Chairman's Speech

Annual General Meeting on 12th August, 2014

Good morning, ladies and gentlemen and welcome to the Annual General Meeting of your Company. At the outset, I thank you for the continued trust, encouragement and support you have vested in KOEL.

The Notice convening the Shareholders Meeting and the Annual Report for the year ended 31st March, 2014, have been with you for some time. I believe you would have had the time to go through the details. With your permission, I shall take them as read.

Ladies & gentlemen, before I get into the financial performance of your Company, let us take a quick look at the economic and industrial environment in which we operated during the last year.

ECONOMIC AND INDUSTRIAL SCENARIO

It has been yet another challenging year for Indian industry. Persistent Inflation, high Fiscal, Trade and Current Account deficits have severely impacted the Indian economy and curbed the growth potential. All this resulted in lacklustre investment momentum in infrastructure, energy and overall capital expenditure in the manufacturing sector. As a result, the de-growth of 0.7% in Manufacturing doesn't come as a surprise. While Agriculture was the lone performer at 4.7%, it continues to be at the mercy of vagaries of nature.

The few positives to emerge from this scenario were the clutch of fiscal reforms introduced in the latter half of the year with a view to revving up the economy. These measures range from phased deregulation of diesel prices, formation of a Cabinet Committee on Investments, direct transfer of subsidies to beneficiaries and efforts to reduce the losses of state-owned power distribution companies. These measures will need to be sustained and supplemented by a slew of others to effectively recharge the economy and restore its growth trajectory.

A new Government was recently elected with a resounding mandate. With a strong, stable and from initial indications, a reformist Government in place, there is optimism that India will witness resurgence and an economic revival. The spirit embodied in "Sabke Saath, Sabka Vikas" indeed holds a promise of inclusive and participatory growth and it is hoped that there is enough momentum to tide over some of the headwinds caused by a delayed monsoon at a domestic level & rising crude oil prices resulting from the continuing Iraq crisis at the global level. On the whole, India's economic outlook appears far brighter than it was in 2013 and many key industry leaders believe that the worst is over for India's economy and that in 2014, GDP growth is likely to hit 5.5% and exceed 6% in 2015.

The FMs July budget has attempted to balance several stakeholders' needs whilst giving fillip to economic revival and growth. Prioritization of infrastructure spending, tweaking the framework for rural job scheme (MGNREGA), to reorient it towards creating "Productive Assets" and addressing key reforms with a welcome focus on physical and social infrastructure are some areas which should augur well for your Company.

The external environment is likely to remain benign and therefore mildly supportive of growth. Driven by a cheaper rupee and strengthening overseas demand, India's exports grew by 4% last year. Going forward, with American & British economies in recovery mode, export growth will remain positive as it has been in the first few months of the new fiscal.

INDUSTRIAL SCENARIO

According to the figures published by Reserve Bank of India, the construction sector grew at 3.5%, which is lower than 5.1% growth in the previous year. Economic slowdown resulted in demand destruction for construction equipment, having a direct impact on segments of our business.

Agriculture sector grew at 4.7 % in FY 2013-14 as against 1.8 % in the previous fiscal. Unfortunately, the country continues to be affected by the vagaries of the monsoon and Agricultural growth in 2014-15 will depend on the actual pattern of monsoon. The Company continues to face challenges in competition from the unorganized sector and from imported products.

The power sector witnessed a growth of 5.7% during FY 2013-14 as against a growth of 4.7% in the corresponding period of the previous year. Resulting from the overall economic slowdown and adverse market conditions, India's energy deficit declined from 8.7% in 2012-13 to 5.4% in 2013-14. Consequently, there was sharp decline in demand for Gensets which had a direct impact on the growth of the Power Generation business of the Company.

NEW PRODUCT DEVELOPMENT

After a prolonged wait, the Government finally announced the effective cut-off date of CPCB II compliant engines and gensets as July 1st 2014. The norms are applicable to Gensets below 800 kw range. The Company's R & D engineering and supply chain teams have relentlessly worked to ensure delivery of a high quality product fully compliant with the new emission norms. The new Kirloskar Green Gensets will not only be more environment friendly in terms of emission norms but also more fuel efficient. The Company also did well to ensure timely exhaustion of old version stocks.

The current fiscal should see the launch of the new 16 cylinder engine.

To build further on the extensive network and strong farmer relationship in the Agri space, your Company has identified several potential areas of growth in the farm mechanization space. Farm mechanization products are in advanced stage of manufacture and you will see these being rolled out from the KOEL stable shortly.

BUSINESS and COMPANY PERFORMANCE: 2013-14

Having discussed the external environment, I will now share some highlights of the business performance.

Delayed and excessive rains in large part of the Country, the overall economic slowdown, lower power deficit and continued pressure of inflation, created a challenging business environment for the Company.

The Company's Agri. business maintained its market share at 17% for the year despite weak economic situation & many challenges posed by unorganized domestic players and Chinese products in the market for agricultural engines and agricultural pump-sets. The Company is deploying a multi pronged strategy to improve its market share, which includes expansion of sales outlets, aggressive dealer appointment, branding & positioning and last but not the least, further improvement of product reliability & durability.

While the lower power deficit and deferral of Capital expenditure investments had an adverse impact on the Power Generation business, the Company through some well-planned market initiatives, gained market share by over 1 % during the fiscal .Your company also undertook concerted steps to improve the operational efficiency of its supply chain and enhance timely availability of gensets to the end customers.

The Industrial business of the Company maintained its market share at 30%, despite challenges on account of slowdown in industrial demand.

The Company has an extensive network of service outlets spread across the country which ensured prompt and timely after sales service to all the Company's customers. There is a continuing opportunity to provide quality service with optimum lead time to repair. The Company has taken several initiatives to maintain and improve high service standards. The Customer Support business leverages on the extensive network of dealers, to render effective post sales and servicing support to its customers across business segments.

We have established a fully equipped 24x7 CARE centre to support the customers from all the business groups. Every service or sales call registered at the CARE centre gets monitored to a logical end.

Exports continue to be a high focus area for KOEL. Amidst a challenging macroeconomic environment the Company achieved 18% growth in export turnover over the previous year. The Company is working towards increasing its market share in existing markets and also penetrating new markets especially in Africa and South East Asia.

The Large Engine business did commendably well in delivering 9 DG sets, during the year to the Nuclear Power Corporation of India. With this, a total of 11 DG sets have been supplied so far of the total 16, leaving us with the balance 5 DG sets to be supplied in the current year.

People and Talent Management: The Company continues to maintain harmonious industrial relations at all plant locations. Our employees have stepped up their performance and delivery in these trying times and we are confident that active employee participation in several initiatives taken during the year will hold us in good stead as the economy opens up.

In the last couple of decades, we have seen young talent being attracted to new and emerging sectors, thereby making it challenging for talent acquisition in the core manufacturing sectors. However, development of human resources, along with talent acquisition continues to receive focused attention in your Company and we are confident that through a combination of lateral recruitment and induction of young talent from academia, KOEL will build a talent pool to cater to its ambitious growth aspirations.

FINANCIAL HIGHLIGHTS

I would like to briefly mention the key highlights of the Company's financial performance during the year 2013-14.

- Total Sales for the year at Rs. 2,287 crores was marginally lower, by 1.4%, than the PYs figure of Rs. 2320 crores. This can be considered good in the backdrop of de-growth in the Power Generation segment to the extent of 15% in the FY 2014-15 and an overall difficult economic environment.
- Export Sales for the year increased by 18% to Rs. 198 crores from Rs.168 crores in the previous year.
- Revenue from Power Generation business, stood at to Rs. 745 crores as against Rs. 860 crores in the previous year.
- Revenue from the Industrial segment stood at Rs. 346 crores which was in line with the previous year.
- Delayed and excessive rainfall, impacted the Agri sales and revenue from the Agri segment was Rs. 375 crores as against Rs. 424 crores in the previous year.
- Revenue from Customer Support business for the year was Rs. 321 crores as against Rs. 343 crores in the previous year.

- Revenue from Large Engines business for the year increased by 79% to Rs. 301 crores from Rs. 168 crores in the previous year.
- Profit before exceptional & extra ordinary items was Rs 243 crores as compared to Rs 290 crores in the previous year.
- Profit before Tax for the year, after considering the exceptional items, was Rs. 243 crores, as against from Rs. 270 crores in the previous year.
- Profit after Tax for the year was Rs. 178 crores as compared to Rs. 199 crores in the previous year.
- In these challenging times, your Company did exceedingly well in managing its working capital and KOEL continues to be a zero debt company for the second consecutive year.

DIVIDEND

The Board of Directors have recommended a dividend of 250% i.e. Rs. 5/- per equity share for financial year 2013-14.

PERFORMANCE OF Q1, 2013-14

On the back of some good orders in the PG segment, and some new lines of business, the sales revenue for the quarter ended 30 June 2014 stands at Rs. 629 crores as against Rs. 583 crores for the corresponding quarter of 2013-14. Profit before tax for the quarter is Rs. 65 crores, as against Rs. 72 crores for the corresponding quarter of 2013-14.

CHALLENGES & OPPORTUNITIES GOING FORWARD

While the sentiment of delayed & poor monsoons loomed large in the current fiscal, the last few weeks the monsoon seems to have picked up in most parts of the country. With our renewed focus and thrust on the Agri and farm mechanization business, together with the Governments support on the Agri sector, we are hopeful of reasonable growth in the Agri business in the current fiscal.

Your Company will continue to invest in R&D and endeavour to accelerate its new product development programme so as to maintain its dominance in the Agri. sector and deliver differentiated product and service offerings to its customers.

In the Power Generation business, in the short term there is likely to be some turbulence in the market resulting from price increases post CPCB II. But we are confident that this will be more of a short term phenomenon. We are hopeful of the economy opening up and an industrial revival which will augur well for our business. Economic revival should also turn the tide in the construction equipment domain which has declined by 20 % YOY.

The political situation in many parts of the world and mainly in Middle East and North African region is unstable affecting the business environment. We will however continue to seek opportunities to increase our global presence and our focus on Exports will continue unabated.

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.