

51st Annual Report - 2010



Glimpses of the grand celebration of "Celebrating 50 years of KSB in India" at Pune



Dr. Schmitt presenting a "Pokal" to Mr. Spiegel



Mr. G. Swarup inaugurated the Image Book of KSB India and presented the first copy to Mr. Kuehborth

During the function dignitaries addressed the gathering



1. Mr. K. Kuehborth, Managing Director (Klein Pumpen GmbH)
2. Dr. W. Schmitt, Chairman (Board of Management, KSB AG)
3. Mr. G. Swarup, Chairman (KSB Pumps Ltd., India)
4. Mr. W. Spiegel, Managing Director (KSB Pumps Ltd., India)
5. Dr. A. Lee, Regional President - Asia Pacific
6. Mr. C. V. Saha, Managing Director (KSB Valves (Shanghai) Co. Ltd.)



Project - Vayu Valve



On 12th June 2010, the prototype Gate Valve of size 450 mm (18") Class 2500 was successfully tested at 660 bar pressure. With this both Check & Gate valves development and testing has been successfully completed.

This product development is joint exercise between Coimbatore, Chinchwad divisions and KSB Tech Pvt. Ltd. Team members from these divisions have put in lot of efforts in it's design, manufacturing, assembly & testing for one & half years.

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ANNUAL GENERAL MEETING

Date : 7th April, 2011
 Day : Thursday
 Time : 2.00 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

GENERAL INFORMATION

Board Of Directors

G. Swarup (Chairman)
A.R. Broacha
D.N. Damania
N.N. Kampani
DR. A. Lee
DR. W. Schmitt
Pradip Shah
W. Spiegel (Managing Director)

Registered Office

126, Maker Chambers III, Nariman Point, Mumbai 400 021

Zonal Offices

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

Factories

Pimpri, Pune 411 018
Chinchwad, Pune 411 019
Vambori 413 704, Dist. Ahmednagar
NSN Palayam, Coimbatore 641 031
Sinnar, Dist. Nashik 422 103

Collaborators

KSB Aktiengesellschaft, Germany

Bankers

Central Bank of India
Deutsche Bank AG
Standard Chartered Bank

Auditors

Deloitte Haskins & Sells

Cost Auditors

Dhananjay V. Joshi & Associates

Registrars & Transfer Agents

Link Intime India Pvt. Ltd.
Tel No. 25946970
Email-rnt.helpdesk@linkintime.co.in

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, 2010.

FINANCIAL RESULTS AND DIVIDEND

(i) Financial Results:

| | Rs. in Million | |
|---------------------------------------|--------------------------|--------------------------|
| | Year ended 31.12.2010 | Year ended 31.12.2009 |
| Sales (net) & Other Income | 6269.6 | 5753.0 |
| Profit before taxation | 742.4 | 1007.7 |
| Less: Provision for taxation | | |
| Current | 254.0 | 350.0 |
| Deferred | (27.3) | (9.0) |
| Fringe Benefit Tax | 0 | 2.4 |
| | 226.7 | 343.4 |
| Profit after tax | 515.7 | 664.3 |
| Adjustment of tax of earlier years | (0.01) | (2.5) |
| Profit for appropriation | 515.6 | 661.8 |
| Appropriation: | | |
| Dividend | 174.0 | 217.5 |
| Tax on Dividend | 28.2 | 37.0 |
| General Reserve | 55.0 | 70.0 |
| Profit & Loss Account | 258.4 | 337.3 |
| | 515.6 | 661.8 |

(ii) Dividend:

An interim dividend of Rs 2 per share of Rs 10 each (20%) was paid during the year. The Board of Directors propose a final dividend of Rs 8 per share of Rs 10 each (80%) making a total of Rs 10 per share of Rs 10 each (100%) for the year.

GENERAL REVIEW

(i) Working:

During the year under review, the Company has earned lower profit before tax compared to the previous year even though there has been an increase in the sales. As reported last year, execution of the project orders which were obtained earlier with lower margin affected results considerably. Further costs push inflation increased the input costs significantly, mainly materials, which could not be passed on to the customers. Some of the large orders could not be executed as customers did not take delivery of pumps and valves on account of project delay at their end.

Global crisis continued to affect the exports which further declined during the year from Rs. 782 mio. to Rs 633 mio.

The contribution from valves division has further declined substantially during the year due to global recession and increased competition from domestic and foreign suppliers and entry of new players.

The Company continues its efforts to maintain the growth in this economic downturn and face new challenges.

(ii) The Board of Directors have declared issue of 1,74,03,922 bonus shares in the proportion of one new Equity share for every one existing Equity share. This is subject to approval of members, stock exchanges where the shares of the Company are listed and such other approvals as may be necessary.

(iii) Fixed Deposits:

The Company has no unpaid deposits except those unclaimed after the period of maturity. As on 31st December, 2010, 3 depositors (Rs.30,000) had not claimed their deposits on the due dates.

BOARD'S REPORT (Contd.)

- (iv) Transfer to Investor Education & Protection Fund:

During the year, in accordance with section 205C of the Companies Act, 1956, an amount of Rs.30,829 being unclaimed fixed deposits and interest and, an amount of Rs.175,783 being unclaimed dividends upto the year 31.12.2003, were transferred to the Investor Education & Protection Fund established by the Central Government.

- (v) Subsidiary & Associate:

Annual Accounts for the year ended 31st December, 2010 of Pofran Sales and Agency Limited (the Company's wholly owned subsidiary) which show a profit before tax of Rs. 16.4 mio (previous year Rs. 14.2 mio.) for business upto the date, are attached.

The Associate Company, MIL Controls Limited (MIL) has made a profit before tax of Rs 279.1 mio for the year ended 31st December, 2010 (previous year Rs. 208.7 mio) .

- (vi) Management Discussion and Analysis Report:

Annexed to this Report

- (vii) Corporate Governance:

Annexed to this Report

- (viii) 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. Augus Lee and Mr. W. Spiegel retire by rotation and are eligible for re-appointment.

Mr. Pradip Shah was appointed as a Director on 21st June, 2008 to fill the casual vacancy caused by the resignation of Mr. M. Swarup and he retires by rotation at the ensuing annual general meeting u/s 262 of the Companies Act, 1956.

The Company has received a notice in writing from a member proposing his candidature for appointment of Director u/s 257 of the Companies Act, 1956.

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.

BOARD'S REPORT (Contd.)

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 has a well developed Environment Management System (EMS) which is committed to achieving the highest possible standards of environmental management, health, safety and compliance with all relevant environmental legislations and regulations. The Company has been awarded Environmental Management and Quality Management Certification according to the international standard ISO 14001: 2004 and ISO 9001:2008 respectively.

KSB Group has become a member of "United Nations Global Compact" whereby it has committed to fundamental principles of the said organization.

Reviews and audits of EMS are carried out on regular basis. Environment related initiatives are undertaken practically at all levels and in all functions of the organization. The construction of new Effluent Treatment plant at Pimpri factory is at advanced stage. Energy and safety audits are carried on continuous basis not only at the Company's factories but also its suppliers.

Safety and health of the employees receives utmost importance at every workplace of the Company. Safe operating procedures, standards

and systems have been laid down at all manufacturing locations. Regular training of employees regarding safe working guidelines, audit and review of every accident, mock drills on emergency are some of the steps that are followed to achieve higher safety standards. Safety requirements are also extended to our subcontractors and visitors.

CORPORATE SOCIAL RESPONSIBILITY

During the year the Company has contributed Rs 6.61 mio. (previous year Rs 5.0 mio.) to KSB Care Charitable Trust. The trust has started a project of supporting a school near the Company's foundry at Vambori. The support is mainly directed towards providing infrastructure in the school.

AUDITORS

You are requested to appoint auditors for the current year and to fix their remuneration. The retiring auditors Messrs. Deloitte Haskins & Sells, Chartered Accountants, are eligible and offer themselves for re-appointment. The Company has received a certificate from Messrs. Deloitte Haskins & Sells 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

G. SWARUP
CHAIRMAN

Mumbai, 24th February, 2011

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

Year 2010 began with optimism of sustained economic growth as a result of recovery in the global economy in the fourth quarter of 2009. The projections for global output for 2010 suggested consolidate recovery, led by the Emerging Market Economies (EMEs). However, risk of large public debt in advanced economies, high unemployment rates, impaired financial systems and premature exit from the policy stimulus forced concern for reduction in output.

For India the improvement in global macro economic conditions is reflected in the turn around in India's exports and return of capital inflows. The stronger recovery in EMEs driven largely by the domestic demand, improvement in exports and return of capital inflow forced high risk of inflation.

Output growth in 2010-11 is expected to be higher than in 2009-10. However, sluggish private consumption, fragile global recovery and exit from fiscal stimulus and growth supporting monetary policy would have impact on the growth process.

Industrial production had registered double digit growth for the first straight eight months of 2010. But declined to single digit in subsequent two months. Some core sector industries showed negative growth. However, overall growth is expected to be 8.5% as per estimate of Reserve Bank of India.

The benefits of growth have been affected by inflationary trend both in food and non-food items. In the advanced economy recovery has been affected by uncertainty in Euro area such as crisis in Greece. Inflation has edged up in major advanced economies and many EMEs have been

facing strong inflationary pressure. India is not an exception. Most of the macro economic measures of Reserve Bank of India and Government of India have been directed towards containing inflation within tolerable limit.

Recent crisis in Egypt and other oil producing Arab countries is likely to have impact on crude oil prices and consequently fuel the global inflation.

Like in past Indian economy continues to face challenges of upgrading infrastructure, promoting growth of industrial sector, containing deficit, promoting exports amidst global recession and overall containing inflation.

2.2 Pumps & Valves Industries

The pumps and valves industries in India are very important especially in the light of growth in oil and energy sectors and water supply and sewage. Growth of these industries was quite satisfactory in the last few decades on account of high domestic requirements and restrictions on imports.

The scenario has changed with the globalization in the country where there are large and medium scale manufacturers and thousands of small scale manufacturers. After globalization the entry of foreign manufacturers has changed the equation. The competition has become severe. After financial turmoil and recession in advanced countries from 2007-08, foreign players have been looking for entry into Indian domestic market. With their aggressive price strategy Indian manufacturers' margins have been severely affected. The situation has been further aggravated by cost push inflation.

The project business of oil, energy and water and sewage has witnessed significant drop in the margins of domestic manufacturers. Though there is a growth in the business, domestic inflation and uncertainty of recovery in global market will affect profitability of the domestic manufacturers.

3.0 OPPORTUNITIES AND THREATS

With India's ever growing requirements of energy and capacity addition planned by

MANAGEMENT DISCUSSION & ANALYSIS REPORT (Contd.)

the Government, there exists substantial opportunity for the Company as the company products are geared up for this sector.

With the globalization, new international players are making a thrust in the Indian market by creation of additional manufacturing capacities. This would result in further intensification of competition leading to price pressures.

4.0 SEGMENTWISE PERFORMANCE

During the year under review, 143674 nos. pumps (previous year 121398 nos.) were sold representing sales value of Rs.4352 mio. (previous year Rs. 4210 mio.). Pumps manufactured were 152793(nos.).

During the year 131966 nos. valves (previous year 98727 nos.) were sold representing a sales value of Rs.1011 mio. (previous year Rs. 839 mio.). 143655 (nos.) valves were produced during the year.

EXPORT

Global recession also had effect on the export earnings of the Company. During the year under review, exports of pumps and valves declined from Rs.782 mio. to Rs.633 mio. Earnings in agency commission increased from Rs.16.5 mio. to Rs.61.6 mio.

5.0 OUTLOOK

The global economic crisis and its influences on the Indian economy is affecting the Operations of the Company. However the Company is taking effective steps to look for new business opportunities. The growth in order in take in 2011 is expected to be moderate.

Program of production harmonization at various manufacturing locations is progressing satisfactorily. The Company continues its focus on innovation to meet the ever changing requirements of the customer.

6.0 RISKS & CONCERNS THE MANAGEMENT PERCEIVE

The competition is expected to be more aggressive leading to price pressures. Uncertainty in global economic growth coupled with inflationary pressures is

expected to impact the growth rate in India and consequently the Company's operations. The growth in the industrial sector depends on better infrastructure, removal of labour market rigidities and growth in agricultural sector.

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

In spite of lower profits the Company has not faced liquidity problem which is evident from increase in cash and bank balance coupled with reduction in the interest cost. Increase in inventory is partly on account of delay in lifting of pumps and valves by customers.

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

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

MANAGEMENT DISCUSSION & ANALYSIS REPORT (Contd.)

9.0 MATERIAL DEVELOPMENTS IN HUMAN RESOURCES, INDUSTRIAL RELATIONS

On the backdrop of economic slow down in 2009, the Indian job market has opened up during the course of this year and new opportunities are getting created across various levels of Management due to expansion and entry of new players. Even though, there was no addition in the Headcount, attracting talent continued to be a major challenge for the Company in 2010.

Learning and Development continued to be the focused area in 2010 for developing the competence of the employees. Apart from Management Development Programmes, the Company continued its efforts in competence building through structured Learning and Development initiatives; focusing more on functional and technical competence development. The Company has won the award for Leading HR Practices in "Learning and Human Capital Development" under the organizational category for the year 2010. The award was jointly hosted by Shine.com and Hindustan Times under the theme of HR Leadership Awards - Felicitating Meritorious Contributions in the HR Domain.

Competition is very aggressive in the market on hiring front and hiring prospects look strong in 2011. Therefore attracting and retaining talent will continue to be the main challenges for the Company. At the same time, job enrichment, career growth opportunities, learning new skills will be the areas on which HR need to focus in the upcoming year.

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,

G SWARUP
Chairman

Mumbai, 24th February, 2011

DISTRIBUTION OF INCOME

| | Year ended 31.12.2010 | | Rs. in million Year ended 31.12.2009 | |
|--|--------------------------|--------|--|--------|
| | Rs. | % | Rs. | % |
| 1 Raw Materials/Bought-out Components Consumed | 3022 | 48.21 | 2554 | 44.39 |
| 2 Employee Cost | 918 | 14.64 | 798 | 13.87 |
| 3 Administrative, Sales & Other Expenses | 1375 | 21.93 | 1174 | 20.41 |
| 4 Interest | 5 | 0.08 | 18 | 0.31 |
| 5 Depreciation | 207 | 3.30 | 204 | 3.55 |
| 6 Taxation | | | | |
| Current | 254 | 4.05 | 350 | 6.08 |
| Deferred | (27) | (0.43) | (9) | (0.16) |
| Fringe Benefits | 0 | 0.00 | 2 | 0.03 |
| On Dividend | 28 | 0.45 | 37 | 0.64 |
| 7 Dividend | 174 | 2.78 | 218 | 3.79 |
| 8 Retained Earnings | 313 | 4.99 | 407 | 7.07 |
| TOTAL | 6269 | 100.00 | 5753 | 100.00 |