



Elecon Engineering Company Limited

Chairman's Speech

At

59th Annual General Meeting

Time : 10.00 a.m.

Date : 17-09-2019

Dear Shareholders, Ladies & Gentlemen

At the outset, I welcome you all on behalf of the Board of Directors, the Management and the Employees of the Company.

I am sure that all of you have received the Annual Report for fiscal 2019. We have attempted to accurately lay out the business performance and outlook of the Company; we believe that would help you in understanding the direction that we have set for the future.

With your kind permission, I take the Board's Report and Audited Accounts for FY 2019 as read and would now take you through some of the key highlights of the fiscal gone by.

ECONOMIC OUTLOOK

After strong growth in 2017 and early 2018, global economic activity slowed notably in the second half of last year resulting in a growth of 3.7%. Trade tensions have taken a toll on business confidence leading to worsening of financial market sentiment. With high uncertainty and low confidence, investment has suffered, and the manufacturing sector has taken a hit. As such, global growth is now projected to slow to 3.5% in 2019.

India's economy grew slower than expected to a 20-quarter low in the last quarter of 2018-19, dragging overall growth to a five-year low of 6.8%. Stress in Non-Banking Financial Company (NBFC) sector coupled with ongoing global trade tensions and weak rural activity acted as major dampener. Sharp deceleration in private consumption and investment

rate has taken a toll on the economy resulting in a 6-year low GDP of 5% in the first quarter of 2019-20 signaling a slowdown in the economy.

The Indian engineering industry witnessed muted growth and low orders intake, owing to slowdown in the manufacturing and infrastructure sector activity. However, post the formation of the government at the center, we expect revival in capex led by accelerated spending in the railways and infrastructure sector and Transmission and Distribution (T&D). Pickup in green-field projects is likely to drive the next leg of growth of engineering, procurement and construction companies.

YEAR AT A GLANCE - COMPANY PERFORMANCE

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

Fiscal 2018-19 has been a good year in terms of stability after we saw very muted performance in the early parts of 2017-18. While the Gear business continued to witness positive performance, the performance of Material Handling business too improved significantly owing to strategic decision taken by the management regarding exiting from troubled projects and pursuing more product-based opportunities rather than doing project business.

On a business front, Elecon's gear business continued to gain traction from the customers, and it reported robust growth in sales for the full year. During the fiscal, the Company booked orders worth of ₹ 548.7 Crores with sugar, steel and cement contributing most to it. The performance in the MHE

business improved significantly as we decided to stop pursuing fresh EPC projects and focus more on products business. At the end of fiscal, the Company's order book in MHE business stood at ₹ 403.4 Crores and Gear business at ₹ 717.0 Crores. Our overseas business Benzlers and Radicon registered a revenue of ₹ 78.5 crores with EBITDA of ₹ 8.78 crores.

Coming to the Q1 FY20 performance, we witnessed slight degrowth in revenue and margins in the gear business on the back of slowdown across all the sectors of the economy. However, we are pleased to have turned around the MHE division and report positive performance at the EBIT level. During the quarter, we booked orders worth ₹ 119.15 Crores in gear business. This translates to an order backlog of ₹ 731.15 Crores for execution in the near to medium term. In the material handling business, we closed orders worth ₹ 185.16 Crores. The pending order book for MHE business now stands at ₹ 526.35 Crores. During the quarter, our overseas business under Benzlers and Radicon registered revenue of ₹ 57.3 Crores with EBITDA of ₹ 2.0 Crores.

Despite challenging environment, Elecon's positioning and its capabilities have ensured steady growth for the Company. At the macro level, the economy faced slowdown during the second half of the year resulting in slight slowdown in orders. At the Company level, we have focused a lot on execution and operational efficiencies in the interim and this is evident in our profitability margins increasing both at the EBITDA and the net levels. Owing to our continued focus on strategies to create long-term value for shareholders, we witnessed

decline in debt and reduction in customer receivables and trade payables during the year. Given the current economic slowdown, we maintain a cautious outlook and continue to focus on our internal processes and strategy to tide over the ongoing challenges.

DIVIDEND

The Board of Directors of the Company has also recommended a dividend of ₹ 0.20 per share for the shareholders. We will continue to work towards getting maximum value for our shareholders in the coming years.

OUTLOOK

The outlook for the Indian economy in the ongoing fiscal year FY 2019-20 appears challenging on the back of 5% GDP growth in first quarter of 2019-20, the slowest in over 6 years due to decline in consumption and investment demand. Moreover, further escalation of US and China trade war is only likely to aggravate matters further. In order to revive growth and shore up market confidence, the Finance Minister announced a number of steps such as rolling back recent tax hikes on foreign and domestic equity investors, liberalised foreign direct investment (FDI) rules in many sectors and merger of public sector banks to create stronger global-sized lenders.

Major steps aimed at reviving economic growth by the government is likely to result in increased activity in the core manufacturing sectors in the long term which is a positive development for the Company. Going into the future, the

Company remains cautiously optimistic on the prospects of the business with an expectation of reversal in slowdown in the economy and core sectors such as power, steel, cement and mining.

ACKNOWLEDGEMENT

On behalf of the Board of Directors and my behalf, I convey my sincere thanks to all the Shareholders, Vendors, Customers, Dealers and Business Associates and other Stakeholders. We are also thankful to the 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 : 17-09-2019

Place : Vallabh Vidyanagar