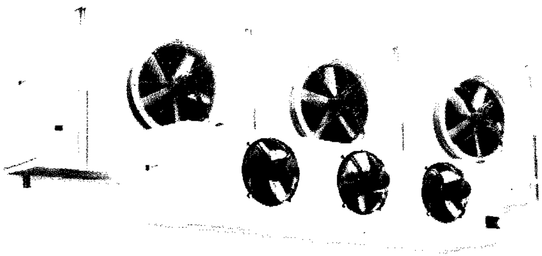
Annual Report 2011

Alfa Laval (India) Limited

Products - class of their own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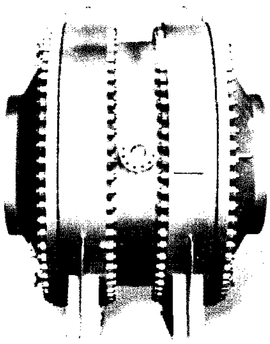
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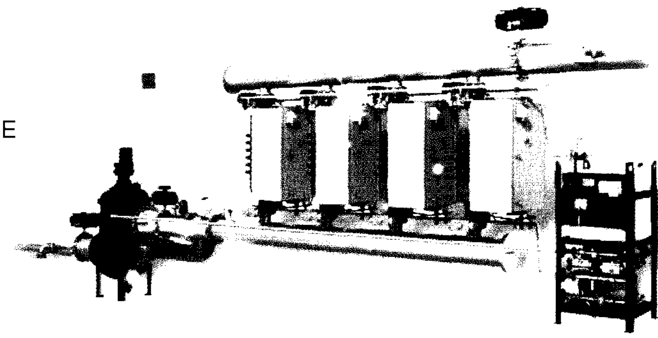
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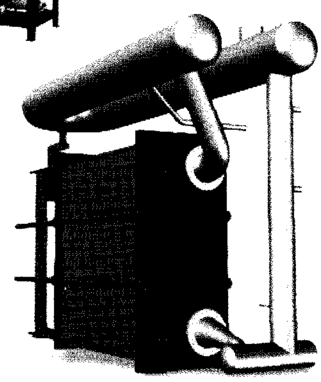
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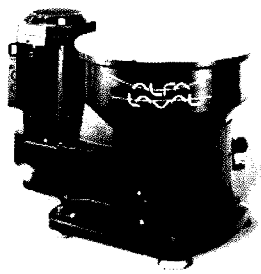
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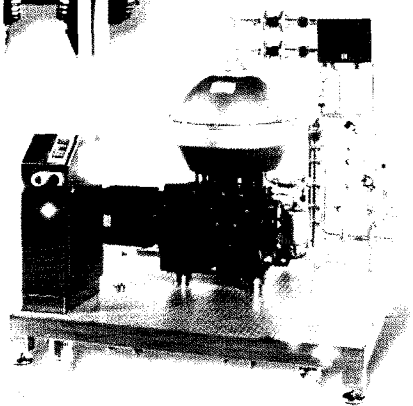
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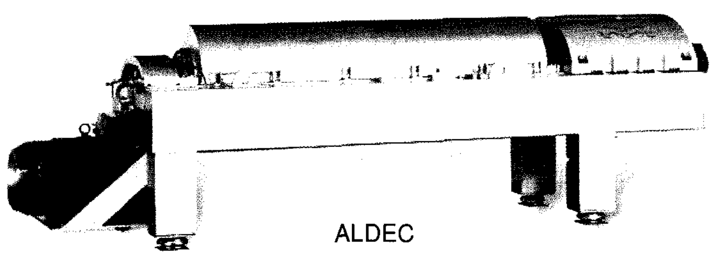
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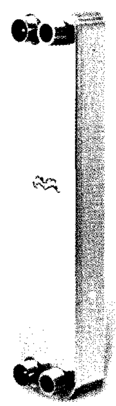
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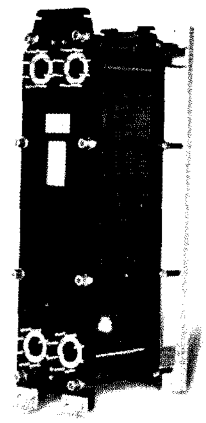
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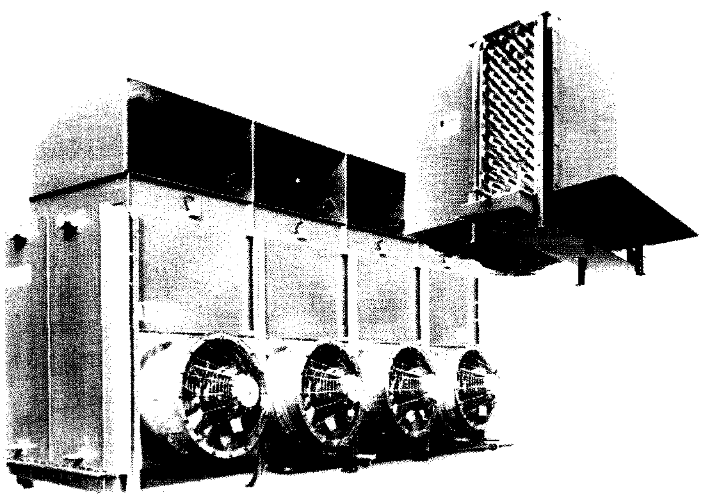
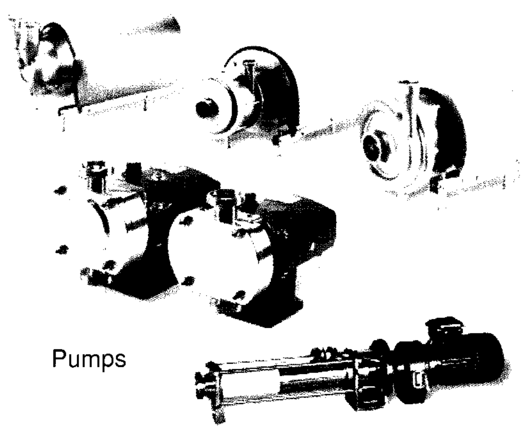

Blast Freezer


Pumps

CHAIRMAN EMERITUS

Kamaljit Singh

DIRECTORS

Giuseppe Falciola, Chairman

Ashok M. Advani (upto 25.04.2012)

Kewal Handa (upto 25.04.2012)

Ravi Krishnamurthi (upto 25.04.2012)

Ray Field

Jose Hernanz, Managing Director

SECRETARY

V. Chandrasekhar

BANKERS

- Bank of India
- Standard Chartered Bank
- Bank of Maharashtra
- Industrial Development Bank of India Limited
- The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISERS

Crawford Bayley & Co.

AUDITORS

S.R. Batliboi & Associates

REGISTERED OFFICE

Mumbai Pune Road, Dapodi, Pune 411012

Phone : (020) 27107100, 66119100

HEAD OFFICE

Office No. 301, 302, 401, 402, Global Port,
Mumbai Bangalore Highway,
Baner, Pune 411045

Phone : 020 67341100

Home Page: www.alfalaval.com

SHARE TRANSFER AGENTS

Link Intime India Private Limited

Block No. 202, 2nd floor, Akshay Complex,
Dhole Patil Road, Pune 411001

Phone : 020 26160084, 26161629

Fax : 020 26160503

Email : pune@linkintime.co.in

MANUFACTURING SITES

- Dapodi, Pune 411012
- E-7/E-8, MIDC Estate, Satara - 415004
- Gat Nos. 30 to 33 & 74 to 82 Sarole Veer Road, Sarole 412205 Tal. Bhor, Dist. Pune

SALES & SERVICE NETWORK

Bangalore	Kanpur
Baroda	Kochi
Chandigarh	Kolkata
Chennai	Mumbai
Dhaka, Bangladesh	New Delhi
Hyderabad	Pune
Indore	Visakhapatnam
Jamshedpur	

CUSTOMER SERVICE CENTER

Plot No. R-674, MIDC Rebale
TTC Industrial Area, Post Ghansoli,
Navi Mumbai 400701

C-6, Industrial Estate
S.No. 39, Kapparada Village
Dwarakanagar, Visakhapatnam

As a measure of economy the practice of distributing copies of the Annual Report at the Annual General Meeting has been discontinued. Members are, therefore, requested to bring their own copies of the Report to the Meeting

Directors' Report

Dear Members,

The Board of Directors have pleasure in presenting herewith their 74th Annual Report together with the Audited Accounts of the Company for the year ended 31st December, 2011.

Operations And Financial Results

In the wake of an uncertain business environment that pervaded during the year under review, the order intake, in the aggregate, moved past the 10 billion rupee mark to Rs 11,126.59 M (2010 : Rs 9,052.87 M) registering an increase of about 23% over the previous year with some major orders from the Food industry and a very good flow of business from the Principals. The healthy order backlog at the commencement of the year helped in augmentation of the sales revenues which also crossed the ten billion rupee mark to reach Rs.11,541.74 M (2010: Rs.8,360.34 M) reflecting an increase of about 38% year on year. With exchange gain, export benefits and profit on sale of mutual fund investments boosting the other income, the total income for the year was at Rs.11,950.74 M (2010:Rs.8,592.33 M). While the earnings before depreciation, interest and taxation regained the two billion rupee mark, the overall profitability could not grow in line with the sales turnover growth due to higher provisioning and incidence of higher costs.

The financial performance of the Company for the year 2011 was as under:-

(Rs. in million)

Particulars	2011		2010	
Gross profit for the year after meeting all operating expenses but before depreciation, interest and taxation		**2,044.16**		1,790.49
Less:				
a) Interest	**0.62**		5.30	
b) Depreciation	**139.34**		127.10	
		139.96		132.40
Profit before tax		**1,904.20**		1,658.09
Less: Provision for taxation				
a) Income tax	**658.30**		620.25	
b) Deferred tax	**(59.57)**		(49.47)	
c) Prior period tax (reversal) / expense	**--**		6.00	
d) Wealth tax	**0.10**		0.10	
		598.83		576.88
Profit after taxation		**1,305.37**		1,081.21

Dividend

The Board of Directors of the Company had declared an interim dividend of Rs.30/- per equity share in December 2011 which together with the tax thereon aggregated to Rs.631.09 M (2010:Rs.633.54 M) out of the distributable surplus. Considering this as an appropriate dividend distribution for the year under review, no final dividend is recommended by the Board.

Appropriations

After setting aside the amount of Rs.631.09 M (2010:Rs.633.54 M) for interim dividend including dividend distribution tax and after transferring an amount of Rs.131.00 M (2010:Rs.109.00 M) to General Reserve, the balance amount of Rs.2,762.02 M (2010:Rs.2,218.74 M) is being retained in the Profit and Loss account.

Delisting Of Equity Shares:

The Company had received a communication from Alfa Laval Corporate AB, Sweden, the Promoter, informing of its decision to seek a voluntary delisting of the equity shares of the Company from the stock exchanges on which they are presently listed, being Bombay Stock Exchange Limited and National Stock Exchange of India Limited in accordance with the Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009 with the objectives of obtaining full ownership of the Company and of providing an exit opportunity to the public shareholders. This was followed up with further communications by the Promoter conveying the floor price of Rs.2,045/- per equity share and an indicative offer price of Rs.2,850/- per equity share. The Promoter who currently holds 88.77% of the paid-up equity share capital of the Company is proposing to acquire from the Public shareholders the outstanding 2,040,202 Equity Shares constituting 11.23% of the paid-up equity share capital of the Company through a reverse book building process scheduled to be conducted between February 15, 2012 and February 22, 2012 which will determine the exit price for the Promoter to decide thereon. The acquisition of the equity shares by the Promoter is conditional upon a minimum of 1,020,101 equity shares being tendered at or below the exit price so as to cause the Promoter's shareholding to increase to 94.38% of the paid-up equity share capital of the Company. Meanwhile, the Company has applied for and obtained the in-principle approval from the above Stock Exchanges for the proposed voluntary delisting of the equity shares of the Company.

Foreign Exchange Earnings And Outgo

The good flow of orders from the Principals towards the later part of 2010 and at the commencement of the year under review boosted the export turnover to Rs.4,735.14 M (2010: Rs.2,609.15 M) registering a significant increase over the previous year.

Details of foreign exchange spent and earned are given in Schedule 15 forming part of the Accounts under Note Nos.20(viii) and 20(ix) respectively.

Prospects

The current business environment lacks optimism and points towards some testing times especially with the uncertainty over policy reforms and downside risk of high interest rates. While the Company comprehends the market potential for the products and process solutions that emanate from its portfolio and has put in place strategies focusing on improving the market share through introduction of newer and efficient models of products, new applications and multiple channel selling, the uncertain business environment makes it difficult to predict the prospects. In such a scenario, the Company is looking ahead for a successful performance to be derived from its strengths barring unforeseen contingencies.

With the intention to continue to invest in expansion of its capacities and for enhancing the effectiveness of its factories, a sizeable capital expenditure is proposed for the current year besides development of infrastructure to achieve optimum productivity.

Conservation Of Energy

Energy conservation is being pursued with considerable focus and commitment by the Management. The Company is progressively replacing the roofs of its factories with FRP sheets for sufficient natural light and dispensing with the need for switching on the lights during daytime. The factories are equipped with turbo ventilators for maintaining fresh air at ambient temperature all the time. The lighting system at all places carry energy efficient fittings to reduce energy consumption. The pipelines carrying compressed air across the Company are monitored for leakages to improve the efficiency of the compressors and thereby a reduction in energy consumption. The evaporative cooling system with insulated roof in place of airconditioners is helping the Company to reduce the load on the power infrastructure. Awareness on power savings has been spread throughout the Company by way of appropriate signboards at prominent locations. Besides, the provision of power factor panels in the circuit has not only ensured continuous and quality power for the factory sites but has also led to considerable savings in the energy bills. Efforts are continued to monitor the power consumption with a view not only to generate savings in the energy bills but also to reduce the wastage of energy in all forms.

Absorption Of Technology

The Company has been periodically introducing newer models of decanters, separators and heat exchangers while phasing out their older models for a variety of applications with suitable technological inputs from the Principals. During the last five years, technology absorption in respect of separators, heat exchangers and decanters for a variety of applications has been successful leading to indigenisation of certain high value critical components.

Directors

Mr. Peter Leifland resigned from the Board with effect from 27th July, 2011 as he wanted to devote a considerable time and attention to his new role at the Centre. The Board place on record their warm appreciation of the contribution made by Mr. Peter Leifland during his short tenure as a member of the Board.

Mr. Ray Field was appointed as a Director with effect from 27th July, 2011 in the casual vacancy caused by the resignation of Mr. Peter Leifland.

Directors' Responsibility Statement

In accordance with the requirements of Section 217(2AA) of the Companies Act, 1956, the Board of Directors confirm that:-

In the preparation of the annual accounts for the year ended 31st December, 2011, the applicable accounting standards had been followed along with proper explanation relating to material departures;

The accounting policies, which have been selected, have been applied consistently and judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st December, 2011 and of the profit of the Company for the year ended on that date;

Proper and sufficient care have been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

The annual accounts for the year ended 31st December, 2011 have been prepared on a going concern basis.

Employees

Employee relations continue to be cordial. The Board wishes to place on record their appreciation for the services rendered by the employees of the Company at all levels.

None of the employees of the Company was in receipt of remuneration in excess of the limits prescribed under Section 217(2A) of the Companies Act, 1956.

Auditors

The Auditors, M/s. S.R. Batliboi & Associates, Chartered Accountants, retire, are eligible for re-appointment and have expressed their willingness to serve, if re-appointed.

Corporate Governance

In terms of the Listing Agreement, as applicable for the year under review, Management Discussion and Analysis Report is annexed and forms part of the Annual Report. A report on Corporate Governance along with the Auditors' Certificate on its compliance is also annexed forming part of the Annual Report.

Acknowledgement

The Board places on record their appreciation of the contribution of the customers, suppliers and all other stakeholders towards the performance of the Company during the year under review.

For and on behalf of the Board of Directors,

Giuseppe Falciola
Chairman

Place : Pune
Dated : 9th February, 2012

Management Discussion And Analysis Report

Industry structure & Development

The end of 2010 and the beginning of 2011 saw some glimpses of stability in the world economy after one of the worst financial crisis of this age. However, things started deteriorating quickly with the onset of civil unrest in many nations in Africa and the Middle East and the deepening sovereign debt crisis in Europe which had a cascading effect on the rest of the globe including India. Though the Indian economy continued to outperform most emerging markets during the fiscal year 2010-11 retaining its position as amongst the fastest growing economies, as the year 2011 rolled out, the price pressures on oil and commodities together with the persistently high inflation and standstill economic reforms evidently decelerated the investment activities thereby slowing down the growth rate which is considered reasonable under the circumstances. The slow down had its effect on the performance of the manufacturing sector which in turn dented the industrial production. The farm sector development has been good with adequate rainfall across the country and could probably help lessening the impact of lower GDP projections.

With the global market environment and the domestic investment climate far from conducive, the performance of capital goods took a beating in view of the slackening pace of implementation of new projects eventhough they could be seen in the channel. This had an impact on the Company's order profile eventhough the Company could, as a whole, improve upon its order intake year on year. However, considering the investments on the anvil, the capital goods sector could have a significant role which could set off a resurgence of the manufacturing sector especially with the proposed unveiling of the National Manufacturing Policy. The Company's wide spectrum of products and process solutions should provide the Company a good platform to evolve a suitable business pattern to sustain the steady rate of growth in this period of uncertainty while the continuous technological advances of the Company's Principals as a part of its efforts to offer products more suited to the needs of the customer could boost the prospects as and when the economy turns for the better.

Opportunities

Equipment Division

Equipment Division, responsible for the sale of high speed separators, heat exchangers, decanters, self cleaning filters and flow equipment caters to the requirements of highly diversified industries in the domestic market. The Division also accounts for the export of the above products to the Principals.

While the year 2011 witnessed good progress both on the domestic and export fronts, strategies towards regaining market share and creating new business opportunities directly and indirectly have been put in place with a view to stimulate further growth which would follow through in the current year.

Process Technology Division

The Process Technology Division of the Company leverages the three core technologies of separation, heat exchange and fluid handling with the Company specific Drying and Evaporation technology, local fabrication expertise and project engineering skills to offer products and engineered solutions to varied industries.

The slackening pace of implementation of new projects and expansions that set in 2010 continued through 2011. The Company could, however, sustain its business on the back of some major orders from the food industry. The wide spectrum of industries that this Segment caters to, indicates towards retaining today's level of business under the current business environment.

Parts and Service

Parts and Service division which caters to the customers of both the above Segments continues to focus on service while driving towards improving the availability of spare parts. The Company has a well established sales and service network providing closest proximity to the customers and consequently good response time to their demands. . The focus on service business does also support the Company's efforts to persuade its customers for upgradation/replacement for optimum performance of their processes thereby paving the way for the installation of the latest and cost efficient solutions and associated models of products. The Company is also constantly enhancing the technical competence of its service force to render prompt and quality service besides looking to provide value added services to boost its business potential.

Segmentwise performance

Equipment Division

The order intake of the Equipment Division in the domestic market developed well thereby pushing along the sales revenues for the year 2011. With a significant increase in the flow of orders from the Principals and the Parts & Service business also looking up, the sales revenues of the Equipment Division moved up by about 39% over the previous year. The order book of the Division at the end of the year was reasonably good.

Total revenue of the Equipment Division for the year ended 31st December, 2011 was Rs.5,381.07 M representing about 46.62% of the total revenues. This segment earned a profit before unallocated expenses and tax of Rs.831.96 M. The capital employed for this segment was Rs.2,125.41 M.

Process Technology Division

In the light of the uncertain business environment, the order intake for the year under review was sluggish with some of the market segments facing tough challenges. The tracking of the large installed base continued to aid the Parts and Service business. In this scenario, the spill over of deliveries of the previous year helped in augmentation of the sales revenues for the year 2011 by about 45% year on year. With the order intake for the year 2011 not growing, the order book of the Division at the end of the year dropped down.

Total revenue of the Process Technology Division for the year ended 31st December, 2011 was Rs.6,160.67 M representing about 53.38% of the total revenues. This segment earned a profit before unallocated expenses and tax of Rs.901.99 M. The capital employed for this segment was Rs.1,013.16 M.

Outlook

The market potential for the Company's offerings both by way of products and process solutions seems positive and the strategies for enhancing the market share through introduction of newer and efficient models of products, new applications and multiple channel selling are in place for the challenges ahead. It is known that the gap between demand and supply is widening which calls for scaling up the productivity through capital investments. However, with the uncertain business environment, enjoined by the lack of major policy reforms and high interest rates, there is a clog in the investment activities resulting into lower business opportunities for the Company. In such a scenario, it is difficult to predict the outlook for the current year though the Company is looking ahead for a successful performance to be derived from its strengths barring unforeseen contingencies.

Risk and Concern

While the stakes in the Projects business continue to be high considering the long gestation period it also brings along the inherent risks like variations in input prices, adverse development at customers' end leading to project delays, prolonged project management, performance issues, impact on profitability etc. Though every care is taken to mitigate the impact of any adverse element, the inherent nature of projects business cannot be devoid of such elements.

Business from certain sectors feature prominently in the Company's business plan and any reversal of business cycle in such sectors could cause an imbalance in the Company's business volumes.

Though the Company's products and process solutions are technically well proven and the Company is a leading player in most of the business segments, the competition is quite handful not only from the local companies forging tie-ups with the technology providers from abroad but also from the international companies through the import route and through their own manufacturing facilities. The increasing options for the customers are leading to a cut-throat competition where the pricing still assumes a lot of significance and wins over technology and in such circumstances retaining market share will be a big challenge for the Company.

The Company's exports, major portion of which accounts for supplies to the Principals, now constitute a relevant portion of the total sales turnover. In this scenario, the developments in global economy are always the driving force behind the export performance of the Company. The currency risk is an inherent part of doing exports business and with the usual volatility attached to the exchange rates in line with global developments, the Company is exposed to exchange rate fluctuations despite the Company's well defined and conservative forex management policy.

Financial performance vis-a-vis operational performance

I. Financial performance:

Total income for the year under review was at Rs.11,950.74 M. The profit before interest, depreciation and tax was Rs.2,044.16 M. After providing Rs.0.62 M for interest, Rs.139.34 M for depreciation and Rs.598.83 M for taxation, the net profit for the year was Rs.1,305.37 M. While the book value of the Company's shares stood increased to Rs.269.64, the earning per share moved up to Rs.71.88 on the back of the rise in profitability. The return on shareholders' funds and the return on total capital employed was 26.66% and 38.89% respectively.

II. Operational performance

The significant increase in the flow of orders from the Principals and some major orders from the food industry boosted the aggregate order inflow for the year past the ten billion rupee mark while the healthy order backlog at the beginning of the year aided the Company to cross the ten billion rupee milestone in the sales revenues also for the first time in the history of the Company. The Parts and Service business riding on the back of the large installed base, also registered a good growth on both the fronts. With the aggregate order inflow for the year at Rs.11,126.59 M, the order book at the end of the year stood at Rs.7,024.93 M.

A sizeable capital expenditure is proposed for the current year mainly for enhancing the efficiencies of the manufacturing facilities besides development of infrastructure to achieve optimum productivity.

The Company is also striving for enhancement of efficiency of certain processes given the complexities involved. Besides, other business tools in the direction towards a seamless work environment are also in advanced implementation stage which should help to serve the Company's customers in a more efficient manner.

With a view to give more thrust to the various market segments and enhance the competence image in the eyes of the customer some changes were implemented which has now got its roots and efforts are in progress to strengthen the same in line with its strategies for the challenge ahead.

Internal control system & their adequacy

The Company has established an adequate system of internal controls commensurate to the size and nature of the Company's business. The internal control system, while ensuring protection of company's assets and adherence to the policies, rules and guidelines, is focussed on processes to ensure integrity of the Company's financial accounting and reporting processes and compliance with the Company's legal obligations besides providing for automatic checks and balances. The ERP system has been finetuned for achieving the desired objective.

The Company has a well defined risk management programme for identifying and mitigating risks across all the functions which is reviewed by the Board of Directors of the Company periodically.

The Company engages independent internal Auditors who conduct periodical audits to ensure adequacy of internal control systems, adherence to management policies and compliance with the law and regulations of the country. The Reports of such audits are sent to the Management which studies and takes corrective actions where appropriate, and are further placed before the Audit Committee for their review. From time to time, the Company arranges for audit of some of the key business processes and the recommendations coming out of this process are taken for implementation in right earnest. The Company also intends to strengthen the internal audit system to cover not only the transactions but also the key processes.

The Audit Committee, chaired by an independent Director conducts periodical meetings with the Management, internal auditors and representatives of the Company's statutory auditors to review the internal audit programme, recommendations of the Statutory Auditors and the Management's responses thereto besides reviewing the financial information and other issues related to the Company's operations.

Material development in HR front

During the year under review 197 new employees including 70 Graduate Trainee engineers joined the Company. The Company's overall headcount as at 31st December 2011 was 1230 after taking into account the resignations and retirement.

Through the year, the Company focused on competence development across the Managerial cadre engaging them on several training programs for better career growth opportunities within and across the sales companies in Alfa Laval Group. Leadership development program is progressing well for shaping up the current leaders in the Company for the future. The Company is also working on the development of career path aligned to the roles and competencies for optimum and efficient use of the available resources.

The industrial relations remained cordial at all locations of the company. During the year under review, wage agreements with the staff union at Pune and with the workmen at Sarole were signed. The Unions continue to interact with the Management to nurture conducive work environment.

Cautionary statement

This report contains some forward looking statements based on the data available with the Company and on certain assumptions having regard to the economic conditions, government policies, political developments within and outside the country, factors governing the selling and marketing of its equipment. The Company does not guarantee the accuracy of the assumptions and the projected performance of the Company in future. Actual results may differ from those expressed or implied herein.

REPORT ON CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PHILOSOPHY

The Company's philosophy as stated in its earlier reports, is to adhere to the values of good governance on a consistent basis aimed at creation of long term sustainable value for all its stakeholders, be it internal or external, while meeting its relevant obligations. The Company is also guided by the corporate governance rules laid down by Alfa Laval Group in the conduct of its business. The Company Management places considerable emphasis on compliance therewith aimed at providing good governance.

1. BOARD OF DIRECTORS

A. Composition:

The business of the Company is managed by the Managing Director subject to the superintendence and direction of the Board of Directors. The composition of the Board of Directors of the Company is in conformity with the Code of Corporate Governance under the Listing Agreement. Details of the Board of Directors and their directorships/memberships in Committees of other companies (excluding the Company) are as under:-

Name of Director	Category	No. of Directorships in other companies including private limited companies / foreign companies		Committee Memberships	
		Chairman	Member	Chairman	Member
Mr. Giuseppe Falciola[1] Chairman	Non-Executive	1[2]	-	-	-
Mr. Ashok M. Advani	Non-Executive & Independent	1	1	-	2
Mr. Kewal Handa	Non-Executive & Independent	-	3	-	3
Mr. Ravi Krishnamurthi	Non-Executive & Independent	-	-	-	-
Mr. Peter Leifland[3]	Non-Executive	-	1[2]	-	-
Mr. Ray Field[4]	Non-Executive	7[2]	11[2]	-	-
Mr. Jose Hernanz, Managing Director	Executive	-	-	-	-

1 Nominated by the Promoter under Article 146 of the Articles of Association.
2 Represents foreign companies
3 Ceased to be Director with effect from 27th July, 2011 .
4 Appointed as Director with effect from 27th July, 2011.