

*Discussion with Analysts and
Fund Managers*



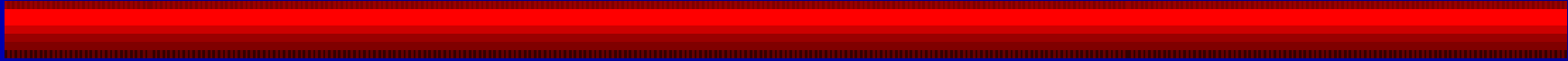
Vijay Varma
August 31, 2004

Q1 Sales, FY05 Vs. FY04



(All in INR Mio.)	Q1, FY05	Q1, FY04	Change
Small Engines	403	439	-8%
Medium Engines	1,343	976	38%
Large Engines	113	130	-13%
Total Engines	1,858	1,546	20%
Bearings & Valves	241	209	15%
Castings	163	107	52%
Fuel Oil	182	192	-5%
Coke	2	239	-99%
Power	77	66	16%
Total (includes inter-SBU sales)	2,522	2,360	7%
Inter-SBU Sales	(125)	(96)	31%
Total External Sales	2,397	2,264	6%

Small Engines Performance



Small Engines



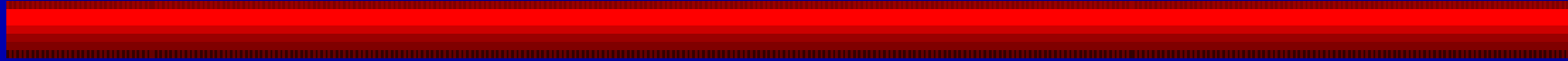
Agri Market

- Market is yet to pick up.
- Passing through of increases in Iron and Steel prices is a challenge.
- New products that are less material intensive are being developed for these markets

PG Market

- Customers preferring Inverters over gensets for smaller ratings.
- Factory assembled gensets well received in market.
- Sales to Foreign Markets have started picking up

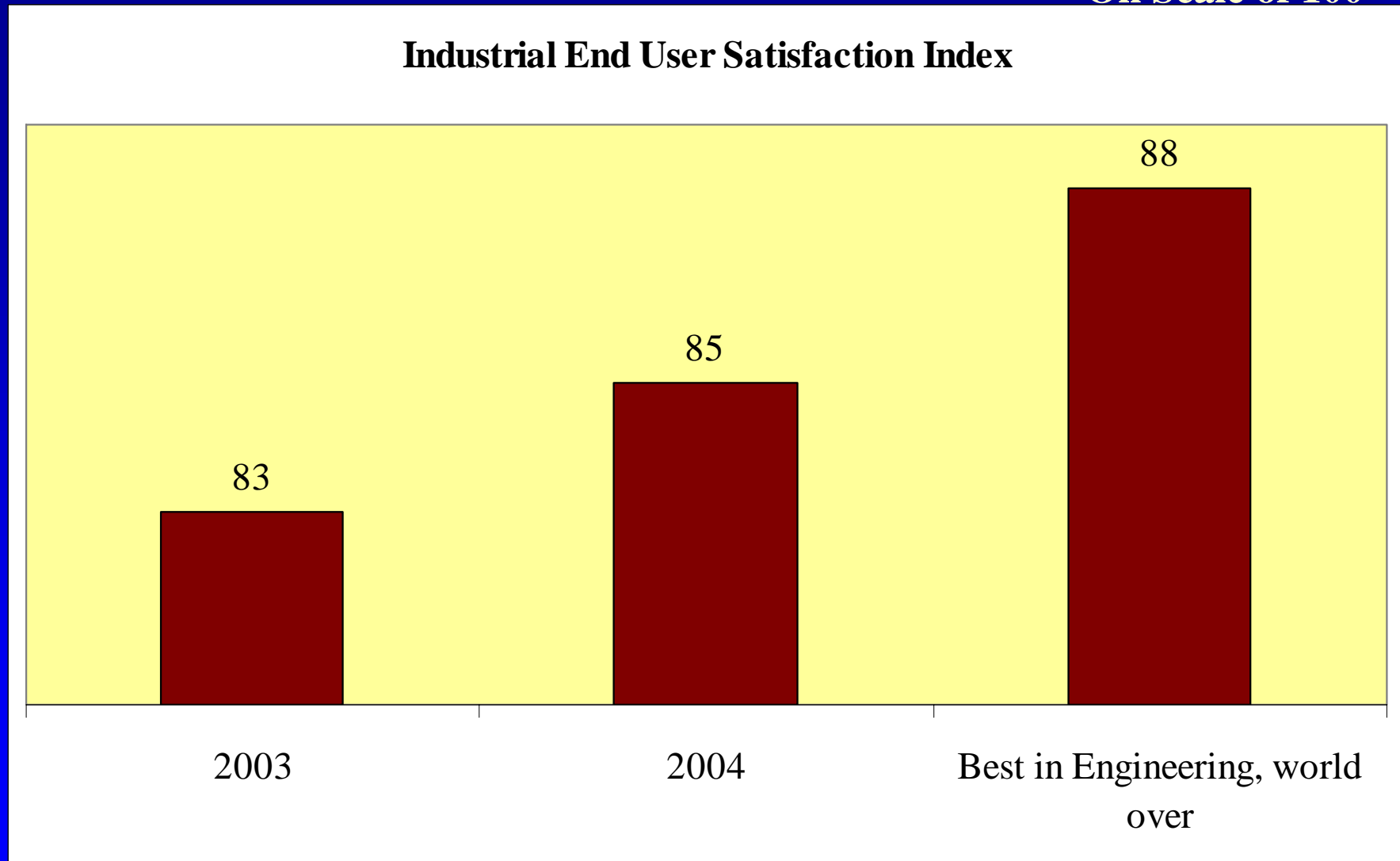
Medium Engines Performance



Medium Engines Customer Satisfaction Increased



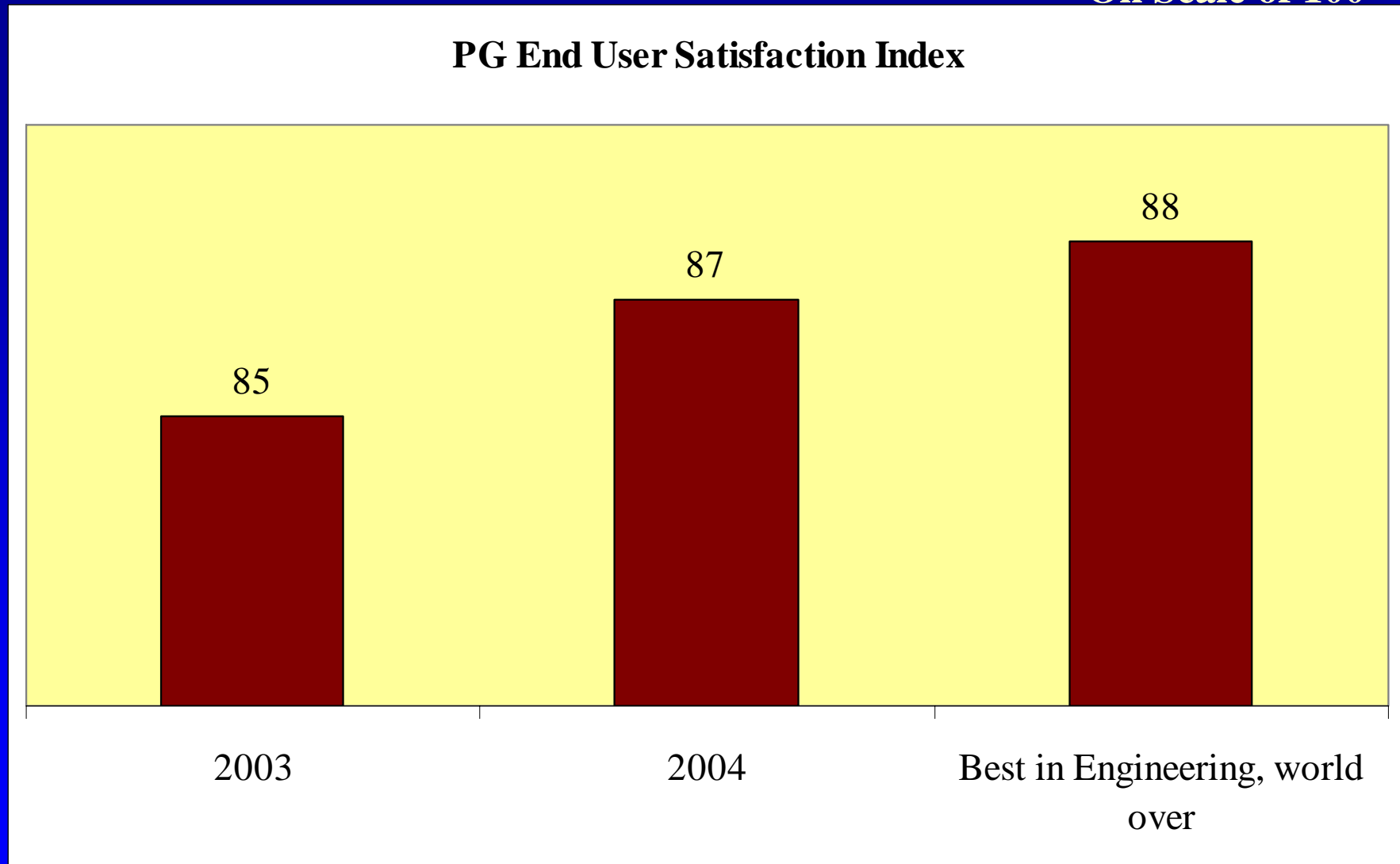
On Scale of 100



Medium Engines Customer Satisfaction Increased



On Scale of 100



Domestic Market - Medium Engines



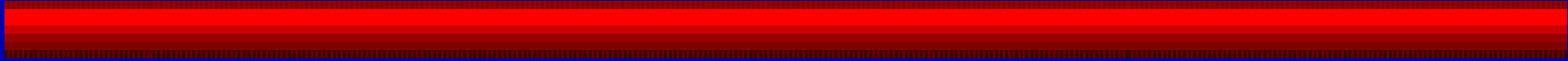
- First to obtain emission and noise compliance certification for gensets across the range.
- 8% increase in market share of 15 to 82.5 kVA DG sets.
- About 10% share in 2nd year of introduction of 250 – 600 kVA DG set range.
- 14% increase in supply to Construction and Industrial Machinery OEMs.
- 22% increase in supply to tractor OEM - Punjab Tractors
- Exports of tractors with our emission compliant engines are increasing.
- Increased supply to Armed Forces for wider range of applications.

MEBG - Need of the hour is

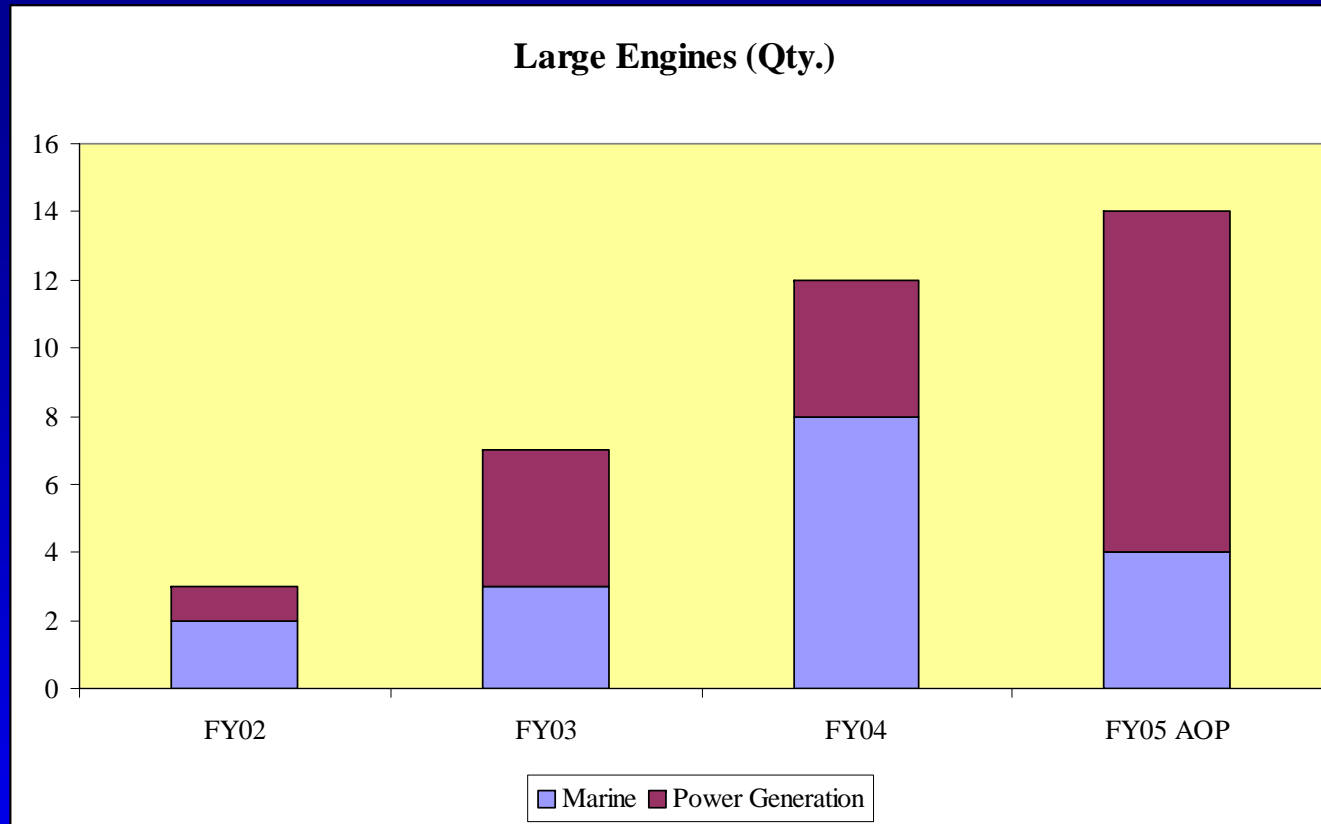


- Increase Sales by aggressively selling in traditional markets and exports
- De-risk Export Revenue Stream by developing foreign OEMs. We are experiencing initial acceptance.

Large Engines Performance



Large Engine Sales



- ✓ Genset customers have returned. And, we have 60% share of 2.5 MW HFO Market
- ✓ Marine Engines shipped in FY04, but Marine shipments are less in FY05

Domestic Market – Large Engines



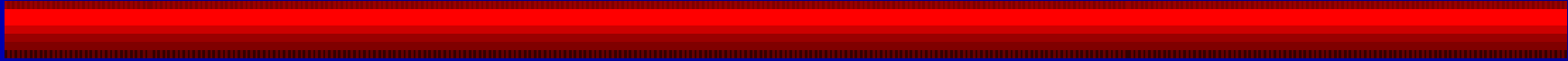
- Sales are to -
 - shipyards for Naval and Coast Guard ships, and shipments of marine engines depends on ship building programmes
 - And, Diesel and Heavy Fuel generating sets to Industry
- Year on year Product Mix varies substantially
- In FY04, shipments of Marine engines were good, and some generating sets were also shipped to repeat customers
- Overall growth in sales - 88 % over FY03 to INR 1,034 M.

Large Engine



- With higher Sales in FY04, the SBU turned in Profits, and improved Cash Flow
- We are cutting costs of 2.5 MW DG set aggressively
- Good potential for Marine engines, but shipments are after FY05.
- We are exploring Gas engine market in 1 to 3 MW, and addition of 6 MW HFO DG Sets

Export of Engines

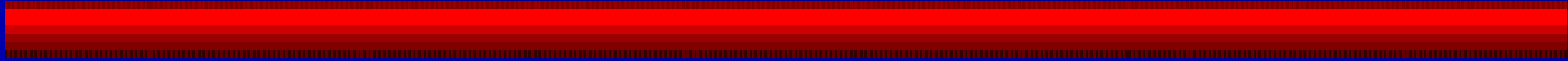


Progress on Exports - Engines



- Portfolio expanded by adding Countries, Applications, and Products.
- Thrust on OEM business. Shipments started to two OEMs – 2 OEMs in EU have accepted samples, and 4 more will be delivered samples. 2 OEMs in USA will be delivered samples.
- Africa, Middle East, Far East, and Latin America have large potential for Small agri and agro industrial engines. Expect to double exports in FY05.
- 14 engines certified by EPA, USA. The highest by a company in India.
- Added gensets to product portfolio

*Engine Bearings and Valves
Performance*



Domestic Market – Engine Bearings & Valves



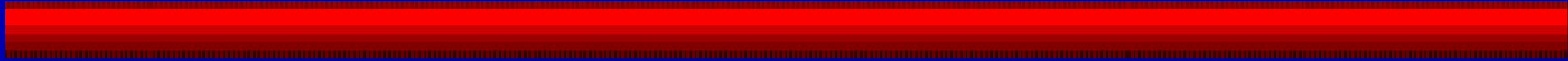
- Growth – 12% in Bearings and 20% in Valves
- 5 new OEMs added to customer list of Bearings
- Increase in business share with 3 leading OEMs.
- 25% increase in bushes for replacement market.
- 35% increase in OEM business of Valves
- Expanded Valve range in cars and tractors

Bearings & Valves – Focus on Exports



- We are focusing on Heavy Duty Applications – Trucks, Buses, and Tractors
- OEMs first, then After Market
- Initial OEM responses are encouraging
- 8 new customers developed in Europe, USA & Middle East Asia.
- Increased our share with 2 European OEMs.
- All OEM contracts include price reduction year after year

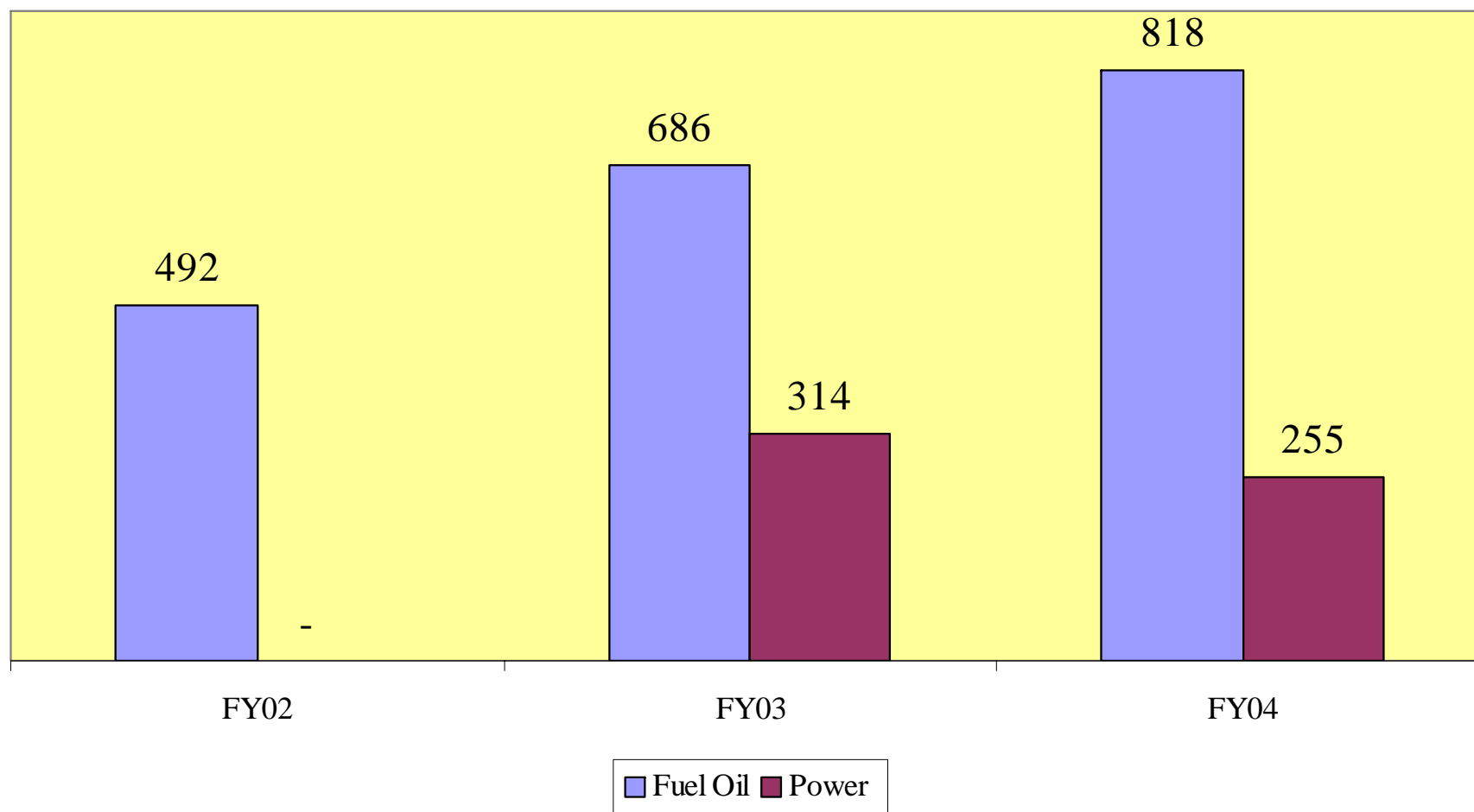
*Castings, Fuel Oil and Power
Performance*



Fuel Oil & Power Sales



Power & Fuel Oil Value (INR M)



Domestic Market – Power & Oil



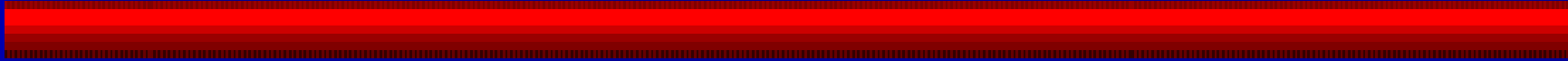
Power :

- 8% increase in tariff and 18% fuel price increase led to de-emphasising sales

Oil Trading :

- 23% growth over FY03
- Started operations in JNPT Port in addition to Karwar and Goa
- Quality Service to customers is leading to long-term contracts

Employee Relations and Costs

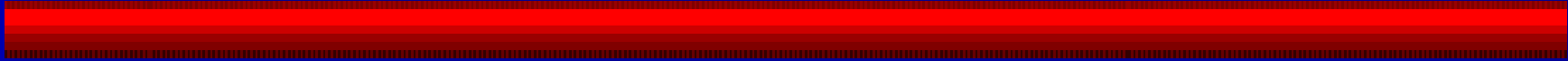


Employee Relations



- The fourth successive wage agreement has increased ERE costs.
- Each agreement has productivity increases built-in - multi-machine operations, cell layouts, time worked on machines per shift, etc. We have to ensure that this happens.
- Team Members (Workers) are contributing towards increasing productivity and cutting costs.

FY05 Prospects



Growth Strategy



- Continue to increase exports – cross Rs. 1,000 Mio. mark soon
- Significant increase in CAPEX for Capacity increase and R&D
- Expand product offering in Domestic and Export markets
- Custom made products to meet precise needs of customers – two such MoUs signed in previous years will start bringing revenues
- Raise the bar in service levels, pre and post sales – to keep distancing the competition

View of Domestic Market – FY05



- Cost increase of Iron and Steel difficult to pass on to Small Engine segment. We are designing new products to meet customer expectations at reduced costs
- We expect Medium Engine segment to grow in all sectors – Tractors, Power Generation and Construction and Industrial Machinery
- In Large Engines, Power Generation segment will be stable, and our sales of gensets will be doubled as compared to FY04 but Marine engine sales will be lower
- Automobile market will continue to grow

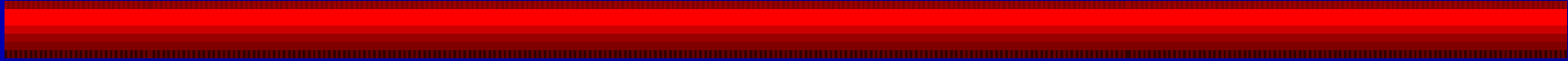
Strategy for Export continues



Engines, Pumpsets, Gensets, and, Bearings and Valves

- Business expected for products made export worthy in previous years
- We are adding OEMs in USA, Europe and China in addition to Africa and Middle East
- Time consuming but essential activity of setting up Sales and Service network continues

Opportunities and Challenges



Opportunities in Exports



- Specific Initiatives to develop OEM Customers for Engines, Bearings and Valves
- Over 150,000 Small Engines of the kind we make are exported each year from India.
- World Market in Medium Engine range is huge.
- World OEM Market is huge – Bearings about USD 1.3 B (INR 59,800 M) and Valves USD 1 B (INR 46,000 M) per year.

We are pursuing opportunities to take a share of these markets

How much is Employee Cost increase in FY05 over FY04 ?



The wage increase is INR 150 M per year.
Productivity gains over time will result in lowering Employee Costs as ratio of sales.

*We are making highest ever
Capital Expenditure in Plant and
Machinery in FY05*

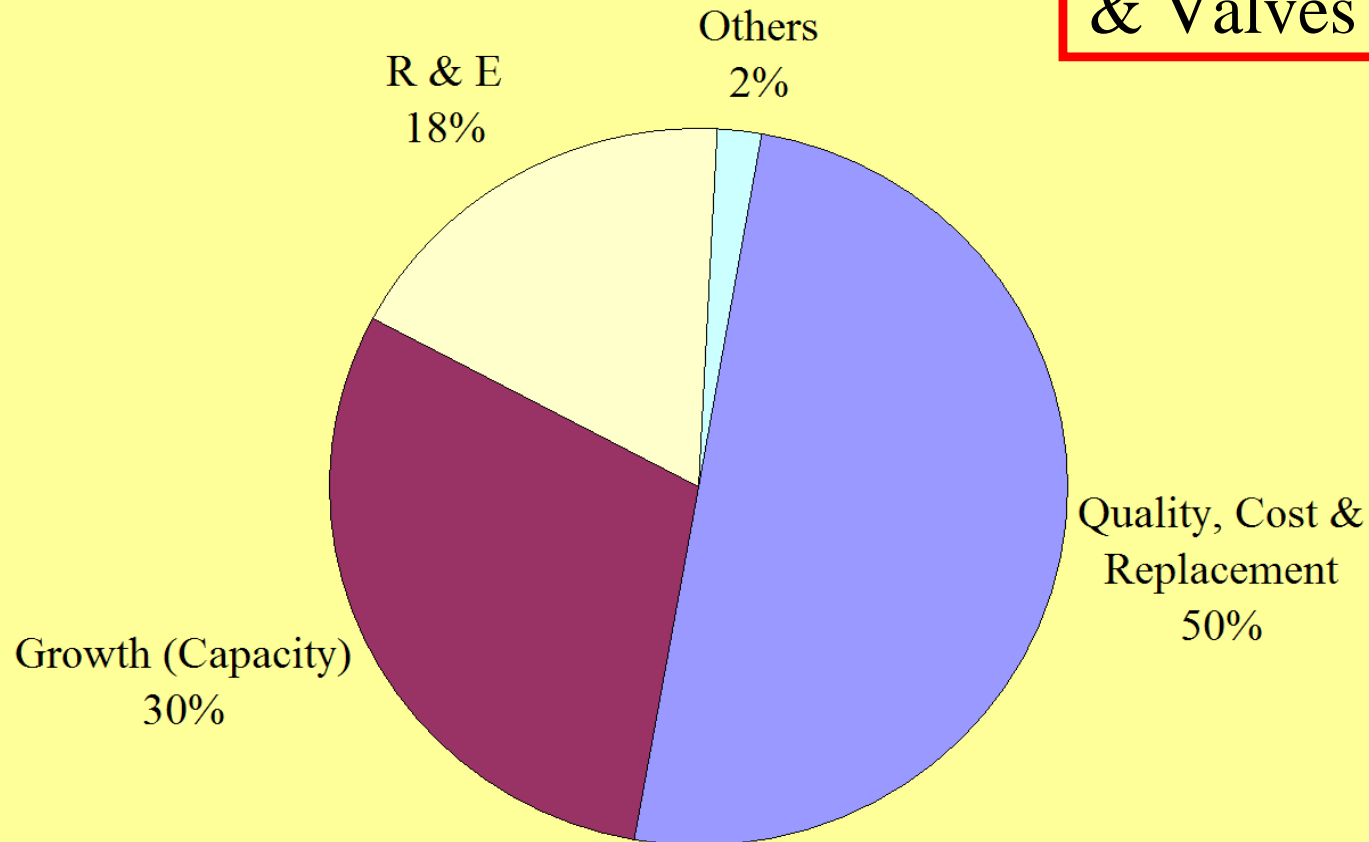


Quality, Productivity and Capacity
will go up while the costs will come
down !

CAPEX – Rs. 700 M+



CAPEX FY05



Engines : Bearings
& Valves :: 80 : 20

Thank you !



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