Chairman's Speech

Annual General Meeting on 19th July, 2012 at 11:00 AM

Good morning, ladies and gentlemen;

Welcome to the Annual General Meeting of your Company!

The Annual Report for financial year 2011-12 is with you and you would have assessed the progress of your Company by now.

Before I speak on the performance of your Company, let us review the economic and industrial environment in which we operated during the last year.

ECONOMIC AND INDUSTRIAL SCENARIO

ECONOMIC SCENARIO

Global Economy:

The recovery in Advanced Economies (AEs) that seemed to be shaping well at the start of 2011 lost steam towards the end of the year and is clouding the prospects for global growth during 2012. It lost momentum as the protracted debt crisis in the euro area and fiscal fragilities dampened business and consumer confidence. However, contrary to fears that came to the fore time and again during 2011-12, global growth did not stall.

Global financial market stress eased significantly during Quarter 1 of 2012 after the External Commercial Borrowing made a large liquidity injection.

Indian Economy:

India's annual economic growth rate slumped in the January-March quarter of 2012 to a nine year low of 5.3 percent as the manufacturing sector contracted and a fall in the rupee to a record low suggests the economy remains under pressure.

Gross Domestic Product (GDP) rose 6.5 percent in the fiscal year to the end of March 2012, the lowest growth rate since 4.0 percent in 2002/03 and a sharp slowdown from the previous year's 8.5 percent.

The Sensex closed at 17,404 level in March 2012, from the 19,000 mark at the start of April 2011 decline of 2,041 points i.e. 10.49% in 2011-12 making it one of the top losers in the world.

The Rupee ended the fiscal year at around Rs. 50.87 per dollar, from its level of Rs. 44.58 per dollar at the start of financial year 2011-12.

The rupee has fallen in the face of global risk aversion over the euro zone debt crisis. Investors have raised a number of India-specific red flags as well, including a swelling current account, high government spending on subsidies such as oil and unpredictable regulations and tax as the Government struggles to push through economic reforms.

The impact of the euro zone debt crisis, a lack of economic reforms and high interest rates dragged on India's growth throughout last year.

During 2011-12, exports touched USD 303.7 billion for the previous fiscal, registering 21 percent expansion. Import bill in 2011-12 touched USD 488.6 billion on account of rise in imports of crude oil and gold. Petroleum oil and lubricants import accounted for USD 155.6 billion. The trade deficit for 2011-12 amounted to USD 185.9 billion.

The pace of economic growth in India slowed during the financial year 2011-12. As per revised estimates for the year 2011-12, GDP at factor cost, grew at 6.5% as against a growth rate of more than 8% which was achieved in the two previous years. From a global perspective, this growth rate is better than that of several emerging economies and developed countries.

Index of Industrial Production (IIP) numbers for the month of April 2012 are not encouraging as they indicate a growth rate of 0.1% over April 2011 while cumulative growth rate for the financial year 2011-12 is 2.8%. Negative growth of the mining sector and the marginal growth of the manufacturing sector are responsible for the slowdown in industrial growth.

Let me share my views on the issues, which are adversely affecting economic growth of the country;

The deepening economic crisis in Europe has led to growing risk averseness in global financial markets. This in turn affects the value of the Indian rupee and the performance of the Indian financial markets. The uncertainty in financial markets limits Indian Industry in borrowing or raising capital for investment and growth. Policy initiatives that would project India as an attractive investment destination, improve market perceptions, build investor confidence and halt depreciation in value of the Indian Rupee are not seen currently.

In the past few years, there is a growing environmental awareness and activism of communities affected by major mining and nuclear projects. The government needs to quickly restore a favorable environment for industrial investment and growth as industrialization will provide opportunities for economic empowerment and employment generation. The government also needs to develop political consensus on its policy initiatives, as lack of political consensus poses a major hurdle in its implementation. However while promoting industrial growth; both industry and administration need to exhibit sensitivity for legitimate concerns of local populations. Any further delay in this matter is likely to adversely affect investor confidence in our economy and further impact long term growth. These issues also impact critical infrastructure projects, which drive demand for the industry's products. Hence they need to be addressed quickly.

Domestic prices of fuels such as diesel and kerosene are still not linked to international crude oil prices. Therefore, consumption of these fuels remains high despite rising international prices. This has resulted in an increased subsidy burden on the government and a higher fiscal deficit. The higher fiscal deficit leads to increased borrowings by the government. This has fuelled inflationary pressures in the economy, limiting the options of the RBI for stimulating economic growth. Unless the government initiates measures to limit the fuel subsidy burden on the fiscal, inflationary pressures will continue to build. Simultaneously, justification for government subsidies to other sectors also needs to be looked into. Delay in taking action builds market inefficiencies and reduces the possibility of a quick turnaround in the economy.

The performance of the Indian economy will depend on the ability of the government to develop political consensus for its legislative and administrative measures. This is true specifically in the backdrop of inflation, global uncertainties and the need for structural reforms.

INDUSTRIAL SCENARIO

During the year, the construction sector grew at 4%, as against a growth of more than 8% in the previous year. This slowdown is due to the uncertainties in policy implementation as I had spoken about earlier. The government has announced its intention of removing the bottlenecks faced in implementation of critical infrastructure projects. How soon the government acts on this front will largely determine the growth of this sector in the short term. This sector is critical for the Indian economy in general and for the industry in particular as it generates demand for products of the engineering industries.

The Agriculture Sector grew at 2.5% during the financial year on the back of 7% growth registered in the previous year. During the current year, delay in the onset of monsoon and a large deficit in rainfall across regions in the first month of the season is a cause for concern. The existing deficit is expected to be covered in the balance period thereby improving the prospects for increase in agricultural output during the current year. The outlook for demand for the Company’s products catering to this sector remains optimistic. The Company continues to face challenges in competition from the unorganized sector and from imported products.

The power sector saw a growth of 8.6% during the period April 2011 – January 2012 as against a growth of 5.2% in the corresponding period of the previous year. India’s energy deficit also declined from its level of 9.6% in 2006-07 to 7.9% during April 2011 – January 2012. The improved performance of the energy sector impacts on growth of the Power Generation business of the Company. The Company is therefore implementing strategies to widen the customer base by entering into new market segments through development of appropriate product offerings.

DIVESTURE OF BEARINGS DIVISION

On 30 September 2011, the Company divested its bearings division to KSPG Automotive India Private Limited, for a total consideration of Rs. 87 crores, resulting in a profit of Rs. 48 crores.

NEW PRODUCT DEVELOPMENT

The Company offers widest range of engines in the range of 49HP to 165 HP catering to the Industrial segment.

During the year, the Company has successfully completed transition from BS II to BS III for its products catering to customers in Construction and Material Handling Equipment segment.

4 cylinder K series engines are being handed over for commercial production. Last year, the Chairman of that annual general meeting had mentioned that the Company is in the process of developing 16 cylinder engines. The development program of these engines is on track and we expect to have the first proto engine ready for testing in the next 3 months.

BUSINESS PERFORMANCE DURING THE YEAR

Having discussed the external environment, the financial results for the year and for the current quarter, I will now share highlights of the business performance.

Rising commodity prices and inflation, policy uncertainty in construction and industrial sectors, hardening of interest rates, created a challenging business environment for the Company.

In the Power Generation business, the Company achieved a market share of 23% by value. The Company continues to follow a strategy of risk mitigation by diversifying its product offerings and focusing on opportunities in government business. The Company is also introducing products in the lower KVA bracket to tap into potential market for retail and household applications.

The Industrial Engines market grew by 14% during the financial year while the Industrial business of the Company registered a negative growth of 8% in sales. The Company was not able to leverage the market growth during the year and its market share declined to 30% from 52% during the previous year.

While the market grew at a rate of 21% on the back of 2.5% growth in agricultural sector, the Agri business of the Company witnessed a negative growth of 6% in sales. The Company continues to deal with challenges posed by unorganized domestic players and Chinese products in the market for agricultural engines and agricultural pump-sets and is implementing strategies to improve its market share.

The Company has an extensive network of service dealers and service outlets spread across the Country. This enables the Customer Support business of the Company to render effective post sales and servicing support to its customers across business segments. This business grew by 12% in Sales during the financial year. This business is expected to grow in line with growth in the engines business of the Company.

The Company has during the year, received an order of Rs. 396 crores from the Nuclear Power Corporation of India Limited for supply, erection and commissioning of 16 Emergency DG Sets each with a power rating of 4.2 MW. The order will be executed over the next 3.5 years.

The Company continues to maintain good industrial relations at all plant locations. During the year, the Company entered into wage agreement with the Union at its Nashik plant.

For the second consecutive year, the Engineering Export Promotion Council (EEPC) conferred Export award to the Company. This award is sponsored by Ministry of Commerce & Industry of the Government of India.

The Pune and Kagal plants received the prestigious ‘12th National Award for Excellence in Energy Management 2011’ from Confederation of Indian Industry (CII).

The Company’s second annual Corporate Sustainability Report for the year 2010-11 was released during the year. The report received the highest application level check rating of A+ from the Global Reporting Initiative (GRI), Netherlands, for the second successive year. A copy of this report is available on the Company’s website.

FINANCIAL HIGHLIGHTS

I would like to briefly mention the key highlights of the Company’s financial performance during the year 2011-12.

- Total Sales for the year decreased by 3.8% to Rs. 2,276 crores from Rs. 2,364 crores in the previous year.

- Export Sales for the year increased by 11.9% to Rs.167 crores from Rs. 149 crores in the previous year

- Sales of Power Generation Engines business for the year decreased by 3.8% to Rs. 786 crores from Rs. 818 crores in the previous year.

- Sales of Industrial Engines business for the year decreased by 7.9% to Rs. 450 crores from Rs. 489 crores in the previous year.

- Sales of Agri Engines business for the year decreased by 5.5% to Rs. 306 crores from Rs. 324 crores in the previous year.

- Sales of Customer Support business for the year increased by 11.8% to Rs. 373 crores from Rs. 333 crores in the previous year.

- Sales of Large Engines business for the year decreased by 1.2% to Rs. 141 crores from Rs. 142 crores in the previous year.

- Profit before Tax for the year increased by 15.3% to Rs. 281 crores (including profit of Rs. 48 crores on sale of Bearings business), from Rs. 244 crores in the previous year;

- Profit after Tax for the year increased by 10.4% to Rs. 192 crores, from Rs. 174 crores in the previous year.

DIVIDEND

The Board of Directors have recommended a dividend of 200% i.e. Rs. 4/- per equity share for financial year 2011-12.

BUY BACK OF SHARES

The Board of Directors, at its meeting held on 25 January 2012 approved the buyback of equity shares of the Company by open market purchases through the stock exchange at a maximum price of Rs. 170 per equity share, with the buyback amount not exceeding Rs. 73.625 crores.

The buyback commenced on 5 March 2012 and will close on 24 January 2013 or at any earlier date when buyback of Rs. 73.625 crores is completed or when Minimum Offer Shares (10,82,721 nos.) are purchased or at the discretion of the Board of Directors, after giving appropriate notice in this regard.

The Company has as of 18 July 2012, bought 6,79,971 no. of equity shares at an average price of Rs. 151.02 per share.

QUARTERLY RESULTS FOR Q1, FY 2012-13

The Sales for the quarter ended 30th June 2012 are Rs. 596 crores as against Rs. 555 crores for the corresponding quarter of 2011-12, which includes sales of erstwhile bearings division of Rs. 30 crores. Profit before tax for the quarter is Rs. 54 crores, which decreased by Rs. 10 crores as compared to the corresponding quarter of 2011-12, mainly on account of VRS expenses of Rs. 19 crores.

LOOKING AHEAD

Looking at the increasing demand for small generating sets suitable for households and retail applications, we have in Q1 introduced diesel gensets in 5KVA version. This genset is far more efficient as compared to petrol gensets currently being offered in the market. This product is at present marketed in South India and has received a good response.

The economic environment for customers in the construction Industry continues to be grim and will remain so for at-least one more quarter. Any major initiatives announced by the government in the near future for promoting infrastructure development will impact the construction industry only in the second half of the financial year. As such, we foresee negative growth for Industrial segment during the current financial year.

The Customer Support business will continue to grow due to the growth in Power Generation and Agricultural business segments of the Company.

The Company now exports to over 30 countries and the current focus is on building the Kirloskar brand in these countries.

The Company enjoys a healthy geographical spread in the African continent and Middle East. During the current year, export markets may face some headwinds because of the current political turmoil in some of the Middle East & North African countries and also competitive pressures due to currency devaluations in most of the markets. Focus is on exploring markets in South and South East Asian countries and some of the markets in South America.

Managing growth with profitability and building a sustainable growth momentum will continue to be a key challenge for the forthcoming financial year.

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!