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FAG



FAG Bearings India Limited

Annual Report 2004

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Contents	Page No.
General Information	1
Notice to Members	2
Directors' Report (Including Management Discussion and Analysis)	4
Corporate Governance Report	9
Auditor's Report	19
Balance Sheet	22
Profit and Loss Account	23
Cash Flow Statement	24
Schedules	26
10 Years' Highlights	42
Electronic Clearing Service (ECS) Credit Clearing	45

Registered Office :

Nariman Bhavan, 8th Floor
227, Backbay Reclamation
Nariman Point
Mumbai – 400 021

General Information

Board of Directors

Chairman	Avinash P. Gandhi
Managing Director	Damaraju Jagannath
	Dr. Vidya Sagar
	Hans-Juergen Goslar
	Frank Huber
	Cornelius Fricke
	Guenther Morber
	Bernhard Steinruecke
Nominee of GIC	Moreshwar D. Garde
Alternate to F. Huber	Sampath Kumar
Alternate to G. Morber	Yezad S. Kapadia
Alternate to C. Fricke	Kamlesh C. Tapadar
Secretary	Hemant R. Shukla
Bankers	Union Bank of India
	State Bank of India
	ICICI Bank Limited
	HDFC Bank Limited
	Deutsche Bank
Auditors	A.F. Ferguson & Co.
Collaborators	Schaeffler Group, Germany
Head Office & Works	Maneja, Vadodara – 390 013
Sales Offices	Chennai, Kolkata, Mumbai, New Delhi, Pune

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Notice to Members

Notice is hereby given that the Forty Second Annual General Meeting of FAG BEARINGS INDIA LIMITED will be held on Thursday, April 28, 2005 at 3.00 p.m. at KAMALNAYAN BAJAJ HALL, Ground Floor, Bajaj Bhawan, Jamnalal Bajaj Marg, 226, Nariman Point, Mumbai-400 021 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at December 31, 2004 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, 2004.

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.

SPECIAL BUSINESS

6. To appoint a Director in place of Mr. H.J. Goslar, who was appointed as an additional director of the Company by the Board of Directors on February 3,2005, pursuant to Article 126 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting of the Company under Section 260 of the Companies Act,1956. The Company has received notice in writing under Section 257 of the Companies Act,1956 proposing his candidature for the office of Director.

7. To appoint a Director in place of Mr. Bernhard Steinruecke, who was appointed as an Additional Director of the Company by the Board of Directors by a Circular Resolution in March, 2005 pursuant to Article 126 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting of the Company under Section 260 of the Companies Act,1956. The Company has received a notice in writing under Section 257 of the Companies Act,1956 proposing his candidature for the office of Director.

Registered Office:

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

By Order of the Board

H. R. Shukla
Secretary

Date: March 15, 2005

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 instrument of proxy, duly completed, should be lodged at the Registered Office of the Company not less than forty-eight hours before the commencement of the Annual General Meeting.

3. The Company has notified closure of Register of Members and the Transfer Books from April 1, 2005 to April 5, 2005 (both days inclusive) to determine entitlement of dividend on equity shares. Dividend will be paid to those shareholders whose names appear on the Register of members of the Company as at the end of business hours on March 31, 2005. The dividend will be paid in the first week of May, 2005 after approval by members at the general meeting. In respect of shares held in electronic form (demat shares), the dividend will be paid on the basis of beneficial ownership as per the details furnished by the Depositories for this purpose.

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4. a) Shareholders who have not encashed the dividend warrants for the years 1997-98, 1998, 1999, 2000, 2001, 2002 or 2003 are requested to claim the amount from the Company immediately.

   b) Unclaimed dividends for 1994-95 and earlier years were deposited in time by the Company with General Revenue Account of the Central Government and shareholders may claim the same from the Registrar of Companies, Mumbai- 400 033.

   c) Unclaimed dividends for the year 1995-96 and 1996-97 were transferred to the Investor Education and Protection Fund in time, pursuant to the Section 205A read with 205C of the Companies Act, 1956.

5. Electronic Clearing Service (ECS) has been permitted by Reserve Bank of India in many cities. The Company is ready to offer this service to the shareholders. Shareholders may fill up the option Form and send it to the Registrars by April 15, 2005.

Annexure to Notice

Explanatory statement under Section 173 of the Companies Act,1956 relating to the Special Business mentioned in the notice convening the Annual General Meeting.

Item No.6

On February 3, 2005 your directors appointed, Mr. H.J. Goslar as an Additional Director on the Board. Mr. Goslar, aged 54 years, is a Mechanical Engineer. He is a member of Board of FAG Kugelfischer AG, Germany. He is a Executive Vice President in INA-Schaeffler KG (INA). He is responsible for Engineering for the entire Schaeffler Group Industrial Division. Previously he worked for Continental Teves where he last served as Company Vice President in charge of the Continental Automotive Systems division for the Asia Pacific region.

He is Director in the following other companies:

Sr. No.	Name of the Company
1.	FAG Kugelfischer AG
2.	FAG Austria AG
3.	Duerkopp Adler AG

In terms of Section 260, of Companies Act,1956, he ceases to hold the office of the Director at this Annual General Meeting. Your Directors recommend his election as a Director. A notice in writing from a member proposing his candidature for the appointment as Director and his consent to act as Director, if appointed, have been received by the Company. Except Mr. H.J. Goslar, no other Director is concerned or interested in this resolution.

Item No.7

In March 2005 your directors appointed, Mr. Bernhard Steinruecke as an Additional Director on the Board. Mr. Steinruecke is 50 years and has degrees in Law, Economics and Tax Laws. He is the Director General of Indo-German Chamber of Commerce, Mumbai. Earlier, he was General Manager at Deutsche Bank at Colombo and Mumbai.

He is a Director in Zodiac Clothing Co. Ltd., Mumbai.

He is a member of the Audit Committee of FAG India.

In terms of Section 260 of Companies Act,1956, he ceases to hold the office of the Director at this Annual General Meeting. Your Directors recommend his election as a Director. A notice in writing from a member proposing his candidature for the appointment as Director and his consent to act as Director, if appointed, have been received by the Company. Except Mr. Bernhard Steinruecke, no other Director is concerned or interested in this resolution.

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Directors' Report

To the members of the Company,

Your Directors are pleased to present the Forty Second Annual Report of the Company together with the audited financial statements of the Company for the year ended December 31, 2004.

(Rs. in million)

1. FINANCIAL RESULTS	Year 2004	Year 2003
Total Income (net)	3304.4	2742.0
Earning before depreciation, interest and tax (EBDIT)- Gross Operating Profit	601.1	502.0
Depreciation / Amortisation	169.9	167.4
Interest (net)	(2.8)	24.9
Profit for the year Before Tax (PBT)	434.0	309.7
Provision for Tax:		
(a) Current tax	127.5	74.5
(b) Deferred tax	(5.0)	2.7
Profit for the year After Tax	311.5	232.5
Tax adjustments for earlier years (net)	(2.7)	(0.9)
Profit After Tax (PAT) – Net Profit	308.8	231.6
Balance brought forward	42.8	54.1
Profit available for appropriation	351.6	285.7
APPROPRIATIONS		
Proposed dividend @ 35% (2003 : 45%)	58.2	74.8
Income tax on dividend (*including for an earlier year Rs.8.5 million)	7.6	18.1*
Transfer to General Reserve	30.9	150.0
Balance carried to Balance Sheet	254.9	42.8
	351.6	285.7

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2. FINANCIAL AND OPERATIONAL PERFORMANCE

Your Company's sales have been growing year after year at a rate faster than the growth of the bearing industry in India. For the year 2004, we had a sales growth of 21% (2003: 9.2%). It was mainly in the imported bearings and Aftermarket. OEM and Railways recorded a reasonable growth. Exports of the Company were Rs. 424.7 million (2003: Rs. 385.0 million).

Gross Operating Profit increased by 19.7%(2003 : 4.1%). Profit Before Tax (PBT) was higher by 40.1% (2003: 22.0%) and Profit After Tax (PAT) was higher by 33.3% (2003: 17.1%).

During the year, there was intense competitive pressure on prices and margins. There was substantial increase in steel prices also. The Company could achieve its profitability with emphasis on the Aftermarket, imported bearings business and focussed product mix planning. The intensive cost reduction efforts continued during the year. The production of bearings went up by 6.4% over the last year (2003: 3.8%).

During the year FAG Germany conducted a Total Quality Management audit covering QS 9000, ISO TS 16949 and Continuous Improvement Process. All the audits were very successful. TÜV Surveillance Audits for TS 16949 (2002 version)and ISO 14001 were also successful.

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3. DIVIDEND

Your Directors recommend for your approval dividend for the year ended December 31, 2004 at the rate of Rs. 3.50 (2003: Rs. 4.50) per equity share amounting to Rs. 58.2 million (2003: Rs. 74.8 million).

The Company will pay income tax on Dividend as per the provisions of the Income-Tax Act.

Significant changes in the Indian market economy has created an upsurge in the demand for bearings in terms of volume and better quality. This has resulted in the Company's plant capacity being utilised to nearly total levels. Therefore, in order to retain and increase FAG India's business share with premier customers, it is imperative that we make substantial investments in the plant and machinery and quality equipments. The Company needs to conserve its cash resources and reduce the dividend outgo.

4. FAG ROLLER BEARINGS PVT. LTD.

During the year, 49% shareholding of the Chadha family members was acquired by INA Bearings India Pvt.Limited.

All the plant & machinery items and inventories, tools etc. were shifted from Pune to Vadodara. The production is planned to start by June 2005. The Company achieved a sale of Rs. 99.7million (2003: Rs.69.2 million).

5. FINANCE

By now, your Company has become a zero-debt entity. During the year, with tight controls on inventories and receivables and alert financial management, the capital employed was reduced. No long term loan was taken and credit facilities from the banks for working capital were sparingly utilised. Near the end of the year 2004, the Company had prepaid all the fixed deposits accepted from the public (including employees and shareholders) with interest due upto December 31, 2004. There was no matured and unclaimed deposit at the year end.

6. MANAGEMENT DISCUSSION AND ANALYSIS

(a) Industry structure and developments

Indian Bearing market size is estimated at Rs. 25 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 are estimated at Rs. 16.0 billion. The bearing industry experienced a significant growth of 20% during the year 2004. FAG India has continued its growth in line with the industry. FAG India's share in the total market is around 11%.

The fortunes of the bearing industry in India are linked to the growth of the automotive industry. 2004 was a record year for the automotive industry; the growth was over 17%. The passenger cars and commercial vehicle industry had the fastest growth (about 30%). The sales growth of two wheeler industries especially motorcycle, (which had been growing at a faster pace for the past few years) stabilized at around 14-15% during the year. The tractor industry that faced one of the worst years in recent times is clearly on a revival path posting around 28% growth from a lower base of last year. The 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. In face of the accelerated demand from the automotive industry, the bearing industry capacity available in the country is not aligned with the present demand trend, generating a scope for expansion.

(b) Opportunities and threats

Indian economy seems to grow at 7% supported by a smart growth in manufacturing and services sectors. Demand outlook for the year 2005 is quite positive.

The industry has to be on guard against the menace of counterfeit (i.e. spurious bearings) which has increased over the last few years, inspite of serious efforts to check it.

(c) Segmentwise performance

The business of the Company falls under a single segment i.e. "Ball/Roller Bearings and related components" for the purpose of Accounting Standard AS-17.

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(d) Outlook

The continued growth in the automobile sector and the improving mood in the manufacturing sector will provide growth to the bearing industry. Indications of improvement in the economy are visible.

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

The Company will continue to work 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 2005 remains good, the Company expects that there will be pressure on its margins on account of intense competition and steel price rise in the market.

Customs duty on imports is expected to be reduced by another 5% during the year 2005. Cheap imports especially from China during the year, remain a threat to the local bearing industry.

The rising raw material cost (steel) has been a nagging worry for the industry. It may not be possible for the Company to recover the increase in material cost entirely from the customers.

(f) Internal control system

Internal audit and other controls have been found to be adequate. These are reviewed periodically by the Audit Committee. The Internal Audit team from FAG, Germany audited the Company during the year and found the performance satisfactory.

(g) Developments in human resources and industrial relations

The total number of employees at the year end was 1031 (2003:1053). 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.

The settlement with Workers Union and Staff Association, valid for three years, expired on March 31, 2004. As reported to you last year, now there is a single body after the merger of Workers' Union and Staff Association. The leadership dispute of the new body is subjudice before the Industrial Court No. 2, Vadodara. Therefore, the new settlement may be signed with the new body after the Court decision. The leadership issue has not disturbed the harmony between the management and the workers. The Company continued to have cordial relations with all the employees.

7. DIRECTORS

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

Mr. H. J. Goslar was appointed as an additional director on February 3,2005 and seeks his appointment at the General meeting.

Mr.Bernhard Steinruecke was appointed as an additional director in March, 2005 and seeks his appointment at the General meeting.

8. 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.

9. AUDITORS

Our Auditors, Messrs A.F. Ferguson & Co., Chartered Accountants, have become a part of Deloitte family and do not offer themselves for reappointment. It is proposed to appoint Deloitte Haskins and Sells, Chartered Accountants, as the auditors of the Company for the year 2005.

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10. 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.

11. DIRECTORS' RESPONSIBILITY STATEMENT

The directors state that :

i) in the preparation of annual accounts all applicable accounting standards have been followed;

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, 2004 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.

12. 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 thereof, cyclical demand and pricing in the Company's principal markets, changes in Government regulations and tax regime, 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 the Schaeffler Group, 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 : March 15, 2005

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Annexure to Directors' Report

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

(A) CONSERVATION OF ENERGY

a. Installed latest Air Controller and Conserver System to reduce running time of heavy-duty air compressor.

b. Replaced higher watts lights by Low watts light with high power reflectors.

c. Reduction in input voltage from 220 to 200 on single phase lighting transformer to reduce power consumption.

d. Reduction in power consumption by modifying Air Conditioning System from wet type to dry type system.

e. As usual the power factor has been maintained to 0.99 enabling maximum rebate in the energy bill.

FORM B

(B) TECHNOLOGY ABSORPTION

a. Many new types of bearings have been developed successfully.

b. Pressure belt filtration system introduced on Face and O.D. Grinding area to obtain good quality of coolant and smooth grinding operation.

c. Process mapping of Cylindrical Roller Bearing is carried out to reduce average cycle time in Export Oriented Unit.

TECHNOLOGY ADAPTATION, ABSORPTION & INNOVATION

The Company has modernized the old machines to meet the new requirements of computerized processes through latest controls to obtain high productivity and international quality with recent concept of focusing on the segments of Ball and Roller Bearings.

FAG India strongly emphasis in implementing the highest grade of technological standards in new applications of its product.

(C) FOREIGN EXCHANGE EARNING AND OUTGO

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

(Rs. in million)

	Year 2004	Year 2003
Imports CIF value of Raw materials, Components, Products purchased for Sale, Stores & Spares, Capital goods and intangible assets	579.7	402.3
Expenditure in foreign currency Interest on foreign currency loans, Fees for use of technology, interest on Foreign suppliers credit, professional fees and other expenses	111.2	109.9
Dividend paid to Shareholders (net of tax)	38.4	33.9
Total foreign exchange used	729.3	546.1
Earning in foreign exchange		
Service Income	27.2	22.2
FOB value of exports	424.7	385.0
Total foreign exchange earned	451.9	407.2

For and on behalf of the Board

A.P. Gandhi
Chairman

New Delhi: March 15, 2005

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Corporate Governance Report

FAG Bearings India Limited has established good practices in corporate governance. The corporate governance in FAG India is implemented by a qualified Board of Directors.

FAG India's corporate governance conforms to regulatory and legal requirements, such as the terms of Listing Agreements with Stock Exchanges. In addition, it incorporates several practices aimed at a high level of business ethics, effective supervision and enhancement of value for all stakeholders. The Board lays emphasis on integrity and accountability.

Details of the compliance of the Corporate Governance Code are given below:

I. Board of Directors

The Management of your Company is entrusted to the Managing Director.

Your Board of Directors closely monitors the performance of the Company and its Management, approves and reviews strategy and determines the remuneration of the management based on its performance. Your Board ensures legal and ethical conduct and high quality financial reporting. It holds itself accountable to the shareholders as well as other stakeholders for the long-term health of the Company.

The Company, at the end of year 2004, had seven Directors and three Alternate Directors. Of these, Mr. D. Jagannath, the Managing Director, is the only whole time/Executive Director. All others are non-executive directors.

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Mr. A.P.Gandhi is the non-Executive Chairman of the Board. He is a professional with over 42 years of experience in the automobile industry.

Mr. M.D.Garde has been nominated to the Board by a financial institution, the General Insurance Corporation of India Ltd. (GIC).

Dr. Sagar is a Lawyer and Partner in the firm of Remfry & Sagar, Attorneys-at-Law. He has considerable expertise in Corporate Law and the law related to Intellectual Property.

Mr. Huber, Mr. Morber and Mr. Fricke are professionals, working in senior positions at FAG/INA, Germany. Mr. Sampath Kumar, Mr. Kapadia and Mr. Tapadar, Alternate Directors respectively represent them during their absence. Except these three directors, all the other four directors mentioned above are independent.

The number of independent directors or number of non-executive directors are more than the number stipulated by the Clause 49 of the Listing Agreement with the Stock Exchange.

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