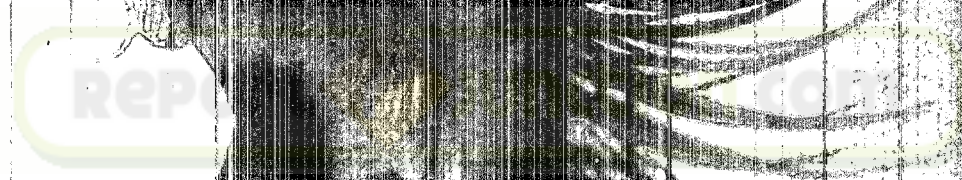




**KIRLOSKAR OIL ENGINES LIMITED**  
Annual Report 2007-2008

Enriching Lives



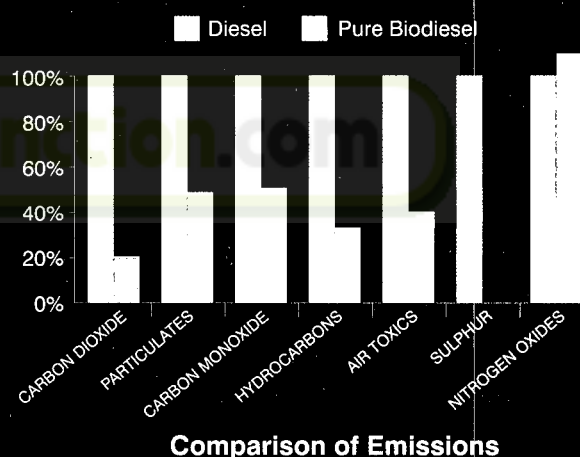
*Green.  
In vision. Thought.  
And deed.*



# See Green. Think Green. Act Green.

Besides global dimming and contamination of air and water, global warming is a reality today. A reality that threatens the very fabric of our existence. Our future, and that of our children is at stake. Being an industrial group that values the highest standards of eco-responsible co-existence, we at Kirloskar are committed towards enabling an enriching future. And yet, this future is rife with challenges. It is in these challenges that your company sees immense opportunity. Opportunity that will create new business paradigms. In a future that is green. Green. In vision. Thought. And deed.

- We have designed and introduced engines and pumpsets that by being lighter in weight are less energy consuming than comparable products. Take for example, the FA 350 engine for industrial and power generation and "Varsha" diesel pumpset. Varsha will be manufactured by saving about 400 kWh of energy per piece. This translates to saving 40 million kWh when we make approx. 100,000 Varsha pumpsets per year. That's reducing CO<sub>2</sub> emissions by an incredible 40,000 tons!
- In June 2007, we launched engines that run on bio-diesel. Emissions from these engines are 20-50% lower than those engines that run on high-speed diesel. Moreover, engines running on bio-diesel don't emit any sulphur. In addition to being eco-friendly, bio-diesel also reduces the depletion of natural organic fuels.



- Our Green Technology Cell commissioned in 2006, is demonstrating utility of bio-gas as an option for cooking, electricity generation and transportation. Moreover, bio-mass can also be converted to useful bio-fuel which is economically viable and environment friendly.

**KIRLOSKAR OIL ENGINES LIMITED**

Annual Report 2007-2008

Annual Report for the  
financial year ended on 31 March 2008

**Board of Directors**

Mr. Atul C. Kirloskar	Chairman & Managing Director
Mr. Sanjay C. Kirloskar	Vice Chairman
Mr. Gautam A. Kulkarni	Joint Managing Director
Mr. Rahul C. Kirloskar	Director (Exports)
Mr. D. R. Swar	Director (Corporate Services) [ceased w.e.f. 19 April 2007]
Mr. R. R. Deshpande	Director (Operations)
Mr. Vikram S. Kirloskar	
Mr. U. V. Rao	
Mr. H. M. Kothari	
Dr. N. A. Kalyani	[ceased w.e.f. 23 April 2008]
Mr. P. G. Pawar	
Mr. V. K. Bajhal	
Mr. R. Srinivasan	
Dr. Naushad Forbes	

**Chief Commercial Officer**

Mr. Kumar Kanetkar

[w.e.f. 25 August 2007]

**Chief Financial Officer**

Mr. Sanjay D. Parande

**Company Secretary**

Ms. Aditi Chirmule

**AUDITORS**

M/s Dalal &amp; Shah, Chartered Accountants

**BANKERS**

State Bank of India  
Bank of Maharashtra  
HDFC Bank Limited  
ICICI Bank Limited  
The HSBC Limited

**Registrars & Transfer Agent**

Intime Spectrum Registry Limited

Block No. 202, 2nd Floor,  
Akshay Complex, Near Ganesh Temple,  
Off Dhole Patil Road, Pune 411 001

**REGISTERED OFFICE**

Laxmanrao Kirloskar Road, Khadki, Pune - 411 003

**LOCATION OF FACTORIES**

Pune, Ahmednagar, Nasik, Hospet, Kagal, Phursungi, Rajkot and Silvassa (proposed)

Information for shareholders		Contents	Page No.
<b>Annual General Meeting</b>		Decade at a glance	2
Date	: Thursday, 17 July 2008	Directors' Report	3
Time	: 11.00 A.M.	Report on Corporate Governance	15
Venue	: Hotel Le Meridien RBM Road, Pune - 411001	Auditors' Report	27
Proposed Dividend	: 50% (Re. 1 per share of Rs. 2 each) [This is in addition to 50% (Re. 1 per share of Rs. 2 each) paid as Interim Dividend]	Balance Sheet	30
Dates of Book Closure	: 7 July 2008 to 17 July 2008 (Both days inclusive)	Profit & Loss Account	31
		Cash Flow Statement	32
		Schedules to the Accounts	34

## Decade at a glance

Sr. No.	Particulars	(Rupees in Millions)									
		2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99
1.	Net Sales	21,564	18,830	13,953	11,486	10,025	8,639	7,430	7,908	7,284	7,031
2.	Profit Before Tax	1,874	2,395	2,460	2,013	1,056	383	274	417	891	159
3.	Profit After Tax	1,190	1,784	2,006	1,739	708	415	186	413	820	158
4.	Dividend Amount	388	388	388	243	194	97	67	67	67	67
5.	Dividend (%)	100	200	200	125	100	50	35	35	35	35
6.	Earning Per Share (Rs)*	** 6	18	21	18	7	4	2	4	9	2
7.	Book Value Per Share (Rs)*	** 47	88	74	58	43	38	38	37	38	31
8.	Share Capital	** 388	194	194	194	194	194	192	192	192	192
9.	Reserves and Surplus	8,762	8,319	6,990	5,427	3,963	3,476	3,445	3,316	3,473	2,728
10.	Shareholders' Funds	9,150	8,513	7,184	5,621	4,157	3,670	3,637	3,508	3,665	2,920
11.	Loan Funds	3,429	1,063	670	517	297	370	1,082	1,154	1,651	2,539
12.	Total Capital Employed	12,579	9,577	7,854	6,138	4,454	4,040	4,719	4,662	5,316	5,459
13.	Gross Block	9,213	5,305	4,834	4,215	3,864	3,902	3,716	3,610	3,503	3,291
14.	Net Block	7,109	3,322	1,922	1,447	1,295	1,414	1,392	1,538	1,655	1,731
15.	Net Current Assets	1,003	1,245	1,030	974	1,195	914	1,281	1,236	2,023	1,995

\* The equity share of Rs. 10 each was sub-divided into 5 equity shares of Rs. 2 each w.e.f. 18 August 2005. Earning per Share and Book Value per Share have been reworked to make them comparable.

\*\* After Issue of Bonus Shares in the ratio of 1:1

## Annual Report 2007-2008

**Directors' Report**

To the Members,

The Directors have pleasure in presenting this Report with audited annual accounts of the Company for the year ended 31 March 2008.

**Financial Performance**

	2007-2008	(Rupees in 000's) 2006-2007
Total Income	22,279,569	19,824,279
Total Expenditure	20,405,493	17,653,450
Profit before exceptional items & taxation	1,874,076	2,170,829
Profit / (Loss) on sale of investments	-	190,899
Profit / (Loss) on sale of undertaking	-	33,292
Profit before taxation	1,874,076	2,395,020
Provision for tax (including Deferred Tax)	684,560	610,930
Net Profit	1,189,516	1,784,090
Surplus (After other adjustments)	2,683,886	2,942,949

**Appropriations**

Your Directors propose to appropriate the available surplus as follows:

	(Rupees in 000's)
Proposed Dividend	194,173
Interim Dividend	194,173
Corporate Tax on dividend	66,000
Transfer to Contingency Reserve	-
Transfer to General Reserve	750,000
Balance carried to Balance Sheet	1,479,540

**Dividend:**

In addition to the Interim Dividend of 50% (Re. 1 per share) paid in February 2008, the Directors recommend a final dividend of 50% (Re. 1 per share) for the year, totalling to yearly dividend of 100% (Rs. 2 per share) (previous year dividend was 200%).

**Management Discussion and Analysis:**

The operations of the Company comprise of Engines and Auto Components. This business segmentation forms the basis for review of operational performance.

**Industry Overview:**

During the year under review, the Indian economy continued to grow with some of the sectors like services and construction doing better than others

The country continues to remain starved of power supply from the grid and with inadequate power and frequent interruptions the need for standby power from generating sets continues to grow. Increased demand is also seen for construction and material handling machinery required to allow for meeting the needs for infrastructure construction across the country.

**Company Performance**

During the year under review, the Company achieved sales of Rs. 21,564 million (previous year Rs. 18,830 million) resulting in increase in sales by Rs.2,734 million over the previous year.



## KIRLOSKAR OIL ENGINES LIMITED

The profit before tax is at Rs. 1,874 million (previous year Rs. 2,395 million) after providing for depreciation of Rs. 439 million (previous year Rs. 318 million).

Analysis for the Engines and Auto Components segments is presented below.

### Segment-wise Operational Performance

#### Engines:

The Company sold eight generating sets in the range of 2100 kVA to 6300 kVA, emerging as a market leader in the fuel oil based captive power plant market in India.

This year also saw the supply of a first ship-set of two 20-cylinder engines as main propulsion units to Goa Shipyard for its construction program of offshore patrolling vessels for the Indian Navy.

In the Power Generation segment, the Company executed various initiatives to enhance its brand "Kirloskar Green" by upgrading products, increasing marketing effectiveness and improving its service capability to capture its share of the growth from various segments like Engineering, IT enabled services, Construction, Corporate Retail and other Service industries.

The Company's sales to Power Generation segment increased by 31.3% in terms of number of engines sold and 30% in terms of sales value, over the last financial year.

The construction, material handling and infrastructure development equipment witnessed very high demand resulting in market growth of over 25%. Your Company further increased its market leadership position in construction, infrastructure and other key segments through OEM partnerships, capacity enhancement and customer relationship. This helped achieve a significant growth of 41% over the preceding year, with enhanced market share for the Company.

The tractor market segment witnessed a slow down during the year under consideration with reduced sales to this segment, while in the defence business, the Company continued development of customized value packages for special defence application projects.

The Company's small engines business grew by 11%. There was no growth in the sale of small engines for agricultural applications in the face of competition in the lower horsepower range, intensified by portable, compact and low cost engines / pump sets. Your Company has introduced the compact VA series pump set for field assessment and plans to start commercial production of these sets by August 2008.

Small engines sales grew by 29% with small engine gensets also sold under the brand, "Kirloskar Green".

The sale of these engines for industrial applications was driven by growth in construction and infrastructure sales in industrial segment, growing by 12% in the year under review.

#### Kagal Project:

To meet the growing demand from its global and domestic customers, your Company has invested in a greenfield project at Kagal, near Kolhapur in Maharashtra. The project includes an Export Oriented Unit (EOU) to manufacture silent generating sets for global customers and an engine manufacturing plant, of a capacity of 60,000 engines in the first full year of operations, growing to 100,000 engines in a phased manner over three years.

The total capital invested as on 31 March 2008 in the Kagal facility is Rs. 392.22 Crores.

The genset assembly line in the EOU started assembling and testing gensets from the second half of the year under review. The second line for assembling gensets over 82.5 kVA started assembling and testing these sets from February 2008.

The engine plant is also in the process of completing its production facilities. The major machine lines have been installed and commissioned and the first batches of engines, manufactured in the plant in the month of March 2008, have received customer acceptance and clearance for regular production and supply.

#### Auto Components:

During the year, the Indian Automobile market was characterized by 14% growth in Passenger and Light Commercial Vehicles segments. Sales of Bearings to this market increased by 12.7% in the year under review, while the sales of Engine Valves grew by 19.3%.

## Annual Report 2007-2008

**Research and Engineering**

Your Company keeps its product line up to date by meeting emission norms required for domestic and export markets. Starting October 2007, new emission norms are applicable for industrial engines in the Indian market. The Company has successfully upgraded all engines to the required emission standards and is able to continue supply of the engines to the customers.

The high power engine family, small agricultural engine and 3.23 litre industrial engine development programs are in field testing stage and these products are expected to contribute to the Company's turnover in future.

Your Company is also gearing up to meet emission norms currently applicable to industrial engines in Europe and in India by 2011 well ahead of time and is getting prepared to meet new emission norms expected to be announced for power generation products in India.

**Green Technologies Cell**

In December 2006, the Company formed a Green Technologies Cell (GTC) with a mission to create an eco-friendly world by developing and implementing self-reliant, affordable and sustainable technologies for energy generation.

In the initial stages, the Company has begun exploring various options such as biodiesel, biogas and biomass gasification. One or more of these technologies will be required to create sustainable energy solutions.

During the year under review, the Company has undertaken testing programs for biodiesel engines and biogas engines. You would be happy to know that the programs have been very successful. Your Company has already converted most of our in-house electricity generators to work on 100% biodiesel.

Experiments on biogas technology and on 100% biogas run gensets have also been successful for our low horsepower engines. Biogas has excellent potential as a long-term energy solution.

In the last year, GTC has established in-house laboratory to conduct biofuels research. In the coming financial year the Company intends to further support and strengthen the capabilities of this laboratory.

Your Board of Directors is convinced that adopting "green technologies" makes good business sense. Hence, your Company will continue investing in such technologies, while simultaneously working on developing related business.

**Environment and Energy Conservation:**

The Company is very focused on environmental issues. Since the financial year 1999-2000, its plant at Khadki is certified for ISO-14001 (EMS – Environmental Management System), an international certification standard for environment.

The Company is committed to promote non-conventional and renewable energy resources. Your Company has established certain environment projects like a Bio-methanation plant to convert canteen waste to generate methane gas, which is used for cooking purpose, a vermi-composting plant, and installation of 7 x 0.8 MW windmills at Pachpatta, Ahmednagar.

In the year under review, following environmental improvement measures were implemented:

- (1) The Company has an EHS (Environmental, Health and Safety) policy; encompassing occupational health and safety;
- (2) Statutory processes of environmental statement and also Form-IV for all plants have been standardised.
- (3) In order to reduce consumption of natural resources, the following measures have been implemented at the plant at Khadki:
  - (a) Use of 100% Bio-Diesel for stand-by Gensets
  - (b) Optimization of testing time of HA power-generation engines and
  - (c) Change in media for R-HA washing machines to avoid electrical heating.

**Personnel and Human Resource****Personnel:**

Your Company not only continued to cultivate healthy and harmonious Industrial Relations (IR) but also improved upon the same. As a sequel to the process on institutionalization of IR, education of Union Values was percolated to every union member.



## KIRLOSKAR OIL ENGINES LIMITED

In the year under review, employees were sent for Out Bound Training Programs as a team building exercise.

The Company has inducted 210 students from Deccan Management Consultants and Multi Disciplinary Professional Training Academy.

### Human Resource (HR):

Creating a vibrant work environment that attracts and retain talent as also bring out their best, remained the focus of the year. A separate Human Resources department was formed with dedicated HR Associates to support the business units and a Corporate Group to provide strategic direction and leadership to people process.

The talent pool and current business structure has been reviewed for synergy and to induct right people for the right jobs. Business planning and review processes have been revamped to set clear expectations of performance. Comprehensive internal communication and regular workouts have begun to involve people in the change initiatives. Senior leaders engage themselves continuously in ensuring that work teams are supported well to carry out the change plans. Empowerment workshops have been introduced to enrich managerial roles and skip level meetings have been initiated for ongoing feedback to leaders. Talent assessment and performance feedback have been strengthened to support the performance culture.

The total number of employees of the Company as on 31 March 2008 is 3,842.

### Corporate Social Responsibility:

Your Company, as has been its tradition, willingly wears its social responsibility by sustaining initiatives that support the community. Throughout the year, it organized programs to improve the status of education and health of people living in the vicinity of its premises.

Your Company continues with following initiatives:

HEALTH	INDIVIDUAL	WOMEN	COMMUNITY
	<ul style="list-style-type: none"> <li>Health check-up camp</li> <li>Spectacles distribution</li> </ul>	<ul style="list-style-type: none"> <li>Women health program</li> <li>Yoga camp for women</li> </ul>	<ul style="list-style-type: none"> <li>Tree plantation</li> <li>Spraying and Fogging</li> <li>De-addiction workshop</li> <li>Pollution check-ups</li> <li>HIV/AIDS awareness program</li> </ul>
EDUCATION	EMPLOYABILITY	AWARENESS	SPONSORSHIP
	<ul style="list-style-type: none"> <li>Various occupational training programs for making candles, washing powder, Agarbatti, Rakhi and Papad</li> </ul>	<ul style="list-style-type: none"> <li>Computer literacy for school children</li> <li>Livelihood program for the youth</li> <li>Study visits by school and college students</li> </ul>	<ul style="list-style-type: none"> <li>Donation to SOFOSH and LABS</li> <li>Financial support to orphans</li> <li>Performance awards for school children</li> <li>School Bag and Raincoat Distribution</li> </ul>
<b>GENERAL</b> <ul style="list-style-type: none"> <li>Sport Tournament</li> <li>Community Gymnasium</li> <li>Well Reconstruction</li> <li>Environment program by Green peace</li> <li>Energy Conservation Competition</li> </ul>			

### Exports

In the financial year 2007-08, your Company achieved a growth of 15% on exports to reach Rs. 1,600 million (Rs. 1,390 million in financial year 2006-07).

Over the past three years, the Company focused its export strategy around three areas – development of OEM business for engines, partnering with telecom companies for power generation and setting up of full line sales and service network in



## Annual Report 2007-2008

select countries.

Sustained efforts have resulted into significant gains in OEM business in China and the Middle East, growing the business by 36%.

### Concerns and Threats

With the continued opening up of the Indian Economy and reduction in the tariff barriers for engines and gensets, imports will add another dimension to the competitive nature of the Indian market at a time when there is also a concern about the performance of the Indian economy in the short to medium term of the next 12 to 18 months.

Indeed, the larger current concern for your Company is whether the economy will continue to remain on the growth track that it has been able to achieve in the last few years.

In view of these concerns, the Company is taking appropriate measures to realign its strategies and cost structures appropriately.

The other major concern continues to be rise in prices of commodities, notably in the case of iron and steel. Recent months have seen sharp spikes in the prices of these commodities leading to both interruptions in supplies as well as increase in procurement prices for the various intermediates and components, which are required for production.

The competitive nature of the market for most of the Company's products continues to limit the opportunity for increasing prices to fully compensate for this rise in input costs.

The steep increase in the fuel prices has also made it uneconomical for customers to use furnace oil as fuel for captive power generation. This has adversely impacted the market size for large capacity heavy fuel gensets. The global boom in shipbuilding has also led to shortage in capacities with overseas component manufacturers of critical engine components such as crankshafts and pistons for such engines. These uncertainties in the delivery of these components are being carefully monitored and managed by the Company.

### Prospects for Current Year

With the focus of the government on rural development, it is expected that there would be enough liquidity with co-operative sector banks and other agricultural agencies to enable farmers to procure the necessary inputs. The Company's new compact/portable products are expected to help meeting the needs of these segments.

The generating set market is expected to continue its growth this year with the continuing deficit in the availability of adequate and reliable power from the grid for the Company's customers in the manufacturing and service sectors.

With the continuing growth of mobile telephony and construction of associated tower infrastructure, significant growth in supply of gensets is also expected to be obtained from this sector.

As is widely known, the economic growth of the country will depend upon its ability to rapidly construct/improve infrastructure and accordingly the construction and earth moving equipment industry is expected to continue its current rapid rate of growth. As a significant supplier of the engines that power such equipment, the Company's sales to these markets is also expected to grow.

As the country grows and becomes more integrated with global trade flows, the Indian Navy is also pursuing a strategic review of its role. As it does this, the company expects to receive repeat orders for its engines, which are used in naval ships.

With the continuing growth in the automobile sector, the company also expects to continue to maintain its growth rate from the sale of the products manufactured by its auto components business.

### Cautionary Statement

Statements in this Report, particularly those which relate to Management Discussion and Analysis, describing the Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.



## KIRLOSKAR OIL ENGINES LIMITED

### Internal Control Systems and their adequacy

Renowned auditing firms continue to conduct Internal Audits of all the strategic business units, area offices and corporate services. The scope of audit is not only restricted to accounting and finance, but also includes extensive review of business operations of the Company. It also covers the review of reporting system and testing of internal controls across the Company.

During the year, the Company has migrated to the new Oracle version R 12 from existing 11.5.9. Internal control module of this new version should eventually help in further strengthening of internal controls.

### SEBI Regulations & Listing Fees

Since SEBI has stipulated electronic filing of Annual Report, Corporate Governance Report, Financial Results, Share Holding Pattern, etc. on website [www.sebidifar.nic.in](http://www.sebidifar.nic.in), statements of your Company can be accessed at this website.

The annual listing fees for the year under review have been paid to Bombay Stock Exchange Limited and National Stock Exchange of India Limited, where your Company's shares are listed.

### Issue of Bonus shares

During the year under review, the Company has allotted and issued one Bonus Equity share of Rs. 2/- each for every one Equity share of Rs. 2/- each to the shareholders of the Company.

With this bonus issue, the Company's authorised capital increased to Rs. 50.00 crores and paid-up capital to Rs. 38.83 crores.

### Directors

Mr. R. Srinivasan, Mr. R.R. Deshpande, Mr. P. G. Pawar, and Mr. Rahul C. Kirloskar, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

The Board of Directors has re-appointed Mr. Atul C. Kirloskar as the Managing Director of the Company on 23 April 2008, for a period of 5 years with effect from 1 October 2008. A proposal for his appointment as the Managing Director and remuneration payable to him is being placed before the Members of the Company for their approval at the Annual General Meeting.

The Board of Directors has re-appointed Mr. Gautam A. Kulkarni as the Joint Managing Director of the Company on 23 April 2008, for a period of 5 years with effect from 20 August 2008. A proposal for his appointment as the Joint Managing Director and remuneration payable to him is being placed before the Members of the Company for their approval at the Annual General Meeting.

The brief resumes and other details relating to the Directors who are proposed to be appointed/re-appointed, as required to be disclosed under Clause 49 of the Listing Agreement, form part of the Report on Corporate Governance.

### Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956 the Board of Directors state:

- That in the preparation of the annual accounts, the applicable accounting standards have been followed along with the proper explanation relating to material departures;
- That the Directors 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 at the end of the financial year and of the profit of the Company for that period;
- That the Directors have taken proper and sufficient care 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; and
- That the Directors have prepared the annual accounts on a going concern basis.