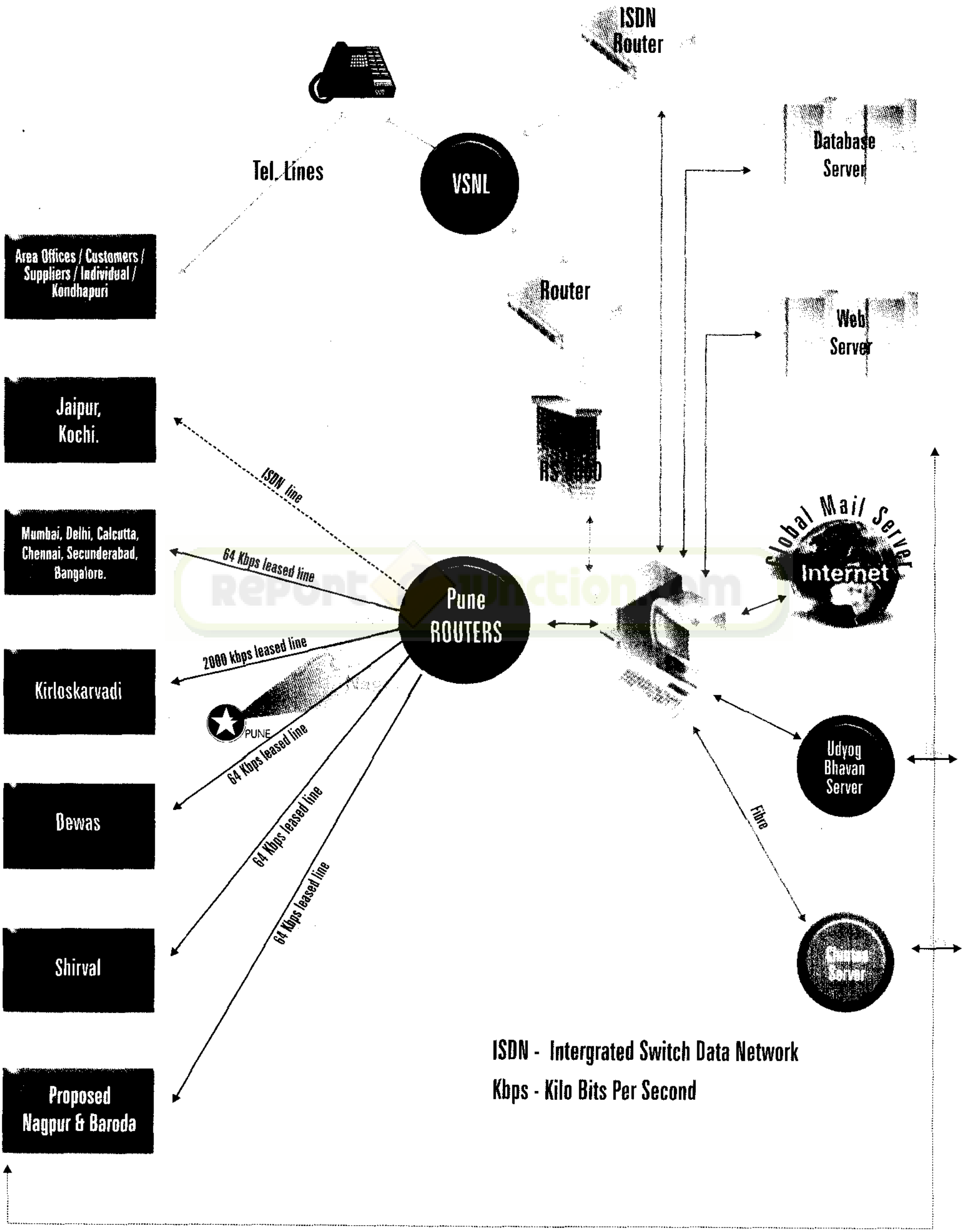

2000
EIGHTIETH ANNUAL REPORT
Kirloskar
KIRLOSKAR BROTHERS LIMITED

KBL-NETWORK



ISDN - Intergrated Switch Data Network

Kbps - Kilo Bits Per Second

Board of Directors	Sanjay C. Kirloskar Chairman & Managing Director
	Gautam Kulkarni Vice Chairman (w.e.f. July 27, 2000)
	M. S. Kirloskar
	S. S. Marathe
	Vikram Kirloskar
	J. R. Gagrat
	Shivraj Gupta
	S. N. Inamdar
	M. G. Padhye
	U. V. Rao
	P.M.S. Malik
	C. N. Ravi
Vice President (Finance) & Company Secretary	Sudha Santhanam
Auditors	M/s P.G. Bhagwat Chartered Accountants
Bankers	Bank of India Canara Bank Bank of Maharashtra The United Western Bank Limited
Registered & Corporate Office	Udyog Bhavan, Tilak Road, Pune - 411 002, Maharashtra State, (India) Phone : (020) 444-4444 Fax : (020) 444-4198, 444-0156 E-mail : kblin@kbl.co.in Website : www.kbl.co.in Group Website : www.kirloskars.com
Works	Kirloskarvadi Dewas Shirval Kondhapuri Pune

TEN YEARS' SUMMARY

(Rs. in Million)

PARTICULARS	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Net Sales	1,473	1,913	2,228	2,059	2,129	2,691	3,192	3,375	3,397	3,713
Other Income	17	18	39	34	61	61	68	51	96	79
Material Cost	896	1,130	1,369	1,280	1,274	1,621	1,930	1,910	1,782	2,162
Other Expenses	431	575	676	652	743	865	972	1,168	1,296	1,270
Interest	57	77	111	82	88	120	172	155	137	120
Depreciation	21	27	32	32	37	42	51	57	67	72
Profit before tax	85	122	79	47	48	104	135	136	211	@ 168
Income tax provision	37	60	30	20	18	37	26	29	50	43
Net Profit after tax	48	62	49	27	30	67	109	107	161	125
Share Capital	31	31	31	31	42	50	71	71	71	71
Reserves	150	201	370	387	642	866	923	999	1,125	1,215
Net Worth	181	232	401	418	684	916	994	1,070	1,196	1,286
Imports	72	79	108	77	50	65	67	114	101	51
Exports	130	173	302	307	230	357	605	760	653	456
Earnings per Share(Rs.)	15.54	20.17	16.02	8.78	7.05	13.38	15.40	15.24	22.89	17.71
Dividend per Share(Rs.)	3.00	3.50	3.50	3.50	4.50	4.00	4.00	4.00	4.50	4.50
Book Value per Share(Rs.)	58.84	75.51	130.64	135.92	162.78	181.94	*140.96	151.79	169.68	182.39

Previous years' figures have been regrouped to make them comparable.

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

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

@ After extraordinary item of excise duty of Rs. 63 million relating to earlier years.

DIRECTORS' REPORT TO THE MEMBERS

Your Directors present the 80th Annual Report and the Audited Accounts of the Company for the year ended March 31, 2000.

FINANCIAL RESULTS

The financial results of the Company for the year 1999-2000 as compared with the previous year as under :-

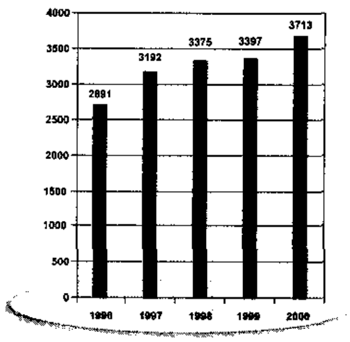
	Current Year ended 31/3/2000 Rupees	Previous Year ended 31/3/1999 Rupees
Sales and Other Income	3,792,625,491	3,493,294,197
Operating Profit	231,229,282	211,365,313
Excise Duty paid	63,385,380	—
Profit before tax	167,843,902	211,365,313
Provision for taxation	43,000,000	50,000,000
Profit after tax	124,843,902	161,365,313
Transferred from Investment Allowance Reserve	5,734,035	—
Surplus brought forward from previous year	70,324,419	64,178,637
Available Surplus	200,902,356	225,543,950

APPROPRIATIONS :

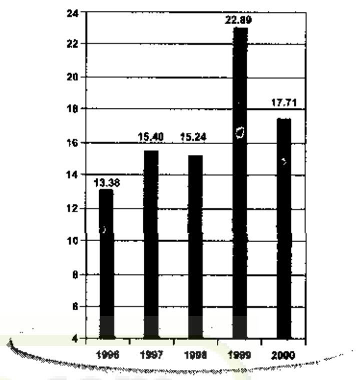
Your Directors propose to appropriate the available surplus as under :

Dividend @45% (45%) on 7050957 equity shares of Rs. 10 each	31,729,307	31,729,307
Provision for additional tax on Dividend	3,490,224	3,490,224
Transfer to General Reserve	100,000,000	120,000,000
Balance to be carried to Balance Sheet	65,682,825	70,324,419
TOTAL	200,902,356	225,543,950

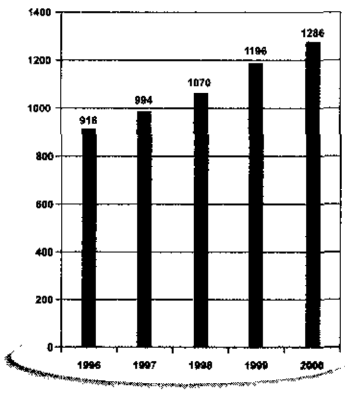
Net Sales



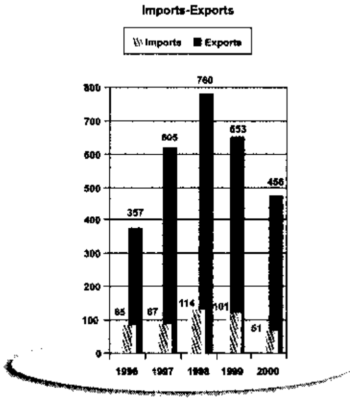
Earnings Per Share



Net Worth



Imports-Exports



Management Overview

Economy

The year 1999-2000 has been an year of economic recovery. Major economic indicators showed robust growth of the Indian economy during the year. Despite a negative growth of 1% in agriculture, the Gross Domestic Product (GDP) in real terms grew by 5.9% in 1999-2000. Industrial production, after slowing down for a period of 2 years, recorded a growth of 8% during 1999-2000 as compared to 3.9% in the previous year. Exports recorded a growth rate of 11.6% in dollar terms as against a decline of 3.9% in 1998-99. Inflation measured in terms of Wholesale Price Index (WPI) at 2.9%, was at its lowest level. Foreign exchange reserves at US $ 38 billion, as on end - March 2000, also reflected the strength of the economy, especially of its external sector. On April 1, 2000 Reserve Bank of India has further reduced bank rate to 7% and Cash Reserve Ratio to 8%, ensuring increased liquidity in the systems. The Government took a number of steps to boost the economy. Infrastructure continued to be the thrust area for the economy and new measures in areas of telecommunications, ports, and airports have been announced.

The Government has also effected substantial liberalisation in policies relating to Foreign Direct Investments. These measures are expected to boost foreign investment in infrastructure and core sectors of the economy.

Policy initiatives already taken by the Government of India are expected to spur further growth of the economy. The targeted GDP growth of over 7% of our economy seems well within reach. KBL would leverage its stature and expertise to exploit the emerging growth opportunities in the coming years.

In 1999-2000, the profitability of the Indian Pump Industry has come down drastically due to fierce competition putting a seal on selling prices, and increased input costs. Also the pump sales from the unorganized sector and assembled kit sellers are more than double the sales of branded pumps. These factors not only affected the market shares of leading brands, but also imposed heavy strain on 'power' due to inefficiently operating pumps.

Our company has registered a growth of about 10% in net sales last year which was not reckoned as a good year for the pump industry. The net sales went up to Rs. 3713 million in 99-00 as compared to Rs. 3397 million in 98-99. The operating profit, too, went up by 10% to Rs. 231 million from Rs. 211 million. After a write off of Rs. 63 million on account of excise duty relating to earlier years, the profit before tax stood at Rs. 168 million.

Water - a scarce resource

In 1995 the United Nations, in a report to the Economic and Social Council stated that the number of inhabitants worldwide without access to safe water was of the order of 1.2 billion, and the number of people without adequate sanitation amounted to some 2.8 billion. The situation today may not be significantly different. This does not belittle the efforts taken by various governments, institutions and non governmental organisations to provide water facilities to millions. But somehow lessons are learnt the hard way. It is increasingly dawning on the world community, and in particular on the 'Water Managers' in the developing countries like ours, that water - a scarce resource - must be treated as an economic good. It is quite evident that governments on their own would be unable to provide the necessary services but will have to open them up for private sector participation. The financial viability of private water utilities and the treatment of the water as a basic human right, tend to act in opposition to one another making water a politically fiery issue. The stratification of tariffs and allowing foreign direct investment in this area could perhaps be the optimum solution for a country like India, apart from stringent controls on excessive wastages. Some beginning has been made in this regard in term of the water supply scheme for Tirupur through a consortium.

Factors affecting fluid handling business

To be a successful player in a demanding and dynamic market you need comprehensive range of products and solutions, a commitment to technological renewal and global presence. To achieve these objectives and for large cost reduction, mergers and acquisitions were most favoured strategies during the last year. While mergers mitigate risk to greater efficiency and gains in scale, they pose considerable challenge of integrating people, culture, knowledge, technology and processes.

World leaders in pump industry have realigned their strategies to expand the pump business over next few years by implementing ambitious acquisition strategies. They have targeted to become world leaders catering to various market segments through enhanced product range through acquisitions.

While organic growth failed to inspire, acquisitions helped corporates across the world to return some healthy figures. New product launches and capital investment in production equipment and business systems will position these companies for future growth.

Divestment from non core operations also formed a significant feature of recent corporate strategies.

The water and waster water market is valued at approximately US $ 8 billion. Key drivers in this market are pumping efficiency, delivery time, price and distribution. Approximate growth rate of 10% is forecast for the water market over the next 3 to 4 years. In the water pumps market, the agricultural and domestic pump market is highly fragmented. Delivery, strong local distribution network and advertising and sales promotion are very important. In the municipal market the drivers are large municipalities whereas in the irrigation market it is the semi-autonomous government irrigation authorities.

The waste water market is dominated by submersible pump producers. We do have a limited presence in this market with our range of open-well submersible pumps. The waste water market is broadly categorised into municipal and construction de-watering. The level of government spending on infrastructure being the main demand driver in this business, the others are technology and product development.

The process and industrial market refers to the market for pumps in general industry use. Pumps for the process sector of this market are mainly made of non cast-iron alloys that do not corrode or react with the acidic, aggressive fluids they transport.

The key driver for process pumps is the level of capital investment by chemicals, pharmaceuticals, pulp and paper, food processing and other process industries. Since pumps in this market are exposed to more aggressive environments, the replacement cycle is much shorter in generating higher spares sales. Further, special materials allow the prices to be higher.

Activity in the housing and office construction sector drives pump sale which go for this sector. Further sops given to the housing sector will see increased the activity and higher growth in this sector for us.

The conventional valves market in India is highly fragmented with low returns and low entry barriers. Unorganised manufacturers are competitive in non-critical application areas and replacement market. These players provide low cost, low quality, non-standard designs acceptable to the market. Industrial valves market has a few branded players where more than 70% business comes from new projects. This market has entry barriers in terms of stringent qualification criteria and proven international technology partners.

Considering the slack in economy in recent past, rising power costs the industrial and infrastructural projects are being forced to have a relook at the refurbishing of existing equipments and to be more energy conscious.

This trend is likely to expand the business potential for anti corrosion products.

Indian Pump Market

The Government has introduced liberalisation and decentralisation policies in a major way - delicencing has been implemented, 100% foreign direct investment is permitted in most sectors, tariffs and taxes have been lowered and import-export procedures have been simplified. Duty differential advantage available to domestic suppliers has been reduced, thereby opening the market to multi-national brands. As a result the Indian subcontinent is emerging to be one of the largest potential markets for pumps and pumping equipments and systems. Only those companies which are price competitive, have a strong service network and a wide distribution network will thrive in the newly emerging market place.

Such Indian market potential has led foreign companies like Sulzer, Ingersoll-Rand, ITT, Johnson and Grundfos to enter into strategic partnerships to expand their operations here.

Indian customers are price conscious and desire faster payback for their investments in pumping systems. Hence pump manufacturers are increasingly competing based on price. This heat will be reflected in the profit and loss accounts of Indian pump companies. However, end users also prefer to source pumps from companies with proven industry and application performance. Pump industry players are beginning to augment services with total pump package solutions, including associated control devices, drives and peripherals. Successful companies are offering such complete solutions to a variety of markets.

The chemical industry (chemicals. petro-chemicals and pharmaceuticals) in India is on threshold of becoming a major player in the world market. The per capita consumption of chemicals in the country is currently way below global average which is a clear indication of huge market potential. The investment in new projects has increased by 40% in last 3 years.

Roughly 30% of country's population has no access to safe drinking water and 80% do not have proper sanitation facilities. In recent months, some local authorities have moved to privatise water in the industrial townships. The concept now needs to be applied to all towns and cities, and to farms, so that scarce resources can be distributed adequately. State-owned water utilities and irrigation departments are losing money by giving supplies away for free, whereas under privatisation, charges could be levied according to usage, and the revenue could be used to revitalise and expand the networks.

Demand for power exceeds current supply by almost 10% on average. Outages and power failures are a common feature of industrial life in the country, and impede its economic revitalisation. As a result, government hopes to use energy resources more efficiently and install enough generating capacity to double the available power supply in 12 years. India plans to have increased power generation capacity by 140 gigawatts; however, due to lack of capital this target may be over ambitious.

In all, the opportunity for foreign involvement in India is enormous, as investments are needed in oil and gas, pipelines and port facilities for liquid natural gas, refineries, coal and coal washeries, power transmission and refurbishment of inefficient plants.

The Recast

In today's business environment what needs to be addressed is the art of creating and preserving the entrepreneurial agility and connectedness of a small company within the large company as we continue to grow. With this in mind, KBL has restructured itself into strategic business groups based on customer focussed categories. Those that provide economies of scale will continue to be common across the strategic business groups in the form of Corporate Services.

This realignment will combine the strengths of being a small company with the advantages of being a large corporate. Most importantly, disaggregation will create more leadership positions, and give managers an early chance to demonstrate entrepreneurship.

In a large yet highly disaggregated organisation such as the one we aspire, organisational knowledge is absolutely critical to building, preserving and leveraging institutional excellence. It is like the air we breathe but cannot feel. The role of providing this organisational knowledge and support is performed by the Corporate Services.

The Machine Tools business group has continued to exhibit negligible growth; as the prospects do not seem to be encouraging in short term for revival, we do not expect any major contribution barring servicing of the existing machine tool population.

The Printing Division faces extra-ordinarily heavy competition from new technologies and multiple colour, automated, state-of-the-art, large volume, highly productive printing presses. This too not being our core business line, we do not expect a major turnaround.

Joint Ventures and Subsidiaries

Amongst the joint ventures and subsidiaries, Kirloskar Ebara Pumps Ltd. (KEPL) had a drop in turnover due to the reduced demand for API Process pumps. This was the effect of delayed clearances of various projects in hydrocarbon processing industry due to political instability in the recent past. However the company is steadily improving its position in the Boiler Feed Pumps market segment. The turnover has fallen to Rs. 138.33 million in 99-00 from Rs. 457.26 million in 98-99; however stringent cost management measures implemented could post profit before tax of Rs. 10.13 million.

The company has secured and executed the first order for multistage double casing type pump - a new product - from Indian Oil Corporation Limited. ISO 9001 certification was awarded to KEPL; and this will help the company in getting itself approved from the overseas consultants and prospective clients to improve the contribution from exports.

Kirloskar Copeland Ltd. continues to lead the hermetic compressors industry segment, but have not done better than last year. The turnover increased marginally from Rs. 2234 million to Rs. 2269 million; however due to stiff competition the profit before tax fell from Rs. 327 million to Rs. 292 million. The robust, competitive and environmentally superior products introduced in recent past have been well received in the various market segments.

The plantation activity is in progress at the site of Kirloskar Silk Industries Limited. The company has launched an internet site for selling pure silk products.

The Challenges

Several years of good monsoons and harvests along with targeted government initiatives have led to an increase in purchasing power. All these factors point to rural consumption rising sharply over the next few years.

Another major business driver is globalisation. The changing regulatory landscape, along with global media and internet revolution will open up the Indian market. Now consumers will increasingly demand global standards of performance and quality, but often at local cost or at even lower cost levels.

For engineering products like pumps and valves, where there is a marginal scope for major product research at a fundamental level, cost efficiency is the necessary pre-requisite to fuel growth. We have always been a cost conscious company; but such is the criticality of the leanest cost structure that we have decided to rigorously examine cost processes along the entire value chain. In future it will be our endeavour to institutionalise a methodology to examine and reduce cost on an ongoing basis. We are in the process of identifying areas where we can improve productivity and reduce complexity by speeding up the decision making and slimming the bureaucracy. This will enable us to deliver products at best possible prices to our customer and enhance sales realisation , and thereby adequately fund new business ventures and people growth initiatives.

Implementation of new information technologies would foster cross-functional, proactive and participative management throughout the company, generating new ideas that will enhance our business.

The Future e-volution

The passage of Information Technology bill recently is expected to stimulate growth of e-commerce.

At Corporate Information Centre we have established data links between major regional offices, factories and Corporate Office. Small offices are equipped with ISDN connections to connect to the private network of KBL. This has reduced the dependency on telephones and has improved efficiency of communication.

With the leased lines, any regional office can perform PC-based video-conferencing with factories and head office. We also have studio-based video-conferencing to conduct meetings with customers in any part of the world.

Our Internet/Intranet site www.kbl.co.in is operational. Customer indents are processed into order acceptance on web from any regional office as well as from an overseas location. All legacy systems have been converted to web enabled systems for easy access, user friendliness and maintainability. Each strategic business unit is allotted links to our intranet site and is being maintained by them for their operations.

We have acquired suitable Enterprise Resource Planning software. We are implementing the Sales and Distribution, Service Management, Materials Management, Finance and Control modules in an integrated way. This is the first step towards making KBL ready for the future challenges of e-commerce.

It is said that internet is bringing about the 'End' of doing business the way it has been done for centuries, it is a revolution that will transform the way we think and we work, it is the end of geography. If used with ingenuity, web technologies will improve efficiency, drive down cost and add real customer value.

As a first step of internet business, companies establish a web presence and find a way to connect to customers 24 hours a day, seven day a week. This is a monumental task from technology, business and marketing perspectives and make both vendors and customers view their relationship with one another in a completely new way. This can be called as "electronic brochure phase". In the 2nd step vendors integrate their web servers and their back-end business systems to provide e-commerce services. Customers can place orders, the company's web presence accepts the orders and submits them to an order processing system. Third and future step will revolve round the customer all the time. Companies will compete on the basis of how effectively they can integrate their information with that of customers / suppliers to create a positive business experience. Intelligent, automated applications and a software interface that allows applications to interact without human intervention is called for.

The journey to achieving our business goals on the path of e-commerce is a three stage journey namely Connect, Attract, Transact. It is becoming clear that the e-commerce business models that will eventually prevail are those supported by extensive physical infrastructure. This will be done by leveraging strong Customer-Supplier relationship, our functional experience in several relevant areas and the capabilities of our dedicated work force. The inhouse developed software packages used for pump selection have been proven to be very well compatible for e-commerce usage. In conclusion KBL is ready to leapfrog into the e-commerce arena.