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Kirloskar Oil Engines Ltd.
Welcomes you to
Briefing on fiscal FY06

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Today's Discussion

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- Economic Environment
- Highlights of FY06
- Financial Review
- Operations Review
- Growth Strategy and FY07 Prospects
- Q and A session

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Economic Environment

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- Indian Economy continues on growth path.
- Demand for us driven by agriculture, rural economy, road construction, housing, and services. These continue to grow at faster pace.
- Exports of manufactured goods are increasing
- Sentiment continues to be conducive to investments giving impetus to capital goods spending

Change in Industry Dynamics

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- On July 01, 2005 Government announced Norms for Emission and Noise from generating sets. These continue to be toughest in the world for generating sets.
- Industry took time to develop products to meet these Norms, and all players could not meet them. These have to stay away from "Regulated Market".
- Though enforcement of the Norms may be weak in Rural Areas, Urban Customers have reconciled to higher price to meet the Norms. Industry's Unit Price Realisation has increased.
- Norms will be soon legislated for other "off road" uses like Construction Machinery.

Highlights FY06

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- Increase in Sales by 21% to INR 13,953 M
- PBT increased by 22% to INR 2,460 M inclusive of INR 975 M on sale of investments
- **PBT before Extra Ordinary Items increased by 46% to INR 1,485 M**
- **Engine Sales cross INR 10 Billion** for first time by registering 30% increase to INR 11,479 M
- **Exports cross INR 1 Billion** for first time by registering 42% increase to INR 1,321 M
- International OEM Customer development continues, and few have started buying

Highlights FY06

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- Increase in Auto Component Sales to OEMs by 22% though overall growth restricted to 5% due to capacity constraints. Resultant drop in sales to After Market.
- INR 683 M CAPEX completed in FY06, 60% is for Capacity increase

Financial Performance – P&L

(All in INR M)

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Year	FY06	FY05	Change
Net Sales	**13,953**	**11,486**	21%
Income from operations	484	368	32%
Other Income	274	206	33%
Consumption of Raw materials	**9,995**	**8,213**	22%
Staff Cost	**894**	**893**	0%
Other expenditure	1,961	1,601	22%
Interest	97	70	39%
Depreciation	280	267	5%
Profit before Extra ordinary items	**1,485**	**1,016**	46%
Extra ordinary Income*	**975**	**1,133**	-14%
Extra ordinary exp	**0**	**137**	
Profit before tax	**2,460**	**2,013**	22%
Provision for Taxation - Current	400	257	56%
Provision for Taxation - Deferred	31	17	79%
Provision for Taxation - FBT	23	0	
Profit after tax	**2,006**	**1,739**	15%
Earning per share (INR)	**21**	**18**	17%

* = Extra ordinary income is on sale of investments

Sales, FY06 Vs. FY05

(All in INR M)

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All in INR Million, rounded off	FY06	FY05	Change, rounded off
Small Engines	2,556	1,970	30%
Medium Engines	7,925	5,970	33%
Large Engines	997	884	13%
Total Engines	11,479	8,824	30%
Bearings	879	837	5%
Valves	185	177	4%
Auto Component	1,064	1,014	5%
Castings	662	615	8%
Fuel Oil	1,504	1,241	21%
Coke	-	110	
Power	34	174	-80%
Total (Includes Inter-SBU Sales)	14,743	11,977	23%
Inter SBU - Sales	789	491	61%
Total External Sales	13,953	11,486	21%
Exports	1,321	931	42%
Exports / Total External Sales	9.5%	8.1%	

Balance Sheet

(All in INR M)

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Particulars	FY06	FY05	Incr / (Decr)
Shareholders' funds	7,184	5,621	1,563
Secured & unsecured loans	670	517	153
Deferred tax adjustment	97	67	30
Total sources	7,951	6,205	1,746
Fixed Assets	1,694	1,318	376
Capital WIP Incl. Advances	228	129	100
Investments	4,999	3,784	1,215
Net current assets	1,030	974	56
Total applications	7,951	6,205	1,746

“Operating Ratios”

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Year	FY06	FY05	FY04
Return on Net Worth (Before exceptional items)	22%	19%	27%
Return on Net Worth - Total	36%	37%	27%
Return on Operating Capital Employed*	44%	31%	39%
* = Return and Capital Employed is net of Investments and Returns theiron.			

Funds Flow FY06

(All in INR M)

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Particulars - All in INR M	FY06	FY05
SOURCES OF FUNDS		
INTERNAL ACCRUALS	2,741	2,281
DEFERRED TAX BALANCE	31	17
TERM LOAN	112	286
ICDs RETURNED	-	67
TOTAL - SOURCES	2,884	2,651
APPLICATIONS OF FUNDS		
FIXED ASSETS (Incl Capital Advance)	756	420
INVESTMENTS	1,214	1,770
INCREASE IN NET CURRENT ASSETS	(53)	36
DIVIDEND	443	276
INCOME TAX	454	274
TOTAL - APPLICATIONS	2,814	2,776
Net change in Bank Borrowings & Cash	69	(124)

Operations Review FY06

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Engine Sales (INR M)

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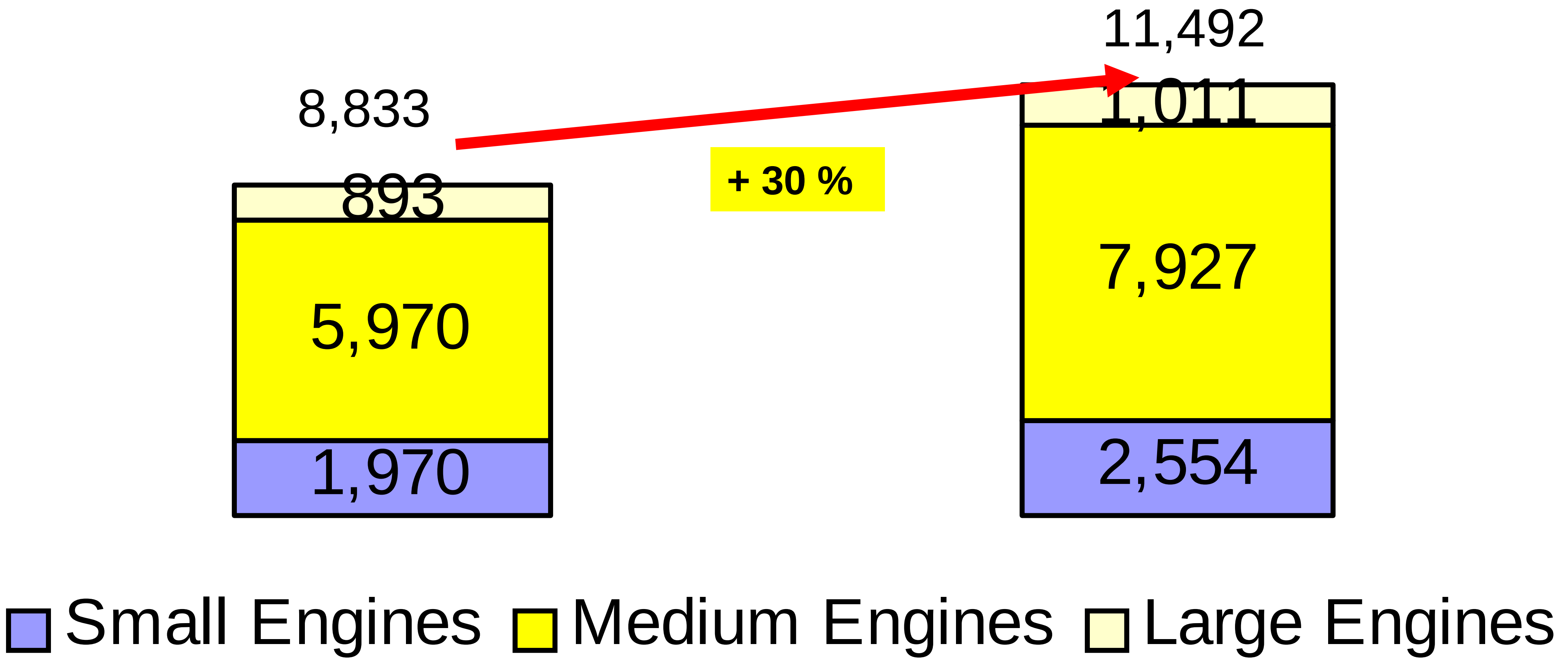

Engine Sales (Qty.)

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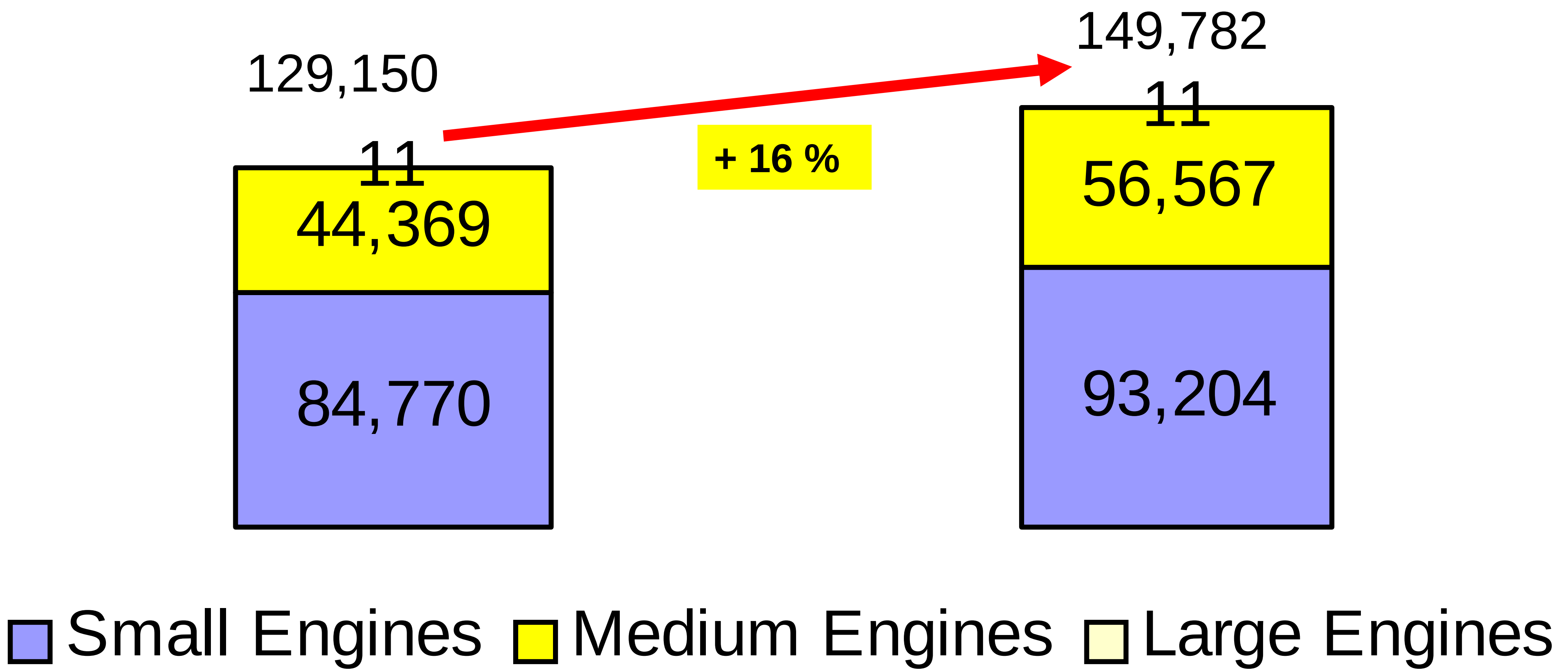

Auto Comp Sales (INR M)

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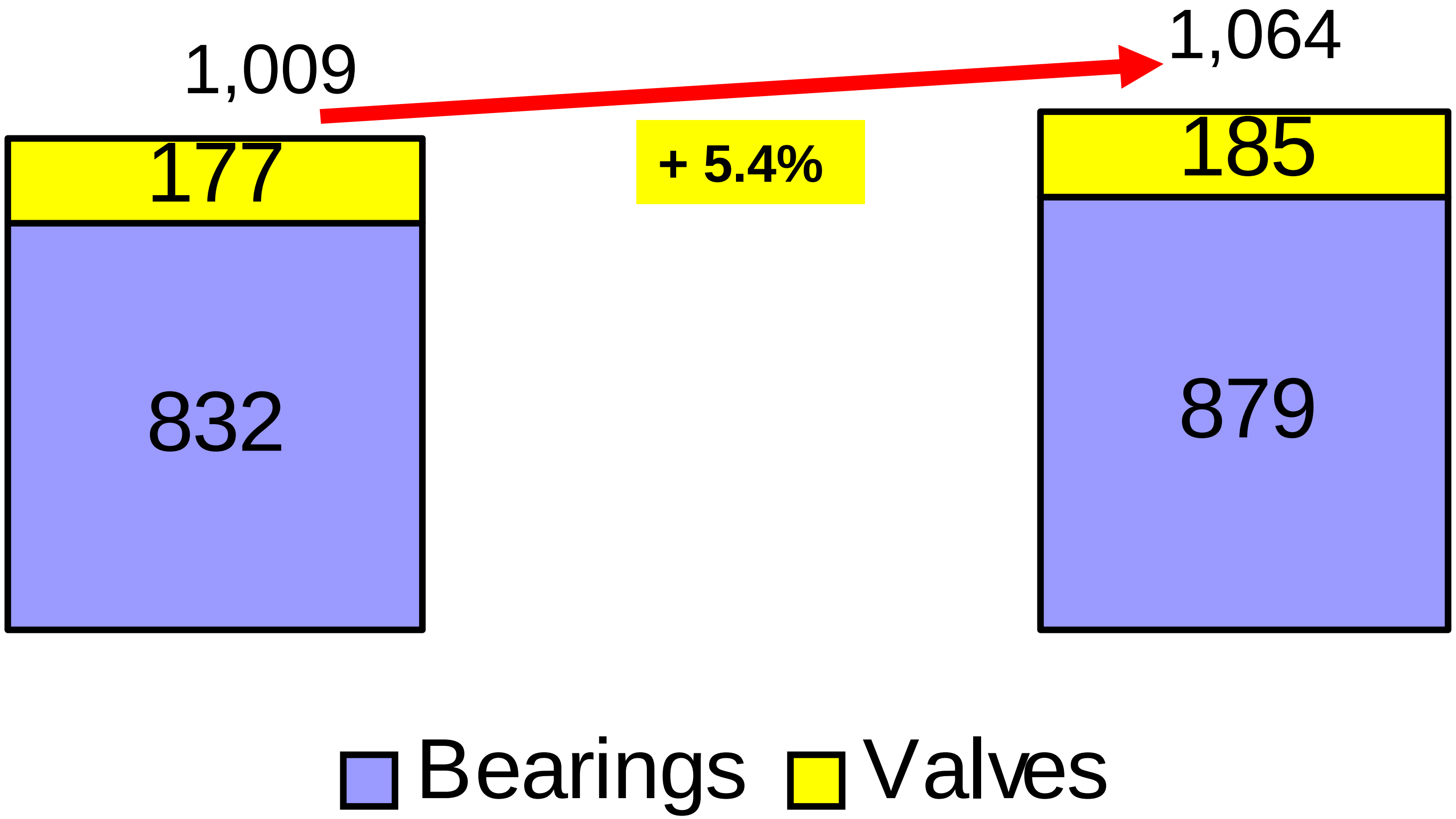

Engine Sales by Applications

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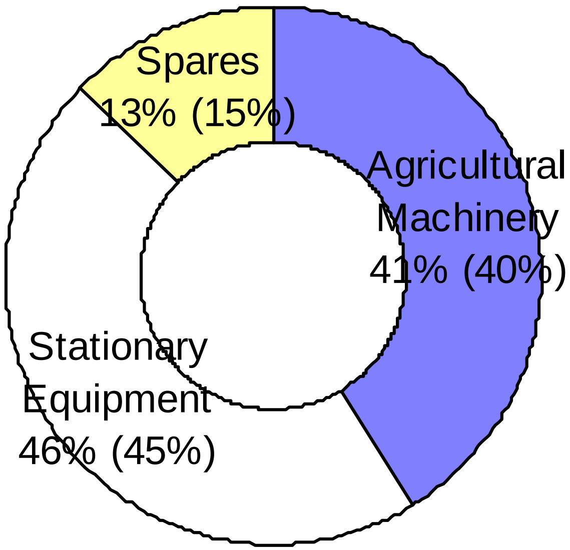
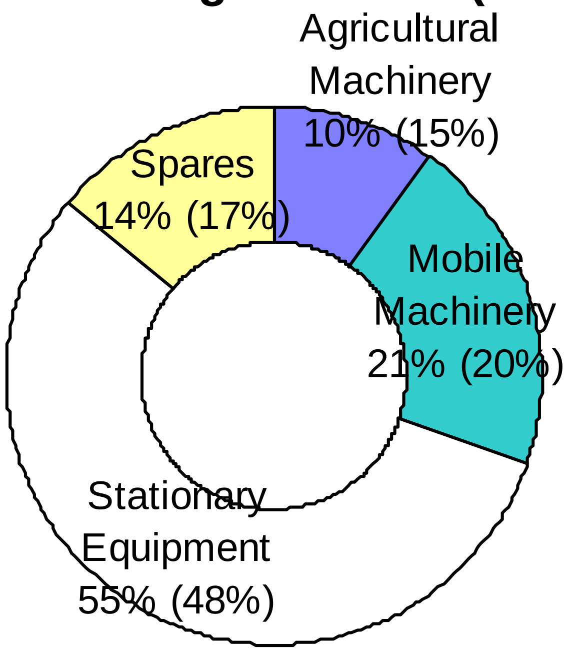
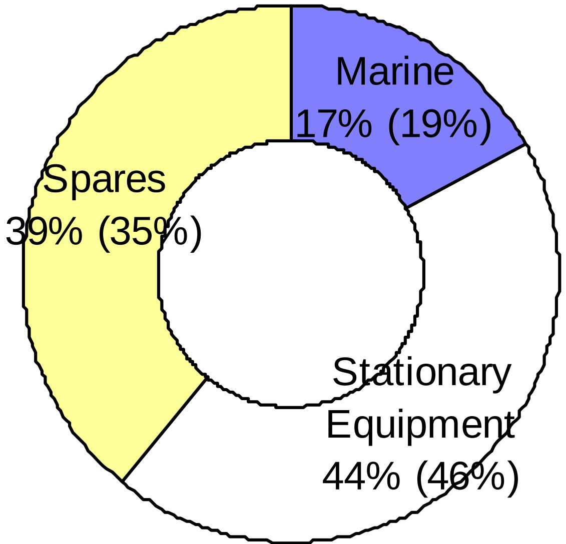
Small Engines FY06 (FY05)



Medium Engines FY06 (FY05)



Large Engines FY06 (FY05)



Increase in OEM Sales of Bearing

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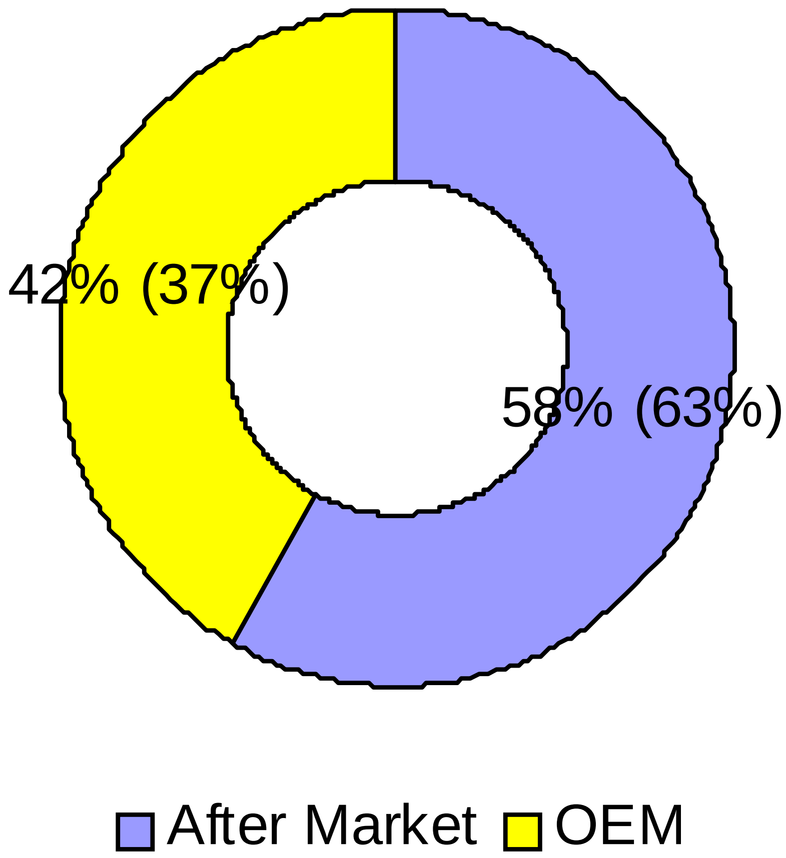
Break-up - Auto Comp Sales FY06 (FY05)



Domestic Market – Small Engines

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- Demand for Genset is growing. Increased growth from Telecom Sector
- As some competitors are not able to meet the Emission and Noise Norms, they are not able to participate in the regulated market.
- Enforcement of Emission and Noise Norms for generating sets in rural areas is lagging.
- Diesel Agri Market has stabilised. New product with higher customer appeal and lower material content will be launched soon

Domestic Market - Medium Engines

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- Demand for Genset is growing. Increased growth from Telecom Sector in range up to 20 kVA
- Company keeping **leading position** due to unique ability to design, install and service generating sets for demanding customers.
- **Captured 25% market share** in 4th year of introduction of 250 – 600 kVA range, and share is growing.
- **Achieved 50% increase** in supply to Construction and Industrial Machinery OEMs.
- Implementation of World Class Oracle CRM has progressed satisfactorily

Domestic Market – Large Engines

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- Year on year Product Mix varies significantly
- In FY06, 2 Marine engines (2 in FY05) and 9 gensets (9 in FY05) shipped
- Marine engine order board is strong and more orders in negotiations

Domestic Market – Bearings & Valves

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- Growth – 6% in Bearings and 5% in Valves. Growth constrained due to capacity limitation. Capacity is now increased.
- 22% increase in sales of Bearings to OEMs but drop in After Market
- Order received for bearings for Maruti's Diesel Engines
- Increase in business share with 3 leading OEMs.
- Lead Free materials are sought by Global OEMs. We have started developing these and one OEM has approved our material

Export Sales by Region

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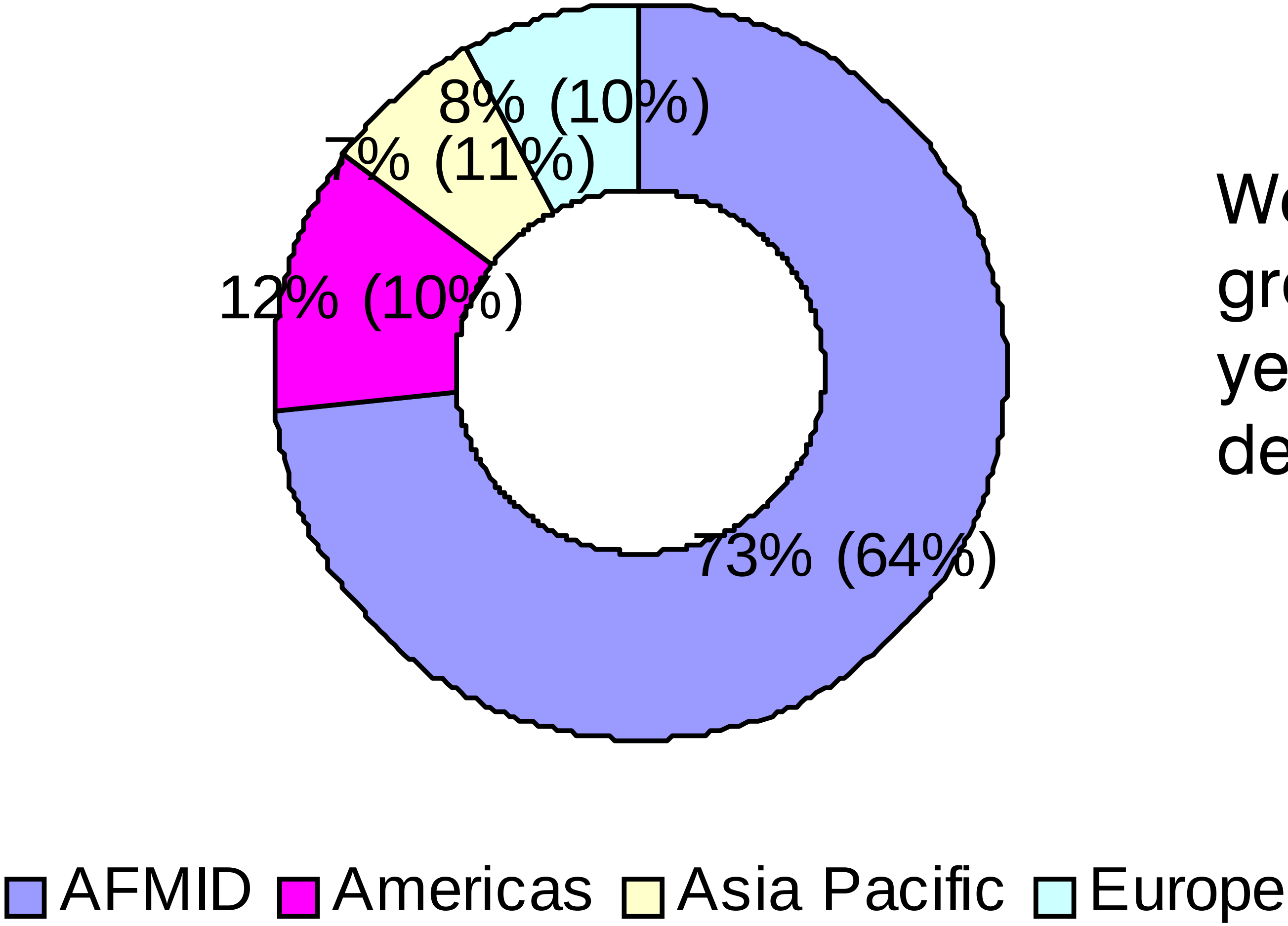
Global Sales FY06 (FY05)



We expect higher growth in coming years from newly developed markets.

CAPEX in FY06

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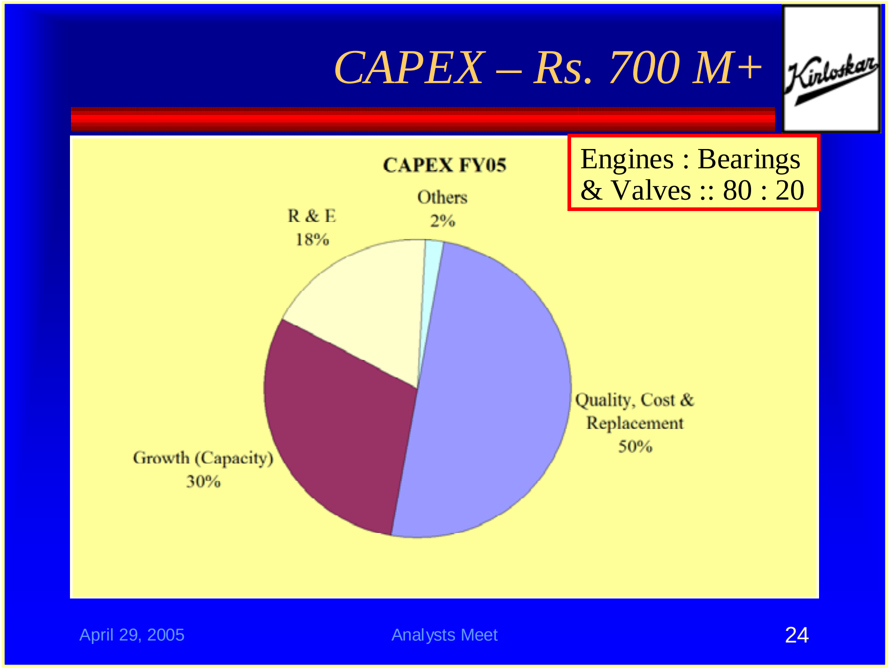

- Total CAPEX in FY06 – INR 683 M
- For Capacity Increase – about 60%

Results in yearly Capacity Increase of

- Auto Comp – INR 150 M
- Engines – INR 1,500 M

In FY07 – CAPEX planned is INR 1,500 M

Outlook for FY07

- Increased domestic and export Sales
- Improve manufacturing cost and product mix

Growth Strategy

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- Grow domestic sales in the buoyant Indian economy
- Continue to increase exports on strength of platform built so far – cross Rs. 2,000 Mio. soon
- Expand product offering in Domestic markets by launching – new diesel pump for farmers
- Keep cutting costs

View of Domestic Market – FY07

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- The market is growing in all segments we offer products – Farm Equipment, Tractors, Power Generation and Construction and Industrial Machinery
- Farmers preference for affordable and portable pumping units is growing. Thus, competitors who are unable to offer preferred products are faltering.
- In Large Engines growth will be from Marine engine sales due to strong order board
- Automobile market and our market share will grow as additional capacities are coming on line.

Opportunities in Exports

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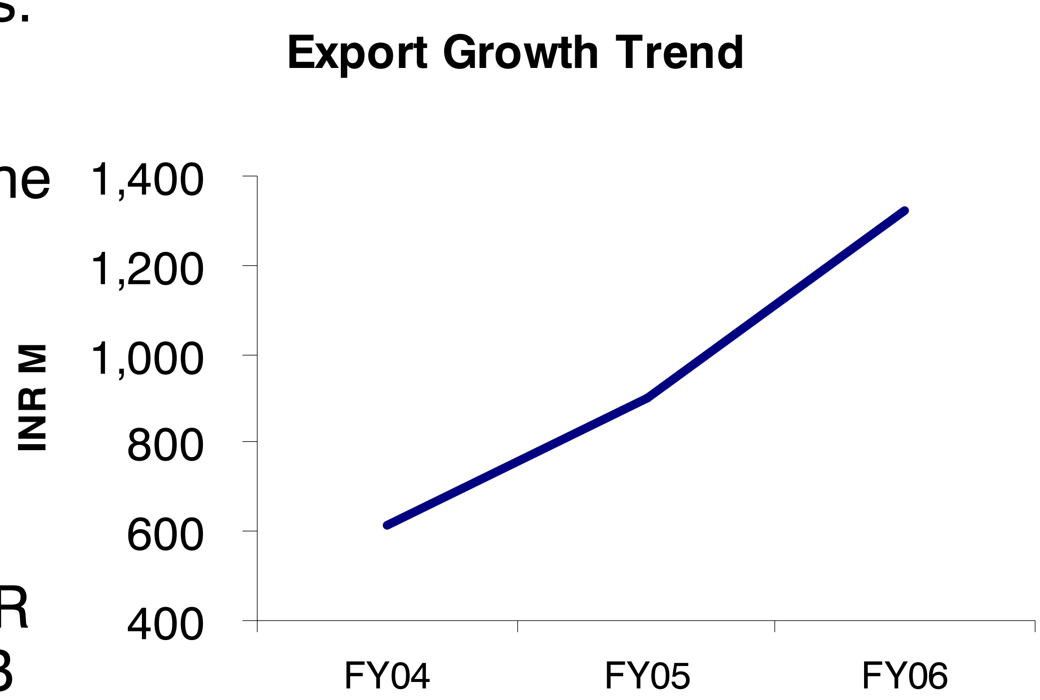
- Specific Initiatives to develop OEM Customers for Engines, Bearings and Valves continues. OEM buying has started.
- World Market in Medium Engine range is over USD 6.6 B (INR 294 B). We are gaining a foot hold by pursuing OEM supply route.
- World OEM Market for – Bearings about USD 1.3 B (INR 59,800 M) and Valves USD 1 B (INR 46,000 M) per year. We are gaining a foot hold in Bearings and are setting up an EoU for Valves.



Cautionary Statement

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Statements in this presentation, particularly those which relate to management's views and analysis, describing the Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.

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Questions and Answers

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