

# FAG



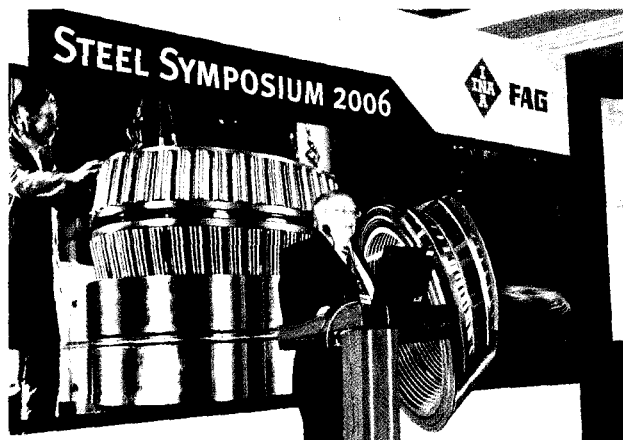
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## FAG Bearings India Limited

Annual Report 2006

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## Steel Symposium 2006

Schaeffler Group organised "Steel Symposium 2006" at Kolkata and Mumbai on 24th and 27th April 2006. Operations and Maintenance engineers from leading steel industries in India participated in this symposium. The participants showed keen interest in the new carbonitrided roll neck bearing, as well as in FIS products and services.

## Cross Your Limits

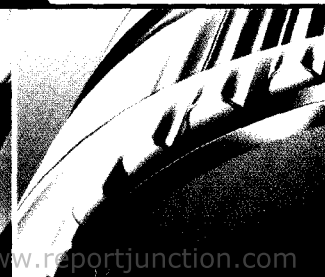
The All India Distributors Conference was held in Mussoorie - a small town situated in the Himalayan hills. The conference theme, "Cross Your Limits" aptly reflected the prevailing enthusiasm among the FAG Distributors to realise rapid business growth. Addressing the conference, Mr. B. Dhar, Managing Director, FAG India, emphasised the need to focus on "end customer".

The distributors also received an update on FAG's expansion plans and new product developments during the conference.

The market launch of X-life premium quality products was the major highlight of this event. Mr. Michael Krueger - Head of Marketing, Schaeffler Germany gave a presentation on X-life as a special product with features that define a new, world-class benchmark for engineering technology and systems excellence. The presentation was well received by everyone present and witnessed an active participation all across.



W E L C O M E   T O   T H E   F U T U R E



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		<b>Bankers</b> Union Bank of India State Bank of India ICICI Bank Limited Deutsche Bank
		<b>Auditors</b> Deloitte Haskins & Sells, Mumbai
		<b>Collaborators</b> Schaeffler Group, Germany
Registered Office :		<b>Head Office &amp; Works</b> Maneja, Vadodara - 390 013
Nariman Bhavan, 8th Floor 227, Backbay Reclamation Nariman Point Mumbai - 400 021		<b>Sales Offices</b> Bangalore, Chennai, Kolkata, Mumbai, New Delhi, Pune.

## NOTICE

To  
The Member(s)  
FAG Bearings India Limited

Notice is hereby given that the Forty Fourth Annual General Meeting of "FAG BEARINGS INDIA LIMITED" will be held on Thursday, April 26, 2007 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 businesses:

### ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at December 31, 2006 and the Profit and Loss Account for the year ended on that date along with Directors' and Auditors' Report thereon;
2. To declare dividend for the year ended December 31, 2006.
3. To appoint a Director in place of Mr. Hans-Juergen Goslar, who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a Director in place of Mr. Bernhard Steinruecke, 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. Dietmar Heinrich, who was appointed with effect from August 1, 2006 by the Board as Additional Director. Pursuant to provisions of Section 260 of the Companies Act, 1956 read with article 126 of the 'Articles of Association' of the Company, Mr. Heinrich holds office upto the date of this Annual General Meeting of the Company. The Company has received notice under Section 257 of the Companies Act, 1956 proposing his candidature for the office of the Director.

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

**"RESOLVED THAT** pursuant to applicable provisions of the Companies Act, 1956, Mr. Dietmar Heinrich be and is hereby appointed as the Director of the Company."

**"FURTHER RESOLVED THAT** any one of the existing Directors or Chief Financial Officer or Company Secretary of the Company be and is hereby authorised to take the necessary actions and complete all the legal formalities related thereto."

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

**"RESOLVED THAT** the appointment of Mr. Biswarup Dhar, as the Managing Director by the Board of Directors with effect from 26th day of May 2006, be and is hereby confirmed on the terms and conditions as agreed between the Company and Mr. Dhar."

**"FURTHER RESOLVED THAT** the appointment of Mr. Biswarup Dhar, (who is also the Managing Director of "INA Bearings India Private Limited") pursuant to provisions of Section 316 of the Companies Act, 1956 by the Board of Directors of the Company unanimously in their meeting held on 26th day of May, 2006, be and is hereby confirmed and his appointment as the Managing Director of "FAG Bearings India Limited" is approved with effect from 26th day of May 2006."

**"FURTHER RESOLVED THAT** pursuant to Sections 198, 269, 309 and 311 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 appointment of Mr. Biswarup Dhar as the Managing Director of the Company (hereinafter referred as the Managing Director) as a

non-rotational Director with effect from May 26, 2006 to December 31, 2010. The remuneration for the period May 26, 2006 to December 31, 2006 shall be as follows":

Sr. No.	Particulars	Amount in million INR per annum
A	Fixed Base Salary	2.688
B	Performance Bonus	1.152
C	House Rent Allowance	0.480
D	Perquisites And Other Allowances	0.760
E	Company's Contribution (Provident & Superannuation)	0.726

"**FURTHER RESOLVED THAT** the Managing Director shall also be eligible to the following which shall not be included in the computation of the ceiling on remuneration specified above";

- The Company shall reimburse Mr. Dhar's traveling and out of pocket expenses in accordance with the Rules of the Company.
- Mr. Dhar shall be entitled to use an automobile selected by the Company with driver when performing his duties as Managing Director of the Company as well as for private purposes in India. The cost associated with such automobile, including fuel and maintenance expense, shall be on the Company's account. Any income tax levied on the personal use of the Company car shall be borne by Mr. Dhar.
- Mr. Dhar shall be entitled to his annual leave during the course of employment as per the Rules of the Company. Generally, such annual leave must be taken within the current calendar year.
- Should Mr. Dhar be unable, due to sickness or accident or other incapacity, to discharge the duties being performed by him, leave of up to one month in a year shall be available to him.

"**FURTHER RESOLVED THAT** subject to the overall ceiling as stipulated in Sections 198 and 309 of the Companies Act, 1956, the Board be and is hereby authorised to grant increase by way of annual increment as it may think fit within the overall remuneration limit of the Managing Director for the period upto and including 2010 which is as follows":

Sr. No.	Particulars	Amount in Million INR per annum
A	Fixed Base Salary	4.445
B	Performance Bonus	1.905
C	House Rent Allowance	0.800
D	Perquisites And Other Allowances	1.200
E	Company's Contribution (Provident & Superannuation)	1.200

"**FURTHER RESOLVED THAT** the Employment Agreement dated May 26, 2006 executed between the Company and Mr. Biswarup Dhar, draft of which was initialed by the Chairman of the Company, be and is hereby approved and the remuneration limit of Mr. Dhar for the period up to and including 2010 will be in accordance with the referred 'Employment Agreement' and the annual increment for the years 2007, 2008 and 2009 will be decided by the Board of the Company."

"**FURTHER RESOLVED THAT** if in any financial year, when the Company has no profit or inadequate profit, the Managing Director shall also be eligible to the following which shall not be included in the computation of the ceiling on remuneration specified above";

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

**FAG Bearings India Limited**

- b) Gratuity payable at the rate not exceeding half a month's salary for each completed year of service as per the rules of the Company and
- c) Encashment of leave at the end of the tenure as per rules of the Company.

**"FURTHER RESOLVED THAT** any one of the existing Directors or Chief Financial Officer or Company Secretary of the Company be and is hereby authorised to take the necessary actions and complete all the legal formalities related thereto."

8. To consider and if thought fit, to pass with or without modification as may be permissible, the following resolution as a **Special Resolution**;

**"RESOLVED THAT** pursuant to the provisions of Section 163 or other applicable provisions, if any, of the Companies Act, 1956, the Register of Members, Index of Members, etc. may be kept at the office of "Registrar to an Issue and Share Transfer Agent" time to time appointed in terms of Rule 4(1) (b) of SEBI (Registrar to an Issue and Share Transfer Agent) Rules 1993, by the Company at their office at Mumbai."

**"FURTHER RESOLVED THAT** any one of the existing Directors or Chief Financial Officer or Company Secretary of the Company be and is hereby authorised to take the necessary actions and complete all the legal formalities related thereto."

**Registered Office:**

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

**Date: February 8, 2007**

**By Order of the Board**

Sd/-

Raj Sarraf

**Company Secretary**

**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 2, 2007 to April 5, 2007 (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, 2007. The dividend will be paid within the specified time limit, 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.
4.
  - a) Shareholders, who have not encashed the dividend warrants for the years 1999, 2000, 2001, 2002, 2003, 2004 or 2005 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, 1996-97, 1997-98 and 1998 were transferred to the Investor Education and Protection Fund in time, pursuant to the Section 205A read with Section 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 7, 2007.



## ANNEXURE TO NOTICE

**Explanatory statement under Section 173 of the Companies Act, 1956 relating to Special Businesses mentioned in the notice convening the 44th Annual General Meeting****ITEM No. 6.**

With effect from 1st day of August 2006, Mr. Dietmar Heinrich was appointed as Additional Director by the Board of Directors to fill the vacancy caused due to resignation of Mr. Anton Hammer, a casual Director of the Company. Mr. Heinrich is a qualified Industrial Engineer and has a very long experience in the Industry. Presently Mr. Heinrich is Vice President Group Finance Asia/Pacific and is responsible for Controlling, Finance and Accounting functions of 'Asia Pacific Region' of 'Schaeffler Group', Germany. He has been associated with the Group since many years and has been instrumental in accelerating the growth of the Group.

His continued association with the Company would be a great advantage. Your Directors therefore recommend his election to the office of Director of the Company. Notice from a member proposing his candidature together with a deposit of Rs. 500/- in terms of Section 257 of the Companies Act, 1956 has been received by the Company.

Except Mr. Dietmar Heinrich no other Director is interested in the resolution.

**ITEM No. 7.**

Mr. Biswarup Dhar was appointed as the Managing Director by the Board of Directors of the Company in its meeting held on May 26, 2006 to fill the casual vacancy caused due to resignation of the Ex-Managing Director. An employment agreement was executed between the Company and Mr. Dhar on 26th Day of May 2006.

Mr. Dhar is also a Managing Director of "INA Bearings India Private Limited" and his appointment as Managing Director of "FAG Bearings India Limited" was approved by the Board Members unanimously in their meeting held on 26th Day of May 2006, in terms of Sub-Section (2) of Section 316 of the Companies Act, 1956.

By qualification Mr. Dhar is a Mechanical Engineer and has specialisation in Industrial Management. He brings with him 35 years of rich experience in the bearing industry. Over the past 8 years as a Managing Director of INA Bearings India Private Limited (A member of Schaeffler Group), Mr. Dhar has successfully established the brand INA as a technology leader in the Indian Automotive and Industrial Market.

The Directors considered that his services and expert guidance would be useful for the growth of the Company in the future as well.

Mr. Dhar is holding 450 equity shares in the Company.

The material terms and conditions of the draft agreement including remuneration are as follows:

**A. DUTIES AND POSITION**

- Mr. Biswarup Dhar will serve the Company in the capacity of Managing Director for the period starting from May 26, 2006 to December 31, 2010 (subject to earlier termination as agreed under clause 4 of the Employment Agreement dated May 26, 2006 with him).
- Mr. Dhar will be overall in charge of all operations of the Company. He shall exercise his powers subject to superintendence, control and directions of the Board of Directors of the Company. He shall report to the Chairman.

Mr. Dhar shall respect the approval procedures for certain actions as determined in Attachment D of the Employment Agreement.

- Mr. Dhar shall devote substantial part of his time and attention to the affairs of the Company and shall not, without its express consent in writing, engage in any business, profession or occupation (competing with its business) or become a Director, consultant, partner or owner thereof.
- Mr. Dhar shall well and faithfully serve the Company and use his best endeavors to promote the interest thereof. He shall not, while an employee thereof or thereafter, directly or indirectly, divulge any information concerning the affairs, or any information of whatever nature, which he shall have acquired during his employment, to anyone or to use it for any purpose except performance of his duties in terms of this agreement.

**B. REMUNERATION AND BENEFITS**

Mr. Dhar shall be entitled to receive the remuneration as per terms agreed upon in the Employment Agreement. The brief details are as under;

## i) Basic Salary;

2.688 Million INR per annum from May 26, 2006 to December 31, 2006. The Board is authorized to grant increase by way of annual increment as it may think fit within the overall limit of 4.445 Million INR per annum for the period upto and including 2010.

**FAG Bearings India Limited**

## ii) Performance Bonus;

1.152 Million INR per annum for 2006 and within the maximum of 1.905 Million INR per annum for the period upto and including 2010 as may be decided by the Board of Directors.

## iii) House Rent Allowance;

0.480 Million INR per annum for 2006 and within the maximum of 0.800 Million INR per annum for the period upto and including 2010 as may be decided by the Board of Directors.

## iv) Perquisites and Other Allowances;

0.760 Million INR per annum for 2006 and within the maximum of 1.200 Million INR per annum for the period upto and including 2010 as may be decided by the Board of Directors.

## v) Company's Contribution to Provident Fund and Superannuation Fund;

0.726 Million INR per annum for 2006 and within the maximum of 1.200 Million INR per annum for the period upto and including 2010 as may be decided by the Board of Directors.

The Managing Director shall also be eligible to the following, which shall not be included in the computation of the ceiling on remuneration specified above;

- The Company shall reimburse Mr. Dhar's traveling and out of pocket expenses in accordance with the Rules of the Company.
- Mr. Dhar shall be entitled to use an automobile selected by the Company with driver when performing his duties as Managing Director of the Company as well as for private purposes in India. The cost associated with such automobile, including fuel and maintenance expense, shall be on the Company's account. Any income tax levied on the personal use of the Company car shall be borne by Mr. Dhar.

**C. RESTRAINT OF TRADE / SOLICITATION**

Mr. Dhar shall not, without the consent of Board of the Company, during the continuation of his employment or immediate twelve months thereafter, be directly or indirectly employed, engaged, concerned or interested in any trade, profession or business which;

- is wholly or partly in competition with any business carried on by the Company by itself or in partnership, common ownership or as a joint venture with any third party; or
- as regards any goods or service is a supplier to or customer of the Company.

**D. OTHER TERMS AND CONDITIONS**

- i) The Managing Director shall be entitled to Annual Leave as per the rules of the Company. He shall also be entitled to avail sick leave upto one month. At the end of the year, he shall be further entitled to encashment of any earned leave not availed of by him at the rate of the last drawn salary as per the rules of the Company.
- ii) The Managing Director shall be entitled to 15 days' salary for every year of service as gratuity on ending services with the Company. This amount is not payable to him during his service period.
- iii) The Managing Director shall not be paid any sitting fees for attending the meeting of the Board of Directors or a Committee thereof.
- iv) In case of death during the course of his employment, the Company will pay to his heirs, the salary and other accumulated emoluments payable to him up till the month of said casualty.

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

A draft of the referred agreement entered into between the Company on the one part and Mr. Dhar on the other part is open for inspection by the members at the Registered Office or at the Head Office of the Company on any working day between 10.00 a.m. and 12.00 noon till the Annual General Meeting.



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The appointment and remuneration paid / payable to Mr. Dhar is required to be approved by the shareholders in the General Meeting and accordingly this resolution is being placed before the members for approval. The Board of Directors recommends the resolution for acceptance by the shareholders.

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

## ITEM No. 8.

The Company, in terms of Rule 4(1) (b) of SEBI (Registrar to an Issue and Share Transfer Agent) Rules 1993, read with applicable listing guidelines has entered into an agreement on 12th day of August 2006 at Vadodara, with "Intime Spectrum Registry Limited" having its registered office at C-13, Pannalal Silkmills Compound, LBS Marg, Bhandup (W) Mumbai - 400 078 to act as a "Registrar to an Issue and Share Transfer Agent (RTA)" for 'FAG Bearings India Limited'.

Pursuant to provisions of Section 163 of the Companies Act, 1956, the Register of Members, Index of Members etc. instead of keeping at the Registered Office of the Company, may be kept at any other place within the City, Town or Village in which the Registered Office of the Company is situated, if such other place has been approved for this purpose by a special resolution passed by the Company in General Meeting. For the sake of convenience to the members and in order to attend timely to their enquiries, complaints, etc. it has been thought desirable to keep the Register of Members, Index of Members etc. at the Registered Office or Branch Office as the case may be, of RTA at Mumbai. The Board of Directors recommends the resolution for acceptance by the shareholders as Special Resolution to comply with the provisions of the above Section.

None of the Directors is interested in any way in the resolution.

**A brief resume and shareholding of Directors who are being appointed or re-appointed have been included in the Corporate Governance Report.**

## Registered Office:

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

**Date: February 8, 2007**

**By Order of the Board**

Sd/-

Raj Sarraf

**Company Secretary**

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## Directors' Report

To The members of the Company

Your Directors are pleased to present the Forty Fourth Annual Report of the Company together with the audited financial statements of the Company for the year ended December 31, 2006.

1. FINANCIAL HIGHLIGHTS	(Rs. in million)	
	Year 2006	Year 2005
<b>TOTAL INCOME (Net)</b>	<b>5529.1</b>	<b>4151.9</b>
Gross Operating Profit (Earning before depreciation, interest and tax)	1290.1	854.5
Depreciation / Amortization	183.0	168.3
Interest (Net)	12.6	8.6
<b>PROFIT FOR THE YEAR BEFORE TAX</b>	<b>1094.5</b>	<b>677.6</b>
Provision for Tax	346.0	180.2
<b>PROFIT FOR THE YEAR AFTER TAX</b>	<b>748.5</b>	<b>507.3</b>
Tax adjustments for earlier years (Net)	(11.5)	(18.5)
<b>PROFIT AFTER TAX</b>	<b>737.0</b>	<b>478.9</b>
Balance brought forward	619.0	254.9
Profit available for appropriation	1356.0	733.8
<b>APPROPRIATIONS</b>		
Proposed dividend	66.5	58.2
Income tax on dividend (*including for an earlier year Rs.0.6 million)	9.3	8.7*
Transfer to General Reserve	73.7	47.9
Balance carried to Balance Sheet	1206.5	619.0
	<u>1356.0</u>	<u>733.8</u>

## 2. FINANCIAL AND OPERATIONAL PERFORMANCE

Your Company's sales have been consistently growing at a rate better than the growth of the bearing industry in India. The Company realised sales growth of 32.3% (2005: 25.5%) due to demand increase in all the segments owing to strong industrial growth.

Gross Operating Profit increased by 51% (2005: 42.2%). Profit Before Tax (PBT) was higher by 61.5% (2005: 58.4%) and Profit After Tax (PAT) was higher by 54.2% (2005: 62.7%).

## 3. DIVIDEND

Your Directors recommend for your approval dividend for the year ended December 31, 2006 at the rate of Rs. 4.0 (2005: Rs. 3.5) per equity share amounting to Rs.66.5 million (2005: Rs. 58.2 million).

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

## 4. MANAGEMENT DISCUSSION AND ANALYSIS

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