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# **BIRLA KENNAMETAL LIMITED**

## **18<sup>TH</sup> ANNUAL REPORT**

### **2004 - 05**

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BIRLA KENNAMETAL LIMITED

<b>BOARD OF DIRECTORS</b>	:	SHRI YASHOVARDHAN BIRLA	Chairman
		SHRI ARUN JAIN	
		SHRI KUMAR KANETKAR	
		DR. W. R. CORREA	
		SHRI MIRKO CVJETICANIN	
<b>GENERAL MANAGER</b>	:	SHRI ANIL CHOUDHARI	
<b>COMPANY SECRETARY</b>	:	SHRI ANAND P. MORE	
<b>AUDITORS</b>	:	KRISHNA RAO & COMPANY	
		Chartered Accountants	
		"SADHANA"	
		Near Janata Bazaar, Aurangapura, Aurangabad - 431 001	
<b>BANKERS</b>	:	Bank of Maharashtra	
<b>REGISTERED OFFICE &amp; FACTORY</b>	:	B-15/4, M.I.D.C. Industrial Area	
		Waluj, Aurangabad - 431 133 (M.S.)	
<b>REGISTRAR &amp; SHARE TRANSFER AGENTS</b>	:	Karvy Computershare Private Limited	
	:	"KARVY HOUSE"	
		46, Avenue 4,	
		Street No. 1,	
		Banjara Hills, Hyderabad - 500 034	



## NOTICE

Notice is hereby given that the **Eighteenth Annual General Meeting of the Members of Birla Kennametal Limited will be held on Tuesday the 20<sup>th</sup> September, 2005 at 3.30 P.M.** at Registered Office of the Company at B-15/4, M.I.D.C., Waluj, Aurangabad (M.S.) - 431 133 to transact, with or without modifications, as may be permissible, the following business.

### ORDINARY BUSINESS :

1. To receive, consider and adopt the Audited Accounts for the year ended 31st March, 2005 together with the reports of the Directors and Auditors thereon.
2. To declare a dividend.
3. To appoint a Director in place of Shri Arun Jain, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

### SPECIAL BUSINESS :

5. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

"RESOLVED THAT Dr. W.R. Correa who was appointed as an Additional Director of the Company by the Board of Directors and who holds office upto the date of the Annual General Meeting under Section 260 of the Companies Act, 1956, and in respect of whom the Company has received a notice in writing proposing his candidature for the office of director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

6. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

"RESOLVED THAT Shri Mirko Cvjeticanin who was appointed as an Additional Director of the Company by the Board of Directors and who holds office upto the date of the Annual General Meeting under Section 260 of the Companies Act, 1956, and in respect of whom the Company has received a notice in writing proposing his candidature for the office of director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

By Order of the Board of Directors

Anand P. More  
Company Secretary

Regd. Office :  
Birla Kennametal Limited  
B-15/4, M.I.D.C. Waluj,  
Aurangabad - 431 133

Date : 14<sup>th</sup> June, 2005

**NOTES :**

1. **A Member entitled to attend and vote is entitled to Appoint a Proxy** to attend and vote instead of himself and a proxy need not be a member of the Company. A proxy, in order to be effective, should be duly stamped, completed and signed and deposited at the Registered Office of the Company not less than 48 hours before the meeting.
  2. The Register of Members and the Share transfer books of the Company will remain closed from 12<sup>th</sup> September, 2005 to 15<sup>th</sup> September, 2005 (both days inclusive).
  3. Members are requested to notify immediately any changes in their full address in Block Capitals with Pin Code number of Post Office to the Company's Share Transfer Agent **M/s. Karvy Computershare Private Limited, Karvy House, 46 Avenue 4, Street No. 1, Banjara Hills, Hyderabad - 500 034.**
  4. Due to the Prohibitive cost of papers and printing, copies of this Annual Report will not be distributed to the members at the Annual General Meeting. Members are therefore, requested to bring their copies of the Annual Report to the Meeting.
- EXPLANATORY STATEMENT, PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956.**

**ITEM NO. 5**

Dr. W. R. Correa was appointed as an Additional Director of the Company by the Board on 28<sup>th</sup> January, 2005. By virtue of the provisions of Section 260 of the Companies Act, 1956 and Article 136 of the Articles of Association of the Company, Dr.W.R.Correa holds office upto the date of the ensuing Annual General Meeting. The Board considers that it will be in the interest of the Company to continue to avail of his services as a member on the Board.

Dr.W.R.Correa is a Consultant and has a rich experience of over 30 years as a Consultant and as a Company Director on various Companies.

The Board of Directors is of the view that the services of Dr.W.R.Correa will be of immense value to the Company. Your Directors, therefore, recommend his appointment as a Director of the Company.

Dr. W.R.Correa is interested in the resolution, since it concerns his appointment.

**ITEM NO. 6**

Shri Mirko Cvjeticanin was appointed as an Additional Director of the Company w.e.f. 9<sup>th</sup> May, 2005. By virtue of the provisions of Section 260 of the Companies Act, 1956 and Article 136 of the Articles of Association of the Company, Shri Mirko Cvjeticanin holds office upto the date of the ensuing Annual General Meeting. The Board considers that it will be in the interest of the Company to continue to avail of his services as a member on the Board.

Shri Mirko Cvjeticanin is a BSc, ME, Ph.D and has a rich experience of over 27 years in Machine Tool Industry. Presently he is working as Global Market Manager in Kennametal Gmbh & Co. Kg. Germany.

The Board of Directors is of the view that the services of Shri Mirko Cvjeticanin will be of immense value to the Company. Your Directors, therefore, recommend his appointment as a Director of the Company.

Shri Mirko Cvjeticanin is interested in the resolution, since it concerns his appointment.

By Order of the Board of Directors

Regd. Office :  
Birla Kennametal Limited  
B-15/4, M.I.D.C. Waluj, Aurangabad - 431 133  
Date :14<sup>th</sup> June, 2005

Anand P. More  
Company Secretary



## DIRECTORS' REPORT FOR THE YEAR ENDED 31<sup>st</sup> MARCH, 2005

To,

The Shareholders,

Your Directors present the **Eighteenth Annual Report** together with Audited Accounts of the Company for the Financial Year ended 31<sup>st</sup> March, 2005.

### FINANCIAL RESULTS:

	2004-05 (Rs.in'000)	2003-04 (Rs.in'000)
Net Sales including Other Income	141538	103864
Profit before Interest, Depreciation and Tax	43412	26987
Less: Interest	1898	1953
Profit before Depreciation and Taxation	41514	25034
Less: Depreciation	11052	9997
Add: Prior period adjustments	141	117
Profit before Taxation	30603	15154
Less: Provision for Income Tax (M.A.T.)	11000	1350
Less: Provision for Deferred Taxation	650	3160
<b>Net Profit after taxation</b>	<b>18953</b>	<b>10644</b>
Profit/(Loss) of Previous Year brought forward	9264	(1380)
Less: Impairment loss on fixed assets	1185	0
	8079	(1380)
Profit available for distribution:	27032	9264
1. Transferred to General Reserve	3061	0
2. Proposed Dividend	3200	0
3. Tax on Dividend	418	0
<b>Balance carried to Balance Sheet</b>	<b>20353</b>	<b>9264</b>

### DIVIDEND :

Considering the improved performance of the Company during the year, your Directors are pleased to recommend a dividend @ 10% on the Equity Share Capital of the Company for the year ended 31<sup>st</sup> March, 2005.

### OPERATIONS:

The company has registered an overall sales growth of 40% during year. The Export Sales growth has been 50% by achieving a break through in the U.S. market in addition to good performance in the traditional market of Europe and Asia Pacific.

The profits before taxation for financial year 2004-05 are Rs.306.03 lacs as against last year's Rs.151.54 lacs registering an improvement of more than 100% over the last year. Profits after taxation have improved to Rs.189.53 lacs from Rs.106.44 lacs of the previous year.

### DIRECTORS / KEY PERSONNEL:

During the year, one of the Directors, Shri D.K.Agarwal passed away on 12<sup>th</sup> June 2004. The Board of Directors greatly remembers and appreciates the valuable services rendered by Shri D.K.Agarwal.

Shri U.S.Sethia ceased to be a Director w.e.f. 21.10.2004. The Board places on record its appreciation for the valuable guidance and services rendered by Shri U.S.Sethia during his tenure of Directorship in the Company.

During the year Dr. W.R.Correa who was an Alternate Director of Shri Kevin G. Nowe has been appointed as an Additional Director on the Board w.e.f. 28<sup>th</sup> January 2005.

Shri Kevin G.Nowe - Director resigned w.e.f. 9<sup>th</sup> May, 2005 and Shri Barry Roger Bryett - Director resigned w.e.f. 13<sup>th</sup> May, 2005 from the Board. The Board places on record its appreciation for the valuable guidance and services rendered during their tenure of Directorship in the Company.

Shri Mirko Cvjeticanin was appointed as an Additional Director w.e.f. 9<sup>th</sup> May, 2005.

In terms of provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri Arun Jain retires by rotation and being eligible, offers himself for re-appointment.

**PUBLIC DEPOSITS:**

The Company has not accepted any deposits within the meaning of Section 58A of the Companies Act, 1956 and the rules made thereunder.

**PERSONNEL:**

Information as required under section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Amendment Rules, 1975 and forming part of the Directors Report is not applicable as no employee is drawing remuneration @ Rs.2,00,000/- and above per month or Rs.24.00 lacs per annum.

**DIRECTORS' RESPONSIBILITY STATEMENT:**

Pursuant to Section 217(2AA) of Companies Act, 1956. The Board reports that:

- i) that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanations relating to material departures;
- ii) that the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
- iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv) that annual accounts have been prepared on a going concern basis.

**BUY BACK OF SHARES:**

As required U/s 217(2B) of Companies Act, 1956, the information regarding buy back of shares U/s 77 A (4) of the Act be treated as nil.

**AUDITORS:**

M/s. Krishna Rao & Co., Chartered Accountants, Auditors of the Company retire and do not offer themselves for re-appointment as auditors. Your Directors proposed to appoint M/s. Dalal & Shah, Chartered Accountants, Mumbai as Auditors of the Company in place of retiring Auditors, subject to the approval of members at the Annual General Meeting.

**CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNING AND OUTGO:**

The particulars as required under Section 217(1) (e) of the Companies Act, 1956 and the Rules therein pertaining to the above are set out in Annexure-I forming part of this report.

**CORPORATE GOVERNANCE:**

The Management discussion and analysis and the compliance of recommendations on corporate governance are annexed to this report. (Annexure - II)

**INDUSTRIAL RELATIONS:**

The Company enjoyed harmonious relations with employees throughout the year.

**APPRECIATION:**

The Board wishes to place on record their gratitude for the co-operation and support received from the Financial Institutions, Banks, State Government, Company Staff and Workers and thank them for their continued support.

**For and on behalf of the Board of Directors**

**Place: Mumbai**  
**Date: 14<sup>th</sup> June , 2005**

**Yashovardhan Birla**  
**Chairman**



### ANNEXURE – I TO THE DIRECTORS' REPORT

A. **Conservation of Energy** : not relevant to our Industry.

B. **Technology absorption** : Research & Development.

1. **Specific Areas in which R & D carried out by the Company:**

Development of products such as R-8 Shank, Bearing Type Lock Nuts (E.R.Series) and Balanced Tool Holders was undertaken during the year.

2. **Benefit derived as a result of the above R & D :**

Meet market demand of new generation tooling, which are import substitute items and export products to overseas countries.

3. **Future Plan of action:**

Future development of products such as HSK Tooling different Types, Drill Chucks, Small Bore Collets and Milling Chucks being taken up .

4. **Expenditure on R & D :**

a) Capital	)	Not Quantified.
b) Recurring	)	
c) Total	)	
d) Total R & D Expenditure as a Percentage of total turnover.	)	

5. **Technology Absorption, Adaption and innovation:**

Process of Technology transfer continued in the areas mentioned above.

C. **Foreign Exchange Earning and Outgo:**

1. **Activities relating to export, initiatives taken to increase exports:**

Company exports AT3 Class Tool holders to U.S.A., Europe & Asia Pacific Countries. The Product quality is well accepted worldwide.

2. **Total foreign exchange used and earned:**

	2004-05 (Rs. in 000)	2003-04 (Rs. in 000)
Total Foreign Exchange used	20939	19507
Total Foreign Exchange earned	129160	85153





## ANNEXURE - II TO THE DIRECTORS' REPORT

### REPORT ON CORPORATE GOVERNANCE

#### 1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE:

Your Company's believes to remain committed to good Corporate Governance by attainment of the highest levels of transparency, accountability and integrity to all its Shareholders, Customers, Employees, the Government and other business associates. Your Company's policies are targeted to ensure that high standard of ethical conduct is met throughout the organization.

#### 2. BOARD OF DIRECTORS:

**a) COMPOSITION :** The Company's Board at present has Five Directors headed by Shri Yashovardhan Birla, a Non-Executive Chairman and Four Non-Executive Directors. The Board members have the skills, expertise & experience necessary to direct and guide the Company.

**b) BOARD MEETINGS:** During the financial year 2004-05, the Board met 4 times, on 31st May 2004, 30th July 2004, 26th October 2004 and 28th January 2005.

Details of Directors' attendance during the year and other particulars are given below:

Name of the Director	No. of Board Meetings Attended	Last A.G.M. Attendance (Yes/No)	No. of Memberships In Board of other public companies.	Status
Shri Yashovardhan Birla	3	No	6	Promoter Non-Executive
Shri U.S.Sethia *	-	Yes	5	Independent Non-Executive
Shri D.K.Agarwal**	-	No	0	Independent Non-Executive
Shri Barry Roger Bryett***	-	No	0 xx	Independent Non-Executive
Shri Kevin G.Nowe****	-	No	0 xx	Non-Executive
Dr. W.R.Correa # (Alternate to Shri Kevin G.Nowe during part of year)	3	Yes	2	Independent Non-Executive
Shri Arun Jain	4	No	4	Independent Non-Executive
Shri Kumar Kanetkar	3	No	1	Non-Executive

\* Ceased to be a Director w.e.f 21.10.2004.

\*\* Ceased to be a Director due to sad demise dated 12.06.2004.

\*\*\* Ceased to be a Director w.e.f 13.05.2005.

\*\*\*\* Ceased to be a Director w.e.f 09.05.2005.

# Appointed as Additional Director w.e.f. 28.01.2005.

xx Directors outside of India - Foreign Directors.

None of the Directors is a member in more than 10 Committees or acts as Chairman of more than 5 Committees across all companies in which he is a Director.

#### 3. AUDIT COMMITTEE:

The Audit Committee was headed by Shri U.S.Sethia as a Chairman alongwith Shri Kumar Kanetkar, Shri Arun Jain and Dr. W.R.Correa all of them are non-executive directors. Shri U.S.Sethia ceased to be a Director w.e.f. 21.10.2004 and in his place Shri Arun Jain was appointed as Chairman of the Audit Committee. The Company Secretary acts as the secretary to the Committee.





- 1) The role, terms of reference and the authority and powers of the Audit Committee are in conformity with the requirements of the Companies Act, 1956 and the Listing Agreement.
- 2) During the year under review, three meetings of the Audit Committee were held, the dates being May 31, 2004, October 26, 2004 and January 28, 2005.
- 3) The attendance of the members at the Audit Committee Meetings held during the year are as follows:

Name of the Director	Number of Meetings Attended	
Shri U.S.Sethia	0	Ceased to be member w.e.f. 21.10.2004
Shri D.K. Agarwal	0	Ceased to be member due to sad demise w.e.f. 12.06.2004
Shri Arun Jain	3	
Shri Kumar Kanetkar	3	
Dr. W.R.Correa	- 2	Appointed as a member w.e.f. 30.07.2004

#### 4. REMUNERATION COMMITTEE :

The Company had formed Remuneration Committee in the year 2002. At present it comprises Three Directors as members viz Shri Yashovardhan Birla as a Chairman, Shri Kumar Kanetkar and Shri Arun Jain as Non Executive Directors. The broad terms of reference are to determine and recommend to Board, compensation payable to the Executive, Non- Executive Directors and Managerial personnel. At present Company is not having Managing Director and no remuneration is paid to Non Executive Directors except sitting fees @ Rs.750/- per meeting for attending the meetings of the Board of Directors or Committee thereof. Remuneration Committee Meeting will be held as and when necessitated.

The Company does not currently have a stock option plan or performance linked incentive for its Directors.

#### 5. SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE:

The SHAREHOLDERS/INVESTORS GRIEVANCE Committee constituted by the Board of Directors comprises of three Directors, namely, Shri U.S.Sethia as a Chairman and Dr. W.R.Correa and Shri Arun Jain Directors as members. During the year Shri U.S.Sethia ceased to be a Director and Chairman of the Committee and in his place Shri Arun Jain was appointed as a Chairman w.e.f. 26.10.2004. The Committee looks into redressing of shareholders/investors' complaints like transfer of shares, non-receipt of balance sheet, and to handle the queries/complaints relating to dematerialization of shares etc. The Committee oversees the performance of overall improvement of the quality of investor's services. During the year under the review, no Shareholders / Investors' Grievance were received as such no Committee meeting was required to be held.



## 6. GENERAL BODY MEETINGS :

Location, date & time of last three Annual General Meetings were held:

YEAR	2001-2002	2002-2003	2003-2004
DATE	30.07.2002	31.07.2003	29.09.2004
TIME	03.30 P.M.	03.30 P.M.	3.30 P.M.
LOCATION	At Registered Office: B-15/4, M.I.D.C. WALUJ, AURANGABAD- 431 133	At Registered Office: B-15/4, M.I.D.C. WALUJ, AURANGABAD-431 133	At Registered Office: B-15/4, M.I.D.C. WALUJ, AURANGABAD-431 133

There were no Resolutions put through the Postal Ballot. There is no business at the ensuing A.G.M. requiring implementation of the Postal Ballot under the applicable rules.

## 7. DISCLOSURES:

### Related Party Transactions:

Related party transactions under clause 49 of the Listing Agreement are defined as the transactions of the Company of material nature, with its promoters, the directors or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the Company at large.

Among the related party transactions are contracts or arrangements, made by the Company from time to time with Companies in which the Directors are interested. All these contracts or arrangements are entered in Register of Contracts under section 301 of the Companies Act, 1956 and the register is placed before the Board.

There were no material transactions during the year 2004-2005 that are prejudicial to the interest of the Company.

### Statutory Compliance, Penalties and Strictures:

The Company has complied with the requirements of the Stock Exchange/SEBI and Statutory Authorities, matters related to capital markets during the last three years.

The Company has adopted a code of internal procedures and conduct for prevention of Insider trading. No penalties / strictures have been imposed on the Company by any regulatory authority for non-compliance of any law.

## 8. MEANS OF COMMUNICATIONS:

Quarterly / Half-yearly financial results of the Company are forwarded to the Mumbai and Ahmedabad Stock Exchanges immediately after the Board Meeting and also published in 'Free Press Journal' and 'Navshakti', the newspapers within 48 hours of the Board Meeting. The results are also displayed on the Company's web-site [www.birlakennametal.com](http://www.birlakennametal.com) and in the SEBI's website under EDIFAR (Electronic Data Information Filling and Retrieval System). Full Annual Report is also available in website in a user friendly and downloadable form.

## 9. GENERAL SHAREHOLDERS' INFORMATION:

Details of Annual General Meeting.

Date : 20/09/2005

Time : 03.30 p.m.

Location : Regd.Office & Factory:  
B-15/4, M.I.D.C., Waluj,  
Aurangabad - 431 133.

Financial Year : Year ending March 31, 2005

Date of Book Closure : 12/09/2005 to 15/09/2005. (both days inclusive)

Dividend Payment Date(s) : on or after 20/09/2005