ELECON GEARING THE FUTURE

CHAIRMAN'S SPEECH

Dear Shareholders, Ladies & Gentlemen

It is indeed an honour to address this 55th Annual General Meeting of your Company. I am glad to extend a warm welcome to all of you on behalf of the Board of Directors, the Management and the Employees of the Company.

I am sure that all of you are in receipt of the Annual Report for the financial year 2014-15 which discusses the business performance as well as the financials of the Company in detail. With your kind permission, I take the Director's Report and Audited Accounts for the year 2014-15 as read.

However, I would be touching upon the key highlights of fiscal 2015 in terms of our business performance and some key financial parameters as well as sharing my vision for the outlook going ahead. It goes without saying that a large part of who we are today has been shaped entirely by the continued support and motivation from you and I am confident that this support will continue for years to come.

Economic Outlook

The major economies of the world are still facing many structural flaws and policy constraints that hinder investment and faster productivity growth, making the medium-term outlook for a significantly faster path of global growth more uncertain.

The International Monetary Fund (IMF) cut its growth forecast for the global economy to 3.6% this year and 3.9% in 2015, pointing to the threat from the Ukraine crisis and the slowdown in major emerging economies. While the world economy has picked up pace, anchored by the United States and China, the global crisis lender pointed to looming risks, from the standoff between Russia and the West over Ukraine, to poorly handled policy in countries like Brazil, and deflation in the Euro area.

In India, the GDP growth has been subdued because of poor performance of the mining, manufacturing, construction and trade, hotels, transport, storage & communication services sectors. While the size of the mining sector has shrunk on supply constraints, the others have suffered due to poor domestic demand, both consumption and investment.

Unlike the transformational stories of many developed economies in the world, India's growth story was chalked by the dynamism of the service sector, while in contrast manufacturing has been less robust. The share of manufacturing in India's GDP has remained stagnant; a trend now observed for nearly three decades.

However, according to reports put out by KPMG, the manufacturing sector in India has the potential to reach USD 1 trillion by 2025 and contribute approximately 25 to 30 per cent of India's GDP (currently it is at 16%). It also has the potential to create approximately 90 million jobs by 2025.

A contribution of 25 to 30 per cent of GDP in the future is expected to put India at par with manufacturing levels of countries such as China, Germany, Japan and the U.S.

So what will drive this change in the manufacturing sector? Some of the major market drivers include the need for increased productivity and the rising demand for engineering equipment and machinery in the developing economies. This demand is expected to rise, keeping in mind the government's initiatives for infrastructure development. In addition, investments in power, oil and gas extraction, mining and petrochemicals will add further fillip to the industry. Industrial growth and development in the manufacturing industry will also add to the momentum of the engineering goods industry.

Year at a glance – Company Performance

Let me turn my attention now to the performance of the year gone by.

Given the tough economic conditions and the general sluggishness in demand from the industries that your Company feeds on, our turnover for 2014-15 was ₹ 503.19 Crores which was marginally higher than ₹ 501.23 Crores in the previous fiscal. As mentioned earlier, key reasons for the stagnant revenues was on account of the economic conditions and delay in execution of projects which has an impact on the revenue.

The EBITDA for the year improved to ₹ 106.50 Crores against the ₹ 100.07 Crores in the previous fiscal. The increase was driven by reduction in operational and financial costs during the year. In percentage terms this corresponds to an EBITDA margin of 21% as against 20% in FY 14. Basic EPS stood at ₹ 3.05, a 21% increase over ₹ 2.52 of last year.

From an order book perspective, we booked orders worth ₹ 482.16 Crores in 2014-15 and have pending orders as on 31st March, 2015 worth ₹ 233.87 Crores to be executed.

Going forward, the focus would be to continue our efforts to improve efficiency levels at each and every stage of our operations and this coupled with increase in capacity utilization on receipt of new orders would ensure that the profitability levels would return to healthy levels.

Dividend

Your Board of Directors has declared a dividend of 55% for the year 2014-15. You will appreciate that this is against a backdrop of some tough and trying conditions and hence we would request your co-operation and support as we work towards getting maximum value for our shareholders in the coming years.

Key Highlights of the Year Gone Past

The Company continues to be at the forefront of changes in technology to ensure that we have a pre-eminent position when the time comes for customers to choose the best gear manufacturer.

Your Company has continuously invested in Research and Development for ensuring the latest product offering. We have developed a new series of cooling tower gear box to cater to the power sector as well as are in the process to make a shaft mounted planetary gear box for the sugar industry. These are innovations which will ensure that we stay ahead of the curve as and when the demand picks up. As mentioned last year, we have also developed new series of EON/EOS gears to be more competitive in the market.

From an operational perspective, we have also reorganized our shop floor from a batch processing to a cellular manufacturing concept which has reduced the turnaround time in gears from almost 27 days to 3 days.

Outlook

As per a recent survey the global gear manufacturing market is expected to grow at a CAGR of 5% over the period 2014-19. One of the key factors contributing to this growth is the emerging markets. Another study expects global gear demand to grow to US$ 217 billion by 2018.

The Company is confident that the economic upturn could lead to a pipeline of opportunities that could be mined to register a good growth in the fiscal 2016. The key, however, would be the uptick of demand in key industries like power, mining, sugar and other infrastructure sectors that directly have a bearing on your Company's growth prospects.

One of the key focus areas that I have personally been concentrating on is to increase the export concentration from a level of 15%

currently to a much higher level. We believe this would not only ensure that Elecon is recognised the world over but also enable us to achieve better margins.

The Total Productivity Management (TPM) process is in place and we believe that this will ensure greater efficiencies resulting into lower cost of production thereby increasing our ability to compete globally.

Another key area of focus is on decreasing the debt levels and I have personally instructed my business heads to be assertive when dealing with customers relating to payments. We are seeing signs of some of these actions and are hopeful that we will be able to get our debtors level to manageable proportions.

All the necessary capital expenditure required for expansion has been done and hence we see no need for additional CAPEX in the foreseeable future other than the maintenance CAPEX which is not substantial.

I do see signs of green shoots in the economy but how quickly these flower and produce the fruits would be a factor of the economy progressing in a similar fashion.

Corporate Social Responsibility

Your Company has given special importance to the principles of Corporate Social Responsibility (CSR). It has also given priorities to make sure that the safety of environment, people and their belongings is provided.

Our strong 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, further development and also contributing on a positive note to schools and parks that we maintain in and around Vallabh Vidyanagar, Gujarat.

As part of Elecon's Corporate Social Responsibility, the Company provided attractive scholarships to bright under-privileged students of Birla Vishwakarma Engineering College, Vallabh Vidyanagar. The Scholarships include tution fees, examination fees and hostel fees as well as mess charges. The Company has been providing this Scholarship since 2007.

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.

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 above all our employees for their unstinting support in the 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 guiding your Company towards greater heights of excellence in the volatile economic environment.

Thank you for your attention!

PRAYASVIN PATEL
CHAIRMAN & MANAGING DIRECTOR

Date : 14.08.2015
Place : Vallabh Vidyanagar