

## **Chairman's Speech**

### **Annual General Meeting on 21<sup>St</sup> July, 2011**

Good morning, ladies and gentlemen;

Mr. Atul C. Kirloskar, Chairman and Managing Director of the Company, has conveyed his inability to attend this Annual General Meeting today on account of his ill health. However, he is recovering well and expected to join office shortly. For this meeting, your directors have chosen me to be the Chairman. I thank the directors and accept the Chairmanship for this annual general meeting.

On behalf of my colleagues on the Board and the management, I extend a warm welcome to all of you at this Annual General Meeting of your Company.

The Annual Report has been with you for some time now and I am sure you have had an opportunity to go through the progress of the Company for the year under review.

Before I dwell upon the performance of the Company, I would like to present an overview of the economic and industrial environment in which your Company operated during the last year.

## **ECONOMIC AND INDUSTRIAL SCENARIO**

### **ECONOMIC SCENARIO**

The Indian economy continued to outperform most of the emerging markets during 2010-11. During the last year, the Indian Economy grew by 8.5%. The growth during 2010-11 reflects a rebound in agriculture and sustained levels of activity in industry and services.

The main impetus to the growth of the economy came from agriculture (growth of 5.7% as against 0.2% for the previous financial year) which benefitted from a normal monsoon, while industry (growth of 8.7% as against 6.4% for the previous financial year) and services (growth of 9.3% against 9.5% for the previous financial year) registered mild deceleration.

As per the latest Index of Industrial Production (IIP) data for the month of May 2011, the growth rate of industrial production was at 5.6%. IIP data for the past three months indicates a decline in the level of growth of industrial sector from 8.8% for March 2011 to 5.6% in May 2011.

Inflationary pressures in the economy have prompted the Reserve Bank to take corrective monetary measures, including upward revision of interest rates. While corrective measures are necessary, a sustained and long term increase in interest rates is likely to have an adverse impact on investment as well as growth. The slowing down of growth in industrial production, coupled with rising inflation is a cause of concern in the near to medium term.

There are also certain positive developments in the Indian economy. The initial progress of the monsoon has been satisfactory, leading to expectation of further pick up in agricultural activity during the current year. Road projects of more than Rs. 11,000 crores have been awarded during the period January 2011 to May 2011. The pace of road construction has also increased from 4.9 km a day for the whole of last year to 6 km per day for the period January to May 2011. The continued commitment towards development of infrastructure sector is critical for maintaining the growth momentum in the economy.

## **INDUSTRIAL SCENARIO**

- During the last year, growth of investment was evident in agriculture and industries such as retail, hospitality, hospitals, IT, banking and infrastructure.
- The improvement in power generation due to a combination of policy measures and increased investments in this sector has resulted in lower power deficits.
- The last year also saw an ongoing consolidation of the tower management businesses catering to the telecom segment. The ongoing consolidation, together with a saturation of telecom density in the urban areas and a less than expected growth in the rural areas, resulted in considerable reduction in demand for generating sets.
- The Telecom industry is also under increasing pressure from environmental groups to reduce its dependence on diesel generating sets for running of telecom towers in remote areas of the country.

- Other than the telecom industry, demand for generating sets for power generation has shown a steady growth. However, competition from low cost producers of generating sets below 30 kVA range has intensified further.
- Large scale investments in industry and development of infrastructure to support industrial growth, requires large areas of land. This has resulted in conflict between the land owners, governmental authorities and industrial units. Developing an appropriate legal framework for ensuring industrial development, while meeting the aspirations of land owners poses a challenge for policy makers. If the concerns of all the stakeholders are not appropriately addressed, this will lead to slow down in investment and growth in the long term.

## **FINANCIAL HIGHLIGHTS**

I would like to briefly mention the key highlights of Company's financial performance during the year 2010-11.

- Total Sales increased by 7% to Rs. 2,363 crores in 2010-11 from Rs. 2,219 crores in 2009-10.
- Export Sales increased by 36% to Rs.146 crores in 2010-11 from Rs.108 crores in 2009-10
- Sales of Power Generation Engines business decreased by 3% to Rs. 874 crores in 2010-11 from Rs. 897 crores in 2009-10.

- Sales of Agri and Off Highway Engines business increased by 30% to Rs. 805 crores in 2010-11 from Rs. 621 crores in 2009-10.
- Product Support (including spares) Sales increased by 18% to Rs. 419 crores in 2010-11 from Rs. 355 crores in 2009-10.
- Sales of Large Engines decreased by 40% to Rs.143 crores in 2010-11 from Rs. 238 crores in 2009-10.
- Bearings Sales increased by 15 % to Rs.123 crores in 2010-11 from Rs.107 crores in 2009-10.
- Profit before Tax for the year is Rs. 244 crores, showing a decrease of 7.2% over the previous year;
- Profit after Tax for the year is Rs. 174 crores, showing an increase of 6.1% over the previous year.

During the year, the Company received approval from Dept. of Scientific and Industrial Research, for weighted deduction of 200% on eligible R&D expenditure under Income Tax Act. This resulted in savings of Rs.14 crores in income tax.

## **QUARTERLY RESULTS Q1, FY 2011-12:**

The Sales for the quarter ended 30th June 2011, have marginally declined to Rs. 555 crores as against Rs. 563 crores for the corresponding quarter of 2010-11. However, the Profit before tax for the quarter at Rs. 64 crores, has remained same as compared to the corresponding quarter of 2010-11.

## **DIVIDEND**

The Board of directors have recommended a dividend of 200% i.e. Rs. 4/- per equity share for financial year 2010-11.

## **DEMERGER ACTIVITIES**

The scheme of demerger was implemented with effect from 31 March, 2010. Subsequently, the Company has completed following demerger related activities:

- Listing of the Company's shares on BSE and NSE with effect from 24<sup>th</sup> December 2010.
- On 18<sup>th</sup> May 2011, the Company disbursed/ paid the proceeds of fractional shares to the eligible shareholders.

With this, the Company has completed all the procedural requirements related to the Scheme of Demerger.

## **BUSINESS PERFORMANCE DURING THE CURRENT YEAR**

I would now like to brief you on the changes in the business environment and its impact on the business of the Company.

This was a challenging year for the Company, as fast rising commodity prices led to higher prices for raw materials and pressure on margins; increased competition in certain segments, preparation for implementation of BS III emission norms, and changes in the economy and industrial environment as a whole.

The competition in the market for engines and pump-sets catering to the agricultural segment was intense, resulting in lower than expected sales of portable engines and pump sets. Despite this, the Company was able to improve its overall share of the agriculture segment to 21% from 17% in the previous year.

During the year, the Company successfully transitioned its product portfolio to make them BS III compliant by developing solutions which are cost effective and user friendly. BS III compliant engines have been developed, certified & validated and are in production. The Company is currently offering the widest power range of these engines in the market. The development of these engines has been an in-house effort.

The Company has adopted strategies for new customer acquisition and new product introductions for its Off Highway business, to meet the requirements of

increasing demand arising out of development in the infrastructure space. During the year, the Company marginally improved its market share for the Off Highway business to 55% from 54% in the previous year.

The Company has signed a license agreement with Daihatsu Diesel Mfg. Co, of Japan in March 2011. These engines will cater to the needs of commercial ships for Main Propulsion and Auxiliary diesel generating sets and will address the concerns caused due to phasing out of its defence related marine business. Your Company is the only Indian manufacturer, qualified to supply large capacity diesel generating sets to Nuclear Power Corporation.

In the power generating sets market, the Company is facing increased competition with the entry of global multinationals such as Perkins, MTU and Doosan for the higher kVA brackets and the low cost manufacturers and Chinese products in the lower kVA bracket. The Company plans to address these challenges through development of products in higher kVA bracket, diversifying its products base by introducing products catering to defence, marine auxiliary and gas segments. The Company is also developing hybrid power solutions. During the year, the Company launched generating sets in the 320 to 625 kVA range in the Middle East and African markets. During the last year, the Company's power generation business received recognition from Frost & Sullivan for being the most preferred brand in the manufacturing / process industry segment below 250 kVA range and also received an award for customer voice for "Customer Service Support Leadership (Genset upto 250 kVA)"



As mentioned earlier, the tower management business in the telecom sector continued to witness consolidation resulting in lower demand for generating sets. During the year, the size of the market reduced by 66%. The saturation of demand in the urban market for telecom products, led to a reduction in demand for generating sets catering to this industry.

After the approval of the shareholders, the Company has signed a business transfer agreement on 20<sup>th</sup> May 2011, for transferring the bearings business to KSPG Automotive India Private Limited [ a subsidiary of Kolbenschmidt (KS), Germany ].

The Company continues to maintain and improve its healthy and harmonious industrial relations. The Company received recognition from the LIMCA Book of Records for having concluded the sixth consecutive wage agreement with its unionized workforce before the date of expiry of the previous agreement. During the year, Company also received the 'Best Human Response Award' initiated by MCCIA and Rotary Club of Pune, in the large industries category.

The Company received recognition in the form of "Leadership Award for Sustainability" in the Automotive Sector, from CII. This was a result of focused efforts in energy conservation undertaken by the Company during the last three years.

The Company has been conferred with the prestigious "11<sup>th</sup> National Award for excellence in energy management 2010" by CII for Company's Pune plant.

During the year, the Company has also published its first Sustainability Report for the year 2009-10. The Company complied with guidelines of the Global Reporting Initiative, Netherlands, and obtained the highest rating of A+ in the very first year of assessment. A copy of this report is available on the Company's website.

## **NEW PRODUCT DEVELOPMENT**

During last year's annual general meeting, you were informed about the development of a compact range of engines in the range of 100 kVA to 160 kVA for power generation application. During the year, the Company has commenced production of 160 kVA engines and 100 kVA engines are now ready for production.

During the year, the Company also commenced regular production of 12 cylinder engines for generating sets and other applications and is in the process of developing 16 cylinder engines.

The Company is developing the 2600 rpm version of its portable engines.

The Company is also developing variable speed direct current diesel generator sets with best in class fuel consumption for reducing the operating costs of infrastructure providers to the telecom segment.

The Company is also extending the power range of its gas based generating sets to 140 kVA.

## **LOOKING AHEAD**

The focus of the Indian Government during the current financial year is towards infrastructure development, as reflected in increased allocation of 48.5% of total plan allocation as against 23.3% for previous year. The Government also proposes to boost the share of manufacturing in the economy from 16% to 25% over the next 10 years.

As regards GDP growth in the year 2011-12, initial estimates provided by the Finance Ministry indicated that the economy would better its performance and touch the 9% mark. However, as things stand today, achieving this target looks difficult. Most recent trends in Industrial production point towards a slowdown in industrial activity. What is particularly worrisome is the negative growth seen in case of the capital goods segment in the last three months.

High global crude oil and other commodity prices, arising partly out of the fast paced growth in the emerging economies of China and India, pose the biggest risk to maintaining India's growth story. Persistently high inflation during the first quarter of the current year, poses a challenge for sustaining the growth of the Indian economy during the current financial year.

Considering the developments in the economy and its impact on the industrial climate, the current financial year will be challenging for the Company.

I would like to share that the Company's management team is continuously working to broad base its product portfolio and customer base with focus on value engineering, upgrading manufacturing processes and cost reduction.

Company will continue to strive to maintain and improve margins by adopting appropriate measures of cost control, working with its supplier and vendor base to develop more efficient processes and introduce appropriate products and technologies to cater to customer needs. With the stronger focus on R&D initiatives and reorganization of the business to focus on engine manufacturing and marketing, the Company is confident of meeting the challenges and to continue to add value to its stakeholders.

## **SUBSIDIARY COMPANY**

Pursuant to acquisition of shares of the Company by Kirloskar Brothers Investment Limited (KBIL) from the Promoters of the Company through *Interse* transfer of shares amongst the Group through Market, the share holding of KBIL has become 41.84% in the Company as on 24 May 2011. Pooja Credits Private Limited (PCPL), which is a wholly owned subsidiary of KBIL, holds 8.76% in the Company. Consequently, the Company has become a subsidiary of KBIL with effect from 24 May 2011.

## **AUDITORS**

Dalal & Shah, Chartered Accountants, the retiring Auditors have not sought their re-appointment. In the meantime, the Company has received a Special Notice from one of its shareholders to appoint M/s. P. G. Bhagwat, Chartered Accountants as Statutory Auditors of the Company in place of the retiring Auditors.

Accordingly the resolution for the appointment of Statutory Auditors is placed before you.

## **CORPORATE GOVERNANCE**

Company has complied with the guidelines on Corporate Governance. Company's Corporate Governance Philosophy is based on imbibing best practices in this area with emphasis on ensuring transparency and accountability. Risk identification and mitigation exercises are constantly reviewed and implemented. Company has also put in place a strong internal control framework which is reviewed on periodic basis during the year.

### **Green Initiative in Corporate Governance as introduced by MCA**

The 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. Shareholders holding shares in physical form are requested to send this duly filled and signed form to the Company or its R & T Agent viz. Link Intime India Private Limited. This form is also available at the registration counter outside this hall. The shareholders holding shares in demat form are requested to register email addresses with their respective Depository Participants (DPs). We request your whole hearted support to this green initiative.

## **ACKNOWLEDGEMENT**

To conclude, I wish to thank all the stakeholders who have extended their support in the development and growth of your Company.

Our customers, suppliers, vendors, lenders and motivated employees have supported initiatives taken by the Company during the year. I would like to thank all of them for their support. I look forward to your continued support at every step of this journey.

Thank you!