Enriching Lives

KIRLOSKAR FERROUS INDUSTRIES LIMITED

(Our Company was incorporated on September 10, 1991 at Pune under the provisions of Companies Act, 1956)
Registered Office: Laxmanrao Kirloskar Road, Khadki, Pune 411 003
Tel: (+91 20) 66 08 4664 **Fax:** (+91 20) 25 81 3208
Contact Person: Mr. C.S. Panicker, Company Secretary and Compliance Officer to the Issue
E-mail: kfilrights@kirloskar.com **Website:** www.kirloskar.com

For private circulation to the Equity Shareholders of the Company only

DRAFT LETTER OF OFFER

ISSUE OF [•] EQUITY SHARES OF Rs. 5 EACH AT A PREMIUM OF RS. [•] PER EQUITY SHARE AGGREGATING UPTO RS. 2,400 MILLION TO THE EQUITY SHAREHOLDERS OF OUR COMPANY ON A RIGHTS BASIS IN THE RATIO OF [•] EQUITY SHARE(S) FOR EVERY [•] EQUITY SHARE(S) HELD ON THE RECORD DATE i.e. [•] ("ISSUE"). FOR EVERY ONE EQUITY SHARE BEING ALLOTTED ON RIGHTS BASIS, THE ALLOTTEES WILL RECEIVE [•] DETACHABLE WARRANT(S) TO BE EXERCISED AT AT PRICE NOT EXCEEDING [•] AGGREGATING UPTO [•]. THE TOTAL ISSUE INCLUDING CONVERSION OF WARRANT(S) INTO EQUITY SHARE(S) WILL AGGREGATE TO [•]. FOR MORE DETAILS, REFER TO SECTION TITLED "TERMS OF THE ISSUE" BEGINNING ON PAGE 201 OF THIS DRAFT LETTER OF OFFER.

THE ISSUE PRICE IS [•] TIMES OF THE FACE VALUE OF THE EQUITY SHARES OF OUR COMPANY

GENERAL RISKS

Investments in equity and equity related securities involve a degree of risk and Investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the Issuer and the Issue including the risks involved. The securities have not been recommended or approved by the Securities and Exchange Board of India ("SEBI") nor does SEBI guarantee the accuracy or adequacy of this document. **Investors are advised to refer to the section titled "Risk Factors" beginning on page viii of this Draft Letter of Offer before making an investment in this Issue.**

ISSUER'S ABSOLUTE RESPONSIBILITY

The Issuer, having made all reasonable inquiries, accepts responsibility for and confirms that this Draft Letter of Offer contains all information with regard to the Issuer and the Issue, which is material in the context of this Issue, that the information contained in this Draft Letter of Offer is true and correct in all material respects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Draft Letter of Offer as a whole or any such information or the expression of any such opinions or intentions misleading in any material respect.

LISTING

The existing Equity Shares of the Company are listed on the Bombay Stock Exchange Limited (Designated Stock Exchange) ("BSE"). The Company has received in-principle approval from BSE for listing the Equity Shares arising from this Issue vide their letter dated [•].

LEAD MANAGER TO THE ISSUE	REGISTRAR TO THE ISSUE
ENAM	INTIME SPECTRUM REGISTRY LIMITED
Enam Financial Consultants Private Limited 801/802, Dalamal Towers, Nariman Point, Mumbai 400 021. Tel: (+91 22) 6638 1800. Fax: (+91 22) 2284 6824. Email: kfilrights@enam.com Website: www.enam.com	**Intime Spectrum Registry Limited** C-13 Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup (W), Mumbai – 400 078 Tel: (+91 22) 2596 0320 (9 lines) Fax: (+91 22) 2594 0329 Email: kferrous@intimespectrum.com **Website: www.intimespectrum.com**

ISSUE PROGRAMME

ISSUE OPENS ON [•]	ISSUE CLOSES ON [•]

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DEFINITIONS & ABBREVIATIONS

General Terms and Abbreviations

AGM	Annual General Meeting
AOA/Articles or Articles of Association	The Articles of Association of our Company
AS	Accounting Standard
Auditors/Statutory Auditors	The statutory auditors of our Company, namely M/s. P.G. Bhagwat, Chartered Accountants
Board or Board of Directors	The board of directors of our Company
BSE	The Bombay Stock Exchange Limited
BST	Bombay Sales Tax Act, 1959
Capital or Share Capital	The Equity Shares of our Company
CESTAT	Customs Excise and Service Tax Appellate Tribunal
Companies Act	The Companies Act, 1956, as amended from time to time
CLB	Company Law Board
CDSL	Central Depository Services (India) Limited
CST	Central Sales Tax Act, 1956
Depositories Act	The Depositories Act, 1956, as amended from time to time
Depository	A depository registered under the provisions of SEBI (Depositories and Participants) Regulations, 1996
Depository Participant/DP	A depository participant registered under the provisions of the Depositories Act
DGFT	Directorate General of Foreign Trade
DIN	Directors' Identification Number
Director(s)	Directors of our Company, unless otherwise specified
EGM	Extraordinary General Meeting
EPS	Earnings Per Share
Equity Share(s) or Share(s)	The Equity Share of the Company having a face value of Rs. 5 unless otherwise specified in the context thereof
Equity Shareholder(s)	A holder or collectively all the shareholders holding Equity Shares
FCNR Account	Foreign Currency Non Resident Account
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act, 1999, as amended from time to time
FERA	Foreign Exchange Regulation Act, 1973
FI	Financial Institutions
FII(s)	Foreign Institutional Investors registered with SEBI under applicable laws
Financial Year / FY / Fiscal	Financial year ending March 31
GBP	Great Britain Pound Sterling
GOI	Government of India
HUF	Hindu Undivided Family
Issuer	Kirloskar Ferrous Industries Limited, a company incorporated under the provisions of the Companies Act, 1956 having its registered office at Laxmanrao Kirloskar Road, Khadki, Pune 411003
IT Act	The Income Tax Act, 1961, as amended from time to time
ITAT	Income Tax Appellate Tribunal
Listing Agreement	Agreement dated April 2, 1994 signed by the Company with the BSE for listing of Equity Shares and any amendments thereto
Memorandum/MOA	Memorandum of Association of the Company
MoU	Memorandum of Understanding
NIC	National Industry Classification
NR	Non Resident
NRI(s)	Non Resident Indian(s)
NSDL	National Securities Depository Limited
OCB	Overseas Corporate Bodies
PAT	Profit After Tax

Registered Office of our Company	Our office situated at Laxmanrao Kirloskar Road, Khadki, Pune 411 003
RBI	The Reserve Bank of India
RBI	The Reserve Bank of India Act, 1934, as amended from time to time
ROC	Registrar of Companies, Maharashtra, Pune located at PMT Building, 3rd Floor, Deccan Gymkhana, Pune 411 004
Rs/Rupees	Indian Rupees, the legal currency of the Republic of India
RTGS	Real Time Gross Settlement
SEBI	Securities and Exchange Board of India
SEBI Act, 1992	Securities and Exchange Board of India Act, 1992 as amended from time to time
SEBI DIP Guidelines	The SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 19, 2000 read with amendments issued subsequent to that date
SIA	Secretariat of Industrial Assistance
SSI(s)	Small Scale Industrial Unit(s)
Takeover Code	The SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 as amended from to time

Issue Related Terms and Abbreviations

CAF	Composite Application Form
Call Option Date	Call Option Date shall be the [•] day from the date a notice is given by the Company for compulsory conversion of warrants
Consolidated Certificate	In case of physical certificates, the Company would issue one certificate for the Equity Shares allotted to one folio
Designated Stock Exchange	BSE where the Shares of our Company are currently listed.
Draft Letter of Offer	Draft letter of offer dated September 28, 2006 filed with SEBI for its comments
ECS	Electronic Clearing Services
Enam or Lead Manager	Enam Financial Consultants Private Limited
Issue	Issue of [•] Equity Shares of Rs. 5 each at a premium of Rs. [•] per Equity Share aggregating upto Rs. 2,400 million to the Equity Shareholders of our Company on a rights basis in the ratio of [•] Equity Share(s) for every [•] Equity Share(s) held on the Record Date i.e. [•]. For every one Equity Share being allotted on rights basis, the allottees will receive [•] detachable warrant(s) to be exercised at at price not exceeding [•] aggregating upto [•]. The total Issue including conversion of warrant(s) into Equity Share(S) will aggregate to [•]. For more details, refer to section titled "Terms Of The Issue" beginning on page 201 of this draft letter of offer.
Issue Closing Date	[•]
Issue Opening Date	[•]
Issue Price	Rs. [•] per Equity Share
Investor(s)	The holder(s) of Equity Shares of the Company as on the Record Date, i.e. [•] and Renounces
KMP	Key Managerial Personnel
Letter of Offer	Letter of Offer dated [•] as filed with the Stock Exchanges after incorporating SEBI comments on the Draft Letter of Offer
Promoter(s)	Unless the context otherwise requires, refers individually to Kirloskar Oil Engines Limited, Kirloskar Pneumatic Company Limited, Kirloskar Systems Limited, Pooja Credits Private Limited, Prakar Investment Private Limited and Achyut & Neeta Holdings & Finance Private Limited and collectively to all such companies
Promoter Group	Unless the context otherwise requires, refers collectively to Kirloskar Brothers Limited, G.G. Dandekar Machines Limited, Kothrud Power Equipment Limited, Kirloskar Kisan Equipment Limited, Swaraj Engines Limited, Kirloskar Kenya Limited, Toyota Kirloskar Motors Limited, Toyota Kirloskar

	Auto Parts Private Limited, T.G. Kirloskar Industries Limited, Denso Kirloskar Industries Limited, Kirloskar Chillers Private Limited, Khosla Indiar Limited, Better Value Holdings Private Limited, Hematic Motors Private Limited, Pressmatic Electo Stampings Private Limited, Quadromatic Engineering Private Limited, Kirloskar Consultants Limited, PIH Finvest Company Limited, Atul Kirloskar, Sanjay Kirloskar, Gautam Kulkarni, Jyotsna G. Kulkarni, C.H. Nandiwadekar, Rahul Kirloskar, Arti A. Kirloskar, Alpana R. Kirloskar.
Record Date	[•]
Registrar to the Issue or Registrar	Intime Spectrum Registry Limited
Renouncees	The persons who have acquired Rights Entitlements from Equity Shareholders
Rights Entitlement	The number of Equity Shares that an Equity Shareholder is entitled to in proportion to his/her shareholding in the Company as on the Record Date
Rights Share(s)	Equity share(s) issued to the existing Shareholders of the Company in accordance with their Rights Entitlement
Stock Exchange	Shall refer to the BSE where the Shares of the Company are presently listed
Warrant Exercise Price	Price at which the detachable warrants can be exercised for conversion into Equity Shares. For details please refer to Section titled “Terms of the Issue” beginning on page 201 of this Draft Letter of Offer
“we”, “us”, “our”, “the Company” or “KFIL”	Unless the context otherwise implies, refer to Kirloskar Ferrous Industries Limited

Technical and Industry Terms and Abbreviations

KIADB	Karnataka Industrial Area Development Board
KOEL	Kirloskar Oil Engines Limited
PIP	Pig Iron Plant
Plant	The factory premises of the Company located at Bevinhalli Village, Hitnal, Koppal, Karnataka – 583 234
TG	Turbo Generator
THM	Tonne of Hot Metal
TPA	Tons Per Annum
MBF(s)	The two Mini Blast Furnaces situated at our Plant and used in the manufacturing process of liquid metal for pig iron (Molten Metal) having a production capacity of 120,000 Mts each)
Met Coke	Metallurgical Coke
SG Iron	Speroidal Graphite Iron

PRESENTATION OF FINANCIAL AND MARKET DATA

Unless stated otherwise, the financial data in this Draft Letter of Offer is derived from our audited unconsolidated financial statements, as restated, under Indian GAAP and the SEBI Guidelines, included in this Draft Letter of Offer. Our Financial Year commences on April 01 and ends on March 31 of the next year, and all references to a particular Financial Year are to the twelve-month period ending March 31 of that year. In this Draft Letter of Offer, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding off.

There are significant differences between Indian GAAP and US GAAP. We have not attempted to quantify their impact on the financial data included herein, and we urge you to consult your own advisors regarding such differences and their impact on our financial data. Accordingly, the degree to which the financial statements included in this Draft Letter of Offer will provide meaningful information is entirely dependent on the reader's level of familiarity with Indian accounting practices. Any reliance by persons not familiar with Indian accounting practices on the financial disclosures presented in this Draft Letter of Offer should accordingly be limited.

All references to "Rs." or "INR" refer to Rupees, the lawful currency of India, "USD" or "US$" refer to the United States Dollar, the lawful currency of the United States of America, "€" or "EUR" refer to Euro, a lawful currency of the European Union, and the words "Lakh" or "Lac" mean "100 thousand" and the word "million" means "10 lakh" and the word "crore" means "10 million" or "100 lakhs" and the word "billion" means "1,000 million" or "100 crores". Any discrepancies in any table between the total and the sums of the amounts listed are due to rounding off. Unless stated otherwise, throughout this Draft Letter of Offer, all figures have been expressed in millions.

For additional definitions, please refer to the section entitled "Definitions and Abbreviations" on page iii of this Draft Letter of Offer. In the section entitled "Main Provisions of Articles of Association of the Company", defined terms have the meaning given to such terms in the Articles of Association of our Company.

Market and industry data used throughout this Draft Letter of Offer has been obtained from publications available in the public domain. These publications generally state that the information contained therein has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although we believe industry data used in this Draft Letter of Offer is reliable, it has not been independently verified. Similarly, internal Company reports, while believed by us to be reliable, have not been verified by any independent sources.

FORWARD-LOOKING STATEMENTS

We have included statements in this Draft Letter of Offer that contain words or phrases such as "will", "aim", "will likely result", "believe", "expect", "will continue", "anticipate", "estimate", "intend", "plan", "contemplate", "seek to", "future", "objective", "goal", "project", "should", "will pursue" and similar expressions or variations of such expressions that are "forward-looking statements". However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding our expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to our business strategy, our revenue and profitability, planned projects and other matters discussed in this Draft Letter of Offer regarding matters that are not historical facts. These forward-looking statements and any other projections contained in this Draft Letter of Offer (whether made by us or any third party) involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

All forward-looking statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from our expectations include, among others:

1. General economic and business conditions in India and other countries;
2. Our ability to successfully implement our strategy, our growth and expansion, technological changes, our exposure to market risks that have an impact on our business activities or investments;
3. The monetary and fiscal policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws, regulations and taxes and changes in competition in our industry;
4. Changes in the value of the Rupee and other currencies;
5. The occurrence of natural disasters or calamities;
6. Changes in political conditions in India and other countries.

For further discussion of factors that could cause our actual results to differ, see the section titled "Risk Factors" beginning on page viii of this Draft Letter of Offer. By their nature, certain risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. Neither the Company nor the Lead Manager, nor any of their respective affiliates have any obligation to update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, the Company, and the Lead Manager will ensure that investors in India are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges.

RISK FACTORS

An investment in Equity Shares involves a high degree of risk. You should carefully consider all the information in this Draft Letter of Offer, including the risks and uncertainties described below, before making an investment in our Equity Shares. If any of the following risks actually occur, our business, results of operations and financial condition could suffer, the price of our Equity Shares could decline, and you may lose all or part of your investment. The financial and other implications of material impact of risks concerned, wherever quantifiable, have been disclosed in the risk factors mentioned below. However there are a few risk factors where the impact is not quantifiable and hence the same has not been disclosed in such risk factors.

This Draft Letter of Offer also includes statistical and other data regarding the Indian pig iron and foundry industry. This data was obtained from industry publications, reports and other sources that the Lead Manager and we believe to be reliable. Neither the Lead Manager nor we have independently verified such data.

Internal Risk Factors

Mr. Atul Kirloskar our the Chairman and Director appears on the list of defaulters' issued by the RBI

Our Chairman, Mr. Atul Kirloskar appears in the list of defaulters' issued by the RBI. Mr. Kirloskar's name was referred to the RBI by erstwhile Sumitomo Mitsui Banking Corporation (acquired by Standard Chartered Bank) in view of the default by Mysore Kirloskar Limited ("MKL") on its corporate guarantee issued in favour of the bank. Our Promoter, KOEL, has by its letter dated January 24, 2004 to erstwhile Sumitomo Mitsui Banking Corporation ("SMBC") requested SMBC to reconsider the reference made to the RBI as Mr. Atul Kirloskar resigned from his directorship of MKL with effect from December 28, 2000.

For details of the above reference, refer to the section titled "Statutory and Other Information" beginning on page 191 of this Draft Letter of Offer.

Our top five foundry customers contribute a significant portion of our total sales

Our top five foundry customers contributed Rs. 1,236.44 million, amounting to 25% of our total gross sales in Fiscal 2005 and Rs. 1,160.44 million, amounting to 24% of our total gross sales in Fiscal 2006. Out of these, one customer contributes Rs. 746.48 million, amounting to 15% of our total gross sales in fiscal 2005 and Rs. 728.20 million, amounting to 15% of our total gross sales in Fiscal 2006. Consequently, in the event, our sales to any of these customers decreases, or any of these customers cease to purchase our products, it could adversely affect our results of operations.

Our business may be affected due to stoppage of work and any other similar labour disputes

As of March 31, 2006, approximately 56% of our employees are unionised while the remaining employees are not unionised. The previous wage agreement entered by us with our labour union expired on January 31, 2005. Negotiations on the new wage agreements and Charter of Demands submitted by the union were deadlocked due to which we faced certain labour problems and the normal work in casting division was temporarily disrupted from August 24, 2005 to October 5, 2005. The deadlock on negotiations with our employees on the Charter of Demands was referred to the industrial tribunal and the case is currently pending on file. Any strike, stoppage of work or other slow down actions due to negotiations being deadlocked or for any other reason may adversely affect our business and results of operations. For details please see the section titled "Outstanding Litigation and Material Developments" beginning on page 166 of this Draft Letter of Offer.

Substantial amount of our activities are carried out through contracts/contractors

We rely on contractors appointed by us to perform certain services such as in respect of transportation, loading and unloading etc. These contractors typically engage substantial numbers of workmen for performing the tasks assigned to them. In the event of any failure by these contractors, or by their workmen, to perform the contracted work, it could adversely affect our business and operations.

We derive substantial revenues in the casting business from our sales to customers in the automobile and tractor industry

We derive a substantial portion of revenues from customers in the automobile and the tractor industry. In Fiscal 2006, our sales revenues from casting sales to customers in the automobile industry and the tractor industry amounted to 32% and 55% respectively. Any reduction in demand for castings from our customers in these segments or any decline in our quality standards and growing competition would affect our sales and consequently our results of operations may be affected. The loss of our major customers or a decrease in the volume of castings sourced from us may adversely affect our revenues and profitability.

Sale of our products through purchase orders

Our sales for pig iron are carried out through purchase orders and we have not entered into supply/distribution contracts with our customers. Substantial sale of pig iron by us is through dealers and any fluctuations in the demand and supply for pig iron in the market may affect the price of pig iron and have an adverse impact on our business and profitability.

Further, each of the castings is customized to the customer's requirement. Termination of a supply order, inadequate performance and/or failure on our part or any third party to meet quality and/or the scheduled timelines set by our customers could result in a loss of our business or result in non-compliance with our contractual obligations and could materially or adversely affect our business, profits and results of operations.

We carry on our businesses under the 'Kirloskar' brand, which has been licensed to us by Kirloskar Proprietary Limited (KPL)

We have been granted a right to use the copyright in the "Kirloskar" name under an agreement of October 24, 1991, further renewed pursuant to a supplemental agreement of February 8, 2005 with Kirloskar Proprietary Limited ("KPL"), which is the owner of the trademark, tradename and copyright "Kirloskar". We face the risk of losing the right to use the "Kirloskar" name in the event the agreement under which KPL has granted us the right to use the copyright in the "Kirloskar" name is terminated or not renewed. In the event this happens, it would adversely affect our profitability and goodwill in the market.

Our production costs are dependant on the cost of raw materials and power

Raw material, a major component of our cost of production, constituted 76% of our total cost of production for the Financial Year 2006. The primary raw materials used by our Company in the process of manufacturing pig iron and casting are iron ore and coke. We have not entered into any long-term supply contracts for raw materials. Unavailability of required raw materials in desired quantity and quality at the required time may adversely affect our production process, ability to deliver orders in time and our business performance. Further, in the event there is any fluctuation in the prices at which these raw materials are available to us or the price at which power is supplied to us, it could increase our cost of production and consequently affect the price of our products and our results of operations. Further, we are in the process of entering into arrangements for the purposes of ensuring low cost reliable supply of raw materials to our Company. In the event we are unable to enter into these or other arrangements for the cost effective regular supply of critical raw materials, it could have a material adverse effect on our business and results of operations.

We source our entire requirement of sand from a single supplier

We purchase sand which we use in our manufacturing process from one single supplier i.e. Mangalore Minerals Private Limited based on purchase orders which are issued on an annual basis. In case, our supplier is unable to supply sand in the required quality and quantity and the required time, it may adversely affect our manufacturing process, ability to meet production schedules.

Our revenues and profitability are dependent on a number of factors such as currency exchange rate fluctuation, continuous increase in prices of iron ore and coke, adverse international market conditions. These factors may vary significantly from quarter to quarter. Therefore, our historical financial results may not be an accurate indicator of our future performance.

Some of our agreements may be understamped

Some of the contracts entered into by our Company with our suppliers and customers may be considered to be understamped or unstamped, as a consequence of which we may face difficulties while enforcing these.

Our Company has, in the past, delayed in payment of interest and principal on the loans and other secured loans availed from banks and financial institutions.

Our Company had availed term loans from and also issued privately placed debenture to financial institutions aggregating to Rs 1,614 Million as on March 31, 2001. There were certain delays on part of our Company in redemption of the debentures, and in repayment of the principal and interest accrued in respect of such loans. However, there are no amounts outstanding as we have repaid all our dues and also obtained 'No Dues' certificates from the financial institutions pursuant to one time settlements entered into with all such financial institutions during the Financial Years ended 2003, 2004 and 2005.

Our loan agreements contain certain restrictive covenants

There are certain restrictive covenants in the various term loan and working capital loan documents entered into by our Company with our banks and financial institutions. These restrictive covenants include restrictions on entering into a scheme of expansion/diversion/modernization other than routine capital expenditure. While we have in the past obtained necessary approvals required in terms of our loan agreements, in the event we are unable to obtain the same in the future it may adversely affect our operations.

For details of these covenants, refer to the section titled "Financial Indebtedness" beginning on page 160 of this Draft Letter of Offer.

There are some dues owed to Small Scale Industrial ("SSI") units

The amount outstanding towards the SSI units as on March 31, 2006 is Rs. 155,360.70 (as principal amount) and Rs. 481,456 (on account of interest) some of which have been outstanding for more than 30 days but within the credit period offered by the suppliers. We have made certain payments in respect thereof and are in the process of paying the balance amount due to the SSI units.

For details of this litigation, refer to the section titled "Outstanding Litigations" beginning on page 166 of this Draft Letter of Offer.

In the past we have made promises but we were unable to perform as per the promises

We had undertaken an initial public offering in 1993. The issue comprised of 24,165,800 equity shares of Rs. 10 each for cash at par aggregating to Rs. 241.66 million. The main object of the issue was to part finance the implementation of the project to manufacture 37,500 TPA of ferrous castings and 120,000 TPA of pig iron at an estimated cost of Rs. 1,470 Million. However, we were unable to achieve the financial projections made in the prospectus of the initial public offering and the promise made in the issue and actual performance achieved is as follows: (In Rs. Million)

Particulars	**1994-95**		**1995-1996**		**1996-97**		**1997-98**	
	Promise	**Performance**	**Promise**	**Performance**	**Promise**	**Performance**	**Promise**	**Performance**
Sales	872.00	690.95	1,189.00	1,736.72	1,279.80	2,007.73	1,362.90	1736.72

PAT	38.10	31.55	171.50	70.36	225.90	(174.14)	227.20	(196.97)
EPS	0.06	-	2.93	1.20	3.86	-	3.88	-
Dividend	-	-	-	-	10%	-	10%	-

For more information, please see the section titled "Statutory And Other Information" on page 191 of this Draft Letter of Offer.

We have applied for certain registrations required in the ordinary course of business and the failure to obtain them in a timely manner or having not obtained them at all may adversely affect our operations.

We require certain approvals, licenses, registrations and permissions for operating our business, some of which have expired and are required to be renewed. We have either made or are in the process of making applications for obtaining such approvals, licenses and permissions and renewals which includes applications for licenses required by us under the respective Shops and Commercial Establishment Act ("S&CE Act") applicable to our branch offices at Mumbai and Kolhapur. If we fail to obtain any of these approvals or licenses, or renewals, in a timely manner, or at all, our business may be adversely affected. For more information, please see the section titled "Government Approvals" on page 188 of this Draft Letter of Offer.

Additionally, in the event it is determined that registrations for any other offices of our Company in any other state where we do not currently have these registrations, (for e.g. in respect of our office at New Delhi), is required, we may be required to apply for such registrations and may be subject to regulatory consequences arising from the respective S&CE Acts.

We have not entered into an agreement in respect of our branch offices

Our branch office at New Delhi is owned by KOEL. As we have not entered into any agreement in respect of the aforesaid premises or paid any rent for the aforesaid premises, we may not have continued right of use to the premises.

There may be risks arising out of our regulatory compliances

We are a listed company and are subject to extensive filing and compliance requirements under terms of the listing agreement with the stock exchanges on which we are listed and under various securities legislations such as under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as well as under the Companies Act, 1956. While we believe we are in material compliance with the listing agreement and the provisions of the other regulations applicable to our Company, in the event our compliance in this regard is determined to be inadequate or inaccurate, we could face regulatory consequences in respect thereof.

Our Investors' grievances committee has not met regularly in the past

Our Company has constituted the Share Transfer cum Investors' Grievances Committee to look into investors' grievances and expedite the process of transfer of shares. The investors' complaints received by the Company till date have been responded directly by our Registrar and Transfer Agent in consultation with the Compliance Officer and the Company Secretary and report on such investors' grievances and share transfers approved by the Company Secretary are placed at every board meeting of our company. Consequently, our Investors' Grievance Committee has not met regularly in the past.

We have negative net cash and cash equivalents flows for the year 2006

The cash flow from the operating profit before allocation for working capital changes as of March 31, 2006 was Rs. 554.18 million. However, there was a net decrease in cash and cash equivalents of Rs. 303.17 million which was mainly on account of decrease in trade payables amounting to Rs. 615.10 million and on account of repayment of term loans amounting to Rs. 210.40 million (net amount). Further, during the Fiscal 2006, we had an additional cash flow of Rs. 129.28 million (inclusive of taxes) towards payment of dividend (including dividends in arrears) to our preference shareholders.

Our objects have not been appraised by any bank or financial institution nor have we appointed any external monitoring agency to monitor the deployment of Issue proceeds.

The objects of this Issue have not been appraised by any bank or financial institution. In the absence of such independent appraisal, the requirement of funds raised through this Issue is based on the Company's estimates. The Company is carrying out its projects as per the conventional method of budget and estimates.

The deployment of funds raised through this Issue is at the discretion of our management and Board and will not be monitored by any independent monitoring agency. We intend to rely on our internal system and control to monitor the use of such proceeds. There can be no assurance that any addition or improvement at our Plant will be completed as planned or on schedule or that we will achieve our operational efficiency or our targeted return on investment.

We have not entered into any definitive agreements or placed orders towards some of the objects of the Issue.

Other than for procurement and installation of Kalugin Shaftless Stoves at our Plant, we have not entered into definitive agreements or placed orders to utilize the proceeds of the Issue. We propose to enter into a Business Purchase Agreement with our Promoter KOEL for acquiring their casting division which process shall be initiated in due course. There can be no assurance that we will be able to conclude such definitive agreements on terms acceptable to us, or if at all. The estimated expenditure towards these objects will be financed out of the proceeds of this Issue.

Objects of the Issue include payments to our Promoter, KOEL from the Issue proceeds

We propose to use Rs. 210 million out of the Issue Proceeds for the acquisition of KOEL's casting division located at Solapur. Our Board has accepted the offer for such acquisition by a circular resolution dated June 8, 2006. The shareholders of KOEL have, by way of postal ballot effective as of July 31, 2006, approved the sale of the castings division to our Company.

Further, out of the total Issue proceeds, we propose to utilize Rs. 1,046.87 million towards redemption of preference shares which are entirely held by our Promoter, KOEL. KOEL has, by its letter dated June 14, 2006 approved the redemption of preference shares as of a current date.

For details please see the section titled "Objects of the Issue" beginning on page 23 of this Draft Letter of Offer.

We require certain approvals and permissions in relation to our objects and the failure to obtain them in a timely manner or at all may adversely affect our operations.

We require certain regulatory approvals, sanctions, licences, registrations, and permissions for the objects of the Issue. For more information, please see the section titled "Objects of the Issue" on page 23. We have applied for, or are in the process of applying for, such approvals or their renewal. In the event that we do not receive such approvals or renewals in the time frames anticipated by us, or at all, it could have a material adverse effect on our business.

For details please see the section titled "Objects of the Issue" beginning on page 23 of this Draft Letter of Offer.

Our objects will be funded out of our Issue proceeds and internal accruals

Implementation of the projects specified in our objects for this Issue is also dependant on receipt of the Issue Proceeds. Any delay in the Issue process or any under-subscription of Equity Shares offered as part of this Issue could adversely affect the implementation of such projects, and adversely affect our business. Further, in the event there is an increase in the expenditure required to be incurred by us in respect of our objects, consequent to increase in costs, change in laws, or for any other reason and we are unable to meet the cost overruns, it could affect our ability to fulfil the objects of this Issue.

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Our growth requires additional capital, which may not be available on terms acceptable to us.

Our industry is capital intensive and requires significant expenditures for acquisition of long-term capital goods. We may require additional funds for our business, for example for modernization or expansion plans that we may wish to pursue. We may not be successful in obtaining additional funds in a timely manner, on favourable terms or at all. Consequently, we may be required to delay, scale back or abandon some or all of our expansion or growth strategies or reduce capital expenditures and the size of our operations.

We face competition from domestic and international players that may adversely affect our competitive position and our profitability.

We face significant competition from other entities engaged in similar business, some of whom may be larger, with greater resources, or with more market share than us. In the event we are unable to successfully cope with the challenge from our competitors it could have a material adverse effect on our business and operations.

We may be unable to cope with technological and regulatory developments in the industry in India and international markets.

Our industry is technology intensive and we need to constantly upgrade our technology in order to remain competitive. Our products and production processes are subject to changing technology. Our success will depend on our ability to continue to meet customers' changing specifications with respect to quality, service, price, timely delivery and technological innovation by implementing and sustaining competitive technological advances. Our business may, therefore, require investments in research and development. We cannot assure you that we will be able to achieve the technological advances or introduce new products and production processes that may be necessary to remain competitive. Our inability to continuously improve existing products and production processes and to achieve technological advances could have a material adverse effect on us.

Further, our business is subject to significant regulations, especially with respect to environmental regulation. Any increase in the stringency or complexity of these requirements could require us to incur significant additional costs to comply with the same, and could also increase our potential liabilities on account of the same, which could affect our business and results of operations.

We face risks arising out of fluctuations in exchange rates and interest rates.

We are dependant on the import of coke, which constitutes approximately 70% of our input costs of the manufacture of pig iron. The payment for the same has to be made in United States dollars and are subject to risks arising out of any fluctuation in the rupee dollar conversion rate. Further, we also have export certain of our products. Although we take steps towards hedging of these risks, in the event our estimates of these fluctuations are not accurate, it could adversely impact our results of operations.

Our Promoter and Promoter Group companies will continue to hold a significant stake after the Issue

Upon completion of the Issue, and assuming that the same is subscribed by the shareholders to the extent of their entitlements only, the Promoters and Promoter Group companies will beneficially own atleast 49.66% of our post-Issue equity share capital. As a result, post the Issue, the Promoters and Promoter Group companies will continue to have the ability to exercise significant influence over all matters requiring shareholders' approval, including the appointment of Directors and approval of significant corporate transactions. Such a concentration of ownership may also have the effect of delaying, preventing or deterring a change in control.

There are litigations pending against us, our Promoters and Promoter Group companies and Directors.

There are outstanding legal proceedings and claims in relation to certain labour, excise and taxation matters incidental to our business and operations against our Company or our directors. These legal proceedings are pending at different levels of adjudication before various courts and tribunals. The total ascertainable potential liabilities in respect of the above cases, excluding interest, costs and penalties amounts to Rs. 10.83 million as on September 25, 2006 and are as tabulated below:

SN	Particulars of the cases/proceedings	No. of cases	Amounts
1.	Labour related cases	14	866,094
2.	IT cases	2	-
3.	Excise cases	2	583,564
4.	Purchase Tax	1	9,378,794
5.	Show Cause Notice	1	-
	Total	20	10,828452

In respect of the above, in the event there is any adverse order, judgment or decree passed by any court or tribunal it could have an adverse effect on our business and profitability.

Further, there are outstanding litigations against our Promoters and Promoter Group companies and Directors. These legal proceedings are pending at different levels of adjudication before various courts and tribunals. The total number of cases are pending against our Promoter and Promoter Group companies and Directors with a total liability excluding damages, penalties and interest costs is as stated in the tabular format below.

S.N.	Promoter and Promoter Group	No. of cases/proceedings
1.	Kirloskar Oil Engines Limited	177
2.	Kirloskar Pneumatic Company Limited	17
3.	Hematic Motors Private Limited	2
4.	Toyota Kirloskar Auto Parts Private Limited	1
5.	Denso Kirloskar Industries Private Limited	1
6.	Kothrud Power Equipment Limited	4
7.	PIH Finvest Company Limited	1
8.	Swaraj Engines Limited	10
9.	Kirloskar Systems Limited	8
10.	Kirloskar Consultants Limited	12
11.	Kirloskar Brothers Limited	75
12.	GG Dandekar Machine Works Limited	8
13.	Kirloskar Kisan Equipment Limited	3
14.	Better Value Holdings Private Limited	1
15.	Rahul Kirloskar	1
16.	Naniwadekar	1

S.N.	Directors	No. of cases/proceedings
1.	Mr. Atul Kirloskar	1
2.	Mr. Sanjay Kirloskar	22
3.	Mr.A.R.Jamenis	1

For details of these litigations, please refer to the section titled "Outstanding Litigations" beginning on page 166 of this Draft Letter of Offer.

For details of these litigations please refer to the section titled "Outstanding Litigations" beginning on page 166 of this Draft Letter of Offer.

Some of our Promoter Group companies have incurred losses

Some of our Promoter Group companies have incurred losses in the last Financial Year. The details of such companies are as follows:

(*Rs. in millions*)

S. N.	Promoter Group Company	Fiscal 2003 Profit After Tax	Fiscal 2004 Profit After Tax	Fiscal 2005 Profit After Tax
1.	Khosla Indair Limited	0.096	(0.043)	(0.015)
2.	Kothrud Power Equipment Limited	(1.09)	(0.75)	(0.64)
3.	Prakar Investments Private Limited	(0.53)	(0.31)	(0.33)
4.	Toyota Kirloskar Automotive Private Limited	12.66	6.90	(32.64)

* January 2002 to December 2002
** January 2003 to March 2004
*** April 2004 to March 2005

We have contingent liabilities and our profitability could be adversely affected if any of these contingent liabilities materialize

As of and on March 31, 2006 our contingent liabilities as per our audited restated financial statements are as follows:

STATEMENT OF CONTINGENT LIABILITIES (As of March 31, 2006)	
Particulars	**Amount (In Rs. Millions)**
Central Excise (Matters subjudice)	26.80
Labour Matters (Matters subjudice)	1.10
Total	**27.90**

Note: In Labour matters amount cannot be quantified for 5 cases

In the event any or all of these liabilities materialize, it could adversely affect our results of operations.

We may be liable to pay a substantial amount towards anti-dumping duty on the import of metallurgical coke if the Supreme Court passes a decree adverse to our interests

Tata Chemicals Limited has filed petitions before the Supreme Court challenging the customs notification dated January 21, 2004 whereby pig iron and steel manufacturers using blast furnaces in the manufacturing process were granted an exemption from the payment of anti-dumping duty on the import of Met Coke.

In the event the judgment of the Supreme Court is adverse to our interests, we may be liable to pay an amount of approximately Rs. 815 Million towards past liability as well as anti-dumping duty on the import of Met Coke in future if we import coke at a price lesser than what is determined by the customs authorities from time to time.

Our business involves risks associated with complex manufacturing processes

Our business involves complex manufacturing processes. Some of these processes involve high pressures, hot metal and other materials and equipment that present certain safety risks to workers employed at our manufacturing facilities. Although we employ safety procedures in the design and operation of our facilities, potential threat exists for accidents involving death or serious injury. In the past we have experienced fatal accidents due to inhaling of blast furnace gas. The potential liability resulting from any such accident, to the extent not covered by insurance, could have a material adverse effect on our business. In addition, any disruption of operations at any of our facilities could adversely affect our ability to deliver product to our customers on a timely basis and to retain our current business.

Our insurance policies may not be adequate to cover our businesses

We have insurance policies for fire and allied perils. However we not do have insurance for loss of profitability or business interruption, earthquake or other risks of an allied nature. We do not maintain key man insurance policies for any of our Directors or key managerial personnel. We cannot assure you that our insurance coverage will be adequate to cover the risks that our business and operations may face. In the event the insurance coverage proves inadequate, we may suffer losses, and this may have a material adverse effect on our business and operations.

We are dependant on our senior management team and the loss of key members or failure to attract skilled personnel may adversely affect our business

We believe we have a team of professionals to effectively oversee the operations and growth of our business. Our success is substantially dependent on the expertise and services of our senior management team. We cannot assure you that we will be able to retain any or all of the key members of our management. The loss of the services of such key members of our management team could have an adverse effect on our business and the results of our operations.

Further, our ability to maintain our position in the market depends on our ability to attract, train, motivate, and retain highly skilled personnel. In the event we are unable to do so, it could have an adverse effect on our business and results of operations. For further details of our senior management team, please see the section titled "Our Management" beginning on page 86 of this Draft Letter of Offer.

Our business is dependent on our manufacturing facility, which is subject to certain risks.

Our manufacturing facility at Bevinhalli Village, Hitnal, Koppal, Karnataka is subject to operational risks, including with respect to the breakdown or failure of equipment, power supply or processes, performance below expected levels of output or efficiency, obsolescence, labour disputes, , earthquakes and other natural disasters, industrial accidents. The occurrence of any of these risks could significantly affect our operating results. Though we believe we take all possible precautions to minimize the risk of any significant operational problems at our facilities, our business may be adversely affected by any of the factors mentioned above.

External Risk Factors

Increasing employee compensation in India may erode some of our competitive advantage and may reduce our profit margins

Compensation payable to employees amounted to Rs. 134.462 million in the Financial Year 2006 and constituted 3% of our cost of production. With rising employee compensation levels across sectors in India, we cannot assure you that the employee compensation levels will not rise in the future. Any rise in the employee compensation could increase our cost of production and could impact our margins, thereby affecting our results of operations.

Terrorist attacks and other acts of violence or war involving India, the United States, and other countries could adversely affect the financial markets, result in a loss of business confidence and adversely affect our business, results of operations and financial condition

Terrorist attacks and other acts of violence or war, including those involving India, the United States or other countries, may adversely affect Indian and worldwide financial markets. These acts may also result in a loss of business confidence and have other consequences that could adversely affect our business, the results of our operations and our financial condition.

Force majeure events, particularly those affecting the states wherein our facilities are located, could adversely affect our business.

Our headquarters are located in the State of Maharashtra and our manufacturing facilities are located in the State of Karnataka. It is possible that earthquakes, cyclones, floods or other natural disasters in India, particularly those that directly affect the areas in which our facilities and other operations are located, could result in substantial damage to our manufacturing facilities and other assets and adversely affect our operations and financial results.

Regional conflicts in South Asia could adversely affect the Indian economy, disrupt our operations and cause our business to suffer

South Asia has from time to time experienced instances of civil unrest and hostilities among neighbouring countries, such as between India and Pakistan. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel and transportation more difficult. Such political tensions could create a greater perception that investments in Indian companies involve a higher degree of risk. This, in turn, could have a material adverse effect on the market for securities of Indian companies, including our equity shares and on the market for our products and services.

Cost pressures may affect suppliers of tractors or automobiles

The Indian market for automobiles and tractors is extremely price sensitive and manufacturers of tractors and automobiles face considerable cost pressures. In the past we have had to adjust the price of our products to suit manufacturers and have had to agree to price concessions. As a result of these competitive pressures, we cannot assure you that we will be able to increase or maintain gross margins or products sales. Furthermore, the trend towards consolidation among automotive part suppliers is resulting in fewer, larger suppliers, which benefit from purchasing and distribution economies of scale. In the event we are unable to achieve sufficient cost savings to compete favourably in future with these larger consolidated companies, our businesses and results of operations could be adversely affected.

We face competition from larger players

The automotive component supply industry is highly competitive. Some of our competitors are companies, or divisions of companies that are larger and have greater financial and other resources than we do. In addition, with respect to certain of our products, or competition comes from divisions of manufacturers of tractors and automobiles. We cannot assure you that our products will be able to compete effectively with the products of such other companies, which may have an adverse effect on our business.

Our performance is linked to the stability of policies in India

The role of the Indian central and state governments in the Indian economy on producers, consumers and regulators has remained significant over the years. Since 1991, the Government of India has pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. The most recent Government of India policy, which was formed in June 2004, has continued policies and taken initiatives that support the continued economic liberalization policies that had been pursued by previous governments. We cannot assure you that these liberalization policies will continue in the future. Protests against privatization could slowdown the pace of liberalization and deregulation. The rate of economic liberalization could change, and specific laws and policies affecting our industry, foreign investment, currency exchange rates and other matters affecting investment in our securities could change as well. A significant change in India's economic liberalization and deregulation policies could disrupt business and adversely affect economic conditions in India and thereby affect our business. Further, any slowdown in the Indian economy could reduce consumer/institutional spend and adversely affect our financial performance.

We are subject to adverse impact of economic and political conditions

Economic and political factors that are beyond our control, influence forecasts and directly affect performance. These factors include interest rates and its impact on rates of economic growth, fiscal and monetary policies of governments, inflation, deflation, consumer credit availability, consumer debt levels, tax rates and policy, unemployment trends, terrorist threats and activities, worldwide military and domestic disturbances and conflicts, and other matters that influence consumer confidence, spending and tourism. Increasing volatility in financial markets may cause these factors to change with a greater degree of frequency and magnitude. The taxation system within the country still remains complex.

Disruptions or lack of basic infrastructure such as our electricity supply and water supply could result in an increase of manufacturing costs

In addition to the supply from the state electricity board, any disruption in the availability of basic infrastructure, such as supply of electricity or water supply etc. could substantially increase our manufacturing costs. We do not maintain business interruption insurance and may not be covered for any claims or damages if the supply of power is disrupted. Any disruption of the existing power or failure making it incumbent on us to obtain additional power may result in additional costs on us and have an adverse impact on our business, results of operations and financial condition.

Any downgrading of India's debt rating by an independent agency may have a material impact on our operations

Any adverse revisions to India's credit ratings for domestic and international debt by international rating agencies may adversely impact our ability to raise additional financing, and the interest rates and other commercial terms at which such additional financing is available. This could have a material adverse effect on our business and future financial performance, our ability to obtain financing for capital expenditures, and the price of our Equity Shares.

Changes in trade policies may impact us

Any change in policies by the countries, in terms of tariff and non-tariff barriers, from which we import raw material and/or countries to which we export our products, may have an impact on our profitability.

The price of our Equity Shares may be volatile, or an active trading market for our Equity Shares may not develop

The Issue Price of the Equity Shares may bear no relationship to the market price of the Equity Shares after the Issue. The prices of our Equity Shares on the Indian stock exchanges may fluctuate after this Issue as a result of several factors, including volatility in the Indian securities market, results of our operations and performance, performance of our competitors, the Indian pig iron and foundry industry and the perception in the market about investments in our sector and/or significant developments in India's fiscal and environmental regulations. You may be unable to resell your Equity Shares at or above the Issue Price or at all.

Notes to risk factors:

1. Net worth of the Company as restated on March 31, 2006 , is Rs. (18.01) million. The size of the Issue is Rs. [•] million. The net asset value per share (book value) as on March 31, 2006 for Rs. 5/- face value is Rs. (0.25).

2. Issue of [•] Equity Shares of Rs. 5 each at a premium of Rs. [•] per Equity Share aggregating upto Rs. 2,400 million to the Equity Shareholders on rights basis in the ratio of [•] Equity Share(s) for every [•] Equity Share(s) held on the Record Date i.e. [•] ("Issue"). For every one equity share being allotted on rights basis, the allottees will receive [•] detachable warrant(s) to be exercised at at price not exceeding [•] aggregating upto [•]. Total issue including conversion of warrant(s) into equity share(s) will aggregate to [•]. For more details, please refer to section titled "Terms Of The Issue" on page 201 of this Draft Letter Of Offer.

3. Company called an extraordinary general meeting of the shareholders on October 29, 1999 to consider erosion of more than 50% of the Company's peak networth duringimmediately preceding four financial years pursuant to section 23 of Sick industrial companies special provision act 1985. Company submitted application to the Board for Industrial Financial reconstruction informing erosion of 50% of peak networth.

4. Before making an investment decision in respect of this Offer, you are advised to refer to the section titled 'Basis for Issue Price' beginning on page 32 of this Draft Letter of Offer.

5. Please also refer to the sub section titled 'Basis of Allotment' beginning on page 210 of this Draft Letter of Offer for details on allotment procedure and entitlement of shares.

6. Trading in Equity Shares of our Company for all investors shall only be in a dematerialised form.

7. We had entered into certain related party transactions disclosed in the section titled "Related Party Transaction" beginning on page 99 of this Draft Letter of Offer.

8. For transactions in Equity Shares of our Company by our Promoters in the last (6) six months, please refer to the section titled 'Capital Structure' beginning on page 16 of this Draft Letter of Offer.

9. For interest of our directors and KMP, please refer to the section titled 'Management' beginning on page 86 of this Draft Letter of Offer. For interest of our Promoters and Promoter Group, please refer to section titled "Promoter and Promoter Group" on page 96 of this Draft Letter of Offer.

10. Average cost of acquisition of Equity Shares of our Company by our Promoters is as follows:

Sl No.	**Promoters' Name**	**Average cost of acquisition per Equity Share**
1.	KOEL	10
2.	Kirloskar Pneumatic Company Limited	10
3.	Kirloskar Systems Limited	37.50
4.	Pooja Credits Private Limited	3.00
5.	Prakar Investments Private Limited	3.06
6.	Achyut & Neeta Holdings and Finance Private Limited	1.40

11. We and the Lead Manager are obliged to keep this Letter of Offer updated and inform the public of any material change/development.

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12. You may contact the Lead Manager for any complaints pertaining to the Issue including any clarification or information relating to the Issue. The Lead Manager is obliged to provide the same to you.

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SUMMARY

OVERVIEW

We are part of the diversified Kirloskar Group, one of the oldest industrial groups in India. The Kirloskar Group had a turnover of over Rs. 36,000 million as on March 31, 2006. We were incorporated on September 10, 1991 as a public limited company and obtained the certificate of commencement of business on November 18, 1991. We are currently in the business of manufacturing pig iron and castings.

The Company operates in the following businesses:

- Pig Iron
- Castings

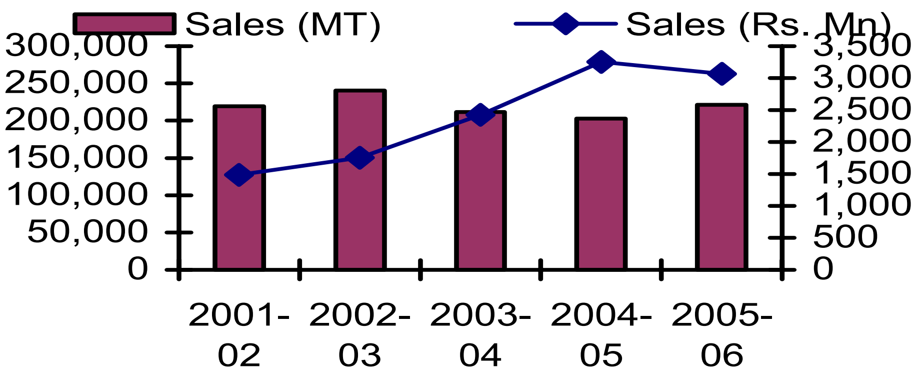
Commercial production of pig iron commenced from April 1, 1994 at Mini Blast Furnace I (MBF I). We increased manufacturing capacity thereof by taking on lease our Mini Blast Furnace II (MBF II) from July 1, 1995. We initially manufactured 1,20,000 tons per annum of pig iron using the MBF I route. Subsequently the manufacturing capacity of pig iron was increased to 2,40,000 tons per annum with commissioning of MBF II. On September 25,2006, we have entered into an agreement to buy this MBF II.

Commercial production of ferrous castings commenced from March 28, 1995 with capacity of 475,500 moulds per annum.

The installed capacity and utilisation and our sales trend over the last 5 years is as follows:

Particulars	Capacity	2005-06	2004-05	2003-04	2002-03	2001-02
Pig Iron						
Production (MT)	240000	260267	231790	259977	273356	250778
Utilisation	%	*108%*	*97%*	*108%*	*114%*	*104%*
Sales (MT)		221218	203091	212002	240710	219474
Sales (Rs. Mn)		3067.44	3253.18	2428.76	1755.52	1483.49
Foundry						
Production (No. of Moulds)	475500	338643	352949	364779	248702	220696
Utilisation	%	*71%*	*74%*	*77%*	*52%*	*46%*
Sales (No. of Moulds)		323411	333924	340261	229932	208404
Sales (Rs. Mn)		1185.38	1217.33	936.43	547.23	567.69
Other Sales (Rs. Mn.)		574.64	501.16	396.51	208.58	215.95
Total Sales (Rs. Mn.)		**4827.46**	**4971.67**	**3761.70**	**2511.33**	**2267.13**
EBIDTA		571.56	410.11	570.30	362.74	229.64
PBT		387.77	209.31	219.13	82.18	-133.61

Pig Iron



<u>Foundry</u>

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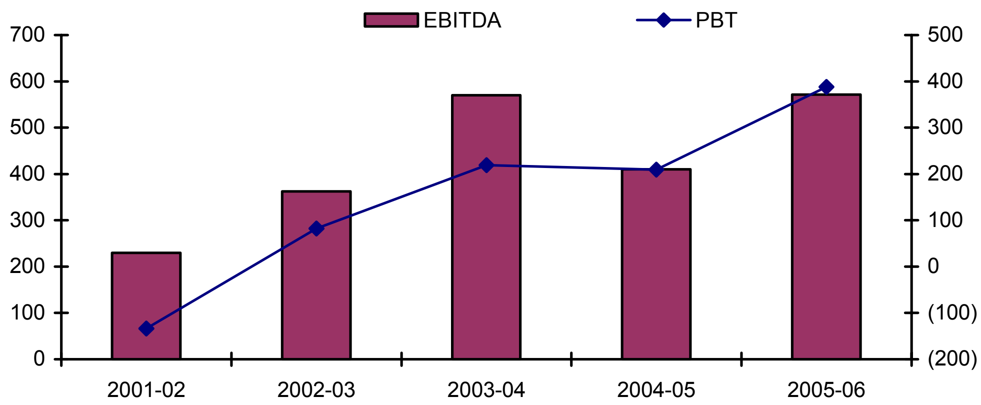
<u>EBITDA & PBT</u>



Pig iron is the basic raw material for the manufacture of steel, grey iron castings and Speroidal Graphite (S.G. Grade) iron castings.

We produce the three grades of pig iron:

- Foundry grade
- Basic grade
- S.G. grade

Our key customers for pig iron are :

Type	Customers
Foundry grade	Grey iron castings foundries, including our own foundry
Basic grade	All type of steel companies
SG grade	Spheroidal Graphite iron casting foundries

We manufacture grey iron castings in the weight range of 25 kg to 250 kg. Types of castings manufactures are cylinder blocks, cylinder heads and housings. Blocks and heads are used in the engines of tractors, cars jeeps, commercial vehicles and in diesel engines. These are important components in their respective product industries.

Castings are marketed to the OEMs of Auto, Tractor and Diesel Engine industry. The castings are directly marketed to the customers. Grey Iron castings are supplied to major auto, tractor manufacturers all over in India like Mahindra & Mahindra, TAFE, Escorts, Eicher Motors Ltd., KOEL, Carraro India Ltd., Punjab Tractors and Simpsons etc.

COMPETITIVE STRENGTHS

- **Experience of the Promoters**
  - The Company is promoted by the diversified and well known Kirloskar Group and has the advantage of having behind it a vast experience in the field of industrial manufacturing. The Kirloskar Group has immense accumulated experience in promoting and managing the foundries as they were one of the pioneers in the field of foundry. This experience in manufacturing systems, quality systems and HR practices are available to the Company.
- **Location and raw material availability**
  - The Company has its plant strategically located to service customers in south, central and western parts of India.
  - Rich iron ore deposits are available at Hospet-Sandur-Bellary belt. Other important raw materials such as limestone, Dolomite, Quartzite & Manganese ore are available in immediate vicinity.
  - The nearest seaport is Goa which is 320 kms from the plant, also well connected by rail and road. Alternatively, Chennai and Mangalore seaports are also well connected.
  - We source water from Tungabhadra Reservoir through pipelines which is around 5-6 kms from the factory.
- **Backward Integration**
  - Traditionally, foundries melt solid metallics thereby consuming more melting power. We are one of the few foundries which produce automotive and tractor castings with backward integration with liquid metal from the blast furnace. This results in significant savings in melting power and ensures supply of consistent quality liquid metal.
- **Technology**
  - Our foundry is equipped with latest processes in designing, methoding, melting, moulding and core making.
- **Strong management team**
  - Managed by professionals who have long standing experience in relevant fields. The Company believes in in-house development of managers as part of its HR initiatives. The Company believes in maintaining a strong corporate culture.

STRATEGY

- **Productivity improvement and coke consumption reduction**
  Company is presently operating the Mini blast furnace with metallic blast preheaters with which the blast temperatures achieved is only 800^{o}c Company plans to install the stoves to improve the blast temperatures to 1100^{o}c by which we shall save on coke consumption and also increase productivity.

- **Productivity improvement plan by incorporation of Turbo blowers**
  Company plans to install Turbo blowers by which productivity of the furnace could be improved further. This will also allow Company to completely utilise the blast furnace Gas thereby increasing the net power generation. Increased power generation could be utilised in foundry to bring down the power cost.

- **Continuous sustainable cost reduction drives**

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Company has drawn up the various cost reduction drives both in pig iron manufacturing and casting manufacturing initiatives to cover energy conservation initiatives, consumption reduction initiatives and elimination of wastages.

- **Retain, upgrade, acquire the Managerial and technological skills**
  Company follows the policies in recruiting, training and promoting talent among managerial and technical personnel in order to attract and retain the best talent. These include Employees Satisfaction Survey (ESS) by Gallup, Management development programs from group HR initiatives with Kirloskar Institute of Advanced Management Studies and in house training programs in various fields.

- **Integrating in the value chain**
  We plan to move up the value chain by forward integration to steel manufacturing. We had made application to the government authorities for necessary approvals and formalities. For backward integration, we plan to own iron ore mines. We have already made applications for allocation of Iron Ore Mines on lease from the Government of Karnataka. The application is pending with the Government and the required presentations emphasizing the requirement of the iron ore mines have made to the Government officials as well as to the Minister of Mines. This would help us in better control over the source and cost of supply of our iron ore requirements.

THE ISSUE

Equity Shares issued by the Company	[●]
Rights Entitlement	[●] Equity Share(s) for every [●] Equity Share(s) held on the Record Date
Record Date	[●]
Issue Price per Equity Share	Rs. [●] (To be finalized before Stock Exchange filing)
Equity Shares outstanding prior to the Issue	72,222,400 Equity Shares of Rs. 5 each
Equity Shares outstanding after the Issue	[●] Equity Shares
Warrants Entitlement	[●] detachable warrant for each Equity Share allotted under the Issue i.e. [●] warrants.
Equity Shares outstanding after the warrant conversion	[●] Equity Shares
Terms of the Issue	For more information, see "Terms of Issue" on page 201 of this Draft Letter of Offer.

Terms of Payment

Due Date	**Amounts**
On Rights issue application	Rs. [●] each which constitutes 100% of the entire amount of the Issue Price of Rs. [●]
On Exercise of warrants	Rs. [●], which constitutes 100% of the full amount of the Exercise Price of Rs. [●]

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SELECTED FINANCIAL INFORMATION

STATEMENT OF ASSETS AND LIABILITIES – RESTATED

(Rs.in Millions)

	AS AT MARCH 31ST	2006	2005	2004	2003	2002
A	**Fixed Assets**					
	Gross Block	2,400.71	2,328.16	2,306.77	2,378.54	2,369.50
	Less : Depreciation	(1,196.75)	(1,084.72)	(972.14)	(886.32)	(768.63)
	Net Block	**1,203.96**	**1,243.44**	**1,334.63**	**1,492.22**	**1,600.87**
	Capital Work in Progress	43.11	41.46	2.95	-	-
	Net Block with Capital Work in progress	**1,247.07**	**1,284.90**	**1,337.58**	**1,492.22**	**1,600.87**
B	**Investments**	-	-	-	-	**0.50**
C	**Current Assets, Loans and Advances**					
	Inventories	430.24	561.61	379.58	258.41	325.72
	Sundry Debtors	450.79	549.89	299.57	298.43	457.72
	Cash and Bank Balances	83.43	386.61	107.02	125.81	75.77
	Other Current Assets	8.28	11.10	4.47	16.45	15.84
	Loans and Advances	282.35	276.97	273.70	210.70	212.05
		1,255.09	**1,786.18**	**1,064.34**	**909.80**	**1,087.10**
D	**Deferred Tax Asset / (Liability) (Net)**	**82.35**	**214.11**	**203.34**	**158.54**	**(40.78)**
E	Preference Share Capital	1,046.86	1,046.86	1,046.87	1,046.86	986.26
F	**Liabilities and Provisions**					
	Secured Loans	160.23	220.95	172.99	1,256.28	1,592.29
	Unsecured Loans	163.33	313.33	450.00	6.00	30.00
	Current Liabilities and Provisions	1,232.09	1,713.31	1,035.36	617.16	688.24
		1,555.65	**2,247.59**	**1,658.35**	**1,879.43**	**2,310.52**
H	**Networth (A+B+C+D-E-F-G)**	**(18.01)**	**(9.26)**	**(99.97)**	**(365.74)**	**(649.10)**

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(Rs.in Millions)

	AS AT MARCH 31ST	2006	2005	2004	2003	2002
I	**Networth** **Represented by**					
	1. Equity Share Capital	361.11	722.22	722.22	722.22	722.22
	2. Reserves	(379.12)	(731.48)	(822.19)	(1,086.05)	(1,367.48)
	3 Miscellaneous Expenditures (to the extent not written off or adjusted)	-	-	-	1.91	3.84
	Networth (1+2-3)	**(18.01)**	**(9.26)**	**(99.97)**	**(365.74)**	**(649.10)**

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STATEMENT OF PROFITS AND LOSSES - RESTATED

(Rs.in Millions)

YEAR ENDED MARCH 31st	2006	2005	2004	2003	2002
INCOME **SALES :**					
of products manufactured by the company	4,827.46	4,971.67	3,761.70	2,511.33	2,267.13
of products traded in by the company	-	-	-	-	-
TOTAL	**4,827.46**	**4,971.67**	**3,761.70**	**2,511.33**	**2,267.13**
Other Income	28.70	21.43	21.96	8.32	7.36
Increases / (Decrease) in Inventoreis	(11.30)	(85.60)	50.25	(18.82)	(49.23)
	4,844.86	**4,907.50**	**3,833.91**	**2,500.83**	**2,225.26**
EXPENDITURE					
Raw Materials Consumed	3,679.28	3,987.09	2,703.39	1,698.16	1,554.46
Staff Costs	134.46	117.69	109.96	106.68	95.15
Other Manufacturing Expenses	284.86	294.22	317.07	197.12	254.97
Administration Expenses	61.67	56.96	104.29	104.20	57.09
Selling Distribution Expenses	113.03	41.43	28.90	31.93	33.95
Interest	69.94	84.55	231.31	160.03	242.89
Depreciation & Amortisation	113.85	116.25	119.86	120.53	120.36
TOTAL	**4,457.09**	**4,698.19**	**3,614.78**	**2,418.65**	**2,358.87**
Net Profit / (Loss) before tax and extraordinary items	387.77	209.31	219.13	82.18	(133.61)
Provision for Taxes					
Defferred Tax	131.76	(10.78)	(44.80)	4.51	40.78
Fringe Benefit Tax	1.51	-	-	-	-
Current Tax	3.40	-	-	-	-
Provision for Wealth Tax	0.11	0.09	0.09	0.08	0.07
Total provision for taxes	**136.78**	**(10.69)**	**(44.71)**	**4.59**	**40.85**
Net Profit / (Loss) after Tax but before Extra-ordinary items	**250.99**	**220.00**	**263.84**	**77.59**	**(174.46)**
Extra-ordinary items (net of tax)	-	-	-	-	-

Net Profit / (Loss) after Extraordinary Items	**250.99**	**220.00**	**263.84**	**77.59**	**(174.46)**

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STATEMENT OF CASHFLOWS RESTATED **(Rs. Million)**

Particulars	2006	2005	2004	2003	2002
A.CASH FLOW FROM OPERATING ACITVITIES	**387.77**	**209.31**	**219.14**	**82.19**	**(133.62)**
Net Profit/(Loss) before tax					
Adjustments for					
Depreciation	113.85	116.25	117.94	118.61	118.44
Write offs	-	-	1.92	1.92	1.92
Profit on sale of assets	(0.28)	(0.01)	-	(0.01)	(0.00)
Loss on sale of assets	0.08	0.93	55.03	0.99	0.39
Interest paid	69.94	84.55	231.31	160.03	242.89
Interest income	(11.18)	(13.99)	(16.21)	(1.74)	(1.28)
Rent on Building	(6.00)	(6.00)	(6.00)	(6.00)	(6.00)
	166.41	**181.74**	**384.00**	**273.79**	**356.36**
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	**554.18**	**391.04**	**603.14**	**355.99**	**222.74**
Decrease/(Increase) in Trade & Other Receivables	95.37	(255.43)	(48.45)	160.03	(57.04)
Decrease/(Increase) in Inventories	131.37	(182.03)	(121.17)	67.31	61.71
(Decrease)/Increase in Trade Payables	(615.10)	548.71	445.42	(67.88)	(96.38)
	(388.37)	**111.25**	**275.80**	**159.46**	**(91.71)**
CASH GENERATED FROM OPERATIONS	**165.82**	**502.30**	**878.94**	**515.44**	**131.02**
Tax Deducted at Source (Refunds)	1.13	0.08	(2.58)	(0.39)	7.05
Taxes paid	(1.60)	(0.09)	(0.08)	(0.07)	(0.07)
	(0.48)	**(0.00)**	**(2.65)**	**(0.46)**	**6.98**
NET CASH FROM OPERATING ACTIVITIES	**165.34**	**502.30**	**876.29**	**514.99**	**138.00**

(Rs. Million)

Particulars	2006	2005	2004	2003	2002
B. CASH FLOW FROM INVESTING ACTIVITIES :					
Purchase of assets	(78.92)	(72.48)	(36.56)	(5.52)	(13.96)
Proceeds from sale of assets / Adjustment to Gross				0.01	

Block	0.72	5.30	17.60		0.35
Interest received	13.61	11.78	15.71	2.14	1.32
Rent on Building	6.00	6.00	6.00	6.00	6.00
Sale of investments	-	-	-	0.50	-
	(58.58)	**(49.40)**	**2.75**	**3.13**	**(6.29)**
NET CASH USED IN INVESTING ACTIVITIES	**106.76**	**452.90**	**879.04**	**518.12**	**131.71**
C. CASH FLOW FROM FINANCING ACTIVITIES :					
Interest paid	(70.25)	(92.90)	(249.95)	(261.25)	(422.90)
Proceeds from issue of share capital	-	-	-	60.60	399.29
Proceeds/(Repayment) of Long Term Borrowings	39.60	166.54	(940.51)	(152.01)	(27.60)
Proceeds/(Repayment) from Short Term Borrowings	(250.00)	(236.67)	344.00	(24.00)	(79.94)
Increase/(Decrease) Cash Credit	-	(10.29)	(51.36)	(91.42)	14.48
Dividend on Cumulative Redeemable Preference Shares	(113.38)	-	-	-	-
Tax on Dividend on Cumulative Redeemable Preference Shares	(15.90)	-	-	-	-
NET CASH USED IN FINANCING ACTIVITIES	**(409.94)**	**(173.31)**	**(897.82)**	**(468.08)**	**(116.68)**
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	**(303.17)**	**279.59**	**(18.79)**	**50.04**	**15.03**
Opening Cash and Cash Equivalents	386.61	107.02	125.81	75.77	60.74
Closing Cash and Cash Equivalents	83.43	386.61	107.02	125.81	75.77

GENERAL INFORMATION

Dear Shareholder(s),

Pursuant to the resolution passed by the Board of Directors of the Company at its meeting held on May 24, 2006 and September 28, 2006 it has been decided to make the following offer to the Equity Shareholders of the Company, with a right to renounce:

ISSUE OF [•] EQUITY SHARES OF Rs. 5 EACH AT A PREMIUM OF RS. [•] PER EQUITY SHARE AGGREGATING UPTO RS. 2,400 MILLION TO THE EQUITY SHAREHOLDERS OF OUR COMPANY ON A RIGHTS BASIS IN THE RATIO OF [•] EQUITY SHARE(S) FOR EVERY [•] EQUITY SHARE(S) HELD ON THE RECORD DATE i.e. [•] ("ISSUE"). FOR EVERY ONE EQUITY SHARE BEING ALLOTTED ON RIGHTS BASIS, THE ALLOTTEES WILL RECEIVE [•] DETACHABLE WARRANT(S) TO BE EXERCISED AT AT PRICE NOT EXCEEDING [•] AGGREGATING UPTO [•]. THE TOTAL ISSUE INCLUDING CONVERSION OF WARRANT(S) INTO EQUITY SHARE(S) WILL AGGREGATE TO [•]. FOR MORE DETAILS, REFER TO SECTION TITLED "TERMS OF THE ISSUE" BEGINNING ON PAGE 201 OF THIS DRAFT LETTER OF OFFER.

Registered Office of the Company:

Kirloskar Ferrous Industries Limited
13, Laxmanrao Kirloskar Road, Khadki,
Pune - 411 003
Registration No. 11-63223

Office of ROC

The Registrar of Companies, Maharashtra, Pune
PMT Building, 3rd Floor,
Deccan Gymkhana, Pune – 411004

Company Secretary

Mr. C. S. Panicker
13, Laxamrao Kirloskar Road, Khadki, Pune - 411003
Tel: (91 20) 66 08 4664
Fax: (91 20) 25 81 3208, 020 25 81 0209
Email: csp@koel.co.in
Website: www.kirloskar.com

Compliance Officer for the Issue

Mr. C. S. Panicker
Company Secretary
13, Laxamrao Kirloskar Road, Khadki, Pune - 411003
Tel: (91 20) 66 08 4664/(91 20) 66 08 4645
Fax: (91 20) 25 81 3208, 020 25 81 0209
Email: kfilrights@kirloskar.com
Website: www.kirloskar.com

Investors may contact the Compliance Officer for any pre-Issue / post-Issue related matter.

Legal Advisor for the Issue

Luthra & Luthra, Law Offices
704-706, Embassy Centre
Nariman Point, Mumbai-400 021
Tel: (91 22) 6630 3600
Fax: (91 22) 6630 3700
Email: luthra@luthra.com
Website: www.luthra.com

Auditors of the Company

M/S. P.G. Bhagwat.
Flat No. 202, II Floor, Navneet Apartments,
Behind K.E.B. Office, Vidyagiri, Dharwad – 580 004
Tel: (91) 0836 - 2462464
Fax: (91) 0836 - 2465284
Email: bhagwat@sancharnet.in
Website: www.pgbhagwatca.com

Bankers of the Company

State Bank of India, Industrial Finance Branch
Tara Chambers, Wakdewadi, Pune-Mumbai Highway,
Pune 411 003
Tel: (91 20) 2581 7706
Fax: (91 20) 25818941
Email: sbiifbpune8966@vsnl.net
Website: www.onlinesbi.com

UTI Bank Limited
1262/B, Jangli Maharaj Road, Deccan Gymkhana
Pune - 411004
Tel: (91 20) 56012696
Fax: (91 20) 2552 0531
Email: pmandke@utibank.co.in
Website: www.utibank.com

IDBI Bank Limited
Dnyaneshwar Paduka Chowk, Fergusson College
Road, Pune - 411004
Tel: (91 20) 2567 8585
Fax: (91 20) 2567 2193
Email: g_bhat@idbibank.com
Website: www.idbibank.com

ICICI Bank Limited
A-Wing Shangrila Gardens, Bund Garden Road,
Pune - 411001
Tel: (91 20) 6128221-25
Fax: (91 20) 6128226
Email: bisweswar.patnaik@icicibank.com
Website: www.icicibank.com

Bank of Maharashtra, Industrial Finance Branch,
Shivaji Nagar, F. C. Road, Pune - 411005
Tel: (91 20) 25535056
Fax: (91 20) 25535068

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Email: bomifb@pn3.vsnl.net.in
Website: www.bankofmaharashtra.in

Andhra Bank
Corporate Finance Branch
33, Atlanta, Nariman Point,
Mumbai - 400021
Tel: (91 22) 22885846
Fax: (91 22) 22885841
Email: bmmum906@andhrabank.co.in
Website: www.andhrabank-india.com

ING Vysya Bank Limited
928, F.C. Road, Pune 4110004
Tel: (91 20) 25650349, 25650859
Fax: (91 20) 2565214
Email: punebr@vysbank.com
Website: www.ingvysyabank.com

HDFC Bank Limited
Millennium Towers, 885/1,
Plot No. 241/1, Bhandarkar Road,
Shivaji Nagar, Pune 411 004
Tel: (91 20) 2567 3008
Fax: (9120) 2565 0720
Email: sumnat.rampal@hdfcbank.com
Website: www.hdfcbank.com

Issue Management Team

Lead Manager to the Issue

Enam Financial Consultants Private Limited
801/802, Dalamal Towers
Nariman Point
Mumbai 400 021
Tel: (91 22) 6638 1800
Fax: (91 22) 2284 6824
Email: kfilrights@enam.com
Website: www.enam.com
Contact Person: Mr. Amit Maheshwari

Registrar to the Issue

Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills Compound,
L.B.S. Marg, Bhandup (W), Mumbai – 400 078
Tel: 022-2596 0320 (9 lines)
Fax: 022-2596 0329
Email: kferrous@intimespectrum.com
Website: www.intimespectrum.com
Contact Person: Ms. Avani Punjani

Banker(s) to the Issue
[•]
Tel: [•]

Fax: [•]
E-mail: [•]
Contact Person

The statement of inter se allocation of responsibilities for this Issue is as follows:

No	Activities	Responsibility	Coordinator
1.	Capital structuring with relative components and formalities such as type of instruments, etc.	ENAM	ENAM
2.	Drafting and Design of the Letter of Offer document and of advertisement/publicity material including newspaper advertisements and brochure / memorandum containing salient features of the Letter of Offer document. The designated Lead Merchant Banker shall ensure compliance with the Guidelines for Disclosure and Investor Protection and other stipulated requirements and completion of prescribed formalities with Stock Exchange, Registrar of Companies and SEBI.	ENAM	ENAM
3.	Marketing of the Issue, which will cover, inter alia, formulating marketing strategies, preparation of publicity budget, arrangements for selection of (i) ad-media, (ii) centres of holding conferences of brokers, investors etc. (iii) bankers to the issue, (iv) collection centres (v) brokers to the issue, distribution of publicity and issue material including application form, prospectus and brochure, and deciding on the quantum of issue material.	ENAM	ENAM
4.	Selection of various agencies connected with the issue, namely Registrars to the Issue, printers, bankers and advertisement agencies.	ENAM	ENAM
5.	Follow-up with bankers to the issue to get estimates of collection and advising the issuer about closure of the issue, based on the correct figures.	ENAM	ENAM
6.	The post-issue activities will involve essential follow-up steps, which must include finalisation of basis of allotment / weeding out of multiple applications, listing of instruments and dispatch of certificates and refunds, with the various agencies connected with the work such as registrars to the issue, bankers to the issue, and bank handling refund business. Even if many of these post-issue activities would be handled by other intermediaries, the designated Lead Merchant Banker shall be responsible for ensuring that these agencies fulfil their functions and enable him to discharge this responsibility through suitable agreements with the issuer Company.	ENAM	ENAM

Credit rating

This being an issue of Equity Shares, no credit rating is required.

CAPITAL STRUCTURE

		Aggregate nominal value (in Rs. Million)	Aggregate Value at Issue Price (in Rs. million)
Authorized share capital #			
	210,000,000 Equity Shares of Rs. 5 each## 117,000,000 Preference Shares of Rs. 10 each	1,050 1,170	
Issued, subscribed and paid-up capital			
	72,222,400 Equity Shares of Rs. 5 each## and	361.11	-
	32,466,253 - 12% Cumulative Redeemable Preference Shares of Rs. 10 each	324.66	
	72,220,000 - 1% Cumulative Redeemable Preference Shares of Rs. 10 each	722.20	
Present Issue being offered to the Equity Shareholders through the Letter of Offer			
	[•] Equity Shares of Rs. 5 each at a premium of Rs. [•] i.e. at a price of Rs. [•]each share	[•]	[•]
Paid up capital after the Issue			
	[•] Equity Shares of Rs. 5 each	[•]	
	32,466,253 - 12% Cumulative Redeemable Preference Shares of Rs. 10 each	324.66	-
	72,220,000 - 1% Cumulative Redeemable Preference Shares of Rs. 10 each	722.20	-
Paid up capital on exercise of warrants			
	[•]Equity Shares of Rs. 5 each	[•]	
	32,466,253 - 12% Cumulative Redeemable Preference Shares of Rs. 10 each	324.66	-
	72,220,000 - 1% Cumulative Redeemable Preference Shares of Rs. 10 each	722.20	-
Share premium Account			
	Existing share premium account		Nil
	Share premium account after the Issue assuming allotment of all Equity Sharers offered		[•]
	Share premium account after the conversion of warrants assuming conversion of all warrants offered under the Issue		[•]

The authorized share capital of the Company was increased several times pursuant to shareholders resolutions. It was first increased from Rs. 50 Million to Rs. 600 Million on April 9, 1993 and then to Rs. 1,000 Million on January 8, 1996. It was further increased to 1,200 Million on August 28, 1997 and to Rs. 1,550 Million on September 27, 2000. It was last increased to Rs. 2,220 Million on September 25, 2001.

##W.e.f. December 22, 2005 the face value of our Company was reduced from Rs. 10/- to Rs. 5/- each pursuant to the approval of the shareholders at the annual general meeting held on August 5, 2005 and confirmation of such reduction by the High Court of Mumbai by its order of September 30, 2005. Pursuant to the reduction, the current paid-up equity share capital of the Company is 72,222,400 equity shares of Rs. 5 each (reduced from Rs. 10 each).

Notes to the Capital Structure

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1. ***Share Capital history of our Company***

(a) Equity Share Capital history

Date of allotment	No. of Equity Shares Allotted	Face Value (Rs.)	Issue Price (Rs.)	Nature of Payment of Consideration	Reasons for Allotment	Cumulative paid-up capital (Rs.)
September 10, 1991	810	10	10	Cash	Initial subscribers to the Memorandum of Association	8,100
March 04, 1994	34,333,390	10	10	Cash	Issued pursuant to initial public offering of our Company.	343,333,900
March 30, 1994	24,165,800	10	10	Cash	Issued pursuant to initial public offering of our Company	241,658,000
March 20, 2001	4,000,000	10	10	Conversion of loan amount	Issued to ICICI Limited upon conversion of term loan of Rs. 40,000,000 into equity shares	40,000,000
April 02, 2001	4,722,400	10	10	Conversion of optionally convertible Debentures	Issued to IFCI Limited against conversion of 16.50% optionally fully convertible debentures	47,224,000
September 25, 2001	5,000,000	10	10	Settlement of dues Conversion of unsecured loan	Issued to KOEL in consideration of against the unsecured loan.	50,000,000
Total	**72,222,400**					**722,224,000**

Except for issuance of the above mentioned equity shares, our Company has not issued any Equity Shares for consideration other than cash. We have not issued any shares out of revaluation reserve.

(b) History of Preference Share Capital

Date of allotment	No. of Preference Shares Allotted	Face Value (Rs.)	Issue Price (Rs.)	Cumulative paid-up capital (Rs.)	Consideration	Remarks
March 10, 1998	45,000,000	10	10	450,000,000	Cash	1% Redeemable cumulative non-convertible preference shares issued to KOEL on private placement basis redeemable at par at the end of three years from the date of allotment. (These shares were initially issued at

Date of allotment	No. of Preference Shares Allotted	Face Value (Rs.)	Issue Price (Rs.)	Cumulative paid-up capital (Rs.)	Consideration	Remarks
						12% which was reduced to 1% with effect from January 1, 2001 pursuant to a preference shareholders resolution passed at the meeting held on March 30, 2002.)
March 31, 2001	23,420,000	10	10	234,200,000	Cash	1% Redeemable cumulative non-convertible preference shares issued to KOEL on conversion of lease rental into preference shares redeemable at par at the end of ten years from the date of allotment.
September 25, 2001	3,800,000	10	10	38,000,000	Cash	1% Redeemable cumulative non-convertible preference shares issued to KOEL on conversion of lease rental into preference shares redeemable at par at the end of ten years from the date of allotment.
March 30, 2002	25,580,000	10	10	255,800,000	Conversion	12% Redeemable cumulative non-convertible preference shares issued to IDBI redeemable at par from March 31, 2008 to March 31, 2011. These preference shares were transferred to KOEL on April 22, 2004.
March 30, 2002	826,253	10	10	8,262,530	Conversion	12% Redeemable cumulative non-convertible preference shares issued to IIBI. These preference shares are redeemable at par from March 31, 2008 to March 31, 2011. These shares were subsequently transferred to KOEL on April 22, 2004.
September 28, 2002	6,060,000	10	10	60,600,000	Conversion	12% Redeemable cumulative non-convertible preference shares issued to ICICI Bank Limited for the conversion of interest dues payable on loans. These preference shares are redeemable at par from September 15, 2008 to September 15, 2013 in six equal annual instalments. These shares were subsequently transferred to KOEL on April 22, 2004.
Total	**104,686,253**			**1,046,862,530**		

The preference shares of the Company are not listed on any of the Stock Exchanges.

2. ***Current shareholding pattern of the Company***

Shareholders	No. of Equity Shares held pre-Issue	% of pre-Issue capital	No. of Equity Shares post Issue	% of post Issue capital assuming allotment of all Equity Shares offered*	No. of Equity Shares post exercise of warrants	% of post Issue capital, post exercising warrants
Promoter	34,750,485	48.12				
Promoter Group	1,117,592	1.54				
Total Promoter and Promoter Group shareholding	35,868,077	49.66				
Public						
Banks & Insurance Cos.	39,69,900	5.50				
UTI and Mutual Funds	29,600	0.04				
FII	3,776,425	5.23				
Foreign Bodies						
OCBs						
NRIs	1,564,949	2.17				
Public	27,013,449	37.40				
Total public shareholding	36,354,323	50.34				
Total	72,222,400	100.00				

*Assuming all shareholders apply for and are allotted Equity Shares.

3. Our Promoters have confirmed that they along with there group companies and the companies controlled by them (together hereinafter referred to as "Promoters" in this clause) intend to subscribe to the full extent of their entitlement in the Issue. Our Promoters reserve their right to subscribe to their entitlement in the Issue either by themselves, their group companies or a combination of entities controlled by them, including by subscribing for renunciation if any made within the Promoter Group to another person forming part of the Promoter Group. In addition to the same, one of our Promoters, KOEL, has undertaken to subscribe to the un-subscribed portion of the Issue, subject to obtaining necessary approval, if any, under the applicable laws, such that at least 90% of the Issue is subscribed. As a result of such subscription and consequent allotment, the Promoters may acquire shares over and above their entitlement in the Issue, which may result in an increase of their shareholding being above the current shareholding with the entitlement of Equity Shares under the Issue. This subscription and acquisition of additional Equity Shares by our Promoters, if any, will not result in change of control of the management of the Company and shall be exempt in terms of proviso to Regulation 3(1)(b)(ii) of the Takeover Code. As such, other than meeting the requirements indicated in the section titled "Objects of the Issue" beginning on page 23 of this Draft Letter of Offer, there is no other intention/purpose for this Issue, including any intention to delist our Company, even if, as a result of allotments to our Promoters, in this Issue, our Promoters shareholding in the Company exceeds their current shareholding.

4. Allotment to the Promoters of any unsubscribed portion, over and above their entitlement shall be done in compliance with the Listing Agreement and other applicable laws prevailing at that time relating to continuous listing requirements.

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5. ***Details of the shareholding of the Promoters, Promoter Group and directors of the Promoter Group in the Company as on September 22, 2006 is as follows:***

Promoters

SN	**Name**	**Acquisition date**	**No of shares**	**% pre-issue**	**% post issue**
1.	KOEL	March 4, 1994	27,000,000	37.38	
2.	Kirloskar Pneumatic Co. Limited	March 4, 1994	2,000,000	2.77	
3.	Pooja Credits Private Limited	August 10, 1999	2,000,000	2.77	
4.	Prakar Investments Private Limited	March 24, 2000 and November 22, 2001	100,200	0.14	
5.	Achyut & Neeta Holdings & Finance Private Limited	October 11, 2001	285	0.00	
6.	Kirloskar Systems Limited	March 22, 2005 and June 2, 2005	3,650,000	5.05	
	Total		34,750,485	48.12	

Promoter Group and directors

SN	**Name**	**Date of acquisition**	**No of shares**	**%pre-issue**	**%post issue**
1.	Atul Kirloskar	March 4, 1994	1,600	0.0020	
2.	Sanjay Kirloskar	March 30, 1994	200	0.0003	
3.	Gautam Kulkarni	October 23, 1995	300	0.0004	
4.	Jyotsna G. Kulkarni	March 4, 1994	143,475	0.200	
5.	C.H. Nandiwadekar	June 3, 1996	1,400	0.0019	
6.	Rahul Kirloskar	March 30, 1994	200	0.003	
7.	Better Value Holdings Private Limited	March 25, 2003	810,367	1.122	
8.	Arti A. Kirloskar	March 28, 2006	49,403	0.07	
9.	Alpana R. Kirloskar	March 28, 2006	100,647	0.14	
10.	Hematic Motors Private Limited	March 4, 1994	10,000	0.01	
	Total		**1,108,592**	**1.53**	

6. ***Details of the transactions in Equity Shares by the Promoter and the Promoter Group of our Company during the last six months***

Name		**Date of transaction**	**Details of transaction**	**Number of Equity Shares**	**Price per share (in Rs.)**
Transferor	**Transferee**				
Better Value Holdings Private Limited	Kirloskar Systems Limited	June 2, 2005	Sale	3,600,000	37.53
Navsai Investments Private Limited	Mrs. Arti C. Kirloskar	March 28, 2006	Sale	49,403	39.13
Alpak Investments Private Limited	Mrs. Alpana R. Kirloskar	March 28, 2006	Sale	100,647	39.13

7. ***Top ten shareholders***

a. Top ten shareholders of our Company as on September 22, 2006 (face value of Rs. 5 per Equity Share), i.e. the date of filing this Draft Letter of Offer:

S.N.	Name of the shareholders	Total Shares	%age of pre issue capital
1.	KOEL	27,000,000	37.38
2.	IFCI Limited	3,969,000	5.50
3.	HSBC Financial Services Limited	3,725,925	5.16
4.	Kirloskar Systems Limited	3,650,000	5.05
5.	Kirloskar Pneumatic Company Limited	2,000,000	2.77
6.	Pooja Credits Limited	2,000,000	2.77
7.	Better Value Holdings Private Limited	810,367	1.12
8.	Beautiful Diamonds Ltd	5,00,000	0.69
9.	Samta Management Strategies Private Limited	4,08,387	0.57
10.	Ramesh P Mehta	4,04,000	0.56

b. Top ten shareholders as on September 16, 2006 (face value of Rs. 5 per Equity Share), i.e. ten days before the date of filing this Draft Letter of Offer:

S.N.	Name of the shareholders	Total Shares	%age of pre issue capital
1.	KOEL	27,000,000	37.38
2.	IFCI Limited	3,969,000	5.49
3.	HSBC Financial Services Limited	3,725,925	5.15
4.	Kirloskar Systems Limited	3,650,000	5.05
5.	Kirloskar Pneumatic Company Limited	2,000,000	2.77
6.	Pooja Credits Limited	2,000,000	2.77
7.	Better Value Holdings Private Limited	810,367	1.12
8.	Beautiful Diamonds Limited	500,000	0.69
9.	Samta Management Strategies Private Limited	588,993	0.56
10.	Ramesh Mehta	404,000	0.56

c. Top ten shareholders as on September 30, 2004 (face value of Rs. 5 per Equity Share), i.e. two years before the date of filing this Draft Letter of Offer:

S.N.	Name of the shareholders	Total Shares	%age of pre issue capital
1.	KOEL	27,000,000	37.38
2.	Better Value Holdings Private Ltd	4,460,367	6.18
3.	IFCI LTD	4,364,531	6.04
4.	Reliance Capital Ttrustee Company Ltd	2,336,474	3.24
5.	Kirloskar Pneumatic Company Limited	2,000,000	2.77
6.	Pooja credits ltd	2,000,000	2.77
7.	Beautiful diamonds ltd	500,000	0.69
8.	Agarwal B L	400,000	0.55
9.	Amrit Steels (P) Ltd	377,000	0.52
10.	Delhi Iron Steel Co Ltd	348,595	0.48

8. The total number of members of our Company as on 22nd September 2006 is 71,355
9. The Shareholders of our Company have, at the annual general meeting held on August 5, 2005 approved the reduction of equity share capital by the cancellation of 50% of the issued and paid-up value of the equity shares of our Company aggregating to Rs. 361,112,000 for writing off of the accumulated losses of our Company. The aforementioned reduction of share capital was confirmed and approved by the High Court of

Mumbai by its order of September 30, 2005. Pursuant to the reduction, the current equity share capital of the Company is 72,222,400 equity shares of Rs. 5 each (reduced from Rs. 10 each). Consequently, there was no trading of our equity shares from November 12, 2005 to December 21, 2005.

10. We were unable to pay any dividend to our preference shareholder, KOEL upto Fiscal 2004 which has been adequately reported by us in our Annual Reports for the Fiscal 1998 to 2005. However, we have, in the Fiscals 2005 and 2006, paid dividend (including dividends in arrear) to KOEL to the extent of Rs. 113.38 Million and Rs. 227.80 Million respectively. Pursuant to such payment, there are no amounts outstanding to KOEL on account of its preference shareholding in our Company.
11. The present Issue being a rights issue, as per the extant SEBI guidelines, the requirement of promoters' contribution and lock-in is not applicable.
12. The Company has not availed of bridge loans to be repaid from the proceeds of the Issue.
13. The Promoters and Directors of the Company and the Lead Manager to the Issue have not entered into any buy-back, standby or similar arrangements for any of the securities being issued through this Draft Letter of Offer.
14. The terms of issue to non-resident Equity Shareholders/applicants have been presented under the section "Terms of the Issue" beginning on page 201 of this Draft Letter of Offer.
15. At any given time, there shall be only one denomination of the Equity Shares of the Company. The Equity Shareholders of the Company do not hold any warrant, option or convertible loan or debenture, which would entitle them to acquire further shares in the Company.
16. No further issue of capital by way of issue of bonus shares, preferential allotment, rights issue or public issue or in any other manner which will affect the equity capital of the Company, shall be made during the period commencing from the filing of the Letter of Offer with the SEBI to the date on which the Equity Shares issued under the Letter of Offer are listed or application moneys are refunded on account of the failure of the Issue. Further, at present the Company has no intention to alter the equity capital structure by way of split/consolidation of the denomination of the shares on a preferential basis or issue of bonus or rights or pubic issue of shares or any other securities for a period of six months from the date of opening of the Issue.
17. The Issue will remain open for 30 days. However, the Board will have the right to extend the Issue period as it may determine from time to time but not exceeding 60 days from the Issue Opening Date.

OBJECTS OF THE ISSUE

Our Company intends to use the proceeds of Equity Shares for the following purposes:

(A) Proceeds from the issue of Equity Shares on rights basis:

a) Redemption of our preference shares;
b) Acquisition of a foundry;
c) Installation of a moulding line for the foundry that we propose to acquire;
d) Installation of hot blast stoves; and
e) Turbine blower for one of our MBF's..

(B) Proceeds from the exercise of the Warrants shall be utilized to pursue organic and inorganic growth opportunities.

The main objects clause and the objects incidental or ancillary to the main objects clause of the MOA of our Company enables us to undertake the activities for which the funds are being raised through this Issue.

The total estimated expenditure to be incurred to finance the objects of the Issue as mentioned in the table below, is based on our current business plans and internal management estimates. We operate in a capital-intensive industry where the prices of raw materials fluctuate depending on the market dynamics and where the requirements for remaining competitive may change. Consequently, our current business plans may change depending on the ability of our Company to proceed with all, any or combination of the aforementioned objects of the Issue. Such changes may include, among other things, rescheduling capital expenditure including changes in the implementation schedule, increase or decrease in the expenditure in relation to each object mentioned above, incurring expenditure on matters not currently envisaged.

(A) Proceeds from the Issue of Equity Shares of rights basis

The net proceeds of the Issue after deducting Issue expenses payable by us are estimated at approximately Rs. [●] million. The details of the Issue proceeds are as follows

Particulars	**Amounts**
Gross proceeds of the Rights Issue	[●]
Issue related expenses	[●]
Net proceeds of the Rights Issue	[●]

Utilisation of Funds (Rs. In Millions)

We intend to utilize the net proceeds of the Issue to finance the objects of the Issue as mentioned above.

S.N	**Proposed head of expenditure**	**Total Estimated Project Cost**	**Already spent upto August 31, 2006**	**From September 1, 2006 to March 31, 2007**	From April 1, 2007 to March 31, 2008
1.	Redemption of preference shares	1,046.87	Nil	1,046.87	Nil
2.	Acquisition of a foundry	210.00	Nil	210.00	Nil
3.	Installation of a moulding line at the foundry to be acquired	739.82	Nil	323.00	416.82
4.	Installation of hot blast stoves for MBF-I	191.33	52.40	138.93	Nil
5.	Installation of turbo blower for MBF-1	165.39	Nil	32.00	133.39
	Total	**2,353.41**	**52.40**	**1,750.80**	**550.21**

Redemption of preference shares

As on the date of filing of this Draft Letter of Offer, the preference share capital of our Company consists of 32,466,253 (12%) and 72,220,000 (1%) redeemable cumulative non-convertible preference shares of Rs. 10/- each. The preference shares are held entirely by one of our Promoters, KOEL. These preference shares were issued in accordance with the financial arrangements entered into by us with the financial institutions. Set out below are the details of each tranche of preference shares allotted by our Company:

SN	Date of allotment	No. of Preference Shares	Particulars of allotment	Redeemable by
1.	March 10, 1998	45,000,000	Issued to KOEL pursuant to sanction letter dated February 16, 1998 issued by IDBI towards financial assistance provided for augmentation of Company's long-term resources, restructuring of existing liabilities and to fund the adverse liquidity situation due to unfavourable market conditions. KOEL subscribed to the preference shares of our Company in view of its undertaking to IDBI to meet any cost overruns by our Company.	March 10, 2001 to March 10, 2008
2.	March 31, 2001	23,420,000	Issued to KOEL on conversion of outstanding lease rentals into preference shares pursuant to letter dated March 22, 2001 issued by IDBI as part of financial restructuring.	March 30, 2011
3.	September 25, 2001	3,800,000	Issued to KOEL on conversion of outstanding lease rentals into preference shares pursuant to letter dated March 22, 2001 issued by IDBI as part of financial restructuring.	September 24, 2011
4.	March 30, 2002	25,580,000	Issued to IDBI pursuant to its letter dated March 22, 2002 upon conversion of interest overdues as on March 31, 2002 as part of the financial restructuring of our existing debts. These preference shares were subsequently acquired by KOEL pursuant to the letter dated February 24, 2004 issued by IDBI as part of a one-time settlement of all outstanding debts of our Company towards IDBI. IDBI has also issued a letter dated April 2, 2004 confirming that there are no outstanding dues from our Company.	March 31, 2008 to March 31, 2011
5.	March 30, 2002	826,253	Issued to IIBI pursuant to its letter dated March 28, 2002 upon conversion of interest overdues as on June 30, 2001 as part of financial restructuring of our existing debts. These preference shares were subsequently acquired by KOEL pursuant to the letter dated March 29, 2003 issued by IIBI as part of one time settlement of all outstanding debts of our Company from IIBI. IIBI has also issued a letter dated April 8, 2004 confirming that there are no outstanding dues from our Company.	March 31, 2008 to March 31, 2011
6.	September 28, 2002	6,060,000	Issued to ICICI pursuant to its letter dated September 27, 2002 read with letter dated June 26, 2001 upon conversion of interest overdues as on June 30, 2001 as part of financial restructuring of	September 15, 2008 to September 15, 2013

SN	Date of allotment	No. of Preference Shares	Particulars of allotment	Redeemable by
			our existing debts. These preference shares were subsequently acquired by KOEL as part of one time settlement of all outstanding debts of our Company from ICICI. ICICI has also issued a letter dated April 6, 2004 confirming that there are no outstanding dues from our Company.	
	Total	104,686,253		

Terms of redemption

In accordance with the terms of the issue of the abovementioned preference shares, we intend to redeem these shares at par, i.e. Rs 10 each. The total fund requirements for such redemption would be Rs. 1,046.86 Million, which we propose to fund out of the Issue Proceeds. We believe that upon redemption of our preference shares, we will be able to better service of equity shareholders as there would not be any dividend payout to the preference shareholders. Further, redeeming the preference shares would also enhance our ability to seek financial assistance from banks/financial institutions, as in the present scenario these bankers treat preference shares as debt instruments which adversely affected the networth of our Company.

We have applied for and received written consent of KOEL, the sole preference shareholder of our Company, in respect of the proposed redemption of shares, in accordance with Section 106 of the Act by their letter of June 14, 2006. We have also applied for and received written consents of all our bankers for the redemption of our preference shares as required in terms of the current facilities with such bankers. For details of these terms, please refer to the section titled "Financial Indebtedness" beginning on page 160 of this Draft Letter of Offer.

Acquisition of a foundry

Our Company operates in two strategic business units i.e. manufacturing of pig iron and grey iron castings. The present annual production capacity of our existing castings division is 475,500 moulds p.a. and our products are housing, cylinder heads and cylinder blocks. In order to enhance our production capacity, we propose to acquire an existing foundry. Towards this end, we have negotiated with our Promoter KOEL for the acquisition of their casting division ("**KCD**") and would be entering into business purchase agreement with KOEL in due course. Our Board, by a circular resolution dated June 8, 2006, accepted the offer made to the Company by KOEL through their letter dated June 6, 2006 for the acquisition of their casting division for a total consideration of Rs. 210 Million.

Background of KCD

The KCD foundry consists of two foundries i.e. grey iron and SG iron foundry ("**Cast Iron Foundry**") and investments casting foundry. The turnover of the Cast Iron Foundry in the Fiscal ending March 31, 2006 was Rs. 604.73 Million and that of the investments casting foundry was Rs. 57.11 Million. The aggregate sales and operating income generated from KCD for Fiscal 2006 was Rs. 674 Million and the net profit was Rs. 22 Million. Set out below are the details of the foundries of KCD:

(a) Cast Iron Foundry

The Cast Iron foundry has produced 12,889 MT in fiscal 2006 and the net sales from the foundry amounted to Rs. 604.73 million in fiscal 2006. The Cast Iron Foundry manufactures castings such as cylinder blocks, cylinder heads, housings and castings for automobile brakes and transmission and caters to the automobile, tractor and diesel engine manufacturers.

(b) Investments casting foundry

The investments casting foundry has produced 106 MT in fiscal 2006 and the net sales generated from the foundry in the fiscal 2006 amounted to Rs. 57.11 Million. The investments casting foundry primarily caters to various defence, medical implant companies and general engineering and automotive industries.

Upon acquisition of KCD, we believe that it shall increase our production capacity and we believe that we shall be able to achieve the benefits of synergies. We also believe that we shall be able to make optimum utilisation of the facilities like machining centre, etc. to enhance our production capabilities, reduction in our costs. Additionally, we believe we shall be able to increase operational efficiencies.

Cost of the acquisition

KOEL, by its letter dated June 6, 2006 addressed to our Company, offered to sell the KCD for an aggregate consideration of Rs. 210 Million. Our deliberations with respect to the acquisition of KCD were based on generally accepted methods of valuation and our Board through a circular resolution dated June 8, 2006, accepted the offer made by KOEL.

Approval of the Shareholders of KOEL

The board of directors of KOEL have by their circular resolution as of June 6, 2006 approved the sale of KCD to our Company and the same have been approved by their shareholders by way of Postal Ballot effective from July 31, 2006.

Upon completion of purchase of the KCD from KOEL, we shall apply for the necessary statutory and governmental approvals at such time and in such form as may be required.

Moulding Line

Presently, the Cast Iron Foundry of KCD uses four manual moulding lines, centrifugal casting and hand moulding in its manufacturing process. In order to enhance the productivity and reduce rejections of output, we propose to install a high- pressure horizontal flask moulding line ("Moulding Line") in the Cast Iron Foundry, post acquisition of KCD in order to replace the existing moulding lines. The Moulding Line will enable the manufacture of moulds with better quality in terms of mould strength and ensure the integrity of casting. It will assist in reducing mould breakage and ensure desired matching of cope and drag mould.

Project cost

We estimate that the total cost for implementing the Moulding Line is approximately Rs. 739.82 million, which will be totally funded from the Issue proceeds. Set out below is the break-up of the estimated project cost net of taxes:

Sl.	Section	Amounts (Rs. in millions)
1.	Melting and pouring	94.55
2.	Moulding Line	238.65
3.	Sand Plant	78.90
4.	Core Shop	69.22
5.	Quality control equipments and utilities	18.61
6.	Tooling – Pattern	48.19
7.	Casting conveyor/Shot Blast & processing	50.18

Sl.	Section	Amounts (Rs. in millions)
8.	Building	141.52
	Project Cost	**739.82**

As on date of filing this Draft Letter of Offer, we have not incurred any expenses toward the project.

Procurement process

We have obtained quotations for the major equipments from the following suppliers for supply and installation of the Moulding Line.

Sr. No	Particulars of Items	Qty.	Quotations Received	Specification	Date of Receipt of Quotation
1.	Melting Furnace	1	Inductotherm India Private Limited, Ahmedabad	VIP Dual Track Furnace, Electricals and crucibles	July 4, 2005
2.	Transformer	2	Mahathi Electrics, Pune	Furnace Transformer	September 6, 2005
		2	Indian Transformer & Electricals, Haryana		November 15, 2006
3.	Press Pour	1	Inductotherm Corporation, USA	Presspour	April 25, 2005
4.	Monorail	1	Sree Ayyappa Engineering Works, Coimbatore	Manual Pouring Monorail with 2 no's 5 Ton Hoist with VFD Control	June 10, 2006
5.	Moulding Machine	1	Kunkel Wagner (India) Private Limited, Vadodara	High Pressure Moulding Line with installation	July 4, 2006
			Kunkel Wagner, Germany		July 4, 2006
		1	Sintokogio Limited, Japan		July 11, 2006
		1	Savelli Moulding Line		May 15, 2006
6.	Sand Plant	1	Kunkel Wagner (India) Private Limited, Vadodara	Sand plant equipment	July 4, 2006
		1	Kunkel Wagner, Germany		July 4, 2006
		1	Eirich - Trasweight India Private Limited, Mumbai		October 6, 2006
		1	Maschinenfabrik Gustav Eirich GmbH & co KG,		October 6, 2006
7.	Cold Box Coreshooter K-40	3	Susha Founders and Engineers, Surat	Cold box Coreshooter K-40	March 9, 2006
		3	Compax Industrial System Private Limited, Pune		November 18, 2005
		3	Span Met Tech Enterprises Private Limited, Pune		January 2, 2006
8.	Cold Box Coreshooter K-20	6	Compax Industrial System Private Limited, Pune	Cold box Coreshooter K-20	August 22, 2005
		6	Susha Founders and Engineers, Surat		July 25, 2006
		6	Span Met Tech Enterprises Private Limited, Pune		January 2, 2006
9.	Shell Core Shooter 24" x 40"	1	Compax Industrial System Private Limited, Pune	Shell Core Shooter 24" x 40"	July 12, 2006
		1	Susha Founders and Engineers, Surat		July 25, 2006

Enriching Lives

Sr. No	Particulars of Items	Qty.	Quotations Received	Specification	Date of Receipt of Quotation
10.	Shell Core Shooter18"x24"	7	Compax Industrial System Private Limited, Pune	Shell Core Shooter18"x24"	July 11, 2006
		7	Susha Founders and Engineers, Surat		July 8,2006
11.	Sand Mixer	1	Compax Industrial System Private Limited	Cold box sand mixer and sand distribution 4 Tons/Hour	November 26, 2005
		1	Span Met Tech Enterprises Private Limited, Pune		February 20, 2006
12.	Shot Blasting and Miscellaneous	2	DISA India Limited, Bangalore	Shot Blast machine	May 24, 2006
13.	Civil Work	1	ROHAN BUILDERS (India) Private Limited, Pune	Factory Building	June 20, 2006
		1	Prashanth Deshmukh & Associates, Pune		July 15, 2006

However, the identification of the suppliers with whom we intend to tie-up and the supply and terms and conditions for the same will be decided at the appropriate stage of the implementation of the project and at such stage, a fresh quotation would be sought by the Company.

Timeline

Based on our current business plans, we expect to have the Moulding Line delivered at KCD by March 2007. We expect for the installation and commissioning of the Moulding Line to be completed by June 2007 and regular production to be achieved by August 2007.

As the project has not commenced as yet, we shall apply for the necessary statutory and governmental approvals at such time and in such form as may be required.

Installation of stoves

Coke is one of the primary raw materials used in the process of manufacturing of pig iron and castings and forms about 70% of the total cost of production. Accordingly, it is essential for us, to follow an operational method that allows optimum utilization of coke in the manufacturing process. One such operational method is through the installation of hot blast stoves for increasing the blast temperatures in our MBFs.

In furtherance of the aforesaid object, we have entered into an agreement with Kalugin Technologies, Russia (“Kalugin”) for supply of designs and technology for installation of three Kalugin Shaftless Stoves (“KSS”) at one of our MBFs. Further, we have also entered into a tripartite agreement with Kalugin and Evo Tech Private Limited, Bhilai (“Evo Tech”) for Evo Tech to provide services of fabrication and erection of the stoves at the Plant in consultation with Kalugin.

The KSS will replace the metallic blast pre-heating system~~,~~ which is currently installed at the MBF, thereby cutting down on the cost of maintenance of the pre-heating system. The usage of the KSS will result in increase in the hot blast temperature, reduction in the consumption of coke in MBF and enhance in productivity level. Further, with the reduction in cost of coke as a raw material, we believe that we shall be able to competitively price our pig-iron and castings.

Implementation Schedule

The contract with Kalugin was executed on July 16, 2005 and the tripartite agreement with Evo Tech on October 12, 2005. The schedule of installation of the KSS as estimated by our management and as agreed between the parties is as follows:

S. N.	Task	Completion Dates	Remarks/Status
1.	Execution of technology agreement with Kalugin	July, 2005	Completed
2.	Detailed design engineering by Kalugin/Evo Tech	January, 2006	Completed
3.	Receipt of special refectories	September, 2006	Order placed and LC opened.
4.	Receipt of equipments and auxiliaries	October, 2006	Orders placed
5.	Fabrication of KSS/shed and auxiliaries	November, 2006	Work under progress
6.	Erection of structures	November, 2006	Work under progress
7.	Erection of equipments	November, 2006	Work order issued
8.	Commissioning, trials and completion of project	January, 2007	

<u>Allocation of responsibilities and payments</u>

S. No.	Items		Responsibility	Amounts (Rs. in millions)	Amount already expended till August 31, 2006
1	Special refractory	Imported	Kalugin	51.95	1.74
		Indigenous	Evo Tech		
2	Fabrication and erection, consultancy and supervision of the installation		Evo Tech	17.55	2.76
3	Transfer of technology for the KSS		Kalugin	20.44	12.26
	Total – (A)			**~~4,4~~89.94**	**16.76**
1	Procurement of other materials, steel and equipments		Company	79.54	33.18
2	Civil costs, automation and instrument, electrical equipment and cabling		Company	15.58	1.23
3	Cost of pump house, freight for mechanical and electrical, heating/start-up		Company	6.27	1.23
	Total – (B)			**101.39**	**35.64**
	Total cost of the project/amount spent (A+B)			**191.33**	**52.40**

While we have estimated the cost of the project based on costing and estimates received from Kalugin and Evo Tech and purchase orders, the actual costs could vary during the course of implementation.

Approval from Director of Factories & Boilers, Bangalore has been obtained for installation of the KSS. Presently, no other approvals are required for installation of KSS. We shall apply for the necessary statutory and governmental approvals if any, at such time and in such form as may be required.

Turbine driven blower for one of our MBFs

The pig iron manufacturing process requires constant supply of hot blast air to the two MBFs. Presently, 35,000 Nm3/hr of hot blasts is being supplied through high-pressure fans driven by electric motors. To increase our production capacity and achieve optimum utilisation of our MBFs, we propose to install turbine driven blower (“Turbo Blower”)~~,~~ which, we believe would be able to supply 45,000 Nm3/hr of hot blasts to the MBFs thereby enhancing the production of hot metal from our MBF and result in saving of power, which will be available for captive consumption.

Project cost

We estimate that the total cost for installing the Turbo Blower would be approximately Rs. 165.39 million net of applicable taxes, the break-up of which is set out below:

Sl. No.	Description	Price estimates (Rs. in Millions)
1.	Blower, instrumentation and auxiliaries	31.83
2.	Turbine NM25/28, auxiliaries and instrumentation	64.57
3.	Erection & Commissioning charges	1.26
4.	Travel and miscellaneous	1.05
5.	Boiler 16 TPH, along with accessories with instrumentation	44.34
6.	Supervision for Boiler erection & Commissioning	2.86
7.	Electricals (Cables & panels)	3.17
8.	Cooling tower	0.62
9.	Pumps	0. 61
10.	Crane	1.41
11.	Pipings	1.06
12.	BFG Duct	0.58
13.	T. B. Building and structural	5.83
14.	Equipments civil foundation	3.36
15.	Erection of Structural, Electrical, Instrumentation and others	2.84
Total cost		**165.39**

As on date, we have not incurred any expenses toward the project. Further, we have also not invited or obtained any quotations or expression of interest from any suppliers or contractors, which we propose to initiate at the appropriate stage of implementing the project. A tentative schedule of installation of the Turbo Blower is as follows:

Sl No.	Task	Timeline
1.	Techno commercial discussions and vendor finalization for the supply of Turbo Blower and accessories and placement of order	October, 2006
2.	Receipt of steel and other materials	November, 2006
3.	Fabrication of steel/shed and auxiliaries and civil work	April, 2007
4.	Receipt of Boiler and auxiliaries	May, 2007
5.	Receipt of Turbine and Blower	June, 2007
6.	Erection of Boiler, Turbine and Blower	August, 2007
7.	Electrical, Instrumentation, Ducting and Pipe lines	October, 2007
8.	Trial run start up	December, 2007
9.	Commissioning and completion of project	December, 2007

We shall apply for necessary statutory and governmental approvals at the appropriate stage of implementation of the aforesaid project.

(B) Proceeds from conversion of the Warrants

We, as approved by the Board from time to time, will utilize funds raised through conversion of warrants for capitalizing on new opportunities that may arise from organic or inorganic means, including expansion of our own facilities, acquisitions, strategic partnerships, etc.

The detachable warrants can be exercised at any time between 12 months to 36 months from the date of allotment and the Conversion Price for detachable warrants shall not exceed Rs. [ ].

If [ ] detachable warrants proposed to be issued, are not exercised by the warrant holders within the Warrant Exercise Period then the detachable warrant proceeds will reduce. In such eventuality, the balance of amount required for financing the organic/inorganic growth opportunites as specified above shall be part financed from internal accruals/external borrowing as approved by the management of the Company.

Please refer to page 201 of this Draft Letter of Offer for the terms of the warrants.

Funds utilised

As on August 31, 2006, we have already expended an amount of Rs.52.40 million out of our internal accruals towards payment of technology fees to Kalugin and procurement of materials for installation of the KSS. The details of the expenditure have been detailed under the head 'Installation of hot blast stoves' above and has also been certified by M/s. P G Bhagwat, Chartered Accountants by their letter dated September 27, 2006.

Means of finance

Our Company proposes to meet our entire fund requirements for the objects out of the Issue proceeds and internal accruals. Hence, we are in compliance with Clause 2.8 of the SEBI Guidelines.

The total estimated project cost of our objects is Rs. 2353.41 million. Out of this, Rs. 52.40 million has already been deployed by us as of August 31, 2006, out of our internal accruals as certified by our auditors M/s. P.G. Bhagwat, Chartered Accountants vide their certificate dated September 27, 2006. For the balance amount to be deployed for completion of the objects, we propose to utilise Rs. [●] million and Rs. [●] million from the net proceeds of the Issue and internal accruals respectively.

We cannot provide a definite, long-term estimate of the utilization of the proceeds from this Issue and the priorities and the contingencies affecting them due to factors affecting our industry. For instance, we may choose to spend a part of our proceeds on further expansion instead of acquisition of the aforesaid assets or on the acquisition of new assets depending on the opportunities that may arise. The net proceeds of the Issue will be used to meet any or all of the uses of the funds described above.

Issue expenses

The expenses for this Issue include the lead management fees, printing and distribution expenses, legal fees, advertisement expenses, registrar fees, depository charges and listing fees to the Stock Exchange, among others. The total expenses for this Issue are estimated to be approximately Rs. [●] million.

Monitoring of utilization of funds

Our audit committee will also monitor the utilization of the proceeds of the Issue. We will disclose the utilization of the proceeds of the Issue under a separate head in our balance sheets for the Fiscals 2007, 2008 and 2009 clearly specifying the purpose for which such proceeds have been utilized. We will also, in our balance sheets for the Fiscals 2007, 2008 and 2009 provide details, if any, in relation to all such proceeds of the Issue that have not been utilized thereby also indicating investments, if any, of such unutilized proceeds.

Except as stated above, no part of the proceeds of the Issue will be paid by us as consideration to our Promoters, our Directors, Key Management Personnel or companies promoted by our Promoters except in the usual course of business.

Interim use of proceeds

Pending utilization for the purposes outlined above, we intend to temporarily invest the funds in high quality interest/dividend bearing liquid instruments including deposits with banks for the necessary duration or for reducing overdraft to save interest cost. These investments shall be in accordance with the investment policies, approved by our Board or a committee appointed thereof from time to time.

BASIS FOR ISSUE PRICE

The Issue price has been determined in consultation with Lead Manager to the Issue considering following qualitative & quantitative factors. Investors should also refer to the section "Risk Factors" and "Auditors' Report" to get a more informed view before making the investment decisions.

Qualitative Factors:

- **Experience of the Promoters**
- **Location and raw material availability**
- **Backward Integration**
- **Technology**
- **Strong management team**

Please refer to the section titled 'Our Business' on page no 55 of this Draft Letter of Offer, to obtain more information on the above Qualitative Factors

Quantitative Factors

1. **Adjusted Earning Per Share (EPS):**

Year	EPS (Rs.)	Weight
Fiscal 2004	2.93	1
Fiscal 2005	2.32	2
Fiscal 2006	2.75	3
Weighted Average	**2.64**	

2. **Price/Earning Ratio (P/E) in relation to rights Issue Price of Rs. [*] per equity share is [*]**

Based on Adjusted EPS for Fiscal 2006: **[*]**
Based on Weighted average EPS: **[*]**

Industry P/E

Highest	16.6
Lowest	8.9
Industry Composite	9.7

Source:Capital Market September 11-24, 2006

3. **Return on Net Worth (Net worth is negative, hence not calculated)**

Year	RONW (%)	Weight
Fiscal 2004	-	-
Fiscal 2005	-	-
Fiscal 2006	-	-
Weighted Average	-	

4. **Minimum Return on Total Net Worth after Issue needed to maintain at pre-Issue EPS: [*]**

5. Net Asset Value (NAV) per equity share:

As at March 31, 2006	Rs.(0.25)
After the Issue	Rs. [*]
Issue Price per share	Rs. [*]

Net Asset Value per Equity Share represents net worth, as restated divided by number of Equity Shares outstanding at the end of the period.

6. Comparison of accounting ratios :

Name of Company	Face Value (Rs.)	EPS (Rs.)	P/E Multiple	RONW(%)	Book Value / Share (Rs.)
Kirloskar Ferrous Industries	5	2.75	[●]	NA	(0.25)
Lanco Industries	10	0.9	-	5.3	20
Sathavahana Ispat	10	0.1	16.6	37.5	30.6
Tata Metallicks	10	17.3	8.9	39.4	51.7
Industry Composite			**9.7**		

Source:Capital Market September 11-24, 2006

7. The Issue price will be [●] times of the face value of the equity shares.

In view of the reasons mentioned above, our Company and the Lead Managers to the Issue, in consultation with whom the premium has been decided, are of the opinion that the premium is reasonable and justified.

STATEMENT OF TAX BENEFITS

Date :27th September, 2006

To
The Board of Directors
Kirloskar Ferrous Industries Ltd.
Pune

Sir,

In connection with the proposed rights issue of the equity shares of your company, at your request we have prepared a note entailing the various benefits under the provisions of the Direct Taxes (Income Tax, Wealth Tax, Gift Tax) which are currently available to the Company as also to the shareholders of the Company.

We may mention that several of these benefits are dependent on the Company or its shareholders fulfilling the conditions prescribed under the relevant tax laws. Hence, the ability of the Company or its shareholders to derive the tax benefits is dependant upon fulfilling such conditions, which based on business imperatives the Company faces in the future, the Company may or may not choose to fulfill.

The benefits discussed below are not exhaustive. Our statement is only intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences, the changing tax laws we advice that each investor be advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the issue. We do not express any opinion or provide any assurance as to whether:

(i) the Company or its share holders will continue to obtain these benefits in future; or
(ii) the condition prescribed for availing the benefits have been / would be met with.

The contents of our statement are based on information, explanations and representations obtained from you and on the basis of our understanding of the business activities and operations of the Company.

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No. 206124
Place: Pune

As per the existing provisions of the Income Tax Act, 1961 (the Act) and other laws as applicable for the time being in force, the following tax benefits and deductions are and will, inter-alia be available to Kirloskar Ferrous Industries Limited and its shareholders.

I) BENEFITS AVAILABLE UNDER THE INCOME TAX ACT, 1961.

A) TO THE COMPANY

1. Under Section 10(34), read with section 115-O of the Act, income earned by way of dividend from its investments in another domestic company, is completely exempt from tax in the hands of the Company.

2. As per the provisions of Section 112(1)(b) of the Act, long-term capital gains would be subject to tax at the rate of 20% (plus applicable surcharge and education cess). However, as per the proviso to Section

112(1), the long term capital gains resulting on transfer of listed securities or units (not covered by section 10(36) and 10(38)), would be subject to tax at the rate of @ 20% with indexation benefits or 10% without indexation benefits (plus applicable surcharge and education cess) as per the option of the assessee.

3. As per the provisions of section 10(38), long term capital gain arising from the sale of Equity Shares in any company through a recognised stock exchange shall be exempt from Income Tax if such sale is subject to Securities Transaction tax.

4. As per the provisions of section 111A, Short Term capital gains arising from the transfer of Equity Shares in any company through a recognised stock exchange shall be subject to tax @ 10% (plus applicable surcharge and education cess) provided such transaction is subject to Securities Transaction Tax.

5. In accordance with and subject to the conditions and to the extent specified in Section 54EC of the Act, the Company would be entitled to exemption from tax on gains arising from transfer of the long term capital asset (not covered by section 10(36) and section 10(38)) if such capital gain is invested in any of the long-term specified assets in the manner prescribed in the said section. Where the long-term specified asset is transferred or converted into money at any time within a period of three years from the date of its acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the long-term specified asset is transferred or converted into money.

6. As per the provisions of Section 54ED of the Act and subject to the conditions specified therein, capital gains arising from transfer of long term assets, being listed securities or units (not covered by section 10(36) and section 10(38)) shall not be chargeable to tax to the extent such gains are invested in acquiring Equity Shares forming part of an 'eligible issue of share capital' in the manner prescribed in the said section.

B) TO RESIDENT SHAREHOLDERS

1. Under Section 10(34) of the Act, dividend (whether interim or final) declared, distributed or paid by the Company is completely exempt from tax in the hands of the shareholders of the Company.

2. As per the provisions of Section 112 of the Act, long-term capital gains would be subject to tax at the rate of 20% (plus applicable surcharge and education cess). However, as per the proviso to Section 112(1), the long term capital gains resulting on transfer of listed securities or units (not covered by sections 10(36) and 10(38)), would be subject to tax at the rate of @ 20% with indexation benefits or 10% without indexation benefits (plus applicable surcharge and education cess) as per the option of the assessee.

3. As per the provisions of section 10(38), long term capital gains arising from the sale of Equity Shares in any company through a recognised stock exchange shall be exempt from Income Tax if the sale is subject to Securities Transaction tax.

4. As per the provisions of section 111A, Short Term capital gains arising from the transfer of Equity Shares of the company through a recognised stock exchange shall be subject to tax @ 10% (plus applicable surcharge and education cess) provided such a transaction is subject to Securities Transaction Tax.

5. Under Section 88E of the Act, the securities transaction tax paid by the shareholder in respect of the taxable securities transactions entered into in the course of the business would be eligible for rebate from the amount of income-tax on the income chargeable under the head 'Profits and Gains under Business or Profession' arising from taxable securities transactions.

6. In accordance with and subject to the conditions and to the extent specified in Section 54EC of the Act, the shareholders would be entitled to exemption from tax on gains arising on transfer of their shares in the Company (not covered by sections 10(36) and 10(38)), if such capital gain is invested in any of the long term specified assets in the manner prescribed in the said section. Where the long-term specified asset is transferred or converted into money at any time within a period of three years from the date of its acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the long-term specified asset is transferred or converted into money.

7. In accordance with and subject to the conditions and to the extent specified in Section 54ED of the Act, the shareholders would be entitled to exemption from long term capital gain tax on transfer of their assets being listed securities or units (not covered by sections 10(36) and 10(38)), to the extent such capital gain is invested in acquiring Equity Shares forming part of an 'eligible issue of share capital' in the manner prescribed in the said section.

8. In case of a shareholder being an individual or a Hindu Undivided Family, in accordance with and subject to the conditions and to the extent specified in Section 54F of the Act, the shareholder would be entitled to exemption from long term capital gains on the sale of shares in the Company (not covered by sections 10 (36) and 10 (38)), upon investment of net consideration in purchase /construction of a residential house. If part of net consideration is invested within the prescribed period in a residential house, then such gains would not be chargeable to tax on a proportionate basis. Further, if the residential house in which the investment has been made is transferred within a period of three years from the date of its purchase or construction, the amount of capital gains shall be charged to tax as long-term capital gains in the year in which such residential house is transferred.

C) <u>TO NON-RESIDENT INDIAN SHAREHOLDERS</u>

1. Under Section 10(34) of the Act, dividend (whether interim or final) declared, distributed or paid by the Company is completely exempt from tax in the hands of the shareholders of the Company.

2. In the case of shareholder being a non-resident Indian and subscribing to shares in convertible foreign exchange, in accordance with and subject to the conditions and to the extent specified in Section 115D read with Section 115E of the Act, long term capital gains arising from the transfer of an Indian company's shares (not covered by sections 10(36) and 10(38)), will be subject to tax at the rate of 10% as increased by a surcharge and education cess at an appropriate rate on the tax so computed, without any indexation benefit but with protection against foreign exchange fluctuation.

3. In case of a shareholder being a non-resident Indian, and subscribing to the share in convertible foreign exchange in accordance with and subject to the conditions and to the extent specified in Section 115F of the Act, the non resident Indian shareholder would be entitled to exemption from long term capital gains (not covered by sections 10(36) and 10(38)) on the transfer of shares in the Company upon investment of net consideration in modes as specified in sub-section (1) of Section 115F.

4. In accordance with the provisions of Section 115G of the Act, Non Resident Indians are not obliged to file a return of income under Section 139(1) of the Act, if their only source of income is income from investments or long term capital gains earned on transfer of such investments or both, provided tax has been deducted at source from such income as per the provisions of Chapter XVII of the Act.

5. In accordance with the provisions of Section 115H of the Act, when a Non Resident Indian become assessable as a resident in India, he may furnish a declaration in writing to the Assessing Officer along with his return of income for that year under Section 139 of the Act to the effect that the provisions of Chapter XII-A shall continue to apply to him in relation to such investment income derived from the specified assets for that year and subsequent assessment years until such assets are converted into money.

6. As per the provisions of section 115 I of the Act, a Non-Resident Indian may elect not to be governed by the provisions of Chapter XII-A for any assessment year by furnishing his return of income for that year under Section 139 of the Act, declaring therein that the provisions of Chapter XII-A shall not apply to him for that assessment year and accordingly his total income for that assessment year will be computed in accordance with the other provisions of the Act.

7. In accordance with and subject to the conditions and to the extent specified in Section 112 of the Act, tax on long term capital gains arising on sale on listed securities or units not covered by sections 10(36) and 10(38) will be, at the option of the concerned shareholder, 10% of capital gains (computed without indexation benefits) or 20% of capital gains (computed with indexation benefits) as increased by a surcharge and Education cess at an appropriate rate on the tax so computed in either case.

8. As per the provisions of section 10(38), long term capital gain arising from the sale of Equity Shares in any company through a recognised stock exchange shall be exempt from Income Tax if such sale is subject to Securities Transaction tax.

9. As per the provisions of section 111A, Short Term capital gains arising from the transfer of Equity Shares of the company through a recognised stock exchange shall be subject to tax @ 10% (plus applicable surcharge and education cess) provided such a transaction is subject to Securities Transaction Tax.

10. Under Section 88E of the Act, the securities transaction tax paid by the shareholder in respect of the taxable securities transactions entered into in the course of the business would be eligible for rebate from the amount of income-tax on the income chargeable under the head ‘Profits and Gains under Business or Profession’ arising from taxable securities transactions.

11. In accordance with and subject to the conditions and to the extent specified in Section 54EC of the Act, the shareholders would be entitled to exemption from tax on long term capital gains (not covered by sections 10(36) and 10(38)) arising on transfer of their shares in the Company if such capital gain is invested in any of the long term specified assets in the manner prescribed in the said section. Where the long-term specified asset is transferred or converted into money at any time within a period of three years from the date of its acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the specified asset is transferred or converted into money.

12. In accordance with and subject to the conditions and to the extent specified in Section 54ED of the Act, the shareholder would be entitled to exemption from tax on long term capital gains (not covered by sections 10(36) and 10(38)) arising on transfer of their assets being listed securities or units to the extent such capital gain is invested in acquiring Equity Shares forming part of an ‘eligible issue of share capital’ in the manner prescribed in the said section.

13. In case of a shareholder being an individual or a Hindu Undivided Family, in accordance with and subject to the conditions and to the extent specified in Section 54F of the Act, the shareholder would be entitled to exemption from long term capital gains (not covered by sections 10(36) and 10(38)) on the sale of shares in the Company upon investment of net consideration in purchase / construction of a residential house. If part of net consideration is invested within the prescribed period in a residential house, then such gains would not be chargeable to tax on proportionate basis. Further, if the residential house in which the investment has been made is transferred within a period of three years from the date of its purchase or construction, the amount of capital gains tax exempted earlier would become chargeable to tax as long term capital gains in the year in which such residential house is transferred.

D) <u>TO OTHER NON-RESIDENTS</u>

1. Under Section 10(34) of the Act, dividend (whether interim or final) declared, distributed or paid by the Company on or after 1st April 2004 is completely exempt from tax in the hands of the shareholders of the Company.

2. As per the provisions of section 10(38), long term capital gain arising from the sale of Equity Shares in any company through a recognised stock exchange shall be exempt from Income Tax if such sale is subject to Securities Transaction tax.

3. As per the provisions of section 111A, Short Term capital gains arising from the transfer of Equity Shares in any company through a recognised stock exchange shall be subject to tax @ 10% provided such a transaction is subject to Securities Transaction Tax.

4. As per the provisions of section 88E, where the business income of an assessee includes profits and gains from sale of taxable securities, a rebate shall be allowed from the amount of income tax equal to the Securities transaction tax paid on such transactions. However the amount of rebate shall be limited to the amount arrived at by applying the average rate of income tax on such business income as provided in the said section.

5. In accordance with and subject to the conditions and to the extent specified in Section 54EC of the Act, the shareholders would be entitled to exemption from tax on gains arising on transfer of their shares in the Company (not covered by sections 10(36) and 10(38)) if such capital gain is invested in any of the long term specified asset is transferred or converted into money at any time within a period of three years from the date of its acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the long-term specified asset is transferred or converted into money.

6. In accordance with and subject to the conditions and to the extent specified in Section 54ED of the Act, the shareholders would be entitled to exemption from long term capital gains (not covered by sections 10(36) and 10(38)) on transfer of their assets being listed securities or units to the extent such capital gain is invested in acquiring Equity Shares forming part of an 'eligible issue of share capital' in the manner prescribed in the said section.

7. In case of a shareholder being an individual or a Hindu Undivided Family, in accordance with and subject to the conditions and to the extent specified in Section 54F of the Act, the shareholder would be entitled to exemption from long term capital gains (not covered by sections 10(36) and 10(38)) on the sale of shares in the Company upon investment of net consideration in purchase/construction of a residential house. If part of net consideration is invested within the prescribed period in a residential house, then such gains would not be chargeable to tax on a proportionate basis. Further, if the residential house in which the investment has been made is transferred within a period of three years from the date of its purchase or construction, the amount of capital gains tax exempted earlier would become chargeable to tax as long term capital gains in the year in which such residential house is transferred.

E) TO FOREIGN INSTITUTIONAL INVESTORS ('FII')

1. As per the provisions of section 10(38), long term capital gain arising from the sale of Equity Shares in any company through a recognised stock exchange shall be exempt from Income Tax if such sale is subject to Securities Transaction tax.

2. Income by way of dividend received on shares of the Company is exempt under section 10(34) of the Act.

3. As per the provisions of section 88E, where the business income of an assessee includes profits and gains from sale of taxable securities, a rebate shall be allowed from the amount of income tax equal to the Securities transaction tax paid on such transactions. However the amount of rebate shall be limited to the amount arrived at by applying the average rate of income tax on such business income.

4. In accordance with and subject to the conditions and to the extent specified in /section 54EC of the Act, the shareholders would be entitled to exemption from tax on long term capital gains (not covered by sections 10 (36) and 10(38)) arising on transfer of their shares in the Company if such capital gain is

invested in any of the long term specified assets in the manner prescribed in the said section. Where the long term specified assets is transferred or converted into money at any time within a period of three years from the date of its acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the long term specified asset is transferred or converted into money.

5. In accordance with and subject to the conditions and to the extent specified in Section 54ED of the Act, the shareholders would be entitled to exemption from long term capital gain tax (not covered by sections 10 (36) and 10(38)) on transfer of their assets being listed securities or units to the extent such capital gain is invested in acquiring Equity Shares forming part of an 'eligible issue of share capital' in the manner prescribed in the said section.

6. As per the provisions of Section 115AD of the Act –
   a) Short term capital gain referred to in section 111A of the Act shall be taxed at the rate of 10% (plus applicable surcharge and education cess).

   b) Short term capital gains (other than referred to in section 111A of the Act) shall be taxed at the rate of 30% (plus applicable surcharge and education cess).

   c) Long term capital gains (in cases not covered under section 10(38) of the Act) shall be taxed at the rate of 10% (plus applicable surcharge and education cess) (without benefit of indexation and without protection against foreign exchange fluctuation).

F) <u>TO MUTUAL FUNDS</u>

Income by way of dividend received on shares of the Company is exempt under Section 10(34) of the Act.

G) <u>TO VENTURE CAPITAL COMPANIES /FUNDS</u>

Income by way of dividend received on shares of the Company is exempt under Section 10(34) of the Act.

II) <u>BENEFITS AVAILABLE UNDER THE WEALTH TAX ACT, 1957</u>

As per the prevailing provisions of the above Act, no Wealth Tax shall be levied on value of shares of the Company.

III) <u>BENEFITS AVAILABLE UNDER THE GIFT TAX ACT, 1958</u>

Gift tax is not leviable in respect of any gifts made on or after 1st October 1998. Therefore, any gift of shares will not attract gift tax.

Note:

1. All the above benefits are as per the current tax laws as amended by the Finance Act, 2006.

2. All the stated benefits are as per the current tax law and will be available only to the sole / first named holder in case the shares are held by joint holders.

3. In respect of non-residents, the tax rates and the consequent taxation mentioned above shall be further subject to any benefits available under the double taxation avoidance agreements, if any, between India and the country in which the non-resident has fiscal domicile.

4. In view of the individual nature of tax consequences, each investor is advised to consult his / her /its own tax advisor with respect to specific tax consequences of his / her /its participation in the scheme.

The shareholder is also advised to consider in his / her / its own case, the tax implications of an investment in the Equity Shares, particularly in view of the fact that certain recently enacted legislations may not have direct legal precedent or may have a different interpretation on the benefits which an investor can avail.

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No. 206124
Place: Pune
Date : 27th September,2006

INDUSTRY

PIG IRON

Pig iron is produced in a blast furnace wherein the key raw materials are iron ore, coke and fluxes. There are two types of pig iron, namely basic grade and foundry grade. Basic grade pig iron is used by electric arc furnaces and induction furnaces for production of steel while foundry grade pig iron is used in foundry industry for manufacture of castings and forgings. Foundry grade pig iron is ideally suited for specialized applications such as pressure tight precision castings, automobile engine blocks, crankshafts, gears, rolling mills rolls, motor and generator housings, railways, manhole covers, machine tools etc. The components made of this foundry grade ensure longevity and prevents rusting.

The difference in the two varieties of pig iron is primarily the silicon content, which is higher in the foundry grade pig iron compared to basic grade.

The consumption of pig iron for this application depends upon the growth in economy, which in turn increases the demand of castings for various applications. The consumption of pig iron for steel making got enhanced after mushroom growth of electric arc furnace (EAF) and induction furnace (IF) based steel plant. Pig iron is used as one of the constituents of the charge mix in mini steel plants (MSPs) which make steel by melting scrap and or sponge iron and pig iron through EAF or induction furnace route.

Pig iron production during 2004-05 was 3.2 million tonnes. The demand for pig iron in India has been growing between 6 to 7% annually. The demand for basic grade pig iron shall be driven by growth in steel production. The demand for foundry grade pig iron shall be driven by the foundry industry as a result of growth in automobile, auto components, engineering and infrastructure related industries including ductile pipes for water transportation, sanitary fittings, and manhole covers. (Source: Joint Plant Committee, Government of India)

Last 4 years production of pig iron and finished carbon steel is given below:

(in million tonnes)

Category	2001-02	2002-03	2003-04	2004-05	2005-06 (April-Feb,06) (Prov.)
Pig Iron	4.08	5.28	3.764	3.228	3.55

(Source - http://steel.nic.in/overview.htm)

Exports of finished carbon steel and pig iron during the last four years are :

	(Qty. in Million Tonnes)	
	Finished (Carbon) Steel	**Pig Iron**
2001-2002	2.704	0.312
2002-2003	4.506	0.629
2003-2004	4.835	0.518
2004-2005	4.381	0.393
2005-2006 (April-February,2006) (Prov.)	4.000	0.224

(Source - http://steel.nic.in/overview.htm)

CASTINGS

A casting is a metal part formed by pouring molten metal into a sand mold or metal die. The mold or die is comprised of two halves that, when mated together, form a cavity into which the molten metal is poured. The mold or die form the external surface of the casting. If an internal cavity is required in the casting, a core is placed inside the mold cavity. After the metal solidifies, the mold is broken, the cores removed and the part is readied for finishing operations. The sand is then remolded and used again. When a metal die is used, the two halves of the die are separated and the solidified casting is removed. The die is then reused.

Sometimes these castings are used as produced, but more often they are machined or heat-treated and used as components of assembled products.

Automobiles and other transportation equipment use a major part of all castings produced. Engine blocks, braking components and piston are just a few of the cast parts used in motor vehicles. In addition to the many iron castings used in autos, strong lightweight aluminum castings consumption in motor vehicles continues to grow at a rapid rate. This has helped reduce overall vehicle weight, improving gas mileage. Every home contains more than a ton of castings from bathtubs, pipes, sinks and fixtures to the furnace, air conditioner and other home appliances. And, castings are also an essential component of construction equipment.

The Indian Foundry Industry
(Source: The Institute of Indian Foundrymen)

The Indian Foundry Industry is highly fragmented with more than 4,500 foundry units (at end of CY 2003), having an installed capacity of approximately 7.5 million tonnes per annum. The majority (nearly 80%) of the foundry units in India falls under the category of small-scale industry. However, only 10 foundries have the size to achieve world scale economy.

The foundry industry is an important employment provider and provides direct employment to about half a million people.

A peculiarity of the foundry industry in India is its geographical clustering. Typically, each foundry cluster is known for catering to some specific end-use markets. For example, the Coimbatore cluster is famous for pump-sets castings, the Kolhapur and the Belagum clusters for automotive castings and the Rajkot cluster for diesel engine castings.

As per the 38th Census of World Casting Production - 2003, the total casting production globally for CY 2003 was 73.55 million tonnes of which India contributed 4.04 million tonnes.

As per the Institute of Indian Foundrymen, the Indian foundry industry production was estimated at Rs. 130 billion in FY 2003. In terms of tonnage for the same period, it was estimated at 3.5 million tonnes. The exports were estimated at approximately Rs. 1,600 crores for FY 2003 i.e. approximately 12.3% of the production is exported.

The break up of the production of Indian foundry industry per various types of castings is as given below:

(million tonnes)

Type of Castings	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
Gray Iron	2.1	2.4	2.3	2.3	2.47	2.72
S.G. Iron	0.255	0.235	0.25	0.285	0.316	0.35
Malleable Iron	0.06	0.05	0.04	0.03	0.039	0.042
Steel	0.3	0.31	0.32	0.31	0.388	0.426
Non Ferrous	0.21	0.22	0.21	0.23	0.296	0.325
Total	**2.925**	**3.215**	**3.12**	**3.155**	**3.509**	**3.863**

Source: The Institute of Indian Foundrymen

The exports of castings from India have increased at a compounded annual growth rate of approximately 22% FY1999 to FY2003.

Year	Sanitary	Industrial	Total
FY1999	27,502	42,724	70,226
FY2000	34,193	53,208	87,401
FY2001	43,095	81,266	124,361
FY2002	52,333	87,945	140,278
FY2003	57,270	97,616	154,886

The details of production for the top 10 countries are as follows:

(million tonnes)

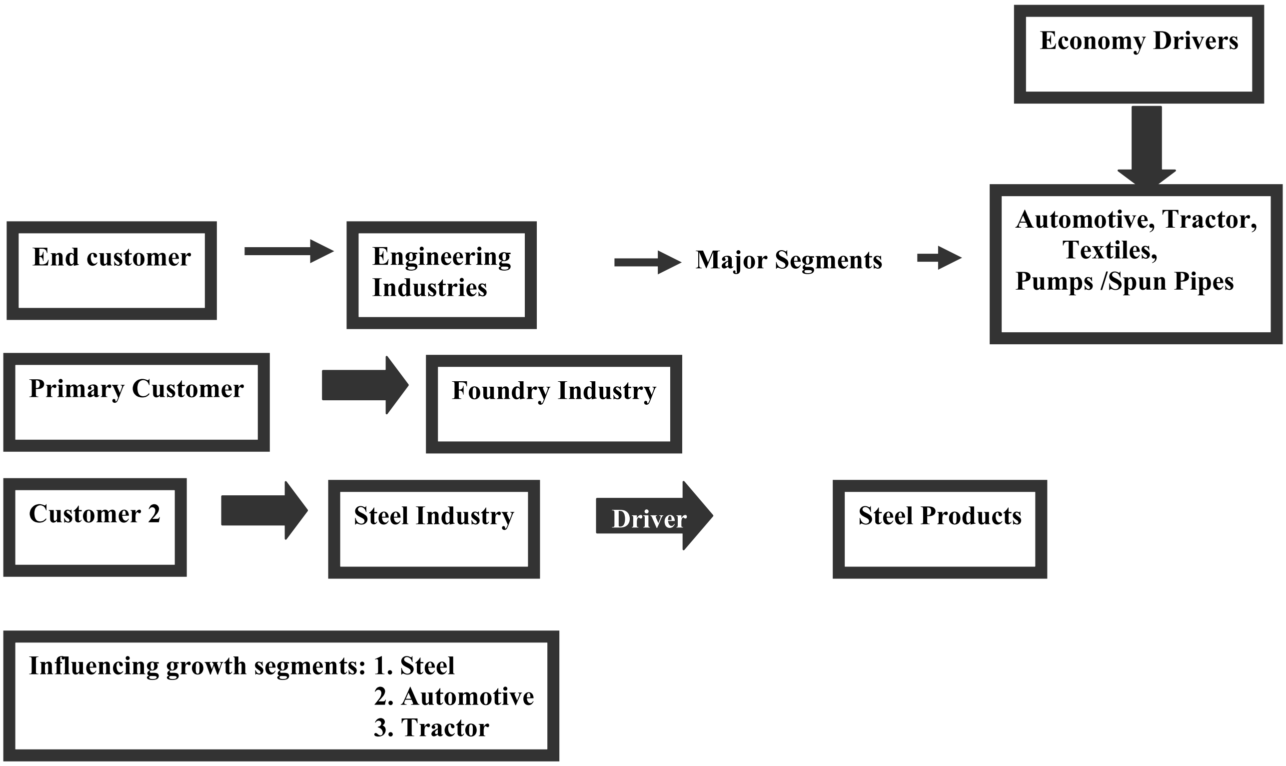
Country	FY1999	FY2000	FY2001	FY2002	CAGR
China	12.647	10.955	14.888	16.261	8.7%
USA	13.710	13.129	11.871	11.811	-4.8%
Russia	4.500	6.200	6.200	6.200	11.3%
Japan	5.972	6.276	5.841	5.751	-1.2%
Germany	4.333	4.542	4.643	4.595	2.0%
India	3.215	3.120	3.155	3.509	3.0%
France	2.490	2.665	2.527	3.018	6.6%
Italy	2.325	2.425	2.393	2.440	1.6%
Mexico	1.474	1.761	1.880	2.030	11.3%
Brazil	1.574	1.810	1.760	2.030	8.9%

The above table shows that the production is decreasing for high cost locations like USA and Japan, whereas it is increasing rapidly for low cost destinations like China, Russia, Brazil, Mexico, India, etc. The structural differences in these economies are responsible for shifting base of production to relatively lower cost countries.

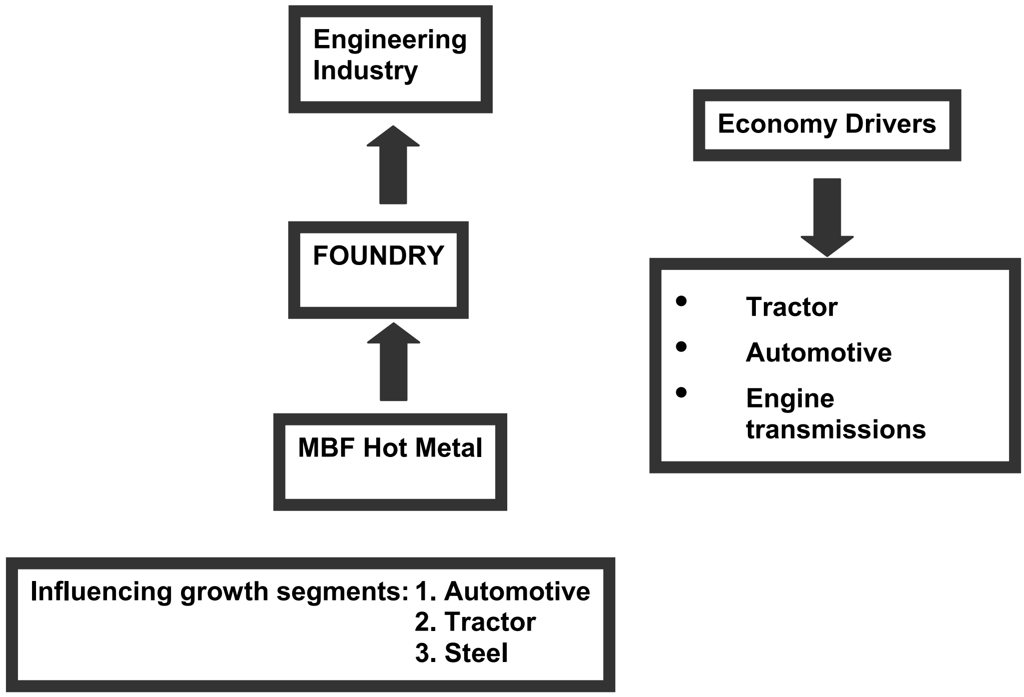
The key strengths of the Indian Foundry industry are as follows:

- Large Base spread across the country.
- Huge availability of skilled manpower at low cost.
- Access to latest technology and support by government bodies
- Availability of vast natural resources
- Good transport infrastructure
- Cheaper conversion costs in India

KEY DRIVERS – PIG IRON



KEY DRIVERS - FOUNDRY



INFLUENCING GROWTH SEGMENTS

The influencing growth segments for both Pig Iron and Foundry are mainly:
1. Automotive Sector
2. Metals - Steel

1. Automotive Sector
(Source: www.ibef.org)

Market Overview
The automotive sector comprises the Original Equipment Manufacturers (OEMs) and auto component manufacturers. Globally, the automotive industry is recognized as a key component and driver of national economy.

The industry encompasses commercial vehicles, multi-utility vehicles, passenger cars, two wheelers, three wheelers and auto components.

The domestic automobile market has been growing at 14.2 per cent CAGR over the past 4 years (2000-01 to 2004-05), while the auto components market has been growing at 19.2 per cent CAGR (2000-01 to 2003-04). The industry (OEMs and suppliers together) contributed nearly 4 per cent to the country's GDP in 2003-04. The automotive sector also offers significant employment opportunities. It employs 0.45 million people directly and around 10 million people indirectly.

India is emerging as one of the most attractive automotive markets in the world, and is poised to become a key sourcing base for auto components. The table below captures the highlights of the sector in India that illustrates its growing significance.

Indian Automobile Industry

- Largest three wheeler market in the world
- 2nd largest two wheeler market in the world
- 4th largest passenger vehicle market in Asia
- 4th largest tractor market in the world
- 5th largest commercial vehicle market in the world

The industry structure spans all segments and is concentrated in regional clusters

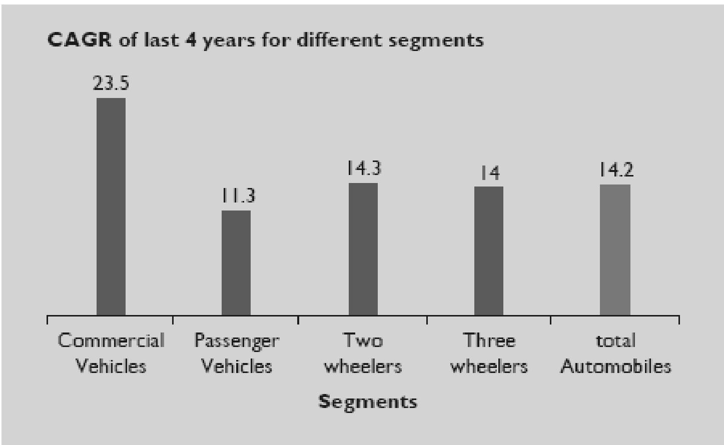
The India automotive sector has a presence across all vehicle segments and key components. In terms of volume, two wheelers dominate the sector, with nearly 80 per cent share, followed by passenger vehicles with 13 per cent. With the arrival of global players, the sector has become highly competitive.

The automotive sector is growing strongly in both domestic and exports markets

Indian automobile industry has been performing well both in the domestic and the international markets.

Automobiles - Domestic Performance

The production and domestic sales of the automobiles in India have been growing strongly. While production increased from 4.8 million units in 2000-1 to 8.5 million units in 2004-05 (a CAGR of over 15 per cent), domestic sales during the same period have gone up from 4.6 million to 7.9 million units (CAGR 14.2 per cent).

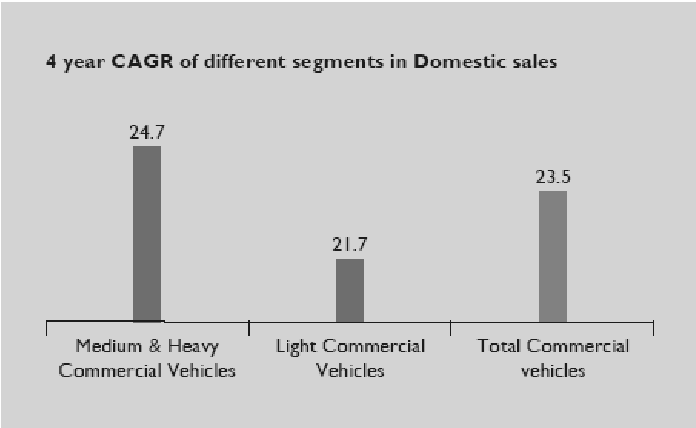


Source: SIAM, KPMG Analysis

Since nearly all macro-economic indicators – GDP, infrastructure, population demographics, interest rates, etc. – are showing a favorable trend, the domestic market for automobiles in India is expected to continue on its growth trajectory.

Commercial Vehicles

The commercial vehicle production in India increased from 156,706 in 2001 to 350,033 in 2005.

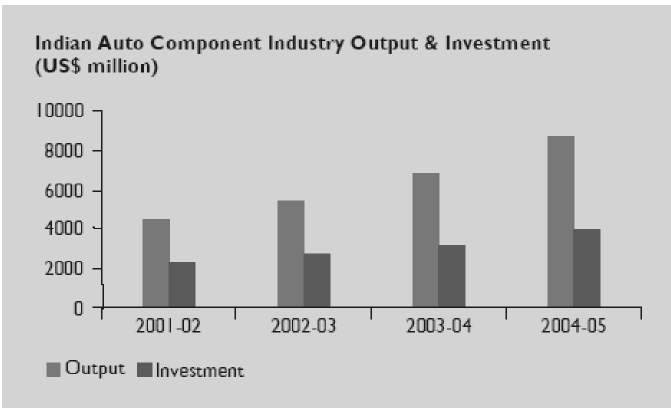


Source: SIAM, KPMG Analysis

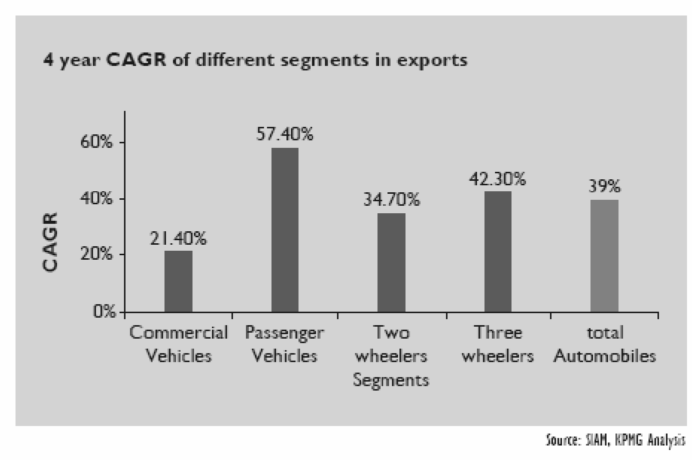
The key trends facilitating growth in this sector are the development of ports and highways, increase in construction activities and agricultural output. With better roads and highway corridors linking major cities, the demand for larger, multi-axle trucks is increasing in India.

Auto Components - Investments are increasing in line with the output

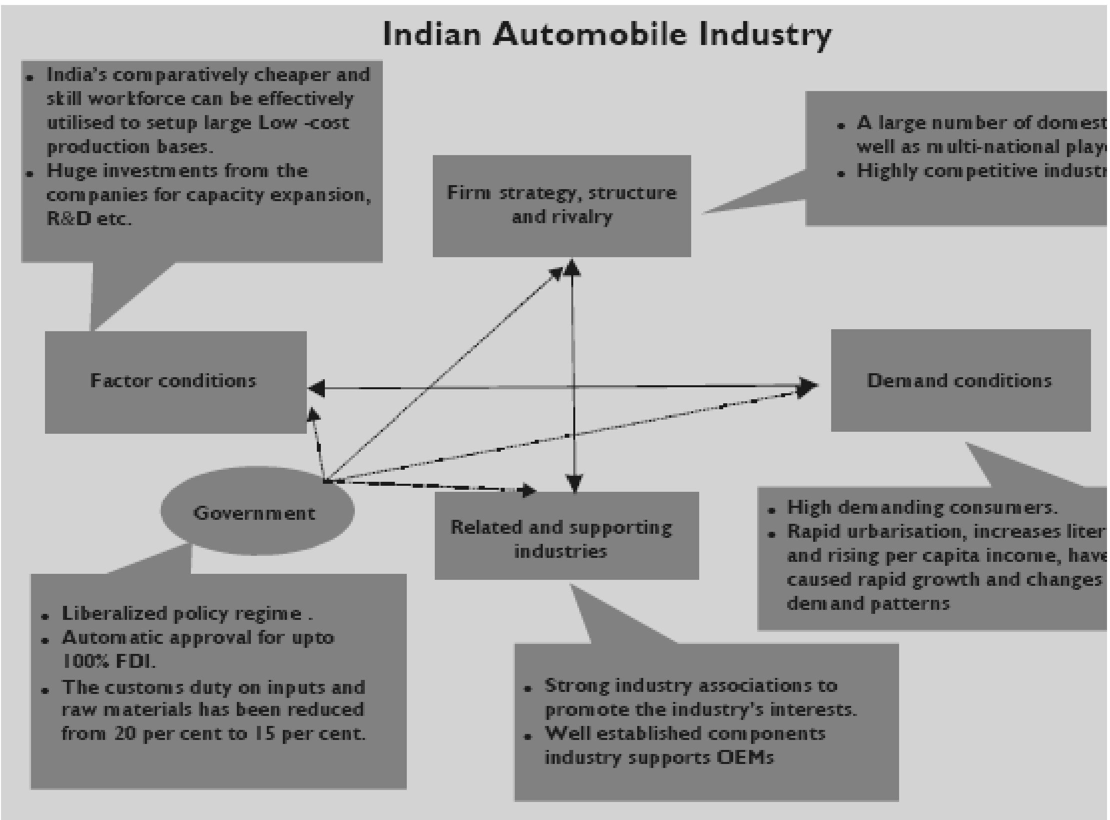
According to Automotive Component Manufacturers Association of India (ACMA), the output of auto component industry in India has increased |at a CAGR of around 25 per cent for the past three years from US$ 4470 million in 2002 to US$ 8700 million in 2005. With booming domestic sales and increasing demand from exports, the confidence of industry players is high. This is reflected in the increase in investments in capacity creation and expansion. Investments in this sector have increased from US$ 2300 million in 2002 to US$ 3950 million in 2005, a CAGR of 20 per cent.



Source: ACMA



Most of the key auto component manufacturers in India are very positive about the outlook for exports, and expect about 15 per cent of their revenue to come from exports over the next 3-5 years. It has been estimated that exports of auto components from India could be around US$ 20-25 billion by 2015.



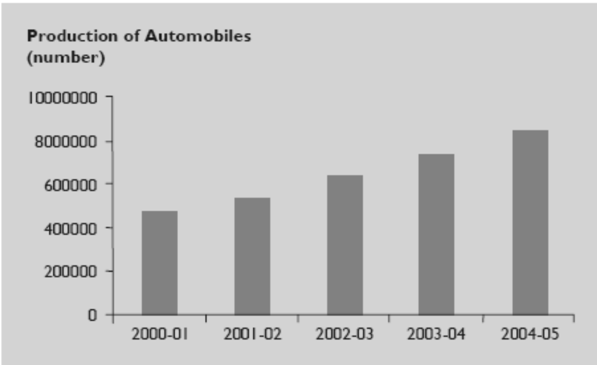
The outlook for India's automotive sector appears bright

The outlook for India's automotive sector is highly promising. In view of current growth trends and prospect of continuous economic growth of over 5 per cent, all segments of the auto industry are likely to see continued growth. Large infrastructure development projects underway in India combined with favorable government policies will also drive automotive growth in the next few years. Easy availability of finance and moderate cost of financing facilitated by double income families will drive sales in the next few years.

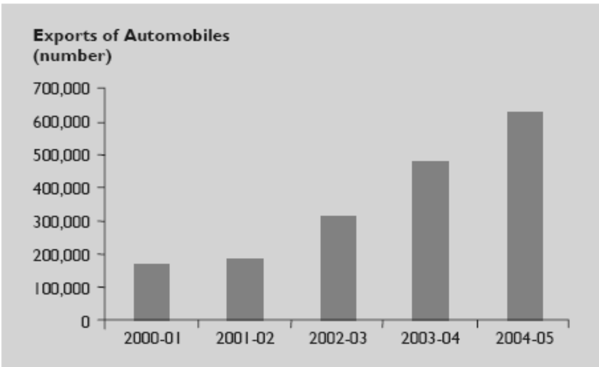
Production and Exports Trend

While Domestic Sales have been growing strongly since 2000-01, Exports have nearly tripled in the last 5 years.

Automobiles



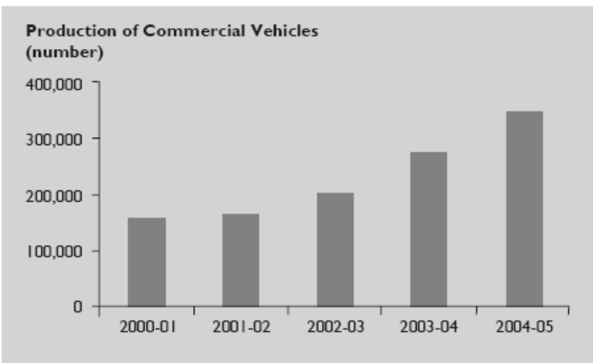
Source: SIAM



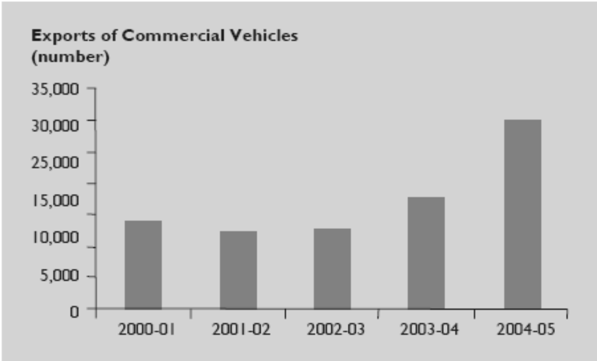
Source: SIAM

Growth in the economy and infrastructure development is driving growth in this segment

Commercial Vehicles



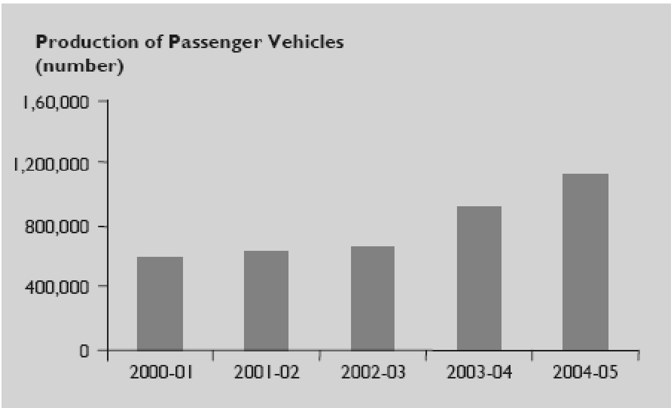
Source: SIAM



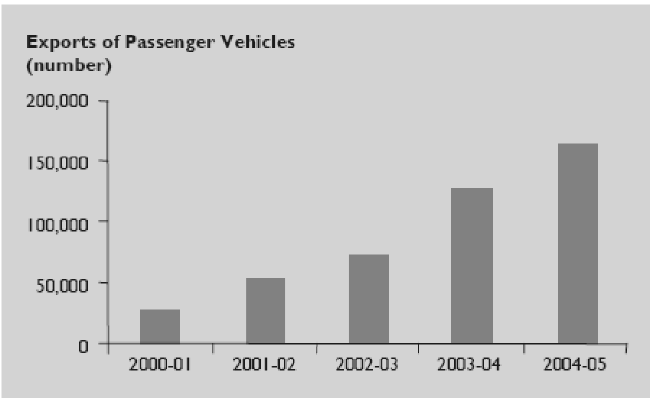
Source: SIAM

Rapid growth in Exports signals the increasingly global outlook of these segments.

Passenger Vehicles



Source: SIAM



Source: SIAM

METALS
(Source: www.ibef.org)

Ferrous metals

Ferrous metals primarily consist of iron and different varieties of steel. Indian steel industry has shown strong performance in the recent past in terms of production, capacity utilization, exports and consumption. India is now a major competitor among steel producers in the world. The steel industry contributes 1.3 per cent to India's

GDP and accounts for 10 per cent in Excise Duty collections. The industry provides employment to 0.4 million people directly and 0.6 million people indirectly.

Ferrous industry

In Indian ferrous industry, steel manufacturers are segmented into ore miners and producers. Ore miners are engaged in mining activities to extract the ore. Iron ore mines in India are mostly located in Jharkhand, Orissa, West Bengal and Chattisgarh. Recently Indian steel manufacturing companies have invested in steel and coal mines outside India in Australia.

Producers are further classified into main producers or integrated producers and other producers. Out of the three major Integrated steel producers, two are in the Public sector and one in Private Sector. Integrated producers account for 67 per cent of total crude steel production in India.

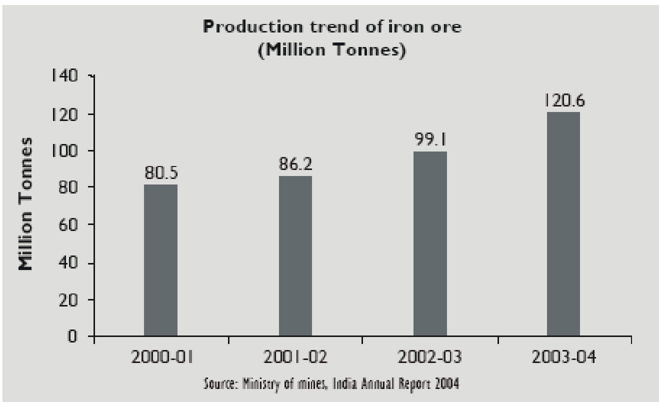
The other producers or secondary prodders category include rollers and stand alone producers. These producers account for about 33 per cent of India's steel production. Stand alone producers mainly operate as SSI units.

Steel

The industry has a well established presence across all sectors – ore miners, integrated producers and other producers.

Ore miners

Ore miners include companies, which are engaged in mining iron ore for the use of integrated producers.



The production of iron ore in India has growth from 80.5 million tones in 2001 to 120.6 tonnes on 2003- 04, at a compounded annual growth rate of around 14.4 per cent.

Main Producers

Main Producers can be classified on the basis of the production process and the type of products manufactured by the producers.

1 Based on production process : Producers use three types of processes for converting iron ore into steel : coke over (BF/BOF route), electric arc furnace (EAF routes) or corex process

2 Based on the products: Products manufactured by the main producers are of two types – long products and flat products. Long products include bars, structural products, wire rods, angles and rounds. They are used in the construction and heavy engineering. Flat products include hot rolled coils / sheets (HRC), cold rolled coils/ sheets (CRC) and galvanized sheets.

These products are used for automotive sector and white goods, fabrication work like car bodies, ducts, consumer durables and roofing. The end user industries of these products are growing at a significant rate in India. For example, the domestic sales of automobiles have grown at the compounded annual growth rate of around 14 per cent over the past four years. Thus, they provide attractive opportunities for the companies investing in the steel based products in India.

Secondary producers

Secondary producers consist of suppliers of process inputs for steel making, the primary steel makers and the independent re-rollers. The producers primarily include stand alone producers and the re-rollers. Secondary producers account for about 36 per cent of India's steel production.

Stand alone producers produce sponge iron and pig iron to be used by the main producers. India is the largest producer of coal based sponge iron in the world, and accounts for 15 per cent of the global output.

During the year 2003-04, the production of pig iron was 5.221 million tons.

Exports – potential for growth

India is a net exporters of steel – the total exports of steel from India were around US$ 2.6 billion against imports worth around US$ 1.8 billion in 2004. Exports increased further to 3.45 million tonness during the 11 months ending Feb 2005.

India's exports mainly consists of carbon steel, which accounts for 895 per cent of total steel exports, the balance being pig iron.

The main consuming market for steel exported from India is China, which account for 24 per cent of the total steel exports in 2004. The other key markets include USA (8 per cent), UAE and Thailand (5 per cent each)

The major steel import destinations for India include Russia, Germany, Japan, UK and Korea.

INDIAN STEEL INDUSTRY

India is the world's 9th largest steel producer, with a production of approximately 38 million tonnes during the FY'05 with a CAGR of about 7% p.a over the last 15 years. India has a consumption of 36 million tonnes, which amounts to per capita consumption of 32 kg, against a world average of 150 kg and developed world average of 350 kg. This low per capita consumption, combined with a high population and strong GDP growth, demonstrates the huge untapped potential of India. The steel production is expected to grow from the current 38 million tonnes during FY'05 to 65 million tonnes by FY'12 and 110 million tonnes by FY'20, which implies a CAGR of 7.3% per annum. (Source: India's National Steel Policy, 2005)

According to market analysts, the strong influence of Chinese demand growth on the global steel industry will continue over the next several years and the country will continue to be the most important driver of the industry. With a strong economic growth forecast and the second largest population in the world, India is expected to emerge as the next growth engine of the steel industry.

GLOBAL STEEL INDUSTRY

Global crude steel production exceeded 1.0 billion tonnes for the first time in 2004, with an annual growth of over 6% over each of the last three years. This exceptional growth was driven by the demand generated by the Chinese economy. The growth of the steel industry is closely linked to the global economic growth rate, in particular driven by the steel consuming sectors such as infrastructure, manufacturing, construction, housing and automobile. Countries with a high and stable growth in GDP, therefore provides good opportunities for the steel industry. Since half the world's population lives in high growth areas such as India and China, the steel industry is likely to continue to witness good growth rates. (Source: International Iron & Steel Institute)

KEY DEMAND DRIVERS

Demand for steel is intrinsically related to the economic development of the country. Currently, the automobile, consumer durables and construction industry are relatively better placed, leading to improved demand for steel from these user industries. The thrust on infrastructure spending has seen major improvement, particularly in roadways and highway projects. This has not only increased construction activities but has also paved the way for increased demand in passenger and commercial vehicles leading to sustained growth in demand for steel. The power sector has enormous potential in boosting demand for steel. There is substantial scope for increased penetration in rural areas for storage silos, housing construction, agro-based industries etc. The housing sector is also a demand driver for steel, as it is beneficially placed with various fiscal incentives, sweetened by low interest cost on the one hand, and huge and increasing demand on the other.

The Indian steel sector is expected to witness growth in next several years backed by domestic drivers such as infrastructure, in line with the global trend. For example, the recent Union budgets have put a thrust on infrastructure development, leading to higher steel demand.

DOMESTIC OUTLOOK

Recent consumption trends indicate that India is at a demand inflection point and that if this trend sustains, the country could emerge as the next big driver (producer and consumer) of the global steel industry. The National Steel Policy, 2005 targets a consumption of 65 mtpa by 2012 and 110 mtpa by 2020 at CAGR of 7.3 per cent per annum.

The positive outlook for increasing steel demand in India along with the strategic advantages offered have resulted in a keen interest from domestic and international steel majors for setting up steel projects in India.

The Key advantages can be categorised under :

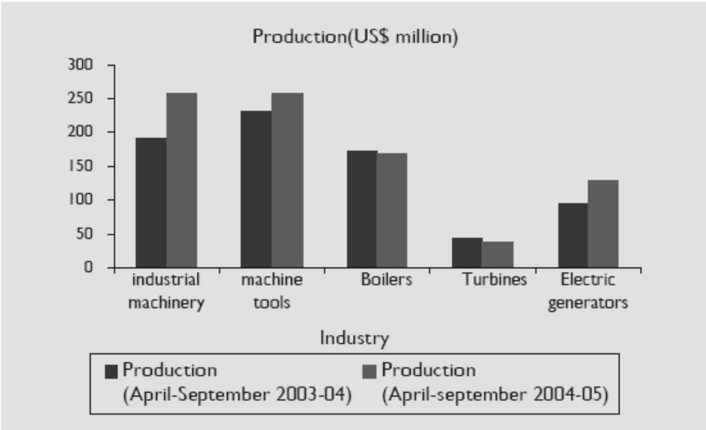
- Growing market demand
- Favourable factor conditions for production
- Presence of related and supporting industries
- Government support for helping companies improve performance and stimulating industry environment

ENGINEERING SECTOR MARKET OVERVIEW

Among the developing countries, India is a major exporter of heavy and light engineering goods, producing a wide range of items. The bulk of capital goods required for power projects, fertilizer, cement, steel and petrochemical plants and mining equipment are made in India.

Structure of the industry

India's engineering industry is dominated by organised players



Source: Ministry of Heavy Industries and Public Enterprises

The engineering sector is expanding robust growth

Domestic performance

The Indian engineering industry has emerged as a dynamic sector in the country's industrial economy and has made the country self reliant in key areas. The total production of the Indian engineering industry was approximately US$ 22 billion in 2004.

The performance of the engineering sector is linked to the performance of the end user industries for this sector. The user industries for engineering include power utilities, industrial majors (refining, automotive and textiles), government (public investment) and retail consumers (pumps and motors). The engineering sector has been growing driven by growth in end user industries and the new projects being taken up in the power, railways, infrastructure development, private sector investment fields etc.

Many factors contribute to growth of engineering sector in India. The key growth drivers are :

- The growth of the key end user sector in India. For example, the domestic sales of automobiles have grown at the compounded annual growth rate of around 14 per cent over the past four year.
- Government's emphasis on power and construction sector has increased for the past few years and thus increasing demand for capital goods.
- Further, India has being preferred by global manufacturing companies as an outsourcing destination due to its lower labour cost and better designing capabilities. Engineering companies thus have a huge potential for direct exports and outsourcing.

OUR BUSINESS

EVOLUTION

We are part of the diversified Kirloskar Group, one of the oldest industrial groups in India. The Kirloskar Group had a turnover of over Rs. 36,000 million as on March 31, 2006. We were incorporated on September 10, 1991 as a public limited company and obtained the certificate of commencement of business on November 18, 1991. We are currently in the business of manufacturing pig iron and castings.

Companies in Kirloskar Group have been in the business of castings, whose main raw material requirement was pig iron. Traditionally pig iron was available as a low quality by-product of steel plants. There existed a need for better quality pig iron. Looking at this opportunity, in 1994, we set up, a low phosphate and low sulphur pig iron plant at Hospet, providing liquid metal as raw material to the other companies in the Kirloskar Group.

Kirloskar Group also felt it was the right time to invest in casting technology upgradation. Hence, the Group decided to setup a high pressure moulding line with better technology at our Company. We, thus, setup our pig iron plant alongwith the foundry.

Other than the above, the following economic drivers led us to commence operations in pig iron and castings business:

- Liberalisation resulting in rapid growth in the auto & farm sectors resulting in high demand for castings
- Liberalization also resulted in opening up of Iron & Steel industry to the private sector.
- Demand for high volume thin walled castings picked up with continuous improvement in the diesel engine designing,

Commercial production of pig iron commenced from April 1, 1994 at Mini Blast Furnace I (MBF I). We increased our manufacturing capacity thereof by taking on lease the Mini Blast Furnace II (MBF II) from from July 1, 1995 from KOEL. We initially manufactured 120,000 tons per annum of pig iron using the MBF I route. Subsequently the manufacturing capacity of pig iron was increased to 2,40,000 tons per annum with commissioning of MBF II. In September 2006, we have purchased this MBF II from KOEL.

Commercial production of ferrous castings commenced from March 28, 1995 with capacity of 475,500 moulds per annum.

OVERVIEW

The Company operates in the following businesses:

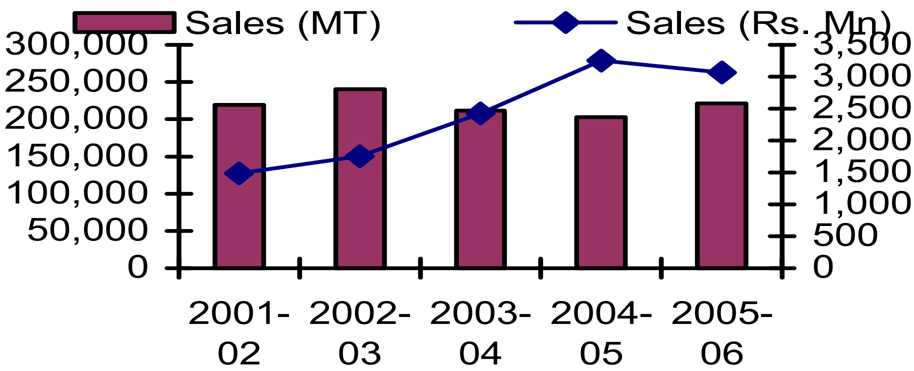
- Pig Iron
- Castings

The installed capacity and utilisation and our sales trend over the last 5 years is as follows:

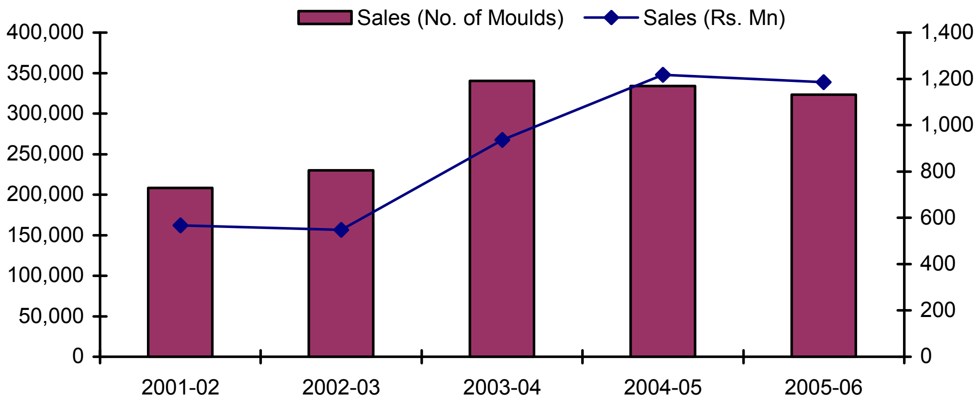
Particulars	Capacity	2005-06	2004-05	2003-04	2002-03	2001-02
Pig Iron						
Production (MT)	240000	260267	231790	259977	273356	250778
Utilisation	%	*108%*	*97%*	*108%*	*114%*	*104%*
Sales (MT)		221218	203091	212002	240710	219474
Sales (Rs. Mn)		3067.44	3253.18	2428.76	1755.52	1483.49
Foundry						
Production (No. of Moulds)	475500	338643	352949	364779	248702	220696
Utilisation	%	*71%*	*74%*	*77%*	*52%*	*46%*
Sales (No. of Moulds)		323411	333924	340261	229932	208404

Sales (Rs. Mn)			1185.38	1217.33	936.43	547.23	567.69
Other Sales (Rs. Mn.)			574.64	501.16	396.51	208.58	215.95
Total Sales (Rs. Mn.)			**4827.46**	**4971.67**	**3761.70**	**2511.33**	**2267.13**
EBIDTA			571.56	410.11	570.30	362.74	229.64
PBT			387.77	209.31	219.13	82.18	-133.61

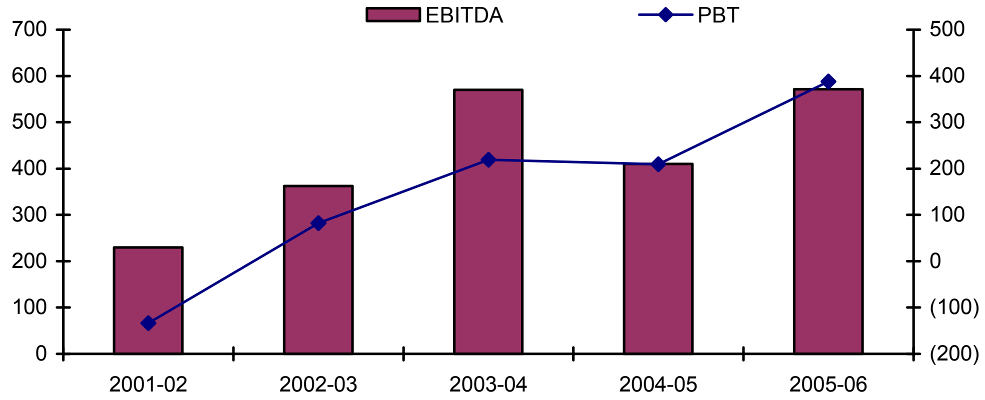
Pig Iron



Foundry



EBITDA & PBT



Our Key milestones and awards received can be summarised below:

Key Milestones

Year	Milestone
1994	MBF I installed and commissioned
1994	TG I taken on lease
1995	ISO 9002 for quality systems
1995	Commenced foundry operations
1995	MBF II taken on lease
1997	Attained self sufficiency in power in PIP by taking on lease of TG II
1998	Started supply of TG power to foundry
2001	QS 9000 for quality systems
2002	ISO 14001 for environmental management systems
2005	TS 16949 for quality systems
2006	Purchased the MBF II and TG I,II

Awards

Year	Award
2002	"Best Domestic Customer" from Container Corporation of India
	"International Gold Star for Quality" from Business Initiative Directions, Paris, in the year
2003	"Gargi Huttenes Albertus Green Foundry" instituted by The Institute of Indian Foundrymen
	"Best Domestic Customer" from Container Corporation of India
2005	"Honest Tax Payer Award" from Government of Karnataka

<u>COMPETITIVE STRENGTHS</u>

- **Experience of the Promoters**
  - The Company is promoted by the diversified and well known Kirloskar Group and has the advantage of having behind it a vast experience in the field of industrial manufacturing. The Kirloskar Group has immense accumulated experience in promoting and managing the foundries as they were one of the pioneers in the field of foundry. This experience in manufacturing systems, quality systems and HR practices are available to the Company.
- **Location and raw material availability**
  - The Company has its plant strategically located to service customers in south, central and western parts of India.

- Rich iron ore deposits are available at Hospet-Sandur-Bellary belt. Other important raw materials such as limestone, Dolomite, Quartzite & Manganese ore are available in immediate vicinity.
- The nearest seaport is Goa which is 320 kms from the plant, also well connected by rail and road. Alternatively, Chennai and Mangalore seaports are also well connected.
- We source water from Tungabhadra Reservoir through pipelines which is around 5-6 kms from the factory.

- **Backward Integration**
  - Traditionally, foundries melt solid metallics thereby consuming more melting power. We are one of the few foundries which produce automotive and tractor castings with backward integration with liquid metal from the blast furnace. This results in significant savings in melting power and ensures supply of consistent quality liquid metal.
- **Technology**
  - Our foundry is equipped with latest processes in designing, methoding, melting, moulding and core making.
- **Strong management team**
  - Managed by professionals who have long standing experience in relevant fields. The Company believes in in-house development of managers as part of its HR initiatives. The Company believes in maintaining a strong corporate culture.

STRATEGY

- **Productivity improvement and coke consumption reduction**
  Company is presently operating the Mini blast furnace with metallic blast preheaters with which the blast temperatures achieved is only 800^{o}c Company plans to install the stoves to improve the blast temperatures to 1100^{o}c by which we shall save on coke consumption and also increase productivity.

- **Productivity improvement plan by incorporation of Turbo blowers**
  Company plans to install Turbo blowers by which productivity of the furnace could be improved further. This will also allow Company to completely utilise the blast furnace Gas thereby increasing the net power generation. Increased power generation could be utilised in foundry to bring down the power cost.

- **Continuous sustainable cost reduction drives**
  Company has drawn up the various cost reduction drives both in pig iron manufacturing and casting manufacturing initiatives to cover energy conservation initiatives, consumption reduction initiatives and elimination of wastages.

- **Retain, upgrade, acquire the Managerial and technological skills**
  Company follows the policies in recruiting, training and promoting talent among managerial and technical personnel in order to attract and retain the best talent. These include Employees Satisfaction Survey (ESS) by Gallup, Management development programs from group HR initiatives with Kirloskar Institute of Advanced Management Studies and in house training programs in various fields.

- **Integrating in the value chain**
  We plan to move up the value chain by forward integration to steel manufacturing. We had made application to the government authorities for necessary approvals and formalities. For backward integration, we plan to own iron ore mines. We have already made applications for allocation of Iron Ore Mines on lease from the Government of Karnataka. The application is pending with the Government and the required presentations emphasizing the requirement of the iron ore mines have made to the Government officials as well as to the Minister of Mines. This would help us in better control over the source and cost of supply of our iron ore requirements.

OUR MANUFACTURING FACILITIES

LOCATION

We are situated near Bevinahalli village in Koppal district in Karnataka. Our plant is about 15 kms from the nearest towns of Koppal and Hospet in Bellary district. The nearest railway stations are of Koppal and Hospet. The plant is situated in the close viscinity of national highway no.63. The nearest seaport is Goa which is approximately 320 kms from our plant.

Our facility covers an area of 231.12 acres of land. The building and civil works includes main factory building housing Pig Iron Plant (PIP) and Foundry (26,850 square meters), power plant building (1,200 square meters), auxiliary and administrative building (5,324 square meters), overhead water tank, water reservoir, drainage and other utilities.

The PIP has two mini blast furnaces (MBF I & MBF II) and two turbo power generators (TG I & TG II). Of this MBF I is owned by us and MBF II, TG I and TG II were owned by our Promoter KOEL and leased to us. Whereas our Foundry has an automated moulding line. The MBF II and the TG I & II were taken on lease initially. In September 2006, we have acquired these leased assets.

UTILITIES

Power
Total power requirement of the Company is at 13.5 MW. Out of this, 7 MW is generated through the 2 Turbo generators which are used for captive consumption. Power from TG is generated using blast furnace gas generated from the MBFs and therefore the power generation cost is very low. Balance 6.5 MW power is purchased from the 3 Diesel Generator sets (DG sets) of KOEL - Power division. These DG sets use furnace oil supplied by us to generate Power. Company also has 3500 KVA sanction from State Electricity Board which ensures uninterrupted and power availability to the company.

Water
Total water requirement of the Company is 3000 M^3 per day. Company is having an agreement with Tungabhadra Board for drawing water from Tungabhadra Reservoir (located at a distance of 6 km from the plant) to meet the said requirement. We also have water storage tanks, reservoir and bore wells within the plant premises. This storage capacity can meet upto 90 days of our water requirements.

Compressed Air
Compressors of capacity 7100 cfm are installed in the plant which can cater for existing plant requirements.

Steam
We need 40 tons of steam per hour for power generation. This steam is generated by the TGs using blast furnace gas.

PIP DETAILS

MAJOR EQUIPMENTS USED

Sr. No.	Equipments used	Nos.	Description
1.	Mini Blast Furnace	2	$250m^3$ working volume complete with taphole drilling machine, taphole closing machine and all associated auxiliary equipments and complete instrumentation and control systems.
2.	Raw Material Handling System (RMHS) including belt conveyors, storage hoppers, batching and weighing, screening and Programmable Logic Controllers (PLC) control systems	2	The function of RMHS is to store the required raw material for minimum two shifts operations and subsequently weighing and feeding to blast furnace in a pre defined manner.
3.	Metallic Blast Pre-Heater (MBP)	4	The said equipment is used for converting cold blast into hot blast and temperature upto 800 degree Celsius.

4.	Gas Cleaning Plant(GCP):	2	The said equipment is used for cleaning of the blast furnace gas and separation of dust from the gas.
5.	Blower Houses	2	A set of 6 serial fans which supply 35000 NM^3/hr to the furnace.
6.	Pig Casting Machines	2	The liquid metal tapped from the furnace gets converted into piglets in the pig moulds which are mounted on the chain conveyor in the pig casting machine.
7.	Gas Holding Tank	1	The gas generated in the blast furnaces is used for pre heating of cold blast and to produce power.

OUR MANUFACTURING PROCESS

The plant has 2 Mini Blast Furnaces each of 250 Cubic meters. A furnace has a life of about 25 years.

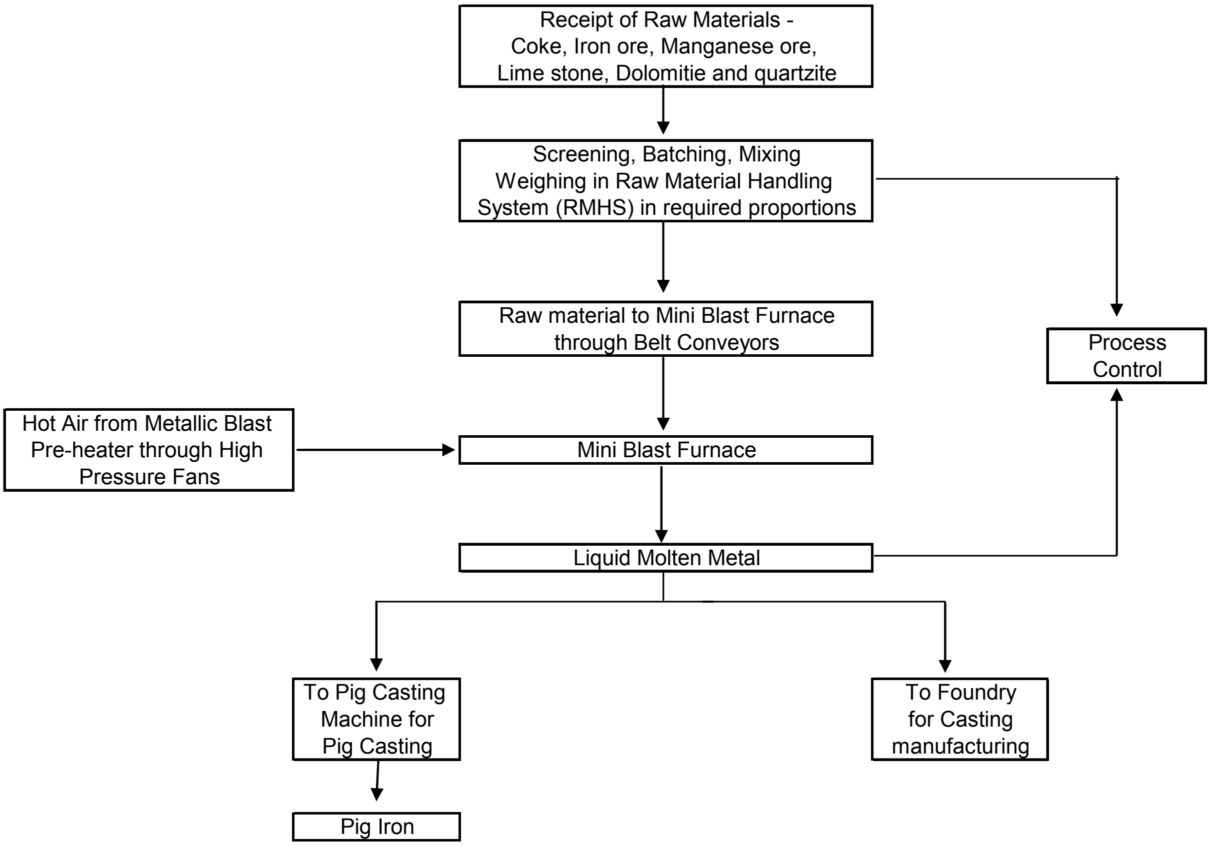
We have one melting furnace of 12 tons capacity and two holding furnace of capacity 30 tons each. The melting furnace mixes liquid metal received from our PIP with other alloys/metals e.g. 60% liquid metal mixed with 40% other alloys/metals, to get the desired chemistry of liquid metal to be used for castings. In this furnace, 12 tons of molten metal can be produced in 2.5 hours.

The holding furnaces are used to maintain temperature and do some very small mixing to fine tune the chemistry of the liquid metal according to the need for different varieties of castings. Once the liquid metal is ready in the holding furnace, it is poured in the moulds in the moulding line.

We utilize the MBF technology provided by Tata Korf Engineering Services Ltd. (TKES). The basic process consists of reducing high quality iron ore in the presence of metallurgical coke. This ore and coke is charged in the blast furnace in a pre-determined proportion and manner. The carbon monoxide gas that rises up the column of the charge reduces the iron oxide. The molten iron is periodically tapped and cast into small pigs or taken for further processing and use in foundry. The technology of TKES utilises (a) spray cooling system in the furnace shell; and (b) metallic blast preheaters (glendons) to provide hot air blast for the furnace. The hot air blast would be at the rate of 35,000 NM^3/hour and temperature of 800^o C. Six special air fans lined in series provide cold air blast to the MBF.

PROCESS CHART

Pig Iron Manufacturing Process



Pre requisite quantity of Iron ore, Coke and Fluxes are fed into the furnace by using RMHS consisting of Load Cell, Batching Controller & Programmable logic controllers. The whole system is automised using PLC and a PC for overall monitoring and control console through the PC.

Raw materials are analysed at out Central laboratory. In Process controls include process gas and slag analysis. Chemical composition of hot metal is controlled by controlling temperature and volume of hot blast.

Pig Iron is analysed by ARL Spectrometer. This spectrometer can analyse upto 18 elements within 60 seconds. Hence effective process control is achieved by knowing immediate product analysis.

Pig Iron is stored as per heat nos. Test certificates will be issued to every heat produced indicating the grades of Pig Iron on the certificate. Care is taken and ensured that there is no mix-up of Heats in the finished Pig Iron stoves.

TECHNOLOGY

Our technology requirements are mentioned below:

1. Tata Korf

We had entered into an agreement dated June 1, 1992 with Tata Korf Engineering Services Ltd. (TKES) for technical know-how and consultancy services for the project.
We use the Tata Korf technology for energy conservation in our mini blast furnaces wherein blast furnace gas is used as fuel in Co-gen.

2. Kalugin Hot Blast Stoves

Top fired Kalugin Stove, a renowned patented Russian technology, is one of the most fuel efficient high temperatures stove at present, capable to ensure hot blast temperature (HBT) up to 1200^{o} C.

The consumption of coke per MT of hot metal holds the key to control the variable costs since it forms about 70% of total cost of production. There are established operational methods to control coke rate by means of increased hot blast temperature and also by means of distribution of charge uniformly. The present hot blast temperature after metallic blast pre-heater is 800° C.

SOURCES OF RAW MATERIALS & MAJOR SUPPLIERS

The main raw materials used in PIP are coke, iron ore, limestone, dolomite, quartzite (limestone, dolomite, and quartzite together referred to as fluxes) and manganese ore etc. For manufacturing one ton of liquid metal, we need on an average 0.8 ton of coke, 1.8 ton of iron ore, 0.15 ton of limestone, 0.10 ton of dolomite and small quantity of manganese.

We require around 4,80,000 TPA of good quality low phosphate iron ore, which is available in the Hospet – Bellary belt. The quality of iron ore found is suitable for the company's requirements. We use minimum 64% grade iron ore which is sourced from the local mine owners in Bellary Hospet belt including National Mineral Development Corporation. The prices are negotiated and fixed on quarterly basis.

Coke constitutes around 60% of the total raw material cost. We require about 210,000 TPA of coke of low ash content. Coke is purchased mainly from China and also from domestic suppliers. The import of coke is under Open General License as per the prevailing policy. The imported coke is on Letter of Credit at 180 days credit. The prices for coke are fixed based on the market prices. We have tie up with supplier to import desired quality and quantity of coke. The break up of our coke purchases for last three years is as under :

Particulars	**2005-06**	**2004-05**	**2003-04**
Imported (MT)	209,762	164,242	179,290
Domestic (MT)	10,202	47,502	30,158
Total (MT)	219,964	211,744	209,448

To ensure consistent supply of desired quality of coke in times of high fluctuation in coke prices and supply mismatch, we have 11 year firm arrangement with Hari Om Met Coke Private Limited ("Hari Om"). This supplier has set up exclusive coke oven plant for conversion of coal to coke for approx. 25% of our requirements of coke. In the event that we are unable to buy the minimum committed quantity of coke, we shall pay certain commitment charges to Hari Om. The agreement also gives a first right of refusal to the company over the coke produced by Hari Om.

Fluxes are bought from local suppliers from Bagalkot, Sandur and adjoining areas.

PRODUCT DETAILS

Pig iron is the basic raw material for the manufacture of steel, grey iron castings and Speroidal Graphite (S.G. Grade) iron castings.

We produce the three grades of pig iron:

- Foundry grade
- Basic grade
- S.G. grade

The differences between foundry, basic and SG grade pig iron are basically chemical composition of pig iron. The details of chemical composition of the above grades are as given below:

Grades	Carbon %	Silicon %	Manganese %	Sulphur %	Phosphorous %
Foundry Grade	3.80 - 4.20	2.00 - 2.50	0.50 - 0.90	0.060 max	0.080 max
Basic Grade	3.80 - 4.50	0.80 - 1.20	0.40 - 0.70	0.080 max	0.100 max
S.G. Grade	3.80 - 4.20	1.50 - 2.00	0.25 max	0.025 max	0.060 max

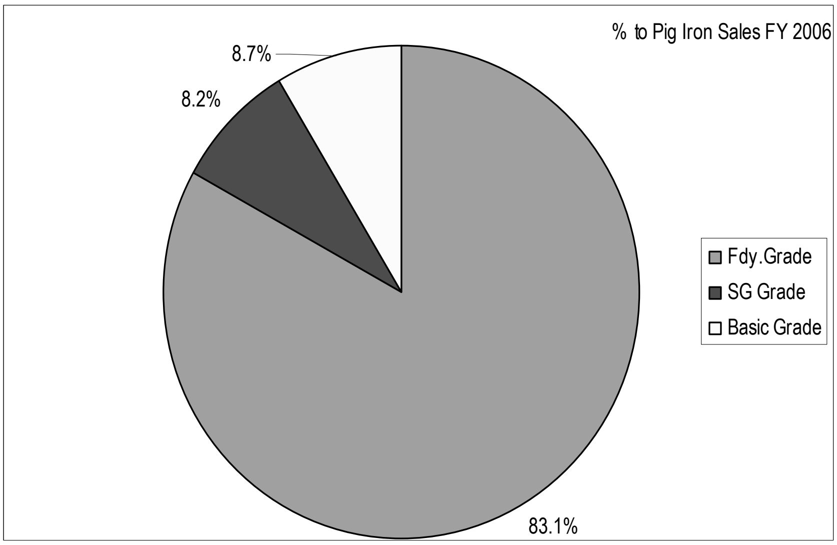
The salient features of the Pig iron manufactured by us are:

- Pig iron manufactured from high grade iron ore and imported coke with low phosphorus and sulphur
- Consistent chemical composition, specially the ability to maintain silicon levels of over 2%
- Slag free
- Guaranteed chemical composition because of heat wise stacking of pig iron, and analysis being done on ARL spectrometer

Detailed break up of volumes manufactured for each of the grades produced over last three years is as follows:

Grades	Year			
	2005-06	2004-05	2003-04	2002-03
Foundry Grade (MT)	184,368	171,519	208,343	225,115
Basic Grade (MT)	16,045	8,459	-	1,789
S.G. Grade (MT)	18,120	11,005	9,630	10,706

Majority of Sales comes through Foundry Grade as can be seen below:



Our key customers are:

Type	Customers
Foundry grade	Grey iron castings foundries, including our own foundry
Basic grade	All type of steel companies
SG grade	Spheroidal Graphite iron casting foundries

MARKETING & SALES

Our key customers are foundries situated mainly in the Northern, Southern and Western part of India. To meet this demand we follow a three pronged Marketing / Sales strategy as detailed below:

Direct institutional customers sales

These sales form 20% of our PIP sales currently targeted at 15 institutional customers who are typically the large buyers.

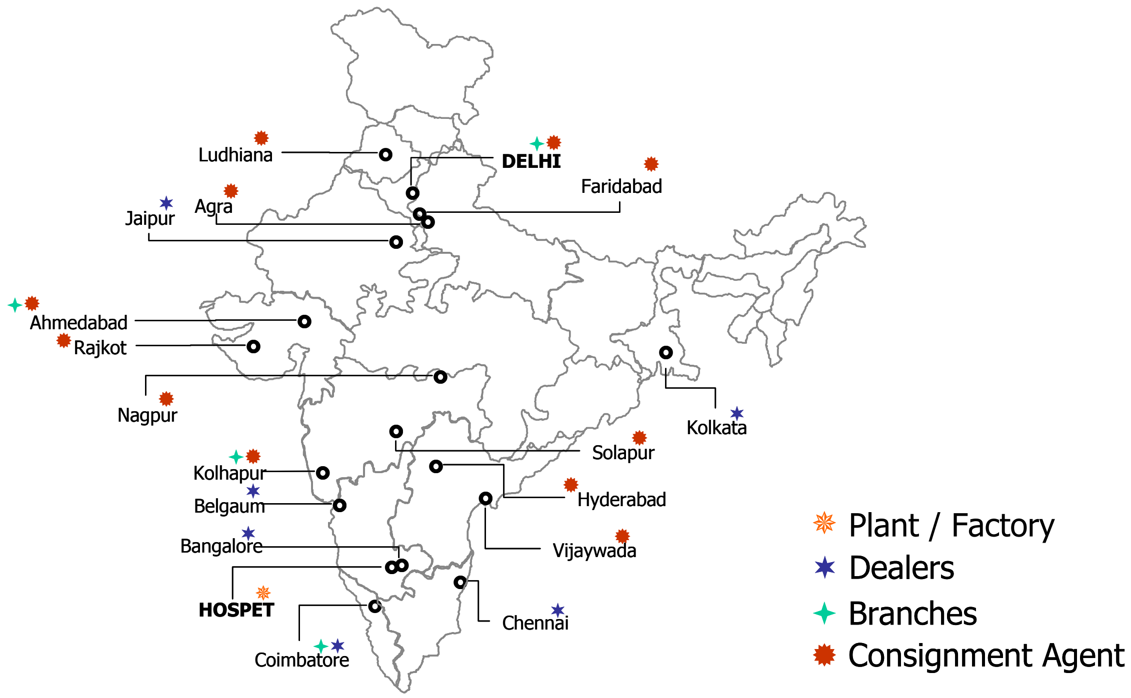
Sales through representative
We have 4 branch offices in Coimbatore, Kolhapur, Ahmedabad and Delhi who target both institutional and trade sales.

Sales through consignment agents and dealers

We have appointed 18 consignment agents and 8 dealers across 17 cities in India including Coimbatore, Bangalore, Hyderabad, Vijayawada, Belgaum, Kolhapur, Nagpur, Rajkot, Kolkata, Jaipur, Agra, Ahmedabad, Delhi, Faridabad, Punjab, and Chennai, to cater to all the zones/areas in the country.

Our pan India presence is depicted as below:

Our pan India presence is depicted as below:



Our Trend of institutional and trade sales in the last three years are as follows:

Particulars	2005-06		2004-05		2003-04	
	MT	Rs.million	MT	Rs.million	MT	Rs.million
Institutional Customers	44721	633.41	25894	430.82	30784	340.58
Trade	176497	2434.03	177197	2822.36	181218	2088.18

The Company's entire production is sold in the nearby South and West Indian markets and partly in the North Indian market.

MAINTENANCE OF PLANT AND MACHINERY

We undertake preventive and predictive maintenance for all our equipments. Standby arrangements are available for all our equipments. The furnace is shut down one a year and refractory bricks are replaced in once in 4-5 years.

CRITICAL SUCCESS FACTOR

- **Improvement in Coke consumption**

  Company monitors coke consumption rate on daily basis. The present hot blast temperature after metallic blast preheater is 700^{o} C. For every 100^{o} C rise in temperature of hot blast, coke consumption reduces by 9 kg per ton of hot metal. In order to achieve the reduction in coke consumption our Company has commenced installation of one hot blast stove, which will give a temperature of about 1100 to 1200^{o} C and there by reducing the consumption of coke. We believe that this would result in increase in the production.

- **Captive Iron Ore mines**

  Our Company has applied for allocation of Iron Ore Mines on lease from the Government of Karnataka. The application is pending with the Government and the required presentations emphasizing the requirement of the iron ore mines have made to the Government officials as well as to the Minister of Mines.

FOUNDRY DETAILS

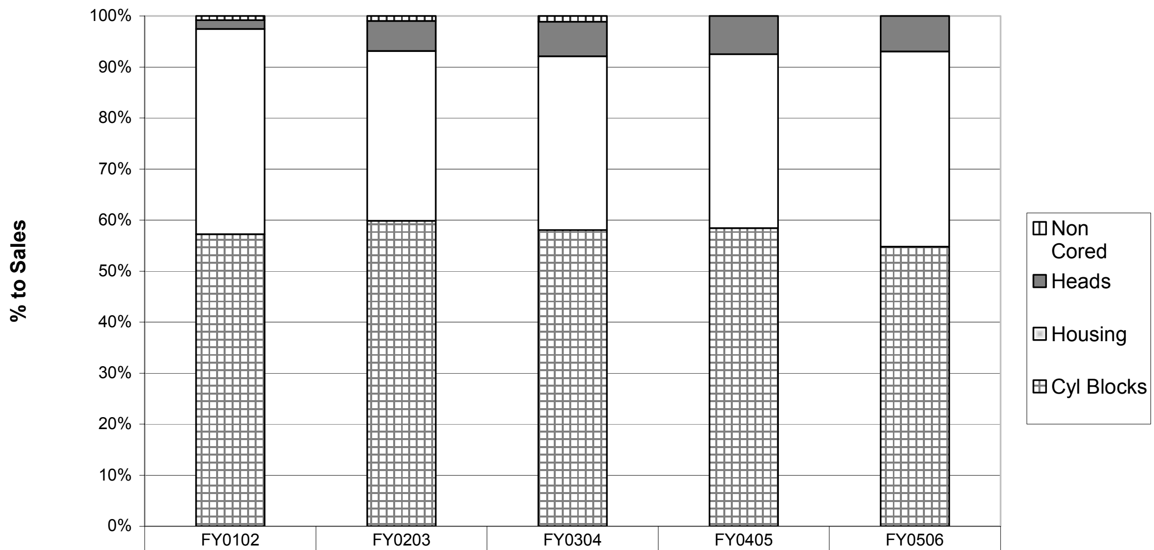
We are into the business of manufacturing castings for auto, tractors and diesel engine sectors. Our manufacturing capacity is about 220 tons of liquid metal per day. We have a moulding line which is capable of making 70 moulds per hour. The total production capacity of final castings is 475,500 moulds. The present capacity utilisation is 71%.

The pig iron from the PIP is transferred in the liquid state to induction furnaces in the foundry. This liquid metal is further refined in the induction furnaces. This gives us an advantage on energy cost per tonne of finished castings and control on the supply and quality of one of the critical inputs. The scrap and additives etc. are procured from market. The cost of pig iron and scrap constitutes a substantial portion of the total raw material cost of the castings. We require about 1 ton of liquid metal and 0.3 ton of scrap for producing one ton of castings.

We manufacture grey iron castings in the weight range of 25 kg to 250 kg. Types of castings manufactures are cylinder blocks, cylinder heads and housings. Blocks and heads are used in the engines of tractors, cars jeeps, commercial vehicles and in diesel engines. These are important components in their respective product industries.

Our product wise and industry wise sales trend are as under:

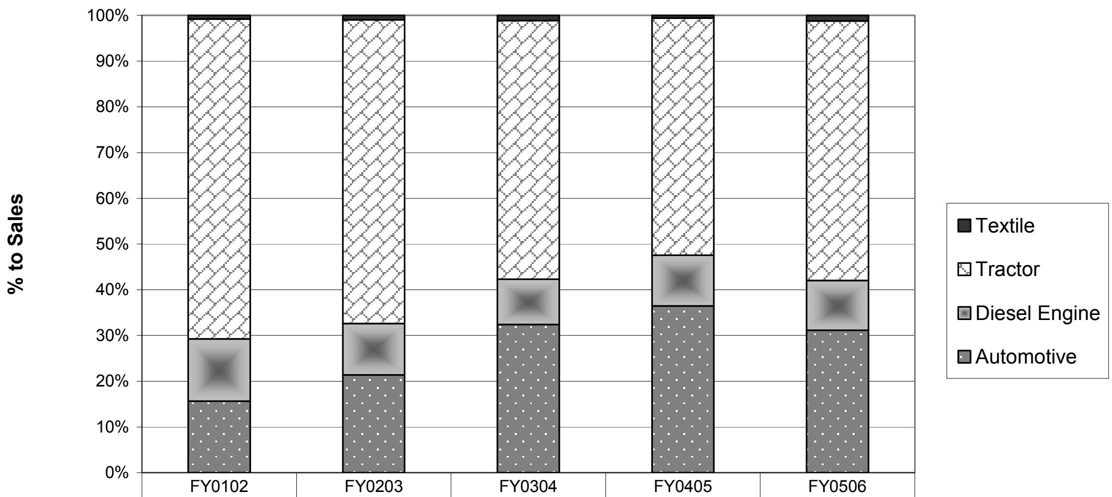
Category wise dispatch of Castings



	FY0102	FY0203	FY0304	FY0405	FY0506
Non Cored	144	184	306	0	0
Heads	313	1141	1807	2161	1967
Housing	7195	6409	9143	9872	10796
Cyl Blocks	10250	11546	15590	16908	15472

Year

Industry wise dispatch of Sales



	FY0102	FY0203	FY0304	FY0405	FY0506
Textile	144	184	306	171	340
Tractor	12519	12805	15187	15008	16018
Diesel Engine	2439	2169	2653	3213	3075
Automotive	2800	4123	8700	10549	8802

Year

The foundry is equipped with a sand preparation plant and moulding line with the Air Impulse Moulding Machine from M/s. George Fischer Foundry System Limited, Switzerland for making moulds. Cold box core making process which is also very energy efficient is used to make cores. These moulds and cores are capable of producing castings with close tolerances. The molten metal from the induction furnace is poured in moulds wherein cores are pre-assembled to make casting.

The quality requirements of these castings are increasing, which can be satisfied by very few foundries in India. As a result of the latest moulding and core making facilities in the Company, the Company has been successful in developing castings for the customers as per their requirements.

While making the castings we may face rejections at either the start of the process or at even the customers end if it may not met their requirements. We are continuously in the process to reduce this. As is evident from the figures the rejections are showing a declining trend.

Our rejections trend over the last 5 years can be summarised below:

Rejections (%)

Particulars	2005-06	2004-2005	2003-2004	2002-2003	2001-2002
Foundry Stage	7.18	6.78	8.54	12.40	13.92
Customer End	4.37	5.22	5.87	7.00	4.95
Total	**11.55**	**12.00**	**14.41**	**19.39**	**18.87**

We make continuous efforts for controlling rejections. We constantly bench mark our selves with our competitors and other leading foundries and strive to bring down the level of rejections to match with the best in the industry. We believe that the industry average is at 4% & 2% respectively for foundry stage & customer end rejection

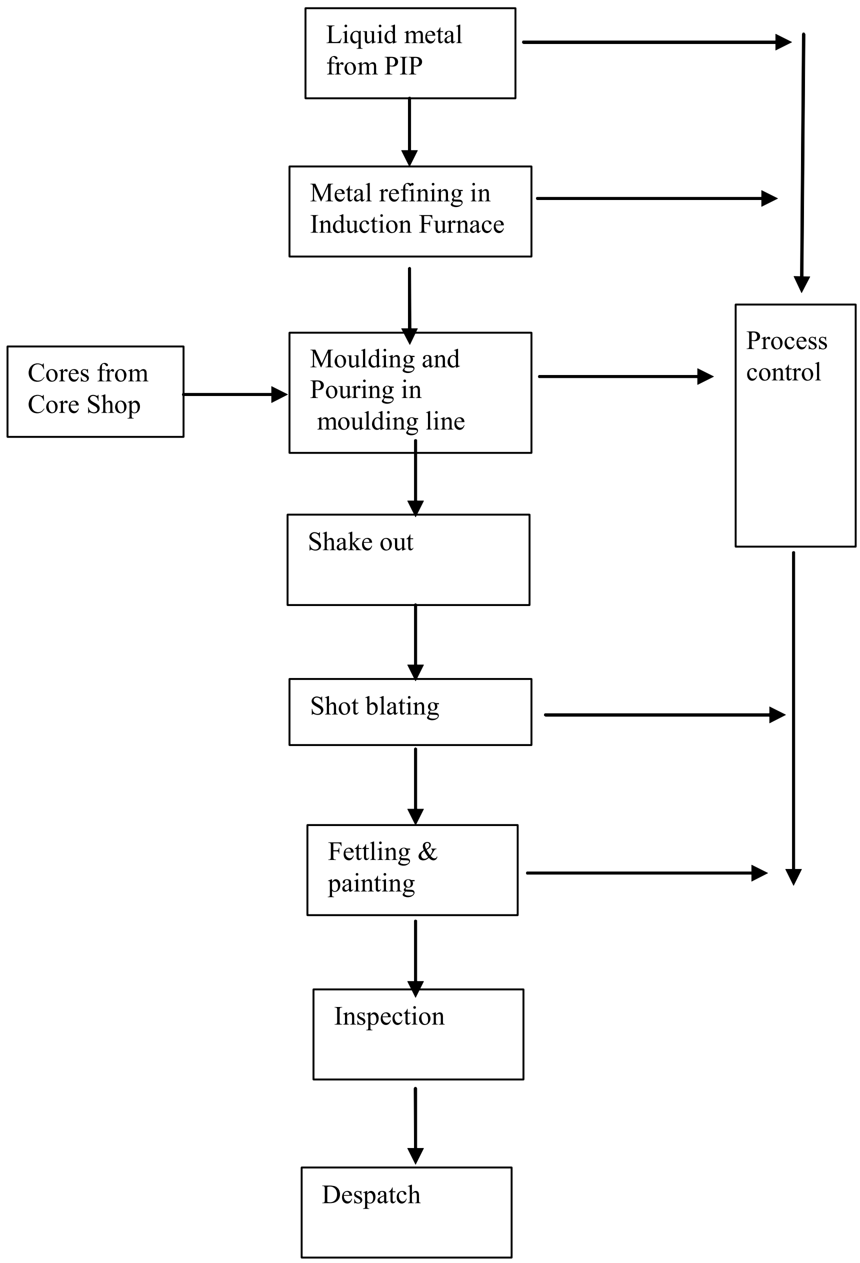
Company's foundry is having a backward integration of liquid metal from the blast furnaces. This also gives a cost advantage in terms of saving in power cost, as the melting of solid pig iron is power intensive.

MAJOR EQUIPMENTS/TECHNOLOGY

Company has imbibed the latest state of art manufacturing technology for the manufacture of castings.

Equipments	Process/Technology
+GF+ Impact plus automatic moulding machine line	Green sand impact moulding at 70 moulds per hour capacity with two cooling lines and an automated box conveying system
Press pour	Controlled pouring of moulds
Sand conditioning plant +GF+ sand mixer along with sand cooler	For green sand moulding process
Fluidized bed dryer and cooler	For controlled sand properties for cold box core making
Well equipped sand lab	For testing raw materials, system sand and process parameters
K 40 – C cold box core making with amine extraction system	Amine cured cold box core making process for high productivity and dimensional integrity
Shell core machines horizontal / vertical parted	Gas cured / electrically heated shell core machine process for complicated heads and blocks
One melting furnace of 12 ton capacity, two holding furnaces of 30 ton capacity each, transfer ladles and pre heaters	For super heating and preparing graded cast iron from pig iron
Core setting fixtures	For core setting with dimensional accuracy
DK 4 shot blasting machine	Numerically controlled high speed shot blasting machine for desired surface finish

PROCESS



Steps involved in the process are as follows:

- Liquid metal from PIP is received into the three nos. Induction Furnace.
- Required alloying elements are added into the metal in the Induction Furnace and metal is made ready for pouring into castings.
- Simultaneously cores are manufactured in the core shop.
- The moulds are made in the moulding machine using the patterns.
- The cores are then placed in the moulds.
- The gaps between the mould wall and cores will give the shape of the desired castings.
- The prepared metal is poured into the gaps in the mould.
- The metal after solidification assumes the shape of the castings.

- The castings poured as above are slowly cooled to room temp and then `Shaken out' from the mould boxes.
- The castings are then cleaned, finished, painted, inspected and dispatched to customers.
- The quality assurance dept. will ensure the quality at all stages of castings manufacture.

TECHNOLOGY

George Fischer Foundry Systems Ltd., Switzerland provided the drawings and designs with specifications for the moulding line and the sand plant. With this technology, we are able to get better quality moulds. The technology used by us for our business is quite contemporary. However, newer technologies for increased productivity are available for some of our processes like core making and moulding machines.

SOURCE OF RAW MATERIALS & MAJOR SUPPLIERS

The various raw materials used are liquid pig iron, scrap, ferro alloys, resins and sand. We have well established raw material sources for our requirements and we have been dealing with them since long time.

We source our entire requirement of liquid pig iron from our pig iron plant. Scrap, ferro alloys and resins are purchased from a domestic supplier on purchase order basis. We have been sourcing these materials from these suppliers for long time but we do not have any long term arrangements with them.

Steel Scrap : The quantity requirement per annum is 12,800 Metric Ton which amounts to about Rs. 212 Million. It constitutes about 33% of Foundry material cost. The prices are finalized on quarterly basis. The payments are given with 30 days credit.

Liquid Metal : The molten metal is available from our Mini Blast Furnaces. The liquid metal cost constitutes about 61% of our total raw material requirements in the foundry.

Sand : Very good quality sand and additives for moulding and core making is amply available in India.

Scrap is being sourced through Scrap dealers. The purchases of scrap are handled by the PIP division.

Others inputs : Small quantities of ferro silicon, ferro chromium, ferro manganese and copper required are met through local purchases. Bentonite is procured from Gujarat.

MARKETING & SALES

Marketing

Our Corporate marketing is located at Pune responsible for generation of business alongwith support from branches for domestic business. For exports, an agent in Europe has been appointed for developing our export business. The break up of domestic and exports in previous three years is as under :

Particulars	2005-06	2004-05	2003-04
Domestic (Rs.Mn)	1,185.38	1217.18	936.43
Exports (Rs.Mn)	Nil	0.15	Nil

Being a technology and tailor made product for the customer, the marketing team, castings development team and quality assurance team studies, analyses and offers the package of product and services to the prospective customer.

Sales

Our Sales is handled from plant alongwith branches and are responsible for customer schedules, sales planning and customer service etc.

Customer services

Is handled through branches Mumbai, Delhi Chennai, Pune and Faridabad.

Customers
Castings are marketed to the OEMs of Auto, Tractor and Diesel Engine industry. The castings are directly marketed to the customers. Grey Iron castings are supplied to major auto, tractor manufacturers all over in India like Mahindra & Mahindra, TAFE, Escorts, Eicher Motors Ltd., KOEL, Carraro India Ltd., Punjab Tractors and Simpsons etc.

With a boom in the auto markets and major international players looking at India as a source for casting requirements efforts have been made to take advantage of this opportunity. A step in this direction was by participating in exhibitions to attract customers from all over the globe and these efforts have resulted in us securing our first export order from an Italian tractor manufacturer.

MAINTENANCE
We follow a policy of preventive and predictive maintenance. We have a weekly maintenance plan. In addition to above an annual maintenance for 4 – 5 days which is a shut down of the plant.

CRITICAL SUCCESS FACTORS

- **Improvement in moulding line uptime:**
  The foundry output is directly proportional to the OEE of the moulding line. Hence continuous efforts are made to improve the OEE of moulding line. In addition to strengthing of the maintenance team, expert services of the original manufacturer were also sought. Their suggestions and observations are implemented and necessary resources are allocated to achieve this desired goal. Also, orders for certain modifications of the moulding line equipments have been placed with the original equipment supplier, which will further strengthen the moulding line facilitating the improvement of OEE.
  Casting evacuation has been an irritant and holds down the OEE of moulding line. We have taken steps to install effective casting evacuation system which will ensure the smooth evacuation of the castings and thereby improve the OEE of moulding line.
- **Augmentation of core making capacities**:
  Company has adequate core making capacity to cater to the requirement of the moulding line through in-house core shop as well as through outsourcing of the same.
- **Quality improvements**:
  The rejections in the foundry and at the customer end are showing a downward trend. This has been made possible through rigorous analysis of our rejections and by using the various statistical quality tools. These are all ongoing exercises and are being pursued relentlessly. Benchmarking with the best in the Industry and regular interactions undertaken with customers and competitors have all helped the company to improve its performance Joint participation have been formed with the suppliers in solve the problems and reduce the rejections.
- **Export market development of castings:**
  Company is exploring the overseas market specially in tractor and auto segments to cater to the requirements of OEMs. This also will help to sustain the capacity maximisation during adverse periods. Company has also been participating in the various International Foundry Industrial Fairs to project its products and enhance the Brand image and has also appointed representative to explore the overseas market for the sale of castings.

OUR COMPETITIVE STRENGTHS

- Single dependable source for large volumes. Our production set up allows us to deliver higher quantity in relatively short time. We can adjust our production schedules to keep up with the customer's requirements.
- Our ability to supply dimensionally accurate castings on a consistent basis.
- Foundry follows international quality management system and is also certified for ISO : TS 16949-2004.
- Our backward integration with in house PIP helps us in achieving efficiencies and time and cost savings.

OUR STRATEGY

- To become a niche player for high end castings like cylinder blocks and cylinder heads

- To focus on growing auto sector and increasing our market share in this sector.
- To forge and develop business partnerships with our vendors for consistent quality and uninterrupted supply of toolings.
- Capture export opportunities for castings
- Meet the growing market demand by capacity expansion through organic and inorganic route.

Enriching Lives

OTHER CRITICAL FACTORS

INVENTORY MANAGEMENT

Inventory is classified in to the following categories:

- Raw materials
- Stores and spares
- Finished goods
- Work in process

The materials and services have been classified into three categories based on the process requirements.

CATEGORY	MATERIALS / SERVICE
A-Class	Iron Ore, Coke, Limestone, Quartzite, and Dolomite etc. Steel scrap, Sand, Resin & Hardner, Bentonite & Coal dust etc.
B-Class	Production aids, Spares etc.
C-Class	Consumables, Stationary etc.
Fettlers	For casting processing.
Contractors	For contract work.
Transporters	For supply of Pig Iron & Castings, Internal and outside casting movement.

The raw materials get covered under Class – A items. We have few suppliers for these items. Under other categories there are a number of items which are ordered based on end user specific requirements. There is a centralised purchase department for the entire purchase requirements of the company. This department operates under the PIP.

Our major raw materials are coke and Iron Ore. Coke stock is measured and controlled by calculating the number of days consumption. Coke shipment is booked based on the review of the available stock and production plan. Iron ore is available in the vicinity of the plant and is sourced on monthly planning basis.

Stores and spares are basically required for the upkeep and maintenance of plant and equipment. The spares are classified in to A, B & C categories and are monitored on minimax method.

Finished goods primarily consists of Pig Iron stock. As a policy, our company maintains one to two days production in stock.

Work in progress denotes castings which are under process. We typically have a Work in progress of 5 to 6 days' production . This is for fettling, averaging and painting of castings, which are required processes before final dispatch to the customers.

ENERGY CONSERVATION MEASURES

The blast furnace gases generated in the MBF are used to generate power through TGs. This power caters to the total power requirement of Blast Furnace and the surplus power is transferred to the foundry. Though the foundry is power intensive, we consume less power because of the backward integration of the foundry with pig iron plant. The power consumption per ton of castings is monitored and controlled on a continuous basis. Significant engineering measures have been taken to further bring down the power consumption.

IT INFRASTRUCTURE

Our Network and Communications requirments are met by the following:

- 64kbps internet leased line from Bharat Sanchar Nigam Limited.
- 120kbps ISDN line for video conferencing.

- Modems and Cisco router Firewall (Server) gateway for intranet
- Layer 2 network with Optic Fibre and Cat-5 cable

SERVERS : Mail server, Proxy server, File Server, Online Informix Database server, E-45 Development server. Our domain kfil.com is registered with Net4 India, Bangalore.

SAFETY, HEALTH & ENVIRONMENTAL MEASURES

Safety

Safety audit is conducted on monthly basis. The Company employees are trained to conduct the safety audits. Training on safety is imparted to both permanent as well as temporary employees at the time of joining and refresher courses are conducted at regular intervals. For inspection of pressure vessels and lifting tackles, audits are undertaken at defined intervals by competent persons as approved by Director of Factories and Boilers.

Other measures taken are :
- Safety Committee Meeting
- Providing required PPEs
- Investigation of Accidents / Incidents
- Conducting Mock Drill
- Maintenance of Fire Hydrants and Extinguishers
- Taking licences for storing LPG, Fuels etc.

Health

Company is having an occupation health center with full time qualified doctor with qualified medical officers. Pro active medical checkups of the employees and of the citizens of the neighbouring villages are carried out at regular intervals.

Environment

We are ISO-14001accredited company. Company conducts periodical air quality and stack monitoring to ensure that environmental parameters fall well within the prescribed limits through pro active process controls. Company has well laid-out plant with green cover with more than 50,000 trees which provide fresh air.

Some of the other measures taken include monthly reports submitted to the state pollution board, monitoring of Noise level and proper disposal of solid wastes.

DEBTORS MANAGEMENT

In respect of Pig Iron, customers are foundries and the customer base is very large. We give a credit period of 30 to 45 days. The recovery is monitored on the basis of ageing. If the dues cross 60 days, vigorous follow up for the recovery is made and if it reaches 180 days, legal remedies are resorted to.

In respect of Foundry, the customers are OEMs and are limited in number. The credit periods are defined at the time of order booking itself. The defined credit periods are monitored on ageing of outstanding.

POLLUTION CONTROL MEASURES

In the existing process, the sources of pollution in the foundry are sand/dust at different transfer points in the sand plant and shot blasting machine. A dust extraction system and appropriate dust collectors are installed to bring down the dust levels. Fume extraction systems are provided to lower the temperatures in the melting section and mould cooling lines

The major sources of pollution in the pig iron manufacturing process are MBF gases, solid waste from cleaning plant and dust raised during raw material handling operation. The entire blast furnace gas released from the top of the MBF is scrubbed, cleaned and utilized for air blast preheating and power generation. The spent gas after combustion with very low dust content and harmless constituents is let out into the atmosphere at height of 30 meters.

The Company also actively recycles Processed water collected from Furnace Shell Cooling, Gas Cleaning Plant, and Compressor Cooling is completely recycled after cooling using Cooling Towers and Steam is also recycled after condensation in the process. Water is collected and treated in Sewage Treatment Plant through Activated Sludge Process and treated water used for Gardening and Green Belt Development. We have installed auto sensors in all our taps to prevent wastage of water.

MAINTENANCE OF PLANT & MACHINERY

Company has full fledged Maintenance department both in the pig iron and foundry divisions. These are manned by experienced and qualified personnel. Predictive maintenance, critical spares management, systematic analysis of break downs and corrective and preventive measures are all undertaken at regular intervals. The condition of the machines and equipments are also continuously monitored. Resources are allocated to preserve the machine capability at the desired level. Experts in the relevant areas are called and assigned to carry out periodical check of the plant and equipment and their findings are taken as input to carry out the necessary preventive modification for the upkeep of the machineries. The maintenance performance is measured in terms of OEE (Overall Equipment Efficiency).

H.R., TRAINING AND DEVELOPMENT FACILITIES

We have taken following Training and development initiatives to maintain and upgrade our manpower quality:

We have a Training Hall, library, internal training facility for new entrants. We have tied up with Kirloskar Institute Adanced Management Studies to cater to the management training needs of the company. We also schedule Training Programmes as per annual training plan/calendar. The training needs are identified on the basis of Annual Performance Appraisal Process.

As on August 31, 2006 we have 797 permanent employees out of which approximately 223 hold management positions and 92 hold supervisory positions, 44 are in staff positions and 438 are workmen.

For retention of employees, we employ various methods and techniques like Employee Empowerment and motivation, Performance Based Rewards, Employee Award Scheme, Career and Succession Planning, Employee Satisfaction Survey, Feedback and Suggestion Schemes and Training & Development Programmes.

From inception, till last agreement in 2002, management has entered into 3 wage settlements with the Labour Union.

The attrition rates for the last 4 years is as under:

Year	**Attrition %**
2002-03	3.45
2003-04	3.94
2004-05	4.23
2005-06	8.15

Attrition rate for the year 2005-06 was higher due to opening of the market on account of upward trend in the economy. This was made good by increasing the recruitment to fill up the vacancies.

PROPERTY

The details of properties owned/occupied by us are as follows:

Sl. No.	Property	Ownership	Consideration	Nature of interest/title	Area	Term	Purpose
1.	Bevinhalli Village, Hitnal, Koppal, Karnataka – 583 234	Company	Rs. 23,594,541	Land purchase agreement with various vendors all of which have been registered with the office of the Sub-Registrar, Koppal	231.12 Acres	Ownership basis	Factory premises including slug and manufacturing waste ground
2.	Laxmanrao Kirloskar Road, Khadki, PUNE 411 003	KOEL	Rs. 36,000 per month	Lease Deed dated June 21, 2006	800 sq. ft.	11 months effective from April 1, 2006	Registered office
3.	Flat no.205, Wing 8, Bldg.No.B-1, Swapnapurthi, Jivlapada, Thakur village, Kandivali (E), MUMBAI – 400 101	Mrs. Aarati D. Gawade	Rs. 4,400 per month	Leave and License Agreement dated March 20, 2006	250 sq. ft. (super built up)	Valid upto February 28, 2007	Branch office – Marketing
4.	#5,Harkishan Apartment, Gordhan Park Society, Behind Azzad Halvai, Usmanpura, AHMEDABAD	Mrs. Meena J Arora	• From April 1, 2006 to February 28, 2007 - Rs. 4,750 per month	Leave and License Agreement dated April, 27, 2006	105 sq.yards	Valid upto February 28, 2007	Branch office – Marketing
5.	Rathakrishna Complex, Old No. 1669/R, New No. 1048/R,1 St Floor, Trichy Road, COIMABATORE-641 045 Tamil Nadu	Mr. R. Pandurangan S/o. T.L.Rathakrishna Chettiar	Rs. 1,500 per month	Lease Deed dated March 1, 2005	128 sq. ft.	Valid upto February 28, 2008	Branch office – Marketing
6.	G-10, Kings Court Apartment, E Ward Shivaji park, KOLHAPUR Maharashtra	Ms. Vijayashree S Kakade	Rs.5,000 per month from December 1,2005 to November 30,2006	Lease Deed dated November 25,2005	87 . 48 sq. ft.	November 30, 2006	Branch office – Marketing

Insurance

The various insurance policies we have taken are as follows:

- Group Mediclaim Insurance Policy (no. 422303/GMC/300/13707/2007) for an amount of Rs. 22,930,000/- covering employees in the managerial, supervisory & staff cadre, their spouses, children and parents. This policy is valid upto September 3, 2007.
- Standard Fire and Special Perils Policy covering our MBF-I, T.G. building, water storage tank, stocks of raw materials, spares, consumables and computers installed and laptops at our offices and Plants. These policies expire between October 24, 2006 and March 31, 2007.
- There are four insurance policies covering the forklift used at our Plant. First, the Package Policy for Zone C – Miscellaneous Type of Vehicles (no. 2007/2375) for an amount of Rs. 500,000 which is valid upto July 8, 2007. Second, the Package Policy for Zone C – Miscellaneous Type of Vehicles (no. 2007/2376) for an amount of Rs. 500,000 covering the same which is also valid upto July 8, 2007. Third, the Package Policy for Zone C – Miscellaneous Type of Vehicles (no. 2007/2377) for an amount of Rs. 220,000 covering the same which is also valid upto July 8, 2007. Fourth, the Package Policy for Zone C – Miscellaneous Type of Vehicles (no. 2007/2374) for an amount of Rs. 525,000 covering the same which is also valid upto July 8, 2007.
- Public Liability Act Policy (no.2007/422) for an amount of Rs.50,000,000 for any one accident and aggregate during the policy period (Not exceeding three times of any one accident of indemnity limit) Rs.150,000,000.00 covering the pig iron and foundry. This policy is valid upto August 16, 2007.
- Boiler Explosion Insurance (no.2007/27) for an amount of Rs. 39,000,000 covering water tube boilers. This policy is valid upto September 29, 2007.
- Electronic Equipment Insurance (no. 2007/20) for an amount of Rs. 1,211,090 covering equipment. This policy is valid upto July 22, 2007.

REGULATIONS AND POLICIES

The Industries (Development and Regulation) Act, 1951 (the "IDRA")

Section 11 of the Industries (Development and Regulation) Act, 1951 (the "**IDRA**") provides that no person or authority, other than the Central Government, may establish any new industrial undertaking, except under and in accordance with a licence issued by the Central Government. Under the Industrial Policy announced in July, 1991, the iron industry, amongst others was removed from the list of industries reserved for the public sector and also exempted from the provisions of compulsory licensing under the IDRA. Pig iron and casting industries, therefore, no longer come within the purview of compulsory licensing under the provisions of the IDRA. Entrepreneurs desirous of setting up pig iron and cast iron industries are only required to file an Industrial Entrepreneurs Memorandum ("**IEM**") in the prescribed form with the Secretariat of Industrial Assistance, Ministry of Commerce and Industry, Government of India ("**SIA**").

Value Added Tax

Value Added Tax ("**VAT**") is a system of multi-point levy on each of the entities in the supply chain with the facility of set-off of input tax whereby tax is paid at the stage of purchase of goods by a trader and on purchase of raw materials by a manufacturer. Only the value addition in the hands of each of the entities is subject to tax. The essence of VAT is in providing set-off for the tax paid earlier, and this is given effect through the concept of input tax credit. VAT is based on the value addition to goods, and the related VAT liability of the dealer is calculated by deducting input tax credit for tax collected on the sales during a particular period. Currently, VAT has been introduced in a various states in India. However, once VAT has been enforced fully in India, not only will the various state sales taxes be abolished, but the Central sales tax will also be phased out.

Central Excise

Excise duty imposes a liability on a manufacturer to pay excise duty on production or manufacture of goods. The Central Excise Act, 1944 is the principal legislation in this respect, which provides for the levy and collection of excise and also prescribes procedures for clearances from factory once the goods have been manufactured, etc. Additionally, the Central Excise Tariff Act, 1985 prescribes the rates of excise duties for various goods.

Sales Tax

Sales tax is essentially a tax levied on the sale of goods and is governed by both Central and State enactments. The Central Sales Tax Act, 1966 passed by the Union Parliament regulates the levy collection and distribution of tax on the sale and purchase of goods made in the course of inter-state trade or commerce. The sales tax law of each individual State provides for the levy of sales tax on sales made within the State.

Customs Duty

Customs duty is a type of an indirect tax that is paid at the time of importing or exporting any goods. The Customs Act, 1962 is the basic law for levy and collection of customs duty on imports and exports of goods from India. However, the rate of Customs Duty for various goods is prescribed under the Customs Tariff Act, 1975 along with various notifications published by the Central government in the Official Gazette.

The Industrial Disputes Act, 1947 and the Industrial Disputes (Karnataka) Rules, 1957

The object of this legislation is to ensure that workmen get paid fair wages and to prevent disputes. The Act applies to all workman employed in any industry to do any manual, unskilled, skilled, technical, operational, clerical or supervisory work for hire or reward, whether the terms of employment be express or implied except those who are employed mainly in managerial or administrative capacity or who, being employed in a supervisory capacity, draws wages exceeding one thousand six hundred rupees per month or exercises, either by nature of the duties attached to the office or by reason of the powers vested in him functions, mainly of a managerial nature.

The Contract Labour (Regulation & Abolition) Act, 1970

The Act applies to those establishments where twenty or more workmen are employed or were employed on any day of the preceding twelve months as contract labour and to every contractor or sub-contractor who employs or who employed twenty or more workmen on any day of the preceding twelve months, provided they were not employed in core activities as notified. Every such establishment is required to obtain a registration certificate in respect to the employment of contract labour and every contractor is required to hold a valid license under the Act.

Factories Act, 1948

The Factories Act is the principal legislation, which governs the health, safety, and welfare of workers in factories. A factory under the Act is defined as a place using power, employs 10 or more workers, or 20 or more workers without power or were working any day of the preceding 12 months. Our Company is required to obtain a license under the Factories Act, 1948 which is renewable each year.

Other Labour Legislations

Apart from generally applicable labour laws, a number of labour laws have to be complied with including the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, the Minimum Wages Act, 1948, the Payment of Bonus Act, 1965, the Payment of Gratuity Act, 1972 and the Payment of Wages Act, 1936.

Indian Environmental Regulations

There are three main statutes, which seek to regulate and protect the environment against pollution related activities in India. These are the Water (Prevention and Control of Pollution) Act 1974, the Air (Prevention and Control of Pollution) Act, 1981 and the Environment Protection Act, 1986. The primary objective of these statutes is to control, abate and prevent pollution. In order to achieve these objectives, the Pollution Control Boards ("**PCBs**"), which are vested with various powers to deal with water and air pollution, have been set up in each state. The PCBs are responsible *inter alia* for setting the standards for maintenance of clean air and water, directing the installation of pollution control devices in industries as well as undertaking investigations to ensure that industries are functioning in compliance with the standards prescribed. These authorities also have the power of search, seizure and investigation if the authorities are either aware or suspect pollution. All the industries and factories are thus required to obtain consent orders from the PCBs, which indicate that the factory or industry in question is functioning in compliance with the pollution control norms laid down. These are required to be renewed annually.

Trade Marks Act, 1999

The Indian law on trademark is enshrined in the Trade Marks Act of 1999. Under the existing Act, a trademark is a mark used in relation to goods so as to indicate a connection in the course of trade between the goods and some person having the right as proprietor to use the mark. A 'Mark` may consist of a word or invented word, signature, device, letter, numeral, brand, heading, label, name written in a particular style, the shape of goods other than those for which a mark is proposed to be used, or any combination thereof or a combination of colours and so forth. The trademark once it is applied for, is advertised in the trademarks journal, oppositions, if any, are invited and after satisfactory adjudication of the same, a certificate of registration is issued. The right to use a mark can be exercised either by the registered proprietor or a registered user. The present term of registration of a trademark is ten years, which may be renewed for similar periods on payment of prescribed renewal fees.

Foreign Trade (Development and Regulation) Act, 1992

Under the Foreign Trade (Development and Regulation) Act, 1992, the Central Government is empowered to periodically formulate the Export and Import Policy, which lays down the regulatory framework governing the exports and imports in our country.

Other Regulations

In addition to the above, the Company is required to comply with the provisions of the Companies Act, 1956, the Foreign Exchange Management Act, 1999, various sales tax related legislations and other applicable statutes.

HISTORY OF OUR COMPANY AND OTHER CORPORATE MATTERS

The Company was incorporated on September 10, 1991 as a public limited Company and obtained its certificate of commencement of business on November 18, 1991.

The registered office of the Company is at Laxmanrao Kirloskar Road, Khadki, Pune – 411 003. The manufacturing facilities of the Company are situated at Bevinahalli, Post: Hitnal 583 234, Taluka & Dist: Koppal, Karnataka.

The Equity Shares of the Company were first listed on the BSE, Pune Stock Exchange and Delhi Stock Exchange. Thereafter the equity shares of the Company were delisted from the Delhi Stock Exchange with effect from December 29, 2003 and Pune Stock Exchange with effect from January 16, 2004. The preference shares of the Company are not listed on any of the stock exchanges.

Major Events:

Financial Year	**Event**
1992	Our Company was incorporated
1994	Mini Blast Furnace I commenced commercial production
1994	Turbo Generator I taken on lease having a capacity for the generation of 3.5 MW of power using B.F.Gas.
1994	Initial Public Offer
1995	Foundry commenced commercial production
1995	Setting up a facility having a capacity to draw water from the Tungabhadra dam
1995	MBF II taken was lease, was installed and commissioned in a record time of 9 months
1995	ISO-9000 certification received
1997	Foundry Capacity was increased from 425,000 moulds per annum to 475,500 moulds per annum
1997	Turbo Generator II taken on lease with a capacity for the generation of 3.5 MW of power using Blast Furnace Gas. TG – II was taken on lease.
1998	Started supply of TG power to foundry Company allotted preference shares of Rs. 45 Crores to increase the shares capital.
1999	Company called an extraordinary general meeting of the share holders on October 29, 1999 to consider erosion of more than 50% of the Company's peak networth duringimmediately preceding four financial years pursuant to section 23 of Sick industrial companies special provision act 1985. Company submitted application to the Board for Industrial Financial reconstruction informing erosion of 50% of peak networth.
2000	Company entered into financial restructuring with IDBI and with other institutions namely IFCI, IIBI, GIC, OIC, LIC & NIA.
2001	Quality Standard 9000 certification received. Company allotted preference shares of Rs. 27.22 Crores to increase the shares capital. Company allotted Equity shares of Rs. 13.72 Crores to increase the equity shares capital.
2002	ISO-14001 certification received Company entered into financial restructuring with IDBI & with other institutions. Company allotted preference shares of Rs. 32.46 Crores to increase the share capital. Company entered into profit.
2003	Company entered into settlement with Financial Institutions for the repayment of the loans. Company entered into profit for the second consecutive year.
2004	Company repaid entirely the loans taken from Financial Institutions bearing high rate of interest. Thereafter the Company took reduced loans at lower rate of interest. Company entered into profit for the third consecutive year.
2005	TS 16949 certification received

Financial Year	Event
2005	Commissioning of an induction furnace of 12 tonne capacity Company paid Dividend of Rs 11.33 Crores on preference shares. The shareholders passed special resolution for reducing the face value of equity shares Rs.10 each to Rs. 5 each fully paid up for wiping out accumulated losses to the extent of Rs.36.11 Crores. Company entered into profit for the Fourth consecutive year.
2006	Company paid dividend including arrears of Dividend amounting to Rs. 22 78 Crores on preference shares. Company purchased the MBF II and TG I ,II which were earlier taken on lease.

Objects of our Company

Our objects as contained in our Memorandum of Association are:

1. To carry on the business of manufactures, importers, exporters, sellers, purchasers of and dealers in pig iron, sponge iron, wrought iron, alloy steel, steel converts, rolled steel makers, miners, smelters, engineers, founders in all or any of their respective branches, ferro silicon, ferro chrome, alloy steels, ferro alloys, and other ferrous substances and metals of every description and grades, to set up casting and all sizes of re-rolled sections in flats, angles, rounds, squares, rails, joints, channels, strips, sheets, plates, deformed bars, plain and cold twisted bars, tubes and seamless tubes, shaftings and structurals, metallurgical prospectors, explorers, contractors, agents and to market, buy, sell, import, export, trade, or otherwise deal in any or all of the above and to establish workshops for the manufacture of any equipment required for any of the industries which the Company car undertake and to deal in such equipment's.

2. To carry on the business of miners, importers and exporters of and dealers in iron ores, Chromium ores, magnetite ores, thorium, uranium, asbestos, nickel, copper, lead, tin, bauxite ores and all ferrous and non-ferrous ores of very description and grades whatsoever in any part of the country and to carry on the business of processing, cleaning, melting, forging, grading and machinery to convert the ores into marketable metals.

We confirm that our objects permit us to make this Rights Issue of shares of our Company.

Changes in our MOA and AOA

Date of Share holders approval	Changes
April 9, 1993	MOA: Authorised share capital of the Company increased from Rs.50,000,000 to Rs.600,000,000 divided into 60,000,000 equity shares of Rs 10 each
September 23, 1993	AOA: Articles of Association of the Company was altered to include/delete/substitute the following in the corresponding Articles: • Article No. 5 – 'Option or right to call shares shall not be given to any person without the sanction of the Company in General Meeting' • Article No. 15:(a) - Substitute the word – 'delivered' for the words 'ready for delivery" in the Article No.15(c); (b) Substitute the word "one month "for the words "two months" in the same Article No.15(c) • Article No. 25 - Insert the following sentence at the end of the Article No. 25 (1) i.e. 'Money paid in advance of calls shall not in respect there of confer a right to dividend or to participate in the profits of the Company' • Article No. 42 - Directors may refuse to register: (a) Insert the following sentence at the end of the 'Registration of a transfer shall not be refused on the ground of the transferor being either alone or jointly with any other person or persons indebted to the Company on any account whatsoever except a lien on the shares' (b) Substitute the words "one month" for the words "two months"

Enriching Lives

	appearing in the Article No. 42(ii) • Article No. 43(4) - Substitute the words "one month" for the words "two months" • Article No. 114 - Unclaimed dividend: Insert the following sentence in the beginning of the viz: "No Unclaimed dividend shall be forfeited by the Board and."
January 8, 1996	MOA: Authorised Share capital increased from Rs.600,000,000 to Rs.1,000,000,000 divided into 60,000,000 Equity Shares of Rs 10 each and 40,000,000 unclassified shares of 10 each
September 19, 1996	MOA: 40,000,000 unclassified shares of 10 each in the Authorised Share Capital classified as: 15,000,000 Equity Shares of Rs. 10 each 25,000,000 Preference shares of Rs. 10 each
August 28, 1997	MOA: Authorised Share Capital increased from Rs.1,000,000,000 to Rs.1,200,000,000 divided into 75,000,000 equity shares of Rs 10 each and 45,000,000 preference shares of Rs. 10 each
August 28, 1997	AOA: Change in the AOA to insert the words cumulative or non-cumulative, convertible or non convertible after the word redeemable in clause (b) of Article 4
September 27, 2000	MOA: Authorised Share capital increased from Rs.1,200,000,000 to Rs.1,550,000,000 divided into 75,000,000 Equity Shares of Rs. 10 each and 80,000,000 preference shares of Rs. 10 each
December 27, 2000	AOA:Change in the AOA to insert clause for depository and demat related provisions in the AOA
September 25, 2001	MOA: Authorised Share capital increased from Rs.1,550,000,000 to Rs.2,220,000,000 divided into 105,000,000 equity shares of Rs 10 each and 117,000,000 Preference shares of Rs. 10 each
August 5, 2005	MOA: Pursuant to the Reduction in Equity Share Capital - change in the number and face value of equity shares in the authorised Share Capital i.e. 210,000,000 equity shares of Rs. 5 each and 117,000,000 Preference shares of Rs. 10 each*

* The aforementioned reduction of share capital was confirmed and approved by the High Court of Mumbai by its order of September 30, 2005. Pursuant to the reduction, the current equity share capital of the Company is 72,222,400 equity shares of Rs. 5 each (reduced from Rs. 10 each). Consequently, there was no trading of our equity shares from November 12, 2005 to December 21, 2005.

The details of the capital raised by our Company are given in the section titled "Capital Structure" on page 16 of this Draft Letter of Offer.

Summary of Key Agreements

Our Company has not entered into any agreement, which is outside the ordinary course of business. Further, we have not entered into any Shareholders' Agreements in relation to management of our Company.

DIVIDENDS

The following are the dividend payouts in last five years by our Company:

In Rs. Million

F. Y.	Dividend	
	Rate (in %age)	Amount
March 31, 2005	12	113.37*
March 31, 2006	1	188.83*
	12	38.96

* Dividend on preference shares only.

MANAGEMENT

Board of Directors

The following table sets forth details regarding our Board of Directors:

SN	Name, Designation, Father's Name, Address, DIN and Occupation	Nationality	Age (years)	Other Directorships in Indian companies
1.	Atul Chandrakant Kirloskar Chairman (Non-Executive Director) S/o. Late Mr. Chandrakant S. Kirloskar Radha, 453, Gokhale Road, Off. Ganeshkhind Road, Pune – 411 016 00007387 Industrialist	Indian	50	Kirloskar Oil Engines Limited G. G. Dandekar Machine Works Limited Kirloskar Systems Limited Swaraj Engines Limited Navsai Investments Private Limited Toyota Kirloskar Motor Private Limited Kirloskar Drilling Company Limited, Kenya Kirloskar Kenya Limited, Nairobi, Kenya
2.	Sanjay Chandrakant Kirloskar Non-Executive Director S/o Late Mr. Chandrakant S. Kirloskar 33 Suyojana Housing Society, Koregaon Park, Pune 411 001 00007885 Industrialist	Indian	49	Kirloskar Brothers Limited Kirloskar Oil Engines Limited Kirloskar Ebara Pumps Limited Kirloskar Pneumatic Co. Limited Kirloskar Silk Industries Limited Pooja Credits Private Limited Prakar Investments Private Limited Kirloskar Kenya Ltd. Kirloskar Services (K) Ltd., Kenya Kirloskar Drilling Company Ltd., Kenya SPP Pumps Ltd., England
3.	Ashok Ramkrishna Jamenis Non-Executive Director Flat 1, Plot No.15, Profile Arbour, Shantisheela Society, Erandawane. Off Law College Road, Pune – 411 004 00082620 (provisional) Consultant	Indian	62	NIL
4.	Srikrishna Narhar Inamdar Non-Executive Director 11/13, Botawala Bldg, 3rd Floor, Horniman Circle, Fort, Mumbai 400 023 00025180 (provisional) Advocate	Indian	61	Kirloskar Brothers Limited Finolex Industries Limited Sudarshan Chemical Industries Limited Kulkarni Power Tools Limited Force Motors Limited The Ugar Sugar Works Limited Kirloskar Proprietary Limited – Chairman PIH Finvest Pvt. Ltd. Sakal Papers Private Limited Man Force Pvt Ltd
5.	Chintaman V. Tikekar Non-Executive Director	Indian	73	Ekartha India Private Limited

SN	Name, Designation, Father's Name, Address, DIN and Occupation	Nationality	Age (years)	Other Directorships in Indian companies
	30, TELCO Sr. Officers; Co-operative Housing Society, Pimpri, Pune - 411 018 00111972 (provisional) Advisor			
6.	Ravindranath Venkatesh Gumaste Managing Director 00082829 (provisional) Business Executive	Indian	48	NIL
7.	Sudhakar Ganesh Chitnis Non-Executive Director Parimal No. 22, Lane No.3 Navketan Society, Kothrud, Pune 411 029 00082884 (provisional) Consultant	Indian	65	SPP Pumps Limited, England Kirloskar Chillers Private Limited.
8.	Anil Narayan Alawani Non-Executive Director Flat No 5, Yashodeep 'C', Rambaug Colony, Navi Peth, Pune – 411 030 00036153 Consultant	Indian	61	Kirloskar Brothers Limited Kirloskar Systems Limited Kirloskar Kisan Equipment Limited Denso Kirloskar Industries Private Limited. Kothrud Power Equipment Limited

Brief Biography of Our Directors

1. **Mr. Atul Chandrakant Kirloskar** aged 50 years, graduated with degree in engineering from the Worcester Institute of Technology, USA. He began his career with the erstwhile Kirloskar Cummins Limited in the year 1978. He started out as a trainee, where he worked on the shop floor in various manufacturing departments in KOEL. In December 1981, he was appointed as the Chief Executive of Cummins Diesel Sales & Services. On November 1, 1984, he was appointed as the Executive Vice President of KOEL.

   He was co-opted on the board of directors of KOEL on August 6, 1985 wherein he subsequently became the managing director. In 1988, he became the Vice Chairman of KOEL and held the position till July 25, 1998 when he was as the appointed Chairman of KOEL. He has been the Chairman of Kirloskar Ferrous Industries Limited since its inception. Since the year 1984 when he joined KOEL as an Executive Vice President, Mr. Kirloskar has been involved in enhancing the KOEL's presence in the diesel engine market; both in India and in the overseas markets. He is also a member of the World Economic Forum, Chairman of the Defence Sub-Committee & National Committee Member of Confederation of Indian Industries (CII) and Past President of the Maratha Chamber of Commerce Industries & Agriculture (MCCIA).

2. **Mr. Sanjay Chandrakant Kirloskar** aged 49 years, graduated with degree in mechanical engineering from Illinois Institute of Technology, Chicago, U.S.A. He was appointed to the posts of Vice President Operations at Kirloskarvadi factory and the Executive Vice President of Kirloskar Brothers Limited. Mr. Sanjay Kirloskar is presently the Chairman and Managing Directors of Kirloskar Brothers Limited. Under his leadership the Kirloskar Brother Limited strengthened its position in the domestic market and also made successful foray into new export markets. Mr. Sanjay Kirloskar was actively involved in developing two joint venture companies viz. the Kirloskar Copeland Limited and Kirloskar Ebara Pumps Limited with Copeland Corporation, USA and Ebara Corporation, Japan respectively.

3. **Mr. Ashok Ramkrishna Jamenis** aged 62 years, graduated with degree in mechanical engineering from the University of Pune in 1965. He has been associated with the Kirloskar Group since 1967. Mr. Jamenis has worked in various capacities and has years of experience in the fields of production, quality management and SBU administration of small and medium engines etc. of KOEL. He resigned from KOEL as the Executive Vice President (Engines) in 1998 to be appointed as Managing Director of our Company. Mr. Jamenis though his determination, knowledge and experience turned KFIL from a loss making company to a profit making venture. Mr. Jamenis resigned from the office of Managing Director on January 31, 2003 and continued to be a director liable to retire by rotation. He is also a member of the audit committee, the remuneration committee and the shareholder grievance committee of the Board of Directors. His continued guidance is indeed a valuable asset to the progress and growth of our Company. Presently he also works as one of the members, on the advisory committee of the Kirloskar Group.

4. **Mr. Srikrishna Narhar Inamdar** aged 61 years, is an advocate by profession, and has been practicing for the past thirty years. He area of specialisation is taxation and allied laws. He has had a brilliant academic career having stood first his B.Com and LLB examinations at the Pune and Bombay University and is associated with several public charitable institutions. He has been associated with our Company since March, 19,1993. He is also a director on the board of several other reputed companies.

   Mr. S.N. Inamdar's advice and contribution with respect to tax and legal matters of our Company has been invaluable.

5. **Mr. Chintaman Vishwanath Tikekar** aged 73 yeas, graduated from the Ferguson College of Engineering, Pune with a degree in metallurgical engineering with distinction. He then worked at the heat treatment shop of Premier Automobiles for over a year. Thereafter he joined Tata Engineering Co. Limited (TELCO) and during the course of service he was sent by them to visit the plant of Daimler – Benz at Germany for specialized 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 is a life member of Indian Institute of Metals, Society of Materials, Institute of Indian Foundrymen and has also been a part of several Government Committees for standardization and development. 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 Rationalisation 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 service with TELCO, he worked with Kirloskar group of companies. With his vast experience, he played a pivotal role in the conceiving, planning, installing and commissioning of the Plant of our Company at Hospet. He has been on our Board since March 1993 and has played an active role in conceptualizing, erection and commissioning of our Plant. He is also a member of the Audit Committee.

6. **Mr. Ravindranath Venkatesh Gumaste** aged 48 years, graduated with a degree in B. Tech in Metallurgical Engineering from the Karnataka Regional Engineering College, Surathkal in the year 1981 with distinction. He has been associated with the Kirloskar Group since July 1981 when he joined KOEL as a graduate trainee engineer. He worked in several departments such as heat treatment, metallurgical quality control, etc, in various capacities for a period of twelve years till June 1993.

   As an active member of the Quality Circle, he brought about quality improvements and cost savings He is also a Certified Engineer for Non destructive testing of various materials as well as a Certified Internal Auditor for ISO 9000 implementation. He won the chairman's award for indigenous development of quality equipment and has been accoladed with extraordinary performance awards during development of WVDI and Pielstick engines.

In 1993, he joined our Company and worked for the development of the project concepts, layouts and implementation of both pig iron and foundry divisions, after which, he took over as Chief of pig iron production operations and subsequently took charge of materials and marketing.

In the year 1998, he was promoted to the position of the SBU Chief of the pig iron division. He has been instrumental in implementing the systems in materials and marketing functions to cut cost of procurement, increase the cash flows and improve profitability as well as in developing the pig iron dealership network and to get a commanding market position for pig iron business. The pig iron plant was largely responsible for sustaining the business operations of the Company, when the foundry business was affected by recession.

He was appointed as Executive Director with effect from July 25, 2002 till June 30, 2003 and from July 1, 2003 he has been appointed as a Managing Director of our Company.

Mr. Gumaste was awarded "SAMAJASHREE" in the year 2005 by the Indian Council of Management Executives, Mumbai in recognition of outstanding services rendered to the public.

7. **Mr. Sudhakar Ganesh Chitnis** aged 65 years, was appointed as an Additional Director of our Company at the meeting of the Board of Directors held on January 27, 2005 and to hold office as a Director upto the date of this Annual General Meeting. Our Company has received notice in writing under Section 257 of the Companies Act, 1956 proposing his candidature for the office of Director. Mr. Sudhakar Ganesh Chitnis has a Bachelor's degree in Mechanical Engineering and has wide experience of over 38 years in manufacturing, Research & Development, Marketing etc. He recently retired at age of 63 years from the post of Vice Chairman of Kirloskar Pneumatic Company Limited after successfully turning it around in the record time of two years. At present he works as an advisor to the Kirloskar Group on techno-commercial issues and on world class manufacturing practices.

8. **Mr. Anil Narayan Alawani** aged 61 years, joined KOEL in 1990. Mr. A. N. Alawani is chartered accountant by profession and has been associated with Kirloskar Group since 1977. Prior to his appointment at KOEL, he was associated with Inex Engine Valves Limited and Kirloskar Consultants Limited. and has, besides his core area of finance and taxation, vast experience in import-export and labour matters. His expertise in the field of corporate tax planning and finance have helped the Company immensely, in financial restructuring and tax benefits.

Terms of Appointment of our Directors

The following is the term of employment of Mr. Gumaste our Managing Director. Other than Mr. Gumaste, we have no other contract with our directors providing for benefits upon termination of their directorship.

Mr. Gumaste – Managing Director

Our Board and remuneration committee at their respective meeting held on May 24, 2006 approved revision of remuneration package of Mr. Gumaste, Managing Director payable with effect from July 1, 2006 to June 30, 2008. The revision of remuneration has been approved by our shareholders at the Annual General Meeting held on July 28, 2006 also authorising our Board to make such alteration and modifications, as may be required within limits of the Companies Act, 1956 and pursuant to the Article No. 97 of the AOA of the Company.

The revised remuneration to the Managing Directors is as follows:

(A) Basic Salary shall be Rs. 340,000 per month

(B) Special Allowance of Rs. 40,000 per month

(C) Perquisites:

In addition to the aforesaid salary and special allowance, Mr. R. V. Gumaste as Managing Director shall be entitled to the following perquisites:

1. Residential accommodation, valuation of which shall not exceed Rs.10,000 per month; where no accommodation is provided by the Company, house rent allowance in lieu thereof not exceeding Rs. 10,000 per month be paid.

2. Reimbursement of all medical expenses incurred for self and family, subject to a limit of Rs. 20,000 per annum.

3. Leave travel assistance for self and family once in a year, in accordance with the rules of the Company, not exceeding Rs. 90,000 per annum.

4. Mediclaim insurance policy premium and personal accident insurance premium whereof does not exceed Rs. 10,000 per annum.

5. A car provided by the Company.

6. Telephone and internet connection at his residence.

7. Contribution to provident fund, superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income tax Act, 1961.

8. Gratuity at the rate not exceeding half a month's salary for each completed year of service as Managing Director, and

9. Leave at the rate of 30 days per calendar year of service. Leave calculation for a part of the calendar year at the date of appointment as Managing Director or on ceasing to be Managing Director shall be made on a pro-rata basis at the rate of two and a half days leave for every completed month of service. Leave accumulated and not availed of may be encashed at the end of the tenure as per the rules of the Company.

(D) Commission:

Commission shall be decided by the Board of Directors based on the net profits of the Company each year subject to the condition that the aggregate remuneration of the Managing Director shall not exceed the limit laid down under Sections 198 and 309 of the Companies Act.

(E) Minimum remuneration:

In the event of loss or inadequacy of profits in any Fiscal during the currency of his tenure as Managing Director, remuneration by way of salary, perquisites and other allowances shall be paid as mentioned under A, B and C above.

For the purpose of computation of minimum remuneration, the following shall not be included:

1. Contribution to provident fund, superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income tax Act, 1961.
2. Gratuity at a rate not exceeding half a month's salary for each completed year of service, and
3. Encashment of leave at the end of the tenure.

(F) The Managing Director, so long as he functions as such, shall not be paid any sitting fees for attending the meetings of the Board of Directors or a committee thereof.

Remuneration to Non Executive Directors:

The Company does not pay remuneration to its non-executive directors. Sitting fee of Rs. 5,000 per director is paid to all non-executive directors for each meeting of Board or any committee meetings attended by them.

Borrowing powers of Directors

Pursuant to the resolution dated January 8, 1996 passed by our shareholders passed in an extra ordinary general meeting in accordance with the Companies Act, our Board has been authorised to borrow any sum of money from time to time, for the purpose of business of the Company which apart from the temporary loans obtained from the bankers of the Company may exceed the aggregate of paid-up capital and free reserves by a sum not exceeding Rs. 2,000,000,000 (Rs. Two thousand million only).

Shareholding of our Directors in our Company

Our Articles of Association do not require our Directors to hold any Equity Shares in our Company. The following table details the shareholding of our Directors in their personal capacity and either as sole or first holder, as on the date of this Draft Letter of Offer.

Name of Directors	Number of equity shares (Pre-Issue)
Mr. Atul Kirloskar	1,600
Mr. Sanjay Kirloskar	200
Mr. S. N.Inamdar	6,100
Mr. C. V. Tikekar	6,000
Mr. R. V. Gumaste	5,000
Mr. A. N. Alawani	13,300
Mr. A. R. Jamenis	600
Mr. S. G. Chitnis	700

Changes in Our Board of Directors during the last three years

Sr. No.	Name	Date of Appointment/Change	Date of Resignation	Reason for Change
1	Mr. D. K. Dixit	July 29, 2000	March 31, 2003	Resigned
2	Mr. K.D. Hodavadekar	February 04, 2000	September 13, 2002	Change in the nomination by IDBI.
3	Mr. G.A. Tadas	September 13, 2002	May 19, 2004	Withdrawal of nomination by IDBI
4	Mr. M.R. Mundewadi	December 10, 2002	April 09, 2004	Withdrawal of nomination by ICICI
5	Mr. S.K. Singhai	January 28, 2003	August 05, 2004	Withdrawal of nomination by IFCI
6	Mr. A.R. Jamenis	January 31, 2003	N. A.	Resigned as Managing Director but continues as Director
7	Mr. R.V. Gumaste	July 01, 2003	N. A.	Appointed as Executive Directors on July 25, 2002 and appointed as Managing Director w.e.f. July 01, 2003
8.	Mr. S.G. Chitnis	January 27, 2005	N. A.	Appointed as Director
9.	Mr. Anil Narayan Alawani	October 22, 2005	N. A.	Appointed as Director

Corporate governance

There are three Board level committees in our Company, which have been constituted and function in accordance with the relevant provisions of the Companies Act and the Listing Agreement. These are the (i) Audit Committee, (ii) Remuneration Committee and (iii) Investor Grievance Committee. A brief on each Committee, its scope, composition and meetings for the current year is given below:

(i) Audit Committee

The composition of the committee is given below:

Name of the Directors	Category
Mr. S.N. Inamdar (Chairman)	Independent Non Executive
Mr. C.V. Tikekar	Independent Non Executive
Mr. A.R. Jamenis	Independent Non Executive
Mr. S.G. Chitnis	Independent Non Executive

The representatives of the internal auditors, statutory auditors and Senior General Manager – Finance are also invited to the meetings. The company secretary acts as the secretary of the Committee.

Scope and terms of reference

The terms of reference of the Audit Committee include matters specified under Clause 49 of the Listing Agreement entered into with the Stock Exchange as well as those in Section 292A of the Companies Act and inter-alia includes the review of the Company's financial reporting process and the disclosures of its financial information to ensure that the financial statement is correct, sufficient and credible, recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditors and the fixation of audit fees, approval of payment to statutory auditors for any other services rendered by the statutory auditors, reviewing the annual financial statements before submission to the Board, for approval, with particular reference to changes, if any, in accounting policies and practices and reasons for the same, major accounting entries involving estimates based on the exercise of judgment by management, significant adjustments arising out of audit findings, compliance with listing and other legal requirements relating to financial statements, disclosure of any related party transactions, qualification in draft audit report, reviewing, with the management, the quarterly financial statements before submission to the board for approval, etc.

(ii) Remuneration Committee

The composition of the committee is given below:

Name of the Directors	Category
Mr. S. N. Inamdar	Independent Non Executive
Mr. Sanjay C. Kirloskar	Non Independent Non Executive
Mr. A.R. Jamenis	Independent Non Executive
Mr. A.N Alawani	Independent Non Executive

The Remuneration Committee has met once during the course of this Financial Year on May 24, 2006 to consider an increase in the remuneration of the Managing Director.

Scope and terms of reference

The Remuneration Committee of the Board of Directors was constituted on June 24, 2002 and has been set up to review the compensation structure and related policies of the Company.

(iii) Investors Grievances Committee

The composition of the committee is given below:

Name of the Directors	Category
Mr. Atul Kirloskar (Chairman)	Non Independent Non Executive
Mr. C.V. Tikekar	Independent Non Executive
Mr. A.R. Jamenis	Independent Non Executive

Name of the Directors	Category
Mr. A.N Alawani	Independent Non Executive

Mr. Sarang Deshpande, Deputy Manager, Secretarial & Legal who is also a member of the Institute of Company Secretaries of India is the compliance officer of our Company.

Scope and terms of reference

The Shareholders'/Investors' Grievance committee of the Board has been constituted in terms of the mandatory requirement of Clause 49 of the Listing Agreement to look into complaints like transfer of shares, non-receipt of Balance Sheet, non-receipt of dividend etc. As on date, there are no pending investors' complaints. The investors' complaints received by the Company till date have been responded directly by our Registrar and Transfer Agent in consultation with the Compliance Officer and the Company Secretary and report on such investors' grievances and share transfers approved by the Company Secretary are placed at every board meeting of our company. Consequently, our Investors' Grievance Committee has not met regularly in the past.

Key managerial personnel

All our key managerial employees are permanent employees of our Company and none of them are related to each other or to any Director of our Company.

Mr. Chandra Shekhar Panicker, 52 years, holds a Bachelor's degree in Commerce and is also a qualified Chartered Accountant and Company Secretary. He has a career spanning 26 years and before joining our Company was working with Magnetti Marelli India Limited. Mr. Panicker has vast experience in the fields of finance, accounts and secretarial practice, wherein his responsibilities entailed effective financial control and systems, taxation and secretarial compliances. Mr. Panicker is currently Senior General Manager- Corporate Finance and the Company Secretary of our Company. Mr. Panicker's remuneration for the Fiscal 2005-06, including all benefits (excluding gratuity and leave encashment payable at the time of superannuation or on separation) was Rs. 895,260.

Mr. Gangadhara Datta Nandish, 46 years, holds a Bachelor's degree in Mechanical Engineering and a Masters in Business Administration (Marketing). He has a career spanning 23 years and before joining our Company was working with Hospet Steels. Mr. Nandish has vast experience in the marketing of steel and allied products. His responsibilities entail delivering professional advice on commercially available steel for particular applications and has an expertise in the area of analysis on industry customers etc. Mr. Nandish is currently an Associate Vice President and the SBU Chief of the Foundry Division of our Company. Mr. Nandhish's remuneration for the Fiscal year 2005-06, including all benefits (excluding Gratuity and leave encashment payable at the time of superannuation or on separation) was Rs. 933,785.

Mr. Nishikant Balakrishna Ektare, 45 years, holds a Bachelor's degree in Electrical Engineering. He has a career spanning 24 years and before joining our Company worked with Usha Ispat Limited. Mr. Ektare has had vast experience in being a project member for commissioning of electrical and PLC systems of blast furnaces and has also been responsible for the maintenance of electrical systems, plc, drives and instrumentation in steel industries. Mr. Ektare is currently an Associate Vice President and the SBU Chief of the Pig Iron Division of our Company and is also involved in planning and setting up future projects and new ventures for the pig iron division of our Company. Mr. Ektare's remuneration for the Fiscal 2005-06, including all benefits (excluding Gratuity and leave encashment payable at the time of superannuation or on separation) was Rs. 1,003,316.

Mr. Raviprakash Srinivasa Srivatsan, 42 years, holds a Bachelor's Degree in Commerce and is a qualified Chartered Accountant. He has a career spanning 21 years and before joining our Company worked with Vasavadatta Cement a division of Kesoram Industries Limited. Mr. Srivatsan has vast experience in the fields of accounts and finance and has been in-charge for commercial aspects in Cement plant expansion project. Mr. Srivatsan is the Senior General Manager-Finance of our Company. Mr. Srivatsan's remuneration for the Fiscal 2005-06, including all benefits (excluding Gratuity and leave encashment payable at the time of superannuation or on separation) was Rs. 919,434.

Mr. Sekhar. S. Iyer, 47 years, holds a Masters degree in Business Management 1980 where he was a gold medallist and holds a post-graduate specialisation developmental administration from the Institute for Universal Cooperation, Rome, Italy. He is at present, pursuing his doctoral programme at Bahadur Institute of Management Sciences, Mysore on collective bargaining-productivity, as an external candidate. He has a career spanning 25 years and before joining our Company worked with Automotive Axless Ltd (a Kalyani Group company) and Siemens Automotive, Bangalore. Mr. Sekhar has vast experience in the fields of human resource management and industrial relations. Mr. Sekhar is a life member of National Institute of Personnel Management and was the Chairman of the Mysore Chapter of the National Institute of Personnel Management in the year 2004-06. He is also a member of the International Industrial Relations, Geneva, Switzerland and is a visiting faculty of many management institutes in and around Mysore and Bangalore. Mr. Sekhar joined our Company on August 10, 2006 and is currently the Senior General Manager-Human Resources and General Administration and will be responsible to oversee the human resources, general administration and industrial relations. Mr. Sekhar's remuneration including all benefits (excluding Gratuity and leave encashment payable at the time of superannuation or on separation) is Rs. 97,350 per month.

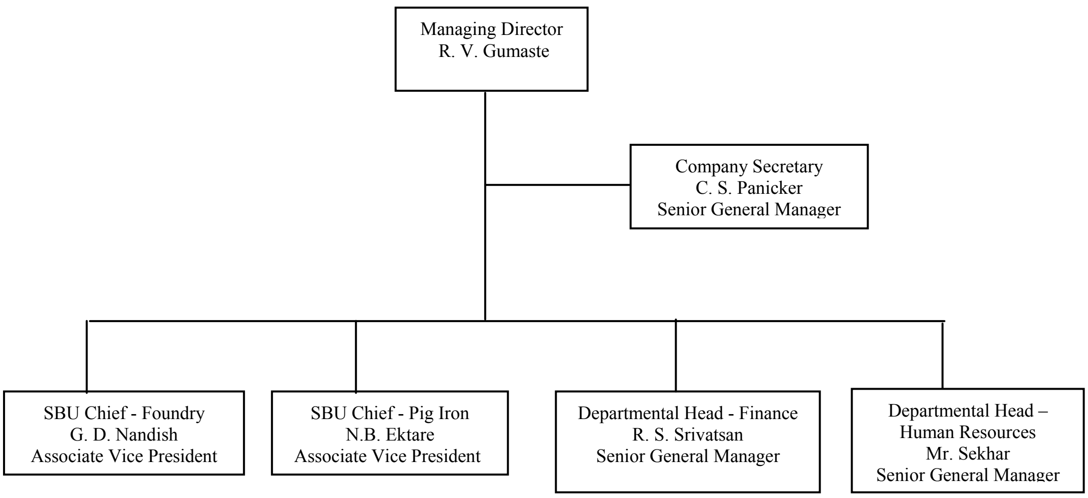
All the abovementioned key managerial personnel are permanent employees of our Company. The remuneration of each of our key personnel is as per the statement pursuant to Section 217(2A) of the Companies Act and the Companies (Particulars of Employees) Rules, 1975.

Steering Committee

The abovementioned key managerial personnel form part of the steering committee which is headed by the Managing Director. The Steering Committee supervises the day-to-day operations of our Company.

Organization Structure:

The organization structure of the senior management of our Company is given below:



Current shareholding of our KMP in our Company

Name of Key Managerial Personnel	No. of Equity Shares held
None	

Interest of Promoters, Directors and key managerial personnel

Except as stated in the section titled “Related Party Transactions” beginning on page 99 of this Draft Letter of Offer, and to the extent of shareholding in our Company, our Promoters and Promoter Group do not have any other interest in our business.

The key managerial personnel of our Company do not have any interest in our Company other than to the extent of the remuneration or benefits to which they are entitled to as per their terms of appointment and reimbursement of expenses incurred by them during the ordinary course of business and to the extent of the Equity Shares held by them in our Company, if any. The Company does not have a scheme for grant of stock options.

Except as stated otherwise in this Draft Letter of Offer, we have not entered into any contract, agreement or arrangement during the preceding two years from the date of this Letter of Offer in which our Directors are interested directly or indirectly and no payment have been made to them in respect of these contracts, agreements or arrangements or are proposed to be made to them. Our Directors and our key managerial personnel have not taken any loan from our Company.

Changes in our key managerial employees during the last three years

Name	Date of appointment	Date of cessation	Reason
Mr. K.P. Angurajan	September 16, 1999	April 13, 2006	Resigned
Mr. Sekhar Iyer	August 10, 2006	-	-
Mr. HN Somashekarappa	February 18, 2006	September 16, 2006	Retirement

PROMOTER AND PROMOTER GROUP

1. KIRLOSKAR OIL ENGINES LIMITED ("KOEL")

Kirloskar Oil Engines Limited *(erstwhile Prashant Khosla Pneumatics Limited*) was incorporated on June 13, 1978 at Jaipur under the Companies Act, 1956. The shares of KOEL are listed on the BSE and the NSE.

KOEL is engaged in the business of designing, developing and manufacturing engines, engine bearings, castings and valves. The registered office of KOEL is situated at Laxmanrao Kirloskar Road, Khadki, Pune 411 003.

Shareholding pattern as of June 30, 2006 The equity shareholding pattern of KOEL as of June 30, 2006 is as stated below:

No.	Name of the Shareholder	No of Shares	% of shareholding
1.	Promoters and Promoter Group	59244195	61.02
2.	FI, Banks and Mutual funds	6659092	6.86
3.	Private Body Corporate	5949551	6.13
4.	NRI/OCB	307976	0.32
5.	Public	24925376	25.67
6.	Others	-	-
Total		97086190	100.00

KOEL has not issued any preference shares. Further, there has been no change in management of KOEL in the last six months.

Share Quotation

The shares are listed on BSE. The details of the highest and lowest price during the preceding six months is as stated below:

	Highest (Rs.)	**Date**	**Lowest (Rs.)**	**Date**
March 2006	293.00	31.03.2006	196.00	01.03.2006
April 2006	321.50	10.04.2006	272.00	04.04.2006
May 2006	330.00	02.05.2006	219.00	24.05.2006
June 2006	255.00	01.06.2006	154.00	14.06.2006
July 2006	195.00	03.07.2006	161.20	24.07.2006
August 2006	223.00	28.08.2006	180.00	02.08.2006

Source: www.bse.com

The closing price of the equity shares on the BSE as on September 15, 2006 was Rs. 224.00.

The shares are listed on NSE. The details of the highest and lowest price during the preceding six months is as stated below:

	Highest (Rs.)	**Date**	**Lowest (Rs.)**	**Date**
March 2006	292.00	31.03.2006	195.30	01.03.2006
April 2006	319.80	27.04.2006	263.10	03.04.2006
May 2006	332.00	02.05.2006	215.00	23.05.2006
June 2006	257.85	01.06.2006	153.95	14.06.2006
July 2006	198.45	03.07.2006	161.00	24.07.2006
August 2006	225.80	28.08.2006	180.00	07.08.2006

Source: www.nse.com

The closing price of equity shares on the NSE as on September 15, 2006 was Rs. 223.40.

Board of Directors

The board of directors of KOEL comprises of

Mr. Atul C. Kirloskar,
Mr. Sanjay C. Kirloskar,
Mr. Gautam A. Kulkarni,
Mr. Rahul C. Kirloskar,
Mr. Vikram S. Kirloskar,
Mr. D.R. Swar,
Mr. R. R. Deshpande,
Mr. H.M. Kothari,
Mr. U.V. Rao,
Mr. P.G. Pawar,
Mr. V.K. Bajhal,
Dr. N.A. Kalyani,
Mr. R. Srinivasan and
Dr. Naushad Forbes.

Financial Performance

(In Rs. Million except per share data)

Particulars	As at and for the year ended March 31,		
	2004	2005	2006
Net Sales and other Income	10,639.38	12,060.15	14,712.07
Profit/ (loss) after tax (before adjustments)	707.65	1,738.94	2,005.87
*Equity capital (par value Rs. 2 per share)	970.86	970.86	970.86
Reserves	3,963.39	5,426.58	6,989.57
Earnings per share	7.29	17.91	20.66
Book value per Share	2	2	2

* The equity shares of the Company were sub-divided w.e.f 18 August 2005. For every one share of Rs. 10 each, five equity shares of Rs. 2 each were issued. Consequently, the number of equity shares of the Company is changed from 19,417,238 shares of Rs. 10 each to 97,086,190 equity shares of Rs. 2 each. All the related references for Equity capital and Earnings per share stated above are restated for the sake of comparability.

KOEL's PAN, Bank Account details, registration number and address of ROC

KOEL has confirmed the following details

S. N.	Particulars	Information
1.	Registration Number	CIN L29112MH1978PLC088972
2.	Address of ROC	ROC, Pune, PMT Commercial Building, 3rd Floor, Deccan Gymkhana, Pune – 411 004
3.	PAN	AAACP3590P
4.	Bank Account details	HDFC Bank – CC Account No. 70110000243, 70320000085,70320000078
		Bank of Maharashtra – CC Account No. 2224
		Cosmos Co-operative Bank Ltd. – CC Account No. 93002
		State Bank of India – CC Account No. 160000501901
		ICICI Bank Limited – Current Account No. 000505002793

KOEL has confirmed that it is not detained as willful defaulter by the Reserve Bank of India or any other Governmental authority and there are no violations of securities laws committed by it in the past or are pending against it. Further, KOEL is not a sick company under SICA and is not under winding up.

KOEL is not prohibited from accessing or operating in the capital markets or restrained from buying, selling or dealing in securities under any order or direction passed by SEBI.

Mechanism for redressal of investor grievances:

KOEL has constituted an Investor Grievance Committee in terms of the mandatory requirement of Clause 49 of the Listing Agreement to look into the redressal of grievances of investors like non receipt of share certificates, non-receipt of balance sheet, non-receipt of dividend warrants etc.

Common Pursuits

Our Company and KOEL are both engaged in the manufacture of grey iron castings, which are primarily used in the manufacture of parts for the automobile industry especially tractors. There is no other common pursuit or conflict of interest between KOEL and our Company.

RELATED PARTY TRANSACTIONS

For related party transaction with our Company please refer to the section titled "Auditors Report" beginning on page 111 of this Draft Letter of Offer.

Other than the related party transactions and its equity and preference shareholding in our Company, KOEL does not have any other interest either directly or indirectly in our Company.

2. POOJA CREDITS PRIVATE LIMITED ("PCPL")

PCPL was incorporated as a private limited company on March 1, 1988 under the provisions of the Companies Act, 1956 to carry on the activities of an investment company. The current business consists of an investment company. The name of the company was changed to Pooja Credits Limited on January 16, 1995 and with effect from March 18, 2002, once again name was changed to Pooja Credits Private Limited. PCPL is a wholly owned subsidiary of Kirloskar Brothers Limited, one of our Group Companies. The registered office of PCPL is situated at Udyog Bhavan, Tilak Road, Pune – 411 002.

As on date of filing this Prospectus, PCPL is a Promoter of our Company and holds 2,000,000 equity shares of Rs. 10 each aggregating to 2.77 % of the shareholding of our Company. The equity shares of PCPL are not listed on any stock exchange

Shareholding pattern as of January 31, 2006

The equity shareholding of PCPL is as given below:

S. No	Name of the equity shareholders	No. of equity shares	Percentage of holding
1.	Kirloskar Brothers Limited	34,45,475	99.99
2.	Mr. Anant R. Sathe	1	0.01
3.	Mr. Gurunath G. Palekar	1	0.01
	Total	**34,45,477**	**100.00**

There has been no change in capital structure and the management of PCPL in the last six months. Further, PCPL has not issued any preference shares.

Board of Directors

The board of directors of PCPL comprises of Mr. Sanjay Chandrakant Kirloskar, Mr. Anant Ramkrishnan Sathe and Mr. Kalambettu S. Bhat.

Financial Performance

The financial results of **PCPL** for the fiscal 2003-04, 2004-05 and 2005-06 are as hereunder:

[Please provide the information below]

(In Rs. Million except per share data)

Particulars	As at and for the year ended March 31,		
	2003-04	2004-05	2005-06
Net Sales and other Income	23.72	19.31	30.73
Profit/ (loss) after tax (before adjustments)	21.99	19.05	30.63
Equity capital (par value Rs. 10 per share)	34.45	34.45	34.45
Reserves	36.88	39.37	44.47
Earnings per share	6.38	5.53	8.89
Book value per Share (of Rs. 10 each)	10.70	11.33	12.91

PCPL's PAN, Bank Account details, registration number and address of ROC

PCPL has confirm the following details

S. N.	Particulars	Information
1.	Registration Number	11-71708
2.	Address of ROC	Registrar of Companies, Maharashtra, Pune, PMT Commercial

S. N.	Particulars	Information
		Building, 3rd Floor, Deccan Gymkhana, Pune – 411 004
3.	PAN	AABCP0997P
4	Bank Account details	Account Number – 0070330000668 HDFC Bank Limited 885, Bhandarkar Road Branch, Pune

PCPL has confirmed that it is not detained as willful defaulter by the Reserve Bank of India or any other Governmental authority and there are no violations of securities laws committed by it in the past or are pending against it. Further, PCPL is not a sick company under SICA and is not under winding up.

PCPL is not prohibited from accessing or operating in the capital markets or restrained from buying, selling or dealing in securities under any order or direction passed by SEBI.

3. KIRLOSKAR PNEUMATIC COMPANY LTD. ("KPCL")

KPCL was incorporated on March 27, 1958 under the Companies Act, 1956. KPCL is engaged in the business of company is manufacture and sale of engineering goods and machinery such as compressed air, air conditioning & refrigeration and mechanical & hydraulic power transmission equipment.

In the year 1983, KPCL was merged with Kirloskar Tractors Limited pursuant to which the name of the company i.e. Kirloskar Tractors Limited was changed to Kirloskar Pneumatic Company Limited on September 4, 1984.

In the year 2002, KPCL was merged with KG Khosla Compressors Limited and the name of the company i.e. KG Khosla Compressors Limited was changed to Kirloskar Pneumatic Company Limited on June 4, 2002.

The registered office of KPCL is situated at Hadapsar Industrial Estate, Pune – 411 013. The shares of KPCL are listed on the BSE.

As on the date of filing this Prospectus, KPCL is a Promoter of our Company and holds 2,000,000 equity shares aggregating to 2.77 % of the shareholding of our Company.

Shareholding pattern as of June 30, 2006 The equity shareholding pattern of KPCL as of June 30, 2006 is as stated below:

No.	Name of the Shareholder	No of Shares	% of shareholding
1.	Promoters and Promoter Group	7,050,152	54.89
2.	FI, Banks and Mutual funds	1,111,973	8.66
3.	Private Body Corporate	996,713	7.76
4.	NRI/OCB	130,639	1.02
5.	Public	3,475,234	27.06
6.	Others	79,627	0.61
Total		12,844,338	100.00

KPCL has not issued any preference shares. Further, there has been no change in management of KPCL in the last six months.

Share Quotation

The shares are listed on BSE. The details of the highest and lowest price during the preceding six months is as stated below:

	Highest (Rs.)	**Date**	**Lowest (Rs.)**	**Date**
March 2006	425.00	10/03/06	335.25	24/03/06
April 2006	450.00	20/04/06	372.50	04/04/06
May 2006	459.90	11/05/06	346.80	31/05/06
June 2006	361.05	01/06/06	243.60	15/06/06
July 2006	315.00	12/07/06	240.00	25/07/06
August 2006	330.00	21/08/06	244.00	02/08/06

Source: www.bse.com

The closing price of the equity shares on the BSE as on September 15, 2006 was Rs. 283.35.

Board of Directors

The board of directors of KPCL comprises of

1. Mr. Sanjay Chandrakant Kirloskar Chairman
2. Mr. Hari Ramchandra Mustikar Managing Director
3. Mr. Rahul Chandrakant Kirloskar
4. Mr. Vikram S. Kirloskar
5. Mr. A.C. Mukherjee
6. Mr. Padmakar S. Jawadekar
7. Mr. G. Kirshna Rao
8. Dr. M. K. Datar Nominee Director of IDBI
9. Mr. Janardan Yashwantrao Tekawade.

Financial Performance The financial results of KPCL for fiscal year ending 2004, 2005 and 2006 are as stated below:

(In Rs. Million except per share data)

Particulars	As at and for the year ended March 31,		
	2004	2005	2006
Net Sales and other Income	2,245.97	2,703.57	3,110.17
Profit/ (loss) after tax (before adjustments)	9.52	15.28	106.62
Equity capital (par value Rs. 10 per share)	128.44	128.44	128.44
Reserves	188.44	202.55	308.65
Earnings per share	0.67	1.10	8.26
Book value per Share	26.83	27.92	36.10

KPCL's PAN, Bank Account details, registration number and address of ROC

KPCL has confirmed the following details

S. N.	Particulars	Information
5.	Registration Number	L29120MH1997PLC110307
6.	Address of ROC	ROC, Pune, PMT Commercial Building, 3rd Floor, Deccan Gymkhana, Pune – 411 004
7.	PAN	AAACK2479C
8.	Bank Account details	Bank of India – CC Account No. 050030100000112
		Bank of Maharashtra – CC Account No. 0941-0000-001003
		ICICI Bank Ltd. – CC Account No. 000551000041
		Union Bank of India – CC Account No. 505705010050010
		The United Western Bank Ltd. – CC Account No. 101663511000002
		State Bank of India – CC Account No. 0160003003000

KPCL has confirmed that it is not detained as willful defaulter by the Reserve Bank of India or any other Governmental authority and there are no violations of securities laws committed by it in the past or are pending against it. Further, KPCL is not a sick company under SICA and is not under winding up.

KPCL is not prohibited from accessing or operating in the capital markets or restrained from buying, selling or dealing in securities under any order or direction passed by SEBI.

Mechanism for redressal of investor grievances:

KPCL has constituted an Investor Grievance Committee in terms of the mandatory requirement of Clause 49 of the Listing Agreement to look into the redressal of grievances of investors like non receipt of share certificates, non-receipt of balance sheet, non-receipt of dividend warrants etc.

Related party transactions with our Company

KPCL does not have any interest either directly or indirectly in our Company.

4. KIRLOSKAR SYSTEMTS LIMITED (KSL)

KSL was incorporated as Kirloskar Asea Limited on February 20, 1962 under the Companies Act, 1956. The name was changed to Kirloskar Systems Limited on March 28, 1977.

KSL was initially engaged in the business of manufacturing electrical switchgear in the low and medium voltage range with technology from Italy that was subsequently transferred to Kirloskar Electric Co. Ltd. In December 1997. After such transfer, KSL was engaged in the business of manufacturing of auto components such as axels, propeller shaft, etc. However, in March 2002, this business of KSL was transferred to Toyota Kirloskar Auto Parts Private Limited, a joint venture between KSL and Toyota Motor Corporation, Japan At present, KSL is not engaged in any manufacturing activity. In December 2002, 'development of land' was added to the objects clause of the MOA of KSL pursuant to which KSL has been since engaged in land development activities. The registered office of KSL is situated at Kirloskar Kisan Compound, 13A Karve Road, Kothrud, Pune – 411 038.

The equity shares of KSL were initially listed on the Bangalore Stock Exchange however, its shares were subsequently delisted with effect from July 16, 2002. Currently, the shares of KSL are not listed on any of the stock exchanges.

Shareholding pattern as of August 31, 2006

The equity shareholding of KSL as of August 31, 2006 is as given below.

S. NO.	Name of the equity shareholders	No. of Shares	Percentage of Holding
1.	Better Value Holdings Private Limited	8966516	49.19
2.	PIH Finvest Company Limited	8550000	46.90
3.	Asara Sales & Investments Private Limited	*560830	3.08
4.	Cees Investments & Consultants Pvt. Limited	50	0.00
5.	Directors	1500	0.01
6.	Relatives of Directors		
7.	General Public	150017	0.82
	Total	18228913	100.00

* Registration and Transfer of 5,50,000 Equity Shares are Pending

KSL has not issued any preference shares. There has been no change in capital structure and the Management of KSL in the last six months.

Board of Directors

The Board of Directors of KSL comprises of

Mr. Vikram S. Kirloskar – Chairman and Managing Directors,
Mr.Atul C. Kirloskar,
Mr. A.N.Alawani,
Mr.Shekar Viswanathan and
Mr.A.C.Kulkarni – Executive Director

Financial Performance

The Operating results of KSL for the fiscal 2004, 2005 and 2006 are as hereunder

(Rs. In Million except per share data)

	As at and for the year ended March, 31		
	2004	2005	2006
Net Sales and other income	60.85	640.87	401.13
Profit/(loss) after tax (before adjustments)	(39.97)	474.85	316.43
Equity Capital (par value Rs.10 per share)	182.26	182.26	182.26
Reserves	1245.76	1720.62	2037.05
Earnings Per Share	(2.19)	26.05	17.36
Book value per Share (of Rs.10 each)	78.34	104.40	121.76

KSL' PAN, Bank Account Details, registration number and address of ROC

KSL has confirmed the following details

S.N.	Particulars	Information
1.	ROC Number	CIN U 34300PN1962PLC019832
2	Address of ROC	Registrar of Companies, Maharashtra, Pune, PMT Commercial Building, 3rd Floor, Deccan Gymkhana, Pune 411004
3	PAN	AABCK1613K
4	Bank Accounts Details	HDFC Bank, MG Road Branch, Bangalore-0762320001231

We confirm that we are not detained as willful defaulter by the Reserve Bank of India or any other Governmental authority and there are no violations of securities laws committed by it in the past or are against it. Further, we are not a sick company under SICA and that no winding up/ strike-off proceedings in currently pending/ initialed against the Company.

There are no related party transactions between us and Kirloskar Ferrous Industries Limited.

There is no other common pursuit or conflict of interest between us and Kirloskar Ferrous Industries Limited

We have not disassociated ourselves with any company/firm in the last 3 years.

We are not prohibited from accessing or operating in the capital markets or restrained from buying, selling or dealing in securities under any order or direction passed by SEBI.

5. PRAKAR INVESTMENTS PRIVATE LIMITED ("PIPL")

PIPL was incorporated on January 15, 1992 under the provisions of the Companies Act,1956 to carry on the activities of an investment company. The current business consists of PIPL buying, selling and dealing in shares and securities. PIPL was promoted by Sanjay Chandrakant Kirloskar and Pratima Sanjay Kirloskar who continue to hold the entire share capital of PIPL. The registered office of PIPL is situated at 13A, Kirloskar Kisan Premises, Karve Road, Kothrud, Pune-411038.

As on the date of filing this Prospectus, PIPL is a Promoter of our Company and holds 100,200 equity shares aggregating to 0.14% of the shareholding of our Company. The equity shares of PIPL are not listed on any stock exchange.

Shareholding pattern as of August 31, 2006

The equity shareholding of PIPL as of August 31, 2006 is as given below:

S.No	Name of the equity shareholders	No. of equity shares	Percentage of holding
1.	Sanjay Chandrakant Kirloskar	22,010	84.59
2.	Pratima Sanjay Kirloskar	4,010	15.41
	Total	**26,020**	**100.00**

PIPL has also issued 4% cumulative redeemable preference shares to the following shareholders. The Preference shares are liable to be redeemed at the option of PIPL at any time after 5 years from the date of issue i.e. March 30, 1999 but before the expiry of 20 years.

S.No	Name of the preference shareholders	No. of preference shares	Percentage of holding
1.	Sanjay Chandrakant Kirloskar	1,340	100.00
	Total	**1,340**	**100.00**

There has been no change in capital structure and the management of PIPL in the last six months.

Board of Directors

The board of directors of PIPL comprises of

Mr. Sanjay Kirloskar,
Mrs. Pratima Kirloskar,
Mr. Anil Kulkarni and
Mr. C.H. Naniwadekar.

Financial Performance

The financial results of PIPL for fiscal year ending 2004, 2005 and 2006 are as stated below:

(in Rs. Million except per share data)

	As at and for the year ended March 31,		
	2004	**2005**	**2006**
Net Sales and other Income	0.14	0.11	26.54
Profit/ (loss) after tax (before adjustments)	(0.32)	(0.33)	26.09
Equity capital (par value Rs. 100 per share)	2.6	2.6	2.6
Reserves	0.45	0.56	26.47
Earnings per share (Rs.)	(12.42)	(7.96)	1002.37
Book value per Share (of Rs. 100 each)	117.51	121.73	1117.46

Enriching Lives

PIPL's PAN, Bank Account details, registration number and address of ROC

We confirm the following details

S.N.	Particulars	Information
1.	Registration Number	U65993MH1992PTC064861
2.	Address of ROC	Registrar of Companies, Maharashtra, Pune, PMT Commercial Building, 3rd Floor, Deccan Gymkhana, Pune 411 004
3.	PAN	AABCP1268P
4.	Bank Account details	HDFC Bank, Bhandarkar Road Branch, Pune C.A. No. 0070330000184

We confirm that we have not been detained as willful defaulter by the Reserve Bank of India or any other Governmental authority and there are no violations of securities laws committed by it in the past or are pending against it. We are not a sick company under SICA and that no winding up/strike-off proceedings in currently pending/initiated against the company.

There are no related party transactions between us and Kirloskar Ferrous Industries Limited

There is no other common pursuit or conflict of interest between us and Kirloskar Ferrous Industries Limited.

We have not disassociated ourselves with any company/firm in the last 3 years.

We are not prohibited from accessing or operating in the capital markets or restrained from buying, selling or dealing in securities under any order or direction passed by the SEBI.

Enriching Lives

6. ACHYUT & NEETA HOLDINGS & FINANCE PRIVATE LIMITED (“ANHFPL”)

ANHFPL was incorporated on September 8, 1993 under the Companies Act, 1956 to carry on the activities of an investment Company. The Company was promoted by Mr. Gautam A. Kulkarni and the initial investment was made by Mr. Gautam A. Kulkarni, Mrs. Jyotsna Kulkarni and Ms. Aditi Chirmule. The registered office of ANHFPL is situated at “Yena” Adwaitnagar, Paud Road, Pune – 411 038

As on the date of filing this Prospectus, ANHFPL is a Promoter of our Company and holds 285 equity shares of our Company. The equity shares of ANHFPL are not listed on any stock exchange.

Shareholding pattern as of August 31, 2006

The total capital of ANHFPL is held by Mr. Gautam A. Kulkanri and his relatives. The equity shareholding of ANHFPL as on August 31, 2006 is:

S.No	Name of the equity shareholders	No. of equity shares	Percentage of holding
1.	Mr. Gautam Achyut Kulkarni	34,118	80.37
2.	Mrs. Jyotsna Gautam Kulkarni	8,331	19.63
3.	Mrs. Neeta A . Kulkarni	1	0.00
	Total	**42,450**	**100.00**

The preference shareholding of ANHFPL as on August 31, 2006 is:

S.No	Name of the preference shareholders	No. of preference shares	Percentage of holding
1.	Mr. Gautam Achyut Kulkarni	22,300	98.89
2.	Mrs. Neeta Achyut Kulkarni	250	1.11
	Total	**22,550**	**100.00**

There is no Change in management of the Company in the last six months.

Board of Directors

The board of directors of ANHFPL comprises of

Mr. Gautam A. Kulkarni,
Mrs. Jyotsna G. Kulkarni and
Mr. Anil C. Kulkarni

Financial Performance

The financial results of ANHFPL for fiscal year ending 2004, 2005 and 2006 are as stated below:

(In Rs. Million except per share data)

	As at and for the year ended March 31,		
	2004	**2005**	**2006**
Net Sales and other Income	1.27	6.82	24.23
Profit/ (loss) after tax (before adustents)	0.18	5.72	23.64
Equity capital	4.24	4.24	4.24
Reserves	(1.01)	4.70	28.34
Earnings per share	2.09	132.61	554.80
Book value per Share (of Rs. 100/- each)	76.07	210.81	767.73

ANHF's Pan, Bank Account details, registration number and address of Roc

We confirm the following details:

S.N.	Particulars	Information
1.	Registration Number	U67120MH1993PTC073841
2.	Address of ROC	Registrar of Companies, Maharashtra, Pune, PMT Commercial Building, 3rd Floor, Deccan Gymkhana, Pune 411 004
3.	PAN	AABCA5802E
4.	Bank Account details	HDFC Bank, Bhandarkar Road Branch, Pune. C.A. No. 0072560000211

We confirm that we are not detained as willful defaulter by the Reserve Bank of India or any other Governmental authority and there are no violations of securities laws committed by it in the past or are pending against it. Further, we are not a sick Company under SICA and that no winding up/strike-off proceedings in currently pending/initiated against the Company.

There are no related party transactions between us and Kirloskar Ferrous Industries Limited.

There is no other common pursuit or conflict of interest between us and Kirloskar Ferrous Industries Limited.

We have not disassociated ourselves with any Company/firm in the last 3 years.

We are not prohibited from accessing or operating in the capital markets or restrained from buying, selling or dealing in securities under any order or direction passed by the SEBI.

Enriching Lives

AUDITORS REPORT

FINANCIAL STATEMENTS

STATEMENTS OF ASSETS AND LIABILITIES AND PROFITS AND LOSSES, AS RESTATED, UNDER INDIAN GAAP FOR THE YEARS ENDED MARCH 31 2002, 2003, 2004, 2005 AND 2006.

Auditor's Report as required by Part II of Schedule II of the Companies Act, 1956

M/s P. G. Bhagwat
Chartered Accountants

To,
The Board of Directors,
Kirloskar Ferrous Industries Limited.

We have examined the financial information (given in Annexure I to XVI attached to this report) of Kirloskar Ferrous Industries Limited ('the Company') as approved by the Board of Directors of the Company. The said financial information is the responsibility of the management and has been prepared in terms of the requirements of -

(i) Paragraph B 1) of Part II of Schedule II of the Companies Act, 1956;
(ii) Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 ('the Guidelines') issued by the Securities and Exchange Board of India ("SEBI") on January 19,2000 in pursuance of Section 11 of SEBI Act, 1992 the SEBI Guidelines and amendments made thereto, to the extent applicable; and
(iii) Our terms of the assignment letter dated 22nd September, 2006 requesting us to carryout work in connection with the financial information referred to above and proposed to be included in the Letter of Offer of the Company in connection with its' proposed rights issue of equity shares.

Based on our examination of the aforesaid annexures, we report as under:

1. In our opinion, the financial informations contained in the 'Statement of restated profit and loss' **(Annexure II)** and 'Statement of restated cash flows' **(Annexure III)** for each of the financial years ended March 31 2002, 2003, 2004, 2005 and 2006 and 'Statement of restated assets and liabilities' **(Annexure I)** as on those dates have been extracted from the financial statements audited by us and after making the necessary and relevant disclosures and adjustments required to be made, which is in accordance with the provisions of Part II of Schedule II of the Companies Act, 1956 and the Guidelines and found correct. The said audited financial statements for each of the financial years ended March 31, 2002, 2003, 2004, 2005 and 2006 were adopted by the members of the Company.

2. The matters stated in following annexures have been extracted from the financial statements audited by us and have been correctly recorded/computed/restated.

Annexure No.	Matter stated therein
IV	Significant Accounting Policies, Notes on adjustments & Selective Notes for restated financial statements.
V	Statement of Details of Other Income.
VI	Statement of Rates of Dividend
VII	Capitalization statement as at 31st March, 2006.
VIII(a)	Statement of Details of Secured loans.

VIII(a)	Statement of Details of Unsecured loans.
VIII(b)	Details of Principal, Terms & Conditions of Loan outstanding.
IX	Statement of Details of Investments.
X	Statement of Details of Debtors.
XI	Statement of Details of Loans & Advances.
XII	Statement of Contingent Liabilities.
XIII(a) & (b)	Statement of Related Party Transactions.
XIV	Accounting ratios.
XV	Statement of tax shelter.
XVI	Statement of adjustments to Audited Profit & Loss Account

3. There are no material changes as per Accounting Standard - 4 (Contingencies and Events occurring after the balance sheet date) occurring after March 31, 2006

4. We confirm that restatements or adjustments wherever required have been made as per SEBI Guidelines in respect of the financial information.

5. The company has not paid any dividend on Equity Shares in any of the years / period mentioned above. However the company has paid dividend to the Cumulative Redeemable Preference Share (CRPS) Holders

Year	**Class of share**	**Amount (Rs. Millions)**
2004-05	12% CRPS (inclusive of arrears)	113.38
2005-06	12% CRPS (for 2005-06) 1% CRPS (inclusive of arrears)	38.96 188.83

6. Except for the information referred to in the aforesaid, other pages of Letter of Offer have not been reviewed by us. This report is intended solely for the use of Kirlsokar Ferrous Industries Ltd. , for the purpose of inclusion in the Letter of Offer in connection with the proposed Right issue of the Company. This report may not be used or relied upon by, or disclosed, referred to or communicated by yourself (in whole or in part) to, any third party for any purpose other than the stated use, except with our written consent in each instance, and which consent, may be given, only after full consideration of the circumstances at that time.

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner

Membership No. 206124

Place: Pune
Date: 28th September, 2006

ANNEXURE – I

STATEMENT OF ASSETS AND LIABILITIES - RESTATED

(Rs.in Millions)

	AS AT MARCH 31ST	2006	2005	2004	2003	2002
A	**Fixed Assets**					
	Gross Block	2,400.71	2,328.16	2,306.77	2,378.54	2,369.50
	Less : Depreciation	(1,196.75)	(1,084.72)	(972.14)	(886.32)	(768.63)
	Net Block	**1,203.96**	**1,243.44**	**1,334.63**	**1,492.22**	**1,600.87**
	Capital Work in Progress	43.11	41.46	2.95	-	-
	Net Block with Capital Work in progress	**1,247.07**	**1,284.90**	**1,337.58**	**1,492.22**	**1,600.87**
B	**Investments**	-	-	-	-	**0.50**
C	**Current Assets, Loans and Advances**					
	Inventories	430.24	561.61	379.58	258.41	325.72
	Sundry Debtors	450.79	549.89	299.57	298.43	457.72
	Cash and Bank Balances	83.43	386.61	107.02	125.81	75.77
	Other Current Assets	8.28	11.10	4.47	16.45	15.84
	Loans and Advances	282.35	276.97	273.70	210.70	212.05
		1,255.09	**1,786.18**	**1,064.34**	**909.80**	**1,087.10**
D	**Deferred Tax Asset / (Liability) (Net)**	**82.35**	**214.11**	**203.34**	**158.54**	**(40.78)**
E	Preference Share Capital	1,046.86	1,046.86	1,046.87	1,046.86	986.26
F	**Liabilities and Provisions**					
	Secured Loans	160.23	220.95	172.99	1,256.28	1,592.29
	Unsecured Loans	163.33	313.33	450.00	6.00	30.00

	Current Liabilities and Provisions	1,232.09	1,713.31	1,035.36	617.16	688.24
		1,555.65	**2,247.59**	**1,658.35**	**1,879.43**	**2,310.52**
H	**Networth (A+B+C+D-E-F-G)**	**(18.01)**	**(9.26)**	**(99.97)**	**(365.74)**	**(649.10)**

(Rs.in Millions)

	AS AT MARCH 31ST	**2006**	**2005**	**2004**	**2003**	**2002**
I	**Networth** **Represented by**					
	1. Equity Share Capital	361.11	722.22	722.22	722.22	722.22
	2. Reserves	(379.12)	(731.48)	(822.19)	(1,086.05)	(1,367.48)
	3 Miscellaneous Expenditures (to the extent not written off or adjusted)	-	-	-	1.91	3.84
	Networth (1+2-3)	**(18.01)**	**(9.26)**	**(99.97)**	**(365.74)**	**(649.10)**

Note : 1. The above Statement should be read with the Notes on adjustment and Significant Accounting policies for restated financial statement as appearing in Annexure III, to this report.

2. Preference Share Capital is treated as liability for arriving at Net Worth of the company.

As per our report of even date attached

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No.206124

Atul.C.Kirloskar
Chairman

R.V.Gumaste
Managing Director

PLACE : PUNE
DATE : September 28, 2006

C.S.Panicker
Company Secretary

R.S.Srivatsan
Sr.Gen.Manager - Finance

Enriching Lives

ANNEXURE - II

STATEMENT OF PROFITS AND LOSSES - RESTATED

(Rs.in Millions)

YEAR ENDED MARCH 31st	2006	2005	2004	2003	2002
INCOME					
SALES :					
of products manufactured by the company	4,827.46	4,971.67	3,761.70	2,511.33	2,267.13
of products traded in by the company	-	-	-	-	-
TOTAL	**4,827.46**	**4,971.67**	**3,761.70**	**2,511.33**	**2,267.13**
Other Income	28.70	21.43	21.96	8.32	7.36
Increases / (Decrease) in Inventoreis	(11.30)	(85.60)	50.25	(18.82)	(49.23)
	4,844.86	**4,907.50**	**3,833.91**	**2,500.83**	**2,225.26**
EXPENDITURE					
Raw Materials Consumed	3,679.28	3,987.09	2,703.39	1,698.16	1,554.46
Staff Costs	134.46	117.69	109.96	106.68	95.15
Other Manufacturing Expenses	284.86	294.22	317.07	197.12	254.97
Administration Expenses	61.67	56.96	104.29	104.20	57.09
Selling Distribution Expenses	113.03	41.43	28.90	31.93	33.95
Interest	69.94	84.55	231.31	160.03	242.89
Depreciation & Amortisation	113.85	116.25	119.86	120.53	120.36
TOTAL	**4,457.09**	**4,698.19**	**3,614.78**	**2,418.65**	**2,358.87**
Net Profit / (Loss) before tax and extraordinary items	387.77	209.31	219.13	82.18	(133.61)

Provision for Taxes					
Defferred Tax	131.76	(10.78)	(44.80)	4.51	40.78
Fringe Benefit Tax	1.51	-	-	-	-
Current Tax	3.40	-	-	-	-
Provision for Wealth Tax	0.11	0.09	0.09	0.08	0.07
Total provision for taxes	**136.78**	**(10.69)**	**(44.71)**	**4.59**	**40.85**
Net Profit / (Loss) after Tax but before Extra-ordinary items	**250.99**	**220.00**	**263.84**	**77.59**	**(174.46)**
Extra-ordinary items (net of tax)	-	-	-	-	-
Net Profit / (Loss) after Extraordinary Items	**250.99**	**220.00**	**263.84**	**77.59**	**(174.46)**

Note : 1. The above Statement should be read with the Notes on adjustment and Significant Accounting policies for restated financial statement as appearing in Annexure III, to this report.

As per our report of even date attached

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No.206124

Atul.C.Kirloskar
Chairman

R.V.Gumaste
Managing Director

PLACE : PUNE
DATE : September 28, 2006

C.S.Panicker
Company Secretary

R.S.Srivatsan
Sr.Gen.Manager - Finance

ANNEXURE NO. III

STATEMENT OF CASHFLOWS RESTATED (Rs. Million)

Particulars	2006	2005	2004	2003	2002
A.CASH FLOW FROM OPERATING ACITVITIES	**387.77**	**209.31**	**219.14**	**82.19**	**(133.62)**
Net Profit/(Loss) before tax					
Adjustments for					
Depreciation	113.85	116.25	117.94	118.61	118.44
Write offs	-	-	1.92	1.92	1.92
Profit on sale of assets	(0.28)	(0.01)	-	(0.01)	(0.00)
Loss on sale of assets	0.08	0.93	55.03	0.99	0.39
Interest paid	69.94	84.55	231.31	160.03	242.89
Interest income	(11.18)	(13.99)	(16.21)	(1.74)	(1.28)
Rent on Building	(6.00)	(6.00)	(6.00)	(6.00)	(6.00)
	166.41	**181.74**	**384.00**	**273.79**	**356.36**
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	**554.18**	**391.04**	**603.14**	**355.99**	**222.74**
Decrease/(Increase) in Trade & Other Receivables	95.37	(255.43)	(48.45)	160.03	(57.04)
Decrease/(Increase) in Inventories	131.37	(182.03)	(121.17)	67.31	61.71
(Decrease)/Increase in Trade Payables	(615.10)	548.71	445.42	(67.88)	(96.38)
	(388.37)	**111.25**	**275.80**	**159.46**	**(91.71)**
CASH GENERATED FROM OPERATIONS	**165.82**	**502.30**	**878.94**	**515.44**	**131.02**
Tax Deducted at Source (Refunds)	1.13	0.08	(2.58)	(0.39)	7.05
Taxes paid	(1.60)	(0.09)	(0.08)	(0.07)	(0.07)
	(0.48)	**(0.00)**	**(2.65)**	**(0.46)**	**6.98**
NET CASH FROM OPERATING ACTIVITIES	**165.34**	**502.30**	**876.29**	**514.99**	**138.00**

(Rs. Million)

Particulars	2006	2005	2004	2003	2002
B. CASH FLOW FROM INVESTING ACTIVITIES :					
Purchase of assets				(5.52)	

	(78.92)	(72.48)	(36.56)		(13.96)
Proceeds from sale of assets / Adjustment to Gross Block	0.72	5.30	17.60	0.01	0.35
Interest received	13.61	11.78	15.71	2.14	1.32
Rent on Building	6.00	6.00	6.00	6.00	6.00
Sale of investments	-	-	-	0.50	-
	(58.58)	**(49.40)**	**2.75**	**3.13**	**(6.29)**
NET CASH USED IN INVESTING ACTIVITIES	**106.76**	**452.90**	**879.04**	**518.12**	**131.71**
C. CASH FLOW FROM FINANCING ACTIVITIES :					
Interest paid	(70.25)	(92.90)	(249.95)	(261.25)	(422.90)
Proceeds from issue of share capital	-	-	-	60.60	399.29
Proceeds/(Repayment) of Long Term Borrowings	39.60	166.54	(940.51)	(152.01)	(27.60)
Proceeds/(Repayment) from Short Term Borrowings	(250.00)	(236.67)	344.00	(24.00)	(79.94)
Increase/(Decrease) Cash Credit	-	(10.29)	(51.36)	(91.42)	14.48
Dividend on Cumulative Redeemable Preference Shares	(113.38)	-	-	-	-
Tax on Dividend on Cumulative Redeemable Preference Shares	(15.90)	-	-	-	-
NET CASH USED IN FINANCING ACTIVITIES	**(409.94)**	**(173.31)**	**(897.82)**	**(468.08)**	**(116.68)**
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	**(303.17)**	**279.59**	**(18.79)**	**50.04**	**15.03**
Opening Cash and Cash Equivalents	386.61	107.02	125.81	75.77	60.74
Closing Cash and Cash Equivalents	83.43	386.61	107.02	125.81	75.77

As per our report of even date attached

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No.206124

Atul.C.Kirloskar
Chairman

R.V.Gumaste
Managing Director

PLACE : PUNE
DATE : September 28, 2006

C.S.Panicker
Company

R.S.Srivatsan
Sr.Gen.Manager - Finance

Enriching Lives

Secretary

Enriching Lives

ANNEXURE - IV

SIGNIFICANT ACCOUNTING POLICIES, NOTES ON ADJUSTMENTS AND SELECTIVE NOTES FOR RESTATED FINANCIAL STATEMENTS

A. SIGNIFICANT ACCOUNTING POLICIES

1	**Basis of preparation of financial statements**
	a) The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. b) The financial statements have been prepared under the historical cost convention on an accrual basis. c) The accounting policies have been consistently applied by the Company and except for the changes in accounting policy discussed more fully below, are consistent with those used in the previous year.
2	**Fixed Assets**
	Fixed assets are stated at original cost less accumulated depreciation. Cost comprises the purchase price and any other attributable cost of bringing the asset to its working condition for its intended use. Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use. Cenvat credit availed has been deducted from the cost of respective assets.
3	**Depreciation**
	Depreciation on fixed assets has been provided on straight line method in the manner and at the rates specified in Schedule-XIV to the Companies Act, 1956.
4	**Investments**
	Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as Long Term Investments. a) Current Investments are carried at lower of cost and fair value determined on an individual investment basis. b) Long-term investments are carried at cost. However, provision for diminution in value is made to recognize a decline other than temporary in the value of investments.
5	**Inventories**
	a) Raw Materials, Stores & Spares are valued at lower of Cost and net realizable value. Costs are determined on First in First out basis. b) Work in process and Finished goods other than by-product is valued at lower of Cost and net realizable value. Cost is arrived at by absorption cost method. Finished goods are valued inclusive of Excise Duty. c) By-products, Self Generated Scrap and non reusable waste – at net realizable value.
6	**Foreign Currency Transactions**
	a) Initial Recognition: Transactions denominated in foreign currencies are recorded at the exchange rates prevailing on the date of the transaction. b) Conversion: At the year end, monetary items denominated in foreign currencies other than those covered by forward contracts are converted into rupee equivalents at the year-end exchange rates. c) Exchange Differences: All exchange differences arising on settlement/conversion on foreign currency transactions are included in the Profit and Loss Account, except in cases where they relate to the acquisition of fixed assets, in which case they are adjusted in the cost of the corresponding asset. d) Forward Exchange Contracts: In respect of transactions covered by forward exchange contracts, the difference between the forward rate and the exchange rate at the date of the transaction is recognized as income or expense over the life of the contract, except where it relates to fixed assets, in which case it is adjusted in the cost of the corresponding asset.
7	**Leases**

	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.
8	**Borrowing Costs**
	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.
9	**Excise Duty**
	Excise Duty in respect of goods manufactured by the Company is accounted on accrual basis.
10	**Employee Retirement Benefits**
	a) 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. b) Encashment of leave has been accounted on actuarial valuation basis. c) 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.
11	**Taxes on Income**
	Deferred tax is recognized on timing differences between the accounting income and the taxable income for the year. The tax effect is calculated on the accumulated timing differences at the end of accounting period based on prevailing enacted or subsequently enacted regulations.
12	Minimum Alternate Tax credit available under section 115JB will be accounted in the year in which the benefit is claimed.
13	**Miscellaneous Expenditure (to the extent not written off)**
	Preliminary expenses and share issue expenses are written off over a period of 10 years. Relining expenses incurred have been charged to Profit and Loss account in the year in which the expenditure is incurred.

B. NOTES ON ADJUSTMENTS

1. **Change in Accounting Policies and Estimates**

   a. Staff Costs – Financial Year 2003-04

   Till the year 2003-04, accounting of Encashment of Leave was on actual valuation, based on the assumption that such benefits are payable to all employees at the end of the financial year. During the year 2003-04, Encashment of leave has been accounted on actuarial valuation basis. Due to this change in accounting policy, the difference of Rs.26,67,892 was written back in the audited accounts for the year 2003-04 has been adjusted in the years to which it relates in the restated financial statements.

   b. Other Manufacturing Expenses (Relining Expenses)- Financial year 2002-03

   Till the year 2002-03, the expenses incurred towards relining of Mini Blast Furnace were deferred for 4 years from the year in which the expenses were incurred. In line with the accounting standard AS 26 on intangible assets, prescribed by the Institute of Chartered Account of India, the relining expenses incurred on MBF relining have been charged to Profit & Loss Account in the year in which the expenditure is incurred. The amount spent during 1997-98, 1998-99 and 2001-02 towards relining expenses which were deferred for 4 years have been charged to Profit and Loss account of the respective years in which the expenditure was incurred in the restated financial statements.

2. **Other Adjustments**

   i) Prior period items

In the financial statements for the year ended March 31st , 2006, 2005, 2004, 2003, and 2002 the company had classified certain items of expenditure / (Income) as prior period items as detailed below.

Sl.No.	Year in which the expenses/ (incomes) were booked	Amount (Rs.)
1	2001-02	(658,606)
2	2002-03	73,528
3	2003-04	(79,222)
4	2004-05	(7,803,826)
5	2005-06	37,079

For the purpose of this statement, the said expenses / (Incomes) have been appropriately adjusted in the respective years.

ii) Excess provision written back :

In the financial statements for the year March 31st ,2006, 2005, 2004, 2003, and 2002, the company had written back certain provisions made in earlier years as detailed below.

Sl.No.	Year in which the provisions were written back.	Amount (Rs.)
1	2003-04	72,050,503
2	2004-05	13,250,566
3	2005-06	15,821,016

For the purpose of this statement, the said provisions have been appropriately adjusted in the respective years

[C] OTHER NOTES

(Rs.in Millions)

Sl.No.	Particulars / Year	2006	2005	2004	2003	2002
1	Estimated amount of contracts remaining to be executed on capital account and not provided for	181.05	9.76	8.83	1.64	0.90
2	The amount of future obligations towards lease rent in respect of assets taken on finance lease	98.22	133.27	168.31	203.36	238.40
3	Aggregate value of the letters of credit outstanding	538.10	1,135.84	497.25	187.18	161.68
4	Sundry Creditors include unpaid overdue amount to Small Scale and / or Ancillary Industrial Undertakings					
	- On account of Principal	0.16	0.17	0.96		
	- On account of Interest	0.48	3.16	4.61		
5	The Net Gain/(Loss) on account of exchange difference arising on foreign currency transactions	(5.69)	4.14	39.68	3.26	7.00

6	Reduction in paid up Share Capital**:** Pursuant to Special Resolution passed in the Annual General Meeting held on 5th August,2005 and consequent upon the order of the Honourable High Court of Judicature at Mumbai on 30th September 2005, the Company has reduced its fully paid up Share Capital from Rs.722,224,000 consisting of 72,222,400 Equity Shares of face value of Rs.10 each to Rs.361,112,000 consisting of 72,222,400 Equity Shares of face value of Rs.5 each,by reducing the face value to the extent of Rs.5 per Equity Share and correspondingly reducing the issued, subscribed and paid up Equity Share Capital of the Company. Rs.361,112,000 representing the total reduction has been adjusted against the debit balance of Profit and Loss Account.
7	Sundry creditors includes amount due to Small Scale and / or Ancillary Industrial Undertaking Rs.155,360/- on account of principal and Rs.481,456/- on account of interest as on 31.03.2006. The names of small scale industrial undertakings to whom the company owes sums, including interest outstanding for more than 30 days as on 31.03.2006 are : Ajay Metachem Pvt Ltd., Sri Natraj Engineering Industries, System Engineering and Kamakshi Engineering..

As per our report of even date attached

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No.206124
PLACE : PUNE
DATE : September 28, 2006

Atul.C.Kirloskar
Chairman

R.V.Gumaste
Managing Director

C.S.Panicker
Company Secretary

R.S.Srivatsan
Sr.Gen.Manager - Finance

Enriching Lives

ANNEXURE – V

STATEMENT OF OTHER INCOME AND OTHER INCOME INLCUDING EXCEPTIONAL ITEMS

(Rs.in Millions)

Particulars	**As on March 31**				
	2006	**2005**	**2004**	**2003**	**2002**
Other income as per Statement of Profit & Losses as Restated (A)	28.70	21.43	21.96	8.32	7.36
Other Income, Including Exceptional Items (B)	28.70	21.43	21.96	8.32	7.36
Net Profit before tax but after adjustment,					
As per Statement of restated P & L - (C)	387.77	209.31	219.14	82.19	(133.62)
Percentage (A/C)	7.40%	10.24%	10.02%	10.12%	5.50%
Percentage (B/C)	7.40%	10.24%	10.02%	10.12%	5.50%

SOURCES OF OTHER INCOME

(Rs.in Millions)

Particulars	**As on March 31**				
	2006	**2005**	**2004**	**2003**	**2002**
Recurring					
Not Related parties :					
Interest on Deposits	11.18	13.99	16.20	1.75	1.28
Dividend Income	0.16	-	-	-	-
Profit on Sale of Assets	0.28	0.01	-	0.01	0.00
Miscellaneous Income	11.08	1.43	0.11	0.56	0.08
Related parties :					
Rent on Building	6.00	6.00	6.00	6.00	6.00
A	28.70	21.43	22.31	8.32	7.36
Non – Recurring					

Not Related parties :					
Advances written back	-	-	(0.35)	-	-
Related parties :	-	-	-	-	-
B	-	-	(0.35)	-	-
Other Income as per restated P&L (A+B)	**28.70**	**21.43**	**21.96**	**8.32**	**7.36**

As per our report of even date attached

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No.206124

PLACE : PUNE

DATE : September 28, 2006

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

Atul.C.Kirloskar — **Chairman**

R.V.Gumaste — **Managing Director**

C.S.Panicker — **Company Secretary**

R.S.Srivatsan — **Sr.Gen.Manager - Finance**

ANNEXURE – VI
STATEMENT OF RATES OF DIVIDEND

The dividend declared by the company during the last five fiscal years is as below:

Particulars	31.3.2006	31.3.2005	31.3.2004	31.3.2003	31.3.2002
Equity Shares					
Number of Equity Shares	72,222,400	72,222,400	72,222,400	72,222,400	72,222,400
Face value per Share (Rs.)	5	10	10	10	10
Paid up value per Share (Rs.)	5	10	10	10	10
Rate of Dividend (%)	-	-	-	-	-
Amount of Dividend	-	-	-	-	-
Cumulative Redeemable Preference Shares (CRPS)					
Number of Preference Shares					
1% CRPS	72,220,000	72,220,000	72,220,000	72,220,000	72,220,000
12% CRPS	32,466,253	32,466,253	32,466,253	32,466,253	26,406,253
Face value per Share (Rs.)	10	10	10	10	10
Paid up value per Share (Rs.)	10	10	10	10	10
Amount of Dividend paid :					
1% CRPS (Rs.in Millions)	188.83 *	-	-	-	-
12% CRPS (Rs.in Millions)	38.96	113.38 *	-	-	-
Corporate Dividend Tax (Rs.in Millions)	31.95	15.90			

Note :
1.* The Dividend paid includes arrears pertaining to earlier years.
2. Pursuant to Special Resolution passed in the Annual General Meeting on 5th August, 2005 and consequent upon the order of the Honourable High Court of Judicature at Mumbai on 30th September,2005, the Company has reduced its fully paid up Share Capital from Rs.722,224,000 consisting of 72,222,400 Equity Shares of face value of Rs.10 each to Rs.361,112,000 consisting of 72,222,400 Equity Shares of face value of Rs.5 each, by reducing the face value to the extent of Rs.5 per Equity Share and correspondingly reducing the issued, subscribed and paid up Equity Share Capital of the company. Rs.361,112,000 representing the total reduction has been adjusted against the debit balance under Profit and Loss Account.

As per our report of even date attached

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No.206124

Atul.C.Kirloskar
Chairman

R.V.Gumaste
Managing Director

PLACE : PUNE	**C.S.Panicker**	**R.S.Srivatsan**
DATE : September 28, 2006	**Company Secretary**	**Sr.Gen.Manager - Finance**

ANNEXURE – VII

CAPITALISATION STATEMENT AS AT MARCH 31ST,2006		
	PRE-ISSUE (Rs.in Millions)	POST ISSUE (Rs.in Millions)
PARTICULARS	**31.03.2006**	
Loan Funds:		
Short Term Loan	-	
Long Term Loan	323.56	
Total Debts – A	**323.56**	
Share holders' Funds		
Equity Share Capital	361.11	
Reserve & Surplus	(379.12)	
Total Share holders' Fund - B	**(18.01)**	
Long Term Debt / Equity Ratio (A/B)	NA	

As per our report of even date attached

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No.206124

PLACE : PUNE
DATE : September 28, 2006

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

Atul.C.Kirloskar — **Chairman**

R.V.Gumaste — **Managing Director**

C.S.Panicker — **Company secretary**

R.S.Srivatsan — **Sr.Gen.Manager - Finance**

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ANNEXURE - VIII (a)

STATEMENT OF LOANS

A. UNSECURED LOANS

(Rs.in Millions)

PARTICULARS	Financial year ended 31st March,				
	2006	2005	2004	2003	2002
Term Loans :					
a) from Banks	-	150.00	-	6.00	30.00
b) from Bodies Corporate	163.33	163.33	450.00	-	-
	163.33	**313.33**	**450.00**	**6.00**	**30.00**
Out of the above figures, following are the amounts pertain to related parties					
a) from Banks	-	-	-	-	-
b) from Promoter	100.00	-	-	-	-
	100.00	**-**	**-**	**-**	**-**

B. SECURED LOANS (Rs.in Millions)

PARTICULARS	Financial year ended 31st March,				
	2006	2005	2004	2003	2002
a. Debentures					
Redeemble - Non convertible	-	-	59.00	486.50	512.50
Optionally Fully Convertible Debentures	-	-	-	-	30.80
b. Term Loans					
From Financial Institutions	-	-	95.09	708.11	803.32
From UTI Bank	35.83	45.83	-	-	-
Interest Accrued and due on above loans	-	0.32	8.61	0.02	92.59
From G E Capital Services India	124.40	174.80	-	-	-

	160.23	**220.95**	**162.70**	**1,194.63**	**1,439.22**
d. Cash Credit from Banks	-	-	10.29	61.65	153.07
	160.23	**220.95**	**172.99**	**1,256.28**	**1,592.29**

Note : 1) The details of principal terms and conditions of the secured and unsecured loans outstanding as on 31.03.2006 are disclosed in Annexure VIII (b)

2) There are no amount dues to related parties towards secured Loans.

As per our report of even date attached

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No.206124

Atul.C.Kirloskar
Chairman

R.V.Gumaste
Managing Director

PLACE : PUNE

DATE : September 28, 2006

C.S.Panicker
Company Secretary

R.S.Srivatsan
Sr.Gen.Manager - Finance

Enriching Lives

ANNEXURE VIII (b) : DETAILS OF PRINCIPAL TERMS AND CONDITIONS OF LOANS OUTSTANDING AS AT MARCH 31,2006

S.N.	Lender	Loan Documentation and purpose	Amount (In Rs.)	Outstanding (In Rs.) As on 31st March 2006	Interest	Repayment schedule	Security created
1	UTI Bank Limited	Term loan agreement dated November 6, 2004 for a period of 5 years from the date of the first draw down. Agreement for Hypothecation dated November 6, 2004. The loan has been availed to meet the capital expenditure requirement of the Company	50,000,000	35,833,338	8% p.a. for the 1st year. G-Sec + 225 basis points for 2nd year and onwards (with a floor of 8% p.a.) payable monthly.	Within period of 60 months in equal monthly instalments of Rs 833,333 each from the date of first draw down i.e., from 1st December, 2004	(i)First pari-passu charge on the nature fixed assets, excluding charge on the core shop machinery of our Company valued at Rs. 308,800,000 (2) Letter of comfort from KOEL backed by a board resolution of KOEL.
2	GE Capital Services India	Long term loan agreement dated *22 September 2004* for a period of 48 months. Deed of Hypothecation dated September 22, 2004 The loan has been availed to meet capital expenditure and long term working capital requirements of the Company	200,000,000	124,400,000	8% p.a. payable monthly	48 equal monthly instalments along with interest accrued from 15th October,2004.	Exclusive first charge over the Company's plant and machinery (core shop machinery) with a minimum net book value of Rs. 300,000,000 as on March 31, 2004. Post dated cheques for the payment of principal and interest Demand promissory note executed by the Company
3	Infrastructure Leasing & Financial Services Ltd.,	Term loan agreement dated 19 March 2004 for a period of 30 months. The loan has been availed to enable prepayment of high cost term loans.	250,000,000	63,333,341	8% per annum payable monthly	30 Equated monthly instalments from 1st June 2004.	Irrevocable & Unconditional Corporate Guarantee of Kirloskar Oil Engines Ltd., (KOEL) for the full amount of the loan plus interest and other charge associated with the loan.
4	Kirloskar Oil Engines Limited, Pune	Loan taken on 20th March 2006	100,000,000	100,000,000	7% per annum	Payable on 30th April 2007	Unsecured Loan

Enriching Lives

As per our report of even date attached **for KIRLOSKAR FERROUS INDUSTRIES LIMITED**
For M/s P.G.Bhagwat
Chartered Accountants
S.B.Pagad **Atul C.Kirloskar**
R.V.Gumaste
Partner **Chairman** **Managing Director**
Membership No.206124
PLACE : PUNE **C.S.Panicker** **R.S.Srivatsan**
DATE : September 28, 2006 **Company Secretary** **Sr.Gen.Manager – Finance**

ANNEXURE - IX

STATEMENT OF INVESTMENTS

(Rs.in Millions)

PARTICULARS	Financial year ended 31st March,				
	2006	2005	2004	2003	2002
Quoted Investments					
In promoter Group Companies	-	-	-	-	-
In Associate Companies	-	-	-	-	-
Others	-	-	-	-	-
Total A	**-**	**-**	**-**	**-**	**-**
Unquoted Investments					
In promoter Group Companies	-	-	-	-	-
In Associate Companies	-	-	-	-	-
Others :					
Kisan Vikas Patra of Face Value of Rs.2500/- each Purchased on 08.03.97 Sl.no. from 460995 to 461074 - 80 numbers Maturity Date : 08.09.2002	-	-	-	-	0.20
Kisan Vikas Patra of Face Value of Rs.2500/- each Purchased on31.03.97 Sl.no. from 461493 to 461500 - 08 numbers Sl.no. from 461521 to 461632 -112 numbers Maturity Date : 30.09.2002	-	-	-	-	0.30
Total B	**-**	**-**	**-**	**-**	**0.50**
Market Value of Quoted Investment	-	-	-	-	-
Cost Value of Unquoted Investment	-	-	-	-	0.50

As per our report of even date attached
For M/s P.G.Bhagwat
Chartered Accountants

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

S.B.Pagad
Partner
Membership No.206124

Atul.C.Kirloskar
Chairman

R.V.Gumaste
Managing Director

PLACE : PUNE	**C.S.Panicker**	**R.S.Srivatsan**
DATE : September 28, 2006	**Company Secretary**	**Sr.Gen.Manager - Financ**

Enriching Lives

ANNEXURE – X

STATEMENT SHOWING AGEWISE ANALYSIS OF SUNDRY DEBTORS – RESTATED

(Rs.in Millions)

	Particulars As at	31.03.06	31.03.05	31.03.04	31.03.03	31.03.02
A	**Sundry Debtors Outstanding for a period exceeding six months (Unsecured)**					
	Considered Good	2.58	6.29	0.62	11.24	20.13
	Considered Doubtful	15.65	20.70	20.97	14.85	-
	Total	**18.23**	**26.99**	**21.59**	**26.09**	**20.13**
	Less : Provisions for doubtful debts	15.65	20.70	20.97	14.85	-
	Total	**2.58**	**6.29**	**0.62**	**11.24**	**20.13**
B	**Other Debts - Considered good**					
	Secured	-	-	-	-	-
	Unsecured	448.21	543.60	298.95	287.19	437.59
	Total	**448.21**	**543.60**	**298.95**	**287.19**	**437.59**
	Grand Total (A+B)	**450.79**	**549.89**	**299.57**	**298.43**	**457.72**

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SELECTIVE FINANCIAL INFORMATION ON SUNDRY DEBTORS AS AT MARCH 31,2006

(Rs.in Millions)

Particulars	**AMOUNT**
Outstanding for exceeding six months	
a. From Promoter group companies, considered good	-
b. From Associate Companies, considered good	-
c. From Others	
- Considered good	2.58
- Considered Doubtful	15.65
Total	**18.23**
Less : Provisions for doubtful debts	15.65
Total	**2.58**
Other Debts - Considered good	448.21
Grand Total	**450.79**

Note : There are no dues from related parties.

As per our report of even date attached

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No.206124

PLACE : PUNE

DATE : September 28, 2006

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

Atul.C.Kirloskar
Chairman

R.V.Gumaste
Managing Director

C.S.Panicker
Company Secretary

R.S.Srivatsan
Sr.Gen.Manager - Finance

ANNEXURE – XI

STATEMENT OF LOANS AND ADVANCES – RESTATED

(Rs. Millions)

Particulars	31.3.2006	31.3.2005	31.3.2004	31.3.2003	31.3.2002
(Unsecured considered good)					
Advances recoverable in cash or in kind or for value to be received	51.33	65.48	76.25	8.84	9.45
Advance against capital expenditure	5.79	3.40	0.72	0.09	0.09
Prepaid Expenses	181.65	181.57	179.55	179.55	178.52
Deposits with Government and others	5.55	7.49	9.07	14.83	21.73
Balance and deposit with Central Excise & Customs	35.53	15.41	4.40	6.26	1.51
Advance Income Tax and Tax deducted at source	2.50	3.62	3.71	1.13	0.75
Total	**282.35**	**276.97**	**273.70**	**210.70**	**212.05**

Selective Financial Information on Loans and Advances as on March 31, 2006

	31.03.2006
(Unsecured considered good)	
Advances recoverable in cash or in kind or for value to be received	
With the Promoter Group Companies	-
With Associate Companies	-
Advances and Prepaid expenses	238.77
Advance Income Tax and Tax deducted at source	2.50
Deposit with Customs, port trust and excise Authorities	35.53
Depostis	
With Customers as Security	-
With Promoter Group Companies	-
Deposits with Government and with Others	5.55
Total	**282.35**

Note : There are no loans and advances given to related parties.

As per our report of even date attached
For M/s P.G.Bhagwat

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

S.B.Pagad
Partner
Membership No.206124

Atul.C.Kirloskar
Chairman

R.V.Gumaste
Managing Director

PLACE : PUNE

C.S.Panicker

R.S.Srivatsan

Enriching Lives

DATE : September 28, 2006 **Company Secretary** **Sr.Gen.Manager - Finance**

ANNEXURE – XII

STATEMENT OF CONTINGENT LIABILITIES

(Rs. Millions)

Particulars	**31.3.2006**	**31.3.2005**	**31.3.2004**	**31.3.2003**	**31.3.2002**
1. Central Excise (Matter subjudice)	26.80	0.76	1.30	4.33	12.70
2. Wealth tax under dispute	-	-	2.28	-	-
3. Labour Matters (Subjudice)	1.10	1.27	-	-	-
4. Arrears of fixed cumulative dividend on Cumulative Preference Shares of Rs.10/- each:					
i) 12% Dividend	-	-	74.42	35.46	0.09
ii) 1% Dividend	-	181.61	174.39	167.16	155.75
Total	27.90	183.64	252.39	206.95	168.54

Note: In Labour matters amount cannot be quantified for 5 cases

As per our report of even date attached

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No.206124

PLACE : PUNE
DATE : September 28, 2006

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

Atul.C.Kirloskar
Chairman

R.V.Gumaste
Managing Director

C.S.Panicker
Company Secretary

R.S.Srivatsan
Sr.Gen.Manager - Finance

ANNEXURE - XIII (a)
STATEMENT OF RELATED PARTIES AND NATURE OF RELATIONSHIPS

Particulars Nature of Relationship	As At				
	31.03.06	31.03.05	31.03.04	31.03.03	31.03.02
Key Management Personnel	Mr.R.V.Gumaste Managing Director	Mr.R.V.Gumaste Managing Director	Mr.R.V.Gumaste Managing Director	Mr.A.R.Jamenis Managing Director (Upto 31.01.03) Mr.R.V.Gumaste Executive Director (From 25.07.02)	Mr.A.R.Jamenis Managing Director
Relatives of Key Management Personnel	Mrs.Kamala R.Gumaste Ms.Pooja R.Gumaste Ms.Kavya R.Gumaste Mrs.Vimala V.Gumaste	Mrs.Kamala R.Gumaste Ms.Pooja R.Gumaste Ms.Kavya R.Gumaste Mrs.Vimala V.Gumaste	Mrs.Kamala R.Gumaste Ms.Pooja R.Gumaste Ms.Kavya R.Gumaste Mrs.Vimala V.Gumaste	Mrs.Shilpa Jamenis Ms.Sharvari Jamenis Ms.Sheetal Jamenis Mrs.Kamala R.Gumaste Ms.Pooja R.Gumaste Ms.Kavya R.Gumaste Mrs.Vimala V.Gumaste	Mrs.Shilpa Jamenis Ms.Sharvari Jamenis Ms.Sheetal Jamenis Mrs.Kamala R.Gumaste Ms.Pooja R.Gumaste Ms.Kavya R.Gumaste Mrs.Vimala V.Gumaste
Controlling Company (also Promoter)	Kirloskar Oil Engines Limited, Pune	Kirloskar Oil Engines Limited, Pune	Kirloskar Oil Engines Limited, Pune	Kirloskar Oil Engines Limited, Pune	Kirloskar Oil Engines Limited, Pune

As per our report of even date attached

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

For M/s P.G.Bhagwat Chartered Accountants

S.B.Pagad
Partner
Membership No.206124

Atul.C.Kirloskar
Chairman

R.V.Gumaste
Managing Director

PLACE : PUNE C.S.Panicker R.S.Srivatsan
Company
DATE : Secretary Sr.Gen.Manager - Finance

ANNEXURE - XIII (b)

STATEMENT OF TRANSACTION WITH RELATED PARTIES AND OUTSTANDING BALANCES

(Rs.in Millions)

Nature of Transaction	2005-06	2004-05	2003-04	2002-03	2001-02
(a) Sale of finished goods	296.85	285.87	186.50	126.62	122.08
(b) Sale of stores & spares	-	0.00	0.04	-	-
(c) Purchase of materials & Components	51.24	126.18	410.24	454.86	305.83
(d) Lease Rentals	35.04	35.04	35.04	35.04	35.32
(e) Others services	0.12	0.25	2.06	5.32	4.15
(f) Remuneration	2.69	1.70	1.56	2.25	1.31
(g) Electricity Charges	25.18	78.10	120.04	-	-
(h) Building Rent Received	6.00	6.00	6.00	-	-
(i) Other Expenses	6.73	5.80	11.85	-	-
(j) Capital Contribution					
Equity	-	-	-	-	50.00
Preference	-	-	-	-	38.00
Outstanding as on 31st March					
(a) Outstanding Receivalbe	40.28	28.80	23.70	27.89	26.03
(b) Outstanding Payable	70.89	206.46	286.95	217.28	188.74
(c) Unsecured Loans	100.00	-	-	-	-

Note : All the above items are related to Kirloskar Oil Engines Limited, Pune except remuneration to Managing Director.

As per our report of even date attached **For KIRLOSKAR FERROUS INDUSTRIES LIMITED**

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad **Atul.C.Kirloskar** **R.V.Gumaste**
Partner **Chairman** **Managing Director**
Membership No.206124

Enriching Lives

PLACE : PUNE | **C.S.Panicker** | **R.S.Srivatsan**
DATE : September 28, 2006 | **Company Secretary** | **Sr.Gen.Manager - Finance**

ANNEXURE – XIV

STATEMENT OF ACCOUNTING RATIOS

(Figures in Millions)

Particulars	**For the Financial year ended March 31st**				
	2006	**2005**	**2004**	**2003**	**2002**
1 Net Profit after tax - Restated	250.99	220.00	263.84	77.59	(174.46)
Less : Dividend on Preference Shares & Taxes thereon	52.66	52.66	52.10	47.07	7.71
2 Net Profit for Basic EPS	198.33	167.34	211.75	30.53	(182.17)
Add : Interest on Optionally Fully convertible Debentures	-	-	-	-	22.95
3 Net Profit after tax - Restated for purpose of Diluted EPS (DEPS)	198.33	167.34	211.75	30.53	(159.23)
4 Weighted average Number of Equity Shares outstanding at the end of each year (Ref.note no.1)	72.22	72.22	72.22	72.22	69.69
Add : Dilutive Potential Equity Shares					24.20
5 Weighted average Number of Equity Shares outstanding during the period (Ref.note no.1)	72.22	72.22	72.22	72.22	93.89
6 Net-Worth Restated	(18.01)	(9.26)	(99.97)	(365.74)	(649.10)
7 No.of Equity Shares at the end of the year (Ref.note no.1)	72.22	72.22	72.22	72.22	72.22
Accounting Ratios					
Earning per Share-Basic (2/4)	2.75	2.32	2.93	0.42	(2.61)
Diluted Earning per share (3/5) (Ref.note no.5)	2.75	2.32	2.93	0.42	(2.61)
Net Assets value per share (6/7)	(0.25)	(0.13)	(1.38)	(5.06)	(8.99)
Return on Net Worth (1/6)*100	**Not calculated as the net worth is negative**				

1.Pursuant to Special Resolution passed in the Annual General Meeting on 5th August, 2005 and consequent upon the order of the Honourable High Court of Judicature at Mumbai on 30th September,2005, the Company has reduced its fully paid up Share Capital from Rs.722,224,000 consisting of 72,222,400 Equity Shares of face value of Rs.10 each to Rs.361,112,000 consisting of 72,222,400 Equity Shares of face value of Rs.5 each, by reducing the face value to the extent of Rs.5 per Equity Share and correspondingly reducing the issued, subscribed and paid up Equity Share Capital of the company. Rs.361,112,000 representing the total reduction has been adjusted against the debit balance under Profit and Loss Account.

2 The Ratios have been computed as below :

Basic earning per share (Rs.) = $\dfrac{\text{Net Profit as restated, attributable to equity shareholders - Dividend on Pref. Shares}}{\text{Weighted average number of equity shares outstanding during the year period}}$

Diluted EPS (Rs.) = $\dfrac{\text{Net profit after tax Restated for the purpose of Diluted EPS}}{\text{Weighted average number of equity shares outstanding during the period for the purpose of DEPS}}$

Net Assets Value per Equity Share (Rs.) = $\dfrac{\text{Net worth Restated}}{\text{No. of Equity Shares outstanding at the end of the year}}$

Return on Net worth = $\dfrac{\text{Net profit after tax Restated}}{\text{Net worth Restated}}$

3 Net worth means Equity Share Capital + Reserve and Surplus - Miscellaneous expenditure not written off or adjusted-Preference Share Capital
4 Figures in bracket show negative values
5 Since the Earning per share is anti-dilutive during 2001 and 2002, Basic Earning per share is taken as diluted EPS

As per our report of even date attached

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad
Partner
Membership No.206124

PLACE : PUNE

DATE : September 28, 2006

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

Atul.C.Kirloskar — **Chairman**

R.V.Gumaste — **Managing Director**

C.S.Panicker — **Company Secretary**

R.S.Srivatsan — **Sr.Gen.Manager - Finance**

ANNEXURE - XV

STATEMENT OF TAX SHELTER (Rs.in Millions)

Financial Year		2005-2006	2004-2005	2003-2004	2002-2003	2001-2002
Normal Tax Rate (including surcharge & education cess)		**33.660%**	**36.590%**	**35.880%**	**36.750%**	**35.700%**
Profit / (Loss) before tax as per audited accounts	**(A)**	**397.60**	**207.63**	**272.44**	**34.29**	**(135.07)**
Tax @ normal rates		1.34	0.76	0.98	0.13	-
Add / (Less) - Adjustments (net) in respect of						
Timing Differences :						
(a) Difference between Book Depreciation and Tax Depreciation		47.72	46.38	37.56	20.74	(2.30)
(b) Deferred Revenue Expenditure		5.96	10.21	17.99	5.71	(19.25)
(c) Expenses allowable on payment basis U/s 43B		1.10	(9.13)	(46.98)	(76.68)	(182.83)
Permanent Differences :						
(a) Donations		0.23	0.03	0.03	0.02	0.02
(b) Others (Net)		(5.07)	0.14	57.70	20.32	37.90
Total Net Adjustments	**(B)**	**49.94**	**47.63**	**66.30**	**(29.89)**	**(166.46)**
Tax (Saving) on net adjustments :		0.17	0.17	0.24	(0.11)	(0.59)
Total Income	**(C= A+B)**	**447.54**	**255.26**	**338.74**	**4.40**	**(301.53)**
Less : Set-off of Brought Forward Losses	**(D)**	(447.54)	(255.26)	(338.74)	(4.40)	-
Net Taxable Income / (Loss)	**(E= C-D)**	-	-	-	-	(301.53)
Tax Payable	**(F)**	-	-	-	-	-
Taxable Income Under MAT	**(G)**	40.37	-	-	-	-
Rate of MAT (including surcharge & education cess)	**(H)**	8.4150%	7.8413%	7.6875%	7.8750%	7.6500%
MAT Payable	**(I= G*H)**	3.40	-	-	-	-

Note :

1) The above information is as per the return of income filed and after adjustments towards orders passed on assessment.

2) Information for the year 2005-06 is as per the computation of income made available to us, as the return for the said year is yet to be prepared and filed.

As per our report of even date attached	**For KIRLOSKAR FERROUS INDUSTRIES LIMITED**	
For M/s P.G.Bhagwat **Chartered Accountants**		
S.B.Pagad	**Atul.C.Kirloskar**	**R.V.Gumaste**
Partner **Membership No.206124**	**Chairman**	**Managing Director**
PLACE : PUNE **DATE : September 28, 2006**	**C.S.Panicker** **Company Secretary**	**R.S.Srivatsan** **Sr.Gen.Manager - Finance**

ANNEXURE - XVI

STATEMENT OF ADJUSTMENTS TO AUDITED PROFIT AND LOSS ACCOUNT

(Rs.in Millions)

PARTICULARS /YEAR ENDED MARCH 31st	2006	2005	2004	2003	2002
Profit /(Loss) after Tax (as per audited accounts)	**260.82**	**218.32**	**317.15**	**29.70**	**(175.92)**
Adjustments increase/(decrease)					
Net total increase/(decrease) due to adjustments	**(9.83)**	**1.68**	**(53.31)**	**47.91**	**1.46**
Profit/(Loss) after tax and after adjustments - A (as per restated summary statements)	**250.99**	**220.00**	**263.84**	**77.59**	**(174.46)**
Appropriations :					
a) Proposed dividend on Cumulative Redeemable Preference Shares	227.79	113.38			
b) Tax on the above proposed dividend	31.95	15.90			
Total Appropriation B	**259.74**	**129.28**	**-**	**-**	**-**
Adjustments to appropriation					
c) Adjustment on account of Deferred Tax				203.82	
d) Reduction in Equity Share Capital	361.11				
Total adjustments to appropriation C	**361.11**	**-**	**-**	**203.82**	**-**
Adjustment to Appropriation	-	-	-	-	-
Profit / (Loss) after tax and appropriation A-B+C and after adjustments	**352.36**	**90.72**	**263.84**	**281.41**	**(174.46)**

As per our report of even date attached

For KIRLOSKAR FERROUS INDUSTRIES LIMITED

For M/s P.G.Bhagwat
Chartered Accountants

S.B.Pagad	**Atul.C.Kirloskar**	**R.V.Gumaste**
Partner	**Chairman**	**Managing Director**
Membership No.206124		
PLACE : PUNE	**C.S.Panicker**	**R.S.Srivatsan**
DATE : September 28, 2006	**Company Secretary**	**Sr.Gen.Manager - Finance**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial conditions and results of operations together with the Auditors' Report dated September 28,, 2006 prepared in accordance with paragraph B(1) of Part II of schedule II to the companies act and SEBI guidelines. (as restated) for the years ended March 31, 2002, 2003, 2004, 2005 and 2006 under Indian GAAP including schedules, annexure and notes thereto and reports thereon, which appear in the section titled "Financial Statements" beginning on page 111 of this Draft Letter of Offer. Unless otherwise stated, the financial information used in this section is derived from our audited unconsolidated financial statements as restated. Our fiscal year ends on March 31 of each year, so all references to a particular year are to the 12 month period ended March 31 of that year.

INDIAN ECONOMY

We are into the business of manufacture of pig iron and castings and currently operating with our plant at Hospet near Bevinahalli village in Koppal district in Karnataka. Our business and the industry in which we operate are influenced, among other things, by general economic conditions in India.

The overall growth of Indian economy in future may also affect pig iron manufacturing industry and foundry industry as well as our operational and financial performance.

BUSINESS OVERVIEW

The Company operates in the following businesses:

- Pig Iron
- Castings

Our performance in the last 5 years has been as follows :

Particulars	Capacity	2005-06	2004-05	2003-04	2002-03	2001-02
Pig Iron						
Production (MT)	240000	260267	231790	259977	273356	250778
Utilisation	*%*	*108%*	*97%*	*108%*	*114%*	*104%*
Sales (MT)		221218	203091	212002	240710	219474
Sales (Rs. Mn)		3067.44	3253.18	2428.76	1755.52	1483.49
Foundry						
Production (No. of Moulds)	475500	338643	352949	364779	248702	220696
Utilisation	*%*	*71%*	*74%*	*77%*	*52%*	*46%*
Sales (No. of Moulds)		323411	333924	340261	229932	208404
Sales (Rs. Mn)		1185.38	1217.33	936.43	547.23	567.69
Other Sales (Rs. Mn.)		574.64	501.16	396.51	208.58	215.95
Total Sales (Rs. Mn.)		**4827.46**	**4971.67**	**3761.70**	**2511.33**	**2267.13**
EBIDTA		571.56	410.11	570.30	362.74	229.64
PBT		387.77	209.31	219.13	82.18	-133.61

STRATEGY

- Productivity improvement and coke consumption reduction
- Productivity improvement plan by incorporation of Turbo blowers
- Continuous sustainable cost reduction drives
- Retain, upgrade, acquire the Managerial and technological skills
- Integrating in the value chain

FACTORS AFFECTING OUR FUTURE RESULTS OF OPERATIONS

Following factors affect the future results of Operations:

a. General Economic and Business conditions: The demand for our products depends on the general economic conditions in India. Any down ward trend in the industries like Auto, Tractor, Diesel Engines & Steel industry will have affect on our operations.
b. Competition: The demand and selling prices of our product may get affected due to intense competition including any capacity enhancement by our competitors or due to entry of new competitor.
c. Cost of Raw Materials: Raw material cost constitute the major cost of our products and any steep increase in the prices of the raw material and our inability to pass on the cost increase to our customer due to market condition, may affect our profitability.
d. Government policy: Any change in the Government policies including change in the tax structures of Custom Duty, Excise Duty, Anti dumping duty on imported raw material and local taxes will have affect on our operations.

RESULTS OF OPERATIONS

The table below sets forth various line items from our restated financial statements for 2003-04, 2004-05 and 2005-06 as a percentage of Total Income

(Rs. Millions)

Particulars	2005-06	2004-05	2003-04
Sales	4,827.46	4.971.67	3,761.70
Other Income	28.70	21.43	21.96
Restated Total Income...................................	**4,856.16**	**4,993.10**	**3,783.66**
Cost of Materials			
Restated Cost of Material	3,690.58	4,072.69	2653.14
Restated Cost of Material as % to Sales	76.45%	81.92%	70.53%
Employees Cost	134.46	117.69	109.96
Employee Cost as % of to Sales	2.79%	2.37%	2.92%
Other Manufacturing Expenses	284.86	294.22	317.07
Other Manufacturing Expenses as % of Sales	5.90%	5.92%	8.43%
Administrative Expenses	61.67	56.96	104.29
Administrative Expenses as % of Sales	1.28%	1.15%	2.77%
Selling & Distribution expenses	113.03	41.43	28.90
Selling & Distribution expenses as % of Sales	2.34%	0.83%	0.77%
Restated PBDIT	**571.56**	**410.11**	**570.30**
PBDIT as % of Sales	11.84%	8.25%	15.16%
Interest Expense	69.94	84.55	231.31
Interest as % of Sales.......................................	1.45%	1.70%	6.15%
Depreciation	113.85	116.25	119.86
Depreciation as % of Sales	2.36%	2.34%	3.19%
Profit/(Loss) before Tax	**387.77**	**209.31**	**219.13**
Taxation-current and deferred	136.78	(10.69)	(44.71)

Particulars	2005-06	2004-05	2003-04
Profit/(Loss) for the year	**250.99**	**220.00**	**263.84**
Profit/(Loss) for the year as % of Sales	**5.20%**	**4.42%**	**7.01%**

1. Revenues

The following table shows our revenue for last three fiscals ended March 31, 2006:

(Rs. in million)

Sources of Revenue	FY2006	FY 2005	FY 2004
Sales	4,827.46	4,971.67	3,761.70
Other Income	28.70	21.43	21.96
Total Revenue	4,856.16	4,993.10	3,783.66

2. Expenditure

The following table shows our expenditure for last three fiscals ended March 31, 2006

(Rs. million)

Expenditure	FY2006	FY 2005	FY 2004
Manufacturing Expenses	3,975.44	4,366.91	2,970.21
Employees remuneration	134.46	117.69	109.96
Operating and Administration and Selling expenses	174.70	98.39	133.19
Interest	69.94	84.55	231.31
Depreciation	113.85	116.25	119.86
Total	**4,468.39**	**4783.79**	**3564.53**

Significant Accounting Policies

1	**Basis of preparation of financial statements**
	a) The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. b) The financial statements have been prepared under the historical cost convention on an accrual basis. c) The accounting policies have been consistently applied by the Company and except for the changes in accounting policy discussed more fully below, are consistent with those used in the previous year.
2	**Fixed Assets**
	Fixed assets are stated at original cost less accumulated depreciation. Cost comprises the purchase price and any other attributable cost of bringing the asset to its working condition for its intended use. Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use. Cenvat credit availed has been deducted from the cost of respective assets.
3	**Depreciation**
	Depreciation on fixed assets has been provided on straight line method in the manner and at the

	rates specified in Schedule-XIV to the Companies Act,1956.
4	**Investments**
	Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as Long Term Investments. a) Current Investments are carried at lower of cost and fair value determined on an individual investment basis. b) Long-term investments are carried at cost. However, provision for diminution in value is made to recognize a decline other than temporary in the value of investments.
5	**Inventories**
	a) Raw Materials, Stores & Spares are valued at lower of Cost and net realizable value. Costs are determined on First in First out basis. b) Work in process and Finished goods other than by-product is valued at lower of Cost and net realizable value. Cost is arrived at by absorption cost method. Finished goods are valued inclusive of Excise Duty. c) By-products, Self Generated Scrap and non reusable waste – at net realizable value.
6	**Foreign Currency Transactions**
	a) Initial Recognition: Transactions denominated in foreign currencies are recorded at the exchange rates prevailing on the date of the transaction. b) Conversion: At the year end, monetary items denominated in foreign currencies other than those covered by forward contracts are converted into rupee equivalents at the year-end exchange rates. c) Exchange Differences: All exchange differences arising on settlement/conversion on foreign currency transactions are included in the Profit and Loss Account, except in cases where they relate to the acquisition of fixed assets, in which case they are adjusted in the cost of the corresponding asset. d) Forward Exchange Contracts: In respect of transactions covered by forward exchange contracts, the difference between the forward rate and the exchange rate at the date of the transaction is recognized as income or expense over the life of the contract, except where it relates to fixed assets, in which case it is adjusted in the cost of the corresponding asset.
7	**Leases**
	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.
8	**Borrowing Costs**
	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.
9	**Excise Duty**
	Excise Duty in respect of goods manufactured by the Company is accounted on accrual basis.
10	**Employee Retirement Benefits**
	a) 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. b) Encashment of leave has been accounted on actuarial valuation basis. c) 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.
11	**Taxes on Income**
	Deferred tax is recognized on timing differences between the accounting income and the taxable income for the year. The tax effect is calculated on the accumulated timing differences at the end of accounting period based on prevailing enacted or subsequently enacted regulations.
12	Minimum Alternate Tax credit available under section 115JB will be accounted in the year in which the benefit is claimed.
13	**Miscellaneous Expenditure (to the extent not written off)**
	Preliminary expenses and share issue expenses are written off over a period of 10 years. Relining expenses incurred have been charged to Profit and Loss account in the year in which the expenditure is incurred.

Comparison of the operating results for the year ended FY 2006 to FY 2005

Some of the key developments during the year were:

Company made a small beginning by exporting the pig iron. The pig iron prices in the domestic prices reduced compared to FY 2005 on account of decrease in prices of coke. The prices of coke came down considerably and remained stable during the year. However, the prices of iron ore continued to increase through out the year, on account of the continued demand from China and from the domestic industry as well. Company witnessed mass absenteeism by the workmen for 45 days to insist their demands. However, during this period, Company continued its operations with the support of managerial staff, casual and temporary workmen. Subsequently, workmen unconditionally agreed to give the productivity as per the productivity norms and also gave undertaking to this effect and resumed the work.

Sales

Our sales was Rs.4,827.46 million as against the sales of Rs. 4,971.67 million in FY 2005, an decrease of 2.90%. Details of sales of pig iron and casting is as under:

Particulars	FY 2006	FY 2005
Pig Iron sales:		
MT	221,218	203,091
Value in Millions	3067.44	3253.18
Sales realisation (Rupees per MT)	13,866	16,018
Casting sales:		
No. of castings	323,411	333,924
Value in Millions	1185.38	1217.33
Sales realisation (Rupees per Casting)	3665	3645

The pig iron prices under went a course correction and the prices came down by 13% as compared to FY 2005. The pig iron sales quantity increased by 9% due to stability in the market. Casting sales showed a marginal decrease both in value (3%) and quantity (3%) due to the drop in production on account of the mass absenteeism for 45 days by the workmen.

Other Income

Our other income in FY 2006 has increased by 33.92% to Rs. 28.70 million as compared to 21.43 million in FY 2005. Sources of income under this head were Interest Income, Rent and other miscellaneous incomes. The increase in other income was on account of receipt against certain dues written off earlier.

Manufacturing Expenses

Enriching Lives

Our total manufacturing expenses during FY 2006 stood at Rs.3,975.44 million as against Rs. 4,366.91 million in FY 2005. Decrease in our manufacturing expenses was due to reduction in coke prices during the year FY 2006. Coke value constitutes around 55% of the raw material cost.

Raw Material
Expenditure on raw material, which is a part of manufacturing expenses, was Rs. 3,690.58 million (76.45% of sales) for the FY 2006 as against Rs.4,072.69 million (81.92% of sales) for FY 2005. Decrease in raw material cost is mainly on account of decrease in coke prices.

Employees' Remuneration and Other Benefits

We had 798 employees on our payroll as of March 31, 2006, compared to 790 employees as of March 31, 2005. Our cost towards employees' remuneration and other benefits was Rs. 134.46 million (2.79% of sales) as against Rs.117.69 million (2.37% of sales) in FY 2005. The increase is on account of revision in the salaries to the employees which was necessitated to retain the in house talents.

Administration Expenses
Administration expenses were Rs.61.67 million (1.28% of sales) for the FY 2006 against Rs. 56.96 million (1.15% of sales) in FY 2005. There was a marginal increase in the expenses on account of increase in professional and legal charges.

Selling & Distribution Expenses
Selling & Distribution expenses was Rs.113.03 million (2.34% of sales) in FY 2006 as against Rs.41.43 million (0.83% of sales) in FY 2005. The increase in the expenses is due to increase in sales commission on account of increase in sale of goods under consignment sales.

Depreciation & Amortisation
Depreciation & Amortisation for the FY 2006 was Rs.113.85 million (2.36% of our sales) against Rs. 116.25 million (2.34% of our sales) in FY2005. There was a marginal decrease in this expense.

Interest
Interest for the FY 2006 were Rs.69.94 million (1.45% of our sales) against Rs. 84.55 million (1.70% of our total revenues) in FY 2005. Decrease in the interest expense is on account of repayment of term loans in the year.

Profit before Tax
Our profit before tax for the FY 2006 was Rs. 387.77 million (8.03% of our sales) against Rs. 209.31million (4.21% of our sales) for FY 2005. The increase in profitability with respect to previous year was mainly on account of stability in coke prices and favourable market condition for both pig iron and castings.

Taxation
For the FY 2006 we have provided for Rs. 136.78 million (net of current tax and deferred tax) for tax.

Profit after Tax
Our profit after tax for the FY 2006 was Rs. 250.99 million (5.20% of our sales) against Rs. 220.00 million (4.42% of our sales) for FY 2005.

Comparison of the operating results of FY 2005 to FY 2004

Sales
Our total sales for FY 2005 were Rs. 4,971.67 million as compared to Rs. 3,761.70 million in FY 2004, an increase of 32.17%.

Particulars	FY 2005	FY 2004
Pig Iron sales:		
MT	203,091	212,002
Value in Millions	3253.18	2428.76

Sales realisation (Rupees per MT)	16,018	11,456
Casting sales: No. of castings Value in Millions Sales realisation (Rupees per Casting)	 333,924 1217.33 3645	 340,261 936.43 2752

In the case of pig iron, the first half of the year of FY 2005, witnessed a very high level of volatility in the raw material prices and the market resisted absorbing the incremental cost. It became unviable to maintain the margins and hence, as measure of damage control, the production was curtailed by shutting down one of the mini blast furnaces for a period of three months. However, when the raw material prices showed a down ward trend and the pig iron prices stabilised, the operations of the shutdown furnace was revived. As a consequence, the volume of pig iron sales dropped by 4%. However, the value of the sales registered an increase by 34% on account of increased realisation per ton of pig iron.

On the castings front, a change in the product mix towards higher realisation, resulted in an improved sales value by 30% though, the volumes declined by 2% as compared to FY 2004. The year also witnessed increases in the input costs which were partially passed on to the customers.

Other Income

Our other income in FY 2005 was Rs. 21.43 million as compared to 21.96 million in FY 2004. Sources of income under this head were Interest Income, Rent and Miscellaneous Income.

Manufacturing Expenses

Our total manufacturing expenses during FY 2005 increased by 47.02% to Rs. 4,366.91 million from Rs. 2,970.21 million in FY 2004. Increase in our manufacturing expenses was due to increase in coke prices which is our major input material.

Raw Material

Expenditure on raw material, which is a part of manufacturing expenses, was Rs.4,072.69 million (81.92% of sales) for the year ended March 31, 2005 against Rs.2653.14 million (70.53% of sales) for FY 2004. Increase in coke prices had caused the increase in raw material cost in FY 2005.

Employees' Remuneration and Other Benefits

We had 790 employees on our payroll as of March 31, 2005, compared to 786 employees as of March 31, 2004. Employees' remuneration and other benefits was Rs. 117.69 million(2.37% of sales) in FY 2005 as against Rs. 109.96 million (2.92% of sales) in FY 2004. Increase in employee related expenses are nominal and increase is on account of annual increments given to employees.

Administration Expenses

Administration expenses was Rs.56.96 million (1.15% of sales) in FY 2005 as against Rs.104.29 million (2.77% of sales) in FY 2004. The reduction is on account of relining expenses of one of the MBF incurred in FY 2004. One of the MBF was taken up for relining of the refractory bricks in the furnace.

Selling & Distribution Expenses

Selling & Distribution expenses was Rs.41.43 million (0.83% of sales) in FY 2005 as against Rs.28.90 million (0.77% of sales) in FY 2004. The increase in this expenses over the previous year was mainly due to consignment sales commission on account of increased sales by way of consignment sales.

Depreciation & Amortisation

Our depreciation & amortisation was Rs. 116.25 million (or 2.34% of our sales) in FY 2005 as against Rs. 119.86 million (or 3.19% of our sales) in FY 2004.

Interest

Interest decreased by 63.45% to Rs. 84.55 million (1.70% of our sales) in FY 2005 from Rs. 231.31million (6.15% of our sales) in FY 2004. This was primarily on account of one time settlement entered into with the financial institutions for repayment of loans.

Profit before Tax
Our profit before tax was Rs. 209.31 million (4.21% of our sales) in FY 2005 as against Rs.219.13 million (5.83% of our sales) in FY 2004. The profit in FY 2004 was good on account of extremely favourable pig iron price and stable raw material prices in the fourth quarter of the year.

Profit after Tax
Our profit after tax was Rs. 220.00 million (4.42% of our sales) in FY 2005 against Rs.263.84 million (7.01% of our sales) in FY 2004.

Comparison of FY 2004 with FY 2003

Sales
Our sales for FY 2004 were Rs. 3761.70 million as compared to Rs. 2511.33 million in FY 2003. Our revenue in FY 2004 increased by 49.79% which was primarily attributable to considerable price increase of pig iron and also of castings and other products.

Particulars	FY 2004	FY 2003
Pig Iron sales:		
MT	212,002	240,710
Value in Millions	2428.76	1755.52
Sales realisation (Rupees per MT)	11,456	7293
Casting sales:		
No. of castings	340,261	229,932
Value in Millions	936.43	547.23
Sales realisation (Rupees per Casting)	2752	2380

In respect of pig iron, one of the mini blast furnaces was taken up for refractory relining spreading over 36 days and there by resulting in a lower sales volume by 12%. The sales realisation increased by 57% on account of the increase in the input costs which we passed on to the customers. This resulted in an increase in the sales value by 38%.
On the casting front, there was an increase in the demand for castings from the auto and tractor industry. This resulted in an increase of volume growth by 48%. This volume growth coupled with the price corrections in some of the castings, led to a higher sales value by 71%.

Other Income
Our other income in FY 2004 was up by 163.94% to Rs. 21.96 million as compared to Rs.8.32 million during FY 2003. This was primarily on account of increase in interest income.

Manufacturing Expenses
Our total manufacturing expenses during FY 2004 increased by 55.18% to Rs. 2970.21 million from Rs. 1,914.10 million in FY 2003. This was significantly due to increase in coke prices.

Raw Material
Expenditure on raw material, which is a part of manufacturing expenses, was Rs.2,653.14 million (70.53% of sales) for the year ended March 31, 2004 as against Rs. 1,716.98 million (68.37% of sales) for FY 2003. Our raw material cost during FY 2004 increased by 54.52% which was primarily on account of increase in coke prices.

Employees' Remuneration and Other Benefits
We had 786 employees on our payroll as of March 31, 2004, compared to 789 employees as of March 31, 2003. Employee remuneration and other benefits was Rs. 109.96 million (2.92% of sales) in FY 2004 from Rs. 106.68 million (4.25% of sales) in FY 2003. The increase in the expenses was mainly on account of annual increments awarded to the employees,

Administration Expenses
Administration expenses was Rs. 104.29 million (2.77% of sales) in FY 2004 against Rs. 104.20 million (4.15% of sales) in FY 2003. There was no increase in the expenses during the year compared to 2003.

Selling & Distribution Expenses
Selling & Distribution expenses was Rs.28.90 million (0.77% of sales) in FY 2004 as against Rs.31.93 million (1.27% of sales) in FY 2003. There was a marginal decrease on account of reduction in the transportation expenses.

Depreciation & Amortisation
Depreciation & Amortisation for FY 2004 was Rs. 119.86 million (3.19% of sales) as against Rs. 120.53 million (4.80% of sales) in FY 2003.

Interest
Interest increased by 44.54% to Rs. 231.31 million (6.15% of sales) in FY 2004 from Rs. 160.03 million (6.37% of sales) in FY 2003. This increase was on account of settlement arrived at with the financial institutions which required the payment of upfront fee.

Prior Period and Other Items
Nil

Profit before Tax
Profit before tax increased by 166.65% to Rs. 219.13 million (5.83% of sales) in FY 2004 from Rs. 82.18 million (3.27% of sales) in FY 2003. Turn around in the profitability of the company was due to sustained cost reduction projects and capitalisation of the market upswing.
Profit after Tax
Profit after tax increased to Rs. 263.84 million (7.01% of sales) in FY 2004 from of Rs. 77.59 million (3.09% of sales) in FY 2003.

Cash flows

The table below summarises our cash flow for financial years 2006, 2005 and 2004

(Rs. Million)

Particulars	For the year ended March 31,		
	2006	2005	2004
Net cash generated by operating activities	165.34	502.30	876.28
Net cash (used in) / from investing activities	(58.58)	(49.40)	2.75
Net cash (used in) / from financing activities	(409.93)	(173.31)	(897.82)
Net increase / (decrease) in cash & cash equivalents	(303.17)	279.59	(18.79)
Closing cash & cash equivalents	83.43	386.61	107.02

As at March 31, 2006, closing cash and cash equivalents amounted to Rs.83.43 million. The opening cash and cash equivalents available at the beginning of FY 2006 was Rs.386.61 million. The principal sources of cash and cash equivalents in FY 2006 were cash flows from operating activities amounting to Rs.165.34 million and proceeds from long term borrowing amounting to Rs.39.60 million. These funds were used principally for the repayment of short term loans of Rs.250 million, payment of dividend on Redeemable Preference Shares and tax there on aggregating to Rs.129.28 million, for purchase of fixed assets of Rs.78.92 million and interest payment of Rs.70.25 million.

As at March 31, 2005, closing cash and cash equivalents amounted to Rs.386.61 million. The opening cash and cash equivalents available at the beginning of FY 2005 was Rs.107.02 million. The principal sources of cash and cash equivalents in FY 2005 were cash flows from operating activities amounting to Rs.502.30 million and proceeds from long term borrowing amounting to Rs.166.54 million. These funds were used principally for the repayment of short term loans of Rs.236.67 million, for purchase of fixed assets of Rs.72.48 million and interest payment of Rs.92.90 million.

As at March 31, 2004, closing cash and cash equivalents amounted to Rs. 107.02 million. The opening cash and cash equivalents available at the beginning of FY 2004 was Rs.125.81 million. The principal sources of cash and cash equivalents in FY 2004 were cash flows from operating activities amounting to Rs.876.28 million and proceeds from short term borrowing amounting to Rs.344.00 million. These funds were used principally for the repayment of long term loans of Rs.940.51 million, for purchase of fixed assets of Rs.36.56 million and interest payment of Rs.249.95 million.

Exports

Table below gives details of exports for financial years 2004, 2005 and 2006:

Year	Amount (INR)
2002-03	248,108
2003-04	Nil
2004-05	510,673
2005-06	148,893,972
Total	152,755,596

During the FY 2004, there were no exports. In the FY 2005, we exported one consignment of pig iron amounting to Rs.0.36 million and one consignment of casting amounting to Rs.0.15 million. During the FY 2006, we exported one consignment of pig iron amounting to Rs.3.60 million and exported iron ore fines (generated while processing the iron ore) amounting to Rs.145.29 million.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in foreign exchange rates, interest rates and Government policies on Import of raw materials.

Exchange Rate Risk and Forex Management

We face exchange rate risk owing to the fact that we have substantial imports in currencies other than INR, which are subject to fluctuations depending on the market conditions. We are exposed to USD currency. Appreciation or depreciation of the Indian rupee in relation to this currency can cause us to foreign exchange loss or gain.

In accordance with our foreign exchange risk management policy, we enter into Rupee forward purchase contracts to mitigate the risk of changes in foreign exchange rates on accounts payable.

The foreign exchange loss or gain is clubbed as part of the raw material cost. The details of foreign exchange gain / (loss) for the financial year 2004, 2005 and 2006 is as under:

Year	Exchange gain / (loss) Rs. Million
2003-04	39.68
2004-05	4.14
2005-06	(5.69)

CIF value of imports in foreign currencies

(Rs.in Millions)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
Capital goods	-	-	0.27	0.42	-
Raw Materials (Coke)	360.52	398.22	813.83	2,068.89	1,577.37
Stores & Spares	2.60	0.88	0.48	1.17	4.14

Expenses in Forex:

(Rs.in Millions)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
Interest	5.81	3.36	4.31	1160	33.30
Others	0.76	1.19	0.39	0.85	0.70
Total	6.57	4.55	4.70	12.45	34.00

Company adopts the hedging strategy for covering forex exposure with an objective to minimize risks and optimize the average exchange rate. Our company uses forward cover mechanism to control the forex risks.

We import coke. significant portion of material cost are denominated in foreign currency mainly US Dollar. The forex policies followed by the Company are as under:

Forex exposures are recognized at the stage of budgeting and while placing the order. For benchmarking purpose a costing rate as a base rate is taken to take appropriate core cover.

Forex covers are taken at regular intervals and levels and this ensures the Company is hedged against any further upward swing. In case of a downward swing timely actions are taken to minimize the forex liability.

Interest Rates

Our interest rate risk results from changes in interest rates, which may affect our financial expenses. We bear interest rate risk with respect to indebtedness as the interest could vary in the near future. We also incur interest on import of coke at LIBOR for 180 days from the date of bill of lading. Any variation in the LIBOR will have the affect on the interest expense.

Government Policies

We are subject to the Government Policies on import duty of coke, coal, steel scrap and anti-dumping duty on import of coke which has the impact on our manufacturing cost.

Unusual or infrequent events or transaction

There are no unusual or infrequent events or transactions except as disclosed in this draft letter of offer.

Significant economic/regulatory changes

For a detailed discussion in this regard, refer to the section titled “Regulation and Policies” on page 79 of this Prospectus.

Known trends and uncertainties

Other than as described other parts of this Draft Letter of Offer, particularly in the section titled “Risk Factors” starting on page viii and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, to our knowledge there are no trends or uncertainties that have or had or are expected to have a material adverse impact on revenues or income of our Company from continuing operations.

Future relationship between costs and revenues

We reasonably do not foresee any factor that may have a material adverse impact on the operation and finances of our Company except factors disclosed in this Draft Letter of Offer.

Dependence on few customers and Suppliers

For a detailed discussion in this regard, refer to the section titled "Risk Factors" and "Our Business" on page viii and page 55 of this Draft Letter of Offer.

Seasonality of business

Our Business is not in seasonal in nature.

Competitive Conditions

The continued upward trend in the tractor and auto industry may prompt for installation of additional capacities by way of expansion by existing casting manufacturers or by way of entry of new competitors. Similar expansion may also happen in pig iron also. For a detailed discussion in this regard, refer to the section titled "Risk Factors"

New product and business segment

Our business is a predominantly dependent on tractor and the automobile industry where the fast development are taking place and new models are being introduced. The new development castings are more complex and intricate which requires improvement in the capability in the foundry to deliver these new products.

Off Balance Sheet items

None

Significant Developments after March 31, 2006 that may affect our future results of operations

There is no subsequent development after the date of the Auditor's Report, which will have a material impact on reserves, profits, earnings per share and book value of Equity Shares of our Companyexcept as stated below :

- We have purchased the following assets from Kirloskar Oil Engines Limited at Rs.13.33 Crores on 25th September, 2006 which were earlier leased to us by Kirloskar Oil Engines Limited

  1. Mini Blast Furnace at Rs.8.92 Crores
  2. 2. TG_I (Co_Generator) at Rs.o.58 Crores
  3. TG_II (Co Generator) at Rs.3.83 Crores

- Conveyance deed to this effect was executed as on 25th September, 2006 with Kirloskar Oil Engines Limited

- We have taken a loan of Rs.13.50 Crores from State Bank of India, Industrial Branch, Pune on 26th September, 2006 for financing the purchase of leased assets i.e. Mini Blast Furnace, TG_I& TG_II and for the consutruction of water storage tank.

- In addition to above there has been an increase in amount of secured loans from Rs.160.23 millions as on March 31, 2006 to Rs.337.65 as on August 31, 2006.

FINANCIAL INDEBTEDNESS

S.N	Lender	Loan Documentation and purpose	Amount (In Rs. Million)	Current Outstanding amount (In Rs. Million)	Interest	Repayment schedule	Security created
1	UTI Bank Limited	Term loan agreement dated November 6, 2004 for a period of 5 years from the date of the first draw down. Agreement for hypothecation dated November 6, 2004. The loan has been availed to meet the capital expenditure requirement of the Company.	50.00	31.66	8% p.a. for the 1st year. G-Sec + 225 basis points for 2nd year and onwards (with a floor of 8% p.a.) payable monthly.	Within period of 60 months in equal monthly instalments of Rs 833,333 each from the date of first draw down	(i)First pari-passu charge on the nature fixed assets, excluding charge on the core shop machinery of our Company valued at Rs. 308,800,000 (2) Letter of comfort from KOEL backed by a board resolution of KOEL.
2	GE Capital Services India	Long-term loan agreement dated 22 September 2004 for a period of 48 months. Deed of Hypothecation dated September 22, 2004 The loan has been availed to meet capital expenditure and long-term working capital requirements of the Company.	200.00	99.20	8% p.a. payable monthly	48 equal monthly instalments along with interest accrued	Exclusive first charge over the Company's plant and machinery (core shop machinery) with a minimum net book value of Rs. 300,000,000 as on March 31, 2004. Post dated cheques for the payment of principal and interest Demand promissory note executed by the Company
3	HDFC Bank Limited	Sanction letter dated April 15, 2006. Letter of Continuity dated April 17 2006 for DP Note.	60.00	10.00	9.25% p.a. payable monthly	Six monthly instalment of Rs.10,000,000 each	Demand Promissory Note dated April 17, 2006 executed by our Company. Post dated cheques

S.N	Lender	Loan Documentation and purpose	Amount (In Rs. Million)	Current Outstanding amount (In Rs. Million)	Interest	Repayment schedule	Security created
							for the payment of principal amount.
4	State Bank of India consortium*	Deed of hypothecation and working capital consortium agreement dated March 24, 2005 executed with State Bank of India on behalf of consortium banks. Sanction Letters received are as follows: (1) Letter dated September 22, 2006 from State Bank of India (2) Letter dated September 21, 2006 from ING Vysya Bank Limited. (3)Letters dated July 11, 2006 from Bank of Maharashtra. (4) Letter dated March 27, 2006 from UTI Bank Limited. (5) Letter dated January 9, 2006 and individual sanction letter dated June 13, 2006 from IDBI Bank Limited. (6) Letter dated January 25, 2006 and July 10, 2006 from ICICI Bank Limited (7) Letter dated August 10, 2006 from HDFC Bank	1,723,000,000 Comprising of 1) (Fund based (cash Credit)– 150,000,000 and 2) Non-fund based (Letter of Credit Limits)– 1,573,000,000)	Fund based- Rs. 66.94 Non fund based- Rs. 684.67	SBI – presently 13 % p.a. payable monthly on Cash Credit of Rs. 75,000,000 BOM - at PLR + 0.5% (11.75% p.a.) on Cash Credit of Rs. 75,000,000 The Bank charges payable on LC opening and retirement are as per individual sanction letters received from each Banks.	Tenor of the Letter of Credit is maximum 180 days.	First charge on the current assets of our Company namely, stock of raw material, stock in progress, semi-finished and finished goods, stores and spares not relating to plant and machinery, bills receivable, book debts and all other movables both present and future. Second charge by way of joint mortgage being the second charge by deposit of title deeds of the all the Company's immovable property situated at the Plant.

S.N	Lender	Loan Documentation and purpose	Amount (In Rs. Million)	Current Outstanding amount (In Rs. Million)	Interest	Repayment schedule	Security created
		Limited (8) Letter dated June 12, 2006 from Andhra Bank					
5.	State Bank of India	Term Loan Agreement dated 22 September 2006. Hypothecation and Mortgage agreements to be entered into for Term Loan.	135.00	135.,00	1.75% below SBAR, i.e. minimum 9.25% p.a. with monthly rests	Between October 2006 and March 2007, 6 monthly instalments; between April 2007 and March 2008, 12 monthly instalments and between April and September 2008, 6 monthly instalments; each monthly instalment of Rs. 56,25,000	(To be created within 4 months from date of Term Loan Agreement) 1. Exclusive first charge i.e. hypothecation charge on Mini Blast Furnace-II and Turbo Generators-I and II. 2. Exclusive first charge i.e. Equitable Mortgage of land and water tank thereon constructed by the Company

*The SBI Consortium in whose favour the charge was created for Rs.1,723 Million consisted of State Bank of India, Bank of Baroda, Bank of Maharashtra, Development Credit Bank Limited, UTI Bank Limited, Andhra Bank and ICICI Bank. Subsequently at the consortium meeting of the Banks held on October 24, 2005 the limits of Bank of Baroda and Development Credit Bank Limited were taken over by Bank of Maharashtra and State Bank of India. At the same meeting IDBI Bank and ING Vysya were inducted into the consortium. At the consortium meeting of the Banks held on January 31, 2006 HDFC Bank Limited was inducted into the consortium. The Company is the process of modifying the security to include the additional facility and filing the requisite documents with the ROC in view of the changes in the consortium members.

Material covenants

1. For term loan and other facilities from UTI Bank Limited ("**UTI Bank**")

1.1. We cannot create any charge on any or all the properties/assets during the currency of the term loan facility granted by the bank without its prior consent
1.2. We are under an obligation to our ancillary/FE business/deposits through UTI Bank at least in proportion to the limit sanctioned
1.3. We have to keep UTI Bank informed of the happening of any event likely to have a substantial effect on the production/sales, profitability, etc. and the remedial steps taken by us.

1.4. During the currency of UTI Bank facilities, we cannot without the permission of UTI Bank in writing declare dividends for any year except out of profits relating to that year after making all due and necessary provisions and provided further that no default had occurred in any repayment obligations.

1.5. In case we commit a default in the repayment of interest or any instalment on the due date UTI Bank shall have an unqualified right to disclose or publish the names of our directors as defaulters in such manner and through such medium as the UTI Bank or RBI in their absolute discretion may think fit.

1.6. We cannot effect any material change in the management of our business without prior written consent of UTI Bank.

1.7. We cannot effect any change in our ownership or control whereby the effective beneficial ownership or control changes without prior written consent of UTI Bank.

1.8. We cannot enter into any scheme of merger, amalgamation, compromise, or reconstruction without the prior written consent of UTI Bank Limited.

1.9. The Term loan would have call/put option at the end of three years from the date of first draw down.

2. For long term loan from GE Capital Services India (“**GE Capital**”)

2.1. GE Capital has a put option and has an unconditional pre-payment option for all outstanding amounts under this facility after a period of 36 months from the date of first draw down with 30 days prior written notice.

2.2. GE Capital also has an unconditional put option for all outstanding amounts in case we propose to redeem any or all our preference shares out of our profits after giving 30 days written notice.

2.3. The total long term loans availed by us excluding current liabilities, working capital bank borrowings and GE Capital facility is not to exceed Rs. 600,000,000

2.4. Our preference shares cannot be redeemed without prior permission of GE Capital except in case of redemption out of proceeds of fresh equity infusion and/or out of profits

2.5. Notwithstanding the above, GE Capital shall have unconditional put option on the entire outstanding amount with prior written notice of 30 days.

2.6. The shareholding of our promoters shall not fall below 42.92% (including 37.38% held by KOEL) during the term of this facility.

3. For short term loan from HDFC Bank Limited (“**HDFC Bank**”)

3.1. During the currency of the loan facility, we cannot without the prior written consent of HDFC, Bank effect any change in the shareholding of our promoters.

3.2. We undertake not to avail any working capital facilities/bill discounting facilities except from banks/multiple banking arrangements.

3.3. We shall not undertake any additional borrowing without the prior consent of HDFC Bank and that the facility from HDFC Bank shall have priority over any unsecured borrowings from promoters/associate entities.

3.4. We shall not use the working capital facility for investments in shares/debentures, advances and inter-corporate loans/deposits to other companies including subsidiaries.

4. For the State Bank of India Consortium

4.1. During the currency of the loan facility, we cannot without the prior consent of State Bank of India implement any Scheme of expansion/diversion/modernisation other than routine capital expenditure or effect any change in our capital structure.

4.2. We shall keep the banks informed of the happening of any event that is likely to have a substantial effect on the profits of our business.

4.3. The banks shall have a right to appoint their nominees on the board of directors of our Company to protect the interests of State Bank of India.

4.4. Material covenants arising from letters/agreements entered into with consortium banks individually are as under:

State Bank of India

a. During the currency of the loan facility, we cannot without the prior consent of the State Bank of India, effect any change in our capital structure enter or into any other arrangements with any other banks except the working capital arrangements granted and to be granted under this consortium.
b. We shall route our ancillary/FE business/deposits through the consortium banks at least in proportion to the limit sanctioned.

Andhra Bank

a. We shall route our ancillary/FE business/deposits through Andhra Banks at least in proportion to the limit sanctioned
b. During the currency of the loan facility, we cannot without the prior consent of Andhra Bank effect any change in our capital structure or enter into any other arrangements with any other banks/ financial institution or company

ING Vysya Bank

a. Kirloskar group to maintain 37.38% stake with management control in our Company.
b. We are required to maintain a minimum tangible net worth (including preference share capital) of Rs. 1,20,00,00,000 as on March 31, 2007 and until end of tenure of the facilities.
c. We are required to maintain a debt-equity ratio of below 0.3x as on March 31, 2007 until end of tenure of the facilities.

IDBI Bank

a. We shall not declare any dividend on preference shares in case of irregularity in repayment to IDBI Bank.
b. The tangible net worth of our Company plus the preference shares should be a minimum of 75 crores at all times, alternatively, preference shares shall not be redeemed without IDBI Bank's prior written approval.
c. We shall not use the facility for investments in shares/debentures, advances and inter-corporate loans/deposits to other companies and in real estate activities.

ICICI Bank:

The Company shall not induct a person on its Board who has been identified as a wilful defaulter by RBI and in case such a person is found to be on the board of the company, the company would take expeditious and effective steps for replacing the person on its board or the directors of the company whose names appear in the RBI wilful defaulters list would take steps to get their names removed from the respective lists.

5. For the term loan from State Bank of India ("**SBI**")

5.1. During the period of the term loan agreement, we have to keep all fixed assets, which have been hypothecated / mortgaged to the Bank, fully insured and the policies are to be retained by the Company. We have to submit a copy of the policies to SBI for their information and record. We are required to obtain the policies jointly in the name of SBI and ourselves. We are also required to provide information to the insurance company that SBI is interested in the policy so that SBI's hypothecation/mortgage clause can be incorporated and to ensure that any special terms are included.

5.2. We have to take expeditious and effective steps for removal or deletion from the RBI list of wilful defaulters, the names of those of our directors whose names appear therein.

5.3. The consideration agreed by us with KOEL of Rs. 13,33,00,000 for the Mini Blast Furnace-II and Turbo Generator I and II are to be made directly to KOEL.

5.4. We cannot effect any change in the capital structure, nor can we enter into scheme of amalgamation or reconstruction without the prior written approval of SBI.

5.5. During the currency of SBI facilities we cannot, without the prior written permission of SBI in writing, declare dividends for any year except out of profits relating to that year after making all due and necessary provisions and provided further that no default had occurred in any repayment obligations.

5.6. We shall not, without the prior written permission of SBI, undertake any new project / schemes, implement any schemes of expansion or acquire fixed assets, unless the expenditure on such expansion is covered by our net cash accruals after providing for dividends, investments e.t.c. or from long term funds received for financing such new projects or expansion and approved by SBI.

5.7. We shall not, without the prior written permission of SBI, invest in another concern, either by way of share capital or advance funds or loans or deposits, except as in the case of normal trade credit.

5.8. We shall keep the banks informed of the happening of any event that is likely to have a substantial effect on the profits or our business; and we shall keep SBI informed of any circumstance which adversely affects the financial position of its group companies or companies in which it has invested.

5.9. SBI's prior written approval will be required for any repayment of money (by way of loans, deposits, advances) brought in by promoters, directors, principal shareholders etc., and the rate of interest payable on such monies should be less than the rate charged by SBI.

5.10. We cannot permit any transfer the controlling interest or make any drastic change in the management set-up, without the prior written approval of SBI.

OUTSTANDING LITIGATION AND MATERIAL DEVELOPMENTS

Except as described below, there are no outstanding litigation, suits or criminal or civil prosecutions, proceedings or tax liabilities against our Company, our Directors, our Promoters or Promoter Group and there are no defaults, non payment of statutory dues, over dues to banks/ financial institutions, defaults against banks/ financial institutions, defaults in dues payable to holders of any debentures, bonds or fixed deposits, and arrears on preference shares issued by our Company (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act).

Litigations against our Company

a) ***Labour and related proceedings***

1. There are eight labour disputes filed against our Company which are currently pending before various forums in the State of Karnataka. Out of which, four cases have been filed by contract labourers (one of them being by the mother of a deceased contract labourer) claiming compensation on account of injury/illness suffered during the course of their employment claiming compensation of an aggregate amount of Rs. 823,290/- with interests and four cases have been filed by workmen claiming the reinstatement of service who have dismissed by our Company on grounds of long absenteeism.

2. Mr. A. Jamkhandi, an erstwhile employee of our Company who held the post of a senior officer during his tenure, had filed a case against our Company, before the Workmen's Compensation Commissioner, Hubli seeking compensation for an injury suffered while in service. The Workmen's Compensation Commissioner, Hubli awarded compensation of Rs. 42,804 with interest from November 26, 1996. We have filed an appeal before the High Court of Karnataka challenging the aforesaid order. The case, is at present, pending before the High Court of Karnataka.

3. Mr. A. V. Deodhar, an erstwhile employee of our Company who held the post of senior vice president while he was in service, has on December 7, 2002 filed a suit for declaration (Suit No. 1111/2002) against our Company before the Civil Judge, Junior Division, Pune, directing us to pay him pension under the erstwhile pension scheme of our company dated March 12, 1998 along with arrears and cancellation of the new pension scheme introduced by us on September 1, 2001. The case is, at present pending before Civil Judge, Junior Division, Pune.

4. Mr. Chanchanna, ex-president of the KFIL Karmika Sangha and Mr Pampanna, ex-vice president of the KFIL Karmika Sangha have filed two cases before the Labour Court, Gulbarga seeking an order for setting aside the dismissal order issued by us on September 26, 2005 and reinstatement with full back wages and continuity of service and other consequential benefits.

5. Our Company and the labour union had entered into an agreement, which was valid upto January 31, 2005. On January 6, 2005 the union submitted a fresh charter of demands. The management stated that they would commence discussions on the demands only once the production output norms were met and the terms of the earlier agreement complied with. Subsequently, the management took steps to identify the defaulting workmen and refused to allow the workmen to enter the factory unless they agreed to sign a written undertaking agreeing to produce as per norms. The workmen went on strike from August 24, 2005 to October 5, 2005. The deadlock between the management and the union was referred to a conciliation officer but those negotiations failed and the matter has been referred to the industrial tribunal and is pending on file. In the meantime, based on further negotiations, our Company is paying Rs. 805 per employee per month as interim relief with effect from February 1, 2005 pending disposal of the case.

6. Further, in the above case, an order (MN/SRO/BLR/ENF/21117/474/2006-07) has been passed against our Company by the Assistant Provident Fund Commissioner, Bellary on September 22, 2006 directing our Company to deduct provident fund on the interim relief being paid by it to its employees pursuant to an

agreement with the labour union dated July 4, 2006 wherein it was paying an interim amount of Rs. 805 per month to each employee. Under the aforesaid order our Company has been made liable to pay an amount of Rs. 1,507,854 towards contribution to provident fund, Rs. 7,65,333 being employees share and Rs.801,321 being employer's share out of the total amount.

b) Income Tax proceedings

Our Company has filed two appeals pending before the Commissioner of Income Tax (Appeals) Pune against the orders of the ACIT dated March 30, 2004 (for the assessment year 2001-02) and March 18, 2005 (for the assessment year 2002-03) disallowing various expenses to the extent of Rs. 57,828,352 and Rs. 37,495,564 respectively. Our Company has appealed the orders. Both the appeals are currently pending on file with the Commissioner of Income Tax (Appeals).

c) Excise duty proceedings

1. The Central Excise Department filed a case against us before the CESTAT, Bangalore claiming excise duty of Rs.242,068 on the pattern charges. The CESTAT, Bangalore remanded the same back to Commissioner, Central Excise, Belgaum for re-adjudication.

2. We had deposited Rs.5,000,000 in respect of a dispute on DG set issue with the Central Excise dept. as per the directions of the CEGAT, Chennai. The case was decided in our favour and the deposit was refunded along with interest of Rs.341,496. Subsequently, the Central Excise Department has claimed refund of interest paid to the company amounting to Rs.341,496 against the delayed refund of pre-deposit made by the company and the same has been disputed by the company and the dispute is pending before CESTAT, Chennai.

d) Purchase Tax proceedings

The Assistant Commissioner of Commercial Taxes (Intelligence), Bellary have issued a notice on September 01, 2006, alleging that the freight value on transportation of iron ore and manganese would also attract payment of purchase tax stating that our Company is liable to pay an amount of Rs.9378,794 towards purchase tax for the Fiscal 2003-04 and 2004-05.

e) Show cause notice

A show cause notice (SOP 12/2006) dated September 4, 2006 was issued by the Court of the District Munsif, Madurai Town in relation to the petition filed by Mrs. Pushpa & Others including our Company as the 7th respondent to a case filed by them. The notice that was received by us on September 14, 2006 directed us to appear for a hearing in the matter before the District Munsif, Madurai Town on September 15, 2006. However, due to the short notice, we could not appear before the Court and are in the process of taking necessary action in the matter.

Apart from what is stated above, there are no outstanding litigations, disputes, dues to banks/financial institutions, defaults against banks/financial institutions, proceedings initiated for any economic/civil/any other offences, involving our Company.

Litigations involving our Promoter Group companies

KIRLOSKAR OIL ENGINES LIMITED ("KOEL")

a) Consumer disputes

There are 84 cases that have been filed against Kirloskar Oil Engines Limited (KOEL) pending before various consumer forums across the country for manufacturing defects in their products consisting of small, medium and large sized engines. The amount claimed as compensation for manufacturing defects in small engines is Rs.

5,201,782, Rs. 9,868,649 for medium engines, and Rs. 2,662,770 for large engines. KOEL has filed its reply in the respective courts and the matters are currently pending on file.

b) Civil proceedings

1. The Official Liquidator of The Mysore Kirloskar Limited has filed a case (786/2006) against the Company in the High Court of Karnataka at Bangalore for recovery of an amount of Rs. 29,26,020/- with interest @ 6% p.a. from 01.04.2004, which are allegedly due from the Company as trade debts. The case is currently pending for filing of reply by the Company.

2. SPL Limited has filed a civil suit (361/2000) against KOEL and Solar Turbines, Singapore, in the Kolkata High Court for recovery of losses incurred by them and damages due to defect in the Gas Turbine supplied by KOEL. The amount claimed by SPL Limited is Rs. 43,30,18,502/-. The case is currently pending for filing reply by the Company and Solar Turbines.

3. SRSL, has filed a civil suit in (17/2001) Udaipur Court against KOEL, and has claimed Rs.1,10,05,700/- plus interest at 18% per annum alleging that the genset did not perform as per the guaranteed terms, and The suit is pending for issues.

4. SRSL has filed a civil suit (15/2001) in Udaipur Court against KOEL, alleging that the genset did not perform as per the guaranteed terms and has claimed Rs.1,29,98,500/-plus interest at 18% per annum. The suit is pending for issues.

5. There are six cases that have been filed against KOEL, before various courts across the country relating to manufacturing defects in the engines, gensets and turbines supplied by KOEL seeking compensation aggregating to Rs. 5,235,000. KOEL has filed its reply in the court contesting the charges and the matter is currently pending on file.

6. Jeevan Diesels filed a suit (No. 178/2003) before the subordinate Judge, Patna against KOEL seeking compensation of Rs. 110,000 for default in the submission of prescribed forms to them for the year 2000-2001. KOEL has filed its reply in the court contesting the charges and the matter is currently pending on file.

7. Buildsworth filed a suit (No. 175/1993) in 1993 before the Assistant District Judge, Guwahati originally against Prashant Khosla Pneumatic Limited (PKPL) and later included KOEL as a party being the main supplier of the compressors to PKPL. In the suit, Buildworth has claimed an amount of Rs. 1,046,511 which is inclusive of damages and costs suffered due to failure on part of PKPL to supply compressors within the stipulated timeframe. The case at present is pending on file for framing of issues.

8. Dada Motors filed a rent petition before the Court of Rent Controller, Ludhiana, against KOEL, for eviction and recovery of rent for the premises, which KOEL had taken on lease from Dada Motors. The compensation claimed amounts to Rs. 80,000. KOEL has filed its reply in the court contesting the charges and the matter is currently pending on file.

9. Orbit Bearings India Ltd. filed a suit (No. 41/2000) in 2000 before the Civil Judge, Senior Division, Rajkot against KOEL for defaming company’s market credentials and seeking damages upto Rs. 10,000,000. KOEL has filed its reply in the court contesting the charges and the matter is currently pending on file.

10. Mr. Vig, Director of PKPL, filed a suit (No. 280/1997) before the Civil Judge, Senior Division, Nasik against KOEL for specific performance of the agreement between him and KOEL for sale of a flat which he alleges was executed on July 17, 1992. KOEL has filed its reply in the court contesting the charges and the matter is currently pending on file.

11. PMC Land Development filed an appeal (No. 518/2004) on August 24, 2004 before the Additional District Judge, Pune against the order issued by the Court of Senior Division, Pune in the suit (1094/2003) filed by KOEL seeking injunction against PMC for recovery of development charges. The matter is currently pending.

12. Vora Exports had filed a suit (No. 3136/85) in 1985 before the High Court, Mumbai against KOEL, for dissolution of partnership alleged to be entered into by KOEL with Vora Exports since 1974 and for submission of business accounts in court for determination and payment of the amount allegedly due to Vora Exports under the partnership. KOEL has filed its reply in the court denying any partnership arrangement with Vora Exports contesting the charges and the matter is currently pending on file.

c) Labour proceedings

1. There are eleven cases filed by erstwhile employees, trainees, eight workers of a contractor against KOEL which are pending before various forums in respect of termination of services on the grounds of, loss of confidence, habitual absenteeism, pre-mature termination of services, misconduct by the labour contractor, charge-sheeting for alleged disobedience of orders seeking reinstatement with continuity of service and back wages.

2. KOEL has filed seven writ petitions before the high courts of Mumbai and Aurangabad a challenging the orders passed by courts in respect of payment of subsistence allowance, payment of wages to certain workers, reinstatement with continuity of services and back wages wherein services were terminated on grounds of man-handling the engineer, completion of probation period, misconduct and absenteeism.

3. The Shramik Sena Union filed two suits (125/97 & 157/97) against KOEL before the Industrial Court. During the year 1997, due to heavy losses, it was proposed to close the operations of a foundry and machine shop. KOEL had submitted application for permission of this closure to the Commissioner of Labour, Maharashtra State. As the unions have strongly opposed the application, the Commissioner of Labour, had not granted the permission for closure and gave a lay-off to the workers. The case is, at present, pending on file.

4. The SZMS Union, Solapur filed a writ petition (WP No 7866/2003) against KOEL, before the High Court, Mumbai on account of increase of work time to 9 hours, instead of 8 hours and 5 days working instead of 6 days working in a week. The Industrial Court, Solapur passed the order ratifying it as proper and legal. However, the union has filed W.P against KOEL. In the meantime, KOEL restarted working for 8 hrs per day and 6 days a week from 10.3.2005 as per MOU dated 7.3.2005 with the Union. The subject matter has been settled. However, necessary intimation has to be filed by the union with the High Court requesting for withdrawal of the case.

5. The Factory Inspector filed a criminal case (5999 & 6000/2005) against the occupier and factory manager of the Solapur factory of KOEL on the account of death of two female contract labourers who met with an accident at the factory. KOEL had not filed the accident reports with the factory inspector as the deceased workers were contract labourers. The case is, at present, pending on file. The court has not served the summons till date. Nevertheless, KOEL submitted a request letter to the Chief Inspectorate of Factories for revoking of the case.

6. Mr. Gramopadhye filed a revision application (Revision Application 19/99) against the order of the labour court dismissing his application filed against KOEL for dismissal of services on account of absenteeism. The case is, at present, pending on file.

7. KOEL is involved in a Letter Patent Appeal (LPA) (WP No. 4068/95 LPA 312/2004) filed by Mr. P.M. Jahagirdar before the High Court, Mumbai, challenging the order of the High Court ordering KOEL to pay wages amounting to Rs. 75,000/- to Mr. P.M. Jahagirdar. The case is, at present, pending on file.

8. Mr. A. T. Yadav filed a suit (271/2002) before the labour court at Pune, against KOEL for reinstatement with continuity of service and full back wages due to termination of services on account of being charge-sheeted for disobeying orders consistently. The case is, at present, pending on file.

9. Mr. N. K. Mane, a contract labourer filed a suit (777/2005) at the consumer court against KOEL and the contractor claiming compensation of Rs. 40,000 due to non-payment of family pension to him from the

Provident Fund Office, as he had not attained the age of fifty years as per the provident fund records. KOEL, in its written statement had contended that it is not responsible for the records, registers and payment as the contractor is maintaining his own provident fund code and is directly responsible for the records, registers and payment of dues. The case is, at present, pending on file.

10. Mr. Deokate and Mr. Bake have filed a suit (2/2004 LC 2) against KOEL before the Labour Court, Solapur, alleging that the VRS that they had opted six years ago was not proper. KOEL has filed its response in the matter and the case is, at present, pending on file.

d) Sales tax proceedings

1. KOEL, has filed a Revision Application (64/05) on August 11, 2005 before the Maharashtra Sales Tax Tribunal, against the order of the Additional Commissioner of Sales Tax, Suburban Zone, Mumbai [No.Addl.CST/MSZ/REV/04-05/B-2 issued on June 27, 2005 for the Fiscal 1995-96 directing KOEL to pay an amount of Rs. 4,873,122 as differential additional tax on turnover of vehicle and tractor parts and disallowing a set off made on the purchases from M/s Dhayreshwar Engineering Private Ltd. The Tribunal has issued stay in the matter pending disposal of appeal and further proceedings are currently pending before the tribunal.

2. KOEL has filed an Miscellaneous and Reference application (223 of 2005 & 105 of 2005) on February 7, 2002 before the Maharashtra Sales Tax Tribunal against the judgement of the first bench of the Maharashtra Sales Tax Tribunal issued on October 19, 2005 for the Fiscal 1996-97 directing KOEL to pay an amount of Rs. 10,400,000 as differential additional tax on the turnover of vehicle and tractor parts, disallowing two set offs made on the purchases from M/s Dhayreshwar Engineering Private Ltd and on the basis of revised stock transfer ratio respectively and charging an interest under Section 36(3)(a) of the Bombay Sales Tax Act, 1959, for the non-payment of tax due. The appeal is currently pending before the tribunal.

3. KOEL, has filed Misc. & Ref. application (223 of 2005 & 106 of 2005) on June 20, 2005 before the Maharashtra Sales Tax Tribunal against the judgement of the first bench of the Maharashtra Sales Tax Tribunal issued on October 19, 2005 for the Fiscal 1997-98 disallowing set offs under Rule 41 D on purchases of goods used for captive consumption and market replacement, under Section 42(3) for purchases made from M/s Dhayreshwar Engineering Private Ltd and on purchases assumed to be in labour work. The dispute also extends to rebate granted on form collection after assessment. KOEL expects a refund of an aggregate amount of Rs. 2,200,000 and the matter is currently pending hearing before the tribunal.

4. KOEL has filed an appeal (SA 355 / 03) on February 15, 2003 before the Maharashtra Sales Tax Tribunal against the order of Deputy Commissioner of sales tax, Pune [No.PC/APP/PN/A-55/02-03 284 issued on December 5, 2002 for the Fiscal 1998-99 levying an interest under Section 36(3) (a) of Bombay Sales Tax Act, 1959 in relation to sale of tractor parts aggregating to an amount of Rs. 1,042,071. The matter is currently pending for hearing before the tribunal.

5. KOEL has filed an appeal (A 35/03-04) on June 19, 2003 before the Commissioner (Appeals), Pune, challenging the order of Asst. Commissioner of sales tax (Admin) M 62 Pune assessment order dated March 27, 2003 issued for the Fiscal 1999-2000 in relation to two sale transactions concerning tractor parts and vehicle parts by KOEL requesting them to refund an aggregate amount of Rs. 8,174,000 as difference in tax rate & additional set off on account of merger of M/s. Shivaji works with KOEL as per Bombay Sales Tax Act, 1959. The matter is currently pending for hearing before the commissioner.

6. KOEL has filed an appeal (SA/708/05) on May 18, 2005 before the Maharashtra Sales Tax Tribunal against the assessment order of Senior Assistant Commissioner of Sales tax issued on November 30, 2004 in the Fiscal 2000-01 directing KOEL to pay the differential tax and interest in relation to pending Form C for the invoice amount of Rs. 51,498,928. The matter is currently pending for hearing before the tribunal.

7. KOEL, has filed an appeal [Appeal No SA 1925/04] on December 24, 2004 before Maharashtra Sales Tax Tribunal against the order [No.: 14/212 of November 20, 2003] of Deputy Commissioner of Sales Tax, Pune for the Fiscal 1993-94 imposing penalty on KOEL under Sec. 36(3)(a) of the Bombay Sales Tax Act. In the

appeal KOEL has also claimed withdrawal of turnover tax and sales tax levied on company investments castings for the Fiscal 1993-94. The aggregate amount in dispute in the matter is Rs. 6,687,564. The appeal is currently pending for hearing before the tribunal.

8. KOEL has filed second appeal [Appeal No.: O. J. C. NO 17937 of 1997] before High Court at Cuttack against the earlier order of the Deputy. Commissioner (Appeals), & Sales Tax Tribunal (Bhubaneshwar, Orissa) directing to pay differential tax on sale of pump set as bare pump & bare engine as the set was dispatched in CKD condition in relation to KOEL's sales tax registration and imposing a penalty of Rs. 9,200,000. The order of the deputy commissioner has been stayed by the High Court and the matter is currently pending completion of hearing before the High Court.

9. KOEL has filed two appeals (STSL 206/02-03) (STSL 207/02-03) before the Commissioner (Appeals), Patna against the demand notices issued by the Commissioner of Sales Tax, Patna for payment of additional sales tax of Rs. 637,579 based on recalculation of gross turnover and rejecting the tax exemption claimed by KOEL of Rs. 2,29,914.50 by submission of Form F. Both the appeals have been heard by the Commissioner (Appeals) and the matters have been remanded back to the assessing officer directing that the claim be considered afresh and original declaration form be taken on records and verified. KOEL is currently awaiting the order of the assessing officer confirming the same.

10. KOEL has filed two appeals (STSL 9/03-04) (STSL 10/03-04) before the Commissioner (Appeals), Patna against the demand notices issued by the Commissioner of Sales Tax Patna for payment of additional sales tax of Rs. 17,10,534 based on recalculation of gross turnover and rejecting the tax exemption claimed by KOEL of Rs. 12,11,515 by submission of Form C & F. Both the appeals have been heard by the Commissioner (Appeals) and the matters have been remanded back to the assessing officer directing to pay differential tax. KOEL is currently awaiting the order of the assessing officer confirming the same.

11. KOEL has filed two appeals (STSL 94/03-04) (STSL 95/03-04) before the Commissioner (Appeals), Patna against the demand notices issued by the Commissioner of Sales Tax Patna for payment of additional sales tax of Rs. 617,311 based on recalculation of gross turnover and rejecting the tax exemption claimed by KOEL of Rs. Rs. 100300 by submission of Form C & F. Both the appeals have been heard by the Commissioner (Appeals) and the matters have been remanded back to the assessing officer directing to pay differential tax. KOEL is currently awaiting the order of the assessing officer confirming the same.

12. KOEL has filed an appeal before the Assistant Commissioner (Appeals), Chennai challenging the order [No. TNGST/1461969/2002-2003] of CTO Vadapalani Assessment. Circle - Chennai for the Fiscal 2002-03 directing KOEL for payment of additional sales tax of Rs. 5,425,395 based on recalculation by the authorities of the gross turnover of KOEL. The hearing of appeal has been completed and KOEL is currently awaiting order in the matter.

e) Central excise & Service tax proceedings

1. KOEL, has currently filed two appeals before the CESTAT, Mumbai against the orders issued by the Commissioner of (Appeals), Pune on May 20, 2002 and July 23, 2003 confirming the original orders of the Asst./Deputy Commissioner of Central Excise, Pune issued on September 28, 2001 and May 23, 2001 directing KOEL to deposit excise duty amount of Rs. 240,197 and Rs. 594,847 which they recovered from their Customers as a part of sale price which is equal to 8% of the sale price paid as per Rule 57 CC of the Central Excise Rules. In addition to the above, an appeal is also pending before the Commissioner of (Appeals), Pune against the original order of June 10, 2002 issued by the Deputy Commissioner of Central Excise, Pune directing KOEL for deposit excise duty amount of Rs. 210,024 on the similar issue. All the above appeals are currently pending on file.

2. The Asst./Deputy Commissioner of Central Excise, Pune had on October 8, 2002 passed an order against KOEL for realization of duty and penalty aggregating to Rs. 7,341,162 on removal of non-moving (cenvat) inputs. The excise department alleged that whenever the inputs are cleared, cenvat credit taken needs to be reversed and accordingly demand was made for differential duty along with penalty. KOEL has filed an appeal before Commissioner (Appeals) who confirmed the demand and penalty vide order dated 23.10.2003.

Having filed Appeal before CESTAT, Mumbai which by its order (No. A/751/WZB/04-C-II) remanded the matter to Commissioner (Appeals), Pune directing to take evidences on record and pass fresh order. The matter is currently pending before the Commissioner (Appeals), Pune.

3. The Asst./Deputy Commissioner of Central Excise, Pune passed an order (No. 23/CED/04) dated November 29, 2004 against KOEL alleging discrepancy in valuation of duty paid on intermediate goods used in the exempted finished products. KOEL paid the differential duty amounting to Rs. 2,825,057 before issue of show cause notice. However, subsequently a show cause notice was issued demanding further duty amount of Rs. 154,404 and also penalty amount of Rs. 2,825,057 aggregating to an amount of Rs. 2,979,461. KOEL, filed an appeal against the aforesaid order before the Commissioner of (Appeals), Pune which passed an order dated 9.11.2005 dropping the demand as well as penalty. The Department has further appealed (No. E/588/06/MUM(Fursungi)) against the aforesaid order and the case is currently pending before the CESTAT, Mumbai.

4. The Commissioner of Central Excise, Pune passed an order on March 31, 2001 withdrawing the demand of Rs. 4,668,000 in respect of differential duty demanded for the goods supplied internally from KOEL, Solapur to KOEL, Pune. The allegation in the show cause notice was that KOEL, Solapur undervalued the goods. Against this order, the excise department filed an appeal before CESTAT, Mumbai and which by its order (No. A/1207/WZB/05/CII/EB) of October 13, 2005 remanded the matter back to the Commissioner of Central Excise directing him to obtain a cost certificate and decide the matter accordingly.

5. The Commissioner of Central Excise, Pune passed an order (No. 38/STC/2002) dated July 17, 2002 against KOEL, claiming a refund of the service tax amounting to Rs. 534,645, paid earlier for an activity allegedly falling under the clearing and forwarding agent. KOEL, preferred an appeal against the aforesaid order to the Commissioner (Appeals), Pune and the matter is currently pending on file.

6. KOEL had filed an appeal in the High Court, Mumbai against the order of the central excise department issued in 1981 for levying duty on an intermediate product treating it is a marketable product in accordance with which KOEL has been paying duty under protest. The honorable High Court held that the duty is not leviable on the subject goods. Against the High Court order the department filed an appeal in the Supreme Court. Though the appeal was filed by the department in Supreme Court, the department has to refund the amount and accordingly refunded the amount. The Assistant Commissioner of Central Excise, Pune has issued to a Show Cause Notice (No. V/15-197/KOEL/ADJ/02/550) dated August 17, 2003 to KOEL for recovery of refund of Rs. 2,725,833/-. A suitable reply has already been filed and the company is currently awaiting hearing notice in the matter.

7. The Commissioner of Central Excise (Appeals), Pune passed an order (No. PI/399/2002) dated June 28, 2002 against KOEL, denying modvat credit of Rs. 77,046 availed on a bill of entry alleging that the modvat credit was availed by submitting copy of the bill of entry. KOEL, preferred an appeal (No. E/3239/02) against the aforesaid order before the CESTAT, Mumbai. Having produced the original bill of entry. CESTAT has remanded the matter to the Assistant Commissioner of Central Excise, Pune directing to verify the bill of entry and pass an appropriate order in the matter.

8. The Deputy Commissioner of Central Excise, Ahmednagar has issued to KOEL a show cause notice (No. 66/CEX/04-05) dated January 18, 2005 denying modvat credit on capital goods of Rs. 130,555 availed on Hydraulic oil used in machineries. KOEL on February 14, 2005 filed its response to the notice contesting that capital goods credit on hydraulic oil is legally permissible.

9. The Asst. Commissioner of Central Excise, Pune has issued to KOEL, a show cause notice (No. KR/KOEL/SCN/CENVAT/06/477) dated February 21, 2006, for reversal of CENVAT credit availed in respect of items supplied in short while dispatching engines and made good subsequently and directing to pay an of Rs. 439,187. The matter is, currently pending before the Assistant Commissioner of Central Excise.

10. The Asst. Commissioner of Central Excise, Nasik has issued a show cause notice (No. VCH(84) 15-37/ADJ/03/3276) to KOEL on November 13, 2003, demanding payment of excise duty on erection and

commissioning charges of engines supplied by KOEL, Large Engine Division to its customer, thereby claiming Rs. 200,000. KOEL has on December 10, 2005 filed its response to the notice contesting that erection and commissioning charges will not attract excise duty based upon settled Supreme Court decision.

11. The Commissioner of Central Excise (Appeals, Nasik has passed an order (No. 15/CEX/2002) dated May 27, 2002 against KOEL, for the reversal of cenvat credit availed by KOEL under the erstwhile Rule 57CC of the Central Excise Rules, 1944 claiming an amount of Rs. 4,303,691. KOEL preferred an appeal before the CESTAT, Mumbai, against the aforesaid order and the case is currently pending on file.

12. The Commissioner of Central Excise, Nasik has issued to KOEL, a show cause notice (No. V (84) 15-76/Prev/KOEL/Adj./05/3745) dated April 19, 2006, for the reversal of cenvat credit amounting to Rs. 2,450,088 availed by KOEL in respect of inputs supplied to EOU units against CT3 Certificate. The matter is currently, pending before the Commissioner of Central Excise.

13. The Deputy Commissioner of Central Excise, Ahmednagar issued a show cause notice (No. VGN(30)260/Adj-ST/05-06/557) dated April 7, 2006 against KOEL, for payment of service tax of Rs. 67,627 on goods transport agency services provided to KOEL during January 05 to March 05 and filed its response on 2nd May, 05 to the notice contesting that Service Tax paid by KOEL is correct and additional service tax is payable.

14. The Assistant Commissioner of Central Excise issued a Show Cause Notice No.NSK-IV/STAX/GTA/KOIL-5/05/2297 dated 22nd June, 2006 against KOEL,Nasik (Valve Plant) for payment of Service Tax of Rs. 90,922/- on Goods Transport Agency Services provided to KOEL during April, 05 to Sep, 05 and filed its response on 13th July, 2006 to the notice contesting that Service Tax paid by KOEL is correct and additional service tax is not payable.

15. The Assistant Commissioner of Central Excise issued a Show Cause Notice No.NSK-IV/STAX/GTA/KOIL-5/05/2204 dated 14.6.2006 and NSK-IV/STAX/GTA/KOIL-5/05/3829 dated 11.9.2006 against KOEL,Nasik (Large Engine Plant) for payment of Service Tax of Rs. 4,25,058/- on Goods Transport Agency Services provided to KOEL during April, 05 to Mar, 06 and filed its response on 3rd July, 2006 and 27th September, 2006 to the notices contesting that Service Tax paid by KOEL is correct and additional service tax is not payable.

16. The Assistant Commissioner, Solapur Division issued Show Cause Notice No. V.Ch (84)18-39/Refund/98-99/2157 dated 21.7.2006 for recovering the Refund amount of Rs. 1,00,238/- on account of Unjust enrichment provisions. KOEL filed reply vide their letter No. KOEL/KK/SOL dated 8.8.2006 that the subject allegation cannot be raised at this stage.

f) Income Tax Litigation

a. The Commissioner of Income Tax, Pune ("**CIT, Pune**") filed an appeal before the High Court, Mumbai against the order of the Income Tax Appellate Tribunal, Pune ("**ITAT, Pune**") on the ground that purchase of export rights for the assessment year 1971-72 was capital and not revenue as claimed by KOEL. The High Court, Mumbai passed an order against KOEL but no demand has been raised against the KOEL till date. The contingent liability towards this case is Rs. 59,605.

b. The CIT, Pune filed an appeal before the High Court, Mumbai against the order of the ITAT, Pune upholding the contention of KOEL that the technical fees paid to foreign collaborators in the assessment years 1972-1977 was revenue expenditure and not a capital expenditure. The case is, at present, pending before the High Court, Mumbai. The contingent liability towards this case is Rs. 1,669,526.

c. The CIT, Pune filed an appeal before the High Court, Mumbai against the order of the ITAT, Pune upholding the contention of KOEL that net dividend and not gross dividend received from a German company is taxable in India. The case is, at present, pending before the High Court, Mumbai. The contingent liability towards this case is Rs. 67,913.

d. The CIT, Pune has filed an appeal before the High Court, Mumbai against the order of the ITAT, Pune upholding the contention of KOEL permitting weighted deduction on expenditure for maintaining an export showroom at Mumbai, The case is, at present, pending before the High Court, Mumbai. The contingent liability towards this case is Rs. 207,599

e. The CIT, Pune has filed an appeal against the order of the ITAT, Pune upholding the contention of KOEL that depreciation on aircraft at 40% as claimed in assessment years 1979-87 and not at 30% is permissible. The High Court, Mumbai passed an order in favour of the CIT, Pune but no demand has been raised on KOEL till date. The contingent liability towards this case is Rs. 48,589.

f. The CIT, Pune filed an appeal before the High Court, Mumbai against the order of the ITAT, Pune seeking disallowance under Section 43B of the Income Tax Act, 1961 for non-payment of sales tax by KOEL. The case is at present, pending before the High Court, Mumbai and the contingent liability is Rs. 1,704,444.

g. The CIT, Pune has filed an appeal before the High Court, Mumbai against the order of the ITAT, Pune for treating Capital Redemption Reserve (CRR) as non-free reserve for determining the capital employed in calculation of sur-tax, as opposed to free reserves. The case is pending before the High Court, Mumbai and the contingent liability is Rs. 100,000.

h. The CIT, Pune has filed an appeal before the ITAT, Pune for disallowance by Commissioner of Income Tax (Appeals) of remission of dues of Kirloskar Tractors Limited and the disallowance of discount and commission on the sales, under Section 37 (3A) of Income Tax Act, 1961, claimed by KOEL for the assessment year 1985-86. The case is, at present, pending before the ITAT, Pune and the contingent liability towards this case is Rs. 8,715,983.

i. The CIT, Pune has filed an appeal before the ITAT, Pune seeking revocation of deductions allowed by the Commissioner (Appeals) as claimed by KOEL for assessment year 1985-86. The case is, at present, pending before the ITAT, Pune and contingent liability is Rs. 184,510.

j. The CIT, Pune has filed an appeal before the ITAT, Pune seeking revocation of deductions allowed by the CIT (Appeals) as claimed by the KOEL for assessment year 1991-92. The case has been remitted back to the Assistant Commissioner, Income Tax and the contingent liability towards this case is Rs. 1,206,642.

k. The CIT, Pune has filed an appeal before the ITAT, Pune for treating development expenditure as capital expenditure in the accounts of Shivaji Works Limited, which was amalgamated with the KOEL. The case is, at present, pending before the ITAT, Pune and the contingent liability towards this case is Rs. 1,575,118.

l. The CIT, Pune has filed an appeal before the ITAT, Pune for revocations of the deductions allowed by the CIT (Appeals) towards traveling expenses of the relatives of the directors in the assessment year 1995-96. The case is, at present, pending before the ITAT, Pune and the contingent liability is Rs. 520,918.

m. The CIT, Pune has filed an appeal before the ITAT, Pune for special incentive received by erstwhile Prashant Khosla Pneumatic Ltd. (KOEL) to be treated as revenue receipt as against capital receipt as claimed by the KOEL (erstwhile Prashant Khosla Pneumatic Ltd.) for assessment year 1997-98. The case is, at present, pending before the ITAT, Pune and the contingent liability is Rs. 860,000.

n. The CIT, Pune has filed an appeal before the ITAT, Pune for bad debts written-off allowed by CIT (Appeals) as claimed by the KOEL for the assessment year 1997-98. The case is pending before the ITAT, Pune and contingent liability is Rs. 1,146,144.

o. The CIT, Pune has filed an appeal before the ITAT, Pune challenging the allowances granted by Commissioner of Income Tax (Appeals) of specified investments under Section 54EA/EB of the Income Tax Act, 1961 as claimed by the KOEL for assessment year 1998-99. The case is, at present, pending before the ITAT, Pune and contingent liability is Rs. 125,979,136.

p. The CIT, Pune has filed an appeal No. ITA 176/ PN/2004 before the ITAT, Pune in respect of Income Tax relief granted by BIFR under scheme of amalgamation with Shivaji Works Limited and allowed by CIT

(Appeals), which was claimed by the KOEL for A.Y. 1999-2000. The case is fixed for hearing on September 12, 2006 by ITAT, Pune and contingent liability towards this case is Rs. 608,170,739.

q. The CIT, Pune has filed an appeal No. ITA 503/ PN/2001 before the ITAT, Pune for seeking the revocation of deductions allowed by the CIT (Appeals) as claimed by the KOEL for the assessment year. 2000-01. The case is, at present, pending before the ITAT, Pune. The contingent liability towards this case is Rs. 22,990,541.

KIRLOSKAR PNEUMATIC CO. LIMITED ("KPCL")

1. There are eight cases filed against our promoter, KPCL which are pending before various forums in respect of failure to supply compressors, malfunctioning of compressors, delay in supply of compressors, repair of compressors and supply of faulty compressors seeking compensation of a total amount of Rs. 96,629,723 with interest.

2. There are five cases filed against our promoter, KPCL which are pending before various forums in respect of recovery of outstanding transportation charges, cost of bearings, outstanding amounts towards the supply of an ice-plant and an ice maker and non-receipt of payment against fan coil unit, condenser and chillers supplied to KPCL seeking compensation of a total amount of Rs. 1,767,193 with interest.

3. KPCL has initiated an arbitration proceeding against Prakash Industries on January 10, 1998 for recovery of Rs. 36,019,500. Prakash Industries has filed a counter claim before the arbitrator on January 10, 1998 for Rs. 146,018,794. Mr. B.N. Deshmukh has been appointed as the arbitrator. KPCL has filed its reply before the arbitrator contesting the charges and the matter is currently pending hearing before him.

4. Dolat Investments Limited, Mumbai filed a suit (No. 1438 of 1999) before the High Court, Bombay against KPCL for recovery of outstanding lease rental of Rs. 361,937 against the lease agreement for fixtures. KPCL has filed its reply in the court contesting the charges and the matter is currently pending on file.

5. Rajasthan State Road Transport Corp., Jaipur ("RSRTC") had initiated a proceeding against KPCL before the Sole Arbitrator and Chairman, RSRTC claiming an amount of Rs. 2,242,900 for the failure of air conditioning plants supplied by KPCL. The arbitrator passed an award on November 25, 2003 in favour of RSRTC for Rs. 2,892,612. KPCL has appealed against the award, before the District Court, Jaipur and the matter is currently pending.

6. Shiva Enterprises, Kolkata filed a suit (No. 408 of 1998) before the Civil Court, Calcutta against KPCL, claiming recovery of outstanding dues of Rs. 371,130 for job work on insulation work. KPCL has filed its reply in the court contesting the charges and the matter is currently pending on file.

KIRLOSKAR SYSTEMS LIMITED

<u>Civil Case</u>

The Official Liquidator of The Mysore Kirloskar Limited has filed a cases (CA No. 771/06 C/W COP NO. 166/2001) (CA No. 780/06 C/W COP NO. 166/2001) against Kirloskar Systems Limited before the High Court of Karnataka for an amounts of Rs. 63,406,713 and Rs. 2,270,646 respectively with interest at 6% per annum from April 1, 2004 towards outstanding dues towards trade debts till the date of payment. The case is, at present, pending at the admission stage before the High Court of Karnataka.

Labour Cases

1. Mr. Shivasankarappa has filed a suit against Kirloskar Systems Limited before the Additional Labour Tribunal, Bangalore alleging that he had been unjustly dismissed from employment in 1989 on the grounds of willful misconduct and unauthorized absence seeking reinstatement with back-wages. The case is, at present, pending before the Additional Labour Tribunal Bangalore.

2. Mr. Chandrasekariah has filed a suit against Kirloskar Systems Limited before the Labour Court, Bangalore challenging the termination of his employment on disciplinary grounds. The Labour Court, Bangalore had passed an order in favour of Kirloskar Systems Limited upholding the termination on disciplinary grounds. However, Mr. Chandrasekariah has filed an appeal before the High Court of Karnataka challenging the aforesaid order, which upheld the termination of employment. The case is, at present, pending before the High Court of Karnataka.

3. A suit has been filed by 18 temporary workers against Kirloskar Systems Limited before the Additional Labour Tribunal, Bangalore challenging the termination of their employment claiming that their services performed were the same as those which were performed by the permanent employees and to implead Kirloskar Electric Company as a party to the suit as the switchgear business had been transferred to Kirloskar Electric Company. The case is, at present, pending before the Additional Labour Tribunal, Bangalore.

Land disputes

1. Mr. Shivasankarappa, had filed a suit against Kirloskar Systems Limited before City Civil Court, Bangalore claiming that the land admeasuring 1.03 acres situated in Hebbal had been sold by his father to Kirloskar Systems Limited pursuant to a sale deed dated 19th April 1963 while he was a minor on the date of sale (aged about 8 years old) and was hence not valid and asking for a permanent injunction against Kirloskar Systems Limited from taking over the ownership or possession of the land. He has further contended that he is the lawful owner of the aforesaid plot of land. The case is, at present, pending before the City Civil Court, Bangalore.

2. A case has been filed by two members of the Muslim minorities association, Bangalore against Kirloskar Systems Limited before City Civil Court, Bangalore claiming that a stay order be passed restraining Kirloskar Systems Limited from claiming ownership over the property described above i.e. the land admeasuring 1.03 acres situated in Hebbal**.** The case is, at present, pending before the the City Civil Court, Bangalore.

Customs dispute

The Deputy Commissioner of Customs has issued a show cause notice against Kirloskar Systems Limited in relation to their switchgear business, demanding payment of duty, interest and penalty aggregating to approximately Rs. 8,000,000 for goods that had not been cleared form the bonded warehouse within the permitted time period (in relation to their switchgear business). Kirloskar Systems Limited had, however, transferred the switchgear business to Kirloskar Electric Company and has informed the same to the Deputy Commissioner of Customs. The Company has not received further correspondence from the Deputy Commissioner of Customs in this regard.

Excise dispute

The Deputy Commissioner Central Excise, Bangalore has issued a show cause notice for the levy of a penalty and for short discharge of Rs. 200,000 as excise duty on switchgear goods cleared by us and for payment of differential duty. Kirloskar Systems Limited has sought a waiver from Deputy Commissioner Central Excise, Bangalore the payment of the aforesaid amount. The Company has not received further correspondence from the Deputy Commissioner of Central Excise, Bangalore in this regard.

KIRLOSKAR CONSULTANTS LIMITED

1. Rajmata Enterprises has filed a suit (No. 704/86) before the Pune Civil Court against Pimpri Chinchwad Municipal Corporation, with Kirloskar Consultants Limited as second respondent challenging the termination of its services as a contractor engaged for construction of the dome of the Pimpri Chinchwad Municipal Corporation building. Rajmata Enterprises had inordinately delayed the work and Kirloskar Consultants Limited, being the engineers, had recommended the termination of Rajmata Enterprises in their capacity as consultants to the Pimpri Chinchwad Municipal Corporation. Rajmata Enterprises has, in their

suit, alleged that Kirloskar Consultants Limited do not have the power to terminate or recommend termination of the order for Rajmata Enterprises' contracted services. Kirloskar Consultants Limited has contended that they have acted with the full knowledge of the Pimpri Chinchwad Municipal Corporation and under the powers conferred upon them by their appointment. The case is, at present, pending before the Pune Civil Court.

2. Maharashtra Krishna Valley Developers Corporation has filed a suit (No.789/98) Civil Judge Senior Division, Pune against Kirloskar Consultants Limited, challenging the appointment of an arbitrator by Kirloskar Consultants Limited. The Auditor General of Nagpur, during his audit of the accounts of the Maharashtra Krishna Valley Developers Corporation, came to the conclusion that certain excess payments had been made to Kirloskar Consultants Limited in lieu of which Maharashtra Krishna Valley Developers Corporation withheld certain payments due to Kirloskar Brothers Limited. There was a further amount of Rs. 121,000 continued to remain in dispute between the parties subsequent to which Maharashtra Krishna Valley Developers Corporation recovered the amount after threatening cancellation of the license granted to Kirloskar Consultants Limited under Clause 13.1 of the agreement No. B-2/1 of 1986-87 for Survey Planning and Design of command area development works in the command area of Khadakwasala Project, between the parties. Subsequently, Kirloskar Consultants Limited sought the appointment of an arbitrator, which was challenged by Maharashtra Krishna Valley Developers Corporation. The case is, at present, pending before the Civil Judge Senior Division, Pune.

3. The Project Planning and Monitoring Unit, Rural Development Project Regional Directorate, Bangalore (State of Karnataka) has filed a suit (No. 84/03) before the Shimoga Court for alleged shortfall in the performance of the water supply system in Chandragutti village in Karnataka. The scope of work of Kirloskar Consultants Limited was to design the scheme, whereas the execution work was to be looked after by Inter-Continental Technocrats and Consultants Private Limited. Kirloskar Consultants Limited have contended that the system was properly designed by them. Any shortfall in performance is due to poor execution by Inter-Continental Technocrats and Consultants Private Limited and hence they must be held solely responsible. The case is, at present, pending before the Shimoga court in Karnataka.

4. Ms. Bodas Vasanti, an erstwhile Manager, Secretarial Department has filed a suit (No.118/00) before the Labour Court, Pune contending that her services had been unfairly terminated by Kirloskar Consultants Limited and demanding reinstatement with back-wages. Kirloskar Consultants Limited has, by its affidavit, stated that Ms. Bodas Vasanti was in the managerial cadre and was found deficient in discharge of her duties and therefore, when they were downsizing the business, had terminated her services. They further stated that they had not appointed any person as a replacement in her position. The case is, at present, pending before the Labour Court, Pune.

5. There are seven cases (suit nos.257/02, 261/02, 262/02, 609/02 to 612/02) that have been filed by erstwhile employees against Kirloskar Consultants Limited, before the Labour Court, Pune, challenging their retrenchment and seeking reinstatement of their services. Kirloskar Consultants Limited has, vide its affidavit, contended that their retrenchment was in order considering loss in business, huge liabilities and change in business portfolio, all which required only certain types of skills which were not available with the retrenched staff. They further specified that no replacement staff had been inducted. The case is, at present, pending before the Pune Labour Court No.1 in case of 3 employees & Pune Labour Court No.2 in case of 4 employees.

6. Mr. Rath Nirmalkumar, an erstwhile employee, whose services were terminated for alleged dereliction of duty as a branch manager and improper accounting of expenses and advances, was not paid Rs.88,000 by way of adjustment towards the expense-account submitted, as it was not supported by proof. Mr. Rath Nirmalkumar has filed a suit (No. 0989/98) before the Pune Civil Court against Kirloskar Consultants Limited for recovery of Rs. 88,000 towards being due to him during his employment with Kirloskar Consultants Limited.

KIRLOSKAR BROTHERS LIMITED

1. Vardhaman Axies and Wheels Private Limited has filed a civil suit No. 517/1999 before the Kolkata High Court against Kirloskar Brothers Limited claiming an amount of Rs. 8,676,161 as damages on the ground of cancellation of the purchase order issued by Kirloskar Brothers Limited. The Purchase order was issued to Kirloskar Brothers Limited for a Kirloskar CNC-VBM machine for the purpose of engineering locomotive wheels for the Durgapur Steel Plant Limited. The case is, at present, pending on file before the High Court of Kolkata.

2. The Deputy Director of Directorate of Enforcement, Mumbai has passed an order No. ADJ/855 TO 863/DD(AKL)/B/2004 DT. 21.07.2004 against Kirloskar Brothers Limited, making them liable to pay an amount of Rs. 10,700,000 as a penalty on the ground of the alleged non-compliance with various sub-clauses of Sections 8, 9, 14, 16, 18, 19 and 27 of the Foreign Exchange Regulation Act, 1973. Kirloskar Brothers Limited has filed an appeal before the Foreign Exchange Appellate Tribunal, New Delhi challenging the aforesaid order. The Foreign Exchange Appellate Tribunal, New Delhi has vide their order dated February 25, 2005 in Appeal numbers 968, 969, 970, 971, 972, 973, 974 and 975/04, directed Kirloskar Brothers Limited to deposit an amount equivalent to 30% of the penalty and the remaining 70% in the form of bank guarantee. The case is, at present, pending before the Foreign Exchange Appellate Tribunal, New Delhi.

3. Kirloskar Brothers Limited has filed a petition before the High Court of Tamil Nadu challenging the arbitral award dated December 17, 2003 passed in favour of Champ Infrastructure Private Limited awarding them an outstanding amount of Rs. 16,204,136 pursuant to the termination of the memorandum of understanding dated January 28, 1999 entered into between Kirloskar Brothers Limited and Champ Infrastructure Private Limited in respect of the construction a three-stage of pump house for the Chagalnadu Lift Irrigation Scheme at Rajamundhry, a project of the Government of Andhra Pradesh on account of short supply of requisite manpower and machinery at the project site. The case is, at present, pending on file before the High Court of Tamil Nadu.

4. Rockwell Hoists Cranes Private Limited has filed a civil suit before the District Judge Tis hazari Court, New Delhi against Kirloskar Brothers Limited, claiming an amount of Rs. 678,350 as payment for the supply of cranes by them. Kirloskar Brothers Limited has contended that the cranes supplied were defective and hence the payment had not been made. The case is, at present, pending before the District Judge, Tis Hazari Court, New Delhi.

5. East India Prawns Limited has filed a suit No. 266 of 1997 before the City Civil Court, Kolkata against Kirloskar Brothers Limited, claiming an amount of Rs. 616,000 on the ground of delay in the supply of vertical turbine pumps by Kirloskar Brothers Limited. The case is, at present, pending on file before the City Civil Court, Kolkata.

6. K.C. Manjappa and others have filed a miscellaneous petition No. 156/2006 before the Karnataka State Consumer Disputes Redressal Commission at Bangalore against Kirloskar Brothers Limited and others, claiming an amount of Rs. 500,000 on the ground of the defects in the product supplied by Kirloskar Brothers Limited. The Consumer Disputes Redressal Forum Chikmagalur District, Karnataka passed an order directing Kirloskar Brothers Limited to pay an amount of Rs. 15,000, and the payment has been made by Kirloskar Brothers Limited. Thereupon, K.C. Manjappa and others have filed an appeal against this order before the Karnataka State Consumer Disputes Redressal Commission at Bangalore. The case is, at present, pending on file before the Consumer Disputes Redressal Commission, Bangalore.

7. Narkhede Engineering Private Limited has filed a special civil suit (No. 34/2002) before the Civil Judge Senior Division, Pune against Kirloskar Brothers Limited claiming an amount of Rs. 189,300 for the cancellation of a purchase order for the manufacture, design and supply of 11 KV indoor HT panels. The reasons for cancellation of the order being the development of disputes with respect to scope of work and payment. The case is, at present, pending on file before the Civil Judge Senior Division, Pune.

8. Vijaykumar Jaiswal has filed a complaint (No. 219/2000) before the District Consumer Disputes Redressal Forum, Nagpur against Kirloskar Brothers Limited claiming an amount of Rs. 135,840 as compensation alleging defects in the motor pump set supplied by Kirloskar Brothers Limited. The case is, at present, pending on file before the District Consumer Disputes Redressal Forum, Nagpur.

9. Shri Debananda Pradhan has filed a complaint (No. 20/2006) before the District Consumer Disputes Redressal Forum, Angul against Kirloskar Brothers Limited, claiming an amount of Rs. 75,000 as compensation for defects in 2 HP Single Phase Submersible Pump Sets supplied by Kirloskar Brothers

Limited. The case is, at present, pending on file before the District Consumer Disputes Redressal Forum, Angul.

10. The family of a deceased contract labourer, Parsodkar, has filed a complaint before the Labour Court, Nasik against Kirloskar Brothers Limited and other defendants, claiming an amount of Rs. 335,000 as workmens' compensation for a fatal injury suffered by him. The case is, at present, pending on file before the Labour Court, Nasik.

11. Umesh Engineering Private Limited has filed a special civil suit (No. 262/1999) before the Civil Judge, Senior Division at Sangli against Kirloskar Brothers Limited claiming an outstanding amount of Rs. 3,191,083 pursuant to the termination of the machinery lease agreements dated May 17, 1991 and January 31, 1991, respectively pursuant to which machinery was given to Umesh Engineering Private Limited based on the understanding that job-works would be provided and the cost of the machinery would be recovered against the completion of such jobs-works, after which disputes over the extension of time arose. The case is, at present, pending on file before the Civil Judge, Senior Division at Sangli.

12. Mr. Satish Pillai, an erstwhile Vice President resigned in October, 1999 to join Mather & Platt (India) Limited. Subsequently, it came to the knowledge of Kirloskar Brothers Limited that Mr. Pillai had unauthorisedly taken certain confidential information from Kirloskar Brothers Limited and therefore, lodged a complaint and civil suit against Mr. Pillai and Mather & Platt (India) Limited. As a counter to the aforesaid case, Mather and Platt (I) Limited have filed two civil suits (No. 148 of 2000 and No.200 of 2000) before the Judicial Magistrate First Class, Pimpri and the Court of Civil Judge Senior Division, Pune, respectively, against Kirloskar Brothers Limited, alleging that Kirloskar Brothers Limited has defamed them. The cases are, at present, pending on file before the Judicial Magistrate First Class Pimpri and the Court of Civil Judge Senior Division, Pune, respectively.

Labour Cases

1. Kirloskar Brothers Limited has filed a writ petition (WP 1083/04) before the High Court of Indore against the order of the Industrial Court, Indore dated February 5, 2004 passed in favour of Mr. Ramchandran and seven others upholding their contention that contract labourers are covered under the definition of an employee under the Madhya Pradesh Industrial Relations Act, 1960. The petition, is at present, pending on file before the High Court of Madhya Pradesh.

2. Kirloskar Brothers Limited has filed a special leave petition before the Supreme Court of India challenging the order of the High Court of Madhya Pradesh which upheld the contention of the contract labourers of Sai Security who were engaged on a contractual basis for the provision of security services, stating that contract labourers are covered under the definition of an employee under the Madhya Pradesh Industrial Relations Act, 1960. The case, is at present, pending on file before the Supreme Court of India.

3. Kirloskar Brothers Limited has filed a writ petition under Article 32 of the Constitution of India before the Supreme Court of India challenging the constitutional validity of the definitions of the terms employee and employer under Sections 2 (13) and (14) of the Madhya Pradesh Industrial Relations Act, 1960 with respect to the inclusion of contract labour within the definition of the term employees. The petition has been admitted and is, at present, pending on file before the Supreme Court of India

4. Kirloskar Brothers Limited has filed a writ petition against the order of the Industrial Court, Madhya Pradesh, which passed an order in favour of Mr. Rajendra Thakur awarding him reinstatement of services without backwages. The case, is at present, pending on file before the High Court of Madhya Pradesh.

5. Kirloskar Brothers Limited has filed a writ petition against the order of the Industrial Court, Madhya Pradesh, which passed an order in favour of Mr. Arjun Singh awarding him reinstatement of services with 50% backwages of Rs. 743,764. The case is at present, pending on file before the High Court of Madhya Pradesh.

6. Gyanaba, a contract labourer has filed a case (No. 405/MPIR/2001) on August 10, 2001 before the Labour Court, Devas challenging the termination of his services and seeking compensation of Rs. 404,260. The contention of Kirloskar Brothers Limited is thathe had voluntarily resigned and his services as a contract labourer were not terminated. The case is at present, pending on file before the Labour Court, Devas.

7. Mohanlal and Mr. Rupsingh have filed two separate cases (No. 291/MPIR/2003 and No. 130/MPIR/04) before the Labour Court, Devas seeking an order to be passed against Kirloskar Brothers Limited for a

promotion from their present grade. The cases are at present, pending on file before the Labour Court, Devas.

8. Gulam Hussain has filed a case (No. 211/MPIR/2003) before the Labour Court, Devas challenging the decision of Kirloskar Brothers Limited compulsorily retire after disciplinary action. Upon his termination he has filed a case against Kirloskar Brothers Limited for reinstatement. The case is at present, pending on file before the Labour Court, Devas.
9. Mr. Rajesh Ozarkar has filed a case (No. 272/2003) before the Labour Court, Devas against the dismissal order of Kirloskar Brothers Limited on the ground of theft of copper winding wire from Kirloskar Brothers Limited's premises seeking compensation of Rs. 303,186. The case is at present, pending on file before the Labour Court, Devas.
10. Mr. Vijay Mehta has filed a suit (No. 209/2003) before the Labour Court, Devas against the order of Kirloskar Brothers Limited making it compulsory for him to take voluntary retirement as his services had become redundant and claiming an amount of Rs. 314,427. The case is at present, pending on file before the Labour Court, Devas.
11. Mr. Hemant Musale has filed four cases before the Labour Court, Devas against an order of dismissal passed by Kirloskar Brothers Limited pursuant to a domestic enquiry for non compliance with the orders of his superiors, payment of overtime wages and payment of suspension for one day. The case, is at present, pending on file before the Labour Court, Devas.
12. Three cases have been filed (Nos. 76/MPIR/2004, 77/ MPIR/2004, 78/ MPIR/2004) by job-work contract labourers before the Labour Court, Devas against Kirloskar Brothers Limited seeking reinstatement and compensation of Rs. 602,868. In this matter the date of filing of case is 18/05/2004. The case, is at present, pending on file before the Labour Court, Devas.
13. Mr. Ramesh has filed a case (No. 21/WC/2004) against Kirloskar Brothers Limited before the Labour Court, Devas seeking compensation for injuries suffered during the course of his employment. The case, is at present, pending on file before the Labour Court, Devas.
14. Mr. Omprakash Jagawat has filed a case (No. 141/MIPR/04) against Kirloskar Brothers Limited before the Labour Court, Devas seeking compensation of Rs. 203,923 for termination of his services. The date of filling of case is 20/10/2004 relief sought is reinstatement with full back wages and the ground of termination is charge of long absenteeism proved. The case, is at present, pending on file before the Labour Court, Devas.
15. There are ten cases that have been filed against Kirloskar Brothers Limited before the Labour Court, Devas by contract labourers for recognition of permanent employees of Kirloskar Brothers Limited and compensation of Rs. 478,749 in three of the aforesaid cases. The case, is at present, pending on file before the Labour Court, Devas.
16. Mr. Samir Kumar Sarangi has filed a writ petition (No. OJC/11530/01) on July 14, 2000 against Kirloskar Brothers Limited before the High Court of Orissa against an order of termination seeking reinstatement with back wages. The case, is at present, pending on file before the High Court, Orissa.
17. Mr. Purshottam, a contract labourer who was engaged by Kirloskar Brothers Limited for housekeeping services has filed an appeal (No. 835/MPIR/04) on December 20, 1994 before the Industrial Court of Madhya Pradesh and Devas against the order of the Labour Court, Devas upholding the termination of his employment seeking reinstatement with back wages and all other consequential benefits. The case is at present, pending on file before the Industrial Court of Madhya Pradesh and Devas.
18. Mr. Subhash Dhote, a contract labourer who was engaged by Kirloskar Brothers Limited has filed an appeal (CA No. 351/05) before the Industrial Court of Madhya Pradesh and Devas against the order of the Labour Court, Devas upholding the termination of his employment on account of theft of certain items from the premises of Kirloskar Brothers Limited rejecting his claim for reinstatement with backwages. The case is, at present, pending on file before the Industrial Court of Madhya Pradesh and Devas
19. Twenty-seven cases have been filed in 2006 against Kirloskar Brothers Limited before the Labour Court, Devas by erswtwhile contract labourers challenging the termination of their employment and seeking reinstatement with backwages of an amount of Rs. 981,855 and interest and classification as permanent

employees of Kirloskar Brothers Limited. The case, is at present, pending on file before the Industrial Court of Madhya Pradesh and Devas.

20. Mr. Jitendra Khandelwal has filed a case (No. 67/MPIR/06) on April 20, 2006 against Kirloskar Brothers Limited before the Labour Court, Devas seeking reinstatement with backwages of Rs. 73,600 challenging his termination on account of misconduct of sleeping while on duty. The case, is at present, pending on file before the Industrial Court of Madhya Pradesh and Devas.

21. Mr. Jugalkishore, a contract labourer engaged through a security service contractor has filed a special leave petition on August 16, 1999 against the judgment of the High Court of Madhya Pradesh seeking recognition as a permanent employee of the Kirloskar Brothers Limited. Pursuant to the termination of services. The case is at present, pending on file before the Industrial Court of Madhya Pradesh and Devas.

Kirloskar Kisan Equipment Limited

1. The Indian Bank had filed a civil suit (686/1988) against Kirloskar Kisan Equipment Limited for recovery of interest amounting to Rs. 168,160, before the court of Joint Civil Judge, Sr. Division, Pune. The Hon'ble Court had ruled in favour of the Company by rejecting both the above claims of the Indian Bank and asked Kirloskar Kisan Equipment Limited to pay an amount of Rs. 35,064, which was paid by Kirloskar Kisan Equipment Limited. Indian Bank, Pune City Branch had alleged that the injection moulding machinery imported by Kirloskar Kisan Equipment Limited from Japan, was required to be kept with the clearing agents as security till the payment of the amount of letter of credit opened by the Indian Bank in favour of the seller, on behalf of Kirloskar Kisan Equipment Limited. The Indian Bank had further alleged that Kirloskar Kisan Equipment Limited had removed the machinery without the knowledge and permission of the Indian Bank. As it was aggrieved by Court ruling, the Indian Bank, Pune City Branch has filed an appeal (number 438/1992) on July 10, 1992 before the High Court, Mumbai against the order of the Joint Civil Judge, Senior Division, Pune. The appeal of Indian Bank is, at present, pending before the High Court, Mumbai.

2. The Department of Sales Tax, Pune had issued a notice on March 11, 1991 against our Promoter Group company, Kirloskar Kisan Equipment Limited for the payment of the differential sales tax duty of 6% on the sale of aluminum as Kirloskar Kisan Equipment Limited had paid sales tax at the rate of 4% whereas the department had valued the applicable sales tax at 10%. Kirloskar Kisan Equipment Limited has filed an appeal on May 9, 1991 before the Assistant Commissioner (Appeals), Pune contesting the payment of the differential sales tax duty of 6% on the sale of aluminum. The case is, at present, pending before the Assistant Commissioner (Appeals), Pune.

3. The Sales Tax Department, Pune had issued an assessment order on October 31, 1991, against Kirloskar Kisan Equipment Limited for the payment of an additional amount of Rs. 4,347 towards professional tax for the financial year 1986 and 1987, which had allegedly not been properly computed by the Department. Kirloskar Kisan Equipment Limited has filed an appeal on November 19, 1991 before the Assistant Commissioner (Appeals), Pune contesting the payment of the aforesaid additional amount of Rs. 4,347 towards professional tax. The case is, at present, pending before the Assistant Commissioner (Appeals), Pune.

KOTHRUD POWER EQUIPMENTS LIMITED

1. ATC Clearing and Shipping Private Limited has filed a winding up petition (no is 141/2003) against Kothrud Power Equipment Limited claiming an amount of Rs. 24,050.26 (Rupees Twenty Four thousand fifty and paise twenty six only) from Kothrud Power Equipment Limited against the work done by ATC Clearing and Shipping Private Limited for clearing the goods from the customs-bonded warehouse. Kothrud Power Equipment Limited received a legal notice of the same dated March 5, 2002 and intimation of filing of winding up petition in Bombay High Court on July 8, 2003 both, from the counsel of Kothrud Power Equipment Limited.

2. Ashok Kumar, has filed a case (1850/DFJ) on January 1, 2002 seeking compensation of Rs.92, 000 with interest per annum of 18% for defects in the gensets supplied by Kothrud Power Equipment Limited to him. Kothrud Power Equipment Limited has filed its written statement stating that the genset supplied was not defective. The case is at present, pending before the Consumer Disputes redressal forum, Jammu and Kashmir.

3. Subhash Chander, has filed a case (1858/DFJ) on January 18, 2002 seeking compensation of Rs.90,000 with interest per annum of 18% for defects in the genset supplied by Kothrud Power Equipment Limited. Kothrud Power Equipment Limited has filed its written statement stating that the genset supplied was not defective. The case is at present, pending before the Consumer Disputes redressal forum, Jammu and Kashmir.

4. Mohan Lal has filed a case (53L-32DFJ) on March 14, 2001 seeking compensation of Rs. 35,795 with interest per annum of 18% for defects in the gensets supplied by Kothrud Power Equipment Limited. Kothrud Power Equipment Limited has filed its written statement stating that the genset supplied was not

defective. The case is at present, pending before the Consumer Disputes redressal forum, Jammu and Kashmir.

TOYOTA KIRLOSKAR AUTO PARTS PRIVATE LIMITED

Our Promoter Group company, Toyota Kirloskar Auto Parts Private Limited, has filed an appeal before the Customs Excise and Service Tax appellate Tribunal, Bangalore on May 25, 2006against the order of the Commissioner of Customs, Bangalore issued on May 4, 2006 wherein it was held that Toyota Kirloskar Auto Parts Private Limited had unauthorisedly transferred power to its domestic tariff area unit using DG sets which were ineligible for the benefit of the exemption under the notification 53/1997 dated June 3, 1997, which was extended to the Toyota Kirloskar Auto Parts Private Limited only at the time of purchase. The aforesaid order further directed that Toyota Kirloskar Auto Parts Private Limited pay an amount of Rs. 56,795 being the total customs duty forgone on the import of the said DG sets along with interest from the date of import to the date of payment of duty amounting to Rs.10,050 and a penalty of Rs.1,000 and ordered confiscation of the DG sets (giving an option to redeem the same on payment of penalty of Rs.2,500 in lieu of confiscation).

Further, on March 9, 2006 pursuant to a demand from the Commissioner of Customs, Bangalore, Toyota Kirloskar Auto Parts Private Limited paid "Under Protest" a sum of Rs.8,052 towards customs duty on auxiliary parts of the aforesaid DG Sets that had been purchased by it without payment of requisite duty. The case is, at present, pending before the Customs Excise and Service Tax appellate Tribunal, Bangalore.

G.G DANDEKAR MACHINE WORKS LIMITED

1. The trustees of Vajreshwari Yogini Devi Trust, Vajreshwari have filed a suit in the Civil Court, Lower Division, Bhiwandi against one of our Promoter Group companies, G.G. Dandekar Machine Works Limited claiming the possession of the plot of land at of Survey No. 62 adjacent to Kalyan Bhiwandi Road currently in the possession of G.G Dandekar Machine Works Limited. The matter is, at present, pending before the Lower Court, Bhiwandi.

2. Mr. Arvind Shah, has filed a suit before the Civil Judge, Sr. Division, Thane against one of our Promoter Group companies, G.G Dandekar Machine Works Limited claiming the possession of Survey No. 62 adjacent to Kalyan Bhiwandi Road currently in the possession of G.G Dandekar Machine Works Limited. The matter is, at present, pending before the Civil Judge, Sr. Division, Thane.

3. Kamgar Utkarsh Sabha, Thane has filed a suit before the Labour Court, Thane against one of our Promoter Group companies, G.G Dandekar Machine Works Limited seeking that an order be passed granting recognition to the Kamgar Utkarsh Sabha, a registered trade union. The matter is, at present, pending before Labour Court, Thane.

4. The Kamgar Sabha, Thane filed a complaint before the Labour Court, Thane against one of our Promoter Group companies, G.G Dandekar Machine Works Limited in 2001 for a restraint order to be passed preventing G G Dandekar Machine Works Limited from entering into any negotiations with or recognising the Kamgar Utkarsh Sabha as a labour union.The matter is, at present, pending before the Labour Court, Thane.

5. Mr. Ambre, Bhiwandi, has filed a suit before the Civil Court, Lower Division Bhiwandi against one of our Promoter Group companies, G.G Dandekar Machine Works Limited seeking the possession of a plot adjacent to Kalyan Bhiwandi Road in Gopal Nagar currently in the possession of G.G Dandekar Machine Works Limited. The Civil Court, Lower Division Bhiwandi has passed an order staying the order transfer of possession. The matter is, at present, pending before the Civil Court, Lower Division Bhiwandi

6. Laxmibai Satpute, Wadgaon, Pune has filed a suit before the Prant Officer, Pune against one of our Promoter Group companies, G.G Dandekar Machine Works Limited claiming ownership rights over land situated at survey numbers 380 and 384 situated at Kamshet which is in the possession of G.G Dandekar Machine Works Limited. The matter is, at present, pending before the Prant Officer, Pune.

7. Jami Ramanayya, the owner of Sri Vijaya Lakshmi Modern Rice and Ground Nut Oil Mill, Tekalli has filed an appeal before the High Court of Andhra Pradesh against one of our Promoter Group companies, G.G Dandekar Machine Works Limited for the forfeiture of advance of Rs. 50,000, which was granted towards purchase of machinery for a rice mill. The matter is, at present, pending before the High Court of Andhra Pradesh.

8. M/s Herman Industries Limited, Delhi has filed a suit before the District and Session Judge in Civil Court, Delhi against one of our Promoter Group companies, G.G Dandekar Machine Works Limited for the recovery of an advance of Rs. 221,200 along with pendetelite and future interest at 24% per annum towards purchase of rice mill machinery paid to G.G Dandekar Machine Works Limited The matter is, at present, pending before the Civil Court, Delhi.

PIH FINVEST COMPANY LIMITED

Seven erstwhile employees of PIH Finvest Company Limited, a Promoter Group Company (earlier known as Poona Industrial Hotel Limited) have filed cases before the Labour Court, Pune claiming reinstatement, and back wages for illegal and wrongful termination of their employment on October 26, 1999 pursuant to transfer of Hotel Blue Diamond by PIH Finvest Company Limited to The Indian Hotels Company Limited. The Labour Commission upheld the retrenchment of the erstwhile employees but ordered an increase in the amount of compensation to be paid to the employees. Subsequently, a settlement was reached pursuant to an agreement dated June 14, 2000 wherein PIH Finvest Company Limited agreed to pay the ex-employees an aggregate amount of Rs. 5,000,000 (50% to be paid by The Indian Hotels Company Limited). PIH Finvest Company Limited and The Indian Hotels Company Limited have paid a part of the aforesaid amount to the erstwhile employees and as on March 31, 2006 an amount of Rs. 2,88,693 (50% to be paid by The Indian Hotels Company Limited) is outstanding. The erstwhile employees, however, have not signed the aforesaid settlement agreement and have filed an appeal before the Labour Court, Pune for a further revision of the settlement amount. PIH Finvest Company Limited has filed its reply contesting the revision and the appeal is at present pending before the Labour Court, Pune.

HEMATIC MOTORS PRIVATE LIMITED ("HMPL")

Excise duty proceedings

1 A show cause notice dated October 17, 1990 was issued against one of our Promoter Group companies, HMPL, for failure to assess and pay the correct excise duty on the goods manufactured. The Assistant Commissioner, Satara by an Order dated January 21, 1991 directed HMPL to pay a duty of Rs. 1,208,498. An appeal was filed before the Commissioner (Appeals), Pune. The Commissioner (Appeals) by an Order dated September 9, 1998 directed HMPL to pay an amount of Rs. 683,995. The said amount has already been deposited with the Excise Department. A further appeal has been filed before the Customs Excise and Service Tax Appellate Tribunal (CESTAT). The case at present is pending on file.

2 A show cause cum demand notice was issued against HMPL, on April 30, 2002 for payment of excise duty of Rs. 995,786. The issue pertains to the entitlement to duty exemption under Notification No. 67/95-CE dated March 16, 1995 available for the electrical laminations manufactured and captively consumed in the manufacture of stators, rotors, and stator stacks. The Assistant Commissioner by an order dated July 31, 2003 confirmed the demand of Rs. 995,786 and imposed a penalty of the same amount. An appeal was filed before the Commissioner (Appeals), Pune. The Commissioner (Appeals) upheld the order demanding payment of Rs. 995,786 though the penalty amount was reduced to Rs. 200,000. However, we have appealed before the CESTAT (Mumbai) against the order of the Commissioner (Appeal) and have deposited an amount of Rs. 250,000. In the appeal, we have received stay order No. S-369/WZB/04/C-III dated September 28, 2004 with precondition of Rs. 150,000 to be deposited before November 4, 2004 which we have deposited on October 30, 2004 and now awaiting final order in the matter.

TOYOTA KIRLOSKAR AUTO PARTS PRIVATE LIMITED

Toyota Kirloskar Auto Parts Private Limited has received a show cause notice dated February 14, 2005 alleging that it had unauthorisedly transferred power to its Domestic Tariff Area unit without obtaining permission from the appropriate authorities and had not paid customs duty on the import of diesel generating sets. Subsequent to this, our promoter paid an amount of Rs. 56,795,045/- under protest towards the customs duty. They have also replied to the aforesaid show cause notice and await response from the Department on the same.

DENSO KIRLOSKAR INDUSTRIES PRIVATE LIMITED

Denso Kirloskar Industries Private Limited has filed an appeal against the notice issued by the Sales Tax Department asking the company to pay sales tax and turnover tax on the sale of air conditioners. The case is at present pending before the Karnataka Appellate Tribunal claiming that it was exempted from payment of the aforesaid taxes.

SWARAJ ENGINES LIMITED

a) Labour dispute

There are three cases that have been filed by temporary *adhoc* workers against Swaraj Engines Limited, before the Labour Court, Patiala alleging wrongful termination and seeking regularisation of services and compensation of Rs.160,000. The case is, at present, pending on file before the Labour Court, Patiala

b) Income tax dispute

The income tax department, Chandigarh has filed five cases before the Commissioner of Income Tax against Swaraj Engines Limited, alleging that royalty amounting to Rs. 13,839,342 from 1990-91, 1991-92, 1193-94 to 1996-97 was in the nature of a capital and not a revenue expenditure, thus resulting in an additional tax liability of Rs. 6,674,120. The Commissioner of Income Tax Appeals (CIT-A), Chandigarh passed an order in favour of our promoter against which the Income Tax Department, Chandigarh filed an appeal before the Income Tax Appellate Tribunal which was dismissed. The Income Tax Department, Chandigarh has filed an appeal in the High Court of Punjab and Haryana. The case is, at present, pending on file.

c) Excise duty dispute

The Excise Department, Chandigarh issued a show cause notice to Swaraj Engines Limited demanding interest of Rs. 103,000 on excise duty of Rs. 2,814,000 that was paid in the months of May, August and September 2005 on the ground of late payment of excise duty. The Assistant Commissioner, Chandigarh while confirming the interest demand, also imposed penalty of Rs. 103,000. Swaraj Engines Limited has filed an appeal against the aforesaid order before Commissioner, Appeal, Chandigarh and stay has been granted. The case is, at present, pending on file.

d) Other disputes

Punjab State Industrial Development Corporation (PSIDC) issued a demand notice against Swaraj Engines Limited, to pay an enhanced cost of Rs. 7,412,000 towards the acquisition of land along with interest against which the company filed a suit before the District Court, Chandigarh. As on date the matter is pending on file before the Punjab & Haryana High Court, Chandigarh and the court has asked PIDC to produce necessary details for justifying the liability for payment of the aforesaid amount imposed on the company.

Kirloskar Keyna Limited

Our Promoter Group Company, Kirloskar Keyna Limited has confirmed and certified that there are no outstanding litigations, disputes, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues towards instrument holders like fixed deposits, and arrears on cumulative preference shares issued by Kirloskar Keyna Limited, if any, or issued by the company/other liabilities, proceedings initiated for economic/ civil/ any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of

Schedule XIII of the Companies Act, 1956) against Kirloskar Keyna Limited in India. Further, the company has also informed us that the annual reports for the last 3 financial years i.e. 2003, 2004 and 2005 have not been audited as on date.

Litigation against Mr. Sanjay Kirloskar, our Director

1. The Bank of India and others have filed a case (O.A. No. 161/2000) against Kirloskar Investment and Finance Limited and Mr. Sanjay Kirloskar for recovery of amounts granted under financial assistance to Kirloskar Investment and Finance Limited of an aggregate amount of Rs. 388,500,000. The case is, at present, pending before the Debt Recovery Tribunal, Bangalore.

2. Two cases have been filed by Ms. Bhatt (No. 44/2000) and RS Rajamma and others (CD/130/2000) against Kirloskar Investment and Finance Limited and Mr. Sanjay Kirloskar for the repayment of fixed deposits of an aggregate amount of Rs.143,000. The cases are, at present, pending before the Mysore Consumer District Forum.

3. Two cases have been filed by Ms. M.R. Kasar and others (No. 392/2001) and Mr. T. D. Yadav and seven others (No. 529-536/99) against Kirloskar Investment and Finance Limited and Mr. Sanjay Kirloskar for the repayment of fixed deposits of an aggregate amount of Rs. 160,837.40. The cases are, at present, pending before the Consumer Disputes Redressal Forum, Kolhapur Dist.

4. There are twelve criminal applications that have been filed during the years 1999 to 2004 against Kirloskar Investment and Finance Limited and Mr. Sanjay C. Kirloskar for the repayment of fixed deposits of an aggregate amount of Rs. 1,455,200 under the Maharashtra Protection of Interests of Depositors (in Financial Establishments) Act, 1999 pending before various forums in the State of Maharashtra. Mr. Sanjay Kirloskar has filed his reply in each of the aforesaid cases.

5. Kirloskar Brothers Limited lodged a complaint and civil suit against Mr. Pillai and Mather & Platt (India) Limited for unauthorisedly taking confidential information. As a response, Mather & Platt (India) Limited lodged civil suits and criminal cases against the aforesaid suits by Kirloskar Brothers Limited. Mather and Platt (I) Limited have filed criminal case no. (C1489 of 2000) against Mr. Sanjay Kirloskar before the Additional Chief Judicial Magistrate Bankshal Court, Kolkata, on the ground of defamation, which has been challenged by Mr. S. C. Kirloskar vide Criminal Misc. Application No. 42 of 2001 before the High Court Kolkata.

6. Sudendu Dey for Badshah Hotels and Resort Private Limited has filed criminal case No. 1199 of 2000 against Kirloskar Investment and Finance Limited and Mr. Sanjay Kirloskar before the Additional Chief Judicial Magistrate Agartala, which has been challenged by Mr. S. C. Kirloskar vide Criminal Miscellaneous Application No. (42 of 2001 in 13/2001) pending before the Guahati High Court, Agartala Bench.

7. The Deputy Director of Directorate of Enforcement, Mumbai has passed an order No. ADJ/855 TO 863/DD (AKL)/B/2004 DT. 21.07.2004 against Kirloskar Brothers Limited and Mr. Sanjay Kirloskar making them liable to pay an amount of Rs. 10,700,000 and Rs 990,000 respectively as a penalty on the ground of the alleged non-compliance with various sub-clauses of Sections 8, 9, 14, 16, 18, 19 and 27 of the Foreign Exchange Regulation Act, 1973. Kirloskar Brothers Limited jointly with Mr. Sanjay Kirloskar has filed an appeal before the Foreign Exchange Appellate Tribunal, New Delhi challenging the aforesaid order. The Foreign Exchange Appellate Tribunal, New Delhi had vide order dated February 25, 2005 in Appeal (Nos. 968, 969, 970, 971, 972, 973, 974 and 975/04) directed the appellants to deposit an amount equivalent to 30% of the penalty and the balance 70% in the form of a bank guarantee. The case is, at present, pending before the Foreign Exchange Appellate Tribunal, New Delhi. Mr. Sanjay C. Kirloskar has been made a party in the case in his capacity of a Director of the Kirloskar Brothers Limited.

Litigation against certain of our Directors and Promoter Group Companies

Kirloskar Electric Company Limited (KEC), a Vijay Kirloskar group company had filed a company petition before the CLB against Kirloskar Proprietary Limited ("KPL") and others which includes Mr. Atul Kirloskar,

Mr. Sanjay Kirloskar and Mr. A.R. Jamenis, who are officiating as directors on our Board and against Mr. Rahul Kirloskar, C.H. Nandiwadekar and Better Value Holdings Private Limited, our Promoter Group constituents. The Vijay Kirloskar Group belongs to Mr. Vijay Kirloskar, an uncle of Atul Kirloskar. The petition had been filed under section 397 and 398 of the Companies Act against the termination in January 2001 by KPL of the User Agreement entered into on October 5, 1973 under which agreement KEC had the right to use the 'Kirloskar' trademark. The CLB has passed an order on October 5, 2005 granting KEC the use of the trademark tradename, logo and copyright "Kirloskar" in perpetuity and KPL has filed an appeal against the order of the CLB, which is at present, pending on file before the Mumbai High Court.
Except for the criminal and civil cases stated above, where the Directors and Officers of the Company have been named as parties or respondents, there are no, outstanding litigation, disputes, to banks/financial institutions, defaults against banks/financial institutions, proceedings initiated for any economic/civil/ any other offences, involving the Directors or Officers of our Company.

Amounts outstanding towards SSI units from our Company

The following amounts are outstanding as on March 31, 2006 from our Company to the SSI units listed herein for a period exceeding 30 days.

SN	Name of SSI unit	Principal amount	Interest on	Aggregated amount
1.	R. Pampathy	----	147,998	147,998
2.	Yadwad Lime & Chemicals	----	20,944	20,944
3.	Ajay Metachem Limited	67,422.69	3,565	70,987.69
4.	Swastik Enterprises	----	4,064	4,064
5.	Aqua Chemicals & Systems	----	29,784	29,784
6.	Sri Nataraj Engineering Industries	39,178.69	4,004	43,182.69
7.	Essar Industries	----	34,670	34,670
8.	Bharatya Pulveriseers	----	9,729	9,729
9.	System Engineering	32,034	2,362	34,396
10.	Apcon Systems	----	1,212	1,212
11.	Deccan Mining Syndicate	----	151,397	151,397
12.	Vishwakarma Refractories	----	3,630	3,630
13.	Ubique Metamet Private Limited	----	3,759	3,759
14.	Union Pressing P. Limited	----	10,734	10,734
15.	Smithra Enterprises	----	1,325	1,325
16.	Clean Cat Conveyor Private Limited.	----	1,375	1,375
17.	Foundwell Minechem	----	27,910	27,910
18.	A N Engineering	----	20,271	20,271
19.	Kamakshi Engineering	16,725	2,723	19,448
	Total	155,360.37	481,456	636,816.40

We are in the process of paying the amount due to the SSI units as per the terms of order placed on the abovementioned SSI units.

GOVERNMENT APPROVALS

In view of the approvals listed below, we can undertake this Issue and our current business activities and no further material approvals are required from any Governmental authority or the RBI to continue such activities. We have received the following Government approvals that are material to our business:

General approvals and registrations

1. PAN Number AAACK7297E issued on April 26, 1999.

2. Tax Deduction Account Number (TAN) TAN: BLRK04636C issued by the National Securities Depository Limited on July 3, 2004.

3. Importer Exporter Code Number 0797000199 amended with effect from April 1, 1997 by letter dated May 24, 2000 for the addition of branch offices at New Delhi, Coimbatore, Ahmedabad, Kolhapur and Khadki, Pune.

4. Central excise registration number AAACK7297E XM 001 for the manufacture, warehousing and trading of pig iron, granulated slag and un-machined cast iron granted to our Company by certificate dated January 23, 2002.

5. Central sales tax registration number 8065143-4 and local sales tax registration number 8060143-1 allotted to our Company by certificate dated September 19, 2000.

6. Provisional certificate of registration for VAT having Tax Identification Number (TIN) 29090051906 allotted to the Company by certificate dated April 6, 2003. The Company is paying VAT regularly based on the provisional certificate of registration though no final certificate of registration has been received from the Government of Karnataka.

7. Professional tax registration number 540 allotted to our Company by certificate dated August 6, 1992.

8. Service tax registration number 3202031533 for scientific and technical services and goods transport agency allotted to our Company by letter dated October 28, 2004.

9. Service Tax registration certificate dated January 12, 2006 issued to our Company having number PIII/ISD-46/KIRLOSKAR/STC/06.

Dodmarg office

1. Maharashtra Value Added Tax Registration Number 416512-V-0002 allotted to our Company as a registered dealer carrying on the business of manufacture, resale of low ash and metallurgical coke issued on July 19, 2005 with effect from June 30, 2005.

2. Central sales tax registration number 416512-C-14 allotted to our Company vide certificate dated August 7, 2005.

3. Certificate of enrolment dated July 19, 2005 bearing number 1/4/15/5/8 issued under the Maharashtra State Tax on Professions, Trades, Callings and Employments Act, 1975.

Factory approvals, licenses and consents

1. Factory license dated November 12, 2004 having number RCR 697 permitting the employment of 2,500 workers and the usage of 15,812 horse power and valid upto December 31, 2007.

2. Authorization for handling of hazardous wastes for used oil (4 KL/A), used batteries 250 Nos/A and gas cleaning residue-9,500 MT/A dated November 3, 2005 valid upto June 30, 2008.

3. Consent to operate our Plant granted on September 19, 1994 under the Air (Prevention and Control of Pollution) Act, 1981 and renewed upto June 30, 2007 authorizing discharge of emissions from the fifteen stacks attached to air pollution sources.

4. Renewal of consent dated August 30, 2006 under the Water (Prevention and Control of Pollution) Act, 1974 for the discharge of sewage and trade effluents from the premises after treatment in the sewage treatment plant valid upto June 30, 2007.

5. License number P/HQ/KA/15/926 (P 11995), dated March 14, 2006 to import 830 KL petroleum and store the same valid upto December 31, 2008.

6. License number PV(SC)S-100/KK for one horizontal vessel with connected facilities (PV 99/7) for the storage of 10 MT of LPG dated July 15, 2004 valid upto March 31, 2007.

7. License for turbine generator boiler MYS2127 which has a rating of 1165.16 m2 issued to KOEL dated April 29, 2006 valid upto August 5, 2007.

8. License for turbine generator boiler MYS1922 which has a rating of 1165.16 m2 issued to KOEL dated November 8, 2005 valid upto November 6, 2006.

9. Letter number dated February 8, 2006 issued under the Apprenticeship Act, 1961 fixing the total number of apprentices to be fifty five to be engaged in different departments at our Plant by April 15, 2006.

10. Permission from the Karnataka Electricity Board for power supply to an extent of 5,700 KVA vide letter dated August 3, 1993. This was reduced to 2,500 KVA by letter dated September 25, 1996 pursuant to an application made by our Company.

11. Approval from the Tungabhadra Board permitting KFIL to draw 2 million gallons of water per day from the Tungabhadra reservoir renewed upto January 5, 2007.

12. Certificate of calibration dated February 2, 2006 issued by Department of Metrology, Government of Karnataka for 12 weights valid upto February 23, 2007.

13. Certificate of calibration dated December 27, 2004 for two weights of fifty tonnes each valid upto December 26, 2006.

14. No due certificate dated February 24, 2005 for the payment of land tax of an amount of Rs. 76,998 issued by the gram panchayat, Hitnal for the Financial Year 2004-05 upto March 31, 2005. The land tax has been levied as per schedule IV to section 199 of the Karnataka Panchayat Raj Act, 1993. Further, we have also paid the land tax for the Financial Year 2005-06 vide our letter of June 29, 2006 which has been duly acknowledged by the panchayat and we are currently awaiting the no dues certificate.

15. As required under Section 4 and 5 of the Karnataka Industrial Establishments (National and Festival Holidays) Act, 1963, we have submitted a list of holidays on November 29, 2005 to the District Labour Officer, Koppal District which is at present applicable for the workforce at our Plant.

16. Certificate of registration dated June 6, 2005 issued by the Deputy Labour Commissioner, Gulbarga under the Contract Labour (Regulation and Abolition) Act, 1970. This certificate is open and it will be endorsed only as and when new contractors are engaged.

17. Certificate dated February 17,1999 under the Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 1996 granting concession of 5% on the customs duty payable on the import of are low ash metallurgical coke and the good manufactured from the same is pig iron.

Pending approvals

1. We have applied to the Karnataka State Pollution Control Board for renewal of the consent for the period July 1, 2006 to June 30, 2007 vide letter dated February 13, 2006 (ref: KFIL/EMD/CONSENT/2005-06/113) and are currently awaiting for the renewal approval.

2. We have applied for and received a letter dated November 30, 2005 from the Director of Factories & Boilers under the Factories Act, 1948 approving the drawings for the installation of KSS at our Plant which is one of the objects of this issue as disclosed under the section titled as "Objects of the Issue" on page 23 of this Draft Letter of Offer. We shall apply for and obtain appropriate license under the Indian Boilers Act, 1923 to operate the KSS at the appropriate stage of implementing our project.

3. We have applied for and await the final approval of the Southern Western Railways (SWR), Hubli to construct railway sidings from Ginigera railway station to our Plant. The application has been filed pursuant to the provisional approval received by our Company from the SWR vide their letter dated November 5, 2004. We propose to install the railway sidings on a plot of land adjacent to our Plant, which we are in the process of acquiring from the Karnataka Industrial Area Development Board ("KIADB") to be used partially for setting up a coke oven plant and partially for laying the railway sidings.

4. We have applied for business registrations under the respective state Shops and Commercial Establishment Acts for our offices at Mumbai and Kolhapur. These applications were filed by us in the month of July, 2006 and we are currently awaiting the registration certificates to be issued by the relevant authorities.

Miscellaneous applications

1. We have applied for and received an in-principle approval dated January 19, 2004 from the Government of Karnataka for our proposal to set up a coke oven plant on the land adjacent to our Plant and approving the allotment of 165 acres of land for the project. The letter states that our Company should to apply to the relevant authorities for various incentives/concessions including permission for power supply and other ancillary approvals for our project.

2. We have applied for and received an in-principle approval from the Government of Karnataka dated December 30, 2005 to set up a fully integrated steel plant project at Halavarti, Koppal at Karnataka (at a distance of approximately 7 km from the Plant). The Government, while granting its approval for the project, has directed us to apply and obtain other ancillary approvals from the appropriate authorities including for the allocation of iron ore mines. However, as no firm commitment has been received from the Government with respect to the allocation of iron ore mines, we have not proceeded further with the implementation of project.

3. We have applied to the Government of Karnataka for the right to mine of iron ore and manganese ore over an area of 149.57 hectares in Kumaraswamy range of Sandur Taluk, Bellary district, Karnataka. Though, the Government of Karnataka has vide its letter dated February 11, 2004 to the Central Government, recommended that the mining rights in the aforesaid area be granted to M/s. Kariganur Iron and Steel Private Limited, (Kariganur), Bellary, we have as on date not received any official communication from the Government of Karnataka rejecting our application. Further, as disclosed in the section titled "Outstanding Litigations" appearing on page 166 of this Draft Letter of Offer, we have disputed the recommendation made by the Government of Karnataka before the Hon'ble High Court of Karnataka, which has currently granted a stay preventing the Central Government from proceeding with the recommendation made by the Government of Karnataka till further decision is taken.

Application made that have been rejected

NIL

Approval obtained outside India

NIL

STATUTORY AND OTHER INFORMATION

Authority for the Issue

Pursuant to the resolution passed by the Board of Directors of the Company at its meeting held on May 24, 2006 and September 28, 2006 it has been decided to make the following offer to the Equity Shareholders of the Company with a right to renounce:

Prohibition by SEBI

Neither we, nor our Directors or the Promoter Group Companies, or companies with which our Directors are associated with as directors or promoters, have been prohibited from accessing or operating in the capital markets under any order or direction passed by SEBI.

Eligibility for the Issue

Kirloskar Ferrous Industries Limited is an existing Company registered under the Indian Companies Act and the Equity Shares are listed on BSE. It is eligible to offer this Issue in terms of Clause 2.4.1(iv) of the SEBI DIP Guidelines. The Company, its Promoter, its Directors or any of the Company's associates or group companies are currently not prohibited from accessing the capital market under any order or direction passed by SEBI. Further the Promoters, Directors, our Company, Promoter Group Companies, associate companies are not detained as wilful defaulters by RBI/Government authorities as than as mentioned below:

The RBI has included the name of our chairman Mr. Atul Kirloskar in its list of wilful defaulters. The Chairman's name was referred to the RBI by erstwhile Sumitomo Mitsui Banking Corporation (now taken over by Standard Chartered Bank) The reference was made in view of Mr. Atul Kirloskar's directorship in Mysore Kirloskar Limited (MKL) which defaulted on its corporate guarantee issued to the bank in relation to the term loan of Rs. 30 million given to Kirloskar AAF Limited on March 31, 1997. Our Promoter, KOEL, has by its letter of January 24, 2004 to Standard Chartered Bank with a copy of RBI, requested the bank to reconsider the reference made to RBI.

Material Disclosure

We confirm that other than the disclosures made in the instatnt Draft Letter of Offer, nothing material has changed in respect of disclosures made by us at the time of our previous issue made on December 17, 1993.

For details of material events, please refer to the section titled **"History and Other Corporate Matters"** beginning on page 82 of this Draft Letter of Offer.

Disclaimer Clause

AS REQUIRED, A COPY OF THIS DRAFT LETTER OF OFFER HAS BEEN SUBMITTED TO THE SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI). IT IS TO BE DISTINCTLY UNDERSTOOD THAT THE SUBMISSION OF THIS DRAFT LETTER OF OFFER TO SEBI SHOULD NOT, IN ANY WAY BE DEEMED/CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THIS DRAFT LETTER OF OFFER. THE LEAD MANAGER ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THIS DRAFT LETTER OF OFFER ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI GUIDELINES FOR DISCLOSURE AND INVESTOR PROTECTION IN

FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE.

IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE DRAFT LETTER OF OFFER, THE LEAD MANAGER ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE THE LEAD MANAGER ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED HAVE FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED SEPTEMBER 29, 2006 WHICH READS AS FOLLOWS:

1. **WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, DISPUTES WITH COLLABORATORS, ETC. AND OTHER MATERIALS MORE PARTICULARLY REFERRED TO IN THE ANNEXURE HERETO IN CONNECTION WITH THE FINALISATION OF THE DRAFT LETTER OF OFFER PERTAINING TO THE SAID ISSUE:**

2. **ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY, WE CONFIRM THAT:**

   A. **THE DRAFT LETTER OF OFFER FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;**

   B. **ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE AS ALSO THE GUIDELINES, INSTRUCTIONS ETC., ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH;**

   C. **THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO INVESTMENT IN THE PROPOSED ISSUE;**

   D. **BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE DRAFT LETTER OF OFFER ARE REGISTERED WITH SEBI AND TILL DATE SUCH REGISTRATION IS VALID;**

   E. **IF UNDERWRITTEN, WE SHALL SATISFY OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS –NOT APPLICABLE**

The filing of this Draft Letter of Offer does not, however, absolve the Company from any liabilities under Section 63 or Section 68 of the Companies Act or from the requirement of obtaining such statutory or other clearance as may be required for the purpose of the proposed Issue. SEBI further reserves the right to take up, at any point of time, with the Lead Manager any irregularities or lapses in this Draft Letter of Offer.

Caution

The Company and the Lead Manager accept no responsibility for statements made otherwise than in this Draft Letter of Offer or in any advertisement or other material issued by the Company or by any other persons at the instance of the Company and anyone placing reliance on any other source of information would be doing so at his own risk.

The Lead Manager and the Company shall make all information available to the Equity Shareholders and no selective or additional information would be available for a section of the Equity Shareholders in any manner whatsoever including at presentations, in research or sales reports etc. after filing of this Draft Letter of Offer with SEBI.

Disclaimer with respect to jurisdiction

This Draft Letter of Offer has been prepared under the provisions of Indian Laws and the applicable rules and regulations thereunder. Any disputes arising out of this Issue will be subject to the jurisdiction of the appropriate court(s) in Mumbai, India only.

No action has been or will be taken to permit this Issue in any jurisdiction where action would be required for that purpose, except that this Draft Letter of Offer has been filed with SEBI for observations and SEBI has given its observations. Accordingly, the equity shares represented thereby may not be offered or sold, directly or indirectly, and this Draft Letter of Offer may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Draft Letter of Offer nor any sale hereunder, shall under any circumstances create any implication that there has been no change in our affairs from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

The Draft Letter of Offer has been filed with SEBI, Mittal Court, 'A' Wing, Nariman Point, Mumbai 400021, for its observations. After SEBI gives its observations, the final Letter of Offer will be filed with the Designated Stock Exchange as per the provisions of the Act.

Disclaimer Clause of the BSE

BSE has given vide its letter dated [•] permission to the Issuer to use the Exchange's name in this Draft Letter of Offer as one of the Stock Exchanges on which this Issuer's securities are proposed to be listed. The Exchange has scrutinized this Draft Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Issuer. The Exchange does not in any manner: (i) warrant, certify or endorse the correctness or completeness of any of the contents of this Draft Letter of Offer; or (ii) warrant that this Issuer's securities will be listed or will continue to be listed on the Exchange; or (iii) take any responsibility for the financial or other soundness of this Issuer, its Promoters, its management or any scheme or project of this Issuer; and its should not for any reason be deemed or construed that this Draft Letter of Offer has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Issuer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

Filing

This Draft Letter of Offer was filed with SEBI, Mittal Court, Nariman Point, Mumbai 400 021. All the legal requirements applicable till the date of filing the Letter of Offer with the Stock Exchanges have been complied with.

A copy of the Letter of Offer, required to be filed under SEBI DIP Guidelines would be filed with ROC located at Registrar of Companies, Maharashtra, Pune located at PMT Building, 3rd Floor, Deccan Gymkhana, Pune – 411004.

Listing

The existing Equity Shares are listed on the BSE. The Company has made applications to the BSE for permission to deal in and for an official quotation in respect of the Equity Shares being offered in terms of this Draft Letter of Offer. The Company has received in-principle approvals from BSE by letters dated [•]. The Company will apply to the BSE for listing of the Equity Shares to be issued pursuant to this Issue.

If the permission to deal in and for an official quotation of the securities is not granted by the Stock Exchange mentioned above, within 42 days from the Issue Closing Date, the Company shall forthwith repay, without interest, all monies received from applicants in pursuance of this Draft Letter of Offer. If such money is not paid within eight days after the Company becomes liable to repay it, then the Company and every Director of the Company who is an officer in default shall, on and from expiry of eight days, be jointly and severally liable to repay the money with interest as prescribed under the Section 73 of the Act.

Consents

Consents in writing of the Auditors, Lead Manager, Legal Advisors, Registrar to the Issue and Banker to the Issue to act in their respective capacities have been obtained and filed with SEBI, along with a copy of the Draft Letter of Offer and such consents have not been withdrawn up to the time of delivery of this Letter of Offer for registration with the stock exchanges.

The Auditors of the Company have given their written consent for the inclusion of their Report in the form and content as appearing in this Draft Letter of Offer and such consents and reports have not been withdrawn up to the time of delivery of this Draft Letter of Offer for registration to the Registrar of Companies, Maharashtra.

M/S. P.G. Bhagwat, auditors have given their written consent for inclusion of income tax benefits in the form and content as appearing in this Draft Letter of Offer, accruing to the Company and its members.

To the best of our knowledge there are no other consents required for making this Issue. However, should the need arise, necessary consents shall be obtained by us.

Expert Opinion, if any

No other expert opinion has been obtained by the Company.

Expenses of the Issue

The expenses of the Issue payable by the Company including brokerage, fees and reimbursement to the Lead Manager, Registrars, printing and distribution expenses, publicity, listing fees, stamp duty and other expenses are estimated at Rs. [•] million (around [•]% of the total Issue size) and will be met out of the proceeds of the Issue.

Fees Payable to the Lead Manager to the Issue

The fees payable to the Lead Manager to the Issue are set out in the Memorandum of Understanding entered into by the Company with Enam, copies of which are available for inspection at the Registered Office of the Company.

Fees Payable to the Registrars to the Issue

The fee payable to the Registrars to the Issue is as set out in the relevant documents, copies of which are kept open for inspection at the Registered Office of the Company.

Date of listing on the Stock Exchange

The Equity Shares of the Company were first listed on the BSE, Pune Stock Exchange and Delhi Stock Exchange. Thereafter the equity shares of the Company were delisted from the Delhi Stock Exchange with effect from December 29, 2003 and Pune Stock Exchange with effect from January 16, 2004. The preference shares of the Company are not listed on any of the stock exchanges.

Profit *vs* performance

The Company made the initial public offering in 1993. The issue comprised of 24,165,800 equity shares of Rs. 10/- each for cash at par aggregating to Rs. 241,658,000/-. The main object of the issue was to:

1) Raise part finance required for implementation of the project to manufacture 37,500 TPA of ferrous castings and 120,000 TPA of pig iron at an estimated cost of Rs. 1,470 Million;
2) To meet the expenses of the Issue and other incidental expenses; and
3) To list the equity shares of the Company on the Stock Exchanges.

The promise made in the above issue and actual performance achieved is as follows: (In Rs. Million)

Particulars	**1994-95**		**1995-1996**		**1996-97**		**1997-98**	
	Promise	Performance	**Promise**	**Performance**	**Promise**	**Performance**	**Promise**	**Performance**
Sales	872.00	690.00	1,189.00	1,736.72	1,279.80	2,007.73	1,362.90	2,116.37
PAT	38.10	31.55	171.50	70.36	225.90	(174.14)	227.20	(196.97)
EPS	0.06	-	2.93	1.20	3.86	-	3.88	-
Dividend	-	-	-	-	10%	-	10%	-

Capital Structure

Issues for consideration other than cash

Except as stated in the Capital Structure on page 16 of this Draft Letter of Offer, the Company has not issued Equity Shares for consideration other than cash or out of revaluation reserves within the two years preceding the date of this Draft Letter of Offer.

Preference Shares

The following are the details of the preference shares issued by the Company.

Date of the Issue	**Issued to**	***(Rs. In Million)***
March 10, 1998	KOEL	450.00
March 31, 2001	KOEL	234.20
September 25, 2001	KOEL	38.00
March 30, 2002	Issue to IDBI later on purchased by KOEL	255.80
March 30, 2002	Issued to IIBI later on purchased by KOEL	8.26
September 28, 2002	Issued to ICICI Bank Ltd. later on purchased by KOEL	60.60

Option to Subscribe

Other than the present rights Issue, the Company has not given any person any option to subscribe to the shares of the Company.

Stock market data for equity shares of the Company

Please refer to page 199 of the Draft Letter of Offer for further information pertaining to stock market data for the equity shares of the Company.

Impersonation

As a matter of abundant caution, attention of the applicants is specifically drawn to the provisions of subsection (1) of Section 68A of the Companies Act which is reproduced below:

"Any person who makes in a fictitious name an application to a Company for acquiring, or subscribing for, any shares therein, or otherwise induces a Company to allot, or register any transfer of shares therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years"

Government Approvals

Our Company was incorporated on September 10, 1991 under the Indian Companies Act. We have obtained all necessary approvals to undertake our activities and we do not propose to enter into any new activities through this Issue, for which further approvals may be required to be obtained, except as may be required to be obtained in the normal course of our business and for intended use of Objects of the Issue. For further details, please refer to the section on "Government Approvals" on page 188 of this Draft Letter of Offer.

Important

- This Issue is pursuant to the resolution passed by the Board of Directors at its meeting held on May 24, 2006 and September 28, 2006.
- This Issue is applicable to those Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the shares held in the electronic form and on the Register of Members of the Company at the close of business hours on the Record Date i.e. [●].
- Your attention is drawn to the section titled 'Risk Factors' appearing on Page viii of this Draft Letter of Offer.
- Please ensure that you have received the Composite Application Form ("CAF") with this Draft Letter of Offer.
- Please read the Draft Letter of Offer and the instructions contained herein and in the CAF carefully before filling in the CAF. The instructions contained in the CAF are an integral part of this Draft Letter of Offer and must be carefully followed. An application is liable to be rejected for any non-compliance of the provisions contained in the Draft Letter of Offer or the CAF.
- All enquiries in connection with this Draft Letter of Offer or CAF should be addressed to the Registrar to the Issue, quoting the Registered Folio number/ DP and Client ID number and the CAF numbers as mentioned in the CAF.
- All information shall be made available to the Investors by the Lead Manager and the Issuer, and no selective or additional information would be available by them for any section of the Investors in any manner whatsoever including at road shows, presentations, in research or sales reports, etc.
- The Lead Manager and the Company shall update this Draft Letter of Offer and keep the public informed of any material changes till the listing and trading commences.

Issue Schedule

Issue Opening Date:	[•]
Last date for receiving requests for split forms:	[•]
Issue Closing Date:	[•]

Allotment Letters / Refund Orders

The Company will issue and dispatch letters of allotment/ share certificates/ demat credit and/ or letters of regret along with refund order or credit the allotted securities to the respective beneficiary accounts, if any, within a period of six weeks from the Issue Closing Date. Such refund orders, in the form of MICR warrants/cheque/pay order, marked "Account payee" would be drawn in the name of a sole/first applicant and will be payable at par at all the centers where the applications were originally accepted, risk, except for those who have opted to receive refunds through the ECS facility or RTGS or Direct Credit. If such money is not repaid within eight days from the day the Company becomes liable to pay it, the Company shall pay that money with interest at the rate of 15% p.a. as stipulated under Section 73 of the Act. Letter(s) of Allotment/Refund Order(s) above the value of will be dispatched by Registered Post to the sole/first applicant's address. However, Refund Orders for values not exceeding Rs.1,500/- shall be sent to the applicants under Certificate of Posting at the applicant's sole risk at his address. The Company would make adequate funds available to the Registrar to the Issue for this purpose. Adequate funds would be made available to the Registrar to the Issue for dispatch of the letters of allotment/ share certificates/ demat credit/ refund orders.

In case the Company issues letters of allotment, the corresponding share certificates will be kept ready within three months from the date of allotment thereof or such extended time as may be approved by the Companies Law Board under Section 113 of the Companies Act or other applicable provisions, if any. Allottees are requested to preserve such Letters of Allotment, which would be exchanged later for the share certificates.

Investor Grievances and Redressal System

The Company has adequate arrangements for redressal of Investor complaints. Well-arranged correspondence system developed for letters of routine nature. The share transfer and dematerialization for the Company is being handled by Intime Spectrum Registry Limited, Pune, Share Transfer Agents. Letters are filed category wise after having attended to. Redressal norm for response time for all correspondence including shareholders complaints is ten days. However, the Company endeavours to redress all the complaints within five days of the receipt of complaint.

A Shareholders/Investors Grievances Committee was constituted on June 27, 2001. The Committee presently consists of directors Mr. Atul Kirloskar, Mr. C.V. Tikekar Mr. A.R. Jamenis and Mr. A.N. Alawani. Mr. Kirloskar is the Chairman of the Committee. Mr. Sarang Deshpande, Sr. Officer, Secretarial & Legal who is also a member of the Institute of Company Secretaries of India is the compliance officer of the Company. All investor grievances received by the Company has been handled by the Share Transfer Agent in consultation with the Company Secretary.

Status of Complaints

Total number of complaints received during the Financial Year 2005-06: 82

Status of the complaints pending as at the end of the Financial Year 2005-06: Nil

No. of Complaints received and attended during April 1, 2006 to July 31, 2006: 32

No. of shareholders complaints pending redressal as of July 31, 2006: Nil

Time normally taken for disposal of various types of investor grievances: 5 days

Investor Grievances arising out of this Issue

The Company's investor grievances arising out of the Issue will be handled by the Share Transfer Agent, Registrars to the Issue. The Registrars will have a separate team of personnel handling only our post Issue correspondence. Investor grievances are settled expeditiously and satisfactorily by us. The agreement between us and the Registrars will provide for retention of records with the Registrars for a period of at least one year from the last date of dispatch of Letter of Allotment/ share certificate / warrant/ refund order to enable the Registrars to redress grievances of Investors.

All grievances relating to the Issue may be addressed to the Registrars to the Issue giving full details such as folio no., name and address of the first applicant, number and type of shares applied for, Application Form serial number, amount paid on application and the name of the bank and the branch where the application was deposited, along with a photocopy of the acknowledgement slip. In case of renunciation, the same details of the renouncee should be furnished.

The average time taken by the Registrar for attending to routine grievances will be 30 days from the date of receipt. In case of non-routine grievances where verification at other agencies is involved, it would be the endeavour of the Registrars to attend to them as expeditiously as possible. We undertake to resolve the Investor grievances in a time bound manner.

Investors may contact the Compliance Officer in case of any pre-Issue/ post -Issue related problems such as non-receipt of letters of allotment/share certificates/demat credit/refund orders etc.

Changes in Auditors during the last three years

There have been no changes in our Statutory Auditors over the last three years

Capitalisation of Reserves or Profits

The Company has not capitalized any of its reserves or profits for the last five years.

Revaluation of Fixed Assets

There has been no revaluation of the Company's fixed assets for the last five years.

Minimum Subscription

If the Company does not receive minimum subscription of 90% of the issued amount on the date of closure of the Issue or the subscription level falls below 90% after the closure of the Issue on account of cheques having being returned unpaid or withdrawal of applications, the Company shall forthwith refund the entire subscription amount received. If there is a delay beyond eight days after the date from which the Company becomes liable to pay the amount, the Company shall pay interest as prescribed under Section 73 of the Companies Act.

Purchase of Property

The Company in the ordinary course of expansion may start marketing and sales at new centres for which it may lease or buy properties at such places. The present Issue is not being made with the specific objective to buy such properties. None of the Directors are interested in any property acquired by the Company during the last three years.

STOCK MARKET DATA FOR EQUITY SHARES OF OUR COMPANY

Our Equity Shares are listed and are actively traded on the BSE. The high and low closing prices recorded on the BSE for the preceding three years and the number of Equity Shares traded on the days the high and low prices were recorded are stated below:

YE March 31	High (Rs.)	Date of High	Volume on date of high (no. of shares)	Low (Rs.)	Date of Low	Volume on date of low (no. of shares)	Average price for the year (Rs.)
2004	35.40	14.01.2004	375129	2.75	03.04.2003	1800	16.24083
2005	37.00	09.02.2005	674297	15.60	23.06.2004	23645	26.14012
2006	43.5	19.09.2005	2025857	27.20	28.10.2005	73008	34.51226
2006 (Post reduction)	50.40	06.01.2006	1261289	35.85	23.12.2005	447729	42.31691
2006-07	72.45	29.04.2006	739661	34.55	21.09.2006	515416	44.182

Trading is Equity Shares of our Company was suspended for the period of 22 days from November 12, 2005 to December 21, 2005

The high and low prices and volume of Equity Shares traded on the respective dates during the last six months is as follows:

Month, Year	High (Rs.)	Date of High	Volume on date of high (no. of shares)	Low (Rs.)	Date of Low	Volume on date of low (no. of shares)	Average price for the year (Rs.)
March, 2006	45.90	07.03.2006	9,52,286	37.10	17.03.2005	7,43,293	40.78
April, 2006	72.45	29.04.2006	7,93,661	40.20	13.04.2006	1,74,822	46.49
May, 2006	70.95	02.05.2006	11,54,455	49.90	30.05.2006	58,215	59.42
June, 2006	46.85	01.06.2006	85,400	35.00	08.June.2006	286,295	42.18
July, 2006	44.30	03.07.2006	44,299	36.70	21,July.2006	16,129	39.25
August, 2006	43.00	16.08.2006	97,178	37.85	31.08.2006	64,903	39.78

The market price was Rs. [•] on BSE on [•], the trading day immediately following the day on which Board meeting was held to finalize the offer price for the Issue.

Enriching Lives

INFORMATION AS REQUIRED BY GOVERNMENT OF INDIA, MINISTRY OF FINANCE CIRCULAR NO. F2/5/SC/76 DATED FEBRURARY 5, 1997 AS AMENDED VIDE CIRCULAR OF EVEN NO DATED MARCH 8, 1997

1. The working results of the Company for the period ended August 31, 2006 (Period upto last but one month from the date of issue of the Letter of Offer):

Particulars	(Rs. in Millions)
Total sales	1736.79
Other Income including dividend and interest income	7.06
Total Income	1743.85
PBDIT	246.19
Interest	20.83
Gross Profit after interest but before Depreciation and Taxes	225.36
Provision for Depreciation	51.68
Profit Before tax	173.68
Provision for tax Fringe Benefit Tax Deferred Tax	 0.15 53.46
Net Profit	120.07

Note: Fringe benefit tax considered upto June'06

2. Except as disclosed elsewhere in this Letter of Offer, there is no material change or commitments likely to affect the financial position of the Company since the last date upto which audited information is incorporated in the Letter of Offer.

3. **Information in relation to Equity Shares:**

a) Week end prices of Equity Shares of the Company for the last four weeks on BSE is as below

Week ending on	BSE (Rs)	Volume
1-Sep-06	38.05	29535
8-Sep-06	40.2	183086
15-Sep-06	36.95	224599
22-Sep-06	36.3	293194

b) Closing ex-rights market price of Equity Shares of face value of Rs.10 of the Company on BSE as on [●] was Rs. [●].

c) Highest and Lowest Price of the Equity Share of the Company of face value of Rs.5 each on BSE during the period April 01, 2005 to March 31, 2006:

FY	HIGH	High Date	High Price Day Volume	Low	Low Price Date	Low Price Day Volume	Average Close Price
FY0304	35.4	14-Jan-04	375129	2.75	3-Apr-03	1800	16.24083
FY0405	37	9-Feb-05	674297	15.6	23-Jun-04	23645	26.14012
FY0506	50.4	6-Jan-06	1261289	27.2	28-Oct-05	73008	36.89215

TERMS OF THE ISSUE

The Equity Shares, now being issued, are subject to the terms and conditions contained in this Draft Letter of Offer, the enclosed Composite Application Form ("CAF"), the Memorandum and Articles of Association of the Company, approvals from the RBI, the provisions of the Companies Act, guidelines issued by SEBI, guidelines, notifications and regulations for issue of capital and for listing of securities issued by Government of India and/or other statutory authorities and bodies from time to time, terms and conditions as stipulated in the allotment advice or letter of allotment or security certificate and rules as may be applicable and introduced from time to time.

Authority for the Issue

This Issue is being made pursuant to the resolution passed by the Board of Directors of the Company under Section 81(1) of Companies Act at its meeting held on May 24, 2006 and on September 28, 2006.

Basis for the Issue

The Equity Shares with detachable warrants are being offered for subscription for cash to those existing Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the shares held in the electronic form and on the Register of Members of the Company in respect of shares held in the physical form at the close of business hours on the Record Date, i.e., [•] fixed in consultation with the Designated Stock Exchange.

The Equity Shares are being offered for subscription in the ratio of [•] Rights Shares for every [•] Equity share held by the Equity Shareholders and one detachable warrant for every Rights Share.

Nomination facility

In terms of Section 109A of the Act, nomination facility is available in case of Equity Shares. The applicant can nominate any person by filling the relevant details in the CAF in the space provided for this purpose.

A sole Equity Shareholder or first Equity Shareholder, along with other joint equity shareholders being individual(s) may nominate any person(s) who, in the event of the death of the sole holder or all the joint-holders, as the case may be, shall become entitled to the Equity Shares with detachable warrants. A Person, being a nominee, becoming entitled to the Equity Shares with detachable warrants by reason of the death of the original Equity Shareholder(s), shall be entitled to the same advantages to which he would be entitled if he were the registered holder of the Equity Shares. Where the nominee is a minor, the Equity Shareholder(s) may also make a nomination to appoint, in the prescribed manner, any person to become entitled to the Equity Share(s)/ detachable warrants, in the event of death of the said holder, during the minority of the nominee. A nomination shall stand rescinded upon the sale of the Equity Share by the person nominating. A transferee will be entitled to make a fresh nomination in the manner prescribed. When the Equity Share is held by two or more persons, the nominee shall become entitled to receive the amount only on the demise of all the holders. Fresh nominations can be made only in the prescribed form available on request at the registered office of the Company or such other person at such addresses as may be notified by the Company. The applicant can make the nomination by filling in the relevant portion of the CAF.

Only one nomination would be applicable for one folio. Hence, in case the Shareholder(s) has already registered the nomination with the Company, no further nomination needs to be made for Equity Shares/detachable warrants to be allotted in this Issue under the same folio.

In case the allotment of Equity Shares/detachable warrants is in dematerialised form, there is no need to make a separate nomination for the Equity Shares/detachable warrants to be allotted in this Issue. Nominations registered with respective DP of the applicant would prevail. If the applicant requires change in the nomination, they are requested to inform their respective DP.

Joint-Holders

Where two or more persons are registered as the holders of any Equity Shares, they shall be deemed to hold the same as joint-holders with benefits of survivorship subject to provisions contained in the Articles of Association of the Company.

Offer to Non-Resident Equity Shareholders/Applicants

Applications received from NRIs and non-residents for allotment of Equity Shares shall be inter alia, subject to the conditions imposed from time to time by the RBI under the Foreign Exchange Management Act, 2000 (FEMA) in the matter of refund of application moneys, allotment of Equity Shares, issue of letter of allotment/share certificates, payment of interest, dividends, etc. General permission has been granted to any person resident outside India to purchase shares offered on rights basis by an Indian Company in terms of FEMA and regulation 6 of notification No. FEMA 20/200-RB dated May 03, 2000. The Board of Directors may at its absolute discretion, agree to such terms and conditions as may be stipulated by RBI while approving the allotment of Equity Shares with detachable warrants, payment of dividend etc. to the non-resident shareholders. The rights shares purchased by non-residents shall be subject to the same conditions including restrictions in regard to the repatriability as are applicable to the original shares against which rights shares are issued.

By virtue of Circular No. 14 dated September 16, 2003 issued by the RBI, overseas corporate bodies ("OCBs") have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies (OCBs)) Regulations, 2003. Accordingly, OCBs shall not be eligible to subscribe to the Equity Shares. The RBI has however clarified in its circular, A.P. (DIR Series) Circular No. 44, dated December 8, 2003 that OCBs which are incorporated and are not under the adverse notice of the RBI are permitted to undertake fresh investments as incorporated non-resident entities. Thus, OCBs desiring to participate in this Issue must obtain prior approval from the RBI. On providing such approval to the Company at its registered office, the OCB shall receive the Letter of Offer and the CAF.

Applications received from the non-resident Equity Shareholders for the allotment of Equity Shares with detachable warrants shall, *interalia*, be subject to conditions as may be imposed, from time to time, by the RBI, in the matter of refund of application moneys, allotment of Equity Shares/ detachable warrants, issue of letters of allotment/ certificates/ payment of dividends etc.

In case of change of status of holders i.e. from resident to non-resident, a new demat account shall be opened for the purpose. DETAILS OF SEPARATE COLLECTING CENTRES FOR NON-RESIDENT APPLICATIONS SHALL BE PRINTED ON THE CAF.

Letter of Offer and CAF shall be despatched to non-resident Equity Shareholders in India Only.

Principal Terms and Conditions of the Issue

The Equity Shares, now being issued are subject to the provisions of the Act, terms and conditions contained in this Letter of Offer, the enclosed Composite Application Form ("CAF"), the Memorandum and Articles of Association of the Company, guidelines issued by SEBI, Foreign Exchange Management Act 1999 ("FEMA"), guidelines, notifications and regulations for issue of capital and for listing of securities issued by Government of India and/or other statutory authorities and bodies from time to time, terms and conditions as stipulated in the allotment advice or letter of allotment or security certificate and rules as may be applicable and introduced from time to time.

Equity Shares

Face value

Each Equity Share shall have the face value of Rs. 5.

Issue Price

Each Equity Share is being offered at a price of Rs. [•] (including a premium of Rs. [•])

Rights Entitlement Ratio

The Equity Shares are being offered on rights basis to the existing Equity Shareholders of the Company in the ratio of [•] Equity shares for every [•] Equity shares held as on the Record Date.

Market lot

The securities of the Company are tradable only in a dematerialised form. The market lot for the Equity Shares and warrants in dematerialised mode is one. In case of physical certificates, the Company would issue one certificate for the Equity Shares allotted to one folio and a detachable warrant. ("Consolidated Certificate"). In respect of the Consolidated Certificate, the Company will, upon receipt of a request from the equity shareholder/warrant holder, split such Consolidated Certificate into smaller denomination within one week's time from the request of the equity shareholder/warrant holder. The Company shall not charge any fee for the splitting of the Consolidated Certificate.

Minimum Subscription

If the Company does not receive the minimum subscription of 90% of the Issue (excluding the amounts on the rights entitlement on the Equity Shares held in abeyance as explained in the notes to the section titled 'Capital Structure'), the entire subscription shall be refunded to the applicants within forty-two days from the date of closure of the Issue. If there is a delay in the refund of subscription by more than eight days after the Company becomes liable to repay the subscription amount, i.e. forty-two days after closure of the Issue, the Company will pay interest for the delayed period, at the rates prescribed in sub-sections (2) and (2A) of Section 73 of the Companies Act.

The Issue will become undersubscribed after considering the number of shares applied as per entitlement plus additional shares. The undersubscribed portion shall be applied for only after the Issue Closing Date. The Promoter or any other person shall subscribe to such undersubscribed portion as per the relevant provisions of the law. Allotment to the Promoter of any unsubscribed portion, over and above their entitlement shall be done in compliance with the Listing Agreement and other applicable laws prevailing at that time relating to continuous listing requirements.

The above is subject to the terms mentioned under the section titled 'Basis of Allotment' on page 210 of this Draft Letter of Offer.

Disposal of odd lots

The equity shares are being issued in the ratio of one equity shares for every equity share held as on record date. As such the rights issue will not lead to any odd lots.

Fractional entitlements

For Equity Shares being offered on rights basis under this Rights issue, if the shareholding of any of the Equity Shareholders is less than [•] or is not in the multiples of [•], the fractional entitlement of such holders shall be ignored. Shareholders whose fractional entitlements are being ignored would be given preferential allotment of one additional share each if they apply for additional shares.

Those Equity shareholders having holding less than [•] Equity shares and therefore entitled to zero Equity Shares under the Rights Issue shall be despatched a CAF with zero entitlement. Such equity shareholders are entitled to apply for additional Equity Shares. However, they cannot renunciate the same to third parties. CAF with zero entitlement will be non-negogatioable/non-renunciable.

Terms of payment

Full amount of Rs. [•] shall be payable on Application.

Ranking of the Equity Shares

The Equity Shares shall be, subject to the Memorandum and Articles of Association of the Company. The Equity Shares allotted in this Issue and the Equity shares allotted on the conversion of detachable warrants once fully paid up shall rank pari passu in all respects including dividends with the existing Equity Shares of the Company.

Rights of Equity Shareholders

Subject to applicable laws, Equity Shareholders shall have the following rights:

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting power, unless prohibited by law;
- Right to vote on poll, either in person or proxy;
- Right to receive offer for right shares and be allotted bonus shares if announced;
- Right to receive surplus on liquidation;
- Right of free transferability of share; and
- Such other rights as may be available to a shareholder of a listed public company under the Companies Act.

For more details please refer to section titled "Main Provisions of Our Articles of Association" beginning on page 218 of this Draft Letter of Offer.

Option available to the Equity Shareholders

The Composite Application Form clearly indicates the number of Equity Shares that the Equity Shareholder is entitled to.

If the Equity Shareholder applies for an investment in Equity Shares, then he can:

- Apply for his entitlement in part;

- Apply for his entitlement in part and renounce the other part;

- Apply for his entitlement in full;

- Apply for his entitlement in full and apply for additional Equity Shares.

Renouncees for Equity Shares can apply for the Equity Shares renounced to them and also apply for additional Equity Shares.

Utilisation of Issue Proceeds

The Board of Directors declares that:

(i) The funds received against this Issue will be transferred to a separate bank account other than the bank account referred to sub-section (3) of Section 73 of the Act.

(ii) Details of all moneys utilised out of the Issue shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the purpose for which such moneys has been utilised.

(iii) Details of all such unutilised moneys out of the Issue, if any, shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the form in which such unutilised moneys have been invested.

The funds received against this Issue will be kept in a separate bank account and the Company will not have any access to such funds unless it satisfies the Designated Stock Exchange with suitable documentary evidence that the minimum subscription of 90% of the Issue has been received by the Company.

Undertakings by the Company

1. The complaints received in respect of the Issue shall be attended to by the Company expeditiously and satisfactorily.

2. All steps for completion of the necessary formalities for listing and commencement of trading at all Stock Exchanges where the securities are to be listed will be taken within seven working days of finalization of basis of allotment.

3. The funds required for dispatch of refund orders/ allotment letters/ certificates by registered post shall be made available to the Registrar to the Issue.

4. The certificates of the securities/ refund orders to the non-resident Indians shall be dispatched within the specified time.

5. No further issue of securities affecting equity capital of the Company shall be made till the securities issued/offered through the Issue are listed or till the application moneys are refunded on account of non-listing, under-subscription etc.

6. The Company accepts full responsibility for the accuracy of information given in this Letter of Offer and confirms that to best of its knowledge and belief, there are no other facts the omission of which makes any statement made in this Letter of Offer misleading and further confirms that it has made all reasonable enquiries to ascertain such facts.

7. All information shall be made available by the Lead Manager and the Issuer to the Investors at large and no selective or additional information would be available for a section of the Investors in any manner whatsoever including at road shows, presentations, in research or sales reports etc.

Notices

All notices to the Equity Shareholder(s) required to be given by the Company shall be published in one English national daily with wide circulation, one Hindi national daily with wide circulation and one regional language daily newspaper in Mumbai with wide circulation and/or, will be sent by ordinary post/ to the registered holders of the Equity Share(s) from time to time.

How to Apply

Resident Equity Shareholders

Applications should be made only on the enclosed CAF provided by the Company. The enclosed CAF should be completed in all respects, as explained in the instructions indicated in the CAF. Applications will not be accepted by the Lead Manager or by the Registrar to the Issue or by the Company at any offices except in the case of postal applications as per instructions given elsewhere in the Draft Letter of Offer.

Non-resident Equity Shareholders

Applications received from the Non-Resident Equity Shareholders for the allotment of Equity Shares shall, inter alia, be subject to the conditions as may be imposed from time to time by the RBI, in the matter of refund of application moneys, allotment of Equity Shares, issue of letters of allotment/ certificates/ payment of dividends etc.

The CAF consists of four parts:

Part A: Form for accepting the Equity Shares offered and for applying for additional Equity Shares
Part B: Form for renunciation
Part C: Form for application for renouncees
Part D: Form for request for split application forms

Acceptance of the Issue

You may accept the Issue and apply for the Equity Shares offered, either in full or in part by filling Block III of Part A of the enclosed CAF and submit the same along with the application money payable to the Bankers to the Issue or any of the branches as mentioned on the reverse of the CAF before the close of the banking hours on or before the Issue Closing Date or such extended time as may be specified by the Board thereof in this regard. Applicants at centers not covered by the branches of collecting banks can send their CAF together with the cheque drawn on a local bank at Pune/demand draft payable at Pune to the Registrar to the Issue by registered post. Such applications sent to anyone other than the Registrar to the Issue are liable to be rejected.

Renunciation

As an Equity Shareholder, you have the right to renounce your entitlement for the Equity Shares in full or in part in favor of one or more person(s). Your attention is drawn to the fact that the Company shall not allot and/or register any Equity Shares in favor of:

- More than three persons including joint holders
- Partnership firm(s) or their nominee(s)
- Minors
- Hindu Undivided Family
- Any Trust or Society (unless the same is registered under the Societies Registration Act, 1860 or any other applicable Trust laws and is authorized under its Constitutions to hold Equity Shares of a Company)

The right of renunciation is subject to the express condition that the Board/ Committee of Directors shall be entitled in its absolute discretion to reject the request for allotment to renouncee(s) without assigning any reason thereof.

Procedure for renunciation

To renounce the whole offer in favour of one renouncee

If you wish to renounce the offer indicated in Part A, in whole, please complete Part B of the CAF. In case of joint holding, all joint holders must sign Part B of the CAF. The person in whose favor renunciation has been made should complete and sign Part C of the CAF. In case of joint renouncees, all joint renouncees must sign this part of the CAF.

To renounce in part/or renounce the whole to more than one person(s)

If you wish to either accept this offer in part and renounce the balance or renounce the entire offer in favour of two or more renouncees, the CAF must be first split into requisite number of forms.

Please indicate your requirement of split forms in the space provided for this purpose in Part D of the CAF and return the entire CAF to the Registrar to the Issue so as to reach them latest by the close of business hours on the last date of receiving requests for split forms. On receipt of the required number of split forms from the Registrar, the procedure as mentioned in paragraph above shall have to be followed.

In case the signature of the Equity Shareholder(s), who has renounced the Equity Shares, does not agree with the specimen registered with the Company, the application is liable to be rejected.

Renouncee(s)

The person(s) in whose favour the Equity Shares are renounced should fill in and sign Part C of the Application Form and submit the entire Application Form to the Bankers to the Issue on or before the Issue Closing Date along with the application money.

Change and/ or introduction of additional holders

If you wish to apply for Equity Shares jointly with any other person(s), not more than three, who is/are not already a joint holder with you, it shall amount to renunciation and the procedure as stated above for renunciation shall have to be followed. Even a change in the sequence of the name of joint holders shall amount to renunciation and the procedure, as stated above shall have to be followed.

However, this right of renunciation is subject to the express condition that the Board of Directors of the Company shall be entitled in its absolute discretion to reject the request for allotment from the renouncee(s) without assigning any reason thereof.

Please note that:

- Part A of the CAF must not be used by any person(s) other than those in whose favour this Offer has been made. If used, this will render the application invalid.

- Request for split form should be made for a minimum of 100 Equity Shares or in multiples thereof and one Split Application Form for the balance Equity Shares, if any.

- Request by the applicant for the Split Application Form should reach the Company on or before [•].

- Only the person to whom this Draft Letter of Offer has been addressed to and not the renouncee(s) shall be entitled to renounce and to apply for Split Application Forms. Forms once split cannot be split again.

- Split form(s) will be sent to the applicant(s) by post at the applicant's risk.

Additional Equity Shares

You are eligible to apply for additional Equity Shares over and above the number of Equity Shares you are entitled to, provided that you have applied for all the Equity Shares offered without renouncing them in whole or in part in favor of any other person(s). Applications for additional Equity Shares shall be considered and allotment shall be in the manner prescribed under the section titled 'Basis of Allotment' on page 210 of this Draft Letter of Offer. The renouncees applying for all the Equity Shares renounced in their favor may also apply for additional Equity Shares.

In case of application for additional Equity Shares by non-resident equity shareholders, the allotment of additional securities will be subject to the permission of the RBI.

Where the number of additional Equity Shares applied for exceeds the number available for allotment, the allotment would be made on a fair and equitable basis in consultation with the Designated Stock Exchange.

The summary of options available to the equity shareholder is presented below. You may exercise any of the following options with regard to the Equity Shares offered, using the enclosed CAF:

Option Available		Action Required
1.	Accept whole or part of your entitlement without renouncing the balance.	Fill in and sign Part A *(All joint holders must sign)*
2.	Accept your entitlement in full and apply for additional Equity Shares	Fill in and sign Part A including Block III relating to the acceptance of entitlement and Block IV relating to additional Equity Shares *(All joint holders must sign)*
3.	Renounce your entitlement in full to one person *(Joint renouncees are considered as one)*	Fill in and sign Part B *(all joint holders must sign)* indicating the number of Equity Shares renounced and hand it over to the renouncee. The renouncees must fill in and sign Part C *(All joint renouncees must sign)*
4.	Accept a part of your entitlement and renounce the balance to one or more renouncee(s) OR Renounce your entitlement to all the Equity Shares offered to you to more than one renouncee	Fill in and sign Part D *(all joint holders must sign)* requesting for Split Application Forms. Send the CAF to the Registrar to the Issue so as to reach them on or before the last date for receiving requests for Split Forms. Splitting will be permitted only once. **On receipt of the Split Form take action as indicated below.** For the Equity Shares you wish to accept, if any, fill in and sign Part A. For the Equity Shares you wish to renounce, fill in and sign Part B indicating the number of Equity Shares renounced and hand it over to the renouncees. Each of the renouncees should fill in and sign Part C for the Equity Shares accepted by them.
5.	Introduce a joint holder or change the sequence of joint holders	This will be treated as a renunciation. Fill in and sign Part B and the renouncees must fill in and sign Part C.

Availability of duplicate CAF

In case the original CAF is not received, or is misplaced by the applicant, the Registrar to the Issue will issue a duplicate CAF on the request of the applicant who should furnish the registered folio number/ DP and Client ID number and his/ her full name and address to the Registrar to the Issue. Please note that the request for duplicate CAF should reach the Registrar to the Issue within 15 days from the Issue Opening Date. Please note that those who are making the application in the duplicate form should not utilize the original CAF for any purpose including renunciation, even if it is received/ found subsequently. If the applicant violates any of these requirements, he / she shall face the risk of rejection of both the applications.

Application on plain paper

An Equity Shareholder who has neither received the original CAF nor is in a position to obtain the duplicate CAF may make an application to subscribe to the Issue on plain paper, along with an Account Payee Cheque drawn on a local bank at Pune/ Demand Draft payable at Pune which should be drawn in favor of the Company and send the same by registered post directly to the Registrar to the Issue.

The application on plain paper, duly signed by the applicants including joint holders, in the same order as per specimen recorded with the Company, must reach the office of the Registrar to the Issue before the Issue Closing Date and should contain the following particulars:

- Name of Issuer, being Kirloskar Ferrous Industries Limited
- Name and address of the Equity Shareholder including joint holders
- Registered Folio Number/ DP and Client ID no.
- Number of shares held as on Record Date
- Number of Rights Equity Shares entitled
- Number of Rights Equity Shares applied for
- Number of additional Equity Shares applied for, if any
- Total number of Equity Shares applied for
- Total amount paid at the rate of Rs. [●] per Equity Share
- Particulars of cheque/draft
- Savings/Current Account Number and name and address of the bank where the Equity Shareholder will be depositing the refund order
- PAN/GIR number, Income Tax Circle/Ward/District, photocopy of the PAN card/ PAN communication / Form 60 / Form 61 declaration where the application is for Equity Shares of a total value of Rs.50,000 or more for the applicant and for each applicant in case of joint names, and
- Signature of Equity Shareholders to appear in the same sequence and order as they appear in the records of the Company

Payments in such cases, should be through a cheque/ demand draft payable at Pune be drawn in favor of the Bankers to the Issue marked 'A/c Payee' and marked 'Name of the Bank A/c Kirloskar Ferrous Industries Limited Rights Issue'.

Please note that those who are making the application otherwise than on original CAF shall not be entitled to renounce their rights and should not utilize the original CAF for any purpose including renunciation even if it is received subsequently. If the applicant violates any of these requirements, he/she shall face the risk of rejection of both the applications as well as forfeiture of amounts remitted along with the applications.

Last date of Application

The last date for submission of the duly filled in CAF is [•]. The Board or any committee thereof will have the right to extend the said date for such period as it may determine from time to time but not exceeding 60 (sixty) days from the Issue Opening Date.

If the CAF together with the amount payable is not received by the Banker to the Issue/ Registrar to the Issue on or before the close of banking hours on the aforesaid last date or such date as may be extended by the Board/ Committee of Directors, the offer contained in this Draft Letter of Offer shall be deemed to have been declined and the Board/ Committee of Directors shall be at liberty to dispose off the Equity Shares hereby offered, as provided under the section titled ”Basis of Allotment”.

INVESTORS MAY PLEASE NOTE THAT THE EQUITY SHARES OF THE COMPANY CAN BE TRADED ON THE STOCK EXCHANGES ONLY IN DEMATERIALIZED FORM.

Basis of Allotment

Subject to the provisions contained in this Draft Letter of Offer, the Articles of Association of the Company and the approval of the Designated Stock Exchange, the Board will proceed to allot the Equity Shares in the following order of priority:

(a) Full allotment to those Equity Shareholders who have applied for their rights entitlement either in full or in part and also to the renouncee(s) who has/ have applied for Equity Shares renounced in their favour, in full or in part.

(b) If the shareholding of any of the Equity Shareholders is less than ten or is not in multiples of ten, then the fractional entitlement of such holders for Equity Shares shall be consolidated. The entitlements resulting out of the consolidation of fractional entitlement shall be subscribed by and allotted to a Trust. (For further details please see the section “Terms of the Issue – Fractional Entitlements” on page 201 of this Draft Letter of Offer)

(c) Allotment to the Equity Shareholders who having applied for all the Equity Shares offered to them as part of the Issue and have also applied for additional Equity Shares. The allotment of such additional Equity Shares will be made as far as possible on an equitable basis having due regard to the number of Equity Shares held by them on the Record Date, provided there is an under-subscribed portion after making full allotment in (a) above. The allotment of such Equity Shares will be at the sole discretion of the Board/Committee of Directors in consultation with the Designated Stock Exchange, as a part of the Issue and not preferential allotment.

(d) Allotment to the renouncees who having applied for the Equity Shares renounced in their favour have also applied for additional Equity Shares, provided there is an under-subscribed portion after making full allotment in (a) and (b) above. The allotment of such additional Equity Shares will be made on a proportionate basis at the sole discretion of the Board/ Committee of Directors but in consultation with the Designated Stock Exchange, as a part of the Issue and not as a preferential allotment.

After taking into account allotment to be made under (a) and (b) above, if there is any unsubscribed portion, the same shall be deemed to be ‘unsubscribed’ for the purpose of regulation 3(1)(b) of the Takeover Code which would be available for allocation under (c) and (d) above. After considering the above allotment, if the Issue does not have subscription to the extent of 90% of the Issue size, the Promoter and the Promoter Group shall subscribe to such portion to ensure that the Issue is successful. After such allotments as above and to the Promoters and the Promoter Group, including the application for rights/renunciation and additional equity shares, any additional Equity Shares shall be disposed off by the board or committee of the Board of Directors authorised in this behalf by the Board of Directors of the Company, in such manner as they think most beneficial to the Company and the decision of the Board or committee of directors of the Company in this regard shall be final and binding. In the event of oversubscription, allotment will be made within the overall size of the issue.

Allotment to Promoters of any unsubscribed portion, over and above their entitlement shall be done in compliance with Clause 40A of the Listing Agreement and the other applicable laws prevailing at that time.

Underwriting

The present Issue is not underwritten.

Allotment/Refund

Enriching Lives

All the pay orders/refund orders and Letter(s) of Allotment/Share Certificates will be dispatched to the first named/sole applicant at his/her own risk. The Refund Orders will be payable at par in India at all the centers where the applications were originally accepted. The instruments will be marked "Account Payee Only" and in the name of the sole/first applicant. Bank charges, if any, for encashing such refund orders/pay orders will be payable by the applicants. The Company undertakes that the requisite funds will be made available to the Registrar for complying with the requirement of dispatch of refund orders/allotment letters. The Company shall ensure dispatch of refund orders of value over Rs.1,500/- by Registered Post only and adequate funds will be made available to the Registrar.

Mode of making refunds

Applicants should note that on the basis of name of the Applicants, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the CAF, the Registrar to the Issue will obtain from the Depository the Applicant's bank account details including nine digits MICR code. Hence, Applicants are advised to immediately update their bank account details as appearing on the records of the depository participant. Please note that failure to do so could result in delays in credit of refunds to Applicants at the Applicants sole risk and neither the Lead Manager nor the Bank shall have any responsibility and undertake any liability for the same. The payment of refund, if any, would be done through various modes in the following order of preference.

I. Direct Credit - For investors having their Bank Account with the Banker to the Issue, the refund amount would be credited directly to their Bank Account with the Banker to the Issue.

II. RTGS - Investors desirous of taking direct credit of refund through RTGS, will have to provide the IFSC code in the CAF.

III. ECS - Payment of refund would be done through ECS for applicants residing at one of the 15 centres, namely Ahmedabad, Bangalore, Bhuvaneshwar, Kolkata, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Mumbai, Nagpur, New Delhi, Patna and Thiruvananthapuram, where clearing houses for ECS are managed by RBI. This would be subject to availability of complete Bank Account Details including MICR code from the depository.

For all the other applicants except for whom payment of refund is possible through I, II and III, the refund orders would be dispatched "Under Certificate of Posting" for refund orders less than Rs. 1500/- and through Speed Post/ Registered Post for refund orders exceeding Rs. 1500/-.

Interest in case of delay on Allotment/Dispatch

The Company will issue and dispatch letters of allotment/ share certificates/ demat credit and/ or letters of regret along with refund order or credit the allotted securities to the respective beneficiary accounts, if any, within a period of six weeks from the Issue Closing Date. Such refund orders, in the form of MICR warrants/cheque/pay order, marked "Account payee" would be drawn in the name of a sole/first applicant and will be payable at par at all the centers where the applications were originally accepted, risk, except for those who have opted to receive refunds through the ECS facility or RTGS or Direct Credit. If such money is not repaid within eight days from the day the Company becomes liable to pay it, the Company shall pay that money with interest at the rate of 15% p.a. as stipulated under Section 73 of the Act. Letter(s) of Allotment/Refund Order(s) above the value of will be dispatched by Registered Post to the sole/first applicant's address. However, Refund Orders for values not exceeding Rs.1,500/- shall be sent to the applicants under Certificate of Posting at the applicant's sole risk at his address. The Company would make adequate funds available to the Registrar to the Issue for this purpose.

In case of those shareholders who have opted to receive their Right Entitlement Shares in dematerialised form by using electronic credit under the depository system, an advice regarding the credit of the Equity Shares shall be given separately.

In case the Company issues letters of allotment, the corresponding share certificates will be kept ready within three months from the date of allotment thereof or such extended time as may be approved by the Companies

Law Board under Section 113 of the Companies Act or other applicable provisions, if any. Allottees are requested to preserve such letters of allotment, which would be exchanged later for the share certificates. For more information, please refer to the section titled 'Letters of Allotment / Share Certificates / Demat Credit' on page no. 196 of this Draft Letter of Offer.

As regards allotment/ refund to non-residents, the following further conditions shall apply:

In case of non-residents, who remit their application monies from funds held in NRE/ FCNR accounts, refunds and/ or payment of interest/ dividend and other disbursement, if any, shall be credited to such accounts, details of which should be furnished in the CAF. Subject to the approval of the RBI, in case of non-residents, who remit their application monies through Indian Rupee draft purchased from abroad, refund and/ or payment of dividend/ interest and any other disbursement, shall be credited to such accounts (details of which should be furnished in the CAF) and will be made net of bank charges/ commission in US Dollars, at the rate of exchange prevailing at such time. The Company will not be responsible for any loss on account of exchange fluctuations for converting the Indian Rupee amount into US Dollars. The share certificate(s) will be sent by registered post at the Indian address of the non-resident applicant.

Option to receive Equity Shares in Dematerialized Form

Applicants to the Equity Shares of the Company issued through this Issue shall be allotted the securities in dematerialised (electronic) form at the option of the applicant. The Company signed tripartite agreements with National Securities Depository Limited (NSDL) and Intime Spectrum Registry Limited on August 18, 2000 and with Central Depository Services (India) Limited and Intime Spectrum Registry Limited on August 18, 2000 which enables the Investors to hold and trade in securities in a dematerialised form, instead of holding the securities in the form of physical certificates.

In this Issue, the allottees who have opted for Equity Shares in dematerialised form will receive their Equity Shares in the form of an electronic credit to their beneficiary account with a depository participant. Investor will have to give the relevant particulars for this purpose in the appropriate place in the CAF. Applications, which do not accurately contain this information, will be given the securities in physical form. No separate applications for securities in physical and/or dematerialized form should be made. If such applications are made, the application for physical securities will be treated as multiple applications and is liable to be rejected. In case of partial allotment, allotment will be done in demat option for the shares sought in demat and balance, if any, will be allotted in physical shares.

The Equity Shares of the Company will be listed on the BSE.

Procedure for availing the facility for allotment of Equity Shares in this Issue in the electronic form is as under:

- Open a beneficiary account with any depository participant (care should be taken that the beneficiary account should carry the name of the holder in the same manner as is exhibited in the records of the Company. In the case of joint holding, the beneficiary account should be opened carrying the names of the holders in the same order as with the Company). In case of Investors having various folios in the Company with different joint holders, the Investors will have to open separate accounts for such holdings. *Those equity shareholders who have already opened such Beneficiary Account (s) need not adhere to this step.*

- For equity shareholders already holding Equity Shares of the Company in dematerialized form as on the Record Date, the beneficial account number shall be printed on the CAF. For those who open accounts later or those who change their accounts and wish to receive their Equity Shares pursuant to this Offer by way of credit to such account, the necessary details of their beneficiary account should be filled in the space provided in the CAF. It may be noted that the allotment of securities arising out of this Issue may be made in dematerialized form even if the original Equity Shares of the Company are not dematerialized. Nonetheless, it should be ensured that the Depository Account is in the name(s) of the Equity Shareholders and the names are in the same order as in the records of the Company.

Responsibility for correctness of information (including applicant's age and other details) filled in the CAF vis-à-vis such information with the applicant's depository participant, would rest with the applicant. Applicants should ensure that the names of the applicants and the order in which they appear in CAF should be the same as registered with the applicant's depository participant.

If incomplete / incorrect beneficiary account details are given in the CAF the applicant will get Equity Shares in physical form.

The Equity Shares pursuant to this Offer allotted to Investors opting for dematerialized form, would be directly credited to the beneficiary account as given in the CAF after verification. Allotment advice, refund order (if any) would be sent directly to the applicant by the Registrar to the Issue but the applicant's depository participant will provide to him the confirmation of the credit of such Equity Shares to the applicant's depository account.

Renouncees will also have to provide the necessary details about their beneficiary account for allotment of securities in this Issue. In case these details are incomplete or incorrect, the application is liable to be rejected.

Utilisation of Proceeds

Subscription received against this Issue will be kept in a separate bank account(s) and the Company would not have access to such funds unless it has received minimum subscription of 90%, of the Issue and the necessary approvals of the Designated Stock Exchange, to use the amount of subscription.

General instructions for applicants

a) Please read the instructions printed on the enclosed CAF carefully.

b) Application should be made on the printed CAF, provided by the Company and should be completed in all respects. The CAF found incomplete with regard to any of the particulars required to be given therein, and/ or which are not completed in conformity with the terms of this Draft Letter of Offer are liable to be rejected and the money paid, if any, in respect thereof will be refunded without interest and after deduction of bank commission and other charges, if any. The CAF must be filled in English and the names of all the applicants, details of occupation, address, father's / husband's name must be filled in block letters.

c) The CAF together with cheque / demand draft should be sent to the Bankers to the Issue / Collecting Bank or to the Registrar to the Issue and not to the Company or Lead Manager to the Issue. Applicants residing at places other than cities where the branches of the Bankers to the Issue have been authorised by the Company for collecting applications, will have to make payment by Demand Draft payable at Pune and send their application forms to the Registrar to the Issue by REGISTERED POST. If any portion of the CAF is / are detached or separated, such application is liable to be rejected.

d) Applications for a total value of Rs. 50,000 or more, i.e. where the total number of securities applied for multiplied by the Issue price, is Rs. 50,000 or more the applicant or in the case of application in joint names, each of the applicants, should mention his/ her PAN number allotted under the Income-Tax Act, 1961 and also submit a photocopy of the PAN card(s) or a communication from the Income Tax authority indicating allotment of PAN ("PAN Communication") along with the application for the purpose of verification of the number. Bidders who do not have PAN are required to provide a declaration in Form 60 / Form 61 prescribed under the I.T. Act along with the application. **Bid cum Application Forms without this photocopy/PAN Communication/declaration will be considered incomplete and are liable to be rejected.**

e) Applicants are advised to provide information as to their savings/current account number and the name of the Company with whom such account is held in the CAF to enable the Registrar to the Issue to print the said details in the refund orders, if any, after the names of the payees. Application not containing such details is liable to be rejected.

f) The payment against the application should not be effected in cash if the amount to be paid is Rs. 20,000 or more. In case payment is effected in contravention of this, the application may be deemed invalid and the application money will be refunded and no interest will be paid thereon. Payment against the application if made in cash, subject to conditions as mentioned above, should be made only to the Bankers to the Issue.

g) Signatures should be either in English or Hindi or in any other language specified in the Eight Schedule to the Constitution of India. Signatures other than in English or Hindi and thumb impression must be attested by a Notary Public or a Special Executive Magistrate under his/ her official seal. The Equity Shareholders must sign the CAF as per the specimen signature recorded with the Company.

h) In case of an application under power of attorney or by a body corporate or by a society, a certified true copy of the relevant power of attorney or relevant resolution or authority to the signatory to make the relevant investment under this Offer and to sign the application and a copy of the Memorandum and Articles of Association and / or bye laws of such body corporate or society must be lodged with the Registrar to the Issue giving reference of the serial number of the CAF. In case these papers are sent to any other entity besides the Registrar to the Issue or are sent after the Issue Closing Date, then the application is liable to be rejected.

i) In case of joint holders, all joint holders must sign the relevant part of the CAF in the same order and as per the specimen signature(s) recorded with the Company. Further, in case of joint applicants who are renouncees, the number of applicants should not exceed three. In case of joint applicants, reference, if any, will be made in the first applicant's name and all communication will be addressed to the first applicant.

j) Application(s) received from Non-Resident/NRIs, or persons of Indian origin residing abroad for allotment of Equity Shares shall, inter alia, be subject to conditions, as may be imposed from time to time by the RBI under FEMA in the matter of refund of application money, allotment of Equity Shares, subsequent issue and allotment of Equity Shares, interest, export of share certificates, etc. In case a Non-Resident or NRI Equity Shareholder has specific approval from the RBI, in connection with his shareholding, he should enclose a copy of such approval with the CAF.

k) All communication in connection with application for the Equity Shares, including any change in address of the Equity Shareholders should be addressed to the Registrar to the Issue prior to the date of allotment in this Issue quoting the name of the first / sole applicant Equity Shareholder, folio numbers and CAF number. Please note that any intimation for change of address of Equity Shareholders, after the date of allotment, should be sent to the Registrar and Transfer Agents of the Company Intime Spectrum Registry Limited in the case of Equity Shares held in physical form and to the respective depository participant, in case of Equity Shares held in dematerialized form.

l) Split forms cannot be re-split.

m) Only the person or persons to whom Equity Shares have been offered and not renouncee(s) shall be entitled to obtain split forms.

n) Applicants must write their CAF number at the back of the cheque / demand draft.

o) Only one mode of payment per application should be used. The payment must be either in cash or by cheque / demand draft drawn on any of the banks, including a co-operative bank, which is situated at and is a member or a sub member of the Bankers Clearing House located at the centre indicated on the reverse of the CAF where the application is to be submitted.

p) A separate cheque / draft must accompany each CAF. Outstation cheques / demand drafts or post-dated cheques and postal / money orders will not be accepted and applications accompanied by such cheques / demand drafts / money orders or postal orders will be rejected. The Registrar will not accept payment against application if made in cash. (For payment against application in cash please refer point (f) above)

q) No receipt will be issued for application money received. The Bankers to the Issue / Collecting Bank/ Registrar will acknowledge receipt of the same by stamping and returning the acknowledgment slip at the bottom of the CAF.

Grounds for technical rejections

Applicants are advised to note that applications are liable to be rejected on technical grounds, including the following:

- Amount paid does not tally with the amount payable for;
- Bank account details (for refund) are not given;
- Age of First Applicant not given;
- PAN photocopy/ PAN Communication/ Form 60 / Form 61 declaration not given if Application is for Rs. 50,000 or more;
- In case of Application under power of attorney or by limited companies, corporate, trust, etc., relevant documents are not submitted;
- If the signature of the existing shareholder does not match with the one given on the Application Form and for renouncees if the signature does not match with the records available with their depositories;
- If the Applicant desires to have shares in electronic form, but the Application Form does not have the Applicant's depository account details;
- Application Forms are not submitted by the Applicants within the time prescribed as per the Application Form and the Letter of Offer;
- Applications not duly signed by the sole/joint Applicants;
- Applications by OCBs unless accompanied by specific approval from the RBI permitting the OCBs to invest in the Issue;
- In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Applicants (including the order of names of joint holders), the Depositary Participant's identity (DP ID) and the beneficiary's identity;
- Applications by US persons;

Applications by ineligible Non-residents (including on account of restriction or prohibition under applicable local laws) and where last available address in India has not been provided.

Mode of payment for Resident Equity Shareholders/ Applicants

- All cheques / drafts accompanying the CAF should be drawn in favour of the Collecting Bank (specified on the reverse of the CAF), crossed 'A/c Payee only' and marked 'Name of the Bank A/c Kirloskar Ferrous Industries Limited Rights Issue'
- Applicants residing at places other than places where the bank collection centres have been opened by the Company for collecting applications, are requested to send their applications together with Demand Draft for

the full application amount favouring the Bankers to the Issue, crossed ‘A/c Payee only’ and marked ‘Name of the Bank A/c Kirloskar Ferrous Industries Limited Rights Issue’ payable at Pune directly to the Registrar to the Issue by registered post so as to reach them on or before the Issue Closing Date. The Company or the Registrar to the Issue will not be responsible for postal delays or loss of applications in transit, if any.

Mode of payment for Non-Resident Equity Shareholders/ Applicants

As regards the application by non-resident equity shareholders, the following further conditions shall apply:

Payment by non-residents must be made by demand draft / cheque payable at Pune or funds remitted from abroad in any of the following ways:

Application with repatriation benefits

- By Indian Rupee drafts purchased from abroad and payable at Pune or funds remitted from abroad (submitted along with Foreign Inward Remittance Certificate); or

- By cheque/draft on a Non-Resident External Account (NRE) or FCNR Account maintained in Pune; or

- By Rupee draft purchased by debit to NRE/ FCNR Account maintained elsewhere in India and payable in Pune; or FIIs registered with SEBI must remit funds from special non-resident rupee deposit account.

Application without repatriation benefits

As far as non-residents holding shares on non-repatriation basis is concerned, in addition to the modes specified above, payment may also be made by way of cheque drawn on Non-Resident (Ordinary) Account maintained in Pune or Rupee Draft purchased out of NRO Account maintained elsewhere in India but payable at Pune. In such cases, the allotment of Equity Shares will be on non-repatriation basis.

All cheques/drafts submitted by non-residents should be drawn in favour of the Bankers to the Issue and marked ‘Name of the Bank A/c Kirloskar Ferrous Industries Limited Rights Issue – NR’ payable at Pune and must be crossed ‘A/c Payee only’ for the amount payable. The CAF duly completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on or before the Issue Closing Date. A separate cheque or bank draft must accompany each CAF.

Applicants may note that where payment is made by drafts purchased from NRE/ FCNR/ NRO accounts as the case may be, an Account Debit Certificate from the bank issuing the draft confirming that the draft has been issued by debiting the NRE/ FCNR/ NRO account should be enclosed with the CAF. Otherwise the application shall be considered incomplete and is liable to be rejected.

New demat account shall be opened for holders who have had a change in status from resident Indian to NRI.

Note:

- In case where repatriation benefit is available, interest, dividend, sales proceeds derived from the investment in Equity Shares can be remitted outside India, subject to tax, as applicable according to Income Tax Act, 1961.

- In case Equity Shares are allotted on non-repatriation basis, the dividend and sale proceeds of the Equity Shares cannot be remitted outside India.

- The CAF duly completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on or before the Issue Closing Date. A separate cheque or bank draft must accompany each CAF.

- In case of an application received from non-residents, allotment, refunds and other distribution, if any, will be made in accordance with the guidelines/ rules prescribed by RBI as applicable at the time of making such allotment, remittance and subject to necessary approvals.

Disposal of application and application money

No acknowledgment will be issued for the application moneys received by the Company. However, the Bankers to the Issue / Registrar to the Issue receiving the CAF will acknowledge its receipt by stamping and returning the acknowledgment slip at the bottom of each CAF.

The Board reserves its full, unqualified and absolute right to accept or reject any application, in whole or in part, and in either case without assigning any reason thereto.

In case an application is rejected in full, the whole of the application money received will be refunded. Wherever an application is rejected in part, the balance of application money, if any, after adjusting any money due on Equity Shares allotted, will be refunded to the applicant within six weeks from the close of the Issue.

For further instruction, please read the Composite Application Form (CAF) carefully.

Important

- Please read this Draft Letter of Offer carefully before taking any action. The instructions contained in the accompanying Composite Application Form (CAF) are an integral part of the conditions of this Draft Letter of Offer and must be carefully followed; otherwise the application is liable to be rejected.

- All enquiries in connection with this Draft Letter of Offer or accompanying CAF and requests for Split Application Forms must be addressed (quoting the Registered Folio Number/ DP and Client ID number, the CAF number and the name of the first Equity Shareholder as mentioned on the CAF and superscribed 'Kirloskar Ferrous Industries Limited - Rights Issue' on the envelope) to the Registrar to the Issue at the following address:

- It is to be specifically noted that this Issue of Equity Shares is subject to the section titled 'Risk Factors' beginning on page viii of this Draft Letter of Offer.

The Issue will not be kept open for more than 30 days unless extended, in which case it will be kept open for a maximum of 60 days.

Enriching Lives

MAIN PROVISIONS OF ARTICLES OF ASSOCIATION

Capitalised terms used in this section have the meaning that has been given to such terms in the Articles of Association.

Shares to be under control of the Directors

Article 5 provides that subject to the provisions of the Act and the Articles, the shares in the capital of the Company for the time being shall be under the control of the Directors who may allot or otherwise dispose of the same or any of them to such persons, in such proportion and on such terms and conditions and either at a premium or at par or (subject to compliance with the provisions of Section 79 of the Act) at a discount and at such times as they may from time to time think fit. Option or right to call of shares shall not be given to any person without the sanction of the Company in General Meeting.

Acceptance of shares

Article 7 provides that an application signed by or on behalf of an applicant for shares in the Company, followed by an allotment of any shares therein shall be an acceptance of shares within the meaning of the Articles, and every person who thus or otherwise accepts any shares and whose name is on the Register of Members shall for the purpose of the Articles be a member. The Directors shall comply with the provisions of Section 69,70,72,73 and 74 of the Act in so far as applicable.

Deposits and calls, etc. to be a debt payable immediately

Article 8 provides that the money (if any) which the Directors shall, on the allotment of any shares being made by them, require or direct to be paid by way of deposit, call or otherwise in respect of any shares allotted by them, shall immediately, on the insertion of the name of the allottee in the Register of Members as the name of the holder of such shares become a debt due to and recoverable by the Company from the allottee thereof, and shall be paid by him accordingly.

Instalment on shares to be duly paid

Article 9 provides that if by the condition of allotment of any shares the whole or part of the amount or issue price thereof shall be payable by instalments every such instalment shall, when due, be paid to the Company by the person who, for the time being and from time to time, shall be the registered holder of the share or his legal representative.

Calls on shares of same class to be made on uniform basis

Article 10 provides that where any calls for further capital are made on shares, such calls shall be made on a uniform basis on all shares, falling under the same class.
Explanation: - For the purpose of this provision shares of the same nominal value on which different amounts have been paid up shall not be deemed to fall under the same class.

Trusts not recognized

Article 13 provides that the save as herein otherwise provided, the Company shall be entitled to treat the person whose name appears on the Register of Members as the holder of any share as the absolute owner thereof and accordingly shall not (except as ordered by a Court of competent jurisdiction or as by law required) be bound to recognize any benami, trust or equity or equitable, contingent future or partial or other claim or right to or interest in such share on the part of any other person whether or not it shall have expressed or implied notice thereof. The provisions of Section 153 of the Act shall apply.

Calls

Article 17 provides that the Directors may from time to lime and subject to Section 91 of the Act make such calls as they think fit upon the members in respect of all moneys unpaid on the shares held by them respectively and not by the conditions of allotment thereof made payable at fixed times and each member shall pay the amount of every call so made on him to the persons and at the time and place appointed by the Directors. A call may be made payable by instalments.

Amount payable at fixed time or by instalments as calls

Article 21 provides that if by the terms of issue of any share or otherwise any amount is made payable on allotment at any fixed time or by instalments at fixed times, (whether on account of the amount of the share or by way of premium), every such amount or instalment shall be payable as if it were a call duly made by the Directors and of which due notice has been given, and all the provisions herein contained in respect of calls shall relate to such amount or instalments accordingly.

When interest on call or instalment payable

Article 22 provides that if the sum payable in respect of any call or instalment be not paid on or before the day appointed for payment thereof the holder for the time being or allottee of the share in respect of which a call shall have been made or the instalment be due shall pay interest for the same at such rate as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment but the Directors may waive payment of such interest wholly or in part.

Partial payment not to preclude forfeiture

Article 23 provides that neither a judgment nor a decree in favour of the Company for calls or other moneys due in respect of any shares nor any part payment or satisfaction thereof nor the receipt by the Company of a portion of any money which shall from time to time be due from any member in respect of any shares either by way of principal or interest nor any indulgence granted by the Company in respect of payment of any such money shall preclude the forfeiture of such shares as herein provided.

If call or instalment not paid, notice must be given

Article 26 provides that if any member fails to pay the whole or any part of any call or instalment on any money due in respect of any shares either by way of principal or interest on or before the day appointed for the payment of the same, the Directors may at any time thereafter during such time as the call or instalment or any part thereof or other moneys remain unpaid or a judgment or decree .in respect thereof remains unsatisfied in whole or in part, serve a notice on such member or on the person (if any) entitled to the share by transmission requiring him to pay such call or instalment or such part thereof or other moneys as remain unpaid together with any interest that may have accrued and all expenses that may have been incurred by the Company by reason of such non-payment.

In default of payment shares to be forfeited

Article 28 provides that if the requisitions of any such notice as aforesaid are not complied with, any of the shares in respect of which such notice has been given may, at any time thereafter before payment of all calls or instalments, interest and expenses or other money due in respect thereof, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonus declared in respect of the forfeited shares and not actually paid before the forfeiture.

Surrender of shares

Article 33 provides that the Directors, may, subject to the provisions of the Act, accept a surrender of any shares from or by any member desirous of surrendering them on such terms as they think fit.

Company's lien on shares

Article 34 provides that the Company shall have a first and paramount lien upon all the shares (other than fully paid shares) registered in the name of each member (whether solely or jointly with others) and upon the proceeds of sale thereof for all moneys called or payable at a fixed time in respect of such shares and no equitable interest in any share shall be created except upon the footing and condition that Article 13 hereof is to have full effect. And such lien shall extend to all dividends from time to time declared in respect of such shares. Unless otherwise agreed, the registration of a transfer of shares shall operate as a waiver of the Company's lien, if any, on such shares.

As to enforcing lien by sale

Article 35 provides that for the purpose of enforcing such lien the Board of Directors may sell the shares subject thereto in such manner as they think fit, but no sale shall be made unless a sum in respect of which the lien exists is presently payable and until notice in writing of the intention to sell shall have been served on such member, his executors or administrators or his committee, curator, bonis or other legal representative as the case may be and default shall have been made by him or them in the payment of the sum payable as aforesaid for seven days after the date of such notice.

Application of proceeds of sale

Article 36 provides that the net proceeds of the sale shall be received by the Company and applied in or towards payment of such part of the amount in respect of which the lien exists as is presently payable and the residue, if any, shall be paid to such member, his executors or administrators or assigns or his committee, curator, bonis or other legal representative as the case may be.

Maintenance of records of transfers and transmission of shares

Article 39 provides that the Company shall keep such records in respect of each transfer and transmission of shares as may be necessary and expedient, either on computer, or otherwise as may be decided by the Board of Directors from time to time.

Directors may refuse to register

Article 42(i) provides that subject to the provisions of Section 22A of the Securities Contracts (Regulation) Act, 1956, the Directors may, at their own absolute and uncontrolled discretion and without assigning any reason, decline to register or acknowledge any transfer of shares and the right of refusal shall not be affected by the fact that the proposed Transferee is already a member of the Company. The registration of a transfer shall be conclusive evidence of the approval by the Directors of the transfer. Registration of a transfer shall not be refused on the ground of the transferor being either alone or jointly with any other person or persons indebted to the Company on any account whatsoever accept a lien on the shares.

Article 42 (ii) provides that if, in pursuance of any such power or otherwise when the Directors refuse to register any such transfer or transmission of right, they shall, within one month from the date on which the instrument of transfer or the intimation of such transmission, as the case may be, was delivered to the Company, send notice of the refusal to the transferee and the transferor or to the person giving intimation of such transmission as the case may be.

Closure of Register of Members

Article 45 provides that the Directors shall have power to give notice by advertisement as required by Section 154 of the Act, to close the Register of Members of the Company as they may deem fit.

Title of Shares of deceased holder

Article 46 provides that the executors or Administrators or the holder of a Succession Certificate of a deceased member (whether European, Hindu, Mohammedans, Parsi or otherwise, not being one or two or more joint holders) shall be the only persons whom the Company will be bound to recognize as having any title to the shares registered in the name of such member and the Company shall not be bound to recognize such Executors or Administrators or holders of a Succession Certificate unless such Executors or Administrators or holders of a Succession Certificate shall have first obtained Probate or Letters of Administration or a Succession Certificate as the case may be, from a duly constituted competent Court in India; provided that in any case where the Directors in their absolute discretion think fit, the Directors may dispense with the production of Probate or Letters of Administration or a Succession Certificate and under the next Article register the name of any person who claims to be absolutely entitled to the shares standing in the name of deceased member, as a member.

Registration of persons entitled to shares otherwise than by Transfer (Transmission clause)

Article 47 provides that any person becoming entitled to any share in consequence of the death, lunacy, bankruptcy or insolvency of any member or by any lawful means other than by a transfer in accordance with these presents, may with the consent of the Directors (which they shall not be under any obligation to give) upon producing such evidence that he sustains the character in respect of which he proposes to act under this Article or of his title, as the Directors shall require, either be registered himself as a member in respect of such shares or elect to have some person nominated by him and approved by the Directors registered as a member in respect of such shares : Provided nevertheless that if such person shall elect to have this nominee registered, he shall testify his election by executing in favour of his nominee an instrument of transfer in accordance with the provisions herein contained and until he does so, he shall not be freed from any liability in respect of such shares. This Article is herein referred to as ‘the Transmission Clause’.

Refusal to register nominee

Article 49 provides that subject to the provisions of Section 22A of the Securities Contracts (Regulation) Act, 1956, the Directors shall have the same right to refuse to register a person entitled by transmission to any shares or his nominee as if he were the Transferee named in an ordinary transfer presented for registration. The Directors shall in case of such refusal comply with the provisions of Section 111 (1) of the Act.

Issue, Transfer Transmission of Shares under the Depositories Act

Article 52 A provides that the provisions of the Depositories Act shall apply in respect of the issue, transfer and transmission of shares held by a Member with a Depository.

Joint Holders

Article 53 provides that where two or more persons are registered as the holders of any share they shall be deemed (so far as the Company is concerned) to hold the same as joint tenants with benefits of survivorship subject to the following and other provisions contained in the Articles.

Company may refuse to register more than three persons

Article 53 (a) provides that the Company shall be entitled to decline to register more than three persons as the holders of any share.

Joint and several liabilities

Article 53 (b) provides that the Joint holders of any share shall be liable severally as well as jointly for and in respect of all calls or instalments and other payments which ought to be made in respect of such shares.

Votes of joint holders

Article 53(f) provides that any one of two more joint holders may vote at any meeting either personally or by an agent duly authorized under a power of attorney or by proxy in respect of such share as if he were solely entitled thereto and if more than one of such joint holders be present at any meeting personally or by proxy or by attorney that one of such persons so present whose name stands first or higher (as the case may be) on the Register of Members in respect of such share shall alone be entitled to vote in respect thereof.

Provided always that a person present at any meeting personally shall be entitled to vote in preference to a person, present by an agent, duly authorized under power of attorney or by proxy although the name of such person present by an agent or proxy stands first or higher in the Register in respect of such shares; several executors or administrators of a deceased member in whose (deceased members) sole name any share stands shall for the purposes of this sub- clause be deemed joint holders.

Power to borrow

Article 54 provides that subject to the provisions of Section 292 and 293 of the Act, the Directors may from time to time at their discretion borrow any sum or sums of money for the purpose of the Company.

Conditions on which money may be borrowed

Article 55 provides that the Directors may raise and secure the payment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular by the issue of bonds, perpetual or redeemable debentures or debenture-stock or any mortgage or charge or other security on the undertaking of the whole or any part of the property of the Company (both present and future) including its uncalled capital for the time being.

Bonds, Debentures, etc. to be subject to control of Directors

Article 56 provides that any bonds, debentures, debenture-stock or other securities issued or to be issued by the Company shall be under the control of the Directors who may issue them upon such terms and conditions and in such manner and for such consideration as they shall consider to be for the benefit of the Company.

Indemnity may be given

Article 60 provides that if the Directors or any of them or any other person shall become personally liable for the payment of any sum primarily due from the Company, the Directors may execute or cause to be executed any mortgage, charge or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the Directors or persons so becoming liable as aforesaid from any loss in respect of such liability.

Calling of Extraordinary General Meeting

Article 61 provides that the Directors may call an Extraordinary General Meeting whenever they think fit.

No business without Quorum

Article 62 (a) provides that no business shall be transacted at any General Meeting unless the quorum requisite be present at the commencement of the business.

Business confined to election of Chairman whilst Chair vacant

Article 62 (b) provides that no business shall be discussed or transacted at any General Meeting except the election of a Chairman whilst the Chair is vacant.

Chairman of General Meeting

Article 62(c) provides that the Chairman of the Board of Directors or in his absence, the Vice-Chairman shall be entitled to take the Chair at every General Meeting. If either the Chairman or Vice- Chairman is not present at any meeting within 15 minutes after the time appointed for holding such meeting or is unwilling to act, the Directors present may choose a Chairman and in default of their doing so, the members present shall choose one of the Directors to be the Chairman and if no Director present be willing to act, then the members present shall choose one of their members to be the Chairman.

Proxies

Article 64 provides that any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person (whether a member or not) as his proxy to attend and vote instead of himself but a proxy so appointed shall not have any right to speak at the meeting. Provided that except where the proxy is appointed by a body corporate a proxy shall not be entitled to vote except on a Poll.

Votes

Article 65 provides that subject to the provisions of the Act upon show of hands every member entitled to vote and present in person shall have one vote and upon a poll the voting rights of members shall be as laid down in section 87 of the Act.

No voting by proxy on show of hands

Article 66 provides that no member not personally present shall be entitled to vote on a show of hands unless such member is a body corporate present by proxy or by a representative duly authorised under Section 187 of the Act in which case such proxy or representative may vote on a show of hands as if he were a member of the Company.

Vote in respect of shares of deceased, insolvent members

Article 67 provides that subject to the provisions of the Act and other provisions of the articles, any person entitled under the transmission clause to transfer any shares may vote at any General Meeting in respect thereof as if he was the registered holder of such shares: Provided that at least 48 hours before the time of holding the meeting or adjourned meeting as the case may be at which he proposes to vote he shall satisfy the Directors of his right to transfer such shares unless the Directors shall have previously admitted his right to vote at such meeting in respect thereof.

Number of Directors

Article 73 provides that the number of Directors shall not be less than 3 or more than 12 including the Debenture Director and Corporation Director, if any.

Corporation Director

Article 74 provides that so long as any moneys be owing by the Company to any Financial Corporation or institution owned and controlled by the Central Government or a State Government or the Reserve Bank of India, or by two or more of them, the Directors may authorize such Financial Corporation or Institution to appoint from time to time any person/s as Director/s of the Company and may agree that such Director/s shall not be liable to retire by rotation and need not possess any qualification shares to qualify him/them for the office of such Director/s and that such Financial Corporation or Institution may from time to time remove any such Director/s and reappoint any person/s in his/their place subject to Section 255 and other applicable provisions, if any, of the Companies Act, 1956.

Debenture Director

Article 75 provides that any trust deed for securing debentures or debenture-stock may, if so arranged, provide for the appointment from time to time by the Trustees thereof or by the holders of debentures or/debenture-stock of some person to be a Director of the Company and may empower such Trustees or holders of debentures or Debenture-stock from time to time to remove and reappoint any Director so appointed. The Director appointed under this Article is herein referred to as the 'Debenture Director' and the term 'Debenture Director' means the Director for the time being in office under this article. The Debenture Director shall not be bound to hold any qualification shares and shall not be liable to retire by rotation or be removed by the Company. The Trust Deed may contain such ancillary provisions as may be arranged between the Company and the Trustees and all such provisions shall have effect notwithstanding any of the other provisions herein contained.

Qualification of Director

Article 76 provides that the Directors shall not be required to hold any qualification shares.

Remuneration of Director

Article 77 provides that the remuneration of a Director for his services shall be such a sum as may be fixed by the Directors within the ceiling prescribed in the Companies Act, 1956 for each meeting attended by him, and such additional remuneration as may be fixed by the Directors in accordance with the provisions in the Companies Act, 1956, and such additional remuneration may be paid to any one or more of their number for services rendered by him or them.

Commission to Directors

Article 80 provides that the directors may be paid commission (if any) as the Company in general Meeting may from time to time subject to the provisions of the Act determine and such commission shall he divided among the Directors in such proportion and manner as the Directors may from time to time determine and in default of such determination within the year equally.

Directors may contract with Company.

Article 82 provides that subject to the restrictions imposed by these articles and by Sections 292, 293. 294, 295, 297, 300, 314, 370 and 372 of the Act, no Director or other officer or employee of the Company shall he disqualified by his office from contracting with the Company either as vendor, purchaser, agent, broker or otherwise, nor shall any such contract or any contract or arrangement entered into by or on behalf on the Company in which any Director, or officer or employee shall be in any way interested be avoided nor shall the Director or any officer or employee so contracting or being so interested be liable to account to the Company for any profit realized by any such contract or arrangement by reason only of such Director, or officer or employee holding that office or of the fiduciary relation thereby established but the nature of his or their interest must be disclosed by him or them in accordance with the provisions of Section 299 of the Act where that Section shall be applicable.

Directors may be directors of Companies promoted by the Company.

Article 83 provides that a Director, officer or employee of this Company may be or become Director of any Company promoted by this Company or in which it may be interested as a Vendor, member or otherwise and no such Director shall be accountable for any benefits received as Director or member of such Company except to the extent and under the circumstances as may be provided in the Act.

Meeting of Directors

Article 84 provides that the Directors may meet together as a Board for the dispatch of business, adjourn and otherwise regulate their meetings, as they think fit.

When meeting to be convened

Article 85 provides that a Director may and the Manager or Company Secretary on the requisition of a Director shall at any time summon a meeting of the Board of Directors.

Directors may appoint committee

Article 91 provides that subject to Section 292 of the Act, the Directors may delegate any of their powers to committees consisting of such member or members of their body as they think fit, and they may from time to time revoke such delegation. Any Committee so formed shall in the exercise of the powers so delegated, conform, to any regulations that may from time to time be imposed on it by the Directors and subject thereto may regulate its own procedure.

Additional Directors and casual vacancies

Article 92 provides that subject to the provisions of Section 260, 261, 262 and 284 of the Act the Directors shall have power at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board but so that the total number of Directors shall not exceed the maximum number fixed by the Articles.

An additional Director appointed pursuant to this Article shall hold office only up to the date of the next Annual General Meeting of the Company but shall be eligible for re-election thereat. Any person appointed to fill a casual vacancy pursuant to this Article shall hold office only up to the date up to which the Director in whose place he is appointed would have held office if it had not been vacated.

Specific powers given to Directors

Article 94 provides that without prejudice to the general powers conferred by the Act and so as not in any way to limit or restrict any or all those powers, it is hereby expressly declared that subject as aforesaid, the Directors shall have the following powers: -

1. To pay the costs, charges and expenses, preliminary and incidental to the promotion, formation establishment and registration of the Company.
2. To pay and charge to the capital account of the Company any interest lawfully payable they're out under the provisions of Section 208 of the said Act.
3. To purchase or otherwise acquire for the Company any property, rights or privileges which the Company is authorised to acquire at such price and generally on such terms and conditions as they think fit.
4. To acquire by purchase, lease or in exchange or otherwise lands, buildings, hereditaments, machinery rights, privileges or properties movable and immovable.
5. To erect, construct, enlarge, improve, alter, maintain, pull down, rebuild or reconstruct any buildings, factories, offices, workshops or other structures necessary or convenient for the purpose of the Company and to acquire lands for the purposes of the Company.
6. To let, mortgage, charge, sell or otherwise dispose of, subject to the provisions of Section 293 of the Act any property of the Company either absolutely or conditionally and in such manner and upon such terms and conditions in all respects as they think fit and to accept payment or satisfaction for the same in cash or otherwise, on the security of the properties mortgaged or charged in favour of the Corporation without the previous consent of the Corporation in writing.
7. At their discretion to pay for any property rights or privileges acquired by or services rendered to the Company either wholly or partially in cash or in shares, bonds, debentures, debenture-stock or other securities of the Company and any such shares may be issued either as fully paid up or with such amount credited as paid up thereon as may be agreed upon; and any such bonds debentures, debenture-stock or other securities may be either specifically charged upon all or any part of the property of the Company and its uncalled capital or not so charged.
8. To insure and keep insured against loss or damage by fire or otherwise for such period and to such extent as they may think proper all or any part of the buildings, machinery, goods, stores, produce and other movable property of the Company either separately or co-jointly; also to insure all or any portion of the goods, produce, machinery and other articles imported or exported by the Company and to sell, assign, surrender or discontinue any policies of assurance effected in pursuance of this power.

Enriching Lives

9. Subject to Section 292 of the Act, to open accounts with any Bank or Bankers or with any Company, firm or individual and to pay money into and draw money from any account from time to time as the Directors may think fit.
10. To secure the fulfilment of any contracts or engagements entered into by the Company by mortgage or charge of all or any of the property of the Company and its unpaid capital for the time being or in such other manner as they may think fit.
11. To attach to any shares to be issued as the consideration or part of the consideration for any contract with or property acquired by the Company, or in payment for service rendered to the Company, such conditions subject to the provisions of the Act as to the transfer thereof as they think fit.
12. To accept from any member on such terms and conditions as shall be agreed a surrender of his shares or stock or any part thereof subject to the provision of the Act.
13. To appoint any person or persons (whether incorporated or not) to accept and hold in trust for the Company any property belonging to the Company or in which it is interested or for any other purposes and to execute and do all such deeds and things as may be requisite in relation to any such trust and to provide for the remuneration of such Trustee or Trustees.
14. To institute, conduct, defend, compound or abandon any legal proceedings by or against the Company or its officers or otherwise concerning the affairs of the Company and also subject to the provisions of Section 293 of the Act to compound and allow time for payment or satisfaction of any debts, dues or of any claims or demands by or against the Company.
15. To refer, subject to the provisions of Section 293 of the Act, any claims or demands by or against the Company to arbitration and observe and perform the awards.
16. To act on behalf of the Company in all matters relating to bankrupts and insolvents.
17. To make and give receipts releases and other discharges for moneys payable to the Company and for the claims and demands of the Company subject to the provisions of Section 293 of the Act.
18. To determine from time to time who shall be entitled to sign on the Company's behalf bills, notes, receipts, acceptances, endorsements, cheques, dividend warrants, releases, contracts and documents.
19. Subject to the provisions of Section 292 and 293 of the Act, to invest and deal with any of the moneys of the Company not immediately required for the purposes thereof upon such shares, securities or investments (not being shares in this Company) and in such manner as they may think fit, and from time to time to vary or realize such investments.
20. To execute in the name and on behalf of the Company in favour of any Director or other person who may incur or be about to incur any Personal liability for the benefit of the Company such mortgages of the Company's property present and future as they think fit and any such mortgage may contain a power of sale and such other powers, covenants and provisions as shall be agreed on.
21. Subject to such sanction as may be necessary under the Act or the articles to give to any Director, officer or other person employed by the Company, an interest in any particular business or transaction either by way of commission on the gross expenditure thereon or otherwise and such interest or commission shall be treated as part of the working expenses of the Company.
22. To provide for the welfare of employees or ex-employees of the Company and the wives, widows and families of the dependents or connections of such persons by building or contributing to the building of houses, dwellings or chawls or by grants of money, pensions, allowances, bonus or other payments or by creating and from time to time subscribing or contributing to provident and other associations, institutions, funds or trusts and by providing or subscribing or contributing towards places of instructions and recreation, hospitals and dispensaries, medical and other attendances and other assistance as the Directors shall think fit and to subscribe or contribute or otherwise to assist or to guarantee money to charitable, benevolent, religious, scientific, national or any other institutions or objects which shall have any moral or other claim to support or aid by the Company either by reason of locality of operation or of public and general utility or otherwise.
23. To subscribe or contribute or otherwise to assist or guarantee money to public, political and any other institutions, funds, objects or purposes which in the opinion of the Board of Directors are likely to promote the interest of the business of the Company or to further its objects and/or to charitable and other funds not directly relating to the business of the Company or the welfare of its employees or for any exhibition.
24. Before recommending any dividend to set aside out of the profits of the Company, such sums as they think proper for depreciation or to Depreciation Fund or Reserve Fund or Sinking or any other Special fund to meet contingencies or to repay redeemable preference Shares/debentures or/debenture-stock or for

special dividends or for equalizing dividends or for repairing, improving, extending and maintaining any part of the property of the Company and for such other purposes as the Directors may, in their absolute discretion think conducive to the interests of the Company notwithstanding that the matters to which the Directors apply or upon which they may expend the same or any part thereof may be matters to or upon which the capital moneys of the Company might rightly be applied or expended; and to divide the Reserve Fund into such Special Funds, as the Directors think fit and to employ the assets constituting all or any of the above funds, including the Depreciation Fund, in the business of the Company or in repayment of redemption of Redeemable preference Shares, debentures or debenture-stock and that without being bound to keep the same separate from others bound to pay interest on the same, with power, however, to the Directors at their discretion to pay or allow to the credit of such Fund interest at such Fund interest at such rate as the Directors may think proper.

25. To appoint and at their discretion to remove or suspend such Managers, Secretaries, Officers, Clerks, Agents and Servants for permanent, temporary or special service as they may from time to time think fit, and to determine their powers and duties, and fix their salaries or emoluments and require security in such instances and to such amounts as they may think fit. And from time to time to provide for the management and transaction of the affairs of the Company in any special locality in India in such manner as they think fit and the provisions contained in clauses 24 and 25 of this article followed shall be without prejudice to the general powers conferred by this clause.
26. To comply with the requirements of any local law which in their opinion, it shall in the interests of the Company be necessary or expedient to comply with.
27. To establish any Local Board for managing any of the affairs of the Company in any specified locality in India or elsewhere and to appoint any persons to be members of any Local Boards and to fix their remuneration and from time to time and at any time but subject to Section 292 of the Act, to delegate to any person so appointed any of the powers, authorities and discretions for the time being vested in the Directors, other than their powers to make calls and to authorize the members for the time being of any such Local Board, or any of them to fill up any vacancies therein and to act notwithstanding vacancies and any such appointment or delegation may be made
28. on such terms and subject to such conditions as the Directors may think fit and the Directors may at any time remove any person so appointed and may annul or vary any such delegation. Any such delegates as aforesaid may be authorized by the Directors to sub-delegate all or any of the powers, authorities and discretions for the time being vested in them.
29. At any time and from time to time by power of attorney to appoint any person or persons to be the attorney or attorneys, of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors) under these presents and for such period and subject to such conditions as the Directors may from time to time think fit and any such appointment (if the Directors think fit) be made in favour of the members or any of the members of any Local Board established as aforesaid or in favour of any Company or the Members, Directors, Nominees or Managers of any Company or firm or otherwise in favour of any fluctuating body or persons whether nominated directly or indirectly by the Directors and any such power of attorney may contain any such powers for the protection or convenience of person dealing with such attorneys as the Directors may think fit, and may contain powers enabling any such delegates or attorneys as aforesaid to sub-delegate all or any of the powers, authorities and discretions for the time being vested in them.
30. Subject to the provisions of the Act generally and from time to time and at any time to authorize, empower or delegate to (with or without powers of such delegation) any officer or officers or employee for the time being of the Company all or any of the powers, authorities and discretions for the time being vested in the Directors by these presents, subject to such restrictions and conditions, if any as the Directors may think proper.
31. To enter into all such negotiations and contract and rescind and vary all such contracts and do execute and do all such acts, deeds and things in the name and on behalf of the Company as they may consider expedient for or in relation to any of the matters aforesaid or otherwise for the purposes of the Company.
32. To enter into partnership with any other Company, firm, individual and to accept profits, liabilities and exercise rights on behalf of the Company.

Appointment of Managing Director or Whole Time Directors(s)

Article 95 provides that subject to the provisions of Sections 197A, 267, 268, 269, 309, 310, 311, 316 and 317 and other applicable provisions of the Act, the Company in General Meeting or the Directors may from time to time appoint any one or more of their body to be a Managing Director or Managing Directors (in which expression shall be included a Joint Managing Director or a Deputy Managing Director) or Whole Time Director or Whole Time Directors of the Company for such term not exceeding five years at a time as may be thought fit to manage the business and affairs of the Company and may from time to time (Subject to the provisions of any contract between him or them and the Company) remove or dismiss him or them from such office and appoint another or others in his or their place or places.

Remuneration of Managing Director or Whole Time Directors

Article 97 provides that the remuneration of a Managing Director or Whole Time Director shall subject to the provisions of any contract between the Company and him be from time to time fixed by the Board of Directors and subject to the provisions of the Act, may be by way of fixed salary or commission on profit of the Company, or by any or all these modes and may be in addition to the remuneration for attendance at the Board Meetings and any other remuneration which may be provided under any other Articles.

Powers and duties of Managing or Whole Time Director(s)

Article 98 provides that the Directors may from time to time subject to the provisions of the Act entrust to or confer upon the Managing Director or Whole time Director for time being such of the powers exercisable by the Directors under these presents or by law, as they may think fit, and may confer such powers for such time and to be exercised for such objects and purposes and upon such terms and conditions and with such restrictions as they think fit, and they may confer such powers either collaterally with or to the exclusion of or in substitution for all or any of the powers of the Directors in that behalf and may from time to time revoke, withdraw, alter or vary all or any of such powers.

Without prejudice to the generality of foregoing provisions of these Articles of Association and subject to the superintendence, direction and control of the Board of Directors of the Company and subject to the provisions of the Act and subject to the restrictions imposed by the Act on exercise by the Managing Director of his powers, the Managing Director shall have the general-conduct and management of the whole of the business and affairs of the Company except in matters which may be specifically required to be done by the Board of Directors either by the Act or by the Articles in particular and without in any way restricting the general powers hereinbefore conferred, the Managing Director shall subject as aforesaid, have and exercise on behalf of the Company the powers conferred, by the Agreement or Board Resolution appointing the Managing Director and by the Articles from time to time and by the Directors from time to time.

Division of profits

Article 100 provides that the profit of the Company subject to any special rights relating thereto created or authorized to be created by the Memorandum and the Articles and subject to the provisions of the articles shall be divisible among the members in proportion to the amount of capital paid up on the shares held by them respectively.

Dividend not to be paid except to registered shareholders

Article 101 provides that no dividend shall be paid by the Company in respect of any share except to the registered holder of such share or to his order or to his Banker.

Dividend to be paid within 42 days

Article 102 provides that where a dividend has been declared by the Company it shall be paid within forty-two (42) days from the date of the declaration except as provided in Section 207 of the Act.

Capital paid up in advance at interest not to earn dividend

Article 103 provides that where the capital is paid up in advance of calls upon the footing that the same shall carry interest such capital shall not, whilst carrying interest confer a right to participate in profits.

Dividend in proportion to amount paid up

Article 104 provides that the Company shall pay dividends proportion to the amount paid up or credited as paid up on each share, where a larger amount is paid up or credited as paid up on some of the shares than on others.

Power of Directors to limit dividend

Article 106 provides that no larger dividend shall be declared than is recommended by the Directors but the Company in General Meeting may declare a smaller dividend.

Dividend to be paid only out of profits

Article 107 provides that no dividend shall be declared or paid by the Company for any Financial Year except out of the profits of the Company for that year arrived at after providing for depreciation in accordance with the provision of Section 205 or out of undistributed profits for any previous Financial Year or years arrived at after providing for such depreciation in accordance with the provisions of Section 205 and remaining undistributed or out of both or out of moneys provided by the Central Government or a State Government for the payment of dividend in pursuance of a guarantee given by the Government. No dividend shall carry interest as against the Company.

Declaration as to net profits

Article 108 provides that the declaration of the Directors as to the amounts of the net profits of the Company shall be conclusive.

Interim dividends

Article 109 provides that the Directors may, from time to time pay to the members such interim dividend as in their judgment the position of the Company justifies. The provisions of Articles 103 and 104 shall apply in regard to payment thereof.

Retention of dividend until completion of transfer

Article 110 provides that the Directors may retain the dividends payable upon shares in respect of which any person is under the Transmission Clause entitled to become a member of which any person under that clause is entitled to transfer until such person shall become a member in respect of such shares or shall duly transfer the same.

Transferred shares must be registered

Article 112 provides that subject to the provisions contained in Section 206A of the Companies Act, 1956, transfer of share shall not pass the right to any dividend declared thereon before the registration of the transfer.

Dividends how remitted

Article 113 provides that unless otherwise directed, any dividend may be paid by cheque or warrant sent through post to the registered address of the member or person entitled or in case of joint holders to that one of them first named in the register in respect of the joint holding. Every such cheque or warrant so sent shall be made payable to the order of the person to whom it is sent. The Company shall not be liable or responsible for any cheque a warrant lost in transmission or for any dividend lost to the member or person entitled thereto by the forged endorsement of any cheque or warrant or the fraudulent or improper recovery thereof by any other means.

Unclaimed dividend

Article 114 provides that no unclaimed dividend shall be forfeited by the Board and all unpaid or unclaimed dividends shall be dealt with in accordance with the provisions of Section 205A of the Act.

Distribution of assets

Article 121 provides that subject to the provisions of the Act, if the Company shall be wound up and the assets available for distribution among the members as such shall be sufficient to repay the whole of the paid up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up, on the shares held by them respectively. And if in winding up the assets available for distribution among the members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members in proportion to the capital at the commencement of the winding up, paid up or which ought to have been paid up on the shares held by them respectively. But this Article is to be without prejudice to the rights of the holders of shares issued upon special terms and conditions.

Rights of shareholders in case of sale

Article 123 provides that Subject to the provisions of the Act, a Special Resolution sanctioning a sale to any other Company duly passed may, in like manner as aforesaid, determine that any shares or other consideration receivable by the Liquidators be distributed amongst the members otherwise than in accordance with their existing rights and any such determination shall be binding upon all the members subject to the rights of dissent and consequential rights, if any, such rights be given by the Act.

MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following contracts (not being contracts entered into in the ordinary course of business carried on by us or entered into more than two years before the date of this Draft Letter of Offer) which are or may be deemed material have been entered or are to be entered into by us. These contracts and also the documents for inspection referred to hereunder, may be inspected at the Registered Office of the Company situated at Laxmanrao Kirloskar Road, Khadki, Pune – 411003 from 11.00 a.m. to 2.00 p.m. from the date of this Draft Letter of Offer until the date of closure of the Subscription List.

A) Material contracts

1. Memorandum of Understanding between the Company and Enam Financial Consultants Private Limited dated September 25, 2006.
2. Memorandum of Understanding between the Company and Intime Spectrum Registry Limited dated September 28, 2006.

B) Documents

1. Memorandum and Articles of the Company.
2. Certificate of Incorporation of the Company dated September 10, 1991
3. Shareholders Resolution passed at the Annual General Meeting held on August 5, 2005 appointing M/s P.G. Bhagwat as statutory auditors for the Financial Year 2004-2005.
4. Board of directors' resolution dated June 10, 2005 and Shareholders Resolution dated August 5, 2005 approving reduction in equity share capital including copy of the High Court Order.
5. Copies of the Resolutions of the Board and/or the Committee dated May 24, 2006 and September 28, 2006 , respectively, approving this Issue and all matters related thereto.
6. Copy of the Shareholders' Resolutions dated September 20, 2003 and May 24, 2006 approving terms of appointment and remuneration to the Managing Director, respectively.
7. Valuation reports pertaining to the Objects of the Issue.
8. Letter received from KOEL regarding sale of KCD to our Company.
9. Consents of the Directors, Auditors, Lead Manager to the Issue, Legal Counsel to the Issue, Bankers to the Company, Bankers to the Issue and Registrars to the Issue, Company Secretary, Compliance Officer to include their names in the Draft Letter of Offer to act in their respective capacities.
10. Appointment of Company Secretary as Compliance Officer for the Issue
11. The Report of the Auditors as set out herein dated September 28, 2006 in relation to the restated financials of the Company for the last five Financial Years.
12. Annual Report of the Company for the last five Financial Years.
13. Copy of listing application dated [●] filed by our Company with the BSE for its in-principle approval.
14. In-principle listing approval dated [●] from BSE.
15. Observation Letter No. [●] dated [●] issued by SEBI for the Issue.
16. Due Diligence Certificate dated September 29, 2006 from Enam Financial Consultants Private Limited.

17. Tripartite Agreements dated August 18, 2000 between the Company and Intime Spectrum Registry Limited and NSDL.

18. Tripartite Agreements dated August 18, 2000 between the Company and Intime Spectrum Registry Limited and CDSL.

19. Copy of the Prospectus dated December 17, 1993 issued by our Company during the initial public offering.

DECLARATION

No statement made in this Draft Letter of Offer contravenes any of the provisions of the Companies Act, 1956 and the rules made thereunder. All the legal requirements connected with the said issue as also the guidelines, instructions etc. issued by SEBI, Government and any other competent authority in this behalf have been duly complied with.

Yours faithfully
On behalf of the Board of Directors of Kirloskar Ferrous Industries Limited

Atul C. Kirloskar Chairman	Sanjay C. Kirloskar Director
R. V. Gumaste Managing Director	A. R. Jamenis Director
S. N. Inamdar Director	C. V. Tikekar Director
S. G. Chitnis Director	A. N. Alawani Director

R.S. Srivatsan
Senior General Manager-Finance

Place: Pune
Date: 28 September , 2006

Enclosure: Composite Application Form