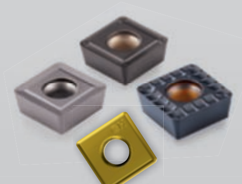
KENNAMETAL®

FY18

53rd ANNUAL REPORT



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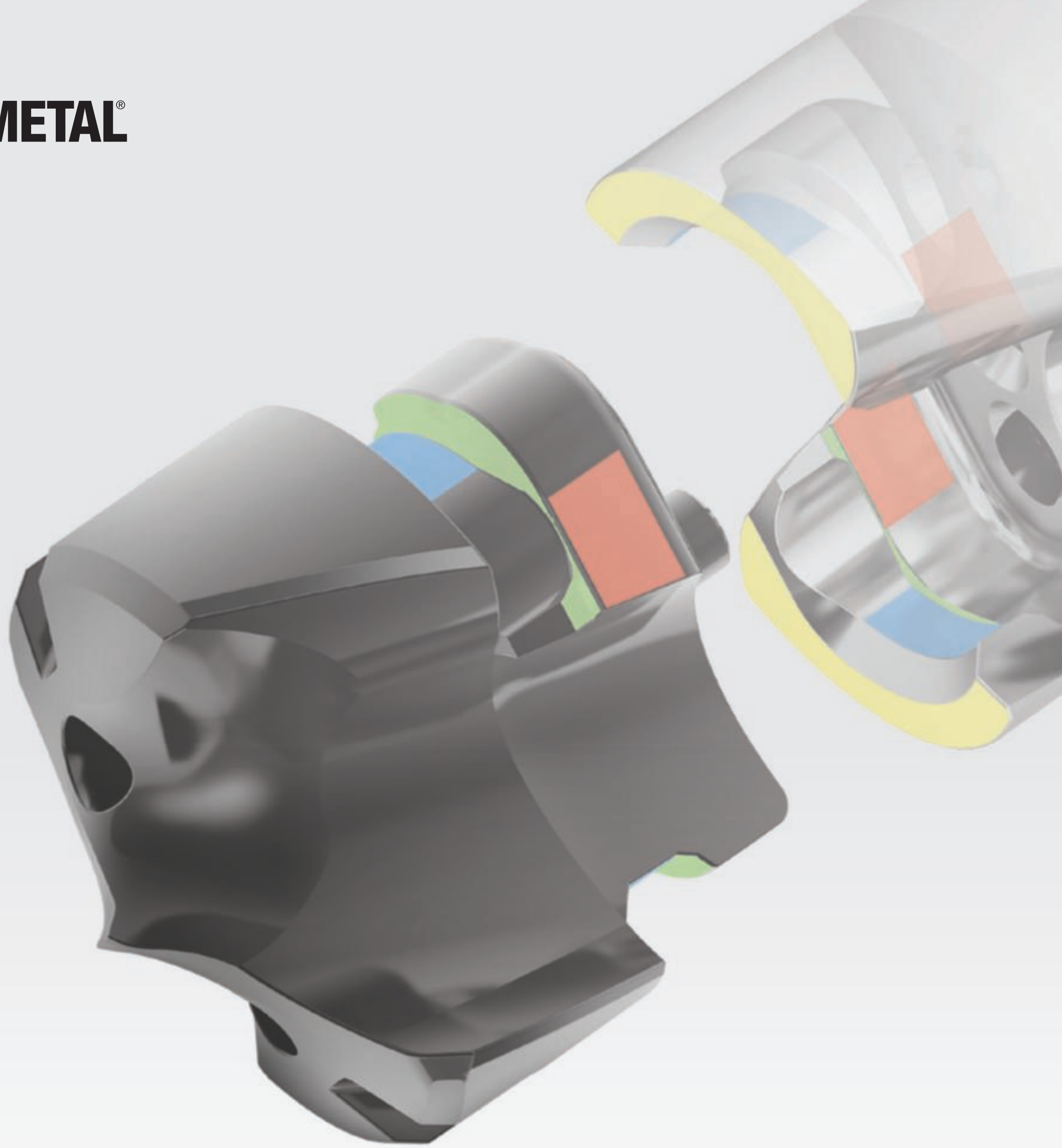


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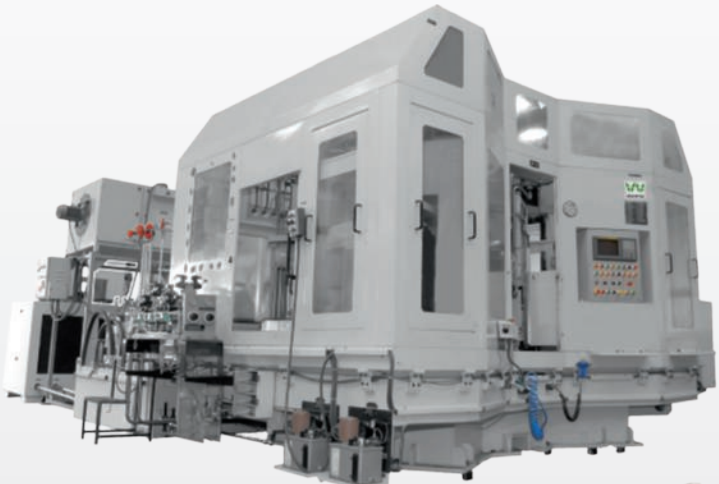

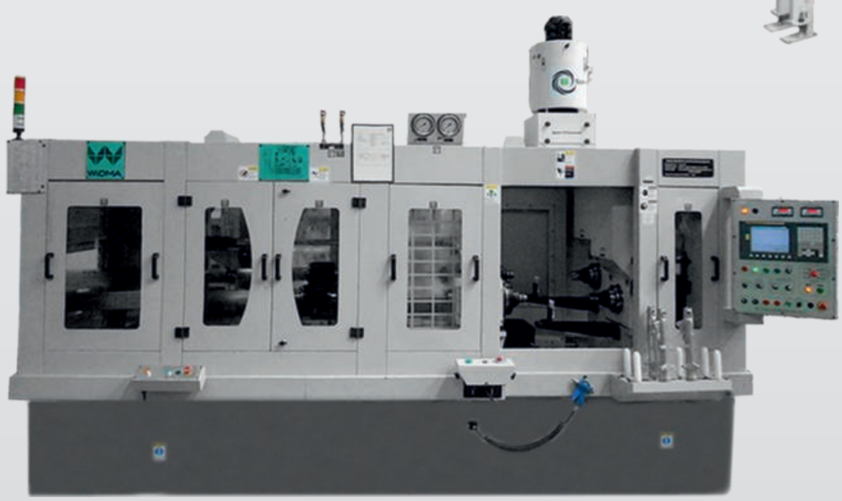

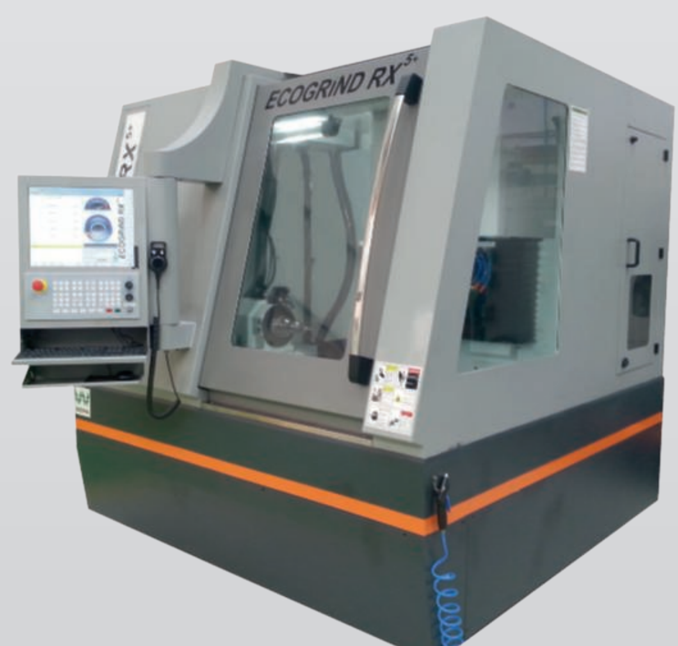
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KENNAMETAL INDIA LIMITED

(CIN: L27109KA1964PLC001546)

Directors

Mr. Prakash M. Telang
Chairman
Mr. Bhagya Chandra Rao
Managing Director
Mr. B. Anjani Kumar
Mr. Vinayak K. Deshpande
Mr. David Lee (upto August 23, 2018)
Mr. Alexander Broetz
Ms. Colleen Wood Cordova
Mr. D. Parameswara Reddy (from August 23, 2018)

Key Managerial Personnel

Mr. Bhagya Chandra Rao
Managing Director & CEO
Mr. K.V. Suresh Reddy
Chief Financial Officer
Mr. Thulsidass T V
General Manager – Legal & Company Secretary

India Leadership Council (ILC)

Mr. Bhagya Chandra Rao
Mr. K.V. Suresh Reddy
Mr. K. Chandrashekhar Sharma
Mr. M. T. Swamy
Mr. M. N. Bhaskara Rao
Mr. Manu Kidave
Mr. Prashant Shetty

Registered Office and Factory

8/9th Mile, Tumkur Road
Bengaluru - 560 073
Karnataka, India
Phone : + 91 (80) 28394321
Fax: + 91 (80) 28397572
website : www.kennametal.com/kennametalindia

Auditors

Statutory Auditors
Messrs Walker Chandiok & Co. LLP
Chartered Accountants

Cost Auditors
Messrs K. S. Kamalakara & Co.
Cost Accountant

Secretarial Auditor
Vijayakrishna K. T.
Company Secretary

Bankers

Bank of America
Corporation Bank Limited
HDFC Bank Limited
ICICI Bank Limited
State Bank of India
Axis Bank
Mizuho Bank

Registrar & Share Transfer Agent

Integrated Registry Management Services Private Limited
30, 'Ramana Residency'
4th Cross, Sampige Road,
Malleswaram, Bengaluru – 560 003
Phone : + 91 (80) 23460815-818
Fax : + 91 (80) 23460819
e-mail: irg@integratedindia.in

53rd Annual General Meeting
Friday, November 9, 2018 at 12.30 p.m. at the
Registered Office of the Company at 8/9th Mile, Tumkur Road, Bengaluru – 560 073

CHAIRMAN'S MESSAGE

Dear Shareholder

I am pleased to present to you, on behalf of the Board, the 53rd Annual Report and Audited Financial Statements of Kennametal India Limited for the financial year ended June 30, 2018.

It has been another year of stellar performance by your Company in a challenging environment which involved skillful handling of the risks posed by high raw material prices, transition to new GST and the transition from BS III to BS IV emission standards for automobiles.

Industrial production, which saw a low to moderate growth as we entered into FY18, has picked up of late, as the economy is showing clear signs of having overcome the combined impact of demonetization and GST implementation in the previous year. Major industrial segments namely, manufacturing, construction and utilities grew at 2%, 3% and 4% respectively. The IIP (Index of Industrial Production) grew by 8.4%, Inflation has remained under check below 4 percent for most of the year as stated in the economic survey 2018 with a broad-based decline in inflation across major commodity groups except housing and fuel. However, with the oil prices showing an increasing trend, the RBI inflation forecasts for H1 and H2 2018-19 are between 5.1 to 5.6% and 4.5 to 4.6% respectively which has already led to 2 interest rate hikes by RBI in as many months. Factors leading to increased inflation include increase in minimum support prices for agricultural produce, rising crude prices as well as improving growth rates.

There were some tail winds during the year in the form of GDP growth at 6.7%, continued government thrust in infrastructure and road construction and proliferation of logistics activities following GST implementation.

It is heartening to report that your Company was able to significantly improve its total revenue in FY18 with a growth of 14% over the previous year (growth of 22% after adjusting the excise duty in the previous year to make it comparable with the post-GST regime). Operating profit before exceptions recorded a phenomenal increase of 125% despite the challenging business environment, especially the increase in prices of raw material, as well as higher manpower costs and fierce competition from new and established Competitors. Despite the challenges, your Company has been successful in sustaining and growing market share across segments without sacrificing profitability on the back of the efforts of the last few years to strengthen the Company through the strategic emphasis on operational efficiency as well as placing renewed focus on both the Kennametal and WIDIA brand products to better leverage all possible opportunities for growth in the cutting tool market.

For the future, it is encouraging to note that the green shoots of economic growth resulting from the many transformational actions of the Government are gradually beginning to yield results. The process of formalizing the economy is well under way with the transformational Goods and Services Tax (GST) showing signs of stabilizing during the year. Similarly, a good beginning has been made in addressing the long pending problem of bad loans and stressed assets by enacting the Insolvency and Bankruptcy Code (IBC) under which the major stressed companies are being referred for resolution while simultaneously implementing a major recapitalization package to strengthen the balance sheet of the major public-sector banks.

The Monsoon is also expected to be near normal this year, in most parts of the country, which along with the higher minimum support prices for farm produce announced by the Government is expected to boost rural income and lead to good rural demand especially for tractors and transport equipment. This should augur well for your acompany since your Company's products are substantially used in transportation, general engineering, aerospace & defense, energy, power generation equipment, earthworks, mining & construction sectors. Our expectation is that any revival of the investment and manufacturing activities in both the public and private sectors would yield significant opportunities for growth for your Company in FY19 and beyond.

The sustained economic recovery in the global markets is another positive development while the risk of high global oil prices and the protectionist trends sweeping through the leading economies has started casting a shadow on the prospects of sustaining the recovery in global trade. Along with the significant investments by the Government in infrastructure, the expectation of revival of the private sector investment cycle offers hope for an uptick in manufacturing activities, especially in infrastructure, defense and aerospace sectors under the Make in India initiative which would result in the overall growth of the economy.

The Operating structure of your Company, involving dual brands in metal cutting tools business independently competing in the market has begun yielding positive results and is being driven more forcefully to make the Company more agile and competitive in the marketplace. As part of this effort your Company has initiated steps for incorporation of a Wholly-owned subsidiary for sale of "WIDIA" brand products. Your Company continues to localize tooling products and make capital investments to meet the quality standard and demand, both at domestic and international levels.

Your Company is continuously monitoring the market and pro-actively taking various steps to increase its market share through new and cost-effective products. We are also expanding the distribution channel network to cover all regions across the country for all the brands.

Your Company has been continuously evaluating the need for capacity expansion and pro-actively making substantial investments to address the growing needs of the domestic and export markets.

Your Company places the highest value on good Corporate Governance practices, compliances and proactively enables proper Board oversight, management reporting and maximum shareholder involvement. Other essential values which define Kennametal are our commitment to Safety and Ethics as well as to ensuring sustainable development while integrating economic, health, safety and environmental aspects into each of the business decisions.

The emphasis on Corporate Social Responsibility is increasing by the day and your Company's efforts in this area continue to be focused on the three primary categories that have been established for CSR activities with an emphasis on. Support for Education, Kennametal in the Community and Protecting Our Planet.

During FY18, your Company focused on the areas of Education, Health and Environment to create measurable and lasting value for neighboring communities. Your Company sponsored the installation of rain water harvesting structure, solar water heaters, mosquito screens at “Nisarga Grama”, a home for underprivileged children, particularly girls. Your Company has also expanded the coverage of the India Literacy Project aimed at improving the quality of education in Government Schools in the Company’s neighborhood, to some more schools during the year under review. In addition, your Company is also providing support for Secondary and Post-Secondary Educational opportunities by means of scholarships to deserving candidates.

On behalf of the Board of Directors, I would like to extend my special thanks to all Kennametal employees for their tireless efforts, relentless focus on customers, unwavering commitment and teamwork which brought the success of the previous years and seek their continuing commitment and hard work in reaching our goals in future.

I would also be remiss in my duty if I did not acknowledge the contribution of our loyal customers, distribution partners, vendors, shareholders and bankers in our growth and success.

I would like to record our special thanks to the unionized employees who have extended support to us in the various initiatives taken by the Company for meeting the safety, quality and delivery requirements.

Finally, I would like to convey my heartfelt gratitude to my esteemed colleagues on the Board for their valuable contributions in making our organization successful by providing timely advice and guidance. I wish the entire Kennametal team continued success in the years to come and seek the support of all stakeholders in our quest to make Kennametal a truly great institution.

Thank you.

Prakash M. Telang
Chairman
DIN: 00012562

BOARD'S REPORT

Your Directors are pleased to present the 53rd Annual Report and the Audited Financial Statements for the financial year ended June 30, 2018.

Financial Results (₹ in Lakhs)

Particulars	Financial Year ended 30-Jun-18	*Financial Year ended 30-Jun-17
Total Revenue	**80148**	70183
Profit before exceptional items and tax	**8070**	3586
Add/Less-Exceptional Items Income/(Expense)	**(770)**	(550)
Profit after exceptional items and before Tax	**7300**	3036
Less: provision for tax		
Current tax	**2044**	795
Minimum alternate tax (MAT) entitlement		
Tax adjustment relating to earlier years	**(460)**	-
Deferred tax (credit)/charge	**490**	(196)
Profit after Tax	**5226**	2437
Other comprehensive income for the year, net of tax	**(206)**	1
Total comprehensive income for the year	**5020**	2438
Add: balance brought forward from previous year	**22268**	20359
Total available for appropriation	**27288**	22797
Interim dividend	**(440)**	(440)
Dividend distribution tax	**(90)**	(89)
Balance transferred to Balance Sheet	**26758**	22268

* The previous period figures have been regrouped and/or reclassified wherever necessary to confirm with the current period presentation in compliance with Ind AS requirement.

DIVIDEND AND RESERVES

An interim dividend of ₹2/- per Equity Share of ₹10/- each (20% on the Paid-up Share Capital of the Company) was declared by the Board for the financial year ended June 30, 2018 and May 21, 2018 was fixed as Record Date for the said purpose. The said Interim Dividend was paid on May 28, 2018. The Board of Directors has decided to treat the same as Final Dividend and therefore, no additional Dividend is recommended for the financial year ended June 30, 2018.

The Company has not transferred any amounts to reserves for the financial year ended June 30, 2018.

The Paid-up Share Capital of the Company is ₹219782400/- divided into 21978240 Equity Shares of ₹10/- each.

OPERATING RESULTS

Profit before Exceptional items and Tax was ₹8070/- Lakhs as compared to ₹3586/- Lakhs in the previous financial year. The Company's performance for the year has shown substantial improvement in comparison with the previous year.
Your Company does not have any subsidiaries.

CHANGES IN SHARE CAPITAL

There were no changes in the Share Capital of the Company during the financial year.

Capital Structure of the Company

The Authorized Share Capital of the Company as on date is ₹219782400 (Rupees Twenty One Crores Ninety Seven Lakhs Eighty Two Thousand and Four hundred only) divided into 21978240 (Two Crores Nineteen Lakhs Seventy Eight Thousand Two Hundred and Forty only) Equity Shares of ₹10/- (Rupees Ten only) each.

The Issued, Subscribed and Paid up Share Capital of the Company as on date is ₹219782400 (Rupees Twenty One Crores Ninety Seven Lakhs Eighty Two Thousand and Four Hundred only) divided into 21978240 (Two Crores Nineteen Lakhs Seventy Eight Thousand Two Hundred and Forty only) Equity Shares of ₹10/- (Rupees Ten only) each.

Disclosure regarding Issue of Equity Shares with Differential Voting Rights

During the financial year under review, the Company has not issued Shares with Differential Voting Rights.

Disclosure regarding issue of Employee Stock Options

During the financial year under review, the Company has not issued Employee Stock Options.

Disclosure regarding issue of Sweat Equity Shares

During the financial year under review, the Company has not issued Sweat Equity Shares.

Disclosure regarding Buy Back of Shares

During the financial year under review, the Company has not done Buy Back of Shares.

MATERIAL CHANGES AND COMMITMENTS

There were no material changes and commitments, affecting the financial performance of the Company, which occurred between the end of the financial year of the Company to which the financial statements relate and the date of this Report.

MANAGEMENT DISCUSSION AND ANALYSIS

During FY18, the total revenue of the Company was ₹80148/- Lakhs compared with ₹70183/- Lakhs in the previous financial year.

A Management Discussion and Analysis (MD&A) Report is annexed to this report as **"Annexure I"** as required under Regulation 34 of SEBI [Listing Obligations and Disclosure Requirements (LODR)] Regulations, 2015.

DIRECTORS AND KEY MANAGERIAL PERSONNEL

The Shareholders at the 52nd Annual General Meeting held on November 7, 2017 approved the appointment of Mr. Alexander Broetz (DIN: 07568713) filling the casual vacancy caused by the resignation of Mr. John H. Jacko Jr. He retires by rotation and being eligible, offers himself for re-appointment as Director liable to retire by rotation in the ensuing Annual General Meeting. Your Directors recommend the same for your approval. A notice has been received from a member along with the prescribed deposit of ₹1 Lakh proposing his appointment as a Director at the ensuing Annual General Meeting of the Company.

The Board at its Meeting held on August 23, 2018 has also approved the appointment of Mr. D Parameswara Reddy (DIN: 03450016) to fill the casual vacancy caused by the resignation of Mr. David Lee (DIN: 07175442). Your Directors recommend the same for your approval. A notice has been received from a member along with the prescribed deposit of ₹1 Lakh proposing his appointment as a Director at the ensuing Annual General Meeting of the Company. Your Directors take this opportunity to place on record the Board's appreciation for the valuable contribution of Mr. David Lee during his term as Director of the Company.

Declarations from the Independent Directors

The Company has received declarations from all the Independent Directors of your Company confirming that they meet the criteria of Independence as mentioned under sub-section (6) of Section 149 of the Companies Act, 2013.

The Policy on Director's appointment and remuneration including criteria for determining qualifications, positive attributes, Independence of Director, and also remuneration for Key Managerial Personnel and other employees' forms part of Corporate Governance Report of this Annual Report.

A brief profile of the Directors being appointed / re-appointed as required under Regulation 36(3) of SEBI (LODR) Regulations, 2015 is furnished along with the Notice convening 53rd Annual General Meeting.

DIRECTORS' INTERESTS

No Director was materially interested in any contracts or arrangements existing during or at the end of the year in relation to the business of the Company; however, Mr. David Lee, Mr. Alexander Broetz, Mr. D. Parameswar Reddy and Ms. Colleen Wood Cordova, being Nominees of Kennametal Inc. on the Board of the Company may be deemed to be interested in some of the contracts with Related Parties though not personally. No Director holds any shares in the Company as on June 30, 2018 except Mr. Prakash M. Telang, Chairman & Non-Executive Independent Director, who holds 2,000 Equity Shares of ₹10/- each, Mr. B. Anjani Kumar, Non-Executive Independent Director, who holds 10 Equity Shares of ₹10/- each and Mr. Bhagya Chandra Rao, Managing Director, who holds 300 Equity Shares of ₹10/- each in the Company.

DIRECTORS' RESPONSIBILITY STATEMENT

Based on the framework of internal financial controls and compliance systems established and maintained by the Company, work performed by the internal, statutory, cost and secretarial auditors and external consultant(s) including audit of internal financial controls over financial reporting by the Statutory Auditors and the reviews performed by Management and the relevant Board Committees, including the Audit Committee and Risk Management Committee, the Board is of the opinion that the Company's internal financial controls were adequate and effective during the FY18.

Accordingly, pursuant to the provisions of Section 134(3)(c) and Section 134(5) of the Companies Act, 2013, the Board of Directors, to the best of its knowledge and ability, report that:

- the applicable accounting standards have been followed in the preparation of the financial statements, along with proper explanations relating to material departures, if any;
- they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at June 30, 2018 and of the profit of the Company for the year ended on that date;
- they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- they have prepared the annual accounts on a going concern basis;
- they have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and
- they have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

DEPOSITS

During the financial year, your Company has not invited / accepted any Public Deposits pursuant to the provisions of Chapter V of the Companies Act, 2013.

PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS

The details of Loans and Investments covered under the provisions of Section 186 of the Companies Act, 2013 are given in the Notes to the Financial Statements forming part of Annual Report. The Company has not provided any loans and guarantees during the Financial Year.

SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS OR COURTS OR TRIBUNALS

During the financial year under review, there were no significant and material orders passed by the Regulators or Courts or Tribunals impacting the going concern status of the Company and its future operations.

EVALUATION OF THE BOARD'S PERFORMANCE

Pursuant to the provisions of the Companies Act, 2013 and SEBI (LODR) Regulations, 2015, the Board had adopted a formal mechanism for evaluating its performance and that of its Committees and Directors, including the Chairman of the Board. During the financial year, the evaluation exercise was carried out through a structured evaluation process covering various aspects of the functioning of the Board and Committees such as their composition, experience & competencies, performance of specific duties & obligations, governance issues etc. A separate exercise was carried out to evaluate the performance of each individual Director including the Board's Chairman who were evaluated on parameters such as contribution at the meetings, independent judgement, attendance and other relevant aspects. The Board was satisfied with the evaluation results, which reflected the overall engagement of the Board, Committees and the Directors of the Company.

FAMILIARIZATION PROGRAMME

The Company has a structured familiarization program for Independent Directors of the Company which is also extended to other Non-Executive Directors to ensure that Directors are familiarized with their function, role, rights, responsibilities and the nature of the Business.

The Board of Directors has complete access to the information within the Company. Presentations are regularly made to the Board of Directors and all Committees of the Board on various matters, where Directors get an opportunity to interact with Senior Management. Presentations made by the Senior Management of the Company, *inter alia,* cover the Company's strategy, business model, operations, markets, organization structure, product offerings, finance, risk management framework, quarterly and annual results, human resources, technology, quality and such other areas as may arise from time to time.

The Independent Directors of the Company are associated with the Company for many years and are very familiar with the Company. During the financial year, the Management provided various documents, background notes, presentations etc. to have a better insight of the Company.

The Company also issues appointment letters to the Independent Directors which incorporate their role, duties and responsibilities.

CORPORATE GOVERNANCE

Pursuant to Regulation 34 (3) read with Schedule V(C) of SEBI (LODR) Regulations, 2015, a report on Corporate Governance and the Certificate as required under Schedule V (E) of SEBI (LODR) Regulations, 2015 from Mr. Vijayakrishna K. T., Practising Company Secretary, regarding compliance of conditions of Corporate Governance is annexed as **"Annexure II"** which forms part of this report. Further, in compliance with the Listing Regulations, your Board has adhered to the Corporate Governance Code.

COMPLIANCE WITH THE CODE OF CONDUCT

A declaration signed by the Managing Director affirming compliance with the Company's Code of Conduct by your Directors and Senior Management of your Company, for the financial year under review, as required under SEBI (LODR) Regulations, 2015 is annexed as **"Annexure IIA"** and forms part of this report.

The Kennametal Code of Business Ethics & Conduct is a major component of the Kennametal Value Business System (KVBS). The Code addresses the importance of fair dealing and compliance in all aspects of your Company's business and focuses on the concept of doing the right thing every day.

Your Company insists on its employees to embrace the Code of Business Ethics & Conduct to ensure maintenance of strong ethical culture. The code of conduct is available on the website of the Company at https://www.kennametal.com/content/dam/kennametal/kennametal/hi/About%20Us/Company%20Profile/code_of_conduct_director.pdf

CEO/CFO CERTIFICATE

A Certificate from the Chief Executive Officer and the Chief Financial Officer dated August 23, 2018 on the Financial Statements and the Cash Flow Statement of the Company for the financial year ended June 30, 2018 is annexed as "**Annexure IIB"** and forms part of this report.

WHISTLE BLOWER POLICY/VIGIL MECHANISM

Your Company was following a Whistle Blower Policy / mechanism even prior to requirements of the Companies Act, 2013. However, pursuant to the provisions of Section 177 of the Companies Act, 2013 and the provisions of SEBI Listing Regulations, your Company had taken on record the Vigil Mechanism (Whistle Blower Policy) of the Company subsequent to the approval of the Board of Directors. The Whistle Blower Policy provides avenues for employees to raise complaints and to receive feedback on action taken and seeks to reassure the employees that they will be protected against victimization and for any "Whistle Blower" action taken by them in good faith. Your Company affirms that no personnel have been denied access to the Audit Committee.

The Kennametal Ethics Helpline

A dedicated helpline is made available where any person can make a complaint about the violation of the Code of Conduct of the Company. Reports made to the helpline can be done via the phone or the web on a confidential and anonymous basis, where allowed by local law. The helpline is administered by an independent third-party and is available 24 hours a day, 7 days a week.

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

A report in respect of conservation of energy, technology absorption, foreign exchange earnings and outgo, as required under Section 134(3)(m) of the Companies Act, 2013 read with the Rule 8(3) of the Companies (Accounts) Rules, 2014, is annexed as **"Annexure III"** to this report.

AUDITORS & REPORT OF STATUTORY AUDITORS

As per the provisions of Section 139 of the Companies Act, 2013 read with the Rules made there under, no Listed Company and such other Companies as prescribed under the Companies Act, 2013 can appoint or re-appoint any audit firm as Auditors for more than two terms of five consecutive years.

In view of the same, the Company has appointed Messrs Walker Chandiok & Co. LLP, Chartered Accountants (FRN: 001076N/N500013) who were appointed as Statutory Auditors at the 52nd Annual General Meeting held on November 07, 2017 for a period of 5 (Five) years to hold the office until the conclusion of 57th Annual General Meeting.

As per the Companies (Audit and Auditors) Second Amendments Rules, 2018, with effect from May 7, 2018, the Central Government has notified the omission of the requirement related to ratification of appointment of Statutory Auditors by members at every Annual General Meeting. Accordingly, the resolution for ratification has not been placed before the members.

The Independent Auditors' Report to the Members on the Accounts of the Company for the financial year ended June 30, 2018 does not contain any qualification, reservation or adverse remarks. The notes on financial statements referred to in the Independent Auditors' Report are self-explanatory and do not call for any further comments.

REPORTING OF FRAUDS

There was no instance of fraud during the financial year under review, which required the Statutory Auditors to report to the Audit Committee and / or the Board, as required under Section 143(12) of the Act and Rules framed thereunder.

SECRETARIAL AUDITOR

Mr. Vijayakrishna K. T., Practising Company Secretary (FCS 1788 & CP 980) carried out Secretarial Audit under the provisions of Section 204 of the Companies Act, 2013 for the financial year 2017-18 and submitted his report, which is annexed to this report as **"Annexure IV"**.

The Secretarial Audit Report does not contain any qualification, reservation or adverse remark.

COST AUDITORS

Pursuant to the provisions of Section 148 of the Companies Act, 2013 read with the Companies (Cost Records and Audit) Amendment Rules, 2014, the Board of Directors of the Company upon recommendation of the Audit Committee has appointed Messrs K. S. Kamalakara & Co., Cost Accountants (Firm Registration No.: 0000296), as the Cost Auditors of the Company for the financial year 2018-19. As required under Section 148 of the Companies Act, 2013, the Shareholders' approval for the remuneration payable to Messrs K. S. Kamalakara & Co., Cost Auditors is being sought at the ensuing Annual General Meeting.

INTERNAL FINANCIAL CONTROL

Details of internal financial control and its adequacy are included in the Management Discussion and Analysis Report which is annexed as and which forms part of this Report.

CONTRACTS AND ARRANGEMENTS WITH RELATED PARTIES

Pursuant to the provisions of Section 188 of the Companies Act, 2013 and Regulation 23 of the SEBI (LODR) Regulations, 2015, the Related Party Transactions (RPTs) that were entered into during the financial year 2017-18 were at arm's length basis and in the ordinary course of business. Further, there were no material related party transactions during the financial year under review with the Directors or Key Managerial Personnel. All related party transactions were placed before the Audit Committee and the Board for approval as applicable under Section 188 of the Companies Act, 2013 and Regulation 23 of SEBI (LODR) Regulations, 2015.

The Policy on RPTs as approved by the Board is uploaded on the Company's website at https://www.kennametal.com/content/dam/kennametal/kennametal/hi/About%20Us/Company%20Profile/Related%20Party%20Transaction%20Policy%20.pdf

The Particulars of RPTs in Form AOC 2 is annexed to the Report as **"Annexure V"**.

PARTICULARS OF DISCLOSURES AS REQUIRED UNDER SECTION 197 OF THE COMPANIES ACT, 2013

Pursuant to Section 197(12) of the Companies Act, 2013 read with the Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014, the ratio of the remuneration of each Director to the median employee's remuneration for the financial year and such other details as prescribed are set out in the **"Annexure VI"**.

A statement showing details of employees of the Company throughout the financial year and employees employed for part of the year who were in receipt of remuneration of ₹102/- Lakhs or more per annum or ₹8.5/- Lakhs or more per month is annexed herewith as **"Annexure VII"**.

PREVENTION OF SEXUAL HARASSMENT

Your Company has an Internal Complaints Committee as required under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013.

There was no complaint lodged by any employee to the Internal Complaints Committee or Ethics helpline under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013, with the Company during the year under report.

INSURANCE

Your Company has sufficient insurance coverage on all its assets which are renewed in time.

RESEARCH & DEVELOPMENT (R&D)

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

RD&E, Bangalore works on the market requirements in terms of new products, custom solutions, cost saving projects and basic research. It is also recognized by the Ministry of Science & Technology - Department of Scientific and Industrial Research - Government of India.

ENVIRONMENT, HEALTH AND SAFETY (EHS)

A cleaner, healthier and safer environment is a value we demand of ourselves and others and is integrated into everything we do. Environmental, Health, and Safety (EHS) are fundamentals to your Company's business and its ability to **Deliver The Promise** of Safety to all the stakeholders, including its employees, customers, shareholders, and the public. EHS Vision is communicated to all and every day, employees are empowered to demonstrate Kennametal EHS commitment by striving for:

100% Safety - pursuing a goal of zero injuries, illnesses, and incidents by living the belief that all are preventable. Your Company is pursuing the goal of zero incidents through senior leader ownership of safety, preventative actions and processes, and by establishing leadership roles for employees in safety.

Protecting Our Planet - providing sustainable solutions by reducing the total environmental impact of our products and operations. Your Company has been working towards protecting our planet by continuously improving the management of energy and natural resources, promoting recycling and recovery of materials, and preventing pollution. Among other things, the following EHS activities/improvements were undertaken during the financial year:

Safety Performance:

- Safety performance in FY18 in terms of the Total Recordable Incident Rate (TRIR) is 0.35 compared to 0.36 in FY17.
- Competence, Training and Awareness: A total 3,676 hours were spent on EHS training by employees of your Company.
- Wellness Awareness programme was conducted covering 250 man-hours to create awareness and improve good health of the employees of the Company.
- 606 Find and Fix completed by employees compared to 540 Find and Fix in FY17. This shows employee involvement which helped in eliminating hazards, create a safe working environment.
- Annual medical examination of employees was conducted to assess the health status and improve employee health.
- Your Company continued to monitor the hazardous and non-hazardous waste, according to waste stream and disposal route, with performance assessed on the basis of waste intensity.
- Your Company continued the Management Based Safety (MBS) programme, a standard global safety process that has been the cornerstone of great improvement in safety culture.
- A Risk Finder Tool and an improved Daily Safety Checklist are designed to strengthen every employee's ability to identify, document and eliminate hazards at their workplace.
- STOP WORK AUTHORITY process implemented enabling any employee to stop work upon coming across any unsafe situation.
- EHS improvement in Coating plant is focused in line with Global Standard.
- Arc Flash Analysis conducted to improve Electrical Safety.

Improvements:

- The Company received Certification to ISO 14001 and OHSAS 18001 in November 2017
- To minimize risk and further improve safe working environment through the Hazard identification and Risk assessment tool, the following EHS Improvements were completed in FY18:
- Fire Sprinkler system was installed for Painting booth in MSG.
- Fire Alarm system was upgraded by installing Smoke detector in Hazardous waste storage area.
- Effluent Treatment Plant was set up in-house to treat the effluent generated from various process and ensure compliance under Water Act.
- Thermography survey conducted for electrical system by an external agency and corrective actions are taken to minimize the electrical fire incidents.
- Installation of Two Stage Cooling system in PU 2 Sintering Dept.
- Conducted Hazard and Operability Study (HAZOP) in PU 1 for Spray Drier - Based on HAZOP study we are reviewing the recommendations made to take necessary actions.
- Fire Detection and alarm system Improvement – Graphical display
- Upgraded the Existing Gas detection system by installing HMI control panel with SCADA system. PU 1, PU 2, PU 5, CVD and all UPS rooms are connected in to SCADA system to improve emergency preparedness any time.
- Installed Gas cabinet which has all required safety features to ensure safe working environment.
- Installed Interlock guarding on Surface grinding machine in PU 6.
- Modified the vertical lathe in PU 2 to collect the powder after machining directly in to the collecting drum instead of cleaning and manual removing powder collected in the machine to minimize the exposure to dust and also ergonomics concern.
- Existing Electrical power distribution board does not meet Safety standard. Replaced with Block set panels confirming to Internal arc protection as per IEC TR 64641 to protect against electrical hazard.
- 100% Regulatory compliance resulted in No Violation notices from Authority.

Recognition to employees

- **KIL** was awarded the "**Best Safe Practices in the Industry**" for the year 2017 by the Department of Factories, Government of Karnataka.
- **Mr. Rajesh B** of PU1 was awarded the "**Best Safe Worker"** for the year 2017 by Department of Factories Government of Karnataka.
- **Mr. Sadiksaheb Badiger** – Senior Manager EHS was honored with an award of **"Audyogika Surakshata Ratna" ("Occupational Safety Star")** by the Department of Factories, Government of Karnataka.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Pursuant to the provisions of Section 135(3)(a) of the Companies Act, 2013 and rules made thereunder, the Corporate Social Responsibility Policy of the Company and initiatives undertaken by the Company on CSR activities during the financial year ended June 30, 2018 are set out in **"Annexure VIII"** to this report in the format prescribed under the Companies (Corporate Social Responsibility Policy) Rules, 2014.

PERSONNEL / INDUSTRIAL RELATIONS

During the financial year under review, your Company maintained cordial industrial relations at all levels. Your Directors record their appreciation for employees' contribution.

RISK MANAGEMENT

Enterprise Risk Management (ERM) at the Company is driven by the Risk Management Committee and Board of Directors through its routine oversight responsibilities. The Management team plays a primary role in identification, monitoring and minimizing risks as also to identify business opportunities and threats. As a process, the risk associated with the business is identified and prioritized based on severity, occurrence and effectiveness of detection. The Risks are being reviewed by the Management team periodically and reported to the Risk Management Committee bi-annually for their review. The department leaders have the responsibility to monitor and implement the ERM framework approved by the Risk Management Committee.

The Company has formulated a Risk Management Charter and a mechanism to inform the Risk Management Committee of the Board about risk assessment. The detailed Risk Management mechanism is provided in the Management Discussion and Analysis (MD&A) Report.

The Risk Management Committee is constituted with the Directors and senior executives as its members. Mr. Prakash M. Telang is the Chairman of the Committee.

As an established practice, the Board of Directors are being updated on risks identification and steps taken to mitigate the same. Risk Management Charter is uploaded on the Company's website at https://www.kennametal.com/content/dam/kennametal/kennametal/hi/About%20Us/Company%20Profile/Risk%20management%20committee%20charter.pdf

EXTRACT OF THE ANNUAL RETURN

An extract of the annual return as per Form MGT - 9 is enclosed in **"Annexure IX"** to the Board's Report.

NUMBER OF BOARD MEETINGS

The Board of Directors met Four (4) times during the financial year 2017-18. The details of the Board meetings and the attendance of the Directors are provided in the Corporate Governance Report.

The Agenda of the Meeting is circulated to the Directors in advance. Minutes of the Meetings of the Board of Directors are circulated amongst the Members of the Board for their perusal.

COMMITTEES OF BOARD OF DIRECTORS

Details of memberships and attendance of various Committee Meetings of the Company are given in Corporate Governance Report.

GREEN INITIATIVES

As a significant Green Initiative to contribute towards a cleaner environment, your Company has initiated steps to become a Green Company soon. Towards this end the process of evaluating and applying for Green Company certification encompassing the entire operations of the Company have started.

In addition, as part of its efforts to reduce consumption of paper and thereby protect the environment, your Company has ensured that Electronic copies of the Annual Report and the Notice of the Fifty-Third AGM are being sent to all such Members whose e-mail addresses are registered with the Company/ its Registrar and Share Transfer Agent.

To the other Members physical copies of the Annual Report and Notice of the Fifty- third AGM are being sent through the permitted modes of dispatch. However, Members who have received the said documents in electronic mode but seek physical copies of the same, can send their requests to the Company Secretary. The remote e-voting facility is being provided to the Members to enable them to cast their votes electronically on all resolutions set forth in the notice, pursuant to the provisions of Section 108 of the Companies Act, 2013 read with the Companies (Management and Administration) Amendment Rules, 2015. The instructions for the remote e-voting are provided in the Notice.

ACKNOWLEDGEMENTS

Your Directors place on record their appreciation for the support and assistance received from customers, investors, business associates, bankers, vendors, regulatory and governmental authorities. Your Directors also wish to place on record their gratitude to the Members for their continued trust, confidence and express their sincere appreciation to all employees for their teamwork and contributions during the financial year.

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

Bhagya Chandra Rao	**B. Anjani Kumar**
Managing Director	Independent Director
DIN: 00211127	DIN: 00022417

Bengaluru
August 23, 2018

Annexure I to the Board's Report

MANAGEMENT DISCUSSION & ANALYSIS REPORT

1. Industry Structure and Developments, Opportunities and Threats

Economic Trends – an Overview:
The financial year under review has generally been one of good growth for the Indian and global economies. According to the International Monetary Fund (IMF) the average growth of the global economy was 3.8% in 2017 with expectation of further acceleration to 3.9% in 2018 and 2019. Higher growth was witnessed in all the developed economies with the US growing at 2.7% and Euro Zone at 2.3% in 2017 with corresponding growth in World trade. The pickup in growth is well supported by increased investments in manufacturing and higher output. Major initiatives in the US on the tax policy are expected to further stimulate growth and capital spending. However, with the protectionist trade measures being adopted by various economies by way of enhanced tariffs, the potential for price increases for customers and some adverse impact on the global economy as well as investor confidence has become significantly higher.

Growth in China and India continue to be strong and is expected to continue further despite rising economic protectionism. The Indian economy is expected to grow rapidly, with the IMF projecting GDP growth to increase to 7.3% in the financial year 2018-19 from 6.7% in the previous financial year cementing India's position as the world's fastest growing economy. The stabilization of the landmark reform of Goods and Service Tax (GST) and the increasing formalization of the economy during the financial year 2017-18 have provided a major platform for sustained growth. A normal south-west monsoon would also sustain agricultural growth which, together with the increases announced by the Government in minimum support prices for farm produce, should greatly aid in growth in rural consumption. The growth in Industrial Production has been moderate with the IIP growing at 8.4% on the back of good growth in Steel and Cement sectors with manufacturing sector growing at 2%. However, rising crude prices and improved consumer spending do have the potential of triggering inflation and the Reserve Bank of India has already targeted inflation by effecting two interest rate increases in the last quarter. The challenges for Indian Economy in the medium term are; the depreciating rupee, higher international oil prices, a further increase in US interest rates, continuing delays in the resolution of the twin issues of Bad loans/Non-performing assets and capitalization of banks, and the slower than anticipated pace of recovery in private investment.

Industry Structure and Developments
Your Company's expertise in developing and manufacturing sophisticated hard material cutting and wear protection solutions ranging from specialized cutting tools, indexable inserts and carbide rods to new types of carbide wear-resistant engineered components and coatings using a specialized type of powder metallurgy is well established and has given it a well-deserved global reputation for providing innovative wear resistant solutions across diverse sectors like transportation, earthworks, energy, infrastructure and aerospace. Cemented tungsten carbides, ceramics, cermets and super-hard materials are used in the manufacture of Metalworking tools by the Company. In addition, your Company also manufactures and markets a complete line of tool holders, tool-holding systems and rotary-cutting tools by machining and fabricating steel bars and other metal alloys. Your Company specializes in the manufacture of compacts, metallurgical powders, and products made from tungsten carbide or other hard materials that are used for custom-engineered and challenging applications, including mining and highway construction, among others.

Kennametal solutions are built around industry-essential technology platforms, including precision-engineered metalworking tools and components, surface technologies and earth cutting tools that are mission-critical to customer operations battling extreme conditions associated with wear fatigue, corrosion and high temperatures. The Company's reputation for material and industrial technology excellence, as well as expertise and innovation in development of custom solutions and services, contributes to its leading position in its primary industrial and infrastructure markets. End users of the Company's products include manufacturers, metalworking suppliers, machinery operators and processors engaged in a diverse array of industries.

Our product offering includes a wide selection of standard and customized technologies for metalworking, such as sophisticated metal cutting tools, tooling systems and services, as well as advanced, high-performance materials, such as cemented tungsten carbide products, super alloys, coatings and investment castings to address customer demands. We offer these products through a variety of channels to meet customer-specified needs.

Your Company also provides end-to-end solutions in design and manufacture of high precision Special Purpose Machines to meet the needs of end users in automotive, defense, railways, infrastructure and General engineering segments.

Opportunities and Threats
Your Company's products are used in almost all manufacturing industries, with the automotive, aerospace, infrastructure and machinery manufacturers being major users. The major user industry is the Transportation sector at present and therefore the developments in this sector will have a direct impact on the demand for metal cutting tools market.

The Transportation industry which is a major source of business for your Company witnessed steady growth after the transition to Bharat Stage IV (BS-IV) emission norm and GST implementation due to sustained demand for commercial vehicles. Heavy and Commercial Vehicles segment is growing largely because of the paradigm shift in logistics with seamless inter-state transportation brought about by GST. In addition, the exponential growth of e-commerce model of business, the continuing focus of the Government on Infrastructure and significant budgetary allocations for the development of transportation infrastructure have contributed to the present growth and general sense of optimism regarding opportunities for the CV industry. Transportation segment also holds further promise of sustained growth due to the expected demand for the Company's products from OEM's due to the mandatory conversion from BS – IV to BS –VI norms which is to be implemented by April 2020. In addition, the government's proposal in respect of replacement of commercial vehicles which are over 20 years old, if implemented, is also expected to spur huge demand for new commercial vehicles and would provide good opportunities for the Company's tooling and machine solutions. The demand from the infrastructure space is another growth area for the Company while a good beginning has been made in meeting the growing needs of the Aerospace and Defense equipment manufacturing segments which are lately seeing good investments and growth in India.

Although the GST regime has settled down well and has resulted in revenue buoyancy, the issues relating to the Corporate Debt resolution, the overhang of Non-Performing Assets and capital adequacy concerns of the Indian Banking sector are continuing to impact the industrial sector and constrain private sector investment in new projects. However, of late, there have been tangible signs of investments by major automotive customers on the back of healthy demand and this offers scope for optimism for your Company as well. The resumption of investment in new capacity augurs particularly well for your Company's Machine tool business.

However, the recent rally in the global crude oil prices which have led to higher prices of petrol and diesel, plus the significant depreciation in the value of the Indian Rupee against the US Dollar are a twin challenge to the economy in view of the potential to stoke inflation and drive down demand for automobiles generally and this could have a direct impact on demand for your company's products as well. Additionally, developments in alternative technologies like additive manufacturing and the pace of adoption of electric vehicles will continue to have a significant influence in shaping the future of the cutting tool business industry. The Government's efforts at bringing about FAME (Faster Adoption & Manufacturing of Hybrid and Electric Vehicles) is another potential area of concern since this would impact the conventional automotive segment and by extension, the demand for your Company's products as well.

Nevertheless, there is optimism regarding greater growth in demand for products serving the infrastructure, defense and aerospace sectors as these are still in the nascent stages of growth in India with significant potential for exponential growth going forward.

2. Operations

Your Company recorded a commendable revenue growth of 14% over the previous financial year (growth of 22% after adjusting the excise duty in the previous year to make it comparable with the post-GST regime) despite a challenging business environment. Your Company continued to make significant gains in market share against severe competition and maintained its position as one of the fastest growing companies in the metalworking industry in India with double digit growth. The operating profit (before exceptional items) increased by 125%. Hard metals business grew by 13.5% (growth of 21% after adjusting the excise duty in the previous year to make it comparable with the post-GST regime) year over year whereas the Machining solutions business has grown by 26.5% year over year. Your Company is building further on the strategy of having two strong brands (i.e. Kennametal & Widia) in the cutting tool market with the proposal to transfer the WIDIA brand business into a separate Wholly Owned Subsidiary for which approval of shareholders has been received. The process of incorporation of the Company is currently under way and the full benefit of the proposals is expected to be realized in the coming years through significantly higher growth and market share for both brands.

Your Company is focused on offering solutions leveraging its superior products and technology to address the requirements of the existing and emerging industries. Initiatives started in earlier years such as NOVO, Productivity optimization, Component specific solutions and D2C (direct delivery to customers) are being developed further.

With the thrust on exports of Machining solutions to overseas markets, it is gratifying to note that exports sales have grown by 151% year over year. The focus would be to continue this effort in the coming years.

To grow in this difficult market, your Company is continuously focused on development of new products and initiatives to bring operational effectiveness as well as cost optimization and become competitive in the market place. A few of them are worth noting:

<u>Power purchase from Solar Power Producers</u>

Your Company has entered into an agreement with an Independent Solar Power Producer to benefit from lower tariff for purchase of electricity from renewable energy sources and through this initiative during the year, the Company has saved ₹41 Lakhs in Electricity costs. In addition, this is a significant green initiative on the part of your Company.

<u>Investments in augmentation of Capacity & Productivity</u>

Your Company has augmented the production capacity in business areas which are growing currently and also positioned itself to meet the market demand in near term by investing ₹6030 Lakhs in Plant & Machinery and other productivity linked Equipment / Instruments, during the year.

<u>Optimum utilization of manufacturing capacities</u>

During the financial year, the Company continued to augment manufacturing capacity to meet the increase in domestic demand. The thrust of these capacity enhancements is to build capacity primarily meant to address the demand from the domestic market and utilize any surplus capacity for export. Your Company also continues with its efforts to identify and implement any feasible options to locally manufacture some of the product groups being imported. These efforts are expected to result in cost benefit and improved margins in the long term.

<u>Launch of new product range</u>

During the year, your Company continued to launch new products under the "INNOVATIONS" range for the Kennametal brand and "ADVANCES" for Widia Brand. Some of the major products for the Kennametal Brand are new generation Drilling "Kentip FS", Modular end mill system "DUO-LOCK", new generation Solid Carbide Drill "KMH" for hard materials, Solid Carbide Dynamic Milling "Harvi TCDE", Finish Milling "KCFM" and new Short Shrink Holders. New Products under the WIDIA Brand include a new shoulder milling solution VSM490-10, solid carbide endmills VariMill II ER & VariMill III ER for advanced milling in exotic, aerospace materials, high speed aluminium profiling and pocket milling cutter VHSC and a new solid carbide drill TDS45 for drilling in stainless steel.

The sales from such new products launched over the last five years today constitute 40% of total current year Hard Metal Product sales.

<u>Cost Optimization Measures</u>

Following the additions to capital equipment and modernization of plant and machinery, there has been rationalization in manpower through Voluntary Separation/Retirement Schemes for Officers and Workmen which have resulted in cost savings and increase in productivity.

3. Segment-wise performance/reporting

Your Company's business has been categorized into two broad segments in line with Accounting Standard 17 – Segment Reporting. The primary segments and secondary segments have been categorized based on the nature of the products and services offered by the Company and the business risks associated with the above products/services in markets served.

The primary segments for financial reporting continue to be:

(i) Hard Metal Products

(ii) Machining Solutions Group (MSG)

Apart from the primary business segments, the secondary segmental reporting is based on the geographical locations of the customers viz., domestic and international. Common allocable costs are allotted to each segment to the extent of services utilized and activities involved.

4. Company's Outlook

For fiscal year 2019, the Company's outlook is moderately positive with the private sector investment showing signs of revival. There is optimism regarding continuance of the present situation of strong demand for cutting tools especially from the Transportation Segment. The optimism is mainly because of the sustained buoyancy in demand for vehicles and the expectation of demand arising out of the mandatory transition of automotive engines from BS-IV to BS-VI emission norms in April 2020 because of which the transportation sector is expected to sustain the double-digit growth. Moreover, the monsoons are expected to be near normal and there is expectation of good demand from the tractor segment. Aerospace is another segment which is beginning to show promise.

However, the intensity of competition is expected to continue with almost all global players making India a manufacturing location for production of tools. The trend of raw material price increases is also expected to continue because of the sustained demand as well as the weakening of the Indian Rupee against the US Dollar. Despite these headwinds, the management continues to focus on the various growth initiatives and development of new products as key drivers to continue to maintain profitable growth. Profitability improvement will remain a key focus area for FY19 as well.

Your Company will continue to drive growth through efforts at offering the best service and differentiated products to its customers.

5. Internal control systems and their adequacy

Your Company has established adequate internal control procedures, commensurate with the nature of its business and size of its operations. These controls have been designed to provide a reasonable assurance regarding maintaining of proper accounting controls for ensuring orderly and efficient conduct of its business, monitoring of operations, reliability of financial reporting, accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, protecting assets from unauthorized use or losses, prevention and detection of frauds and errors, and compliances with regulations. The Company has in place a robust internal audit process, which is designed to provide reasonable assurance that assets are safeguarded against loss or damage and that accounting records are reliable for preparing financial statements. Internal controls are evaluated by the Internal Audit department and reviewed by Management and the Audit Committee. All audit observations and follow up actions thereon are tracked for resolution by the Internal Control function and reported to the Audit and Risk Management Committee. In addition, employees across the organization are required to undergo quarterly and annual refresher training on the Kennametal Code of Conduct which includes within its scope transparency in financial reports, ethical conduct, and regulatory compliance, conflicts of interests review and reporting of concerns. The Company also has an active Anti-Bribery and Whistle Blower policy and procedure in place.

Through an Enterprise Risk Management program, the Company's business units and corporate functions evaluate the risks faced by it under four categories i.e., Strategic Risks, Operating Risks, Reporting Risks and Compliance Risks. The Risk Management mechanism covers strategy to identify, assess, monitor and manage risks as applicable to the Company across each function. The results of the risk assessment and actions to mitigate these risks are presented to the Risk Management Committee of the Board for its review and guidance twice in a year.

In addition, the Company has policies and directions based on internationally accepted standards or best practices and wherever applicable, are in line with Kennametal Inc., (ultimate holding Company) global policies and practices. These are periodically updated to be in line with changing developments and global best practices. In addition, a system of Quarterly Reporting and Certification by all Functional Heads, along with secretarial, quality and environmental compliance audits by independent third parties serves to ensure timely compliance of all Statutory and other applicable Laws in addition to enabling early identification and mitigation of financial and non-financial risks.

6. Risks and Concerns

The primary challenges continue to be the pricing pressures arising from intense competition for market share especially from Asian Players and increase in raw material costs. The weakening of the Indian Rupee will also have an impact on price of the raw materials, all of which is imported. However, the Company is making all out efforts to sustain its strong performance based on superior product quality and strong brand together with a sustained focus on providing Customers with innovative solutions to stay ahead of competition.

Significant risks such as changes in the economic situation due to governance changes in an election year remain while aggressive pricing and competition from Asian players are mitigated through continued focus on export Markets, localization efforts and other cost control measures.

7. Financial performance

Your Company has recorded sales of ₹79312/- Lakhs in FY18 with a 14% growth over the previous year (growth of 22% after adjusting the excise duty in the previous year to make it comparable with the post-GST regime).

The Earnings before Exceptional items and Tax of ₹8070/- Lakhs recorded healthy growth of 125% year over year. The Growth was driven by favorable end-market conditions in Automotive and Core Sectors as well as implementation of identified growth initiatives on productivity and export markets.

In order to meet Customer expectations of faster delivery of the products, your Company has invested in working capital for stocking of additional inventory of fast moving imported products.

The strong focus and monitoring of Receivables continued and has resulted in improved DSO (Days Sales Outstanding). It has been reduced by 7 days (56 days in FY17 to 49 days in FY18). Your Company continues to have clean receivables and no incremental provisions for doubtful debts (except provision on expected Credit loss on implementation of Ind AS) was required to be made during the year. Return on Capital Employed (without cash and bank balances) improved during the year from 9% in FY17 to 16% in FY18. Net operational cash flow generated during the year decreased from ₹7716 Lakhs in FY17 to ₹6454 Lakhs in FY18. The decrease in the operating cash flows is mainly due to planned increase in working capital investment for inventory.

Your Company has initiated steps to recover some of the inflationary cost increases by way of productivity improvement and enhanced market realizations for its products.

Your Company has been able to reward the shareowners with a dividend of 20% and remain debt free in FY18 in addition to funding its capital investment requirements through internal accruals. Your Company will continue to exercise prudence in financial management in forthcoming years as well.

8. Material Developments in Human Resources and Industrial Relations

Your Company has continued on it's journey of Change Management in Key HR processes in FY18. The focus, this year was on automating important HR modules on Success Factors (SF One Team), the HRIS to which your Company transitioned last year. These initiatives have helped further empower our leaders in their ability to lead and manage their teams. The successful implementation of Talent Development, Succession planning and Analytics modules on One Team have enabled leaders to take informed decisions related to business and development plans for their key team members. Throughout this implementation, your Company has ensured continuous engagement, communication and training to all employees to ensure a seamless transition to the new automated tools, technology and processes. Manager Accountability and Employee Lifecycle workshops conducted helped faster assimilation of the new processes.

<u>Highlights for FY18:</u>

Your Company's journey on the HR Functional Excellence path continued in FY18. While stabilizing the existing processes was key for your Company, we also embarked on new initiatives to modernize and simplify our HR Processes. To that extent, your Company has continued technology upgrades, process improvements, while also keeping an eye on the cost front and revisiting some of the people policies, to be aligned with market practices.

The focus on building Talent pipeline has ensured that critical positions are filled with internal talent within the Organization. Your Company will leverage on the newer tools and technology to ensure that Talent Management remains a key focus for the Organization.

As a part of their development, during the year, your Company equipped the Sales teams with training on Advanced Selling, Customer Communication and Negotiation Skills. Your Company also conducted a Supervisor Development program and a Transforming Leaders Program for its Frontline & Mid-level Managers.

It is imperative that in the on-going change process, we have the full participation of our colleagues from the shop-floor. Your Company undertook a workshop on Change Management covering all shop floor employees. Further, all the Line Managers were also taken through a workshop on essential skills that they would require to Lead and Drive Change in their area of work. In the near future, we will be engaging with well-known global vendors to deliver high impact workshops and programs for our employees in the Organization.

Your Company also has a strong focus on building Technical skills and inculcating Engineering knowledge to our employees. The knowledge and skills of our teams help us connect better with our customers. Our Kennametal Knowledge Center (KKC) team supported our Sales, Customer and Distributor teams on the technical front. KKC conducted 30 programs across the country, covering 850 participants, of which more than 80% were our customers and distributors. The feedback on these programs have been very positive. A reflection on the same is that around 221 leads were generated during the course of conducting these programs at different sites across the country.

Apart from the above, Your Company has continued with its endeavor to sharpen the Business Acumen and Financial knowledge of its mid and senior level managers to help them better appreciate the financial aspects of the Organization, by conducting Finance workshops. All the above initiatives have helped your company's employees to perform better at their goals and thus improve overall Organization efficiency and productivity.

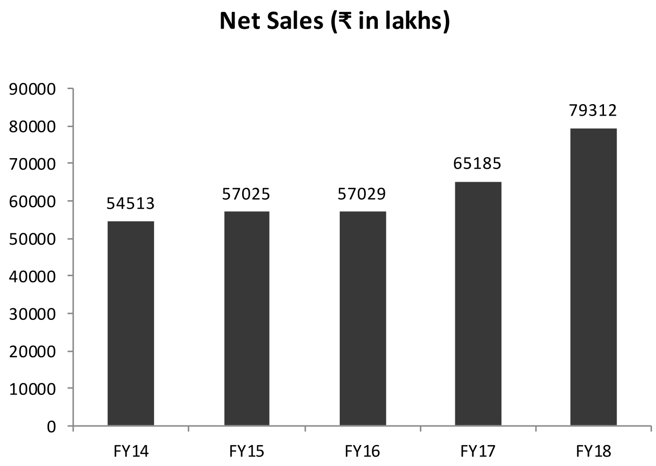
The total number of persons employed in your Company as on June 30, 2018 was 804.

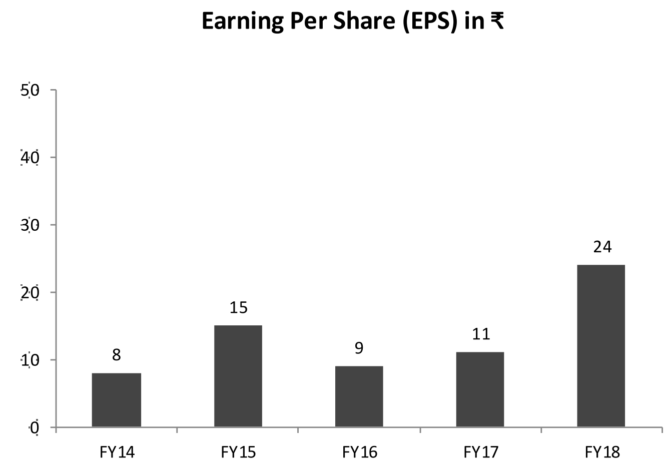
Cautionary Statement

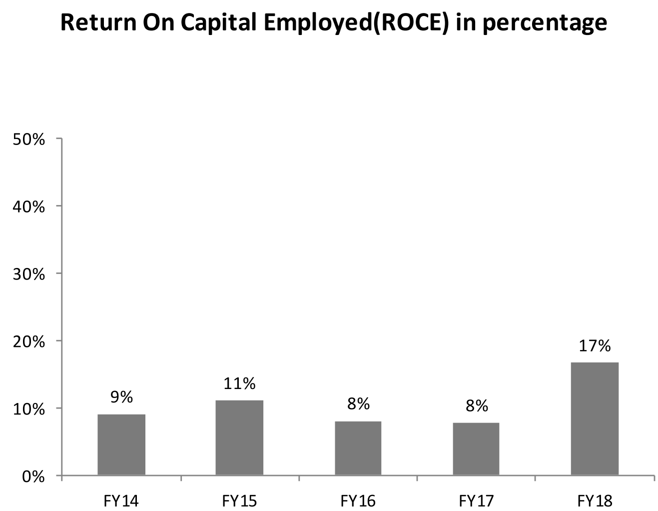
The information and opinion in this section consists of certain forward-looking statements, which the management believes to be true to the best of its knowledge at the time of its presentation based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realized. The Company shall not be liable for any loss, which may arise as a result of any action taken on the basis of the information contained herein. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statements on the basis of any subsequent developments, information or events.

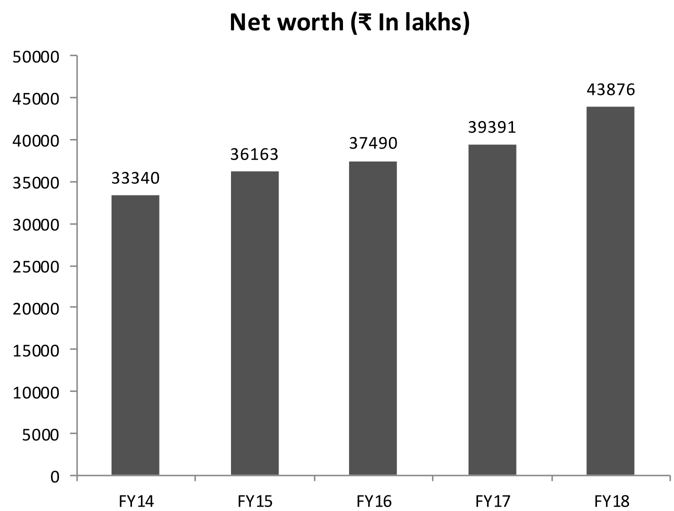
The information contained herein may not be disclosed, reproduced, or used in whole or in part for any purpose or furnished to any other person(s) without the express prior written permission of the Company.

FIVE YEAR CHARTS FOR KEY FINANCIAL INDICATORS









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

Bhagya Chandra Rao
Managing Director
DIN: 00211127

B. Anjani Kumar
Independent Director
DIN: 00022417

Bengaluru
August 23, 2018

Annexure II to the Board's Report

REPORT ON CORPORATE GOVERNANCE

Company's Philosophy on Code of Governance

Good Corporate Governance is at the core of your Company's belief system and is at the heart of our business practices globally. This has been recognized by independent agencies which has led to our parent Company, Kennametal Inc., being conferred the distinction of being among the most ethical Companies in the World for the past many years. Towards sustaining this unique recognition your Company too has rededicated efforts at improving good Corporate Governance by focusing on long-term Stakeholder value creation without compromising on integrity, social obligations and regulatory compliances. The Company's Management firmly believes that good Corporate Governance should be internally driven and not be looked upon just as an issue of compliance dictated by statutory requirements. Your Company has complied with the mandatory and non-mandatory requirements relating to Corporate Governance prescribed under SEBI [Listing Obligations and Disclosure Requirements (LODR)] Regulations, 2015 after the same became applicable, as detailed below:

1. Composition of the Board of Directors

The Board of Directors has Seven (7) members (as on June 30, 2018), including the Managing Director and Six (6) Non-Executive Directors including a Woman Director who brings in a wide range of skills and experience to the Board. The Company has a Non-Executive Chairman and the number of Independent Directors is more than one-third of the total number of Directors. Chairman is neither a Promoter of the Company nor is he related to any Promoter or person occupying Management positions at the Board level or at one level below the Board as defined under Regulation 17(1) (b) of SEBI (LODR) Regulations, 2015. Thus, the composition of the Board is in conformity with the provisions of the Companies Act, 2013 and SEBI [Listing Obligations and Disclosure Requirements (LODR)] Regulations, 2015.

Following are the particulars of Directorships, Memberships of Board Committees and attendance at Meeting:

Name of the Director	Other Directorships held*	Board Committees+ (in other companies)		Attendance	
		Chairman	Member	Board Meetings	Last AGM
Non-Executive, Independent Directors					
Mr. Prakash M. Telang **Chairman**	9	4	4	4	Yes
Mr. Vinayak K. Deshpande	6	1	2	3	Yes
Mr. B. Anjani Kumar	3	1	1	4	Yes
Managing Director - Executive & Non-Independent					
Mr. Bhagya Chandra Rao	1	-	1	4	Yes
Non-Executive Directors & Non-Independent					
Mr. David Lee	1	0	0	3	No
Mr. Alexander Broetz	1	0	0	4	Yes
Ms. Colleen Wood Cordova	1	0	0	4	Yes

Mr. Alexander Broetz, Ms. Colleen Wood Cordova and Mr. David Lee are the Nominees of Kennametal Inc., the Foreign Promoter. No sitting fee is paid to Non-Executive- Non-Independent Directors.

* Excluding office of Alternate Directors, non-profit associations, private & foreign companies.

+ Only the Audit and Stakeholders Relationship Committees are considered.

None of the Directors is a Director in more than ten (10) Public Limited Companies or acts as an Independent Director in more than seven (7) Listed Companies. Further, none of the Directors of the Board serves as a member of more than ten (10) Committees or acts as Chairman of more than five (5) Committees across all Public Limited Companies. There is no relationship amongst Directors *inter-se.*

As per the provisions of the Companies Act, 2013 and SEBI [Listing Obligations and Disclosure Requirements (LODR)] Regulations, 2015, the Company had issued a formal letter of appointment to all the Independent Directors of the Company. The terms of appointment have also been disclosed on the website of the Company at https://www.kennametal.com/content/dam/kennametal/kennametal/hi/About%20Us/Company%20Profile/Terms%20and%20Conditions%20of%20Independent%20Directors.pdf

The Independent Directors are familiarized with the Company, their roles, rights, responsibilities in the Company, nature of the industry in which the Company operates, business model etc. The familiarization document is also disclosed on the website of the Company at https://www.kennametal.com/content/dam/kennametal/kennametal/hi/About%20Us/Company%20Profile/Familiarization_Program_for_Independent_Directors_2015.pdf

As required, a brief profile and other particulars of the Directors seeking appointment/re-appointment are given in the Notice convening the 53rd Annual General Meeting.

Number of Board Meetings held during the period along with the dates of the Meetings:

During the financial year under review, four (4) Meetings of the Board of Directors were held on the following dates:

August 24, 2017, November 07, 2017, February 6, 2018 and May 10, 2018.

During the year, a separate Meeting of the Independent Directors was held on February 06, 2018 without the attendance of non-independent Directors and members of the Management.

Compliance with the Code of Conduct and Ethics:

The Company has adopted the "KIL Code of Conduct and Ethics for Board Members and its Senior Management" and has framed a Whistle Blower Policy aimed at better Corporate Governance and continued Vigil Mechanism which is available on the Company website at https://www.kennametal.com/content/dam/kennametal/kennametal/hi/About%20Us/Company%20Profile/code_of_conduct_director.pdf

In accordance with SEBI (Prevention and Prohibition of Insider Trading) Code, 2015, the Company has formulated the "KIL Code of Conduct for Regulating, Monitoring and Reporting of Trading in Securities by Employees and Other Connected Persons" which is available on the Company's website at www.kennametal.com/kennametalindia

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

2. Audit Committee

The Audit Committee has the powers, role and terms of reference as per SEBI (LODR) Regulations, 2015 read with the provisions of Section 177 of the Companies Act, 2013. The Company has setup a qualified and independent Audit Committee and the terms of reference of the Audit Committee are set out below:

1. The Audit Committee shall have minimum three Directors as members. Two-thirds of the members of the Audit Committee shall be Independent Directors.
2. All members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
3. The Chairman of the Audit Committee shall be an independent Director;
4. The Chairman of the Audit Committee shall be present at the Annual General Meeting to answer shareholder queries;
5. The Audit Committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the Meetings of the Committee, but on occasions it may also meet without the presence of any executives of the Company. The Chief Financial Officer (CFO), the Internal Auditors and a representative of the Statutory Auditors may be present as invitees for the meetings of the Audit Committee;
6. The Company Secretary shall act as the Secretary to the Committee.
7. The Audit Committee shall meet at least four times in a year and not more than 120 days shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent Directors present.

Powers of the Audit Committee:

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

Role of Audit Committee

The role of the Audit Committee includes the following:

1. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible;
2. Recommendation for appointment, remuneration and terms of appointment of auditors of the company;
3. Approval of payment to Statutory Auditors for any other services rendered by the Statutory Auditors;
4. Reviewing, with the management, the annual Financial Statements and Auditor's Report thereon before submission to the Board for approval, with particular reference to:
   a. Matters required to be included in the Directors' Responsibility Statement to be included in the Board's Report in terms of clause (c) of sub-section 3 of section 134 of the Companies Act, 2013.
   b. Changes, if any, in accounting policies and practices and reasons for the same.
   c. Major accounting entries involving estimates based on the exercise of judgment by management.
   d. Significant adjustments made in the financial statements arising out of audit findings.
   e. Compliance with listing and other legal requirements relating to financial statements.
   f. Disclosure of any related party transactions.
   g. Qualifications in the draft Audit Report.
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval;
6. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilization of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter;
7. Reviewing and monitoring the Auditor's Independence, performance and effectiveness of Audit process;
8. Approval or any subsequent modification of transactions of the company with related parties;
9. Scrutiny of inter-corporate loans and investments;
10. Valuation of undertakings or assets of the Company, wherever it is necessary;
11. Evaluation of internal financial controls and risk management systems;
12. Reviewing, with the management, performance of statutory and internal auditors and adequacy of the internal control systems;

13. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
14. Discussion with internal auditors of any significant findings and follow up there on;
15. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board;
16. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
17. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;
18. To review the functioning of the Whistle Blower Mechanism;
19. Approval of appointment of Chief Financial Officer after assessing the qualifications, experience and background, etc. of the candidate;
20. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Review of information by the Audit Committee

The Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;
2. Statement of significant related party transactions (as defined by the Audit Committee), submitted by management;
3. Management letters / letters of internal control weaknesses issued by the Statutory Auditors;
4. Internal audit reports relating to internal control weaknesses; and
5. The appointment, removal and terms of remuneration of the Chief Internal Auditor shall be subject to review by the Audit Committee.
6. Statement of deviation:
   a) Quarterly statement of deviation(s) including report of monitoring agency, if applicable, submitted to Sock Exchange(s) in terms of Regulation 32(1).
   b) Annual statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice in terms of Regulation 32(7).

Composition and details of the Audit Committee Meetings during the financial year

As on June 30, 2018, the Audit Committee consisted of three (3) Non-Executive Independent Directors and all of them have financial and accounting knowledge. The members of the Committee are (i) Mr. B. Anjani Kumar, Chairman of the Committee (ii) Mr. Prakash M. Telang and (iii) Mr. Vinayak K. Deshpande.

The particulars of the members and their attendance at the Meetings held during the year are as below:

Name of the Committee Members	Number of Meetings held	Number of Meetings attended
Mr. B. Anjani Kumar Chairman, Independent Director	4	4
Mr. Vinayak K. Deshpande Independent Director	4	3
Mr. Prakash M. Telang Independent Director	4	4

During the year under review, four (4) Meetings of the Audit Committee of Directors were held on the following dates: August 24, 2017; November 07, 2017; February 6, 2018 and May 10, 2018.

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

The Company Secretary is the Secretary to the Audit Committee.

3. Nomination and Remuneration Committee

In compliance with the provisions of Section 178 of the Companies Act, 2013 and the Listing Regulations, 2015, the terms of reference of the Committee includes *inter alia,* the following:

1. The Committee shall comprise of at least three Directors;
2. All Members of the Committee shall be Non-Executive Directors and at least fifty percent of the Members shall be Independent Directors.
3. The Chairman of the Committee shall be an Independent Director as may be elected by the members of the Committee.

The Nomination and Remuneration Committee has the following roles:

i. Formulation of the criteria for determining qualifications, positive attributes and independence of a Director and recommend to the Board a policy, relating to the remuneration for the Directors, Key Managerial Personnel and other employees.
ii. Formulation of criteria for evaluation of Independent Directors and the Board.
iii. Devising a Policy on Board diversity.
iv. Identifying persons who are qualified to become Directors and who may be appointed in senior management roles in accordance with the criteria laid down, recommend to the Board their appointment and removal and shall carry out evaluation of every Director's performance.
v. Whether to extend or continue the term of appointment of the Independent Director, on the basis of the report of performance evaluation of independent Directors.

Remuneration Policy:

1. Policy relating to the Remuneration for the Whole-Time Director, KMP, and Senior Management Personnel

General:

a) The remuneration/compensation/performance pay/ Variable pay etc. of the Managing/Whole-Time Director, KMP and Senior Management Personnel will be recommended by the Committee to the Board for approval. The remuneration/compensation/ commission etc. of Directors shall be subject to the prior/post approval of the Shareholders of the Company and Central Government, wherever required and within the limit permitted under the Companies Act, 2013 and rules made thereunder.

b) The extent of overall remuneration should be sufficient to attract and retain talented and qualified individuals suitable for every role.

Remuneration should be:

- Market competitive
- Driven by the role played by the individual
- Reflective of the size of the Company, complexity of the industry in which it operates
- Consistent with recognized best practices
- Aligned to the regulatory requirements, if any.

c) In the case of Managing Director, the Committee may recommend increments to the existing remuneration/compensation structure to the Board which should be within the limit approved by the Shareholders.

d) Where any Director and Officers liability (D&O) insurance is taken by the Company on behalf of its Directors, Chief Executive Officer, Chief Financial Officer, the Company Secretary and any other employees for indemnifying them against any liability, the premium paid on such insurance shall not be treated as part of the remuneration payable to any such personnel. Provided that if such person is proved to be guilty, the premium paid on such insurance shall be treated as part of the remuneration.

2. Remuneration to Whole-Time / Executive / Managing Director, KMP and Senior Management Personnel:

a) Annual Guaranteed Cash/Fixed Remuneration and Performance Pay:

The Managing Director/Whole-time Director/KMP and Senior Management Personnel shall be eligible for a monthly remuneration as may be approved by the Board on the recommendation of the Committee. The breakup of the Annual Guaranteed Cash comprising of Basic Salary, Housing Allowance, Special allowance, LTA, Medical allowance and quantum of perquisites including, employer's contribution to PF, pension scheme, Medical Expenses, Club fees and performance/Variable pay etc. shall be decided and approved by the Board/the Person authorized by the Board on the recommendation of the Committee and approved by the Shareholders and Central Government, wherever required.

b) Minimum Remuneration:

If, in any financial year, the Company has no profits, or its profits are inadequate, the Company shall pay remuneration to its Managing/Whole-Time Director in accordance with the provisions of Schedule V of the Companies Act, 2013 and if it is not able to comply with such provisions, with the previous approval of the Central Government.

Statutory requirements:

- Section 197(1) of the Companies Act, 2013 provides for the total managerial remuneration payable by the Company to its Directors, including Managing Director and Whole Time Director, and its Manager in respect of any financial year shall not exceed eleven percent of the net profits of the Company computed in the manner laid down in Section 198 in the manner as prescribed under the Act.
- The Company may with the approval of the Shareholders authorize the payment of remuneration up to five percent of the net profits of the Company to its any one of its Managing Director/Whole Time Director/Manager and ten percent in case of more than one such official.

c) Provisions for excess remuneration:

If any Managing/Whole-time Director draws or receives, directly or indirectly by way of remuneration any such sums in excess of the limits prescribed under the Act or without the prior sanction of the Central Government, where required, he / she shall refund such sums to the Company and until such sum is refunded, hold it in trust for the Company. The Company shall not waive recovery of such sum refundable to it unless permitted by the Central Government.

3. Remuneration to Non-Executive / Independent Director:

a) Remuneration / Commission:

The remuneration / commission shall be fixed as per the provisions of the Companies Act, 2013 and rules made thereunder.

b) Sitting Fees:

The Independent / Non-Executive Directors may receive remuneration by way of fees for attending meetings of the Board or Committee thereof as approved by the Board. Provided that the amount of such fees shall not exceed the amount prescribed under the Companies Act, 2013 and rules/regulations/notification applicable thereunder.

c) Commission:

The Company may pay Commission to Independent Directors within the limit approved by shareholders and subject to the limit not exceeding 1% of the profits of the Company computed as per the applicable provisions of the Companies Act, 2013.

d) Stock Options:

An Independent Director shall not be entitled to any stock option of the Company or its Promoter's Company.

e) In addition to the sitting fees and commission, the Company may pay to any Director such fair and reasonable expenditure, as may have been incurred by the Director while performing his/her role as a Director of the Company. This could include reasonable expenditure incurred by the Director for attending Board/ Board Committee meetings, general meetings, court convened meetings, site visits, induction and training (as permitted by the Companies Act, 2013 and SEBI (LODR) Regulations, 2015) and obtaining professional advice from independent advisors in furtherance of his/her duties as Director.

Performance Evaluation

The Committee shall carry out evaluation of performance of every Director, KMP and Senior Management Personnel at regular intervals (yearly) as per the performance management system of the Company.

Performance Evaluation Criteria

1. The NRC Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Director, KMP or at Senior Management level and recommend to the Board his/her appointment.
2. A person should possess adequate qualifications, expertise and experience for the position he/she is considered for appointment. The Committee has discretion to decide whether the qualifications, expertise and experience possessed by a person is sufficient / satisfactory for the concerned position.
3. An Independent Director shall hold office for a term up to five consecutive years on the Board of the Company and will be eligible for re-appointment on passing of a Special Resolution by the Company and disclosure of such appointment in the Board's Report.
4. The extent of overall remuneration should be sufficient to attract and retain talented and qualified individuals suitable for every role. Remuneration should be:
   - Market competitive
   - Driven by role played by the individual
   - Reflective of size of the Company, complexity of the industry in which it operates
   - Consistent with recognized best practices
   - Aligned to the regulatory requirements, if any.

Board Diversity:

The Company believes that a diverse board will enhance the decision-making ability of the Board by utilizing the different skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of services, and other distinguishing qualities of the members of the Board. Diversity will be considered in determining the optimum composition of the Board, and all appointments will be based on merit, having due regard to the overall effectiveness of the Board.

The Committee is responsible for reviewing and assessing the composition of the Board and will make recommendations to the Board on the appointment of new Directors. The Committee will also review the structure, size and diversity of the Board annually and make recommendations on any proposed changes to the Board to complement the Company's objectives and strategy.

The Nomination and Remuneration Policy, Performance Evaluation and Policy on Board Diversity are available on the website of the Company at https://www.kennametal.com/content/dam/kennametal/kennametal/hi/About%20Us/Company%20Profile/Nomination%20and%20Remuneration%20Committee%20Policy.pdf

Composition and details of the Nomination and Remuneration Committee Meetings during the financial year:

As on June 30, 2018, the Nomination and Remuneration Committee of the Company consisted of Five (5) Non-executive Directors. The members of the Committee are (i) Mr. Vinayak K. Deshpande, Chairman of the Committee (ii) Mr. B. Anjani Kumar (iii) Mr. Prakash M. Telang (iv) Ms. Colleen Wood Cordova and (v) Mr. Alexander Broetz.

The Committee met four (4) times on August 23, 2017, November 7, 2017, February 6, 2018 and May 10, 2018 respectively during the year under review and the attendance of the members at the said Meetings are given below:

Name of the Committee Members	Number of Meetings held	Number of Meetings attended
Mr. Vinayak K. Deshpande Chairman, Independent Director	4	4
Mr. B. Anjani Kumar Independent Director	4	4
Mr. Prakash M. Telang Independent Director	4	4
Mr. Alexander Broetz Non-Executive Director	4	4
Ms. Colleen Wood Cordova Non-Executive Director	4	4

4. Directors' Remuneration

Remuneration paid to Directors for the year under review is provided in Table I and II.

Table I: Remuneration paid to Managing Director in respect of financial year 2017-18.

Managing Director	Amount (₹ in Lakhs) *
Mr. Bhagya Chandra Rao	214.78

*includes salary, fixed allowance, housing, leave travel allowance, contribution to retiral benefits, performance pay, etc. It also includes Stock options of ₹60 Lakhs granted by Kennametal Inc., (the ultimate holding company). Performance pay is based on the results achieved against the targets and criteria as set out by the Board. The Board of Directors re-appointed Mr. Rao at its meeting held on November 14, 2016, after considering the recommendation of Nomination & Remuneration Committee, for a period of three years from September 17, 2017 to September 16, 2020 terminable with a notice period of three months or such notice as may be mutually determined as per the agreement dated November 14, 2016, subject to approval of shareholders. The Shareholders have confirmed the Re-appointment of Mr. Bhagya Chandra Rao in the 52nd Annual General Meeting for the aforementioned period recommended by the Board.

Table II: Remuneration paid / payable to Non-Executive Directors for the year under review:

Non-Executive Directors	Commission (₹ in Lakhs)*	Sitting Fees (₹ in Lakhs)
Mr. Prakash M. Telang	18.21	4.25
Mr. Vinayak K. Deshpande	9.08	3.45
Mr. B. Anjani Kumar	12.73	4.25
Mr. Alexander Broetz	NIL	NIL
Mr. David Lee	NIL	NIL
Ms. Colleen W. Cordova	NIL	NIL

* Payable in FY19

The criteria for determination of commission to Non-Executive Independent and Non-Independent Directors as approved by the Board, includes attendance at the meetings of the Board / Board Committees, Chairmanship of the Board / Committees of the Board, individual responsibilities and additional contribution to the Company.

The Company presently has no Employee Stock Option Plan.

5. Stakeholders' Relationship Committee

In compliance with the provisions of Section 178(5) of the Companies Act, 2013 and the provisions of the Listing Regulations, 2015 the Board had formed the "Stakeholders' Relationship Committee".

The terms of Reference/Role/Powers of the Committee are as under:

1. To look into matters connected with the redressal of grievances of shareholders, debenture holders and other security holders including complaints related to transfer of shares, non-receipt of Annual Report and non-receipt of declared dividends.
2. To oversee the performance of the Company's Registrar and Transfer Agents, recommend methods to upgrade the standard of services to Investors.
3. To carry out any other function as is referred by the Board from time to time or enforced by any statutory notification / amendment or modification as may be applicable.

Composition and details of the Stakeholders' Relationship Committee Meeting during the financial year

The Stakeholders' Relationship Committee comprised of (a) Mr. B. Anjani Kumar, Chairman (b) Mr. Bhagya Chandra Rao and (c) Mr. Prakash M. Telang.

Mr. Thulsidass T. V., Company Secretary is the Compliance Officer of the Company.

During the year under review, four (4) Meetings of the Committee were held on August 23, 2017, November 7, 2017, February 6, 2018 and May 10, 2018 respectively. The particulars of the members and their attendance at the Meetings are provided herein the below Table:

Name of the Committee Members	Number of Meetings held	Number of Meetings attended
Mr. B. Anjani Kumar* Chairman, Independent Director	4	4
Mr. Bhagya Chandra Rao Managing Director	4	4
Mr. Prakash M. Telang Independent Director	4	4

*At the Meeting held on May 10, 2018, Mr. Prakash Telang resigned as Chairman of the Committee and Mr. Anjani Kumar was elected as the new Chairman and Mr. Telang continues as a member of the Committee..

During the year under review, the Company has not received any complaints.

Share Transfer Committee

The Share Transfer Committee deals with matters relating to transfers/ transmissions/transposition/consolidation/deletion of name/issue of Share Certificates in exchange for sub-divided/consolidated/ defaced share certificates/issue of duplicate Share Certificates, re-materialization of Shares, etc.

The Share Transfer Committee comprises of (a) Mr. Bhagya Chandra Rao, Chairman (b) Mr. B. Anjani Kumar (c) Mr. K. V. Suresh Reddy and (d) Mr. Thulsidass T. V. During the year, Four (4) Meetings of the said Committee were held on August 21, 2017, January 5, 2018, February 14, 2018 & June 1, 2018

The Minutes of the Share Transfer Committee Meetings were tabled and noted at the Board Meetings.

6. Corporate Social Responsibility Committee

The Board has constituted a Corporate Social Responsibility (CSR) Committee which shall formulate and recommend to the Board, a Corporate Social Responsibility Policy in terms of Schedule VII of the Companies Act, 2013; recommend the amount of expenditure to be incurred on the CSR activities; review the Corporate Social Responsibility Policy of the Company from time to time; and to act in terms of any consequent statutory modification(s)/amendment(s)/ revision(s) to any of the applicable provisions to the said Committee.

The Committee comprised of (a) Mr. Bhagya Chandra Rao, Chairman (b) Mr. Prakash M. Telang (c) Mr. B. Anjani Kumar (d) Mr. Alexander Broetz and (e) Ms. Colleen Wood Cordova. During the year, three (3) Meetings of the said Committee were held. The Minutes of the Corporate Social Responsibility Committee Meetings were tabled and noted at the Board Meetings.

The Committee met on August 23, 2017, February 6, 2018 and May 10, 2018 during the year under review and the attendance of the members at the said Meetings is provided in the below table as follows:

Name of the Committee Members	Number of Meetings held	Number of Meetings attended
Mr. Bhagya Chandra Rao Chairman, Managing Director	3	3
Mr. Prakash M. Telang Independent Director	3	3
Mr. B. Anjani Kumar Independent Director	3	3
Mr. Alexander Broetz Non-Executive Director	3	3
Ms. Colleen Wood Cordova Non-Executive Director	3	2

The Corporate Social Responsibility Policy is also disclosed on the website of the Company at https://www.kennametal.com/content/dam/kennametal/kennametal/hi/About%20Us/Company%20Profile/Corporate%20Social%20Responsibility%20(CSR)%20Policy.pdf

7. Risk Management Committee

The Committee comprises of (a) Mr. Prakash M. Telang, Chairman of the Committee (b) Mr. Bhagya Chandra Rao (c) Mr. B. Anjani Kumar (d) Mr. K. V. Suresh Reddy and (d) Mr. M. N. Bhaskara Rao

The Committee met on August 23, 2017, November 7, 2017 & May 10, 2018, during the financial year under review and the attendance of the members at the said Meetings is provided in the below table as follows:

Name of the Committee Members	Number of Meetings held	Number of Meetings attended
Mr. Prakash M. Telang Chairman, Independent Director	3	3
Mr. Bhagya Chandra Rao Managing Director	3	3
Mr. B. Anjani Kumar Independent Director	3	3
Mr. K. V. Suresh Reddy Member	3	3
Mr. M. N. Bhaskara Rao Member	3	3

8. General Meetings

Date and Time	Location	Special Resolutions passed
50th AGM, November 09, 2015 12.30 p.m.	Registered Office at 8/9th Mile, Tumkur Road, Bangalore – 560 073	None
51st AGM, November 14, 2016 12.30 p.m.	Registered Office at 8/9th Mile, Tumkur Road, Bangalore – 560 073	None
52nd AGM, November 7, 2017 12.30 p.m.	Registered Office at 8/9th Mile, Tumkur Road, Bangalore – 560 073	As per the provisions of the Companies Act, 2013: • Alteration of Articles of Association of the Company • Alteration of Memorandum of Association of the Company

9. Disclosures

- The Company has adopted a Policy for determination of materiality for disclosure of Events or Information and a policy for preservation of documents and archival in accordance with SEBI (LODR) Regulations, 2015.
- The Company has in place a Code of Conduct applicable to the Board of Directors as well as the Senior Management. The Managing Director has confirmed and declared that all the members of the Board and Senior Management personnel have affirmed compliance with the Code of Conduct for the financial year 2018.
- Following Directors hold the Shares of the Company:

Sl. No.	Name of the Directors	No. of Shares held as on 30-06-2018
1	Mr. B. Anjani Kumar	10
2	Mr. Prakash M. Telang	2000
3	Mr. Bhagya Chandra Rao	300

No other Director holds any Shares in the Company.

- No penalties were imposed, or strictures passed on the Company by BSE Limited, SEBI or any statutory authority on any matter relating to capital markets during the last three years.
- All the Equity Shares of your Company are listed.
- The Company places the requisite information about related party transactions before the Audit Committee from time to time. Please refer to Notes on Accounts for materially significant related party transactions. None of the said transactions were potentially in conflict with the interest of the Company at large.
- There has been no accounting treatment different from that prescribed in the Accounting Standards laid down by the Institute of Chartered Accountants of India (ICAI) or as notified under the Companies Act.
- The Company being a part of Kennametal Group ("the group") complies with the whistle blower policy of the group which is applicable to all employees of the group.
- The Senior Management personnel have declared to the Board of Directors that none of them or their relatives had any material, financial, commercial transactions that were potentially in conflict with the interests of the Company.
- The Managing Director and Chief Financial Officer have certified to the Board in accordance with Regulation 17(8) of SEBI (LODR) Regulations, 2015, for the year ended June 30, 2018.
- The Company does not have any subsidiaries.
- The Company has not made any capital issues during the financial year ended June 30, 2018.
- The Company has complied with all the mandatory requirements of the Chapter IV of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. As regards the non-mandatory requirements the extent of compliance has been stated in this report against each item.

10. Adoption of non-mandatory requirements

i) Shareholder Rights
The Company's quarterly and half-yearly financial results including summary of the significant events are published in the newspapers and the results were also uploaded on the Company's website. Therefore, no individual intimations were sent to the Shareholders. However, based on the requests from Shareholders, if any, the Company would provide them individually.

ii) Audit qualifications
There are no qualifications/unmodified audit opinion in the Auditors' Report on the Accounts for the year ended June 30, 2018.

iii) Separate posts of the Chairman and the CEO
The Company has appointed separate persons to the post of the Chairman and the CEO.

iv) Reporting of Internal Auditor
The Internal Auditor / Audit Firm report directly to the Audit Committee.

11. Means of Communication

a. Quarterly/half-yearly/annual financial results of the Company are uploaded on the BSE Listing Centre Immediately after the Board Meetings so as to enable hosting the same on its website and the results were also published in Financial Express (English) and Sanjevani (Kannada) newspapers within 48 hours from the conclusion of the Board Meetings.

   During the financial year the Company had Analyst calls with Mr. Kirthi K. Jain & Mr. Madangopal Ramu of.Sundaram Mutual Fund on December 14, 2017, Mr. Viraj Yatish Mithani on March 16, 2018 and with Mr. Ravi Purohit & Mr. Viraj Kacharia of Securities Investment Management Private Limited, to discuss published financials of the Company. However, the Company has not made any presentations to the Institutional Investors or to the Analysts.

b. As per SEBI (LODR) Regulations, 2015, the requisite details of the Company in terms of Regulation 46 are maintained on the website viz. www.kennametal.com/kennametalindia

c. Management Discussion and Analysis Report is annexed to the Board's Report.

General Shareholders information

Annual General Meeting:

The 53rd Annual General Meeting of the Company is scheduled to be held on November 09, 2018 at the Registered Office of the Company at 8/9th Mile, Tumkur Road, Bengaluru – 560 073.

Book Closure:

The Register of Members and share transfer books will remain closed from Friday, November 02, 2018 to Friday, November 09, 2018 (both days inclusive).

Financial calendar for the financial year 2018-19 is as follows:

Event	Month (tentative)
Un-audited results for the quarter ending September 30, 2018	November, 2018
Un-audited results for the quarter ending December 31, 2018	January / February, 2019
Un-audited results for the quarter ending March 31, 2019	April / May, 2019
Audited results for the year ending June 30, 2019	July / August, 2019

Stock Exchange:

The Equity Shares of the Company are listed with BSE Limited, Mumbai (Scrip code: 505890) and the listing fee has been paid for the financial year 2018-19.

Annual Custody / Issuer Charges:

The Company has paid the Annual Custody / Issuer charges for the financial year 2018-19 to NSDL and CDSL.

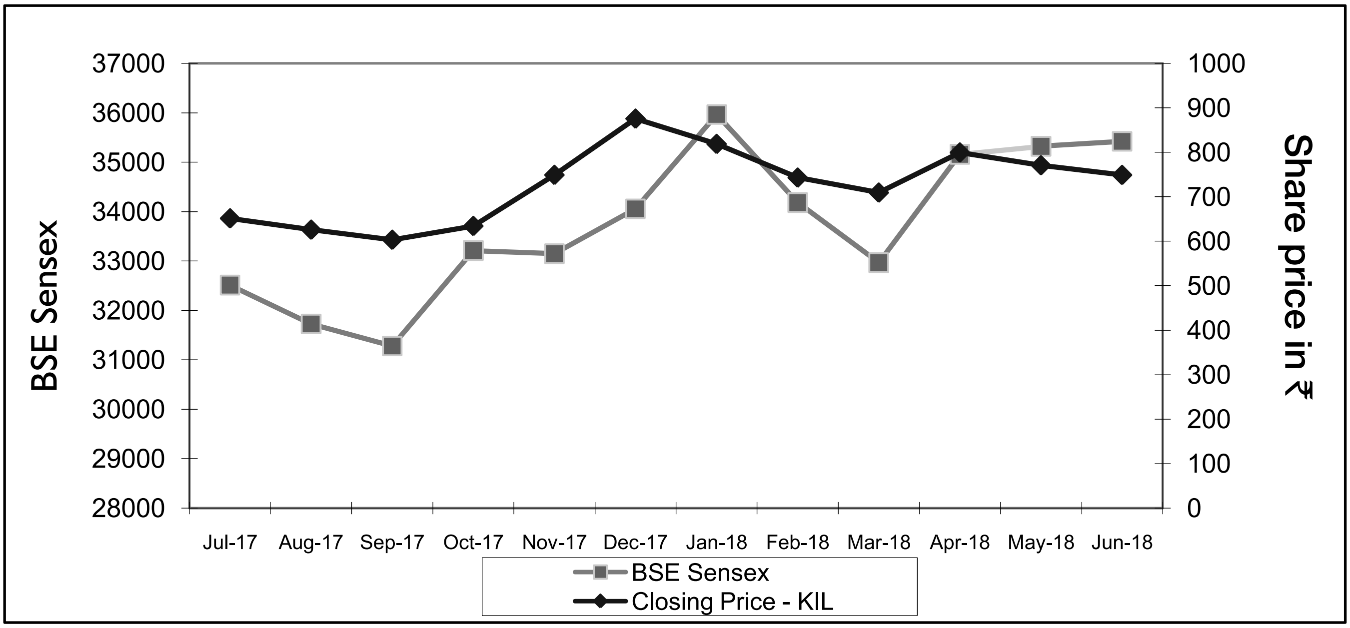
Stock Price Data for the financial year 2017-18:

Market Price Data – High & Low on BSE Limited and Number of shares traded from July 01, 2017 to June 30, 2018, under review as follows:

Month & Year	High Price (in ₹)	Low Price (in ₹)	Close Price (in ₹)	No. of Shares traded
Jul-17	713.00	620.00	651.35	82982
Aug-17	659.85	595.00	625.85	51419
Sep-17	640.00	598.95	603.15	39710
Oct-17	663.30	590.00	634.15	145460
Nov-17	770.00	633.25	749.00	160566
Dec-17	932.00	701.20	875.65	209623
Jan-18	1009.00	809.00	818.70	122128
Feb-18	848.00	712.00	743.00	72298
Mar-18	778.95	701.15	709.30	63224
Apr-18	830.00	705.10	799.50	66064
May-18	863.15	755.10	770.80	137021
Jun-18	820.00	681.25	748.95	218879

Source: Website of the BSE Limited - www.bseindia.com

Share price performance in comparison with BSE Sensex*



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

Share Transfer Agents

Works related to both physical / demat shares are handled by Integrated Registry Management Services Private Limited as common Share Transfer Agent. All correspondence relating to share transfer, change of the address for Shares held in physical form and dematerialization of shares etc. are to be addressed to Integrated Registry Management Services Private Limited, No.30, "Ramana Residency", 4th Cross, Sampige Road, Malleswaram, Bengaluru – 560 003, Phone: 080 - 23460815 to 818. Fax: 080 - 23460819. E-mail: irg@intigratedindia.in

Share transfer system

The authority relating to transfer/transmission/dematerialization of Shares has been delegated to a Share Transfer Committee. The Committee meets fortnightly or as often as may be necessary to ensure that the transfer process is completed without any delay.

Additionally, an Independent Practicing Company Secretary undertakes audit and scrutiny of the system quarterly and furnishes requisite Reports / Certificates which are submitted to the Stock Exchange subsequently.

Pattern of shareholding as on June 30, 2018 is as follows:

Category	No. of Shares	Percentage (%)
A. Promoters (Foreign)		
• Meturit AG. – 11208840	16483680	75.00
• Kennametal Inc. – 5274840		
B. Public(Institutions)		
• Mutual Funds	3192187	14.52
• Foreign Portfolio Investors	130056	0.59
• Financial Institutions/Banks	1040	0.01
• Bodies Corporate	–	–
C. Public (Non- Institutions)	2171277	9.88
Total (A+B+C)	**21978240**	**100.00**

Dematerialization of shares

The Company's Shares are admitted into both the depositories viz. National Securities Depository Limited [NSDL] and Central Depository Services (India) Limited [CDSL] and the ISIN allotted for the Equity Shares of the Company is INE717A01029, 98.93% of the Equity Shares of the Company are held in demat form as on 30.06.2018.

There are no outstanding GDRs/ADRs/Warrants or any other convertible instruments.

Distribution of Shares as on June 30, 2018 is as follows:

No. of Shares	No. of Shareholders	Shares held	% to Total
Upto 5000	6352	1428814	6.50
5001 to 10000	42	298199	1.36
10001 to 20000	24	347861	1.58
20001 to 30000	5	124788	0.57
30001 to 40000	1	33000	0.15
40001 to 50000	2	82327	0.37
51001 to 100000	1	63300	0.29
100001 and above	8	19599951	89.18
Total	**6435**	**21978240**	**100.00**

Plant location

Kennametal India Limited
(CIN: L27109KA1964PLC001546)
8/9th Mile, Tumkur Road
Bengaluru - 560 073, Karnataka, India

Please write to us for all matters relating to Shares, demat, remat, annual report, etc.

Address for correspondence:
Integrated Registry Management Services Private Limited
Unit: Kennametal India Limited
No. 30, "Ramana Residency", 4th Cross,
Sampige Road, Malleswaram, Bengaluru - 560 003,
Phone: 080 - 23460815 to 818.
Fax: 080 - 23460819.
E-mail: irg@integratedindia.in

For dividend queries and other general matters:
The Company Secretary
Kennametal India Limited
8/9th Mile, Tumkur Road, Bengaluru – 560 073 Karnataka, India
Phone: 080-28394321 and 080-22918345
Fax: 080 28397572
E-mail: in.investorrelation@kennametal.com
For the purpose of addressing investor complaints and also to take necessary follow-up action.

Annexure II to the Board's Report

AUDITOR'S CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER SEBI (LODR) REGULATIONS, 2015

To

The Members of
Kennametal India Limited
Bengaluru

I have examined all the relevant records of Kennametal India Limited ('the Company') for the purpose of certifying the compliances of the conditions of Corporate Governance by the Company for the year ended 30th June, 2018 as stipulated under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('the Listing Regulations').

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

In my opinion and to the best of my information and explanations given to me, I certify that the Company has complied with the conditions of Corporate Governance as stipulated under the Listing Regulations.

I 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.

Vijayakrishna K. T.
Practising Company Secretary
FCS-1788 & CP-980

Bengaluru
August 23, 2018

Annexure IIA to the Board's Report

MD CERTIFICATION

(Code of Conduct for Directors and Senior Management)

To
The Members of
Kennametal India Limited

I hereby confirm that all the Members of the Board of Directors and the Senior Management of the Company have affirmed compliance with the Code of Conduct of the Company for the year ended June 30, 2018.

For Kennametal India Limited

Bhagya Chandra Rao
Managing Director
DIN: 00211127

Bengaluru
August 23, 2018

Annexure IIB to the Board's Report

CHIEF EXECUTIVE OFFICER (CEO) AND CHIEF FINANCIAL OFFICER (CFO) CERTIFICATION

To
The Board of Directors
Kennametal India Limited

We, Mr. Bhagya Chandra Rao, Managing Director, and Mr. K. V. Suresh Reddy, Chief Financial Officer of Kennametal India Limited, to the best of our knowledge and belief, certify that:

A. We have reviewed the financial statements and the cash flow statement for the year ended June 30, 2018 and that to the best of our knowledge and belief:
   1. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
   2. these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

B. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violative of Company's Code of Conduct (Kennametal code of business ethics and conduct).

C. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of the internal control systems of the Company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify such deficiencies.

D. We have indicated to the Auditors and the Audit Committee
   (a) that there were no significant changes in internal control during the year other than those which have already been brought to the notice of the Audit Committee of Directors and the Statutory Auditors.
   (b) that there were no significant changes in accounting policies during the year and that the same, if any, have been disclosed in the notes to the financial statements; and
   (c) that there were no instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.

We declare that all Board members and Senior Management personnel have affirmed compliance with the code of conduct for the year ended June 30, 2018.

Bhagya Chandra Rao
Managing Director

K. V. Suresh Reddy
Chief Financial Officer

Bengaluru
August 23, 2018

Annexure III to the Board's Report

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO (Section 134(3)(m) of the Companies Act, 2013 read with Rule 8(3) of the Companies (Accounts) Rules, 2014)

A. Conservation of Energy

Your Company continued to undertake various energy conservation initiatives during the year. Some of the energy conservation measures taken by the Company are given below:

i. Energy Conservation Measures implemented in FY 18

1. Street Lighting System was upgraded with LED Lighting system.
2. Energy Management system was upgraded with advance features which facilitate in depth analysis of Energy Consumption data.
3. The Compressed Air Audit was conducted, and actions taken to reduce Compressed Air Consumption.
4. Energy Audit of Chillers supplying the Cold water to process was done and the Chillers were replaced with Energy Efficient Chillers.
5. Energy Consumption in shop floors on Sundays and Holidays was reviewed with MIS Reports generated from Energy Management system and action taken to optimize Energy Consumption.
6. The Company has opted for Greener alternatives by sourcing Solar Power under a long term agreement for meeting 80 percent of the power requirement from Feb 2018.

ii. Impact of the above measures

1. Due to the above energy Conservation measures, the company conserved about ₹4 Lakhs Units in FY 18, leading to a saving of ₹30 Lakhs in the energy charges excluding the savings from Solar Power purchase.
2. These measures also led to a reduction in the Electricity load by about 20 KW.
3. The savings due to sourcing of Solar power has yielded savings of ₹41 Lakhs in the Annual Energy costs.

B. Technology Absorption

i. Research & Development (R&D)

The Research, Development and Engineering (RD&E) of your Company continues in its endeavor to develop and indigenize products and processes with specific focus on materials, processes, coatings and design in collaboration with the parent company – Kennametal Inc., to reduce cost, improve product efficiency and enhance performance of its products.

RD&E department of your Company has the following objectives:

1. Development of new range of products contributing to better market penetration, conversion and retention.
2. New Process Development & Improvement in Powder Manufacturing, Pressing, Sintering and Coating.
3. Support to Manufacturing for Improved Quality and reduced cost of production for better customer experience.
4. Support Marketing for developing custom solution products by leveraging the combination of Kennametal's strength in substrates, coatings and engineering.
5. Support Kennametal Knowledge Centre to train Customers and Sales Engineers on cutting tool material.
6. Rapid product development by conducting Benchmarking test and simulating field machining condition at Lab.
7. Exploring new technologies in processes, materials & automation.

a) Specific areas in which R&D is carried out

1. Consolidation of standard and special grades to simplify product portfolios.
2. Standardization of Sintering cycles.
3. Established manufacturing process of few grades/ products for Import substitution.
4. Qualification and establishment of global powder grades.
5. Process improvement to reduce the sintered scrap in high cobalt grade.
6. Developed a method to evaluate powder quality.
7. Developed solution to reduce the corrosion of Steel Tool Holder
8. Developed process for in-house machining of carbide Rolls.
9. Established improved sintering cycle and grinding process for mining products.
10. Qualification and implementation of new supplier for raw materials.
11. Established improved manufacturing process route for P25 grade.
12. Continued research on Powder Metallurgy processes and Coatings to improve quality and performance.

b) Benefits derived

Improvement of product quality and consistency, manufacturing lead time, Cost reduction, New products and a good value proposition to customers by improvement in product performance & Global standardization.

c) Future plan of action

1. Develop improved Powder Metallurgy and Coating Manufacturing processes.
2. Develop grades for specific applications – Metal cutting, Metal forming and Mining.
3. Establish product and process for import substitution.
4. Continued efforts towards Quality enhancement, Evolution of new products aligned with customer needs and with reduction in costs and lead time.
5. Global consolidation & standardization of grades including substrates & coatings.
6. Continued focus on basic research and Open Innovation.
7. Develop cutting tools for specific applications.
8. Work on advanced technology instrumentation for improving the quality of products and manufacturing processes.
9. Establish manufacturing process to achieve Zero discharge plant.

d) Expenditure on R&D

(₹ in Lakhs)

	FY 2018	FY 2017
a) Capital	165	367
b) Recurring	280	427
c) Total	**445**	**794**
d) Total R&D expenditure (as a percentage to turnover)	0.56%	1.22%

ii. Technology absorption, adaptation and innovation

1. Efforts, in brief, made towards technology absorption, adaptation and innovation.
   - Establishment of global substrates and coatings.
   - Continued modernization of analytical techniques in Metallography lab, process equipment in manufacturing plants, prototype lab capabilities in Machining Technology Lab.
2. Benefits derived as a result of the above efforts.
   - Up-gradation of Products and Process performance, increased alignment with Global Process standardization, Import substitution, supporting raw material qualification and basic research activities.
3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished.

Processes/Products	Technology From	Year	Status of Implementation/ Absorption
Chemical Vapour Deposition Coatings, Pre- and Post-Coat treatments	Kennametal Inc.	2011-12	Full
End Mills	Hanita Metal Works Limited	2011-12	Full
Grades and Products	Kennametal Inc.	2012-13	Full
New Pre- and Post-Coat Treatments	Kennametal Inc.	2012-13	Full
New CVD Coatings	Kennametal Inc.	2012-13	Full
New CVD Coatings	Kennametal Inc.	2013-14	Full
New CVD Coatings	Kennametal Inc.	2014-15	Full
New CVD Coatings	Kennametal Inc.	2015-16	Full
New CVD Coatings	Kennametal Inc.	2016-17	Full
Sintering Cycles	Kennametal Inc.	2017-18	Full

C. Foreign Exchange earnings and outgo

i. Activities relating to exports

Your Company registered strong export growth of 50% led by growth of 146% in sales of Ecogrind machines to China and South East Asia Markets and 31% growth in Hard Metal products.

ii. Initiatives taken to increase exports

1. MSG business developed new overseas markets for its products with machines positioned at competitive price point and continues to seek global opportunities for further growth.
2. Surplus manufacturing capacities are leveraged to support Global requirements as and when opportunity exists for exports.

iii. Foreign Exchange used: (₹ in Lakhs)

1. For Capital Expenditure – 3815
2. For Raw Materials – 36188
3. Expense Cross Charges – 1618
4. Royalty – 280
5. Other Expenses – 745

iv. Total foreign exchange used and earned: (₹ in Lakhs)

i) Foreign Exchange earned	12907
ii) Foreign Exchange used	42646

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

Bhagya Chandra Rao
Managing Director
DIN: 00211127

B. Anjani Kumar
Independent Director
DIN: 00022417

Bengaluru
August 23, 2018

Annexure IV to the Board's Report

Form No. MR-3
SECRETARIAL AUDIT REPORT
FOR THE FINANCIAL YEAR ENDED 30.06.2018
[Pursuant to Section 204(1) of the Companies Act, 2013 and rule No.9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014]

To
The Members
Kennametal India Limited
Bangalore

I have conducted the Secretarial Audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by Kennametal India Limited (CIN: L27109KA1964PLC001546) (hereinafter called 'the Company'). Secretarial Audit was conducted in a manner that provided me a reasonable basis for evaluating the corporate conducts/ statutory compliances and expressing my opinion thereon.

Based on my verification of the books, papers, minute books, forms and returns filed and other records maintained by the Company and also the information provided by the Company, its officers, agents and authorized representatives during the conduct of Secretarial Audit, I hereby report that in my opinion, the Company has, during the audit period covering the financial year ended on 30.06.2018 complied with the statutory provisions listed hereunder and also that the Company has proper Board processes and compliance mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

I have examined the books, papers, minute books, forms and returns filed and other records maintained by the Company for the financial year ended on 30.06.2018 according to the provisions of:

(i) The Companies Act, 2013 (the Act) and the rules made thereunder;

(ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder;

(iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder;

(iv) Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;

(v) The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):

   (a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;

   (b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015;

   (c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009;

   (d) The Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014;

   (e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;

   (f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;

   (g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; and

   (h) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998;

   (i) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015;

(vi) There are no specific laws applicable to the Company pursuant to the business carried by the Company.

(vii) The other general laws as may be applicable to the Company including the following:

(1) Employer/Employee Related laws & Rules:

i. Industries (Development & Regulation) Act, 1951
ii. The Factories Act, 1948 (in case of manufacturing companies, where applicable)
iii. The Employment Exchanges (Compulsory notification of Vacancies) Act, 1959
iv. The Apprentices Act, 1961
v. The Employees Provident Fund & Miscellaneous Provisions Act, 1952
vi. The Employees State Insurance Act, 1948
vii. The Workmen's Compensation Act, 1923
viii. The Maternity Benefits Act, 1961
ix. The Payment of Gratuity Act, 1972
x. The Payment of Bonus Act, 1965
xi. The Industrial Disputes Act, 1947
xii. The Trade Unions Act, 1926
xiii. The Payment of Wages Act, 1936
xiv. The Minimum Wages Act, 1948
xv. The Child Labour (Regulation & Abolition) Act, 1970
xvi. The Contract Labour (Regulation & Abolition) Act, 1970
xvii. The Industrial Employment (Standing Orders) Act, 1946
xviii. Equal Remuneration Act, 1976
xix. The Sexual Harassment of Women at Work Place (Prevention, Prohibition & Redressal) Act, 2013
xx. Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1996
xxi. Dangerous Machines (Regulation) Act, 1983
xxii. Indian Boilers Act, 1923
xxiii. The Karnataka Shops & Establishments Act, 1961
xxiv. The Industrial Establishments (National and Festival Holidays) Act, 1963
xxv. The Labour Welfare Fund Act, 1965
xxvi. The Karnataka Daily Wage Employees Welfare Act, 2012
xxvii. For majority of Central Labour Laws the State has introduced Rules [names of each of the Rules is not included here]

(2) Environment Related Acts & Rules:

i. The Environment Protection Act, 1986
ii. The Water (Prevention & Control of Pollution) Act, 1974
iii. The Air (Prevention & Control of Pollution) Act, 1981
iv. Hazardous Wastes (Management, Handling and Transboundary Movement) Rules, 2008.

(3) Economic/Commercial Laws & Rules:

i. The Competition Act, 2002

ii. The Indian Contract Act, 1872

iii. The Sale of Goods Act, 1930

iv. The Forward Contracts (Regulation) Act, 1952

v. The Indian Stamp Act, 1899

vi. The Transfer of Property Act, 1882

I have also examined compliances with the applicable clauses of the Secretarial Standards issued by the Institute of Company Secretaries of India on the Board and General Meetings i.e. SS – 1 and SS – 2.

I further state that during the period under review and based on my verification of the records maintained by the Company and also on the review of compliance reports/statements by respective department heads/Chief Financial Officer/Company Secretary taken on record by the Board of Directors of the Company, in my opinion, adequate systems and process and control mechanism exist in the Company to monitor and ensure compliance with applicable Labour Laws, environmental laws and other applicable laws as mentioned above. Certain non-material findings made during the course of the audit relating to Labour Laws were addressed suitably by the Management.

Further, I report that with regard to financial and taxation matters, I have relied on the Audit Report, Limited Review Report and the Internal Audit Report provided by the Statutory/Internal Auditor as the case may be.

I further report that The Board of Directors of the Company is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors. The changes in the composition of the Board of Directors which took place during the period under review were carried out in compliance with the provisions of the Act.

Adequate notice is given to all Directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent at least seven days in advance, and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

Majority decision is carried through while the dissenting members' views are captured and recorded as part of the minutes as per the practice followed. However, during the period under report, there was no such case instance.

I further report that there are adequate systems and processes in the Company commensurate with the size and operations of the Company to monitor and ensure compliance with applicable laws, rules, regulations and guidelines.

(Vijayakrishna K. T.)
FCS No.: 1788
C P No.: 980

Bengaluru
August 23, 2018

Note: This report is to be read with my letter of even date which is annexed as Annexure and forms an integral part of this report.

My report of even date is to be read along with this letter:

1. Maintenance of secretarial records is the responsibility of the management of the Company. My responsibility is to express an opinion on these secretarial records based on our audit.
2. I have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of Secretarial Records. The verification was done on test basis to ensure that correct facts are reflected in the secretarial records. I believe that the processes and practices, I have followed provide a reasonable basis for our opinion.
3. I have not verified the correctness and appropriateness of Financial records and Books of Accounts of the Company including records under Income Tax Act, Central Excise Act, Customs Act, Central and State Sales Tax Act and Goods and Services Tax Act.
4. Where ever required, the Company has represented about the compliance of laws, rules and regulations and happening of events etc., as applicable from time to time.
5. The compliance of the provisions of Corporate and other applicable laws, rules, regulations, standards is the responsibility of Management. My examination was limited to the verification of procedures on test basis.
6. The Secretarial Audit report is neither an assurance as to the future viability of the Company nor of the efficacy or effectiveness with which the Management has conducted the affairs of the Company.

Vijayakrishna K. T.
FCS No.: 1788
C P No.: 980

Bengaluru
August 23, 2018

Annexure V to the Board's Report

FORM NO. AOC – 2

Form for disclosure of particulars of contracts/arrangements entered into by the company with related parties referred to in sub-section (1) of section 188 of the Companies Act, 2013 including certain arm's length transactions under third proviso thereto.

(Pursuant to clause (h) of sub-section (3) of section 134 of the Act and Rule 8(2) of the Companies (Accounts) Rules, 2014)

1. Details of contracts or arrangements or transactions not at arm's length basis : NIL
2. Details of material contracts or arrangement or transactions at arm's length basis
   (a) Name(s) of the related party and nature of relationship:
      1. KENNAMETAL INC., USA, Ultimate Holding (Parent) Company of the Company
      2. KENNAMETAL EUROPE GmbH, Switzerland

   (b) Nature of Contracts/arrangements/transactions:

Sl. No.	Nature of Transactions
1	Purchase
2	Sales
3	IT
4	Royalty
5	Cross Charge-Debits
6	Cross Charge-Revenue

The above transactions are in the ordinary course of business and on arm's length basis.

   (c) Duration of the Contracts/arrangements/transactions-ongoing, will be continuous year after year.

   (d) Salient terms of the Contracts or arrangements or transactions including the value, if any:

Sl. No.	Nature of Transactions	Salient terms
1	Purchase	Payment in respective country currency made within 30 days from date of receipt of material
2	Sales	Billing in country currency; Within 21 days from end of the month billing
3	IT	Payment in respective country currency made within 30 days of issue of debit note
4	Royalty	Payment in respective country currency made within 60 days of issue of credit note
5	Cross Charge – Debits	Payment in respective country currency made within 60 days of issue of debit note
6	Cross Charge – Revenue	Billing in country currency; Within 21 days from end of the month billing

1) Particulars of Transactions with KENNAMETAL INC., USA (₹ In Lakhs)

Sl. No.	Nature of Transactions	Actual Transaction value for financial year July 01, 2017 to June 30, 2018 i.e. FY18 amount	Estimated Value of Transactions per Annum effective financial year commencing July 1, 2018 –i.e. FY19 not exceeding amount
1	Sales of products/ components (receipts)	2437	3200
2	Cross Charge Revenue	192	300
3	Cross Charge – Debits expenses (Payable)	129	300
4	IT Cross charges (payment)	1534	1800
5	Professional Services – Expenses	144	200
6	Purchase of components/ raw materials (payment)	8837	12000
7	Purchase – Capital Goods	288	500
8	Royalty (payment)	189	250

2) Particulars of Transactions with KENNAMETAL EUROPE GMBH (₹ In Lakhs)

Sl. No.	Nature of Transactions	Actual Transaction value for financial year July 01, 2017 to June 30, 2018 i.e. FY18 amount	Estimated Value of Transactions per Annum effective financial year commencing July 1, 2018 – i.e. FY19 not exceeding amount
1	Sales of products/ components (receipts)	4731	6000
2	Purchase of Components/ raw materials (payment)	20727	27000
3	Cross Charge-Revenue	-	5

   (e) Date of approval by the Board, if any – August 24, 2017.

   (f) Amounts paid as advances, if any: Nil

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

Bhagya Chandra Rao
Managing Director
DIN: 00211127

B. Anjani Kumar
Independent Director
DIN: 00022417

Bengaluru
August 23, 2018

Annexure VI to the Board's Report

Statement Pursuant to Section 197(12) of the Companies Act, 2013 Read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

1. The Board of Directors of the Company consists of: 1 Managing Director, 3 Non-Executive Directors nominated by Promoter and 3 Non-Executive Independent Directors.
2. The Non-Executive Directors nominated by Promoter were not paid any remuneration. The Independent Directors were paid sitting fees and commission only. Details of the remuneration, sitting fees and Commission paid to the Directors are provided under the Corporate Governance Report.
3. Disclosure as required under Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014:

    (i) Ratio of the remuneration of the Managing Director to the median remuneration of the employees of the Company for the FY18 is 1:25.95

    (ii) The percentage increase in remuneration of Managing Director, Chief Financial Officer and Company Secretary during the FY18:

    - In FY18, there was an increase of 24.58% in the remuneration of the Managing Director/CEO of the Company.
    - There was an increase of 10.06% in the remuneration of the Chief Financial Officer (CFO) of the Company.
    - There was an increase of 28.01% in the remuneration of the Company Secretary (Previous year's remuneration is not comparable as there was a vacancy in office from October 8, 2016 to February 13, 2017)

    (iii) The percentage increase in the median remuneration of employees in the FY18:

    The median remuneration of employees of the Company during the Financial Year was **₹8,27,522/-**. There was decrease of 10% in FY18 (In FY17 arrears of wages to Workmen were paid as per Memorandum of Settlement, as a result of which there is a decrease in median remuneration in FY18).

    (iv) The number of permanent employees on the rolls of the Company **804**: as on June 30, 2018.

    (v) Average percentage increase made in the salaries of employees other than the Key Managerial Personnel in the FY18 was 3.85%.

    (vi) The key parameters for any variable component of remuneration availed by the Managing Director is based on Company's and Parent Company's key performance metrics like Sales Growth, EBIT and EPS.

    (vii) For the financial year under consideration, Mr. Bhagya Chandra Rao, Managing Director was paid the highest remuneration. No employee has received remuneration in excess of the Managing Director.

    (viii) It is hereby affirmed that the remuneration paid is as per the Nomination and Remuneration Policy for Directors, Key Managerial Personnel and other employees.

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

Bhagya Chandra Rao
Managing Director
DIN: 00211127

B. Anjani Kumar
Independent Director
DIN: 00022417

Bengaluru
August 23, 2018

Annexure VII to the Board's Report

Information as per Section 197(12) of the Companies Act, 2013 read with Rule 5 (2) & (3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 for the year ended June 30, 2018

(₹ in Lakhs)

Name	Designation/ Nature of duties	Age (in years)	Qualifications	Experience (in years)	Date of Joining	Remuneration Received	Particulars of last employment held
Mr. Bhagya Chandra Rao	Managing Director	62	B.E. Mechanical	37	17-09-2012	214.78	Sandvik Asia Private Limited

Notes :

- Designation of the employee indicates the nature of his/her duties.
- Other terms and conditions are as per rules of the Company.
- None of above employees hold more than 2% equity share of the Company.
- None of these employees is relative of any Director of the Company.

Annexure VIII to the Board's Report

ANNUAL REPORT ON CSR ACTIVITIES TO BE INCLUDED IN THE BOARD'S REPORT

Applicability of the Companies Act, 2013

Pursuant to Section 135 of the Companies Act, 2013 and the Rules made thereunder, your Company has constituted a Corporate Social Responsibility (CSR) Committee to effectively monitor CSR activities of the Company. Further, the Companies (Corporate Social Responsibility Policy) Rules, 2014 lays down the framework and approach for carrying out CSR activities which are specified in Schedule VII of the Act.

1. Brief Outline of the Company's CSR Policy:

Your Company's CSR policy is in line with the CSR activities permitted by the Companies Act, 2013 and rules made thereunder.

Kennametal India's Corporate Social Responsibility strategy is in line with the guidelines adopted by our ultimate holding Company Kennametal Inc. Kennametal has several policies and standards in place in line with its core values, covering business ethics and governance, the Code of Conduct, and policies such as Environment, Health and Safety (EHS); Quality; Living Our Values, Protecting our Planet.

Your Company's Corporate Social Responsibility is focused on enhancing the lives of the local community in which it operates. This takes shape by way of providing new skills and in general, creating a better quality of life for the people in the communities in which the Company operates. We strongly believe in contributing towards the betterment of society and endeavor to create a positive impact, while achieving our business goals.

Kennametal focuses on these areas:

a. **TechEdNet towards promotion of education** – Includes the support of Secondary and Post-Secondary Educational opportunities with an emphasis on studies in the areas of technical engineering, machine skill training and materials and environmental sciences.

b. **Kennametal in the Community:** We focus on the importance of our employees volunteering in the communities where they live and work. We encourage and recognize volunteerism as a key component of our culture. The goal is to create a partnership in which a community organization may be supported monetarily by the Company when it offers a significant volunteer opportunity for our employees.

c. **Protecting Our Planet** – providing sustainable solutions by reducing the total environmental impact of our products and operations. We will protect our planet by continuously improving our management of energy and natural resources, promoting recycling and recovery of materials, and preventing pollution across our global footprint.

d. Kennametal Employees have been voluntarily participating actively in the activities of Sparsha Trust. "NERALU" is an NGO which has brought new hope and opportunities for a bright future into the lives of around 500 underprivileged kids in the past 5 years. Kennametal has joined hands with this organization to attain the aims and objectives of:

- Eradication of Child Labor
- Helping poor children to get access to quality education
- Empowerment of street children and women by providing them with education and skills-oriented training.

As part of our continued engagement with Sparsha Trust, Kennametal India Limited supported Sparsha Nisarga Grama facility which provides shelter for the underprivileged children with the following facilities:

1. Rain Water Harvesting at Sparsha Nisarga Grama
2. Solar panels were installed for maximum use of Solar energy at Nisarga Grama to control the big expenditure on the electricity bill
3. Sliding windows with mosquito mesh installed for Children accommodation to protect the children from mosquito bites, which is a serious health concern.

Kennametal India Limited supported 4 Govt Schools around our vicinity with Multi-Dimensional Learning Space (MDLS) facility by providing infrastructure for smart classrooms through NGO, India Literacy Project (ILP). Kennametal India Limited also provided computer labs, library, science kits for experimentation, support of Computer teacher & Science teacher for the 4 Government schools to assist in teaching students & training teachers on MDLS concept.

Kennametal India Limited has joined hands with ILP's Multi-Dimensional Learning Space program which is a during-school and after-school program that provides multi-dimensional learning opportunities for school children to explore, experiment, discover, and learn in multiple ways.

The concept of Schools as multi-dimensional learning spaces is based on the foundation that :

- Equal importance should be given to all aspects of the curriculum
- Learning is not restricted to a curriculum. It should extend to help holistic and balanced development of a child
- One learning style doesn't work for all. Learning should involve visual, auditory and experiential methods
- Learning does not stop at school and it can happen anywhere and any time

The vision of Schools as Multi-Dimensional learning space is to offer a wide variety of academic inputs and non-academic exposure to children so that they do well not only in studies, but also learn about themselves, discover their interests and abilities. **Through this we hope to bring about individuals who are capable, confident, inquisitive and value aware.**

The Company's detailed CSR policy can be accessed at http://www.kennametal.com/content/dam/kennametal/kennametal/hi/About%20Us/Company%20Profile/KMT-India_corp_social_responsibility_policy.pdf or www.kennametal.com/kennametalindia/

2 **The Composition of the CSR Committee:**
   i. Mr. Bhagya Chandra Rao, Chairman
   ii. Mr. Prakash M. Telang, Member
   iii. Mr. B. Anjani Kumar, Member
   iv. Mr. Alexander Broetz, Member and
   v. Ms. Colleen Wood Cordova, Member

3 **Average net profit** of the Company for last three financial years: ₹3543.50 Lakhs

4 Prescribed CSR Expenditures (two percent of the amount as in item 3 above): ₹70.87 Lakhs

5 Details of CSR spent during the financial year.
   (a) Total amount spent for the financial year: ₹70.96 Lakhs
   (b) Amount unspent: NIL
   (c) Manner in which the amount spent during the financial year is detailed below.

Kennametal India Limited
CSR Expense status as on June 30, 2018

Sl. No.	CSR project/ activity identified	Sector in which the Project is covered	Projects/ Programmes 1. Local area/ others- 2. Specify the state and district where projects or programs were undertaken	Amount outlay (budget) project/programs wise	Amount spent on the project/ programs Subheads: 1. Direct expenditure on project, 2. Overheads	Cumulative spend up to the reporting period	Amount spent: Direct / through implementing agency*
1	Support M/s. Prerana Resources "In the Community" programme/ Support in arranging food for 120 disabled girls on continuous basis.	"In the Community" programme	Local area - Goraguntepalya, Yeshwantpur	₹530000 (₹30000/- per month for period upto June 30, 2018 for arranging food for 120 disabled poor girls under our "In the Community" programme & provided few basic essentials required for the Home.	Direct expenditure on project	₹530000/-	Direct
2	Support M/s. Sparsha Trust - "In the Community" programme/ Support in Building home for underprivileged girls.	"In the Community" programme	Sparsha "Nisarga Grama" at Hesaraghatta - Home for underprivileged children	Supported Sparsha Nisarga Grama for the following : 1) Rain Water Harvesting at Sparsha Nisarga Grama – ₹181064 2) Solar panels provided for maximum use of Solar energy at Nisarga Grama as at present the electricity bills are a big expenditure – ₹1080450 3) Sliding windows with mosquito mesh for Children accommodation at Sparsha Nisarga Grama to protect the children from mosquito bites, which is a serious health concern – ₹577020/-. 4) Summer camp activities @ Sparsha – ₹2965/-.	Direct expenditure on project	₹1841499/-	Direct

3	Construction of sanitation structure for the children in Govt. Schools around KIL.	"In the Community" programme	Govt. Primary School, Bagalagunte & Govt. Primary School, Hesaraghatta	Construction of sanitation structure in Govt. Primary School, Hesaraghatta & repairs for existing Sanitation structure in Govt. Primary School – Bagalakunte, Bangalore including maintenance and cleaning expense.	Direct expenditure on project	₹1331990/-	Through NGO - Habitat for Humanity
4	Support scholarship for economically backward students at PSG College of Technology, Coimbatore.	"Promotion of education"	Others	₹520000/- as scholarship amount for economically backward students at PSG College of Technology, Coimbatore	Direct expenditure on project	₹520000/-	Direct
5	Multi-Dimensional Learning Space (MDLS) provided to Govt. Schools around KIL	"Promotion of education"	Local area - Supported 4 Govt. Schools around KIL with Multi-Dimensional Learning Space (MDLS)/Smart classrooms	Supported 4 Govt. Schools around KIL with MDLS facility through Smart classrooms. Also, provided computer lab, support of Computer teacher & Science teacher for 4 Govt. Schools to assist in teaching students & training teachers on MDLS concept.	Direct expenditure on project	₹1675000/-	Through NGO - India Literacy Project (ILP)
6	Protect our Planet - Conduct Awareness session followed by Inter School Quiz competitions, Essay writing, Debate, Speech and Drawing Competitions	"Protect our Planet" programme on the theme 'Beat the Plastic'	Local area – Govt. High School, Bagalakunte (adjacent KIL)	Awareness session on "Protect the Planet" on the theme 'Beat the Plastic' conducted, followed by Inter school Quiz competitions, Essay writing, Debate, Speech and Drawing Competitions - around 180 students participated from various schools in and around Dasarahalli	Direct expenditure on project	₹84673/-	Direct
7	Construction of a classroom for Govt. School children in Herohalli in rural Mysore to provide good infrastructure for the rural school students	"Promotion of education"	Govt. School, Herohalli, Mysore	Construction of a classroom for Govt. school children in Herohalli in Mysore to provide good infrastructure for the rural school students.	Direct expenditure on project	₹1113324/-	Through implementing agency - Universal Builders
	Amount spent for CSR activities till June 30, 2018					**₹7096486/-**	

6 In case the Company has failed to spend the two per cent of the average net profit of the last 3 financial years or any part thereof, reasons for not spending the amount in its Board Report: **Not Applicable**.

7 Responsibility statement of the CSR Committee: CSR Committee confirmed that the implementation and monitoring of CSR Policy is in compliance with CSR objectives and Policy of the Company.

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

Bhagya Chandra Rao
Managing Director
DIN: 00211127

B. Anjani Kumar
Independent Director
DIN: 00022417

Bengaluru
August 23, 2018

Annexure IX of the Board's Report

FORM NO. MGT 9

EXTRACT OF ANNUAL RETURN as on financial year ended on 30.06.2018
Pursuant to Section 92 (3) of the Companies Act, 2013 and Rule 12(1) of the Company (Management & Administration) Rules, 2014

I. REGISTRATION & OTHER DETAILS:

i	CIN	L27109KA1964PLC001546
ii	Registration Date	SEPTEMBER 21,1964
iii	Name of the Company	KENNAMETAL INDIA LIMITED
iv	Category/Sub-category of the Company	COMPANY LIMITED BY SHARES
v	Address of the Registered office & contact details	8/9TH MILE, TUMKUR ROAD, BENGALURU – 560 073
vi	Whether Listed Company	YES
vii	Name, Address & contact details of the Registrar & Transfer Agent, if any.	INTEGRATED REGISTRY MANAGEMENT SERVICES PRIVATE LIMITED, NO. 30, RAMANA RESIDENCY, GR FLOOR, 4TH CROSS, SAMPIGE ROAD, MALLESWARAM, BANGALORE – 560 003

II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

All the business activities contributing 10% or more of the total turnover of the Company shall be stated:-

Sl. No.	Name & Description of main products/services	NIC Code of the Product / service	% to total turnover of the Company
1	Hard Metal Products (Forging, pressing, stamping and roll-forming of metal; powder metallurgy)	25910	85%
2	Machine Tools (Manufacture of special-purpose (Machining Solutions Group))	282	15%

III. PARTICULARS OF HOLDING, SUBSIDIARY & ASSOCIATE COMPANIES

Sl. No.	Name & Address of the Company	CIN/GLN	Holding/ Subsidiary Company	% of Share-holding	Applicable Section
1	Kennametal Inc. 1600, Technology Way, Latrobe, PA 15650,USA	Foreign Company	Ultimate Holding	24%	2(46)
2	Meturit A.G. 6300, Zug, Switzerland	Foreign Company	Holding	51%	2(46)

IV. SHAREHOLDING PATTERN (EQUITY SHARE CAPITAL BREAK UP AS % TO TOTAL EQUITY)

i) CATEGORY-WISE SHAREHOLDING

Category of Shareholders	No. of Shares held at the beginning of the period – 01.07.2017				No. of Shares held at the end of the period – 30.06.2018				% change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
A. Promoters									
(1) Indian	-	-	-	-	-	-	-	-	-
a) Individual/HUF	-	-	-	-	-	-	-	-	-
b) Central Govt.or State Govt.	-	-	-	-	-	-	-	-	-
c) Bodies Corporates	-	-	-	-	-	-	-	-	-
d) Bank/FI	-	-	-	-	-	-	-	-	-
e) Any other	-	-	-	-	-	-	-	-	-
SUB TOTAL:(A) (1)	-	-	-	-	-	-	-	-	-
(2) Foreign							-	-	-
a) NRI- Individuals	-	-	-	-	-	-	-	-	-
b) Other Individuals	-	-	-	-		-			
c) Bodies Corp.	16483680	-	16483680	75.00	16483680	-	16483680	75.00	-
d) Banks/FI	-	-	-	-	-	-	-	-	-
e) Any other…	-	-	-	-	-	-			
SUB TOTAL (A) (2)	**16483680**	**-**	**16483680**	**75.00**	**16483680**	**-**	**16483680**	**75.00**	**-**
Total Shareholding of Promoter (A) = (A)(1)+(A)(2)	**16483680**	**-**	**16483680**	**75.00**	**16483680**	**-**	**16483680**	**75.00**	**-**
B. PUBLIC SHAREHOLDING									
(1) Institutions									
a) Mutual Funds	3365043	-	3365043	15.31	3192187	-	3192187	14.52	-0.79
b) Banks/FI	180	860	1040	0.01	180	860	1040	0.01	-
c) Central Govt.	-	-	-	-	-	-	-	-	-
d) State Govt.	-	-	-	-	-	-	-	-	-
e) Venture Capital Fund	-	-	-	-	-	-	-	-	-
f) Insurance Companies	-	-	-	-	-	-	-	-	-

Category of Shareholders	No. of Shares held at the beginning of the period – 01.07.2017				No. of Shares held at the end of the period – 30.06.2018				% change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
g) FIIS	-	-	-	-	130056	-	130056	0.59	0.59
h) Foreign Venture Capital Funds	-	-	-	-	-	-	-	-	-
i) Others (specify)	-	-	-	-	-	-	-	-	-
SUB TOTAL (B)(1):	**3365223**	**860**	**3366083**	**15.32**	**3322423**	**860**	**3323283**	**15.12**	**-0.20**
(2) Non-Institutions									
a) Bodies corporates									
i) Indian	106716	860	107576	0.48	120687	660	121347	0.55	0.07
ii) Overseas	-	-	-	-	-	-	-	-	-
b) Individuals									
i) Individual shareholders holding nominal share capital upto ₹1 lakh	1285034	204151	1489185	6.78	1357453	177368	1534821	6.98	0.20
ii) Individuals shareholders holding nominal share capital in excess of ₹1 lakh	355885	56560	412445	1.88	317018	56560	373578	1.70	-0.18
c) Others (specify)									
NRI	90149	150	90299	0.41	104806	-	104806	0.48	0.07
Clearing Member	22732	-	22732	0.10	18555	-	18555	0.08	-0.02
Trust	-	-	-	-	-	-	-	-	-
Foreign Individuals	6240	-	6240	0.03	6240	-	6240	0.03	-
IEPF	-	-	-	-	11930		11930	0.05	0.05
SUB TOTAL (B)(2):	**1866756**	**261721**	**2128477**	**9.67**	**1936689**	**234588**	**2171277**	**9.88**	**0.21**
Total Public Shareholding (B)= (B)(1)+(B)(2)	**5231979**	**262581**	**5494560**	**25.00**	**5259112**	**235448**	**5494560**	**25.00**	**-**
C. Shares held by Custodian for GDRs & ADRs									
Grand Total (A+B+C)	**21715659**	**262581**	**21978240**	**100.00**	**21742792**	**235448**	**21978240**	**100.00**	

ii) SHAREHOLDING OF PROMOTERS

SI No.	Shareholders Name	Shareholding at the beginning of the period - 01.07.2017			Shareholding at the end of the period - 30.06.2018			% change in shareholding during the year
		No of shares	% of total shares of the company	% of shares pledged encumbered to total shares	No of shares	% of total shares of the company	% of shares pledged encumbered to total shares	
1	Kennametal Inc.	5274840	24.00	-	5274840	24.00	-	-
2	Meturit Ag.	11208840	51.00	-	11208840	51.00	-	-
	Total	**16483680**	**75.00**	**-**	**16483680**	**75.00**	**-**	**-**

iii) CHANGE IN PROMOTERS' SHAREHOLDING (SPECIFY IF THERE IS NO CHANGE)

Sl. No.	Shareholders Name	Shareholding at the beginning of the Period – 01.07.2017		Date	Increase/ Decrease in Shareholding	Reason	Cumulative Shareholding during the Period – 30.06.2018		Reason
		No. of Shares	% of total shares of the company				No. of shares	% of total shares of the company	
1	Kennametal Inc.	5274840	24.00	-	-	-	5274840	24.00	-
2	Meturit Ag.	11208840	51.00	-	-	-	11208840	51.00	-

iv) SHAREHOLDING PATTERN OF TOP TEN SHAREHOLDERS (OTHER THAN DIRECTORS, PROMOTERS AND HOLDERS OF GDRs and ADRs):

Sl. No.	NAME OF THE SHAREHOLDER	SHAREHOLDING AT THE BEGINNING OF THE PERIOD - 01.07.2017		Date	Increase/ Decrease in Shareholding	Reason	CUMULATIVE SHAREHOLDING DURING THE PERIOD – 30.06.2018	
		No. of Shares	% of Total Shares of the Company				No. of Shares	% of Total Shares of the Company
1	RELIANCE CAPITAL TRUSTEE CO. LTD. A/C RELIANCE EQUITY OPPORTUNITIES FUND	**1637641**	7.45	01.07.2017	-		1637641	7.45
				15.12.2017	-1184	Transfer	1636457	7.45
				22.12.2017	-13824	Transfer	1622633	7.38
				31.03.2018	2928	Transfer	1625561	7.40
				08.06.2018	7079	Transfer	1632640	7.43
				30.06.2018	27500	Transfer	**1660140**	**7.55**
2	RELIANCE CAPITAL TRUSTEE CO. LTD. – A/C RELIANCE TAX SAVER (ELSS) FUND	**480687**	2.19	01.07.2017	-		480687	2.19
				05.01.2018	-806	Transfer	479881	2.18
				30.06.2018			**479881**	**2.18**
3	DSP BLACKROCK MICRO CAP FUND	**359184**	1.63	01.07.2017	NO MOVEMENT DURING THE YEAR			
				30.06.2018	**-**		**359184**	**1.63**
4	SBI INFRASTRUCTURE FUND	**290000**	1.32	01.07.2017	NO MOVEMENT DURING THE YEAR			
				30.06.2018	**-**		**290000**	**1.32**
5	IDFC PREMIER EQUITY FUND	**389114**	1.77	01.07.2017	-		389114	1.77
				13.10.2017	-579	Transfer	388535	1.77
				11.05.2018	-10	Transfer	388525	1.77
				18.05.2018	-13505	Transfer	375020	1.71
				25.05.2018	-23531	Transfer	351489	1.60
				01.06.2018	-67	Transfer	351422	1.60
				08.06.2018	-10	Transfer	351412	1.60
				15.06.2018	-107068	Transfer	244344	1.11
				22.06.2018	-16572	Transfer	227772	1.04
				30.06.2018	**-**		**197010**	**0.90**
6	THE MASTER TRUST BANK OF JAPAN, LTD. AS TRUSTEE OF NISSAY INDIA EQUITY	**-**	-	01.07.2017	-		-	-
				01.12.2017	420	Transfer	420	-
				08.12.2017	2637	Transfer	3057	0.01
				15.12.2017	2453	Transfer	5510	0.03
				22.12.2017	8629	Transfer	14139	0.06
				29.12.2017	4345	Transfer	18484	0.08
				05.01.2018	2041	Transfer	20525	0.09

Statutory Reports

Sl. No.	NAME OF THE SHAREHOLDER	SHAREHOLDING AT THE BEGINNING OF THE PERIOD - 01.07.2017		Date	Increase/ Decrease in Shareholding	Reason	CUMULATIVE SHAREHOLDING DURING THE PERIOD – 30.06.2018	
		No. of Shares	% of Total Shares of the Company				No. of Shares	% of Total Shares of the Company
				12.01.2018	700	Transfer	21225	0.10
				19.01.2018	939	Transfer	22164	0.10
				25.01.2018	1150	Transfer	23314	0.11
				02.02.2018	6132	Transfer	29446	0.13
				09.02.2018	6290	Transfer	35736	0.16
				16.02.2018	1038	Transfer	36774	0.17
				23.02.2018	4367	Transfer	41141	0.19
				02.03.2018	1483	Transfer	42624	0.19
				09.03.2018	2952	Transfer	45576	0.21
				16.03.2018	1184	Transfer	46760	0.21
				23.03.2018	1501	Transfer	48261	0.22
				31.03.2018	2868	Transfer	51129	0.23
				06.04.2018	226	Transfer	51355	0.23
				13.04.2018	9775	Transfer	61130	0.28
				20.04.2018	7772	Transfer	68902	0.31
				27.04.2018	2677	Transfer	71579	0.33
				04.05.2018	3000	Transfer	74579	0.34
				11.05.2018	1617	Transfer	76196	0.35
				18.05.2018	5958	Transfer	82154	0.37
				25.05.2018	25006	Transfer	107160	0.49
				15.06.2018	6487	Transfer	113647	0.52
				22.06.2018	7819	Transfer	121466	0.55
				30.06.2018	8590	Transfer	**130056**	**0.59**
7	NALINKANT CHATURBHUJ ASHER	**63300**	0.29	01.07.2017	NO MOVEMENT DURING THE YEAR			
				30.06.2018			**63300**	**0.29**
8	NANDI CYLINDERS PVT. LTD.	42593	0.19	01.07.2017	-		42593	0.19
				02.02.2018	-18324	Transfer	24269	0.11
				09.02.2018	-15682	Transfer	8587	0.04
				20.04.2018	-281	Transfer	8306	0.04
				22.06.2018	34006	Transfer	42312	0.19
				30.06.2018			**42312**	**0.19**
9	SUNDARAM MUTUAL FUND A/C SUNDARAM SELECT MICROCAP SERIES I	15491	0.07	01.07.2017	-		15491	0.07
				13.10.2017	4352	Transfer	19843	0.09
				20.10.2017	172	Transfer	20015	0.09
				07.04.2018	20000	Transfer	40015	0.18
				30.06.2018	**-**		**40015**	**0.18**
10	SUNDARAM MUTUAL FUND A/C SUNDARAM EMERGING SMALL CAP - SERIES I	-	-	01.07.2017	-		-	-
				09.03.2018	33000	Transfer	33000	0.15
				30.06.2018	**-**		**33000**	**0.15**

(v) SHAREHOLDING OF DIRECTORS & KEY MANAGERIAL PERSONNEL

Sl. No.	For each of the Directors & KMP	Shareholding at the beginning of the year 01.07.2017		Date	Increase/Decrease in Shareholding	Reason	Cumulative Shareholding during the year 30.06.2018	
		No. of shares	% of total shares of the company				No. of shares	% of total shares of the Company
1	B. Anjani Kumar	10	-	01.07.2017			10	-
					NO MOVEMENT DURING THE YEAR			
			-	30.06.2018			**10**	-
2	Prakash M. Telang	**1000**	-	01.07.2017		-	1000	-
				08.09.2017	1000	Transfer	2000	0.01
				30.06.2018			**2000**	0.01
3	Bhagya Chandra Rao	**-**	-	01.07.2017				-
				13.10.2017	400	Transfer	400	
				22.12.2017	-400	Transfer	-	
				23.03.2018	100	Transfer	100	
				08.06.2018	200	Transfer	300	
				30.06.2018			**300**	-

V. INDEBTEDNESS

Indebtedness of the Company including interest outstanding/accrued but not due for payment: **NIL**

VI. REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL*

A. Remuneration to Managing Director, Whole-Time Directors and/or Manager: (₹ in Lakhs)

Sl. No.	Particulars of Remuneration	Mr. Bhagya Chandra Rao	Total
1.	**Gross salary**		
	(a) Salary as per provisions contained in Section 17(1) of the Income-tax Act, 1961	122.91	122.91
	(b) Value of perquisites u/s 17(2) of the Income-tax Act, 1961	1.62	1.62
	(c) Profits in lieu of salary under Section 17(3) Income-tax Act, 1961	NIL	NIL
2.	Stock Option – ESOP – Stock option granted by Kennametal Inc. Ultimate holding Company	60.14	60.14
3.	Sweat Equity	NIL	NIL
4.	Commission – as % of profit – others, specify.		
5.	Others, please specify – Incentive (Performance Pay)	30.11	30.11
6.	Total (A)	214.78	214.78
7	Ceiling as per the Act (Section-197) (@5% of Profit calculated under Section 198 of the Companies Act, 2013)		422.39

B. Remuneration to other Directors: (₹ in Lakhs)

Sl. No.	Particulars of Remuneration	Name of Directors			Total Amount
1	Independent Directors	Mr. Prakash M. Telang	Mr. Vinayak .K. Deshpande	Mr. B. Anjani Kumar	
	– Fee for attending Board/Committee meetings	4.25	3.45	4.25	11.95
	– Commission	18.21	9.08	12.73	40.02
	– Others, please specify	–	–	–	–
	Total (1)	**22.46**	**12.53**	**16.98**	**51.97**
2	Other Non-Executive Directors	Mr. David Lee	Mr. Alexander Broetz	Ms. Colleen Wood Cordova	–
	– Fee for attending Board meetings	NIL			
	– Commission		NIL	NIL	–
	– Others, please specify				
	Total (2)	**NIL**	**NIL**	**NIL**	**NIL**
	Total (B)=(1+2)	**22.46**	**12.53**	**16.98**	**51.97**
	Overall Ceiling as per the Act (Section-197) (@1 % of Profit calculated under Section 198 of Companies Act, 2013)				**81.59**

C. REMUNERATION TO KEY MANAGERIAL PERSONNEL OTHER THAN MD/MANAGER/WTD

(₹ in Lakhs)

Sl. No.	Particulars of Remuneration	Key Managerial Personnel		Total Amount
		CFO	Company Secretary	
1.	**Gross salary**			
	(a) Salary as per provisions contained in Section 17(1) of the Income-tax Act, 1961	61.65	32.11	93.76
	(b) Value of perquisites u/s 17(2) Income-tax Act, 1961	NIL	NIL	NIL
	(c) Profits in lieu of salary under Section 17(3) Income-tax Act, 1961	NIL	NIL	NIL
2.	Stock Option	Nil	Nil	Nil
3.	Sweat Equity	Nil	Nil	Nil
4.	Commission (Variable Compensation) – as % of Profit – others, specify	Nil	Nil	Nil
5	Others, please specify	Nil	Nil	Nil
	Total	**61.65**	**32.11**	**93.76**

VII. PENALTIES / PUNISHMENT / COMPOUNDING OF OFFENCES:

Type	Section of the Companies Act	Brief Description	Details of Penalty/ Punishment/ Compounding fees imposed	Authority [RD / NCLT/ COURT]	Appeal made, if any (give Details)
A. COMPANY					
Penalty					
Punishment	NIL				
Compounding					
B. DIRECTORS					
Penalty					
Punishment	NIL				
Compounding					
C. OTHER OFFICERS IN DEFAULT					
Penalty					
Punishment	NIL				
Compounding					

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

Bhagya Chandra Rao
Managing Director
DIN: 00211127

B. Anjani Kumar
Independent Director
DIN: 00022417

Bengaluru
August 23, 2018

Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Members of Kennametal India Limited

Report on the Financial Statements

1. We have audited the accompanying financial statements of Kennametal India Limited ('the Company'), which comprise the Balance Sheet as at 30 June 2018, the Statement of Profit and Loss (including Other Comprehensive Income), the Cash Flow Statement and the Statement of Changes in Equity for the year then ended, and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

2. The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ('the Act') with respect to the preparation of these financial statements that give a true and fair view of the state of affairs (financial position), profit or loss (financial performance including other comprehensive income), cash flows and changes in equity of the Company in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards ('Ind AS') specified under Section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, 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

3. Our responsibility is to express an opinion on these financial statements based on our audit.
4. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.
5. We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.
6. An audit involves performing procedures to obtain audit evidence about the amounts and the 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 financial controls relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.
7. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on these financial statements.

Opinion

8. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India including Ind AS specified under Section 133 of the Act, of the state of affairs (financial position) of the Company as at 30 June 2018, and its profit (financial performance including other comprehensive income), its cash flows and the changes in equity for the year ended on that date.

Other Matter

9. The comparative financial information for the year ended 30 June, 2017 and the transition date opening balance sheet as at 1 July, 2016 prepared in accordance with Ind AS included in these financial statements, are based on the previously issued statutory financial statements for the year ended 30 June, 2017 and 30 June, 2016 respectively prepared in accordance with Accounting Standards prescribed under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 (as amended) which were audited by the predecessor auditor whose reports dated 24 August, 2017 and 9 August, 2016 respectively expressed unmodified opinion on those financial statements, and have been adjusted for the differences in the accounting principles adopted by the Company on transition to Ind AS, which have been audited by us. Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

10. As required by the Companies (Auditor's Report) Order, 2016 ('the Order') issued by the Central Government of India in terms of Section 143(11) of the Act, we give in the Annexure I a statement on the matters specified in paragraphs 3 and 4 of the Order.
11. Further to our comments in Annexure I, as required by Section 143(3) of the Act, we report that:
    a) we have sought and 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 it appears from our examination of those books;
    c) the financial statements dealt with by this report are in agreement with the books of account;
    d) in our opinion, the aforesaid financial statements comply with Ind AS specified under Section 133 of the Act;

e) on the basis of the written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on 30 June, 2018 from being appointed as a director in terms of Section 164(2) of the Act;

f) we have also audited the internal financial controls over financial reporting (IFCoFR) of the Company as on 30 June, 2018 in conjunction with our audit of the financial statements of the Company for the year ended on that date and our report dated 23 August, 2018 as per Annexure II expressed unmodified opinion;

g) with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014 (as amended), in our opinion and to the best of our information and according to the explanations given to us:

i. the Company, as detailed in Note 29 to the financial statements, has disclosed the impact of pending litigations on its financial position;

ii. the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses;

iii. there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company;

iv. the disclosure requirements relating to holdings as well as dealings in specified bank notes were applicable for the period from 8 November, 2016 to 30 December, 2016 which are not relevant to these financial statements. Hence, reporting under this clause is not applicable.

For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm's Registration No.: 001076N/N500013

Vijay Vikram Singh
Partner
Membership No.: 059139

Bengaluru
August 23, 2018

Annexure I to the Independent Auditor's Report of even date to the members of Kennametal India Limited, on the financial statements for the year ended 30 June, 2018

Annexure I

Based on the audit procedures performed for the purpose of reporting a true and fair view on the financial statements of the Company and taking into consideration the information and explanations given to us and the books of account and other records examined by us in the normal course of audit, and to the best of our knowledge and belief, we report that:

(i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) The Company has a regular program of physical verification of its fixed assets under which fixed assets are verified in a phased manner over a period of three years, which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this program, certain fixed assets were verified during the year and no material discrepancies were noticed on such verification.

(c) The title deeds of all the immovable properties (which are included under the head 'Property, plant and equipment) are held in the name of the Company.

(ii) In our opinion, the management has conducted physical verification of inventory at reasonable intervals during the year, except for goods-in-transit and stocks lying with third parties. For stocks lying with third parties at the year-end, written confirmations have been obtained by the management. No material discrepancies were noticed on the aforesaid verification.

(iii) The Company has not granted any loan, secured or unsecured to companies, firms, Limited Liability Partnerships (LLPs) or other parties covered in the register maintained under Section 189 of the Act. Accordingly, the provisions of clauses 3(iii)(a), 3(iii)(b) and 3(iii)(c) of the Order are not applicable.

(iv) In our opinion, the Company has not entered into any transaction covered under Sections 185 and 186 of the Act. Accordingly, the provisions of clause 3(iv) of the Order are not applicable.

(v) In our opinion, the Company has not accepted any deposits within the meaning of Sections 73 to 76 of the Act and the Companies (Acceptance of Deposits) Rules, 2014 (as amended). Accordingly, the provisions of clause 3(v) of the Order are not applicable.

(vi) We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under sub-section (1) of Section 148 of the Act in respect of Company's products/services and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the cost records with a view to determine whether they are accurate or complete.

(vii) (a) The Company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, goods and service tax, duty of customs, duty of excise, value added tax, cess and other material statutory dues, as applicable, to the appropriate authorities. Further, no undisputed amounts payable in respect thereof were outstanding at the year-end for a period of more than six months from the date they become payable.

(b) The dues outstanding in respect of income-tax, sales-tax, service-tax, goods and service tax, duty of customs, duty of excise and value added tax on account of any dispute, are as follows:

Statement of Disputed Dues (₹ in lakhs)

Name of the statute	Nature of dues	Amount (₹)	Amount paid under Protest (₹)	Period to which the amount relates	Forum where dispute is pending
The Central Excise Act, 1944	Excise Duty/ Service tax	1	-	January 1998 to September 2011	The Customs, Excise & Service Tax Appellate Tribunal (CESTAT), Bangalore
	Excise Duty	97	51	April 2006 to June 2013	CESTAT, Bangalore
Finance Act, 1994	Service Tax	12	6	April 2007 to March 2008	CESTAT, Bangalore
The Delhi Sales Tax Act, 1975	Sales Tax	2	1	April 2004 to March 2005	Joint Commissioner Appeals – Delhi
The Uttar Pradesh Value Added Tax Act, 2008	Value Added Tax	4	4	May 2011	Joint Commissioner Appeals – Sonabhadhra, Uttar Pradesh
The Andhra Pradesh General Sales Tax Act, 1957	Sales Tax	117	59	April 2003 to March 2004	Sales Tax Appellate, Andhra Pradesh
The Karnataka Tax on Entry of Goods Act, 1979	Entry Tax	122	122	April 2010 to June 2017	The Commissioner of Commercial Tax, Bangalore
The Customs Act, 1962	Customs Duty	159	159	August 2009 to October 2013	CESTAT, Bangalore
The Central Sales Tax Act, 1956	Sales Tax	64	62	April 2010 to March 2011	The Assistant Commissioner of Commercial Tax, Bangalore
	Sales Tax	Nil	33	April 2011 to March 2012	The Assistant Commissioner of Commercial Tax, Bangalore
	Sales Tax	Nil	60	April 2012 to March 2013	The Joint Commissioner of Commercial Tax (Appeals), Bangalore
	Sales Tax	Nil	69	April 2013 to March 2014	The Assistant Commissioner of Commercial Tax, Bangalore
	Sales Tax	599	180	April 2014 to March 2015	The Joint Commissioner of Commercial Tax (Appeals), Bangalore
Income Tax Act, 1961	Income Tax	8	8	April 1993 to March 1994	The Income Tax Appellate Tribunal, Bangalore
		22	-	April 1999 to March 2001	Supreme Court of India
		277	277	April 1999 to March 2001	The Commissioner of Income Tax, (Appeals), Bangalore
		702	702	April 2006 to March 2007	Transfer Pricing Office
		550	550	April 2007 to March 2008	The Commissioner of Income Tax, (Appeals), Bangalore
		505	505	April 2008 to March 2009	The Commissioner of Income Tax, (Appeals), Bangalore
		528	494	April 2009 to March 2010	The Commissioner of Income Tax, (Appeals), Bangalore
		473	473	April 2010 to March 2011	The Commissioner of Income Tax, (Appeals), Bangalore
		108	108	April 2011 to March 2012	The Commissioner of Income Tax (Appeals) , Bangalore
		164	164	April 2012 to March 2013	The Income Tax Appellate Tribunal, Bangalore
		209	209	April 2013 to March 2014	The Dispute Resolution Panel, Bangalore

(viii) The Company has no loans or borrowings payable to a financial institution or a bank or government and no dues payable to debenture-holders during the year. Accordingly, the provisions of clause 3(viii) of the Order are not applicable.

(ix) The Company did not raise moneys by way of initial public offer or further public offer (including debt instruments) and did not have any term loans outstanding during the year. Accordingly, the provisions of clause 3(ix) of the Order are not applicable.

(x) No fraud by the Company or on the Company by its officers or employees has been noticed or reported during the period covered by our audit.

(xi) Managerial remuneration has been paid by the Company in accordance with the requisite approvals mandated by the provisions of Section 197 of the Act read with Schedule V to the Act.

(xii) In our opinion, the Company is not a Nidhi Company. Accordingly, provisions of clause 3(xii) of the Order are not applicable.

(xiii) In our opinion all transactions with the related parties are in compliance with Sections 177 and 188 of Act, where applicable, and the requisite details have been disclosed in the financial statements etc., as required by the applicable Ind AS.

(xiv) During the year, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures.

(xv) In our opinion, the Company has not entered into any non-cash transactions with the directors or persons connected with them covered under Section 192 of the Act.

(xvi) The Company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934.

For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm's Registration No.: 001076N/N500013

Vijay Vikram Singh
Partner
Membership No.: 059139

Bengaluru
August 23, 2018

Annexure II

Independent Auditor's report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

1. In conjunction with our audit of the financial statements of Kennametal India Limited ("the Company") as of and for the year ended 30 June 2018, we have audited the internal financial controls over financial reporting (IFCoFR) of the Company as of that date.

Management's Responsibility for Internal Financial Controls

2. The Company's Board of Directors is responsible for establishing and maintaining internal financial controls based on the internal control over the financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India ("the ICAI"). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of the Company's business, including adherence to Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

Auditors' Responsibility

3. Our responsibility is to express an opinion on the Company's IFCoFR based on our audit. We conducted our audit in accordance with the Standards on Auditing, issued by the Institute of Chartered Accountants of India (ICAI) and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of IFCoFR, and the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate IFCoFR were established and maintained and if such controls operated effectively in all material respects.

4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the IFCoFR and their operating effectiveness. Our audit of IFCoFR included obtaining an understanding of IFCoFR, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's IFCoFR.

Meaning of Internal Financial Controls over Financial Reporting

6. A company's IFCoFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's IFCoFR includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls over Financial Reporting

7. Because of the inherent limitations of IFCoFR, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the IFCoFR to future periods are subject to the risk that IFCoFR may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

8. In our opinion, the Company has, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as at 30 June 2018, based on the internal control over the financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note issued by the ICAI.

For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm's Registration No.: 001076N/N500013

Vijay Vikram Singh
Partner
Membership No.: 059139

Bengaluru
August 23, 2018

BALANCE SHEET AS AT JUNE 30, 2018

(All amounts in ₹ lakhs unless otherwise stated)

	Note No.	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	3A	15392	14637	10671
Capital work-in-progress	3B	2105	278	1640
Investment properties	4	1	1	1
Intangible assets	5	14	-	-
Financial assets				
(i) Investments	6(a)	50	50	50
(ii) Loans	6(b)	181	139	144
(iii) Other financial assets	6(f)	4	4	4
Deferred tax assets (net)	7	686	1068	873
Income tax assets (net)	8	2508	3826	3993
Other non-current assets	9	1371	336	744
Total non-current assets		**22312**	**20339**	**18120**
CURRENT ASSETS				
Inventories	10	15587	10726	11330
Financial assets				
Investments	6(a)	-	5001	5301
Trade receivables	6(c)	12635	11016	11939
Cash and cash equivalents	6(d)	9448	4204	1177
Bank balances other than cash and cash equivalents	6(e)	27	140	126
Loans	6(b)	26	31	524
Other financial assets	6(f)	102	115	204
Other current assets	11	1997	2171	1718
Assets classified as held for sale	12	-	-	48
Total current assets		**39822**	**33404**	**32367**
TOTAL ASSETS		**62134**	**53743**	**50487**
EQUITY AND LIABILITIES				
EQUITY				
Equity share capital	13	2198	2198	2198
Other equity	14	41678	37193	35292
Total equity		**43876**	**39391**	**37490**

BALANCE SHEET AS AT JUNE 30, 2018

(All amounts in ₹ lakhs unless otherwise stated)

	Note No.	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
LIABILITIES				
NON-CURRENT LIABILITIES				
Financial liabilities	15	10	10	10
Provisions	16	518	473	404
Total non-current liabilities		**528**	**483**	**414**
CURRENT LIABILITIES				
Financial liabilities				
(i) Trade payables	17	10590	8343	7129
(ii) Other financial liabilities	15	2692	2195	1708
Provisions	16	1605	1487	1444
Other current liabilities	18	2843	1844	2302
Total current liabilities		**17730**	**13869**	**12583**
TOTAL EQUITY AND LIABILITIES		**62134**	**53743**	**50487**

The accompanying notes are the integral part of the financial statements.

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

For Walker Chandiok & Co LLP
Chartered Accountants
Firm Registration Number: 001076N/N500013

Vijay Vikram Singh
Partner
Membership Number: 059139

Bengaluru
August 23, 2018

For and on behalf of Board of Directors

Bhagya Chandra Rao
Managing Director
DIN - 00211127

B Anjani Kumar
Director
DIN - 00022417

K. V. Suresh Reddy
Chief Financial Officer

Thulsidass T V
Company Secretary

Bengaluru
August 23, 2018

Bengaluru
August 23, 2018

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED JUNE 30, 2018

(All amounts in ₹ lakhs unless otherwise stated)

	Note No.	Year ended June 30, 2018	Year ended June 30, 2017
INCOME			
Revenue from operations	19	79312	69597
Other income	20	836	586
Total income		**80148**	**70183**
EXPENSES			
Cost of materials consumed	21	23840	17479
Purchase of stock-in-trade	22	20726	16936
Changes in inventories of finished goods, stock-in-trade and work-in-progress	23	(2721)	(43)
Excise duty		-	4412
Employee benefits expense	24	12266	12236
Depreciation and amortisation expense	25	2811	2826
Other expenses	26	15156	12751
Total expenses		**72078**	**66597**
Profit before exceptional items and tax		**8070**	**3586**
Exceptional items	38	(770)	(550)
Profit before tax		**7300**	**3036**
Tax expense/ (credit)	27		
Current tax		2044	795
Tax adjustments relating to earlier years		(460)	-
Deferred tax		490	(196)
Total tax expense		**2074**	**599**
Profit after tax for the year		**5226**	**2437**
Other comprehensive income			
Items that will not be reclassified to profit or (loss)			
Remeasurements of net defined benefit plans		(315)	2
Income tax relating to above items		109	(1)
Total other comprehensive income for the year (net of tax)		**(206)**	**1**
Total comprehensive income for the year		**5020**	**2438**
Earnings per equity share in ₹ [Nominal Value per share ₹10 (June 30, 2017: ₹ 10)]	39		
Basic		23.78	11.09
Diluted		23.78	11.09

The accompanying notes are the integral part of the financial statements.

This is the Statement of profit and loss referred to in our report of even date.

For Walker Chandiok & Co LLP
Chartered Accountants
Firm Registration Number: 001076N/N500013

Vijay Vikram Singh
Partner
Membership Number: 059139

Bengaluru
August 23, 2018

For and on behalf of Board of Directors

Bhagya Chandra Rao
Managing Director
DIN - 00211127

B Anjani Kumar
Director
DIN - 00022417

K. V. Suresh Reddy
Chief Financial Officer

Thulsidass T V
Company Secretary

Bengaluru
August 23, 2018

Bengaluru
August 23, 2018

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2018

(All amounts in ₹ lakhs unless otherwise stated)

(A) Equity Share Capital

	Amount
Balance as at July 1, 2016	2198
Changes in equity share capital during the year	-
Balance as at June 30, 2017	**2198**
Changes in equity share capital during the year	-
Balance as at June 30, 2018	**2198**

(B) Other equity

	Securities premium reserve	Share based compensation reserve	General reserve	Retained earnings	Total
Balance as at July 1, 2016	**9**	**40**	**14884**	**20359**	**35292**
Profit for the year	-	-	-	2437	2437
Other comprehensive Income	-	-	-	1	1
Total comprehensive income for the year	9	40	14884	22797	**37730**
Transactions with owners in their capacity as owners:					
Interim dividends	-	-	-	(440)	(440)
Dividend distribution tax	-	-	-	(89)	(89)
Share based compensation expense	-	51	-	-	51
Payment during the year towards share based compensation	-	(59)	-	-	(59)
Balance as at June 30, 2017	**9**	**32**	**14884**	**22268**	**37193**
Profit for the year	-	-	-	5226	**5226**
Other comprehensive Income	-	-	-	(206)	**(206)**
Total comprehensive income for the year	**9**	**32**	**14884**	**27288**	**42213**
Transactions with owners in their capacity as owners :					
Interim dividends	-	-	-	(440)	(440)
Dividend distribution tax	-	-	-	(90)	(90)
Share based compensation expense	-	66	-	-	66
Payment during the year towards share based compensation	-	(71)	-	-	(71)
Balance as at June 30, 2018	**9**	**27**	**14884**	**26758**	**41678**

The accompanying notes are the integral part of the financial statements.

This is the Statement of Change in Equity referred to in our report of even date.

For Walker Chandiok & Co LLP
Chartered Accountants
Firm Registration Number: 001076N/N500013

Vijay Vikram Singh
Partner
Membership Number: 059139

Bengaluru
August 23, 2018

For and on behalf of Board of Directors

Bhagya Chandra Rao
Managing Director
DIN - 00211127

B Anjani Kumar
Director
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K. V. Suresh Reddy
Chief Financial Officer

Thulsidass T V
Company Secretary

Bengaluru
August 23, 2018

Bengaluru
August 23, 2018

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

(All amounts in ₹ lakhs unless otherwise stated)

	Year ended June 30, 2018	Year ended June 30, 2017
Cash flow from operating activities		
Profit before taxation and exceptional items	**8070**	**3586**
Adjustments for:		
Depreciation and amortisation expense	2811	2826
Liabilities no longer required written back	(3)	(11)
Provision for doubtful debts and deposits written back	-	(39)
Provision for product support	511	365
Bad debts written off	1	-
Provision made for doubtful debts	48	-
Provision for disputed taxes and duties	127	18
Property, plant and equipments written off	-	6
Loss/(Profit) on sale of property, plant and equipments (net)	63	(37)
Interest income	(307)	(24)
Unrealised foreign exchange (gain)/ loss (net)	13	(18)
Employee share based expense	66	32
Operating profit before working capital changes	**11400**	**6704**
Adjustment for working capital changes:		
(Increase) / decrease in inventories	(4861)	604
(Increase) / decrease in trade and other receivables	(2045)	657
Decrease/ (Increase) in financial assets	113	(14)
Increase in other liabilities and provisions	2113	391
Cash generated from operations	**6720**	**8342**
Taxes paid (net of refunds)	(266)	(626)
Net cash generated from operations (1)	**6454**	**7716**
Cash flow from investing activities		
Purchase of property, plant and equipment	(6030)	(5028)
Sale proceeds of property, plant and equipment	33	40
Loan to fellow subsidiary	-	(200)
Loan repayment from fellow subsidiary	-	700
Interest received on loan to fellow subsidiary	-	13
Interest received	314	16
Net Cash used in investing activities (2)	**(5683)**	**(4459)**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

(All amounts in ₹ lakhs unless otherwise stated)

	Year ended June 30, 2018	Year ended June 30, 2017
Cash flow from financing activities		
Dividends paid	(440)	(440)
Dividend distribution tax	(90)	(89)
Unclaimed dividend paid	2	(1)
Net Cash used in Financing activities (3)	**(528)**	**(530)**
Net increase in cash and cash equivalents (1+2+3)	243	2727
Add: Cash and cash equivalents at the beginning of the year	9205	6478
Cash and cash equivalents at the end of the year	**9448**	**9205**

Note:

The Company's statement of cash flow does not have any liabilities which have been classified under financing activities in the Statement of Cash Flows. Accordingly, requirements of paragraphs 44 (A) to 44 (E) of Ind AS 7, Statement of Cash Flows relating to presentation of 'Net Debt reconciliation' is not applicable to the Company.

The accompanying notes are the integral part of the financial statements.

This is the Statement of cash flow referred to in our report of even date.

For Walker Chandiok & Co LLP
Chartered Accountants
Firm Registration Number: 001076N/N500013

Vijay Vikram Singh
Partner
Membership Number: 059139

Bengaluru
August 23, 2018

For and on behalf of Board of Directors

Bhagya Chandra Rao
Managing Director
DIN - 00211127

B Anjani Kumar
Director
DIN - 00022417

K. V. Suresh Reddy
Chief Financial Officer

Thulsidass T V
Company Secretary

Bengaluru
August 23, 2018

Bengaluru
August 23, 2018

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Kennametal India Limited ("the Company") incorporated under the Companies Act, 1956, is in the business of manufacturing and trading of hard metal products and manufacturing of machine tools. The Company has its manufacturing facility in Bangalore sells its product and services through sales and support offices. The Company is a public limited company incorporated and domiciled in India and has its registered office at 8/9th Mile, Tumkur Road, Bengaluru 560 073. The Company is listed on the Bombay Stock Exchange (BSE). The financial statements were approved for issue by Company's board of director on August 23, 2018.

2. Significant accounting policies

2.1 Basis of preparation and purpose of financial statements:

(i) Compliance with Ind AS :

The financial statements comply in all material aspects with Indian Accounting Standards (Ind AS) notified under Section 133 of the Companies Act, 2013 (the Act) read with Companies (Indian Accounting Standards) Rules, 2015 as amended and other relevant provisions of the Act. The financial statements up to year ended 30 June 2016 was prepared in accordance with the accounting standards notified under Companies (Accounting Standard) Rules, 2006 (as amended) and other relevant provisions of the Act. These financial statements are the first financial statements of the Company under Ind AS. Refer note 39 for the explanation of transition from Indian GAAP to Ind AS.

The accounting policies are applied consistently to all the periods presented in the financial statements.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

a) Certain financial assets and liabilities are measured at fair value;
b) Assets held for sale - measured at fair value less cost to sales;
c) Defined benefit plans - plan assets measured at fair value; and
d) Share based payments - measured at fair value.

All assets and liabilities have been classified as current or non-current as per the Company's operating cycle and other criteria set out in the Schedule III to the Companies Act, 2013. Based on the nature of services and the time between the acquisition of assets for processing and their realisation in cash and cash equivalents, the Company has ascertained its operating cycle as 12 months for the purpose of current/non-current classification of assets and liabilities.

(iii) Current / non-current classification

The Company presents assets and liabilities in the balance sheet based on current / non-current classification.

An asset is treated as current when it is:

- expected to be realised or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

The operating cycle is the time between the acquisition of assets for processing and their realisation in cash and cash equivalents. The Company has evaluated and considered its operating cycle as 12 months.

Deferred tax assets/ liabilities are classified as non-current assets/ liabilities.

(iv) Rouding-off amounts

The financial statements are presented in ₹ and all values are rounded to the nearest lakh (₹ 00,000), except when otherwise indicated.

2.2 Significant estimates, judgements and assumptions

The application of accounting standards and policies requires the Company to make estimates and assumptions about future events that directly affect its reported financial condition and operating performance. The accounting estimates and assumptions discussed are those that the Company considers to be most critical to its financial statements. An accounting estimate is considered critical if both (a) the nature of estimates or assumptions is material due to the level of subjectivity and judgement involved, and (b) the impact within a reasonable range of outcomes of the estimates and assumptions is material to the Company's financial condition or operating performance.

The areas involving critical estimates are:

(i) Recognition of deferred tax assets

The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry forward can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS

(ii) Evaluation of indicators for impairment of assets

The evaluation of applicability of indicators of impairment of assets requires assessment of several external and internal factors which could result in deterioration of recoverable amount of the assets. In assessing impairment, management estimates the recoverable amount of each asset or cash generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

(iii) Recoverability of advances / receivables

At each balance sheet date, based on historical default rates observed over expected life, the management assesses the expected credit loss on outstanding receivables and advances.

(iv) Useful lives of depreciable / amortisable assets

Management reviews its estimate of the useful lives of depreciable / amortisable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical and economic obsolescence that may change the utility of certain items of property, plant and equipment.

(v) Estimate of product support

At each balance sheet date basis the management judgment and historical trend, the Company assesses the requirement of provisions. However, the actual future outcome may be different from the judgment.

(vi) Estimation of defined benefit obligation

Measurement of obligation towards defined benefit plans such as gratuity is based on the actuarial valuation using the projected unit credit method. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. Significant assumptions include determination of discount rate, future salary increases etc. Due to complexities involved in the valuation & its long term nature, defined benefit obligation is sensitive to changes in these assumptions (refer note 17).

2.3 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of rebates, service taxes, GST and amounts collected on behalf of third parties The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from sale of products is recognised when risk of loss and title have transferred to the customer, which in most cases co-incides with shipment of the related products. Revenue from sale of machines and tools (Machining Solutions Group) is recognised upon customer acceptance and despatch.
Income from services is recognised as the services are rendered based on agreements/arrangements with customers. Interest income is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

Interest income from financial asset is recognised using effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. When calculating the effective interest rate, the group estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses.

Dividends are recognised in profit or loss only when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the group, and the amount of dividend can be measured reliably.

2.4 Property, plant and equipment

The Company has elected to continue with the carrying value of all of its property, plant and equipment recognised as at July 1, 2016 measured as per the previous GAAP and use that carrying value as the deemed cost of the property, plant and equipment.

Freehold land is carried at historical cost. All other items of property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to Statement of Profit or Loss during the reporting period in which they are incurred.

Advances paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date is classified as capital advances under other non-current assets and the cost of assets not put to use before such date are disclosed under 'Capital work-in-progress'. Subsequent expenditures relating to property, plant and equipment is capitalised only when it is probable that future economic benefits associated with these will flow to the company and the cost of the item can be measured reliably.

Depreciation method, useful lives and residual value

Depreciation is provided on a pro-rata basis on the straight-line method over the estimated useful life of the assets which are different from useful life indicated in Schedule II of Companies Act, 2013, in order to reflect the actual usage of the assets. The estimates of the useful life of the assets, based on internal technical evaluation, have not undergone a change on account of transition to the Companies Act, 2013. The assets' residual values and useful

NOTES TO THE FINANCIAL STATEMENTS

lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

	Estimated range of useful life
Buildings (including temporary structures)	10 - 33 years
Plant and machinery	
Data processing equipment	3 - 5 years
Others	5 - 15 years
Vehicles	5 years
Office equipment	5 years
Furniture and fixtures	5 years

Machinery spares of irregular usage are amortised over the estimated useful life of the respective plant and machinery.

Schedule II requires the Company to identify and depreciate significant components with different useful lives separately. The Company has evaluated the applicability of component accounting as prescribed under Ind AS 16, Property, plant and equipment, and Schedule II of the Companies Act, 2013. The management has evaluated the requirement of Schedule II and has not identified any significant component having different useful lives.

2.5 Intangible assets

The Company has elected to continue with the carrying value of all of intangible assets recognised as at 1st July, 2016 measured as per the previous GAAP and use that carrying value as the deemed cost of intangible assets.

Intangible assets are recognised only if is probable that future economic benefits that are attributable to the assets will flow to the company and the costs can be measured reliably. Intangible assets are stated at acquisition cost, net of accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised over their estimated useful life.

(i) Computer Software

Costs associated with maintaining software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is available for use. Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

(ii) Research and development

Research expenditure and development expenditure that do not meet the criteria in (a) above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iii) Amortisation methods and periods

Application software is expensed off on purchase, except in case of major application software having unit value exceeding rupees ten lakhs or forming part of an overall project, which is amortised over its estimated useful life or project life not exceeding three years.

The amortisation period used for intangible assets are reviewed at each financial year end.

2.6 Impairment of property, plant and equipment and intangible assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired, based on internal or external factors. If any such indication exists, the Company estimates the recoverable amount of the asset or the cash generating unit. If such recoverable amount of the asset or cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the Statement of Profit and Loss. If, at the reporting date there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount. Impairment losses previously recognised are accordingly reversed in the Statement of Profit and Loss.

Intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2.7 Inventories

Raw materials and stores, work-in-progress, traded and finished goods are stated at the lower of cost and net realisable value. Cost of raw materials and traded goods comprises cost of purchases. Cost of work-in-progress and finished goods comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost of inventories also include all other costs incurred in bringing the inventories to their present location and condition. Costs are assigned to individual items of raw materials, stores and spares, work-in-progress and traded

NOTES TO THE FINANCIAL STATEMENTS

goods on the basis of weighted average whereas manufactured goods are ascertained on first-in first method. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.8 Investment properties

The company has elected to continue with the carrying value of all of investment properties recognised as at July 1st, 2016 measured as per the previous GAAP and use that carrying value as the deemed cost of investment properties.

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the company, is classified as investment property. Investment property is measured initially at its cost, including related transaction costs. Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

2.9 Leases

i) As a lessee:

Property, plant and equipment acquired under lease where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Such leases are capitalized at the inception of the lease at lower of the fair value of lease property or the present value of the minimum lease payments. Finance lease payment is apportioned between finance charge and reduction of the lease liability, so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the Statement of Profit and Loss.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to Statement of profit or loss on a straight-line basis over the period of the lease unless the payments are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in Statement of Profit or Loss.

ii) As a lessor:

Lease income from operating leases where the company is a lessor is recognised as income on a straight-line basis over the lease term unless the receipts are structured to increase in line with expected general inflation to compensate for the expected inflationary cost increases. The respective leased assets are included in the balance sheet based on their nature.

2.10 Employee benefits

Expenses and liabilities in respect of employee benefits are recorded in accordance with Ind AS 19, Employee Benefits.

Defined contribution plan

Provident Fund

Eligible employees of the Company receive benefits from a provident fund, which is a defined contribution plan. Both the eligible employee and the Company make monthly contributions to the provident fund plan equal to a specified percentage of the covered employee's salary. The Company contributes to Kennametal India Limited Employee's Provident Fund Trust. The trust invests in specific designated instruments as permitted by Indian law. The rate at which the annual interest is payable to the beneficiaries by the trust is being administered by the government. The Company has an obligation to make good the shortfall, if any, between the return from investments of the Trust and the notified interest rate.

Defined benefit plan
Gratuity
The Company provides for gratuity, a defined benefit plan ('the Gratuity Plan') covering eligible employees. The Gratuity Plan provides a lump-sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment with the Company.

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, performed by an independent actuary at each Balance Sheet date using the projected unit credit method. The Company fully contributes all ascertained liabilities to the Kennametal India Limited Employees Gratuity Fund Trust (the Trust). Trustees administer contributes made to the Trust and contributions are invested in a scheme with Life Insurance Corporation of India and HDFC Life Insurance Company Limited as permitted by Indian law.

The Company recognises the net obligation of a defined benefit plan in its Balance Sheet as an asset or liability. Gains and losses through re-measurements of the net defined liability / (asset) are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. The actual return of the portfolio of plan assets, in excess of the yields computed by applying the discount rate used to measure the defined benefit obligation is recognised in other comprehensive income. The effect of any plan amendments are recognised in net profit in the Statement of Profit and Loss.

NOTES TO THE FINANCIAL STATEMENTS

Other long-term employee benefit obligations
Compensated absences

The Company provides benefit of compensated absences under which unavailed leave are allowed to be accumulated to be availed in future. The compensated absences comprises of vesting benefit. The cost of short term compensated absences are provided for based on estimates. Long term compensated absence costs are provided for based on actuarial valuation using the project unit credit method. The Company presents the entire leave as a current liability in the balance sheet, since it does not have an unconditional right to defer its settlement for 12 months after the reporting date.

The present value of the defined benefit obligation denominated in INR is determined by discounting the estimated future cash outflows by reference to market yields at the end of the reporting period on government bonds that have terms approximating to the terms of the related obligation.

Service cost on the Company's defined benefit plan is included in employee benefits expense. Employee contributions, all of which are independent of the number of years of service, are treated as a reduction of service cost. Net interest expense on the net defined benefit liability is included in finance costs.

Further, as required under Ind AS compliant Schedule III, the Company transfers those amounts recognized in other comprehensive income to retained earnings in the statement of changes in equity and in the balance sheet.

Long-term service awards
Certain employees of the Company are entitled to other long-term benefits in the nature of long-term service awards as per the policy of the Company. Liability for such benefits is provided on the basis of an independent actuarial valuation using the projected unit credit method at the balance sheet date.

Short-term employee benefits
Short-term employee benefits comprise of employee costs such as salaries, bonus etc. is recognized on the basis of the amount paid or payable for the period during which services are rendered by the employee.

2.11 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Indian rupee ₹, which is the Company's functional and presentation currency.

(ii) Transaction and balances
Foreign currency transactions are translated into the functional currency using the exchange rates that approximate the actual rates at the date of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in Statement of Profit or Loss.

All other foreign exchange gains and losses are presented in the statement of profit and loss on a net basis within other income/ other expenses.

2.12 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM).

The managing director of the Company assesses the financial performance and position of the company and makes strategic decisions. The managing director has been identified as being the CODM. Refer note 35 for segment information presented.

2.13 Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses, if any.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company operate and generate taxable income.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred Tax Assets (DTA) are recognised for all deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred Tax Assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in Statement of Profit or Loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

NOTES TO THE FINANCIAL STATEMENTS

Minimum Alternative Tax ("MAT") credit is recognised as an asset only when and to the extent there is convincing evidence that the Company will pay normal period income tax during the specified period. Such asset is reviewed at each Balance Sheet date and the carrying amount of the MAT credit asset is written down to the extent there is no longer a convincing evidence to the effect that the Company will pay normal income tax during the specified period.

2.14 Share based payments

Stock-based compensation awards are provided to selected employees under the terms of the long-term incentive plan of the Kennametal Inc. USA, the ultimate holding company. Awards available under the plans include restricted stock units ("RSUs") which are granted to the Managing Director and certain senior management employees of the company. Stock-based compensation represents the cost related to group stock-based awards granted to employees.

RSUs entitle the holder to shares of common stock as the award vest, typically over 3 years or 4 years depending upon the scheme and year of grant. RSUs are time vesting stock units and therefore the fair value of the units is determined and fixed on the grant date based on market value of Kennametal Inc's share price, adjusted for the exclusion of dividend equivalents. The company measures stock-based compensation cost at the grant date, based on the estimated fair value of the award and recognizes the cost (net of estimated forfeitures) over the employee requisite service period.

The total expense in respect of the above share based payment scheme is recognised over the vesting period with a corresponding adjustment to equity compensation reserve as a capital contribution from Kennametal Inc. The inter-company charge is offset against the equity compensation reserve. A liability is recognised when the award is released to or exercised by the Company's employees and billed by Kennametal Inc.

2.15 Provisions and contingent liabilities

Provisions for legal claims, service warranties, volume discounts and returns are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities are disclosed when there is a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company or a present obligation that arises from past events where it is either not probable that an outflow of resources will be required to settle or a reliable estimate of the amount cannot be made.

2.16 Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition. Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

2.17 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition

The Company recognises financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are recognized at fair value on initial recognition, except for trade receivables which are initially measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, that are not at fair value through profit or loss, are added to the fair value on initial recognition. Regular way purchase and sale of financial assets are accounted for at trade date.

NOTES TO THE FINANCIAL STATEMENTS

Subsequent measurement

(i) Financial assets carried at amortised cost

A financial asset is subsequently measured at amortised cost if it is held with in a business model whose objective is to hold the asset in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in Statement of profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

(ii) Financial assets at fair value through other comprehensive income (FVTOCI)

A financial asset is subsequently measured at fair value through other comprehensive income if it is held with in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in other income using the effective interest rate method.

(iii) Financial assets at fair value through profit or loss (FVTPL)

Financial assets which are not classified in any of the above categories are subsequently fair valued through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in statement of profit or loss and presented net in the period in which it arises. Interest income from these financial assets is included in other income.

(iv) Equity investments

All equity investments in scope of Ind AS 109, Financial Instruments, are measured at fair value. Equity instruments which are held for trading and contingent consideration recognised by an acquirer in a business combination to which Ind AS 103 Business Combinations, applies are classified as at FVTPL. For all other equity instruments, the Company may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value. The Company makes such election on an instrument-by-instrument basis. The classification is made on initial recognition and is irrevocable.

If the Company decides to classify an equity instrument as at FVTOCI, then all fair value changes on the instrument, excluding dividends, are recognized in the OCI. There is no recycling of the amounts from OCI to Statement of Profit and Loss, even on sale of investment. However, the Company may transfer the cumulative gain or loss within equity.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition under Ind AS 109 'Financial Instruments'. A financial liability (or a part of a financial liability) is derecognised from the Company's balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

Financial liabilities

Initial recognition

All financial liabilities are recognised initially at fair value and transaction cost that is attributable to the acquisition of the financial liabilities is also adjusted. These instruments are classified as amortised cost.

Subsequent measurement

These liabilities includes deposits. Subsequent to initial recognition, these liabilities are measured at amortised cost using effective interest method.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by Ind AS 109, Financial Instruments.

Gains or losses on liabilities held for trading are recognised in the profit or loss

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated as such at the initial date of recognition, and only if the criteria in Ind AS 109 are satisfied. For liabilities designated as FVTPL, fair value gains/ losses attributable to changes in own credit risk are recognized in OCI. These gains/ loss are not subsequently transferred to Statement of Profit and Loss. However, the Company may transfer the cumulative gain or loss within equity. All other changes in fair value of such liability are recognised in the Statement of Profit or Loss. The Company has not designated any financial liability as at fair value through profit and loss.

NOTES TO THE FINANCIAL STATEMENTS

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Profit and Loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amounts is reported in the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedge instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

When forward contracts are used to hedge forecast transactions, the group generally designates only the changes in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in Statement of Profit and Loss.

2.18 Impairment of financial assets

In accordance with Ind AS 109 Financial Instruments, the Company applies expected credit loss (ECL) model for measurement and recognition of impairment loss for financial assets.

The Company tracks credit risk and changes thereon for each customer. For recognition of impairment loss on other financial assets and risk exposure, the Company determines that whether there has been a significant increase in the credit risk since initial recognition. If credit risk has not increased significantly, 12-month ECL is used to provide for impairment loss. However, if credit risk has increased significantly, life time ECL is used. If in a subsequent period, credit quality of the instrument improves such that there is no longer a significant increase in risk since initial recognition, then the entity reverts to recognising impairment loss allowance based on 12-month ECL.

ECL is the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original EIR. When estimating the cash flows, an entity is required to consider:

- All contractual terms of the financial instrument over the expected life of the financial instrument. However, in rare cases when the expected life of the financial instrument cannot be estimated reliably, then the entity is required to use the remaining contractual term of the financial instrument.
- Cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECL impairment loss allowance (or reversal) recognized during the period is recognized as income/ expense in the Statement of Profit and Loss. This amount is reflected under the head ‘other expenses’ in the Statement of Profit and Loss.

For recognition of impairment loss on other financial assets and risk exposure, the Company determines whether there has been a significant increase in the credit risk since initial recognition and if credit risk has increased significantly, impairment loss is provided.

2.19 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

‘The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

NOTES TO THE FINANCIAL STATEMENTS

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurements as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined the classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liabilities and the level of the fair value hierarchy as explained above.

2.20 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.21 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, the net profit for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of dilutive potential equity shares, if any.

2.22 Standards issued but not effective:

(a) Ind AS 115 Revenue from contracts with customers :

Ministry of Corporate Affairs (MCA) has notified Ind AS 115, Revenue from contracts with customers, which replaces Ind AS 18 Revenue and Ind AS 11 Construction contracts and related appendices. The new standard is mandatory for financial years commencing on or after April 1st, 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

According to the standard, revenue is recognised when a customer obtains control of a promised good or service and thus has the ability to direct the use and obtain the benefits from the good or service in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. A new five-step process must be applied before revenue can be recognised:

(i) Identify contracts with customers
(ii) Identify the separate performance obligation
(iii) Determine the transaction price of the contract
(iv) Allocate the transaction price to each of the separate performance obligations, and
(v) Recognise revenue as each performance obligation is satisfied.

The Company is presently assessing the requirements of Ind AS 115 in order to reasonably estimate the impact of this standard.

(b) Appendix B to Ind AS 21 Foreign currency transactions and advance consideration :

The MCA has notified Appendix B to Ind AS 21, Foreign currency transactions and advance consideration. The appendix clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability). If there are multiple the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability). If there are multiple payments or receipts for one item, date of transaction should be determined as above for each payment or receipt.

The Company intends to adopt the amendments prospectively to items in scope of the appendix that are initially recognised on or after the beginning of the reporting period in which the appendix is first applied (i.e. from 1 July 2018).

The Company is in the process of evaluating the requirements of this amendment in order to reasonably estimate the impact on application of Appendix B to Ind AS.

(c) Ind AS 40 Investment property – Transfers of investment property :

The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer. The list of evidence for a change of use in the standard was re-characterised as a non-exhaustive list of examples and scope of these examples have been expanded to include assets under construction/development and not only transfer of completed properties.

The Company has decided to apply the amendment prospectively to changes in use that occur after the date of initial application (i.e. 1 July 2018).

The Company is in the process of evaluating the requirements of this amendment in order to reasonably estimate the impact on application of Ind AS 40.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

3A Property, plant and equipment

Particulars	Freehold land	Buildings		Plant and machinery		Furniture and fixtures	Office equipment	Total
		Owned	Leased	Data processing equipment	Others			
Deemed cost								
Balance as at July 1, 2016	**5**	**854**	**25**	**319**	**9043**	**78**	**347**	**10671**
Additions	-	59	-	103	6474	11	154	6801
Disposals	-	-	-	-	(9)			(9)
Balance as at June 30, 2017	**5**	**913**	**25**	**422**	**15508**	**89**	**501**	**17463**
Additions	-	6	-	300	3252	26	77	**3661**
Disposals	-	-	-	-	(94)	-	(3)	**(97)**
Balance as at June 30, 2018	**5**	**919**	**25**	**722**	**18666**	**115**	**575**	**21027**
Accumulated depreciation								
Depreciation charge for the year	-	73	4	178	2405	32	134	2826
Disposals	-	-	-	-	-	-	-	-
Balance as at June 30, 2017	**-**	**73**	**4**	**178**	**2405**	**32**	**134**	**2826**
Depreciation charge for the year	-	71	4	158	2408	24	144	2809
Disposals	-	-	-	-	-	-	-	-
Balance as at June 30, 2018	**-**	**144**	**8**	**336**	**4813**	**56**	**278**	**5635**
Net block								
As at June 30, 2017	**5**	**840**	**21**	**244**	**13103**	**57**	**367**	**14637**
As at June 30, 2018	**5**	**775**	**17**	**386**	**13853**	**59**	**297**	**15392**

Leased assets

The Company has given office facilities on operating lease. The lease arrangements are over a period of eleven months and are cancellable by notice of 30 days by either side. Most of the leases are renewable for further period on mutually agreeable terms and also include escalation clauses.

Contractual obligations

Refer note 28 for contractual commitments for the acquisition of property, plant and equipment.

3B Capital work-in-progress

Particulars	Amount
Balance as at July 1, 2016	**1640**
Additions during the year	
Less: Capitalised during the year	(1362)
Balance as at June 30, 2017	**278**
Additions during the year	1827
Less: Capitalised during the year	
As at June 30, 2018	**2105**

Capital work-in-progress mainly comprises of property, plant and equipment and building being constucted in India.

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NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

4 Investment properties

Particulars	Amount
Deemed cost as at July 1, 2016	**1**
Additions	-
Disposals	-
Balance as at June 30, 2017	**1**
Additions	-
Disposals	-
Balance as at June 30, 2018	**1**
Depreciation	
Depreciation charge for the year	-
Disposals	-
Balance as at June 30, 2017	**-**
Depreciation charge for the year	-
Disposals	-
Balance as at June 30, 2018	**-**
Net block	
As at June 30, 2017	**1**
As at June 30, 2018	**1**

Note:

a) **Fair Value**

Estimation of fair value

The best evidence of fair value is current prices in an active market for similar properties. The Company considers current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences.

The fair values of investment properties have been determined with reference to Bengaluru Municipal authority guidance value and Mehesana Municipal authority, Kalol district, Gujrat with certain restriction on the Company's ability to use or sell these investment properties. The fair value estimate for investment properties are included in level 2.

The fair value of investment properties is as below:

As at July 1, 2016	1460
As at June 30, 2017	1460
As at June 30, 2018	1460

b) There is no rental income derived from investment properties. Further, no direct operating expenses have been incurred to maintain the investment property.

c) The Company has no restriction on the realisability of the investment property, and no contractual obligation to purchase, construct or develop investment properties or for repair, maintenance and enhancement.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

5 Intangible Assets

Particulars	Computer software (acquired)	Total
Deemed cost as at July 1, 2016	-	-
Additions	-	-
Disposals	-	-
Balance as at June 30, 2017	**-**	**-**
Additions	16	16
Disposals	-	-
Balance as at June 30, 2018	**16**	**16**
Depreciation		
Depreciation charge for the year	-	-
Disposals	-	-
Balance as at June 30, 2017	**-**	**-**
Depreciation charge for the year	2	2
Disposals	-	-
Balance as at June 30, 2018	**2**	**2**
Net block		
As at June 30, 2017	**-**	**-**
As at June 30, 2018	**14**	**14**

6 Financial Assets

6(a) Investments

Non-current investments

Particulars	As at June 30, 2018		As at June 30, 2017		As at July 1, 2016	
	No. of units	Amount	No. of units	Amount	No. of units	Amount
Investment in government securitities						
(Unquoted investments carried at cost)						
6% Rural Electrification Corporation Limited	500	50	500	50	500	50
(54EC Bonds 2015-16)						
Total non-current investments		**50**		**50**		**50**
Aggregate amount of unquoted investments		**50**		**50**		**50**

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NOTES TO THE FINANCIAL STATEMENTS
(All amounts in ₹ lakhs unless otherwise stated)

Current investments

Particulars	As at June 30, 2018		As at June 30, 2017		As at July 1, 2016	
	No. of units	Amount	No. of units	Amount	No. of units	Amount
Investment in mutual funds						
(Quoted investments carried at fair value through profit or loss)						
Birla Sun Life Cash Plus - Daily Dividend - Regular Plan	-	-	998305	1000	1098165	1100
Kotak Floater Short Term Fund - Dividend - Daily Reinvest	-	-	98080	1000	-	-
ICICI Prudential Liquid Plan - Regular - Dividend Daily	-	-	999260	1001	1099274	1101
Tata Money Market Fund Regular Plan - Dividend Daily	-	-	99872	1000	74886	750
HDFC Liquid Fund - Regular Plan - Dividend - Daily Reinvest	-	-	98060	1000	122571	1250
Reliance Liquid Treasury Institutional Plan - Dividend Daily	-	-	-	-	71978	1100
Total current investments		**-**		**5001**		**5301**
Aggregate amount of quoted investments		**-**		**5001**		**5301**

6 (b) Loans

Particulars	As at June 30, 2018		As at June 30, 2017		As at July 1, 2016	
	Current	Non-current	Current	Non-current	Current	Non-current
Unsecured, considered good						
(Carried at amortised cost)						
Security deposits	-	31	-	31	-	31
Other deposits	-	145	-	101	-	101
Employee advances	26	5	31	7	24	12
Loan to fellow subsidiary *	-	-	-	-	500	-
Total loans	**26**	**181**	**31**	**139**	**524**	**144**

Note:

* The loan was extended to a fellow subsidiary with a repayment period of 6 months at an interest rate of 9.5% p.a. towards working capital requirement (refer note 36).

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

6(c) Trade receivables

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Unsecured, considered good (also refer note 36)	12635	11016	11939
Doubtful	145	98	138
Total	**12780**	**11114**	**12077**
Less: Allowance for doubtful trade receivables	(145)	(98)	(138)
Total trade receivables	**12635**	**11016**	**11939**

6(d) Cash and cash equivalents

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Cash on hand	1	1	5
Balances with banks - In current accounts	9447	4203	1172
Total cash and cash equivalents	**9448**	**4204**	**1177**

There are no repatriation restriction with regard to cash and cash equivalent at the end of the reporting period and prior periods.

For the purpose of statement of cash flows, cash and cash equivalents comprise the followings:			
Cash and bank balances	9448	4204	1177
Short term highly liquid investments (Mutual Funds) (refer note 6(a))	-	5001	5301
Total cash and cash equivalents for the purpose of Statement of Cash Flows	**9448**	**9205**	**6478**

6(e) Bank balances other than cash and cash equivalents

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Margin money deposits *	-	115	100
Unclaimed dividends	27	25	26
Total bank balances other than cash and cash equivalents	**27**	**140**	**126**

(*) Held as lien by bank against forward contracts ₹ Nil (June 30, 2017: ₹ 115, July 1, 2016: ₹ 100)

6(f) Other financial assets

Non-current

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Long term deposits with banks with maturity			
period more than twelve months *	4	4	4
Total non-current financial assets	**4**	**4**	**4**

* Held as lien by bank against guarantee ₹ 4 (June 30, 2017: ₹ 4, July 1, 2016: ₹ 4)

Current

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Interest accrued on fixed deposits and others	1	8	14
Other receivables	87	97	180
Deposits with others	19	15	13
	107	**120**	**207**
(Less): Provision for doubtful deposits	(5)	(5)	(3)
Total current financial assets	**102**	**115**	**204**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

7. Deferred tax assets (net)

Movement in the deferred tax asset / (liability)

Particulars	As at July 1, 2016	Charge/ (credit) to Statement of Profit and Loss	Charge/ (credit) to other comprehensive income	As at June 30, 2017	Charge/ (credit) to Statement of Profit and Loss	Charge/ (credit) to other comprehensive income	As at June 30, 2018
Deferred Tax Assets:							
Provision for gratuity, leave encashment, long service award	463	29	1	493	(136)	109	466
Provision for product support	112	2	-	114	41	-	155
Provision for doubful debts	49	(14)	-	35	17		52
Provision for non-moving and obsolete inventory	222	1	-	223	72		295
Voluntary retirement scheme/employee separation	86	35	-	121	37		158
Others	24	14	-	38	(9)		29
Depreciation	(83)	(319)	-	(402)	(67)		(469)
Total	**873**	**(252)**	**1**	**622**	**(45)**	**109**	**686**
MAT credit entitlement	-	446	-	446	(446)		-
Closing Balance	**873**	**194**	**1**	**1,068**	**(491)**	**109**	**686**

8. Income tax assets (net)

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Advance tax net of provision (June 30, 2018: ₹ 23501, June 30, 2017: ₹ 21682, July 1, 2016: ₹ 24085)	2508	3826	3993
Total income tax assets	**2508**	**3826**	**3993**

9. Other non-current assets

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Capital advances	749	223	632
Prepaid expenses	14	8	7
Deposits with statutory / government Authorities	608	105	105
Total non-current assets	**1371**	**336**	**744**

10. Inventories

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Raw materials (Including goods in transit ₹830 [June 30, 2017: ₹ 267, July 1, 2016: ₹ 297]	3986	1920	1953
Stores and spares	287	213	218
Work-in-progress	4915	4306	4982
Finished goods	3576	3072	3151
Traded goods (Including goods in transit ₹428 [June 30, 2017: ₹ 233, July 1, 2016: ₹ 176]	2823	1215	1026
Total inventories	**15587**	**10726**	**11330**

Amounts recognised in Statement of Profit and Loss:

Write-downs of inventories to net realisable value amounted to ₹ 81 (June 30, 2017: ₹ 19, July 1, 2016: ₹ 17). These were recognised as an expense during the year and included in "Changes in values in inventory of finished goods, work in progress and stock in trade" in Statement of Profit and Loss.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

11 Other current assets

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Export benefits receivable	218	263	-
Deposits with statutory / government authorities	1269	1548	1428
Advance to supplier	228	149	109
Prepaid expenses	204	149	134
Travel advances to employees	78	62	47
Total other current assets	**1997**	**2171**	**1718**

12 Assets classified as held for sale

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Assets held for sale at lower of cost and net realisable value	-	-	48
Total assets classified as held for sale	**-**	**-**	**48**

Note:

Pursuant to a global decision to divest the "Extrude Hone" business, an agreement was entered into with Madison Industrial Solutions Corporation, USA on October 30, 2015 (with effective date of November 30, 2015) by Kennametal Inc., USA, the ultimate holding company. In line with the Board of Directors approval in the meeting held on November 9, 2015, the Company has given effect to the above divestiture disclosed under "Assets held for sale". As part of the sale proceeds, the Company has received INR. NIL (2017: Nil, 2016: ₹48 lakhs) from the ultimate holding company.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

13 Equity share capital

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Authorised			
21978240 (June 30, 2017: 21978240 and July 1, 2016: 21978240) Equity Shares of ₹10 each	2198	2198	2198
Issued, subscribed and fully paid up			
21978240 (June 30, 2017: 21978240 and July 1, 2016: 21978240) Equity Shares of ₹ 10 each	2198	2198	2198
Total equity share capital	**2198**	**2198**	**2198**

Notes:

(a) Reconcilliation of number of shares

	As at June 30, 2018		As at June 30, 2017	
	Number of shares	Amount	Number of shares	Amount
Balances as at the beginning of the year	21978240	2198	21978240	2198
Add: Issued and subscribed during the year	-	-	-	-
Balance at the end of the year	21978240	2198	21978240	2198

(b) Rights, preferences and restrictions attached to shares

The Company has one class of equity shares having a par value of ₹ 10 per share. Each shareholder is eligible for one vote per share held. The dividend proposed by the Board of Directors is subject to approval of the shareholders in the ensuing Annual General Meeting, except in case of interim dividend. In the event of liquidation, the equity shareholders are eligible to receive the remaining assets of the Company after distribution of all preferential amounts, if any, in proportion to their shareholding.

(c) Shares held by ultimate holding company and holding company

	As at June 30, 2018		As at June 30, 2017		As at July 1, 2016	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Kennametal Inc. USA, the ultimate holding company	5274840	527	5274840	527	5274840	527
Meturit AG., Zug, Switzerland, the holding company	11208840	1121	11208840	1121	11208840	1121

(d) Details of shares held by shareholders holding more than 5% of the aggregate shares in the Company

	As at June 30, 2018		As at June 30, 2017		As at July 1, 2016	
	Number of shares	Percentage	Number of shares	Percentage	Number of shares	Percentage
Kennametal Inc. USA, the ultimate holding company	5274840	24.00%	5274840	24.00%	5274840	24.00%
Meturit AG., Zug, Switzerland, the holding company	11208840	51.00%	11208840	51.00%	11208840	51.00%
Reliance Capital Trustee Company Limited *	2140021	9.74%	2118328	9.64%	2077492	9.45%

* 1660140 (June 30, 2017: 1637641, July 1, 2016: 1596805) shares are held by Reliance Equity Opportunities Fund comprising 7.55% (June 30, 2017: 7.45%, July 1, 2016: 7.26%) of the shareholding and 479881 (June 30, 2017: 480687, July 1, 2016: 480687) shares are held by Reliance Tax Saver (ELSS) Fund comprising 2.18% (June 30, 2017: 2.19%, July 1, 2016: 2.19%) of the shareholding.

(e) During five years immediately preceeding June 30, 2018 there are no shares alloted as fully paid up pursuant to contracts without payment being received in cash, shares alloted as fully paid up by way of bonus shares or shares bought back.

(f) There are no shares of the Company reserved for issue under any option, contracts, commitments for the sale of share or disinvestment.

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(All amounts in ₹ lakhs unless otherwise stated)

14 Other equity

Particulars	As at		
	June 30, 2018	June 30, 2017	July 1, 2016
Securities premium reserve	9	9	9
Share based compensation reserve	27	32	40
General reserve	14884	14884	14884
Retained earnings	26758	22268	20359
Total reserves and surplus	**41678**	**37193**	**35292**

Nature and purpose of reserve:

Securities premium reserve

Securities Premium reserve is used to record the premium on issue of shares. This reserve is utilised in accordance with provisions of the Act.

Share based compensation reserve

This reserve relates to share based compensation received by the employees of the Company from Kennametal Inc., USA the ultimate holding company, net of cross charge received. The reserve is used to recognise grant date fair value of awards issued to the employees (refer note 30).

15 Other financial liabilities

Non-current

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Deposit from customers	10	10	10
Total non-current financial liabilities	**10**	**10**	**10**

Current

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Capital creditors	511	306	266
Unpaid dividends	27	25	26
Employee benefits payable	2047	1739	1308
Other current liability	107	125	108
Total current financial liabilities	**2692**	**2195**	**1708**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

16 Provisions

Particulars	As at June 30, 2018		As at June 30, 2017		As at July 1, 2016	
	Current	Non-current	Current	Non-current	Current	Non-current
Gratuity (refer note 16)	77	451	41	425	38	393
Compensated absences	758	-	902	-	906	-
Long service award	11	44	22	34	-	-
Product support (refer note a and b)	427	23	317	14	313	11
Disputed taxes and duties (refer note b)	332	-	205	-	187	-
Total provision	**1605**	**518**	**1487**	**473**	**1444**	**404**

a) Product support

Provision is made for estimated warranty claims in respect of products sold which are still under warranty at the end of the reporting period. These claims are expected to be settled in the next financial year. Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.

b) Disputed taxes and duties:

Provision for disputed taxes and duties is in respect of duties and taxes paid under protest.

Particulars	Product support		Disputed taxes and duties		Total	
	Current	Non-current	Current	Non-current	Current	Non-current
Balance as at July 1, 2016	**313**	**11**	**187**	**-**	**500**	**11**
Addition	351	14	18	-	369	14
Utilisation	(347)	(11)	-	-	(347)	(11)
Reversal			-	-	-	-
Balance as at June 30, 2017	**317**	**14**	**205**	**-**	**522**	**14**
Addition	491	20	127	-	618	20
Utilisation	(381)	(11)	-	-	(381)	(11)
Reversal		-	-	-	-	-
Balance as at June 30, 2018	**427**	**23**	**332**	**-**	**759**	**23**

c) Defined contribution plan:

Contribution to provident fund and other funds under employee benefit expenses include the following :

Particulars	Year ended June 30, 2018	Year ended June 30, 2017
Provident fund	483	490
Employee state insurance	14	10
	497	**500**

The Company also has certain defined contribution plans as specified above. Contributions are made to the funds above at the specified rate of basic salary as per regulations. The obligation of the Company is limited to the amount contributed and it has no further contractual nor any constructive obligation. The expense recognised during the period towards defined contribution plan is ₹ 497 (June 30, 2017: ₹ 500).

Provident fund for certain eligible employees is managed by Company through the "KENNAMETAL INDIA LIMITED EMPLOYEES' PROVIDENT FUND TRUST" in line with the Provident Fund and Miscellaneous Provisions Act, 1952. The plan guarantees interest at the rate notified by the Provident Fund Authorities. The contribution by the employer and the employee together with the interest accumulated there on are payable to the employees at the time of their separation from the Company or retirement, whichever is earlier. The benefits vests immediately on rendering of the services by the employee. The Company currently does not have any unfunded plans. The Board of trustees is responsible for the administration of the Plan assets and investment strategy.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

16 Provision (cont'd)

A) Defined contribution plan (Provident Fund - Trust set by employer)

i) Changes in present value of defined contribution plan

Particulars	As at June 30, 2018	As at June 30, 2017
Defined benefit obligation at beginning of the year	9474	8604
Add: Current service cost	606	1147
Add: Interest expenses	673	582
a. Benefit payments from employer	(1286)	(827)
b. Other (employee contribution, taxes, expenses):	196	-
Add/(Less): Remeasurement loss/(gain)		
a. Due to experience adjustments	152	(31)
Defined benefit obligation at end of year	9815	9475

ii) Changes in plan assets

Particulars	As at June 30, 2018	As at June 30, 2017
Fair value of plan assets at end of prior year	10236	8832
a. Investment income	727	1203
b. Employer contribution	606	318
c. Benefit payments from employer	(1286)	(827)
d. Other (employee contribution, taxes, expenses)	(409)	-
e. Returns on assets (excluding interest income)	393	710
Fair value of plan assets at end of year	**10267**	**10236**

iii) Assets and liabilities

Particulars	As at June 30, 2018	As at June 30, 2017
Present value of defined benefit obligations	9815	9475
Fair value of plan assets	(10267)	(10236)
Total	**(452)**	**(761)**

Particulars	As at June 30, 2018	As at June 30, 2017
Non-current provisions	6972	8590
Current provisions	2844	884
Total	**9816**	**9474**

Note:

The Provident fund expenses other than contribution is not recognised in Statement of Profit and Loss as the fair value of plan assets exceeds the present value of obligation. Accordingly, the excess of plan assets over present value of obligation has not been recorded in financial statements.

Provident fund expenses recognised in the books for the year ended June 30, 2018 amount to ₹ 483 (June 30, 2017: ₹ 490).

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

16 Provision (cont'd)

iv) Major Categories of plan assets as percentage of total plan assets

Particulars	As at June 30, 2018	As at June 30, 2017
Government Bonds	55%	54%
Public sector understanding	42%	46%
Others : Funds managed by insurer	3%	0%

v) Significant Actuarial Assumptions

Particulars	As at June 30, 2018	As at June 30, 2017
Discount rate per annum	8.20%	7.10%
Expected return on plan assets	8.55%	8.65%
Expected salary increase per annum	5% & 4%	5% & 1%
Mortality rate per annum	100%	100%
Withdrawal (rate of employee turnover)	4.50%	0.50%
Retirement age	58 & 60	58 & 60
Interest rate guarantee	8.55%	8.65%

The estimates of future increase in salary, considered in the actuarial valuation, have been taken on account of inflation, seniority, promotion and other relevant factors such as supply and demand in the employment market.

vi) Sensitivity analysis

Particulars	Change in assumption	As at June 30, 2018		As at June 30, 2017	
		Increase/ (decrease) in liability	Increase/ (decrease) in liability	Increase/ (decrease) in liability	Increase/ (decrease) in liability
Discount rate	+1% / -1%	(4)	4	(473)	461
Interest guarantee rate	+1% / -1%	246	(133)	309	(305)

B) Defined benefit obligation (Gratuity - Funded)

The Company operates a gratuity plan through the "KENNAMETAL INDIA LIMITED EMPLOYEES' GRATUITY TRUST". Every employee is entitled to a benefit equivalent to fifteen days salary last drawn for each completed year of service in line with the Payment of Gratuity Act, 1972. The same is payable at time of separation from the Company or retirement, whichever is earlier. The benefits vest after 5 years of continuous service. The Board of trustees is responsible for the administration of the Plan assets and investment strategy.

i) Change in defined benefit obligation

Particulars	As at June 30, 2018	As at June 30, 2017
Defined benefit obligation at beginning of the year	2078	1953
a. Current service cost	127	320
b. Interest expenses	147	127
c. Benefits payments from employer	(322)	(338)
Add/(Less) Remeasurement (gain)/loss		
a. Due to change in demographic assumptions	118	-
b. Due to change in financial assumptions	87	-
c. Due to experience adjustments	133	16
Defined benefit obligation at end of year	**2368**	**2078**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

16 Provisions (cont'd)

ii) Changes in plan assets

Particulars	As at June 30, 2018	As at June 30, 2017
Fair value of plan assets at end of prior year	1612	1522
a. Investment income	114	107
b. Employer contribution	414	303
c Benefit payments from employer	(322)	(338)
Remeasurements:		
a. Returns on assets (excluding interest income)	22	18
Fair value of plan assets at end of year	**1840**	**1612**

iii) Assets and liabilities recognised in the Balance Sheet:

Particulars	As at June 30, 2018	As at June 30, 2017
Present value of defined benefit obligations	2368	2078
(Less): Fair value of plan assets	(1840)	(1612)
Deficit/(Surplus)	528	466

iv) Expense recognised in the statement of Profit and Loss

Particulars	As at June 30, 2018	As at June 30, 2017
Remeasurement of other long term benefits		
a. Current service cost	127	320
Total Service cost	**127**	**320**
Net interest cost		
a. Interest expenses on Defined benefit obligation	147	127
b. Interest income on plan assets	(114)	(107)
Total net interest cost	**33**	**20**
A. Defined benefit cost included in P&L	**160**	**340**
Remeasurement (recognised in Other comprehensive income (OCI))		
a. Due to change in demographic assumptions	118	-
b. Due to change in financial assumptions	64	(18)
c. Due to experience adjustments	133	16
B. Total remeasurement in OCI	**315**	**(2)**
Total defined benefit cost recognised in P&L and OCI	**475**	**338**

v) Major category of plan asset as % of total plan assets

Particulars	As at June 30, 2018	As at June 30, 2017
Government Bonds	0%	0%
PSU	0%	0%
Mutual Funds	0%	0%
Deposits with Banks and FIs	0%	0%
Others : Funds managed by insurer	100%	100%

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

16 Provisions (cont'd)

vi) Significant actuarial assumptions

Particulars	As at June 30, 2018	As at June 30, 2017
Discount rate per annum	8.20%	7.10%
Expected return on plan assets	8.50%	7.10%
Expected salary increase per annum	5% & 4%	5% & 1%
Mortality rate per annum	100%	100%
Withdrawal (rate of employee turnover)	4.50%	1.00%
Retirement age	58 & 60	58 & 60

vii) Sensitivity analysis

Gratuity

Gratuity is a lumpsum plan and the cost of providing these benefits is typically less sensitive to small changes in demographic assumptions. The actuarial assumptions to which the benefit obligations results are particularly sensitive to are discount rate, salary escalation rate, attrition rate and mortality rate. The following table summerises impact on the reported defined benefit obligation arising on account of an increase or decrease in the reported assumptions.

Particulars	Change in assumption	As at June 30, 2018		As at June 30, 2017	
		Increase/ (decrease) in liability	Increase/ (decrease) in liability	Increase/ (decrease) in liability	Increase/ (decrease) in liability
Discount rate	+1% / -1%	(130)	144	(145)	164
Salary rate	+1% / -1%	148	(136)	169	(151)
Attrition rate	+50% / -50%	59	(71)	19	(20)
Mortality rate	+10% / -10%	1	(1)	2	(2)

These sensitivities have been calculated to show the movement in defined benefit obligation in isolation assuming there are no other changes in market condition as at the balance sheet date.

viii) The weighted average duration of the defined benefit obligation is 6 years (June 30, 2017: 8 years). The expected maturity analysis of undiscounted gratuity is as below:

Particulars	1 year	2-5 year	6-10 year	More than 10 years	Total
Gratuity					
June 30, 2018	346	1233	1245	1407	**4232**
June 30, 2017	185	899	1135	1757	**3975**

ix) Risk exposure

Valuations are performed on certain basic set of pre-determined assumptions and other regulatory framework which may vary overtime. Thus, the Company is exposed to various risks in providing the above benefit which are as follows:

a) **Interest rate risk**
The plan exposes the Company to the risk of fall in interest rates. A fall in interest rates will result in an increase in the ultimate cost of providing the above benefit and will thus result in an increase in the value of the liability as shown in financial statements.

b) **Salary escalation risk**
The present value of the defined benefit plan is calculated with the assumption of salary increase rate of employees in future. Deviation in the rate of interest in future for employees from the rate of increase in salary used to determine the present value of obligation will have a bearing on the plan's liability.

c) **Demographic risk**
The Company has used certain mortality and attrition assumptions in valuation of the liability. The Company is exposed to the risk of actual experience turning out to be worse compared to the assumption.

d) **Liquidity risk**
The Company does not perceive any liquidity risk as the Company has investments in Government Securities and Corporate Bonds offers the best returns over the long term, within an acceptable level of risk.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

17 Trade payables

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Trade payables (also refer note 36) *	10590	8343	7129
Total trade payables	**10590**	**8343**	**7129**

*Trade payables includes amount dues to Micro, Small and Medium Enterprises.

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

	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
a) Principal amount due to suppliers registered under the Micro, Small and Medium Enterprises and Development Act and remaining unpaid as at year end;	163	226	162
Interest due to suppliers registered under the MSMED Act and remaining unpiad as at year end;	-	*	*
b) Principal amounts paid to suppliers registered under the MSMED Act, beyond the appointed day during the year;	301	121	327
(i) Interest paid, other than under Section 16 of MSMED Act, to suppliers registered under the MSMED Act, beyond the appointed day during the year;	-	-	-
(ii) Interest paid, under Section 16 of the MSMED Act, to suppliers registered under the MSMED Act, beyond the appointed day during the year;	2	4	-
c) Interest due and payable towards suppliers registered under the MSMED Act, for payments already made;	2	-	3
d) Further interest remaining due and payable for earlier years;	-	-	*

*Amount is below the rounding off norm adopted by the Company.

Note:

The information has been given in respect of such suppliers to the extent they could be identified as "Micro" or "Small" enterprises on the basis of information available with the Company.

18 Other current liabilities

Particulars	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Advances from customers	2492	741	771
Statutory dues	351	1103	1531
Total current liabilities	**2843**	**1844**	**2302**

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

19 Revenue from operations

Particulars	Year ended June 30, 2018	Year ended June 30, 2017
Sale of products		
Finished goods	48864	43708
Traded goods	29117	24597
Sale of services	906	902
Other operating revenue		
Sale of scrap	36	58
Export incentives	276	219
Commission on order based sales	113	113
Total revenue from operations	**79312**	**69597**

20 Other income

Particulars	Year ended June 30, 2018	Year ended June 30, 2017
Dividend income	145	167
Interest income on bank deposits	6	10
Interest income on loan to fellow subsidiary	-	13
Interest on income tax refund	302	-
Liabilities no longer required written back	3	11
Provision doubtful debts and deposits written back	-	39
Exchange gain, (net)	84	-
Net gain on disposal of property, plant and equipment	-	37
Lease rentals	182	170
Support service charges from fellow subsidiary	96	96
Miscellaneous income	18	43
Total other income	**836**	**586**

21 Cost of materials consumed

Particulars	Year ended June 30, 2018	Year ended June 30, 2017
Consumption of raw materials and components		
Opening inventory	1920	1953
Add: Purchases	25906	17446
Less: Closing inventory	(3986)	(1920)
Total cost of materials consumed	**23840**	**17479**

22 Purchase of stock in trade

Particulars	Year ended June 30, 2018	Year ended June 30, 2017
Traded goods	20726	16936
Total purchase of stock in trade	**20726**	**16936**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

23 Changes in inventories of finished goods, work in progress and stock in trade

Particulars	Year ended June 30, 2018	Year ended June 30, 2017
Opening stock:		
Work-in-progress	4306	4982
Finished goods	3072	3151
Traded goods	1215	1026
	8593	**9159**
Closing stock:		
Work-in-progress	4915	4306
Finished goods	3576	3072
Traded goods	2823	1215
	11314	**8593**
(Increase)/ Decrease in stocks	**(2721)**	**566**
Excise duty on opening stock of finished goods	-	(609)
Excise duty on closing stock of finished goods	-	-
Increase/ (Decrease) in excise duty	-	(609)
Total changes in inventories of finished goods, WIP and stock in trade	**(2721)**	**(43)**

24 Employee benefit expense

Particulars	Year ended June 30, 2018	Year ended June 30, 2017
Salaries, wages and bonus	10466	10224
Contribution to provident and other funds	497	500
Gratuity	160	340
Stock compensation expense [refer note 30]	66	51
Staff welfare	1077	1121
Total employee benefit expense	**12266**	**12236**

25 Depreciation and amortisation expense

Particulars	Year ended June 30, 2018	Year ended June 30, 2017
Property, plant and equipment	2809	2826
Intangible assets	2	-
Total depreciation and amortisation expense	**2811**	**2826**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

26 Other expenses

Particulars	Year ended June 30, 2018	Year ended June 30, 2017
Power and fuel	1181	913
Consumption of stores and spare parts	2074	1825
Subcontracting charges	2212	1903
Repairs and maintenance	1339	1164
Rent	71	88
Rates and taxes	429	204
Insurance	86	90
Travelling and conveyance	1272	1011
Legal and professional (Note a)	1117	763
Communication	110	130
Directors' sitting fee	12	14
Directors commission	42	37
Expenditure towards Corporate Social Responsibility (CSR) (Note b)	71	67
Expenditure on trial and demo (inclusive of GST)	481	481
Forwarding and freight	1360	1021
Product support charges	511	365
Royalty	280	258
Printing and stationery	96	70
Advertisement and sales promotion	24	230
Provision doubtful debts and deposits (net)	48	-
Commission on sales (liasoning agent commission)	131	114
Property, plant and equipments written off	-	6
Loss on property, plant and equipments sold (net)	63	-
Information technology services	1534	1565
Net loss on foreign currency transaction and translation	-	-
Miscellaneous expenses	612	432
Total other expenses	**15156**	**12751**

(a) Payments to Auditors (excluding service tax) included under Legal and Professional above:

Statutory Audit	16	23
Audit of tax accounts and tax audit	5	6
Limited reviews	6	6
Certification	-	3
Group audit fees	13	31
Other Services	-	6
Out of pocket expenses	-	3

(b) Expenditure towards CSR:
Gross amount required to be spent by the Company during the year ₹71 (June 30, 2017: ₹67)

Amount paid during the year (paid in cash)	71	67

NOTES TO THE FINANCIAL STATEMENTS
(All amounts in ₹ lakhs unless otherwise stated)

27 Income tax expense

	Particulars	Year ended June 30, 2018	Year ended June 30, 2017
(a)	**Income tax expense**		
	Current tax	2044	795
	Tax Adjustments relating to earlier years	(460)	-
	Deferred tax charge/ (credit):		
	Deferred tax charge/(credit)	44	250
	MAT Credit (taken)/utilised	446	(446)
	Income tax expense	**2074**	**599**
	Deferred tax related to items recognised in OCI		
	Income tax relating to re-measurement gains on defined benefit plans	(109)	1
	Income tax expense reported in OCI	**(109)**	**1**

(b) Reconciliation of tax expense and the accounting profit multiplied by India's tax rate:

	Year ended June 30, 2018	Year ended June 30, 2017
Profit for the year before tax expense	**7300**	**3036**
Tax at the Indian tax rate of 34.608% (June 30, 2017: 34.608%)	2526	1051
Tax effect of amounts which are not deductible (taxable) in calculating taxable Income:		
CSR expenditure	25	23
Asset block difference	36	100
Exempt income	(50)	(58)
Research and development expense	(134)	(136)
Investment allowance	-	(375)
Tax relating to earlier years	(460)	-
Other items	131	(6)
Tax expense	**2074**	**599**

28 Capital and other commitments
Capital expenditure contracted for at the end of year of the reporting period but not recognised as liabilities is as follows:

Particulars	June 30, 2018	June 30, 2017	July 1, 2016
Property, plant and equipment	1327	1501	549

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

29 Contingent liabilities

Particulars	June 30, 2018	June 30, 2017	July 1, 2016
Income tax matters [note (a)]	2887	3517	2946
Excise duty / customs duty / service tax matters under dispute [note (b)]	887	924	927
First loss default guarantee [note (c)]	125	150	150

a) Primarily relates to transfer pricing adjustments/disallowances relating to Research and Development expenditure made by the Income Tax Department for the tax assessment years 2007-08, 2008-09, 2009-10, 2010-11, 2011-12, 2013-14 and 2014-15 which is disputed by the Company and the matter is lying under appeal with The Income Tax Appellate Tribunal, Bangalore/The Commissioner of Income Tax (Appeals) LTU, Bangalore/The Dispute Resolution Panel, Bangalore.

b) The Company has filed an appeal for ₹ 159 with the Customs, Excise & Service Tax Appellate Tribunal (CESTAT), Bangalore pertaining to the Customs Duty dispute (disputed demand ₹ 111 and interest ₹48) wherein the department contested that the Company has paid short duty due to non-inclusion of the Fuel Surcharge(FSC), Security Surcharge (SSC) in the assessable value. The Company has paid ₹ 159 under protest towards above tax demands and charged the same in earlier years Statement of Profit and Loss.

The Company is contesting the above mentioned demands and the management believes that its position will likely be upheld in the appellate process. Accordingly, no tax expense has been accrued in the financial statements for the year ended June 30, 2018, for the tax demands raised. Considering the facts and nature of demand, the Company believes that the final outcome of the disputes should be in favour of the Company and will not have any more material adverse effect on the financial position and results of operations.

c) First loss default guarantee represents financial guarantee given to a banker for providing channel financing scheme to distributors.

30 Shared based payment

Managing Director and certain senior management employees of the Company under the long-term incentive plan are granted Restricted Stock Units (RSUs) in a share based compensation plan of Kennamental Inc. USA, the ultimate holding Company.

Restricted stock units (RSUs)

RSUs are stock awards granted to employees that entitle the holder to shares of common stock as the award vests, over 3 or 4 years depending on the scheme and year of grant. The options granted under the plan have a graded vesting over a period of three or four years, which are immediately exercised on the vesting date. All the options granted under the plan are equity settled.

The fair value of time vesting stock units is determined and fixed on the grant date based on the Kennametal Inc.'s stock price adjusted for the exclusion of dividend equivalents.

The Company recognises stock-based compensation expense for restricted stock units over the period from the date of grant to the date when the award is no longer contingent on the employee providing additional service (substantive vesting period).

Details of number and weighted average exercise price of share options:

Particulars	As at June 30, 2018		As at June 30, 2017	
	Weighted Average fair value per Award (in USD)	Number of Awards in units	Weighted Average fair value per Award (in USD)	Number of Awards in units
Opening balance	27.04	1808	34.97	1334
Granted during the year	37.50	3101	24.96	3221
Exercised during the year	33.16	(3086)	28.45	(2747)
Closing balance	**34.48**	**1823**	**27.04**	**1808**

Note 1: No RSU's expired during the period covered in the above table.

Note 2: The weighted average remaining contractual life of RSUs outstanding at the end of the period is 1.26 years (June 30, 2017: 1.27 years, July 1, 2016: 1.31 years)

Expenses arising from share based payments transactions

Particulars	Year ended June 30, 2018	Year ended June 30, 2017
Shares issued under RSU	66	51
Total	**66**	**51**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

31 Fair value measurements

i) **Financial instruments by category**

The carrying value and fair value of financial instruments by categories as at June 30, 2018 are as follows:

Particulars	Amortised cost	Financial assets / liabilities at FVTPL	Financial assets / liabilities at FVTOCI	Carrying value	Fair value
Assets:					
Investments [refer note 6(a)]:					
- Government securities	50	-	-	50	50
- Mutual funds	-	-	-	-	-
Loans [refer note 6(b)]	207	-	-	207	207
Trade receivables [refer note 6(c)]	12635	-	-	12635	12635
Cash and cash equivalents [refer note 6(d)]	9448	-	-	9448	9448
Bank balances other than cash and cash equivalents [refer note 6(e)]	27	-	-	27	27
Other financial assets [refer note 6(f)]	106	-	-	106	106
Total	**22473**	**-**	**-**	**22473**	**22473**
Liabilities:					
Other financial liabilities [refer note 15]	2702	-	-	2702	2702
Trade payables [refer note 17]	10590	-	-	10590	10590
Total	**13292**	**-**	**-**	**13292**	**13292**

The carrying value and fair value of financial instruments by categories as at June 30, 2017 are as follows:

Particulars	Amortised cost	Financial assets / liabilities at FVTPL	Financial assets / liabilities at FVTOCI	Carrying value	Fair value
Assets:					
Investments [refer note 6(a)]:					
- Government securities	50	-	-	50	50
- Mutual funds	-	5001	-	5001	5001
Loans [refer note 6(b)]	170	-	-	170	170
Trade receivables [refer note 6(c)]	11016	-	-	11016	11016
Cash and cash equivalents [refer note 6(d)]	4204	-	-	4204	4204
Bank balances other than cash and cash equivalents [refer note 6(e)]	140	-	-	140	140
Other financial assets [refer note 6(f)]	119	-	-	119	119
Total	**15699**	**5001**	**-**	**20700**	**20700**
Liabilities:					
Other financial liabilities [refer note 15]	2205	-	-	2205	2205
Trade payables [refer note 17]	8343	-	-	8343	8343
Total	**10548**	**-**	**-**	**10548**	**10548**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

The carrying value and fair value of financial instruments by categories as at July 1, 2016 are as follows:

Particulars	Amortised cost	Financial assets / liabilities at FVTPL	Financial assets / liabilities at FVTOCI	Carrying value	Fair value
Assets:					
Investments [refer note 6(a)]:					
- Government securities	50	-	-	50	50
- Mutual funds	-	5301	-	5301	5301
Loans [refer note 6(b)]	668	-	-	668	668
Trade receivables [refer note 6(c)]	11939	-	-	11939	11939
Cash and cash equivalents [refer note 6(d)]	1177	-	-	1177	1177
Bank balances other than cash and cash equivalents [refer note 6(e)]	126	-	-	126	126
Other financial assets [refer note 6(f)]	208	-	-	208	208
Total	**14168**	**5301**	**-**	**19469**	**19469**
Liabilities:					
Other financial liabilities [refer note 15]	1718	-	-	1718	1718
Trade payables [refer note 17]	7129	-	-	7129	7129
Total	**8847**	**-**	**-**	**8847**	**8847**

ii) Financial instruments by category (cont'd)

The management assessed that the fair value of cash and cash equivalents, trade receivables, loans, other financial assets, trade payables and other financial liabilities approximate the carrying amount largely due to short-term maturity of these instruments. The carrying amounts of trade receivables, cash and cash equivalents, bank deposits with more than 12 months maturity, trade payables, items falling under other financial assets and financial liabilities are considered to be the same as their fair values.

The fair value of investment in government securities, loans and security deposits are determined based on discounted cash flows calculated using deposit rates for similar terms and credit risk at the inception. There are no significant changes in fair value of such assets during the year.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

iii) Fair value hierarchy

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1: Quoted prices (unadjusted) in active markets for financial instruments.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data rely as little as possible on entity specific estimates.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There are no transfers between the levels during the year.

Quantitative disclosure of fair value measurement hierarchy:

As at June 30, 2017	Date of valuation	Level 1	Level 2	Level 3	Total
Assets					
Investment in mutual funds	June 30, 2017	5001	-	-	5001
As at July 1, 2016	Date of valuation	Level 1	Level 2	Level 3	Total
Assets					
Investment in mutual funds	July 1, 2016	5301	-	-	5301

iv) Valuation process:

The finance department of the Company includes people capable of performing valuation of financial assets and liabilities required for financial reporting purposes, including level 3 fair values. The significant level 3 inputs for determining the fair values of security deposits and loan to employees are discount rates using a long term bank deposit rate to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

32 Financial risk management

The Company's activities expose it to market risk, liquidity risk and credit risk. The Company's risk management is carried out by the Management under the policies approved of the Board of Directors that help in identification, measurement, mitigation and reporting all risks associated with the activities of the Company. These risks are identified on a continuous basis and assessed for the impact on the financial performance. Information on risks and the response strategy is escalated in a timely manner to facilitate timely decision making. Risk response strategy is formulated for key risks by Management.

The below note explains the sources of risk which the Company is exposed to and how the Company manages the risk in the financial statements:

Risk	Exposure arising from	Measurement	Management
Credit risk	Cash and cash equivalents, trade receivables, financial assets measured at amortised cost	Ageing analysis, credit ratings	Diversification of bank deposits, credit limits
Liquidity risk	Other liabilities	Rolling cash flow forecasts	Availability of surplus cash and time deposits
Market risk - foreign exchange	Future commercial transactions, recognised financial assets and liabilities not denominated in Indian rupee (Rupees)	Cash flow forecasting, sensitivity analysis	Natural hedge exist between export receivable and import payables

A Credit Risk

Credit risk arises from cash and cash equivalents, security deposits carried at amortised cost and deposits with banks and financial insititutions, as well as credit exposures to customers including outstanding receivables.

Credit risk refers to the risk of default on its obligation by the counter party resulting in a financial loss. The maximum exposure to the credit risk at the reporting date is primarily from trade receivables amounting to ₹ 12635 as of June 30, 2018 [30 June 2017: ₹ 11015; July 1, 2016: ₹ 11939].

Assets under credit risk	As at June 30, 2018	As at June 30, 2017	As at July 1, 2016
Trade receivables	12635	11016	11939
Loans	207	170	668
Other financial assets	102	115	204
Total	**12944**	**11301**	**12811**

Credit risk on cash and cash equivalents is limited as the Company generally invest in deposits with banks with high credit ratings as signed by international and domestic credit rating agencies.

Trade receivables are typically unsecured and are derived from revenue earned from customers primarily located in India and US. Credit risk has always been managed by the Company through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the Company grants credit terms in the normal course of business. On account of adoption of Ind AS 109, Financial Instruments, the Company uses expected credit loss model to assess the impairment loss or gain. The provision for expected credit loss takes into account available external and internal credit risk factors including the credit ratings of the various customers and Company's historical experience for customers. The Company applies the simplified approach to provide for expected credit losses prescribed by Ind AS 109, which permits the use of lifetime expected loss provision for all the trade receivables. The Company measures the expected credit loss of trade receivables based on historical trend, industry.

Expected credit loss for trade receivables

Particulars	As at	
	June 30, 2018	June 30, 2017
Opening provision for loss allowance	98	138
Additional provision	77	-
Utilisation/ reversal	(29)	(40)
Closing provision	**146**	**98**

Financial assets that are past due but not impaired

There is no other class of financial assets that is past due but not impaired except for receivables of ₹145, ₹98 and ₹138 as at 30 June 2018, 30 June 2017 and July 1, 2016, respectively. The Company's credit period generally ranges from 60-180 days from invoicing date. The aging analysis of the receivables has been considered from the date the invoice falls due.

No expected credit loss provision has been created for Loans i.e. security deposits on leased premises and advances given to employees, since the company considers the life time credit risk of these financial assets to be very low.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

B Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. Due to the dynamic nature of the underlying businesses, Company's treasury maintains flexibility in funding by maintaining availability of required funds.

Management monitors rolling forecasts of the Company's liquidity position and cash and cash equivalents on the basis of expected cash flows.

Maturities of financial Liabilities

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities

Particulars	Less than 1 year	1 - 2 years	More than 2 years	Total
As at June 30, 2018				
Other financial liabilities	2692	-	10	2702
Trade payables	10590	-	-	10590
Total	**13282**	**-**	**10**	**13292**
As at June 30, 2017				
Other financial liabilities	2195	-	10	2205
Trade payables	8343	-	-	8343
Total	**10538**	**-**	**10**	**10548**
As at July 1, 2016				
Other financial liabilities	1708	-	10	1718
Trade payables	7129	-	-	7129
Total	**8837**	**-**	**10**	**8847**

Sensitivity

A reasonably possible strengthening (weakening) of the ₹, foreign currency against all other currencies at 30th June, would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amount shown below. This analysis assumes that all other variables remain constant and ignores any impact of forecast sales and purchases.

Particulars	Impact on profit before tax			
	June 30, 2018		June 30, 2017	
	1% Increase	1% Decrease	1% Increase	1% Decrease
USD	(1.11)	1.11	0.49	(0.49)
EUR	(1.53)	1.53	0.96	(0.96)
SDL	-	-	2.72	(2.72)
BRL	0.21	(0.21)	0.02	(0.02)
JPY	(1.18)	1.18	(0.15)	0.15
SGD	1.66	(1.66)	-	-
CHF	(0.88)	0.88	(0.37)	0.37
GBP	(0.04)	0.04	-	-
AUD	0.09	(0.09)	-	-
Others	0.02	(0.02)	(0.07)	0.07
Increase or (decrease) in profit or loss	**(2.75)**	**2.75**	**3.60**	**(3.60)**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

C. Market Risk

(i) **Foreign currency risk**

The Company is exposed to foreign currency exchange risk arising from foreign currency transactions. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the companies functional currency (Rupees).

The Company managed its foreign currency exposure by entering into forward exchange contract to hedge its firm commitments as at July 1st, 2016. Thereafter, the risk is measured through a forecast of highly probable foreign currency on cash flows. To mitigate the risk of changes in exchange rates on foreign currency exposures, the company has natural hedge between export receivable and import payables.

The Company exposure to foreign currency risk at the end of the reporting period expressed in ₹ as follows:

Particulars	Currency	As at June 30, 2018	As at June 30, 2017	As at July 01, 2016
Financial assets				
Trade receivables				
	USD	600	846	507
	EUR	513	355	409
	SDL	-	272	-
	BRL	21	2	22
	JPY	2	-	-
	SGD	166	-	-
	CHF	-	-	-
	GBP	-	-	-
	AUD	9	-	-
	Others	2	7	9
Net exposure to foreign currency risk (assets)		1313	1482	947
Financial liabilities				
Trade Payables				
	USD	(711)	(797)	(471)
	EUR	(666)	(259)	(382)
	JPY	(120)	(15)	(67)
	CHF	(88)	(37)	(178)
	GBP	(4)	-	-
	Others	-	(14)	(8)
Total financial liabilities		(1589)	(1122)	(1106)
Foreign Forward exchange contracts against above liabilities				
Trade Payables				
	USD	-	-	203
	EUR	-	-	25
Total forward contracts		**-**	**-**	**228**
Net exposure to foreign currency risk (liability)		**(1589)**	**(1122)**	**(878)**
Net foreign exchange exposure		**(276)**	**360**	**69**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

33 Capital Management

Risk management

The Company's objectives when managing capital is to:

i) safeguard their ability to continue as going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and;

ii) maintain an optimal capital structure to reduce the cost of capital.

The Company does not have any exposure towards debt. The Management regularly monitors rolling forecasts of liquidity position and cash on the basis of expected cash flows. In addition, the Company projects cash flows in major currencies and considers the level of liquid assets necessary to meet them.

34 Dividends

The Company declares and pays dividends in Indian rupees. Company may, before the declaration of any dividend, transfer a percentage of its profits for that financial year as it may consider appropriate to the reserves.

The interim dividend and the dividend distribution tax on the dividend for the year ended June 30, 2018 and June 30, 2017 is as below:

Particulars	June 30, 2018	June 30, 2017
Interim dividend paid during the year ended June 30, 2018 of ₹ 2		
(June 30, 2017 - ₹ 2.00) per fully paid share	440	440
Dividend Distribution Tax on interim dividend	90	89

35 Segment Information

A. Description of segments and principal activities

The Company is in the business of manufacturing and trading of hard metal products and manufacturing of machine tools (also known as machining solutions), which are sold in domestic and export markets. The Managing Director of the Company has been identified as the Chief operating decision maker (CODM). Managing Director examines the company's performance both from product and geographic perspective and has identified two reportable segments in its business:

(i) **Machining solutions:** Machining solutions segment manufactures and sells customised capital intensive machines. Company specialises in providing end to end solution i.e. from design to manufacture and after sales service. The sales comprise of machines, fixtures, sale of spares and after sales service.

(ii) **Hard metal products:** Hard metal products segment deals in metal and metal cutting tools. The sales of this segment comprise of manufactured and traded goods.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

B. Segment information:

Particulars	Machining Solutions		Hard Metal Products		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
B.1 Segment revenue						
Segment revenue (external customers)	12226	9663	67086	59934	79312	69597
Inter-segment revenue	-	-	-	-	-	-
Total segment revenue	**12226**	**9663**	**67086**	**59934**	**79312**	**69597**
B.2 Segment Result						
Segment Result	1255	902	9199	5490	10454	6392
Unallocated Corporate Income					327	336
Unallocated Corporate Expense					(3019)	(3165)
Interest Income					308	23
Exceptional Items					(770)	(550)
Profit before tax					**7300**	**3036**
Tax (expense)/credit					(2074)	(599)
Profit after tax					**5226**	**2437**
B.3 Segment Assets						
Segment Assets	6287	4930	40796	32604	47083	37534
Unallocated Corporate Assets					15051	16209
Total segment assets	**6287**	**4930**	**40796**	**32604**	**62134**	**53743**
B.4 Segment Liabilities						
Segment liabilities	4767	2570	11514	11599	16281	14169
Unallocated corporate liabilities					1977	184
Total segment liabilities	**4767**	**2570**	**11514**	**11599**	**18258**	**14353**
B.5 Capital Expenditure						
Capital expenditure	67	106	5833	4768	5900	4874
Unallocated corporate capital expenditure					130	154
Total capital expenditure	**67**	**106**	**5833**	**4768**	**6030**	**5028**
B.6 Depreciation and amortisation						
Depreciation and amortisation	169	186	2556	2524	2725	2710
Unallocated corporate depreciation					86	116
Total Depreciation and amortisation	**169**	**186**	**2556**	**2524**	**2811**	**2826**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

C. Geographical Information:

The Company's operations are predominantly restricted to the domestic market (within India). However, the Company exports goods to Germany, USA, China and others. Accordingly, geographical information are given below:

Particulars	Revenue		Non-current assets		
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	July 1, 2016
India	66405	60985	21391	19078	17049
Germany	4731	3513	-	-	-
USA	2437	1455	-	-	-
China	2854	2153	-	-	-
Others	2885	1491	-	-	-
Total	**79312**	**69597**	**21391**	**19078**	**17049**

D. Notes:

(i) The segment-wise revenue, results, assets and liabilities relate to the respective amounts directly identifiable to each of the segments.

(ii) The segment revenue is measured in the same way as in the statement of profit and loss.

(iii) No customer individually account for more than 10% of the revenue in the year ended June 30, 2018 and June 30, 2017.

(iv) The expenses that are not directly attributable and that can't be allocated to an operating segment on a reasonable basis are shown as unallocated corporate expenses.

(v) Segment assets include all operating assets used by the segment and consists primarily of property, plant and equipment and current assets. Segment liabilities comprise of liabilities which can be directly allocated against respective segments. Assets and liabilities that have not been allocated between segments are shown as part of unallocated corporated assets and liabilities respectively.

(vi) Post implementation of Goods and Service Tax ("GST") with effect from July 1, 2017, revenue from operations is disclosed net of GST. Revenue from operations for the earlier periods included excise duty which is now subsumed in GST. Accordingly, revenue from operations for the quarter and year ended June 30, 2018 is not comparable with the quarter and year ended June 30, 2017.

36 Related party disclosures

A) Names of related parties and description of relationship:

a) Parties where control exists:

(i) Ultimate holding company	Kennametal Inc., USA
(ii) Immediate holding company	Meturit A.G. Zug, Switzerland
(iii) Enterprises holding, directly or indirectly, substantial interest in immediate holding company	Widia GmbH, Germany Kennametal Holding GmbH, Germany Kennametal Europe GmbH, Switzerland Kennametal Luxembourg Holding S.A.R.L Kennametal Holdings , LLC, Luxembourg S.C.S Kennametal Holdings Europe Inc., USA

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

Fellow Subsidiaries	Kennametal Australia Pty Ltd, Australia Kennametal Produktions GmbH & Co. KG, Germany Kennametal UK Ltd.,United Kingdom Kennametal (Singapore) PTE. Ltd., Singapore Kennametal Korea Co., Ltd., Korea Kennametal Japan Ltd., Japan Kennametal Do Brasil LTDA, Brazil Kennametal Hard Point (Shanghai) Ltd., China Kennametal Distribution Services Asia PTE. Ltd., Singapore Kennametal Shared Services Pvt. Ltd., India Kennametal (China) Co Ltd., China Hanita Metal Works Ltd. (P.), Israel Kennametal Shared Services, GmbH, Germany * Kennametal (Xuzhou) Co. Ltd., China Kennametal (Malaysia) Sdn. Bhd., Malaysia Kennametal Stellite L.P. USA Kennametal Stellite Inc., Canada Kennametal Asia China Management Company, Shanghai PT. Kennametal Indonesia Services, Indonesia Kennametal (Thailand) Co., Ltd., Thailand

c) Key Management Personnel

Managing Director	Bhagya Chandra Rao

* No transaction during the year

Note: i) The above information has been determined to the extent such parties have been identified on the basis of information available with the Company.

ii) The above does not include related party transactions with retiral funds, as management personnel of the Company who are trustees of funds cannot individually exercise significant influence on the retiral funds transactions.

NOTES TO THE FINANCIAL STATEMENTS
(All amounts in ₹ lakhs unless otherwise stated)

B) Summary of the transactions with related parties is as follows:

i) Transactions

Particulars	PARTIES WHERE CONTROL EXIST [A(a)] for the year ended June 30, 2018	June 30, 2017	FELLOW SUBSIDIARIES [A(b)] for the year ended June 30, 2018	June 30, 2017	KEY MANAGEMENT PERSONNEL [A(c)] for the year ended June 30, 2018	June 30, 2017	TOTAL for the year ended June 30, 2018	June 30, 2017
REVENUE	**7168**	**4968**	**5337**	**3397**	**-**	**-**	**12505**	**8365**
Kennametal Inc.,USA	2437	1455	-	-	-	-	2437	1455
Kennametal Europe GmbH, Switzerland	4731	3513	-	-	-	-	4731	3513
Kennametal HardPoint (Shanghai) Ltd., China	-	-	2845	1932	-	-	2845	1932
Kennametal (Singapore) PTE. Ltd., Singapore	-	-	1302	266	-	-	1302	266
KMT Distribution Services Asia Pte.	-	-	416	539	-	-	416	539
Kennametal Do Brasil Ltda	-	-	207	308	-	-	207	308
Kennametal Korea Co., Ltd.	-	-	185	217	-	-	185	217
Others	-	-	382	135	-	-	382	135
Other income	**-**	**-**	**323**	**323**	**-**	**-**	**323**	**323**
Kennametal Shared Services Private Ltd., India	-	-	209	209	-	-	209	209
Kennametal Stellite L.P. USA	-	-	114	114	-	-	114	114
Reimbursement of expenses (credit)	**192**	**145**	**503**	**409**	**-**	**-**	**695**	**554**
Kennametal Inc.,USA	192	145	-	-	-	-	192	145
Kennametal Distribution Services Asia Pte. Ltd., Singapore	-	-	307	287	-	-	307	287
Kennametal Shared Services Private Ltd., India	-	-	176	102	-	-	176	102
Others	-	-	20	20	-	-	20	20
Loan given during the year	**-**	**-**	**-**	**200**	**-**	**-**	**-**	**200**
Kennametal Shared Services Private Ltd., India			-	200			-	200
Loan recovered during the year	**-**	**-**	**-**	**700**	**-**	**-**	**-**	**700**
Kennametal Shared Services Private Ltd., India	-	-	-	700	-	-	-	700
Interest income on loan	**-**	**-**	**-**	**13**	**-**	**-**	**-**	**13**
Kennametal Shared Services Private Ltd., India			-	13			-	13
Dividend paid (interim)	**330**	**330**	**-**	**-**	**-**	**-**	**330**	**330**
Metruit A.G. Zug, Switzerland	224	224	-	-	-	-	224	224
Kennametal Inc.,USA	106	106	-	-	-	-	106	106
Managerial remuneration *	**-**	**-**	**-**	**-**	**217**	**181**	**217**	**181**
Bhagya Chandra Rao								
Salary & allowances	-	-	-	-	125	121	125	121
Performance pay	-	-	-	-	32	30	32	30
Employee share based payment	-	-	-	-	60	30	60	30

*Includes managerial remuneration payable amounting to ₹32 as at June 30, 2018 (June 30, 2017: ₹30, June 30, 2016: ₹22).

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(All amounts in ₹ lakhs unless otherwise stated)

B) Summary of the transactions with related parties is as follows:

i) Transactions (cont'd)

Particulars	PARTIES WHERE CONTROL EXIST		FELLOW SUBSIDIARIES		KEY MANAGEMENT PERSONNEL		TOTAL	
	[A(a)]		[A(b)]		[A(c)]			
	for the year ended		for the year ended		for the year ended		for the year ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
PURCHASES	**29852**	**21671**	**643**	**726**	**-**	**-**	**30495**	**22397**
Purchase of capital goods	**288**	**51**	**5**	**-**	**-**	**-**	**293**	**51**
Kennametal Inc.,USA	288	39	-	-	-	-	288	39
Kennametal Europe GmbH, Switzerland	-	12	-	-	-	-	-	12
Others	-	-	5	-	-	-	5	-
Purchase of goods- Others	**29564**	**21620**	**638**	**726**	**-**	**-**	**30202**	**22346**
Kennametal Europe GmbH, Switzerland	20727	17229	-	-	-	-	20727	17229
Kennametal Inc.,USA	8837	4391	-	-	-	-	8837	4391
Hanita Metal Works Ltd. (P), Israel	-	-	261	190	-	-	261	190
Kennametal Stellite L.P. USA	-	-	54	234	-	-	54	234
Others	-	-	323	302	-	-	323	302
Services received / recharge of expenses	**1996**	**1967**	**597**	**317**	**-**	**-**	**2593**	**2284**
Information technology services	**1534**	**1565**	**-**	**-**	**-**	**-**	**1534**	**1565**
Kennametal Inc.,USA	1534	1565	-	-	-	-	1534	1565
Professional fees (technical services)	**144**	**65**	**489**	**186**	**-**	**-**	**633**	**251**
Kennametal Inc.,USA	144	65	-	-	-	-	144	65
Kennametal Shared Services Private Ltd., India	-	-	489	186	-	-	489	186
Royalty payments	**189**	**173**	**92**	**85**	**-**	**-**	**281**	**258**
Kennametal Inc.,USA	189	173	-	-	-	-	189	173
Hanita Metal Works Ltd., Israel	-	-	92	85	-	-	92	85
Recharge of expenses	**129**	**164**	**16**	**46**	**-**	**-**	**145**	**210**
Kennametal Inc.,USA	129	164	-	-	-	-	129	164
Kennametal Shared Services Private Limited, India	-	-	1	28	-	-	1	29
Others	**-**	**-**	**15**	**18**	**-**	**-**	**15**	**17**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

36 Related party disclosures (cont'd)

B) Summary of the transactions with related parties is as follows:

ii) Balances

Particulars	PARTIES WHERE CONTROL EXIST [A(a)] As at			FELLOW SUBSIDIARIES [A(b)] As at			TOTAL As at		
	June 30, 2018	June 30, 2017	July 1, 2016	June 30, 2018	June 30, 2017	July 1, 2016	June 30, 2018	June 30, 2017	July 1, 2016
Outstanding Receivables- Trade And Others	**903**	**621**	**614**	**421**	**853**	**290**	**1324**	**1474**	**904**
Trade Receivables	**900**	**610**	**564**	**338**	**813**	**226**	**1238**	**1423**	**790**
Kennametal Inc.,USA	400	269	159	-	-	-	400	269	159
Kennametal Europe GmbH, Switzerland	500	341	405	-	-	-	500	341	405
Kennametal (Singapore) PTE. Ltd., Singapore	-	-	-	163	266	-	163	266	-
Kennametal Hardpoint (Shanghai) Ltd, China	-	-	-	93	414	138	93	414	138
Others	-	-	-	82	133	88	82	133	88
Outstanding Receivables- Others	**3**	**11**	**50**	**83**	**40**	**64**	**86**	**51**	**114**
Kennametal Inc., USA	3	11	50	-	-	-	3	11	50
Kennametal Distribution Services Asia Pte. Ltd., Singapore	-	-	-	23	24	38	23	24	38
Kennametal Stellite L.P. USA	-	-	-	17	10	9	17	10	9
Kennametal Shared Services Private Limited, India	-	-	-	42	-	17	42	-	17
Others	-	-	-	1	6	-	1	6	-
Outstanding Loan Receivable	**-**	**-**	**-**	**-**	**-**	**500**	**-**	**-**	**500**
Kennametal Shared Services Private Ltd., India	-	-	-	-	-	500	-	-	500
Outstanding Payables - Trade	**3946**	**2901**	**2677**	**212**	**446**	**73**	**4158**	**3347**	**2750**
Kennametal Inc.,USA	2034	1253	828	-	-	-	2034	1253	828
Kennametal Europe GmbH, Switzerland	1912	1648	1849	-	-	-	1912	1648	1849
Kennametal Shared Services Private Ltd., India	-	-	-	132	195	3	132	195	3
Others	-	-	-	80	251	70	80	251	70
Advance Received	**-**	**-**	**48**	**-**	**-**	**-**	**-**	**-**	**48**
Kennametal Inc.,USA	-	-	48	-	-	-	-	-	48

Note:

Transactions of similar nature, individually not material to the financial statements have been disclosed in aggregate in accrodance with Ind AS 24, Related Party Disclosures.

37 Operating lease (Ind AS 17)

As a Lessee:

The Company has taken certain office facilities and motor vehicles on operating lease. These lease arrangements range for a period of 11 months to 5 years and are renewable for further period on mutually aggreable terms.

The total future minimum lease rentals receivable at the Balance Sheet date is as under:

Particulars	June 30, 2018	June 30, 2017	July 1, 2016
For a period not later than one year	63	40	63
For a period later than one year and not later than five years	60	12	38
For a period later than five years	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

38 Exceptional items debited to the statement of profit and loss comprises of :

	Exceptional Items	June 30, 2018	June 30, 2017
(i)	The Company announced a voluntary retirement scheme (VRS) for its workmen. Several workmen opted for the VRS and the aggregate expenditure incurred in this regard has been fully charged to the Statement of Profit and Loss in accordance with Ind AS - 19, Employee Benefits.	296	239
(ii)	The company also has a severance / separation scheme for cetain employees and the aggregate compensation paid in accordance with the said scheme has been fully charged to the Statement of Profit and Loss.	474	311
	Total exceptional items	**770**	**550**

39 Earnings per equity share:

Particulars	June 30, 2018	June 30, 2017
Profit attributable to equity shareholders	5226	2437
Weighted average number of equity shares outstanding during the year	21978240	21978240
Nominal value of equity share (₹)	10	10
Basic and diluted earnings per share (₹)	23.78	11.09

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

40 First-time adoption of Ind AS

These financial statements, for the year ended 30 June 2018, are the first financial statements the Company has prepared in accordance with Ind AS. For periods up to and including the year ended 30 June 2017, the Company prepared its financial statements in accordance with accounting standards notified under section 133 of the Companies Act 2013, read together with paragraph 7 of the Companies (Accounts) Rules, 2014 (Previous GAAP).

Accordingly, the Company has prepared financial statements which comply with Ind AS applicable for periods ending on June 30, 2018, together with the comparative period data as at and for the year ended June 30, 2017, as described in the summary of significant accounting policies. In preparing these financial statements, the Company's opening balance sheet was prepared as at July 1, 2016, the Company's date of transition to Ind AS. This note explains the principal adjustments made by the Company in restating its Indian GAAP financial statements, including the balance sheet as at July 1, 2016 and the financial statements as at and for the year ended June 30, 2017.

A. Exemptions and exceptions availed

Set out below are the applicable Ind AS 101 optional exemptions and mandatory exceptions applied in the transition from previous GAAP to Ind AS.

A.1 Ind AS optional exemptions :

A.1.1 Deemed cost

Ind AS 101, First-time adoption of Indian Accounting Standards, also permits a first-time adopter to elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind AS, measured as per the previous GAAP and use that as its deemed cost as on the date of transition after making necessary adjustments for de-commissioning liabilities. Accordingly, the Company has elected to measure all of its property, plant and equipment, intangible assets and investment properties at their previous GAAP carrying value and used that as deemed cost as on the date of transition.

A.1.2 Share based payment

Ind AS 101 permits a first time adopter to not consider the number of options / RSUs, that have already vested as on the date of transition, for fair valuation. Accordingly, the Company has elected to measure only those options/ RSUs that are unvested as on the date of transition.

A.1.3 Leases

Appendix C to Ind AS 17, Leases, requires an entity to assess whether a contract or arrangement contains a lease. In accordance with Ind AS 17, this assessment should be carried out at the inception of the contract or arrangement. Ind AS 101 provides an option to make this assessment on the basis of facts and circumstances existing at the date of transition to Ind AS, except where the effect is expected to be not material.

The Company has no such arrangements or contract existing as at date of transition.

A.2 Ind AS mandatory exemptions :

A.2.1 Estimates

In accordance with Ind AS, as at the date of transition to Ind AS an entity's estimates shall be consistent with the estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

Ind AS estimates as at July 1, 2016 are consistent with the estimates as at the same date made in conformity with previous GAAP except for impairment of financial assets based on ECL as these were not required as per previous GAAP.

A.2.2 Derecognition of financial assets and liabilities

Ind AS 101 requires a first-time adopter to apply the de-recognition provisions of Ind AS 109, Financial Instruments, prospectively for transactions occurring on or after the date of transition to Ind AS. However, Ind AS 101 allows a first-time adopter to apply the de-recognition requirements in Ind AS 109 retrospectively from a date of the Company's choosing, provided that the information needed to apply Ind AS 109 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

The Company has elected to apply the de-recognition provisions of Ind AS 109 prospectively from the date of transition to Ind AS.

A.2.3 Classification and measurement of financial assets

The classification and measurement of financial assets will be made considering whether the conditions as per Ind AS 109 are met based on facts and circumstances existing at the date of transition.

Financial assets can be measured using effective interest method by assessing its contractual cash flow characteristics only on the basis of facts and circumstances existing at the date of transition and if it is impracticable to assess elements of modified time value of money i.e. the use of effective interest method, fair value of financial asset at the date of transition shall be the new carrying amount of that asset. The measurement exemption applies for financial liabilities as well.

Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. It is impracticable to apply the changes retrospectively if:

a) The effects of the retrospective application or retrospective restatement are not determinable; or

b) The retrospective application or restatement requires assumptions about what management's intent would have been in that period; or

c) The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that existed at that time.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

B Reconciliation between Previous GAAP and Ind AS

Ind AS 101, First-time Adoption of Indian Accounting Standards, requires an entity to reconcile equity, total comprehensive income and cash flows for prior periods. The following tables represent the reconciliations from previous GAAP to Ind AS as at the periods specified below.

(i) **Reconciliation of total equity**

Particulars	Notes to first-time adoption	As at June 30, 2017	As at July 1, 2016
Total equity (shareholder's funds) as per previous GAAP		**39389**	**37708**
Adjustments on account of:			
(i) Deferred tax impact on restricted stock unit	Note C3	3	6
(ii) Deferred tax impact on account of balance sheet approach	Note C3	-	(224)
(iii) Change in fair value of employee share based payment	Note C2	(1)	-
Total Ind AS adjustments		**2**	**(218)**
Total equity (shareholder's funds) under IND AS		**39391**	**37490**

(ii) Reconciliation of Balance sheet as at July 1, 2016

Particulars	Notes to first-time adoption	Regrouped previous GAAP	Ind AS adjustments	Ind AS
Assets				
Non-current assets				
Property, plant and equipment		10671	-	10671
Capital work-in-progress		1640	-	1640
Investment properties		1	-	1
Intangible assets		-	-	-
Financial assets				-
(i) Investments		50	-	50
(ii) Loans		144	-	144
(iii) Other financial assets		4	-	4
Deferred tax assets (net)	Note C3	1091	(218)	873
Income tax assets (net)		3993	-	3993
Other non-current assets		744	-	744
		18338	**(218)**	**18120**
Current assets				
Inventories		11330	-	11330
Financial assets				
(i) Investments		5301	-	5301
(ii) Trade receivables		11939	-	11939
(iii) Cash and cash equivalents		1177	-	1177
(iv) Bank balances other than cash and cash equivalents		126	-	126
(v) Loans		524	-	524
(vi) Other financial assets		204	-	204
Other current assets		1718	-	1718
Assets classified as held for sale		48	-	48
		32367		**32367**
Total assets		**50705**	**(218)**	**50487**
Equity and liabilities				
Equity				
Equity share capital		2198	-	2198
Other equity	Note C4	35510	(218)	35292
		37708	**(218)**	**37490**
Liabilities				
Non-current liabilities				
Financial liabilities		10	-	10
Provisions		404	-	404
		414	**-**	**414**
Current liabilities				
Financial liabilities				
(i) Trade payables		7129	-	7129
(ii) Other financial liabilities		1708	-	1708
Provisions		1444	-	1444
Other current liabilities		2302	-	2302
		12583	**-**	**12583**
Total equity and liabilities		**50705**	**(218)**	**50487**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

(iii) Reconciliation of Balance sheet as at June 30, 2017

Particulars	Notes to first-time adoption	Regrouped previous GAAP	Ind AS adjustments	Ind AS
Assets				
Non-current assets				
Property, plant and equipment		14637	-	14637
Capital work-in-progress		278	-	278
Investment properties		1	-	1
Intangible assets		-	-	-
Financial assets				
(i) Investments		50	-	50
(ii) Loans		139	-	139
(iii) Other financial assets		4	-	4
Deferred tax assets (net)	Note C2	1065	3	1068
Income tax assets (net)		3826		3826
Other non-current assets		336	-	336
		20336	**3**	**20339**
Current assets				
Inventories		10726	-	10726
Financial assets				
(i) Investments		5001	-	5001
(ii) Trade receivables		11016	-	11016
(iii) Cash and cash equivalents		4204	-	4204
(iv) Bank balances other than cash and cash equivalents		140	-	140
(v) Loans		31	-	31
(vi) Other financial assets		115	-	115
Other current assets		2171	-	2171
Assets classified as held for sale		-	-	-
		33404		**33404**
Total assets		**53740**	**3**	**53743**
Equity and liabilities				
Equity				
Equity share capital		2198	-	2198
Other equity	Note C4	37191	2	37193
		39389	**2**	**39391**
Liabilities				
Non-current liabilities				
Financial liabilities		10	-	10
Provisions		473	-	473
		483	**-**	**483**
Current liabilities				
Financial liabilities				
(i) Trade payables		8342	1	8343
(ii) Other financial liabilities		2195	-	2195
Provisions		1487	-	1487
Other current liabilities		1844	-	1844
		13868	**1**	**13869**
Total equity and liabilities		**53740**	**3**	**53743**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

(iv) Reconciliation of Statement of Profit and Loss for the year ended June 30, 2017

Particulars	Notes to first-time adoption	Regrouped previous GAAP	Ind AS adjustments	Ind AS
Income				
Revenue from operations		69597	-	69597
Other income		586	-	586
Total income		**70183**	**-**	**70183**
Expenses				
Cost of materials consumed		17479	-	17479
Purchase of stock-in-trade		16936	-	16936
Changes in Inventories of finished goods, work-in-progress and stock-in-trade		(43)	-	(43)
Excise duty		4412	-	4412
Employee benefits expense	Note C1 and C2	12245	(9)	12236
Depreciation and amortisation expense		2826	-	2826
Other expenses		12751	-	12751
Total expenses		**66606**	**(9)**	**66597**
Profit before exceptional items and tax		**3577**	**9**	**3586**
Exceptional items		(550)	-	(550)
Profit before tax		**3027**	**9**	**3036**
Tax expense:				
Current tax		791	4	795
Deferred tax charge / (credit)	Note C3	26	(222)	(196)
Total tax expense		**817**	**(218)**	**599**
Profit after tax		**2210**	**227**	**2437**
Other comprehensive income				
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Re-measurement losses in defined benefit plans	Note C1	-	2	2
Income tax effect	Note C1	-	(1)	(1)
Other comprehensive income, net of tax		-	1	1
Total comprehensive income for the year		**2210**	**228**	**2438**

(v) Reconciliation of Statement of Cash Flow for the year ended June 30, 2017

	Regrouped previous GAAP	Ind AS adjustment	Ind AS
Net cash generated from operating activities	7716	-	7716
Net used in investing activities	(4459)	-	(4459)
Net cash generated from financing activities	(530)	-	(530)
Net increase in cash and cash equivalents	**2727**		**2727**
Cash and cash equivalents at the beginning of the year	6478		6478
Cash and cash equivalents at the end of the year	**9205**	**-**	**9205**

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ lakhs unless otherwise stated)

Notes to first time adoption

C 1 Defined benefit obligation

Under previous GAAP, actuarial gains and losses were recognized in the Statement of Profit and Loss, and interest cost was recognized under employee benefit expense. Under Ind AS, the actuarial gain and loss form part of remeasurement of net defined benefit liability/asset which is recognised in other comprehensive income in the respective periods. Interest cost on defined benefit obligations is presented under finance cost in the Statement of Profit and Loss.

C 2 Employee share-based payments

Under the previous GAAP, the cost of group equity settled employee share-based plan were recorded based on cross charge from ultimate holding company. Under Ind AS, the cost of equity settled share based transactions is recognised based on fair value as at the grant date. Consequently, a provision amount of ₹11 was reversed in share based payment expense for the year ended June 30, 2017 due to excess provision provided under the previous GAAP. The profit for the year ended 30 June, 2017 increased by ₹11. As a result, total equity has increased by ₹2 due to reversal of liability for share based payment as at 30 June, 2017 with a corresponding impact to retained earnings.

C 3 Income tax

Under previous GAAP, deferred tax was accounted using the income statement approach, on the timing differences between the taxable profit and accounting profits for the period. Under Ind AS 12, Income tax, deferred taxes are recognized following the balance sheet approach on the temporary differences between the carrying amount of asset or liability in the balance sheet and its tax base. The application of Ind AS 12, has resulted in recognition of deferred tax on new temporary differences which was not required under previous GAAP primarily relating to transactional adjustments pertaining to Ind AS. Deferred tax adjustments are recognised in co-relation to the underlying transaction either in retained earnings or a separate component of equity.

C 4 Other equity

Adjustments to retained earnings and other comprehensive income has been made in accordance with Ind AS, for the above mentioned line items.

41 Previous year comparatives

Previous years figures have been regrouped/reclassified wherever necessary, to conform to this year's classification.

As per our report of even dated attached.

For Walker Chandiok & Co LLP
Chartered Accountants
Firm Registration Number: 001076N/N500013

Vijay Vikram Singh
Partner
Membership Number: 059139

Bengaluru
August 23, 2018

For and on behalf of Board of Directors

Bhagya Chandra Rao
Managing Director
DIN - 00211127

B Anjani Kumar
Director
DIN - 00022417

K. V. Suresh Reddy
Chief Financial Officer

Thulsidass T V
Company Secretary

Bengaluru
August 23, 2018

Bengaluru
August 23, 2018

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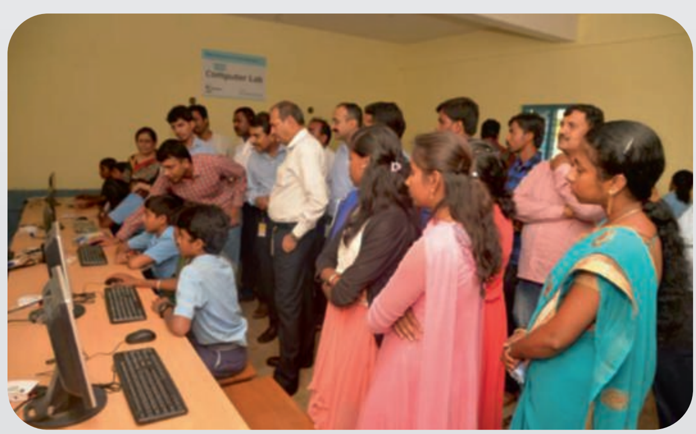
CSR INITIATIVES

Protecting our planet

Awareness Program and Inter-school competition on Protection of Environment under the theme "Beat the Plastic" held at Government High School, Bagalagunte

Planting of trees by KIL employees at Government High School, Bagalagunte

Promotion of Education



Inauguration of Smart Class room and Computer Lab for promoting Multi Dimensional Learning Space (MDLS) in Government Primary School, Hesaraghatta

In the community

KIL Employees painting the exteriors of classrooms and compound wall at Government High School, Bagalagunte

KIL provided the following facilities at Sparsha Nisarga Grama - a shelter for under privileged children :
Rain water harvesting, Solar panels installed to maximize usage of solar energy at Nisarga Grama
Sliding windows with mosquito mesh

Inauguration & Handing over of Sanitation units built for Boys & Girls of Government Primary School, Bagalagunte

In the community

Inauguration & Handing over of Sanitation units built for Girl students
of Government Primary School, Hesaraghatta

RECOGNITION FOR EHS INITIATIVES

KIL was awarded 1st Prize for "Adopting Best Safe Practices in the Industry" for the year 2017 among Mega Industries by the Department of Factories.

"Mr. Sadiksaheb Badiger - Senior Manager EHS was honored with an award of "Audyogika Surakshata Ratna" - ("Occupational Safety Star") by the Department of Factories

Mr. Rajesh B of PU1 was awarded the "Best Safe Worker"
for the year 2017 by Department of Factories

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