

Chairman's Speech
Annual General Meeting on 25th July, 2013 at 11:30 AM

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, 2013, 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

The Indian economy kicked off 2012 with a fair amount of promise and one expected the high growth of the previous year to continue. However, that was not to be. High domestic inflation, high interest rates and weakening currency, all added up in creating a negative sentiment that in turn led to risk averseness in new investments & prevented the economy from getting onto a high growth trajectory. The net result was that compared to a 6.5% growth in 2011-12, the GDP growth for 2012-13 was sub 5%. What is further disheartening is that the slowdown is attributed more to a slow growth in manufacturing, mining, construction & service sectors unlike in 2002-03, where it was predominantly a

low growth in agriculture. The fiscal deficit & current account deficit continue to be primary areas of concern.

The Indian Government seems to be waking up to the challenge & steps like increasing gas prices, cutting interest rates are a welcome boost but the question remains – is it too little too late ? As I mentioned last year too, more such decisions are required to propel the investor sentiment & fuel the core sectors of economy.

From a global perspective there seem to be signs of the US economy picking up, while the Euro region continues to be weak.

INDUSTRIAL SCENARIO

According to the figures published by the planning commission, the construction sector grew at 5.9%, which is marginally better than 5.6% growth in the previous year. However, it is much less than the 10% plus growth achieved during 2003-04 to 2009-10 in this sector. Slowdown in construction sector is due to the uncertainties in policy implementation as I have spoken about earlier. Revival of this sector is crucial, as it has linkages to the manufacturing and infrastructure sectors.

The Agriculture Sector grew at 1.8% during the financial year on the back of 3.7% growth registered in the previous year. Delay in the onset of monsoon and a large deficit in rainfall across regions was mainly responsible for the slowdown in growth in this sector. The current monsoon season has started on a more positive note, as rainfall in the first month is 25% above average for the country

as a whole. 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 4.6% during the period April 2012 – January 2013 as against a growth of 8.6% in the corresponding period of the previous year. India's energy deficit also declined marginally from 9% in 2011-12 to 8.7% in 2012-13. The improved performance of the energy sector impacts the growth of the Power Generation business of the Company. The Company has implemented strategies to widen the customer base and development of appropriate product offerings.

NEW PRODUCT DEVELOPMENT

New CPCB norms, applicable to Gensets, which was originally slated to become applicable from July 2013, seems to have been pushed forward and while we still await the Government notification, there is a possibility that the norms could get mandated effective the 4th quarter of 2013-14. Your company is geared to meet the new norms and in an advanced stage of preparation. We are confident that all our products will be compliant with the norms, as & when they are mandated.

The development of 16 cylinder engine is in on track.

BUSINESS and COMPANY PERFORMANCE: 2012-13

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

Policy uncertainty in construction and industrial sectors, deficient monsoon and continued pressure of inflation, created a challenging business environment for the Company.

In the Power Generation business, the Company retained its market share. During the year, the Company undertook concerted steps to improve the operational efficiency of its supply chain and enhance availability of gensets to the end customers. The Company has also carried out restructuring of its GOEM network. As a result, there is a dedicated GOEM for each territory. This is expected to further improve market position of the Company's products.

As mentioned in my speech last year, the Company has introduced portable gensets in the lower KVA range. During the year, these products were launched across the country and have received encouraging response in the market.

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

The Company's Agri business maintained its market share at 13% for the year. 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. Customer Support business of the Company leverages this network of dealers, to render effective post sales and servicing

support to its customers across business segments. This business saw a revenue growth of 4.8% during the year.

Political instability, weak external demand and volatility in exchange rates adversely affected Indian exports during 2012-13. In this backdrop, the Company achieved 15% growth in export turnover over the previous year. The Company holds the largest share for gensets in Sri Lanka by volume.

During 2012-13, the Company started invoicing against the order received from 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 Company invoiced 2 DG sets and expects to ship the remaining DG Sets during 2013-14 and 2014-15 and complete the project over the next two and half years.

The Company continues to maintain harmonious industrial relations at all plant locations. The Company concluded & signed a wage agreement with the Team members of its Pune Plant in March 2013. This is the 7th consecutive agreement signed prior to expiry of the earlier agreement.

FINANCIAL HIGHLIGHTS

Despite significant pressure on margins owing to inflationary pressures and slower economic growth environment, your Company has sustained its profitable growth. One of the primary factors for achieving this has been our dedicated focus on improving efficiencies and reducing costs. The Company has also reduced financial risk by significantly reducing outstanding's. We are now in the

process of streamlining the entire supply chain to ensure optimum & appropriate inventory levels.

You will also be pleased to know that having pre-paid our ECB in March 2013, your Company is now totally debt free. Needless to mention, given the rupee depreciation in the last few months if this had continued till maturity, it would have exerted a great deal of pressure on our P&L.

I would like to briefly mention the key highlights of the Company's financial performance during the year 2012-13.

- Total Sales for the year increased by 1.9% to Rs. 2319 crores from Rs. 2,276 crores in the previous year.
- Export Sales for the year increased by 14.5% to Rs. 174 crores from Rs.152 crores in the previous year.
- Revenue from Power Generation business for the year increased by 9.0% to Rs. 863 crores from Rs. 792 crores in the previous year.
- The Industrial segment was directly affected by the sluggish economic environment and here revenues for the year dipped by 22.9% to Rs. 347 crores from Rs. 450 crores in the previous year.
- Revenue from the Agri segment increased by 22.9% to Rs. 376 crores from Rs. 306 crores in the previous year.
- Revenue from Customer Support business for the year increased by 4.8% to Rs. 391 crores from Rs. 373 crores in the previous year.

- Revenue from Large Engines business for the year increased by 19.1% to Rs. 168 crores from Rs. 141 crores in the previous year.
- Profit before exceptional & extra ordinary items rose from Rs 233 crores in the PY to Rs 290 crores in 2012-13 – an increase of 24%.
- Profit before Tax for the year, after considering the exceptional items, was Rs. 271 crores, as against from Rs. 281 crores in the previous year; (outgo of Rs 19 crores for VRS in CY & inflow of Rs 48 cr profit from hive off of Bearing div. in PY)
- Profit after Tax for the year increased by 3.7% to Rs. 199 crores, from Rs. 192 crores in the previous year.

DIVIDEND

The Board of Directors have recommended a dividend of 250% i.e. Rs. 5/- per equity share for financial year 2012-13.

PERFORMANCE OF Q1, 2013-14

The PG business has had a somewhat sluggish start to the year, as a result the overall sales for the quarter ended 30th June 2013 at Rs. 583 crores shows a marginal decline as compared to the PYs corresponding quarter figure of Rs. 596 crores. Profit before tax for the quarter is Rs. 72 crores, as compared to the corresponding quarter of 2012-13 which stood at Rs 54 crores albeit after an exceptional charge (VRS) of Rs 19 crores in the PY.

CHALLENGES & OPPORTUNITIES GOING FORWARD

What seems to have been a challenging 2012-13 just seems to have set the pace for another gruelling battle in 2013-14. With the rupee having hit an all-time low & depreciated by over 10% since April 2013, the import basket will get costlier & in turn exert inflationary pressures. With time running out for major policy reforms to revive the economy, the GDP rate is unlikely to witness a major upsurge in the short term. Having said that, favourable monsoons will augur well for the Agri sector.

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 sectors it operates in and deliver differentiated product and service offerings to its customers.

While your Company is strongly committed to grow in the domestic market, we will continue to seek opportunities to increase our global presence through our focused and dedicated exports team. The focus in Export will be on increasing market share in select large markets for the power generation business and in expanding the reach for products of Agricultural business in South East Asian and African markets.

Our focus on productivity & operational efficiency improvements will continue unabated whilst we implement our strategies for maintaining market leadership, thereby ensuring profitable growth.

The challenging environment invigorates us to remain optimistic and confident that our innate strengths and hunger to succeed will see us through these trying times.

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.

Green Initiative in Corporate Governance as introduced by MCA

Ministry of Corporate Affairs (MCA) has permitted Companies to dispatch documents viz. Annual Reports, Notices of general meetings/postal ballots, other documents etc. through electronic mode. Accordingly, this year your Company has sent annual reports through electronic mode to the shareholders whose email addresses were available. In order to enable other shareholders to participate in this green initiative, the Company has sent email registration forms along with the Annual Report. The shareholders holding shares in physical form are requested to send this duly filled and signed form to the Company or R & T Agent. This form is available at the registration counter outside this hall. The shareholders holding shares in de-mat form are requested to register their email addresses with their respective Depository Participants (DPs). We request your whole hearted support to this green initiative.

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.