

KIRLOSKAR BROTHERS LIMITED

89th Annual Report 2008-09



Enriching Lives

Let's celebrate the spirit

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Painting the future **GREEN.**





Since its inception over a century ago, the Kirloskar Group has contributed significantly to the Green revolution in India and has been a harbinger of prosperity to millions.

The colour Green is synonymous with growth and prosperity and symbolises balance, harmony and renewal. At Kirloskar, we imbibe the spirit of Green, and strive endlessly with single-minded zeal to spread the colour of prosperity and growth in India and across the world.

Even in these trying times, your Company has excelled by continuous innovation, proactive planning and strategic measures.

By setting new engineering benchmarks and redefining paradigms, we are all set to paint the future GREEN. And ready to harvest the global opportunities that the future holds.



Achievements in Green

Developing eco-friendly products

Star Attraction

Unique, energy efficient, 7.5 HP monobloc surface water pump with a 'Five Star' rating by BEE, it lifts 16 liters of water per second. This is four liters more compared to any other pump of similar HP. It consumes 7.6 amperes of electricity as against 12 amperes consumed by other makes. The Bureau of Energy Efficiency (BEE) and Ministry of Power plan to launch a scheme to replace all old and energy intensive pumps on farms with this KBL pump all over India free of charge.

Board of Directors

Sanjay Kirloskar
 Gautam Kulkarni
 Vikram Kirloskar
 M. S. Kirloskar
 S. S. Marathe (Upto 28.09.2008)
 S. N. Inamdar
 M. G. Padhye (Upto 16.12.2008)
 Rahul Kirloskar
 U. V. Rao
 R. K. Srivastava
 P. S. Jawadekar
 J. R. Sapre
 A. N. Alawani
 Lalita D. Gupte
 Pratap B. Shirke

Chairman & Managing Director
 Vice Chairman
 Executive Director

Whole Time Director

Whole Time Director

Company Secretary

G. P. Kulkarni

Auditors

M/s. P. G. Bhagwat, Chartered Accountants

Bankers

Bank of India
 Canara Bank
 HDFC Bank Limited
 ICICI Bank Limited
 CitiBank N.A.

Registered Office

Udyog Bhavan, Tilak Road, Pune 411 002
 Phone : (020) 24440770 Fax : (020) 24402083
 Email : kblin@kbl.co.in Website : www.kbl.co.in
 Group Website : www.kirloskar.com

New Corporate office

"YAMUNA", Survey No. 98 (3-7), Baner,
 Pune - 411 045, Maharashtra (India)
 Phone : (020) 27214598 Fax : (020) 27211136
 Email : kblin@kbl.co.in Website : www.kbl.co.in
 Group Website : www.kirloskar.com

Works

Kirloskarvadi, Dewas, Shirval, Kondhapuri

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Day & Date : Friday, July 17, 2009	Directors' Report	3
Time : 11.00 a. m.	Management Discussion & Analysis	10
Venue : "YAMUNA", Survey No.98 (3-7)	Report on Corporate Governance	35
Baner, Pune - 411 045	Auditors' Report	49
Dates of Book : July 4, 2009 to July 17, 2009	Balance Sheet	52
Closure : (both days inclusive)	Profit & Loss Account	53
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DECADE AT A GLANCE

(Rupees in Millions)

Particulars	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Sales	3713	4162	3746	4757	5078	7309	9246	13,400	15,251	18,309
Other Income	79	295	82	72	225	132	750	2,408	430	359
Material Cost	2162	2557	2279	3126	3393	4859	6093	9,290	11,126	13,927
Other Expenses	1270	1493	1209	1371	1405	1896	1965	2,563	2,704	3,249
Interest	120	141	106	75	65	48	55	84	169	303
Depreciation	72	78	83	85	107	100	97	121	182	207
Profit before tax	168	188	151	172	333	538	1786	3750	1,500	982
Income tax provision	43	48	28	52	68	31	63	385	399	312
Net Profit after tax	125	140	123	120	265	507	1723	3365	1,101	670
Share Capital	71	71	71	71	71	71	212	212	212	212
Reserves	1215	1321	1352	1459	1565	1832	2932	5808	6,409	6,879
Net Worth	1286	1392	1423	1530	1636	1903	3144	6020	6,621	7,091
Imports	51	54	49	119	144	261	606	987	1,152	2,084
Exports	456	586	585	585	572	1005	685	2266	1,483	2,240
Basic Earnings per Share (Rs.) (Face Value of Rs. 2/-)	3.54	3.98	3.48	3.41	7.51	14.17	15.42	31.82	10.41	6.34
Basic Earnings per Share (Rs.)(Face Value of Rs. 2/-) (Excluding Extraordinary Income/Expense)	3.54	3.15	3.48	3.41	7.51	14.17	10.70	14.76	10.41	6.34
Dividend %	45.00	45.00	45.00	45.00	200.00	300.00	200.00	200.00	200.00	*100.00
Book Value per Share (Rs.)	36.48	39.47	40.37	43.40	46.40	53.97	29.69	56.92	62.60	67.05
Debt Equity Ratio	0.54	0.53	0.41	0.24	0.29	0.18	0.06	0.08	0.09	0.03

Notes :

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

* Dividend Recommended 100%

Figures of Earning per Share and Book Value per Share are calculated for all the reported years above after considering the subdivision of equity share of Rs. 10/- each to share of Rs. 2/- each.

DIRECTORS' REPORT TO THE MEMBERS

Your Directors present the 89th Annual Report and the Audited Annual Accounts of the Company for the year ended March 31, 2009.

FINANCIAL RESULTS

The financial results of the Company for the year 2008-09 as compared with the previous year are as under: -

	Current Year ended March 31, 2009 (Rs.)	Previous Year ended March 31, 2008 (Rs.)
Sales	18,309,447,980	15,251,461,446
Other income	359,135,347	429,536,631
Total	18,668,583,327	15,680,998,077
Profit before tax	982,203,176	1,500,406,123
Provision for tax	311,916,578	399,039,651
Profit after tax	670,286,598	1,101,366,472
Surplus in Profit & Loss Account brought forward from previous year	506,879,134	600,468,691
Available surplus	1,177,165,732	1,701,835,163

APPROPRIATIONS

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

Dividend @ 100% (200%) on 105,764,355 equity shares of Rs. 2/- each	211,528,710	423,057,420
Additional tax on Dividend	35,949,305	71,898,609
Transferred to General Reserve	400,000,000	700,000,000
Balance carried to Balance Sheet	529,687,717	506,879,134
TOTAL	1,177,165,732	1,701,835,163

Profitability continues to be under pressure due to various factors. During the current year, as with other industries, there was an impact on the manufacturing sector due to global economic situations. There have been instances of delay in project execution and non fulfilment of commitments due to financial crisis faced by small vendors.

The Company is addressing the issue of cost reductions, inventory control and faster realization of debtors. During the year the Company has restructured its business into various sectors to address each market segments. This sectoral approach which was introduced in the current year is showing encouraging results for exploring different market segments.

DIVIDEND

Directors recommend a dividend of 100% (Rs. 2/- per equity share) for the year.

SCHEME OF ARRANGEMENT

It is proposed to transfer certain non-core investments to a separate Company to be formed for this purpose through Scheme of Arrangement. A Company "Kirkoskar Brothers Investments Limited" has been formed and the details of the scheme would be separately sent to the shareholders after directions of the High Court.

STATUTORY DISCLOSURES

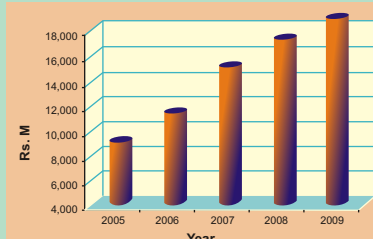
1. ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE

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 - I to this Report.

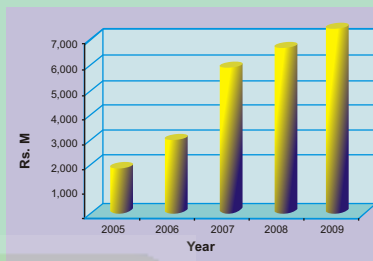
2. PARTICULARS OF EMPLOYEES

Information regarding employees in accordance with Section 217 (2A) of the Companies Act, 1956 is given in the Annexure - II to this Report.

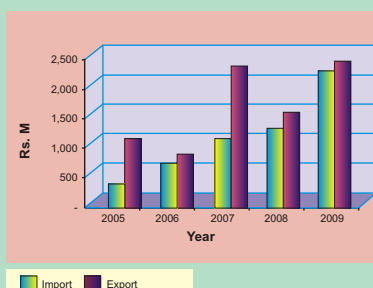
Net Sales



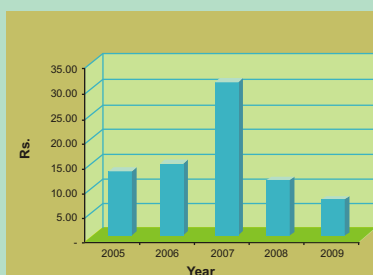
Net Worth



Import & Export



Earning per Share





3. SUBSIDIARY COMPANIES

During the year, the Company has become a Subsidiary Company of Better Value Holdings Private Limited, one of the promoters and a Kirloskar group Company.

On February 2, 2009, the Company made an application to the Central Government under section 212(8) of the Companies Act, 1956 for exemption from attaching the annual accounts of the subsidiary companies. However, since the approval is still pending with the Government, we provide separately the respective annual accounts and other documents of subsidiary companies.

During the year, the Company has acquired majority shares of The Kolhapur Steel Limited (TKSL), a Company engaged in the business of manufacturing of alloy steel castings, catering to sugar, cement, steel, pumps, valves, marine and other general engineering industrial sectors. TKSL which was a sick company registered under the Board for Industrial and Financial Reconstruction (BIFR), has become subsidiary company during the year. The captive demands of the Company for quality steel castings would be catered by TKSL. TKSL has reported profit for the year ended March 31, 2009 and the financials of the subsidiary are provided separately with this annual report.

The subsidiary company Kirloskar Silk Industries Limited, has approached the Government authorities seeking their approval for change of purpose of the land allotted for a specific purpose. The application is pending with the Government authorities.

As contemplated earlier, the Joint Venture Company namely Kirloskar Brothers LLC was not formed at Oman as the project at Sohar in Oman has been executed.

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, 2009 and of the profit of the Company for the period April 1, 2008 to March 31, 2009.
- 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 ended March 31, 2009 is attached to the Balance Sheet.

SAFETY, HEALTH AND ENVIRONMENT

The prestigious international certification OHSAS 18001 has been awarded to Kirloskarvadi plant of the Company for ensuring and achieving occupational health and safety standards of the persons connected with Kirloskarvadi plant. Our Dewas and Shirval plants have already been certified, while the Kondhapuri plant will be applying for certification in the current year.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreements with the Stock Exchanges, Management Discussion and Analysis Report, Report on Corporate Governance, Auditors Certificate on Corporate Governance and the declaration by the Chairman and Managing Director regarding affirmations for compliance with the Company's Code of Conduct are annexed to this report.

EMPLOYEE STOCK OPTION SCHEME (ESOS)

During the year 2007-08, Company launched the Employees' "Share a Vision" Stock Option Scheme, 2007 (ESOS - 2007). During the year, first tranche of options got vested. The exercise price offered is at Rs. 200/- per option to be converted into an equity share on exercise.

The Management has formulated under ESOS - 2007, a proposal of providing stock options at Rs. 2/- per option to award employee for their outstanding, exemplary performance in getting sustainable results.

The guidelines for issue of Stock Options at Rs. 2/- each under ESOS-2007 to reward exemplary performances of the employees of the Company have been circulated.

The disclosures required to be made under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and a certificate from the Statutory Auditors with regards to compliance of the guidelines, is provided as Annexure - III to this report.

FIXED DEPOSITS

The Company is neither accepting nor renewing the matured deposits since January, 2003. As on March 31, 2009, deposits from public and shareholders aggregating to Rs. 913,000/- have matured but have not been claimed. The Company has sent reminders for the same.

CORPORATE SOCIAL RESPONSIBILITY

The Company has a defined policy on Corporate Social Responsibility. The main thrust is on social health and education. However, company also undertakes various other activities for economic development of the society. At Kirloskarvadi plant, various facilities are provided for the benefit of the entire society. Various health camps have been organised - free health check-up, fitness programs, blood donation camps are conducted by the Company. Company also organized Disaster Management program for enhancing the level of awareness, where more than forty local representatives attended the program. In the field of education, Kirloskar Brothers Limited (KBL) gives donation to local schools and colleges. The Company has also sponsored a turbo machinery course for students of a local engineering college. Our Dewas unit has joined hands with Municipal Corporation for propagating rain water harvesting. The Company has also sponsored various training and education oriented programs to the social workers and Non Governmental Organisations.

The Company also continues to support a few Organisations' activities in the field of education in rural areas and such other social causes.

CENTENARY CELEBRATION

Kirloskarvadi manufacturing plant has entered its centenary year. During 1910 our founder, Shri Laxmanrao Kirloskar first came to Kirloskarvadi to establish the factory and township. The Company has planned certain events to celebrate the centenary year.

A NEW CORPORATE OFFICE

During last few years, the operational activities of the Company have increased tremendously. The Company has been operating from various locations in the city. A need was therefore felt to operate from a single office and the Company has built a new corporate office. The new building, named "Yamuna", is prominently located at Baner on Mumbai-Bangalore highway. It has an area admeasuring 12000 square meters and has many unique features of a "Green" building. The Company will soon apply for obtaining a LEED (Leadership in Energy and Environmental Design) rating for this site.

DIRECTORS

With a deep regret, we report the sad demise of Mr. Sharatchandra S. Marathe, Member of the Board of Directors of the Company since 1985. Mr. Marathe had wide experience in the fields of economics and industry. He was on the Boards of many other corporates and also on various prestigious committees formed by the Government. His knowledge and guidance was of a great help to the Company.

Mr. Madhav G. Padhye resigned from the Board with effect from December 16, 2008 due to health problems. Mr. Padhye was associated with the Company for the last 19 years. He has wide experience in the Civil Engineering, Government service and Water Resource Development Projects. His expertise and guidance to the Board and the Company has been noteworthy.

The Board wishes to place on record their gratitude for the guidance received from Mr. Marathe and Mr. Padhye during their tenures as Directors of the Company.

Mr. Gautam Kulkarni, Mr. A. N. Alawani and Mr. S. N. Inamdar, 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 difficult economic conditions faced this year.

For and on behalf of the Board of Directors,



SANJAY KIRLOSKAR
CHAIRMAN

Pune : June 2, 2009



ANNEXURE – I TO THE DIRECTORS' REPORT

A. Conservation of Energy

The Company continues to take additional steps for Conservation of Energy. During the year, Company has undertaken adoption of divided blast cupola to improve coke to metal ratio, installation of hanger type shot blasting to reduce power consumption, installation of turbo ventilators in the entire factory including stores and security offices, adoption of energy efficient motors, de-rating of motors, energy saver for CNC turning lathes to reduce power cost.

Additional measures taken include replacement of power transformer by energy efficient transformer and VCB for transformers on/off to reduce transmission loss, Bio gas plant for guest house to reduce LPG consumption, PID controller for heat treatment furnace to reduce power consumption, Energy management - staggering of melting zone for foundry which reduced demand by 800 KVA, Optimization of illumination to reduce connect load of 40kw

B. Technology Absorption

1. Research and Development (R&D)

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

- Double volute pumps in end suction series of pumps designed to operate at 2900 rpm.
- Horizontal split case pump 2 stage for desalination application.
- Horizontal split case pump with split mechanical seal.
- New product development for high head and high discharge application.
- Development of BHA600 pumps for Suriname project, BHA series enhancement to meet global requirement.
- Indigenous development of metallic volute pump
- Weight reduction of components for VT pumps and valves
- Development of AWWA series of Air Valves
- Development of 3000 mm, 1700 mm and Ebonite lined butterfly valves.

b. Benefits

- Global reference for Large Vertical Pumps
- Reduction in product lead time
- Competitive edge through product positioning
- Application coverage
- Improved quality of the product
- Competitive product cost

c. Future plan of action

- Development of high pressure metallic volute pumps with guide vane arrangement
- Development of BHA pumps for series enhancement
- Development of Large flow VT pumps for various power plants
- In-house development of 200 Ton capacity thrust bearing for high capacity concrete volute pumps
- Design and Development of double seal butterfly valves
- Design and Development of dual plate check valves
- Development of pumps for Marine and Defense application
- Development of High pressure, high temperature pump for Nuclear Thermal test facility
- Water mist system for sub marine simulation

d. Expenditure on R & D (Including new product development)

- | | | |
|----|--|--------------------------|
| a. | Capital | Rs. 56,707,375/- |
| b. | Recurring | Rs. 204,156,669/- |
| c. | Total | Rs. 260,864,044/- |
| d. | Total R & D Expenditure as a Percentage of total turnover 1.42 % | |

2. Technology absorption, adaptation and innovation**a. Efforts, in brief, made towards technology absorption, adaptation and Innovation**

- Electronic control of pumping of operation is successfully developed. Also the remote monitoring through internet connection is developed.
- Development of Ni Al bronze castings with radiography quality.
- Development UP extended range of split case pump with thrubore design.
- Development of Valves Internal Pictorial Display System and Application for the patent.
- Development of new impeller locking arrangement for easy assembly and weight reduction.

b. Benefits derived as a result of the above efforts

- Due to development of UP extended range, there is substantial reduction in thru put time and cost reduction.
- Import substitution
- Technology Up-gradation

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
Metallic volute pumps, Ebara Corporation, Japan	2004	Yes	Not applicable
Axial Flow Pumps from SIHI, Germany	2004	Yes	Not applicable
3D modeling & Structural Analysis of Components - Softwares	2005	Yes - to extent of Modeling & Structural Analysis	Not applicable
Condensate Extraction pumps from SIHI, Germany	2005	Yes	Not applicable
- CV and MV Pumps - Deep well Pumps	2008	Yes	Not applicable

C. Foreign Exchange Earnings and Outgo**Exports Activities :**

The company has export order bookings of Rs. 2300 million and sales of Rs. 2310 million, showing growth of 56% over the last year.

The company has orders from various countries viz. Vietnam, Greece, Spain, Italy, Sudan, Egypt, Sohar, Kazakhstan, etc. for irrigation / power / water supply projects.

The company's thrust on Africa and Latin America will continue for intense distribution and project business. Further, the continuous efforts are made to establish Kirloskar brand in Europe.

The Company is constantly exploring new export markets for its products and also striving to increase the range of products in existing markets and to expand our market share to exports in Southern and Central America.

Foreign exchange earnings and outgo:

Earnings Rs. 2,480,965,346/-

Outgo Rs. 2,084,419,438/-

ANNEXURE – II TO THE DIRECTORS' REPORT

Information under Section 217(2A) read with Companies (Particulars of employees) Rules, 1975 and forming part of the Directors' Report for the year ended March 31, 2009.

Name & (Age)	Qualifications	Designation/ Nature of duties	Date of commencement of employment & (Experience)	Gross Remuneration Rs.	Last employment
Sanjay Kirloskar (52)	Bachelor of Science (M.E), Illinois Inst. of Tech. USA	Managing Director	02/05/1983 (31)	17685755	Manager, Kirloskar Cummins Ltd., Pune
Vikram Kirloskar (50)	Bachelor of Science (Mech.) MIT, USA	Executive Director	06/06/2001 (27)	19190148	-
R. K. Srivastava (62)	M. Tech (I.I.T. Bombay)	Whole Time Director	15/05/1989 (37)	8942863	General Manager (Tech), Worthington Pump India Ltd., Kolkata
J. R. Sapre (64)	Bachelor of Science	Whole Time Director	01/04/2002 (43)	8748187	Vice President - (MED) Marketing, Kirloskar Oil Engines Ltd., Pune
Anant R. Sathe (56)	CA, LLB	Vice President - Corporate Finance & Accounts	01/11/2003 (33)	3323255	Sr. Vice President - Finance, Kirloskar Pneumatic Company Ltd., Pune
Sanjeev Shripad Date (59)	B.E.(Mech) DIIT(Industrial Design)	Vice President (Technical) - R & D and Quality	20/07/1970 (39)	2836172	-
Dr. J. T. Kshirsagar (54)	PHD (Engg.), ME (Mechanical)	Vice President & Head of Corporate Research & Engineering Development	08.10.1996 (30)	3195841	I.I.Sc, Bangalore
Y. S. Rana (58)	M. Tech. (Design Engg.)	Vice President -Power	17.02.1997 (30)	3078376	Sr. Marketing Manager, Jyoti Ltd.
Avinash W. Purandare (49)	BE (Electrical)	Vice President - Corporate Global Marketing	01/03/2005 (27)	2839467	Consulting Practice Head (SCM), SAP India (P) Ltd., Bangalore
G. M. Maheshwari (59)	BE (Electrical)	Vice President - Domestic & Agricultural Pumps	24.02.2004 (37)	3082206	General Manager, Crompton Greaves Ltd.
M. R. Pattewar (46)	B.E. (Mech), DIBM, DBM, MDBA (Mktg)	Vice President - Irrigation	27.08.1992 (24)	2743219	Executive Officer, KSB Pumps, Pune
Pradeep G. Chapalgaonkar (48)	B.E. (Chem Engg), Dip in Mktg.	Vice President - Industry	01.04.2004 (25)	2826236	CEO, Master Handlers Pvt. Ltd.
D. B. Nimbalkar (56)	B.Com, MSW	Vice President - Corp. HRM & C	01.01.2005 (38)	2614931	Vice President, Traspek Silox, Baroda
L.H. Dabi (57)	B.E. (Mech)	Vice President - Corp. International Instit	15.11.1975 (34)	2683083	-
Vijay Mattoo (49)*	BE (Electrical)	Vice President & Head of Strategic Business Group - Projects and Engineered Pumps	02.05.2006 (25)	1476212	Mather & Platt Pumps Ltd.
Ravindra Murthy (55)*	B.S. (Mech Eng)	Vice President - Distribution	22.05.2008 (32)	2264465	VP & SBU Head, Kirloskar Oil Engineers Ltd.
Narendra D. Wagh (54)*	B.E. (Production Engineering)	Vice President - Industrial Pumps	28.08.2008 (31)	1610540	Head - Corp. Mfg. Services, Suzlon Energy Ltd.

*Employed for the part of the year

NOTES :

- Designation denotes the nature of duties also.
- Other terms and conditions are as per the service rules and conditions of the Company.
- The nature of the employment of all the above employees is contractual.
- Gross Remuneration comprises of salary, commission, allowance, medical, other perquisites and companies contribution to PF and Superannuation funds.
- None of the above employee is a relative of a director of the Company, except Mr. Sanjay Kirloskar, who is a brother of Mr. Rahul Kirloskar.
- None of the employees holds 2% or more of the paid-up equity share capital of the company.