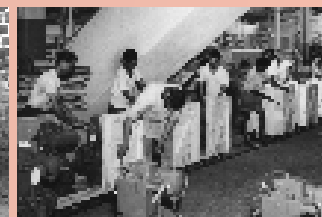




# Cummins India Limited

## Annual Report 2011-12

50 years of  
enriching lives,  
empowering  
people.



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### 50 years of enriching lives, empowering people.

Photographs on the cover and those on this page illustrate the 50-year journey.

It was in 1962 that Cummins Engine Company Inc. of USA forayed into India and laid the foundation for a spectacular journey. The story began with a manufacturing unit in Pune that continues till date as the Company's largest campus in the city and a proud testimony of its achievements in India.

In the years that followed, the growth curve rose exponentially with the establishment of an R&D center and foundry, production of V-28 engines for customers worldwide and entrance into the automotive segment. Towards the late 1990's, renamed as Cummins India Limited, the Company expanded its capabilities to offer software development, low horsepower generator sets and power projects. Continuing to make lives better for its many stakeholders and setting the stage for an exciting journey ahead the Cummins Megasite became operational in 2011.

Alongside growth, Cummins' commitment to Corporate Responsibility through the three identified focus areas, namely; Higher Education, Energy & Environment and Local Community Infrastructure Development, has brought phenomenal positive changes to the communities in Pune, Phaltan and other locations where Cummins is present. Cummins College of Engineering for Women in Pune and Nagpur, and other such projects are an evidence of this commitment.



# To Our Shareholders

I feel very privileged to report on a year that marks your Company's 50<sup>th</sup> year of operations in India. Before recounting the performance of your Company for the fiscal year 2011-12, it is only apt to glance back for a moment at the journey that began modestly in the form of a single factory on the outskirts of Pune in 1962, and the evolution over the succeeding fifty years that took your Company from strength to strength, as narrated below;

1962 – 1972 : Erstwhile Cummins Engine Company Inc., U.S.A forayed into the Indian subcontinent in partnership with Kirloskar Oil Engines Limited and built the first factory on a 70-acre campus on the outskirts of Pune. In 1964, the Company commenced production of engines for industrial and marine applications and soon after progressed to exporting engines and spare parts. During the course of the decade, the Company acquired its first wholly owned subsidiary, Cummins Diesel Sales and Service (India) Pvt. Ltd.

1972 – 1982 : In 1975, a decade after commencing production, the Company reached its then full, licensed capacity of 2,520 engines per annum. From gross sales of Rs. 1.8 million in 1964, the Company reported gross sales of Rs. 177 million in 1975. The Company also established an R&D Center in India.

1982 – 1992 : The second plant in the form of a foundry at Lohegaon became operational. The Company expanded its presence in the automotive segment. The R&D Center completed the development of dual fuel and natural gas engines. It was at this time that the Company also became the sole supplier of the V-28 engine for customers worldwide. It also became the first diesel engine manufacturer in India to receive the ISO 9001 Certification.

1992 – 2002 : The R&D Center transformed into a global center and the total design control authority of 495 and 743 engine models moved to India. In 1996-97, the Company produced a record 10,000 plus engines, and a year later exported the 10,000<sup>th</sup> V-28 engine. Annual exports crossed the Rs. 100 crore mark. The Company started the Aluminium foundry in Pune.



**Anant J. Talaulicar**  
Chairman and  
Managing Director  
Cummins India Limited

In the same decade, Cummins Engine Company Inc., U.S.A and Kirloskar Oil Engines Limited decided to go independently. The former increased its share holding from 50 percent to 51 percent, the Company was renamed as Cummins India Limited and the latter sold most of its shares in the Company. Soon after, Cummins India Limited invested in subsidiary companies, expanding its capabilities to offer low horsepower generator sets, power projects and software development.

2002 – 2012 : Through the course of the fifth decade, transforming itself into a performance driven organization, the Company began exhibiting profitable growth at double digit rates while holding true to its Vision, Mission and six Core Values. The year 2012, marks fifty successful years of realizing the Company's vision of making lives better in the Indian subcontinent.

It is with a sense of pride and fulfillment that I report the performance of Cummins India Limited at this historic juncture. In the fiscal year 2011-12, the Company has demonstrated sustained performance, with record levels of sales, profits, and cash flow from operations. Net sales for Cummins India Limited grew 2.6 percent, despite softening GDP conditions, to Rs. 4,052.2 crores. Net profit before tax at Rs. 824.6 crores increased 2.8 percent. The Company generated significant cash, strengthening its balance sheet and financial position.

Your Company's performance in 2011-12 is attributable to focused efforts towards maintaining market leadership, placing the customer first, and integrating a diverse workforce that fosters innovation and superior performance. All the four businesses; Industrial, Power Generation, Automotive and Distribution demonstrated

these attributes, positively influencing the many stakeholders of your Company.

## **Shareholders**

As a result of the excellent performance demonstrated by your Company over the past several years, on the occasion of the 50<sup>th</sup> Annual General Meeting of your Company, shareholders were allotted fully paid bonus shares of the face value of Rs. 2 each in the ratio of 2:5. Continuing our commitment to return value to our shareholders, we had disbursed an interim dividend of 250 percent (Rs. 5 per fully paid-up equity share of Rs. 2 each) in February 2012. We concluded the 2011-12 financial year recommending a final dividend of 300 percent (Rs. 6 per share of Rs. 2 each) aggregating to 550 percent (Rs. 11 per share of Rs. 2 each), subject to your approval at our next AGM. The total return to shareholders during the fiscal year including dividends and share price appreciation was 3.9 percent, a positive return as compared to 10 percent decline in the Sensex in the last year. Over the last five fiscal years, the total return has been 23.8 percent on a compounded annual growth basis.

Despite significant pressure on margins owing to an inflationary, slower economic growth environment compounded by an adverse product mix, your Company has sustained its profitable growth. One of the primary factors for achieving this has been our concentrated focus on increasing efficiencies and reducing costs. Three initiatives that have been contributing to this for many years now are Six Sigma, Accelerated Cost Efficiency (ACE) and Total Reduction in Indirect Materials and Services (TRIMS).

Six Sigma is currently in its 12<sup>th</sup> year and as a result has

now become an intrinsic part of the organization's culture. Continuing to drive Six Sigma across all levels in the organization, we have been making significant investments towards training our employees to become Green Belts, Black Belts and Master Black Belts. As a result, your Company now has over a 1,000 belts working on multiple projects. During the year these belts have successfully closed 475 projects, a significant increase from the 355 projects that concluded last year. All together, these projects have generated savings of over Rs. 100 crore for your Company. Apart from the tangible benefits, Six Sigma remains a critical initiative for developing leaders who will drive the future profitable growth of your Company. Over the past two years we have been proactively engaging our customers and suppliers in Six Sigma project teams that have a direct positive impact on them. Out of the 475 projects completed this year, 35 focused on customers and 34 on suppliers. These projects have gone a long way in deepening our relationships with customers as well as suppliers. Last year, we extended the Six Sigma program to our junior managers in the form of 'Introduction of Six Sigma'. We are now taking the program to the next level with an aim to cultivate the Six Sigma methodology of problem solving amongst our Associates. Encouraged by the multi-fold benefits of Six Sigma, we recently integrated this approach into our community improvement projects as well. We closed nine projects in the area of Corporate Responsibility. In 2011, your Company's progress in Six Sigma was acknowledged at the most prestigious forum in the organization, wherein our global Chairman, Tom Linebarger recognized six projects from India with the Cummins Inc. Chairman's Quality Award.

As mentioned in the previous year's Annual Report, the

success of our second program, ACE which lasted from 2005 through 2008, was replicated with ACE II in 2008 through 2011. Subsequently, we launched ACE III in 2011 to further leverage this program through 2014. ACE III targets to reduce the Total Cost of Ownership for direct materials by 20 percent over a period of three years. The initiative is expected to generate savings of approximately Rs. 230 crores upon successful completion in 2014. In the first year of implementation, savings of Rs. 30 crores have been reported.

I had mentioned about the initiation of TRIMS in the year 2010. This program was launched to reduce the Total Cost of Ownership in indirect materials and services by 10 percent per year over a period of three years. In 2011, this initiative along with other purchasing projects in the indirect spend space have generated combined bottom line savings of Rs. 8.1 crores and avoidance savings of Rs. 12 crores for your Company. Additionally, this Program has helped consolidate the indirect materials and services supply base and better leveraged our spend.

In order to capitalize on the domestic as well as exports growth, your Company is sustaining the implementation of its longstanding four strategies of maintaining or increasing domestic market share, becoming a low cost provider, maximizing exports and creating a great place to work. With these, your Company is strongly positioned to sustain its profitable growth in the long term, and consequently returning value to its shareholders with increased dividends.

### **Customers**

Your Company believes that its success lies in bringing success to its customers. Staying true to this belief,

Cummins continued to introduce new and advanced technologies in the market place. The Engine Business launched local assembly of the Cummins 60 liter engine for industrial and power generation applications in India as well as overseas. This product has a potential to generate approximately Rs. 260 crores sales over the next five years. Additionally, the Industrial Engine Business introduced several new value packages for increasing its presence in the segments that it serves. For the Wheeled Construction market, your Company launched cost effective indigenous 6 cylinder (6B5.9 engine) and 4 cylinder (4B3.9 engine & B3.3 engine) mechanical solutions to facilitate the transition to BSIII CEV emission norms. This high potential segment is likely to yield business of approximately Rs. 12-15 crores on an annual basis. For the Rail segment, your Company seeded a prototype unit comprising a 1,600 HP engine. Your Company has also obtained consent from the Indian Railways to develop a power pack for 'End-on-Generation' for the express mail, which substantially reduces the life cycle costs for the trains as compared to existing technology. Catering to 500 express mails, an overall business potential of Rs. 300 crores is being envisaged from this solution. Upon commencing production of the prototype unit that had been seeded last year for the Self Propelled Accident Relief Train (SPART), your Company is now partnering with leading locomotive OEMs to develop a power pack for SPART. This positions the Business to further enhance its share in this segment. For the Marine segment, the Business has developed indigenized IMO Tier II emission compliant products.

Collaborating with the Emission Solutions Business, a part of the Cummins Technologies India Limited legal entity, the Engine Business is preparing itself with

products and technologies that will comply with Bharat Stage IV emissions norms that are likely to be announced in the future. The Engine Business stands to benefit immensely from the vast experience which this Business has already garnered in India.

The Power Generation Business has added two diesel generator set ranges to its exports portfolio – the S3.8 and the 6B. Designed to meet international standards and certified for CE, SONCAP and GOST, both the ranges will cater to diverse applications in low kVA markets. In line with our efforts to provide value to our customers, both the generator sets have been designed to offer extended fuel autonomy of over 12 hours owing to larger fuel tank capacities. These new ranges, that are being exported to markets in Asia, Africa, Europe and South America, represent significant future business potential for your Company.

The Central Pollution Control Board (CPCB) has taken a lead in ensuring that the industry is inventing solutions that are improving the environment. The country is likely to adopt tighter CPCB II norms which are similar to Euro Stage III norms. Responding positively to this, your Company will be going beyond the intent of the legislation. Cummins has explored various technology options to best fulfill customer demands and emissions regulations and has taken a strategic decision to not limit itself to one approach only, but to develop “the right technology” for each application and market. Your Company is making investments in developing critical components and subsystems across the product line in alignment with this strategy.

After the successful validation of the CNG parallel hybrid technology that was offered by the Automotive Business



to buses supplied by Tata Motors to Delhi Transport Corporation (DTC) for the Commonwealth Games held in Delhi last year, Tata Motors has now entrusted your Company with the opportunity of developing and delivering the CNG series hybrid technology. Ten such engines have already been shipped to Spain. The CNG series hybrid technology offers substantial improvement in fuel economy and reduction in emissions, providing a more environment friendly public transportation to commuters.

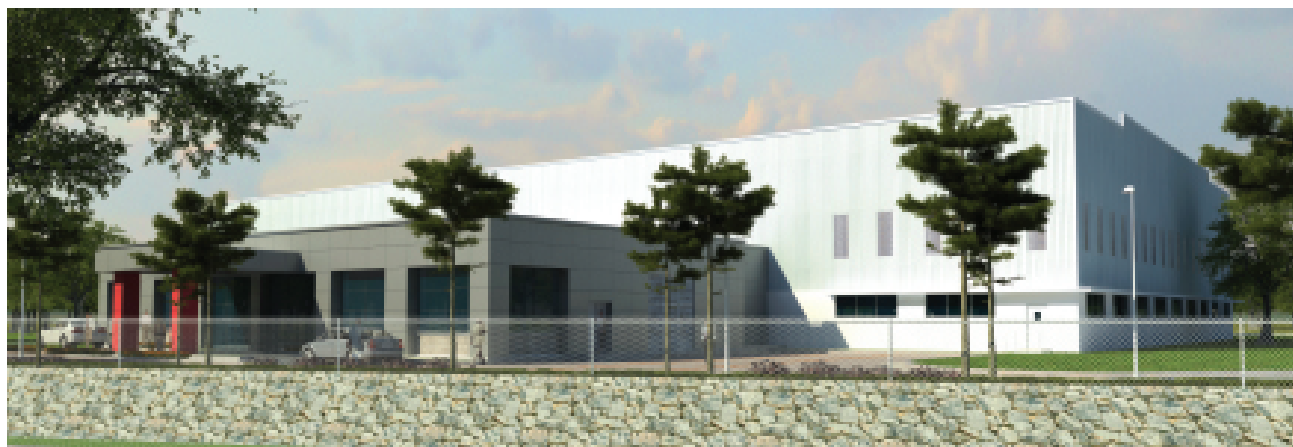
Customer Support Excellence (CSE) continues to be a critical initiative to strengthening our support and relationships with our customers. Customer feedback remains an essential element to enhance your Company's customer support capabilities. The Distribution Business periodically conducts the Net

Promoter Score (NPS) transactional surveys for obtaining customer feedback. These surveys provide an insight into reasons for dissatisfaction and allow your Company to adopt corrective actions. Consequently, the Business has undertaken numerous initiatives to improve satisfaction levels, which include compliance to a re-engineered service delivery process by dealerships, customer loyalty workshops across zones, NPS Council, SmarTech Champion Program for Service Advisors and Six Sigma. These efforts have resulted in enhancing the Customer Loyalty score of your Company from 37.5 percent in 2010-11 to 53 percent in 2011-12.

Subsequent to starting operations at three factories at the Cummins Megasite in early 2011, we opened the India Parts Distribution Center, planned the common facilities incorporating a crèche, medical center and



**Raising the bar in customer service:** The India Parts Distribution Center is the fourth project to become operational at the Cummins Megasite at Phaltan. Equipped with robust processes and systems, the project facilitates improved inbound receiving and inventory management capabilities, enabling enhanced delivery of parts and information to aftermarket dealer channels at the lowest possible, end-to-end logistics cost, thus raising Cummins' customer service capabilities in parts distribution to the next level.



**Growth story at the Megasite, continues:** For further expanding its operations, the Engine Business broke ground for two new factories at the Megasite. The first (seen in the rendering) will be an upfit center for mid-range engines classified as B, C and L series for industrial, power generation and on-highway applications. The second facility to be built on the SEZ section of the Megasite will manufacture high horsepower QSK 60/23 engines.

training center, and broke ground for three additional projects which had been announced last year. Two of these are an expansion of our Engine Business, namely, an upfit center for midrange engines classified as B, C and L series for diesel and natural gas industrial, power generation and on-highway applications, and a facility for manufacturing high horsepower QSK 60/23 engines on the SEZ section of the Megasite. The third factory, again on the SEZ section, would manufacture generator sets and generator drives for exports in the low and medium horsepower range. Since commencing production at the second plant of Tata Cummins Limited at the Megasite last year, we have been able to substantially augment on-time supply of engines to the Industrial, Power Generation and Automotive businesses of Cummins India Limited. This plant is geared to increase its capacity to 1,20,000 engines this year. Envisaging the future demand for midrange (B 5.9, ISB 6.7 and ISLe 8.9) engines for on-highway and off-highway applications, we have

decided to further enhance our capacities and invest in the third plant of Tata Cummins Limited at the Megasite. These base engines will be sourced by Cummins India Limited and up fitted into Automotive, Industrial and Power Generation applications. Moreover, localization of the ISLe engine will provide your Company with an opportunity to offer an international product to the domestic market at competitive rates.

I am pleased to share that our plans to substantially expand the laboratories and engineering facilities at our Kothrud site into a global, full-fledged India Technical Center are progressing well. The Technical Center will be designing solutions that are cleaner, healthier and safer, and most of all cost effective for the Indian market.

All these investments are geared towards strengthening your Company's capability to contribute positively to the customers' performance and long term success.





**Meeting market demands powerfully:** Cummins' expanding footprint in the power generation space saw it break ground for a new factory on the SEZ section of the Megasite. To meet the increasing demand of customers the world over, this facility (seen in the rendering) will manufacture generator sets and generator drives in the low and medium horsepower range.

## Suppliers

Your Company believes that its Suppliers are an intrinsic part of its journey towards being the first choice of customers as well as a key contributor to its accelerated growth strategy. 'Treatment of Preferred Suppliers as Partners' is an integral part of the Cummins Operating System and institutionalizes our partnerships with Suppliers at all levels within the organization. To this effect your Company has developed holistic and comprehensive strategies towards strengthening its partnership with its suppliers. Some of these initiatives include Supplier Focused Six Sigma projects to build robust processes, National Electronic Fund Transfer for on-time payments, Training programs to stay abreast of world class practices, and a dedicated foundry expert to help in process enhancement.

Your Company strives to provide an environment where its Suppliers are encouraged to work with integrity,

always doing what is right and not what is convenient.

To this effect, the Company has established a Supplier Code of Conduct that encourages Suppliers to conduct business with utmost integrity, while innovating to deliver superior results.

Your Company remains committed to helping its Supplier community succeed as it expands its businesses and capabilities.

## Employees

Your Company believes that people development is critical to its current and future growth. Significant investments and energies are being channelized in this direction. Last year, I had mentioned the launch of the Global Leadership Development Program (GLDP). This program equips high potential individuals to contribute to the organization at senior levels. The first batch comprising 13 participants will graduate in July this year,

making way for the second batch of participants. Several amongst those graduating from the Program have already assumed senior leadership roles, developing and executing strategies that drive your Company's growth in a highly competitive global environment.

Furthering our leadership development efforts, we launched the Leadership Culture Series to reinforce the five leadership skills identified by the organization as being most critical. These five skills are; Coaching & Developing, Talent Management, Fostering Open Communications, Diversity Management and Strategic Thinking/Setting the Aim. We conducted senior leader led sessions for nearly 650 leaders across India this year. Additionally, we also launched 'Building Success in Others – Leadership Essentials', a program specifically designed for first level managers of individual contributors on how to provide good leadership and facilitate career development of their immediate reportees.

In addition to leadership development, we continue to invest heavily in creating the right environment in the organization. The 'Cummins Code of Business Conduct' and 'Treatment of Others' Policy is core to creating the right environment. All the employees of the Company have been taken through sessions that make them aware of the importance of working with integrity and treating every employee, dealer, vendor and customer with respect. Through periodic training modules, we continue to emphasize the right behaviours to all new and existing employees. The most exemplary instances of allegiance to the six Core Values of Cummins, namely; Integrity, Delivering Superior Results, Global Involvement, Corporate Responsibility, Innovation and Diversity, are recognized every year at the CMD (Chairman & Managing Director) Awards Forum.

2011 also saw us step up our efforts in institutionalizing our Hire-to-Develop philosophy. To accelerate the learning curve and build a strong leadership pipeline, we now offer programs in Management Education and MTech (Engine Technology) in partnership with IIM-Ahmedabad and ARAI-Vellore Institute of Technology respectively. These are in addition to the existing strong partnerships with SP Jain in Mumbai and the Kelley School of Business at Indiana University, USA. Furthering the philosophy, over the last couple of years we have been gradually increasing our intake of young talent from campuses. Last year we launched a new structured development module for engineering graduates recruited from campus. Your Company is committed to developing young and diverse talent, which we believe will be a significant contributor to driving our future growth.

Your Company recognizes Diversity as a core value and is committed to creating an inclusive workplace that honors people of diverse backgrounds with dignity and respect. We have been making significant progress in this area evident from the increase in female employees on the shop floor, to women being designated as leaders of businesses and functions. Working with a diverse workforce demands flexibility in mindset and attitude. Your Company has been making significant infrastructure and policy enhancements, to ensure that we provide a safe, secure and supportive environment for diverse groups to perform and prosper within the organization. Every year we take a step further in our journey of integrating Diversity into the fabric of the organization, such that it soon becomes a part of our DNA.

We believe that in order to help new recruits become productive within a brief span of joining your Company, it is important to impart an understanding of the