

Chairman's speech for KOEL's Annual General Meeting for the year ending March 31, 2004.

Date: Monday, July 19, 2004.

Time: 11.00 a.m.

Place: KOEL, Pune.

Welcome

Good Morning Ladies and Gentlemen,

I extend a warm welcome to you all to the Annual General Meeting of your company for the fiscal year ending March 31, 2004 and thank you for taking out the time to attend the meeting.

As the Annual Report is with you for sometime, I am sure you have had time to go through the various milestone achievements of the Company in sales, exports and profits.

The sales and operating income increased to Rs.10,413 million (last year, Rs.8,813 million) registering a CAGR of 17% over 3 years. Exports increased to Rs.610 million (last year, Rs.378 million) registering a CAGR of 31%, over 3 years and the Domestic sales increased to Rs.9,415 million (last year, Rs. 8,261 million) registering a CAGR of 15% over 3 years.

Consequent to increase in sales and operating income, and tight cost control, Profit Before Tax crossed Rs.1,000 million mark to Rs.1,056 million. This PBT is 2.8 times last year's PBT of Rs.383 million. This is the first time your Company's profits have crossed 100 crores.

Year under Review:

Having shared with you the highlights of the achievements in the year under review, I would like to provide some details.

In the operational revenues, the Engines segment contributed 72% of the sales income while the Engine Bearings and Valves segment contributed 9% sales in the year under review.

Your company's sales in Engines segment were higher by 22 % at Rs. 7,807 million (last year, Rs. 6,413 million) as compared to the previous year, while in the Auto Component segment the sales were higher by 13 % at Rs. 967 million (last year, Rs. 854 million). And, the sales in other segment reduced by 1 % over previous year to Rs.1,815 million (last year Rs. 1,833 million).

It is noteworthy to mention that the rise in engine sales was due to growth in all markets – tractors, power generation, earth moving and construction machines, telecom, and services sector in general. Sales of engines in Industrial and construction market were significantly higher, thanks to the ongoing thrust to road construction in the country. The Engine Bearings and Valves business experienced a growth in sales due to increased demand from automobile and engine makers in the country.

The exception to this was a drop in domestic sales of engines below 20 hp. The unprecedented and steep increase in the prices of Iron and Steel in later half of the year was partially passed on to the market. But, this market in rural India is not used to such steep increases over night. Thus, the total market dropped by 12% over previous year. We expect that with UPA government's initiative to boost rural economy, the market will improve, and also accept increased prices over time.

As an immediate compensation to drop in domestic market, the company concentrated and secured increase in exports of engines up to 20 hp. As a medium term solution, company is rapidly designing new products, which will not be as intensive in materials as present ones.

The Capital Employed in Engines and Auto Component segment has registered slight increase as on March 31, 2004 with Engines at Rs.1,322 million (last year, Rs.1,020 million) and Bearings and Valves at Rs. 397 million (last year, Rs. 391 million). Besides seeing increase in Capital Employed against increased revenues, I would like to point out that the figures on the last day of the year are hardly representative of fiscal management through the year. I assure you that there is no let up in our fiscal discipline.

You will be happy to know that Company has been conducting Customer Satisfaction studies for last two years through world's premier marketing information company – AC Nielsen. AC Nielsen's proprietary tool – eQ™ has been used for last two studies in 2003 and 2004. I am happy to inform that in two major markets – power generation, and construction and earth moving – the end users have rated your Company significantly better in 2004 than in 2003. These studies show that end users are now ranking the Company for quality, satisfaction and loyalty near to the best in engineering, the world over.

A noteworthy development in the year under review is the execution of fourth successive wage agreement with the employees union prior to the expiry of the previous agreement on March 31, 2004. Each agreement has period of 3 years. Thus, it will be 12 successive years that will be covered by agreements that were executed prior to the expiry of previous agreement. Though the agreement provides increased wages to

employees, like previous agreements, the employees have agreed to increased productivity goals.

Financial Review:

Profit before extra-ordinary items for the year ending March 31, 2004, was Rs. 930 M which is higher than previous year by 165 % as previous year profit was Rs. 351 M.

Profit Before Tax is higher at Rs. 1,056. M which is an increase of 175 % as compared to Rs. 383 M in previous year. The Profit After Tax is higher at Rs.708 M which is 70 % higher as compared to Rs.415 M in previous year.

As company's needs for funds are adequately met, the company is not accepting or renewing Fixed Deposits from Public or Shareholders.

Business Scenario and Current year prospects:

The Indian economy's robustness was demonstrated by GDP growth of 8.1 %. This is very healthy growth and, I hope and expect that current year GDP growth will be above 6%.

The uncertainty in the economy due to last Lok Sabha elections has now given rise to hope and expectations. If one were to treat government's Budget document as an indication of direction the new government wishes to take, I feel that in strategic terms, priority to agriculture, establishing a consultative group with industry's participation to make manufacturing competitive, and emphasis on education will help industry and your Company to grow in the near to medium term. The announcement that VAT will be implemented from April 2005 is a very

good step that industry has been waiting for a long time. However, I am unhappy to note that Octroi is here to stay.

At last year's AGM on August 14, I had spoken about attracting the world to look at India as manufacturing base. The direction set by the UPA government in policy making is the first step in making our manufacturing sector competitive.

In the first quarter of the current year, Company has achieved higher sales of Engines and Engines Bearings and Valves. The board has approved the first quarter results today, and I am happy to share these with you. The revenue is up by 9 % to Rs. 2,494 million (last year first quarter, Rs. 2,293 million), and includes exports of Rs. 249 million (last year first quarter, Rs. 88 million). The profit before extra-ordinary items for the quarter is Rs. 249 million (last year first quarter, Rs.193 Million). The Profit Before Tax is higher at Rs.211 million (last year first quarter, Rs.195 million).

While it gives me pleasure to share these results for the quarter, I would like to point out that in this quarter, the pressure in "below 20 hp" range of engines have not abetted and that, we are not shipping as many large marine engines this year as in the previous year. But for this market situation, I see that all other markets will be buoyant including large HFO DG Sets. It is noteworthy that in domestic market of 2.5 MW DG set, Company has now secured over 70% share.

Export thrust:

I expect that, UPA government's initiatives, including policies to make manufacturing industry competitive will only strengthen company's prospects for securing contracts from world players. You are aware that

we believe in bringing down costs on continuous basis, and offer world class products, processes and quality. Based on such initiatives, your Company has set out to increase exports dramatically. As mentioned by me last year, the approach is to tap OEM markets as compared to traditional approach to generate orders from dealers, distributors, and against tenders. No doubt the quality and service expected by world's OEM customers is of much higher level as compared to our traditional buyers in foreign market. Your Company continues to prepare to meet these higher standards, and has been successful in securing interest of a few Foreign OEM Buyers for all products – engines, engine bearings and valves. Some of the OEMs are already buying samples and initial lots. We expect these customers will step up their purchases, as they are satisfied with samples and initial supply. The exports of gensets manufactured by the company are also rising.

A good recognised way to present your products to global customers is to participate in global exhibitions. As part of Company's export initiative, Company participated in two important exhibitions in Paris and Munich. You may have noticed photographs of Company's stalls in the printed Annual Report. The leads generated from these exhibitions are being followed up to secure orders. The Company will continue to participate in 2 –3 global exhibitions per year.

Over last two years, several Presidents and Ministers of developing countries have visited the Company with their delegations. These visits and meetings are indication of heightened awareness in foreign countries that your Company can provide them cost effective solutions for their development needs. We have started benefiting from these visits and

meetings as some orders have been secured. The Company looks forward to building on these relationships and markets.

On export front, we expect to cross Rs. 1,000 million mark this year.

Capital Expense:

In the current year, the Company has embarked on Capital expenditure to the tune of Rs.700 million. This is the highest capital expenditure in a year by Company on Plant and Machinery. We will invest approximately 80% of this amount in engines and the rest in bearing and valves. The break-up of investments can be also stated as about 50% for replacing old machinery and addressing quality issues, 18% on R & D for developing new products, and the rest towards capacity expansion. Company's present capacity utilisation is running nearly at 100%, and towards end of the current fiscal, Company expects to start utilising the additional capacity.

Internal Audit:

The Internal Audit processes in the Company were improved in the year under review, and reputed audit firms were appointed to conduct audits. The reports of the audits were considered by Audit committee of the board that met five times in the year to decide on appropriate corrective actions.

Acknowledgements:

I am happy to inform that the customers in each market have appreciated our products, responsiveness and customer care. As a result company's market shares in domestic markets have gone up in each key markets.

Hence, I would like to thank all our customers with a promise that our customer centricity will keep on becoming sharper with time.

I am grateful for the support given to us by you, the shareholders, the bankers, our suppliers, and our employees.

Thank you!