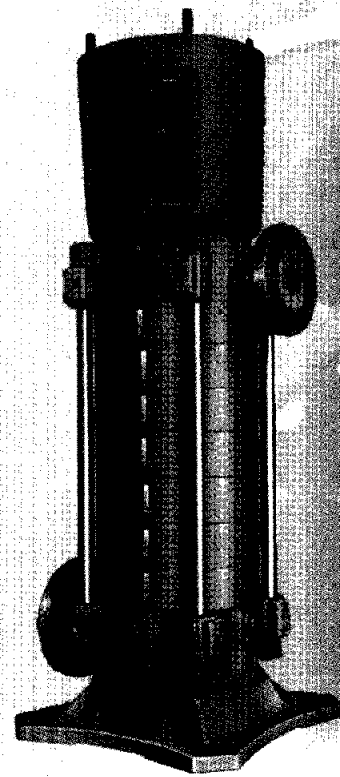


42ND ANNUAL REPORT 1.4.2001 - 31.12.2001



KSB PUMPS LIMITED



Vertical, High pressure
multistage pump.

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ANNUAL GENERAL MEETING

Date : 29th May, 2002
 Day : Wednesday
 Time : 3.00 p.m.
 Venue : Bajaj Bhavan, Ground Floor,
 (Kamalnayan Bajaj Hall),
 226, Nariman Point,
 Mumbai 400 021.



GENERAL INFORMATION

BOARD OF DIRECTORS:

A.V. SETALVAD (Chairman)
A.R. BROACHA
D.N. DAMANIA
N.N. KAMPANI
DR. A. SUSANTO
G. SWARUP
M. SWARUP
P. WURZBACHER
C.V. SAHA (Dy. Managing Director)
W. SPIEGEL (Managing Director)

REGISTERED OFFICE:

126, MAKER CHAMBERS III
NARIMAN POINT, MUMBAI 400 021

ZONAL OFFICES:

NORTH - NOIDA
Offices - Bareilly, Chandigarh, Indore, Jaipur & Lucknow
EAST - KOLKATA
Offices - Bhubaneshwar, Guwahati, Jamshedpur,
Patna & Raipur
WEST - MUMBAI
Offices - Ahmedabad, Aurangabad, Baroda, Nagpur,
Nashik & Pune
SOUTH - CHENNAI
Offices - Bangalore, Hubli & Secunderabad

FACTORIES:

PIMPRI, PUNE 411 018
(Irrigation & Process Pumps Division)
CHINCHWAD, PUNE 411 019
(Power Projects Division)
VAMBORI 413 704, DIST. AHMEDNAGAR
(Foundry Division)
NSN PALAYAM, COIMBATORE 641 031
(Water Pumps & Valves Division)
SINNAR, DIST. NASHIK 422 103
(Pumps & Valves Division)

COLLABORATORS:

KSB AKTIENGESELLSCHAFT, GERMANY

BANKERS:

CENTRAL BANK OF INDIA
DEUTSCHE BANK AG
STANDARD CHARTERED BANK

AUDITORS:

A.F. FERGUSON & CO.

COST AUDITORS:

DHANANJAY V. JOSHI & CO.

REGISTRARS & TRANSFER AGENTS:

IIT CORPORATE SERVICES LTD.

REGISTRARS TO FIXED DEPOSIT SCHEME:

KISU CORPORATE SERVICES



BOARD'S REPORT

To
The Shareholders,

The Board of Directors have pleasure to submit the report and audited Balance Sheet and Profit and Loss Account of the Company for the 9 months period ended 31st December, 2001, consequent to the change in the accounting year.

FINANCIAL RESULTS AND DIVIDEND

The accounts under review have been prepared incorporating the assets and liabilities of Grade-o-Castings Ltd., subsidiary of the Company with effect from 1st April, 2001. This is pursuant to the Scheme of Amalgamation of Grade-o-Castings Ltd. with the Company, as approved by Hon'ble High Court of Judicature at Bombay. Therefore figures of the current period are not comparable with the previous year's figures.

(i) Financial Results

	Rs. in million	
	9 months ended 31.12.2001	12 months ended 31.3.2001
Sales & Other Income	1660,4	2120,5
Profit before taxation	90,6	128,8
Add		
Write back of Depreciation on assets of Grade-o-Castings Ltd. (GOC) consequent upon amalgamation	13,7	—
	104,3	128,8
Less		
Provision for taxation		
Current	33,0	46,0
Deferred	1,0	—
	34,0	46,0
Profit after tax	70,3	82,8
Adjustment of tax of earlier years	—	1,0
Profit for appropriation	70,3	81,8
Appropriation :		
Dividend	34,8	52,2
Tax on Dividend	3,6	7,4
General Reserve	10,0	20,0
Profit & Loss Account	21,9	2,2
	70,3	81,8

(ii) Dividend :

An interim dividend of 10% was paid during the period. The Board of Directors propose a final dividend of 10% making a total of 20% for the period.

GENERAL REVIEW

(i) Working :

During the period under review the Sales and other income were Rs.1660,4 mio. Profit before tax was Rs.90,6 mio. The results for the period under review have been affected due to loss in the Valves Division (refer note 22 of Schedule 19 - Rs.38,5 mio). General sluggishness in the market continues to affect both the pumps and valves business. As you may be aware the Company has discontinued manufacture of valves of the Velan design and has developed SICCA valves of ANSI specifications and also ISORIA butterfly valves in technical collaboration with KSB AG, for the Indian and world markets. As a result, an amount of Rs.12 mio of old stocks has been written off. Further, an amount of Rs.6 mio has been spent on separation fee to employees of the Valves Division at Coimbatore. The Company is hoping for an improved performance of the Valves Division in the current year. Exports have increased by 18% over the previous year.

(ii) Fixed Deposits :

The Company has no unpaid deposits except those unclaimed after the period of maturing. As on 31st December, 2001, 114 depositors (Rs.1,2 mio) had not claimed their deposits on the due dates.

(iii) Subsidiary & Affiliate :

Pofran Engineering Pvt. Ltd.'s (Pofran) Annual Accounts for the nine months period ended 31st December, 2001 are attached, which show a profit of Rs.2,3 mio. for business upto the above date.

The affiliate Company, MIL Controls Limited (MIL) has made a profit before tax of Rs.15,3 mio. for the nine months period ended 31st December, 2001 (previous year Rs.28,2 mio.).

As mentioned earlier, the Scheme of Amalgamation of Grade-o-Castings Ltd. with the Company has been approved by the Hon'ble High Court of Judicature at Bombay and its accounts have been incorporated from the appointed date i.e. 1st April, 2001.



BOARD'S REPORT (Contd.)

- (iv) Management Discussion and Analysis Report:

Annexed to this Report.

- (v) Corporate Governance :

As per the Stock Exchange Listing Agreement, reporting on Corporate Governance Code becomes mandatory with effect from 31st March, 2002. However the Board of Directors have taken necessary steps to implement the Code and the report is attached.

- (vi) Consolidated Accounts :

As per the requirement of SEBI, consolidated accounts in accordance with Accounting Standard AS 21 have been annexed to this Annual Report.

DIRECTORS

Mr. C.V. Saha, Mr. P. Wurzbacher and Mr. D.N. Damania retire by rotation and are eligible for re-appointment.

At the Board Meeting held on 17th October, 2001, Mr. W. Spiegel was appointed with effect from 1st January, 2002 as a Director to fill the casual vacancy caused by the resignation of Mr. B. Langebartels, the then Managing Director. At the said meeting Mr. W. Spiegel was appointed as a Managing Director of the Company for a period of five years with effect from 1st January, 2002. The said appointment has been approved by the members at the extraordinary general meeting held on 21st December, 2001. Mr. Spiegel has assumed office as a Managing Director from 1st January, 2002.

Mr. C.V. Saha, Dy. Managing Director was re-appointed for a period of three years from 7th December, 2001 by the Board of Directors at its meeting held on 17th October, 2001. The said re-appointment was approved by the members at the extraordinary general meeting held on 21st December, 2001.

Mr. D.K. Hohenstein has resigned as Chief Executive Officer and as an Alternate Director to Mr. P. Wurzbacher from 31st December, 2001. The Board wishes to record their appreciation of services rendered to the Company by Mr. Hohenstein during his tenure as Chief Executive Officer of the Company.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors confirm that

- i. in the preparation of annual accounts, the applicable accounting standards have been followed;

- ii. the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial period and of the profit or loss of the Company for the period under review;
- iii. the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv. the Directors have prepared the annual accounts on a going concern basis.

ACKNOWLEDGEMENTS

The Board of Directors are grateful to Canadian Kay Pump Ltd., the main shareholder, and to KSB AG, Germany, the Company's collaborators, for their valuable assistance and support. They wish to record their appreciation for the co-operation and support of the Company's Bankers and other lending institutions, all employees including the workers, staff and middle management and all others concerned with the Company's business.

PARTICULARS OF EMPLOYEES

The particulars prescribed under section 217(2A) of the Companies Act, 1956, are furnished in the annexure to this report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The particulars prescribed by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are furnished in the annexure to this report.

AUDITORS

You are requested to appoint auditors for the current year and fix their remuneration. The retiring auditors, Messrs. A.F. Ferguson & Co., Chartered Accountants, are eligible and offer themselves for re-appointment. The Company has received a certificate from Messrs. A.F. Ferguson & Co., to the effect that their re-appointment, if made, will be within the prescribed limits specified in section 224(1-B) of the Companies Act, 1956.

On behalf of the Board of Directors,

Mumbai, 8th March, 2002

A.V. SETALVAD
Chairman



MANAGEMENT DISCUSSION & ANALYSIS REPORT

ANNEXURE TO BOARD'S REPORT

1.0 INTRODUCTION

The Company is engaged in the business of manufacture of power driven pumps and industrial valves. Castings are mainly produced for the captive consumption.

2.0 INDUSTRY STRUCTURE AND DEVELOPMENT

2.1 General

The year 2001 was a challenging one with the Company's business constrained by unfavourable economic conditions. Other than crude petroleum output and a cyclical activity in the sugar section, all other sectors including the core sectors of the economy reported a low growth rate. The capital goods industry has reported a decline in growth rate from 11.8% to 1.4% in the last two years.

2.2 Pump Industry

Pump Industry in India started flourishing in the post independence era, as a result of encouragement given by the Government to the agriculture as well as industry in the five-year plans.

Traditionally, pump industry keeps pace with the industrial growth rate. The Company also grew simultaneously. Today the Company in India can be viewed as "One Stop Technology Shop" as it has a very wide range of –

- a. Submersible pumps for use in irrigation, water supply and sewage;
- b. Horizontal pumps for use in chemical, petro-chemical, fertilizers, power and other process industry.

2.3 Valve Industry

With industrialization the valve industry has flourished especially in the decade or so from the mid 80's. However, it has been affected due to economic recession in the last few years.

The Company entered in the field of Gate, Globe and Check Valves in the year 1988. It started manufacture of valves at its new plant at Coimbatore in technical collaboration with Velan Inc, Canada.

From 1999 onwards the Company progressively discontinued manufacture of valves of the Velan design. It developed SICCA valves of ANSI specifications and ISORIA butterfly valves in technical collaboration with KSB AG for the Indian and world markets.

Today the Company is recognised as one of the leading manufacturers of Gate, Globe and Check Valves for use in energy, oil, industry and gas sectors. KSB valves are in operation for host of applications such as feed-water, steam, hydrocarbon, chemicals, fluids and other process fields.

The Company has wide net work of sales and marketing in the country made up of zonal and branch offices, and dealers.

3.0 OPPORTUNITIES & THREATS

The Company is engaged in the manufacture of capital goods. Demand for submersible pumps mainly depend on development of agriculture, water supply, building and sewage activities. It is expected that government will continue to support these activities which in turn, will improve demand. The Company's Submersible business is also affected by growing competition from the unorganized sector.

Development of industry is necessary to push demand for horizontal process pumps and industrial valves. With expected thrust by the government to oil, energy and fertilizers, the demand is expected to increase.

However, with low economic growth and falling investment in the manufacturing sector, the demand for high value process pumps and valves is not growing sufficiently thereby increasing competition and affecting the margins.

Relaxation in import tariffs is likely to result in increased imports and competition from global players.



MANAGEMENT DISCUSSION & ANALYSIS REPORT (Contd.)

4.0 SEGMENTWISE PERFORMANCE

During the period under review, 44,477 pumps were sold representing sales value of Rs. 1102 mio. Pumps manufactured were 40,746. As a result of strict control over inventory, there was a decline in the stock from Rs. 101 mio. to Rs. 73 mio. Product mix determines the profitability of this division. During the period under review, pump segment gave net revenue of Rs. 168 mio. (refer Note 22, Schedule 19).

Valves division incurred loss also during this period. 59,725 valves were sold representing sales value of Rs. 236 mio. 60,528 valves were produced during the period. There was loss of Rs. 38 mio. in the valves segment (refer Note 22, Schedule 19). Extra ordinary expenditures incurred in this segment were :

- a. Write-off of Rs. 12 mio. of old stocks, and
- b. Rs. 6 mio. spent on separation fees to employees

EXPORT

The Company has consistently improved its performance at the export front. Exports of pumps and valves have increased over the last few years.

During the period under review in terms of value, exports of pumps were Rs. 147 million and valves, Rs. 55 million.

In the KSB Group worldwide the Company has been recognized as an integral part of the manufacturing network and as "Competent Centre" for certain type of pumps and valves.

If, as expected, the world business outlook improves post September'01 the export should do better.

5.0 OUTLOOK

Capital goods industry continues to be sluggish. Absence of large value project orders affects the Company's performance, both pumps and valves.

Oil & energy sectors are expected to improve.

The Company continues to develop new products to meet customers' requirements. Past experience and quality products provide foundations for the Company's performance.

The Company's performance is to a large extent related to improvement in the industrial and economic climate in the country.

6.0 RISKS & CONCERNS THE MANAGEMENT PERCEIVE

- Low economic growth coupled with absence of large projects. This leads to longer lead-time for orders, lower sales and falling margins.
- Competitions from unorganized sectors and cost effectiveness affect demand for submersible products.
- Global recession and cost competitiveness can affect exports.

7.0 INTERNAL CONTROL SYSTEM & THEIR ADEQUACY

Internal Control Systems are implemented –

- To safeguard the Company's assets from loss or damage.
- To keep constant check on cost structure.
- To provide adequate financial and accounting controls and implement accounting standards.

The system is improved and modified when necessary in response to changes in business condition, statutory and accounting requirements.



MANAGEMENT DISCUSSION & ANALYSIS REPORT (Contd.)

Internal controls are adequately supported by Internal Audit Department and periodic review by the management.

Audit Committee meets periodically to review -

- with the management and statutory auditors, financial statements
- with the internal auditors adequacy / scope of internal audit function, significant findings and follow-up thereon and findings of any abnormal nature.

8.0 DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

Financial Review

There were two important events during the period under review.

1. Change in the accounting year from financial year to calendar year. Accordingly the present period is of nine months from April to December.
2. Amalgamation of Grade-O-Castings Ltd., the Company's subsidiary, with the Company. By Order dated 7th February, 2002, the Hon'ble High Court of Judicature at Bombay has sanctioned the Scheme of Amalgamation. The effective date is 1st April, 2001. The assets and liabilities of Grade-O-Castings Ltd. have been incorporated in the accounts.

During the year following Accounting Standards have been made applicable and the Company has complied with the same.

- a) AS 17 – Segment Reporting
- b) AS 18 – Related Party Disclosures
- c) AS 20 – Earning per Share
- d) AS 21 – Consolidated Financial Statement
- e) AS 22 – Accounting for Taxes & Income.

The following statements cover financial Performance Review which are attached to this report.

- a) Financial Position at a Glance
- b) Financial Summary & Distribution of Income
- c) Segment Performance

9.0 MATERIAL DEVELOPMENTS IN HUMAN RESOURCES, INDUSTRIAL RELATIONS FRONT

The Company has recognized its employees as main asset. Various steps have been taken for improving their performance. Industrial Relations at almost all the plants were cordial. There is some delay in the wage settlement at Nashik Plant. Number of employees as at 31st December, 2001 was 2095.

10.0 CAUTION

This report is based on the experience and information available to the Company in the Pump and Valve business and assumptions in regard to domestic and global economic conditions, government and regulation policies etc. The performance of the Company is dependent on these factors. It may be materially influenced by the changes therein beyond the Company's control, affecting the views expressed in or perceived from this report.

On behalf of the Board of Directors,

A.V. SETALVAD
Chairman

Mumbai, 8th March, 2002



MANAGEMENT DISCUSSION & ANALYSIS REPORT (Contd.)

FINANCIAL POSITION AT A GLANCE

CAPITAL

	Rs. in million	
	9 months ended	12 months ended
	31.12.2001	31.3.2001
	Rs.	Rs.
ASSETS OWNED		
1. Fixed Assets (Net)	583	550
2. Investments	78	86
3. Current Assets (Net)	693	769
4. Deferred tax balance	(63)	—
TOTAL	1291	1405
FINANCED BY		
1. Loans	382	464
2. Net Worth*	909	941
TOTAL	1291	1405
* Represented by		
Share Capital	174	174
Reserves (Net) (see note c)	735	767
TOTAL	909	941

REVENUE

	Rs. in million	
	9 months ended	12 months ended
	31.12.2001	31.3.2001
	Rs.	Rs.
INCOME EARNED		
1. Sale of products and services	1636	2081
2. Other Income	24	40
TOTAL	1660	2121
INCOME DISTRIBUTED		
1. Materials	740	970
2. Employee Cost	274	324
3. Expenses	458	571
4. Interest	30	44
5. Depreciation	54	84
6. Taxation (including deferred tax)	34	46
7. Dividend (including dividend tax)	38	60
8. Retained Income	32	22
TOTAL	1660	2121

- Notes : a. Current period is consequent to change in the accounting year.
b. Consequent to amalgamation of Grade-O-Castings Ltd. (GOC), current period includes accounts of GOC.
c. After adjusting deferred tax liability upto 31st March, 2001 amounting to Rs. 61,5 million.