13TH ANNUAL REPORT FOR THE YEAR ENDED 31ST MARCH, 2004

BOARD OF DIRECTORS

Mr. Atul C. Kirloskar	Chairman
Mr. Sanjay C. Kirloskar	
Mr. R. V. Gumaste	Managing Director
Mr. A. R. Jamenis	
Mr. C. V. Tikekar	
Mr. S. N. Inamdar	
Mr. G. A. Tadas	Nominee of IDBI (Upto 19th May, 2004)
Mr. M. Mundewadi	Nominee of ICICI Bank Ltd (upto 9th April, 2004)
Mr. S. K. Singhai	Nominee of IFCI Ltd.

COMPANY SECRETARY
Mr. C. S. Panicker

AUDITORS
M/s. P. G. Bhagwat
Chartered Accountants

BANKERS
State Bank of India
Bank of Baroda
Bank of Maharashtra
Andhra Bank

REGISTRAR & TRANSFER AGENT
Intime Spectrum Registry Limited
102 Shree Vidyanand,
Dr. Ketkar Path, Erandwane,
Near Old Karnataka High School,
Pune – 411 004.

REGISTERED OFFICE
Laxmanrao Kirloskar Road,
Khadki, Pune – 411 003

FACTORY
Bevinahalli Village
Hitnal, Koppal
Karanataka 583 234

Information for shareholders

13th Annual General Meeting

Date	:	Friday, 27th August, 2004
Time	:	11.00 A.M.
Venue	:	Registered Office of the Company
Dates of Book Closure	:	18th August, 2004 to 27th August, 2004 (both days inclusive)

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NOTICE

Notice is hereby given that the 13th Annual General Meeting of the Members of Kirloskar Ferrous Industries Limited will be held at the Registered Office of the Company at Laxmanrao Kirloskar Road, Khadki, Pune 411 003 on Friday, the 27th day of August, 2004 at 11 A.M. to transact the following business:

ORDINARY BUSINESS

Item No. 1

To receive, consider and adopt the audited Profit and Loss Account for the year ended on 31st March, 2004 and the Balance Sheet as at that date and also the reports of the Auditors and the Board of Directors thereon.

Item No. 2

To appoint a Director in place of Mr. Sanjay C. Kirloskar, who retires by rotation and being eligible, offers himself for re-appointment.

Item No. 3

To appoint a Director in place of Mr. C. V. Tikekar, who retires by rotation and being eligible, offers himself for re-appointment.

Item No. 4

To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration for the said period.

M/s. P.G. Bhagwat, Chartered Accountants, the retiring Auditors, being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS

Item No. 5

To consider and if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution:

"RESOLVED THAT consent of the Company be and is hereby accorded in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, and subject also to the approval of Financial Institutions, if any, who are holding first charge on the immovable and movable properties of the Company, for mortgaging and/or charging by the Board of Directors of the Company of all or any of the immovable and movable properties of the Company, both present and future, situated at Bevinahalli, Taluka & District Koppal, Karnataka State, and the whole of the undertaking of the Company, to or in favour of consortium of banks comprising of State Bank of India, Bank of Baroda, Bank of Maharashtra, Andhra Bank and any other scheduled Bank whether Public sector Bank or private sector Bank, whether Indian or Foreign, as may be decided by the Board of Directors, to secure the working capital facilities granted /to be granted to the Company by the said consortium of banks.

RESOLVED FURTHER THAT Board of Directors of the Company, be and is hereby authorised to finalise with the existing charge holders and the consortium of bankers, led by State Bank of India or any other scheduled Bank(s) (whether Public sector Bank or Private sector Bank, whether Indian or Foreign) all agreements and documents necessary for creating aforesaid mortgage by way of second charge and to do all such acts, deeds, matters and things as may be considered necessary, desirable or expedient for implementing this resolution and to resolve any question or doubt relating thereto, or then considered by the Board of Directors to be in the interests of the Company.

Item No. 6

To consider and if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution:

"RESOLVED THAT consent of the Company be and is hereby accorded in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, for mortgaging and/or charging by the Board of Directors of the Company of all or any of the immovable and movable properties of the Company, both present and future, situated at Bevinahalli, Taluka & District Koppal, Karnataka State, and the whole of the undertaking of the Company, to or in favour of public financial institution/s, Financial Institution/s and scheduled Bank(s) (whether Public sector Bank or private sector Bank, whether Indian or Foreign), as may be decided by the Board of Directors, to secure long term loan facilities granted / to be granted to the Company by the said institutions / banks.

RESOLVED FURTHER THAT Board of Directors of the Company, be and is hereby authorised to finalise with the existing charge holders, and the public financial institution(s), financial institution/s and scheduled bank(s) all agreements and documents necessary for creating aforesaid mortgage by way of first / second charge and to do all such acts, deeds, matters and things as may be considered necessary, desirable or expedient for implementing this resolution and to resolve any question or doubt relating thereto, or then considered by the Board of Directors to be in the interests of the Company.

Registered Office:
Laxmanrao Kirloskar Road,
Khadki,
Pune – 411 003

By order of the Board of Directors

C. S. Panicker
Company Secretary

Dated: 28th June, 2004

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956:

Item No. 5

The Company has working capital facilities with the consortium of banks comprising of State Bank of India (SBI), Bank of Baroda (BOB), Bank of Maharashtra (BOM) and Andhra Bank (AB). These facilities are secured by hypothecation of Company's inventories and book-debts.

The term lending Institutions, who hold first charge on the fixed assets of the Company in respect of their term loans, had ceded second charge on the fixed assets in favour of SBI, BOB and BOM for the working capital facility of Rs.46 Crores given by the said banks.

At the 12th Annual General Meeting, the members had further approved the creation of mortgage for additional working capital facility for Rs. 100 Crores, thereby, extending the mortgage facility for total working capital facility of Rs.146 Crores.

In view of the increase in the price of the raw materials, the present working capital limits are inadequate and hence the company requires additional working capital facility up to Rs.150 Crores.

The Company has approached the existing Banks namely SBI, BOB, BOM and AB as well as some other public sector banks and private sector banks, whether Indian or Foreign, for additional working capital facility.

The entire working capital facility will be secured by:

1. By hypothecation of Company's inventories and book-debts and
2. By second charge on the fixed assets and will be subject to existing first Charge in favour of term lending institutions.

Consent of the members of the Company is sought pursuant to Section 293(1)(a) of the Companies Act, 1956 to enable the Company to mortgage the immovable property of the Company in favour of the consortium of banks and any other public sector / private sector banks, whether Indian or Foreign, to secure the working capital facility.

None of the Directors of the Company are interested in the resolution.

Item No. 6

In view of the increase in the cost of raw materials, it has become necessary to setup coke oven plant for the manufacture of the coke from coal. The coke is presently being imported and the prices of the same has increased over the last one year. With the setting up of the coke oven plant, there will be savings in the raw material cost.

Also, there has been an increase in the price of Iron Ore owing to the huge demand for the same in the international market. It is therefore necessary for the Company to have its own iron ore mines to ensure captive source of supply. This will also facilitate in the reduction of raw material cost.

The setting up of coke oven plant as well as the acquisition of the iron ore mines and other related capital expenditure and working capital requirement for the project will be financed through long term loans.

In this connection, the company has approached public financial institutions, other financial institutions and commercial banks for the sanction of long term loans up to Rs.50 Crores.

This long term loan facility will be secured by mortgage of the fixed assets ranking pari-passu with the charge in favour of existing Charge holders.

Consent of the members of the Company is sought pursuant to Section 293(1)(a) of the Companies Act, 1956 to enable the Company to mortgage the immovable property of the Company in favour of the public financial institution/s, other financial institution/s and scheduled Bank/s whether Indian or Foreign, whether Public sector Bank or private sector Bank to secure the long term loan facility up to Rs.50 Crores.

None of the Directors of the Company are interested in the resolution.

Registered Office:
Laxmanrao Kirloskar Road,
Khadki,
Pune – 411 003

Dated: 28th June, 2004

By order of the Board of Directors

C. S. Panicker
Company Secretary

NOTES:

i) Pursuant to Section 173 of the Companies Act, 1956 explanatory statement in respect of the item No. 5 and 6 above is annexed.

ii) The Register of Members and the Share Transfer Books of the Company will remain closed for a period of 10 days from 18th August 2004 to 27th August 2004 (both days inclusive) in connection with the 13th Annual General Meeting.

iii) A MEMBER OF THE COMPANY ENTITLED TO ATTEND AND VOTE AT THE SAID MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.

    Proxies if any, in order to be effective, must be received at the Registered Office of the Company at Pune, not later than 48 hours before the time fixed for the meeting.

    Proxies shall not have any right to speak at the meeting.

iv) The documents relating to the items of Special Business are available for inspection at the Registered Office of the Company on any working day, during the business hours of the Company.

v) Members who hold shares in physical form are requested to advise the Company or Intime Spectrum Registry Ltd. (Registrar & Transfer Agents of the Company) immediately of any change in their address.

vi) Members who hold shares in dematerialised form are requested to intimate details regarding change of address, etc. to the Depository Participants where they have their depository accounts.

vii) Members may avail of the facility of dematerialisation by opening Depository accounts with the Depository participants of either National Securities Depository Limited or Central Depository Services (India) Limited and get equity share certificates held by them dematerialised.

viii) Since Company's shares are in compulsory Dematerialised trading, to ensure better Investor service and elimination of risk of holding shares in Physical form, it is requested that the shareholders holding shares in Physical form to get their shares dematerialised at the earliest.

ix) Members who hold shares in dematerialised form are requested to bring their Client Id and DP Id for easy identification.

x) In case members wish to ask for any information about accounts or operations of the Company, they are requested to send their queries in writing at least 7 days before the date of the meeting so that the information can be made available at the time of the meeting.

xi) Members / Proxies are requested to bring their attendance slips duly filled in and their copy of the Annual Report for the Meeting.

xii) Members having multiple folios are requested to intimate to the Company such folios to enable the Company to consolidate all shareholdings into one folio.

INFORMATION PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT WITH THE STOCK EXCHANGE IN RESPECT OF THE DIRECTORS WHO ARE RETIRING BY ROTATION, AND BEING ELIGIBLE, HAVE OFFERED THEMSELVES FOR RE-APPOINTMENT AT THE ANNUAL GENERAL MEETING TO BE HELD ON 27TH AUGUST, 2004

Mr. Sanjay Chandrakant Kirloskar did his graduation in Mechanical Engineering from Illinois Institute of Technology, Chicago, U.S.A. He underwent practical training in a number of Kirloskar Group Companies. He held the positions of Vice President Operations at Kirloskar wadi factory and Executive Vice President of Kirloskar Brothers Limited.

Mr. Sanjay C Kirloskar is presently the Chairman and Managing Director of Kirloskar Brothers Limited, the market leader for fluid handling products in India. Under his leadership from the year 1985 when he became its Managing Director, the company has not only strengthened its leadership position in the domestic market but also made successful foray into new export markets. Mr. Sanjay Kirloskar was actively involved in visualizing and developing the joint venture companies - Kirloskar Copeland Limited and Kirloskar Ebara Pumps Limited with Copeland Corporation, U.S.A and Ebara Corporation, Japan respectively.

He is also on the Board of Kirloskar Brothers Ltd., Kirloskar Pneumatic Co. Ltd., Kirloskar Oil Engines Ltd., Kirloskar Copeland Limited., Kirloskar Ebara Pumps Limited., Kirloskar Silk Industries Limited., Pooja Credits Ltd., Maharashtra State Road Development Corporation Limited., Mahratta Chamber of Commerce Industries & Agriculture., and Federation of Indian Chambers of Commerce and Industries. In Kirloskar Ferrous Industries Limited, he is a member of the Board of Directors and also a member of Audit Committee, Share Transfer – cum – Investors / share holder's Grievance Committee and Remuneration Committee. He is also a member of the Audit Committee of Kirloskar Oil Engines Ltd., Shareholder's / Investor's Grievance Committee of Kirloskar Brothers Limited., Remuneration Committee of Kirloskar Brothers Limited., and Kirloskar Ebara Pumps Limited.

Mr. Chintaman V. Tikekar studied in Ferguson College and in College of Engineering and graduated in Metallurgical Engineering with distinction. He then worked in Heat-treatment Shop of Premier Automobiles for more than a year.

Thereafter he joined Tata Engineering Co. Ltd. (TELCO) and during the course of service he was sent by them to visit the plants of Daimler-Benz at Germany for specialised on-the-job training in Heat-treatment of Automobile Components, Material testing and in process technologies. He worked in TELCO for thirty-eight years in various capacities such as Chief Metallurgist, In-Charge of Foundries and as Senior Deputy General Manager. He was on committees of Indian Standard Institute for unifying Steel grades for Indian industry. He was assigned the job of improving quality of vendor supplying steel, forgings, castings and other items used in Automobile manufacture. In Telco, he was the Chairman of Material Rationalization Committee responsible for selection of all raw materials so that varieties are reduced, material costs are brought down and yet quality of the vehicles is improved.

After retiring from the service with TELCO, he worked with Kirloskar Group of companies in conceiving, planning, installing and commissioning of the plant of Kirloskar Ferrous Industries Limited at Hospet. Currently he is a member of the Board of Directors of Kirloskar Ferrous Industries Limited. and is also a member of the Audit Committee.

DIRECTORS' REPORT TO THE MEMBERS

Your Directors have the pleasure in presenting this 13th Annual Report together with Audited Accounts for the year ended 31st March, 2004.

1. FINANCIAL PERFORMANCE:

(Amount in Rupees)

		2003-2004	*2002-2003*
Income		3,78,18,59,168	*2,51,96,91,753*
Profit before tax		27,24,40,520	*3,42,86,391*
Provision for:	Wealth tax	86,543	*75,554*
	Deferred tax	(4,48,01,589)	*45,07,947*
Profit after tax		31,71,55,566	*2,97,02,890*

Your Company has improved its performance and has achieved an increase in profit from Rs. 29.7 Millions in 2002-03 to Rs. 317.2 Millions in 2003-04. However, the Directors cannot recommend any dividend for the year under review and propose to carry forward the available surplus to the Balance Sheet.

2. MANAGEMENT DISCUSSION AND ANALYSIS:

A. Industry Overview:

In the year under review, the Industry faced constant change in business conditions. Due to increased demand for steel products in international markets, domestic steel plants produced finished steel and less of Pig Iron. This resulted in increased opportunity for Companies like yours who produce Pig Iron. The steep and frequent increase in the price of imported coke and domestic iron ore repeatedly pushed up the cost of production of Pig Iron. Thus, Pig Iron price was increased by Industry several times to pass on the higher costs to consumers.

While the increase in the input costs could be passed on to Pig Iron customers, the customers for Castings resisted price increases. Thus, increases in Casting prices were less frequent, smaller in proportion, and also with a time lag to the cost increases.

However, the demand for the Castings increased from Automobile and Tractor segments through the year resulting in better capacity utilisation of foundries in the country.

B. Company Performance:

During the year under review, your Company achieved sales of Rs. 3,760 Million (previous year Rs.2,511 million) resulting in increase in sales by 50% over the previous year. Steep increase in the sales turnover of the Company was mainly due to considerable price increase of Pig Iron and also of castings and other products.

The profit before tax for the year stood at Rs.272 million (previous year Rs.34 million) after providing for depreciation and amortisation of Rs. 130 million (previous year Rs.134 million), writing back of provision no more required amounting to Rs.72.1 million and scraping off an old machinery of Rs.54.7 million, no more required by the Company.

Your company has received "The Best Green Foundry" award from Indian Institute of Foundry men.

C. Operational Performance:

Pig Iron

As steel plants diverted their capacities towards making steel, the demand supply gap opened up in the Pig Iron market. Your Company successfully exploited the situation by selling 212,002 Metric Tons of Pig Iron of value Rs. 2,428 million as compared to 240,710 Metric Tons of value Rs. 1,756 million in the previous year. The sales for the year under review was lower in Metric Tons as compared to that of the previous year as one furnace was closed for 36 days for relining. However, even then the capacity utilisation of furnace was quite high. Your Company was also able to improve the price realisation to recover the input cost increases. The improved logistics by use of rail containers also helped in efficiently reaching the Pig Iron to Northern markets.

Castings

There was improved demand for Castings both from tractor and Auto Industry. This coupled with price increase lead to the increase in sales, from Rs. 547 Million in the previous year to Rs.936 Million in the year under review, from the castings business. Development of new castings, additions of new Customers, and shift in product mix all helped in achieving higher sales. However, the input cost increases could not be passed on fully to the customers.

D. Cost Control:

Your Company believes that costs have to be continuously brought down. Towards this objective, several initiatives were taken in the year under review. Noteworthy initiatives are – improved coke unloading and handling to reduce generation of fines that are wasted, use of mechanical skull breaker, elimination of wood packing to ship castings, indigenisation of metal filters, and elimination of mould wash in casting production process.

Your Company made prepayment of high cost Long Term Debts amounting to Rs.1,031.9 million. This was financed partly from internal accruals and partly by new low cost borrowings. But, the interest cost in the year under review was higher as compared to the previous year due to the settlement arrived at with financial institutions which required the payment of interest on the basis of average yield as against the earlier practice of providing on step-up interest basis. Due to this prepayment of debt, the interest cost in coming years will be lower.

The working capital management was better on account of reduction in debtors as number of days to sales is 40 days as compared to 47 days in the previous year.

E. Concerns and Threats:

Prices of coke and Pig Iron peaked during the last quarter of the year under review. Falling prices of coke may result into reduced prices of Pig Iron. This may also result into reduced sales and reduced margins.

Coke is mostly imported by the Company. In the year under review, Company benefited due to strengthening of the rupee against US dollar. The US dollar is now strengthening against the rupee and such trend in exchange rates will have an adverse impact on the material cost. The Company minimizes the exchange fluctuation risk by taking forward cover contracts as appropriate.

If the continued buoyancy in world steel markets wanes, the steel plants will restart diverting their capacities towards Pig Iron. This may lead to changed supply demand scenarios once again leading to reduced realisations. This coupled with likely fall in prices of Pig Iron due to fall in coke prices, may result in reduction in sales value.

The increased price of Pig Iron in recent times has forced few small foundries to close and others to use lower priced steel scrap in higher proportion. This may result in lower demand for Pig Iron which impacts Pig Iron prices. In the first quarter of the current year, this trend is already noticed.

As India is seen as good location to manufacture Castings, new foundries may be set up in the country by domestic or foreign players. The increased competition may then affect the selling price of Castings.

Some Casting customers have been resisting the price increase in proportion to the input cost increase forcing the Company to absorb the same. This may have an adverse impact on margins.

F. Prospects for the Current Year:

The auto industry is planning introduction of new vehicle models which in turn open new opportunities for the foundries, especially the ones producing environmental friendly products.

The steady growth in Multi Utility Vehicles has improved and will further improve the demand for Castings.

The tractor and commercial vehicle industry is growing and this will increase demand for the Castings produced by your Company.

International auto majors are viewing India as a manufacturing and global sourcing hub. This will enhance the demand for Castings in the coming years, and also open doors for direct exports.

With the development of new castings for various customers, growth in tractor and automobile industry, your Company expects higher sales of Castings, and thus, better capacity utilisation.

Further improvement in process control to lower internal rejection of the castings is expected to alleviate pressures on margins due to inability to pass on full impact of input cost increases to customers.

To increase sales of Castings, your Company shall focus on domestic market for broad basing and explore export market for Cored Castings.

Being able to develop new castings quickly is a critical success factor in the market place. Thus, your Company intends to further refine its processes to cut development time substantially.

The margin on pig iron sales may come under pressure owing to the increase in the prices of metallurgical coke and iron ore and also due to foundries opting for higher use of steel and iron scrap instead of Pig Iron.

Your company is considering investing in coke plant to reduce the cost and to ensure uninterrupted supply of coke. Your Company has also initiated steps to acquire Iron Ore mines. This will reduce the company's exposure to high fluctuation in the cost of coke and iron ore.

Your Company hopes to further bring down the debt component thereby reducing the interest cost further and there by improve the profitability.

Cautionary Statement:

Statements in this Report, particularly those which relate to Management Discussion and Analysis, describing the Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.

G. Internal control systems and their adequacy:

The Company has a proper and adequate system of controls in order to ensure that all assets are safeguarded against loss from unauthorized use or disposal and that all transactions are checked, verified, recorded and reported correctly.

Regular Internal Audit checks are carried out to ensure that the responsibilities are executed effectively and that proper and adequate systems are in place.

The Company implemented Integrated Information System on Informix RDBMS from April, 1994. The Company has commenced working on Web based applications and is moving towards paperless office concept.

H. Safety, health and environment:

Your Company is giving due importance to safety, health and environment related issues. The employees are educated and trained to improve their awareness and skills.

Your Company has been supporting and providing assistance to the nearby villages by supply of good quality drinking water, educational assistance, and medical assistance for the people.

Besides effluent treatment of waste products and suppression of fugitive emissions through sprinklers, lot of attention has been given to improve greenery all around the plant, through massive tree plantation programmes.

I. Human resources:

Your company considers human resource to be an important valuable asset for the organisation and therefore constantly strives to attract and recruit best talent for the current and future needs. The Company has taken necessary steps to upgrade the standard of present employees by conducting various in-house training programmes and courses. Further measures for the safety of the employees are also adopted through training programmes on safety and mock drills. As on 31st March, 2004 the total number of salaried employees stood at 786. The Employer – Employee Relations have been generally cordial throughout the year.

3. SETTLEMENT OF DEBTS WITH FINANCIAL INSTITUTIONS:

Your Company received approval letters for one time settlement of the institutional dues from Industrial Development Bank of India (IDBI), ICICI Bank Limited (ICICI) and the same was implemented during the year under review.

Your Company has also received in the current year (2004-05), the approval letter from The Industrial Finance Corporation of India Limited (IFCI) for the one time settlement of their dues. This debt has also since been paid off.

With the above settlements, your Company has substantially reduced long term debt. Thus, the interest cost in coming years will be lower.

4. DIRECTORS:

Mr. Sanjay C. Kirloskar and Mr. C. V. Tikekar retire by rotation and being eligible, offer themselves for re-appointment.

Mr. Mujib Mundewadi, nominee Director of ICICI Bank Ltd., ceased to be a Director of the Company with effect from 9th April, 2004 consequent to the withdrawal of his nomination from the Board by ICICI Bank pursuant to the repayment of their entire loan.

Mr. G. A. Tadas, nominee Director of Industrial Development Bank of India (IDBI), ceased to be a Director of the Company with effect from 19th May, 2004 consequent to the withdrawal of his nomination from the Board by IDBI pursuant to the repayment of their entire loan.

Directors have placed on record their sincere appreciation of the services rendered by Mr. Mujib Mundewadi and Mr. G. A. Tadas.

5. DIRECTORS' RESPONSIBILITY STATEMENT:

Pursuant to the requirements under section 217 (2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

(i) That in the preparation of the Accounts for the financial year ended 31st March, 2004, the applicable accounting standards have been followed.

(ii) That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for the year under review.

(iii) That the Directors have taken proper and sufficient care 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.

(iv) That the Directors have prepared the accounts for the year ended 31st March, 2004 on a "going concern" basis.

6. AUDITORS:

M/s. P.G. Bhagwat, Chartered Accountants, retire as auditors of your Company at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. The Company has received a certificate from the retiring auditors to the effect that the appointment, if made, will be in accordance with the limit specified in section 224(1B) of the Companies Act, 1956.

7. ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:

The information required under Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is given in Annexure-A and forms part of this Report.

8. PARTICULARS OF EMPLOYEES:

None of employees is in receipt of remuneration in excess of the limit prescribed under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975

9. CORPORATE GOVERNANCE:

Your Company conforms to the norms of Corporate Governance as envisaged in the Companies Act, 1956 and the Listing Agreement with the stock exchanges. A report of the Corporate Governance, along with the certificate of compliance from the Auditors, forms part of this report.

10. ACKNOWLEDGEMENT:

The Directors would like to place on record their gratitude to the Promoters, Shareholders, Bankers, Financial Institutions, Customers, Suppliers, Business Associates and Employees for their assistance and support provided to the Company during the year.

FOR AND ON BEHALF OF THE
BOARD OF DIRECTORS

(ATUL C. KIRLOSKAR)
Chairman

Pune : 28th June, 2004

ANNEXURE – A
TO THE
DIRECTORS' REPORT TO THE MEMBERS FOR THE YEAR ENDED
31ST MARCH, 2004 AND FORMING PART THEREOF

Additional Information pursuant to Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming a part of the aforesaid Directors' Report:

A. CONSERVATION OF ENERGY:

a) Energy conservation measures taken during the year 2003-2004 are as follows:

i. Conveyor belt was installed from unloading point of coke to ground hopper. This reduced the losses in terms of wastages in multiple handling of coke.

ii. Upgradation of fans at Metallic blast preheater in order to reduce power consumption by installing retrofit impellers for Induced draught fans the capacity was increased with same power consumption

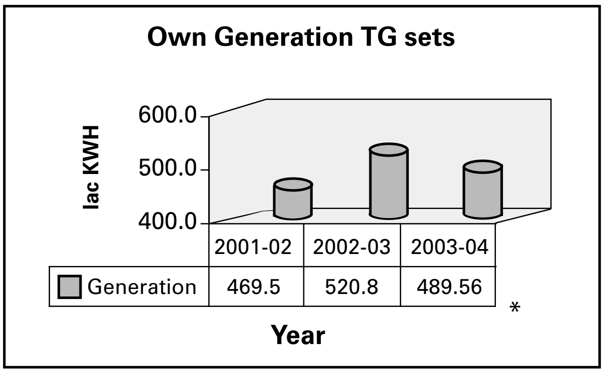
iii. The MBF2 venturis was upgraded. This lead to increase in efficiency of Metallic blast preheaters and also reduced the consumption of coke and minimised TG power plant shutdowns.

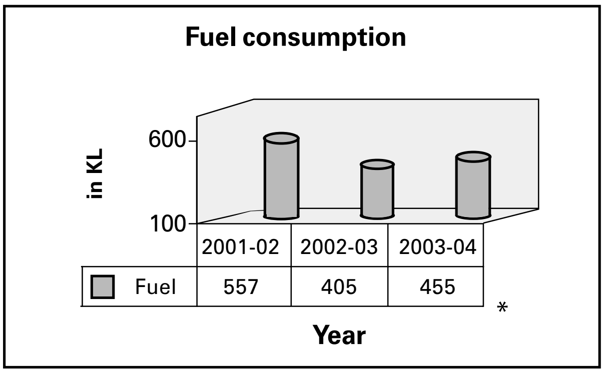
iv. Measures taken to reduce power consumption:

a. Replacement of Pig casting machine water spray pumps.

b. Automated loading and unloading of compressors by PLC system.

Figures of Power generation and Fuel consumption:





*** One TG set was shutdown during relining in 2003-2004**

b) Additional Proposals for the year 2004-2005:

i. Coating of pump's internal surfaces with a special material to improve surface finish. This will reduce power consumption.

ii. Upgrading of MBF1 venturis.

c) Impact of the above measures:

i. Reduction in power consumption.

ii. Improvement in operational efficiency of Metallic blast preheater and boilers.

B. TECHNOLOGY ABSORPTION:

Modified Venturi Scrubber System was installed in MBF2 for improving the gas cleaning process. The Venturi Scrubber System was supplied by Thermax based on technology from ZURN of USA.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

Earnings (Rs. Million)	Nil
Outgo (Rs. Million)	819.28

CERTIFICATE OF THE AUDITORS IN RESPECT OF COMPLIANCE OF CORPORATE GOVERNANCE

We have examined the compliance of conditions of corporate governance by Kirloskar Ferrous Industries Ltd., for the year ended on 31st March, 2004, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

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

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

We state that in respect of investor grievances received during the year ended 31st March, 2004, no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the shareholders / Investors Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For and on behalf of

M/s. P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No. 206124

Pune : 28th June, 2004

CORPORATE GOVERNANCE

1. Company's philosophy on Code of Governance

Corporate Governance contains a set of principles, process and systems to be followed by Directors, management and all employees of the Company for increasing the shareholders' value keeping in view interest of other stakeholders. While adhering to the above, the Company is committed to integrity, accountability, transparency and compliance with laws in all dealings with the Government, customers, suppliers, employees and other stakeholders.

2. Board of Directors

As on 31st March, 2004, there were nine Directors on the Board. Out of these, one is an Executive Director, and eight are Non-Executive Directors. The Non-Executive Directors constituted more than half of the total number of Directors.

Eight out of nine Directors were independent Directors, which duly complied with the requirement of Code.

The information on composition of the Board, category of Directors, attendance at Board meetings held during the year and at the last Annual General Meeting, Directorships in other public companies and Committees of other public companies of which the Director is a member/Chairman is as under:-

Names of Directors	Category	Financial Year 2003-04		Attendance at the Last AGM	No. of Directorships in other public limited companies incorporated in India	Committee positions held in other companies	
		Board Meetings held	Board Meetings attended			*C	#M
Mr. Atul C. Kirloskar	Chairman Independent Non Executive	5	5	Yes	6	–	4
Mr. Sanjay C. Kirloskar	Independent Non Executive	5	4	No	8	–	4
Mr. R. V. Gumaste	Executive	5	5	Yes	–	–	–
Mr. A.R. Jamenis	Independent Non Executive	5	5	Yes	1	–	–
Mr. S.N. Inamdar	Independent Non Executive	5	5	Yes	10	2	4
Mr. C.V. Tikekar	Independent Non Executive	5	5	Yes	–	–	–
Mr. G. A. Tadas (IDBI Nominee)	Independent Non Executive	5	4	Yes	1	–	–
Mr. S. K. Singhai (IFCI Nominee)	Independent Non Executive	5	4	Yes	3	–	2
Mr. Mujib Mundewadi (ICICI Nominee)	Independent Non Executive	5	3	Yes	5	–	1

* C : Chairman # M : Member

Notes:

1. Mr. R. V. Gumaste was appointed as Managing Director w. e. f. 1st July, 2003.
2. Nomination of Mr. Mujib Mundewadi was withdrawn by ICICI Bank Ltd w. e. f. 9th April, 2004.
3. Nomination of Mr. G. A. Tadas was withdrawn by IDBI w. e. f. 19th May, 2004.

During the year under review, five Board meetings were held on the following dates :

27th June, 2003, 30th July, 2003, 20th September, 2003, 22nd October, 2003 and 31st January, 2004.

3. Audit Committee

During the year under review, four meetings of the committee were held on 27th June, 2003, 30th July, 2003, 22nd October, 2003 and 31st January, 2004. The composition of the committee and attendance at its meetings is given below:

Names of the Directors	Category	No. of Meetings held	No. of Meetings attended
Mr. S.N. Inamdar (Chairman)	Independent Non Executive	4	4
Mr. Sanjay C. Kirloskar	Independent Non Executive	4	4
Mr. A.R. Jamenis	Independent Non Executive	4	4
Mr. G. A. Tadas* (IDBI Nominee)	Independent Non Executive	4	3

*Nomination of Mr. G. A. Tadas was withdrawn by IDBI w. e. f. 19th May, 2004.

The Jt. General Manager – Finance and representatives of the Internal Auditors and Statutory Auditors are invited to the meetings. The Company Secretary acts as the Secretary of the Committee.

The terms of reference of the Audit committee include the matters specified under clause 49 of the Listing Agreement entered into with the stock exchanges as well as those in Section 292A of the Companies Act, 1956 and inter-alia includes the following:

- Oversee the Company's financial reporting process and disclosures of financial information to ensure that the financial statement is sufficient and credible.
- Review internal audit function as regards its adequacy, scope, frequency and review of the reports etc.
- Reviewing the annual financial statements before submission to the Board.
- Review Auditors' report, internal controls and recommendations relating thereto.

4. Remuneration to Directors

Remuneration Committee of the Board of Directors has been constituted on 24th June, 2002. Mr. Sanjay C. Kirloskar, Mr. A. R. Jamenis, Mr. S. N. Inamdar, Mr. G. A. Tadas (Nomination of Mr. G. A. Tadas was withdrawn by IDBI w.e.f. 19th May, 2004) are the members of this committee. The Board of Directors had fixed the remuneration of the Managing Director on the recommendation of the Remuneration Committee in accordance with the provisions of the Companies Act, 1956 and Schedule XIII of the said Act, and the same was approved by the shareholders at the 12th Annual General Meeting held on 20th September, 2003.

The Non Executive Directors are not paid any remuneration.

A sitting fee of Rs. 1000/- is paid to non-executive Directors for each meeting of the Board or any committee thereof attended by them.

The details of the sitting fees paid to the Non Executive Directors during the year 2003-04 are given below:

Directors	Sitting Fees (Rs.)
Mr. Atul C. Kirloskar	11,000
Mr. Sanjay C. Kirloskar	10,000
Mr. A. R. Jamenis	16,000
Mr. S.N. Inamdar	10,000
Mr. C.V. Tikekar	10,000
Mr. G. A. Tadas	*8,000
Mr. S. K. Singhai	**4,000
Mr. M. Mundewadi	***3,000

* Paid to Industrial Development Bank of India, being its Nominee. Nomination of Mr. G. A. Tadas was withdrawn by IDBI w.e.f. 19th May, 2004.

** Paid to Industrial Finance Corporation of India Ltd., being its Nominee.

*** Paid to ICICI Bank Ltd., being its Nominee. Nomination of Mr. M. Mudewadi withdrawn by ICICI Bank Ltd. w e. f. 9th April, 2004

Mr. R. V. Gumaste was the Executive Director (Whole Time Director) of the Company from 25th July, 2002 to 30th June, 2003. From 1st July, 2003 he was appointed as the Managing Director of the Company. Details of remuneration by way of salary and perquisites paid to Mr. R. V. Gumaste as Executive Director for the period 1st April, 2003 to 30th June, 2003 and as Managing Director of the Company for the period 1st July 2003 to 31st March, 2004 are as given below :

Particulars	Amount (Rs.) As Executive Director (1.4.2003 to 30.06.2003)	Amount (Rs.) As Managing Director (1.7.2003 to 31.3.2004)	Total Amount (Rs.)
Salary	2,70,000	9,45,000	12,15,000
Contribution to PF	21,600	81,000	1,02,600
Contribution to Superannuation	27,000	101,250	1,28,250
Perquisites	65,996	45,333	1,11,329
Total	3,84,596	11,72,583	15,57,179

Salary includes Basic Salary, Special allowance and House Rent allowance.

Perquisites include reimbursement of medical expenses, Leave travel assistance, personal accident insurance and mediclaim insurance premium.

The Managing Director is also entitled to the following:

i) Gratuity not exceeding one half month's salary for each completed year of service.

ii) Encashment of leave at his credit as per Company's Rules at the end of his tenure.

The Company does not have a scheme for grant of stock options.

5. Investors' / Shareholders' Grievance Committee

The shareholders'/Investors' Grievance committee of the Board has been constituted to look into complaints like transfer of shares, non-receipt of Balance Sheet, non-receipt of dividend etc. The committee is headed by Mr. Atul Kirloskar as Chairman (Non-Executive Director) and other members are Mr. Sanjay Kirloskar and Mr. A.R. Jamenis. Mr. Ashish M. Boradkar, Sr. Officer, Secretarial & Legal, who is also a member of the Institute of Company Secretaries of India, is the Compliance Officer. The Compliance Officer can be contacted at:

Kirloskar Ferrous Industries Limited
13, Laxmanrao Kirloskar Road
Khadki, Pune 411 003
Tel: 25810341, 25815341, extn : 4845 : (Direct Line) 4134845
Fax: 25813208, 25810209 E-mail: ashb@koel.co.in

During the year, 189 complaints were received from the shareholders all of which have been resolved and there was no complaint pending as on 31st March, 2004.

The Company had no share transfer requests pending as on 31 March, 2004.

6. General Body Meetings

Location and time of last three Annual General Meetings:

AGM for the Financial Year	Date	Time	Venue
2000-2001	25th September, 2001	11.00 a.m	Registered Office of the Company
2001-2002	13th September, 2002	11.00 a.m.	13, Laxmanrao Kirloskar Road, Khadki, Pune 411 003
2002-2003	20th September, 2003	11.00 a.m.	

None of the Special Resolutions proposed at the last Annual General Meeting were required to be passed by postal ballot.

7. Disclosures

During the year under review, the Company, in its normal course of business, has had sale / purchase transactions with its promoter company viz. M/s Kirloskar Oil Engines Limited. Transactions with the related parties are disclosed in Note No 11 of Schedule 18 to the Accounts in the Annual Report.

The Company has not had any transaction with the Directors and / or their relatives during the year under review that may have conflict with the interest of the Company at large.

During the last three years, there were no strictures or penalties imposed by either SEBI or the stock exchanges or any statutory authority for non-compliance of any matter related to the capital markets.

8. Means of Communication

The Quarterly and Half Yearly results are published in widely circulating national and local dailies such as Business Standard and Maharashtra Herald in English and Kesari in Marathi. The results are not sent individually to the shareholders.

The Company's result and official news releases are displayed on the Company's website namely: www.kirloskars.com

There were no presentations made to the institutional investors or analysts during the year.

The Management Discussion and Analysis Report forms part of the Annual Report.

9. General Shareholder Information

Annual General Meeting	
Date and Time	27th August, 2004 at 11.00 A.M.
Venue	Registered office of the Company at: Laxmanrao Kirloskar Road Khadki, Pune 411 003
Financial Calendar	1st April, 2003 to 31st March, 2004 During the year under review, the results were announced as under : First Quarter 30th July, 2003 Second Quarter 22nd October, 2003 Third Quarter 31st January, 2004 Annual 28th June, 2004
Date of Book Closure	18th August, 2004 to 27th August, 2004 (both days inclusive)
Dividend payment date	No dividend is being recommended
Listing on Stock Exchanges and Stock Code	*The Pune Stock Exchange Ltd. KIRFE 13525 *The Delhi Stock Exchange Association Ltd 111108 The Stock Exchange, Mumbai 500245

The ISIN Number of Kirloskar Ferrous Industries Limited (or demat number) on both NSDL and CDSL is INE 884B01017

* The shares of the Company were delisted from the Delhi Stock Exchange Association Limited w. e. f. 29th December, 2003 and from Pune Stock Exchange Limited w.e.f.16th January, 2004.

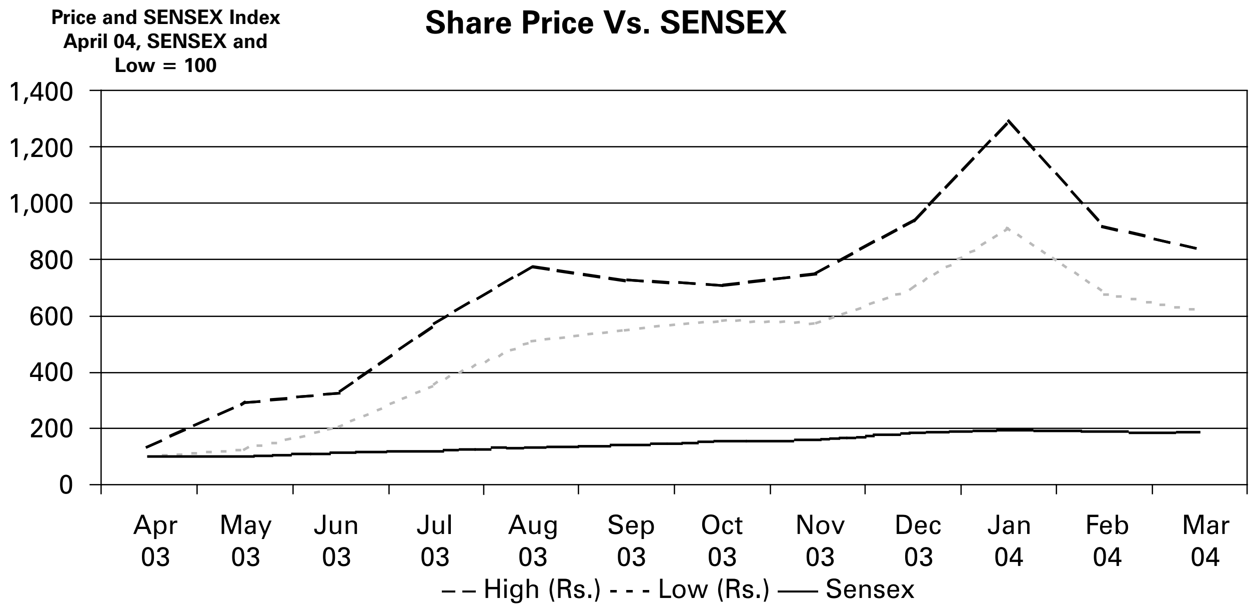
The Company has paid listing fees to all the Stock Exchanges for the year 2003 – 04.

Market Price Data

Monthly high/low during the year 2003-04 on the Stock Exchange, Mumbai are as follows :

Month	High (Rs.)	Low (Rs.)
April 2003	3.70	2.75
May 2003	8.05	3.45
June 2003	8.98	5.60
July 2003	15.71	9.79
August 2003	21.26	13.98
September 2003	20.00	15.10
October 2003	19.45	16.05
November 2003	20.60	15.70
December 2003	25.85	19.15
January 2004	35.40	25.05
February 2004	25.25	18.65
March 2004	23.00	16.95

Performance of the Company's scrip on the BSE as compared to the BSE Sensex:



Registrar & Transfer Agent :

SEBI vide its circular D&CC/FITTC/CIR-15/2002 dated 27th December, 2002 had instructed that all the work relating to share registry in terms of both physical and electronic (demat) should be maintained at a single point i.e. either in-house by the Company or by a SEBI registered Registrar & Transfer Agent. The Company was required to take necessary action in this regard on or before 31st March, 2003.

Accordingly, the Company entrusted the entire work relating to processing of transfer of shares to Intime Spectrum Registry Limited, a SEBI Registered R & T Agent, whose address is given below :

Intime Spectrum Registry Limited
102, Shree Vidyanand, Dr. Ketkar Path, Erandawane,
Near Old Karnataka High School, Pune 411004
Telephone No. : (020) 25458397/98
Email ID : pune@intimespectrum.com

Share Transfer System:

The applications for transfer of shares received by the Company's Registrar and Share Transfer Agents in physical form are processed and registered within 30 days of receipt of the documents which are valid in all respects. After such processing, the option of simultaneous dematerialisation of shares was provided to the shareholder who holds upto 500 shares. But SEBI has vide circular No.SEBI/MRD/CIR 10/2004 dated 10^{th} February, 2004 directed the discontinuance of the practise of sending the option letters w.e.f. 10^{th} February, 2004.The shareholders are now requested to send the duly transferred share certificates for dematerialisation on the receipt of the same.

Shares under objection are returned within a week's time. The transfer applications are approved periodically.

Distribution of Shareholding as on 31st March, 2004

Range of shares		Share holders		Shares	
From	To	Number	% To Total	Number	% To total
1	5000	86,864	94.64	12,776,148	17.69
5001	10000	2,916	3.18	2,368,654	3.28
10001	20000	895	0.98	1,405,331	1.95
20001	30000	445	0.48	1,150,814	1.59
30001	40000	127	0.14	456,171	0.63
40001	50000	178	0.19	858,716	1.19
50001	100000	184	0.20	1,377,750	1.91
100001 and above		178	0.19	51,822,333	71.75
In Transit				6,483	0.01
TOTAL		91,787	100.00	72,222,400	100.00

Shareholding Pattern as on 31st March, 2004

Category	No. of shares	% of Share Holding
Promoters	31,485,250	43.59
Financial Institutions	4,364,531	6.05
Nationalised Banks	145,600	0.20
Non Resident Indians	1,799,330	2.49
Mutual Funds	167,333	0.23
FII	3,435,918	4.76
Domestic Companies	8,738,686	12.10
General Public	22,079,269	30.57
In Transit	6,483	0.01
	7,22,22,400	100.00

Dematerialisation of shares:

As on 31st March 2004, 76.72 % of the total equity capital of the Company was held in dematerialised form.

Outstanding GDR/ADR/Warrants or any convertible instruments, conversion date and impact on equity.

The Company has not issued any GDR / ADR/ Warrants.

Nominations in respect of shares held in Physical form :

The Companies Act, 1956 provides facility for making nominations by shareholders in respect of their holding of shares. However a large number of shareholders are yet to make nominations in respect of their holding in physical form. Such nomination greatly facilitates transmission of shares from the deceased shareholder to his/ her Nominee without having to go through the time consuming and cumbersome process of obtaining the Succession Certificate / Probate or Will. Therefore it would be in the best interest of the shareholders holding shares in Physical form as sole register holders to make Nomination without any delay. The Nominee shall be the person in whom all the rights of transfer and / or amount payable in respect of the shares shall vest in the event of death of shareholder(s). A minor can also be a Nominee provided the name of the

Guardian is given in the Nomination form. The facility of Nomination is not available to Non- individual shareholders such as Bodies Corporate, Financial Institutions, Kartas of Hindu Undivided Family and Holders of Powers of Attorney. Nominations will have to be made in prescribed form which can be obtained from the Registered office of the Company or the Share Transfer Agent.

Pursuant to Regulation 3(1)(e)(i) of Securities and Exchange Board of India (Substantial Acquisition of Shares & Takeovers) Regulations, 1997 and subsequent amendments thereto, 'Group' consists of Better Value Holdings Private Limited, Kirloskar Brothers Limited, Kirloskar Oil Engines Limited, Kirloskar Pneumatic Company Limited, Kirloskar Ferrous Industries Limited, Pooja Credits Private Limited, Kirloskar Systems Limited, Asara Sales & Investments Private Limited, PIH Finvest Company Limited, Navsai Investments Private Limited, Prakar Investments Private Limited, Alpak Investments Private Limited, Achyut & Neeta Holdings & Finance Private Limited, Harihareshwar Investments & Finance Private Limited, Cees Investments Private Limited, Kirloskar Kisan Equipments Limited, Kirloskar Briggs & Stratton Power Equipment Limited, Kirloskar Silk Industries Limited, Kirloskar Proprietary Limited, Kirloskar Copeland Limited, G G Dandekar Machine Works Limited, Suman Kirloskar, Mrinalini Kirloskar, Achyut N. Kulkarni, Neeta A. Kulkarni, Atul C. Kirloskar, Arti Kirloskar, Gauri Kirloskar, Aditi Kirloskar, Sanjay C. Kirloskar, Pratima Kirloskar, Alok Kirloskar, Rama Kirloskar, Rahul C. Kirloskar, Alpana Kirloskar, Alika Kirloskar, Aman Kirloskar, Gautam A. Kulkarni, Jyotsna Kulkarni, Nihal Kulkarni, Ambar Kulkarni, Vikram S. Kirloskar, Geetanjali Kirloskar, Mansi Kirloskar and Roopa Gupta.

Plant Location:
Bevinahalli Village
P.O. Hitnal, Taluk Koppal,
Karnataka 583 234

Investor Correspondence Address:

Kirloskar Ferrous Industries Limited
13, Laxmanrao Kirloskar Road,
Khadki, Pune 411 003

Intime Spectrum Registry Ltd.
102, Shree Vidyanand,
Dr. Ketkar Path, Erandwane,
Near Old Karnataka High School,
Tel. No.: (020) 25458397 / 98
E-mail ID : pune@intimespectrum.com

10. (i) As required by Clause 49 of the Listing Agreement, Certificate of the Auditors regarding Compliance with the provisions of Corporate Governance forms a part of the Directors' Report.

    (ii) There are no qualifications in the Auditors Report.

REPORT OF THE AUDITORS TO THE SHAREHOLDERS

1. We have audited the attached Balance Sheet of Kirloskar Ferrous Industries Limited, as at 31st March, 2004, the Profit and Loss Account and also the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An Audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to above, we report that :

   (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.

   (ii) 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.

   (iii) The Balance Sheet, Profit and Loss Account and cash flow statement dealt with by this report are in agreement with the books of account.

   (iv) In our opinion, the Balance Sheet, Profit and Loss Account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.

   (v) On the basis of written representations received from the Directors, as on 31st March, 2004 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2004 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

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

      (a) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2004.

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

      (c) In the case of the cash flow statement, of the cash flows for the year ended on that date.

For M/s. P. G. BHAGWAT
Chartered Accountants

S. B. PAGAD
Partner
Membership No. 206124

Pune: 28th June, 2004

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date)

(i) (a) Fixed assets have been physically verified by the management at reasonable intervals. As informed to us, no material discrepancies were noticed on such verification.

(b) According to the information and explanations given to us, the Company has not disposed off substantial part of the fixed assets, during the year.

(ii) (a) The inventory has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.

(b) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.

(iii) The Company has not taken / granted any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

(iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regards to purchases of inventory, fixed assets and with regards to the sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls.

(v) (a) According to the information and explanations given to us, we are of the opinion that the transactions that need to be entered into the register maintained under Section 301 of the Companies Act, 1956 have been so entered.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and exceeding the value of rupees 5 lakhs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.

(vi) The Company has not accepted deposits from public.

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

(viii) We have broadly reviewed the books of account relating to materials, labour and other items of cost maintained by the company persuant to the Rules made by the Central Government for the maintenance of cost records under section 209 (1) (d) of the Companies Act, 1956 and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained.

(ix) (a) The Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, income tax, sales tax, wealth tax, custom duty, excise duty, cess and other material statutory dues applicable to it. As informed to us, the Employees' State Insurance Act is not applicable to the Company and there were no amounts falling due during the period in respect of payments to the Investor Education & Protection Fund.

(b) According to the information and explanations given to us, there are amounts of excise duty and cess which have not been deposited on account of dispute as listed below:

Name of the statute	Nature of the dues	Amount	Forum where dispute is pending
1) Electricity Tax	Tax on electricity generated	9,748,537	Karnataka High Court
2) Central Excise Act	a) Excise Duty on Pattern development charges, Dispute in Modvat availed	298,514	CESTAT
	b) Cenvat Credit on Furnace Oil, rejected castings	831,531	Commissioner (Appeals) Mangalore

(x) In our opinion, the accumulated losses at the end of the financial year are not less than fifty percent of its net worth. The Company has not incurred cash losses during the financial year covered by our audit and also for the immediately preceding financial year.

(xi) According to the information and explanations given to us, the Company has been negotiating with IDBI and IFCI for reschedulement of term loans and for redemption of privately placed debentures, since December, 2002. In February, 2004, IDBI agreed for one time settlement of all its outstanding dues and as at the date of Balance Sheet, all dues have been settled by the Company. There are delays during the year in payment of interest to IFCI on loans and debentures. As explained to us, IFCI has also agreed for one time settlement of its dues and Company has taken necessary steps to settle it in terms of the agreement.

(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.

(xiii) In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 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 Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

(xv) As informed to us, the Company has not given any guarantees for loans taken by others from banks or financial institutions.

(xvi) The Company has applied term loans for the purpose for which they were taken.

(xvii) According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we report that short-term funds to the tune of Rs. 515,934,349/- were used to repay long-term loans taken from financial institutions. No long-term funds have been used to finance short-term assets.

(xviii) According to the information and explanations given to us, 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.

(xix) According to the information and explanations given to us, the Company has created security in respect of debentures issued.

(xx) The Company has not raised money by way of public issues during the year under audit.

(xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year under audit.

For M/s. P G BHAGWAT
Chartered Accountants

S. B. PAGAD
Partner
Membership No. 206124

Pune: 28th June, 2004

BALANCE SHEET AS AT 31ST MARCH, 2004

	Schedule	Rs.	As at 31st March, 2004 Rs.	*As at 31st March, 2003 Rs.*
I. SOURCES OF FUNDS :				
1. Shareholders' Funds :				
(a) Capital	1	1,769,086,530		*1,769,086,530*
(b) Reserves and Surplus		–		*–*
			1,769,086,530	*1,769,086,530*
2 Loan Funds :				
(a) Secured Loans	2	172,994,677		*1,256,275,568*
(b) Unsecured Loans	3	450,000,000		*6,000,000*
			622,994,677	*1,262,275,568*
3 Deferred Tax Liability (See Note 12)			392,289,725	*451,205,265*
Total			2,784,370,932	*3,482,567,363*
II. APPLICATION OF FUNDS :				
1. Fixed Assets :	4			
(a) Gross Block		2,306,769,315		*2,378,546,356*
(b) Less: Depreciation		972,143,164		*886,323,387*
(c) Net Block		1,334,626,151		*1,492,222,969*
(d) Capital WIP		2,946,033		*–*
			1,337,572,184	*1,492,222,969*
2 Deferred Tax Asset (See Note 12)			595,626,549	*609,740,500*
3 Current Assets, Loans and Advances:				
(a) Inventories	5	379,582,227		*258,409,569*
(b) Sundry Debtors	6	297,412,250		*298,472,038*
(c) Cash & Bank Balances	7	107,020,881		*125,806,029*
(d) Other Current Assets	8	4,474,834		*8,844,201*
(e) Loans & Advances	9	273,697,677		*210,704,421*
		1,062,187,869		*902,236,258*
Less : Current Liabilities and Provisions	10			
Current Liabilities		1,052,655,400		*697,677,283*
Provisions		4,874,121		*7,531,024*
		1,057,529,521		*705,208,307*
Net current assets			4,658,348	*197,027,951*
4 Miscellaneous Expenditure				
(to the extent not written off or adjusted)	11		16,168,774	*36,075,300*
Profit & Loss Account	12		830,345,077	*1,147,500,643*
Total			2,784,370,932	*3,482,567,363*
Notes forming part of the accounts	18			

As per our report of even date attached

For M/s P.G. Bhagwat
Chartered Accountants

S.B. PAGAD
Partner

Pune: 28th June, 2004

For and on behalf of the Board of Directors

ATUL C.KIRLOSKAR
Chairman

R.V.GUMASTE
Managing Director

C.S.PANICKER
Company Secretary

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2004

	Schedule	For the year ended 31st March, 2004 Rs.	*For the year ended 31st March, 2003 Rs.*
INCOME			
Sales		4,079,577,242	*2,758,993,079*
Sale of byproducts, waste and scrap		270,699,220	*157,339,388*
		4,350,276,462	*2,916,332,467*
Less : Excise Duty		590,731,650	*404,958,980*
Net Sales		3,759,544,812	*2,511,373,487*
Other income	13	22,314,356	*8,318,266*
		3,781,859,168	*2,519,691,753*
EXPENDITURE			
Raw Materials & Stores Consumed	14	2,647,930,712	*1,738,618,243*
Employees Remuneration & Benefits	15	107,253,373	*108,849,204*
Operational and Establishment Expenses	16	696,292,737	*503,858,944*
Depreciation and Amortisation	17	130,071,551	*134,005,443*
		3,581,548,373	*2,485,331,834*
Profit for the year		200,310,795	*34,359,919*
Excess / (Short) Provision written back		72,129,725	*(73,528)*
Profit before tax		272,440,520	*34,286,391*
Provision for Taxation:			
Deferred Tax		44,801,589	*(4,507,947)*
Wealth Tax for the year		(86,543)	*(75,554)*
Profit after tax		317,155,566	*29,702,890*
Earnings Per Share:			
Basic & Diluted Earnings Per Share		3.75	*(0.18)*
Notes forming part of the accounts	18		

As per our report of even date attached

For M/s P.G. Bhagwat
Chartered Accountants

S.B. PAGAD
Partner

Pune: 28th June, 2004

For and on behalf of the Board of Directors

ATUL C.KIRLOSKAR
Chairman

R.V.GUMASTE
Managing Director

C.S.PANICKER
Company Secretary

Schedule Nos. 1 to 12 annexed to and forming part of the Balance Sheet as at 31st March, 2004

	Rs.	As at 31st March, 2004 Rs.	*As at 31st March, 2003 Rs.*
SCHEDULE 1			
SHARE CAPITAL			
AUTHORISED :			
105,000,000 (105,000,000) Equity Shares of Rs. 10 each		1,050,000,000	*1,050,000,000*
117,000,000 (117,000,000) Preference Shares of Rs.10 each		1,170,000,000	*1,170,000,000*
		2,220,000,000	*2,220,000,000*
ISSUED, SUBSCRIBED AND PAID UP :			
72,222,400 (72,222,400) Equity Shares of Rs. 10 each		722,224,000	*722,224,000*
32,466,253 (32,466,253) 12% Cumulative Redeemable		324,662,530	*324,662,530*
Preference Shares of Rs.10 each redeemable as follows: a) 26,406,253 (26,406,253) Shares Redeemable at par commencing from 31-03-2008 and ending on 31-03-2011 b) 6,060,000 (6,060,000) Shares Redeemable at par commencing from 15-09-2008 and ending on 15-09-2013			
72,220,000 (72,220,000) 1% Cumulative Redeemable Preference Shares of Rs.10 each Redeemable at par as under:		722,200,000	*722,200,000*
a) 45,000,000 (45,000,000) Shares Redeemable at par after a period of 3 years from allotment date (i.e. 10.03.1998) but not later than 10 years from the date of allotment b) 23,420,000 (23,420,000) Shares Redeemable at par on 30-03-2011 c) 3,800,000 (3,800,000) Shares Redeemable at par on 24-09-2011			
		1,769,086,530	*1,769,086,530*
SCHEDULE 2			
SECURED LOANS			
Debentures (See Note -7a) Nil (4,000,000)17% Privately placed Secured Redeemable Non Convertible Debentures of Rs.100/- each (Redeemable in twenty eight quarterly equal instalments of Rs.14.214 million each commencing from April 1,2004 and ending on January 1, 2011) Redeemed during the year as per settlement arrived.		–	*400,000,000*
900,000 (900,000)17.5% Privately placed Secured Redeemable Non Convertible Debentures of Rs.100/- each (Redeemable in six equal annual instalments of Rs.14.75 million each commencing from March 31,2003 and ending on March, 31, 2008)	90,000,000		*90,000,000*
	90,000,000		*490,000,000*
Less: Redeemed	31,000,000		*3,500,000*
		59,000,000	*486,500,000*
Term Loans from Financial Institutions (See Note -7b)	95,092,000		*708,106,154*
Interest Accrued and due on above loans	8,613,000		*16,234*
		103,705,000	*708,122,388*
Cash Credit from Banks (See Note - 7c)		10,289,677	*61,653,180*
		172,994,677	*1,256,275,568*

	As at 31st March, 2004 Rs.	*As at 31st March, 2003 Rs.*

SCHEDULE 3

UNSECURED LOANS

	As at 31st March, 2004 Rs.	*As at 31st March, 2003 Rs.*
Term Loans		
(i) From Banks	–	*6,000,000*
(ii) From Bodies Corporate (Short Term Loan of Rs.350,000,000/- (Previous year Rs. Nil))	450,000,000	–
	450,000,000	*6,000,000*

SCHEDULE 4

FIXED ASSETS

	LEASEHOLD LAND Rs.	FREEHOLD LAND Rs.	BUILDINGS Rs.	PLANT & MACHINERY INCLUDING COMP.& ELEC. Rs.	FURNITURE & FIXTURES Rs.	VEHICLES Rs.	AS AT 31ST MARCH, 2004 Rs.	*AS AT 31ST MARCH, 2003 Rs.*
Gross Block :								
As at 1st April 2003	15,618,601	5,273,153	507,645,512	1,834,312,935	11,665,928	4,030,227	2,378,546,356	*2,369,500,494*
Additions during the year	–	17,460,956 #	328,373	13,258,429	158,558	1,772,712	32,979,028	*10,955,567*
Deductions and adjustments	15,618,601 #	–	–	87,945,529	114,900	1,077,039	104,756,069	*1,909,705*
As at 31st March 2004	–	22,734,109	507,973,885	1,759,625,835	11,709,586	4,725,900	2,306,769,315	*2,378,546,356*
Depreciation :								
Upto 31st March 2003	–	–	117,984,528	759,339,843	7,430,275	1,568,741	886,323,387	*768,630,068*
For the year 2003-04	–	–	15,550,623	101,467,197	527,512	393,570	117,938,902	*118,605,570*
Deductions and adjustments	–	–	–	31,343,787	27,903	747,435	32,119,125	*912,251*
Upto 31st March 2004	–	–	133,535,151	829,463,253	7,929,884	1,214,876	972,143,164	*886,323,387*
Net Block :								
As at 31st March 2004	–	22,734,109	374,438,734	930,162,582	3,779,702	3,511,024	1,334,626,151	*1,492,222,969*
As at 31st March 2003	*15,618,601*	*5,273,153*	*389,660,984*	*1,074,973,092*	*4,235,653*	*2,461,486*	*1,492,222,969*	

Note:Lease hold Land is converted into Free hold Land on account of Absolute sale deed entered into with KIADB on 31-03-2004.

SCHEDULE 5

INVENTORIES

	As at 31st March, 2004 Rs.	*As at 31st March, 2003 Rs.*
(As certified by the Managing Director)		
(i) Stores, Spares & Consumables	79,928,527	*143,320,268*
(ii) Stock in trade		
Raw material including self generated scrap	164,581,391	*82,925,454*
Finished Goods	113,057,282	*14,327,944*
(iii) Work in Process	22,015,027	*17,835,903*
	379,582,227	*258,409,569*

	Rs.	As at 31st March, 2004 Rs.	*As at 31st March, 2003 Rs.*
SCHEDULE 6			
SUNDRY DEBTORS			
(Unsecured)			
(a) Debts outstanding for a period exceeding six months			
Considered Good	617,877		*11,238,134*
Considered Doubtful	20,967,044		*14,848,725*
	21,584,921		*26,086,859*
Less: Provision for doubtful debts	20,967,044		*14,848,725*
		617,877	*11,238,134*
(b) Others - Considered Good		296,794,373	*287,233,904*
		297,412,250	*298,472,038*
SCHEDULE 7			
CASH AND BANK BALANCES			
Cash and stamps on hand		313,652	*254,818*
Remittances in transit		–	*191,000*
Bank Balances with scheduled banks:			
In Current Account		66,169,675	*102,343,757*
In Margin Deposit		40,340,100	*22,819,000*
In Fixed Deposit		197,454	*197,454*
		107,020,881	*125,806,029*
SCHEDULE 8			
OTHER CURRENT ASSETS			
Interest accrued on investments and deposits		817,990	*322,097*
Claims Receivable	8,156,844		*13,022,104*
Less: Provision for doubtful advances / Deposits	4,500,000		*4,500,000*
		3,656,844	*8,522,104*
		4,474,834	*8,844,201*
SCHEDULE 9			
LOANS AND ADVANCES			
(Unsecured considered good)			
Advances recoverable in cash or in kind or for value to be received		76,247,576	*8,842,746*
Advance against capital expenditure		725,490	*87,750*
Prepaid Expenses		179,547,308	*179,546,728*
Sundry Deposits		9,069,760	*14,838,938*
Balance and deposit with Central Excise & Customs		4,400,249	*6,256,007*
Advance Income tax and Tax deducted at Source		3,707,294	*1,132,252*
		273,697,677	*210,704,421*

	Rs.	For the year ended 31st March, 2004 Rs.	*For the year ended 31st March, 2003 Rs.*
SCHEDULE 10			
CURRENT LIABILITIES			
Sundry Creditors:			
Amount due to SSI Units	6,392,562		*7,290,147*
Other than SSI Units	953,226,745		*590,179,630*
		959,619,307	*597,469,777*
Earnest Money Deposit Received		43,000	*18,000*
Interest Accrued but not due on loans (secured & unsecured)		47,244	*27,277,806*
Advance from customers		92,945,849	*72,911,700*
		1,052,655,400	*697,677,283*
Provision:			
For Wealth Tax		86,543	*75,554*
For Leave encashment		4,787,578	*7,455,470*
		4,874,121	*7,531,024*

Note: There is no amount due and outstanding as at Balance Sheet date to be credited to Investor Education and Protection Fund.

SCHEDULE 11		
MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)		
Preliminary Expenses	–	*19,714*
Share Issue Expenses	–	*1,901,078*
Deferred Revenue Expenses		
Relining Expenses of Mini Blast Furnace	16,168,774	*34,154,508*
	16,168,774	*36,075,300*
SCHEDULE 12		
PROFIT & LOSS ACCOUNT		
Balance as on 01.04.2003	1,147,500,643	*1,381,025,790*
(Less): (i) Adjustment on account of Deferred Tax of Transitional period	–	*(203,822,257)*
(ii) Profit for the year	(317,155,566)	*(29,702,890)*
Balance carried to Balance Sheet	830,345,077	*1,147,500,643*

Schedule Nos. 13 to 17 annexed to and forming part of the Profit and Loss Account for the year ended 31st March, 2004

	Rs.	For the year ended 31st March,2004 Rs.	*For the year ended 31st March,2003 Rs.*
SCHEDULE 13			
OTHER INCOME			
Interest on deposits ((T.D.S.Rs.3,219,767) (Rs.304,934))		16,206,376	*1,743,105*
Rent on Building		6,000,000	*6,000,000*
Profit on sale of Assets		–	*12,352*
Miscellaneous Income		107,980	*562,809*
		22,314,356	*8,318,266*
SCHEDULE 14			
RAW MATERIALS & STORES CONSUMED			
(a) Raw materials consumed :			
Stocks at commencement	82,925,454		*139,362,336*
Add: Purchases	2,584,657,542		*1,497,775,491*
	2,667,582,996		*1,637,137,827*
Less: Stocks at close	164,581,391		*82,925,454*
		2,503,001,605	*1,554,212,373*
(b) Stores and Spares consumed		247,837,569	*165,589,402*
(c) Decrease/(Increase)in stocks			
Stock at close			
Work in process	22,015,027		*17,835,903*
Finished Goods	113,057,282		*14,327,944*
Non Reusable Waste	–		–
	135,072,309		*32,163,847*
Less: Stocks at commencement			
Work in process	17,835,903		*35,953,522*
Finished Goods	14,327,944		*12,123,502*
Non Reusable Waste	–		*2,903,291*
	32,163,847		*50,980,315*
		(102,908,462)	*18,816,468*
		2,647,930,712	*1,738,618,243*
SCHEDULE 15			
EMPLOYEES REMUNERATION AND BENEFITS			
Salaries, Wages & Other Benefits		93,154,448	*94,712,740*
Contribution to Provident & Superannuation Funds		6,462,890	*6,701,773*
Employees' Welfare Expenses		7,636,035	*7,434,691*
		107,253,373	*108,849,204*

	Rs.	For the year ended 31st March,2004 Rs.	*For the year ended 31st March,2003 Rs.*
SCHEDULE 16			
OPERATIONAL AND ESTABLISHMENT EXPENSES			
Power & Fuel		163,657,912	*112,319,223*
Insurance		3,427,549	*3,403,476*
Machinery Hire		1,505,745	*1,560,380*
Lease rent		34,321,609	*34,669,953*
Repairs & Maintenance			
- Building		1,933,756	*1,818,309*
- Machinery		19,504,053	*8,085,098*
- Others		4,049,950	*3,337,272*
- MBF Relining Expenses		53,544,560	*–*
Labour Charges		44,302,368	*35,190,055*
Rent		367,010	*457,681*
Rates and Taxes		11,177,323	*39,151,643*
Travelling Expenses		5,085,727	*4,542,093*
Administrative Expenses		21,458,902	*33,229,255*
Bank Commission		12,828,011	*12,221,738*
Selling Expenses		29,427,568	*31,933,620*
Provision for doubtful debts, Advances & Deposits		3,108,241	*19,348,725*
Bad Debts written off & Doubtful Advances & Deposits		–	*376,599*
Directors Sitting Fees		72,000	*59,000*
Donations		25,000	*15,000*
Loss on sale/scrap of assets		55,034,730	*994,955*
Interest			
- On Fixed Loans	221,137,617		*145,277,917*
- On Others	10,323,106		*15,866,952*
		231,460,723	*161,144,869*
		696,292,737	*503,858,944*
SCHEDULE 17			
DEPRECIATION AND AMORTISATION			
Depreciation		117,938,902	*118,605,570*
Preliminary Expenses written off		19,714	*19,714*
Share Issue Expenses written off		1,901,078	*1,901,078*
Deferred Revenue Expenditure written off		10,211,857	*13,479,081*
		130,071,551	*134,005,443*

SCHEDULE 18

NOTES FORMING PART OF THE ACCOUNTS:

1. **Statement of significant Accounting Policies :**

   a. **Method of Accounting**

   The financial statements are prepared under the historical cost convention and on the basis of going concern concept. The Company follows mercantile system of accounting and recognizes income and expenditure on accrual basis.

   b. **Fixed Assets**

   Fixed Assets are stated at their original cost of acquisition including respective taxes, duties, freight and other incidental expenses related to acquisition of the respective assets. Technical know-how fees, interest on borrowed funds attributable to and installation acquisition /construction of fixed assets and expenses related to the project, net of sales of trial production, are also capitalised where appropriate. Cenvat credit availed has been deducted from the cost of respective assets.

   c. **Depreciation**

   Depreciation on fixed assets is being provided on straight line basis in the manner and at the rate specified in schedule XIV to the Companies Act 1956.

   d. **Inventories**

   The basis of valuation of inventories is as under:

   Raw Materials, Stores & Spares at lower of Cost and net realisable value. Rates are determined on First in First out basis.

   Work in process and Finished goods other than by-product at lower of Cost and net realisable value. Cost is arrived at by absorption cost method. Finished goods are valued inclusive of Excise Duty.

   By-products, Self Generated Scrap and non reusable waste – at net realisable value.

   e. **Borrowing Cost**

   Borrowing costs are charged to Profit and Loss account except in cases where the borrowings are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use.

   f. **Foreign Currency Transactions**

   Foreign Currency transactions are accounted at exchange rates on the date of transaction. Premium on forward cover contracts in respect of import of raw materials is charged to Profit & Loss account over the period of contract. Amounts payable and receivable in foreign currency as at the Balance Sheet date not covered by forward contracts are reinstated at the applicable exchange rates prevailing on that date. All exchange differences arising on revenue transactions, not covered by forward contracts, are charged to Profit & Loss account.

   g. **Excise Duty**

   Excise Duty in respect of goods manufactured by the Company is accounted for on accrual basis.

h. **Lease**

Lease transactions entered prior to 1st April, 2001 are accounted for as per the Guidance Note on Accounting for leases issued by the Institute of Chartered Accountants of India whereby:

The Lease rentals in respect of assets taken on Finance Lease are accounted for on accrual basis irrespective of contractual obligations for payment of lease rentals.

i. **Employee Retirement Benefits**

i. Contribution to Provident Fund and Superannuation Fund is made at pre-determined rate to the Provident Fund Commissioner and Life Insurance Corporation of India respectively and charged to the Profit and Loss Account.

ii. Encashment of leave has been accounted on actuarial valuation basis.

iii. The accruing liability of Gratuity is covered by Employees Group Gratuity Scheme of the Life Insurance Corporation of India and the premium is accounted for in the year of accrual. The additional amount if any, payable in the event of premature retirement of employee is accounted for in the year of retirement.

j. **Miscellaneous Expenditure**

Miscellaneous Expenditure (to the extent not written off or adjusted) is written off as follows:

i. Preliminary expenses over a period of 10 years.

ii. Share issue expenses over a period of 10 years.

iii. As per Accounting Standard AS-26 on Intangible Assets prescribed by the Institute of Chartered Accountants of India, which came into effect from 1st April, 2003, the relining expenses incurred on Mini Blast Furnace upto 31st March, 2003 are treated as Deferred Revenue expenses in the year in which relining is completed and the same is written off over its expected useful life of 4 years. Relining expenses incurred after 1st April, 2003, have been charged to Profit and Loss account in the year in which the expenditure is incurred.

2. Contingent Liabilities not provided for:

i) Demands raised by Central Excise authorities disputed by the Company – Rs.1,298,095/- (Previous year – Rs. 4,333,238/-)

ii) Demands raised by Wealth Tax Authorities – Rs.2,276,831/- (Previous year - Nil)

iii) Arrears of fixed cumulative dividend on Cumulative Preference Shares of Rs.10/- each Rs.248,806,308/- (Previous Year Rs. 202,624,804/-)

3. The amount of future obligations towards lease rent in respect of assets taken on finance lease is Rs.168,312,975/- (Previous year Rs. 203,357,115/-).

4. Aggregate value of the letters of credit outstanding as on 31st March, 2004 is Rs.497,252,395/- (Previous Year – Rs. 187,176,127/-).

5. Estimated amount of contracts remaining to be executed on capital account and not provided for Rs.8,830,993/- (Previous Year Rs. 1,636,681/-).

6. Amount of borrowing costs capitalized during the year – Nil.

7. Security:

   a) 900,000 (4,900,000) Privately Placed Secured Redeemable Non Convertible Debentures of Rs. 100/- each are secured by hypothecation of the movable properties of the Company situated at Village Bevinahalli including the Company's movables (save and except book debts) including movable machinery, machinery spares, tools and accessories present and future, subject to prior charges created and/or to be created in favour of Company's bankers on raw materials, semi finished goods and finished goods, consumable stores and such other movables for working capital facilities and further are secured by mortgage of immovable property.

   b) The Term loans from a Financial Institution (except Rs.48,652,000/- (Rs.237,863,418/-)) are secured by mortgage of the immovables. They are further secured by hypothecation of the movable properties of the Company situated at Village Bevinahalli including the Company's movables (save and except book debts) including movable machinery, machinery spares, tools and accessories present and future, subject to prior charges created and/or to be created in favour of Company's bankers on raw materials, semi finished goods and finished goods, consumable stores and such other movables as may be agreed by the lead institution, for working capital facilities.

   c) The working capital facilities with Consortium Banks (fund based and non-fund based) are secured by hypothecation of inventories and book debts. Further, the said facility (except to the extent of Rs.368,000,000/-) has been secured by second charge on the immovable properties of the Company situated at Village Bevinahalli.

8. The earlier method of accounting of Encashment of Leave was on actual valuation which was based on the assumption that such benefits are payable to all employees at the end of the financial year. Due to the change in accounting policy in respect of Leave encashment, the profit for the year is higher by Rs.661,791/-.

9. Due to the change in accounting policy in respect of the relining expenses incurred for the Mini Blast Furnace an amount of Rs.53,544,560/- incurred during the year has been charged of to the Profit & Loss Account as against the earlier practice of writing it off over 4 years. Due to this change in accounting practice, the profit for the year are lower by Rs.45,735,978/-.

10. Segment Information :

    The Company operates in one segment namely Iron Castings.

11. Related Party Disclosures :

    a) Controlling Company :
       Kirloskar Oil Engines Ltd

    b) Key Management Personnel :
       Mr. R.V.Gumaste – Managing Director

c) Transactions with related parties :

Particulars	Controlling Company (Rs) 2003-04	*Controlling Company (Rs) 2002-03*	Key Management Personnel (Rs) 2003-04	*Key Management Personnel (Rs) 2002-03*
(a) Sale of finished goods	186,503,057	*126,620,552*	—	—
(b) Sale of Stores & Spares	37,984	—	—	—
(c) Purchase of Material & Components	414,272,506	*454,857,191*	—	—
(d) Lease Rentals	35,044,140	*35,044,140*	—	—
(e) Other Services	7,590,123	*5,323,170*	—	—
(f) Remuneration	—	—	1,557,179	*2,251,619*
(g) Electricity Charges	120,035,723	—	—	—
(h) Building Rent Received	6,000,000	—	—	—
(i) Other Expenses	2,280,087	—	—	—
Outstanding as on 31st March, 2004				
(a) Outstanding Receivables	23,703,133	*27,891,546*	—	—
(b) Outstanding Payables	286,953,059	*217,278,902*	—	—

12. Deferred Tax :

Details of Deferred Tax Assets and Liabilities as on 31st March, 2004 are as under:

Particulars	2003-04 (Rs)	*2002-03 (Rs)*
Deferred Tax Assets:		
Unabsorbed Depreciation as per Income Tax Act	581,006,539	*581,006,539*
Disallowance under section 43 B of Income Tax Act	5,483,708	*21,972,828*
Provision for doubtful debts	9,136,302	*6,761,133*
Total Assets	595,626,549	*609,740,500*
Deferred Tax Liabilities:		
Depreciation	332,740,213	*385,464,395*
Deferred Revenue expenses	5,800,548	*12,252,930*
Lease Adjustment account	53,748,964	*53,487,940*
Total Liabilities	392,289,725	*451,205,265*
Net Assets/(Liabilities)	203,336,824	*158,535,235*

13. Payment to Auditors:

Particulars	2003-2004 (Rs)	*2002-2003 (Rs)*
(a) As Audit Fees	270,000	*262,500*
(b) In other capacity		
- for certification	249,450	*191,626*
- for Tax Audit	64,800	*42,000*
(c) For Expenses	26,582	*23,230*
Total	610,832	*519,356*

14. Interest paid on others Rs.10,323,106/- (Previous year Rs. 15,866,952/-) is net of Rs. 729,793/- (Previous Year Rs. 428,716/-) being interest received from customers. [Tax deducted at source Rs. 60,290/- (Previous Year Rs. 122,315/-)].

15. Interest on fixed loans includes Rs. 91,985,000/- incurred on account of one time settlement package arrived with the Financial Institutions.

16. The Net Gain/(Loss) on account of exchange difference arising on foreign currency transactions is Rs.39,683,611/- (Previous Year – Rs. 3,256,351/-).

17. Adjustment pertaining to earlier years includes the provisions written back on account of Anti Dumping Duty on coke fines provided in the earlier years aggregating to Rs. 57,242,734/- considering the decision of Commissioner Appeals Central Excise, Bangalore in favour of the Company.

18. C.I.F. Value of Import and Expenditure in Foreign currencies:

Particulars	2003-2004 in Rs.	*2002-2003 in Rs.*
(a) C.I.F. value of imports		
Capital Goods	270,750	*Nil*
Raw Materials	813,828,753	*398,216,722*
Stores & Spares	478,864	*875,346*
(b) Expenditure in foreign currencies		
Interest	4,311,407	*3,359,787*
Others	393,108	*1,192,930*

19. Earnings in Foreign Exchange

FOB Value of Exports	Nil	*248,108*

20. Details of raw material consumption:

(i) Raw Material Consumed:

Particulars	Unit	2003-2004		2002-2003	
		Qty.	Rs.	*Qty.*	*Rs.*
(a) Iron Ore Lumps	MT	463,085	256,592,787	*482,009*	*223,147,461*
(b) Coke	MT	211,949	2,012,608,992	*218,097*	*1,182,678,928*
(c) M.S. Scrap	MT	12,353	157,979,768	*8,622*	*77,281,894*
(d) Others			75,820,058		*71,104,090*
Total			2,503,001,605		*1,554,212,373*

(ii) Imported and Indigenous Raw Material Consumption:

Particulars	2003-2004		2002-2003	
	Rs.	Percent	*Rs.*	*Percent*
(a) Imported	1,654,344,470	66.09	*1,182,678,928*	*76.10*
(b) Indigenous	848,657,135	33.91	*371,533,445*	*23.90*
Total	2,503,001,605	100.00	*1,554,212,373*	*100.00*

(iii) Imported and Indigenous Stores & Spares Consumption:

Particulars	2003-2004		2002-2003	
	Rs.	Percent	*Rs*	*Percent*
(a) Imported	2,957,090	1.19	*800,856*	*0.48*
(b) Indigenous	244,880,479	98.81	*164,788,546*	*99.52*
Total	247,837,569	100.00	*165,589,402*	*100.00*

21. Details of licensed and installed capacity, Production, Stocks and Turnover:

A. Licensed and installed capacity:

Class of goods	Unit	Licensed Capacity		Installed Capacity	
		2003-2004	*2002-2003*	2003-2004	*2002-2003*
Liquid Metal for Pig Iron	MT	Not Applicable		240,000	*240,000*
Castings	No. of Moulds	Not Applicable		475,500	*475,500*

Note: Installed capacity includes Mini Blast Furnace with capacity of 120,000 MT per annum taken on lease.

B. Production:

Class of Goods	Unit	2003-2004	*2002-2003*
Liquid Metal			
- Consumed in Foundry	MT	28,385	*20,162*
- Consumed for Manufacture of Pig Iron	MT	231,592	*253,194*
Castings	Nos.	364,779	*248,702*

C. Stocks and Turnover:

Class of Goods	Unit	Opening Stock		Closing Stock		Turnover	
		2003-2004	*2002-2003*	2003-2004	*2002-2003*	2003-2004	*2002-2003*
(a) Pig Iron Quantity Value (Rs.)	 (MT)	 1,655 11,662,840	 *1,351* *9,541,523*	 10,381 110,677,270	 *1,655* *11,662,840*	 212,002 2,428,763,565	 *240,710* *1,755,525,048*
(b) Castings Quantity Value (Rs.)	 Nos.	 – –	 – –	 – –	 – –	 340,261 936,432,195	 *229,932* *547,234,708*
(c) Others Value (Rs.)		 2,665,104	 *2,581,979*	 2,380,012	 *2,665,104*	 394,349,052	 *208,613,731*
Total Turnover (Value Rs.)						3,759,544,812	*2,511,373,487*

Notes:

(i) Castings turnover is net of rejections –Nos.24,518 amounting to Rs.54,895,120/- (Previous Year 18,770 Nos. amounting to Rs. 44,326,281/-)

(ii) As the contracts for sale of castings with the customers are in numbers and the stock records are also maintained in numbers, the quantitative information for production, Stock and Turnover of castings are disclosed in numbers.

The weight of these numbers if converted at standard weight of respective Castings will be as under:

Particulars	2003-2004 (MT)	*2002-2003 (MT)*
Production	26,855	*19,280*
Opening Stock	–	–
Closing Stock	–	–
Turnover	25,279	*17,931*
Rejection	1,576	*1,349*

22. Details of payment and provisions on account of managerial remuneration included in the Profit and Loss Account as under (minimum remuneration as per Schedule XIII to the Companies Act, 1956)

Particulars	2003-2004 (Rs.)	*2002-2003 (Rs.)*
Salary	1,215,000	*1,630,823*
Contribution to P.F.	102,600	*161,766*
Contribution to Superannuation Fund	128,250	*193,229*
Perquisites	111,329	*20,034*
Leave Encashment	—	*41,301*
Gratuity	—	*204,466*
Total	1,557,179	*2,251,619*

In addition to the above, the Managing Director is eligible for Gratuity and leave encashment payable at the end of his tenure.

23. (i) Unpaid overdue amount due on 31-3-2004 to Small Scale and / or Ancillary Industrial Undertaking Rs. 955,671/- (Previous year Rs. 544,578/-) on account of principal and Rs.4,613,019/- (Previous year Rs. 4,459,899/-) on account of interest. This disclosure is based on the information available with the Company regarding the status of the suppliers as defined under the "Interest on Delayed Payments to Small Scale and Ancilliary Industrial Undertakings Act, 1993".

(ii) The names of small scale industrial undertaking(s) to whom the Company owes sums, including interest outstanding for more than 30 days are: V.S. Lad & Sons (C Block), Chaitanya Lathe & Welding Works, Swastik Enterprises, Innotech Engineers Ltd., Ultraseal (India) Pvt. Ltd. and Canara Hydraulics.

24. Earnings per equity share

Particulars	2003-04 (Rs.)	*2002-03 (Rs.)*
a) Basic Earnings Per Share	3.75	*(0.18)*
b) The amount of profit/(loss) considered for calculation of EPS is as follows:		
Net Profit/(Loss) after tax	317,155,566	*29,702,890*
Dividend on Cumulative Redeemable Preference Shares	46,181,504	*42,595,312*
Adjusted Profit/(Loss) after tax	270,974,062	*(12,892,422)*
c) Basic Earnings for equity share has been computed by dividing net profit/(loss) after tax by the weighted average number of equity share outstanding for the period.		
Weighted average number of equity shares used in computing basic earnings per equity share.	72,222,400	*72,222,400*
d) Face value of each equity share Rs. 10/-		

25. Previous year's figures have been regrouped and reclassified to conform with current year's grouping wherever necessary.

26. Information as per part IV of Schedule VI of the Companies Act, 1956.
Balance Sheet Abstract and Company's General Business Profile.

I. Registration Details:

Registration No. 11–63223 State Code 11

Balance Sheet Date 31032004

II. Capital Raised during the year : (Amount in Rs. Thousands)

Public Issue	Rights Issue
NIL	NIL
Bonus Issue	Private Placement
NIL	NIL

III. Position of Mobilisation and Deployment of Funds :
(Amount in Rs.Thousands)

Total Liabilities	Total Assets
2784371	2784371

Sources of Funds

Paid up Capital	Reserves and Surplus
1769087	NIL
Deferred Tax Liability	Secured Loans
392290	172994
Unsecured Loans	
450000	

Application of Funds

Net Fixed Assets	Capital Work in Progress
1334626	2946
Investments	Net Current Assets
NIL	4658
Deferred Tax Asset	Misc. Expenses
595627	16169
Accumulated Losses	
830345	

IV Performance of Company (Amount in Rs.Thousands)

Turnover	Total Expenditure
3781859	3509419
Profit/(Loss) before tax ✓	Profit/(Loss) after tax ✓
272440	317156
Earning per share (Basic) (Rs.) ✓	Dividend Rate (%)
+ – 3.75	NIL

V Generic Name of Three Principal Products/Services of Company
(as per monetary terms)

Item Code No. | | | 7 | 2 | 0 | 1 | 1 | 0 |

Product Description : Non Alloy Pig Iron containing by weight 0.5% or less of Phosphorous.

Item Code No. | | | 7 | 3 | 2 | 5 | 1 | 0 |

Product Description Industrial Castings of non-malleable cast iron

Item Code No. | 7 | 3 | 2 | 5 | 9 | 9 | 0 | 9 |

Product Description Industrial Castings of other cast articles of Iron or steel.

Signatures to Schedules 1 to 18

As per our report of Even date attatched

For and on behalf of the Board of Directors

For M/s P.G.BHAGWAT
Chartered Accountants

ATUL C.KIRLOSKAR
Chairman

R.V.GUMASTE
Managing Director

S.B.PAGAD
Partner

C.S.PANICKER
Company Secretary

Pune: 28th June, 2004

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2004

		2003-2004	*2002-2003*
	Rs.	Rs.	*Rs.*
A. CASH FLOW FROM OPERATING ACTIVITIES			
Net Profit/(Loss) before tax and extraordinary items		200,310,795	*34,359,919*
Adjustments for			
Depreciation	117,938,902		*118,605,570*
Write offs	12,132,649		*15,399,873*
Profit on sale of assets	–		*(12,352)*
Loss on sale of assets	55,034,730		*994,955*
Interest paid	231,460,723		*161,144,869*
Interest income	(16,206,376)		*(1,743,105)*
Rent on Building	(6,000,000)		*(6,000,000)*
Deferred Revenue Expenses	7,773,877		*(7,773,877)*
		402,134,505	*280,615,933*
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		602,445,300	*314,975,852*
Decrease/(Increase) in Trade & Other Receivables	(53,855,426)		*168,421,135*
Decrease/(Increase) in Inventories	(121,172,658)		*67,309,096*
(Decrease)/Increase in Trade Payables	379,540,787		*(34,070,773)*
		204,512,703	*201,659,458*
CASH GENERATED FROM OPERATIONS		806,958,003	*516,635,310*
Tax Deducted at Source		(2,575,042)	*(385,022)*
CASH FLOW BEFORE EXTRA ORDINARY ITEMS		804,382,961	*516,250,288*
Prior Period Adjustments		72,129,725	*(73,528)*
NET CASH FROM OPERATING ACTIVITIES		876,512,686	*516,176,760*
B. CASH FLOW FROM INVESTING ACTIVITIES :			
Purchase of assets	(36,562,800)		*(5,517,471)*
Proceeds from sale of assets / Adjustment to Gross Block	17,602,213		*14,852*
Interest received	15,710,483		*2,135,278*
Rent on Building	6,000,000		*6,000,000*
Sale of investments	–		*500,000*
Wealth Tax paid	(75,554)		*(72,758)*
NET CASH USED IN INVESTING ACTIVITIES		2,674,342	*3,059,901*
C. CASH FLOW FROM FINANCING ACTIVITIES :			
Interest paid	(250,094,519)		*(262,366,425)*
Proceeds from issue of share capital	–		*60,600,000*
Proceeds/(Repayment) of Long Term Borrowings	(940,514,154)		*(152,014,037)*
Proceeds/(Repayment) from Short Term Borrowings	344,000,000		*(24,000,000)*
Increase/(Decrease) Cash Credit	(51,363,503)		*(91,419,045)*
NET CASH USED IN FINANCING ACTIVITIES		(897,972,176)	*(469,199,507)*
		(18,785,148)	*50,037,154*
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS			
Opening Cash and Cash Equivalents		125,806,029	*75,768,875*
Closing Cash and Cash Equivalents		107,020,881	*125,806,029*

As per our report of even date

For and on behalf of the Board of Directors

For M/s. P.G.BHAGWAT
Chartered Accountants

ATUL C.KIRLOSKAR
Chairman

R.V.GUMASTE
Managing Director

S.B.PAGAD
Partner

C.S.PANICKER
Company Secretary

Pune: 28th June, 2004

TEAR HERE

ATTENDANCE SLIP

KIRLOSKAR FERROUS INDUSTRIES LIMITED

Regd. Office: Laxmanrao Kirloskar Road,
Khadki, Pune 411 003 (Maharashtra State)

13th Annual General Meeting on
27th August, 2004 at 11.00 A.M.

Ledger Folio No. / DP Id and Client Id ....

Full name of the shareholder..

(in block capitals) ....

....

I certify that I am a member / proxy for the member of the Company.

I hereby record my presence at the 13th Annual General Meeting of the Company at the Registered Office of the Company at Laxmanrao Kirloskar Road, Khadki, Pune 411 003, on Friday, the 27th August, 2004 at 11 A.M.

Shareholder's / Proxy's Signature..

Proxy's full name..

(in block capitals) ....

....

Note: Please fill in this Attendance Slip and hand it over at the entrance of the Hall.

TEAR HERE

PROXY

KIRLOSKAR FERROUS INDUSTRIES LIMITED

Regd. Office: Laxmanrao Kirloskar Road,
Khadki, Pune 411 003 (Maharashtra State)

I/We..

L.F. No. / DP Id and Client Id ....of..

being member/members of Kirloskar Ferrous Industries Limited, Pune 411 003 do hereby appoint..

....of...or failing him/her

....of...as my/our proxy in my/our absence to attend and vote for me/us and on my/our behalf at the 13th Annual General Meeting of the Company, to be held at the Registered Office of the Company at Laxmanrao Kirloskar Road, Khadki, Pune 411 003, on Friday, the 27th August, 2004 at 11.00 A.M. and at any adjournment thereof.

In witness whereof, I/we have set my/our hand/hands this........................day of................................2004.

(Signature of the member across the stamp)......................... Please affix Re. 1 Revenue Stamp ....

Note: The Proxy must be deposited at the Registered Office of the Company, not less than 48 hours before the time for holding the meeting.