

Cummins India Limited and its Subsidiaries



Cummins India Limited

Cummins India Limited and its Subsidiaries

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 venture and associates as at March 31, 2003, the consolidated Profit and Loss Account for the year ended on that date annexed thereto, and the consolidated cash flow statement for the year ended on that date which we have signed under reference to this report. These consolidated financial statements are the responsibility of the management of the Company. 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The consolidated financial statements of Cummins India Limited and its subsidiaries for the year ended March 31, 2002 were audited and reported by another firm of Chartered Accountants vide their unqualified opinion dated July 27, 2002. The balances as at March 31, 2002 as per the audited accounts, regrouped/ reclassified where necessary, have been considered as opening balances for the purpose of these consolidated financial statements.
4. We did not audit the financial statements of certain associates namely Valvoline Cummins Limited, MRC Auto Solutions Private Limited and Fourstroke Automotive Private Limited, whose financial statements reflect total assets of Rs. 448,713 ('000) as at March 31, 2003 and total revenues of Rs. 1,575,410 ('000) for the year ended on that date. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of these associates, is based solely on the report of the other auditors.
5. 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 venture and associates included in the consolidated financial statements.
6. 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

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venture and associates, in our opinion, 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 venture and associates, as at March 31, 2003;
- (b) in the case of the consolidated Profit and Loss Account, of the consolidated results of operations of Cummins India Limited, its subsidiaries, joint venture 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 venture and associates, for the year ended on that date.

For Price Waterhouse
Chartered Accountants

Place : Mumbai
Date : 7 June 2003

Vasant Gujarathi
Partner

Cummins India Limited

Cummins India Limited and its Subsidiaries

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2003

	Schedule Number	Rupees '000	As at 31st March, 2003 Rupees '000	As at 31st March, 2002 Rupees '000
SOURCES OF FUNDS :				
Shareholders' funds :				
Share capital	1	396,000		396,000
Reserves and surplus	2	6,808,842		6,567,910
			7,204,842	6,963,910
Minority Interest				
				31,998
Loan funds :				
Secured loans	3	57,244		35,222
Unsecured loans	4	192,183		187,975
			249,427	223,197
			<u>7,454,269</u>	<u>7,219,105</u>
APPLICATION OF FUNDS :				
Fixed assets :				
Gross block	5	5,001,789		4,861,483
Less : depreciation		2,920,981		2,714,696
Net block			2,080,808	2,146,787
Investments				
	6		3,673,506	2,307,953
Current assets, loans and advances :				
Inventories	7	1,973,462		1,784,111
Sundry debtors		2,348,741		2,649,543
Cash and bank balances		298,731		333,617
Other current assets		114,501		149,850
Loans and advances		386,667		354,817
		5,122,102		5,271,938
Less : Current liabilities and provisions :				
Current liabilities	8	2,011,608		1,710,028
Provisions		1,277,892		635,964
		3,289,500		2,345,992
Net current assets			1,832,602	2,925,946
Deferred Tax Asset/(Liability)	9		(132,647)	(161,581)
			<u>7,454,269</u>	<u>7,219,105</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 PRICE WATERHOUSE
Chartered Accountants

VASANT GUJARATHI
Partner

Mumbai : June 7, 2003

RAVI VENKATESAN
Chairman

NASSER MUNJEE
Director

M. M. GODSE
Vice President Legal &
Company Secretary

Mumbai : June 7, 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2003

	Schedule Number	Rupees '000	Rupees '000	Previous Year Rupees '000
INCOME :	10			
Sales			10,561,471	10,087,425
Other Income			338,571	432,105
Share in Associates profit after tax (net)			56,777	—
EXPENDITURE :	11			
Cost of sales and other expenses		9,293,731		8,736,271
Lumpsum compensation under voluntary retirement scheme		1,602		70,176
Depreciation		304,012		294,956
INTEREST :				
on fixed loans	11,393			13,255
others	41,678			19,945
		53,071		33,200
Write-off of Associates goodwill		6,160		—
			9,658,576	9,134,603
PROFIT BEFORE TAX			1,298,243	1,384,927
PROVISION FOR TAX:				
Current Tax (including net excess provision for earlier years Rs. (000) 65,211 (<i>previous year</i> <i>Rs. (000) 28,710</i>))		439,552		350,246
Deferred Tax		(30,464)		685
			409,088	350,931
MINORITY INTEREST			889,155	1,033,996
NET PROFIT FOR THE YEAR			889,155	662
Balance carried forward from last balance sheet		789,114		1,034,658
Less : adjustment of net cumulative effect of recognition of deferred tax liability upto 31st March, 2002		1,528		564,604
			787,586	1,667
Addition on amalgamation (Refer Note 6(a) of schedule 12)			83,893	562,937
APPROPRIATIONS :				
I Proposed final dividend			—	297,000
II Interim dividend			792,000	—
III Tax on dividend			101,539	—
IV Transferred to general reserve			30,179	412,728
Balance carried to balance sheet			836,916	887,867
Basic and Diluted Earnings per share (in Rupees) (Nominal value per share Rs. 2)			4.49	5.23

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 PRICE WATERHOUSE
Chartered Accountants

 VASANT GUJARATHI
Partner

Mumbai : June 7, 2003

 RAVI VENKATESAN
Chairman

 NASSER MUNJEE
Director

 M. M. GODSE
Vice President Legal &
Company Secretary

Mumbai : June 7, 2003

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	As at 31st March, 2003 Rupees '000	<i>As at 31st March, 2002 Rupees '000</i>
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><i>400,000</i></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><i>396,000</i></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, 2003 Rupees '000	<i>As at 31st March, 2002 Rupees '000</i>
SCHEDULE NO. 2			
RESERVES AND SURPLUS :			
Capital redemption reserve account:			
Balance as per last account		7,000	<i>7,000</i>
General reserve :			
Balance as per last account	5,934,742		<i>5,419,537</i>
Less: adjustment of net cumulative effect of recognition of deferred tax liability upto 31st March 2001	<u>—</u>		<u><i>159,227</i></u>
	5,934,742		<u><i>5,260,310</i></u>
Add : transferred from : profit and loss account	<u>30,179</u>		<u><i>412,728</i></u>
		5,964,921	<u><i>5,673,038</i></u>
Capital reserve on consolidation		5	<i>5</i>
Profit and loss account		836,916	<u><i>887,867</i></u>
		<u>6,808,842</u>	<u><i>6,567,910</i></u>

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	As at 31st March, 2003 Rupees '000	<i>As at 31st March, 2002 Rupees '000</i>
SCHEDULE NO. 3		
SECURED LOANS :		
From banks -		
Of the above, loans aggregating Rs. (000) 50,987 (<i>previous year Rs. (000) 17,728</i>) are secured by hypothecation of inventories, all receivables, investments (excluding investments in units of Unit Trust of India), rights, assets, etc. of the Group and second charge on immovable properties situated at Kothrud, Pune and Rs. (000) 4,124 (<i>previous year Rs. (000) 13,933</i>) are secured by first charge on inventories and book debts of Cummins Auto Services Limited.	55,111	<i>31,661</i>
Term loans from other than banks	2,133	<i>3,561</i>
Repayable within one year Rs. (000) 808 (<i>previous year Rs. (000) 709</i>)		
	<u>57,244</u>	<u><i>35,222</i></u>

	As at 31st March, 2003 Rupees '000	<i>As at 31st March, 2002 Rupees '000</i>
SCHEDULE NO. 4		
UNSECURED LOANS :		
Fixed Deposits (including interest accrued and due Rs. (000) 1,383; <i>previous year Rs. (000) 1,480</i>)	37,168	<i>87,975</i>
Short term loan from scheduled bank	155,015	<i>100,000</i>
	<u>192,183</u>	<u><i>187,975</i></u>

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SCHEDULE NO. 5

FIXED ASSETS :

Rupees '000

Particulars	Gross block (at cost) as at 31st March, 2002	Additions on Amalgamation@	Additions	Deductions	Gross block (at cost) as at 31st March, 2003	Depreciation as per schedule 5A	Net block as at 31st March, 2003
Land							
– Freehold	18,452	5,718	271	11	24,430	–	24,430
– Leasehold	18,426	–	–	–	18,426	375	18,051
Roads	6,850	–	–	–	6,850	4,548	2,302
Buildings	252,258 *	6,047	7,668	2,225	263,748 *	84,560	179,188
Leasehold improvements	641	–	–	–	641	336	305
Plant and machinery	4,177,561 #	95,856	288,996	107,388	4,455,025 #	2,780,231	1,674,794
Furniture and fittings	63,988	4,365	15,540	8,146	75,747	28,243	47,504
Vehicles	72,862 **	7,776	16,035	10,120	86,553 **	22,688	63,865
	<u>4,611,038</u> <u>(4,416,333)</u>	<u>119,762</u> <u>(—)</u>	<u>328,510</u> <u>(377,573)</u>	<u>127,890</u> <u>(43,527)</u>	<u>4,931,420</u> <u>(4,750,379)</u>	<u>2,920,981</u> <u>(2,714,696)</u>	<u>2,010,439</u> <u>(2,035,683)</u>
Buildings, plant and machinery etc., under erection including advances for capital expenditure					57,880 (100,866)		57,880 (100,866)
Expenditure pending allocation					12,489 (10,238)		12,489 (10,238)
					<u>5,001,789</u> <u>(4,861,483)</u>	<u>2,920,981</u> <u>(2,714,696)</u>	<u>2,080,808</u> <u>(2,146,787)</u>

NOTES:

@ Pursuant to the Scheme of Amalgamation referred to in Note 6 to Schedule 12.

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

Includes

(i) cast iron patterns and core boxes costing Rs. (000) 40,460 owned jointly with other companies.

(ii) power generating equipment costing Rs. (000) 122,145 (accumulated depreciation Rs. (000) 16,555 and net block Rs. (000) 105,590) given under operating lease arrangements and office equipment costing Rs. (000) 890 (net block Rs. (000) 670), acquired under finance leases.

** includes vehicles costing Rs. (000) 8,989 (net block Rs. (000) 7,637), acquired under finance leases.

Figures in brackets are in respect of the previous year.

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CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE NO. 5A

DEPRECIATION

Rupees '000

Particulars	Depreciation upto 31st March, 2002	Additions on Amalgamation @	Depreciation for the year	Depreciation on deductions	Total depreciation upto 31st March, 2003
Land					
– Freehold	—	—	—	—	—
– Leasehold	211	—	164	—	375
Roads	4,481	—	67	—	4,548
Buildings	77,637	231	8,287	1,595	84,560
Leasehold Improvements	207	—	129	—	336
Plant and machinery ##	2,564,880	13,527	282,288	80,464	2,780,231
Furniture and fittings	25,157	1,443	5,494	3,851	28,243
Vehicles	18,940	791	7,583	4,626	22,688
	<u>2,691,513</u> <u>(2,449,451)</u>	<u>15,992</u> <u>(—)</u>	<u>304,012</u> <u>(294,956)</u>	<u>90,536</u> <u>(29,711)</u>	<u>2,920,981</u> <u>(2,714,696)</u>

includes depreciation of Rs. (000) 9,434 on power generating equipments given under operating lease arrangements. Figures in brackets are in respect of the previous year.

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	Rupees '000	As at 31st March, 2003 Rupees '000	<i>As at 31st March, 2002 Rupees '000</i>
SCHEDULE NO. 6			
INVESTMENTS :			
LONG TERM INVESTMENTS AT COST			
TRADE INVESTMENTS			
Investment in joint venture			
Nelson Engine Systems India Limited	—		20,000
Investment in Associates			
Newage Electrical India Limited	213,187		2,400
Valvoline Cummins Limited	115,618		78,775
Fourstroke Automotive Private Limited	3,394		7,500
MRC Auto Solutions Private Limited	4,128		9,000
	<u>336,327</u>		<u>97,675</u>
Other Trade investments	45,829		1,644
		382,156	<u>119,319</u>
OTHER THAN TRADE INVESTMENTS			
Units in Unit Trust of India	131,824		131,976
Tax free redeemable Bonds	347,130		403,771
Government of India Bonds	577,930		355,750
Corporate Bonds	147,833		50,620
Units of mutual funds	1,383,862		704,362
		<u>2,588,579</u>	<u>1,646,479</u>
Total Long term investments	(A)	2,970,735	1,765,798

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	Rupees '000	As at 31st March, 2003 Rupees '000	<i>As at 31st March, 2002 Rupees '000</i>
SCHEDULE NO. 6 (Contd.)			
CURRENT INVESTMENTS AT LOWER OF COST AND FAIR VALUE			
OTHER THAN TRADE INVESTMENTS			
Treasury Bills		47,282	<i>145,047</i>
Commercial papers		—	<i>194,645</i>
Corporate bonds		120,620	<i>228,654</i>
Units of mutual funds		495,387	—
Securitisations pass through certificates		65,673	—
Total Current Investments	(B)	<u>728,962</u>	<u><i>568,346</i></u>
Total Investments	(A+B)	<u><u>3,699,697</u></u>	<u><u><i>2,334,144</i></u></u>
Provision for diminution in value of long term investments		(26,191)	<i>(26,191)</i>
TOTAL		<u><u>3,673,506</u></u>	<u><u><i>2,307,953</i></u></u>
Aggregate cost of quoted investments		1,411,341	<i>1,509,348</i>
Aggregate cost of unquoted investments		2,288,356	<i>824,796</i>
		<u>3,699,697</u>	<u><i>2,334,144</i></u>
Aggregate market value of quoted investments		1,407,110	<i>1,505,330</i>

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	Rupees '000	As at 31st March, 2003 Rupees '000	<i>As at 31st March, 2002 Rupees '000</i>
SCHEDULE NO. 7			
CURRENT ASSETS, LOANS AND ADVANCES:			
Inventories :			
Stores and Spares		46,844	51,142
Loose tools and gauges		42,171	47,811
Stock-in-trade :			
Raw materials and components	844,108		700,238
Work-in-progress	360,656		339,964
Finished goods	383,330		438,232
Service stocks	44,489		43,427
Materials in transit	251,864		163,297
		<u>1,884,447</u>	<u>1,685,158</u>
		1,973,462	1,784,111
Sundry debtors :			
Secured : considered good			
Debts outstanding for a period exceeding six months	14,028		8,411
Other debts	84,812		76,194
			<u>84,605</u>
Unsecured :			
Debts outstanding for a period exceeding six months			
Considered good	76,323		92,934
Considered doubtful	72,942		51,054
Other debts -			
Considered good	2,173,578		2,472,004
Considered doubtful	965		2,684
	<u>2,323,808</u>		<u>2,618,676</u>
Less: Provision for doubtful debts	73,907		53,738
		<u>2,249,901</u>	<u>2,564,938</u>
		2,348,741	2,649,543
Carried forward		<u>4,322,203</u>	<u>4,433,654</u>

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	Rupees '000	As at 31st March, 2003 Rupees '000	<i>As at 31st March, 2002 Rupees '000</i>
SCHEDULE NO. 7 (Contd.)			
Brought forward		4,322,203	4,433,654
Cash and bank balances :			
Cash on hand	638		852
Cheques on hand	17,055		30,998
Balances with scheduled banks :			
on current account	179,054		176,196
on deposit account	101,984		125,571
		298,731	333,617
Other current assets :			
Interest accrued on investments	35,066		33,624
Lease rent receivable	19,927		42,703
Other receivables	59,508		73,523
		114,501	149,850
Loans and advances : (Unsecured, considered good unless otherwise stated)			
Advances recoverable in cash or in kind or for value to be received			
Considered good	375,755		299,115
Considered doubtful	270		—
	376,025		299,115
Less: provision for doubtful advances	270		—
		375,755	299,115
Balance with Excise Department	475		211
Taxation (net of provisions)	10,437		55,491
		386,667	354,817
		<u>5,122,102</u>	<u>5,271,938</u>

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	Rupees '000	As at 31st March, 2003 Rupees '000	<i>As at 31st March, 2002 Rupees '000</i>
SCHEDULE NO. 8			
CURRENT LIABILITIES AND PROVISIONS :			
Current liabilities :			
Acceptances	318,108		<i>268,446</i>
Sundry creditors (Refer Note 8(b), Schedule 12)	1,508,488		<i>1,266,961</i>
Lease rentals payable	5,925		<i>5,778</i>
Advances from customers	42,312		<i>30,764</i>
Dealer deposits	128,487		<i>126,886</i>
Dividend warrants posted but not encashed *	4,199		<i>4,398</i>
Interest accrued but not due on loans	4,089		<i>6,795</i>
	<u> </u>	2,011,608	<u><i>1,710,028</i></u>
Provisions :			
Taxation (net of advance payments)	20,507		<i>23,496</i>
Interim dividend	792,000		<i>—</i>
Proposed dividend	—		<i>297,000</i>
Tax on dividend	101,539		<i>—</i>
Pension and leave entitlement	110,870		<i>93,224</i>
Others	252,976		<i>222,244</i>
	<u> </u>	1,277,892	<u><i>635,964</i></u>
		<u>3,289,500</u>	<u><i>2,345,992</i></u>

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

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	As at 31st March, 2003 Rupees '000	<i>As at 31st March, 2002 Rupees '000</i>
SCHEDULE NO. 9		
DEFERRED TAX ASSET / (LIABILITY) :		
Deferred Tax asset :		
Provision for doubtful debts	25,500	<i>18,551</i>
Provision others	52,262	<i>35,839</i>
Provision for voluntary retirement scheme	20,291	<i>20,029</i>
Provision for employee benefits	22,465	<i>27,071</i>
Disallowances under section 43B	28,695	<i>10,394</i>
Preliminary expenses	71	<i>106</i>
Current liabilities	24,758	<i>21,855</i>
Deferred Tax liability :		
Fixed Assets - Excess of Net block over written down value as per the provisions of the Income Tax Act, 1961	(306,689)	<i>(295,426)</i>
	<u>(132,647)</u>	<u><i>(161,581)</i></u>

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	Rupees '000	Rupees '000	Previous Year Rupees '000
SCHEDULE NO. 10			
SALES AND OTHER INCOME :			
SALES			
Gross sales and services	11,511,574		10,836,003
Less : Excise duty	928,638		648,942
Net sales	10,582,936		10,187,061
Less :			
Commission	21,465		99,636
		21,465	99,636
		10,561,471	10,087,425
OTHER INCOME			
Interest from customers, on income tax refunds and on deposits, etc. (tax deducted at source Rs. (000) 4,937; previous year Rs. (000) 3,624)	56,542		41,558
Miscellaneous income (including testing charges Rs. (000) 541; previous year Rs. (000) 10,594 and refund from custom authorities Rs. (000) 3,272; previous year Rs. (000) 57,698)	58,156		89,059
Export benefits - duty drawback etc.	21,380		18,432
Income from investments			
Long term investments-			
Trade investments (tax deducted at source Rs. (000) 158; previous year Rs. Nil)	1,518		13,360
Other investments (tax deducted at source Rs. (000) 2,519; previous year Rs. Nil)	77,483		89,179
		79,001	102,539
Current investments - other than trade (tax deducted at source Rs. (000) 3,827; previous year Rs. Nil)		55,455	14,920
Gain on sale/redemption of long term investments	39,009		13,478
Gain on sale/redemption of current investments	19,417		152,119
Net gain on fixed assets sold or discarded	9,611		—
		338,571	432,105
		10,900,042	10,519,530

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	Rupees '000	Rupees '000	Previous Year Rupees '000
SCHEDULE NO. 11			
COST OF SALES AND OTHER EXPENSES :			
Raw materials and components consumed		6,315,947	5,099,330
Purchase of goods for resale		234,127	1,096,127
Payments to and provision for employees :			
Salaries, wages, bonus, commission, etc.	877,187		868,537
Company's contribution to provident and other funds	262,650		125,619
Welfare expenses	97,352		79,082
		1,237,189	1,073,238
Operation and other expenses :			
Stores, spares, consumable materials, etc.	190,128		204,923
Tools and gauges	41,859		45,763
Repairs to buildings	53,509		47,232
Repairs to machinery	37,187		29,384
Other repairs	41,341		26,985
Power and fuel	130,061		147,024
Rent	27,550		22,067
Rates and taxes	35,401		22,412
Insurance	38,889		31,838
Outside processing charges	73,524		147,608
Other expenses	586,773		583,906
Donations and contributions	10,000		5,000
Net loss on fixed assets sold or discarded	1,168		1,545
		1,267,390	1,315,687
Technical fees and royalties		82,854	74,257
Carried forward		9,137,507	8,658,639

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		Rupees '000	Rupees '000	Previous Year Rupees '000
SCHEDULE NO. 11 (Contd.)				
Brought forward			9,137,507	8,658,639
(Increase)/decrease in inventories of finished goods and work-in-progress :				
Closing inventories :				
Finished goods	511,326			438,232
Work-in-progress	360,656			339,964
		871,982		778,196
Opening inventories :				
Finished goods	690,409			446,683
Work-in-progress	340,046			438,238
		1,030,455		884,921
			158,473	106,725
			9,295,980	8,765,364
Less : Expenses capitalised			—	18,855
Expenses transferred to 'Expenditure pending allocation'			2,249	10,238
			<u>9,293,731</u>	<u>8,736,271</u>

Cummins India Limited and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

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 Interest 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 venture and associates. Reference in the notes to 'Group' shall mean to include CIL and its subsidiaries, joint venture 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 (AS) 21 – "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India.
 - ii) In case of joint venture, 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 (AS) 27 – "Financial reporting of Interest 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 (AS) 23 – "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 venture/associates, over the net assets at the time of acquisition of the investment in the subsidiaries/joint venture/associates is recognised in the financial statements as Goodwill or Capital Reserve as the case may be.

Cummins India Limited

Cummins India Limited and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

- 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.
- vi) Investment in Cummins Infotech Limited, a subsidiary company disposed off during the year with effect from January 1, 2002 has not been included in preparation of 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%
Nelson Engine Systems India Limited	Joint Venture	50%
Newage Electrical India Limited	Associate	48.5%
Valvoline Cummins Limited	Associate	49%
MRC Auto Solutions Private Limited	Associate	50%
Fourstroke Automotive Private 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%
Cummins Infotech Limited ('CIT') #	Subsidiary	51.2%
Power Systems India Limited ('PSIL') @@	Subsidiary	100%
Cummins Power Solutions Limited ('CPSL') @@	Subsidiary	100%

- Sold during the year effective January 1, 2002.

@@ - Merged into Cummins India Limited effective April 1, 2002.

3. As required by Accounting Standard (AS-23) on Accounting for Investments in Associates in Consolidated Financial Statements issued by the Institute of Chartered Accountants of India, the carrying amount of investments in associates at the beginning of the year have been restated by applying "Equity Method" of accounting from the date of acquisition of the associates and corresponding adjustment has been made to the retained earnings at the beginning of the year after eliminating unrealised profits, if any.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

4. As this is the first year of adoption of Accounting Standard ('AS 23') on Accounting for Investments in Associates in Consolidated Financial Statements and Accounting Standard 27 ('AS 27') on 'Financial Reporting of Interest in Joint Ventures' issued by the Institute of Chartered Accountants of India, figures for the previous year are therefore not comparable to that extent.

5. 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 is amortised over the period of lease.

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 which are adjusted to cost of fixed assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

e) Revenue recognition

- i) Sale of goods is recognised on shipment to customers. Sales exclude amounts recovered towards excise duty and sales tax.
- 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) 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.

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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:

- 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

6. (a) Pursuant to the Scheme of Amalgamation, the amalgamation of the wholly owned subsidiaries of CIL namely Power Systems India Limited (PSIL) and Cummins Power Solutions Limited (CPSL) with CIL as approved by the shareholders in the court convened meeting held on 13th September 2002 and subsequently sanctioned by the order of Hon'ble High Court of Bombay, the assets and liabilities were transferred to and vested in the CIL with effect from 1st April 2002. The scheme has accordingly been given effect to in these financial statements. Consequently, pursuant to the Scheme of Amalgamation, the accumulated profits of PSIL and CPSL amounting to Rs. (000) 69,079 and Rs. (000) 14,814 respectively as on April 1, 2002 have been considered in the Profit and Loss Account of CIL.
- (b) The amalgamation has been accounted for under the 'Pooling of Interest' method as prescribed by the Accounting Standard (AS14) issued by the Institute of Chartered Accountants of India. Pursuant to the Scheme of Amalgamation of PSIL and CPSL with CIL, the assets, liabilities and reserves of PSIL and CSPL have been taken over at their book value. There are no differences in the accounting policies followed by PSIL and CPSL.

7. Capital Commitments

	Rupees '000	<i>Previous year Rupees '000</i>
Capital Commitments	129,037	<i>92,430</i>
8. a) Sundry creditors include, Rs. (000) 81 being unclaimed interest on matured deposits to be credited to Investor Education and Protection Fund vide notification G.S.R.762(E) dated 13th November, 2002.		
b) Sundry creditors include –	As at 31st March, 2003 Rupees '000	<i>As at 31st March, 2002 Rupees '000</i>
i) Amounts due to small scale industrial undertakings	81,064	<i>86,473</i>
9. 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) Leasehold land includes 5 unquoted shares of Rs 50 each fully paid, at cost, in National Co-operative Housing Society Limited, Pune.		
c) Buildings include :		
i) 5 unquoted shares of Rs 50 each fully paid, at cost, in High Landmark Co-operative Housing Society Limited, Mumbai.		
ii) 10 unquoted shares of Rs 200 each fully paid, at cost, in Sesa Ghor Premises Holders' Co-operative Society Limited, Goa.		

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

10. Contingent liabilities

	As at 31st March, 2003 Rupees '000	As at 31st March, 2002 Rupees '000
a) Claims against the Group not acknowledged as debts	500	500
b) Taxation matters pending in appeal including effect of similar matters in respect of appeals decided in favour of the Group	37,565	37,569
c) Central excise duty/customs duty – demands not accepted by the Group	6,649	7,201
d) Civil liability / secondary civil liability in respect of suits filed against the Group	3,000	401
e) Guarantees given on behalf of third parties to its bankers – maximum liability restricted to	37,500	5,000
f) Bills discounted with bankers	38,353	60,260
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	Amounts if any, not ascertainable	Amounts if any, not ascertainable
i) Advances include Rs. (000) 1,696 (<i>previous year Rs. (000) 1,696</i>) in respect of which a third party has made claims against the Group, which are not acknowledged as debts by the Group.		
j) Pursuant to an order of the Hon'ble Supreme Court, restraining the State Government, from recovering sales tax, one of the Group's supplier has not charged sales tax of Rs. (000) 40,676 (<i>previous year Rs. (000) 18,503</i>) (including interest @ 9% p.a. from October 2000 to March 2003) on supplies made by it. In the event of the supplier's appeal being dismissed by the Hon'ble Supreme Court, the Group will need to reimburse the above amounts to the supplier.		
k) 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 with interest @ 8% per annum and also waive recovery of Rs. (000) 330 from HSL.		

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

11. 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

- b) Transactions with related parties as per the books of account during the year ended 31st March 2003.

						Rs. '000
	Holding Company	Fellow Subsidiaries	Joint Venture	Associates	Key Management Personnel	Total
Purchases of goods	177,047	734,650	18,548	73,557	—	1,003,802
	(243,296)	(1,102,596)	(13,849)	(—)	(—)	(1,359,741)
Sale of goods	67,176	1,491,063	—	350	—	1,558,589
	(95,268)	(2,633,273)	(1,783)	(—)	(—)	(2,730,324)
Purchase of fixed assets	—	60	—	—	—	60
	(—)	(—)	(—)	(—)	(—)	(—)
Sale of fixed assets	—	—	—	—	—	—
	(—)	(—)	(—)	(—)	(—)	(—)
Services rendered	—	—	—	20,947	—	20,947
	(45,437)	(22,606)	(8,867)	(—)	(—)	(76,910)
Remuneration paid	—	—	—	—	11,199	11,199
	(—)	(—)	(—)	(—)	(4,150)	(4,150)
Services received	—	438	—	2,402	—	2,840
	(—)	(—)	(—)	(—)	(—)	(—)
Transfer of technology	56,082	—	—	—	—	56,082
	(74,257)	(24,340)	(—)	(—)	(—)	(98,597)
Interest on inter-corporate deposits	—	—	—	233	—	233
	(—)	(—)	(126)	(—)	(—)	(126)
Interest Income	—	—	—	406	—	406
	(—)	(2,234)	(—)	(—)	(—)	(2,234)
Inter-corporate deposits	—	—	—	5,495	—	5,495
	(—)	(—)	(4,100)	(—)	(—)	(4,100)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

						Rs. '000
	Holding Company	Fellow Subsidiaries	Joint Venture	Associates	Key Management Personnel	Total
Interest due to increase in credit period	— (—)	12,535 (—)	— (—)	— (—)	— (—)	12,535 (—)
Purchase of investment	— (—)	— (—)	3 (—)	— (—)	— (—)	3 (—)
Sale of investments	— (—)	14,237 (2)	— (—)	52,920 (—)	— (—)	67,157 (2)
Miscellaneous sale	— (—)	— (1,792)	— (—)	4,955 (—)	— (—)	4,955 (1,792)
Sale of scrap	— (858)	— (—)	— (—)	— (—)	— (—)	— (858)
Equity contributions	— (—)	— (—)	— (16,500)	— (—)	— (—)	— (16,500)

c) Amounts outstanding as at 31st March 2003

Rs. '000

	Holding Company	Fellow Subsidiaries	Joint Venture	Associates	Total
Sundry Debtors	26,476 (28,022)	607,644 (1,116,252)	— (10,215)	16,498 (—)	650,618 (1,154,489)
Loans and advances	— (—)	— (—)	— (4,226)	— (—)	— (4,226)
Inter-company deposits balance receivable	— (—)	— (—)	— (—)	10,356 (—)	10,356 (—)
Sundry Creditors	26,476 (74,736)	110,388 (135,780)	1,946 (1,409)	11,783 (—)	150,593 (211,925)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

Notes :

- i) The names of the related parties under the appropriate relationship included in notes 11 (b) and (c) above are as follows:

Relationship	Name of the related party
1. Holding Company	Cummins Inc.
2. Fellow Subsidiaries	<ul style="list-style-type: none"> i) Cummins Engine Company Limited ii) Cummins Power Generation Limited iii) Cummins Diesel Sales Corporation iv) Cummins S A DE v) Cummins Natural Gas Engine vi) Cummins Diesel N V vii) Cummins Diesel Australia viii) Cummins Engine Co-Australia ix) Cummins Engine Co.-Diesel Recon x) Cummins Power Generation (S) Pte Ltd. xi) Cummins Power Generation-Australia xii) Cummins Engine (Singapore) Pte Ltd xiii) Ceco-Cummins Juarez xiv) Cummins Powergen S-S xv) Cummins Brazil,S.A. xvi) Fleetguard Inc. xvii) Diesel Recon Co. xviii) Fleetguard Nelson Division xix) Holset Engineering Co. Ltd xx) Holset Engineering Company, Inc. xxi) Cummins Engine Diesel Co. xxii) Wuxi Newage Alternators xxiii) Cummins Engine (Beijing) Co. xxiv) Onan Corporation xxv) Nelson Burgess Ltd. xxvi) Newage International, UK
3. Joint Venture	<ul style="list-style-type: none"> i) Nelson Engine Systems India Limited
4. Associates	<ul style="list-style-type: none"> i) Valvoline Cummins Limited ii) Fourstroke Automotive Private Limited iii) Newage Electrical India Limited iv) MRC Auto Solutions Private Limited

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

5. Key Management Personnel
- i) J. M. Rugg
 - ii) Pradeep Bhargava
 - iii) Vinod Dasari
- 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.

12. 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 include 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.

Information about Primary Segments		Engine Business	Others	Elimination	Total
i)	Segment revenue	11,930,751 (11,470,405)	542,406 (393,133)	-1,890,222 (-1,676,477)	10,582,935 (10,187,061)
ii)	Segment result	1,129,287 (1,125,785)	-26,615 (-1,201)	-25,898 (10,487)	1,076,774 (1,135,071)
	Other Income				274,540 (283,056)
	Interest				53,071 (33,200)
	Profit before tax				1,298,243 (1,384,927)
	Provision for tax				
	Current tax				439,552 (350,246)
	Deferred tax				-30,464 (685)

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Information about Primary Segments		Engine Business	Others	Elimination	Total
	Minority Interest				— (-662)
	Net profit for the year				889,155 (1,034,658)
iii)	Segment assets	7,330,467 (7,905,878)	486,579 (530,364)	-624,573 (-1,073,008)	7,192,473 (7,363,234)
	Common assets				3,683,943 (2,370,454)
	Enterprise Assets				10,876,416 (9,733,688)
iv)	Segment liabilities	2,502,386 (2,388,751)	178,888 (189,713)	-305,815 (-552,968)	2,375,459 (2,025,496)
	Common Liabilities				1,046,688 (744,282)
	Enterprise Liabilities				3,422,147 (2,769,778)
v)	Capital expenditure	213,482 (245,651)	74,293 (128,980)	— (—)	287,775 (374,631)
vi)	Depreciation	273,482 (268,036)	30,530 (26,444)	— (476)	304,012 (294,956)
	Information about geographical segments (Secondary segments)	Domestic	Export	Elimination	Total
vii)	Segment revenue	10,729,297 (9,070,949)	1,741,140 (2,792,589)	-1,887,502 (-1,676,477)	10,582,935 (10,187,061)

Notes:

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

13. 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	7,335	18,644	25,979
	(17,234)	(36,524)	(53,758)
Less : Unearned finance income	2,485	3,567	6,052
	(5,254)	(5,801)	(11,055)
Present value of minimum lease payments receivable	4,850	15,077	19,927
	(11,980)	(30,723)	(42,703)

- ii) Contingent rental income in respect of operating lease arrangements recognised in the statement of profit and loss for the year aggregate Rs. (000) 5,564 (*previous year Rs. (000) 3,140*).
- iii) The future minimum sub lease payments receivable under non-cancellable operating sub lease arrangements, due within 12 months, aggregate Rs. (000) 5,254 (*previous year Rs. (000) 4,746*).
- iv) The sub lease income recognised in the statement of profit and loss for the year aggregate Rs. (000) 129,021 (*previous year Rs. (000) 98,454*).
- v) Contingent rental income in respect of finance lease arrangements recognised in the statement of profit and loss for the year aggregate Rs. (000) 122 (*previous year Rs. Nil*).

14. Lease commitments

- i) Finance lease :

The Group acquires vehicles and office equipment under finance lease arrangements for periods up to five years. The future minimum lease payments under these leases as of March 31, 2003 are as follows:

	Due within 12 months Rupees '000	Due between 12 – 60 months Rupees '000	Total amount due Rupees '000
Minimum lease payments	2,368	4,800	7,168
	(2,011)	(5,965)	(7,976)
Less : Amount representing interest	577	668	1,245
	(770)	(1,428)	(2,198)
Present value of minimum lease payments	1,791	4,132	5,923
	(1,241)	(4,537)	(5,778)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

ii) Future obligations as per lease agreements in respect of assets taken on finance lease is Rs. (000) 909 (*previous year Rs. (000) 1,589*). Lease rent of Rs. (000) 1,826 (*previous year Rs. (000) 4,107*) has been debited to the profit and loss account.

iii) 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, 2003 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	47,085 (9,351)	70,664 (28,423)	26,663 (30,565)	144,412 (68,339)

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

- Appropriately recognised in the profit and loss account – Rs. (000) 11,954 (*previous year Rs. (000) 50,050*)
- Adjusted in the carrying amount of fixed assets – Rs. (000) 1,170 (*previous year Rs. (000) (2,174)*).

16. Managerial Remuneration

Particulars	Rs. '000	<i>Previous Year Rs. '000</i>
Salary	8,379	<i>4,301</i>
Perquisites	2,820	<i>3,895</i>
Commission – non-whole-time directors	1,250	<i>570</i>
Sitting fees	300	<i>195</i>
Total	12,749	<i>8,961</i>

Of the above remuneration an amount of Rs. (000) 318 (*previous year Rs. Nil*) due to Mr. Pradeep Bhargava is subject to the approval of the shareholders.

Appointment and remuneration of Mr. Vinod Dasari as a whole-time director is subject to approval of the Central Government in terms of provisions of Schedule XIII [Part I, Condition (e)] of the Companies Act, 1956. Remuneration paid / provided during the year amounted to Rs. (000) 6,288.

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.

Cummins India Limited and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

17. Remuneration to Auditors :

	Rupees '000	<i>Previous year Rupees '000</i>
Audit fees	4,134	5,339
Tax audit	81	—
Other services	938	2,616
Reimbursement of out of pocket expenses	47	193
Total	<u>5,200</u>	<u>8,148</u>

18. Other expenses include provision for doubtful debts Rs. (000) 12,330 (*previous year Rs. (000) 12,717*) and provision for permanent diminution in value of long term investments Rs. NIL (*previous year Rs. (000) 26,191*).

19. Research and development expenses aggregating Rs. (000) 144,093, including Rs. (000) 23,791 on capital account (*previous year Rs. (000) 79,101* including Rs. (000) 20,860 on capital account) have been incurred by the Group. The expenses disclosed above include expenses incurred on development of parts, etc.

20. Earning Per share

	As at March 31, 2003	<i>As at March 31, 2002</i>
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)	889,155	1,033,996
Weighted average number of shares outstanding during the year	198,000,000	198,000,000
c) Earnings per share (Basic and Diluted)(Rupees)	4.49	5.23
Face value per share (Rupees)	2.00	2.00

21. Considering the fact that the operations of the Group's Associates namely, MRC Autosolutions Private Limited and Fourstroke Automotive Private Limited are not yet stabilized and the other Suraksha Stops which, together with the two Associates, are an integral part of the Phase I of the project under implementation for CASL, in the opinion of the management, the strategic and long term investment made by the Group in the equity capital of and the ICDs placed with the said two Associates do not require any provision for diminution in the net worth of the Associates as at 31st March, 2003.

Cummins India Limited

Cummins India Limited and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED ON 31ST MARCH, 2003.

22. The investments in Associates disclosed in Schedule 6 is arrived at as follows :

	Valvoline Cummins Limited Rs. '000	MRC Autosolutions Pvt Limited Rs. '000	Fourstroke Automotive Pvt Limited Rs. '000	Newage Electrical India Limited Rs. '000
Value of Investment	2,540	9,000	7,500	122,799
Goodwill	12,535	—	—	49,068
Cost of Acquisition	15,075	9,000	7,500	171,867
Additional investment in share capital	63,700	—	—	—
Share in post-acquisition changes	44,363	-4,872	-4,106	46,228
Write-off of Goodwill as at 31 st March 2003	7,520	—	—	4,908
Carrying amount of Investment disclosed in Schedule 6	115,618	4,128	3,394	213,187

23. The Group has 50% interest in a Joint Venture, Nelson Engine Systems India Limited, incorporated in India. The following represents the Group's share of assets and liabilities as at 31st March 2003 and Income and Expenses for the year ended on that date in the JV incorporated in the financial statements before elimination of intra-group transactions.

Net assets	Rs. '000
Net Fixed Assets	14,034
Investments	4,501
Inventories	2,438
Debtors	3,274
Cash & Bank Balances	2,018
Other Current Assets	—
Loans and Advances	299
Current Liabilities	3,348
Deferred tax liability	2,003
Net Assets	21,213

Profit & Loss Account	Rs. '000
Sales	21,470
Expenditure	17,103
Depreciation	1,141
Tax Provision	751
	2,475

Cummins India Limited and its Subsidiaries

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR
THE YEAR ENDED ON 31ST MARCH, 2003.**

24. Previous year's figures have been regrouped/reclassified wherever necessary.

Signatures to the Schedules 1 to 12.

M. M. GODSE
Vice President Legal &
Company Secretary

NASSER MUNJEE
Director

RAVI VENKATESAN
Chairman

Mumbai : June 7, 2003

Cummins India Limited

Cummins India Limited and its Subsidiaries

CONSOLIDATED CASH FLOW FOR THE YEAR ENDED ON 31ST MARCH, 2003.

	Rupees '000	Rupees '000	Previous year Rupees '000
I. Cash flows from operating activities :			
Cash generated from operations	1,833,329		1,572,337
Tax paid (net of refunds)	(400,464)		(237,370)
Net cash provided by operating activities		1,432,865	1,334,967
II. Cash flows from investing activities :			
Fixed assets			
Purchase	(272,999)		(392,397)
Sale	45,797		12,271
Interest received	187,062		73,264
Dividend received	2,494		58,716
Investments			
Purchase	(6,009,892)		(7,119,438)
Sale/redemption	4,668,326		6,264,074
Net cash used for investing activities		(1,379,212)	(1,103,510)
III. Cash flows from financing activities :			
Short term bank borrowings	55,015		100,000
Export packing credit (net)	—		3,561
Repayment of term loans	(1,428)		—
Repayment of fixed deposits (net)	(50,807)		(35,412)
Interest paid	(55,777)		(33,917)
Dividend paid (including tax on dividend)	(297,199)		(282,724)
Net cash used for financing activities		(350,196)	(248,492)
IV. Adjustments for associate companies and Joint Venture		220,747	—
V. Net change in cash and cash equivalents (I+II+III+IV)		(75,796)	(17,035)
VI. Cash and cash equivalents at the beginning of the year		319,416	318,991
Cash and cash equivalents at the end of the year (IV+V)		243,620	301,956

Cummins India Limited and its Subsidiaries

CONSOLIDATED CASH FLOW FOR THE YEAR ENDED ON 31ST MARCH, 2003. (Contd.)

Notes :

	Rupees '000	Rupees '000	Previous year Rupees '000
1) Cash generated from operations has been arrived at as follows :			
Net profit before tax		1,298,243	1,384,927
Adjustments for -			
a) Non cash item /items required to be disclosed seperately :-			
Depreciation	304,012		294,956
Interest expense	53,071		33,200
Interest income (gross)	(188,504)		(100,301)
Dividend earned (gross)	(2,494)		(58,716)
Loss/(gain) on assets sold, discarded etc;	(8,443)		1,545
Loss/(gain) on redemption /sale of investments	(58,426)		(165,597)
Share in profit of associates	(56,777)		
Write off of associates Goodwill	6,160		
Provision for doubtful debts	17,380		12,717
Permanent dimunition in value of long term investments			26,191
		65,979	43,995
b) Changes in working capital and other provisions :-			
Sundry debtors	448,427		(175,797)
Inventories	(28,782)		97,231
Loans and advances	(98,313)		82,159
Other current assets	79,494		(55,534)
Current liabilities	67,771		138,742
Provisions	510		56,614
		469,107	143,415
Total adjustments (a+b)		535,086	187,410
Cash generated from operations		1,833,329	1,572,337
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.			

Cummins India Limited

Cummins India Limited and its Subsidiaries

CONSOLIDATED CASH FLOW FOR THE YEAR ENDED ON 31ST MARCH, 2003. (Contd.)

Notes :

3) Cash and cash equivalents comprise :	Rupees '000 2002-03	Rupees '000 2001-02	Rupees '000 2000-01
Cash in hand	638	852	378
Cheques on hand	17,055	30,998	9,806
Balances with bank on current account :			
Unclaimed dividend account (restricted)	4,199	4,398	3,467
Other current accounts	174,855	171,798	269,660
Balances with bank on deposit account	101,984	125,571	37,020
Cash credit (excluding interest accrued & export packing credit)	(55,111)	(31,661)	(1,340)
Total	243,620	301,956	318,991

- 4) As this is the first year of adoption of 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, adjustments relating to the difference arising on account of opening block of Fixed Assets, opening balance of Profit and Loss Account and opening balance of General Reserve relating to Associates and Joint Ventures of the Company considered for its Consolidated Financial Statements are shown as "Adjustments for Associate companies and Joint Ventures" in Consolidated Statement of Cash Flows for the year ended March 31, 2003.
- 5) Cash and Cash equivalents as at beginning includes Rs.(000) 5,460 of Cummins Power Solutions Limited and Rs.(000) 12,000 of Power Systems India Limited taken over on amalgamation. The amalgamation is a non cash transaction (Refer Note 6 of schedule 12).
- 6) The figures in brackets represent outflows of cash and cash equivalents.
- 7) Previous years figures have been regrouped, wherever necessary to conform to the current year classification.

In terms of our report of even date
For PRICE WATERHOUSE
Chartered Accountants

VASANT GUJARATHI
Partner

Mumbai : June 7, 2003

RAVI VENKATESAN
Chairman
NASSER MUNJEE
Director

M. M. GODSE
Vice President Legal &
Company Secretary

Mumbai : June 7, 2003