



Cummins India Limited

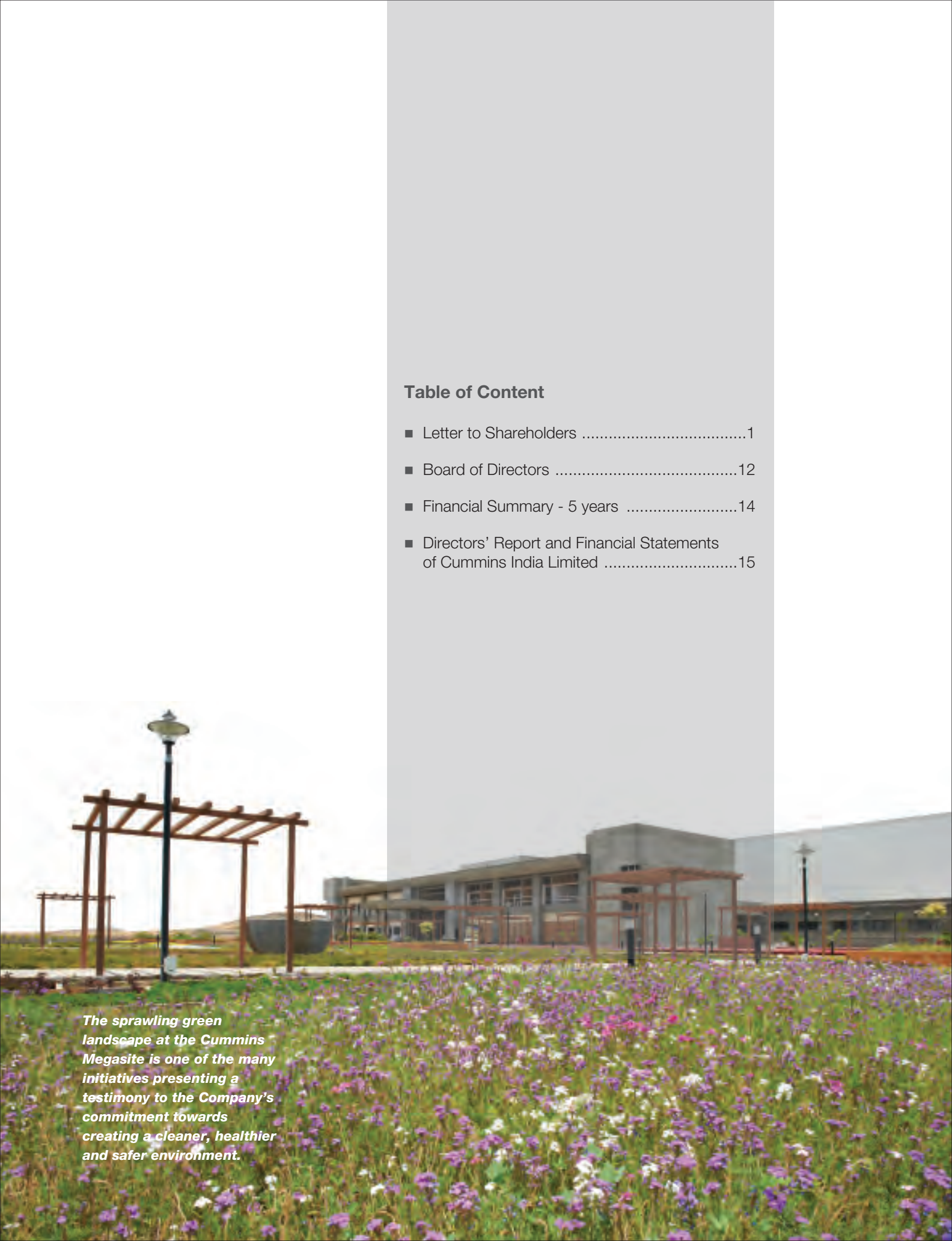
Annual Report 2010-11

Continuing
the Legacy of
Dependability
with Sustained
Profitable
Growth



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The sprawling green landscape at the Cummins Megasite is one of the many initiatives presenting a testimony to the Company's commitment towards creating a cleaner, healthier and safer environment.



Anant J. Talaular
Chairman and
Managing Director
Cummins India Limited

To Our Shareholders

2010-11 has been a very good year for Cummins India Limited. The Company resumed its higher growth levels, exceeded its financial targets, progressed on its non-financial objectives and consequently, remained a Dependable partner to all its stakeholders. Along the way, it also crossed significant milestones, the most notable being the inauguration of the 300-acre Cummins Megasite at Phaltan earlier this year. The project reaffirms our commitment to profitable growth as well as our 'One Cummins' approach.

I am pleased to share that Cummins India Limited posted record sales as well as profits, making 2010-11 the best year in its history. Net sales for Cummins India Limited grew 39 percent to Rs. 3,945.4 crores. Net profit before tax at Rs. 802.4 crores increased 31 percent. The Company's cash position remained strong even as we continued to invest in our expansion programs.

Maintain or Grow Market Leadership

The Company has nearly doubled its revenues over the last four years. All four of our businesses: Industrial, Automotive, Power Generation and Distribution have contributed towards this success with equal passion. Clearly this type of growth has been at higher rates than the GDP growth which implies that we have been growing our market share leadership. With this strong foundation of market leadership, unmatched technology, scale and customer support footprint, along with time tested strategies and a stable, diverse leadership team, the Company is positioned well for another doubling by 2015.

Critical to this high growth have been our new product programs and 'fit for market' solutions that have helped us increase our

share in the markets we compete in. Classic examples of 'fit for market' solutions are the mechanically controlled 4B/6B engines that were developed to meet tighter construction segment emissions norms by our Industrial Engine Business this year. Likewise, our Automotive Business redesigned our B series engines to meet the more stringent BSIII emissions norms with mechanically controlled product leading to lower cost and ease of maintainability. The new BSIII emissions norms are now applicable throughout the country, barring 13 major cities, which are at BSIV. Our preparedness not only helped our customers transition smoothly to the new norms, but also testified our leadership in developing clean and green technologies.

I am happy to relay that our Automotive Business also successfully concluded the requirement of 3,500 natural gas powered B series engines for low-floor eco-friendly buses. Ordered by OEMs that were fulfilling the Delhi Transport Corporation tender, these deliveries were staggered over a three-year time frame.

Our Engine Business grew in the High Horsepower segments by positioning value packages in the rail (AC-AC DEMU), marine and pump segment. Last year we had seeded a prototype unit for the Self Propelled Accident Relief Train (SPART). Following its successful validation, we are now working on commencing production of these units for the Indian Railways. The business made further inroads in this segment with major projects like Diesel Electric Multiple Units (DEMU), Power Car, and 4 and 8 Wheeler Over Head Equipment (OHE) cars.

In order to provide greater value to our customers in the water well drilling segment our Engine Business

introduced new rig packages powered by our 14 liter and 19 liter engines. For the construction and mining segments we launched the 15 liter and 19 liter electronic engines. These engines were on display at the 10th International Mining and Machinery Exhibition held in Kolkata (IMME). These state-of-the-art engines reinforce our commitment to the construction and mining industry, while highlighting our emission leadership and unrivalled fuel economy.

Our Power Generation Business saw a surge in demand for low horsepower generator sets, which has led us to plan further expansion in our capacity. We intend to set up a power generation plant on the Cummins Megasite in the Special Economic Zone in Phaltan. With an initial capacity of 36,000 units per annum, and a matured capacity of over 50,000 units, this facility would manufacture generator sets and generator drives in the low and medium horsepower range for exports.

The business also launched the 78 liter QSK78 generators for the domestic market, positioning us to become the market leading player in this range.

Our Distribution Business launched an end-to-end maintenance service for telecom towers, which is running successfully in 440 locations. This success offers potential for additional business and also an opportunity to increase the value of our offering.

For long-term success of an organization, capable leadership at various levels is fundamental. We have taken a leader-led approach to imparting these skills in the Company. These Leadership Culture sessions were initiated by the Cummins Inc. Chairman and CEO, Tim Solso. Subsequently, the Cummins Inc. President and

COO, Tom Linebarger facilitated Coaching & Developing sessions around the world. He was followed by our global Business Presidents, Pamela Carter on Talent Management, Rich Freeland on Fostering Open Communications, Tony Saththertwaite on Diversity Management and yours truly on Strategic Thinking/Setting the Aim. I have also been conducting interactive sessions on Leadership Excellence in the Indian context for managers across all levels in India.

Furthering our leadership development efforts, we also launched the Global Leadership Development Program in India. The Program is targeted towards our senior leaders to help them become more effective in and outside India. Additionally, the soon to be announced 'Building Success in Others' program, will provide support to first time managers, equipping them with skills to provide good leadership to junior level employees. We are optimistic that these sessions will help develop excellent leaders capable of leading the Company towards long-term, sustainable prosperity.

Right talent is an essential element to driving high growth that is profitable. The Company is likely to increase its employee strength by over 700 this year. Compared to historical levels this is a very significant increase in hiring volume, and I am happy to relay that numerous initiatives and investments are currently underway to enable us do this well.

We believe diversity leads to innovation and excellence. Clearly, in order to succeed in today's competitive environment, it is essential to have individuals representing diverse backgrounds at all levels of the organization. Being passionately driven by the senior

leadership and embraced by all others in the organization, the year saw us improve representation of women to 19%, with almost 25% women employed in key leadership roles. We are committed to and are working determinedly towards achieving our target of 30% women representation by 2012. We also continued to make progress in expanding the representation of employees from different regions of India.

Given the positive market conditions, coupled with investments that we are making in our people, products, technologies and infrastructure, we believe the Company is poised to achieve another doubling of revenue in the coming four years.

Exceed 40% Return on Average Net Assets (ROANA) and 16% Profit Before Interest and Tax (PBIT)

One of the most visible initiatives to supporting the above objectives is the investment in the Cummins Megasite at Phaltan. Besides augmenting capacities, the considerably leaner and efficient facilities built on this site are geared to help us significantly from a cost perspective. Moreover, by virtue of their location all the expansion projects stand to benefit immensely from the incentives offered by the State Government.

The Cummins Megasite was inaugurated on January 14, 2011, by dignitaries; Shri. Sharad Pawar (Union Minister of Agriculture), Shri. Prithviraj Chavan (Chief Minister of Maharashtra), Smt. Supriya Sule (Member of Parliament) and other senior ministers of State, in the presence of the Cummins Inc. Chairman and CEO, Tim Solso. With this inauguration we launched the first three expansion



The first three projects: *Distribution Business' High Horse Power Rebuild Center, ReCon India and Tata Cummins Limited at the Cummins Megasite become operational. Besides augmenting capacities, the considerably leaner and efficient facilities demonstrate project and process excellence with minimal cost of operations.*

projects at the Cummins Megasite, marking the beginning of a Campus that will see nearly 10 facilities operating from one location in the coming few years. All of these projects will have a positive impact on your Company.

High Horsepower Rebuild Center: This Center rebuilds mechanical and electronic engines from 19 liters up to 60 liters, and repairs all Cummins engines helping our Distribution Business meet the requirements of our rapidly increasing customer base.

Tata Cummins Limited: This project is an expansion of the joint venture Tata Cummins Limited for manufacturing the B series and ISB electronic engines. Built to cater to the surging commercial vehicle, power generation and industrial markets, this expansion will help the Company serve its customers, more effectively.

ReCon: This plant is a state-of-the-art remanufacturing facility for parts and engines up to 19 liters in size. This

allows the Cummins India Limited Distribution Business to serve its customers with cost effective parts and engines that offer similar warranty as a new part or engine.

Other than these three initial projects, the next unit to commence operations this year will be a common Parts Distribution Center (PDC) that will serve all Cummins businesses in India. This unit aims to improve supply chain efficiency in aftermarket parts distribution and warehouse operations. In addition to supporting our Distribution Business, the Center will offer optimal warehouse space to all the businesses in India, bringing significant improvement to our inventory management. The Center will have the Cummins Inc. global processes as well as I.T. infrastructure that will enable excellent delivery performance to our customers.

Next in line is an engine upfit plant to cater to the growing requirements of the construction, compressor, and marine segments. Apart from upfitting mechanical



Continuing to help our customers succeed: Built over 7 acres of land, the new, lean and modular High Horsepower Rebuild Center of the Distribution Business boasts of concepts like lean manufacturing, state-of-the-art technology and processes that significantly improve engine rebuild and repair capabilities.

and electronic B and L engines for various applications, the facility will also manufacture C series engines. Upon completion the plant will produce 20,000 engines annually.

I am happy to share with you our plans to expand the laboratories and engineering facilities at our Kothrud site into a global, full-fledged India Technical Center. The India Technical Center would support the growth plans of our Industrial, Power Generation, Automotive and Components businesses in India and globally; designing solutions that are cleaner, healthier and safer, and most of all cost effective, giving the Company a competitive advantage in the domestic markets.

I am very optimistic about all these projects and their collective contribution to ensuring our Company's sustained growth in a profitable manner.

As we go about growing our businesses, it is equally important to lean ourselves out. Aligned to our low cost

producer strategy, initiatives such as ACE-II (Accelerated Cost Efficiency) which began in 2008 and TRIMS (Total Cost Reduction in Indirect Materials and Services) which we launched in 2009, continued to help us maintain our low cost leadership position in the domestic markets, and remain the preferred source for exports to our parent.

I am delighted to share that we concluded ACE-II having achieved 96% of the targeted cost reduction, generating accrued savings of Rs. 53.8 crores during 2010-11. ACE-II aimed at reducing total cost of ownership of direct materials by 20% over a three-year period.

Likewise, TRIMS was initiated to reduce the Total Cost of Ownership in indirect materials by 10% per year over three years. The initiative along with other purchasing projects have generated bottom line savings of Rs. 12.4 crores and avoidance savings to the tune of Rs. 39.7 crores for the Company. Additionally, the program has helped consolidate the supply base and leverage our

spend. Projects in the areas of cutting tools, safety equipment, packaging, civil maintenance and housekeeping are currently underway.

Another initiative that continues to play a critical role in driving cost reduction is Six Sigma. Now in its eleventh year, Six Sigma has become so much a part of our DNA that we have progressed to completing nearly 355 projects during the year 2010-11, resulting in savings of approximately Rs. 61.89 crores for the Company. Of the number of projects closed, 90 are Customer Focused Six Sigma (CFSS) projects where our customers were an integral part of the team. We have been laying great emphasis on CFSS as they help our customers succeed and deepen our relationship with them.

We also continued our efforts of engaging and working with our suppliers. Together, we closed 50 Supplier Focused Six Sigma (SFSS) projects.

The Sigma Lite program, renamed as Introduction to Six Sigma, saw 12 launches during the year, imparting training to more than 300 junior managers across various businesses. We strongly believe that Six Sigma is a great way of improving leadership skills, processes and efficiencies and to this effect, have been investing heavily in developing every employee to become a Green Belt and our best performers to become dedicated Black Belts and Master Black Belts.

I am pleased to share that this year seven projects from India won the Cummins Inc. Chairman's Quality Award

presented by Tim Solso. Six Sigma is an intrinsic part of our journey towards leadership excellence and achieving 'Zero Defects'.

Achieve and sustain the respect of all stakeholders

This is as important as achieving our earlier objectives.

I am delighted that shareholders benefited from the Company's performance. We had disbursed an enhanced interim dividend of 350 percent (Rs. 7 per fully paid-up equity share of Rs. 2 each) in March as compared to the 300 percent interim paid the previous year. We concluded the 2010-11 financial year with recommendation of a final dividend of 400 percent (Rs. 8 per share of Rs. 2 each) aggregating to a record 750 percent (Rs. 15 per share of Rs. 2 each). The total return to shareholders during the fiscal year including dividends and share price appreciation was 38.9 percent. Over the last five fiscal years, the total return has been 25.7 percent on a compounded annual growth basis.

We continued to delight our customers with new technologies. As an example, our Automotive Business introduced and successfully demonstrated the CNG hybrid technology in conjunction with Tata Motors for the buses that were supplied to Delhi Transport Corporation (DTC) for the Commonwealth Games. The CNG hybrid technology offers substantial improvement in fuel economy while reducing emissions.

A true measure of us achieving and sustaining the respect of our customers is the Net Promoter Score (NPS), a system that we had launched last year to

measure customer loyalty. Based on the customer feedback received through the system, our Distribution Business has started a project called 'Re-engineering of the Service Delivery Process'. The process has been designed to track every service event from the beginning to the end, enhance communication with our customers and draw the attention of senior leaders within the organization towards speedy resolution of the concerns voiced. The Company has in fact gone a step further in creating opportunities for customers to interact directly with the senior leadership facilitating first hand feedback on our products and services, thus demonstrating our dedication to the first of the ten practices under Cummins Operating System (COS), which is to 'put the customer first and provide real value'.

That we are indeed the preferred partner to do business with was endorsed with the 'Voice of the Customer' award in five of ten categories conferred by the international consultancy Frost & Sullivan on our Power Generation Business. The business has received this recognition for the second time since 2007, reinforcing the Company's position as the preferred power generation brand in India. These awards are based on the end-user satisfaction assessment that the consultancy conducted among generator set customers in India and go a long way in demonstrating our commitment to Dependability.

Additionally, our Engine Business was recognized by a much valued and long-time business partner, Atlas Copco with the award for 'Best Quality Performance'.

Honours were conferred upon the Company by the leading industry body, Confederation of Indian Industry (CII). CII presented the Company with the 11th National

Award for "Excellence in Energy Management 2010" for the rural electrification project which the Company had initiated in collaboration with the Cummins Engine Research Facility (CERF) at IIT Bombay. This award under the category of Innovative Energy Saving Product/Service recognizes our indigenously developed technology which allows electricity generation, utilizing locally available renewable energy sources like Straight Vegetable Oil from non-edible oil seeds grown locally, whilst minimizing overall carbon emissions. A pilot of this project was validated in village Kolha in Orissa last year, just one of the Company's many initiatives towards deploying technology and expertise towards the development of the communities. The technology was replicated at village Padarwadi in Maharashtra, this year. The initiative captured on film won the first place amongst entries from 36 other global companies at the Boston College Center for Corporate Citizenship Film Festival.

To our employees, we do not merely offer employment opportunities but long-term growth prospects that allow them to develop and succeed in the organization. Our 'Hire-To-Develop' strategy is aimed at employing the right talent that believes in the Cummins Core Values at the entry level, which is then developed to take up greater responsibilities in the organization. We believe that by doing this in a structured way, we will be giving employees great work assignments and experiences, which will not only enhance their skills but also cement long term relationships with your Company. This year, 466 deserving employees were provided an opportunity to take up new roles and responsibilities within the organization. Over 100 engineers went through our Young Managers Development Program (YMDP). Of the 31 MBA students from premier B-Schools who had

interned with us, 23 were retained through suitable placement across varied functions in the Company. A sizeable percentage of our new recruits are women, aligned with our efforts to increase gender representation in the organization.

As part of our gender diversity efforts, the Affirmative Development Project was successfully implemented in India. Mid-level managers and members of our Women's Affinity Group were given an insight into the business case for diversity in a day-long workshop that was conducted by the Global Diversity Leader and a consultant partner. We are committed to providing an inclusive and energizing environment for talented people of all backgrounds at Cummins.

A key enabler to facilitating our employees' growth path in the organization is the Performance Management System. This process and system witnessed 99% employee utilization this year.

To recognize exemplary performance during the year the Company hosted the sixth annual CMD Awards. Thirty teams from across the Cummins Group in India were rewarded for their commitment to the six Core Values, and critical initiatives such as Six Sigma, Customer Support Excellence, Health, Safety & Environment (HSE), and overall performance.

For many of us, the desire to learn and garner knowledge is an unending journey. For deserving employees who wish to study further, we have introduced an Education Assistance Policy that facilitates participation in education programs. Our high performing employees continue to benefit from our partnership with leading institutions, such as the Indiana

University Kelly School of Business and SP Jain Institute of Management & Research. To this list we have added the Indian Institute of Management, Ahmedabad which has worked with us on a "Cumminized" management program this year. 50 employees from across the organization have been sponsored for MBA programs at these esteemed institutes.

Team Based Work System (TBWS), our global approach at engaging shop floor employees to driving improvement is being implemented in all our facilities at the Cummins Megasite and amongst the existing facilities, such as our Power Generation plant at Pirangut. This initiative develops self-motivated teams that are capable of operating the plant with minimum supervision; thereby improving our product quality and process efficiency, and in turn reducing our cost of operations.

We continue to invest heavily in creating the right environment in the organization. At Cummins the Cummins Code of Business Conduct and Treatment of Others Policy is core to creating the right environment. All employees have been taken through sessions that educate them about the importance of acting with integrity and respect. I am very happy to relay that our most recent Employee Satisfaction Survey shows significant improvement in all five indices of satisfaction, namely; Communication, Performance, Vision, Diversity and Leadership.

A critical aspect to providing a great place to work is ensuring that the work environment is clean, healthy and safe for all our employees. To support sound HSE practices in the organization, the Company has initiated procedures, audits and systems such as Driving Safety,