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Kirloskar Oil Engines Limited

Earnings Update Mar 2015

Disclaimer

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Statements in this presentation, particularly those which relate to management's views and analysis, describing the Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations.

Actual results might differ materially from those either expressed or implied.

Highlights for FY 2014-15 (1 of 3)

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- Despite an extremely sluggish economic environment, sales for the FY 2014-15 @ Rs 2473 crores was higher than the PY by 8%
- The Large Engines business successfully completed execution of the balance 5 DG sets order from NPCIL in FY 2014-15, thus completing a flawless execution of 16 engines over a period of 3 consecutive Financial Years. With only 5 engines compared to 9 in the PY, the Large Engine business group witnessed a momentary drop in sales for the year (~ Rs 60 cr) compared to the PY.
- On the expiry of the license agreement with MAN (earlier SEMT Pielstick) in July 2014, the Company has signed a Memorandum of Understanding (MOU) with MTU (a subsidiary of Rolls Royce) for the supply of MTU engines to cater to future requirements from NPCIL.
- Besides introduction of variants of existing products & a smooth transition from CPCB I to CPCBII engines across the range, the current fiscal witnessed the launch of the much awaited 750 kVA DG set, the Power Tiller (Mega T) in the farm mechanisation space & the 3 kVA petrol & diesel DG

Highlights for FY 2014-15 (2 of 3)

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Several steps have been taken to future proof our businesses & conscious investments made. Hence despite higher sales revenue, PBT for the year was lower than previous year. Some factors that contributed to lower PBT were :

- Investments in future growth opportunities like Farm Mechanisation & high HP engines, where revenue streams will take time to ramp up but costs have been incurred.
- Change in sales mix - Lower revenue of ~ Rs 60 cr & consequently lower contribution from the large engines business
- Higher costs :
  - Employee related expenses up by ~ Rs 26 cr - hiring for new positions in growth areas, reward and recognition in line with Industry norms, higher actuarial valuations resulting from reduced interest rates etc
  - Higher R&D expenditure – CPCB I to CPCB II conversion and also towards testing of new products
  - Higher investment in IT (~ Rs 4 cr) – capability building & decision support solutions for the future
  - Professional fees – towards brand building, end to end supply chain , new product development etc
  - CSR spend of Rs 5.6 cr in CY as against Rs 2.6 cr in PY

Highlights for FY 2014-15 (3 of 3)

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- Despite lower profits as compared to the PY, some excellent work on working capital management resulted in good cash generation during the year (Rs 400 cr+). Some of the highlights :
  - Sustained negative operating working capital through the entire year
  - Inventory @ 22 days as compared to 25 days in PY – focus on replenishment stock system
  - Receivables @ 6 days compared to 21 days in PY
  - Payables maintained at steady state

- Focus on high quality & standards remained unabated through the year. Migrated to the Integrated Management System (IMS) where all earlier standards like ISO 9001, 14001, OHSAS 18001 etc. have alll been brought under one integrated system.

- Resulting from good cash generation & confidence in the future, the Directors have proposed to retain the same dividend payout as the previous FY

Financials

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All numbers in Rs. Crs	Q4 FY2015	Q4 FY2014	∂	FY2015	FY2014	∂
Net Sales	617	632	-2%	2,473	2,287	8%
Other Operating Income	11	11	2%	34	32	5%
Raw Material	406	413	-2%	1,626	1,444	13%
Employee Costs	44	36	24%	188	163	16%
Other Expenses	127	111	15%	444	409	9%
EBITDA	51	84	-39%	249	304	-18%
Non-Op.Income / (Expenses)	17	10	74%	59	38	56%
Depreciation	26	25	5%	102	98	4%
Interest	0	0	-	0	0	-
PBT	**42**	**68**	**-39%**	**205**	**243**	**-16%**
Tax	15	19	-18%	62	65	-4%
PAT	26	50	-47%	143	178	-20%

Q4 2014-15 Sales : Segment Performance

All numbers in Rs. Crs	Q4 FY2015	Q4 FY2014	∂
PowerGen	289	265	9%
Agricultural	94	94	-
Industrial	97	97	-
Customer Support	85	81	6%
Large Engines	52	94	-45%
Total	617	632	-2%

FY 2014-15 Sales : Segment Performance

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All numbers in Rs. Crs	YTD FY2015	YTD FY2014	∂
PowerGen	1,097	850	29%
Agricultural	404	416	-3%
Industrial	383	379	1%
Customer Support	344	338	2%
Large Engines	242	301	-20%
Total	2,473	2,287	8%

Key Financial Metrics

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	YTD FY 2015	YTD FY 2014
EBITDA %	9.9	13.3
Inventory (Days)	22	25
Receivables (Days)	6	21
Creditors (Days)	53	57
Fixed Asset Turns	5.1	4.2
RoCE %	15.3	19.2
Operating RoCE (annualized) %	28.4	26.6
Debt	-	-
Cash & Equivalents	902	660

A. Power Generation Business Highlights

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Sluggishness in India's DG market continued in Q4. On an annual basis India's DG set market for FY15 was marginally below FY14. Following are the key highlights:

- The 750 kVA engine from the KOEL stable has now been developed and initial seeding quantity has been placed. It is expected that momentum for production & sales will pick up in the ensuing Financial Year
- Launched the 3kVA petrol & diesel gensets during the quarter.
- **"KOEL Green"** the new brand identity for the power generation business along with tag line of ***"Efficiency. Integrated"*** has been well accepted and appreciated by the market
- Economic slow down continues to affect demand and is also leading to intense price cuts by fringe players in LHP & MHP segments
- Despite lower power deficit and lesser economic activity, Power generation business has not only maintained market share but also gained in some segments
- KOEL's market improvement efforts were supported by strong initiatives such as,
  - Enhancement of product features and launching of new variants in new emission norm regime
  - Implementation of Customer satisfaction measurement system

B. Agri Business Highlights

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At a macro level, Agri Business for the FY 2014-15 was affected by erratic rainfall patterns (delayed monsoon) and also improvement in rural electrification resulting in a de-growth in the diesel pump segment. However, the business has taken several steps to revive the market and reverse declining trends, some of which are :

- Built a distribution network of over 1073 retailers and 35 distributors (Both engines & Spares) for crop irrigation business in Q4.
- Appointed 67 nos KKSK (Kirloskar Krishi Sewa Kendra) for service and spares in Q4.
- 32 distributors appointed in Farm Mechanization during the quarter.
- Special focus on OEM business. “OEMCARE” helpline line started for getting customer feedback directly to enhance OEM business.
- LP set repositioning by engaging mechanics at Village level.
- Focused approach to make substantial impact in the farm mechanisation space. **Kirloskar Mechanisation Works (KMW), taking shape as a new brand identity.** Power Tiller (**Mega T**) being the first introduction, has been well accepted in the market. 108 units (Rs 1.58 Cr) sold during the quarter and ramp up expected in FY 2015-16.
- Entered all categories of engine pump set – Petrol Kerosene engines, Ultra- Light pump sets, Mono block pump sets, High Head (Futura) series.

C. Industrial Business Highlights

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Industrial business market segment witnessed a growth as compared to previous quarter (Q3FY15), however Industrial market declined by over 15% in FY15 as compared to the previous Financial year. The highights were :

- Moderate recovery in the demand of material and fluid handling equipment
- Tractor market negative trend continues (~ 5% during the year)
- Early signs of recovery seen in Mining sector
- Construction equipment segment hampered due to delay in Infrastructure projects
- KOEL has retained the market share in the OFF HIGH way markets

D. Customer Support Business Highlights

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The improved power situation resulting from the continued economic slowdown, has led to low usage of DG sets and consequent low service load and lower spares consumption in PG segment

- Industrial & Infrastructure equipment market witnessed negative 20 % CAGR for last 3 years which again led to low spares consumption
- However, resulting from our high customer engagement and customer support activities, the customer support business is stable
- KOEL continues with new initiatives to improve its high service standards further – Customer Delight Index (CDI) established for the entire range; daily supply of spares on replenishment system to all destinations
- The Company's commitment to provide quality service to all its customers continued with further expansion of service channel networks. KOEL now has service outlets within 80 km. radius. 75 outlets were added in the FY 2014-15.

E. International Business Highlights

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With a Vision of KOEL touching the world by 2025, Your Company's International operations remains one of the key strategic focus areas and growth drivers. Some of the business highlights :

- In a challenging macro-economic environment the Company's exports registered a growth of 3.6% as compared to the previous fiscal. Exports to markets like South Africa, Nigeria, Kuwait, Indonesia, Kenya, UAE, Zambia, Sri Lanka, Nepal and the USA has grown over 20% in the FY 2014-15 over the last year.
- Middle East & Africa continued to be the largest contributors for the International business. The company's business in mining repowering segment in South Africa grew by over 56 % in the current fiscal over last year.
- In FY 2014-15 expansion of the power generation product range was carried out in existing markets. Work commenced on emission certification in compliance of regulation norms for entry to the American and European markets in FY 2016 and beyond.
- In order to provide focus in the US and Latin America market, a new Company " KOEL Americas" has been incorporated in USA. Other formalities, post company formation, will be completed in FY 2015-16.

F. Large Engine Business

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The large engine business caters to a niche segment where demand is based on the launch of large government projects and defence power and propulsion requirements. Some of the business highlights were :

- Five DG sets manufactured and despatched to NPCIL in FY 2014-15. With this, the entire order of 16 DG sets of 4.2 MW each was executed flawlessly
- The license agreement with MAN (erstwhile SEMT Pielstick) expired on 30st July 2014. Consequent to this, KOEL signed a Memorandum of Understanding (MOU) with MTU (a subsidiary of Rolls Royce), in Jan 2015, for the supply of MTU engines to cater to future requirements from NPCIL.
- The large engines business has also been focusing on the Defense & Marine segment. Growth in this segment in the current fiscal was 120%. The main applications in this segment are : Energy systems for Radars, Powering sets for communication systems, Compact Generating sets & Gensets for Navy and Coast Guard Vessels

G. Other matters

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The Composite Scheme of Arrangement and Amalgamation was approved by public shareholders of the Company through Postal Ballot on 17 February 2015 pursuant to circulars of SEBI issued in this behalf and by the equity shareholders of the Company by the Court convened meeting held on 18 February 2015. The petition seeking sanction of the Scheme has been filed before the Hon’ble Bombay High Court bearing CSP No. 161 of 2015. The hearing on said petition concluded on 30 April 2015 and an order of the Hon’ble Bombay High Court is awaited till date.

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Thank You