



Enriching Lives

*Kirloskar Oil Engines Ltd.
Welcomes you to
Briefing on fiscal FY05*



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Today's Discussion



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- Economic Environment
- Influencing Factors
- Highlights of FY05
- Financial Review
- Operations Review
- Growth Strategy and FY06 Prospects
- Q and A session

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Economic Environment



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- Indian Economy on a roll
- Sentiment conducive to investments
- Emphasis on growth in exports
- Rural economy growing and attracting attention
- Large Public spending on agriculture, road construction, housing announced

Influencing Factors



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- Raw Material (Steel and non-ferrous metals) cost increase of 30%
- Competitive markets and unwillingness of customers to accept price increases resulted in pressures on margins
- Indian Emission and Noise Regulation change impacted sales of gensets due to uncertainty and unwillingness of customers to accept significantly higher prices
- Reduction in Indian market for gensets up to 6 kW in favour of Inverters
- Drop of 35% in diesel agri pumpset market due to
 - free electricity to farmers, and,
 - depleting water table making it convenient to use electrical submersible pumpsets

Highlights FY05



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- Increase in Sales by 15% to INR 11,486 M
- Exports increased by 47% to INR 899 M
- Profit of INR 1,133 M on sale of investments
- International OEM Customer development continues
- Executed Gas Turbine packaging agreement with Zorya of Ukraine to extend product range for Distributed Power Generation

Highlights FY05



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- Increase in Engine Sales by 15% though Agri engine volumes dropped
- Increase in Auto Component Sales by 7% by increased supply to OEMs
- Pressures on margins as Material Cost increase could not be fully recovered in price. In spite of this, Operating PBDIT before Extraordinary Items increased by 7%
- Net Current Assets reduced by 18% in spite of increased sales
- R&D CAPEX increased five folds to INR 41 M

Financial Performance

(All in INR M)



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Year	FY05	FY04	Change
Net Sales	11,486	10,025	15%
Income from operations	340	264	29%
Other Income	234	227	3%
Consumption of Raw materials	8,255	6,958	19%
Staff Cost	893	728	23%
Other expenditure	1,597	1,601	0%
PBDIT (Before extra ordinary items)	1,314	1,228	7%
Interest	32	35	-10%
Depreciation	267	260	3%
Extra ordinary Income	1,133	123	
Extra ordinary exp	137	0	
Profit before tax	2,013	1,056	91%
Provision for Taxation - Current	257	322	-20%
Provision for Taxation - Deferred	17	27	-36%
Profit after tax	1,739	708	146%
Earning per share (INR)	90	36	150%

Sales, FY05 Vs. FY04

(All in INR M)



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All in INR Mio	FY 05	FY 04	Change
Small Engines	1,970	2,199	-10%
Medium Engines	5,970	4,505	33%
Large Engines	884	1,002	-12%
Total Engines	8,824	7,705	15%
Bearings	837	798	5%
Valves	177	147	20%
Auto Component	1,013	945	7%
Castings	615	475	29%
Fuel Oil	1,241	818	52%
Coke	110	310	-65%
Power	174	255	-32%
Total (Includes Inter-SBU Sales)	11,977	10,509	14%
Inter SBU - Sales	491	484	
Total External Sales	11,486	10,025	15%

Extraordinary Income / Expenses



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All profit figures presented today include
Extraordinary Items as under.

- Surplus on sale of investments INR 1,133 M
- Warranty Provision INR 123 M
- Employee Related Expense INR 14 M

Balance Sheet

(All in INR M)



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Year	FY05	FY04	Change
Shareholders' funds	5,621	4,158	35%
Secured & unsecured loans	517	297	74%
Deferred tax adjustment	67	49	35%
Total sources	6,205	4,504	38%
Fixed Assets	1,447	1,295	12%
Investments	3,784	2,014	88%
Net current assets	974	1,195	-18%
Total applications	6,205	4,504	38%

“Operating Ratios”



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	Year	FY05	FY04	FY03
Return on Avg Netwoth (Before exceptional item)		17%	18%	11%
Return on Avg Net worth		36%	18%	11%
Return on Avg Operating Capital Employeed*		35%	40%	17%

* = Return and Operating Capital Employed is net of Investments and Income theiron.

Cash Flow FY05

(All in INR M)



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Cash Generation

Cash from Operations	1,146
Profit on sale of Investment	1,133
Total Cash Generation	2,279
Less Direct Taxes	248
Less: Dividend	218
Cash available	1,813

Uses

Fixed Assets	415
Loan availed (net of repayment)	(220)
Change In Working Capital	31
Investments Net of Sale	317
Investment- Mutual Fund	1,461
Total Use	2,003

Surplus /(Reduction) in Cash & Bank Balance (190)



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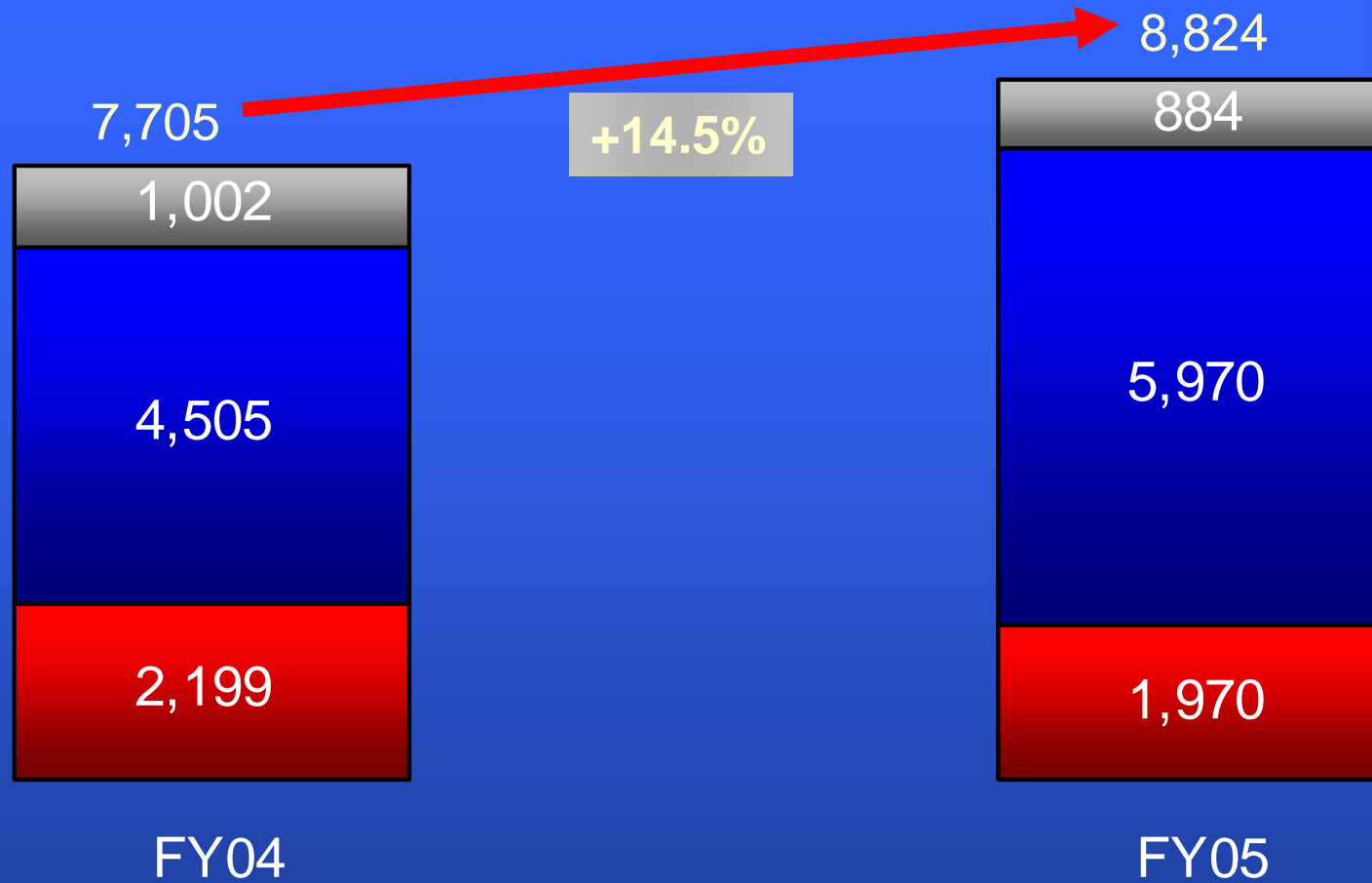
Operations Review FY05



Engine Sales increased (INR M)



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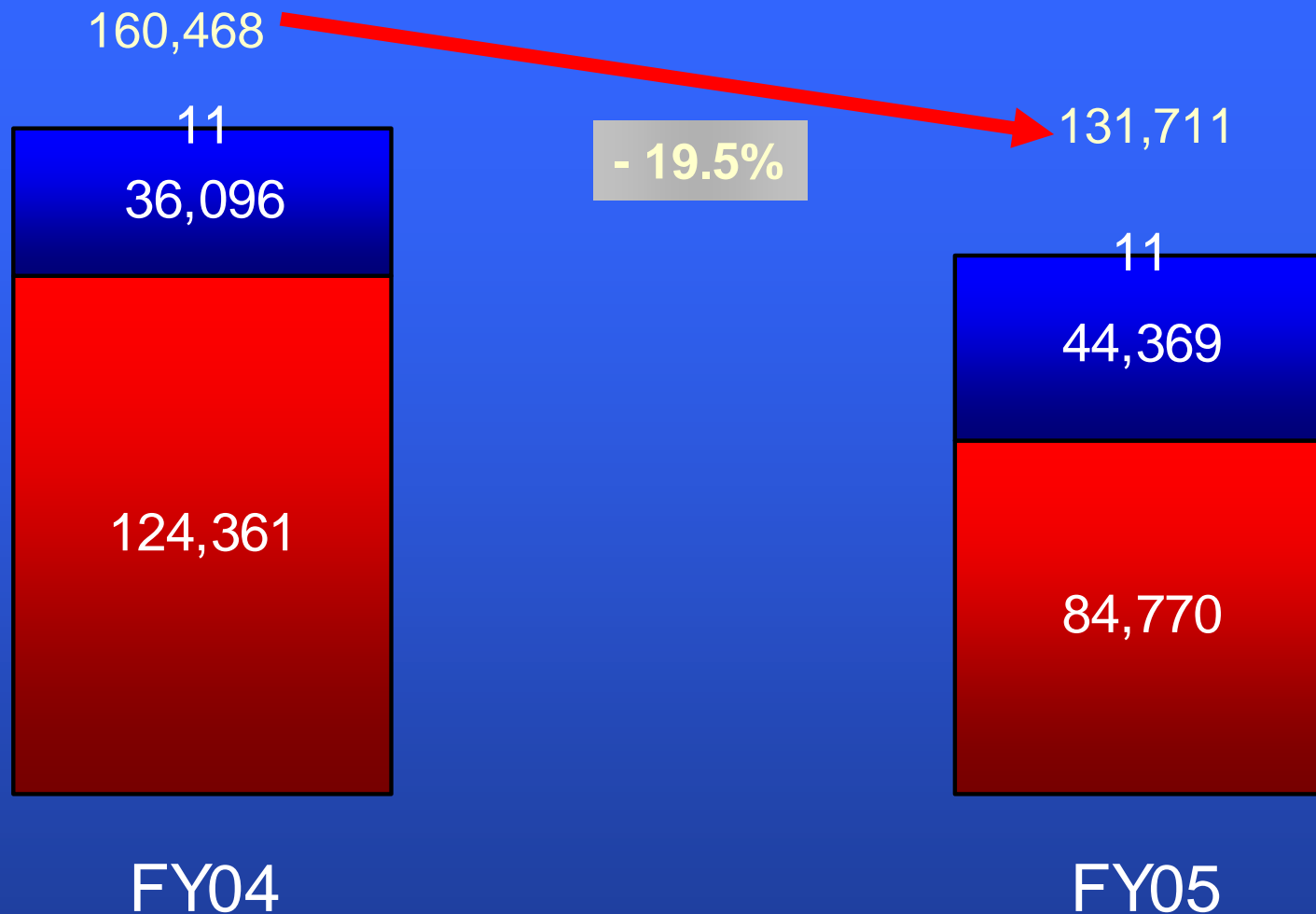


■ Small Engines ■ Medium Engines ■ Large Engines

But, Units Sold decreased



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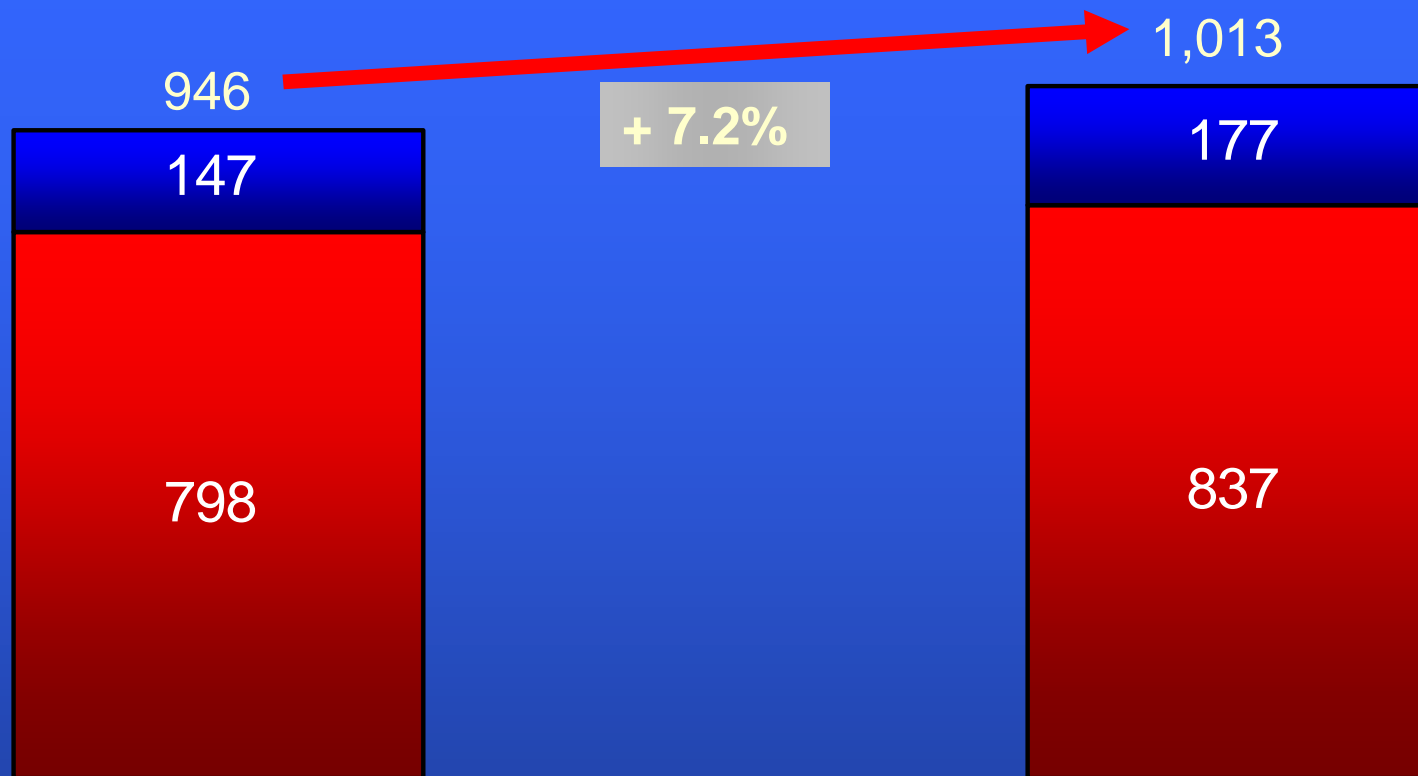


■ Small Engines ■ Medium Engines ■ Large Engines

Auto Component Sales Increased (INR M)



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FY04

FY05

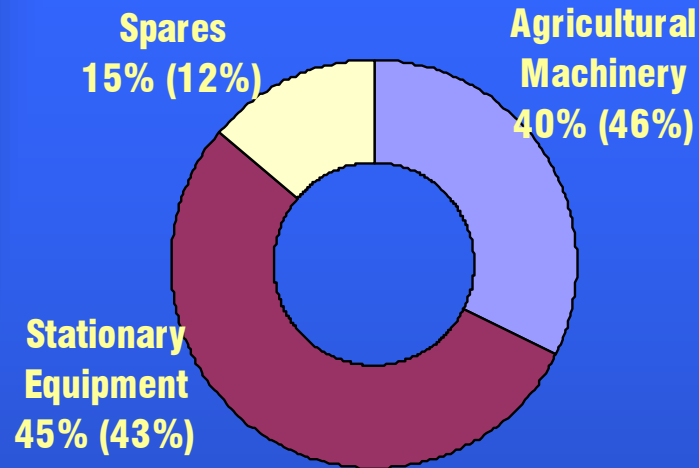
■ Bearings ■ Valves

Engine Sales by Applications

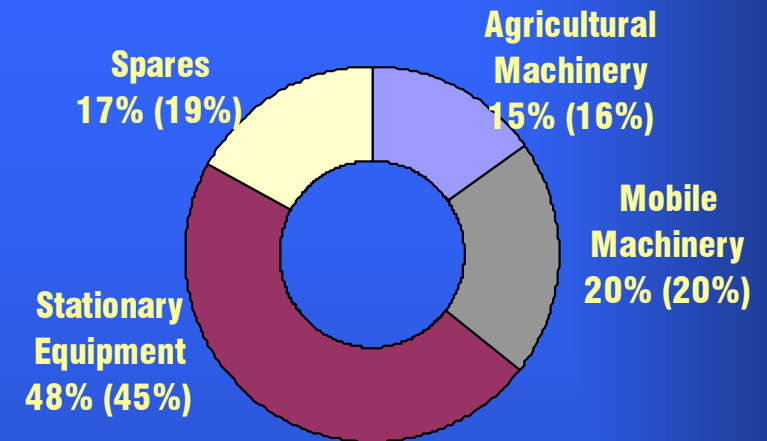


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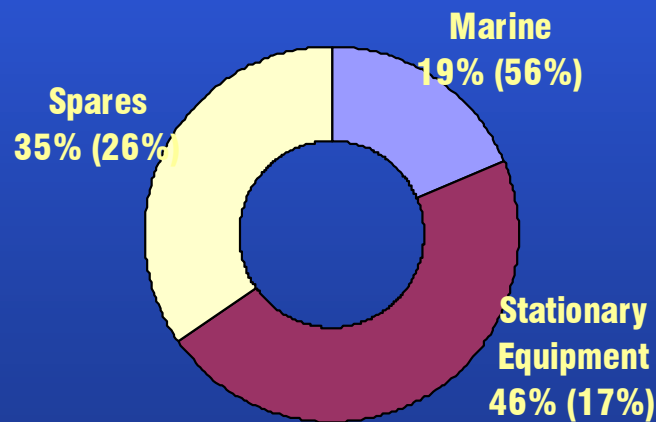
Small Engines Value FY05 (FY04)



Medium Engines Value FY05 (FY04)



Large Engines Value FY05 (FY04)

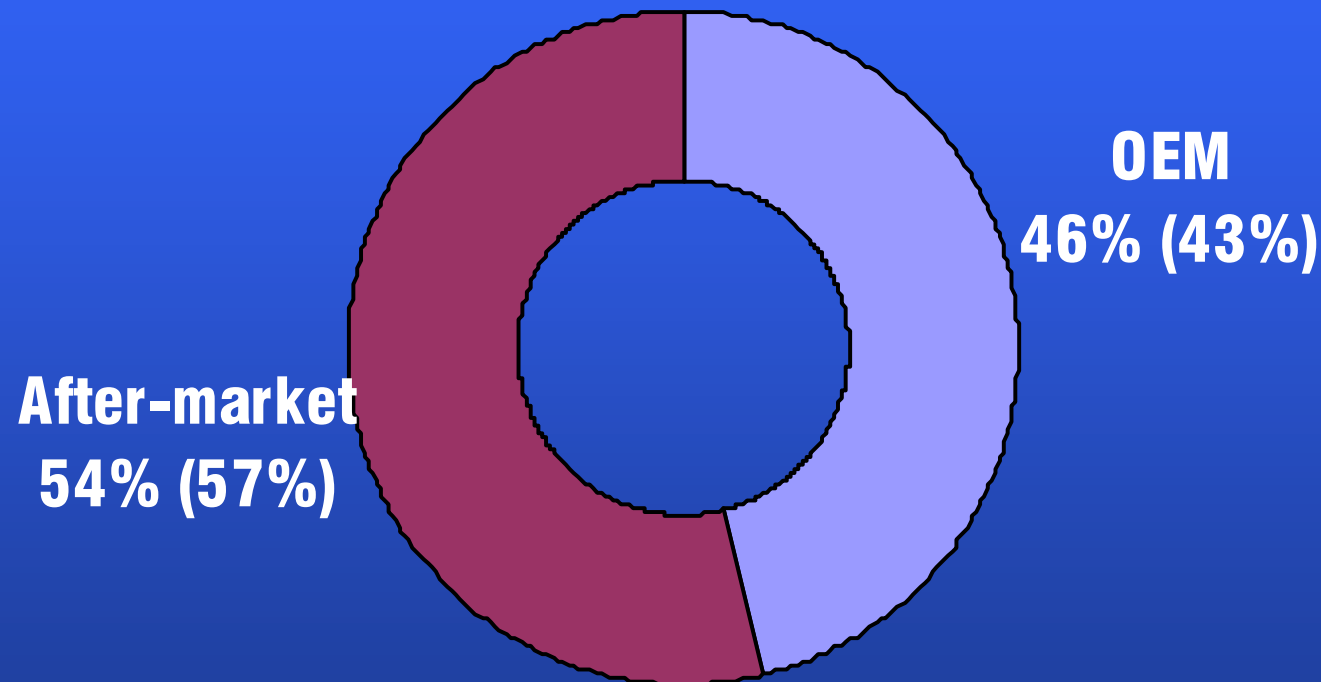


Bearing Sales



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Bearings by Value FY05 (FY04)



Domestic Market – Small Engines



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- Diesel Agri Market declined by 35% over last year. Water table going down in some states lead to use of electric submersible pumps, and,
- Customers preferring Inverters over gensets for ratings up to 6 kW
- Passing through full impact of increases in Iron and Steel prices was difficult.
- KOEL is the first company to obtain Emission approval to CPCB norms that come in effect from July 01, 2005. Traditional competitors are lagging.

Domestic Market - Medium Engines



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- Competition increasing with Tractor engine manufacturers selling in 15 to 25 kVA DG sets.
- About 15% share in 3rd year of introduction of 250 – 600 kVA DG set range, and share is growing.
- 16% increase in supply to Construction and Industrial Machinery OEMs.
- 15% increase in supply to tractor OEM - Punjab Tractors
- Exports of tractors with our emission compliant engines double.
- Increased supply to Armed Forces for wider range of applications.

Domestic Market – Large Engines



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- Year on year Product Mix varies substantially
- In FY05, 2 Marine engines shipped (7 in FY04) and 9 gensets shipped (4 in FY04)
- Doubling of genset sales and sales to repeat customers affirms confidence in product and company
- Reduction in sales - 12% over FY04 to INR 884 M is the result of changed Product Mix.

Domestic Market – Bearings & Valves



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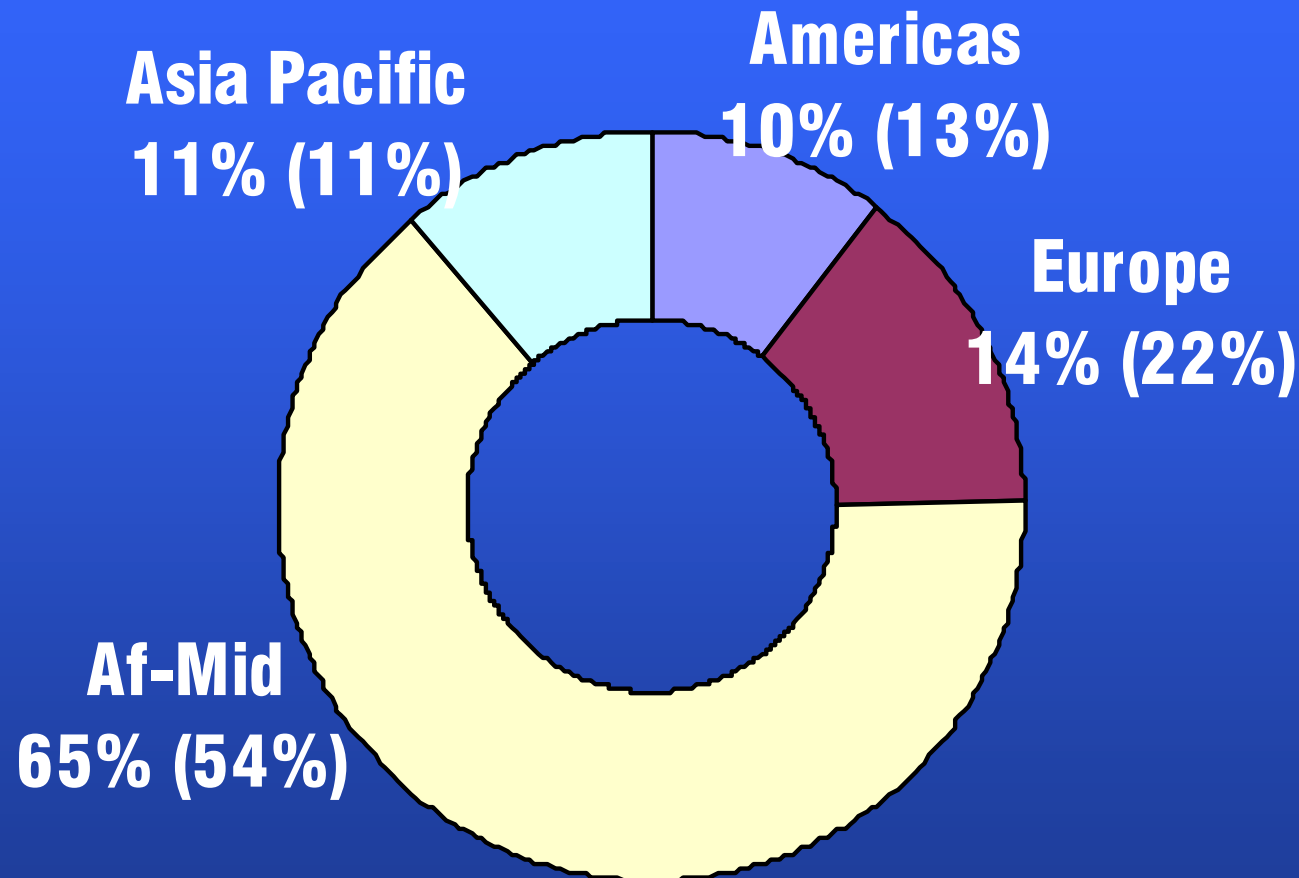
- Growth – 7% in Bearings and 20% in Valves
- Growth could have been higher but capacity was constraining factor
- Increase in business share with 3 leading OEMs.
- Continued expansion of Valve range to cars and tractors

Export Sales by Region



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Global Spread of Exports FY05 (FY04)



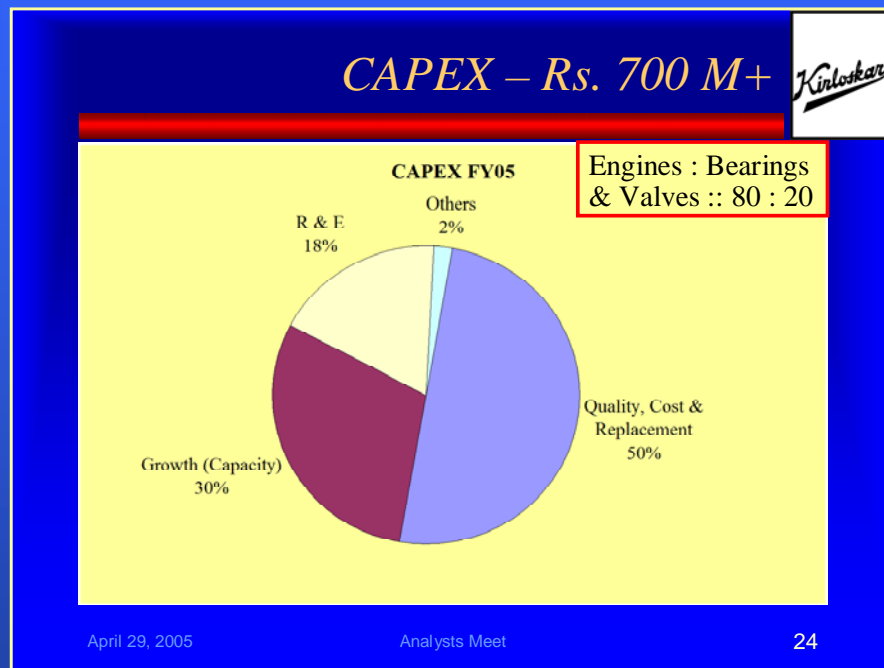
CAPEX FY05 Plan Vs. Actual



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CAPEX in FY05 lagged

- Actual INR 419 M Vs. INR 700 M planned
- Major Actual Investments in
 - R&E – INR 41 M
 - Other Plant and Machinery – INR 325 M



R&E CAPEX in



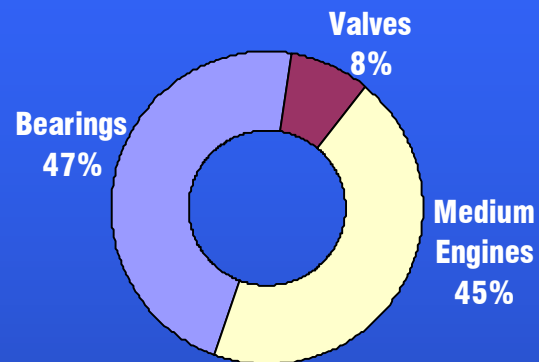
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- Latest Engine Development Software and Hardware to run it
- Noise, Vibration and Harshness Lab to improve vibrations and noise of products besides reliability testing in dynamic conditions
- Additions to Emission Lab



Actual INR 325 M Vs. INR 490 M planned

Delayed CAPEX FY05



- Capacity comes on stream in FY06
- CAPEX Plan in FY06 continues at INR 700 M +

Auto

Components

- Delay affected Auto Component sales in FY05
- Yearly capacity increase - INR 150 M

Engines

- Delay did not impact sales in FY05
- Capacity being created for seasonality and growth
- Yearly capacity increase - INR 1,500 M



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Outlook for FY06

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



Growth Strategy



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- Grow domestic sales in buoyant Indian economy
- Strategy of raising the bar in service levels, bringing results
- Continue to increase exports on strength of platform built so far – cross Rs. 1,500 Mio. soon
- Expand product offering in Domestic and Export markets
- Complete development of engines up to 20 hp with lower Raw Material cost
- Bring down Employee Costs as ratio of Sales

View of Domestic Market – FY06



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- In Small Engine range, market is affected due to -
Concessions for electricity, Increased Diesel prices and partial passing through cost increase account Iron and Steel prices
- We expect Medium Engine segment to grow in all sectors – Tractors, Power Generation and Construction and Industrial Machinery
- In Large Engines, Power Generation business will grow, but Marine engine sales will be similar to those in FY05
- Automobile market will continue to grow

Opportunities in Exports



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- Specific Initiatives to develop OEM Customers for Engines, Bearings and Valves continues
- Over 150,000 Small Engines of the kind we make are exported each year from India. We are aggressively increasing our share out of these
- World Market in Medium Engine range is over USD 2 B (INR 92,000 M)
- 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 pursuing opportunities to take a share of global markets



Agri Market

- Pumpset Market is affected by
 - Concessions for electricity
 - Increased Diesel prices
 - Partial passing through the increase account Iron and Steel prices
- Entry of Chinese pumpsets in market in limited way
- New products that are less material intensive are being developed for these markets.

PG Market

- Individual buyer is staying away due to higher prices of Emission and Noise compliant sets
- Institutional buyers have adjusted to increased prices and purchases increasing
- Sales to Foreign Markets are increasing

Domestic Market - Medium Engines



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- Retain market share of 15 to 25 kVA DG sets.
- Increase share in 3rd year of introduction of 250 – 600 kVA DG set range.
- Increase supply to Construction and Industrial Machinery OEMs
- Increase in supply to tractor OEM - Punjab Tractors – will be in-line with their market share
- Large orders from TELECOM and Service Sector continue
- Increased supply to Armed Forces for wider range of applications.
- Exports of tractors with our emission compliant engines will continue to increase

Domestic Market – Large Engines



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- Year on year Product Mix varies substantially
- Genset orders are increasing
- Marine engine shipments mostly scheduled after FY07

Domestic Market – Engine Bearings & Valves



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Increased capacity will come on stream in
FY06

Cautionary Statement



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Questions and Answers

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