

Dependability

People

Products

Services



Cummins India Limited



Cummins India Limited

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Annual Report 2006

Cummins India Limited

A n n u a l R e p o r t 2 0 0 6

Making people's lives better by unleashing the Power of Cummins

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Respected Shareholders,

In fiscal 2005-2006, macroeconomic trends continued positively and clearly reflected that economic growth in India is reaching sustainable levels in which consumption-led growth was balanced by strong investment. In this positive environment, Cummins India took many significant steps to better execute our strategic business plans and focus on faster growth. We are in the process

of reshaping the company into what we are calling the **“New Cummins-A More Dependable Cummins”**. We are demonstrating our dependability through our people, our products and our services. The New Cummins is less cyclical, more diversified, more result-oriented and committed to turning a greater share of our sales into profits.



Anant Talaulicar
Chairman and
Managing Director

We made visible progress in terms of profitable growth for shareholders while moving with a sense of purpose on a values-based path that is consistent with our Vision of **“Making People's Lives Better by Unleashing the Power of Cummins”**. In midst of a dynamic business environment, this Vision glues us together and guides all our actions at Cummins as we progress from being a “Good To A Great” company. This Vision statement is supported by six core values, a specific company personality and five mission statements. They are a key part of our DNA and are critical for our long term success. Our Six Core Values are **Integrity, Delivering Superior Results, Innovation, Diversity, Global Involvement and Corporate Responsibility**. Our Personality is Decisive, Driven To Win, Agile, Passionate and Caring. Our Mission statements are as follows:

Motivating People to Act like Owners Working Together

We strengthened our organization structure by creating the Automotive Business Unit (ABU) to participate vigorously in the profitable growth opportunities in this exciting market. The customer focused ABU knits together Cummins diesel and natural gas engines and related technologies such as filtration, exhaust, turbo technologies, fuel systems and lubrication to serve truck customers better. Based out of Pune, the ABU has taken a lead role in supporting the development of CNG and electronic engines for Automotive OEMs in India. This organization is in addition to the already existing two interdependent, customer focused business units - the Industrial Engine Business Unit (EBU) and the Power Generation Business Unit (PGBU). Our two engine businesses, automotive and industrial draw from four manufacturing facilities - two in Pune, one in Jamshedpur and one in Daman. They

market these products via increasing OEM partnerships and also directly to major end users.

The PGBU conducted its manufacturing operations from our factory in Daman and continued marketing generators and power systems via exclusive and strategic partnerships with three GOEMs - Powerica Ltd., Sudhir Gensets Ltd. and Jakson Ltd. PGBU successfully grew its solutions businesses which are the Energy Solutions Business, the Rental Business and the Power Consulting Business. The Energy Solutions Business designs, constructs and operates diesel and natural gas/producer gas power plants. The Rental Business consists of the largest national rental fleet of generators and the Power Consulting Business enabled customers to reduce their energy costs.



IR Compactor ISD 150 powered by 6BT



JS 200 Excavator with Cummins 6BT engine

Each of our three business units comprise of a number of “performance cells” made up of diverse, cross-functional teams that work together seamlessly towards common objectives. Their performance is measured by clearly identified quantitative and

qualitative targets which they own. This is being institutionalized by the implementation of on-line Cummins Performance Management System (CPMS) that documents the employee objectives and provides a

mechanism for regular feedback discussions

between supervisors and employees. All employees in the company have a significant component of their compensation tied to individual and team based performance targets. The compensation structure in the last fiscal year was restructured by modernizing and monetizing certain benefits. An annual Chairman Awards forum was successfully deployed for recognizing exceptional individual and team performance. This has fostered a performance driven entrepreneurial culture which is closely aligned with customer needs within a large company environment.



Chairman's Award 2004

Exceeding Customer Expectations By Always Being

First To Market With The Best Offerings

We continue to work closely with all our major customers in developing new and innovative products. This included launch of the C series engine at 300 hp, the B series stoichiometric natural gas 110 hp Bharat Stage III engine, the 230 hp BGI Bharat Stage III lean burn natural gas engine for High Capacity Buses in the medium and heavy duty commercial vehicle sector. The C series engine was uprated to 250 kVA for power generation applications. This node provides the best power density among generators in the country. The B series engine was also uprated to 140 kVA for generator applications with greater fuel efficiency and adherence to emission regulations. Significant progress was made in developing power generating technologies using renewable, non-fossil biomass materials in collaboration with the Indian Institute

of Science (IISc). We expect this technology will also be applicable to rural industries in India as well as other similar markets such as Africa and Latin America.

During the year, Cummins India successfully developed prototypes for the Marine KTA38M0/M1 product and the KTA19G4 generator drive engine for exports. It also became the worldwide source for KTA38 generator drive engines for power generation applications. The AC-SCR drill rig application was completed for the ONGC in a record time of 2



K 50 Series - 16 cylinder 'K' series 'V' configuration engines perform with maximum durability and economy

months. Highly customized 80 kW and 100 kW generators were also developed for Indian Coast Guard vessels. Our engineers diligently worked with our dealer and the Northern Railway to successfully develop a dual fuel engine using

both natural gas and diesel - the first of its kind in India for the Railways. We continued to expand our product range by introducing new models in 60-150 hp range for construction equipment and portable compressors.



Atlas Copco XAH - 210 portable compressor powered with Cummins 6BTA.



BH 120E powered by K38



KTA 1150 powered water well rig

Partnering With Our Customers

To Make Sure They Succeed

Accomplishing this means that we care about improving the performance, quality and cost of the vehicle or equipment and not just the engine and components supplied by us. It means that we care more about not only the availability of end user equipment but also that the equipment operates in a way that enables our customers to conduct their business successfully. At Cummins India this begins with understanding the customer voices in a data based manner through our Voice of the Customer (VOC) and Six Sigma initiatives. As a part of the VOC initiative we invite a customer along with the involved Cummins dealer and OEM to address a wide group of Cummins managers about their experiences (both good and bad) with us, and suggestions on how we can further improve. This program is now in its fifth year.

This is complemented by formation of cross-functional Key Account Management teams for key end customers such as Coal India Limited and OEMs such as BEML. The teams



"Cummins" powered
Lexia luxury coach



Cummins line of Lean Burn Gas
generator sets range from the
QSK 19 G with an output of
315 KWe to QSV 91 G with
an output of 2 MW

help us understand their needs better, respond quickly with a full range of high quality offerings ranging from development of new applications to satisfying customer needs for service and spare parts. Our focus is on measurable improvements in things that matter most to our customers. We apply Six Sigma as the primary approach to making sustainable improvements to address important issues faced by customers.

I will quote from one of our satisfied customers, who sent us a letter of appreciation: *"The mechanism that was put into motion by Cummins network worldwide immediately on receiving our request is impressive and the timely service offered to the ship further strengthens our faith in the Cummins support network. I would like to place on record our deep*

appreciation of the efforts put in by Cummins Diesel Sales and Service India.

- Gopal Bharati,

Commodore, Principal Director of Marine Engineering, Integrated Headquarters of Ministry of Defence (Navy), "C" Wing, Sena Bhavan, New Delhi, 110011."

This has not only helped in reducing lead time for development and improvement programs but also higher brand loyalty, increased market share and improved profitability.



The 'X' series Ready-To-Use gensets with 2 and 3 cylinder inline configuration diesel engines are the most compact, light weight and easy to service products

Demanding That Everything We Do Leads To a

Cleaner, Healthier and Safer Environment

India will continue to embrace new and more stringent emissions, noise and safety regulations in line with global trends. Cummins as a global leader of 'state of the art' engine and related systems technologies is extremely well positioned to help our OEM partners and end users to meet these tougher norms with the lowest total cost of ownership impact. Your senior management at Cummins India actively participates in policy development forums regarding the roadmap in industry bodies such as IDEMA and SIAM to attempt to find the best solutions for Indian society.

In early 2005, Cummins led the industry in its readiness to meet the new emissions norms for



BGI engine for High capacity (CNG) buses



Low floor BS III compliant CNG buses for metropolitan cities powered by Cummins B Gas International (BGI) engines

the on highway and power generation sectors. We are also getting ready to launch Bharat Stage III compliant environmentally friendly CNG engines for High Capacity Buses in both stoichiometric as well as lean burn versions. The lean burn version is being developed in conjunction with Cummins-Westport.

We also introduced Wind Ventilators at our Kothrud facility to not only reduce energy and fuel usage but also to create a cleaner working environment.

Creating Wealth For All Stakeholders

The company's annual sales grew by 23 percent to Rs. 14,628 million, and the corresponding profit after tax grew by 28 percent to Rs. 1,757 million. We continued to make excellent progress on our exports initiative. Exports grew 34% over the previous year and recorded a turnover of Rs. 5,312 million. Cummins India received the prestigious Engineering Export Promotion Council's Top Exporter Award consecutively for the 16th year. A productivity linked wage agreement was signed with the Staff Association. Cummins India also leveraged cross-business synergies to create significant value for you. It included use of common facilities and investments and integrated approaches in HR, IT, Legal and Finance. The top management team has been strengthened. We have expanded our Global Leadership Development Program to include Mentoring and Outbound Training on Teamwork.

We believe we are in a much better position than ever before to thwart competition.

Significant inflation in core commodities such as steel, copper and fuel oils adversely impacted our results during the year. However, we more than offset inflationary impacts by relentlessly focusing on cost

reduction through our Accelerated Cost Efficiency (ACE) program and our Six Sigma initiative which is now in its fifth year.

ACE is a very systematic approach of examining the total cost of ownership (TCO) of each purchased part, and working cross-functionally with our supply base, across all Cummins entities in India as well as globally through our IPO to eliminate all avenues of waste. Being a part of a global company gives us many more avenues and huge scale to reduce TCO in win-win ways with our supplier partners. ACE is also intended to help Cummins become more transparent with our suppliers, improve communication and institutionalize common processes and practices within our companies.

Cummins India is a leader and pioneer in the use of Six Sigma methodology in India. This systematic data and analysis based improvement approach has helped us to not only reduce costs but it is also helping change the decision making culture at Cummins to a more objective one. It is also fostering diverse cross-functional teamwork and is an excellent mechanism for leadership development. We now have two Six Sigma Master Black Belts, eight Black Belts and fifty three Green Belts in the company. Twenty projects were executed

Tata Novus powered by Cummins Mechanical C8.3 300 HP engine



with multiple business benefits and included quantifiable savings in excess of Rs.190 million during the course of the financial year. Design For Six Sigma (DFSS) has completed two years and complements our ongoing Process Six Sigma initiative. It is a structured team-based methodology for improving the way new products and processes are developed. Customer requirements are used as inputs for developing high quality solutions using statistical tools. Last year forty Belts were trained in two DFSS launches. DFSS projects implemented in 2005-06 resulted in savings and cost avoidance worth Rs. 90 million.

48 Kaizen Single Minute Exchange of Dies (SMED) projects were completed in 2005. This resulted in saving of 11000 man hours saved per year due to improved productivity of bottleneck machines. Kaizen SMED team won the trophy in QCFI (Quality Circle Forum of India) and NCQC (National Capital Quality Conference) conventions. 311 Pokayoke projects completed for quality and safety in year 2005. Cummins India's Kanban team also won the trophy at yearly convention of Kaizen institute (NRICCA) in January 2006.



Six Sigma Training - Launch 01 of 2006 at Cummins India Limited

Cummins India is not only an Equal Opportunity Employer, we embrace diversity as one of the keys to business success. Our experience worldwide over the last eighty five plus years has

been that embracing diversity drives superior business results. This is because in today's complex world, we need the different perspectives of employees of differing backgrounds to solve complex problems effectively. India is fortunate to have tremendous diversity and it is our endeavor to harness every aspect of it in our workforce. Hence we are very actively promoting visible diversity such as gender, region and age diversity along with invisible diversity of experiences, styles, religions etc. We have done this without compromising our high performance and quality expectations. This is evident from our financial statements.

We have stepped up the level of community involvement efforts via our Cummins India Foundation. The highlight was when all Cummins employees in India contributed a day's salary matched by our companies for the Earthquake Relief efforts in Kashmir. We are actively supporting the Cummins Laboratory at



Celebrating International Women's Day

IIT Mumbai in engine development using alternate fuels such as bio diesels. We donated a generator to the Dinanath Mangeshkar Hospital and collected clothes and food for the Poona Flood Relief Victims. We supported the School for Blind Girls and the Cummins College of Engineering for Women and provided financial assistance to the handicapped in Pune.

Over the last few decades, we have evolved or acquired a number of brands, sub-brands, and logos for our businesses, entities, products and even initiatives. All of this drives a significant amount of duplication of marketing expenses, and more significantly, a lack of coherence on the messaging around who we are. In order to send a more unified and coherent message about the new Cummins we have committed to a common brand the Cummins brand. We will begin de-emphasizing and eliminating all subsidiary and internal brands within the corporation that are not using the Cummins brand. During the coming year we will launch the new Cummins branding to signal the new Cummins that we have worked very hard to create.

To signal the new Cummins, we will be replacing the blue color on the C logo with black. On dark backgrounds we will use the

white color on the logo. All businesses and entities across the world will embrace the common brand and logo. We have selected red and black as the primary colors representing our brand. Over the years, red and black have been associated with Cummins right from the very first HVID engine. Red symbolizes energy and speed or agility. Black has a strong and enduring quality. Together they represent an optimum combination of performance and durability and bring the message to life that -"I am Cummins; You can depend on me". Also, we are coalescing around a single branding theme or promise which is "DEPENDABILITY". So, when a customer or any other stakeholder thinks of Cummins they associate the brand with dependability.

Going forward, we believe that "Dependability" is our key brand attribute and it goes beyond product performance and response to a service event. Dependability means that the customer can always count on Cummins to do what we say we will do. We are building this dependability into our people, our processes, our products and our services. Dependability is consistent with the Cummins Values of Integrity and Delivering Superior Results.

The longer term trends for India's economic development appear very positive, and we are very excited about the opportunity to play a



Prof. Ashok Misra, Director, IIT Bombay and Dr. John Wall, Vice President Chief Technical Officer Cummins Inc. & Director Cummins India Limited at the inauguration of the Cummins Engine Research Facility at IIT Bombay.

significant, contributory role in driving economic and social progress. Our targeted markets are large and growing. These markets are tied to infrastructure and energy which are receiving increased priority by the government. Cummins is in a unique position to provide the products and services needed in these changing environments. During the year, Cummins Inc. senior management visited India. They were very excited by the opportunities and are supporting us whole-heartedly to pursue our strategic plans aggressively.

Going forward, our objective is to triple our business profitably by 2010 as compared to 2004 while continuing to earn the respect of all our stakeholders including customers, channel partners, employees, shareholders, suppliers and community. In doing so our strategy remains unchanged. Our fourfold strategy to achieve these objectives is to:

- ***Retain and grow our domestic market share***
- ***Grow exports aggressively***
- ***Become a low cost producer in our industry***
- ***Create a Great Place To Work***

We believe we have earned respectable leadership positions in our target markets based on relevant technology, reliable quality, committed customer service and competitive pricing. We are an integral part of a

strong, longstanding global company that has been operating in India for more than 40 years. We have a great set of diverse employees. With this foundation, we will be able to capitalize on the opportunities going forward.

We are all proud of what has been accomplished to create the “New Cummins”. We are One company, with One voice and One focus around “dependability” for the benefit of ourselves and all our stakeholders. I stay optimistic about both our country and Cummins India's prospects in future. As trustees we will stay committed to building Cummins India into a great institution and leave behind a legacy for future generations.

I would like to sincerely thank all our stakeholders for their continued support and commitment to our company. As we move forward, we remain committed to making our stakeholder's lives better by unleashing the power of Cummins.

Sincerely,
Anant Talaulicar

BOARD OF DIRECTORS



Rajeev Bakshi
Director



J M Barrowman
Alternate Director



S M Chapman
Director



P S Dasgupta
Director



Glyn Price
Director



S D Hires
Alternate Director



M A Levett
Director



Nasser Munjee
Director



B H Reporter
Director



Venu Srinivasan
Director



Anant J. Talaulicar
Chairman and
Managing Director



Dr. John Wall
Director

BANKERS :

State Bank of India
The Saraswat Co-operative Bank Limited
State Bank of Hyderabad
HDFC Bank Limited
Citibank, N.A.
Bank of America
ICICI Bank Limited
BNP Paribas

AUDITORS :

PRICE WATERHOUSE
Chartered Accountants
252, Veer Savarkar Marg
Shivaji Park, Dadar
Mumbai 400 028

REGISTRAR & TRANSFER AGENT :

Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills Compound
L.B.S. Marg
Bhandup (West)
Mumbai 400 078
Phone : (022) 25963838
Fax : (022) 25946969

Cummins India Limited

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Phone : (020) 2538 5435, 2538 0240
Fax : (91) - 020 - 2538 0125
Website : www.cumminsindia.com

Cummins India Limited

Financial Summary - 5 Years

Rs. Crore

Particulars	2005-06	2004-05	2003-04	2002-03	2001-02
Total income	1,539.97	1,271.47	1,009.10	877.64	777.31
Raw material	968.88	795.94	607.66	511.41	453.64
Employee cost	105.92	86.62	98.97	96.62	78.98
Mfg. exps. and overheads	109.67	98.72	69.75	68.92	73.49
Adm.,selling and other exps.	75.10	67.90	62.71	50.17	31.07
Interest	0.90	1.23	2.03	3.04	1.45
Depreciation	33.64	35.72	29.89	26.58	24.67
Net profit before tax	245.86	185.35	138.10	120.92	114.01
Tax provision on income (Net of Excess/Short provision for prior years)	70.16	48.11	28.83	26.61	27.70
Net profit after tax	175.70	137.23	109.27	94.31	86.31
Dividend	79.20	79.20	79.20	79.20	29.70
Additional Income tax on dividend	11.11	10.73	10.15	10.15	0.00
Earnings in foreign exchange	544.90	402.39	227.40	176.21	275.55
Dividend %	200.00	200.00	200.00	200.00	75.00
Earning per share (Face value of Rs.2)	8.87	6.93	5.52	4.76	4.36

DIRECTORS' REPORT

The Directors of Cummins India Limited have pleasure in presenting the Forty-Fifth Annual Report and the audited accounts of the Company for the year ended March 31, 2006.

1. FINANCIAL RESULTS :

During the year under review, net sales turnover was Rs. 14,628 million (Rs. 1,463 crore) as against Rs. 11,918 million (Rs. 1,192 crore) during the previous year (23 % higher). Export earnings were Rs. 5,449 million (Rs. 544 crore) as against Rs. 4,024 million (Rs. 402 crore) during the previous year (35 % higher). Profit after tax was Rs. 1,757 million (Rs. 176 crore) against Rs. 1,372 million (Rs. 137 crore) (28 % higher) for the previous year.

	2005-2006 (Rs. '000)	2004-2005 (Rs. '000)
PROFIT :		
Profit before taxation	2,458,596	1,853,389
Net Profit for the year after tax but before tax on proposed dividend	1,756,997	1,372,262
Tax on dividend	111,078	108,306
Dividend	792,000	792,000
Transferred to General Reserve	440,000	471,956
Balance carried to Balance Sheet	1,213,919	800,000

2. DIVIDEND :

Your Directors have recommended a final dividend of 100 % on the Equity share capital of Rs. 396 million for the year ended March 31, 2006, in addition to the interim dividend of 100 %, declared on January 31, 2006.

3. CONSOLIDATED FINANCIAL STATEMENTS :

The Company has prepared Consolidated Financial Statements of Cummins India Limited and its subsidiaries, associates and joint ventures as at March 31, 2006, in accordance with Accounting Standard 21 (AS 21) on 'Consolidated Financial Statements', Accounting Standard 23 (AS 23) on 'Accounting for Investments in Associates in Consolidated Financial Statements', and Accounting Standard 27 (AS 27) on 'Financial Reporting of Interests in Joint Ventures', issued by the Institute of Chartered Accountants of India. As required by Clause 41 of the Listing Agreement with the Stock Exchanges, the audited Consolidated Financial Statements are circulated with the Annual Report.

4. SUBSIDIARIES:

- **Cummins Diesel Sales and Service (India) Limited : (CDS&S)**

The sales and other income of Cummins Diesel Sales and Service (India) Limited (CDS&S) for the year ended March 31, 2006, was Rs.4,601 million (Rs. 460 crore) as against Rs. 4,300 million (Rs. 430 crore) during the corresponding previous year. CDS&S has declared dividend of 417% during the year ended March 31, 2006, as against 391% during the previous year ended March 31, 2005. CDS&S is engaged in the business of sale of and providing after-sales-service to engines and generators manufactured by your Company.

Cummins India Limited

- **Cummins Auto Services Limited : (CASL)**

The sales and other income of Cummins Auto Services Limited (CASL) for the year ended March 31, 2006, was Rs. 197 million (Rs. 20 crore) as against Rs. 244 million (Rs. 24 crore) during the corresponding previous year. CASL is engaged in the business of highway solutions in the form of authorised service stations and annual maintenance contracts with truck fleet owners and retailing in parts and accessories for commercial vehicles.

- **MRC Autosolutions Private Limited : (MRC)**

MRC has been merged into CASL on March 22, 2006, vide orders of the Hon'ble Bombay High Court and Ahmedabad High Court.

- **Fourstroke Automotive Private Limited : (Fourstroke)**

The sales and other income of Fourstroke for the year ended March 31, 2006, was Rs. 4.01 million (Rs. 0.40 crore) as against Rs. 2.74 million (Rs. 0.27 crore) during the corresponding previous year. Fourstroke is engaged in the business of repairing and servicing of commercial vehicles through its service station in Chennai.

- **Annual Reports of subsidiaries :**

The Central Government vide letter dated May 24, 2006, has exempted the Company from compliance of the provisions of Section 212 (8) of the Companies Act, 1956. Accordingly, the Company has not attached a copy of (i) Balance Sheet (ii) Profit and Loss Account (iii) Report of the Board of Directors and (iv) Report of the Auditors of its subsidiary companies to this Annual Report. However, the above documents of the subsidiary companies and the related detailed information will be made available to the Shareholders of the Company and its subsidiaries on request. Further, the Annual Accounts of the subsidiary companies will be kept open for inspection by any Shareholder during business hours on any working day at the (i) Registered Office of the Company and (ii) Registered Office of the concerned subsidiary company.

5. JOINT VENTURES :

- a. **Nelson Engine Systems India Limited : (NESIL)**

The sales and other income of NESIL, a joint venture Company between Cummins Filtration Inc., U.S.A. (formerly known as Fleetguard Inc., U.S.A.) and the Company, for the year ended March 31, 2006 was Rs. 226.54 million (Rs. 22.65 crore) as against Rs. 106.57 million (Rs. 10.66 crore) during the corresponding previous year (112 % higher). NESIL has declared dividend of 50% for the year ended March 31, 2006, as against 15 % for the previous year. NESIL is engaged in the business of manufacture and sale of exhaust silencers and mufflers for Internal Combustion Engines.

- b. **Cummins Research and Technology India Limited : (CRTI)**

Cummins Research and Technology India Limited (CRTI), is a 50:50 Joint Venture between Cummins Inc., U.S.A. and your Company. The sales and other income of CRTI for the year ended March 31, 2006, was Rs.182.74 million (Rs. 18.27 crore) as against Rs. 132.57 million (Rs. 13.26 crore) during the corresponding previous year (38 % higher). CRTI is engaged in providing Information Technology (IT) enabled Mechanical Engineering Development services to Cummins Inc., its subsidiaries and Joint Ventures across the world and has a Research and Technology Centre at Pune.

6. CORPORATE GOVERNANCE :

As per clause 49 of the Listing Agreement with the Stock Exchanges, Management Discussion and Analysis Report and Corporate Governance Report are annexed and forms part of the Directors' Report.

7. CODE OF CONDUCT COMPLIANCE :

As per Clause 49 of the Listing Agreement with the Stock Exchanges, the declaration signed by the Chairman and Managing Director regarding Code of Conduct compliance for the Financial Year 2005-2006 is annexed and forms part of the Directors' Report.

8. DIRECTORS' RESPONSIBILITY STATEMENT :

In pursuance of the provisions of section 217 (2AA) of the Companies Act, 1956, your Directors make the following statement : -

- (i) that in the preparation of annual accounts, the applicable accounting standards have been followed and there was no material departure from the accounting standards;
- (ii) that Directors have selected such accounting policies and applied them consistently and made judgments and estimates that 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, 2006 and of the profit for the period April 1, 2005 to March 31, 2006;
- (iii) that Directors have taken proper and sufficient care 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
- (iv) that Directors have prepared the annual accounts on a going concern basis.

9. CONSERVATION OF ENERGY :

The company continued its efforts of energy conservation through various energy optimisation initiatives such as:

- Replacement of high "Watt loss" capacitors with efficient capacitors;
- Conversion of delta connection to star connection for identified motors;
- Installation of neutral compensator for the main lighting feeder;
- Optimisation of operation of dyno pump and HE pump in Unit-4 cooling tower;
- Optimisation of cooling tower electrical consumption;
- Installation of valves in heat exchanger water line resulting reduction in pumping requirement;
- Energy efficient lighting at- streets, assembly, stores, toilets etc.;
- Optimisation of R & D pump house electrical consumption with the help of variable frequency drive.

IMPACT OF THE ABOVE MEASURES:

Estimated annual savings as a result of the above energy conservation projects is about 2.1 million of energy units during the year corresponding to Rs. 10.5 million.

Apart from this, use of alternate fuel for power house engines have resulted in annual savings of Rs. 34 million.

Cummins India Limited

10. RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION :

Your Company is committed to introduce new products and improve existing products to meet stringent emission norms, have higher levels of performance and lower life cycle costs, to satisfy market needs.

The Technical Centre of your Company continues to focus on indigenization of components to achieve aggressive cost reduction targets and on development of electronic controls and systems to improve fuel efficiency, performance and durability of the products.

A. Some specific areas of R&D initiatives undertaken by the Company are :

a) New Product Development :

1. Development of low cost, fuel efficient and emissions compliant NTA855-G4I engine for Genset market, with 3% reduction in fuel consumption.
 2. Performance recipe development on the following engines :
 - 50 lts. U.S. Tier I compliant engine for global Oil and Gas markets.
 - High Horse power diesel engines (above 800 kWm) for CPCB stack emissions compliance.
 - Cost effective 5.9 lts. Lean Burn Bharat Stage III compliant gas engines for the Automotive market.
 - Fuel efficient 8.3 lts. Bharat Stage II compliant diesel engines for the Automotive market.
 3. Development of high HP diesel engine with “CENTRY” fuel system for Industrial applications.
 4. Field validation of 38 lts. state-of-the-art Lean Burn natural gas generator for the Power Generation market.
 5. Development of an integrated engine controller and alternator parameter monitoring system under the name “PowerCon”.
 6. High horsepower stoichiometric gas engines with shielded ignition system for Industrial and Power Generation markets.
 7. Development of alternate fuel engines including Bio-Diesel and Producer Gas through joint projects with some of the most prestigious academic institutions in India.
- b) Conformity of production emissions testing on Automotive and Genset engines to demonstrate compliance to legal emission norms.
- c) Extensive use of computer simulation, modelling and analysis led design for development of new engines.
- d) Indigenization of various engine components by validation testing on engines and on experimental applied mechanics rigs.

B. Benefits derived as a result of above activities are:

- Complete range of fuel efficient and emission compliant products available to the customers in the shortest time at the lowest development cost.

- Highest value to customers.
- Advanced high efficiency, low emissions and cost effective Natural Gas Automotive and Genset products made available.
- Quality, reliability, durability improvement and performance enhancement of engines and critical engine components.
- Substantial cost savings through engine component indigenization.
- Reduction in “time to market” and product development cost to enable profitable business growth.

C. Future plans :

- Identification of new business opportunities in Alternate Fuel engine technologies.
- Development of advanced emissions compliant engines for global Power Generation and Industrial markets.
- Development of full authority electronic engines (both gas & diesel) for Automotive market in India.
- Continuous up-gradation of Technical Center facilities to world class levels.
- Extensive use of Analysis Led Design for new engine applications.
- Technology exchange programs with various global Cummins entities for development and introduction of new engines, electronic controls and component design and analysis.

D. State-of-the-art technology exchange programs with Cummins Inc., U.S.A. will remain the prime focus of your company in the coming years. With strong support from Cummins Inc., U.S.A., your company is committed to develop advanced fuel efficient and emissions compliant engines to comply with forthcoming stringent worldwide emissions regulations. As a corporate responsibility, your company is also committed to provide environment friendly engines running on alternate fuels. The focussed efforts of your company will help to absorb a wide and diverse set of technologies in Internal Combustion engines to cater to the market dynamics effectively.

E. Expenditure on R & D :

The total expenditure on R & D during the year under review was as follows :-

	2005-2006 (Rs. '000)	2004-2005 (Rs. '000)
a) Capital	10,710	26,604
b) Recurring	214,932	162,440
c) Total	225,642	189,044
d) Total R&D expenditure as a percentage of total sales turnover	1.54%	1.59%

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11. FOREIGN EXCHANGE EARNINGS AND OUTGO :

During the year under review, the Company exported 5,255 engines and 1,868 Gensets and achieved export earnings of Rs. 5,315 million (Rs. 531 crore).

Foreign Exchange earnings and gross outgo (including royalty, dividend etc.) during the year under review were as follows :-

	<u>2005-2006</u> (Rs. '000)	<u>2004-2005</u> (Rs. '000)
(a) Earnings	5,449,034	4,023,884
(b) Outgo :		
- Raw Materials/ components	2,648,848	2,316,075
- Capital equipment	3,014	20,526
- Others	<u>907,444</u>	<u>890,522</u>
	3,559,306	3,227,123

12. DIRECTORS :

In accordance with the Companies Act, 1956 and Articles of Association of the Company, M/s. P.S.Dasgupta, Rajeev Bakshi and S.M.Chapman, Directors of the Company, retire by rotation and are eligible for re-appointment.

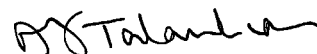
13. AUDITORS :

The Auditors, Price Waterhouse, Chartered Accountants, retire and are eligible for re-appointment.

14. PARTICULARS OF EMPLOYEES :

As required under section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, a statement giving the required information relating to the employees covered thereunder is attached.

On behalf of the Board of Directors,



Anant J. Talaulicar
Chairman & Managing Director

Pune : June 8, 2006

**Management Discussion and Analysis Report
(Annexure to Directors' Report)**

1. Industry Structure and Developments

1.1 Economic Trends and Implications

- The Indian Economy is showing strong business movement and sentiment. GDP grew at 8.1% in year 2005-06. There was robust growth in manufacturing and services sectors. Stronger monsoons helped agriculture grow at 2.3% as compared to a sluggish rate of 1% in 2004-05.
- Manufacturing and construction have shown very strong growth due to the boom in the automotive, consumer durables, real estate, roads and organized retail segments.
- Inflation based on the Wholesale Price Index (WPI) was relatively stable and ranged from 4% to 5.1% as compared to other countries where it showed a rising trend because of the hardening of global crude oil prices.
- The capital markets grew significantly. Relaxation of FDI norms (up to 100%) in many sectors including - airport development, real estate, natural gas/LNG pipelines, power trading and captive coal mining facilitated the flow of foreign funds. India was placed as the 3rd most attractive destination for Foreign Direct Investment (FDI) in AT Kearney's FDI Confidence Index for 2005.
- The Union Budget for 2006-07 has given further impetus to agriculture and infrastructure sectors while continuing with the policy of indirect tax reforms and laying a roadmap for Goods and Services Tax (GST).
- The optimism and perception of a brighter future is being reflected in all major economic indicators and augurs well for the Indian economy in 2006-07. We are estimating that this will have a positive impact on the growth of the Company.

1.2 Power Generation

- There is a continued power deficit in various geographic regions including key industrial regions in India. Open issues around implementation of the Electricity Act 2003 remain. We estimate that the deficit will be at 8-9% levels during the next 4-5 years. Growth in demand for power will be strong.
- Price of Diesel may increase further. This will result in a shift towards technologies that are more fuel efficient as well as renewable / alternative fuel offerings in an effort to contain costs.
- The above trends are increasing the share of natural gas & renewable fuels in the captive power mix, especially in the high horsepower on site power applications.
- Demand from non residential construction, manufacturing and IT/ITES, and Telecommunications was strong during 2005-06 and we forecast these will remain positive through the next year.
- With increase in fuel prices, many customers are focused on demand-side management and reduction in power intensity. This along with incentives for CHP and power management is likely to support strong demand for our consulting services, power quality products and system integration solutions, which we forecast will continue to grow at 50-60% per annum although off a small base.

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1.3 Industrial

- Infrastructure has been a key area of focus for the Government in recent years. Creation of Roads and Highways, Port and Airport Development, Rural Infrastructure, and Irrigation projects has gained significant momentum. The Construction industry is expected to grow from US \$50 billion in 2005 to US \$100 billion in 2010. This boom is creating significant growth in real estate, road construction and water projects. For example, more than 80% of the work on the Golden Quadrilateral has been completed till date, work on NSEW corridor is also progressing at a fast pace. Greater mechanization and a requirement for completion in the least time have spurred growth in equipments and tools used in these industries. This has had a positive impact on the demand for engines.
- While the Mining sector has shown sluggish growth in the past, efforts are now being taken to improve production levels and meet domestic demand. More than 50% of India's need for power is met by coal. India has coal reserves of 92 billion tons and there is a huge need and opportunity to improve the output tonnage. Privatization of coal mines is a significant move taken up by the Government towards this end. Global firms are getting into the business and this will result in increase in the use of sophisticated equipments and hence more engine sales for the Company.
- Foreign participation is already a fact in the steel industry. Domestic companies are also expanding capacity to meet the increased demand at higher price levels. Current production level of 37 million tones per annum caters to both domestic and global demands. This will positively impact the growth in mining and allied industries.
- Railways, one of the backbones of the Indian transport system is implementing a large number of initiatives to upgrade the safety and fuel efficiency standards, and this has resulted in new projects for the Company.
- The Water Well market continues in its cyclical downturns and has not revived. This has adversely affected engine sales in the Compressor segment.
- The Indian shipbuilding industry, which mainly caters to the Indian Navy requirements, has now entered the club of elite nations after starting construction of the air defense ship. The Indian Navy has huge expenditure plans for the latest and up-to-date warships (frigates, corvettes, auxiliary vessels etc). This will result in good demand for the Company's engines.
- ONGCs drive to revamp the AC-SCR drill rigs at its Sivasagar base in Assam will enable the Company to continue growing the business in 2006-07.

1.4 Automotive

- After 3 years of strong growth, the automotive industry, and primarily the medium and heavy commercial vehicle segment, slowed down in 2005-06, due to the change in emissions norms to Bharat Stage II and III.
- While there was about 6% growth in the Commercial vehicles overall, the Medium & Heavy Commercial vehicles ended the year 2005-06 almost flat. Competition in the Medium & Heavy Commercial Vehicle Segment is expected to intensify with new entrants like Force Motors and Asia Motors expected to launch their vehicles this year. Mahindra-International Limited has also announced its decision to participate in the Indian Market.
- The change in emission norms effective April 1, 2005 and the confusion surrounding the implementation impacted volumes significantly in the first two quarters. Volume picked up in the last two quarters and the year ended with flat to marginal growth. Bharat Stage III norms have been introduced in 11 cities and Bharat stage II countrywide. The majority of commercial vehicle production and demand continues to be BS II.

- After the Supreme court directive for enforcement against overloading there is an increase in demand in higher horsepower trucks and engines. This spurt is expected to be of a temporary nature till the equilibrium between capacity & demand is re-established.
- CNG continues to emerge as a credible alternative fuel for city buses. Currently, 11 cities have been mandated for introduction of CNG by the Hon'ble Supreme Court. However, implementation has been slow for buses and commercial vehicles due to infrastructure bottlenecks in refueling.
- The Company has continued to extend its position in the CNG bus market, in conjunction with OEMs such as Tata Motors. The higher HP lean burn CNG engine developed by the company has been quoted by all qualified Bus OEMs in the tender for the High Capacity Bus System proposed for New Delhi. Production deliveries are expected to commence in the third quarter of this fiscal year.

2. Opportunities and Threats

Key **Opportunities** include:

- India's peak power demand continues to grow at approximately 8% per annum. This will continue to drive demand for power generation equipment.
- Demand for captive power plants will increasingly be served by gas generator sets / power plants due to continued rise in diesel prices. Therefore, the Company is currently piloting several projects on gensets & gasification systems for producer gas ranging from 20 KW – 300 KW power plants.
- New norms for emissions & acoustic enclosures of gensets will continue to help our end customers & the environment. Cummins is well positioned to participate in the same. The company has launched several initiatives to engineer lower cost enclosed generator set packages and this provides an opportunity for improved customer satisfaction.
- Renewed focus of our parent, Cummins Inc. on reducing costs of the Company has created a large long term opportunity for taking a substantial share of the global Cummins Engine and Power Generation businesses.
- Shift towards higher tonnage equipments in the mining industry, a trend which will help improve the sale of larger engines.
- There are opportunities to grow exports by supporting OEMs like BEML and Indian Railways as they grow their business in developing nations.
- High growth in the Construction sector is likely due to the following:
 - Government's plan to upgrade roadways and highways through NHDP (Phase I, II & III already underway, plans for Phase IV & V unveiled).
 - US\$ 39 billion investment is projected over the next five years through the Bharat Nirman program for building rural infrastructure.
- Infrastructure projects such as port up gradation, petrochemical complexes, and river linking projects will drive the growth in firefighting and continuous duty pump applications.
- Indian Navy's projects for corvettes, OPVs (Off Shore Petrol Vessels), FACs (Fast Attack Crafts) are expected to create repeat business. ONGC's Rig revamp program will enable maintaining and growing the existing business.
- Indian Railway's initiative to increase safety standards, energy conservation and creation of a Rail Network in Jammu & Kashmir will create demand for SPART, SLR Power Cars and DMU units respectively.

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- Opportunity to supply Cummins Diesel and Natural Gas engines to various existing and new commercial vehicle OEMs that do not have their own engines. Additional volumes for the C Series & L Series engines are likely since there is gradual shift towards higher powered trucks in India.
- Greater availability of CNG is creating a demand for CNG powered Buses.
- Cummins is a leader in emissions technology. OEMs with in-house engines are planning to shift to Cummins engines for specific applications that call for tighter emissions regulations.

Key **Threats** include:

- Increases in commodity prices remain a key challenge.
- Fuel & crude price are expected to continue increasing. This will result in increased shift towards standby application for generator sets. It also has a negative impact on profitability of equipment users and could adversely impact the industrial engine business.
- Relaxation in Import tariffs from 20% to 12.5% in 2006-07 and 5% in 2008-09 is likely to result in increased imports and competition from global engine players and non-Cummins OEMs. They are expected to adopt aggressive pricing strategies.
- Product/market extensions by OEMs into power generation and industrial applications are likely to result in increased competition.
- All Automotive customers are also competitors since the company competes with the in-house engines of its customers to win business.

3. Segment-wise and Product-wise Performance

3.1 Power Generation

- During the year, the power generation business grew across the various lines of business, resulting in an overall growth of over 21% during 2005-06.
- The company continued to make the targeted progress on various new products launched in the past 24-36 months including the N14, C series, X series and imported gensets. The B series updated to 140 KVA was launched in the previous year and has consolidated its market performance.
- As part of our continued focus on natural gas, we have launched the new 575 kW QSK38G gas generator, and B Gas 40 KW generator during the year.
- During the year, the Company strengthened its position by winning several key customers accounts in the fast growing IT and non residential construction markets.
- The Company's customer-focused initiatives on key accounts/segments; customer relationship management, Out-Of-Fold customers, stronger channel integration and quality improvement resulted in a strong growth in sales of generator sets.
- Exports of generator sets and power generation equipment made progress. Several new programs were completed and launched to the Asia-Pacific and Middle East regions.
- The company is now in the advanced stages of setting up a new production facility near Pune to support increased volumes and new product launches.

3.2 Industrial

- The Industrial Business was up by around 7% as compared to the previous year. Growth in almost all the market segments was positive except the water well segment. The cyclical dip in the water well market continued in 05-06. However, this downward trend could be more than offset by the positive growth in other market segments.

- Old engine models in pumps and compressor segments were made obsolete. New models were introduced to improve the profitability of the segments.
- The Rail Business performed exceedingly well due to high demand of Power Cars, HHP DEMUs, new LHB type Rajdhani & Shatabdi trains and shunting locomotives.
- The company successfully executed Indian Navy LSTL projects and AOPV, XFPV projects for the Coast Guard which led to significant increases in the business.
- The Mining business successfully bagged tender orders from BEML that included exports to African countries.
- ONGC's Rig revamp program boosted the Oilfield segment performance.

3.3 Automotive

- The Automotive business made a start during the year with sales of about Rs. 326 Million. This mainly comprised of sales of BS III compliant CNG engines and BS II compliant 300 HP C-series engines.

3.4 Exports

3.4.1 Export Performance 2005-2006

- The demand for both Heavy Duty and High Horsepower Products remained strong throughout the year in almost all the overseas markets. This resulted in a healthy order board position for the Company.
- The company took advantage of the exports opportunity with its focus on World Class Quality and relentless pursuit for creating a competitive advantage in terms of cost, supply chain efficiency, manufacturing capacity enhancements and new product initiatives. It was able to meet needs of diverse range of Cummins Inc. customers spread across the Globe.
- Exports grew by almost 35% in 2005-06 over previous year. It achieved an all time high of Rs. 5,313 Million.

3.4.2 New Export Business Initiatives 2005-2006

Marine

- After establishing the Company as a worldwide source for KTA38 generator drive engines, agreement with regard to manufacture and supply of 38 liter Marine product was concluded. An initial lot of 12 units were developed, built and shipped during the year. The production volumes have now commenced after thorough acceptance trials by customers.

G-Drives

- A thorough understanding of Engineering and Service requirements of diverse customer base in geographies ranging from South East Asia to Europe was done. This was followed by the development of Global Specifications for the 19 liter generator drive engine - KTA 19 G4. The first phase prototype review was completed successfully during the year and regular supplies will begin in mid-2006. This initiative makes effective use of Cummins global capacities and provides significant cost advantage in South East Asia and Europe.

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Rail

- Growth opportunities were identified for Heavy Duty (14 L) engines for the Rail markets in Europe and South East Asia. Heavy Duty Rail engines (NTA855-R) were successfully developed and supplied to UK in 2005-06.
- Product development for N14 ER, electronic engine for Japan rail market is in progress. The development of this product for Japan will create opportunities in markets such as Korea, Indonesia, Thailand and Philippines.

Components

- Demand for CIL manufactured components continued to be steady. Increased demand for these components was successfully met. Component exports in 2005-06 showed steady growth over the previous year.

Achievements

- The Company received the prestigious Engineering Export Promotion Council's Top Exporters Award – Western Region for highest Exports for the year 2003-04. This was in recognition of the Company's outstanding contribution to Engineering exports. It has received this award consecutively for the last 16 years.

3.4.3 Outlook 2006-2007

The increasing investment into infrastructure in India is expected to continue to spur strong demand for the Company's products. Based on the Company's low cost, high quality performance, plans are in progress to continue to add new products for Exports and continue to enhance capacity while maintaining the focus on Cost / Supply Chain efficiency.

4. Outlook and Initiatives for the Current Year and Thereafter

- The company has made significant investments in making its entire product line for power generation equipment from 15-2000 KVA emissions compliant. These efforts will continue during the year as new products get introduced and older ones get upgraded. These will create substantial differentiation and help improve competitiveness in the future.
- Focus on providing solutions for the power generation market will continue and as the company expands its range of gas generator sets and power quality products. Exports will remain a key lever of its growth strategy.
- The company is successfully implementing an Accelerated Cost Efficiency (ACE) initiative to reduce the total cost of ownership (TCO) for materials. This will enable the Company to neutralize the impact of rise in commodity prices. Work on Wave I and Wave II has been completed. Wave III is expected to be completed by August. The savings have started accruing and will gather momentum during the year.
- Our focus on Six Sigma will be higher than ever before and this process driven data based approach will be applied for all problem solving across the company at every level of management.
- The Company is planning to expand capacity to meet the expected growth in demand for the 300HP and higher power nodes in the Commercial Vehicle market. The company is planning to invest in developing capability for manufacturing High Pressure Common Rail engines in these segments as the country migrates to BS III & BS IV emission levels.
- The program with Cummins Westport Inc. to develop the new B Gas International range of natural gas commercial vehicle engines is expected to give the company a very strong presence in the Indian market.
- Domestic Steel prices are expected to be on the rise till 2007 and diesel prices will continue to rise during 2006-07.
- The water well compressor segment is expected to pick up by early 2007.

- New applications/ New Customer acquisition will be critical for improving the market share in the growing Construction market.
- Key Account Management teams with cross-functional representation will be created for key customers and OEMs. This will enable the Company to proactively anticipate customer needs and support day to day user needs in a manner that clearly differentiates the Company from its competition.
- Focus will be on developing new OEM relationships and applications in the Construction sector and consolidating the existing position in the Mining, Marine, Oil & Gas and railway sectors.

5. Risks and Concerns the Management Perceives

- Continued fuel price increases will have a negative impact on operating hours and replacement demand for the Company's power generation product spare parts and service.
- Implementation of the Electricity Act, 2003 will have a positive impact on the health of the power sector. However, delays will further extend the poor financial position of the sector and affect long term prospects for the industry and consumers.
- Delays in implementation and allocation of funds for infrastructure projects will have a negative impact on the demand for engines.
- Further increases in commodity prices such as steel, copper and molybdenum are likely to increase our costs and create margin pressure because it will be difficult to pass on the increase in input costs to OEMs and end users.
- Freight rates have not kept pace with increase in fuel prices. This negative margin impact on freight haulers can lead to softening demand for commercial vehicles.
- Delays in implementation and allocation of funds for infrastructure projects (e.g. High Capacity Bus Transit in Delhi; High Speed Gas filling stations penetration etc.) would affect the demand for products of the Company.

6. Internal Control Systems and their Adequacy:

The Company has instituted adequate internal control procedure commensurate with the nature of its business and size of its operations.

To provide reasonable assurance that assets are safeguarded against loss or damage and that accounting records are reliable for preparing financial statements, management maintains a system of accounting and controls, including an internal audit process. Internal controls are evaluated by Internal Audit and supported by Management reviews.

The Board of Directors has a Finance and Audit Committee whose Chairman is an Independent Director. The Committee meets periodically with management, internal auditors and representatives of the Company's Statutory Auditors to review the Company's programme of internal controls, audit plans and results and recommendations of the auditors and management's responses to those recommendations. All audit observations and follow up actions thereon are tracked for resolution by the Business Controls and Compliance Function and reported to Audit Committee. The Finance and Audit Committee met six times during the financial year under review.

7. Discussion on Financial Performance with respect to Operational Performance:

Financial Review:

The financial statements have been prepared in accordance with the requirements of the Companies Act, 1956, and Generally Accepted Accounting Principles (GAAP). There are no material departures in adoption of the prescribed accounting standards.

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The estimates and judgments relating to the financial statements have been made on a reasonable basis, in order that the financial statements reflect in a true and fair manner the form and substance of transactions and reasonably represent the Company's state of affairs and profit for the year.

7.A Results of Operations :

7. A.1 Income:

The details of Income consisting of Sales and Other Income are as under:

a) Sales:

Rs. in Million

Sales	For the year ended March 2006	For the Previous year ended March 2005	Change in %
Domestic	9,315	7,955	17%
Exports	5,313	3,963	34%
Total	14,628	11,918	23%

The company's market share and demand for its products in the domestic market remained strong. The demand has witnessed a growth in two important areas of markets namely; power generation, and industrial. Increased exports by Rs. 1,350 million indicates success of the Company's strategy to promote India as a sourcing hub for global demand.

b) Other Income :

Rs. in Million

Details	For the year ended March 2006	For the Previous year ended March 2005	Change in %
Treasury Income	131	191	(31%)
Dividend from Subsidiary, Joint Venture and Associate Companies	300	268	12%
Drawback Income	159	205	(22%)
Miscellaneous	182	133	37%
Total	772	797	(3%)

Duty drawback amount has decreased since the Company has opted for the 'advance license cum duty drawback scheme' for its exports instead of earlier duty drawback scheme.

7. A.2 Expenses and Margins:

The Company's cost cutting measures through Accelerated Cost efficiency (ACE) and Six Sigma projects have yielded planned savings. These have helped to more than offset the recent significant increase in metal prices affecting component procurement costs which is a matter of concern. The earlier cost cutting initiatives which continued as per the plan

during the year under review such as supplier consolidation, outsourcing and indigenization are helping to reduce the cost of operations.

Total Employee Cost increased from Rs. 866 million during the previous year to Rs. 1,059 million during the year under review mainly due to increase in compensation to employees over the last year.

Depreciation charge marginally decreased from Rs. 357 million during the previous year to Rs. 336 million during the year under review.

The interest expenses decreased to Rs. 9 million as against Rs. 12 million in the previous year mainly due to better management of the cash flow.

7.A.3 Profit before Tax (PBT):

Profit before tax (PBT) showed a growth of 33% mainly due to cost reduction initiatives and increase in sales volumes.

7. A.4 Provision for Tax:

Provision for Income Tax is made on the assessable income at the tax rate applicable to the relevant assessment year. The Company has given effect to the deferred income tax. Deferred income taxes are recognized for the future tax consequences attributable to timing differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

7. A.5 Net profit for the year:

Net profit for the year increased from Rs. 1,372 million during the previous year to Rs. 1,757 million during the year under review. Consequently, earning per share (EPS) for a face value of an equity share of Rs. 2 each, during the year ended March 2006 is Rs. 8.87 as against Rs. 6.93 during the previous year ended March 2005, a growth of 28%.

7.B. Financial Condition :

7.B.1 Share Capital :

Issued and subscribed capital remained unchanged at Rs. 396 million consisting of 198,000,000 equity shares of Rs. 2 each.

7.B.2 Reserves and Surplus :

Reserves and Surplus increased by Rs. 854 million to Rs. 7,447 million as a result of profit appropriation during the year under review.

7.B.3 Loan funds :

The details of Loan funds are as under:-

Rs. in Million

	As at March 31, 2006	As at March 31, 2005	Change
Secured Loans	86	311	(225)
Unsecured Loans	2	2	—
Total	88	313	(225)

Secured loans decreased mainly due to repayment of Export Packing Credits availed during the previous year. The Company continues to have almost debt free status having debt equity ratio as at March 31, 2006 of 0.01

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7.B.4 Fixed Assets :

Additions to Fixed Assets block during the year ended March 2006 were Rs. 139 million (Rs. 442 million in the previous year). The additions of Rs. 139 million consists mainly of Rs 123 million of plant & machinery for augmenting various manufacturing facilities, furniture and fittings Rs.7 million and vehicles Rs.1 million. The depreciation block as at March 31, 2006 is Rs. 3,397 million as against Rs. 3,082 million as at March 31, 2005. The deductions/disposals during the year amounted to Rs. 32 million against previous year's Rs.300 million. Consequently, the net fixed assets block decreased marginally to Rs. 1,621 million as at March 31, 2006 against Rs. 1,776 million as at March 31, 2005.

Estimated amount of contracts remaining to be executed on capital account and not provided for as at March 31, 2006 was Rs. 96 million and the Company believes that it will be able to fund them from its investments in liquid assets.

7.B.5 Investments :

Investments increased to Rs. 2,489 million as at March 31, 2006 as against Rs. 2,162 million as at March 31, 2005. The net increase is due to investments of liquid funds in securities, units of mutual funds etc.

7.B.6 Current Assets, Loans and Advances :

i. Inventories:

Inventories decreased to Rs. 2,334 million as at March 31, 2006 against Rs. 2,394 million as at March 31, 2005. The decrease is mainly in raw materials and finished goods.

ii. Sundry Debtors:

Sundry debtors net of provision for doubtful debts increased to Rs. 3,614 million as at March 31, 2006 as against Rs. 2,946 million as at March 31, 2005. These are considered good and realisable. The Sundry Debtors in terms of days of sales based on certain assumptions has remain unchanged to 90 days as at March 31, 2006 as compared to March 31, 2005.

The need for cumulative provision for doubtful debts as at March 31, 2006 of Rs. 43 million (previous year Rs. 38 million) is assessed, based on various factors including collectibility of specific dues, risk perception etc.

iii. Cash and Bank Balances :

Cash and Bank balances increased to Rs. 56 million as at March 31, 2006 as against Rs. 18 million as at March 31, 2005. They represent the year end cash and bank balances with scheduled banks in current and deposit accounts.

iv. Other Current Assets:

Other current assets increased to Rs. 47 million as at March 31, 2006 against Rs. 42 million as at March 31, 2005. Other current assets include interest accrued on investments and lease rentals receivable etc.

v. Loans and Advances:

Loans and Advances increased to Rs.1,207 million as at March 31, 2006 against Rs.1,102 million as at March 31, 2005. The loans and advances were primarily towards amounts paid in advance for value, material and services to be received in future, various deposits kept towards rent, telephone, electricity, insurance etc.

7. B.7 Current Liabilities and Provisions:

i. Current Liabilities:

Acceptances represent bills of exchange drawn for a period by the suppliers and accepted by the Company. They increased to Rs. 470 million as at March 31, 2006 as against Rs. 420 million as at March 31, 2005. The sundry creditors represent the amount payable to suppliers for supplies of goods and services and also include accrued cost of various operational expenses. The sundry creditors increased to Rs. 2,007 million as at March 31, 2006 from Rs.1,746 million as at March 31, 2005 as a result of increase in volume of operations. The total current liabilities increased to Rs. 2,547 million as at March 31, 2006 against Rs. 2,239 million as at March 31, 2005.

ii. Provisions:

The total provisions increased to Rs. 872 million as at March 31, 2006 as against Rs. 808 million as at March 31, 2005. This includes the provisions on account of Pension and leave entitlement, warranty, engine overhauls for service contracts etc.

8. Human Resources Development and Industrial Relations

During the year the total strength of employees was 2,339.

A critical part of our Business Strategy is to make Cummins “**A GREAT PLACE TO WORK**” where our diverse set of employees trust each other, take pride in their work and are able to perform at their peak, enjoy it in a deep and lasting way and are able to contribute in increasingly greater ways as they build their careers here. We strongly believe that our people are our greatest assets and it is through them and for them that we are committed to making Cummins “A Great Place to Work”.

“A company that is most open and most inclusive in terms of accepting people and also providing an environment where everyone can grow to their fullest potential, is an environment that will be most successful in the market place than any other Environment and we as a Corporation should put all our efforts to make it happen”

Tim Solso, Chairman & CEO – Cummins Inc.

Leadership Development and Capability Building

We continued on our journey of imparting employee training and capability building. All the Strategic and Tactical leaders have undergone the first four modules of the Cummins Leadership Development System (CLDS) Training, a global initiative that improves company’s performance through improved leadership skills. 1,097 managers have been covered under the CLDS program to date.

Mentoring

Mentoring is a developmental, caring, sharing, trusting, program targeted towards promising employees in which one takes advantage of the senior Mentors expertise and experience to develop the employee’s knowledge, skills and get valuable guidance from time to time. Participating in this initiative enables one to:

- Develop and internalize coaching skills by observing and interacting with the mentor
- Obtain greater visibility within the organization
- Learn about potential career opportunities
- Improve self-confidence
- Receive candid feedback, advice and support.

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During 2005, we have launched a pilot batch of 13 pairs. All of the employees are from different entities and they pair up with another person from a different entity. These relationships are a great experience for the participants. This year the company expects to further expand the program.

Employee Communication

- Last year we institutionalized a process of regular two way communication forums with employees across various sections of the company called Focus Groups which have involved the Chairman as well as Head of HR. These groups have contributed immensely in ensuring that our employee initiatives are aligned with our Vision of making Cummins a "Great Place to Work". "Speak Out" sessions have created platform for managers to interact with Entity Heads in a constructive manner. This has helped the Company to improve its employee related business processes.
- An Employee Satisfaction Survey (ESS) was conducted and results were shared with the employees. The management has taken a constructive approach to employee feedback and has taken proactive steps to implement the suggestions. This included implementation of a 5 day work week as well as modernizing some of the benefits which was highly appreciated by the employees.
- Chairman's Awards for 2004 were received very well by the employees. It has certainly given a boost to the Employee recognition process. Employees feel motivated to contribute and deliver in the areas of their expertise. This has a very positive impact on the Company performance.

Compensation & Benefits

In line with our global compensation philosophy, we aligned our compensation structure to bring it at par with the Market while recognizing consistent high performers. This year, we initiated a project to align the majority of our employees with the market level through a market correction exercise with the help of consultants from Mercer. In addition we completed a job evaluation exercise to reduce gaps with the market while aligning salary grades across the Cummins entities in India with global Cummins grades and positions.

CPMS & ODR

- Cummins Performance Management System (CPMS) was introduced in 2000 to connect the employee performance to pre-planned deliverables, stakeholder expectations and the Company's core values.
- People have responded positively to this initiative by electronically documenting their 2005 Work Plans online. These were all reviewed in early 2006 through one-to-one interaction between the employee and supervisor. The feedback has been electronically documented. This process also included an Individual Development Plans (IDP) for the development of employee skills and capabilities.
- An Organizational Development Review (ODR) was also completed during the year. The Senior Management, Business Unit Leaders and Human Resource Leaders evaluated the developmental needs of employees in order to implement the business strategy. Succession plans have been identified to build a strong and sustaining foundation for the Company.

Outdoor Management Development Program

The 2004 Employee Satisfaction Survey had suggested the need for Cross Functional Sensitivity and Team Work as an area of improvement. The Out Door Management Development Program proved to be extremely useful to address this concern.

The Outdoor Development Program (ODP) is based on an experiential learning methodology. The program consists of two major components – outdoor activities and review sessions. Outdoor activities such as trekking, mountaineering, rock climbing and river rafting. The review sessions/process sessions, which are anchored by experienced facilitators to enhance the transfer of the learning drawn from the outdoor experiences. Together, these two components make up a complete experience which gets exchanged within the team members. This process has significantly helped the Company improve interpersonal sensitivity and relationships. During 2005-06, it was effectively deployed across the company. 125 Managers were covered in various cross functional combinations during the year.

Operations Management Program

Operations Management Program is a program for building future leadership within the company. It helps:

- Develop professional capabilities of young engineers
- Prepare engineers with the skills and competencies needed to be successful in the competitive corporate environment
- Continue our pursuit for excellence
- Develop the next generation of leaders

Each year we engage 35 young engineers from all over the country and these engineers undergo two year structured program covered through four modules –

- Manufacturing Management Program
- Technology Management Program
- Supply Chain Management Program
- Information Technology Program

As a company we encourage diversity. During recruitment we ensure a proper mix of OMPs in order to increase diversity. In 2005-06, the company achieved 48% gender diversity.

Industrial Relations (IR)

- A suggestion scheme was introduced exclusively for improvements in safety, health and environment.
- The security agency was successfully changed. This has resulted in improving security while also saving expenses.
- The labor supplier contractor and his employees have been changed.
- Process Improvement - settlement of dues in death or retirement cases wherein the entire settlement time has been reduced to one week.
- Initiatives have been undertaken for improving communication within the production departments which helps ensure smooth Industrial Relations and discipline on the Shop Floor.
- One of our associates, Mr. Mehendale, represented India in the International Power Weight Lifting competition held in Hungary during May 2006. The Company sponsored his expenses.

Diversity

At Cummins we strongly believe that employee diversity in all its aspects leads to the best business results. It is consistent with the “Great Place To Work” strategy and principle of workforce equity. It provides the company competitive advantage by:

- Improving the quality and creativity of the organization.

Cummins India Limited

- Helping us solve today's complex problems in the best possible ways by harnessing diverse perspectives.
- Enabling access to new markets with diverse customer base.

The focus of our Diversity initiative is to recognize the unique aspects of every employee, value the contribution that each can make and create an *inclusive work environment* where these different backgrounds help lead to the most innovative business solutions. Diversity supported by proper training and implementation of CPMS has enhanced the company's business performance.

Responsible Corporate Citizenship and Community Involvement

The company believes that Corporate Social Responsibility (CSR) and profitable growth co-exist. The company strives to be a trusted corporate citizen and believes in working and giving back to the society and community in which it operates. It is one of the core values that is linked to the company's Vision and Mission. Some of the initiatives in 2005-06 were:

- Earthquake victims of Jammu and Kashmir: All the employees, dealers and vendors of Cummins entities came together to provide support to the victims. They generously donated in cash and kind.
- Industry Development: Support given to Belgaum Foundry Cluster for developing Centre of Excellence for Small & Medium Entrepreneurs (SMEs) for upgrading technology and basic infrastructure.
- Social Causes: The company supported the Navam Maharashtra Community Foundation "Grooming Sparks" program for capacity building of NGOs, individuals, Social Change Agents, Social Entrepreneurs
- Financial Assistance to Needy Individuals:
 - Supported the "Door Step School". The school imparts non-formal education to slum children by taking it to their doorstep.
 - Paid the expenses for operating Sheetal Bamdale, a student at a School for the Blind at Kothrud.
- Education: Supported the Indian Institute of Technology (IIT), Powai to establish the Cummins Engine Research Facility (CERF) for developing excellence in Research.

9. Cautionary Statement

The Management Discussion and Analysis Report contains forward looking statements based upon the data available with the Company, assumptions with regard to global economic conditions, the government policies etc. The Company cannot guarantee the accuracy of assumptions and perceived performance of the Company in future. Therefore, it is cautioned that the actual results may materially differ from those expressed or implied in the report.

**CORPORATE GOVERNANCE REPORT:
(Annexure to Directors' Report)**

1. COMPANY'S PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

Corporate Governance is a set of principles, processes and systems to be followed by the directors, management and all employees of the Company for enhancement of shareholders value, keeping in view interests of other stake holders. The integrity, transparency and compliance with laws in all dealings with government, customers, suppliers, employees and other stakeholders are the objectives of good corporate governance.

2. BOARD OF DIRECTORS :

Chairman :

Mr. Anant J. Talaulicar is Chairman of the Board of Directors of the Company effective April 20, 2004.

Composition of the Board of Directors :

As required by the Clause 49 of the Listing Agreement regarding Corporate Governance, the Board as on March 31, 2006, consisted of optimum combination of Promoter and Independent Directors. As on March 31, 2006, the Board consisted of total 10 Directors, out of which 5 (50% of the total Board strength) were Promoter Directors and 5 (50 % of the total Board strength) were Independent Directors.

Changes during the year in composition of the Board of Directors :

Mr. Glyn Price was co-opted as an Additional Director of the Company w.e.f. June 2, 2005 and the shareholders have approved his appointment as a Director at their 44th Annual General Meeting held on July 28, 2005. Mr. Glyn Price is a Promoter Director.

Board Meetings :

During the financial year, meetings of the Board of Directors were held on April 25, 2005, June 2, 2005, July 28, 2005, September 14, 2005, October 21, 2005 and January 31, 2006.

Cummins India Limited

Composition and Category of Directors :

Name	Category	No. of other Directorships		No. of other Committee Memberships		No. of Board meetings attended during the year	Attendance at the last AGM held on July 28, 2005
		Chairman	Member	Chairman	Member		
Mr.Anant J.Talaulicar	Promoter Executive	1	7	—	—	6/6	Present
Mr.S.M.Chapman	Promoter Non-Executive	—	3	—	—	2/6	Absent
Mr.M.A.Levett	Promoter Non-Executive	—	—	—	—	2/6	Present
Dr. John Wall	Promoter Non-Executive	1	—	—	—	0/6	Absent
Mr. Glyn Price (w.e.f. June 2, 2005)	Promoter Non-Executive	—	1	—	—	4/6	Present
Mr.Rajeev Bakshi	Independent Non-executive	—	2	—	2	3/6	Absent
Mr.P.S.Dasgupta	Independent Non-executive	—	7	—	6	4/6	Present
Mr.Nasser Munjee	Independent Non-executive	1	13	1	7	4/6	Absent
Mr. B.H. Reporter	Independent Non-executive	1	1	—	—	5/6	Absent
Mr. Venu Srinivasan	Independent Non-executive	3	9	2	2	3/6	Present
Mr. J.M.Barrowman	Alternate Director to Mr.M.A.Levett	—	—	—	—	1/6	Present
Mr. S.D.Hires	Alternate Director to Dr. John Wall	—	—	—	—	0/6	Absent

Note 1 : As on March 31, 2006, Mr. B.H.Reporter jointly with Mrs. A.B.Reporter hold 75,000 fully paid shares of Rs. 2/- each in the Equity share capital of the Company.

Note 2 : Directorships in Foreign Companies and Private Limited Companies are excluded in the above table.

3. COMMITTEES OF THE BOARD :

(A) FINANCE AND AUDIT COMMITTEE :

The Finance and Audit Committee consists of 4 Independent Directors and 1 Executive Director. During the year, meetings of the Finance and Audit Committee were held on April 25, 2005, June 2, 2005, July 28, 2005, September 14, 2005, October 21, 2005 and January 31, 2006. The Committee, during the year, reviewed the balance sheet, audited financial results for the year ended March 31, 2005 and quarterly results for the quarters ended June 30, 2005, September 30, 2005 and December 31, 2005. The Committee also reviewed (i) the Cost Audit Report for the year 2004-2005 (ii) acquisition/ sale of assets (iii) Related Party transactions (iv) Foreign Exchange Policy (v) Investment Policy (vi) recommendation of dividend to the shareholders (vii) De-merger of service business of Cummins Auto Services Limited into Cummins Diesel Sales and Service (India) Limited [both subsidiaries of the Company] (viii) investments of material subsidiary companies and (ix) the reports of the Internal Auditor. The Committee regularly had interaction with the Statutory Auditors and the Cost Auditor of the Company. The composition, names of Members and the Broad Terms of Reference to the Finance and Audit Committee are as follows:-

Composition, names of Members and attendance during the year April 1, 2005 to March 31, 2006.

Sr. No.	Name of Director	No. of Meetings attended
1	Mr. Nasser Munjee (Chairman)	4/6
2	Mr. Rajeev Bakshi (Member)	3/6
3	Mr. P.S.Dasgupta (Member)	4/6
4	Mr. B.H.Reporter (Member)	5/6
5	Mr. Anant J. Talaulicar (Member)	6/6
6	Mr. Venu Srinivasan* (Member)	1/6
7	Mr. Glyn Price (Member) (w.e.f. January 31, 2006)	1/6

* Mr. Venu Srinivasan was appointed as a Member of the Committee w.e.f. July 28, 2005 and he stepped down as Member of the Committee w.e.f. January 31, 2006.

Terms of Reference to Finance and Audit Committee in brief:

The Finance and Audit Committee of the Company is primarily responsible to oversee the Company's financial reporting process and ensure that the financial statements are correct, sufficient and credible. The Committee reviews the annual and quarterly financial statements before submission to the Board for approval. The Committee also reviews Related Party Transactions of the Company, Investments by the Company and its subsidiaries and functioning of the Whistle Blower Policy.

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The Committee has been entrusted with review of Internal Audit findings and to ensure adequacy of internal control systems. The Committee recommends to the Board appointment of Statutory Auditors and payment of audit fees. The Committee holds regular discussions with the Internal, Statutory and Cost Auditors about scope of their audit and holds post audit discussions with the Auditors. The Internal, Statutory Auditors and Head of Finance are regularly invited for the meetings of the Committee.

(B) COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE :

Mr. Venu Srinivasan is Chairman of the Committee and M/s. Rajeev Bakshi, S.M.Chapman, B.H.Reporter and Anant J. Talaulicar are the Members of the Committee. No meetings of the Committee were held during the year.

Remuneration Policy :

The Company follows a market linked remuneration policy, which is aimed at attracting and retaining the best talent. Compensation is also linked to individual and team performance as they support the achievement of corporate goals. The Company does not at present, have an Employee Stock Option Plan.

Broad Terms of Reference to Compensation and Management Development Committee:

- To recommend and review remuneration package of Executive/Non-executive Directors.
- To present report to the Board on remuneration package of Directors and others.
- To review the compensation package of Officers immediately below the Board level.

Remuneration of Directors :

The Non-executive Independent Directors are paid sitting fees and Commission. Commission is paid on equal basis to all Non-executive Independent Directors. The Chairman and Managing Director is paid remuneration as approved by the shareholders.

Details of Remuneration of Directors for the year April 1, 2005 to March 31, 2006:

(Rs.)

Name of the Director	Sitting fees	Salary	Commis- sion	House rent	Gas/ Elect. water	Medical	Other Benefits	Total
Rajeev Bakshi	30,000	—	275,000	—	—	—	—	305,000
P.S.Dasgupta	50,000	—	275,000	—	—	—	—	325,000
Nasser Munjee	40,000	—	275,000	—	—	—	—	315,000
B.H.Reporter	70,000	—	275,000	—	—	—	—	345,000
Venu Srinivasan	20,000	—	275,000	—	—	—	—	295,000
Anant J. Talaulicar	—	12,012	—	3,622,558	133,191	—	26,400	3,794,161
Total	210,000	12,012	1,375,000	3,622,558	133,191	—	26,400	5,379,161

Notes:

1. The Company does not have a Stock Option Scheme and no severance fees are payable to any Director.
2. There is no notice period for severance of any of the Executive Directors.
3. The Central Government has approved payment of commission to non Whole-time Directors vide its approval dated April 25, 2003.
4. During the year under review, the Company has paid Rs. 483,115/- as professional fees to New Delhi Law Offices, a firm in which Mr. P.S.Dasgupta, Director is a partner.

(C) SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE :

During the year, meetings of the Shareholders/Investors Grievance Committee were held on June 2, 2005, October 21, 2005 and January 31, 2006. The composition, names of Directors and the broad terms of reference to the Shareholders/Investors Grievance Committee are as follows: -

Composition, names of Members and attendance during the year April 1, 2005 to March 31, 2006.

Sr. No.	Name of Director	No. of Meetings attended
1.	Mr.B.H.Reporter (Chairman)	3/3
2.	Mr.P.S.Dasgupta (Member)	2/3
3.	Mr. Anant J. Talaulicar (Member) (Appointed w.e.f. January 31, 2006)	1/3

Broad terms of Reference to Shareholders / Investors Grievance Committee :

To review and advise the Company on any grievance in relation to (a) Non-transfer of shares (b) Non-receipt of Annual Report (c) Non-receipt of dividend / interest warrants and (d) Any other investors grievance raised by any stakeholder.

Compliance Officer :

Mr. Dinesh Castellino
Vice President Legal & Company Secretary

Cummins India Limited

Number of shareholder complaints received during the period April 1, 2005 to March 31, 2006 :

Sr. No.	Nature of complaint	No. of complaints	Status of complaints
1.	Non-receipt of Annual Reports	12	Resolved
2.	Non- receipt of Dividend Warrants	21	Resolved
3.	Non-receipt of Share Certificates	2	Resolved
	Total	35	

Number of complaints pending with the Company : Nil

Number of pending share transfers : Nil

Insider Trading Code: The Company has a separate Insider Trading Code in line with SEBI (Prohibition of Insider Trading) Regulations, 1992. The said code is applicable to all Directors and specified employees of the Company. The Code governs sale and purchase of shares of the Company by Directors and specified employees. In terms of this code, Directors and specified employees of the Company can deal in shares of the Company only during "Trading Window Open Period" and not otherwise except with the prior approval of the Compliance Officer appointed under the Code i.e. Head of Finance.

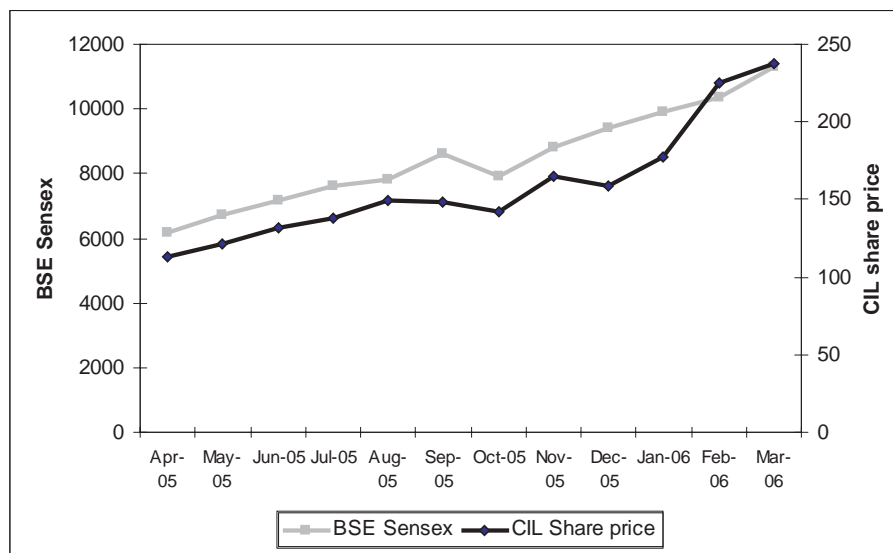
4. GENERAL SHAREHOLDER INFORMATION :

Registered Office	Kothrud, Pune 411 038. Phone No. : (020) 25385435, 25380240 Fax No. : (020) 25380125 Website : www.cumminsindia.com
Annual General Meeting	Date and Time : July 27, 2006 at 12:00 noon Venue : Hotel Le Meridien Majestic Hall – I, 1 st Floor, Raja Bahadur Mill Road, Pune 411 001
Financial Year	The Financial Year of the Company is 1 st April to 31 st March.
Financial calendar (Tentative)	<ul style="list-style-type: none"> • Results for quarter ending June 30, 2006 -Last week of July 2006. • Results for quarter and half year ending September 30, 2006 - Last week of October 2006. • Results for quarter and nine months ending December 31, 2006 - Last week of January 2007. • Results for the year ending March 31, 2007 – by June 15, 2007.
Date of book closure	July 19, 2006 to July 21, 2006 (both days inclusive)
Interim Dividend Payment date	March 13, 2006

Final Dividend payment date	August 10, 2006 (Subject to approval of shareholders)		
Listing on Stock Exchanges	Name of Exchange	Stock Code	
	1. Bombay Stock Exchange Limited 25 th Floor, P J Towers, Dalal Street, Mumbai : 400001	500480	
	2. National Stock Exchange of India Limited. Exchange Plaza, Bandra –Kurla Complex, Bandra (E), Mumbai : 400051	CUMMINSIND	
Payment of Listing Fees:	The Company has paid in advance the Listing Fees to both the Stock Exchanges above for the Financial Year 2006-2007.		
Market price data : high, low, during each month in last financial year	Month	High (Rs.)	Low (Rs.)
	April 2005	117.90	105.35
	May 2005	128.35	110.50
	June 2005	150.45	122.10
	July 2005	162.00	131.60
	August 2005	157.50	137.00
	September 2005	163.00	137.10
	October 2005	154.95	123.50
	November 2005	173.20	138.05
	December 2005	173.80	154.60
	January 2006	182.50	156.90
	February 2006	234.80	180.00
	March 2006	269.00	223.80
Performance in comparison to broad-based indices such as BSE Sensex.	Chart A depicts the comparable movements of Cummins India Limited's Equity shares against the BSE Sensex, during the year ended March 31, 2006.		

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Chart A: Cummins India Limited versus BSE Sensex 2005-06.



<p>Registrar and Transfer agent</p>	<p>The Company has appointed Intime Spectrum Registry Limited, Mumbai as its Registrar and Transfer Agent. Share transfers, dematerialisation of shares, dividend payment and all other investor related activities are being attended to and processed at the office of Registrar and Transfer Agent at the following address:-</p> <p>Intime Spectrum Registry Limited Unit : Cummins India Limited C-13, Pannalal Silk Mills Compound, L. B. S. Marg, Bhandup (West), Mumbai : 400 078 Phone Nos. (022) 2596 3838, Fax No. (022) 2594 6969 E-mail: mahadevan@intimespectrum.com Contact Person : Mr. N. Mahadevan Iyer Timings : 1000 Hrs. to 1600 Hrs. (Monday to Friday excluding Public Holidays)</p>
<p>Share Transfer System</p>	<p>Share Transfer requests in physical form are processed within 30 days from the date of receipt. The requests for dematerialisation of shares are confirmed within 21 days from the date of receipt.</p>

Distribution of shareholding as on March 31, 2006. 	Category	No. of shares of Rs. 2 each	% of shareholding
	Promoters	100,980,488	51.00
	Mutual Funds	19,232,844	9.71
	Banks/Financial Institutions/Insurance Companies	9,799,701	4.95
	Foreign Institutional Investors (FIIs)	37,435,040	18.91
	Corporate Bodies	5,500,555	2.78
	Indian Public	24,670,489	12.46
	NRIs	380,883	0.19
	TOTAL	198,000,000	100.00

Distribution of shareholding within various categories (as on March 31, 2006).

Category (shares)	No. of shareholders	No. of shares	% of shares to total shares
1- 500	23,148	3,204,071	1.62
501-1,000	2,336	1,892,134	0.96
1,001- 5,000	3,016	7,275,587	3.67
5,001-10,000	874	6,009,209	3.04
10,001- 50,000	361	7,010,861	3.54
50,001- 100,000	37	2,741,365	1.38
100,001 and above	84	169,866,773	85.79
Total	29,856	198,000,000	100.00

Cummins India Limited

Dematerialisation of shares and liquidity (as on March 31, 2006)	46.18 % shares are in demat form.
Outstanding GDRs / ADRs / Warrants or any Convertible instruments, conversion date and likely impact on equity.	The company has not issued any GDRs / ADRs / Warrants or any Convertible instruments.
Plant locations	1. Kothrud, Pune 411 038. 2. Plot No. 19/25A, Silver Industrial Estate, Bhipore, Daman 396210
Address for correspondence	Registered Office : Kothrud, Pune 411 038 Registrar and Transfer Agent : Intime Spectrum Registry Limited Unit : Cummins India Limited C-13, Pannalal Silk Mills Compound, L. B. S. Marg, Bhandup (West), Mumbai : 400 078

Unclaimed Dividend :

In terms of provisions of Section 205A(5) read with Section 205 C of the Companies Act, 1956, the Company is required to transfer the unclaimed dividend amount remaining un-claimed for a period of 7 years from the date of transfer to unpaid dividend account to "Investor Education and Protection Fund" (IEPF) established by the Central Government. It may please be noted that the amount transferred to the said fund cannot be claimed by any Member. Therefore, Members are requested to claim the unclaimed dividend amount for the past dividends. The details of dividends liable to be transferred to IEPF during the years 2006 & 2007 and the last date for claiming the dividend are given below for ready reference of Members:

Financial Year	Dividend per share	Last date for claiming dividend
1998-1999	Rs. 4/- per share of Rs. 10/- each	September 8, 2006
1999-2000	Interim dividend Rs. 3.5/- per share of Rs. 10/- each	May 7, 2007
1999-2000	Final dividend Rs. 1.5/- per share of Rs. 10/- each	September 10, 2007

Note : On December 4, 2000, the Company sub-divided each of its equity share of the face value of Rs.10/- each into five equity shares of the face value of Rs. 2/- each.

5. ANNUAL GENERAL MEETINGS (AGMs) :

Particulars	FY 2002-2003	FY 2003-2004	FY 2004-2005
Date and Time	29.7.2003 at 11.00 a.m.	29.7.2004 at 11.00 a.m.	28.07.2005 at 12.00 noon
Venue	Administrative Building of Cummins Diesel Sales and Service (India) Ltd. 35A/1/2, Erandawana Pune 411 038	Administrative Building of Cummins Diesel Sales and Service (India) Ltd. 35A/1/2, Erandawana Pune 411 038	Administrative Building of Cummins Diesel Sales and Service (India) Ltd. 35A/1/2, Erandawana Pune 411 038

• **Special resolutions passed in the last 3 AGMs :**

• **AGM dated 29.7.2003 :-**

Delisting of equity shares of the Company from Pune Stock Exchange Limited.

• **Postal Ballot :**

No resolution was passed through Postal Ballot during the financial year 2005-2006.

Proposed resolution by Postal Ballot: No resolution is proposed to be passed by Postal Ballot.

6. DISCLOSURES :

- i) Disclosure on materially significant related party transactions, i.e. transactions of the Company of material nature with its Promoters, Directors or the Management, or their subsidiaries or relatives etc. that may have potential conflict with the interest of the Company at large :

The Company does not have materially significant related party transactions, which may have potential conflict with the interest of the Company at large.

- ii) Details of non compliance, penalties, strictures by SEBI/ Statutory Authorities / Stock Exchanges on matters relating to capital markets during the last 3 years :

The Company has complied with the requirements of regulatory authorities on capital markets and no penalties / strictures have been imposed against it in the last 3 years.

- iii) The Company has released Whistle Blower Policy during the financial year 2003-2004. No person has been denied access to the Finance and Audit Committee under the Whistle Blower Policy.

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7. MEANS OF COMMUNICATION:

- The quarterly / half-yearly unaudited financial results / audited financial results were published in Economic Times and in regional newspaper viz. Maharashtra Times.
- The quarterly / half yearly unaudited financial results / audited financial results and official news releases were displayed on the Company's website www.cumminsindia.com.
- The quarterly shareholding pattern and quarterly / half-yearly unaudited financial results / audited financial results were posted on SEBI website www.sebidifar.nic.in as well as on the Company's website www.cumminsindia.com.
- Transcript of Conference calls with the Analysts made on June 3, 2005, August 4, 2005, September 30, 2005 and January 31, 2006 were displayed on the Company's website www.cumminsindia.com.

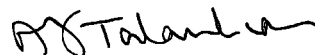
8. COMPLIANCE CERTIFICATE OF THE AUDITORS:

The Company has obtained a Certificate from the Statutory Auditors regarding Compliance of Conditions of Corporate Governance as stipulated in Clause 49 and the same is annexed.

Declaration – Code of Conduct

As per Clause 49 of the Listing Agreement with the Stock Exchanges, all Board Members and Senior Management personnel have affirmed compliance with the applicable Code of Conduct for the financial year 2005-2006.

For Cummins India Limited



Anant J. Talaulicar
Chairman & Managing Director

June 8, 2006

Auditors' Certificate regarding compliance of conditions of Corporate Governance

To the Members of Cummins India Limited

We have examined the compliance of conditions of Corporate Governance by Cummins India Limited, for the year ended March 31, 2006, as stipulated in Clause 49 of the Listing Agreements of the said Company with stock exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the Company's management. Our examination was carried out in accordance with the Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement), issued by the Institute of Chartered Accountants of India and was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

Place: Pune
Date : June 8, 2006

Vasant Gujarathi
Partner
Membership Number 17866
For and on behalf of
Price Waterhouse
Chartered Accountants

Cummins India Limited

ANNEXURE TO THE DIRECTORS' REPORT

Information as required under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 2006.

Sr. No.	Name of employee	Age Yrs.	Qualifications	Exp. Yrs.	Designation / Nature of duties	Date of Joining	Remuneration Gross Rs.	Received Net Rs.	Particulars of last employment held, Organisation, Designation and experience Years
1 *	Galante S. D.	58	SSC, Mechanical D'man Course	34	Senior Inspector - Heat Treatment	21/03/1972	211,004	209,558	Joined as a Trainee in Cummins.
2 *	Raskar G. D.	55	Bcom, LLB, Cert Course in Lib. Sc.	29	Manager - Librarian	22/12/1977	192,608	189,965	Army Base, Lower Divisional Clerk, 5 years, 11 months
3 *	Yelne V. M.	45	BE Mechanical	24	General Manger - Marketing Industrial	13/08/1982	633,267	578,441	Joined as a Trainee in Cummins
4 *	Godbole S. S.	49	BE Mechanical	26	General Manager - IST & GIEA	08/01/1980	1,503,367	1,065,959	Joined as a Trainee in Cummins
5 *	Godse M. M.	46	M.COM.,M.A., LL.B.,A.C.S.	21	V.P. Legal & Co. Secretary	19/11/1984	2,997,217	1,987,566	Green Farm Engg Pvt. Ltd., Company Secretary, 7 months
6 *	Choudhuri Sandip	48	BSC Engg (Mechanical)	21	General Manager - Shop Operations	07/08/1996	816,780	678,468	Essar Steel, DGM - Central Repair Shop, 4 years
7 *	Phadke S. S.	53	BE Mech, BA (Eco)	29	Sr. Vice President - Industrial Business	01/05/1993	3,081,413	2,071,232	Cummins Diesel Sales and Service (India) Ltd., Zonal Manager, 1 Year, 3 months
8 *	Angadi B. S.	30	BE Mechanical, MBA- Marketing	6	Senior Manager - Marketing PowerGen	05/06/2000	107,448	99,261	Mahindra & Mahindra, Trainee, 8 months
9 *	Gokhale D. S.	36	BE Electrical , ICWA (Inter)	13	Senior Manager - Electrical Maintenance	08/08/2001	117,898	116,094	Tata Auto Plastics, Member Maintenance, 3 years.
10 *	Amlan Jyoti Roy Chowdhury	45	BA, C.A.	19	Head of Product Costing & Financial Analysis	17/01/2003	448,180	375,572	Reliance Petroleum, GM Commercial, 1 year
11	Singh Harsimran	43	B.A. (Eco), PGD in PM & IR	19	Vice President HR & OE	02/02/2004	3,735,425	2,483,024	General Mills India Pvt Ltd, HR Director, 3 Years.
12	Batra Rajiv	50	C.A.	26	Chief Financial Officer	12/07/2004	6,071,780	3,939,303	Xerox Corp, CFO, 5 years.
13 *	Joshi D. S.	31	B.Com, M.Com, DBF, ICWA	7	Manager - Costing (Accounts)	28/09/2004	42,648	42,497	P&O Nedlloyd IT Services, Executive Finance, 5 months
14	Ramchandran Arun	40	BE Mechanical	16	Vice President - Automotive Business	03/02/2005	3,093,932	1,985,998	Delphi Auto Systems, Country Sales Manager, 10 years.

Notes:

- 1.* Against a name indicates that the employee was in service only for a part of the year.
2. Designation of the employee indicates the nature of his / her duties.
3. All appointments are contractual.
4. The gross remuneration comprises of salary, allowances, incentive and perquisites, the monetary value of which is as per Income - tax Act and Company's contribution to Provident and Superannuation funds, wherever applicable.
5. Net remuneration is arrived at by deducting from the gross remuneration income-tax, contribution to Provident fund and Company's contribution to Superannuation fund wherever applicable.
6. The Company has contributed appropriate amounts to Gratuity and Pension funds, as applicable. These amounts have not been included in "gross remuneration" as no separate figures are available for individual employees.
7. Other terms and conditions are as per rules of the Company.
8. None of these employees is relative of any director of the Company.

On behalf of the Board of Directors


Anant J. Talaulicar
Chairman & Managing Director

Pune : June 8, 2006

AUDITORS' REPORT

TO THE MEMBERS OF CUMMINS INDIA LIMITED

1. We have audited the attached Balance Sheet of Cummins India Limited as at March 31, 2006 and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 (together the 'Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
 - (e) On the basis of written representations received from the directors as on March 31, 2006 and taken on record by the Board of Directors, we report that no director of the Company is disqualified as on March 31, 2006 from being appointed as a director as referred to in Section 274(1)(g) of the Act;

Cummins India Limited

- (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and Schedules 1 to 12 annexed thereto, give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:
- (i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2006;
 - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Place : Pune
Date : June 8, 2006

Vasant Gujarathi
Partner
Membership Number 17866
For and on behalf of
Price Waterhouse
Chartered Accountants

ANNEXURE TO AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' Report of even date to the members of Cummins India Limited on the financial statements for the year ended March 31, 2006]

- 1 (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
(b) The fixed assets of the Company have been physically verified by the management according to a phased program designed to cover all items over a period of three years which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Accordingly, a portion of the fixed assets has been physically verified by the management during the year. As explained to us, no material discrepancies were noticed on such verification. In respect of certain assets lying with third parties, confirmations have generally been received.
(c) According to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the Company during the year.
- 2 (a) The inventory (excluding stocks with third parties) has been physically verified by the management during the year. In respect of inventory lying with third parties, these have been substantially confirmed by them. In our opinion, the frequency of verification is reasonable.
(b) In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
(c) On the basis of our examination of the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
- 3 (a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act.
(b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
- 4 In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company carried out in accordance with the auditing standards generally accepted in India, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
- 5 (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section.
(b) According to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements as evident from the register maintained under Section 301 of the Act do not exceed the value of Rupees Five Lakhs in respect of a party during the year.
- 6 In our opinion the Company has complied with the provisions of Sections 58A, 58AA or any other relevant provisions of the Act and the rules framed there under with regard to the deposits accepted

Cummins India Limited

from the public which have matured and are remaining unpaid as at March 31, 2006. According to the information and explanations given to us, no Order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal on the Company in respect of the aforesaid deposits.

- 7 In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- 8 We have broadly reviewed the books of account maintained by the Company in respect of products where pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section (1) of Section 209 of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
- 9 (a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is generally regular in depositing the undisputed statutory dues including provident fund, employees' state insurance, investor education and protection fund, income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities.
- (b) According to the information and explanations given to us and the records of the Company examined by us, there are no dues of sales-tax, income-tax, customs duty, wealth tax, service tax, excise duty and cess as at March 31, 2006 which have not been deposited on account of a dispute, except as follows :

Name of the statute	Nature of dues	Amount (Rs.'000)	Financial years to which the amount relates	Forum where the dispute is pending
The Central Sales Tax Act, 1956	Disallowances of set off claimed under Rule 41D and 42H	2,130	1999-00	As informed to us, the Company is in the process of filing an appeal against the first appeal order with Maharashtra Sales Tax Tribunal
The Central Excise Act, 1944	Interest and penalty on CENVAT credit availed on inventory shortages	553	2002-03, 2003-04 & 2004-05	Commissioner of Central Excise (Appeals), Pune
The Central Sales Tax Act, 1956	Disallowance of Sales Tax declaration forms for technical defects, disallowances of set off claimed under rule 41D and 42H and interest thereon	31,010	2000-01	Joint Commissioner of Sales Tax (Appeals) I, Pune Division

- 10 The Company has no accumulated losses as at March 31, 2006 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
- 11 According to the records of the Company examined by us and the information and explanations given to us, the Company has not defaulted in repayment of dues to any bank, financial institution or debenture holders as at the Balance Sheet date.
- 12 The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- 13 The provisions of any special statute applicable to chit fund / nidhi / mutual benefit fund / societies are not applicable to the Company.
- 14 In our opinion the Company is not a dealer or trader in shares, securities, debentures and other investments.
- 15 In our opinion and according to the information and explanations given to us, the terms of the guarantees given by the Company for loans taken by others from banks or financial institutions during the year, are not prejudicial to the interests of the Company.
- 16 The Company has not obtained any term loans during the year.
- 17 On the basis of an overall examination of the Balance Sheet of the Company and according to the information and explanations given to us, in our opinion, there are no funds raised on a short-term basis which have been used for long-term investment.
- 18 The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
- 19 The Company has not issued any debentures.
- 20 The Company has not raised any money by public issues during the year.
- 21 During the course of our examination of the books and records of the Company, carried out in accordance with the auditing standards generally accepted in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

Place : Pune
Date : June 8, 2006

Vasant Gujarathi
Partner
Membership Number 17866
For and on behalf of
Price Waterhouse
Chartered Accountants

Cummins India Limited

BALANCE SHEET AS AT 31ST MARCH, 2006

	Schedule Number	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SOURCES OF FUNDS :				
Shareholders' funds :				
Share capital	1	396,000		396,000
Reserves and surplus	2	<u>7,446,806</u>	7,842,806	<u>6,592,887</u>
				<u>6,988,887</u>
Loan funds :				
Secured loans	3	85,919		310,820
Unsecured loans	4	<u>1,576</u>		<u>1,920</u>
			87,495	<u>312,740</u>
Deferred Taxation :				
Deferred tax Liability	5	200,255		229,382
Deferred tax Asset		<u>(182,757)</u>		<u>(164,976)</u>
			17,498	64,406
Finance Lease Liability			949	25,960
			<u>7,948,748</u>	<u>7,391,993</u>
APPLICATION OF FUNDS :				
Fixed assets :				
Gross block	6	5,018,014		4,857,882
Less : depreciation		<u>3,397,208</u>		<u>3,081,730</u>
Net block			1,620,806	<u>1,776,152</u>
Investments	7		2,488,936	2,162,046
Current assets, loans and advances :				
Inventories	8	2,334,076		2,394,061
Sundry debtors		3,613,972		2,945,524
Cash and bank balances		56,332		17,768
Other current assets		46,600		42,381
Loans and advances		<u>1,206,901</u>		<u>1,102,097</u>
		<u>7,257,881</u>		<u>6,501,831</u>
Less : Current liabilities and provisions :				
Current liabilities	9	2,547,364		2,239,444
Provisions		<u>871,511</u>		<u>808,592</u>
		<u>3,418,875</u>		<u>3,048,036</u>
Net current assets			<u>3,839,006</u>	<u>3,453,795</u>
			<u>7,948,748</u>	<u>7,391,993</u>

Notes :

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Note: Schedules 1 to 9 and 12 are an integral part of the balance sheet

In terms of our report of even date

For and on behalf of the Board

Vasant Gujarathi
Partner
Membership Number : 17866
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

Anant J. Talaulicar
Chairman &
Managing Director

Nasser Munjee
Director

Dinesh Castellino
Vice President Legal &
Company Secretary

Pune
Date: June 8, 2006

Pune
Date: June 8, 2006

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

	Schedule Number	Rupees '000	Rupees '000	Previous Year Rupees '000
INCOME :	10			
Sales			14,627,715	11,918,128
Other Income			772,028	796,595
			<u>15,399,743</u>	<u>12,714,723</u>
EXPENDITURE :				
Cost of sales and other expenses	11	12,595,755		10,470,515
Lumpsum compensation under voluntary retirement / separation schemes		—		21,182
Depreciation		336,361		357,297
INTEREST :				
on fixed loans		1,377		5,009
others		<u>7,654</u>		<u>7,331</u>
			<u>9,031</u>	<u>12,340</u>
			12,941,147	10,861,334
PROFIT BEFORE TAX			<u>2,458,596</u>	<u>1,853,389</u>
PROVISION FOR TAX:				
Current Tax (including net excess provision for earlier years Rs. ('000) 32,109 (previous year Rs. ('000) 60,748)		718,452		512,755
Deferred Tax		(46,907)		(31,628)
Fringe Benefit Tax		<u>30,054</u>		<u>—</u>
			701,599	481,127
NET PROFIT FOR THE YEAR			<u>1,756,997</u>	<u>1,372,262</u>
Balance carried forward from last balance sheet			800,000	800,000
APPROPRIATIONS :				
I Proposed final dividend			396,000	396,000
II Interim dividend			396,000	396,000
III Tax on dividend			111,078	108,306
IV Transferred to general reserve			440,000	471,956
Balance carried to balance sheet			<u>1,213,919</u>	<u>800,000</u>
Basic and Diluted Earnings per share (in Rupees) (Nominal value per share Rs. 2)			8.87	6.93

Notes :

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Note: Schedules 10 to 12 are an integral part of the profit and loss account

In terms of our report of even date

For and on behalf of the Board

Vasant Gujarathi
Partner
Membership Number : 17866
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

Anant J. Talaulicar
Chairman &
Managing Director

Nasser Munjee
Director

Dinesh Castellino
Vice President Legal &
Company Secretary

Pune
Date: June 8, 2006

Pune
Date: June 8, 2006

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 1		
SHARE CAPITAL :		
Authorised : 200,000,000 equity shares of Rs. 2 each (<i>previous year 200,000,000 equity shares of Rs. 2 each</i>)	<u>400,000</u>	<u>400,000</u>
Issued and subscribed : 198,000,000 equity shares of Rs. 2 each (<i>previous year 198,000,000 equity shares of Rs. 2 each</i>)	<u>396,000</u>	<u>396,000</u>

Of the above equity shares;

- i) 190,500,000 shares of Rs. 2 each (*previous year 190,500,000 shares of Rs.2 each*) are allotted as fully paid bonus shares by capitalisation of reserves.
- ii) 100,980,000 shares of Rs. 2 each (*previous year 100,980,000 shares of Rs.2 each*) are held by the holding company, Cummins Inc.,USA.

	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 2			
RESERVES AND SURPLUS :			
Capital redemption reserve account		7,000	7,000
General reserve:			
Balance as per last account	5,785,887		5,313,931
Add : transferred from profit and loss account	<u>440,000</u>		<u>471,956</u>
		6,225,887	5,785,887
Profit and loss account		<u>1,213,919</u>	<u>800,000</u>
		<u>7,446,806</u>	<u>6,592,887</u>

SCHEDULES FORMING PART OF THE BALANCE SHEET

	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 3		
SECURED LOANS :		
From banks -		
Secured by hypothecation of inventories, all receivables, investments (excluding investments in units of Unit Trust of India), rights, assets, etc. of the Company and second charge on immovable properties situated at Kothrud, Pune.	85,919	310,820
	<u>85,919</u>	<u>310,820</u>
 SCHEDULE NO. 4		
UNSECURED LOANS :		
Fixed Deposits (including interest accrued and due Rs. ('000) 400; <i>previous year Rs. ('000) 462</i>)	1,576	1,920
	<u>1,576</u>	<u>1,920</u>

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 5			
DEFERRED TAXATION :			
Deferred Tax Liability :			
Fixed Assets - Excess of Net block over written down value as per the provisions of the Income Tax Act, 1961		200,255	229,382
Deferred Tax Asset :			
Provision for doubtful debts	(13,522)		(15,718)
Provision others	(98,941)		(88,821)
Voluntary retirement scheme	(14,204)		(24,085)
Provision for employee benefits	(25,987)		(13,308)
Disallowances under Section 43B	(30,103)		(22,976)
Preliminary expenses	—		(68)
		<u>(182,757)</u>	<u>(164,976)</u>
		<u>17,498</u>	<u>64,406</u>

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE NO. 6

FIXED ASSETS :

							Rupees '000
Particulars	Gross block (at cost) as at 31st March, 2005	Additions	Deductions	Gross block (at cost) as at 31st March, 2006	Depreciation as per Schedule 6A	Net block as at 31st March, 2006	
Tangible Assets:							
Land - Freehold	10,226	—	—	10,226	—	10,226	
Roads	6,019	5,718	—	11,737	4,245	7,492	
Buildings	218,014 *	805	—	218,819 *	93,438	125,381	
Plant and machinery	4,221,518 #	123,251	15,618	4,329,151 #	3,158,607	1,170,544	
Furniture and fittings	64,249	7,485	8,893	62,841	22,595	40,246	
Vehicles	45,242	1,393	7,946	38,689	13,704	24,985	
Intangible Assets:							
Technical Knowhow	42,000	—	—	42,000	18,889	23,111	
Global Sourcing Consideration	214,326	—	—	214,326	85,730	128,596	
	<u>4,821,594</u> <u>(4,679,529)</u>	<u>138,652</u> <u>(441,911)</u>	<u>32,457</u> <u>(299,846)</u>	<u>4,927,789</u> <u>(4,821,594)</u>	<u>3,397,208</u> <u>(3,081,730)</u>	<u>1,530,581</u> <u>(1,739,864)</u>	

Buildings, plant and machinery
etc., under erection including
advances for capital expenditure

90,225	—	90,225
<u>(36,288)</u>	<u>—</u>	<u>(36,288)</u>
5,018,014	3,397,208	1,620,806
<u>(4,857,882)</u>	<u>(3,081,730)</u>	<u>(1,776,152)</u>

NOTES:

* Includes hangar costing Rs. ('000) 120 (*previous year Rs. ('000) 120*) owned jointly with other companies.

Includes

- (i) cast iron patterns and core boxes costing Rs. ('000) 40,460 (*previous year Rs. ('000) 40,460*) owned jointly with other companies.
- (ii) power generating equipment costing Rs. ('000) 174,729 (*previous year Rs. ('000) 170,523*) (net block Rs. ('000) 112,860 (*previous year Rs. ('000) 125,802*)) given under operating lease arrangements and office equipment costing Rs. ('000) 71,433 (*previous year Rs. ('000) 71,433*) (net block Rs. ('000) 9,464 *previous year Rs. ('000) 33,186*), acquired under finance leases.

Figures in brackets are in respect of the previous year.

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE NO. 6 A

DEPRECIATION

Particulars	Rupees '000			
	Depreciation upto 31st March, 2005	Depreciation for the year	Depreciation on deductions	Total depreciation upto 31st March, 2006
Tangible Assets:				
Land				
— Freehold	—	—	—	—
Roads	4,122	123	—	4,245
Buildings	86,476	6,962	—	93,438
Plant and machinery ##	2,904,837	267,651	13,881	3,158,607
Furniture and fittings	20,466	6,476	4,347	22,595
Vehicles	12,475	3,884	2,655	13,704
Intangible Assets:				
Technical Knowhow	10,489	8,400	—	18,889
Global Sourcing Consideration	42,865	42,865	—	85,730
	<u>3,081,730</u>	<u>336,361</u>	<u>20,883</u>	<u>3,397,208</u>
	<u>(2,953,998)</u>	<u>(357,297)</u>	<u>(229,565)</u>	<u>(3,081,730)</u>

includes depreciation of Rs. ('000) 17,853 (previous year Rs.('000) 15,747) on power generating equipments given under operating lease arrangements.

Figures in brackets are in respect of the previous year.

SCHEDULES FORMING PART OF THE BALANCE SHEET

			As at 31st March, 2006	As at 31st March, 2005
		Rupees '000	Rupees '000	Rupees '000
SCHEDULE NO. 7				
INVESTMENTS :				
<u>Number</u>	<u>Face value per unit Rupees</u>			
LONG TERM INVESTMENTS AT COST				
INVESTMENT IN SUBSIDIARY COMPANY				
Fully paid equity shares				
600,000	100	Cummins Diesel Sales and Service (India) Limited	19,062	19,062
100	10	Cummins Auto Services Limited	1	1
			19,063	19,063
TRADE INVESTMENTS				
Fully paid ordinary/ equity shares				
1,999,800	10	Nelson Engine Systems India Limited	19,998	19,998
779,997	10	Newage Electrical India Limited	171,989	171,989
114,600	10	Cummins Research & Technology India Limited	1,146	1,146
			193,133	193,133
OTHER THAN TRADE INVESTMENTS				
1,018,266	5	KPIT Cummins Infosystems Limited *	39,685	39,685
1,000	25	The Shamrao Vithal Co-operative Bank Limited	25	25
1,000	10	The Saraswat Co-operative Bank Limited	10	10
120,000	10	Housing Development * Finance Corporation Limited	1,575	1,575
500	10	HDFC Bank Limited *	5	5
			41,300	41,300
		Carried forward	253,496	253,496

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE NO. 7 (Contd.)			Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
Number	Face value per unit Rupees				
		Brought forward		253,496	253,496
		TAX FREE REDEEMABLE/ NON-CUMULATIVE BONDS			
—	—	8.95% Konkan Railway * Corporation Limited	—		20,000
150	100,000	10.5 % Nuclear Power * Corporation Limited	16,775		16,775
—	—	8.70 % Rural Electrification* Corporation Limited	—		20,126
350	100,000	10.4 % Nuclear Power * Corporation Limited	39,078		55,825
100	100,000	10.25% Housing & Urban * Development Corporation Limited	11,435		11,435
—	—	9.15% National Housing Bank*	—		32,490
200	100,000	9.50% National Textile Corporation Limited *	21,100		21,100
—	—	10.00% Housing & Urban * Development Corporation Limited	—		22,000
400	100,000	5.75% National Housing Bank*	41,410		41,410
500	100,000	5.50% Nuclear Power * Corporation Limited	50,000		50,000
50	1,000,000	5.25% Nuclear Power * Corporation Limited	50,000		50,000
1,030,810	100	6.75% Unit Trust of India *	103,081		103,081
500,000	100	6.60% ARS Bonds 2009 U T I *	52,404		26,493
				<u>385,283</u>	<u>470,735</u>
		Carried forward		638,779	724,231

SCHEDULES FORMING PART OF THE BALANCE SHEET

			As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 7 (Contd.)				
<u>Number</u>	<u>Face value per unit Rupees</u>			
		Brought forward	638,779	724,231
		GOVERNMENT OF INDIA BONDS		
		8.35% Government of India 2022 * (Face Value Rs.50,000,000)	63,100	63,100
		7.49% Government of India 2017* (Face Value Rs.50,000,000)	59,875	59,875
		11.99% Government of India 2009* (Face Value Rs.50,000,000)	65,575	65,575
		7.38% Government of India 2015 * (Face Value Rs.50,000,000)	56,575	56,575
		7.49% Government of India 2017* (Face Value Rs. 5,000,000)	5,540	5,540
			<u>250,665</u>	<u>250,665</u>
		CORPORATE BONDS		
—	—	7% Redeemable non Convertible Debentures of Citicorp Finance (I) Ltd *	—	30,000
—	—	Redeemable non Convertible Debentures of Citicorp Finance (I) Ltd *	—	20,000
—	—	7.85% L&T Holding Bond SR-2 2006 *	—	51,815
—	—	14.25% ICICI Bond 2005 *	—	4,210
500	100,000	6.75% IDBI Bond 2008 *	50,462	50,462
12	1,250,000	6.68% Power Grid Corporation of India 2019 *	15,175	15,175
50	1,000,000	6.00% IDBI Bond 2009 *	49,825	49,825
50	1,000,000	5.85% HDFC Bonds 2009 *	49,240	49,240
			<u>164,702</u>	<u>270,727</u>
		Carried forward	1,054,146	1,245,623

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

			As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 7 (Contd.)				
<u>Number</u>	<u>Face value per unit Rupees</u>			
		Brought forward	1,054,146	1,245,623
		UNITS OF MUTUAL FUNDS		
		Debt Fund (Growth Option)		
4,002,708	10	HDFC 13M 1 Institutional Plan Dividend	<u>40,027</u>	<u>—</u>
			40,027	<u>—</u>
		Debt Fund (Dividend Option)		
9,817,835	10	Prudential ICICI Long Term Plan - Dividend	<u>103,225</u>	<u>—</u>
			103,225	<u>—</u>
		Monthly Income Plan (Growth Option)		
—	—	Alliance Monthly Income - G	—	11,909
—	—	Birla MIP - Plan C (Growth)	—	20,015
—	—	DSP Merrill Lynch Savings Plus Fund(Growth)	—	21,993
—	—	FT India Monthly Income Plan - Growth	—	43,844
2,258,593	10	HDFC MF Monthly Income Plan - Short Term Plan (Growth Option)	23,285	23,285
—	—	HSBC MIP - Regular Plan - Growth	—	20,000
1,971,706	10	Reliance Monthly Income Plan - Growth Plan	20,000	20,000
977,699	10	Sundaram Monthly Income Plan - Growth	10,000	10,000
—	—	Tata M I P Plus Fund - Growth	—	20,000
2,711,766	10	HDFC Multiple Yield Fund - Plan 2005 - Growth	30,000	—
2,000,000	10	HDFC Multiple Yield - HDFC Multiple Yield - Growth	<u>20,000</u>	<u>—</u>
			103,285	191,046
		Carried forward	<u>1,300,683</u>	<u>1,436,669</u>

SCHEDULES FORMING PART OF THE BALANCE SHEET

			As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 7 (Contd.)				
<u>Number</u>	<u>Face value per unit Rupees</u>			
		Brought forward	1,300,683	1,436,669
		Equity Fund (Dividend Option)		
—	—	Birla Dividend Yield Plus - Plan A (Dividend)	—	2,500
—	—	Franklin India Bluechip Fund - Dividend	—	10,000
—	—	Franklin India Prima Fund - Dividend	—	2,500
—	—	HDFC Equity Fund - Dividend Plan	—	7,500
—	—	HDFC Top 200 Fund - Dividend Plan	—	7,500
—	—	HSBC Equity Fund - Dividend	—	7,500
67,916	10	Reliance Growth Fund - Dividend Plan (D)	2,500	2,500
488,998	10	Prudential ICICI Infrastructure Fund - Dividend	5,000	—
		Equity Fund (Blended)		
5,430,349	10	Prudential ICICI Blended Plan A - Dividend Option	54,600	—
			62,100	40,000
		Total Long term investments (A)	1,362,783	1,476,669
		CURRENT INVESTMENTS AT LOWER OF COST AND FAIR VALUE OTHER THAN TRADE INVESTMENTS		
		TAX FREE REDEEMABLE/ NON-CUMULATIVE BONDS		
500	100,000	9.50% National Textile * Corporate Tax Free Bond	51,555	—
			51,555	—
		Carried forward	51,555	—

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

			As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 7 (Contd.)				
<u>Number</u>	<u>Face value per unit Rupees</u>			
		Brought forward	51,555	—
UNITS OF MUTUAL FUNDS				
Fixed Maturity Plan				
1,997,933	10	Birla Fixed Maturity Plan - Quarterly Series II - Growth	20,011	—
3,000,000	10	Birla Fixed Term Plan- Quarterly Series 2 - Growth	30,000	—
20,082	1,000	DSP Merrill Lynch Fixed Term Plan - Series 1B - Dividend	20,082	—
20,260	1,000	DSP Merrill Lynch Fixed Term Plan - Series 1C - Dividend	20,260	—
2,013,062	10	DSP Merrill Lynch Fixed Term Plan - Series 2 - Dividend	20,131	—
2,000,000	10	HSBC Fixed Term Series - III - Growth	20,000	—
2,011,804	10	HSBC Fixed Term Series - VII - Dividend	20,118	—
2,001,566	10	HSBC Fixed Term Series - VIII - Dividend	20,016	—
—	—	JM Fixed Maturity Plan - QSA5 - Dividend Plan	—	20,000
2,018,516	10	Kotak FMP - Series - X VI (Dividend)	20,185	—
2,009,458	10	Kotak FMP Series XVIII - (Dividend)	20,095	—
4,001,133	10	Prudential ICICI FMP - Sr 27 Monthly Plan - Dividend Plan	40,011	—
2,000,000	10	Reliance Fixed Maturity Fund - Monthly Plan-11-Series-2 - Monthly Plan-11 (Monthly Dividend Option)	20,000	—
2,500,000	10	Tata Fixed Horizon Fund Series 5 Scheme A - Dividend	25,000	—
			<u>295,909</u>	<u>20,000</u>
		Carried forward	347,464	20,000

SCHEDULES FORMING PART OF THE BALANCE SHEET

		Rupees '000		As at 31st	As at 31st
				March, 2006	March, 2005
SCHEDULE NO. 7 (Contd.)				Rupees '000	Rupees '000
Number	Face value per unit Rupees				
		Brought forward		347,464	20,000
		Liquid Fund			
—	—	Alliance Cash Manager Institutional (G)		—	31,543
9,654	10	HDFC Cash Management Savings Plus - Growth Plan		141	—
				141	31,543
		Liquid Fund (DIVIDEND)			
1,851,304	10	Birla Cash Plus - Institutional - Weekly Dividend		20,021	—
5,073,455	10	Birla Cash Plus - Institutional Premium - Weekly Dividend		50,892	—
6,154,186	10	Deutsche Insta Cash Plus Fund - Institutional Plan (Weekly Dividend)		61,971	—
127,157	1,000	DSP Merrill Lynch Liquidity Fund- Institutional Plan - (Weekly Dividend)		127,268	—
3,074,778	10	HSBC Cash Fund -Institutional Plan (Dividend Option - Weekly)		32,150	—
1,019,691	10	Kotak Cash Plus — (Dividend)		10,197	—
5,605,395	10	Kotak Liquid - Institutional Premium Plan - (Dividend)		56,259	—
1,134,895	10	Principal Cash Management - Liquid Option (Institutional Weekly Dividend Plan)		11,360	—
264,099	10	Prudential ICICI Liquid Plan - Dividend (Institutional Plus - Weekly)		3,131	—
2,764,471	10	Reliance Liquid Fund - Cash Plan (Dividend)		30,198	—
1,120,570	10	Reliance Liquid Fund - Institutional Plan (Weekly Dividend)		17,148	—
		Carried forward		347,605	51,543

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

			As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 7 (Contd.)				
Number	Face value per unit Rupees			
		Brought forward	347,605	51,543
10,820	1,000	Tata Liquid Super High Investment Plan - Weekly	12,334	—
11,077	1,000	UTI- Liquid Fund - Cash Plan (Inst Weekly)	11,284	—
			444,213	—
		Floating Rate Plan (Growth) Fund		
3,258,645	10	Birla Floating Rate Fund - Long Term Plan (Growth)	35,625	61,870
3,775,223	10	Deutsche Floating Rate Fund - (Growth Plan)	40,000	40,000
983,162	10	DSP Merrill Lynch Floating Rate Fund - Growth	10,788	97,092
—	—	GFRF Long Term - Plan B (Growth)	—	34,372
2,001,009	10	HDFC Floating Rate Income Fund-Long Term Plan - (Growth)	21,877	57,794
—	—	HSBC Floating Rate Fund - Long Term Plan - Regular Option (Growth)	—	31,639
1,955,684	10	Kotak Floater Long - Term (Growth)	20,000	20,000
4,412,946	10	Prudential ICICI Long Term Floating Rate Plan A (Growth)	45,217	130,585
2,658,508	10	Templeton Floating Rate Income Fund - Long Term Plan (Growth Option)	31,765	31,765
—	—	GFRF - Growth(Institutional Plan)	—	43,430
—	—	Kotak Floater Short Term - (Growth)	—	20,091
—	—	Principal Floating Rate Fund - FMP - Insti. Growth	—	10,690
		Carried forward	791,818	51,543

SCHEDULES FORMING PART OF THE BALANCE SHEET

			As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 7 (Contd.)				
<u>Number</u>	<u>Face value per unit Rupees</u>			
		Brought forward	791,818	51,543
3,088,320	10	Reliance Floating Rate Fund - Growth (Growth Option)	31,767	31,767
—	—	Templeton Floating Rate Income Fund- Short Term Plan (Growth Option)	—	11,984
—	—	UTI - Floating Rate STP - Growth	—	10,748
			<u>237,039</u>	<u>633,827</u>
		Floating Rate Plan (Dividend) Fund		
991,452	10	Deutsche Floating Rate Fund - Dividend Plan (Monthly Dividend)	10,144	—
17,173	1,000	DSP Merrill Lynch Floating Rate Fund - Institutional Plan Weekly Dividend Reinvest	17,183	—
1,022,814	10	HSBC Floating Rate Fund - Short Term Plan - Institutional Option (Dividend - Monthly)	10,272	—
2,561,177	10	JM Floater Fund - Short Term Plan - Dividend Option	25,794	—
1,018,071	10	Kotak Floater Short Term - (Monthly Dividend)	10,188	—
1,019,268	10	Prudential ICICI Long Term Floating Rate Plan - Plan C (Dividend)	10,198	—
1,022,224	10	Tata Floater Fund Weekly Dividend	10,223	—
		Short Term Plan (Dividend) Fund		
3,020	1,000	Templeton India Short- Term Income Plan - Weekly Dividend	<u>3,294</u>	—
			97,296	—
		Carried forward	<u>1,126,153</u>	<u>685,370</u>

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE NO. 7 (Contd.)		As at 31st		As at 31st
		March, 2006		March, 2005
Number	Face value per unit Rupees	Rupees '000	Rupees '000	Rupees '000
			1,126,153	685,370
—	—	—	—	7
				7
		(B)	1,126,153	685,377
		(A+B)	2,488,936	2,162,046
			893,471	1,033,392
			1,595,465	1,128,654
			2,488,936	2,162,046
			1,101,075	1,377,239

**SCHEDULES FORMING PART OF THE BALANCE SHEET
SCHEDULE NO. 7 (Contd.)**

Notes :

	Nos.	Face Value Rs.	Cost Rs.
I) Sale / Redemption :			
Tax Free Bonds			
8.95% Konkan Railway * Corporation Limited	20,000	20,000,000	20,000,000
8.70 % Rural Electrical* Corporation Limited	4	20,000,000	20,126,000
10.4 % Nuclear Power * Corporation Limited	150	15,000,000	16,747,500
9.15% National Housing Bank*	300	30,000,000	32,489,750
10.00% Housing & Urban * Development Corporation Limited	200	20,000,000	22,000,000
Corporate Bonds			
7% Redeemable non Convertible Debentures of Citicorp Finance (I) Ltd *	300	30,000,000	30,000,000
7% Redeemable non Convertible Debentures of Citicorp Finance (I) Ltd *	200	20,000,000	20,000,000
7.85% L&T Holding Bond SR-2 2006 *	5	50,000,000	51,815,000
14.25% ICICI Bond 2005 *	38	3,800,000	4,210,400
UNITS OF MUTUAL FUNDS			
Equity Fund (Dividend Scheme)			
Birla Dividend Yield Plus - Plan A (Dividend)	201,450	2,014,504	2,500,000
Franklin India Bluechip Fund - Dividend	412,262	4,122,625	10,000,000
Franklin India Prima Fund - Dividend	67,586	675,858	2,500,000
HDFC Equity Fund - Dividend Plan	334,175	3,341,746	7,500,000
HDFC Top 200 Fund - Dividend Plan	328,228	3,282,283	7,500,000
HSBC Equity Fund - Dividend	370,115	3,701,152	7,500,000
Dividend re-investment Plan			
JM Fixed Maturity Plan - QSA5 - Dividend Plan	2,000,000	20,000,000	20,000,000

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE NO. 7 (Contd.)

	Nos.	Face Value Rs.	Cost Rs.
Monthly Income Plan - Growth			
Alliance Monthly Income - Growth	589,146	5,891,461	11,909,411
Birla MIP - Plan C (Growth)	1,287,513	12,875,132	20,014,650
DSP Merrill Lynch Savings Plus Fund- Conservative - Growth	2,199,337	21,993,366	21,993,366
FT India Monthly Income Plan - Growth	2,760,244	27,602,439	43,843,972
HSBC MIP - Regular Plan - Growth	1,981,061	19,810,611	20,000,000
Tata M I P Plus Fund - Growth	2,000,000	20,000,000	20,000,000
Liquid Fund - Growth			
Alliance Cash Manager Institutional (Growth)	2,863,991	28,639,909	31,543,423
Kotak Floater Short Term - (Growth)	1,865,216	18,652,164	20,090,619
Birla Floating Rate Fund - Long Term Plan (Growth)	2,420,264	24,202,644	26,244,863
DSP Merrill Lynch Floating Rate Fund - Growth	7,927,771	79,277,707	86,304,279
GFRR - Growth(Institutional Plan)	3,977,226	39,772,258	43,430,112
GFRR Long Term - Plan B (Growth)	3,327,888	33,278,882	34,372,093
HDFC Floating Rate Income Fund- Long Term Plan - Growth	3,263,174	32,631,745	35,917,725
HSBC Floating Rate Fund - Long Term Plan - Regular Option (Growth)	3,101,434	31,014,345	31,638,973
Principal Floating Rate Fund - FMP - Institutional Growth	1,038,836	10,388,359	10,689,517
Prudential ICICI Long Term Floating Rate Plan - Plan B (Growth)	8,333,377	83,333,773	85,368,377
Templeton Floating Rate Income Fund - Short Term Plan (Growth Option)	1,002,300	10,023,001	11,983,500
UTI - Floating Rate STP - Growth	996,662	9,966,623	10,747,608
Securitization			
Pass Through Certificates			
Tata Finance Limited Part Payout	2	1,749,652	6,919

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE NO. 7 (Contd.)

	Nos.	Face Value Rs.	Cost Rs.
II) Purchased and sold / redeemed during the year :			
Commercial Paper			
Mahindra & Mahindra	1	50,000,000	49,328,300
Income Fund			
Reliance Income Fund - Retail Plan - Growth Plan Bonus Option	1,167,779	11,677,787	15,000,000
Short Term Plan			
Birla Bond Plus - Institutional Dividend	2,329,473	23,294,734	24,366,386
Deutsche Short Maturity Fund - Dividend (Monthly)	5,110,590	51,105,896	52,016,976
DSP Merrill Lynch Short Term Fund - Monthly Dividend	6,460,647	64,606,466	66,321,487
HSBC Income Fund - Short Term Plan - Institutional Plan (Dividend Option)	2,963,430	29,634,300	31,782,122
HSBC Income Fund - Short Term Plan - Regular Plan (Dividend Option)	3,073,767	30,737,666	31,504,838
ING Vysya Select Debt Fund - Quarterly Dividend Option	1,991,531	19,915,307	20,363,976
Kotak Bond Short Term Plan - (Dividend)	1,033,774	10,337,740	10,395,523
Principal Short Term Plan - Institutional Dividend Plan	1,109,205	11,092,051	11,198,906
Prudential ICICI Short Term Plan - Dividend Option	4,860,574	48,605,745	52,257,628
Prudential ICICI Short Term Plan - Institutional Plan - Dividend (Monthly)	4,832,342	48,323,418	53,134,102
Tata Short Term Bond Fund - Regular Income Option	3,418,850	34,188,504	37,305,738
Templeton India Short-Term Income Plan - Institutional Plan - Monthly Dividend	70,307	70,307,001	71,032,339
Templeton India Short-Term Income Plan - Monthly Dividend	69,686	69,685,730	71,286,196
Templeton India Short-Term Income Plan - Weekly Dividend	8,487	8,486,910	9,254,619

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE NO. 7 (Contd.)

	Nos.	Face Value Rs.	Cost Rs.
Floating Rate Plan			
DSP Merrill Lynch Floating Rate Fund - Institutional Plan - Dividend	26,812	26,811,524	26,811,524
DSP Merrill Lynch Floating Rate Fund - Institutional Plan - Weekly Dividend Reinvest	55,209	55,208,690	55,255,933
DSP Merrill Lynch Floating Rate Fund - Regular Plan - Weekly Dividend	996,840	9,968,400	10,000,000
HDFC Floating Rate Income Fund-Short Term Plan - Dividend - Monthly	1,247,722	12,477,222	12,626,167
HSBC Floating Rate Fund - Short Term Plan - Institutional Option (Dividend - Monthly)	998,333	9,983,328	10,025,867
ING Vysya Floating Rate Fund - Quarterly Dividend Option	2,978,780	29,787,801	30,345,126
JM Floater Fund - Short Term Plan - Dividend Option	2,978,791	29,787,910	29,984,506
Tata Floating Short Term Institutional Plan (Dividend)	1,004,916	10,049,161	10,059,412
Templeton Floating Rate Income Fund - Short Term Plan (Dividend Option)	353,602	3,536,022	3,543,936
HSBC Floating Rate Fund - Short Term Plan - Institutional Option (Growth)	1,941,484	19,414,837	20,000,000
Liquid Fund Dividend			
Alliance Cash Manager Institutional - Dividend	5,023,878	50,238,775	50,277,946
Birla Cash Plus - Institutional - Weekly Dividend	4,665,978	46,659,778	50,465,844
Birla Cash Plus - Institutional Premium - Weekly Dividend	14,954,350	149,543,501	149,914,847
Birla Cash Plus-Institutional Premium - Daily Dividend Re-invest	1,997,235	19,972,346	20,011,292
Birla Sun Life Cash Manager - Plan E(Institutional Weekly Dividend)	7,040,570	70,405,697	70,454,931
Deutsche Insta Cash Plus Fund - Institutional Plan (Weekly Dividend)	9,944,833	99,448,327	99,955,223
DSP Merrill Lynch Liquidity Fund - Dividend	6,483,159	64,831,594	80,431,317
DSP Merrill Lynch Liquidity Fund- Institutional Plan - Weekly Dividend	110,753	110,753,325	110,866,155

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE NO. 7 (Contd.)

	Nos.	Face Value Rs.	Cost Rs.
Grindlays Cash Fund - Plan B (D) (Institutional Plan)	1,467,448	14,674,480	15,124,750
HDFC Cash Management Fund - Savings Plan - Daily Dividend Option	3,763,217	37,632,172	40,027,083
HDFC Cash Management Fund - Savings Plan - Weekly Dividend Option	2,836,499	28,364,992	30,149,936
HDFC Cash Management Savings Plus - Dividend Plan	4,815,246	48,152,462	48,237,908
HSBC Cash Fund - Institutional Plan (Dividend Option - Monthly)	957,163	9,571,632	10,040,878
HSBC Cash Fund - Institutional Plan (Dividend Option - Weekly)	4,302,990	43,029,904	44,980,526
HSBC Cash Fund-Institutional-Daily Dividend	1,917,191	19,171,906	20,015,662
ING Vysya Liquid Fund - Institutional Weekly Dividend Option	9,039,151	90,391,505	90,731,692
JM High Liquid Fund - Premium Plan - Daily Dividend	2,001,949	20,019,493	20,019,493
JM High Liquidity Fund - Institutional Plan - Dividend	3,994,075	39,940,751	40,141,352
Kotak Liquid - Institutional Premium Plan - (Dividend)	12,981,413	129,814,134	130,266,506
Principal Cash Management - Liquid Option (Institutional Weekly Dividend Plan)	3,995,325	39,953,255	39,981,334
Prudential ICICI Liquid-Institutional-Daily Dividend	1,688,506	16,885,064	20,011,334
Prudential ICICI Liquid Institutional Plus- Weekly Dividend	1,685,289	16,852,891	19,982,810
Prudential ICICI Liquid Plan - Dividend (Institutional Plus - Weekly)	6,764,672	67,646,722	80,253,598
Reliance Liquid Fund - Institutional Plan (Weekly Dividend)	3,308,596	33,085,962	50,632,423
Reliance Treasury Plan-Institutional Option- Weekly Dividend Option	1,307,070	13,070,699	20,008,496
Tata Liquid Super High Investment Plan - Weekly	123,599	123,598,717	140,530,497
Tata Liquid Super High Investment Plan - Weekly Dividend	17,658	17,658,275	20,096,544
Templeton India Treasury Management Account Institutional Plan-Weekly Dividend Re-invest	71,180	71,179,660	71,255,758
UTI- Liquid Fund - Short Term Plan (Income)	1,100,188	11,001,876	11,217,300

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE NO. 7 (Contd.)

	Nos.	Face Value Rs.	Cost Rs.
Liquid Fund Growth			
Alliance Cash Manager Institutional (Growth)	4,266,556	42,665,565	47,603,602
Birla Cash Plus - Institutional (Growth)	549,623	5,496,227	10,000,000
Deutsche Insta Cash Plus Fund - Institutional Plan (Growth)	9,090,989	90,909,886	95,000,000
DSP Merrill Lynch Liquidity Fund - Growth	614,175	6,141,752	10,000,000
HDFC Cash Management Fund - Savings Plan - Growth Option	2,858,921	28,589,207	40,073,382
HDFC Cash Management Savings Plus - Growth Plan	2,740,467	27,404,666	39,859,094
ING Vysya Liquid Fund - Institutional Growth Option	4,269,758	42,697,576	45,000,000
JM High Liquidity Fund - Institutional Plan - Growth	1,812,776	18,127,763	20,011,600
Kotak Liquid - Institutional Premium Plan - (Growth)	7,430,100	74,300,998	100,000,000
Prudential ICICI Liquid Plan - Growth Option (Institutional Plus - Growth)	6,941,207	69,412,066	115,000,000
Reliance Liquid Fund - Cash Plan (Growth)	2,555,432	25,554,316	30,000,000
Reliance Liquid Fund - Institutional Plan (Growth Option)	2,737,840	27,378,396	45,000,000
Tata Liquid Super High Investment Plan - Appreciation	8,123	8,122,681	10,000,000
Templeton India Treasury Management - Institution - Growth	19,198	19,197,841	20,000,000
Fixed Maturity Plan			
DSP Merrill Lynch Fixed Term Plan - Series 1 A - Dividend	2,025,641	20,256,408	20,256,452
Kotak FMP - Series XII (Dividend)	2,023,227	20,232,275	20,232,400
Reliance Fixed Maturity Fund-Quarterly Plan-2-Series-II - Quarterly Plan-2 (Dividend Plan)	2,000,000	20,000,000	20,000,000
Reliance Fixed Term Scheme - Series-IX - Quarterly Plan (Dividend Option)	5,001,048	50,010,477	50,010,477

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE NO. 7 (Contd.)

	Nos.	Face Value Rs.	Cost Rs.
III) Purchased during the year :			
Tax Free Bonds			
6.60% ARS Bonds 2009 U T I	250,252	25,025,200	25,911,395
9.50% National Textile Corp. Tax Free Bond	500	50,000,000	51,555,000
Equity Fund (Growth Scheme)			
Prudential ICICI Infrastructure Fund - Dividend	488,998	4,889,976	5,000,000
Equity Fund (Blended)			
Prudential ICICI Blended Plan A - Dividend Option	5,430,349	54,303,493	54,600,000
Income Fund			
Prudential ICICI Long Term Plan - Dividend	9,817,835	98,178,349	103,224,514
HDFC 13M 1 Institutional Plan Dividend	1,002,708	10,027,083	10,027,083
HDFC 13M 1 Institutional Plan Growth	3,000,000	30,000,000	30,000,000
Monthly Income Plan			
HDFC Multiple Yield Fund - Plan 2005 - Growth	2,000,000	20,000,000	20,000,000
HDFC Multiple Yield - Growth	2,711,766	27,117,664	30,000,000
Fixed Maturity Plan			
Birla Fixed Maturity Plan - Quarterly Series II - Growth	1,997,933	19,979,325	20,011,292
Birla Fixed Term Plan-Quarterly Series 2 - Growth	3,000,000	30,000,000	30,000,000
DSP Merrill Lynch Fixed Term Plan - Series 1B - Dividend	20,082	20,081,599	20,081,673
DSP Merrill Lynch Fixed Term Plan - Series 1C - Dividend	20,260	20,259,852	20,259,852
DSP Merrill Lynch Fixed Term Plan - Series 2 - Dividend	2,013,062	20,130,616	20,130,676
HSBC Fixed Term Series - III - Growth	2,000,000	20,000,000	20,000,000
HSBC Fixed Term Series - VII - Dividend	2,011,804	20,118,040	20,118,040
HSBC Fixed Term Series - VIII - Dividend	2,001,566	20,015,664	20,015,664
Kotak FMP - Series - X VI (Dividend)	2,018,516	20,185,163	20,185,200
Kotak FMP Series XVIII - (Dividend)	2,009,458	20,094,577	20,094,600

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE NO. 7 (Contd.)

	Nos.	Face Value Rs.	Cost Rs.
Prudential ICICI FMP - Sr 27 Monthly Plan - Dividend Plan	4,001,133	40,011,334	40,011,334
Reliance Fixed Maturity Fund - Monthly Plan-11-Series-2 - Monthly Plan-11 (Monthly Dividend Option)	2,000,000	20,000,000	20,000,000
Tata Fixed Horizon Fund Series 5 Scheme A - Dividend	2,500,000	25,000,000	25,000,000
Floating Rate Plan			
Deutsche Floating Rate Fund - Dividend Plan (Monthly Dividend)	991,452	9,914,521	10,144,453
DSP Merrill Lynch Floating Rate Fund - Institutional Plan - Weekly Dividend Reinvest	17,173	17,173,138	17,183,308
HSBC Floating Rate Fund - Short Term Plan - Institutional Option (Dividend - Monthly)	1,025,397	10,253,975	10,272,367
JM Floater Fund - Short Term Plan - Dividend Option	3,527,176	35,271,758	25,793,600
Kotak Floater Short Term - (Monthly Dividend)	1,018,071	10,180,706	10,188,062
Prudential ICICI Floating Rate Plan - Growth - Option C	938,280	9,382,799	10,000,000
Prudential ICICI Long Term Floating Rate Plan - Plan C (Dividend)	19,817	198,175	198,233
Tata Floater Fund Weekly Dividend	1,022,224	10,222,240	10,222,550
Liquid Fund Growth			
HDFC Cash Management Savings Plus - Growth Plan	685,143	6,851,427	140,906
Liquid Fund Dividend			
Birla Cash Plus - Institutional - Weekly Dividend	1,851,304	18,513,037	20,021,094
Birla Cash Plus - Institutional Premium - Weekly Dividend	6,506,492	65,064,915	50,891,561
Deutsche Insta Cash Plus Fund - Institutional Plan (Weekly Dividend)	7,086,579	70,865,794	61,971,170
DSP Merrill Lynch Liquidity Fund- Institutional Plan - Weekly Dividend	127,144	127,144,201	127,267,521

**SCHEDULES FORMING PART OF THE BALANCE SHEET
SCHEDULE NO. 7 (Contd.)**

	Nos.	Face Value Rs.	Cost Rs.
HSBC Cash Fund - Institutional Plan (Dividend Option - Weekly)	4,494,919	44,949,188	32,149,756
Kotak Cash Plus - (Dividend)	1,019,691	10,196,908	10,197,417
Kotak Liquid - Institutional Premium Plan - (Dividend)	5,605,445	56,054,455	56,258,692
Principal Cash Management - Liquid Option (Institutional Weekly Dividend Plan)	3,118,700	31,186,999	11,360,323
Prudential ICICI Liquid Plan - Institutional Plan - Dividend	264,099	2,640,989	3,131,473
Reliance Liquid Fund - Cash Plan (Dividend)	2,764,471	27,644,709	30,198,391
Reliance Liquid Fund - Institutional Plan (Weekly Dividend)	1,120,570	11,205,697	17,148,394
Tata Liquid Super High Investment Plan - Weekly	10,820	10,819,639	12,333,648
UTI- Liquid Fund - Cash Plan (Institutional Weekly)	11,077	11,077,162	11,284,017
Short Term Plan			
Templeton India Short-Term Income Plan - Weekly Dividend	3,021	3,021,175	3,293,661

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 8			
CURRENT ASSETS, LOANS AND ADVANCES:			
Inventories :			
Stores and Spares		69,953	50,685
Loose tools and gauges		70,350	59,297
Stock-in-trade :			
Raw materials and components	1,133,472		1,189,752
Work-in-progress	622,238		653,018
Finished goods	38,823		61,581
Materials in transit	<u>399,240</u>		<u>379,728</u>
		<u>2,193,773</u>	<u>2,284,079</u>
		2,334,076	2,394,061
Sundry debtors : Secured			
Debts outstanding for a period exceeding six months			
Considered good	1,648		27,215
Other debts			
Considered good	3,263		—
Sundry debtors : Unsecured			
Debts outstanding for a period exceeding six months			
Considered good	54,957		42,063
Considered doubtful	43,227		37,003
Other debts			
Considered good	3,554,104		2,876,246
Considered doubtful	<u>62</u>		<u>993</u>
	3,657,261		2,983,520
Less : Provision for doubtful debts	<u>43,289</u>		<u>37,996</u>
		3,613,972	2,945,524
Cash and bank balances :			
Cash on hand	298		345
Balances with scheduled banks :			
on current account	56,034		17,423
on deposit account	<u>—</u>		<u>—</u>
		<u>56,332</u>	<u>17,768</u>
Carried forward		6,004,380	5,357,353

SCHEDULES FORMING PART OF THE BALANCE SHEET

	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 8 (Contd.)			
Brought forward		6,004,380	5,357,353
Other current assets :			
Interest accrued on investments	22,434		23,029
Lease rent receivable	24,166		19,013
Other receivables	—		339
		46,600	42,381
Loans and advances :			
Unsecured considered good :			
Advances recoverable in cash or in kind or for value to be received	1,023,919		948,264
Balance with Excise Department	21,874		28,833
Taxation (net of provisions)	161,108		125,000
		<u>1,206,901</u>	<u>1,102,097</u>
		<u>7,257,881</u>	<u>6,501,831</u>

Cummins India Limited

SCHEDULES FORMING PART OF THE BALANCE SHEET

	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 9			
CURRENT LIABILITIES AND PROVISIONS :			
Current liabilities :			
Acceptances	469,772		419,808
Sundry creditors (Refer Note 3(b) & (c) of Schedule 12) *	2,007,418		1,746,158
Advances from customers	57,207		61,737
Dividend warrants posted but not encashed *	12,967		11,490
Interest accrued but not due on loans	—		251
		2,547,364	2,239,444
Provisions :			
Proposed dividend	396,000		396,000
Tax on dividend	55,539		55,539
Pension and leave entitlement	104,422		104,186
Others (Refer Note 7 of Schedule 12)	315,550		252,867
		871,511	808,592
		3,418,875	3,048,036

* Note : There is no amount due and outstanding to be credited to Investor Education and Protection Fund.

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT

	Rupees '000	Rupees '000	Previous Year Rupees '000
SCHEDULE NO. 10			
SALES AND OTHER INCOME :			
SALES			
Gross sales and services	16,406,414		12,962,351
Less : Excise duty	1,620,524		992,453
Net sales	14,785,890		11,969,898
Less : Commission	158,175		51,770
		14,627,715	11,918,128
OTHER INCOME			
Interest from customers, on income tax refunds and on deposits, etc. (tax deducted at source Rs.('000) 1,454; <i>previous year</i> Rs.('000) 1,039)	52,973		29,724
Miscellaneous income	129,689		105,534
Export benefits	158,800		205,122
Income from investments			
Long term investments-			
Trade investments	49,800		32,420
Other investments (tax deducted at source Rs.('000) 6,064; <i>previous year</i> Rs.('000) 4,203)	83,084		85,429
Dividend from subsidiary	250,000		235,000
	382,884		352,849
Current investments - other than trade	21,406		2,820
Gain on sale/redemption of long term investments	16,235		88,155
Gain on sale/redemption of current investments	10,041		12,391
		772,028	796,595
		15,399,743	12,714,723

Cummins India Limited

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT

	Rupees '000	Rupees '000	Previous year Rupees '000
SCHEDULE NO. 11			
COST OF SALES AND OTHER EXPENSES :			
Raw materials and components consumed		9,492,329	8,145,082
Purchase of goods for resale		155,983	115,690
Payments to and provision for employees :			
Salaries, wages, bonus, commission, etc.	860,355		727,454
Company's contribution to provident and other funds	107,890		48,658
Welfare expenses	90,912		90,094
		1,059,157	866,206
Operation and other expenses :			
Stores, spares, consumable materials, etc.	335,863		321,633
Tools and gauges	33,173		41,925
Repairs to buildings	40,087		42,492
Repairs to machinery	43,679		32,017
Other repairs	27,804		31,912
Power and fuel	193,382		166,084
Rent	14,261		12,447
Rates and taxes	48,147		43,914
Insurance	20,908		24,315
Outside processing charges	139,431		114,034
Other expenses	736,426		597,659
Donations and contributions	10,302		10,517
Net loss on fixed assets sold or discarded	4,231		50,009
		1,647,694	1,488,958
Technical fees and royalties		200,139	156,420
Carried forward		12,555,302	10,772,356

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT

	Rupees '000	Rupees '000	Previous year Rupees '000
SCHEDULE NO. 11 (Contd.)			
Brought forward		12,555,302	10,772,356
(Increase)/decrease in inventories of finished goods and work-in- progress :			
Closing inventories :			
Finished goods	38,823		61,581
Work-in-progress	622,238		653,018
		661,061	714,599
Opening inventories :			
Finished goods	61,581		82,587
Work-in-progress	653,018		353,120
		714,599	435,707
		53,538	(278,892)
		12,608,840	10,493,464
Less : cost of plant and machinery manufactured		13,085	22,949
		<u>12,595,755</u>	<u>10,470,515</u>

Cummins India Limited

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

SCHEDULE NO.12

1. Significant accounting policies

a) Basis of accounting

The financial statements are prepared in accordance with the requirement of the Companies Act, 1956, including the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India, as referred to in Section 211 (3C) of the Companies Act, 1956, under historical cost convention on an accrual basis.

b) Fixed assets and depreciation

- i) Fixed assets are stated at cost of acquisition or construction less accumulated depreciation. All significant costs relating to the acquisition and installation of fixed assets are capitalised. Assets acquired under finance lease are recognised at the inception of the lease at lower of the fair value or the present value of minimum lease payments. The initial direct costs incurred in connection with finance leases are recognised as an asset under the lease.
- ii) Depreciation is provided using the straight-line method in the manner specified in Schedule XIV to the Companies Act, 1956 and at rates prescribed therein or based on the useful life of assets, whichever is higher. Computers and related assets are depreciated over four years. Leasehold land, and other assets acquired under finance lease are amortized over the period of lease. Intangible assets are amortised over a period of five years.

c) Investments

Long term investments are stated at cost, less any provision for permanent diminution in value. Current investments are stated at the lower of cost and fair value.

d) Inventories

Inventories are stated at lower of cost and net realisable value. The material costs are determined on weighted average basis and the valuation of manufactured goods represents the combined cost of material, labour and all manufacturing overheads.

e) Foreign currency transactions

Transactions in foreign currencies are accounted at the exchange rates prevailing on the date of transactions. Current assets and current liabilities are translated at the year-end exchange rates and where applicable, at the exchange rates under related forward exchange contracts. The resulting profits and losses are appropriately recognised in the Profit and Loss Account except exchange differences arising on foreign currency liabilities attributable to acquisition of fixed assets from a country outside India, which are adjusted to cost of fixed assets.

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

f) Revenue recognition

- i) Sale of goods is recognised as per the terms of sale. Sales exclude amounts recovered towards excise duty and sales tax.
- ii) The Company enters into agreements that transfer the right to use equipment, though substantial services by the Company may be called for in connection with the operation or maintenance of such assets. As such, the agreements convey to the customer the right to use the equipment, they meet the definition of a lease and are accounted for based on their classification into Finance lease and Operating lease. An agreement is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership and agreements not meeting this criterion are classified as operating lease. The accounting adopted for each of such classifications is as follows :
 - Operating Lease – minimum lease payments as per contracts are recognised as revenue on a straight-line basis over the lease term. Contingent rental income is recognised as revenue when the factors on which the contingent lease payments are based actually occur.
 - Finance Lease – recognised as a sale when goods are accepted by the customer and recognised in the balance sheet as a receivable at an amount equal to the net investment in the lease. Finance income is recognised on a pattern reflecting a constant periodic rate of return on the net investment outstanding in respect of the finance lease, and the amount attributable to service income is recognised as revenue on a straight line basis over the lease term.
- iii) Income from services is recognised on completion of services as per the terms of specific contracts.
- iv) Dividend income from investments is recognised when the right to receive payment is established. Dividend declared by the subsidiary companies after the date of the Balance Sheet is accounted during the year as required by Schedule VI of the Companies Act, 1956.

g) Lease charges under operating leases

Lease charges under operating leases are recognised as expense on straight-line basis over the lease term.

h) Product warranty and New Engine Performance Inspection fees

Product warranty costs and New Engine Performance Inspection fees are accrued in the year of sale of products, based on past experience and are included as under:

Cummins India Limited

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

- i) Cost of product warranty is included in 'Raw materials and components consumed' for free replacement of spares. Accrual of warranties towards replacement of spares, labour charges etc., are included in 'Other expenses'.
- ii) New Engine Performance Inspection fee is included under 'Other expenses'.

i) Retirement benefits

Retirement benefits to employees comprise of payments to gratuity, superannuation and provident funds as per approved schemes of the Company. Annual contributions to gratuity funds and liabilities towards superannuation are determined based on the actuarial valuation by an independent actuary and / or confirmation as on the balance sheet date by Life Insurance Corporation of India.

j) Leave encashment entitlement

Liability for leave encashment has been determined as at the year-end based on an actuarial valuation by an independent actuary.

k) Research and development costs

Research and development expenditure of a capital nature is added to Fixed Assets. All other research and development expenditure is written off in the year in which it is incurred.

l) Income Tax

Provision for current income tax is made on the assessable income at the tax rate applicable to the relevant assessment year.

Deferred income taxes are recognised for the future tax consequences attributable to timing differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in the tax rates is recognised using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets arising from unabsorbed depreciation or carry forward of losses under tax laws are recognised only to the extent that there is virtual certainty of realization. Other deferred tax assets are recognised and carried forward to the extent that there is reasonable certainty of realization.

m) Provisions

A provision is recognised when there is a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

2. Capital Commitments

	Rupees '000	<i>Previous year Rupees '000</i>
Capital Commitments	96,440	61,409

3. a) Advances recoverable in cash or kind include -

- i) An intercorporate deposit of Rs. ('000) 70,000 (*previous year Rs. ('000) 70,000*) placed with Cummins Research and Technology India Limited, a Joint Venture. Maximum amount due during the year Rs. ('000) 71,575 (*previous year Rs. ('000) 71,575*)
- ii) An amount of Rs. ('000) 24,234 (*previous year Rs. ('000) Nil*) from holding Company for expenses incurred on their behalf.

b) Sundry creditors include –

	Rupees '000	<i>Previous year Rupees '000</i>
i) Amounts due to small scale industrial undertakings	130,300	113,389

c) Small scale industrial undertakings to whom the Company owes sums which are outstanding for more than 30 days are as follows:-

Accurate Engineering Co. Pvt. Ltd.	Paranjape Autocast Pvt. Ltd.
Alwin Corpn	Poona Pressings Pvt. Ltd.
Arco Products	Ramps Engineers
Arnimech Products Pvt Ltd	Ravikiran Engineering Works
Baba Engineering Works	S S Nivsarkar & Associates
Balsons Industries	Samarth Engineering
Bhide Packings	Saurabh Engineers
Bhor Engineering Pvt. Ltd.	Saw Seisaku Corporation
Chandarani Industries	Shreeram Industries
Chino-laxsons (India) Limited	Shriram Rubber Products Pvt. Ltd.
Delta Corporation	Somamshu
Equip-ments	Space 'n' Style
Indian Packaging Industry	Spark Engineering
Kalyani Thermal Systems Ltd.	Spectrum Communications
Kumbhojkar Plastic Moulders	Surya Enterprises
M. D. Industries	Techno Spark
Paramount Seals & Packings	Tuljabhavani Enterprises
	Twintech Control Systems Private Limited

The small scale industrial undertaking status has been reckoned on the basis of information available with the Company.

Cummins India Limited

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

4. Contingent liabilities

	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
a) Bills discounted not matured	56,308	46,420
b) Taxation matters pending in appeal including effect of similar matters in respect of appeals decided in favour of the Company	24,389	41,418
c) Central excise duty/customs duty – demands not accepted by the Company	8,640	8,437
d) Sales Tax Matters pending in appeal	25,333	—
e) Civil liability / secondary civil liability in respect of suits filed against the Company	65	65
f) Guarantees given on behalf of subsidiary Company to its bankers	320,500	321,903
g) Guarantees given on behalf of third parties to its bankers – maximum liability restricted to	27,500	27,500
h) Matters concerning sections 297/299 of the Companies Act, 1956	Amounts if any, not ascertainable	Amounts if any, not ascertainable

5. Related Party Disclosures

a) Name of the related party and nature of relationship where control exists

<u>Name of the related party</u>	<u>Nature of Relationship</u>
Cummins Inc.	Holding Company
Cummins Diesel Sales and Service (India) Limited	Subsidiary Company
Cummins Auto Services Limited	Subsidiary Company
Fourstroke Automotive Private Limited	Subsidiary Company

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

b) Transactions with related parties as per the books of account during the year ended 31st March, 2006
Rs.('000)

Transaction	Name of the Party	Holding Company	Sub-sidiaries	Fellow Sub-sidiaries	Associates	Key Management Personnel	Enterprise with common Key management Personnel	Total
Purchases of goods	Cummins Inc	1,028,599	—	—	—	—	—	
	Cummins Engine Company Limited	—	—	1,109,738	—	—	—	
	Tata Cummins Limited	—	—	—	—	—	675,640	
	Others	—	12,420	417,940	37,834	—	—	3,282,171
		(1,021,329)	(19,757)	(1,209,979)	(27,795)	(—)	(620,547)	(2,899,407)
Sale of goods	Cummins Diesel Sales and Service (India) Limited	—	1,824,326	—	—	—	—	
	Cummins Engine Company Limited	—	—	2,728,984	—	—	—	
	Cummins Power Generation, Kent	—	—	987,012	—	—	—	
	Others	35,007	—	1,291,401	—	—	—	6,866,730
		(35,664)	(1,601,861)	(3,793,205)	(—)	(—)	(—)	(5,430,730)
Purchase of fixed assets	Cummins Inc	763	—	—	—	—	—	
	Cummins Diesel Sales and Service (India) Limited	—	252	—	—	—	—	1,015
		(—)	(2,330)	(—)	(—)	(—)	(—)	(2,330)
Sale of fixed assets	Cummins Diesel Sales and Service (India) Limited	—	1,281	—	—	—	—	1,281
		(—)	(2,062)	(—)	(—)	(—)	(—)	(2,062)
Services Rendered	Cummins Inc	64,102	—	—	—	—	—	
	Others	—	1,372	13,440	—	—	5,067	83,981
		(16,775)	(—)	(73)	(110)	(—)	(—)	(16,958)
Remuneration paid	Anant Talaulicar	—	—	—	—	3,794	—	3,794
		(—)	(—)	(—)	(—)	(6,659)	(—)	(6,659)
Services Received	Cummins Diesel Sales and Service (India) Limited	—	310,713	—	—	—	—	
	Others	—	—	218	—	—	—	310,931
		(—)	(222,493)	(—)	(—)	(—)	(—)	(222,493)
Transfer of Technology	Cummins Inc	200,139	—	—	—	—	—	
	Others	—	—	5,135	—	—	—	205,274
		(156,420)	(—)	(—)	(—)	(—)	(—)	(156,420)
Global Sourcing Consideration	Cummins Engine Company Limited	—	—	—	—	—	—	—
		(—)	(—)	(214,326)	(—)	(—)	(—)	(214,326)

Cummins India Limited

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

Rs.('000)

Transaction	Name of the Party	Holding Company	Sub-sidiaries	Fellow Sub-sidiaries	Associates	Key Management Personnel	Enterprise with common Key management Personnel	Total
Inter corporate deposits-given	Cummins Research and Technology India Limited	— (—)	— (—)	— (70,000)	— (—)	— (—)	— (—)	— (70,000)
Interest Received On inter corporate deposit	Cummins Research and Technology India Limited	— (—)	— (—)	6,300 (3,702)	— (—)	— (—)	— (—)	6,300 (3,702)
Interest Income	Cummins Engine Company Limited	— (—)	— (—)	40,097 (17,464)	— (—)	— (—)	— (—)	40,097 (17,464)
IT Service Charges	Cummins Inc	51,656 (40,700)	— (—)	— (—)	— (—)	— (—)	— (—)	51,656 (40,700)
Sale of Scrap	Cummins Diesel Sales and Service (India) Limited	— (—)	1,704 (4,804)	— (—)	— (—)	— (—)	— (—)	1,704 (4,804)
Dividend Received	Cummins Diesel Sales and Service (India) Limited Newage Electrical India Limited Others	— — —	250,000 — —	— 46,800 3,000	— — —	— — —	— — —	— — 299,800
Dividend paid	Cummins Inc	403,920 (403,920)	— (—)	— (—)	— (—)	— (—)	— (—)	403,920 (403,920)

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

c) Amount outstanding as at 31st March, 2006

Rs.('000)

Transaction	Name of the Party	Holding Company	Sub-sidiaries	Fellow Sub-sidiaries	Associates	Key Management Personnel	Enterprise with common Key management Personnel	Total
Sundry Creditors	Cummins Inc	79,256	—	—	—	—	—	—
	Cummins Diesel Sales and Service (India) Limited	—	43,923	—	—	—	—	—
	Cummins Engine Company Limited	—	—	139,669	—	—	—	—
	Tata Cummins Limited	—	—	—	—	—	41,893	—
	Others	—	—	54,964	7,084	—	—	366,790
		(236,418)	(55,873)	(139,091)	(4,838)	(—)	(37,320)	(473,540)
Sundry Debtors	Cummins Diesel Sales and Service (India) Limited	—	283,800	—	—	—	—	—
	Cummins Engine Company Limited	—	—	1,135,815	—	—	—	—
	Cummins Power Generation, Kent	—	—	260,981	—	—	—	—
	Cummins Power Generation, Singapore	—	—	255,073	—	—	—	—
	Others	40,911	1,524	168,955	—	—	978	2,148,037
		(1,361)	(225,070)	(1,522,007)	(—)	(—)	(18)	(1,748,456)
Guarantees outstanding	Cummins Auto Services Limited	—	320,500	—	—	—	—	320,500
		(—)	(321,903)	(—)	(—)	(—)	(—)	(321,903)
Inter Corporate Deposit - Receivable	Cummins Research and Technology India Limited	—	—	70,000	—	—	—	70,000
		(—)	(—)	(70,000)	(—)	(—)	(—)	(70,000)
Loans & Advances	Cummins Inc	24,234	—	—	—	—	—	24,234
		(—)	(—)	(—)	(—)	(—)	(—)	(—)

Cummins India Limited

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

Notes :

- i) The names of the related parties under the appropriate relationship included in notes 5 (b) and (c) above are as follows:
- | | |
|--|---|
| 1. Holding Company | Cummins Inc., |
| 2. Subsidiaries | Cummins Auto Services Limited |
| | Cummins Diesel Sales and Service (India) Limited. |
| | Consolidated Diesel Company |
| | Cummins Commercializadora |
| | Cummins Diesel N. V. |
| | Cummins Diesel Sales Corporation |
| | Cummins Engine (Beijing) |
| | Cummins Engine (China) Investment Co. Ltd. |
| | Cummins Engine (Shanghai) Trading - China |
| | Cummins Engine (Singapore) Pte Ltd. |
| | Cummins Engine Co Australia |
| | Cummins Engine Company Limited |
| | Cummins Engine Company Pty Ltd |
| | Cummins Japan Ltd. |
| | Cummins Mexico SA |
| | Cummins Middle East FZE |
| | Cummins Natural Gas Engines, Inc. |
| | Cummins Power Generation |
| | Cummins Power Generation, Kent |
| | Cummins Power Generation, Singapore |
| | Cummins Power Generation, U S A |
| | Cummins Research and Technology India Limited. |
| | Cummins S De R.L.De C.V. |
| | Cummins Westport |
| | Diesel Recon Co. |
| | Diesel Recon El Paso |
| | Diesel Recon - Memphis |
| | Fleetguard Inc. |
| | Holset Engineering Co. Limited |
| | Holset Engineering Company, Inc. |
| | Nelson Engine Systems India Ltd |
| | Newage Electrical India Limited |
| | Wuxi Holset Engineering Co. Ltd |
| 3. Fellow Subsidiaries | |
| 4. Key Management Personnel | i) Anant Talaulicar |
| 5. Associates | i) Valvoline Cummins Limited |
| 6. Enterprise with Common Key Management Personnel | i) Tata Cummins Limited |

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

- ii) Reimbursement of expenses incurred by related parties for and on behalf of the Company and vice versa have not been included above.
- iii) The information given above, have been reckoned on the basis of information available with the Company.
- iv) Figures in brackets are in respect of the previous year.

6. Segmental Information

a) Primary Segment

The Company's operations predominantly relate to manufacture of Internal combustion engines and parts thereof (Engines business segment) used for various applications such as power generation, construction, compressor, mining, marine, locomotive, fire-fighting, etc. Others include sale and leasing of diesel power generating sets and allied equipment including operation and maintenance facilities of these equipments, etc.

b) Secondary Segment

Two secondary segments have been identified based on the geographical locations of customers: domestic and export.

	Rs. '000		
Information about business segments (Primary segments)	Engine Business	Others	Total
i) Segment revenue @	13,750,967	10,43,636	14,794,603
	(11,284,574)	(690,423)	(11,974,997)
ii) Segment result	1,885,498	101,141	1,986,639
	(1,336,244)	(45,820)	(1,382,064)
Unallocated Other Income			480,988
Interest			9,031
Profit before tax			2,458,596
			(1,853,389)
Provision for tax			
Current tax			718,452
Deferred tax			(512,755)
Fringe Benefit Tax			-46,907
			(-31,628)
			30,054
			(—)
Net profit for the year			1,756,997
			(1,372,262)

Cummins India Limited

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

		Rs. '000		
Information about business segments (Primary segments)		Engine Business	Others	Total
iii)	Segment assets	8,127,504	567,638	8,695,142
		(7,724,429)	(405,602)	(8,130,031)
	Common Assets			2,672,481
				(2,309,998)
	Enterprise Assets			11,367,623
				(10,440,029)
iv)	Segment liabilities	2,695,391	345,843	3,041,234
		(2,707,250)	(214,535)	(2,921,785)
	Common Liabilities			483,583
				(529,357)
	Enterprise Liabilities			3,524,827
				(3,451,142)
v)	Capital expenditure	182,845	9,744	192,589
		(390,932)	(34,375)	(425,307)
	Depreciation	313,441	22,920	336,361
		(335,627)	(21,670)	(357,297)
Information about geographical segments (Secondary segments)		Domestic	Export	Total
vi)	Segment revenue @	9,482,090	5,312,513	14,794,603
		(8,011,829)	(3,963,168)	(11,974,997)

@ Segment revenue from Other business includes Income from Lease Rs. ('000) 8,714 (previous year Rs. ('000) 5,099)

Notes:

- i) The Company's tangible assets are located entirely in India.
- ii) Figures in brackets are in respect of the previous year.

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

7. Disclosure on Provisions made, utilised and reversed during the year as per Accounting Standard 29 issued by The Institute of Chartered Accountants of India

	Rs. '000			
	Warranty	Overhaul	Statutory Matters	Total
Opening Balance	185,506 (159,965)	63,715 (42,231)	3,646 (3,646)	252,867 (205,842)
Additions	222,971 (143,483)	31,416 (31,860)	— (—)	254,387 (175,343)
Utilisations	178,843 (109,306)	12,861 (10,376)	— (—)	191,704 (119,682)
Reversal	— (8,636)	— (—)	— (—)	— (8,636)
Closing Balance	229,634 (185,506)	82,270 (63,715)	3,646 (3,646)	315,550 (252,867)

- i) The provision for warranty is on account of warranties given on products sold by the Company. The provision is based on the historic data / estimated figures. The timing and amount of the cash flows that will arise from these matters will be determined at the time of receipt of claims from customers.
- ii) The provision for overhaul is on account of engines given on rent to various customers. The provision is based on the data on overhaul costs on various types of gensets as accumulated by the Company. The timing and amount of the cash flows that will arise from these matters will be determined at the time of actual overhauling of the gensets.
- iii) The provision for statutory matters are on account of legal matters where the Company anticipates probable outflow. The amount of provision is based on estimate made by the Company considering the facts and circumstances of each case. The timing and amount of cash flows that will arise from these matters will be determined by the relevant authorities only on settlement of these cases.

Cummins India Limited

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

8. Lease income

- i) The Company provides equipment under finance lease arrangements for periods up to five years. The minimum lease payments receivable in respect of these arrangements are as follows :

	Due within 12 months Rupees '000	Due between 12 – 60 months Rupees '000	Total amount receivable Rupees '000
Gross investment in lease	14,248 (6,545)	14,399 (17,608)	28,647 (24,153)
Less : Unearned finance income	2,471 (2,192)	2,010 (2,948)	4,481 (5,140)
Present value of minimum lease payments receivable	11,777 (4,353)	12,389 (14,660)	24,166 (19,013)

Figures in brackets are in respect of the previous year.

- ii) Contingent rental income in respect of operating lease arrangements recognised in the statement of profit and loss for the year aggregate Rs. ('000) 4,741 (*previous year Rs. ('000) 7,041*).
- iii) The future minimum sub lease payments receivable under non-cancellable operating sublease arrangements, due within 12 months, aggregate Rs. ('000) 2,759 (*previous year Rs. ('000) 7,421*).
- iv) The sub lease income recognised in the statement of profit and loss for the year aggregate Rs. ('000) 80,594 (*previous year Rs. ('000) 105,885*).
- v) Contingent rental income in respect of finance lease arrangements recognised in the statement of profit and loss for the year aggregate Rs. ('000) 206 (*previous year Rs. ('000) 1,796*).

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

9. Lease commitments

i) Finance lease :

The Company has acquired plant & machinery and vehicles under finance lease arrangements for periods up to five years. The future minimum lease payments under these leases as of March 31, 2006 are as follows:

	Due within 12 months Rupees '000	Due between 12 – 60 months Rupees '000	Total amount due Rupees '000
Minimum lease payments	963	—	963
	(25,471)	(975)	(26,446)
Less : Amount representing interest	14	—	14
	(461)	(25)	(486)
Present value of minimum lease payments	949	—	949
	(25,010)	(950)	(25,960)

Lease rent of Rs. ('000) Nil (*previous year Rs. ('000) 298*) has been debited to the profit and loss account.

ii) Operating lease :

The Company has acquired equipment under operating lease arrangements at stipulated rentals for a period of five years. The future minimum lease payments under these leases as of March 31, 2006 are as follows:

	Due within 12 months Rupees '000	Due between 12 – 60 months Rupees '000	Total amount due Rupees '000
Minimum lease payments	16,861	31,094	47,955
	(15,695)	(7,977)	(23,672)

The minimum lease payments recognized in the statement of profit and loss (included under other expenses) for the year are Rs. ('000) 41,298 (*previous year Rs. ('000) 36,709*).

Cummins India Limited

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

10. The net exchange differences (gains/(losses)) arising during the year :

- i) Appropriately recognised in the profit and loss account – Rs. ('000) 53,760 (*previous year Rs. ('000) 19,124*)
- ii) Adjusted in the carrying amount of fixed assets – Rs. ('000) Nil (*previous year Rs. ('000) 12,337*).

11. a) Managerial Remuneration

<u>Particulars</u>	<u>Rs.('000)</u>	<u>Previous Year Rs. ('000)</u>
Salary	12	23
Perquisites	3,782	6,636
Commission - non-wholetime directors	1,375	1,375
Sitting fees	210	220
Total	<u>5,379</u>	<u>8,254</u>

Appointment of Mr. Anant J. Talaulicar as Managing Director for the period July 29, 2003 to April 24, 2008 is subject to approval of Central Government in terms of provisions of Schedule XIII (Part I, Condition (e)) of the Companies Act, 1956.

As the future liability for gratuity and leave encashment is provided on an actuarial basis for the Company as a whole, the amounts pertaining to the Directors is not ascertainable and is therefore not included above.

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

b) Computation of net profits in accordance with section 309(5) of the Companies Act, 1956

<u>Particulars</u>	Rupees '000	<u>Rupees '000</u>	<i>Previous Year</i> <u>Rupees '000</u>
Profits before Tax as per Profit and Loss account		2,458,596	1,853,389
Add : Directors' remuneration	5,379		8,254
Depreciation (including amortization) provided in the books	336,361		357,297
Net loss on fixed assets sold or discarded as per schedule 11	4,231		50,009
Provision for doubtful debts and advances	<u>5,293</u>		<u>—</u>
		351,264	415,560
Less : Depreciation (including amortization) under section 350 of The Companies Act, 1956	336,361		357,297
Net loss on fixed assets sold or discarded under section 350 of the Companies Act, 1956	4,231		50,009
Profit on redemption or sale of Investments	<u>26,276</u>		<u>100,546</u>
		366,868	507,852
Net Profit as per section 309(5)		<u>2,442,992</u>	<u>1,761,097</u>
Restricted to 1%		24,430	17,611
Commission payable to non-wholetime directors		1,375	1,375

12. Remuneration to Auditors:

	Rupees '000	<i>Previous year</i> <u>Rupees '000</u>
Statutory Audit (including Consolidation of Accounts)	4,200	3,800
Limited Review	1,200	900
Tax Audit	1,130	1,130
Other services	1,611	2,210
Reimbursement of out of pocket expenses	116	122
	<u>8,257</u>	<u>8,162</u>

Cummins India Limited

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

13. Other expenses include provision for doubtful debts Rs. ('000) 5,293 (*previous year net write-back of provision for doubtful debts Rs. ('000) 1,765*).
14. Research and development expenses aggregating Rs. ('000) 225,642, including Rs. ('000) 10,710 on capital account (*previous year Rs. ('000) 189,044 including Rs. ('000) 26,604 on capital account*) have been incurred by the Company. The expenses disclosed above include expenses incurred on development of parts, etc.
15. The Company has 50% interest in Joint Ventures namely Nelson Engine Systems India Limited and Cummins Research and Technology India Limited, incorporated in India. The following represents the Company's share of Assets and Liabilities as at 31st March, 2006 and Income and Expenses for the year ended on that date.

a) Nelson Engine Systems India Limited

	As at March 31, 2006 Rs. '000	As at March 31, 2005 Rs. '000
Assets	74,342	48,642
Liabilities	28,785	14,236
Income	113,273	53,286
Expenses (including provision for tax)	90,720	39,946
Contingent Liabilities	Nil	Nil
Capital commitments	1,531	656

b) Cummins Research and Technology India Limited

	As at March 31, 2006 Rs. '000	As at March 31, 2005 Rs. '000
Assets	69,468	59,692
Liabilities	54,997	57,518
Income	91,368	66,286
Expenses (including provision for tax)	79,070	60,778
Contingent Liabilities	8,944	8,131
Capital commitments	510	358

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

16. Earnings Per share

	<u>As at March 31, 2006</u>	<u>As at March 31, 2005</u>
a) Earnings per share is calculated by dividing the profit attributable to the Equity Shareholders by the weighted average number of Equity Shares outstanding during the year. The numbers used in calculating basic and diluted earnings are stated below:		
b) Profit for the year after taxation Rs. ('000)	1,756,997	1,372,262
Weighted average number of shares outstanding during the year	198,000,000	198,000,000
c) Earnings per share (Basic and Diluted) Rs.	8.87	6.93
Face value per share Rs.	2.00	2.00

17. a) Quantitative information with regard to installed capacity and production -

	<u>Installed capacity* Nos.</u>	<u>Production Nos.</u>
Internal Combustion engines in all H.P. ranges except those reserved for Small Scale Industries	19,500 (20,820)	19,934 (17,359)
Generating sets (including semi finished generating sets) powered by Internal Combustion Engines	4,600 (3,628)	4,110 (2,755)
Hydraulic Governors (see note (ii) below)	— (—)	— (17)
Machine tools including special purpose machines and transfer lines	10 (10)	— (—)
Manufactured components (see note (ii) below) (Nos. million)	— (—)	0.389 (0.400)
Parts and accessories for locomotives, prime movers, boilers, steam generating plants and nuclear reactors	— (—)	— (—)
Electricity distribution & control equipment including voltage stabilizers	— (—)	— (—)

Cummins India Limited

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

- * On triple shift basis including capacity for manufacture of components, as certified by management. The installed capacity is subject to product mix, utilisation of plant and machinery which is common for different models and availment of sub-contracting facilities.

Notes:

- i) Production includes
 - a) engines captively consumed 61 nos. (*previous year – 32 nos.*)
 - b) C series engines manufactured on contract by its subsidiary Cummins Diesel Sales and Service (India) Limited 1,880 nos. (*previous year 1,103 nos.*)
- ii) Production quantities represent the number of components sold during the year, as the Company considers a component as 'meant for sale' only when it is actually sold.
- iii) Figures in brackets are in respect of the previous year.

b) Turnover, opening and closing stocks :

	Sale		Stocks			
	Qty. Nos.	Value Rs. '000	Opening Nos.	Rs. '000	Closing Nos.	Rs. '000
Internal Combustion Engines	19,858* (17,163)*	12,365,787 (9,801,722)	140 (61)	46,091 (7,275)	38** (140)**	29,600 (46,091)
Generating sets (including semi finished generating sets) powered by Internal Combustion Engines	4,046# (2,710)#	639,773 (412,554)	19 (7)	1,540 (108)	55*** (19)***	5,804 (1,540)
Hydraulic governors	— (17)	— (518)	See note (i) below			
Goods for resale :						
Engines	6 (—)	1,450 (—)	— (—)	— (—)	— (—)	— (—)
Equipments	10 (27)	113,574 (161,256)	2 (15)	13,485 (69,801)	1 (2)	3,419 (13,485)

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

	Sale		Stocks			
	Qty. Nos.	Value Rs. '000	Opening Nos.	Rs. '000	Closing Nos.	Rs. '000
Lease rentals from equipments		205,841 (193,654)				
Gross income from services rendered		22,134 (26,252)				
Spare parts accessories and components		1,383,731 (1,341,682)		See note (i) below		
Others		53,600 (32,260)		465 (5,403)		— (465)
		<u>14,785,890</u> <u>(11,969,898)</u>		<u>61,581</u> <u>(82,587)</u>		<u>38,823</u> <u>(61,581)</u>

* net of sales returns 81 nos. (*previous year 2 nos.*) and excluding engines given as free replacement 98 nos. (*previous year 86 nos.*) and including C series engines manufactured on contract by its subsidiary Cummins Diesel Sales and Service (India) Limited 1872 nos. (*previous year 1,083 nos.*).

** excluding engines scrapped 19 nos. (*previous year Nil nos.*) and including bought-out engine Nil nos. (*previous year 1 nos.*)

*** excluding gensets scrapped 3 nos. (*previous year Nil nos.*)

net of sales returns Nil nos. (*previous year Nil nos.*) and excluding gensets given as free replacement 25 nos. (*previous year 33 nos.*)

Notes :

- i) The Company considers a component as 'meant for sale' only when it is actually sold and hence no stocks are indicated;
- ii) Figures in brackets are in respect of the previous year

Cummins India Limited

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

c) Details of raw materials and components consumed

	Rs. '000	<i>Previous year</i> Rs. '000
i) Steel (M. tonnes 765 ; previous year 591)	45,396	34,016
ii) Castings – various	314,589	316,077
iii) Forgings – various	488,161	434,608
iv) Components	6,151,195	5,654,533
v) Engines (12,371 nos. ; previous year 9,682 nos.)	1,025,971	865,851
vi) Long Blocks (593 nos.; previous year 469 nos.)	78,812	50,650
vii) Others including semi-finished components	1,388,205	789,347
	<u>9,492,329</u>	<u>8,145,082</u>

Note : Item (iv) includes —

- a) the cost of accessories sold and cost of purchased components sold as spare parts (for the goods manufactured and sold by the Company), this activity being ancillary to the Company's manufacturing activity, and
- b) the cost of purchased components issued as free replacements under the Company's warranty for goods sold.

d) Details of purchase of goods for resale :

	Qty. Nos.	Value Rs. '000	<i>Previous year</i> Qty. Nos.	<i>Value</i> Rs. '000
Engines	6	1,450	—	—
Equipment	9	72,850	14	78,193
Others		81,683		37,497
Total		<u>155,983</u>		<u>115,690</u>

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

e) Value of imported and indigenous raw materials and components consumed :

	Rs'000	%	<i>Previous year</i> Rs'000	%
Imported	3,212,550	33.84	2,570,051	31.55
Indigenously procured	6,279,779	66.16	5,575,031	68.45
Total	9,492,329	100.00	8,145,082	100.00

Notes :

- i) See comments in note 17(c) above.
- ii) The item 'spare parts' in paragraph 4 D(c) of Part II to Schedule VI of the Companies Act, 1956 is interpreted to mean components used in the manufacture of finished products or sold as such and not spare parts used for repairs and maintenance of machinery.

18. Value of imports calculated on CIF basis :

	Rupees '000	<i>Previous year</i> Rupees '000
a) Raw materials	117,131	175,054
b) Components	2,531,717	2,141,021
c) Machinery spares	180,768	24,074
d) Capital goods	3,014	20,526
e) Tools, stores, etc.	7,712	7,734
Total	2,840,342	2,368,409

19. Expenditure in foreign currency (subject to deduction of tax where applicable) on accrual basis :

	Rupees '000	<i>Previous year</i> Rupees '000
a) Royalty	200,139	156,420
b) Global Sourcing Consideration	—	214,326
c) Technical Know-how	5,135	—
d) Others (including IT Service charges, travelling, subscriptions, membership fees, commission on exports, foreign bank charges, etc.)	109,770	84,048
Total	315,044	454,794

Cummins India Limited

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

20. Remittances during the year in foreign currency on account of dividend to non-resident shareholders were as follows :

		<i>Previous year</i>
Number of shareholders	1	1
Number of equity shares (shares of Rs.2 each)	100,980,000	100,980,000
Amount remitted Rs. ('000)		
For the year ended 31st March, 2006 (Interim)	201,960	
For the year ended 31st March, 2005 (Final)	201,960	
For the year ended 31st March, 2005 (Interim)		201,960
For the year ended 31st March, 2004 (Final)		201,960

The above information pertains to the non-resident shareholder to whom direct remittance has been made by the Company.

21. Earnings in foreign exchange :

	Rupees '000	<i>Previous year Rupees '000</i>
i) Export on FOB basis	5,312,513	3,963,168
ii) Recovery of freight, insurance and other expenses on exports	27,596	21,665
iii) Other income (assembly and testing charges, development charges, recovery of certification charges, refund of claims, etc.)	68,828	21,587
iv) Interest	40,097	17,464
Total	<u>5,449,034</u>	<u>4,023,884</u>

22. The Board of Directors, in the meeting held on January 31, 2006, have approved acquiring of High Pressure Common Rail (HPCR) Technology from Cummins Inc. U.S.A. for a consideration of U.S. \$ 3.6 million. This Technology will make the Company's K-38 and K-50 Models of engines emission compliant for export market post 2007. This proposal is subject to the approval of statutory authorities as required by Extant Regulations.

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

23. Balance Sheet abstract and Company's general business profile

Statement showing particulars as prescribed in the amendment to Schedule VI to the Companies Act, 1956, vide notification no. G.S.R. 388(E) dt. 15th May 1995 :

I. REGISTRATION DETAILS :

Registration no.	:	12276
State Code	:	11
Balance sheet date	:	31st March, 2006

II. CAPITAL RAISED DURING THE YEAR ENDED 31ST MARCH, 2006 **Rs. '000**

Public issue	—
Right issue	—
Bonus issue	—
Private placement	—

III POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS AS AT 31st MARCH, 2006

	Rs. '000
Total Liabilities(See Note 1)	<u>7,948,748</u>
Total Assets	<u>7,948,748</u>
Sources of Funds-	
Paid - up capital	396,000
Reserves & Surplus	7,446,806
Secured loans	85,919
Unsecured loans	1,576
Deferred tax liability	17,498
Finance Lease Liability	949
Total :	<u>7,948,748</u>
Application of Funds -	
Net fixed assets	1,620,806
Investments	2,488,936
Net current assets	3,839,006
Miscellaneous expenditure	—
Accumulated losses	—
Total :	<u>7,948,748</u>

Cummins India Limited

NOTES TO THE BALANCE SHEET AS AT 31ST MARCH, 2006 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED AS ON THAT DATE.

IV. PERFORMANCE OF THE COMPANY FOR THE YEAR ENDED 31 st MARCH, 2006:	Rs. '000
i) Turnover (net sales and other income as per the audited profit and loss account)	15,399,743
ii) Total Expenditure	12,941,147
iii) Profit before tax	2,458,596
iv) Profit after tax	1,756,997
v) Earning per share (See Note 2) (face value of Rs. 2)	8.87
vi) Dividend rate (%)	200%

V. PRODUCTS OF THE COMPANY

Generic Names of Three Principal Products / Services of Company : (As per monetary terms)

Item code no. (ITC Code)	Product description
8408.90	Compression ignition internal combustion engines
8409.99	Components parts of compression ignition internal combustion engines
N.A	Supply and maintenance of power generating equipment

Notes :

1. Total liabilities include share capital Rs. 396 million and reserves and surplus Rs. 7,447 million.
2. Earning per share is arrived at by dividing the profit after tax for the current year by total number of shares issued and subscribed at the year end.
24. Previous year's figures have been regrouped / reclassified, wherever necessary.

Signatures to the Schedules 1 to 12

For and on behalf of the Board

Anant J. Talaulicar
Chairman &
Managing Director

Nasser Munjee
Director

Dinesh Castellino
Vice President Legal &
Company Secretary

Pune
Date: June 8, 2006

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

	Rupees '000	Rupees '000	Previous year Rupees '000
I. Cash flows from operating activities :			
Cash generated from operations	2,071,070		180,239
Tax paid (net of refunds)	(784,616)		(537,123)
Net cash provided by operating activities		1,286,454	(356,884)
II. Cash flows from investing activities :			
Fixed assets			
Purchase	(198,367)		(433,012)
Sale	7,343		20,273
Interest received	71,368		81,891
Dividend received	333,517		274,208
Investments			
Purchase	(4,317,209)		(4,321,357)
Sale/redemption	4,016,597		5,509,760
Net cash used for investing activities		(86,751)	1,131,763
III. Cash flows from financing activities :			
Bank Overdraft (Net)	(224,901)		103,066
Finance Lease Liability	(25,011)		(22,157)
Loans repaid	(281)		(1,857)
Interest paid	(9,345)		(12,095)
Dividend paid (including tax on dividend)	(901,601)		(894,537)
Net cash used for financing activities		(1,161,139)	(827,580)
IV. Net change in cash and cash equivalents (I+II+III)		38,564	(52,701)
V. Cash and cash equivalents at the beginning of the year		17,768	70,469
Cash and cash equivalents at the end of the year (IV+V)		56,332	17,768

Cummins India Limited

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006 (Contd.)

Notes :	Rupees '000	Rupees '000	<i>Previous year Rupees '000</i>
1) Cash generated from operations has been arrived at as follows :			
Net profit before tax		2,458,596	1,853,389
Adjustments for -			
a) Non cash item/items required to be disclosed seperately :-			
Depreciation	336,361		357,297
Interest expense	9,031		12,340
Interest income (gross)	(70,773)		(81,461)
Dividend earned (gross)	(333,517)		(274,208)
Loss on assets sold,discarded etc;	4,231		50,009
Gain on redemption /sale of investments	(26,276)		(100,546)
Provision for doubtful debts	5,293		(8,147)
		(75,650)	(44,716)
b) Changes in working capital and other provisions :-			
Sundry debtors	(673,741)		(705,930)
Inventories	59,985		(694,425)
Loans and advances	(68,696)		(560,142)
Other current assets	(4,814)		34
Current liabilities	312,471		263,584
Provisions	62,919		68,445
		(311,876)	1,628,434
Total adjustments (a+b)		(387,526)	(1,673,150)
Cash generated from operations		2,071,070	180,239

- 2) Purchase of fixed assets include payments for items in capital work in progress and advances for purchase of fixed assets. Adjustments for increase/decrease in current liabilities related to acquisition of fixed assets have been made to the extent identified.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006 (Contd.)

	Rupees '000 2005-06	Rupees '000 2004-05	Previous year Rupees '000 2003-04
3) Cash and cash equivalents comprise :			
Cash in hand	298	345	240
Balances with bank on current account :			
Unclaimed dividend account (restricted)	12,967	11,490	10,522
Other current accounts	43,067	5,933	9,707
Balances with bank on deposit account	—	—	50,000
Total	56,332	17,768	70,469

4) The figures in brackets represent outflows of cash and cash equivalents.

5) Previous year's figures have been regrouped/reclassified, wherever necessary.

In terms of our report of even date

For and on behalf of the Board

Vasant Gujarathi
Partner
Membership Number : 17866
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

Anant J. Talaulicar
Chairman &
Managing Director

Nasser Munjee
Director

Dinesh Castellino
Vice President Legal &
Company Secretary

Pune
Date: June 8, 2006

Pune
Date: June 8, 2006

Cummins India Limited

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANIES.

Name of the Subsidiary	Cummins Diesel Sales and Service (India) Limited (CDS&S)	Cummins Auto Services Limited (CASL)	Fourstroke Automotive Private Limited (FAPL)
1 The Financial year / Period of the subsidiary company ended on	March 31, 2006	March 31, 2006	March 31, 2006
2. Holding Company's Interest	600,000 Equity shares of Rs.100 each fully paid are held by Cummins India Limited (100%) and its nominees.	9,999,800 Equity shares of Rs.10 each fully paid are held by CDS&S (99.99%) and its nominees. CDS&S is subsidiary of Cummins India Ltd. Therefore, CASL, is subsidiary of Cummins India Limited in terms of Section 4(1) (c) of the Companies Act, 1956.	1,500,000 Equity shares of Rs. 10 each fully paid are held by CASL (100%) and its nominees. CASL is wholly owned subsidiary of CDS&S. CDS&S is subsidiary of Cummins India Limited. Therefore, FAPL is subsidiary of Cummins India Limited in terms of Section 4(1)(c) of the Companies Act, 1956.
(a) The number of Equity shares held			
(b) Extent of interest in the capital of subsidiary	100%	—	—
3. The net aggregate amount so far as it concerns members of the holding Company and is not dealt with in the Company's accounts of the subsidiary's profits/ (losses)	(Rs. '000)	(Rs. '000)	(Rs. '000)
i) for the financial year/period of the subsidiary as aforesaid	102,020	(89,696)	(2,521)

**STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956
RELATING TO SUBSIDIARY COMPANIES.**

Name of the Subsidiary	Cummins Diesel Sales and Service (India) Limited (CDS&S)	Cummins Auto Services Limited (CASL)	Fourstroke Automotive Private Limited (FAPL)
	(Rs. '000)	(Rs. '000)	(Rs. '000)
ii) for the financial year/ period of the subsidiary since it became the holding Company's subsidiary.	1,121,221	(396,801)	(12,619)
4. Net aggregate amounts of the profits/(losses) of the subsidiary dealt with in the Company's account.			
i) for the financial year/ period of the subsidiary	250,000	Nil	Nil
ii) for the financial year/period of the subsidiary since it became the holding Company's subsidiary.	994,200	Nil	Nil

Anant J. Talaulicar
Chairman & Managing Director

Nasser Munjee
Director

Dinesh Castellino
Vice President Legal
& Company Secretary

Pune : June 8, 2006

Cummins India Limited

Consolidated Balance Sheet
and Profit and Loss Account

REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS OF CUMMINS INDIA LIMITED

1. We have audited the attached consolidated Balance Sheet of Cummins India Limited, its subsidiaries, joint ventures and associates as at March 31, 2006, the consolidated Profit and Loss Account and the consolidated Cash Flow Statement for the year ended on that date annexed thereto which we have signed under reference to this report. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of an associate namely Valvoline Cummins Limited, a subsidiary, Fourstroke Automotive Private Limited and a branch of a subsidiary - Cummins Auto Services Limited, whose financial statements reflect total assets of Rs. 816,769 ('000) as at March 31, 2006 and total revenues of Rs. 2,198,541 ('000) for the year ended on that date. These financial statements have been audited by other auditors whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included in respect of this associate / subsidiary / branch, is based solely on the report of the other auditors.
4. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard 21 - Consolidated Financial Statements, Accounting Standard 23 – Accounting for Investments in Associates in Consolidated Financial Statements and Accounting Standard 27 – Financial Reporting of Interests in Joint Ventures, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of Cummins India Limited, its subsidiaries, joint ventures and associates included in the consolidated financial statements.
5. On the basis of the information and explanations given to us and on consideration of the separate audit reports on individual audited financial statements of Cummins India Limited, its subsidiaries, joint ventures and associates, in our opinion, *subject to approval of the Central Government for excess managerial remuneration paid amounting to Rs. 1,195 ('000) in respect of subsidiary - Cummins Auto Services Limited in relation to earlier year*, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the consolidated Balance Sheet, of the consolidated state of affairs of Cummins India Limited, its subsidiaries, joint ventures and associates as at March 31, 2006;
 - (b) in the case of the consolidated Profit and Loss Account, of the consolidated results of operations of Cummins India Limited, its subsidiaries, joint ventures and associates for the year ended on that date; and
 - (c) in the case of the consolidated Cash Flow Statement, of the consolidated cash flows of Cummins India Limited, its subsidiaries, joint ventures and associates for the year ended on that date.

Vasant Gujarathi
Partner
Membership Number 17866
For and on behalf of
Price Waterhouse
Chartered Accountants

Place : Pune
Date : June 8, 2006

Cummins India Limited

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2006

	Schedule Number	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SOURCES OF FUNDS :				
Shareholders' funds :				
Share capital	1	396,000		396,000
Reserves and surplus	2	8,130,233		7,240,908
			8,526,233	7,636,908
Loan funds :				
Secured loans	3	108,392		340,485
Unsecured loans	4	322,910		324,715
			431,302	665,200
Finance Lease Liability			10,218	43,411
			<u>8,967,753</u>	<u>8,345,519</u>
APPLICATION OF FUNDS :				
Fixed assets :				
Gross block	5	5,589,044		5,424,697
Less : depreciation		3,668,561		3,308,714
Net block			1,920,483	2,115,983
Goodwill			9,399	12,939
Investments	6		2,723,494	2,300,992
Deferred Taxation	7			
Deferred tax Asset		241,911		216,565
Deferred tax Liability		(240,563)		(271,337)
			1,348	(54,772)
Current assets, loans and advances :	8			
Inventories		2,784,350		2,806,354
Sundry debtors		4,054,004		3,363,172
Cash and bank balances		127,838		107,035
Other current assets		100,861		93,666
Loans and advances		1,348,394		1,164,144
		<u>8,415,447</u>		<u>7,534,371</u>
Less : Current liabilities and provisions :	9			
Current liabilities		3,081,376		2,599,702
Provisions		1,021,042		964,292
		<u>4,102,418</u>		<u>3,563,994</u>
Net current assets			4,313,029	3,970,377
			<u>8,967,753</u>	<u>8,345,519</u>

Notes :

12

Note: Schedules 1 to 9 and 12 are an integral part of the balance sheet

In terms of our report of even date

For and on behalf of the Board

Vasant Gujarathi
Partner
Membership Number : 17866
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

Anant J. Talaulicar
Chairman &
Managing Director

Nasser Munjee
Director

Dinesh Castellino
Vice President Legal &
Company Secretary

Pune
Date: June 8, 2006

Pune
Date: June 8, 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

	Schedule Number	Rupees '000	Rupees '000	Previous Year Rupees '000
INCOME :	10			
Sales			17,750,573	14,711,445
Other Income			492,033	602,233
			18,242,606	15,313,678
Share in Associates' profit after tax (net)			153,377	69,188
EXPENDITURE :	11			
Cost of sales and other expenses		15,207,816		12,917,488
Lumpsum compensation under voluntary retirement scheme		4,920		22,782
Depreciation		390,370		406,443
INTEREST :				
On fixed loans	29,372			20,205
Others	15,833			21,096
		45,205		41,301
Amortisation of goodwill		9,386		7,723
			15,657,697	13,395,737
PROFIT BEFORE TAX			2,738,286	1,987,129
PROVISION FOR TAX:				
Current Tax (including net excess provision for earlier years Rs. ('000) 34,189, (previous year Rs. ('000) 65,856)		916,738		688,792
Deferred Tax		(56,120)		(35,920)
Fringe Benefit Tax		41,260		—
			901,878	652,872
NET PROFIT FOR THE YEAR			1,836,408	1,334,257
Balance carried forward from last balance sheet			462,915	565,632
Addition on acquisition			—	(679)
APPROPRIATIONS :				
I Proposed final dividend			396,000	396,000
II Interim dividend			396,000	396,000
III Tax on dividend			155,083	143,461
IV Transferred to general reserve			477,457	500,834
Balance carried to balance sheet			874,783	462,915
Basic and Diluted Earnings per share (in Rupees) (Nominal value per share Rs. 2)			9.27	6.74

Notes : 12

Note: Schedules 10 to 12 are an integral part of the profit and loss account

In terms of our report of even date

For and on behalf of the Board

Vasant Gujarathi
Partner
Membership Number : 17866
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

Anant J. Talaulicar
Chairman &
Managing Director

Nasser Munjee
Director

Dinesh Castellino
Vice President Legal &
Company Secretary

Pune
Date: June 8, 2006

Pune
Date: June 8, 2006

Cummins India Limited

CONSOLIDATED FINANCIAL STATEMENTS

	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 1		
SHARE CAPITAL :		
Authorised : 200,000,000 equity shares of Rs. 2 each (<i>previous year 200,000,000 equity shares of Rs. 2 each</i>)	<u>400,000</u>	<u>400,000</u>
Issued and subscribed : 198,000,000 equity shares of Rs. 2 each (<i>previous year 198,000,000 equity shares of Rs. 2 each</i>)	<u>396,000</u>	<u>396,000</u>

Of the above equity shares;

- i) 190,500,000 shares of Rs. 2 each (*previous year 190,500,000 shares of Rs. 2 each*) are allotted as fully paid bonus shares by capitalisation of reserves
- ii) 100,980,000 shares of Rs. 2 each (*previous year 100,980,000 shares of Rs. 2 each*) are held by the holding company, Cummins Inc.,USA

	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 2			
RESERVES AND SURPLUS :			
Capital redemption reserve account: Balance as per last account		7,000	7,000
General reserve: Balance as per last account	6,770,988		6,270,154
Add : transferred from profit and loss account	<u>477,457</u>		<u>500,834</u>
		<u>7,248,445</u>	<u>6,770,988</u>
Capital reserve on consolidation		5	5
Profit and loss account		<u>874,783</u>	<u>462,915</u>
		<u>8,130,233</u>	<u>7,240,908</u>

Reserve and surplus include the Group's share in the post acquisition reserves of Joint Ventures amounting to Rs.('000) 51,793 (*previous year Rs. (' 000) 24,059*)

CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE NO. 3

SECURED LOANS :

From banks -

Of the above, loans aggregating Rs.(’000) 85,919 (*previous year Rs. (’000) 310,820*) are secured by hypothecation of inventories, all receivables, investments (excluding investments in units of Unit Trust of India), rights, assets, etc. of Cummins India Limited and second charge on immovable properties situated at Kothrud, Pune and Rs. (’000) 17,267 (*previous year Rs. (’000) 17,642*) are secured by first charge on inventories and book debts of Cummins Auto Services Limited and Rs. (’000) 1,906 (*previous year Rs.(’000) 2,328*) are secured by first charge on inventories and book debts of Fourstroke Automotive Private Limited

Term loans from banks
(secured against respective fixed asset)

As at 31st March, 2006 Rupees ’000	As at 31st March, 2005 Rupees ’000
105,092	332,774
3,300	7,711
<u>108,392</u>	<u>340,485</u>

SCHEDULE NO. 4

UNSECURED LOANS :

Fixed Deposits (including interest accrued and due Rs (’000) 400 ; *previous year Rs (’000) 522*)

From Banks (*payable within one year*)

Short term loans
(including interest accrued and due
Rs.(’000) 815) *previous year Rs.(’000) 313*)

From Others

Short Term loans

1,595	2,026
321,315	285,884
—	36,805
<u>322,910</u>	<u>324,715</u>

Cummins India Limited

CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE NO. 5

FIXED ASSETS :

Rupees '000

Particulars	Gross block (at cost) as at 31st March, 2005	Additions on Acquisitions	Additions	Deductions	Gross block (at cost) as at 31st March, 2006	Depreciation as per schedule 5A	Net block as at 31st March, 2006
Tangible Assets							
Land							
-Freehold	37,526	—	—	—	37,526	—	37,526
-Leasehold	—	—	—	—	—	—	—
Roads	6,850	—	5,718	—	12,568	4,819	7,749
Buildings	302,282 *	—	805	—	303,087 *	111,976	191,111
Leasehold improvements	648	—	460	—	1,108	681	427
Plant and machinery	4,576,820 #	—	137,773	22,031	4,692,562 #	3,371,161	1,321,401
Furniture and fittings	104,271	—	9,139	15,534	97,876	37,140	60,736
Vehicles	90,719 **	—	1,438	13,160	78,997 **	32,511	46,486
Intangible assets							
Technical Knowhow	42,000	—	—	—	42,000	18,889	23,111
Global Sourcing Consideration	214,327	—	—	—	214,327	85,730	128,597
Software	10,960	—	4,580	—	15,540	5,654	9,886
	<u>5,386,403</u>	<u>—</u>	<u>159,913</u>	<u>50,725</u>	<u>5,495,591</u>	<u>3,668,561</u>	<u>1,827,030</u>
	<u>(5,199,275)</u>	<u>(21,985)</u>	<u>(493,209)</u>	<u>(328,066)</u>	<u>(5,386,403)</u>	<u>(3,308,714)</u>	<u>(2,077,689)</u>

Buildings, plant and machinery etc.,
under erection including advances
for capital expenditure

93,453	93,453
(38,294)	(38,294)
<u>5,589,044</u>	<u>3,668,561</u>
<u>(5,424,697)</u>	<u>(3,308,714)</u>

NOTES:

* Includes hangar costing Rs. ('000) 120 (previous year Rs. ('000) 120) owned jointly with other companies.

Includes

- cast iron patterns and core boxes costing Rs. ('000) 40,460 (previous year Rs. ('000) 40,460) owned jointly with other companies.
- power generating equipment costing Rs. ('000) 174,729 (previous year Rs. ('000) 170,523) (net block Rs. ('000) 112,860 (previous year Rs. ('000) 125,802)) given under operating lease arrangements and office equipment costing Rs. ('000) 116,732 (previous year Rs. ('000) 110,241) (net block Rs. ('000) 25,065 previous year Rs. ('000) 56,369), acquired under finance leases

** includes vehicles costing Rs. ('000) NIL (previous year Rs. ('000) 1,394) and net block Rs. ('000) NIL (previous year Rs. ('000) 943) acquired under finance leases.

Figures in brackets are in respect of the previous year.

CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE NO. 5A

DEPRECIATION

Rupees '000

Particulars	Depreciation upto 31st March, 2005	Additions on Acquisitions	Depreciation for the year	Depreciation on deductions	Total depreciation upto 31st March, 2006
Tangible Assets					
Land					
- Freehold	—	—	—	—	—
- Leasehold	—	—	—	—	—
Roads	4,682	—	137	—	4,819
Buildings	102,626	—	9,350	—	111,976
Leasehold improvements	593	—	88	—	681
Plant and machinery #	3,080,827	—	308,974	18,640	3,371,161
Furniture and fittings	35,410	—	9,323	7,593	37,140
Vehicles	29,064	—	7,737	4,290	32,511
Intangible assets					
Technical Knowhow	10,489	—	8,400	—	18,889
Global Sourcing					
Consideration	42,865	—	42,865	—	85,730
Software	2,158	—	3,496	—	5,654
	<u>3,308,714</u>	<u>—</u>	<u>390,370</u>	<u>30,523</u>	<u>3,668,561</u>
	<u>(3,136,517)</u>	<u>(3,195)</u>	<u>(406,443)</u>	<u>(237,441)</u>	<u>(3,308,714)</u>

includes depreciation of Rs. ('000) 17,853 (previous year Rs. ('000) 15,747) on power generating equipments given under operating lease arrangements

Figures in brackets are in respect of the previous year.

Cummins India Limited

CONSOLIDATED FINANCIAL STATEMENTS

	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 6			
INVESTMENTS :			
LONG TERM INVESTMENTS			
TRADE INVESTMENTS			
Investment in Associates			
(Refer Note 20, Schedule 12)			
Newage Electrical India Limited	266,668		197,685
Valvoline Cummins Limited	<u>151,567</u>		<u>140,708</u>
		418,235	<u>338,393</u>
OTHER THAN TRADE INVESTMENTS AT COST			
Tax free redeemable bonds	436,838		470,735
Government of India Bonds	250,665		250,694
Corporate bonds	164,702		270,727
Units of mutual funds	308,636		237,185
Others	<u>41,329</u>		<u>41,300</u>
		<u>1,202,170</u>	<u>1,270,641</u>
Total Long term investments	(A)	<u>1,620,405</u>	<u>1,609,034</u>

CONSOLIDATED FINANCIAL STATEMENTS

	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 6 (Contd.)			
INVESTMENTS :			
CURRENT INVESTMENTS AT LOWER OF COST AND FAIR VALUE			
OTHER THAN TRADE INVESTMENTS			
Units of mutual funds		1,103,089	691,951
Securitisation pass through certificates		—	7
Total Current Investments	(B)	<u>1,103,089</u>	<u>691,958</u>
Total Investments	(A+B)	<u><u>2,723,494</u></u>	<u><u>2,300,992</u></u>
Aggregate cost of quoted investments		893,500	1,033,421
Aggregate cost of unquoted investments		1,664,089	1,179,942
Aggregate market value of quoted investments		1,103,992	1,378,035

Cummins India Limited

CONSOLIDATED FINANCIAL STATEMENTS

	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 7			
DEFERRED TAXATION			
Deferred Tax asset			
Provision for doubtful debts	36,887		33,495
Provision for Leave encashment	10,310		—
Provision others	115,492		108,948
Provision for voluntary retirement scheme	17,009		27,749
Provision for employee benefits	25,987		13,310
Disallowances under section 43B	30,105		27,201
Preliminary expenses	—		66
Unabsorbed depreciation	6,121		5,796
		241,911	216,565
Deferred Tax liability			
Fixed Assets - Excess of Net block over written down value as per the provisions of the Income Tax Act,1961		(240,563)	(271,337)
		<u>1,348</u>	<u>(54,772)</u>

CONSOLIDATED FINANCIAL STATEMENTS

	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 8			
CURRENT ASSETS, LOANS AND ADVANCES :			
Inventories :			
Stores and Spares		69,953	50,685
Loose tools and gauges		70,526	59,361
Stock-in-trade :			
Raw materials and components	1,137,987		1,193,829
Work-in-progress	622,671		653,604
Finished goods	413,985		397,435
Service stocks	38,830		38,444
Materials in transit	430,398		412,996
		<u>2,643,871</u>	<u>2,696,308</u>
		2,784,350	2,806,354
Sundry debtors :			
Secured : considered good			
Debts outstanding for a period exceeding six months	8,645		37,327
Other debts	100,170		101,239
		108,815	138,566
Unsecured			
Debts outstanding for a period exceeding six months			
Considered good	154,599		106,932
Considered doubtful	114,247		99,165
Other debts			
Considered good	3,790,590		3,117,674
Considered doubtful	8,157		7,075
	<u>4,067,593</u>		<u>3,330,846</u>
Less: Provision for doubtful debts	122,404		106,240
		<u>3,945,189</u>	<u>3,224,606</u>
		4,054,004	3,363,172
Carried forward		6,838,354	6,169,526

Cummins India Limited

CONSOLIDATED FINANCIAL STATEMENTS

	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 8 (contd)			
Brought forward		6,838,354	6,169,526
Cash and bank balances :			
Cash on hand	573		532
Cheques on hand	4,733		3,925
Balances with scheduled banks :			
on current account	120,509		98,950
on deposit account	2,023		3,628
	<u> </u>	127,838	<u>107,035</u>
Other current assets :			
Interest accrued on investments	22,491		23,074
Lease rent receivable	24,166		19,013
Other receivables	54,204		51,579
	<u> </u>	100,861	<u>93,666</u>
Loans and advances :			
(Unsecured, considered good unless otherwise stated)			
Advances recoverable in cash or in kind or for value to be received			
Considered good	1,127,322		986,931
Considered doubtful	3,963		212
	<u>1,131,285</u>		<u>987,143</u>
Less: provision for doubtful advances	3,963		212
	<u> </u>	1,127,322	<u>986,931</u>
Balance with Excise Department	22,863		29,228
Taxation (net of provisions)	198,209		147,985
	<u> </u>	1,348,394	<u>1,164,144</u>
		<u>8,415,447</u>	<u>7,534,371</u>

CONSOLIDATED FINANCIAL STATEMENTS

	Rupees '000	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE NO. 9			
CURRENT LIABILITIES AND PROVISIONS :			
Current liabilities :			
Acceptances	482,170		419,808
Sundry creditors * (Refer Note 6, Schedule 12)	2,388,618		1,965,376
Advances from customers	66,168		65,730
Dealer deposits	131,453		137,047
Dividend warrants posted but not encashed *	12,967		11,490
Interest accrued but not due on loans	—		251
		3,081,376	2,599,702
Provisions :			
Proposed dividend	396,000		396,000
Tax on dividend	55,539		55,539
Pension and leave entitlement	129,734		137,669
Others	439,769		375,084
		1,021,042	964,292
		<u>4,102,418</u>	<u>3,563,994</u>

* Note: There is no amount due and outstanding to be credited to Investor Education and Protection Fund.

Cummins India Limited

CONSOLIDATED FINANCIAL STATEMENTS

	Rupees '000	Rupees '000	Previous Year Rupees '000
SCHEDULE NO. 10			
SALES AND OTHER INCOME :			
SALES			
Gross sales and services	19,703,763		15,902,749
Less : Excise duty	1,634,557		1,000,274
Net sales	18,069,206		14,902,475
Less :			
Commission	318,633		191,030
		17,750,573	14,711,445
OTHER INCOME			
Interest from customers, on income tax refunds and on deposits, etc. (tax deducted at source Rs.('000) 2,378 ; <i>previous year Rs. ('000) 1,705</i>)	59,190		37,662
Miscellaneous income (including refund from custom authorities Rs. ('000) Nil ; <i>previous year Rs.('000) 27,644</i>)	147,477		169,909
Export benefits	158,800		205,122
Income from investments			
Long term investments-			
Trade investments	33		20
Other investments (tax deducted at source Rs. ('000) 6,064 ; <i>previous year Rs. ('000) 4,203</i>)	78,447		85,517
	78,480		85,537
Current investments - other than trade	21,406		2,820
Gain on sale/redemption of long term investments	16,639		88,155
Gain on sale/redemption of current investments	10,041		13,028
		492,033	602,233
		<u>18,242,606</u>	<u>15,313,678</u>

CONSOLIDATED FINANCIAL STATEMENTS

	Rupees '000	Rupees '000	Previous Year Rupees '000
SCHEDULE NO. 11			
COST OF SALES AND OTHER EXPENSES :			
Raw materials and components consumed		9,520,080	8,138,504
Purchase of goods for resale		2,194,383	2,072,005
Payments to and provision for employees :			
Salaries, wages, bonus, commission, etc.	1,129,868		966,519
Company's contribution to provident and other funds	140,682		70,727
Welfare expenses	124,289		120,088
		1,394,839	1,157,334
Operation and other expenses :			
Stores, spares, consumable materials, etc.	341,764		325,116
Tools and gauges	33,347		41,941
Repairs to buildings	60,605		56,486
Repairs to machinery	50,593		34,761
Other repairs	29,651		36,007
Power and fuel	205,171		177,834
Rent	41,224		41,069
Rates and taxes	51,254		54,115
Insurance	24,117		28,648
Outside processing charges	135,231		114,748
Other expenses	894,469		744,848
Donations and contributions	10,321		10,718
Net loss on fixed assets sold or discarded	8,133		50,418
		1,885,880	1,716,709
Technical fees and royalties		211,336	158,623
Carried forward		15,206,518	13,243,175

Cummins India Limited

CONSOLIDATED FINANCIAL STATEMENTS

		Rupees '000	Rupees '000	Previous Year Rupees '000
SCHEDULE NO. 11 (Contd.)				
Brought forward			15,206,518	13,243,175
(Increase)/decrease in inventories of finished goods and work-in-Progress :				
Closing inventories :				
Finished goods	413,985			397,435
Work-in-progress	<u>622,671</u>			<u>653,604</u>
		1,036,656		<u>1,051,039</u>
Opening inventories :				
Finished goods	397,435			394,899
Work-in-progress	<u>653,604</u>			<u>353,403</u>
		1,051,039		<u>748,302</u>
			14,383	<u>(302,737)</u>
			15,220,901	<u>12,940,438</u>
Less : expenses capitalised			<u>13,085</u>	<u>22,950</u>
			<u>15,207,816</u>	<u>12,917,488</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR
THE YEAR ENDED ON 31ST MARCH, 2006.**

SCHEDULE NO. 12

1. Basis of accounting

The financial statements are prepared in accordance with the requirement of the Companies Act, 1956, including the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India, as referred to in Section 211 (3C) of the Companies Act, 1956, under historical cost convention on an accrual basis.

2. Principles of consolidation

- a) The consolidated financial statements have been prepared in accordance with Accounting Standard 21 (AS 21) on 'Consolidated Financial Statements', Accounting Standard 23 (AS 23) on 'Accounting for Investments in Associates in Consolidated Financial Statements' and Accounting Standard 27 (AS 27) on 'Financial Reporting of Interests in Joint Ventures' issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of Cummins India Limited ('CIL') and its subsidiaries, joint ventures and associates. Reference in the notes to 'Group' shall mean to include CIL and its subsidiaries, joint ventures and associates consolidated in these financial statements unless otherwise stated.
- b) The consolidated financial statements have been prepared on the following basis
 - i) The financial statements of the Group are combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions resulting in unrealised profits or losses in accordance with Accounting Standard 21 (AS 21) on 'Consolidated Financial Statements' issued by the Institute of Chartered Accountants of India.
 - ii) In case of joint ventures, the Group's share in the assets, liabilities, income and expenses has been accounted for using the proportionate consolidation method, after eliminating intra-group balances and intra-group transactions resulting in unrealised profits or losses in accordance with Accounting Standard 27 (AS 27) on 'Financial Reporting of Interests in Joint Ventures' issued by the Institute of Chartered Accountants of India.
 - iii) In case of associates, where the Group directly or indirectly holds more than 20% of equity, investments in associates are accounted for using equity method in accordance with Accounting Standard 23 (AS 23) on 'Accounting for Investments in Associates in Consolidated Financial Statements' issued by the Institute of Chartered Accountants of India.
 - iv) The difference between the cost of investment in the subsidiaries/joint ventures/associates, over the net assets at the time of acquisition of the investment in the subsidiaries/joint ventures/associates is recognised in the financial statements as Goodwill or Capital Reserve, as the case may be.

Cummins India Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

- v) The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and necessary adjustments required for deviations, if any have been made in the consolidated financial statements.

The list of companies included in consolidation, relationship with CIL and CIL's shareholding therein is as under:

Name of the company	Relationship	Shareholding
Cummins Diesel Sales and Service (India) Limited ('CDS&S')	Subsidiary	100%
Cummins Auto Services Limited ('CASL')	Subsidiary	100%
Fourstroke Automotive Private Limited ('FAPL')@	Subsidiary	100%
Nelson Engine Systems India Limited	Joint Venture	50%
Cummins Research & Technology India Limited	Joint Venture	50%
Newage Electrical India Limited	Associate	48.5%
Valvoline Cummins Limited	Associate	50%

Each of the above companies is incorporated in India.

The list of companies included in consolidation in the previous year, relationship with CIL and CIL's shareholding therein is as under:

Name of the company	Relationship	Shareholding
Cummins Diesel Sales and Service (India) Limited ('CDS&S')	Subsidiary	100%
Cummins Auto Services Limited ('CASL')	Subsidiary	100%
MRC Autosolutions Private Limited ('MRC')	Subsidiary	100%
Fourstroke Automotive Private Limited ('FAPL')@	Subsidiary	100%
Nelson Engine Systems India Limited	Joint Venture	50%
Cummins Research & Technology India Limited	Joint Venture	50%
Newage Electrical India Limited	Associate	48.5%
Valvoline Cummins Limited	Associate	49%

@ CASL had acquired the balance 50% equity in Fourstroke Automotive Private Limited ('FAPL') on November 30, 2004, thus making FAPL its subsidiary effective that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

3. Significant accounting policies

a) Fixed assets and depreciation

- i) Fixed assets are stated at cost of acquisition or construction less accumulated depreciation. All significant costs relating to the acquisition and installation of fixed assets are capitalised. Assets acquired under finance lease are recognised at the inception of the lease at lower of the fair value or the present value of minimum lease payments. The initial direct costs incurred in connection with finance leases are recognised as an asset under the lease.
- ii) Goodwill arising on acquisition of subsidiaries/joint ventures/associates is amortised over a period of 10 years from the year of acquisition.
- iii) Depreciation is provided using the straight-line method in the manner specified in Schedule XIV to the Companies Act, 1956 and at rates prescribed therein or based on the useful life of assets, whichever is higher. Computers and related assets are depreciated over four years. Leasehold land and other assets acquired under finance lease are amortised over the period of lease. Intangible assets are amortised over a period of five years.

b) Investments

Long term investments are stated at cost, less any provision for permanent diminution in value. Current investments are stated at the lower of cost and fair value.

c) Inventories

Inventories are stated at lower of cost and net realisable value. The material costs are determined on weighted average basis and the valuation of manufactured goods represents the combined cost of material, labour and all manufacturing overheads.

d) Foreign currency transactions

Transactions in foreign currencies are accounted at the exchange rates prevailing on the date of transactions. Current assets and current liabilities are translated at the year-end exchange rates and where applicable, at the exchange rates under related forward exchange contracts. The resulting profits and losses are appropriately recognised in the Profit and Loss Account except exchange differences arising on foreign currency liabilities attributable to acquisition of fixed assets from a country outside India, which are adjusted to cost of fixed assets.

e) Revenue recognition

- i) Sale of goods is recognised as per the terms of sale. Sales exclude amounts recovered towards excise duty and sales tax.

Cummins India Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

- ii) The Group enters into agreements that transfer the right to use equipment, though substantial services by the Group may be called for in connection with the operation or maintenance of such assets. As such agreements convey to the customer the right to use the equipment, they meet the definition of a lease and are accounted for based on their classification into finance leases and operating leases. The agreement is classified as a finance lease if it transfers substantially all risks and rewards incident to ownership and agreements not meeting this criterion are classified as operating lease. The accounting adopted for each of such classifications is as follows :
- Operating Lease – minimum lease payments as per contracts are recognised as revenue on a straight-line basis over the lease term. Contingent rental income is recognised as revenue when the factors on which the contingent lease payments are based actually occur.
 - Finance Lease – recognised as a sale when goods are accepted by the customer and recognised in the balance sheet as a receivable at an amount equal to the net investment in the lease. Finance income is recognised on a pattern reflecting a constant periodic rate of return on the net investment outstanding in respect of the finance lease, and the amount attributable to service income is recognised as revenue on a straight line basis over the lease term.
- iii) Income under job contracts is recognised upon completion of service and delivery to customer. Income from services is recognised either proportionately over the period of contract or on completion of services as per the terms of specific contracts.
- iv) Profits from certain long term composite supply and service contracts are recognised proportionately over the period of contract based on the contracted revenues and estimated cost to completion.
- v) Revenue from information technology enabled engineering services is recognized based on the time spent and services rendered as per contract.
- vi) Dividend income from investments is recognised when the right to receive payment is established.

f) Lease charges under operating leases

Lease charges under operating leases are recognised as an expense on straight-line basis over the lease term.

g) Product warranty and New Engine Performance Inspection fees

Product warranty costs and New Engine Performance Inspection fees are accrued in the year of sale of products, based on past experience and are included as under:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

- i) Cost of product warranty is included in 'Raw materials and components consumed' for free replacement of spares. Accrual for warranties towards replacement of spares, labour charges etc. are included in 'Other expenses'.
- ii) New Engine Performance Inspection fee is included under 'Other expenses'.

h) Retirement benefits

Retirement benefits to employees comprise of payments to gratuity, superannuation and provident funds as per approved schemes of the Group. Annual contributions to gratuity funds and liabilities towards superannuation are determined based on the actuarial valuation by an independent actuary and / or confirmation as on the balance sheet date by Life Insurance Corporation of India.

i) Leave encashment entitlement

Liability for leave encashment has been determined as at the year-end based on an actuarial valuation by an independent actuary.

j) Research and development costs

Research and development expenditure of a capital nature is added to Fixed Assets. All other research and development expenditure is written off in the year in which it is incurred.

k) Income Tax

Provision for current income tax is made on the assessable income at the tax rate applicable to the relevant assessment year.

Deferred income taxes are recognised for the future tax consequences attributable to timing differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in the tax rates is recognised using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets arising from unabsorbed depreciation or carry forward of losses under tax laws are recognised only to the extent that there is virtual certainty of realization. Other deferred tax assets are recognised and carried forward to the extent that there is reasonable certainty of realization.

l) Provisions

A provision is recognized when there is a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Cummins India Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

4. Capital Commitments

	Rupees '000	<i>Previous year Rupees '000</i>
Capital Commitments	100,963	64,949

5. a) Advances recoverable in cash or kind include an amount of Rs. ('000) 24,234 (*previous year Rs. ('000) Nil*) from holding Company for expenses incurred on their behalf.
- b) Inventory includes Parts of Rs. ('000) 9,566 (*previous year Rs. ('000) Nil*) of CDS&S which is in the custody of Department of Legal Metrology pursuant to the Standards of Weights and Measures (Packaged Commodity Rules), 1976. The Company has obtained a stay order from the Mumbai High Court in this behalf.

6. Sundry creditors include

	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
i) Amounts due to small scale industrial undertakings	139,429	119,425

7. (a) Out of the total land admeasuring 17,199.93 sq. meters, 4,636.93 sq. meters has been reserved by Pune Municipal Corporation.
- (b) Buildings include 10 unquoted shares of Rs 200 each fully paid, at cost, in Sesa Ghor Premises Holders' Co-operative Society Limited, Goa.

	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
8. Contingent liabilities		
a) Bills discounted not matured	56,308	46,420
b) Taxation matters pending in appeal including effect of similar matters in respect of appeals decided in favour of the Group	40,071	57,393
c) Central excise duty/customs duty / Sales tax – demands not accepted by the Group	10,597	10,394
d) Sales Tax matters pending in appeal	25,333	—
e) Civil liability / secondary civil liability in respect of suits filed against the Group	65	65

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR
THE YEAR ENDED ON 31ST MARCH, 2006.**

	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
f) Guarantees given on behalf of third parties to its bankers – maximum liability restricted to	27,500	27,500
g) Matters concerning sections 297/299 of the Companies Act, 1956	Amounts if any, not ascertainable	Amounts if any, not ascertainable
h) Claims against the Group not acknowledged as debts and Customs Show Cause Notices against the Group	32,663	31,920
i) The arbitration matter between the Group and Hindustan Shipyard Ltd. (HSL) is subjudice in the court of Principal Senior Civil Judge at Visakhapatnam. In the event the matter is finally decided in favour of HSL, the Group would have to pay the sum of Rs. ('000) 1,944 (<i>previous year Rs. ('000) 1,944</i>) with interest @ 8% p.a. and also waive recovery of Rs. ('000) 330 (<i>previous year Rs. ('000) 330</i>) from HSL.		

9. Related Party Disclosures

- a) Name of the related party and nature of relationship where control exists

Name of the related party	Nature of Relationship
Cummins Inc.	Holding company

Cummins India Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

b) Transactions with related parties as per the books of account during the year ended 31st March, 2006

Rs. ('000)

Nature of transaction	Name of the Party	Holding Company	Fellow Sub-sidiaries	Joint Ventures	Asso- ciates	Key Manage- ment Perso- nnel	Enter- prises with common Key Manage- ment Personnel	Total
Purchases of goods	Cummins Inc	1,034,689	—	—	—	—	—	
	Cummins Engine Company Limited	—	1,109,738	—	—	—	—	
	Tata Cummins Limited	—	—	—	—	—	750,408	
	Others	—	657,912	10,578	244,403	—	—	3,807,728
		(1,021,329)	(1,355,729)	(12,436)	(205,146)	(—)	(721,051)	(3,315,691)
Sale of goods	Cummins Engine Company Limited	—	2,728,984	—	—	—	—	
	Cummins Power Generation, Kent	—	987,012	—	—	—	—	
	Cummins Power Generation, Singapore	—	567,154	—	—	—	—	
	Others	35,007	732,885	—	2,159	—	9	5,053,210
		(35,664)	(3,811,301)	(—)	(—)	(—)	(2)	(3,846,967)
Purchase of fixed assets	Cummins Inc	763	—	—	—	—	—	763
		(—)	(—)	(—)	(—)	(—)	(—)	(—)
Services Rendered	Cummins Inc	142,394	—	—	—	—	—	
	Others	—	30,170	368	30,891	—	6,664	210,487
		(75,196)	(15,149)	(36)	(32,200)	(—)	(513)	(123,094)
Remuneration paid	Anant Talaulicar	—	—	—	—	3,794	—	3,794
		(—)	(—)	(—)	(—)	(6,659)	(—)	(6,659)
Services Received	Cummins Inc	11,643	—	—	—	—	—	
	Others	—	351	109	—	—	—	12,103
		(12)	(335)	(—)	(—)	(—)	(—)	(347)
Transfer of Technology	Cummins Inc	200,139	—	—	—	—	—	
	Others	—	10,926	—	—	—	—	211,065
		(156,420)	(—)	(—)	(—)	(—)	(—)	(156,420)
Global Sourcing Consideration	Cummins Engine Company Limited	—	—	—	—	—	—	—
		(—)	(214,326)	(—)	(—)	(—)	(—)	(214,326)
IT Service Charges	Cummins Inc	51,656	—	—	—	—	—	51,656
		(51,621)	(—)	(—)	(—)	(—)	(—)	(51,621)
Interest paid	Tata Cummins Limited	—	—	—	—	—	27	27
		(—)	(—)	(—)	(—)	(—)	(—)	(—)
Commission Received	Valvoline Cummins Limited	—	—	—	2,600	—	—	2,600
		(—)	(—)	(—)	(5,200)	(—)	(—)	(5,200)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

Rs. ('000)

Nature of transaction	Name of the Party	Holding Company	Fellow Sub-sidiaries	Joint Ventures	Asso- ciates	Key Manage- ment Perso- nnel	Enter- prises with common Key Manage- ment Personnel	Total
Interest Income	Cummins Engine Company Limited	— (—)	40,097 (17,464)	— (—)	— (—)	— (—)	— (—)	40,097 (17,464)
Interest Received On inter corporate deposit	Cummins Research and Technology India Limited	— (—)	— (—)	3,150 (1,851)	— (576)	— (—)	— (—)	3,150 (2,427)
Miscellaneous Income	Tata Cummins Limited	— (—)	— (—)	— (—)	— (—)	— (—)	— (211)	— (211)
Dividend Received	Newage Electrical India Limited Valvoline Cummins Limited Others	— — — (—)	— — — (—)	— — 1,500 (—)	46,800 13,965 — (35,075)	— — — (—)	— — — (—)	— — 62,265 (35,075)
Inter-corporate Deposits	Cummins Research and Technology India Limited	— (—)	— (—)	— (35,000)	— (—)	— (—)	— (—)	— (35,000)
Dividend paid	Cummins Inc Others	403,920 — (403,920)	— 1,500 (—)	— — (—)	— — (—)	— — (—)	— — (—)	405,420 (403,920)
Equity contributions	Valvoline Cummins Limited	— (—)	— (—)	— (—)	1,600 (—)	— (—)	— (—)	1,600 (—)

Cummins India Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

c) Amount outstanding as at 31st March, 2006

								Rs. ('000)
Nature of transaction	Name of the Party	Holding Company	Fellow Sub-sidiaries	Joint Ventures	Asso- ciates	Key Manage- ment Perso- nnel	Enter- prises with common Key Manage- ment Personnel	Total
Sundry Debtors	Cummins Engine Company Limited	—	1,135,815	—	—	—	—	
	Cummins Power Generation, Kent	—	260,981	—	—	—	—	
	Cummins Power Generation, Singapore	—	255,073	—	—	—	—	
	Others	64,327	170,158	384	16,331	—	2,369	1,905,438
		(11,552)	(1,528,520)	(333)	(7,075)	(—)	(1,198)	(1,548,678)
Loans and advances	Cummins Inc	24,234	—	—	—	—	—	24,234
		(—)	(800)	(—)	(—)	(—)	(—)	(800)
Sundry Creditors	Cummins Inc	81,518	—	—	—	—	—	
	Cummins Engine Company Limited	—	139,669	—	—	—	—	
	Tata Cummins Limited	—	—	—	—	—	51,606	
	Others	—	74,497	1,554	47,906	—	—	396,750
		(238,754)	(153,190)	(1,118)	(40,899)	(—)	(49,866)	(483,827)
ICD Balance Receivable	Cummins Research and Technology India Limited	—	—	35,000	—	—	—	35,000
		(—)	(—)	(35,000)	(—)	(—)	(—)	(35,000)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR
THE YEAR ENDED ON 31ST MARCH, 2006.**

Notes :

- i) The names of the related parties under the appropriate relationship included in Notes 9 (b) and (c) above are as follows:

1. Holding Company	Cummins Inc.
2. Fellow Subsidiaries	Consolidated Diesel Company Cummins Brasil Cummins Comercializadora Cummins Diesel N.V. Cummins Diesel Sales & Service – Korea Cummins Diesel Sales Corporation Cummins Diesel South Africa Pvt Ltd Cummins Diesel, Australia Cummins Engine (Beijing) Cummins Engine (China) Investment Co. Ltd Cummins Engine (Shanghai) Trading – China Cummins Engine (Singapore) Pte Ltd Cummins Engine Co., Australia Cummins Engine Company - Durham Cummins Engine Company Limited Cummins Engine Company Pty Ltd Cummins Japan Ltd. Cummins Mercruiser Cummins Mexico Co SA Cummins Middle East FZE Cummins Natural Gas Engines, Inc. Cummins Power Generation Cummins Power Generation, Kent Cummins Power Generation, Singapore Cummins Power Generation, U.K. Cummins Power Generation, U.S.A. Cummins Rocky Mountains Cummins S De R.L. De C.V. Cummins Westport

Cummins India Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

- | | |
|--|--|
| | Diesel Recon Co.
Diesel Recon, El Paso
Diesel Recon - Memphis
Fleetguard Inc.
Fleetguard Singapore
Holset Engineering Co. Limited
Holset Engineering Company, Inc.
Onan Corporation
Wuxi Holset Engineering Co.Ltd |
| 3. Joint Ventures | Cummins Research & Technology India Limited
Nelson Engine Systems India Limited |
| 4. Associates | Newage Electrical India Limited
Valvoline Cummins Limited |
| 5. Key Management Personnel | Anant Talaulicar |
| 6. Enterprise with common Key Management personnel | Tata Cummins Limited |
- ii) Reimbursement of expenses incurred by related parties for and on behalf of the Group and vice versa have not been included above.
- iii) The information given above, have been reckoned on the basis of information available with the Group.
- iv) Figures in brackets are in respect of the previous year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

10. Segmental Information

a) Primary Segment

The Group's operations predominantly relate to manufacture of internal combustion engines and parts thereof (Engines business segment) used for various applications such as power generation, construction, compressor, mining, marine, locomotive, fire-fighting, etc. Others mainly include sale and leasing of diesel power generating sets and allied equipment including operation and maintenance facilities of these equipments.

b) Secondary Segment

Two secondary segments have been identified based on the geographical locations of customers: domestic and export.

					Rs ('000)
Information about Primary Segments		Engine Business	Others	Elimination	Total
i)	Segment revenue @	18,275,502 (15,437,639)	1,652,791 (1,278,737)	-2,156,971 (-1,808,803)	17,771,322 (14,907,573)
ii)	Segment result	2,384,045 (1,675,594)	105,552 (-47,005)	-180,943 (-246,219)	2,308,654 (1,476,830)
	Other Income				474,837 (552,050)
	Interest				45,205 (41,301)
	Profit before tax				2,738,286 (1,987,129)
	Provision for tax				
	Current tax				916,738 (688,792)
	Deferred tax				-56,120 (-35,920)
	Fringe Benefit tax				41,260 (—)
	Net profit for the year				1,836,408 (1,334,257)
iii)	Segment assets	9,586,420 (9,040,605)	935,589 (803,364)	— (—)	10,522,009 (9,843,969)
	Common assets				2,548,162 (2,120,316)
	Enterprise Assets				13,070,171 (11,964,285)

Cummins India Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

				Rs ('000)
Information about Primary Segments	Engine Business	Others	Elimination	Total
iv) Segment liabilities	3,523,331	492,590	—	4,015,921
	(3,418,395)	(365,971)	(—)	(3,784,366)
Common Liabilities				528,017
				(543,011)
Enterprise Liabilities				4,543,938
				(4,327,377)
v) Capital expenditure	188,442	27,957	—	216,399
	(416,817)	(61,439)	(—)	(478,256)
vi) Depreciation	335,639	54,731	—	390,370
	(357,814)	(48,629)	(—)	(406,443)
Information about geographical segments (Secondary segments)	Domestic	Export	Elimination	Total
vii) Segment revenue	14,483,469	5,444,824	-2,156,971	17,771,322
	(12,668,421)	(4,047,955)	(-1,808,803)	(14,907,573)

@ Segment revenue from Other business includes Income from Lease Rs. ('000) 8,714 (previous year Rs. ('000) 5,099).

Notes:

- i) The Group's tangible assets are located entirely in India.
- ii) Figures in brackets are in respect of the previous year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

11. Disclosure on Provisions made, utilised and reversed during the year as per Accounting Standard 29 issued by The Institute of Chartered Accountants of India

Rs. '000

	Warranty	Service Costs and Overhaul	Statutory Matters	Total
Opening Balance	203,906 (177,024)	161,673 (105,133)	9,505 (3,646)	375,084 (285,803)
Additions	246,425 (168,600)	169,375 (103,729)	— (5,859)	415,800 (278,188)
Utilisations	205,639 (133,082)	125,574 (45,997)	— (—)	331,213 (179,079)
Reversal	2,170 (8,636)	17,732 (1,192)	— (—)	19,902 (9,828)
Closing Balance	242,522 (203,906)	187,742 (161,673)	9,505 (9,505)	439,769 (375,084)

- i) The provision for warranty is on account of warranties given on products sold by the company. The provision is based on the historic data / estimated figures. The timing and amount of the cash flows that will arise from these matters will be determined at the time of receipt of claims from customers.
- ii) The provision for Service Costs and overhaul is on account of comprehensive annual service contracts and gensets given on rent to various customers. The provision is based on the preventive maintenance schedules and estimated overhauls during the contract period for the various types of gensets. The timing and amount of the cash flows that will arise from these matters will be determined at the time of actual maintenance and overhauling of the gensets.
- iii) The provision for statutory matters is on account of legal matters where the company anticipates probable outflow. The amount of provision is based on estimate made by the company considering the facts and circumstances of each case. The timing and amount of cash flows that will arise from these matters will be determined by the relevant authorities only on settlement of these cases.

Cummins India Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

12. Lease income

- i) The Group provides equipment under finance lease arrangements for periods up to five years. The minimum lease payments receivable in respect of these arrangements are as follows :

	Due within 12 months Rupees '000	Due between 12 – 60 months Rupees '000	Total amount receivable Rupees '000
Gross investment in lease	14,248 (6,545)	14,400 (17,608)	28,648 (24,153)
Less : Unearned finance income	2,472 (2,192)	2,010 (2,948)	4,482 (5,140)
Present value of minimum lease payments receivable	11,776 (4,353)	12,390 (14,660)	24,166 (19,013)

- ii) Contingent rental income in respect of operating lease arrangements recognised in the statement of profit and loss for the year aggregate Rs. ('000) 4,741 (*previous year Rs. ('000) 7,041*).
- iii) The future minimum sub lease payments receivable under non-cancellable operating sublease arrangements, due within 12 months, aggregate Rs. ('000) 2,759 (*previous year Rs. ('000) 7,421*).
- iv) The sub lease income recognised in the statement of profit and loss for the year aggregate Rs. ('000) 80,594 (*previous year Rs. ('000) 105,885*).
- v) Contingent rental income in respect of finance lease arrangements recognised in the statement of profit and loss for the year aggregate Rs. ('000) 206 (*previous year Rs. ('000) 1,796*).
- vi) Figures in brackets are in respect of the previous year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

13. Lease commitments

i) Finance lease :

The Group has acquired plant and machinery and vehicles under finance lease arrangements for periods up to five years. The future minimum lease payments under these leases as of March 31, 2006 are as follows:

	Due within 12 months Rupees '000	Due between 12 – 60 months Rupees '000	Total amount due Rupees '000
Minimum lease payments	7,337 (37,414)	3,341 (7,235)	10,678 (44,649)
Less : Amount representing interest	344 (992)	116 (246)	460 (1,238)
Present value of minimum lease payments	<u>6,993</u> <u>(36,422)</u>	<u>3,225</u> <u>(6,989)</u>	<u>10,218</u> <u>(43,411)</u>

ii) Operating lease :

The Group has acquired equipment under operating lease arrangements at stipulated rentals for a period of five years. The future minimum lease payments under these leases as of March 31, 2006 are as follows:

	Due within 12 months Rupees '000	Due between 12 – 60 months Rupees '000	Due beyond 60 months Rupees '000	Total amount due Rupees '000
Minimum lease payments	<u>40,707</u> <u>(21,504)</u>	<u>130,572</u> <u>(60,030)</u>	<u>29,844</u> <u>(33,870)</u>	<u>201,123</u> <u>(115,404)</u>

Cummins India Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

- iii) The minimum lease payments recognized in the statement of profit and loss for the year are as follows.

Particulars	Rs.'000	Previous Year Rs.'000
Included in other expenses	30,526	23,883
Included in rent	14,510	16,208

- iv) Figures in brackets are in respect of the previous year.

14. The net exchange differences (gains/(losses)) arising during the year :

- i) Appropriately recognised in the profit and loss account – Rs. ('000) 56,389 (*previous year Rs. ('000) 18,908*).
- ii) Adjusted in the carrying amount of fixed assets – Rs. ('000) 67 (*previous year Rs. ('000) 12,342*).

15. Managerial Remuneration

	Rupees '000	Previous year Rupees '000
Salary	12	23
Perquisites	3,782	6,636
Commission – non-wholetime directors	1,375	1,375
Sitting fees	210	220
Total	<u>5,379</u>	<u>8,254</u>

The above remuneration consists of the remuneration to the directors of the holding company, Cummins India Limited.

Appointment of Mr. Anant J. Talaulicar as Managing Director for the period July 29, 2003 to April 24, 2008 is subject to approval of Central Government in terms of provisions of Schedule XIII (Part I, Condition (e)) of the Companies Act, 1956.

As the future liability for gratuity and leave encashment is provided on an actuarial basis for the Group as a whole, the amounts pertaining to the Directors is not ascertainable and is therefore not included above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

16. Remuneration to Auditors:

	Rupees '000	<i>Previous year Rupees '000</i>
Audit fees (including consolidation of accounts)	6,368	5,655
Limited review	1,200	900
Tax audit	2,055	1,960
Other services	1,629	3,013
Reimbursement of out of pocket expenses	136	153
Total	11,388	11,681

The remuneration disclosed above is including taxes, as applicable.

17. Other expenses include provision for doubtful debts Rs. ('000) 5,646 (*Previous year Rs. ('000) 21,616*).

18. Research and development expenses aggregating Rs. ('000) 225,642 including Rs. ('000) 10,710 on capital account (*previous year Rs. ('000) 189,044 including Rs. ('000) 26,604 on capital account*) have been incurred by the Group. The expenses disclosed above include expenses incurred on development of parts, etc.

19. Earning Per share

	As at March 31, 2006	As at March 31, 2005
a) Earnings per share is calculated by dividing the profit attributable to the Equity Shareholders by the weighted average number of Equity Shares outstanding during the year. The numbers used in calculating basic and diluted earnings are stated below :		
b) Profit for the year after taxation Rs. ('000)	1,836,408	1,334,257
Weighted average number of shares outstanding during the year	198,000,000	198,000,000
c) Earnings per share (Basic and Diluted)(Rupees)	9.27	6.74
Face value per share (Rupees)	2.00	2.00

Cummins India Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

20. The investment in Associates disclosed in Schedule 6 is arrived at as follows:

	Valvoline Cummins Limited	Rs. '000 Newage Electrical India Limited
	<u> </u>	<u> </u>
Carrying amount of investment as on March 31, 2005	140,708	197,685
Share in associates' results for the year	26,120	127,256
Dividends received during the year	(15,921)	(53,366)
Write off of goodwill for the year	(940)	(4,907)
Additional investment	1,600	—
Carrying amount of investment as on March 31, 2006	151,567	266,668

The carrying amount of investments as at March 31, 2006 includes goodwill arising on acquisition of Valvoline Cummins Limited of Rs. ('000) 312 (*previous year Rs. ('000) 2,509*), and Newage Electrical India Limited of Rs. ('000) 29,437 (*previous year Rs. ('000) 34,344*).

In accordance with the Accounting Standard 23 (AS 23) on 'Accounting for Investments in Associates in Consolidated Financial Statements' issued by the Institute of Chartered Accountants on India, the Group has recognised capital reserve of Rs. ('000) 1,257 arising on account of acquisition of additional interest in Valvoline Cummins Limited by Cummins Diesel Sales and Service (India) Limited (CDS&S), a subsidiary of Cummins India Limited. The capital reserve has been set-off against goodwill recognized earlier.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

21. The Group has 50% interest in Joint Ventures namely Nelson Engine Systems India Limited and Cummins Research and Technology India Limited, both incorporated in India. The following represents the Group's share of Assets and Liabilities as at 31st March, 2006 and Income and Expenses for the year ended on that date in the Joint Ventures incorporated in the financial statements before elimination of intra-group transactions:

	Rs. '000			
	Nelson Engine Systems India Limited		Cummins Research and Technology India Limited	
	As at March 31, 2006	As at March 31, 2005	As at March 31, 2006	As at March 31, 2005
Net assets				
Net Fixed Assets	16,190	14,604	28,080	27,237
Investments	28,491	12,721	—	—
Inventories	8,869	6,713	—	—
Debtors	16,744	11,506	18,726	13,041
Deferred Tax Asset	—	—	—	—
Cash & Bank Balances	2,188	1,713	6,059	5,789
Loans and Advances	1,859	1,387	16,603	13,625
Current Liabilities	(26,968)	(12,120)	(10,681)	(11,495)
Loans and Lease liability	—	—	(44,205)	(46,023)
Deferred tax liability	(1,817)	(2,117)	(111)	—
Net Assets	45,556	34,407	14,471	2,174
Profit & Loss Account				
Sales	113,273	53,286	91,368	66,286
Expenditure	(81,471)	(37,571)	(65,932)	(53,111)
Depreciation	(2,391)	(1,538)	(12,549)	(7,642)
Tax Provision	(6,858)	(837)	(590)	(25)
Net Profit	22,553	13,340	12,297	5,508

Cummins India Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2006.

22. The Board of Directors of Cummins Auto Services Limited (CASL), in its meeting held on 22nd March, 2006, has approved a scheme of demerger of Highway solution business (service business) and merger into its holding company, Cummins Diesel Sales and Service (India) Limited (CDS&S) with effect from 1st April, 2005 (Appointed date) to leverage the expertise of CDS&S in service and distribution business and capabilities developed in its dealer network. The Board of Directors of CDS&S also acknowledges the need of merger of the service business considering the synergies.

The Board of Directors of CDS&S, in their meeting held on March 22, 2006 has passed a resolution approving amalgamation of Fourstroke Automotive Private limited, wholly owned subsidiary of CASL, into the Company effective April 1, 2005, subject to appropriate approvals including that of the Hon'ble High Courts. The said subsidiary shall be deemed to have been carrying on all activities relating to service business for and on behalf of and in trust for the Company from the above mentioned date.

Consequently, CASL shall be deemed to be carrying on all the activities relating to service business for and on behalf of and in trust of CDS&S effective 1st April, 2005, subject to the necessary approvals including that of Hon'ble Mumbai High Court. Upon getting the approval of Hon'ble Mumbai High Court, all assets and liabilities including borrowings of the service business as on the effective date shall be transferred and vested with CDS&S. CASL has already announced the scheme of demerger to its shareholders, creditors and bankers, etc. CASL is in the process of filing necessary petitions / applications before the Hon'ble Mumbai High Court.

CASL shall continue its Parts business in the growing M&HCV after-market space and establish relationship with OEMs to achieve the desired scale of operations. With this, the management is confident that the Parts business will yield profits in future. CDS&S continues to and is committed to support CASL financially and otherwise, and accordingly financial statements of CASL have been prepared on a going concern basis.

23. Pursuant to the scheme of amalgamation approved by the Hon'ble Mumbai and Gujarat High Courts on 3rd December, 2004 and 18th January, 2006 respectively, the entire undertaking of MRC Autosolutions Private Limited has been transferred to Cummins Auto Services Limited (CASL) effective 1st April, 2003. MRC Autosolutions Private Limited was a wholly owned subsidiary of CASL with paid up capital of Rs. (000) 18,000 and was an integral part of the Networked highway solutions project.

In line with Accounting Standard 14 issued by the Institute of Chartered Accountants of India, the scheme has been given effect to in CASL's financial statements under 'Pooling of Interest' method. Accordingly and in terms of the sanctioned scheme of merger, the cost of investment of CASL in MRC Autosolutions Private Limited aggregating Rs. (000) 15,300 has been offset with the share capital of

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR
THE YEAR ENDED ON 31ST MARCH, 2006.**

Rs. ('000) 18,000 of MRC Autosolutions Private Limited and the resulting reserve of Rs. ('000) 2,700 on merger has been adjusted against the debit balance in the Profit and Loss Account.

- 24.** The Board of Directors of Cummins India Limited, in the meeting held on January 31, 2006, have approved acquiring of High Pressure Common Rail (HPCR) Technology from Cummins Inc. U.S.A. for a consideration of U.S. \$ 3.6 million. This Technology will make the Company's K-38 and K-50 Models of engines emission compliant for export market post 2007. This proposal is subject to the approval of statutory authorities as required by Extant Regulations.
- 25.** Previous year's figures have been regrouped/reclassified wherever necessary.

Signatures to the Schedules 1 to 12.

For and on behalf of the Board

Anant J. Talaulicar
Chairman &
Managing Director

Nasser Munjee
Director

Dinesh Castellino
Vice President Legal &
Company Secretary

Pune :
Date : June 8, 2006

Cummins India Limited

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

	Rupees '000	Rupees '000	Previous Year Rupees '000
I. Cash flows from operating activities :			
Cash generated from operations	2,641,370		621,982
Tax paid (net of refunds)	(1,008,222)		(724,447)
Net cash provided by operating activities		1,633,148	(102,465)
II. Cash flows from investing activities :			
Fixed assets			
Purchase	(218,438)		(482,346)
Sale	12,070		40,209
Interest received	68,298		81,860
Dividend received	101,461		46,544
Consideration paid for acquisition for balance shares in associate	(1,600)		(3,992)
Investments			
Purchase	(4,345,327)		(4,768,461)
Sale/redemption	4,029,347		5,952,674
Net cash used for investing activities		(354,189)	866,488
III. Cash flows from financing activities :			
Short term borrowings	(1,876)		51,424
Bank Overdraft (Net)	(227,682)		109,937
Finance lease liability	(33,193)		(24,835)
Repayment of term loans	(4,411)		(6,841)
Repayment of fixed deposits (net)	(309)		(1,878)
Interest paid	(45,076)		(40,800)
Dividend paid (including tax on dividend)	(945,609)		(929,949)
Net cash used for financing activities		(1,258,156)	(842,942)
IV. Net change in cash and cash equivalents (I+II+III)		20,803	(78,919)
V. Cash and cash equivalents at the beginning of the year *		107,035	185,954
Cash and cash equivalents at the end of the year (IV+V)		127,838	107,035

* Includes cash and cash equivalents of subsidiary / joint venture acquired during the year Rs. ('000) Nil (previous year Rs. ('000) 122)

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

	Rupees '000	Rupees '000	Previous Year Rupees '000
Notes :			
1) Cash generated from operations has been arrived at as follows :			
Net profit before tax		2,738,286	1,987,129
Adjustments for -			
a) Non cash item /items required to be disclosed seperately :-			
Depreciation	390,370		406,443
Interest expense	45,205		41,301
Interest income (gross)	(67,715)		(81,461)
Dividend earned (gross)	(32,171)		(6,896)
Loss/(gain) on assets sold,discarded etc;	8,133		50,418
Loss/(gain) on redemption /sale of investments	(26,680)		(101,183)
Share in profit of associates	(153,377)		(69,188)
Amortisation of goodwill	9,386		7,723
Provision for doubtful debts	19,915		14,698
Miscellaneous expnediture written off	—		61
		193,066	261,916
b) Changes in working capital and other provisions :-			
Sundry debtors	(706,996)		(798,741)
Inventories	22,004		(691,799)
Loans and advances	(137,777)		(484,580)
Other current assets	(7,777)		(9,118)
Current liabilities	483,814		245,713
Provisions	56,750		111,462
		(289,982)	(1,627,063)
Total adjustments (a+b)		(96,916)	(1,365,147)
Cash generated from operations		2,641,370	621,982

Cummins India Limited

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

Notes (Contd.) :

2) Purchase of fixed assets include payments for items in capital work in progress and advances for purchase of fixed assets. Adjustments for increase / decrease in current liabilities related to acquisition of Fixed assets have been made to the extent identified.

3) Cash and cash equivalents comprise :

	Rupees '000 2005-06	Rupees '000 2004-05	Rupees '000 2003-04
Cash in hand	573	532	459
Cheques on hand	4,733	3,925	3,534
Balances with bank on current account :			
Unclaimed dividend account (restricted)	12,967	11,490	10,522
Other current accounts	107,542	87,460	119,140
Balances with bank on deposit account	2,023	3,628	52,177
Total	127,838	107,035	185,832

4) The figures in brackets represent outflows of cash and cash equivalents.

5) Previous years figures have been regrouped, wherever necessary to conform to the current year classification.

In terms of our report of even date

For and on behalf of the Board

Vasant Gujarathi
Partner
Membership Number : 17866
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

Anant J. Talaulicar
Chairman &
Managing Director

Nasser Munjee
Director

Dinesh Castellino
Vice President Legal &
Company Secretary

Pune
Date: June 8, 2006

Pune
Date: June 8, 2006

The Company has obtained approval of the Central Government under Section 212(8) of the Companies Act, 1956 (Act), for not attaching documents of its subsidiaries referred to in Section 212 (1) (a) to (d) of the Act to the Annual Accounts of the Company. As per the said approval, the Company is giving the following information in respect of its three subsidiaries for the financial year ended March 31, 2006 and for the corresponding previous year ended March 31, 2005.

BALANCE SHEET

(Rs. '000)

Particulars	Cummins Diesel Sales and Service (India) Limited		Cummins Auto Services Limited		Fourstroke Automotive Private Limited	
	As at 31st March, 2006	As at 31st March, 2005	As at 31st March, 2006	As at 31st March, 2005	As at 31st March, 2006	As at 31st March, 2005
Share Capital						
Face Value (Rs. per share)	100	100	10	10	10	10
Authorised						
- Number of shares	1,200,000	1,200,000	20,000,000	20,000,000	1,500,000	1,500,000
- Amount	120,000	120,000	200,000	200,000	15,000	15,000
Issued, subscribed and paid up						
- Number of shares	600,000	600,000	10,000,000	10,000,000	1,500,000	1,500,000
- Amount	60,000	60,000	100,000	100,000	15,000	15,000
Reserves & Surplus	1,017,010	950,052	—	—	—	—
Assets						
Fixed Assets (Gross)	359,942	366,179	115,460	94,031	21,999	21,986
Less: Accumulated Depreciation	(200,094)	(175,784)	(37,195)	(29,284)	(4,705)	(3,573)
Net Fixed Assets	159,848	190,395	78,265	64,747	17,294	18,413
Investments	180,403	178,803	11,494	26,794	—	—
Deferred Tax	20,774	11,750	—	—	—	—
Current Assets, Loans and Advances	1,615,371	1,362,722	105,460	127,836	2,058	3,143
Total Assets:	1,976,396	1,743,670	195,219	219,377	19,352	21,556
Liabilities						
Secured Loans	—	—	20,567	20,610	1,906	4,321
Unsecured Loans	19	106	403,162	320,884	18,605	14,782
Current Liabilities and Provisions	899,298	727,517	88,947	84,660	5,107	6,237
Liability under finance lease	69	5,995	—	435	—	—
Total Liabilities:	899,386	733,618	512,676	426,589	25,618	25,340
Miscellaneous Expenditure (to the extent not written off or adjusted)	—	—	—	(107)	—	(41)
Profit and Loss Account	—	—	(417,457)	(307,105)	(21,266)	(18,743)

Cummins India Limited

PROFIT AND LOSS ACCOUNT

(Rs. '000)

Particulars	Cummins Diesel Sales and Service (India) Limited		Cummins Auto Services Limited		Fourstroke Automotive Private Limited	
	For the year ended March 31, 2006	Previous year ended March 31, 2005	For the year ended March 31, 2006	Previous year ended March 31, 2005	For the year ended March 31, 2006	Previous year ended March 31, 2005
Income						
Turnover	4,567,890	4,229,371	187,198	228,443	4,011	2,742
Other Income	32,862	70,943	9,986	15,415	—	—
Total Income:	4,600,752	4,300,314	197,184	243,858	4,011	2,742
Profit / (Loss) before Taxation	544,116	452,988	(89,696)	(85,163)	(2,521)	(4,857)
Provision for Taxation	192,096	170,883	736	—	—	—
Profit / (Loss) after Taxation	352,020	282,105	(90,432)	(85,163)	(2,521)	(4,857)
Dividend - Interim	250,000	235,000	—	—	—	—

Note 1:

Details of Investments:

(Rs. '000)

Particulars	Cummins Diesel Sales and Service (India) Limited		Cummins Auto Services Limited		Fourstroke Automotive Private Limited	
	as at March 31, 2006	as at March 31, 2005	as at March 31, 2006	as at March 31, 2005	as at March 31, 2006	as at March 31, 2005
Trade Investments						
Kirloskar Oil Engines Limited	29	29	—	—	—	—
Investment in Joint Venture						
Valvoline Cummins Limited	80,375	78,775	—	—	—	—
Fourstroke Automotive Private Limited	—	—	—	—	—	—
Investment in Companies under the same management						
Nelson Engine Systems India Limited	1	1	1	1	—	—
Investment in subsidiaries						
Cummins Auto Services Limited	99,998	99,998	—	—	—	—
MRC Autosolutions Private Limited	—	—	—	15,300	—	—
Fourstroke Automotive Private Limited	—	—	11,493	11,493	—	—
Total:	180,403	178,803	11,494	26,794	—	—

Note

MRC Autosolutions Private Limited, erstwhile subsidiary of the Company has merged into Cummins Auto Services Limited (CASL) on March 22, 2006 vide orders of the Hon'ble Bombay and Ahmedabad High Courts.