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ANNUAL REPORT 2001



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FAG Bearings India Limited

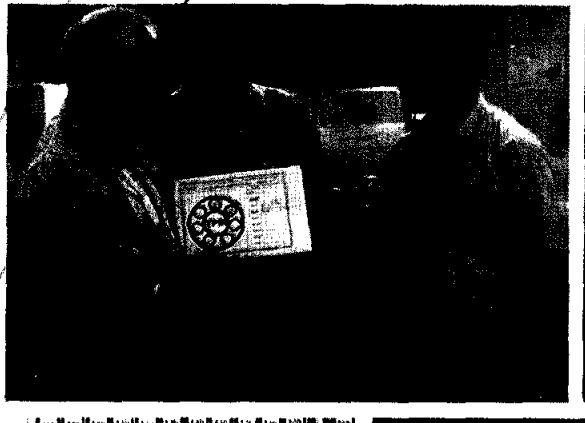
FAG
Rolling Bearings

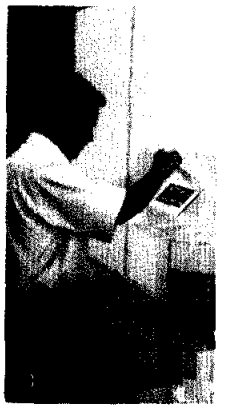
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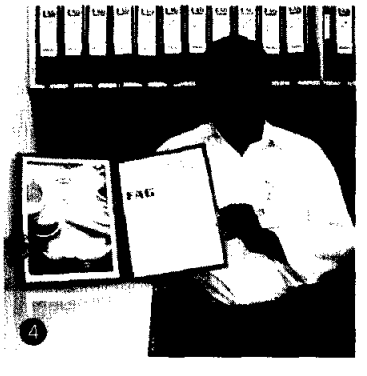
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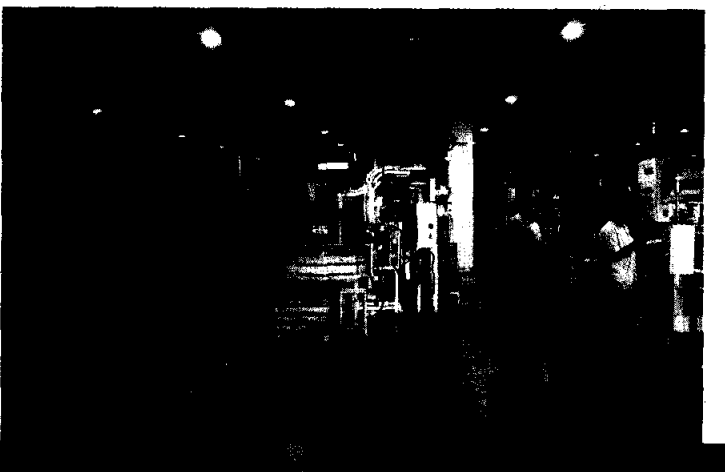
FAG focuses on growth and productivity











1. *Joint Venture Company FAG Roller Bearings Private Limited will produce Taper Roller Bearings for Indian market. (Picture shows Dr. Martin Kunzmann, CEO of FAG IB and Mr. D. Jagannath, MD FAG- India exchanging documents with JV partner, Mr. Chadha).*
2. *TPM program, which aims at improving efficiency of machines, was actively implemented under guidance of German experts.*
3. *FAG employees gave nearly 25,000 valuable suggestions during 2001.*
4. *CIP engages every employee towards continuos product and process oriented innovations.*
5. *Restructuring of manufacturing plants into a cell layout improves quality & productivity.*

FAG
Innovation in Motion

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FAG Bearings India Limited
ANNUAL REPORT
2001

FAG

Contents	Page No.
General Information	1
Notice to Members	2
Directors' Report (including Management Discussion and Analysis)	7
Corporate Governance Report	13
Auditors' Report	25
Balance Sheet	28
Profit and Loss Account	29
Schedules	30
Cash Flow Statement	50
10 Years' Highlights	52

Registered Office :

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

General Information

Board of Directors

Chairman	Dr. Vidya Sagar
Managing Director	Damaraju Jagannath
	Frank Huber
	Dr. Martin Kunzmann
	Guenther Morber
Nominee of GIC	Baburao P. Deshmukh
Nominee of IDBI	Sumanth P. Tawde
Alternate to G. Morber	Yezad S. Kapadia
Alternate to F. Huber	Sampath Kumar
Alternate to Dr. M.Kunzmann	Kamlesh C. Tapadar
Secretary	Hemant R. Shukla
Bankers	Union Bank of India
	State Bank of India
	ICICI Bank Ltd.
	Deutsche Bank
Auditors	A. F. Ferguson & Co.
Cost Auditors	B. J. D. Nanabhoy & Co.
Tax Auditors	O. P. Rathi & Co.
Solicitors	Mulla & Mulla & Craigie Blunt & Caroe Remfry & Sagar
Collaborators	FAG Group of Companies, 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 Thirty-Ninth Annual General Meeting of FAG BEARINGS INDIA LIMITED will be held on Friday, May 3, 2002 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 31,2001 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, 2001.

3. To appoint a Director in place of Dr. V. Sagar who retires by rotation, and is eligible for re-appointment.

4. To appoint a Director in place of Dr. M. Kunzmann who retires by rotation, and is eligible for re-appointment.

5. To reappoint Messrs A.F.Ferguson & Co., Chartered Accountants, as auditors and to authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

6. To consider, and if thought fit , to pass, with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to Sections 198, 309 and 310 and Schedule XIII of the Companies Act, 1956 (hereinafter referred to as the Act) as amended and other applicable provisions, if any, of the said Act, the approval of the Company be and is hereby accorded to the increase in remuneration payable to Mr. D.Jagannath as Managing Director of the Company (hereinafter referred as the Managing Director) with effect from January 1, 2002 for the remaining period of his tenure of appointment i.e. upto 31.12.2005, as may be determined by the Board of Directors from time to time within the maximum limits as specified below:

A. Salary - Rs. 30,00,000
- (Rupees thirty lacs) per annum.

B. Commission - 25% of salary, maximum Rs. 7,50,000
(Rupees seven lacs fifty thousand) per annum.

C. Housing

The Managing Director shall be provided furnished residential accommodation or rent/allowance in lieu thereof (up to 60% of salary) and furniture upto Rs. 5 lacs (Rupees five lacs) as per the rules of the Company will be provided.

D. Performance Bonus

Performance bonus not exceeding 33% of the Managing Director's salary (maximum of Rs. 9.90 lacs) per annum as may be decided by the Board of Directors and this shall be in addition to the limits of remuneration as stated above.

E. Perquisites, Allowances and Reimbursements

i) In addition to the above, the Managing Director shall be entitled to the perquisites, allowances and reimbursements, as per the rules of the Company, the aggregate of which will not exceed Rs. 10 lacs (Rupees ten lacs) per annum. These may include mediclaim insurance, personal accident insurance, leave travel allowance for self and family, education allowance, personal allowance, reimbursement of medical expenses incurred in India/abroad (for self, wife and dependent children subject to exchange control regulations), club fees, etc.

ii) For the purpose of calculating the ceiling stated in E(i) above, the perquisites should be evaluated as per Income Tax Rules, wherever applicable. In the absence of any such rule, perquisites shall be evaluated at actual cost.

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iii) Use of Company's car for official duties and telephone at residence (including cost of local calls and long distance official calls) shall not be included for the purpose of computation of ceiling stated in E (i) above.

iv) Company's contribution to Provident Fund and Superannuation Fund to the extent these, singly or together, are not taxable under the Income Tax Act, provision/payment of gratuity and encashment of leave, long service reward and retirement gift as per the rules of the Company shall not be included for the purpose of computation of ceiling stated in E (i) above.

"RESOLVED FURTHER THAT the Board of directors may in its discretion, pay to the Managing Director remuneration lower than the maximum remuneration hereinbefore stipulated and increase the same from time to time within the maximum limits stipulated by this resolution subject to the overall ceiling as stipulated in Sections 198 and 309 of the Companies Act, 1956".

"RESOLVED FURTHER THAT subject to the approval of the Central Government, if required, the salary, commission, Housing, perquisites, allowances, reimbursements and performance bonus set out above be paid or granted to the Managing Director as minimum remuneration notwithstanding the provisions of Part II Section II of Schedule XIII of the Companies Act 1956, for any financial year during the tenure of the Managing Director, when the Company has no profit or inadequate profit."

"PROVIDED FURTHER THAT if in any financial year, the Company has no profit or inadequate profit, the Managing Director shall be eligible for the following which shall not be included in the computation of the ceiling on remuneration specified above.

a) Contribution to Provident Fund and Superannuation Fund to the extent these, singly or together, are not taxable under the Income Tax Act, 1961,

b) Gratuity payable at the rate not exceeding half a month's salary for each completed year of service and

c) Encashment of leave at the end of tenure.

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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 28, 2002

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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 relevant Explanatory Statement, pursuant to Section 173 of the Companies Act, 1956 in respect of the business under item No. 6 set out above is annexed hereto.

4. The Company has notified closure of Register of Members and the Transfer Books from April 2, 2002 to April 9, 2002 (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 April 1, 2002. The Company will dispatch the dividend warrants around May 7, 2002. In respect of shares held in electronic form (demat shares), the dividend will be paid on the basis of beneficial ownership as per details furnished by the Depositories for this purpose.

5. Shareholders who have not encashed the dividend warrants for the years 1995-96, 1996-97, 1997-98,1998, 1999 or 2000 are requested to claim the amount from the Company immediately. 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. Pursuant to the amendment to the Section 205A read with 205C of the Companies Act, 1956, all unclaimed dividend will be transferred to the Investor Education and Protection Fund, as required by the Act by the date applicable thereto.

6. Shareholders are requested to bring their copies of Annual Report to the meeting.

7. Electronic Clearing Services (ECS) for payment of dividend :

   In order to avoid the risk of loss/interception of dividend warrants in postal transit and/or fraudulent encashments of dividend warrants, shareholders are requested to avail of ECS facility whereby the dividends will be directly credited in electronic form to their respective bank accounts. This will ensure speedier credit of dividend. Please use the ECS Mandate form to give all details to benefit from these services.

   Shareholders located in places where ECS facility is not available, may kindly submit their bank account details to enable the Company to incorporate the same on the dividend warrants in order to avoid fraudulent encashment of the dividend warrants.

8. Shares held in Electronic Form (Demat Shares):

   Shareholders holding shares in electronic form may please note that:

   1) All instructions regarding bank details, which they wish to be incorporated in their dividend warrants, will have to be submitted to their Depository Participants. As per the regulations of NSDL and CDSL, the Company is obliged to print the bank details on the dividend warrants as furnished by these Depositories to the Company;

   2) Instructions already given by them in respect of shares held in physical form will not be automatically applicable to the dividend paid on shares held in electronic form and the Company will not entertain any request for deletion/change of bank account details already printed on dividend warrants as per information received from the concerned Depositories;

   3) All instructions regarding change of address, nomination, power of attorney, change in bank account, etc should be given directly to their Depository Participants and the Company will not entertain any such requests directly from shareholders.

   In case of shareholder having partly dematerialised holding and partly in physical Form

   You should follow both the above steps and write separately to DP quoting your client ID number as well as to the Registrars quoting your folio number.

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9. **Dividend**

(i) Dividend on equity shares, if declared, will be paid around May 7, 2002 subject to deduction of applicable income tax where the dividend amount payable to shareholder exceeds Rs. 2500/- in view of the amendments proposed in the Finance Bill 2002 by the Union Budget 2002-2003.

(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 **April 25, 2002.**

Annexure to Notice

Explanatory statement under Section 173 of the Companies Act, 1956, relating to the Business at item no. 6 mentioned in the notice convening the Annual General Meeting.

Item No. 6

Shareholders will recall approving the appointment and remuneration of Mr. D.Jagannath as the Managing Director of the Company for a period of five years commencing from January 1, 2001, at the Annual General Meeting of the Company held on June 21, 2001.

In line with the contemporary emolument levels in the industry, the Board of Directors of the Company at their Meeting held on November 21, 2001, approved the increase in the remuneration of Mr. D. Jagannath with effect from January 1,2002, subject to the approval of shareholders. The Board revised the overall remuneration to be paid to him per annum by the end of his current tenure, which expires on 31.12.2005.

Mr. D. Jagannath is a Mechanical Engineer and MBA and has experience at very senior level in other Companies as well as in FAG India from October 1998.

The Directors consider that his services will be useful to the Company and that it is in the interest of the Company that remuneration of Mr. D. Jagannath, Managing Director be raised.

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The material terms and conditions of the draft Supplementary Agreement to be executed with Mr. D. Jagannath are as follows:

REMUNERATION

A) By way of salary a maximum of Rs. 30 lacs (Rupees thirty lacs) per annum.

B) Commission at the rate of 25% of his salary - maximum of Rs. 7.5 lacs (Rupees seven lacs fifty thousand) per annum.

C) Furnished residential accommodation or rent / allowance in lieu thereof (upto 60% of salary) and furniture upto Rs. 5 lacs is given.

D) Performance Bonus not exceeding 33% of his salary maximum of Rs. 9.90 Lacs (Rupees nine lacs ninety thousand) per annum as may be decided by the Board of Directors.

E) Certain perquisites, allowances and reimbursements upto a limit of Rs. 10 lacs (Rupees ten lacs) per annum.

F) *Provision for use of Company's car for official duties and telephone at residence (including cost of local* calls and long distance official calls) is not included in the limits. Use of Company's car for personal purposes and long distance personal calls shall be recovered.

G) *Provident fund and superannuation fund to the extent these, singly or together, are not taxable under the* Income-Tax Act 1961, provision/payment of gratuity and encashment of leave, long service reward and retirement gift as per the rules of the Company are not included in the limits.

MINIMUM REMUNERATION

If in any financial year the Company has no profit or inadequate profit, the Company may, subject to the approval of Central Government, pay the total remuneration set out above to Mr. D. Jagannath as minimum remuneration notwithstanding the provisions of Part II Section II of Schedule XIII of the Act.

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The above may be treated as an abstract under Section 302 (2) and (7) of the Companies Act, 1956.

A Supplementary Agreement will be entered into between the Company and Mr. Jagannath with effects from January 1,2002 as per the draft.

A print of the Memorandum and Articles of Association and draft of the Supplementary Agreement referred to in the item No. 6 to be entered into between the Company on the one part and Mr. D. Jagannath on the other part is open for inspection by the members at the Registered Office of the Company on any working day except Saturdays between 10.00 a.m. and 12.00 noon till the Annual General Meeting.

All other terms and conditions of his appointment as the Managing Director as approved by shareholders at the Annual General Meeting held on June 21, 2001 remain unaltered.

The increased remuneration payable to Mr. D. Jagannath is required to be approved by the shareholders in General Meeting and accordingly this resolution is being placed before the members.

The Board of Directors recommends the resolution for acceptance by the shareholders.

Except Mr.D. Jagannath, Managing Director, no other Director of the Company is in any way concerned or interested in the aforesaid resolution.

By Order of the Board
H. R. Shukla
Secretary

Date: March 28, 2002

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Directors' Report

To the members of the Company

Your Directors are pleased to present the 39th Annual Report of the Company together with audited accounts for the year ended December 31, 2001.

1. FINANCIAL RESULTS

(Rs. in lacs)

	Year 2001	Year 2000
Sales (Net)	22266.62	20567.21
Gross Profit before depreciation and interest	4329.89	4580.65
Depreciation	1610.22	1673.14
Interest, Commitment and Finance Charges (Net)	797.75	1064.84
Profit for the year before Taxation	1921.92	1842.67
Provision for Taxation :		
(a) *current tax*	432.81	555.00
(b) deferred tax (income)	(12.71)	—
Profit for the year after Taxation	1501.82	1287.67
Deferred tax liabilities (net) of earlier years	(813.50)	—
Withdrawn from General Reserve towards opening deferred tax liabilities	813.50	—
Profit after taxation	1501.82	1287.67
Balance brought forward	736.84	492.22
Profit available for appropriation	2238.66	1779.89
APPROPRIATIONS		
Transfer (from)/to Investment Allowance Reserve	—	(420.00)
Proposed dividend	581.61	581.61
Income tax on dividend (net of write back of excess provision of previous year Rs. 72.12 lacs)	(12.80)	131.44
Transfer to General Reserve	1000.00	750.00
Surplus carried to Balance Sheet	669.85	736.84
	2238.66	1779.89

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2. MAJOR DEVELOPMENTS

The Company had started a major quality improvement programme from 2000 under which many new machines have been installed and other machines have been rebuilt. The expenditure on this manufacturing restructuring project during the year was Rs. 1485 lacs (2000: Rs. 1929 lacs). The project will continue till 2003 and will enable the Company to upgrade product quality from the non-EOU area and will add to production capacity, productivity and better efficiency of operations. The plant now incorporates some of the latest technologies for cost efficiency and product quality.

The Continuous Improvement Process (CIP) programme gathered further momentum during the year. Benchmarking within the FAG group raised the performance bars in many areas. Several teams worked on different workshops to achieve new milestones. Considerable cost saving was achieved with the help of CIP, Suggestion Scheme and various workshops. Production Unit 1 achieved the highest target score in the audits and was ranked no. 1 in the FAG Group of Companies for the year 2001.

The year 2001 witnessed a major thrust in Total Productive Maintenance (TPM) activities. Out of total 375 machines, over 366 machines reached Level-1, 252 machines in Level-2 and 79 machines in Level-3. TPM activities resulted in reduced consumption of oils & lubricants, reduction of down time and increase in productivity.

FAG India is now working with JIPM (Japanese Institute of Plant Maintenance) for its TPM activities for plant and offices.

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During the year, INA Holding Schaeffler KG, Germany made a public tender offer for shares of the holding Company FAG Kugelfischer Georg Schaefer AG, Germany and successfully acquired these. As per the agreement reached between them, FAG would remain the management Company for FAG activities within the INA Group and the Company name FAG Kugelfischer Georg Schaefer AG and the brand name FAG would be retained.

3. DIVIDEND

Your Directors recommend for your approval dividend for the year ended December 31,2001 at the rate of Rs. 3.50 (2000: Rs. 3.50) per equity share amounting to Rs. 581.61 lacs (2000: Rs. 581.61 lacs). In view of proposal in the Union Budget 2002-2003, income tax may have to be deducted at source.

4. PROJECTS AND EXPANSION

The Company (FAG India) alongwith FAG Kugelfischer Georg Schaefer AG, Germany (FAG AG) has entered into a joint venture with the Chadha family for manufacture of taper roller bearings at a plant in Pune, Maharashtra. The total estimated equity investment would be Rs. 548 lacs out of which the share of FAG India would be Rs. 137 lacs (25%) and the share of FAG AG would be Rs. 142 lacs (26%) and the share of the Chadha family would be Rs. 269 lacs (49%). The Joint Venture Company has been incorporated on November 26, 2001 under the name - FAG Roller Bearings Private Limited. The new Company is expected to begin manufacturing of taper roller bearings by middle of 2002.

5. FINANCE

The Company further reduced utilisation of working capital limits with the banks as a measure of cost control. CRISIL re-affirmed the rating of Commercial Paper of the Company as **'P1 plus' (the highest possible)** and the same was utilised to place Commercial Paper at lower interest rates. Interest costs reduced by 25.1% over 2000 mainly on account of better management of working capital and by judicious application of Export Packing Credit combined with Commercial Paper.

As on December 31, 2001, deposits amounting to Rs. 23.69 lacs (including interest due) had matured for repayment but had not been claimed. Out of this amount, deposits amounting to Rs. 15.42 lacs have been renewed/refunded till date.

6. MANAGEMENT DISCUSSION AND ANALYSIS

The core business of FAG Bearings India Limited is the manufacture and marketing of ball and roller bearings. The management discussion and analysis, given in (a) to (h) below, discusses the key issues of these sectors.

(a) INDUSTRY STRUCTURE AND DEVELOPMENTS IN THE INDUSTRY

The Bearing industry has two distinct market segments: an upper- end segment dominated by a few large manufacturers, catering to quality critical consumers such as the auto industry, railways etc. The second segment comprises of lower-end bearings for the fan industry and replacement market, with a large number of suppliers, many in the unorganised sector, where product quality rates secondary status but price takes pre-eminence. The second segment has also seen huge dumping of cheap imported bearings. The Company has been progressively moving towards the value added segment to take advantage of price premium and to establish a reliability position for better quality products.

The sales of the organised Bearing Industry in India is estimated at Rs. 1150 crores p.a. It has been declining over last few years and in year 2001 it declined by 5.4% (2000: 3%) in terms of sales value. It consists of Deep Groove Ball Bearings (DGBB) 57%, Taper Roller Bearings (TRB) 30%, Cylindrical Roller Bearings (CRB) 6%, Spherical Roller Bearings (SRB) 3% and Needle Roller Bearings (NRB) 4%. FAG India did not manufacture and market TRB until now and does not manufacture NRB. The total bearing demand in India, considering organised and unorganised sectors and imports is estimated at Rs. 2100 crores. FAG India's share in total market is 8.5%.

The fortunes of bearing industry are linked to a great extent with growth of the automotive industry. On the whole, automotive industry did not meet with the growth expectations in 2001. It registered a marginal growth within which demand for scooters and motorcycles grew by 11% and for cars by 3% while for trucks, commercial vehicles and tractors a decline of 11%.

Other markets of bearing industry like railways, fan and machinery could just manage to survive without any decline in 2001.

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