



## MANAGEMENT DISCUSSION AND ANALYSIS

### ECONOMY AND MARKETS

The year 2019 was a difficult year for the global economy with world output growth estimated to grow at its slowest pace of 2.9 % since the global financial crisis of 2008, declining from a subdued 3.6 % in 2018 and 3.8 % in 2017. It was a challenging year for the Indian Economy as well. The Indian economy registered a slowdown in 2019-20 with GDP growth falling from 6.8% in 2018-19 to 4.5%. India has slipped in the World Bank's Gross Domestic Product (GDP) rankings to 7th position.

Several sectors such as real estate, aviation, automobile and construction sectors suffered a constant decline in demand. On the other hand, the Banking sector and financial services witnessed serious crises due to rising NPAs & bad loans and squeezed credit limits. The deceleration in GDP growth can be understood within the framework of a slowing cycle of growth with the financial sector acting as a drag on the real sector.

The budget for 2020-21 aimed at energizing the Indian economy through a combination of short-term, medium-term and long-term measures.

In the second half of January 2020, a new risk emerged for economic growth and market performance: the spread of a new virus i.e. COVID-19 in Wuhan, China, which rapidly transformed into a pandemic. As this document is being drafted, it has spread worldwide, triggering restrictive measures on the circulation of people and on economic activity of various levels of severity put into place by many governments to limit the possibility of contagion. This health emergency, along with the financial market crisis that has accentuated starting from the second week of March 2020 threatens to have global medium term repercussions that cannot yet be fully appreciated. The impact of this health emergency on the global economy will certainly be considerable in the first and second quarters of the Financial Year 2020-21; it is not clear whether the impact may also drag on into subsequent quarters of Financial Year 2020-21.

This report will provide insights and an update on the Company performance through the Financial Year 2019-20 with a brief outlook for the Financial Year 2020-21.

### INDUSTRY AND COMPANY OVERVIEW

Kirloskar Oil Engines Limited (KOEL), being one of the pioneers of the 'Made in India' concept since Independence, continues to work towards bringing innovative product offerings to the customer at competitive prices. The Company's drive towards excellence continued unabated.

The Company was bestowed the prestigious "CII Exim Bank Award for Business Excellence" for the year 2019, becoming the FIRST Indian Diesel Engines / Gensets manufacturing company to bag this prestigious recognition. The award acknowledges excellence in Total Quality Management in areas such as leadership, strategy, people, partnerships, customer-driven processes and performance in creating value for all its stakeholders. The Confederation of Indian Industry and the Export-Import Bank of India, jointly, instituted the CII EXIM Bank Award for Business Excellence in the year 1994. It is today recognized as one of the most prestigious awards in India for Business Excellence. In the last 25 years only 20 companies have been bestowed with this prestigious award. The rigorous assessment process is as per the guidelines of European Foundation of Quality Management (EFQM).



## A. POWER GENERATION BUSINESS

Your company is actively dominating the Power Generating sets product market for over 3 decades offering the widest range of Petrol and Diesel Power Generating sets (2-1010 kVA) used for power back-up in Industrial, Residential & Commercial establishments and also in special applications such as Telecom. Products are marketed under KOEL Green and KOEL Chhota Chilli brands. Your company is rapidly transitioning from being a source of Reliable products to a Complete Power back-up solution provider offering turn-key solutions for diverse customer applications.

In the Financial Year 2019-20, the overall genset industry beheld slowdown owing to unfavorable economic conditions. Liquidity crunch, sluggish movement of infrastructure projects, lower industrial growth, floods in major parts of the country, a major decline in Telecom majorly in the first half of Financial Year impacted industries' growth.

### Business Overview

The Company's revenue in Financial Year 2019-20 from Power Generation Business stood at Rs. 1148 Crores as compared to Rs. 1222 Crores in Financial Year 2018-19. The overall Genset retail market (excluding Telecom) witnessed 4% decline, while telecom segment shrunk by 49%.

Even with unfavorable economic circumstances your company further gained on to its dominant market share and upheld its leadership position in Low and Medium kVA segments by 7% primarily due to iGreen and also gained 3% share in the High kVA segment.

### Share gain through iGreen Value Pack

The Company has gained market share through newly launched iGreen Gensets in Low and Medium kVA ranges, offering an array of customer-centric features. Features such as Automatic Mains Failure (AMF), remote monitoring, new aesthetics and several class-leading features in canopies have received excellent response from customers across segments. The range now called KOEL iGreen is the first to offer the IOT-enabled Genset as a standard feature. The new iGreen range promises to further strengthen KOEL's position in respective segments. This year your company has also launched a new value pack, "Anubandh"- comprehensive annual maintenance contract, which will further strengthen the iGreen offerings.



Predictive and timely maintenance

Ensures maximum uptime

Ensures single point of contact

KOEL Connect: Relationship with company

KOEL Connect: Relationship with company

**LEAVE YOUR WORRIES ABOUT GENSETS WITH KOEL ANUBANDH**

### Major gains in HHP segment due to execution of Turnkey solutions through channel partners

Turnkey solution drive in Financial Year 2019-20 yielded results with customer appreciating our innovative solutions to address challenges of space constraint in realtor segment, uninterrupted power requirement of health care, unmanned back up power systems for mobility and exhaust solutions to meet emission compliance for high rise/ industries. This proved to be the major enabler to win major turnkey orders from Healthcare, Institution, Airports, Metro, Railway segment and helped your company to gain market share in HHP segment.



### Railways Powercar business

Having entered this segment in late Financial Year 2017-18, the Company's Power Generation business made strong strides in this application with a robust order book and large supply & installation base. This segment promises to be a growth driver in times to come.

### Telecom business

Telecom business witnessed major decline due to massive drop in demand from telecom segment. However, 5G expansion may reopen the window in this segment.

### Channel Motivation

To bring enthusiasm among KOEL Channel Partners, this year the Company organized 5 regional conferences.

### **Future outlook**

With the introduction of iGreen range, HHP solutions foray and Powercar business gains, the power gen business is poised to grow profitably.

In addition to this, the new emission norms for power generating sets are likely to be implemented in the next Financial Year 2021-22 and your company is fully geared up for this transition and will fully support Government of India's drive for the green cause.

## **B. AGRICULTURE AND ALLIED BUSINESSES**

The Agriculture and allied business comprises diesel engines & pumpsets, electric pump sets and related oil & spares. The diesel pump sets market continues to shrink at the rate of 12% resultant of increased availability of electricity in rural India and changes in the process of subsidy in key states like Karnataka, Assam, Odisha and Andhra Pradesh which were large revenue contributing states for the segment.

On the other hand, all these factors are proving to be advantageous for electric pump segment. Government of India's schemes such as "Deendayal Upadhyay Gram Jyoti Yojana" for rural electrification, "Saubhagya Yojana" for rural household electrification are majorly contributing for growth of Electric Pump market.

Rapid urbanization, growing construction in rural markets and government push for infrastructure development is supporting diesel engines demand used in construction equipment's like Concrete mixers.

### **Business Overview**

#### **CROP IRRIGATION**

The Company's revenue in Financial Year 2019-20 from the Agri Crop Irrigation Business stood at Rs. 330 Crores, as compared to Rs. 366 Crores in Financial Year 2018-19. The sales of diesel engines and pumpsets decreased by 21% over last year due to external factors like change in the government's subsidy policy and availability of electricity in rural areas due to rapid electrification. Despite this decrease in sales numbers, our market share is expected to remain at a robust 27%.

To continue maximum extraction from market and to bridge the existing product gap in the lightweight 5 HP water cooled pumpset market, KOEL has introduced a new product in this category which was very well received. Further a new monobloc pumpset in the 5 HP diesel engine category has been developed to cater specifically to the Uttar Pradesh and Rajasthan market which will boost sales in these markets in the coming Financial Year. The Company continued to focus on development of new models of diesel engine to improve presence and this year developed few models in the category of concrete mixture OEM.

KOEL continued its impressive performance in electric pump business with a growth of 31 % over previous year. KOEL has launched several new products for Agri application. This new products will help KOEL in the coming Financial Year.

KOEL is also digitizing its entire service channel which will ensure faster and better customer service.

### **New Product introduced**

#### **Future Outlook**

The central government in the budget for Financial Year 2020-21 has put Agriculture, Irrigation, and Rural Development as one of the three components of the Aspirational India theme and Rs. 2.83 Lacs Crores are allocated for this. This impetus along with KOEL's better market reach & availability of newer products suited to local markets augurs well for the overall outlook for Financial Year 21 for the electric pumps business. The diesel pumpset market will continue to de grow as in previous years. But the diesel engines segment where KOEL enjoys a good position due to its deep presence in the concrete mixture machine OEM market is expected to perform.



## FARM MECHANIZATION

The Company's revenue from Farm Mechanisation Business for Financial Year 2019-20 stood at Rs. 132 Crores as compared to Rs. 138 Crores in Financial Year 2018-19.

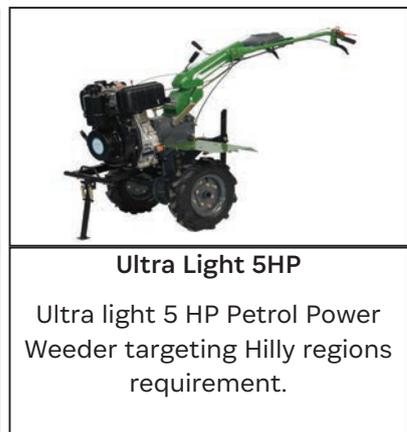


Demand for Power Tiller which is the leading product of Farm Mechanization division is highly seasonal and government subsidy driven. In Financial Year 19-20 Government subsidy remained as dominant factor in power tiller sales all across India. Direct benefit transfer (DBT) to end beneficiary is extended to almost all states across India apart from tender supplies. Though the seasonality patterns for various markets are known, monsoon patterns of the year also decides regional demand. In Financial Year 19-20, overall Power tiller market witnessed 12% decline as compared to Financial Year 18-19. Lok Sabha elections held in May '19 impacted subsidy disbursement in Q1 Financial Year 19-20, affecting power tiller sales in peak season. While the market was showing signs of recovery in Q4, yearend sales target in March 2020 was missed due to the COVID-19 pandemic.

Your company captured 14% share of overall market and dominated 15HP market segment with more than 50% market share with KMW MEGA T15.

### New Products Launched

In Financial Year 19-20 also, your company continued innovation and introduction of new product range to address the market requirements in 12HP lightweight segment and Power Weeder segment.



### Future Outlook

Agriculture & related industries are expected to be on priority for government & formulations of policies post the COVID-19 pandemic and will most likely benefit the overall Farm Mechanization sector. Return to normalcy, preferable before Kharif season peak in June-July would be critical for Farm Mechanization business. Subsidy from Government will be a key driver for power tiller sales in Financial Year 2020-21. All of existing Power Tiller and Power Weeder models manufactured by your company are already enrolled in subsidy schemes across India and new models which are under testing will get enrolled in the coming Financial Year. Your company will continue its efforts on establishing new product range in the market and will be a key driver for growth in Financial Year 2020-21.

### C. INDUSTRIAL ENGINES BUSINESS

Your Company continued to strengthen its longstanding partnerships with key stakeholders including key Original Equipment Manufacturers (OEMs), end-users across operating segments, Company's suppliers, employees and the communities.

During the year, Industrial Engine Business Unit continued to demonstrate commitment towards providing innovative products and services to cater to the ever evolving needs of the Company's OEM partners as well as the end customers.

In the Industrial business, your Company was able to strengthen its market presence across operating segments by providing the right 'Fit for Market' product offerings which are also backed by the strong after sale support network of KOEL CARE across India.

#### Business Overview

The Construction and Off Highway Industry faced a challenging year. The demand scenario was affected because of the General Elections held in first quarter of Financial Year 2019-20. The overall demand for the Construction Equipment Industry further weakened in next two quarters because of unfavourable macroeconomic environment led by slow movement in award of Road Construction projects, delay in payment to the contractors and overall tightness in the financing environment & lack of liquidity in the market. Demand for Tractor engines also remained muted in the Financial Year 2019-20 due to prolonged liquidity crunch and weak rural demand. This has resulted into decline in the growth of Industrial Segment.

The Company's revenue in Financial Year 2019-20 from Industrial Engine Business stood at Rs. 435 Crores, as compared to Rs. 596 Crores in Financial Year 2018-19.

KOEL is a leading independent engine manufacturer in India and is a preferred choice of all the Construction Equipment OEMs in India – both domestic as well as Global players. Your company was awarded "Supplier Excellence Award" by Action Construction Equipment Ltd.

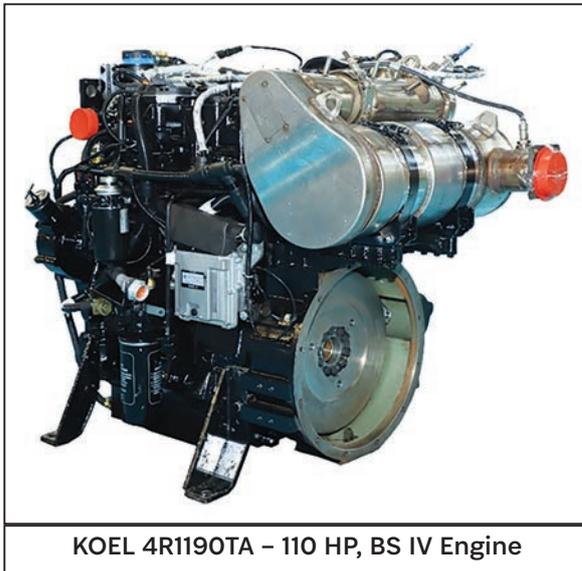




### New Product Developments

To address the upcoming Construction Equipment Vehicle - Bharat Stage Four (CEV-BSIV) emission changes in the Indian market in 2020, your Company initiated a program to launch superior electronic engines with key customers last year. CE industry BS-VI norms for automobiles and is going to get implemented on wheeled equipment from October 2020.

This program has now progressed well and your Company has developed multiple power nodes of the BS IV engine models to cater to a vast range of equipment range across the Construction Equipment Vehicles. These include power nodes in the range from 74 hp to 130 hp. Your company is working with all the leading OEMs across India for several applications such as Backhoe Loader, Compactor, Self-Loading Mixer, Cranes, Wheel Loader, Paver, Telehandler etc. and has supplied proto engines to all these players. The machines are under validation and your company will be ready ahead of the time with the new, technologically superior products as the industry transition to the next level emissions.



### Future outlook

Your Company has strong partnerships with all major equipment manufacturers and will continue to leverage technology leadership to continue our growth in this sector.

The Financial Year 2020-21 brings new and unprecedented challenges to all the businesses and your Company is not an exception to this. While the Company is in the midst of a VUCA (Volatile, Uncertain, Complex and Ambiguous) business environment in short term due to the COVID-19 outbreak and resultant outcomes associated with the same, your Company believes that the long term India's growth story remains intact, driven by strong private consumption and public push for Infrastructure spend coupled with a speed of execution on road building & infrastructure development thrust by the Government.

### D. CUSTOMER SUPPORT

KOEL's after sales service support, provided through its wide spread digitally connected 421 service outlets Pan India with robust digitized processes and 3000 + trained service team makes it a dominant service brand and Industry benchmark.

Acknowledging all traits of the market like lesser utilization of Industrial Engines and changing of DG sets utilization patterns, your Company continuously strives for increasing service reach and long term retention of customer through preventive maintenance which is vital for maintaining revenue growth.

Preference to engage OEM's for after sales service has seen a positive trend in Corporate, Institutional & Government sector & customers are also assertive in direct connect and transaction with the brand.

This year ICICI Bank recognized KOEL service efforts by awarding Platinum Partner Award for providing efficient and proactive services to 2000+ DG sets installed at their branches pan India and covered under KOEL AMC.

#### **Innovative Service Products & New Initiatives**

With the introduction of innovative service products such as Bandhan & Anubandh, gives your Company is now directly engaged with retail customers for the long term and delivers assurance of best in class after sales service for their DG. These products are trend setting in Genset Industry and 30000+ assets of retail customers are enrolled under KOEL Bandhan as of 31st March 2020.

Four regional training centers across India are supporting KOEL in continuous improvement of competencies of our field service and are actually proving to be the back bone for any new service products and initiatives.

Many digital initiatives taken by your Company to enhance customer experience are the benchmark in service industry and set your Company apart from its competition. New initiatives taken by your company this year includes

- System based tracking of below KPIs to improve customer confidence and Service image viz :-
  - o FTR ( First Time Right )
  - o FVR ( First Visit Resolution)
- Customer Delight Index (CDI) score consistently above 90+
- Power Car Service Support & Processes established (New Segment)
- 24 hours Maximum Time To Restore (MaxTTR) monitoring for improved response time and restoration

With all the above mentioned initiatives, despite a volatile market situation and overall slowdown in industrial segment the customer support division could maintain its revenue at Rs. 403 Crores in Financial Year 2019-20 as against Rs. 409 Crores of Financial Year 2018-19.

#### **Future outlook**

In the current volatile and difficult situation due to outbreak of COVID-19 pandemic and its post effects, your company will continue to engage with customers and partners in the best way possible and ensure its highest support.

Your company will continue customer retention drive like Mission Bandhan and Anubandh in PG in order to sustain revenue growth. Institutional sales like KOEL AMC, Railways, Government & Defence will grow as a matter of preference to OEMs. Your company will build robust processes with the support of a strong CRM system for ensuring long term customer connect and engagement with KOEL CARE. Capability building to handle BSIV and CPCB IV technology through structured training programmes will be a key focus for this year. Your Company will also invest in enhancing our digital ecosystem to support performance measurement and Rewards & Recognition initiatives to keep Service Dealers Manpower motivated and engaged with the brand.

#### **E. INTERNATIONAL BUSINESS**

The Company's exports of its products – diesel engines, generating sets and spare parts, covers a vast range of Power Generation, Industrial and Agriculture applications.

The world economy growth rate estimate was at around 3% for 2019-20. The Middle East and Africa Regions, which have been our traditional strongholds and contributing markets for long, faced some



new challenges. Political volatility continued in large parts of the Middle East. Some Latin American markets were hit by adverse foreign exchange conditions.

Further, towards the end of the year, the business and marketing environment has been seriously impacted due to the Covid-19 pandemic. This is bound to hamper the global estimated growth rate. All these factors will need to be duly considered for forecasting international business in 2020-21.

Commodity prices were lower in 2019-20, especially oil prices. This may affect projects in the gulf region. The year 2020-21 anticipates an improvement in energy commodity prices, with metals and minerals also expected to show marginal improvement. This augurs well for boosting business in the Industrial and Off-Highway segment. On the flipside, the Agriculture segment is expected to shrink further, which would further impact business in the respective traditional markets.

#### **Business overview**

KOEL's International Business Revenue for the Financial Year 2019-20 amounted to Rs. 233 Crores, as compared to Rs. 206 Crores in the last Financial Year 2018-19. The organizational efforts in focus markets as well as adding new OEMs to our portfolio enabled a growth of 12% over the previous fiscal year. Power Generation and Firefighting segments were the major growth contributors. New markets and segments contributed to about 31% of the overall export revenues.

The Company achieved a notable double digit growth in key South East Asian and African markets, while the Gulf countries and South Africa contributed significantly to export revenues. We made a promising start to power generation business in the USA, while business in the rest of the Americas region remained steady. On the other hand, competition from multinational companies has extremely intensified in the Power Generation and Industrial segments. KOEL also faces severe price competition from Chinese and domestic players in the agriculture segment.

Some of the highlights in the International Business for the Financial Year 2019-20 include:

- Concentrated intensified efforts resulted in a growth of over 70% in South Africa and United Arab Emirates, both of which were identified as focus markets for KOEL.
- FMUL fire-fighting engines business contributed to about 14% of the overall export business. As part of the business strategy, KOEL implemented a regional stocking arrangement in the UAE, and this was instrumental to the business growth.
- In the USA, we introduced EPA-certified Tier 3 diesel engines suitable for up to 100 kWe Stand-by Generating sets, and also made a beginning with OEM business. These are expected to be one of the growth drivers in Financial Year 2020-21.
- KOEL made significant strides in South East Asia in the Power Generation segment, especially in Vietnam and Myanmar. We intend to use this as a platform to build further, during the new Financial Year.

#### **Future outlook**

Decline in secondary sales at the beginning of Financial Year 2020-21 is anticipated in all the markets. Efforts will be done to engage actively with Channel partners, OEM's and Customers and to explore new business opportunities to minimize loss of sales.

The focus in Financial Year 2020-21 will continue to be on the market penetration in focus markets identified. On products front the company will make sustained efforts on selling high horse power range and FMUL engines for firefighting pump sets and will also explore opportunities for gas engines.

KOEL Americas Corporation, USA (a wholly owned subsidiary company) commenced sales of EPA certified engines in USA and has also developed re-exports business of generating sets to South America. This will boost business growth during Financial Year 2020-21.

**F. LARGE ENGINES BUSINESS**

The Company's revenue in Financial Year 2019-20 from Large Engines Business stood at Rs. 160 Crores, as compared to Rs. 179 Crores in Financial Year 2018-19.

Large Engine Business division with its acquired acumen over the years of project management and execution serves Government and Institutional customers with a focus on Defence and Marine. The supplies include energy systems for radars, communication systems, battery charging systems, vehicle repowering, propulsion engines and gensets for Marine. Demand for supplies is based on launch of large government projects which that have long gestation period and are cyclical in nature. To counter balance the supplies uncertainties, your Company has entered into and continues to focus on fishing boat engines market. In addition to this your Company has now entered nuclear power plants market for emergency equipment DG sets with DV series engines.

**Business Overview**

Developing customized products along with meeting stringent qualification requirements of customer remained the focused area for growth. The Company has developed two more models of compact generating sets as per customers' requirements and also obtained necessary approval from defence authorities for these sets. Going one step ahead, capitalizing on skill set of execution of complex projects, your Company made an entry into the system integration domain by acquiring an order from a defence PSU for emergency or back up power along with electrical package for naval surveillance system. The scope includes supply, site installation testing and commissioning of complete system.

Responding to the fishing boat market requirements of specific horse power engines, your Company developed 8 more engines nodes and continues to gain the market share. Engines commissioned on fishing boats have clocked more than 4500 hours and performance is well appreciated by customers. Engine commissioned on Coast guard vessel clocked more than 12,500 hours this year, which is an important mile stone proving our capability.

**Future outlook**

Expanding customized product offerings, growth in Defence and Marine power & propulsion segment, increase market reach and gain market share in fishing boat engines will be the focus for the Large Engines business. Governments focus on increasing exports of defence equipments is expected to open up additional business avenues for Large Engine Business for existing products and will create opportunities for new product development. Your company will continue development of compact and lightweight DG sets for Defence and development of durable and efficient engines as per market requirement for fishing boats. With the success of supplying material for 1st phase of naval surveillance emergency power system your company is geared up for installation and commissioning activities and expecting order booking for next phases in Financial Year 21. The Nashik plant will continue to be the main Product development, manufacturing and assembly hub for the business especially with all defence and marine engines and DG sets assembly.

**RESEARCH AND APPLICATION ENGINEERING**

Research is a key enabler that helps KOEL remain relevant and competitive in the global markets and drives growth through innovative solutions and enhanced product offerings. Over the years, your Company has set up a state of the art R&D facility, operated by a very competent team, which works closely with different businesses to deliver high value products to customers. R&D expenditure is focused on expanding product range, emission upgrades and solutions for sustainable future growth. In pursuit of excellence in product performance and enhancing value to customers through new and improved products, the research team is working towards achieving benchmarked parameters both in the domestic and global markets to offer the most advanced and comprehensive range of products. During the year, the team supported the launch of several innovative products that enabled your Company to fortify its market leadership position. First firing of K4300 engine platform of HHP segment and R550 engine platform of LHP segment was achieved in Financial Year 19-20.



The launch of new products includes range of gensets developed for applications such as power car for Indian Railways, Biogas gensets of 4 kVA to 125 kVA ratings. Prompt response from development team enabled acquisition of new OEMs and new applications from existing OEM's of Construction equipment's. In the Fire Fighting domain, FM/UL listed fire pump engines upto 3000 rpm and HHP fire pump engines are now part of regular production. With regards to certifications, 3 models of genset used in emergency standby application received EPA certification.

The R&D team developed additional power nodes and upgrades for the following:

- Bharat Stage III (BS III) emission compliant engines for construction equipment
- CPCB stage II emission norms applicable for power generation
- Bharat (TREM) Stage III A emission norm compliant engines for tractor application, Power Tiller and Power Weeder

#### **Innovating for a sustainable future**

The major focus areas of R&D wherein the team is putting efforts for sustainable future are as below-

- Cost effective emission solution for Tier 4 Final / BS IV CEV norms
- Development of new engine platforms namely K4300 and R550
- Implementation of critical chain project management methodology for new product development
- Development of special marine, railways and defense applications
- Product portfolio and emission strategy for CPCB IV+ norms

#### **Future Outlook**

The R&D is actively tracking/learning/developing products involving disruptive and/or futuristic technology trends such as alternate fuels, Electrification of engines, energy storage and alternate methods of electricity depending upon technology maturity. The One global engine platform and One HHP platform are under development and will be one of the key focus area for the coming Financial Year. Your Company will continue its development of new applications like marine, defence and railways and will also work on development of engine technology for alternate fuels for natural gas, biogas, methanol etc. The R&D strategy will continue to focus on increasing efficiency, enhancing customer satisfaction and strengthening business presence in key strategic growth markets.

#### **QUALITY ASSURANCE**

A consistent focus on quality led to significant reduction in defect level and customer complaints across various product categories. AC Neilson's Customer Satisfaction Survey results confirm the leadership position of KOEL on product quality.

Focused Quality improvement programs were initiated and sustained through

- Customer Centric Initiatives
- Black belt certification programs
- Projects on new product quality improvement.

KOEL follows a structured roadmap of **Quality Systems Deployment** for suppliers. With a pool of qualified VDA 6.3 (Verband der Automobilindustrie - German Quality Management Standard) assessors, process audits are conducted in a systematic manner and focused improvement actions are initiated at supplier end. Through the initiative "**Journey towards ZERO Defect**" suppliers are trained through participative workshops. This approach drives the participants to identify gaps in their manufacturing / business processes and execute improvement projects systematically. An enabling culture of '**Share, Learn and Apply**' is nurtured and best practices are shared amongst the suppliers through various forums for effective implementation.

## **SUPPLY CHAIN**

Supply Chain of your company has fully embraced the "Project Unlock" as a foundation for sustaining the benchmark delivery commitments to end customers. The "Project Unlock" philosophy has been implemented across the value stream and the complete value chain is benefited from it. This is considered as one of the industry best business practice by its stake holders due to the high level of transparency of the system. In order to optimize the system further, your Company has undertaken initiative of 'Lean Clusters' with critical suppliers for identification and elimination of waste and making the supply chain more flexible to end users requirements. Through successful implementation of "Project Unlock" in new product development processes, your company has demonstrated development of new platforms meeting stringent time lines of implementation while ensuring a best in class quality. Improving supplier part quality has been a continual project; your company has embraced VDA 6.3 philosophy for supplier up gradation and developed a structured 'Zero Defect Journey' roadmap which is being implemented across the critical supplier base. Not limiting to individual supplier end projects, your Company publicizes the philosophy of 'Share Learn and Apply'. As part of the same, this year your company organized the 11th consecutive edition of Supplier Quality Improvement contest, a platform for suppliers to showcase their best practices. Digital transformation of the supplier base is critical to your Company and various digital initiatives are now used with in the supply chain for real time information flow. Further, the Company has lined up initiatives like discussion forums and implementation support in order to make the supply chain Industry 4.0 ready.

During Lockdown period towards the end of the Financial Year, KOEL conducted several training programs for its supplier base. Considering the expected downturn in plant capacity utilization at Supplier end, they are expected to have fixed cost burden. The KOEL Supply Chain Management team has provided necessary guidance on measure to be taken on post lock down scenario. This is from the operation management as well as the financial management perspective.

## **ENVIRONMENT, OCCUPATIONAL HEALTH AND SAFETY (EHS)**

During the year, numerous initiatives were undertaken in your Company's plants and offices in the areas of Environment, Occupational Health and Safety (EHS).

The Company continued to undertake across all plants environmental initiatives viz., celebration of World Environment Day for awareness creation amongst employees & nearby villages, Celebration of Kirloskar Vasundhara International Film Festival for society environmental awareness and plantation of trees. As a part of Occupational Health, organization your Company organized Blood donation camps, Eye checkup camps, health awareness sessions and periodical medical checkup for employees. With regards to safety your Company conducted programs like Behavioral Based Safety awareness, road safety awareness, mock drills for safety awareness, Firefighting Training for employees etc. as a drive under safety initiatives.

To ensure efficient control of all processes in quality management, environmental protection, occupational health and safety, KOEL has implemented IMS, which integrates ISO 9001, ISO 14001 and OHSAS 18001 management systems. KOEL is now IMS certified by ABS QE.

Some of the key initiatives are listed below:

### **Environment initiatives**

#### **A. Kagal Plant**

- Conversion of Diesel operated forklift into Battery Operated forklift to reduce air and noise pollution
- Construction of Rain Water Harvesting structures in order to increase level of groundwater
- Utilization of water from treated effluent for sewage system



- Extension of Chip Bin shed to store hazardous waste in most scientific and technical manner
- Installation of fuel conversion plant to utilize waste plastic
- Completed Carbon Sequestration and Bio-Diversity assessment of plant

#### **B. Khadki Plant**

- Constructed four rain water harvesting structures and one bore well recharge structure to increase use of harvested rainwater
- Installed piezometer for measurement of level of ground water
- Utilization of water from treated effluent for sewage system in addition to gardening

#### **Safety Initiatives**

- Installation of lifeline for safe unloading at HSD and Lube oil yard at Kagal Plant
- Installation of new earth pits for transformer yard to meet electrical safety standards at Khadki, Pune plant.

At KOEL, Sustainability management is a journey and not a destination. In this journey, the company strives for balance amongst various stakeholder expectation, Sustainable Development Goals (UN SDGs) and the business growth. In tracking KOEL's contribution to the three pillars of the Sustainability - Economic, Environment and Social Development, the 8th annual Corporate Sustainability Report as per the Global Reporting Initiative (GRI), Netherlands, for the year 2018-19 was released in December 2019.

#### **HUMAN RESOURCES AND INDUSTRIAL RELATIONS**

The Company continues to maintain healthy and harmonious industrial relations across all its manufacturing plants and offices. The Human Resources function has been enabling business transformation by striking a balance between business needs and individual aspirations. The company has a dedicated human capital of over 2342 employees spread across locations in the organization.

The Company has received the 'Golden Peacock HR Excellence Award' for the year 2019 in the category of Engineering & Manufacturing industries.

The Company recognizes that it's human capital is critical to the Company's success and therefore, is committed to training, skilling and up skilling its human capital on an ongoing basis which ensures that its employees are able to adopt to evolving technologies, processes and techniques.

Some of the significant initiatives that were undertaken during the year on the human resources front to ensure that the Company can continuously cater to the changing business opportunities and challenges are as below:

- Continued to implement programs for upgrading skills of employees such as Behavioral Training and Technical Training calendar for Sales and Service Executives, Upgraded program for workforce of Kagal Manufacturing Plant through 'Gurukul' an in-house training centre.
- 360 degree assessment for Senior Managerial employees for their Individual Development Plan.
- A culture of acknowledgement and recognition is being fostered through Rewards and Recognition program 'Samman';
- Our Fun @ Work club, Tarang, continued to conduct events which has fostered employee engagement. At Kirloskar Group level this year "A Fitness Challenge Program" is introduced and well participated by the employees. This program includes the importance of a balance diet, yoga and other fitness plans.
- Continued the endeavor to create a transformational industrial relations culture, under which

self-driven & passionate employees align themselves to organizational goals, while their fair expectations are proactively met. Employees are encouraged to partake in various ongoing programs like Kaizen, ENCON, Quality Circles, Safety, 5S, WASH, Sports, Cultural Programs, Kirloskar Vasundhara Film Festival, Corporate Social Responsibility(CSR) initiatives etc.

- Continued efforts on arranging lectures on health, fitness, common ailments/diseases and life style improvement, with a view to enhance employee awareness.
- Signing of wage settlement agreement for plant located at Nasik, prior to expiry of the earlier settlement, without losing a single man-day, for 2nd consecutive year.
- Some of the Corporate Social Responsibility activities are designed to have maximum participation by the employees of the Company.

#### **FINANCE, ACCOUNTS, LEGAL AND SECRETARIAL**

The Finance function has increasingly played the role of a business partner and has led several strategic initiatives that ensure improved efficiency and profitability in the organization. The overall business environment has remained highly competitive and it was imperative that profit improvement and value engineering initiatives were taken up in order that the Company's products remained competitive and accessible to customers.

In the last couple of years, your Company has taken several initiatives, cutting across the length and breadth of the organization to ensure that it is future ready and geared to accelerate its growth strategy with prospects of a better economic and industrial climate. With a strong cash position and excellent working capital management the Company's Balance Sheet remains strong and poised for accelerated growth.

The finance function has also taken several initiatives to improve data integrity and support business decision making. IT enablement of several erstwhile manual processes has ensured improvement in speed and reliability of information at reduced cost. Adherence to statutory and regulatory compliance has always been given the highest importance. Your Company uses a work flow based legal compliance software tool that monitors and ensures compliance of all applicable regulations across all factories and offices. This year the Company received recognition as "Most Innovative Legal Team of the Year" for its Legal function.

During the year under review, the Company has arranged, for the consecutive 2nd year, factory visit to Prestigious Kagal Plant for shareholders of the Company.

#### **Shareholders' Visit to Kagal Plant**





## INTERNAL CONTROLS AND RISK MANAGEMENT

The Company's internal control system is commensurate with the nature of the business, size and complexity of operations covering all businesses and functions of the organization. The Internal Audit Department (IAD) maintains a repository of internal controls which is tested and updated through its internal audits to ensure that adequacy and effectiveness of all major internal controls.

The IAD develops a risk based audit plan on a yearly basis which is approved by the Audit Committee. The audit plan covers all businesses and functions across all locations. Significant observations and progress of implementation of action plan are reported to the Audit Committee.

The IAD's control self-assessment framework complements the internal audits and helps the employees to monitor the internal controls they are responsible for. This system aids in building robust control environment across the organization.

The internal audit and control self-assessments processes are automated to promote efficient tracking open audit issues without manual intervention.

The IAD facilitates the risk management program in the Company as per the Risk Management Policy. The IAD works with the businesses and functions in identifying and assessing the risks. The mitigation plans for enterprise and business risks are reviewed and updated on periodic basis. The enterprise risks and their mitigation plans are presented by the risk owners to the Risk Management Committee. The ERM framework is aimed at effectively mitigating the business and enterprise risks through strategic actions.

## AWARDS, RECOGNITIONS AND CERTIFICATIONS

Some of the other recognitions received for our relentless efforts of quality delivery and operational excellence included:

- Kagal plant
  - a. "Golden Peacock Award" - 2019 for Energy Efficiency by Institute of Directors' (IOD). This award is regarded as a benchmark of Corporate Excellence worldwide and recognition of a world-class organization promoting and implementing energy efficiency and energy conservation measures.
  - b. "GreenCo Platinum" rating by CII National forum. (This is league of organizations following world class green practices)
  - c. On the World Environment Day our Kagal plant achieved the "Carbon Neutrality" certification under the guidelines of PAS 2060:2014 for 2018-19 by offsetting carbon emissions to the highest standards.
  - d. "Excellent Energy Efficient Unit" at 20th National Award organized by Confederation of Indian Industry (CII)
  - e. "National Energy Leader" award for its continuous efforts and excellent work in the field of energy management.
  - f. 'Certificate of Merit' at 14th State Level EC Award towards energy conservation in Automobile and Engineering industry category through Maharashtra Energy Development Agency (MEDA)
  - g. "Highest Par Excellence Award" and "Sliver Award" at International Convention on Quality Control Circles, 2019 at Tokyo in categories viz. Quality Assurance, 5S and Gold Award safety skit from Quality Circle Forum of India, Pune Chapter
- Nasik Plant - "Excellent Energy Efficient Unit" at 20th National Award organized by Confederation of Indian Industry (CII) for the first time.

## **RISKS, OPPORTUNITY AND THREATS**

The ERM framework addresses the risks and opportunities in line with the Company's strategy / projects. Some of the major risks, opportunities and threats in the Company radar are detailed below:

### **Risks**

- The Coronavirus (COVID-19), being a 'Black Swan' event, has resulted in a severe economic contraction on a global and domestic front for all countries. It has adversely affected the three major contributors to India's GDP viz. private consumption, investment and external trade. The severe disruptive impact on demand caused by the pandemic will create large cash flow gaps for corporates across all sectors.
- India's GDP growth for the current fiscal is expected to slow down to 4.8 per cent according to a UN report, as the coronavirus-induced lockdown is causing significant disruption across multiple sectors, says a report.
- There is a risk of global recession in 2020 as larger economies may curb or shut down economic activity due to COVID 19. This may have a high impact on demand and supply affecting production in developing and under developed countries.
- Evolving alternate technologies to ease out impact on climate change.

### **Opportunities**

- During this crisis of COVID-19, even the most brick and mortar organizations will be forced to go digital. There will be a real and immediate opportunity to drive efficiencies through digital. This crisis will highlight the need for investment in enabling technologies like cloud, data and cyber security.
- Possibility of shift of manufacturing processes from China to India due to the rising input costs in China and the US-China trade war.
- To reduce overall business costs, outsourcing will be looked upon as an opportunity to lower fixed costs.

### **Threats**

- The pandemic has exposed the world's risky dependence on vulnerable nodes in global supply chains. China, for example, accounts for about 50 to 70 percent of global demand for copper, iron ore, metallurgical coal, and nickel. There could be a massive restructuring as production and sourcing move closer to end users and companies localize or regionalize their supply chains.
- In the long term, in India, given the low income levels especially in the unorganized sector and absence of adequate social security, unless reforms are not planned, the impact of COVID 19 will be the highest.

### **COVID 19 - IMPACT**

The 'severe acute respiratory syndrome coronavirus 2' (SARS-CoV-2) virus responsible for COVID-19 continues to spread across the globe and India, which has contributed to a significant decline and volatility in the global and Indian economy. On 11th March 2020 the COVID-19 outbreak was declared a global pandemic by the World Health Organization. Numerous governments and companies, including your Company, have introduced a variety of measures to contain the spread of virus.

The Company is following the developments concerning the spread of COVID-19 very closely and has adopted all the necessary prevention and control measures, in conjunction with the local authorities, and in line with the directives issued by the State and Central Government at all its premises involved. As the situation is still evolving, the full impact of outbreak is still uncertain.



The Company has started the Financial Year 2020-21 under the uncertain clouds of 'COVID-19'. The priority is on the health and safety of employees, business partners, customers, and the communities in which the Company operates, hand in hand with the work of authorities. Outlook for Financial Year 2020-21, at least in the near term, is unpromising with the current COVID-19 pandemic. Global trade and economic growth are adversely impacted by lockdowns and travel restrictions, which result in disruptions to business operations. The uncertainty over US-China trade relations and the geopolitical tensions in the Middle-East further aggravate the situation. The Company assumes that economic conditions in Financial Year 2020-21 will remain particularly volatile and uncertain overall, including certain contextual difficulties in a few markets, both in India and overseas, with additional pressure on the world economy.

Manufacturing facilities of the Company in Maharashtra were closed on 23rd March 2020 following countrywide lockdown due to COVID-19. The Company has since obtained required permissions and restarted its places of business, albeit, partially since 22nd April 2020. Based on the immediate assessment of the impact of COVID-19 on the operations of the Company and ongoing discussions with customers, vendors and service providers, the Company is confident of serving customer orders and obtaining regular supply of raw materials and logistics services after resumption of full operations.

Due to COVID-19 linked disruption, business conditions are challenging in the near term. Many of the end user industries of our products are also impacted by this pandemic induced crisis. As a result, our customers are not unable to predict their requirements for the Financial Year 2020-21. We are continually engaging with our customers and keeping a very close watch on the developments across all our businesses. The Company has, therefore, taken several cost-cutting measures to sustain the operations and to optimise the allocation and use of its financial resources with an objective to lower the Break Even Point and protect profitability.

As announced by the government most parts of the Country are announced to remain under lockdown. This might lead to continued supply chain bottlenecks, non-availability of necessary contract workers, and disruption in transportation goods in the short term. As of now the Company anticipate some impact on raw material availability, logistics, labour and other elements of supply chain in the near term but not significant enough to affect operations in a material manner.

Given the global nature of the COVID-19 pandemic, and the uncertainty around the severity and duration of the impact across multiple markets, the Company is not in a position to accurately assess the impact of this on its future financial performance. The extent to which the COVID-19 pandemic will impact your Company's results will depend on future developments, which are highly uncertain, including, among other things, any new information concerning the severity of the COVID-19 pandemic and any action to contain its spread or mitigate its impact whether government mandated or elected by your Company. The impact assessment of COVID-19 is a continual process given the uncertainties associated with its nature and duration. Furthermore, the impact of COVID-19 may be different from that estimated as at the date of approval of these financial results, and the Board and Management will continue to closely monitor the developments.