

**KIRLOSKAR OIL ENGINES LIMITED**  
Annual Report 2008-2009



Enriching Lives

*Let's celebrate the spirit*

Report  junction.com

Painting the future GREEN.





ince its inception over a century ago, the Kirloskar Group has contributed significantly to the Green revolution in India and has been a harbinger of prosperity to millions.

The colour Green is synonymous with growth and prosperity and symbolises balance, harmony and renewal. At Kirloskar, we imbibe the spirit of Green, and strive endlessly with single-minded zeal to spread the colour of prosperity and growth in India and across the world.

Even in these trying times, your Company has excelled by continuous innovation, proactive planning and strategic measures.

By setting new engineering benchmarks and redefining paradigms, we are all set to paint the future GREEN.

And ready to harvest the global opportunities that the future holds.

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### Achievements in Green

- Demonstrated engineering capabilities to reduce upto 50% environmental contamination by innovatively increasing the oil change period.
- Effected a dramatic reduction in CO2 emissions and fuel consumption of engines in operation.
- Reduced particulate emission of engines in operation through better combustion optimization and air management.
- Developed modern 100% Biodiesel Compatible Engines after extensive field trials.
- Reduced NOx emissions across the range to meet the most stringent Indian and European emission standards.
- Developed and launched low kVA rated, eco-friendly CNG engines in the market.



# KIRLOSKAR OIL ENGINES LIMITED

Annual Report 2008-2009

Annual Report for the financial year ended on 31 March 2009

## 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. R. R. Deshpande	Executive Director
Mr. Vikram S. Kirloskar	
Mr. U. V. Rao	
Mr. H. M. Kothari	
Mr. P. G. Pawar	
Mr. V. K. Bajhal	
Mr. R. Srinivasan	
Dr. Naushad Forbes	
Mr. A. N. Alawani	(w.e.f. 21 January 2009)
Mr. M. Lakshminarayan	(w.e.f. 24 April 2009)
Mr. Nihal Kulkarni	(w.e.f. 24 April 2009)

## CHIEF FINANCIAL OFFICER

Mr. Sanjay D. Parande

## COMPANY SECRETARY

Ms. Aditi Chirmule

## AUDITORS

M/s. Dalal & Shah, Chartered Accountants

## BANKERS

State Bank of India  
Bank of Maharashtra  
HDFC Bank Limited  
ICICI Bank Limited  
The Hongkong and Shanghai Banking Corporation Limited

## REGISTRAR & TRANSFER AGENTS

Link Intime India Private Limited  
(Formerly known as 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, Kagal, Phursungi (upto 15 April 2009), Rajkot and Silvass

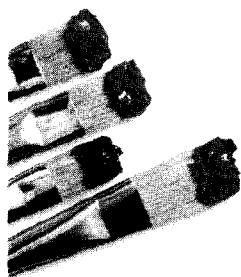
## Information for shareholders

Annual General Meeting	
Date	: Saturday, 18 July 2009
Time	: 11.00 A.M.
Venue	: Kirloskar Kisan Premises, 13/A, Karve Road, Kothrud, Pune 411 038
Proposed Dividend	: 50% (Rs.1 per share of Rs. 2 each)
Dates of Book Closure	: 8 July 2009 to 18 July 2009 (both days inclusive)

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## Decade at a glance

(Rupees in Millions)											
Sr No	Particulars	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00
1	Net Sales	21,100	21,564	18,830	13,953	11,486	10,025	8,639	7,430	7,908	7,284
2	Profit Before Tax	1,805	1,874	2,395	2,460	2,013	1,056	383	274	417	891
3	Profit After Tax	1,159	1,190	1,784	2,006	1,739	708	415	186	413	820
4	Dividend Amount	194	388	388	388	243	194	97	67	67	67
5	Dividend (%)	50	100	200	200	125	100	50	35	35	35
6	Earning Per Share (Rs)*	6	** 6	18	21	18	7	4	2	4	9
7	Book Value Per Share (Rs)*	49	** 47	88	74	58	43	38	38	37	38
8	Share Capital	388	** 388	194	194	194	194	194	192	192	192
9	Reserves and Surplus	9,212	8,762	8,319	6,990	5,327	3,963	3,416	3,445	3,316	3,473
10	Shareholders' Funds	9,601	9,150	8,513	7,184	5,621	4,157	3,670	3,637	3,508	3,665
11	Loan Funds	3,430	3,429	1,060	670	517	297	370	1,082	1,154	1,651
12	Total Capital Employed	13,091	12,579	9,577	7,854	6,138	4,454	4,040	4,719	4,662	5,316
13	Gross Block	9,924	9,213	5,305	4,834	4,215	3,864	3,902	3,716	3,610	3,503
14	Net Block	6,730	7,109	3,322	1,922	1,447	1,295	1,414	1,392	1,538	1,655
15	Net Current Assets	1,959	1,003	1,245	1,030	974	1,195	914	1,281	1,236	2,023

\* The equity shares 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.



## Directors' Report

To the Members,

The Directors have the privilege of presenting this Report with audited annual accounts of the Company for the year ending 31 March 2009.

### Financial Performance:

	2008-2009	(Rupees in 000's) 2007-2008
Total Income	22,081,071	22,279,569
Total Expenditure	20,340,998	20,405,493
Profit before exceptional items & taxation	1,740,073	1,874,076
Profit / (Loss) on sale of investments	-	-
Profit / (Loss) on sale of undertaking	65,365	-
Profit before taxation	1,805,438	1,874,076
Provision for tax (including Deferred Tax)	646,508	684,560
Net Profit	1,158,930	1,189,516
Surplus (After other adjustments)	2,638,470	2,683,886

### Appropriations:

Your Directors propose to appropriate the available surplus as follows:

	(Rupees in 000's)
Proposed Dividend	194,173
Interim Dividend	-
Corporate Tax on dividend	33,000
Transfer to Contingency Reserve	-
Transfer to General Reserve	750,000
Balance carried to Balance Sheet	1,661,297

### Dividend:

The Directors recommend a dividend of 50% (Re. 1 per share) for the year. (Previous year dividend was 100%).

### Management Discussion and Analysis:

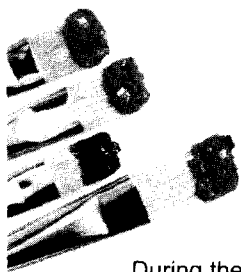
The operations of your Company comprise of Engines and Auto Components. This business segmentation forms the basis for review of operational performance.

### Industry Overview:

During the financial year 2008-09, the Indian economy experienced significant slowdown, in the sectors serviced by your Company.

The economic downturn was largely driven by the collapse of global financial markets in the banking, financial and insurance sectors. The collapse was driven by the crisis in American sub-prime mortgage market. The markets failed to muster investor confidence and as such money supply into the market quickly dried up.

Unlike previous downturns, this time, the speed with which Indian economy experienced the downturn has been unprecedented. This necessitated the Government to intervene and announce three Fiscal Stimulus Packages totaling to Rs. 110,000 crore, in quick succession.



During the year under review, India's GDP growth slipped to 6.5% in line with a decelerating global economy. The sharp decline was primarily the result of weak performance by all sectors but affecting the Company more critically in industrial and service sectors.

The Indian industry has not been immune to the global financial turmoil, though its impact compared to developed economies seems soft.

Drop in demand from all sectors, massive credit crunch and stock correction led to lower demand of construction equipments and generating sets in the third and fourth quarter of the year under review.

Growth in the service sector is expected to increase and is likely to lead the recovery of Indian economy.

The Government of India has now identified infrastructure as a priority sector and raised its expenditure budget to sustain the momentum of the GDP growth rate resulting in increased opportunities in the infrastructure equipment market for our company.

India's power generation market is growing faster than those in most other countries, due to which a robust demand for gensets may be expected in future.

#### **Company Performance:**

During the year under review your Company achieved sales of Rs. 2,109.97 crores. (Previous year Rs. 2,156.44 crores) resulting in decrease in sales by 2.2% over the previous year.

The profit before tax is at Rs. 180.54 crores (previous year Rs. 187.40 crores) after providing for depreciation of Rs. 80.40 crores (previous year Rs. 43.85 crores).

Analysis for both segments – Engines and Auto Components is presented below.

#### **Segment-wise Operational Performance:**

##### **Engines Business:**

To improve market response on the basis of clearly defined roles, responsibilities and accountability of managers, the operations of the Company were restructured into separate business units.

- A) Engines for power generation application;
- B) Engines for applications other than power generation.

This was done by combining and restructuring the erstwhile product based SBUs (Strategic Business Units). This has allowed the management of the Company to focus on building functional skills in marketing, manufacturing and sourcing within the required time span, in order to remain competitive.

##### **Engines for applications other than power generation:**

Your Company caters to the needs of end users which cut across all the sectors of the economy viz.; agriculture, industry and services. Though the demand continued to exist, it largely remained unfulfilled, since markets did not have adequate financial support to service the demand. Mutual funds, which are the primary source of funding for Non Banking Financial Companies (NBFCs), came under severe redemption pressure due to collapse of the stock markets. Finance for new equipments slowed down due to credit crunch in the market. Due to the slowdown, the rental rates for the equipments were also affected and dropped more than 30% below the rates for the financial year 2007 - 08. Thus the entire supply chain got blocked with inventories.

Worldwide increase in the metal and fuel prices severely affected product prices across all sectors in the first half of the year under review. Further there was a lag between the recovery of price rise from customers and price rise given to the suppliers, affecting corporate performance.

During the year under review, the otherwise buoyant sectors such as infrastructure, construction and earth moving experienced negative growth varying from 25% to 45%. The Agriculture sector too was affected due to non-availability of banking finance and inadequacy of Government subsidies for most part of the year.

Despite these developments, the Company held its share of the Indian Agriculture as well as Construction [Industrial] segments, during the financial year 2008-09.

In higher horsepower engine segment, the Company experienced the highest ever manufacturing operations with plant capacity fully booked. Detailed engineering and quality assurance plans have now been prepared for supplying gensets to Nuclear Power Corporation of India in the financial year 2009-10.

**Engines for power generation application:**

Growth of the Power Generation business during the first half of the year under review was approximately 30% over the corresponding period of last year. However due to adverse market conditions in the second half, overall sales for the year were restricted to 11% growth over the previous year.

Initiatives are being taken on a continuous basis to enhance the brand "Kirloskar Green" in the genset market by improving customer satisfaction, through introduction of new products, upgrading existing products and features, improved quality and delivery, and implementation of CRM and Helpdesk.

Engineering initiatives are taken in line with your Company's commitment towards a better environment by introducing gensets running on alternate fuels like biogas and bio diesel.

**Spares and Services:**

Implementation of various initiatives for upgrading the after sales service capability has not only helped in improving the engine sales but also increased the sales of spares parts. The total spare parts sales grew by 9% over the last financial year.

**New Engines and Genset Plant:**

The Company's new facility at Kagal, in Maharashtra, is world-class with state-of-the-art machine tools for key components, engine assembly and testing facility. It is one of the most modern diesel engine manufacturing plants in India, which began its commercial production in a record time of 19 months.

Since its inception, management has implemented various world-class systems and best practices such as TPS principles, ISO 9001 and OHSAS have either been implemented or are in the process of implementation. Various initiatives have been taken to imbibe the culture of excellence through continuous improvement and employee engagement.

During the year this new facility was made fully operational. HA series, R-1040 series, E-series, Varsha pumpsets and Genset manufacturing upto 250 KVA has commenced during the year under review.

Total capital expenditure incurred at this new plant is Rs. 479 crores till the end of the year under consideration.

**Auto Components Business:**

The financial year 2008-09 saw mixed fortunes for the Auto Industry. The demand for the first 6 to 7 months was robust. However, the same started showing declining trend from November 2008.

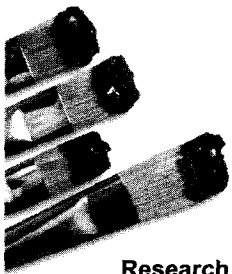
Automobile industry registered growth of 3% over the past year. This growth is on account of two wheelers and car segments. The Car segment has grown by 6.75% against the previous year's growth of 12%. However, the auto component business suffered due to negative growth of 22% in the commercial vehicle segment against the previous year's growth of 10%.

The prices of raw materials like copper, lead, tin and steel in the early part of the year under review. This put pressure on the cost structure of the products manufactured by the Company, as the Company was not in a position to recover the effects of inflation to the full extent from the market.

To offset the rising costs, the Company has undertaken various measures like Value Engineering, reduction in working capital at various stages and controlling other expenses.

The Company has however, utilized the period for development of new bearings for vehicles manufactured by some of its major customers.

During the year under review, the Company sold its Valves Business to Eaton Industrial Systems Pvt. Ltd. being a part of Eaton Corporation, USA; for a consideration of Rs.88.8 crores. The deal was concluded on 31 July 2008.



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### **Research and Engineering:**

Your Company strives to fill the product gaps by developing new products, which meet the emission norms required for domestic and export markets.

During the financial year 2008 – 09, the Company has successfully put in three different engine families in the field for testing. All these engines will be ready for volume production in the current fiscal.

Varsha, the small agriculture engine pumpset has been received very well in the market and is expected to contribute significantly to the volume of engines produced in the current year.

R-810 series Industrial engine, has successfully passed customer trials in the field and the volume production is expected to ramp up when economy turns around.

The DV series – engine family is being put into production in the current year.

The emission upgrade of industrial engines to meet India 2011 programme is on track and is expected to be ready well ahead of the time.

### **Alternative Fuels:**

During the year under review, the Company has undertaken testing programs for biodiesel and biogas as alternative fuels for engines manufactured by the Company. You would be happy to know that the testing programs have been very successful and encouraging. Your Company has already converted most of its gensets used in the plants of the Company, to work on 100% biodiesel. Experiments on biogas technology and on 100% biogas run gensets have also been successful for the Company's low horsepower engines. In the current fiscal, the Company intends to further support and strengthen these capabilities.

As natural gas is expected to be available easily over the next two years, the Company is gearing up to adapt its entire product range to run on natural gas (CNG) and biogas. Your Board of Directors is committed to adopting "green technologies" and as such the Company will continue investing in such technologies.

### **Industrial Relations:**

Your Company has continued to maintain and improve healthy and harmonious industrial relations. As a sequel to the process of institutionalization of IR and the Company's values, these values were imparted to each team member and the audit of the same will be carried out in the current financial year.

The Union has fully co-operated in the process of the transfer of the Valve Business to Eaton Industrial Systems Pvt. Ltd. The Union has also co-operated in observing 5 days week in the wake of the economic slowdown.

Development of employees is an important concern for your Company. They are encouraged to participate in programs like Out Bound Training, Team Building and YOGA classes, etc.

Medical check-up for employees and their spouses were organized. Lectures on Health and Fitness were conducted on the common ailments and diseases.

Your Company is seriously committed to improve the environment, health and safety standards for which, the Company is in the process of obtaining OHSAS-18001, certification, for all its plant locations.

### **Environment and Energy Conservation:**

The Khadki plant which is certified for ISO-14001 (EMS- Environmental Management System) has undertaken following Environment projects:

- Bio-methanation plant to convert canteen waste to generate methane gas, used for cooking,
  - A vermi-composting plant,
  - Solar water heating system at canteen for hot water requirement.
-



Your Company is committed to achieve optimum use of energy in operations, processes and products through energy efficient and renewable energy technologies.

**Human Resources:**

Matching skilled people with appropriate job profiles in key positions and specifying their roles and responsibilities was initiated across the company with the formation of new business units for Engines for power generation application and Engines for applications other than power generation creating a corporate function for Sourcing, and merging Corporate Research with Application Engineering.

Ninety-six (96) managers opted for the Voluntary Retirement Scheme, which was offered by the Management when positions became redundant because of business restructuring and process reengineering during the year under review.

The Performance Management System for managers was reframed and implemented for senior levels during the year. A batch of seventeen senior managers completed their Leadership Development Programme at Welingkar Institute, Mumbai. Gallup Survey on Employee Engagement has been completed and the report is taken up for future action on enhancing Employee Engagement in the Company.

The Company has executed a memorandum of understanding with Kolhapur Institute of Technology's College of Engineering, at Kolhapur; as a part of Industry-Educational Institute interaction.

The total number of employees of the company as on 31st March 2009 is **3201** (Previous year 3842 nos.).

**Corporate Social Responsibility:**

The Company has kept up its tradition of being a friend of the community in which it operates, by organizing useful activities through out the year. Major activities include:

- Your Company has given sponsorship amounting Rs. 5 lakhs to 'Akanksha' a NGO educating 75 children from slum area.
- Communication drive and sponsorship of programs in support of a greener environment, including annual pollution control checks.
- Computer literacy for 50 under privileged community children at its Khadki premises.
- Blood donation camps across its locations at Khadki, Kagal, Ahmednagar, Nashik and Rajkot.

Every year, the Company conducts a survey of the community voices around its plants at Khadki, Ahmednagar and Nashik, to understand how they perceive the Company's role in demonstrating corporate citizenship. The survey conducted in the year 2008 indicates that 97% of people surveyed hold a good image of the Company at an overall level, out of which 33% gave it the top rating.

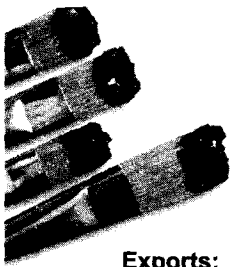
**Cost Control:**

During the year under review, cost control and cost reduction was the main focus area. This has helped us in absorbing the effects of external environmental pressures. Value Engineering / Value Analysis was the major initiative. Effective control on price movement across the supply chain starting from suppliers to customer has helped us to manage the unprecedented inflation on material cost in the first half of the year under review.

Implementation of environment management system has further contributed towards considerable drop in consumption of power, consumption of chemicals, raw material resources and wooden boxes required for packing.

The business restructuring and process reengineering exercise enabled the Company to optimize of employee numbers and reduce costs.

Implementation of budgetary control systems at the department level helped the Company to control related costs.



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### **Exports:**

Global economic meltdown resulted in a slowdown in the overseas markets, which led to lower growth in the exports market. This resulted in a decline in the exports business by 11% in financial year 2008-09 to Rs. 144 crores.

### **Concerns and Threats:**

As things stand, it is difficult to forecast with any certainty how long the recession would continue or what would be its impact. In the current fiscal, your Company forecasts that the downturn would continue to affect the domestic as well as overseas demand for its products in several market segments. Your Company will be watchful and ready to respond when the market starts picking up. Your Company also envisages that Equipment Manufacturers as well as Rental Operators from around South-east Asia and other parts of the world will aggressively penetrate the Indian Market. This will affect the domestic demand in select equipment categories.

The present economic slowdown has made investment in CAPEX including captive power generation using furnace oil as fuel, unviable. This has resulted in a slump in demand for large capacity gensets, running on Heavy Fuel, and also for emergency start-up gensets, coming mainly from refineries, large IPPs, smelters and other large sized industries.

Further globalization of the Indian economy in the year under review has made the Company more vulnerable to external shocks than ever before.

The global GDP growth is expected to fall to 3.7% and 2.2% in 2008 and 2009 respectively, from 5% in 2007, according to the IMF. The global financial crisis is expected to significantly slowdown the Indian economy. India's GDP growth is expected to moderate to 6.5% and 5.5% in the year under review and next fiscal respectively as compared to the average 9.3% for last three years, according to CRISIL.

Poor Grid Power quality and non-availability of power will drive the demand for gensets. Power deficit is expected to reduce to 4% by the financial year 2009-10 from 12.5% during the year under review. Decreasing demand supply gap would negatively impact the growth rate of genset sales.

Shrinking market due to the recession and increase in competition is expected to make the genset market more competitive.

The Company expects an increase in competition; especially in lower kVA rating due to the entry of cheaper new domestic options and Chinese manufactures in power generation segment.

As the demand for the dollar kept appreciating, the rupee began depreciating. During the year under review, the rupee depreciated by 27% which made servicing of existing overseas debt costlier for Indian corporate. It also made repayment of the principal amounts costlier.

The numbers of players in the market for Auto Components, in the semi-organized / unorganized sectors have become more aggressive and pose potential threat on account of the price proposition. In the recent past there has been entry of world renowned brands in the field of Auto Component.

### **Prospects for Current Year:**

The silver lining is that domestic inflation will continue its downward trend and is expected to bottom out during the second quarter of the financial year 2009-10. The Company expects the inflation to rise thereafter and will continue to be watchful of economic trends.

The Company has undertaken several measures to prune down product costs and enhance competitiveness. Company is also readying several new products for commercial launch during the financial year 2009-10. Many of these products will help the Company to enter new market segments.

With the formation of a new Union Government during first quarter of the financial year 2009-10, the Company anticipates financial closure of major Infrastructure and Road Building Projects. By then the markets are likely to experience the positive impact of the fiscal stimulus packages announced, so far.

The stimulus packages announced in the period from September 2008 to March 2009 are expected to aid growth in the next fiscal. In addition, the rate cuts issued by the RBI with a view to ease inflation are also likely to provide some respite in the current fiscal as compared to the year under review.