



Annual Report 2012



W E L C O M E T O T H E





In pursuit of our dream to realise qualitative growth, we at FAG India, invested ₹ 250 crores during 2011 and 2012.

At Vadodara plant, we enhanced capacities, commissioned an advanced Generation 3 Wheel Bearing cell, and invested in technologically superior X-life Cylindrical and Spherical Roller Bearing production

On 29th October 2012, our new sophisticated plant at Savli - near Vadodara - was inaugurated by Mr. Georg F. W. Schaeffler, Partner, Schaeffler Group and Dr. Juergen M. Geissinger, President and CEO, Schaeffler AG. The new plant will produce Low-friction Ball Bearings and Large Size Bearings for a vast range of applications and will create new standards of quality, efficiency and reliability.

Combining our new generation technologies, with invaluable engineering know-how from Schaeffler Group, we at FAG India are ready to support our customers in embracing future challenges of growth and sustainability.

Currently the Indian economy is facing headwinds. We cannot remain unaffected by these changes. These are the times to work hard and sharpen our competitiveness. We will, of course, stay on course with our long-term strategy of investing in high technology plants and robust processes. People are our most important assets; we will continue to create an environment where positive culture simultaneously powers development of the organisation and our employees. Leveraging our innovation capabilities, we will offer solutions to our customers - that increase efficiency, minimise waste and conserve resources.

Together, we will strive for a sustainable future...



F U T U R E



PLANT AND PRODUCTS

Operational Excellence through MOVE

MOVE, an acronym derived from German phrase "Mehr Ohne Verschwendung", or "more without waste" in English, represents Schaeffler's innovative and holistic approach towards excellence in Quality and Lean Manufacturing. Schaeffler Production System which is based on MOVE principles, synchronises all processes within the organisation with an objective of maximising customer value and minimising waste.

Work is structured based on value stream analysis, material moves based on Pull Principal and production flow is oriented towards customer's requirements. This ensures high flexibility and productivity at the same time.

But MOVE is more than a process, it's a culture. We established a MOVE Academy in Vadodara in 2009 and have trained over 350 employees for Zero Defect and Lean Manufacturing principles. These specially trained employees put the knowledge gained in practice by implementing diverse projects. With more than 25 MOVE projects implemented in 2012, we increased space utilisation, reduced throughput time, cut costs and improved productivity in our plant.



Supply Chain Excellence

Under the motto "Sustainable Growth Through High Performance Partnership", Schaeffler India hosted its top 70 suppliers at Suppliers' Day 2012 in Pune. During this event our suppliers got first hand information on Schaeffler's business plans, strategies and performance expectations. The supply chain partners responded enthusiastically with new initiatives in the field of quality, cost reduction, logistics and new development.



Setting New Standards

By combining our innovative product designs with the state-of-the-art manufacturing technology, we are setting new standards in our products. For example, Low-friction Ball Bearings being produced at Savli Plant



reduce friction by more than 35%. FAG Generation 3 Wheel Bearings based on integration concept are gaining preference of Indian passenger car manufacturers and we have been chosen as development partners on five platforms.

At the same time, we continue to expand our X-Life product range for Cylindrical Roller and Spherical Roller Bearings offering customers significantly higher bearing life at no extra cost.

Special Machine Building



At the core of sophisticated manufacturing process is always a robust machine tool. As a pioneer in new technologies, Schaeffler designs and manufactures critical machines by itself. Our Special Machine Building division (a part of FAG Roller Bearings) is now capable of designing and building advanced production and assembly machines for bearing manufacturing. SMB division supports FAG's growth projects by providing customised next-generation equipment.

Total Quality Management

Breakthrough in Quality performance is only possible by involvement of all our employees. As a part of Continuous Improvement Process, we encourage our employees to participate in initiatives like Kaizen and Quality Circles.

The enthusiasm and commitment of our employees towards excellence in quality can be judged by the response to Kaizen competition carried out at Vadodara plant in August 2012 when we received over 2,000 implemented Kaizen entries from nearly 1,000 employees.

At the recent Gujarat State level Quality Circle Convention held in September 2012, Six Quality Circles from FAG participated along with 112 other teams from various small and big companies. It was a proud moment for FAG as five out of the six teams won the Gold award, while one won the Silver award in their respective categories.



MARKETS

Innovation

Innovation, widely seen as the new currency for 21st century, is at the very core of Schaeffler's business strategy. At FAG, the innovation process starts with a comprehensive understanding of the customer's world. Our engineers extend know-how far beyond our products to customer application and systems. By accurately understanding our customer's current and future needs, we are able to improve products and bring innovative solutions in the market.



Innovation pervades every process of our value chain and is seamlessly integrated to create maximum value for our customers. At FAG, we are making long-term investments towards raising engineering competence of our people. By investing in sophisticated calculation and project management software, by building expertise in tribology, surface treatment and material technology, and by constantly adding to our testing resources, we are strengthening our competitive position with our customers.

It is with this innovative spirit of the organisation that we were successful in adding over 100 new products to our portfolio in 2012.



Maruti Suzuki Recognises FAG

In 2012, FAG India was recognised by India's largest car manufacturer - Maruti Suzuki at their vendor conference in Thailand. FAG was presented with an award for Excellence in Design and Development. We also received recognition for superior performance in the field of capacity enhancement.



Partnership with Institutes

In the year 2012, FAG India signed a Memorandum of Understanding (MoU) with Indian Machine Tool Manufacturers Association (IMTMA) Technology Centre to become a technology partner and to offer training on bearing maintenance. IMTMA Technology Centre conducts many technical training courses for industry professionals at Bangalore, Pune and New Delhi.



As part of the agreement, FAG provided IMTMA with product displays explaining bearing engineering and shared Schaeffler bearing know-how that will be used during future training courses.

Reducing Total Cost of Ownership

At FAG, we extend the innovation concept beyond products to include innovative service solutions for our customers. FAG supports its customers in increasing machine availability and reducing Total Cost of Ownership. We focus on solving problems of our customers, while we work together with them in their plants to avoid unplanned shutdown, improve quality and increase plant availability. With our competence in Mounting, Lubrication, Alignment and Condition Monitoring, we partner with our customers in proactive reliability maintenance.



Complementing our know-how of customer's processes and applications with our service portfolio, we could demonstrate increased value and significant reduction in Total Cost of Ownership to our customers in Steel, Mining, Cement and Paper industries.

Getting Closer to Customer

Our distribution partners play a very important role in providing efficient customer service. In line with our approach to provide "service at your doorstep", we encourage our distribution partners to set up their showrooms in small industrial towns. Premier (India) Bearings Ltd., a leading industrial distributor of FAG and INA products launched their new showroom in Udhna, the industrial hub of Surat. Besides ensuring timely availability of Schaeffler products, Premier intends to offer extended service support such as Mounting, Condition Monitoring, etc. to the customers in South Gujarat.



PEOPLE

FGI Awards FAG for Excellence in Industrial Relations

"Happy Customers - Happy Employees", this summarises our vision at FAG. That is why we are constantly taking measures to improve employee relations. We create opportunities for employee engagement, encourage them to share their success stories and enthuse in them a shared vision of the Company's future.



Our vision and initiatives towards HR practices were duly recognised by the Federation of Gujarat Industries (FGI) when they awarded FAG for "Excellence in Industrial Relations (IR)" in 2012. This prestigious award was handed over by honourable Chief Minister of Gujarat, Mr. Narendra Modi.

Strategic Roadmap 2016 Launched

As the center of economic gravity shifts from West to East, Asia Pacific region will play an increasingly important role in shaping the global economy. Schaeffler is well positioned to benefit from the rapid development of this region due to its strong presence in countries like China, Korea and India.

Strategic Roadmap 2016 (SR2016) represents a shared vision of Schaeffler Asia Pacific Region. It articulates not only the regional goals but also the clear strategic direction and measures to realise a strong competitive position for Schaeffler in this region.



We realise that transforming the organisation into the one we envision, requires more than strategy and measures. Towards our endeavour to make SR2016 an integral part of the very fibre of our organisation, we aligned all our employees with the vision and the strategy. At the launch event called We Make It Happen Day, employees across all levels of the organisation committed themselves 100% towards realisation of SR2016.



"Development of employee competence is key towards realisation of SR2016. That is why we have clearly defined a roadmap for competence development for each of our engineers. It is only when the employee competence development precedes the market development that organisations like Schaeffler can leverage its leadership position."

Sreepal Rajan Singh Negi, Head of Technical Services

Success in Regional Work Skill India Competition

The Work Skills India Competition is an important annual initiative of Confederation of Indian Industry (CII) to inspire and motivate industrial workers by recognising excellence in work skills.

Trade Apprentices from FAG Learning & Development Centre have been winning awards at the CII competition every year. It was therefore not a surprise when one of our trade apprentice in Tool & Die Maker Trade secured 1st position in the 25th Regional Work Skill Competition organised at Pune and did all of us at FAG proud once again.



Working in Teams

Management is a process of reaching superior goals through teamwork. Solutions to complex business and operational challenges demand multiple skills and temperament. That is why we encourage structured working of multifaceted teams right in the work areas to solve hurdles with speed and quality.

"Daily Gemba Rounds are invaluable source for number of creative ideas leading to continuous improvements. We rely on talent and synergy of team members to overcome complex challenges."

Sameer Mathur, Vice President Operations



Company Information

Board of Directors:	
Chairman	Avinash Gandhi
Managing Director	Rajendra Anandpara
Directors	Wolfgang Dangel Udo Bauer Bruno Krauss Frank Huber Bernhard Steinruecke Moreswar Garde R. Sampath Kumar
Alternate to Mr. Krauss	Kamlesh Tapadar
Alternate to Mr. Dangel	Yezad Kapadia

Chief Financial Officer	Satish Patel
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Company Secretary	Raj Sarraf
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Bankers	Union Bank of India ICICI Bank Limited
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Auditors	B S R & Co.
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Collaborators	Schaeffler Group, Germany
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Regd. Office	Nariman Bhavan, 8th Floor, 227, Backbay Reclamation, Nariman Point, Mumbai - 400 021
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Head Office & Works	Maneja, Vadodara - 390 013
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Savli Plant	Plot No.1 (Alindra), Savli GIDC Phase - III, Taluka: Savli, Vadodara - 391 775
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Sales Offices	Bangalore, Bhubaneswar, Chennai, Coimbatore, Jamshedpur, Kanpur, Kolkata, Mumbai, New Delhi, Pune, Secunderabad, Udaipur
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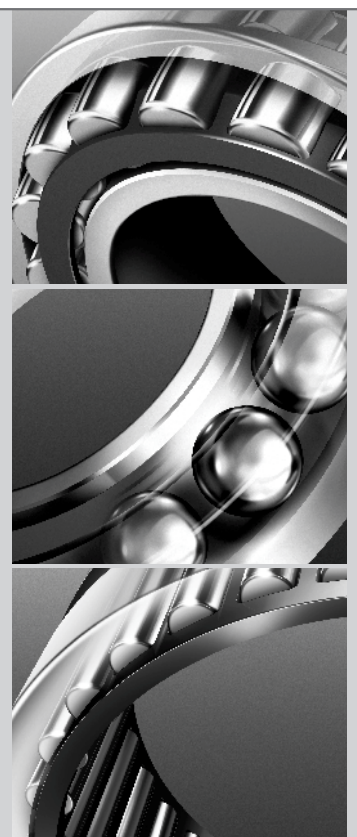
Directors' Report

To the members of the Company,

Your Directors are pleased to present the 50th Annual Report of the Company together with the audited financial statements of the Company for the year ended December 31, 2012.

Financial Highlights

Year	(₹ in million)	
	2012	2011
TOTAL INCOME (Net)	14,912.8	13,394.0
Gross Operating Profit (Earning before depreciation, interest, tax and prior period adjustments)	2,650.4	2,848.1
Depreciation / Amortisation	302.7	225.9
Interest (Net)	13.0	12.6
Prior period adjustments	–	–
PROFIT BEFORE TAX	2,334.7	2,609.6
Provision for Tax	742.9	849.9
PROFIT FOR THE YEAR	1,591.8	1,759.7
Balance brought forward	4,594.0	3,377.5
Profit available for appropriation	6,185.8	5,137.2
APPROPRIATIONS		
Proposed dividend	83.1	166.2
Income tax on dividend	13.5	27.0
Transfer to General Reserve	350.0	350.0
Balance carried to Balance Sheet	5,739.2	4,594.0
	6,185.8	5,137.2



➤ Financial and Operational Performance

2012 was a difficult year. Indian economy slowed down with GDP estimated to grow only at 5% in 2012-13, slowest since a decade. Besides slowing down of economy, factors such as tight liquidity and generally weak sentiments led to reduced consumption and investments.

Demand growth of your Company's products slowed down in 2012 thus limiting top line development. Increased costs of traded goods due to weakening of Indian Rupee, intense market competition and lower absorption of fixed costs on account of slower volume growth put added pressure on margins.

Amid the sluggish environment, your Company performed reasonably well. Income rose to ₹ 1,491 crores representing growth of 11% (2011: 25%). Profit from ordinary activities in 2012 was placed at ₹ 233 crores (2011: ₹ 261 crores).

Consistent with its long-term strategy to invest in qualitative growth, your Company commissioned a new plant at Savli (near Vadodara) where we commenced production of Low-friction Ball Bearings. Production of Large Size Bearings and a new heat treatment plant will go on stream soon. At the existing plant in Maneja - Vadodara, we ramped up production of advanced Generation 3 Wheel Bearings, besides investing in various capacity and quality improvement projects.

Your Company intensified the implementation of MOVE and Fit for Quality programmes as a part of continuous improvement process to realise the goal of operational excellence.

Continuing its emphasis on innovation, R&D and sector approach, your Company was successful in developing large number of value added and efficient solutions for its customers in automotive and industrial sectors.

By focusing on Schaeffler Group's core competencies of innovation, quality, and productivity, your Company will continue to sharpen its future competitiveness.

Your Company will stay on course with its long-term strategy of investing in development of local production and R&D capabilities. Leveraging strengths of our robust processes, and empowered employees, your Company will continue to strive to become preferred partner to customers in India and thus benefit from India's growth in medium and long-term.

➤ Dividend

Your Directors recommend for your approval dividend for the year ended December 31, 2012 at the rate of ₹ 5/- (2011: ₹ 10/- inclusive of a dividend of ₹ 5/- per share in celebration of Company's 50th year of incorporation) per equity share amounting to ₹ 83.1 million (2011: ₹ 166.2 million).

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

➤ Transfer to General Reserves

A sum of ₹ 350 million has been transferred to the General Reserves of the Company. This reflects well on the financial strength of the Company.

➤ Transfer to Investor Education and Protection Fund

Pursuant to provisions of Section 205A read with Section 205C of the Companies Act, 1956, the unpaid / unclaimed dividend pertaining to the year ended on December 31, 2004, amounting to ₹ 290,804/- (including interest accrued thereon) was lying in the Company's separate unpaid dividend account and, remaining unclaimed for a period of seven years, was transferred to the Investor Education and Protection Fund.

➤ Management Discussion and Analysis

A detailed review of operations, performance and future outlook of the Company is covered under a separate Annexure to this report as Management Discussion and Analysis. (ANNEXURE - I)

➤ Directors

At the forthcoming Annual General Meeting, Mr. Bruno Krauss and Mr. Bernhard Steinruecke will retire by rotation and being eligible, offer themselves for re-appointment in terms of the Articles of Association of the Company. A brief resumé / particulars relating to them are given separately under the report on Corporate Governance. Your Directors recommend their re-appointment at the forthcoming Annual General Meeting.

Mr. Udo Bauer, who is President & CEO of Schaeffler Asia Pacific, has been appointed as Additional Director with effect from May 25, 2012. Pursuant to provisions of Section 260 of the Companies Act, 1956, read with the Articles of Association of the Company, he can hold office only up to the date of the forthcoming Annual General Meeting of the Company. We have received a notice under Section 257 of the Companies Act, 1956, from a member proposing his candidature for directorship and being eligible, your Directors recommend his re-appointment, subject to approval of shareholders at the forthcoming Annual General Meeting of the Company.

During the year, the office of Alternate Directors was considered as vacated on arrival of their original directors. With the consent of original directors they were re-appointed as their Alternate Directors in the respective Board Meetings, the last of which was held on October 26, 2012.

As on December 31, 2012, Mr. Kamlesh Tapadar and Mr. Yezad Kapadia are the Alternate Directors of Mr. Bruno Krauss and Mr. Wolfgang Dangel respectively.

➤ Particulars of Employees

The statement under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended and forming part of this report is given in Annexure - IV. However, pursuant to provisions of proviso (b) (iv) to

Directors' Report

Section 219 (1) of the Companies Act, 1956, all reports and accounts are being sent to all the shareholders of the Company except this Annexure - IV. Any shareholder interested in getting a copy of the said statement may write to the Company Secretary at Registered Office or at Head Office of the Company.

➤ Corporate Governance

A separate section on Corporate Governance is included in the Annual Report and the certificate from M/s Samdani Kabra & Associates, Company Secretaries, Vadodara (Guj.), the Company's Secretarial Auditors confirming the compliance of conditions on Corporate Governance as stipulated in Clause 49 of the Listing Agreement with Stock Exchanges is annexed thereto. (ANNEXURE - II)

➤ Auditors

The Statutory Auditors, B S R & Co., Chartered Accountants, Mumbai, who will retire at the conclusion of 50th Annual General Meeting to be held on April 25, 2013 and being eligible, offer themselves for re-appointment. A certificate from them has been received to the effect that their re-appointment, if made, would be within the limits prescribed under Section 224(1B) of the Companies Act, 1956.

➤ 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. (ANNEXURE - III)

➤ Environmental Protection and Occupational Health and Safety Policy

Commitment to Environmental Protection and Occupational Health and Safety is an important part of your Company's management's principles. Details of actions taken by your Company towards protecting environment and safety are covered under 'Management Discussion and Analysis (Annexure I to the Directors' Report)'.

➤ Directors' Responsibility Statement

The Directors state that:

- (i) In preparation of Annual Accounts, all applicable accounting standards have been followed.
- (ii) Accounting Policies as listed in notes to the financial statements have been selected and applied consistently. Reasonable and prudent judgments as well as 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, 2012 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 Companies Act, 1956 so as to safeguard the assets of the Company and to detect and prevent fraud and other irregularities.
- (iv) The annual accounts have been prepared on a going concern basis.

➤ Acknowledgements

Your Directors place on record their sincere appreciation for the wholehearted and continued support extended by the Shareholders, Schaeffler Group, Suppliers, Customers, Stockists & Importers, Banks and all Employees of the Company during the year under report.

For and on behalf of the Board

Avinash Gandhi
Chairman

Mumbai: February 14, 2013