

Chairman's speech for KOEL's Annual General Meeting for the year ending March 31, 2005.

Date: Friday, July 15, 2005.

Time: 10.30 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, 2005 and thank you for taking out the time to attend this meeting.

As the Annual Report is with you for sometime, I am sure you have had time to go through the various achievements of the Company in the year under review.

The sales and operating income increased to Rs. 11,826 million (last year, Rs.10,413 million) registering a growth of 14%. Exports increased to Rs.899 million (last year, Rs.610 million) registering a growth of 47% over last year and the Domestic sales increased to Rs.10,558 million (last year, Rs. 9,415 million) registering a growth of 12% over last year.

Profit Before Tax was Rs.2,013 million as compared to Rs.1,056 million last year.

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 73% (last year, 72%) of the sales income while the Engine Bearings and Valves segment contributed 9% (last year, 9%) sales in the year under review. Rest of the revenue came from other businesses.

Your company's sales in Engines segment were higher by 15 % at Rs. 8,954 Million (last year, Rs. 7,807 Million) as compared to the previous year, while in the Auto Component segment the sales were higher by 8% at Rs. 1,043 Million (last year, Rs. 968 Million). And, the sales in other segment increased by 21 % over previous year to Rs.2,201 Million (last year Rs. 1,815 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 on infrastructure building. 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 increased prices of diesel pumpsets, depleting water levels, and announcement of free electricity to farmers in certain states affected this market. Added to the woes are increased prices of diesel. Thus, the total market for diesel driven pumpsets below 20 hp dropped by 30% over the previous year. While the drop in our revenue was contained to 10% in the same market.

As an immediate compensation to drop in domestic market, the company concentrated and secured increase in exports of engines up to 20 hp. I had mentioned last year that company has embarked on developing new products that are not as material intensive as the present ones. These products will offer us opportunity to deliver products to farmers at price points they desire. The development is progressing satisfactorily and we expect to introduce the new products next year.

The Capital Employed in Engines and Auto Component segment has registered slight increase as on March 31, 2005 with Engines at Rs.1,390 million (last year, Rs.1,322 million) and Bearings and Valves at Rs. 461 million (last year, Rs. 397 million). I would like to point out that these figures are to be seen against increased sales and are result of our tight fiscal management.

I had shared with you last year the results of Customer Satisfaction assessment by reputed independent agency like AC Nielsen. Such assessment is made each year and Company attends to specific observations that are thrown up. In the year under review satisfaction of our customers continued to be comparable to the best in industry.

Employee Cost :

Consequent to the wage agreement with employees union valid for 3 years and revision in salaries of Managers, the employee costs have gone up by about Rs.165 Million in current fiscal.

The employees have agreed to increased productivity goals to ensure competitiveness on this front. I am certain that employee cost as

percentage of sales will reduce over time due to increased sales and better productivity.

With increasing opportunities in manufacturing sector, the attrition rate has gone up in year under review as compared to those experienced earlier. The company is preparing to address this by increasing attention to employee related matters.

In the year under review, the Company conducted employee satisfaction assessment by reputed independent agency – Gallup. The results show that the managerial satisfaction levels are good and on some parameters we are comparable to other companies in India. The parameters on which we are not comparable to others are being attended to and we look forward to improvements in employee satisfaction and involvement.

Capital Expense :

In the year under review, we could complete capital expenditure of Rs. 419 Million as compared to our plan to invest about Rs. 700 Million. The result was that we fell short of capacities to service engine bearing customers. The planned capital expenditure of the current year and balance from the year under review will be completed soon, and will result in increased sales of auto components and engines in 20 to 300 hp engines.

With the increasing confidence in the Indian economy and initial successes in overseas OEM market, I see the need to now develop products for the Global markets and plan for quantum leap from our present platform. Thus, in the year under review, we have increased

capital expenditure in R&E to five times the amounts we have invested in earlier years.

Going forward, our expenses will increase for developing new products and technologies, and investments in Plant and Machinery will also go up.

Financial Review:

Operating profit for the year under review was Rs.1,016 million as compared to Rs.1,057 million in the last year. The profit is more or less unchanged in spite of increased sales as company was not able to pass on to the customers full impact of sharp increase in prices of Iron and Steel and other commodities and the increased employee costs. Additionally, product mix change also impacted the profit.

Profit Before Tax inclusive of income due to sale of investments is higher at Rs. 2,013 million which is an increase of 91% as compared to Rs. 1,056 million in previous year.

The Profit After Tax is higher at Rs.1,739 Million which is 146% higher as compared to Rs.708 Million in previous year.

Business Scenario and Current year prospects:

The Indian economy's robustness was demonstrated by GDP growth of 6.9 %. This is very healthy growth and, I hope and expect that current year GDP growth will be above 7%.

The Stock markets are witnessing ever rising peaks in indices. This is an indicator of confidence in the Indian economy and anticipated growth in

coming years. Thus, I do expect the economy to be buoyant in the rest of the current fiscal and your company benefiting from the buoyancy.

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 31% to Rs. 3,275 million (last year first quarter, Rs. 2,494 million), and includes exports of Rs. 355 million (last year first quarter, Rs. 249 million). In this quarter, the operating profit is Rs.219 million which is slightly lower as compared to last year's same quarter at Rs.249 million mainly due to lower financial income of Rs. 19.2 million this year versus Rs.79.5 million last year.

While sharing these results for the quarter, I would like to point out that in spite of increase in sales of engines below 20 hp by 26% as compared to comparable quarter in last year, the pressure to develop competitive products for farmers has not abetted. As mentioned earlier, company is developing new products to address needs of customers in this segment.

Export thrust:

You are aware that Company has set out to increase exports. While year-on-year exports registered 47% increase, first quarter increase over comparable period last year is 43%. In addition to developing OEM customers, we have started selling application packages to foreign institutional buyers. Their initial interest and order flow is good. The quality and service levels expected by foreign OEMs and institutional buyers are much higher than those expected by our traditional customers in domestic and foreign markets. Your Company continues to prepare to

meet these higher standards. We expect these customers will step up their purchases, as they are satisfied with our products and services.

Societal Initiative :

Company has sponsored one Akansha Centre in Khadki, Pune. The centre caters to 60 under privileged children who are taught languages, mathematics, and creative skills are also imparted. The goal is to develop them in to be confident members of society. I am happy to inform that this centre is running satisfactorily for one and half years with attendance levels exceeding 80%.

Corporate Governance :

SEBI has revised the guidelines for Corporate Governance which are to be complied with by December 2005. I am happy to inform that company is progressing to comply with the revised guidelines well within the prescribed time.

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, and exports are increasing. 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, our bankers, our suppliers, and our employees.

Thank you!