Chairman's Speech

Annual General Meeting on 9th July, 2010

Good morning Ladies and Gentlemen,

On behalf of my colleagues on the Board and the management of the Company, it gives me great pleasure to welcome you to the first Annual General Meeting of Kirloskar Oil Engines Ltd. (earlier known as Kirloskar Engines India Limited).

To begin with, I will briefly talk about the Demerger and then proceed to discuss the Indian Economic and Industrial scenario and the performance of the Company.

Demerger

On 31st March 2010, after complying with the conditions of the scheme as approved by the Bombay High Court, the Company implemented the Demerger scheme. The scheme became effective from 1st April, 2009. Accordingly, the Engines and Auto Component businesses were transferred to the Company and the Investments and windmill activity remained with Kirloskar Industries Limited. Separate Annual Accounts were prepared for the Company and for Kirloskar Industries Limited for the financial year 2009-10. The financial results of the Company as reported in the First Annual Report are for the period from 12th January 2009 (the date of incorporation of the Company) to 31st March 2010.

To explain the scheme of Demerger from the point of view of shareholders, let me give you an example. If a shareholder of Kirloskar Industries Limited, prior to the Demerger was holding 20 shares of Rs. 2 each (total face value of Rs. 40), he will be allotted 15 shares of Rs. 2 each in Kirloskar Oil Engines Limited and 1 share of Rs. 10 in Kirloskar Industries Limited. Accordingly, shares have already been allotted to the shareholders of the Company, both in the physical and Demat form.

In June 2010 the Company filed an application with BSE and NSE seeking their approval for listing of its shares, after complying with all the necessary requirements. The listing permission is subject to obtaining approval from SEBI for relaxation of condition relating to new issue of Securities of the Company.

With the implementation of the Demerger, the Company would be in a position to dedicate all its resources to the Engines business.

Economy and Industry:

The financial year 2009-10 started on a difficult note, especially on the backdrop of severe global financial crisis which began in the second half of the financial year 2008-09. During the year 2008-09, GDP grew at the rate of 6.7% as against 9.2% in the previous year. To counter the effect of negative fallout of the global financial crisis, Indian policymakers took a calculated risk in providing substantial fiscal expansion as a response to the challenges. The fiscal expansion policies resulted in fiscal deficit of 6.8% of the GDP for the year 2009-10 as against 2.6% for the year 2007-08.

The Indian economy faced further strain due to a sub-normal monsoon and sluggish exports due to recession affected economies. Despite these adverse factors, the Indian economy posted a remarkable recovery. The nature and extent of the recovery justifies an optimistic outlook for the Indian economy in the medium as well as long term.

The GDP growth for the year 2009-10 was 7.4% as against 6.7% for the previous financial year. This growth was mainly attributable to the manufacturing sector which grew at 8.9%and the services sector (consisting of financing, insurance, real estate and business services) which grew at 9.9% during the financial year. However, agricultural sector recorded a negative growth of 0.2% during the year.

In line with the pick-up in overall industrial growth, core industries and infrastructure sectors have also shown signs of recovery. There is a need to further develop infrastructure and capacities to support and sustain the economic growth momentum. On an all India basis, power shortage during the financial year 2009-10 was more than 10% of the total demand while peak power shortage during this period was more than 13%. Similarly, substantial investment in the development of roads and highways is a pre-requisite for achieving better connectivity and higher levels of inclusive economic growth. At present, 4 lane highways constitute only 19% of the total road length. With the expected development of the road network, based on the new targets of the ministry, will substantially increase the requirement for construction equipment and offers good potential for the Company's business.

In June 2010, the Empowered Group of Ministers (EGOM) of the Government of India announced a major policy decision relating to the de-regulation of prices of fossil fuels, especially petrol and diesel. Deregulation implies that the Government will no longer control the market prices of these products. Henceforth the prices of petrol and diesel will be linked to international prices of crude and the refining costs of the oil companies.

While the EGOM has not totally de-regulated the pricing for diesel, considering its political and economic impact (especially under the present inflationary conditions), it has indicated the intention of gradually moving towards the total de-regulation of diesel prices.

From the short term perspective the change in policy is likely to have adverse impact on the consumers who will now be forced to change their existing consumption patterns. However in the medium to long term the policy decision is likely to have a positive impact on the Economy and the Environment as it will encourage development of new products using alternative sources of energy.

Union Budget and its impact on Operations:

The major feature of the Budget from your Company's perspective was a partial rollback of the fiscal stimulus, especially the increase in peak excise duty rates for most non petroleum products from 8% to 10% and the deferment of implementation of the GST to the financial year 2011-12.

The allocation of Rs. 1,73,552 crores for accelerating the development of high quality infrastructure such as roads, ports and railways and disbursement of credit through IIFCL is a step in the right direction and will help in developing infrastructure to sustain the growth momentum in the economy.

As mentioned earlier, the Government policies relating to the infrastructure sector would generate growth opportunities for the Company's businesses.

The existing plant capacities are almost reaching full utilization during the year and the Company may require to augment its capacities in the coming financial year.

Financial Highlights:

As mentioned earlier, the financials for the year 2009-10 are re-casted with effect from 1st April 2009, in view of the implementation of the Demerger scheme. The financials of the Company post Demerger will ensure greater transparency and will help you in better evaluation of its performance. The financial year 2009-10, being the first year of operations of the Company, comparative figures for the previous year are not mentioned in the Annual Accounts. For the purpose of comparison, sales figures for the previous year are quoted below.

Total Sales increased marginally by 4.3% to Rs. 2,219 crores in 2009-10 from Rs. 2,127 crores in 2008-09.

Export Sales decreased by 25% to Rs. 108 crores in 2009-10 from Rs. 144 crores in 2008-09, reflecting the recession in international markets.

Engine Sales increased by 4.1% to Rs. 2,111 crores in 2009-10 from Rs. 2,027 crores in 2008-09.

Sales of Power Generation Engines business decreased by 16.1% to Rs. 897 crores in 2009-10 from Rs. 1069 crores in 2008-09.

Sales of Agri and Off Highway Engines businesses increased by 34.7% to Rs. 621 crores in 2009-10 from Rs. 461 crores in 2008-09.

Product Support (including spares) Sales increased by 44.9% to Rs. 355 crores in 2009-10 from Rs. 245 crores in 2008-09.

Sales of Large Engines decreased marginally by 5.1% to Rs. 238 crores in 2009-10 from Rs. 251 crores in 2008-09.

Bearings Sales increased by 18.9% to Rs. 107 crores in 2009-10 from Rs.90 crores in 2008-09.

Profit before tax of the Company for the year 2009-10 was Rs. 263 crores.

The subsidy of Rs. 66 crores, receivable from the Government of Maharashtra for setting up of industrial unit in Kagal has been treated as Capital Receipt and hence credited directly to the Capital Reserve in the Balance Sheet for the financial year 2009-10.

Operational Highlights:

Last year, I had spoken about the restructuring of our organization. After its implementation, the Company has two major lines of business, namely the Power Generation Engines business and the Agri & Off Highway Engines business. Product Support provides the necessary spares and after sale service to the customers of these businesses. These businesses are catered to by dedicated engine manufacturing units at Khadki, Kagal and Rajkot. The Large Engines business and the Bearings business are kept outside the purview of the restructuring, considering the nature of business and the customer base. This restructuring of the organisation is in line with internationally recognized market segmentation for the diesel engines industry.

The Kagal plant was formally inaugurated in March 2010, at the hands of the Hon'ble Chief Minister of Maharashtra. He along with other dignitaries appreciated the contribution of the Kirloskar group to the development of the local and state economy and urged the Company to further increase its investments at the Kagal location.

During the year 2009-10, which is the second year of operations, the Kagal plant produced close to 50,000 engines and 7,500 Gensets. Capacity utilization for the year was about 75% for this plant. In the current year, the Company expects to achieve full capacity utilization.

During the year, Rajkot plant produced close to 80,000 engines out of which 41,000 were pumpsets. Capacity utilization for the year was about 90% for this plant.

During the current year, the Company further faces the challenge of enhancing capacities at suppliers' plants and the Company is making all efforts to improve productivity at the Suppliers' end based on our learnings after implementing the Kagal project.

Healthier margins for the financial year 2009-10 are the result of various initiatives taken by the Company in the areas of material cost control, value engineering, working capital management, capital expenditure control and the productive utilisation of assets.

However, along with the revival of the Indian Economy, and some signs of recovery in the global economy, there are indications of inflationary pressures building up and the Company may face the challenge of maintaining the existing margins for its products.

Commodity prices are likely to harden in the short and medium term, resulting in higher input costs. The alignment of domestic fuel prices with global prices is likely to further increase the costs for the Company.

The Company continues to maintain and improve its healthy and harmonious industrial relations and has successfully concluded its sixth consecutive agreement with its unionized workers at the Khadki plant.

New Product Development:

50% of the present engine sales of the Company is from products developed in-house in the past 8 years. We have taken up programs which will further reduce the time to market new engine platforms.

Your Company has successfully developed a more compact engine model (K1080 series) in the range of 125KVA to 160 KVA.

During the last AGM, we had displayed a prototype of the new DV series of engines. The Company has started production of 10 cylinder engine for 500KVA genset and 8 cylinder engine for 400 KVA genset with a view to cover the product gaps. This is a critical extension of our product portfolio. This will help the Company to further diversify its customer base and enhance its business prospects for the future. In the current year, the Company is planning to introduce 12 cylinder engine for 625 KVA genset. Besides diesel, these engines can also run on 100% bio-diesel. In addition these engines will soon be offered for other applications.

During the year 2008-09, the Company had introduced the Varsha compact diesel pumpsets. In the year 2009-10, 30,000 units were sold and in the current year, the Company expects to sell much higher volumes of the product. Company has also undertaken the development of its variants in order to address the customer specific requirements and cater to the pan Indian market.

All the existing products of the Company are fully compliant with the applicable emission norms and the Company is fully prepared and capable to comply with the requirements of future emission norms. The proactive approach of the Company towards R&D has ensured that it is always ready to comply with the emerging emission and performance norms. The Company is also in the process of developing new products using alternative fuels, electronic systems, fuel systems and gensets. To enhance competitive edge of our products, we have started increasing our R&D spend significantly.

Acknowledgements:

The first financial year of the Company has been satisfying, as the Company was able to successfully negotiate the challenges posed by the difficult economic scenario and deliver satisfactory results to its stakeholders. Our customers, suppliers, vendors, lenders and motivated employees have supported initiatives taken by the Company during the year. I would like to thank all of them for their support. With a satisfactory performance in the first year of operations, it is a challenge to exceed the current performance levels. I am confident that with their continued support, your Company will further strive for enhancing value for its stakeholders.

Thank you!