

## **Chairman's Speech**

### **Annual General Meeting on August 28, 2020**

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 11<sup>th</sup> 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. The pandemic has challenged the status quo in many ways. For instance, this is the first time we have shared the Annual Report by electronic mail and conducting AGM by VC.

Before I begin with the economic circumstances and company results I would like to highlight that the Company was bestowed 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 / Gensets manufacturing 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 European Foundation of Quality Management (EFQM).

## **Economic and Industrial Scenario**

The Indian economy registered a slowdown in 2019-20 with GDP growth falling from 6.8% in 2018-19 to 4.5%. 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 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.

The 'Make in India' and 'Vocal for local' initiatives have the opportunity to reverse this rather adverse circumstance by

encouraging the setting up of world class enterprises that capture larger value for the country. It is a welcome move that concerted efforts are being made at the Centre and States to improve the ease of doing business and foster an environment where investment is encouraged.

## **BUSINESS HIGHLIGHTS - FY 2019-20**

All business segments except exports have declined as compared to the previous year resulting in an overall decline of 9%. At the yearend sale was lost due to the sudden lockdown 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 overall market share of 28% in terms of volume.

Your company is very active in the Power Generating market for the last 3 decades offering the widest range of Petrol and Diesel Generating sets (2-1010 kVA) used for power back-up in Industrial, Residential & Commercial establishments and also in special applications such as Telecom. The new i-Green, IoT enabled product range, continues to be market leader and is getting encouraging response from customers. Your company is a pioneer in setting this

IoT trend in the industry extending comfort & 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 Agricultural Business saw a decline of 8%. The Electric pumps segment however grew by 32%. In our Tiller range under Farm mechanization solutions your company has reached to 14% share of overall market and dominated 15HP market segment with more than 50% market share.

The Construction and Off Highway Industry faced a challenging year. The overall demand for the Construction Equipment Industry further weakened because of unfavourable 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 & lack of liquidity in the market. 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 into decline in the growth of Industrial Segment. However, tractor segment has picked up since April 2020.

KOEL's after sales service support, provided through its wide spread digitally connected 400 plus outlets Pan India, with robust digitized

processes and over 5000 trained service personnel, makes it a dominant service brand and Industry benchmark. With the introduction of innovative service products such as Bandhan & Anubandh, the Company is now directly engaged with retail customers for long term service contracts and delivers assurance of best in class after sales service our products.

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, your Company developed 8 more engines nodes and continues to gain the market share.

Continuing our focus on operational excellence the company released its 8<sup>th</sup> Corporate Sustainability Report, which focuses on being future-ready at every level of business.

The Company continues to take initiatives for Industry 4.0 implementation.

### **SUBSIDIARY COMPANY'S PERFORMANCE:**

As of 31<sup>st</sup> March 2020, KOEL has 3 subsidiaries –

- 1) La-Gajjar Machineries Private Limited, (LGM)
- 2) KOEL Americas Corporation (KAC) and
- 3) Arka Fincap Limited (AFL)

During the year under review, LGM has leveraged the strengths 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 strengths, market reach, research and development department and capabilities to adopt new technologies.

At the end of the Financial Year 2019-20, all the 4 intended engine families for KOEL Americas, have been certified by the Environment Protection Agency (EPA) and are made commercially available.

During the FY 2019-20, the Company has invested Rs. 499.50 Crores in the equity shares of AFL. AFL commenced into the corporate and real estate lending segment in FY 19-20 and is geared up to expand further into the SME / MSME lending business in FY 20-21.

## **FINANCIAL HIGHLIGHTS**

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

On standalone basis, your Company delivered the following for FY 2019-20:

- Total Sales for the year at Rs. 2,841 crores compared to PYs figure of Rs. 3,117 crores.

- Profit 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 subsidiaries performance is concerned,

- The additional sales revenue from KOEL Americas Corp. USA (wholly owned subsidiary) was US\$ 27,04,328 (Rs. 19.21 Crores). The Profit after Tax was US\$ 101,756 (Rs. 1.04 Crores)
- The additional sales revenue from La-Gajjar Machineries Private Limited (subsidiary) was, Rs. 467 Crores. Net Profit was Rs. 16.43 Crores.
- The additional revenue from Arka Fincap Limited for the FY 2019-20, Rs. 48.44 Crores. Net Profit was Rs. 6.10 Crores.

## **DIVIDEND**

The Board of Directors have declared an Interim dividend of 200% i.e. Rs. 4/- per equity share during financial year 2019-20. The Board recommends that the interim dividend so declared and paid, be considered as the final dividend for the financial year 2019-20.

## **CHANGE IN THE BOARD MEMBERS**

The term of appointment of Mr. Pratap G. Pawar, as Independent Director of the Company, ended on 11<sup>th</sup> August 2019. (Appointed in 1973)

Mr. R. Srinivasan tendered his resignation as Independent Director of the Company due to his pre-occupation, with effect from 25<sup>th</sup> October 2019. (Appointed in 2005)

The term of re-appointment of Mr. Rajendra R. Deshpande as Managing Director & Chief Executive Officer of the Company expired on 28<sup>th</sup> April 2020. (Appointed as Director in 2005, as Joint MD in 2015 and as MD & CEO in 2018)

The Board placed on record its appreciation for the guidance, support and contribution provided by Mr. Pratap G. Pawar (he was associated with the Company for 46 years), Mr. R. Srinivasan (he was associated with the Company for 14 years) and Mr. Rajendra R. Deshpande (he was associated with the Company for 43 years as Management Trainee to Managing Director), during their tenure as Director of the Company.

## **PERFORMANCE OF Q1, 2020-21**

On Standalone basis, the sales revenue for the quarter ended 30 June 2020 stands at Rs. 320.44 crores as against Rs. 763.65 crores for the corresponding quarter of 2019-20. Loss before tax for the



quarter is Rs. 14.97 crores, as against Profit before tax Rs. 66.77 crores for the corresponding quarter of 2019-20.

On Consolidated basis, revenue from operations for the quarter ended June 30, 2020, stands at Rs. 422.33 crore as against Rs. 901.03 crore for the corresponding quarter of 2019-20.

Loss before tax for the quarter is Rs. 9.24 crores, as against Profit before tax Rs. 71.87 crores for the corresponding quarter of 2019-20.

### ***Challenges and Opportunities going forward***

We have witnessed a significant slowdown in Q1 of the current fiscal year, thanks to outbreak of COVID-19 and subsequent lockdown(s) which led to shut down of plants in March 2020 and disrupted operations of your Company in a material way in Q1 of FY 2021.

Since the gradual easing of the lockdown from 15 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 our manufacturing sites of the Company. Given the global nature of the COVID-19 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 point of 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 hour for us is to ensure that we continue to provide our workforce with a safe environment, ensure that they can effectively work remotely, thereby ensuring their 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 KOEL 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 operates.

### ***Acknowledgements***

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 and adapt to the changing external environment.

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

Thank you ladies and gentlemen.