



Kennametal India Limited

**Annual Report
FY09**





Kennametal India Limited

Directors

Mr. M.N. Bhagwat
Chairman
Mr. Rakesh Makhija
Mr. Bernard North
Mr. Frank P. Simpkins
Dr. Esat Kemal Yegenoglu

India Leadership Council

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

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
5th 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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44th Annual General Meeting

Thursday, October 29, 2009 at 10.30 A M
at the Registered Office of the Company at
8/9th Mile, Tumkur Road, Bangalore -560 073

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NOTICE TO MEMBERS

NOTICE is hereby given that the Forty-fourth Annual General Meeting of Kennametal India Limited will be held on Thursday, October 29, 2009 at 10.30 A.M. at the Registered Office of the Company at 8/9th Mile, Tumkur Road, Bangalore – 560 073, to transact with or without modifications, as may be permissible, the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet as at June 30, 2009, the audited Profit and Loss Account for the year ended on that date and the reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of Mr.M.N.Bhagwat, who retires from office by rotation and being eligible, offers himself for re-appointment.
3. To appoint auditors, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company and to authorise the Board to fix their remuneration. The retiring auditors M/s. Price Waterhouse, Chartered Accountants, being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS:

4. To consider and if thought fit, to pass the following resolution, as an Ordinary Resolution:

"RESOLVED THAT in accordance with the provisions contained in Article 129 of the Articles of Association of the Company and Section 262 and other applicable provisions, if any, of the Companies Act, 1956 Dr.Esat Kemal Yegenoglu be and is hereby appointed as a Director of the Company, liable to retire by rotation to fill in the casual vacancy on the Board caused by the resignation of Mr. Michael Lapidot, the Company already having received a notice in writing along with a deposit of Rs.500/- as required under Section 257 of the Companies Act, 1956 from a member signifying his intention to propose Dr.Esat Kemal Yegenoglu, as a candidate for the office of Director, liable to retire by rotation."

5. To consider and if thought fit, to pass the following resolution, as a Special Resolution:

"RESOLVED THAT, pursuant to the provision of Section(s) 198, 269, 387, 388, Schedule

XIII and all other applicable provisions, if any, of the Companies Act, 1956 (hereinafter "the Act"), including any statutory modification or re-enactment thereof, or any other law and subject to such consent(s) and permission (s) as may be necessary in this regard and subject to such conditions as may be imposed by any authority while granting such consent(s), permission(s) and approval(s) and as are agreed to by the Board of Directors, consent of the members be and is hereby accorded for the appointment of Mr. D. Sarathy, Vice President – Manufacturing as the "Manager" of the Company as defined under Section 2(24) of the Act, with effect from September 05, 2009 for a period of five years or upto the date of appointment of Managing Director of the Company by the Board, whichever is earlier on the remuneration as set out in the explanatory statement of item No.5."

"RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to do all such acts, deeds, matters and things as may be deemed necessary to give effect to the above resolution."

"RESOLVED SPECIFICALLY THAT in the event of loss or inadequacy of profits in any financial year of the Company, during the tenure of office of Mr. D. Sarathy as Manager, the remuneration and the perquisites set out as above be paid to him for the remainder of his tenure as minimum remuneration, subject to the fulfillment of the conditions set out in the said Schedule XIII of the Act as amended from time to time."

"RESOLVED FURTHER THAT subject to such approvals as may be required, the Board of Directors, be and is hereby further authorised to revise the remuneration payable to Mr. D. Sarathy from time to time during the remainder of his term of office, subject to the limits prescribed by law, including Schedule XIII of the Companies Act, 1956 and agreed to between the Board and Mr. D. Sarathy."

By Order of the Board of Directors
For Kennametal India Limited

September 06, 2009
Mumbai

A.C. Poovanna
Company Secretary

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
 2. The instrument appointing proxy in order to be effective must be deposited at the registered office of the Company not less than 48 hours before the commencement of the Meeting.
 3. The relative explanatory statement pursuant to Section 173 of the Companies Act, 1956, in respect of the business under item (4) & (5) set out above are annexed hereto.
 4. The Register of Members and the Share Transfer Books of the Company will remain closed from October 27, 2009 to October 29, 2009 (both days inclusive) for the purpose of the Annual General Meeting (AGM).
 5. Pursuant to sub-section 205A of the Companies Act, 1956 (hereinafter "the Act"), dividends for the financial year ended December, 2002 and thereafter, which remain unpaid or unclaimed for a period of 7 years from the date of transfer of the same to the unpaid dividend account as referred to in sub-section (1) of Section 205A of the Act, will be transferred to the Investor Education and Protection Fund of the Central Government established under sub-section (1) of Section 205C of the Act. According to explanation to sub-section (2) of Section 205C of the Act, no claims shall lie against the said fund or the Company for the amounts of dividend so transferred nor shall any payment be made in respect of such claims.
 6. Pursuant to Section 109A of the Companies Act, 1956, members holding shares in demat form may file nomination in the prescribed Form 2B (in duplicate) with the respective depository participant and in respect of shares held in physical form, such nomination may be filed with the Company's registrar and share transfer agent.
 7. Members may address all correspondence to the Company's registrar and share transfer agent at the following address:
Alpha Systems Private Limited
No.30, 'Ramana Residency', 4th Cross,
Sampige Road, Malleswaram,
Bangalore 560003
Phone: (080) 23460815 - 818
Fax: (080) 23460819,
E-Mail: shares@123alpha.com
- Members are requested to quote their Registered Folio Number or Demat Account Number & Depository Participant (DP) ID Number in all correspondence.
8. The equity shares of the Company are mandated by the Securities and Exchange Board of India (SEBI) for compulsory trading in demat form by all investors. The Company's shares have been admitted into both the depositories viz. National Securities Depository Limited [NSDL] and Central Depository Services (India) Limited [CDSL]. The ISIN allotted to the Company's equity shares is INE717A01029.
 9. The brief resume of Directors / Manager seeking re-appointment/appointment as required under Clause 49 of the listing agreement is set out at "Annexure A" to this Notice.
 10. Bodies corporate intending to send their authorised representatives to attend the meeting are requested to send a duly certified copy of the Board Resolution or Power of Attorney authorising their representative to attend and vote on their behalf at the AGM.
 11. Members / Proxy holders are requested to produce at the entrance of the venue the enclosed attendance slip duly completed and signed.
 12. Members are requested to bring their copies of the annual report to the AGM.
 13. Every person holding equity shares of the Company and whose name is entered:
 - As a beneficial owner as at the end of business hours on Monday, October 26, 2009 as per the list to be furnished by NSDL and CDSL in respect of shares held in dematerialised form
 - As members in the register of members of the Company after giving effect to valid share transfers lodged with the Company or its registrar and share transfer agent on or before October 26, 2009
 shall only be entitled to attend the AGM in person or through his/ her proxy.
 14. The identity / signature of the members holding shares in demat form are liable for verification with the specimen signatures furnished by NSDL/CDSL. Such members are advised to bring the Depository Participant (DP ID), account number (Client ID) and the

relevant identity card to the AGM for easier identification and recording of attendance at the AGM.

15. Members requiring information or clarification with regard to the audited accounts and operations are requested to write to the Company Secretary at the registered office of the Company at least five days before the date of the meeting to enable the Company to keep the information ready.

EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173 OF THE COMPANIES ACT, 1956

Item No. 4

Dr. Esat Kemal Yegenoglu was appointed as Director on the Board at its meeting held on April 30, 2009, in the casual vacancy caused due to the resignation of Mr. Michael Lapidot, pursuant to provisions contained in Article 129 of the Articles of Association of the Company and Section 262 of the Companies Act, 1956 [hereinafter "the Act"]. According to the provisions of the said article and the Act, he holds office upto the date of this AGM.

As required under Section 257 of the Act, notice has been received from a member along with a deposit of Rs.500/- signifying his intention to propose Dr. Esat Kemal Yegenoglu as candidate for the office of Director.

The brief resume in relation to his experience, functional expertise and memberships on other companies' Boards and committees as required under Clause 49 of the listing agreement is set out in Annexure 'A' to this Notice. The Board considers that his association as director will be beneficial to and in the interest of the Company.

The Directors commend the passing of the resolution relating to his appointment for the approval of the members as set out at item No.4 in the accompanying Notice.

Dr. Esat Kemal Yegenoglu is interested in the resolution relating to his appointment.

Item No. 5

Mr. Dinakar A, resigned as Managing Director and Director of the Company on September 04, 2009. Section 269 (1) of the Companies Act, 1956 mandates that the Company has a Managing Director or Whole Time Director or a Manager. Accordingly, the Board of Directors have, at their meeting held on September 06, 2009, while accepting the resignation of

Mr. Dinakar, effective the close of business hours on September 04, 2009, appointed Mr. D. Sarathy, Vice President - Manufacturing as the Manager of the Company with effect from September 05, 2009 for an interim period until the replacement of the position of the Managing Director in the Company. Mr. Sarathy shall be subject to the superintendence, control and direction of the Board of Directors and shall have the management of the whole of the affairs of the Company as defined under Section 2(24) of the Companies Act, 1956. Mr. D. Sarathy, Vice President - Manufacturing as the "Manager" of the Company, shall report to the Board of Directors.

Mr. Sarathy will be paid the following remuneration:

- a. Basic Salary: Rs.100,820/- per month
- b. Special Allowance and Special Conveyance Allowance: Rs.117,802/-
- c. House Rent Allowance: Rs.36,000/- per month
- d. Variable Performance Pay: as per the scheme of the Company applicable to all other employees in the same grade
- e. Perquisites & Allowance: In addition to the prescribed basic salary, special allowance, special conveyance allowance, house rent allowance, variable performance pay, Mr. Sarathy shall also be entitled to perquisites and allowances like medical allowance, coverage under medical / accident insurance policy for self & family, health check up, leave travel allowance for himself and his family, contribution to Provident Fund, payment of Gratuity and such other perquisites and allowances in accordance with the rules of the Company or as may be agreed to by Board with Mr. Sarathy but within the limits permissible under the Companies Act, 1956. The aggregate remuneration inclusive of salary, variable performance pay, perquisites, allowances and other benefits payable to Mr. Sarathy shall not exceed the overall ceilings laid down in Section(s) 198, 309 and other applicable provisions of the Companies Act, 1956 or any other law for the time being in force, if any.

For the purpose of calculating the above ceiling, perquisites and allowance shall be evaluated as per Income Tax Rules, wherever applicable. In the absence of any such rules,



perquisites / allowances shall be evaluated at actual cost. The terms of employment and remuneration shall be governed by the letter of employment / appointment and its amendments issued / to be issued by the Company from time to time.

The above remuneration shall be paid as minimum remuneration to Mr.Sarathy, in the event of absence or inadequacy of profit in any year during the tenure of his appointment.

In terms of the provisions of the Companies Act, 1956, consent of the shareholders is required for the appointment of Mr.Sarathy as Manager of the

Company and payment of remuneration thereto. The Board recommends the resolution as set out in item No.5 for approval of the members as a Special Resolution. None of the Directors are concerned or interested in the said resolution.

By Order of the Board of Directors
For Kennametal India Limited

September 06, 2009
Mumbai

A.C. Poovanna
Company Secretary

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Annexure 'A'

Name of the Director/ Manager	Mr.M.N.Bhagwat	Dr.Esat Kemal Yegenoglu	Mr.D.Sarathy
Date of Birth	June 04, 1932	November 23, 1953	December 23, 1956
Experience	Significant experience in manufacturing industry including as Managing Director of Tata Honeywell Limited till 1997. Presently Mr.Bhagwat is serving as Member, Executive Committee, TQMS, a division of Tata Sons. He is also the Chairman of Honeywell Automation India Limited.	With Kennametal Inc: 5 years With others:24 years	With Kennametal : 28 years
Expertise in specific functional area	Manufacturing	Manufacturing	Manufacturing
Qualifications	B.E. (Mechanical & Electrical) M.S. (Mechanical) (University of Illinois, USA)	Mechanical Engineering PHD Degree	B.Tech. (Mech)
List of outside Directorships and Memberships of Board Committees in India	<i>Directorships in other companies</i> 1. Walchand Talent First Limited 2. Walchand People First Limited 3. Technopolis Knowledge Park Limited. 4. Honeywell Automation India Limited.		<i>Directorships in other companies:</i> Kennametal Shared Services Private Limited
	<i>Memberships/ Chairmanships of Committee of Directors</i> Walchand Talent First Limited 1. Audit Committee – Chairman 2. Remuneration Committee – Member Walchand People First Limited 1. Audit Committee – Chairman 2. Remuneration Committee – Member Honeywell Automotion India Limited 1. Remuneration Committee – Chairman 2. Audit Committee – Member 3. Shareholders' Grievance Committee - Chairman		
No. of shares held	Nil	Nil	5 (Five)

DIRECTORS' REPORT

Your Directors are pleased to present the 44th Annual Report and Audited Accounts for the year ended June 30, 2009 (FY 09).

FINANCIAL RESULTS

(Rs. in million)

PARTICULARS	FY 09 Year ended June 30, 2009	FY 08 Year ended June 30, 2008
Sales including other income	3,181.19	3,984.38
Profit Before Depreciation and Tax	599.33	989.80
Less: Depreciation	188.13	162.87
Profit Before Tax	411.20	826.93
Less: Provision for Tax		
Current Tax	169.82	262.55
Deferred Tax	(46.26)	10.65
Fringe Benefit Tax	7.50	9.45
Profit After Tax	280.14	544.28
Add: Balance brought forward from previous year	1011.21	466.93
Total available for appropriation	1,291.35	1011.21
Balance transferred to Balance Sheet	1,291.35	1011.21

DIVIDEND

The severe economic down turn caused a steep drop in Sales and Earnings in FY09. While there are signs of recovery in FY10, it will be sometime before your Company sees its positive impact on Sales and Earnings. Your Company also needs to conserve resources that will be required in future for expansion and upgradation of plant and machinery, when the economic scenario returns to its earlier path of growth. Hence, your Directors have thought it prudent, not to recommend any dividend for the financial year ended June 30, 2009.

OPERATING RESULTS

The Sales and other income of your Company declined by 20% over the prior year, due to the significant slow down and recessionary trends experienced in the year under review. As a direct result of this reduction in Sales Revenues, the Company's Profit Before Tax also declined to Rs.411 Million, despite various measures taken by your Company to curtail / minimize expenses, including pay cuts undertaken by all its non-unionised employees.

The proactive measures taken by your Company to reduce operating costs did make a significant difference in various heads of expenditure such as Stores and spares consumed, Sub-contracting charges, Power and fuel, Repairs and maintenance, Rent, Travel, Vehicle expenses, Advertisement and Sales promotion etc. However, as many large expenses such as Salaries and

wages, Depreciation etc. are of a fixed nature, they could not be reduced especially in the short term. The sudden steep drop in demand therefore had a significant impact on the Company's profits.

Your Company took active steps to control working capital requirements and conserve cash and this is evident by the effect that Inventories and Receivables came down by 30% and 43% respectively over the prior year.

MANAGEMENT DISCUSSION AND ANALYSIS

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

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr.M.N.Bhagwat retires by rotation, and being eligible, offers himself for re-appointment.

Mr. Dinakar A, resigned as Managing Director and Director of the Company with effect from September 04, 2009. As a result, he also vacates the position as Chairman of Share Transfer Committee, Member of Audit Committee of Directors and Member of Shareholders / Investors' Grievance Committee of Directors of the Company with effect from September 04, 2009. The Directors place on record their appreciation for the valuable contributions made by Mr.Dinakar during his tenure as Managing Director of the Company.

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Mr. Michael Lapidot resigned as Director with effect from February 28, 2009. Your Directors place on record their appreciation and acknowledge the valuable contributions made by Mr. Lapidot to the Company during his tenure as Director.

Dr. Esat Kemal Yegenoglu was appointed as Director on the Board with effect from April 30, 2009 in the casual vacancy caused due to the resignation of Mr. Michael Lapidot, Director.

Attention of the Members is invited to the relevant items in the Notice of the Annual General Meeting, Explanatory Statement thereto and the brief profile of Directors.

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.

RECONSTITUTION OF THE COMMITTEES AND APPOINTMENT OF MANAGER

Consequent to the resignation of Mr. Dinakar A, as the Managing Director and Director of the Company, the Board of Directors at their meeting held on September 06, 2009 have reconstituted the following Committees:

- a) Audit Committee of Directors comprising of Mr. M. N. Bhagwat (Chairman), Mr. Rakesh Makhija, (Member) and Mr. Frank P. Simpkins (Member)
- b) Shareholders' / Investors Grievance Committee comprising of Mr. M. N. Bhagwat (Chairman) and Mr. Frank P. Simpkins (Member)

- c) Share Transfer Committee comprising of Mr. B. Anjani Kumar (Chairman), Mr. D. Sarathy (Member) and Mr. A. C. Poovanna (Member).

Mr. D. Sarathy, Vice President – Manufacturing was appointed as "Manager" of the Company as defined under Section 2(24) of the Companies Act, 1956 effective September 05, 2009.

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. During the year, your Company has not invited/accepted any Fixed Deposits under Section 58A and 58AA of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, 1975.

As on June 30, 2009, 8 depositors having fixed deposits aggregating to Rs.411,853/- 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.449,163
- b) Unclaimed fixed deposit - Rs. 9,000

AUDITORS

M/s. Price Waterhouse, Chartered Accountants, Auditors of the Company will retire at the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. They have furnished a written certificate to the Company certifying that, if they are re-appointed as auditors of your Company, such appointment would be within the limits specified in Section 224 (1)(B) of the Companies Act, 1956.

CORPORATE GOVERNANCE

A detailed report on Corporate Governance and the certificate from the Company's Auditors confirming compliance of Corporate Governance norms as stipulated in Clause 49 of the Listing Agreement with the Bombay Stock Exchange Limited 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 of the Company.

RESEARCH & DEVELOPMENT (R &D)

The Research, Development and Engineering (RD& E), works on new Product and Process developments with specific focus on materials, coatings and design. RD&E, Bangalore is a globally aligned matrix set-up and works for the global requirements of KMT with a continued specific focus on up-gradation 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 "State Energy Conservation Award 2008" under General category by Karnataka Renewable Energy Development Limited and Department of Energy, Government of Karnataka.

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
For Kennametal India Limited

Mumbai
September 06, 2009

M.N. Bhagwat
Chairman