

FAG

fueled by **innovation** | driven by **productivity**



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FAG Bearings India Limited

Annual Report 2009

SCHAEFFLER GROUP

Company Information

Board of Directors

Chairman

Avinash Gandhi

Managing Director Directors

Rajendra Anandpara
Bernhard Steinruecke
Bruno Krauss
Dr. Vidya Sagar
Frank Huber
Wolfgang Dangel
Moreshwar Garde

Alternate to Mr. Krauss

Kamlesh Tapadar

Alternate to Mr. Huber

R. Sampath Kumar

Alternate to Mr. Dangel

Yezad Kapadia

Chief Financial Officer

Satish Patel

Company Secretary

Raj Sarraf

Bankers

Union Bank of India
ICICI Bank Limited

Auditors

Mohinder Puri & Co., New Delhi

Collaborators

Schaeffler Group, Germany

Head Office & Works

Maneja, Vadodara - 390 013

Sales Offices

Bangalore, Chennai, Kolkata, Coimbatore,
Hyderabad, Udaipur, Mumbai, New Delhi,
Pune, Jamshedpur

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innovat



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Compact Technology for Compact Cars.

Compact cars comprise of over 75% of total car production in India. As rising middle class incomes drive demand for cars in India, automakers expect the ranks of car owners in the country to expand dramatically in the coming years.

The Rs. 1 lac car - Tata Nano - is all set to revolutionize the industry. This 'little champion' relies on advanced FAG 1st generation, wheel bearing technology for the driven wheel. This compact wheel bearing arrangement is greased and sealed for life.



Increased Safety with ABS.

For the mid segment cars, FAG offers state-of-the-art engineering technique, with integrated ABS encoder. For example, integration of magnetic encoder in front wheel bearing substantially enhances performance of Anti-lock Braking System (ABS) in the Ritz model of Maruti Suzuki.



Innovation for a Smoother Ride.

Due to low cost of ownership, and easy maneuverability, motorcycles have become an ideal mode of personal transportation for Indian youth - both in urban and rural areas. Ever increasing demand on cost, performance and fuel efficiency in motorcycles means that bearing arrangements have to be more rigid and capable of taking higher loads and speed.

Cylindrical roller bearings developed by FAG for crankshaft application have proven very successful in 125cc and 150cc motorcycles. Besides supplying to Honda companies in India, FAG India also supplies these bearings to other Honda locations in Asia.



ion

As technology leaders - Schaeffler Group Companies lay immense focus on innovation management. At Schaeffler, we combine unrestricted creativity, and out-of-the-box thinking with highly focused, systematic and disciplined approach that looks at the entire value chain from the perspective of the customer.

2009 was certainly no ordinary year. But when market conditions are tough and demanding, innovation culture acts as an energizer - we innovate more - we innovate better - and that is what we did at the Vadodara plant.



Express Mobility. Expert technology.



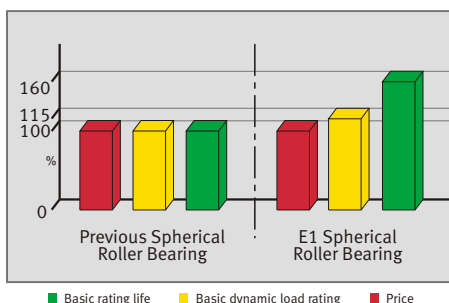
The rail is indispensable as a means of transportation in today's world. Increasing urbanization also demands effective mass transportation solutions for large cities.

The Mumbai Suburban Railway carries over 6 million commuters everyday. FAG was happy to have participated in EMU expansion project of MRVC (The Mumbai Railway Vikas Corporation). High performance FAG imported bearings for Siemens drive train and Spherical Roller Bearings produced at FAG India for wheel set applications signify FAG's strong technical presence in the rail sector.

New advanced Bombardier coaches for Delhi Metro will also feature FAG TAROL Bearings for wheel set applications.



FAG E1 Design Spherical Roller Bearings



FAG E1 design Spherical Roller Bearings have proved highly effective under conditions of high loads, and misalignments.

The new FAG E1 Spherical Roller Bearings offer significantly higher radial and axial load carrying capacity compared to the previous designs - besides providing security against rattle breakage and reducing bearing temperature.

The Vadodara plant introduced 18 types of E1 Spherical Roller Bearings - all of the highest quality.

Advantages to customer

- 1 Longer running life
- 2 Higher static load safety factor
- 3 Lower operating costs

product

EDD – Turning Goals to Reality

At Schaeffler Group, we have a high commitment towards employee development. We believe that development of employee competencies has to keep pace with the goals of organizational development.

It is with the above objectives that we launched EDD (Employee Development Dialogue) process at the Vadodara plant. The starting point of this process is a clear communication on the functional objectives and assessment by self and superior for the qualifications required for the function. This then sets the base for individual personal development measures which are tracked regularly for progress monitoring.

We believe that this process raises both - employee potential and employee satisfaction - and is thus vital for accelerating the conversion of Company goals into performance reality.



MOVE - The Road to Great Success



MOVE initiative is now a part of the corporate strategy of all Schaeffler Group Companies.

With MOVE, empowered employees work together to avoid waste with error-free processes while working in synchronization with our customers.

MOVE is a team effort where teams 'go to the source', think things through and react quickly based on philosophy that it is better to implement 80% solutions immediately rather than 100% never.

At Vadodara plant, we carried out a number of MOVE projects that were focused at waste elimination, optimization of the overall value stream, compressing lead times and mistake proofing.



ivity

The tough times sharpened our focus on productivity. We actually viewed it as an opportunity to improve our competitive position and worked extensively on the two pillars of productivity - people and processes.

We re-looked and streamlined our processes and got our people to own them. We reinforced team working, re-skilled our people and drew on the collective knowledge pool to perform at peak potential.



Pursuit of Zero Defects

In the modern business, 'good is no longer enough', 'Fit for Quality' stands for the Schaeffler Group's target for raising its standard for quality excellence - which is the basis of the Company's success.

'Fit for Quality' takes a holistic approach and involves every function and every employee of the organization.

At Vadodara factory, we implemented comprehensive 8 axiom approach to FFQ. A strong emphasis is placed on quality awareness, so that not allowing defects to occur in the first place has now become the key focus of our quality culture.



Hitting Bulls Eye with Quality Circle



The FAG Quality Circle aims to make troubleshooting easier. By using quality circle tools and techniques, we have solved complex problems, while a continuous follow-up of the resolved problem helped reinforce the gains and demonstrated FAG's commitment to product and service quality.

It was thus indeed gratifying when our Quality Circle 'SMART' won a Silver Award at International Convention for Quality Control Circles held at Cebu, Philippines.



“

We reckon training and development as the organization's critical investment to continuously enhance the performance of our most important assets - our people.

”

Ms. Jagruti Sharma
Training Manager


Directors' Report

To the members of the Company

Your Directors are pleased to present the 47th Annual Report of the Company together with the audited financial statements of the Company for the year ended December 31, 2009.

FINANCIAL HIGHLIGHTS

Rs. in million



| YEAR | 2009 | 2008 |
|--|----------------|----------------|
| TOTAL INCOME (Net) | 8,264.2 | 7,660.5 |
| Gross operating profit (Earning before depreciation, interest, tax and prior period adjustments) | 1,318.8 | 1,728.0 |
| Depreciation / Amortization | 200.8 | 205.9 |
| Interest (Net) | 7.0 | 4.8 |
| Prior period adjustments | 115.2 | 43.8 |
| PROFIT BEFORE TAX | 995.8 | 1,473.5 |
| Provision for tax | 340.4 | 516.3 |
| PROFIT AFTER TAX | 655.4 | 957.2 |
| Balance brought forward | 2,291.8 | 1,722.1 |
| Profit available for appropriation | 2,947.2 | 2,679.3 |
| APPROPRIATIONS | | |
| Proposed dividend | 74.8 | 74.8 |
| Income tax on dividend | 12.7 | 12.7 |
| Transfer to general reserve | 250.0 | 300.0 |
| Balance carried to balance sheet | 2,609.7 | 2,291.8 |
| | 2,947.2 | 2,679.3 |

FINANCIAL AND OPERATIONAL PERFORMANCE

The year 2009 started against the backdrop of a major economic recession that hit the world during the second half of 2008. Though the Indian economy, driven by domestic consumption and well supported by stimulus measures of Government, gradually came out of this global turmoil, the overall business situation remained very challenging during the year 2009.

Your Company's total net sales grew by a moderate 7% during the year. Our exports sales declined by 51%, as the markets in Europe and US slumped under recessionary pressure. At the same time our intensified focus on Indian customers led to a smart increase of 17% in domestic sales (over 2008).

The general business scenario in 2009 was also characterized by severe liquidity crisis - triggered by global financial crisis. Your Company successfully implemented a number of measures to improve working capital management. As at the year ending December 31, 2009, our inventories reduced by 37% and sundry debtors witnessed a decrease of 5% compared to the previous year.

At FAG India, we also undertook a number of projects to improve productivity, quality and customer responsiveness. Under active guidance and support from Schaeffler Group, we successfully launched 'MOVE' project at the Vadodara factory. MOVE provides a platform to empowered employees to come together and avoid waste through error-free processes while working in synchronization with our customers.

During the year, profitability of the Company remained under pressure due to a sharp decline in the exports business, substantial impact of steel price increase and an adverse product mix resulting from market conditions.

Due to the above reasons, operating profit of your Company (Profit before tax) during the year 2009 reduced to 13%, compared to 19% in 2008.

DIVIDEND

Your Directors recommend for your approval dividend for the year ended December 31, 2009 at the rate of Rs. 4.5 (2008: Rs. 4.5) per equity share amounting to Rs. 74.8 million (2008: Rs. 74.8 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 Rs. 250 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, 2001 amounting to Rs. 297,148/- (including interest accrued thereon) that 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 & Analysis (Annexure - I).

Directors' Report

DIRECTORS

Mr. Rajendra Anandpara was appointed as an Additional Director from July 23, 2009 and as the Managing Director effective from August 1, 2009 by the Board of Directors of the Company at the meeting held on July 23, 2009 to fill the vacancy caused due to the resignation of Mr. Biswarup Dhar.

The Board placed on record its appreciation of Mr. Dhar's contribution to the Company.

At the forthcoming Annual General Meeting, Mr. Frank Huber and Mr. Bernhard Steinruecke will retire by rotation and being eligible, offer themselves for re-appointment as per the 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. Dietmar Heinrich resigned from the Company's Directorship with effect from October 31, 2009. The Board appreciated his contribution as Director of the Company. The office of his Alternate Director Mr. Kamlesh Tapadar was considered as vacated automatically with effect from October 31, 2009.

In place of Mr. Heinrich, Mr. Bruno Krauss, Executive Vice President - Finance, Schaeffler Group Asia Pacific Region and member of the Regional Asia Pacific Executive Management Board, was appointed as Additional Director w.e.f. February 11, 2010 by the Board of Directors of the Company. The Company has received notice under Section 257 of the Companies Act, 1956 proposing candidature of Mr. Bruno Krauss for the office of the Director.

During the year, the office of Alternate Directors was considered as vacant on arrival of their original Directors and 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 22, 2009.

As on December 31, 2009 Mr. R. Sampath Kumar and Mr. Yezad Kapadia are the Alternate Directors of Mr. Frank Huber and Mr. Wolfgang Dangel respectively. On the request of Mr. Bruno Krauss, the Board of Directors in its meeting held on February 11, 2010 has appointed Mr. Kamlesh Tapadar as his Alternate Director.

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 the provisions of Proviso (b)(iv) to 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 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 (Gujarat), 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).