

**FAG Bearings India Limited.**

**ANNUAL REPORT**

**2002**

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**FAG**

World-class technology, zero defect quality, reliability and continuous product development have helped FAG win customer's confidence and loyalty.



- 1 Best of class manufacturing processes, computer controlled and a very high level of automation ensures 100% quality with superior repeatability and reproducibility of each bearing that rolls out of FAG in Vadodara.
- 2 Mr. PK. C. Bose, Managing Director, SEW-Eurodrive India P Ltd with Mr. D. Jagannath, MD FAG India at FAG's impressive and informative stall.
- 3 CIP engages every employee towards continuous product and process oriented innovations.
- 4 FAG India brings superior technological advantage to the Indian Railways, with the development of the new generation rivet-less cage Traction Motor Bearing with the drop-roller feature to withstand high vibration in adverse service condition.
- 5 FAG India received the award for Best Overall Performance from its most prestigious customer- TATA CUMMINS LIMITED.

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10 Years' Highlights	44	<i>Bankers</i> Union Bank of India State Bank of India ICICI Bank Limited Deutsche Bank
		<i>Auditors</i> A.F. Ferguson & Co.
		<i>Cost Auditors</i> B.J.D. Nanabhoy & Co.
		<i>Tax Auditors</i> O.P. Rathi & Co.
		<i>Solicitors</i> Mulla & Mulla & Craigie Blunt & Caroe Remfry & Sagar
		<i>Collaborators</i> FAG Group of Companies, Germany
		<i>Head Office &amp; Works</i> Maneja, Vadodara - 390 013
		<i>Sales Offices</i> Chennai, Kolkata, Mumbai, New Delhi, Pune
Registered Office :		
Nariman Bhavan, 8th Floor, 227, Backbay Reclamation, Nariman Point, Mumbai - 400 021		

**FAG Bearings India Limited****Notice to Members**

Notice is hereby given that the Fortieth Annual General Meeting of FAG BEARINGS INDIA LIMITED will be held on Thursday, April 24, 2003 at 3.00 p.m. at M.C. Ghia Hall, 18/20 Kaikhushru Dubash Marg, Mumbai-400 023 to transact the following business:

**ORDINARY BUSINESS**

1. To receive, consider and adopt the Balance Sheet as at December 31, 2002 and the Profit and Loss Account for the year ended on that date and the reports of the Auditors and the Board of Directors thereon.
2. To declare dividend for the year ended December 31, 2002.
3. To appoint a Director in place of Mr. F. Huber who retires by rotation, and being eligible offers himself for reappointment.
4. To appoint a Director in place of Mr. G. Morber who retires by rotation, and being eligible offers himself for reappointment.
5. To appoint Auditors and to fix their remuneration.

**NOTES:**

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from 1st April, 2003 to 5th April, 2003 (both days inclusive) to determine entitlement of dividend on equity shares.
3. **DIVIDEND**
  - (i) Dividend on equity shares, if declared, will be paid around April 29, 2003 subject to deduction of applicable income tax where the dividend amount payable to shareholder exceeds Rs. 2500/-.
  - (ii) For Shareholders with dividend amount over Rs. 2500/-, declaration in Form No. 15 G for claiming receipt of dividend without deduction of Income tax, wherever applicable, should reach to the Registrars & Transfer Agents of the Company before March 31, 2003.

Registered Office:  
Nariman Bhavan, 8th Floor,  
227, Backbay Reclamation,  
Nariman Point,  
MUMBAI-400 021

By Order of the Board

H. R. Shukla  
Secretary

Date: February 5, 2003

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## Directors' Report

To the members of the Company

Your Directors are pleased to present the Fortieth Annual Report of the Company together with audited accounts for the year ended December 31, 2002.

### 1. FINANCIAL RESULTS

	(Rs. in million)	
	Year 2002	Year 2001
Sales turnover (Net)	2443.1	2226.7
Earning before depreciation, interest and tax (EBDIT)	483.3	437.4
Depreciation	169.8	165.4
Interest, Commitment and Finance Charges (Net)	59.6	79.8
Profit for the year before Taxation (PBT)	253.9	192.2
Provision for Taxation :		
(a) current tax	58.3	43.3
(b) deferred tax	5.9	(1.3)
Profit for the year after Taxation	189.7	150.2
Deferred tax liabilities (net) of earlier years	—	(81.3)
Withdrawn from General Reserve towards opening deferred tax liabilities	—	81.3
Provision for taxation for an earlier years written back	8.0	—
Profit after taxation (PAT)	197.7	150.2
Write back of excess provision for Income tax on dividend for previous year	5.9	7.2
Balance brought forward	67.0	73.7
Profit available for appropriation	270.6	231.1
<b>APPROPRIATIONS</b>		
Transferred from Debenture Redemption Reserve	(25.0)	—
Proposed dividend	66.5	58.2
Income tax on dividend	—	5.9
Transferred to General Reserve	175.0	100.0
Balance carried to Balance Sheet	54.1	67.0
	270.6	231.1

### 2. FINANCIAL AND OPERATIONAL PERFORMANCE

Your Company's sales have been growing year after year at a rate faster than the growth of bearing industry. For the year 2002, we had sales growth of 9.7% (2001: 8.3%). The sales growth was mainly in the Aftermarket and OEM segments while railways recorded a small decline. The sales of the imported bearings too had a good growth. Exports of the Company were Rs.424.3 million (2001: Rs. 434.0 million). The shortfall in exports experienced in the first half year was largely recovered during the later half, in spite of the weak European economy. This trend is expected to continue in 2003.

The Profit Before Tax (PBT) was higher by 32.1% and Profit After Tax (PAT) was higher by 31.6% than the previous year.

The special emphasis targeted at the aftermarket sales in both automobile and industrial bearings segments has given good results. The Company's promotional campaign in the aftermarket was successful because of introduction of multicolour pouch packaging which was well received. The Company has initiated special development projects with some of the key automotive customers like Maruti, Ford, GM, Hyundai and Ashok Leyland. The Company was successful in maintaining good control on receivables from all customers.

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The profitability of the Company has improved in spite of intense competitive pressure on prices, margins and low volumes of orders from customers. This was compensated through extensive cost reduction in several ways and by focussed product mix planning. The Company established a milestone in product development by developing 84 types of bearings in the year. Quality improvement programme and machine rebuilding enhanced the precision of our processes. Conservation of energy and water has resulted in significant savings. Process optimisation and development of suppliers/vendors have been taken up as major activities. Development of tools and spares in the tool room has resulted in substantial savings. Cycle-time and down time reductions have increased the productivity. The bearings production has gone up by 13.4% over the last year (2001: 5%). Upgradation of the non-EOU plant has started to yield results. A small beginning has been made by exports of bearings and tools of Rs. 20.5 million (2001 : Rs. 2.5 million) from it. The Total Productive Maintenance (TPM) activities in the year resulted in substantial savings in consumption of oils and lubricants, reduction of down time and increase in Productivity.

During the year FAG Germany conducted a Total Quality Management audit covering QS 9000, ISO TS 16949 and Continuous Improvement Process. The Company earned the highest score with the best result so far in the FAG Group. TÜV Surveillance Audits for TS 16949 and ISO 14001 were also successful. The Company won a prestigious award for the "Best Overall Performance" from Tata Cummins Limited for 2001-2002 in India.

The Company signed a new Technical Knowhow Agreement with FAG Hanwha Bearing Corporation, Korea for a few special bearings and with FAG Kugelfischer Georg Schaefer AG, Germany for Arcanol greases. These are expected to contribute to the growth in the current year.

The Company along with other ball bearing manufacturers has filed a petition against China, Poland, Romania and Russia for dumping. The same has been accepted by the Government of India and investigation has been initiated by it.

During the year 2002, a trainee won a gold medal at the regional level for technical skill competition organised by CIL.

### 3. DIVIDEND

Your Directors recommend for your approval dividend for the year ended December 31, 2002 at the rate of Rs. 4.00 (2001: Rs. 3.50) per equity share amounting to Rs. 66.5 million (2001: Rs. 58.2 million). As per the Income-Tax Rules, tax will be deducted at source from the dividend amount, where applicable.

### 4. INA/FAG OPEN OFFER

During the year, INA Vermögensverwaltungsgesellschaft mbH, Germany (INA) acquired FAG Kugelfischer Georg Schaefer AG, Germany (FAG) - the holding Company of your Company. In India INA made a public announcement to acquire upto 20% of the paid up share capital of your Company @ Rs.41.22 (including Rs.4.40 as interest). For the purpose of the Open Offer, FAG has been termed as "Person Acting in Concert with INA". The Open Offer opened on January 20, 2003 and would close on February 18, 2003. It has been made in compliance with the order dated October 19, 2002 of the Chairman, SEBI. As clarified in the Open Offer, the public shareholding would not be reduced to 10% or less of the voting capital of FAG India and therefore the shares of FAG India will not be delisted.

### 5. FAG ROLLER BEARINGS PVT. LTD.

The Joint Venture for Taper Roller Bearings is progressing well, and awaiting test and quality approvals conforming to FAG standards. A dealer network is being set up for these products. In April 2002 trial production was started and test samples were launched. The products were well accepted by the test market. The plant has been upgraded substantially. Experts from FAG-Automotive Germany will visit the plant to assist in further upgradation to meet global standards.

### 6. FINANCE

The Company further reduced the long term borrowings and utilisation of working capital limits with the banks as a measure of cost control. CRISIL re-affirmed the rating of the Commercial Paper of the Company



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as 'P1 plus' (the highest possible). The rating was utilised to place Commercial Paper throughout the year at lower interest rates. Export packing credit was utilised to the extent it was beneficial for the Company. Interest costs reduced by 25.3% over 2001.

As on December 31, 2002, deposits from public amounting to Rs. 2.4 million (including interest due) had matured for repayment but had not been claimed. Out of this amount, deposits amounting to Rs. 0.6 million have been renewed/refunded till date.

### 7. MANAGEMENT DISCUSSION AND ANALYSIS

The Company is in the business of manufacturing and marketing of ball and roller bearings. The key issues of the Management Discussion and Analysis are given below.

#### (a) Industry structure and developments

Indian Bearing market size is estimated at Rs. 22 billion. Approximately one third of this demand is met through imports and the balance is met through indigenous products. The sales of the organised bearing industry in India is estimated at Rs. 12.5 billion. After successive declines in domestic sales during the year 2000 and 2001, the bearing industry experienced a significant growth of 9% during the year 2002. FAG India has continued its growth along the line of industry and maintained its market share at around 9%.

The fortunes of bearing industry are linked to the growth of the automotive industry. The two wheeler industry and commercial vehicle industry had the fastest growth (about 20%). While sales of passenger car largely remained flat during the year, tractor industry faced one of the worst years in recent times. Demand from Railways - another important market segment - remained flat during the year.

OEM industries such as two wheeler are facing price competition in their own markets and continue to exert price pressure on the local bearing suppliers. Bearing capacity available in the country is in excess of demand and this has resulted in price reduction.

#### (b) Opportunities and threats

Despite unfavourable developments in agriculture and slow growth in infrastructure, Indian economy seems to grow at 4 to 5% supported by a smart growth in manufacturing and services sector. Demand outlook for the year 2003 is positive.

#### (c) Segmentwise performance

The details of segment reporting are given in notes to accounts. A brief summary is given below:

(Rs. in million)

	2002			2001		
	Ball and Roller Bearings	Others	Total	Ball and Roller Bearings	Others	Total
(i) Segment revenue	2462.0	10.0	2472.0	2259.4	2.4	2261.8
(ii) Segment result	376.4	3.4	379.8	333.0	0.6	333.6
(iii) Segment assets	2069.6	16.5	2086.1	2023.8	12.8	2036.6
(iv) Segment liabilities	461.6	0.1	461.7	410.3	-	410.3

#### (d) Outlook

The continual growth in the automobile sector is expected to give the necessary boost to the bearing industry. Indications of improvement in the economy are visible. The Company is making all efforts to grow significantly in the prevailing economic situation.

The Company expects to improve its position in the market by focussing on technologically advanced product and more profitable products/market segments.

## FAG Bearings India Limited

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The Company will also continue to work aggressively in the areas of higher productivity, better efficiency and cost reductions in order to control costs.

### (e) Risk and concerns

While the overall demand outlook for the year 2003 remains good, the Company expects that there will be pressure on its margins on account of stiff competition in the market.

Customs duty on imports are expected to be reduced by another 5% during the year 2003. Imports especially from China and Eastern Europe have nearly doubled in the last two years. These imports are made at unrealistically low prices and are posing a serious threat to the local bearing industry.

The menace of spurious bearings further compounded the problems of the organised bearing industry.

There is a general increase in the price of steel which forms the basic material for bearings. It may not be possible for the Company to recover the increase in material cost from customers.

### (f) Internal control system

Internal audit and other internal controls are found adequate and are reviewed periodically by the Audit Committee. The Company since 1998 uses SAP R/3 - a world renowned Enterprise Resource Planning (ERP) system. As a part of worldwide upgradation in the FAG Group, the Company successfully switched over to a new version 4.6C which further supports the internal control mechanism. Financial Internal Audit team from FAG, Germany audited the plant and operations and found the performance satisfactory.

### (g) Developments in human resources and industrial relations

Relationship has been cordial with the Workers' Union and Staff Association for the past several years. The total number of employees at the year end was 1064 (2001: 1085). Information as per Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particular of Employees) Rules, 1975 forms part of this Report. The Managing Director is the only employee covered by these Rules and details of his remuneration are covered in this Annual Report.

## 8. DIRECTORS

Mr. A.P. Gandhi was appointed a director and was elected as the Chairman of the Board of Directors. He succeeds Dr. Sagar. Dr. Sagar continues as a director on the Board.

Your Directors Mr. F. Huber and Mr. G. Morber retire by rotation and being eligible, offer themselves for reappointment.

Dr. M. Kunzmann resigned during the year.

GIC nominated Mr. M.D. Garde on the Board in place of Mr. B.P. Deshmukh.

IDBI withdrew their nomination of Mr. S.P. Tawde and did not appoint anyone in his place.

## 9. CORPORATE GOVERNANCE

A separate Section on Corporate Governance is included in the Annual Report and the certificate from the Company's auditors confirming the compliance of conditions on Corporate Governance as stipulated in Clause 49 of the Listing Agreement with Stock Exchanges is annexed thereto.

## 10. AUDITORS

The Auditors, Messrs A.F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment.



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### 11. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNING AND OUTGO

Information required as per Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 has been given in the Annexure forming part of this Report.

### 12. DIRECTORS' RESPONSIBILITY STATEMENT

The directors state that :

- i) in the preparation of annual accounts, all applicable accounting standards have been followed and proper explanation relating to material departures, if any, have been furnished;
- ii) accounting policies as listed in the schedule 16 to the financial statements have been selected and consistently applied and reasonable and prudent judgements and estimates have been made so as to give a true and fair view of the state of affairs of the Company as on December 31, 2002 and of the profit of the Company for the accounting year ended on that day;
- iii) proper and sufficient care for maintenance of adequate accounting records has been taken in accordance with the provisions of the Act so as to safeguard the assets of the Company and to prevent and detect fraud and other irregularities;
- iv) the annual accounts have been prepared on a going concern basis.

### 13. ACKNOWLEDGEMENTS

Certain statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be "forward-looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ from those expressed or implied therein. Important factors that could make a difference include raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the countries in which the Company conducts business and other incidental factors.

Your Directors place on record their appreciation for the wholehearted and continued support extended by INA and FAG Germany, suppliers, customers, stockists & importers, lending institutions, banks and all employees of the Company during the year under report.

For and on behalf of the Board

A.P. Gandhi  
Chairman

New Delhi : February 5, 2003

**FAG Bearings India Limited****Annexure to Directors' Report**

Particulars under the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988.

**(A) CONSERVATION OF ENERGY**

1. Average power factor maintained  $\geq 0.99$  earning rebate in power bill.
2. Fume extraction fan motors optimised for energy savings.
3. Running of compressors on holidays was controlled.
4. Operated Ball department 5 days a week.
5. Energy saved by Power House cooling water line insulation.

**FORM B****(B) TECHNOLOGY ABSORPTION**

R & D activity was conducted in the field of product development and process optimisation. This resulted in redefined processes, improved precision, productivity and quality. The revenue expenditure on R & D was Rs. 0.9 million (2001: Rs. 1.0 million) and capital expenditure was Rs. 1.4 million (2001: Nil) during the year.

**TECHNOLOGY ADAPTATION, ABSORPTION & INNOVATION**

During the year FAG-India acquired various testing machines for determining quality levels of newly developed products and also for continually upgrading the existing quality levels.

With the recent addition of testing machines, FAG India is one of the very few companies to establish product validation and testing centre in the Country.

**(C) FOREIGN EXCHANGE EARNING AND OUTGO**

Import substitution is used as a measure of cost reduction, where possible.

	(Rs. in million)	
	Year 2002	Year 2001
<b>Imports CIF value of</b>		
Raw materials, Components, Products purchased for Sale, Stores & Spares, Capital goods and intangible assets	357.4	308.4
<b>Expenditure in foreign currency</b>		
Interest on foreign currency loans,	91.5	101.0
Fees for use of technology, interest on Foreign suppliers credit, professional fees and other expenses		
<b>Dividend paid to Shareholders (net of tax)</b>	26.7	29.7
Total foreign exchange used	<u>475.6</u>	<u>439.1</u>
<b>Earning in foreign exchange</b>		
Consultancy Service Fees	19.8	18.3
FOB value of exports	424.3	434.0
Total foreign exchange earned	<u>444.1</u>	<u>452.3</u>

For and on behalf of the Board

A.P. Gandhi  
Chairman

New Delhi : February 5, 2003