Kennametal India Limited
Annual Report
FY13

KENNAMETAL®

Kennametal India booths at Indian Machine Tool Exhibition (IMTEX) 2013

ACCOLADES

FIE Foundation Award at IMTEX 2013 for best Fixture Design

**Environmental Excellence Award 2012-13 received from
Karnataka State Pollution Control Board**

KENNAMETAL

Kennametal India Limited

Directors

Mr. M.N. Bhagwat
Chairman

Mr. Bhagya Chandra Rao
Managing Director

Mr. John Chang
Mr. Vinayak K. Deshpande
Mr. Gerald Goubau
Mr. B. Anjani Kumar

Management Team

Mr. Bhagya Chandra Rao
Mr. Vikram Chopra
Mr. Dibesh Singh Deo
Mr. D. Parameswara Reddy
Mr. D.Sarathy
Mr. K.Chandrashekhar Sharma

Company Secretary

Mr. Kundan Kumar Lal

Registered Office and Factory

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

Auditors

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

Bankers

Corporation Bank Limited
HDFC Bank Limited
ICICI Bank Limited
Standard Chartered Bank

Registrar & Share Transfer Agent

Integrated Enterprises (India) Limited
30, 'Ramana Residency'
4th Cross, Sampige Road
Malleswaram, Bangalore -560 003
Phone : + 91 (80) 23460815-818
Fax : + 91 (80) 23460819

48th Annual General Meeting

Tuesday, November 05, 2013 at 11.30 A.M.
at the Registered Office of the Company at
8/9th Mile, Tumkur Road, Bangalore -560 073.

NOTICE TO MEMBERS

NOTICE is hereby given that the Forty-eighth Annual General Meeting of Kennametal India Limited will be held on Tuesday, November 05, 2013 at 11.30 A.M. at the Registered Office of the Company at 8/9th Mile, Tumkur Road, Bangalore – 560 073, to transact with or without modifications, as may be permissible, the following businesses:

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet as at June 30, 2013, the audited Profit and Loss Account for the year ended on that date and the reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of Mr.John Chang, who retires from office by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Vinayak K. Deshpande, who retires from office by rotation and being eligible, offers himself for re-appointment.
4. To appoint auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company and to authorise the Board to fix their remuneration. The retiring auditors M/s. Price Waterhouse & Co., Chartered Accountants, (Firm Regn.No.007567S) being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS:

5. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as Special Resolution:

   "RESOLVED THAT pursuant to the recommendation of the Remuneration Committee of Directors and the Board of Directors of the Company, the approval of the shareholders of the company be and is hereby accorded for the remuneration paid to Mr. Santanoo Medhi, the erstwhile Managing Director of the Company, for the period July 01, 2012 to September 17, 2012 upon the terms and conditions as set out in the explanatory statements attached to the Notice convening this Annual General Meeting, which had been approved by the Board of Directors on November 02, 2011 based on the authority vested in the Board by the resolution of the shareholders dated November 02, 2011."

6. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:

   "RESOLVED THAT pursuant to the provisions of Section 258 of the Companies Act, 1956, the number of Directors on the Board of the Company be and is hereby increased to seven."

By Order of the Board of Directors
For Kennametal India Limited

Kundan Kumar Lal
Deputy General Manager-Legal &
Company Secretary

Bangalore
August 16, 2013

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF/ HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. The instrument appointing proxy in order to be effective must be deposited at the registered office of the Company not less than 48 hours before the commencement of the 48th Annual General Meeting (AGM).
3. The relative explanatory statement pursuant to Section 173 of the Companies Act, 1956, in respect of the business under items (5) to (6) set out above is annexed hereto. The documents relating to the items detailed in the Notice are available for inspection at the Registered office of the Company from Monday to Friday between 10.30 a.m. to 12.30 p.m. up to the date of the AGM.
4. The Register of Members and the Share Transfer Books of the Company will remain closed from **October 31, 2013 to November 05, 2013** (both days inclusive) for the purpose of the AGM.
5. Pursuant to sub-section 205A of the Companies Act, 1956 (hereinafter "the Act"), dividends which remain unpaid or unclaimed for a period of 7 years from the date of transfer of the same to the unpaid dividend account as referred to in sub-section (1) of Section 205A of the Act, will be transferred to the Investor Education and Protection Fund of the Central Government established under sub-section (1) of Section 205C of the Act. According to explanation to sub-section (2) of Section 205C of the Act, no claims shall lie against the said fund or the Company for the amounts of dividend so transferred nor shall any payment be made in respect of such claims.
6. Pursuant to Section 109A of the Companies Act, 1956, members holding shares in demat form may file nomination in the prescribed Form 2B (in duplicate) with the respective depository participant and in respect of shares held in physical form, such nomination may be filed with the Company's registrar and share transfer agent.
7. The Securities and Exchange Board of India (SEBI) vide Circular dated April 27, 2007, had made PAN mandatory for all securities market transaction. Thereafter, vide Circular dated May 20, 2009 it was clarified that, for securities market transactions and off market/ private transaction involving transfer of shares in physical form of listed companies, it shall be mandatory for the transferee (s) to furnish copy of PAN card to the Company/Registrar & Share Transfer Agents for registration of such transfer of shares. The shareholders are requested to furnish a copy of the PAN card in cases involving transfer of shares in physical form.
8. Members may address all matters relating to shares, demat, remat, annual report, etc. to the Company's Registrar & Share Transfer Agent at the following address:

   Integrated Enterprises (India) Limited

   No.30, 'Ramana Residency',
   4th Cross, Sampige Road, Malleswaram,
   Bangalore 560003
   Phone: (080) 23460815 – 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, Bangalore - 560 073.
   Phone: 080-28394321 and 080 22198345,
   Fax: 080 28397572
   e-mail: kundan.lal@kennametal.com
   e-mail:in.investorrelation@kennametal.com

   for the purpose of addressing investor complaints and also to take necessary follow-up action.

   Members are requested to quote their Registered Folio Number or Demat Account Number & Depository Participant (DP) ID Number in all correspondence.
9. The equity shares of the Company are mandated by the Securities and Exchange Board of India (SEBI) for compulsory trading in demat form by all investors. The Company's shares have been admitted into both the depositories viz. National Securities Depository Limited [NSDL] and Central Depository Services (India) Limited [CDSL]. The ISIN allotted to the Company's equity shares is INE717A01029.
10. The brief resume of directors seeking re-appointment as required under Clause 49 of the Listing Agreement is set out at **"Annexure A"** to this notice.
11. Bodies corporate intending to send their authorised representatives to attend the meeting are requested to send a duly certified copy of the Board Resolution or Power of Attorney authorising their representative to attend and vote on their behalf at the AGM.
12. Members / Proxy holders are requested to produce at the entrance of the venue the enclosed attendance slip duly signed.

13. Members are requested to bring their copies of the annual report to the AGM.
14. Every person holding equity shares of the Company and whose name is entered:
    - As a beneficial owner as at the end of business hours on **October 30, 2013** as per the list to be furnished by NSDL and CDSL in respect of shares held in dematerialised form
    - As members in the register of members of the Company after giving effect to valid share transfers lodged with the Company, on or before **October 30, 2013**.

    shall only be entitled to attend the AGM in person or through his/ her proxy.
15. The identity / signature of the members holding shares in demat form are liable for verification with the specimen signatures furnished by NSDL/ CDSL. Such members are advised to bring the Depository Participant (DP ID), account number (Client ID) and the relevant identity card to the AGM for easier identification and recording of attendance at the AGM.
16. Members requiring information or clarification with regard to the audited accounts and operations of the Company are requested to write to the Deputy General Manger- Legal & Company Secretary at the Registered Office of the Company at least five days before the date of the meeting to enable the Company to keep the information ready.
17. The Ministry of Corporate Affairs (MCA), Government of India, has undertaken a ‘Green Initiative in the Corporate Governance’ by allowing paperless compliances vide its circulars dated April 21, 2011 and April 29, 2011. Towards ‘Green Initiative’, soft copy of the Annual Report for FY13 will be sent to all members whose e-mail addresses registered with the Company/ Depository Participant(s) (DP) unless any member has requested for a physical copy of the same. All those members who have not yet registered their email address with the Company or their DP are requested to do the same at the earliest as your Company proposes to send communications/documents including Notices for General Meetings and Annual Reports from time to time in electronic mode to those members who have provided their e-mail addresses to the Company or their DP.
18. It may be kindly noted that even after registration for e-communication, members are entitled to receive such communication in physical form, upon request for the same, by post/courier free of cost. Annual Report for FY13 will also be available on the Company’s website-link i.e. www.kennametal.com/kennametal/hi/about-us/kil-financials.htm.

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

Item No. 5

At the Annual General Meeting of the Company held on October 26, 2010, shareholders of the Company had approved by way of special resolution the appointment of Mr. Santanoo Medhi as a Managing Director with effect from April 24, 2010 for a period of three years on such remuneration, terms and conditions as stated in the notice convening the said meeting and the agreement dated April 24, 2010 executed by the Company with Mr. Santanoo Medhi. This was subsequently approved by the Central Government also.

Subsequently, the remuneration fixed for Mr. Santanoo Medhi for FY 2010-11 was revised which was also approved by the shareholders by means of an ordinary resolution passed at the Annual General Meeting held on November 02, 2011. The revision of salary for Mr. Medhi for FY 2011-12 was approved by the Board as per the authority granted by the shareholders on November 02, 2011.

Mr. Santanoo Medhi resigned from directorship effective September 17, 2012. Upon finalization of accounts for the year ending June 30, 2013, it was observed that the remuneration of Mr. Medhi during the relevant financial year was in excess of 5% of the net profits of the Company on an annual prorated basis.

As per the Companies Act ,1956, the remuneration paid can be treated as minimum remuneration paid, only if the same is approved by the Remuneration Committee and the shareholders. Accordingly, a Remuneration Committee was constituted by the Board of the Directors.

Keeping in view the qualification and experience of Mr. Santanoo Medhi, the Remuneration Committee and the Board have recommended the remuneration as paid by the Company to Mr. Medhi during the period July 01, 2012 to September 17, 2012, subject to the approval of the shareholders of the Company. Details of the remuneration for Mr. Medhi approved by the Board on November 02, 2011 based on the authority vested in the Board by the resolution of the shareholders on November 02, 2011 were as under:

“A. Annual Guaranteed Cash :

i) **Basic Salary:** ₹ 6,900,000/- (Rupees Six million nine hundred thousand only) per annum or ₹ 575,000/- (Rupees five hundred seventy five thousand only) per month with such increases as may be approved by the Board of Directors of the Company from time to time.

ii) **Housing (HRA) :** 50% of Basic Salary i.e. ₹ 3,450,000/- (Rupees three million, four hundred fifty thousand only) per annum or ₹ 287,500/- (Rupees Two hundred eighty seven thousand and five hundred only) per month.

iii) **Special Allowance** of ₹ 3,240,000/- (Rupees three million, two hundred forty thousand only) per annum or ₹ 270,000/- (Rupees Two hundred seventy thousand only) per month.

iv) **Leave Travel Allowance** (flat allowance) of ₹ 54,000/- (Rupees Fifty four thousand only) per annum.

B. **Performance Payment:** Mr. Medhi shall be entitled to the performance payment once per annum, subject to achievement of business targets as per Company's scheme and approval of the Board of Directors of the Company. Target amount will be equivalent to 25% of Annual Guaranteed Cash (Annualised figures on Basic salary, HRA, Special Allowance and LTA) i.e. ₹ 3,411,000/-, up to a maximum of 200% (i.e. ₹ 6,822,000/-). The performance payment is in lieu of any commission that may be payable to Mr. Medhi.

C. **Other Perquisites:**

i. Medical Reimbursement – Reimbursement of expenses incurred for self and family, subject to a limit of ₹ 18,000/- (Rupees Eighteen Thousand Only) per annum.

ii. Leave on full pay and allowances, as per Company's rules.

iii. Insurance – Coverage to be extended, as per Company's rules.

iv. Club fees: Entrance/monthly subscription fees of one club membership as approved by the Board of Directors.

v. Contribution to Provident Fund at 12% of the salary.

vi. Gratuity as per Company's Rules.

vii. Encashment of leave at the end of tenure as per Company's rules.

viii. Chauffeur-driven Company maintained car to be provided.

ix. Telephone as per Company's rules."

This explanatory statement together with the accompanying Notice is to be regarded as an Abstract of the terms of agreement and memorandum of concern or interest under Section 302 of the Companies Act, 1956.

The following additional information as required under Schedule XIII of the Companies Act, 1956 is given below :

I. General Information:

The Company is a leading manufacturer of hard metal products and machine tools which caters to the needs of a wide variety of manufacturing and other industries such as transportation, general engineering, aerospace & defence, energy, power generation equipment, earthworks, mining and construction. The Company is in business from 1964 onwards. The Company's total revenue for FY 12 & FY 13 was ₹ 572.78 Crores and ₹ 497.45 Crores respectively. The Profit after Tax for these years was ₹ 68.39 Crores and ₹ 14.85 Crores respectively.

The foreign exchange earned during the year ended June 30, 2013 was ₹ 54. 85 Crores.

Kennametal Inc., USA (Promoter) held 75% of the total equity Capital of the company as of June 30, 2013.

II. Information about the appointee :

Mr. Santanoo Medhi holds a B. Tech degree from the National Institute of Technology, Calicut and a Masters Degree in Industrial Engineering and management. He has worked in various countries such as Thailand, Hong King, Singapore, Japan and has around 20 years of experience in managing diverse business organisations in diverse businesses. Prior to his appointment in Kennametal India, Mr. Medhi held a senior leadership position in the parent Company's Asia Pacific HQ in Singapore.

Mr. Medhi was appointed as Managing Director on April 24, 2010 and had received remuneration as approved by the Members at the 45th and 46th Annual General Meeting for FY10 and FY11, and the Board of Directors, which comprised of salary, monetary value of perquisites, allowances, performance pay and contribution to retiral funds was as given hereunder:

July 01, 2010 to June 30, 2011 : ₹ 156 Lakhs

July 01, 2011 to June 30, 2012 : ₹ 166 Lakhs

July 01, 2012 to September 17, 2012: ₹ 58 Lakhs (inclusive of Performance pay for FY12, ₹ 13.75 Lakhs and Accumulated leave encashment of ₹ 14.25 Lakhs).

The remuneration package paid to Mr. Santanoo Medhi takes into account appropriately the size of the Company, Industry structure, International senior level experience, role and responsibilities etc.

Besides the remuneration paid to Mr. Medhi, he does not have any other pecuniary relationship with the Company or relationships with any other managerial personnel and Directors.

III. Other information :

Uncertainty in the Indian economy particularly in the Automobile industry has resulted in a drop in the Company's revenue during FY13. This decline in the revenues has led to underutilisation of manufacturing capacity. As a consequence of reduction in Revenues and underutilisation of capacity the Company generated inadequate profits during FY13 as per Schedule XIII to the Companies Act, 1956.

Various measures are taken by your Company to curtail/minimize expenses such as cost rationalization, better capacity utilisation through bulk orders, de-risking from transportation segment, focus on Machine Tool Business and sourcing of products from India by other Kennametal group entities.

These measures are likely to bring in a gradual increase in the revenue and the capacity utilisation resulting in improved profitability.

IV. Disclosures:

The information and disclosures of the remuneration package of the managerial personnel have been mentioned in the Corporate Governance Report of the Annual Report under the heading 'Directors' remuneration' for FY13.

In compliance with Section II of Part II of Schedule XIII to the Companies Act, 1956, consent of Shareholders is sought by way of a Special Resolution as specified at item (5) of the notice convening the AGM. The Board recommends the said resolution for your approval.

None of the directors are concerned or interested in the resolution.

ITEM NO. 6

It is proposed to strengthen the Board by increasing the number of Directors from the existing six to seven within the limits specified by the Articles of Association of the Company.

Hence, the resolution at item no. 6 seeking your approval for the increase in the number of directors in terms of Section 258 of the Companies Act, 1956. The Board recommends this resolution for your approval.

None of the Directors are concerned or interested in this resolution.

The Board recommends the resolution as set out at Item No. 6 of the Notice for your approval.

By Order of the Board of Directors
For Kennametal India Limited

Kundan Kumar Lal
Deputy General Manager-Legal & Company Secretary

Bangalore
August 16, 2013

Annexure A

Brief Particulars of Directors seeking re-appointment

Name of Director	Mr. V.K. Deshpande	Mr. John Chang
Date of Birth	July 21, 1957	May 15, 1961
Relationship with Directors	None	None
Experience	With Kennametal Inc.: Nil With others : 25 years	With Kennametal Inc: 08 years With others: 20 years
Expertise in specific functional area	Honeywell- successfully shaping the JV – now known as Honeywell Automation India, Tata Teleservices – responsible for business operations HCC- EPC & Construction Business Tata Projects – Managing Director since July, 2011	Manufacturing and Operations Sales and Marketing and General Management
Qualifications	Chemical Engineer, IIT Kharagpur	M.Sc. Mechanical Engineering, University of California at Berkeley, USA Bachelor of Science in Mechanical Engineering, San Jose State University, USA.
List of outside Directorships and Memberships of Board Committees in India	Memberships/Chairmanships/Committee of Directors 1. Tata Projects Limited 2. NELCO Limited 3. Artson Engineering Limited 4. Voltas Limited 5. TPL-TQA Quality Services South Africa (Proprietary) Limited 6. TPL-TQA Quality Services (Mauritius) Pty Limited NELCO Limited 1. Audit committee – Member 2. Remuneration Committee – Chairman	None
No. of shares held	NIL	NIL

DIRECTORS' REPORT

Your Directors are pleased to present the 48th Annual Report and Audited Accounts for the year ended June 30, 2013 (FY13).

FINANCIAL RESULTS **(₹ in Lakhs)**

Particulars	FY13 Year ended June 30, 2013	FY12 Year ended June 30, 2012
Total Revenue	49745	57278
Profit before Tax	**1958**	**9894**
Less: Provision for Tax		
Current Tax	560	3145
Tax provision relating to earlier years	(112)	-
Deferred Tax (credit)/charge	25	(90)
Profit after Tax	**1485**	**6839**
Add: Balance brought forward from previous year	13057	13288
Total available for appropriation	**14542**	**20127**
Transfer to General Reserve	-	684
Interim Dividend	-	5495
Tax on Interim Dividend	-	891
Balance transferred to Balance Sheet	14542	13057

DIVIDEND

Your Company intends to acquire suitable parcel of land for modernization, expansion and relocation of its manufacturing operations and other services for future growth. The resources available would be required for the above said purpose and hence, your Directors have thought it prudent not to recommend any dividend for the year ended June 30, 2013.

OPERATING RESULTS

Uncertainty in the Indian economy particularly in Automobile Industry has resulted in a drop in your Company's revenue in FY13. During the year, the revenue of your Company has declined by 13.5% from ₹ 57278 Lakhs to ₹ 49745 Lakhs as compared to the previous year. This decline in revenue has resulted in underutilisation of manufacturing capacity. As a consequence of reduction in Sales and underutilisation of the capacity, the Profit before Tax has declined from ₹ 9894 Lakhs to ₹ 1958 Lakhs during FY 13.

Your Company does not have any subsidiaries.

MATERIAL CHANGES AND COMMITMENTS

There were no material changes and commitments which occurred affecting the financial position of your Company between June 30, 2013 and the date of approval of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

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

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr. Vinayak K. Deshpande and Mr. John Chang retire by rotation, and being eligible, offers themselves for re-appointment.

While Mr. B. Anjani Kumar has earlier represented Kennametal Inc. as a Non-Executive director of the Company's Board, he has been functioning as an Independent Director for all intents and purposes. He has also not been in the executive employment of the Company during the past three financial years. In view of this, the Board approved the change in the status of Mr. B. Anjani Kumar from Non-Executive Director to Non-Executive Independent Director on August 16, 2013.

Mr.Bernard North resigned as Director with effect from April 30, 2013. Your Directors place on record their appreciation of the valuable contribution made by him to the Company during his tenure as Director.

The Board at its meeting held on April 30, 2013 approved the appointment of Mr. Gerald Goubau filling the casual vacancy caused by Mr. Bernard North's cessation.

Profile of Mr. Gerald Goubau:

Mr. Gerald Goubau is Vice president- Sales EMEA region, Kennametal Inc. and has been associated with Kennametal group since year 2007.

Mr. Goubau has over 28 years of experience in Sales & Marketing, Engineering, Industries and General Management. He holds a Master's Degree in Science-Electro-Mechanical Engineering from University of Louvain, as well as an MBA from INSEAD, France.

Resolutions are being proposed seeking consent of the members for the re-appointment of Mr. Vinayak K. Deshpande and Mr. John Chang in the ensuing Annual General Meeting and your Directors recommend the same for your approval.

The brief profiles of respective Directors being re-appointed as required under Clause 49 of the Listing Agreement are furnished along with the Notice convening 48th Annual General Meeting.

REMUNERATION COMMITTEE

The Remuneration Committee of Directors was constituted on August 16, 2013 in accordance with the applicable laws and regulations to determine and approve remuneration payable to the Managing Director and/or Whole time Directors and at its discretion also the remuneration of such management team as required from time to time in compliance of the Companies Act and rules made thereunder. The Committee consists of Mr. B. Anjani Kumar as its Chairman, Mr. M. N. Bhagwat, Mr. Vinayak K. Deshpande and Mr. John Chang as members.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Board of Directors report that:

- In the preparation of the Annual Accounts for the financial year ended June 30, 2013, the applicable accounting standards have been followed along with proper explanation relating to material departures
- Accounting policies have been selected and applied consistently and that the judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on June 30, 2013 and of the profit for the period of July 01, 2012 to June 30, 2013;
- Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- The Annual Accounts have been prepared for the year ended June 30, 2013 on a going concern basis.

FIXED DEPOSITS

During the year, your Company has not invited/ accepted any Fixed Deposits under Section 58A and 58AA of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, 1975.

AUDITORS

M/s. Price Waterhouse & Co, Chartered Accountants (Firm registration No. FRN 007567S), will retire at the conclusion of the forthcoming 48th Annual General Meeting and being eligible, offer themselves for re-appointment. They have furnished a written certificate to the Company certifying that, if they will be re-appointed as auditors of your Company, such appointment would be within the limits specified in Section 224(1)(B) of the Companies Act, 1956.

The Notes to the Accounts referred to by the auditors in their report are self-explanatory and may be treated as information / explanation submitted by the Board as contemplated under Section 217 (3) of the Companies Act, 1956.

CORPORATE GOVERNANCE

A detailed report on Corporate Governance and the certificate from Mr. Vijayakrishna K. T., a Practicing Company Secretary confirming compliance of Corporate Governance norms as stipulated in Clause 49 of the Listing Agreement with the BSE Limited is set out in **"Annexure II"** to this report.

CODE OF CONDUCT COMPLIANCE

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 year under review, as required under Clause 49 of the Listing Agreement with BSE Limited is annexed and forms part of this report.

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 encourages its employees to embrace the Code of Business Ethics & Conduct to ensure maintenance of strong ethical culture.

PARTICULARS OF EMPLOYEES

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

INCREASE OF PUBLIC SHAREHOLDING

Pursuant to the notification of the Securities and Exchange Board of India (SEBI) read with the Securities Contracts (Regulation) Rules, 1957, Kennametal Inc., Promoter of your Company sold in March, 2013, an aggregate of 28,92,333 Equity Shares of the face value of ₹ 10 each, aggregating to approximately 13.16 % of the total paid-up share capital of the Company by way of the Offer For Sale (OFS) through Stock Exchange mechanism notified by SEBI. As a result of this sale, public shareholding of the Company has increased from 11.84% to 25% of the total paid up share capital of your Company.

RESEARCH & DEVELOPMENT (R &D)

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

RD&E, Bangalore is a globally aligned set-up and works with a specific focus on up-gradation of products, processes and technology.

TRANSFER TO INVESTOR EDUCATION AND PROTECTION FUND (IEPF)

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

Unclaimed dividend	-	₹128256/-
Unclaimed fixed deposit	-	NIL

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

A report in respect of conservation of energy, technology absorption, foreign exchange earnings and outgo, as required under Section 217(1)(e) read with the Company's (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is set out in **"Annexure III"** to this report.

ENVIRONMENT, HEALTH AND SAFETY (EHS)

Safety, Health and Environment protection have continued to be an important focus area in your Company. Your Company has taken efforts in building awareness about EHS among employees, suppliers and service providers. It is worthwhile to mention here that your Company has commissioned a modern and very efficient system for effluent treatment of waste, and also engaged in improving the greenery all around the manufacturing plants.

Your Company celebrated India's 42nd National Safety Day, and organised a Safety exhibition in Company's cafeteria by displaying of Personal Protective Equipment's, Fire and First Aid equipment's and demo of automatic emergency shut-off for domestic LPG Systems to create awareness to improve safety in workplace and at home.

Employee Wellness and Well-Being are of prime concern for your Company. Periodic preventive health checks and health promotion programs are organised. A new Occupational Health Clinic (OHC) was constructed during the year with facilities to treat illness and injuries.

Your Company has committed itself to the safety of its employees and conservation of the environment by setting clear expectations, fixing responsibilities and accountabilities. Safety campaign 2013 was organised to create awareness and recognize employees for their contribution. Your Company recognizes its employees for EHS achievements and innovative EHS activities through award programs.

Management Based Safety (MBS) is your Company's standard global safety process that has been the cornerstone of great improvement in our safety culture. Implementing MBS has resulted in a dramatic reduction in safety incidents across your Company.

A Risk Finder Tool and an improved Daily Safety Checklist have been designed to strengthen every employee's ability to identify, document and eliminate hazards in his or her workplace.

Waste management is a key area of focus of your Company with opportunities to reduce the use of raw materials, packaging and other consumables.

Hazardous and non-hazardous waste is monitored according to waste stream and disposal route, with performance assessed on the basis of waste intensity.

EHS Improvements undertaken during the year

- Improvements in hazardous waste storage area. Installed chip compacting machine to facilitate compacting the Borings which helped in the safe storage and transportation

- Disposal of E waste to Recyclers.
- Replaced the asbestos roofing in the shop floors with sandwiched sheets and disposed the asbestos in approved Land fill site.
- The tree transplantation was done successfully to facilitate construction of new parking area.
- Adopted various Green Initiatives to conserve the natural resources .
- The "Protecting Our Planet" program initiated by your Company in 2007 has resulted in achieving reduced Energy consumption by 46 %, Water consumption by 15 %, Paper Consumption by 48 % and Hazardous waste generation by 15 % in last 5 years The Company has been annually Rain Water Harvesting 80 Million Liters of Rain water.

Awards and Recognitions for EHS activities:

During the year, your Company won the **"Environmental Excellence Award 2012-13"** under the Engineering & Automobile industries category from Karnataka State Pollution Control Board.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Corporate Social Responsibility continues to be an important part in the activities of your Company. The employees of your Company continued their commitment to **"Protect Our Planet"**. Your Company has undertaken following initiatives/activities relating to CSR during the year.

- Participated in the Independence Day Flower show as well as the Republic Day Flower Show held at Lalbagh, which were organised by Mysore Horticulture Society as a part of our 'Protecting Our Planet' initiative.
- As a part of Delivering the Promise to the Community, Kennametal organised a Blood Donation Drive in the campus and collected 160 Units of blood. This was further donated to the Rashtrotthana Blood Bank.
- Continued to contribute to Akshayapatra programme under which Mid-Day meals were provided to the students of government schools in the nearby area.

LAND COMPENSATION MATTER

As reported in the last year's annual report FY12, the Special Land Acquisition Officer of Karnataka Industrial Area Development Board (KIADB) had passed an order dated March 05, 2012 to deposit compensation amount of ₹4,99,75,679/- after deduction of TDS in the City Civil Court, Bangalore due to objections raised by the representatives of Sri Ramlingeshwar Mutt, Harnahalli, Shimoga, Karnataka on title of the property. Upon your Company filing a Writ Petition before the Hon'ble High Court of Karnataka, Bangalore on July 05, 2012 vide its order dated March 18, 2013 it directed the Civil Court to complete the proceedings within 6 months. Meanwhile, the Special Land Acquisition Officer, KIADB filed a Land Acqusition Case (LAC) on August 27, 2012 before the Civil Court whereby, the dispute was referred to the court irrespective of the stay order passed by the Hon'ble High Court. Your Company has filed contempt proceedings against the Special Land Acquisition Officer, KIADB. The Civil Court vide its order dated October 20, 2012 directed to deposit the compensation amount of ₹ 4, 99, 75,679/- payable by KIADB after deducting the tax, by way of fixed deposit for a term of three years. Your Company is taking all legal steps required and necessary to receive its entitled compensation with interest.

PERSONNEL/INDUSTRIAL RELATIONS

During the period under review, your Company maintained healthy, cordial and good industrial relations at all levels. The enthusiasm and unstinting efforts of the employees have enabled your Company to remain at the forefront of the industry. Your Directors record their appreciation for this hard work and efficiency.

COST AUDIT AND COMPLIANCE CERTIFICATE

Your Company appointed M/s. K.S. Kamalakara & Co., Cost Auditors, Bangalore (firm Registration Number: 0000296) for the financial year 2012-13 for undertaking Cost Audit under the Companies Act, 1956 and the Companies (Cost Accounting Records) Rules, 2011.

The Compliance Certificate for the financial year ended June 30, 2012 was filed with the Ministry of Corporate Affairs within the permissible time.

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 place on record their gratitude to the Members for their continued trust, confidence and expresses its sincere appreciation to all the employees for their teamwork and contributions during the year.

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

M.N. Bhagwat
Chairman

August 16, 2013

Annexure I to the Directors' Report

MANAGEMENT DISCUSSION & ANALYSIS REPORT

1. **Industry Structure and Developments/ Opportunities & Threats**

   Your Company is a leading manufacturer of hard metal products and machine tools which cater to the needs of a wide variety of manufacturing and other industries such as transportation, general engineering, aerospace & defence, energy, power generation equipment, earthworks, mining and construction. It seeks to provide a competitive edge to its customers through a wide variety of standard high quality products as well as items customized to their requirements such as special purpose machines, metalworking tools, customized tooling solutions and engineered products.

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

   Indian Economy has significantly slowed down after achieving growth rates of 7 to 8% in past few years. The GDP growth for FY13 has been at 5% down from 6.2% in FY12. The Manufacturing sector is affected adversely with IIP growing at just 1.2% for the FY13 v/s >3.5% levels for prior year.

   The Auto and Auto ancillary industries which contribute to maximum revenue for your Company have been the most affected industries during the year. Overall the automobile industry has seen a drop of around 5% in production during FY13 in comparison to FY12. The de growth is higher at 17% if the two wheeler industry is excluded.

   The slowdown in the economy can largely be attributed to policy inaction by the Government, unfriendly, unclear tax regime, inflation, high borrowing costs, stalled infrastructure projects and restrictive monetary policies. The Rupee has depreciated significantly due to adverse current account deficit because of poor investor confidence, QE threat, lower FDI and FII investments. Rupee depreciation also has a significant impact on the input costs of your Company particularly the raw materials and energy costs.

   Export markets for hard metals have not been buoyant either. All the regions of the United States, Europe and Asia have been soft with hardly any growth. Demand for the Inserts particularly from China was very low during the year.

   Though the economy is under severe pressure with the rating agencies threatening a downgrade, the Government is yet to put in place effective reforms and policies to restore business confidence and lead to strong growth. It is also important to put in place deeper structural and administrative reforms (such as GST Act, Labour reforms etc.) to regain momentum in economy and leverage the India growth potential. Sectors such as automotive and capital goods have been faced with considerable demand slowdown that is unlikely to turnaround quickly. Continuing lack of action in a pre-election year may further act deterrent to realise the full potential of the economy in the immediate future.

   Your Company does not expect the economic scenario to change significantly in the short-term and hence is focused on special growth and operational initiatives to mitigate the impact of demand reduction. Besides the automobile industry your Company is focused in diversifying and de-risking the business by foray into sectors such as Aerospace, Energy, Mining and Machine Tools, etc.

   Export market has been showing signs of marginal improvement particularly, the United States market. The European and Asian markets are expected to remain soft (as in FY13) in short to medium term.

2. **Operations**

   The Financial Year 2012-13 was one of the most challenging years in the last decade for your Company. The economic downturn coupled with poor manufacturing scenario resulted in very low capacity utilization for most of the OEMs and vendors like us in the supply chain. Most of the customers whom your Company serves have been operating at very low capacity and in few cases below 50% level .As a consequence of the factors stated above your Company witnessed a negative growth of 13% for the financial year. The de growth is primarily driven by Hard Metals (19%) and is partially offset by positive growth from Machining Solution Group (MSG). Drop in hard metals sales has resulted in a capacity utilisation of just 55% during the year.

   The Company continues to pursue the dual brand strategy (KENNAMETAL, WIDIA) and it is expected that the full potential of the strategy would be realised once the economy rebounds. Customers can now take advantage of two strong product portfolios to enhance productivity.

In its efforts to achieve a competitive advantage, new and technologically advanced products are introduced every year by the Company both in Widia & Kennametal brand portfolio. Your Company's objective is to generate >40% of the revenue from new products. For FY13 the new products sale stands at 45% of the revenues.

3. **Operational Initiatives**

The Operational initiatives across the Company are aimed to make the Company a more competitive business that can withstand external shocks better and create a long-term value to its Shareholders.

During the year your Company has introduced and focused around a number of specific initiatives to retain and improve the market share, to name a few:

Natural Trading Area: This initiative is aimed to improve the coverage of both the brands across the country. As part of this initiative there were 26 distributors added during the year to enhance the coverage.

Productivity Optimization Services: This initiative is to study the entire line of customer's shop floor and suggest set of tools which customer should be using in order to bring down cost per part.

Tool Management Services: Your Company was aggressive with tool management services initiative during the year. The Company has been able to sign 5 such contracts with major customers in FY 13.

Extrude Hone: During the year a new facility with more than ₹200 Lakhs of investment was established for Extrude Hone. This is a surface finish niche application used in automobile sector and will be operational from July 2013.

Localization and Product Transfer: Your Company is aggressively working on localization of products being imported from other Kennametal Group locations and sold here in India.

4. **Machining Solution Group**

The Machining Solutions Group (MSG) had a record year with the revenues touching ₹10,000 lakhs (₹100Crores) for the first time in history. Growth was primarily driven by new product lines, customer penetration and increased export sale.

5. **IMTEX 2013 & Road Shows**

The Company operations are categorized under three major brands i.e KENNAMETAL, WIDIA and WIDMA. In order to build and strengthen these brands your Company participated in India's largest machine tool exhibition, IMTEX. Besides the IMTEX, many roadshows and customer seminars were conducted to educate the customers of Kennametal's products and solutions.

6. **Lean Manufacturing**

It has always been the endeavor of your Company to remain focused and constantly improve the operating efficiencies. Many Lean manufacturing initiatives were undertaken last year to strengthen the ability to meet customer's expectation of better quality at lower cost. Lean initiatives are also being carried out in the non-manufacturing functions like Finance, HR etc., to strive for elimination of all forms of waste. Your Company has been bestowed with many awards and to name a few:

- Lean Six Sigma Excellence Awards 2012 by SCMHRD, Pune
- 1st Prize DMAIC Manufacturing Short Term for Elimination of crack defects for CHP items from 200T Press.
- KVBS FY13 Lean Award from KMT Inc
- At '25th Karnataka State Level Quality Circle Competition 2012' held by CII on November 08, 2012 was awarded Second Position in the Best Innovative Team category.
- FIE Foundation Award at IMTEX 2013 (Indian Machine Tool Exhibition) for Best Fixture Design

7. **Segment-wise performance**

The segments for financial reporting are:

(i) Hard metal and hard metal products

(ii) Machining Solutions Group

The details of segment wise results are given as part of the Annual Accounts as required under Accounting Standard 17 – Segment Reporting.

8. **Outlook**

Macro-economic scenario continues to be weak for the country. Rupee depreciation continues to put huge pressure on oil prices in the Country dampening the growth prospects of automobile sector .Growth in short term will depend a lot on Government actions to pump up the economy but considering fact that this is an election year it is unlikely that Government will roll out any bold policies. In this backdrop it is reasonable to expect the current business scenario to continue in short term. Your Company realises the situation and hence is focused on specific initiatives to drive the growth and maintain market share.

As said earlier, the United States is showing some marginal improvement in terms of economy and hence the exports are likely to improve in this region. However, the European and Asian markets will remain soft and hence may not contribute significantly for growth in forthcoming year.

9. Risks and concerns

The following table contains the risks identified during the risk analysis process, impact on the business, and action taken/ planned to mitigate those risks.

Sl. No.	Risk	Impact on the business	Action Plan
1	Economic Scenario	Your company's business is predominantly positioned for sales within India and domestic market is going through slow pace of demand with many end market segments of your Company's products showing decline in demand.	1. Redeployment of sales efforts into growing industries such as Tractor, Auto Components into the export market, Steel, Defence and Railways. 2. Emphasis on new product sales to gain market share. 3. Distribution expansion to unrepresented /under represented industrial areas through Natural Trading Area(NTA) process.
2	Heavy Dependence on Transportation Segment	Close to 70% of the revenues are generated from automobile industry. Hence fortunes of the Company are heavily dependent on the transportation segment.	1. Diversification into other sectors like General Engineering, Energy, Earthworks etc. Carved out Infrastructure segment for FY14. 2. Introduction of new applications like Extrude Hone, Conforma Clad etc. 3. Improve Machining Solutions business on special purpose machines.
3	Rupee Depreciation	The company's dependence on import of raw materials is high and hence input costs would go up due to rupee depreciation.	1. Continuous Exploration of alternate supplies for key raw materials at lower prices. 2. Appropriate hedging policy put in place to address currency fluctuation. 3. Localisation of traded products whatever being imported now.
4	Cost Pressures	Increasing wage and energy costs coupled with increase in other operating costs creating a pressure on margins.	1. Leverage operational excellence initiative to eliminate waste in the processes. 2. Implementation of lean projects exclusively for reduction of raw materials costs, Energy costs, Incoming Freight costs and Utilities costs. 3. Productivity improvement to offset the wage inflation.

10. Internal control systems and their adequacy

Your Company has established and time tested internal control systems in place. The management carries out regular and rigorous reviews to monitor operations as well as the assets (including Fixed Assets, Investments and Primary Working Capital) and liabilities.

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

During the year, the Internal Audit department conducted eight (8) internal audit reviews and presented its reports to the Audit Committee. The Audit Committee and the Board also hold independent discussions with the Internal Auditors and the Statutory Auditors every quarter to make an independent assessment of the internal control systems and there has been no report of any significant weaknesses in the Internal Control framework of the Company.

11. Financial performance

Your Company has delivered sales of ₹ 48938 Lakhs for FY13. This translates into a de-growth of 13% versus the prior year growth of 11%. Profit after Tax at ₹ 1485 Lakhs is 78% below prior year and the decline is primarily attributable to the following reasons:

- The Hard Metals sales down by 19% from ₹ 48100 Lakhs to ₹ 38898 Lakhs
- Unfavorable Mix between the MSG, Wear and Tooling Products
- Under recovery of fixed costs due to lower capacity utilization. Capacity utilization at 55% levels.
- Increase in Raw Material cost due to rupee depreciation

The MSG business continues to grow and has touched the ₹10000 Lakhs mark for the first time after its inception. Growth of 23% Year on Year in MSG business has partially offset the negative growth from the hard metals segment. MSG also delivered record profitability at ₹1292 Lakhs highest in the history. The exports during the year have increased significantly at 23% primarily driven by Honda Thailand order for Machining Solutions Group.

The Company continues to maintain optimized working capital deployment into the business. The primary working capital was maintained at 19% in FY13. The collections during the year have been stable as in the past. Your Company does not see any challenges in maintaining the good collections track record except for few handfuls of customers in Energy sector where liquidity crisis impact is maximum (due to huge capital lock up). Inventory and Accounts Payable are down in comparison to prior year which is in line with the business movement. Strict control of expenses coupled with excellent working capital management has ensured that your Company remains debt-free and profitable. Your Company's operating cashflow at ₹ 4650 Lakhs was higher than EBITDA for the financial year. The capital investment has been low in FY13 compared to past few years. The company is adequately capitalized and there was no requirement for further capacity additions during the year.

12. Material Developments in Human Resources and Industrial Relations

Your Company recognizes Human Resources as important asset of the Company. Its Human Resource Process are focused towards attracting, developing & retaining talent so as to drive High Levels of Employee Engagement, ensure a Performance Driven Culture, drive Business Growth and be Customer Centric to "Deliver The Promise" .

Highlights for FY 13:

- Acquisition of Talent continued to be the focus area this year as well to ensure hiring of Talent with the right competencies to drive business results and stay customer focused. Key process like the Internal Job Posting, Job Rotations, Executive Trainee Program and lateral hires helped build the right competency in the organization, leverage the existing talent and also build bench strength for future growth.
- The focus on driving a Performance Culture through the Performance Management System continued through steps such as ensuring a common Performance Planning & Management (PPM) document for all

functions, Leadership commitment to ensure timely planning and review and an enhanced monitoring process. The focus has ensured a 13% improvement in the 2013 Voice of Employee (VOE) with respect to the Dimension "Performance Culture".

- Capability building of our Sales Employees, Distributor Sales Engineers (DSE) and Customer's Engineers through our Technical Training Curriculum has been the major area of focus this year. A Total of 458 participants were covered under the Technical Training Curriculum during the year. In addition to the Technical Programs our efforts on building individual and organizational capability through our Sales Effectiveness programs, Leadership Development Programs and on-line certification programs have ensured coverage of 226 employees.
- Industrial Relations were peaceful throughout the year with continuous and regular interaction & engagement with the Union Leadership.
- The 2013 Voice of Employee (VOE) Survey was conducted during the Year and the Employee Engagement Index was at 73% which is an improvement of 7% over the previous Voice of Employee Survey. In addition to the improvement in the engagement scores there was a positive improvement in all the 16 Dimensions which are used in the VOE Survey.

Cautionary Statement

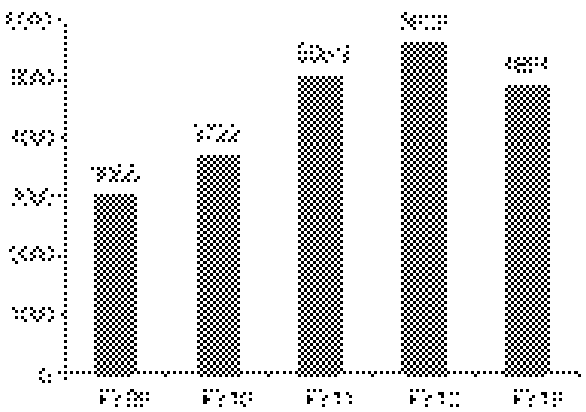
The information and opinion in this section consists of certain forward-looking statements, which the management believes to be true to the best of its knowledge at the time of its presentation based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions 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.

Annexure I to the Directors' Report

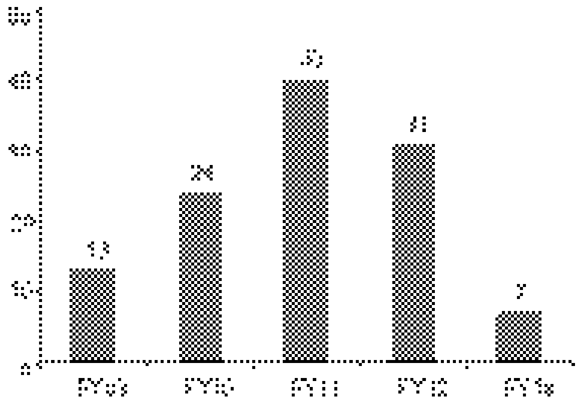
The information contained herein may not be disclosed, reproduced, or used in whole or in part for any purpose or furnished to any other person(s) without the express prior written permission of the Company.

FIVE YEAR CHARTS FOR KEY FINANCIAL INDICATORS

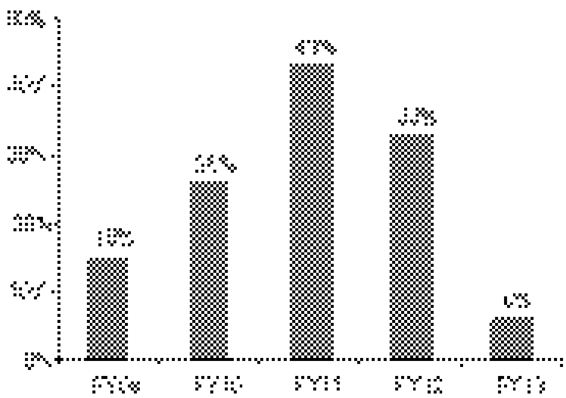
Net Sales (₹ in million)



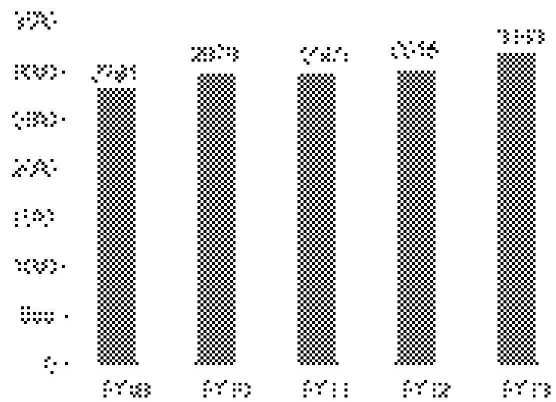
Earning Per Share (EPS) in ₹



Return On Capital Employed(ROCE) in percentage



Net worth (₹ in million)



Annexure II to the Directors' Report

REPORT ON CORPORATE GOVERNANCE

Corporate governance philosophy and compliance

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

1. Composition of the Board

The Board of Directors has 6 members (as on June 30, 2013), including the Managing Director and 5 Non-Executive Directors who bring a wide range of skills and experience to the Board. The Company has a Non-Executive Chairman and the number of Independent Directors is one-third of the total number of Directors. The Chairman is not a promoter of the Company nor is he related to any promoter or person occupying management positions at the Board level or at one level below the Board. The composition of the Board is in conformity with Clause 49 of the Listing Agreement. During the year under review, four meetings of the Board of Directors were held on the following dates: August 13, 2012, November 08, 2012, January 31, 2013 and April 30, 2013.

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

Name of the Director	Other Directorships held*	Board Committees+ (in other companies)		Attendance at	
		Chairman	Member	Board Meetings	Last AGM
Non-Executive, *Independent directors*					
Mr.M.N.Bhagwat, Chairman	3	2	1	4	Yes
Mr.Vinayak K. Deshpande	7	1	1	4	Yes
Managing Directors					
Mr.Santanoo Medhi[1]	–	–	–	1	No
Mr. Bhagya Chandra Rao[2]	1	–	–	3	Yes
Non-Executive Directors					
Mr. John Chang	–	–	–	3	Yes
Mr.B.Anjani Kumar	1	–	–	4	Yes
Mr.Bernard North[3]	–	–	–	1	Yes
Mr.Gerald Goubau[4]	–	–	–	–	No

Mr. John Chang, Mr. Bernard North, Mr.Gerald Goubau and Mr.B.Anjani Kumar are the nominees of Kennametal Inc., the foreign promoter. Except for Mr.B.Anjani Kumar, no sitting fees was paid to Non-Executive Directors.

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

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

[1]*Ceased to be the Director with effect from September 17,2012*

[2]*Appointed as Director with effect from September 17,2012*

[3]*Ceased to be the Director with effect from April 30,2013*

[4]*Appointed as Director with effect from April 30,2013*

2. **Audit Committee**

The terms of reference of the Audit Committee are as per the guidelines set out in the listing agreement with the BSE Limited read with Section 292A of the Companies Act, 1956 and includes such other functions as may be assigned to it by the Board from time to time.

All members of the Audit Committee have the requisite accounting and financial management expertise. The particulars of the members and their attendance at the meetings during the year under review are provided in Table 2.

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

Name of the Director	Number of meetings attended
Mr. M.N. Bhagwat *Chairman, Non-Executive, Independent*	4
Mr. Vinayak K. Deshpande *Non-Executive, Independent*	4
Mr.B.Anjani Kumar *Non-Executive, non-independent*	4

During the period under review, four meetings of the Audit Committee of Directors were held on the following dates: August 13, 2012, November 08, 2012, January 31, 2013 and April 30, 2013.

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

The Company Secretary is the Secretary to the Audit Committee.

3. **Shareholders' / Investors Grievance Committee**

The Committee met on August 13, 2012 during the year under review and the attendance of the members at the said meeting is provided in Table 3.

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

Name of the Member	Attendance
1. Mr.M.N.Bhagwat, Chairman	Attended
2. Mr. Bhagya Chandra Rao,Member	Attended

During the year under review, the Company received three complaints and all were redressed.

4. **Directors' remuneration**

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

Table 4 : Remuneration paid to Managing Director in respect of financial year 2012-2013.

Managing Director	Amount (₹)
Mr.Santanoo Medhi*	5800343
Mr. Bhagya Chandra Rao**	7983453

**includes salary, fixed allowance, housing, leave travel allowance, medical reimbursement, contribution to retiral benefits, accumulated leave etc. It also includes a payment of ₹1375000/- as Performance pay for FY11-12. Mr. Santanoo Medhi, resigned as Director with effect from September 17,2012.*

It was observed that the remuneration of Mr. Medhi during the FY12-13 was in excess of 5% of the net profits of the Company on an annual prorated basis i.e. by ₹30Lakhs (Approx) Hence the remuneration paid by the Company is proposed for approval by the members as minimum remuneration.

***includes salary, fixed allowance, housing, leave travel allowance, medical reimbursement, contribution to retiral benefits, etc. The appointment is for a period of five years from September 17,2012 to September 16, 2017 terminable with a notice period of three months or such notice as may be mutually determined as per the agreement dated September 17, 2012 . Performance pay is based on the results achieved against the targets and certain performance criteria as set out by the Board.*

Table 5: Remuneration paid / payable to Non Whole-time Directors for the year under review.

Non-wholetime Directors	Commission (₹) *	Sitting Fees(₹)*
Mr.M.N.Bhagwat	1200000	170000
Mr.Vinayak K. Deshpande	500000	160000
Mr.B.Anjani Kumar	500000	160000
Mr.John Chang	NIL	NIL
Mr. Gerald Goubau	NIL	NIL
Mr.Bernard North	NIL	NIL

** payable in financial year FY14*

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.

Annexure II to the Directors' Report

5. General Meetings

Date & time	Location	Special Resolutions passed
45th AGM – 2010 October 26, 2010 10.30 A.M.	Registered Office at 8/9th Mile, Tumkur Road, Bangalore – 560073	1. Appointment of Mr.Santanoo Medhi, as Managing Director and fixation of his remuneration. 2. Payment of Commission to non-executive Directors.
46th AGM – 2011 November 02, 2011 10.30 A.M.	Registered Office at 8/9th Mile, Tumkur Road, Bangalore – 560073	Nil
47th AGM – 2012 November 08, 2012 10.30 A.M.	Registered Office at 8/9th Mile, Tumkur Road, Bangalore – 560073	Appointment of Mr. Bhagya Chandra Rao, as Managing Director and fixation of his remuneration.

6. Disclosures

- The Company has adopted a Code of Internal Procedures and Conduct for Prevention of Insider Trading.
- The Company has in place a Code of Conduct applicable to the Board of Directors as well as the Senior Management. The Managing Director has confirmed and declared that all the members of the Board and Senior Management personnel have affirmed compliance with the Code of Conduct for the year 2012-2013.
- Mr.B.Anjani Kumar, Director holds 10 equity shares in the Company. No other Director holds any shares in the Company.
- No penalties were imposed or strictures passed on the Company by 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) notified under section 211(3C) of the Companies Act, 1956.
- The Company being a part of Kennametal Group ("the group"), complies with the whistle blower policy of the group which is applicable to all employees of the group.
- The Senior Management personnel have declared to the Board of Directors that none of them or their relatives had any material, financial, commercial transactions that were potentially in conflict with the interests of the Company.
- The Managing Director and Chief Financial Officer have certified to the Board in accordance with Clause 49(v) of the listing agreement, for the year ended June 30, 2013.
- The Company does not have any subsidiaries.
- The Company has not made any capital issues during the year ended June 30, 2013.
- The Company has complied with all the mandatory requirements of Clause 49 of the listing agreement. As regards the non-mandatory requirements the extent of compliance has been stated in this report against each item.

Adoption of non-mandatory requirements

i) The Board

The Company reimburses the expenses towards the maintenance of the office of its Non-Executive, Independent Chairman and also the expenses incurred in performance of his duties

ii) Shareholder Rights

The Company's quarterly and half-yearly financial results are published in the newspapers and the results were also uploaded in 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.

iii) Audit qualifications

There are no qualifications in the Auditors' Report on the Accounts for the year ended June 30, 2013.

iv) Training of Board Members

All the Board members are highly conversant of the Company's business model and its risk profile. The Board Members are adequately knowledgeable of their responsibilities, which they carry out effectively.

v) Others

The Company has not adopted the following clauses which are non-mandatory under Annexure 1D to Clause 49 of the listing agreement as on June 30, 2013:

- Clause (1) to the extent of tenure of Independent director
- Clause (2) Constitution of Remuneration Committee of Directors. However, it may be noted that a Remuneration Committee has been constituted on August 16, 2013.
- Clause (6) mechanism for evaluating non-executive Board Members: However, it may be noted that the Board periodically holds a discussion to assess Board effectiveness and to identify steps to improve the same.

7. Means of Communication

a. Quarterly / half-yearly / annual financial results of the Company were forwarded to the Bombay Stock Exchange Limited (where listed) immediately after the Board Meetings so as to enable hosting the same in their website and the results were also published in Financial Express (English) and Sanjevani (Kannada) newspapers within 48 hours from the conclusion of the Board Meetings.

b. As per the latest amendment by SEBI the requisite details of the Company in terms of Clause 54 of the listing agreement are maintained in the website viz. www.kennametal.com under the icon 'Company Profile' (Kennametal India Financials).

The link is as follows: www.kennametal.com/kennametal/hi/about-us/kil-financials.htm.

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

General shareholders' information

Annual General Meeting:

The 48th Annual General Meeting of the Company is scheduled to be held at 11.30 a.m. on November 05, 2013 at the Registered Office of the Company at 8/9th Mile, Tumkur Road, Bangalore – 560073.

Book Closure:

The Register of Members and share transfer books will remain closed from October 31, 2013 to November 05, 2013 [both days inclusive]

Table 6: Financial calendar for the year 2013-14.

Event	Month (tentative)
Un-audited results for the quarter ending September 30, 2013	November, 2013
Un-audited results for the quarter ending December 31, 2013	January / February, 2014
Un-audited results for the quarter ending March 31, 2014	April / May, 2014
Audited results for the year ending June 30, 2014	July / August, 2014

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 year 2013-2014.

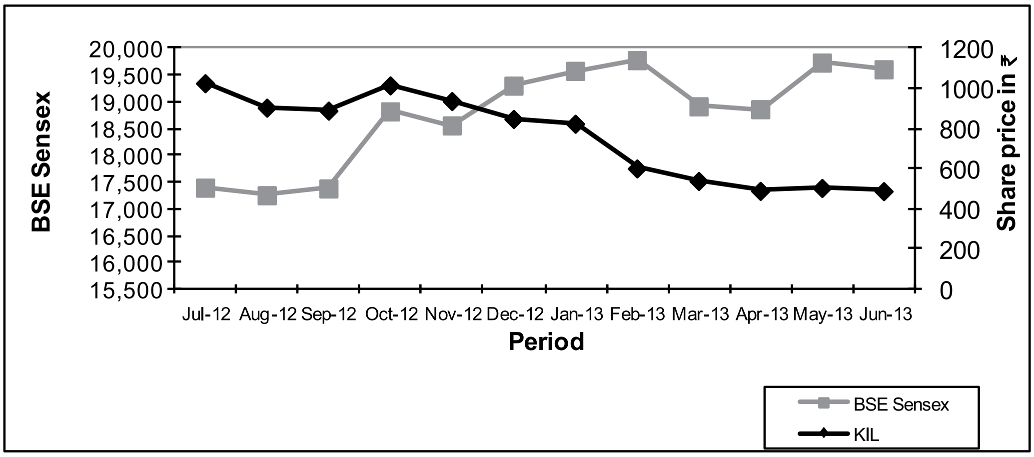
Annexure II to the Directors' Report

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

Month	Year	High (₹)	Low(₹)
July	2012	1026.80	899.70
August	2012	950.85	883.05
September	2012	991.55	873.70
October	2012	1085.55	945.70
November	2012	954.95	822.80
December	2012	870.05	796.90
January	2013	856.50	690.45
February	2013	602.05	490.15
March	2013	575.85	480.95
April	2013	529.25	490.20
May	2013	517.40	490.45
June	2013	492.60	435.55

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

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



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

Share Transfer Agents

Work related to both physical / demat shares is handled by M/s Integrated Enterprises (India) Limited as common Share Transfer Agent. All correspondence relating to share transfer, change of the address for shares held in physical form and dematerialisation of shares etc. are to be addressed to M/s Integrated Enterprises (India) Limited, No.30, "Ramana Residency", 4th Cross, Sampige Road, Malleswaram, Bangalore - 560003, Phone: 080 - 23460815 to 818. Fax: 080 - 23460819. e-mail: irg@integratedindia.in.

Share transfer system

The authority relating to transfer of shares has been delegated to a Share Transfer Committee consisting of the Managing Director as its Chairman, Vice President – Manufacturing and the Company Secretary as its members. The Committee meets fortnightly or as often as may be necessary to ensure that the transfer process is completed without delay.

Additionally, an Independent Practicing Company Secretary undertakes audit and scrutiny of the system quarterly and certifies accordingly.

Dematerialisation of shares

The Company's shares are admitted into both the depositories viz. National Securities Depository Limited [NSDL] and Central Depository Services (India) Limited [CDSL] and the ISIN allotted for the equity shares of the Company is INE717A01029, 98% of the equity shares of the Company are held in demat form.

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

Table 9 : Pattern of shareholding as on June 30, 2013

Category	No. of shares	Percentage (%)
Promoters		
Meturit AG. - 11,208,840		
Kennametal Inc. - 5,274,840	16,483,680	75.00
Public		
Mutual Funds	2,893,244	13.16
Financial Institutions/Banks	1,040	0.00
Foreign Institutional Investors	81,019	0.37
Bodies Corporate	281,655	1.28
Individuals & others	2,237,602	10.19
Total	**21,978,240**	**100.00**

Table 10 : Distribution of shares as on June 30, 2013

No. of shares	No. of shareholders	Shares held
Upto 5000	6,829	1,427,540
5,001 to 10,000	51	361,733
10,001 to 20,000	30	430,992
20,001 to 30,000	9	225,470
30,001 to 40,000	0	0
40,001 to 50,000	2	91,093
51,001 to 100,000	2	144,319
100,000 and above	8	19,297,093
Total	**6,931**	**21,978,240**

Plant Location

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

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

Integrated Enterprises (India) Limited
Unit: Kennametal India Limited
No. 30, "Ramana Residency", 4th Cross,
Sampige Road, Malleswaram,
Bangalore - 560 003
Phone : +91 (80) 23460815 to 818.
Fax : +91 (80) 23460819.
e-mail: irg@integratedindia.in

For dividend queries and other general matters:

The Company Secretary
Kennametal India Limited
8/9th Mile, Tumkur Road,
Bangalore - 560 073.
Phone: +91 (80)28394321 and 080 22918345
Fax: +91 (80) 28397572
e-mail:kundan.lal@kennametal.com

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

MD CERTIFICATION

To,

The Members
Kennametal India Limited

Pursuant to the Clause 49 of the listing agreement with BSE Limited, this is to confirm that all the Members of the Board and the Senior Management of the Company have confirmed compliance with the Code of Conduct of the Company for the year ended June 30, 2013.

For Kennametal India Limited

Bhagya Chandra Rao
Managing Director

CERTIFICATE

AUDITOR'S CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENTS.

To the Members of Kennametal India Limited
Bangalore

I have examined the compliance of the conditions of Corporate Governance by Kennametal India Limited for the year ended June 30, 2013 as stipulated in Clause 49 of the Listing Agreement of the said Company with Bombay Stock Exchange Limited, Mumbai(BSE) in India.

The compliance of the conditions of Corporate Governance is the responsibility of the Company's 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 in the above mentioned Listing Agreement.

I state that in respect of investors' grievances received during the year ended June 30, 2013, no investor grievances are pending against the Company as on June 30, 2013, as per the records maintained by the Company and as stated by the Registrar and Share Transfer Agent.

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.

Place: Bangalore
Date: August 16, 2013

Vijayakrishna K. T.
Practicing Company Secretary
FCS-1788 CP-980

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

A] Conservation of Energy

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

a) *Energy conservation measures taken during the year*

Lighting

- The facility continued the practice of replacing the conventional fitting with the T-5 Lamps and LED Lamps.
- Occupancy Sensors were installed to automatically switch off when Cabins are not occupied.
- Automatic Controllers using Lux Sensors were incorporated in Street Lighting system to optimize street light usage.

The Process Modification

- The chilling water system in Coating Dept. was modified by incorporating Energy Efficient Pumps with Variable Frequency Drive having close loop feedback from Temp and pressure sensors to reduce the power consumption.

DG set Loading & Load Management

- The Electrical Distribution system was modified to ensure optimum loading of the DG set.
- Modified the Fuel system in the DG set by incorporating cooler which resulted in increasing fuel efficiency by 8 %.
- Monitoring of the Energy consumption on Holidays and Sundays intensively and introduced Engineering measures to reduce wastage of Energy.

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

In order to reduce the Energy Consumption in FY14 your Company has planned an investment of ₹ 60 Lakhs on the Energy Conservation projects such as Lighting Upgrade / incorporating VFDs in Ventilation system / Sintering Furnace operational improvements / Improving the Compressed air Systems and by process improvements.

These Green initiatives will facilitate in conserving about 4.5 Lakhs units in FY14.

c) *Impact of the measures taken above for reduction in energy consumption and consequent impact on the cost of production of goods:*

- Due to the above ENCON projects the facility saved about 20.26 Lakhs Units in FY 13.
- The improvements have helped in reducing the Load by 50 kw.
- Facility has further plans to reduce energy consumption by 5 Lakhs units by incorporating the following green initiatives.

a) Use of Induction Lamps

b) Installation of Energy Efficient Furnace

c) Use of Solar Energy

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

– Not applicable

B] Technology Absorption

a) Research & Development (R&D)

The Research, Development and Engineering (RD&E) of your Company continues in its endeavour to indigenize products and develop new Products with specific focus on materials, 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 of your Company is having following objectives:

(a) Development of New range of products contributing to better market penetration, conversion and retention.

(b) New Process Development & Improvement in Powder Manufacturing, Pressing, Sintering and Coating.

(c) Support to Manufacturing for Improved Quality and reduced cost of production for better customer experience

(d) Support Marketing for developing custom solution products by leveraging the combination of Kennametal's strength in substrates, coatings and engineering

(e) Support Kennametal Knowledge Centre to Train Customers and Sales Engineers on cutting tool material;

(f) Rapid product development by conducting Benchmarking test and simulating field machining condition; and

(g) Proposal of tooling solution for projects at customers end

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

   i. Up-gradation of P20-P30 Uncoated Steel Milling Grade

   ii. Up-gradation of P15-P20 and P25-P30 CVD coated grades for Steel Turning applications

   iii. Up-gradation of coatings for Milling & Rough Turning applications.

   iv. Product Qualification of new PVD Coatings.

   v. Implementation of environmental friendly powder manufacturing process for one family of Grades.

   vi. Established recovery of Scrap carbide chips to Yellow Tungsten Oxide in lab scale.

   vii. Development of Combi Rolls.

   viii. Custom Solutions support to Metal Cutting and Wear Industries.

   ix. Quality improvement of current processes through Lean Six-Sigma projects in the area of Powder Manufacturing, Sintering and Coating

   - Powder Grade Rationalization of Sub-micron carbide grades to reduce the lead time, reduce cost and improve performance
   - Sintering cycle rationalization to eliminate two powder grade variants and complete elimination of dry sintering
   - Powder standard cost reduction for one grade in Wear Products and one grade in uncoated milling application
   - Lead time reduction for big sizes of Cold Heading Products
   - Improved Granule flow characteristics for high cobalt grade.
   - Five Invention Disclosures submitted. Three Patent applications filed in India. One Patent application under progress in US.

2. Benefits derived

   • Improvement of product quality, process lead time, cost reduction and a good value proposition to customers by improvement in product performance.

3. Future plan of action

   • Continued efforts towards quality enhancement, evolution of new products aligned with customer needs and with reduction in costs and lead time

   • Performance up-gradation of Wear & Mining Products.

   • Performance up-gradation of Milling and Turning Products

   • Continued Custom Solutions support to Metal Cutting and Wear Industries

4. Expenditure on R & D (₹ in Lakhs)

	2013	2012
a) Capital	408	6
b) Recurring	551	597
c) Total	959	603
d) Total R&D expenditure (as a percentage to turnover)	1.93%	1.05 %

b) Technology absorption, adaptation and innovation

1. Efforts, in brief, made towards technology absorption, adaptation and innovation

   - Installation of lab-scale environmental friendly powder milling and drying facility.
   - Establishment of Global Grades and Products
   - Establishment of Pre and Post-Coat operations.

2. Benefits derived as a result of the above efforts

   - Upgradation of Products performance and increased alignment with Global Process standardization

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.

Annexure III to the Directors' Report

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

C] Foreign Exchange earnings and outgo

i) Activities relating to exports –

The Company primarily exports its products to USA, Germany and Singapore. During the year, the exports have been at ₹ 5838 Lakhs.

ii) Initiatives taken to increase exports, Development of new export markets for products and services

- The Company has gained foot-print in Thailand market by supplying machines in FY13. The Company has also appointed an agent to explore new business opportunities in Thailand for Special Purpose Machines.
- The Company is looking to explore the South Asian market for supply of machines.

iii) Export Plans

Your Company's total exports during the year were 24% higher than the prior year at ₹ 5838 Lakhs. The growth is primarily driven by Machine Tools dispatches to Honda Trading Asia Co. Ltd., Thailand to the extent of ₹ 1761 Lakhs. The tooling side of the business has been under pressure for entire year due to poor off take from Europe and Asia region. The tooling exports were down from ₹ 4702 Lakhs in FY12 to ₹ 4075 Lakhs during FY13.

iv) Total foreign exchange used and earned

(₹ in Lakhs)

i)Foreign Exchange earned	5485
ii)Foreign Exchange used	23039

INDEPENDENT AUDITORS' 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 June 30, 2013, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information, which we have signed under reference to this report.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

6. In our opinion, and to the best of our information and according to the explanations given to us, the accompanying 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:

   (a) in the case of the Balance Sheet, of the state of affairs of the Company as at June 30, 2013;

   (b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

   (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

7. As required by 'the Companies (Auditor's Report) Order, 2003', as amended by 'the Companies (Auditor's Report) (Amendment) Order, 2004', issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act (hereinafter referred to as the "Order"), and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

8. As required by section 227(3) of the Act, we report that:

   (a) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;

   (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

(c) The Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account;

(d) In our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Act;

(e) On the basis of written representations received from the directors as on June 30, 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on June 30, 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.

For **Price Waterhouse & Co., Bangalore**
Firm Registration Number:007567S
Chartered Accountants

Shivakumar Hegde
Partner
Membership Number: 204627

Bangalore
August 16, 2013

ANNEXURE TO INDEPENDENT AUDITORS' REPORT

Referred to in paragraph 7 of the Independent Auditors' Report of even date to the members of Kennametal India Limited on the financial statements for the period ended June 30, 2013

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

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

(c) In our opinion, and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the Company during the year.

ii. (a) The inventory excluding stocks with third parties has been physically verified by the Management during the year. In respect of inventory lying with third parties, these have substantially been confirmed by them. In our opinion, the frequency of verification is reasonable.

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

(c) On the basis of our examination of the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.

iii. (a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act. Therefore, the provisions of Clause 4(iii)[(b),(c) and (d)] of the Order are not applicable to the Company.

(e) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Therefore, the provisions of Clause 4(iii) [(f) and (g)] of the Order are not applicable to the Company.

iv. In our opinion, and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across, nor have been informed of, any continuing failure to correct major weaknesses in the aforesaid internal control system.

v. According to the information and explanations given to us, there have been no contracts or arrangements that need to be entered in the register maintained under Section 301 of the Act

vi. In our opinion, and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A and 58AA or any other relevant provisions of the Act and the 'Companies (Acceptance of Deposits) Rules, 1975' with regard to the deposits accepted from the public. According to the information and explanations given to us, no order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal on the Company in respect of the aforesaid deposits.

vii. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.

viii. We have broadly reviewed the books of account maintained by the Company in respect of products where, pursuant to the rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section (1) of Section 209 of the Act, and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.

ix. (a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is regular in depositing undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, customs duty, excise duty and other material statutory dues, as applicable, with the appropriate authorities.

(b) According to the information and explanations given to us and the records of the Company examined by us, the particulars of dues of income tax, sales tax, service tax and excise duty as at June 30, 2013, which have not been deposited on account of a dispute, are as follows:

Name of the statute	**Nature of dues**	**Amount (₹)**	**Period to which the amount relates**	**Forum where the dispute is pending**
The Central Excise and Salt Act, 1944	Excise duty/ Service tax	52,450	January 1998 to September 2011	The Customs, Excise & Service Tax Appellate Tribunal, Bangalore
		851,264	February 1992 to August 1993	The Supreme Court of India
		4,866,686 (*1)	April 2006 to September 2010	The Customs, Excise & Service Tax Appellate Tribunal
The Finance Act, 1994	Service tax	1,901,458	June 2007 to March 2011	The Additional Commissioner (Excise) LTU, Bangalore
		237,458	September 2005 to November 2009	The Customs, Excise & Service Tax Appellate Tribunal, Bangalore
The Andhra Pradesh General Sales Tax Act, 1957	Sales tax	5,827,114 (*2)	April 2003 to March 2004	The Sales Tax Appellate Tribunal, Hyderabad
The Delhi Sales Tax Act, 1975	Sales tax	78,550 (*3)	April 2004 to March 2005	The Joint Commissioner Appeals, Delhi
The Central Sales Tax Act, 1956	Sales tax	7,782,797	April 2006 to March 2010	The Additional Commissioner of Commercial Taxes
The Karnataka Value Added Tax Act, 2003	Sales tax	820,124	April 2005 to March 2010	The Additional Commissioner of Commercial Taxes
The Karnataka Tax on Entry of Goods Act, 1979	Entry tax	Nil (*4)	April 2005 to June 2013	The Supreme Court of India
The Uttar Pradesh Value Added Tax Act, 2008	Sales tax	Nil (*5)	May 2011	The Joint Commissioner of Appeals, Sonabhadhra, U.P.
The Karnataka Value Added Tax Act, 2003	Sales Tax	Nil (*6)	April 2005 to March 2006	The Joint Commissioner of Appeals, Bangalore
The Income Tax Act, 1961	Income tax	2,198,066 (*7)	April 1993 to March 1994; and April 1999 to March 2001	The Supreme Court of India
		Nil (*8)	April 1999 to March 2001	The Commissioner Income Tax (Appeals), Bangalore
		Nil (*9)	April 2006 to March 2007	The Income Tax Appellate Tribunal, Bangalore
		Nil (*10)	April 2007 to March 2008	The Commissioner Income Tax (Appeals) LTU, Bangalore
		25,165,440 (*11)	April 2008 to March 2009	The Commissioner Income Tax (Appeals) LTU, Bangalore

(*1) Net of ₹4,135,113 paid "under protest".
(*2) Net of ₹5,872,886 paid "under protest".
(*3) Net of ₹78,550 paid "under protest".
(*4) Net of ₹5,716,692 paid "under protest".

(*5) Net of ₹ 404,400 paid "under protest".
(*6) Net of ₹ 370,000 paid "under protest".
(*7) Net of ₹ 750,375 paid "under protest".
(*8) Net of ₹ 27,667,829 paid "under protest".
(*9) Net of ₹ 69,776,571 paid "under protest".
(*10) Net of ₹ 54,009,650 paid "under protest".
(*11) Net of ₹ 25,200,000 paid "under protest".

x. The Company has no accumulated losses as at the end of the financial year and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.

xi. As the Company does not have any borrowings from any financial institution or bank nor has it issued any debentures as at the balance sheet date, the provisions of Clause 4(xi) of the Order are not applicable to the Company.

xii. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Therefore, the provisions of Clause 4(xii) of the Order are not applicable to the Company.

xiii. As the provisions of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to the Company, the provisions of Clause 4(xiii) of the Order are not applicable to the Company.

xiv. In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of Clause 4(xiv) of the Order are not applicable to the Company.

xv. In our opinion, and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions during the year. Accordingly, the provisions of Clause 4(xv) of the Order are not applicable to the Company.

xvi. The Company has not raised any term loans. Accordingly, the provisions of Clause 4(xvi) of the Order are not applicable to the Company.

xvii. The Company has not raised any loans on short term basis. Accordingly, the provisions of Clause 4(xvii) of the Order are not applicable to the Company.

xviii. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year. Accordingly, the provisions of Clause 4(xviii) of the Order are not applicable to the Company.

xix. The Company has not issued any debentures during the year and does not have any debentures outstanding as at the beginning of the year and at the year end. Accordingly, the provisions of Clause 4(xix) of the Order are not applicable to the Company.

xx. The Company has not raised any money by public issues during the year. Accordingly, the provisions of Clause 4(xx) of the Order are not applicable to the Company.

xxi. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of material fraud on or by the Company, noticed or reported during the year, nor have we been informed of any such case by the Management.

For **Price Waterhouse & Co., Bangalore**
Firm Registration Number: 007567S
Chartered Accountants

Shivakumar Hegde
Partner
Membership Number: 204627

Bangalore
August 16, 2013

BALANCE SHEET

(All amounts in ₹ Lakhs unless otherwise stated)

	Notes	**As at June 30, 2013**	As at June 30, 2012
EQUITY AND LIABILITIES			
SHAREHOLDERS' FUNDS			
Share Capital	3	**2198**	2198
Reserves and Surplus	4	**29435**	27950
NON CURRENT LIABILITIES			
Long-term Provisions	5	**935**	936
CURRENT LIABILITIES			
Trade Payables	6	**6400**	6418
Other Current Liabilities	7	**2550**	5153
Short-term Provisions	8	**528**	573
		42046	43228
ASSETS			
NON-CURRENT ASSETS			
Fixed Assets	9		
Tangible Assets	(A)	**12459**	12908
Intangible Assets	(B)	**96**	145
Capital Work-in-Progress		**1261**	1065
Non-Current Investments	10	**–**	65
Deferred Tax Asset (Net)	11	**162**	187
Long-term Loans and Advances	12	**2930**	2100
Other Non-Current Assets	13	**69**	66
CURRENT ASSETS			
Current Investments	14	**65**	–
Inventories	15	**9502**	10336
Trade Receivables	16	**8868**	10289
Cash and Bank Balances	17	**5371**	4483
Short-term Loans and Advances	18	**1166**	1558
Other Current Assets	19	**97**	26
		42046	43228

The notes are an integral part of these financial statements.

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

For **Price Waterhouse & Co., Bangalore**
Firm Registration Number: 007567S
Chartered Accountants

Shivakumar Hegde
Partner
Membership Number: 204627

Bangalore
August 16, 2013

For and on behalf of Board of Directors

Bhagya Chandra Rao
Managing Director

M. N. Bhagwat
Chairman

Vinayak K. Deshpande
Director

B. Anjani Kumar
Director

Parameswar Reddy D
Vice President & CFO

Kundan Kumar Lal
Company Secretary

STATEMENT OF PROFIT AND LOSS

(All amounts in ₹ Lakhs unless otherwise stated)

	Notes	**Year ended June 30, 2013**	Year ended June 30, 2012
REVENUE			
Revenue from operations (Gross)	20	**52687**	60124
(Less): Excise Duty		**(3749)**	(3891)
Revenue from operations (Net)		**48938**	56233
Other Income	21	**807**	1045
TOTAL REVENUE		**49745**	57278
EXPENSES			
Cost of Materials consumed	22	**14518**	15950
Purchase of Stock in trade	23	**11312**	12772
Changes in Inventories of Finished goods, Work in progress and Stock in trade	24	**(15)**	(2145)
Employee Benefits expense	25	**9007**	8376
Depreciation and amortisation expense		**2669**	2267
Other Expenses	26	**10296**	10164
TOTAL EXPENSES		**47787**	47384
PROFIT BEFORE TAX		**1958**	9894
TAX EXPENSE:			
Current Tax		**560**	3145
Tax Adjustments relating to earlier years		**(112)**	–
Deferred Tax (credit)/ charge		**25**	(90)
PROFIT FOR THE YEAR		**1485**	6839
Earning per Equity Share			
[Nominal Value per share ₹10 (2012: ₹10)]			
- Basic (₹)		**6.76**	31.12
- Diluted (₹)		**6.76**	31.12

The notes are an integral part of these financial statements.

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

For **Price Waterhouse & Co., Bangalore**
Firm Registration Number: 007567S
Chartered Accountants

Shivakumar Hegde
Partner
Membership Number: 204627

Bangalore
August 16, 2013

For and on behalf of Board of Directors

Bhagya Chandra Rao
Managing Director

M. N. Bhagwat
Chairman

Vinayak K. Deshpande
Director

B. Anjani Kumar
Director

Parameswar Reddy D
Vice President & CFO

Kundan Kumar Lal
Company Secretary

CASH FLOW STATEMENT

(All amounts in ₹ Lakhs unless otherwise stated)

	Year ended June 30, 2013	Year ended June 30, 2012
1. CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	**1958**	9894
Adjustments for:		
Depreciation and amortisation expense	**2669**	2267
Provisions/ Liabilities no longer required written back	**(361)**	(331)
Provision for product support	**–**	22
Bad debts written off	**2**	–
Provision made for doubtful debts	**95**	152
Fixed assets written off	**1**	15
Loss/(Profit) on sale of tangible assets (net)	**(9)**	(19)
Interest Income	**(13)**	–
Unrealised Foreign Exchange (Gain)/ Loss	**(36)**	(78)
Operating profit before working capital changes	**4306**	11922
Adjustment for working capital changes		
Decrease/(Increase) in Inventories	**834**	(2913)
Decrease/(Increase) in Trade and Other Receivables	**908**	(1476)
(Decrease)/Increase in Liabilities and provisions	**(1349)**	4528
Cash generated from Operations	**4699**	12061
Income Taxes paid (net of refunds)	**(1420)**	(5187)
Net Cash from / (used in) Operating activities	**3279**	6874
2 CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	**(2413)**	(4790)
Sale of Fixed assets	**10**	33
Interest received	**13**	–
Net Cash from / (used in) Investing activities	**(2390)**	(4757)
3. CASH FLOW FROM FINANCING ACTIVITIES		
Unclaimed dividend paid	**(1)**	–
Interim Dividend paid	**–**	(5495)
Tax on Interim dividend	**–**	(891)
Net Cash from / (used in) Financing activities	**(1)**	(6386)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS (1+2+3)	**888**	(4269)
OPENING CASH EQUIVALENTS	**4483**	8752
CLOSING CASH EQUIVALENTS(refer note 3 below)	**5371**	4483
	888	(4269)

CASH FLOW STATEMENT

(All amounts in ₹ Lakhs unless otherwise stated)

Notes:

1. The Cash Flow Statement has been compiled from and is based on the Balance Sheet as at June 30, 2013 and the related Statement of Profit and Loss for the year ended on that date.
2. The Cash Flow Statement has been prepared under the indirect method as set out in the Accounting Standard 3 on “Cash Flow Statement” as notified under Section 211(3C) of the Companies Act, 1956 and the reallocation required for this purpose are as made by the Company.
3. Cash equivalents at the end of the period :

	June 30, 2013	June 30, 2012
Cash and Bank balances include ₹ 10 (2012: ₹11) in dividend accounts	**1570**	2357
Current investments in mutual funds(*)	**3801**	2126
	5371	4483

(*) Current Investments in debt based Mutual Funds are readily convertible into cash and have insignificant risk of change of value have been included in Cash and Cash Equivalents.

4. Figures in bracket indicate cash outflow, except for adjustments for operating activities.
5. Previous year’s figures have been reclassified / regrouped, wherever necessary.

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

For **Price Waterhouse & Co., Bangalore**
Firm Registration Number: 007567S
Chartered Accountants

Shivakumar Hegde
Partner
Membership Number: 204627

Bangalore
August 16, 2013

For and on behalf of Board of Directors

Bhagya Chandra Rao
Managing Director

M. N. Bhagwat
Chairman

Vinayak K. Deshpande
Director

B. Anjani Kumar
Director

Parameswar Reddy D
Vice President & CFO

Kundan Kumar Lal
Company Secretary

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kennametal India Limited ("the Company") is incorporated under The Companies Act 1956. The Company is in the business of manufacturing and trading of hard metal and hard metal products, and machine tools. The Company has its registered office and a manufacturing facility at Bangalore and sells its products and services through sales and support offices. The Company is a public limited company listed on the Bombay Stock Exchange (BSE).

2. STATEMENT ON SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation:

These financial statements have been prepared in accordance with the generally accepted accounting principles in India under the historical cost convention on accrual basis. These financial statements have been prepared to comply in all material aspects with the Accounting Standards notified under Section 211(3C) [Companies (Accounting Standards) rules, 2006, as amended] and other relevant provisions of the Companies Act,1956.

All assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956. Based on the nature of products 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 twelve months for the purpose of current and non-current classification of assets and liabilities.

b) Fixed Assets:

i) Tangible assets:

Tangible assets are stated at acquisition cost, net of accumulated depreciation and accumulated impairment loss, if any.

Own manufactured assets are capitalised at cost. Cost comprises of purchase price, including import duties and other non-refundable taxes or levies and directly attributable cost of bringing the asset to its working condition for its intended use.

Subsequent expenditure related to an item of fixed asset are added to book value only if they increase the future benefit from existing asset beyond its previously assessed standard of performance.

Depreciation is provided from the month of capitalisation on a straight line method at the rates prescribed in Schedule XIV of the Companies Act, 1956 except for the following assets where, based on management's technical evaluation, the rates are higher than Schedule XIV rates:

a. Own assets:

	% Per annum
Buildings:	
Factory	4.00
Non Factory	3.00
Plant and Machinery:	
Data processing equipment – Computers	33.33
Data processing equipment – Others	20.00
Furniture and Fixtures, Vehicles and Office Equipment	20.00

Leasehold improvements are depreciated over the primary lease period. Machinery spares of irregular usage are amortised over the estimated useful life of the respective Plant and Machinery. Individual assets costing up to Rs 5,000 is fully depreciated in the year of acquisition.

b. Leased assets :

Assets taken on finance lease are depreciated over its estimated useful life or the lease term whichever is lower.

NOTES TO FINANCIAL STATEMENTS

ii) Intangible assets:

Intangible assets are recognised only if it is probable that future economic benefits that are attributable to the assets will flow to the enterprise and the cost of the asset 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.

Operating software is capitalised along with related tangible asset. 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.

c) Impairment of Assets:

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

d) Investments:

Investments that are readily realisable and are intended to be held for not more than one year, from the date on which such investments are made, are classified as current investments. All other investments are classified as long term investments. Current investments are carried at cost or fair value, whichever is lower. Long term investments are carried at cost. However, provision of diminution is made to recognise a decline, other than temporary, in the value of investments, such reduction being determined and made for each investment individually.

e) Inventories:

Inventories are valued at the lower of cost and estimated net realisable value, after providing for cost of obsolescence and other anticipated losses, whenever considered necessary. The cost of raw materials, stores and spares, work in progress and traded goods are ascertained on a weighted average basis, whereas manufactured goods are ascertained on a first in first out method.

Manufactured goods and work in progress include cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

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.

f) Foreign Currency Transactions:

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

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

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

All monetary assets and liabilities denominated in foreign currency are restated at the rates ruling at the year end and all exchange gains / losses arising there from are adjusted to the Statement of Profit and Loss.

Premium or discount arising at the inception of a forward exchange contract entered into to hedge an existing asset/ liability is amortised as expense or income over the life of the contract. Exchange differences on forward contracts are recognised in the Statement of Profit and Loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such forward contracts is recognised as income or expense for the year.

NOTES TO FINANCIAL STATEMENTS

Forward exchange contracts outstanding as at the year end on account of firm commitment / highly probable forecast transactions are marked to market and the losses, if any, are recognised in the Statement of Profit and Loss and gains are ignored in accordance with the Announcement of Institute of Chartered Accountants of India on 'Accounting for Derivatives' issued in March 2008.

g) Research and Development:

Revenue expenditure on research and development is charged under respective heads of account. Capital expenditure on research and development is capitalised as tangible fixed assets and depreciated in accordance with the policy of the Company.

h) Revenue Recognition:

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

Income from services is recognised as the services are rendered based on agreements / arrangements with customers. Other income are accounted for on accrual basis. Interest income is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

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

i) Employee Benefits:

i) Short term Employee Benefits:

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

ii) Gratuity:

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

iii) Provident Fund:

Contributions in respect of Provident Fund are made to a Trust administered by the Company. Interest rate payable to members of the Trust shall not be less than statutory rate of interest declared by the Central Government under Employees Provident Funds & Miscellaneous Provisions Act, 1952. The Company's liability is actuarially determined (using the Projected Unit Credit method) at the end of the year and any short fall in the fund size maintained by the Trust set up by the Company is additionally provided for.

iv) Leave Encashment/ Compensated Absences:

The Company provides for the encashment of leave with pay subject to certain rules. The employees are entitled to accumulate leave subject to certain limits, for future encashment/ availment. The liability is provided based on the number of days of unutilised leave at each balance sheet date on the basis of an independent actuarial valuation determined (using the Projected Unit Credit method) at the end of the year.

v) Actuarial gains or losses comprise experience adjustments and the effect of changes in the actuarial assumption, which are recognised immediately in the Statement of Profit and Loss as income or expense.

NOTES TO FINANCIAL STATEMENTS

j) Current and Deferred Tax:

Taxes on income for the current year are determined on the basis of provisions of the Income Tax Act, 1961.

Tax expense for the period, comprising current tax and deferred tax, are included in the determination of the net profit or loss for the period. Current tax is measured at the amount expected to be paid to the tax authorities in accordance with the prevailing taxation laws.

Deferred tax is recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets. Deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainty or virtual certainty, as may be applicable, that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. At each Balance Sheet date, the Company reassesses unrecognised deferred tax assets, if any.

k) Provisions and Contingent Liabilities:

Provisions:

Provisions are recognised when the Company has a present obligation as a result of past obligating events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date and are not discounted to present value.

When the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, only when such reimbursement is virtually certain.

Contingent Liabilities:

Contingent liability is 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 than an outflow of resources will be required to settle or a reliable estimate of amount cannot be made.

l) Leases:

Finance Leases:

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

Operating Leases:

Assets acquired on lease where a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating lease. Lease rentals are charged to the Statement of Profit and Loss on a straight line basis over the lease term.

m) Segment Reporting:

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

i) Segment revenue includes sales and other income directly identifiable with or allocable on a reasonable basis to the segment.

ii) Expenses that are directly identifiable with or allocable to segments on a reasonable basis are considered for determining segment results. The expenses, which relate to the Company as a whole and not allocable to segments, are included under “Unallocable Corporate Expenses”.

NOTES TO FINANCIAL STATEMENTS

iii) Income that relates to the Company as a whole and not allocable to segments is included in "Unallocable Corporate Income".

iv) Segment assets and liabilities include those directly identifiable with respective segments. Unallocable corporate assets and liabilities represent the assets and liabilities that relate to the Company as a whole and not allocable to any segment.

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

n) Cash and Cash Equivalents:

In the Cash Flow Statement, cash and cash equivalents includes cash on hand, demand deposits with banks, and other short term highly liquid investments with original maturities of three months or less.

o) Earnings Per Share:

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

p) Use of Estimates:

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the period reported. Actual results could differ from those estimates; a revision to accounting estimate is recognised prospectively in the current and future periods.

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

	As at June 30, 2013	As at June 30, 2012
3. SHARE CAPITAL		
AUTHORISED SHARE CAPITAL		
21,978,240 (2012: 21,978,240) Equity Shares of ₹ 10 each	**2198**	2198
ISSUED, SUBSCRIBED AND PAID-UP CAPITAL		
21,978,240 (2012: 21,978,240) Equity Shares of ₹ 10 each	**2198**	2198
	2198	2198
(a) Reconciliation of number of shares outstanding:		
Equity Shares	**No. of Shares**	No. of Shares
Share outstanding at the beginning of the year	**21978240**	21978240
Shares issued during the year	**–**	–
Shares bought back during the year	**–**	–
Shares outstanding at the end of the year	**21978240**	21978240

(b) Rights, preferences and restrictions attached to shares

The Company has only 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

	No. of Shares	No. of Shares
Kennametal Inc. USA, the ultimate holding company	**5274840**	8167173
Metruit AG., Zug, Switzerland, the holding company	**11208840**	11208840
(d) Details of shares held by shareholders holding more than 5% of the aggregate shares in the Company	**%**	%
Kennametal Inc. USA, the ultimate holding company [Note (i) below]	**24.00%**	37.16%
Metruit AG., Zug, Switzerland, the holding company	**51.00%**	51.00%
Reliance Capital Trustee Company Limited [Note (ii) below]	**8.40%**	–

Notes:

(i) Kennametal Inc. USA, the ultimate holding company, sold an aggregrate of 2,892,333 equity shares of ₹ 10 each during March 2013 through the Offer For Sale (OFS) method prescribed by the Securities & Exchange Board of India(SEBI) thereby reducing its shareholding in the Company to 24% from 37.16%.

(ii) 1,350,850 shares are held by Reliance Equity Opportunity Fund comprising 6.15% of the shareholding and 495,841 shares are held by Reliance Tax Saver (ELSS) Fund comprising 2.26% of the shareholding.

4. RESERVES AND SURPLUS		
i) Securities Premium Account		
Balance as at the beginning of the year	**9**	9
Add: Additions during the year	**–**	–
Less: Amount utilised during the year	**–**	–
Balance as at the end of the year	**9**	9
ii) General Reserve		
Balance as at the beginning of the year	**14884**	14200
Add: Transfer from Statement of Profit and Loss		
Less: Amount utilised during the year	**–**	684
Balance as at the end of the year	**14884**	14884
iii) Surplus in Statement of Profit and Loss		
Balance as at the beginning of the year	**13057**	13288
Add: Profit for the year	**1485**	6839
Less: Appropriations		
Transfer to General Reserve	**–**	(684)
Interim Dividend [Nil (2012: ₹ 25 per share declared on May 16, 2012)]	**–**	(5495)
Dividend distribution tax on Interim Dividend	**–**	(891)
Balance as at the end of the year	**14542**	13057
	29435	27950

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

	As at June 30, 2013	As at June 30, 2012
5. LONG TERM PROVISIONS		
Provision for Employee benefits :		
Gratuity	**280**	285
Leave Encashment/ Compensated Absences	**523**	439
Provision for disputed taxes and duties	**132**	212
	935	936
6. TRADE PAYABLES		
Due to Micro Enterprises and Small Enterprises	**64**	59
Others	**6336**	6359
	6400	6418
7. OTHER CURRENT LIABILITIES		
Advances/ Deposits from customers	**1158**	3032
Unclaimed dividends *	**10**	11
Forward contract payable (net of forward contract receivable ₹ 958)	**10**	–
Other liabilities		
Employee benefits payable	**621**	1331
Statutory dues (including provident fund and tax deducted at source)	**751**	779
	2550	5153
* There is no amount due and outstanding to be credited to Investor Education and Protection Fund		
8. SHORT TERM PROVISIONS		
Provision for Employee benefits:		
Gratuity	**27**	27
Leave Encashment/ Compensated Absences	**243**	288
Provision for Product support	**258**	258
	528	573

(All amounts in ₹ Lakhs unless otherwise stated)

9. FIXED ASSETS

Particulars	GROSS BLOCK (AT COST)				DEPRECIATION/ AMORTISATION				NET BLOCK	
	July 01, 2012	Additions / Adjustments	Deletions / Adjustments	**June 30, 2013**	July 01, 2012	Additions / Adjustments	Deletions / Adjustments	**June 30, 2013**	**June 30, 2013**	June 30, 2012
Tangible Assets :										
Own Assets:										
Land (Note below)	6	–	–	**6**	–	–	–	**–**	**6**	6
Buildings	884	314	–	**1198**	537	43	–	**580**	**618**	347
Plant and Machinery:										
Data Processing Equipment	1276	44	267	**1053**	718	216	267	**667**	**386**	558
Others	28728	1548	196	**30080**	16907	2264	196	**18975**	**11105**	11821
Furniture and Fixtures	395	93	–	**488**	320	39	–	**359**	**129**	75
Leasehold Improvements	49	8	–	**57**	49	2	–	**51**	**6**	–
Office Equipment	328	146	4	**470**	268	34	4	**298**	**172**	60
Vehicles	13	–	13	**–**	13	–	13	**–**	**–**	–
Leased Assets:										
Buildings	49	–	–	**49**	8	4	–	**12**	**37**	41
TOTAL (A)	31728	2153	480	**33401**	18820	2602	480	**20942**	**12459**	12908
Intangible Assets:										
Software	474	18	-	**492**	329	67	–	**396**	**96**	145
TOTAL (B)	474	18	-	**492**	329	67	–	**396**	**96**	145
GRAND TOTAL (A+B)	32202	2171	480	**33893**	19149	2669	480	**21338**	**12555**	13053
2012	27947	4684	429	**32202**	17281	2267	399	**19149**	**13053**	10666

Note: A small portion of the Company's land has been acquired for metro rail project by Bangalore Metro Rail Corporation Limited (BMRCL) (a Government Undertaking) based on notification issued by The Karnataka Industrial Area Development Board (KIADB). BMRCL has calculated the compensation payable for the land at ₹ 555, which KIADB had to release to the Company. However, KIADB vide its order dated March 05, 2012 has referred the matter to Bangalore City Civil Court as certain third parties have raised objection on awarding of compensation and ownership to land. The Company had filed a writ petition with The High Court of Karnataka for quashing the said KIADB order and therby releasing the compensation. The High Court granted an interim stay on the KIADB order. However, despite the interim stay, KIADB deposited the compensation amount in Bangalore City Civil Court and the Company filed a contempt petition against KIADB, which the High Court disposed of with a direction to the Civil Court to complete the proceedings within six months from receipt of the order. Awaiting the resolution of the dispute through the City Civil Court, the Company has, on the principle of prudence, not recognised any profit arising out of the compensation amount in these financial statements.

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

	As at June 30, 2013	As at June 30, 2012
10. NON CURRENT INVESTMENTS		
UNQUOTED		
Non-Trade - Investments in Government Securities		
6% NHAI 54EC Bonds 2010-11(Face Value of ₹ 10,000 each)	–	50
6% NHAI 54EC Bonds 2011-12 (Face Value of ₹ 10,000 each)	–	15
	–	65

11. DEFERRED TAX ASSET (NET)

The major components of Deferred Tax assets and liabilities arising on account of timing difference are as follows:

	ASSET		(LIABILITY)	
	2013	2012	**2013**	2012
Expenses allowable for tax purposes when paid	**527**	537	**–**	–
Provision for doubtful debts	**46**	58	**–**	–
Provision for non moving and obsolete inventory	**253**	184	**–**	–
Depreciation	**–**	–	**(664)**	(592)
	826	779	**(664)**	(592)
Net Deferred Tax Asset /(Liability)	**162**	187		
Net Deferred Tax (Credit)/ Charge for the year	**25**	(90)		

12. LONG TERM LOANS AND ADVANCES		
(Unsecured, considered good unless stated otherwise)		
Advance tax [net of provision ₹447 (2012: ₹ 395)]	**2620**	1647
Balance with Statutory / Government Authorities	**221**	179
Capital Advances	**57**	236
Employee Advances	**32**	38
	2930	2100
13. OTHER NON CURRENT ASSETS		
(Unsecured, considered good unless stated otherwise)		
Deposits	**65**	60
Prepaid Expenses	**4**	6
	69	66
14. CURRENT INVESTMENTS		
UNQUOTED		
Non-Trade - Investments in Government Securities		
6% NHAI 54EC Bonds 2010-11 (Face Value of ₹ 10,000 each)	**50**	–
6% NHAI 54EC Bonds 2011-12 (Face Value of ₹ 10,000 each)	**15**	–
	65	–
Note: The above bonds mature within twelve months from the balance sheet date.		
15. INVENTORIES		
Raw materials [including goods in transit ₹ 337 (2012: ₹ 721)]	**1569**	2482
Stores and spares	**213**	189
Work-in-progress	**4037**	4385
Stock-in-trade:		
Finished goods	**2873**	2349
Traded goods	**810**	931
	9502	10336

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

		As at June 30, 2013		As at June 30, 2012
16. TRADE RECEIVABLES				
(Unsecured, unless stated otherwise)				
Considered good				
Exceeding six months from the date they are due for payment		**358**		176
Others		**8510**		10113
Considered Doubtful				
Exceeding six months from the date they are due for payment	100		163	
Others	35	**135**	12	175
(Less): Provision for doubtful debts		**(135)**		(175)
		8868		10289
17. CASH AND BANK BALANCES				
Cash and Cash Equivalents				
Cash on hand		**3**		5
Cheques on hand		**170**		472
Bank Balances				
Current Accounts		**787**		1869
Demand Deposits (less than 3 months maturity)		**600**		–
Short term highly liquid investments (mutual funds)		**3801**		2,126
Other Bank balances				
Unpaid Dividend Account		**10**		11
		5371		4483
18. SHORT TERM LOANS AND ADVANCES				
(Unsecured, considered good unless stated otherwise)				
Loans to employees		**38**		34
Advance to Managing Director		**30**		–
Other loans and advances				
Advance to supplier		**180**		434
Balance with Statutory / Government Authorities		**733**		921
Prepaid Expenses		**185**		169
		1166		1558
19. OTHER CURRENT ASSETS				
(Unsecured, considered good unless stated otherwise)				
Interest accrued on current investments		**4**		2
Margin money deposit (Note)		**25**		-
Other receivable		**63**		21
Other deposits [including ₹ Nil (2012: ₹ 5) considered doubtful]	5		8	
(Less): Provision for doubtful deposits	–	**5**	(5)	3
		97		26
Note: Held as lien by bank against bank guarantees.				

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

		Year ended June 30, 2013		Year ended June 30, 2012
20. REVENUE FROM OPERATIONS				
SALE OF PRODUCTS				
Manufactured goods		**36683**		40137
Traded goods		**15432**		19278
OTHER OPERATING REVENUE				
Service Income		**519**		659
Sale of scrap		**53**		50
		52687		60124
21. OTHER INCOME				
Dividend Income - Non Trade - Current		**213**		494
Interest from Bank		**2**		2
Interest from Others		**56**		33
Provisions/ Liabilities no longer required written back		**361**		331
Profit on sale of fixed assets (net)		**9**		19
Miscellaneous income		**166**		166
		807		1045
22. COST OF MATERIALS CONSUMED				
Opening Inventory		**2482**		1876
Add: Purchases		**13605**		16556
(Less): Closing Inventory		**(1569)**		(2482)
Cost of Raw materials and components consumed		**14518**		15950
23. PURCHASES OF STOCK IN TRADE				
Stock-in-Trade - Traded goods		**11312**		12772
		11312		12772
24. CHANGES IN INVENTORIES OF FINISHED GOODS, WORK- IN- PROGRESS AND STOCK IN TRADE				
Opening stock:				
Work-in-progress	4385		2972	
Finished goods	2349		1766	
Traded goods	931		594	
	7665		5332	
Closing stock:				
Work-in-progress	4037		4385	
Finished goods	2873		2349	
Traded goods	810		931	
	7720		7665	
(Increase)/ Decrease in stocks		**(55)**		(2333)
Excise duty on opening stock of finished goods	(456)		(268)	
Excise duty on closing stock of finished goods	496		456	
Increase/ (Decrease) in excise duty		**40**		188
		(15)		(2145)

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

		Year ended June 30, 2013		Year ended June 30, 2012
25. EMPLOYEE BENEFIT EXPENSES				
Salaries, wages and bonus		**7608**		7159
Contribution to provident and other funds		**691**		529
Staff welfare		**708**		688
		9007		8376
26. OTHER EXPENSES				
Power and fuel		**1387**		1253
Stores and spares consumed		**1568**		1621
Subcontracting		**1226**		1307
Repairs and maintenance:				
Buildings	6		2	
Plant and machinery [includes stores and spares consumed ₹ 328 (2012: ₹ 255)]	676	**682**	685	687
Rent		**43**		32
Rates and taxes		**107**		145
Insurance		**161**		161
Travelling and conveyance		**1149**		1050
Legal and professional charges [Note (a) below]		**260**		201
Communication expenses		**176**		152
Directors' Sitting Fee		**5**		6
Excise duty on samples, free issues and others etc.		**181**		172
Packing, forwarding and freight		**317**		412
Provision for product support (net)		**-**		22
Royalty		**308**		156
Advertisement and sales promotion [Note (b) below]		**364**		166
Provision for bad and doubtful debts (Net)		**95**		152
Bad debts written off		**2**		-
Commission on sales		**183**		194
Fixed Assets written off		**1**		15
Information Technology services		**1219**		1188
Exchange loss (net)		**18**		76
Miscellaneous		**844**		996
		10296		10164

Notes:		
(a) Payments to Auditors (excluding service tax) included under Legal and professional above:		
As Auditors:		
Statutory Audit	**20**	19
Tax Accounts and Tax Audit	**4**	4
Other Audit related services	**37**	33
Certification	**3**	3
Out of pocket expenses	**1**	1
(b) Includes ₹ 322 relating to trade shows and exhibitions (incurred once every two years).		

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

27. CAPITAL AND OTHER COMMITMENTS:

Capital Commitments (net of advances) ₹ 186 (2012: ₹ 905)

28. CONTINGENT LIABILITIES

Nature of Contingent Liability	**2013**	2012
Income Tax matters [Note (a)]	**1763**	1259
Excise Duty/Service Tax matters under dispute	**111**	93
Sales Tax matters under dispute	**86**	48

Notes:

a) Relates to transfer pricing adjustments made by the Income Tax Department for the assessment years 2007-08, 2008-09 and 2009-10, 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, Bangalore. The Company has paid “under protest” an aggregate of ₹ 1489 (2012: ₹ 1237) to the Income Tax Department in this regard.

b) There are certain non-quantifiable industrial disputes pending before various judicial authorities.

29. PARTICULARS OF MATERIALS AND STORES AND SPARES:

	2013		2012	
Raw Materials and Components consumed	**%**	**Value**	%	Value
-Imported	**56**	**8187**	72	11542
-Indigenous	**44**	**6331**	28	4408
Total	**100**	**14518**	100	15950

Stores and Spares consumed

-Imported	**10**	**181**	12	234
-Indigenous	**90**	**1715**	88	1,642
Total	**100**	**1896**	100	1,876

30. VALUE OF IMPORTS ON C.I.F. BASIS:

	2013	2012
Raw materials	**9526**	11518
Stores and spares	**1350**	1317
Capital goods	**1356**	2824

31. EXPENDITURE IN FOREIGN CURRENCY:

	2013	2012
Travelling	**79**	115
Information Technology Services	**1219**	1188
Royalty	**308**	156
Others	**331**	248

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

32. EARNINGS IN FOREIGN CURRENCY:

	2013	2012
Export of goods calculated on F.O.B. basis	**5368**	4183
Reimbursement of expenses	**117**	138

33. PARTICULARS OF RESEARCH AND DEVELOPMENT EXPENDITURE (Note):

a) Revenue Expenditure

	2013	2012
Revenue expenditure debited to various heads of account:		
Material Consumed	**62**	88
Employment Cost	**341**	365
Other Expenses	**148**	144
Total	**551**	597

b) Capital

Description	Manufacturing	Quality Control	R&D	Total
As at June 30, 2012	31230	302	670	32202
Additions/ Adjustments during the year	1763	–	408	2171
Deletions/ Adjustments during the year	428	18	34	480
As at June 30, 2013	**32565**	**284**	**1044**	**33893**

Note: The above disclosure is based on requirements stipulated by the Department of Scientific & Industrial Research (DSIR), Ministry of Science and Technology, Government of India.

34. DISCLOSURE OF DUES / PAYMENTS TO MICRO, SMALL AND MEDIUM ENTERPRISES TO THE EXTENT SUCH ENTERPRISES ARE IDENTIFIED BY THE COMPANY

	2013	2012
(a) The principal amount remaining unpaid at June 30, 2013	**64**	59
Interest due to thereon remaining unpaid on June 30, 2013	**–**	–
(b) The amount of interest paid by the Company in terms of Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006(MSMED), along with the amount of the payment made to the supplier beyond the appointed day during each accounting year.		
(i) Delayed payments of principal beyond the appointed date during the entire accounting year	**–**	–
(ii) Interest actually paid under section 16 of MSMED	**–**	–
(c) The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under MSMED	**–**	–
(d) The amount of interest accrued and remaining unpaid on June 30, 2013 in respect of principal amount settled during the year	**–**	–
(e) The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure under Section 23 of MSMED	**–**	–

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.

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

35. SHORT TERM HIGHLY LIQUID INVESTMENTS

The details of short term highly liquid investments comprising of debt based mutual funds are as below:

Name of the Fund	**2013**	2012
Birla Sun Life Cash Plus - Instl. Prem. - Daily Dividend –Reinvestment	**1000**	600
DSP BlackRock Liquidity Fund -IP- Daily Dividend Reinvestment	**1001**	626
ICICI Prudential Liquid Plan - Super Institutional Daily Dividend Reinvestment	**400**	600
Templeton India Treasury Management A/c - Super Institutional Plan - Daily Dividend Reinvestment	**1000**	300
IDFC Cash Regular Plan - Daily Dividend Reinvestment	**400**	–
TOTAL	**3801**	2126

36. EMPLOYEE BENEFITS

a) The Company operates defined benefit plans in the nature of post-employment gratuity, which is funded, and in the nature of post retirement provident fund (which is managed by a Trust set up by the Company) where interest shortfall, if any, is met by the Company. The disclosure as per Accounting Standard 15 “Employee Benefits” is given below:

	Gratuity (Funded)		Provident Fund (Trust set up by employer)	
	2013	2012	**2013**	2012
I. Present Value of Defined Benefit Obligation				
a. Obligation as at the beginning of the year	**1377**	1271	**4936**	4286
b. Current Service Cost	**161**	109	**830**	720
c. Interest Cost	**107**	100	**381**	345
d. Actuarial (Gain)/Loss	**97**	73	**(32)**	(12)
e. Benefits Paid	**(48)**	(176)	**(273)**	(403)
f. Obligation as at the end of the year	**1694**	1377	**5842**	4936
II. Fair Value of Planned Assets				
a. Fair Value of Plan Assets as at the beginning of the year	**1065**	950	**5265**	4624
b. Expected return on Plan Assets	**93**	82	**446**	401
c. Actuarial Gain/(Loss)	**15**	3	**183**	12
d. Contributions	**262**	206	**992**	631
e. Benefits Paid	**(48)**	(176)	**(273)**	(403)
f. Fair Value of Plan Assets as at the end of the year	**1387**	1065	**6613**	5265
III. Assets and Liabilities recognised as liability				
a. Present Value of Obligation as at the end of the year	**1694**	1377	**5842**	4936
b. Fair Value of Plan Assets as at the end of the year	**(1387)**	(1065)	**(6613)**	(5265)
c. Amount recognised in the Balance Sheet	**307**	312		

Recognised under:	**2013**	2012	**2013**	2012
Long Term Provision	**280**	285		
Short term provision	**27**	27		
Total	**307**	312		
IV. Expense recognised in the Statement of Profit and Loss			**PF Cost** *	PF Cost *
a. Current Service Cost	**161**	109	**830**	720
b. Interest Cost	**107**	100	**381**	345
c. Expected return on Plan Assets	**(93)**	(82)	**(446)**	(401)
d. Actuarial (Gain)/Loss	**82**	70	**(215)**	(24)
e. Expense recognised during the year	**257**	197	**550**	640

* The Provident Fund expense other than contribution is not recognised in statement of profit and Loss as the Fair of Plan Assets exceeds the Present Value of Obligation.

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

	Gratuity (Funded)		Provident Fund (Trust set up by employer)	
V. Major Category of Planned Assets as % of total plan assets	**2013**	2012	**2013**	2012
Government Securities (Central & State)	**–**	–	**42%**	41%
Corporate Bonds	**–**	–	**48%**	46%
Special Deposit account with Bank	**–**	–	**10%**	13%
Contributed to Fund managed by LIC	**100%**	100%	**–**	–
VI. Actuarial Assumptions				
a. Discount Rate (per annum)	**7.93%**	8.47%	**7.93%**	8.47%
b. Interest Rate (per annum)	**7.93%**	8.47%	**7.93%**	8.47%
c. Estimate Rate of return on Plan Assets (per annum)	**7.93%**	8.47%	**7.93%**	8.47%
d. Rate of Escalation in Salary (per annum)	**1% & 5%**	1% & 5%	**1% & 5%**	1% & 5%

VII. Amount Recognised in Current year and previous four years	Gratuity (Funded)				
	2013	2012	2011	2010	2009
a. Defined Benefit Obligation	**1694**	1377	1271	1212	1180
b. Plan Assets	**1387**	1065	950	852	670
c. Surplus/ Deficit	**307**	312	321	360	510
d. Experience Gain / (Loss) adjustments on plan liabilities	**91**	73	(4)	(53)	(5)
e. Experience Gain / (Loss) adjustments on plan assets	**15**	3	–	98	4
f. Actuarial Gain / (Loss) due to change in assumptions	**6**	(1)	(1)	(25)	(3)

VIII. Provident Fund (Trust set up by employer)	**2013**	2012	2011	2010	2009
a. Defined Benefit Obligation	**5842**	4936	*	*	*
b. Plan Assets	**6613**	5265			
c. Surplus/ Deficit	**(771)**	(329)			
d. Experience Gain / (Loss) adjustments on plan liabilities	**(32)**	(12)			
e. Experience Gain / (Loss) adjustments on plan assets	**123**	13			
f. Actuarial Gain / (Loss) due to change in assumptions	**60**	–			

* The Guidance Note on implementation of AS15 "Employee Benefits" issued by the Institute of Chartered Accountants of India states that Provident Fund set up by employers that guarantee a specified rate of return and which require interest shortfall to be met by employer would be a Defined Benefit plan in accordance with the requirements of para (26b) of AS15. Pursuant to the Guidance Note, the liability in respect of the shortfall of interest determined on the basis of an independent actuarial valuation [carried out as per the Guidance Note (GN29) issued by Institute of Actuaries of India effective from April 1, 2012], as at June 30, 2013 is Nil.

IX. Expected Contribution to the funds in the next year	Year ended	
Particulars	**2013**	2012
Gratuity	**282**	237
Provident Fund	**371**	285

i) The discount rate is based on the prevailing market yield on Government securities as at the balance sheet date for the estimated term of obligations.

ii) The expected return on plan assets is determined considering several applicable factors mainly the composition of plan assets held, assessed risk of asset management, historical results of the return on plan assets, and the company's policy for plan asset management.

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

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

b) The Company has recognised in the Statement of Profit and Loss for the year ended June 30, 2013 an amount of ₹ 403 (2012: ₹ 311) as follows :

Benefit (Contribution to)	**2013**	2012
Provident Fund	**342**	251
Employees' Pension Scheme	**61**	60
Total	**403**	311

37. SEGMENT REPORTING

The Company is in the business of manufacturing and trading of hard metal and hard metal products, and machine tools, which have been identified as business segments, for primary segment reporting. The Company's products are sold in domestic and export markets, which have been identified as geographic segments for secondary segment reporting.

A. Primary segmental Reporting

Business Segment	**Machine Tools**		**Hard Metal & Hard Metal Products**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012
Revenue						
Revenue from operations (Gross)	**10998**	8983	**41689**	51141	**53687**	60124
Less: Excise Duty	**(958)**	(846)	**(2791)**	(3045)	**(3749)**	(3891)
Revenue from operations (Net)	**10040**	8137	**38898**	48096	**48938**	56233
Other Income (excluding Interest Income)	**139**	17	**313**	411	**452**	428
Total Revenue	**10179**	8154	**39211**	48507	**49390**	56661
Result						
Segment Result	**1292**	1208	**2824**	10427	**4116**	11635
Unallocated Corporate Expenses (Net of Income)					**(2428)**	(2270)
Operating Profit/ (Loss)					**1688**	9365
Add: Interest Income					**270**	529
Less: Income Tax-Deferred					**(25)**	90
Less: Income Tax-Current					**(448)**	(3,145)
Net Profit (Loss)					**1485**	6839
Segment Assets	**3486**	4312	**29346**	31795	**32832**	36107
Unallocated Corporate Assets					**9214**	7121
Total Assets	**3486**	4312	**29346**	31795	**42046**	43228
Segment Liabilities	**2012**	3620	**8040**	8839	**10052**	12459
Unallocated Corporate Liabilities					**361**	621
Total Liabilities	**2012**	3620	**8040**	8839	**10413**	13080
Capital Expenditure	**116**	355	**2058**	3890	**2174**	4245
Unallocated Capital Expenditure					**15**	150
Total Capital Expenditure	**116**	355	**2058**	3,890	**2189**	4395
Depreciation	**164**	127	**2401**	2067	**2565**	2194
Unallocated Depreciation					**104**	73
Total Depreciation	**164**	127	**2401**	2067	**2669**	2267

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

B. Secondary Segmental Reporting

Secondary segment disclosures are based on geographical location of customers, which includes the domestic market (India), Europe (comprising Germany), USA and Rest of the World.

Geographical Segment	Revenue		Receivables	
	2013	2012	**2013**	2012
India	**43100**	51530	**8356**	9891
USA	**1180**	1382	**120**	76
Europe	**1320**	1207	**129**	76
Rest of the world	**3338**	2114	**263**	246
Total	**48938**	56233	**8868**	10289

38. EARNINGS PER EQUITY SHARE

Particulars	**2013**	2012
Profit attributable to equity shareholders	**1485**	6839
Weighted average number of equity shares outstanding during the year (Nos.)	**21978240**	21978240
Nominal value of Equity share (₹)	**10**	10
Basic and diluted earnings per share (₹)	**6.76**	31.12

39. Accounting and disclosure for leases has been made in accordance with the Accounting Standard 19 as follows:
Operating Lease:
Company as Lessee:
The Company has various operating leases for motor vehicles, office facilities, residential premises for employees, etc. Such leases are generally with options of renewal against increased rent and premature termination of agreement through notice period of 1 to 3 months. The particulars of these leases are as follows:

Particulars	**2013**	2012
Minimum Lease Payments debited to various Heads of Accounts	**180**	206
Future Minimum Lease Payments:		
Not later than one year	**12**	12
Later than one year but not later than five years	**19**	32
Later than five years	**–**	–

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

40. RELATED PARTY DISCLOSURE

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

	PARTIES WHERE CONTROL EXIST [B(a)]		FELLOW SUBSIDIARIES [B(b)]		KEY MANAGEMENT PERSONNEL [B(c)]		TOTAL	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
SALES – TOTAL	**2472**	2589	**1104**	1563			**3576**	4152
In excess of 10%								
Kennametal Europe Gmbh, Germany	**1319**	1207					**1319**	1207
Kennametal Inc. USA	**1153**	1382					**1153**	1382
KMT Distribution Services Asia Pte.Ltd., Singapore			**628**	817			**628**	817
SERVICES RENDERED-OTHERS	**–**	–	**82**	73			**82**	73
Services Rendered others-in excel of 10%								
Kennametal Shared Services Private Limited. India			**82**	73			**82**	73
REIMBURSEMENT OF EXPENSES(Credit)	**33**	38	**85**	108			**118**	146
Reimbursement of Expenses-in excess of 10%.								
Kennametal Inc., USA.	**33**	38					**33**	38
Kennarnetal Europe Gmbh, Germany.								
KMT Distribution Services Asia Pte.Ltd., Singapore.			**40**	49			**40**	49
Kennametal Extrude Hone(UK) Ltd., England.			**30**	–			**30**	–
FINANCE		–	**13**				**13**	–
Interest on Loan- Others in excess of 10%								
Interest Income-from Kennametal Stellite India P.Ltd., India			**13**	–			**13**	–
DIVIDEND PAID	**–**	4844	**–**				**–**	4844
INTERIM DIVIDENT PAID								
Metruit A.G.Zug, Swizerland	**–**	2802					**–**	2802
Kennametal Inc.USA	**–**	2042					**–**	2042
MANAGERIAL REMUNERATION-TOTAL					**108**	136	**108**	136
Santanoo Medhi					**28**	136	**28**	136
Bhagya Chandra Rao					**80**	–	**80**	–
PURCHASES-TOTAL	**14232**	15709	**1588**	1779			**15820**	17488
PURCHASE OF GOODS-CAPITAL GOODS	**–**	129	**169**	–			**169**	129
Purchase of Capital Goods- Others in excess of 10%								
Kennametal Inc., USA	**–**	129					**–**	129
Kennametal Extrude Hone Corporation, USA			**114**	–			**114**	–
Extrude Hone Service Center, China			**45**	–			**45**	–
PURCHASE OF GOODS OTHERS	**14232**	15580	**1419**	1779			**15651**	17359
Purchase of Goods-Others in excess of 10%								
Kennametal Europe GmbH, Germany	**9102**	9851					**9102**	9851
Kennametal Inc., USA	**5130**	5729					**5130**	5729

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

	PARTIES WHERE CONTROL EXIST [B(a)]		FELLOW SUBSIDIARIES [B(b)]		KEY MANAGEMENT PERSONNEL [B(c)]		TOTAL	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
SERVICES RECEIVED/RECHARGE OF EXPENSES-TOTAL	**1472**	1301	**318**	161			**1790**	1462
SERVICES RECEIVED- INFORMATION TECHNOLOGY SERVICES	**1219**	1188	**–**	–			**1219**	1188
In excess of 10%								
Kennametal Inc.USA	**1219**	1188					**1219**	1188
ROYALTY PAYMENTS	**212**	68	**96**	88			**308**	156
In excess of 10%								
Kennametal Inc.USA	**212**	68					**212**	68
Hanita Metal Works Ltd. (P), Israel			**96**	88			**96**	88
RECHARGE OF EXPENSES-TOTAL	**41**	45	**222**	73			**263**	118
In excess of 10%								
Kennametal Inc.,USA	**41**	45					**41**	45
Kennametal Shared Services GmbH, Germany			**206**	49			**206**	49
OUTSTANDING RECEIVABLES- TRADE+OTHERS	**191**	150	**145**	147			**336**	297
TRADE RECEIVABLES	**161**	150	**130**	137			**291**	287
Trade Receivables in excess of 10%								
Kennametal Europe GmbH, Switzerland	**99**	76					**99**	76
Kennametal Inc.USA	**62**	74					**62**	74
KMT Distribution Services Asia Pte.Ltd., Singapore			**76**	60			**76**	60
Hanita Metal Works Ltd. (P), Israel			**13**	29			**13**	29
OUTSTANDING RECEIVABLES -OTHERS	**30**	–	**15**	10			**45**	10
Other Receivables in excess of 10%								
Kennametal Inc.,USA	**30**						**30**	–
KMT Distribution Services Asia Pte.Ltd., Singapore			**3**	6			**3**	6
Kennametal Exturde Hone Corporation, USA			**–**	3			**–**	3
Kennametal Extrude Hone(UK)n Ltd., England			**12**	–			**12**	–
ADVANCE RECOVERABLE-TOTAL	**–**	–	**–**	–	**30**	–	**30**	–
Advance to Managing Director (Ref Note 41)	**–**	–	**–**	–	**30**	–	**30**	–
OUTSTANDING PAYABLES-TRADE	**1578**	2007	**489**	177			**2067**	2184
TRADE PAYABLES	**1578**	2007	**489**	177			**2067**	2184
Trade Payables in Excess of 10%								
Kennametal Inc.,USA	**561**	1051					**561**	1051
Kennametal Europe GmbH, Switzerland	**1017**	956					**1017**	956

NOTES TO FINANCIAL STATEMENTS

B) Names of related parties and description of relationship

a) Parties where control exists:

(i) Ultimate Holding Company	Kennametal Inc, USA
(ii) Enterprises holding, directly or indirectly, substantial interest in Metruit A.G. Zug	Kennametal Widia GmbH Co. KG, Germany (Formerly Widia GmbH, Germany) Kennametal Hertel Europe Holding GmbH, Germany Kennametal Holding GmbH, Germany Kennametal Europe GmbH, Germany Kennametal Europe GmbH, Switzerland Kennametal Europe Holding GmbH, Germany Kennametal Luxembourg Holding S.a.r.l, Luxembourg Kennametal Widia Holdings Inc., USA Kennametal Holdings Europe Inc., USA
(iii) Immediate holding company	Metruit A.G. Zug, Switzerland

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 (Singapore) PTE. Ltd., Singapore Kennametal Korea Co., Ltd., Korea Kennametal Japan Ltd., Japan Kennametal Ltd., Canada Kennametal South Africa (Pty) Ltd., South Africa Kennametal (Thailand) Co., Ltd., Thailand Kennametal Do Brasil LTDA, Brazil Kennametal Hard Point (Shanghai) Ltd., China KMT Distribution Services Asia PTE. Ltd., Singapore Kennametal Shared Services Pvt Ltd., India Kennametal (China) Co Ltd., China Hanita Metal Works Ltd., Israel Kennametal Shared Services, GmbH, Germany Kennametal Extrude Hone Corporation, USA Kennametal Extrude Hone Ltd (England), UK Kennametal (Xuzhou) Co. Ltd., China Kennametal (Malaysia) Sdn. Bhd., Malaysia KMT Logistics GmbH, Germany Kennametal Stellite India Pvt Ltd., India Kennametal Engineered Products B.V, The Netherlands Extrude Hone Service Center, China

c) Key Management Personnel:

Managing Directors	Santanoo Medhi (up to September 17, 2012) Bhagya Chandra Rao (from September 17, 2012)

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

Notes:

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.

41. The Company has paid remuneration to its Managing Director in excess of limits stipulated under Schedule XIII of the Companies Act 1956. The excess remuneration of ₹ 30 has been approved by the Remuneration Committee and is proposed to be approved by the shareholders in the ensuing Annual General Meeting. The excess remuneration has been disclosed as Advance to Managing Director in note 18 above

42. In accordance with Accounting Standard 29 on "Provisions, Contingent Liabilities and Contingent Assets" the disclosure with respect to certain classes of provisions are as under:

Particulars	As at June 30,2012	Addition	Utilisation	Reversal	**As at June 30, 2013**
Product Support [Note (a)]	258	33	-	33	**258**
	(236)	(22)	-	-	**(258)**
Disputed Taxes and Duties [Note (b)]	212	10	-	90	**132**
	(212)	-	-	-	**(212)**

Notes:

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

b) Relates to provision toward disputed taxes and duties. Considering the very nature of such disputes, the timing/ uncertainties of cash outflow is not readily ascertainable.

c) Figures in brackets relate to prior year.

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

No. of Shareholders	No. of Shares	Particulars	**2013**	2012
2	1,9376,013	Interim Dividend	**–**	4844

44. a) Particulars of hedged foreign currency expenses:

Particulars	Purpose	As at					
		June 30, 2013			June 30, 2012		
		Foreign Currency (in lakhs)		**Amount**	Foreign Currency (in lakhs)		Amount
Forward contracts to buy USD	Hedge of trade payable	**USD**	**5**	**297**	–	–	–
Forward contract to buy Euro	Hedge of trade payable	**EUR**	**8**	**661**	–	–	–
	Sub Total			**958**			
Forward contracts to buy CHF	Hedge of firm commitment	**CHF**	**3**	**182**	–	–	–
	Total			**1140**			

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

b) Particulars of unhedged foreign currency exposures:

Particulars	As at					
	June 30, 2013			June 30, 2012		
	Foreign Currency (in lakhs)		**Amount**	Foreign Currency (in lakhs)		Amount
Trade receivable	**USD**	**4**	**237**	USD	3	182
	EUR	**1**	**99**	EUR	1	76
	Others		**53**	Others		38
	Total		**389**			296
Trade payable	**EUR**	**5**	**231**	EUR	2	137
	USD	**3**	**153**	USD	6	355
	JPY	**159**	**90**	JPY	68	46
	Others		**11**	Others		82
	Total		**485**			620

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

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

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

For **Price Waterhouse & Co., Bangalore**
Firm Registration Number: 007567S
Chartered Accountants

Shivakumar Hegde
Partner
Membership Number: 204627

Bangalore
August 16, 2013

For and on behalf of Board of Directors

Bhagya Chandra Rao
Managing Director

M. N. Bhagwat
Chairman

Vinayak K. Deshpande
Director

B. Anjani Kumar
Director

Parameswar Reddy D
Vice President & CFO

Kundan Kumar Lal
Company Secretary

KENNAMETAL INDIA LIMITED
Registered Office : 8/9th Mile, Tumkur Road, Bangalore-560073

ATTENDANCE SLIP

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

Name of the Member/Proxy : ....

Number of shares held :

I certify that I am a registered Member/Proxy for the registered Member(s) of the Company. I hereby record my presence at 48th Annual General Meeting of the Company on November 05, 2013 at the registered office of the Company at 8/9th Mile, Tumkur Road, Bangalore-560 073.

Signature of the Member/Proxy present:

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

Notes :

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

KENNAMETAL INDIA LIMITED

Registered Office : 8/9th Mile, Tumkur Road, Bangalore-560073

PROXY FORM

I/We..…………………….....................…
of……………………………………………………….. being
a Member(s) of the above named Company, hereby appoint ……………………………………………...… of
or falling ……………...………………………...........……………………..
him/her ……………………………................ of ……………….............………as my/our Proxy to attend and
vote for me/us on my/our behalf at the 48th Annual General Meeting of the Company to be held on November 05, 2013 at 11.30 a.m at the registered office of the Company at 8/9th Mile, Tumkur Road, Bangalore -560073 and at any adjournment(s) thereof.

Signed this day …………………. of…………………… 2013

Regd. Folio No./DP & Client ID:

Signature of the Member(s)

Notes :

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

BOOK-POST

If undelivered please return to:

KENNAMETAL®

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