

**KIRLOSKAR BROTHERS LIMITED**

# ANNUAL REPORT 2001-2002



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There's a way we do business today. A way we measure

growth. And performance. By a smile. Be it on the face of customers

or shareholders, business for us, is bringing happiness in their lives.

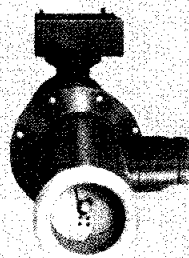
Giving them more space. And peace of mind. After all, it's the

Kirloskar way of working that gives a new perspective to business.

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For when you have century-old specialists caring for your business

interests, you are bound to fetch impressive dividends.



Canned Motor Pump

**Board of Directors**

Sanjay Kirloskar  
Chairman & Managing Director

Gautam Kulkarni  
Vice Chairman

Vikram Kirloskar  
Executive Director

M. S. Kirloskar

S. S. Marathe

J. R. Gagrati

Shivraj Gupta

S. N. Inamdar

M. G. Padhye

C. N. Ravi (upto January 17, 2002)

Rahul Kirloskar

Kumar Bakhrui (w.e.f. March 25, 2002)

U. V. Rao (w.e.f. June 21, 2002)

R. K. Srivastava  
Whole Time Director

G. Ramaiya  
Whole Time Director

**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 - 411002. Maharashtra State, (India )  
Phone : (020) 444-4444  
Fax : (020) 444-4198, 4440824  
E-mail : kblin@kbl.co.in  
Website : www.kbl.co.in  
Group Website : www.kirloskars.com

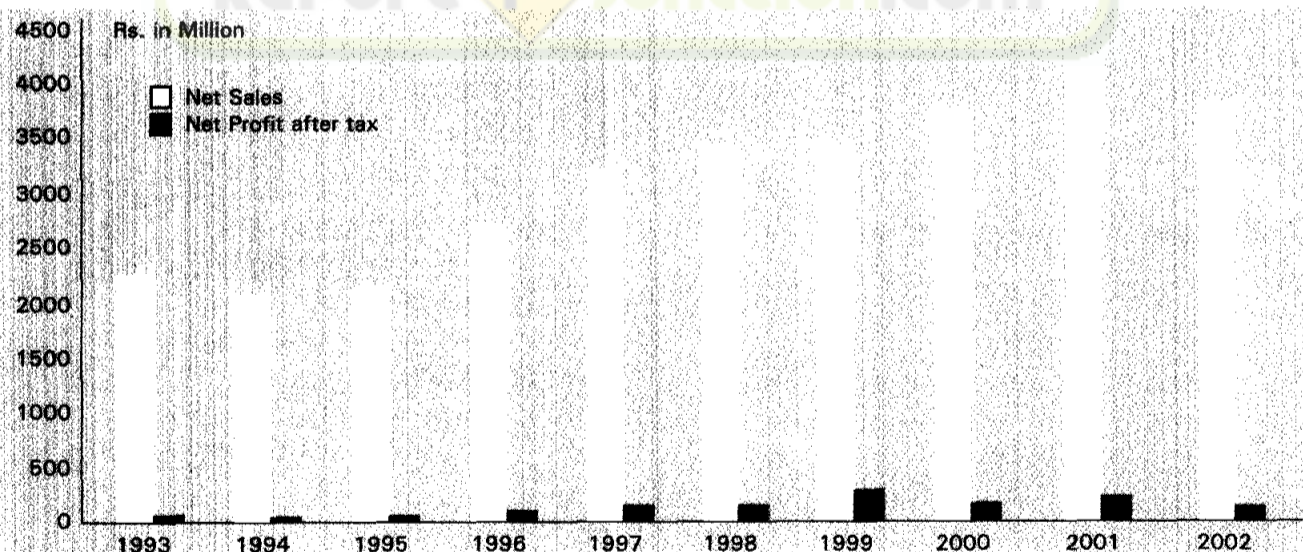
**Works**

Kirloskarvadi  
Dewas  
Shirval  
Kondhapuri  
Pune

**KIRLOSKAR BROTHERS LIMITED****TEN YEARS' SUMMARY**

Rs. in Million

PARTICULARS	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Net Sales	2,228	2,059	2,129	2,691	3,192	3,375	3,397	3,713	4,162	3,746
Other Income	39	34	61	61	68	51	96	79	295	82
Material Cost	1,369	1,280	1,274	1,621	1,930	1,910	1,782	2,162	2,557	2,279
Other Expenses	676	652	743	865	972	1,168	1,296	1,270	1,493	1,209
Interest	111	82	88	120	172	155	137	120	141	106
Depreciation	32	32	37	42	51	57	67	72	78	83
Profit before tax	79	47	48	104	135	136	211	#168	188	151
Income tax provision	30	20	18	37	26	29	50	43	48	28
Net Profit after tax	49	27	30	67	109	107	161	125	140	123
Share Capital	31	31	42	50	71	71	71	71	71	71
Reserves	370	387	642	866	923	999	1,125	1,215	1,321	1,352
Net Worth	401	418	684	916	994	1,070	1,196	1,286	1,392	1,423
Imports	108	77	50	65	67	114	101	51	54	49
Exports	302	307	230	357	605	760	653	456	586	585
Earnings per Share (Rs.)	16.02	8.78	7.05	13.38	15.40	15.24	22.89	17.71	19.91	17.41
Dividend per Share (Rs.)	3.50	3.50	4.50	4.00	4.00	4.00	4.50	4.50	4.50	* 4.50
Book Value per Share (Rs.)	130.64	135.92	162.78	181.94	@140.96	151.79	169.68	182.39	197.35	201.84



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

Figures for 1993 include those of Hermetically Sealed Compressor Division, which is now a separate company.

\* Proposed Dividend

@ 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.

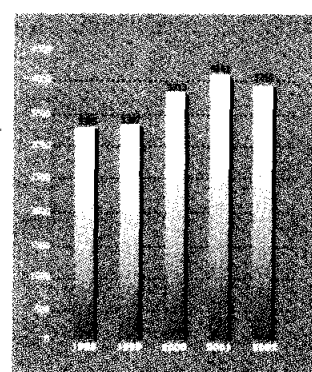
**DIRECTORS' REPORT TO THE MEMBERS**

Your Directors present the 82<sup>nd</sup> Annual Report and the Audited Accounts of the Company for the year ended March 31, 2002.

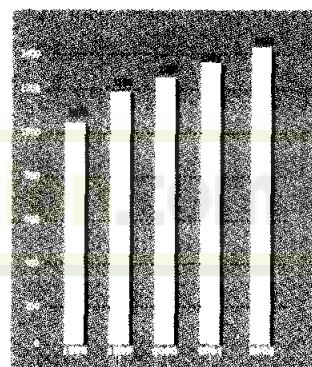
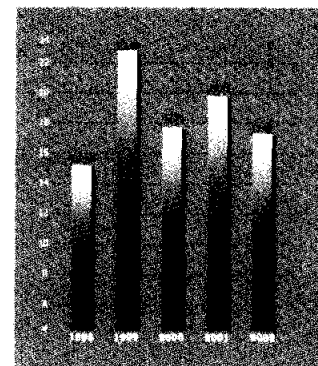
**FINANCIAL RESULTS**

The financial results of the Company for the year 2001 - 2002 as compared with the previous year are as under :-

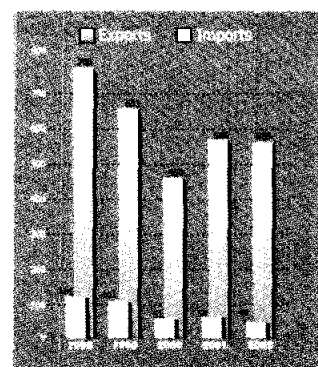
	Current Year ended 31/3/2002 (Rs. in 000's)	Previous Year ended 31/3/2001 (Rs. in 000's)
Sales and Other Income	3,828,712	4,457,039
Profit before tax	150,925	188,396
Provision for tax-		
Current tax	35,000	48,000
Deferred tax	(6,832)	-
Profit after tax	122,757	140,396
Transferred from Investment Allowance Reserve	-	1,206
Surplus brought forward from previous year	72,319	65,683
Available Surplus	195,076	207,284
<b>APPROPRIATIONS :</b>		
Your Directors propose to appropriate the available surplus as under :		
Dividend @45% (45%) on 7050957 equity shares of Rs. 10 each	31,729	31,729
Provision for additional tax on Dividend	-	3,236
Transfer to General Reserve	100,000	100,000
Balance to be carried to Balance Sheet	63,347	72,319
<b>TOTAL</b>	<b>195,076</b>	<b>207,284</b>



Net sales

Earning  
Per Share

Net Worth

Imports  
Exports

Value in Rs. Million

## KIRLOSKAR BROTHERS LIMITED

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### DIVIDEND

Your Directors recommend a dividend of 45 % for the year.

### ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE

Details of Energy Conservation, technology absorption, research and development and foreign exchange earnings as required under Section 217 (1) (e) of the Companies Act, 1956, are given in the Annexure to this Report.

### PARTICULARS OF EMPLOYEES

Information regarding employees in accordance with Section 217 (2A) of the Companies Act, 1956 is given in the Annexure to this Report. However, as per provisions of Section 219(1) (b) (iv) of the Companies Act, 1956 the Report and the Accounts is being sent to all shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Secretarial Department at the Registered office of the Company

### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of The Companies Act, 1956 the Board of Directors report that

- In the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures, if any.
- Accounting policies have been selected and applied consistently and that the judgements and estimates made 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 of the Company for that period.
- Proper and sufficient care has been taken 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.
- The annual accounts have been prepared on a going concern basis.

### CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, the Management Discussion and Analysis statement, Corporate Governance and Auditors Certificate are annexed to this report.

### DIRECTORS

Mr. Gautam Kulkarni, Mr. S. N. Inamdar and Mr. Shivraj Gupta, will retire by rotation at the ensuing Annual General Meeting. Being eligible, they offer themselves for re- appointment.

Mr. J. R. Gagrati, a retiring Director, has expressed his unwillingness to be re-appointed as a Director of the Company and as such he ceases to be a Director of the Company with effect from September 24, 2002. The Directors record their appreciation of the co-operation and guidance rendered by him during his tenure as Director of the Company from 1988.

Mr. Kumar Bakhru and Mr. U. V. Rao joined the Board as Additional Directors. They will hold office upto the date of the ensuing Annual General Meeting and are eligible for appointment.

Mr. C. N. Ravi, who was a Director of the Company since December 1988 has resigned with effect from January 17, 2002. The Directors record their appreciation of the significant contributions made by Mr. Ravi during his tenure as a Director of the Company.

### **AUDITORS**

M/s P. G. Bhagwat, the Auditors will retire at the ensuing Annual General Meeting and are eligible for reappointment.

The Accounts of the Company's Branch Offices at Ahmedabad, Bangalore, Bhubaneswar, Chennai, Jaipur, Kochi, Kolkata, Lucknow, Nagpur and Secunderabad were audited by Auditors other than the Company's Statutory Auditors.

### **ACKNOWLEDGEMENTS**

Your Directors wish to place on record their appreciation of the unstinted support and co-operation given by banks and financial institutions. Your Directors would further like to record their appreciation of the efforts of every employee for the contributions they have made during the year.

For and on behalf of the Board of Directors.

**SANJAY KIRLOSKAR**  
**CHAIRMAN**

Pune  
June 24, 2002

## KIRLOSKAR BROTHERS LIMITED

### ANNEXURE TO THE DIRECTORS' REPORT

[Additional Information given in terms of Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 issued by the Department of Company Affairs]

#### A. Conservation of Energy

Measures taken during the year.

1. Opted "time of the day" facility from Electricity Board.
2. Provided appropriate motors in place of higher rotating motors.
3. Replacement of transformer having lower capacity

#### B. 1. Technology Absorption - Research and Development ( R & D)

##### a. Specific areas in which R & D carried out by the Company

The company has R&D centre at its factory which is recognised by the Department of Science and Technology, Government of India. The Company has, over the years, built the requisite infrastructure to translate the latest technical know-how into products that meet the customers requirements.

##### b. Benefits derived as a result of the above R & D

- Development and application of products for inland and export orders.
- Improved customer satisfaction.
- Reduction in energy consumption.

##### c. Future Plan of Action

Future plans include development of new products, applied research, value engineering, assimilation of latest technology to keep abreast of increasing competition in tune with market demand. This is a continuous process.

##### d. Expenditure on R & D

a. Capital	Rs.	—
b. Recurring	Rs.	42,419,720
c. Total	Rs.	42,419,720
d. Total R & D Expenditure as a percentage of total turnover.		1.13%

#### B. 2. Technology absorption, adaptation and innovation

##### a. Efforts, in brief, made towards technology absorption, adaptation and innovation

Please refer to B-1 (a) above.

##### b. Benefits derived as a result of the above efforts

The benefits have been enumerated in B-1 (b) above.

##### c. Technology imported during the last 5 years

Technology Imported	Year of Import	Has technology been fully absorbed	If not fully absorbed, areas where this has not taken place, reasons therefore and future plan of action.
Hydro Turbines	1998	No	Technology absorption is in progress
Condensate Extraction and Large Vertical Pumps	2001	No	Technology absorption is in progress
Pumps for liquids	2001	No	Technology absorption is in progress

##### d. Foreign Exchange Earnings and Outgo

The Company is constantly exploring new export markets for its products and also striving to increase the range of products in existing markets.

The details of foreign earnings and outgo are as under

Earnings	Rs.	585,501,213
Outgo	Rs.	139,256,106

For and on behalf of the Board of Directors

Pune  
June 24, 2002

SANJAY KIRLOSKAR  
CHAIRMAN

## Management Discussion and Analysis

### Economy

#### National

Growth in the industrial production index in the first half of the year showed a gloomy trend at 1.9% compared to 6.8% in the previous year. Growth was dismal in all the key sectors i.e. mining, manufacturing and electricity. Overall, the outlook was poor. Industrial growth at the end of the year 2001-02 was registered to be 3.3% compared to 6.3% in the previous year. The GDP growth was estimated to be 5.4%.

The sluggish response of industry to increased competition through mergers and acquisitions, infrastructure bottlenecks, low productivity, business cycle affecting demand and deferred investment decisions are some of the reasons for slow industrial growth. The performance of the corporate India was anything but encouraging and most of the large companies saw a sharp decline in bottom line growth and managed to hold on to their last year's top line growth.

India has deviated from the usual growth model- high share of agriculture to high share of industry to ultimately high share of services. The services sector has achieved a high share of GDP without the intermediate step of high share of industry. The share of manufacturing in the GDP has remained almost unchanged and it has gone up marginally from 24.5% in 1991 to 25% in 2001.

In the ninth plan period the growth target could not be achieved as anticipated, due to slump in the industrial and agricultural production. The recovery signals come on and off, but not enough to buoy the hopes of recovery in GDP growth in 2002-03.

The annual budget for 2002-03 kickstarted the ambitious tenth plan, seeking to achieve 8% GDP growth rate, by focussing on agriculture, irrigation and rural development in addition to infrastructure. The implicit assumptions in the budget indicate that the Government expects acceleration in the GDP growth and the initial estimates put the growth at 6-6.5% in 2002-03.

#### Global

On the global front, while foreign trade accounts for only about 10% of India's GDP, the worldwide recession is affecting India's growth. With the US, Germany and Japan facing simultaneous recession and the US accounting for over one-fifth of India's total exports, the European Union for almost one-fourth, and Japan being our main trading partner in Asia, India can hardly escape this downturn unscathed. The UN has slashed the forecast for world economic growth rate to just 2% in 2002, which is lower than in the last seven years.

Many of the trade-intensive, more advanced developing economies are expected to witness a decline in their per capita incomes. The US is expected to see a mild recovery in 2002 and the recovery prospects for Japan are still quite uncertain. Indian exports registered 3% growth in 2001-02, when the growth in world exports had been down to 1% in 2001.

### Pump Industry Scenario

The growth in the pump industry depends on the growth trends in user industries in the core sectors, which are in turn relying on the economy. The reduction in industrial growth and lack of fresh investment and thus lower number of new projects has affected our pump industry to a great extent. The industry is further battered by entry of foreign companies who are looking at acquisitions in the Indian market for quick growth and offering prices more competitively. Taiwanese and Chinese pump manufacturers are major threat to Indian pump manufacturers and also the small manufacturers who tend to attract the customers disregarding life cycle costs, efficiencies and quality.

## KIRLOSKAR BROTHERS LIMITED

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### Sectoral Review relevant to the Company's business

#### Power

The power sector in India accounts for a third of the total project investments in the country. The current power generation capacity of 100,000 MW is expected to double in 10 years.

Power generation, which amounts for maximum weight in the core sector index improved from 3% to 3.5% compared to last year. The projected increase in power generation capacity will provide a big market for equipment manufacturers. The ratio of implementation to target has been deteriorating over the years. The low operational efficiencies, partial treatment for inducing investment in hydel power, high Transmission and Distribution losses, thefts, poor metering and inefficient collection of dues are some of the problems encountered. India records the national average of Transmission and Distribution losses 22.5%, which is one of the highest anywhere in the world.

When the power sector was opened up for private participation in the early 1990's, proposals for more than 300 power projects were put forth but only a handful of these have seen the light of day. As independent power producers have to sell power compulsorily to state electricity boards, most of the private players are reluctant to take the plunge. Eight MOUs were signed a decade ago and most of these projects remain non-starters with fast track projects adding only 1838 Mw out of the anticipated 6072 Mw.

#### Steel

Fortunes of the Indian steel industry are directly linked to that of the world steel scenario. The economic recession in the US, Canada, Europe and South East Asia hampered growth in steel consumption and the exports because of antidumping and qualitative restriction by the US. The Indian steel industry was under recession as the crude steel output during the year 2001-02 decreased by 4% compared to the earlier year. However the situation is changing currently due to recent change in US policies to protect US steel industry. It has prompted a hard contest in global steel trade with major steel exporting nations such as European Union, Japan and South Korea resorting to cutting production and free flow of steel across the globe is receiving a set back, confining the steel markets to smaller geographical regions.

India being one of the low cost producers in the world will be a strong contender in the race. Indian steel manufacturers have opened up long term export markets in Middle East, China and neighboring countries with advantage of transportation cost because of geographical proximity. This changing situation may improve our prospects in this sector.

#### Construction

The construction sector has seen 4.1% growth in 2001-02. The housing finance sector maintained the growth trend for the fourth consecutive year and registered a growth of over 30%, touching Rs.180,000 million in 2001-02 compared to Rs.126,000 million in the earlier year.

The cement industry has achieved a growth rate of 5.6% during the year 2001-02 and the Ministry of Commerce and Industry has decided an anticipated growth of 9-10% in this sector in the next five years. The price rise in demand is due to growth in housing and renewed focus on the road construction by the Government.

#### Sugar

Sugar production is increasing in India for the past three years and the balance stock of sugar in the country is increasing constantly. But sugar is still being imported in the country on a large scale. As the international market is not an open market in the real sense, many developed countries subsidize their sugar production and manipulate the market by lowering the prices of sugar. Due to this in the last sugar season, there was an export of 1.1 million tons of sugar against 4 million tons envisaged. On the other hand the sugar mills are paying high carrying costs, bank interest, storage rent, insurance charges, reprocessing costs and many of them are facing liquidity problems. However some major policy decisions taken by the Government recently, such as lifting of quantitative restriction, an exemption from levy, duty entitlement benefit etc should boost this sector.