



KIRLOSKAR OIL ENGINES LIMITED
ANNUAL REPORT 2010 - 2011

Enriching Lives



Solving complex engineering problems -
as simple as turning a page

EXPERTISE TO GIVE SIMPLE SOLUTIONS TO GREAT ENGINEERING CHALLENGES

It is our simple solutions to complex engineering problems that adhere us to our clients. Solutions that are borne on the strength of our expertise, skills and engineering ability. To explore more and more simple options. To take our clients, where no one else has been before. This journey has taken us to a INR 7,600 crore (US\$1.6 billion) engineering conglomerate today; with sincere belief in meeting the toughest of challenges with the best of our solutions. To deliver cost effective solutions that bring prosperity and smiles across the world.

What drives us today is not just world class products, but our commitment to meet bigger and tougher challenges. To make sure that our clients get their solutions in the quickest of times in the toughest of environments. Continuous improvements, proactive planning and strategic measures make us one of the greatest engineering solution providers of all times.

R AND HA SERIES ENGINES

The entire liquid-cooled range of Kirloskar R810, R1040, R1080 engines as well as air-cooled HA series engines are certified for BS-III emission norms applicable for commercial equipment vehicles(CEV) used in the off highway market.



6R1080TA LIQUID-COOLED DIESEL ENGINE

Kirloskar 6R1080TA BS-III emission compliant engine, suitable for 3-5 ton class Loader, Combine Harvester & Paver Finisher.



HA494T AIR-COOLED DIESEL ENGINE

Kirloskar HA494TBS-III emission compliant engine. Suitable for vibratory compactor.

Annual Report for the financial year ended on 31 March 2011

BOARD OF DIRECTORS

Atul C. Kirloskar	Chairman & Managing Director
Gautam A. Kulkarni	Joint Managing Director
Rahul C. Kirloskar	Whole - Time Director
Rajendra R. Deshpande	Executive Director
Nihal G. Kulkarni	
U.V. Rao	
Pratap G. Pawar	
Hemendra M. Kothari	
R. Srinivasan	
Dr. Naushad D. Forbes	
M. Laxminarayan	
Anil N. Alawani	
Dattatraya R. Swar	

[w.e.f. 11 March 2011]

CHIEF FINANCIAL OFFICER

Sanjay D. Parande

ASSISTANT COMPANY SECRETARY

Ms. Smita A. Raichurkar

AUDITORS

M/s Dalal & Shah, Chartered Accountants

BANKERS

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

REGISTRAR & SHARE TRANSFER AGENT

Link Intime India Private 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, Nasik, Ahmednagar, Kagal, Rajkot and Silvassa

Information for shareholders**Annual General Meeting**

Date	:	Thursday, 21 July 2011
Time	:	11.30 A.M.
Venue	:	Hotel Le Meridien Raja Bahadur Mill Road, Pune - 411 001
Proposed Dividend	:	200% (Rs. 4 per share of Rs. 2 each)
Dates of Book Closure	:	14 July 2011 to 21 July 2011 (both days inclusive)

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Directors' Report

To the Members,

The Directors have the privilege of presenting the Second Annual Report of the Company for the year ended 31 March 2011.

LISTING OF COMPANY'S SHARES POST DEMERGER

After the scheme of arrangement for Demerger became effective on 31 March 2011, the Company filed an application with Bombay Stock Exchange Limited (BSE), Mumbai and National Stock Exchange of India Limited, (NSE) Mumbai for listing of 145,629,285 equity shares of Rs. 2/- each on 15 June 2010. After completing the necessary formalities, equity shares of the Company were permitted for listing and trading on BSE and NSE with effect from 24 December 2010.

Pursuant to the said Scheme, the fractional entitlements arising out of the issue of shares under the said Scheme were consolidated into 5,915 equity shares of Rs. 2 each. These shares were sold in the open market at an average price of Rs. 147.19. The Company is in the process of distributing the net sale proceeds (after deduction of the expenses incurred) to the members respectively entitled to the same in proportion to their fractional entitlements, as far as practicable along with the final dividend received on the said consolidated equity shares, for the period ended 31 March 2010.

FINANCIAL PERFORMANCE

(Rupees in 000's)

	2010-11	2009-10
Total Income	24,353,735	22,691,722
Total Expenditure	21,877,039	20,057,176
Profit before exceptional items & taxation	2,476,696	2,634,546
Exceptional (Income) / Expenses	37,253	Nil
Profit before taxation	2,439,443	2,634,546
Provision for tax (including Deferred Tax)	702,141	994,419
Net Profit	1,737,302	1,640,127
Surplus (After other adjustments)	2,534,148	1,640,127

Appropriations

Your Directors propose to appropriate the available surplus as follows:

(Rupees in 000's)

Particulars	2010-11	2009-10
Proposed Dividend	582,519	582,519
Corporate Tax on dividend	94,499	96,749
Transfer to General Reserve	173,800	164,013
Balance carried to Balance Sheet	1,683,330	796,846

Dividend

The Directors recommend a dividend of 200% (Rs.4/- per share) for the year.

WORLD ECONOMY

RBI has projected growth of global economy of 4.4% for the calendar year 2011 and 4.5% for 2012. The rising commodity prices and inflationary pressures would be the cause of concern for emerging and developing economies. It has also projected more than 30% rise in global crude oil prices during the calendar year 2011. This is a key downside risk to the growth of the global economy. Sovereign balance sheet risks in the Euro zone and dormant real estate markets have also been cited as downside risks to growth in advanced economies.

INDIAN ECONOMY

The Indian Economy continued to outperform most emerging markets during the year under review, retaining its position as the second fastest growing economy, after China, amongst the G-20 countries. The real GDP growth rate is estimated at 8.6%. The main impetus to the growth came from agriculture (growth of 5.7% as against 0.2% for the previous financial year) which benefitted from a normal monsoon, while industry (growth of 8.7% as against 6.4% for the previous financial year) and services (growth of 9.3% against 9.5% for the previous financial year) registered mild deceleration. The focus of the Indian Government during the current financial year will be towards infrastructure development as reflected in increased allocation of 48.5% of total plan allocation as against 23.3% for previous year. The Government also proposes to boost the share of manufacturing in economy from 16% to 25% over the next 10 years.

MANAGEMENT DISCUSSION & ANALYSIS

The operations of the Company comprise of Engines and Bearings business and operational performance review is carried out separately for these segments.

Industry Overview

While global economies are still recovering, Indian economy has comparatively shown a faster recovery. In the year under review, the Indian export sector has shown a growth of approx 50% in volume terms and 37% in value terms over the previous financial year. The engineering sector has significantly contributed to the growth in exports.

Growth of investment in agriculture and industries such as retail, hospitality, hospitals, IT, banking and infrastructure is evident in the current financial year. This generated a good demand for our engines, pump sets and generating sets. However due to continual increase in prices of crude oil, customers could also prefer alternate fuels for engines.

The growth of telecom Industry in India peaked in 2008-09. This was followed by a period during which the telecom companies separated the activity of telecom towers management into a separate business. The previous financial year saw consolidation of the tower management businesses. As a result of the consolidation, saturation of telecom density in the urban areas and less than expected growth in the rural areas, the demand for generating sets went down considerably. Other than the telecom industry, demand for generating sets for power generation has shown a steady growth. The competition for generating sets below 30kVA range has further intensified during the year under review.

Company Performance

During the year under review, your Company achieved sales of Rs. 2,363 Crs. (Previous Year Rs. 2,219 Crs.) resulting in increase in sales by 6.5 % over previous year.

The profit before tax is at Rs. 244 Crs. (Previous Year Rs. 263 Crs.) after providing for depreciation of Rs. 85 Crs. (Previous Year Rs. 84 Crs.)

Business wise analysis is presented below:

BUSINESS WISE OPERATIONAL PERFORMANCE

Your Company caters to the diverse needs of the customers from all the three sectors of economy namely Agriculture, Industrial and Services.

A. ENGINE BUSINESS

1. Agriculture & Off Highway Engine Business

While agriculture sector grew by 5.4% due to progressive governmental policies during the year under review, the Indian agriculture market for engines below 20HP shrunk by 15% in numbers, due to the delay in onset of monsoon and monsoon continuing through the sowing period. The market share was enhanced in the agriculture segment from 17% to 21% despite the drop in total market volume. A total of more than 76,000 engines were sold in the Agricultural market, out of which 30,000 were portable pump sets which were launched in the year 2008, despite facing competition from cheaper Indian and Chinese alternatives. High head portable pump sets were introduced for the agriculture market.

The growth of India's construction equipment industry is directly linked to the growth of the country's economy, since it is driven by increased investments in the infrastructure and related sectors. Construction equipment industry (primarily comprising of backhoe, crane and excavators etc., used in the Off Highway segment) has shown a growth of 20% during the year under review. In the Off Highway Market, the Company grew by 21% driven by robust domestic demand. Besides this, bulk supplies were started to new customers acquired in the previous financial year. Such supplies accounted for 10% of the total supply to the Off Highway Markets. The proactive measures resulted in enhancing its market share in the domestic market.

Your Company successfully geared up for the BS-III emission norms now applicable for Construction Equipment Vehicles [CEV], by migrating over 55 applications from BS-II to BS-III.

Overseas agriculture & Off Highway market also experienced revival in demand; especially in the West Asia & African markets. During the year under review, acquisition of a major OEM customer in South African mining market strengthened our market position. Internationally, Agriculture & Off Highway markets recovered during the year under review. The marketing strategy will address the demand in the focus markets and will also enable the Company and its business partners to tap the potential business in this market.

2. Power Generation Engine Business

The power generation business of the Company addresses the telecom and other industrial segments such as retail, banking, IT and telecom markets. During the year under review the domestic power generation market, except the telecom segment, experienced a revival in demand. Overall market, other than the telecom segment, grew by around 15%.

Your Company continuously innovates to bring down the life cycle cost of the products thereby providing value for money to our customers. The newly designed DV series of engines in the range of 320 kVA to 625 kVA were successfully launched in the domestic market. Our Research & Development is working on extending the range to 750 kVA.

New products were developed in the range of up to 160 kVA, which run on alternate energy sources like natural gas and bio gas.

The global economic meltdown seems to be easing up in the overseas markets served by the Company. Increased efforts in the overseas markets in the industrial segments resulted in acquisition of new customers, in Africa, Middle-East & South East Asia and the Indian sub continent. Company has increased its presence in key geographical locations in countries such as UAE, Nigeria, South Africa & Kenya.

3. Customer Support Business

Your Company has a widespread network of trained service dealers and well equipped service outlets all over India. The network enables us to respond to customer calls upto 50 km range within 4 hours and beyond 50 km range within 8 hours.

Growth was achieved in Agriculture Spares segment by increasing the number of parts distributors and increasing focus on availability of parts.

New initiatives and constant up-gradation of systems and procedures helped the Company in securing customer confidence and also gaining over 21% growth in spare parts sale over the previous year and also additional revenue generation through annual maintenance contracts with cellular operators as well as domestic customers.

4. Large Engine Business

During the year under review, engines were supplied for main propulsion application and for stationary power plant application. In the stationary power plant market segment, high fuel oil prices adversely affected new orders as well as operations of existing engines installed with the customers.

Commissioning of previously supplied engines on the naval vessel frigates built at Mazagaon docks was successful. Four generating sets, each of 3.6 MW rating, are successfully installed at the Kalpakkam Nuclear Power Plant, which are awaiting final commissioning.

5. Kagal Plant

During the year under review, in the fourth year of operation, the production of engines increased by 53% and production of generating sets increased by 15% over the previous year.

Generating sets of 400 kVA and 500 kVA using the new DV series engines were successfully manufactured.

15 Nos. of 500 kVA generating sets were supplied by our OEMs for powering the opening and closing ceremonies of the Common Wealth games at New Delhi.

Company successfully added 46 engine application codes to fulfill the needs of the Customers in Off Highway and Power Generation businesses.

2600 rpm portable pump sets were successfully manufactured within the existing set up.

Productivity improvements and measures for increasing flexibility in manufacturing processes were introduced to meet the fluctuating market demands.

6. Pune Plant

During the year under review, your Company has renovated and upgraded its manufacturing facilities. The plant renovation activity was completed successfully without affecting deliveries to customers. Due to this renovation, improvement is expected in labour and plant productivity.

The plant undertook proto, pilot and production batch proving of DV series of Engines. The Pune plant provided 106 new application codes including proto and pilot of BS-III compliant R1040, 4R810, 6R1080 and HA medium Engines. SL90 Engines with FM & UL certification were successfully handed over for commercial production.

During the year under review, 12 innovative low cost automation projects were completed and the plant achieved more than 8500 nos. of Kaizens.

The Quality circle from Pune plant was selected for excellent category in Quality Circle Contest at National level. It also bagged Silver trophy at international Quality Circle contest.

7. Rajkot Plant

During the year under review, the manufacturing capacity for engines was increased to 10,000 engines/ month.

The plant achieved BIS certification for 5HP to 8HP engines with N-series pumps

B. BEARINGS BUSINESS

The automobile industry continued to be buoyant and provided opportunities for growth in the business. During the year under review, the automobile sector grew at an average of 9%. The sales of the bearings division for the year under review amounted to Rs. 123 Crores, an increase of 15% over the previous year.

Market share increased to 36% of the OEM market and to 41% in the aftermarket. The after-market segment has grown significantly due to increase in vehicle population.

The Company has made adequate investment in technology, infrastructure and quality, which will enhance customer satisfaction.

C. RESEARCH AND ENGINEERING**1. New Products and Product Development**

Your Company strives to fill the product gaps by continuously developing new products and upgrading existing products. The solutions are being constantly optimized to minimize inputs and maximize outputs.

The Company has successfully launched K-1080 engine covering 140 to 160 kVA.

Two models of DV range are successfully handed over for commercial production to cover product ranges from 320 kVA to 625 kVA. Variants with speed of 1800 rpm are also under development.

New variant of portable pump set at 2600 rpm handed over to production to meet higher head requirements.

New applications have been developed for R-810 series engines which have been introduced in production.

An investment of more than Rs. 20 Crores was made in upgrading Research and Development facilities in view of upcoming stringent emission norms.

2. Emission

BS-III norms for construction equipment are effective from 1st April 2011. The company has developed cost effective and user-friendly solution and all the engines have been certified for these norms and proto samples were supplied to customers.

3. Alternate Fuels

During the year under review, the Company has developed CNG Generating sets up to 160kVA which have been successfully installed at different sites.

Company is actively pursuing the development of engines with bio-fuels like bio-gas and straight vegetable oils (SVO) in the range below 20HP.

D. INDUSTRIAL RELATIONS

The Company continues to maintain and improve its healthy and harmonious Industrial Relations.

Kirloskar Oil Engines Limited was selected jointly by Maratha Chamber of Commerce, Industries and Agriculture (MCCIA) and Rotary Club of Poona West, for their newly introduced "BEST EMPLOYEES RESPONSE AWARD" in large industry category, Pune.

Your Company's achievement of signing the 6th consecutive wage settlement in time and without losing even a single production man day in last 50 years (Considering Pre and Post Demerger period) was recognized by a major publication. This is a unique achievement for any manufacturing company in India.

Our Employees' health is of prime importance to the Company. Medical check-up of employees is carried out regularly. Company regularly conducts lectures on health, fitness, common ailments and diseases and life style improvement with a view to enhance employee awareness.

Development of employees is an important focus area for the company. Employees are encouraged to participate in programmes such as Out-Bound Training, team building, and also various sporting and cultural activities within and outside the Company.

E. ENVIRONMENT, OCCUPATIONAL HEALTH & SAFETY (EHS)

Environment

The Company continues to be recognized for its commitment towards the environment.

- Pune plant is certified for EMS, ISO 14001: 2004 (Environmental Management System), an international certification standard, since 1999.
- Pune plant is certified for OHSAS-18001:2007 (Occupational Health & Safety Management System), an international certification standard, since 2009.
- Kagal plant is certified for EMS, ISO 14001:2004 (Environmental) & OHSAS-18001:2007 (Occupational Health & Safety Management System) Integrated Management System, since 2009.
- At Kagal 2033 trees have been planted to protect the environment
- Nashik Plant is certified for EMS, ISO 14001:2004 (Environmental) & OHSAS-18001:2007 (Occupational Health & Safety Management System) Integrated Management System in Jan, 2010.
- A'Nagar Plant is certified for EMS, ISO 14001:2004 (Environmental) & OHSAS-18001:2007 (Occupational Health & Safety Management System) Integrated Management System in Jun, 2010.
- Implementation of Environmental (EMS) & OHSAS (Occupational Health & Safety Management System) is in process at Rajkot Plant.

EHS Improvements

Your Company's maiden Corporate Sustainability report for the year 2009-10, was released in the public domain on 7th March 2011. Kirloskar Oil Engines Limited is the first engine manufacturing company in India, to release this report and receive highest level check certification of A+ from Global Reporting Initiative (GRI), Netherlands. This rating testifies your Company's position as an environmentally conscious company, integrating business principles with sustainable development.

Kirloskar Oil Engines Limited has been honored with Parivartan Leadership Award for Sustainability-2011 in automotive sector. This award, organized by India Carbon Outlook, seeks to recognize Indian companies who have embraced sustainability in their business operations and supply chain. These companies have shown leadership by taking initiatives for making their products, processes and facilities sustainable.

In the year under review, following EHS improvement measures were implemented.

- Upgradation of paint booth in Pune plant to eliminate air and land pollution due to paint dust
- Systematic disposal of waste Glass wool (2.9 MT) & used Asbestos sheets (190 MT)
- Installation of transparent roof sheets for enhanced illumination level & use of natural day light in R-HA Machine shop & Tech Center.
- Installation of turbo vents for improved ventilation in Pune Plant.
- Initiated detailed study on Carbon foot print for all the plants

Based on the finding of Electrical Safety Audits conducted by National Safety Council (NSC) at Pune, Kagal, Nashik & Rajkot plants, detailed action plan is under implementation.