



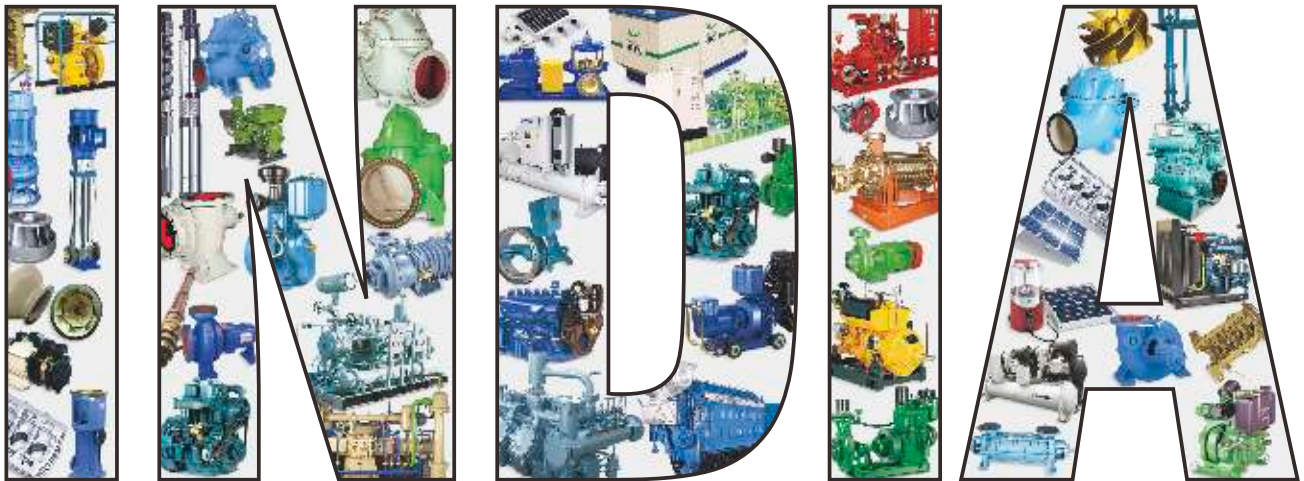
KIRLOSKAR OIL ENGINES LIMITED

A Kirloskar Group Company

ANNUAL REPORT 2014 - 2015

Enriching Lives

MAKING IN



SINCE 1910

It has always been a matter of great pride for us to be able to serve the world relentlessly through critical engineering solutions - made right here in India, since 1910. And with the 'Make in India' programme gaining momentum, there is greater emphasis on reforms, new initiatives and best-in-class manufacturing infrastructure.

With the winds of change blowing in India's favour, there's never been a better time for us to put India in the league of global champions. With innovative, indigenous offerings, we will ensure that the world continues to look at India with awe and admiration.



Your company is poised to make India proud with:

- Indigenously manufactured gensets ranging from 3 kVA to 1000 kVA
- Export of best in class engines, gensets and pumpsets to 40 countries across the world
- Farm mechanisation products like Mega T that enhance farmer productivity with affordable machinery
- Collaboration with international partners like MTU (a subsidiary of Rolls-Royce) to supply best in class gensets to government organisations like Nuclear Power Corporation of India Limited

BOARD OF DIRECTORS

Atul C. Kirloskar	Executive Chairman
Gautam A. Kulkarni	Executive Vice Chairman
Nihal G. Kulkarni	Managing Director
Rajendra R. Deshpande	Joint Managing Director (redesignated w.e.f. 29 April 2015)
Rahul C. Kirloskar	
Pratap G. Pawar	
R. Srinivasan	
Dr. Naushad D. Forbes	
M. Lakshminarayan	
Mahesh R. Chhabria	
Gauri Kirloskar	
U.V. Rao	(upto 24 January 2015)
Pradeep R. Rath	(w.e.f. 31 March 2015)

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	Contents	Page no.
Annual General Meeting	Financials at Glance	2
Date : Friday, 7 August 2015	Report of the Directors	3
Time : 11.30 A.M.	Management Discussion & Analysis	28
Venue : Hotel Le Meridien	Report on Corporate Governance	45
	Independent Auditors Report	59
Proposed Dividend : 250% (₹ 5 per share)	Balance Sheet	64
Dates of Book Closure : 1 August 2015 to 7 August 2015	Statement of Profit & Loss	65
(both days inclusive)	Cash Flow Statement	66
	Notes to Financial Statements	67

FINANCIALS AT A GLANCE

₹ in Crs.

Particulars	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10
Net Sales	2,473	2,287	2,320	2,276	2,364	2,219
Profit Before Tax	205	243	271	281	244	263
Profit After Tax	143	178	199	192	174	164
Dividend (%)	250	250	250	200	200	200
Dividend per share (₹)	5	5	5	4	4	4
Dividend Amount	72	72	72	58	58	58
Earning Per Share (₹)	10	12	14	13	12	11
Book Value Per Share (₹)	93	88	80	71	61	47
Share Capital	29	29	29	29	29	29
Reserves and Surplus	1,313	1,238	1,125	1,004	860	651
Shareholders' Funds	1,341	1,267	1,154	1,033	889	680
Loan Funds	-	-	-	169	249	270
Total Capital Employed	1,341	1,267	1,154	1,202	1,138	950
Net Block	514	543	591	576	591	563

Green Initiative - Go Paperless!!!

Dear Shareholder(s),

The Ministry of Corporate Affairs and Securities and Exchange Board of India (SEBI) has permitted the Companies to serve the documents viz. Annual Reports, Notice of general meetings/ postal ballot, any other shareholders' communication etc. to the members through the electronic mode. Your Company, is also dedicated in preserving and protecting the environment, and has been continuously seeking opportunities to reduce and conserve resources and minimize waste. To participate in this green initiative, you are requested to

- Register your email addresses to ensure prompt receipt of communication and avoid any loss during postal transit
- Convert your shares held in physical mode into dematerialized mode to ensure safe and speedy transaction in securities
- Register your NECS facility (National Electronic Clearing System) for crediting your Dividend directly to your Bank Account.

Note :

- In case of holding shares in physical mode contact the Company or Registrar and Share Transfer Agent of the Company viz. Link Intime India Private Limited .
- In case of holding shares in dematerialized mode contact your Depository Participant.
- For more details visit Investors Relations Section on Company's website : www.koel.co.in

REPORT OF THE DIRECTORS

To The Members
of KIRLOSKAR OIL ENGINES LTD.,

The Directors are pleased to present the Sixth Annual Report together with the Audited Statement of Accounts for the year ended 31 March 2015.

Financial Highlights

(₹ in Crores)

Particulars	2014-15	2013-14
Total Revenue	2,566.04	2,357.04
Profit before exceptional and extraordinary items and tax	205.43	243.44
Exceptional Items	—	—
Profit before tax	205.43	243.44
Tax Expense (Current & Deferred Tax)	62.29	64.99
Net Profit for the Period	143.14	178.45
Profit Brought Forward	443.91	367.91
Profit Available for Appropriation	587.05	546.36
Transfer to General Reserve	14.31	17.85
Other Appropriations	4.96	—
Dividend (including proposed final dividend) and dividend distribution tax	87.03	84.60
Balance of the Profit carried forward	480.75	443.91

Financial Performance

Despite the challenging macro economic environment, the net revenue from operations of the Company witnessed an increase of 8% and rose from ₹ 2319 crores in the previous fiscal to ₹ 2507 crores. Profit from operations (before exceptional items) was ₹ 205 crores as against ₹ 243 crores in the previous year. The Profit After Tax was ₹ 143 crores as against ₹ 178 crores in the previous year.

Dividend

For the year under review, the Directors have recommended a dividend of 250% (₹ 5 per share) for the year (PY 250%, ₹ 5 per share). Total dividend payout for the year is ₹ 87.03 crores, including payment of ₹ 14.72 crores, as dividend distribution tax.

Directors

U.V. Rao, who served on your Company's Board for 19 years (pre and post demerger), passed away on 24 January 2015 and consequently ceased to be a director of the Company. Your Directors placed on record appreciation of the services rendered by him during his tenure as Director of the Company.

Based on the recommendation of Nomination and Remuneration Committee, the Board of Directors of the Company in its meeting held on 19 March 2015, re-appointed Rajendra R. Deshpande as the Whole Time Director and also re-designated him as Joint Managing Director for a term of 3 years with effect from 29 April

2015. A proposal for his re-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 ensuing Annual General Meeting.

Pursuant to Section 161 of the Companies Act, 2013, read with Articles of Association of the Company, Pradeep R. Rathi was appointed as an Additional Director with effect from 31 March 2015 and he shall hold office of Director up to the date of the ensuing Annual General Meeting of the Company. As per provisions of Section 149 and other applicable provisions of Companies Act, 2013, and rules thereof, your Directors are seeking appointment of Pradeep R. Rathi as an Independent Director in the ensuing Annual General Meeting. The Company has received requisite notice in writing from a member proposing his candidature for office of Director.

Gauri Kirloskar who retires by rotation at the ensuing Annual General Meeting and being eligible, offers herself for re-appointment.

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 Notice of Annual General Meeting.

All Independent Directors of the Company have given declarations that they meet the criteria of independence as laid down under Section 149(6) of the Companies Act, 2013 and Clause 49 of the Listing Agreement.

Key Managerial Personnel

During the year under review, Atul C. Kirloskar, Executive Chairman, Gautam A. Kulkarni, Executive Vice Chairman, Nihal G. Kulkarni, Managing Director, Rajendra R. Deshpande, Joint Managing Director, T. Vinodkumar, Chief Financial Officer and Smita Raichurkar, Company Secretary designated as Asst. Company Secretary are appointed as Key Managerial Personnel of the Company.

Number of meetings of the Board

During period under review, seven (7) Board Meetings were held, the details of which forms part of Corporate Governance Report.

Board Evaluation

Pursuant to the provisions of the Companies Act, 2013 and revised Clause 49 of the Listing Agreement, the Board has carried out an annual performance evaluation of its own performance, the directors individually as well as the evaluation of the working of its Committees. The manner in which the evaluation has been carried out has been explained in the Corporate Governance Report.

Composition of Audit Committee

The Composition of the Audit Committee forms part of Corporate Governance Report.

Nomination and Remuneration Policy

The Board has, on the recommendation of the Nomination and Remuneration Committee framed a policy for selection and appointment of Directors, Key Managerial Personnel, Senior Management and their remuneration. Nomination and Remuneration Policy is available on Company's website, www.koel.co.in. The Nomination and Remuneration Policy is annexed herewith as **Annexure A**.

Corporate Governance

The Company has complied with the requirements of Corporate Governance, as prescribed under Clause 49 of

the Listing Agreement. The Management Discussion and Analysis and the Corporate Governance Report form part of this report, together with a Certificate from the Statutory Auditors, confirming the requisite compliance.

Awards, Recognitions and Certifications

Your Company's thrust towards excellence continued unabated. Some of the recognitions received for our relentless efforts of quality delivery and operational excellence included :

- The Engineering Export Promotion Council (EEPC) conferred the 'Star Performance Award' to the Company for the sixth consecutive year. The award was presented by Smt. Anandiben Patel, Hon'ble Chief Minister of Gujarat.
- The Company's Agri Crop Irrigation Business has been awarded for 'Integrated Rural Marketing Campaign' for its Jack Trout campaign across India. This award was presented in Rural Marketing Forum organized by Asia Retail Congress held at Mumbai.
- The Company's Agri Farm Mechanisation Business has been awarded for 'Innovation ideas for Rural Developement' for Mega T (Power Tiller). This award was presented in Rural Marketing Forum organized by Asia Retail Congress held at Mumbai. Mega T (Power Tiller) also bagged Golden Award for its excellent graphics at SGIA Golden Image competition held at Las Vegas and "Breakthrough Product Innovation" in R&D category by AIMA Innovation Practitioners Summit 2015-Delhi.
- Pragati, Akshay and Yantra Quality Circle won "Par Excellent Award" at NCQC National Level and also bagged Gold Award at QCFI PUNE Chapter in Quality Circle and allied concept Competition.

Composite Scheme of Arrangement and Amalgamation

The Board of Directors, based on recommendation of the Audit Committee, in its meeting held on 2 September 2014, had approved the Composite Scheme of Arrangement and Amalgamation between Kirloskar Brothers Investments Limited (KBIL - Transferor Company), Pneumatic Holdings Limited (PHL - Resulting Company) and Kirloskar Oil Engines Limited (KOEL - Transferee Company) and their respective shareholders and creditors under Section 391 to 394 and other relevant Sections of the Companies Act, 1956, and relevant Sections of the Companies Act, 2013, to the extent applicable. The Scheme was approved by public shareholders of the Company through Postal Ballot on 17 February 2015 pursuant to circulars of SEBI issued in this behalf and by the equity shareholders of the Company by the Court convened meeting held on 18 February 2015. The petition in this matter for seeking sanction of the Scheme has been filed before the Hon'ble Bombay High Court bearing CSP No. 161 of 2015. The hearing on said petition held concluded on 30 April 2015 and an order of the Hon'ble Bombay High Court is awaited till date.

Auditors

a. Statutory Auditors

The Company's Auditors M/s. P. G. Bhagwat, Chartered Accountants, Pune (Firm Registration Number 101118W) hold office for term of two years till the conclusion of the Annual General Meeting to be held for Financial Year 2016-17, subject to ratification at every Annual General Meeting. It is proposed to ratify their reappointment as Statutory Auditors of the Company for Financial Year 2015-16. The members are requested to ratify their re-appointment and authorize the Board of Directors to fix their remuneration. The Company has received requisite certificate pursuant to Section 139 of the Companies Act, 2013.

There are no adverse remarks/qualifications of Statutory Auditors on financial statements for the year ended 31 March 2015.

b. Cost Auditors

Your Company has appointed M/s. Parkhi Limaye & Co. as Cost Auditors of the Company for the Financial Year 2015-16 under section 148 of the Companies Act, 2013 and rules thereof.

c. Secretarial Audit

Your Company has appointed Mr. M. J. Risbud, Practicing Company Secretary to conduct Secretarial Audit of the Company for the Financial Year 2015-16 under section 204 of the Companies Act, 2013 and the rules thereof. The Secretarial Audit Report is annexed herewith as **Annexure B**.

There are no adverse remarks/qualifications of Secretarial Auditors in the Secretarial Audit Report for the year ended 31 March 2015.

Extract of Annual Return

The details forming part of the extract of the Annual Return in form MGT 9 is annexed herewith as **Annexure C**.

Particulars of Loans, guarantees or investments

Details of Loans, Guarantees and Investments covered under the provisions of section 186 of the Companies Act, 2013 are given in the notes to the Financial Statements.

Details of CSR Policy and activities undertaken

Your Company has always believed that as part of good Corporate citizenship, we must work for the betterment and upliftment of the society. Hence Corporate Social Responsibility (CSR) has been practiced and engrained over the years in KOEL. In light of the recent amendments to the Companies Act, 2013 your Company has constituted a Corporate Social Responsibility Committee and has framed a CSR Policy. The composition of CSR Committee forms part of Corporate Governance Report. The areas of focus under CSR has remained the same over the years and include : Health, Education, Environment and Livelihood. Projects undertaken are in accordance with Schedule VII of the Companies Act, 2013 and rules thereof. The Company will continue to support social projects that are consistent with the policy. The Report on CSR activities is annexed herewith as **Annexure D**.

Vigil Mechanism/Whistle Blower Policy

The Company has a Whistle Blower Policy to deal with instances of fraud, unethical behavior, mismanagement etc. The details of the Whistle Blower Policy is uploaded on the website www.koel.co.in

Public Deposits

There are no public deposits accepted by the Company pursuant to provisions of the Companies Act, 2013, during financial year ended 31 March 2015.

Details of orders passed by regulators/courts

There are no significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and Company's operations in future.

Amount proposed to be carried to Reserves

Particulars of the amounts proposed to be carried to reserves have been covered as part of the Financial Highlights of the Company.

Particulars of Related Party Transactions

All related party transactions that were entered into during the financial year 2014-15 were on an arm's length basis and were in the ordinary course of business. There are no materially significant related party transactions made by the Company with related parties which may have a potential conflict with the interest of the Company at large. All Related Party Transactions are placed before the Audit Committee as also the Board for approval.

The policy on Related Party Transactions as approved by the Board is uploaded on the Company's website www.koel.co.in under investor relations section.

Directors' Responsibility Statement

Pursuant to Section 134 of the Companies Act, 2013, 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 2015 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, 2013, for safeguarding assets of the Company and for preventing and detecting fraud and other irregularities;
- iv. they have prepared the annual accounts on a going concern basis;
- v. they have laid down internal financial controls to be followed by the Company and such internal financial controls are adequate and operating effectively; and
- vi. they have devised proper systems to ensure compliance with provisions of all applicable laws and such systems are adequate and operating effectively.

Listing Fees

The annual listing fees for the year under review has been paid to the BSE Limited, and to the National Stock Exchange of India Limited, in 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 134 (3)(m) of the Companies Act, 2013, read with the rules there under is annexed herewith as **Annexure E**.

Information forming part of the Directors' Report pursuant to rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

The relevant information pursuant to rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules 2014, is annexed herewith as **Annexure F**.

Particulars of Employees

The particulars of employees pursuant to section 197 of the Companies Act, 2013 read with rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, form part of this report as **Annexure G**. In terms of Section 136 (1) of the Companies Act, 2013, the Directors' report is being sent to the

shareholders without this Annexure. Shareholders interested in obtaining a copy of this annexure may write to the Company Secretary at the Company's registered office.

Risk Management & Internal Controls

- **Risk Management**

The Company has a robust Enterprise Risk Management (ERM) framework that helps to identify, evaluate and eventually mitigate risks, both at the business and Enterprise level. The ERM process is led by the Chief Internal Auditor of the Company. The Company's ERM process is IT enabled and supports bottom-up risk assessments, with status reports and summary of assessment reports. Risk registers and mitigation plans are maintained within the system.

Risk management forms an integral part of the Company's Strategic Planning Process and identified risks and opportunities are used as inputs whilst developing the strategy and business plans. The Company strives to identify opportunities that enhance organizational values while managing or mitigating risks that can adversely impact its future performance. Enterprise risks presented by the management are reviewed by the Audit Committee and Board on a periodic basis.

- **The details in respect of adequacy of internal financial controls with reference to the Financial Statements**

The Company has an Internal Control System, commensurate with the size, scale and complexity of its operations. The Internal Audit Department (IAD) works on a co-sourced model together with a leading audit firm to perform internal audits on a continuous basis. Internal audits are carried out based on a comprehensive risk based audit plan, which is approved by the Audit Committee. The scope and authority of the Internal Audit (IA) function is defined in the Internal Audit Charter.

The IAD monitors and evaluates the efficacy and adequacy of internal control system in the Company, its compliance with operating systems, accounting procedures and policies at all locations of the Company. Based on the report of internal audit function, process owners undertake corrective action in their respective areas and thereby strengthen the controls. Significant audit observations and corrective actions thereon are presented to the Audit Committee of the Board.

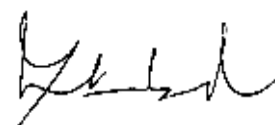
Cautionary Statement

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: 8 May 2015

Place: Pune