



ELECON 

**Elecon Engineering
Company Limited**

Chairman's Speech

**At
51st Annual General
Meeting**

Time : 11.00 a.m.

Date : 29-08-2011

1

Ladies and Gentlemen,

It gives me immense pleasure in welcoming you all to this 51st Annual General Meeting and also in addressing this august gathering.

The Financial Results of the Company for the year 2010-11 have been with you for sometime and with your kind permission, I take them as read.

I take the privilege of taking you through our financial and business performance in the year 2010-11 and share our thoughts for the future. While doing this, I am particularly encouraged by your continuous support and trust towards our endeavours.

Recovery in the global economy picked up momentum in the fourth quarter of 2010. The speed of recovery, however, remains significantly divergent. The Indian economy exhibited clear momentum in recovery, and despite the impact of a deficient monsoon on agricultural production, GDP growth for 2010-11 was 8.6 per cent as against 8.0 per cent in the previous year.

Data released in August showed factory output in June 2011 grew at an unexpected 8.8% compared with the consensus 5.8% forecast by analysts for the Index of Industrial Production (IIP), mostly due to the volatile capital goods segment, which shot up 37.7%, the most in 16 months.

DIVIDEND

As per our dividend policy, your directors have recommended dividend of ₹ 1.80 per share i.e. 90% for the year under review. I trust all of you are pleased with the results for the year ended March 2011 and our recommendation for a dividend at the rate of 90% or ₹ 1.80 per share.

ECONOMIC SCENE

The prospect of the US financial systems going into a tailspin, the economic meltdown in the western world, the slowdown in manufacturing and services in China and the likelihood of a sharp contraction in the Japanese economy have clouded the global economic scenario.

As this is not enough, the Euro zone debt crises has worsen the global economic scenario to a great extent.

A crisis of confidence emerged in Europe in early 2010. Various countries in Europe have incurred sharp increases in sovereign debt after their respective governments bailed out their banks in 2008. The problems originally started with Greece but eventually spread to Portugal, Ireland,

2

Italy and Spain. Also known as PIIGS, these countries have the highest deficit-to-GDP and debt-to-GDP ratios in the region with adverse consequences to be felt in international arena.

It is now widely acknowledged that emerging nations like India will drive growth in world GDP in the years ahead. Indeed, there is already a major shift in the axis of economic power towards Asia as advanced nations grapple with the after-shocks of a deep recession.

COMPANY'S PERFORMANCE & NEW BUSINESS OPPORTUNITY

ELECON recorded a healthy financial performance with the company recording a growth in turnover. The turnover for the year 2010-11 at ₹ 1177.21 Crores recorded an increase of 12.50% over that of the Previous Year. Both the business segments - MHE and GEAR performed very well during the year under review despite turbulent conditions prevailing all over the world, which adversely impacted some of the major sectors in which the Company operates its business.

Your Company has improved its operating efficiencies, enhanced its productivity and market share, delivered cost savings for the business, strengthened the balance sheet by taking various steps including capturing business opportunity.

I would, however, like to highlight the key aspects of your Company's performance during the year.

- Net Sales increased by almost 12.50% - from ₹ 1046.37 Crores to ₹ 1177.21 Crores.
- Profit After Tax increased by 32.86% - from ₹ 66.17 Crores to ₹ 87.92 Crores.
- PBIDTA has gone up by almost 17.56% - from ₹ 174.33 Crores to ₹ 204.94 Crores.

Looking to the abovementioned figures, one should appreciate the efforts put by the Company in managing the growth rate even in inflationary situation.

In spite of high rate of interest, increase in cost of raw material, etc. your Company was able to maintain the growth momentum mainly due to –

- Selection of contracts with high profitability.
- Saving in interest cost due to availment of cheaper short term finances from banks.
- Various steps initiated to contain cost.

3

New Business Opportunity

During the year under review, your Company has acquired the business of Benzlers-Radicon (BR) Group, a Sub-Group of David Brown Gear Systems Group of UK, being the first ever foreign acquisition by the Company.

By combining engineering excellence with BR group, your Company will now be able to bring the advantages of economies of scale in the manufacturing processes and to reduce costs across the supply chain. The Company will continue to delight customers by offering applied engineered products and improve profitability.

The rationale of this acquisition is to:

- Achieve higher volume with Radicon range of products.
- Improve market reach for Elecon Products through Benzlers-Radicon Gears.
- Get benefit from the 'Benzlers-Radicon' brand name to pursue and penetrate deeper in newer markets like South America, Russia, South Africa & Australia in future.
- Have synergy like, global presence, leading brand recognition, intellectual property rights, significant freehold assets ownership

The consolidated turnover of the Company for the year 2010-11 is ₹ 1287.61 Crores.

FUTURE OUTLOOK

India is one of the fastest growing countries today. Its population which was once the most talked about subject has actually turned the tables for India. It will not be very hard for India to sustain its growth because of growing domestic consumption demand as compared to developed economies world over affected by grim global economic scenario.

However, the present rise of inflation rate in India can be detrimental to the projected growth of Indian economy. Therefore, the RBI is devising methods to arrest the rise of inflation by putting checks and measures in place. In response to inflationary pressures, the RBI has raised the policy repo rate 11 times since mid-March 2010 bringing it up from a low of 4.75 percent in March 2010 to 8.00 percent by July 2011.

Engineering sector, the largest segment of Indian industries encompassing the capital goods sector within it, is considered the mother of all other industries. Notwithstanding the entrance and phenomenal

growth of other industries like IT industry and the related communications and services sector, the Manufacturing Industry has not and cannot lose its significance on the simple premise that it brings in visible and tangible creation of an asset base which has a definitive life and enduring value of its own.

We have established a base in the export market through the acquisition. With this vast potential for growth combined with the fact that a majority of capital goods necessary for various power projects, steel and petrochemical plants and mining tools, etc. being rolled out in the country itself, the market is ever expanding. With our strength in the versatility of our manufacturing base, vital experience in EPC through association with other dominant players, our reputation for quality and service, we are looking into plans for entry on a larger scale to improve our top and bottom lines.

Your company is having substantial unexecuted orders as on July 31, 2011 to the tune of ₹ 1572 Crores, which will turn out to be significant invoicing in FY 2011-12. In addition to that order inflow during remaining period of current financial year will strengthen our order book position significantly.

PERFORMANCE DURING THE CURRENT YEAR

In spite of various bottlenecks due to globally spread wobbling economic situation, the turnover of the Company upto June 2011 was ₹ 254 Crores as against ₹ 245 Crores during the corresponding period of previous year. The Company is aiming to reach the milestone of ₹ 1450 - ₹ 1500 Crores during the Current year.

CORPORATE GOVERNANCE

The concept of Corporate Governance primarily emphasis on complete Fairness, Transparency, and Accountability of the management, with an increasingly greater focus on investor protection and public interest.

Corporate governance is about ethical conduct in business. Corporate governance helps firms control and direct its operations.

Your Company always believes in implementing good Corporate Governance practices with emphasis on ensuring fairness, transparency, accountability, compliance of all statutory and regulatory requirements and adhering to the best level of business ethics.

CORPORATE SOCIAL RESPONSIBILITY

Your Company has been one of the frontrunners to have in place a system of Corporate Social Responsibility (CSR) much before it became a formalized concept and presently an area of statutory necessity. It encompasses the steps taken to protect the environment and to provide the safety to people and their belongings surrounded in the vicinity of the manufacturing units.

Our long lasting commitments include contributing towards community welfare, educational support to the bright students by way of scholarships, healthcare support to the physically challenged, adoption of backward villages and working towards their upliftment, and also contributing on a positive note to schools and parks that we have built in and around Vallabh Vidyanagar, Gujarat.

Through our social service foundations i.e. EL CARE and Elecon Ladies Forum (ELF), we contribute to the noble causes in form of blood donation camps, health check up camps, scholarship to meritorious students, adoption of backward villages, educating villagers about their social and civil rights, etc.

We have also incorporated environmentally safe policies and try to spread the message of preserving our environment by keeping it as the theme of our Annual Report.

ACKNOWLEDGEMENT

On behalf of the Board of Directors and on my behalf, I convey my sincere thanks to all the Shareholders, Vendors, Customers, Dealers and Business Associates and other stakeholders namely; Central and State governments, financial institutions, public and private sector banks, government agencies and non-government institutions and at last our employees for their support in growth of the Company's business.

I express my sincere appreciation to my colleagues on the Board and the Management Team for their invaluable contribution in driving your Company towards greater heights of excellence.

Thank you for your attention!

PRAYASVIN PATEL
Chairman & Managing Director

Date : 29-08-2011
Place : Vallabh Vidyanagar