

ANNUAL REPORT 1999 - 2000

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**ANNUAL REPORT FOR THE
FINANCIAL YEAR ENDED ON 31 MARCH, 2000****BOARD OF DIRECTORS :**

Mr. Atul C. Kirloskar	Chairman and Managing Director
Mr. Sanjay C. Kirloskar	Vice Chairman
Mr. Gautam A. Kulkarni	Joint Managing Director
Mr. K. Gopalan	
Dr. N. A. Kalyani	
Mr. H. M. Kothari	
Air Marshal Y. V. Malse (Retd.)	
Mr. P. G. Pawar	
Mrs. Anupama Ranade	ICICI Nominee
Mr. U. V. Rao	
Dr. R. J. Rath	
Mr. S. G. Chitnis	Director (Auto Components and Large Engines)
Dr. K. R. Chandratre	Director (Legal and H.R.) and Secretary
Mr. A. N. Alawani	Director (Finance)
Mr. D. R. Swar	Director (Medium and Small Engines)

AUDITORS :

M/s. Dalal & Shah
Chartered Accountants

BANKERS :

State Bank of India
Bank of Baroda
Bank of Maharashtra
The United Western Bank Ltd.
HDFC Bank Ltd.
The Cosmos Co-operative Bank Ltd.
The Shamrao Vitthal Co-operative Bank Ltd.

REGISTERED OFFICE :

Laxmanrao Kirloskar Road, Khadki,
Pune 411 003

LOCATION OF FACTORIES :

Pune
Ahmednagar
Nasik
Solapur

KIRLOSKAR OIL ENGINES LIMITED**INFORMATION FOR SHAREHOLDERS**

- Date and venue of the Annual General Meeting : Saturday, 23 September 2000 at 10.30 AM at the Registered Office of the Company
- Listing on the stock exchanges at : Pune Stock Exchange Ltd. Sheevaleela Chambers, 752, Sadashiv Peth, Pune 411030
- The Stock Exchange, Mumbai, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400001
- The National Stock Exchange of India Ltd. Trade World, Senapati Bapat Marg, Lower Parel, Mumbai 400013
- Registered office of the Company : Laxmanrao Kirloskar Road, Khadki, Pune 411003
- Address for correspondence by shareholders : Secretarial and Legal Department
Kirloskar Oil Engines Limited
Laxmanrao Kirloskar Road, Khadki, Pune 411003
- Phone No. (020) 5815341 (Extn. 4351)
Fax No. (020) 5813208
E-mail: srb@koel.co.in OR ksd@koel.co.in

The Company has paid the listing fees, as applicable, to the Stock Exchanges where the Company's shares and debentures are listed.

A DECADE AT A GLANCE

(Rupees in Million)

Particulars	31st March									
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Gross fixed assets	576.04	706.85	1000.62	1263.83	1499.72	2112.42	2366.66	2556.98	3291.16	3503.44
Net fixed assets	239.85	338.05	579.86	781.06	1170.08	1469.01	1583.59	1518.80	1731.41	1654.92
Net current assets	401.19	469.81	691.49	720.37	897.43	1304.72	2635.31	3614.32	1995.19	2022.57
Total capital employed	706.10	901.40	1435.52	1805.09	2498.21	3714.05	5147.94	6558.38	5458.11	5315.51
Shareholders' funds	294.34	322.28	504.47	725.05	862.49	1566.89	2000.63	3475.73	2919.46	3665.01
Sales	1556.34	1820.41	2255.93	2910.05	4073.09	6138.96	6158.42	6313.52	7133.76	7447.95
Profit before tax	62.01	71.11	73.01	103.14	124.25	213.38	576.93	1716.87	159.19	890.93
Retained earnings	39.08	27.94	40.99	75.69	87.00	157.20	429.67	1429.64	84.01	745.28
Dividend -										
Equity & Preference	11.50	12.65	15.96	29.29	30.13	41.80	42.71	60.65	66.55	#67.07
Equity Dividend%	18	20	25	25	25	25	25	35	35	#35
FOB value of exports	74.22	79.63	154.30	109.99	220.99	193.56	150.80	169.14	293.43	306.99

Interim Dividend

NOTE :

In the above chart the figures for the year 1991 to 1994 relate to erstwhile Kirloskar Oil Engines Ltd., prior to its merger with Prashant Khosla Pneumatics Ltd.

Preference shares were redeemed during the Financial Year 1996-97.

KIRLOSKAR OIL ENGINES LIMITED**DIRECTORS' REPORT TO THE MEMBERS FOR THE FINANCIAL YEAR ENDED ON 31 MARCH, 2000**

Your Directors have pleasure in submitting their Report along with the audited accounts of your Company for the year ended on 31 March, 2000.

01. Financial Results

	(Rupees in 000's)	
	1999-2000	1998-1999
Total Income	8,432,567	7,365,528
Total Expenditure	7,489,538	7,206,338
Profit before provision for diminution in value of investments	943,029	159,190
Provision for diminution in value of investments	52,100	—
Profit before Tax	890,929	159,190
Provision for tax	71,200	1,300
Net Profit	819,729	157,890
Surplus (After other adjustments)	933,168	232,378

02. Appropriations

As the members are aware, the Board had decided to pay interim dividend of 35 % which was paid to the members on 25 May 2000. The Board has decided to treat the interim dividend as the dividend for the full financial year.

Your Directors propose to appropriate the available surplus as follows :

	(Rupees in 000's)
Transfer to General Reserve	150,000
Transfer to Contingency Reserve	400,000
Interim Dividend	67,072
Corporate Dividend Tax on Interim Dividend	7,378
Balance carried to Balance Sheet	308,718
	<u>933,168</u>

03. Operations**Small Engines Business:**

The Company categorises the engines up to 20 hp as small engines. These find use in the farm machinery, gensets and some construction machinery. In this business, the Company faces competition from several manufacturers in the country.

To improve the cost structure and increase the focus of the operating managers, the Company shifted the small engines business unit from the factory at Khadki to a new location at Fursungi, on the outskirts of Pune. In the ten months operations at Fursunghi from June 1999, the new plant manufactured 74,832 engines.

In addition to the competitive pricing and established product quality, the Company continued to strengthen its leadership by improving the distribution, positioning products in several micro segments and targeted rural marketing at the village level in Uttar Pradesh, Madhya Pradesh and Bihar. A new range of slow speed engines - "Mahabali" and Kerosene fuel pumpsets - "Cub" were launched in the year with successful initial results. These actions resulted in 25% volume growth in the engines sales, compared to the previous year. In the power generation segment, there is a growth of 18% while the growth in the spare parts sale is 55% over the last year.

The Company intends to maintain its leadership position by expanding the customer base and improving the service levels.

Medium Engines Business :

Your Company categorises the engines in 20 to 300 hp as Medium Engines. These find use in the farm tractors, generating sets and industrial and construction machinery.

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During the year under review, the Company successfully introduced two new engine models - 4R1040 and 4R1040T. These engines are fuel-efficient, eco-friendly and comparable to the engines in this class worldwide. These engines have been certified to meet the US Tier I emission norms which makes them eligible for use on the farm tractors used in the US. For the innovative design of the 4R1040 engine developed in-house, the Company received the 'Golden Peacock Award' instituted by the Institute of Directors, Government of India. The Company is now developing new engines for the tractor market.

The Company registered a growth of 30% over the previous year in the construction and industrial machinery sector and the Company developed new Original Equipment Manufacturers customers (OEM customers) during the year. In the Power Generation Sector, the Company achieved moderate growth of 10%. The tractor engines market suffered a set back and the sale of engines was lower by 6% compared to the previous year. The spare parts sale registered a growth of 18% over the previous year.

On the export front, the Company registered a growth in sales of 10% over previous year.

The Company also improved the product support by increasing the number of service outlets across the country. With the spread of service organisation, the service response to the customers has improved.

Concerted efforts were made to reduce the operating costs by reducing the number of suppliers and improved supply chain management to reduce the inventory.

Large Engines Business :

The business suffered a setback. Efforts are being made to consolidate the position.

Thin-walled Bearings :

The business registered a growth of 15% over the previous year. The Company has maintained its leadership in the engine bearing industry. In the after market segments, efforts were made to increase the customer access and brand building. The growth in the after market was 11% compared to previous year. On the export front, efforts are being made to introduce new products and to develop Original Equipment Manufacturers. The Company continued its focus on building efficient and flexible manufacturing methods to improve delivery performance.

Engine Valves Business :

The business growth was satisfactory. The efforts made in new product introduction, expansion of dealership network, aggressive brand building and customer access activities helped the Company in achieving good growth in the after market business.

Foundry Division :

The foundry division that was created by the merger of erstwhile Shivaji Works Ltd. has completed its first year with your Company. The loss has been brought under control. This was possible by cutting the fixed cost and reduction in the inventory and process rejection.

04. Subsidiary

Kirloskar Kisan Equipment Limited, (KKEL) is a wholly owned subsidiary of your Company. Considering the proposal of KKEL to diversify its business into investment activities, your Company had invested an amount of Rs. 25 million in the share capital of KKEL during the Financial Year 1998-99. Another Rs. 6.5 million were invested during the financial year 1999-2000. During the Financial Year 2000-2001, your Company proposes to invest another Rs.8.5 million in the share capital of KKEL. This would enable KKEL to increase its network to enable it to carry on business as an investment company.

Pursuant to Section 212 of the Companies Act, 1956, the audited accounts of Kirloskar Kisan Equipment Limited are annexed to the Balance Sheet as at 31 March, 2000.

05. Directors

Dr. N.A. Kalyani and Dr. R.J.Rathi, Directors of the Company retire by rotation at the ensuing Annual General Meeting. They are eligible for re-appointment.

On 7 March 2000, ICICI Limited nominated Mrs. Anupama Ranade as its nominee on the Board of your Company in place of Mrs. Chanda Kochhar.

The Directors take pleasure in announcing appointment of new Directors on the Board of your Company. Mr. Sanjay C. Kirloskar, has been appointed as Vice Chairman of your Company with effect from

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26 July 2000. Mr. S.G. Chitnis, Executive Vice President (Auto Components), Dr. K.R. Chandratre, Corporate Vice President and Company Secretary, Mr. A.N. Alawani, Corporate Vice President (Finance) and Mr. D.R. Swar, Executive Vice President (Engines) have been co-opted as additional Directors with effect from 26 July 2000.

06. Auditors

You are requested to appoint Auditors for the current year. The retiring Auditors, M/s. Dalal & Shah, Chartered Accountants, are eligible for re-appointment.

The Members of the Company had, in the Annual General Meeting held on 6 March 2000, appointed M/s P.G. Bhagwat, Chartered Accountants, as the Branch Auditors of the Company to audit the accounts maintained at the Company's branch at Soalpur. M/s P.G. Bhagwat, Chartered Accountants would retire at the ensuing Annual General Meeting and are eligible for re-appointment. You are requested to appoint them as the branch auditors.

07. Disclosure under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988

As required by the aforesaid Rules, the necessary information is given in the ANNEXURE - A which forms part of this report.

08. Particulars of employees

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, is given in the ANNEXURE - B which forms part of this report.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

Pune
27th July, 2000.


ATUL C. KIRLOSKAR
Chairman and Managing Director

Report to the Members ANNEXURE — A to the Directors' Report to the Members for the year ended on 31 March, 2000 and forming a part thereof

A. CONSERVATION OF ENERGY :

(a) Energy conservation measures taken :

Your Directors take pleasure in announcing that on 18 November 1999, the Company received ISO 14001 accreditation from "TUV India". The Company is vigorously following up its environmental policy, one of the goals of which is conservation of natural resources and pollution control. As a result of various measures taken to save electricity, your company could save 357,000 units during the year.

B. TECHNOLOGY ABSORPTION :

(a) Research and Development (R & D) :

(i) Specific areas in which R & D carried out by the Company:

Combustion, upgrading present engines to meet forthcoming emission norms, new engine designs to meet international quality levels are the areas in which research was done during the year.

(ii) Benefits derived as a result of the above R & D:

The engines meeting forthcoming emission norms have given an edge over the competition.

The emission results obtained on new models 4R1040 and 3R1040 are meeting US Tier 1 norms for emission. This was tested and confirmed at South Western Research Laboratory in the USA. This has brought new demands from Tractor Original Equipment Manufacturers, who are interested in export of tractors.

Improved cost effectiveness.

Replacement of 6 cylinder versions with 4 cylinder engines for Genset applications has improved cost effectiveness.

ANNUAL REPORT 1999-2000**(iii) Future plan of action:**

To upgrade present engine models to improve power output from the same swept volume, leading to better power to weight ratio and improved cost effectiveness. To develop new engine models in 25 to 50 HP range for Tractor application and to replace existing engines.

(iv) Expenditure on R & D :

	(Rs. in 000's)
- Capital	3,559
- Recurring	36,972
- Total	<u>40,531</u>

Total R & D expenditure as a percentage of total turnover: 0.57

(b) Technology absorption, adaptation and innovation :**(i) Efforts, in brief, made towards technology absorption and innovation :**

Technology obtained from AVL Austria and from FEV Germany for reducing the emission pollutant levels on 4R1040 series of engines has been adapted and extended for other models of engines to meet the prevailing Indian emission norms. This effort included design, review and change, changes in fuel injection equipment, combustion layout and finally testing and certification by Automotive Research Association of India (ARAI). All present engines in production are tested and certified by ARAI for meeting prevailing emission norms.

(ii) Benefits derived as a result of the above efforts :

The main benefit derived was that the new product design is in line with the Company's commitment to environment. Products are designed to be more eco-friendly without compromising on fuel economy and engine life.

(iii) Technology imported during the last 5 years :

Technology imported through consultation contracts with AVL for techniques in reduction in emissions and NVH (noise, vibrations and harshness) for 4R1040 engine was mainly for the validation for the engine designed in house.

The contract was in the form of on-going consultancy and the Company consulted AVL 3 times during last 5 years.

Similar contract was made with FEV for 200 / 250 KVA Engines.

The technology received was fully absorbed and was extended on engine models successfully to improve the quality of output.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO :**(a) Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans :**

- Focus on developing Original Equipment Manufacturers business gave good results.
- For concerted marketing efforts a person was posted in Africa. Additional three overseas postings in Africa and Middle East Asia are planned this year.
- Generating sets business started in South America and Europe. This is expected to boost exports in the near future.
- New air cooled models in smaller range were developed which has extended the product line.
- Introduction of new water cooled series for 30 – 150 hp is planned during the next two years.

(b) Total foreign exchange earned and used :

	(Rs. in 000's)
Used	686,144
Earned	308,616

KIRLOSKAR OIL ENGINES LIMITED

ANNEXURE - B

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' report for the year ended 31 March, 2000

Name & Age of The Employee	Designation / Nature of Duty	Qualifications & Experience	Date of Joining	Remuneration Rs.	Particulars of Last Employment
ALAWANI A N (55)	Corporate Vice President (Finance)	C.A. (30)	01.04.98	1,384,643	Corporate Vice President (Finance) Kirloskar Ferrous Industries Ltd.
BHALERAO S P (50)**	Sr. Manager	DME (26)	01.10.73	59,125	-
CHANDRACHUD M R (48)	Associate Vice President (LE-SBU)	B.E. (Mech), M.B.A (26)	01.09.76	653,492	-
CHANDRATRE K R (DR) (47)	Corporate Vice President & Company Secretary	M.Com., LL.B., F.C.S. Ph.D. (23)	22.06.87	1,695,474	Company Secretary, Thermax Private Ltd
CHITNIS S G (59)	Executive Vice President (Auto Comp)	B.E. (Mech) (35)	01.07.64	1,839,258	Lecturer, Walchand College of Engineering
CHOUBAL P P (54)**	Sr. Manager	DME, DEE, DPE (31)	01.09.68	92,340	-
DAMLE P M (49)	Sr. General Manager Product Support	B.E. (Mech) (27)	15.10.88	640,402	Regional Mktg Manager - Cummins Deisel Sales & Service (I) Ltd.
DANI A D (53)	Vice President (R&E)	M.Sc (Machine Tool Tech.) Univ of Birmingham (31)	15.04.78	1,126,526	Sr. Design Engineer, Mahindra Owen Ltd.
DESAI P M (50)	Sr. General Manager - Mfg Engg.	D.M.E (30)	18.02.74	627,049	Junior Engineer, Kirloskar Cummins Ltd.
DESHMUKH S R (52)	Vice President (EDP)	M.Sc, B.Tech (Mech) (27)	22.02.92	1,107,790	Systems Manager, Kirloskar Cummins Ltd.
DESHPANDE R R (46)	Vice President (Small Engines)	B.E. (Mech) (23)	02.07.77	929,286	-
DIXIT V P (53)	Associate Vice President (Large Engines)	B.E. (Mech) (28)	01.04.88	872,380	Chief Executive - Mahila Udyog Ltd
INAMDAR S C (47)	Sr. General Manager	B.E. (Mech) (25)	01.08.75	622,542	-
JARANDIKAR R R (53)	Associate Vice President - (Auto. Comp)	D.M.E (33)	01.10.67	628,268	-
JOSHI A S (58)	Senior Pilot (Aviation)	Graduate - N.D.A. (37)	01.10.91	678,550	Govt. Service
JOSHI K M (49)	Associate Vice President (M.E)	B.E. (Mech), MMS, DBM (25)	19.04.90	863,403	Mktg. Manager, Kirloskar Cummins Ltd.
JOSHI L A (48)**	Sr. General Manager - Control Engg.	M.Sc (Electronics) (25)	03.10.78	305,338	Trainee-Sales Engineer, Ferrat Engg. Mfg. Co.
KALE P B (57)	Vice President (Auto. Comp)	B.Tech (Hons) (33)	10.01.69	1,199,823	Graduate Trainee Engineer, Hyderabad Usha Works Ltd.
KAMATH D G (39)	General Manager - Marketing (LE)	B.E. (Hons), PGDM, CFA (17)	02.07.97	600,033	Mktg Manager, Crompton Greaves Ltd.
KARULKAR N A (50)**	Manager - Bearing QA	M.Sc.(28)	16.08.90	70,508	-
KULKARNI R B (51)	Associate Vice President (Bearings)	B.E. (Mech) (28)	01.12.73	680,479	-
LASHKARI F S (WG-CDR) (58)	Senior Pilot (Aviation)	D.M.E (36)	01.04.91	719,370	Govt. Service
LUTHRA N (51)	Corporate Vice President (M.S)	B.Tech (Mech), PG.D.B.A (28)	28.07.84	1,639,801	Manager, Data Base, Kirloskar Cummins Ltd.
MARATHE S N (51)**	Corporate Vice President - (Finance)	F.C.A (28)	10.09.90	85,404	Self Employed
MARATHE S V (54)**	General Manager - Bearings	DME (31)	01.09.68	81,435	-
PADHYE H V (37)	Reg. Manager (Middle East Asia)	B.E. M.B.A (15)	07.06.94	1,530,833	Asst. Manager, Century Enka Ltd.
PALWANKAR D M (39)	Associate Vice President (Projects)	DME, DEE (18)	01.07.96	760,569	Vice President, The Mysore Kirloskar Ltd
PATWARDHAN D V (56)	Associate Vice President (Finance)	M.Com, FICWA (32)	12.01.70	847,107	Cost Asst., Henley Cables (I) Ltd.
PHALAK V A (54)**	Sr. General Manager - Plant Maintenance	B.E. (Mech) (30)	01.12.69	131,434	-
PUNDLIK D D (52)	Associate Vice President (LE-SBU)	B.E. (Mech), M.B.A (28)	05.03.93	657,436	Self Employed
RAO M R R (44)	Vice President (Auto Comp)	B.E. (Mech) (22)	17.07.78	932,477	-
SAPRE J R (55)	Vice President (M.E. Marketing)	B.Sc. (33)	01.11.93	1,154,412	Manager, Product Assurance Kirloskar Cummins Ltd.
SWAR D R (56)	Executive Vice President (Engines)	B.E. (Mech) (32)	25.08.87	1,390,576	Purchase Manager, Ruston & Hornsby (I) Ltd.
TIKEKAR A A (53) **	Executive Vice President (Engines)	B.E. (Mech) (31)	04.01.69	1,048,811	-
VARMA D K (51) **	Vice President (H.R.D)	B.Sc. (Engg), M.Tech, PGDBM (28)	20.03.93	178,050	Sr. Manager, Telco
VARMA V M (48)	Vice President (BDD, S&A)	B.E. (Mech) (27)	09.02.74	1,145,922	-
VENGURLEKAR A S (54) **	Sr. Manager - Bearing Mktg.	D.M.E, P.D.A.E, (30)	01.02.69	84,215	-
VIBHUTE V G (42)	Vice President (P & IR & HRD)	B.Com, M.B.A (22)	01.01.87	1,106,890	Asst. Personnel Officer, Pudumjee Pulp & Paper Mills Ltd.

NOTES :

- ** Indicates employed for a part of the year.
- Designation of the employee indicates the nature of duties.
- Gross emoluments include salary, dearness allowance, other allowances, incentive, bonus, leave travel assistance, medical expenses reimbursement, value of perquisites as per Income tax Act, 1961 and the rules made thereunder, and Company's contribution to Provident Fund and Superannuation Scheme. It does not include terminal benefits like leave encashment, gratuity and ex-gratia payments.
- All appointments are non-contractual except that of Mr. H.V. Padhye
- None of the employee is a relative of any Director of the Company.