



KIRLOSKAR PNEUMATIC CO. LTD.

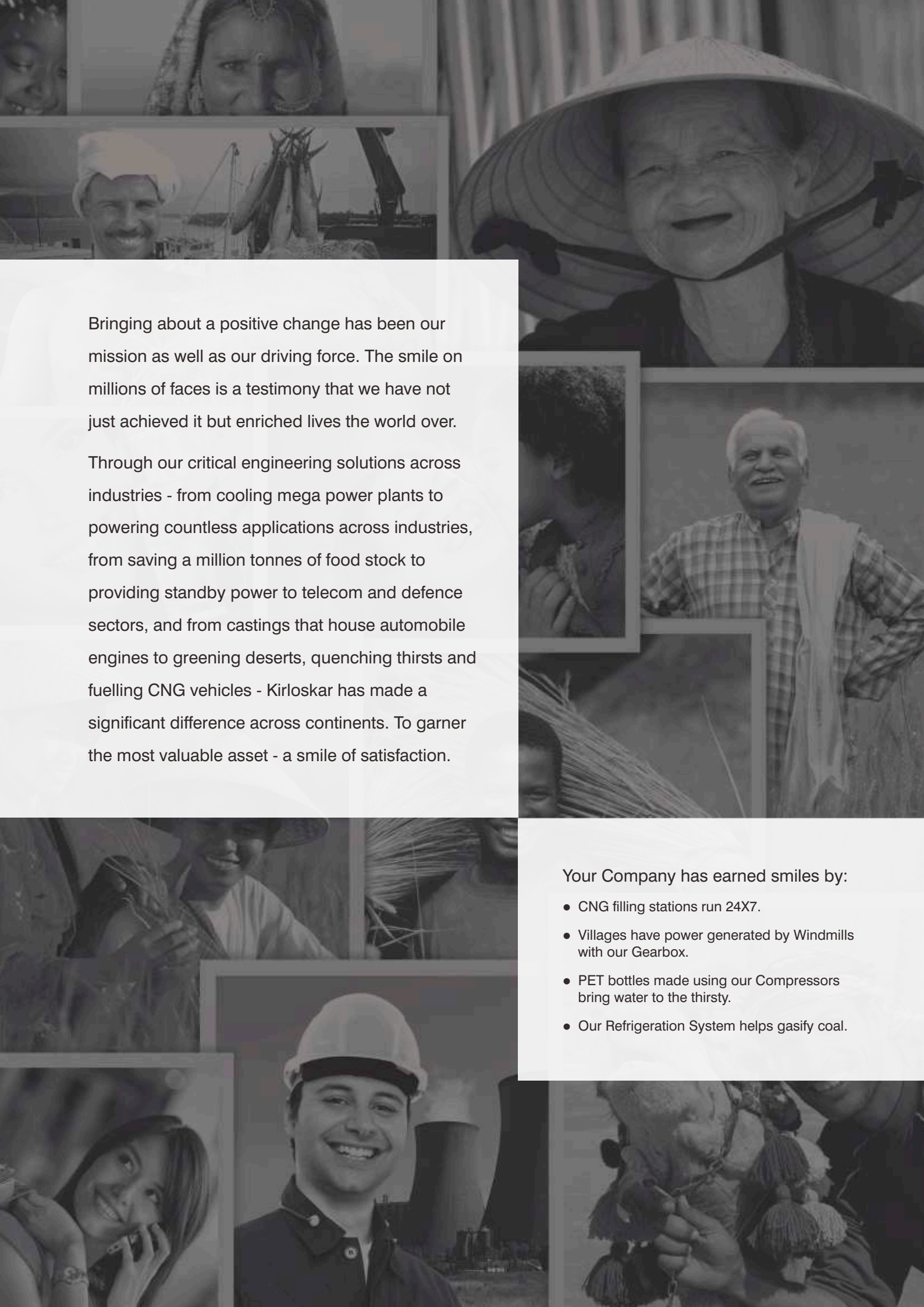
A Kirloskar Group Company

39th ANNUAL REPORT 2013 - 2014

Enriching Lives



A million smiles
across the globe.
That's what we
have earned.



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

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

Your Company has earned smiles by:

- CNG filling stations run 24X7.
- Villages have power generated by Windmills with our Gearbox.
- PET bottles made using our Compressors bring water to the thirsty.
- Our Refrigeration System helps gasify coal.

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| BOARD OF DIRECTORS | Mr. Rahul C. Kirloskar Mr. Atul C. Kirloskar Mr. Sanjay C. Kirloskar Mr. Vikram S. Kirloskar Mr. A. C. Mukherji Mr. J. Y. Tekawade Mr. P. S. Jawadekar Mr. G. Krishna Rao Mr. D. R. Swar Mr. Sunil Shah Singh Mr. Aditya Kowshik | Executive Chairman (upto 23rd April, 2014) Managing Director |
| COMPANY SECRETARY | Mr. Jitendra R. Shah | |
| STATUTORY AUDITORS | M/s. P. G. Bhagwat Chartered Accountants, Pune | |
| BANKERS | Bank of India Bank of Maharashtra Union Bank of India | ICICI Bank Ltd. HDFC Bank Ltd. |
| REGISTRAR & TRANSFER AGENTS | LINK INTIME (INDIA) PVT. LTD. Pune Office : Akshay Complex, No. 202, 2 nd Floor, Near Ganesh Temple, Off. Dhole Patil Road, Pune 411 001 | Mumbai Office : C-13, Pannalal Silk Mills Compound, LBS Marg, Bhandup West, Mumbai 400 078 |
| REGISTERED OFFICE | Hadapsar Industrial Estate, Pune 411 013 | |
| LOCATION OF PLANTS | Pune, Saswad and Nashik | |

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NOTICE OF 39th ANNUAL GENERAL MEETING

NOTICE is hereby given that the 39th Annual General Meeting of the Members of Kirloskar Pneumatic Company Limited will be held on Wednesday the 23rd day of July, 2014 at 2.30 p.m. at Pudumjee Hall, Mahratta Chamber of Commerce, Industries and Agriculture, Tilak Road, Pune 411002 to transact the following business :

ORDINARY BUSINESS

- 1 To receive, consider and adopt the Financial Statements of the company for year ended 31 March, 2014 including Audited Balance Sheet as at 31st March, 2014 and the Profit and Loss Account for the year ended on that date and the Report of the Auditors' and Board of Directors thereon.
- 2 To declare dividend on equity shares for the financial year ended on 31st March, 2014.
- 3 To appoint a Director in place of Mr. D. R. Swar (holding DIN 00007495), who retires by rotation and being eligible, offers himself for re-appointment.
- 4 To appoint Statutory Auditors and to fix their remuneration and in this regard pass with or without modification(s) the following resolution as an **ORDINARY RESOLUTION**:

"RESOLVED that pursuant to the provisions of Section 139, 142 and any other applicable provisions of the Companies Act, 2013 (corresponding to Section 224 and other applicable provisions, if any, of the Companies Act, 1956), M/s P.G. Bhagwat (Firm Registration No.101118W) Chartered Accountants, be and are hereby re-appointed as the Statutory Auditors of the Company to hold office from the conclusion of 39th Annual General Meeting till the conclusion of the 41st Annual General Meeting (after commencement of the Companies Act 2013), subject to ratification by the shareholders annually, at a remuneration to be decided by the Board of Directors in consultation with the Auditors plus applicable service tax and reimbursement of travelling and out of pocket expenses incurred by them for the purpose of audit".

SPECIAL BUSINESS

- 5 To consider and if thought fit, to pass with or without modification(s) the following resolution as an **ORDINARY RESOLUTION**:

"RESOLVED that pursuant to the provisions of Section 148 and any other applicable provisions of the Companies Act, 2013 and Rule 14 of the Companies (Audit and Auditors) Rules, 2014, (including any statutory modification(s) or re-enactment thereof for the time being in force) consent of the Company be and is hereby accorded for the payment of remuneration of Rs. 5 Lacs (Rupees Five Lacs only) to Company's Cost Auditor, M/s. S. G. Jog , a proprietary firm of Cost Accountant, for auditing the cost records maintained by the Company for the financial year ending 31st March, 2015."

- 6 To consider and if thought fit, to pass with or without modification(s) the following resolution as an **ORDINARY RESOLUTION**:

"RESOLVED that pursuant to the provisions of Sections 149, 152 and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force) read with Schedule IV to the Companies Act, 2013, Mr. A. C. Mukherji (holding DIN 00063975), Director of the Company who retires by rotation at the Annual General Meeting in respect of whom the company has received a notice in writing from a member proposing his candidature for the office of a Director, be and is hereby appointed as an Independent Director of the Company to hold office for two consecutive years for a term up to 22nd July 2016.

"RESOLVED FURTHER that pursuant to the provisions of Sections 149, 197 and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force), Mr. A. C. Mukherji be paid such fees and remuneration and profit related commission as the Board may approve from time to time and subject to such limits, prescribed or as may be prescribed from time to time".

- 7 To consider and if thought fit, to pass with or without modification(s) the following resolution as an **ORDINARY RESOLUTION**:

"RESOLVED that pursuant to the provisions of Sections 149, 152 and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force) read with Schedule IV to the Companies Act, 2013, Mr. Sunil Shah Singh (holding DIN 00233918), Director of the Company who retires by rotation at the Annual General Meeting in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of a Director, be and is hereby appointed as an Independent Director of the Company to hold office for five consecutive years for a term up to 22nd July 2019.

RESOLVED FURTHER that pursuant to the provisions of Sections 149, 197 and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force), Mr. Sunil Shah Singh be paid such fees and remuneration and profit related commission as the Board may approve from time to time and subject to such limits, prescribed or as may be prescribed from time to time”.

- 8 To consider and if thought fit, to pass with or without modification(s) the following resolution as an **ORDINARY RESOLUTION**:

“**RESOLVED** that pursuant to the provisions of Sections 149, 152 and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force) read with Schedule IV to the Companies Act, 2013, Mr. G. Krishna Rao (holding DIN 00058985), Director of the Company whose period of office is liable to determination by retirement of director by rotation at the Annual General Meeting in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of a Director, be and is hereby appointed as an Independent Director of the Company to hold office for five consecutive years for a term up to 22nd July 2019.

RESOLVED FURTHER that pursuant to the provisions of Sections 149, 197 and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force), Mr G. Krishna Rao be paid such fees and remuneration and profit related commission as the Board may approve from time to time and subject to such limits, prescribed or as may be prescribed from time to time”.

- 9 To consider and if thought fit, to pass with or without modification(s) the following resolution as an **ORDINARY RESOLUTION**:

“**RESOLVED** that pursuant to the provisions of Sections 149,152 and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force) read with Schedule IV to the Companies Act, 2013, Mr. P. S. Jawadekar (holding DIN 00155177), Director of the Company whose period of office is liable to determination by retirement of director by rotation and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of a Director, be and is hereby appointed as an Independent Director of the Company to hold office for two consecutive years for a term up to 22nd July 2016.

RESOLVED FURTHER that pursuant to the provisions of Sections 149, 197 and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force), Mr. P. S. Jawadekar be paid such fees and remuneration and profit related commission as the Board may approve from time to time and subject to such limits, prescribed or as may be prescribed from time to time”.

- 10 To consider and if thought fit, to pass with or without modification(s) the following resolution as an **ORDINARY RESOLUTION**:

“**RESOLVED** that pursuant to the provisions of Sections 149, 152 and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force) read with Schedule IV to the Companies Act, 2013, Mr. J. Y. Tekawade (holding DIN 00075502), Director of the Company whose period of office is liable to determination by retirement of director by rotation and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of a Director, be and is hereby appointed as an Independent Director of the Company to hold office for two consecutive years for a term up to 22nd July 2016.

RESOLVED FURTHER that pursuant to the provisions of Sections 149, 197 and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force), Mr. J. Y. Tekawade be paid such fees and remuneration and profit related commission as the Board may approve from time to time and subject to such limits, prescribed or as may be prescribed from time to time”.

- 11 To consider and if thought fit, to pass with or without modification(s) the following resolution as **SPECIAL RESOLUTION**:

“**RESOLVED** that pursuant to Section 14 and any other applicable provisions of the of the Companies Act, 2013 and the rules made thereunder (subject to any modification(s) or re-enactment thereof for the time being in force), the Articles of Association of the Company be and is hereby amended by deleting the existing Article 83 and substituting the following new Article 83.

Number of directors

83. Until otherwise determined by Special Resolution the number of Directors of the Company shall not be less than three nor more than fifteen.

ITEMS FOR POSTAL BALLOT

- 12 To consider and if thought fit, to pass with or without modification(s) the following resolution as **SPECIAL RESOLUTION**:

“**RESOLVED** that in supersession of the earlier resolution passed under Section 293(1)(d) of the Companies Act, 1956 by way of Postal Ballot and pursuant to Section 180(1)(c) and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force), the consent of the Company be and is hereby accorded to the Board of Directors of the Company (hereinafter referred to as the “Board”, which term shall include and Committee thereof) for borrowing from time to time, any sum or sums of money for the purpose of the Company upon such terms and conditions and with or without security as the Board may at its discretion think fit so, in excess of the aggregate of the paid-up share capital and free reserves of the Company, provided that the total amount of such borrowing and outstanding at any point of time, apart from temporary loans obtained / to be obtained from the Company’s Bankers in the ordinary course of business shall not exceed Rs.1000 Crores (Rupees One Thousand Crores Only) over and above the aggregate of the paid-up capital and free reserves of the Company.”

RESOLVED FURTHER that the Board or its Committee be and is hereby authorized to negotiate and finalize with the lenders, terms and conditions, in relation to the above and to settle all matters arising out of and incidental thereto, and to sign and execute all deeds, agreements applications, documents and writings that may be required, on behalf of the Company and also to delegate all or any of the above powers to the Committee of Directors or the Managing Director or the Principal Officer of the Company and generally to do all acts, deeds and things that may be necessary, proper, expedient or incidental for the purpose of giving effect to the aforesaid Resolution.”

- 13 To consider and if thought fit, to pass with or without modification(s) the following resolution as **SPECIAL RESOLUTION**:

“**RESOLVED** that in supersession of the earlier resolution passed under Section 293(1)(a) of the Companies Act, 1956 by way of Postal Ballot and pursuant to Section 180(1)(a) and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force) and such other approvals as may be necessary, the consent of the Company be and is hereby accorded to the Board of Directors of the Company (hereinafter called “the Board” and which term shall be deemed to include any Committee, which the Board may have constituted or hereinafter constitute to exercise its powers including powers conferred by this resolution and with the power to delegate such authority to any person or persons) to mortgage and/or charge and/or hypothecation (and/or lease and/or assign, in addition to mortgage(s) and/or charge(s) and/or hypothecations and/or assignment(s) created/to be created by the Company, in such form and manner and with such ranking as to priority and at such time and on such terms as the Board may determine, on all or any of the moveable and/ or immovable, tangible and/or intangible properties of the Company, wherever situate, both present and future, and/or the whole or any part of undertaking(s) of the Company together with a power to take over the management of the business and concern of the Company in certain events of default, in favour of various lender(s), agent(s), trustee(s) for securing the borrowings availed/to be availed by the Company by way of loan(s) (in foreign currency and/or rupee currency) and/or advances including credit facilities and/or securities (comprising fully/partly convertible debentures and/or non convertible debentures with or without detachable or non-detachable warrants and/or secured premium notes and/or floating rate notes/bonds or other debt instruments), issued or to be issued by the Company from time to time of an aggregate value not exceeding Rs. 1000 Crores (Rupees One Thousand Crores Only) together with interest thereon at the respective agreed rates, compound interest, additional interest, accumulated interest, liquidated damages, premia on prepayment or on redemption, costs, charges, expenses including any increase as a result of devaluation / revaluation / fluctuation in the rates of exchange and all other moneys payable by the Company in terms of loan agreement(s) and other moneys payable by the Company to the lenders in terms of loan agreement(s) and/or any other document(s) entered into/to be entered into between the Company and the lenders(s) / agent(s) / trustee(s) in respect of said loans / borrowings / debentures / securities and containing such specific terms and conditions and covenants in respect of enforcement of security as may be stipulated in that behalf and agreed to between the Board of Directors (including any Committee thereof) and lender(s), agent(s) and trustee(s).

RESOLVED FURTHER that for the purpose of giving effect to this resolution, the Board or its Committee be and is hereby authorized to negotiate and finalize with the lenders, terms and conditions, including the nature and ranking of charge and/or mortgage, documents / deeds / writings / papers / agreements as may be required for creation of

mortgage and/or charge and to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, proper or desirable and to settle any questions, difficulty or doubts relating thereto that may arise in regard to creating mortgage/charge as aforesaid.

- 14 To consider and if thought fit, to pass with or without modification(s) the following resolution as **SPECIAL RESOLUTION**:

“RESOLVED that pursuant to Section 186 and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force) and such other approvals, consents, sanctions and permissions of appropriate authorities, departments or bodies as may be necessary, the consent of the Company be and is hereby accorded to the Board of Directors of the Company to give loan(s) to any person or other body corporate and/or give any guarantee(s)/provide any security(ies) in connection with loan(s) made to any other body corporate or person and/or to acquire by way of subscription, purchase or otherwise the securities of any body corporate up to a limit not exceeding Rs. 1,000 Crores (Rupees One Thousand Crores only) notwithstanding that the aggregate of the loans, guarantees or securities so far given or to be given to and/or securities so far acquired or to be acquired in all bodies corporate may exceed the limits prescribed under the said section.”

RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorized to take such steps as may be necessary for obtaining approvals, statutory, contractual or otherwise, in relation to the above and to settle all matters arising out of and incidental thereto, and to sign and execute all deeds, applications, documents and writings that may be required, on behalf of the Company and also to delegate all or any of the above powers to the Committee of Directors or the Managing Director or the Principal Officer of the Company and generally to do all acts, deeds and things that may be necessary, proper, expedient or incidental for the purpose of giving effect to the aforesaid Resolution.”

NOTES :

- 1 A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY / PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF / HERSELF AND SUCH A PROXY / PROXIES SO APPOINTED NEED NOT BE A MEMBER OF THE COMPANY. A person can act as proxy on behalf of members not exceeding fifty (50) and holding in the aggregate not more than ten percent of the total share capital of the company. The instrument of Proxy in order to be effective, should be deposited at the Registered Office of the Company, duly completed and signed, not less than 48 hours before the commencement of the meeting. A proxy form is sent herewith. Proxies submitted on behalf of companies must be supported by an appropriate resolution/authority as applicable.
- 2 The relative Explanatory Statement, pursuant to Section 102(2) of the Companies Act, 2013 (corresponding to 173(2) of the Companies Act, 1956), in respect of the special business under item nos. 5 to 14 are annexed hereto.
- 3 Pursuant to the provisions of Section 91 of the Companies Act, 2013 (corresponding to 154 of the Companies Act, 1956), the Register of Members and the Share Transfer Books of the Company will remain closed from Wednesday, the 16th day of July, 2014 to Wednesday, the 23rd day of July, 2014 (both days inclusive) for annual closing and determining the entitlement of the shareholders to the payment of dividend.
- 4 Subject to the provisions of Section 126 of the Companies Act, 2013 (corresponding to Section 206A of the Companies Act, 1956), dividend as recommended by the Board of Directors, if declared at the meeting will be dispatched/remitted after July 23, 2014. In order to get their dividend through Electronic Clearing Service (ECS) members who are holding shares in physical form are requested to inform their Bank Account Details i.e Name of the Bank, Branch, its address, Account Number and Type of Account to Link Intime India Pvt. Ltd. (LIPL) or to the Company. Shareholders holding shares in electronic form are requested to inform their Bank Account details to their respective Depository Participants. Those shareholders who do not opt for ECS facility may inform their details to the LIPL for printing the same on the Dividend Warrants to ensure safety.
- 5 All documents referred to in the notice and the explanatory statement requiring the approval of the Members at the Meeting and other statutory registers shall be available for inspection by the Members at the Registered Office of the Company during normal business hours on all working days between 11.00 a.m. and 1.00 p.m. except Saturdays, from the date hereof up to the date of the Annual General Meeting.
- 6 In terms of the provisions of Section 124 of the Companies Act, 2013 (corresponding to Section 205A of the Companies Act, 1956), the amount of dividend not encashed or claimed within 7(seven) years from the date of its transfer to the unpaid dividend account, will be transferred to the Investor Education and Protection Fund established by the Government. Accordingly, the unclaimed dividend in respect of financial year 2006-07 is due for transfer to the said Fund in July 2014. In terms of provisions of Section 124 of the Companies Act, 2013

(corresponding to Section 205C of the Companies Act, 1956), no claim shall lie against the Company or the said Fund after the said transfer.

- 7 Members who have neither received nor encashed their dividend warrant(s) for the financial years 2006-07 to 2012-13, are requested to write to the Company, mentioning the relevant Folio number or DP ID and Client ID, for issuance of duplicate/revalidated dividend warrant(s).
- 8 Members holding shares in physical form are requested to promptly notify in writing any changes in their address/bank account details to the Secretarial Department of the Company at Hadapsar Industrial Estate, Pune 411013 or its registrar M/s. Link Intime India Pvt. Ltd. (LIPL) at their address, Akshay Complex, No. 202, 2nd floor, near Ganesh Temple, Off Dhole Patil Road, Pune 411001. Members holding shares in electronic form are requested to notify the changes in the above particulars, if any, directly to their Depository Participants (DP).
- 9 Equity shares of the Company are under compulsory demat trading by all investors. Considering the advantage of scripless trading, members are encouraged to consider dematerialization of their shareholding so as to avoid inconvenience in future.

10 **Voting through electronic means for Annual General Meeting**

- I. In compliance with provisions of Section 108 of the Companies Act, 2013 and Rule 20 of the Companies (Management and Administration) Rules, 2014, the Company is pleased to provide members facility to exercise their right to vote at the 39th Annual General Meeting (AGM) by electronics means and the business may be transacted through e-voting services provided by National Securities Depository Limited (NSDL):

The instructions for e-voting are as under:-

- A. In case a Member receives an email from NSDL [for members whose email IDs are registered with the Company/Depository Participants(s)]:
 - (I) Open e mail and open PDF file viz. "KPCL e-Voting.pdf" with your client ID or Folio No. as password. The said PDF file contains your user ID and password/PIN for e-voting. Please note that the password is an initial password.
 - (ii) Launch Internet browser by typing the following URL:<https://www.evoting.nsdl.com/>
 - (iii) Click on Shareholder - Login
 - (iv) Put user ID and password as initial password/PIN noted in step (i) above, Click Login.
 - (v) Password change menu appears. Change the password/PIN with new password of your choice with minimum 8 digits/characters or combination thereof. Note new password. It is strongly recommended not to share your password with any other person and take utmost care to keep your password confidential.
 - (vi) Home page of e-voting opens. Click on e-voting: Active Voting Cycles.
 - (vii) Select "EVEN" of Kirloskar Pneumatic Company Limited.
 - (viii) Now you are ready for e-voting as Cast Vote page opens.
 - (ix) Cast your vote by selecting appropriate option and click on "submit" and also "confirm" when prompted.
 - (x) Upon confirmation, the message "Vote cast successfully" will be displayed.
 - (xi) Once you have voted on the resolution, you will not be allowed to modify your vote.
 - (xii) Institutional shareholders (i.e. other than individuals, HUF, NRI etc.) are required to send scanned copy (PDF/JPG Format) of the relevant Board Resolution/Authority Letter etc. together with attested specimen signature of the duly authorised signatory(ies) who are authorised to vote, to the Scrutinizer through e-mail to deulkarcs@gmail.com with a copy marked to evoting@nsdl.co.in
- B. In case a member receives physical copy of the Notice of AGM (for members whose email IDs are not registered with the Company/Depository Participant(s) or requesting physical copy):
 - (i) Initial password will be provided separately:
EVEN (E Voting Event Number) USER ID PASSWORD/PIN
 - (ii) Please follow all steps from Sl. No. (ii) to Sl. No. (xii) above, to cast vote.
- II. In case of any queries, you may refer the Frequently Asked Questions (FAQs) for Shareholders and e-voting user manual for shareholders available at the downloads section of www.evoting.nsdl.com
- III. If you are already registered with NSDL for e-voting then you can use your existing user ID and password/PIN for casting your vote.
- IV. You can also update your mobile number and e-mail id in the user profile details of the folio which may be used for sending future communication(s).

- V. The e-voting period commences on 17th July, 2014 (9.00 a.m.) and ends on 19th July, 2014 (6.00 p.m.). During this period shareholders' of the Company, holding shares either in physical form or in dematerialized form, as on the cut-off date of 6th June, 2014, may cast their vote electronically. The e-voting module shall be disabled by NSDL for voting thereafter. Once the vote on a resolution is cast by the shareholder, the shareholder shall not be allowed to change it subsequently.
- VI. The voting rights of shareholders shall be in proportion to their shares of the paid up equity share capital of the Company as on the cut-off date of 6th June 2014.
- VII. Mr. S. V. Deulkar, of S. V. Deulkar & Co, Company Secretaries, (Membership No. FCS: 1321) (C/o. LINK INTIME INDIA PVT. LTD. (Unit : Kirloskar Pneumatic Company Limited) C-13, Pannalal Silk Mills Compound, LBS Marg, Bhandup (W), Mumbai - 400 078) has been appointed as the Scrutinizer to scrutinize the e-voting process (including the physical ballots received from members who don't have access to the e-voting process) in a fair and transparent manner.
- VIII. The Scrutinizer shall within a period not exceeding three (3) working days from the conclusion of the e-voting period unlock the votes in the presence of at least two (2) witnesses not in the employment of the Company and make a Scrutinizer's Report of the votes cast in favour or against, if any, forthwith to the Chairman of the Company.
- IX. The Results shall be declared on or after the AGM of the Company. The Results declared alongwith the Scrutinizer's Report shall be placed on the Company's website www.kirloskarkpcl.com and on the website of NSDL within two (2) days of passing of the resolutions at the AGM of the Company and communicated to the BSE Limited.

- 11 Under the provisions of the Income Tax Act, 1961, dividend amount is tax free in the hands of shareholders.
- 12 Members are requested to sign at the place provided on the attendance slip and handover the same at the entrance of the Meeting.
- 13 Queries on Accounts of the Company, if any, may please be sent to the Company Secretary at the Registered Office of the Company seven (7) days in advance of the Meeting so that the answers may be made available at the Meeting.
- 14 Members are requested to bring their personal copy of the Annual Report to the Meeting.
- 15 Re-appointment of Director at the Annual General Meeting :

Mr. D. R. Swar is liable to retire by rotation and being eligible, offers himself for re-appointment. Pursuant to Clause 49(IV)(G)(i) of the Listing Agreement relating to the Code of Corporate Governance, the particulars of the aforesaid Director is given below :

Mr. D. R. Swar is a graduate in Mechanical Engineering, started his career with Mahindra & Mahindra, Automotive Division for 16 years, then worked with Greaves Cotton Co. Ltd. for 5 years. In both these Companies, he predominantly worked in Vendor Development / Purchase and Materials Management. He joined Kirloskar Oil Engines Limited (KOEL) in 1987 and worked for 20 years in various senior positions, out of which last seven years as Executive Director. He has experience in varied fields such as purchase, vendor developments, materials management, manufacturing and overall business operations. As a head in material division in KOEL he implemented cost reduction programmes vigorously. His efforts in productivity improvement, cost reduction, introductions of new concepts in manufacturing paid rich dividends to KOEL. Besides being a qualified Engineer, Mr. D. R. Swar holds Diploma in Purchase Management from American Society and Diploma in Material Management and Production Management, both from Jamanalal Bajaj Institute of Management. He also attended Senior Management Development Programme at IIM, Ahmedabad.

The Directorship/Committee membership in other companies is as follows:

| Name of the Company | Board position held |
|--|---------------------|
| G. G. Dandekar Machine Works Ltd. | Director |
| Kirloskar Oil Engines Ltd. | Director |
| Kirloskar Integrated Technologies Ltd. | Director |

Mr. D. R. Swar does not hold any shares in the Company.

Mr. D. R. Swar is not related to any other director on the Board of the Company as per Section 2(77) of the Companies Act, 2013.

- 16 **ITEM Nos. 12 to 14 are required to be passed by Postal Ballot and the relevant postal ballot forms have been sent along with this Annual Report.**
- 17 **Voting through electronic means for Postal Ballot**

I In compliance with provisions of Sections 108 and 110 of the Companies Act, 2013 and Rule 20 and 22 of the

Companies (Management and Administration) Rules, 2014, the Company is pleased to provide members facility to exercise their right to vote for the Postal Ballot by electronics means and the business may be transacted through e-voting services provided by National Securities Depository Limited (NSDL):

The instructions for e-voting are as under:-

- A. In case a Member receives an email from NSDL [for members whose email IDs are registered with the Company/Depository Participants(s)]:
 - (i) Open e mail and open PDF file viz. "KPCL e-Voting.pdf" with your client ID or Folio No. as password. The said PDF file contains your user ID and password/PIN for e-voting. Please note that the password is an initial password.
 - (ii) Launch Internet browser by typing the following URL:<https://www.evoting.nsdl.com/>
 - (iii) Click on Shareholder - Login
 - (iv) Put user ID and password as initial password/PIN noted in step (i) above, Click Login.
 - (v) Password change menu appears. Change the password/PIN with new password of your choice with minimum 8 digits/characters or combination thereof. Note new password. It is strongly recommended not to share your password with any other person and take utmost care to keep your password confidential.
 - (vi) Home page of e-voting opens. Click on e-voting: Active Voting Cycles.
 - (vii) Select "EVEN" of Kirloskar Pneumatic Company Limited.
 - (viii) Now you are ready for e-voting as Cast Vote page opens.
 - (ix) Cast your vote by selecting appropriate option and click on "submit" and also "confirm" when prompted.
 - (x) Upon confirmation, the message "Vote cast successfully" will be displayed.
 - (xi) Once you have voted on the resolution, you will not be allowed to modify your vote.
 - (xii) Institutional shareholders (i.e. other than individuals, HUF, NRI etc.) are required to send scanned copy (PDF/JPG Format) of the relevant Board Resolution/Authority Letter etc. together with attested specimen signature of the duly authorised signatory(ies) who are authorised to vote, to the Scrutinizer through e-mail to deulkarcs@gmail.com with a copy marked to evoting@nsdl.co.in Please note that proxies are not allowed to cast their votes through postal ballot.
 - (xiii) Kindly note that shareholders can opt for only one mode of voting i.e. either by physical ballot or e-voting. In case of receipt of vote by both the modes voting done through e-voting shall prevail and voting done by physical ballot shall be treated as invalid.
- B. In case a member receives the Postal Ballot Form along with the Annual Report (for members whose email IDs are not registered with the Company/Depository Participant(s)):
 - (i) Initial password will be provided separately:
EVEN (E Voting Event Number) USER ID PASSWORD/PIN
 - (ii) Please follow all steps from Sl. No. (ii) to Sl. No. (xii) above, to cast vote.
- II. In case of any queries, you may refer the Frequently Asked Questions (FAQs) for Shareholders and e-voting user manual for shareholders available at the downloads section of www.evoting.nsdl.com
- III. If you are already registered with NSDL for e-voting then you can use your existing user ID and password/PIN for casting your vote.
- IV. You are required to fill in the Postal ballot form and enclose it in a sealed pre-paid envelope and send it to the Scrutinizer. Unsigned, incomplete or incorrectly ticked forms shall be rejected. The Postal Ballot must be received by the Scrutinizer on or before 19th July, 2014 (6.00 p.m.) The Scrutinizers decision on the validity of the forms will be final. Members are required to vote only through the electronic system or through ballot only and in no other form. In the event a member casts his votes through both the processes, the votes in the electronic system would be considered and the postal ballot vote would be ignored.
- V. You can also update your mobile number and e-mail id in the user profile details of the folio which may be used for sending future communication(s).
- VI. The e-voting period commences on 20th June 2014 (9.00 a.m.) and ends on 19th July, 2014 (6.00 p.m.). During this period shareholders' of the Company, holding shares either in physical form or in dematerialized form, as on the cut-off date of 6th June, 2014, may cast their vote electronically. The e-voting module shall be disabled

- by NSDL for voting thereafter. Once the vote on a resolution is cast by the shareholder, the shareholder shall not be allowed to change it subsequently.
- VII. The voting rights of shareholders shall be in proportion to their shares of the paid up equity share capital of the Company as on the cut-off date of 6th June 2014.
- VIII. Mr. S. V. Deulkar, of S. V. Deulkar & Co, Company Secretaries, (Membership No. FCS: 1321) (C/o. LINK INTIME INDIA PVT. LTD. (Unit : Kirloskar Pneumatic Company Limited) C-13, Pannalal Silk Mills Compound, LBS Marg, Bhandup (W), Mumbai - 400 078) has been appointed as the Scrutinizer for Postal Ballot to conduct Postal Ballot in a fair and transparent manner.
- IX. The Scrutinizer shall within a period not exceeding three (3) working days from the conclusion of the e-voting period unlock the votes in the presence of at least two (2) witnesses not in the employment of the Company and make a Scrutinizer's Report of the votes cast in favour or against, if any, forthwith to the Chairman of the Company.
- X. The Results shall be declared on or after the AGM of the Company. The Results declared alongwith the Scrutinizer's Report shall be placed on the Company's website www.kirloskarkpcl.com and on the website of NSDL within two (2) days of passing of the resolutions at the AGM of the Company and communicated to the BSE Limited.

By Order of the Board of Directors



Jitendra R. Shah
Company Secretary

Registered Office :
Hadapsar Industrial Estate,
Pune 411 013
Date : May 27, 2014

ANNEXURE TO THE NOTICE

Explanatory statement as required under Section 102 of the Companies Act, 2013.

ITEM NO. 5 OF THE NOTICE

The Board of Directors at their meeting held on April 23, 2014, based on the recommendation of the Audit Committee, had appointed M/s. S. G. Jog, a proprietary firm of Cost Accountants as Cost Auditors of the Company for auditing the cost records maintained by the Company for the financial year ending 31st March, 2015 and also fixed their remuneration for the said purpose.

Pursuant to the provisions of Section 148 and any other applicable provisions of the Companies Act, 2013 and Rule 14 of the Companies (Audit and Auditors) Rules, 2014, (including any statutory modification(s) or re-enactment thereof for the time being in force) remuneration payable to the Cost Auditors is required to be ratified by the members of the Company.

Therefore, the Board of Directors recommend the proposed resolution for your approval.

None of the Directors and Key Managerial Personnel is concerned or interested, financial or otherwise, in the resolution set out at an Item No. 5.

ITEM NO. 6 OF THE NOTICE

Mr. A. C. Mukherji is a Non-Executive Independent Director of the Company.

Profile of Director

Mr. A. C. Mukherji has a long and varied experience in Finance, Insurance and other Corporate subjects, having held important position as Chairman and Managing Director of The New India Assurance Company Limited. In the past, served as director on the Board of a large number of Public Limited Companies, in both India and abroad. The Company would be able to draw upon his long and varied experience.

The Directorship/Committee membership in other companies of Mr. A. C. Mukherji is as follows:

| Name of the Company | Board position held | Committee Membership |
|--------------------------------|---------------------|--|
| Digjam Ltd. | Director | Audit Committee & Investor's Grievance Committee |
| NPR Finance Ltd. | Director | Audit Committee |
| Ludlow Jute & Specialties Ltd. | Director | Audit Committee |

Mr. A. C. Mukherji retires by rotation at the ensuing Annual General Meeting under the erstwhile applicable provisions of the Companies Act, 1956. In terms of Section 149 and any other applicable provisions of the Companies Act, 2013 Mr. A. C. Mukherji being eligible and offering himself for appointment, is proposed to be appointed as an Independent Director for two consecutive years for a term upto 22nd July, 2016. A notice has been received from a member proposing Mr. A. C. Mukherji as a candidate for the office of Director of the Company.

In the opinion of the Board, that Mr. A. C. Mukherji fulfills the conditions specified in the Companies Act, 2013 and the rules made thereunder for his appointment as an Independent Director of the Company and is independent of the management and also possess appropriate balance of skills, experience and knowledge so as to enable the Board to discharge its functions and duties effectively. Copy of the draft letter of appointment of Mr. A. C. Mukherji as an Independent Director setting out the terms and conditions would be available for inspection by the members at the Registered Office of the Company during normal business hours on any working day, excluding Saturday.

The Board considers that his continued association would be of immense benefit to the Company and it is desirable to continue to avail services of Mr. A. C. Mukherji as an Independent Director. The Board recommends the resolution in relation to appointment of Mr. A. C. Mukherji as an Independent Director, for the approval of members of the Company.

Under the Companies Act, 2013, Independent Directors can only receive fees under the provisions of Section 197(5) and profit related commission as may be approved by the members. Accordingly, approval of the members is also being sought for the purposes of payment of fees and profit related commission, which amounts may be decided by the Board / Nomination and Remuneration Committee, from time to time subject to the limit prescribed under the Companies Act, 2013 and as may be prescribed under the rules that are passed or may be passed from time to time.

Mr. A. C. Mukherji does not hold any shares in the Company.

Except Mr. A.C. Mukherji, being an appointee, none of the Directors or Key Managerial Personnel of the Company or their relatives are concerned or interested, financial or otherwise, in the resolution set out at an Item No. 6. This Explanatory Statement may also be regarded as a disclosure under Clause 49 of the Listing Agreement with the Stock Exchange.

ITEM NO.7 OF THE NOTICE

Mr. Sunil Shah Singh is a Non-Executive Independent Director of the Company.

Profile of Director

Mr. Sunil Shah Singh has experience in varied fields such as purchase, materials management, manufacturing, marketing and overall business operations. He has held many key positions like, Managing Director of ITD Cementation India Ltd., President of Tetra Pak Processing, Country Head of Energy Work India, Board member of Mather & Platt India Ltd. He was also a member of Construction Federation of India, Construction Industry Development Council, National Institute of Construction Management and Research.

Mr. Sunil Shah Singh does not hold any Directorship/Committee membership in other companies.

Mr. Sunil Shah Singh Director retires by rotation at the ensuing Annual General Meeting under the erstwhile applicable provisions of the Companies Act, 1956. In terms of Section 149 and any other applicable provisions of the Companies Act, 2013 Mr. Sunil Shah Singh being eligible and offering himself for appointment, is proposed to be appointed as an Independent Director for five consecutive years for a term upto 22nd July, 2019. A notice has been received from a member proposing Mr. Sunil Shah Singh as a candidate for the office of Director of the Company.

In the opinion of the Board, that Mr. Sunil Shah Singh fulfills the conditions specified in the Companies Act, 2013 and the rules made thereunder for his appointment as an Independent Director of the Company and is independent of the management and also possess appropriate balance of skills, experience and knowledge so as to enable the Board to discharge its functions and duties effectively. Copy of the draft letter of appointment of Mr. Sunil Shah Singh as an Independent Director setting out the terms and conditions would be available for inspection by the members at the Registered Office of the Company during normal business hours on any working day, excluding Saturday.

The Board considers that his continued association would be of immense benefit to the Company and it is desirable to continue to avail services of Mr. Sunil Shah Singh as an Independent Director. The Board recommends the resolution in relation to appointment of Mr. Sunil Shah Singh as an Independent Director, for the approval of members of the Company.

Under the Companies Act, 2013, Independent Directors can only receive fees under the provisions of Section 197(5) and profit related commission as may be approved by the members. Accordingly, approval of the members is also being sought for the purposes of payment of fees and profit related commission, which amounts may be decided by the Board / Nomination and Remuneration Committee, from time to time subject to the limit prescribed under the Companies Act, 2013 and as may be prescribed under the rules that are passed or may be passed from time to time.

Mr. Sunil Shah Singh holds 1000 shares in the Company.

Except Mr. Sunil Shah Singh, being an appointee, none of the Directors or Key Managerial Personnel of the Company or their relatives are concerned or interested, financial or otherwise, in the resolution set out at an Item No. 7. This Explanatory Statement may also be regarded as a disclosure under Clause 49 of the Listing Agreement with the Stock Exchange.

ITEM NO.8 OF THE NOTICE

Mr. G. Krishna Rao is a Non-Executive Independent Director of the Company.

Profile of Director

Mr. G. Krishna Rao is B.Com, ACA and AFII. He was in senior level position in General Insurance Corporation of India and National Insurance Company for several years. He has a vast experience in Finance, Insurance and HRD matters.

Mr. G. Krishna Rao does not hold any Directorship/Committee membership in other companies.

Mr. G. Krishna Rao is a Director whose period of office is liable to determination by retirement of Directors by rotation under the erstwhile applicable provisions of the Companies Act, 1956. In terms of Section 149 and any other applicable provisions of the Companies Act, 2013 Mr. G. Krishna Rao being eligible and offering himself for appointment, is proposed to be appointed as an Independent Director for five consecutive years for a term upto 22nd July, 2019. A notice has been received from a member proposing Mr. G. Krishna Rao as a candidate for the office of Director of the Company.

In the opinion of the Board, that Mr. G. Krishna Rao fulfills the conditions specified in the Companies Act, 2013 and the rules made thereunder for his appointment as an Independent Director of the Company and is independent of the management and also possess appropriate balance of skills, experience and knowledge so as to enable the Board to discharge its functions and duties effectively. Copy of the draft letter of appointment of Mr. G. Krishna Rao as an Independent Director setting out the terms and conditions would be available for inspection by the members at the Registered Office of the Company during normal business hours on any working day, excluding Saturday.

The Board considers that his continued association would be of immense benefit to the Company and it is desirable to continue to avail services of Mr. G. Krishna Rao as an Independent Director. The Board recommends the resolution in relation to appointment of Mr. G. Krishna Rao as an Independent Director, for the approval of members of the Company.

Under the Companies Act, 2013, Independent Directors can only receive fees under the provisions of Section 197(5) and profit related commission as may be approved by the members. Accordingly, approval of the members is also being sought for the purposes of payment of fees and profit related commission, which amounts may be decided by the Board /

Nomination and Remuneration Committee, from time to time subject to the limit prescribed under the Companies Act, 2013 and as may be prescribed under the rules that are passed or may be passed from time to time.

Mr. G. Krishna Rao does not hold any shares in the Company.

Except Mr. G. Krishna Rao, being an appointee, none of the Directors or Key Managerial Personnel of the Company or their relatives are concerned or interested, financial or otherwise, in the resolution set out at an Item No. 8. This Explanatory Statement may also be regarded as a disclosure under Clause 49 of the Listing Agreement with the Stock Exchange.

ITEM NO.9 OF THE NOTICE

Mr. P. S. Jawadekar is a Non-Executive Independent Director of the Company.

Profile of Director

Mr. P. S. Jawadekar, graduate with Electrical Engineering, Fellow Institution of Engineers India, having a good and varied experience of more than three decades in the industry and with professional institutions, gained experience in technology sourcing, technology development and management, structuring of business units, human resources and industrial relations management, marketing management, quality management and leadership development. He was Executive Director of Kirloskar Electric Co. Ltd. for a period from 1993-98. He was President of Indian Electrical & Electronic Manufacturers' Association in the year 1996-97.

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

| Name of the Company | Board position held | Committee Membership |
|----------------------------|----------------------------|------------------------------------|
| Kirloskar Brothers Ltd. | Director | Audit & Finance Committee – Member |
| | | Compensation Committee –Chairman |
| | | Remuneration Committee –Chairman |

Mr. P. S. Jawadekar is a Director whose period of office is liable to determination by retirement of Directors by rotation under the erstwhile applicable provisions of the Companies Act, 1956. In terms of Section 149 and any other applicable provisions of the Companies Act, 2013, Mr. P. S. Jawadekar being eligible and offering himself for appointment, is proposed to be appointed as an Independent Director for two consecutive years for a term upto 22nd July, 2016. A notice has been received from a member proposing Mr. P. S. Jawadekar as a candidate for the office of Director of the Company.

In the opinion of the Board, that Mr. P. S. Jawadekar fulfills the conditions specified in the Companies Act, 2013 and the rules made thereunder for his appointment as an Independent Director of the Company and is independent of the management and also possess appropriate balance of skills, experience and knowledge so as to enable the Board to discharge its functions and duties effectively. Copy of the draft letter of appointment of Mr. P. S. Jawadekar as an Independent Director setting out the terms and conditions would be available for inspection by the members at the Registered Office of the Company during normal business hours on any working day, excluding Saturday.

The Board considers that his continued association would be of immense benefit to the Company and it is desirable to continue to avail services of Mr. P. S. Jawadekar as an Independent Director. The Board recommends the resolution in relation to appointment of Mr. P. S. Jawadekar as an Independent Director, for the approval of members of the Company.

Under the Companies Act, 2013, Independent Directors can only receive fees under the provisions of Section 197(5) and profit related commission as may be approved by the members. Accordingly, approval of the members is also being sought for the purposes of payment of fees and profit related commission, which amounts may be decided by the Board / Nomination and Remuneration Committee, from time to time subject to the limit prescribed under the Companies Act, 2013 and as may be prescribed under the rules that are passed or may be passed from time to time.

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

Except Mr. P. S. Jawadekar, being an appointee, none of the Directors or Key Managerial Personnel of the Company or their relatives are concerned or interested, financial or otherwise, in the resolution set out at an Item No. 9. This Explanatory Statement may also be regarded as a disclosure under Clause 49 of the Listing Agreement with the Stock Exchange.

ITEM NO. 10 OF THE NOTICE

Mr. J. Y. Tekawade is a Non-Executive Independent Director of the Company.

Profile of Director

Mr. J. Y. Tekawade, Agriculturist, is having good and varied experience in Corporate Sector. He is a social worker from Shirampur. He was appointed as Member of Legislative Council, Maharashtra State for 12 years from 1985. Mr. J. Y. Tekawade is also Founder member of The Shirampur Peoples Co-Op. Bank Ltd. He had won the Gold Medal from the government of India for producing highest sugarcane per acre.

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

| Name of the Company | Board position held | Committee Membership |
|--|---------------------|----------------------|
| Yashparva Agro Processing Private Ltd. | Director | - |

Mr. J. Y. Tekawade is a Director whose period of office is liable to determination by retirement of Directors by rotation under the erstwhile applicable provisions of the Companies Act, 1956. In terms of Section 149 and any other applicable provisions of the Companies Act, 2013 Mr. J. Y. Tekawade being eligible and offering himself for appointment, is proposed to be appointed as an Independent Director for two consecutive years for a term upto 22nd July, 2016. A notice has been received from a member proposing Mr. J. Y. Tekawade as a candidate for the office of Director of the Company.

In the opinion of the Board, that Mr. J. Y. Tekawade fulfills the conditions specified in the Companies Act, 2013 and the rules made thereunder for his appointment as an Independent Director of the Company and is independent of the management and also possess appropriate balance of skills, experience and knowledge so as to enable the Board to discharge its functions and duties effectively. Copy of the draft letter of appointment of Mr. J. Y. Tekawade as an Independent Director setting out the terms and conditions would be available for inspection by the members at the Registered Office of the Company during normal business hours on any working day, excluding Saturday.

The Board considers that his continued association would be of immense benefit to the Company and it is desirable to continue to avail services of Mr. J. Y. Tekawade as an Independent Director. The Board recommends the resolution in relation to appointment of Mr. J. Y. Tekawade as an Independent Director, for the approval of members of the Company.

Under the Companies Act, 2013, Independent Directors can only receive fees under the provisions of Section 197(5) and profit related commission as may be approved by the members. Accordingly, approval of the members is also being sought for the purposes of payment of fees and profit related commission, which amounts may be decided by the Board / Nomination and Remuneration Committee, from time to time subject to the limit prescribed under the Companies Act, 2013 and as may be prescribed under the rules that are passed or may be passed from time to time.

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

Except Mr. J. Y. Tekawade, being an appointee, none of the Directors or Key Managerial Personnel of the Company or their relatives are concerned or interested, financial or otherwise, in the resolution set out at an Item No. 10. This Explanatory Statement may also be regarded as a disclosure under Clause 49 of the Listing Agreement with the Stock Exchange.

ITEM NO. 11 OF THE NOTICE

As per the Section 149(1) of the Companies Act, 2013 allows maximum strength of fifteen Directors.

As per existing Article 83 of the Articles of Association of Company, the number of Directors of the Company shall not be less than three nor more than twelve.

Currently the Company has ten Directors. In anticipation of the future business requirements it is proposed to increase the upper limit to fifteen Directors on an enabling basis.

The Resolution at Item No 11 of the Notice is set out as a Special Resolution for approval by the members in terms of Section 14 of the Companies Act, 2013.

A copy of the Articles of Association of the Company together with the proposed alteration would be available for inspection by the members at the Registered Office of the Company during normal business hours on any working day, excluding Saturday.

None of the Directors or Key Managerial Personnel of the Company or their relatives are concerned or interested, financial or otherwise, in the resolution set out at an Item No. 11.

EXPLANATORY STATEMENT TO ITEMS FOR POSTAL BALLOT

ITEM NO. 12 OF THE NOTICE

The Members of the Company approved by way of Postal ballot on June 10, 2011 by way of an Ordinary Resolution under Section 293 (1) (d) of the Companies Act, 1956 borrowings over and above the aggregate of paid-up share capital and free reserves of the Company provided that the total amount of such borrowings shall not exceed Rs. 1,000 Crores (Rupees One Thousand Crores only) notwithstanding that the money or moneys to be borrowed together with the moneys already borrowed by the Company (apart from temporary loans, if any, obtained from the companies bankers in the ordinary course of business) may exceed the aggregate of the paid-up capital and free reserves of the Company. Further under law, it is now required that such a resolution be by way of special resolution.

As per sections 180(1) (c) and other applicable provisions of the Companies Act, 2013 the consent of shareholders is required for increasing the borrowing limits of the Company. The increasing business operations and future growth plans of the Company would necessitate to increase the borrowing limit by authorizing the Board of Directors to borrow money, therefore it is proposed to increase the borrowing limit up to an amount of Rs.1000 Crores (Rupees One Thousand Crores only) (apart from temporary loans, if any, obtained from the Company's bankers in the ordinary course of business). Such enhanced borrowing limit would also enable the Company to borrow for its routine business purposes.

Your approval is sought by voting by postal ballot in terms of the provisions of Section 110 of the Companies Act, 2013 read with Companies (Management & Administration) Rules 2014.

Therefore, the Board of Directors recommend the proposed resolution for your approval.

None of the Directors and Key Managerial Personnel is concerned or interested, financial or otherwise, in the resolution set out at an Item No. 12.

ITEM NO. 13 OF THE NOTICE

The Members of the Company approved by way of Postal ballot on June 10, 2011 by way of an Ordinary Resolution under Section 293 (1) (a) of the Companies Act, 1956 creation of mortgage, lease and/or charge in addition to charge created/to be created by the Company, on all or any of the moveable and/or immoveable, tangible and/or intangible or properties of the Company upto the borrowing limits of the Company. Further under law, it is now required that such a resolution be by way of special resolution.

The Company proposes to enhance the limit of mortgage of and/or creation of security on the moveable and/or immoveable properties of the Company, in order to commensurate the same with the borrowing limit as referred to in the resolution at Item No.12.

As per the provisions of Section 180(1) (a) of the Companies Act, 1956 the consent of Members is required to authorize the Board of Directors of the Company to mortgage, lease and/or create charge in addition to charge created/to be created by the Company, on all or any of the moveable and/or immoveable, tangible and/or intangible or properties of the Company. Hence it is necessary to obtain approval for the same from the Members, voting by way of Postal Ballot.

Your approval is sought by voting by postal ballot in terms of the provisions of Section 110 of the Companies Act, 2013 read with Companies (Management & Administration) Rules 2014.

Therefore, the Board of Directors recommend the proposed resolution for your approval.

None of the Directors and Key Managerial Personnel is concerned or interested, financial or otherwise, in the resolution set out at an Item No. 13.

ITEM NO. 14 OF THE NOTICE

The Company is proposing to make substantial investments in the areas of business of the Company. Company might have required to make loans or give guarantee or to provide security to any person in connection with a loan provided to its wholly owned subsidiary, subsidiary or associate company, as and when required.

As a measure of achieving greater financial flexibility and to enable optimal financial structuring to facilitate speedy implementation of various projects, it is proposed that the Board of Directors be authorized to invest upto Rs. 1000 Crores (Rs. One Thousand Crores) in any body corporate by way of subscription and /or purchase of equity/equity related securities and/or debentures, grant of loan, guarantee and/or providing of security from time to time.

As per Section 186 of the Companies Act, 2013, a Company cannot make investment, give loan or guarantee or provide any security in excess of the limits set out therein unless it is previously authorised by a special resolution. Hence, it is necessary to obtain approval for the same from the Members by passing a special resolution. The funds required for the investment will be sourced through internal accruals, equity proceeds and/or borrowings.

Your approval is sought by voting by postal ballot in terms of the provisions of Section 110 of the Companies Act, 2013 read with Companies (Management & Administration) Rules 2014.

Therefore, the Board of Directors recommend the proposed resolution for your approval.

None of the Directors and Key Managerial Personnel is concerned or interested, financial or otherwise, in the resolution set out at an Item No. 14.

By Order of the Board of Directors

Registered Office :
Hadapsar Industrial Estate,
Pune 411 013
Date : May 27, 2014



Jitendra R. Shah
Company Secretary

DIRECTORS' REPORT TO THE MEMBERS

The Directors have pleasure in presenting their Report along with the Audited Accounts for the year ended March 31, 2014.

FINANCIAL RESULTS

The Financial results for the year ended March 31, 2014 are summarised below:

| | 2013-14 | (Figures in Rs) 2012-13 |
|--------------------------------|--------------------|----------------------------|
| Gross Profit | 746,791,697 | 822,662,567 |
| Less: | | |
| Depreciation | 132,140,425 | 114,903,957 |
| Provision for Taxation | 226,350,955 | 236,782,304 |
| Profit after tax | 388,300,317 | 470,976,306 |
| Surplus from previous year | 207,781,268 | 217,131,761 |
| Add / (Less) | | |
| Transferred to General Reserve | 250,000,000 | 300,000,000 |
| Proposed Dividend | 128,443,380 | 154,132,056 |
| Tax on Proposed Dividend | 21,828,952 | 26,194,743 |
| Retained Earnings | 195,809,253 | 207,781,268 |

OPERATIONS

The Indian economic growth rate has slowed down for the past couple of years and recovery is still some time away. The complex world of global economics and its volatility have affected India's growth also.

The manufacturing sector has been the worst affected and the capital goods market has been hit the hardest. High fiscal deficit, high inflation, a volatile currency and the political environment have all contributed to uncertainty in the economy which in turn has caused the Company's revenue to drop for the year 2013-14.

The net revenue of your company for the year ended under review was Rs. 5,099 Million against Rs. 5,488 Million of last year. The revenue of the compression segment was Rs. 4,159 Million as against Rs. 4,484 Million in 2012-13.

The compression segment was affected mainly due to very low investments in the Oil and Gas sector. Capital expenditure for expansion/up-gradation of refineries was also very low and this affected our business of Refrigeration and Gas Compression Systems. The CNG business was affected due to various infrastructural and gas availability issues. Our thrust into the export business has resulted in your Company booking the first export order for a CNG system.

The revenue of the Transmission segment was Rs. 679 Million as against Rs. 1,005 Million in 2012-13. The Transmission segment was affected mainly due to stagnation of growth and high stock levels in the Indian Railways. The wind turbine market also went down substantially due to lack of clarity in Government policies.

During the year under review, your company has successfully completed the Emergency Brake Distance Test (EBD) of one RoadRailer Rake which is a pre-requisite for the running of this train. Your Company is now awaiting the final certification from the concerned Railway authorities.

Cost reduction measures and the WoW (war on waste) initiative helped your company to generally maintain its profitability for the year under review despite a severe downturn in the economy.

ENERGY CONSERVATION

Within the Company there are continuous efforts to improve operational efficiencies and minimizing consumption of natural resources. Your Company actively makes efforts to increase awareness about the need to sustain the environment and constantly evaluates new initiatives that could reduce waste and emissions within the Company.

As a result of this even though there is a substantial rise in power tariff and oil prices, we have been able to contain our costs.

DIVIDEND

The Board of Directors have recommended a dividend of Rs. 10/- (100 %) per equity share for the year ended March 31, 2014. In the last year a dividend of Rs.12/- (120%) per equity share was paid.

FIXED DEPOSIT

As of March 31, 2014 there are no Fixed Deposits outstanding nor unclaimed.

PROSPECTS

Your Company believes that the economic potential of the country may remain subdued for this year too. With the new Government in place it is hoped that the year 2015-16 will see a boost in investments in sectors that your Company is involved in. The uncertain political climate has led to many projects in the Oil and Gas sector being postponed or dropped. This has impacted the revenue of the Compression segment in 2013-14. It is expected that some of these projects in the Oil and Gas sector will be cleared for implementation in 2014-15 which will help your Companies' revenue from 2015-16 onwards. Our drive for exports of hydro carbon based refrigeration systems and gas compression systems has resulted in your Company receiving some export orders and we expect to take this initiative forward in this year too.

With the Government of India reintroducing generation based incentive and launching of a new initiative to double the production of renewable energy by 2017, (upto 55000 MW) opportunities in the Transmission division should grow in the year 2015-16.

After receipt of the EBD certificate from the Railway Authorities and after setting up the terminals near Delhi and Chennai, your Company has a plan to manufacture and sell one more RoadRailer Rake this year.

DIRECTORS

Mr. Sanjay C. Kirloskar resigned from the Board of the Company as on April 23, 2014. Your Directors expressed deep sense of gratitude and wishes to place on record their appreciation of the valuable contribution made by him during his tenure.

As per provisions of the Section 149 and other applicable provisions of the Companies Act, 2013, your Directors are seeking appointment of Mr. A. C. Mukherji, Mr. P. S. Jawadekar, Mr. G. Krishna Rao, Mr. Sunil Shah Singh and Mr. J. Y. Tekawade as Independent Directors in the ensuing Annual General Meeting. Details of the proposal for appointment of Mr. A. C. Mukherji, Mr. P. S. Jawadekar, Mr. G. Krishna Rao, Mr. Sunil Shah Singh and Mr. J. Y. Tekawade are mentioned in the Explanatory Statement under Section 102 of the Companies Act, 2013 of the Notice of the 39th Annual General Meeting.

The Company has received notice(s) in writing proposing them as candidature for the office of Director. The necessary resolutions for their appointment are being placed before you.

Accordingly, Mr. D. R. Swar retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.

CORPORATE GOVERNANCE

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

STATUTORY DISCLOSURES

1. Conservation of Energy, Technology Absorption and Foreign Exchange

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

2. Particulars of Employees

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

3. Consolidated Financial Statements

Pursuant to Clause 32 and 50 of the Listing Agreement with Stock Exchanges, your Company has prepared Consolidated Financial Statements as per the Accounting Standards applicable to the Consolidated Financial Statements issued by The Institute of Chartered Accountants of India. Audited Consolidated Financial Statements along with the Auditors' report is presented elsewhere in this annual report.

4. **Subsidiary Company**

Kirloskar RoadRailer Limited is a Subsidiary of the Company. The Subsidiary Company is set up for providing RoadRailer Services. Your Company expects that the RoadRailer services will commence from the current financial year.

In accordance with the general circular issued by the Ministry of Corporate Affairs, Government of India, the Balance Sheet, Profit and Loss Account and other documents of Kirloskar RoadRailer Limited are not being attached with the Balance Sheet of the Company. However the financial information of Kirloskar RoadRailer Limited is disclosed in the Annual Report in compliance with the said circular. The Company will make available the Annual Accounts of Kirloskar RoadRailer Limited and the related detailed information to any member of the Company who may be interested in obtaining the same.

5. **Directors' Responsibility Statement**

The Directors confirm that :

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

6. **Cash Flow**

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

7. **Disclosure under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013**

Pursuant to Section 22 of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 read with Rule 14 of the Rules issued thereunder, the Internal Committee constituted under the said Act has confirmed that no complaint / case has been filed / pending with the Company during the year.

AUDITORS

The Auditors of the Company, M/s. P. G. Bhagwat, Firm Registration No. 101118W, Chartered Accountants, Pune, retire at the conclusion of ensuing Annual General Meeting. As per the Section 139 and other applicable provisions of the Companies Act, 2013 and the rules issued thereunder, M/s. P. G. Bhagwat, Firm Registration No. 101118W are eligible for re-appointment for a term of 2 (two) years subject to ratification by the Members at every Annual General Meeting. The requisite certificate pursuant to Section 139 (1) of the Companies Act, 2013 has been received by the Company.

EMPLOYEES

Your Company has adopted modern techniques for Human Resource development and retention. Competency mapping, identifying training needs, career counselling are some of the methods adopted by your Company. Training programs are designed to enhance skills and knowledge. Employees are motivated with empowerment and rewards for good performance. Adoption of 5S across the Company has led to a clean and healthy environment. All these measures have resulted in Industry best attrition rate.

Your Company has 970 permanent employees on its roll as on March 31, 2014.

ACKNOWLEDGMENT

The Directors wish to convey their appreciation to all your Company's employees for their enormous personal efforts as well as their collective contribution to your Company's performance. The Directors would also like to thank the shareholders, customers, dealers, suppliers, bankers and all the other stakeholders for their continued support and their confidence in its management.

For and on behalf of the Board of Directors



RAHUL C. KIRLOSKAR
Executive Chairman

Place : Pune

Date : May 27, 2014

ANNEXURE I TO THE DIRECTORS' REPORT
Information as required under Section 217(1)(e) of the Companies Act, 1956

A. Conservation of Energy

- a) **Energy Conservation measures taken: Total 33 EnCon projects implemented by using new technology, by waste elimination, by reuse and recycling in different areas like power, process, lighting, natural resources. Some of the projects are as under.**

Continuous projects

- Energy saving by reducing operating voltage of power transformer by changing the position of off load tap changer.
- Switch 'OFF' Power Transformer at no load condition and save no load losses.
- Maintain Unity Power Factor and avail the 7% incentive benefit from MSEDCL on Electricity Consumption.
- Maximum demand control through remote control operation.
- Transformer of 1 MW gear testing to put off during no load and holiday to avoid no load power consumption.
- Rigorous Maintenance of Air Compressed Grid and Reduced Air Leakage.
- Saving in oil consumption through oil extraction from chips using a Centrifuge. **(Recycle)**

Productivity improvement projects

- Rearranging the mounting of gears (fixture) in hobbing operation.
- Use of taper hard jaw for motor mount bracket.
- Elimination of OD and ID grinding operation.
- Use of twin lip finish boring tool.
- Process modification in SRM gear housing operation.
- Short peening of 4 nos. Railway pinions in single cycle.
- Productivity improvement by process modification for railway pinions.

New projects

A. New Technology

- A new Technology replaced old and inefficient 90kW Air Compressor with 55kW energy efficient Screw Compressor at Transmission division.
- Use of energy efficient LED lights in place of T-5 fitting in transmission division.
- Use of all in one desktop computer by replacing CRT monitor by information technology department.
- Use of energy efficient split (5 star labelled) /cassette Air Conditioner in office area.

B. Waste elimination

- Operation of main motor of knock out machine in star through control circuit modification to get energy saving in foundry.
- Use of AC drive for water circulation pump of paint shop in dispatch area of air compressor division.
- Reuse of wooden material for the packaging of product transportation.
- Carried out Energy and Water Audit by TUV India Pvt. Ltd., Pune for Hadapsar Plant.
- Under partnership and process improvement carried out Energy Audit of KPCL's esteemed 5 vendors to guide them for the energy conservation. Identified energy saving per year is Rs. 0.63 Million kWh and cost saving is Rs. 5.27 Million.

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

Continuous Projects

- Energy saving by reducing operating voltage of power transformer by changing the position of off load tap changer.
- Switch 'OFF' Power Transformer at no load condition and save no load losses.
- Maintain Unity Power Factor and avail the 7% incentive benefit from MSEDCL on Electricity Consumption.
- Maximum demand control through remote control operation.

- Transformer of 1 MW gear testing to put off during no load and holiday to avoid no load power consumption.
- Rigorous Maintenance of Air Compressed Grid and Reduced Air Leakage.
- Saving in oil consumption through oil extraction from chips using a Centrifuge. **(Recycle)**

New EnCon Proposals

A. Process Improvement

- Process modification in liner opening operation for productivity improvement.
- Productivity improvement of railway pinion operation.
- Energy saving by changing temperature setting of carburizing process.
- Energy saving by changing design of fixtures for tempering cycle.

B. New Technology

- Use of energy efficient LED lights in place of 36W/40W FTL.
- Use of 5 star rated energy efficient air conditioners in CMM room of Air compressor division. **(New Technology)**

C. Recycle and Reuse

- Water conservation by implementing recommended measures in Water Audit Report.

D. Waste elimination

- Use of single switch to control the lighting operation.
- Started conversion of aluminium turning into LM 13 INGOTS for production in Non-Ferrous Foundry.

Investment

Estimated additional investment for above proposals is about Rs. 6.65 Million.

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

Estimated saving from activities mentioned in (a) and (b) above is about Rs. 15.87 Million per year.

d) Total Energy consumption and energy consumptions per unit of production as per prescribed Form-A:

Not given, as the Company is not covered under the list of specified industries.

B. Technology Absorption :

Research and Development (R and D) :

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

- Developed couple free compressor for PET application.
- Communication system designed for feedback and monitoring of compressors.
- Development of high pressure screw compressor for water well application.
- Development of Integrated Air Compressor and Storage System for Akash missile for Army. mounted on TATRA truck.
- Development of Oxygen Charger for Indian Air Force Application.
- Development of KCW 623 M – for railway compressor requirements.
- Design of Refrigeration Compressor KCX42/KCX51, KCX63 and KCX72 (Two Stage Air Cooled Series).
- Customized design of Engineered Compressor Drive Set (KC, KCX).
- Development of Indigenous couple free CNG Compressor.
- Development of Refrigeration Compressor KCX21 (Air Cooled Series).
- Development of Indigenous CNG Compressor (KGC Series).
- Design and Development of various High Power Density (HPD) Industrial Gearboxes.
- Design and Development of Windmill Gearbox.
- Design and Development of Light Weight Marine Gearbox.

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

- In house design capability for centrifugal compressors.
- PET bottling market can be addressed with technological edge.

- Modern monitoring technology for the compressors will help handling of AMC's and tracking performance parameters of the compressors effectively.
- Strengthen water well market presence.
- 100% market share for Akash missile system.
- Further business expected from Oxygen chargers from Indian Air Force.
- Strengthen railway compressor business.
- Increasing of two stage KC/KCX Compressor/Customised Engineered Compressor Drive Set share in export market.
- New market entry in Vapor Absorption Chiller.
- Business growth in Marine Refrigeration and Air - Conditioning (HVAC solutions) market.
- Business growth in Cement and Power Industry.
- New market for products in Pump and Compressor Drives.
- Business Growth in Industrial Gearbox Segment.
- Business growth in Planetary Wind Turbine Gearboxes.
- Business growth in Low Power Marine Gearboxes.

3. Future plan of Action:

1. Build capability to handle gases other than air and also capability to handle different applications.
2. Design and development of new Refrigeration Compressors KCX12 / KCX93 / KCX84 / KCX102 (12 Cylinder - Air cooled series).
3. Design and development of new combinations in CNG compressors.
4. Manufacture of CNG Compressors.
5. Design and development of Forced Lubrication systems for Industrial Gearboxes.

4. Expenditure on R and D

(Rs. in Million)

| | |
|--|--------------|
| a) Capital | NIL |
| b) Recurring | 58.09 |
| c) Total | <u>58.09</u> |
| d) Total R and D Expenditure as a Percentage of total turnover | 1.14% |

5. Technology Absorption, Adaptation and Innovation:

1. Efforts in brief, made towards Technology Absorption, Adaptation and Innovation:

1. Building expertise for the application and product in the area of special products.
2. Addition of 3 nos. of Creo (Pro-E) software for 3D modeling and analysis.
3. Absorption of Planetary Technology.
4. Absorption of HPD Industrial Gearbox Technology.

2. Benefits derived as a result of the above efforts :

- Bridging product gaps in the domestic and International market (KCX - Air Cooled series).
- Increasing use of available expertise for manufacturing products to get share in untapped market.
- Increase in market share through addition of new range of products.

3. Information regarding Imported Technology during last 5 years

| Technology Imported and fully absorbed | Year of Import |
|--|----------------|
| Development of Centrifugal Compressor. | 2010 |

C. Foreign Exchange Earnings and Outgo :

| | |
|-------------------------|-----------------|
| Foreign exchange outgo | Rs. 617 Million |
| Foreign exchange earned | Rs. 246 Million |

For and on behalf of the Board of Directors



RAHUL C. KIRLOSKAR
Executive Chairman

Place : Pune
Date : May 27, 2014

REPORT ON CORPORATE GOVERNANCE

1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The Company as a part of Kirloskar Group, is committed to maintain high standards of Corporate Governance. To us, Corporate Governance means conduct of business with transparency, accountability and business prosperity with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of all other stakeholders as well.

2. BOARD OF DIRECTORS

i. Composition and Category of Directors :

The Board of Directors of the Company represents an optimum mix of professionalism, knowledge and experience, comprises of Executive, Non-Executive and Independent Directors. The Chairman is a Executive Director. In all, there are 11 Directors including 6 Non Executive & Independent Directors, 3 Non-Executive Directors and 2 Executive Directors. As on March 31, 2014, the composition of the Board of Directors of the Company meets the stipulated requirements of clause 49 of the Listing Agreement of the Stock Exchange.

ii. Number of Meetings :

During the year ended on March 31, 2014 five Board Meetings were held on April 24, 2013, July 23, 2013, October 23, 2013, January 27, 2014 and March 14, 2014. The Annual General Meeting of the Company was held on July 23, 2013.

iii. Director's attendance record and directorships held :

The details of attendance of the Directors at the various Board Meetings, Annual General Meeting and also the number of other Directorships and Committee Memberships / Chairmanships are as follows :

| Name of the Director and Position | No. of Board Meetings attended | Directorships in other companies as disclosed | | | |
|--|--------------------------------|---|---------|-----------------------|-------------------------|
| | | Public | Private | Committee Membership* | Committee Chairmanship* |
| Non-Executive Directors | | | | | |
| Mr. Atul C. Kirloskar | 3 | 8 | 3 | 2 | - |
| Mr. Sanjay C. Kirloskar | 3 | 5 | 2 | 1 | - |
| Mr. Vikram S. Kirloskar | 1 | 4 | 11 | 1 | - |
| Independent and Non-Executive Directors | | | | | |
| Mr. A. C. Mukherji | 5 | 3 | - | 4 | 2 |
| Mr. J. Y. Tekawade | 5 | - | 1 | - | - |
| Mr. P. S. Jawadekar | 5 | 1 | - | 1 | - |
| Mr. G. Krishna Rao | 5 | - | - | - | - |
| Mr. D. R. Swar | 5 | 3 | - | 1 | 1 |
| Mr. Sunil Shah Singh | 5 | 1 | - | - | - |
| Executive Directors | | | | | |
| Mr. Rahul C. Kirloskar Executive Chairman | 5 | 5 | 3 | 2 | - |
| Mr. Aditya Kowshik Managing Director | 5 | - | 1 | - | - |

* Only two Committees i.e. the Audit Committee and Investors' Grievance Committee are considered for this purpose.

All Directors as on that date except Mr. Vikram S. Kirloskar, Director attended the Annual General Meeting held on July 23, 2013.

iv. Code of Conduct

The Board has prescribed the Code of Conduct for all its Board Members and Senior Management. The Code of Conduct has been posted on Company's Website.

The Managing Director has confirmed to the Board that the Company has obtained from all the members of the Board and Senior Management, affirmation that they have complied with the Code of Conduct for Directors and Senior Management in respect of the Financial year 2013-14 ended on March 31, 2014.

3. AUDIT COMMITTEE

i. Composition

The Audit Committee consists of Mr. A. C. Mukherji, Mr. G. Krishna Rao, and Mr. J. Y. Tekawade, all Independent Directors.

Mr. A. C. Mukherji, Independent Director is the Chairman of the Audit Committee.

Chairman, Managing Director, Vice President & Finance Controller attend the Audit Committee Meetings. The representatives of the Statutory Auditors, Internal Auditors and Operational Heads are invited to the Meetings. The Internal Auditors submit their report to the Audit Committee. Company Secretary acts as Secretary to the Audit Committee.

ii. Terms of Reference

The role and terms of reference of the Audit Committee covers the areas mentioned under Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956 besides other terms as may be referred by the Board of Directors. These include oversight of Company's financial reporting process and disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible, reviewing annual and quarterly financial statements with management before submission to the Board, reviewing the adequacy of internal control systems and performance of external and internal auditors with management.

iii. Meetings and attendance of the Audit Committee

The Audit Committee met four times during the year i.e. on April 24, 2013, July 23, 2013, October 23, 2013 and January 27, 2014 which was attended by all the members.

4. Subsidiary Company

The Company has one Non-Listed Subsidiary Company namely Kirloskar RoadRailer Limited.

The financial statements of the Subsidiary Company are placed before the Audit Committee for their review.

The minutes of the Board Meeting as well as statements of all significant transactions of the subsidiary company are placed regularly before the Board of Directors for their review.

5. REMUNERATION COMMITTEE

i. Composition

The Remuneration Committee comprises of 3 Directors consisting of Mr. P. S. Jawadekar, who is the Chairman of the Committee, Mr. G. Krishna Rao and Mr. J. Y. Tekawade. Company Secretary acts as Secretary to the Committee.

ii. Terms of Reference

The functioning and terms of reference of the Remuneration Committee are as prescribed under Clause 49 of the Listing Agreement. It determines the Company's policy on all elements of remuneration packages of all the Directors including salary, benefits, bonus, stock options, pension rights and compensation payment etc.

iii. Meetings and attendance of the Remuneration Committee

During the year, two Remuneration Committee Meetings were held on April 24, 2013 and October 23, 2013, and was attended by all the members.

iv. Remuneration Policy

The Board determines the remuneration payable to the Executive Directors taking into account their qualification, expertise and contribution and based on recommendations of the Remuneration Committee.

Non-Executive Directors are paid sitting fees for attending Board / Committee Meetings as decided by the Board within the limits prescribed under the Companies Act, 1956.

Commission payable to Non-Executive Directors is limited to a fixed amount per year as determined and approved by the Board based on their attendance and contribution at the Board and Committee Meetings based on recommendations of the Remuneration Committee. The total amount of commission to Non-Executive Directors is within the limit of 1% of the net profits of the Company for the year, calculated as per the provisions of the Companies Act, 1956, subject to necessary approvals, as applicable, if any.

v. Details of remuneration paid / payable to Directors during the year 2013-14:

A. Non-Executive Directors

| Name of Director | Sitting Fees (Rs.) | Commission on Net profit * (Rs.) | Salary & Perquisites (Rs.) | Total (Rs.) | No. of shares held |
|-------------------------|--------------------|----------------------------------|----------------------------|-------------|--------------------|
| Mr. Atul C. Kirloskar | 15,000 | 1,80,000 | – | 1,95,000 | 1,14,330 |
| Mr. Sanjay C. Kirloskar | 15,000 | 1,80,000 | – | 1,95,000 | – |
| Mr. Vikram S. Kirloskar | 5,000 | 60,000 | – | 65,000 | – |
| Mr. A. C. Mukherji | 45,000 | 8,00,000 | – | 8,45,000 | – |
| Mr. J. Y. Tekawade | 65,000 | 8,00,000 | – | 8,65,000 | 104 |
| Mr. P. S. Jawadekar | 35,000 | 3,00,000 | – | 3,35,000 | – |
| Mr. G. Krishna Rao | 65,000 | 8,00,000 | – | 8,65,000 | – |
| Mr. D. R. Swar | 55,000 | 3,00,000 | – | 3,55,000 | – |
| Mr. Sunil Shah Singh | 25,000 | 3,00,000 | – | 3,25,000 | 1000 |

* Payable only on adoption of accounts in the ensuing Annual General Meeting.

B. Remuneration paid / payable to Mr. Rahul C. Kirloskar, Executive Chairman and Mr. Aditya Kowshik, Managing Director

(Amount in Rupees)

| Particulars | Mr. Rahul C. Kirloskar From April 1, 2013 to March 31, 2014 | Mr. Aditya Kowshik From April 1, 2013 to March 31, 2014 |
|---------------------------|---|---|
| Salary | 1,20,00,000 | 49,55,000 |
| House Rent Allowance | – | 4,95,500 |
| Contribution to : | | |
| Provident Fund | 14,40,000 | 5,94,600 |
| Superannuation Fund | 18,00,000 | 7,43,250 |
| Gratuity Fund | 10,00,000 | 5,00,000 |
| Other perquisites | 28,85,686 | 7,29,577 |
| Commission* | 2,00,00,000 | 80,00,000 |
| TOTAL | 3,91,25,686 | 1,60,17,927 |
| No. of shares held | 115,579 | NIL |

* Payable only on adoption of accounts in the ensuing Annual General Meeting.

6. INVESTORS' GRIEVANCE COMMITTEE

The Committee functions under the Chairmanship of Mr. G. Krishna Rao, a Independent Non-Executive Director, Mr. Rahul C. Kirloskar, Executive Director and Mr. J. Y. Tekawade, Independent Non-Executive Director as its members. Company Secretary is the Compliance Officer.

During the year, two Investors' Grievance Committee meetings were held on April 24, 2013 and October 23, 2013 and both were attended by all the members.

The Company has received 3 complaints during the year and all of them were resolved. There were no complaints pending as on March 31, 2014.

7. GENERAL BODY MEETINGS

i. The details of the last three Annual General Meetings are as follows :

| Date | Time | Location |
|---------------|----------|--|
| July 23, 2013 | 02.30 pm | } Mahratta Chamber of Commerce, Industries and Agriculture, Tilak Road, Pune 411 002 |
| July 17, 2012 | 02.30 pm | |
| June 28, 2011 | 11.00 am | |

ii. Special Resolutions passed in last 3 AGM's :

The shareholders of the Company have passed the (1) one special resolution at the following Annual General Meeting.

June 28, 2011

Payment of Commission to the Directors who is neither in the whole time employment of the Company nor a Managing Director, provided in Sections 198, 309, 310, 349, 350 of the Companies Act, 1956.

iii. Postal Ballot

No Resolution was passed through postal ballot last year.

8. DISCLOSURES

- i. During the year 2013-14, the Company had no materially significant related party transaction that has potential conflict of interest with the interest of Company at large.
- ii. There was no non-compliance by the Company, penalties or strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority on any matter related to Capital Markets, during the last three years.
- iii. The Company had adopted a formal Whistle Blower Policy. All personnel have access to the Audit Committee.
- iv. The Company has complied with all mandatory requirements of clause 49 of the listing agreement. Company has not adopted any non-mandatory requirements of clause 49 except that it has formed the Remuneration Committee & Whistle Blower Policy.
- v. Disclosure(s) relating to the full particulars of the Cost Auditor along with other details pursuant to the General Circular No. 15/2011 dated April 11, 2011 issued by the Ministry of Corporate Affairs.
Pursuant to the approval of the Central Government under Section 233B of the Companies Act, 1956, the Company has appointed M/s. S. G. Jog, a proprietary firm of Cost Accountant as Cost Auditor of the Company. Due date of filing the Cost Audit Report for the financial year 2012-13 was September 27, 2013 and the same has been filed on September 24, 2013.

9. MEANS OF COMMUNICATION

The quarterly, half yearly, nine monthly and yearly financial results are published in the leading news papers viz. all editions of Business Standard (English) and Loksatta (Marathi). The Company updates its results on the website www.kirloskarkpcl.com.

10. GENERAL SHAREHOLDER INFORMATION :

i. Annual General Meeting :

Date : July 23, 2014
Day : Wednesday
Time : 2.30 PM
Venue : Pudumjee Hall,
Mahratta Chamber of Commerce, Industries and Agriculture,
Tilak Road, Pune 411 002

ii. **Financial Year** : 1st April to 31st March

iii. **Book Closure** : Wednesday the 16th day of July, 2014 to
Wednesday, the 23rd day of July, 2014
(both days inclusive)

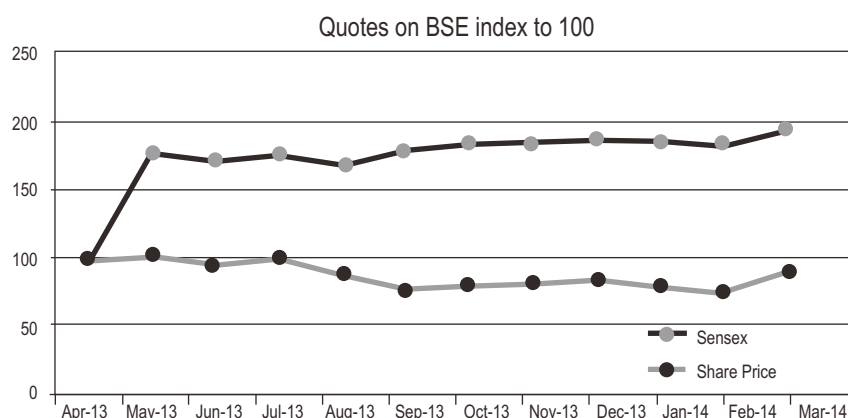
- iv. **Dividend Payment Date :** : On or after 23rd July 2014
v. **Listing on :** : Bombay Stock Exchange Limited
vi. **Stock Code :** : 505283
vii **Depositories :** : National Securities Depository Ltd.
Central Depository Services (I) Ltd.
ISIN No. - INE811A01012

viii. Market Price Data :

Market Price Data as per Bombay Stock Exchange Ltd., i.e. High-Low and close for each month during this financial year.

| Year | High (Rs.) | Low (Rs.) | Close (Rs.) |
|----------------|------------|-----------|-------------|
| April 2013 | 484.50 | 422.30 | 440.40 |
| May 2013 | 500.70 | 401.15 | 443.10 |
| June 2013 | 474.95 | 410.00 | 462.40 |
| July 2013 | 491.90 | 410.00 | 414.40 |
| August 2013 | 435.00 | 320.00 | 350.00 |
| September 2013 | 384.00 | 341.05 | 350.65 |
| October 2013 | 396.90 | 351.30 | 387.00 |
| November 2013 | 400.00 | 362.00 | 373.15 |
| December 2013 | 409.00 | 355.30 | 382.45 |
| January 2014 | 390.00 | 350.00 | 360.00 |
| February 2014 | 373.50 | 340.05 | 345.10 |
| March 2014 | 439.00 | 337.05 | 414.50 |

ix. Stock Performance in comparison to BSE Sensex :



x. Registrar and Transfer Agent :

M/s. Link Intime India Pvt. Ltd. are the Registrar and Transfer Agents for shares in physical form as well as electronic mode.

xi. Share Transfer System :

Share Transfers are registered and returned within a period of 10 days from the date of receipt, provided the documents are correct and valid in all respects.

xii. Distribution of Shareholding as on March 31, 2014

| HOLDING | | No. of Members | Percentage | No. of Shares of Rs.10/- each | % to Capital |
|--------------|-------|----------------|---------------|-------------------------------|---------------|
| UPTO | 500 | 18,052 | 97.54 | 7,31,290 | 5.69 |
| | 501 | 256 | 1.38 | 2,14,566 | 1.67 |
| | 1001 | 100 | 0.54 | 1,51,924 | 1.18 |
| | 2001 | 26 | 0.14 | 64,451 | 0.50 |
| | 3001 | 14 | 0.08 | 51,103 | 0.40 |
| | 4001 | 14 | 0.08 | 64,124 | 0.50 |
| | 5001 | 11 | 0.06 | 70,876 | 0.55 |
| | 10001 | 34 | 0.18 | 1,14,96,004 | 89.51 |
| TOTAL | | 18,507 | 100.00 | 1,28,44,338 | 100.00 |

xiii. Shareholding Pattern as on March 31, 2014

| | Category | No. of Shares of Rs.10/- each | Percentage of shareholding |
|----|---|-------------------------------|----------------------------|
| A. | Promoter's | 87,20,124 | 67.89 |
| B. | Mutual Funds & UTI | 21,04,496 | 16.38 |
| C. | Banks, Financial Institutions & Insurance Companies | 72,010 | 0.56 |
| D. | Other Corporate Bodies | 4,70,255 | 3.66 |
| E. | General Public | 14,42,238 | 11.24 |
| F. | NRIs | 35,215 | 0.27 |
| | Grand Total | 1,28,44,338 | 100.00 |

xiv. Dematerialisation of Shares and liquidity :

The name of the Company appears in the compulsory Trading List and 96.44% of Share Capital is in Electronic Form as on March 31, 2014.

xv. Company has not issued GDRs / ADRs / Warrants or any convertible instruments.

xvi. Plant Locations and Address for Correspondence :

Registered Office of the Company

Kirloskar Pneumatic Co. Ltd.
Hadapsar Industrial Estate,
Pune 411 013
Phone No. 020 - 26727000
Fax No. 020 – 26870297 / 634
Email : sec@kpcl.net
Website : www.kirloskarkpcl.com

Plant Locations :

PUNE
Hadapsar Industrial Estate,
Pune 411 013

Saswad

Saswad, Tal.: Purandar
Dist. Pune

Nashik

Thermal Power Station Road,
Nashik Road, Nashik

Registrar & Transfer Agent :

Link Intime India Pvt. Ltd.

Pune Office :

Akshay Complex, No. 202, 2nd Floor,
Near Ganesh Temple,
Off. Dhole Patil Road,
Pune 411 001
Phone Nos.: 020-26160084 / 1629 / 3503
Fax No. 020 – 26163503
Email : pune@linkintime.co.in

Mumbai Office :

C-13, Pannalal Silk Mills Compound,
LBS Marg, Bhandup West,
Mumbai 400 078
Phone No. : 022-25963838
Fax No. 022-25946970
Email : mumbai@linkintime.co.in

DECLARATION FOR COMPLIANCE WITH THE CODE OF CONDUCT

Pursuant to Clause 49 I (D)(ii) of the Listing Agreement I, hereby declare that all Board Members and Senior Management personnel have affirmed compliance with the Code of Conduct made effective from April 1, 2005.

Kirloskar Pneumatic Company Limited



Aditya Kowshik
Managing Director

Place : Pune

Date : April 23, 2014

AUDITOR'S CERTIFICATE ON CORPORATE GOVERNANCE

To the members of Kirloskar Pneumatic Company Limited

We have examined the compliance of conditions of Corporate Governance by Kirloskar Pneumatic Company Limited, for the year ended 31st March, 2014, as stipulated in Clause 49 of the Listing Agreement of the said Company, with the Stock Exchange(s).

The Compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of an opinion on the financial statements of the Company.

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

We further 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 M/S P. G. BHAGWAT

Chartered Accountants
Firm's Registration Number : 101118W

Sanjay Athavale

Partner
Membership Number 83374

Place : Pune

Date : May 27, 2014

MANAGEMENT DISCUSSIONS AND ANALYSIS

Industry Overview

Your Company serves various sectors viz. Oil and Gas, Infrastructure, Cement, Steel and Power, Food and Beverage and Railways. Over couple of years, the stagnation in the growth of the manufacturing sector has adversely impacted revenues of your company.

Both domestic and international factors have adversely impacted the Indian economy and the GDP growth for the year 2013-14 is around 5%. The Index of Industrial Production (IIP) showed no increase during April-January 2013-14 as compared to 7.8% during the year 2010-11. The GDP growth for the year 2014-15 is not expected to be any better than 2013-14. In fact this has resulted in a contraction in production of capital goods.

Segment Analysis

Your Company has two business segments – Compression Products/ Systems and Transmission Products.

1. Compression Products:

Your Company offers a wide range of products which include – Air, Gas and Refrigeration Compressors, Packages and Systems.

- a. **Performance:** During the year revenue for the Compression Product Segment was Rs 4,159 Million (Previous Year Rs 4,484 Million). These products primarily serve the Oil and Gas and Infrastructure industries. Over the last couple of years lower investments as well as regulatory challenges have affected the sales of the company this year. In spite of inflationary pressures, your Company has managed to contain material cost through various cost reduction programmes. To transform the operations, with Manufacturing Excellence as a goal, your Company has taken positive steps to implement these concepts and an empowered team has been constituted to champion this initiative across the organization. Looking at the changing technology trends, your Company is also focused on developing products for the future. Special efforts are being made to engage the best talent for in-house product development. Your Company continues to be the preferred choice of customers. The Customer Satisfaction Survey conducted by Nielsen Ltd. shows significant improvement in the Customer Satisfaction Index.
- b. **Opportunities, Threats and Concerns:** Your Company aims at strengthening its market position by widening its range of product offerings. Although the current economic environment for the year 2014-15 has been projected to be subdued. We expect the new Government to initiate steps for investment in this sector which will in turn benefit your Company from the year 2015-16 onwards. Projects announced by companies in the Oil and Gas sector are likely to materialize over the next three years. The Government of India has in its last budget committed to support the development of the cold chain infrastructure in India and we hope to see the Government taking positive steps in this direction in the latter part of this year. Your Company is also focused on developing export business in the Middle East and South East Asia region. Your Company has been approved by many International Consulting and Contracting companies and this will help us in garnering business in the coming years. With the focus on approvals which was started a couple of years ago, your Company is now receiving many enquiries from various Oil and Gas Companies in the Middle East and we can expect to see this being converted to orders from 2015-16 onwards.

Gas Compression and Refrigeration are highly specialized fields and talent availability specially in the area of design and technology development is a threat.

2. Transmission Products:

Your Company offers wide range of product which include – Railway Traction Gears, Wind Turbine Gearbox, Industrial Gearbox and Specialized Products.

- a. **Performance:** Delay in implementation of its modernization plans by the Indian Railways has affected the revenue of the Transmission Division this year. The Wind turbine market also collapsed during the year which resulted in very low sales for the wind turbine gear boxes from this Division. Over the last two years your Company has invested in modernizing its plant and this has helped in improving productivity and quality. Your Company is implementing a programme to achieve its goal of Manufacturing Excellence in operations. A dedicated cross functional team is in place to champion this initiative.

- b. Opportunities, Threats and Concerns:** Your Company will endeavour to consolidate its market position in Railway and Wind Segment. Industrial Gearbox market offers excellent opportunities for growth. Over the years your Company has developed capability to design, manufacture and sell customized industrial gearboxes and is now in the process of cementing our presence in this market. Cost continues to be under pressure with competition from both domestic and international players. There is still an uncertainty on the future demand pattern in the wind turbine market. Transmission Products segment also faces a stiff challenge in recruitment of trained engineering and manufacturing manpower.

Internal Control Systems and their Adequacy

Your Company has adequate internal control systems to ensure maintenance of proper accounting records, their accuracy and Accounting Standards, safeguarding of Company's assets and assessing its risk for insurance coverage.

Your Company has appointed Internal Auditors for review of Internal Control Systems. Detailed reports of the Internal Auditors are presented to the Audit Committee. Compliances to observations by the Internal Auditors are monitored by the management.

Safety, Health And Environment

Your Company is one of the few IMS (Integrated Management System - ISO 9001, ISO 14001 and OHSAS 18001) Certified Companies. Your Company is committed to complying with all statutory and regulatory requirements. Your Company has been taking efforts in building awareness among employees, suppliers and service providers. Your Company has been giving a lot of attention to improving greenery all around its manufacturing plants. Energy conservation initiatives, safety initiatives and quality initiatives are being taken on a regular basis to ensure sustainability.

The Company has a well equipped Occupational Health Centre that delivers qualitative preventive health services not only to its employees but also to their families and to the society at large. First-Aid preparedness in the factory is ensured at all times. Medical surveillance that includes pre-employment, periodic medical examinations and occupational rehabilitation is ensured so that employee health and well being are maintained. Hospitalized employees are given meaningful help and reassurance. Annual Wellness Planner ensures that all employees are covered under preventive health checks and health promotion programmes.

Corporate Social Responsibility (CSR)

Inspired by our founder Late Shri S. L. Kirloskar all our CSR initiatives are focused in the areas of Education, Environment and Health. CSR initiatives in your Company are planned, budgeted, implemented and reviewed regularly. CSR provides a volunteering platform to the employees and about 15% of employees volunteer to actively contribute for a social cause every year. During this year, your Company has reached out to 23 schools and 22,000 community members with the help of 150 employee volunteers who put in over 5,500 man hours of volunteering. Significant CSR initiatives include supports, development and scholarships to socio economically challenged students, WASH (Water, Sanitation and Hygiene) initiative, community health camps, students vision care program, Vasundhara (environment, water, air, energy and wild life) initiative, teachers training, HIV AIDS workplace and community intervention and supports to differently abled children etc.

As a CSR activity, Energy Audit was carried out for 5 Schools. The identified energy saving per year is Rs. 0.03 Million kWh and cost saving is Rs. 0.36 Million. Also conducted BEE painting competition amongst 23 schools as awareness programme. 88 volunteers have spread the message of energy conservation amongst 11,690 students.

Your Board has recently established a CSR Committee to monitor its CSR activities. On the recommendation of the CSR Committee. The Board of Directors have adopted a CSR Policy in line with the Companies Act, 2013.

Human Resources and Industrial Relations

A committed and competent team is the back bone of your Company. Significant efforts are made to enhance efficiency and effectiveness of employees.

Your Company has a well structured Leadership Development Programme which seeks to identify, leverage and appropriately deploy talent within the Company. Attracting and retaining talent and succession management continue to be a major focus of HR.

Upgrading skills and competencies across all levels has become essential with the changes in the business and technological environment. With pre-set target for training man-days, training programs are designed to address knowledge and skill development. The Rewards and Recognition Scheme has motivated performers at all levels. Your Company will continue to build on the people and processes with a definite plan on strengthening the organization.

Your Company has a total strength of 970 permanent employees as on March 31, 2014. The relations with the employees at all levels continue to be cordial.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KIRLOSKAR PNEUMATIC COMPANY LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Kirloskar Pneumatic Company Limited, which comprise the Balance Sheet as at March 31, 2014, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 Act". This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2014;
- (b) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
- (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. As required by section 227(3) of the Act, we report that:
 - a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - c. the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account;
 - d. in our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956;
 - e. on the basis of written representations received from the directors as on March 31, 2014, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2014, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
 - f. Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

Place : Pune
Date : April 23, 2014

For M/S P. G. BHAGWAT
Chartered Accountants
Firm's Registration Number : 101118W
Sanjay Athavale
Partner
Membership Number 83374

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in our above report of even date)

1. (a) The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
(b) As explained to us, considering the nature of the Fixed Assets, the same have been physically verified by the management at reasonable intervals during the year as per the verification plan adopted by the company, which, in our opinion, is reasonable having regard to the size of the company and the nature of its assets. According to the information and explanations given to us and the records produced to us for our verification, the discrepancies noticed during such physical verification were not material and the same have been properly dealt with in the books of account.
(c) During the year, the company has not disposed off major part of the Fixed Assets.
2. (a) The inventory has been physically verified during the year by the management, which, is in our opinion, at reasonable intervals.
(b) The procedures of physical verification of inventories 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 records of inventory, we are of the opinion that the company is maintaining proper records of inventory. No material discrepancies were noticed on verification between the physical stock and the book records.
3. (a) The Company has not granted any loans to companies, firms and other parties covered in the Register maintained under Section 301 of the Companies Act, 1956, during the year.
(b) The Company has not taken any loans from companies, firms and other parties covered in the Register maintained under Section 301 of the Companies Act, 1956, during the year.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal control system.
5. (a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that 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 five Lacs rupees in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
6. In our opinion and according to the information and explanations given to us, the company has not accepted any deposits from the public with the provisions of Sections 58A and 58AA of the Companies Act, 1956, and the rules framed there under.
7. In our opinion, the company has an internal audit system commensurate with the size and nature of its business.
8. The Company is maintaining cost records as prescribed under Section 209 (1) (d) of the Companies Act, 1956. However, we have not verified the same for completeness or accuracy.
9. (a) According to the records of the Company, the Company is regular in depositing undisputed statutory dues with the appropriate authorities. There were no amounts payable in respect of the statutory dues outstanding, as at the Balance Sheet date for a period of more than six months from the date they became payable.

According to the information and explanations given to us, no undisputed amounts payable in respect of Sale Tax, Income Tax, Customs Tax / Wealth Tax, Excise Duty/Cess and Service Tax were outstanding, as at the balance sheet date for a period of more than six months from the date they became payable.

- (b) According to the records of the Company, there are no dues of Sales Tax, Income Tax, Customs Duty/Wealth Tax, Excise Duty/Cess and Service Tax which have not been deposited on account of any dispute, except:

| Name of the Statute | Nature of dues | Amount (Rs) | Period to which amount relates | Forum |
|---------------------|---|-------------|-------------------------------------|---|
| Excise Duty | Demand of penalty on reversal of Cenvat Credit not made | 18,44,000 | FY 1997-98 to 2001-02 upto Feb-2002 | CESTAT, Delhi |
| Service Tax | Penalty | 3,09,556 | FY 2003-04 to 05-06 | CESTAT, Mumbai |
| | Penalty | 2,47,316 | FY 2007-08 to 2009-10 | Comm. Appeals, Pune III |
| Sales Tax | Non- production of C Forms | 83,000 | AY 1992-93 | Mumbai High Court, Mumbai Sales Tax Tribunal. |
| | Appeal against incorrect Assessment Order | 5,99,000 | AY 2004-05 & 2005-06 | Commissioner Appeal |
| | Demand under Works Contract Tax | 1,88,000 | AY 1985-86 | Tribunal |
| | Demand under Works Contract Tax | 2,87,000 | AY 1985-86 & 1986-87 & 1987-88 | High Court |
| Income Tax | Disallowance of certain expenditure | 7,12,247 | AY 1960-70 to AY 1978-79 | High Court |

10. The company has no accumulated losses as on the Balance Sheet date. The company has not incurred cash losses during the financial year covered by our audit nor during the immediately preceding financial year.
11. Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the company has not defaulted in repayment of dues to any financial institution, bank or debenture holders.
12. The Company has not granted 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 funds are not applicable to the Company.
14. The company is not dealing or trading in shares, securities, debentures and other investments.
15. As informed to us, the company has not given any guarantee for loans taken by others from bank or financial institutions.
16. During the year, Term Loans have not been raised by the company.
17. The funds raised on short term basis have not been used for long term investment.
18. The company has not made preferential allotment of shares during the year.
19. No money has been raised by debenture issues during the year.
20. No money has been raised by public issues during the year.
21. Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the company has been noticed or reported during the course of our audit.

For M/S P. G. BHAGWAT

Chartered Accountants

Firm's Registration Number : 101118W

Sanjay Athavale

Partner

Membership Number 83374

Place : Pune

Date : April 23, 2014

BALANCE SHEET AS AT 31ST MARCH, 2014

| | Note No. | Rs. | As at 31st March, 14 Rs. | As at 31st March, 13 Rs. |
|--|----------|----------------------|--------------------------------|--------------------------------|
| I. EQUITY AND LIABILITIES | | | | |
| (1) SHAREHOLDERS' FUNDS : | | | | |
| (a) Share Capital | 1 | 128,443,380 | | 128,443,380 |
| (b) Reserves & Surplus | 2 | <u>2,697,655,141</u> | | <u>2,459,627,156</u> |
| | | | 2,826,098,521 | 2,588,070,536 |
| (2) SHARE APPLICATION MONEY PENDING ALLOTMENT : | | | | |
| (3) NON CURRENT LIABILITIES : | | | | |
| (a) Long Term Borrowings | | - | | - |
| (b) Deferred Tax Liability (Net) | 3 | 5,407,624 | | 1,056,669 |
| (c) Other Long Term Liabilities | 4 | 9,669,535 | | 11,007,182 |
| (d) Long Term Provisions | 5 | <u>43,450,917</u> | | <u>38,381,143</u> |
| | | | 58,528,076 | 50,444,994 |
| (4) CURRENT LIABILITIES : | | | | |
| (a) Short Term Borrowings | | - | | - |
| (b) Trade Payables | 6 | 741,171,515 | | 852,248,179 |
| (c) Other Current Liabilities | 7 | 707,689,210 | | 890,983,351 |
| (d) Short Term Provisions | 8 | <u>366,325,628</u> | | <u>429,128,359</u> |
| | | | 1,815,186,353 | 2,172,359,889 |
| Total | | | <u>4,699,812,950</u> | <u>4,810,875,419</u> |
| II. ASSETS : | | | | |
| (1) NON CURRENT ASSETS : | | | | |
| (a) Fixed Assets | | | | |
| (i) Tangible Assets | 9 | 1,004,197,619 | | 895,375,558 |
| (ii) Intangible Assets | 10 | 134,870,372 | | 125,001,930 |
| (iii) Capital work in progress | | - | | 2,134,984 |
| (b) Non Current Investments | 11 | 29,581,904 | | 79,581,904 |
| (c) Long Term Loans and Advances | 12 | 57,537,089 | | 80,332,917 |
| (d) Other Non Current Assets | 13 | <u>5,115,489</u> | | <u>14,073,180</u> |
| | | | 1,231,302,473 | 1,196,500,473 |
| (2) CURRENT ASSETS : | | | | |
| (a) Current Investments | 14 | 1,178,500,000 | | 1,050,000,000 |
| (b) Inventories | 15 | 418,029,636 | | 723,845,996 |
| (c) Trade Receivables | 16 | 1,428,618,094 | | 1,320,671,371 |
| (d) Cash and Bank Balances | 17 | 130,884,976 | | 158,848,659 |
| (e) Short Term Loans and Advances | 18 | 110,438,639 | | 87,689,728 |
| (f) Other Current Assets | 19 | <u>202,039,132</u> | | <u>273,319,192</u> |
| | | | 3,468,510,477 | 3,614,374,946 |
| Total | | | <u>4,699,812,950</u> | <u>4,810,875,419</u> |
| Notes forming part of the Financial Statements | 1-48 | | | |

As per our attached report of even date

For and on behalf of the Board of Directors

For M/s P. G. Bhagwat
Firm Registration No. 101118W
Chartered Accountants

Aditya Kowshik
Managing Director

Rahul C. Kirloskar
Executive Chairman

S. S. Athavale
Partner
Membership No. 83374
Pune, April 23, 2014

Jitendra Shah
Company Secretary

Suhas S. Kolhatkar
Vice President & Finance Controller
Pune, April 23, 2014

STATEMENT OF PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2014

| | Note No. | Rs. | Current Year Rs. | Previous Year Rs. |
|--|----------|----------------------|----------------------|----------------------|
| I Revenue from Operations | 20 | | 5,482,617,799 | 5,947,597,296 |
| Less: Excise Duty | | | 383,348,376 | 459,506,225 |
| Net Revenue from Operations | | | 5,099,269,423 | 5,488,091,071 |
| II Other Income | 21 | | 160,527,292 | 135,937,914 |
| III Total Revenue (I + II) | | | 5,259,796,715 | 5,624,028,985 |
| IV EXPENSES : | | | | |
| Cost of Materials Consumed | 22 | 2,443,377,153 | | 2,967,852,355 |
| Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade | 23 | 189,501,870 | | (121,271,491) |
| Employee Benefits Expenses | 24 | 808,839,257 | | 802,783,981 |
| Finance Costs | 25 | 3,483,339 | | 13,139,446 |
| Depreciation and Amortization Expense | 26 | 132,140,425 | | 114,903,957 |
| Other Expenses | 27 | 1,067,803,399 | | 1,138,862,127 |
| Total Expenses | | | 4,645,145,443 | 4,916,270,375 |
| V Profit before Exceptional and Extraordinary Items and Tax (III - IV) | | | 614,651,272 | 707,758,610 |
| VI Exceptional Items | | | - | - |
| VII Profit before Extraordinary Items and Tax (V - VI) | | | 614,651,272 | 707,758,610 |
| VIII Extraordinary Items | | | - | - |
| IX Profit before Tax (VII - VIII) | | | 614,651,272 | 707,758,610 |
| X Taxation : | | | | |
| Current Tax | | 222,000,000 | | 240,000,000 |
| Deferred Tax | | 4,350,955 | | (3,217,696) |
| | | | 226,350,955 | 236,782,304 |
| Profit (Loss) for the Period | | | 388,300,317 | 470,976,306 |
| Earning per Share : | | | | |
| (1) Basic | | | 30.23 | 36.67 |
| (2) Diluted | | | 30.23 | 36.67 |

Notes forming part of the Financial Statements 1- 48

As per our attached report of even date

For and on behalf of the Board of Directors

For **M/s P. G. Bhagwat**
Firm Registration No. 101118W
Chartered Accountants

Aditya Kowshik
Managing Director

Rahul C. Kirloskar
Executive Chairman

S. S. Athavale
Partner
Membership No. 83374
Pune, April 23, 2014

Jitendra Shah
Company Secretary

Suhas S. Kolhatkar
Vice President & Finance Controller
Pune, April 23, 2014

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2014

| PARTICULARS | Rs. | 2013-2014 Rs. | 2012-2013 Rs. |
|--|--------------------------|-----------------------------|---------------------|
| (I) OPERATING ACTIVITIES | | | |
| (A) PROFIT BEFORE TAXATION | | 614,651,272 | 707,758,610 |
| (B) ADJUSTMENTS : | | | |
| Add : | | | |
| (i) Depreciation and Amortisation | 132,140,425 | | 114,903,957 |
| (ii) Provision for Diminution in value of Investment | 11,500,000 | | 1,136,249 |
| (iii) Bad Debts | 3,634,475 | | 6,084,438 |
| (iv) Loss on Assets sold | - | | 158,495 |
| (v) Interest on Secured / Unsecured Loans | 3,483,339 | | 13,139,446 |
| | | <u>150,758,239</u> | <u>135,422,585</u> |
| | | 765,409,511 | 843,181,195 |
| Less : | | | |
| (i) Investment Income included above : | | | |
| (a) Dividend | 86,586,804 | | 78,972,051 |
| (b) Interest Received | 2,552,649 | | 2,028,781 |
| | <u>89,139,453</u> | | <u>81,000,832</u> |
| (ii) Surplus on Sale of Assets | 2,708,244 | | 1,769,024 |
| (iii) Profit on Sale of Investment | 16,412,948 | | 9,412,000 |
| (iv) Provision no longer required | 231,169 | | 302,416 |
| (v) Sundry Credit Balances appropriated | 162,644 | | 5,498,187 |
| (vi) Income Tax paid | 190,245,964 | | 262,511,635 |
| | | <u>298,900,422</u> | <u>360,494,094</u> |
| CASH FROM OPERATIONS | | 466,509,089 | 482,687,101 |
| (C) (INCREASE) / DECREASE IN CURRENT ASSETS | | | |
| (i) Inventories | 305,816,360 | | 97,893,541 |
| (ii) Sundry Debtors | (102,623,507) | | 38,048,548 |
| (iii) Other Current Assets, Loans & Advances | (7,269,558) | | (26,986,353) |
| | | <u>195,923,295</u> | <u>108,955,736</u> |
| (D) INCREASE / (DECREASE) IN CURRENT LIABILITIES | | | |
| (i) Liabilities | | <u>(301,745,072)</u> | (182,028,376) |
| | | <u>(105,821,777)</u> | <u>(73,072,640)</u> |
| NET CASH FROM OPERATIONS | | 360,687,312 | 409,614,461 |

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2014 (Contd.)

| PARTICULARS | Rs. | 2013-2014 Rs. | 2012-2013 Rs. |
|--|---------------|----------------------|----------------------|
| (II) INVESTMENT ACTIVITIES | | | |
| (i) Investments, net. | (73,587,052) | | (90,593,055) |
| (ii) Capital Expenditure – Tangible Assets | (204,100,069) | | (235,186,389) |
| (iii) Capital Expenditure – Intangible Assets | (22,913,794) | | (6,686,089) |
| (iv) Sale proceeds of Assets | 4,794,943 | | 2,439,681 |
| | | (295,805,972) | (330,025,852) |
| (v) Investment Income : | | | |
| (a) Dividend | 86,586,804 | | 78,972,051 |
| (b) Interest Received | 2,552,649 | | 2,028,781 |
| | | 89,139,453 | 81,000,832 |
| NET CASH FROM INVESTING ACTIVITIES | | (206,666,519) | (249,025,020) |
| (III) FINANCING ACTIVITIES | | | |
| (i) Increase / (Decrease) in Secured Loans | – | | (62,548,750) |
| (ii) Interest on Secured / Unsecured Loans | (4,170,672) | | (13,857,973) |
| (iii) Dividend & Dividend Tax paid | (177,813,804) | | (176,680,407) |
| NET CASH FROM FINANCING ACTIVITY | | (181,984,476) | (253,087,130) |
| NET CHANGE IN CASH + CASH EQUIVALENTS (I + II + III) | | (27,963,683) | (92,497,689) |
| Cash & Cash Equivalents as at 1–4–2013 (Opening Balance) | | 158,848,659 | 251,346,348 |
| Cash & Cash Equivalents as at 31–3–2014 (Closing Balance) | | 130,884,976 | 158,848,659 |

As per our attached report of even date

For and on behalf of the Board of Directors

For **M/s P. G. Bhagwat**
Firm Registration No. 101118W
Chartered Accountants

Aditya Kowshik
Managing Director

Rahul C. Kirloskar
Executive Chairman

S. S. Athavale
Partner
Membership No. 83374
Pune, April 23, 2014

Jitendra Shah
Company Secretary

Suhas S. Kolhatkar
Vice President & Finance Controller
Pune, April 23, 2014

NOTES

Note Nos. 1-48 annexed to and forming part of the Financial Statements for the year ended 31st March, 2014

| | Rs. | As at 31st March, 2014 Rs. | As at 31st March, 2013 Rs. |
|--|-----|----------------------------------|----------------------------------|
| NOTE 1 : SHARE CAPITAL : | | | |
| EQUITY SHARES: | | | |
| AUTHORISED : | | | |
| 15,000,000 Equity Shares of Rs.10/- each | | 150,000,000 | 150,000,000 |
| | | <u>150,000,000</u> | <u>150,000,000</u> |
| ISSUED AND SUBSCRIBED : | | | |
| 12,844,338 Equity Shares of Rs.10/- each | | 128,443,380 | 128,443,380 |
| | | <u>128,443,380</u> | <u>128,443,380</u> |
| PAID UP : | | | |
| 12,844,338 Equity Shares of Rs.10/- each fully paid | | 128,443,380 | 128,443,380 |
| Total | | <u>128,443,380</u> | <u>128,443,380</u> |

Rights attached to Equity Shares :

The Company has only one class of share capital, i.e. equity shares having face value of Rs.10/- per share. Each holder of equity share is entitled to one vote per share.

Share Holding Details :

| | Nos. | Nos. |
|--|-----------|-----------|
| Shareholder holding more than 5% | | |
| a) Kirloskar Brothers Investments Ltd. | 6,994,176 | 6,994,176 |
| | 54.45% | 54.45% |
| b) Kirloskar Industries Ltd. | 1,186,866 | 588,222 |
| | 9.24% | 4.58% |
| c) Reliance Capital Trustee Co. Ltd. | 1,043,284 | 1,122,320 |
| | 8.12% | 8.74% |

NOTE 2 : RESERVES AND SURPLUS :

Capital Reserve :

| | | |
|---------------------|--------|--------|
| As per last Account | 27,965 | 27,965 |
|---------------------|--------|--------|

Securities Premium (Share Premium) Account:

| | | |
|---------------------|------------|------------|
| As per last Account | 51,817,923 | 51,817,923 |
|---------------------|------------|------------|

General Reserve :

| | | |
|---------------------|---------------|---------------|
| As per last Account | 2,200,000,000 | 1,900,000,000 |
|---------------------|---------------|---------------|

| | | |
|--------------------------|-------------|-------------|
| Add: Set aside this year | 250,000,000 | 300,000,000 |
|--------------------------|-------------|-------------|

| | | |
|--|----------------------|----------------------|
| | 2,450,000,000 | <u>2,200,000,000</u> |
|--|----------------------|----------------------|

Surplus :

| | | |
|---------------------|-------------|-------------|
| As per last Account | 207,781,268 | 217,131,761 |
|---------------------|-------------|-------------|

| | | |
|--|-------------|-------------|
| Add : Transferred from Statement of Profit & Loss Account | 388,300,317 | 470,976,306 |
|--|-------------|-------------|

| | | |
|--|--------------------|--------------------|
| | <u>596,081,585</u> | <u>688,108,067</u> |
|--|--------------------|--------------------|

Less :

| | | |
|-----------------------------|-------------|-------------|
| Transfer to General Reserve | 250,000,000 | 300,000,000 |
|-----------------------------|-------------|-------------|

| | | |
|-------------------|-------------|-------------|
| Proposed Dividend | 128,443,380 | 154,132,056 |
|-------------------|-------------|-------------|

| | | |
|--------------------------|------------|------------|
| Tax on Proposed Dividend | 21,828,952 | 26,194,743 |
|--------------------------|------------|------------|

| | | |
|--|--------------------|-------------|
| | <u>400,272,332</u> | 480,326,799 |
|--|--------------------|-------------|

| | | |
|--|--------------------|-------------|
| | 195,809,253 | 207,781,268 |
|--|--------------------|-------------|

| | | |
|--------------|-----------------------------|-----------------------------|
| Total | <u><u>2,697,655,141</u></u> | <u><u>2,459,627,156</u></u> |
|--------------|-----------------------------|-----------------------------|

| | Rs. | As at 31st March, 2014 Rs. | As at 31st March, 2013 Rs. |
|--|-----|----------------------------------|----------------------------------|
| NOTE 3 : DEFERRED TAX LIABILITIES : | | | |
| Deferred Tax Liabilities | | 40,733,535 | 33,189,152 |
| Deferred Tax Assets (Refer Note no.46A) | | 35,325,911 | 32,132,483 |
| Total | | <u>5,407,624</u> | <u>1,056,669</u> |

NOTE 4 : OTHER LONG TERM LIABILITIES :

| | | | |
|-------------------|--|------------------|-------------------|
| Deposits Received | | 7,480,630 | 7,242,571 |
| Other Liabilities | | 2,188,905 | 3,764,611 |
| Total | | <u>9,669,535</u> | <u>11,007,182</u> |

NOTE 5 : LONG TERM PROVISIONS :

| | | | |
|---------------------------------|--|-------------------|-------------------|
| Provision for Employee Benefits | | 43,450,917 | 38,381,143 |
| Total | | <u>43,450,917</u> | <u>38,381,143</u> |

NOTE 6 : TRADE PAYABLES :

| | | | |
|--|--------------------|--------------------|--------------------|
| (I) Due to Micro, Small and Medium Enterprises | - | | - |
| (ii) Other Trade Payables | <u>741,171,515</u> | | <u>852,248,179</u> |
| Total | | <u>741,171,515</u> | <u>852,248,179</u> |

NOTE 7 : OTHER CURRENT LIABILITIES :

| | | | |
|--|--|--------------------|--------------------|
| Current maturities of Long Term Debt | | - | 62,548,750 |
| Interest accrued but not due on borrowings | | - | 687,333 |
| Unpaid Dividends | | 13,801,437 | 11,288,442 |
| Advances Received | | 143,732,709 | 231,885,633 |
| Other Payables | | 550,155,064 | 584,573,193 |
| Total | | <u>707,689,210</u> | <u>890,983,351</u> |

As at
31st March, 2014
Rs.

As at
31st March, 2013
Rs.

NOTE 8 : SHORT TERM PROVISIONS :

| | | |
|---------------------------------|---------------------------|---------------------------|
| Provision for Employee Benefits | 23,330,036 | 33,004,581 |
| Provision for Income Tax | 192,723,260 | 215,796,979 |
| Proposed Dividend | 128,443,380 | 154,132,056 |
| Tax on Dividend | 21,828,952 | 26,194,743 |
| Total | <u>366,325,628</u> | <u>429,128,359</u> |

NOTE 9 : TANGIBLE ASSETS :

| PARTICULARS | TANGIBLE ASSETS | | | | | | | | TOTAL | |
|--|-----------------------|--------------------|--------------------------|-------------------------|--------------------------|----------------------------|-------------------|------------------------|-------------------------|-------------------------|
| | Free Hold Land Rs. | Buildings Rs. | Plant & Machinery Rs. | Electri. Instal. Rs. | Office Equipments Rs. | Furniture & Fixture Rs. | Vehicle Rs. | Lease Asset P&M Rs. | As At 31/03/2014 Rs. | As At 31/03/2013 Rs. |
| GROSS BLOCK AT COST : As at 01/04/2013 | 2,164,553 | 390,914,593 | 1,147,622,105 | 36,382,577 | 32,873,814 | 42,454,809 | 75,426,397 | 49,037,904 | 1,776,876,752 | 1,567,601,344 |
| Additions | - | 3,770,824 | 193,741,220 | 5,666,952 | 4,966,975 | 3,871,517 | 17,986,345 | - | 230,003,833 | 223,572,276 |
| Deductions and adjustments | - | - | 4,596,255 | - | 271,222 | - | 4,193,044 | - | 9,060,521 | 14,296,868 |
| Apportioned Cost As at 31/03/2014 | 2,164,553 | 394,685,417 | 1,336,767,070 | 42,049,529 | 37,569,567 | 46,326,326 | 89,219,698 | 49,037,904 | 1,997,820,064 | 1,776,876,752 |
| DEPRECIATION : Up to 31/03/2013 | - | 71,206,846 | 673,488,166 | 15,464,392 | 8,870,829 | 25,685,336 | 37,747,721 | 49,037,904 | 881,501,194 | 787,024,751 |
| For the year | - | 9,199,449 | 91,253,886 | 1,336,104 | 1,551,336 | 1,488,630 | 14,265,668 | - | 119,095,073 | 107,944,159 |
| Deductions and Adjustments | - | - | 4,596,255 | - | 119,783 | - | 2,257,784 | - | 6,973,822 | 13,467,716 |
| Total Depreciation up to 31/03/2014 | - | 80,406,295 | 760,145,797 | 16,800,496 | 10,302,382 | 27,173,966 | 49,755,605 | 49,037,904 | 993,622,445 | 881,501,194 |
| NET BLOCK As at 31/03/2014 | 2,164,553 | 314,279,122 | 576,621,273 | 25,249,033 | 27,267,185 | 19,152,360 | 39,464,093 | - | 1,004,197,619 | 895,375,558 |
| As at 31/03/2013 | 2,164,553 | 319,707,747 | 474,133,939 | 20,918,185 | 24,002,985 | 16,769,473 | 37,678,676 | - | 895,375,558 | |

a) Includes premises on Ownership basis in Co-operative Societies Rs.844,900/- (Previous year Rs.844,900/-)

NOTE 10 : INTANGIBLE ASSETS :

| INTANGIBLE ASSETS | | | TOTAL | |
|-------------------------------------|------------------|--------------------|--------------------|------------------|
| PARTICULARS | Softwares | Technical Know How | As At 31/03/2014 | As At 31/03/2013 |
| | Rs. | Rs. | Rs. | Rs. |
| GROSS BLOCK AT COST : | | | | |
| As at 01/04/2013 | 31,780,977 | 134,164,746 | 165,945,723 | 159,259,634 |
| Additions | 9,337,693 | 13,576,101 | 22,913,794 | 6,686,089 |
| AppORTIONED Cost As at 31/03/2014 | 41,118,670 | 147,740,847 | 188,859,517 | 165,945,723 |
| DEPRECIATION : | | | | |
| Up to 31/03/2013 | 28,443,793 | 12,500,000 | 40,943,793 | 33,983,995 |
| For the year | 7,237,369 | 5,807,983 | 13,045,352 | 6,959,798 |
| Total Depreciation up to 31/03/2014 | 35,681,162 | 18,307,983 | 53,989,145 | 40,943,793 |
| NET BLOCK | | | | |
| As at 31/03/2014 | 5,437,508 | 129,432,864 | 134,870,372 | 125,001,930 |
| As at 31/03/2013 | 3,337,184 | 121,664,746 | 125,001,930 | |

| | | |
|------------|-------------------------|-------------------------|
| | As at | As at |
| | 31st March, 2014 | 31st March, 2013 |
| Rs. | Rs. | Rs. |

NOTE 11 : NON CURRENT INVESTMENTS :
INVESTMENTS AT COST :

Government and Trust Securities

Quoted :

Unit Trust of India :

201.988 units of Rs.10/- each in

UTI Balanced fund (Growth)

8,063

8,063

5,288.053 (5,288.053) units of Rs.10/- each in

UTI Balanced fund (Dividend Plan-Re-investment)

88,502

88,502

96,565

96,565

3300 Master Shares of Rs.10/- each

8,244

8,244

104,809

104,809

Fully paid Equity Shares :

Trade, Unquoted :

1 Share of Rs.100/- each in

Kirloskar Proprietary Ltd.

100

100

In Subsidiary Company:

100,000 Equity Shares of Rs.10/- each in

Kirloskar RoadRailer Limited

1,000,000

1,000,000

1,000,100

1,000,100

Carried Over Rs.

1,104,909

1,104,909

NOTE 11 : NON CURRENT INVESTMENTS : (Contd.)

| | Rs. | As at 31st March, 2014 Rs. | As at 31st March, 2013 Rs. |
|---|---------------------------|----------------------------------|----------------------------------|
| Brought Over Rs. | | 1,104,909 | 1,104,909 |
| Other, Quoted : | | | |
| 100,000 Shares of Rs.10/- each in The Mysore Kirloskar Ltd. | 2,400,000 | | 2,400,000 |
| Less: Provision for diminution in value | <u>(2,399,999)</u> | | <u>(2,399,999)</u> |
| | 1 | | 1 |
| 46,990 Shares of Rs.2/- each in Housing Development Finance Corporation Ltd. | 117,475 | | 117,475 |
| 375,000 Shares of Rs.10/- each in Kirloskar Investment and Finance Ltd. | 5,000,000 | | 5,000,000 |
| Less: Provision for diminution in value | <u>(4,999,999)</u> | | <u>(4,999,999)</u> |
| | 1 | | 1 |
| 10,059 shares of Rs.10/- each in ICICI Bank Ltd. | 206,101 | | 206,101 |
| 2,000,000 Shares of Rs.5/- each in Kirloskar Ferrous Industries Ltd. | 20,000,000 | | 20,000,000 |
| 2,500 Shares of Rs.2/- each in HDFC Bank Ltd. | 5,000 | | 5,000 |
| 1,400 Equity shares of Rs. 10/- each in Punjab National Bank | <u>43,400</u> | | <u>43,400</u> |
| | | 20,371,978 | <u>20,371,978</u> |
| Unquoted : | | | |
| 1,272 Shares of Ken. Sh. 1,000/- each in Kirloskar Kenya Ltd. | 833,984 | | 833,984 |
| 56,250 Shares of Singapore \$ 1 each in Kirsons Trading Pte. Ltd. - a Foreign Body Corporate | 1,120,932 | | 1,120,932 |
| 1 Share of Rs.100/- fully paid in The Nasik Merchants' Co-operative Bank Ltd. | 100 | | 100 |
| 62,500 Shares of Rs.20/- each fully paid in The Cosmos Co-operative Bank Ltd. | 1,250,000 | | 1,250,000 |
| Associate Company | | | |
| 490,000 Equity Shares of Rs.10/- each fully paid in Kirloskar Chillers Pvt.Ltd. | <u>4,900,000</u> | | <u>4,900,000</u> |
| | | 8,105,016 | <u>8,105,016</u> |
| Carried Over Rs. | | 29,581,903 | 29,581,903 |

| As at 31st March, 2014 Rs. | As at 31st March, 2013 Rs. |
|---|---|
|---|---|

NOTE 14 : CURRENT INVESTMENTS AT COST :

Quoted :

| | | |
|---|---|-------------|
| – (7,000,000.00) units of Rs. 10/- each of DSP BlackRock FMP Series 87-12M - Qtr Dividend | – | 70,000,000 |
| – (3,000,000.00) units of Rs. 10/- each of DSP BlackRock FMP Series 94 12M Dividend | – | 30,000,000 |
| – (2,000,000.00) units of Rs. 10/- each of Kotak FMP Series 87 Dividend | – | 20,000,000 |
| – (3,000,000.00) units of Rs. 10/- each of Kotak FMP –Series 96 Dividend | – | 30,000,000 |
| – (2,696,544.378) units of Rs. 14.8338/- each of Reliance Dynamic Bond Fund Direct Plan Dividend | – | 40,000,000 |
| – (5,000,000.00) units of Rs. 10/- each of Reliance Yearly Interval Fund Series 2 Dividend Plan | – | 50,000,000 |
| – (1,999,420.168) units of Rs. 10.003/- each of Religare Credit Opportunities Fund Inst Daily Dividend | – | 20,000,000 |
| – (5,000,000.00) units of Rs. 10/- each of Sundaram FTP DE Dividend | – | 50,000,000 |
| – (40,376.126.00) units of Rs. 1,114.520/- each of Tata Liquid Fund Plan A Daily Dividend | – | 45,000,000 |
| – (10,000,000.00) units of Rs. 10/- each of SBI Debt Fund Series 5- Dividend | – | 100,000,000 |
| – (2,000,000.00) units of Rs. 10/- each of SBI Debt Fund Series 13 | – | 20,000,000 |
| – (7,000,000.00) units of Rs. 10/- each of UTI-Fixed Term Income Fund Series XII | – | 70,000,000 |
| – (3,000,000.00) units of Rs. 10/- each of UTI Fixed Term Income Fund Series XIV-VII Div. | – | 30,000,000 |
| – (9,997.859) units of Rs. 1,000.2141/- each of UTI–Treasury Advantage Fund Inst. Plan Daily Dividend | – | 10,000,000 |
| – (7,000,000.00) units of Rs. 10/- each of ICICI Prudential FMP Series 64- Plan J | – | 70,000,000 |
| – (5,000,000.00) units of Rs. 10/- each of ICICI Prudential Interval Fund Series VI Plan A | – | 50,000,000 |
| – (5,000,000.00) units of Rs. 10/- each of HDFC FMP Aug 2012 (1) Dividend Series 22 | – | 50,000,000 |
| – (2,500,000.00) units of Rs. 10/-each of L & T FMP VI Dividend | – | 25,000,000 |
| – (5,000,000.00) units of Rs. 10/- each of DWS Fixed Maturity Plan Series 24 Dividend | – | 50,000,000 |
| Carried Over Rs. | | 830,000,000 |

NOTE 14 : CURRENT INVESTMENTS AT COST : (Contd.)

| | As at 31st March, 2014 Rs. | As at 31st March, 2013 Rs. |
|--|---|---|
| Brought Over Rs. | – | 830,000,000 |
| 4,810,004.810 (4,810,004.810) units of Rs. 10.395/- each of IDFC Dynamic Bond Fund–Regular Plan- Qtr. Dividend | 50,000,000 | 50,000,000 |
| 5,592,528.382 (5,592,528.382) units of Rs. 10.729/- each of Kotak Bond Scheme Plan A Qtr. Dividend | 60,000,000 | 60,000,000 |
| 4,345,143.433 (4,345,143.433) units of Rs. 11.507/- each of Birla Dynamic Bond Fund Retail Qtr. Dividend | 50,000,000 | 50,000,000 |
| 5,021,971.124 (5,021,971.124) units of Rs. 11.948/- each of DWS Premier Bond Fund Regular Plan Qtr Dividend | 60,000,000 | 60,000,000 |
| 1,779,913.674 (–) units of Rs. 11.237/- each of Kotak Bond Scheme Plan A Direct Plan Qtr. Dividend | 20,000,000 | – |
| 5,488,043.904 (–) units of Rs. 12.755/- each of UTI Bond Fund Direct Plan Dividend | 70,000,000 | – |
| 5,000,000.00 (5,000,000.00) units of Rs. 10/- each of HDFC FMP 384 D March 13– Series 23 | 50,000,000 | – |
| 7,000,000.00 (–) units of Rs. 10/- each of DSP BlackRock FMP Series 151-12M - Direct- Growth | 70,000,000 | – |
| 3,000,000.00 (–) units of Rs. 10/- each of UTI-Fixed Term Income Fund Series XVII-IV (366 days) Direct Growth | 30,000,000 | – |
| 5,499,844.171 (–) units of Rs. 10.9094/- each of Reliance Yearly Interval Fund Series 2 Growth | 60,000,000 | – |
| 5,000,000.00 (–) units of Rs. 10/- each of DWS Fixed Maturity Plan Series 50 Direct Growth | 50,000,000 | – |
| 5,000,000.00 (–) units of Rs. 10/- each of Reliance Fixed Horizon Fund XXVI Series 3 Direct Div Payout | 50,000,000 | – |
| 5,000,000.00 (–) units of Rs. 10/- each of Sundaram FTP FB 369 Days Direct Growth | 50,000,000 | – |
| 6,000,000.00 (–) units of Rs. 10/- each of ICICI Prudential FMP Series 72-366 Days Plan T Direct Growth | 60,000,000 | – |
| 5,000,000.00 (–) units of Rs. 10/- each of Religare Invesco FMP Sr. 23 Plan B 367 Days Direct Growth | 50,000,000 | – |
| 4,000,000.00 (–) units of Rs. 10/- each of DSP BlackRock FMP Series 155-12M - Direct Plan - Growth | 40,000,000 | – |
| 29,873.617 (–) units of Rs. 1,004.2306/- each of DSP BlackRock Money Manager Fund Direct Plan Daily Div. | 30,000,000 | – |
| 119,611.263 (–) units of Rs. 1,003.25/- each of SBI Premier Liquid Fund Direct Plan Daily Div. | 120,000,000 | – |
| Carried Over Rs. | 970,000,000 | 1,050,000,000 |

NOTE 14 : CURRENT INVESTMENTS AT COST : : (Contd.)

| | As at 31st March, 2014 Rs. | As at 31st March, 2013 Rs. |
|--|---|---|
| Brought Over Rs. | 970,000,000 | 1,050,000,000 |
| 299,837.488 (–) units of Rs. 100.054/- each of ICICI Prudential Liquid – Direct Plan Daily Div | 30,000,000 | – |
| 39,979.610 (–) units of Rs. 1,000.510/- each of Reliance Liquidity Funds Direct Plan Daily Div | 40,000,000 | – |
| 4,902,825.989 (–) units of Rs. 10.1982/- each of HDFC Liquid Fund Direct Plan Daily Div. | 50,000,000 | – |
| 499,026.898 (–) units of Rs. 100.195/- each of Birla Sun Life Cash Plus Daily Div. Direct | 50,000,000 | – |
| 499,283.528 (–) units of Rs. 100.1435/- each of ICICI Prudential Money Market Fund Direct Daily Div | 50,000,000 | – |
| Less: Aggregate provision for diminution in value | (11,500,000) | – |
| Total | <u>1,178,500,000</u> | <u>1,050,000,000</u> |

| | Book Value as at | | Market Value as at | |
|----------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|
| | 31st March, 2014 Rs. | 31st March, 2013 Rs. | 31st March, 2014 Rs. | 31st March, 2013 Rs. |
| Quoted | 1,178,500,000 | 1,050,000,000 | 1,193,664,873 | 1,077,442,947 |
| Unquoted | – | – | – | – |
| Total | <u>1,178,500,000</u> | <u>1,050,000,000</u> | <u>1,193,664,873</u> | <u>1,077,442,947</u> |

| | As at 31st March, 2014 Rs. | As at 31st March, 2013 Rs. |
|--|---|---|
|--|---|---|

NOTE 15 : INVENTORIES :

| | | |
|---|---------------------------|---------------------------|
| Raw Materials : (Includes Rs.2,784,633/– (Rs.215,000/–) in Bonded Warehouse) | 232,704,729 | 346,766,154 |
| Work-in-progress : | 128,676,316 | 298,584,328 |
| Finished Goods, at cost or net realisable value whichever is lower | 28,217,177 | 47,811,035 |
| Stores & Spares : | 28,431,414 | 30,684,479 |
| Total | <u>418,029,636</u> | <u>723,845,996</u> |

As Certified by the Managing Director

| | Rs. | As at 31st March, 2014 Rs. | As at 31st March, 2013 Rs. |
|--|----------------------|----------------------------------|----------------------------------|
| NOTE 16 : TRADE RECEIVABLES : UNSECURED | | | |
| Trade Receivables - Unsecured | | | |
| (a) Outstanding over six months | 188,845,116 | | 139,168,107 |
| (b) Others | <u>1,239,772,978</u> | | <u>1,181,503,264</u> |
| | | 1,428,618,094 | 1,320,671,371 |
| (Due from Associate Company Rs.143,043/- (PY Rs.Nil)) | | | |
| (Due from Subsidiary Company Rs.330,169,860/- (PY Rs.Nil)) | | | |
| Total | | <u>1,428,618,094</u> | <u>1,320,671,371</u> |

NOTE 17 : CASH AND BANK BALANCES :

| | | | |
|-------------------------------|--------------------|---------------------------|---------------------------|
| Cash & Cash Equivalent : | | | |
| Cash on hand | 311,948 | | 574,040 |
| Balances with Banks : | | | |
| In Current Accounts | <u>116,771,591</u> | | <u>146,986,177</u> |
| | | 117,083,539 | 147,560,217 |
| Earmarked Balances with Banks | | <u>13,801,437</u> | <u>11,288,442</u> |
| Total | | <u>130,884,976</u> | <u>158,848,659</u> |

NOTE 18 : SHORT TERM LOANS AND ADVANCES :

| | | |
|--|---------------------------|--------------------------|
| UNSECURED, GOOD : | 110,438,639 | 87,689,728 |
| (Unless otherwise stated) | | |
| Dues from Companies promoted by the Company | | |
| From Subsidiary (Maximum Balance during the year | | |
| Rs. 96,000/- (PY Rs.29,693/-)) | - | - |
| (For Names of the Companies, refer Note No. 31(A)) | | |
| Total | <u>110,438,639</u> | <u>87,689,728</u> |

NOTE 19 : OTHER CURRENT ASSETS :

| | | |
|------------------------------|---------------------------|---------------------------|
| Sundry Deposits | 5,489,849 | 4,011,332 |
| Balances with Central Excise | 7,262,972 | 25,193,793 |
| Taxes paid in Advance | <u>189,286,311</u> | <u>244,114,067</u> |
| Total | <u>202,039,132</u> | <u>273,319,192</u> |

| | Rs. | Current Year Rs. | Previous Year Rs. |
|--|-----|----------------------|----------------------|
| NOTE 20 : REVENUE FROM OPERATIONS : | | | |
| Sale of Products | | 4,745,168,176 | 5,214,813,465 |
| Works Contract Sale | | – | 21,384,678 |
| Sale of Services | | 354,101,247 | 251,892,928 |
| Total | | 5,099,269,423 | 5,488,091,071 |

NOTE 21 : OTHER INCOME :

| | | | |
|--|--|--------------------|--------------------|
| Dividend(Includes foreign dividend Rs.690,783/- Previous Year Rs. 540,416/-, Withholding tax Rs.69,078/- Previous Year Rs. 54,166/-) | | 86,586,804 | 78,972,051 |
| Interest Received (Gross) (Tax deducted Rs.38,165 /-, Previous Year Rs.34,802/-) | | 2,552,649 | 2,028,781 |
| Insurance Claim Received | | – | 1,666,450 |
| Miscellaneous Receipts | | 34,614,167 | 35,991,372 |
| Profit on Sale of Investments | | 16,412,948 | 9,412,000 |
| Surplus on Sale of Assets | | 2,708,244 | 1,769,024 |
| Sundry Credit Balances appropriated | | 162,644 | 5,498,187 |
| Bad Debts / Liquidated Damages Recovered | | 17,258,667 | 297,633 |
| Provisions no longer required Written Back | | 231,169 | 302,416 |
| Total | | 160,527,292 | 135,937,914 |

NOTE 22 : COST OF MATERIALS CONSUMED :

| | | | |
|---|---------------|----------------------|----------------------|
| Raw Materials (including components) consumed : | | | |
| Stocks at commencement | 346,766,154 | | 568,905,093 |
| Add : Purchases | 2,329,315,728 | | 2,745,713,416 |
| | 2,676,081,882 | | 3,314,618,509 |
| Less : Stocks at close | 232,704,729 | | 346,766,154 |
| | | 2,443,377,153 | 2,967,852,355 |
| Total | | 2,443,377,153 | 2,967,852,355 |

| | Rs. | Current Year Rs. | Previous Year Rs. |
|---|--------------------|---------------------------|-----------------------------|
| NOTE 23 : CHANGES IN INVENTORIES : | | | |
| (Increase) / Decrease in Stocks : | | | |
| Stocks at close : | | | |
| Work-in-Progress | 128,676,316 | | 298,584,328 |
| Finished Goods | <u>28,217,177</u> | | <u>47,811,035</u> |
| | 156,893,493 | | 346,395,363 |
| Less : Stocks at commencement : | | | |
| Work-in-Progress | 298,584,328 | | 193,775,372 |
| Finished Goods | <u>47,811,035</u> | | <u>31,348,500</u> |
| | 346,395,363 | | 225,123,872 |
| | | <u>189,501,870</u> | <u>(121,271,491)</u> |
| Total | | <u>189,501,870</u> | <u>(121,271,491)</u> |

NOTE 24 : EMPLOYEE BENEFITS EXPENSES :

| | | | |
|---|--|---------------------------|---------------------------|
| Salaries, Wages, Bonus, etc. | | 643,771,628 | 627,995,034 |
| Incentive | | 16,353,862 | 27,419,839 |
| Contribution to Provident and Other Funds, etc. | | 60,098,612 | 62,964,300 |
| Welfare Expenses | | 88,615,155 | 84,404,808 |
| Total | | <u>808,839,257</u> | <u>802,783,981</u> |

NOTE 25 : FINANCE COSTS :

Interest :

| | | | |
|-----------------------|--|-------------------------|--------------------------|
| On Loans | | 1,369,787 | 4,059,601 |
| Other Borrowing Costs | | 2,113,552 | 9,079,845 |
| Total | | <u>3,483,339</u> | <u>13,139,446</u> |

NOTE 26 : DEPRECIATION AND AMORTISATION EXPENSE :

| | | | |
|-----------------------------------|--|---------------------------|---------------------------|
| Depreciation of tangible assets | | 119,095,073 | 107,944,159 |
| Amortisation of intangible assets | | 13,045,352 | 6,959,798 |
| Total | | <u>132,140,425</u> | <u>114,903,957</u> |

| | Current Year Rs. | Previous Year Rs. |
|--|----------------------|----------------------|
| NOTE 27 : OTHER EXPENSES : | | |
| Stores and Spares Consumed | 108,251,023 | 111,650,549 |
| Manufacturing Expenses | 228,079,421 | 200,650,070 |
| Power, Fuel and Water | 71,650,672 | 81,641,850 |
| Building Repairs | 20,474,923 | 36,256,003 |
| Machinery Repairs | 26,531,404 | 28,822,569 |
| Sundry Repairs | 16,933,773 | 17,002,671 |
| Rent | 10,649,404 | 7,154,960 |
| Rates and Taxes | 9,996,505 | 5,277,770 |
| Insurance | 7,859,698 | 5,365,037 |
| Commission and Discount | 112,631,779 | 106,987,788 |
| Royalty | 17,884,142 | 14,782,613 |
| Travelling Expenses | 92,511,002 | 85,297,244 |
| Excise Duty, net | 14,671,269 | 17,377,527 |
| Sales Tax | 1,392,182 | 2,323,936 |
| Postage, Telephones, Telex Expenses | 19,482,999 | 19,629,720 |
| Bank Charges | 11,951,952 | 19,864,328 |
| Freight Outward | 29,437,384 | 32,225,379 |
| Vehicle Expenses | 18,475,147 | 18,565,226 |
| Printing and Stationery | 5,895,302 | 8,330,657 |
| Legal and Professional Charges | 42,566,915 | 44,440,334 |
| Advertisement and Publicity Expenses | 12,914,492 | 8,749,813 |
| Donations | 17,560,000 | 18,201,000 |
| Auditors' Remuneration | 1,772,316 | 1,771,439 |
| Directors' Fees and Travelling Expenses | 4,318,075 | 4,333,553 |
| Director's Remuneration : | | |
| Salary | 45,450,500 | 59,120,000 |
| Loss on Assets sold, discarded, demolished or scrapped | — | 158,495 |
| Bad Debts and Sundry Debit Balances written off | 3,634,475 | 6,084,438 |
| Liquidated Damages | 26,052,359 | 89,520,929 |
| Miscellaneous Expenses | 88,774,287 | 87,276,229 |
| Total | 1,067,803,399 | 1,138,862,127 |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014

28 Effects of changes in foreign exchange rates :

The company, in terms of Notification issued by Ministry of Corporate Affairs on 31st March, 2009, had exercised the option of implementing the provisions of newly inserted Paragraph 46 of Accounting Standard 11, 'Accounting for the Effects of Changes in Foreign Exchange Rates', prescribed by Companies (Accounting Standards) Amendment Rules, 2009. The exchange fluctuation on account of Fixed Assets has accordingly been added to / deleted from the respective Fixed Assets.

29 Disclosure pursuant to Accounting Standard - 15 (Revised) " Employee Benefits" :

a. Defined Contribution Plans:

Amount of Rs. 48,159,022/- (Previous Year Rs. 46,980,069/-) is recognised as expense and included in "Employee Benefits Expenses" in Note 24 in the Profit and Loss Account.

b. Defined Benefit Plans:

i. Reconciliation of opening and closing balances of the Present Value of the Defined Benefit Obligation :

| | 2013-14 Rs. | 2012-13 Rs. |
|---|--------------------|----------------|
| | Gratuity | |
| a. Present value of Defined Benefit Obligation at the beginning of the year | 171,052,744 | 146,108,679 |
| b. Interest cost | 12,320,141 | 12,466,898 |
| c. Current service cost | 11,392,970 | 11,360,534 |
| d. Acquisition adjustment | - | 8,946,150 |
| e. Actuarial Losses / (Gains) | 2,018,770 | 8,941,378 |
| f. Benefits paid | 34,101,966 | 16,770,895 |
| g. Present value of Defined Benefit Obligation at the close of the year | 162,682,659 | 171,052,744 |

ii Changes in the fair value of Plan Assets and the reconciliation thereof:

| | Gratuity | |
|---|--------------------|-------------|
| a. Fair value of Plan Assets at the beginning of the year | 163,924,541 | 145,657,015 |
| b. Add :Expected return on Plan Assets | 13,539,389 | 13,915,595 |
| c. Add / (Less) : Actuarial Losses / (Gains) | (252,902) | 877,174 |
| d. Acquisition adjustment | - | 12,692,308 |
| e. Add : Contributions | 7,128,203 | 9,307,692 |
| f. Less: Benefits Paid | 34,101,966 | 16,770,895 |
| g. Fair value of Plan Assets at the close of the year (includes Rs.27.85 Lacs with trust, previous year Rs.123.10 Lacs) | 150,743,069 | 163,924,541 |

iii. Amount Recognised in the Balance Sheet including a reconciliation of the present value of the defined obligation in (i) and the fair value of the plan assets in (ii) to the assets and liabilities recognised in the Balance Sheet:

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

| | 2013-14 | 2012-13 |
|--|--------------------|-------------|
| | Rs. | Rs. |
| | Gratuity | |
| a. Present value of Defined Benefit obligation | 162,682,659 | 171,052,744 |
| b. Less: Fair value of Plan Assets - with LIC | 147,957,952 | 151,614,641 |
| c. Less: Fair value of Plan Assets - with Trust | 2,785,117 | 12,309,900 |
| d. Total Fair Value of Plan Assets | 150,743,069 | 163,924,541 |
| e. Net Liability / (Asset) recognised in the Balance Sheet | 11,939,590 | 7,128,203 |

iv. Amount recognised in the Profit and Loss Account are as follows :

| | Gratuity | |
|--|-------------------|-------------|
| a. Current Service Cost | 11,392,970 | 11,360,534 |
| b. Interest Cost | 12,320,141 | 12,466,898 |
| c. Expected return on Plan Assets | 13,539,389 | 13,915,595 |
| d. Actuarial Losses / (Gains) | 1,765,868 | 9,818,552 |
| e. Acquisition Cost | - | (3,746,158) |
| f. Effect of curtailment / settlement | - | - |
| g. Recognised in the Profit and Loss Account | 11,939,590 | 15,984,231 |

v. Broad Categories of plan assets as a percentage of total assets as at 31.03.14

The plan assets are with Life Insurance Corporation of India and the Trust's Investments are in State Government Securities.

vi Actuarial Assumptions at the Balance Sheet date:

| | Gratuity | |
|---|-----------------|------|
| a. Discount Rate | 8.0% | 8.0% |
| b. Expected rate of return on Plan Assets | 9.0% | 9.0% |
| c. Salary Escalation rate | 5.0% | 5.0% |

| Particulars | For the year ended March 31, 2014 | For the year ended March 31, 2013 | For the year ended March 31, 2012 | For the year ended March 31, 2011 |
|---|--|-----------------------------------|-----------------------------------|-----------------------------------|
| | Rs. | Rs. | Rs. | Rs. |
| Defined Benefit Obligation | 162,682,659 | 171,052,744 | 146,108,679 | 145,481,596 |
| Plan Assets | 150,743,069 | 163,924,541 | 145,657,015 | 144,124,683 |
| (Surplus)/ Deficit | 11,939,590 | 7,128,203 | 451,664 | 1,356,913 |
| Experience Adjustment on plan liabilities (gain) / loss | - | 4,935,680 | 3,136,303 | - |
| Experience Adjustment on plan assets (gain) / loss | (252,902) | 877,174 | (87,960) | - |

The estimates of future salary increases considered in actuarial valuation takes into account inflation, seniority, promotion and other relevant factors.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

vii General Descriptions of significant Defined plans:

Gratuity Plan:

The Company operates gratuity plan wherein every employee is entitled to the benefit as per the scheme of the Company, for each completed year of service. The same is payable on termination of service or retirement, whichever is earlier. The benefit vests only after five years of continuous service.

viii The company has valued the compensated absences, as specified in AS 15 (Revised) on actuarial basis. Further Para 132 of AS 15 (Revised 2005) does not require any specific disclosure except where the expense resulting from compensated absences is of such size, nature or incidence that its disclosure is relevant under other accounting standards. In the opinion of the management, the expense resulting from compensated absences is not significant and hence no disclosures are prepared under various paragraphs of AS 15 (Revised 2005).

30 Details of Segment Reporting:

| A. | Information about Business Segment - Primary (See Note below) | 2013-14 | | | 2012-13 | | |
|----|--|------------------------|----------------------------|---------------|------------------------|----------------------------|---------------|
| | | Compression Systems | Transmission Equipments | Total | Compression Systems | Transmission Equipments | Total |
| | | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| 1 | Segment Revenue | | | | | | |
| | Sales | 4,158,792,251 | 679,277,172 | 4,838,069,423 | 4,483,558,520 | 1,004,532,551 | 5,488,091,071 |
| | Other | - | - | 261,200,000 | - | - | - |
| | Intra Segment Revenue | - | - | - | - | - | - |
| | Net Revenue from Operations | 4,158,792,251 | 679,277,172 | 5,099,269,423 | 4,483,558,520 | 1,004,532,551 | 5,488,091,071 |
| 2 | Result | | | | | | |
| | Segment Result | 819,347,661 | (12,889,732) | 806,457,929 | 883,184,194 | 100,490,774 | 983,674,968 |
| | Less: Unallocable Corporate Expenses (Net of Income) | | | 188,323,318 | | | 262,776,912 |
| | Operating Profit before Interest | | | 618,134,611 | | | 720,898,056 |
| | Less: Interest | | | 3,483,339 | | | 13,139,446 |
| | Profit before Tax | | | 614,651,272 | | | 707,758,610 |
| 3 | Other Information | | | | | | |
| | Segment Assets | 2,115,584,011 | 609,246,000 | 2,724,830,011 | 2,118,775,148 | 825,635,367 | 2,944,410,515 |
| | Add: Unallocable common assets | | | 1,974,982,939 | | | 1,866,464,904 |
| | Total Assets | | | 4,699,812,950 | | | 4,810,875,419 |
| | Segment Liabilities | 1,241,591,393 | 216,054,208 | 1,457,645,601 | 1,372,029,913 | 300,654,335 | 1,672,684,248 |
| | Add: Unallocable common liabilities | | | 410,661,204 | | | 549,063,966 |
| | Total Liabilities | | | 1,868,306,805 | | | 2,221,748,214 |
| 4 | Capital Expenditure During the year | 186,356,058 | 66,391,337 | 252,747,395 | 204,368,232 | 19,730,569 | 224,098,801 |
| 5 | Depreciation | 78,785,942 | 44,305,127 | 123,091,069 | 72,280,706 | 39,394,909 | 111,675,614 |
| | Add: Unallocable Depreciation | | | 9,049,356 | | | 3,228,343 |
| | | | | 132,140,425 | | | 114,903,957 |
| B | Secondary Segment - Geographical by Customers | | | | | | |
| 1 | Segment Revenue | | | | | | |
| | In India | | | 4,854,385,660 | | | 5,323,640,628 |
| | Outside India | | | 244,883,763 | | | 164,450,443 |
| | Total | | | 5,099,269,423 | | | 5,488,091,071 |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

C Other Disclosures

1. Segments have been identified in line with the Accounting standard, AS-17 "Segment Reporting" (AS - 17), taking in to account the organisation structure as well as the differing risks and returns.
2. Company has disclosed Business Segment as the primary segment.
3. Composition of Business Segment

| | |
|----------------------------|---|
| Name of the Segment : | Comprises of : |
| a) Compression Systems | Air and Gas Compressors, Airconditioning and Refrigeration Compressors and Systems etc. |
| b) Transmission Equipments | Power Transmission Equipments (Torque Converter), Reverse Reduction Gears for Marine Gear Engines, Industrial and Mobile application etc. |
4. The Segment Revenue, Results , Assets and Liabilities include the respective amounts identifiable to each of the segment and amounts allocated on reasonable basis.
5. The Accounting Policies of the Segments are the same as those described in the Significant Accounting Policy as referred in Note 47 to the Financial Statement.

31. Disclosure of Transactions with Related Parties as required by the AS-18:

(A) Name of the related party and nature of relationship where control exists

Names of Related parties

| | | |
|--|--|---|
| 1) Holding Company | Kirloskar Brothers Investments Ltd. | |
| 2) Subsidiary Company | Kirloskar RoadRailer Ltd. | |
| 3) Fellow Subsidiary | Kirloskar Oil Engines Ltd. Nashik Silk Ltd. | |
| 4) Associate Company | Kirloskar Chillers Pvt . Ltd. | |
| 5) Key Management Personnel | Mr. Rahul C. Kirloskar Mr. Aditya Kowshik | Executive Chairman Managing Director |
| 6) Relatives of Key Management Personnel | Mrs. Alpana Rahul Kirloskar Mrs. Suman C. Kirloskar Mr. Atul C. Kirloskar Mrs. Kavita Kowshik | Wife Mother Brother Wife |

Note : Related Party relationship is as identified by the Company based on the available information and relied upon by the Auditors.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013 (Contd.)

(B) Related Party Transactions

Amount in Rs.

| Nature of Transaction | Year | Holding Company | Subsidiary Company | Fellow Subsidiary Company | Associate Company | Key Management Personnel | Relatives of Key Management Personnel | Total |
|---------------------------|---------|-----------------|--------------------|---------------------------|-------------------|--------------------------|---------------------------------------|-------------|
| Purchase of Goods/ Assets | 2013-14 | - | - | 10,209,618 | - | - | - | 10,209,618 |
| | 2012-13 | - | - | 5,135,905 | 28,032 | - | - | 5,163,937 |
| Sale of Goods / Assets | 2013-14 | - | 261,200,000 | - | 869,701 | - | - | 262,069,701 |
| | 2012-13 | - | - | 9,560,000 | 2,899,868 | - | - | 12,459,868 |
| Services Given | 2013-14 | - | 46,000 | - | - | - | - | 46,000 |
| | 2012-13 | - | - | - | 6,300 | - | - | 6,300 |
| Services Received | 2013-14 | - | - | 298,816 | - | 55,143,613 | 180,000 | 55,622,429 |
| | 2012-13 | - | - | 927,277 | - | 68,102,595 | 240,000 | 69,269,872 |
| Rent Received | 2013-14 | - | 44,500 | - | 462,000 | - | - | 506,500 |
| | 2012-13 | - | - | - | 462,000 | - | - | 462,000 |
| Dividend Received | 2013-14 | - | - | - | 7,350,000 | - | - | 7,350,000 |
| | 2012-13 | - | - | - | 7,350,000 | - | - | 7,350,000 |
| Rent Paid | 2013-14 | - | - | - | - | - | 1,800,000 | 1,800,000 |
| | 2012-13 | - | - | - | - | - | 1,800,000 | 1,800,000 |
| Dividend Paid | 2013-14 | 83,930,112 | - | - | - | 1,386,948 | 2,503,452 | 87,820,512 |
| | 2012-13 | 83,930,112 | - | - | - | 1,386,948 | 2,503,452 | 87,820,512 |
| Balance Outstanding | | | | | | | | |
| Receivable | 2013-14 | - | 330,169,860 | - | 143,043 | - | - | 330,312,903 |
| | 2012-13 | - | - | 1,044,105 | - | - | - | 1,044,105 |
| Payable | 2013-14 | - | - | 2,770,313 | - | 28,000,000 | 180,000 | 30,950,313 |
| | 2012-13 | - | - | 2,761,237 | - | 42,500,000 | 240,000 | 45,501,237 |
| Deposit receivable | 2013-14 | - | - | - | - | - | 10,000,000 | 10,000,000 |
| | 2012-13 | - | - | 125,000 | - | - | 10,000,000 | 10,125,000 |
| Deposit payable | 2013-14 | - | - | - | 420,000 | - | - | 420,000 |
| | 2012-13 | - | - | - | 420,000 | - | - | 420,000 |
| Investment | 2013-14 | - | 1,000,000 | - | 4,900,000 | - | - | 5,900,000 |
| | 2012-13 | - | 1,000,000 | - | 4,900,000 | - | - | 5,900,000 |

Receiving of services includes Remuneration paid / payable to Key Managerial Personnel as per note no 32 and to Relatives of Key Managerial Personnel.

Transactions with fellow subsidiary are only with Kirloskar Oil Engines Ltd.

There are no loans and advances given in the nature of loans to aforementioned Related Parties.

There are no loans and advances given in the nature of loans to firms/companies in which directors are interested.

32 Managerial Remuneration :

- a) Profit and Loss Account includes payments and provisions on account of Remuneration to the Executive Directors as under :

| | 2013-14 | | | 2012-13 | | |
|------------------------------|--------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| | Executive Chairman | Managing Director | Total | Executive Chairman | Managing Director | Total |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Salary | 12,000,000 | 4,955,000 | 16,955,000 | 12,000,000 | 4,200,000 | 16,200,000 |
| House Rent Allowance | - | 495,500 | 495,500 | - | 420,000 | 420,000 |
| Commission | 20,000,000 | 8,000,000 | 28,000,000 | 30,000,000 | 12,500,000 | 42,500,000 |
| Contribution to : | | | | | | |
| Provident Fund | 1,440,000 | 594,600 | 2,034,600 | 1,440,000 | 504,000 | 1,944,000 |
| Superannuation Fund | 1,800,000 | 743,250 | 2,543,250 | 1,800,000 | 630,000 | 2,430,000 |
| Gratuity Fund (Refer Note 1) | 1,000,000 | 500,000 | 1,500,000 | 1,000,000 | 350,000 | 1,350,000 |
| Other perquisites | 2,885,686 | 729,577 | 3,615,263 | 2,606,356 | 652,239 | 3,258,595 |
| Gross Remuneration | 39,125,686 | 16,017,927 | 55,143,613 | 48,846,356 | 19,256,239 | 68,102,595 |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

Note :

1. As the employee wise breakup of contribution to gratuity fund is not ascertainable, the same has been included on the basis of entitlement in the above figures for the purpose of computation of net profit in terms of Section 349 of Companies Act, 1956, as per rules of the company.
 2. As the employee wise breakup of liability of leave entitlement, based on actuarial valuation, is not ascertainable, the same has not been included in the above figures, for the purpose of computation of Net Profit in terms of Section 349 of the Companies Act, 1956.
- b) Computation of net profit under Section 349 of the Companies Act, 1956.

| | 2013-14 | 2012-13 |
|---|--------------------|-------------|
| | Rs. | Rs. |
| 1 Net Profit as per Profit & Loss Account | 614,651,272 | 707,758,610 |
| 2 ADD. | | |
| Directors Remuneration | 58,863,613 | 71,822,595 |
| Loss on sale of Assets | - | 158,495 |
| | 673,514,885 | 779,739,700 |
| 3 LESS | | |
| Profit on sale of Assets & Investments | 16,412,948 | 9,412,000 |
| | 16,412,948 | 9,412,000 |
| Net Profit U/S 349 | 657,101,936 | 770,327,700 |
| Maximum permissible Remuneration payable to Executive Chairman & Managing Director. | 65,710,194 | 77,032,770 |
| Restricted to | 55,143,613 | 68,102,595 |
| Maximum permissible Commission payable to Non Executive Directors | 6,571,019 | 7,703,277 |
| Restricted to | 3,720,000 | 3,720,000 |

33 Leases:

The Company has entered into agreements in the nature of Lease / Leave and License agreement with different Lessors / Licensors for the purpose of establishment of office premises / residential accommodations and assets. These are generally in nature of operating Lease / Leave and License and disclosure required as per accounting standard 19 with regard to the above is as under.

- a. Payment under Lease / Leave and License for period :
 - 1) Not later than 1 year Rs. 8,361,680/- (Rs. 4,400,731/-)
 - 2) Later than 1 year but not later than 5 years Rs. 15,589,445/- (Rs. 6,438,810/-)
- b. There are no transaction in the nature of Sub Lease.
- c. Payments recognised in the Profit and Loss Account for the year ended 31st March, 2014 amounts to Rs.10,649,404/- (Rs. 7,154,960/-)
- d. Period of Agreement is generally for Eleven Months, in some cases extending upto five years and renewable at the option of Lessee.

34 Intangible assets:

In accordance with the Accounting Standard 26, "Intangible Assets" expenditure on Technical Know-how on Project under implementation is amortized on commencement of commercial production. Software is being amortized on pro rata basis from the month of installation, over a period of one year.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

35 Capital and other commitments:

| | 2013-14 | 2012-13 |
|---|----------------------|---------------|
| | Rs. | Rs. |
| i. Estimated amount of Contracts remaining to be executed on Capital Account and not provided for, net of Advances. | 3,033,544 | 177,315,567 |
| ii. Guarantees given by Company's Bankers for Contracts undertaken by the Company are secured by a First Charge on Company's Inventories (excluding Stores and Spares relating to Plant and Machinery) Outstanding Bills and Second Charge on Fixed Assets. Amount outstanding as on 31st March 2014. | 1,074,283,827 | 1,197,651,627 |

36 Payment to Auditors (Net of Service Tax):

| | | |
|-----------------------|------------------|-----------|
| (a) As Auditors | 1,500,000 | 1,500,000 |
| (b) In Other Capacity | | |
| For Tax Audit | 200,000 | 200,000 |
| For Certificates | 39,000 | 40,000 |
| | 1,739,000 | 1,740,000 |
| (c) For Expenses | 33,316 | 31,439 |
| | 1,772,316 | 1,771,439 |

37 Proposed dividend:

| | | |
|--------------------------------|------------|-----|
| Dividend recommended per share | 10 | 12 |
| Dividend % | 100 | 120 |

38 A. Contingent Liabilities not provided for in respect of :

| | | |
|---|--------------------|-------------|
| Claims against the Company not acknowledged as Debts, estimated at | 330,385,104 | 310,188,849 |
| Income Tax Matters | 712,247 | 30,968,912 |
| Disputed Central Excise Matters | 2,400,872 | 2,400,872 |
| Disputed Sales Tax Demands | 1,157,000 | 1,157,000 |
| Guarantees given by Company to Customers for the contracts undertaken in usual course of business | 11,947,143 | 14,941,901 |

B. Claim for US \$ 10 million has been filed against the Company in the International Court of Arbitration. The Arbitration proceedings have been stayed by the Honorable High Court of Delhi. The Special Leave Petition filed by the plaintiff against the Order of High Court has been dismissed by the Honorable Supreme Court. Further the Honorable High Court of Delhi has transferred the matter to District Courts, Tis Hazari, Delhi on the grounds of pecuniary jurisdiction. Company has obtained an opinion from Senior Counsel stating that claim made by the plaintiff is not tenable.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

39 Foreign Exchange Derivatives and Exposures hedged / not hedged at close of the year:

(A) Foreign Exchange Derivatives

| Nature of Instrument | Currency | Sale / Purchase | 31.03.2014 | 31.03.2013 |
|----------------------|----------|-----------------|------------|------------|
| Forward Contracts | USD | Purchase | – | 473,088 |
| Currency Swap | USD | Purchase | – | 1,375,000 |

All derivatives stated above are for the purpose of hedging the underlying foreign currency exposures.

(B) Exposure not hedged

| Nature of Instrument | Currency | 31.03.2014 | 31.03.2013 |
|----------------------|----------|------------|------------|
| Receivable | GBP | 11,900 | 10,619 |
| | USD | 339,307 | 653,987 |
| | EUR | 30,081 | 181,025 |
| | JPY | 2,628,800 | – |
| | SEK | 850,816 | – |
| Payable | GBP | 290,791 | 173,052 |
| | USD | 1,171,290 | 346,296 |
| | EUR | 291,225 | 91,938 |
| | SEK | 48,000 | 72,680 |

(c) Exchange differences on account of settlement / revalorization of foreign currency transactions in current account are included in Miscellaneous Expenses (Rs. 848,235/- Previous Year Rs.2,279,378/-) if such differences are in the nature of expenses & in Miscellaneous Receipts (Rs. Nil, Previous Year Rs. Nil) if such differences are in the nature of gain.

40 The information as required to be disclosed under the “Micro, Small and Medium Enterprises Development Act,2006” has been determined to the extent such parties have been identified on the basis of information available with the company. Based on this information there are no Micro, Small and Medium Enterprises to whom the company owes dues, which are outstanding for more than 45 days as at 31st March,2014.

| | 2013-14 Rs. | 2012-13 Rs. |
|--|---------------------------|---------------------------|
| 41 Value of Imports calculated on CIF basis : | | |
| Raw Materials | 332,193,521 | 507,209,785 |
| Components and Spares | 52,130,125 | 33,952,134 |
| Capital Goods | 147,646,527 | 6,244,956 |
| | <u>531,970,172</u> | <u>547,406,875</u> |

42 Expenditure in Foreign Currencies (accrual basis) :

| | | |
|------------------------|-------------------|------------|
| (I) Royalty | 4,533,020 | – |
| (ii) Technical Knowhow | 11,504,971 | – |
| (iii) Interest | 2,807,185 | 6,499,849 |
| (iv) Professional Fees | 3,733,852 | 1,795,965 |
| (v) Other matters | 62,449,724 | 42,137,028 |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

43 Details of raw material consumed :

| | 2013-14 | 2012-13 |
|-----------------------|-----------------------------|----------------------|
| | Rs. | Rs. |
| Steel Bars and Plates | 2,282,471 | 1,769,183 |
| Pipes | 9,243,445 | 7,367,171 |
| Castings | 48,184,475 | 40,314,969 |
| Forgings | 206,772,290 | 328,432,317 |
| Foundry Raw material | 27,864,159 | 28,539,827 |
| Components | 1,891,421,865 | 2,303,327,161 |
| Others | 257,608,448 | 258,101,727 |
| | <u>2,443,377,153</u> | <u>2,967,852,355</u> |

44 Imported and Indigenous Raw Materials, Components and Spares Consumption :

| | 2013-14 | | 2012-13 | |
|-----------------------|-----------------------------|---------------------|----------------------|-------------------|
| | <u>Rs.</u> | <u>Percentage</u> | <u>Rs.</u> | <u>Percentage</u> |
| Raw Material | | | | |
| Imported | 277,840,145 | 11.37 | 519,121,517 | 17.49 |
| Indigenously obtained | 1,889,583,977 | 77.34 | 2,169,226,355 | 73.09 |
| | <u>2,167,424,122</u> | <u>88.71</u> | <u>2,688,347,872</u> | <u>90.58</u> |
| Spares | | | | |
| Imported | 38,838,195 | 1.59 | 40,958,326 | 1.38 |
| Indigenously obtained | 237,114,836 | 9.70 | 238,546,157 | 8.04 |
| | <u>275,953,031</u> | <u>11.29</u> | <u>279,504,483</u> | <u>9.42</u> |

| | 2013-14 | 2012-13 |
|--|--------------------|-------------|
| | Rs. | Rs. |
| 45 Earnings in Foreign Currencies (accrual basis) : | | |
| (i) F.O.B. Value of Exports | 244,883,763 | 164,450,443 |
| (ii) Dividend Received | 690,783 | 540,416 |

46 A. Deferred tax asset / liability :

As required by Accounting Standard 22, "Accounting for taxes on Income", prescribed by Companies (Accounting Standards) Amendment Rules, 2009, the Company has recognised Deferred Taxes which result from the timing difference between the Book Profits and Tax Profits aggregating Rs. 4,350,955/- in the Profit and Loss Account, The details of which are as under.

| Rupees | | | |
|--|---|------------------------------------|--|
| Particulars | Balance as at 1st April 2013 | Arising During the Year | Balance as at 31st March 2014 |
| I. Deferred Tax Liabilities | | | |
| a. Depreciation | 33,189,152 | 7,544,383 | 40,733,535 |
| II. Deferred Tax Assets | | | |
| Disallowances under section 43b of the Income Tax Act | 32,132,483 | 3,193,428 | 35,325,911 |
| Net Deferred Tax Liability | 1,056,669 | 4,350,955 | 5,407,624 |

B. Current Tax includes Rs. - 34,210,461/- (PY Rs. 24,203,021/-) in respect of earlier years.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

47 Significant accounting policies :

A. System of Accounting :

- (i) The Company, except under significant and uncertain circumstances, follows the mercantile system of accounting and recognises income and expenditure on accrual basis.
- (ii) The Financial Statements are based on historical costs.
- (iii) Insurance Claims are recognised upon acceptance of claim by the Insurance Companies.
- (iv) Estimates and assumptions used in the preparation of the Financial Statements are based upon Management's evaluation of the relevant facts and circumstances as of the date of the financial statements which may differ from the actual results at a subsequent date.

B. Tangible assets :

- (i) Tangible assets are carried at cost of acquisition or construction or at manufacturing cost in case of Company manufactured assets, less accumulated depreciation (except Freehold Land).
- (ii) Depreciation on Assets (other than Freehold Land) :

On Plant and Machinery given on Lease :

Depreciation on Plant and Machinery given on Lease is being provided at the rates worked on Straight Line Method over the primary period of Lease Agreement or at the rate specified in Schedule XIV to the Companies Act, 1956, whichever is higher, on pro-rata basis.

| Asset | Primary Lease Period | Rate on Straight Line Method | |
|---------------------|----------------------|----------------------------------|------------------------------|
| | | Over the primary Period of Lease | As specified in Schedule XIV |
| Plant and Machinery | 8 years | 12.50% | 10.34% |
| Plant and Machinery | 5 years | 20.00% | 10.34% |

- (i) Depreciation on Additions to the Fixed Assets up to 31st March, 1961, is being provided on "Written Down Value" Method in accordance with the Provisions of Section 205(2)(a) of the Companies Act, 1956, at the rates specified in Schedule No. XIV to the said Act.
- (ii) Depreciation on Additions to Assets from 1st April, 1961, to 30th September, 1987, is being provided for on Straight Line basis in accordance with the provisions of Section 205(2)(b) of the Companies Act, 1956, pursuant to Circular No. 1/1/86/CLV No. 15-(50)84 CL VI dated 21st May, 1986, issued by the Department of Company Affairs, at the rates corresponding to the rates (inclusive of multiple shift allowance) applicable under the Income Tax Rules 1962 as in force at the time of acquisition / installation and on Additions on or after 1st October, 1987, on the same basis at the rates specified in Schedule No. XIV to the Companies Act, 1956.
- (iii) Depreciation on assets of erstwhile Faridabad unit has been charged on Straight Line Method as per rates prescribed by Schedule XIV to the Companies Act, 1956. Depreciation on additions made after 16th December, 1993, has been charged on Straight Line Method at the revised rates as prescribed in Schedule XIV to the Companies Act 1956 and substituted by Notification GSR No. 756 (E) dated 16th December, 1993, of the Department of Company Affairs, Government of India.
- (iv) Depreciation on Additions to Fixed Assets is being provided on pro-rata basis from the month of acquisition or installation of the said Asset, as required by Schedule XIV to Companies Act, 1956.
- (v) Depreciation on Additions to Vehicle is being provided on pro-rata basis from the month of acquisition over a period of five years, being the estimated useful life of the asset.
- (vi) Depreciation on Additions, on account of increase in rupee value due to Foreign Exchange fluctuations, is being provided at the rates of depreciation over the future life of said assets.
- (vii) Depreciation on Assets sold, discarded or demolished during the year is being provided at their respective rates up to the preceding month in which such Assets are sold, discarded or demolished.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013 (Contd.)

C. Intangible assets :

Expenditure on acquiring Technical Know-how (intangible asset) is being amortised equally over a period of five years or usage period whichever is lesser, after commencement of commercial production. Depreciation on Additions to Software is being provided on pro-rata basis from the month of installation, over a period of one year. (Also see note no.34)

D. Investments :

- a. Long Term Investments are valued at Cost of acquisition less estimated diminution in value determined to be of permanent nature.
- b. Current investments are mainly comprising of investments in mutual funds and are stated at lower of cost or fair value.

E. Inventories :

Cost of inventories have been computed to include all costs of Purchase, Cost of Conversion and other costs incurred in bringing inventories to their present location and condition.

- (i) The Stocks of Raw Materials and Components, Stores and Spares are valued at cost calculated on Weighted Average basis.
- (ii) The Stocks of Work-in-Progress (including factory-made components) and Finished Goods are valued on the basis of Full Absorption Cost of attributable factory overheads or net realisable value, whichever is lower.
- (iii) Goods in Transit are stated at actual cost to the date of Balance Sheet.
- (iv) Jigs and Fixtures, Patterns and Dies are valued at Full Absorption Cost of attributable factory overheads and written off equally, over an estimated effective life of three years.
- (v) Unserviceable and absolute Raw Materials are valued at an estimated realisable value.
- (vi) Imported Materials lying in Bonded Warehouse, are valued at cost to the date of Balance Sheet.
- (vii) Excise / Customs Duty

Excise Duty on Finished Goods and Customs Duty on imported materials are accounted on production of Finished Goods / Receipt of materials in Customs Bonded Warehouse.

F. Foreign Currency Conversion :

a. Initial Recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

b. Conversion

Current assets and current liabilities, Secured Loans designated in foreign currencies are revalued at the rate prevailing on the date of Balance Sheet.

c. Exchange Differences

Exchange differences arising on the settlement and conversion on foreign currency transactions are recognised as income or as expenses in the year in which they arise, except in cases where they relate to the acquisition of qualifying assets, in which they are adjusted in the cost of the corresponding asset. Further, as per Ministry of Corporate Affairs Notification dated 31st March 2009, eligible exchange difference on foreign currency loans is adjusted in the cost of the asset to be depreciated over the balance life of the asset. (For change and effect see Note no.28)

d. Forward Contracts

Company uses foreign exchange forward contracts to hedge its exposure against movements in foreign exchange rates. The use of foreign exchange forward contracts reduces the risk or cost to the Company. Foreign Exchange forward contracts are not used for trading or speculation purpose.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

In respect of foreign exchange forward contracts, difference between forward contract rate and exchange rate prevailing on the date of forward contract (i.e. forward premium / discount) is amortised as income or expense over the life of the contract, except in respect of the liabilities for the acquisition of qualifying assets, where such amortization is adjusted in the cost of the corresponding asset.

G. Borrowing Cost :

Borrowing cost directly attributable to the acquisition / construction or production of qualifying asset are capitalised in the month in which the said asset is ready to use, as part of the cost of that asset. Other borrowing costs are recognised as expense in the period in which these are incurred.

H. Sales :

(i) Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, which generally coincides with the delivery to customers. Sales are stated net of discounts, rebates, returns etc.

(ii) Export Sales are accounted for on the basis of dates of Bills of Lading.

(iii) Construction Contract Sales :

In respect of Construction Contracts undertaken by the Company, the expenditure to the date of Balance Sheet on incomplete contracts wherein profit cannot be estimated reliably, is recognised as sales to the extent recoverable from the customer.

I. Income Tax :

Tax Expense comprises both current and deferred tax. Provision for current tax is made on the basis of taxable profits computed for the current accounting period in accordance with Income Tax Act, 1961.

Deferred Tax resulting from timing difference between Book Profits and Tax Profits is accounted for, at prevailing or substantially enacted rate of tax to the extent timing differences are expected to crystallise, in case of Deferred Tax Liabilities with reasonable certainty and in case of Deferred Tax Assets with virtual certainty that there would be adequate future taxable income against which deferred tax assets can be realised.

J. Employee Benefits :

(A) Short term Employee Benefits :

All employee benefits payable within twelve months of rendering of the service are classified as short-term benefits. Such benefits include salaries, wages, bonus, short term compensated absences, awards, ex gratia etc. and are recognised in the period in which the employee renders the related service.

(B) Post Employment Benefits:

(i) Defined Contribution Plans :

The Company's approved superannuation scheme, State government provident fund scheme and employee state insurance scheme are defined contribution plans. The contribution paid / payable under the scheme is recognised during the period in which the employee renders the related service.

(ii) Defined Benefits Plans:

The employee's gratuity fund scheme, long term compensated absences are company's defined benefit plans. The present value of the obligation under such defined benefit plans is determined based on the actuarial valuation using the Projected Unit Credit Method, as at the date of the Balance Sheet.

(iii) In case of funded plans, the fair value of plan asset is reduced from the gross obligation under the defined benefit plan.

(iv) Termination benefits are recognised as an expense as and when incurred.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013 (Contd.)

K. Provisions :

Provisions are recognised when there is a present obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation and which can be reliably estimated.

48 Previous years figures have been regrouped wherever necessary to make them comparable with those of the current year.

As per our attached report of even date

For and on behalf of the Board of Directors

For M/s P. G. Bhagwat

Firm Registration No. 101118W
Chartered Accountants

Aditya Kowshik
Managing Director

Rahul C. Kirloskar
Executive Chairman

S. S. Athavale

Partner
Membership No. 83374
Pune, April 23, 2014

Jitendra Shah
Company Secretary

Suhas S. Kolhatkar
Vice President & Finance Controller
Pune, April 23, 2014

Statement showing information for subsidiary company in terms of general exemption granted by the Ministry of Corporate Affairs under section 212 (8) of the Companies Act, 1956 vide General Circular No. 2/2011 dt. February 8,2011.

| | Reporting Currency INR |
|---|---------------------------|
| Name of the Subsidiary- Kirloskar RoadRailer Ltd. | |
| Exchange Rate | 1.00 |
| Capital | 1,000,000 |
| Reserves | (211,716) |
| Total Assets | 330,963,144 |
| Total Liabilities | 330,963,144 |
| Investments Other than Investment in Subsidiary - Long Term | – |
| Turnover | – |
| Profit before Taxation | (114,802) |
| Provision for Taxation | – |
| Profit after Taxation | (114,802) |
| Proposed Dividend | – |
| Country | India |

CONSOLIDATED STATEMENTS

CONSOLIDATED STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF KIRLOSKAR PNEUMATIC COMPANY LIMITED

We have audited the accompanying consolidated financial statements of Kirloskar Pneumatic Company Limited and its subsidiary and Associate, which comprise the consolidated Balance Sheet as at March 31, 2014, and the consolidated Statement of Profit and Loss and the consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Company in accordance with accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and presentation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We report that the consolidated financial statements have been prepared by the management in accordance with the requirements of Accounting Standard 21, Consolidated Financial Statements, and Accounting Standard 23, Accounting for Investments in Associates, and on the basis of separate audited financial statements of Kirloskar Pneumatic Company Ltd., audited by us, and its subsidiary whose financial statements are audited by another Auditor, and an Associate company, whose financial statements are audited by another Auditor, included in the financial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- in the case of the consolidated Balance Sheet, of the state of affairs of the Group as at March 31, 2014;
- in the case of the consolidated Profit and Loss Account, of the profit for the year ended on that date; and
- in the case of the consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

For M/S P G BHAGWAT

Chartered Accountants, [FRN : 101118W]

Sanjay Athavale

Partner

Membership Number 83374

Pune: 23.04.2014

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2014

| | Note No. | Rs. | 31st March 14 Rs. | 31st March 13 Rs. |
|--|----------|----------------------|-----------------------------|-----------------------------|
| I. EQUITY AND LIABILITIES | | | | |
| (1) SHAREHOLDERS' FUNDS : | | | | |
| (a) Share Capital | 1 | 128,443,380 | | 128,443,380 |
| (b) Reserves & Surplus | 2 | <u>2,779,334,139</u> | | <u>2,584,394,673</u> |
| | | | 2,927,777,519 | 2,712,838,053 |
| (2) SHARE APPLICATION MONEY PENDING ALLOTMENT : | | | | |
| (3) NON CURRENT LIABILITIES : | | | | |
| (a) Long Term Borrowings | | | | |
| (b) Deferred Tax Liability (Net) | 3 | 5,407,624 | | 1,056,669 |
| (c) Other Long Term Liabilities | 4 | 9,669,535 | | 11,007,182 |
| (d) Long Term Provisions | 5 | <u>43,450,917</u> | | <u>38,381,143</u> |
| | | | 58,528,076 | 50,444,994 |
| (4) CURRENT LIABILITIES : | | | | |
| (a) Short Term Borrowings | | | | |
| (b) Trade Payables | 6 | 741,171,515 | | 852,248,179 |
| (c) Other Current Liabilities | 7 | 707,694,210 | | 890,988,351 |
| (d) Short Term Provisions | 8 | <u>366,325,628</u> | | <u>429,128,359</u> |
| | | | 1,815,191,353 | 2,172,364,889 |
| | | Total | <u>4,801,496,948</u> | <u>4,935,647,936</u> |
| II. ASSETS : | | | | |
| (1) NON CURRENT ASSETS : | | | | |
| (a) Fixed Assets | | | | |
| (i) Tangible Assets | 9 | 1,004,197,619 | | 895,375,558 |
| (ii) Intangible Assets | 10 | 134,870,372 | | 125,001,930 |
| (iii) Capital work in progress | | 269,193,800 | | 2,134,984 |
| (b) Non Current Investments | 11 | 159,164,359 | | 203,446,335 |
| (c) Long Term Loans and Advances | 12 | 57,537,089 | | 80,332,917 |
| (d) Other Non Current Assets | 13 | <u>5,115,489</u> | | <u>14,073,180</u> |
| | | | 1,630,078,728 | 1,320,364,904 |
| (2) CURRENT ASSETS : | | | | |
| (a) Current Investments | 14 | 1,178,500,000 | | 1,050,000,000 |
| (b) Inventories | 15 | 418,029,636 | | 723,845,996 |
| (c) Trade Receivables | 16 | 1,098,448,234 | | 1,320,671,371 |
| (d) Cash and Bank Balances | 17 | 131,672,760 | | 159,756,745 |
| (e) Short Term Loans and Advances | 18 | 110,438,639 | | 87,689,728 |
| (f) Other Current Assets | 19 | <u>234,328,951</u> | | <u>273,319,192</u> |
| | | | 3,171,418,220 | 3,615,283,032 |
| | | Total | <u>4,801,496,948</u> | <u>4,935,647,936</u> |

Notes forming part of the Financial Statements

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As per our attached report of even date

For and on behalf of the Board of Directors

For M/s P. G. Bhagwat
Firm Registration No. 101118W
Chartered Accountants

Aditya Kowshik
Managing Director

Rahul C. Kirloskar
Executive Chairman

S. S. Athavale
Partner
Membership No. 83374
Pune, April 23, 2014

Jitendra Shah
Company Secretary

Suhas S. Kolhatkar
Vice President & Finance Controller
Pune, April 23, 2014

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH, 2014**

| | Note No. | Rs. | Current Year Rs. | Previous Year Rs. |
|------|----------|----------------------|----------------------|----------------------|
| I | 20 | | 5,221,417,799 | 5,947,597,296 |
| | | | <u>383,348,376</u> | <u>459,506,225</u> |
| | | | 4,838,069,423 | 5,488,091,071 |
| II | 21 | | 153,132,792 | 128,587,914 |
| III | | | <u>4,991,202,215</u> | <u>5,616,678,985</u> |
| IV | | | | |
| | 22 | 2,443,377,153 | | 2,967,852,355 |
| | 23 | 189,501,870 | | (121,271,491) |
| | 24 | 808,839,257 | | 802,783,981 |
| | 25 | 3,483,339 | | 13,139,446 |
| | 26 | 132,140,425 | | 114,903,957 |
| | 27 | 1,067,873,702 | | 1,138,893,198 |
| | | <u>(232,508,260)</u> | | |
| | | | 4,412,707,486 | 4,916,301,446 |
| V | | | 578,494,729 | 700,377,539 |
| VI | | | - | - |
| VII | | | 578,494,729 | 700,377,539 |
| VIII | | | - | - |
| IX | | | 578,494,729 | 700,377,539 |
| X | | | | |
| | | 222,000,000 | | 240,000,000 |
| | | 4,350,955 | | (3,217,696) |
| | | | <u>226,350,955</u> | <u>236,782,304</u> |
| | | | 352,143,774 | 463,595,235 |
| | | | <u>13,068,024</u> | <u>23,257,347</u> |
| | | | <u>365,211,798</u> | <u>486,852,582</u> |
| | | | | |
| | | | 28.43 | 37.90 |
| | | | 28.43 | 37.90 |

Notes forming part of the Financial Statements

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CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2014

| PARTICULARS | Rs. | 2013-14 Rs. | 2012-13 Rs. |
|--|-------------------|----------------------|----------------------|
| (I) OPERATING ACTIVITIES | | | |
| (A) PROFIT BEFORE TAXATION | | 578,494,729 | 700,377,539 |
| (B) ADJUSTMENTS : | | | |
| Add : | | | |
| (i) Depreciation and Amortisation | 132,140,425 | | 114,903,957 |
| (ii) Provision for Diminution in value of Investment | 11,500,000 | | 1,136,249 |
| (iii) Bad Debts | 3,634,475 | | 6,084,438 |
| (iv) Loss on Assets sold | - | | 158,495 |
| (v) Interest on Secured / Unsecured Loans | 3,483,339 | | 13,139,446 |
| | | <u>150,758,239</u> | <u>135,422,585</u> |
| Less : | | <u>729,252,968</u> | <u>835,800,124</u> |
| (i) Investment Income included above : | | | |
| (a) Dividend | 79,236,804 | | 71,622,051 |
| (b) Interest Received | 2,552,649 | | 2,028,781 |
| | <u>81,789,453</u> | | <u>73,650,832</u> |
| (ii) Surplus on Sale of Assets | 2,708,244 | | 1,769,024 |
| (iii) Profit on Sale of Investment | 16,412,948 | | 9,412,000 |
| (iv) Provision no longer required | 231,169 | | 302,416 |
| (v) Sundry Credit Balances appropriated | 162,644 | | 5,498,187 |
| (vi) Income Tax paid | 190,245,964 | | 262,511,635 |
| | | <u>291,550,422</u> | <u>353,144,094</u> |
| CASH FROM OPERATIONS | | <u>437,702,546</u> | <u>482,656,030</u> |
| (C) (INCREASE) / DECREASE IN CURRENT ASSETS | | | |
| (i) Inventories | 305,816,360 | | 97,893,541 |
| (ii) Sundry Debtors | 227,546,354 | | 38,048,548 |
| (iii) Other Current Assets, Loans & Advances | (39,559,378) | | (27,016,046) |
| | | 493,803,336 | 108,926,043 |
| (D) INCREASE / (DECREASE) IN CURRENT LIABILITIES | | | |
| (i) Liabilities | | <u>(301,745,072)</u> | <u>(182,028,376)</u> |
| | | <u>192,058,264</u> | <u>(73,102,333)</u> |
| NET CASH FROM OPERATIONS | | <u>629,760,810</u> | <u>409,553,697</u> |
| (II) INVESTMENT ACTIVITIES | | | |
| (i) Investments, net. | (73,587,052) | | (90,593,055) |
| (ii) Capital Expenditure - Tangible Assets | (473,293,869) | | (235,186,389) |
| (iii) Capital Expenditure - Intangible Assets | (22,913,794) | | (6,686,089) |
| (iv) Sale proceeds of Assets | 4,794,943 | | 2,439,681 |
| | | <u>(564,999,772)</u> | <u>(330,025,852)</u> |
| (v) Investment Income : | | | |
| (a) Dividend | 79,236,804 | | 71,622,051 |
| (b) Dividend received from Associate Company | 7,350,000 | | 7,350,000 |
| (c) Interest Received | 2,552,649 | | 2,028,781 |
| | | <u>89,139,453</u> | <u>81,000,832</u> |
| NET CASH FROM INVESTING ACTIVITIES | | <u>(475,860,319)</u> | <u>(249,025,020)</u> |
| (III) FINANCING ACTIVITIES | | | |
| (i) Increase / (Decrease) in Secured Loans | - | | (62,548,750) |
| (ii) Interest on Secured / Unsecured Loans | (4,170,672) | | (13,857,973) |
| (iii) Dividend & Dividend Tax paid | (177,813,804) | | (176,680,407) |
| | | <u>(181,984,476)</u> | <u>(253,087,130)</u> |
| NET CHANGE IN CASH + CASH EQUIVALENTS (I + II + III) | | <u>(28,083,985)</u> | <u>(92,558,453)</u> |
| Cash & Cash Equivalents as at 1-4-2013 (Opening Balance) | | 159,756,745 | 252,315,198 |
| Cash & Cash Equivalents as at 31-3-2014 (Closing Balance) | | 131,672,760 | 159,756,745 |

As per our attached report of even date

For and on behalf of the Board of Directors

For M/s P. G. Bhagwat
Firm Registration No. 101118W
Chartered Accountants

S. S. Athavale
Partner
Membership No. 83374
Pune, April 23, 2014

Aditya Kowshik
Managing Director

Jitendra Shah
Company Secretary

Rahul C. Kirloskar
Executive Chairman

Suhas S. Kolhatkar
Vice President & Finance Controller
Pune, April 23, 2014

NOTES

Note Nos. 1-48 annexed to and forming part of the Financial Statements for the year ended 31st March, 2014

| | Rs. | As at 31st March, 2014 Rs. | As at 31st March, 2013 Rs. |
|---|--------------------|----------------------------------|----------------------------------|
| NOTE 1 : SHARE CAPITAL : | | | |
| EQUITY SHARES: | | | |
| AUTHORISED : | | | |
| 15,000,000 Equity Shares of Rs.10/- each | | 150,000,000 | 150,000,000 |
| | | <u>150,000,000</u> | <u>150,000,000</u> |
| ISSUED AND SUBSCRIBED : | | | |
| 12,844,338 Equity Shares of Rs.10/- each | | 128,443,380 | 128,443,380 |
| | | <u>128,443,380</u> | <u>128,443,380</u> |
| PAID UP : | | | |
| 12,844,338 Equity Shares of Rs.10/- each fully paid | | 128,443,380 | 128,443,380 |
| Total | | <u>128,443,380</u> | <u>128,443,380</u> |
| Rights attached to Equity Shares : | | | |
| The Company has only one class of share capital, i.e. equity shares having face value of Rs.10/- per share. Each holder of equity share is entitled to one vote per share. | | | |
| Share Holding Details : | | | |
| Shareholder holding more than 5% | | | |
| a) Kirloskar Brothers Investments Ltd. | | 6,994,176 54.45% | 6,994,176 54.45% |
| b) Kirloskar Industries Ltd. | | 1,186,866 9.24% | 588,222 4.58% |
| c) Reliance Capital Trustee Co. Ltd. | | 1,043,284 8.12% | 1,122,320 8.74% |
| NOTE 2 : RESERVES AND SURPLUS : | | | |
| Capital Reserve : | | | |
| As per last Account | | 27,965 | 27,965 |
| Securities Premium (Share Premium) Account: | | | |
| As per last Account | | 51,817,923 | 51,817,923 |
| General Reserve : | | | |
| As per last Account | 2,200,000,000 | | 1,900,000,000 |
| Add: Set aside this year | <u>250,000,000</u> | | <u>300,000,000</u> |
| | | 2,450,000,000 | 2,200,000,000 |
| Surplus : | | | |
| As per last Account | 332,548,785 | | 217,065,918 |
| Add : Share in profits of Associate Company | - | | 108,957,084 |
| Add : Transferred from Statement of Profit & Loss Account | <u>365,211,798</u> | | <u>486,852,582</u> |
| | 697,760,583 | | 812,875,584 |
| Less : | | | |
| Transfer to General Reserve | 250,000,000 | | 300,000,000 |
| Proposed Dividend | 128,443,380 | | 154,132,056 |
| Tax on Proposed Dividend | <u>21,828,952</u> | | <u>26,194,743</u> |
| | 400,272,332 | | 480,326,799 |
| | | 297,488,251 | 332,548,785 |
| Total | | <u>2,799,334,139</u> | <u>2,584,394,673</u> |
| NOTE 3 : DEFERRED TAX LIABILITIES : | | | |
| Deferred Tax Liabilities | | 40,733,535 | 33,189,152 |
| Deferred Tax Assets (Refer Note no.46A) | | 35,325,911 | 32,132,483 |
| Total | | <u>5,407,624</u> | <u>1,056,669</u> |
| NOTE 4 : OTHER LONG TERM LIABILITIES : | | | |
| Deposits Received | | 7,480,630 | 7,242,571 |
| Other Liabilities | | 2,188,905 | 3,764,611 |
| Total | | <u>9,669,535</u> | <u>11,007,182</u> |
| NOTE 5 : LONG TERM PROVISIONS : | | | |
| Provision for Employee Benefits | | 43,450,917 | 38,381,143 |
| Total | | <u>43,450,917</u> | <u>38,381,143</u> |
| NOTE 6 : TRADE PAYABLES : | | | |
| (i) Due to Micro, Small and Medium Enterprises | | - | - |
| (ii) Other Trade Payables | | 741,171,515 | 852,248,179 |
| Total | | <u>741,171,515</u> | <u>852,248,179</u> |
| NOTE 7 : OTHER CURRENT LIABILITIES : | | | |
| Current maturities of Long Term Debt | | - | 62,548,750 |
| Interest accrued but not due on borrowings | | - | 687,333 |
| Unpaid Dividends | | 13,801,437 | 11,288,442 |
| Advances Received | | 143,732,709 | 231,885,633 |
| Other Payables | | 550,160,064 | 584,578,193 |
| Total | | <u>707,694,210</u> | <u>890,988,351</u> |
| NOTE 8 : SHORT TERM PROVISIONS : | | | |
| Provision for Employee Benefits | | 23,330,036 | 33,004,581 |
| Provision for Income Tax | | 192,723,260 | 215,796,979 |
| Proposed Dividend | | 128,443,380 | 154,132,056 |
| Tax on Dividend | | 21,828,952 | 26,194,743 |
| Total | | <u>366,325,628</u> | <u>429,128,359</u> |

NOTE 9 : TANGIBLE ASSETS :

| PARTICULARS | TANGIBLE ASSETS | | | | | | | | TOTAL | |
|-------------------------------------|--------------------|--------------------|-----------------------|----------------------|-----------------------|-------------------------|-------------------|---------------------|----------------------|----------------------|
| | Free Hold Land Rs. | Buildings Rs. | Plant & Machinery Rs. | Electri. Instal. Rs. | Office Equipments Rs. | Furniture & Fixture Rs. | Vehicle Rs. | Lease Asset P&M Rs. | As At 31/03/2014 Rs. | As At 31/03/2013 Rs. |
| GROSS BLOCK AT COST : | | | | | | | | | | |
| As at 01/04/2013 | 2,164,553 | 390,914,593 | 1,147,622,105 | 36,382,577 | 32,873,814 | 42,454,809 | 75,426,397 | 49,037,904 | 1,776,876,752 | 1,567,601,344 |
| Additions | - | 3,770,824 | 193,741,220 | 5,666,952 | 4,966,975 | 3,871,517 | 17,986,345 | - | 230,003,833 | 223,572,276 |
| Deductions and adjustments | - | - | 4,596,255 | - | 271,222 | - | 4,193,044 | - | 9,060,521 | 14,296,868 |
| Apportioned Cost As at 31/03/2014 | 2,164,553 | 394,685,417 | 1,336,767,070 | 42,049,529 | 37,569,567 | 46,326,326 | 89,219,698 | 49,037,904 | 1,997,820,064 | 1,776,876,752 |
| DEPRECIATION : | | | | | | | | | | |
| Up to 31/03/2013 | - | 71,206,846 | 673,488,166 | 15,464,392 | 8,870,829 | 25,685,336 | 37,747,721 | 49,037,904 | 881,501,194 | 787,024,751 |
| For the year | - | 9,199,449 | 91,253,886 | 1,336,104 | 1,551,336 | 1,488,630 | 14,265,668 | - | 119,095,073 | 107,944,159 |
| Deductions and Adjustments | - | - | 4,596,255 | - | 119,783 | - | 2,257,784 | - | 6,973,822 | 13,467,716 |
| Total Depreciation up to 31/03/2014 | - | 80,406,295 | 760,145,797 | 16,800,496 | 10,302,382 | 27,173,966 | 49,755,605 | 49,037,904 | 993,622,445 | 881,501,194 |
| NET BLOCK As at 31/03/2014 | 2,164,553 | 314,279,122 | 576,621,273 | 25,249,033 | 27,267,185 | 19,152,360 | 39,464,093 | - | 1,004,197,619 | 895,375,558 |
| As at 31/03/2013 | 2,164,553 | 319,707,747 | 474,133,939 | 20,918,185 | 24,002,985 | 16,769,473 | 37,678,676 | - | 895,375,558 | |

a) Includes premises on Ownership basis in Co-operative Societies Rs.844,900/- (Previous year Rs.844,900/-)

NOTE 10 : INTANGIBLE ASSETS :

| PARTICULARS | INTANGIBLE ASSETS | | TOTAL | |
|-------------------------------------|-------------------|------------------------|----------------------|----------------------|
| | Softwares Rs. | Technical Know How Rs. | As At 31/03/2014 Rs. | As At 31/03/2013 Rs. |
| GROSS BLOCK AT COST : | | | | |
| As at 01/04/2013 | 31,780,977 | 134,164,746 | 165,945,723 | 159,259,634 |
| Additions | 9,337,693 | 13,576,101 | 22,913,794 | 6,686,089 |
| Apportioned Cost As at 31/03/2014 | 41,118,670 | 147,740,847 | 188,859,517 | 165,945,723 |
| DEPRECIATION : | | | | |
| Up to 31/03/2013 | 28,443,793 | 12,500,000 | 40,943,793 | 33,983,995 |
| For the year | 7,237,369 | 5,807,983 | 13,045,352 | 6,959,798 |
| Total Depreciation up to 31/03/2014 | 35,681,162 | 18,307,983 | 53,989,145 | 40,943,793 |
| NET BLOCK As at 31/03/2014 | 5,437,508 | 129,432,864 | 134,870,372 | 125,001,930 |
| As at 31/03/2013 | 3,337,184 | 121,664,746 | 125,001,930 | |

| | Rs. | As at 31st March, 2014 Rs. | As at 31st March, 2013 Rs. |
|--|--------------------|----------------------------|----------------------------|
| NOTE 11 : NON CURRENT INVESTMENTS : | | | |
| INVESTMENTS AT COST : | | | |
| Government and Trust Securities | | | |
| Quoted : | | | |
| Unit Trust of India : | | | |
| 201,988 units of Rs.10/- each in UTI Balanced fund (Growth) | 8,063 | | 8,063 |
| 5,288,053 (5,055,201) units of Rs.10/- each in UTI Balanced fund (Dividend Plan-Re-investment) | 88,502 | | 88,502 |
| | <u>96,565</u> | | <u>96,565</u> |
| 3300 Master Shares of Rs.10/- each | <u>8,244</u> | 104,809 | <u>8,244</u> |
| | | | 104,809 |
| Fully paid Equity Shares : | | | |
| Trade, Unquoted : | | | |
| 1 Share of Rs.100/- each in Kirloskar Proprietary Ltd. | 100 | 100 | 100 |
| Other, Quoted : | | | |
| 100,000 Shares of Rs.10/- each in The Mysore Kirloskar Ltd. | 2,400,000 | | 2,400,000 |
| Less: Provision for diminution in value | <u>(2,399,999)</u> | | <u>(2,399,999)</u> |
| | 1 | | 1 |
| 46,990 Shares of Rs.2/- each in Housing Development Finance Corporation Ltd. | 117,475 | | 117,475 |
| 375,000 Shares of Rs.10/- each in Kirloskar Investment and Finance Ltd. | 5,000,000 | | 5,000,000 |
| Less: Provision for diminution in value | <u>(4,999,999)</u> | | <u>(4,999,999)</u> |
| | 1 | | 1 |
| 10,059 shares of Rs.10/- each in ICICI Bank Ltd. | 206,101 | | 206,101 |
| 2,000,000 Shares of Rs.5/- each in Kirloskar Ferrous Industries Ltd. | 20,000,000 | | 20,000,000 |
| 2,500 Shares of Rs.2/- each in HDFC Bank Ltd. | 5,000 | | 5,000 |
| 1,400 Equity shares of Rs. 10/- each in Punjab National Bank | <u>43,400</u> | | <u>43,400</u> |
| | | 20,371,978 | <u>20,371,978</u> |
| Unquoted : | | | |
| 1,272 Shares of Ken. Sh. 1,000/- each in Kirloskar Kenya Ltd. | 833,984 | | 833,984 |
| 56,250 Shares of Singapore \$ 1 each in Kirsons Trading Pte. Ltd. - a Foreign Body Corporate. | 1,120,932 | | 1,120,932 |
| 1 Share of Rs.100/- fully paid in The Nasik Merchants' Co-operative Bank Ltd. | 100 | | 100 |
| 62,500 Shares of Rs.20/- each fully paid in The Cosmos Co-operative Bank Ltd. | 1,250,000 | | 1,250,000 |
| Associate Company | | | |
| 490,000 Equity Shares of Rs.10/- each fully paid in Kirloskar Chillers Pvt.Ltd. | 4,900,000 | | 4,900,000 |
| Add : Share in profit at the beginning of the year | 124,864,431 | | 108,957,084 |
| Less : Dividend received during the year | <u>7,350,000</u> | | <u>7,350,000</u> |
| Add: Share in profit for the year | <u>13,068,024</u> | | <u>23,257,347</u> |
| | 135,482,455 | 138,687,471 | 129,764,431 |
| | | | <u>132,969,447</u> |
| Carried Over Rs. | | 159,164,358 | 153,446,334 |

NOTE 11 : NON CURRENT INVESTMENTS : (Contd.)

| | Rs. | As at 31st March, 2014 Rs. | As at 31st March, 2013 Rs. |
|--|--------------------|----------------------------------|----------------------------------|
| Brought Over Rs. | | 159,164,358 | 153,446,334 |
| In Debentures and Bonds : | | | |
| Quoted : | | | |
| \$ 25,000 12.5% Secured Redeemable Partly Convertible Debentures of Rs.100/- each of The Mysore Kirloskar Ltd. Balance non-convertible portion of Rs.44/- per Debenture - matured on 01.06.1998 awaiting realisation | 1,100,000 | | 1,100,000 |
| Less: Provision for diminution in value | <u>(1,099,999)</u> | | <u>(1,099,999)</u> |
| | | 1 | 1 |
| Quoted : | | | |
| Mutual Funds : | | | |
| - (5,000,000.00) units of Rs. 10/- each of HDFC FMP 384 D March 13- Series 23 | | | 50,000,000 |
| | | <u>159,164,359</u> | <u>203,446,335</u> |
| Total | | | |
| | | <u>159,164,359</u> | <u>203,446,335</u> |
| | | | |
| | Book Value as at | | Market Value as at |
| | 31st March, 2014 | 31st March, 2013 | 31st March, 2013 |
| | Rs. | Rs. | Rs. |
| Quoted | 20,476,788 | 70,476,788 | 110,115,373 |
| Unquoted | <u>138,687,571</u> | <u>132,968,547</u> | <u>145,720,385</u> |
| Total Rs. | <u>159,164,359</u> | <u>203,446,335</u> | <u>145,720,385</u> |
| Aggregate provision for diminution in value | <u>(8,499,997)</u> | <u>(8,499,997)</u> | |

\$ Included in market value at face value / paid up value, whichever is lower, as the quotations are not available.

Note : Investments made by the Company being of long term nature, diminution in the value of Quoted investments are generally not considered to be a permanent nature. However, provision for such diminution as considered necessary by the Management has been made in the Financial statements.

NOTE 12 : LONG TERM LOANS AND ADVANCES :

| | | | |
|--|--|-------------------|-------------------|
| UNSECURED, GOOD : | | | |
| (Unless otherwise stated) | | | |
| Advances to Suppliers of Capital Goods | | 19,000,000 | 42,768,780 |
| Deposits | | 26,918,732 | 27,367,121 |
| Other Loans and Advances | | <u>11,618,357</u> | <u>10,197,016</u> |
| | | <u>57,537,089</u> | <u>80,332,917</u> |
| Total | | | |

NOTE 13 : OTHER NON CURRENT ASSETS :

| | | | |
|---|--|------------------|-------------------|
| Long Term Trade Receivables - Unsecured | | 5,115,489 | 14,073,180 |
| | | <u>5,115,489</u> | <u>14,073,180</u> |
| Total | | | |

NOTE 14 : CURRENT INVESTMENTS AT COST :

| | | | |
|--|--|--------------------|---------------|
| Quoted : | | | |
| -(7,000,000.00) units of Rs. 10/- each of DSP BlackRock FMP Series 87-12M - Qtr Dividend | | - | 70,000,000 |
| -(3,000,000.00) units of Rs. 10/- each of DSP BlackRock FMP Series 94 12M Dividend | | - | 30,000,000 |
| -(2,000,000.00) units of Rs. 10/- each of Kotak FMP Series 87 Dividend | | - | 20,000,000 |
| -(3,000,000.00) units of Rs. 10/- each of Kotak FMP -Series 96 Dividend | | - | 30,000,000 |
| -(2,696,544.378) units of Rs. 14.8338/- each of Reliance Dynamic Bond Fund Direct Plan Dividend | | - | 40,000,000 |
| -(5,000,000.00) units of Rs. 10/- each of Reliance Yearly Interval Fund Series 2 Dividend Plan | | - | 50,000,000 |
| -(1,999,420.168) units of Rs. 10.003/- each of Religare Credit Opportunities Fund Inst Daily Dividend | | - | 20,000,000 |
| -(5,000,000.00) units of Rs. 10/- each of Sundaram FTP DE Dividend | | - | 50,000,000 |
| -(40,376.126.00) units of Rs. 1,114.520/- each of Tata Liquid Fund Plan A Daily Dividend | | - | 45,000,000 |
| -(10,000,000.00) units of Rs. 10/- each of SBI Debt Fund Series 5- Dividend | | - | 100,000,000 |
| -(2,000,000.00) units of Rs. 10/- each of SBI Debt Fund Series 13 | | - | 20,000,000 |
| -(7,000,000.00) units of Rs. 10/- each of UTI-Fixed Term Income Fund Series XII | | - | 70,000,000 |
| -(3,000,000.00) units of Rs. 10/- each of UTI Fixed Term Income Fund Series XIV-VII Div. | | - | 30,000,000 |
| -(9,997.859) units of Rs. 1,000.2141/- each of UTI-Treasury Advantage Fund Inst. Plan Daily Dividend | | - | 10,000,000 |
| -(7,000,000.00) units of Rs. 10/- each of ICICI Prudential FMP Series 64- Plan J | | - | 70,000,000 |
| -(5,000,000.00) units of Rs. 10/- each of ICICI Prudential Interval Fund Series VI Plan A | | - | 50,000,000 |
| -(5,000,000.00) units of Rs. 10/- each of HDFC FMP Aug 2012 (1) Dividend Series 22 | | - | 50,000,000 |
| -(2,500,000.00) units of Rs. 10/-each of L & T FMP VI Dividend | | - | 25,000,000 |
| -(5,000,000.00) units of Rs. 10/- each of DWS Fixed Maturity Plan Series 24 Dividend | | - | 50,000,000 |
| 4,810,004.810 (4,810,004.810) units of Rs. 10.395/- each of IDFC Dynamic Bond Fund-Regular Plan- Qtr. Dividend | | 50,000,000 | 50,000,000 |
| 5,592,528.382 (5,592,528.382) units of Rs. 10.729/- each of Kotak Bond Scheme Plan A Qtr. Dividend | | 60,000,000 | 60,000,000 |
| 4,345,143.433 (4,345,143.433) units of Rs. 11.507/- each of Birla Dynamic Bond Fund Retail Qtr. Dividend | | 50,000,000 | 50,000,000 |
| 5,021,971.124 (5,021,971.124) units of Rs. 11.948/- each of DWS Premier Bond Fund Regular Plan Qtr Dividend | | 60,000,000 | 60,000,000 |
| 1,779,913.674 (-) units of Rs. 11.237/- each of Kotak Bond Scheme Plan A Direct Plan Qtr. Dividend | | 20,000,000 | - |
| 5,488,043.904 (-) units of Rs. 12.755/- each of UTI Bond Fund Direct Plan Dividend | | 70,000,000 | - |
| Carried Over Rs. | | <u>310,000,000</u> | 1,050,000,000 |

NOTE 14 : CURRENT INVESTMENTS AT COST : : (Contd.)

| | Rs. | As at 31st March, 2014 Rs. | As at 31st March, 2013 Rs. |
|--|-----------------------------|----------------------------------|----------------------------------|
| Brought Over Rs. | | 310,000,000 | 1,050,000,000 |
| 5,000,000.00 (5,000,000.00) units of Rs. 10/- each of HDFC FMP 384 D March 13- Series 23 | | 50,000,000 | - |
| 7,000,000.00 (-) units of Rs. 10/- each of DSP BlackRock FMP Series 151-12M - Direct- Growth | | 70,000,000 | - |
| 3,000,000.00 (-) units of Rs. 10/- each of UTI-Fixed Term Income Fund Series XVII-IV (366 days) Direct Growth | | 30,000,000 | - |
| 5,499,844.171 (-) units of Rs. 10.9094/- each of Reliance Yearly Interval Fund Series 2 Growth | | 60,000,000 | - |
| 5,000,000.00 (-) units of Rs. 10/- each of DWS Fixed Maturity Plan Series 50 Direct Growth | | 50,000,000 | - |
| 5,000,000.00 (-) units of Rs. 10/- each of Reliance Fixed Horizon Fund XXVI Series 3 Direct Div Payout | | 50,000,000 | - |
| 5,000,000.00 (-) units of Rs. 10/- each of Sundaram FTP FB 369 Days Direct Growth | | 50,000,000 | - |
| 6,000,000.00 (-) units of Rs. 10/- each of ICICI Prudential FMP Series 72-366 Days Plan T Direct Growth | | 60,000,000 | - |
| 5,000,000.00 (-) units of Rs. 10/- each of Religare Invesco FMP Sr. 23 Plan B 367 Days Direct Growth | | 50,000,000 | - |
| 4,000,000.00 (-) units of Rs. 10/- each of DSP BlackRock FMP Series 155-12M - Direct Plan - Growth | | 40,000,000 | - |
| 29,873.617 (-) units of Rs. 1,004.2306/- each of DSP BlackRock Money Manager Fund Direct Plan Daily Div. | | 30,000,000 | - |
| 119,611.263 (-) units of Rs. 1,003.25/- each of SBI Premier Liquid Fund Direct Plan Daily Div. | | 120,000,000 | - |
| 299,837.488 (-) units of Rs. 100.054/- each of ICICI Prudential Liquid - Direct Plan Daily Div | | 30,000,000 | - |
| 39,979.610 (-) units of Rs. 1,000.510/- each of Reliance Liquidity Funds Direct Plan Daily Div | | 40,000,000 | - |
| 4,902,825.989 (-) units of Rs. 10.1982/- each of HDFC Liquid Fund Direct Plan Daily Div. | | 50,000,000 | - |
| 499,026.898 (-) units of Rs. 100.195/- each of Birla Sun Life Cash Plus Daily Div. Direct | | 50,000,000 | - |
| 499,283.528 (-) units of Rs. 100.1435/- each of ICICI Prudential Money Market Fund Direct Daily Div | | 50,000,000 | - |
| Less: Aggregate provision for diminution in value | | (11,500,000) | - |
| Total | | <u>1,178,500,000</u> | <u>1,050,000,000</u> |
| | Book Value as at | | Market Value as at |
| | 31st March, 2014 Rs. | 31st March, 2013 Rs. | 31st March, 2013 Rs. |
| Quoted | 1,178,500,000 | 1,050,000,000 | 1,077,442,947 |
| Unquoted | - | - | - |
| Total | <u>1,178,500,000</u> | <u>1,050,000,000</u> | <u>1,077,442,947</u> |

NOTE 15 : INVENTORIES :

| | | |
|--|---------------------------|---------------------------|
| Raw Materials : | 232,704,729 | 346,766,154 |
| (Includes Rs.2,784,633/- (Rs.215,000/-) in Bonded Warehouse) | | |
| Work-in-progress : | 128,676,316 | 298,584,328 |
| Finished Goods, at cost or net realisable value whichever is lower | 28,217,177 | 47,811,035 |
| Stores & Spares : | 28,431,414 | 30,684,479 |
| Total | <u>418,029,636</u> | <u>723,845,996</u> |

As Certified by the Managing Director

NOTE 16 : TRADE RECEIVABLES : UNSECURED

| | | |
|---------------------------------|-----------------------------|-----------------------------|
| Trade Receivables - Unsecured | | |
| (a) Outstanding over six months | 188,845,116 | 139,168,107 |
| (b) Others | 909,603,118 | 1,181,503,264 |
| Total | <u>1,098,448,234</u> | <u>1,320,671,371</u> |

NOTE 17 : CASH AND BANK BALANCES :

| | | |
|-------------------------------|---------------------------|---------------------------|
| Cash & Cash Equivalent : | | |
| Cash on hand | 311,948 | 574,040 |
| Balances with Banks : | | |
| In Current Accounts | 117,559,375 | 147,894,263 |
| Earmarked Balances with Banks | 117,871,323 | 148,468,303 |
| Total | <u>131,672,760</u> | <u>112,884,442</u> |

NOTE 18 : SHORT TERM LOANS AND ADVANCES :

| | | |
|---------------------------|---------------------------|--------------------------|
| UNSECURED, GOOD : | 110,438,639 | 87,689,728 |
| (Unless otherwise stated) | | |
| Total | <u>110,438,639</u> | <u>87,689,728</u> |

NOTE 19 : OTHER CURRENT ASSETS :

| | | |
|------------------------------|---------------------------|---------------------------|
| Sundry Deposits | 5,489,849 | 4,011,332 |
| Balances with Central Excise | 39,552,791 | 25,193,793 |
| Taxes paid in Advance | 189,286,311 | 244,114,067 |
| Total | <u>234,328,951</u> | <u>273,319,192</u> |

| | Rs. | Current Year Rs. | Previous Year Rs. |
|---|----------------------|----------------------|----------------------|
| NOTE 20 : REVENUE FROM OPERATIONS : | | | |
| Sale of Products | | 4,483,968,176 | 5,214,813,465 |
| Works Contract Sale | | - | 21,384,678 |
| Sale of Services | | 354,101,247 | 251,892,928 |
| Total | | 4,838,069,423 | 5,488,091,071 |
| NOTE 21 : OTHER INCOME : | | | |
| Dividend (Includes foreign dividend Rs.690,783/- Previous Year Rs. 540,416/-, Withholding tax Rs.69,078/- Previous Year Rs. 54,166/-) | | 79,236,804 | 71,622,051 |
| Interest Received (Gross) (Tax deducted Rs.38,165 /-, Previous Year Rs.34,802/-) | | 2,552,649 | 2,028,781 |
| Insurance Claim Received | | - | 1,666,450 |
| Miscellaneous Receipts | | 34,569,667 | 35,991,372 |
| Profit on Sale of Investments | | 16,412,948 | 9,412,000 |
| Surplus on Sale of Assets | | 2,708,244 | 1,769,024 |
| Sundry Credit Balances appropriated | | 162,644 | 5,498,187 |
| Bad Debts / Liquidated Damages Recovered | | 17,258,667 | 297,633 |
| Provisions no longer required Written Back | | 231,169 | 302,416 |
| Total | | 153,132,792 | 128,587,914 |
| NOTE 22 : COST OF MATERIALS CONSUMED : | | | |
| Raw Materials (including components) consumed : | | | |
| Stocks at commencement | 346,766,154 | | 568,905,093 |
| Add : Purchases | 2,329,315,728 | | 2,745,713,416 |
| | <u>2,676,081,882</u> | | <u>3,314,618,509</u> |
| Less : Stocks at close | 232,704,729 | | 346,766,154 |
| Total | | 2,443,377,153 | 2,967,852,355 |
| NOTE 23 : CHANGES IN INVENTORIES : | | | |
| (Increase) / Decrease in Stocks : | | | |
| Stocks at close : | | | |
| Work-in-Progress | 128,676,316 | | 298,584,328 |
| Finished Goods | <u>28,217,177</u> | | <u>47,811,035</u> |
| | 156,893,493 | | 346,395,363 |
| Less : Stocks at commencement : | | | |
| Work-in-Progress | 298,584,328 | | 193,775,372 |
| Finished Goods | <u>47,811,035</u> | | <u>31,348,500</u> |
| | 346,395,363 | | 225,123,872 |
| Total | | 189,501,870 | (121,271,491) |
| NOTE 24 : EMPLOYEE BENEFITS EXPENSES : | | | |
| Salaries, Wages, Bonus, etc. | | 643,771,628 | 627,995,034 |
| Incentive | | 16,353,862 | 27,419,839 |
| Contribution to Provident and Other Funds, etc. | | 60,098,612 | 62,964,300 |
| Welfare Expenses | | <u>88,615,155</u> | <u>84,404,808</u> |
| Total | | 808,839,257 | 802,783,981 |
| NOTE 25 : FINANCE COSTS : | | | |
| Interest : | | | |
| On Loans | | 1,369,787 | 4,059,601 |
| Other Borrowing Costs | | <u>2,113,552</u> | <u>9,079,845</u> |
| Total | | 3,483,339 | 13,139,446 |
| NOTE 26 : DEPRECIATION AND AMORTISATION EXPENSE : | | | |
| Depreciation of tangible assets | | 119,095,073 | 107,944,159 |
| Amortisation of intangible assets | | <u>13,045,352</u> | <u>6,959,798</u> |
| Total | | 132,140,425 | 114,903,957 |
| NOTE 27 : OTHER EXPENSES : | | | |
| Stores and Spares Consumed | | 108,251,023 | 111,650,549 |
| Manufacturing Expenses | | 228,079,421 | 200,650,070 |
| Power, Fuel and Water | | 71,650,672 | 81,641,850 |
| Building Repairs | | 20,474,923 | 36,256,003 |
| Machinery Repairs | | 26,531,404 | 28,822,569 |
| Sundry Repairs | | 16,933,773 | 17,002,671 |
| Rent | | 10,649,404 | 7,154,960 |
| Rates and Taxes | | 9,996,505 | 5,277,770 |
| Insurance | | 7,859,698 | 5,365,037 |
| Commission and Discount | | 112,631,779 | 106,987,788 |
| Royalty | | 17,884,142 | 14,782,613 |
| Travelling Expenses | | 92,511,002 | 85,297,244 |
| Excise Duty, net | | 14,671,269 | 17,377,527 |
| Sales Tax | | 1,392,182 | 2,323,936 |
| Postage, Telephones, Telex Expenses | | 19,482,999 | 19,629,720 |
| Bank Charges | | 11,952,052 | 19,864,383 |
| Freight Outward | | 29,437,384 | 32,225,379 |
| Vehicle Expenses | | 18,475,147 | 18,565,226 |
| Printing and Stationery | | 5,895,302 | 8,330,657 |
| Legal and Professional Charges | | 42,630,893 | 44,459,312 |
| Advertisement and Publicity Expenses | | 12,914,492 | 8,749,813 |
| Donations | | 17,560,000 | 18,201,000 |
| Auditors' Remuneration | | 1,777,316 | 1,776,439 |
| Directors' Fees and Travelling Expenses | | 4,318,075 | 4,333,553 |
| Director's Remuneration : Salary | | 45,450,500 | 59,120,000 |
| Loss on Assets sold, discarded, demolished or scrapped | | - | 158,495 |
| Bad Debts and Sundry Debit Balances written off | | 3,634,475 | 6,084,438 |
| Liquidated Damages | | 26,052,359 | 89,520,929 |
| Miscellaneous Expenses | | <u>88,775,511</u> | <u>87,283,267</u> |
| Total | | 1,067,873,702 | 1,138,893,198 |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014

28. Effects of changes in foreign exchange rates :

The company, in terms of Notification issued by Ministry of Corporate Affairs on 31st March, 2009, had exercised the option of implementing the provisions of newly inserted Paragraph 46 of Accounting Standard 11, 'Accounting for the Effects of Changes in Foreign Exchange Rates', prescribed by Companies (Accounting Standards) Amendment Rules, 2009 . The Company had outstanding long term foreign currency loan which was categorized as Long Term Foreign Currency Monetary Item as referred in the said notification. Outstanding foreign currency loan is stated at the rate at which it is fully swapped and therefore no effects of change in foreign exchange rates are required to be considered.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

29 Disclosure pursuant to Accounting Standard - 15 (Revised) "Employee Benefits":

- a. Defined Contribution Plans:
Amount of Rs. 48,159,022/- (Previous Year Rs. 46,980,069/-) is recognised as expense and included in "Employee Benefits Expenses" in Note 24 in the Profit and Loss Account.
- b. Defined Benefit Plans:

i. Reconciliation of opening and closing balances of the Present Value of the Defined Benefit Obligation :

| | 2013-14 Rs. | 2012-13 Rs. |
|---|-----------------|----------------|
| | Gratuity | |
| a. Present value of Defined Benefit Obligation at the beginning of the year | 171,052,744 | 146,108,679 |
| b. Interest cost | 12,320,141 | 12,466,898 |
| c. Current service cost | 11,392,970 | 11,360,534 |
| d. Acquisition adjustment | - | 8,946,150 |
| e. Actuarial Losses / (Gains) | 2,018,770 | 8,941,378 |
| f. Benefits paid | 34,101,966 | 16,770,895 |
| g. Present value of Defined Benefit Obligation at the close of the year | 162,682,659 | 171,052,744 |

ii. Changes in the fair value of Plan Assets and the reconciliation thereof:

| | 2013-14 Rs. | 2012-13 Rs. |
|---|-----------------|----------------|
| | Gratuity | |
| a. Fair value of Plan Assets at the beginning of the year | 163,924,541 | 145,657,015 |
| b. Add : Expected return on Plan Assets | 13,539,389 | 13,915,595 |
| c. Add / (Less) : Actuarial Losses / (Gains) | (252,902) | 877,174 |
| d. Acquisition adjustment | - | 12,692,308 |
| e. Add : Contributions | 7,128,203 | 9,307,692 |
| f. Less: Benefits Paid | 34,101,966 | 16,770,895 |
| g. Fair value of Plan Assets at the close of the year (includes Rs.27.85 Lacs with trust, previous year Rs.123.10 Lacs) | 150,743,069 | 163,924,541 |

iii. Amount Recognised in the Balance Sheet including a reconciliation of the present value of the defined obligation in (i) and the fair value of the plan assets in (ii) to the assets and liabilities recognised in the Balance Sheet:

| | 2013-14 Rs. | 2012-13 Rs. |
|--|-----------------|----------------|
| | Gratuity | |
| a. Present value of Defined Benefit obligation | 162,682,659 | 171,052,744 |
| b. Less: Fair value of Plan Assets - with LIC | 147,957,952 | 151,614,641 |
| c. Less: Fair value of Plan Assets - with Trust | 2,785,117 | 12,309,900 |
| d. Total Fair Value of Plan Assets | 150,743,069 | 163,924,541 |
| e. Net Liability / (Asset) recognised in the Balance Sheet | 11,939,590 | 7,128,203 |

iv. Amount recognised in the Profit and Loss Account are as follows :

| | 2013-14 Rs. | 2012-13 Rs. |
|--|-----------------|----------------|
| | Gratuity | |
| a. Current Service Cost | 11,392,970 | 11,360,534 |
| b. Interest Cost | 12,320,141 | 12,466,898 |
| c. Expected return on Plan Assets | 13,539,389 | 13,915,595 |
| d. Actuarial Losses / (Gains) | 1,765,868 | 9,818,552 |
| e. Acquisition Cost | - | (3,746,158) |
| f. Effect of curtailment / settlement | - | - |
| g. Recognised in the Profit and Loss Account | 11,939,590 | 15,984,231 |

v. Broad Categories of plan assets as a percentage of total assets as at 31.03.14.

The plan assets are with Life Insurance Corporation of India and the Trust's Investments are in State Government Securities.

vi. Actuarial Assumptions at the Balance Sheet date:

| | 2013-14 % | 2012-13 % |
|---|-----------------|--------------|
| | Gratuity | |
| a. Discount Rate | 8.0% | 8.0% |
| b. Expected rate of return on Plan Assets | 9.0% | 9.0% |
| c. Salary Escalation rate | 5.0% | 5.0% |

| Particulars | For the year ended March 31, 2014 Rs. | For the year ended March 31, 2013 Rs. | For the year ended March 31, 2012 Rs. | For the year ended March 31, 2011 Rs. |
|---|---|---|---|---|
| Defined Benefit Obligation | 162,682,659 | 171,052,744 | 146,108,679 | 145,481,596 |
| Plan Assets | 150,743,069 | 163,924,541 | 145,657,015 | 144,124,683 |
| (Surplus) / Deficit | 11,939,590 | 7,128,203 | 451,664 | 1,356,913 |
| Experience Adjustment on plan liabilities (gain) / loss | - | 4,935,680 | 3,136,303 | - |
| Experience Adjustment on plan assets (gain) / loss | (252,902) | 877,174 | (87,960) | - |

The estimates of future salary increases considered in actuarial valuation takes into account inflation, seniority, promotion and other relevant factors.

vii. General Descriptions of significant Defined plans:

Gratuity Plan:

The Company operates gratuity plan wherein every employee is entitled to the benefit as per the scheme of the Company, for each completed year of service. The same is payable on termination of service or retirement, whichever is earlier. The benefit vests only after five years of continuous service.

viii. The company has valued the compensated absences, as specified in AS 15 (Revised) on actuarial basis. Further Para 132 of AS 15 (Revised 2005) does not require any specific disclosure except where the expense resulting from compensated absences is of such size, nature or incidence that its disclosure is relevant under other accounting standards. In the opinion of the management, the expense resulting from compensated absences is not significant and hence no disclosures are prepared under various paragraphs of AS 15 (Revised 2005).

30 Details of Segment Reporting:

| A. | Information about Business Segment - Primary (See Note below) | 2013-14 | | | 2012-13 | | |
|----|---|--------------------|--------------------------------|----------------------------|--------------------|--------------------------------|----------------------------|
| | | Compression Rs. | Transmission Systems Rs. | Total Equipments Rs. | Compression Rs. | Transmission Systems Rs. | Total Equipments Rs. |
| 1 | Segment Revenue | | | | | | |
| | Sales | 4,158,792,251 | 679,277,172 | 4,838,069,423 | 4,483,558,520 | 1,004,532,551 | 5,488,091,071 |
| | Less: Inter Segment Revenue | - | - | - | - | - | - |
| | Net Revenue from Operations | 4,158,792,251 | 679,277,172 | 4,838,069,423 | 4,483,558,520 | 1,004,532,551 | 5,488,091,071 |
| 2 | Segment Result | 819,347,661 | (12,889,732) | 806,457,929 | 883,184,194 | 100,490,774 | 983,674,968 |
| | Less: Unallocable Corporate Expenses (Net of Income) | | | 224,479,861 | | | 270,157,983 |
| | Operating Profit before Interest | | | 581,978,068 | | | 713,516,985 |
| | Less: Interest | | | 3,483,339 | | | 13,139,446 |
| | Profit before Tax | | | 578,494,729 | | | 700,377,539 |
| | Share in profit of Associate Company not Included above | | | 13,068,024 | | | 23,257,347 |
| 3 | Other Information | | | | | | |
| | Segment Assets | 2,115,584,011 | 609,246,000 | 2,724,830,011 | 2,118,775,148 | 825,635,367 | 2,944,410,515 |
| | Add: Unallocable common assets | | | 2,076,666,937 | | | 1,991,237,421 |
| | Total Assets | | | 4,801,496,948 | | | 4,935,647,936 |
| | Segment Liabilities | 1,241,591,393 | 216,054,208 | 1,457,645,601 | 1,372,029,913 | 300,654,335 | 1,672,684,248 |
| | Add: Unallocable common liabilities | | | 410,666,204 | | | 549,068,965 |
| | Total Liabilities | | | 1,868,311,805 | | | 2,221,753,213 |
| 4 | Capital Expenditure During the year | 186,356,058 | 66,391,337 | 252,747,395 | 204,368,232 | 19,730,569 | 224,098,801 |
| 5 | Depreciation | 78,785,942 | 44,305,127 | 123,091,069 | 72,280,706 | 39,394,909 | 111,675,614 |
| | Add: Unallocable Depreciation | | | 9,049,356 | | | 3,228,343 |
| | | | | 132,140,425 | | | 114,903,957 |
| B | Secondary Segment - Geographical by Customers | | | | | | |
| 1 | Segment Revenue | | | | | | |
| | In India | | | 4,593,185,660 | | | 5,323,640,628 |
| | Outside India | | | 244,883,763 | | | 164,450,443 |
| | Total | | | 4,838,069,423 | | | 5,488,091,071 |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

30 Details of Segment Reporting (Contd.)

- C Other Disclosures
1. Segments have been identified in line with the Accounting standard, AS-17 "Segment Reporting" (AS - 17), taking in to account the organisation structure as well as the differing risks and returns.
 2. Company has disclosed Business Segment as the primary segment.
 3. Composition of Business Segment
Name of the Segment : Comprises of :
a) Compression Systems Air and Gas Compressors, Airconditioning and Refrigeration Compressors and Systems etc.
b) Transmission Equipments Power Transmission Equipments (Torque Converter), Reverse Reduction Gears for Marine Gear Engines, Industrial and Mobile application etc.
 4. The Segment Revenue, Results , Assets and Liabilities include the respective amounts identifiable to each of the segment and amounts allocated on reasonable basis
 5. The Accounting Policies of the Segments are the same as those described in the Significant Accounting Policy as referred in Note 47 to the Financial Statement.

31. Disclosure of Transactions with Related Parties as required by the AS-18:

(A) Name of the related party and nature of relationship where control exists

| Names of Related parties | | |
|--|---|---|
| 1) Holding Company | Kirloskar Brothers Investments Ltd. | |
| 2) Fellow Subsidiary | Kirloskar Oil Engines Ltd. Nashik Silk Industries Ltd. | |
| 3) Key Management Personnel | Mr. Rahul C. Kirloskar Mr. Aditya Kowshik | Executive Chairman Managing Director |
| 4) Relatives of Key Management Personnel | Mrs. Alpna Rahul Kirloskar Mrs. Suman C. Kirloskar Mr. Atul C. Kirloskar Mrs. Kavita Kowshik | Wife Mother Brother Wife |

Note : Related Party relationship is as identified by the Company based on the available information and relied upon by the Auditors.

(B) Related Party Transactions

| Nature of Transaction | Year | Holding Company | Fellow Subsidiary Company | Key Management Personnel | Relatives of Key Management Personnel | Amount in Rs. |
|--------------------------------|---------|-----------------|---------------------------|--------------------------|---------------------------------------|---------------|
| | | | | | | Total |
| Purchase of Goods/ Assets | 2013-14 | - | 10,209,618 | - | - | 10,209,618 |
| | 2012-13 | - | 5,135,905 | - | - | 5,135,905 |
| Sale of Goods / Assets | 2013-14 | - | - | - | - | - |
| | 2012-13 | - | 9,560,000 | - | - | 9,560,000 |
| Receiving of Services | 2013-14 | - | 298,816 | 55,143,613 | 180,000 | 55,622,429 |
| | 2012-13 | - | 927,277 | 68,102,595 | 240,000 | 69,269,872 |
| Rent Paid | 2013-14 | - | - | - | 1,800,000 | 1,800,000 |
| | 2012-13 | - | - | - | 1,800,000 | 1,800,000 |
| Dividend Paid | 2013-14 | 83,930,112 | - | 1,386,948 | 2,503,452 | 87,820,512 |
| | 2012-13 | 83,930,112 | - | 1,386,948 | 2,503,452 | 87,820,512 |
| Balance Outstanding Receivable | 2013-14 | - | - | - | - | - |
| | 2012-13 | - | 1,044,105 | - | - | 1,044,105 |
| Payable | 2013-14 | - | 2,770,313 | 28,000,000 | 180,000 | 30,950,313 |
| | 2012-13 | - | 2,761,237 | 42,500,000 | 240,000 | 45,501,237 |
| Deposit receivable | 2013-14 | - | - | - | 10,000,000 | 10,000,000 |
| | 2012-13 | - | 125,000 | - | 10,000,000 | 10,125,000 |

Receiving of services includes Remuneration paid / payable to Key Managerial Personnel as per note no 32 and to Relatives of Key Managerial Personnel. Transactions with fellow subsidiary are only with Kirloskar Oil Engines Ltd.

There are no loans and advances given in the nature of loans to aforementioned Related Parties.

There are no loans and advances given in the nature of loans to firms/companies in which directors are interested.

32 Managerial Remuneration :

a) Profit and Loss Account includes payments and provisions on account of Remuneration to the Executive Directors as under :

| | 2013-14 | | | 2012-13 | | |
|------------------------------|--------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| | Executive Chairman | Managing Director | Total | Executive Chairman | Managing Director | Total |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Salary | 12,000,000 | 4,955,000 | 16,955,000 | 12,000,000 | 4,200,000 | 16,200,000 |
| House Rent Allowance | - | 495,500 | 495,500 | - | 420,000 | 420,000 |
| Commission | 20,000,000 | 8,000,000 | 28,000,000 | 30,000,000 | 12,500,000 | 42,500,000 |
| Contribution to: | | | | | | |
| Provident Fund | 1,440,000 | 594,600 | 2,034,600 | 1,440,000 | 504,000 | 1,944,000 |
| Superannuation Fund | 1,800,000 | 743,250 | 2,543,250 | 1,800,000 | 630,000 | 2,430,000 |
| Gratuity Fund (Refer Note 1) | 1,000,000 | 500,000 | 1,500,000 | 1,000,000 | 350,000 | 1,350,000 |
| Other perquisites | 2,885,686 | 729,577 | 3,615,263 | 2,606,356 | 652,239 | 3,258,595 |
| Gross Remuneration | 39,125,686 | 16,017,927 | 55,143,613 | 48,846,356 | 19,256,239 | 68,102,595 |

Note :

1. As the employee wise breakup of contribution to gratuity fund is not ascertainable, the same has been included on the basis of entitlement in the above figures for the purpose of computation of net profit in terms of Section 349 of Companies Act, 1956, as per rules of the company.
2. As the employee wise breakup of liability of leave entitlement, based on actuarial valuation, is not ascertainable, the same has not been included in the above figures, for the purpose of computation of Net Profit in terms of Section 349 of the Companies Act, 1956.
3. Computation of net profit under Section 349 of the Companies Act, 1956.

| | 2013-14 | 2012-13 |
|---|--------------------|--------------------|
| | Rs. | Rs. |
| 1 Net Profit as per Profit & Loss Account | 614,651,272 | 707,758,610 |
| 2 ADD. | | |
| Directors Remuneration | 58,863,613 | 71,822,595 |
| Loss on sale of Assets | - | 158,495 |
| | 673,514,885 | 779,739,700 |
| 3 LESS | | |
| Profit on sale of Assets & Investments | 16,412,949 | 9,412,000 |
| | 16,412,949 | 9,412,000 |
| Net Profit U/S 349 | 657,101,936 | 770,327,700 |
| Maximum permissible Remuneration payable to Executive Chairman & Managing Director. | 65,710,194 | 77,032,770 |
| Restricted to | 55,143,613 | 68,102,595 |
| Maximum permissible Commission payable to Non Executive Directors | 6,571,019 | 7,703,277 |
| Restricted to | 3,720,000 | 3,720,000 |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

33 Leases:

The Company has entered into agreements in the nature of Lease / Leave and License agreement with different Lessors / Licensors for the purpose of establishment of office premises / residential accommodations and assets. These are generally in nature of operating Lease / Leave and License and disclosure required as per accounting standard 19 with regard to the above is as under.

- Payment under Lease / Leave and License for period :
 - Not later than 1 year Rs. 8,361,680/- (Rs. 4,400,731/-)
 - Later than 1 year but not later than 5 years Rs. 15,589,445/- (Rs. 6,438,810/-)
- There are no transaction in the nature of Sub Lease.
- Payments recognised in the Profit and Loss Account for the year ended 31st March, 2014 amounts to Rs.10,649,404/- (Rs. 7,154,960/-)
- Period of Agreement is generally for Eleven Months, in some cases extending upto five years and renewable at the option of Lessee.

34 Intangible assets:

In accordance with the Accounting Standard 26, "Intangible Assets" expenditure on Technical Know-how on Project under implementation is amortized on commencement of commercial production. Software is being amortized on pro rata basis from the month of installation, over a period of one year.

35 Capital and other commitments:

| | 2013-14 Rs. | 2012-13 Rs. |
|---|----------------|----------------|
| i. Estimated amount of Contracts remaining to be executed on Capital Account and not provided for, net of Advances. | 3,033,544 | 177,315,567 |
| ii. Guarantees given by Company's Bankers for Contracts undertaken by the Company are secured by a First Charge on Company's Inventories (excluding Stores and Spares relating to Plant and Machinery) Outstanding Bills and Second Charge on Fixed Assets. Amount outstanding as on 31st March 2014. | 1,074,283,827 | 1,197,651,627 |

36 Payment to Auditors (Net of Service Tax):

| | 2013-14 Rs. | 2012-13 Rs. |
|--|--------------------------------|--------------------------------|
| (a) As Auditors | 1,505,000 | 1,505,000 |
| (b) In Other Capacity For Tax Audit For Certificates | 200,000 39,000 1,744,000 | 200,000 40,000 1,740,000 |
| (c) For Expenses | 33,316 | 31,439 |
| | <u>1,777,316</u> | <u>1,776,439</u> |

37 Proposed dividend:

| | | |
|--------------------------------|-----|-----|
| Dividend recommended per share | 10 | 12 |
| Dividend % | 100 | 120 |

38 A. Contingent Liabilities not provided for in respect of:

| | | |
|---|-------------|-------------|
| Claims against the Company not acknowledged as Debts, estimated at | 330,385,104 | 310,188,849 |
| Income Tax Matters | 712,247 | 30,968,912 |
| Disputed Central Excise Matters | 2,400,872 | 2,400,872 |
| Disputed Sales Tax Demands | 1,157,000 | 1,157,000 |
| Guarantees given by Company to Customers for the contracts undertaken in usual course of business | 11,947,143 | 14,941,901 |

B. Claim for US \$ 10 million has been filed against the Company in the International Court of Arbitration. The Arbitration proceedings have been stayed by the Honorable High Court of Delhi. The Special Leave Petition filed by the plaintiff against the Order of High Court has been dismissed by the Honorable Supreme Court. Further the Honorable High Court of Delhi has transferred the matter to District Courts, Tis Hazari, Delhi on the grounds of pecuniary jurisdiction. Company has obtained an opinion from Senior Counsel stating that claim made by the plaintiff is not tenable.

39 Foreign Exchange Derivatives and Exposures hedged / not hedged at close of the year:

(A) Foreign Exchange Derivatives

| Nature of Instrument | Currency | Sale / Purchase | 31.03.2014 | 31.03.2013 |
|----------------------|----------|-----------------|------------|------------|
| Forward Contracts | USD | Purchase | - | 473,088 |
| Currency Swap | USD | Purchase | | 1,375,000 |

All derivatives stated above are for the purpose of hedging the underlying foreign currency exposures.

(B) Exposure not hedged

| Nature of Instrument | Currency | 31.03.2014 | 31.03.2013 |
|----------------------|----------|------------|------------|
| Receivable | GBP | 11,900 | 10,619 |
| | USD | 339,307 | 653,987 |
| | EUR | 30,081 | 181,025 |
| | JPY | 2,628,800 | - |
| | SEK | 850,816 | - |
| Payable | GBP | 290,791 | 173,052 |
| | USD | 1,171,290 | 346,296 |
| | EUR | 291,225 | 91,938 |
| | SEK | 48,000 | 72,680 |

© Exchange differences on account of settlement / revaluation of foreign currency transactions in current account are included in Miscellaneous Expenses (Rs. 848,235/- Previous Year Rs.2,279,378/-) if such differences are in the nature of expenses & in Miscellaneous Receipts (Rs. Nil, Previous Year Rs. Nil) if such differences are in the nature of gain.

40 The information as required to be disclosed under the "Micro, Small and Medium Enterprises Development Act, 2006" has been determined to the extent such parties have been identified on the basis of information available with the company. Based on this information there are no Micro, Small and Medium Enterprises to whom the company owes dues, which are outstanding for more than 45 days as at 31st March, 2014.

| | 2013-14 Rs. | 2012-13 Rs. |
|--|--------------------|--------------------|
| 41 Value of Imports calculated on CIF basis: | | |
| Raw Materials | 332,193,521 | 507,209,785 |
| Components and Spares | 52,130,125 | 33,952,134 |
| Capital Goods | 147,646,527 | 6,244,956 |
| | <u>531,970,172</u> | <u>547,406,876</u> |

42 Expenditure in Foreign Currencies (accrual basis):

| | | |
|------------------------|------------|------------|
| (i) Royalty | 4,533,020 | - |
| (ii) Technical Knowhow | 11,504,971 | - |
| (iii) Interest | 2,807,185 | 6,499,849 |
| (iv) Professional Fees | 3,733,852 | 1,795,965 |
| (v) Other matters | 62,449,724 | 42,137,028 |

43 Details of raw material consumed :

| | | |
|-----------------------|----------------------|----------------------|
| Steel Bars and Plates | 2,282,471 | 1,769,183 |
| Pipes | 9,243,445 | 7,367,171 |
| Castings | 48,184,475 | 40,314,969 |
| Forgings | 206,772,290 | 328,432,317 |
| Foundry Raw material | 27,864,159 | 28,539,827 |
| Components | 1,891,421,865 | 2,303,327,161 |
| Others | 257,608,448 | 258,101,727 |
| | <u>2,443,377,153</u> | <u>2,967,852,355</u> |

44 Imported and Indigenous Raw Materials, Components and Spares Consumption :

| | 2013-14 | | 2012-13 | |
|-----------------------|----------------------|--------------|----------------------|--------------|
| | Rs. | Percentage | Rs. | Percentage |
| Raw Material | | | | |
| Imported | 277,840,145 | 11.37 | 519,121,517 | 17.49 |
| Indigenously obtained | 1,889,583,977 | 77.33 | 2,169,226,355 | 73.09 |
| | <u>2,167,424,122</u> | <u>88.71</u> | <u>2,688,347,872</u> | <u>90.58</u> |
| Spares | | | | |
| Imported | 38,838,195 | 1.59 | 40,958,326 | 1.38 |
| Indigenously obtained | 237,114,836 | 9.70 | 238,546,157 | 8.04 |
| | <u>275,953,031</u> | <u>11.29</u> | <u>279,504,483</u> | <u>9.42</u> |

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

| | | | |
|--|--|--------------------|----------------|
| | | 2013-14 | 2012-13 |
| 45 Earnings in Foreign Currencies (accrual basis) : | | Rs. | Rs. |
| (i) F.O.B. Value of Exports | | 244,883,763 | 164,450,443 |
| (ii) Dividend Received | | 690,783 | 540,416 |

46 A. Deferred tax asset / liability :
As required by Accounting Standard 22, "Accounting for taxes on Income", prescribed by Companies (Accounting Standards) Amendment Rules, 2009, the Company has recognised Deferred Taxes which result from the timing difference between the Book Profits and Tax Profits aggregating Rs. 4,350,955/- in the Profit and Loss Account, The details of which are as under.

| | | Rupees | | |
|-------------|---|------------------------------|-------------------------|-------------------------------|
| Particulars | | Balance as at 1st April 2013 | Arising During the Year | Balance as at 31st March 2014 |
| I. | Deferred Tax Liabilities | | | |
| a. | Depreciation | 33,189,152 | 7,544,383 | 40,733,535 |
| II. | Deferred Tax Assets | | | |
| | Disallowances under section 43b of the Income Tax Act | 32,132,483 | 3,193,428 | 35,325,911 |
| | Net Deferred Tax Liability | 1,056,669 | 4,350,955 | 5,407,624 |

B. Current Tax includes Rs. - 34,210,461/- (PY Rs. 24,203,021/-) in respect of earlier years.

47 Significant accounting policies :

A. System of Accounting :

- (i) The Company, except under significant and uncertain circumstances, follows the mercantile system of accounting and recognises income and expenditure on accrual basis.
- (ii) The Financial Statements are based on historical costs.
- (iii) Insurance Claims are recognised upon acceptance of claim by the Insurance Companies.
- (iv) Estimates and assumptions used in the preparation of the Financial Statements are based upon Management's evaluation of the relevant facts and circumstances as of the date of the financial statements which may differ from the actual results at a subsequent date.

B. Tangible assets :

- (i) Tangible assets are carried at cost of acquisition or construction or at manufacturing cost in case of Company manufactured assets, less accumulated depreciation (except Freehold Land).
- (ii) Depreciation on Assets (other than Freehold Land) :
On Plant and Machinery given on Lease :
Depreciation on Plant and Machinery given on Lease is being provided at the rates worked on Straight Line Method over the primary period of Lease Agreement or at the rate specified in Schedule XIV to the Companies Act, 1956, whichever is higher, on pro-rata basis.

| Asset | Primary Lease Period | Rate on Straight Line Method | |
|---------------------|----------------------|----------------------------------|------------------------------|
| | | Over the primary Period of Lease | As specified in Schedule XIV |
| Plant and Machinery | 8 years | 12.50% | 10.34% |
| Plant and Machinery | 5 years | 20.00% | 10.34% |

- (i) Depreciation on Additions to the Fixed Assets up to 31st March, 1961, is being provided on "Written Down Value" Method in accordance with the Provisions of Section 205(2)(a) of the Companies Act, 1956, at the rates specified in Schedule No. XIV to the said Act.
 - (ii) Depreciation on Additions to Assets from 1st April, 1961, to 30th September, 1987, is being provided for on Straight Line basis in accordance with the provisions of Section 205(2)(b) of the Companies Act, 1956, pursuant to Circular No. 1/1/86/CLV No. 15-(50)84 CL VI dated 21st May, 1986, issued by the Department of Company Affairs, at the rates corresponding to the rates (inclusive of multiple shift allowance) applicable under the Income Tax Rules 1962 as in force at the time of acquisition / installation and on Additions on or after 1st October, 1987, on the same basis at the rates specified in Schedule No. XIV to the Companies Act, 1956.
 - (iii) Depreciation on assets of erstwhile Faridabad unit has been charged on Straight Line Method as per rates prescribed by Schedule XIV to the Companies Act, 1956. Depreciation on additions made after 16th December, 1993, has been charged on Straight Line Method at the revised rates as prescribed in Schedule XIV to the Companies Act 1956 and substituted by Notification GSR No.756 (E) dated 16th December, 1993, of the Department of Company Affairs, Government of India.
 - (iv) Depreciation on Additions to Fixed Assets is being provided on pro-rata basis from the month of acquisition or installation of the said Asset, as required by Schedule XIV to Companies Act, 1956.
 - (v) Depreciation on Additions to Vehicle is being provided on pro-rata basis from the month of acquisition over a period of five years, being the estimated useful life of the asset.
 - (vi) Depreciation on Additions, on account of increase in rupee value due to Foreign Exchange fluctuations, is being provided at the rates of depreciation over the future life of said assets.
 - (vii) Depreciation on Assets sold, discarded or demolished during the year is being provided at their respective rates up to the month in which such Assets are sold, discarded or demolished.
- C. Intangible assets :**
Expenditure on acquiring Technical Know-how (intangible asset) is being amortised equally over a period of five years or usage period whichever is lesser, after commencement of commercial production. Depreciation on Additions to Software is being provided on pro-rata basis from the month of installation, over a period of one year. (Also see note no.34)
- D. Investments :**
- a. Long Term Investments are valued at Cost of acquisition less estimated diminution in value determined to be of permanent nature.
 - b. Current investments are mainly comprising of investments in mutual funds and are stated at lower of cost or fair value.
- E. Inventories :**
Cost of inventories have been computed to include all costs of Purchase, Cost of Conversion and other costs incurred in bringing inventories to their present location and condition.
- (i) The Stocks of Raw Materials and Components, Stores and Spares are valued at cost calculated on Weighted Average basis.
 - (ii) The Stocks of Work-in-Progress (including factory-made components) and Finished Goods are valued on the basis of Full Absorption Cost of attributable factory overheads or net realisable value, whichever is lower.
 - (iii) Goods in Transit are stated at actual cost to the date of Balance Sheet.
 - (iv) Jigs and Fixtures, Patterns and Dies are valued at Full Absorption Cost of attributable factory overheads and written off equally, over an estimated effective life of three years.
 - (v) Unserviceable and absolute Raw Materials are valued at an estimated realisable value.
 - (vi) Imported Materials lying in Bonded Warehouse, are valued at cost to the date of Balance Sheet.
 - (vii) Excise / Customs Duty :
Excise Duty on Finished Goods and Customs Duty on imported materials are accounted on production of Finished Goods / Receipt of materials in Customs Bonded Warehouse.
- F. Foreign Currency Conversion :**
- a. Initial Recognition
Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.
 - b. Conversion
Current assets and current liabilities, Secured Loans designated in foreign currencies are revalued at the rate prevailing on the date of Balance Sheet.
 - c. Exchange Differences
Exchange differences arising on the settlement and conversion on foreign currency transactions are recognised as income or as expenses in the year in which they arise, except in cases where they relate to the acquisition of qualifying assets, in which they are adjusted in the cost of the corresponding asset. Further, as per Ministry of Corporate Affairs Notification dated 31st March 2009, eligible exchange difference on foreign currency loans is adjusted in the cost of the asset to be depreciated over the balance life of the asset. (For change and effect see Note no.28)
 - d. Forward Contracts
Company uses foreign exchange forward contracts to hedge its exposure against movements in foreign exchange rates. The use of foreign exchange forward contracts reduces the risk or cost to the Company. Foreign Exchange forward contracts are not used for trading or speculation purpose.
In respect of foreign exchange forward contracts, difference between forward contract rate and exchange rate prevailing on the date of forward contract (i.e. forward premium / discount) is amortised as income or expense over the life of the contract, except in respect of the liabilities for the acquisition of qualifying assets, where such amortization is adjusted in the cost of the corresponding asset.
- G. Borrowing Cost :**
Borrowing cost directly attributable to the acquisition / construction or production of qualifying asset are capitalised in the month in which the said asset is ready to use, as part of the cost of that asset. Other borrowing costs are recognised as expense in the period in which these are incurred.
- H. Sales :**
- (i) Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, which generally coincides with the delivery to customers. Sales are stated net of discounts, rebates, returns etc.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2014 (Contd.)

- (ii) Export Sales are accounted for on the basis of dates of Bills of Lading.
- (iii) Construction Contract Sales :
In respect of Construction Contracts undertaken by the Company, the expenditure to the date of Balance Sheet on incomplete contracts wherein profit cannot be estimated reliably, is recognised as sales to the extent recoverable from the customer.
- I. Income Tax :
Tax Expense comprises both current and deferred tax. Provision for current tax is made on the basis of taxable profits computed for the current accounting period in accordance with Income Tax Act, 1961.
Deferred Tax resulting from timing difference between Book Profits and Tax Profits is accounted for, at prevailing or substantially enacted rate of tax to the extent timing differences are expected to crystallise, in case of Deferred Tax Liabilities with reasonable certainty and in case of Deferred Tax Assets with virtual certainty that there would be adequate future taxable income against which deferred tax assets can be realised.
- J. Employee Benefits :
 - (A) Short term Employee Benefits :
All employee benefits payable within twelve months of rendering of the service are classified as short-term benefits. Such benefits include salaries, wages, bonus, short term compensated absences, awards, exgratia etc. and are recognised in the period in which the employee renders the related service.
 - (B) Post Employment Benefits :
 - (i) Defined Contribution Plans :
The Company's approved superannuation scheme, State government provident fund scheme and employee state insurance scheme are defined contribution plans. The contribution paid / payable under the scheme is recognised during the period in which the employee renders the related service.
 - (ii) Defined Benefits Plans :
The employee's gratuity fund scheme, long term compensated absences are company's defined benefit plans. The present value of the obligation under such defined benefit plans is determined based on the actuarial valuation using the Projected Unit Credit Method, as at the date of the Balance Sheet.
 - (iii) In case of funded plans, the fair value of plan asset is reduced from the gross obligation under the defined benefit plan.
 - (iv) Termination benefits are recognised as an expense as and when incurred.
- K. Provisions :
Provisions are recognised when there is a present obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation and which can be reliably estimated.

48 Previous years figures have been regrouped wherever necessary to make them comparable with those of the current year.

As per our attached report of even date

For and on behalf of the Board of Directors

For **M/s P. G. Bhagwat**
Firm Registration No. 101118W
Chartered Accountants

S. S. Athavale
Partner
Membership No. 83374
Pune, April 23, 2014

Aditya Kowshik
Managing Director

Jitendra Shah
Company Secretary

Rahul C. Kirloskar
Executive Chairman

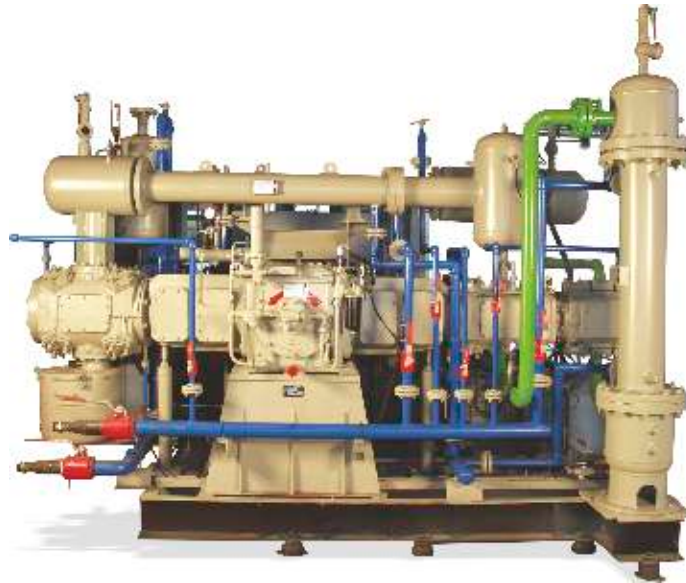
Suhas S. Kolhatkar
Vice President & Finance Controller
Pune, April 23, 2014



Gas Compressor Package in a Refinery



Heli-Planetary Gearbox



Pet Bottle Compressor



Enriching Lives

KIRLOSKAR PNEUMATIC CO. LTD.

A Kirloskar Group Company

Regd. Office: Hadapsar Industrial Estate, Pune 411 013, INDIA.

Tel.: +91 (20) 2672 7000. Fax: +91 (20) 2687 0297

Email: sec@kpcl.net Website: www.kirloskarkpcl.com, www.kirloskar.com

CIN - L29120PN1974PLC110307



KIRLOSKAR PNEUMATIC COMPANY LIMITED

A Kirloskar Group Company

Enriching Lives

FORM A

Format of covering letter of the Annual Audit Report to be filled with the Stock Exchanges

| | | |
|---|--|---|
| 1 | Name of the Company | Kirloskar Pneumatic Co Ltd |
| 2 | Annual Financial Statements for the year ended | March 31, 2014 |
| 3 | Type of Audit Observation | Un-qualified |
| 4 | Frequency of observation | Not Applicable |
| 5 | To be signed by <ul style="list-style-type: none"> • Managing Director • CFO • Auditor of the Company • Audit Committee Chairman | <p><i>Aditya Kowshik</i> ADITYA KOWSHIK</p> <p><i>Suhas S Kolhatkar</i> SUHAS S KOLHATKAR</p> <p><i>Amarak (S.S. Athavale)</i> Partner M/S P.G.BHAGWAT CHARTERED ACCOUNTANTS Firm Registration No. 101118W & Membership No. 83374</p> <p><i>A. C. Mukherji</i> A. C. MUKHERJI</p> |



An IMS Certified Company

Manufacturer of Air, AC, Refrigeration, Gas compressors & systems and Transmission Equipments

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CIN No.: L29120PN1974PLC110307