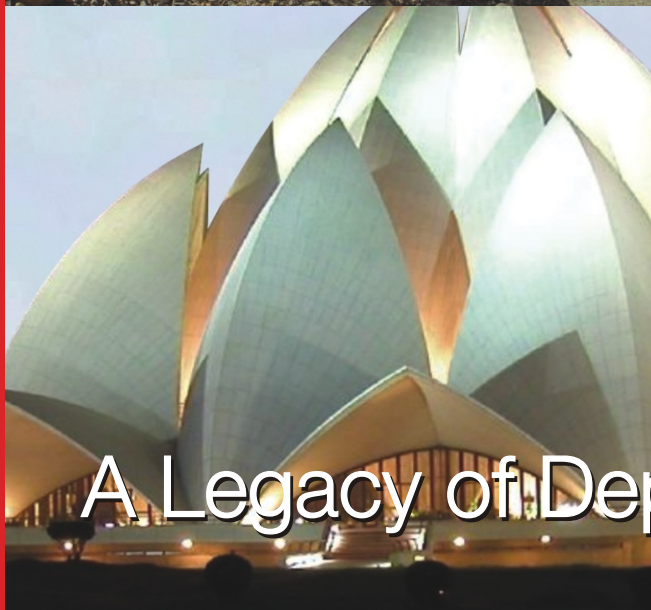




Cummins India Limited

Annual Report 2009-10



A Legacy of Dependability



On the Cover

'Dependability' is the Brand Promise of Cummins. Having continuously demonstrated Dependability to our stakeholders through our products, services and people, the attribute has become our legacy. It is this legacy that gives us the confidence to say to our stakeholders, 'I am Cummins. You can depend on me'.

The visuals on the cover depict the four businesses of Cummins India Limited. Our Industrial Engine Business manufactures engines for segments like construction, mining, compressor, rail, marine, agriculture, pumps, oil & gas and defense. The crawler excavator shown on the cover is one such application powered by the Business. The B series lean burn engines offered by our Automotive Business have fulfilled the Delhi Transport Corporation (DTC) tender for 2,500 low floor buses. The Lotus Temple is just one of the many significant and historical monuments in India that are illuminated by our Power Generation Business. The fourth image that of an employee signifies the service centric ethos and commitment to service excellence demonstrated by our Distribution Business. The four businesses constituting Cummins India Limited testify our legacy of Dependability.

Table of Content

■ Letter to Shareholders	1
■ Board of Directors	12
■ Financial Summary - 5 years	14
■ Directors' Report and Financial Statements of Cummins India Limited	15



To Our Shareholders

Before I begin to share the highlights of the year 2009-10, I believe it would be appropriate to say that it has been no ordinary year! After an extended period of increasing demand, the situation reversed rapidly due to the global meltdown, and then began recovering faster than expected, particularly domestically. Further, we had our first ever labour strike at the Kothrud plant. Yet the manner in which we overcame these challenges with our performance ethic, agility and above all, allegiance to the six Core Values of Cummins, make me immensely proud that we lived our Dependability brand promise. Our six Core Values of Integrity, Innovation, Delivering Superior Results, Global Involvement, Diversity and Corporate Responsibility, helped us emerge stronger, more profitable and deliver on our promise of Dependability to all of our stakeholders.

I am extremely grateful to all our customers for their continued confidence in our capabilities, you shareholders for your support and our suppliers for partnering with us through these tough times. But most of all, I am thankful to our employees for their loyalty and commitment. They have indeed acted as owners, enabling us to honour our promise of Dependability to all stakeholders. I would also like to express my gratitude to our Board of Directors for their expert counseling and strategic direction. Finally, I would like to recognize our excellent Leadership Team, whose character, rich experiences and skills helped handling this difficult situation and emerge successful.



Anant J. Talaulicar
Chairman and
Managing Director
Cummins India Limited

I am pleased to relay that 2009-10 was a good year for our Company. Despite the decline in revenues our Company increased profitability, and generated significant cash. While the annual sales of Cummins India Limited including Cummins Sales and Service India (CSS) declined 14 percent to Rs. 2,844.9 crores our net profit before tax at Rs. 610.9 crores was higher by 2 percent over the previous year figure of Rs. 599.0 crores. Clearly, the improved profitability is attributable to disciplined cost management actions taken during the year coupled with the hard work and commitment of our employees.

Allow me to illustrate how our four businesses, industrial engines, automotive engines, power generation and distribution, and the Company as a whole, demonstrated Dependability towards each of our five stakeholders – shareholders, customers, suppliers, employees and the community.

Dependability towards Shareholders

Aligned with our Mission of creating wealth for all stakeholders we had disbursed an interim dividend of 300 percent (Rs. 6 per fully paid-up equity share of Rs. 2 each) in December. We concluded the 2009-10 financial year with a final dividend of 300 percent (Rs. 6 per share of Rs. 2 each) aggregating to a record 600 percent (Rs. 12 per share of Rs. 2 each). The total return to shareholders during the fiscal year including dividends and share price appreciation was 183 percent. Over the last five fiscal years, the total return has been 37 percent on a compounded annual growth basis.

In order to continue delivering the value that we had promised, we prioritized and directed our energies to certain critical areas. Not only did this enable us deliver on our commitments but positions us today for a long-term profitable growth. These priorities, which remain in effect even in 2010, are:

- Increasing our market share domestically
- Maximizing the limited exports opportunities

- Going the extra mile for the customer.
Demonstrating that we truly care for their success.
- Accelerating our cost management activities
- Minimizing working capital
- Investing in products and technologies for the future
- Deploying Six Sigma to drive improvements in all areas of the business
- Modeling the Cummins Vision, Mission, Values, Personality and strategic principles at all times

Our Power Generation Business that had witnessed a major setback in its domestic revenues towards the second half of 2008-09, regained significant part of its original growth plan during the same period in 2009-10. Most of the domestic market segments have almost recovered to the pre-recession levels, placing us in a strong position of optimally utilizing our manufacturing capacities in our facilities at Pirangut and Daman. I am delighted to share that our plant at Pirangut continues to excel in meeting international specifications and is poised to establish itself as the global base for manufacturing generator sets below 200 kVA. The facility has also secured ISO 9001, ISO 14001 and OHSAS 18001 certifications, making it one of our safest and environment conscious facilities.

As a result of improved availability of natural gas, demand for our Lean Burn Natural Gas generator sets increased, as evident by orders worth 20MW won by the Business.

Our Industrial Engine Business demonstrated significant growth in all its key segments such as construction, mining, compressor, gas compression, marine and rail. Owing to our strategy to look beyond the traditional segments and expand and serve diverse segments, the Business not only survived the downturn, but in fact captured new businesses. The gas compression segment benefited significantly from the government's directive to use clean fuel in major cities of India. Our strategy to offer competitive products having higher fuel efficiency with the lowest life cycle cost helped us win major orders for gas compression packages from leading OEMs.

Our Automotive Business not only remained profitable but in fact grew substantially this year. As our country prepared to meet Bharat Stage IV norms in 13 metros and Bharat Stage III in the rest of the country in 2010, our Automotive Business marketed the right technologies and engine platforms to the medium and heavy vehicle customers and OEMs to aid their transition to the new emission norms. We offered both clean diesel and natural gas engines to the commercial vehicle industry. We also launched state-of-the-art high pressure common rail fuel system and electronically controlled 6.7 litre ISB engine with its capability to support emission norms even beyond Euro 5.

In last year's annual report, I had shared with you that our Automotive Business had secured the order for the Delhi Transport Corporation (DTC) tender for 2,500 low floor natural gas buses. I am pleased to relay that we have secured the extended business for another 625 low floor natural gas buses. Our Company continues to maintain 100 percent market share in premium CNG engines through its B series Lean Burn products.

Cummins Sales and Service India, our Distribution Business, that was merged with Cummins India Limited effective April 1, 2008, also grew profitably posting robust performance in its lines of business.

We are expanding capacity by establishing a new lean and modular facility for rebuilding high horse power engines from K19 up to QSK60 series (19 through 60 litre engines), at the Cummins Megastore at Phaltan, near Pune. The facility that is targeted to become operational in the second half of 2010 encompasses concepts like lean manufacturing, state-of-the-art technology and processes, all of which will significantly improve our Company's engine rebuild and repair capabilities.

The Business took a significant step in its efforts to support our customers by consolidating its dealer network to fewer, but larger and stronger dealerships.

In addition to driving sales, each of our four businesses aligned themselves to our strategy of lowering operating costs. We doubled our emphasis on cost saving initiatives such as reducing the Total Cost of Ownership of both direct and indirect materials, value engineering, reducing inventories, receivables and operating expenses. Six Sigma was the principle approach towards making improvements in these areas. The effectiveness of our actions is evident in our profits and positive cash flow.

During the financial year 2009-10, we executed 331 Six Sigma projects, a significant increase of 33 percent over the previous year, bringing a total annualized savings of Rs. 94 crores to our Company.



Towards a Cleaner, Healthier and Safer Environment

At the Auto Expo 2010, on the platform of Diesel Planet, Cummins showcased the SCR aftertreatment system - technology that paves the way to meet BS IV emission norms

In our endeavour to make Six Sigma one of the critical tools in achieving 'Zero Defects' across all areas of business, including development of leadership skills at all levels in our organization, we instituted Sigma Lite this year. Sigma Lite, a 3-day training program has been designed with the objective of helping our junior shop floor managers understand the methodology and nuances of Six Sigma and inculcate those in their day to day work in manufacturing. This will help enhance their skills, leading to improved quality, efficiency and productivity, and eventually translate into us serving our customers better. Our objective is to make Six Sigma pervasive and create a culture that encourages data-based, logical analysis as opposed to a perception and opinion based approach to making decisions. We aim to equip 100 percent of our professional employees with the knowledge of Six Sigma methodologies in due course of time.

Dependability towards Customers

Placing the customer first and keeping their success paramount is imbibed in the DNA of our organization with the aggressive propagation of the Cummins Operating System. To demonstrate to our customers that we care for the success of their business, we continue to evolve innovative solutions to meet their specific business needs, deliver superior results and commit to our Customer Support Excellence (CSE) philosophy and standards.



More Power, Smaller Footprint!

Cummins forays into the retail segment with the 7.5 kVA and 10 kVA generator sets. With the compact, silent and fuel efficient X1.3 engine at its heart, the range promises more power and smaller footprint!

Aligned with our CSE endeavour, the Power Generation Business launched a series of generators this year between 7.5 kVA and 160 kVA. These comprise the X 1.3, X 1.7, X 2.5, S3.8 and B5.9 generator and Coolpac platforms. With the X 1.3 series, our Company has ventured into the manufacturing of small



Cool products for the global market!

The new S3.8 Coolpac, part of the 40 kVA to 160 kVA Coolpac product range, expands Cummins' export portfolio

generator sets in India with ratings of 7.5 kVA and 10 kVA. These have marked our Company's entry into the consumer and retail segments. Production of these small generator sets commenced at our Pirangut plant in November 2009. The plant now exports X 1.3 series to over 100 countries, making it a significant contributor to our export revenues this year.

Among the other products launched for the overseas markets were the X 2.5 range of generator sets, launched in late 2009 following our rigorous product development process. These generator sets equipped with state-of-the-art electronic controls and a new alternator, are designed to meet global specifications. Expanding our exports portfolio further were the S3.8 and B5.9 Coolpacs (a generator driving engine with cooling systems and control). These products have generated significant interest from global Generator OEMs, evident from the orders that have started streaming in. Cumulatively 3,215 units of these new products have been sold thus far, generating revenues of over Rs. 78.5 crores for our Company.

We also launched a 15 kVA generator set, particularly to cater to the demands of the very competitive and cost sensitive telecom segment.

Supporting the Indian Railways' increased focus on safety, our Industrial Business seeded a prototype unit for a Self Propelled Accident Relief Train (SPART). Our Company also bagged a prestigious and significant order from the Indian Railways comprising 4 wheeler

Supporting Safety on Wheels!

*The Indian Railways'
Self Propelled Accident
Relief Train powered
by Cummins*



and 8 wheeler Over Head Equipment Cars. In the construction segment, the Business continued to gain market share by acquiring new business from both global and domestic OEMs for road machinery, loaders and fork lift applications. In fact, through one of the leading global construction equipment manufacturers in India our Company launched seeding units in 21 ton excavator segment. We further improved our presence in the mining segment with the introduction of a 15 litre electronic engine. We also introduced 38 litres and 19 litres seeding units for dredge pump and hydraulic pump applications, respectively.

Our Company successfully completed the technical feasibility of a 6 cylinder mechanically controlled engine for construction applications. The product complies with the stringent BSIII stage 3a CEV emission regulations in a very cost effective, service friendly manner.

It was immensely gratifying for us to receive recognition from two of our leading OEMs for our efforts and commitment to on-time deliveries and Customer Support Excellence. This is the second time in a row that our long standing OEM, a leading player in the construction equipment sector has honoured us for our significant contribution to “on time delivery performance” during the year 2009-10. Equally overwhelming is the acknowledgement coming from a

leading player in the compressor sector who has conferred upon us three awards for Customer Support Excellence. These awards testify the trust that our customers place on us.

Our Automotive Business continued to delight our medium and heavy commercial vehicle customers and OEMs with the Cummins manufactured 6.7 litre full authority, electronically controlled ISB engine with a high pressure common rail fuel system. This engine will cater to the premium segments of multi-axle trucks, tractor-trailers, tippers, mixers, and special application vehicles.



Product for Today and Tomorrow!

The 6 cylinder ISB engine with Electronic Control Module and Common Rail System ensures better fuel economy while meeting BS IV emission norms and beyond

**Personifying
Dependability to
Customers**

*Customer Experience
Philosophy and
Standards that
personify Dependability
at all times!*



Committed to service excellence, our Distribution Business played its part in supporting the foray of our Power Generation Business into the retail market via its Sub 12KW offering. Our Distribution Business has developed and established a retail distribution channel for sales and after-sales service model spanning the length and breadth of the country and is well equipped to provide service, spare parts support and solutions like Annual Maintenance Contracts for these small generators.

Furthering our brand promise of Dependability, our Distribution Business has designed an exclusive initiative titled "Cummins Brand Ambassador ... your role". The initiative has helped enhance communication skills at critical customer touch points like Parts Managers, Counter Sales Staff, Service Engineers, Technicians, Single Point Contacts, Managers, Department Heads at dealerships, and the employees of our Distribution Business. These check points ensure excellence in delivering to our customer service philosophy and experience. The consistency and sustainability of the initiative are ensured through

stringent quarterly assessments.

Taking our CSE endeavour forward, our Distribution Business launched a system for measuring customer loyalty called Net Promoter Score (NPS). As part of this initiative, customer surveys are conducted on service events in the network. Customers are categorized as Promoters, Passives and Detractors, based on their responses to a short set of questions. This feedback helps drive continuous customer facing improvement actions. In addition to identifying gaps, the initiative creates opportunities for customer visits by the senior leadership facilitating first hand feedback on our products and services. These visits bring to the fore potential customer irritants and with it an opportunity for timely redressal.

Tied to the Net Promoter Score feedback is the Service Obstacle System (SOS), a process and tool for managing improvement by addressing systemic issues that affect our customers. In our view, obstacles are mere process issues, ironing of which enables our employees to deliver positive customer experiences.

The SOS database is populated with cross-functional issues not easily resolved by a single function or team. Hence, a group of senior leaders review the issues and assign resources, aiding faster resolution.

Aligned with the first of the ten practices of the Cummins Operating System (COS) – Put the Customer First and Provide Real Value, 40 of the 331 Six Sigma projects closed during the year were Customer Focused Six Sigma (CFSS) projects. The projects have helped us identify and implement improvement actions in the areas of new product introduction, product tailoring, application development and product issue resolution. All of these projects had our customers participate as a team member. The CFSS projects demonstrate our care for our customers and our committed partnership to their long-term success.

The above are only few of the several initiatives that we are actively driving across our organization to help us serve our customers well, creating positive customer experiences and long-term relationships. We feel these go a long way in strengthening our position as a Dependable partner to our customers.

Dependability towards Suppliers

We value our Suppliers greatly and seek long-term partnerships with those who believe strongly in our Values and performance culture. The partnership is immensely benefitting to both, and rests on the commitment by our Suppliers to providing value and supporting our strategy of being a low cost producer.

During the year, with the primary objective of helping our Suppliers develop their capabilities, our teams engaged with them, working closely on Six Sigma projects that helped reduce cost, increase capacity and improve on-time deliveries and performance in their operations. We have trained 43 supplier

employees and closed 69 Supplier Focused Six Sigma (SFSS) projects during the financial year. We believe that imparting the necessary training and

equipping Suppliers with the knowledge of Six Sigma methodologies will go a long way in our journey towards 'Zero Defects'.

There is significant alignment in our internal and supplier product quality management processes. This has strengthened our Suppliers, positioning them to provide highest performance at optimum cost levels. We believe that our support to their journey towards higher performance demonstrates our Dependability to them.

Over the years, we have introduced several initiatives to reduce our spend, while offering our preferred Suppliers the potential to grow their business with us. Key amongst those are Accelerated Cost Efficiency (ACE), ACE II and Total Cost of Ownership Reduction in Indirect Materials and Services (TRIMS). After successfully concluding our three year ACE initiative, we launched ACE II last year with the objective of reducing the Total Cost of Ownership of our direct material spend by 20 percent over three years. We achieved 72 percent of targeted cost reductions for the year and delivered accrued savings of Rs. 47.25 crores in the 2009-10 financial year.

With the success of ACE and ACE II, in September last year, our Company launched TRIMS with the aim of reducing the Total Cost of Ownership (TCO) for indirect materials and services by 30 percent over a three-year period. A structured process of analyzing and



Trimming spends with TRIMS!

Anant J. Talaulicar, Chairman and Managing Director, Cummins India Limited, at the launch of TRIMS

standardizing requirements as well as consolidating the supply base of all our Group Companies has helped draw significant benefits both to our Company and our preferred suppliers. Two significant TRIMS projects launched during the year aimed at optimizing Electrical Services and Road Freight. While the spend in the indirect materials area is not as significant as direct materials, we believe TRIMS is an important initiative to eliminate waste and strengthen the processes in the indirect materials procurement area while strengthening our relationships with our Suppliers and making us a Dependable partner to do business with.

Dependability towards Employees

The success of our organization rests heavily on our most valued asset, our people. The promise of Dependability that we uphold for our customers, suppliers and shareholders, clearly extends to our employees.

Committed as our employees are towards our Company's guiding principles, so is the Company towards providing an environment that is conducive to their progress and long-term career development. It is this care and commitment towards the success of our employees that forms the foundation of our Great Place to Work strategy.

We believe that the very root of a great place to work is great leadership demonstrated by all managers of people. This involves developing a much greater sensitivity to understanding employee needs and aspirations, and being an active, unselfish catalyst and coach to helping the employees reach these aspirations while also aligning them to the needs of the Corporation. I personally conducted interactive sessions on Leadership Excellence for over 130 senior leaders from across the Company. Aside from clarifying our expectations on leadership behaviours in the Indian context, the session also focuses on five critical leadership skills; Thinking Strategically, Talent Management, Fostering Open Communications,

Coaching and Developing, and Managing Diversity. While there are many leadership skills, we feel that these five are the most critical for the success of our employees. We are confident that our efforts will go a long way in building the right leadership for the future.

We strongly believe in reviewing employee performance on a relative basis amongst their peers in order to reward and recognize strong performers. This is one of the foundations of our strong performance culture. And this year, we introduced another level of transparency by communicating relative performance rankings to our employees. Another foundation of our performance culture is documenting work plans and encouraging feedback on a regular basis. It is gratifying to note that our on-line system for managing performance, On-Track, witnessed an increased utilization this year, emphasizing the significance placed by our employees on performance and development.

Committed to providing our employees with development experiences for their long-term career prospects, we offered job rotations to 250 deserving employees across businesses and functions of Cummins Companies in India. Not only did this provide accelerated growth prospects to high potential employees, but also a talent pool to the organization for seamless deployment.

In our efforts of helping our employees enhance their skill and grow in their career, we have tied up with the SP Jain institute in India and the Kelley School of Business at the Indiana University.

We continue to see Diversity in gender,

