

Kennametal India Limited

**Annual Report
FY09**



Kennametal India Limited

Directors

Mr. M.N. Bhagwat
Chairman
 Mr. Rakesh Makhija
 Mr. Bernard North
 Mr. Frank P. Simpkins
 Dr. Esat Kemal Yegenoglu

India Leadership Council

Mr. Vikram Chopra
*Vice President – Sales & Marketing,
 Engineered Products Group*
 Mr. B. Anjani Kumar
Vice President & CFO
 Mr. D. Sarathy
Vice President–Manufacturing & Manager
 Mr. K. Chandrashekhar Sharma
General Manager – Machine Tools Business

Company Secretary

Mr. A.C. Poovanna

Registered Office and Factory

8/9th Mile, Tumkur Road
 Bangalore - 560 073
 Phone : 91 (80) 28394321
 Fax : 91 (80) 28397572

Auditors

M/s. Price Waterhouse
 Chartered Accountants
 5th floor, Tower "D", The Millenia
 1 & 2 Murphy Road, Ulsoor
 Bangalore – 560008

Bankers

Central Bank of India
 Corporation Bank
 ICICI Bank Limited
 Standard Chartered Bank

Registrar & Share Transfer Agent

Alpha Systems Private Limited
 30, 'Ramana Residency'
 4th Cross, Sampige Road
 Malleswaram, Bangalore - 560 003
 Phone : 91 (80) 23460815-818
 Fax : 91 (80) 23460819

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44th Annual General Meeting

Thursday, October 29, 2009 at 10.30 A M
 at the Registered Office of the Company at
 8/9th Mile, Tumkur Road, Bangalore -560 073

NOTICE TO MEMBERS

NOTICE is hereby given that the Forty-fourth Annual General Meeting of Kennametal India Limited will be held on Thursday, October 29, 2009 at 10.30 A.M. at the Registered Office of the Company at 8/9th Mile, Tumkur Road, Bangalore – 560 073, to transact with or without modifications, as may be permissible, the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet as at June 30, 2009, the audited Profit and Loss Account for the year ended on that date and the reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of Mr.M.N.Bhagwat, who retires from office by rotation and being eligible, offers himself for re-appointment.
3. To appoint auditors, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company and to authorise the Board to fix their remuneration. The retiring auditors M/s. Price Waterhouse, Chartered Accountants, being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS:

4. To consider and if thought fit, to pass the following resolution, as an Ordinary Resolution:

"RESOLVED THAT in accordance with the provisions contained in Article 129 of the Articles of Association of the Company and Section 262 and other applicable provisions, if any, of the Companies Act, 1956 Dr.Esat Kemal Yegenoglu be and is hereby appointed as a Director of the Company, liable to retire by rotation to fill in the casual vacancy on the Board caused by the resignation of Mr. Michael Lapidot, the Company already having received a notice in writing along with a deposit of Rs.500/- as required under Section 257 of the Companies Act, 1956 from a member signifying his intention to propose Dr.Esat Kemal Yegenoglu, as a candidate for the office of Director, liable to retire by rotation."

5. To consider and if thought fit, to pass the following resolution, as a Special Resolution:

"RESOLVED THAT, pursuant to the provision of Section(s) 198, 269, 387, 388, Schedule

XIII and all other applicable provisions, if any, of the Companies Act, 1956 (hereinafter "the Act"), including any statutory modification or re-enactment thereof, or any other law and subject to such consent(s) and permission (s) as may be necessary in this regard and subject to such conditions as may be imposed by any authority while granting such consent(s), permission(s) and approval(s) and as are agreed to by the Board of Directors, consent of the members be and is hereby accorded for the appointment of Mr. D. Sarathy, Vice President – Manufacturing as the "Manager" of the Company as defined under Section 2(24) of the Act, with effect from September 05, 2009 for a period of five years or upto the date of appointment of Managing Director of the Company by the Board, whichever is earlier on the remuneration as set out in the explanatory statement of item No.5."

"RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to do all such acts, deeds, matters and things as may be deemed necessary to give effect to the above resolution."

"RESOLVED SPECIFICALLY THAT in the event of loss or inadequacy of profits in any financial year of the Company, during the tenure of office of Mr. D. Sarathy as Manager, the remuneration and the perquisites set out as above be paid to him for the remainder of his tenure as minimum remuneration, subject to the fulfillment of the conditions set out in the said Schedule XIII of the Act as amended from time to time."

"RESOLVED FURTHER THAT subject to such approvals as may be required, the Board of Directors, be and is hereby further authorised to revise the remuneration payable to Mr. D. Sarathy from time to time during the remainder of his term of office, subject to the limits prescribed by law, including Schedule XIII of the Companies Act, 1956 and agreed to between the Board and Mr. D. Sarathy."

By Order of the Board of Directors
For Kennametal India Limited

September 06, 2009
Mumbai

A.C. Poovanna
Company Secretary

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
 2. The instrument appointing proxy in order to be effective must be deposited at the registered office of the Company not less than 48 hours before the commencement of the Meeting.
 3. The relative explanatory statement pursuant to Section 173 of the Companies Act, 1956, in respect of the business under item (4) & (5) set out above are annexed hereto.
 4. The Register of Members and the Share Transfer Books of the Company will remain closed from October 27, 2009 to October 29, 2009 (both days inclusive) for the purpose of the Annual General Meeting (AGM).
 5. Pursuant to sub-section 205A of the Companies Act, 1956 (hereinafter "the Act"), dividends for the financial year ended December, 2002 and thereafter, which remain unpaid or unclaimed for a period of 7 years from the date of transfer of the same to the unpaid dividend account as referred to in sub-section (1) of Section 205A of the Act, will be transferred to the Investor Education and Protection Fund of the Central Government established under sub-section (1) of Section 205C of the Act. According to explanation to sub-section (2) of Section 205C of the Act, no claims shall lie against the said fund or the Company for the amounts of dividend so transferred nor shall any payment be made in respect of such claims.
 6. Pursuant to Section 109A of the Companies Act, 1956, members holding shares in demat form may file nomination in the prescribed Form 2B (in duplicate) with the respective depository participant and in respect of shares held in physical form, such nomination may be filed with the Company's registrar and share transfer agent.
 7. Members may address all correspondence to the Company's registrar and share transfer agent at the following address:
Alpha Systems Private Limited
No.30, 'Ramana Residency', 4th Cross,
Sampige Road, Malleswaram,
Bangalore 560003
Phone: (080) 23460815 - 818
Fax: (080) 23460819,
E-Mail: shares@123alpha.com
- Members are requested to quote their Registered Folio Number or Demat Account Number & Depository Participant (DP) ID Number in all correspondence.
8. The equity shares of the Company are mandated by the Securities and Exchange Board of India (SEBI) for compulsory trading in demat form by all investors. The Company's shares have been admitted into both the depositories viz. National Securities Depository Limited [NSDL] and Central Depository Services (India) Limited [CDSL]. The ISIN allotted to the Company's equity shares is INE717A01029.
 9. The brief resume of Directors / Manager seeking re-appointment/appointment as required under Clause 49 of the listing agreement is set out at "Annexure A" to this Notice.
 10. Bodies corporate intending to send their authorised representatives to attend the meeting are requested to send a duly certified copy of the Board Resolution or Power of Attorney authorising their representative to attend and vote on their behalf at the AGM.
 11. Members / Proxy holders are requested to produce at the entrance of the venue the enclosed attendance slip duly completed and signed.
 12. Members are requested to bring their copies of the annual report to the AGM.
 13. Every person holding equity shares of the Company and whose name is entered:
 - As a beneficial owner as at the end of business hours on Monday, October 26, 2009 as per the list to be furnished by NSDL and CDSL in respect of shares held in dematerialised form
 - As members in the register of members of the Company after giving effect to valid share transfers lodged with the Company or its registrar and share transfer agent on or before October 26, 2009shall only be entitled to attend the AGM in person or through his/ her proxy.
 14. The identity / signature of the members holding shares in demat form are liable for verification with the specimen signatures furnished by NSDL/CDSL. Such members are advised to bring the Depository Participant (DP ID), account number (Client ID) and the

relevant identity card to the AGM for easier identification and recording of attendance at the AGM.

15. Members requiring information or clarification with regard to the audited accounts and operations are requested to write to the Company Secretary at the registered office of the Company at least five days before the date of the meeting to enable the Company to keep the information ready.

EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173 OF THE COMPANIES ACT, 1956

Item No. 4

Dr. Esat Kemal Yegenoglu was appointed as Director on the Board at its meeting held on April 30, 2009, in the casual vacancy caused due to the resignation of Mr. Michael Lapidot, pursuant to provisions contained in Article 129 of the Articles of Association of the Company and Section 262 of the Companies Act, 1956 [hereinafter "the Act"]. According to the provisions of the said article and the Act, he holds office upto the date of this AGM.

As required under Section 257 of the Act, notice has been received from a member along with a deposit of Rs.500/- signifying his intention to propose Dr. Esat Kemal Yegenoglu as candidate for the office of Director.

The brief resume in relation to his experience, functional expertise and memberships on other companies' Boards and committees as required under Clause 49 of the listing agreement is set out in Annexure 'A' to this Notice. The Board considers that his association as director will be beneficial to and in the interest of the Company.

The Directors commend the passing of the resolution relating to his appointment for the approval of the members as set out at item No.4 in the accompanying Notice.

Dr. Esat Kemal Yegenoglu is interested in the resolution relating to his appointment.

Item No. 5

Mr. Dinakar A, resigned as Managing Director and Director of the Company on September 04, 2009. Section 269 (1) of the Companies Act, 1956 mandates that the Company has a Managing Director or Whole Time Director or a Manager. Accordingly, the Board of Directors have, at their meeting held on September 06, 2009, while accepting the resignation of

Mr. Dinakar, effective the close of business hours on September 04, 2009, appointed Mr. D. Sarathy, Vice President - Manufacturing as the Manager of the Company with effect from September 05, 2009 for an interim period until the replacement of the position of the Managing Director in the Company. Mr. Sarathy shall be subject to the superintendence, control and direction of the Board of Directors and shall have the management of the whole of the affairs of the Company as defined under Section 2(24) of the Companies Act, 1956. Mr. D. Sarathy, Vice President - Manufacturing as the "Manager" of the Company, shall report to the Board of Directors.

Mr. Sarathy will be paid the following remuneration:

- a. Basic Salary: Rs.100,820/- per month
- b. Special Allowance and Special Conveyance Allowance: Rs.117,802/-
- c. House Rent Allowance: Rs.36,000/- per month
- d. Variable Performance Pay: as per the scheme of the Company applicable to all other employees in the same grade
- e. Perquisites & Allowance: In addition to the prescribed basic salary, special allowance, special conveyance allowance, house rent allowance, variable performance pay, Mr. Sarathy shall also be entitled to perquisites and allowances like medical allowance, coverage under medical / accident insurance policy for self & family, health check up, leave travel allowance for himself and his family, contribution to Provident Fund, payment of Gratuity and such other perquisites and allowances in accordance with the rules of the Company or as may be agreed to by Board with Mr. Sarathy but within the limits permissible under the Companies Act, 1956. The aggregate remuneration inclusive of salary, variable performance pay, perquisites, allowances and other benefits payable to Mr. Sarathy shall not exceed the overall ceilings laid down in Section(s) 198, 309 and other applicable provisions of the Companies Act, 1956 or any other law for the time being in force, if any.

For the purpose of calculating the above ceiling, perquisites and allowance shall be evaluated as per Income Tax Rules, wherever applicable. In the absence of any such rules,

perquisites / allowances shall be evaluated at actual cost. The terms of employment and remuneration shall be governed by the letter of employment / appointment and its amendments issued / to be issued by the Company from time to time.

The above remuneration shall be paid as minimum remuneration to Mr.Sarathy, in the event of absence or inadequacy of profit in any year during the tenure of his appointment.

In terms of the provisions of the Companies Act, 1956, consent of the shareholders is required for the appointment of Mr.Sarathy as Manager of the

Company and payment of remuneration thereto. The Board recommends the resolution as set out in item No.5 for approval of the members as a Special Resolution. None of the Directors are concerned or interested in the said resolution.

By Order of the Board of Directors
For Kennametal India Limited

September 06, 2009
Mumbai

A.C. Poovanna
Company Secretary

Annexure 'A'

Name of the Director/ Manager	Mr.M.N.Bhagwat	Dr.Esat Kemal Yegenoglu	Mr.D.Sarathy
Date of Birth	June 04, 1932	November 23, 1953	December 23, 1956
Experience	Significant experience in manufacturing industry including as Managing Director of Tata Honeywell Limited till 1997. Presently Mr.Bhagwat is serving as Member, Executive Committee, TQMS, a division of Tata Sons. He is also the Chairman of Honeywell Automation India Limited.	With Kennametal Inc: 5 years With others:24 years	With Kennametal : 28 years
Expertise in specific functional area	Manufacturing	Manufacturing	Manufacturing
Qualifications	B.E. (Mechanical & Electrical) M.S. (Mechanical) (University of Illinois, USA)	Mechanical Engineering PHD Degree	B.Tech. (Mech)
List of outside Directorships and Memberships of Board Committees in India	<p><i>Directorships in other companies</i></p> <ol style="list-style-type: none"> Walchand Talent First Limited Walchand People First Limited Technopolis Knowledge Park Limited. Honeywell Automation India Limited. <p><i>Memberships/ Chairmanships of Committee of Directors</i></p> <p>Walchand Talent First Limited</p> <ol style="list-style-type: none"> Audit Committee – Chairman Remuneration Committee – Member <p>Walchand People First Limited</p> <ol style="list-style-type: none"> Audit Committee – Chairman Remuneration Committee – Member <p>Honeywell Automotion India Limited</p> <ol style="list-style-type: none"> Remuneration Committee – Chairman Audit Committee – Member Shareholders' Grievance Committee - Chairman 	None	<p><i>Directorships in other companies:</i></p> <p>Kennametal Shared Services Private Limited</p>
No. of shares held	Nil	Nil	5 (Five)

DIRECTORS' REPORT

Your Directors are pleased to present the 44th Annual Report and Audited Accounts for the year ended June 30, 2009 (FY 09).

FINANCIAL RESULTS

(Rs. in million)

PARTICULARS	FY 09 Year ended June 30, 2009	FY 08 Year ended June 30, 2008
Sales including other income	3,181.19	3,984.38
Profit Before Depreciation and Tax	599.33	989.80
Less: Depreciation	188.13	162.87
Profit Before Tax	411.20	826.93
Less: Provision for Tax		
Current Tax	169.82	262.55
Deferred Tax	(46.26)	10.65
Fringe Benefit Tax	7.50	9.45
Profit After Tax	280.14	544.28
Add: Balance brought forward from previous year	1011.21	466.93
Total available for appropriation	1,291.35	1011.21
Balance transferred to Balance Sheet	1,291.35	1011.21

DIVIDEND

The severe economic down turn caused a steep drop in Sales and Earnings in FY09. While there are signs of recovery in FY10, it will be sometime before your Company sees its positive impact on Sales and Earnings. Your Company also needs to conserve resources that will be required in future for expansion and upgradation of plant and machinery, when the economic scenario returns to its earlier path of growth. Hence, your Directors have thought it prudent, not to recommend any dividend for the financial year ended June 30, 2009.

OPERATING RESULTS

The Sales and other income of your Company declined by 20% over the prior year, due to the significant slow down and recessionary trends experienced in the year under review. As a direct result of this reduction in Sales Revenues, the Company's Profit Before Tax also declined to Rs.411 Million, despite various measures taken by your Company to curtail / minimize expenses, including pay cuts undertaken by all its non-unionised employees.

The proactive measures taken by your Company to reduce operating costs did make a significant difference in various heads of expenditure such as Stores and spares consumed, Sub-contracting charges, Power and fuel, Repairs and maintenance, Rent, Travel, Vehicle expenses, Advertisement and Sales promotion etc. However, as many large expenses such as Salaries and

wages, Depreciation etc. are of a fixed nature, they could not be reduced especially in the short term. The sudden steep drop in demand therefore had a significant impact on the Company's profits.

Your Company took active steps to control working capital requirements and conserve cash and this is evident by the effect that Inventories and Receivables came down by 30% and 43% respectively over the prior year.

MANAGEMENT DISCUSSION AND ANALYSIS

A Management Discussion and Analysis (MD&A) report is annexed to this report as Annexure I.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr.M.N.Bhagwat retires by rotation, and being eligible, offers himself for re-appointment.

Mr. Dinakar A, resigned as Managing Director and Director of the Company with effect from September 04, 2009. As a result, he also vacates the position as Chairman of Share Transfer Committee, Member of Audit Committee of Directors and Member of Shareholders / Investors' Grievance Committee of Directors of the Company with effect from September 04, 2009. The Directors place on record their appreciation for the valuable contributions made by Mr.Dinakar during his tenure as Managing Director of the Company.

Mr. Michael Lapidot resigned as Director with effect from February 28, 2009. Your Directors place on record their appreciation and acknowledge the valuable contributions made by Mr. Lapidot to the Company during his tenure as Director.

Dr. Esat Kemal Yegenoglu was appointed as Director on the Board with effect from April 30, 2009 in the casual vacancy caused due to the resignation of Mr. Michael Lapidot, Director.

Attention of the Members is invited to the relevant items in the Notice of the Annual General Meeting, Explanatory Statement thereto and the brief profile of Directors.

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 along with proper explanation relating to material departures, if any;
- 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 at the end of the financial year and of the profit of the Company for that period;
- Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- The annual accounts have been prepared on a going concern basis.

RECONSTITUTION OF THE COMMITTEES AND APPOINTMENT OF MANAGER

Consequent to the resignation of Mr. Dinakar A, as the Managing Director and Director of the Company, the Board of Directors at their meeting held on September 06, 2009 have reconstituted the following Committees:

- a) Audit Committee of Directors comprising of Mr. M. N. Bhagwat (Chairman), Mr. Rakesh Makhija, (Member) and Mr. Frank P. Simpkins (Member)
- b) Shareholders' / Investors Grievance Committee comprising of Mr. M. N. Bhagwat (Chairman) and Mr. Frank P. Simpkins (Member)

- c) Share Transfer Committee comprising of Mr. B. Anjani Kumar (Chairman), Mr. D. Sarathy (Member) and Mr. A. C. Poovanna (Member).

Mr. D. Sarathy, Vice President – Manufacturing was appointed as "Manager" of the Company as defined under Section 2(24) of the Companies Act, 1956 effective September 05, 2009.

FIXED DEPOSITS

The Company's fixed deposit scheme was foreclosed on April 01, 2003 and all deposits outstanding as on March 31, 2003 were sought to be repaid. During the year, your Company has not invited/accepted any Fixed Deposits under Section 58A and 58AA of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, 1975.

As on June 30, 2009, 8 depositors having fixed deposits aggregating to Rs.411,853/- remained unclaimed. In terms of Section 205C of the Companies Act, 1956, such amount remaining unclaimed upon the expiry of seven years from the date of maturity will be transferred to the Investor Education and Protection Fund.

TRANSFER TO INVESTOR EDUCATION AND PROTECTION FUND

In terms of Section 205C of the Companies Act, 1956, the following amounts lying with the Company for a period of seven years were transferred during the year to the Investor Education and Protection Fund:

- a) Unclaimed dividend . - Rs.449,163
- b) Unclaimed fixed deposit - Rs. 9,000

AUDITORS

M/s. Price Waterhouse, Chartered Accountants, Auditors of the Company will retire at the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. They have furnished a written certificate to the Company certifying that, if they are re-appointed as auditors of your Company, such appointment would be within the limits specified in Section 224 (1)(B) of the Companies Act, 1956.

CORPORATE GOVERNANCE

A detailed report on Corporate Governance and the certificate from the Company's Auditors confirming compliance of Corporate Governance norms as stipulated in Clause 49 of the Listing Agreement with the Bombay Stock Exchange Limited is set out in Annexure II to this report.

PARTICULARS OF EMPLOYEES

In terms of the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, the particulars of employees forms part of this report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Annual Report excluding the aforesaid information is being sent to all the members of the Company and others entitled thereto. Any member interested in obtaining a copy of the statement containing the aforesaid information may write to the Company Secretary at the Registered Office of the Company.

RESEARCH & DEVELOPMENT (R &D)

The Research, Development and Engineering (RD& E), works on new Product and Process developments with specific focus on materials, coatings and design. RD&E, Bangalore is a globally aligned matrix set-up and works for the global requirements of KMT with a continued specific focus on up-gradation of products, processes and technology.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE, ETC.

A report in respect of conservation of energy, technology absorption, foreign exchange

earnings and outgo, as required under Section 217(1)(e) read with the Company's (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is set out in Annexure III to this report.

Your Company was conferred with "State Energy Conservation Award 2008" under General category by Karnataka Renewable Energy Development Limited and Department of Energy, Government of Karnataka.

ACKNOWLEDGEMENTS

Your Directors place on record their appreciation for the support and assistance received from customers, investors, business associates, bankers, vendors, regulatory and governmental authorities. The Board places on record its gratitude to the Members for their continued guidance and confidence and expresses its sincere appreciation to all the employees for their teamwork and contribution during the year.

For and on behalf of the Board of Directors
For Kennametal India Limited

Mumbai
September 06, 2009

M.N. Bhagwat
Chairman

Annexure I to the Directors' Report

MANAGEMENT DISCUSSION & ANALYSIS REPORT

The following discussion and analysis should be read in conjunction with the Company's financial statements:

Industry Structure and Developments / Opportunities & Threats

Your Company is a leading manufacturer of hard metal products and machine tools and caters to the needs of a wide variety of manufacturing industries including auto and auto components, light and general engineering industries, etc. It seeks to provide a competitive edge to its customers through a wide variety of standard high quality products as well as items specially manufactured to customers' requirements such as special purpose machines and customized solutions.

Despite conservative policies followed by the Government of India and the Reserve Bank of India, the recessionary trends across the globe were so strong that India could not escape from its impact in the year under review. GDP growth for the financial year ended March 31, 2009 is estimated to have come down to 6.5% as compared to 9% in the prior year. The manufacturing sector is the worst impacted and growth for the year ended March 31, 2009 is expected to be only 2.4% as against 8.2% in the prior year. This obviously had a serious impact on your company in the last three quarters of the financial year. The Company's customers who cater to the domestic demand faced a significant drop in sales and production and many customers who are dependent on exports virtually faced a shut down situation. Their demand for your Company's products therefore declined significantly, especially in the second half of the financial year.

Compared to the prior year, your Company felt the adverse impact of the weaker Rupee against US Dollar. This coupled with the interest rates remaining fairly high, led to a cash crunch in many customers organizations. As a result, your Company also had to be cautious in extending credit to ensure that the receivables remained healthy.

Operations:

As a result of the above adverse economic scenario, your Company felt a significant drop in market demand. As mentioned above, the Company's customers serving domestic markets experienced a sudden drop in their order books

and customers focusing on export orders were severely affected. In the second half of the financial year, the drop in demand / sales was almost 40% due to the above reasons.

Your Company proactively took steps to suspend operations of the Plant during certain days to save on expenses such as Power, Maintenance, Welfare expenses, etc. As per the Management proposal, non-unionized employees of the Company also accepted to take pay cuts and unpaid special leave during this period. These pro-active measures taken by your Company to reduce operating costs did lead to a significant reduction in various heads of expenditure such as Stores and spares consumed, Sub-contracting charges, Power and fuel, Repairs and maintenance, Rent, Travel, Vehicle expenses, Advertisement and sales promotion etc. However, as many large expenses such as Salaries and wages, Depreciation etc. are of a fixed nature, they could not be reduced especially in the short term. As a result, the profits for the year were also impacted significantly.

Your Company took very active steps to control working capital requirements and conserve cash and this is evident by the effect that inventories and receivables came down by 30% and 43% respectively over the prior year.

Further, despite the depressed economic conditions, especially in the developed importing markets, your Company's export was higher by Rs. 11.12 crores in the year under review due to the significant efforts put in by members of the R, D&E and manufacturing teams to get your Company's products approved for exports.

Lastly, though the external environment was not conducive to growth, your Company did not in any way compromise on Environment, Health and Safety issues. Your Company continued to focus strongly on this area and this is evident from the fact that your Company was awarded the first place in the Safety Award given by the Karnataka Chapter of the National Safety Council against strong competition from various large well-managed Companies in the State.

The manufacturing excellence initiative was pursued strongly during the year under review. To support this endeavour, your Company continued to train people in Lean Practices / Tools and as of today your Company has 32 Green Belts in its plant in Bangalore.

Annexure I to the Directors' Report

Segment Wise Performance:

The business of your Company is organized and managed in two segments.

- (a) Hard metal and hard metal products
- (b) Machine Tools

The segmentation is based on the nature of products and services provided by each segment representing a strategic business that offers different products and services, serving different markets and also in line with the business risks attached to the respective segments. Apart from the above two primary business segments, the secondary segmental reporting is on the basis of the geographical locations of the customers, viz., domestic and international. Common allocable costs are allotted to each segment to the extent of services utilized and activities involved. The details of segment wise results are given as part of the annual accounts.

Company's Outlook

As is the case with the vast majority of industrial manufacturing companies in India, your Company also faces a tough situation in the market today. The broad outlook is that the condition will remain difficult till the end of calendar year 2009, but there are indications that the outlook may be positive from 2010.

Your Company is consistently monitoring the market and proactively taking various steps to include and increase its share through new and cost effective products that will enable it to lead the race when the turn around happens.

Risks and Concerns

The poor monsoon and its resultant adverse effect on the agricultural and agro industrial sector can slow down the recovery process and severely curtail demand from these sectors and the rural areas. The adverse impact on the purchasing power of the large population dependent on these sectors has a ripple effect on all other sectors also such as agro machinery, consumable durables, commercial vehicles, two wheelers and four wheelers.

Your Company's approach will therefore be cautious and will aim to conserve cash resources to meet contingencies.

Internal Control Systems

Your Company carried out regular and rigorous reviews to monitor all its assets including fixed assets and working capital. For example through

strict controls, your Company managed to reduce its inventory levels by 30% and its receivables by 43% as compared to the prior year. These strict controls on working capital as well as the frequent monitoring of operating expenses ensured that your Company continues to remain a zero debt organization. This highly positive factor enabled your Company to avoid many of the adverse impacts of the slow down / recession.

Your Company reviews its Risk Management policies atleast bi-annually and presents its actions to your Board for review. The recommendation of the Board members are taken into account and implemented through necessary instructions / actions.

The Internal Audit department conducted ten Internal Audit reviews during the year and presented its reports to the Audit Committee of the Board. We are glad to report that no significant weaknesses in internal controls were reported. The Audit Committee and the Board also holds its independent discussions with the Internal Auditors and the Statutory Auditors every quarter to make its independent assessment of the internal control system.

Financial Performance

As stated earlier, the Company's financial performance for the year ended June 30, 2009 resulted in a decline of 20% in its sales and other income as compared to the prior year. As a direct result, your Company's Profits Before Tax declined to Rs.411 Million in the period under review. The reasons for the drop in profits have been discussed in greater details earlier under "Operations". As mentioned earlier, inventories and receivables were brought down by 30% and 43% respectively compared to the prior year. This was a significant achievement under adverse circumstances and enabled your Company to lower costs and avoid any cash flow problems, that most manufacturing companies faced and continue to face.

Material Developments in Human Resources / Industrial Relations Front

Your Company believes that consistent employee performance and overall satisfaction and engagement will lead to the growth of the Company. "Voice of Employees"- a survey was conducted by Kennametal Group which has provided valuable feedback to the management of your Company to enhance overall satisfaction and employee engagement. During the year under review, given the changes in the external

Annexure I to the Directors' Report

environment, there was a significantly different challenge on the human resource management front. The Officers of your company undertook salary cuts for certain months in FY09 in a graded manner in addition to the Unpaid Special Leave. This salary cut for Officers continues for FY10 as well. Industrial Relations scenario in your Company continued to be generally cordial. No changes in service conditions were effected to the labour force although conciliation proceedings were being held. The total number of persons employed in your Company as on June 30, 2009 was 939.

Note: The information and opinion in this section consists of certain forward-looking statements, which the management believes to be true to the

best of its knowledge at the time of its presentation based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realized. The Company shall not be liable for any loss, which may arise as a result of any action taken on the basis of the information contained herein. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements on the basis of any subsequent developments, information or events. The information contained herein may not be disclosed, reproduced, or used in whole or in part for any purpose or furnished to any other person(s) without the express prior written permission of the Company

Annexure II to the Directors' Report

REPORT ON CORPORATE GOVERNANCE

Corporate governance philosophy and compliance

Your Company's philosophy is based on a belief that good corporate governance helps to enhance stakeholders' value by focusing on long-term stakeholder value creation without compromising on integrity, social obligations and regulatory compliances. The Company's management firmly believes that good corporate governance should be internally driven and not be looked upon just as an issue of compliance dictated by statutory requirements. Your Company has complied with the mandatory and non-mandatory requirements relating to corporate governance prescribed under Clause 49 of the listing agreement, as detailed below:

1. Composition of the Board

The Board of Directors has 6 members (as on June 30, 2009), including the Managing Director and 5 non-executive directors who bring a wide range of skills and experience to the Board. The Company has a non-executive Chairman and the number of independent directors is one-third of the total number of directors. The Chairman is not a promoter of the company nor is he related to any promoter or person occupying management position at the Board level or at one level below the Board. The composition of the Board is in conformity with Clause 49 of the listing agreement. During the year under review, four meetings of the Board of Directors were held on the following dates: August 05, 2008, October 31, 2008, January 30, 2009 and April 30, 2009.

Table 1 provides particulars of the directorships, membership of Board Committees and attendance at the Board Meetings of the Company during the year under review.

Table 1: Particulars of directorships, membership of board committees and attendance at meetings

Name of the director	Other Directorships held*	Board Committees+ (in other Companies)		Attendance at	
		Chairman	Member	Board Meetings	Last AGM
Non-executive, Independent directors					
Mr.M.N.Bhagwat, Chairman	4	3	1	4	Yes
Mr.E.B.Desai ¹	9	4	4	1	No
Mr.Rakesh Makhija	1	-	1	4	Yes
Managing Director					
Mr. Dinakar A.	-	-	-	4	Yes
Non-executive directors					
Mr.Frank P.Simpkins	-	-	-	2	No
Mr.Douglas C Phillips ²	-	-	-	-	No
Mr.Bernard North	-	-	-	3	Yes
Mr.Michael Lapidot ³	-	-	-	1	No
Dr.Estat Kemal Yegenoglu ⁴	-	-	-	-	No

Mr. Frank P. Simpkins, Mr. Douglas C. Phillips, Mr. Bernard North, Mr. Michael Lapidot and Dr. Esat Kemal Yegenoglu are the nominees of Kennametal Inc., the foreign promoter and no sitting fees were paid to them.

* Excluding office of alternate directors, non-profit associations, private and foreign companies.

+ Only the Audit and Shareholders' / Investors Grievance Committees are considered.

¹ Retired with effect from October 31, 2008

² Ceased to be the director with effect from September 12, 2008

³ Ceased to be the director with effect from February 28, 2009

⁴ Appointed as director in the casual vacancy with effect from April 30, 2009

Annexure II to the Directors' Report**2. Audit Committee**

The terms of reference of the Audit Committee are as per the guidelines set out in the listing agreement with the Bombay Stock Exchange Limited read with Section 292A of the Companies Act, 1956 and includes such other functions as may be assigned to it by the Board from time to time. Consequent to the retirement of Mr.E.B.Desai as Director with effect from October 31, 2008, his position as member of the Audit Committee was also vacated. The Board of Directors at its meeting held on October 31, 2008 reconstituted the Audit Committee. All members of the Audit Committee have the requisite accounting and financial management expertise. The particulars of the members and their attendance at the meetings during the year under review are provided in Table 2.

Table 2: Particulars of the Audit Committee of Directors and their attendance at meetings:

Name of the Director	Number of meetings attended
Mr. M.N. Bhagwat	
Chairman, Non-executive, Independent	4
Mr. E.B. Desai *	
Non-executive, Independent	1
Mr. Rakesh Makhija	
Non-executive, independent	4
Mr. Dinakar A.	
Managing Director	4

*ceased to be member with effect from October 31, 2008

During the period under review, four meetings of the Audit Committee of Directors were held on the following dates: August 04, 2008, October 31, 2008, January 30, 2009 and April 30, 2009.

The Chief Financial Officer (CFO) and the Statutory Auditors were invited to attend the meetings of the Audit Committee.

The Company Secretary is the Secretary to the Audit Committee.

3. Shareholders' / Investors Grievance Committee

Consequent to the retirement of Mr.E.B.Desai as Director of the Company with effect from October 31, 2008, his position as Chairman of Shareholders' / Investors Grievance Committee

was also vacated. The Board of Directors at its meeting held on October 31, 2008 reconstituted the Shareholders'/Investors Grievance Committee to comprise Mr.M.N.Bhagwat as its Chairman (non-executive and independent director) and Mr.Dinakar A, Managing Director as its Member. Mr.A.C.Poovanna, Company Secretary is the Compliance Officer.

The Committee met on August 05, 2008 during the year under review and the attendance of the members at the said meeting is provided in Table 3.

Table 3: Particulars of Shareholders'/ Investors Grievance Committee of Directors and their attendance at the meeting:

Name of the Member	No. of meetings attended
Mr.M.N.Bhagwat # Member	Not applicable
Mr.Dinakar A. Member	Attended
Mr.E.B. Desai @ Chairman	Attended

Appointed as Chairman with effect from October 31, 2008

@ Ceased to be a member with effect from October 31, 2008

During the year under review, the Company received six complaints out of which, five complaints were redressed and 1 complaint was pending as on June 30, 2009.

4. Directors' remuneration

Remuneration paid to directors for the year under review is detailed in Table 4 and 5.

Table 4 : Remuneration paid to whole-time director in respect of financial year 2008-2009.

Whole-time director	Amount (Rs.)
Mr. Dinakar A.	6,292,386*

* Includes salary, fixed allowance, housing, leave travel allowance, medical reimbursement, contribution to retiral benefits, etc. The appointment is for a period of five years upto June 30, 2012 terminable with a notice period of six months or such notice as may be mutually determined as per the agreement dated August 05, 2008. Performance pay is based on the

Annexure II to the Directors' Report

results achieved against the targets and certain performance criteria as set out by the Board.

Table 5: Remuneration paid / payable to non whole-time directors for the year under review.

Non-wholetime directors	Commission (Rs.) *	Sitting fees (Rs.)
Mr.M.N.Bhagwat	800,000	160,000
Mr.E.B. Desai	100,000	50,000
Mr.Rakesh Makhija	300,000	160,000
Mr.Frank P.Simpkins	Nil	Nil
Mr.Douglas C.Phillips	Nil	Nil
Mr.Bernard North	Nil	Nil
Mr.Michael Lapidot	Nil	Nil
Dr.Esat Kemal Yegenoglu	Nil	Nil

* payable in financial year FY10

The criteria for determination of commission to non-executive independent directors as approved by the Board, includes attendance at the meetings of the Board / Board committees, chairmanship of the Board / committees of the Board, individual responsibilities and additional contribution to the Company.

The Company presently has no Employee Stock Option Plan.

5. General Meetings

Date & time	Location	Special Resolutions passed
41 st AGM – 2006 October 31, 2006 10.30 AM	Registered Office at 8/9th Mile, Tumkur Road, Bangalore – 560073	Revision in remuneration of Mr.Kumar Kanetkar, Managing Director
42 nd AGM – 2007 October 26, 2007 10.30 AM	Registered Office at 8/9th Mile, Tumkur Road, Bangalore – 560073	Appointment of Mr.Dinakar A, as Managing Director and fixation of his remuneration.
43 rd AGM – 2008 October 31, 2008 10.30 AM	Registered Office at 8/9th Mile, Tumkur Road, Bangalore – 560073	Nil

Postal Ballot

No resolution was passed by postal ballot during the year ended June 30, 2009 and as on date. The Company presently does not have proposal to pass any special resolution by way of postal ballot.

6. Disclosures

The Company has adopted a Code of Internal Procedures and Conduct for Prevention of Insider Trading.

- The Company has in place a Code of Conduct applicable to the Board of Directors as well as the Senior Management. The Managing Director has confirmed and declared that

all the members of the Board and Senior Management personnel have affirmed compliance with the Code of Conduct for the year 2008-2009.

- No directors hold any shares in the Company.
- No penalties were imposed or strictures passed on the Company by Bombay Stock Exchange Limited, SEBI or any statutory authority on any matter relating to capital markets during the last three years.
- The Company places the requisite information about related party transactions before the Audit Committee from time to time. Please refer to Notes on Accounts for materially

significant related party transactions. None of the said transactions were potentially in conflict with the interest of the Company at large:

- There has been no accounting treatment different from that prescribed in the Accounting Standards laid down by the Institute of Chartered Accountants of India (ICAI) notified under section 211(3C) of the Companies Act, 1956.
- The Company being a part of Kennametal Group ("the group"), complies with the whistle blower policy of the group which is applicable to all employees of the group.
- The Senior Management personnel have declared to the Board of Directors that none of them or their relatives had any material, financial, commercial transactions that were potentially in conflict with the interests of the Company.
- The Managing Director and Chief Financial Officer have certified to the Board in accordance with Clause 49(V) of the listing agreement, for the year ended June 30, 2009.
- The Company does not have any subsidiaries.
- The Company has not made any capital issues during the year ended June 30, 2009.
- The Company has complied with all the mandatory requirements of Clause 49 of the listing agreement. As regards the non-mandatory requirements the extent of compliance has been stated in this report against each item.

Adoption of non-mandatory requirements

i) The Board

The Company reimburses the expenses towards the maintenance of the office of its non-executive Chairman and also the expenses incurred in performance of his duties

ii) Shareholders' right

The Company's quarterly and half-yearly financial results are published in the newspapers and the results are also uploaded in the SEBI's Electronic Data Information Filing and Retrieval (EDIFAR) website. Therefore, no individual intimations are

sent to the shareholders. However, based on the requests from shareholders, if any, the Company would provide them individually.

iii) Audit qualifications

There are no qualifications in the Auditors' Report on the Accounts for the year 2008-2009.

iv) Others

The Company has not adopted the following clauses which are non-mandatory under Annexure 1D to Clause 49 of the listing agreement

- Clause (2) constitution of Remuneration Committee of Directors
- Clause (5) training of Board Members
- Clause (6) mechanism for evaluating non executive Board Members

7. Means of Communication

- a. Quarterly / half-yearly / annual financial results of the Company were forwarded to the Bombay Stock Exchange Limited (where listed) immediately after the Board Meeting so as to enable hosting the same in their website and the results were also published in Financial Express (English) and Sanjevani (Kannada) newspapers within 48 hours from the conclusion of the Board Meeting.
- b. As mandated by SEBI, information such as shareholding pattern and corporate governance report on a quarterly basis, Annual Report containing Directors' Report, Corporate Governance Report, Profit and Loss Account, Balance Sheet, etc. are posted by the Company in EDIFAR website [www.sebiedifar.nic.in] for the information of investors.
- c. Management Discussion and Analysis Report is annexed to the Annual Report.

General shareholders' information

Annual General Meeting:

The 44th Annual General Meeting of the Company is scheduled to be held at 10.30 a.m. on Thursday, October 29, 2009 at the Registered Office of the Company at 8/9th Mile, Tumkur Road, Bangalore – 560073.

Annexure II to the Directors' Report

Book Closure:

The Register of Members and share transfer books will remain closed from October 27, 2009 to October 29, 2009 [both days inclusive]

Table 6: Financial calendar for the year 2009-10.

Event	Month (tentative)
Un-audited results for the quarter ending September 30, 2009	October, 2009
Un-audited results for the quarter ending December 31, 2009	January, 2010
Un-audited results for the quarter ending March 31, 2010	April, 2010
Audited results for the year ending June 30, 2010	July / August, 2010

Dividend :

The Board of Directors have not recommended any dividend for the year ended June 30, 2009.

Stock Exchange :

The equity shares of the Company are listed with Bombay Stock Exchange Limited, Mumbai. (scrip

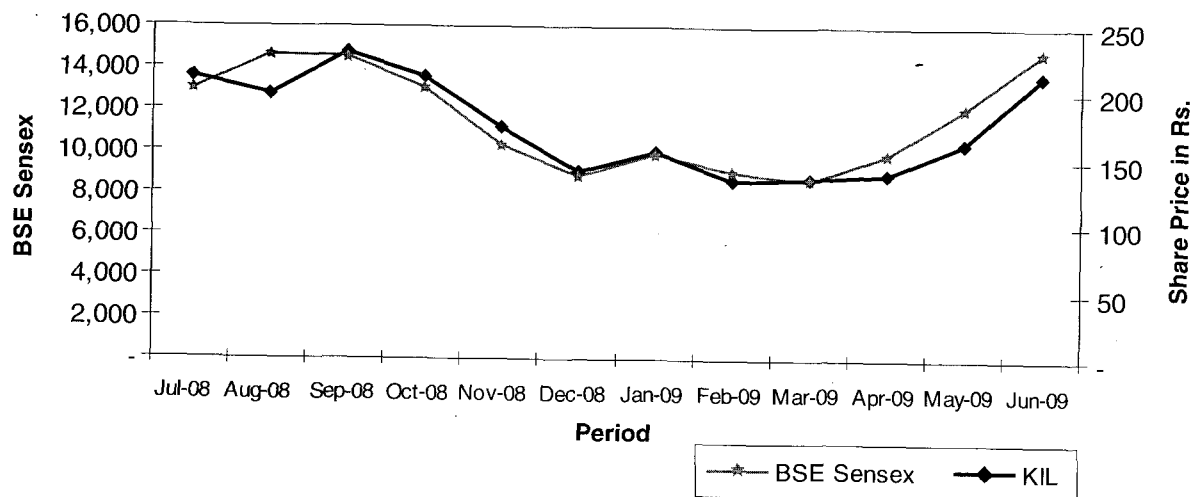
code : 505890) and the listing fee has been paid for the year 2009-2010.

Table 7: Market Price Data - High/Low [closing price] on BSE, during each month of the period under review

Month		High (Rs)	Low (Rs.)
July	2008	241.95	194.60
August	2008	234.15	199.60
September	2008	257.65	200.20
October	2008	212.45	138.05
November	2008	182.95	140.10
December	2008	175.55	140.15
January	2009	159.40	139.55
February	2009	147.25	135.05
March	2009	144.15	131.85
April	2009	173.50	140.00
May	2009	196.70	150.00
June	2009	213.55	144.35

Source: Website of the Bombay Stock Exchange Limited - www.bseindia.com

Table 8 : Share price performance in comparison with BSE Sensex*



* Based on BSE Sensex (close) / share price (close) on the first trading day of the month.

Annexure II to the Directors' Report

Share transfer agents

Work related to both physical / demat shares is handled by M/s. Alpha Systems Private Limited, No.30, "Ramana Residency", 4th Cross, Sampige Road, Malleswaram, Bangalore - 560003, Phone: 080 - 23460815 to 818. Fax: 080 - 23460819. e-mail: alfint@vsnl.com.

Share transfer system

The authority relating to transfer of shares has been delegated to a share transfer committee consisting of the Managing Director as its Chairman, Chief Financial Officer (CFO) and the Company Secretary as its members. The Committee meets fortnightly or as often as may

be necessary to ensure that the transfer process is completed without delay.

Dematerialisation of shares

The Company's shares are admitted into both the depositories viz. National Securities Depository Limited [NSDL] and Central Depository Services (India) Limited [CDSL] and the ISIN allotted for the equity shares of the Company is INE717A01029. 82% of the non-promoters equity shares of the Company are held in demat form.

There are no outstanding GDRs / ADRs / other convertible instruments.

Table 9 : Pattern of shareholding as on June 30, 2009

Category	No. of shares	Percentage (%)
Promoters		
Meturit AG. - 11,208,840		
Kennametal Inc. - 8,167,173	19,376,013	88.16
Public		
Mutual Funds	260,038	1.18
Financial Institutions/Banks	1,040	0.00
Foreign Institutional Investors	4,525	0.02
Bodies Corporate	262,770	1.20
Individuals & others	2,073,854	9.44
Total	21,978,240	100.00

Table 10: Pattern of shareholding as on June 30, 2009

No. of shares	No. of shareholders	Shares held
1 - 5,000	4,450	1,338,845
5,001 - 10,000	49	340,735
10,001 - 20,000	23	313,968
20,001 - 30,000	6	147,880
30,001 - 40,000	2	68,468
40,001 - 50,000	0	-
50,001 - 100,000	2	132,893
100,001 and above	3	19,635,451
Total	4535	21,978,240

Plant location

8/9th Mile, Tumkur Road, Bangalore - 560 073, Karnataka.

Annexure II to the Directors' Report

Address for correspondence

For all matters relating to shares, demat, remat, annual report, etc.

Alpha Systems Private Limited
Unit: Kennametal India Limited
No. 30, "Ramana Residency", 4th Cross,
Sampige Road, Malleswaram,
Bangalore - 560 003
Phone : 080 - 23460815 to 818.
Fax : 080 - 23460819.
e-mail: alfint@vsnl.com

For dividend queries and other general matters:

The Company Secretary
Kennametal India Limited
8/9th Mile, Tumkur Road,
Bangalore - 560 073.
Phone: 080-28394321 and 22198345
Fax: 080 28397572
e-mail: poovanna.ammatanda@kennametal.com

e-mail: in.investorrelation@kennametal.com
for the purpose of addressing investor complaints
and also to take necessary follow-up action.

MD CERTIFICATION

To,
The Members
Kennametal India Limited

Pursuant to the Clause 49 of the listing agreement with Bombay Stock Exchange Limited, this is to confirm that all the Members of the Board and the Senior Management of the Company have confirmed compliance with the Code of Conduct of the Company for the year ended June 30, 2009.

For Kennametal India Limited

Dinakar A.
Managing Director

AUDITORS' CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENT

To the Members of Kennametal India Limited

We have examined the compliance of conditions of corporate governance by Kennametal India Limited for the year ended June 30, 2009, as stipulated in clause 49 of the Listing Agreement of the said company with the stock exchange in India.

The compliance of conditions of corporate governance is the responsibility of the company's management. Our examination was carried out in accordance with the Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement), issued by the Institute of Chartered Accountants of India and was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance on the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

For and on behalf of
Price Waterhouse
Chartered Accountants

Bangalore
August 28, 2009

Usha A Narayanan
Partner
Membership Number: 23997

Annexure III to the Directors' Report

Information under Section 217(1)(e) of the Companies Act, 1956 and Companies (Disclosure of Particulars) in the report of Board of Directors) Rules, 1988.

A] Conservation of Energy

a) *Energy conservation measures taken during the year*

- Installed T5 lamps with specially designed fixtures in place of mercury lamps in shop floors with high roof.
- The exhaust fans in the facility were replaced with energy efficient Kruger fans.
- Incorporated oil / gas heat exchanger in the heating system of spraying plant for efficient transfer of heat from thermic fluid to the gas.
- Modification of cooling water system with energy efficient pumps.
- Improved production planning process to ensure furnaces are loaded to full capacity
- Upgradation of ventilation system with energy efficient fans
- Use of air conditioners in the facility for optimum time and controlling the temp precisely.
- Modification of piping system of coolant pipes for optimum use of filtration system
- Modification in the electrical system for efficient loading of DG Set
- Sustenance of energy conservation projects of previous years by continuous monitoring of energy consumption daily and taking necessary actions.

b) *Additional investment and proposals being made to reduce energy consumption.*

- Improvement of the thermal efficiency of the furnaces
- Installation of vapour absorption machine for DG Set to produce chilled water for Air-conditioning
- Upgradation of dust collector system
- Improvement in circulation water system

c) *Impact of measures of (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods*

- In view of the above, power consumption is likely to reduce by 10% in comparison to previous year thereby saving about 11,00,000 units.
- Reduction of load by 300 KW

d) *Total energy consumption and energy consumption per unit of production as per Form A of the Annexure in respect of industries specified in the Schedule thereto*

- Not applicable

B] Technology Absorption

a) Research & Development (R&D)

1. *Specific areas in which R&D is carried out*

- Development of new grades for steel and cast iron turning
- Development of new grades for steel mill rolls
- Development of a new face-milling cutter with sixteen cutting edges
- Upgradation of existing milling insert special
- Development of a new grade for rail wheel axle machining
- Upgradation of pipe milling inserts design

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

- New range of products contributing to better market penetration, conversion and retention
- Leveraging the combination of Kennametal's strength in substrates and coatings
- Reduced cost of production and better customer experience.

Annexure III to the Directors' Report

3. Future plan of action
- New range of products for enhanced product portfolio
 - Improved market share
 - With the new and modern metal cutting lab facility in place now, more bench marking trials to be carried out

4. Expenditure on R & D

Rs. in Million

	2009	2008
a) Capital	3.03	18.53
b) Recurring	28.82	28.09
c) Total	31.85	46.62
d) Total R&D expenditure (as a percentage to turnover)	1.00	1.17%

b) Technology absorption, adaptation and innovation

1. Efforts, in brief, made towards technology absorption, adaptation and innovation- Absorption of global best in class practices and technology from the parent company have continued in the critical process areas
2. Benefits derived as a result of the above efforts, - Participation in and leading of global new product and process developments, global quality standardisation, increased global manufacturing flexibility, etc.
3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished.

Technology imported	Year of import	Has technology been fully absorbed	If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of action
1. Product and processing of solid carbide end mills	2008	Yes	NA
2. Establishing pressure sintering process	2009	Yes	NA
3. CNC pressing technology	2009	Yes	NA
4. Shear mixing technology for powder processing	2008	Yes	NA
5. Ball milling technology for fine powder manufacturing	2008	No	Process of absorption is on

C] Foreign exchange earnings and outgo

- i) Activities relating to exports, initiatives taken to increase export; development of new export markets for products and services and export plans

Some of your Company's products were qualified to be accepted as WIDIA brand inserts. Bangalore plant has been selected as global source plant for identified SKUs within Kennametal Group. Export of these inserts have already commenced during FY09. Significant ramp-up of volumes is expected to follow in the near future. As a part of WIDIA brand expansion in

Asia, identified products developed by the Company will be exported out of Bangalore to APAC region. The Solid Carbide Endmill Project for identified SKUs has been established and supplies have commenced. This project is poised for volume growth in the future years.

- ii) Total foreign exchange used and earned

1. Foreign Exchange earned	Rs.338.64 million
2. Foreign exchange used	Rs.121.95 million

AUDITORS' REPORT

AUDITORS' REPORT TO THE MEMBERS OF KENNAMETAL INDIA LIMITED

1. We have audited the attached Balance Sheet of Kennametal India Limited, as at June 30, 2009, the related Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditors' Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 (together 'the Order'), issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
 - (e) On the basis of the written representations received from the directors, as on June 30, 2009, and taken on record by the Board of Directors, none of the directors is disqualified as on June 30, 2009 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act, and also give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) In the case of the Balance Sheet, of the state of affairs of the Company as at June 30, 2009;
 - ii) In the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - iii) In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For and on behalf of
Price Waterhouse
 Chartered Accountants

Bangalore
 August 28, 2009

Usha A Narayanan
 Partner
 Membership Number: 23997

ANNEXURE TO AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' Report of even date to the members of Kennametal India Limited on the financial statements for the year ended June 30, 2009]

1. (a) The company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.

(b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.

(c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the company during the year.
2. (a) The inventory (including substantial stocks with third parties) has been physically verified by the management during the year. In respect of inventory lying with third parties, other than that which has been physically verified by the management, these have substantially been confirmed by them. In our opinion, the frequency of verification is reasonable.

(b) In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.

(c) On the basis of our examination of the inventory records, in our opinion, the company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
3. The company has not granted nor taken any loans, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under Section 301 of the Act, and hence paragraphs 3(b), 3(c) and 3(d) of the Order are not applicable.
4. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
5. (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements and exceeding the value of Rupees Five Lakhs in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
6. In our opinion and according to the information and explanations given to us, the company has complied with the directives issued by Reserve Bank of India and the provisions of Sections 58A and 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. According to the information and explanations given to us, no Order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal on the company in respect of the aforesaid deposits.

7. In our opinion, the company has an internal audit system commensurate with its size and nature of its business.
8. We have broadly reviewed the books of account maintained by the company in respect of products where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section (1) of Section 209 of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
9. (a) According to the information and explanations given to us and the

records of the company examined by us, in our opinion, the company is regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities.

- (b) According to the information and explanations given to us and the records of the company examined by us, the particulars of dues of income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess as at June 30, 2009 which have not been deposited on account of a dispute, are as follows –

Name of the statute	Nature of dues	Amount Rs.000's	Period to which the amount relates	Forum where the dispute is pending
The Central Excises and Salt Act, 1944	Excise Duty Matters	851	1994-1995	Supreme Court of India
		5,609	1999-2002	Supreme Court of India
		2,730	2003-2005	Additional Commissioner of Central Excise and Service Tax
		122	2005-2006	Additional Commissioner of Central Excise and Service Tax
		232	2005-2006	Customs, Excise and Service Tax Appellate Tribunal
		9,136	2005-2006	Commissioner of Central Excise and Service Tax
The Andhra Pradesh General Sales Tax Act	Sales Tax Matters	2,004	2005-2009	Additional Commissioner of Central Excise and Service Tax
		5,946	2003-2004	Appellate Tribunal

10. The company has no accumulated losses as at June 30, 2009 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
11. According to the records of the company examined by us and the information and explanation given to us, the company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the balance sheet date.
12. The company has not granted any loans and advances on the basis of security by way

of pledge of shares, debentures and other securities.

13. The provisions of any special statute applicable to chit fund / nidhi / mutual benefit fund/societies are not applicable to the company.
14. In our opinion, the company is not a dealer or trader in shares, securities, debentures and other investments.
15. In our opinion and according to the information and explanations given to us, the company has not given any guarantee for loans taken

- by others from banks or financial institutions during the year.
16. The company has not obtained any term loans.
17. On the basis of an overall examination of the balance sheet of the company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
18. The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
19. The company has not issued any debentures during the year and there are no debentures outstanding as at the year-end, therefore the question of creation of securities does not arise.
20. The company has not raised any money by public issues during the year.
21. During the course of our examination of the books and records of the company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the company, noticed or reported during the year, nor have we been informed of such case by the management.

For and on behalf of
Price Waterhouse
Chartered Accountants

Bangalore
August 28, 2009

Usha A Narayanan
Partner
Membership Number:23997

BALANCE SHEET

(Rs. in Thousands)

	Schedule	As at June 30, 2009	As at June 30, 2008
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	219,782	219,782
Reserves and Surplus	2	2,571,641	2,291,504
		<u>2,791,423</u>	<u>2,511,286</u>
Net Deferred Tax Liability [Schedule 16 Note 17(ii)]		-	28,302
		<u>2,791,423</u>	<u>2,539,588</u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	3	2,552,508	2,299,656
Less: Depreciation		<u>1,349,440</u>	<u>1,236,091</u>
Net Block		1,203,068	1,063,565
Capital Work in Progress		<u>11,423</u>	<u>53,938</u>
		<u>1,214,491</u>	<u>1,117,503</u>
Investments	4	1,085,237	590,382
Net Deferred Tax Asset [Schedule 16 Note 17(ii)]		17,955	-
Current Assets, Loans and Advances			
Inventories	5	350,477	501,122
Sundry Debtors	6	514,025	894,592
Cash and Bank Balances	7	109,789	163,752
Other Current Assets	8	7,353	6,545
Loans and Advances	9	87,251	173,783
		<u>1,068,895</u>	<u>1,739,794</u>
Less: Current Liabilities and Provisions	10		
Liabilities		412,463	725,876
Provisions		<u>182,692</u>	<u>182,215</u>
		595,155	908,091
Net Current Assets		<u>473,740</u>	<u>831,703</u>
		<u>2,791,423</u>	<u>2,539,588</u>
Notes on Accounts	16		

The Schedules referred to above and the notes thereon form an integral part of the Accounts.

This is the Balance Sheet referred to in our report of even date.

For and on behalf of
Price Waterhouse
Chartered Accountants

M.N.Bhagwat
Chairman

Dinakar A.
Managing Director

Usha A Narayanan
Partner
Bangalore
August 28, 2009

Rakesh Makhija
Frank P. Simpkins
Bernard North
Dr. Esat Kemal Yegenoglu
Directors

A.C. Poovanna
Company Secretary

PROFIT AND LOSS ACCOUNT

(Rs. in Thousands)

	Schedule	Year ended June 30, 2009	Year ended June 30, 2008
Income			
Sales (Gross)[Schedule 16 Note 1(ix)]	11	3,298,532	4,338,030
Less: Excise Duty		243,828	436,361
Sales (Net) [including sale of traded items]		3,054,704	3,901,669
Other Income	12	126,490	82,711
		3,181,194	3,984,380
Expenditure			
Materials	13	1,263,675	1,599,800
Manufacturing and Other Expenses	14	1,318,040	1,394,212
Depreciation		188,127	162,875
Interest	15	153	555
		2,769,995	3,157,442
Profit before Taxation		411,199	826,938
Provision for Taxation:			
Current Tax		169,819	262,557
Deferred Tax [Schedule 16 Note 17 (ii)]		(46,257)	10,651
Fringe Benefit Tax		7,500	9,450
Profit after Taxation		280,137	544,280
Profit brought forward from previous year		1,011,211	466,931
Profit carried to Balance Sheet		1,291,348	1,011,211
Basic/Diluted Earnings Per Share [Schedule 16 Note 18]		12.75	24.76

Notes on Accounts

16

The Schedules referred to above and the notes thereon form an integral part of the Accounts.

This is the Profit and Loss Account referred to in our report of even date.

For and on behalf of
Price Waterhouse
Chartered Accountants

M.N.Bhagwat
Chairman

Dinakar A.
Managing Director

Usha A Narayanan
Partner
Bangalore
August 28, 2009

Rakesh Makhija
Frank P. Simpkins
Bernard North
Dr. Esat Kemal Yegenoglu
Directors

A.C. Poovanna
Company Secretary

SCHEDULES TO ACCOUNTS

(Rs. in Thousands)

	As at June 30, 2009	As at June 30, 2008
1. Capital		
Authorised		
21,978,240 (2008: 21,978,240) Equity Shares of Rs.10/- each	219,782	219,782
Issued, Subscribed and Paid-up		
21,978,240 (2008: 21,978,240) Equity Shares of Rs.10/- each	219,782	219,782
	219,782	219,782
Notes:		
1. Of the above shares, 250,560 (2008: 250,560) Equity Shares are allotted as fully paid-up pursuant to contracts without payments being received in cash.		
2. Of the above shares, 21,520,360 (2008: 21,520,360) Equity Shares are allotted as fully paid-up by way of bonus shares by capitalisation of reserves.		
3. Of the above shares, 11,208,840 (2008: 11,208,840) Equity Shares are held by Meturit A.G. Zug, Switzerland, the holding company.		
2. Reserves and Surplus		
i) Securities Premium	921	921
ii) General Reserve		
As per Opening Balance	1,279,372	1,279,372
	1,279,372	1,279,372
iii) Profit and Loss Account Balance	1,291,348	1,011,211
Total (i+ii+iii)	2,571,641	2,291,504

SCHEDULE TO ACCOUNTS

3. Fixed Assets [Schedule 16 Note 1(ii), (iii) and (iv)]

Particulars	Gross Block (at Cost)				Depreciation			Net Block	
	July 1, 2008	Additions	Deletions / Adjustments	June 30, 2009	July 1, 2008	Additions	Deletions / Adjustments	June 30, 2009	July 1, 2008
Freehold Land	632	-	-	632	-	-	-	632	632
Buildings	64,682	1,514	-	66,196	41,321	2,321	-	22,554	23,361
Plant and Machinery:									
Data Processing Equipments	73,396	2,342	642	75,096	58,666	7,782	642	9,290	14,730
Others	2,094,683	323,925	76,970	2,341,638	1,094,907	168,157	71,193	1,149,767	999,776
Furniture and Fixtures:									
Furniture and Fixtures	30,096	2,921	1,695	31,322	17,899	4,734	1,543	10,232	12,197
Lease hold Improvements	4,844	-	-	4,844	3,866	462	-	516	978
Office Equipments	27,988	2,255	1,909	28,334	18,795	3,893	1,400	7,046	9,193
Vehicles	3,335	1,111	-	4,446	637	778	-	3,031	2,698
2008	2,299,656	334,068	81,216	2,552,508	1,236,091	188,127	74,778	1,203,068	1,063,565
	1,869,549	464,118	34,011	2,299,656	1,103,768	162,875	30,552		
Capital Work-in-Progress[Includes Capital Advances: Rs. Nil (2008: Rs.23,336)]								11,423	53,938
								1,214,491	1,117,503

SCHEDULES TO ACCOUNTS

(Rs. in Thousands)

	As at June 30,2009	As at June 30,2008
4. Investments [Schedule 16 Note 1(v)]		
Non-Trade		
Short Term Investments - Current *		
Mutual funds - Liquid funds	1,085,237	590,382
[Schedule 16 Note 14]	<u>1,085,237</u>	<u>590,382</u>
*at the lower of cost and fair value		
5. Inventories (net of provision) [Schedule 16 Note 1(vi)]		
Raw materials	90,276	112,972
[including goods in transit Rs.9,492(2008:Rs 18,053)]	19,547	17,711
Stores and spares	140,202	217,876
Work-in-progress		
Stock-in-trade:		
Finished goods	84,253	131,658
Traded goods	16,199	20,905
	<u>350,477</u>	<u>501,122</u>
6. Sundry Debtors		
(Unsecured, unless stated otherwise)		
Exceeding six months		
Considered good	-	-
Considered doubtful	16,941	7,387
Others:		
Considered good	514,025	894,592
	<u>530,966</u>	<u>901,979</u>
Less: Provision for doubtful debts	16,941	7,387
	<u>514,025</u>	<u>894,592</u>
Note:		
Refer schedule 16 Note 20 (A) regarding amount/ maximum outstanding from holding and fellow subsidiary		
7. Cash and Bank Balances		
Cash on hand	25	23
Balances with scheduled banks:		
Current accounts*	109,734	163,646
Term deposits	30	83
	<u>109,789</u>	<u>163,752</u>
* Includes Rs.813 (2008: Rs.1,262) towards unclaimed dividends		
8. Other Current Assets		
(Unsecured,considered good unless stated otherwise)		
Other deposits	7,353	6,545
	<u>7,353</u>	<u>6,545</u>

SCHEDULES TO ACCOUNTS

(Rs. in Thousands)

	As at June 30,2009	As at June 30,2008
9. Loans and Advances		
(Unsecured)		
Considered good:		
Loans to employees	7,663	12,292
Prepaid expenses	11,964	10,972
Balance with Excise Authorities	48,507	39,790
Advances recoverable in cash or in kind or for value to be received:		
Considered good [Refer Note]	19,117	110,729
Considered doubtful	2,911	2,673
	<u>90,162</u>	<u>176,456</u>
Less: Provision for doubtful advances	2,911	2,673
	<u>87,251</u>	<u>173,783</u>
Note:		
Includes foreign currency receivable on forward contracts		
Rs. Nil (2008: Rs. 63,785)		
10. Current Liabilities and Provisions		
A. Liabilities		
Sundry Creditors for goods, expenses and services [Schedule 16 Note 13]		
Micro, Small and Medium Enterprises	3,650	1,660
Others	269,363	452,712
Advances/Deposits from customers	67,000	105,272
Unclaimed dividends *	813	1,262
Unclaimed fixed deposits	412	438
Other liabilities**	71,225	164,532
	<u>412,463</u>	<u>725,876</u>
* There is no amount due and outstanding to be credited to Investor Education and Protection Fund		
** Includes amount payable on forward contracts:Rs.Nil (2008: Rs.64,418)		
B. Provisions		
Employee benefits		
Gratuity [Schedule 16 Note 15(ii) and (iii)]	51,061	42,839
Leave Encashment/Compensated Absences	74,349	51,588
Taxation (net):		
Current Tax	43,211	72,323
Fringe Benefit Tax	671	265
Product support [Schedule 16 Note 21]	13,400	15,200
	<u>182,692</u>	<u>182,215</u>

SCHEDULES TO ACCOUNTS

(Rs. in Thousands)

	Year ended June 30, 2009	Year ended June 30, 2008
11. Sales (Gross)		
Sales	3,270,423	4,316,535
Service Income	28,109	21,495
	<u>3,298,532</u>	<u>4,338,030</u>
12. Other Income		
Interest:		
From banks [gross]	7	53
[Tax deducted at source Rs. Nil (2008: Rs.12)]		
From others [gross]	95	995
[Tax deducted at source Rs.5 (2008: Rs.225)]		
Income from short term investments	47,386	32,232
Provisions no longer required *	50,033	29,353
Sale of scrap	6,092	8,776
Insurance claims	730	270
Profit on fixed assets sold (net)	-	3,748
Miscellaneous income	22,147	7,284
	<u>126,490</u>	<u>82,711</u>
* Includes provision for Product support no longer required Rs.1,800 (2008: Rs. Nil) [Schedule 16 Note 21]		
13. Materials		
Raw materials and components consumed	727,554	956,458
Traded goods	427,705	604,615
Movement in stocks:		
Opening stock:		
Work-in-progress	217,876	273,488
Finished goods	131,658	116,107
	<u>349,534</u>	<u>389,595</u>
Closing stock:		
Work-in-progress	140,202	217,876
Finished goods	84,253	131,658
	<u>224,455</u>	<u>349,534</u>
(Increase)/ Decrease in stocks	125,079	40,061
Excise duty on opening stock of finished goods	(28,151)	(29,485)
Excise duty on closing stock of finished goods	11,488	28,151
	<u>(16,663)</u>	<u>(1,334)</u>
Increase/ (Decrease) in excise duty	<u>1,263,675</u>	<u>1,599,800</u>

SCHEDULES TO ACCOUNTS

(Rs. in Thousands)

	Year ended June 30, 2009	Year ended June 30, 2008
14. Manufacturing and Other Expenses		
Employee Cost:		
Salaries, wages and bonus [including provision for Leave encashment Rs.29,685 (2008: Rs 19,838)]	545,367	517,739
Contribution to provident and other funds [Including provision for gratuity Rs.20,930 (2008:Rs.22,403)]	45,057	45,770
Staff welfare expenses	49,059	53,814
	639,483	617,323
Power and fuel	76,747	81,219
Stores and spares consumed	76,926	93,721
Subcontracting charges	70,210	92,925
Repairs and maintenance:		
Buildings	8	967
Plant and machinery [includes stores and spares consumed Rs. 33,689 (2008: Rs 35,014)]	57,594	66,403
	57,602	67,370
Rent	4,285	5,709
Bank charges	3,283	3,839
Rates and taxes	12,427	22,120
Insurance	6,410	10,261
Travelling and conveyance	66,084	71,218
Vehicle expenses	4,509	8,591
Legal and professional charges [Schedule 16 Note 11]	9,705	13,278
Communication expenses	12,626	12,002
Directors' Sitting Fee	370	490
Excise duty on samples, free issues and others etc.	17,851	21,678
Packing, forwarding and freight	27,413	33,858
Provision for product support [Schedule 16 Note 21]	-	350
Printing and stationery	5,419	6,327
Advertisement and sales promotion	7,934	21,639
Discount and rebates	534	722
Provision for bad and doubtful debts	13,263	6,097
Commission on sales	12,244	10,486
Assets written off	527	1,775
Information Technology services	110,470	112,235
Exchange loss (net)	15,587	10,511
Loss on fixed assets sold (net)	3,025	-
Miscellaneous	63,106	68,468
	1,318,040	1,394,212
15. Interest		
Finance leases	-	390
Others	153	165
	153	555

SCHEDULE TO ACCOUNTS

16. Notes on Accounts

1. Statement on Significant Accounting Policies

i. Basis of accounting and preparation of Financial Statements

The Company adopts the historical cost concept and accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) for the preparation of its accounts and complies with the applicable Accounting Standards notified under section 211(3C) of the Companies Act, 1956 and the relevant provisions of the Companies Act, 1956.

Use of estimate

The preparation of financial statements, in conformity with Generally Accepted Accounting Principles (GAAP), requires that the management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of financial statements and the reported amounts of revenue and expenses during the reported period.

ii. Fixed Assets

Fixed assets are stated at their original cost of acquisition and subsequent improvements thereto including taxes, duties, freight and other incidental expenses related to acquisition and installation of the assets concerned.

Own manufactured assets are capitalized at cost.

Operating software is capitalized along with fixed asset. Application software is expensed off on acquisition except in case of major application software, having unit value exceeding Rs.1,000 thousand or forming part of an overall project, which is amortized over its estimated useful life or project life.

iii. Leases

Assets acquired under Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Such leases are capitalized at the inception of the lease at lower of the fair value or the present value of the minimum lease payments and a liability is created for an equivalent amount. Each lease rental paid is allocated between the liability and the interest cost, so as to obtain a constant periodic rate of interest on the outstanding liability for each period.

Assets acquired as leases where a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Lease rentals are charged to the Profit and Loss Account on accrual basis.

iv. Depreciation

Depreciation is provided from the month of capitalization on a Straight Line Method at the rates prescribed in Schedule XIV of the Companies Act, 1956 except for the following where based on technical evaluation of the management, the rates are higher than Schedule XIV rates.

a) Owned assets

	% Per annum
Buildings:	
Factory	4.00
Non Factory	3.00
Plant and Machinery:	
Data processing equipments	20.00
Furniture and Fixtures, Vehicles and Office Equipments	20.00

Leasehold improvements are depreciated over the primary lease period. Machinery spares of irregular usage are amortized over the estimated useful lives of the respective Plant and Machinery.

SCHEDULE TO ACCOUNTS

16. Notes on Accounts..... contd.

b) Leased assets

Assets taken on finance lease are depreciated over its estimated useful life or the lease term whichever is lower except in case of leased assets, where there is a reasonable certainty that the ownership of the assets will be obtained at the end of the lease term, which are depreciated over the estimated useful life.

v. Investments

Long-term investments are stated at cost. A provision for diminution is made to recognise a decline, other than temporary, in the value of long term investments. Current Investments are stated at lower of cost and fair value.

vi. Inventories

Inventories are valued at lower of cost and net realisable value except in case of Stores and Spares which are valued at cost, after providing for the old, damages, obsolescence and other anticipated losses, wherever considered necessary.

The costs are, in general, ascertained as under:

Raw Materials and Components	: Moving weighted average method, cost ascertained based on standard cost.
Stores and Spares	: Moving weighted average method.
Work-in-Progress	: Material cost plus appropriate manufacturing overheads.
Stock in trade:	
Finished Goods	: On a first in first out basis, cost being ascertained based on standard cost.
Traded Goods	: Moving weighted average method

vii. Foreign Currency Transactions

Transactions in foreign currency are recognised at the rate of exchange ruling on the dates of the transaction.

Liabilities/Assets in foreign currencies are reckoned in the accounts as per the following principles:

Foreign currency liabilities contracted for acquiring fixed assets are restated at the rates ruling at the year end and all exchange differences arising as a result of such restatement are adjusted to the profit and loss account.

All monetary assets and liabilities denominated in foreign currency are restated at the rates ruling at the year end and all exchange gains / losses arising there from are adjusted to the Profit and Loss Account, except those covered by forward contracted rates where the premium or discount arising at the inception of such forward exchange contract is amortised as expenses or income over the life of the contract.

Exchange difference on forward contracts are recognised in the Profit and Loss Account in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such forward contracts is recognised as income or expense for the year.

viii. Research and Development

Revenue expenditure on research and development is charged under respective heads of account. Capital expenditure on research and development is included as part of fixed assets and depreciated on the same basis as other fixed assets.

ix. Revenue Recognition

Revenue from sale of products is recognized when risk of loss, title and insurable risk have transferred to the customer, which in most cases, coincides with shipment of the related products. Further the revenue from sale of special purpose machine is recognized upon customer acceptance and despatch. A sale is recognised net of sales returns, trade discount, sales tax and service tax but includes excise duty wherever applicable.

SCHEDULE TO ACCOUNTS

16. Notes on Accounts..... contd.

Income from services rendered is recognised based on agreements/arrangements with customers. Interest and other income are accounted for on accrual basis.

x. Employee Benefits

Gratuity:

The Company has an obligation towards gratuity, a defined benefit retirement plan covering eligible employees. The Company has an Employees Gratuity Fund managed by Life Insurance Corporation of India (LIC). The Company accounts for the liability of Gratuity Benefits payable in future based on an independent actuarial valuation using the projected unit credit method at the Balance Sheet date.

Leave Encashment/ Compensated Absences:

The Company provides for the encashment of leave with pay subject to certain rules. The employees are entitled to accumulate leave subject to certain limits, for future encashment/ availment. The liability is provided based on the number of days of unutilized leave at each balance sheet date on the basis of an independent actuarial valuation.

Provident Fund:

Contributions payable in respect of Provident Fund, which is a defined contribution scheme, is charged to the profit and loss account. Refer Note 15 (i).

xi. Provisions and Contingent Liabilities

Provisions are recognised when the Company has a present obligation as a result of past obligating events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed regularly and are adjusted where necessary to reflect the current estimates of the obligation. When the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset, only when such reimbursement is virtually certain.

Contingent liability is disclosed when there is a present or possible obligation, the settlement of which may not involve an outflow of resources. No disclosure is made when the possibility of outflow of resources is remote.

xii. Taxation

Current and Deferred Tax:

Tax on income for the current year is determined on the basis of the Income Tax Act, 1961.

Deferred tax is recognised on timing differences between the accounting income and the taxable income for the year and quantified using the tax rates and laws enacted or substantively enacted as on the Balance Sheet date.

Deferred tax assets are recognised and carried forward to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax asset can be realised.

Fringe benefit tax:

Fringe benefit tax is determined at current applicable rate on expenses falling within the ambit of "Fringe benefit" as defined under the Income Tax Act, 1961.

xiii. Segment Accounting

Segment Accounting Policies

Segment accounting policies are generally in line with the accounting policies of the Company. However, the following specific accounting policies have been followed for segment reporting:

- a) Segment revenue includes sales and other income directly identifiable with / allocable to the segment.

SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

16. Notes on Accounts..... contd.

- b) Expenses that are directly identifiable with / allocable to segments are considered for determining segment results. The expenses, which relate to the Company as a whole and not allocable to segments, are included under "Unallocable Corporate Expenses".
- c) Income, which relates to the Company, as a whole and not allocable to segments is included in "Unallocable Corporate Income".
- d) Segment assets and liabilities include those directly identifiable with respective segments. Unallocable corporate assets and liabilities represent the assets and liabilities that relate to the Company as a whole and not allocable to any segment.

Inter-Segment Transfer Pricing

Inter-segment transactions are not included in the segment revenue and are accounted at cost.

xiv. Earnings Per Share

Earnings (basic and diluted) per equity share is arrived at based on Profit/ (Loss) after taxation to the basic / weighted average number of equity shares.

xv. Impairment of Assets

At each balance sheet date, the Company assess whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount. If the carrying amount of the assets exceeds its recoverable amount, an impairment loss is recognised in the profit and loss account to the extent the carrying amount exceeds recoverable amount.

xvi. Product Support

The estimated liability for product support is recorded when products are sold. These estimates are established using historical information on the nature, frequency and average cost of product support claims and management estimates regarding possible future incidence based on corrective actions on product failures.

2. Commitments

There exists Capital Commitments (net of advances) Rs.43,381 (2008: Rs. 189,973)

3. Contingent Liabilities

a)

Nature of Contingent Liability	2009	2008
Excise Duty / Service Tax	20,684	9,425
Sales Tax (Includes differential tax liability on account of pending declaration forms)	60,557	54,805
Total	81,241	64,230

- b) The company has obtained licenses under the EPCG scheme for importing capital goods at a concessional rate of custom duty. The scheme requires the company to manufacture and export goods equivalent to eight times the duty saved within a period of 8 years from the date of respective Licenses.

Accordingly the company is required to manufacture and export the committed licensed products and fulfill the balance export obligation of Rs. 1,295,600 (2008: Rs.1,686,262) to be met over a period ending in 2013, based on block periods. In case of non-fulfillment of export obligation the company is liable to pay total duty saved of Rs.58,268 (2008: Rs.58,268) [(Customs duty Rs.22,575 (2008: Rs. 22,575) and Counter Vailing duty of Rs.35,693(2008: Rs. 35,693)] and an interest liability of Rs. 61,028 (2008: Rs.61,043). In such a case as per the terms of Licence, proportionate duty saved and interest will be accounted and paid. Such customs duty paid will be capitalized and Cenvat credit will be availed on the Counter Veiling duty.

Note: There are certain non-quantifiable industrial disputes pending before various judicial authorities.

SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

16. Notes on Accounts..... contd.

4. Quantitative Information in respect of goods manufactured and sold by the Company:

A. Particulars of capacity and production:

Class of Goods	Unit	Licensed Capacity [Note (i)]	Installed Capacity [Note (ii)]	Production
Hard metal and hard metal products	MT	240	210	-
	Nos	-	-	7,135,173
	Nos	-	-	(9,121,690)
Machine tools				
a) Special purpose machines including accessories	Nos	200	150	57
	Nos	(200)	(125)	(96)
b) Jigs and fixtures	Rs. 000's	10,000	250,000	18,990
	Rs. 000's	(10,000)	(60,000)	(24,579)

Notes:

- (i) The capacities specified under 'Licensed Capacity' are the capacities as per the carry on business licenses, registration letters and industrial licenses, issued under the Industries (Development and Regulation) Act 1951. However, licensing of products of the Company has since been discontinued.
- (ii) The Installed Capacity has been certified by the Company's management and relied upon by the Auditors, this being a technical matter.
- (iii) Production has been arrived at on the basis of opening stock plus purchases less sales and closing stock after adjustment towards shortage/excess, write off, etc.
- (iv) Figures in brackets relate to previous year.

B. Particulars of opening and closing stock of stocks in trade:

Class of goods	Unit	Opening stock		Closing stock	
		Quantity	Value	Quantity	Value
Hard metal and hard metal Products including tools					
Manufactured	Nos.	1,089,465	131,623	851,426	83,981
	Nos.	(1,199,071)	(109,605)	(1,089,465)	(131,623)
Traded	Nos.	81,969	19,570	59,772	15,814
	Nos.	(54,691)	(15,225)	(81,969)	(19,570)
Machine tools	Nos.	2	-	2	-
	Nos.	(2)	(6,429)	(2)	-
Others (individually less than 10% of the total stock)			1,370		657
			(180)		(1,370)
Total			152,563		100,452
			(131,439)		(152,563)

Note: Figures in brackets relate to previous year.

SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

16. Notes on Accounts..... contd.

C. Particulars of turnover of stocks in trade:

Class of goods	Unit	Turnover	
		Quantity	Value
Hard metal and hard metal products including tools	Nos.	8,455,063	2,501,315
	Nos.	(10,992,165)	(3,146,155)
Machine Tools	Nos.	57	376,212
	Nos.	(96)	(606,898)
Jigs and Fixtures		-	87,517
			(56,120)
Others (individually less than 10% of the total turnover)			61,551
			(71,001)
Total			3,026,595
			(3,880,174)

Note: Figures in brackets relate to previous year.

D. Particulars of purchase of traded goods:

Class of goods	Unit	Quantity	Value
Hard metal and hard metal products including tools	Nos.	1,365,236	447,035
	Nos.	(1,788,147)	(611,251)
Others (individually less than 10% of the total purchases)			9,059
			(17,451)
Total			456,094
			(628,702)

Note: Figures in brackets relate to previous year.

5. Particulars of raw materials and components consumed:

	Unit	2009		2008	
		Quantity	Value	Quantity	Value
Tungsten trioxide and ready mixed powder	MT	145.22	193,849	215.40	306,806
Tantalum niobium carbide	MT	2.72	20,668	3.13	20,625
Cobalt metal powder	MT	12.18	67,117	18.26	60,683
Steel			21,954		23,489
Components			188,611		283,588
Others (individually less than 10% of the total consumption)			235,355		261,267
			727,554		956,458
Whereof:		%	Value	%	Value
Imported		60	434,197	63	603,359
Indigenous		40	293,357	37	353,099
		100	727,554	100	956,458

SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

16. Notes on Accounts..... contd.

6. Consumption of stores and spare parts:

	2009		2008	
	%	Value	%	Value
Imported	21	23,743	30	38,774
Indigenous	79	86,872	70	89,961
	100	110,615	100	128,735

Note:

- The value of raw material consumed (Note 5) and stores and spare parts consumed (Note 6) has been arrived at on the basis of opening stock plus purchases less closing stock.
- Consumption therefore includes adjustment for shortage/ excess, write-off and provision for old/ damaged/ obsolete inventory of Rs. 12,409 (2008: Rs. 5,296)

7. a) Managerial Remuneration

	2009	2008
i) Remuneration of Managing Director		
Salary and Allowances	5,642	5,130
Contribution to provident and other funds *	512	449
Perquisites	138	115
Incentive (Performance Pay)	-	2,100
	6,292	7,794
ii) Director's Sitting Fee	370	490
iii) Commission to non-whole time directors	1,200	1,400

* Excludes provision for leave encashment and gratuity.

b) Computation of net profit in accordance with section 198 of the Companies Act, 1956 and the commission payable to the directors:

	2009	2008
Profit before taxation	411,199	826,938
Add:		
Depreciation as per books	188,127	162,875
Provision for bad and doubtful debts	13,263	6,097
Managerial remuneration	6,292	7,794
Loss / (Profit) on sale of fixed assets as per books	3,552	(1,974)
Directors' sitting fee	370	490
Commission to non-whole time directors	1,200	1,400
	624,003	1,003,620
Less:		
Depreciation as per section 350 of the Companies Act, 1956	188,127	162,875
Bad debts written off/written back	77	160
Loss / (Profit) on sale of fixed assets as per section 349 of the Companies Act, 1956	4,016	(783)
Net profit as per section 198 of the Companies Act	431,783	841,368
Non whole-time directors commission @ 1 %	4,318	8,414
Manager's remuneration @ 5 %	21,589	42,068
Commission payable to non-whole time directors	1,200	1,400
(% of net profit)	0.28%	0.17%
Remuneration to Managing Director	6,292	7,794
(% of net profit)	1.46%	0.93%

SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

16. Notes on Accounts..... contd.

8. Value of imports on C.I.F. basis:

	2009	2008
Raw materials	984,347	1,303,664
Stores and spares	56,461	59,914
Capital goods	241,583	340,086

9. Expenditure in foreign currency (on accrual basis):

	2009	2008
Travelling	7,929	15,140
Information Technology Services	110,254	112,235
Miscellaneous expenses	3,762	2,774

10. Earnings in foreign currency (on receipt basis):

	2009	2008
Export of goods calculated on F.O.B. basis	320,830	231,103
Others	17,810	22,781

11. Auditors' remuneration* (Included under legal and professional charges in Schedule 14)

	2009	2008
Statutory audit	1,375	1,375
Tax audit fee	400	400
Other Audit related services	3,350	3,775
Out-of-pocket expenses	100	100

* Excluding service tax

12. Particulars of research and development expenditure:

	2009	2008
Capital	3,030	18,528
Revenue expenditure debited to various heads of account	28,823	28,090

13. Disclosure of dues / payments to Micro, Small and Medium enterprises to the extent such enterprises are identified by the company.

	2009	2008
(a) The principal amount remaining unpaid as at June 30, 2009	3,650	1,660
Interest due thereon remaining unpaid on June 30, 2009	Nil	6
(b) The amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year.	Nil	Nil
(c) The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006	Nil	Nil

SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

16. Notes on Accounts..... contd.

Disclosure of dues / payments to Micro, Small and Medium enterprises to the extent such enterprises are identified by the company. contd.

(d) The amount of interest accrued and remaining unpaid on June 30, 2009 in respect of principal amount settled during the year (estimated)	Nil	Nil
(e) The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006. (estimated)	Nil	Nil

Note: The information has been given in respect of such suppliers to the extent they could be identified as "Micro and Small" enterprises on the basis of information available with the Company as on June 30, 2009

14. Investments

A. Non -Trade (at the lower of cost and fair value including Dividend reinvested)

Name of the Fund	2009	2008
ICICI Prudential - Flexible Income Plan Dividend - Daily- Reinvest Dividend	-	70,055
ICICI Prudential Institutional Liquid Plan Super Institutional Daily Dividend Reinvestment	120,033	-
Templeton India Ultra Short Bond Fund Super Institutional Plan - Daily Dividend Reinvestment	-	70,053
Templeton India Treasury Management Account Super Institutional Plan - Daily Dividend Reinvestment	120,035	-
HSBC Liquid Plus-Inst. Plus-Daily Dividend	-	70,052
ABN AMRO Money Plus Institutional Plan Daily Dividend	-	70,000
Birla Sun Life Liquid Plus - Instl. - Daily Dividend -Reinvestment	-	70,054
Birla Sun Life Cash Plus Fund - Instl. Prem. - Daily Dividend -Reinvestment	120,027	-
HDFC Floating Rate Income Fund - Short Term Plan - Wholesale Option - Dividend Reinvestment	-	70,054
SBI-SHF-Liquid Plus - Institutional Plan - Daily Dividend	-	30,005
SBI Premier Liquid Fund - Institutional - Daily Dividend	125,023	-
TATA Liquid Super High Investment Fund - Daily Dividend	120,026	70,052
JPMorgan India Liquid Fund – Super Inst. Daily Dividend Plan - Reinvestment	120,024	70,057
IDFC Cash Fund Super InstPlan C - Daily Dividend	120,026	-
Principal Cash Management Fund-Liquid Option Instl. Prem. Plan - Daily Dividend Reinvestment	120,023	-
Fortis Overnight Fund -Institutional Daily Dividend	120,020	-
	1,085,237	590,382

SCHEDULE TO ACCOUNTS

16. Notes on Accounts..... contd.

B. Non-trade Investments in Units of Mutual Funds

Number of Units

Name of the Fund	Opening July 1, 2008	During the year		Closing June 30, 2009
		Purchases	Sales	
Prudential ICICI Institutional Liquid Plan - Super Institutional Daily Dividend	-	46,897,042	34,896,132	12,000,910
ICICI Prudential - Flexible Income Plan Dividend - Daily- Reinvest Dividend	6,625,484	2,587,257	9,212,741	-
Templeton India Treasury Management Account Super Institutional Plan - Daily Dividend Reinvestment	-	215,475	95,521	119,954
Templeton India Ultra Short Bond Fund Super Institutional Plan - Daily Dividend Reinvestment	6,992,146	128,150	7,120,296	-
DWS Insta Cash Plus Fund - Institutional Plan - Daily Dividend	-	18,031,802	18,031,802	-
DWS Ultra Short Term Fund - Regular Daily Dividend Plan	-	3,046,310	3,046,310	-
Principal Cash Management Fund-Liquid Option Instl. Prem. Plan - Daily Dividend Reinvestment	-	26,953,340	14,951,897	12,001,443
ABN Amro Moneyplus Institutional Plan - Daily Dividend	7,000,000	74,243	7,074,243	-
Fortis Overnight Fund -Institutional Daily Dividend	-	16,912,104	4,913,735	11,998,369
JM High Liquidity Fund - Super Institutional Plan - Daily Dividend	-	27,473,426	27,473,426	-
Birla Sun Life Savings Fund - Instl. - Daily Dividend -Reinvestment	7,000,678	3,377,178	10,377,856	-
Birla Cash Plus - Instl. - Daily Dividend -Reinvestment	-	40,776,005	28,796,692	11,979,313
HDFC Floating Rate Income Fund - Short Term Plan - Wholesale Option - Dividend Reinvestment	6,949,137	3,446,539	10,395,676	-
HDFC Cash Management Fund - Savings Plan - Daily Dividend Reinvestment Option	-	3,324,223	3,324,223	-
HDFC Liquid Fund - Dividend - Daily Reinvest Option	-	17,795,882	17,795,882	-
Canara Robeco Liquid Fund -Institutional Daily Dividend Reinvest Option	-	14,640,192	14,640,192	-
Canara Robeco Treasury Advantage Institutional Daily Dividend Fund	-	12,668,222	12,668,222	-

SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

16. Notes on Accounts..... contd.

Non-trade Investments in Units of Mutual Funds contd.

Name of the Fund	Opening July 1, 2008	During the year		Closing June 30, 2009
		Purchases	Sales	
SBI Premier Liquid Fund - Institutional - Daily Dividend	-	49,459,828	36,997,994	12,461,834
SBI-SHF- Ultra Short Term Fund - Institutional Plan- Daily Dividend	2,999,030	78,931	3,077,961	-
ING Liquid Fund Institutional - Daily Dividend Option	-	7,039,025	7,039,025	-
ING Liquid Plus Fund - Institutional Daily Dividend	-	5,456,512	5,456,512	-
TATA Liquid Super High Investment Fund - Daily Dividend	62,854	417,661	372,822	107,693
TATA Floater Fund - Daily Dividend	-	7,194,840	7,194,840	-
JPMorgan India Treasury Fund - Super Inst. Daily Div Plan - Reinvestment	6,999,445	3,379,231	10,378,676	-
JPMorgan India Liquid Fund - Dividend Plan - Reinvestment	-	34,698,445	22,705,530	11,992,915
HSBC Ultra Short Term Bond Fund- Inst.Plus-Daily Dividend	6,996,410	2,867,704	9,864,114	-
HSBC Cash Fund- Institutional Plus - Daily Dividend	-	19,168,376	19,168,376	-
Reliance Medium Term Fund-Daily Dividend Plan	-	1,026,061	1,026,061	-
Reliance Liquid Fund - Treasury Plan-Institutional Option - Daily Dividend Option	-	1,965,720	1,965,720	-
IDFC Money Manager Fund - TP - Super Inst Plan C - Daily Dividend	-	7,992,560	7,992,560	-
IDFC Cash Fund - Super Inst Plan C - Daily Dividend	-	39,092,556	27,092,829	11,999,727

Note: Units sold includes units cumulated upto the date of sale.

15. Employee Benefits

- i) The company has recognised, in the profit and loss account for the year ended June 30, 2009 an amount of Rs. 23,426 (2008: Rs. 22,700) expenses under defined contribution plan

Benefit (contribution to)	2009	2008
Provident Fund	17,245	16,731
Employees Pension Scheme	6,181	5,969
	23,426	22,700

The Company's Provident Fund is exempted under Section 17 of Employees' Provident Fund Act, 1952. Conditions for grant of exemption stipulates that the employer shall make good deficiency, if any, in the interest rate declared by Trust over statutory limit. Having regard to the assets of the Fund and the return on the investments, the company does not expect any deficiency in the foreseeable future.

SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

16. Notes on Accounts..... contd.

- ii) The company operates post retirement defined benefit plan for retirement gratuity which is funded
- iii) Details of the post retirement gratuity plan are as follows:

	2009	2008
I. Reconciliation of opening and closing balances of obligation		
a. Obligation as at the beginning of the year	105,633	90,343
b. Current Service Cost	19,205	21,530
c. Interest Cost	7,894	6,726
d. Actuarial (Gain)/Loss	(785)	(422)
e. Benefits Paid	(13,922)	(12,544)
f. Obligation as at the end of the year	118,025	105,633

II. Change in Plan Assets (Reconciliation of opening and closing balances)		
a. Fair Value of Plan Assets as at the beginning of the year	62,794	56,892
b. Expected return on Plan Assets	4,953	4,570
c. Actuarial Gain/(Loss)	431	861
d. Contributions	12,708	13,015
e. Benefits Paid	(13,922)	(12,544)
f. Fair Value of Plan Assets as at the end of the year	66,964	62,794

III. Reconciliation of fair value of assets and obligations		
a. Present Value of Obligation as at the end of the year	118,025	105,633
b. Fair value of Plan Assets as at the end of the year	(66,964)	(62,794)
c. Amount recognised in the Balance Sheet	51,061	42,839

IV. Expense recognised during the year		
a. Current Service Cost	19,205	21,530
b. Interest Cost	7,894	6,726
c. Expected return on Plan Assets	(4,953)	(4,570)
d. Actuarial (Gain)/Loss	(1,216)	(1,283)
e. Expense recognised during the year	20,930	22,403

The expense is disclosed in the line item - Contribution to provident and other funds

V. Assumptions		
a. Discount Rate (per annum)	8%	8%
b. Interest Rate (per annum)	8%	8%
c. Estimated Rate of return on Plan Assets (per annum)	8%	8%
d. Rate of escalation in Salary (per annum)	1% - 5%	5%

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market.

SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

16. Notes on Accounts..... contd.

16. Segment Reporting

The Company is manufacturing

- (i) Hard metal and hard metal products and
- (ii) Machine Tools

for the domestic and export markets. Accordingly, the primary segmental reporting is based on the products manufactured while the secondary segmental reporting is restricted to the domestic sales and exports.

A. Primary Segment Reporting

Business Segment	Machine Tool		Hard Metal & Hard Metal Products		Total	
	2009	2008	2009	2008	2009	2008
Revenue						
External Sale (Gross)	521,892	782,701	2,776,640	3,555,329	3,298,532	4,338,030
Less: Excise Duty	50,162	99,657	193,666	336,704	243,828	436,361
External Sales (Net)	471,730	683,044	2,582,974	3,218,625	3,054,704	3,901,669
Other Income (Excluding interest income)	15,923	1,266	63,123	44,846	79,046	46,112
Total Revenue	487,653	684,310	2,646,097	3,263,471	3,133,750	3,947,781
Result						
Segment Result	56,098	66,954	520,941	985,959	577,039	1,052,913
Unallocated Corporate Expenses (Net of Income)	-	-	-	-	213,174	258,701
Operating Profit / (Loss)	-	-	-	-	363,865	794,212
Add: Interest Income	-	-	-	-	47,488	33,280
Less: Interest Expenses	-	-	-	-	153	555
Less: Income tax - Deferred	-	-	-	-	(46,257)	10,651
Less: Income tax - Current	-	-	-	-	169,819	262,557
Less: Fringe Benefit Tax	-	-	-	-	7,500	9,450
Net Profit / (Loss)	-	-	-	-	280,137	544,280
Other Information						
Segments Assets	122,880	262,581	2,012,210	2,315,883	2,135,090	2,578,465
Unallocated Corporate Assets	-	-	-	-	1,233,534	869,214
Total Assets	122,880	262,581	2,012,210	2,315,883	3,368,624	3,447,679
Segment Liabilities	104,426	235,701	437,603	591,665	542,030	827,366
Unallocated Corporate Liabilities	-	-	-	-	53,125	80,725
Total Liabilities	104,426	235,701	437,603	591,665	595,155	908,091
Capital Expenditure	2,456	2,678	288,567	435,603	291,023	438,281
Unallocated Capital Expenditure	-	-	-	-	531	10,324
Depreciation	10,069	11,523	170,693	139,554	180,763	151,077
Unallocated Depreciation	-	-	-	-	7,364	11,798

B. Secondary Segmental Reporting

Geographical Segment	Revenue		Carrying amount of segment assets		Capital Expenditure	
	2009	2008	2009	2008	2009	2008
India	2,824,119	3,749,378	3,368,624	3,447,679	291,554	448,605
Outside India	309,631	198,403	-	-	-	-
Total	3,133,750	3,947,781	3,368,624	3,447,679	291,554	448,605

SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

16. Notes on Accounts..... contd.

17. Taxation

i. Transfer Pricing

For the year ended March 31, 2009 the company is in the process of complying with the Transfer Pricing regulations.

ii. Accounting for taxes on income disclosure as per AS-22.

Major components of Deferred Tax Assets and Liabilities on account of timing difference as at June 30, 2009 are:

	Asset		Liability	
	2009	2008	2009	2008
a. Expenses allowable for tax purposes when paid	85,281	48,725	-	-
b. Provision for doubtful debts/ advances	5,758	2,511	-	-
c. Provision for non-moving and surplus inventory	14,791	10,396	-	-
d. Voluntary retirement scheme compensation paid/payable to employees allowable in subsequent years		-	-	-
e. Depreciation		-	87,875	89,934
	105,830	61,632	87,875	89,934
Net Deferred Tax Asset / (Liability)	17,955	(28,302)		
Net Deferred Tax (Credit) / Debit for the year	(46,257)	10,651		

The tax impact for the above purpose has been arrived by applying a tax rate of 33.99% (2008: 33.99%) being the prevailing tax rate for Indian companies under the Income Tax Act, 1961.

18. Earnings Per Equity Share

	2009	2008
Profit attributable to equity shareholders	280,137	544,280
Weighted average number of equity shares outstanding during the year (Nos.)	21,978,240	21,978,240
Nominal value of Equity share (Rs.)	10	10
Basic and diluted earnings per share (Rs.)	12.75	24.76

19. Accounting for Lease has been made in accordance with the Accounting Standard – 19 notified under section 211(3C) of the Companies Act, 1956 and the relevant provisions of the Companies Act, 1956.

Operating Lease:

The Company has various operating leases for motor vehicles, equipments, office facilities, residential premises for employees etc. Such leases are generally with options of renewal against increased rent and premature termination of agreement through notice period of 1 to 3 months. The particulars of these leases are as follows:

Particulars	2009	2008
Minimum lease payments debited to various heads of account	23,896	32,972

There are no contingent rents.

20. Related Party Disclosures

A) Summary of the transactions with related parties is as follows

(Rs. in Thousands)

	Parties where Control Exist [B(a)]		Fellow Subsidiaries [B(b)]		Key Management Personnel [B(c)]		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Sales - Total	129,972	39,278	151,554	138,980	-	-	281,526	178,257
In excess of 10%								
Kennametal Europe GmbH, Germany	64,995	-	-	-	-	-	64,995	-
Kennametal Inc., USA	64,977	30,036	-	-	-	-	64,977	30,036
Hanita Metal Works Ltd	-	-	85,407	103,895	-	-	85,407	103,895
Kmt Distribution Services Asia Pte.	-	-	35,623	23,070	-	-	35,623	23,070
Services Rendered- Others	-	-	5,340	2,670	-	-	5,340	2,670
Services Rendered Others - in excess of 10%								
Kennametal Shared Services Private Limited	-	-	5,340	2,670	-	-	5,340	2,670
Reimbursement of Expenses	3,524	7,786	6,608	15,800	-	-	10,132	23,586
Reimbursement of Expenses - in excess of 10%								
Extrude Hone Corporation	-	-	3,689	5,845	-	-	3,689	5,845
Kennametal Technologies GmbH	-	-	1,241	-	-	-	1,241	-
Kmt Distribution Services Asia Pte.	-	-	1,234	6,058	-	-	1,234	6,058
Kennametal Inc., USA	3,516	7,786	-	-	-	-	3,516	7,786
Finance	-	-	20	995	-	-	20	995
Interest on Loan - Others in excess of 10%								
Interest on Loan Received from KSSPL	-	-	20	995	-	-	20	995
Managerial Remuneration	-	-	-	-	6,292	7,794	6,292	7,794
Purchases - Total	397,213	563,906	151,321	211,608	-	-	548,534	775,514
Purchase of Goods- Capital Goods	9,807	878	46	4,894	-	-	9,853	5,772
Purchase of Capital Goods- Others in excess of 10 %								
Kennametal Europe GmbH	-	878	-	-	-	-	-	878
Hanita Metal Works Limited	-	-	-	3,689	-	-	-	3,689
Kennametal Inc., USA	9,381	-	-	-	-	-	9,381	-
Conforma Clad, New Albany	-	-	-	1,205	-	-	-	1,205
Purchase of Goods- Others	387,406	563,028	151,275	206,714	-	-	538,681	769,742
Purchase of Goods- Others in excess of 10 %								
Kennametal Hertel GmbH Co. KG, Germany	223,780	334,170	-	-	-	-	223,780	334,170
Kennametal Inc., USA	163,626	228,867	-	-	-	-	163,626	228,867
Kmt Distribution Services Asia Pte.	-	-	145,088	184,829	-	-	145,088	184,829
Services Received / Recharge of Expenses - Total	114,625	117,509	613	3,783	-	-	115,238	121,292
Services Received - Information technology services	110,254	112,235	-	-	-	-	110,254	112,235
Services Received - Information technology services in excess of 10%								
Kennametal Inc., USA	110,254	112,235	-	-	-	-	110,254	112,235
Recharge of Expenses	4,371	5,274	613	3,783	-	-	4,984	9,057
Recharge of Expenses in excess of 10%								
Kennametal Technologies GmbH	169	-	-	-	-	-	169	-
Conforma Clad, New Albany	-	-	-	1,045	-	-	-	1,045

16. Notes on Accounts..... contd.

SCHEDULE TO ACCOUNTS

SCHEDULE TO ACCOUNTS

16. Notes on Accounts..... contd.

20. Related Party Disclosures

A) Summary of the transactions with related parties is as follows (Contd...)

(Rs. in Thousands)

	Parties where Control Exist [B(a)]		Fellow Subsidiaries [B(b)]		Key Management Personnel [B(c)]		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Hanita Metal Works Limited	-	-	129	2,247	-	-	129	2,247
Kennametal Shared Services Pvt Ltd	-	-	264	-	-	-	264	-
Kennametal Inc, USA	4,371	5,274	-	-	-	-	4,371	5,274
Outstanding Receivables - Trade + Others	13,926	3,228	8,718	38,755	-	-	22,644	41,983
Trade Receivables	13,926	2,564	8,198	35,319	-	-	22,124	37,883
Trade Receivables in excess of 10%	-	-	-	-	-	-	-	-
Hanita Metal Works Limited	-	-	-	30,916	-	-	-	30,916
(Maximum amount during the year Rs. 34,322)	-	-	-	-	-	-	-	-
Kennametal Inc.	8,321	-	-	-	-	-	8,321	-
(Maximum amount during the year Rs 25,981)	-	-	-	-	-	-	-	-
KMT Distribution Services Asia Pte	-	-	3,213	-	-	-	3,213	-
(Maximum amount during the year Rs 4,147)	-	-	-	-	-	-	-	-
Kennametal Europe GmbH - DWW1 - Germany	5,605	-	-	-	-	-	5,605	-
(Maximum amount during the year Rs 8,160)	-	-	-	-	-	-	-	-
Outstanding Receivables - Others	-	664	520	3,436	-	-	520	4,100
Other Receivables in excess of 10%	-	-	-	-	-	-	-	-
Kennametal Inc.	-	664	-	-	-	-	-	664
KMT Distribution Services Asia Pte	-	-	234	1,365	-	-	234	1,365
Extrude Hone Corporation	-	-	117	1,883	-	-	117	1,883
Kennametal Shared Services Pvt Ltd	-	-	169	-	-	-	169	-
Outstanding Payables - Trade	63,724	82,849	12,537	21,020	-	-	76,261	103,869
Trade Payables	40,815	82,073	12,326	21,020	-	-	53,142	103,093
Trade Payables in excess of 10%	-	-	-	-	-	-	-	-
Kennametal Inc., USA	19,992	53,709	-	-	-	-	19,992	53,709
(Maximum amount during the year Rs. 112,606)	-	-	-	-	-	-	-	-
Kennametal Europe GmbH	20,823	28,364	-	-	-	-	20,823	28,364
(Maximum amount during the year Rs. 40,965)	-	-	-	-	-	-	-	-
KMT Distribution Services Asia Pte.	-	-	11,095	18,867	-	-	11,095	18,867
(Maximum amount during the year Rs 18,933)	-	-	-	-	-	-	-	-
Outstanding Payables - IT Legal Entity Fees	22,909	610	-	-	-	-	22,909	610
Outstanding Payables-IT Legal Entity Fees in excess of 10%	22,909	166	211	-	-	-	22,909	166
Kennametal Inc., USA	-	610	-	-	-	-	211	610
Outstanding Payables - Others	-	166	-	-	-	-	-	166
Outstanding Payables- Others in excess of 10%	-	166	-	-	-	-	-	166
Kennametal Inc., USA	-	166	-	-	-	-	-	166
Kennametal Singapore Pte Ltd	-	-	33	-	-	-	33	-
Kennametal Technologies GmbH	-	-	169	-	-	-	169	-

SCHEDULE TO ACCOUNTS

16. Notes on Accounts..... contd.

B) Names of related parties and description of relationship:

a) Parties where control exists:

- | | |
|---|---|
| (i) Holding Company | Metruit A.G. Zug, Switzerland |
| (ii) Ultimate Holding Company | Kennametal Inc, USA |
| (iii) Enterprises holding, directly or indirectly, substantial interest in Metruit A.G. Zug | Kennametal Widia GmbH Co. KG, Germany *
(Formerly Widia GmbH, Germany)
Kennametal Europe Holding GmbH, Germany *
(Formerly Widia Holding GmbH, Germany)
Kennametal Hertel Europe Holding GmbH, Germany
Kennametal Holding GmbH, Germany *
Kennametal Widia Holdings Inc, USA *
Kennametal Europe GmbH, Germany
Kennametal Europe L.P., Bermuda *
Kennametal Holdings Europe Inc, USA *
Kennametal Widia Produktions GmbH & Co. KG |

b) Parties under common control with whom transactions have taken place during the year:

- | | |
|---------------------|--|
| Fellow Subsidiaries | Kennametal South Africa (Pty) Ltd., South Africa
Kennametal (Malaysia) Sdn.Bhd, Malaysia
Kennametal Hardpoint (Shanghai) Ltd., China
Kennametal (Singapore) Pte. Ltd., Singapore
Kennametal Japan Ltd., Japan
Hanita Metal Works Ltd., Israel
Kennametal Korea Ltd., Korea
Kennametal Australia Pty. Ltd., Australia
Kennametal (Thailand) Co. Ltd., Thailand *
Kennametal Engg ProdHardenburg, Nederland
KMT Distribution Services Asia Pte.
Kennametal Shared Services Private Limited
Conforma Clad *
Extrude Hone Corporation
Kennametal Do Brasil Ltda
Clapp Dico Corporation
Kennametal (China) Co. Ltd
Breakthrough Engineering Components *
Kennametal Logistics GmbH
Kennametal Shared Services, GmbH
IPG – Hanita, Cleveland
Kennametal Ltd, Canada
Kennametal Technologies GmbH
Kennametal Italia S.P.A.
Kennametal HTM AG (HTM), Switzerland
Dinakar Adhyam
Managing Director
Nil |
|---------------------|--|

c) Key Management Personnel

d) Director related entities

* No transaction during the year

Note: The above information has been determined to the extent such parties have been identified on the basis of information provided by the company which has been relied upon by the auditors. The above does not include related party transactions with retiral funds, as Management personnel who are trustees of funds cannot individually exercise significant influence on the retiral funds transactions.

SCHEDULE TO ACCOUNTS

16. Notes on Accounts..... contd.

21. In accordance with Accounting Standard 29 on "Provisions, Contingent liabilities and Contingent assets" as notified under section 211(3C) of the Companies Act, 1956 and the relevant provisions of the Companies Act, 1956, certain classes of liabilities have been identified as under:

(Rs. in Thousands)

Particulars	As at June 30, 2008	Additions	Utilisation	Reversals	As at June 30, 2009
Product support	15,200	-	-	1,800	13,400
	(14,850)	(350)	-	-	(15,200)

Note: Figures in bracket relates to previous year

The company sets up and maintains provisions for trade and other demands when a reasonable estimate can be made. These provisions are made based on estimates made by the management that are reviewed annually. These demands/issues involved quick settlements not exceeding a period of two to three years in most cases.

22. Certain Senior management employees of the Company are granted stock options, in the share based compensation plan of Kennametal Inc., the ultimate holding company. These plans are assessed, managed and administered by the ultimate holding company and has no impact on the operating results of the company. The Company has considered the above for the purpose of Fringe Benefit Tax.
23. Previous year's figures have been reclassified/ regrouped, wherever necessary.

CASH FLOW STATEMENT

(Rs. in Thousands)

	Year ended June 30, 2009	Year ended June 30, 2008
1 CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation, before exceptional items	411,199	826,938
Adjustments for:		
Depreciation	188,127	162,875
Provision made written back	(50,033)	(29,353)
Provision made for doubtful debts	13,263	6,097
Assets written off	527	1,775
Loss/(Profit) on sale of Fixed assets	3,025	(3,748)
Interest Expense	153	3,907
Interest Income	(102)	(1,048)
Unrealised Foreign Exchange (Gain)/ Loss	(3,343)	(112)
Income from investments	(47,386)	(32,232)
	104,231	108,161
Operating profit before working capital changes	515,430	935,099
Adjustment for working capital changes		
Decrease/(Increase) in inventories	150,645	30,558
Decrease/(Increase) in Trade and Other receivables	459,591	(113,719)
(Decrease)/Increase in Current liabilities and provisions	(236,661)	21,739
	373,575	(61,422)
Cash Generated from Operations	889,005	873,677
Income Taxes paid (net of refunds)	(206,431)	(242,082)
Net Cash generated from Operating Activities	682,574	631,595
2 CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(291,358)	(515,659)
Sale of Fixed assets	2,886	5,432
Interest received	13	1,197
Income from investments	47,379	32,232
Net Cash from/(used) in Investing Activities	(241,080)	(476,798)

CASH FLOW STATEMENT

	(Rs. in Thousands)	
	Year ended June 30, 2009	Year ended June 30, 2008
3 CASH FLOW FROM FINANCING ACTIVITIES		
Interest paid	(153)	(3,907)
Lease liability	-	(8,374)
Unclaimed dividend paid during the year	(449)	(191)
Net Cash from/(Used) in Financing activities	(602)	(12,472)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (1+2+3)	440,892	142,325
OPENING CASH EQUIVALENTS	754,134	611,809
CLOSING CASH EQUIVALENTS (refer note 3 below)	1,195,026	754,134

Notes:

- The Cash flow statement has been compiled from and is based on the Balance sheet as at June 30, 2009 and the related Profit and Loss account for the year ended on that date
- The Cash flow statement has been prepared under the indirect method as set out in the Accounting Standard 3 on Cash flow statement as notified under section 211(3C) of the Companies Act, 1956 and reallocation required for this purpose are as made by the company

- Cash equivalents at the end of the period

Cash and Bank balances include Rs. 813 (2008: Rs.1,262) in dividend accounts which is restrictive in nature

Current investments in mutual funds

June 30, 2009 June 30, 2008

109,789 163,752

1,085,237 590,382

1,195,026 754,134

- Previous year's figures have been reclassified / regrouped, wherever necessary.

This is the Cash flow statement referred to in our report of even date

For and on behalf of
Price Waterhouse
Chartered Accountants

M.N.Bhagwat
Chairman

Dinakar A.
Managing Director

Usha A Narayanan
Partner
Bangalore
August 28, 2009

Rakesh Makhija
Frank P. Simpkins
Bernard North
Dr. Esat Kemal Yegenoglu
Directors

A.C. Poovanna
Company Secretary

SCHEDULE TO ACCOUNTS

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

1. Registration Details

Registration No	:	1546	State Code :	08
Balance Sheet Date	:	June 30, 2009		

2. Capital raised during the period : (Amount in Rs. Thousands)

Public issue	Nil	Rights issue	Nil
Bonus issue	Nil	Private placement	Nil

3. Position of mobilisation and deployment of funds : (Amount in Rs. Thousands)

Total liabilities	3,386,578	Total assets (including deferred tax Assets Rs.17,955)	3,386,578
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Source of funds

Paid up capital	219,782	Reserves and surplus	2,571,641
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Application of funds

Net fixed assets	1,214,491	Investments	1,085,237
Deferred tax asset	17,955	Net current assets	473,740

4. Performance of Company : (Amount in Rs. Thousands)

Turnover (including other income Rs.126,849)	3,181,194	Total expenditure	2,769,995
Profit before tax	411,199	Profit after tax {after deferred tax Rs.(46,257)}	280,137
Earning per share Rs.	12.75	Dividend rate %	Nil

5. Generic names of three principal products/services of Company (as per monetary terms)

A) Item code no.	82 09	
Product description		Tungsten carbide tips / inserts
B) Item code no.	82 07	
Product description		Interchangeable tools
C) Item code no.	84 59	
Product description		Machine tools

M.N.Bhagwat
Chairman

Dinakar A.
Managing Director

Rakesh Makhija
Frank P. Simpkins
Bernard North
Dr. Esat Kemal Yegenoglu
Directors

A.C. Poovanna
Company Secretary

Bangalore
August 28, 2009

**KENNAMETAL INDIA LIMITED**

Regd. Office : 8/9th Mile, Tumkur Road, Bangalore – 560 073

ATTENDANCE SLIP

Regd. Folio No./ DP ID and Client ID:

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Name of the Member/Proxy:

.....

Number of shares held

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

I certify that I am a registered Member/ Proxy for the registered Member(s) of the Company. I hereby record my presence at the 44th Annual General Meeting of the Company on October 29, 2009 at the registered office of the Company at 8/9th Mile, Tumkur Road, Bangalore – 560073.

Signature of the Member/ Proxy present:

Name of Proxy holder (where applicable) Mr./Ms.

Notes:

1. Member (s) / Proxy holder(s) are requested to bring this attendance slip with them when they come to the meeting and hand it over at the registration counter after completing and affixing their signature on it.
2. Member (s) / Proxy holder(s) who come to attend the meeting are requested to bring the copy of Annual Report

**KENNAMETAL INDIA LIMITED**

Regd. Office : 8/9th Mile, Tumkur Road, Bangalore – 560 073

PROXY FORM

I/We

of

being a Member(s) of the above named Company, hereby appoint

of or failing

him / her of as my/our Proxy to attend and vote for me / us on my / our behalf at the 44th Annual General Meeting of the Company to be held on October 29, 2009 at 10.30 a.m. at the registered office of the Company at 8/9th Mile, Tumkur Road, Bangalore – 560 073 and at any adjournment(s) thereof.

Signed this day of 2009.

Regd. Folio No. / DP & Client ID :

Affix
Re.1/-
Revenue
Stamp

.....
Signature of the Member(s)**Notes:**

1. The Proxy Form duly completed and signed should be deposited at the registered office of the Company not less than 48 hours before the time of the meeting.
2. In case of joint shareholding, the Proxy Form is required to be signed by all the members.

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Regd. Office : 8/9th Mile, Tumkur Road, Bangalore - 560 073