

Directors' Report

To the Members,

Your Directors have pleasure in presenting their Second Annual Report together with the Audited Statement of Accounts for the year ending 31 March 2016.

LISTING ON STOCK EXCHANGES

Pursuant to the Composite Scheme of Arrangement and Amalgamation between Kirloskar Brothers Investments Limited (KBIL) and the Company and Kirloskar Oil Engines Limited (KOEL) and their respective Shareholders and Creditors (the "Composite Scheme"), the Company issued and allotted fully paid 52,88,718 equity shares of ₹ 10/- each in the ratio of 1:1 to the shareholders of Kirloskar Brothers Investments Limited on 14 July 2015.

The Securities and Exchange Board of India vide its letter dated 9 September 2015 granted the necessary relaxation under Rule 19(2)(b) of Securities Contracts (Regulation) Rules, 1957, for the listing of the aforesaid equity shares of the Company and consequently trading commenced with effect from 18 September 2015, on BSE Limited and National Stock Exchange of India Limited.

FINANCIAL PERFORMANCE

The Company's financial performance for the year under review alongwith previous year figures is given hereunder:

	[₹ in lakhs]	
Particulars	Year ended 31 March 2016	Year ended 31 March 2015
Total Income	1,231.46	7.51
Total Expenditure	517.00	87.97
Profit before exceptional items and taxation	714.46	(80.46)
Provision for tax (including Deferred Tax)	(37.44)	(24.16)
Net Profit	751.90	(56.30)
Balance of Profit / (Loss) from previous year	(56.30)	-
Add: Transfer in terms of the Composite Scheme	5,938.27	-
Balance available for appropriation	6,633.87	(56.30)
Appropriations:		
Interim Dividend	475.98	-
Proposed Dividend	-	-
Tax on proposed dividend	-	-
Transfer to General Reserve	-	-
Balance carried to Balance Sheet	6,157.89	(56.30)

DIVIDEND

Interim Dividend of 90 % (₹ 9/- per equity share of ₹ 10/- each) was paid in the month of March 2016. Your Directors do not recommend Final Dividend for the year 2015-16.

MANAGEMENT DISCUSSION AND ANALYSIS

The main object of the Company is to make strategic investments in the Kirloskar Group Companies. The Company is categorized as a Core Investment Company – Non Banking Financial Company (CIC-NBFC) as per guidelines issued by the Reserve Bank of India and the investment pattern of the Company also complies with the requirement to continue to qualify as a CIC-NBFC.

COMPANY PERFORMANCE

During the year, your Company earned total income of ₹ 12.31 Crores as compared ₹ 0.07 Crores in previous year and gained a

profit of ₹ 7.52 Crores as compared to loss of ₹ 0.56 Crores in previous year.

In the year under review, the Company received dividend of ₹ 3.50 Crores declared by the investee companies for the financial year 2014 -15. The Company also received interim dividend of ₹ 4.90 Crores declared by the investee companies in the year 2015 -16, which their respective Boards have considered as final dividend.

OPERATIONS OF THE COMPANY

The main operations of the Company are that of investment and majority of the investments of the Company are in the nature of strategic investments in Kirloskar Group Companies. The Company acquired equity shares and other businesses through the Composite Scheme of Arrangement and Amalgamation. Consequently, this is the first year of operations. The main source of income for the Company is in the form of dividends. The Company has received dividend income of ₹ 8.39 Crores during the year. The Company is also engaged in Vehicle Leasing business. However no new lease Agreements were entered into during the year under review.

HUMAN RESOURCES

As on 31 March 2016, the Company has 9 employees on its roll, including the Executive Director.

CONCERNS AND THREATS

- Fluctuations in the securities market and global economic scenario, may pose a risk of devaluation of the investments made by the Company.
- Main source of income for the Company is dividend from its Subsidiary Company.
- The risks and concerns associated with the businesses/operations of these investee companies, which may impact the performance of these companies, could result in variation in dividends declared by these companies.
- Risk related to recovery of cost of residual value after expiry of operating lease period.
- Total damage risk of the vehicle given on lease.
- Pre-mature termination of operating lease Agreement by lessee.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has adequate internal control systems to ensure operational efficiency, accuracy and promptness in financial reporting and compliance of various laws and regulations.

The internal control system is supported by the internal audit process. An Internal Auditor has been appointed for this purpose. The Audit Committee of the Board reviews the Internal Audit Report and the adequacy and effectiveness of internal controls periodically.

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.

LISTING FEES

The annual listing fees for the year under review have been paid to BSE Limited and National Stock Exchange of India Limited, where your Company's shares are listed.

SUBSIDIARY COMPANIES AND CONSOLIDATED FINANCIAL STATEMENTS

As on 31 March 2016, the Company has following subsidiaries:

1. Kirloskar Pneumatic Company Limited (KPC)
2. Kirloskar RoadRailer Limited (Wholly owned Subsidiary of KPC)

Kirloskar Chillers Private Limited is an Associate Company of KPC.

The Board presents Audited Consolidated Financial Statements incorporating the Consolidated Audited Financial Statements of KPC and as prepared in compliance with the Accounting Standards and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, (the "Regulations").

Pursuant to Rule 5 of Companies (Accounts) Rules, 2014, the Statement containing the salient feature of the Financial Statement of a Company's subsidiary and associate companies under the first proviso to Sub-Section (3) of Section 129 of the

Companies Act, 2013 (“the Act”) in Form AOC-1 is required to be enclosed to the Financial Statements.

The Consolidated Financial Statements prepared as per applicable provisions and duly audited by Statutory Auditors, are presented elsewhere in this Annual Report along with Form AOC-1.

Further, the Company undertakes that the Annual Accounts of the Subsidiary Companies and the related detailed information shall be made available to the shareholders on demand, at any point of time. The Annual Accounts of the Subsidiary Companies shall also be kept open for inspection by any shareholder at the Registered Office of the Company.

Brief highlights of businesses of subsidiary company

Kirloskar Pneumatic Company Limited (KPC)

KPC is in the business of Compression Products/Systems and Transmission Products having its manufacturing locations at Hadapsar, Saswad in Pune and Nashik.

The revenue of the KPC for the year 2015-16 is increased to ₹ 529.98 Crores from ₹ 460.14 Crores in the last year and the net profit after taxes of KPC increased from ₹ 22.58 Crores to ₹ 36.38 Crores.

The Board of Directors of KPC has declared an interim dividend of ₹ 7/- (70 %) per equity share for the Financial Year 2015-16, which is considered as final dividend.

During the year under review, KPC has been appreciated for ENCON efforts by:

- 1st prize at 9th State Level EC Award to Hadapsar plant for Financial Year 2014-15 from MEDA (Maharashtra Energy Development Agency);
- National award by CII for Energy Efficient unit to Hadapsar plant; and
- Certificate of Merit to Saswad plant in National Energy Conservation Award 2015 competition by Govt. of India.

During the year under review, KPC has received:

- Gold Award Trophy in Quality Improvement Success Stories in Competition organized by Quality Circle Forum India.
- Awards in the 29th National Convention on Quality Concepts - NCQC 2015 organised by QCFI.
 - 2 Nos. “Par Excellence Award Trophy”.
 - 2 Nos. “Excellence Award Trophy” “Distinguish Award Trophy”.
- “Certificate of Merit” in recognition of its significant progress in Total Quality Management in Ravi Kirloskar Quality Prize for Business Excellence – 2014-15.
- “Supplier of EHS Excellence Award” received from GE Oil & Gas for the excellent and consistent performance in EHS practices for the last 4 years.

Kirloskar RoadRailer Limited (Wholly Owned Subsidiary of KPC)

Kirloskar RoadRailer Limited is set up for providing RoadRailer Services and KPC expects that the RoadRailer services will commence from the current financial year.

PARTICULARS OF INFORMATION FORMING PART OF THE BOARD’S REPORT PURSUANT TO SECTION 134 OF THE COMPANIES ACT, 2013, RULE 8 OF THE COMPANIES (ACCOUNTS) RULES 2014 AND RULE 5 OF THE COMPANIES (APPOINTMENT AND REMUNERATION OF MANAGERIAL PERSONNEL) RULES, 2014

EXTRACT OF ANNUAL RETURN

The details forming part of the extract of the Annual Return in Form MGT- 9, is annexed herewith as ‘Annexure I’ to this Report.

NUMBER OF MEETINGS OF THE BOARD

During the year under review, six Board Meetings were convened and held. The details of which are given in the Corporate Governance Report. The intervening gap between the Meetings was within the period prescribed under the Act.

DIRECTORS’ RESPONSIBILITY STATEMENT

Pursuant to the requirements of Section 134(5) of the Act, in respect of Directors’ Responsibility Statement, your Directors state that:

- a) in the preparation of the Annual Financial Statements for the year ended 31 March 2016, the applicable accounting standards have been followed along with the proper explanation relating to material departures;
- b) accounting policies as mentioned in Part - B to the Financial Statements have been selected and applied consistently. Further judgments and estimates have been made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31 March 2016 and of the profit of the Company for the year ended on that date;

- c) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) the Annual Financial Statements have been prepared on a going concern basis;
- e) proper internal financial controls were in place and that the financial controls were adequate and were operating effectively; and
- f) proper systems to ensure compliance with the provisions of all applicable laws were in place and were adequate and operating effectively.

STATEMENT ON DECLARATION BY THE INDEPENDENT DIRECTORS

All Independent Directors have given declarations that they meet the criteria of independence as laid down under Section 149(6) of the Companies Act, 2013 and Regulation 16(1) (b) of the Listing Regulations, 2015.

COMPANY'S POLICY ON DIRECTORS' APPOINTMENT AND REMUNERATION

The Company constituted a Nomination and Remuneration Committee. The Board has, on the recommendation of the Nomination and Remuneration Committee framed a policy for selection and appointment of Directors, Key Managerial Personnel (KMP) and Senior Management Personnel and their remuneration. The policy is annexed as '**Annexure II**' to this Report.

AUDITORS

a. Statutory Auditors

M/s. P. G. Bhagwat, Chartered Accountants (Firm's Registration No. 101118W), Pune, Statutory Auditors are appointed as Statutory Auditors of the Company from the conclusion of First Annual General Meeting (AGM) held on 29 June 2015 till the conclusion of Sixth Annual General Meeting of the Company to be held in Financial Year ended 2019-20, subject to ratification by members annually from this Annual General Meeting. The requisite certificate as per Section 139 of the Companies Act, 2013, has been received by the Company, about their eligibility to continue as Statutory Auditor of the Company.

b. Secretarial Auditor

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Company has appointed M/s. Kanj & Associates, Practicing Company Secretaries, Pune, to undertake the Secretarial Audit of the Company. The Report of the Secretarial Audit is annexed herewith as '**Annexure III**'.

EXPLANATION ON COMMENTS ON STATUTORY AUDITORS' AND SECRETARIAL AUDIT REPORT

There are no qualifications, reservations or adverse remarks or disclaimers made by M/s. P. G. Bhagwat, Statutory Auditors, in their Audit Report and by M/s. Kanj & Associates, Practicing Company Secretaries, Pune, in their Secretarial Audit Report.

PARTICULARS OF LOANS, GUARANTEES OR INVESTMENT UNDER SECTION 186 OF THE COMPANIES ACT, 2013

Your Company has not given any loan or guarantee or security or made any investment during the year.

PARTICULARS OF CONTRACTS OR ARRANGEMENTS WITH RELATED PARTIES REFERRED TO IN SUB-SECTION (1) OF SECTION 188 OF THE COMPANIES ACT, 2013

Pursuant to the provisions of Section 134 of the Companies Act, 2013, read with Rule 8 (2) of the Companies (Accounts) Rules, 2014, the terms of contracts or arrangements entered into by the Company with Related Parties have been done at arm's length and are in the ordinary course of business. Hence, no particulars are being provided in Form AOC-2. Related Party disclosures as per AS - 18 have been provided in Note No. C-2 to the Financial Statements.

STATE OF COMPANY'S AFFAIRS

Discussion on state of Company's affairs has been covered in the Management Discussion and Analysis.

AMOUNTS PROPOSED TO BE CARRIED TO RESERVES

Particulars of the amounts proposed to be carried to reserves have been covered as part of the financial performance of the Company.

MATERIAL CHANGES AND COMMITMENTS BETWEEN THE DATE OF THE BALANCE SHEET AND THE DATE OF REPORT

There have been no material changes and commitments, affecting the financial position of the Company which have occurred between the end of the Financial Year of the Company to which the Financial Statements relate and the date of the report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

A. Conservation of energy and Technology Absorption

The Company has no particulars to report regarding conservation of energy, technology absorption as required under Section 134 (3) (m) of the Companies Act, 2013, read with Rules thereunder.

B. Foreign exchange earnings and Outgo

Sr. No.	Particulars	Amount in ₹
i	Foreign Exchange earned in terms of actual inflows during the year	33,53,011
ii	Foreign Exchange outgo during the year in terms of actual outflows	Nil

RISK MANAGEMENT POLICY

The Company has in place a mechanism to identify, assess, monitor and mitigate various risks to key business objectives. Major risks identified are systematically addressed through mitigating actions on a continuing basis. These are discussed at the meetings of the Audit Committee and the Board of Directors of the Company.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The provisions of Section 135 of the Companies Act, 2013, in respect of Corporate Social Responsibility are not applicable to the Company.

BOARD EVALUATION

Pursuant to provisions of the Companies Act, 2013, the Board has carried out performance evaluation of its own, its Committees and individual Directors.

PERFORMANCE AND FINANCIAL POSITION OF EACH OF THE SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE COMPANIES

Name and Registered Office of the Subsidiary Company	% Holding	Particulars	Amount (₹ in lakhs)
Kirloskar Pneumatic Company Limited Hadapsar Industrial Estate, Pune 411 013.	54.45	Total Income	52,997.80
		Total Expenditure	47,833.32
		Profit / (Loss) before exceptional items and taxation	5,164.48
		Profit / (Loss) before taxation	5,164.48
		Provision for tax (including Deferred Tax)	1,526.60
		Net Profit / (Loss)	3,637.88
		Balance of Profit / (Loss) from previous year	1,993.97
		Less: Transfer to General Reserve	2700.00
		Less: Interim Dividend	899.10
		Less: Proposed Dividend	-
		Less : Dividend Distribution Tax	182.28
		Balance carried to Balance Sheet	1,850.47

Name and Registered Office of the Subsidiary Company	% Holding	Particulars	Amount (₹ in lakhs)
Kirloskar RoadRailer Limited Hadapsar Industrial Estate, Pune 411 013.	100% subsidiary of Kirloskar Pneumatic Company Limited	Total Income	0.00
		Total Expenditure	16.55
		Profit / (Loss) before exceptional items and taxation	(16.55)
		Profit / (Loss) before taxation	(16.55)
		Provision for tax (including Deferred Tax)	0.00
		Net Profit / (Loss)	(16.55)
		Balance of Profit / (Loss) from previous year	(27.41)
		Less: Proposed Dividend	0.00
		Less : Dividend Distribution Tax	0.00
		Balance carried to Balance Sheet	(43.96)

CHANGE IN THE NATURE OF BUSINESS, IF ANY

Not applicable, as this is the first year of operations.

DETAILS OF DIRECTORS OR KEY MANAGERIAL PERSONNEL WHO WERE APPOINTED OR HAVE RESIGNED DURING THE YEAR**Directors appointed during the year**

Name of Director	Designation	Term of appointment
Mr. Atul C. Kirloskar	Director	First Director appointed at the Annual General Meeting, subject to retirement by rotation
Mr. Anil C. Kulkarni	Director	First Director appointed at the Annual General Meeting, subject to retirement by rotation
Mr. Anil N. Alawani	Director	First Director appointed at the Annual General Meeting, subject to retirement by rotation
Mr. Sunil Shah Singh	Independent Director	First Director appointed as Independent Director at the Annual General Meeting for five consecutive years commencing from 29 June 2015 up to 28 June 2020
Mr. Vijay K. Bajhal	Independent Director	Additional Director appointed as Independent Director at the Annual General Meeting for one year commencing from 29 June 2015 up to 28 June 2016
Mrs. Savita P. Sahasrabudhe	Independent Director	Additional Director appointed as Independent Director at the Annual General Meeting for five consecutive years commencing from 29 June 2015 up to 28 June 2020

Key Managerial Personnel (KMP) appointed during the year

Name of the KMP	Designation
Mr. Anil C. Kulkarni	Executive Director
Ms. Vinaya V. Wagh	Chief Financial Officer
Mr. Aniket A. Deshpande	Company Secretary

Directors and KMP's resigned during the year

None.

Directors proposed to be appointed / re-appointed at the ensuing Annual General Meeting

Mr. G. K. Rao was appointed as an Additional Director with effect from 24 May 2016 and is a non-executive Independent Director. His appointment is up to the ensuing Annual General Meeting. A member has proposed his appointment as Director.

Mr. Anil N. Alawani, retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

The brief resumes and other details relating to Directors who are proposed to be appointed / re-appointed, as required to be disclosed under Regulation 36(3) of the Regulations, forms part of the Explanatory Statement to the Notice of the Annual General Meeting.

NAMES OF COMPANIES WHICH HAVE BECOME OR CEASED TO BE ITS SUBSIDIARIES, JOINT VENTURES OR ASSOCIATE COMPANIES DURING THE YEAR ALONG WITH REASONS THEREFOR

Pursuant to the Composite Scheme, Kirloskar Pneumatic Company Limited (KPC) became subsidiary of the Company. Further, Kirloskar RoadRailer Limited is 100% subsidiary of KPC. Kirloskar Chillers Private Limited is an Associate Company of KPC.

DETAILS OF DEPOSITS WHICH ARE NOT IN COMPLIANCE WITH THE REQUIREMENTS OF CHAPTER V OF THE COMPANIES ACT, 2013

None.

DETAILS OF SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS OR COURTS OR TRIBUNALS IMPACTING THE GOING CONCERN STATUS AND COMPANY'S OPERATIONS IN FUTURE

To the best of our knowledge, the Company has not received any such orders from Regulators, Courts or Tribunals during the year, which may impact the Going Concern Status or the Company's operation in future.

DETAILS IN RESPECT OF ADEQUACY OF INTERNAL FINANCIAL CONTROLS WITH REFERENCE TO THE FINANCIAL STATEMENTS

The Company has developed a strong two tier internal control framework comprising entity level controls and process level controls. The entity level controls of the Company include elements such as defined code of conduct, whistle blower policy, rigorous management review and MIS and strong internal audit mechanism. The process level controls have been ensured by implementing appropriate checks and balances to ensure adherence to Company policies and procedures, efficiency in operations and also reduce the risk of frauds.

Regular management oversight and rigorous periodic testing of internal controls makes the internal controls environment strong at the Company. The Audit Committee along with Management oversees results of the internal audit and reviews implementation on a regular basis.

COMPOSITION OF AUDIT COMMITTEE

The composition of the Audit Committee has been mentioned in the Corporate Governance Report annexed to this Report.

INFORMATION FORMING PART OF THE DIRECTORS' REPORT PURSUANT TO RULE 5 OF THE COMPANIES (APPOINTMENT AND REMUNERATION OF MANAGERIAL PERSONNEL) RULES, 2014

The relevant information pursuant to Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is annexed at 'Annexure IV' to this Report.

VIGIL MECHANISM

The Board of Directors has adopted the Whistle Blower Policy / Vigil Mechanism ('the Policy'). This has provided a mechanism for directors and employees of the Company and other persons dealing with the Company to report genuine concerns including but not limited to unethical behavior, actual or suspected fraud or violation of the Company's Code of Conduct for Board of Directors and Senior Management ('the Code') or ethics policy or any other instance to the Chairman of the Audit Committee of the Board of Directors of the Company. The policy has been uploaded at the website of the Company, viz., www.pneumaticholdings.com.

PREVENTION OF SEXUAL HARASSMENT POLICY

The Company has formulated and implemented the Policy for Prevention of Sexual Harassment at work place. This would inter alia provide a mechanism for the resolution, settlements or prosecution of acts or instances of sexual harassment at work place and to ensure that all employees are treated with respect and dignity. There were no complaints / cases filed / pending with the Company during the year.

CASH FLOW

A Cash Flow Statement for the year ended 31 March 2016 is attached to the Balance Sheet.

CORPORATE GOVERNANCE

In terms of Regulation 34 of the Regulations, a Report on the Corporate Governance along with Compliance Certificate issued by Statutory Auditors of the Company is attached and forms part of the Annual Report.

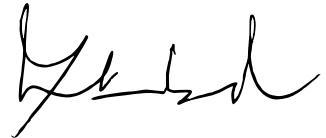
PARTICULARS OF EMPLOYEES PURSUANT TO SECTION 197 READ WITH RULE 5 OF THE COMPANIES (APPOINTMENT AND REMUNERATION OF MANAGERIAL PERSONNEL) RULES, 2014

None.

ACKNOWLEDGMENTS

Your Directors wish to place on record, their appreciation for the contribution made and support provided to the Company by the shareholders, employees and bankers, during the year under the report. .

For and on behalf of the Board of Directors



ATUL C. KIRLOSKAR

CHAIRMAN
DIN:00007387

Pune: 24 May 2016