello Sir. Good morning, Sir if you can just help us to understand the dynamic of what is happening exactly in the low horsepower gensets market, see we have also introduced new products in terms of you know how do we feel the ramp up happening there and have you seen any consolidation coming post these new norms because still we are talking about intense competition in these categories?

R. R. Deshpande: Consolidation will not take place because what has happened is now after one year of CPCB-II everybody is geared up for that, so that was in the first year actually may be people were not ready, but now I think more than 14, 15 players are there in the market who are catering for the lower KVA segment and the volume if you ask me it is coming basically last two quarters we are seeing because of the telecom, the order, the market I can say the market share was swinging from, I can say only one player got that order and his market share actually increased significantly by 4%, 5%, 7%, but otherwise the market is I can say sluggish and whatever are the numbers, people are cutting the cost, cutting prices and there is fierce competition for the lower KVA. This is what we are seeing in first half of the year and on the portfolio side whatever we have entered into the lower KVA, petrol gensets and the diesel gensets this is the separate segment by itself and the competition there is not that much, which is below 30KVA whatever we have seen, so that we can get good numbers, but the price of the single unit is low, so from revenue perspective may be it will be supportive to the total revenue, but not to a greater extent.

Charanjeet Singh: Thanks a lot for that, just last question on the exports front, export is also very critical part of our strategic focus and if you can just highlight the demand environment from different countries, which you are targeting specifically in the Africa and all region, what is actually driving the demand for exports in these regions?

R. R. Deshpande: As compared to the previous year or the previous quarter also, exports definitely has done well. this business unit, has grown by 15% - 16% against the previous period primarily on the back of good orders coming from Middle East , GCG region and MENA region. Resulting from the good of our product and the service support extended, we are getting good orders from the cellular market in the Middle East - Saudi Arabia, Kuwait and typically those areas where the gensets run continuously 24x7. At the same time, we are entering into different markets now, Lebanon and Ghana we have got good orders from the power generation segment and from Nicaragua we got good orders from the agriculture segment. So overall we believe that the growth seen in the first half will continue in the second half also and our exports will grow at least 15% to 20% as compared to the last year. **Moderator:** Thank you very much. We will take the next question from the line of Mahesh Bendre from Way2Wealth Securities.

Mahesh Bendre: Sir as you said exports have done phenomenally well that has grown by 17%, so is this growth sustainable for next two to three quarters?

R. R. Deshpande: We are lfocussed to grow exports and based on current estimates, expect the next 2 quarters to be reasonably good.

T Vinodkumar: I think one of the things we must however caution is that currencies in countries like South Africa, Brazil, etc., has got devalued considerably in the last couple of months, so there is going to be pressure on pricing, there already is and that is going to continue. The focus is definitely there and also now all our formalities with respect to opening of the US office is complete. We are working on our EPA licenses and once that is done in five to six months I think we will be in a stronger position to also the US market.

Mahesh Bendre: Is it reasonable to assume that exports will be a power gen segment only?

T Vinodkumar: No, all the three.

Mahesh Bendre: All three. Thank you Sir.

Moderator: Thank you very much. We will take the next question from the line of Manish Goel from Enam Holdings.

Manish Goel: One question which got left out was on the raw material cost which we saw a fairly good decline of 290 BPS, so is it sustainable going forward?

T Vinodkumar: There is always going to be pressure on the RMSP ratio.

Manish Goel: Raw material cost-

T Vinodkumar: The commodity prices have weakened and wherever we have indexed prices the benefit has already accrued, but there is going to be pressure on passing this on because of what is happening in the marketplace. In the case of oil also, if you look at the spares and oil consumption we do not think prices are going to continue to prevail for a very long time, so you will see some erosion happening there also. It is anyway difficult to see how long this will last, but I would say that a lot of other things which we are doing to ensure that we keep our overall cost structure range bound and we would like to believe that our margins should start improving in coming times.

Manish Goel: So basically couple of three things, which you mentioned about higher other expenses probably, should get normalizing Q3 and Q4?

T Vinodkumar: Not Q3 and Q4 it may take a little longer time.

Manish Goel: But you mentioned that there was?

T Vinodkumar: If you look at year-on-year may be yes, so if you look at on a full year basis yes, but the benefits of what we kind of put in as investment/cost may take a little longer to pan out but we are looking at very substantial benefit**.**

Manish Goel: But that consultant cost what you incurred of –

T Vinodkumar: That is why I said the benefits of that are not going to accrue overnight. They are going to take about 15 months to accrue.

Manish Goel: Thank you so much Sir.

Moderator: Thank you very much. We will take the next question from the line of Lokesh Garg from Credit Suisse.

Lokesh Garg: I wanted to ask you basically this DV series of this 260, 270 Crores of power gen sales is it fair to say that it is about 10% to 15% of your power gen sales already? I am referring to quarterly power gen sales right?

R. R. Deshpande: Where did you get this figure of 260 Crores from DV?

Lokesh Garg: No not DV, I am saying what is DV as a proportion of this?

R. R. Deshpande: What is DV as a proportion of?

Lokesh Garg: My estimate was may be 15-ish percent, but wanted to check with you?

T Vinodkumar: Around 15%.

Lokesh Garg: Sir other question that I had was related to market competition, which is also comment in the presentation that you have shared with us, you have said that new entrants have increased activities and market competition intensified, now can you give us more colour who are these players, which are the typical segments they are coming in and we have heard some larger global players?

T Vinodkumar: What is the price elastic and price sensitive is all the low KVA below 125, so you know the usual players and I think I do not want to get into listing of some of the other players. Typically, the situation in the past has been that when the automobile & truck business went through a slump, engines were dumped using marginal costing principles & this was cyclical because when the core business picked up these players used to vacate the market. However, we now see this trend being reversed & looks like many of these players are here to stay.

Moderator: Thank you very much. We will take the next question from the line of Sandeep Tulsian from JM Financial.

Sandeep Tulsian: I have a follow up question on the international business, so if you could give us a sense of how is the sale structured over there, do we sell only through dealers or do we also have direct customer sales in the international region?

R. R. Deshpande: See typically we have got a distributor structure. We sell through our distributors who are in different countries and these distributors for different countries are handled by our offices also situated outside eg we have got an office in Dubai which handles the MENA region countries completely so the distributors they are handled by these offices and typically South Africa we have got office they handled typical South Africa business. We have got an office in Nigeria, Kenya. Our employees also goes for the generating the orders but the majority is through our distributor. So I can say through distributors only. In the industrial business it is through OEMs so we directly bill through the OEM it was not through the distributor but the power generation is through distributor. This is our structure.

Sandeep Tulsian: Sir if you can tell us how the number of dealers has increased in the past few years that we can have some sense as to how it is progressing over there?

R. R. Deshpande: Wherever we enter into the new market for last I can say two years we have entered into four five major countries where the distributors we have set like we had a distributor for agri in Lebanon now we have got a distributor for our power generation so that is I can say addition. Then in the Nicaragua we have recently had a dealer where he is selling directly into the market now. Then comes in UK we have finalized a distributor so as we go along we are increasing the reach into this through our distributor. If you ask me in last two years we added major five or six distributors.

Moderator: We will take the next question from the line of Mahesh Bendre from B2Wealth Securities.

Mahesh Bendre: Sir we have 835 Crores of cash so any plans of any utilization in terms of expansion acquisition or returning back to shareholders?

T Vinodkumar: Returning back to shareholders is something, which we always do so that goes by way of dividend, and dividends have been by all standards reasonable in the past years. Plans as far as the utilization are always there. Now what I think we have mentioned this several times in many of the earlier conference calls also, what we certainly will not do is expend the money recklessly just because it is there. So we continue to look at opportunities and it is not easy and we want to make sure that there is a complete and correct fit to not only our strategic objectives but also to various other softer parameters like culture, ethics, goverance etc We are continuously exploring opportunities and we do believe that when the right opportunity comes we shall take it forward and at the appropriate time we shall be happy to let you all know.

Mahesh Bendre: Opportunity means what inorganic opportunity you were talking about?

T Vinodkumar: Yes.

Mahesh Bendre: Thank you Sir.

Moderator: Thank you very much. We will take the next question from the line of Hitesh Agrarwal from Ambit Capital.

Hitesh Agarwal: Good morning Sir. Sir apart from the telecom orders have you lost the market share in the base power gen because I see that the Cummins in its parent’s conference call you said that their Indian power generations grew at 12% Y-o-Y and if I see your number it has been flat so that is why I was asking?

T Vinodkumar: The answer is no. If we remove the telecom orders impact we have not lost. In fact some of the names you mentioned have actually lost in that segment over the last couple of years and I would not want to compare and comment on what they mentioned in their conference call. If anything we have gained in the middle and higher horsepower segment.

Hitesh Agarwal: Okay and do you expect the pricing pressure in the industry to continue or stabilize?

T Vinodkumar: It will continue.

Hitesh Agarwal: Thanks a lot Sir.

Moderator: We will take a question from the line of Gagan Thareja from Comgest India.

Gagan Thareja: Good afternoon Sir. Just wanted to understand whether your product basket is up to 750 KVA in gensets and thereafter very high beyond 2200 HP. Do you tie-up or have you also filled the gap at 1000KVA and more?

T Vinodkumar: 750 is already there. 1000 should be there hopefully by the end of the financial year. MTU tie-up is largely for the large engine business which is a very specific need to service future NPCIL orders , **Gagan Thareja:** Is it possible to understand the addressable market and 1000, 750 and 500?

T Vinodkumar: I think we will give that a skip because we may end up giving a guesstimate.

Gagan: If may be if you are more conversion with specific norms you used to them when may be if you could sort of stratify the entire market in a broad brush in these nodes, can you give some idea?

T Vinodkumar: No I do not think we got those numbers off hand.

Gagan Thareja: Thank you.

Moderator: Thank you very much. As there are no further questions, I now hand the conference to Mr. Bhavin Vithlani for closing comments.

Bhavin Vithlani: Sir I have a question if may ask, how will you looking at the industrial segment if you strip off the decline in the tractor business what was the growth in construction equipment business and what is your outlook in those because you are seeing significant ordering on the road side?

R. R. Deshpande: Not significant Bhavin, because you look at the perspective when the government kept and they are talking about 35 kilometer per day and now they are at a figure of about 6 kilometers against probably 3 kilometer in the previous regime and so it is not a significant number and besides this I think some of the growth if at all is happening in mining we are seeing some traction happening and otherwise industrial is also yet to see the kind of growth we were expecting.

Bhavin Vithlani: But what would be the growth number because tractor you mentioned has degrown?

T Vinodkumar: The point is any number of 20%-30% growth is not a sustainable number. Yes, there was a momentum and now there is probably and like I said in the beginning what the rains have display it has an impact of the sentiment and there is fairly large amount of inventory lying in the market also. I do not know industrial totally we still are looking at a flattish kind of situation net-net.

Bhavin Vithlani: I would like to thank all of you for joining us on the call today. I would also like to thank the management of Kirloskar Oil Engine for giving us the opportunity to host to us. Looking forward to speaking to you all in the next quarter.

R. R. Deshpande: Thank you.

Moderator: On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.