"Kirloskar Oil Engines Limited Q3FY 2017 Earnings Conference Call"

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ANALYST: **MR. PUNEET GARG - AXIS CAPITAL LIMITED**

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

Moderator: Ladies and gentlemen, good day and welcome to the Kirloskar Oil Engines Limited Q3 FY2017 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 then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Punit Garg from Axis Capital Limited. Thank you and over to you Mr. Garg!

Puneet Garg: Thank you. Good afternoon everyone and welcome to Q3 FY2017 earnings conference call of Kirloskar Oil Engines. From the management today, we have Mr. R.R. Deshpande - Joint Managing Director and T. Vinod Kumar - Chief Financial Officer. I would request everyone to refer to the presentation on the company website, which the management would be referring to during their opening remarks. Now, I would like to handover the call to management for their opening remark, post which we will open the floor for Q&A. Over to you Sir!

T. Vinodkumar: Thank you Punit and good afternoon ladies and gentlemen. Since we have not yet moved into the second month of the year, I would like to take this opportunity to wish you all a very Happy New Year and let us hope this year is special for all of us in every which way. We are pleased to present to you and discuss the results of the third quarter of financial year 2016-2017 for Kirloskar Oil Engines Limited. With a good monsoon after two years together with a reasonable tailwind seen in the first half, we all expected the momentum to continue, but then we had demonetization to recon with. From KOEL's perspective, the segment that was affected the most was Agri where we saw a dramatic drop in both crop irrigation and farm mechanization sales. Some amount of postponement in offtake in PG and Industrial was also inevitable. As per the Frost & Sullivan report, the PG market in Q3 of FY17 has decreased by 13.2% in volume term as compared to Q2 of FY17, but I am sure that some amount of seasonality is also built into this. So with that preable, let me get to the results. Sales for the quarter stood at Rs 628 Crores, though higher than the previous year by 6%, was sequentially lower by 3% of the Q2 sales of Rs 650 Crores. For power generation, the encouraging news is that the HHP segment has shown strong growth through the year. To celebrate 30,000 HHP gensets in the market, we had campaigns and awareness sessions across 16 cities. Live demos of the Kirloskar Remote Monitoring System were also conducted in these sessions. It was extremely encouraging to see wide acceptance and acknowledgment of the 750, 910, and 1010 kVA DGs. On a cumulative basis, for nine months DV series grew by 43% over the previous year in value terms and SL by 19%. HHP total was 32% over the previous year. Industrial sales were bolstered by continued momentum in the construction equipment segment and tractors also did reasonably well. Agri sales suffered a setback on two basic counts. One of course like I mentioned was demonetization and second was the slow pace at which the direct fund transfer scheme is being implemented thus affecting sales of Mega T. Albeit through a trading model, KOEL has made its foray into the electrical pump segment, to begin with, in UP and Maharashtra. International business continues to be sluggish and was down by 36% as compared to the previous year. The main drop in exports is from PG, which was down by about 50%. The EBITDA margins for the quarter were sequentially lower by 2% and also lower than the previous year by almost 1%. While contribution margins remained at similar levels to previous year, fixed selling expenses were substantially higher. A large portion of this being attributable to the high horsepower campaign, provisioning for the Power of 10 campaign which we had done a couple of years back, and also higher advertisement for Mega T. Higher CSR and employee-related expenses also contributed to the lower EBITDA. However, as compared to the previous quarter in addition to the above, adverse sales mix also resulted in higher raw material to sales price ratio of 1.7%.

The profit before tax for the quarter was Rs.47 Crores as against Rs.38 Crores for the previous year and Rs.64 Crores of the previous quarter. With this, the cumulative PBT for the nine months of the fiscal stands at Rs.193 Crores as compared to Rs.132 Crores of the previous year, an increase of 46%. I would also like to preempt the question since it has already been asked to me by quite a few of our analysts. The tax for Q3 at 40% is higher than the previous quarters. The main reason for increase in tax is the reduction in the capital expenditure estimate to 50% of what it was envisaged in the beginning of the year. A major portion was from R&D expenditure, which has been deferred for the moment. Due to this, tax depreciation considerably reduced and with consequential increase in tax income. On a cumulative basis, I had already explained last quarter that tax figure for the current year appears much higher than the previous year only because the previous year figure included a MAT credit of Rs.22 Crores resulting from the KBIL amalgamation. So with this, we will open it up for questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on your touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to only use handset while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take the first question from the line of Gaurav Sanghavi from Bajaj Allianz. Please go ahead.

Gaurav Sanghavi: Good morning Sir and thanks for the opportunity. I just would like to understand your view on increase in the raw material price as we have seen the commodity prices moving up. So what is your take on the probable price hike given the current scenario?

R. R. Deshpande: Yes, definitely there is uptrend in the raw material prices, especially steel prices. From a business perspective we are watching what is happening in the market. Considering demonetization effect in November and December 2016 we are a little bit careful about increasing the prices. But as on date, we are looking at price increase by end of this financial year.

Gaurav Sanghavi: Okay. The second question is if you can share the revenue number for HHP segment?

T. Vinod Kumar: Which number?

Gaurav Sanghavi: In the power generator business. If you can share both numbers quarterly and year to date?

T. Vinod Kumar: For value terms, in terms of year to date, HHP was 191 Crores as against 145 Crores in the previous year.

Gaurav Sanghavi: Okay, thank you.

Moderator: Thank you. We will take the next question from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain: Hello Sir. Good morning. This is Kirti Jain from Sundaram. On the HHP again you gave year to date number, can you give us the Q3 number?

T. Vinod Kumar: I do not have it off hand, but either you come later in the call or if you have something else you can ask and I will try and pull it out. I just got year to date number.

Kirti Jain: Okay if you can broadly give what sort of outlook you are seeing. Are you seeing increase in the order pipeline here?

T. Vinod Kumar: In fact our HHP segment has been growing like I have mentioned in the remarks itself, pretty strong. The order book also looks good. I think most importantly the 750, 910 and 1010 though still in the early days, acceptability seems to be extremely good. In our HHP campaigns, we have covered about 16 cities and response from all quarters, existing customers, future customers, consultants, etc., has been extremely encouraging.

Kirti Jain: In terms of volume numbers can you share some details here on 750 and 1010?

T. Vinod Kumar: 750 kVA YTD we have done about 35 numbers till December and 910 and 1010 two each.

Kirti Jain: Okay four. This is for year to date, but mostly the 1010 would be for this quarter right?

T. Vinod Kumar: December quarter, yes because it was launched only now.

Kirti Jain: Okay, thank your Sir. I will come back in the queue.

Moderator: Thank you. We take the next question from the line of Nitin Arora from Aviva Life. Please go ahead.

Nitin Arora: Hi Sir, good afternoon. Just one clarification. The 750 kVA what we did in Q1 and Q2 in terms of numbers was 25 and 15, and you are saying 35 we did for YTD?

T. Vinod Kumar: No. The numbers for Q1 & Q2 seems to be a mistake. Our YTD number is 35.

Nitin Arora: Okay.

Nitin Arora: Will it be possible to share our DV series numbers and DV series value for Q3?

T. Vinod Kumar: For Q3, DV series engines & gensets (320 kVA – 1010kVA) , the quantity is 261 and the value is Rs 42 crores

Nitin Arora: For the quarter.

T. Vinod Kumar: Yes. The YTD number is 763 and Rs 115 crores

Nitin Arora: Okay sorry Sir. With respect to your higher kVA, we have seen 75 units you have been very successful in the 750 kVA. Now you are going towards to more higher kVA. Can you guide us is this something more to do with pricing with respect to the largest market share player or it is more of acceptability of the product because your acceptability will actually come to know even going a little ahead now with respect to your servicing and stuff like that. So can you guide us how you stand in terms of your pricing with the largest market share player in the higher kVA part?

R. R. Deshpande: Today we feel we are at par with the leaders, point number one. Point number two is definitely enquiry levels are very high, but what happens is when it comes to the order and further execution of the orders, often the customers are not prepared for the site. So installation and commission becomes an issue. Though we can sell to him, installation and commissioning is delayed. Hence, we tell our customers that we can supply at short lead times. So enquiry level if you just want to know in 750 kVA typically we are having 300 plus enquiries and on the 910 and 1010 it is almost 150 at the enquiry level.

Nitin Arora: Okay and with respect to your agri, now we are standing in February almost, one month is on. Is some stabilization seen on the ground level for you at this point in the agri market?

R.R. Deshpande: No, still not. Slowly it is improving, but not up to the expectation. But it’s a matter of time only. We do not want to push our product because then money may get stuck in receivables. So if you ask me it will take one or two months more to come down to what situation we were having previously in overall business as such in the Agri crop irrigation.

Nitin Arora: Sir the last point from my side you stated also in the previous con-call the direct benefit transfer scheme is somewhat impacting the mega tillers sales . Someone would be benefiting out of it with respect to your competitors, so where do you see the volumes are largely going towards, which brand?

R.R. Deshpande: Typically from the subsidy point of view and the direct benefit scheme, the whole market has shrunk. Even the leaders, you know the names of the leaders, these people today the numbers what they have delivered are almost I can say 50% to 60% of what they used to sell the previous year.

Nitin Arora: Thank you very much Sir. I will come back in the queue for more questions.

Moderator: Thank you. We take the next question from the line of Balchandra Shinde from Anand Rathi. Please go ahead.

Balchandra Shinde: Good afternoon Sir. Regarding your margins, you said that there were costs related to higher horsepower campaign and provisioning. Can you provide the value and I would like to know whether those costs will incur again in the next two to three quarters or it was just a seasonal factor?

T. Vinod Kumar: The first thing is that the same cost will not incur again, but having said that there could be other campaigns in future which may warrant large outlays to support the brand. It seems large because it has all got incurred in one quarter and the activity was budgeted that way too. We have incurred roughly about Rs 2.5 Crores on this campaign. For the Power of 10, I specifically used the word provisioning, which is happening because if you recall we had a Power of 10 campaign launched in September 2013. With the advent of CPCB-II in July 2014, we stopped that campaign because there were a lot of unknowns post CPCB-II, but three years after the campaign is when the actual warranty starts kicking in. So this is not an actual cost, which is incurred, but in line with whatever we contracted, we have begun our provisioning, the effect of which is being seen now.

Balchandra Shinde: So that provisioning will continue over the next two to three quarters.

T. Vinod Kumar: There are strict adherences to comply with for the warranty to be operational. It is a pre-condition that service and spares will be from KOEL and hence if anyone uses their own spare parts or oil from outside, the product ceases to be covered under warranty.

Balchandra Shinde: Okay and I wanted to know 125 kVA gensets. As per the industry interaction what I came to know is like in road construction usually 125 kVA gensets are use and I would like to know our presence and our market share where you see yourselves, because in the Q4 I think road construction activities will be at much bigger pace than what it was in Q3?

T. Vinod Kumar: We do not have specific numbers on 125 kVA.

Balchandra Shinde: I do not require exact numbers, but would like to know your presence and how you see yourself because I heard that relatively Mahindra Powerol is much better placed then Kirloskar Oil Engines, and then other players come, so how you see your road construction activities improving benefitting Kirloskar Oil Engines?

R. R. Deshpande: Road construction activities are improving and for Industrial business if you see there is a growth against last year more than 50%. . Coming to 125 kVA, our market share is 30% plus. So if you ask me, we do not have slippage of the market share. I do not know about Mahindra's, but the point is still 125 kVA node is one of the stronger node for us.

Balchandra Shinde: So if actually road construction activities are growing in the range of around 35% to 40% we can see a good growth in 125 kVA genset also.

R.R. Deshpande: Yes.

Balchandra Shinde: Okay. Thank you Sir. I will come back for further questions.

Moderator: Thank you. We take the next question from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain: Hello Sir Kiri Jain here again. First one, large engines you have mentioned in your presentation that you got some orders. Is it anything significant here and if you can broadly also touch up on the international business side, the export seems to be coming down?

R. R. Deshpande: Yes. we got some defense and railway orders. The focus of Large Engine Business is on defense and marine. Right now we are getting small order for the gensets typically for defense marine. We got first order for the fishing boat. Our previous focus area for the Large Engines were typically Navy and the business from the Nuclear Power Corporation which is still not coming up and that is why we are now focusing onto these two segments. As far as defence business is concerned, the order got postponed as against expected target time. But we have not lost any orders. Coming to the international business, as compared to last year due to dependence on Saudi Arabia Market, our PG business has gone down. This year hardly 10% of total business than what we did last year has happened. So it has definitely given a setback as far as numbers are concerned. We have not lost the market share in Saudi Arabia, but with the advent of the new administration, there has been a total slump in the market. However, we see some signs of improvement and hopefully the market will revive over time. Coming to the other part of the international market, the devaluation of the currency typically from the African countries is still there and we could not see any improvement as such. Markets in South Africa, Nigeria, and other African countries are still down, which is hampering the export business, but what we are working on addition of new lines, new countries and new market segments into the international market, which should improve over the next year.

Kirti Jain: Okay. You mentioned the HHP year to date revenue was around 191 Crores? This is 500 kVA, 750 kVA, and 1010 kVA.

T. Vinod Kumar: 320 KVA onwards, basically engines and gensets. SL engine and DV. In fact in my opening remarks I have given you the splits.

Kirti Jain: Correct. I needed some data as too many numbers we discussed and I was a little confused, but I will take it offline probably and take this number. Thanks Sir.

Moderator: Thank you. We take the next question from the line of Manish Goel from Enam Holding. Please go ahead.

Manish Goel: Very good afternoon Sir. Sorry, I just wanted to again have on the DV series because earlier you mentioned revenue in nine months 191 Crores versus 145 Crores.

T. Vinodkumar: Not DV. Total HHP. DV revenue for nine months was 115 Crores.

Manish Goel: 115 Crores. For last year nine months?

T. Vinodkumar: Yes

Manish Goel: So the DV series is between 325 kVA up to what?

T. Vinodkumar: 320 kVA to 1010 kVA.

Manish Goel: So then when you say HHP it would mean?

T. Vinodkumar: HHP would include DV and SL, which is 202 to 320kVA also.

Manish Goel: Okay Sir. Can you please provide the numbers as well for DV series in number of engines and gensets sold?

T. Vinodkumar: The total number is 765 , which includes 750, 910, and 1010 kVA also.

Manish Goel: Yes, agreed.

T. Vinodkumar: 765.

Manish Goel: Versus last year nine months?

T. Vinodkumar: 558.

Manish Goel: And can you please give the number for Q3 also value wise sir how much DV series you did?

T. Vinodkumar: The Q3 sales of DV is 261 nos and Rs 42 crores in value i.e. engines & gensets together.

Manish Goel: The presentation talks about 11 Crores income tax refund we have received.

T. Vinodkumar: This 11 Crore interest on income tax refund was not this quarter but for the 9 months

Manish Goel: This is for the first nine months.

T. Vinodkumar: Yes.

Manish Goel: So which line item it is capturing Sir. Is it in other income or other operating income?

T. Vinodkumar: It will be in other income.

Manish Goel: Okay and on power tiller you did mention that the government is implementing DBT and there is some impact, so is it that the state government most of the large markets where the power tillers are sold all of them are implementing DBT scheme?

T. Vinodkumar: They are trying to do that. Right now they are still straddling between the traditional subsidy disbursement and the DBT scheme. So till the DBT is completely operational the distributors' off take will be subdued.

Manish Goel: Ideally under DBT then the farmer will have to put in the entire amount and then get the subsidy from the government.

T. Vinod Kumar: Correct.

Manish Goel: Typically then it becomes a little bit more constraint for the farmer to put large money.

T. Vinodkumar: There is a complete mechanism by which this works because they have to show proof of having bought, otherwise it can be totally misused. There is a lot of financing which is available. We have also tied up with a lot of NBFCs and banks to finance. Not that it is of any consolation, but this is something which is affecting not only us, but all players in the industry.

Manish Goel: Okay sure and the power gen slide talks about apart from strong HHP sales you have executed bulk orders, so what is it pertaining to the bulk orders?

R.R. Deshpande: These are the rate contract orders from DGS&D (Directorate General of Supplies & Disposal). Based on the rate contracts with the central government, some small/big orders are placed by different Govt. departments.

Manish Goel: Currently how is the outlook in terms of power gen and industrial segment?

R.R. Deshpande: As far as industrial segment is concerned, the momentum seen in the first half is continuing. As compared to last year, market is up by 50% to 60%. There is a good volume for backhoe, excavators, transit mixers etc. Coming to power generation, for the lower kVA there was definitely some impact due to demonetization and which we expect will slowly improve. Q4 should be better as far as the lower kVA is concerned. Higher kVA was not really affected because of the demonetization. Given our smaller base in the higher horsepower we can definitely see good growth because more and more orders are getting finalized. We specially see higher growth in our 750, 910 & 1010 kVA gensets.

Manish Goel: I am quite puzzled because of demonetization there is an expectation that we are…

T. Vinodkumar: I think there is a lot of debate which is happening on this because there are organizations even in demonetization that have done extremely well, so I think there are two to three variables. It is not just demonetization; demonetization is one, then the entire power deficit which is extremely low, which affects the low kVA sales much more than higher kVA. Lastly, there is the seasonality impact. Even in demonetization, you will find that it has affected some parts of the country more severely than other parts. North India for example got very badly affected. South India is much less affected. Hence the entire canvas cannot be painted with one brush. But on a generic note, a certainly rural market seems to have been more affected & B to C transactions more affected.

Manish Goel: Where I was coming from is that the HHP segment would ideally see strong demand coming in from high-end real estate projects, commercial projects, and likely post demonetization especially would have seen the impacts on finalization, so quite surprised to hear that at our end the demand continues to be strong. So where is the demand coming for us Sir?

T. Vinod Kumar: For high horsepower?

Manish Goel: Yes for high horsepower, basically 750 KVA.

R.R. Deshpande: Coming from the industry, some definitely are from the real estate, then from the metro railways and typically from the IT industry. Typically even if you look at real estate, there will be a lag and if there is a project which is under completion, you are not going to delay that project just for backup power, which is now kind of mandated. That is why I said it will take a few quarters for it to really pan out and I do not think at the end of it we will be much wider to pinpoint the exact cause.

Manish Goel: Okay, and the last question on the defense because earlier we were talking about the defense business to probably reach 100 Crores in the near future, so can you throw some light as to by when can we probably move to that number?

R. R. Deshpande: Defense as all of us know, takes time to actually finalize the project, then get the order and finally execute the order. It has a long gestation period. We are right now working on the order board. Projected orders of the current year have all been delayed/ postponed by about six to eight months, but no doubt for the next year it will be there. So I can say in one to one-and-a-half years' time, we should touch 100 Crores.

Manish Goel: Okay, thank you so much for all the answers.

Moderator: Thank you. We take the next question from the line of Gaurav Sanghvi from Bajaj Allianz. Please go ahead.

Gaurav Sanghvi: Sir if we just look at the power gen segment and above 200 kVA which you mentioned, excluding that the lower kVA seems to be muted for the nine months, if you can throw some light on that?

T. Vinod Kumar: I did not understand.

Gaurav Sanghvi: For nine months, the segment sales are up by 7% at 865 Crores and you mentioned 191 Crore number for the 200 kVA and above, which is some 32% increase. So if one excludes this, the remaining sales is 674 Crores against 63 Crores for the corresponding nine months then it is just 2% growth for the remaining business excluding 200 kVA and above. So I would like to understand your view on this low kVA segment?

R.R. Deshpande: The lower KVA this quarter i.e. in Q3, the performance was a little lower because of the market condition. Certainly, the growth what we are seeing in high horsepower is not being seen in the lower horsepower as such. In the first quarter or the second quarter whatever numbers are there are very good for the lower kVA because there were specific orders from DGS&D into the lower KVA which we actually executed.

Gaurav Sanghvi: Okay what is the outlook on the low kVA?

R. R. Deshpande: The low kVA is slowly improving and fourth quarter should be better. Normally fourth quarter is the best as compared to the second and the third quarters because the government orders completion and other things are also there. So we could see that the fourth quarter should be better in the lower kVA also.

Gaurav Sanghvi: Okay Sir, thank you.

Moderator: Thank you. We take the next question from the line of Renu Baid from India Infoline. Please go ahead.

Renu Baid: Good afternoon Sir. I wanted two more clarifications from you. (A) We have seen the impact of GST around both in lower kVA, which got hurt. What is your sense? How could this segment of the market react around GST because again this is at the retail end of the market where a lot of dealers would be delaying in cash and might not be having the entire systems in place? So do you think next year could be equally a bumpy year for us or we should see further market share gains post GST implementations? So your comments with respect to GST please.

T. Vinodkumar: Both de-monetization and GST will have an impact. The general trend seems to be that unorganized players start losing out and that would mean organized segment stands to gain. I think it is going to get increasingly difficult especially when GST kicks in for unorganized players to be there. I think there will be several factors which will play out and it is still early to say because now they have moved the date to 1st July. I feel that with the financial year out of the way, one variable has been removed. To your answer whether it is going to be a bumpy ride, my guess is yes, it is going to be a bumpy ride especially the low kVA segment, but that having said, I think we are completely conscious that this might happen and even when we had something like CPCB II coming in 2014, you kind of start planning towards that and there are steps which can be taken to minimize the bumpiness so to speak and I think we will do everything that is required to do that. So really there are actually multiple factors that will contribute to the bumpiness and GST is only one. Demonetization hopefully is something, which is getting weaned out and will be behind us. But inflationary pressures caused by surge in commodity prices, freight rate hikes resulting from oil prices going up and intense competitive pressures could all add to the bumpiness.

Renu Baid: Right and Sir on the margins you mentioned on the pressure from material price point you did mention that any price hike before March is unlikely. In case if you do not see the market leaders in competition passing on the input price increase…

R. R. Deshpande: In the HHP segment, we will wait for the reaction from the bigger players because clearly this is something that will affect all. It will not be prudent to absorb all the price increases but one might have to play a waiting game.

Renu Baid: Sure and my next question is on the electric pump segment. You mentioned that you have launched a range of products. So if you can.

T. Vinodkumar: Not range Renu. I just said, we just looked at two markets, UP and Maharashtra and it is a traded module right now and it is a very small number. I think we must have done about just about 50 lakhs that is about it.

Renu Baid: My question was not exactly what you are doing, but then what are your plans? Obviously you have launched a new segment a range of products, a new category I would say. What would be the product range that you are looking at? You started initially with UP and Maharashtra and which are the end segments you will want to cater largely to the industrial segment?

T. Vinodkumar: Not industrial. Most of the focus will be on agri because we have been saying for a long time that the diesel pump set is a de-growing market, which is what we are in right now from a manufacturing point of view.

Renu Baid: So broadly then would you be looking at more of manufacturing also or how will things be?

T. Vinodkumar: No. Currently we are only looking at a trading model. We have tied up with some other suppliers and we will buy and sell.

Renu Baid: Any size of the pump sets that you will be targeting?

T. Vinod Kumar: There are different segments and different horsepower ranges for different applications.

Renu Baid: For your target market what is it that you are looking?

R. R. Deshpande: When we are looking for the agri, we will be looking for submersible types of pumps, 4A, 6A like that and then ultimately looking at the usages of the farmers for the electric pumps ultimately because the government is also now focusing onto the replacement to the electric pump sets from the efficiency point of view because they want to have more electrical efficient pumps and from that point of view different schemes are being launched by the government to replace the present electric pump, so we will be focusing onto that.

Renu Baid: Probably you will be targeting the double ESL kind of segment of the market with the government plans?

T. Vinodkumar: Yes, that also.

Renu Baid: Sure sir I think that is broadly from my side, but overall you think the margin pressure is going in the next financial year would be relatively more compared to what we have seen in the last nine to 12 months?

T. Vinodkumar: Probably yes because of the input price hikes, which we are seeing.

Renu Baid: Sure Sir, thank you so much and all the best.

Moderator: Thank you. We take the next question from the line of Charanjit Singh from B&K Securities. Please go ahead.

Charanjit Singh: You have mentioned about the DGS&D orders. If you can just help us understand what could be the annual demand from the DGS&D and what rating they are going for and who are the other players who are participating in this market?

R. R. Deshpande: Typically DGS&D orders are never fixed orders. It is as per the requirement from the different government departments. These government departments normally work towards fixed rate contracts and this DGS&D rate contract is yearly. We are one of the five or six players for the DGS&D orders, so it depends. Last year the orders were very low. It came only in February or March. This year the orders came at the beginning, from April onwards. So you cannot say fixed business as such. It depends upon the different requirements coming from the different government departments. It can be from Post Office or Police and so many other government departments are there.

Charanjit Singh: And Sir if we look at the overall market perspective for power gen, how do you see we will be closing this year from a market perspective in terms of growth in the low HP and high and medium HP? Do you see like with all of this power deficit issues still continuing, GST being a big factor, the market to show growth in FY18, or it could remain a flat kind of a scenario?

R.R Deshpande: In overall terms, we will be better than the PY

Charanjit Singh: Okay Sir, and the uncertainties which are there, do you see like still the market demand continuing to sustain at these levels in FY18?

T. Vinodkumar: There may be a postponement. Like I said the lag effect could be there, but the market is not going to disappear.

Charanjit Singh: Okay Sir and the last question is on the high HP. We have seen good traction from the customers for the Kirloskar Oil Engine products. What is the kind of reaction from the competition in terms of their pricing for the products in the same range or introduction of any new product category, which could have an impact on our offering?

T. Vinodkumar: Typically, in high horsepower we are not market leaders. So ideally competition should not be reacting. In the low & medium horsepower where we are leading, we take the call. I think there is a long way to go in HHP. There is enough space and the market is big enough. The end of it, yes, it will be quality, price, product delivery, and there will be several factors, but pricing wise I think everyone will be reasonably close to each other.

Charanjit Singh: Okay Sir, thank you that is all from my side.

Moderator: Thank you. We take the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Thank you for the rare opportunity. I just have one or two questions. One is on the market share. Can you just say what will be your market say in 750 and above KVA right now on a nine-month basis?

T. Vinodkumar: 750 and above overall it is too early to even say because the kind of quantity which we have talked about is miniscule compared to the market.

Viraj Kacharia: Okay. The second question is on the subsidy part for dealers. Can you just explain what will be the mechanism now and how does it work compared to the previous?

T. Vinodkumar: In fact what we have been saying is that just as we were beginning to get the approvals and registrations for most of the States for our Mega T subsidy, the goal post has shifted. State Govts are moving to the DBT scheme and the transition is not seamless and is taking a huge time. As the name itself suggests it is expected to be a direct credit into the farmers account as against the current where it will go to the dealers, etc., but till such time the transition is complete, we see a slowdown in offtake.

Viraj Kacharia: Because you highlighted the overall industry itself has shrunk by 40%.

T. Vinodkumar: Which industry?

Viraj Kacharia: The tiller industry. You said the market leader and everyone is down by 40% to 45% in Q3.

R.R Deshpande: The total market is down. It is because this particular problem is for all as the total government system is not really geared up for putting this typical subsidy directly to the account.

Viraj Kacharia: Okay. So which states we have seen this action being completed? Once this system is in place typically what will be the timeline of the money getting into the farmers account?

T. Vinodkumar: It all depends on how fast the government disbursal system works. They have experimented this in various different industries. At one time, there was experiment on fertilizers on this. That benefit is limited, but here I think it is much easier because in fertilizer there was linkage to input prices and all. Here all that is not there, but it will be very difficult to see how it is panning out.

Viraj Kacharia: Okay, and for this subsidy is there a certain timeline to try. I mean starting FY18 you will have it mandatory for states without subsidy. Is my understanding correct?

T. Vinodkumar: I do not know. There is no mandatory date officially communicated to us but to the best of our knowledge it will be sometime in 2018 and the transition will be compulsory.

Viraj Kacharia: Okay by and large we are seeing the transition taking place across all the major states.

T. Vinodkumar: We await clarity and we have already lost out on a good Rabi season. We only hope that before the next Kharif, the system is put in place.

Viraj Kacharia: Okay. The reason why I was asking was because Q4 is also relatively higher tiller quarter?

T. Vinodkumar: So that opportunity has gone.

Viraj Kacharia: Okay, got it. Thank you very much.

Moderator: Thank you. We take the next question from the line of Kuldeep Vijay from Spark Capital. Please go ahead.

Kuldeep Vijay: Thanks for taking my questions. Sir, I have two questions. One is basically what is the R&D expenditure for YTD?

T. Vinod Kumar: R&D expenditure for YTD, just give me a minute. in the meanwhile, why don't you ask your second question.

Kuldeep Vijay: The government is also talking of adding two more units in Kudankulam Power Plant, so any enquiries coming from Nuclear Power Cooperation?

R.R. Deshpande: The enquiry is there, but right now there is no finalization. No doubt enquiry is there. We have also quoted but await the outcome.

Kuldeep Vijay: From an opportunity perspective will this be similar to what we supplied already?

T. Vinod Kumar: The total R&D without employee cost and without capital expenditure, so only revenue expenditure, is in the region of Rs 12 to 13 Crores so far.

Kuldeep Vijay: 12 to 13 Crores. Any specific reason why is this falling, annually it comes close to around 57 Crores last year.

T. Vinod Kumar: No, you are looking at capex also.

Kuldeep Vijay: The 68 Crores was total R&D, 57 Crores is revenue, and 12 Crores is about capital expenditure. For the last two to three years, we have been spending heavily in R&D. Any specific reason why we have scaled down with R&D?

T. Vinodkumar: We have not scaled down. Am not sure which figure you are talking about but the figure of Rs 12-13 crores excludes, employee related expenses of R&D personnel and also all capital expenditure.

Moderator: Thank you. We take the next question from the line of Balchandra Shinde from Anand Rathi. Please go ahead.

Balchandra Shinde: Thank you. Sir regarding auto main failures which you have mentioned in PPT just would like to know as you said that it will allow us to be as a total solution provider. Can you elaborate on that? Are we trading that component or are we inhouse making that product?

T. Vinod Kumar: Ultimately it is a contractor manufacturing for AMF panel. It is our design and our technical knowhow and we are getting it from our vendors.

Balchandra Shinde: It is like trading.

T. Vinod Kumar: It is not trading. It is manufactured, but not in-house, it is contract manufactured.

Balchandra Shinde: Okay. How it exactly helps?

R. R. Deshpande: Yes, it is important for any gen set. Now a days 70% to 80% gen sets require AMF panel. First is captive we will be trying and then we will go to the market.

Balchandra Shinde: Okay, but does most of the players offer AMF along with the gen set or is it a factor, which usually others buy it from outside?

R. R. Deshpande: Today if you go to the market people take AMF panel from unorganized players. And that is what the real problem. We want good quantity product to be given in the market so we are initiating this action. Once we do that it will be a branded product for the KOEL gen set and then we will give it to the market because the market requires good quality panel.

Moderator: Thank you. Well that was the last question. I now hand the floor over to Mr. Punit Garg for his closing comments.

Puneet Garg: On behalf of Axis Capital, we would like to thank the management of Kirloskar Oil Engines for giving us the opportunity to finish the call and we would like to wish them the best for the future. Thank you Sir.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.