

Chairman's Speech

Annual General Meeting on 11th August 2022

The year gone by has been a vacillating year for the world. After dealing with three waves of the pandemic, just as the world was looking to return to normalcy, the geopolitical unrest between Russia and Ukraine exacerbated the macro landscape. The Indian economy, similar to the global picture, has been subjected to geopolitical upheavals and is experiencing the repercussions of commodity price rises & supply disruption. Kirloskar Oil Engines has been quick to act against this dynamic backdrop. Our business teams have navigated the challenges and done their best to try to see the opportunities amidst these global shocks. We suppressed COVID-19 spread by upholding stringent protocols, and once vaccines became available, we cooperated with relevant parties to inoculate our workforce. As our employees worked uninterrupted in a safe environment, we forged a powerful synergy from top management to the workers to deliver impactful growth.

Economic and Industrial Scenario

Improving economic numbers in FY 2022 belied the disruptions in global trade and shipping occasioned by Covid-19 policies in key countries. Several major ports (sea and air) in China were locked

down at various times during the year due to Covid-19 cases at the terminals resulting in congestion at other Chinese ports. It is a similar tale with air travel. As a result, container rates on major trade lanes rose manifold since the start of the pandemic. The shift from consumption of services to manufactured goods and rising fuel prices also lent weight to firming prices. With all this, a new normal may emerge in supply and value chains concerning trade routes and production locations as countries settle into a new equilibrium.

ESG

The Environmental, Social and Governance (ESG) performance of a company is gaining prominence as a key decision-making consideration for the investor community. It is also increasingly on the radar of customers, regulators and employees. KOEL has been a forerunner in advocating sustainability which includes upholding high ESG standards as we see it as our responsibility to lead by example and contribute to a wider industry transformation. Sustainability is a topic that is very close to our hearts. The very core of our entire business is based on key Environmental, Social and Corporate Governance principles. As we advance up the sustainability ladder, we have set up an ESG Committee to set the direction for the Kirloskar Group. You will see significant progress on this front in the coming years. We are also ever mindful of the importance of corporate governance and remain committed to upholding good

business ethics and practices, ensuring timely and accurate disclosures and adhering to the spirit and not just the letter of good corporate governance.

New Product Developments

KOEL invested in developing world class engine platforms on both ends of existing power ratings spectrum. Our compact engine platform (<37 KW) is now getting into production and we expect to cater to domestic and export markets in powergen and industrial segment. Similarly, the large engine platform (> 800 KW) is also getting into production with an encouraging market feedback from the seeding units.

KOEL continues to effectively address the emission norms upgrades in all relevant business segments, in collaboration with the Original Equipment Manufacturers (OEM), wherever required. Last year, our industrial business portfolio moved from BS-III to BS-IV and have clocked over 100,000 hours in the field. This has helped the OEM customers to serve the nation in its push for infrastructure development, without downtime and changeover blues. As we speak, we are preparing for emission upgrade in the powergen business towards one of the most stringent emission norms in the world – CPCB IV+ which is expected to come in force next year July.

In addition to making diesel engines cleaner, KOEL also developed engines running on alternate fuels last year. With this, customers will have the option of choosing Natural Gas based gensets and also biogas gensets- primarily helping the Waste to Energy efforts of various local government bodies under the Swaccha Bharat Mission. Our technologies have been fully developed to work with ethanol and also 100% methanol, both of which are being explored as the blending options for future. With the suite of technologies that we have developed in process, we are confident of addressing the 'fuel of next decade' – hydrogen in our engines as well; as and when the time comes.

With increased electrification, KOEL has entered into the electric motors business and the product was launched towards the end of the last financial year. This year will see range expansion, market reach building and establishing the brand in this growing market. KOEL is also adding the motor driven fire-fighting Pumpset, along with the traditional engine driven Pumpset.

Business Highlights - FY 2021-22

The financial year began with the second wave of the pandemic which brought in stringent nationwide restrictions. The year also saw surging input costs and supply side constraints. But we mitigated the

situation through regulated pricing actions, improved product mix and cost optimisation initiatives.

The Company grew by 22.5% with respect to Financial year 2020-21 and continues to improve its market leadership.

The Company was able to enhance its market share across operating categories in the Industrial business by supplying the proper 'fit for market' product with assured deliveries at a competitive price, supported by KOEL CARE's robust after-sales service network across India.

Compared to the previous year, KOEL Electric Pumps has improved its position in the household and farm product segments.

Over the previous year, overall export sales increased by 24%, within which the power generation section grew by 50%, the fire-fighting segment by 26%, and the agri segment by 12%.

All other business divisions including Power generation and Industrial have also delivered good growth in FY 2022 over previous year.

Financial Highlights

Revenue from operations at KOEL grew by 22.5% to Rs 3,300 Crores in FY 2022, versus Rs 2,694 Crores in FY 2021; Profit after tax of the company also jumped by 22.5% to Rs 208 Cr in FY2022, from Rs 170

Cr in FY 2021. Consolidated Revenue from Operations stood at Rs 4022 Cr and the consolidated net profit for the year was Rs 171 Cr.

Performance of Subsidiaries and Joint Venture:

Now let me briefly touch upon the performance of our subsidiaries and joint venture:

La Gajjar Machineries (P) Ltd [LGM]

LGMs total revenue from operations for FY 2022 stood at 542 Cr and the net loss for the year is Rs 3.88 Cr. The unprecedented increase in the input cost severely impacted the financial performance of the Company. The inflationary impact was not fully passed onto the channel during the year keeping the long term prospects of the 'Varuna' brand in mind. However the company is back into profits in the current financial year as I speak with you.

LGM continues to do well in Exports markets as well. LGM is also eyeing to expand our distribution network in South East Asian countries in the near future.

Optiqua Pipes and Electricals (P) Ltd

Optiqua, a step-down subsidiary of KOEL, and a 100% subsidiary of LGM was incorporated on 19th February 2021 and it acquired the partnership business "Optiflex Industries" based in Ahmedabad as a

going concern on a slump-sale basis on 16th April 2021. Optiqua manufactures and sells Winding wires, Cables and Column pipes. The Company has delivered Rs 40 Cr as total revenue from operations for the year ended 31/3/2022 and suffered a net loss of Rs 1.84 Cr. The management teams are working towards a turnaround strategy and I am confident that Optiqua will turn the corner very soon. Optiqua also entered into a Joint Venture with ESVA Pumps India (P) Ltd effective 4th October 2021. Optiqua holds 49% equity stake in the JV. This JV was formed with a view to securitising the uninterrupted supply of high quality Electric Pumps to KOEL and LGM.

ESVA Pumps India (P) Ltd

ESVA primarily manufactures and sells Electric Pumps to KOEL and LGM. The turnover of the JV for the period ended 31st March 2022 is Rs 56 Cr and the net profit for the period is Rs 1.44 Cr

Kirloskar Americas Corporation

Kirloskar Americas Corporation is a 100% subsidiary of KOEL and it clocked a turnover of a little over USD 4 Million for the FY ended 31/3/2022 and the net profit for the year is more than USD 240,000

Arka Fincap Limited (AFL or Arka)

Arka, a Non-Deposit taking systemically important NBFC, is a subsidiary of Arka Financial Holdings Private Limited (AFHPL) which in turn is a subsidiary of Kirloskar Oil Engines Limited (KOEL).

During the year FY 2022, Arka Financial Holdings Private Limited was created as a subsidiary of Kirloskar Oil Engines Ltd to address opportunities in the Financial Services business with our strong credit rating, and also a superior capital allocation strategy. Entire shareholding of Arka Fincap Limited which was previously held by Kirloskar Oil Engines Limited (KOEL) was transferred to Arka Financial Holdings Private Limited during the year which as stated above is a 100% subsidiary of KOEL.

AFL continued its expansion during the year to 10 locations from 3 locations. Co-Lending and tie ups were formalised with large insurance player for cross-selling life insurance product to the Small and Medium Enterprises (i.e. SME customers). As Arka considers technology as its major driving force, it tied up with 5 more fin-techs during the year so as to provide a seamless experience to its customers.

During the year under review, the Company made gross disbursements of approx. ₹ 2,494 Cr, resulting in a net increase in the

AUM by ₹ 1,256 Cr. As of March 31, 2022, the AUM of Arka stands at ₹ 2,380 Cr.

Revenue from Operations at Arka was Rs 202 Cr and Net Profit for the year is at Rs 32.5 Cr

There were no significant or material commercial operations at AFHPL during the year and therefore net loss for the year ended 31/3/2022 is Rs 2.6 Cr

Performance for Q1 FY 2022-23

On a Standalone basis, the revenue from operations for the quarter ended 30 June 2022 stands at Rs. 953 crores as against Rs. 647 crores for the corresponding quarter of 2021-22. Profit before tax for the quarter is Rs. 87 crores, as against Rs. 34 crores for the corresponding quarter of 2021-22.

On Consolidated basis, revenue from operations for the quarter ended June 30, 2022, stands at Rs. 1191 crore as against Rs. 821 crore for the corresponding quarter of 2021-22. Profit before tax for the quarter is Rs. 110 crores, as against Rs. 44 crores for the corresponding quarter of 2021-22.

We are committed to enhancing shareholder's value and maintain regular distribution of dividends out of our earnings. In view of KOEL's strong performance in FY 2022, the Board has proposed a

final dividend of Rs 2.50 per Equity share, subject to shareholders' approval. Together with the interim dividend of Rs 1.50 per Equity share paid in February 2022, this brings our total dividend for the year to Rs 4.00 per Equity share (i.e. 200% dividend).

With our relatively healthy balance sheet and liquidity position, we are confident of sustaining all our business operations and will continue to pursue areas of growth opportunistically and cautiously to enhance our earnings and diversify our revenue streams.

Industry Outlook, Challenges and Opportunities going forward

Concerns over unchecked inflation and a highly charged geopolitical climate mean businesses risk delving deeper into uncharted terrains. Given both Russia and Ukraine's standing among top exporters of certain energy, chemical, and edible oil commodities, protracted hostilities and economic sanctions will threaten to impede global flow of these goods, with repercussions certain to be felt across various industries.

KOEL's strategy of long-term growth is to invest resources to develop businesses with synergies with our existing businesses, develop new markets with high potential and build innovative products to increase the competitiveness of our offerings. Our ability to achieve strong results despite the current difficult business environment is a testament to the success of our strategy. Throughout our 75 years in

operation, Kirloskar Group has navigated many cycles of market volatility and socio-economic and geopolitical uncertainties. We will draw on this experience so that KOEL emerges stronger and better.

Note of gratitude

On behalf of KOEL, I would like to thank all our shareholders, board of directors, business partners, customers and employees with a long-term commitment to the Group. In the end, I would like to reiterate that despite the macro uncertainties, the road ahead is still full of opportunities for the leadership teams at KOEL to create sustainable, profitable businesses and livelihoods for people. I wish the team all the very best.

Thank you ladies and gentlemen!