



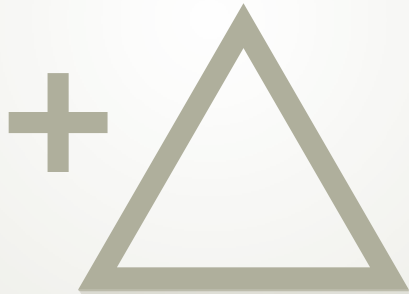
KIRLOSKAR OIL ENGINES LIMITED

Annual Report 2012-13

Enriching Lives

Decades of positive change





Positive Change!

It has been our reason to be, for decades now. And, it is this thought that has been the inspiration behind a gazillion smiles, across the globe.

Through critical engineering solutions across industries; be it the water that quenches thirst of millions across regions or keeps mega power plants cool, or the engines that power countless applications, generating sets that provide standby power from telecom to defence and the refrigeration that saves millions of tonnes of food stock - Kirloskar has been working reliably and efficiently to spread and earn more and more smiles.



Your company has brought about a positive change by:

- Setting a challenging and exciting Vision for the future
- Focusing on costs and efficiencies across the organization
- Forging new partnership and cementing the existing ones
- Enlarging the product portfolio and improving on offerings to the customers

To see how Kirloskar has enriched lives, watch Television Commercials at www.kirloskarsolutions.in



Annual Report for the financial year ended 31 March 2013

BOARD OF DIRECTORS

Atul C. Kirloskar	Executive Chairman
Gautam A. Kulkarni	Executive Vice Chairman
Nihal G. Kulkarni	Managing Director
Rajendra R. Deshpande	Executive Director
Rahul C. Kirloskar	
U.V. Rao	
Pratap G. Pawar	
R. Srinivasan	
Dr. Naushad D. Forbes	
M. Lakshminarayan	
Anil N. Alawani	
Dattatraya R. Swar	

CHIEF FINANCIAL OFFICER

T. Vinodkumar

ASSISTANT COMPANY SECRETARY

Smita A. Raichurkar

AUDITORS

M/s. P. G. Bhagwat, 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
Ph. No. 020 - 26161629 / 26160084

REGISTERED OFFICE

Laxmanrao Kirloskar Road, Khadki, Pune - 411 003
Ph. No. 020 - 25810341
www.koel.co.in

LOCATION OF FACTORIES

Pune, Nasik, Kagal and Rajkot

Information for shareholders

Annual General Meeting	
Date	: Thursday, 25 July 2013
Time	: 11.30 A.M.
Venue	: Hotel Le Meridien Raja Bahadur Mill Road, Pune – 411 001
Proposed Dividend	: 250% (₹ 5 per share of ₹ 2 each)
Dates of Book Closure	: 18 July 2013 to 25 July 2013 (both days inclusive)

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FINANCIALS AT A GLANCE

Particulars	₹ in Crs.			
	2012-13	2011-12	2010-11	2009-10
Net Sales	2319	2,276	2,364	2,219
Profit Before Tax	271	281	244	263
Profit After Tax	199	192	174	164
Dividend (%)	250	200	200	200
Dividend per share (₹)	5	4	4	4
Dividend Amount	72	58	58	58
Earning Per Share (₹)	14	13	12	11
Book Value Per Share (₹)	80	71	61	47
Share Capital	29	29	29	29
Reserves and Surplus	1125	1,004	860	651
Shareholders' Funds	1154	1,033	889	680
Loan Funds	0	169	249	270
Total Capital Employed	1154	1,202	1,138	950
Net Block	591	576	591	563



REPORT OF THE DIRECTORS

To,

The Members
of KIRLOSKAR OIL ENGINES LTD.,

The Directors are pleased to present the Fourth Annual Report together with the Audited Statement of Accounts for the year ended 31 March 2013.

Financial Highlights

A. Statement of Profit & Loss

(₹ in Crores)

Particulars	2012-13	2011-12
Total Revenue	2396.48	2362.54
Profit before exceptional and extraordinary items and tax	289.93	233.00
Exceptional Items	(19.08)	47.71
Profit before tax	270.85	280.71
Tax Expense (Current & Deferred Tax)	72.01	88.91
Profit for the Period	198.84	191.80

B. Appropriations

The Directors propose to appropriate the available surplus as follows:

(₹ in Crores)

Particulars	2012-13	2011-12
Proposed Dividend	72.31	58.25
Corporate Tax on Dividend	12.29	9.45
Transfer to General Reserve	19.88	19.18
Closing Balance of Statement of Profit & Loss	367.91	273.25

C. Borrowings and Capex

(₹ in Crores)

Particulars	2012-13	2011-12
Total borrowings	NIL	168.96
Cash and cash equivalents	24.78	27.39
Capital expenditure	121.53	106.46

D. Financial Ratios

Financial Ratios	2012-13	2011-12
Return on capital employed (%)	23.7	24.7
Book value per share (₹)	80	71
Diluted earnings per share (₹)	13.7	13.2
Dividend payout ratio (%)	42.54	35.3

Financial Performance

In an increasingly challenging environment and continuing material cost inflation, while sales increased marginally from ₹ 2,276 crores to ₹ 2,319 crores, the profit from operations (excluding exceptional items) rose from ₹ 233 crores to ₹ 290 crores, registering a good increase of 24%. This was made possible through a combination of rigorous cost restructuring and efficiency improvement programs that yielded good results and helped the Company maintain profitable growth in an otherwise difficult economic scenario.

Dividend

For the year under review, the Directors have recommend a dividend of 250% (₹ 5 per share) for the year. (PY 200%, ₹ 4 per share). Total dividend payout for the year is ₹ 84.60 crores, including payment of ₹ 12.29 crores, as dividend distribution tax.

Buyback of Equity Shares

The Board of Directors, in their meeting held on 25 January 2012, had approved a buyback of fully paid equity shares of the Company by open market purchases through the stock exchange route at a maximum price of ₹ 170 per equity share, with the aggregate buyback amount not exceeding ₹ 73.625 crores. This represents 10% of the total paid up capital and free reserves as per the latest audited balance sheet on 31 March 2011.

The Company has closed the buyback on 24 January 2013, after buying back 10,15,424 equity shares for a total consideration of ₹ 15.67 Crs (exclusive of transaction and other related costs), at an average price of ₹ 154.34 per Equity Share.

Directors

R. R. Deshpande, Rahul C. Kirloskar and D. R. Swar retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

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

Corporate Governance

Pursuant to Clause 49 of the Listing Agreement, the Management Discussion and Analysis and the Corporate Governance Report together with the Auditors Certificate on compliance with the conditions of Corporate Governance as laid down, forms part of this report.

Awards, Recognitions and Certifications

The manufacturing operations of the Company have always been recognized for its quality delivery and operational excellence. In recognition,

- The Engineering Export Promotion Council (EEPC) conferred the "Star Performer Award" to the Company for the fourth consecutive time. The award was presented by Hon'ble Chief Minister of Goa, Shri Manohar Parrikar in October 2012.
- The Company's Digvijay Quality Circle (Kagal Plant) won the Three Star award while the Lakshya and Utkarsh Quality Circles (Nashik plant) won the Two Star awards, conferred at an international level competition organized by the Malaysian Productivity Corporation, in Kula Lumpur.
- The Vijayshree Quality circle Team (Pune Plant) bagged the 2nd runner up prize at the INDIZEN -2013. INDIZEN-2013 was the 4th National convention on operational excellence, which was organized by the Indian Business unit of the Kaizen institute, who are the global leader in operational excellence.

Auditors

a. Statutory Auditors

The Statutory Auditors M/s. P. G. Bhagwat, Chartered Accountants, Pune (Firm Registration Number 101118W) hold office till the conclusion of the ensuing Annual General Meeting. It is proposed to re-appoint them as Statutory Auditors for the Company for the FY 2013-14. The members are requested to consider their re-appointment and authorize the Board of Directors to fix their remuneration. The Company has received a letter from them, stating that their appointment if made would be in conformity to section 224(1B) of the Companies Act, 1956.

b. Cost Auditors

Pursuant to the directives of the Ministry of Corporate affairs, your Company has appointed M/s. Parkhi Limaye & Co. as Cost Auditors of the Company under section 233B of the Companies Act, 1956.

c. Internal Auditors

The Internal Auditors M/s. Ernst and Young have conducted internal audits periodically and submitted their reports to the management and the Audit Committee. Their reports have been reviewed and addressed by the management and the Audit Committee.

**Directors' Responsibility Statement**

Pursuant to Section 217 (2AA) of the Companies Act, 1956, the Directors, based on the representations received from the Operating Management, confirm that:

- i. In preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures;
- ii. they have in the selection of the accounting policies, consulted the Statutory Auditors and have applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31 March, 2013 and of the profit of the Company for the year ended on that date;
- iii. they 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 assets of the Company and for preventing and detecting fraud and other irregularities; and
- iv. they have prepared the annual accounts on a going concern basis.

Listing Fees

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

Statutory Disclosures

Information relating to conservation of energy, technology absorption and foreign exchange earnings and outgo as required under section 217(1) (e) of the Companies Act, 1956 read with the rules there under is presented in Annexure A to this report.

As required under section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, a statement giving required information relating to the employees covered there under is given in Annexure B to this report. As per the provisions of section 219 (1) (b) (IV) of the said Act, these particulars will be made available to shareholders on request.

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 may differ materially from those either expressed or implied.

Acknowledgments

The Directors would like to place on record their appreciation of the contribution made and support provided to the Company by the shareholders, employees, bankers, suppliers and customers.

For and on behalf of the Board of Directors

ATUL C. KIRLOSKAR
Executive Chairman

Date : 26 April 2013
Place : Pune

ANNEXURE 'A' TO THE DIRECTORS' REPORT

A. Conservation of Energy

The Company is committed to optimizing use of energy in operations and also bring about continuous improvements in the efficiency of processes and products through use of energy efficient and renewable energy technologies.

In course of the year, following were some of the major initiatives implemented across Company's manufacturing plants:

■ Kagal Plant

1. Air Optimizer for compressed air circuit to maintain air pressure
2. Installation of VFD's for CNC machine coolant motors, paint shop blower motors
3. Replacement of old coolant pumps with low power Energy efficient pumps
4. Installation of Solar Steam Generator for Canteen cooking
5. LED Street Lighting
6. Power saving logic modification for HA and R1040 Crank Case line machines to stop conveyor during idle running
7. Use of one motor instead of two coolant motors by Logic modification
8. Main power and air supply cut off during idle runs for all Special purpose machines on Connecting Rod, HA and R1040 Cylinder Head lines
9. Construction of New office building with Energy Efficient VRV Air Conditioning System, Energy efficient LED and T5 Lightings, Maximum utilization of Daylight
10. Solar Lighting for Bio-gas plant
11. LED High-bay lighting for Genset plant expansion project

■ Pune Plant

1. Removal of the under loaded transformers with load shifted to other transformers to reduce transformer losses (SL90, Bearing shop)
2. Optimizing Lighting feeder voltage through voltage controlling system
3. Energy conservation by installing LED Street lights
4. Separate low pressure air grid for component cleaning application
5. Installation of timer in paint booth for degreasing pump in order to switch off pump during idle period
6. Reduction of energy by installing descaling unit to reciprocating compressor
7. Optimizing test cycle of various engines thereby reducing diesel consumption

■ Nashik Plant

1. Replacement of electromechanical system by electronic drives during reconditioning of Skoda machine
2. Conversion of Stress Relieving furnace from Diesel fired to Gas fired

■ Rajkot Plant

1. Installation of VFD drive for reciprocating compressor to save power
2. Installation of Single phase Servo Voltage Stabilizer for lighting system for entire plant
3. Improve water quality of compressor cooling by modification in water line to improve efficiency of heat exchanger in compressor
4. Installation of solar panel to use hot water on washing machine and minimize power utilization


Disclosure of Particulars with respect to Conservation of Energy
A. Power and fuel consumption

	Particulars	2012-13	2011-12
1	Electricity		
	A Purchased		
	Unit (kWh)	26552131	30179371
	Total Amount in ₹	207127512	205540444
	Rate/ Unit (₹ / kWh)	7.8	6.81
	B Own generation		
	i Through diesel generator		
	Unit (kWh)	330373	551446
	Units per ltr. of diesel oil (kWh/Lit) - HSD	2.63	2.63
	Cost/unit (₹/kWh) - HSD	19.81	16.71
	Units per ltr. of diesel oil (kWh/Lit) - FO	NA	NA
	Cost/unit (₹ / kWh) - FO	NA	NA
	ii Through steam turbine/generator		
	Unit (kWh)	NA	NA
	Units per ltr. of fuel oil/gas	NA	NA
	Cost/unit (₹/kWh)	NA	NA
2	Coal (specify quality and where used)		
	Quantity (tonnes)	NA	NA
	Total cost	NA	NA
	Average rate	NA	NA
3	i Furnace oil (Used for Power Generation)		
	Quantity (k. ltrs.)	46.91	46.94
	Total amount	1517538	1518509
	Average rate	32.35	32.35
	ii HSD (Used for engine testing & Power Generation)		
	Quantity (k. ltrs.)	1314.43	2151.95
	Total amount	65688547	95090416
	Average rate	49.97	44.19
4	Others (Natural Gas)		
	Quantity (SCM)	19979	NA
	Total cost	670162	NA
	Rate/unit	33.54	NA

B. Consumption per unit of production

Sr. No.	Particulars	2012-13	2011-12
	Product - Engines		
i	Total Production in BHP	6609846	6345175
ii	Electricity (KWH USED / BHP PRODUCED)	9.41	12.64

C. Technology Absorption

■ Research and Development

- i) Specific areas in which R&D carried out in the company
 - Development of 2 ratings, compliant with BS III norms
 - Development, NOX certification of 9 engines by IRS
 - 2 new models for Power Generation and Industrial applications
- ii) Benefit derived as a result of above R&D
 - New market segment of excavator & motor grader
 - New market segment of stand by Genset for marine / Navy applications in higher power range
 - New market coverage for Agro-industrial segment
- iii) Future plan for action
 - Develop new technologies for cost effective emission up gradation
 - Value engineering – up gradation of current product facilities
 - New applications like marine genset and main propulsion
- iv) Expenditure on R&D

(₹ in crores)

Sr. No.	Particulars	2012-13	2011-12
1	Revenue Expenditure	24.48	22.84
2	Capital Expenditure	2.95	7.20
3	Total	27.43	30.04
4	R&D expenditure as a percentage of Total Turnover	1.2%	1.3%

■ Technology absorption, adaptation and innovation

i. Efforts made towards technology absorption, adaptation and innovation

The Company is working closely with legislative bodies, industry associations, customers and suppliers to identify opportunities for design, development and improvements of products.

ii. Benefits derived and results of above efforts, product improvements, cost reduction, product development, import substitution etc.

- a. PG engines are being up-graded to meet strict emission norms expected in near future.
- b. Inline with world trend of downsizing, the Company launched K1080 series products in PG market which are fuel efficient.
- c. The Company was able to conceptualize a product in lower kVA rating and successfully launch in the PG market.

iii. Technology imported during the last 5 years

The Company entered into a license agreement with Daihatsu Diesel Manufacturing Co. Ltd., Japan, for the manufacture, marketing and supply of diesel engines in India in the range of 610 KW to 2560 KW.

iv. Foreign exchange earnings and outgoes

a. Activities undertaken to increase exports, development of new export markets and export plans

The Company actively undertakes various initiatives for brand building and generating product awareness by participating in regional as well as key international exhibitions and trade fairs. The Company also extensively advertises in key B2B regional trade magazines.

b. Total foreign exchange used and earned

(₹ in crores)

Total Foreign Exchange used & earned	2012-13	2011-12
Used	142.69	121.44
Earned	167.84	162.30