

Chairman's Speech for the 20th Annual General Meeting of Kirloskar Ferrous Industries Limited on July 22, 2011.

Welcome

Good morning Ladies and Gentlemen

On behalf of the Board of Directors, I extend a very warm welcome to all of you to this 20th Annual General Meeting.

Mr. Atul Kirloskar, Chairman of the Company, has conveyed his inability to attend this Annual General Meeting today on account of his ill health. Your Directors have chosen me to be the Chairman of this meeting. I thank the Directors and accept the Chairmanship of this Annual General Meeting.

I wish to inform that Mr. Atul Kirloskar is recovering well from his illness and he is expected to resume office shortly.

The notice convening the meeting, the Directors' Report and the audited accounts have been with you for some time and with your permission, I shall take them as read.

Economic Environment:

Global Economy:

Weaknesses in major developed economies continue to drag the global recovery and pose risks for world economic stability in the coming years.

Growth in both, advanced economies and emerging / developing economies, outpaced initial expectations. This raises hopes for sustained, though moderately paced global recovery during 2011.

Inflation risks have risen significantly at global level, not just in emerging markets but also in advanced economies.

Crude oil prices at global level have gone up by 34 percent during the last fiscal. It has touched the peak level at \$107 per barrel in March 2011 which has been the highest since July 2008. Crude prices continue to remain volatile due to rising unrest in Arab nations and Japanese nuclear crisis, posing a threat to current inflation levels and India's import bill.

Indian Economy:

The Indian economy grew by 7.8 percent during the quarter ended March 2011, the slowest pace of growth in the last five quarters mainly on account of poor performance of the manufacturing sector although the overall economic growth during 2010-11 was

8.5 percent. Industrial growth decelerated in the second half on account of high interest rates and moderation in expansion projects. The Services sector exhibited sustained momentum in 2010-11, though most services decelerated somewhat in third quarter of the financial year. The Index of Industrial Production (IIP) has witnessed a downward trend in 2010-11. Though April 2010 recorded higher IIP at 16.5 percent, the year saw a fall with December witnessing the lowest IIP at 1.60 percent. Industrial growth has been volatile and has fallen sharply due to inflation and rising commodity prices.

Inflationary pressures were effectively contained in the earlier part of the year but increase in vegetable prices, manufactured products and spiraling up of global fuel prices elevated the rate of inflation. Inflation on an average has been above 9 percent for financial year 2010- 2011

During fiscal 2010-11, the RBI's move to raise policy rates – repo and reverse repo rates – kept the monetary and liquidity conditions tight. The central bank raised the policy rates nine times since March 2010 in its attempt to tame inflation in the country. This has led to an increase in lending rate by commercial banks. Gold prices have increased in last 2 quarters of FY2011, due to rising demand coupled with the Middle Eastern Crisis. Gold price have risen 30 percent during the year under review and is quoted at an all-time high of above Rs. 21,000 levels for 10 grams. The Sensex closed above 19,000 level in March 2011, gaining 11 percent from the 17,000 mark at the start of April 2010.

The Rupee ended the fiscal year at around Rs. 44.58 per dollar, not much of a change from its level of Rs. 44.91 per dollar at the start of financial year 2010-11.

Monetary and Liquidity Conditions in the Indian Economy:

As inflation stayed above the indicated projections during 2010-11, monetary policy was continually tightened through the year. Monetary and liquidity conditions responded to the policy measures, though with a lag. Deposit growth which lagged behind the credit expansion, picked up in Q4 of 2010- 11, responding to the rise interest rates. Liquidity conditions were tight for most part of the year.

Industry Overview:

Coke and iron ore are the main constituents in the manufacture of pig iron. Prices of coke and iron ore showed an increasing trend during the year under review. Coke prices, which were around USD 450 per MT at the beginning of the year, increased to USD 530 per MT towards the end of the year on account of shortage of coking coal from Australia due to floods in December and January 2011. While Iron ore prices increased from a level of Rs. 2,900 per MT to over Rs. 4,500 per MT . The increase in calibrated iron ore prices was on account of closure of majority of mines due to compliance issues and restrictions on issue of permits by Department of Mines, Geology and Forests.

The pig iron price which was at a level of Rs.24,700 rose to a level of Rs.27,800 per MT at the end of the year.

Karnataka, a major supplier of high-grade ore, clamped down on exports in its bid to crack down on illegal mining and this has affected India's iron ore export to China from 107 million tonnes in 2009-10 to 95 million tonnes in 2010-11.

Auto Industry:

The auto industry still continues to be in a growth mode. According to the Society of Indian Automobile Manufacturers (SIAM), the cumulative production data for April 2010 to March 2011 shows production growth of 27.45 percent over same period last year. The industry produced 17.91 million vehicles.

The growth rate recorded for Domestic Sales for 2010-11 was 26.17 percent amounting to 15.51 million vehicles units compared to 12.29 million units in the previous financial year due to economic growth, more focus on rural areas and new model launches.

Passenger Vehicles segment grew at 29.16 percent and Commercial Vehicles segment registered growth of 26.97 percent during April-March 2011 over same period last year.

During April to March 2011, overall automobile exports registered a growth rate of 29.64 percent.

Tractor Industry:

The monsoon has a larger bearing on the growth of tractor sales as higher incomes in the hands of farmers fuel more purchases. In the last fiscal, the tractor industry sold 480,000 units ie. rise of 12 to 13 percent on account of higher rural income levels, increased farm output and good monsoons. These factors apart, non-agricultural use of tractors (for haulage in construction and infrastructure projects) continued to increase, benefiting tractor demand. Also, with infrastructure projects and rural employment

schemes increasing employment opportunities, availability of labor for agricultural activities continued to decline, persuading even farmers with medium-sized land holdings to either rent or purchase tractors.

Steel Industry:

India is the 5th largest producer of crude steel in the world. India's crude steel production capacity rose to 78 million tonnes (mt) in 2010-11, a 7.2 percent increase from 72.76 million mt in the previous year. The domestic market during 2010-11 was quite subdued but the domestic prices of steel have been ruling more than the international prices. During the last fiscal, steel market in India started moving up only from December 2010.

Steel market continues to be under pressure due to rising costs of raw materials such as coke, coking coal and iron ore. Lately there are concerns on iron ore supplies due to closure of many iron ore mines for compliance issues.

Year under Review:

Operational Review:

Now I would like to share with you some of the financial highlights of your Company considering prevailing economic scenario, industry review and steps taken by the Company for business improvement:

The sales and other income stood at Rs.1,093 Crores as compared to Rs. 817 Crores of the previous year.

Your Company sold castings aggregating to Rs. 363.58 Crores as compared to Rs. 261.98 Crores in the previous year. The Pig Iron sale was Rs.647.04 Crores as compared to Rs. 434.21 Crores during the previous year.

The profit before tax for the year under review stood at Rs. 71.88 Crores as compared to Rs. 70.26 Crores of the previous year after providing for depreciation and amortization. The profit after tax for the year under review stood at Rs.48.32 Crores as compared to Rs. 49.07 Crores in the previous year.

Your Company was able to pass on the increase in the input prices to the customers, except for the second quarter wherein the increase in the input material prices and pig iron realisation price did not go up in the same proportion and this resulted in lower profitability in the said quarter and the impact of the same in the profit for the year

In July 2010, a 4.5 MW power plant was commissioned resulting in increased power generation capacity from 7.0 MW to 11.5 MW.

During the year several new varieties of castings were put into production as per the requirements of the OEM customers. The high pressure moulding line which was installed at Solapur plant in 2008 has achieved around 70% percent of the capacity

utilisation during the year under review. Your Board has recommended a dividend of Re. 1 per Equity Share (i.e. 20 percent) for Financial Year 2010-11.

Warrants Conversion

The warrants conversion in terms of the Letter of Offer is in progress and will be valid till March 13, 2013. Since the inception of warrant conversion into equity shares till 31st March 2011, your Company has received a sum of Rs. 10.60 million. These proceeds have been utilised for the installation of Sinter Plant at Hospet, Karnataka.

Industrial Relations:

Productivity linked wage agreement with workmen at Koppal has expired on 31st January, 2011. Negotiations with workmen representatives are in progress and the conduct of the meetings are cordial.

The Employer – Employee Relations have been generally cordial throughout the year.

Business Scenario and Current year prospects:

Uncertainty over the pace of international growth, and even its durability, has increased. Inflationary pressures are building up the world over. The world's largest economy, the United States, is likely to be hard-pressed to move beyond a 2.5 to 3 percent annualized growth range in the absence of renewed stimulus. Japan, has probably slipped back into recession, albeit temporarily. Prospects for most European countries are limited by the spreading sovereign debt-related strains in the southern peripheral countries, and the increasing bailout costs that the northern countries, such as Germany, are assuming.

In the current year, global crude steel production is likely to grow by 5 percent as against 15 percent in the previous year. This rate may also get affected due to slackening of appetite for growth in China and Japanese mills suffering on account of tsunami and its after-effect.

The aftershocks emanating from Japan's earthquakes are increasingly being felt around the globe in the form of reduced manufacturing, particularly for automobiles and technology products.

While developing countries continue to drive the global recovery, their output growth is also expected to moderate to 6.0 percent on average during 2011-2012, down from 7.1 percent in 2010.

China's and India's GDP growth is also expected to experience some moderation in 2011 and 2012. The price of crude oil is likely to increase owing to the demand in the emerging market economies and due to the geopolitical tensions in the Middle East and North Africa. Inflationary pressures are gaining momentum. Higher oil and food costs have been the catalyst for increase in price trends.

As per the monetary policy for 2011-12 of Reserve Bank of India (RBI), the Indian economy is expected to grow by 8 percent. The Reserve Bank of India in its mid-quarter review of the monetary policy hiked the repo rate by 25 bps (ie. from 7.25% to 7.50%). The tone of the policy document remained positive on growth and remained firm on price stability as being the central bank's top priority.

Outlook of Steel Industry:

On the prospects of domestic steel market this year, it is expected that it is bound to look-up, considering the gross domestic product (GDP) growth projection of around 8 percent and industry, infrastructure, housing, construction, power and automobile sectors registering reasonable growth rates. However, it is said that the margins of steel producers might be eroded due to increase in the prices of key raw materials such as coking coal and iron ore, which might affect the growth of the steel sector.

Indian steel industry plays a significant role in the country's economic growth. The major contribution directs the attention that steel is having a stronghold in the traditional sectors, such as infrastructure and constructions, automobile, transportation, industrial applications etc.

The country has acquired a central position on the global steel map with its giant steel mills, acquisition of global scale capacities by players, continuous modernization and up gradation of old plants, improving energy efficiency, and backward integration into global raw material sources. Global steel giants from across the world have shown interest in the industry due to its phenomenal performance.

Indian crude steel production is expected to grow at a Compound Annual Growth Rate (CAGR) of around 10% during 2010-2013. Moreover, the government's proactive incentive plans to boost economic growth by injecting funds in various industries, such as construction, infrastructure, automobile, and power will drive the steel industry in future. Steel consumption in India is expected to grow significantly in coming years.

Outlook of Automobile Industry:

The automobile industry expects a positive impact from a normal monsoon this year, inspite of the forecast of a possible slowdown in economy growth. Sales in rural areas, which account for 31 percent of car sales volumes and 53 percent of two-wheeler volumes, are set to get a boost. This industry's growth is set to slow down compared to last year , according to SIAM (Society of Indian Automobile Manufacturers), due to rising interest rates, commodity costs and fuel prices.

Outlook of Tractor Industry:

The tractor industry in India expects sales to grow between 6 to 10 percent in the current fiscal 2011-12 over previous fiscal 2010-11. The tractor industry has a good opportunity for growth with the government focusing on building rural infrastructure. A good monsoon will be able to negate the impact of rising interest rates and oil prices according to market reports.

Outlook for business:**A) Iron ore:**

The Union budget for 2011-12 has enhanced the export duty rate for all types of iron ore (i.e 15 percent for lumps and 5 percent for fines) to unify it at 20 percent ad valorem for both. While doing so, the budget has exempted iron ore pellets from export duty to encourage the value addition process for fines. The finance minister's argument was that iron ore is a natural resource which needs to be conserved. This is in tune with the policies adopted by iron ore rich states like Orissa and Karnataka.

Karnataka, which accounts for about one-fourth of the total iron ore export from the country, banned exports since July 2010. Though the Central Government has levied 20 percent tax on export of Iron ore, this has not made any dent in the prices of iron ore which continues to rise in the domestic market on account of constraints in getting the calibrated iron ore. As per the directions of the Supreme Court in the month of April 2011, the Karnataka Government banned all mining operations for carrying out survey and demarcation (S&D) activities. On 6th May 2011, the apex court issued a directive to form a special team to carry out the S&D exercise in 99 mining leases in the Bellary-Hospet-Sandur region.

Although the Karnataka Government has agreed to lift the ban on exports, exports are yet to begin. Restrictions placed by the State Government to curb illegal mining activities, have resulted in decrease in the iron ore supplies from the mines, leading to unavailability and also increase in cost. This has affected the manufacturing operations of iron and steel industries which are dependent on iron ore from Bellary – Hospet – Sandur sector.

B) Coke:

Imported Coke price is presently is around CIF USD 490 per MT and the domestic coke prices around Rs. 24,000 per MT; Iron ore price ex-mines are ruling around Rs.4,500 per MT.

C) Interest:

With the increase in the repo rates by RBI, the lending rates by the commercial banks will also increase, leading to high interest cost payable by the borrowers.

Considering the outlook and prospects of Steel, Automobile and Tractor Industry, the demand for the products of your Company is also expected to increase in the current financial year, though the demand growth may be moderated.

Financial performance in the first quarter 2010-11:

The current year 2011-12 has started off on a positive note, which is reflected in the results of the first quarter showing a sales turnover of Rs. 265.15 Crores (Quarter 1 of 2010-11 Rs. 224.58 Crores), a profit before tax of Rs. 20.11 Crores (Quarter 1 of 2010-11 Rs. 18.22 Crores) and a profit after tax of Rs. 13.45 Crores (Quarter 1 of 2010-11 Rs. 12.62 Crores).

Future Prospects:

In order to become cost competitive, your Company has installed stoves for both the furnaces and a turbo blower, and has identified the following projects for further cost saving:

- a) Installation of sinter plant to utilise the iron ore fines;
- b) Identified energy conservation projects.

The Sinter plant is expected to be commissioned during the 2nd quarter of FY 2011-12. This project will enhance the productivity, reduce consumption of coke and reduce the dependency in lump iron ore which are scarce.

The Company has received orders for supply of casting from major OEMs. Also there is an increased demand for castings from the existing customers. To meet the additional demand, your Company proposes to install a new moulding line at Koppal plant. Presently the MOEF clearance for the project is in progress. Once the clearances are obtained, the project activity will commence.

To meet the Logistics requirements, your Company is proposing to install Railway Siding at Koppal plant.

Corporate social responsibility:

As a part of its corporate responsibility to the society, the Company has contributed to drinking water facilities, educational assistance and medical facilities to nearby villages and educational institutions. Also some basic facilities such as roads, toilets, drainages, school building and medical centre have been provided through the Trust set up by your Company. Weekly medical checkups by the specialist doctors with medicines are provided and also health camps organized in the neighbouring village. Computer usage training programmes were organized for school children.

Environment:

Besides effluent treatment of waste products and suppression of fugitive emissions through sprinklers, lot of other initiatives have been taken to improve the greenery all around the plant, through massive tree plantation programs. Installation and commissioning of 4.5 MW Power Plant has lead to a reduction in the atmospheric air pollution.

Your Company is certified for Operational Health, Safety, Safety Standard ISO 18001 by IRQS.

Acknowledgement:

On behalf of the Board, I take this opportunity to thank all our Customers, Bankers and suppliers for the cooperation and assistance extended to your Company. I thank all the shareholders for their support and confidence reposed with the Company. I also place on record my appreciation to the leadership of Mr. Gumaste and the teamwork displayed by the employees of your Company.

Thank you!