

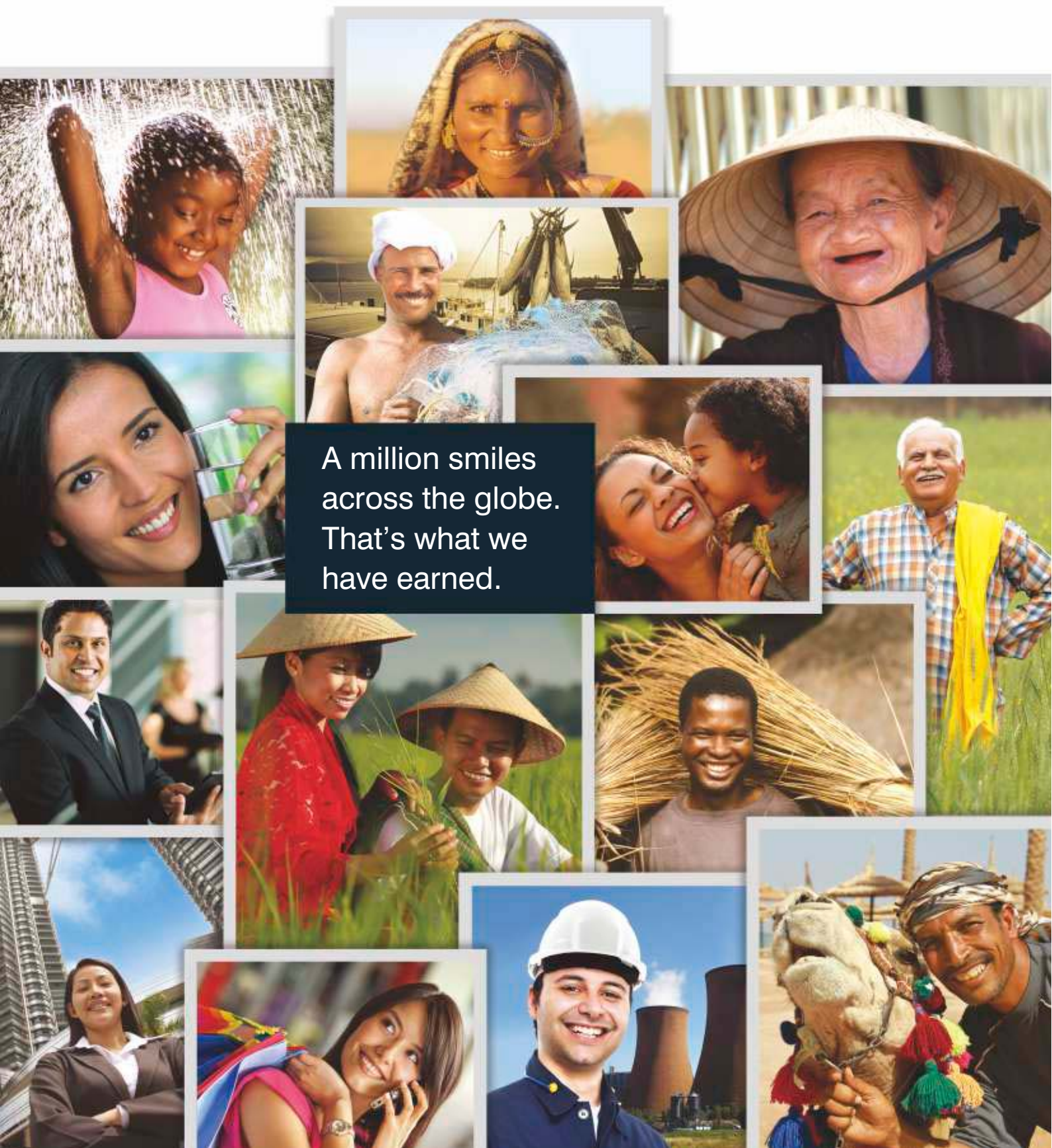



KIRLOSKAR BROTHERS LIMITED

A Kirloskar Group Company

94th ANNUAL REPORT 2013 - 2014

Enriching Lives





Bringing about a positive change has been our mission as well as our driving force. The smile on millions of faces is a testimony that we have not just achieved it but enriched lives the world over.

Through our critical engineering solutions across industries - from cooling mega power plants to powering countless applications across industries, from saving a million tonnes of food stock to providing standby power to telecom and defence sectors, and from castings that house automobile engines to greening deserts, quenching thirsts and fuelling CNG vehicles - Kirloskar has made a significant difference across continents. To garner the most valuable asset - a smile of satisfaction.

Your Company has earned smiles by:

- Generating revenue from international business that contributed 33% of the consolidated Kirloskar Brothers Limited (KBL) revenues.
- Continuing overseas expansion with the commissioning of a new facility in South Africa and acquisition of SyncroFlo Inc. near Atlanta, USA.
- Achieving the indigenous development of primary and secondary heat transfer pumps for the development of India's first fast breeder nuclear reactor.
- Incorporating structured planning and effective execution resulting in engagement of more than 15,000 quality registered retailers.
- Making it to 'Limca Book of Records' 2013 -14 for the 100% women-operated plant in Kaniyur, Coimbatore for 'cycle time reduction from 63 seconds to 20 seconds'.

Board of Directors

Sanjay C. Kirloskar	Chairman & Managing Director
Vikram S. Kirloskar	
S. N. Inamdar	
Rahul Kirloskar	(up to April 22, 2014)
U. V. Rao	
P. S. Jawadekar	
J. R. Sapre	Whole Time Director
A. N. Alawani	
Lalita D. Gupte	
Pratap B. Shirke	
Alok S. Kirloskar	

Company Secretary Sandeep Phadnis

Auditors M/s. P. G. Bhagwat, Chartered Accountants

Bankers Bank of India
Canara Bank
HDFC Bank Limited
ICICI Bank Limited
Citibank N.A.
Credit Agricole Corporate and Investment Bank

Registered Office Udyog Bhavan, Tilak Road,
Pune – 411 002, Maharashtra State (India)
Phone : (020) 24440770 Fax : (020) 24402083
E-mail : kblin@kbl.co.in
Website : www.kirloskarpumps.com
Group Website : www.kirloskar.com

Corporate office "YAMUNA", Survey No. 98 (3-7), Baner,
Pune – 411 045, Maharashtra (India)
Phone : (020) 27214444 Fax : (020) 27211136
E-mail : kblin@kbl.co.in
Website : www.kirloskarpumps.com
Group Website : www.kirloskar.com

Works Kirloskarvadi, Dewas, Shirwal, Kondhapuri, Coimbatore, Ahmedabad

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Day & Date : Thursday, September 25, 2014	Directors' Report	3
Time : 11.00 a. m.	Management Discussion & Analysis	13
Venue : "YAMUNA", Survey No.98 (3-7) Baner, Pune – 411 045	Report on Corporate Governance	21
Dates of Book Closure : July 18, 2014 to July 22, 2014 (both days inclusive)	Auditors' Report	37
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DECADE AT A GLANCE

(₹ in Million)

Particulars	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Sales	7,309	9,246	13,400	15,251	18,309	20,178	19,469	17,819	18,724	17,516
Other Income	132	750	2,408	430	359	479	129	463	70	55
Material Cost	4,859	6,093	9,290	11,126	13,927	14,987	13,431	12,661	13,204	11,695
Other Expenses	1,896	1,965	2,563	2,704	3,249	3,341	4,385	4,441	4,108	4,423
Interest	48	55	84	169	303	336	453	537	443	409
Depreciation	100	97	121	182	207	265	300	303	320	346
Profit before tax	538	1,786	3,750	1,500	982	1,730	1,028	340	719	698
Income tax provision	31	63	385	399	312	554	415	28	285	221
Net Profit after tax	507	1,723	3,365	1,101	670	1,175	614	312	434	477
Share Capital	71	212	212	212	212	159	159	159	159	159
Reserves	1,832	2,932	5,808	6,409	6,879	6,975	7,276	7,378	7,627	7,842
Net Worth	1,903	3,144	6,020	6,621	7,091	7,134	7,434	7,536	7,786	8,001
Imports	261	606	987	1,152	2,084	5,073	2,026	729	473	671
Exports	1,005	685	2,266	1,483	2,291	1,694	1,827	1,153	1,544	1,184
Basic Earnings per Share (₹) (Face Value of ₹ 2/-)	14.17	15.42	31.82	10.41	6.34	14.81	7.73	3.93	5.47	6.01
Basic Earnings per Share (₹) (Face Value of ₹ 2/-) (Excluding Extraordinary Income Expense)	14.17	10.70	14.76	10.41	6.34	14.81	7.73	3.93	5.47	6.01
Dividend %	300%	200%	200%	200%	100%	275%	175%	100%	100%	*125%
Book Value per Share (₹)	53.97	** 29.69	**56.92	**62.60	**67.05	**89.92	**93.70	**94.99	**98.11	***100.82
Debt Equity Ratio	0.18	0.06	0.08	0.09	0.03	0.06	0.12	0.06	0.01	-

Notes :

Previous years' figures have been regrouped to make them comparable.

* Final Dividend Recommended 125%

** After Issue of Bonus Shares in the ratio of 2 : 1

Figures of earning per share and book value per share are calculated for all the reported periods above after considering the subdivision of equity share of ₹ 10/- each to share of ₹ 2/- each.

DIRECTORS' REPORT TO THE MEMBERS

Your Directors present the 94th Annual Report and the Audited Annual Accounts of the Company for the year ended March 31, 2014.

FINANCIAL RESULTS

The financial results of the Company for the year 2013-14 as compared with the previous year are as under: -

	Year ended March 31, 2014 (₹)	Year ended March 31, 2013 (₹)
Revenue from Operations	17,516,340,754	18,723,978,939
Other income	54,616,152	69,995,455
Total	17,570,956,906	18,793,974,394
Profit before tax	697,546,094	719,478,435
Tax Expense	220,671,149	135,001,177
Profit for the period from continuing operations	476,874,945	584,477,258
Short Provision of income tax on account of earlier years	-	150,000,000
Profit for the period	476,874,945	434,477,258
Surplus in Profit & Loss Account brought forward from previous year	1,449,112,037	1,241,391,915
Available surplus	1,925,986,982	1,675,869,173

DIVIDEND

Directors are pleased to recommend a dividend of 125% (₹ 2.50 per equity share) for the year.

APPROPRIATIONS

Your Directors propose to appropriate the available surplus as under:-

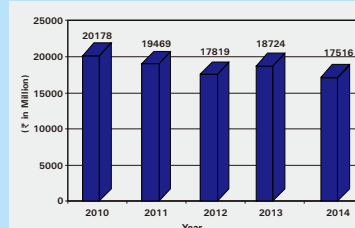
Dividend of ₹ 2.50 @ 125% (100%) on 79,358,451 (79,358,451) equity shares of ₹ 2/- each	198,396,128	158,716,902
Dividend distribution tax	32,132,101	24,592,508
Transfer to General Reserve	47,687,495	43,447,726
Balance carried to Balance Sheet	1,647,771,258	1,449,112,037
Total	1,925,986,982	1,675,869,173

OPERATIONS

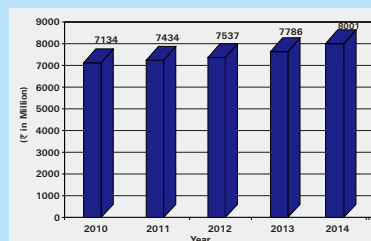
The revenue from operations for the year under review was ₹ 1752 Crores, which is less than 6.85% compared to the previous year.

The Company focused on improving operational efficiencies across the supply chain to increase productivity. Assembly of a pump in a record time of 20 seconds at Kaniyur (Coimbatore) plant, exemplifies our productivity improvement measures. Information Technology tools and processes were

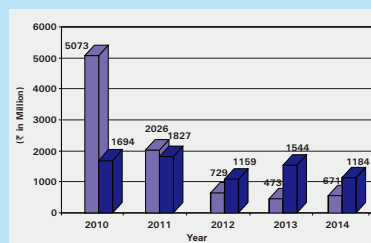
Net Sales



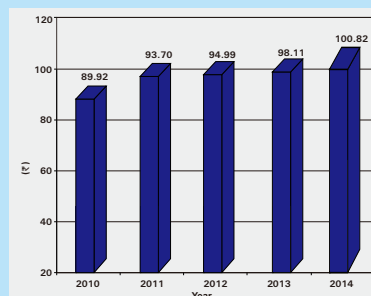
Net Worth



Import & Export



Book Value per Share



leveraged to streamline and enhance effectiveness of business functions like marketing, manufacturing, after sales support and human resource.

Product business was promoted by enhancing the channel network across India and introduction of new products for different market segments. We now have more than 15,000 retailers as a part of our channel network. We marketed value added products like solar pump, hydel turbines and energy saving Lowest Life-Cycle Cost (LLC™) pumps in line with our strategy to promote sustainability. We developed primary and secondary heat transfer pumps for the nuclear industry.

In the projects business, leveraging of financial control led to the improvement in balance sheet. Our strategy of being selective in projects business continued and we are glad to report that our customers have appreciated our organization's stand on payment terms since it is of mutual benefit. Institutionalization of best in class project management practices helped in better project control and closure of the projects ahead of time with healthy cash flows.

STATUTORY DISCLOSURES

1. ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE

Details of energy conservation, technology absorption, research and development and foreign exchange earnings and outgo as required under Section 217 (1) (e) of the Companies Act, 1956, are given in the Annexure I to this Report.

2. PARTICULARS OF EMPLOYEES

As per provisions of Section 219 (1) (b) (iv) of the Companies Act, 1956, the Directors' Report and Accounts are being sent to the shareholders excluding the statement giving particulars of employees under Section 217 (2A) of the said Act. Any shareholder interested in obtaining a copy of the statement, may write to the Company Secretary at the Registered Office of the Company.

3. SUBSIDIARY COMPANIES

During the year, Kirloskar Brothers International B.V., Netherlands (KBI BV), a wholly owned subsidiary company of the Company, has acquired balance 40% holdings in Kirloskar Brothers Europe B.V., Netherlands (KBE BV). As a result, KBE BV has now become a wholly owned subsidiary of KBI BV.

During the year, SPP Pumps LP, Georgia, USA, has acquired SyncroFlo Inc., Georgia, USA. SyncroFlo is a pioneer in the domestic water booster industry. SPP Pumps LP is owned by SPP Pumps Limited, UK, which is a wholly owned subsidiary of Kirloskar Brothers International B. V., Netherlands, a wholly owned subsidiary of the Company.

As you were aware, the Scheme of Arrangement and Amalgamation of erstwhile, Hematic Motors Private Limited with Kirloskar Constructions and Engineers Limited (the 'Scheme'), was sanctioned by the Honourable High Court of the Judicature at Bombay on March 1, 2013. During the year 2013-14, the Honourable High Court at the Judicature at Madras, by its orders dated June 23, 2013, has also sanctioned the Scheme and subsequently, the same was made effective on July 29, 2013. Also, in terms of the said Scheme, the name of the erstwhile Kirloskar Constructions and Engineers Limited was changed as 'Karad Projects and Motors Limited'.

During the year Company has executed an agreement for the transfer of Corporate Information Centre (CIC) division of the Company to Kirloskar Systech Limited (KSL), a wholly owned subsidiary of the Company. CIC supported the Company for IT hardware and software maintenance, e-mail, internet and intranet facilities and other IT related services. All the existing assets of CIC shall now vest in KSL.

KSL is engaged in providing engineering design and information technology related services to the Company, its subsidiaries and external parties. Transfer of assets from CIC will help KSL expand its business activities and become one of the competent players in the IT Industry.

The Kolhapur Steel Limited (TKSL), Company's subsidiary, has incurred losses for the year ended March 31, 2014, exceeding the net worth as on that date. TKSL has, thus, become sick as per Section 3 (1) (o) of the Sick Industrial Companies (Special Provisions) Act, 1985. TKSL is in the process of filing a reference to the Board set up under the said Act. TKSL has plans of revival. The Company has already initiated some measures to revive TKSL. The Company is considering infusing some fresh capital in TKSL in order to make it a viable entity.

The Government of India, Ministry of Corporate Affairs vide General Circular No. 2/2011, has granted general exemption under Section 212 (8) of Companies Act, 1956 to companies from attaching subsidiary companies' documents viz. Balance Sheet, Profit and Loss account, Directors' and Auditors' Reports etc. to the Balance Sheet of a holding company.

Accordingly, we have attached certain information in respect of the Company's subsidiaries for the respective financial years.

Further, we hereby undertake that annual accounts for the subsidiary companies and the related detailed information will be made available to shareholders seeking such information. The annual accounts of the subsidiary companies will also be kept open for inspection of shareholders.

The consolidated financial statement of subsidiaries prepared as per the applicable provisions and duly audited by the statutory auditors, is presented elsewhere in this annual report.

4. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies Act, 1956, the Board of Directors report that :

- In the preparation of the annual accounts, the applicable accounting standards have been followed and there was no material departure from the accounting standards;
- Accounting policies have been selected and applied consistently and that the judgements and estimates made are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company as at March 31, 2014 and of the profit of the Company for the period April 1, 2013 to March 31, 2014;
- Proper and sufficient care has been taken for the maintenance of adequate accounting records, in accordance with the provisions of Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- The annual accounts have been prepared on a going concern basis.

5. CASH FLOW

A cash flow statement for the year ended March 31, 2014 is attached to the Balance Sheet.

SAFETY, HEALTH AND ENVIRONMENT

Safety and Health

All our manufacturing plants are certified for Occupational Health and Safety Assessment Series (OHSAS) standards ISO 18001.

Periodic safety audits of all our manufacturing units and project sites including corporate office, ensures compliances to safety norms. Review of audit findings is conducted and actions are initiated to improve the safety performance. 'Safety Committees' at corporate and manufacturing units have been formed to monitor the intent of

safety throughout the organisation. Periodic emergency evacuation training programs and mock drills are conducted at corporate office, project sites and manufacturing locations to ensure preparedness to face the eventualities.

Safety scorecard is reviewed on regular basis. Contractors' employees at sites and operation units are provided training on safety. Actions required in improving safety conditions are communicated to the relevant site through safety manager. EHS bulletins and safety guidelines are periodically circulated all across the organisation for sharing and creating awareness on safety related matters. Corporate safety committee guides and monitors all sites and manufacturing units, to improve near miss, accident and implementation of all statutory requirements related to safety, so as to achieve our goal of zero accident and zero man days lost.

Occupation health centre (OHC) at corporate office and major manufacturing units provide immediate medical needs and support to the employees in keeping their good health. Training programs on health awareness and food habits are organized for the benefit of employees. We also conduct First Aid training programs for creating awareness and developing basic skills amongst our employees to deal in emergency conditions.

As part of preventive measure, all employees above 30 years of age undergo annual medical check-up. Counselling sessions are conducted for employees based on their medical check-up.

A joint committee of workmen and management governs the canteen activities to ensure that hygienic and nutritious food is provided to employees.

Environment

All our manufacturing plants are certified for the Environment Management System (ISO 14000). Our Kondhapuri plant has also received certification for Energy Management System (ISO 50001). It is the first Company in Pune region to achieve this certification.

Our plants at Kaniyur, Kondhapuri and Dewas have applied for 'GreenCo' certification of Confederation of Indian Industries. We are happy to inform you that our Dewas plant has achieved 'Silver' rating in its first attempt on GreenCo and has become the first Indian Pump manufacturing plant to achieve this rating. We monitor our direct and indirect energy consumptions which are reported in our annual sustainability reports. Energy Conservation (ENCON) competition encourages all our manufacturing plants to reduce the overall energy consumption.

Pumping systems consume around 30% energy in industries. The Energy Audit services launched by the Company have helped industries in replacing old pumping systems by energy efficient pumping systems. Our energy efficient pumping solutions and LLC™ pumps have significantly reduced the energy consumption.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the listing agreement with the Stock Exchanges, Management Discussion and Analysis Report, Report on Corporate Governance, Auditors' Certificate on Corporate Governance and the declaration by the Chairman and Managing Director regarding affirmations for compliance with the Company's Code of Conduct are annexed to this report.

EMPLOYEE STOCK OPTION SCHEME (ESOS)

As you are aware, during the year 2007-08, Company launched the Employees' "Share a Vision" Stock Option Scheme, 2007 (ESOS-2007).

The Management has formulated under ESOS – 2007, a proposal for providing stock options at ₹ 2/- per option to award employee for their outstanding, exemplary performance in getting sustainable results. During the year, 35975 options have been granted.

Disclosures required to be made under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and a certificate from the Statutory Auditors with regard to compliance of the guidelines, is provided as Annexure II to this report.

FIXED DEPOSITS

The Company neither accepts nor renews matured deposits since January, 2003. The amount of the unclaimed matured deposits has been transferred to the Investor Education & Protection Fund Account as and when due and at present, there is no outstanding unclaimed deposit as on March 31, 2014.

CORPORATE SOCIAL RESPONSIBILITY

The Company considers the society as one of the most important stakeholders. We continue to support the communities close to our manufacturing plants. Society related initiatives are implemented based on the needs and expectations of society which are collected through structured society perception survey and also feedbacks received through other forums of engagement.

We have continued our focus on development activities in the areas of education, health, sanitation and hygiene, combating diseases, promoting maternal health and employability.

Activities in Manufacturing plants

In the area of education, support was provided to upgrade school buildings and other facilities. Notebooks were distributed to children in schools near Dewas plant. School children were provided guidance for competitive examinations. Earn & Learn scheme for ITI apprentices in collaboration with Yashaswi Institute, Pune continued this year to improve employability of these apprentices. For empowering women, various training sessions on skill development were organized. Self-help groups have been created to address employment of women at Kirloskarvadi and Dewas. 40 schools near Kirloskarvadi participated in Adarsha Shala competition.

Health related initiatives for the community around Kirloskarvadi and Dewas plants included free medical check-up camps with free medicine distribution. These check-ups were conducted for anaemia, HIV, bone marrow density etc. To improve health of expecting mothers and eliminate infant mortality, antenatal care, Garbhshanskar check-up camps were organized for women. Blood donation camps were also organized at Kirloskarvadi and Dewas manufacturing units. Awareness sessions were conducted for life style management and overcoming addictions. Skits and rallies were organized to create awareness about AIDS in the local communities.

We have continued our efforts to communicate importance of sanitation and hygiene to school children through our initiative WASH (Water Sanitation and Hygiene). The awareness programs were conducted in municipal schools around Kirloskarvadi, Pune and Dewas. The programs included enactment of skits, cartoon videos and lectures on adolescent hygiene, distribution of water purifier systems for schools, etc.

Various awareness programs were organized under the aegis of Vasundhara Festival in the schools and nearby communities.

DIRECTORS

In terms of the provisions of Companies Act, 2013 and rules thereof ('the Act'), certain class of companies are mandatorily required to appoint at least 1/3rd of its total directors, who are complying with the requirements as mentioned in the Act, as Independent Directors of the company.

As per the existing composition of the Board of Directors of the Company. Mr. U. V. Rao, Mr. S. N. Inamdar, Mr. P. S. Jawadekar, Mrs. Lalita D. Gupte and Mr. Pratap B. Shirke are existing Independent Directors of the Company

complying with the requirements of the Act. These Directors have given their declarations regarding fulfilment of conditions as given under the Act.

Their brief profiles along with other details, are included in the Explanatory Statement attached to the notice of the Annual General Meeting.

The Board proposes the appointment of these directors as Independent Directors at the ensuing Annual General Meeting, not liable to retire by rotation.

Mr. Vikram S. Kirloskar will retire by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

His brief profile is appearing in the Report on Corporate Governance of this Annual Report.

Mr. Rahul C. Kirloskar resigned from the Board of Directors with effect from April 22, 2014, due to personal reasons.

Mr. Rahul C. Kirloskar has been actively associated with the Company for more than a decade. The Board places on record its appreciation for contribution of Mr. Rahul C. Kirloskar during his tenure as a director of the Company.

AUDITORS

M/s. P. G. Bhagwat, the Statutory Auditors, retire at the ensuing Annual General Meeting and are eligible for re-appointment. The requisite certificate as required under the Companies Act, 2013 has been received. The Audit and Finance Committee has recommended their re-appointment for the year 2014-15.

ACKNOWLEDGMENTS

Your Directors wish to place on record their appreciation for the unstinted support and co-operation given by banks and financial institutions. Your Directors would further like to record their appreciation for the efforts by the employees of the Company.

For and on behalf of the Board of Directors



Sanjay C. Kirloskar
Chairman and Managing Director

Ahmedabad: April 22, 2014