

Chairman's Speech at the 89th Annual General Meeting on 17.07.09

Good Morning Ladies and Gentlemen,

On behalf of the Board of Directors, I have great pleasure to welcome you all to the 89th Annual General Meeting. I am sure you must have gone through the annual report that was posted to you a few weeks ago.

At the outset, I am very glad that we can meet at this new office of the Company. In the year 1968, we shifted our registered office from Kirloskarvadi to Udyog Bhavan, Pune and since then Company's operations have grown, especially in last 3 to 5 years. The number of people has also increased, and we were operating out of six different buildings. We therefore decided to build our own office that can house all the employees together. This building has been designed and built to achieve "Platinum" certification from the US Green Building Council's Leadership in Energy and Environmental Design (LEED) program. We have applied for certification, and if granted, it will be India's 7th such building.

I hope you have had the time to see the Heritage Gallery depicting the 100 year history of our company. This building was inaugurated on April 10, 2009 by Mr. Rajendra Singhji, Water Conservationist, and Magsaysay Award winner and the Heritage Gallery was inaugurated by Mr. GB Pant, the son of Balasaheb Pant Pratinidhi, Raja of Aundh who invited our Founder Mr. Laxmanrao Kirloskar to Kundal Road, now Kirloskarvadi, in 1910.

This building has many unique features. We have used energy efficient interior and exterior lighting, use an air conditioning system to achieve savings of about 35% energy in total consumption, use solar energy, 100% STP treated water for gardening, and there is zero discharge of water from this site. The company also generates more than 35% of the energy it uses through renewable resources, and I am sure that you would agree with our company's stress on energy efficiency and reducing our carbon footprint. On a personal note, I wish to share that this building has been named "Yamuna" in memory of my grandmother Mrs. Yamutai Kirloskar.

In the last Annual General Meeting I had mentioned that the areas of concern were high inflation and abnormally high raw material prices. You are aware that an economic recession has hit the entire world and India is no exception. The growth rate in many countries is very low or negative. The silver lining is that the developing countries are not that severely affected but still the impact is seen. All things considered, I believe that it would take at least 2 to 3 more quarters to stabilize the situation, now with a stable Government in place. We can expect Indian economy to be on track at a faster pace than most other nations. The recent budget also provides for certain measures such as a raise in exemption limits to individuals, surcharge exemption, abolition of FBT, Extension of Tax Holiday, and removal of commodity transaction tax which possibly will boost the economy. However, a budget with a high fiscal deficit of 6.8% is a matter of concern.

As our Company is involved in the manufacture of pumps, valves and hydel turbines we should expand in various sectors such as irrigation, water supply and sewage, power, building services, industry and oil and gas. And as there is going to be an extra thrust by the Union Government and various state Governments for infrastructure development, I foresee growth in all the different verticals where we operate.

KBL continues its focus on the African continent by participating in irrigation and water supply programs in various countries. Our company, with its triple A Philosophy - Adaptable, Appropriate and Affordable pumping systems and pumping solutions, is trying to meet the irrigation needs across Africa and achieve its goal of food security in a phased manner.

In the year under review we have achieved a turnover of more than Rs.1800 crores registering a 20% percentage of growth over the previous year. However, due to the wildly fluctuating commodity prices, profit before tax (PBT) is lower, at Rs. 98 crores as compared to Rs. 150 crores during previous year. Consequently, earning per share for the year under report is Rs.6.34 as against Rs. 10.41 in the previous year, whereas Book Value per Share has risen to Rs. 67.05 as against Rs. 62.60 in the previous year.

I am sure you must have read in the Annual Report that our Kirloskarvadi plant which was established in the year 1910 has entered in its centenary year. Achieving a 100 year mark - is a milestone by any standard. At the same time, I feel this is a moment to re-affirm our commitment to the values laid down by our founders and continue on the path set by them. Kirloskarvadi can be said to be a birth place of many ventures and companies promoted by KBL.

We have formed a committee to celebrate the centenary and planned activities in many locations. I am very happy that like members of the Kirloskar family, there are few fourth generation shareholders, and they have continued their faith in us throughout this long journey. On this occasion, I am especially thankful to these shareholders for supporting and standing by us over this long period.

I would like to update you on the status of the Scheme of Arrangement. The scheme contemplates the transfer of certain investments not directly related to the core business of the company into a separate company named Kirloskar Brothers Investments Limited (KBIL). The Board of Directors have appointed a committee composed of independent directors and they would be finalising the scheme shortly. The shareholding proposed in the new company would be a mirror image of that of KBL, thereby ensuring that each and every shareholder has the same rights as in KBL.

As you are aware, we have re-structured our company's business into nine different sectors with the objective of ensuring leadership in projects and products, customer intimacy and operational excellence. I am glad to inform you that this approach adopted by the Company is showing results.

The Water Resource Management sector serves the municipal corporations, water and sewerage boards of India. Due to the overall water scarcity across the globe, better water management with latest technology is a need of an hour and this sector is trying to fulfil the demands with one of our subsidiary company - Gondwana Engineers Limited. This sector received orders for Waste water treatment plants in Bhilai, Vadodara Municipal Corporation, Pune Municipal Corporation and also an export order from Republic of Lesotho.

Irrigation sector continues to concentrate on large scale infrastructure projects. The main focus of this sector has been execution of prestigious projects in Andhra Pradesh and Karnataka. One important aspect is that with the project execution skills and experience acquired by this sector, this sector is trying to target the international irrigation market. An order worth US \$ 22 million has been booked by this sector in Egypt under German financing.

Industry sector was affected due to the recession. As you are aware, this sector caters to different Industrial segments such as steel, mining, and other industries. Due to the recession and financial crisis witnessed by the economy, the sector has focused only on orders from reputed customers with sound financial health. This sector has also approached Customers Relationship Management (CRM) initiatives. This initiative has helped the company to build sound business relationships with key customers and get repeated orders.

This year has been the first operation year for some newly formed sectors namely Oil and Gas, Building & Construction and Marine & Defence. Our company has adopted a structured approach to strengthen our presence in these sectors considering the huge potential. To start with, the company has identified its core strength in these sectors and also addressing gaps in products to cater to the various segments.

I am glad to mention that the Building & Construction sector with focussed efforts could win prestigious orders from Delhi Metro, international airports, Jawaharlal Nehru stadium for Common-wealth 2010 games, and the Metro Rail – Kolkata. One more challenge faced by this sector was financial crisis witnessed by the construction industry; here the challenge is to achieve volumes but with tight commercial policies to ensure timely debtor recovery.

Our Customer Support and Service sector is taking steps to re-organise its teams separately for spares and service, focusing on annual maintenance and operation contracts, prompt response to customers, and achieve a world class delivery mechanism of spare parts.

Now I turn to the performance of the manufacturing locations:

Kirloskarvadi plant received the prestigious Occupational Health and Safety Assessment Series (OHSAS) 18001 certification and Confederation of Indian Industry (CII) national award for excellent water management. As you are aware, during the year 2007-08 company has invested in new plant and machinery at Kirloskarvadi. However, the last year witnessed a slow down in general industry, and the biggest challenge has been to produce at an optimum cost, so as to be competitive. At the same time, the company needs to have preparedness to cater to the increasing demands for particular range of products. In this scenario, the challenge at present is to reduce fixed cost and overheads and further improve the delivery time.

Dewas and Shirval Plants: At the cost of repetition, I wish to say that 8 models in the 'KDS' series monobloc pumpsets manufactured at Dewas have the distinction of 5 star rating from the Bureau of Energy Efficiency, Government of India. Dewas and Shirval have already received the OSHAS certification in the previous year. Currently the challenge is to meet customer demand for our energy efficient products.

We have created a new manufacturing facility at Kondhapuri. This would help us to increase large size Valves production capacity as well as capability of making upto 4000 mm size Valves.

Let me quickly touch upon competitors activities in the pump industry. For Agricultural and Domestic range of products, the competition is from the new technology submersible pumps with high efficiency, and our company is catching up with the trend. The Agricultural and Domestic pumps are also facing competition from low cost pumps, especially Chinese pumps which are sold at about 50% of our prices.

Due to global recession, most reputed pump manufacturing companies have set-up a manufacturing base in India. With the global competition now in India, company would be urgently required to focus upon the life cycle cost concept, automation and remote monitoring of pumps and systems. Meeting this challenge would

make us more robust and more competitive and I see it as working to our advantage.

Our subsidiary company - Kirloskar Constructions and Engineers Limited (KCEL) has achieved total sales of Rs. 120 crores as against Rs. 96 crores during the previous year, though this company did not make a profit. However, we have been monitoring the progress closely and working on strategies to bring the company back on track.

The turnover of Gondwana Engineers Limited (GEL), which is engaged in consultancy and supply of water treatment and sewage treatment plants, was recorded at Rs. 62 crores as against Rs. 43 crores during the previous year. The profit before tax is Rs. 3.6 crores and the company also enjoys a healthy order board.

As you are aware, the Board for Industrial and Financial Reconstruction (BIFR) has approved a modified rehabilitation scheme for The Kolhapur Steel Limited (TKSL), which is engaged in the manufacture of alloy steel castings. Our Company has acquired about 96% of equity share capital of TKSL. I am glad to inform you that in the year 2008-09, TKSL, which was a loss making company, has registered a profit of Rs. 2.6 crores on a turnover of about Rs. 31 crores.

SPP Pumps Limited, our subsidiary company in the United Kingdom, continues to expand its business and has done well during the year 2008, registering a turnover of £ 53.32 million (Rs. 427 crores) for the year, as compared to £ 43.60 million (Rs. 350 crores) in the previous year, thus registering an increase of 22%. The profit after tax also rose by 38% to £ 2.07 million (Rs. 16.48 crores). KBL and all its subsidiaries are working harmoniously on joint development programs for products, processes, and markets and other best practices of corporate governance.

We are sure that with the establishment of "Kirloskar Brothers International BV" (KBI-BV), an investment company formed to hold our foreign company shares, and the JV Company "Kirloskar Brothers Europe B.V." (KBE - BV), KBL would be able to service the entire Europe market. KB Europe BV markets our products under the Kirloskar brand through a wide range of distributors and agents spread

across Europe. I am sure it will result in establishing our presence firmly in this important market in the next few years.

During the year the Company has also set-up a wholly owned subsidiary company - "Kirloskar Brothers (Thailand) Limited" (KBTL). KBTL was established in Bangkok primarily to cater to South East Asian market. KBTL would primarily function as our distributor in that part of the world and monitor the operations of other small representative offices in that area.

Our company's impetus on Research and Development activities continues. The Kirloskar group's i-mission initiative is in its third year now, resulting in new products. We have taken many steps to encourage innovativeness across the organisation. There have been a few filings for patent registration by the company. As I have mentioned before, KBL is the first pump company in India to obtain the 5 star rating for energy efficiency from Bureau of Energy Efficiency for monobloc pumps.

The first quarter's results have been approved by the Board of Directors at a meeting held earlier this morning. The sales for the first quarter are at Rs. 401 crores as against Rs. 370 crores during corresponding quarter in last year. The profit before tax is Rs. 6.84 crores as against a loss of Rs. 4.10 crore during corresponding quarter in last year.

On behalf of the Board, I wish to inform you with deep regret, the sad demise of Mr. Sharatchandra S. Marathe, Member of the Board of Directors of the Company since 1985. He joined the Board at the same time that I did in November 1985, and was a great pillar of strength and support to me and the group at a critical time. His wide experience in the fields of economics and industry, knowledge and guidance was of a great help to the Company.

Mr. Madhav G. Padhye resigned from the Board with effect from December 16, 2008 due to health problems. His wide experience in the Civil Engineering, Government service and Water Resource Development Projects and guidance to the Board and the Company has been noteworthy.

I place on record the Board's gratitude for the guidance received from Mr. Marathe and Mr. Padhye during their tenures as Directors of the Company.

I wish to place on record our gratitude to our banks and financial institutions for their encouragement and support and to all employees for their contribution. In addition, my thanks are extended to you for your support, and the keen interest shown in the performance of the company. I would also like to express my deep appreciation for the guidance and support from all the Board members in the current situation.

I now move the Directors' Report and Audited statement of accounts for the financial year ended March 31, 2009 for adoption and request the Company Secretary to read the Auditors' Report on the statement of accounts placed before you. If you have any questions on the Report and Accounts, I will be happy to reply to them.

Thank you,

(This does not purport to be the minutes of the annual general meeting)