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SKF

SKF Bearings India Ltd.

Annual Report 2002



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CUSTOMER VALUE

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SKF Moves Up The Customer Value Ladder

Most companies take pride in providing products, which meet their customer expectations.

SKF is, however constantly striving to provide customers with superior Value, by helping them sharpen their competitive edge and stay ahead of others.

It is therefore no surprise that customers in India have recently rated SKF India as "excellent, and far ahead of any competitor, in all major area's" in a recently carried out Customer Image Survey.

This reaffirming feedback, directly from our customers in India, is encouraging us to continue exploring new and innovative ways of providing further enhanced Value and innovative solutions to our customers.



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SKF

SKF Bearings India Limited

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Board of Directors

Chairman	Dr. Fredie A. Mehta
	Darius C. Shroff
	* Mansingh L. Bhakta
	Jamshyd N. Godrej
	Narendra J. Jhaveri
	Keki N. Wadia
	Gunnar Gremlin
	Tom Johnstone
	Giuseppe Donato
	Bjarne Johansen
	* Gunilla Nilsson
	Bruno Richiardore
	** Giulio Borroni
Managing Director	Torsten Nordgren
Secretary	Jimmy N. Panthaky

* upto 22nd February, 2002
** appointed from 22nd February, 2002

Auditors	Arthur Andersen & Associates Chartered Accountants
Solicitors	Crawford Bayley & Co.
Bankers	Bank of America N.T. & S.A. Bank of India Citibank N.A. Standard Chartered Grindlays Bank Hongkong & Shanghai Banking Corporation Limited Punjab National Bank
Registrars and Share Transfer Agents	Tata Share Registry Limited Army & Navy Building 148, Mahatma Gandhi Road Mumbai 400 001
Registered Office	Mahatma Gandhi Memorial Building, Netaji Subhash Road, Mumbai 400 002
Plants	Chinchwad, Pune Bommasandra, Bangalore

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Directors' Report

To the Members,

The Directors present herewith their Forty-first Annual Report with the Audited Statement of Accounts for the year ended December 31, 2001.

	Year ended December 31, 2001 Rupees in crores	Year ended December 31, 2000 Rupees in crores
The Profit before providing for depreciation and interest amounted to	**51.06**	100.22
Deducting therefrom :		
Depreciation	**33.16**	40.51
Interest	**20.32**	27.97
(Loss)/Profit before restructuring costs & tax	**(2.42)**	31.74
Writeback of surplus provision for VRS no longer required	**12.68**	(23.50)
Profit before tax	**10.26**	8.24
Provision for taxation		
- Current Tax Charge	**4.34**	1.38
- Deferred Tax Income	**(3.05)**	—
Profit after tax	**8.97**	6.86
Transfer from Debenture Redemption Reserve	**11.52**	—
Transfer from Investment Allowance Reserve	**—**	3.25
Balance brought forward from last year	**5.91**	2.43
	26.40	12.54
The appropriations are as follows :		
Proposed dividend on Equity Shares	**4.53**	3.77
Tax on Proposed Dividend	**.46**	.85
Transfer to General Reserves (including compulsory transfer to Reserves required under Section 205(2A) of the Companies Act, 1956)	**7.00**	2.00
Leaving a balance of	**14.41**	5.92

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The Company's sales for the year under review were Rs.357.30 crores as compared to Rs.366.53 crores for the previous year showing a nominal drop of 2.52%. In a year in which the world economy was under the pall of recessionary gloom compounded by the 11th September 2001 bombing of the World Trade Centre, your Company has atleast managed to more or less maintain its top line. The operating profits have come down sharply for reasons indicated separately.

DIVIDEND

Your Directors are pleased to recommend the payment of a dividend of 10% for the year under review. However, this payment is on the increased share capital of Rs.45.26 crores as opposed to Rs.25.14 crores as at 31st December, 2000.

OPERATIONS

MARKET

The slowdown of the Indian economy continued throughout the year 2001. Both in terms of GDP as well as Index of Industrial Production, growth declined significantly during the year. Many of the Company's customer segments have shown a negative growth in 2001. Car production declined by 0.7% compared to year 2000, Commercial Vehicles production fell by 4.6% while the production of Tractors fell sharply by approximately 15%, compared to the previous year. In spite of the lack of production growth in the Car segment, the Company's sales to the Car manufacturers actually increased by more than 18% during the year, mainly as a result of the successful launch of Hub bearings, now being used by most modern car manufacturers in India. Sales to the Truck segment was in line with the industry trend, while sales to the tractor segment was significantly better than the industry development, indicating that the Company has increased its market share significantly in the Car and Tractor segments.

Unlike the Car, Truck and Tractor segments, the Two-wheeler industry has shown strong growth in 2001. Total production of two and three wheelers grew by 20% during the year. The Company's sales to this segment developed very positively throughout the year, with a total growth of 13%, which means that the Company has further strengthened its dominating position in this segment. Sales to Industrial OEM customers also showed a positive development during 2001, while sales of Textile Machinery Components declined throughout the year, in line with the general decline of the Textile industry.

The Company continued to launch a number of new and higher Value Added Products and Services to a number of its customer segments during the year, which will further strengthen the Company's competitiveness in the future.

Sales to the Aftermarket fell sharply in the first half of the year as a result of intensified price pressure in the market, a sharp increase of cheap imported bearings and indiscipline in the market place in the form of spurious bearings and grey market operations. The Company has during the year intensified its activities in the market, by launching a number of initiatives, such as "Operation Customer Reach" which includes intensified interaction with retailers and end-users, including seminars and training programmes, innovative incentive schemes, as well as increased usage of e-Commerce tools and Customer friendly Supply Chain solutions. In order to further attack the spurious market, the Company has during the year launched a new tamper proof aftermarket packaging for Taper Roller Bearings, as well as initiated civil and criminal actions against spurious bearing operators, actions that will be continued in the current year. Although the total year's sales in the aftermarket dropped sharply, the activities initiated during the year has turned the trend and the aftermarket sales started to recover in the second half of the year.

Export Sales, predominantly to the US market from the Company's Bangalore factory, fell during the year, as an effect of the slowdown of the US and world economy, while export from the Pune factory, after having completed the "Pune-2000" programme, showed a positive growth in the year 2001.

CUSTOMER VALUE

After the last year's efforts to significantly upgrade product and process quality, in line with SKF's latest global standards, restructuring the whole Supply Chain function, including implementing a new nationwide transport network, intensified use of e-Commerce tools, implementing a new dedicated Customer Service function etc, the same efforts have been strongly endorsed by the Company's Customers. In a recent Customer Image Survey, conducted globally, the Indian customers have rated SKF as "Excellent" and ahead of competition in all major areas. This is a very strong endorsement of the confidence shown by the Customers and

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a good base for further growing the business and strengthening the Company's leading position in the market place. The Company has also established a number of new global customers throughout the year, which will be potential growth areas for the future.

MANUFACTURING

The continued focus on increasing flexibility in the factories has during the year led to a significant reduction of leadtimes. By implementing the SKF Group Supply Channel Concept in close cooperation with Suppliers, the Company has during the year reduced overall leadtimes by almost one third, compared to the previous year. At the same time the frequency of production has been increased in the factories. As a result of these activities, the Company has further significantly improved its service levels to Customers, and at the same time reduced total inventory.

The continued implementation of the Zero Defect programme in manufacturing, has led to Zero Defect status (Zero technical complaint for atleast 12 consecutive months) for a number of the Production Channels. One Channel achieved during the year the next level of Zero Defect Silver status, which requires more than 24 months with zero customer technical complaint.

CONTINUED RESTRUCTURING

The Company continued its restructuring programme during the year, with further reduction of manpower through VRS. However while the total number availing of the scheme was only in the region of 130 in 2001, the Company has, within this programme since 1998, reduced its manpower by more than 800, or approximately 33%.

An important step in the financial restructuring of the Company was completed in the year by the successful closing of a rights issue, consisting of Equity Shares and Non-Convertible Debentures. On account of this issue, the Company is now in a position to further reduce its financial cost, as well as finance future investments.

The Company will continue its restructuring programme to further reduce cost and improve productivity as well as asset utilization.

OUTLOOK FOR 2002

After a year of continued slow down of the Indian economy, it is difficult to predict the development for 2002. The major markets of the world are not showing any signs of improvement at the moment, but there are certain signs of recovery since the last quarter, in some segments of the Indian economy. The outlook for 2002 can therefore be slightly better than 2001, but the uncertainty will continue.

However with the investments made and rationalisation carried out, both in the factories and in the market place, the Company is well placed to meet a possible upturn in the economy.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to an amendment to Section 217 of the Companies Act, 1956, your Directors give hereunder the Directors' Responsibility Statement pertaining to the accounts of the Company:-

1. In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures.
2. The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on 31st December, 2001 and of the Profit & Loss Account of the Company for the year ended on that date.
3. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. These accounts have been prepared on a going concern basis.

RIGHTS ISSUE

As mentioned earlier, one of the significant developments of the year under review is the successful launch and completion of the simultaneous but unlinked offer of Equity Shares and Non-Convertible Debentures (NCDs) with warrants attached by the Company. The issue has evoked an excellent response from the investing community at a time when the economy was sluggish. The response from both the SKF Group as well as the Indian shareholders speaks volumes of the investing community's confidence in the management of your Company and the SKF Brand. The Rights Issue is a part of SKF India Restructuring Programme and will help

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the Company to reduce its financial costs in future.

As indicated in the Letter of Offer in respect of the Rights issue, the funds received were to be deployed as under :

			Rs. lakhs
	2001	**2002**	**Total**
Capital Expenditure	2,300	3,830	6,130
Repayment of Loans	3,747	3,906	7,653
Total Requirements	**6,047**	**7,736**	**13,783**

The funds from the Rights Issue were received only in the end of the year. However, in anticipation of the successful completion of the Rights Issue, the Company has prepaid the following :-

- Rs.25 crores of Non-Convertible Privately Placed Debentures to HSBC.
- Rs.10 crores of Non-Convertible Privately Placed Debentures to ICICI Banking Corpn. Limited.
- The Company has also invested in Capital Expenditure to the tune of Rs.21.09 crores during the year.
- The balance funds were temporarily used to reduce the Company's overdraft in order to reduce the overall financial costs.

DEPOSITS

Out of deposits totalling Rs. 3,336.56 lacs from Public and Shareholders as at 31st December, 2001, deposits amounting to Rs. 49.73 lacs, had matured but had not been claimed at the end of the financial period. Since then, 31 of these deposits of the value of Rs. 3.63 lacs have already been claimed or renewed.

PERSONNEL

During the year, the Company enjoyed cordial relations with its employees at all locations. The Company is committed to develop its employees' full potential through intensified training, both class room and on the job.

The information as per Section 217 (2A) of the Companies Act, 1956 read with The Companies (Particulars of Employees) Rules, 1956 forms a part of this report.

DIRECTORS

Your Directors Mr. M.L. Bhakta and Ms. G. Nilsson retired from the Board of Directors of your Company with effect from 22nd February, 2002. Your Directors take this opportunity to record their appreciation for the services rendered by them during their tenure as Directors. In accordance with the requirements of the Company's Articles of Association of your Company, Mr. N.J. Jhaveri, Mr. J.N. Godrej, Mr. T. Johnstone, Mr. B. Johansen retire by rotation and are eligible for reappointment. During the year Mr. K.N. Wadia took an early retirement as a Whole-time Director. Thereafter, the Board appointed Mr. Wadia as an Additional Director of the Company. Likewise Mr. B. Richiardone and Mr. G. Borroni were appointed as Additional Directors of the Company during the year. Mr. Wadia, Mr. Richiardone and Mr. Borroni hold office till the date of the Annual General Meeting to be held on April 26, 2002 and are eligible for reppointment.

AUDITORS

The Auditors, Messrs Arthur Andersen & Associates, Chartered Accountants, retire and being eligible, offer themselves for reappointment.

ACKNOWLEDGEMENT

The Board acknowledges the understanding and support shown by all its employees, various Financial Institutions, Banks, Distributors, Customers, Suppliers and other business associates towards the conduct of the efficient operations of the Company. Your Board is particularly indebted to its principals AB SKF who have supported the Company at all times.

On behalf of the Board of Directors

F.A. Mehta
Chairman

Mumbai : February 22, 2002.

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Corporate Governance

Your Company has been practising the principle of good Corporate Governance since inception. It has evolved over the years in your Company, not on account of any regulatory requirements but on account of sound management practices and to enhance long term stakeholder value. There is no universal model of Corporate Governance and different organisations follow different models. However, any route that results in the control of the Company in a regulated manner which makes management transparent, ethical, accountable and fair is said to result in good Corporate Governance. The basic philosophy of the management of your Company has been to achieve excellence in order to augment shareholder value. In the Directors' Report of the last year your Directors were pleased to inform you that the Company had constituted the Audit Committee and the Investor Grievance Redressal Committee. The details of the implementation of the Corporate Governance code is given in the following paragraphs.

The Company's Board consists of 11 Non-Executive Directors and one Managing Director. The details are as under :-

Name of the Directors	Category	No. of other Directorship		No. of Outside Committees	
		Public	Private	Member	Chairman / Chairperson
Dr. F.A. Mehta	Independent	12	1	3	5
Mr. D.C. Shroff	Independent	11	8	7	3
Mr. M.L. Bhakta ++	Independent	6	—	—	—
Mr. J.N. Godrej	Independent	9	5	7	3
Mr. N.J. Jhaveri	Independent	10	2	10	4
Mr. K.N. Wadia	Non-Executive *	—	—	2	—
Mr. G. Gremlin	Non-Executive	8	—	—	—
Mr. T. Johnstone	Non-Executive	12	1	—	—
Mr. G. Donato	Non-Executive	7	—	—	—
Mr. B. Johansen	Non-Executive	4	3	—	—
Ms. G. Nilsson ++	Non-Executive	2	1	—	—
Mr. B. Richiardone xx	Non-Executive	—	—	—	—
Mr. G. Borroni°	Non-Executive	—	—	—	—
Mr. T. Nordgren	Managing Director	—	1	1	—

* with effect from July 1, 2001.

++ resigned as a Director with effect from February 22, 2002.

xx appointed with effect from November 1, 2001.

° appointed with effect from February 22, 2002.

Independent Director is defined as one who is not a formal executive and has no pecuniary / professional relationship with the Company; not a large customer and / or vendor to the Company; not a close relative of the promoter and / or Executive Directors; not holding a significant stake; not a nominee of any large shareholder / creditor.

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Attendance of each Director at Board Meetings and the last Annual General Meeting.

Name of the Directors	No. of Board Meetings attended	Attendance at the last AGM
Dr. F.A. Mehta	5	P
Mr. D.C. Shroff	5	P
Mr. M.L. Bhakta	3	P
Mr. J.N. Godrej	3	P
Mr. N.J. Jhaveri	3	P
Mr. K.N. Wadia	5	P
Mr. G. Gremlin	0	A
Mr. T. Johnstone	2	P
Mr. G. Donato	2	A
Mr. B. Johansen	0	A
Ms. G. Nilsson	2	P
Mr. T. Nordgren	5	P

During the year 2001, five Board Meetings were held as under :-

February 19, 2001
March 30, 2001
April 23, 2001
July 26, 2001
October 22, 2001.

The Annual General Meeting of the Company was held on March 30, 2001, and an Extra-Ordinary General Meeting was held on November 20, 2001.

AUDIT COMMITTEE

The Board constituted an Audit Committee of Directors in July 2000. The Members of the Committee are well versed in finance & accounts / legal matters and general business practices. During the Financial year ended December 31, 2001 two Audit Committee Meetings were held on July 25, 2001 and October 16, 2001.

The composition of the Audit Committee is as under :

Name of the Directors	Category	No. of Audit Committee Meetings attended
Mr. D.C. Shroff	Independent	2
Mr. N.J. Jhaveri	Independent	2
Mr. K.N. Wadia	Non-Executive	2
Ms. G. Nilsson	Non-Executive	Attended both meetings on Teleconference.

The terms of reference of the Audit Committee include the following :

a. To recommend appointment of External Auditors.
b. To review the financial reports of the Company with the External Auditors.
c. To review the adequacy of the system of internal controls.

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