

Kirloskar Oil Engines Limited

Transcript of 11th Annual General Meeting held on 28th August 2020

11th Annual General Meeting of the Members held on Friday, 28th August 2020 through Video Conferencing facility

Board of Directors:

Sr. No.	Name of Director	Designation
1	Mr. Atul Kirloskar	Executive Chairman
2	Mr. Sanjeev Nimkar	Managing Director
3	Mr. M. Lakshminarayan	Independent Director (Chairman of Audit Committee and Risk Management Committee)
4	Mr. Satish Jamdar	Independent Director (Chairman of Nomination and Remuneration Committee)
5	Mr. Pradeep R. Rathi	Independent Director (Chairman of Stakeholders Relationship Committee)
6	Mr. Rahul Kirloskar	Non Independent Director (Chairman of CSR Committee)
7	Mr. Nihal Kulkarni	Non Independent Director
8	Mr. Mahesh Chhabria	Non Independent Director
9	Ms. Gauri A. Kirloskar	Non Independent Director
10	Mr. Vinesh Kumar Jairath	Non Independent Director
11	Mr. Sunil Shah Singh	Independent Director
12	Mrs. Mrunalini Deshmukh	Independent Director
13	Mr. K. M. Abraham	Additional Independent Director
14	Dr. Shalini Sarin	Additional Independent Director

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Moderator: (Audio-Video Presentation)

Good morning and warm welcome to you all to the 11th Annual General Meeting of Kirloskar Oil Engines Limited through a video conferencing or other audio-visual facility. As a reminder, for the smooth conduct of the meeting, the members will be in the mute mode and audio and video will be open when they will speak at the AGM as per the pre-registration. Please note that, as per the requirements, the proceedings of the Annual General Meeting will be recorded and available on the website of the company. I now hand over the proceedings to Mr. Atul Kirloskar – Executive Chairman of Kirloskar Oil Engines Limited. Over to you, Mr. Chairman.

Atul Kirloskar: Good morning, everyone. The Company Secretary has informed me that the necessary quorum is present, and I call the meeting to order. On behalf of the Board of Directors, I extend a hearty welcome to all of you at the 11th Annual General Meeting of the members of the Company.

Every year I have had the pleasure and privileged of greeting you in person but due to the COVID-19 pandemic the present AGM is held via video conferencing as per the measures of the circulars issued by the MCA and SEBI from time to time. I trust all of you and your family members are well and following social distancing guidelines to stay safe.

I would now like to introduce to you the directors.

I am Atul Kirloskar, I am the Executive Chairman, Mr. Sanjeev Nimkar is the Managing Director, Mr. M. Lakshminarayan is an Independent Director and Chairman of the Audit Committee and Risk Management Committee, Mr. Satish Jamdar is an Independent Director, and

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Chairman of the Nominations and Remunerations Committee, Mr. Pradeep Rathi is an Independent Director and Chairman of the Stakeholders Relationship Committee, Mr. Rahul Kirloskar is non-Independent Director and Chairman of CSR Committee, Mr. Nihal Kulkarni is non-Independent Director, Mr. Mahesh Chhabria is non-Independent Director, Ms. Gauri Kirloskar is non-Independent Director, Mr. Vinesh Kumar Jairath is a non-Independent Director, Mr. Sunil Shah Singh is an Independent Director, Mrs. Mrunalini Deshmukh is an Independent Director, Mr. K. M. Abraham is an Additional Independent Director and Dr. Shalini Sarin is an Additional Independent Director.

I would also like to inform you that the following persons are also attending this meeting. Mr. Pawan Kumar Agarwal who is the Chief Financial Officer, Ms. Smita Raichurkar is the Company Secretary, Mr. Nachiket Deo is Partner of M/s P.G. Bhagwat, they are our Statutory Auditors. Mr. Mahesh Risbud, Practicing Company Secretary and our Secretarial Auditor.

The following register and documents are available electronically for inspection during the AGM at the NSDL e-voting portal, the register of directors, key management personnel and their shareholding; Register of contracts or arrangements in which the Directors are interested; the statutory auditor's report and the secretarial auditor's report.

The notice of the AGM, the addendum to the AGM notice and the Annual Report for the financial year 2019-2020 has been circulated by email to the Members of the Company and are also available at the website of the Company, BSE Limited, and the National Stock

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Exchange of India Limited. With the consent of the members this I consider as read.

Pursuant to the provisions of Section 145 of the Companies Act 2013, the independent auditors report and the secretarial audit report may not be read at the AGM since the same do not contain any qualifications and observations, and observations are self-explanatory.

I will now start address to the shareholders.

Good morning, ladies and gentlemen. On behalf of the Board of Directors and my colleagues at Kirloskar Oil Engines, I extended a very hearty welcome to all of you at the 11th Annual General Meeting of the company.

The pandemic has challenged the status quo in many ways, and as you can see for the first time, we are also doing the AGM virtually. And before I begin with the economic circumstances and company results, I would like to highlight that the Company is bestowed under the leadership of our earlier Managing Director, Mr. R. R. Deshpande with the coveted and prestigious CII EXIM Bank Award for Business Excellence for the year 2019.

With this, your Company has become the first Indian diesel engines or genset man Company to be awarded this recognition. In the last 25 years, only 20 companies have been bestowed with this prestigious award. The rigorous assessment process for this award is based on the guidelines of the European Foundation of Quality Management.

I would like to turn to the industrial and economic scenario. The Indian economy registered a slowdown in 2019-2020 with GDP

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growth falling from 6.8% to 4.5% last year. Several sectors such as real-estate, aviation, automobiles and construction sector suffered a decline in demand. On the other hand, the banking sector and the financial services witnessed serious crises during the rise in NPAs, bad loans and squeezed credit limits.

At the end of the financial year, the COVID-19 pandemic has severely stressed the Indian as well as the global economy. In today's changing world, the companies have had to continuously evolve and find new ways of doing business. We also practice change management with an attitude of gratitude and embrace change as well opportunity for continuous renewal and growth.

Within the next many months and perhaps quarters, industry will have to operate alongside COVID-19 and learn new ways to deal with uncertainties. We are indeed indebted to all those who worked for the company and helped build a solid foundation over the past decades, based on which successive teams are able to development and strengthen various businesses capable of weathering these economic stance from time to time.

The Make in India and Vocal for Local initiatives has the opportunity to reverse this rather adverse circumstance, by encouragingly setting up of world class enterprises that capture larger value for the country. It is a welcome move that concerted efforts are being made by the center and the state governments to improve the ease of doing business and fostering an environment where investment is encouraged.

I will now come to the business highlights of 2019-2020. All business segments, except exports have declined as compared to the previous

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year, resulting in an overall decline of 9%. At the year end, the same was lost due to the several lockdowns announced by the government to contain the spread of COVID-19. The genset industry saw a decline of approximately 7% over last year. The company's power generation business segment declined by 5% and yet managed to maintain an overall market share of 28% in terms of the volume. Your company is very active in the power generation market for the last three decades, offering the widest range of petrol and diesel generator sets, ranging from 2 kVA to 1,010 kVA, used for power backup in industrial, residential and commercial establishments and also in special applications such as telecom.

The new i-Green, IoT enabled product range continues to be a market leader and is getting an encouraging response from our customers. The company is a pioneer in setting this IoT trend in the industry, extending comfort and support to our end customers. Your company is rapidly transitioning itself from being a source of reliable products provider to a solution provider offering turn-key solutions for diverse customer applications. The agriculture business has declined by 8%, but the electric pump segment grew by 32%. In our Tiller range under Farm mechanization solutions, your company has reached to a 14% market share and has dominated the 15 horsepower market segment with more than a 50% market share. The construction and off-highway industry faced a challenge overall. The overall demand for the construction equipment industry further weakened because of unfavorable macroeconomic environment, led by slow movement in award of road construction projects, delay in payment to the contractors and overall tightness in the financing environment and a lack of liquidity in the market.

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Demand for tractor engines also remained muted in the financial year 2019-20 due to prolonged liquidity crunch and weak rural demand. This has resulted in a decline in the growth of the industrial segment. However, the tractor segment has picked up since April 2020. After sales services support provided through its widespread digital 400-plus outlets pan-India, with a robust digitized process and over 5,000 trained service personal makes it a very dominant service brand and a industry benchmark. With the introduction of innovative service products such as Bandhan and Anubandh, the Company relies directly over retail customers for long-term service contract and delivers the assurance of best-in-class aftersales service around product. New products and application development remained the focus area for growth of large engine business, responding to the fishing boat market requirements of specific horsepower engines, your company has developed eight nodes engine lines and continues to gain market share. Continuing our focus on operational excellence, the company released 8th Corporate Sustainability Report, which focuses on being future-ready at every level of the business. The Company continues to take initiatives for industry 4.0 implementation.

I will now come to the subsidiaries performance. As on 31 March, 2020, KOEL has three subsidiaries, La-Gajjar Machineries Private Limited (LGM), KOEL Americas Corporation (KAC); and Arka Fincap Limited, (AFL). During the year under review, LGM has leveraged the strength and expertise of KOEL in areas of customer service, ERP implementation, financial restructuring, and employee health and safety. This collaboration with KOEL will continue to help LGM to further build on its brand strength, market reach, research and developments department and capability to adapt to new technologies. At the end of the financial year 2019-2020, all of the

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four intended family of KOEL Americas has been certified by the Environmental Protection Agency, EPA, and are made commercially available to the market. During 2019-2020, KEOL has invested Rs. 499.5 crores in the equity shares of ArkaFincap. ArkaFincap commenced lending into the corporate and real-estate segments in FY '19-'20 and is geared to expand further into the SME/MSME lending business in the current financial year, which is 2020-2021. I will now come to the financial highlights.

Despite an extremely challenging macroeconomic environment, your company posted the following result: On a standalone basis your company delivered the following for the last year 2019-20:

Total sales for the year is at Rs. 2,841 crores compared to previous year's figure of Rs. 3,117 crores. Profits from operations was Rs. 225 crores as against Rs. 336 crores in the previous year. Profit after tax was Rs. 170 crores as against Rs. 225 crores in the previous year. As far as the subsidiaries performance is concerned, the additional sales revenue from KOEL Americas division, which is a wholly-owned subsidiary was US\$ 27,04,328 - Rs. 19.21 crores and the profit after tax was US\$ 101,756 - Rs. 1.04 crores. The additional sales revenue from La-Gajjar Machinerries Private Limited was Rs. 467 crores and net profit was Rs. 16.43 crores. The additional revenue from ArkaFincap Limited for the last financial year 2019-20 was Rs. 48.44 crores and net profit was Rs. 6.1 crores.

Related to dividend. Board of Directors have declared an interim dividend of 200% at Rs. 4 per equity share during the financial year 2019-2020. They recommended that the internal dividend declared so far as paid be considered as the final dividend for the financial year 2019-2020.

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I will now come to the change in the board members. The terms of appointment of Mr. Pratap Pawar as Independent Director ended on 11th August 2019. Mr. R. Srinivasan tendered his resignation as an Independent Director of the company due to pre-occupation with effect from 25th October, 2019. And also reappointment of Mr. Rajendra Deshpande as Managing Director and Chief Executive Officer of the company expired on 28th April, 2020.

The Board placed on record its appreciation for the guidance, support and contribution provided by Mr. Pratap Pawar. He joined the company in 1973, so close to 48 years he has been associated with Kirloskar Oil Engines Limited. We are indeed very grateful for his unstinted support throughout, his very insightful knowledge about agriculture and farmer, and all the examples that he helped us with over the years. So, thank you very much, Mr. Pawar for all the support during these many decades that you were associated with us.

Mr. Srinivasan also was appointed in 2005. He has been with the company for 14 years. Mr. Srinivasan brings a tremendous amount of manufacturing knowledge, excellence in production and quality, tremendous help as far as strategy thinking for business is concerned. We really enjoyed his tenure with us because of his guidance and support it helped us reach better decisions far more quickly than normal, and we will certainly miss him.

Mr. R. .R. Deshpande is one person who joined right out of college as an engineer and moved up over the years into the MD's position. He has been with us for 43 years and very happy that he was one of the first ones to become a MD of the Company started from being a trainee engineer. He had bundle of positive energy, he had tremendous attention to detail and relentless follow-up. And his

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performance obviously I spoke as he went up in his career step-by-step.

So, we will miss all these gentlemen. But again, I will place on record, the board as well as my family's gratitude and appreciation for all the contributions made during these years.

I will now come to the performance of quarter one 2020-2021. On a standalone basis, the sales revenue for the quarter ended on 30 June, 2020, as stands at Rs. 320.44 crores as against Rs. 763.65 crores for corresponding quarter 2019-2020. Last deferred tax for the quarter is Rs. 14.97 crores as against a profit before tax of Rs. 66.77 crores for the corresponding quarter of 2019-2020.

On consolidated basic, revenues from operations for the quarter ended on June 30, 2020, stands at Rs. 422.33 crores as against Rs. 901.03 crores for corresponding quarter of 2019-2020. And loss before tax for the quarter is at Rs. 9.24 crores as against a profit before tax of Rs. 71.87 crores for the corresponding quarter of 2019-2020.

Now I come to the challenges and opportunities going ahead. We have witnessed a significant slowdown in quarter one of the current fiscal year thanks to the outbreak of COVID-19 and subsequent lockdown, which led to shut down of plants in March 2020, and disrupted applications of your company in a material way in quarter one. Since the gradual easing of the lockdown from 22nd April 2020, and in line with the various directives of the government, the company's plants have commenced operations in a phased manner. As of today, partial operations have resumed at all the manufacturing sites of the company. And given the global nature of the COVID-19

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pandemic, and the uncertainty around the severity and duration of the impact across multiple markets, and its impact, the management of the company is not in a position to accurately assess the future financial performance at this time.

The Company will continue to closely monitor the developments and the material impact, if any, will be disclosed from time to time. The need of the hour is to ensure that we continue to provide our workforce with a safe environment, ensure that they can work effectively in a remotely thereby ensuring the safety and well-being. Despite the current volatile and difficult situation, your company will continue to engage with customers and other stakeholders in the best way possible and ensure its highest support.

Lastly, I would like to mention that the pandemic will test humanity and businesses in ways no one would have imagined, but let me assure you that the team at Kirloskar Oil Engines is poised to embrace this change and is looking forward to a future which is certainly going to be brighter. I am sure the team of dedicated professionals at KOEL will leave no stone unturned in continuing quest to build your company into a market leader in every segment that it operate.

To conclude, I thank all the stakeholders for their continued support. We are especially grateful to our customers and competitors as they do not let us sit on our laurels and enjoy status quo which helps us to improve and innovate in terms of our offerings to the market. They also compel us to change or adapt to the change in an external environment. And I thank all our suppliers, vendors, bankers and our motivated employees who have unconditionally supported various initiatives undertaken by the company during the year.

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I look forward to your continued support as we strive to reach greater heights. Thank you, ladies and gentlemen. I will now hand over to the operator so that we can go to the questions-and-answer session.

Moderator: Thank you, Mr. Chairman. Speaker shareholders who have registered themselves earlier will be allowed to speak one by one to ask questions or express views. I now invite Mr. Shashikant Marathe to unmute his audio video and ask the question or give comments. In the interest of time, may I request you to restrict your question or comments to three minutes.

Shashikant Marathe: Chairman, sir, good morning to you. And also welcome all those dignitaries who have joined this conference by VC. In the unfavorable internal and external circumstances, from March 2020 the company did take utmost care of its employees and has posted reasonable results, backed the prestigious Golden Award for HR. Kagal factory management deserves our appreciation for winning other various awards, including CII EXIM award for Business Excellence, and also for reducing carbon emissions by tapping solar energy and effective water harvesting.

Cash from our operations grew by Rs. 81 crores, in spite of six times rise in provision for doubtful debt, coupled with the increase of Rs. 7 crores this year. The cash management was apt and the closing cash was only 10% of 2018-2019, has sustained this. The Company's foreign exchange surplus and the contribution of two new subsidiaries, foreign subsidiaries, where we have invested Rs. 500 crores have helped the foreign exchange contributions, and hope it will add to more top and bottom-line in the coming year.

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Appreciate the good dividend, you are having a good record of giving dividends all the time and in spite of dent in top and bottom-line. However, giving dividend was unethical, I had explained that, but barring Company, everybody has benefited, I am also benefited, thank you very much. Now it is up to you how to compensate the company for the tax on distribution of dividend has been paid instead of recoup to the Company.

I appreciate the good work done by retiring directors, Mr. Deshpande was elevated from the ranks. I had a number of times congratulated him for his elevation from the post of an engineer to MD. He has set a very good track record for himself and for others to follow, telling that the top post is open for anyone who excels is good. Mr. Prataprao Pawar and Mr. Srinivasan's contribution we really appreciate. Mr. Prataprao Pawar had helped the Company in a number of ways. Because he was here, he was appointed as a committee member for College of Engineering, Pune, a prestigious appointment. I hope he will give good contribution to the Company and he will complete the company at its heart in the areas where he can help the company. I welcome new MD, Mr. Nimkar and wish him all the good luck. I hope he will take care of all persons working in the factory. They are all dedicated employees and you will have a track record of looking after the employees in a very good manner.

The percentage of shareholders holding shares less than 1 lakh each rose by 55% in the year. This shows that many people, many shareholders are supporting the Company. In spite of efforts or conservation of energy, power costs rose though the production was less. This is a matter which needs to be considered. There is ample scope for tapping area on the roofs of all our factories for solar

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energy. The company may explore possibilities for solar energy plant on the riverfront at Khadki. For your information, Tata Power has a plant at the backwaters of the dam in Tamhini Ghat.

High warranty expenses of Rs. 42 crores need revisiting our TQM. Be debtless entity 2022. Some small manufacturers are entering into small HP segments, even though their market share is falling to ensure small engine quality and price is the cutting edge in the market. My visit to Kagal plant reminds me that it is being best in its segment and it will be number one in a share on quality, price and outdoor sales service. Think of certification course for a workshop on troubleshooting and restoring top performance of all diesel engines which they repair as a CSR activities.

The last two years, Kagal is an unapproachable due to rains. Think of out-of-box thinking. Ask MIDC to have a big tank in the MIDC area to collect the water and make all the factories in the MIDC workable even during that monsoon.

Was it necessary to include the last six entries in the list of top shareholders as they had nil investments in 2018-2019 and 2018-2020. Partial relaxation of lockdown calls on the Company to achieve accelerated growth on financial ratio.

Kirloskar Group, I have to suggest, should institute a Chair at a renowned university in India for a topic theme of your site.

Chairman Sir, I wish you and all your employees yet another profitable year in view of record monsoon, governments trust on agriculture, fisheries, infra sector, coupled with your efforts on excellence. Sir, you are lucky having a good managerial assistance as well as good

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employees. And I hope you will give still better results in the years to come. Thank you very much for the opportunity. Thank you.

Moderator: Thank you. Mr. Yusuf Yunus Rangwala has registered himself as speaker shareholder, but he has conveyed that he is not able to attend the AGM. Now, as all speakers have finished speaking, I requested the Chairman to answer the questions raised.

Atul Kirloskar: Thank you. Marathe sir, I would like to first thank you for your interest and for your observations. And also would like to say that there is not enough time over the year for us to be even mention all the ways that Mr. Pratap Pawar as well as Mr. Srinivasan has helped us over the years. Mr. Pratap Pawar's contribution actually has been immense. And one thing I forgot to mention was that besides Mr. R.R. Deshpande leading the effort on the CII himself, for 10 to 15 years Mr. Srinivasan was also one of our guiding light because of his involvement in quality. And he is spending two days over here every year going through all the Company's reports and helping us align ourselves in our quality mission to win this CII EXIM award. So, thank you for all your comments. And I am happy to inform you that we still continue the association with Mr. Deshpande in Kirloskar Group. And also thank you for all your wishes which you mentioned at the end.

I will come to some of the questions that you raised, especially on energy conservation. The Company is continuously taking various energy conservation initiatives. And I had mentioned in last year's report, we put in 5.5 megawatt solar captive powerplant on the rooftop and so that helped us reduce our electricity cost, we got quite a few savings out of that. This year, 46% of the total electricity energy consumption was generated by the solar captive plant. Energy consumption for production has actually come down by 3.4% and the

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rise that you see is actually because there was an increase in power rates. So, we are keeping an eye on how to increase our renewable energy program. There has been a slowdown just now because of COVID-19, but I am sure we will be seeing that as soon as this pandemic is over.

Regarding the warranty cost, actually the warranty cost has increased only by 0.04%. This is due to the change in product mix and the new products that are entering our portfolio. You mentioned that we should aim to be debtless by 2022. I am glad to inform you that as of date we don't have any borrowings and the company has availed off only working capital facilities for doing our business.

You also mentioned six entities which we have to include in the list top 10 shareholders. This is actually mandatory for us to disclose this, the list of top 10 shareholders, even though there is no change as compared to the last year in terms of shareholding.

And we also expect that we will grow faster in the future. Yes, while we keep our fingers crossed, we have to look at several relaxations and developments relating to COVID-19. And hopefully, we will gradually come back out of this as confidence will come back into the market.

Thank you very much for all your wishes, including instituting a channel thank for that suggestion and we will certainly look at it.

That confirms my answers to this. I just have a few more details about e-voting. The remote e-voting period commenced from Tuesday, 25 August 2020, at 9am and ended on Thursday, 27th August, 2020, at 5pm. The facility for e-voting is available to those members who are present at AGM and have not cast their votes by remote voting.

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Ms. Mansi Paradkar, practicing Company Secretary has been appointed as the scrutinizer to scrutinize the e-voting process in a fair and transparent manner and to provide the report after that. The scrutinizers report will be submitted to the stock exchange within 48 hours after conclusion of the annual general meeting, and will be uploaded on the website of the Company and NSDL.

I am grateful to all the shareholders for taking the initiative to join this meeting through video conferencing facility. I wish you and all your family members good health and a safe future. And proceeding of the Annual General Meeting will concluding at the end of the e-voting period. And with your permission, I would now request the member of the Board of Directors to log-off and hand over to the operator so that you can continue with the e-voting process. Thank you very much.

Moderator: Thank you, Mr. Chairman. Directors of the company may leave the meeting. E-voting is being conducted now and will remain open for 30 minutes. Thank you.