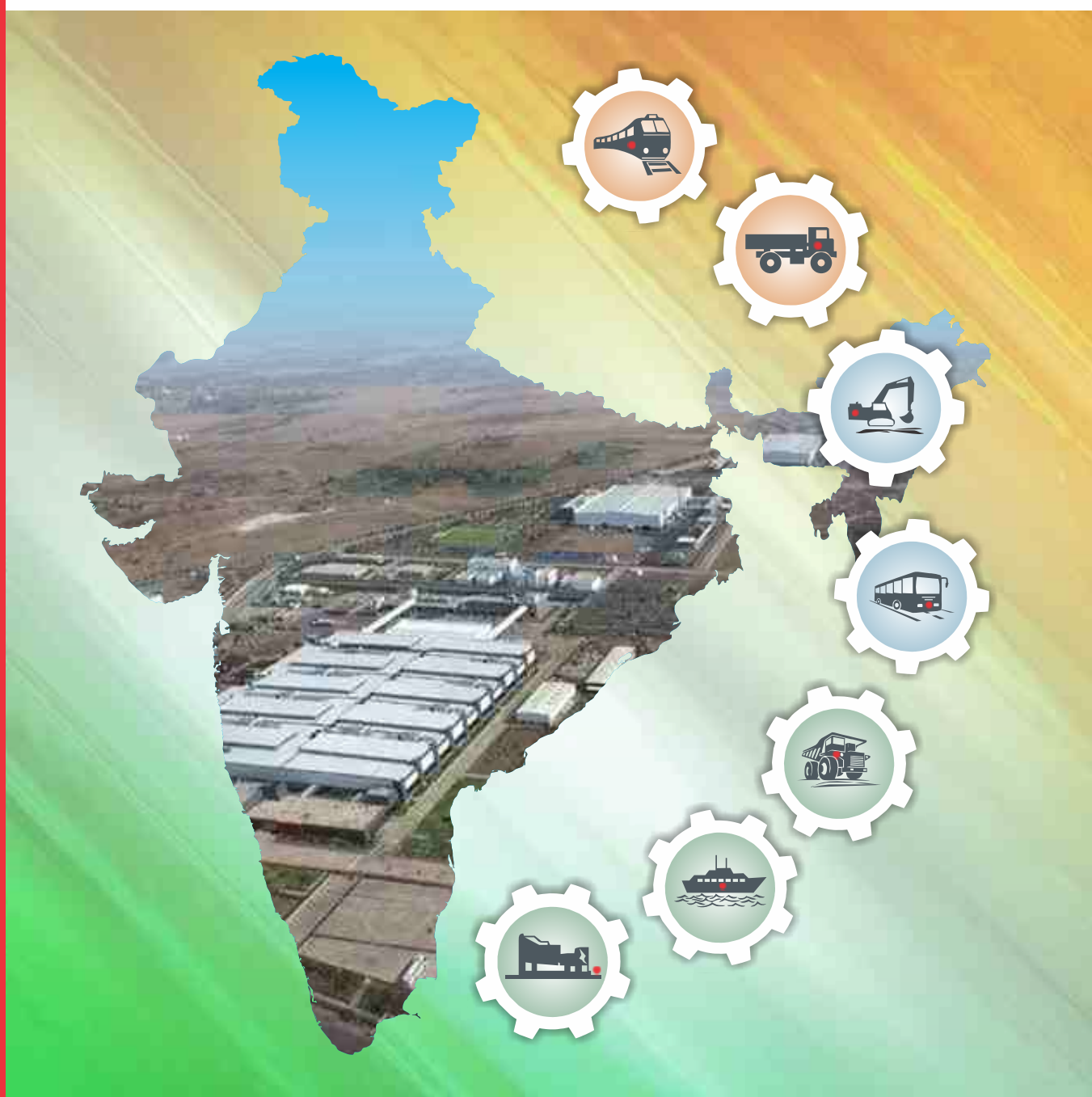




# Cummins India Limited

## Annual Report 2016-17

At the Core of Make in India



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## To Our Shareholders

2016-17 has been another strong year for your Company filled with many significant achievements. The revival in the domestic market due to the Government's increased investments in infrastructure allowed your Company to perform well in spite of the disappointing global economic scenario. We remain well positioned to maximize our market opportunities based on our capabilities to leverage world-class technologies, strong customer and supplier partnerships, best-in-class customer support, a disciplined focus on continuously realigning our cost structure and improving efficiencies, guided by a diverse and stable leadership team.



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

### 2016-17 Financial Performance

In the fiscal year 2016-17, gross sales for your Company were at ₹5,310 crores, representing a 7 percent increase over the previous year. While domestic sales for the fiscal year grew at a robust 12 percent over the previous year, exports declined 3 percent. Net profit before tax (excluding exceptional items) was approximately flat at ₹908 crores, over the same period last year.

We are positive about our ability to grow the company profitably. The Company generated a significant amount of cash, strengthened its balance sheet and continued to return strong value to its shareholders in alignment to its mission.

An interim dividend of ₹5 per fully paid-up equity share of ₹2 each (250 percent) was disbursed in March 2017. The 2016-17 financial year concluded with the Board

recommending a final dividend of ₹9 per share of ₹2 fully paid-up (450 percent) aggregating to ₹14 per share of ₹2 each fully paid-up (700 percent), subject to your approval at the Annual General Meeting.

During the year, the businesses of your Company – Engine, Power Systems and Distribution continued to stay true to our brand promise of Dependability and maximize on their growth opportunities.

Various restructuring projects combined with cost reduction programs such as ACE IV, TRIMS which leveraged our Six Sigma approach, have had a significant positive influence on our profitability, and helped offset the negative pricing and mix impacts our business faced. Through Six Sigma which is now in its 13<sup>th</sup> year, we generated savings of ₹111 crores. We undertook a significant initiative to revamp our Six Sigma program,

the result of which was 462 completed projects, of which 71 were focused on addressing customer concerns. Having trained 952 belts during the year, we continue driving the philosophy of Six Sigma across the organization by encouraging employees to get trained in Six Sigma.

Owing to the fourth wave of the 'Accelerated Cost Efficiency' (ACE) program towards reducing the Total Cost of Ownership for direct materials, we accrued savings of approximately ₹154 crores by implementing 146 cost reduction projects, thus helping us sustain profitability across all our businesses. The other cost reduction program, TRIMS, to reduce the Total Cost of Ownership for indirect materials and services, generated savings of ₹24 crores for your Company.

### **Strong partnerships with all stakeholders**

Your Company continued to strengthen its long-standing partnerships with our stakeholders. These partnerships extend to our key OEMs as well as end-users across the construction, compressor, marine, railway and mining segments, suppliers and our communities.

Your Company continued to strengthen business by investing in leading technologies



**Scaling great heights:** Cummins continues to work closely with global reach-stacker manufacturers to integrate the 'Made in India', electronic 8.9-litre engine, offering the lowest total cost of ownership due to its advanced fuel economy, better reliability and durability.

and launching innovative products that will help our customers win in their markets. Our Engine Business recorded the highest shipments ever, which was also driven by the increase in demand from the construction and compressor segments. Working closely with global reach-stacker manufacturers to integrate our 'Made in India', electronic 8.9-litre engine which offers the lowest total cost of ownership due to its advanced fuel economy, better reliability and durability, your Company is ready to respond with agility to the impetus in the Government's focus on port development. We also continue to enhance our leadership position in the off-highway markets by partnering with global OEMs to address the needs of customers in Japan, China, South Korea and Canada.

During the year, we set-up a new Projects Division within our Power Systems Business which will provide integrated power solutions and an expanded portfolio that goes beyond engines and helps form deeper ties with our customers in the rail, marine, defence and mining segments.

Last year, I had mentioned about our 50-litre electronic engine for the Diesel Electrical Multiple Unit (DEMU). I am happy to share that during the year, we gained significant market share in DEMU applications for the Indian Railways. We are developing telematics based solutions to improve efficiencies for rail applications through proactive diagnostics. With growing number of passengers, space optimization can significantly support higher passenger transfer. Cummins' underslung power pack that is installed below the rail carriage frees up space in the compartment to increase passenger occupancy. Your Company continues to work closely with the Indian

Railways to introduce this technology as a first of its kind in India. Another unique and innovative solution for reducing noise levels substantially is the complete coach insulation in Powercar applications, which will contribute significantly towards a comfortable travel experience for passengers. At the core of multiple railway applications, your Company is strongly positioned to support the segment in its next phase of evolution to enhance safety, speed, capacity as well as reducing noise and emissions.

We regained market share across almost all major segments in Power Generation such as datacenters, IT & ITES and commercial realty. The new 250 kVA generator set based on the L9 (8.9-litre) engine platform is yet another excellent example of how your Company gained competitive advantage with a lean, fit for market product. The features of this product make it an ideal solution for manufacturing, realty, infrastructure, hospitality, rental, service and process industries. A series of exciting new features

include greater fuel efficiency, capability to deliver full power at high altitude and temperature and enhanced step loading capabilities. With the use of advanced in-cylinder technology and a high pressure inline fuel system, this 250 kVA generator set has been delivering market leading performance, durability and value to customers.

We view our suppliers as strategic partners in bringing high quality, right first time products to the marketplace. Over the last two years, we have been focusing heavily on improving quality as this remains one of the most important parameters for our customers. In achieving zero defect in quality, we are aggressively pursuing the AMaZe program (Accelerated Move towards Zero defects). This program made substantial progress during the year in enhancing our customer satisfaction and market share. A total of 376 projects were undertaken which yielded significant progress through enhanced quality and reduction in early life failures.



**Power packed performance:** The new, lean, fit for market 250 kVA generator set based on the L9 (8.9-litre) engine platform is all set to provide Cummins a competitive advantage in the markets.



This program is further helping build an integrated supply chain by encouraging close supplier engagement right from the initial stages of product development till ensuring right service quality to the end customer.

Our responsibility towards our employees, natural resources and the environment continued in 2016, with refreshed zeal towards Health, Safety and Environment. The many initiatives undertaken during the year has resulted in your Company reducing water consumption and greenhouse gas (GHG) emissions by 3 percent and 8 percent respectively. Focussed efforts continue towards effective and better waste generation management.

While on the one hand we fulfilled our health, safety and environmental commitments, we also continued to improve lives in our communities. At Cummins, we believe that a company is only as healthy as the communities where we do business. I am proud as well as humbled to share that each and every one of our employees including shop floor operators have successfully dedicated a minimum of four paid hours for the fourth consecutive year in a row to corporate responsibility, and many have far exceeded this goal.

**A better tomorrow!:** Corporate Responsibility projects under the three focus areas have been scaled up to achieve greater milestones, through leader led focussed efforts and dedicated commitment from employees.



**History repeats itself:** For the fourth consecutive year in a row, every single Cummins employee including shop floor operators engage in improving lives of communities through sustained projects under corporate responsibility.

These hours were dedicated towards the many sustained projects under the focus areas of Higher Education, Energy & Environment, Social Justice and Infrastructure. All our senior leaders personally drove our high community impact projects at all our locations throughout the year along with dedicated commitment from employees. While some projects were scaled up to achieve greater milestones, others were replicated across locations.

Our collective commitment in improving our communities is evident from the resultant positive impact. Details of the many projects undertaken under corporate responsibility have been outlined in the Business Responsibility Report of this Annual Report.



I am particularly delighted to note that we partnered with the Cummins College of Engineering for Women to help it achieve autonomous status in the college's silver jubilee year. This will now allow the college with the flexibility to tailor its curriculum to support the evolving needs of modern industry.

I am also pleased to share that we have undertaken two new long term strategic projects in Corporate Responsibility.

In the Clean Delhi Air project, we are taking the lead in collaborating with the Confederation of Indian Industry (CII) and the Niti Aayog, other industries, NGOs, academia and government authorities in devising a holistic and data based road map to rid the capital of its worsening pollution levels.

The second, Monsoon Resilient Maharashtra, aims to help the rain dependent rural communities in the state institute measures to substantially lessen their dependency on the monsoon and become self-sufficient.

**The stage is set:** The Cummins Technical Center India (CTCI), the largest research and development center world-wide, is very near completion after four years, and is all set to strengthen deep technical expertise and become a global technology hub.

### Technology leadership

Your Company has over the years built a leadership position in engine and generator performance, fuel economy and emissions.

Our largest and most strategic current investment is the Cummins Technical Center India (CTCI), the largest research and development center world-wide, which is very near completion after four years! With physical infrastructure now in place, and work underway to strengthen deep technical expertise, I am excited about taking significant strides in 2017 towards our ambitious vision of becoming a global technology hub that designs lean, sustainable and dependable technologies of the future for Cummins' businesses in India and worldwide.

### Manufacturing scale

Reiterating our allegiance to the 'Make in India' initiative by the Government of India, your Company has continued disciplined investments over the years in increasing manufacturing capabilities at superior quality levels.



As we scale up our capacities, we are also providing our suppliers with strong opportunities to scale up their volumes. In further driving supplier development towards leaner manufacturing, we are working closely with National Productivity Council of India (NPC) and the Maharashtra Chamber of Commerce Industries and Agriculture (MCCIA) for the Lean Management Cluster formation. The first cluster of 10 micro-small-medium scale enterprise (MSME) suppliers have already begun working towards improving value for customers by eliminating waste in the entire supply-chain.

Additionally, working with suppliers in improving parts availability, we have expanded the operations of the India Parts Distribution Center (IPDC) at the Megasite. During the year, the IPDC showed a consolidated growth of 6 percent across domestic and exports business, by working closely with aftermarket customers to enhance the fulfillment of regular as well as emergency orders.

Your Company is geared to be looked upon as the preferred choice for high quality manufacturing for the world with world-class infrastructure backed by a dedicated team of diverse employees.

### **Customer Support**

In continuing to enhance the service experience of our customers, we significantly increased focus on our Customer Support Excellence (CSE) initiatives. We took many steps in becoming more customer centric by forming a centralized supply chain management organization, placing greater emphasis on product planning and quality. We initiated a Customer Connect program where our senior leaders traveled to key customer locations to better understand their

business challenges and how Cummins could help. We also initiated a Customer Talk program to have key customers visit our locations and speak to our employees about their experience with Cummins. We have seen significant benefits with these programs and have decided to continue pursuing these aggressively in 2017-2018.



**Connecting the dots:** Strengthening our connect with the last mile is the Customer Connect program where Cummins' senior leaders travel to key customer locations to better understand their business challenges and how Cummins can help.

The Cummins Dealer Operating System (CDOS) launched its smart phone based application, 'Cummins Care', which extends the software's features in a more user-friendly manner in the hands of end customers and our dealer technicians. Allowing multiple user benefits, one time registration and a facility to plan service events, this application provides seamless prompt service at the customer's fingertips.

We are upgrading all of our field offices and dealerships for a uniform look and feel which reflects the Cummins brand, so as to offer a consistent experience to our customers. This, in addition to our branded service vans will increase our responsiveness as well as brand recall.

Last year I had updated you about the acquisition of the 50 percent stake that our partner had in Cummins Svam Sales and Service in Noida to further strengthen your



Company's distribution and service capabilities in India. The renamed entity - Cummins Sales and Service Pvt. Ltd., which is the only company owned dealership, has made remarkable progress during the year in implementing processes along with a significant level of IT enablement that would result in setting a benchmark in the last mile operations and providing excellent customer support.

The resultant transactional Net Promoter Score (NPS), one of the best measures of customer loyalty and an indicator of our progress in CSE year-on-year, has improved to 74 percent which places it in the top quartile in the entire network.

While it has been heartening to achieve greater synergies across our product and service businesses to drive Customer Support Excellence to the next level with the establishment of a robust framework and review mechanism, we promise to continue to step up this initiative to earn the continuing loyalty of our customers.

### Right Environment

The primary reason for the Company to achieve strong financial and non-financial results, is by fostering the right working environment which allows each individual regardless of their diverse backgrounds, to contribute to their full potential to delight all our stakeholders. Our journey of investing in leaders who drive the right environment will continue to make Cummins a strong and great institution. Details of initiatives undertaken to build and foster this environment, while reinforcing your Company as a 'Great Place to Work' have been provided in the Director's and Business Responsibility Report. I urge you to go

through these to understand how much your Company is investing in developing and retaining talent who we believe will ultimately ensure our success.

### Looking Ahead

I remain confident of India's growth story with the current economy. Continuing to be at the core of powering multiple sectors across the country, we are poised to benefit from continued investments in infrastructure and the implementation of reforms such as GST. As the global economy begins to revive, we have much upside to our exports growth too. We believe we are in a strong position to capitalize on all of these exciting opportunities given our technological capabilities, our strong customer relationships, our manufacturing footprint, our diverse leadership and talent.

I would like to thank our Board of Directors whose support, experience and foresight is helping us grow profitably while sustaining the respect of all stakeholders. I am also very grateful to the leadership team and all the employees for what we have accomplished during the year. I remain grateful to you for your trust and unstinted confidence in our capabilities. I recommit myself and my entire team to continue enhancing our legacy of Dependability.

Sincerely,



Anant J. Talaulicar

# BOARD OF DIRECTORS



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



**Antonio Leitao**  
Director



**Mark Smith**  
Director



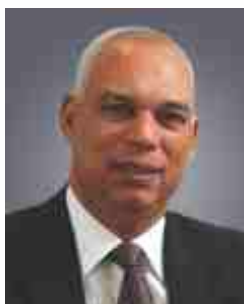
**Norbert Nusterer**  
Director



**Suzanne Wells**  
Director



**Nasser Munjee**  
Independent Director



**P. M. Telang**  
Independent Director



**P. S. Dasgupta**  
Independent Director



**Rajeev Bakshi**  
Independent Director



**Venu Srinivasan**  
Independent Director



**J. M. Barrowman**  
Alternate Director  
to Norbert Nusterer



**Pradeep Bhargava**  
Alternate Director  
to Mark Smith



**Nicole McDonald**  
Alternate Director  
to Suzanne Wells