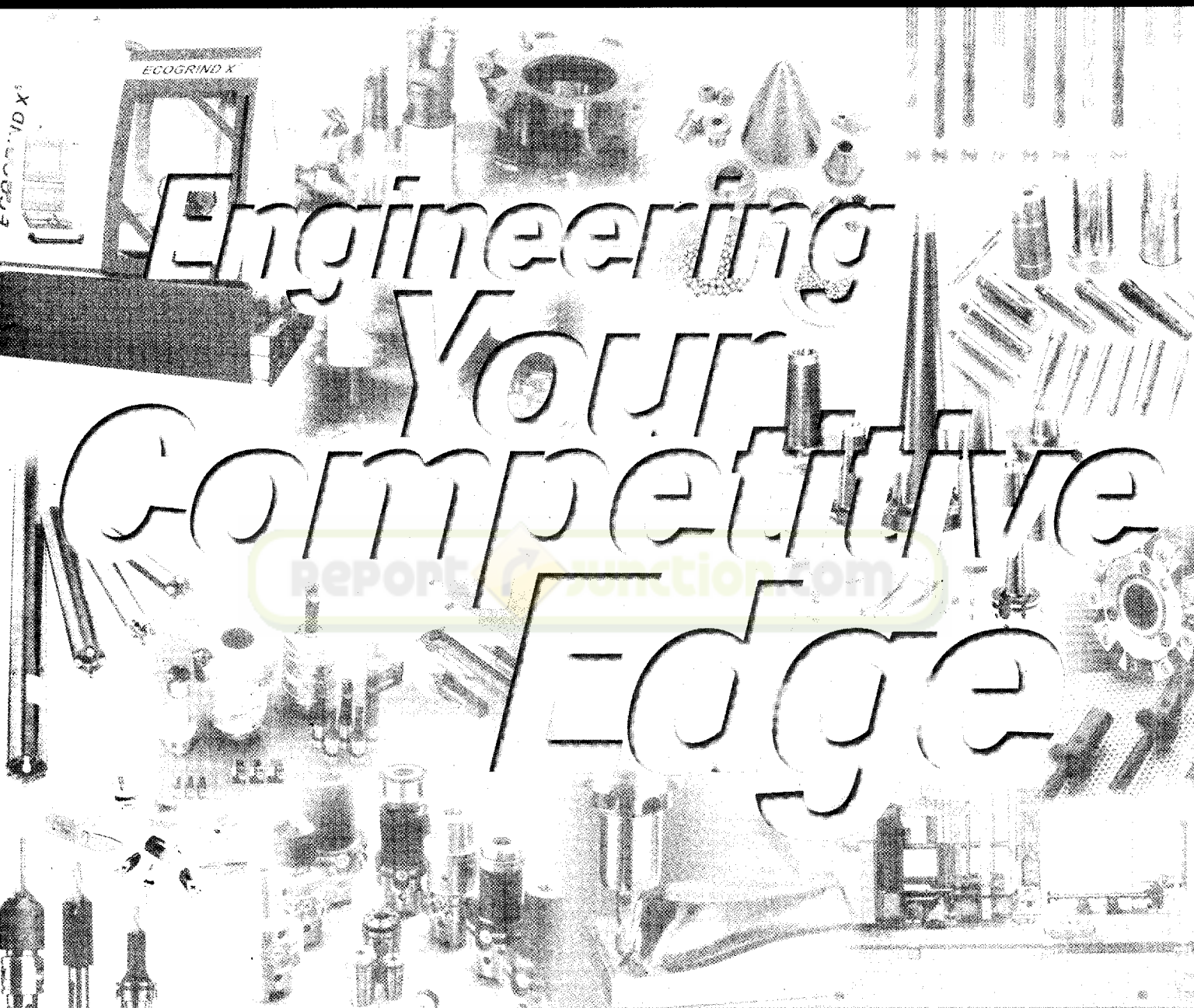


Kennametal Widia India Limited

Annual Report 2004-2005



Engineering Your Competitive Edge

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KENNAMETAL - WIDIA





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40th Annual General Meeting

Friday, October 28, 2005 at 10.30 A M
at the Registered Office of the Company at
8/9th Mile, Tumkur Road, Bangalore - 560 073.



COMPANY INFORMATION



Directors

Mr. M.N. Bhagwat
Chairman

Mr. E.B. Desai

Mr. Rakesh Makhija

Mr. Philip H. Wehl

Mr. James P. McRickard

Mr. Bernard C. McConnell

Mr. Frank P. Simpkins

Mr. Kumar Kanetkar
Managing Director

Management Team

Mr. B. Anjani Kumar
Vice President & CFO

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

Mr. Rajashekara Melanta
Vice President - Human Resources

Mr. Rupert B. Watson
Vice President - Manufacturing

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

Mr. Sumeet Tandon
Vice President - Engineered Products Group

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

Bankers

Central Bank of India
Corporation Bank
ICICI Bank Limited
Standard Chartered Bank

Registrar & Share Transfer Agent

M/s. Alpha Systems Pvt. Limited
30, 'Ramana Residency'
4th Cross, Sampige Road
Malleswaram
Bangalore - 560 003
Phone : 91 (80) 23460815-818
Fax : 91 (80) 23460819
Email : alfint@vsnl.com



DIRECTORS' REPORT



The Directors are pleased to present the 40th Annual Report and Audited Accounts for the year ended June 30, 2005

FINANCIAL RESULTS

	(Rs. in Million)	
	2005	2004
Sales including other income	2,880.59	2,308.78
Profit Before Exceptional, Non-recurring items		
Depreciation and Tax	767.75	424.21
Less: Depreciation	103.41	99.20
Profit Before Exceptional, Non-recurring items & Tax	664.34	325.01
(Add)/Less: Exceptional and Non-recurring items	(59.97)	29.95
Profit Before Tax	724.31	295.06
Less: Provision for Tax		
Current Tax	185.00	32.45
Deferred Tax Debit / (Credit)	41.40	23.53
Excess Provision of Income Tax of earlier years written back	-	(9.26)
Profit After Tax	497.91	248.34
Add: Balance brought forward from previous year	32.08	(216.26)
Total available for appropriation	529.99	32.08
This surplus is to be appropriated as under:		
Proposed Dividend	65.94	-
Tax on Dividend	9.25	-
Transfer from Capital Reserve	-	2.74
Transfer to General Reserve	50.00	(2.74)
Balance transferred to Balance Sheet	404.80	32.08

DIVIDEND

The Board of Directors recommend a dividend of Rs. 3/- per equity share of Rs. 10/- each.

PERFORMANCE

2004-2005 was a year of exceptional growth and performance for your Company. Sales and other income registered an increase of 25% over that of the previous year, which included sales from the erstwhile Mining and Construction division of the Company until it was divested in March 2004. Excluding these sales, the increase works out to a substantial 45%. Similarly, the profit before tax [PBT] has advanced from Rs. 295 million in the previous year to Rs. 724.3 million, which includes exceptional and non-recurring items amounting to Rs. 59.9 million. Without the exceptional and non-recurring items, the Company's PBT has registered an increase of 104% over the previous year.

All of the above has resulted in increasing the net worth of your Company to its highest level since inception, which is a remarkable and impressive turn-around in a very short time since the acquisition by Kennametal Inc. This is significant, considering the fact that the Company was initially compelled to carry out major legacy driven write-offs for unusable inventory and bad debts, and provide for large VRS costs.

The Management Discussion and Analysis section in this report provides further information about your Company's key initiatives/ achievements.



DIRECTORS' REPORT



RESEARCH & DEVELOPMENT (R & D)

The research and development focus is on material development, primarily on hard metal, coatings and tool engineering. There is an increased thrust to tailor an appropriate product range to suit the growing SME segment both for the CNC lathes and Machining Center applications. R&D efforts are continuing towards product development to meet the enhanced productivity needs of the Indian manufacturing industry, product and key processes rationalisation and continuous product upgradation.

Your Company will continue to work in close co-ordination with Kennametal in the USA and Europe to bring the state-of-the-art technology to India.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE, ETC.

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

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.

DIRECTORATE

Mr. Philip H. Weihs and Mr. Frank P. Simpkins [appointed in the casual vacancy of Mr. Stanley B. Duzy Jr.] retire by rotation, and being eligible, offer themselves for re-appointment. Your directors commend the re-appointment of Mr. Philip H. Weihs and Mr. Frank P. Simpkins.

During the year –

- ❑ Mr. James P. McRickard was appointed as a Director on the Board of the Company on October 19, 2004 in the casual vacancy caused by the resignation of Mr. Jayant V. Bhardwaj.
- ❑ Mr. Bernard C. McConnell was appointed as an Additional Director on the Board with effect from November 22, 2004 to hold office till the date of this Annual General Meeting. A resolution is being proposed for his appointment as Director of the Company and your directors commend his appointment.
- ❑ Mr. William H. Anders resigned from the Board with effect from November 17, 2004. The Directors place on record their appreciation for the valuable contribution made by Mr. Anders during his tenure as a Director of the Company.

**DIRECTORS' REPORT****DEMATERIALISATION**

The Company's equity shares have been admitted into both the depositories viz. National Securities Depository Limited [NSDL] and Central Depositories Services (India) Limited [CDS]. Out of the 11.84% equity shares held by the public shareholders, 73.20% 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.

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 Government of Karnataka, 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 highly appreciate the efforts of the employees of the Company at all levels.

On behalf of the Board of Directors

Dubai
July 22, 2005

M. N. Bhagwat
Chairman

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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

I. Measures taken during the year

- Modified lighting system in offices by incorporating CFL(Compact Fluorescent Lamps)
- Installation of occupancy sensors in cabins / conference rooms
- Installation of PID controllers for heaters
- Installation of variable frequency drives for motors
- Replaced conventional motors with energy efficient motors
- Improved electrical distribution system to facilitate optimum loading of the DG set
- The Product Unit wise power consumption monitoring ,reporting and reviewing system improved
- Improved thermal insulation of furnaces and the chilled water lines

II. Impact of the above measures

- Reduction in energy consumption by 60,000 units per annum
- Optimum loading of the DG set, hence increased fuel efficiency

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 and milling of steel and cast iron
- Implementation of process improvements in CVD coating and powder manufacturing for improved quality, reliability and productivity
- Grade and Insert geometry development for steel, cast iron and stainless steel turning for low horse power CNC lathes for the SME segment
- Development of face milling cutters for high speed machining of cast iron and steel
- Process improvement for aluminum turning inserts for better tool life and component finish
- Grade rationalisation to improve product performance and process rationalisation to improve productivity
- Partial substitution of nickel as a binder for hard metals used in metal forming application
- Development of fully automated multi-axes CNC tool & cutter rotary burr grinding machine

2. Benefits derived

- Focused product offering to specific application/industry, thereby increasing our presence in the market
- Capability to address the local needs with indigenous development efforts
- Providing competitive machining solutions through local design and manufacturing of machine tools and toolings

3. Future plan of action

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



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



4. Expenditure on R & D

Rs. in million

a) Capital	:	12.20
b) Recurring	:	48.99
c) Total	:	61.19
d) Total R&D expenditure [as a percentage to turnover]	:	2.22 %

C] Foreign exchange earnings and outgo

i) Foreign exchange earned	:	Rs. 121.13 million
ii) Foreign exchange used	:	Rs.1063.78 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
1.	Kumar Kanetkar*	Managing Director	5,677,280	B.Com. ACA	27 years	19.08.2002	46 years	Tata Consultancy Services
2.	B. Anjani Kumar	Vice President & CFO	3,647,534	B.Com. BGL ACA	29 years	03.06.2003	53 years	Tecumseh Products
3.	Gopalji Mehrotra	Vice President Human Resources	3,068,772	MA (Economics) PGDPM & IR	12 years	01.04.2003	38 years	ITC Limited
4.	P S Shende	Vice President Machine Tools Business	2,591,654	BE (Mech) M.Tech (Machine Tool, Design)	19 years	11.07.1985	44 years	VIP Industries

* Contractual

b) Employed for part of the year and is in receipt of remuneration aggregating to Rs.200,000 or more per month

Sl No.	Name	Designation/ Nature of duties	Remune- ration Rs.	Qualifi- cation	Experience	Date of commencement of employment	Age	Previous employ- ment
1.	Sumet Tandon	Vice President Engineered Products Group	2,133,746	BE (Mechanical) PGDBM	17 years	01.10.2004	41 years	WOCO Motherson Liastomer
2.	N Khorana	Vice President Engineered Products Group	1,450,369	BE (Prodn.Engg.) PGDIM	33 years	25.07.1977	57 years	B.A.R.C

Notes:

1. Remuneration includes salary, perquisites, leave travel allowance, contribution to provident and other funds, etc.
2. The above employees are not related to any director of the Company.
3. 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

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 8 members, including the Managing Director and 7 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, five meetings of the Board of Directors were held on the following dates:

Date	Place
July 27, 2004	Goa
October 19, 2004	Bangalore
January 21, 2005	Bangalore
March 28, 2005	Mumbai
April 20, 2005	Bangalore

Particulars of the directorships, membership of Board Committees as on June 30, 2005 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
<u>Non-Executive Independent Directors</u>					
Mr. M.N.Bhagwat	6	5	1	5	Yes
Mr. E.B.Desai	6	5	4	5	Yes
Mr. Rakesh Makhija	1	-	3	5	No
<u>Managing Director</u>					
Mr. Kumar Kanetkar	1	-	4	4	Yes
<u>Non-Executive Directors</u>					
Mr. Philip H. Wehl	-	-	-	1	No
Mr. James P. McRickard ¹	-	-	-	1	No
Mr. Bernard C. McConnell ²	-	-	-	1	No
Mr. Stanley B. Duzy Jr. ³	-	-	-	-	No



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



Mr. Stanley B. Duzy Jr, Mr. Philip H. Wehl, Mr. William H. Anders Jr., Mr. Jayant V. Bhardwaj, Mr. James P. McRickard and Mr. Bernard C. McConnell are the nominees of Kennametal Inc., the foreign Promoter.

- * Excluding office of alternate directors, non-profit associations, private & foreign companies.
- + Only the Audit Committee and Shareholders / Investors Grievance Committee are considered.
- ¹ Appointed on October 19, 2004 in place of Mr. Jayant V. Bhardwaj.
- ² Appointed on November 22, 2004 in place of Mr. William H. Anders.
- ³ Mr. Frank P. Simpkins was appointed as a director on July 22, 2005 in the casual vacancy of Mr. Stanley B. Duzy Jr.

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, Mumbai 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	4
Mr. Stanley B. Duzy Jr.* Non-Executive	-

- * Ceased to be a member of the Audit Committee with effect from January 21, 2005
- During the period under review, four meetings of the Audit Committee of Directors were held on July 27, 2004, October 19, 2004, January 21, 2005 and April 20, 2005.
- The Managing Director, Chief Financial Officer (CFO) and the Statutory Auditor are invited to attend the meetings of the Audit Committee. The Company Secretary is the Secretary to the Audit Committee.
- Mr. Kumar Kanetkar was inducted as a member of the Audit Committee with effect from January 21, 2005 pursuant to the adoption of the revised Corporate Governance norms prescribed by the Stock Exchanges under clause 49 of the Listing Agreement.

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. Mr. S. Ramaprasad, Company Secretary is the Compliance Officer. During the year under review, the Company received four complaints and the same were redressed.

4. Remuneration Committee

The Remuneration Committee consists of Mr. E. B. Desai as its non-executive Chairman and Mr. M. N. Bhagwat and Mr. Rakesh Makhija, non-executive directors as its members. 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. During the year, the Committee held a meeting on July 15, 2004, and recommended to the Board, the performance pay to the Managing Director for the year ended June 30, 2004 and revision in his remuneration w.e.f. July 1, 2004.