

Chairman's Speech

Annual General Meeting on 4th August, 2017

Mr. Atul C. Kirloskar, Executive Chairman and Mr. Gautam A. Kulkarni, Executive Vice Chairman of the Company, has conveyed their inability to attend this Annual General Meeting today on account of their ill health. However, they are recovering well and expected to join office shortly. For this meeting, your directors have chosen me to be the Chairman. I thank the directors and accept the Chairmanship for this annual general meeting.

Good morning ladies and gentlemen. On behalf of the Board of Directors, it is my pleasure and privilege to welcome you to this 8th Annual General Meeting of your Company.

ECONOMIC & INDUSTRIAL SCENARIO

The year gone by has seen a fair amount of turbulence and churn in both the international and domestic markets. The United Kingdoms withdrawal from the European Union (Brexit) and the change in political guard in USA are both expected to have geo political impact which at this stage is not easily ascertainable. In the domestic front, both demonetization and the GST have been radical steps taken by the Government.

The first half of 2016-17 witnessed reasonable growth in the domestic economy followed by a slowdown and in some sectors a slump post demonetization. However, as was expected, we once again witnessed a pickup, towards the end

of the fiscal. While the global economic growth was at 3.4 percent, the Indian economy grew at 7.1 percent in 2016-17.

We are witnessing fundamental shifts in the way world economies are choosing to grow and consequently their impact on global trade and business. We witnessed a 'revolution' of sorts with the advent of the internet when business models underwent a massive change. The 'revolution' started Internet enabled outsourcing and globally integrated supply chains that significantly reduced costs and accelerated growth. One would have expected that with technological advancements free trade across the globe would continue to grow. However, it is ironic that what we are actually witnessing is increasing challenges to globalisation in the form of protectionism, cross-border barriers, control on free trade and push for localisation of workforce and markets. Advent of Robotics will be another game changer and organisations are beginning to revisit their earlier decisions of setting up manufacturing in the developing world, since more cost-effective solutions can be set up closer to the market. These are big changes that will challenge society, businesses and individuals in a profound way.

INDIA – OPPORTUNITIES AND CHALLENGES:

While India cannot be insulated from the global winds, relatively, our economy seems better-poised to register a new phase of growth. A stable government, a young population and growing demand are some factors that augur favourably for our country. The main challenges are twofold: creating large employment generation opportunities and raising the employability and skills of the Indian youth to cope with the technological advancements and changes in business models.

Currently, the manufacturing sector in India contributes over 15 % of the GDP. The Government of India, under the Make in India initiative, is trying to give a boost to the contribution made by the manufacturing sector and aims to take it up to 25 % of the GDP.

To cope with these fast paced changes, it is imperative that we constantly innovate across the value chain, invest in new business models, and build a diverse talent base that has skills and capabilities to operate in this increasingly challenging environment.

Technology and New Product Development

Over the years, your Company has set up an excellent R&D facility, operated by a very competent team, which works closely with our businesses to deliver high value to customers. The focus is on expanding our product range and solutions in line with changing market needs and customer expectations. We ensure that our innovative offerings comply with emission standards and are also price competitive.

The Company expanded its High kVA Genset range with indigenously developed 750, 910 & 1010 kVA gensets, based on DV 12 and DV 16 engines. These products have been very well accepted by the market, which gives us the confidence to progress rapidly with our 1200, 1500 and 2000 kVA gensets, all of which we expect to launch in the next couple of years

In the Farm mechanization space, Min T was launched in the 5 HP and 8 HP category. These are light weight and compact machines used for small farms and hilly regions where carrying a machine is an issue. We also introduced Mega T in

International Markets of Bangladesh and Nepal. Besides several awards which we received in India, Mega T received the globally renowned Japan Good Design Award 2016 from Japan Institute for Design Promotion (JDP) at Tokyo Japan.

Your Company has taken various initiatives on the “Digital” platform. This is not because “Go Digital” is the mantra of the day but because our customers expect technologically advanced solutions from us with seamless connectivity. With newer technology, we can listen to our products and respond in real time to ensure a seamless customer experience.

Your Company is the first Indian Company to offer gensets with Remote Monitoring System. We also have an IT platform that seamlessly links our customers with our front-end sales and service channel. On the Agri side, we have deployed Agrifast, a digital platform connecting 500 distributors and 25000 retailers on a real time basis. While there are several other steps taken by us in embracing the digital platform, we believe the journey on Digital has only begun and we have an interesting roadmap ahead.

BUSINESS and COMPANY PERFORMANCE: 2016-17

The Genset market witnessed 8% growth in FY 2016-17, primarily due to a surge in economic activity. Your Company held on to its dominant market share and leadership position in Low and Medium kVA segments and took aggressive strides in the high kVA segment.

Resulting from increase in rural electrification and compounded by erratic rainfall, the diesel pump set industry de-grew by about 10%-15%. Improvement in rural electrification is resulting in demand shift from diesel to electric pump set. The farmers' dependence on ground water is causing shift in demand to submersible electric pumps. Despite this, the Agri Crop Irrigation business was able to hold ground and maintain revenues in line with the previous year.

During the year, the 15 HP Mega T gained considerable market share and we attained market leadership position in this segment. With its stabilization, the Company is now geared to launch the 8 and 12 HP variants during the course of the year. We do hope that the Direct Benefit Transfer scheme of the Government is rolled out at the earliest, thus ensuring a smooth and seamless flow of subsidy to the farmers.

In the Industrial segment there was good traction seen, with construction equipment segment registering a growth of almost 30% and the tractor market - 19%. This augured well for the Company and this vertical grew by 19% as compared to previous year.

Various initiatives taken by the Customer Support team in supporting our customers and enhancing their experience seem to have paid off and the segment registered a growth of 10% in FY 2016-17 as compared to previous fiscal. The Company continues to provide full-fledged single window solutions to all customers for every electro-mechanical need.

International Business continues to remain a key strategic focus area and growth driver for the Company. The Company's International business suffered a decline of 34% in an extremely challenging macroeconomic environment. Power Generation business in export market took the major hit especially in the mainstay markets of the Gulf Corporation Council. We are however committed to grow our International business and are developing alternate strategies and redefining our focus markets and geographies.

The Large Engine business caters to a niche segment where demand is based on launch of large government projects and defense power and propulsion requirements. The Company developed Marine engines for fishing boat application and propulsion application. The Company also developed two variants for Railways Auxiliary Power units, along with its Qualification testing from Railways Authorities. Your Company is one of the top six organization to develop powerpack for BMP II, an infantry Combat Vehicle. The development process will be completed in FY 2017-18.

Continuing our focus on sustainable operational excellence, the Company released its 5th Corporate Sustainability Report which focuses on being future ready at every level of business. This report reflects the Company's holistic integration of multi-dimensional corporate sustainability initiatives into its business and how it continues to be an important driver of its success. The report has been published and can be seen on our website.

FINANCIAL HIGHLIGHTS

Despite an extremely challenging macroeconomic environment, your company posted its highest net sales.

On standalone basis

- Total Sales for the year at Rs. 2,614 crores was higher, by 9%, than the PYs figure of Rs. 2,406 crores.
- Profit from operations before Tax for the year before exceptional items was Rs. 252 crores as compared to Rs. 230 crores in the previous year.
- Profit after Tax for the year was Rs. 174 crores as compared to Rs. 165 crores in the previous year.

On Consolidated basis, the additional sales revenue from KOEL Americas Corp. USA (wholly owned subsidiary) for the fiscal ended 31 March 2017, was \$ 1,598,629 (Rs. 10.71 Crs.). Profit from operations before Tax was \$ 64,599 (Rs. 0.36 Crs.). The Profit after Tax was \$ 50,836 (Rs. 0.27 Crs.).

The financial statements of FY 2016-17 are prepared in accordance with IND-AS. The figures for last FY 2015-16 prepared under the earlier Indian GAAP have been restated in accordance with IND-AS.

Your Company's Balance Sheet remains fundamentally strong. We continue to be a zero debt Company and have managed to keep a strong rein on our working capital.

DIVIDEND

The Board of Directors had recommended a Final dividend of 250% i.e. Rs. 5/- per equity share during financial year 2016-17.

ACQUISITION

As you may be aware, your Company had entered into definitive agreements on 21 June 2017, with LA-Gajjar Machineries Private Limited (LGM), to acquire 100% stake in LGM. I am happy to inform you that the first tranche of the transaction involving purchase of 76% of the shares has been duly completed on August 1, 2017. This was an all cash deal. LGM is now a subsidiary of KOEL with effect from on August 1, 2017. This a big step forward in the inorganic growth strategy of the Company and good utilization of Company's cash.

LGM provides KOEL a strong and established footprint into the electric pump market through its 'Varuna' and 'Raindrop' brand of submersible and mono-block pumps and further consolidates on KOEL's strong position in the diesel and electric pump segment.

PERFORMANCE OF Q1, 2017-18

The sales revenue for the quarter ended 30 June 2017 stands at Rs. 704 crores as against Rs. 651 crores for the corresponding quarter of 2016-17. Profit before tax for the quarter is Rs. 54 crores, as against Rs. 82 crores for the corresponding quarter of 2016-17.

It is pertinent to note that the Kagal Incentive Scheme operational since 2009-10 has come to an end in March 2017. The total incentive claimed by KOEL was Rs. 284 Crores of which Rs. 248 Crores has been received. Rs. 36 crores has been taken as revenue receipt in the previous year.

CHALLENGES & OPPORTUNITIES GOING FORWARD

With an entire range of high performance gensets from 2.1 to 1010 kVA supported by a best in class service network, we are positive of being able to cater to a wide spectrum of market requirements. With the Company's strong brand image and presence in PSUs, we should be in a position to contribute more towards many of the public welfare schemes that government has launched in the year 2015. In many of these schemes focus is on rural growth, where DG set power back up will play an important role in functionality of these projects.

While the Agri Business cannot eliminate the inherent risk of climate dependency, the Company is taking several steps to minimize risk including focus on diversification of the product basket in Crop Irrigation and farm mechanization business.

With the Government's commitment to focus on infrastructure, road construction and mining business, the Industrial Business is expected to continue its uptrend in coming quarters.

For Large Engine Business, the Company will continue to drive its growth in the defence and marine power and propulsion segments and will also focus on expanding business in the areas of fishing boat engines market.

CORPORATE GOVERNANCE

Your Company has complied with the guidelines on Corporate Governance. Your Company's Corporate Governance Philosophy is based on imbibing best practices in the area with emphasis on ensuring transparency and accountability. Risk identification and mitigation exercises are constantly reviewed and implemented.

ACKNOWLEDGEMENT

To conclude, I thank all the stakeholders who have extended their support in the development and growth of the Company.

Our customers, suppliers, vendors, lenders and our motivated employees have supported the initiatives undertaken by the Company during the year. I thank all of them and look forward to your continued support.

Thank you very much for your time, today.