

Chairman's Speech

Annual General Meeting on August 9, 2019

Good morning, ladies and gentlemen. On behalf of the Board of Directors, it is indeed my pleasure and privilege to welcome you to this Annual General Meeting of your company.

I am sure you have all seen the change in this year's annual report. The word we used for our theme – Kairos – a Greek word - means the moment of transformation, the moment when the opportunity to do things differently is exactly right. In today's changing world, companies have to continuously evolve and disrupt and find new ways of doing business. A smarter connected world is now the norm and at the same time the challenge of doing business in a sustainable and environment friendly manner is one that has engaged the planet's attention. The winners in this scenario will be companies that look within and reinvent their old ways of doing business, that keep the customer at the center, and understand how to stay innovative and future focused in a green and sustainable way.

Economic and Industrial Scenario

The Indian economy grew at 6.8 per cent in 2018-19, thereby experiencing some moderation in growth as compared to the previous year.

Persistently tight credit conditions accentuated by the challenges in the NBFC (Non-Banking Financial Company) sector, rising unemployment and low rural and urban income growth were key contributors to the dampened sentiment. The year was also marked by high inflation on the raw material front leading to a tightening of operating margins.

During 2018-19, Indian rupee traded with a depreciating trend against US dollar and touched Rs. 74.4 per US dollar in October 2018 before recovering to Rs. 69.2 per US dollar at end March 2019.

The international markets faced their own set of challenges with some markets affected by foreign exchange tightness while a few impacted by very high inflation levels and low GDP growths.

Financial Highlights: FY 2018-19

Amidst this challenging macro-economic environment, at an overall level I am happy with the performance we have been able to deliver. Our focused efforts

in containing costs together with price increases taken in most of our products, ensured that we were able to recover a portion of the relentless raw material inflation we encountered through the year.

Internally, the management had set 2 targets – to exceed Rs 3000 crores of topline and Rs 300 crores of profit. On a standalone basis, our sales @ Rs 3119 crores exceeded the PY by 11% and PBT before exceptional items was Rs. 336 crores as compared to Rs. 222 crores in the previous year. As you are aware, the Industrial Promotion Subsidy (IPS) had an initial validity up to 31 March 2017. After due representation, the eligibility period of the said Scheme was extended for further period of 2 years i.e. till 31 March 2019. The receivables for the extended period were fair valued at Rs. 51.52 Crores and are included in the total income for the year ended 31 March 2019.

Profit after tax for the year was Rs. 225 crores as compared to Rs. 150 crores in the previous year.

As of 31st March 2019, KOEL had 3 subsidiaries – LGM (76%), KOEL Americas (100%) and Kirloskar Capital (100%). On a consolidated basis revenue from operations were Rs 3628 crores against Rs 3111 crores in the PY. Major portion

of this came from LGM where the sales were Rs 427 crores, a 15% increase over the PY. You will recollect that the LGM acquisition was done in August 2017 and for the 8 months ended 31st March 2018, LGM posted a loss. While understandably there was some concern amongst some of you, we were confident that with the right set of processes, policies and wherever required, people interventions, our integration would be on track. And we are happy to inform you that not only did LGM achieve revenue growth of 15% against the previous year but also ensured a positive PBT in each month of the financial year to end the year with a 20 crores PBT.

In 2018-19, of the 3 targeted engine families, two engine families have been certified by U.S. Environment Protection Agency (EPA). As you know, this certification is a pre-condition for sale of diesel engines in North America. This stringent certification, took longer than we anticipated. We are confident that EPA approval for the one remaining engine family will be obtained in the Financial Year 2019-20. During this waiting period we have had time to study the market and appoint distributors, which will enable us to commence our

sales in the coming year. Currently our office is selling non-EPA engines in countries outside the US in that region.

The Company promoted and incorporated a wholly owned subsidiary, namely, Kirloskar Capital Limited (KCL) on 20 April 2018 for the purpose of commencement of a financial services business. Kirloskar Capital Limited received its Certificate of Registration (CoR), from RBI, in October 2018, which enables it to carry on the business of a Non-Banking Financial Institution. KCL commenced its business operations in April 2019. During the year under review, the Company invested Rs. 27 crores in equity shares of KCL. During Financial Year 2019-20, the Company further invested Rs. 500 crores towards Rights Issue of KCL. KCL today has a networth of Rs. 520 crores making it a systemically important NBFC.

Effective August 1, 2019, KCL changed its name to ARKA Fincap Limited and you will see the new name appearing in the consolidated results of Q1 2019-20.

Over the next 3 to 4 years ARKA Fincap plans to build a cautious loan book with a clear focus on asset quality and customer transparency. ARKA Fincap in due

course will also seek lines of credit from major private sector Banks and a few public sector banks so as to leverage its equity position.

On the dividend front, the board has declared an interim dividend of 125%, which is Rs. 2.50 per equity share and a final dividend of 125%, which is an additional Rs 2.50 per equity share during FY 2018-19.

Business Highlights: FY 2018-19

Your Company held on to its leading market share and leadership position in Low and Medium kVA segments and gained share in the High kVA segment.

The 625 – 1010 kva range continues to wow customers and garner market share on the back of strong order fulfilment.

The Company changed the narrative around small and medium gensets by revolutionizing their design, calling it the iGreen range. The iGreen range of engines is IoT enabled. Features such as Automatic Mains Failure (AMF), remote monitoring, new aesthetics and several class-leading features in DG Sets have received excellent response from customers across segments. The iGreen range has paved the path for further gains in market share.

The Company entered into Railways Powercar business in late FY 18, and has already become the second largest player, with a robust order book and a positive outlook for the current year. Your Company, is confident of playing a leading role in the Indian Railways growth story.

The Industrial Engine Business posted yet another strong performance, driven by increased demand for engines in segments like Earthmoving, Construction & Concrete, Fluid Handling & Tractors. The Industrial Engine Business grew by 17% in FY19 compared to the last financial year.

With 431 service centers across India and an extremely proactive service team, KOEL's exemplary after sales service support and robust digitized processes are Industry benchmarks.

For KOEL, embracing the digital platform is yet another way to provide value-added differentiated products and services. The Company's customer-centric approach to business has enhanced its new service initiatives by launching four initiatives:

1. A mobile app to register service request to enroll
2. The Maximum Time To Restore (MaxTTR) has been reduced to 24 hours

3. Improving response time and improving spares availability.

4. A digital invoicing facility for customers.

In the Agriculture and Allied Businesses, resulting from rapid rural electrification, the demand for diesel pump sets continues to fall. However, through introduction of new models like the 5HP Water cooled & 3.5HP air cooled engines and also by stepping up the sales of KOEL electric pumps, we ensured a growth of 7.5% in the Crop Irrigation segment.

In the Farm Mechanisation segment, we introduced the 12HP Tiller called Mega T during the year and besides retail sales, also serviced a bulk order of the Assam Government (1438 nos). Mega T received the 'Golden Peacock Innovative Product/Service Award' for the second year in succession.

New product and application development remained the focus area for growth of the large engines business. Last year your company completed orders of 31 energy systems required for Radars. The company also developed full range of fishing boat engines for which we got an encouraging response from the market. Your Company also developed many proto sets for various defense applications and after successful qualification, they are now under

field validation at customer end. Well accepted products along with widespread and dependable Service network, gives us confidence of stable business and accelerated growth in this segment in coming years.

While International business remains a key strategic focus area and growth driver, the macroeconomic environment continued to be challenging. Despite the headwinds, our exports revenue grew by 15% as compared to the previous year. We are confident that our strategy to focus and penetrate on select key markets will pay dividends in the future and help us gain market share.

Creating a sustainable future

Moving towards a sustainable and community-enabling future is one of the cornerstones of KOEL's philosophy. It has embraced its role of a forward-thinking, environmentally sensitive corporation by making many of its processes green. A landmark achievement has been the installation of a 5.5 MW solar power plant at its Kagal unit, which is now sourcing 37% of its electricity requirement from solar energy.

Continuing our focus on operational excellence the company released its 7th Corporate Sustainability Report, which focuses on being future-ready at every level of business.

Being Future Ready

Emission compliance requirements of Diesel engines in domestic market are becoming tougher and tougher. In developed countries like US and Europe for power generation applications, the emission norms are lenient or tougher depending upon the number of hours per year usage levels. The proposed Emission norms of power generation in India are at par with tougher emission norms of US but ignores the hours of usage. Previously, diesel engine exhaust emissions of tracked construction equipment were not regulated. Govt. of India is in the process of implementing emission norms for those equipments as well. I am happy to inform you that KOEL is future-ready with the Bharat Stage IV (BS-IV) emission standards as part of its off-highway engine strategy.

At Kirloskar Oil Engines, we see this as an opportunity to develop and establish a product portfolio, which can be exported to advanced countries in the world. Consequently, required product design, development activities such as supply based development and test facilities are under review and execution. We are confident that our Products, facilities and processes would be in place well before the final due date.

Harnessing the Digital explosion

The digital explosion across the global economy has brought with it unprecedented opportunities to redefine the contours of business. Your Company has been working on a Companywide digital strategy to drive transformation across the value chain. We are addressing both the back end and front end through digital technologies such as Industry 4.0, Robotics, IOT enabled products, electronic Field Service Reports, Customer Relationship

Management (CRM), end to end Human Resources Management Systems (HRMS) to manage employee life cycle and software for speedier decision support, to name a few. These are being deployed to enable smart manufacturing, enhanced agility in Supply chain management, improved front-end execution of sales and marketing and better employee life cycle management.

Performance of Q1, 2018-19

On a Standalone basis, revenue from operations for the quarter ended June 30, 2019, stands at Rs. 765 crore as against Rs. 820 crore for the corresponding quarter of 2018-19.

Profit before tax for the quarter is Rs. 67 crore as against Rs. 74 crore for the corresponding quarter of 2018-19.

On Consolidated basis, revenue from operations for the quarter ended June 30, 2019, stands at Rs. 902 crore as against Rs. 943 crore for the corresponding quarter of 2018-19.

Profit before tax for the quarter is Rs. 72 crore as against Rs. 73 crore for the corresponding quarter of 2018-19.

Challenges and Opportunities going forward

We have witnessed a slowdown in Q1 of the current fiscal and this seems to continue into the second quarter. The cautious approach adopted by the lending firms has led to a liquidity crunch in infra, realty and industry. While order book is robust, deliveries are slow mainly in HHP business. Given that the elections are behind us and we continue to have a stable Government, we remain optimistic of the future and hopeful that economy will start reviving.

We expect to start field trials for 1500kVA gensets in Q4 this year, which will open doors to another large and growing market segment. Next year, 1250 to 2000 kVA gensets will boost our drive in HHP business.

It remains your Company's aspiration to be a leader in every business segment we operate in and be acknowledged as a trusted provider of best-in-class products and services. Towards this, we will continue to invest in our in our new product development and R&D.

Acknowledgements

To conclude, I thank all stakeholders for their support. Our customers, suppliers, vendors, lenders and our motivated employees who have unconditionally supported initiatives undertaken by the company during the year. It is this support that has helped your Company strive forward in its journey of excellence and be recognised through several awards and accolades such as the “Excellent Energy Efficiency Unit” conferred by CII, for Kagal plant, “Platinum Certification for supplier Quality Excellence Process” (SQEP) conferred by none other than the world’s leading Construction Equipment Manufacturer - Caterpillar and “Golden Peacock Innovative Product Award” for Power Tiller, to name a few. I look forward to your continued support as we strive to reach greater heights.

Thank you very much.