

Cummins India Limited

38th Annual Report and Statement of Accounts for the year ended 31st March, 1999

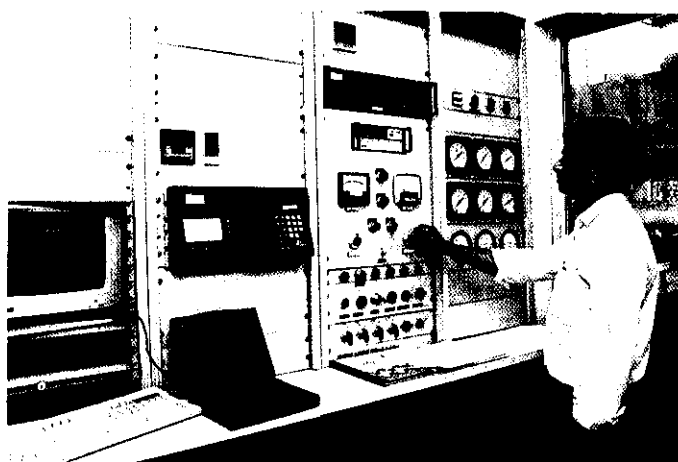
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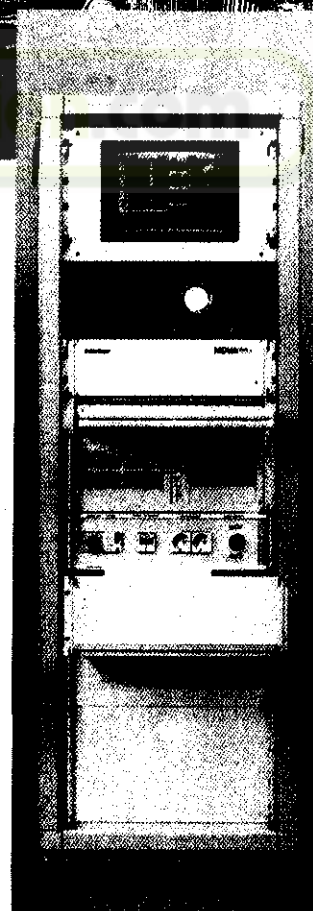
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THIRTY-EIGHTH ANNUAL REPORT-1999**BOARD OF DIRECTORS :**

Mr. R.L. Moore (Chairman & Managing Director)
 Mr. S.M. Chapman
 Mr. P.S. Dasgupta
 Mr. J.L. Deshmukh
 Mr. M.A. Levett
 Mr. B.H. Reporter
 Mr. T. Satterthwaite
 Mr. J.T. Dewing
 Mr. Y.S. Joshi (Alternate Director)
 Mr. S.D. Hires
 Mr. P.Y. Gurav (Alternate Director)

BANKERS :

STATE BANK OF INDIA
 UNION BANK OF INDIA
 THE SHAMRAO VITHAL
 CO-OPERATIVE BANK LIMITED
 THE SARASWAT CO-OPERATIVE
 BANK LIMITED
 BANK OF MAHARASHTRA
 BANK OF BARODA
 STATE BANK OF HYDERABAD
 HDFC BANK LIMITED
 CITIBANK, N.A.
 BANQUE NATIONALE
 DE PARIS
 BANK OF AMERICA

Report  Junction.com**SOLICITORS :**

J.B. DADACHANJI & CO.
 Jeevan Vihar, 1st Floor
 3, Parliament Street
 New Delhi 110 001

AUDITORS :

A.F. FERGUSON & CO.
 Chartered Accountants
 Allahabad Bank Buildings
 Bombay Samachar Marg
 Mumbai 400 001

ARTHUR ANDERSEN
 & ASSOCIATES
 19th Floor, Express Towers
 Nariman Point
 Mumbai 400 021

PHONE : (020) 335435, 330240
 FAX : (91) 020-337125

REGD. OFFICE : KOTHRUD, PUNE 411 029.

Cummins India Limited

SUMMARY OF TEN YEARS WORKING

(Rs. '000)

Particulars	1998-99	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91	1989-90
Net sales	6,451,441	7,405,779	7,965,490	6,552,803	5,420,460	4,090,284	3,589,445	3,269,150	2,695,389	2,271,317
Other income	166,041	141,461	147,243	150,793	130,932	77,880	113,500	93,288	81,803	60,086
Total income	6,617,482	7,547,240	8,112,733	6,703,596	5,551,392	4,168,164	3,702,945	3,362,438	2,777,192	2,331,403
Raw material	4,033,724	4,690,390	5,200,558	4,253,721	3,475,711	2,477,635	2,303,724	2,070,454	1,711,678	1,531,946
Employee cost	605,809	606,820	547,514	442,476	355,755	291,805	238,274	213,571	194,514	168,064
Mfg. exps. and overheads	452,486	611,085	607,688	470,145	386,663	332,629	284,497	267,600	217,223	175,323
Adm., selling and other exps.	199,750	218,074	219,746	210,828	198,438	183,880	165,402	154,468	119,246	93,377
Profit before interest, depreciation and tax	1,325,713	1,420,871	1,537,227	1,326,426	1,134,825	882,215	711,048	656,345	534,531	362,693
Interest	35,129	69,356	93,747	112,958	125,545	187,949	223,840	170,641	122,186	105,771
Depreciation	221,225	199,840	191,892	163,791	150,855	148,623	143,611	95,177	90,460	85,471
Net profit before tax	1,069,359	1,151,675	1,251,588	1,049,677	858,425	545,643	343,597	390,527	321,885	171,451
Tax provision on income *	321,448	328,910	451,206	416,773	335,709	205,114	157,193	210,044	131,546	62,390
Net profit after tax on income	747,911	822,765	800,382	632,904	522,716	340,529	186,404	180,483	190,339	109,061
Dividend	158,400	158,400	138,600	118,800	99,000	79,200	66,000	66,000	52,800	52,800
Additional Income tax on proposed dividend	17,424	15,840	13,860	—	—	—	—	—	—	—
Export	1,288,389	1,467,757	1,264,417	1,046,380	1,017,781	1,083,144	616,374	505,238	465,083	339,772

* After adjustment of Excess/Short provision for prior years

Conversion Table

Rs. 100 thousand	=	Rs. 1 lakh
Rs. 1 million	=	Rs. 10 lakh
Rs. 10 million	=	Rs. 1 crore
Rs. 1 billion	=	Rs. 100 crore



THIRTY-EIGHTH ANNUAL REPORT-1999

DIRECTORS' REPORT

The Directors of Cummins India Limited have pleasure in presenting the Thirty-eighth Annual Report and the audited accounts of the Company for the year ended March 31, 1999.

FINANCIAL RESULTS :

During the year under review, sales turnover was Rs. 6,480 million (648 crores) as against Rs. 7,430 million (743 crores) during the corresponding previous year. Export earnings were Rs. 1,280 million (128 crores) as against Rs. 1,460 million (146 crores) during the corresponding previous year. Profit after tax was Rs. 747.91 million (74.79 crores).

	1998-99 (Rs. '000)	1997-98 (Rs. '000)
PROFIT :		
Profit before taxation	1,069,359	1,151,675
Net Profit after tax but before tax on proposed dividend	747,911	822,765
Additional income-tax on proposed dividend	17,424	15,840
Proposed Equity Dividend	158,400	158,400
Transferred to General Reserve	572,087	648,525

DIVIDEND :

Your Directors have recommended the payment of dividend @ 40 per cent on the Equity share capital of Rs. 396 million for the year ended March 31, 1999.

OPERATIONS :

The Company produced 7,710 engines and 39 generating sets in 1998-99. The economic slow down, which commenced in second half of 1996-97, continued throughout the year under review and was reflected in a 12.7 per cent decrease in our sales performance. The decrease in sales also includes the drop in exports due to the continued weakness of the Asian market demand for our V28 series of engines. To overcome the impact of this economic slow down on overall financial performance, your Company initiated aggressive activities focusing on expanding product offerings for export growth and cost reduction in the operations. As a result of these actions, your Company was successful in increasing the Profit Before Tax (PBT) as a per cent of sales, from 15.5 to 16.5 per cent. These initiatives will continue.

For the Export market, your Company introduced three additional series of engines for Cummins worldwide power generation market segment; the NT/NTA 855 Big Cam, KTA 38 and a new state-of-the-art electronic engine, the QSK 60. The QSK 60 is a 60 ltr. engine and much of the development and testing work was performed by your Company. This development work is a testimonial to the technical capabilities of your Company.

The aggressive cost reduction programmes introduced in the year under review yielded significant cost savings to the Company positively affecting our financial performance. In addition, your Company accelerated the ongoing indigenisation programme for components which were being imported. These actions were taken while still maintaining our focus on growth and expanding our products and services for the customers.

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During the year, the Company entered into a 50:50 Joint Venture with Nelson Industries, Inc., U.S.A., (Nelson). Nelson is engaged in the manufacture and design of exhaust systems and various other products including silencers, mufflers, tubing, emission control devices such as catalytic converters and other related products which are suitable for Internal Combustion Engines. The use of these products by your Company will give a comparative advantage for its existing offerings as well as providing a wider range of products and services for the customers. The Company will be investing up to Rs. 20 million in this new Joint Venture. The Joint Venture will also cater to the needs of other engine manufacturers in automotive, marine, industrial and powergen segments.

As compared to the first nine months of the year under review, the last quarter showed a marginal recovery. However, due to political instability and lack of anticipated investment in infrastructure projects, the economic scenario for the year 1999-2000 is not very encouraging. However, the cost reduction, indigenisation and export initiatives implemented during the year under review provide a foundation for meeting the challenges of 1999-2000. While continuing with this cautious view of the economic scenario, we will also ensure that your Company is in a position to take full advantage of its competitive strengths as the economy expands.

Y2K PREPAREDNESS :

We are very pleased to report to you that your Company became Y2K compliant for all its internal operations in December 1998. In addition, we have ensured that critical component suppliers to the Company are Y2K compliant. These efforts will continue with additional non-critical suppliers to ensure that our performance will not be affected in the beginning of calendar year 2000. Although we are very confident about our status, contingency plans are being prepared to minimise risk, if any, arising out of Y2K non-compliance by external agencies. The Company has incurred an estimated cost of Rs. 10.1 million for making its internal systems Y2K compliant.

CONSERVATION OF ENERGY :

During the year under review, various initiatives were taken towards energy conservation. These initiatives include; the automation of air compressors, the installation of fan speed control for cooling towers, the introduction of computerised automation in our power house for optimising load factors and diesel consumption, the installation of a new centralised lighting system with a programmable timer. We have also fitted energy saver units on various machines. In addition, the Company continues to monitor various energy saving projects implemented in earlier years to ensure that the prior reported benefits are being realised.

IMPACT OF THE ABOVE MEASURES :

Annual savings to the extent of 2.10 million KWh are estimated to be achieved due to the above energy conservation measures taken by the Company.

RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION :

Your Company's Collaborator, Cummins Engine Company, Inc., U.S.A., a leading worldwide designer and manufacturer of diesel engines ranging from 60 to 6,000 horsepower, continues to extend technological support to your Company. With the active support from Cummins Engine Company, Inc., U.S.A., your Company's Technical Center is engaged in activities to improve performance and to meet stringent emission and smoke regulations. The emphasis is on the development of new models, indigenisation of critical parts and components, upgradation of existing engines and development of new ratings/applications of existing engines.

1. Some specific areas of R & D activities undertaken by the Company include :
 - (a) Joint projects with Cummins Engine Company, Inc., U.S.A. for development and introduction of new variants of high horsepower "Quantum" engines and "855 Big Cam" engines.
 - (b) Optimisation of performance and development of new ratings for various engine models.
 - (c) Design validation, Endurance test and Source approval of new components for new ratings/applications and new models.
 - (d) Indigenisation of various parts and components of engines.
 - (e) Development of engines to run on non-conventional compressed natural gas fuel.
2. The benefits derived as a result of above activities are :
 - (a) New generation engines shipped to domestic and international customers.
 - (b) Comparative advantage in terms of better fuel efficiency and improved performance.
 - (c) Continuous improvement in quality, reliability and durability of engines and components to deliver 'SMART POWER'.
 - (d) Environment-friendly and emission regulation compliant engines.
3. Future plans are to :
 - (a) Increase the involvement and interaction with the Technical Center of Cummins Engine Company, Inc., U.S.A.
 - (b) Develop engine models using alternative fuels.
 - (c) Continue upgrading engine models to meet future emission and smoke regulations.
4. The continuous absorption of advanced technology and passing the benefit to the customers in the form of cost and higher performance engines, is an on-going process. The technological innovations incorporated on the engines offer 'value' to the customers in terms of lower operating cost, higher durability, lower fuel consumption and reduction in noise and emission levels.
5. Expenditure on R & D :

The total expenditure on R & D during the year under review was as follows :-

	1998-99 (Rs. '000)	1997-98 (Rs. '000)
a) Capital	10,239	50,878
b) Recurring	100,769	172,307
c) Total	111,008	223,185
d) Total R & D expenditure as a percentage of total sales turnover	1.71%	3.00%

Cummins India Limited

FOREIGN EXCHANGE EARNINGS AND OUTGO :

During the year under review, the Company exported 1,102 engines and achieved export earnings of Rs. 1,280 million (128 crores).

The Engineering Export Promotion Council (EEPC) once again selected your Company for the Top Exporters' Shield - National in the category of Consumer Durables Exporters (Non-SSI). The Company during the year under review was also awarded a trophy for Export Excellence by Jt. Director General of Foreign Trade and Maharashtra Chamber of Commerce, Industries and Agriculture, Pune.

Foreign Exchange earnings and gross outgo (including royalty, dividend etc.) during the year under review were as follows :-

	1998-99 (Rs. '000)	1997-98 (Rs. '000)
(a) Earnings	1,288,633	1,467,975
(b) Outgo - Raw Materials/components	1,111,554	1,622,801
- Capital equipment	64,784	166,548
- Others	164,022	212,981
	1,340,360	2,002,330
Earnings as percentage of outgo on account of import of materials / components.	116%	90%

SUBSIDIARY :

The total turnover of the subsidiary, Cummins Diesel Sales and Service (India) Limited (CDS&S) for the year ended March 31, 1999 was Rs. 2,534 million (253.4 crores). During the year under review, CDS&S opened Service Centers at Asansol and Jaipur with state-of-the-art facilities to rebuild the engines. These Service Centers would cater the requirements of customers from Eastern parts of India and North India.

DIRECTORS :

During the year under review, Mr.Gavin Sinclair resigned as Director effective August 1, 1998. The Board has placed on record its appreciation for the valuable counsel and guidance given by Mr.Gavin Sinclair from time to time. Mr.J.L.Deshmukh stepped down as an alternate Director to Mr.Gavin Sinclair effective July 27, 1998. The Board of Directors in their meeting held on July 27, 1998 appointed Mr.J.L.Deshmukh as an alternate Director to Mr.M.A.Levett effective July 27, 1998. Mr.J.L.Deshmukh, an alternate Director being whole-time employee of the Company was in the position of whole-time Director. Resolution for obtaining approval of the shareholders for his appointment and remuneration payable to him is being placed in the ensuing Annual General Meeting.

On April 2, 1999, Mr.J.L.Deshmukh was appointed as President of the Company. Further, on May 14, 1999, Mr.J.L.Deshmukh stepped down as an alternate Director to Mr.M.A.Levett and was co-opted as an Additional Director of the Company with effect from May 14, 1999. Further Mr. J.L. Deshmukh was appointed as a whole-time Director of the Company effective May 14, 1999 for a period of five years. Resolution for obtaining approval of the shareholders for his appointment and remuneration payable to him as such whole-time Director of the Company is also being placed in the ensuing Annual General Meeting.

Mr.Y.S.Joshi has stepped down as whole-time Director of your Company effective October 3, 1998 but he continues as non-executive Alternate Director to Mr.J.T.Dewing. Mr.R.L.Moore stepped down as Managing Director of Cummins Diesel Sales and Service (India) Limited (CDS&S) with effect from April 1, 1999 and continues to be Director and Chairman of CDS&S and Mr.Y.S.Joshi was appointed as Managing Director of CDS&S with effect from April 1, 1999.

In accordance with the Companies Act, 1956 and Articles of Association of the Company, M/s. S.M.Chapman, M.A.Levett and J.T.Dewing, Directors of the Company, retire by rotation and are eligible for re-appointment.

AUDITORS :

The Auditors, A.F.Ferguson & Co., Mumbai, and Arthur Andersen & Associates, Mumbai, retire and are eligible for re-appointment.

PARTICULARS OF EMPLOYEES :

As required under section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, a statement giving the required information relating to the employees covered thereunder is attached.

On behalf of Board of Directors,

The logo for Report Junction, featuring the word "Report" in a light blue font, a yellow diamond shape with a black outline, and the word "junction" in a light green font. A signature is written over the logo.

Pune : May 14, 1999

R.L.Moore
Chairman & Managing Director

Cummins India Limited

ANNEXURE TO THE DIRECTORS' REPORT

Information as required under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 1999.

Sr. No.	Name of Employee	Age	Qualifications	Experience	Designation/Nature of duties	Date of joining	Remuneration received		Particulars of last employment held
							Gross Rs.	Net Rs.	
1 *	Athavale S S	55	D.M.E.	33	Sr. General Manager Development	06/07/66	375,307	296,384	—
2 *	Bendale K V	58	Mech. D'man	36	Sr. Draftsman	04/07/62	45,896	45,004	—
3	Choudhuri S	41	B.Sc. (Engg.) Mech.	19	General Manager Plant Services	07/08/96	648,845	451,755	Essar Steels, Dy. General Manager (CRS), 4 yrs.
4	Deshmukh J L	50	B.E.(Mech.)	27	Director & President	01/07/72	1,279,430	728,501	—
5 *	Dewey C E	60	B.S.M.E.	29	Quantum Project Leader	07/09/95	313,695	212,143	Cummins Engine Company, U.S.A., Chief Project Engineer, 25 yrs.
6	Ganla A N	50	M.Tech.	26	Sr. General Manager Research and Development	06/07/73	699,408	419,573	—
7	Gatne P D	49	B.E.(Met.)	26	General Manager Technical Support	16/05/77	638,655	422,656	International Tractors Co. of India Ltd. Jr. Engineer, 4 yrs.
8	Gurav P Y	45	M.Com., A.C.A.	20	Director & Sr. Vice President Finance	16/04/82	966,246	568,529	A.F.Ferguson & Co., Audit Assistant, 3yrs.
9 *	Joshi S C	55	B.E.(Elect.), B.E.(Mech.)	32	Executive Service Parts	14/10/67	381,431	296,681	—
10	Joshi S K	54	B.E.(Mech.), M.I.E., Chartered Engineer	33	Vice President Manufacturing	19/05/89	866,806	527,783	Modi Rubbers Ltd., Project Manager, 1 yr.
11 *	Joshi Y S	50	B.Sc.Engg. (Elect.)	27	Chief Executive Cummins Diesel Sales and Service (India) Limited	11/09/72	522,583	314,600	—
12 *	Kulkarni S J	56	B.Sc.(Chem.), B.Sc. (Phy.)	35	Executive Heat Treatment	26/07/66	305,355	249,766	Bharat Instruments, Supervisor, 2 yrs.
13	Moore R L	54	B.S. (Industrial Management), B.S. (Industrial Relations), M.B.A.	27	Chairman & Managing Director	12/08/97	2,437,596	1,109,033	Tata Cummins Ltd., Jamshedpur, Managing Director, 4 yrs.
14 *	Naik C S	46	B.Com., M.A. (PM & IR - TISS)	23	Vice President Training	28/10/95	1,013,154	676,303	ITW Signode India Ltd., GM - HRD, 3 yrs. 4 months
15 *	Panse R K	55	D.E.E.	29	Dy. General Manager Electrical Maintenance	10/05/69	174,976	148,224	—
16	Pathak A K	54	B.E., M.E. (Mech.)	31	General Manager Information Technology	18/12/78	725,999	445,267	A.F.Ferguson & Co., System Consultant, 1 yr. 6 months
17 *	Patki S A	47	M.E.(Mech.)	23	General Manager Manufacturing Engineering	02/08/82	306,133	229,806	The Hindustan Aeronautics Ltd; Dy. Manager, 6 yrs.
18	Phadke S S	47	B.E (Mech.), B.A. (Eco.)	23	Sr. General Manager Engineering & Reliability	01/05/93	675,324	419,530	Cummins Diesel Sales and Service (India) Ltd., Zonal Manager South, 1 yr. 3 months