



KIRLOSKAR OIL ENGINES LIMITED

A Kirloskar Group Company

ANNUAL REPORT 2016 - 2017

Enriching Lives

We're all ears.

For more than a century, we've been listening to our customers. Now with the advent of smart technology, we can listen to our products and respond in real time to ensure a seamless customer experience. We've always fostered a culture of listening and customer-centricity has been at the core of everything we do. We are glad that this new ability to listen to our products will empower us to provide proactive support and set a new benchmark for customer satisfaction.

Your company is harnessing smart technology by:

- Being the first Indian company to offer gensets with Remote Monitoring System.
- Providing an IT platform that seamlessly links our customers with our front-end sales and service channel.
- Introducing 'Mega T' Power Tiller, which has won several awards for innovation and design including the CII Innovation Award and the globally renowned Japanese Good Design Award 2016, to meet the needs of small and medium-sized Indian farms.
- Deploying AGRIFAST - a digital platform connecting a wide network of 500 distributors and 25,000 retailers on a real-time basis, for efficient distribution.
- Collaborating with acclaimed companies like M/s MTU, Germany and M/s ABC, Belgium to foray into engines above 2000 HP for Nuclear Power Corporation, Railways and Power Plant business.

**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
Rahul C. Kirloskar	
Pratap G. Pawar	
R. Srinivasan	
M. Lakshminarayan	
Mahesh R. Chhabria	
Gauri Kirloskar	
Pradeep R. Rath	
Vinesh Kumar Jairath	
Satish N. Jamdar	Additional Director (co-opted w.e.f. 10 May 2017)

CHIEF FINANCIAL OFFICER

T. Vinodkumar

COMPANY SECRETARY

Smita 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

CIN: L29120PN2009PLC133351

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Venue : Hotel Sheraton Grand (formerly Le Meridien), Raja Bahadur Mill Road, Pune - 411 001	Report on Corporate Governance	49
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FINANCIALS AT A GLANCE

₹ in Crs.

Particulars	Ind AS		Indian GAAP					
	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10
Sales	2,818*	2,587*	2,473	2,287	2,320	2,276	2,364	2,219
Profit Before Tax	252	205	205	243	271	281	244	263
Profit After Tax	174	165	143	178	199	192	174	164
Dividend (%)	250	250	250	250	250	200	200	200
Dividend per share (₹)	5	5	5	5	5	4	4	4
Dividend Amount	72	72	72	72	72	58	58	58
Earning Per Share (₹)	12	11	10	12	14	13	12	11
Book Value Per Share (₹)	112	100	93	88	80	71	61	47
Share Capital	29	29	29	29	29	29	29	29
Reserves and Surplus	1,588	1,415	1,313	1,238	1,125	1,004	860	651
Shareholders' Funds	1,617	1,444	1,341	1,267	1,154	1,033	889	680
Loan Funds	12	7	-	-	-	169	249	270
Total Capital Employed	1,629	1,451	1,341	1,267	1,154	1,202	1,138	950
Net Block	440	477	514	543	591	576	591	563

Note : The company transitioned into Ind AS from 1 April 2015.

* Sales include excise duty collected from customers of ₹ 205 Crs. (Previous year ₹ 181 Crs.).

Sales net of excise duty is ₹ 2,614 Crs. (Previous year ₹ 2,406 Crs.).

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 LIMITED

The Directors are pleased to present the Eighth Annual Report together with the Audited Statement of Accounts for the year ended 31 March 2017.

FINANCIAL RESULTS (STANDALONE)

(₹ in crores)

Particulars	2016-17	2015-16
Total Income	2,960.18	2,718.37
Profit before exceptional items and tax	252.30	230.46
Exceptional Items	-	25.48
Profit before tax	252.30	204.98
Tax Expense (Current & Deferred Tax)	78.68	39.67
Net Profit for the Period	173.62	165.31
Other Comprehensive Income	(0.58)	(0.10)
Total Comprehensive Income for the year, net of tax	173.04	165.21
Profit Brought Forward	806.15	815.83
Add: Net surplus in the statement of Profit & Loss balance of residuals undertaking of Kirloskar Brothers Investments Limited, transferred under Composite Scheme Arrangement and Amalgamation	-	13.20
Profit Available for Appropriation	979.20	994.25
Transfer to General Reserve	-	14.05
Dividend and dividend distribution tax	-	174.05
Balance of the Profit carried forward	979.20	806.15

COMPANY'S FINANCIAL PERFORMANCE

Despite an extremely challenging macroeconomic environment, your Company posted its highest net sales of ₹ 2614 crores as compared to the previous fiscal of ₹ 2406 crores. An increase of 9%. Profit from operations (before exceptional items) was ₹ 252 crores as against ₹ 230 crores in the previous year. The Profit After Tax was ₹ 174 crores as against ₹ 165 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 Interim Dividend 250%, ₹ 5 per share). Total dividend payout for the year will be ₹ 87.03 crores, including payment of ₹ 14.72 crores, as dividend distribution tax.

SUBSIDIARY COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS

KOEL Americas Corp., USA was established in 2015 with a strategic intent to penetrate into the North American market including USA and Canada as well as focus on the Latin American region.

The revenues of KOEL Americas Corp. during fiscal year under review represents sale of fire pumps in United States of America (USA) and sale of Agri engines, Pumpsets, diesel engines and generators in Latin America. The FMUL Listed Engines for firefighting application represents 1/3rd of total revenues of KOEL Americas Corp.

KOEL Americas Corp. continues to explore new potential business partners for different products of order to expand its business operations.

To sell diesel engines in North America, an Environment Protection Agency (EPA) approval is required. KOEL Americas Corp. is in the process of obtaining the same.

For the fiscal year ended 31 March 2017, the Sales Revenue was \$ 15,98,629 (₹ 10.71 Crs.). Profit from operations before Tax was \$ 64,599 (₹ 0.36 Crs.). The Profit after Tax was \$ 50,836 (₹ 0.27 Crs.).

The consolidated financial statements of the Company and its subsidiary, prepared in accordance with Ind-AS 110, issued by Institute of Chartered Accountants of India, forms part of this Annual Report. A statement containing the salient features of the financial statements of the subsidiary company is attached to the Financial Statements of the Company in Form AOC-1.

Pursuant to the provisions of Section 136 of the Companies Act, 2013, the financial statements of the Company, consolidated financial statements along with relevant documents and separate un-audited financial statements of its subsidiary are available on the Company's website.

The annual accounts of the subsidiary and related detailed information will be kept for inspection by any shareholders at the Registered Office of the Company and will also be made available to the shareholders on demand, at any point of time.

DIRECTORS**a) Changes in Composition of the Board of Directors**

During the year under review, the Board of Directors of the Company in its meeting held on 21 October 2016, re-appointed Mr. Atul C. Kirloskar as the Whole Time Director with designation as the Executive Chairman, for a term of 5 years with effect from 26 January 2017. A proposal for his re-appointment as the Executive Chairman and remuneration payable to him is being placed before the Members of the Company for their approval at the ensuing Annual General Meeting.

The Board of Directors of the Company in its meeting held on 21 October 2016, also re-appointed Mr. Gautam A. Kulkarni as the Whole Time Director with designation as Executive Vice Chairman for a term of 5 years with effect from 26 January 2017. A proposal for his re-appointment as the Executive Vice Chairman and remuneration payable to him is being placed before the Members of the Company for their approval at the ensuing Annual General Meeting.

The Board of Directors of the Company in its meeting held on 21 October 2016, also re-appointed Mr. Nihal G. Kulkarni as the Managing Director for a term of 5 years with effect from 26 January 2017. A proposal for his re-appointment as the 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.

In compliance with Section 149 of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Board of Directors of the Company appointed Mr. Satish N. Jamdar as Additional Director of the Company in the capacity of "Non-Executive Independent Director" effective 10 May 2017. In accordance with Section 161 of the Companies Act, 2013, he will hold office of Director up to date of ensuing Annual General Meeting. The Company has received requisite notice in writing from a member proposing his candidature for office of Director. The resolution



seeking approval of the Members for the appointment of Mr. Satish N. Jamdar for a term of 5 years, has been incorporated in the notice of the forthcoming Annual General Meeting of the Company.

In compliance with Section 149 of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Board of Directors of the Company re-appointed Mr. R. Srinivasan as “Non-Executive Independent Director” effective 12 August 2017. The Company has received requisite notice in writing from a member proposing his candidature for office of Director. The resolution seeking approval of the Members by special resolution for the re-appointment of Mr. R. Srinivasan for a second term of 5 consecutive years, has been incorporated in the notice of the forthcoming Annual General Meeting of the Company.

Mr. Rahul C. Kirloskar retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself 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 SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, forms part of the Notice of Annual General Meeting.

b) Changes in Key Managerial Personnel

During the year under review, Mr. Atul C. Kirloskar, Executive Chairman, Mr. Gautam A. Kulkarni, Executive Vice Chairman and Mr. Nihal G. Kulkarni, Managing Director, were re-appointed as Key Managerial Personnel of the Company, with effect from 26 January 2017.

The present term of Mr. T. Vinodkumar as Chief Financial Officer and Key Managerial Personnel is upto 31 January 2018 as per retirement policy of the Company. His service as Chief Financial Officer and Key Managerial Personnel is being extended by 2 years with effect from 1 February 2018.

c) Declarations from the Independent Directors

The Company has received declarations from all the Independent Directors of the Company confirming that they meet the criteria of independence as prescribed under Section 149 (6) of the Companies Act, 2013 and Regulation 16(1)(b) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

d) Board Evaluation

In continuation of the process laid down in the previous year, members of the Board carried out a formal review for evaluating the performance and effectiveness of the Board, Committees of the Board and of the individual directors including the Chairman of the Board.

The performance of the Board was evaluated on the basis of criteria such as the board composition and structure, effectiveness of Board processes, participation in organization strategy including Long Range Plan and Annual Operating Plan, inorganic growth opportunity evaluation, Enterprise Risk Management etc.

Using appropriate criteria the performance of the various Committees was separately evaluated by the Board.

In a separate meeting of Independent Directors, performance of non-independent directors, performance of the Board as a whole and performance of the Chairman, taking into account the views of executive directors and non-executive directors, were evaluated.

A separate exercise was carried out to evaluate the performance of individual Directors including the Chairman of the Board, who were evaluated on parameters such as achievement against key performance objectives, attendance at meetings, time devoted for the Company, contribution in the Board process etc.

The Chairman of the Board and the Chairman of Nomination and Remuneration Committee had one-on-one meetings with the Directors. These meetings were intended to obtain Directors' inputs on effectiveness of the Board/Committee processes.

e) Nomination and Remuneration Policy

The Board of Directors on the recommendation of the Nomination & Remuneration Committee has adopted a policy that lays guidelines for selection and appointment of Directors, Key Managerial Personnel and Senior Management personnel together with their remuneration. The Nomination and Remuneration Policy is annexed herewith as **Annexure A**.

f) Number of meetings of the Board

During the period under review, five (5) Board Meetings were held, the details of which forms part of Report on Corporate Governance.

g) Composition of Audit Committee

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

PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS

During the year under review, the Company has invested in equity shares of S L Kirloskar CSR Foundation. The details of which are given in the Financial Statements. The Company has not granted any Loans and Guarantees covered under Section 186 of the Companies Act, 2013.

PARTICULARS OF CONTRACTS OR ARRANGEMENTS WITH RELATED PARTIES

All related party transactions that were entered into during the Financial Year 2016-17 were on an arm's length basis and were in the ordinary course of business. Hence, there are no transactions to be reported in Form AOC-2. None of the related party transactions entered into by the Company, were materially significant, warranting members' approval under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. All Related Party Transactions are routinely placed before the Audit Committee for approval after being duly certified by the Statutory Auditors.

The policy on Related Party Transactions as adopted by the Board is uploaded on the Company's website.

The disclosures as per IND-AS 24 for transactions with related parties are provided in the Financial Statements of the Company.

RISK MANAGEMENT FRAMEWORK

The risk management process is embedded in the organization's working methodologies and decision making process and is aligned to the Company's Strategic Planning Process. The process involves identification, evaluation, mitigation and review of risks and opportunities both at business and enterprise level.

The risk management process is owned by the Internal Audit Department and is a comprehensive process that ensures coverage of major strategic, people related, environmental, economic and operational risks that could possibly derail achievement of the Company's objectives and goals.

Risk owners, identified for each risk, prepare detailed mitigation plans which are formulated based on projects undertaken and in line with the Company's goals, both short and long term. The enterprise risks and mitigation plans are reviewed by the Audit Committee and Board periodically.

The business risks are managed through cross functional teams from across businesses. These are reviewed by the business heads at periodic intervals.

INTERNAL FINANCIAL CONTROLS WITH REFERENCE TO THE FINANCIAL STATEMENTS

The Company has an Internal Control Framework which is commensurate with the size, scale and complexity of its operations. Details of internal financial control and its adequacy are included in the Management Discussion and Analysis Report, which forms part of this Report.



CORPORATE SOCIAL RESPONSIBILITY

The Company has always believed in working for the betterment and upliftment of the society. Corporate Social Responsibility (CSR) has been practiced and engrained over the years in the Company. The focus areas under CSR have remained consistent over the years and include: Health, Education and Environment. The Company strongly believes in 'Enriching Lives' of the people surrounding the communities in which it operates.

The Composition of CSR Committee of the Board and Report on CSR activities is annexed herewith as **Annexure B**.

VIGIL MECHANISM / WHISTLE BLOWER POLICY

The Company has a Vigil Mechanism / Whistle Blower Policy to deal with instances of fraud, unethical behavior, mismanagement etc. The Policy provides a mechanism for employees of the Company and other persons dealing with the Company to report to the Chairman of the Audit Committee any instance of unethical behaviour, actual or suspected fraud or violation of the Company's code of conduct. No person has been denied access to the Audit Committee in this regard. The Policy is uploaded on the Company's website.

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**.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE AND OUTGO

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, are provided in **Annexure D** to this report.

PARTICULARS OF EMPLOYEES

Disclosures pertaining to remuneration and other details as required under Section 197(12) of the Companies Act, 2013 read with Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, are annexed in **Annexure E** of this report.

The particulars of employees pursuant to section 197(12) of the Companies Act, 2013 read with Rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, form part of this report. In terms of Section 136 (1) of the Companies Act, 2013, the Directors' report is being sent to the shareholders without this Annexure. The Shareholders interested in obtaining a copy of this annexure may write to the Company Secretary at the Company's registered office.

POLICY ON PREVENTION OF SEXUAL HARASSMENT

The Company has in place a Policy for prevention of sexual harassment at workplace. This inter alia provides a mechanism for the resolution, settlement or prosecution of acts or instances of Sexual Harassment at work and ensures that all employees are treated with respect and dignity. There were no complaints filed / pending with the Company during the year.

GENERAL

During Financial Year 2016-17

- a. There were no public deposits accepted by the Company pursuant to provisions of the Companies Act, 2013, including rules thereunder.

- b. There were no significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and Company's operations in future.
- c. Neither the Managing Director nor the Whole-time Directors of the Company received any remuneration or commission from subsidiary.

AUDITORS

a) Statutory Auditors

The members of the Company in its meeting held on 5 August 2016, re-appointed M/s. P. G. Bhagwat, Chartered Accountants, Pune, (Firm Registration Number 101118W) as Statutory Auditors of the Company for a second term of 5 consecutive years to hold office from conclusion of the Annual General Meeting held on 5 August 2016, till the conclusion of the Annual General Meeting to be held in the year 2021, subject to ratification at every Annual General Meeting.

It is proposed to ratify their re-appointment as Statutory Auditors of the Company for FY 2017-18. The members are requested to ratify their re-appointment and authorize the Board of Directors to fix their remuneration. The Company has received from them, the 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 2017.

b) Cost Auditors

The Company has appointed M/s. Parkhi Limaye & Co. as Cost Auditors of the Company for the Financial Year 2017-18 under section 148 of the Companies Act, 2013 and rules thereof.

c) Secretarial Audit Report

The Company has appointed Mr. M. J. Risbud, Practicing Company Secretary to conduct Secretarial Audit of the Company for the Financial Year 2017-18 under section 204 of the Companies Act, 2013 and the rules thereof. The Secretarial Audit Report is annexed herewith as **Annexure F**.

There are no adverse remarks / qualifications of Secretarial Auditors in the Secretarial Audit Report for the year ended 31 March 2017.

MANAGEMENT DISCUSSION & ANALYSIS AND REPORT ON CORPORATE GOVERNANCE

The Management Discussion and Analysis and the Report on Corporate Governance as required under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, forms part of this Annual report.

A Certificate from the Statutory Auditors of the Company regarding compliance with conditions of corporate governance as required under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, also forms part of this Annual Report.

BUSINESS RESPONSIBILITY REPORT

The Business Responsibility Report as required under Regulation 34 (2) (f) of SEBI (Listing Obligations and Disclosure Requirements), forms part of this Annual Report.

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:

- a) In preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures;