

53rd Annual Report - 2012



Revamping of Cast Iron Foundry, Vambori

Estimated Project cost : Rs. 310 Mio

Completion by : April 2013



Ultramodern Sand Plant
under construction



High Pressure moulding machine
under commissioning



Inside view from Furnace side

KSB CARE

Proposed School Project at Vambori, Ahmednagar

Artist's impression



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ANNUAL GENERAL MEETING

Date : 12th April, 2013
 Day : Friday
 Time : 2.00 p.m.
 Venue : Bajaj Bhavan, Ground Floor,
 (Kamalnayan Bajaj Hall),
 226, Nariman Point,
 Mumbai 400 021.

COMMUNICATION DETAILS

Tel No. : 022-66588787
 Fax No. : 022-66588788
 Shareholders' Grievance Cell : mitra.parchure@ksb.com
 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 - Chandigarh, Jaipur & Lucknow
East - Kolkata
Offices - Bhubaneshwar, Jamshedpur & Raipur
West - Mumbai
Offices - Ahmedabad, Aurangabad, Baroda, Indore,
Nagpur & Pune
South - Chennai
Offices - Bangalore & 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.: 022 25946970
E-mail: 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 Statement of Profit and Loss of the Company for the year ended 31st December, 2012.

FINANCIAL RESULTS AND DIVIDEND

(i) Financial Results:

	₹ in Million	
	Year ended 31.12.2012	Year ended 31.12.2011
Revenue from operations (net) & Other Income	7404.80	7641.32
Profit before taxation	806.58	622.94
Less: Provision for taxation		
Current	265.10	207.00
Deferred	(22.25)	(5.43)
Adjustment of tax of earlier years	(16.43)	(8.45)
	226.42	193.12
Profit after tax	580.16	429.82
Balance brought forward	2651.61	2428.61
Profit for appropriation	3231.77	2858.43
Appropriation:		
First Interim Dividend	34.81	34.81
Second Interim Dividend	156.64	-
Final Dividend	-	104.42
Tax on Dividend	31.06	22.59
General Reserve	60.00	45.00
Balance carried to Balance Sheet	2949.26	2651.61
	3231.77	2858.43

Note: previous year's figures have been regrouped/reclassified, wherever necessary to correspond with the current year classification/disclosure required as per revised Schedule- VI.

(ii) Dividend:

First Interim dividend of ₹ 1 per share of ₹ 10 each (10%) was paid during the year.

The Board of Directors declared Second interim dividend of ₹ 4.50 per share of ₹ 10 each (45%) making total dividend paid for the year ₹ 5.50 (55%). No Final Dividend is recommended by the Board.

GENERAL REVIEW

(i) Working:

During the year under review, the Company has earned higher profit before tax compared to the previous year even though there has been decrease in the sales. The overall economic slowdown and delay in project execution continued in 2012. Hence situation of heavy pressure on margin continued in the year. The Company has taken various cost reduction and efficiency improvement measures during the year which resulted in increased profitability despite of reduction in sale.

Export increased by ₹ 333 mio. from ₹ 701 mio. last year to ₹ 1034 mio.

The Company continues with its efforts to maintain growth even during the economic downturn and face new challenges.

(ii) Unclaimed Bonus Shares :

Total 23,608 bonus shares held by 152 shareholders were unclaimed in the year 2012, after allotment. Out of which 2,914 bonus shares were transferred to respective 6 shareholders who had approached for such shares. Now the total number of shares outstanding is 20,694 held by 146 shareholders.

(iii) Fixed Deposits:

The Company has no unpaid deposits except those unclaimed after the period of maturity. As on 31st December, 2012, 1 depositor (₹15,000) did not claim his deposit on the due date.

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 ₹41,409 being unclaimed fixed deposits and interest and an amount of ₹205,708 being unclaimed dividends up to the year 31.12.2005, were transferred to the Investor Education & Protection Fund established by the Central Government.

- (v) Subsidiary & Associate:

The Ministry of Corporate Affairs, the Government of India has vide Circular No. 2/2011 dated 8th February, 2011 granted general exemption subject to fulfillment of certain conditions from attaching the Balance Sheet of the Subsidiary to the Balance Sheet of the Company without making an application for exemption. Accordingly, the Balance Sheet, the Statement of Profit and Loss Account and other documents of the subsidiary company is not being attached with the Balance Sheet of the Company. Financial information of the subsidiary company is disclosed in the Annual Report. The Audited Annual Accounts of this subsidiary and related detailed information will be made available to any member of the Company/ its subsidiary seeking such information at any point of time and are also available for inspection by any member of the Company/ its subsidiary at the Registered Office of the Company. The Audited Annual Accounts of the said Subsidiary will also be available for inspection, as above, at the Head Office of the subsidiary company.

The Associate Company, MIL Controls Limited (MIL) has made a profit before tax of ₹ 337.7 mio for the year ended 31st December, 2012 (previous year - ₹ 280.5 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

Mr. N.N. Kampani, Mr. D.N. Damania, and Dr. A. Lee retire by rotation and are eligible for re-appointment.

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 departure;
- 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.

BOARD'S REPORT (Contd.)

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 shareholders, 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 improve its processes and operations to achieve and enhance its initiatives towards improving environment, health and safety standards on a continuous basis.

In line with our vision under EHS and Global Compact, we have initiated several activities some of them being disposal of e-waste through authorized agency, programs initiated to increase awareness on environment conservation and distribution of saplings, improvised lamp fittings, VFDs, programmer for voltage regulation for AC's, motion sensors in aisles etc., to save power, wet scrubbers, oil skimmers to

reduce pollution, conservation of wood & other packing material etc.

Further we have decided to have OHSAS 18001 certification for organization health and safety in coming year. Two plants will be audited and certified for OHSAS in the first phase. Extensive training programs are held to train our core team members who would be responsible to implement the requirements of this standard across all plants.

We have initiated dialogue with our supplier's through correspondence and one-to-one meeting to begin the EHS activities at their end, this will be closely monitored in future to bring in desired result.

CORPORATE SOCIAL RESPONSIBILITY

KSB Care Charitable Trust has initiated a project of supporting a school near Company's foundry at Vambori. Proposed support is to construct a primary school building.

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(1B) of the Companies Act, 1956.

On behalf of the Board of Directors

G. SWARUP
CHAIRMAN

Mumbai, 22nd February, 2013

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

On the backdrop of decelerated growth in 2011, growth prospects for 2012 remained uncertain. Advanced Economies clouding the global growth lost its momentum due to the protracted debt crisis in euro area and fiscal fragilities dampened business and consumer confidence. Growth in emerging markets, especially China and India, was slower beyond what was anticipated.

Contrary to expectation, Indian economy did not show signs of recovery. Lower global demand, domestic policy uncertainties and cumulative impact of monetary tightening lowered the growth rate below six percent. Industrial growth remained subdued due to supply-side bottlenecks as well as no flow of investments. The growth slowdown has been driven by sharp fall in investment which may remain sluggish in new projects. With reduced stress on global financial markets and revival of capital inflows, financial conditions improved in India. However, tight liquidity conditions saw money market rates firm-up.

Deficient monsoon conditions reperculated overall foodgrain production in the later part of the year. Industrial activities lost steam on account of weak demand for consumer durables, reflecting interest rate sensitivity, deceleration in external demand and subdued investment demand due to decline in business confidence. Growth in service sector moderated, reflecting the slowdown in construction. Persistent

inflationary pressures began easing in the initial period of year but remained sticky at about current level.

All in all, dampening of investment sentiments, global uncertainties, domestic cyclical and structural factors affected all three sectors in economy agriculture, industry and service. Alongside, reviving growth in a non-inflationary manner also posed a big challenge for Indian Economy.

2.2 Pumps & Valves Industries

After an encouraging start, the world economy cooled again in the course of 2012, which adversely affected the confidence of many investors in sound economic development. The mechanical engineering sector continued to grow in 2012 but much more slowly.

For Pumps and Valves manufacturers, the project business in energy sector continued to be characterised by low number of new orders and tight margins. Demand from chemical and petrochemical industries remained subdued as well as with no major grass root project started during the year.

3.0 OPPORTUNITIES AND THREATS

With India's ever growing requirements of energy and capacity addition planned by the Government's though demand is subdued at the moment, there exists substantial opportunity for the Company as the Company's products are geared up for this sector.

With the globalisation, 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, Pumps worth ₹ 4875 mio. (Previous year ₹ 5248 mio.)

MANAGEMENT DISCUSSION & ANALYSIS REPORT (Contd.)

were sold. Similarly during the year under review, valves worth ₹ 1423 mio (previous year ₹ 1396 mio) were sold.

EXPORT

During the year under review, exports of pumps and valves in terms of value were ₹ 1034 mio. as against ₹ 701 mio. in previous year. Agency commission earned was ₹ 35 mio.

5.0 OUTLOOK

Despite only moderate growth in the global economy, we expect order intake and sales revenue to grow once again in 2013. The implementation of strategic project would contribute significantly to this. Expansion of the standard business and the continued development of the service and aftermarket business will be important priorities.

Infrastructural developments in BRIC countries, urbanization in Asia Pacific countries resulted in more demand on power and fuel that would considerably contribute for growth in Pump & Valves industry.

For the current year, KSB expects the market for pumps, valves and services to grow moderately. Company is taking effective steps to improve earning before income tax in current year.

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 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

Due to some cost control measures, there is reduction in total expenses for 2012 as compared to last year. Consequently Profit after Tax improved even though the total turnover has decreased.

MANAGEMENT DISCUSSION & ANALYSIS REPORT (Contd.)

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

9.0 MATERIAL DEVELOPMENTS IN HUMAN RESOURCES, INDUSTRIAL RELATIONS

In 2012, we have continued to focus on various people development initiatives such as Learning and Development, Developing Leadership Culture, Succession Planning and Performance Management. At the same time, new initiatives like Employee Communications Meetings and E-learning were introduced.

In Learning and Development programmes more emphasis was given on development of technical and functional competencies with the support of Internal Trainers.

Productivity linked wage agreement was signed with the Union at Vambori. Industrial relations at all the plants were cordial and healthy.

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, 22nd February, 2013

DISTRIBUTION OF INCOME

	Year ended 31.12.2012		₹ in Million Year ended 31.12.2011	
	₹	%	₹	%
1. Raw Materials/Bought-out Components Consumed	3582	48.37	3984	52.14
2. Employee benefit expenses	1036	14.00	1044	13.66
3. Administrative, Sales & Other Expenses	1693	22.86	1744	22.82
4. Finance Cost	52	0.70	28	0.37
5. Depreciation	235	3.17	218	2.85
6. Taxation				
Current	249	3.36	199	2.60
Deferred	(22)	(0.30)	(5)	(0.07)
On Dividend	31	0.42	22	0.30
7. Dividend	191	2.59	139	1.82
8. Retained Earnings	358	4.83	268	3.51
TOTAL	<u>7405</u>	<u>100.00</u>	<u>7641</u>	<u>100.00</u>

Note: Previous year's figures have been regrouped / reclassified, wherever necessary to correspond with the current year classification / disclosure required as per revised Schedule VI.