

Chairman's Speech

Annual General Meeting on 5th August, 2016

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

ECONOMIC AND INDUSTRIAL SCENARIO

The Indian economy has seen a challenging period over the last three years. A Government change, plus structural reform during these years have certainly arrested a downturn in the economy, but positive growth and kick starting the infrastructure sector was not achieved in the year under review. This combined with deficit monsoons, an increase in power availability have been the challenges in our industry.

The year that has just gone by has been a particularly difficult and volatile one, both domestically and internationally. Ironically, we have had a year when market sentiments improved, but tangible change in the business environment remained elusive. A year when the capital goods sector continued to be subdued.

India's growth story seems fundamentally intact with the economy growing 7.2 % in 2014-15 and 7.6% in 2015-16, thus becoming the fastest growing one in the world. India's other macroeconomic indicators like inflation; fiscal deficit & current account balance have shown distinct improvement. The downward movement of inflation and interest rates is expected to help increase demand by boosting

investment and improving project viability. Some of this traction we witnessed in the form of tailwinds in last quarter of 2015-16.

The Prime Minister's clarion call to 'Make in India' holds enormous promise to radically transform the Indian economy. Complemented by initiatives such as 'Skill India', 'Digital India', 'Swachh Bharat' and 'Jan-Dhan Yojana', a foundation is being laid for a multiplier impact on inclusive development. A conscious endeavour is visible at creating a vibrant identity that represents modern India.

Undeniably, the country's socio-economic challenges are daunting. More than 300 million people need critical support to move out of endemic poverty. Gainful employment has to be created for the 12 million who join the work force every year. This is a colossal task, given that the recent rate of employment generation has barely been 2 to 3 million per annum. Equally critical is the challenge to provide food, water, energy, education and health security to the 1.5 billion that will inhabit the country by 2030. Rural agricultural communities are today becoming even more vulnerable, given the increasing threat of climate change.

It would be futile to expect the economic drivers of yesteryear to address these unrelenting challenges. A structural transformation is called for to foster an environment which can multiply new opportunities that are contemporary and relevant for the world of tomorrow.

The vision embedded in these multiple initiatives deeply resonates with your Company's avowed mission to be a world-class Indian enterprise serving national priorities and is captured in the theme of the Annual Report.

Application Engineering and New Product Development

Over the years, your Company's R&D capabilities, has moved from strength to strength. The R&D team not only ensured smooth and successful transition and upgrades of engines in conformity with the various emission norms but more notably ensured steady stream of New Product introductions in the Power Generation, Industrial and Agri space.

In the Farm mechanization space, the Mega T, a revolutionary and innovative product, though launched in the previous fiscal, had its full run in the fiscal year 2015-16. Three new variants of Mega T were launched during the year. The product has been well received in the market and this gives us the confidence to foray further in the farm mechanization space with new product offerings that can make a tangible difference to the lives of the farming community.

In Power Generation, in the low HP segment, the Company launched petrol & diesel genset variants in the range of 2 to 5 (KVA) . In the High HP segment, the much awaited 750 kVA was launched followed by the 1010 kVA in July 2016. Both these gensets are completely home grown products, designed in house and built on State of the Art technology platforms. The market response has been very encouraging and more importantly we can now be proud of a product range from 2kVA to 1010 kVA that caters to a wide range of customer needs and expectations.

The Company developed new, light weight, compact Defence DG sets, which were displayed at 'Defence Expo 2016' in Goa. Also two Marine applications - Firefighting Pump and Compressor were developed with Air cooled HA series

Engines and supplied for the Indian and SRI-LANKAN Offshore Patrolling Vessels.

BUSINESS and COMPANY PERFORMANCE: 2015-16

Having discussed the external environment and the new product offerings, I will now share some highlights of the business performance.

Despite a challenging economy, your company delivered steady performance.

The overall DG set market for FY 2015-16 both in quantity and value terms remained at similar levels as the previous year. Despite several positives in the macroeconomic indicators, for most part of the year, the economy remained sluggish and the power deficit was at an all-time low. This had a direct bearing on DG set offtakes.

Your Company held on to its market share and leadership position in FY 2015-16. In terms of number of DG sets, the Company is the market leader with 30% market share.

With a total revamp of supply chain system over last 2 years, we are now geared towards speedy delivery of Gensets to the Customers. The Company has also undertaken several market improvement initiatives during the year.

Despite a highly competitive market, the Industrial business of the Company retained its market share in OFF highway market. The Tractor Segment was impacted due to uneven rainfall across the Country last year. With focus on new

business in this segment, an overall growth of 7% was achieved as compared to previous year.

The improved power situation has led to low usage of DG sets and consequent low service load, impacting sale of spares. Despite this, the customer support business was stable primarily due to high customer engagement activities and initiatives directed to ensuring a one stop solution for customers.

International Business continues to remain a key strategic focus area and growth driver for the Company. Despite a challenging macroeconomic environment the Company achieved 11.7% growth in export turnover over the previous year. This contributed 9% of total revenue of the Company.

The Large Engine business caters to a niche segment where demand is based on launch of large government projects and defense power and propulsion requirements. The Company bagged a prestigious order for Indian Navy for development and supply of 2 DG sets.

The first order for supply of Marine Gen Sets was received from Western Marine Shipyard, Bangladesh. These generating sets will be delivered in FY 2016-17. The Company has entered into license agreement with BioCube Corporation Limited for manufacture, sale and service of Bio Diesel Plant, as a step towards green energy.

Despite delayed monsoon, deficient rains and drought conditions in key states affecting the business performance, with the entire product basket and the enhanced distribution network, the Agri Crop Irrigation business achieved over

11% growth as compared to the last fiscal. Mega T products are in operation with 150+ fully operational dealerships in 12 states including J&K, within 1 year of launch. The Company has received recognition as the Top 25 innovative organization in India, in Farm Mechanization Sector, from Confederation of Indian Industry.

SUBSIDIARY COMPANY

The Company has incorporated a 100% subsidiary - KOEL Americas Corp. in USA, during the FY 2015-16. It was established with a strategic intent to penetrate the American market including USA and Canada as well as focus on the Latin American region. KOEL Americas Corp. for the fiscal ended 31 March 2016 achieved a Sales Revenue of US\$ 502,402 (Rs. 3.34 Crores) with a Profit from operations of US\$ 19,931 (Rs. 0.13 Crores) and Net Profit after Tax of US\$ 16,941 (Rs. 0.11 Crores). This has been reflected in the Company's consolidated statement of accounts.

FINANCIAL HIGHLIGHTS

While our results this year are not ideal, I do believe that they are, nevertheless commendable in a difficult year, and prove that your company has the resilience to ride out volatility and uncertainty.

The key highlights of the Company's Standalone financial performance during the year 2015-16:

- Total Sales for the year at Rs. 2,419 crores was lower, by 2%, than the PYs figure of Rs. 2,473 crores. Significant portion of this drop came from the Large Engines Business.
- Exports grew by 11.7% and contributed to 9% of the total revenue.
- Profit before Tax for the year after considering exceptional & extra ordinary items was Rs. 202 crores as compared to Rs 205 crores in the previous year.
- Profit after Tax for the year was Rs. 140 crores as compared to Rs. 143 crores in the previous year.

In these challenging times, your Company's Balance Sheet remains fundamentally strong. We continue to be a zero debt Company and have managed to keep a strong rein on our working capital.

DIVIDEND

The Board of Directors had declared an Interim dividend of 250% i.e. Rs. 5/- per equity share during financial year 2015-16. The directors recommend that the interim dividend so declared and paid, be the final dividend for the financial year 2015-16.

PERFORMANCE OF Q1, 2016-17

The sales revenue for the quarter ended 30 June 2016 stands at Rs. 651 crores as against Rs. 575 crores for the corresponding quarter of 2015-16. Profit before tax for the quarter is Rs. 82 crores, as against Rs. 52 crores for the corresponding quarter of 2015-16.

CHALLENGES & OPPORTUNITIES GOING FORWARD

While the Agri Business cannot eliminate the inherent risk of climate dependency, the Company is taking several steps to minimize risk including focus on diversification of product basket in the Crop Irrigation and farm mechanization business.

With an entire range of high performance gensets from 2.1 to 1010 kVA supported by a best in class support team, we are positive of being able to cater to a wide spectrum of market requirements. With the Company's strong brand image and presence in PSUs, it will be able to contribute more towards many public welfare schemes that government has launched in the year 2015. In many of these schemes focus is on rural growth, where DG set power back up will play an important role in functionality of these projects.

With the Government's commitment to focus on infrastructure, road construction and mining business, the Industrial Business is expected to show an improvement in coming quarters.

For Large Engine Business, the Company will continue to drive its growth in the defense and marine propulsion and power segments.

CORPORATE GOVERNANCE

Your Company has complied with the guidelines on Corporate Governance. Your Company's Corporate Governance Philosophy is based on imbibing best practices in the area with emphasis on ensuring transparency and accountability. Risk identification and mitigation exercises are constantly reviewed and implemented.

ACKNOWLEDGEMENT

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

Our customers, suppliers, vendors, lenders and our motivated employees have supported the initiatives undertaken by the Company during the year. I thank all of them and look forward to your continued support.

Thank you very much for your time, today.