

46TH ANNUAL REPORT 31.12.2005





1. Vertical high pressure multistage pump-ready for testing
2. Fume extractor installed at Chinchwad plant
A step towards environment protection
3. Centrifugal, end section pump
4. "Made by KSB", Pimpri plant RPH-Centrifugal end suction pump to API 610 10th edition
5. Product testing in progress at Chinchwad plant
6. Submersible Motor Pump for Sewage and Effluent Handling
7. & 8. Pumps for chemical and petrochemical processes
9. Valves for petrochemical, oil, steam and power generation
10. Vertical, Can (Barrel) type Ring-section pump

4

2

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KSB PUMPS LIMITED

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ANNUAL GENERAL MEETING

Date : 12th May, 2006
 Day : Friday
 Time : 3.00 p.m.
 Venue : Bajaj Bhavan, Ground Floor,
 (Kamalnayan Bajaj Hall),
 226, Nariman Point,
 Mumbai 400 021.

COMMUNICATION DETAILS

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 Fax No. : 56588788
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 Website : www.ksbindia.co.in

GENERAL INFORMATION

Board Of Directors

A.V. Setalvad (Chairman)
A.R. Broacha
D.N. Damania
N.N. Kampani
DR. A. Lee (formerly known as Dr. A. Susanto)
G. Swarup
M. Swarup
C.V. Saha
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 - Bhubaneswar, Guwahati, Jamshedpur, Patna & Raipur
West - Mumbai,
Offices - Ahmedabad, Aurangabad, Baroda, Nagpur & Pune
South - Chennai
Offices - Bangalore, Hubli & Secunderabad

Factories

Pimpri, Pune 411 018
(Irrigation & Process Pumps Division)
Chinchwad, Pune 411 019
(Power Projects Division)
Vambori 413704, 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

MCS 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 year ended 31st December, 2005.

FINANCIAL RESULTS AND DIVIDEND

(i) Financial Results :

	Rs in Million	
	Year ended	Year ended
	31.12.2005	31.12.2004
Sales (net) & Other Income	3644.5	3102.4
Profit before taxation	595.2	460.1
Less: Provision for taxation		
Current	220.0	174.0
Deferred	(10.2)	(14.2)
Fringe Benefit Tax	5.4	—
	215.2	159.8
Profit after tax	380.0	300.3
Adjustment of tax of earlier years	2.5	6.3
Profit for appropriation	377.5	306.6
Appropriation		
Dividend	78.3	69.7
Tax on Dividend	11.0	9.5
General Reserve	40.0	35.0
Profit & Loss Account	248.2	192.4
	377.5	306.6

(ii) Dividend :

An interim dividend of 15% was paid during the year. The Board of Directors propose a final dividend of 30 % making a total of 45 % for the year.

GENERAL REVIEW

(i) Working :

During the year under review, the Indian economy showed improved performance with the industrial and service sectors expanding steadily. With this, the Company's working results have increased.

While the submersible pumps sector was sluggish, the growth in the industrial sector was robust. Business in pumps for projects particularly in the oil and power sectors show a healthy trend. As can be seen the Valves division has increased its contribution significantly to the results.

(ii) Fixed Deposits :

The Company has no unpaid deposits except those unclaimed after the period of maturity. As on 31st December, 2005, 52 depositors (Rs.0.62 mio.) had not claimed their deposits on the due dates.

(iii) Transfer to Investor Education & Protection Fund :

During the year, in accordance with terms of section 205C of the Companies Act, 1956, an amount of Rs.0.11 mio., being unclaimed fixed deposits and interest; and an amount of Rs.0.28 mio., being unclaimed dividends upto the year 1998-99, were transferred to the Investor Education & Protection Fund established by the Central Government.

(iv) Subsidiary & Associate :

Pofran Sales and Agency Limited was set up in the month of January, 2005 as the Company's wholly owned subsidiary. Annual Accounts for the period ended 31st December, 2005 are attached, which show a profit before tax of Rs.2.2 mio for business upto the date.

The Associate Company, MIL Controls Limited (MIL) has made a profit before tax of Rs.42.2 mio. for the year ended 31st December, 2005 (previous year Rs.31.1 mio.)

(v) Management Discussion and Analysis Report :

Annexed to this Report.

(vi) Corporate Governance :

Annexed to this Report.

BOARD'S REPORT (Contd.)

(vii) 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

Dr. A. Lee (former name Dr. A. Susanto), Mr. M. Swarup and Mr W. Spiegel retire by rotation and are eligible for re-appointment.

Mr. J. Gerstner retired as a director with effect from 29th July, 2005. The Board wishes to record their appreciation of services rendered to the Company by Mr. J. Gerstner during his tenure as a director 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 and there is no material departures;
- 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 year and of the profit or loss of the Company for the year under review;
- iii. the Directors have taken proper and sufficient care for the assets of the Company and for preventing maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding 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.

SAFETY AND ENVIRONMENT

The Company is committed to create a safe and healthy working environment. During the year the Company has received certification for Environment Management System ISO 14001:2004, for the manufacturing units at Pune, Sinnar and Coimbatore.

AUDITORS

You are requested to appoint auditors for the current year and to 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

A.V. SETALVAD
Chairman

Mumbai, 21st March, 2006



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 captive consumption.

2.0 INDUSTRY STRUCTURE AND DEVELOPMENT

2.1 General

The Indian economy showed a very robust and consistent growth of 7.6%. Some significant dimensions of the dynamic growth in the recent years have been a new industrial resurgence, a pick up in investment and modest inflation in spite of spiraling global crude prices. The growth in trend for the last three years indicates the beginning of cyclical upswing in the economy from 2003-04. In contrast to the sharp fluctuations in agriculture, industry and services have continued to expand steadily. A pick-up in investment, reflecting the high business optimism has not only strengthened industrial performance but has also reinforced the growth outlook.

Inflation, in most parts of the world, has shown rising trend on account of rising global crude prices. High volatility in oil prices poses a challenge to the maintenance of macroeconomic stability. Infrastructural inadequacies continue to constrain the full potential for industrial resurgence, pick up in investment and buoyant exports. Growth in the economy is intricately intertwined with the rapid development of quality physical infrastructure such as power, roads, ports and airports and efficient delivery of such services. This is the foremost component which lubricates the engine of economic growth.

2.2 Pumps & Valves Industries

The growth witnessed by the Pumps and Valves industries was in line with the performance in the Indian economy. The growth in these sectors mainly came from the energy segment, and other basic industries like cement, steel and pulp/paper. The Company's submersible pump

business, however, showed a relatively lacklustre growth in light of continued mushrooming of the unorganized sector, further aided by various state government policies to offer free power to the farmers thereby affecting demand for energy efficient equipment.

3.0 OPPORTUNITIES AND THREATS

With the planned construction of nearly 39500 MW power generation capacity, the power sector is expected to witness heavy investments. Activities in the industrial sector will be encouraging. Sponge iron sector is likely to be affected in view of environmental restrictions. In the oil sector, major quality upgradation projects are expected to continue.

Expected lowering of duties and ever increasing international competition under globalisation may be more severe in the years to come. The market dynamics in the domestic sector remain unchanged with close competition from domestic as well as international players.

4.0 SEGMENTWISE PERFORMANCE

During the year under review, 76,704 (nos.) pumps were sold representing sales value of Rs.2437 mio. Pumps manufactured were 79768 (nos.). During the year, the pump segment gave revenue of Rs.452 mio.

158,566 (nos.) valves were sold representing a sales value of Rs.741 mio. 168,033 (nos.) valves were produced during the year. The significant contribution made by the Valves Division to the year's results can be seen from Segment Performance (Page 9).

EXPORT

During the year under review, exports of pumps and valves in terms of value, were Rs.442 mio. as against Rs.318 mio in the previous year. Agency commission earned was Rs.9 mio. With the growth in international economy the Company is likely to maintain the present level of exports.

5.0 OUTLOOK

Improved investment in the industrial sector and continuous impetus being given by the Government to infrastructure are

MANAGEMENT DISCUSSION & ANALYSIS REPORT (Contd.)

likely to contribute to the overall growth in the economy. It is expected, barring unforeseen circumstances that they are likely to have a favourable effect on the Company's business.

Programme of production harmonization at the various manufacturing locations to cater to the increased demand from the market and to bring down delivery times to market expectations, is progressing satisfactorily. The Company continues its efforts of innovation to meet the ever-changing requirements of the market.

6.0 RISKS & CONCERNS THE MANAGEMENT PERCEIVE

Cost push inflation, mainly on account of rising prices of steel and oil in the international market is likely to have an impact on the Company's input cost. The industrial sector may not grow as expected unless infrastructure bottlenecks and shortages, labour market rigidities, entry and exit barriers and multiple stages and levels of approvals/clearances are removed.

7.0 INTERNAL CONTROL SYSTEMS & 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 continuously to meet with changes in business conditions, statutory and accounting requirements.

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

The 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 EFFICIENCY

There was an all round improvement in the operational efficiency of the Company's operations mainly on account of cost effective measures taken by the management at all levels.

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

- Financial Position at a glance
- Financial Summary
- Distribution of Income
- Segment Performance

9.0 MATERIAL DEVELOPMENTS IN HUMAN RESOURCES, INDUSTRIAL RELATIONS

The Company has recognized its employees as its main asset. Various steps have been taken for improving their performance. Training and development is carried out on a continuous basis. Industrial Relations at all the plants were cordial.

10.0 CAUTION

This report is based on the experience and information available to the Company in the Pump and Valve business and assumption with 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, 21st March, 2006



MANAGEMENT DISCUSSION & ANALYSIS REPORT (Contd.)

FINANCIAL POSITION AT A GLANCE

CAPITAL	Year ended 31.12.2005	Rs. in Million Year ended 31.12.2004
ASSETS OWNED		
1. Fixed Assets (net)	483	501
2. Investments	78	78
3. Current Assets (Net)	1176	844
TOTAL	1737	1423
FINANCED BY		
1. Loans	113	77
2. Deferred tax balance	—	10
3. Net Worth*	1624	1336
TOTAL	1737	1423
* Represented by		
Share Capital	174	174
Reserves (Net)	1450	1162
TOTAL	1624	1336

REVENUE

INCOME EARNED

1. Sales of Products and Services	3596	3046
2. Other Income	49	56
TOTAL	3645	3102

INCOME DISTRIBUTED

1. Materials Consumed	1593	1346
2. Employee Cost	494	460
3. Expenses	860	729
4. Interest	5	7
5. Depreciation	100	94
6. Taxation		
Current	220	174
Deferred	(10)	(14)
Fringe Benefit	5	—
On Dividend	11	9
7. Dividend	79	70
8. Retained Income	288	227
TOTAL	3645	3102

MANAGEMENT DISCUSSION & ANALYSIS REPORT (Contd.)

FINANCIAL SUMMARY

	2005	2004	2003	2002	9 months ended 31.12.2001
CAPITAL ACCOUNTS (Rs. in million)					
Liabilities					
Share Capital	174	174	174	174	174
Reserves & Surplus	1450	1162	920	806	735
Borrowings	113	77	128	284	382
Deferred Tax Balance	—	10	24	51	63
Assets					
Gross Block	1546	1440	1380	1341	1319
Net Block	483	501	491	536	583
Investments	78	78	179	78	78
Net Current Assets	1176	844	576	701	693
REVENUE ACCOUNTS (Rs. in million)					
Sales and Other Income	3645	3102	2495	2335	1660
Gross Profit before interest and depreciation	700	561	371	300	188
Interest	5	7	16	23	30
Depreciation	100	94	96	91	54
Profit before tax	595	460	259	186	104
Profit after tax	380	300	182	120	70
Tax on Dividend	11	9	8	4	3
Dividend amount	79	70	61	52	35
Retained earnings	288	227	129	55	32
SELECTED INDICATORS					
Return on Capital Employed %	34.57	33.05	22.50	16.53	13.83
Current Ratio	2.29	1.91	1.76	2.00	2.13
Earnings per share	21.69	17.61	10.50	7.20	4.03
Debt Equity Ratio	0.07	0.06	0.12	0.29	0.42
Book value per share	93.32	76.77	62.86	56.31	52.23
Dividend %	45	40	35	30	20
Fixed Assets Turnover	7.55	6.19	5.08	4.36	2.85