

Our world rotates around our customers

SKF India Limited
Annual Report 2016-17



Our world rotates around our customers

They are the fulcrum of our existence, and the nucleus of our DNA. They inspire us to challenge the boundaries of our imagination to create innovative products and solutions customised to their unique needs.

Motivating us to go beyond the existing norms to drive higher efficiencies across our operational and cost structures. And empowering us to raise the bar of technological excellence to deliver sustainable growth for today and tomorrow.

Our world rotates around our customers, who are the *raison d'être* of our continued success in an ever-evolving global industry landscape, enabling us to keep pace with the transitions and transformations of the business to generate greater value for all our stakeholders, year after year.



Contents

01	Corporate Information
02	Letter to Shareholders
04	Our world rotates around our customers
18	Financial Highlights
20	Notice
26	Directors' Report
31	Annexures to Directors' Report
77	Business Responsibility Report
94	Financial Section

Corporate Information

Board of Directors

Rakesh Makhija

Chairman

Shishir Joshipura

Managing Director

Prakash M. Telang

Prasad R. Menon

Hema A. Hattangady

Stephane Le-Mounier

(up to 28.04.2017)

Bernd Stephan

(effective from 08.06.2017)

Country Management Team

Shishir Joshipura

Chandramowli Srinivasan

Anjali Byce

Sanjeebit Choudhury

Shrikant Savangikar

Shoaib Shaikh

Mandar Vaidya

Company Secretary

Pradeep Bhandari

Auditors

M/s Price Waterhouse & Co Bangalore LLP

Business Bay, 7th Floor,

Tower A, Wing 1,

Airport Road, Yerwada

Pune - 411 006

Bankers

The Hongkong & Shanghai Banking Corp.
Ltd.

HDFC Bank Limited

Share Transfer Agent

TSR Darashaw Limited

6-10, Haji Moosa Patrawala Industrial
Estate,

20, Dr. E. Moses Road,

Mahalaxmi, Mumbai - 400 011

Managing Director's Letter to Shareholders



We decided to enhance our focus on the dimension of "Customer Centricity" to enhance our ability as a solution provider.

Dear Shareholders,

It is my privilege to present to you the Annual Report of SKF India for FY 2016-17. I am pleased to share that we have made commendable progress in building a resilient business capable of generating long-term value through the economic cycle. This is reflected in this year's strong performance in the face of economic and global headwinds. Revenue from Operations for the year ended March 31, 2017 amounted to ₹ 28355 million as compared to ₹ 32265 million in the previous year. The Profit after Tax for the period amounted to ₹ 2439 million compared to 2559 million during the previous year (as you know, the previous year's figures are for 15-month period, not directly comparable with current year).

India is on the edge of a very rewarding economic journey. The Government's continued thrust on digitalisation of the fiscal economy, healthy federal relationships and commitment towards disciplined fiscal targets augur well for economic prosperity. The rollout of the GST, identified as one of the most important Indian tax reforms post-independence, is expected to make the formal sector of the economy stronger.

The economic environment in the year under review was tough, yet full of hope. India's economic performance gained momentum gradually primarily on the back of continued investment in public infrastructure even as private investments did not pick up to the desired level. Some of the traditional drivers of economy such as construction, housing and capital goods sector faced a slowdown in activity. This resulted in unutilised capacities in core sectors of the economy such as steel, cement and mining. On the other hand, Food & Beverages, Automotive, Railways & Renewable Energy and Logistics built an impressive momentum.

Industry is readying to usher in a revolution - Industry 4.0 - Smart manufacturing enabled through big data analytics & Internet of Things (IoT). A whole new platform of opportunities and value creation is at the doorstep being ushered in by this revolution. An organisation's ability to "Listen-Detect-Resolve" will create a completely new field of opportunities and value creation much beyond the present hardware/software sale. I will talk about this a bit later as I pen down some of the happenings in the year gone by...

Even as external factors presented their own sets of challenges and opportunities, we decided to bring in two critical dimensions into our approach which we felt were necessary to consolidate our leadership position.

We are a technology and knowledge driven company and our ability to deliver this knowledge in forms of products and solutions is critical to our success. In a global roll out, SKF is now offering two distinctive value propositions to the customers.

- Prespecified catalogue-based product sales with competitive cost, assured availability and reliable quality as key deliverables
- A customised integrated solution for improving the Rotating Equipment Performance (REP) where our technological prowess, product and process knowledge combined with deep insights into customer's process will enable offering of a completely different value proposition - improving performance of the rotating equipment.

In addition to the above two offers, we decided to enhance our focus on the dimension of "Customer-Centricity" to enhance our ability as a solution provider. This is a big change and it is testing some of our held beliefs to the core. Our quality performance is no longer an internal measurement alone - we now have an equal weight measure on what our customers say about quality of our product and services, all new development starts with asking the customers what they want. Our teams now focus on creating a positive experience for all customers at all times, our response and resolution times for complaints are set to crash... The list is a continuum. Creating a Customer-Centric organisation is an exhilarating and demanding journey we

all have resolved to undertake. A significant portion of our customers depend upon imported bearings to meet their needs. We are committed to "localise" as warranted and permitted by the scale of demand. In the meanwhile, we decided to take the uncertainties and long lead times associated with importing out of the equation for our customers. We established a world-class Centralised Distribution Centre at Chakan, Pune. Spread over 64,000 square feet, this India Distribution Centre (IDC) will reduce delivery lead times and provide a wider range of products to our customers and distributors.

Let me return to the discussion on Industry 4.0. We see a clear and emerging need from our customers to help them improve their Rotating Equipment Performance (REP) on a predictive basis. Customers are seeking innovative solutions to reduce the cost associated with unplanned breakdown and lower asset availability. Any organisation capable of "Listen-Detect-Analyse-Resolve" by providing a one-stop solution will have a significant competitive advantage.

In a significant development towards realising the potential of unfolding Industry 4.0, we inaugurated Remote Diagnostic Centre (RDC) at Pune. By deploying state-of-the-art technology and combining it with our knowledge, the RDC will enable delivery of REP programmes and also help our customers to implement a world-class predictive maintenance programme for periodic and/or continuous monitoring of critical assets, understand the interplay between various systems, learn machine behaviour under different circumstances and enhance safety in their operations - and all this delivered on their smartphone screens! This when combined with our network of Solution factories in the North, West and Eastern regions (and soon Southern region too), our expanding Certified Maintenance Partner (CMP) programme which is located in the vicinity of our customers and reach of our strong distribution network will further enhance our presence and capability. Combined with the REP approach, we believe this step will create a significant competitive advantage for us in an aligned effort in our quest to consolidate our position as undisputed leader in bearings business.

A continuous focus on enhancing operational effectiveness is a basic requirement to enhance cost competitiveness. SKF Production System (SPS) is a global roll out to ensure that our factories are future ready and continually improving. All our facilities are ranked amongst the top 6 on SKF Production System implementation with Pune occupying the top position within SKF globally.

Sustainability and community care represent basic values at SKF. Our community care initiative encompasses three key areas:

- Empowerment
- Education
- Environment

YES (Youth Empowerment at SKF) - the vocational skills programme - imparts required skills to young and underprivileged readying them for serving or even creating their own business in the field of modern automobile repair - represents our earnest support to the Skill India Mission. Steered by the conviction that the answer to sustained economic prosperity lies in encouraging self-reliance and building confidence, we are committed to scaling up the project and enhancing its reach. Over 350 young boys and girls have taken advantage of the programme with over 90% of them finding gainful employment. Holistic development of children which is another continuing programme under the YES umbrella continues to help children from underprivileged background imbibe life-skills of teamwork, resilience and entrepreneurship while developing their grasp of English and Science and a focussed development on physical and psychological dimension all the while playing football. This year too, both the boys' and girls' team travelled to Sweden for the Gothia Cup tournament to get an exposure to international culture and cooperation. Through SustEn, our environment care initiative, we have continued our focus on carbon emission reduction. Aligning our business towards a green future, we have installed solar rooftops and enhanced the share of renewable energy in our operations.

Growing number of working women in the workforce calls for a special sensitivity to create

an enabling environment. We undertook to not only be an enabling environment but also sought to become a preferred place for a working mother through a slew of initiatives. Endorsing our commitment towards building an inclusive work environment, we are proud to share that SKF India was selected among the 2016 Working Mother & AVTAR 100 Best Companies for Women in India. Through our diverse leadership programmes, we are committed to encourage employees to develop their own unique leadership style, drive a winning culture and in turn, inspire future leaders.

It is an honour for us to receive appreciation and recognition from our customers - a virtual who's who of Indian industry namely Tata Steel, Bajaj Auto, Tata Motors and Hindalco. Our manufacturing excellence has been consistently recognised at the coveted Frost & Sullivan Awards. This year too it was no different; Pune and Bengaluru facilities were rated with Platinum and Gold Certificate respectively - Pune is now rated as "Future Ready" facility. For the 9th year in a row at the Dun and Bradstreet Corporate Awards 2016, SKF India was awarded as the best Bearing Company.

As India journeys on the path of a prosperous future, our resolve to be a Customer-Centric Innovative leading technology player will help us to unearth new opportunities and consolidate our position as undisputed leader in our business. This quest has been ably supported by our employees, whose dedication, initiative and energy are second to none. I sincerely thank all our employees for their efforts. I would also like to express my gratitude to our customers for the trust and confidence reposed in us year-on-year. My sincere appreciation to our distribution partners, suppliers and our bankers for their continued support; and our valued shareholders for believing in our story and reposing immense faith in us.

At SKF India, we remain committed to growing and delivering value for our stakeholders while balancing our responsibility to society and communities at large.

Thanking you



Shishir Joshipura
Managing Director

Steering customer-centricity

As an entity steered by our customer-centric approach, we remain focussed on creating value for our stakeholders across the entire business value chain.

A snapshot

SKF India Limited is a leading global supplier of bearings, seals, mechatronics, lubrication systems and services, which span technical support, maintenance and reliability services, engineering consulting and training. The Company's associate SKF Technologies (India) Limited provides Sealing Solutions and Industrial Bearings, thus creating a holistic value proposition for its customers.

With a legacy dating nearly 100 years, the Company is focussed on delivering excellence across its business value chain, that extends across 130 countries, backed by around 15,000 distributor locations across 450 locations. Our manufacturing footprint encompasses six state-of-the-art facilities at Pune, Bengaluru and Haridwar.

We have an extensive client base spanning key sectors to serve as many as 44 segments, including Automotive, Heavy Industry, Energy, Industrial Machinery, Oil & Gas, Food & Beverage and more.

Business
value chain, that
extends across
130
countries

15,000
distributor
locations across
450
locations



Our vision

A world of reliable rotation

Our mission

To be the undisputed leader in the bearing business

Our product value proposition

Right product at the right price at the right time

Our rotating equipment performance value proposition

- Right solution
- Right performance
- Right total cost of ownership

Our value matrix

- High ethics
- Empowerment
- Openness
- Teamwork

Our growth drivers

- Grow with profit
- Quality
- Innovation
- Simplicity & Speed
- Sustainability



SKF Domestic Range of Housings & Bearings

The Company is continuously working to create innovative solutions customised to the needs of its perpetually expanding customer base. In line with this philosophy, the SKF Domestic Range of Housings and Bearings brand provides industrial solutions for the bearing housings and accessories market.

The brand, which was launched as SIBCO range in December 2015, received stupendous market response. This encouraged us to go in for rebranding of the brand under the SKF umbrella to tap opportunities beyond the domestic market.

Available through 125 distributors and more than 2,000 retailers, SKF Domestic Range of Housings and Bearings provides the complete range of optimised and reliable solutions in this segment, including housings, seals, sleeves, locating rings, nuts and washers. The SKF Domestic Range of Housings and Bearings offering from SKF is targeted at meeting the requirements of non-critical applications and customised solutions as per application need.

Indigenously designed and manufactured at the Pune facility, the bearing housings and accessories under this brand cater to an extensive range of applications, including conveyors and pulleys, fans and blowers, grinders and crushers, convertors, rolling tables and other industrial machinery.

We
are also
catering to the
high performance
solutions for critical
applications through
our Imported
Range.

Creating new benchmarks in customer service

Our products and solutions are designed to match the evolving aspirations of our customers, which we are continuously mapping through a series of innovative measures and mechanisms.

- **Key Accounts Team (KAT)** - an innovative approach to help us forge stronger relationships with our valued customers and seize new business opportunities
- **Certified Maintenance Partners** - a scheme designed to bring SKF products and solutions to the doorsteps of customers
- **Hello Campaign** - our first campaign on our LinkedIn page, which we launched on September 1, 2016, to open another window of communication with customers, distributors, prospective employees, investors and other key stakeholders
- **Customer-led Dashboard Programme** - a cross-functional effort where all departments work in synergy to anticipate and exceed customer expectations instead of waiting for them to complain

Driving customer-led innovation

Amidst a dynamically-evolving customer landscape, we are continuously transforming ourselves to match their changing needs. We remain focussed on augmenting our engagement with them and partnering them in their search for higher value solutions. Our passionate quest for excellence in customer-centricity has empowered us with an innovative ability that helps us develop products and solutions designed to their specific requirements.

Our innovative thrust is powered by the SKF Engineering & Research Centre, SKF Global Technical Centres¹ and SKF Manufacturing Development Centre, backed by internal processes that are benchmarked to customer requirements.

Striving to become a model customer-centric organisation, SKF has set many examples of innovative knowledge engineering to deliver breakthrough solutions to some of the biggest industrial giants in the country.

During the year under review, we proactively engaged with a steel major to help avert a loss of ₹ 4 crore through timely mechanical condition monitoring of converter bearings. In another instance, we helped a ship company navigate a vessel breakdown through coupling in record time, thereby minimising the client's breakdown losses.

Another industrial house, engaged in copper business, benefited from SKF's swift

response to replace a large number of pump and motor bearings damaged due to a natural calamity.

We have also recently secured a major order to supply shaft bearings for the Indian unit of a leading global manufacturer of thermal turbines. We have been chosen to fulfil 100% of the Company's requirement for 2017 at the back of our unique strengths, including the low temperature of operation of our LSRB bearings and the strategic domestic location of our SKF Group Ahmedabad manufacturing facility, which will be supplying the bearings.



On the fast track to innovative growth

During the year under review, we took forward our close engagement with the Indian Railways by equipping their fastest train with SKF tapered roller bearing units (TBUs). The train covers 188 km distance in approximately 100 min with an average speed of 113 km/h. To deliver to the specialised needs of this train, our Indian Railways team worked closely with Research Design and Standards Organization (RDSO) to get the TBUs approved as per the stringent requirements of the Railways.

Geared to boost customer value

With our innovative prowess aimed at boosting higher customer engagement and value, we took a major leap in expanding our business into the gear box refurbishment segment during the year. The segment, so far dominated by a handful of OEMs and a large number of unorganised sector players, is the latest addition to our products and solutions portfolio. The service has been launched by the Company in association with our partner M/s Kay Arr Engineering in Coimbatore - a major industrial town in southern India. The new centre will enable us to provide high value remanufacturing capabilities to our valued customers.

Other innovations

Our thrust on innovation has led to the creation of several pioneering products and solutions customised to the unique needs of our clients.

- Pitch and Yaw bearings for one of the largest turbine manufacturers
- Seize Resistant Bearings customised for conveyor applications
- Roll Shop Management Contract for two of the largest steel manufacturers in the country
- SKF Deep Groove Ball Bearings (DGBBs) to drive transmission reliability for one of India's iconic cult bikes
- SKF Truck Hub Unit (THU1S) to increase service life for commercial vehicles on Indian roads
- SKF Pinion unit to deliver a reliable solution for one of the largest domestic truck manufacturers
- Drum Support Unit for one of the world's largest selling washing machines
- SKF Hub Bearing Unit (HBU1) to enhance the efficiency and reliability for one of India's largest SUV manufacturers

Our innovative capabilities were showcased and have received much appreciation at the 'Make in India' week celebrations organised by the Confederation of Indian Industries (CII) and the Department of Industrial Policy and Promotion (DIPP) in Mumbai in February 2017.



The train
covers
188 km
distance in
approximately
100 min

Manufacturing to customer needs

Our best-in-class manufacturing footprint ensures seamless delivery of quality products to our customers at the back of our robust product systems. We follow the best practices of Six Sigma, Maintenance Excellence and Lean Manufacturing at all our manufacturing facilities, enabling them to be in the top 10 of the SKF Production System implementation rankings globally. Our Pune facility leads the rankings with the top position.

The launch of our new Solution Factory in Jamshedpur in 2015 has further augmented our manufacturing edge, while capacity augmentation across our existing facilities has further empowered us to deliver products and solutions better aligned to customer needs.

Our SKF Group factory at Ahmedabad has emerged as a large-scale manufacturing hub to deliver more and more products to diverse clientele, enabling us to enhance our sales pitch in India.

A showcase of our manufacturing excellence

Our manufacturing excellence, backed by our efforts to build a sustainable supply chain model, are endorsed by the various recognitions and awards that we continue to earn year-on-year. Our award showcase for the year 2016 includes:

- Three of SKF factories won at the **Frost & Sullivan India Manufacturing Excellence Awards (IMEA) 2016**, amongst India's top manufacturing brands.



- SKF won the **Tata Steel Supplier Award** under the steel giant's prestigious Supplier Relationship Management Programme, after being selected among 30 suppliers chosen from a 5,000-strong vendor base.
- **SKF Pune won the Future Ready Factory of the Year** - Platinum Award in the Engineering Sector for Large Business and Ahmedabad & Bengaluru factories won the Gold Certificate of Merit.

