



KIRLOSKAR BROTHERS LIMITED | 85th Annual Report 2004-05

Enriching Lives

True progress is
achieved step by step.
There are no
short-cuts,
no alternatives.



True progress is nothing but a result of

true understanding, true effort and true

commitment in every endeavour, small

or big. It is the seamless integration of

these attributes that enables us overcome

challenges and consistently achieve

milestones. Today, we are not just growing,

but progressing from strength to strength.

Something which is reflected in our

comprehensive financial performance.

Highlights of 2004-05

- Net sales increased by 43%.
- Exports crossed Rs. 1000 million.
- Profit Before Tax up by 61%.
- Earning Per Share increased from Rs. 37 to Rs. 70.
- Orders worth Rs. 4994 million received for various irrigation schemes in Andhra Pradesh.
- Orders valued Rs. 434 million from NTPC and Rs. 440 million from NPCIL.
- Executed an order worth Rs. 232 million (US\$ 5.4 million) from Suriname.
- Received an order worth Rs. 240 million (US\$ 5.58 million) from Angola.

Board of Directors

| | |
|-----------------------------------|------------------------------|
| Sanjay Kirloskar | Chairman & Managing Director |
| Gautam Kulkarni | Vice Chairman |
| Vikram Kirloskar | Executive Director |
| M. S. Kirloskar | |
| S. S. Marathe | |
| Shivraj Gupta | |
| S. N. Inamdar | |
| M. G. Padhye | |
| Rahul Kirloskar | |
| Kumar Bakhru (Upto 06.06.2005) | |
| U. V. Rao | |
| R. K. Srivastava | Whole Time Director |
| G. Ramaiya (Upto 20.04.2005) | Whole Time Director |
| P. S. Jawadekar (from 19.02.2005) | |
| J. R. Sapre (from 29.04.2005) | Whole Time Director |

Company Secretary

G. P. Kulkarni

AuditorsM/s. P. G. Bhagwat
Chartered Accountants**Bankers**Bank of India
Canara Bank
HDFC Bank Ltd.**Registered &
Corporate Office**Udyog Bhavan, Tilak Road, Pune 411 002,
Maharashtra State (India)
Phone : (020) 24440770 Fax : (020) 2444 0824
E.mail : kblin@kbl.co.in Website : www.kbl.co.in
Group Website : www.kirloskar.com**Works**

Kirloskarvadi, Dewas, Shirval, Kondhapuri

Information for shareholders**Annual General Meeting**

| | |
|-----------------------|---|
| Day & Date | : Saturday, July 16, 2005 |
| Time | : 11.00 a.m. |
| Venue | : Tilak Smarak Mandir, Tilak Road, Pune 411 030 |
| Dates of Book closure | : July 12, 2005 to July 16, 2005 (both days inclusive) |

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DECADE AT A GLANCE

(Rupees in Million)

| Particulars | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------------|--------|----------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net Sales | 2691 | 3192 | 3375 | 3397 | 3713 | 4162 | 3746 | 4757 | 5078 | 7309 |
| Other Income | 61 | 68 | 51 | 96 | 79 | 295 | 82 | 72 | 225 | 132 |
| Material Cost | 1621 | 1930 | 1910 | 1782 | 2162 | 2557 | 2279 | 3126 | 3393 | 4859 |
| Other Expenses | 865 | 972 | 1168 | 1296 | 1270 | 1493 | 1209 | 1371 | 1405 | 1896 |
| Interest | 120 | 172 | 155 | 137 | 120 | 141 | 106 | 75 | 65 | 48 |
| Depreciation / Amortisation | 42 | 51 | 57 | 67 | 72 | 78 | 83 | 85 | 107 | 100 |
| Profit before tax | 104 | 135 | 136 | 211 | 168 | 188 | 151 | 172 | 333 | 538 |
| Income tax provision | 37 | 26 | 29 | 50 | 43 | 48 | 28 | 52 | 68 | 31 |
| Net Profit after tax | 67 | 109 | 107 | 161 | 125 | 140 | 123 | 120 | 265 | 507 |
| Share Capital | 50 | 71 | 71 | 71 | 71 | 71 | 71 | 71 | 71 | 71 |
| Reserves | 866 | 923 | 999 | 1125 | 1215 | 1321 | 1352 | 1459 | 1565 | 1832 |
| Net Worth | 916 | 994 | 1070 | 1196 | 1286 | 1392 | 1423 | 1530 | 1636 | 1903 |
| Imports | 65 | 67 | 114 | 101 | 51 | 54 | 49 | 119 | 144 | 261 |
| Exports | 357 | 605 | 760 | 653 | 456 | 586 | 585 | 585 | 572 | 1005 |
| Earnings per Share (Rs.) | 13.38 | 15.40 | 15.24 | 22.89 | 17.71 | 19.91 | 17.41 | 17.03 | 37.56 | 70.86 |
| Dividend per Share (Rs.) | 4.00 | 4.00 | 4.00 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 20 | * 30 |
| Book Value per Share (Rs.) | 181.94 | **140.96 | 151.79 | 169.68 | 182.39 | 197.35 | 201.84 | 216.99 | 231.99 | 269.83 |

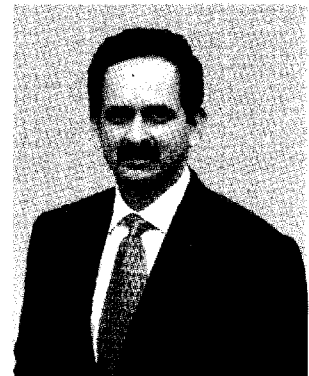
Previous years' figures have been regrouped to make them comparable.

* Includes Interim Dividend paid @Rs. 10/- per share and recommended Dividend (Final) @Rs. 20/- per share.

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

Dear Shareholders,

The year 2004-05 was certainly an eventful year for Kirloskar Brothers Limited. Our Company has achieved stronger financial results and shown appreciable growth in various spheres, meeting targets set at the beginning of the year. You will be pleased to note that the company has grown by 43% in net sales and 61% in profit before tax, with exports crossing Rs. One billion (Rs.100 crores) for the first time. This has been possible as we could understand better the dynamics of a competitive market in the national as well as the global perspective.



As national infrastructure development continued, we were able to gain benefit from the increasing market potential. With the Indian economy growing at an enhanced rate due to the government's thrust on both rural and urban infrastructure development, our company is set to make appreciable contributions towards the economic progress of our country.

In the key areas of our interest we have worked hard to retain the trust of customers and strengthen our relations with them. Contracts signed with Nuclear Power Corporation of India Limited and National Thermal Power Corporation and orders for big irrigation schemes in the state of Andhra Pradesh stand as testimony to this. In fact, our company is the only domestic company able to meet customers' requirements for lowest life cycle cost equipment as we have been able to offer the most energy efficient pumping systems. We believe that many similar opportunities will come up due to water scarcity, as large quantities of water will need to be moved over long distances.

We also see new opportunities developing for both, our industrial pump and agricultural and domestic pump business units as manufacturing activities increase and the growth in the housing and commercial building segments continues. This will lead to requirements for domestic pumps as well as booster systems. As you can see from other parts of this report, our company is increasing its product portfolio in order to address new and developing sectoral markets. However, with the growth of the Indian economy and its increasing attractiveness, KBL faces stiffer competition from major global pump companies who are trying to gain a foothold here in order to maintain their worldwide market share.

We have also begun to compete more on global scale to earn higher returns. Our 'Focus Africa' campaign has begun to yield desired results as Governments of many African countries have accorded recognition to our products and services. KBL's 'Triple A Technology' has brought to many developing countries contemporary products and systems which are adaptable, appropriate and affordable, thereby making these countries choose our products over those offered by their historic suppliers in western countries. Significant orders from the African region including a large order from the Government of Angola and visits of many dignitaries from various countries last year to our manufacturing plants also corroborate the same. We would also keep up our concentration in South East Asia as ever and strengthen our base in the Caribbean region.

We have drawn long-term strategies to make our company one of the top pump manufacturing companies in the world. I am confident that our objectives will be achieved as

we are determined to face the competition with the strength of our technology, cost competitiveness and financial soundness. We will also gradually step up investments in research and development, which is necessary for sustainable long-term growth.

I am glad to report that SPP Pumps Limited last year has achieved improved results with marginal profitability in the first year after acquisition through concentrated efforts. Our joint venture companies Kirloskar Ebara Pumps Limited and Kirloskar Copeland Limited have also shown good financial results last year.

Ambitious plans always need the wholehearted commitment from a team. We have taken initiatives to restructure the core team that would develop a growth culture, empowerment and leadership by example. Regrouping the strategic business units, intensifying global market focus, identifying growth areas and increasing the employees' satisfaction level are some of the important programmes in our three year strategic plan for enhanced growth.

Committed to excel in our core business, we are in the process of integrating our systems and operations through effective corporate governance practices. These would also strengthen our ability to provide quality and value to all stakeholders. With all these measures I look forward to yet another satisfying year.

 
Sanjay Kirloskar

DIRECTORS' REPORT TO THE MEMBERS

Your Directors present the 85th Annual Report and the Audited Accounts of the Company for the year ended **March 31, 2005**.

FINANCIAL RESULTS

The financial results of the Company for the year 2004-05 as compared with the previous year are as under: -

| | Current Year ended March 31, 2005 (Rs) | Previous Year ended March 31, 2004 (Rs) |
|--|--|---|
| Sales and other income | 7,441,392,699 | 5,302,519,734 |
| Profit before tax | 537,930,131 | 332,572,064 |
| Provision for tax | 30,601,419 | 67,716,585 |
| Profit after tax | 507,328,712 | 264,855,479 |
| Surplus in Profit & Loss Account brought forward from previous year | 55,947,166 | 50,178,905 |
| Available surplus | 563,275,878 | 315,034,384 |

APPROPRIATIONS :

Your Directors propose to appropriate the available surplus as under:

| | | |
|--|-------------|-------------|
| Final dividend @ 200% (100%) on 7050957 equity shares of Rs.10/- each | 141,019,140 | 70,509,570 |
| Interim dividend @ 100% (100%) on 7050957 equity shares of Rs. 10/- each | 70,509,570 | 70,509,570 |
| Additional tax on Dividend | 28,992,654 | 18,068,078 |
| Transferred to General Reserve | 240,000,000 | 100,000,000 |
| Balance carried to Balance Sheet | 82,754,514 | 55,947,166 |

| | | |
|--------------|--------------------|--------------------|
| TOTAL | 563,275,878 | 315,034,384 |
|--------------|--------------------|--------------------|

DIVIDEND

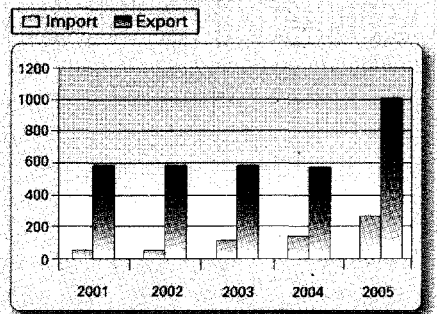
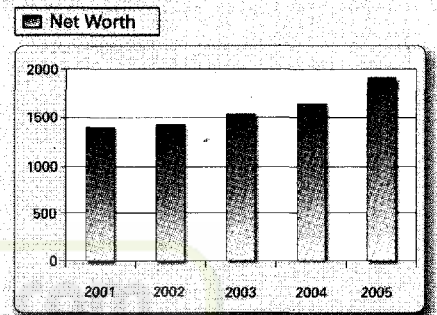
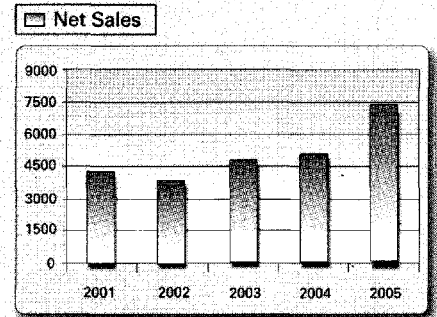
Directors recommend a final dividend of 200% for the year. This is in addition to the 100% interim dividend paid during November, 2004.

STATUTORY DISCLOSURES

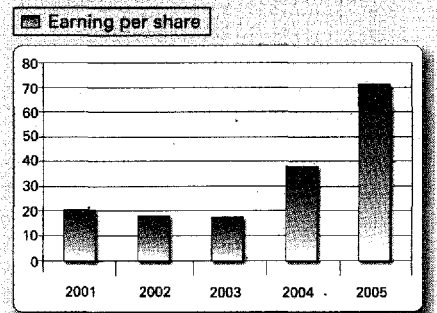
1. ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE

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.

Value Rs. in million



Value in Rupees



2. 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.

3. SUBSIDIARY COMPANIES

Company has received approval from Central Government under section 212(8) of the Companies Act, 1956 for not attaching the annual reports of subsidiary companies. Company will send copy of annual report of subsidiary company to shareholders upon request. The annual accounts of subsidiary companies are kept open for inspection at the registered office of the company.

4. 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 and there was no material departure from the accounting standards.
- 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 as on March 31, 2005 and of the profit of the Company for the period from April 1, 2004 to March 31, 2005.
- 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, and
- The annual accounts have been prepared on a going concern basis.

5. CASH FLOW

A cash flow statement for the year 2004-05 is attached to the Balance Sheet.

SAFETY, HEALTH AND ENVIRONMENT

Company has an exhaustive health & safety policy. With continuous focus, company has achieved significant progress in this area. Our corporate vision for safety envisages "Zero Accidents" as the only acceptable standard. Company has undertaken various health care programmes for the employees.

CORPORATE GOVERNANCE

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

FIXED DEPOSITS

The Company is neither accepting nor renewing fixed deposits. As on March 31, 2005 deposits from public and shareholders aggregating to Rs. 4.536 million have matured but not been claimed. The Company has sent reminders for the same.

SUB-DIVISION OF SHARES

In order to improve the liquidity of Company's shares in the Stock market, the Board has recommended the sub-division of shares from present Rs.10/- each to Rs.2/- each. The necessary resolution is placed for the approval of members at ensuing Annual General Meeting.

DIRECTORS

Mr. U.V. Rao, Mr. M. S. Kirloskar and Mr. S. S. Marathe retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

Mr. Shivraj Gupta, 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 July 16, 2005. The Directors record their appreciation of the co-operation and guidance rendered by him during his tenure as Director of the Company since 1988.

Mr. P.S. Jawadekar has been appointed as an additional director with effect from February 19, 2005. As per Articles of Association of the Company, he holds office till the date of ensuing annual general meeting and is eligible for appointment.

Mr. J. R. Sapre has been appointed as an additional Director with effect from April 29, 2005. As per Articles of Association of the Company, he holds office till the date of ensuing annual general meeting and is eligible for appointment.

Mr. J. R. Sapre has also been appointed as Whole Time Director of the Company with effect from April 29, 2005. His appointment is subject to the approval of the Members at the ensuing Annual General meeting. The terms and conditions of appointment are set out in the notice of the Annual General Meeting.

Mr. G. Ramaiya, the whole time director has relinquished from the service of the company for personal reasons. The Board wish to place on record its deep sense of appreciation for the contribution made by Mr. G. Ramiya especially in stabilisation of SAP, implementation, of quality initiatives and inculcating RKQP business excellence model.

The nomination of Mr. Kumar Bakhru has been withdrawn by investment institution w.e.f. June 6, 2005 . The Board wish to place on record its gratitude for the contribution made by Mr.Kumar Bakhru as an independent Director.

The Board has re-appointed Mr. Sanjay Kirloskar as Managing Director of the Company with effect from November 19, 2005. The re-appointment on the terms and conditions as set out in the notice of the Annual General Meeting is subject to the approval of the Members at the ensuing Annual General Meeting.

The Board has re-appointed Mr. R. K. Srivastava as Whole Time Director of the Company with effect from September 19, 2005. The re-appointment on the terms and conditions as set out in the notice of the Annual General Meeting is subject to the approval of the Members at the ensuing Annual General Meeting.

CONTRIBUTION TO PRIME MINISTER'S NATIONAL RELIEF FUND

During December, 2004 a national calamity struck the nation in the form of Tsunami. In addition to the contribution by all employees in the form of one day salary, the Company contributed an amount of Rs 9,98,444/- to the Prime Minister's National Relief fund.

AUDITORS

M/s P. G. Bhagwat, the Auditors retire at the ensuing Annual General Meeting and are eligible for reappointment. The requisite certificate pursuant to section 224 of the Companies Act, 1956 has been received.

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 results achieved during the year.

For and on behalf of the Board of Directors.



SANJAY KIRLOSKAR
CHAIRMAN

Place : Pune
Date : June 10, 2005

ANNEXURE TO THE DIRECTORS' REPORT

A. Conservation of Energy

In our plants, every care is taken to implement each process from energy conservation point of view during production. Further steps are taken towards recovery of energy used during Pump performance testing on the test loop.

The Company is working with Confederation of Indian Industry (CII) and Bureau of Energy Efficiency (BEE) at various levels for energy conservation and setting energy efficient standards respectively.

Ministry of Communications and Information Technology has identified Projects towards saving energy and the Company is actively associated with Project Review and Steering Group (PRSG) formed by the Ministry.

B. 1. Research and Development (R & D)

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

- Complete series of AC process pumps conforming to ANSI 73.1 developed particularly for Export market.
- Patent for Siphon action control device in pump piping system
- Inverse design software and ANSYS analytical software applied for
- Numerical simulation of cavitation in pump is developed
- NS pumps with 180 kW motor developed
- Steam trap device developed along with EIL
- New axially split case pumps developed to cover range of firefighting pumps to FM/UL standards.

b. Benefits

- Increased market share in India and abroad
- Improvement in quality of products by reducing rejections.
- Early launching of new products.

c. Future plan of action

- Introduction of specialized products to improve functional reliability
- Redesigning of existing products to suit customer's demand.

d. Expenditure on R & D

| | | | |
|---|-----|------------|-------|
| a. Capital | Rs. | 3,017,958 | |
| b. Recurring | Rs. | 22,719,165 | |
| c. Total | Rs. | 25,737,123 | |
| d. Total R & D Expenditure as a Percentage of total turnover. | | | 0.35% |

2. Technology absorption, adaptation and innovation

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

During the year, technology for condensate extraction and large vertical pumps and for anti corrosive products has been absorbed.

b. Benefits derived as a result of the above efforts

Please refer B 1 b

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 therefor and future plan of action. |
|-----------------------------------|----------------|------------------------------------|--|
| Pumps for liquids | 2001 | No | Technology absorption is in progress |
| Inline vertical multistage pumps. | 2003 | 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 exchange earnings and outgo are as under

| | | |
|----------|-----|---------------|
| Earnings | Rs. | 1,007,242,651 |
| Outgo | Rs. | 425,918,156 |