

Chairman's Speech
Annual General Meeting on 7th August, 2015

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 bestowed in KOEL.

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

The financial year gone by has been eventful one for India. The new Government had a landslide victory in May 2014 and with it came huge expectations for economic revival in the country. The 'Make in India' campaign launched by the Central Government in October 2014 was aimed at developing India as the manufacturing hub of the world. The campaign emphasized the importance of low cost manufacturing in India along with technology expertise in 25 key sectors.

While the business and investment sentiment has largely been positive and there are signs that point to a recovery in the making, no breakthrough momentum has been achieved as yet.

The GDP growth in 2014-15 is estimated at 7.4% as compared to the growth rate of 6.9% in the previous year.

INDUSTRIAL SCENARIO

Agriculture sector grew by 0.2 % in FY 2014-15 as against 3.7 % in the previous fiscal. The Company continues to face challenges in competition from the unorganized sector and from imported products. The Farm Mechanization industry in India expected to grow at a rapid pace due to the demand-supply gap in agriculture production and huge shortage of labour.

The Government of India has identified the power sector as a key sector of focus to promote sustained industrial growth. The RE-INVEST 2015 which concluded on February 17, 2015, is a significant step in making India self-reliant in energy. The power sector witnessed a growth of 8.43% during FY 2014-15 as against a growth of 5.7% in the corresponding period of the previous year.

A contraction across all end-user/customer segments in terms of both volume and value, except the telecom sector, was witnessed in the DG sets market during Financial Year 2014-15. For the DG set market, Real estate (both residential and commercial), Government (DGS&D, Railways and Defense) were the worst affected end-user segments. High interest rates have created a situation of deferred purchase decisions in the medium and high segments.

NEW PRODUCT DEVELOPMENT

The 'Make in India' campaign was launched by the Central Government in October 2014 aimed at developing India as the manufacturing hub of the world. Your Company has been one of the pioneers of the 'Made in India' concept since

independence and this seemed an obvious choice for the cover design of the Annual Report. During the year the Company successfully launched Mega T in the farm mechanization space. This product is completely internally conceptualized, designed and manufactured. The tag line of Mega T 15 is “Looks like a Tiller works like a Tractor.” This product has bagged several awards viz. “Innovative ideas for Rural Development” at Asia Retail Congress, Golden Award for excellent graphics at SGIA Golden Image competition held at Las Vegas and “Breakthrough Product Innovation” in R&D category.

In pursuance of our strategic objective of manufacturing engines with High horse power, I’m pleased to inform you that KOEL has launched its 750 kVA engine this year. Again, a product of in-house R&D efforts.

BUSINESS and COMPANY PERFORMANCE: 2014-15

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

Despite the challenging macro-economic environment, your Company was able to post a 8% growth in its net revenue. However, margins remained under pressure and could not be maintained in line with top line growth. This was mainly on account of three fundamental reasons :

- i. Inflationary pressures
- ii. Our investments in future products and technology, where there is currently a revenue – cost mismatch

- iii. Our investment in human capital – in line with our Vision Statement of making KOEL a leadership factory

To bring in sharper focus that caters to diversified farming needs, the Company's Agri business has been strategically positioned in 2 distinct areas - crop Irrigation and Farm Mechanization.

The increased reach and specific segmental focus has helped Crop Irrigation business gain market share by 2% YOY and sustain the business despite an industry decline for diesel engine pump sets. As mentioned earlier the Company's focus in the farm mechanization space is to stabilize production of the Mega T and pursue other opportunities in this space.

For the Power Generation business, a fair amount of time and resource was expended to ensure smooth transition of CPCB I to CPCB II emission norms which took place in July 2014. Full credit to the R&D, manufacturing and supply chain teams for a seamless transition. While the industry as a whole faced a decline of almost 1%, your Company posted a 33% growth in revenue in these difficult times. This included, Rs. 223 crores of KGT business. In the process, the Company gained 0.5% market share by volume and approximately 2% in value as compared to the previous year. Your company also undertook concerted steps for market improvement through enhancement of product features in new emission norm regime, launch of new variants of the products and automation of existing processes to enhance speed of operations.

The Industrial business of the Company retained all its customers as well as application segments, despite challenges on account of slowdown in industrial demand.

The Company's commitment to provide quality service to all its customers continued with further expansion of service channel networks. Despite lower power deficit and lesser economic activity across the industry, the Company remains committed to improve its high service standards through various initiatives.

International Business continues to remain a key strategic focus area and growth driver for the Company. Despite a challenging macroeconomic environment the Company achieved 4.6% growth in export turnover over the previous year. The Company is working towards increasing its market share in new markets especially in Africa, South East Asia and America.

The Large Engine business did commendably well in delivering balance 5 DG sets, during the year to the Nuclear Power Corporation of India. With this, entire order was executed successfully, which was highly appreciated by NPCIL. During the year, the Company signed a MOU with MTU (a subsidiary of Rolls Royce) for the supply of MTU engines to cater to future requirements from NPCIL. No order is executed till date in this regard by the Company.

The Company continues to maintain harmonious industrial relations at all plant locations.

FINANCIAL HIGHLIGHTS

I would like to briefly mention the key highlights of the Company's financial performance during the year 2014-15.

- Total Sales for the year at Rs. 2,473 crores was higher, by 8%, than the PYs figure of Rs. 2,287 crores.
- Export Sales for the year increased by 4.6% to Rs. 206 crores from Rs.197 crores in the previous year.
- Revenue from Power Generation business (including KGT of 223), stood at to Rs. 997 crores as against Rs. 746 crores (KGT 57) in the previous year.
- Revenue from the Industrial segment stood at Rs. 330 crores as against Rs. 346 crores in the previous year.
- The revenue from the Agri segment was Rs. 365 crores as against Rs. 375 crores in the previous year.
- Revenue from Customer Support business for the year was Rs. 330 crores as against Rs. 321 crores in the previous year.
- Revenue from Large Engines business for the year was Rs. 242 crores as against Rs. 301 crores in the previous year.
- Profit before Tax for the year after considering exceptional & extra ordinary items was Rs. 205 crores as compared to Rs 243 crores in the previous year.
- Profit after Tax for the year was Rs. 143 crores as compared to Rs. 178 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 third consecutive year.

DIVIDEND

The Board of Directors have recommended a dividend of 250% i.e. Rs. 5/- per equity share for financial year 2014-15.

PERFORMANCE OF Q1, 2015-16

The sales revenue for the quarter ended 30 June 2015 stands at Rs. 577 crores as against Rs. 629 crores for the corresponding quarter of 2014-15. Profit before tax for the quarter is Rs. 46 crores, as against Rs. 65 crores for the corresponding quarter of 2014-15.

CHALLENGES & OPPORTUNITIES GOING FORWARD

We are hopeful of reasonable growth in Agri business, with our renewed focus on the Agri and farm mechanization business.

In the Power Generation business, decreased power deficit and economic slowdown is likely to persist through most part of the year. We believe that we have built a robust and flexible supply chain over the past few years and are geared to cater to spikes in demand as the market once again opens up.

For the Industrial Business, the continuous cost pressures from OEMs remains a challenge to handle in conditions of declining market.

In Customer Support business, retention of skilled manpower with dealerships is a key challenge for this year. Further in the context of low DG usage and low industrial machines usage, service dealer viability is under pressure.

The Company is looking for expansion of service network in International Markets to tap potential growth opportunities.

The Company is also focusing on new product development in the areas of Defence and Marine business for Large Engines.

SUBSIDIARY COMPANY

KOEL Americas Corp. has been established with strategic intent to penetrate into the USA market as well as focus on the Latin American region that has mostly been an untouched market for KOEL. "KOEL Americas Corp." is incorporated under State of Delaware laws, United States of America and based in Houston, Texas.

Kirloskar Oil Engines Limited has invested USD 250,000 in KOEL Americas Corp (50 Shares of USD 5000 each), with this KOEL Americas Corp is now 100% subsidiary of Kirloskar Oil Engines Ltd. (KOEL), India. We are in the process of obtaining the requisite EPA licenses to sell our engines in the USA.

COMPOSITE SCHEME OF ARRANGEMENT AND AMALGAMATION

On 30 April 2015, the Composite Scheme of Arrangement and Amalgamation between Kirloskar Brothers Investments Limited, Pneumatic Holdings Limited and Kirloskar Oil Engines Limited has been approved by the Bombay High Court. The scheme became effective from 30 June 2015.

Pursuant to the said Scheme, 8,03,88,514 equity shares held by KBIL in KOEL cancelled on account of Cross holdings and same number of equity shares allotted to the shareholders of KBIL on 14 July 2015 pursuant to the said Scheme. Accordingly, there is no change in economic interest of the shareholders of the Company.

The financial results of the Company as reported for the quarter ended 30 June 2015 are after considering effects of the Scheme.

The Company has obtained in principle approval from BSE Limited and National Stock Exchange of India Limited for listing for new issue of equity shares.

The Company is now in process of obtaining the final listing and trading permission.

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.