



Durable Goods



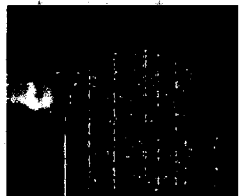
Aerospace



Specialty Applications



Transportation



Infrastructure



Natural Resources



# Kennametal India Limited

Annual Report 2007-08



**Kennametal India Limited**  
(formerly Kennametal Widia India Limited)

**Directors**

Mr. M.N. Bhagwat  
*Chairman*  
Mr. E.B. Desai  
Mr. Rakesh Makhija  
Mr. Frank P. Simpkins  
Mr. Douglas C. Phillips  
Mr. Michael Lapidot  
Mr. Bernard North  
Mr. Dinakar A.  
*Managing Director*

**India Leadership Council**

Mr. B. Anjani Kumar  
*Vice President & CFO*  
Mr. D.Sarathy  
*Vice President – Manufacturing*  
Mr. Vikram Chopra  
*Vice President – Sales & Marketing,*  
*Engineered Products Group*  
Mr. K.Chandrashekhar Sharma  
*General Manager – Machine Tools Business*  
Mr. R.Jayakanthan  
*General Manager – Corporate Services*

**Company Secretary**

Mr. A.C. Poovanna

**Registered Office and Factory**

8/9th Mile, Tumkur Road  
Bangalore -560 073  
Phone : 91 (80) 28394321  
Fax : 91 (80) 28397572

**Auditors**

M/s. Price Waterhouse  
Chartered Accountants  
5<sup>th</sup> floor, Tower “D”, The Millenia  
1 & 2 Murphy Road, Ulsoor  
Bangalore – 560008

**Bankers**

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

**Registrar & Share Transfer Agent**

Alpha Systems Private Limited  
30, ‘Ramana Residency’  
4th Cross, Sampige Road  
Malleswaram, Bangalore -560 003  
Phone : 91 (80) 23460815-818  
Fax : 91 (80) 23460819

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**43<sup>rd</sup> Annual General Meeting**

Friday, October 31, 2008 at 10.30 A M  
at the Registered Office of the Company at  
8/9th Mile, Tumkur Road, Bangalore -560 073

## DIRECTORS' REPORT

Your Directors are pleased to present the 43<sup>rd</sup> Annual Report and Audited Accounts for the year ended June 30, 2008 (FY08).

### FINANCIAL RESULTS

(Rs. in million)

Particulars	2008	2007
Sales including other income	3,984.38	3,706.54
Profit Before Depreciation and Tax	989.80	779.27
Less: Depreciation	162.87	130.74
<b>Profit Before Tax</b>	<b>826.93</b>	<b>648.53</b>
Less: Provision for Tax		
Current Tax	262.55	203.00
Deferred Tax	10.65	16.96
Fringe Benefit Tax	9.45	6.00
<b>Profit After Tax</b>	<b>544.28</b>	<b>422.57</b>
Add: Balance brought forward from previous year	466.93	44.36
<b>Total available for appropriation</b>	<b>1,011.21</b>	<b>466.93</b>
Balance transferred to Balance Sheet	1,011.21	466.93

### DIVIDEND

Your Directors have thought it prudent not to recommend any dividend for the year ended June 30, 2008 in order to conserve resources required for various projects that your Company has planned to undertake for expansion and upgradation of plant and facilities leading to growth, improved efficiency, productivity and profitability.

During the year under review, your Company invested Rs. 445 million for expansion and upgrade of plant and facilities and plans to invest further, in FY09, an amount equivalent or higher than in FY08.

### OPERATING RESULTS

The sales and other income of your Company grew by 7.5% over that in the previous year. As against this marginal growth in sales and other income, your Company achieved excellent results in net profit which increased to Rs. 544.3 million from Rs.422.6 million in the previous year, an increase of 29%. This creditable performance in net profit increase was achieved despite raw material prices remaining high during the year. Despite competitive pressures, your Company was able to obtain higher price realisation by offering high performance products to a wide range of

customers. Various cost reduction measures were also carried out to keep expenses under control. These measures assisted in improving operating and net profits in the year under review.

### MANAGEMENT DISCUSSION AND ANALYSIS

A Management Discussion and Analysis (MD&A) report is annexed to this report as Annexure I.

### DIRECTORS

Mr. Frank P. Simpkins retire by rotation, and being eligible, offer himself for re-appointment. Your Directors recommend the re-appointment of Mr. Simpkins as Director.

Mr. Bernard C. McConnell and Mr. Mo Heshmati resigned as Directors with effect from October 26, 2007. Mr. James P. McRickard resigned as Director with effect from April 10, 2008. Mr. Douglas C. Phillips resigned as Director with effect from September 12, 2008. Your Directors place on record their appreciation and acknowledge the valuable contributions made by the aforesaid Directors to the Company during their tenure as Directors.

Mr. Michael Lapidot and Mr. Bernard North were appointed as Directors on the Board with effect



from October 26, 2007 in the casual vacancies caused due to the resignation of Directors. Resolutions are being proposed seeking consent of the members for the appointments of Mr. Michael Lapidot and Mr. Bernard North in the ensuing Annual General Meeting and your Directors recommend your approval.

Mr. E.B. Desai, was associated with your Company since its inception in his capacity as an Alternate Director and was appointed a Director in casual vacancy on November 07, 2001. Mr. Desai retires by rotation at the ensuing Annual General Meeting and has conveyed his decision not to offer himself for re-appointment. Mr. Desai was also a member of the Audit Committee and Chairman of Shareholders' / Investors Grievance Committee. Mr. Desai, an eminent lawyer with his special legal expertise, has contributed immensely throughout his association with the Company with his able guidance and counsel, not only on business and commercial matters, but also on various corporate related matters including Corporate Governance issues, which were of huge benefit to the Company. Your Directors place on record their grateful appreciation of his services.

Consequent to the above, the number of directors for the time being in office stands reduced from nine (9) to six (6). A specific resolution in this regard is proposed to be passed in the ensuing Annual General Meeting in view of the provisions contained in Section 258 of the Companies Act, 1956 and your Directors recommend your approval.

#### **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.

#### **FIXED DEPOSITS**

The Company's fixed deposit scheme was foreclosed on April 01, 2003 and all deposits outstanding as on March 31, 2003 were sought to be repaid. Your Company has not invited/received any Fixed Deposits during the year.

As on June 30, 2008, 11 depositors having fixed deposits aggregating to Rs.438,280 remained unclaimed. In terms of Section 205C of the Companies Act, 1956, such amount remaining unclaimed upon the expiry of seven years from the date of maturity will be transferred to the Investor Education and Protection Fund.

#### **TRANSFER TO INVESTOR EDUCATION AND PROTECTION FUND**

In terms of Section 205C of the Companies Act, 1956, the following amounts lying with the Company for a period of seven years were transferred during the year to the Investor Education and Protection Fund :

a) Unclaimed dividend	Rs. 150,726
b) Unclaimed fixed deposit	Rs. 3,000

#### **AUDITORS**

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

#### **CORPORATE GOVERNANCE**

A detailed report on corporate governance is set out in Annexure II to this report.

#### **PARTICULARS OF EMPLOYEES**

In terms of the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, the particulars of employees forms part

of this report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Annual Report excluding the aforesaid information is being sent to all the members of the Company and others entitled thereto. Any member interested in obtaining a copy of the statement containing the aforesaid information may write to the Company Secretary at the Registered Office address of the Company.

#### **RESEARCH & DEVELOPMENT (R &D)**

The Research, Development and Engineering (R, D & E), works on new product development, focus being on materials, surface engineering and tool design. R,D&E leads Centre of Excellence projects for the global process development and focus continues to be in upgradation of products, processes and technology.

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

A 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 III to this report.

Your Company was conferred with "National Energy Conservation Awards 2007" under general category by Bureau of Energy Efficiency, Ministry of Power, Government of India.

#### **ACKNOWLEDGEMENTS**

Your Directors place on record their appreciation for the support and assistance received from customers, investors, business associates, bankers, vendors, regulatory and governmental authorities. The Board places on record its gratitude to the Members for their continued guidance and confidence and expresses its sincere appreciation to all the employees for their teamwork and contribution during the year.

For and on behalf of the Board of Directors

Mumbai  
September 18, 2008

M.N. Bhagwat  
Chairman



## Annexure I to the Directors' Report

**MANAGEMENT DISCUSSION & ANALYSIS REPORT**

The following discussion and analysis should be read in conjunction with the Company's financial statements:

**Industry Structure and Developments / Opportunities & Threats**

Your Company is a leading manufacturer of hard metal products and machine tools and caters to the needs of a wide variety of manufacturing industries including auto and auto components, light and general engineering industries etc. It seeks to provide a competitive edge to its customers through a wide variety of standard high quality products as well as items specially manufactured to customers requirements such as special purpose machines and customised solutions.

GDP growth in India came down to around 9 % during the year as compared to 9.6 % in the previous year. The manufacturing sector was more adversely affected with growth coming down from the 12% level to around 9%. Inflation and the higher interest rates have had a dampening effect, especially on the auto sector, which is a major customer segment for your Company. The appreciation of the Rupee against the US Dollar has also affected exports of auto components and other engineering products.

Viewed against this backdrop, your Company achieved 7.5% growth over the previous year in Sales and other Income. This marginal growth has been mainly due to stagnant sales in the Company's Engineered Product Group due to intense price competition from many small players. On the other hand, your Company achieved excellent results in Net Profit which increased by 29% over the same in the previous year.

The higher profitability was possible because of reduction in costs of imported items due to the strong rupee which prevailed for almost three quarters of the financial year. Also, despite competitive pressures, your Company was able to obtain higher price realisation with a wide range of customers.

Further, actions were taken internally by your Company such as the significant progress made in deploying cost control measures in

both the manufacturing and non manufacturing areas, using tools such as lean and TPM. Under this initiative, to enhance operational efficiency and competitiveness, many improvement projects were completed that helped enhance productivity. Training on various aspects of lean was extended to all the employees of your Company and a number of employees including some senior management personnel have been certified as green belts during the year. This should enable your Company to continue the good work that has been done in the past on process improvements and cost reduction.

**Operations:**

- Relentless focus on Environment Health & Safety (EHS), increased awareness and corrective actions on both unsafe working conditions and unsafe practices continued. Machine tools, plant engineering and reliability engineering achieved a dart accident free period of 1000 days. The near-miss definition was expanded to include both unsafe working conditions and unsafe practices. The importance of recording this was reinforced with the employees through training and communication.
- Your Company has been awarded the first prize in the General Category of The National Energy Conservation Awards for 2007, instituted by The Bureau of Energy Efficiency, Ministry of Power, Government of India. Over the last two years, your Company has reduced energy consumption by about 30%.
- Your Company has been re-certified for ISO9001:2000 Quality Management System for a period of three years. With the induction of manufacturing excellence function, quality is playing a vital role in taking your Company's manufacturing facilities to world-class levels.
- The 'Manufacturing Excellence' initiative was rolled out during the year. Many Lean and Six Sigma projects are underway. Several workshops were conducted with an aggressive focus on 5S+1. These initiatives are expected to yield significant cost savings and substantial quality improvement.



## Annexure I to the Directors' Report

- Supplies of certain categories of specialised products for Kennametal global locations from your Company successfully started during the year.
- R,D&E function is now aligned with global R,D&E organisation and is actively engaged with global product development projects to address various market needs and product gaps.
- Your Company undertook necessary organisational restructuring and re-engineering to leverage on synergies between business segments.

### Segment Wise Performance:

The business of your Company is organised and managed in two segments.

- (a) Hard metal and hard metal products
- (b) Machine Tools

The segmentation is based on the nature of products and services provided by each segment representing a strategic business that offers different products and services, serving different markets and also in line with the business risks attached to the respective segments. Apart from the above two primary business segments, the secondary segmental reporting is on the basis of the geographical locations of the customers, viz., domestic and international. Common allocable costs are allotted to each segment to the extent of services utilised and activities involved. The details of segment wise results are given as part of the annual accounts.

### Company's Outlook

Despite the challenges now being posed by inflation and the weakening Rupee, the macro economic outlook for the country is still positive and the GDP growth for the year ending March 2009, though lower, is still expected to be between 7 to 7.5 % . If international oil prices come down to more reasonable levels and inflation is controlled to manageable levels before the festival season, reasonable growth can be expected in the coming financial year also, though margins will definitely be under pressure.

With strong emphasis on introducing new products and continued support from your

parent Company, we expect that your Company will maintain its market leadership position and retain its reputation for being a premier Company for tooling solutions in the Indian market. Your Company has also started manufacturing for exports in a significant manner from the year under review and expects to grow this even further in the years to come.

### Risks and Concerns

The high international oil prices, the impact of inflation on raw materials such as steel, and high interest rates coupled with the weakening Rupee may affect consumer demand and impact the growth of industries to which your Company is selling. As a result, demand for your Company's products is likely to be lower, whether they are consumables like metal cutting tools or capital goods such as the special purpose machines.

The importance of retaining trained talent within your Company is also an area of primary focus for your Company. Your Company is ceasing of all the above risks and concerns and has initiated several initiatives that would enable cost reduction, continuous improvement thereby enabling long term competitive positions. Your Company has also planned to take selective price increases wherever possible to offset the impact of higher input costs and operating expenses led by inflation. With all the above measures, your Company expects to limit the downsides and try and maintain profitability in the coming year.

### Internal Control Systems

Your Company carries out regular and rigorous reviews to monitor all the assets including fixed assets, investments and primary working capital. For example through strict controls your Company has managed to reduce its inventory levels despite the 9% growth in net sales. Receivables have also been closely monitored during the year and kept under control.

The process of Risk Assessment and Minimisation started in the past was continued in a robust manner during the year under review and the Board of Directors were apprised with the updated status. In the year under review,



## Annexure I to the Directors' Report

your Company had Internal Audit reviews conducted regularly by the Internal Audit department and your Company is happy to report that there have been no major control weaknesses or gaps.

### Financial Performance

As stated earlier, the Company's financial performance for the year ended June 30, 2008 resulted in a growth of 7.5% in Sales and other Income over that in the previous year. As against this marginal growth in Sales and other Income, the Company achieved excellent results in Net Profit which increased to Rs. 544.3 million from Rs.422.6 million in the previous year, an increase of 29%.

During the year, your Company continued its thrust on controlling current assets i.e. Inventory and Receivables and your Company was therefore able to execute higher Sales with lower inventory. Receivables from customers were also monitored closely and the aging of the receivables was marginally improved over that in the previous year. Net Current Assets as a percentage to Sales came down from 26% in FY07 to 21% in FY08. Further, in FY08, with a significant increase in net earnings, the Company achieved a significant rise in Return on Capital Employed (ROCE) which is a key measure of financial performance for a business organisation in creating economic value.

### Material Developments in Human Resources / Industrial Relations Front

During the period under review, your Company continued its focus on talent acquisition, talent development, performance improvement processes and manufacturing excellence initiatives in line with corporate human resources strategies.

With an objective to nurture and develop a trained talent pool to meet the future talent requirements of your Company, an Executive

Trainee Scheme was successfully implemented. Emphasis on building a strong "Employer of Choice" brand continued with an objective to attract and retain key talents to support the planned growth of your Company.

Industrial relations continue to remain cordial with special emphasis on total employee involvement and enhanced employee engagement levels. A long-term wage settlement was entered into between the Management and the Union of Kennametal India Limited, covering compensation and welfare benefits for the unionised workforce, for a period of four years from July 1, 2007 to June 30, 2011. Signing of this wage settlement is a significant step in further strengthening the excellent relationship between the workforce and the Management. This wage settlement will also drive the workforce to strive even harder to meet the business growth objectives of your Company. The total number of persons employed in your Company as on June 30, 2008 was 911.

**Note:** The information and opinion in this section consists of certain forward-looking statements, which the management believes to be true to the best of its knowledge at the time of its presentation based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realised. The Company shall not be liable for any loss, which may arise as a result of any action taken on the basis of the information contained herein. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements on the basis of any subsequent developments, information or events. The information contained herein may not be disclosed, reproduced, or used in whole or in part for any purpose or furnished to any other person(s) without the express prior written permission of the Company.



## Annexure II 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 (as on June 30, 2008), 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 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, four meetings of the Board of Directors were held on the following dates: August 04, 2007, October 26, 2007, January 29, 2008 & April 29, 2008.

Table 1 provides particulars of the directorships, membership of Board Committees as on June 30, 2008 and attendance at the Board Meetings of the Company.

**Table 1:** Particulars of directorships, membership of board committees and attendance at meetings

Name of the director	Other directorships held *	Board committees+ (in other companies)		Attendance at	Last AGM
		Chairman	Member	Board Meetings	
<i>Non-executive, Independent directors</i>					
Mr. M.N. Bhagwat	4	3	1	4	Yes
Mr. E.B. Desai	9	4	4	4	Yes
Mr. Rakesh Makhija	1	-	1	4	Yes
<i>Managing Director</i>					
Mr. Dinakar A.	-	-	-	4	Yes
<i>Non-executive directors</i>					
Mr. Bernard C. McConnell <sup>1</sup>	-	-	-	-	No
Mr. Frank P. Simpkins	-	-	-	1	No
Mr. Mo Heshmati <sup>1</sup>	-	-	-	-	No
Mr. James P. McRickard <sup>2</sup>	-	-	-	1	Yes
Mr. Douglas C. Phillips	-	-	-	1	No
Mr. Michael Lapidot <sup>3</sup>	-	-	-	1	No
Mr. Bernard North <sup>3</sup>	-	-	-	2	No

Mr. James P. McRickard, Mr. Bernard C. McConnell, Mr. Frank P. Simpkins, Mr. Mo Heshmati, Mr. Douglas C. Phillips, Mr. Michael Lapidot and Mr. Bernard North are the nominees of Kennametal Inc., the foreign promoter and no sitting fees were paid to them.

\* Excluding office of alternate directors, non-profit associations, private & foreign companies.

+ Only the Audit and Shareholders' / Investors Grievance Committees are considered.

<sup>1</sup> Ceased to be the director with effect from October 26, 2007

<sup>2</sup> Ceased to be the director with effect from April 10, 2008

<sup>3</sup> Appointed as directors in the casual vacancies with effect from October 26, 2007.



## Annexure II to the Directors' Report

### 2. Audit Committee

The terms of reference of the Audit Committee are as per the guidelines set out in the listing agreement with the Bombay Stock Exchange Limited 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.

**Table 2:** Particulars of the Audit Committee of Directors and their attendance at meetings:

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. Dinakar A. Managing Director	4

During the period under review, four meetings of the Audit Committee of Directors were held on the following dates: August 04, 2007, October 26, 2007, January 29, 2008 & April 29, 2008.

The Chief Financial Officer (CFO) and the Statutory Auditors were 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 independent director) and Mr. Dinakar A, Managing Director as its Member. Mr. A.C. Poovanna, Company Secretary is the Compliance Officer.

During the year under review, the Company received six complaints and the same were redressed.

The Committee met on August 04, 2007 during the year under review.

### 4. Directors' remuneration

Remuneration paid to directors for the year under review is detailed in Table 2a and 2b.

**Table 2a :** Remuneration paid to whole-time director in respect of financial year 2007-2008.

Whole-time director	Amount (Rs.)
Mr. Dinakar A.	5,586,677*

\* Includes salary, fixed allowance, housing, performance pay, leave travel allowance, medical reimbursement, contribution to retiral benefits, etc. The appointment is for a period of five years upto June 30, 2012 terminable with a notice period of six months or such notice as may be mutually determined as per the agreement dated July 12, 2007. Performance pay is based on the results achieved against the targets and certain performance criteria as set out by the Board.

**Table 2b :** Remuneration paid / payable to non whole-time directors in respect of financial year 2007-2008.

Non-wholetime directors	Commission (Rs.) *	Sitting fees (Rs.)
Mr. M.N. Bhagwat	800,000	160,000
Mr. E.B. Desai	300,000	170,000
Mr. Rakesh Makhija	300,000	160,000
Mr. James P. McRickard	Nil	Nil
Mr. Bernard C. McConnell	Nil	Nil
Mr. Frank P. Simpkins	Nil	Nil
Mr. Mo Heshmati	Nil	Nil
Mr. Douglas C. Phillips	Nil	Nil
Mr. Michael Lapidot	Nil	Nil
Mr. Bernard North	Nil	Nil

\* Payable in financial year 2008-2009.

The criteria for determination of commission to non-executive independent directors as approved by the Board, includes attendance at the meetings of the Board / Board committees, chairmanship of the Board / committees of the Board, individual responsibilities and additional contribution to the Company.

The Company presently has no Employee Stock Option Plan.