



Kennametal India Limited

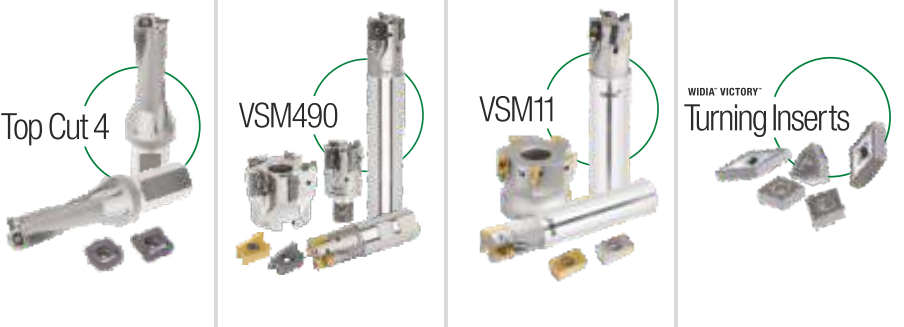
CIN: L27109KA1964PLC001546

51st Annual Report FY16

INDUSTRIAL



WIDIA 



 **WIDMA®**



KENNAMETAL INDIA LIMITED

(CIN : L27109KA1964PLC001546)

Directors

Mr. Prakash M. Telang
Chairman
 Mr. Bhagya Chandra Rao
Managing Director
 Mr. B. Anjani Kumar
 Mr. Vinayak K. Deshpande
 Mr. David Lee
 Mr. Alexander Broetz
 Ms. Colleen Wood Cordova

Key Managerial Personnel

Mr. Bhagya Chandra Rao
Managing Director & CEO

Mr. K.V. Suresh Reddy
Chief Financial Officer

Mr. Kundan Kumar Lal
*General Manager-Legal &
 Company Secretary*

India Leadership Council (ILC)

Mr. Bhagya Chandra Rao
 Mr. K.V. Suresh Reddy
 Mr. K. Chandrashekhar Sharma
 Mr. M. T. Swamy
 Mr. M. N. Bhaskara Rao
 Mr. Manu Kidave
 Mr. Prashant Shetty

Registered Office and Factory

8/9th Mile, Tumkur Road
 Bengaluru - 560 073
 Karnataka, India
 Phone : + 91 (80) 28394321
 Fax : + 91 (80) 28397572
 website : www.kennametal.com/kennametalindia

Auditors

M/s. Price Waterhouse & Co Bangalore LLP
 Chartered Accountants
 5th floor, Tower "D", The Millenia
 1 & 2 Murphy Road, Ulsoor,
 Bengaluru – 560008

Bankers

Bank of America
 Corporation Bank Limited
 HDFC Bank Limited
 ICICI Bank Limited
 State Bank of India
 Axis Bank

Registrar & Share Transfer Agent

Integrated Enterprises (India) Limited
 30, 'Ramana Residency'
 4th Cross, Sampige Road
 Malleswaram, Bengaluru-560 003
 Phone : + 91 (80) 23460815-818
 Fax : + 91 (80) 23460819
 e-mail: irg@integratedindia.in

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51st Annual General Meeting

Monday, November 14, 2016 at 12.30 P.M.
 at the Registered Office of the Company at
 8/9th Mile, Tumkur Road, Bengaluru-560 073.

CHAIRMAN'S MESSAGE

Dear Shareholder,

On behalf of the Board, it is our pleasure to present to you the 51st Annual Report and Audited Financial statements of Kennametal India Limited for the Financial year ended June 30, 2016.

In the face of a challenging economic environment, your Company was able to hold on to its total revenue with a marginal growth in FY16 despite the slowdown in international and domestic markets. However, the operating profit dropped by 23% due to challenging business environment and increase in manpower costs. Your company is closely monitoring the operating expenses and will take decisive steps to control the operating costs and working capital and improve the cash flows.

The data on national income released in May 2016 by the Central Statistical Organisation of the Government of India anticipated real GDP growth of 7.6% for 2015-16 up from 7.2% in the previous year. While still short of the 8% growth that India needs to achieve, on a steady state basis, this will be a creditable achievement given the challenging global economic scenario. Indeed, there have been early signs of an up-tick in both industrial and consumer demand. If the monsoons are as good as the meteorological forecast suggests, then the country ought to expect higher GDP growth in 2016-17.

The Government's recent initiatives such as Ease of Doing Business and 'SKILL INDIA' - a multi-skill development programme for promoting manufacturing sector augurs well for the economy. "Make in India" initiative aims a significantly higher order value capture in the Indian economy, creation of jobs, maximising revenue and enabling sustainable development. The Government has taken many initiatives for growth of the Country's economy such as setting-up of National Investment and Infrastructure Fund (NIIF), announcement of New Aviation Policy 2016 and implementation of GST. Also, the Ministry of Road Transport and Highways, and Shipping, has announced the Government's target of ₹ 25 Trillion investments in infrastructure over a period of three years. The transport and engineering sectors have shown overall growth in June quarter which will have positive impact on the industries.

Your Company serves to industries sectors such as transportation, general engineering, aerospace & defense, energy, power generation equipment, earthworks, mining & construction, and we believe that the aforesaid initiatives taken by the Government provide a range of opportunity for growth to your Company. With the process changes underway, we expect FY17 to be better year than the previous year.

In order to take advantage of the growth opportunities of WIDIA brand, Kennametal Inc. implemented a new operating structure at the start of fiscal 2017. A key attribute of the new structure is the focused approach on the WIDIA brand products. In order to better leverage the opportunities that lie in this business, in addition to being more agile and competitive in the marketplace, we are placing higher levels of focus, determination and leadership in the business. Your Company has planned to localize some of the tooling products and make capital investment to meet the quality standard and demand both at domestic and international levels.

Your Company is continuously monitoring the market and pro-actively taking various steps to include and increase its share through new and cost effective products that will enable us to speed with the market. It would also help the Company in increasing export volume. We are also expanding the distribution channel network to cover all regions across the country for all the brands.

As a Company, we are committed to following best practices for good Corporate Governance and always strive to achieve an optimum level of shareholder involvement, board oversight and management reporting within the proper governance principles.

Your Company is committed to sustainable development that involves integrating economic health, safety and environmental aspects into our business decisions. Safety and Ethics are non-negotiable at Kennametal. Continuous drive to operate safely and responsibly, sets Kennametal apart.

Corporate Social Responsibility continues to be an important part in the activities of your Company. Three primary categories have been established for CSR activities which include the support of Secondary and Post-Secondary Educational opportunities with an emphasis on studies in the areas of technical engineering, Kennametal in the Community and Protecting Our Planet.

During FY16, in line with the previous year, your Company focused in the areas of Education, Health and Water Management to create measurable and lasting value for neighboring communities. Your Company has adopted a project "Nisarga Gram" which is being executed by Sparsha Trust for building a home for underprivileged children more specifically for girls and provided laboratory to nearby School for better education.

Your Company initiated in the neighborhoods cleanliness drive during Swachhata Pakhwada conducted by the Government of India in the month of June 2016. Majority of the employees of the Company volunteered in this activity. Swatchh Bharat Pledge, Awareness Sessions on waste management including E-waste were part of this drive.

On behalf of the Board of Directors, I would like to thank the employees for their aspiration, focus on customers, hard work, commitment and teamwork. I also place, on record, our sincere appreciation to the customers, distribution Partners, Vendors, Shareholders and Bankers for their continued support.

I would like to place special thanks to the unionized employees who supported us in various initiatives taken by the Company for meeting the quality and delivery requirements.

I thank the members of the Board, for their continued guidance in making our organization successful in every sphere. I wish the entire Kennametal team great success in their pursuit of excellence and in their journey for the growth of the Company.

Thank you,

Prakash M.Telang

Chairman

DIN:00012562

BOARD'S REPORT

Your Directors are pleased to present the 51st Annual Report and the Audited Financial Statements for the year ended June 30, 2016 (FY16).

FINANCIAL RESULTS

(₹ in Lakhs)

Particulars	FY16 Year ended June 30, 2016	FY15 Year ended June 30, 2015
Total Revenue	57919	57579
Profit before Tax	3071	3994
Add/Less-Exceptional items Income/(Expense)	-	647
Profit After Exceptional Items and Before Tax	3071	4641
Less: Provision for Tax		
Current Tax	1085	1581
Tax provision relating to earlier years	67	-
Deferred Tax (credit)/charge	(155)	(292)
Profit after Tax	2074	3352
Add: Balance brought forward from previous year	19072	16249
Total available for appropriation	21146	19601
Interim Dividend	(440)	(440)
Dividend Distribution Tax	(89)	(89)
Balance transferred to Balance Sheet	20617	19072

DIVIDEND & RESERVES

An interim dividend of ₹ 2/- per Equity Share of ₹10/- each (20% on the paid up capital of the Company) was declared by the Board for the financial year ended June 30, 2016 and May 20, 2016 was fixed as Record Date for the said purpose. The said interim dividend was paid on May 26, 2016. The Board of Directors has decided to treat the same as final dividend and therefore, no additional dividend is recommended for the year ended June 30, 2016.

The Company has not transferred any amounts to reserves for the year ended June 30, 2016.

The paid up share capital of the Company is ₹ 21,97,82,400/- divided into 2,19,78,240 equity shares of ₹ 10/- each. Your Company has not come out with any issue (public, rights or preferential) during the Financial Year.

OPERATING RESULTS

Your Company registered total revenue of ₹ 57919 Lakhs during FY16 with Sales and Other Income compared with ₹ 57579 Lakhs in the previous year.

Profit before Tax and before Exceptional items was ₹ 3071 Lakhs as compared to ₹ 3994 Lakhs in the previous year. The Company's performance for the year has not improved due to lack of growth in the industry segment and market where the Company serves. Stagnant sales, adverse product mix and annual wage increase impacted the current year profitability. The profitability declined despite various measures taken by your Company to curtail/minimize expenses.

Your Company does not have any subsidiaries.

MATERIAL CHANGES AND COMMITMENTS

There has been no material change and commitment, affecting the financial performance of the Company which occurred between the end of the financial year of the Company to which the financial statements relate and the date of this Report.

MANAGEMENT DISCUSSION AND ANALYSIS

A Management Discussion and Analysis (MD&A) report is annexed to this report as "Annexure I" as required under Regulation 34 of the SEBI [Listing Obligations and Disclosure Requirements (LODR)] Regulations, 2015.

DIRECTORS & KEY MANAGERIAL PERSONNEL

Mr. David Lee (DIN:07175442) was appointed on May 05, 2015 as a Non-Executive Director, due to casual vacancy caused by the resignation of Mr. Gerald Goubau on the same day. He is eligible for appointment as Director liable to retire by rotation in the ensuing Annual General Meeting. Your Directors recommend the same for your approval. A notice has been received from a member along with the prescribed deposit of ₹ 1 Lakh proposing his appointment as a Director at the ensuing Annual General Meeting of the Company.

Mr. John H. Jacko Jr. (DIN: 06945511) resigned as Director with effect from August 09, 2016. Your Directors place on record their appreciation for the valuable contributions made by him to the Company during his tenure as Director.

The Board at its meeting held on August 09, 2016 approved the appointment of **Mr. Alexander Broetz (DIN:07568713)** filling the casual vacancy caused by the resignation of Mr. John H. Jacko Jr.

Profile of Mr. Alexander Broetz

Mr. Alexander Broetz is currently the Vice President of Kennametal Inc. and President of WIDIA. In this role, he is responsible for managing all business activities related to the WIDIA Business Segment.

He is associated with Kennametal Group for more than 10 years and has held several leadership positions like Director, Industrial Sales-EMEA for Kennametal Europe GmbH, Director of Widia as EMEA Development of a standalone sales organization in EMEA for WIDIA brand and development of a channel partner network.

Prior to joining Kennametal Inc., he served various organizations and handled various roles as President in Broevision Inc. and Director, Sales & Marketing in Tyrolit North America Inc. He has over 18 years of experience in the field of Sales and Marketing, General Management and Leadership.

Mr. Broetz holds a General Management Diploma and Certificate in Effective Management from St. Gallen Business School, Switzerland.

Ms. Michelle R. Keating (DIN: 06721693) resigned as Director with effect from August 09, 2016. Your Directors place on record their appreciation for the valuable contributions made by her to the Company during her tenure as Director.

The Board at its meeting held on August 09, 2016 approved the appointment of **Ms. Colleen Wood Cordova (DIN:07568701)** filling the casual vacancy caused by the resignation of Ms. Keating.

Profile of Ms. Colleen Wood Cordova

Ms. Colleen Cordova is currently Vice President Global Heavy Industries, Industrial at Kennametal Inc. In the past years she has held various positions including Vice President and GM, North America Commercial Operations, Vice President of Global Product Management and Industrial Marketing, Vice President of Marketing EMEA and Vice President of Energy Infrastructure. She joined as a President of Conforma Clad, Division of Kennametal Inc. in the year 2006.

Prior to joining Kennametal Inc. she served with various organizations and handled various roles as Vice President- Marketing and GM of Toxicology in Gene Logic, as GM-Adsorbents in W.R. Grace and as Market Segment Leader in Allied Signal Inc. She has over 27 years of enriched experience in the fields of Sales and Marketing and General Management and makes time to mentor female employees in the Kennametal organization.

Ms. Cordova holds a Master of Science in Chemical Engineering from Virginia Polytechnic Institute and State University and also holds a Master of Business Administration (MBA) in International Marketing from University of Richmond-Robins School of Business.

She is also an Advisory Board Member on the Product Management Executive Board established by Sequent Learning Networks, United States and a recipient of the 2013 Woman in Manufacturing STEP Award presented by the Society of Manufacturing Engineers and the Manufacturing Institute.

Declarations from the Independent Directors:

The Company has received declarations from all the Independent Directors of your Company confirming that they meet the criteria of Independence as mentioned under sub-section (6) of Section 149 of the Companies Act, 2013.

The policy on Director's appointment and remuneration including criteria for determining qualifications, positive attributes, Independence of Director, and also remuneration for Key Managerial Personnel and other employees forms part of Corporate Governance Report of this Annual Report.

A brief profile of the Director being appointed / re-appointed as required under Regulation 36(3) of SEBI

(LODR) Regulations, 2015 is furnished along with the Notice convening 51st Annual General Meeting.

Mr. D. Parameswara Reddy ceased to be Chief Financial Officer (CFO) with effect from February 17, 2016, due to elevation to the role of Director - Finance Region in Kennametal Group Companies and Mr. K. V. Suresh Reddy was appointed as Chief Financial Officer of the Company with effect from June 15, 2016.

DIRECTORS' INTEREST

No Director was materially interested in any contracts or arrangements existing during or end of the period in relation to the business of the Company. No Director holds any shares in the Company as on June 30, 2016 except Mr. B. Anjani Kumar, Non-Executive Independent Director, who holds 10 equity shares of ₹10/- each in the Company.

DIRECTORS' RESPONSIBILITY STATEMENT

Based on the framework of internal financial controls and compliance systems established and maintained by the Company, work performed by the internal, statutory, cost and secretarial auditors and external consultant(s) including audit of internal financial controls over financial reporting by the statutory auditors and the reviews performed by Management and the relevant Board Committees, including the Audit Committee and Risk Management Committee, the Board is of the opinion that the Company's internal financial controls were adequate and effective during the FY16.

Accordingly, pursuant to Section 134 (3) (c) and Section 134 (5) of the Companies Act, 2013, the Board of Directors, to the best of its knowledge and ability, report that:

- the applicable accounting standards have been followed in the preparation of the financial statements, along with proper explanations relating to material departures, if any;
- they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at June 30, 2016 and of the profit of the Company for the year ended on that date;
- they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other

irregularities;

- they have prepared the annual accounts on a going concern basis;
- they have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and
- they have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

DEPOSITS

During the year, your Company has not invited/ accepted any Public Deposits under Chapter V of the Companies Act, 2013.

PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS

The details of Loans and Investments covered under the provisions of Section 186 of the Companies Act, 2013 are given in the Notes to the Financial Statements forming part of Annual Report. During the year, your Company has granted unsecured loan to Kennametal Shared Services Private Limited, a fellow Subsidiary. The Company has not provided any guarantees during the Financial Year.

SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS OR COURTS OR TRIBUNALS

During the year under review, there were no significant and material orders passed by the Regulators or Courts or Tribunals impacting the going concern status of the Company and its future operations.

EVALUATION OF THE BOARD'S PERFORMANCE

Pursuant to the provisions of the Companies Act, 2013 and the SEBI (LODR) Regulations, 2015, the Board had adopted a formal mechanism for evaluating its performance and that of its Committees and Directors, including the Chairman of the Board. During the year, the evaluation exercise was carried out through a structured evaluation process covering various aspects of the functioning of the Board and Committees such as their composition, experience & competencies, performance of specific duties & obligations, governance issues etc. A separate exercise was carried out to evaluate the performance of each individual Director including the Board's Chairman who were evaluated on parameters such as contribution at the

meetings, independent judgment, attendance and other relevant aspects. The Board was satisfied with the evaluation results, which reflected the overall engagement of the Board, Committees and the Directors of the Company.

FAMILIARIZATION PROGRAMME

The Company has a structured familiarization programme for Independent Directors of the Company which is also extended to other Non-Executive Directors to ensure that Directors are familiarized with their function, role, rights, responsibilities and the nature of our Business.

The Board of Directors has complete access to the information within the Company. Presentations are regularly made to the Board of Directors and all Committees of the Board on various matters, where Directors get an opportunity to interact with Senior Management. Presentations made by the Senior Management of the Company, *inter alia*, cover the Company's strategy, business model, operations, markets, organization structure, product offerings, finance, risk management framework, quarterly and annual results, human resources, technology, quality and such other areas as may arise from time to time.

The Independent Directors of the Company are associated with the Company for many years and are very familiar with the Company. During the year, the Management provided various documents, background notes, presentations etc. to have a better insight of the Company. On February 04, 2016, the Management arranged a session on Corporate Governance which was facilitated through Mr. J. Sundharesan, Practising Company Secretary.

The Company also issues an appointment letter to the Independent Directors which incorporates their role, duties and responsibilities.

CORPORATE GOVERNANCE

Pursuant to Regulation 34 (3) read with Schedule V(c) of the SEBI (LODR) Regulations, 2015, a report on Corporate Governance and the certificate as required under Schedule V (E) of the Listing Regulations from Mr. Vijayakrishna K T, Practising Company Secretary, regarding compliance of conditions of Corporate Governance are annexed as “**Annexure II**” which forms part of this report. Further, in compliance with the Listing Regulations, your Board has adhered to the Corporate Governance Code.

COMPLIANCE WITH THE CODE OF CONDUCT

A declaration signed by the Managing Director affirming compliance with the Company's Code of Conduct by your Directors and Senior Management of your Company, for the year under review, as required under SEBI (LODR) Regulations, 2015 is annexed as “**Annexure IIA**” and forms part of this report.

The Kennametal Code of Business Ethics & Conduct is a major component of the Kennametal Value Business System (KVBS). The Code addresses the importance of fair dealing and compliance in all aspects of your Company's business and focuses on the concept of doing the right thing every day.

Your Company insists on its employees to embrace the Code of Business Ethics & Conduct to ensure maintenance of strong ethical culture. The code of conduct is available on the website of the Company at http://www.kennametal.com/content/dam/kennametal/kennametal/hil/About%20Us/Company%20Profile/code_of_conduct_Director.pdf

CEO/CFO CERTIFICATE

A certificate from the Chief Executive Officer and the Chief Financial Officer dated August 09, 2016 on the financial statements and the cash flow statement of the Company for the financial year ended June 30, 2016 is annexed as **Annexure-IIB** and forms part of this report.

WHISTLE-BLOWER POLICY/VIGIL MECHANISM

Your Company was following a Whistle Blower Policy/ mechanism even prior to requirements of the Companies Act, 2013. However, pursuant to Section 177 of the Companies Act, 2013 and the provisions of SEBI Listing Regulations, your Company had taken on record the Vigil Mechanism (Whistle Blower Policy) of the Company subsequent to the approval of the Board of Directors at its meeting. The Whistle Blower Policy provides avenues for employees to raise complaints and to receive feedback on action taken and seeks to reassure the employees that they will be protected against victimization and for any “Whistle Blower” action taken by them in good faith.

The Kennametal Ethics Helpline

Anyone can make a complaint about the violation of the Code of Conduct of the Company. Reports made to the helpline can be done via the phone or the web on a

confidential and anonymous basis, where allowed by local law. The helpline is administered by an independent third-party and is available 24 hours a day, 7 days a week.

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 134(3)(m) of the Companies Act, 2013 read with the Rule 8(3) of the Companies (Accounts) Rules, 2014, is annexed as “**Annexure III**” to this report.

AUDITORS & AUDITORS’ REPORT

STATUTORY AUDITORS:

Messrs. Price Waterhouse & Co. Bangalore LLP, Chartered Accountants (FRN:007567S/S-200012) were appointed as Statutory Auditors at the Annual General Meeting held on November 04, 2014 for a period of 3 (three) years from conclusion of forty-ninth annual general meeting until the conclusion of fifty-second annual general meeting, subject to ratification at every annual general meeting of the Company. The Board recommends the ratification of their continuation as Auditors. The Company has received a confirmation from the Statutory Auditors to the effect that they would be eligible for such continuation.

The Independent Auditors’ Report to the Members on the Accounts of the Company for the year ended June 30, 2016 does not contain any qualification, reservation or adverse remarks. The notes on financial statements referred to in the Independent Auditors’ Report are self-explanatory and do not call for any further comments.

REPORTING OF FRAUDS

There was no instance of fraud during the year under review, which required the Statutory Auditors to report to the Audit Committee and / or the Board, as required under Section 143(12) of the Act and Rules framed thereunder.

SECRETARIAL AUDITOR

Mr. Vijayakrishna K. T., Practising Company Secretary (FCS 1788) carried out Secretarial Audit under the provisions of Section 204 of the Companies Act, 2013 for the financial year 2015-16 and submitted his report, which is annexed to this report as “**Annexure IV**”.

The Secretarial Audit Report does not contain any qualification, reservation or adverse remark.

COST AUDITORS

Pursuant to Section 148 of the Companies Act, 2013 read with the Companies (Cost Records and Audit) Amendment Rules, 2014, the Board of Directors of the Company upon recommendation of the Audit Committee has appointed Messrs. K. S. Kamalakara & Co., Cost Accountants (Firm Registration No: 0000296), as the Cost Auditors of the Company for the financial year 2016-17. As required under Section 148 of the Companies Act, 2013, the Shareholders’ approval for the remuneration payable to Messrs. K. S. Kamalakara & Co., Cost Auditors is being sought at the ensuing Annual General Meeting.

INTERNAL FINANCIAL CONTROL

Details of internal financial control and its adequacy are included in the Management Discussion and Analysis Report which is annexed as “**Annexure I**” and which forms part of this Report.

CONTRACTS AND ARRANGEMENTS WITH RELATED PARTIES

Pursuant to Section 188 of the Companies Act, 2013 and Regulation 23 of the SEBI (LODR) Regulations, 2015, the Related Party Transactions (RPTs) that were entered into during the financial year were on arm’s length basis and in the ordinary course of business. Further, there are no material related party transactions during the year under review with the Directors or Key Managerial Personnel. All related party transactions are placed before the Audit Committee and the Board for approval as applicable under Section 188 of the Companies Act, 2013 and Regulation 23 of the SEBI (LODR) Regulations, 2015.

The policy on RPTs as approved by the Board is uploaded on the Company’s website at the link <http://www.kennametal.com/content/dam/kennametal/kennametal/hi/About%20Us/Company%20Profile/KIL%20Related%20Party%20Transactions%20Policy%2005052015%20.pdf>

The Particulars on RPTs in AOC 2 is annexed to the Report as “**Annexure V**”.

PARTICULARS OF DISCLOSURES AS REQUIRED UNDER SECTION 197 OF THE COMPANIES ACT, 2013

Pursuant to Section 197(12) of the Companies Act,