

Kennametal Widia India Limited

Annual Report 2003-2004



IMTEX 2004, Mumbai



KENNAMETAL - WIDIA



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39th Annual General Meeting

Wednesday, October 20, 2004 at 10.30 A M
at The Oberoi, M.G. Road, Bangalore - 560 001



COMPANY INFORMATION



Directors

Mr. M.N. Bhagwat
Chairman

Mr. E.B. Desai

Mr. Rakesh Makhija

Mr. Stanley B. Duzy Jr.

Mr. Philip H. Weihl

Mr. William H. Anders Jr.

Mr. Kumar Kanetkar
Managing Director

Management Team

Mr. B. Anjani Kumar
Vice President & CFO

Mr. Gopalji Mehrotra
Vice President - Human Resources

Mr. N. Khorana
Vice President - Engineered Products Group Business

Mr. Praful S. Shende
Vice President - Machine Tools Business

Mr. Rupert B. Watson
Vice President - Manufacturing

Mr. D. Sarathy
General Manager - Research, Development & Engineering

Company Secretary

Mr. S. Ramaprasad

Registered Office

8/9th Mile, Tumkur Road,
Bangalore - 560 073

Factory

8/9th Mile, Tumkur Road,
Bangalore - 560 073

Phone : 91 (80) 28394321

Fax : 91 (80) 28397572

Auditors

M/s. Price Waterhouse
Chartered Accountants
Mittal Tower, 10th Floor 'C' Wing
47/6, M.G. Road, Bangalore - 560 001

Bankers

Central Bank of India
Corporation Bank
Standard Chartered Bank

Registrar

M/s. Alpha Systems Pvt. Limited
30, 'Ramana Residency'
4th Cross, Sampige Road
Malleswaram
Bangalore - 560 003
Phone : 91 (80) 23460815-8
Fax : 91 (80) 23460819
Email : alfint@vsnl.com



DIRECTORS' REPORT



The Directors are pleased to present the 39th Annual Report and Audited Accounts for the year ended June 30, 2004

FINANCIAL RESULTS

	(Rs. in Million)	
	2004 (12 months ended June 30)	2003 (18 months ended June 30)
Sales including other income	2,308.78	2,815.49
Profit Before Exceptional, Non-recurring items,		
Depreciation and Tax	424.21	196.64
Less: Depreciation	99.20	160.99
Profit Before Exceptional and Non-recurring items and Tax	325.01	35.65
Exceptional and Non-recurring items	29.95	654.15
Profit / (Loss) Before Tax	295.06	(618.50)
Less: Provision for Tax		
Current Tax	32.45	6.50
Deferred Tax Debit / (Credit)	23.53	(457.57)
Excess Provision of income tax of earlier years written back	(9.26)	-
Profit / (Loss) After Tax	248.34	(467.43)
Add: Balance brought forward from previous year	(216.26)	250.90
Total available for appropriation	32.08	(216.53)
This surplus is to be appropriated as under:		
Tax on Dividend	-	(0.27)
Transfer from Capital Reserve	2.74	-
Transfer to General Reserve	(2.74)	-
Profit and Loss Account balance carried forward	32.08	(216.26)

PERFORMANCE:

As of June 30, 2004, your Company completed its first full financial year as a subsidiary of Kennametal Inc. The year saw a complete turn around of the Company's performance vis-à-vis the loss before tax of Rs.618.50 million recorded for the 18 months ended June 30, 2003. The sales in the year in the continuing lines of business grew 25% over that in the same period last year.

In the year under review (ending June 30, 2004), your Company recorded sales and other income of Rs.2,308.78 million, despite the fact that the Mining & Construction division was divested to Sandvik Smith Asia Limited (SSAL) with effect from March 1, 2004.

The profit before tax for the year was Rs.295.06 million after considering the net impact of exceptional items amounting to Rs.29.95 million.

This profit was realised along with other significant achievements such as:

- Launch of Kennametal University to bring the science of metal working and other manufacturing processes into India for the benefit of Indian manufacturing.
- Consolidation of Metal forming business, now called Engineered Products Group (EPG) into Bangalore.
- Up-gradation of facilities and infrastructure in Bangalore.
- Historically, the highest levels of investments in terms of time and money in the training and development of the Company's most important asset – its people.
- The highest level of investments in projects for environment, health and safety for the employees.



DIRECTORS' REPORT



- Machine tools business winning the largest single order in the history of the Company, worth Rs.180 million.
- Moving up by 50 places to 245th position in the list of 500 largest companies in India by market capitalisation.

While Industrial sentiment appears to be strong, the continued outlook for Indian manufacturing for the next 12 months depends largely on a good monsoon. The Company expects to continue to do well this year and in the next few years along with the renewal, success and growth of Indian manufacturing.

SALE OF MINING & CONSTRUCTION TOOLS BUSINESS OF THE COMPANY AT PATANCHERU, ANDHRA PRADESH

The Company's Mining and Construction Tools [M&C Tools] business located in Patancheru, Andhra Pradesh manufactures finished assemblies for use in mining and infrastructure building. Your Company's core competencies as well as Kennametal's global focus being in hard metals and its applications in served markets, your Board considered divestiture of the M&C Tools business to Sandvik Smith A.B. Approval of the members of the Company for the said divestiture was received by way of postal ballot as prescribed under section 192A of the Companies Act, 1956 read with the Companies (Passing of the Resolution by Postal Ballot) Rules, 2001. The M&C Tools business was sold effective March 1, 2004. The remaining three businesses of the Company viz. Metal Working, Engineered Products and Machine Tools have registered good growth during the year under review.

RESEARCH & DEVELOPMENT (R&D)

The research and development focus is on material development, primarily on hard metal, coatings & tool engineering. There is an increased thrust in areas relating to high speed machining. R&D efforts are continuing towards product development to meet the enhanced productivity needs of the Indian manufacturing Industry.

Your Company will continue to work in close co-ordination with Kennametal USA and Europe to bring state-of-the-art technology to India. Further details relating to R&D activities are contained in Annexure 1 to this report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Report in respect of conservation of energy, technology absorption, foreign exchange earnings and outgo, as required under Section 217(1)(e) read with the Company's (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, is set out in Annexure I to this report.

PARTICULARS OF EMPLOYEES

Information in accordance with sub-section (2A) of Section 217 of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 is set out in Annexure II to this report.

CORPORATE GOVERNANCE

A detailed report on Corporate Governance is set out in Annexure III to this report.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

A management discussion and analysis report is annexed to this report as Annexure IV.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Board of Directors report that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any
- accounting policies have been selected and applied consistently and that the judgements and estimates made 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
- proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities
- the annual accounts have been prepared on a going concern basis.



DIRECTORS' REPORT



DIRECTORATE

Mr.M.N.Bhagwat and Mr. Rakesh Makhija retire by rotation and being eligible, offer themselves for re-appointment.

Your directors commend the re-appointment of Mr.M.N.Bhagwat and Mr. Rakesh Makhija for your acceptance.

Mr.Lothar Paasch and Mr.Jayant V. Bhardwaj resigned from the Board on October 31, 2003 and July 27, 2004 respectively. The Board places on record its appreciation of the services rendered by the above Directors.

DEMATERIALISATION

The Company's equity shares have been admitted into both the depositories viz. National Securities Depository Limited [NSDL] and Central Depository Services (India) Limited [CDS]. Out of the 11.84 % equity shares held by the public shareholders, 70% shares are in demat form. In view of the various advantages in holding the securities in demat form, members holding equity shares in physical form are advised to dematerialise their shares to avoid the risks associated with holding the equity shares in physical form.

FIXED DEPOSITS

The Company's fixed deposit scheme was foreclosed on April 1, 2003 and all deposits outstanding as on March 31, 2003 were sought to be repaid. Individual intimation was sent to depositors for surrender of deposit receipts for arranging repayments. Currently 30 unclaimed deposits amounting to Rs.468,000/- are outstanding due to non-surrender of deposit receipts. Depositors are advised to immediately surrender their deposit receipts to enable the Company to make re-payment(s).

VOLUNTARY DELISTING FROM STOCK EXCHANGES AT BANGALORE, MADRAS AND DELHI

Pursuant to the resolution passed by the shareholders at the 38th Annual General Meeting of the Company, the equity shares of the Company have been voluntarily delisted from Bangalore, Madras and Delhi Stock Exchanges during the year under report. The equity shares of the Company continue to be listed on The Stock Exchange, Mumbai.

AUDITORS

M/s. Price Waterhouse, Bangalore, Auditors of the Company who retire at the Annual General Meeting are eligible for re-appointment.

ACKNOWLEDGEMENTS

Your Directors thank the Central Government, the Governments of Karnataka and Andhra Pradesh, The Reserve Bank of India, other Government agencies, bankers, customers, suppliers and shareholders, for their support during the year and look forward to their continued support in the future. Your Directors also place on record their appreciation of the tireless contribution made by employees at all levels.

On behalf of the Board of Directors

Goa
July 27, 2004

M.N.Bhagwat
Chairman



ANNEXURE I TO THE DIRECTORS' REPORT



Information under Section 217(1)(e) of the Companies Act, 1956 and Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988.

A] Conservation of Energy

a) Measures taken during the year

- Installation of efficient heat exchanger in spraying system
- Use of compact fluorescent lamps in the lighting system
- Optimum loading of DG set by staggering the loads
- Installation of thyristorised controller for heaters

b) Additional investments and proposals being implemented

- Waste heat recovery from DG set to produce chilled water for comfort cooling
- Change in lighting system

c) Impact of the above measures

- Reduction in energy consumption by 40,000 units per annum
- Reduced thermal losses
- Increased fuel efficiency of the DG set

B] Technology Absorption

Research & Development (R&D)

1. Specific areas in which R&D is carried out

- Technology absorption and adaptation in CVD coating process to enhance tool life in turning of steel and cast irons
- Implementation of process improvements in CVD coating for improved quality, reliability and productivity
- Grade development for automotive industry steel milling
- Development of a deformation resistant substrate for high speed turning of steel
- Improved geometry for steel turning applications
- Implementation of high end CAD-CAM software with global linkages
- Development of integrated measuring systems for automotive industry
- Development of a global multi-axes CNC tool & cutter grinder

2. Benefits derived

- Broad banding the product range
- Capability to address the local needs with indigenous development efforts
- Providing competitive machining solutions through local design and manufacturing of machine tools and toolings



ANNEXURE I TO THE DIRECTORS' REPORT.....contd.

3. Future plan of action

- Continued development efforts in hardmetal, surface engineering and tool engineering areas to address the local needs.
- Absorption and adoption of Kennametal technologies.

4. Expenditure on R & D

Rs. in million

a) Capital	:	4.77
b) Recurring	:	34.98
c) Total	:	39.75
d) Total R&D expenditure as a percentage to turnover	:	1.72%

C] Foreign Exchange Earnings and Outgo

i) Foreign exchange earned	:	Rs. 297.77 million
ii) Foreign exchange used	:	Rs. 598.36 million

ANNEXURE II TO THE DIRECTORS' REPORT

Information as per Section 217 (2A) of the Companies Act, 1956

a) Employed throughout the year and is in receipt of remuneration aggregating to Rs.2,400,000 or more

Sl No.	Name	Designation/ Nature of duties	Remune- ration Rs.	Qualifi- cation	Experience	Date of commencement of employment	Age	Previous employ- ment & Designation
1.	Kumar Kanetkar*	Managing Director	5,601,923	B.Com. ACA	26 years	19.08.2002	45 years	Tata Consultancy Services. VP & Head – Products Business, Manufactur- ing Practice
2.	B. Anjani Kumar	Vice President & CFO	2,990,906	B.Com. B.G.L. ACA	28 years	03.06.2003	52 years	Tecumseh Products. VP-Finance & CFO

b) Employed for part of the year and is in receipt of remuneration aggregating to Rs.200,000 or more per month – NONE

* Contractual.

Notes:

- Remuneration includes salary, perquisites, leave travel allowance, contribution to provident and other funds, etc.
- Voluntary retirement scheme (VRS) compensation paid during the reporting period has not been considered in computing the limits prescribed under section 217(2A).
- The above employees are not related to any director of the Company.
- The provisions of sub-clause (iii) of clause (a) of sub-section (2A) of the section 217 of the Companies Act, 1956, are not applicable in these cases.



ANNEXURE III TO THE DIRECTORS' REPORT

**REPORT ON CORPORATE GOVERNANCE****Company's Corporate Governance philosophy and compliance**

Your Company's philosophy is based on a belief that good corporate governance helps to enhance stakeholders' value by focusing on long-term stakeholder value creation without compromising on integrity, social obligations and regulatory compliances. The Company's management firmly believes that good corporate governance should be internally driven and not be looked upon just as an issue of compliance dictated by statutory requirements.

Your Company has complied with the mandatory and non-mandatory requirements relating to corporate governance prescribed under Clause 49 of the listing agreement, as detailed below:

1. Composition of the Board

The Board of Directors has 7 members, including the Managing Director and 6 Non-Executive Directors who bring a wide range of skills and experience to the Board. The Company has a Non-Executive Chairman and the number of independent Directors is more than one-third of the total number of Directors. The composition of the Board is in conformity with Clause 49 of the listing agreement.

During the year under review, six meetings of the Board of Directors were held on the following dates:

Date	Place
July 23, 2003	Bangalore
September 4, 2003	Bangalore
October 31, 2003	Bangalore
December 30, 2003	Mumbai
January 30, 2004	Mumbai
April 28, 2004	Bangalore

Particulars of the directorships, membership of Board Committees as on June 30, 2004 and attendance at the Board Meetings (BM) of the Company

Name of the Director	Other Directorships held *	Board Committees +		Attendance at	
		Chairman	Member	BM	Last AGM
Mr.M.N.Bhagwat Non-Executive, Independent	6	5	3	6	Yes
Mr.E.B.Desai, Non-Executive, Independent	6	5	4	6	Yes
Mr.Rakesh Makhija ** Non-Executive, Independent	1	-	3	3	Yes
Mr.Kumar Kanetkar Managing Director	1	-	3	5	Yes
Mr.Stanley B.Duzy Jr.** Non-Executive	-	-	1	1	Yes
Mr.Philip H.Weihl ** Non-Executive	-	-	-	2	Yes
Mr.Jayant V. Bhardwaj ** Non-Executive (Resigned w.e.f. July 27, 2004)	-	-	-	-	No
Mr.William H. Anders Jr.** Non-Executive	-	-	-	4	Yes

* Excluding office of Alternate Directors, non-profit associations, private & foreign companies.



ANNEXURE III TO THE DIRECTORS' REPORT.....contd.



** Elected as Directors at the Annual General Meeting of the Company held on September 4, 2003. Mr. Stanley B. Duzy Jr., Mr. Philip H. Wehl, Mr. William H. Anders Jr. and Mr. Jayant V. Bhardwaj are the nominees of Kennametal Inc., the promoter.

+ Only the Audit Committee, Remuneration Committee and Shareholders / Investors Grievance Committee are considered.

Mr. Lothar Paasch, Non-Executive Director, resigned from the Board on October 31, 2003.

2. Audit Committee

The terms of reference of the Audit Committee are as per the guidelines set out in the listing agreement with the Stock Exchange read with Section 292A of the Companies Act, 1956 and includes such other functions as may be assigned to it by the Board from time to time.

The Audit Committee consists of the following Directors:

Name of the Director	Number of meetings attended
Mr.M.N.Bhagwat Chairman, Non-Executive, Independent	4
Mr.E.B.Desai Non-Executive, Independent	4
Mr.Rakesh Makhija Non-Executive, Independent	1
Mr.Stanley B. Duzy Jr. [w.e.f. 31.10.2003] Non-Executive	-

Mr. Lothar Paasch ceased to be a member of the committee from October 31, 2003 consequent to his resignation from the Board.

During the period under review, four meetings of the Audit Committee of Directors were held on July 23, 2003, October 31, 2003, January 29, 2004 and April 28, 2004.

The Managing Director, Chief Financial Officer, Statutory Auditor and the Internal Auditor are invited to attend the meetings of the Audit Committee. The Company Secretary is the Secretary to the Audit Committee.

3. Shareholders / Investors Grievance Committee

The Shareholders / Investors Grievance Committee consists of Mr.E.B.Desai as its Chairman (Non-Executive) and Mr. Kumar Kanetkar, Managing Director as its Member. The Committee met on October 31, 2003. Mr. S. Ramaprasad, Company Secretary is the Compliance Officer. During the year under review, the Company received 11 complaints and the same were redressed.

4. Remuneration Committee

The Remuneration Committee consists of Mr. E. B. Desai (Non-Executive) as its Chairman and Mr.M.N.Bhagwat and Mr. Rakesh Makhija (w.e.f. October 31, 2003), both Non-Executive Directors as its members. Mr. Rizwan Chand, Vice President & Chief Human Resources Officer, Kennametal Inc. is a permanent invitee to the meetings of the committee. The scope of the committee includes powers to determine and approve the remuneration to Managing and/or whole-time directors and at its discretion also the remuneration of such management staff and to determine the Company's policy on such remuneration from time to time. The Committee held a meeting on August 19, 2003.