



KIRLOSKAR BROTHERS LIMITED



SEVENTY NINTH ANNUAL REPORT 1998-99

KIRLOSKAR BROTHERS LIMITED, KIRLOSKAR COPELAND LIMITED AND ESTABLISHMENTS

KBL : Kirloskar Brothers Ltd.
KCL : Kirloskar Copeland Ltd.
KSIL : Kirloskar Silk Industries Ltd.



Corporate Office ■
Regional Offices —
Manufacturing Facilities of KBL ●
Manufacturing Facilities of KCL ●
Manufacturing Facilities of KSIL ●

KIRLOSKAR BROTHERS LIMITED**79**th Annual Report
1998 - 99**Board of Directors**Sanjay Kirloskar
Chairman & Managing Director

M. S. Kirloskar

S. S. Marathe

Vikram Kirloskar

J. R. Gagrati

Shivraj Gupta

S. N. Inamdar

M. G. Padhye

U. V. Rao

P. M. S. Malik

C. N. Ravi

Report  junction.com**Vice President (Finance)
& Company Secretary**

Sudha Santhanam

AuditorsM/s P. G. Bhagwat
Chartered Accountants**Bankers**Bank of India
Canara Bank
Bank of Maharashtra
The United Western Bank Limited**Registered Office**Udyog Bhavan, Tilak Road,
Pune-411002, Maharashtra State, (India)
Phone : (020) 4444455
Fax : (020) 4444198, 4442780, 4440156
Website : www.kirloskars.com
: www.kbl.co.in**Works**Kirloskarvadi
Dewas
Shirval
Pune

KIRLOSKAR BROTHERS LIMITED**TEN YEARS' SUMMARY**

(Rs. in Million)

PARTICULARS	@1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Net Sales	806	1,473	1,913	2,228	2,059	2,129	2,691	3,192	3,375	3,397
Other Income	14	17	18	39	34	61	61	68	51	96
Material Cost	513	896	1,130	1,369	1,280	1,274	1,621	1,930	1,910	1782
Other Expenses	233	431	575	676	652	743	865	972	1,168	1296
Interest	42	57	77	111	82	88	120	172	155	137
Depreciation	12	21	27	32	32	37	42	51	57	67
Profit before tax	20	85	122	79	47	48	104	135	136	211
Income tax provision	2	37	60	30	20	18	37	26	29	50
Net Profit after tax	18	48	62	49	27	30	67	109	107	161
Share Capital	31	31	31	31	31	42	50	71	71	71
Reserves	111	150	201	370	387	642	866	923	999	1125
Net Worth	142	181	232	401	418	684	916	994	1,070	1196
Imports	37	72	79	108	77	50	65	67	114	101
Exports	77	130	173	302	307	230	357	605	760	653
Earnings per Share (Rs.)	5.96	15.54	20.17	16.02	8.78	7.05	13.38	15.40	15.24	22.89
Dividend per Share (Rs.)	1.50	3.00	3.50	3.50	3.50	4.50	4.00	4.00	4.00	* 4.50
Book Value per Share (Rs.)	46.30	58.84	75.51	130.64	135.92	162.78	181.94	**140.96	151.79	169.68

Previous Year's figures have been regrouped to make them comparable.

Figures upto 1992-93 includes those of Hermetically Sealed Compressors Division, which is now a separate company.

@ Figures are for an eight-month period.

* Proposed Dividend.

** After issue of Bonus Shares in the ratio of 2:5

DIRECTORS' REPORT TO THE MEMBERS

Your Directors present the 79th Annual Report and the Audited Accounts of the Company for the year ended **March 31, 1999**.

FINANCIAL RESULTS

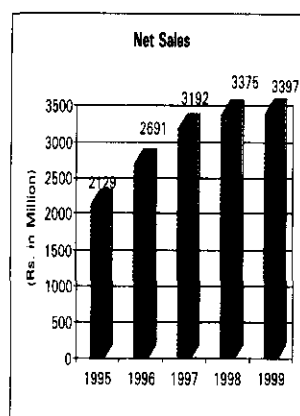
The financial results of the Company for the year 1998-99 as compared with the previous year are as under: -

	Current Year ended 31/3/1999 Rupees	Previous Year ended 31/3/1998 Rupees
Sales and Other Income	3,493,294,197	3,426,553,960
Profit before tax	211,365,313	135,933,455
Provision for taxation	50,000,000	28,500,000
Profit after tax	161,365,313	107,433,455
Transferred from Investment Allowance Reserve	—	3,852,520
Surplus brought forward from previous year	64,178,637	60,516,873
Available surplus	225,543,950	171,802,848

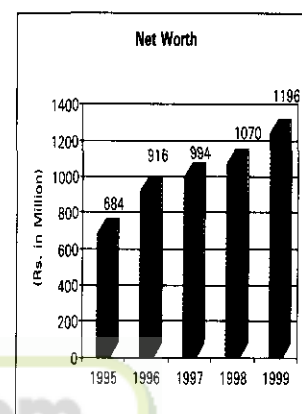
APPROPRIATIONS:

Your Directors propose to appropriate the available surplus as under:

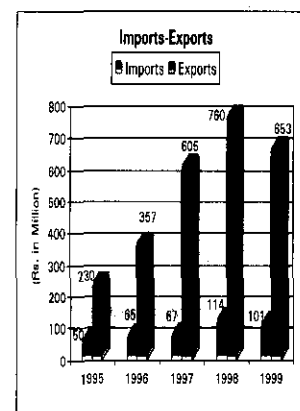
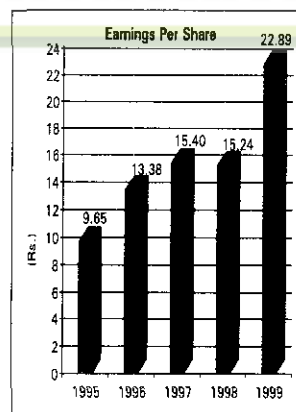
Dividend @ 45%(40%) on 7050957 equity shares of Rs. 10/- each	31,729,307	28,203,828
Provision for additional tax on Dividend	3,490,224	2,820,383
Transfer to Debenture Redemption Reserve	—	16,600,000
Transfer to General Reserve	120,000,000	60,000,000
Balance to be carried to Balance Sheet	70,324,419	64,178,637
TOTAL	225,543,950	171,802,848



"While the challenges before us are manifold...."

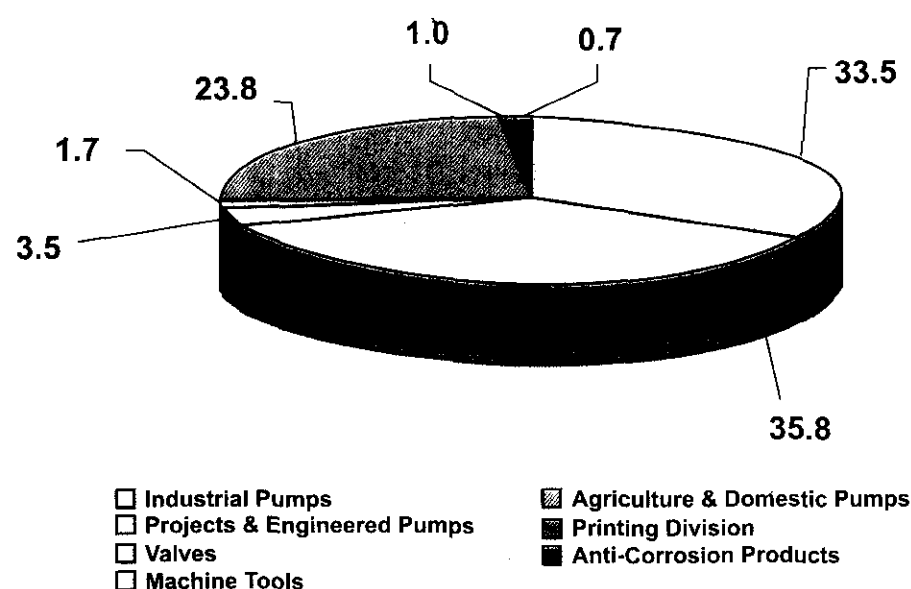


"...the profound one is of continuous improvement for our stakeholders for today and tomorrow."



KIRLOSKAR BROTHERS LIMITED

Percentage Share of Business Groups in KBL Turnover



continuous improvement, productivity increase and cost reduction has enabled the Company to meet the delivery requirements of our customers.

The prospects for the coming year are encouraging. The order booking position stands at a healthy Rs. 2000 million and our Company is expected to continue to perform well.

In spite of little growth in the industry, industrial pumps group maintained its market shares for every product line and maintained its status of being the largest

manufacturer of centrifugal pumps and also as the source of the widest range of pumps in the country. There was substantial growth in spare part sales due to increased emphasis on after sales service.

The other bright spark was the growth in our turnkey business from a turnover of Rs. 30 million in 1989 to about Rs.1300 million today. We have excelled in turnkey project engineering capability by taking initiative and introducing new products and systems for the first time in the country. India's second concrete volute pump station built by KBL at National Thermal Power Corporation 2 x 500 MW Super Thermal Power Project at Vindhyachal has been commissioned. Several prestigious contracts involving large horizontal split case pumping systems to petrochemical and fertiliser industry have been executed.

Due to tight money market position with funding agencies, the market potential has come down causing reduction in sales in few locations for agricultural

OVERVIEW OF OPERATIONS

During the past few years, we have seen many governments, each shaping and influencing the character of the Indian economy and the business environment. The regulatory environment has changed indelibly and continues to change. The competitive environment has radically changed and international players have entered the markets that we are operating in.

Through all these changes, we have restructured ourselves and have retained our leadership position in our major product groups. In a difficult year for business, we tried to utilise our resources optimally, concentrating on cost control and productivity, strengthened after sales services, and thereby produced better results.

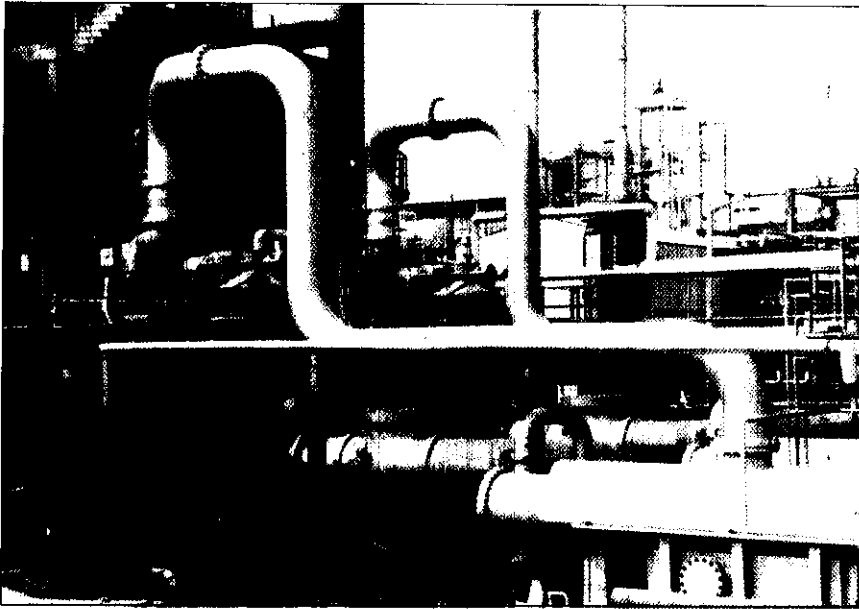
Total income for the year 1998-99 was Rs.3493 million, marginally higher than the figure of Rs.3427 million in 1997-98. However, profit before tax increased from Rs. 136 million to Rs. 211 million registering an increase of 55 %. This could be achieved mainly because of strict control over inventory and material costs and due to reduction in borrowings.

Business Groups have become operational fully and through the recast of functions and enhancement of Corporate - Business Groups linkage, based on shared values and beliefs, structures, systems, strategies, style, skills and staff, we have been able to achieve desired goals, growth rate and profitability.

A quality enhancement programme driven by



All India Trophy for largest exporters of pumps awarded by Engineering Export Promotion Council for export performance with continuous excellence.



Two BHR-95 steam turbine driven circulating water pumps at Fertilizers and Chemicals Travancore Limited's (FACT) Ammonia Project in Udyogamandal, Kerala.

Changing to a vertical pump configuration has resulted in considerable saving in project cost.

pumps. Margins have been affected due to less demand and competition. Agricultural and Domestic pumps group has tackled competition from established manufacturers and from the unorganised sector by strengthening marketing network, setting up over 60 service centres and improving availability of pumps during the season.

Our energy efficient and energy saving pumps have played an important role in conserving expensive energy and will continue to do so.

Our exports this year have declined by approximately 14% compared to last year. This is mainly due to delayed letters of credit from clients as a result of their financial problems, and after effects of the South East Asian currency crisis. Moreover, Government spending in countries such as Thailand, Malaysia and Indonesia which are worst hit by this crisis, has gone down by 50% and projects have been kept on hold. Also, demand from the United Kingdom and United States of America has been sluggish.

Financial constraints are expected to ease during the first half of this year and the deficit will be made up by increased business from thrust markets of South East Asia, Middle East, Africa, United Kingdom and United States of America.

During the year 98-99, the demand for machine tools remained depressed and in the first half of the year, machine tool sales of Indian machine tools manufacturers had gone down by 27.4% compared to the previous year for the same period. Major machine tool user sectors had negative growth during the year and therefore did not invest in creation of additional manufacturing capacity or even for

replacement of old machines. During the year, we upgraded and improved our products. It is expected that this industry will continue to remain sluggish due to political instability and therefore there will be a slow-down in fresh investments. We have decided to focus our efforts on the export market and are also undertaking studies to evaluate potential for new product development.

KBL's key resource is well trained technical manpower. The connecting link in the business groups is that they all exploit and leverage the strengths and core competencies of KBL, namely brand image, strong and well established regional offices with countrywide dealer network, engineering and project management skills, technical expertise, specialised marketing and support skills to cater to different market segments for comprehensively providing the widest range of products and services. The regional offices are equipped with modern communication and Information Technology facilities for monitoring and control.

KBL upgrades product technology through its own in-house Research and Development, through joint design and development, and license agreements with technology leaders abroad. KBL's facilities include a team of Research and Development engineers equipped with the latest Information Technology hardware and design software, as well as sophisticated product testing facilities to ensure adherence to design specifications as well as to international standards. Latest computational facilities have been developed to carry out Computational Fluid Dynamics (CFD)/ Seismic/Stress Analysis to conform to customer specifications.

KIRLOSKAR BROTHERS LIMITED

For over seventy years, KBL has realised and met the changing needs of society, making it the undisputed leader in fluid handling today. Realising the importance of renewable energy and in its quest to bring the latest technology to India, KBL has tied up with one of the world leaders in hydro-turbines – Ebara Corporation, Japan to offer turnkey execution facilities through its project marketing and execution team. Under this agreement for transfer of technology for manufacture of hydro turbines, KBL now has the capability to manufacture Pelton, Francis & Kaplan turbines upto 10MW capacity. KBL has secured order for turnkey execution of hydro projects from Tamil Nadu Electricity Board worth Rs.172 million. These projects are in their final stage of execution. Further orders of over Rs.150 million have been received from private power companies in Andhra Pradesh, Karnataka and Himachal Pradesh.

KBL has entered into a distribution agreement with Erhard GmbH & Co., Germany, one of the leading manufacturers of Valves in Europe for marketing their valves in India and abroad. Erhard manufactures and supplies various types of gate, butterfly, ball check, needle valves in all sizes and pressure ratings to international specifications. These valves will be used in various applications like water supply and sewerage, fire fighting systems, irrigation, hydroelectric and thermal power plants, dams, storage basins and other water systems.

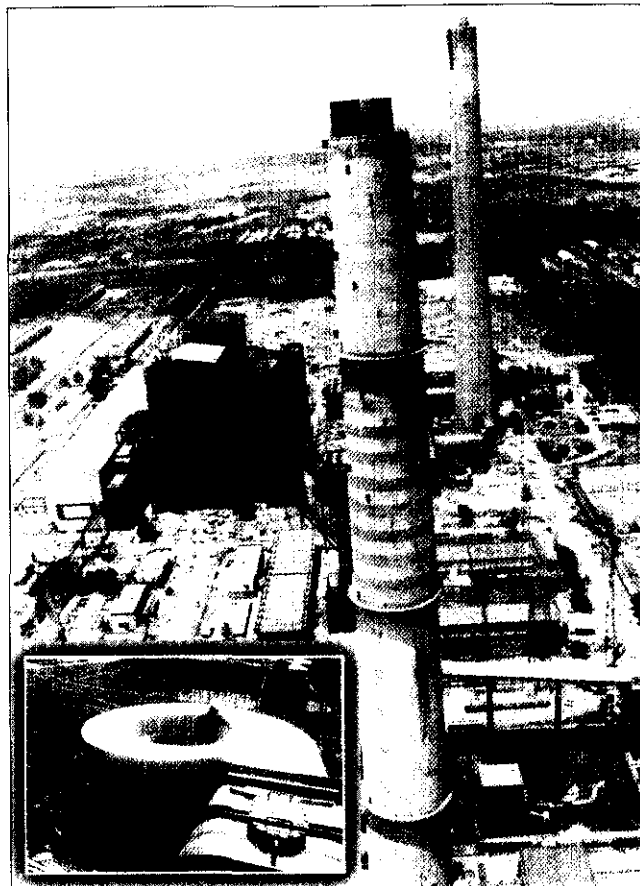
Joint venture and subsidiary companies :

The joint venture and subsidiary companies have made good progress.

Kirloskar Ebara Pumps Limited (KEPL) continued to remain the market leader in the API segment of process pumps and are trying to consolidate their position in the multi-stage boiler feed pumps segment. KEPL have shown remarkable growth of 65% in turnover and substantial increase in profits.

Kirloskar Copeland Limited (KCL) has enjoyed another successful year. The contribution of Copeland designed products in KCL turnover has picked up and is likely to become a major portion of the turnover in coming years. The entire range of eco-friendly air conditioning and refrigeration compressors from KCL meet the Montreal Protocol deadline set up for India for compliance by the year 2002.

Kirloskar Silk Industries Limited (KSIL) has completed part of land development and sourced water from the irrigation reservoir. Market development of KSIL products is in progress. The market response to the products continues to be encouraging.



Concrete Volute Pump (inset) under construction at 2X500MW Super Thermal Power Project for National Thermal Power Corporation (NTPC), Vindhyachal. Four pumps have since been commissioned.

Computer systems and the Year 2000:

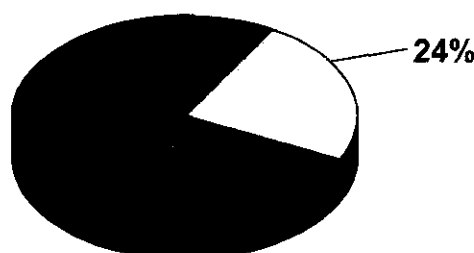
The company has conducted a detailed review of its computer systems to identify those areas that could be affected by problems associated with the failure of these systems to correctly process the year 2000. The company is implementing a co-ordinated plan to replace, modify and/or upgrade its computer hardware and software to ensure that it will not malfunction as a result of failing to correctly process the year 2000. The company has also established a detailed review and testing process to ensure that its systems and products are or will be year 2000 compliant. 80% of the work is completed and balance work is expected to be completed by October 1999. Estimated cost for this activity is approximately Rs. 4.5 million.

Any issues related to year 2000 compliance will not interrupt product functionality, any services from our business associates/service providers/sub-vendors.

There is no material, historical and cost of remediation for fixing year 2000 issues. The system breakdown and failure due to year 2000 problem does not involve any risk to the Company and hence the cost required for contingency plan is nil.

BUSINESS REVIEW**Industrial Pumps Group**

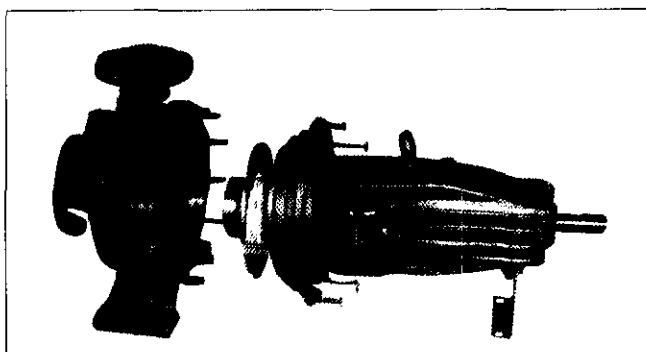
**Estimated Market of Industrial Pumps :
Rs. 5000 M**



☐ **Industrial Pumps Market Share**

Industrial pumps group has continued to consolidate its position as the leader in the pump industry. In spite of sluggish market, inflow of orders has been maintained. Orders from Coal, Refinery and Sugar segments have been consistent. Margins have been under pressure, due to severe competition from other pump manufacturers. Aggressive marketing efforts have increased inflow of orders for spare parts. Flexibility in manufacturing operations and planning of execution of orders have reduced cycle time and resulted in marked improvement in delivery period of various product groups.

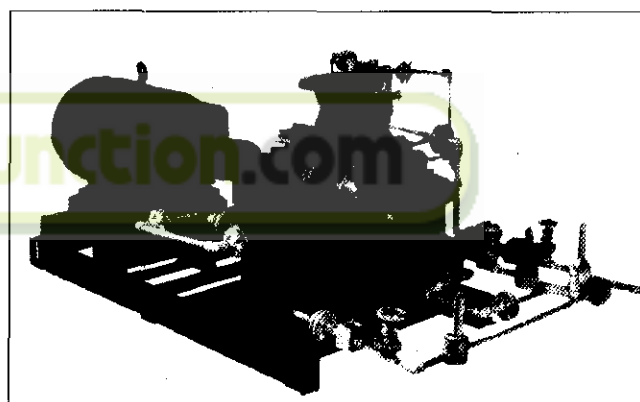
There has been a reduction in exports due to the South East Asian slowdown. The Company is making efforts to increase its export sales by concentrating on improving the efficiency of marketing operations. Our strategy to approach foreign pump manufacturers to include our pumps in their range has resulted in orders from Western Europe.



*Solid Handling SHM Pump for Sugar Factory
Almost every sugar factory in India and more than 50 factories abroad use KBL products.*



Machine Shop at Kirloskarvadi



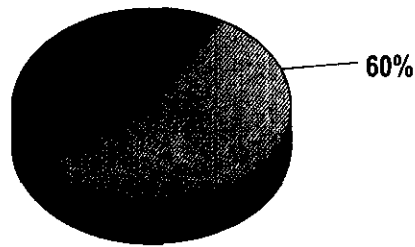
*Centrefline mounted KPD process pump with auxilliary piping
KPD series pumps are available in a variety of metal alloys cast in KBL foundries*

Projects and Engineered pumps Group

Whether it was India's first Concrete Volute pump for Bombay Suburban Electric Supply, or pumping systems for the largest lift irrigation scheme in Asia at Takari and Mhaisal (Maharashtra Krishna Valley Development Corporation), KBL has been at the forefront of engineering innovation in major sectors like power, irrigation, water supply, sewerage, oil and natural gas, and industries handling turnkey pumping projects and contributing to national economic development.

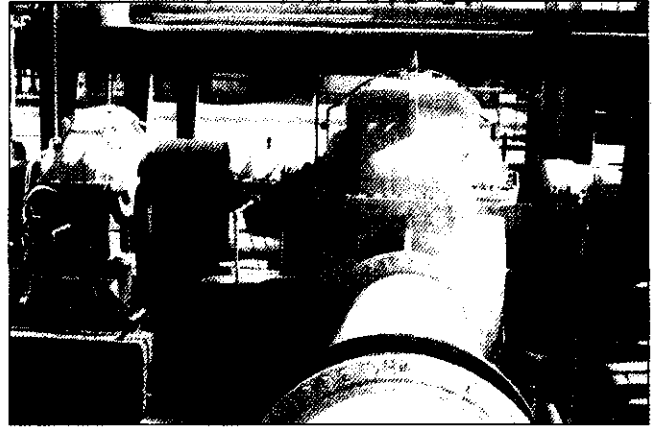
KIRLOSKAR BROTHERS LIMITED

**Estimated Market of Turnkey Projects :
Rs. 2400 M**



■ Projects & Engineered Pumps Market Share

Projects and Engineered pumps group has maintained their share in Water Supply and Irrigation Projects and the Power Sector in spite of global competition. Customers are shifting to turnkey tendering concept and prefer single source responsibility to include electro-mechanical instrumentation and civil work.



Large Split Case Pump (36 UPH2) for Nagarjuna Fertilisers and Chemicals Ltd.

Orders from the Andhra Pradesh irrigation department, order from Indian Oil Corporation Limited for firefighting pumps packages, Oswal Chemicals & Fertilisers order for large split case pumps are some of the examples of continued faith by customers in our capabilities.



Eight BHR 95 M vertical turbine pumps under commissioning at Maharashtra Krishna Valley Development Corporation's (MKVDC) Mhaisai scheme – Stage I. KBL supplies for this scheme include 66 nos. BHR 95 M pumps and hydraulically operated pump discharge valves of 1,000 mm size.

The Mhaisai scheme is for irrigating 46,000 hectares of farmland.