

KIRLOSKAR PNEUMATIC CO. LTD.
35TH ANNUAL REPORT 2009 - 2010



Enriching Lives

Let's celebrate the spirit



ENGINEERING SMILES GLOBALLY



At Kirloskar, engineering world-class products is not enough. What drives us, is bringing a smile on the faces of our customers. Because in their smile, lies our future. Needless to say, when it comes to creating technologically superior products, we are second to none.

We have established our leadership position in supplying systems for utilising coal bed methane from the eastern coal deposits in our country. Our technology translates into an incredible amount of carbon credits to the end users. Further, this gas is used in non-polluting green energy power generation and fuelling CNG driven vehicles for reducing air pollution.

We have also maintained our leadership position in supplying CNG compressor packages for fueling vehicles and have contributed to our nation's thrust in introducing CNG driven vehicles for reducing air pollution.

We have developed systems for recovering flare gas at on-shore and off-shore Oil & Gas fields, which till recently was being flared into the atmosphere. This has resulted in reducing air pollution and enabled a great amount of carbon credits to the end users.

To aid in the development of renewable energy, we have developed gear boxes for large wind turbines.



BOARD OF DIRECTORS

Mr. Rahul C. Kirloskar	Chairman (w.e.f. March 9, 2010)
Mr. Sanjay C. Kirloskar	Chairman (upto March 9, 2010)
Mr. Vikram S. Kirloskar	
Mr. A. C. Mukherji	
Mr. J. Y. Tekawade	
Mr. P. S. Jawadekar	
Mr. G. Krishna Rao	
Mr. D. R. Swar	
Mr. Aditya Kowshik	Executive Director
Mr. H. R. Mustikar	Managing Director (Upto July 5, 2009)

COMPANY SECRETARY

Mr. Kedar P. Phadke

STATUTORY AUDITORS

M/s. Dalal & Shah
Chartered Accountants,
Mumbai

BANKERS

Bank of India
Bank of Maharashtra
ICICI Bank Ltd.
State Bank of India
Union Bank of India
HDFC Bank Ltd.

REGISTERED OFFICE

Hadapsar Industrial Estate,
Pune 411 013

LOCATION OF PLANTS

Pune and Saswad

REGISTRAR & TRANSFER AGENT

Link Intime (India) Pvt. Ltd.

Pune Office :

Akshay Complex, No. 202,
2nd Floor, Near Ganesh Temple,
Off Dhole Patil Road,
Pune 411 001

Mumbai Office :

C-13, Pannalal Silk Mills Compound,
LBS Marg,
Bhandup West,
Mumbai 400 078

Information for shareholders

Annual General Meeting	
Date	: Monday, 26th July 2010
Time	: 11.30 a.m.
Venue	: Pudumjee Hall Maharatta Chamber of Commerce, Industries and Agriculture, Tilak Road, Pune 411 002
Dates of Book Closure	: 20th July 2010 to 26th July 2010 (both days inclusive)

Contents

	PageNo.
Board of Directors	1
Notice	3 - 4
Directors Report	5 - 9
Report on Corporate Governance	6 - 16
Management Discussions & Analysis	17 - 19
Auditors' Report	20 - 23
Balance Sheet	24
Profit & Loss Account	25
Cash Flow Statement	26 - 27
Schedule Nos. 1 to 20 forming part of Accounts	28 - 51
Statement on Significant Accounting Policies	
Balance Sheet Abstract and Company's General Business Profile	



NOTICE OF 35TH ANNUAL GENERAL MEETING

NOTICE is hereby given that the 35th Annual General Meeting of the Members of Kirloskar Pneumatic Company Limited will be held on Monday the 26th day of July, 2010 at 11.30 a.m. at Pudumjee Hall, Maharashtra Chamber of Commerce, Industries & Agriculture, Tilak Road, Pune 411 002 to transact the following business :

ORDINARY BUSINESS :

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2010 and the Profit and Loss Account for the year ended 31st March, 2010 and the Auditors' and Directors' Report thereon.
2. To declare dividend on equity shares for the financial year ended on 31st March, 2010.
3. To appoint a Director in place of Mr. J. Y. Tekawade, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. P. S. Jawadekar, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Statutory Auditors to hold office from the conclusion of the ensuing Annual General Meeting till the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.

NOTES :

- 1 A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY SO APPOINTED NEED NOT BE A MEMBER OF THE COMPANY.
- 2 The Proxy Form duly executed and stamped should reach the Company's Registered Office 48 hours before the time of the Meeting.
- 3 The Register of Members and the Share Transfer Books of the Company will remain closed from Tuesday the 20th day of July, 2010 to Monday, the 26th day of July, 2010 (both days inclusive).
- 4 The dividend as recommended by the Board, if declared at the meeting, will be paid after July 26, 2010 to those members whose names appear on the Company's Register of Members on July 20, 2010. In respect of the shares in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL) as on July 20, 2010 for this purpose.
- 5 Members to note that Link Intime India Pvt. Ltd. (LI IPL) will be mandatorily printing shareholder's bank account details on the dividend warrants as advised by the Securities and Exchange Board of India (SEBI). Those Members who have not furnished their bank account details may furnish the same to LI IPL on or before July 20, 2010. Members holding shares in dematerialized form must therefore give instructions regarding their Bank account details to their Depository Participants.
- 6 Members are requested to sign at the place provided on the attendance slip and handover the same at the entrance of the Meeting.
- 7 Queries on Accounts of the Company, if any, may please be sent to the Company Secretary at the Registered Office of the Company seven (7) days in advance of the Meeting so that the answers may be made available at the Meeting.
- 8 Members are requested to bring their personal copy of the Annual Report to the Meeting.
- 9 Re-appointment of Directors at the Annual General Meeting :
Mr. J Y Tekawade and Mr. P S Jawadekar, retire by rotation and being eligible, offer themselves for re-appointment. Pursuant to Clause 49(IV)(G)(i) of the Listing Agreement relating to the Code of Corporate Governance, the particulars of the aforesaid Directors are given below :
Profile of Directors retiring by rotation :
A. Mr J. Y. Tekawade, Agriculturist, is having good and varied experience in Corporate Sector. He is a social worker from Shirampur. He was appointed as Member of Legislative Council, Maharashtra State for 12 years from 1985. Mr J. Y. Tekawade is also Founder member of The Shirampur Peoples Co-Op Bank Ltd. He had Won the Gold Medal from the Government of India for producing highest sugarcane per acre.

The Directorship/Committee membership in other companies of Mr J. Y. Tekawade is as follows:

Name of the Company	Board position held	Committee Membership
Yashparva Agro Processing Private Ltd	Director	—

Mr. J. Y. Tekawade holds 104 equity shares in the Company.

- B. Mr. P. S. Jawadekar, graduate with Electrical Engineering having a good and varied experience of more than 3 decades in the industry and with professional institutions, gained experience in technology sourcing, technology development and management, structuring of business units, human resources and industrial relations management marketing management, quality management and leadership development.

The Directorship/Committee membership in other companies of Mr P. S. Jawadekar is as follows:

Name of the Company	Board position held	Committee Membership
Kirloskar Brothers Ltd	Director	Audit Committee Finance Committee Compensation Committee -Chairman
Kirloskar Constructions & Engineers Limited	Director	—
CMC Commutators Pvt. Ltd.	Director	—

Mr. P. S. Jawadekar do not hold any shares in the Company

Registered Office :
Hadapsar Industrial Estate,
Pune 411 013
Date : April 28, 2010

By Order of the Board of Directors



Kedar P. Phadke
Company Secretary



DIRECTORS' REPORT TO THE MEMBERS

The Directors have pleasure in presenting their Report along with the Audited Accounts for the year ended March 31, 2010.

FINANCIAL RESULTS

The Financial results for the year ended March 31, 2010 are summarised below:

	(Figures in Rs.)	
	<u>2009-10</u>	<u>2008-09</u>
Gross Profit	755,788,674	678,916,523
Less:		
Depreciation	73,507,753	52,795,946
Provision for Taxation	206,572,078	208,610,048
Fringe Benefit Tax	-	9,000,000
Profit after tax	475,708,843	408,510,529
Balance of Profit from previous year	168,404,348	151,504,514
Add / (Less)		
Tax adjustments for earlier years	3,403,713	8,688,402
Expenses in respect of Previous Year	(66,670)	(26,765)
Transferred to General Reserve	300,000,000	250,000,000
Proposed Dividend	154,132,056	128,443,380
Tax on Proposed Dividend	26,187,036	21,828,952
Surplus carried to Balance Sheet	167,131,142	168,404,348

OPERATIONS

The Global Economic Crisis witnessed in the later part of the last year impacted the executable order board for the first quarter of the year 2009-10. The corresponding sales therefore in the first quarter were lower by Rs.550 million and this shortfall could not be recouped through out the year. Thus your Company could register sales of Rs.4533 million during the year under report as against Rs.5185 million during 2008-09.

However, various measures undertaken to strengthen operations, costs reduction to improve bottom line have resulted in improvement in profit after tax from Rs.408 million of the previous year to Rs.475 million in the year 2009-10.

ENERGY CONSERVATION

Kirloskar Pneumatic, Hadapsar and Saswad Plant jointly participated in State & National level "Energy Management & Conservation Competition" organized by MEDA (Maharashtra Energy Development Agency) and CII (Confederation of Indian Industries) and bagged third prize & "Energy Efficient Unit Award" respectively.

Kirloskar Pneumatic, Hadapsar Plant bagged the "Third Prize" in Kirloskar Group Energy Conservation Competition, which was held among the Kirloskar Group Companies

DIVIDEND

The Board of Directors have recommended a dividend of Rs. 12/- per Equity Share for the year ended March 31, 2010 as against Rs. 10/- per Equity Share paid last year.

FIXED DEPOSIT

As on 31st March, 2010 there are no fixed deposits either outstanding or unclaimed.

PROSPECTS

The Gas Compression business is growing and your company is prepared to meet this challenge.

As a preferred supplier for Refrigeration & AC Packages your company has bagged many prestigious orders during the year and has been selected for many more in the coming years.

During the year, 1 MW range wind turbine gearbox was successfully developed and we expect to commence serial production.

DIRECTORS

Mr. Sanjay C. Kirloskar expressed his inability to continue as the Chairman of the Company w.e.f February 24, 2010 due to other pre-occupations, but continues to act as the Director of the Company.

He was elected as the Chairman of the Company on July 6, 1999 and continued to act as Chairman of the Company over a decade.

The Board places on record its appreciation of the rich and varied experience, advise, counsel and guidance received during his tenure as the Chairman of the Company.

The Board unanimously elected Mr. Rahul C. Kirloskar as the Chairman of the Company w.e.f. March 9, 2010.

Mr. J Y Tekawade and Mr P S Jawadekar retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

CORPORATE GOVERNANCE

The Company conforms to the norms of Corporate Governance as envisaged in the Listing Agreement with the Bombay Stock Exchange Ltd. A separate report on Corporate Governance, along with Statutory Auditors' Certificate on the Compliance, Management Discussions and Analysis, is attached and forms part of the Annual Report.

STATUTORY DISCLOSURES

1. Conservation of Energy, Technology Absorption and Foreign Exchange

The information required under Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, pertaining to Energy Conservation, Technology Absorption, Foreign Exchange Earnings and Outgo, is given in the Annexure I to this Report and forms part of this Report.

2. Subsidiary Company

During the year Khosla Indair Limited a subsidiary of the company, ceased to be the subsidiary of the company.

3. Particulars of Employees

Information in accordance with sub-section (2A) of Section 217 of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, is given in the Annexure to the Directors' Report. However as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and the Accounts is being sent to the Members of your Company excluding the aforesaid information. Any Member interested in obtaining the said annexure may write to the Secretarial Department at the Registered Office of the Company.



4. Directors' Responsibility Statement

The Directors confirm that :

- i. In preparation of Annual Accounts, the applicable accounting standards have been followed.
- ii. The Directors have selected such accounting policies and applied them consistently in order to show true and fair view of the state of affairs.
- iii. The Directors have taken proper care in maintaining accounting records as per the provisions of the Companies Act, 1956, for safeguarding Company's Fixed Assets for preventing and detecting fraud and other irregularities.
- iv. The Annual Accounts are prepared on the principle of going concern.

5. Cash Flow

A Cash Flow statement for the year ended March 31, 2010 is attached to the Balance Sheet.

AUDITORS

The Auditors of the Company, M/s. Dalal & Shah, Firm Registration No. 102021W, Chartered Accountants, Mumbai, retire at the conclusion of ensuing Annual General Meeting and are eligible for re-appointment. The requisite certificate pursuant to Section 224(1-B) of the Companies Act, 1956 has been received.

EMPLOYEES

The Company follows pragmatic methods towards human resource retention and development. The human skill development part is taken care of through training programs. The training programs are designed in a systematic manner after identifying an individual's training needs. Cutting across the organizational hierarchy, training sessions are held for promoting team spirit and for addressing training needs. The motivation part is taken care of through empowerment and ensuring healthy working environment. The dual remuneration system assured as well as performance related; promotes talent within the Company. The Company endeavours to ensure that its different functions are adequately manned.

Employee relations achieved an important milestone with peaceful wage settlement signed with Workers Union on March 8, 2010 for a period of 36 months effective from 1st January, 2010.

Industrial relations continued to be cordial during the year.

The Company had 985 permanent employees on its roll as on 31st March, 2010.

ACKNOWLEDGEMENT

The Directors wish to convey their appreciation to all of the Company's employees for their efforts as well as their collective contribution to the Company's performance. The Directors would also like to thank the employee's union, shareholders, customers, dealers, suppliers, bankers and all other business associates for the continuous support given by them to the Company and their confidence in its management.

For and on behalf of the Board of Directors

RAHUL C. KIRLOSKAR
Chairman

Place : Pune
Date : April 28, 2010

ANNEXURE I TO THE DIRECTORS' REPORT

Information as required under Section 217(1)(e) of the Companies Act, 1956.

A. Conservation of Energy

a) Energy Conservation measures taken:

- Power regeneration
- Energy conservation measures taken during the designing New TRM shop for Utilities and Lighting. Installed Energy Efficient T5 lighting, Welded overhead grid for compressed air & all cranes with VFD for all motions.
- Installation of Translucent Sheet on Roof for Natural Lighting in shops.
- Many such initiatives have been put in place.

b) Additional Investments and Proposals, if any, being implemented for reduction of consumption of energy.

Proposals.

- Energy conservation awareness training and competition for employee's motivation.
- Heat Treatment shop reduction of heat loss.
- Procurement of Energy Star labeled products for future use.
- Installation of Wind ventilators on Foundry roof for Natural air circulation.
- Rain Water Harvesting in the company premises.
- Continuous Sand mixer with sand re-claiming plant at foundry.
- Innovation is our MANTRA and a large number of proposals are being studied upon.

Investment :

Estimated additional investment for above proposals is about Rs. 3.5 Million

c) Impact of the measures at (a) & (b) for reduction of energy consumption and consequent impact on the cost of production of goods. Estimated saving from activities mentioned in (a) and (b) above is about Rs. 7.60 Million per year.

d) Total Energy consumption and energy consumptions per unit of production as per prescribed Form-A. Not given, as the Company is not covered under the list of specified industries.

B. Technology Absorption :

Research and Development (R & D) :

1. Specific areas in which R & D is carried out by the Company :

- Technology transfer for dry screw for further models & centrifugal compressors.
- Introduction of new model of portable compressor
- Development of Refrigeration Compressor
- Development of Engineered Compressor Drive Set
- Indigenous CNG Compressor prototype Developed and Tested.
- Prototype Development of 1 MW Wind turbine Gearbox.
- Prototype Development of High Power Marine Gearbox.
- Design & Development of Light Weight Marine Gearbox.

2. Benefits derived as a result of above R & D :

- Penetration in the market for industrial segment and general engineering with the help of oil injected screw compressors.
- Introduction of new model of Diesel Portable Compressor in international market.
- Increasing of KC Compressor share in export market.
- Business growth in Marine Refrigeration & Air - Conditioning market.
- Business growth in High power Marine Gearboxes.
- Business growth in Planetary Wind Turbine Gearboxes.