

***Kennametal India Limited***  
***Annual Report***  
***FY10***



## Kennametal India Limited

### Directors

Mr. M.N. Bhagwat  
*Chairman*  
Mr. Santanoo Medhi  
*Managing Director*  
Mr. Vinayak K. Deshpande  
Mr. B. Anjani Kumar  
Mr. Bernard North  
Dr. Esat Kemal Yegenoglu

### India Leadership Council (ILC)

Mr. Santanoo Medhi  
Mr. Vikram Chopra  
Mr. Nitin R. Deshpande  
Mr. Vijay Kulhari  
Mr. Vivek Maheshwari  
Mr. A.C. Poovanna  
Mr. D. Parameswara Reddy  
Mr. D.Sarathy  
Mr. K.Chandrashekhar Sharma

### 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  
5<sup>th</sup> floor, Tower "D", The Millenia  
1 & 2 Murphy Road, Ulsoor  
Bangalore - 560008

### Bankers

Corporation Bank Limited  
HDFC Bank Limited  
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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### 45<sup>th</sup> Annual General Meeting

Tuesday, October 26, 2010 at 10.30 AM  
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-fifth Annual General Meeting of Kennametal India Limited will be held on Tuesday, October 26, 2010 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 businesses:

### ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet as at June 30, 2010, 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 confirm the interim dividend of Rs.13/- per equity share (130%) on 21,978,240 equity shares of Rs.10/- each already paid as the final dividend for financial year 2009-2010 (year ended June 30, 2010).
3. To appoint a Director in place of Mr. Bernard North, who retires from office by rotation and being eligible, offers himself for re-appointment.
4. 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, (Firm Registration No.007568S), being eligible, offer themselves for re-appointment.

### SPECIAL BUSINESS:

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

*“RESOLVED THAT pursuant to Article 129B of the Articles of Association of the Company and in conformity with the provisions of Section 260 of the Companies Act, 1956, Mr. Bidadi Anjani Kumar, who was appointed as an Additional Director of the Company by the Board of Directors, and who holds the office under the said Article and Section 260 of the Companies Act, 1956, only up to the date of this Annual General Meeting and in respect of*

*whom the Company has received a notice in writing along with a deposit of Rs. 500/- under Section 257 of the said Act from a member proposing the candidature of Mr. Bidadi Anjani Kumar for the office of Director, be and is hereby elected and appointed a Director of the Company, liable to retire by rotation.”*

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

*“RESOLVED THAT pursuant to Article 129B of the Articles of Association of the Company and in conformity with the provisions of Section 260 of the Companies Act, 1956, Mr. Santanoo Medhi, who was appointed as an Additional Director of the Company by the Board of Directors, and who holds the office under the said Article and Section 260 of the Companies Act, 1956, only up to the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing along with a deposit of Rs. 500/- under Section 257 of the said Act from a member proposing the candidature of Mr. Santanoo Medhi for the office of Director, be and is hereby elected and appointed a Director of the Company, not liable to retire by rotation.”*

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

*“RESOLVED THAT pursuant to the provisions of Sections 198, 269 & 309 read with Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the Central Government, the approval of the shareholders be and is hereby accorded for the appointment of Mr. Santanoo Medhi as the Managing Director of the Company and payment of remuneration to Mr. Santanoo Medhi, for the period commencing from April 24, 2010 to April 23, 2013, as set forth herein below and on the other terms and conditions as per the agreement dated April 24, 2010:*

- A) Salary: Rs. 6,038,400 /- (Rupees Six Million, Thirty Eight Thousand and

- Four Hundred Only) per annum or Rs. 503,200/- (Rupees Five Hundred and Three Thousand and Two Hundred Only) per month with such increases as may be approved by the Board of Directors of the Company from time to time.
- B) Special Allowance of Rs. 251,600/- (Rupees Two Hundred and Fifty One Thousand, Six Hundred Only) per month.
- C) Discretionary Performance Payment—Mr.Santanoo Medhi shall be entitled to a discretionary performance payment once per annum equivalent to 25% of his target amount of Rs. 1,509,600/-, up to a maximum of 200% of target amount (200% of the target amount shall be Rs. 3,019,200/-) as may be approved by the Board of Directors of the Company in their sole discretion. The discretionary performance payment is in lieu of any commission that may be payable to Mr.Santanoo Medhi.
- D) Perquisites:
- i. Housing – To be provided by the Company, upto a monetary limit of 50% of the salary per month or the Company shall pay the House Rent Allowance of 50% of the salary per month in lieu thereof.
  - ii. Medical Reimbursement – Reimbursement of expenses incurred for self and family, subject to a limit of Rs. 18,000/- (Rupees Eighteen Thousand Only) per annum.
  - iii. Leave on full pay and allowances, as per Company's rules.
  - iv. Leave Travel Allowance (flat allowance) of Rs. 54,000/- (Rupees Fifty Four Thousand Only) per annum.
  - v. Insurance – Coverage to be extended, as per Company's rules.
  - vi. Club fees: Fee of one club membership.
  - vii. Contribution to Provident Fund at 12% of the salary.
  - viii. Gratuity as per Company's Rules.
  - ix. Encashment of leave at the end of tenure as per Company's rules.
  - x. Provision of car and telephone as per Company's rules.
  - xi. Such other benefits, amenities, facilities and perquisites as per the rules of the Company, as applicable to senior executives, and as may be permitted by the Board of Directors of the Company.
- Salary shall be reckoned as Rs. 503,200/- (Rupees Five Hundred and Three Thousand and Two Hundred only) per month for the purpose of calculation of performance pay and perquisites that are relatable to the salary.
- “RESOLVED FURTHER THAT in the event of absence or inadequacy of profits in any financial year, the minimum remuneration payable to Mr.Santanoo Medhi shall be the salary, discretionary performance pay, if applicable, and perquisites as stated above, subject to the applicable provisions of the Companies Act, 1956 and the rules made there under or any statutory modification or re-enactment thereof.*
- “RESOLVED FURTHER THAT Mr.Santanoo Medhi as Managing Director shall have substantial powers of management and shall function under the overall control, guidance and superintendence of the Board of Directors of the Company.*
- “RESOLVED FURTHER THAT the remuneration of Mr.Santanoo Medhi as Managing Director, as determined and approved by the Directors, Shareholders and Central Government, as may be required and necessary, be incorporated in the employment agreement dated April 24, 2010”*

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

*“RESOLVED THAT pursuant to Article 129B of the Articles of Association of the Company and in conformity with the provisions of Section 260 of the Companies Act, 1956, Mr. Vinayak Kashinath Deshpande, who was appointed as an Additional Director of the Company by the Board of Directors, and who holds the office under the said Article and Section 260 of the Companies Act, 1956, only up to the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing along with a deposit of Rs. 500/- under Section 257 of the said Act from a member proposing the candidature of Mr. Vinayak Kashinath Deshpande for the office of Director, be and is hereby elected and appointed a Director of the Company, liable to retire by rotation.”*

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

*“RESOLVED THAT pursuant to the provisions of Section 309 and other applicable provisions, if any, of the Companies Act, 1956, (the Act) a sum not exceeding 1% of the net profits of the Company per annum computed in the manner prescribed in Section 198, 309, 349, 350 and all other applicable provisions, if any, of the Act, be paid to and distributed as commission amongst the Directors of the Company or some or any of them (including Alternate Directors, but other than the Managing Director / Wholetime Directors) in respect of the profits of the Company for each of the five financial years commencing July 01, 2010 in such amounts or proportion and in such manner as may be decided by the Board of Directors of the Company.”*

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By Order of the Board of Directors  
For Kennametal India Limited

A.C. Poovanna  
Deputy General Manager-Legal &  
Company Secretary

Bangalore  
September 06, 2010

## 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 45<sup>th</sup> Annual General Meeting (AGM).
3. The relative explanatory statement pursuant to Section 173 of the Companies Act, 1956, in respect of the business under items (5) to (9) set out above are annexed hereto. The documents relating to the items detailed in the Notice are available for inspection at the Registered office of the Company from Monday to Friday between 10.30 am to 12.30 pm, up to the date of the AGM.
4. The Register of Members and the Share Transfer Books of the Company will remain closed from October 22, 2010 to October 26, 2010 (both days inclusive) for the purpose of the 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. The Securities and Exchange Board of India (SEBI) vide Circular dated April 27, 2007, had made PAN mandatory for all securities market transaction. Thereafter, vide Circular dated May 20, 2009 it was clarified that, for securities market transactions and off market/ private transaction involving transfer of shares in physical form of listed companies, it shall be mandatory for the transferee (s) to furnish copy of PAN card to the Company/Registrar & Share Transfer Agents for registration of such transfer of shares. The shareholders are requested to furnish a copy of the PAN card in cases involving transfer of shares in physical form.
8. Members may address all matters relating to shares, demat, remat, annual report, etc. to the Company's Registrar & Share Transfer Agent at the following address:  
  
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](mailto: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.ammataanda@kennametal.com](mailto:poovanna.ammataanda@kennametal.com)  
e-mail: [in.investorrelation@kennametal.com](mailto:in.investorrelation@kennametal.com)  
for the purpose of addressing investor complaints and also to take necessary follow-up action.  
  
Members are requested to quote their Registered Folio Number or Demat Account Number & Depository Participant (DP) ID Number in all correspondence.
9. 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.



10. The brief resume of directors seeking appointments/ re-appointment as required under Clause 49 of the listing agreement is set out at "Annexure A" to this notice.
11. 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.
12. Members / Proxy holders are requested to produce at the entrance of the venue the enclosed attendance slip duly signed.
13. Members are requested to bring their copies of the annual report to the AGM.
14. 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 Thursday, October 21, 2010 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, on or before October 21, 2010

shall only be entitled to attend the AGM in person or through his/ her proxy.
15. 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.
16. Members requiring information or clarification with regard to the audited accounts and operations of the Company are requested to write to the Deputy General Manager- Legal & 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. 5**

Mr. Bidadi Anjani Kumar was appointed as an Additional Director by the Board (representing KMT Inc.) effective April 02, 2010 pursuant to the provisions contained in Article 129B of the Articles of Association of the Company and Section 260 of the Companies Act, 1956. According to the provisions of the said Article and the relevant provisions of the Companies Act, 1956, Mr. Anjani Kumar holds office only upto the date of this AGM.

Notice has been received from a member of the Company under Section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- proposing Mr. Anjani Kumar's candidature for the office of Director.

Mr. Anjani Kumar retired from the services of the Company after attaining the age of superannuation on March 31, 2010. He served the Company for seven fruitful years and was Vice President & CFO of the Company prior to his retirement.

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'. The Board considers that his association as Director will be beneficial to and in the interest of the Company and therefore, recommend the resolution relating to his appointment for the approval of the members.

None of the Directors except Mr. Anjani Kumar is interested in the Resolution.

**Item No(s). 6 & 7**

Mr.Santanoo Medhi joined Kennametal Inc. in January 2009, as the Regional Director- Sales, for the Asia Pacific Region. Prior to joining Kennametal Inc., Mr. Medhi held assignments with Oil India and Johnson Electric, Hong Kong. He has worked in India, Thailand, Hongkong, Singapore and Japan. He brings with him rich experience in manufacturing, sales, marketing and business development.

The shareholders are aware that Mr.Dinakar A, the former Managing Director of the Company resigned with effect from September 04, 2009. Since Mr.Santanoo Medhi has good experience in sales, marketing and business development, the Board of Directors thought it fit to appoint him as the Managing Director of the Company.

The Board of Directors at its meeting held on April 24, 2010, co-opted Mr. Santanoo Medhi as the Additional Director and at the same meeting appointed him as the Managing Director of the Company for a period of 3 years, commencing from April 24, 2010 till April 23, 2013. Further, the Company has entered into an Employment Agreement with Mr. Medhi listing out the terms of his appointment and remuneration.

Since Mr. Medhi did not reside in India for a period of 12 months prior to the date of his appointment, as per Schedule XIII of the Companies Act, 1956, an application has been made to the Central Government seeking its approval for appointment and payment of remuneration of Mr. Medhi.

Hence this resolution is placed before you for your approval and the Board recommends the adoption of the resolution in the best interest of the Company.

An abstract under Section 302 of the Companies Act, 1956 relating to the remuneration and the other terms of appointment of Mr. Medhi has already been circulated to the members and the present resolution along with the explanatory details may also be treated as such.

None of the Directors, except Mr. Medhi, is interested in the resolution

#### Item No. 8

Mr. Vinayak Kashinath Deshpande was appointed as an Additional Director by the Board effective September 06, 2010 pursuant to the provisions contained in Article 129B of the Articles of Association of the Company and Section 260 of the Companies Act, 1956. According to the provisions of the said Article and the relevant provisions of the Companies Act, 1956, Mr. Deshpande holds office only upto the date of this AGM.

Notice has been received from a member of the Company under Section 257 of the Companies Act, 1956, along with a deposit of Rs.500/- proposing Mr. Deshpande's candidature for the office of Director.

Mr. Deshpande a Chemical Engineer from Indian Institute of Technology (IIT), Kharagpur, is the President – EPC & Construction business of Hindustan Construction Company Limited (HCC). Prior to joining HCC in 2008, Mr. Deshpande worked with Tata Group for 20 years. In his 20 years association with the Tata Group he has been the Managing Director of Tata Honeywell and Executive President – Operations, Tata Teleservices.

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 Non-Executive Independent Director will be beneficial to and in the interest of the Company and therefore, recommend the resolution relating to his appointment for the approval of the members.

None of the Directors except Mr. Deshpande is interested in the Resolution.

#### Item No 9:

At the Fortieth Annual General Meeting of the Company held on October 28, 2005, the members had, in terms of Section 309 of the Companies Act, 1956, approved payment of commission to Directors not in the whole-time employment of the Company upto an amount not exceeding 1% per annum of the net profits of the Company for each of the five financial years of the Company commencing from July 01, 2005. The said resolution is valid for the financial year ending June 30, 2010. It is proposed to renew this resolution for a further period of 5 years commencing from the financial year July 01, 2010. The said payment of 1% Commission per annum of net profits to the non whole time directors is in addition to the sitting fees and reimbursement of expenses, if any, that may be made to the Directors not in whole-time employment of the Company.

All the Directors except the Managing Director are interested in the resolution.

By Order of the Board of Directors  
For Kennametal India Limited



**Brief particulars of Directors seeking appointment /re-appointment**

Name of Director	Mr. Bernard North	Mr. Bidadi Anjani Kumar	Mr. Santanoo Medhi	Mr. Vinayak Kashinath Deshpande
Date of Birth	May 24, 1952	March 25, 1952	March 01, 1967	July 21, 1957
Relationship with Directors	None	None	None	None
Experience	With Kennametal Inc: 30 years With others : 8 years	With Kennametal India Limited: 07 years With others: 27 years	With Kennametal Inc: 1 year With others: 19 years	With Kennametal Inc: NIL With others 22 years
Expertise in specific functional area	Research, Development & Engineering	Finance & Accounts	Manufacturing & Operations, Sales & Marketing, General Management.	HCC - Managing the EPC & Construction business, Honeywell - successfully shaping the JV - now known as Honeywell Automation India, Tata Teleservices – responsible for business operations
Qualification	M.Sc- Physical Metallurgy and Science of Materials, University of Birmingham, UK MBA- University of Pittsburgh, USA	B.Com, B.G.L. & ACA	Master of Engineering in Industrial Engineering and Management, Thailand  B. Tech – National Institute of Technology, Calicut  Executive Diploma in Management, Hong Kong	Chemical Engineer, IIT Kharagpur
List of outside Directorships and Memberships of Board Committees in India	None	None	None	<i>Directorships in other companies</i> NELCO Limited <i>Memberships/Chairmanships of Committee of Directors</i> NELCO Limited 1. Audit Committee - Member 2. Remuneration Committee - Chairman
No. of shares held	Nil	10 equity shares of Rs.10/- each	Nil	Nil

## DIRECTORS' REPORT

Your Directors are pleased to present the 45<sup>th</sup> Annual Report and Audited Accounts for the year ended June 30, 2010 (FY10).

### FINANCIAL RESULTS

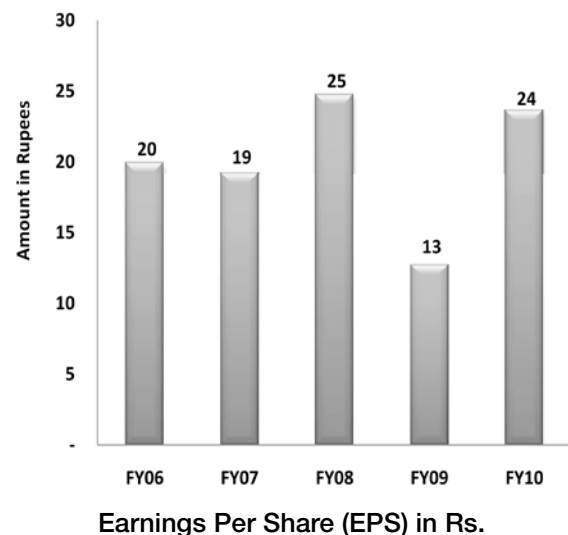
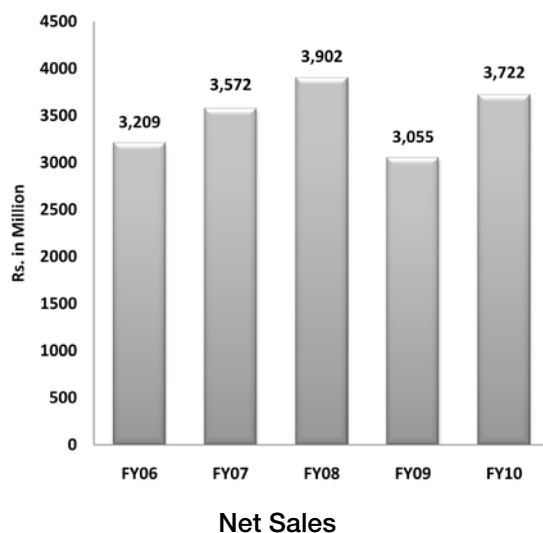
(Rs. in million)

PARTICULARS	FY10 Year ended June 30, 2010	FY09 Year ended June 30, 2009
Sales including other income	3,828.59	3,182.83
Profit Before Depreciation and Tax	969.42	599.33
Less: Depreciation	202.95	188.13
<b>Profit Before Tax</b>	<b>766.47</b>	<b>411.20</b>
Less: Provision for Tax		
Current Tax	238.00	169.82
Deferred Tax	8.79	(46.26)
Fringe Benefit Tax	-	7.50
<b>Profit After Tax</b>	<b>519.68</b>	<b>280.14</b>
Add: Balance brought forward from previous year	1,291.35	1,011.21
<b>Profit available for appropriations</b>	<b>1,811.03</b>	<b>1,291.35</b>
Transfer to General Reserve	52.00	0
Interim Dividend	285.72	0
Tax on Interim Dividend	47.45	0
Balance transferred to Balance Sheet	1,425.86	1,291.35

### DIVIDEND

During the year, the Board of Directors declared and paid an Interim Dividend of Rs.13/- per equity share on 21,978,240 equity shares of Rs.10/- each (130% on the paid up capital of the Company) during May 2010. The total outgo on account of

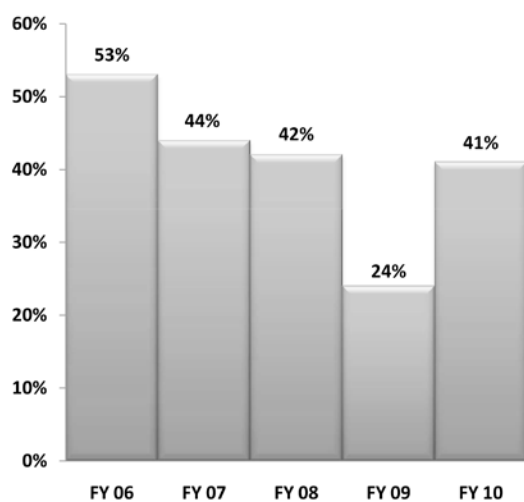
dividend, inclusive of taxes, for FY10 was Rs.333.17 Million which represents a pay-out of 64% of the Company's profits. The Board of Directors have decided to treat the same as final dividend and therefore no additional dividend is recommended for the financial year ended June 30, 2010.



## OPERATING RESULTS

Your Company significantly improved its operating results in FY10 with Total Income increasing by 20% to Rs.3,828.59 Million compared with Rs.3,182.83 Million in the previous year. The growth in total income for the year was driven by an improved performance in the Automobile Industry and General Engineering Sector. Consequent to this commendable performance, the profit after tax of your Company for the year under review was Rs. 519.68 Million as against Rs. 280.14 Million of the prior year, an increase of 86% over prior year.

Your Company does not have any subsidiaries.



Return On Controllable Assets (ROCA)  
in percentage

## MATERIAL CHANGES AND COMMITMENTS

There were no material changes and commitments that occurred affecting the financial position of the Company between June 30, 2010 and the date of approval of this report.

## MANAGEMENT DISCUSSION AND ANALYSIS

A Management Discussion and Analysis (MD&A) report is annexed to this report as Annexure I as required under Clause 49 of the Listing Agreement with Bombay Stock Exchange Limited.

## DIRECTORS

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

During the year –

- Mr. Dinakar A, resigned as Managing Director and Director of the Company with effect from September 04, 2009. Mr. Frank P. Simpkins resigned as Director with effect from April 24, 2010. Mr. Rakesh Makhija resigned as Director with effect from on August 14, 2010. Your Directors place on record their appreciation and acknowledge the valuable contributions made by them to the Company during their tenure as Directors.
- Mr. Bidadi Anjani Kumar was appointed as Additional Director on the Board of the Company with effect from April 02, 2010.
- Mr. Santanoo Medhi was appointed as Additional Director on the Board and subsequently as Managing Director of the Company with effect from April 24, 2010, subject to the approval of the Central Government, the application for which has already been made.
- Further, Mr. Vinayak Kashinath Deshpande was appointed as Additional Director (Non Executive Independent Director) effective September 06, 2010.

Appropriate resolutions are being proposed seeking consent of the members for the aforesaid re-appointment/appointments and your Directors recommend your approval. Profiles of respective Directors being appointed / re-appointed as required under Clause 49 of the Listing Agreement, are given along with the Notice convening 45<sup>th</sup> Annual General Meeting.

## 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 judgments 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 CESSATION OF OFFICE OF “MANAGER”**

The Audit Committee of Directors, Shareholders / Investor’s Grievance Committee of Directors and Share Transfer Committee were reconstituted during the year, the details of which have been provided in the Corporate Governance Section of this report. Consequent to the appointment of Mr. Santanoo Medhi as Managing Director of the Company, Mr. D. Sarathy ceased to be the “Manager” of the Company with effect from April 24, 2010.

**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, 2010, six depositors having fixed deposits aggregating to Rs.336,750/- 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 under review to the Investor Education and Protection Fund :

Unclaimed fixed deposit	Rs.	75,103
Unclaimed dividend		Nil

**AUDITORS**

M/s. Price Waterhouse, Chartered Accountants, Auditors of the Company will retire at the conclusion of the forthcoming 45<sup>th</sup> 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 Statutory 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 names and other 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 and the same shall be provided by the Company. Shareholders may inspect the said Statement at the Registered Office of the Company between 10.30 am and 12.30 pm on any working day for the Company till the date of the forthcoming 45<sup>th</sup> Annual General Meeting.

**RESEARCH & DEVELOPMENT (R & D)**

The Research, Development and Engineering (RD& E), unit at your Company works on new Product and Process Developments with specific focus on materials, coatings and design.

## **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 "State Energy Conservation Award 1st Prize" in general category by Karnataka Renewable Energy Development Limited and Department of Energy, Government of Karnataka. Your Company was also conferred, the "Most Innovative Energy Conservation Project in Karnataka - 2010" - by Bangalore Chamber of Industries and Commerce (BCIC) and Government of Karnataka.

## **ENVIRONMENT, HEALTH AND SAFETY (EHS)**

Safety, Health and Environment protection are of paramount concern to your Company. To celebrate India's 39<sup>th</sup> Safety Day, a safety exhibition was organized at the factory premises for the benefit of the employees. An Automatic Fire Hydrant System was installed and commissioned during the year under review. Your Company was awarded the First Position in the State Level Award for Outstanding Safety Performance and Management Systems - Athyunnatha Surksha Puraskara by the National Safety Council (Karnataka Chapter). Your Company has recorded zero eye injuries sustained for the past 6 years.

**Water Conservation:** Your Company harvested 80 Million Liters of rainwater during the monsoon season which seems to have recharged the groundwater in the factory premises and in surrounding villages. Your Company's water requirement for domestic usage is catered to by inhouse bore wells. Domestic sewage water is treated in the sewage treatment plant and subsequently used for gardening. 50,000 sq.ft. of additional greenery was developed in the campus of factory premises at Bangalore.

Through a specially designed Management Based Safety programme, your Company has inculcated global best practices in safety and created a culture that accords pre-eminence to the safety of its employees. Your Company has a

stated objective of ensuring one hundred percent safety for its employees. Your Company has committed itself to the safety of its employees and conservation of the environment by setting clear expectations, fixing responsibilities and ensuring accountability.

## **CORPORATE SOCIAL RESPONSIBILITY**

Your Company takes its responsibilities as a corporate citizen. During the year under review your Company has initiated many activities to contribute its might towards the betterment of the under privileged sections of society, the support to those affected by natural disasters, and the conservation of the environment.

- Your Company's employees participated in the 'Bangalore Walkathon' on June 05, 2010 thereby demonstrating its strong commitment towards protecting the planet on the eve of the World Environment Day.
- Your Company's employees generously contributed to "A-Coin-A-Day" programme, the proceeds of which were utilised for the benefit of the Abhilashrayam Foundation and a nearby Government Primary School,
- To mitigate the misery caused by unprecedented flood in the Northern part of Karnataka, the employees of your Company contributed a day's salary and your Company matched their contribution to aggregate a donation of Rs. 1.13 Million towards the Chief Minister's Relief Fund during the year.

## **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 trust, confidence and expresses its sincere appreciation to all the employees for their teamwork and contributions during the year.

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

Bangalore  
September 06, 2010

M.N. Bhagwat  
Chairman



## MANAGEMENT DISCUSSION & ANALYSIS REPORT

### a) Industry Structure and Developments / Opportunities & Threats

Your Company is a leading manufacturer of hard metal products and machine tools which caters to the needs of a wide variety of manufacturing industries including auto and auto ancillaries, 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 their requirements such as special purpose machines and customized solutions.

The Indian economy has seen a remarkable turn-around after bearing the impact of the global economic slowdown that started in September 2008, and is currently experiencing a time of renewed optimism with growth momentum picking up gradually in the recent months. The Indian economy has grown by 7.4% in 2009-10 as against 6.7% in 2008-09. This has been contributed by both the manufacturing and services sectors. The fiscal stimulus measures taken by the government, together with a flexible monetary policy, have helped in pushing up the overall GDP growth. However the rapid recovery in the economy has also brought forth the challenge of higher inflation, which has been in double digits for quite some time now.

The growth momentum is clearly reflected in your Company's growth numbers in all the business units except the Machine Tool Business. The Machine Tool Business is still in the process of recovery as the capital goods industry is typically the last to recover from recession. The Auto and Auto ancillary customers of your Company who primarily depend on exports have still been struggling as the American and European economies are yet to recover. Raw material prices have been in line with the prior year, which has helped your Company in achieving better margins for FY 10. The higher growth in India also has attracted new players. The management is closely watching developments in this area and taking appropriate steps.

Your Company's mission is "to deliver productivity to customers seeking peak performance in demanding environments by providing innovative custom and standard wear-resistant solutions, enabled through its advanced material sciences, application knowledge and commitment to a sustainable environment".

### b) Operations, Segment Wise Performance:

The recovery in the economy and your Company's performance is primarily led by domestic customers catering to the Transportation and General Engineering Sectors. The sales growth has particularly been higher in the second half of the financial year, 64% more than the prior year of the same period.

Your Company has been successful in improving the sales of products launched towards the end of FY09 like "Beyond " range of turning solutions and Steel Mill Rolls.

Both have been very successful and have made significant contributions in terms of additional sales, together with the other products from its world-class brands - Kennametal and Widia.

During FY09, your Company had taken certain austerity measures like suspension of plant operations during specified days, implementation of pay cuts, reduction / postponement of repairs and maintenance expenses, suspension of leave encashment etc. In FY10 salary reduction, leave encashment have totally been restored. The raw material costs have been stable during the year but are likely to go up in FY11 with the economy picking up across the world.

It has always been the endeavor of your Company to remain focused and constantly improve operating efficiencies. Many Lean manufacturing initiatives were taken last year to strengthen the ability to meet customer's expectation of better quality at lower cost. Lean initiatives are also being carried out in the non manufacturing functions like Finance, HR, etc. to ensure

**Annexure I to the Directors' Report**

that all forms of waste are eliminated. Your Company was awarded the 2nd prize in the National Level Six Sigma case study contest conducted by Confederation of India Industries (CII). These initiatives, coupled with better sales, have ensured lower costs and better margins for your Company during FY10.

In continuation of your Company's focus on Environment, Health & Safety your Company has initiated a Management Based Safety programme to achieve 100 % safe working environment for employees. This programme drives three main outcomes:

- Clear expectations and processes are communicated by management;
- Safety-specific accountabilities and responsibilities are defined for all personnel; and,
- Performance is continually evaluated and improved upon.

During the year under review, numerous energy saving projects had been under taken across your Company resulting in saving of about 1 Million units of electricity per year. Your Company also received awards as mentioned in the Directors' Report.

During the year under review exports have been stagnant at Rs.284 Million mainly due to lower pull from European and American markets that are still to recover from the recession.

**c) Segmentwise Performance:**

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

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

Each segment represents a strategic business that offers different products and services, and serves different markets. The segmentation is also in line with the business risks attached to the respective segments. Apart from the afore mentioned 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.

**d) Company's Outlook**

The macro economic outlook for the country is positive and the current high growth rates are likely to sustain in the near future. The monsoon though late in arriving is expected to be normal and will impact the economy positively. It is a clear indication that the economy is out of recession and is well placed for a reasonable growth. Inflation is a major concern and it is hoped that the Government will manage the same appropriately.

The favorable macro economic outlook, along with sustained demand growth, will have a positive impact on your Company. The focus however will be on improving productivity to customers by providing innovative customised and standard wear resistant solutions. Your Company is consistently monitoring the market situation and taking proactive steps to keep up and gain market share, by making continuous value propositions to customers.

**e) Risks and Concerns**

High inflation coupled with higher interest rates may affect consumer demand and could impact the growth of all industries in general. As a result, the demand for your Company's products also could get affected both in Hard Metals and Machine Tool Segments. Your Company intends to go for price revision on a selective basis to mitigate the effect of increase in the price of raw materials. Your Company remains consistently vigilant about the rising cost of input materials in order to ensure that it retains the gains accumulated through the cost efficiency measures of prior years.

Your Company believes that Human Capital is the most important resource and, therefore, it is very important to retain trained talent. In a growing economy talent retention is always a challenge and to meet it, your Company has taken many initiatives like Job Enhancement, Job Enrichment, etc. in addition to compensation corrections to deserving employees. Your Company continues to work on improving human capital attracting and retaining the best talent in the market.

## Annexure I to the Directors' Report

### f) Internal Control Systems and their adequacy

Your Company carries out regular and rigorous reviews to monitor all assets including Fixed Assets, Investments and Primary Working Capital. Strict control of expenses coupled with working capital control has ensured that your Company remains debt free and highly profitable.

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

The Internal Audit department conducted 11 internal audit reviews during the year under review and presented its reports to the Audit Committee of Directors. Your Company is glad to report that no significant weaknesses in internal controls were reported. The Audit Committee and the Board also hold independent discussions with the Internal Auditors and the Statutory Auditors every quarter to make an independent assessment of the internal control systems.

### g) Financial Performance

The total Income for the year ended June 30, 2010 has grown by 20% Vs. a degrowth of 20% for the year ended June 30, 2009. The profit before tax at Rs 766 Million is a growth of 86% over the prior year. The reasons for improvement in the profitability include - higher sales during the year, lower raw materials cost, improved margins on exports during the year, better margins & product mix in Hard Metals.

As in the past, working capital has been one of our most focused areas. With constant efforts, your Company has successfully reduced the DSO (Days Sales Outstanding) from 66 days in FY09 to 60 days in FY10. The reduction has been a significant achievement under a tight credit environment. The inventory at the year end increased by 28% which is much lesser than the sales growth of 64% in the second half of FY10.

### h) Material Developments in Human Resources, Industrial Relations Front

Your Company encountered significant challenges during the year on the human resources management front. The salary cuts continued in the first half of the year and were pulled back only in the second half in a gradual manner. Your Company continued its focus on talent retention and a performance improvement process in line with the corporate strategy of becoming the "Employer of Choice". As a result your Company witnessed a manpower turnover of just 10% notwithstanding the austerity measures taken during the year.

Your Company conducted a Voice of the Employee (VoE) Checkpoint Survey amongst a random set of employees to measure employee engagement within your Company. The results were very encouraging with scores that show a vast improvement from the previous VoE that was conducted about an year ago, and are comparable with peer companies.

Your Company believes that consistent employee performance and overall satisfaction and engagement will lead to your Company's growth. Kennametal's HR mission is to deliver world class Human Resources leadership, systems & tools to create a great place to work and enable a customer centric, performance driven culture. During the year under review, HR has undertaken various initiatives like SAP re-implementation, Human Capital Management (HCM), Management Self Service (MSS) and Employee Self Service (ESS). Your Company continues to leverage Kennametal Knowledge Center (KKC) to train its customers and also its employees in various products and their applications. E-learning courses were launched to enhance employees' competencies especially in soft skills.

Industrial Relations remained generally cordial and harmonious throughout the year.

The total number of persons employed in your Company as on June 30, 2010 was 910.

## 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, 2010), 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 positions 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, six meetings of the Board of Directors were held on the following dates: August 28, 2009, September 06, 2009, October 29, 2009, January 28, 2010, April 24, 2010 and May 05, 2010.

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
<i>Non-executive, Independent directors</i>					
Mr. M.N.Bhagwat, Chairman	3	2	1	5	Yes
Mr.Rakesh Makhija	1	-	-	5	Yes
<i>Managing Directors</i>					
Mr. Dinakar A. <sup>1</sup>	-	-	-	1	Not applicable
Mr. Santanoo Medhi <sup>2</sup>	-	-	-	2	Not applicable
<i>Non-executive directors</i>					
Mr. B.Anjani Kumar <sup>3</sup>	-	-	-	2	Not applicable
Mr. Bernard North	-	-	-	3	Yes
Mr. Frank P. Simpkins <sup>4</sup>	-	-	-	1	No
Dr. Esat Kemal Yegenoglu	-	-	-	3	Yes

Mr. Frank P. Simpkins, Mr. Bernard North, Dr.Esat Kemal Yegenoglu and Mr.B.Anjani Kumar are the nominees of Kennametal Inc., the foreign promoter. No sitting fees were paid to non-executive directors except Mr.B.Anjani Kumar.

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

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

1 Ceased to be the director with effect from September 04, 2009

2 Appointed as additional director with effect from April 24, 2010

3 Appointed as additional director with effect from April 02, 2010

4 Ceased to be the director with effect from April 24, 2010

## 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.

- a) Consequent to the resignation of Mr.Dinakar A, as Managing Director and Director of the Company with effect from September 04, 2009, his position as Member of the Audit Committee was also vacated. The Board of Directors at its meeting held on September 06, 2009 reconstituted the Audit Committee to comprise (a) Mr.M.N.Bhagwat (b) Mr.Rakesh Makhija and (c) Mr.Frank P.Simpkins as its Members.
- b) Consequent to the resignation of Mr.Frank P.Simpkins as Director with effect from April 24, 2010 his position as Member of the Audit Committee was also vacated. The Board of Directors at its meeting held on April 24, 2010 reconstituted the Audit Committee to comprise (a) Mr.M.N.Bhagwat (b) Mr.Rakesh Makhija and (c) Mr.B.Anjani Kumar as its Members.

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. Rakesh Makhija Non-executive, Independent	4
Mr. Dinakar A. + Managing Director	1
Mr.Frank P.Simpkins++ Non-executive	Nil
Mr.B.Anjani Kumar+++ Non-executive	1

+ ceased to the member with effect from September 04, 2009

++ ceased to be the member with effect from April 24, 2010

+++ appointed as member with effect from April 24, 2010

During the period under review, four meetings of the Audit Committee of Directors were held on the following dates: August 28, 2009, October 29, 2009, January 28, 2010 & April 24, 2010.

The Chief Financial Officer (CFO), Internal Auditors 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

(a) Consequent to the resignation of Mr.Dinakar A as Managing Director and Director of the Company with effect from September 04, 2009, his position as Member of Shareholders' / Investors Grievance Committee was also vacated. The Board of Directors at its meeting held on September 06, 2009 reconstituted the Shareholders'/Investors Committee to comprise Mr.M.N.Bhagwat as its Chairman (non-executive independent director) and Mr.Frank P.Simpkins, Director as its Member.

(b) Consequent to the resignation of Mr.Frank P.Simpkins as Director and appointment of Mr.Santanoo Medhi as Director of the Company, both, with effect from April 24, 2010, the Board of Directors at its meeting held on April 24, 2010 reconstituted the Shareholders' / Investors Committee to comprise Mr.M.N.Bhagwat as its Chairman (non-executive and independent director) and Mr.Santanoo Medhi as its Member. Mr.A.C.Poovanna, Company Secretary is the Compliance Officer.

The Committee met on August 28, 2009 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	Attendance on August 28, 2009
1. Mr.M.N.Bhagwat Chairman	Attended
2. Mr.Frank P.Simpkins <sup>1</sup>	Not applicable
3. Mr.Dinakar A. <sup>2</sup> Member	Attended
4. Mr.Santanoo Medhi <sup>3</sup> Member	Not applicable

<sup>1</sup> resigned as member with effect from April 24, 2010

<sup>2</sup> resigned as member with effect from September 04, 2009

<sup>3</sup> appointed as member with effect from April 24, 2010

During the year under review, the Company received two complaints and both were redressed.

#### 4. Directors'/ Manager's remuneration

Remuneration paid to Directors/Manager for the year under review are detailed in Table 4 and 5.

**Table 4 :** Remuneration paid to Whole-time Directors/Manager in respect of financial year 2009-2010.

Whole-time director / Manager	Amount (Rs.)
Mr. Dinakar A. Managing Director	3,740,967 *
Mr.Santanoo Medhi Managing Director	2,724,206 **
Mr.D. Sarathy Manager	2,810,843 ***

\* Includes salary, fixed allowance, housing, leave travel allowance, medical reimbursement, contribution to retiral benefits, etc. Mr.Dinakar A, resigned as Director with effect from September 04, 2009

#### Annexure II to the Directors' Report

\*\* includes salary, fixed allowance, housing, leave travel allowance medical reimbursement, contribution to retiral benefits, etc. The appointment is for a period of three years from April 24, 2010 upto April 23, 2013 terminable with a notice period of three months or such notice as may be mutually determined as per the agreement dated April 24, 2010. Performance pay is based on the results achieved against the targets and certain performance criteria as set out by the Board. The payment of remuneration is subject to the approval of Central Government and Members.

\*\*\* includes salary, fixed allowance, housing, leave travel allowance, medical reimbursement, contribution to retiral benefits, etc. and relates for the period September 05, 2009 upto April 23, 2010.

**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	1,200,000	190,000
Mr.Rakesh Makhija	500,000	180,000
Mr.B.Anjani Kumar	125,000	60,000
Mr.Bernard North	Nil	Nil
Mr.Frank P.Simpkins	Nil	Nil
Dr.Esat Kemal Yegenoglu	Nil	Nil

\* payable in financial year FY11

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.

## Annexure II to the Directors' Report

### 5. General Meetings

Date & time	Location	Special Resolutions passed
42 <sup>nd</sup> 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 <sup>rd</sup> AGM - 2008 October 31, 2008 10.30 AM	Registered Office at 8/9th Mile, Tumkur Road, Bangalore - 560073	Nil
44 <sup>th</sup> AGM - 2009 October 29, 2009 10.30 AM	Registered Office at 8/9th Mile, Tumkur Road, Bangalore - 560073	Appointment of Mr.D.Sarathy as Manager of the Company as defined under Section 2(24) of the Companies Act, 1956.

### Postal Ballot

No resolution was passed by postal ballot during the year ended June 30, 2010 and as on date, the Company does not have any 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 2009-2010.
- Mr.B.Anjani Kumar, Director holds 10 equity shares in the Company. No other Director holds 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, 2010.
- The Company does not have any subsidiaries.
- The Company has not made any capital issues during the year ended June 30, 2010.
- 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 were published in the newspapers and the results were also uploaded in the SEBI's Electronic Data Information Filing and Retrieval (EDIFAR) website upto the quarter ended December 31, 2009. Thereafter, the aforesaid results were e-filed through [www.corpfiling.co.in](http://www.corpfiling.co.in). Therefore, no individual intimations were 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 2009-2010.

### 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,

## Annexure II to the Directors' Report

Annual Report containing Directors' Report, Corporate Governance Report, Profit & Loss Account, Balance Sheet, etc. are posted by the Company in [www.sebiedifar.nic.in/www.corpfiling.co.in](http://www.sebiedifar.nic.in/www.corpfiling.co.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 45<sup>th</sup> Annual General Meeting of the Company is scheduled to be held at 10.30 a.m. on Tuesday, October 26, 2010 at the Registered Office of the Company at 8/9th Mile, Tumkur Road, Bangalore – 560073.

### Book Closure:

The Register of Members and share transfer books will remain closed from October 22, 2010 to October 26, 2010 [both days inclusive]

**Table 6:** Financial calendar for the year 2010-11.

Event	Month (tentative)
Un-audited results for the quarter ending September 30, 2010	October, 2010
Un-audited results for the quarter ending December 31, 2010	January, 2011
Un-audited results for the quarter ending March 31, 2011	April, 2011
Audited results for the year ending June 30, 2011	July / August, 2011

### Dividend :

An interim dividend of Rs.13/- per equity share of Rs.10/- each [130% on the paid capital of the Company] was declared by the Board for the financial 2009-2010 and May 18, 2010 was fixed as Record Date for the said purpose. The said interim dividend was paid from May 26, 2010. The Board of Directors have decided to treat the same as final dividend and therefore no additional dividend payment is recommended for the year 2009-2010.

## Annexure II to the Directors' Report

### Stock Exchange :

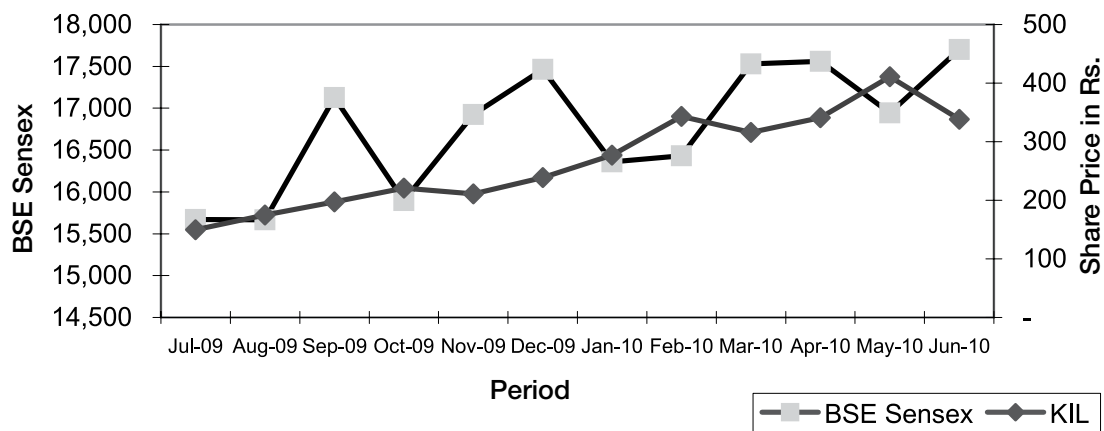
The equity shares of the Company are listed with Bombay Stock Exchange Limited, Mumbai. (scrip code : 505890) and the listing fee has been paid for the year 2010-2011.

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

		High (Rs.)	Low (Rs.)
July	2009	170.45	146.05
August	2009	226.55	174.00
September	2009	222.15	196.65
October	2009	234.85	212.05
November	2009	241.85	210.85
December	2009	272.25	234.05
January	2010	332.10	267.50
February	2010	352.95	318.15
March	2010	333.80	308.90
April	2010	405.80	338.20
May	2010	410.65	343.45
June	2010	462.40	334.75

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

**Table 8 :** Share price performance in comparison with BSE Sensesx\*



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

### 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, Vice President - Manufacturing 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. 84% of the non-promoters equity shares of the Company are held in demat form.

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

## Annexure II to the Directors' Report

Table 9 : Pattern of shareholding as on June 30, 2010

Category	No. of shares	Percentage (%)
<b>Promoters</b>		
Meturit AG. - 11,208,840		
Kennametal Inc. - 8,167,173	19,376,013	88.16
<b>Public</b>		
Mutual Funds	202,164	0.92
Financial Institutions/Banks	1,040	0.00
Foreign Institutional Investors	20,553	0.09
Bodies Corporate	347,768	1.58
Individuals & others	2,030,702	9.25
<b>Total</b>	<b>21,978,240</b>	<b>100.00</b>

Table 10 : Distribution of shares as on June 30, 2010

No. of shares	No. of shareholders	Shares held
1 - 5,000	4,649	1,352,159
5,001 - 10,000	50	353,881
10,001 - 20,000	23	330,897
20,001 - 30,000	8	195,940
30,001 - 40,000	1	34,893
40,001 - 50,000	0	0
50,001 - 100,000	2	132,893
100,001 and above	3	19,577,577
<b>Total</b>	<b>4,736</b>	<b>21,978,240</b>

**Plant location**

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

**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.



**Annexure II to the Directors' Report**

**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, 2010.

For Kennametal India Limited

Santanoo Medhi  
Managing Director

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**AUDITORS' REPORT ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENT (S)**

**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, 2010, as stipulated in clause 49 of the Listing agreement(s) 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 of 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 report 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 Price Waterhouse**  
Firm Registration No.007568S  
Chartered Accountants

**Usha A Narayanan**  
Partner  
Membership Number 23997

Bangalore  
August 13, 2010

**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**

Your Company strongly believes that corporate organizations have a responsibility to ensure sustainable development. We have won awards at both the State and National levels for the energy conservation initiatives

*a) Energy conservation measures taken during the year*

- Installed energy efficient water pumps in the furnace cooling water system
- Installed energy efficient LED fixtures in place of CFL lighting fixtures in Office / support service areas
- Incorporated an oil / gas heat exchanger in the heating system of the spraying plant for efficient transfer of heat from thermic fluid to the gas.
- Reduced the energy consumption for compressed air by monitoring compressed air consumption and incorporating engineering control measures such as air boosters / installing additional receivers to reduce the compressed air system pressure. A periodic compressed air audit is conducted using an ultrasonic leak detector which has helped arrest compressed air leakages in the lines / machines
- Installed an energy efficient Laser Marking machine
- Modified the electrical distribution system to optimize loading of the DG set.
- Daily recording of energy consumption product unit wise which is monitored for sustenance of energy conservation projects completed in earlier years.

**Annexure III to the Directors' Report**

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

- Upgradation of carburising furnace to reduce Thermal / Electrical losses
- Installation of VAM for DG set Hot water for generating chilled water for Air conditioning.
- Installation of energy efficient dust collector
- Improvements in Reduction Furnaces

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

- Power consumption reduced by 10% in comparison to the previous year thereby saving about 1 Million units
- Load on the system reduced by 150 kW

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

- Not Applicable

**B] Technology Absorption**

**a) Research & Development (R&D)**

The Research, Development and Engineering (RD&E) unit works on new Product and Process Developments with specific focus on materials, coatings and design.

It works with a continued specific focus on up-gradation of products, processes and technology.

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

- Development of new chemical vapour deposited coatings for metal forming applications

### Annexure III to the Directors' Report

- Upgradation of coatings for milling applications
- New insert geometry for heavy duty chamfering
- Development of matrix grades for valve turning applications
- Quality improvement of current products through six-sigma projects in the area of inserts and powder management.

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

Improvement of product quality and development of excellent value propositions for varied products and processes.

3. *Future plan of action*

Progression of efforts towards quality enhancement, evolution of new products with reduction in operating costs

4. *Expenditure on R & D*

*Rs. in Million*

		2010	2009
a)	Capital	2.72	3.03
b)	Recurring	35.88	28.82
c)	Total	38.60	31.85
d)	Total R&D expenditure (as a percentage to turnover)	1.00%	1.00 %

**b) Technology absorption, adaptation and innovation**

1. Efforts, in brief, made towards technology absorption, adaptation and innovation: Installation of State of the art machinery and processes in powder making, compaction, sintering and coating.
2. Benefits derived as a result of the above efforts: Increased product consistency, global quality standardization and increased global manufacturing flexibility.

3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year).

- i. Technology imported – NIL
- ii. Year of import –Not applicable
- iii. Has technology been fully absorbed- Not applicable
- iv. If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of action- Not applicable

**C] Foreign exchange earnings and outgo**

- i) Activities relating to exports -

The Company primarily exports its products to Israel and Germany. During the year the exports have been stagnant at Rs. 284 Million mainly due to lower pull from European and American markets that are still to recover from recession.

- ii) Initiatives taken to increase exports

It is our constant endeavor to explore new markets for export

- iii) Development of new export markets for products and services

The Company is exploring the possibility of increasing exports to the Asia Pacific region

- iv) Export plans

The Company is proposing to increase its export by about 20% over FY10.

Total foreign exchange used and earned:

i.	Foreign exchange earned	Rs. 309.91 Million
ii.	Foreign exchange used	Rs. 140.37 Million

**AUDITORS' REPORT****AUDITOR'S REPORT TO THE MEMBERS OF KENNAMETAL INDIA LIMITED**

1. We have audited the attached Balance Sheet of Kennametal India Limited (the "Company") as at June 30, 2010, and the related Profit and Loss Account and 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 the 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 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 (Auditor's 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 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 purposes 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 written representations received from the directors, as on June 30, 2010 and taken on record by the Board of Directors, none of the directors is disqualified as on June 30, 2010 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 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, 2010;
      - 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 Price Waterhouse**  
Firm Registration No.007568S  
Chartered Accountants

**Usha A Narayanan**

Bangalore Partner  
August 13, 2010 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, 2010]

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 (excluding stocks with third parties) has been physically verified by the Management during the year. In respect of inventory lying with third parties, 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. (a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act.
  - (b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
4. In our opinion and according to the information and explanations given to us, 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, 2010 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	1994-95	Supreme Court of India
		28	2008-09	Large Tax Payer Unit, Bangalore
		426	2009-10	Appellate Tribunal
The Andhra Pradesh General Sales Tax Act	Sales Tax Matters	5,727	2003-04	Appellate Tribunal

10. The Company has no accumulated losses as at June 30, 2010 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.
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 Price Waterhouse**  
Firm Registration No.007568S  
Chartered Accountants

**Usha A Narayanan**  
Bangalore Partner  
August 13, 2010 Membership Number: 23997

**BALANCE SHEET**

(Rs. in Thousands)

	Schedule	As at June 30, 2010	As at June 30, 2009
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' Funds</b>			
Capital	1	219,782	219,782
Reserves and Surplus	2	2,758,157	2,571,641
		<b>2,977,939</b>	<b>2,791,423</b>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>			
Gross Block	3	2,576,707	2,552,508
Less: Depreciation		1,535,100	1,349,440
Net Block		1,041,607	1,203,068
Capital Work in Progress		62,688	11,423
		<b>1,104,295</b>	<b>1,214,491</b>
<b>Investments</b>	4	<b>1,200,288</b>	1,085,237
<b>Net Deferred Tax Asset</b> [Schedule 16 Note 17(ii)]		<b>9,169</b>	17,955
<b>Current Assets, Loans and Advances</b>			
Inventories	5	448,867	350,477
Sundry Debtors	6	755,215	514,025
Cash and Bank Balances	7	156,491	109,789
Other Current Assets	8	6,457	7,353
Loans and Advances	9	77,727	87,251
		<b>1,444,757</b>	<b>1,068,895</b>
<b>Less: Current Liabilities and Provisions</b>	10		
Liabilities		620,572	412,463
Provisions		159,998	182,692
		<b>780,570</b>	<b>595,155</b>
<b>Net Current Assets</b>		<b>664,187</b>	<b>473,740</b>
		<b>2,977,939</b>	<b>2,791,423</b>
<b>Notes on Accounts</b>	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 Board Directors

For **Price Waterhouse**  
Firm Registration Number : 007568S  
*Chartered Accountants*

M. N. Bhagwat  
*Chairman*

**Usha A Narayanan**  
*Partner*  
Membership Number : 023997

Santanoo Medhi  
*Managing Director*

Bangalore  
August 13, 2010

B. Anjani Kumar  
Rakesh Makhija  
Dr. Esat Kemal Yegenoglu  
*Directors*

A. C. Poovanna  
*Company Secretary*

## PROFIT AND LOSS ACCOUNT

(Rs. in Thousands)

	Schedule	Year ended June 30, 2010	Year ended June 30, 2009
<b>Income</b>			
Sales (Gross) [Schedule 16 Note 1(ix)]	11	3,949,769	3,298,532
Less: Excise Duty		227,283	243,828
Sales (Net) [including sale of traded items]		3,722,486	3,054,704
Other Income	12	106,108	128,129
		<b>3,828,594</b>	<b>3,182,833</b>
<b>Expenditure</b>			
Materials	13	1,363,804	1,263,675
Manufacturing and Other Expenses	14	1,494,988	1,319,679
Depreciation		202,947	188,127
Interest	15	382	153
		<b>3,062,121</b>	<b>2,771,634</b>
Profit before Taxation		766,473	411,199
Provision for Taxation:			
Current Tax		238,000	169,819
Deferred Tax [Schedule 16 Note 17 (ii) ]		8,786	(46,257)
Fringe Benefit Tax		-	7,500
Profit after Taxation		519,687	280,137
Profit brought forward from previous year		1,291,348	1,011,211
<b>Profit Available for Appropriations</b>		<b>1,811,035</b>	<b>1,291,348</b>
<b>Appropriations</b>			
Transfer to General Reserve		52,000	-
Interim Dividend		285,717	-
Tax on Interim Dividend		47,454	-
Profit carried to Balance Sheet		1,425,864	1,291,348
		<b>1,811,035</b>	<b>1,291,348</b>
<b>Basic/Diluted Earnings Per Share</b>		<b>23.65</b>	<b>12.75</b>
of nominal value of of Rs.10 Each [Schedule 16 Note 18]			
<b>Notes on Accounts</b>	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 Board Directors

For **Price Waterhouse**  
Firm Registration Number : 007568S  
*Chartered Accountants*

M. N. Bhagwat  
*Chairman*

**Usha A Narayanan**  
*Partner*  
Membership Number : 023997

Santanoo Medhi  
*Managing Director*

Bangalore  
August 13, 2010

B. Anjani Kumar  
Rakesh Makhija  
Dr. Esat Kemal Yegenoglu  
*Directors*

A. C. Poovanna  
*Company Secretary*

**SCHEDULES TO ACCOUNTS**

(Rs. in Thousands)

	As at June 30, 2010	As at June 30, 2009
<b>1. Capital</b>		
<b>Authorised</b>		
21,978,240 (2009: 21,978,240) Equity Shares of Rs.10/- each	219,782	219,782
<b>Issued, Subscribed and Paid-up</b>		
21,978,240 (2009: 21,978,240) Equity Shares of Rs.10/- each	219,782	219,782
	<b>219,782</b>	<b>219,782</b>
<b>Notes:</b>		
1. Of the above shares, 250,560 (2009: 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 (2009: 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 (2009: 11,208,840) Equity Shares are held by Meturit A.G. Zug, Switzerland, the holding company.		
<b>2. Reserves and Surplus</b>		
<b>i) Securities Premium</b>	921	921
<b>ii) General Reserve</b>		
As per Opening Balance	1,279,372	
Add: Transfer from Profit and Loss		
Appropriation Account	52,000	
<b>iii) Profit and Loss Account Balance</b>	<b>1,425,864</b>	<b>1,291,348</b>
	<b>2,758,157</b>	<b>2,571,641</b>



## SCHEDULE TO ACCOUNTS

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

(Rs. in Thousands)

Particulars	Gross Block (at Cost)			Depreciation			Net Block		
	July 1, 2009	July 1, Additions	Deletions / Adjustments	June 30, 2010	July 1, 2009	Additions	Deletions / Adjustments	June 30, 2010	July 1, 2009
Freehold Land	632	-	-	632	-	-	-	632	632
Buildings	66,196	4,887	-	71,083	43,642	2,541	-	24,900	22,554
Plant and Machinery:									
Data Processing Equipments	75,096	7,509	4,690	77,915	65,806	4,757	4,621	11,973	9,290
Others	2,341,638	27,100	14,232	2,354,506	1,191,871	188,006	12,003	986,632	1,149,767
Furniture and Fixtures:									
Furniture and Fixtures	31,322	3,731	-	35,053	21,090	3,794	-	10,169	10,232
Lease hold Improvements	4,844	-	-	4,844	4,328	423	-	93	516
Office Equipments	28,334	1,575	570	29,339	21,288	2,722	515	5,844	7,046
Vehicles	4,446	-	1,111	3,335	1,415	704	148	1,364	3,031
<b>2009</b>	<b>2,552,508</b>	<b>44,802</b>	<b>20,603</b>	<b>2,576,707</b>	<b>1,349,440</b>	<b>202,947</b>	<b>17,287</b>	<b>1,041,607</b>	<b>1,203,068</b>
2010	2,299,656	334,068	81,216	2,552,508	1,236,091	188,127	74,778		
Capital Work-in-Progress [Includes Capital Advances: Rs. Nil (2009: Rs. Nil)]								<b>62,688</b>	<b>11,423</b>
								<b>1,104,295</b>	<b>1,214,491</b>

**SCHEDULES TO ACCOUNTS**

(Rs. in Thousands)

	As at June 30, 2010	As at June 30, 2009
<b>4. Investments [Schedule 16 Note 1(v)]</b>		
<b>Non-Trade</b>		
<b>Short Term Investments - Current *</b>		
Mutual funds - Liquid funds [Schedule 16 Note 14]	1,200,288	1,085,237
	<u>1,200,288</u>	<u>1,085,237</u>
*at the lower of cost and fair value		
<b>5. Inventories (net of provision) [Schedule 16 Note 1(vi)]</b>		
Raw materials [including goods in transit Rs.14,511 (2009:Rs 9,492)]	110,748	90,276
Stores and spares	21,190	19,547
Work-in-progress	160,634	140,202
Stock-in-trade:		
Finished goods	124,675	84,253
Traded goods	31,620	16,199
	<u>448,867</u>	<u>350,477</u>
<b>6. Sundry Debtors</b> (Unsecured, unless stated otherwise)		
Exceeding six months		
Considered good	-	-
Considered doubtful	9,091	16,941
Others:		
Considered good	755,215	514,025
	<u>764,306</u>	<u>530,966</u>
Less: Provision for doubtful debts	9,091	16,941
	<u>755,215</u>	<u>514,025</u>
<b>7. Cash and Bank Balances</b>		
Cash on hand	34	25
Balances with scheduled banks:		
Current accounts*	156,437	109,734
Term deposits	20	30
	<u>156,491</u>	<u>109,789</u>
* Includes Rs.1,616 (2009: Rs.813 ) towards unclaimed dividends		
<b>8. Other Current Assets</b> (Unsecured, considered good unless stated otherwise)		
Other deposits	6,457	7,353
	<u>6,457</u>	<u>7,353</u>

## SCHEDULES TO ACCOUNTS

(Rs. in Thousands)

	As at June 30, 2010	As at June 30, 2009
<b>9. Loans and Advances</b>		
(Unsecured)		
Considered good:		
Loans to employees	6,515	7,663
Prepaid expenses	16,539	11,964
Balance with Excise Authorities	22,420	48,507
Advances recoverable in cash or in kind or for value to be received:		
Considered good	32,253	19,117
Considered doubtful	2,230	2,911
	79,957	90,162
Less: Provision for doubtful advances	2,230	2,911
	77,727	87,251
 <b>10. Current Liabilities and Provisions</b>		
<b>A. Liabilities</b>		
Sundry Creditors for goods, expenses and services [Schedule 16 Note 13]		
Due to Micro, Small and Medium Enterprises	4,083	3,650
Due to Others	369,587	269,363
Advances/Deposits from customers	47,892	67,000
Unclaimed dividends *	1,616	813
Unclaimed fixed deposits	337	412
Other liabilities	197,057	71,225
	620,572	412,463
* There is no amount due and outstanding to be credited to Investor Education and Protection Fund		
<b>B. Provisions</b>		
Employee benefits		
Gratuity [Schedule 16 Note 15( ii) and (iii)]	36,004	51,061
Leave Encashment/Compensated Absences	59,834	74,349
Taxation (net):		
Current Tax	50,039	43,211
Fringe Benefit Tax	121	671
Product support [Schedule 16 Note 21]	14,000	13,400
	159,998	182,692

**SCHEDULES TO ACCOUNTS**

(Rs. in Thousands)

	Year ended June 30, 2010	Year ended June 30, 2009
<b>11. Sales (Gross)</b>		
Sales	3,913,104	3,270,423
Service Income	36,665	28,109
	<u>3,949,769</u>	<u>3,298,532</u>
<b>12. Other Income</b>		
Interest:		
From banks [gross]	7	7
[Tax deducted at source Rs. Nil (2009: Rs. Nil )]		
From others [gross]	273	95
[Tax deducted at source Rs. Nil (2009: Rs. 5 )]		
Income from short term investments	41,042	47,386
Provisions no longer required*	52,782	51,672
Sale of scrap	2,957	6,092
Insurance claims	-	730
Miscellaneous income	9,047	22,147
	<u>106,108</u>	<u>128,129</u>
* Includes provision for Product support no longer required Rs. Nil (2009: Rs.1800) [Schedule 16 Note 21]		
<b>13. Materials</b>		
Raw materials and components consumed	842,963	727,554
Traded goods	573,807	427,705
Movement in stocks:		
Opening stock:		
Work-in-progress	140,202	217,876
Finished goods	84,253	131,658
	<u>224,455</u>	<u>349,534</u>
Closing stock:		
Work-in-progress	160,634	140,202
Finished goods	124,675	84,253
	<u>285,309</u>	<u>224,455</u>
(Increase)/ Decrease in stocks	<b>(60,854)</b>	125,079
Excise duty on opening stock of finished goods	(11,488)	(28,151)
Excise duty on closing stock of finished goods	19,376	11,488
Increase/ (Decrease) in excise duty	<u>7,888</u>	<u>(16,663)</u>
	<u>1,363,804</u>	<u>1,263,675</u>

## SCHEDULES TO ACCOUNTS

(Rs. in Thousands)

	Year ended June 30,2010	Year ended June 30,2009
<b>14. Manufacturing and Other Expenses</b>		
Employee Cost:		
Salaries, wages and bonus [including provision for Leave encashment Rs.2,861 (2009: Rs. 29,685)]	586,502	545,367
Contribution to provident and other funds [Including provision for gratuity Rs.2,131 (2009:Rs.20,930)]	26,539	45,057
Staff welfare expenses	<u>55,815</u>	<u>49,059</u>
	<b>668,856</b>	<b>639,483</b>
Power and fuel	<b>88,954</b>	76,747
Stores and spares consumed	<b>95,986</b>	76,926
Subcontracting charges	<b>84,027</b>	70,210
Repairs and maintenance:		
Buildings	11,388	9,283
Plant and machinery [includes stores and spares consumed Rs. 58,321 (2009: Rs 33,689)]	<u>74,234</u>	<u>48,319</u>
	<b>85,622</b>	<b>57,602</b>
Rent	<b>3,321</b>	4,285
Bank charges	<b>2,934</b>	3,283
Rates and taxes [Schedule 16 Note 3(b)]	<b>52,701</b>	12,427
Insurance	<b>5,296</b>	6,410
Travelling and conveyance	<b>70,496</b>	66,084
Vehicle expenses	<b>2,634</b>	4,509
Legal and professional charges [Schedule 16 Note 11]	<b>11,775</b>	9,705
Communication expenses	<b>12,897</b>	12,626
Directors' Sitting fee	<b>430</b>	370
Excise duty on samples, free issues and others etc.	<b>16,561</b>	17,851
Packing, forwarding and freight	<b>40,212</b>	27,413
Provision for product support [Schedule 16 Note 21]	<b>600</b>	-
Printing and stationery	<b>7,253</b>	5,419
Advertisement and sales promotion	<b>16,990</b>	7,934
Discount and rebates	<b>618</b>	534
Provision for bad and doubtful debts	<b>6,984</b>	13,263
Provision for doubtful advances	<b>733</b>	900
Bad debts written off	<b>159</b>	77
Advances written off	<b>1,267</b>	662
Commission on sales	<b>17,210</b>	12,244
Assets written off	<b>2,256</b>	527
Information Technology services	<b>129,739</b>	110,470
Exchange loss (net)	<b>708</b>	15,587
Loss on fixed assets sold (net)	<b>93</b>	3,025
Miscellaneous [Schedule 16 Note 4(D)(b)]	<b>67,676</b>	63,106
	<b><u>1,494,988</u></b>	<b><u>1,319,679</u></b>
<b>15. Interest</b>		
Others	<b>382</b>	153
	<b><u>382</u></b>	<b><u>153</u></b>



## 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

## **SCHEDULE TO ACCOUNTS**

### **16. Notes on Accounts ... contd.**

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.

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

Dividend income is accounted for in the year in which the right to receive the same is established.

#### **x. Employee Benefits**

**Short term Employee Benefits:**

All employee benefits falling due wholly within twelve months of rendering the services are classified as short term employee benefits, which include benefits like salaries, wages, short term compensated absences and variable performance pay and are recognized in the period in which the employee renders related services.

**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.

## SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

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

#### Fringe benefit tax:

Fringe benefit tax was determined at current applicable rate on expenses falling within the ambit of "Fringe benefit" as defined under the Income Tax Act, 1961 till the previous year. With effect from April 2009, Fringe benefit tax is not required to be borne by the Company on account of change in legislature.

### 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.
- 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.30,442 (2009: Rs. 43,381)

## 3. Contingent Liabilities

(a)

Nature of Contingent Liability	2010	2009
Excise Duty	2,319	20,684
Sales Tax (Includes differential tax liability on account of pending declaration forms)	53,415	60,557
<b>Total</b>	<b>55,734</b>	<b>81,241</b>

**SCHEDULE TO ACCOUNTS**

(Rs. in Thousands)

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

- (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 export obligation of Rs 762,142 (2009: Rs.1,295,600) 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.45,501 (2009: Rs.58,268) [(Customs duty Rs.17,413 (2009: Rs.22,575) and Counter Vailing duty of Rs.28,088 (2009: Rs. 35,693)] and interest . Such Customs duty paid will be capitalized and Cenvat credit will be availed on the Counter Vailing duty.

Company during the year, after evaluating various options, is of the opinion that it will not be able to meet the said export obligation within the stipulated time period and has decided to close the licenses on payment of duty saved and interest. Accordingly interest of Rs 45,241 (2009: Rs.Nil) has been provided during the year.

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

**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.	-	-	<b>9,744,187</b>	
	Nos.	-	-	(7,135,173)	
Machine tools					
	a) Special purpose machines including accessories	Nos.	200	150	<b>67</b>
		Nos.	(200)	(150)	(57)
b) Jigs and fixtures	Rs. 000's	10,000	2,50,000	<b>24,622</b>	
	Rs. 000's	(10,000)	(2,50,000)	(18,990)	

**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.



## SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

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

#### 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.	851,426	83,981	<b>1,067,516</b>	<b>124,578</b>
		(1,089,465)	(131,623)	(851,426)	(83,981)
Traded	Nos.	59,772	15,814	<b>95,485</b>	<b>31,205</b>
		(81,969)	(19,570)	(59,772)	(15,814)
Machine tools	Nos.	2	-	<b>2</b>	-
		(2)	-	(2)	-
Others (individually less than 10% of the total stock)			657		<b>512</b>
			(1,370)		(657)
<b>Total</b>			<b>100,452</b>		<b>156,295</b>
			(152,563)		(100,452)

Note: 1. Figures in brackets relate to previous year  
2. Net of provisions.

#### C. Particulars of turnover of stocks in trade:

Class of goods	Unit	Turnover	
		Quantity	Value
Hard metal and hard metal products including tools	Nos.	<b>11,069,455</b>	<b>3,176,175</b>
		(8,455,063)	(2,501,315)
Machine Tools	Nos.	<b>67</b>	<b>389,712</b>
		(57)	(376,212)
Jigs and Fixtures		-	<b>83,980</b>
			(87,517)
Others (individually less than 10% of the total turnover)			<b>35,954</b>
			(61,551)
<b>Total</b>			<b>3,685,821</b>
			(3,026,595)

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.	<b>1,810,100</b>	<b>605,849</b>
	Nos.	(1,365,236)	(447,035)
Others (individually less than 10% of the total purchases)			<b>5,890</b>
			(9,059)
<b>Total</b>			<b>611,739</b>
			(456,094)

- a) Note: Figures in brackets relate to previous year  
b) Includes Trial and Development related materials consumption amounting to Rs.24,467 (2009:Rs.29,105) included under miscellaneous expenses [Refer Schedule 14]

**SCHEDULE TO ACCOUNTS**

(Rs. in Thousands)

**16. Notes on Accounts ... contd.****5. Particulars of raw materials and components Consumed:**

	Unit	2010		2009	
		Quantity	Value	Quantity	Value
Tungsten trioxide and ready mixed powder	MT	196.76	295,532	145.22	193,849
Tantalum niobium carbide	MT	2.86	24,101	2.72	20,668
Cobalt metal powder	MT	16.60	52,926	12.18	67,117
Steel			27,593		21,954
Components			238,917		188,611
Others (individually less than 10% of the total consumption)			203,894		235,355
			842,963		727,554
Whereof:		%	Value	%	Value
Imported		66	554,943	60	434,197
Indigenous		34	288,020	40	293,357
		100	842,963	100	727,554

**6. Consumption of stores and spare parts :**

	2010		2009	
	%	Value	%	Value
Imported	18	27,395	21	23,743
Indigenous	82	126,912	79	86,872
	100	154,307	100	110,615

**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/(back) and provision for old/ damaged/ obsolete inventory of Rs. (3,367) (2009: Rs. 12,409)

**7. a) Managerial Remuneration**

	2010	2009
i) Remuneration of Managing Director/ Manager		
Salary and Allowances	8,119	5,642
Contribution to provident and other funds *	293	361
Perquisites	257	138
Incentive (Performance Pay)	607	-
	9,276	6,141
ii) Directors' sitting fee	430	370
iii) Commission to non-whole time directors	1,825	1,200

**Note:**

- Excludes provision for leave encashment and gratuity.
- Includes remuneration of  
Mr. Dinakar A for the period July 1, 2009 to September 4, 2009 as Managing Director.  
Mr. Sarathy D for the period September 5, 2009 to April 23, 2010 as Manager u/s 2(24) of the Companies Act, 1956.  
Mr. Santanoo Medhi for the period April 24, 2010 to June 30, 2010 as Managing Director

## SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

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

- c. Mr. Santanoo Medhi was appointed as Managing Director on April 24, 2010 and the Company has applied for approval from the Central Government as per Part 1(e) of Schedule XIII of the Companies Act, 1956 and the approval is awaited. The above said appointment is subject to approval from the Shareholders in the ensuing annual general meeting.

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

	2010	2009
Profit before taxation	766,473	411,199
<b>Add:</b>		
Depreciation as per books	202,947	188,127
Managerial remuneration	9,276	6,141
Loss / (Profit) on sale of fixed assets as per books	2,349	3,552
Directors' sitting fee	430	370
Commission to non-whole time directors	1,825	1,200
	<b>983,300</b>	<b>610,589</b>
<b>Less:</b>		
Depreciation as per section 350 of the Companies Act, 1956	202,947	188,127
Bad debts written off/written back	159	77
Loss / (Profit) on sale of fixed assets as per section 349 of the Companies Act, 1956	2,349	4,016
Net profit as per section 198 of the Companies Act	<b>777,845</b>	<b>418,369</b>
Non whole-time directors commission @ 1 %	7,778	4,184
Manager's remuneration @ 5 %	38,892	20,918
Commission payable to non-whole time directors (% of net profit)	1,825 0.23%	1,200 0.29%
Remuneration to Managing Director (% of net profit)	9,276 1.19%	6,141 1.47%

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

	2010	2009
Raw materials	1,174,674	984,347
Stores and spares	48,088	56,461
Capital goods	43,260	241,583

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

	2010	2009
Travelling	5,832	7,929
Information Technology Services	129,630	110,254
Miscellaneous expenses	4,903	3,762

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

	2010	2009
Export of goods calculated on F.O.B. basis	290,147	320,830
Others	19,762	17,810

**SCHEDULE TO ACCOUNTS**

(Rs. in Thousands)

**16. Notes on Accounts ... contd.****11. Auditors' remuneration** \*(Included under legal and professional charges in Schedule 14)

	<b>2010</b>	<b>2009</b>
Statutory audit	<b>1,375</b>	1,375
Tax audit fee	<b>400</b>	400
Other audit related services	<b>3,076</b>	3,350
Out-of-pocket expenses	<b>50</b>	100

\* excluding service tax

**12. Particulars of research and development expenditure:**

	<b>2010</b>	<b>2009</b>
Capital	<b>2,721</b>	3,030
Revenue expenditure debited to various heads of account	<b>35,884</b>	28,823

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

	<b>2010</b>	<b>2009</b>
(a) The principal amount remaining unpaid as at June 30, 2010 Interest due thereon remaining unpaid on June 30, 2010	<b>4,083</b> -	3,650 -
(b) The amount of interest paid by the Company 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. (i) Delayed payments of principal beyond the appointed date during the entire accounting year (ii) Interest actually paid under Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006	-	-
(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	-	-
(d) The amount of interest accrued and remaining unpaid on June 30, 2010 in respect of principal amount settled during the year	-	-
(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	-	-

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 and this has been relied upon by the auditors.

## SCHEDULE TO ACCOUNTS

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

(Rs. in Thousands)

#### 14. Investments

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

Name of the Fund	2010	2009
ICICI Prudential Liquid Plan - Super Institutional Daily Dividend	110,025	120,033
Templeton India Treasury Management Account Super Institutional Plan - Daily Dividend Reinvestment	110,024	120,035
Birla Sunlife Cash Plus - Institutional Premium Plan - Daily Dividend -Reinvestment	110,027	120,027
Canara Robeco Liquid Fund -Super Institutional Daily Dividend Reinvestment	110,035	-
SBI Premier Liquid Fund - Super Institutional - Daily Dividend	110,025	125,023
TATA Liquid Super High Investment Fund - Daily Dividend	110,023	120,026
JPMorgan India Liquid Fund - Super Institutional Daily Dividend Plan - Reinvestment	110,027	120,024
HSBC Cash fund - Institutional Plus - Daily Dividend	110,028	-
Principal Cash Management Fund - Liquid Option Institutional Premium Plan- Daily Dividend Reinvestment	-	120,023
Fortis Overnight Fund - Institutional Daily Dividend	-	120,020
Reliance Liquid Plan - Treasury Plan - Institutional option - Daily Dividend Plan	100,024	-
IDFC Cash Fund - Plan C - Daily Dividend	110,025	120,026
UTI Liquid Cash Plan - Institutional Plan - Daily Dividend Re-investment	110,025	-
	<b>1,200,288</b>	1,085,237

##### B. Non-trade Investments in Units of Mutual Funds

Number of Units

Name of the Fund	Opening July 1, 2009	During the year		Closing June 30, 2010
		Purchases	Sales	
ICICI Prudential Liquid Plan - Super Institutional Daily Dividend	12,000,910	13,256,322	24,157,221	1,100,011
Templeton India Treasury Management Account Super Institutional Plan - Daily Dividend Reinvestment	119,954	493,965	503,969	109,950
Principal Cash Management Fund - Liquid Option Institutional Premium Plan- Daily Dividend Reinvestment	12,001,443	81,808	12,083,251	-
Fortis Money Plus Institutional Plan Daily Dividend	-	11,760,310	11,760,310	-
Fortis Overnight Fund - Institutional Daily Dividend	11,998,369	4,719,627	16,717,996	-

**SCHEDULE TO ACCOUNTS**

(Rs. in Thousands)

**16. Notes on Accounts ... contd.****Non-trade Investments in Units of Mutual Funds ... contd.**

Number of Units

Name of the Fund	Opening July 1, 2009	During the year		Closing June 30, 2010
		Purchases	Sales	
Birla Sunlife Cash Plus - Institutional Premium Plan - Daily Dividend -Reinvestment	11,979,313	62,307,800	63,305,820	10,981,293
HDFC Cash Management Fund - Savings Plan - Daily Dividend Reinvestment	-	1,996,046	1,996,046	-
HDFC Liquid Fund - Dividend - Daily Reinvestment	-	4,416,153	4,416,153	-
Canara Robeco Liquid Fund -Institutional Daily Dividend Reinvest	-	2,694,746	2,694,746	-
Canara Robeco Liquid Fund -Super Institutional Daily Dividend Reinvestment	-	28,601,626	17,658,340	10,943,286
SBI Premier Liquid Fund - Super Institutional - Daily Dividend	12,461,834	59,591,396	61,086,330	10,966,900
TATA Liquid Super High Investment Fund - Daily Dividend	107,693	443,734	452,709	98,718
JPMorgan India Liquid Fund - Super Inst Daily Dividend Plan - Reinvestment	11,992,915	40,842,295	41,841,172	10,994,038
HSBC Cash fund - Institutional Plus - Daily Dividend	-	19,017,311	8,020,628	10,996,683
HSBC Floating Rate Long Term Plan - Institutional Option - Weekly Dividend	-	890,346	890,346	-
Reliance Liquid Plan - Treasury Plan - Institutional option - Daily Dividend Plan	-	33,336,449	26,793,607	6,542,842
IDFC Cash Fund - Plan C - Daily Dividend	11,999,727	64,320,408	65,320,347	10,999,788
UTI Treasury Advantage Fund - Institutional Plan (Daily Dividend Option ) - Re-Investment	-	30,269	30,269	-
UTI Liquid Cash Plan Regular - Daily Income Option - Re-Investment	-	7,126	7,126	-
UTI Liquid Cash Plan - Institutional Plan - Daily Dividend Re-investment	-	512,692	404,766	107,926
ING Liquid Fund Institutional Plan - Daily Dividend	-	1,349,355	1,349,355	-

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, 2010 an amount of Rs. 23,433 (2009: Rs. 23,426) expenses under defined contribution plans

Benefit (contribution to)	2010	2009
Provident Fund	17,479	17,245
Employees Pension Scheme	5,954	6,181
	<b>23,433</b>	<b>23,426</b>

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:

	2010	2009	2008	2007
<b>I Reconciliation of opening and closing balances of obligation</b>				
a. Obligation as at the beginning of the year	118,025	105,633	90,343	77,809
b. Current Service Cost	7,524	19,205	21,530	18,050
c. Interest Cost	9,413	7,894	6,726	6,225
d. Actuarial (Gain)/Loss	(7,890)	(785)	(422)	(1,412)
e. Benefits Paid	(5,916)	(13,922)	(12,544)	(10,329)
f. Obligation as at the end of the year	121,156	118,025	105,633	90,343
<b>II Change in Plan Assets (Reconciliation of opening and closing balances)</b>				
a. Fair Value of Plan Assets as at the beginning of the year	66,964	62,794	56,892	51,288
b. Expected return on Plan Assets	5,939	4,953	4,570	4,103
c. Actuarial Gain/(Loss)	977	431	861	350
d. Contributions	17,188	12,708	13,015	11,480
e. Benefits Paid	(5,916)	(13,922)	(12,544)	(10,329)
f. Fair Value of Plan Assets as at the end of the year	85,152	66,964	62,794	56,892
<b>III Reconciliation of fair value of assets and obligations</b>				
a. Present Value of Obligation as at the end of the year	121,156	118,025	105,633	90,343
b. Fair value of Plan Assets as at the end of the year	(85,152)	(66,964)	(62,794)	(56,892)
c. Amount recognised in the Balance Sheet	36,004	51,061	42,839	33,451
<b>IV Expense recognised during the year</b>				
a. Current Service Cost	7,524	19,205	21,530	18,050
b. Interest Cost	9,413	7,894	6,726	6,225
c. Expected return on Plan Assets	(5,939)	(4,953)	(4,570)	(4,103)
d. Actuarial (Gain)/Loss	(8,867)	(1,216)	(1,283)	(1,762)
e. Expense recognised during the year	2,131	20,930	22,403	18,410
The expense is disclosed in the line item - Contribution to provident and other funds				
<b>V Assumptions</b>				
a. Discount Rate (per annum)	8.18%	8%	8%	8%
b. Interest Rate (per annum)	8.18%	8%	8%	8%
c. Estimated Rate of return on Plan Assets (per annum)	8.18%	8%	8%	8%
d. Rate of Escalation in Salary (per annum)	1% & 5%	1% & 5%	5%	5%

- i) The discount rate is based on the prevailing market yield on Government securities as at the balance sheet date for the estimated term of obligations.
- ii) The expected return on plan assets is determined considering several applicable factors mainly the composition of plan assets held, assessed risk of asset management, historical results of the return on plan assets, and the Company's policy for plan asset management.
- iii) 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 Segmental Reporting

Business Segment	Machine Tools		Hard Metal & Hard Metal Products		Total	
	2010	2009	2010	2009	2010	2009
Revenue						
External Sales (Gross)	521,857	521,892	3,427,912	2,776,640	3,949,769	3,298,532
Less: Excise Duty	41,483	50,162	185,800	193,666	227,283	243,828
External Sales (Net)	480,374	471,730	3,242,112	2,582,974	3,722,486	3,054,704
Other Income (excluding Interest Income)	8,602	15,923	51,477	63,123	60,079	79,046
Total Revenue	488,976	487,653	3,293,589	2,646,097	3,782,565	3,133,750
Result						
Segment Result	53,779	56,098	882,568	520,941	936,347	577,039
Unallocated Corporate Expenses (Net of Income)	-	-	-	-	210,814	213,175
Operating Profit/(Loss)	-	-	-	-	725,533	363,864
Add: Interest Income	-	-	-	-	41,322	47,488
Less: Interest Expenses	-	-	-	-	382	153
Less: Income Tax - Deferred	-	-	-	-	8,786	(46,257)
Less: Income Tax - Current	-	-	-	-	238,000	169,819
Less: Fringe Benefit Tax	-	-	-	-	-	7,500
Net Profit / (Loss)	-	-	-	-	519,687	280,137
Other Information						
Segment Assets	155,853	122,880	2,188,270	2,012,210	2,344,123	2,135,090
Unallocated Corporate Assets	-	-	-	-	1,414,386	1,251,488
Total Assets	155,853	122,880	2,188,270	2,012,210	3,758,509	3,386,578
Segment Liabilities	79,488	104,426	642,282	437,604	721,770	542,030
Unallocated Corporate Liabilities	-	-	-	-	58,800	53,125
Total Liabilities	79,488	104,426	642,282	437,604	780,570	595,155
Capital Expenditure	3,840	2,456	86,570	288,567	90,410	291,023
Unallocated Capital Expenditure	-	-	-	-	5,657	530
Depreciation	9,401	10,069	189,633	170,694	199,034	180,763
Unallocated Depreciation	-	-	-	-	3,913	7,364

#### B. Secondary Segmental Reporting

Geographical Segment	Revenue		Carrying amount of segment assets		Capital Expenditure	
	2010	2009	2010	2009	2010	2009
India	3,457,097	2,824,119	3,758,509	3,386,578	96,067	291,553
Outside India	325,468	309,631	-	-	-	-
Total	3,782,565	3,133,750	3,758,509	3,386,578	96,067	291,553

## SCHEDULE TO ACCOUNTS

(Rs. in Thousands)

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

#### 17. Taxation

##### i. Transfer Pricing

For the year ended March 31, 2010 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, 2010 are:

	Asset		Liability	
	2010	2009	2010	2009
a. Expenses allowable for tax purposes when paid	63,181	85,621	-	-
b. Provision for doubtful debts/advances	3,020	5,758	-	-
c. Provision for non-moving and surplus inventory	13,338	14,791	-	-
d. Depreciation	-	-	70,370	88,215
	79,539	106,170	70,370	88,215
Net Deferred Tax Asset / (Liability)	9,169	17,955		
Net Deferred Tax (Credit) / Debit for the year	8,786	(46,257)		

The tax impact for the above purpose has been arrived by applying a tax rate of 33.22% (2009: 33.99%) being the prevailing tax rate for Indian companies under the Income Tax Act, 1961.

#### 18. Earnings Per Equity Share

	2010	2009
Profit attributable to equity shareholders	519,687	280,137
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.)	23.65	12.75

#### 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	2010	2009
Minimum lease payments debited to various heads of account	20,425	23,896

There are no contingent rents.

**SCHEDULE TO ACCOUNTS**

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

**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	
	2010	2009	2010	2009	2010	2009	2010	2009
Sales - Total	152,634	129,972	135,401	151,554	-	-	288,035	281,526
In excess of 10%								
Kennametal Europe GmbH, Germany	91,513	64,995	-	-	-	-	91,513	64,995
Kennametal Inc., USA	61,121	64,977	-	-	-	-	61,121	64,977
Hanita Metal Works Ltd	-	-	32,412	85,407	-	-	32,412	85,407
Knt Distribution Services Asia Pte.	-	-	53,357	35,623	-	-	53,357	35,623
Services Rendered- Others	-	-	5,790	5,340	-	-	5,790	5,340
Services Rendered Others - in excess of 10%	-	-	-	-	-	-	-	-
Kennametal Shared Services Private Limited	-	-	5,790	5,340	-	-	5,790	5,340
Reimbursement of Expenses	6,195	3,524	12,480	6,608	-	-	18,675	10,132
Reimbursement of Expenses - in excess of 10%								
Extrude Hone Corporation	-	-	1,921	3,689	-	-	1,921	3,689
Kennametal Technologies GmbH	-	-	5,305	1,241	-	-	5,305	1,241
Knt Distribution Services Asia Pte.	-	-	4,154	1,234	-	-	4,154	1,234
Kennametal Inc., USA	4,992	3,516	-	-	-	-	4,992	3,516
Finance	-	-	-	20	-	-	-	20
Interest on Loan - Others in excess of 10%	-	-	-	-	-	-	-	-
Interest on Loan Received from KSSPL	-	-	-	20	-	-	-	20
Dividend Paid	251,888	-	-	-	-	-	251,888	-
Interim Dividend Paid (Year: 2010)								
Meturit A.G. Zug, Switzerland	145,715	-	-	-	-	-	145,715	-
Kennametal Inc., USA	106,173	-	-	-	-	-	106,173	-
Managerial Remuneration	-	-	-	-	9,276	6,141	9,276	6,141
Purchases - Total	522,976	397,213	260,514	151,321	-	-	783,490	548,534
Purchase of Goods- Capital Goods	635	9,807	2,075	46	-	-	2,710	9,853
Purchase of Capital Goods- Others in excess of 10%								
Kennametal Europe GmbH	635	-	-	-	-	-	635	-
Kennametal Inc., USA	-	9,381	-	-	-	-	-	9,381
Kennametal China Co Ltd	-	-	2,075	-	-	-	2,075	-
Purchase of Goods- Others	522,340	387,406	258,439	151,275	-	-	780,779	538,681
Purchase of Goods- Others in excess of 10%								
Kennametal Hertel GmbH Co. KG, Germany	289,441	223,780	-	-	-	-	289,441	223,780
Kennametal Inc., USA	232,899	163,626	-	-	-	-	232,899	163,626
Knt Distribution Services Asia Pte	-	-	243,095	145,088	-	-	243,095	145,088
Services Received / Recharge of Expenses - Total	133,091	114,625	-	613	-	-	133,091	115,238
Services Received - Information technology services	129,739	110,254	-	-	-	-	129,739	110,254
Services Received - Information Technology Services in excess of 10%								
Kennametal Inc., USA	129,739	110,254	-	-	-	-	129,739	110,254

## 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	
	2010	2009	2010	2009	2010	2009	2010	2009
	Recharge of Expenses	3,352	4,371	-	613	-	-	3,352
Recharge of Expenses in excess of 10%								
Kennametal Technologies GmbH	-	169	-	-	-	-	-	169
Hanita Metal Works Ltd	-	-	-	129	-	-	-	129
Kennametal Shared Services Pvt Ltd	-	-	-	264	-	-	-	264
Kennametal Inc., USA	3,352	4,371	-	-	-	-	3,352	4,371
Outstanding Receivables - Trade + Others	10,851	13,926	11,943	8,718	-	-	22,794	22,644
Trade Receivables	10,438	13,926	11,256	8,198	-	-	21,694	22,124
Trade Receivables in excess of 10%								
Kennametal Europe GmbH	5,392	5,605	-	-	-	-	5,392	5,605
(Maximum amount during the year Rs.19,918)								
Hanita Metal Works Ltd	-	-	3,800	2,115	-	-	3,800	2,115
(Maximum amount during the year Rs.75,822)								
Kennametal Inc.	5,046	8,321	-	-	-	-	5,046	8,321
(Maximum amount during the year Rs 63,540)								
KMT Distribution Services Asia Pte	-	-	3,661	3,213	-	-	3,661	3,213
(Maximum amount during the year Rs 6,686 )								
Kennametal DO Brasil LTDA	-	-	3,014	1,872	-	-	3,014	1,872
(Maximum amount during the year Rs 3,489)								
Outstanding Receivables - Others	413	-	687	520	-	-	1,100	520
Other Receivables in excess of 10%								
Kennametal Inc.	413	-	-	-	-	-	413	-
KMT Distribution Services Asia Pte	-	-	334	234	-	-	334	234
Extrude Hone Corporation	-	-	290	117	-	-	290	117
Kennametal Shared Services Pvt Ltd	-	-	-	169	-	-	-	169
Outstanding Payables - Trade	45,878	63,724	36,971	12,537	-	-	82,849	76,261
Trade Payables	45,878	40,815	36,971	12,326	-	-	82,849	53,141
Trade Payables in excess of 10%								
Kennametal Inc., USA	17,171	19,992	-	-	-	-	17,171	19,992
(Maximum amount during the year Rs. 48,696)								
Kennametal Europe GmbH	28,706	20,823	-	-	-	-	28,706	20,823
(Maximum amount during the year Rs.32,643)								
KMT Distribution Services Asia Pte	-	-	32,822	11,095	-	-	32,822	11,095
(Maximum amount during the year Rs.32,821)								
Outstanding Payables - IT Legal Entity Fees	-	22,909	-	-	-	-	-	22,909
Outstanding Payables-IT Legal Entity Fees in excess of 10%								
Kennametal Inc., USA	-	22,909	-	-	-	-	-	22,909
Outstanding Payables - Others	-	-	-	211	-	-	-	211
Outstanding Payables-Others in excess of 10%								
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   | Meturit 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 *<br>(Formerly Widia GmbH, Germany)<br>Kennametal Europe Holding GmbH, Germany *<br>(Formerly Widia Holding GmbH, Germany)<br>Kennametal Hertel Europe Holding GmbH, Germany<br>Kennametal Holding GmbH, Germany *<br>Kennametal Widia Holdings Inc, USA *<br>Kennametal Europe GmbH , Germany<br>Kennametal Europe L.P., Bermuda *<br>Kennametal Holdings Europe Inc, USA *<br>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<br>Kennametal (Malaysia) Sdn.Bhd, Malaysia<br>Kennametal Hardpoint (Shanghai) Ltd., China<br>Kennametal (Singapore) Pte. Ltd., Singapore<br>Kennametal Japan Ltd., Japan<br>Hanita Metal Works Ltd., Israel<br>Kennametal Korea Ltd., Korea<br>Kennametal Australia Pty. Ltd., Australia<br>Kennametal (Thailand) Co. Ltd., Thailand *<br>Kennametal Engg ProdHardenburg, Nederland<br>KMT Distribution Services Asia Pte.<br>Kennametal Shared Services Private Limited<br>Conforma Clad *<br>Extrude Hone Corporation<br>Kennametal Do Brasil Limited<br>Clapp Dico Corporation<br>Kennametal (China) Co. Ltd<br>Breakthrough Engineering Components *<br>Kennametal Logistics GmbH<br>Kennametal Shared Services, GmbH<br>IPG – Hanita, Cleveland<br>Kennametal Ltd, Canada<br>Kennametal Technologies GmbH<br>Kennametal Italia S.P.A.<br>Kennametal HTM AG (HTM), Switzerland<br>Dinakar A. – Managing Director<br>D. Sarathy – Manager<br>Santanoo Medhi – Managing Director<br>Nil |
|---------------------|--|

##### **c) Key Management Personnel \*\***

##### **d) Director related entities**

\* No transaction during the year

\*\* Refer Note 7A (b) and (c) above

**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

(Rs. in Thousands)

### 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:

Particulars	As at June 30, 2009	Additions	Utilisation	Reversals	As at June 30, 2010
Product support	13,400	600	-	-	14,000
	(15,200)	-	-	(1,800)	(13,400)

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. Remittance in Foreign currency during the year on account of Dividends to Non-Resident Shareholders.

No. of Shareholders	No. of Shares	Particulars	2010	2009
2	19,376,013	2010 Interim	251,888	-

23. Company does not have a scheme for grant of its Stock options either to the Executive Directors or Employees for the shares issued in India. However the Managing Director and certain senior management employees of the Company are granted stock options in a share based compensation plan of Kennametal Inc., the ultimate holding Company.

These Plans are assessed, managed and administered by the ultimate holding Company and no cross charges/debits have been made on the Company

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

For and on behalf of Board Directors

**For Price Waterhouse**  
Firm Registration Number : 007568S  
*Chartered Accountants*

M. N. Bhagwat  
*Chairman*

**Usha A Narayanan**  
*Partner*  
Membership Number : 023997

Santanoo Medhi  
*Managing Director*

Bangalore  
August 13, 2010

B. Anjani Kumar  
Rakesh Makhija  
Dr. Esat Kemal Yegenoglu  
*Directors*

A. C. Poovanna  
*Company Secretary*

**CASH FLOW STATEMENT**

(Rs. in Thousands)

	Year ended June 30, 2010	Year ended June 30, 2009
<b>1 CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Profit before taxation, before exceptional items</b>	<b>766,473</b>	411,199
<b>Adjustments for:</b>		
Depreciation	202,947	188,127
Provision no longer required	(52,782)	(51,672)
Provision for product support	600	-
Bad debts written off	159	77
Provision made for doubtful debts	6,984	13,263
Provision for Doubtful Advances	733	900
Advances written off	1,267	662
Assets written off	2,256	527
Loss/(Profit) on sale of Fixed assets	93	3,025
Interest Expense	382	153
Interest Income	(280)	(102)
Unrealised Foreign Exchange (Gain)/ Loss	(1,807)	(3,343)
Income from investments	(41,042)	(47,386)
	<b>119,510</b>	104,231
Operating profit before working capital changes	<b>885,983</b>	515,430
<b>Adjustment for working capital changes</b>		
Decrease/(Increase) in inventories	(98,390)	150,645
Decrease/(Increase) in Trade and Other receivables	(223,433)	459,591
(Decrease)/Increase in Current liabilities and provisions	203,411	(236,661)
	<b>(118,412)</b>	373,575
Cash Generated from Operations	<b>767,571</b>	889,005
Income Taxes paid (net of refunds)	<b>(231,722)</b>	(206,431)
<b>Net Cash generated from Operating Activity</b>	<b>535,849</b>	682,574
<b>2 CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed Assets	(83,636)	(291,358)
Sale of Fixed assets	967	2,886
Interest received	7	13
Income from investments	41,316	47,379
<b>Net Cash from/(used) in Investing Activities</b>	<b>(41,346)</b>	(241,080)

## CASH FLOW STATEMENT

(Rs. in Thousands)

	Year ended June 30, 2010	Year ended June 30, 2009
<b>3 CASH FLOW FROM FINANCING ACTIVITIES</b>		
Interest paid	(382)	(153)
Unclaimed Dividend paid during the year	-	(449)
Dividend paid during the year	(284,914)	-
Tax on Interim dividend	(47,454)	-
<b>Net Cash from/(used) in Financing Activities</b>	<b>(332,750)</b>	<b>(602)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (1+2+3)</b>	<b>161,753</b>	<b>440,892</b>
<b>OPENING CASH EQUIVALENTS</b>	1,195,026	754,134
<b>CLOSING CASH EQUIVALENTS (refer note 3 below)</b>	<b>1,356,779</b>	<b>1,195,026</b>

**Notes:**

- 1 The Cash flow statement has been compiled from and is based on the Balance sheet as at June 30, 2010 and the related Profit and Loss account for the year ended on that date.
- 2 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.

- 3 Cash equivalents at the end of the period

	June 30, 2010	June 30, 2009
Cash and Bank balances include Rs. 1,616 (2009: Rs.813) in dividend accounts which is restrictive in nature	<b>156,491</b>	109,789
Current investments in mutual funds	<b>1,200,288</b>	1,085,237
	<b>1,356,779</b>	<b>1,195,026</b>

- 4 Previous years'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 Board Directors

**For Price Waterhouse**  
Firm Registration Number : 007568S  
*Chartered Accountants*

M. N. Bhagwat  
*Chairman*

**Usha A Narayanan**  
*Partner*  
Membership Number : 023997

Santanoo Medhi  
*Managing Director*

Bangalore  
August 13, 2010

B. Anjani Kumar  
Rakesh Makhija  
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.	: L27109KA1964PLC001546	State Code :	08
Balance Sheet date :	June 30, 2010		
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	3,758,509	Total assets (including deferred tax Assets Rs.9,169)	3,758,509
<b>Source of funds</b>			
Paid up capital	219,782	Reserves and surplus	2,758,157
<b>Application of funds</b>			
Net fixed assets	1,104,295	Investments	1,200,288
Deferred tax asset	9,169	Net current assets	664,187
4. Performance of Company : (Amount in Rs. Thousands)			
Turnover (including other income Rs.106,108)	3,828,594	Total expenditure	3,062,121
Profit before tax	766,473	Profit after tax {after deferred tax Rs.8,786}	519,687
Earning per share Rs.	23.65	Dividend rate %	130%
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		

For and on behalf of Board Directors

M. N. Bhagwat  
*Chairman*Santanoo Medhi  
*Managing Director*B. Anjani Kumar  
Rakesh Makhija  
Dr. Esat Kemal Yegenoglu  
*Directors*A. C. Poovanna  
*Company Secretary*Bangalore  
August 13, 2010



**KENNAMETAL INDIA LIMITED**

Registered Office: 8/9<sup>th</sup> Mile, Tumkur Road, Bangalore – 560073

**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 45<sup>th</sup> Annual General Meeting of the Company on October 26, 2010 at the registered office of the Company at 8/9<sup>th</sup> 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**

Registered Office: 8/9<sup>th</sup> Mile, Tumkur Road, Bangalore – 560073

**PROXY FORM**

I/We.....  
of.....being  
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 45<sup>th</sup> Annual General Meeting of the Company to be held on  
October 26, 2010 at 10.30 a.m at the registered office of the Company at 8/9<sup>th</sup> Mile, Tumkur Road,  
Bangalore - 560 073 and at any adjournment(s) thereof.

Signed this day.....of.....2010

Regd.Folio No./DP & Client ID :

Affix Re.1/- Revenue Stamp
-------------------------------------

.....  
Signature of the Member(s)

**Note :**

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.

