

Chairman's Speech

Annual General Meeting on August 12, 2021

Good morning, ladies and gentlemen. On behalf of the Board of Directors and my colleagues at Kirloskar Oil Engines Limited, it is my pleasure and privilege to welcome you to this 12th Annual General Meeting of your Company via video conferencing. I trust you and your family are safe in the midst of the COVID-19 pandemic. Like last year, also we have shared the Annual Report by electronic mail and are conducting the AGM through Video Conferencing.

FY 2021 will always be remembered as the year of unprecedented changes. The world was confronted by a global pandemic the likes of which have not been seen in over a century. The COVID-19 pandemic affected everybody in FY 2021. We are a safety-first Company, and during the pandemic, our priority has been the health and well-being of our employees, their families, and the communities which we are a part of. Thanks to our careful and talented staff, KOEL's operations have remained stable, and our product development projects have moved forward according to plan during the pandemic. Our operational performance during FY 2021 was satisfactory despite the unusually challenging conditions and an indication of the abilities of KOEL's personnel and the flexibility of KOEL's cost structure. KOEL engagement with the supplier base and long fruitful association in

many cases has come handy in tiding over these challenging times. Our counter-measures to coronavirus were successful, our employees generally stayed healthy, and the performance of our plants was good. All employees have adapted impressively to new routines, despite sudden and unforeseen obstacles. High adaptability to virtual collaboration among our customers and employees has enabled us to continue doing business and many customers have completed product inspections and given their approvals with the assistance from KOEL staff working 100% remotely. This is the ultimate test of resilience, and we are grateful to our loyal customers and committed employees who have made this possible.

There was another change I wanted to bring to your attention. On Friday, July 16th, we announced the refresh of our Kirloskar brand with a new logo, and a new business vision: Limitless. I hope you have seen the ads on TV, in the newspaper or on social media. We wanted to highlight something that has been at the core of our group for the last 130 years. It's something our forefathers always believed in, taught us and those teachings have been passed down across generations. We've been taught to always work towards the progress of society. Right from the beginning, when our founders created India's first iron plough, to today, where our products range from agricultural machinery, to compressors, to real estate.

At Kirloskar, we are engineered to always think about our customer, about society, and what's next. When you think about what's next, you inevitably unleash innate potential. And it is this potential that makes opportunities limitless. We have undertaken several projects ranging from HR, to digitization and 3D printing, and many more to keep pace with our fast changing world, to attract and retain the best talent, to be a best in class employer and to provide the best solutions and service to our customers. This is not just an external change, but an internal transformation, in the way we conduct business with our customers, dealers, vendors and suppliers, as well as our employees, our investors, and you, our shareholders.

Economic and Industrial Scenario

India's GDP growth contracted 7.3%¹ in 2020-21. Several sectors such as real estate, aviation, automobiles and construction sectors suffered a decline in demand.

On the other hand, the Banking sector and financial services witnessed serious crises due to rising NPAs, bad loans and squeezed credit limits. At the end of the financial year 2019-20, the COVID-19 pandemic has further stressed the Indian and the global economy.

In today's changing world, companies have to continuously evolve and find new ways of doing business. We at KIRLOSKAR, practice change

¹ Source: as per provisional National Income estimates released by the National Statistical Office.

management with an attitude of gratitude and embrace change as an opportunity for continuous renewal and growth.

Over the next many months and perhaps quarters, industries will have to operate alongside COVID-19 and learn new ways to deal with uncertainties. We are 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 develop and strengthen various businesses capable of weathering these economical storms from time to time.

As a Company we also work diligently to continually improve our guidelines and policies for corporate governance, always taking into account trends in international and domestic requirements and recommendations. This commitment to corporate governance is based on ethics and integrity. Our commitment to corporate governance also forms the basis of our effort to strengthen the confidence that existing and future shareholders, partners, employees and other stakeholders have in KOEL.

BUSINESS HIGHLIGHTS - FY 2020-21

During the first half of FY 2020-21, the economy and various industries were severely impacted. Thereafter business activity started to recover on the backdrop of improved customer sentiment and the visibility of a vaccination program. FY 2020-21 saw the full impact of

COVID-19 on life and business in a manner we could have never imagined. We quickly adapted to the new normal for working and ensured continued supplies to our customers without any major interruption or shortages. This has enabled us to achieve a satisfactory performance in a very difficult year. There was unprecedented steep rise in the commodity price in Q3 and Q4 of FY 2020-21 which was passed on the market and the same has continued in Q1 of FY 2020-21.

In the Financial Year 2020-21, the overall genset industry witnessed a slowdown owing to the ongoing pandemic. The overall Genset retail market (excluding Telecom) witnessed 25% decline, while telecom segment shrunk by 50%. Even with unfavorable economic circumstances your Company withheld its dominant market share position in the Low and Medium kVA segments with its flagship product i-Green and gained 3% market share in the Ultra High Horse Power kVA segment. 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 Electric pumps segment however grew by 44%. In our Tiller range under Farm mechanization solutions your Company has recorded a growth of 44% in revenue as against overall market growth of 13%. .

In the Industrial business, your Company was able to strengthen its market presence across operating segments by providing the right 'Fit for Market' product with assured deliveries at competitive price, backed by a strong after sales support network of KOEL CARE across India. KOEL is a leading independent engine manufacturer in India and the preferred choice for Construction Equipment OEMs in India domestic as well as Global. There was all time high demand for Off Highway machines. The tractor market also peaked to an all time high volumes in this financial year due to the buoyant rural economy. It has registered a 15% growth as compared to the previous year.

Despite a challenging market due to the pandemic, our speedy service response to our all essential category customers continued without interruption. Many customers appreciated service support provided during the lockdown. Despite unfavourable market situations, proactive services helped the customer support business to maintain its revenues.

Many digital initiatives taken by your Company to enhance customer experience are the benchmark in the service industry and set your Company apart from its competition. The Company has extended soft loans to dealers which helped them from cash-flow crisis. This also resulted in continued support for the business.

New product and application development remained the focus area for growth of the Large Engines business. Responding to the fishing boat market requirements of specific horse power engines, KOEL developed the required range and continues to gain market share.

The global economy is growing again after a contraction of 4.3%² in 2020. The path of recovery is increasingly visible. Fiscal support by many countries has been an economy booster. This has especially helped the Agriculture segment. The revenues from International Business increased marginally as compared to previous year. The main contributors to growth were market coverage in focus countries, new product development, and addition of new OEMs in our portfolio. Your Company has significant erodes in gaining market share for listed fire fighting segment in International market. Even our agricultural segment gained substantial market share in the International Market. New products accounted for 21% of the exports revenue.

The major focus areas of R&D wherein the team is putting in efforts for a sustainable future are cost effective emissions solution for Tier 4 Final / BS IV CEV norms and the emission strategy for CPCB IV+ norms.

Continuing our focus on operational excellence the Company released its 9th Corporate Sustainability Report, which focuses on being future-ready at every level of business.

² Source: Economic Survey 2020-21

The sustained high levels of customer perception index through AC Neilson's Customer Satisfaction Survey, Net Promoter Score and Customer Delight Index confirm KOEL's leadership on Quality of Products and Services.

The Company continues to take initiatives for Industry 4.0 implementation with the help of latest technology viz. AI & machine learning.

KOEL is well equipped to meet the challenges in the coming days by building a future ready Supply chain which is aligned to the modern concepts of Internet of Things (IoT).

SUBSIDIARY COMPANY'S PERFORMANCE:

As of 31st March 2021, KOEL has 4 subsidiaries –

- 1) La-Gajjar Machineries Private Limited, Ahmedabad (LGM);
- 2) Kirloskar Americas Corporation, USA (KAC – earlier known as KOEL Americas Corporation);
- 3) Arka Fincap Limited (AFL), Mumbai and
- 4) Optiqua Pipes and Electricals Private Limited, Ahmedabad (OPEPL – a wholly owned subsidiary of LGM).

LGM continued to focus on quality standards and has developed Energy efficient pumps that consume less power, save electricity and thereby give higher returns on initial investment. Given the need to

manage the business dynamically in the wake of the far-reaching effects of the coronavirus pandemic, the Company took the prudent decision early in the year to focus on growth and the delivery of underlying operating profit.

During the financial year 2020-21, LGM has incorporated a Wholly Owned Subsidiary namely Optiqua Pipes and Electricals Private Limited based in Ahmedabad, on 19th February 2021, with a view to backward integrate and is also developing its "allied products" business vertical. The business of pipes, cables & wires of M/s. Optiflex Industries, Partnership Firm, based in Ahmedabad, has been transferred (on a slump sale basis as a going concern) to OPEPL on 16th April 2021.

The revenues of Kirloskar Americas Corporation grew by 49%, especially with a boost in the last quarter for the Agricultural segment contributing 110% as compared to previous fiscal year.

During the FY 2020-21, KOEL has invested Rs. 124.82 Crores in the equity shares of Arka Fincap Limited. Given the impact of COVID 19 on the economy, along with its impact on the financial services business, Arka Fincap Limited adopted a cautious and conservative approach in building its book till the economy shows sign of stabilization.

FINANCIAL HIGHLIGHTS

Despite an extremely challenging macroeconomic environment, your Company posted the following results:

On a standalone basis, your Company delivered the following for FY 2020-21:

- Total Sales for the year at Rs. 2,667 crores compared to PYs figure of Rs. 2,831 crores.
- Profit from operations was Rs. 231 Crores as against Rs. 225 Crores in the previous year.
- Profit After Tax was Rs. 169.7 Crores as against Rs. 170.4 Crores in the previous year.

As far as subsidiaries performance is concerned,

- The additional sales revenue from KOEL Americas Corp. USA (wholly owned subsidiary) was US\$ 3.8 Million. The Profit after Tax was almost US\$ 2,00,000
- The additional sales revenue from La-Gajjar Machineries Private Limited (subsidiary) was, Rs. 520 Crores. Net Profit was Rs. 19.53 Crores.

- The revenue from operations of Arka Fincap Limited for the FY 2019-20 was Rs. 101.88 Crores. Net Profit was Rs. 16.88 Crores.

DIVIDEND

The Directors have declared an interim dividend of 75% (Rs. 1.50/- per share) and also recommended a final dividend of 125 % (Rs. 2.50/- per share) for the year ended 31st March 2021.

PERFORMANCE OF Q1, 2021-22

KOEL managed to deliver on its strategic priorities especially amidst the second wave of COVID-19 at the beginning of the financial year and a possibility of third wave in the coming months. The acceleration in sales performance was mainly driven by impressive year on year growth in all business segments except IPS segment. Of course, the low base of last year helped deliver substantial year-on-year growth in sales in the first quarter but the buoyancy in the market sentiments was visible generally across all the business segments. That said, the overall business outlook for KOEL in the quarters ahead will be influenced by the recovery of the industries that it serves and we will remain cautiously optimistic about the same. KOEL will continue to monitor the changing trends in a post COVID-19 world, set its sights on adopting and developing new capabilities, especially in the emerging areas such as green energy and water management solution. We will continue to closely follow the situation in the

markets where we operate and will continue adhering to national guidelines and regulations to help minimize the spread of the pandemic and keep our employees and other stakeholders safe. Even in this time of significantly increased global uncertainty, KOEL's business model has once again demonstrated its resilience.

On a Standalone basis, revenue from operations for the quarter ended 30 June 2021 stands at Rs. 647.24 crores as against Rs. 320.44 crores for the corresponding quarter of 2020-21. Profit before tax for the quarter is Rs. 33.50 crores, as against Loss before tax for the quarter is Rs. 14.97 crores for the corresponding quarter of 2020-21.

On Consolidated basis, revenue from operations for the quarter ended June 30, 2021, stands at Rs. 820.83 crores as against Rs. 422.33 crores for the corresponding quarter of 2020-21. Profit / Loss before tax for the quarter is Rs. 43.93 crores, as against Loss before tax for the quarter is Rs. 9.24 crores for the corresponding quarter of 2020-21.

Challenges and Opportunities going forward

The new emission norms for power generating sets are likely to be implemented in the next Financial Year 2022-23 and your Company is fully geared up for this transition and will fully support the Government of India's drive towards green energy. The Government has a clear focus in the long term on road construction and infrastructure projects to bring the economy back on track, therefore

your Company believes that in the long term, India's growth story remains intact. Your Company has also taken initiatives for capability building to handle new emission norm viz. BSIV and CPCB IV technology through structured service trainings throughout the year. Agriculture & related industries are expected to be on priority for government & formulations of policies post the COVID-19 pandemic and will most likely benefit the overall Farm Mechanization sector. The Institutional and Projects Solutions business unit will be focusing on various projects as a Systems Integrator and Complete solutions provider by increasing products offering which will ensure growth in Defence and Marine power and propulsion segments and the fishing engine segment.

A steep increase in virtual collaboration during COVID-19 has fast-tracked the need for digitization both at our customers and at KOEL. Looking ahead, your Company will continue to make investments in digitization and technology, which will also be crucial in a post-COVID-19 environment, in order to keep ensuring the well-being of our employees and to better serve our customers.

In the end, I would like to mention that we are at the very beginning of an exciting future and with a business model relying on sustainability, resource and time efficiency, digital solutions and sharing benefits with our customers we have a solid foundation. After a challenging FY 2021, the world economy seems to be on track to

recover, recharging the world's need for energy and stimulating the demand pipeline in our key markets. While the commercial landscape is beginning to stabilize, the market continues to be volatile and this calls for a fundamental transformation of the industry we operate in. KOEL is determined to take a winning position in tomorrow's energy market.

Acknowledgements

To conclude, I thank all the stakeholders for their continued support. We are especially grateful to our customers for returning and trusting us following the reopening of the economy. Our top priority of providing quality products and services to all our customers remains unchanged in these difficult times.

Thank you to our employees for their professionalism as they responded and adapted to the changes to their work and workplace brought about by the pandemic. Our people rose to the challenge of ensuring the continued delivery of products and services to customers in all circumstances.

I thank all our suppliers, vendors, bankers who have unconditionally supported various initiatives undertaken by your Company during the year. I look forward to your continued support as we strive to reach greater heights.

Thank you ladies and gentlemen.