

Kennametal India Limited
49th Annual Report
FY14



KENNAMETAL INDIA LIMITED

(CIN : L27109KA1964PLC001546)

Directors

Mr. M.N. Bhagwat
Chairman
 Mr. Bhagya Chandra Rao
Managing Director
 Mr. Vinayak K. Deshpande
 Mr. Gerald Goubau
 Mr. John Henry Jacko Jr.
 Ms. Michelle R. Keating
 Mr. B. Anjani Kumar

Key Managerial Personnel

Mr. Bhagya Chandra Rao
Managing Director & CEO
 Mr. D. Parameswara Reddy
Vice President & CFO
 Mr. Kundan Kumar Lal
*General Manager-Legal &
 Company Secretary*

India Leadership Council (ILC)

Mr. Bhagya Chandra Rao
 Mr. D. Parameswara Reddy
 Mr. K. Chandrashekhar Sharma
 Mr. Kumud Ranjan
 Mr. M.T. Swamy
 Mr. D. Sarathy
 Mr. Dibesh Singh Deo

Registered Office and Factory

8/9th Mile, Tumkur Road
 Bangalore - 560 073
 Phone : + 91 (80) 28394321
 Fax : + 91 (80) 28397572
 website page:
[www.kennametal.com/kennametal/hi/about-us/
 kil-financials.htm](http://www.kennametal.com/kennametal/hi/about-us/kil-financials.htm)

Auditors

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

Bankers

Bank of America
 Corporation Bank Limited
 HDFC Bank Limited
 HSBC Limited
 ICICI Bank Limited

Registrar & Share Transfer Agent

Integrated Enterprises (India) Limited
 30, 'Ramana Residency'
 4th Cross, Sampige Road
 Malleswaram, Bangalore -560 003
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49th Annual General Meeting

Tuesday, November 04, 2014 at 12.00 Noon
 at the Registered Office of the Company at
 8/9th Mile, Tumkur Road, Bangalore -560 073.

DIRECTORS' REPORT

Your Directors are pleased to present the 49th Annual Report and Audited Accounts for the year ended June 30, 2014 (FY14).

FINANCIAL RESULTS

(₹ in Lakhs)

Particulars	FY14 Year ended June 30, 2014	FY13 Year ended June 30, 2013
Total Revenue	55151	49745
Profit before Tax	2978	1958
Less: Exceptional items	1020	--
Profit After Exceptional Items and Before Tax	1958	1958
Less: Provision for Tax		
Current Tax	1010	560
Tax provision relating to earlier years	(277)	(112)
Deferred Tax (credit)/charge	(482)	25
Profit after Tax	1707	1485
Add: Balance brought forward from previous year	14542	13057
Total available for appropriation	16249	14542
Balance transferred to Balance Sheet	16249	14542

DIVIDEND

Your Company intends to conserve the financial resources for ploughing back into the Company by way of Capital Expenditure / expansion in the years to come. 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, 2014.

OPERATING RESULTS

Your Company improved its operating results during FY14 with Sales and Other Income increasing by 10.86% to ₹ 55151 Lakhs compared with ₹ 49745 Lakhs in the previous year. Profit before Tax before Exceptional items was ₹ 2978 Lakhs as compared to ₹ 1958 Lakhs in the previous year. The growth in Sales and Profit for the year was driven by improved demand for the products and growth initiatives undertaken by the Company during the year under review.

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, 2014 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

Section 149(10) of the Companies Act, 2013 provides that Independent Directors shall hold office for a term of up to five (5) consecutive years on the Board of Directors of a Company. In terms of the said Section read with Section 152(6) of the Companies Act, 2013 the provisions relating to retirement of Directors by rotation are not applicable to Independent Directors of the Company. In order to comply with the statutory requirements, the

Independent Directors of the Company Viz. Mr. B. Anjani Kumar and Mr. V. K. Deshpande are being recommended for appointment for a term up to five consecutive years in ensuing Annual General Meeting of the Company on a non-rotational basis. The Directors to retire by rotation have been re-ascertained on the date of this notice. Accordingly, Mr. Gerald Goubau, Non-Independent Non-Executive Director, who was appointed in the casual vacancy caused consequent to the resignation of Mr. Bernard North, will retire at the ensuing Annual General Meeting and being eligible for appointment. Your Directors recommend the same for your approval.

Ms. Michelle R. Keating, Non-Independent Non-Executive Director was appointed on the Board as Additional Director on November 05, 2013. She is being eligible for appointment as Director liable to retire by rotation in the ensuing Annual General Meeting. Your Directors recommend the same for your approval.

Mr. John Chang resigned as Director with effect from August 12, 2014. 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 August 12, 2014 approved the appointment of Mr. John Henry Jacko, Jr. filling the casual vacancy caused by Mr. John Chang's cessation.

Profile of Mr. John Henry Jacko, Jr.

John Henry Jacko, Jr. is Vice President and Chief Marketing Officer, Kennametal Inc. and has been associated with Kennametal group since year 2007.

He has over 25 years of experience in the areas of marketing, strategy, product management, branding, portfolio management and communications. Mr. Jacko holds a Bachelor of Science degree in engineering from the University of Connecticut and a Master's in Business Administration from the University of New Haven. He is also Green Belt certified in Six Sigma.

Appropriate resolutions are being proposed seeking consent of the members for the aforesaid reappointments/appointments and your Directors recommend your approval.

Brief profile of respective Directors being appointed / re-appointed as required under Clause 49 of the Listing Agreement are furnished along with the Notice convening 49th Annual General Meeting.

DIRECTORS' INTEREST

No Director was materially interested in any contracts or arrangements existing during or end of the period in relation to the business of the Company. No Director holds any shares in the Company as on June 30, 2014 except Mr. B. Anjani Kumar, Non-Executive Independent Director, who holds 10 shares. None of the Directors had any other interest in the share capital of the Company as at June 30, 2014.

NOMINATION AND REMUNERATION COMMITTEE

The Remuneration Committee of Directors ("the Committee") 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, 2013 and rules made thereunder. The name of the Committee was changed from "Remuneration Committee" to "Nomination and Remuneration Committee" in compliance of the Companies Act, 2013 and Rules made thereunder. The meetings of the said Committee were held on August 16, 2013, September 18, 2013 and August 12, 2014.

The Committee was further re-constituted on August 12, 2014 consequent to the resignation of Mr. John Chang, Member. At present Committee consists of Mr. B. Anjani Kumar as its Chairman, Mr. M. N. Bhagwat and Mr. Vinayak K. Deshpande as its members.

The Nomination and Remuneration Charter is formulated and approved by the Board of Directors at its meeting held on August 12, 2014.

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, 2014, 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, 2014 and of the profit for the period of July 01, 2013 to June 30, 2014;

- 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, 2014 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, Bangalore, Chartered Accountants (Firm Registration No. 007567S), hold office until the conclusion of the ensuing Annual General Meeting and are eligible for reappointment. In terms of Section 139 of the Companies Act, 2013, they can be appointed for a remaining term of three years starting from the conclusion of the ensuing Annual General Meeting until the conclusion of the 52nd Annual General Meeting of the Company (subject to ratification of their appointment at each Annual General Meeting). The Company has received a letter from the Statutory Auditors to the effect that their reappointment, if made, would be within the prescribed limits under Section 141(3)(g) of the Companies Act, 2013 and that they are not disqualified for reappointment.

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 134(2) of the Companies Act, 2013.

CORPORATE GOVERNANCE

A detailed report on Corporate Governance and the certificate from Mr. Vijaykrishna 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 as “Annexure IIA” 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.

CEO/CFO Certificate

A certificate from the Chief Executive Officer (Managing Director) and the Chief Financial Officer dated August 04, 2014 on the financial statements and the cash flow statement of the Company for the financial year ended June 30, 2014 was placed before the Board at its meeting held on August 12, 2014 is annexed as “Annexure IIB” and forms part of this report.

WHISTLE-BLOWER POLICY/VIGIL MECHANISM

Pursuant to Section 177 of the Companies Act, 2013, your Company has taken on record the Vigil Mechanism (Whistle Blower Policy) of the Company consequent to the approval of the Board of Directors at their meeting. The Whistle Blower policy provides avenues for employees to raise complaints and to receive feedback on action taken and seeks to reassure the employees that they will be protected against victimization and for any whistle blowing conducted by them in good faith.

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.

Prevention of Sexual Harassment

There was no complaint lodged by any woman employee under Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013, with the Company during the period under report.

RESEARCH & DEVELOPMENT (R & D)

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

RD&E, Bangalore is a globally aligned matrix set-up and works for the company's needs with a continued specific focus on up-gradation of products, processes and technology, it is also recognized by the Ministry of Science & Technology - Department of Scientific and Industrial Research - Government of India.

TRANSFER TO INVESTOR EDUCATION AND PROTECTION FUND (IEPF)

In terms of Section 205C of the Companies Act, 1956 and Section 125 of the Companies Act, 2013, the following amount lying with the Company for a period of seven years was transferred during the year to the Investor Education Protection Fund:

Unclaimed dividend	- ₹ 6,44,100/-
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)

100% safe is your Company's philosophy and commitment to protecting people and our Planet, representing our unwavering goal to achieve zero incidents. The total incident rate and the Year over Year targets are the specific and tactical milestones that would drive continuous improvement.

- A total 3,635 hours were spent on EHS training for the employees of your Company.
- Annual medical examination of employees were conducted to maintain good health. Health awareness programme was also conducted to create awareness and improve good health of the employees of the Company.
- Your Company continued the Management Based Safety (MBS) programme, a standard global safety process that has been the cornerstone of great improvement in safety culture.
- A Risk Finder Tool and an improved Daily Safety Checklist are designed to strengthen every

employee's ability to identify, document and eliminate hazards at their workplace.

- Your Company continued to monitor the hazardous and non-hazardous wastes, according to waste stream and disposal route, with performance assessed on the basis of waste intensity.
- Green coverage in the facility increased by 20,000 Sq.ft. and planted 200 saplings.

EHS Improvements were undertaken during the year –

- Improvements in fall protection by installing life line system on roof top and High Speed Diesel (HSD) storage area.
- Ergonomics - Material handling risk assessment carried out to find the gaps and necessary mechanical handling equipment's were installed.

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.

- As a part of Delivering the Promise to the Community, Kennametal organized a "Blood Donation Drive" in the campus and donated to the Rashtrathana Blood Bank.
- Your Company continued its contribution to Akshayapatra programme under which Mid-Day meals were provided to the students of Government schools in the nearby area.
- Employees of your Company actively volunteered in the activities of Sparsha Trust. "NERALU" is an NGO which has brought new hope and opportunities for the bright future into the lives of around 500 underprivileged children in the past five years.

CSR Committee

Presently, CSR is being regulated by the Companies Act, 2013 and your Company is determined to strengthen its commitment towards CSR initiatives in accordance with the law.

In terms of Section 135 of the Companies Act, 2013 and rules made thereunder, the Board of Directors had constituted a CSR Committee on May 06, 2014 and further re-constituted on August 12, 2014. The CSR Committee consists of Mr. Bhagya Chandra Rao, Mr. B. Anjani Kumar and Ms. Michelle R. Keating as its members. Based on the recommendation of the CSR Committee, the Board

has approved the Corporate Social Responsibility (CSR) Policy and the amounts to be incurred on the activities as provided in the said Act and the CSR policy.

LAND COMPENSATION MATTER

As reported in the previous annual reports, the Special Land Acquisition Officer of Karnataka Industrial Areas Development Board (KIADB) had passed the order dated March 05, 2012 to deposit land compensation amount of ₹ 499.75 Lakhs 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. The Civil Court finally heard the matter and passed the Judgment on June 10, 2014 in favour of your Company. The Certified Copy of the order is awaited.

UPDATE ON MODERNIZATION, EXPANSION AND RE-LOCATION OF THE PLANT

Your Company had filed an application with Karnataka Industrial Areas Development Board (KIADB) to ascertain availability and seek allotment of suitable parcel of land for the purpose of modernization, expansion and re-location of its manufacturing operations and other services. In February, 2014, the Company decided to place on hold its plan of modernization, expansion and re-location for the time being after considering the change in policy for allotment of industrial land and as a consequence, re-assessment of project cost, financial feasibility, delay and uncertainty surrounding the project.

VOLUNTARY RETIREMENT SCHEME

During the year, your Company announced a Voluntary Retirement Scheme (VRS) for its workmen. The 64 workmen opted for the Scheme and ₹ 947 Lakhs was paid towards VRS compensation. Also, your Company launched a severance/separation scheme for certain employees in the officers' category and aggregate compensation was paid ₹ 73 Lakhs.

PERSONNEL/INDUSTRIAL RELATIONS

During the year 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 2013-14 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, 2013 was filed with the Ministry of Corporate Affairs within the permissible time.

APPLICABILITY OF COMPANIES ACT, 1956

With reference to the Circular No. 08/2014 dated April 04, 2014 issued by Ministry of Corporate Affairs (MCA), the information given in this report are governed by the Companies Act, 1956.

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 employees for their teamwork and contributions during the year.

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

August 12, 2014

**M.N. Bhagwat
Chairman**

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 & defense, 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".

The Indian Economy continued to be subdued during the Financial Year 2013-2014 (FY14). The GDP growth for FY14 was again below the 5% level at 4.7% which was only marginally better than 4.5 % in FY13. The Index for Industrial Production (IIP) an important indicator of the manufacturing activity in the country, actually had a negative growth of (0.1%) as compared to 1.1% in FY13.

One of the industries which has been adversely affected is the automobile industry, particularly the Medium and Heavy Commercial Vehicle (M&HCVs) segment. M&HCVs segment has shown a negative growth of 21% in FY14 after an even larger negative growth of 23 % in FY 13. This continued large decline has impacted your Company in a very negative manner, as tooling consumption is significant in the machining of parts which go into medium and heavy commercial vehicles. Continued slowdown in the economy is largely on account of the poor macro-economic scenario and lack of adequate policy / growth initiatives at the center.

Your Company has significant imports and hence any rupee depreciation has an impact on cost and profitability. During the financial year, the Indian Rupee was down to unprecedented levels, falling to levels of ₹ 68 in September 2013. In a poor economic environment where cost rationalization is the order of the day to the end customers the Company is unable to pass all the cost escalation to the customers.

2. Operations

During the Financial Year 2013-2014, your Company has delivered a growth of 11% despite the negative growth in the manufacturing sector. This was primarily driven by special initiatives in each of the business verticals. The Hard Metals business grew by 14% and MSG grew by 1.8%. Implementation of our dual brand strategy of Kennametal and WIDIA is complete with 100% separation of customers and distributors. Kennametal would serve the customers both directly and indirectly backed by component specific and other high end solutions to the customers where as WIDIA would serve the customers through distributors, focusing on standards and simple specials through enhanced reach. As part of the strategy new distributors have been brought on board under both Kennametal and WIDIA brands to make sure that each brand is adequately represented across the country. Some of the initiatives such as productivity optimization services, tools management services have met good success both in terms of obtaining new business as well as retaining the existing business. Product transfer and localization initiatives started in FY13 gained momentum and contributed for the growth in FY14. Focused business initiatives like Extrude Hone and Conformal Clad are expected to do better in forthcoming years. The following initiatives launched in FY14 in the hard metals segment to grow the business are worth noting:

1. Component Specific solutions :

The Company intends to build competency in certain key components of high volume which are manufactured by its customers. The objective of the Company is to "own" these key components through the development and application of the "total solutions" (production process input, tool supply and appropriate service support) required to effectively and efficiently produce them for our customers.

2. Stellram product portfolio introduction:

Stellram product portfolio has been brought into Kennametal basket through the TMB acquisition globally by Kennametal Inc. This product portfolio improves Kennametal's metal cutting and metal finishing product offerings. Stellram draws on the advanced R&D capabilities to provide "Best in Class" machining solutions for the aerospace, defense, power generation and

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medical industries. This is a strategic fit for your Company.

3. NOVO deployment.

NOVO is a process enabler as a digital assistant with data-rich machining strategies that starts working from the moment a parts drawing is received from a Customer. With a refined and intuitive tool advisor, tool selector, and tool configurator, everything down the line gets more efficient—from parts quoting through programming, presetting, and production. NOVO is process knowledge delivered via the cloud. Customers are able to access NOVO via a PC application and tablet solutions.

Your Company believes that these initiatives would yield good results for the Company in the long run.

The Machining Solutions Group (MSG) once again had a record year with a sale of ₹ 10184 Lakhs, which is the highest ever sale achieved during a year. The MSG continues to work effectively with growing customers to grow the sales and gain market share in special purpose machines.

In FY14 specific customers were targeted to grow the sales and market. Numerous “roadshows” and “technology days” were organised at specific customer locations. These “roadshows” and “technology days” enhanced our brand image and visibility besides generating more business from the customers. Besides these events your Company actively engaged with customers through the knowledge center imparting training on tools and products.

Our overall long term strategy to have >40% of the sales from the new products continues to sustain. In FY14 we had close to 42% of hard metals revenue from new products i.e. the products introduced with in the last five years.

Capacity utilization improved quite a bit in FY14 on account of better sales and there exists an opportunity to produce even more in a few product lines. The capital investment during the year has been low as your Company believes that the existing capacity would meet the requirement of the customers for the forthcoming financial year (FY15) as well.

Your Company remains focused on operational excellence to improve operating efficiencies. In order to take the operational excellence model to the next level the “K 100 Operating System” has been launched in FY14. The “K100 Operating

System” is a comprehensive and balanced approach to assessing an organization against necessary practices to achieve operational excellence. The goal is to bring the organization up to the level of the best performing organizations through the deployment of global solutions and best practices.

Your Company as in the past has been bestowed with many awards. To name a few:

- Kennametal Value Business System (KVBS) lean award by Kennametal Inc. for a project on “Prevention of Spindle Failure of KAVO Stators”
- Award by National Institute of Quality and Reliability for “Grade Rationalization “
- Award by Symbiosis Centre of Management and Human Resource Development (SCMHRD) for six sigma project on “Grinding Cycle Time Reduction in Anca cell”

3. Segment-wise performance

The segments for financial reporting are:

- (i) Hard metal and hard metal products
- (ii) Machining Solution Group(MSG)

Segmentation is primarily based on nature of the products and services provided by the segment and the business risks attached thereto. Each segment represents a business that offers different products and services, and serves different markets. Apart from the primary business segments, the secondary segmental reporting is on the basis of the geographical locations of the customers viz. domestic and international. Common allocable costs are allotted to each segment to the extent of services utilized and activities involved. The details of segment wise results are given as part of the Annual Accounts as required under Accounting Standard 17 – Segment Reporting

4. Company's outlook

With the new Government taking charge with a clear mandate from the electorate, the investor sentiment has improved. During April-June 2014 quarter the GDP has grown by 5.7% vs 4.4% in the same quarter last year. The car sales – a key barometer of consumer sentiment expanded in double digits between April to June 2014. FII inflows over January to July 2014 touched \$26.5 billion and FDI exceeds \$17 billion in the first 5 months of the calendar year which is 25% higher than the same period last year. The new Government has also initiated the process of clearing the massive backlog of stalled investment projects. With several initiatives and reforms for

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economic growth expected in the upcoming budget session of the parliament, there is optimism in the coming days for the Indian economy.

While these initiatives would yield results in the long term, the short term outlook seems to be cautiously optimistic. The general expected GDP growth is in the range of 5 to 5.5% for the year 2014-15.

Since the recovery would be a slow process on the economic front, your Company continues to focus on special initiatives for FY15 to grow the sales (as in FY14). The Tungsten Materials Business (TMB) and Emura acquisitions globally by Kennametal Inc., would benefit Kennametal India Limited (KIL) in the long run with accessibility to high quality raw materials and the best carbide recycling technologies. The TMB acquisition has brought in the Stellram product

portfolio to KIL which would benefit your Company to get better market share in the energy and aerospace sectors. Your Company has been engaged in moving up the value chain in the infrastructure side of the business by focusing on more value added products and phasing out commodity products with lower profitability.

Exports to Asian markets has seen impressive growth in FY14 and your Company believes that this market will further expand in FY15 to grow the hard metals exports business. Besides the hard metal products there is a good opportunity to grow our Machine Tools Business in South Asian markets. This initiative started off in FY14 and needs to be developed further to sustain the growth rates delivered by the Machining Solutions Group (MSG) business over a period of four years.

5. 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 to Mitigate
1	Short term Economic Scenario	Lower growth due to sub optimal pull from customers for our products in the short term (6-8 months)	<ol style="list-style-type: none"> 1. Deployment of focused initiatives tied up to the customer level to grow the sales 2. Appoint new distributors across the brands to cover unrepresented and underrepresented geographies (white spaces).
2	Heavy Dependence on Transportation Segment (though improved from FY13)	Majority of the revenues are generated from automobile industry and hence the fortunes of the Company are heavily dependent on the transportation segment	<ol style="list-style-type: none"> 1. Carved out Infrastructure segment in FY14 to enhance focus on non-transportation business 2. Deployment of Stellram product line to address the Energy and Aerospace markets besides leveraging the new age technologies like Extrude Hone, Conforma Clad etc. 3. Develop competencies around Finished Dies.
3	Low investment in new projects as well expansion projects	Could impact the growth plan of Machining Solutions Group (MSG).	<ol style="list-style-type: none"> 1. Pursuing aggressively to source new orders which can be billed in a time frame of 6-8 months. 2. Aggressively scouting for opportunities in South Asian Markets

Annexure I to the Directors' Report**6. Internal control systems and their adequacy**

Your Company has an established and time tested internal control systems in place. The management carries out regular and rigorous reviews to monitor operations as well as 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 11 internal audit reviews and presented its reports to the Audit Committee. In total 12 control deficiencies ranging from low to moderate risk were identified and reported. Management has taken appropriate actions to fix the control gaps. 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.

7. Financial performance

During FY14, your Company has delivered a sale of ₹ 54513 Lakhs compared to ₹ 48977 Lakhs in FY13. This translates into a Year Over Year (YOY) growth of 11%. The Hard metals segment grew faster than the MSG segment. Hard metals recorded a 14% growth primarily driven by exports and market share gain. Specific efforts to improve export sales to the Asia Pac region have shown encouraging results for the Company. Profit before tax and exceptional items grew by 52% to ₹ 2980 Lakhs from ₹ 1960 Lakhs. This improvement is significant considering the fact that the Company had to bear an increase in raw materials costs to the extent of ₹ 900 Lakhs on account of the rupee further depreciating from ₹ 55 levels in FY13 to ₹ 61 levels in FY14. The improvement in profitability has been primarily driven by the volumes leverage supported by many cost containment/reduction initiatives taken up during the year.

Your Company actively pursued its efforts in bringing down the spiraling energy costs during the financial

year. As a result your Company is in the process of executing a project to utilize the grid power more effectively by installing UPS system across the factory. With this initiative the Company would save around ₹ 300 Lakhs every year and this savings would start flowing in from FY15 onwards.

Your Company continues to aggressively pursue the localization efforts and also use India as a low cost production location for exporting to other markets in the world particularly Asia. This effort besides improving the capacity utilization should help the Company in Forex risk mitigation.

In the year under review the MSG business growth softened after witnessing double digit growth for four years in row. The YOY growth was 1.8% compared to 23% in FY13. The decline in growth rates is primarily on account of delay or postponement of projects by our customers. Your Company continues to evaluate the market scenario to respond in a quick and appropriate manner to the changing market requirement and trends.

Your Company continues to maintain optimized working capital deployment into the business. On account of surge in MSG receivables the DSO (Days of Sales Outstanding) has also increased by 3 days to 63 in comparison to the prior year. Special emphasis was given to reduce the aging of the receivables during the year because of which your Company's receivable beyond 60 days has been reduced to 16% compared to 18% in FY13. Your Company continues to maintain strong collection trends as in the past despite liquidity challenges in the market place. Your Company did not have to write off any receivables in last eight years which is a notable achievement.

During FY14, a project was undertaken to directly ship products to the end customers from the originating warehouse instead of routing through Bangalore warehouse to serve the dual purpose of quicker deliveries and reduction of finished goods inventory. Because of this project your Company has been able to reduce the traded goods inventory by more than ₹ 300 Lakhs. Inventory and Accounts Payable as a percentage to sales have been at 18% and 16% respectively for FY14. Prudent expense and working capital management has ensured a significant improvement in profitability and Return on Capital Employed in the current financial year over the previous year.

Annexure I to the Directors' Report

8. Material Developments in Human Resources and Industrial Relations

Your Company recognizes Human Resources as an important asset of the Company. Its Human Resource Process are focused towards attracting, developing, and 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 14:

- Acquisition of Talent continued to be the focus area in FY 14 to ensure hiring of Talent with the right competencies to drive business results, ensure execution and stay customer focused. Key process like the Internal Job Posting, Job Rotations, Apprenticeship Program and lateral hires helped to 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 was enhanced and this was reinforced through the Performance Planning & Management Process. This has led to Improvement in Our Performance Excellence Index where there has been an improvement of 6% in FY 14 over the FY 13 scores.
- Capability building of our Sales and Application Engineers, 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 1026 participants were covered under the Technical Training Curriculum during the year. For building individual and organizational capability, Sales Effectiveness programs, Leadership Development Programs and on-line certification programs were carried out to cover 232 employees.
- In order to balance the manpower requirement with the capacity utilization, your Company

introduced a Voluntary Retirement Scheme in FY 14 for the unionized workforce and a separation scheme for other employees involved in production. The scheme was utilized by 73 employees involving a payout of ₹ 1020 Lakhs.

- Industrial Relations were peaceful throughout the year with focus on Proactive Labour Relations through continuous and regular interaction & engagement between the Union Leadership and the Management.
- The 2014 Voice of Employee (VOE) Check Point Survey was conducted during the Year and the Employee Engagement Index was at 78% which is an improvement of 5% over the FY 13 Voice of Employee Survey. In addition to the improvement in the engagement scores there was a positive improvement in 11 Dimensions out of the 12 Dimensions which were used in the FY 14 VOE Check Point Survey.
- The total number of persons employed in your Company as on June 30, 2014 was 841 excluding temporary and contractual employees.

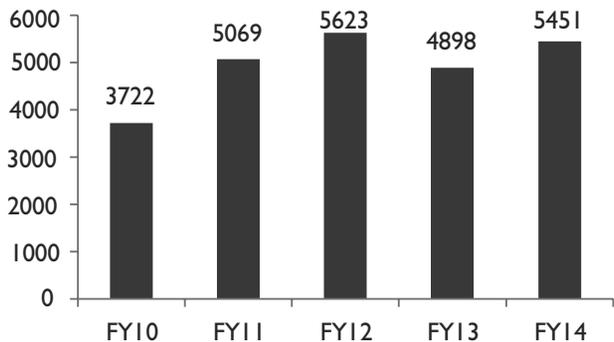
Cautionary Statement

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

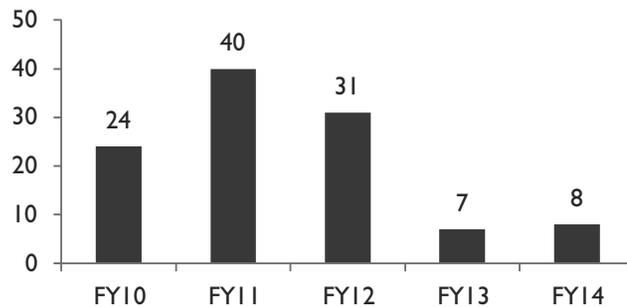
The information contained herein may not be disclosed, reproduced, or used in whole or in part for any purpose or furnished to any other person(s) without the express prior written permission of the Company.

FIVE YEAR CHARTS FOR KEY FINANCIAL INDICATORS

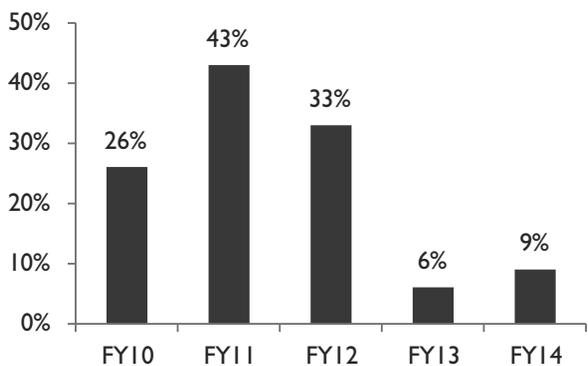
Net Sales (₹ in million)



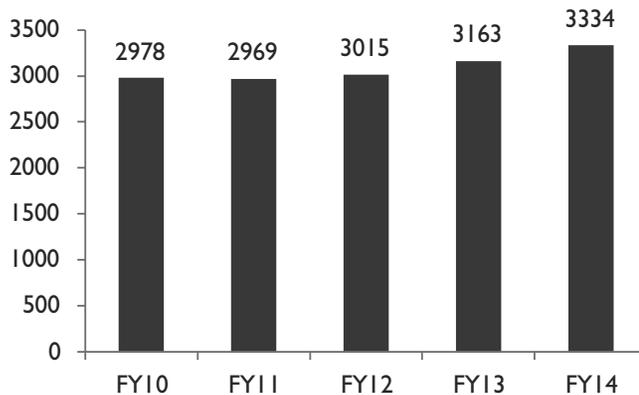
Earnings Per Share (EPS) in ₹



Return On Capital Employed (ROCE) in percentage



Net worth (in ₹)



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:

I. Composition of the Board

The Board of Directors has 7 members (as on June 30, 2014), including the Managing Director and 6 Non-Executive Directors who bring in a wide range of skills and experience to the Board. The Company has a Non-Executive Chairman and the number of Independent Directors is one-third of the total number of Directors. Chairman is neither a Promoter of the Company nor he is 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, five meetings of the Board of Directors were held on the following dates: August 14, 2013, August 16, 2013, November 05, 2013, February 06, 2014 and May 06, 2014.

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

Name of the Director	Other Directorships held*	Board Committees+ (in other companies)		Attendance At	
		Chairman	Member	Board Meetings	Last AGM
<i>Non-Executive, Independent Directors</i>					
Mr. M. N. Bhagwat, Chairman	2	1	1	5	Yes
Mr. Vinayak K. Deshpande	7	-	4	4	Yes
Mr. B. Anjani Kumar	1	-	-	5	Yes
<i>Managing Director</i>					
Mr. Bhagya Chandra Rao	1	-	-	5	Yes
<i>Non-Executive Directors</i>					
Mr. John Chang	-	-	-	4	Yes
Mr. Gerald Goubau	-	-	-	3	Yes
Ms. Michelle R. Keating ¹	-	-	-	1	-

Mr. John Chang, Ms. Michelle R. Keating and Mr. Gerald Goubau are the Nominees of Kennametal Inc., the Foreign Promoter. No sitting fees paid to Non-executive Directors.

* Excluding office of Alternate Directors, Non-Profit Associations, Private & Foreign Companies.

* Only the Audit and Shareholders' / Investors' Grievance Committee are considered.

¹ Appointed as Additional Director with effect from November 05, 2013.

Annexure II to the Directors' Report

2. Audit Committee

The terms of reference of the Audit Committee are as per the guidelines set out in the Listing Agreement with the 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 the 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 <i>Chairman, Non-Executive, Independent</i>	4
Mr. Vinayak K. Deshpande <i>Non-Executive, Independent</i>	4
Mr. B. Anjani Kumar <i>Non-Executive, Independent</i>	4

During the period under review, four meetings of the Audit Committee of Directors were held on the following dates: August 16, 2013, November 05, 2013, February 06, 2014, and May 06, 2014.

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. Stakeholders' Relationship Committee *

The Committee met on August 14, 2013 during the year under review and the attendance of the members at the said meeting is provided in Table 3.

Table 3: Particulars of Stakeholders' Relationship 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 one complaint and it was redressed.

**Shareholders' / Investors Grievance was renamed as Stakeholders' Relationship Committee in compliance with Section 178 of Companies Act, 2013 on May 06, 2014.*

4. Directors' Remuneration

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

Table 4: Remuneration paid to Managing Director in respect of financial year 2013-2014.

Managing Director	Amount (₹ in Lakhs)*
Mr. Bhagya Chandra Rao	111.28

**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 (₹ in Lakhs) *	Sitting Fees (₹ in Lakhs)
Mr. M.N. Bhagwat	13.20	2.20
Mr. Vinayak K. Deshpande	5.50	1.90
Mr. B. Anjani Kumar	5.50	2.10
Mr. John Chang	NIL	NIL
Mr. Gerald Goubau	NIL	NIL
Ms. Michelle R. Keating	NIL	NIL

** Payable in FY15*

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. Nomination and Remuneration Committee *

The Committee met on August 16, 2013 and September 18, 2013 during the year under review and the attendance of the members at the said meeting is provided in Table 6.

Table 6: Particulars of the Nomination and Remuneration Committee of Directors and their attendance at the meeting:

Name of the Member	Number of meetings attended
1. Mr. B. Anjani Kumar, Chairman	2
2. Mr. M. N. Bhagwat, Member	2
3. Mr. Vinayak K. Deshpande, Member	2
4. Mr. John Chang, Member	Nil

* Remuneration Committee was renamed as Nomination and Remuneration Committee in compliance with Section 178 of Companies Act, 2013 on May 06, 2014.

6. Corporate Social Responsibility Committee

Table 7: Particulars of the Corporate Social Responsibility Committee of Directors

Name of the Member
1. Mr. M. N. Bhagwat, Member
2. Mr. B. Anjani Kumar, Member
3. Mr. Bhagya Chandra Rao, Member

The Committee was constituted on May 06, 2014 in compliance with Section 135, Companies Act, 2013. During the financial year no meeting was conducted.

7. General Meetings

Date & time	Location	Special Resolutions passed
46 th AGM – 2011 November 02, 2011 10.30 AM	Registered Office at 8/9th Mile, Tumkur Road, Bangalore – 560073	Nil
47 th AGM – 2012 November 08, 2012 10.30 AM	Registered Office at 8/9th Mile, Tumkur Road, Bangalore – 560073	Appointment of Mr. Bhagya Chandra Rao, as Managing Director and fixation of his remuneration.
48 th AGM – 2013 November 05, 2013 11.30 AM	Registered Office at 8/9th Mile, Tumkur Road, Bangalore – 560073	Constitution of Remuneration Committee and waiver of excess remuneration paid to erstwhile Managing Director Mr. Santanoo Medhi.

8. 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 2013-2014.
- 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.

Annexure II to the Directors' Report

- 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, 2014.
- The Company does not have any subsidiaries.
- The Company has not made any capital issues during the year ended June 30, 2014.
- 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, 2014.

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 possess adequate knowledge of their responsibilities, which they carry out effectively.

v) Others

The Company has not adopted the following clauses which are non-mandatory under Annexure ID to Clause 49 of the listing agreement as on June 30, 2014:

- Clause (1) to the extent of tenure of Independent Director
- Clause (6) mechanism for evaluating non-executive Board Members

9. Means of Communication

- Quarterly / half-yearly / annual financial results of the Company were forwarded to the BSE 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.
- 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:
http://www.kennametal.com/en-US/company_profile/KMT_India_financials.jhtml
- Management Discussion and Analysis Report is annexed to the Directors' Report.

General shareholders' information

Annual General Meeting:

The 49th Annual General Meeting of the Company is scheduled to be held at 12.00 Noon on November 04, 2014 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 27, 2014 to November 04, 2014 (both days inclusive).

Table 8: Financial calendar for the year 2014-15.

Event	Month (tentative)
Un-audited results for the quarter ending September 30, 2014	November, 2014
Un-audited results for the quarter ending December 31, 2014	January / February, 2015
Un-audited results for the quarter ending March 31, 2015	April / May, 2015
Audited results for the year ending June 30, 2015	July / August, 2015

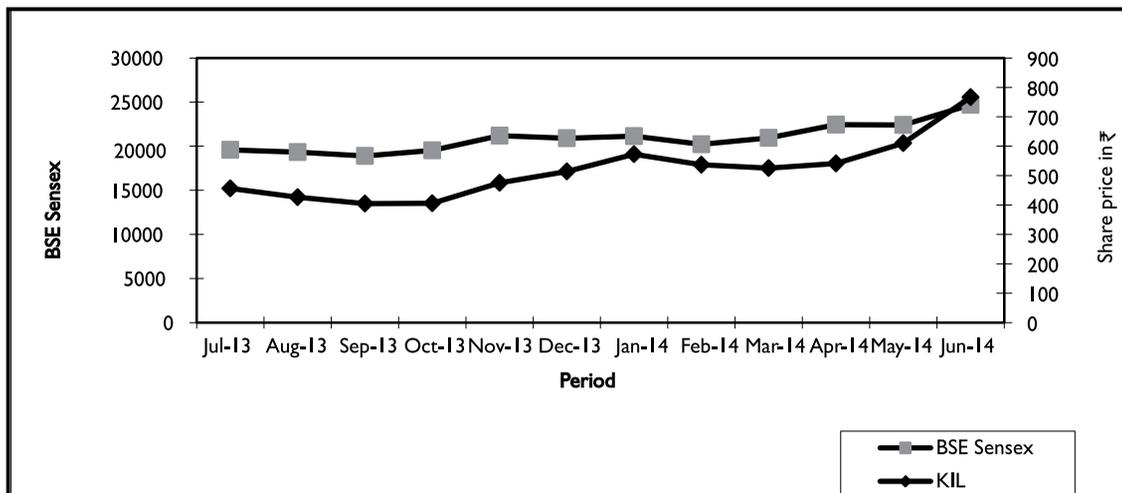
Stock Exchange:

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 2014-2015.

Table 9: Market Price Data - High/Low [closing price] on BSE, during each month of the period under review

Month	Year	High (₹)	Low(₹)
July	2013	456.15	408.3
August	2013	430.2	399.95
September	2013	434.9	401.05
October	2013	491.45	405.9
November	2013	525.7	458.6
December	2013	557.5	508.95
January	2014	572.75	526
February	2014	540.05	496.05
March	2014	558.8	522.05
April	2014	619.3	541.1
May	2014	768.1	596
June	2014	789.7	727.3

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

Table 10 : Share price performance in comparison with BSE Sensex*


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

Annexure II to the Directors' Report

Share Transfer Agents

Work related to both physical / demat shares is handled by 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 Integrated Enterprises (India) Limited, No.30, "Ramana Residency", 4th Cross, Sampige Road, Malleswaram, Bangalore - 560003, Phone: +91 (80) 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, **98.63%** of the equity shares of the Company are held in demat form.

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

Table 11 : Pattern of shareholding as on June 30, 2014.

Category	No. of shares	Percentage (%)
Promoters		
Meturit AG. - 11,208,840		
Kennametal Inc. - 5,274,840	16,483,680	75.00
Public		
Mutual Funds	3,171,939	14.43
Financial Institutions/Banks	1,040	0.00
Foreign Institutional Investors	Nil	0.00
Bodies Corporate	227,184	1.04
Individuals & others	2,094,397	9.53
Total	21,978,240	100.00

Table 12 : Distribution of shares as on June 30, 2014

No. of shares	No. of shareholders	Shares held
Upto 5000	5,663	1,294,605
5,001 to 10,000	48	341,891
10,001 to 20,000	24	330,462
20,001 to 30,000	5	123,830
30,001 to 40,000	1	32,462
40,001 to 50,000	1	42,593
51,001 to 100,000	3	211,311
100,001 and above	8	19,601,086
Total	5,753	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) 2346 0815 to 818.

Fax : +91 (80) 2346 0819.

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 / 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.

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, 2014 as stipulated in Clause 49 of the Listing Agreement of the said Company with BSE Limited, Mumbai 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, 2014, no investor grievances are pending against the Company as on June 30, 2014, 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.

Bangalore
August 12, 2014

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

Annexure IIA to the Directors' Report

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, 2014.

For Kennametal India Limited

Bhagya Chandra Rao
Managing Director
Bangalore
August 12, 2014

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

The Board of Directors
Kennametal India Limited

This is to certify that, to the best of our knowledge and belief:

- (i) We have reviewed the financial statements and the cash flow statement for the year ended **June 30, 2014** and that to the best of our knowledge and belief:
 - (a) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - (b) these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- (ii) There are, to the best of our knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violative of Company's Code of Conduct (Kennametal code of business ethics and conduct)
- (iii) We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of the internal control systems of the company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify such deficiencies.
- (iv) We have indicated to the auditors and the Audit committee
 - (a) that there were no significant changes in internal control during the year other than those which have already been brought to the notice of the Audit Committee of Directors and the Statutory Auditors
 - (b) that there were no significant changes in accounting policies during the year and that the same, if any, have been disclosed in the notes to the financial statements; and
 - (c) that there were no instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.
- (v) We declare that all Board members and senior management personnel have affirmed compliance with the code of conduct for the year ended **June 30, 2014**.

Bhagya Chandra Rao
CEO & Managing Director

D. Parameswara Reddy
Vice President & CFO

Bangalore
August 12, 2014

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 conservation 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 -

- 50 Nos. florescent lamps were replaced with T5 lamps.
- 75 Nos. CFL fittings were replaced with energy efficient LED fixtures in the office area.
- Lighting power was optimized by scheduling maintenance of Lighting Fixtures and validation of lighting levels in the factory was undertaken by an external agency.
- use of Air Guns / Preventive maintenance of Air Compressor facilitated in reducing the energy consumption of compressor by 5%.
- Improvement of loading pattern in Furnace which facilitated in reducing the power consumption in the Furnace by 3%.
- continued monitoring of the energy consumption on holidays and took steps to reduce energy consumption on the holidays.

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

The following proposals with an investment of ₹60 Lakhs are being considered for implementation in FY15 which in turn expected to reduce the energy consumption by 3 %:

- (i) Replacement of the existing conventional dust collectors with energy efficient dust collectors.
- (ii) Identification of the energy saving opportunities by an energy audit in FY 15
- (iii) Evaluation of the existing air-conditioning system to improve its efficiency
- (iv) Improvisation of furnace loading in sintering furnaces and sintering process in order

Annexure III to the Directors' Report

to reduce specific power consumption in sintering process.

- (v) The Company has also planned to reduce energy consumption by incorporating following green initiatives.

- (a) Incorporating the Variable Frequency Drives (VFDS) in sintering furnaces
- (b) Improvements in Air-conditioning systems
- (c) Use of solar energy

(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 aforesaid energy conservation projects the facility saved approximately 12 Lakh units in FY14.
- It has helped in reducing the electricity load by 60 KW in the facility at Bangalore
- Diesel Generation (DG) set fuel requirement has reduced by 24% in FY14 due to various engineering controls

(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 endeavor to indigenize products and develop 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

Annexure III to the Directors' Report

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

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

- i. Up-gradation of P10-P20 coated Cast Iron Milling grade
- ii. Up-gradation of P20-P30 coated Steel Milling grade and Gun drills
- iii. Up-gradation of 9%binder Metal Forming grade for Wire Drawing Pellet and Wear Part
- iv. Introduction of Post-Sintering process for Mining products for Performance Improvement
- v. Introduction of new grade for Pipe Milling for steel
- vi. Introduction of new grade for Pin Milling for Steel and Cast Iron
- vii. Introduction of new uncoated grade for Roll Turning application for Steel and Cast Iron
- viii. Recycled Machined carbide to Yellow Tungsten Oxide
- ix. Localization of global substrates and coatings
- x. Custom solutions to Metal Cutting and Metal Forming
- xi. Quality Improvement of current processes through Lean Six-Sigma projects in the area of Powder Manufacturing, Sintering and Coating:
 - a. Global standardization of Tray Coating process in Sintering
 - b. Powder standard cost reduction for two Mining grades
 - c. Sintering cycle time reduction for Alloy Binder grade

2. Benefits derived

- Improvement of product quality, Process lead time, Cost reduction, New products and a good value proposition to customers by improvement in product performance

3. Future plan of action

- Focus on Cold Heading Pellet grade
- Performance up-gradation of Metal Forming grades
- Indigenizing P15-P20 & P25-P30 CVD coated grade substrate
- Focus on Eco friendly and Dry milling for Powder Manufacturing
- Obsolescence of old grades
- Continued efforts towards Quality enhancement, Evolution of new products aligned with customer needs and with reduction in costs and lead time

4. Expenditure on R & D

(₹ in Lakhs)

	2014	2013
a) Capital	2	408
b) Recurring	493	551
c) Total	495	959
d) Total R & D expenditure (as a percentage to turnover)	0.90%	1.93%

b) Technology absorption, adaptation and innovation

1. Efforts, in brief, made towards technology absorption, adaptation and innovation
 - Establishment of global substrates and coatings
 - Modernization of Chemical lab in Research & Development
 - Global standardization of Sintering Recipe
2. Benefits derived as a result of the above efforts.
 - Up-gradation of Products performance and increased alignment with Global Process standardization
3. In case of imported technology (imported during the last five (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
New CVD Coatings	Kennametal Inc.	2013-14	Full

C] Foreign Exchange earnings and outgo

i) Activities relating to exports –

Your Company primarily exports its products to Germany, USA and China. During the year, your Company made exports worth ₹4679 Lakhs which is de-growth of 20% over FY13. This de-growth is primarily on account of huge machine tool order executed in FY13 to the extent of ₹1761 Lakhs. Excluding the Machine tool order for FY13, the exports have registered a growth of 15% Year Over Year in FY14.

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

- There has been special focus during the year to drive the tooling sales in China and other Asian markets such as Korea, Thailand etc.
- The European and American markets continue to be subdued. The Company has now been successful in placing foot prints in Asia for both the Hard metal and Machine tools segments. Your Company believes that this foot print in Asia market would bring in better returns in future years.

iii) Total foreign exchange used and earned:

(₹in Lakhs)

(i) Foreign Exchange earned	4663
(ii) Foreign Exchange used	26386

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, 2014, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information, 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 notified under the Companies Act, 1956 (the "Act") read with the General Circular 15/2013 dated September 13, 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013. 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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, 2014;
 - (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 notified under the Companies Act, 1956 read with the General Circular 15/2013 dated September 13, 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013; and

- (e) On the basis of written representations received from the directors as on June 30, 2014, and taken on record by the Board of Directors, none of the directors is disqualified as on June 30, 2014, 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

Bangalore

August 12, 2014

Membership Number: 204627

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, 2014.

- 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. Accordingly, commenting on transactions made in pursuance of such contracts or arrangements does not arise.
- vi. The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
- 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 subsection (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.

ix. (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, 2014, 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 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
		4,610,113 (*1)	April 2006 to June 2013	The Customs, Excise & Service Tax Appellate Tribunal, Bangalore
The Finance Act, 1994	Service tax	576,157 (*2)	April 2007 to March 2008	The Customs, Excise & Service Tax Appellate Tribunal, 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 (*3)	April 2003 to March 2004	The Sales Tax Appellate Tribunal, Hyderabad
The Delhi Sales Tax Act, 1975	Sales tax	78,550 (*4)	April 2004 to March 2005	The Joint Commissioner Appeals, Delhi
The Central Sales Tax Act, 1956	Sales tax	5,711,151	April 2006 to March 2010	The High Court of Karnataka
The Karnataka Value Added Tax Act, 2003	Sales tax	820,124	April 2005 to March 2010	The High Court of Karnataka
The Karnataka Tax on Entry of Goods Act, 1979	Entry tax	Nil (*5)	April 2010 to June 2014	The Commissioner of Commercial Taxes, Bangalore
The Uttar Pradesh Value Added Tax Act, 2008	Sales tax	Nil (*6)	May 2011	The Joint Commissioner of Appeals, Sonabhadra, Uttar Pradesh
The Karnataka Value Added Tax Act, 2003	Sales Tax	Nil (*7)	April 2005 to March 2006	The Joint Commissioner of Appeals, Bangalore
The Income Tax Act, 1961	Income tax	2,198,066 (*8)	April 1993 to March 1994; and April 1999 to March 2001	The Supreme Court of India
		Nil (*9)	April 1999 to March 2001	The Commissioner Income Tax (Appeals), Bangalore
		Nil (*10)	April 2006 to March 2007	The Income Tax Appellate Tribunal, Bangalore
		Nil (*11)	April 2007 to March 2008	The Commissioner Income Tax (Appeals) LTU, Bangalore
		25,165,440 (*12)	April 2008 to March 2009	The Commissioner Income Tax (Appeals) LTU, Bangalore
		53,038,036	April 2009 to March 2010	The Commissioner Income Tax (Appeals) LTU, Bangalore

(*1) Net of ₹ 5,094,915 paid "under protest".

(*2) Net of ₹ 576,227 paid "under protest".

(*3) Net of ₹ 5,872,886 paid "under protest".

(*4) Net of ₹ 78,550 paid "under protest".

(*5) Net of ₹ 5,632,692 paid "under protest".

- (*6) Net of ₹ 404,400 paid “under protest”.
- (*7) Net of ₹ 370,000 paid “under protest”.
- (*8) Net of ₹ 750,375 paid “under protest”.
- (*9) Net of ₹ 27,667,829 paid “under protest”.
- (*10) Net of ₹ 69,776,571 paid “under protest”.
- (*11) Net of ₹ 54,009,650 paid “under protest”.
- (*12) 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

Bangalore
August 12, 2014

Membership Number: 204627

BALANCE SHEET

(All amounts in ₹ Lakhs unless otherwise stated)

	Notes	As at June 30, 2014	As at June 30, 2013
EQUITY AND LIABILITIES			
SHAREHOLDERS' FUNDS			
Share Capital	3	2198	2198
Reserves and Surplus	4	31142	29435
NON CURRENT LIABILITIES			
Long-term Provisions	5	888	935
CURRENT LIABILITIES			
Trade Payables	6	4721	5878
Other Current Liabilities	7	3437	3072
Short-term Provisions	8	573	528
		42959	42046
ASSETS			
NON-CURRENT ASSETS			
Fixed Assets	9		
Tangible Assets	(A)	11387	12459
Intangible Assets	(B)	33	96
Capital Work-in-Progress		522	1,261
Deferred Tax Assets (Net)	10	644	162
Long-term Loans and Advances	11	3113	2930
Other Non-Current Assets	12	63	69
CURRENT ASSETS			
Current Investments	13	-	65
Inventories	14	9563	9502
Trade Receivables	15	10783	8868
Cash and Bank Balances	16	5660	5371
Short-term Loans and Advances	17	1146	1166
Other Current Assets	18	45	97
		42959	42046

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

For and on behalf of Board of Directors

Shivakumar Hegde
Partner
Membership Number: 204627

Bhagya Chandra Rao
Managing Director

M. N. Bhagwat
Chairman

Bangalore
August 12, 2014

Parameswara 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, 2014	Year ended June 30, 2013
REVENUE			
Revenue from operations (Gross)	19	58565	52,726
(Less): Excise Duty		(4052)	(3749)
Revenue from operations (Net)		54513	48977
Other Income	20	638	768
TOTAL REVENUE		55151	49745
EXPENSES			
Cost of Material consumed	21	17188	14518
Purchase of Stock in trade	22	11902	11312
Changes in Inventories of Finished goods, Work-inprogress and Stock in trade	23	(6)	(15)
Employee benefits expense	24	9837	8927
Depreciation and amortisation expense	9	2659	2669
Other Expenses	25	10593	10376
TOTAL EXPENSES		52173	47787
PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX		2978	1958
Less: Exceptional items	43	1020	-
PROFIT AFTER EXCEPTIONAL ITEMS AND BEFORE TAX		1958	1958
TAX EXPENSE:			
Current Tax		1010	560
Tax Adjustments relating to earlier years		(277)	(112)
Deferred Tax charge/(credit)		(482)	25
PROFIT FOR THE YEAR		1707	1485
Earning per Equity Share [Nominal Value per share ₹10 (2013:₹10)]			
- Basic		7.77	6.76
- Diluted		7.77	6.76

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

For and on behalf of Board of Directors

Shivakumar Hegde
Partner
Membership Number: 204627

Bhagya Chandra Rao
Managing Director

M. N. Bhagwat
Chairman

Bangalore
August 12, 2014

Parameswara Reddy D
Vice President & CFO

Kundan Kumar Lal
Company Secretary

CASH FLOW STATEMENT

(All amounts in ₹ Lakhs unless otherwise stated)

	Year ended June 30, 2014	Year ended June 30, 2013
I CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation and Exceptional Items	2978	1958
Adjustments for:		
Depreciation and amortisation expense	2659	2669
Liabilities no longer required written back	(177)	(322)
Provision for product support	71	-
Bad debts written off	-	2
Provision made for doubtful debts and deposits	8	95
Fixed assets written off	8	1
Loss/(Profit) on sale of tangible assets (net)	(3)	(9)
Interest Income	(7)	(13)
Unrealised Foreign Exchange (Gain)/ Loss	(120)	36
Operating profit before working capital changes	5417	4417
Adjustment for working capital changes		
Decrease/(Increase) in Inventories	(61)	834
Decrease/(Increase) in Trade and Other Receivables	(1806)	797
(Decrease)/Increase in Liabilities and provisions	(610)	(1349)
Cash generated from Operations	2940	4699
Income Taxes paid (net of refunds)	(841)	(1420)
Net cash generated from operations before exceptional Items	2099	3279
Exceptional Items		
Voluntary retirement and separation schemes compensation paid	(1020)	-
Net Cash from / (used in) Operating activities	1079	3279
2 CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(794)	(2413)
Sale of Fixed assets	4	10
Interest received	7	13
Net Cash from / (used in) Investing activities	(783)	(2390)
3 CASH FLOW FROM FINANCING ACTIVITIES		
Unclaimed dividend paid	(7)	(1)
Net Cash from / (used in) Financing activities	(7)	(1)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS (1+2+3)	289	888
OPENING CASH EQUIVALENTS	5371	4483
CLOSING CASH EQUIVALENTS (refer note 3 below)	5660	5371

CASH FLOW STATEMENT

(All amounts in ₹ Lakhs unless otherwise stated)

Notes:

- The Cash Flow Statement has been compiled from and is based on the Balance Sheet as at June 30, 2014 and the related Statement of Profit and Loss for the year ended on that date.
- The Cash Flow Statement has been prepared under the indirect method as set out in the Accounting Standard 3 on "Cash Flow Statement" as notified under Section 211(3C) of the Companies Act, 1956 and the reallocation required for this purpose are as made by the company.
- Cash equivalents at the end of the period :

	June 30, 2014	June 30, 2013
Cash and Bank balances [including ₹ 3 (2013: ₹10) in dividend accounts]	1057	1570
Current investments in mutual funds (*)	4603	3801
	5660	5371

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

- 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

For and on behalf of Board of Directors

Bhagya Chandra Rao
Managing Director

M. N. Bhagwat
Chairman

Shivakumar Hegde

Partner

Membership Number: 204627

Bangalore

August 12, 2014

Parameswara 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. Pursuant to circular 15/2013 dated September 13, 2013 read with circular 08/2014 dated April 4, 2014 till the Standards of Accounting or any addendum thereto are prescribed by Central Government in consultation and recommendation of the National Financial Reporting Authority, the existing Accounting Standards notified under the Companies Act, 1956 shall continue to apply. Consequently, 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 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 – 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 useful life of the asset or primary lease period, whichever is lesser. Machinery spares of irregular usage are amortised over the estimated useful life of the respective Plant and Machinery. Individual assets costing up to ₹ 5000 is fully depreciated in the year of acquisition.

NOTES TO FINANCIAL STATEMENTS

b. Leased assets

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

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 stated 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.

NOTES TO FINANCIAL STATEMENTS

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.

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

Capital expenditure on Research and Development is capitalised as tangible fixed assets and depreciated in accordance with the depreciation policy of the Company. Revenue expenditure incurred during research phase is expensed as incurred and development expenditure is capitalised as an internally generated intangible asset only if it meets the recognition criteria under Accounting Standard (AS) 26 "Intangible Assets", which inter-alia includes demonstration of technical feasibility, generation of future economic benefits, etc. Revenue expenditure that cannot be distinguished between research phase and development phase is expensed as and when incurred.

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) and HDFC Life Insurance Company Limited (HDFC). 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 cannot 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.

NOTES TO FINANCIAL STATEMENTS

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.
- vi) Termination benefits are recognised only when the company is demonstrably committed either to terminate the employment of an employee or a group of employees before the normal retirement age. In the case of an offer made to encourage voluntary redundancy, a liability and an expense is recognised if it is probable that the offer will be accepted and the number of employees that will accept the offer can be reliably estimated.

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 that an outflow of resources will be required to settle or a reliable estimate of the 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

NOTES TO FINANCIAL STATEMENTS

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".
- 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 include 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.

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

	As at June 30, 2014	As at June 30, 2013
3. SHARE CAPITAL		
AUTHORISED SHARE CAPITAL		
21,978,240 (2013: 21,978,240) Equity Shares of ₹10 each	2198	2198
ISSUED, SUBSCRIBED AND PAID-UP CAPITAL		
21,978,240 (2013: 21,978,240) Equity Shares of ₹10 each	2198	2198
	2198	2198
(a) Reconciliation of number of shares outstanding: Equity Shares		
Share outstanding at the beginning of the year	21978240	21978240
Shares outstanding at the end of the year	21978240	21978240
(b) Rights, preferences and restrictions attached to shares		
<p>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.</p>		
(c) Shares held by ultimate holding company and holding company		
	No. of Shares	Amount
Kennametal Inc. USA, the ultimate holding company	5274840	527
Meturit AG., Zug, Switzerland, the holding company	11208840	1121
(d) Details of shares held by shareholders holding more than 5% of the aggregate shares in the Company	No. of Shares	%
Kennametal Inc. USA, the ultimate holding company	5274840	24.00%
Meturit AG., Zug, Switzerland, the holding company	11208840	51.00%
Reliance Capital Trustee Company Limited	2023837	9.21%
[Note (i) below]		
Note:		
(i) 1,520,450 (2013: 1,350,850) shares are held by Reliance Equity Opportunity Fund comprising 6.92% (2013: 6.15%) of the shareholding and 503,387 (2013: 495,841) shares are held by Reliance Tax Saver (ELSS) Fund comprising 2.29% (2013: 2.25%) of the shareholding.		
4. RESERVES AND SURPLUS		
i) Securities Premium Account		
Balance as at the beginning of the year	9	9
Balance as at the end of the year	9	9
ii) General Reserve		
Balance as at the beginning of the year	14884	14884
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	14542	13057
Add: Profit for the year	1707	1485
Balance as at the end of the year	16249	14542
	31142	29435

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

	As at June 30, 2014	As at June 30, 2013
5. LONG TERM PROVISIONS		
Provision for Employee benefits:		
Gratuity	203	280
Leave Encashment/ Compensated Absences	553	523
Provision for disputed taxes and duties	132	132
	888	935
6. TRADE PAYABLES		
Dues to Micro Enterprises and Small Enterprises	69	64
Others	4652	5814
	4721	5878
7. OTHER CURRENT LIABILITIES		
Advances/ Deposits from customers	1098	1158
Unclaimed dividends *	3	10
Forward contract payable [net of forward contract receivable: Nil(2013: ₹ 958)]	-	10
Other liabilities:		
Employee benefits payable	913	574
Statutory dues (including provident fund and tax deducted at source)	1423	1320
	3437	3072
* 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	20	27
Leave Encashment/ Compensated Absences	224	243
Provision for Product support	329	258
	573	528

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

9. FIXED ASSETS

Particulars	GROSS BLOCK (AT COST)			DEPRECIATION/AMORTISATION			NET BLOCK		
	July 1, 2013	Additions	Deletions	June 30, 2014	July 1, 2013	Additions	Deletions	June 30, 2014	June 30, 2013
Tangible Assets :									
<i>Own Assets:</i>									
Land (Note below)	6	-	-	6	-	-	-	6	6
Buildings	1198	207	-	1405	580	63	-	762	618
Plant and Machinery:									
Data Processing Equipment	1053	146	78	1121	667	197	77	334	386
Others	30080	1032	659	30453	18975	2224	656	9910	11105
Furniture and Fixtures	488	15	-	503	359	44	-	403	129
Leasehold Improvements	57	-	-	57	51	3	-	54	6
Office Equipment	470	133	17	586	298	61	12	347	172
<i>Leased Assets:</i>									
Buildings	49	-	-	49	12	4	-	33	37
TOTAL (A)	33401	1,533	754	34180	20942	2596	745	22793	11387
Intangible Assets:									
Software	492	-	-	492	396	63	-	459	96
TOTAL (B)	492	-	-	492	396	63	-	459	96
GRAND TOTAL (A+B) 2013	33893	1533	754	34672	21338	2659	745	23252	11420
	32202	2171	480	33893	19149	2669	480	21338	13053

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 Areas 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 5, 2012 referred the matter to Bangalore City Civil Court as certain third parties raised objection on awarding of compensation and ownership to land. The Company filed a writ petition with The High Court of Karnataka for quashing the said KIADB order and thereby 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 Bangalore City Civil Court to complete the proceedings within six months from receipt of the order. The Bangalore City Civil Court has passed a judgement in June 2014 accepting the claim of the Company over the compensation amount it is entitled to in respect of the said land. However, the copy of the judgement is not yet available and the Company has also been instructed to execute an indemnity bond together with surety to the extent of the compensation amount. Considering the conditions and uncertainty involved, 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)

		ASSET		(LIABILITY)	
		2014	2013	2014	2013
10. DEFERRED TAX ASSETS (NET)					
The major components of Deferred Tax assets and liabilities arising on account of timing difference are as follows:					
Provision for Gratuity and Leave encashment	340	365			
Provision for product support	106	88			
Provision for doubtful debts	49	46			
Provision for non moving and obsolete inventory	265	253			
Voluntary Retirement Scheme	169	-			
Others	52	74			
Depreciation	-	-	(337)	(664)	
	981	826	(337)	(664)	
Net Deferred Tax Asset/ (Liability)	644	162			
Net Deferred Tax (Credit)/ Charge for the year	(482)	25			
11. LONG TERM LOANS AND ADVANCES					
(Unsecured, considered good unless stated otherwise)					
Advance tax [net of provision ₹ 18259 (2013: ₹17249)]			2728	2620	As at June 30, 2014
Balance with Statutory / Government Authorities			307	221	As at June 30, 2013
Capital Advances			55	57	
Employee Advances			23	32	
			3113	2930	
12. OTHER NON CURRENT ASSETS					
(Unsecured, considered good unless stated otherwise)					
Deposits			59	65	
Prepaid Expenses			4	4	
			63	69	
13. CURRENT INVESTMENTS					
UNQUOTED					
Non-Trade - Investments in Government Securities					
6% NHAI 54EC Bonds 2010-11 (Face Value of ₹ 10000 each)			-	50	
6% NHAI 54EC Bonds 2011-12 (Face Value of ₹ 10000 each)			-	15	
			-	65	
14. INVENTORIES					
Raw materials [Including goods in transit ₹ 250 (2013: ₹ 337)]			1730	1569	
Stores and spares			100	213	
Work-in-progress			4598	4277	
Finished goods			2663	2634	
Traded goods			472	809	
			9563	9502	

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

	As at June 30, 2014		As at June 30, 2013
15. TRADE RECEIVABLES			
(Unsecured, unless stated otherwise)			
Considered good			
Exceeding six months from the date they are due for payment	253		358
Others	10530		8510
Considered Doubtful			
Exceeding six months from the date they are due for payment	141	100	
Others	1	35	135
(Less): Provision for doubtful debts	(142)		(135)
	10783		8868
16. CASH AND BANK BALANCES			
Cash and Cash Equivalents			
Cash on hand	2		3
Cheques on hand	162		170
Bank Balances			
Current accounts	890		787
Demand Deposits (less than 3 months maturity)	-		600
Short term highly liquid investments (Mutual Funds)	4603		3801
Other Bank balances			
Unpaid Dividend Account	3		10
	5660		5371
17. SHORT TERM LOANS AND ADVANCES			
(Unsecured, considered good unless stated otherwise)			
Considered good			
Loans to employees	75		38
Advance to Managing Director	-		30
Other Loans and Advances			
Advance to supplier	103		180
Balance with Statutory / Government Authorities	839		733
Prepaid Expenses	129		185
	1146		1166
18. OTHER CURRENT ASSETS			
(Unsecured, considered good unless stated otherwise)			
Interest accrued on Current Investments	-		4
Margin money deposit (Note)	-		25
Forward contract Receivable [net of forward contract payable: ₹1192 (2013: Nil)]	2		-
Other receivables [including due from related parties ₹ 26 (2013: ₹ 45)]	40		63
Other deposits	4	5	
[including ₹1 (2013: Nil) considered doubtful]			
(Less): Provision for doubtful deposits	(1)	-	5
	45		97
Note: Held as lien by bank against guarantees.			

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

	Year ended June 30, 2014	Year ended June 30, 2013
19. REVENUE FROM OPERATIONS		
SALE OF PRODUCTS		
Manufactured goods	39870	36722
Traded goods	18066	15432
OTHER OPERATING REVENUE		
Service Income	591	519
Sale of scrap	38	53
	58565	52726
Details of Sales (Manufactured goods)		
Hard Metal and Hard Metal Products	28754	25776
Machine Tools and Accessories	11116	10946
	39870	36722
Details of Sales (Traded goods)		
Hard Metal and Hard Metal Products	18066	15432
	18066	15432
20. OTHER INCOME		
Dividend Income	236	213
Interest from Bank	3	2
Interest from Others	4	56
Liabilities no longer required written back	177	322
Profit on sale of fixed assets (net)	3	9
Exchange gain (net)	3	-
Lease Rentals	114	58
Miscellaneous income	98	108
	638	768
21. COST OF MATERIALS CONSUMED		
Opening Inventory	1569	2482
Add: Purchases	17349	13605
(Less:) Closing Inventory	(1730)	(1569)
Cost of Raw materials and components consumed	17188	14518
22. PURCHASE OF STOCK IN TRADE		
Stock-in-Trade (Traded Goods)	11902	11312
	11902	11312

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

	Year ended June 30, 2014		Year ended June 30, 2013
23. CHANGES IN INVENTORIES OF FINISHED GOODS, WORK- IN- PROGRESS AND STOCK IN TRADE			
Opening stock:			
Work-in-progress	4277		4385
Finished goods	2634		2349
Traded goods	809		931
	<u>7720</u>		<u>7665</u>
Closing stock:			
Work-in-progress	4598		4277
Finished goods	2663		2634
Traded goods	472		809
	<u>7733</u>		<u>7720</u>
(Increase)/ Decrease in stocks	(13)		(55)
Excise duty on opening stock of finished goods	(496)		(456)
Excise duty on closing stock of finished goods	503		496
Increase/ (Decrease) in excise duty	7		40
	<u>(6)</u>		<u>(15)</u>
24. EMPLOYEE BENEFITS EXPENSE			
Salaries, wages and bonus	8545		7608
Contribution to provident and other funds	652		691
Staff welfare expenses	640		628
	<u>9837</u>		<u>8927</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

	Year ended June 30, 2014		Year ended June 30, 2013
25. OTHER EXPENSES			
Power and fuel	1272		1387
Stores and spares consumed (Net of insurance claim received ₹ 245 (2013:Nil))	1973		1568
Subcontracting charges	1219		1226
Repairs and maintenance:			
Buildings	35	6	
Plant and machinery [includes stores and spares consumed ₹ 337 (2013: ₹ 328)]	756	676	682
Rent	48		43
Rates and taxes	125		107
Insurance	298		241
Travelling and conveyance	1076		1149
Legal and professional [Refer Note (a) below]	341		260
Communication	137		176
Directors' Sitting Fee	6		5
Excise duty on samples, free issues and others	192		181
Packing, forwarding and freight	327		317
Provision for product support (net)	71		-
Royalty	307		308
Printing and stationery	75		89
Advertisement and sales promotion	60		364
Provision doubtful debts and deposits (Net)	8		95
Bad debts written off	-		2
Commission on sales	173		183
Fixed Assets written off	8		1
Information Technology services	1319		1219
Exchange loss (net)	-		18
Miscellaneous	767		755
	10593		10376

Note:(a) Payments to Auditors (excluding service tax) included under Legal and Professional above:			
Statutory Audit	20		20
Audit of Tax Accounts and Tax Audit	4		4
Other Audit related Services	38		37
Certification	3		3
Out of pocket expenses	4		1

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

26. CAPITAL AND OTHER COMMITMENTS:

Capital Commitments (net of advances) ₹ 263 (2013: ₹ 186)

27. CONTINGENT LIABILITIES

Nature of Contingent Liability	2014	2013
Income Tax matters [Note (a)]	2294	1763
Excise Duty/ Service Tax matters under dispute	101	111
Sales Tax matters under dispute	65	86

Notes:

- Mainly relates to transfer pricing adjustments made by the Income Tax Department for the tax assessment years 2007-08, 2008-09, 2009-10 and 2010-11, 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 ₹ 1774 (2013: ₹ 1489) to the Income Tax Department in this regard.
- There are certain non-quantifiable industrial disputes pending before various judicial authorities.
- Considering the very nature of the above contingent liabilities, the estimate/ timing of cash outflow, if any, is not readily ascertainable.

28. PARTICULARS OF MATERIALS AND STORES AND SPARES:

Raw Materials and Components consumed	2014		2013	
	%	Value	%	Value
-Imported	58	9933	56	8187
-Indigenous	42	7255	44	6331
Total	100	17188	100	14518

Stores and Spares consumed

- Imported	26	664	10	181
- Indigenous	74	1891	90	1715
Total	100	2555	100	1896

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

	2014	2013
Raw materials	12207	9526
Stores and spares	1990	1350
Capital goods	399	1356

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

30. EXPENDITURE IN FOREIGN CURRENCY:

	2014	2013
Travelling and conveyance	130	79
Information Technology Services	1319	1219
Royalty	307	308
Others	220	331

31. EARNINGS IN FOREIGN CURRENCY:

	2014	2013
Export of goods calculated on F.O.B. basis	4663	5368

Note: The above excludes reimbursement of expenses from related parties ₹ 140 (2013: ₹117)

32. PARTICULARS OF RESEARCH AND DEVELOPMENT (R&D) EXPENDITURE (Note):

a) Revenue Expenditure

	2014	2013
Revenue expenditure debited to various heads of account:		
Material Consumed	43	62
Employment Cost	367	341
Other Expenses	83	148
Total	493	551

b) Capital

Description	Manufacturing	R&D	Total
As at June 30, 2013	32849	1044	33893
Additions during the year	1531	2	1533
Deletions during the year	733	21	754
As at June 30, 2014	33647	1025	34672

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.

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

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

		2014	2013
a)	The principal amount remaining unpaid as at June 30, 2014	69	64
	Interest due thereon remaining unpaid on June 30, 2014	*	-
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, 2014 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	-	-

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

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

34. 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	2014	2013
1.	Birla Sun Life Cash Plus - Daily Dividend – Regular plan	1501	1000
2.	DSP BR Liquidity Fund –Inst- DD	650	1001
3.	ICICI Prudential Liquid – Regular plan - Daily Dividend	-	400
4.	Franklin India Treasury Management Account - Super – Daily Dividend Reinvestment	1251	1000
5.	IDFC Cash Fund - Daily Dividend – (Regular Plan)	1201	400
TOTAL (Refer Note:16)		4603	3801

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

35. 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 AS-15 “Employee Benefits” is given below

		Gratuity (Funded)		Provident Fund (Trust set up by employer)	
		2014	2013	2014	2013
I	Present Value of Defined Benefit Obligation				
a.	Obligation as at the beginning of the year	1694	1377	5842	4936
b.	Current Service Cost	147	161	1064	830
c.	Interest Cost	125	107	467	381
d.	Actuarial (Gain)/Loss	67	97	11	(32)
e.	Benefits Paid	(539)	(48)	(1055)	(273)
f.	Obligation as at the end of the year	1494	1694	6329	5842
II	Fair Value of Planned Assets				
a.	Fair Value of Plan Assets as at the beginning of the year	1387	1065	6613	5265
b.	Expected return on Plan Assets	112	93	446	446
c.	Actuarial Gain/(Loss)	1	15	1	183
d.	Contributions	310	262	809	992
e.	Benefits Paid	(539)	(48)	(1055)	(273)
f.	Fair Value of Plan Assets as at the end of the year	1271	1387	6814	6613
III	Assets and Liabilities recognised as liability				
a.	Present Value of Obligation as at the end of the year	1494	1694	6329	5842
b.	Fair value of Plan Assets as at the end of the year	(1271)	(1387)	(6814)	(6613)
c.	Amount recognised in the Balance Sheet	223	307		
Recognised under:					
Long term Provision		203	280		
Short term provision		20	27		
Total		223	307		
		Gratuity		PF Cost *	
IV	Expense recognised in the Statement of Profit and Loss				
a.	Current Service Cost	147	161	1064	830
b.	Interest Cost	125	107	467	381
c.	Expected return on Plan Assets	(112)	(93)	(446)	(446)
d.	Actuarial (Gain)/Loss	66	82	10	(215)
e.	Expense recognised during the year	226	257	1095	550

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

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		2014	2013	2014	2013	
	Government Securities (Central & State)	-	-	51%	42%	
	Corporate Bonds	-	-	49%	48%	
	Special Deposit account with Bank	-	-	-	10%	
	Contributed to Fund managed by LIC (an insurance company)	95%	100%	-	-	
	Contributed to Fund managed by HDFC (an insurance company)	5%	-	-	-	
VI. Actuarial Assumptions						
a.	Discount Rate (per annum)	8.78%	7.93%	8.78%	7.93%	
b.	Interest Rate (per annum)	8.78%	7.93%	8.78%	7.93%	
c.	Estimated Rate of return on Plan Assets (per annum)	8.78%	7.93%	8.78%	7.93%	
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)				
		2014	2013	2012	2011	2010
a	Defined Benefit Obligation	1494	1694	1377	1271	1212
b	Plan Assets	1271	1387	1065	950	852
c	(Surplus)/ Deficit	223	307	312	321	360
d	Experience Gain / (Loss) adjustments on plan liabilities	43	91	73	(4)	(53)
e	Experience Gain / (Loss) adjustments on plan assets	1	15	3	-	98
f	Actuarial Gain / (Loss) due to change on assumptions	24	6	(1)	(1)	(25)
VIII. Provident fund (Trust set up by employer)		2014	2013	2012	2011	2010
a.	Defined Benefit Obligation	6329	5842	4936	*	*
b.	Plan Assets	6814	6613	5265		
c	(Surplus)/ Deficit	(485)	(771)	(329)		
d	Experience Gain / (Loss) adjustments on plan liabilities	11	(32)	(12)		
e	Experience Gain / (Loss) adjustments on plan assets	1	123	13		
f	Actuarial Gain / (Loss) due to change in assumptions	-	60	-		

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

*The Guidance Note on implementation of AS 15 -" 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 AS 15. Pursuant to the Guidance Note,during the year the liability in respect of the shortfall of interest earning by the Fund if any is determined on the basis of actuarial valuation carried out as at June 30th, 2014 and ascertained to be Nil (2013:Nil).

IX. Expected Contribution to the funds in the next year	Year ended	
	2014	2013
Particulars		
Gratuity	286	282
Provident Fund	351	371

- i) The discount rate is based on the prevailing market yield on Government securities as at the balance sheet date for the estimated term of obligations.
 - ii) The expected return on plan assets is determined considering several applicable factors mainly the composition of plan assets held, assessed risk of asset management, historical results of the return on plan assets, and the company's policy for plan asset management.
 - iii) The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market.
- b) The Company has recognised in the Statement of Profit and Loss for the year ended June 30, 2014 an amount of ₹ 410 (2013: ₹ 408) as follows:

Benefit (Contribution to)	2014	2013
Provident Fund	346	342
Employees' Pension Scheme	59	61
Employees' State Insurance Scheme	5	5
Total	410	408

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

36. 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 separate business segments, for primary segment reporting as envisaged in AS 17 “Segment Reporting”. The Company’s products are sold in the 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	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenue						
Revenue from operations (Gross)	11202	10998	47363	41728	58565	52726
(Less:) Excise Duty	1018	958	3034	2791	4052	3749
Revenue from operations (Net)	10184	10040	44329	38937	54513	48977
Other Income (excluding Interest Income)	35	93	238	302	273	395
Total Revenue	10219	10133	44567	39239	54786	49372
Result						
Segment Result	1365	1292	3975	2824	5340	4116
Unallocated Corporate Expenses (Net of Income)					2369	2216
Operating Profit/(Loss)					2971	1900
Exceptional items					1020	
Interest Income					7	58
Income Tax - Deferred					(482)	25
Income Tax - Current					733	448
Net Profit / (Loss)					1707	1485
Segment Assets	3394	3486	29246	29346	32640	32832
Unallocated Corporate Assets					10319	9214
Total Assets	3394	3486	29246	29346	42959	42046
Segment Liabilities	2313	2012	6988	8040	9301	10052
Unallocated Corporate Liabilities					318	361
Total Liabilities	2313	2012	6988	8040	9619	10413
Capital Expenditure	104	116	585	2,058	689	2174
Unallocated Capital Expenditure				-	102	15
Total Capital Expenditure	104	116	585	2058	791	2189
Depreciation	151	164	2391	2401	2542	2565
Unallocated Depreciation					117	104
Total Depreciation	151	164	2391	2401	2659	2669

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		Assets	
	2014	2013	2014	2013
India	49834	43139	42959	42046
Europe	1644	1320	-	-
USA	1225	1180	-	-
Rest of the world	1810	3338	-	-
Total	54513	48977	42959	42046

37. EARNINGS PER EQUITY SHARE

Particulars	2014	2013
Profit attributable to equity shareholders	1707	1485
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 (₹)	7.77	6.76

38. Accounting and disclosure for leases has been made in accordance with the AS 19 as follows:

Operating Lease:

The Company has operating leases for premises, motor vehicles and office facilities. These lease arrangements range for a period between 9 months and 5 years, which include both cancellable and non-cancellable leases. Cancellable leases are generally with options of renewal against increased rent and premature termination of agreement through notice period of 1 to 3 months.

Particulars	2014	2013
Lease Payments recognised in Statement of Profit and Loss during the year (including minimum lease payments: ₹12 (2013: ₹12))	217	180

With respect to Non-Cancellable operating leases, the future minimum lease payments are as follows:

Particulars	2014	2013
Future Minimum Lease Payments:		
Not later than one year	12	12
Later than one year but not later than five years	7	19
Later than five years	-	-

NOTES TO FINANCIAL STATEMENTS
39. RELATED PARTY DISCLOSURES

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

(All amounts in ₹ Lakhs unless otherwise stated)

	PARTIES WHERE CONTROL EXIST [B(a)]		FELLOW SUBSIDIARIES [B(b)]		KEY MANAGEMENT PERSONNEL [B(c)]		TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013
SALES - TOTAL	2853	2472	1788	1104			4641	3576
In excess of 10%								
Kennametal Europe GmbH, Switzerland	1628	1319					1628	1319
Kennametal Inc., USA	1225	1153					1225	1153
Kennametal Distribution Services Asia Pte. Ltd., Singapore			984	628			984	628
SERVICES RENDERED- OTHERS	-	-	92	82			92	82
Services Rendered Others - in excess of 10%								
Kennametal Shared Services Private Limited, India			92	82			92	82
REIMBURSEMENT OF EXPENSES (Credit)	27	33	171	85			198	118
Reimbursement of Expenses - in excess of 10%								
Kennametal Inc., USA	27	33					27	33
Kennametal Shared Services Private Limited, India			58	1			58	1
Kennametal Distribution Services Asia Pte. Ltd., Singapore			10	40			10	40
Kennametal Extrude Hone Ltd., England			50	30			50	30
FINANCE								
Interest on Loan - Others in excess of 10%				13				13
Interest Income - from Kennametal Stellite India P. Ltd., India				13				13
MANAGERIAL REMUNERATION- TOTAL					141	108	141	108
Santanoo Medhi					30	28	30	28
Bhagya Chandra Rao					111	80	111	80
PURCHASES - TOTAL	16908	14232	587	1588			17495	15820
PURCHASE OF GOODS- CAPITAL GOODS								
Purchase of Capital Goods- Others in excess of 10 %				169				169
Kennametal Extrude Hone Corporation, USA				114				114
Extrude Hone Shangai Co. Ltd., China				45				45
PURCHASE OF GOODS- OTHERS	16908	14232	587	1419			17495	15651
Purchase of Goods- Others in excess of 10 %								
Kennametal Europe GmbH, Switzerland	12203	9102					12203	9102
Kennametal Inc., USA	4705	5130					4705	5130

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	
	2014	2013	2014	2013	2014	2013	2014	2013
<u>SERVICES RECEIVED / RECHARGE OF EXPENSES - TOTAL</u>	1527	1472	146	318			1673	1790
<u>SERVICES RECEIVED - INFORMATION TECHNOLOGY SERVICES</u>	1319	1219	-	-			1319	1219
In excess of 10% Kennametal Inc., USA	1319	1219					1319	1219
<u>ROYALTY PAYMENTS</u>	195	212	112	96			307	308
In excess of 10% Kennametal Inc., USA	195	212					195	212
Hanita Metal Works Ltd. (P), Israel	13	41	112	96			112	96
<u>RECHARGE OF EXPENSES - TOTAL</u>	13	41	34	222			47	263
In excess of 10% Kennametal Inc., USA	13	41	17	-			13	41
Kennametal Shared Services Pvt Ltd., India			4	206			17	-
Kennametal Shared Services GmbH, Germany							4	206
<u>OUTSTANDING RECEIVABLES - TRADE + OTHERS</u>	302	191	221	145			523	336
<u>TRADE RECEIVABLES</u>	302	161	195	130			497	291
Trade Receivables in excess of 10% Kennametal Europe GmbH, Switzerland	230	99					230	99
Kennametal Inc., USA	72	62	50	76			72	62
Kennametal Distribution Services Asia Pte. Ltd., Singapore			20	13			50	76
Hanita Metal Works Ltd. (P), Israel		30	26	15			20	13
<u>OUTSTANDING RECEIVABLES - OTHERS</u>	-	-	-	-			26	45
Other Receivables in excess of 10% Kennametal Inc., USA	-	30	-	-			-	30
Kennametal Distribution Services Asia Pte. Ltd., Singapore			-	3			-	3
Kennametal Widia Produktions GmbH & Co. KG, Germany			18	-			18	-
Kennametal Extrude Hone Ltd., England			5	12			5	12
<u>ADVANCE RECOVERABLE- TOTAL</u>	-	-	-	-			-	30
Advance to Managing Director	-	-	-	-			-	30
<u>OUTSTANDING PAYABLES - TRADE</u>	1509	1578	126	489			1635	2067
<u>TRADE PAYABLES</u>	1509	1578	126	489			1635	2067
Trade Payables in excess of 10% Kennametal Inc., USA	324	561					324	561
Kennametal Europe GmbH, Switzerland	1185	1017					1185	1017

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 Meturit A.G. Zug | Kennametal Widia GmbH Co. KG, Germany
(Formerly Widia GmbH, Germany)
Kennametal Holding GmbH, Germany
Kennametal Europe GmbH, Switzerland
Meturit A.G. Zug, Switzerland |
| (iii) Immediate holding company | Meturit 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 Widia Produktions GmbH & Co. KG, Germany
Kennametal (Singapore) PTE. Ltd., Singapore
Kennametal Korea Co., Ltd., Korea
Kennametal Japan Ltd., Japan
Kennametal South Africa (Pty) Ltd., South Africa
Kennametal (Thailand) Co., Ltd., Thailand
Kennametal Do Brasil LTDA, Brazil
Kennametal Hard Point (Shanghai) Ltd., China
Kennametal Distribution Services Asia PTE. Ltd., Singapore
Kennametal Shared Services Pvt Ltd., India
Kennametal (China) Co Ltd., China
Hanita Metal Works Ltd. (P), Israel
Kennametal Shared Services, GmbH, Germany
Kennametal Extrude Hone Corporation, USA
Kennametal Extrude Hone Ltd., England
Kennametal Extrude Hone Ltd, Ireland
Kennametal Extrude Hone GmbH, Germany
Extrude Hone Shangai Co. Ltd., China
Kennametal (Xuzhou) Co. Ltd., China
Kennametal (Malaysia) Sdn. Bhd., Malaysia
Kennametal Logistics GmbH, Germany
Kennametal Stellram, USA
Kennametal Stellram SARL, Switzerland
Kennametal Stellite GmbH, Germany
Kennametal Stellite India P. Ltd., India |
|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

c) Key Management Personnel:

- | | |
|--------------------|----------------------------------------------------------------|
| Managing Directors | Bhagya Chandra Rao
Santanoo Medhi (upto 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.
40. In accordance with AS 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, 2013	Addition	Utilisation	Reversal	As at June 30, 2014
Product Support [Note (a)]	258	88	-	17	329
	(258)	(33)	-	(33)	(258)
Disputed Taxes and Duties [Note(b)]	132	-	-	-	132
	(212)	(10)	-	(90)	(132)

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.
41. a) Particulars of hedged foreign currency expenses:

Particulars	Purpose	As at June 30, 2014			As at June 30, 2013		
		Foreign Currency	Amount		Foreign Currency	Amount	
Forward contracts to buy	Hedge of Trade Payable	USD	2	143	USD	5	297
		EUR	-	31	EUR	8	661
				174		958	
Forward contracts to buy	Hedge of firm commitment	USD	11	676	USD	-	-
		CHF	-	-	CHF	3	182
				676		182	
Forward contracts to sell	Hedge of Trade Receivable	USD	2	133	USD	-	-
		EUR	3	201	EUR	-	-
				334		-	
Total				1184		1140	

NOTES TO FINANCIAL STATEMENTS

(All amounts in ₹ Lakhs unless otherwise stated)

b) Particulars of unhedged foreign currency exposures:

Particulars	As at June 30,2014			As at June 30,2013		
	Foreign Currency		Amount	Foreign Currency		Amount
Trade receivable	USD	-	17	USD	4	237
	EUR	1	48	EUR	1	99
	BRL	3	75	BRL	1	19
	Others	-	49	Others	-	34
				189		
Trade payable	USD	1	67	USD	3	153
	EUR	1	48	EUR	5	231
	CHF	1	64	CHF	-	-
	JPY	88	51	JPY	159	90
	Others	-	8	Others	-	11
			238			485

42. 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.

43. Exceptional items debited to the Statement of Profit and Loss comprises of:

	Year Ended June 30, 2014	Year Ended June 30, 2013
i. During the year, the Company announced a voluntary retirement scheme (VRS) for its workmen. Several workmen opted for the VRS and the aggregate expenditure incurred in this regard has been fully charged to the Statement of Profit and Loss in accordance with AS-15 "Employee Benefits"	947	-
ii. During the year, the Company also launched a severance/ separation scheme for certain employees in the officers category, and aggregate compensation paid in accordance with the said scheme has been fully charged to the Statement of Profit and Loss	73	-
Total	1020	-

NOTES TO FINANCIAL STATEMENTS

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

For **Price Waterhouse & Co., Bangalore**

Firm Registration Number: 007567S

Chartered Accountants

For and on behalf of Board of Directors

Bhagya Chandra Rao
Managing Director

M. N. Bhagwat
Chairman

Shivakumar Hegde

Partner

Membership Number: 204627

Bangalore
August 12, 2014

Parameswara Reddy D
Vice President & CFO

Kundan Kumar Lal
Company Secretary



Kennametal India Limited
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