

Cummins India Limited

BOARD OF DIRECTORS :

Mr. Ravi Venkatesan (Chairman)
Mr. Vinod Dasari
(Executive Director and President)
Mr. Rajeev Bakshi
Mr. J. M. Barrowman
Mr. S. M. Chapman
Mr. P. S. Dasgupta
Mr. S. D. Hires
Mr. M. A. Levett
Mr. Peter McDowell
Mr. Nasser Munjee
Mr. B. H. Reporter
Mr. J. M. Rugg
Mr. Venu Srinivasan
Mr. J. K. Edwards
Mr. Pradeep Bhargava
(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

AUDITORS :

ARTHUR ANDERSEN & ASSOCIATES
Chartered Accountants
4th Floor, Office # 2
Great Eastern Plaza
Airport / Nagar Road Junction
Pune 411 006
India

REGISTRAR & TRANSFER AGENT :

Intime Spectrum Registry Limited
260, Shanti Industrial Estate
Sarojini Naidu Road
Mulund (West)
Mumbai 400 080
Phone : (022) 5923837, 5672716,
5647731
Fax : (022) 5672693

Cummins India Limited

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Phone : (020) 5385435, 5380240
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Cummins India Limited

Financial Summary - 5 Years

Rs. Crore

Particulars	2001-2002	2000-2001	1999-2000	1998-1999	1997-1998
Total income	777.31	882.94	846.90	661.75	754.72
Raw material	453.64	518.46	518.98	388.74	450.93
Employee cost	78.98	72.31	69.90	60.58	60.68
Mfg. exps. and overheads	73.49	87.58	74.70	59.88	79.22
Adm., selling and other exps.	31.07	31.96	26.12	19.98	21.81
Interest	1.45	1.92	3.43	3.51	6.94
Depreciation	24.67	26.18	24.60	22.12	19.98
Net profit before tax	114.01	144.54	129.17	106.94	115.17
Tax provision on income (Net of Excess/Short provision for prior years)	27.70	35.61	35.86	32.14	32.89
Net profit after tax	86.31	108.93	93.31	74.79	82.28
Effect of restatement of opening inventory on revised basis	—	—	8.82	—	—
Balance of profit	86.31	108.93	102.13	74.79	82.28
Dividend	29.70	25.74	19.80	15.84	15.84
Additional Income tax on dividend	0.00	2.63	2.83	1.74	1.58
Earnings in foreign exchange	275.55	288.82	277.50	128.84	146.78
Dividend %	75.00	65.00	50.00	40.00	40.00
Earning per share (Face value of Rs. 2)	4.36	5.50	4.71	3.78	4.16

DIRECTORS' REPORT

The Directors of Cummins India Limited have pleasure in presenting the Forty-First Annual Report and the audited accounts of the Company for the year ended March 31, 2002.

FINANCIAL RESULTS:

During the year under review, net sales turnover was Rs. 7,409 million (Rs.741 crore) as against Rs. 8,603 million (Rs.860 crore) during the corresponding previous year (14% lower). Export earnings were Rs.2,732 million (Rs.273 crore) as against Rs.2,853 million (Rs. 285 crore) during the corresponding previous year. Profit after tax was Rs.863 million (Rs.86 crore) against Rs.1,089 million (Rs.109 crore).

	2001-2002 (Rs. '000)	2000-2001 (Rs. '000)
PROFIT :		
Profit before taxation	1,140,120	1,445,415
Net Profit after tax but before tax on proposed dividend	863,093	1,089,300
Additional income-tax on dividend	—	26,255
Dividend	297,000	257,400
Transferred to General Reserve	266,093	355,645
Balance carried to Balance Sheet	750,000	450,000

DIVIDEND :

Your Directors have recommended the payment of dividend @ 75 per cent on the Equity share capital of Rs. 396 million for the year ended March 31, 2002.

CONSOLIDATED FINANCIAL STATEMENTS :

The Company has prepared Consolidated Financial Statements of Cummins India Limited and its subsidiaries as at March 31, 2002 in accordance with Accounting Standard 21 (AS-21), on 'Consolidated Financial Statements' issued by Institute of Chartered Accountants of India. The audited Consolidated Financial Statements are circulated with the Annual Report.

AMALGAMATION:

The Board of Directors of your Company, in their meeting held on June 10, 2002 have approved the Scheme of Amalgamation for amalgamating Power Systems India Limited (PSIL) and Cummins Power Solutions Limited (CPSL) in Cummins India Limited.

Over the years, your Company has been operating in and known for engines above 100 KVA range. In recent years, the business opportunities for less than 100 KVA range have grown significantly. To cater to this need, in the year 1999, PSIL was incorporated, as a subsidiary having a separate legal entity status essential to provide required focus in the

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initial years of operations. In a short span of two years of operations, PSIL has stabilised its production and sales and has achieved nearly 20% market share. Having reached a certain level of maturity at PSIL, it is only logical now that the customer is given an entire range from one entity. Hence considering the synergies in Marketing, Manufacturing support, Engineering, Technology, Sourcing and other systems and to capture significant opportunities to reduce administration and financial costs, it is proposed to amalgamate PSIL in your Company.

CPSL was created to bring Cummins closer to the customer, capture growing value added market opportunity as well as increase the share of Cummins products in the rental market. In the last 18 months of its existence, CPSL has added required skills and made more meaningful presence in the market for such value added business. It has also enabled your Company to have a better insight into customer needs. CPSL uses the existing sales channel of your Company as well as Cummins Diesel Sales and Service (India) Limited for many of its activities. Therefore, it has become necessary for CPSL activities to get integrated with your Company to ensure that we present a single face to the customer. Further, activities of CPSL shall get desired financial support as a part of CIL and the amalgamation of CPSL into your Company would result in significant reduction in administrative and financial costs.

The amalgamation of PSIL and CPSL with your Company, would enable CIL to have wholesome offering not only in product range but also in value added services thereby positioning and branding itself as complete energy solutions Company.

SUBSIDIARIES :

Cummins Diesel Sales and Service (India) Limited : (CDS&S)

The total income of Cummins Diesel Sales and Service (India) Limited (CDS&S) for the year ended March 31, 2002 was Rs. 3,311 million (Rs. 331 crore) as against Rs. 2,923 million (Rs.292 crore) during the corresponding previous year. CDS&S is engaged in the business of sale of and providing after-sales-service to engines manufactured by your Company.

Power Systems India Limited : (PSIL)

During the year under review, your Company acquired from Cummins Diesel Sales and Service (India) Limited, 3,500,000 equity shares of Rs.10 each of Power Systems India Limited (PSIL) at face value.

The turnover of PSIL for the year ended March 31, 2002, increased to Rs. 817 million (Rs. 81.7 crore) from Rs. 488 million (Rs.48.8 crore) in the previous year. The Company shipped 4,150 engines for automotive (CNG) Powergen and Industrial applications.

The Board of Directors of PSIL, in its meeting held on June 6, 2002, approved the scheme of amalgamation of PSIL with Cummins India Limited.

Cummins Power Solutions Limited : (CPSL)

During the year under review, your Company has invested Rs. 24.9 million in the equity share capital of this subsidiary Company, which was incorporated in July 2000.

The sales and other income of CPSL for the year ended March 31, 2002 increased to Rs. 188 million (Rs.18.80 crore) from Rs. 84 million (Rs.8.40 crore) in the previous year.

The Board of Directors of CPSL, in its meeting held on June 6, 2002, approved the scheme of amalgamation of CPSL with Cummins India Limited.

Cummins Infotech Limited : (CIT)

CIT is engaged in the business of software development, primarily for the engineering industry. During the year under review, the income of CIT from software development business increased to Rs. 66 million (Rs. 6.6 crore) from Rs. 9 million (Rs. 0.9 crore) in the previous year.

The Board of Directors of CIT have approved the scheme of amalgamation with KPIT Infosystems Limited, Pune. As per the scheme of amalgamation, your Company and Cummins Inc., USA (formerly known as Cummins Engine Company Inc., USA) would get 704,000 fully paid equity shares of Rs. 10 each in the share capital of KPIT Infosystems Limited in the proportion of 51:49 respectively. The scheme also provides for grant of an aggregate of 1,933,000 stock options to be converted into equity shares of Rs. 10 each fully paid of KPIT Infosystems Limited in the years 2004 and 2007 on fulfilment of certain terms and conditions.

Cummins Auto Services Limited : (CASL)

The sales and other income of Cummins Auto Services Limited (CASL) for the year ended March 31, 2002 was Rs.71 million (Rs.7.1 crore) as against Rs.44 million (Rs.4.4 crore) during the corresponding previous year. CASL is engaged in the business of retailing in parts and accessories for commercial vehicles, highway solutions in the form of authorised service stations and annual maintenance contracts with fleet owners.

CORPORATE GOVERNANCE :

As per clause 49 of the Listing Agreements with Stock Exchanges, Management Discussion and Analysis Report and Corporate Governance Report are annexed and form part of the Directors' Report.

DIRECTORS' RESPONSIBILITY STATEMENT :

In pursuance of the provisions of section 217 (2AA) of the Companies Act 1956, your Directors make the following statement : -

1. that in the preparation of the annual accounts, the applicable accounting standards had been followed and there was no material departure from the accounting standards;
2. that Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on March 31, 2002 and of the profit for the period April 1, 2001 to March 31, 2002;

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3. that Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
4. that Directors had prepared the annual accounts on a going concern basis.

CONSERVATION OF ENERGY:

Your Company continues in its mission of conservation of energy. The Company has introduced various energy optimisation initiatives. These initiatives include installation of Intermediate Controller Unit and Compressor automation, installation of variable frequency drive for water pumps, energy efficient lighting on shop floor, optimization of air conditioning plants, optimization of heat treatment operation for 5 days a week and modification in heat exchanger return water piping system.

IMPACT OF THE ABOVE MEASURES:

Annual savings to the extent of 4.36 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, with continuous technological support from Cummins Inc. USA is committed to introduce latest Engine Models to meet future emission norms and higher level of performance of the engines. The technical centre of your Company also continues to focus on indigenisation of components for achieving import substitution, development of electronic controls and systems for the engines for improving fuel efficiency and performance.

1. Some specific areas of R & D initiatives undertaken by the Company include :
 - (a) Source approval testing of various engine components.
 - (b) Gaseous emission and particulate measurement of various engines.
 - (c) Performance optimization of engines for various applications.
 - (d) Cost reduction and modification of engine components.
2. The benefits derived as a result of above activities are :
 - (a) Reduction in product fuel consumption, Lub oil consumption and exhaust emissions.
 - (b) Improvement in quality, reliability and durability of engines and components.
 - (c) Environment friendly and emission regulation compliant engines.
3. Future plans :
 - (a) Development of engines for construction and industrial applications.
 - (b) Development of engines using compressed natural gas (CNG) as fuel.
 - (c) Continuous upgradation of the Tech Center facilities to world class levels.

- (d) Upgrade some of the existing models.
- (e) Undertake Joint projects with various Cummins entities in U.S.A. and U.K. for development and introduction of new type of engines.
4. Continuous absorption of advanced technology and passing the benefit to the customers in the form of lower cost and higher performance engine is an ongoing process. Your Company continues to focus its attention on incorporation of latest technological updates in its products that results in comparative advantage to the customers in terms of higher durability, lower operating cost and reduced noise and emission levels of the engines.
5. Expenditure on R & D :

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

	2001-2002 (Rs. '000)	2000-2001 (Rs. '000)
a) Capital	20,860	13,221
b) Recurring	58,240	86,453
c) Total	79,100	99,674
d) Total R&D expenditure as a percentage of total sales turnover	1.06%	1.15%

FOREIGN EXCHANGE EARNINGS AND OUTGO :

During the year under review, the Company exported 1891 engines and achieved export earnings of Rs. 2732 million (Rs. 273 crore).

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

	2001-2002 (Rs. '000)	2000-2001 (Rs. '000)
(a) Earnings	2,755,520	2,888,243
(b) Outgo –		
– Raw Materials/ components	1,489,617	1,451,870
– Capital equipment	24,072	165,326
– Others	255,560	210,444
	1,769,249	1,827,640
Earnings as percentage of outgo on account of import of materials / components.	185%	199%

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DIRECTORS :

During the year under review, the Board of Directors in their meeting held on October 30, 2001, co-opted Mr. Peter McDowell as an Additional Director effective October 30, 2001. In the meeting held on June 10, 2002, the Board of Directors co-opted Mr. Vinod Dasari, President (Operations) of your Company, as an Additional Director effective June 10, 2002. Mr. Vinod Dasari being in the whole-time employment of the Company and being member of the Board, is in the position of a Whole-time Director.

Resolutions for obtaining approval of the shareholders for appointment of Mr. Vinod Dasari as Whole-time Director and remuneration payable to him is being placed in the ensuing Annual General Meeting.

In accordance with the Companies Act, 1956 and Articles of Association of the Company, M/s. M. A. Levett, Ravi Venkatesan, Venu Srinivasan and J. K. Edwards, Directors of the Company, retire by rotation and are eligible for re-appointment.

AUDITORS :

The Auditors, Arthur Andersen & Associates, Chartered Accountants, have expressed that they do not wish to seek the re-appointment as Auditors of the Company. The Board of Directors placed on record their gratitude and appreciation for the services rendered by Arthur Andersen & Associates to the Company.

The Board of Directors recommend the appointment of Price Waterhouse, Chartered Accountants, as the Auditors of the Company in the place of Arthur Andersen & Associates, from the conclusion of ensuing Annual General Meeting till the conclusion of the next Annual General Meeting of the Company.

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,



Ravi Venkatesan
Chairman

Pune : August 1, 2002

Management Discussion and Analysis Report : (Annexure to Directors' Report)

1. Industry Structure and Developments.

1.1 Economic Trends and Implications

- Economic downtrend in the past 2 years, is expected to continue, with fall in capital expenditure.
- Some sectors including Construction and Telecom are expected to grow during 2002-03 and have shown growth during the initial quarters of the current year.
- The industrial sector has slowed significantly, and has been accompanied by a decline in incremental investments. We do not see a significant improvement in the remainder of the year.
- Increasing prices of diesel has resulted in lower equipment utilization and sales of diesel engines/diesel engine-powered equipment.
- Shortfall in power supply remains high, with a peak deficit of approximately 14%. This has resulted in growth of demand for standby generating sets and power rentals. Lower capacity additions shall result in a widening peak deficit – estimated at around 65,000 MW by 2005.

1.2 Power Generation :

- During the previous year, India is estimated to have created additional capacity of around 3,500 MW.
- Strong growth in demand from Telecom and Construction segments is expected to continue for 2002-03.
- Many leading customers are seeking 'total solutions' including comprehensive operation and maintenance, operating leases and energy sales.
- With increase in fuel prices, many customers are for solutions with lowest life-cycle costs with solutions based on alternate fuels.
- Noise and pollution emission norms are expected to be rolled out gradually from early 2003. The Company is currently reviewing and upgrading its product range to meet the norms.

1.3 Industrial :

- Launch of initiatives for road and social infrastructure development will increase demand for on-highway construction equipment.
- Increased expenditure on defence and railway sectors are likely to have a positive impact on demand for the Company's products. However, the pace of growth will depend on government projects.
- Customers are increasingly focusing on asset utilization and uptime.

1.4 Automotive:

- Roll-out of emission norms across various cities – Euro 2 in 2003 and Euro 3 in 2005/07
- Freight patterns moving towards Multi Axle Vehicles (and higher HP engines)
- Fleet operators focusing on cost and uptime. Low growth in demand is expected to improve over the next 12 months.
- As per Supreme Court directive, CNG buses will continue to be the primary option for public transportation in National Capital Region.

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2. Opportunities and Threats :

Key **Opportunities** include :

- India's peak power demand continues to grow at approximately 6-8% per annum. This will be a driver for demand in the future.
- High levels of load-shedding are increasing the demand for rental power services.
- With increasing privatization and growth in construction (urban and highway) we forecast an increased growth in the next 2-3 years, fueling increase in demand for products and solutions.
- Developing focused segment specific strategies will be a key requirement to design 'value packages' which deliver value to customers.
- Acquiring additional engines and generator sets business from world-wide Cummins entities. Significant opportunities exist in mid-range S and B series engines exports.
- Reduction in material costs.

Key **Threats** include :

- Low economic growth and declining investments in manufacturing capacity in 2003, will dampen demand for products and increase pressure on margins.
- Fuel pricing in post-Administered Price Mechanism scenario is unclear. Further increases in prices of HSD would drive migration to alternate fuels such as Heavy Fuel Oil, Natural Gas, etc.
- Slow rate of deregulation in the mining sector.
- Relaxation in Import tariffs is likely to result in increased imports and competition from global players, who are likely to also have the advantage of a weak Euro.

3. Segment-wise and Product-wise Performance:

3.1 Power Generation :

- During the year, the Company strengthened its position by winning several key customer accounts in the fast growing IT and Telecom markets.
- The Company launched new products in the 100-125 KVA range with B series engines, and sales of generator sets from the 15-25 KVA range.
- During the year, the Company also enhanced its electronics product range with introduction of Power Command Control (PCC) generator controls and new engine controls for High Horsepower Products (ECP-G).
- The Company consolidated its position as a provider of 'power solutions'. The total rental fleet increased to 55 MVA, and the Company successfully completed over 11 MVA of power projects.

3.2 Industrial :

- During the past year, the Company improved its performance in key segments such as Compressors and Marine.
- However, the slowdown in the mining sector and lower investments have resulted in lower demand for engine packages.
- The Company also increased its focus on the construction segment.

3.3 Exports and Others :

- The Company sustained its continuing performance on the export front. The Company extended its sales of High Horsepower KV/QV engines for the European and Asian markets.
- During the year, the Company's subsidiary Power Systems India Ltd. has commenced exports of S and B series engines and power packages to other Cummins entities.