

Kirloskar

Enriching Lives



Enriching lives every moment,
reaping rewards around the world

From India to the world, we are going places.

As one of India's leading engineering conglomerates, Kirloskar has been enriching the lives of millions through world-class engineering solutions. And now, we are making forays in global markets as well.

Pillared on the values of true understanding, true effort and true commitment in every endeavour, small or big, our global foothold is getting stronger with every passing moment.

So, while we continue to excel in India, our exports will also be contributing significantly to our economic growth in the years to come.

And with your continued support and faith, we're sure to make a bigger difference.

Highlights of 2005-06

- Total revenue up to Rs. 9,996 million from Rs. 7,441 million.
- Net Sales increased by 27%.
- Exports of Rs. 690 million.
- Profit Before Tax up by 155% without other income
- Earning per Share increased from Rs. 4.72 to Rs. 15.42

KIRLOSKAR BROTHERS LIMITED86th Annual Report
2005-06**Board of Directors**

Sanjay Kirloskar	Chairman & Managing Director
Gautam Kulkarni	Vice Chairman
Vikram Kirloskar	Executive Director
M. S. Kirloskar	
S. S. Marathe	
S. N. Inamdar	
M. G. Padhye	
Rahul Kirloskar	
U. V. Rao	
R. K. Srivastava	Whole Time Director
P. S. Jawadekar	
J. R. Sapre (from 29.04.2005)	Whole Time Director
A. N. Alawani (from 22.10.2005)	

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) 2444 0770 Fax : (020) 2444 0156
E.mail : kblin@kbl.co.in Website : www.kbl.co.in
Group Website : www.kirloskar.com**Works**

Kirloskarwadi, Dewas, Shirval, Kondhapuri

Information for shareholders		Contents	Page No.
Annual General Meeting		Decade at a Glance	2
Day & Date : Friday, July 21, 2006		Chairman's Letter	3-4
Time : 11.00 a.m.		Directors' Report	5-9
Venue : Tilak Smarak Mandir, Tilak Road, Pune - 411 030.		Management Discussion & Analysis	13
Dates of Book closure : July 15, 2006 to July 21, 2006 (Both days inclusive)		Report on Corporate Governance	14-28
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DECADE AT A GLANCE

(Rupees in Million)

Particulars	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net Sales	3192	3375	3397	3713	4162	3746	4757	5078	7309	9246
Other Income	68	51	96	79	295	82	72	225	132	750
Material Cost	1930	1910	1782	2162	2557	2279	3126	3393	4859	6093
Other Expenses	972	1168	1296	1270	1493	1209	1371	1405	1896	1965
Interest	172	155	137	120	141	106	75	65	48	55
Depreciation	51	57	67	72	78	83	85	107	100	97
Profit before tax	135	136	211	168	188	151	172	333	538	1786
Income tax provision	26	29	50	43	48	28	52	68	31	63
Net Profit after tax	109	107	161	125	140	123	120	265	507	1723
Share Capital	71	71	71	71	71	71	71	71	71	212
Reserves	923	999	1125	1215	1321	1352	1459	1565	1832	2932
Net Worth	994	1070	1196	1286	1392	1423	1530	1636	1903	3144
Imports	67	114	101	51	54	49	119	144	261	606
Exports	605	760	653	456	586	585	585	572	1005	685
Earnings per Share (Rs.)* (Face Value of Rs. 2/-)	3.08	3.05	4.58	3.54	3.98	3.48	3.41	7.51	14.17	**15.42
Dividend %	40.00	40.00	45.00	45.00	45.00	45.00	45.00	200.00	300.00	*200.00
Book Value per Share (Rs.)*	28.19	30.36	33.94	36.48	39.47	40.37	43.40	46.40	53.97	**29.73

Notes :

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

* Includes Interim Dividend paid @ 100% and recommended Dividend (Final) @ 100%

** After Issue of Bonus Shares in the ratio of 2 : 1

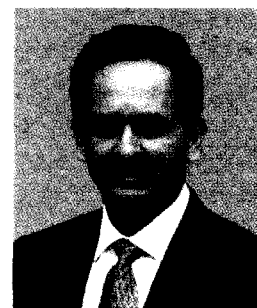
* Figures of Earning per Share and Book Value per Share for all the above reported periods are calculated, after considering the sub-division of equity share of Rs. 10/- each to Rs. 2/- each.



Dear Shareholders,

The year 2005-06 was yet another eventful year during which our Company could achieve strong financial results registering a growth of 27 % in sales and multifold increase in profitability. This has been possible due to the growth in the Indian economy and our focused efforts to explore and expand our markets.

The Indian economy has been growing from strength to strength with a GDP growth rate of about 8 % in 2005-06. Various sectors have shown significant growth which is indicated by enhanced investments, rapid growth in exports and imports, which is supplemented by faster development of the infrastructure sector. I feel that the same trend would continue for the year to come which will lead to over-all progress of our country.



In my communication to you last year, I had mentioned about our work to retain customers and strengthen our relationship with them. In the year 2005-06, our Company received a repeat order from Hyderabad Metro Water Supply for a turnkey water supply scheme – Phase II, for the sixth time consecutively. Our Industrial Pumps Group improved its market share in process industry as well as in steel and coal sectors. This group received various orders to provide pumping solutions from reputed customers such as Delhi Metro, Southern and Northern Coalfields, Hindustan Petroleum and others. Our expertise in providing pumping solutions to power plants has also been well acknowledged. This year, the Company received prestigious orders from Gujarat Electricity Board, the Sugan Power Project through Siemens and the Termozulia Power Project in Venezuela through MAN Ferrostaal Power Industry GmbH.

The circulating cooling water systems for National Power Corporation of India Ltd, Tarapur and National Thermal Power Corporation of India Ltd, Rihand were successfully commissioned. Similarly, a pumping station involving two vertical turbine pumps under Phase I of world's largest pumping station for Sardar Sarovar Narmada Nigam Limited project was successfully commissioned effecting water supply from Narmada region to Saurashtra. In the Valves Business Group, the Company supplied 1800 mm and 2100 mm butterfly valves to Urban Logic Consultants, California for Massachusetts Water Resources Authority.

I am glad to inform you that we have obtained the approval of Factory Mutual (FM) and Underwriters Laboratories (UL) for our Fire Protection Pumping Systems. In fact, our manufacturing facility at Kirloskarwadi is the only one in India to have such an approval from these agencies. During the year, we redesigned our pumps to improve the energy efficiency levels. Various other initiatives have been taken such as modernization of foundry, upgradation of manufacturing process to reduce cycle time and improvement in aesthetics to meet market requirements.

Last year I had also mentioned that the company has drawn up long term strategies to become one of the top pump manufacturing companies of the world. In this regard, our company has made progress in terms of formulation of a definite plan and constitution of sectoral committees to have a focused approach. Some other measures like substantial enhancement of investment in equipment and research and development, modernization of manufacturing processes have been initiated. All these factors would ensure that we are on a sustainable long term growth path.

You are aware of the "Focus Africa" campaign by the company had yielded desired results and in continuation, a few more important orders from Governments of Lesotho and Senegal for supply of irrigation pumpsets have been received. Egypt continues to be our focused market every year as in the past. The Government of Ethiopia has also expressed a keen interest in working with KBL for its large irrigation projects. The company has also received and has executed an order for cooling water pumps application from OCP-Morocco, the world's largest manufacturers of phosphates. Our focus in the United States of America, South East Asian countries has also increased. We have now opened an office in USA to explore opportunities in USA and Latin America and expect that our marketing efforts would produce good results. With the experience of executing turnkey contracts in India, we are exploring the opportunities of working

with international contractors in the water supply, irrigation and power segments. The company has received the Export Excellence Award from Engineering Export Promotion Council, Government of India for the 25th time in row.

As regards enhancement of shareholders' value, I am glad to quote that in terms of returns to shareholders, Kirloskar Brothers Limited has been placed at 3rd rank on an all India level, in a survey report appeared in a Business Magazine. As you are aware, the sub-division of our shares was followed with a robust bonus issue of 2:1 and an interim dividend on enhanced capital. We would work towards achieving higher standards by inculcating corporate governance norms across the organization.

Our joint venture companies, namely, Kirloskar Copeland Limited and Kirloskar Ebara Pumps Limited have shown better financial results. Our subsidiary company, SPP Pumps Limited achieved better results for the second successive year and has a very healthy order board for the current year. As mentioned elsewhere in the annual report, we have formed a new joint venture company, namely, Kirloskar Corrocoat Private Limited, which will cater to the market potential of anti corrosion products in India and in international market.

With the focus on enhancing our presence in different sectors, together with improved manufacturing facilities, we have set ourselves on the path of sustainable growth. These efforts would strengthen our ability to provide value to all stakeholders. I look forward yet another challenging, but, satisfying year.



Sanjay Kirloskar

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DIRECTORS' REPORT TO THE MEMBERS

Your Directors present the 86th Annual Report and the Audited Accounts of the Company for the year ended **March 31, 2006**.

FINANCIAL RESULTS

The financial results of the Company for the year 2005-06 as compared with the previous year are as under: -

	Current Year ended March 31, 2006 (Rs.)	Previous Year ended March 31, 2005 (Rs.)
Sales and other income	9,995,853,583	7,441,392,699
Profit before tax	1,786,569,279	537,930,131
Provision for tax	62,707,925	30,601,419
Profit after tax	1,723,861,354	507,328,712
Surplus in Profit & Loss Account brought forward from previous year	82,754,514	55,947,166
Available surplus	1,806,615,868	563,275,878

APPROPRIATIONS:

Your Directors propose to appropriate the available surplus as under: -

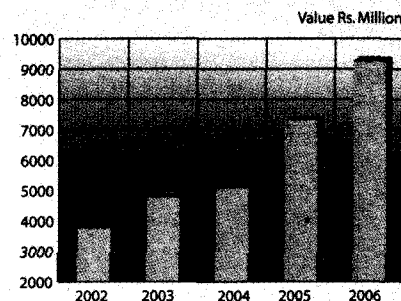
Final Dividend @ 100% (200%) on 105,764,355 (7,050,957) equity shares of Rs. 2/- (Rs. 10/-) each	211,528,710	141,019,140
Interim dividend @ 100% (100%) on 105,764,355 (7,050,957) equity shares of Rs. 2/- (Rs. 10/-) each	211,528,710	70,509,570
Additional tax on Dividend	59,333,804	28,992,654
Transferred to General Reserve	1,000,000,000	240,000,000
Balance carried to Balance Sheet	324,224,644	82,754,514

TOTAL	1,806,615,868	563,275,878
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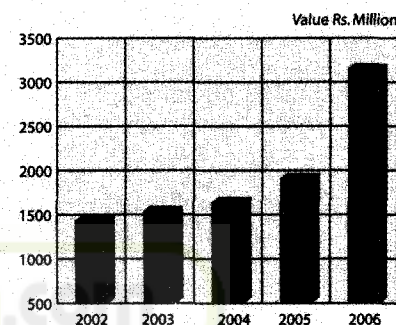
DIVIDEND

Directors recommend a final dividend of 100% for the year. This is in addition to the 100% interim dividend paid on February 28, 2006.

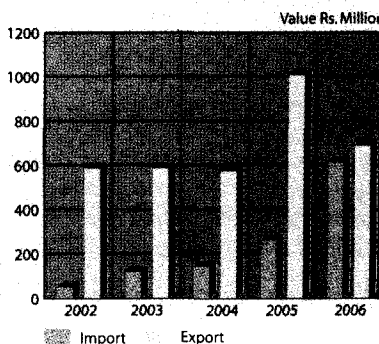
Net Sales



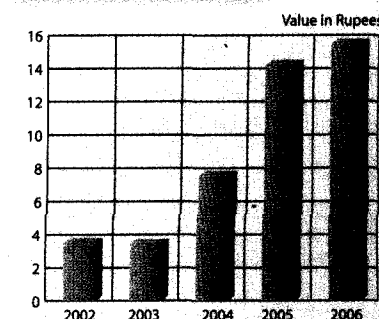
Net Worth



Import & Export



Earning per Share



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.

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

The 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. The company will send copy of annual reports of subsidiary companies 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 at March 31, 2006 and of the profit of the Company for the period April 1, 2005 to March 31, 2006.
- 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 2005-06 is attached to the Balance Sheet.

SAFETY, HEALTH AND ENVIRONMENT

Kirloskar Brothers Limited has an exhaustive safety, health & environment policy. With Continuous focus, the company has achieved significant progress in this area. Consistent safety awareness and orientation programmes are conducted for promoting overall safety consciousness across the organisation. Our corporate vision for safety envisages "Zero Accidents" as the only acceptable standard.

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.

SUB-DIVISION OF SHARES

As the members are aware, with a view to have more liquidity of the company's stock, the company has sub-divided its equity shares of Rs. 10/- each into 5 equity shares of Rs. 2/- each and the sub-divided equity share certificates are issued in exchange of the existing certificates for equity shares of Rs. 10/- each.

ISSUE OF BONUS SHARES

During the year, the company has announced a bonus issue of 2 equity shares for every 1 equity share held. With this bonus issue, the company's paid up equity share capital has increased beyond Rs. 21 crores.

LISTING ON NSE

The company's shares are also listed on the "National Stock Exchange of India Limited" (NSE) and trading has commenced from April 7, 2006. This would again improve the liquidity of the company's stock.



FORMATION OF JOINT VENTURE COMPANY

The company has hived off its Anti-Corrosive Product Division to form a joint venture Company with Corrocoat Ltd. – UK. The operations of this new company “Kirloskar Corrocoat Private Limited” are commenced with effect from April 1, 2006.

EMPLOYEE STOCK OPTION SCHEME (ESOS)

In order to motivate the employees and to enable them to participate in the long-term growth and financial success of the organisation, the Board has proposed to grant employee stock options to employees through one or more employee stock option schemes, as per applicable SEBI Guidelines. This would also enable the Company to retain talent and to develop a sense of ownership among employees, who are the most valuable resources of the company.

Pursuant to Section 81(1A) and other applicable provisions of the Companies Act, 1956, necessary resolution is placed for the approval of members at the ensuing Annual General Meeting.

FIXED DEPOSITS

The Company is neither accepting nor renewing the matured deposits. As on March 31, 2006, deposits from public and shareholders aggregating to Rs. 21,38,500/- have matured but not been claimed. The Company has sent reminders for the same.

CORPORATE SOCIAL RESPONSIBILITY

The company has contributed to Confederation of Indian Industry (CII), towards relief operations for earthquake victims of Jammu and Kashmir (Rs. 0.7 million) and to Chief Minister's Relief fund (Rs. 0.8 Million) for Flood Rehabilitation work. The company also extended its support to Kirloskarwadi and nearby villages to overcome damage caused by heavy floods in that area. In addition to above, company has supported a few Non Governmental organisations' work for child education, drinking water scheme and medical facilities in rural areas.

DIRECTORS

The tenure of Mr. Vikram Kirloskar, as Executive Director is up to June 5, 2006. The Board has re-appointed Mr. Vikram Kirloskar, as an Executive Director with effect from June 6, 2006. His re-appointment on the terms and conditions as set out in the notice is subject to the approval of members at ensuing Annual General Meeting. The Board recommends the re-appointment of Mr. Vikram Kirloskar.

Mr. A. N. Alawani has been appointed as an Additional Director with effect from October 22, 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. M. G. Padhye, Mr. Rahul C. Kirloskar and Mr. Gautam Kulkarni, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

AUDITORS

M/s. P. G. Bhagwat, the Auditors retire at the ensuing Annual General Meeting and are eligible for re-appointment. The requisite certificate pursuant to section 224 of the Companies Act, 1956 has been received. The Audit and Finance Committee has recommended their re-appointment and the annual audit fees.

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

Pune : May 16, 2006

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. Technology Absorption

1. Research and Development (R&D)

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

Energy saving sewage pumps with improved efficiency comparable with international standards. A few products in Agriculture pumps division such as Genext monoblocs, improved version Ultima pumps and Alternators are developed at Dewas plant which are Energy Efficient.

The company is taking continuous efforts for in-house Energy Saving such as replacement of 250 watt Metal Halide lamps with 36 X 36 PLS TL fixtures with electronic ballast replacement of 50 HP compressors with 30 HP screw compressors.

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 customers' demand.

d. Expenditure on R & D

- | | |
|--|-----------------------|
| a. Capital | Rs. 1,657,303 |
| b. Recurring | Rs. 27,036,974 |
| c. Total | Rs. 28,694,277 |
| d. Total R & D Expenditure as a Percentage of total turnover | 0.31% |

2. Technology absorption, adaptation and innovation

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

Technology for Metallic Volute pump, variable pitch blade and inverse design methodology for high efficient pump have been absorbed.

b. Benefits derived as a result of the above efforts

Please refer B1- 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 Inline vertical	2001	No	Technology absorption is in progress
Multistage pumps	2003	No	Technology absorption is in progress

C. 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. 688,365,290

Outgo Rs. 726,654,605