

## 47th Annual Report - 2006



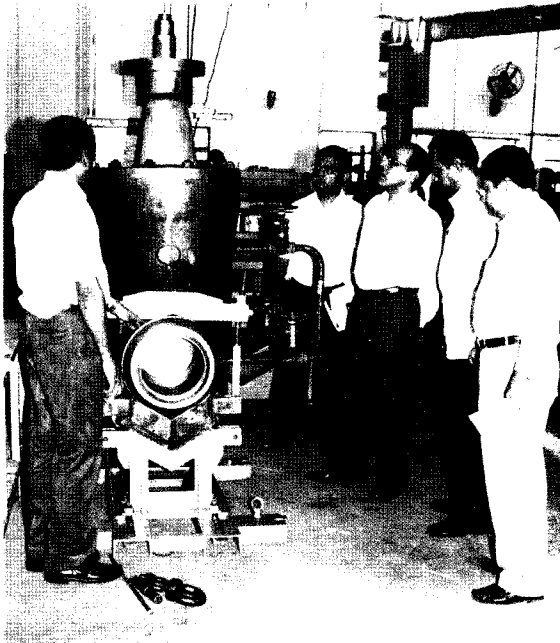
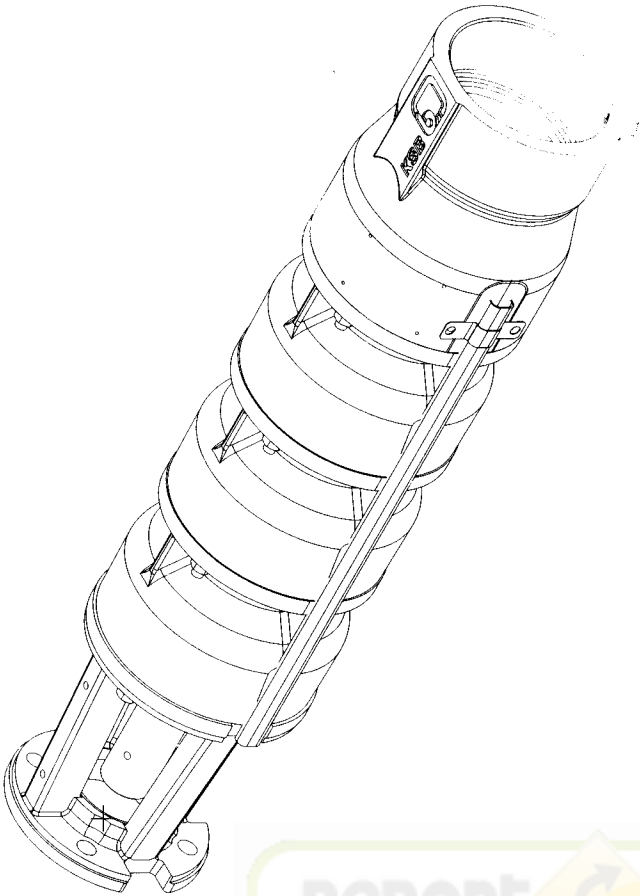
More water per "Watt"

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Manufacturing of GGC Valves  
at Coimbatore

New 175 + 150 mm combination pumpset  
More discharge with same capacity of motor  
especially for Punjab market.



Pressure Seal Gate Valve with Decompression  
System for Power Plant applications



New product launch

**MONOSUB R.**  
Openwell Submersible monobloc pumps





## CONTENTS

## KSB PUMPS LIMITED

	Page Nos.
General Information .....	2
Board's Report .....	3-5
Annexures	
i. Management Discussion & Analysis Report .....	6 - 10
ii. Report on Corporate Governance .....	11 - 21
iii. Other Annexures .....	22 - 23
Auditors' Report .....	24 - 27
Balance Sheet .....	28
Profit & Loss Account .....	29
Cash Flow .....	30 - 31
Schedules 1 to 17 .....	32 - 38
Schedules 18 to 19 .....	39 - 49
Note 19 - Segment Information .....	(45)
Note 20 - Related Party Disclosures .....	(45 - 47)
Consolidated Accounts .....	50 - 69
Subsidiary's Accounts -	
Pofran Sales and Agency Ltd. ....	70 - 79
Balance Sheet Abstract – KSB Pumps Ltd. ....	80

### ANNUAL GENERAL MEETING

Date : 11th May, 2007  
 Day : Friday  
 Time : 3.00 p.m.  
 Venue : Bajaj Bhavan, Ground Floor,  
 (Kamalnayan Bajaj Hall),  
 226, Nariman Point,  
 Mumbai 400 021.

### COMMUNICATION DETAILS

Tel No. : 66588787  
 Fax No. : 66588788  
 Shareholders' Grievance Cell: mamehta@ksb.co.in  
 Website : www.ksbindia.co.in

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## GENERAL INFORMATION

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### Board Of Directors

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A.V. Setalvad (Chairman)  
A.R. Broacha  
D.N. Damania  
N.N. Kampani  
DR. A. Lee  
G. Swarup  
M. Swarup  
C.V. Saha  
DR. W. Schmitt  
W. Spiegel (Managing Director)

### Registered Office

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126, Maker Chambers III Nariman Point, Mumbai 400 021

### Zonal Offices

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North - Noida  
Offices - Bareilly, Chandigarh, Indore, Jaipur & Lucknow  
East - Kolkata  
Offices - Bhubaneshwar, Guwahati, Jamshedpur, Patna & Raipur  
West - Mumbai,  
Offices - Ahmedabad, Aurangabad, Baroda, Nagpur & Pune  
South - Chennai  
Offices - Bangalore, Hubli & Secunderabad

### Factories

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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

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KSB Aktiengesellschaft, Germany

### Bankers

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Central Bank of India  
Deutsche Bank Ag  
Standard Chartered Bank

### Auditors

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A.F. Ferguson & Co.

### Cost Auditors

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Dhananjay V. Joshi & Co.

### Registrars & Transfer Agents

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Intime Spectrum Registry Limited  
Tel No. 25963838



## 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, 2006.

### FINANCIAL RESULTS AND DIVIDEND

(i) Financial Results :

	Rs in Million	
	Year ended 31.12.2006	Year ended 31.12.2005
Sales (net) & Other Income	<b>4120.7</b>	<b>3644.5</b>
Profit before taxation	<b>787.0</b>	<b>595.2</b>
Less: Provision for taxation		
Current	263.0	220.0
Deferred	-	(10.2)
Fringe Benefit Tax	7.5	5.4
	<b>270.5</b>	<b>215.2</b>
Profit after tax	<b>516.5</b>	<b>380.0</b>
Adjustment of tax of earlier years	11.0	2.5
Profit for appropriation	<b>505.5</b>	<b>377.5</b>
Appropriation:		
Dividend	95.7	78.3
Tax on Dividend	15.3	11.0
General Reserve	55.0	40.0
Profit & Loss Account	339.5	248.2
	<b>505.5</b>	<b>377.5</b>

(ii) Dividend :

An interim dividend of 20% was paid during the year. The Board of Directors propose a final dividend of 35% making a total of 55% for the year.

### GENERAL REVIEW

(i) Working :

During the year under review, the Indian economy showed vigorous growth with

strong macroeconomic fundamentals, with sustained improvements on the industrial front. In line with this, the Company's working results have shown improvement over the previous year. Though the agricultural sector with a growth of only 2.7% did not make improvements in the same way as industrial sector, the Company was able to achieve a 12% growth in the submersible business by addressing this sector with timely introduction of new products and sustained efforts through dealer network. The improved results can also be attributed to higher volume, favourable product mix and effective cost control. Valves division's contribution has further improved the results.

(ii) Fixed Deposits :

The Company has no unpaid deposits except those unclaimed after the period of maturity. As on 31st December, 2006, 22 depositors (Rs. 0.3 mio.) had not claimed their deposits on the due dates.

(iii) Transfer to Investor Education & Protection Fund :

During the year, in accordance with section 205C of the Companies Act, 1956, an amount of Rs.35,686, being unclaimed fixed deposits and interest, and an amount of Rs.181,306, being unclaimed dividends upto the year 1999-2000, were transferred to the Investor Education & Protection Fund established by the Central Government.

(iv) Subsidiary & Associate :

Annual Accounts for the year ended 31<sup>st</sup> December, 2006 of Pofran Sales and Agency Limited (the Company's wholly owned subsidiary) which show a profit before tax of Rs.11 mio. (previous period -

## BOARD'S REPORT (Contd.)

Rs. 2.2 mio.) for business upto the date, are attached.

The Associate Company, MIL Controls Limited (MIL) has made a profit before tax of Rs.112.2 mio. for the year ended 31<sup>st</sup> December, 2006 ( previous year - Rs.42.2 mio.) It has declared an interim dividend of 100% for the year ended 31<sup>st</sup> December, 2006, which will be accounted in the current year.

(v) Management Discussion and Analysis Report :

Annexed to this Report.

(vi) Corporate Governance :

Annexed to this Report.

(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

Mr. G. Swarup, Mr. A.R. Broacha and Mr. N.N. Kampani retire by rotation and are eligible for re-appointment.

Mr. H. Otto was appointed as an additional director on 26<sup>th</sup> July, 2006. He resigned as a director with effect from 15<sup>th</sup> December, 2006. The Board wishes to record their appreciation of services rendered to the Company by Mr. Otto during his brief tenure as a director of the Company.

On 22<sup>nd</sup> March, 2007, Dr. Wolfgang Schmitt was appointed as an additional director. Dr. Schmitt will hold office upto the date of the ensuing annual general meeting. A notice has been received under section 257 of the Companies Act, 1956, proposing his candidature for office of director.

### 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 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.



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## BOARD'S REPORT (Contd.)

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### **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 ENVIORNMENT**

The Company is committed to create a safe and healthy working environment. It has well developed Environment Management System. Its objectives and systems are regularly reviewed. Substantial investments have been made in upgrading and maintaining effluent treatment plants. Health and safety of employees are given priority.

### **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, 22nd March, 2007

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## 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

Indian economy in 2006-07 has been characterized by vigorous growth with strong macro economic fundamentals. Growth of 9% and 9.2% in 2005-06 and 2006-07, respectively, has surpassed expectations. As against industrial growth, there has been up and down pattern in agriculture. Service sector has contributed as much as 68.6% of the overall average growth in GDP in the last five years. Practically entire residual contribution to GDP has come from industry as the share of agriculture in GDP declined to 18.5%. Entrenchment of the higher growth trends, particular in manufacturing has boosted sentiments.

There are some genuine concerns on the inflation front. Starting with the rate of 3.9%, the inflation rate in 2006-07 has been on the general upward trend. This is mainly on account of international rise in oil prices. Inflation, with its roots in supply side factors, was accompanied by buoyant growth of money and credit. Reconciling the twin needs of facilitating credit for growth on the one hand and containing liquidity to tame inflation on the other remained a challenge.

Exports has shown sign of fast growth but imports have grown even faster, reflecting in part the on going investment boom and high international petroleum price.

The up beat mood of the capital markets on account of buoyancy of foreign investment flows through balance of payment, reflect the improved growth prospects of the economy on account of steady progress made in the infra-structure front.

##### 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 energy sector. Boiler and Turbine manufacturers continued to invest heavily in this sector. However a notable feature of this sector is the entry of Chinese contractors in industrial power plant. Demand for pumps and valves for the oil and industry sectors is expected to grow. Demand for the submersible pumps is dependent on weather cycle. In view of extremely unusual disturbances the growth has been fluctuating. Waste water and sewage management is an upcoming market in India.

#### 3.0 OPPORTUNITIES AND THREATS

With the target capacity of additions in 10<sup>th</sup> and 11<sup>th</sup> Plans there is likely to be continued upward shift in the growth in energy sector. Activities in the industrial sector will be encouraging. In the oil sector major quality upgradation projects are expected to continue.

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

#### 4.0 SEGMENTWISE PERFORMANCE

During the year under review, 83,368 (nos.) pumps were sold representing sales value of Rs.2635 mio. Pumps manufactured were 79392 (nos.). During the year, the pump segment gave revenue of Rs.551 mio.

159,552 (nos.) valves were sold representing a sales value of Rs.972 mio. 160,439 (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 10).

#### EXPORT

During the year under review, exports of pumps and valves in terms of value, were Rs.365 mio. as against Rs.442 mio in the previous year. The exports growth is dependent upon the domestic demand.

#### 5.0 OUTLOOK

Improved investment in the industrial sector and continuous impetus being given





## MANAGEMENT DISCUSSION & ANALYSIS REPORT (Contd.)

by the Government to infrastructure continues to contribute to the overall growth in the economy. It is expected, barring unforeseen circumstances this is likely to have 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 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 international market is likely to have 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 level of approvals/clearances are removed.

### 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 continuously to meet with changes in business condition, 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.

- a) Financial Position at a glance
- b) Financial Summary
- c) Distribution of Income
- d) Segment Performance

### 9.0 MATERIAL DEVELOPMENTS IN HUMAN RESOURCES, INDUSTRIAL RELATIONS

The Company has recognized its employees as 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 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, 22nd March, 2007

## MANAGEMENT DISCUSSION & ANALYSIS REPORT (Contd.)

### FINANCIAL POSITION AT A GLANCE

		Rs. in million	
		Year ended 31.12.2006	Year ended 31.12.2005
<b>CAPITAL</b>			
<b>ASSETS OWNED</b>			
1. Fixed Assets (net)		686	483
2. Investments		78	78
3. Current Assets (Net)		1364	1176
	<b>TOTAL</b>	<b>2128</b>	<b>1737</b>
<b>FINANCED BY</b>			
1. Loans		110	113
2. Net Worth*		2018	1624
	<b>TOTAL</b>	<b>2128</b>	<b>1737</b>
*Represented by			
Share Capital		174	174
Reserves (Net)		1844	1450
	<b>TOTAL</b>	<b>2018</b>	<b>1624</b>
<b>REVENUE</b>			
<b>INCOME EARNED</b>			
1. Sales of Products and Services		4064	3596
2. Other Income		57	49
	<b>TOTAL</b>	<b>4121</b>	<b>3645</b>
<b>INCOME DISTRIBUTED</b>			
1. Materials Consumed		1746	1593
2. Employee Cost		537	494
3. Expenses		964	860
4. Interest		10	5
5. Depreciation		88	100
6. Taxation			
Current		263	220
Deferred			(10)
Fringe Benefit		7	5
On Dividend		15	11
7. Dividend		96	79
8. Retained Income		395	288
	<b>TOTAL</b>	<b>4121</b>	<b>3645</b>