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 :

PRICE WATERHOUSE
Chartered Accountants
1102/1107, Raheja Chambers
Nariman Point
Mumbai 400 021

REGISTRAR & TRANSFER AGENT :

Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills Compound
L.B.S. Marg
Bhandup (West)
Mumbai 400 078

Phone	:	(022) 25923837
Fax	:	(022) 25672693

Cummins India Limited

Regd. Office	:	Kothrud, Pune 411 038
Phone	:	(020) 5385435, 5380240
Fax	:	(91) - 020 - 5380125
Website	:	www.cumminsindia.com

Cummins India Limited

Financial Summary - 5 Years

Rs. Crore

Particulars	2002-03	2001-02	2000-01	1999-2000	1998-99
Total income	877.64	777.31	882.94	846.90	661.75
Raw material	511.41	453.64	518.46	518.98	388.74
Employee cost	96.62	78.98	72.31	69.90	60.58
Mfg. exps. and overheads	68.92	73.49	87.58	74.70	59.88
Adm.,selling and other exps.	50.17	31.07	31.96	26.12	19.98
Interest	3.04	1.45	1.92	3.43	3.51
Depreciation	26.58	24.67	26.18	24.60	22.12
Net profit before tax	120.92	114.01	144.54	129.17	106.94
Tax provision on income (Net of Excess/Short provision for prior years)	26.61	27.70	35.61	35.86	32.14
Net profit after tax	94.31	86.31	108.93	93.31	74.79
Effect of restatement of opening inventory on revised basis	—	—	—	8.82	—
Balance of profit	94.31	86.31	108.93	102.13	74.79
Dividend	79.20	29.70	25.74	19.80	15.84
Additional Income tax on dividend	10.15	0.00	2.63	2.83	1.74
Earnings in foreign exchange	176.21	275.55	288.82	277.50	128.84
Dividend %	200.00	75.00	65.00	50.00	40.00
Earning per share (Face value of Rs. 2)	4.76	4.36	5.50	4.71	3.78

DIRECTORS' REPORT

The Directors of Cummins India Limited have pleasure in presenting the Forty-Second Annual Report and the audited accounts of the Company for the year ended March 31, 2003.

FINANCIAL RESULTS:

During the year under review, net sales turnover was Rs. 8,320 million (Rs.832 crore) as against Rs. 7,409 million (Rs. 741 crore) during the corresponding previous year (12% higher). Export earnings were Rs.1,762 million (Rs. 176 crore) as against Rs. 2,756 million (Rs. 275 crore) during the corresponding previous year. Profit after tax was Rs. 943 million (Rs. 94 crore) against Rs. 863 million (Rs. 86 crore).

	2002-2003 (Rs. '000)	*2001-2002 (Rs. '000)*
PROFIT :		
Profit before taxation	1,209,164	*1,140,120*
Net Profit for the year but before tax on proposed dividend	943,073	*863,093*
Tax on dividend	101,475	*—*
Dividend	792,000	*297,000*
Transferred to General Reserve	133,491	*266,093*
Balance carried to Balance Sheet	750,000	*750,000*

AMALGAMATION :

As indicated in the earlier report, Power Systems India Limited (PSIL) and Cummins Power Solutions Limited (CPSL), subsidiaries of the Company, have amalgamated in Cummins India Limited on January 24, 2003 w.e.f. April 1, 2002, therefore, the above financial results include the figures of erstwhile PSIL and CPSL and hence, are not comparable with the earlier year's figures. Cummins Infotech Limited , a subsidiary of the Company amalgamated with KPIT Infosystems Limited, Pune on January 10, 2003 w.e.f. January 1, 2002.

DIVIDEND :

Your Directors have declared an interim dividend @ 200 per cent on equity share capital of Rs. 396 million of the Company for the year ended March 31, 2003, as against 75% declared for the previous year ended March 31, 2002.

It is proposed to approve the interim dividend as final dividend for the year ended March 31, 2003.

CONSOLIDATED FINANCIAL STATEMENTS :

The Company has prepared Consolidated Financial Statements of Cummins India Limited and its subsidiaries as at March 31, 2003, in accordance with Accounting Standard 21('AS21), on 'Consolidated Financial

Statements' issued by the Institute of Chartered Accountants of India. The audited Consolidated Financial Statements are circulated with the Annual Report.

SUBSIDIARIES :

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

The sales and other income of Cummins Diesel Sales and Service (India) Limited (CDS&S) for the year ended March 31, 2003, was Rs. 3,905 million (Rs. 390 crore) as against Rs. 3,311 million (Rs. 331 crore) during the corresponding previous year. We are pleased to inform you that CDS&S has declared dividend of 267% during the year ended March 31, 2003 as against 15% during the previous year ended March 31, 2002. CDS&S is engaged in the business of sale of and providing after-sales-service to engines manufactured by your Company.

Cummins Auto Services Limited : (CASL)

The sales and other income of Cummins Auto Services Limited (CASL) for the year ended March 31, 2003, was Rs. 157 million (Rs. 16 crore) as against Rs. 71 million (Rs. 7 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.

JOINT VENTURE WITH NELSON :

As informed to you in the earlier reports, the Company has invested in Nelson Engine Systems India Limited (NESIL), a 50:50 Joint Venture Company between Nelson Industries Inc., U. S. A. and your Company. Nelson Industries Inc., U. S. A. has merged in Fleetguard Inc., U. S. A., effective January 2, 2002. However, Fleetguard Inc., U. S. A. will continue to support NESIL with technology.

Further, we are pleased to inform that NESIL has declared maiden dividend of 2.5 % for the year ended March 31, 2003.

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, 2003 and of the profit for the period April 1, 2002 to March 31, 2003;

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 optimization initiatives. These initiatives include :

a. Modification of temperature controls on equipment.

b. Energy effective lighting on Shop Floor including natural light.

c. Heat recovery system for paint booth.

IMPACT OF THE ABOVE MEASURES :

Annual savings to the extent of 3.76 million units are estimated to be achieved due to the above energy conservation initiatives 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) Validation testing of components to approve locally developed component sources.
   - (b) Gaseous emissions and particulates measurement.
   - (c) Development of engines to meet Central Pollution Control Board 2003 Regulations.
   - (d) Performance optimization of engines for various applications.
   - (e) Value Engineering of engines through design and Finite element analysis.
   - (f) Development of new engines including diesel and alternate fuel engines.
   - (g) Development of new engines and genset electronic controls.

2. The benefits derived as a result of above activities are :
   (a) Reduction in product fuel consumption, Lub oil consumption and life cycle cost of engines.
   (b) Improvement in quality, reliability and durability of engines and components.
   (c) Environment friendly and emission regulation compliant engines.
   (d) Increased market share and profitability.

3. Future plans :
   (a) Development of engines for construction and industrial applications.
   (b) Continuous upgradation of the Tech Center facilities to world class levels.
   (c) Upgrade existing engine models to meet new emission norms.
   (d) Undertake Joint projects with various Cummins entities in U.S.A. and U.K. for development and introduction of new type of engines, electronic controls and component design and analysis.
   (e) Introduction of new engine models such as C series.
   (f) Improvements to the existing engines such as the "E-cubed" on K50 engines.
   (g) Development of new Lean Burn high horsepower, high efficiency natural gas engine.

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 :-

		2002-2003 (Rs. '000)	*2001-2002 (Rs. '000)*
a)	Capital	23,791	*20,860*
b)	Recurring	120,302	*58,240*
c)	Total	144,093	*79,100*
d)	Total R&D expenditure as a percentage of total sales turnover	1.73%	*1.06%*

FOREIGN EXCHANGE EARNINGS AND OUTGO :

During the year under review, the Company exported 1,529 engines and achieved export earnings of Rs. 1,737 million (Rs.173.7 crore).

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

			2002-2003 (Rs. '000)		*2001-2002 (Rs. '000)*
(a)	Earnings		1,762,121		*2,755,520*
(b)	Outgo —				
	— Raw Materials/ components	1,385,813		*1,489,617*	
	— Capital equipment	61,293		*24,072*	
	— Others	284,453		*255,560*	
			1,731,559		*1,769,249*
	Earnings as percentage of outgo on account of import of materials / components.		127%		*185%*

DIRECTORS :

The Board of Directors in their meeting held on April 25, 2003, co-opted Mr. Anant Talaulicar as an Additional Director effective April 25, 2003. Mr. Anant Talaulicar 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. Anant Talaulicar as Whole-time Director and his terms of appointment are being placed in the ensuing Annual General Meeting.

Mr. Pradeep Bhargava resigned as an Alternate Director to Mr. Jack Edwards w.e.f. April 26, 2003 and Mr. Jack Edwards resigned as a Director of the Company effective April 30, 2003. The Board of Directors place on record their appreciation for the contribution made by Mr. Bhargava and Mr. Edwards.

In accordance with the Companies Act, 1956 and Articles of Association of the Company, M/s J. M. Barrowman, S. D. Hires, B. H. Reporter and P. S. Dasgupta, Directors of the Company, retire by rotation and are eligible for re-appointment.

AUDITORS :

The Auditors, Price Waterhouse, Chartered Accountants, retire and are eligible for reappointment.

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

Mumbai : June 7, 2003

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

1. Industry Structure and Developments.

1.1 Economic Trends and Implications

- Industrial and economic growth forecasted at approx. 6% with stronger capital investment outlook.
- Growth sectors such as Telecom and Construction expected to continue to show growth in 2003-04, driven by higher consumer spending and NHDP program.
- Industrial growth and capital investment levels have improved and this will drive the growth. We expect to see a positive impact of the same during the remainder of the year.
- Increasing prices of diesel has resulted in lower equipment utilization and sales of diesel engines/ diesel engine-powered equipment. Removal of CENVAT credit on LDO and alternate fuels will further increase cost of generation of power.
- Shortfall in power supply remains high resulting in a 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.
- Impetus given in Rail and Finance Union Budget 2003-04 for infrastructure and core industry growth is expected to increase capacity utilisation of mineral producers of coal, cement, ironore and likely to increase demand for construction and mining equipment.
- Increasing domestic demand for steel and likely surge in demand from China due to Beijing Olympics in 2008 is resulting in major expansion plans by steel majors in the next 5 years.

1.2 Power Generation :

- During the previous year, India is estimated to have created additional capacity of around 4,300 MW.
- Electricity demand is forecast to continue to grow at 6-7% and considering outages and power quality, the company forecasts a continued demand for captive generation.
- Demand from commercial infrastructure segments such as Telecommunication and Realty is expected to reduce in the current year. This will have a negative impact on the Power Generation business.
- Fuel prices (especially Diesel) has increased by 26% since the dismantling of the Administered Pricing Mechanism. This has resulted in higher cost of generation on liquid fuels and is likely to affect the Company's product and spares sales in the current year.
- With increase in fuel prices, many customers are focused on demand-side management and reduction in power intensity. This will reduce the overall demand for power generation products.
- The implementation of Noise and exhaust emission norms from July 1, 2003 is presently unclear. However, in expectation of the same the Company has already completed development of emission-compliant products for the entire range of 15-200 KVA and the same are currently under certification. The Company is confident of its ability to meet the norms.

- However, improved distribution performance in areas such as Delhi by private sector T & D ventures will see a reduction in load-shedding and improved power supply.
- The implementation of the Electricity Bill is likely to have a strong short term and long term impact on the industry. The provisions of the Bill will provide a fillip to captive generation, distributed generation and rural electrification.

1.3 Industrial :

- In mining sector, new projects in coal/steel will be operational by 2004-05 and will result in increased demand for earthmoving and mining equipment.
- Government's continued focus on building road infrastructure such as North - South, West-East corridors, Ports Connectivity, Four Laning of major highways will help growth in construction equipment market.
- Indian Railway's focus on Track Maintenance Machines, Safety Equipments and the special applications like Diesel Electric Multiple Units, Power Cars etc, will help further growth of Cummins business in Rail sector. However railway budget allocation will determine the pace.

1.4 Automotive :

- The roll-out of Euro 2 emission norms across various cities in 2003 is likely to be delayed. Freight patterns are moving towards Multi Axle Vehicles (and higher HP engines). This has resulted in a change in the product mix and higher demand for vehicles/engines of 150 HP+.
- 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 (NCR). Currently, CNG is likely to be implemented in 11 cities other than NCR and the availability of gas is likely to further extend the demand for CNG.

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.
- The new Electricity Bill opens up avenues for distributed generation and rural electrification.
- 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. Customers are increasingly seeking one-stop solutions spanning the process from design to guaranteed life-cycle support.

- Significant opportunities exist in exports of generator sets to Cummins Power Generation and component exports to other Cummins entities.
- Demand of construction equipment from various dam projects and road projects like four laning, expressways, rural roads will increase.
- The Government's efforts to restructure existing airports to make them world class entities and encourage private sector participation in the development of airports is likely to fuel demand for products and solutions.
- Key OEMs tapping export markets.
- Likely decision of Central Government to allow state public sector undertakings to take up coal mining outside their state boundaries and sell it in the open market.

Key **Threats** include :

- Fuel price increase continue to drive the migration from Prime power to Standby applications in PowerGen, which will affect new equipment and spare parts demand.
- Relaxation in Import tariffs is likely to result in increased imports and competition from global players.
- One of our major rivals in Engine and DG set business is consolidating presence in India by acquiring 100% stake in their engine manufacturing plant and strengthening their distribution network. This is likely to result in increased competition and pressure on margins.
- Major construction equipment manufacturers are bringing globally available construction equipment (from parent / joint venture companies abroad) into India.
- Product/market extensions by other engine manufacturers into power generation and industrial applications is likely to result in increased competition.
- Potential entrants of used equipment from international markets.

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 15-25 KVA and 100-125 KVA range. The products have met positive customer response and have helped consolidate our position in the market.
- 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). These products have helped us deliver higher feature sets and improved performance in key parameters such as emissions, fuel consumption, etc. for customers.