SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

FAG



FAG Bearings India Limited

Annual Report 2003

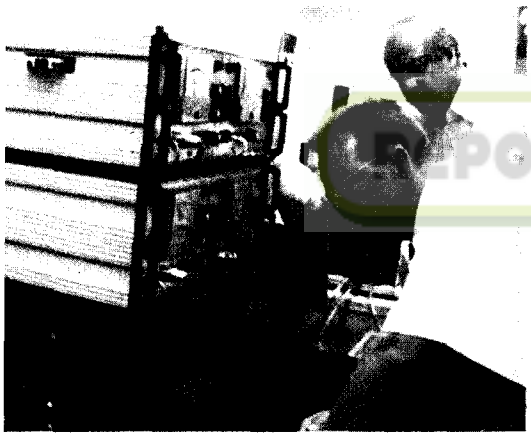
A member of the
Schaeffler Group

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

INDIA IN FOCUS

Dr. Jurgen M. Geissinger at Vadodara Plant evincing keen interest in quality



Dr. Rainer Woska, Sr. Vice President, Industrial Applications, Purchasing, Manufacturing Methods Development (Center) with Mr. Gert Buchel and Mr. D. Jagannath



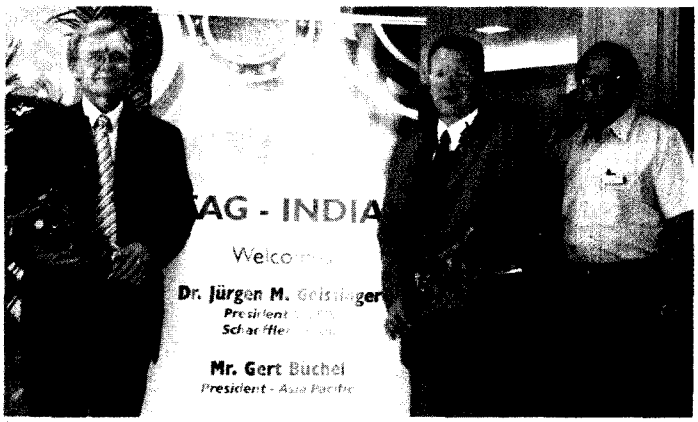
Dr. Matthias Gather and Dr. Graham Stirling of Aerospace/Superprecision division visited India to explore sourcing possibilities



ReportJunction.com



Maria-Elisabeth Schaeffler, owner Schaeffler Group visited India as a part of Bavarian Business Delegation. In the picture from left, Minister President of Bavaria Dr. Edmund Stoiber, Maria-Elisabeth Schaeffler and D. Jagannath



From Left - Mr. Gert Buchel, President – Asia Pacific, Dr. Jurgen M. Geissinger, President & CEO, Schaeffler Group and Mr. D. Jagannath, MD, FAG India

■ **Senior management of the Schaeffler Group visited FAG India during the year to get first hand impression about Indian operations.**

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

Contents	Page No.
General Information	1
Notice to Members	2
Directors' Report (Including Management Discussion and Analysis)	4
Corporate Governance Report	9
Auditors' Report	19
Balance Sheet	22
Profit and Loss Account	23
Cash Flow Statement	24
Schedules	26
10 Years' Highlights	42
Electronic Clearing Service (ECS) Credit Clearing	45

Registered Office :

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

General Information

Board of Directors

Chairman	Avinash P. Gandhi
Managing Director	Damaraju Jagannath
	Dr.Vidya Sagar
	Cornelius Fricke
	Frank Huber
	Guenther Morber
Nominee of GIC	Moreshwar D. Garde
Alternate to F. Huber	Sampath Kumar
Alternate to G. Morber	Yezad S. Kapadia
Alternate to C. Fricke	Kamlesh C.Tapadar
Secretary	Hemant R. Shukla
Bankers	Union Bank of India
	State Bank of India
	ICICI Bank Limited
	HDFC Bank Limited
	Deutsche Bank
Auditors	A.F.Ferguson & Co.
Collaborators	Schaeffler Group, Germany
Head Office & Works	Maneja, Vadodara - 390 013
Sales Offices	Chennai, Kolkata, Mumbai, New Delhi, Pune

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

Notice to Members

Notice is hereby given that the Forty First Annual General Meeting of FAG BEARINGS INDIA LIMITED will be held on Thursday, April 29, 2004 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 business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at December 31, 2003 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, 2003.

3. To appoint a Director in place of Mr. A.P. Gandhi who retires by rotation, and being eligible offers himself for reappointment.

4. To appoint a Director in place of Dr. V. Sagar 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. Cornelius Fricke, who was appointed as an additional director of the Company by the Board of Directors on February 19, 2004, pursuant to Article 126 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting of the Company under Section 260 of the Companies Act, 1956. The Company has received notice in writing under Section 257 of the Companies Act, 1956 proposing his candidature for the office of Director.

Registered Office:

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

By Order of the Board

H. R. Shukla
Secretary

Date: February 19, 2004

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 1, 2004 to April 5, 2004 (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, 2004. 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. The dividend will be paid after the Annual General Meeting, subject to approval by the members.

4. a) Shareholders who have not encashed the dividend warrants for the years 1996-97, 1997-98, 1998, 1999, 2000, 2001 or 2002 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.

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

c) Unclaimed dividends for the year 1995-96 were transferred to the Investor Education and Protection Fund during 2003, pursuant to the Section 205A read with 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 Mandate Form and send it to the Registrars by April 15, 2004.

Annexure to Notice

Explanatory statement under Section 173 of the Companies Act, 1956 relating to the Special Business mentioned in the notice convening the Annual General Meeting.

Item No. 6

On February 19, 2004 your directors appointed Mr. Cornelius Fricke as an Additional Director on the Board. Mr. Fricke (46 years) is a Graduated Engineer (Dipl.Ing.) from Germany. From 1987 to 1998, he was working in various position with ITT Teves and during 1998-2003, he was General Manager SABS for Continental Teves. In October 2003, he joined as the Head of operations INA Schaeffler Group Asia-Pacific. He is based in China since about 10 years. He is a Director in Ningxia FAG Xibei Railway Bearing Co. Ltd. In terms of Section 260 of Companies Act, 1956, he ceases to hold the office of the Director at this Annual General Meeting. Your Directors recommend his election as a Director. A notice in writing from a member proposing his candidature for the appointment as Director and his consent to act as Director, if appointed, have been received by the Company. Except Mr. Cornelius Fricke, no other Director is concerned or interested in this resolution.

Report Junction.com

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

Directors' Report

To the members of the Company,

Your Directors are pleased to present the Forty First Annual Report of the Company together with audited accounts for the year ended December 31, 2003.

1. FINANCIAL RESULTS

(Rs. in million)

	Year 2003	Year 2002
Total Income	2743.1	2484.8
Earning before depreciation, interest and tax (EBDIT)- Gross operating profit	503.1	483.3
Depreciation / Amortisation	167.4	169.8
Interest, Commitment and Finance Charges (Net)	26.0	59.6
Profit for the year Before Taxation (PBT)	309.7	253.9
Provision for Taxation :		
(a) current tax	74.5	58.3
(b) deferred tax	2.7	5.9
Profit for the year After Taxation	232.5	189.7
Taxation adjustment for earlier years (net)	(0.9)	8.0
Profit After Taxation (PAT) - Net Profit	231.6	197.7
Write back of excess provision for Income tax on dividend	–	5.9
Balance brought forward	54.1	67.0
Profit available for appropriation	285.7	270.6
APPROPRIATIONS		
Transferred from Debenture Redemption Reserve	–	(25.0)
Proposed dividend	74.8	66.5
Income tax on dividend (including for previous year Rs.8.5 million)	18.1	–
Transferred to General Reserve	150.0	175.0
Balance carried to Balance Sheet	42.8	54.1
	285.7	270.6

2. FINANCIAL AND OPERATIONAL PERFORMANCE

Your Company's sales have been growing year after year at a rate faster than the growth of the bearing industry in India. For the year 2003, we had a sales growth of 9.2% (2002: 9.7%). It was mainly in the Aftermarket and OEM segments while sales to Railways recorded some decline. The sales of the imported bearings had a good growth. Exports of the Company were Rs.385.0 million (2002: Rs. 424.3 million). The reduction in exports was mainly due to the weak European demand.

Gross operating profit increased by 4.1%(2002 : 10.5%). Profit Before Tax (PBT) was higher by 22.0% (2002: 32.1%) and Profit After Tax (PAT) was higher by 17.1% (2002: 31.6%).

During the year, there was intense competitive pressure on prices and margins. There was substantial increase in steel prices also. The Company could achieve its profitability with emphasis on the Aftermarket and focussed product mix planning. The intensive cost reduction efforts continued during the year. The production of bearings went up by 3.8% over the last year (2002: 13.4%).

During the year FAG Germany conducted a Total Quality Management audit covering QS 9000, ISO TS 16949 and Continuous Improvement Process. The Company successfully passed through the audits. TÜV Surveillance Audits for TS 16949 (2002) and ISO 14001 were also successful.

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

3. DIVIDEND

Your Directors recommend for your approval dividend for the year ended December 31, 2003 at the rate of Rs. 4.50 (2002: Rs. 4.00) per equity share amounting to Rs.74.8 million (2002: Rs. 66.5 million).

The Company will pay income tax on Dividend as per the provisions of the Income-Tax Act. Last year, after the Board recommended 40% Dividend for 2002 on February 5, 2003, the Budget of the Union Government re-introduced tax on dividend payable by the Company, which was not provided in the accounts. The same was paid in time. This year's accounts show the amount separately.

4. INA/FAG OPEN OFFER

Complying with a SEBI order, INA and FAG, Germany had made an open offer @ Rs. 41.22 including interest (which closed in February, 2003). 306 Shareholders offered 54,378 shares in the open offer. All these shares have been transferred to FAG Kugelfischer Georg Schaefer AG, Germany in January and February, 2004 after RBI and FIPB approvals.Their holding has gone upto 51.33%

5. FAG ROLLER BEARINGS PVT. LTD.

During the year, the Joint Venture Company obtained approvals from FAG, Germany of the quality of Taper Roller Bearings. The production has started well and sales of Rs.69.2 mio. were made. Market demand exceeds plant capacity.

6. FINANCE

The Company repaid all the long term borrowings and substantially reduced the utilisation of working capital limits with the banks as a measure of cost control. CRISIL re-affirmed the rating of the Company for Commercial Paper at 'P1 plus' (the highest possible). The rating was utilised to place Commercial Paper in the beginning of the year at lower interest rates. Foreign currency borrowings were taken to the extent they were beneficial for the Company. Interest costs reduced by 56.4% over 2002 (2002: reduction of 25.3% over 2001).

As on December 31, 2003, the fixed deposits from public amounting to Rs. 2.8 million (including interest due) had matured for repayment but had not been claimed. Out of this amount, deposits amounting to Rs. 0.7 million have been renewed/refunded till date.

7. ANTI-DUMPING DUTIES

The Company along with other ball bearing manufacturers had filed a petition for Anti-Dumping Duties against China, Poland, Romania and Russia. The same was accepted by the Government of India and provisional duties were imposed. The final ruling from the Government is still awaited.

8. MANAGEMENT DISCUSSION AND ANALYSIS

The Company is in the business of manufacturing and marketing of ball and roller bearings. The key issues of the Management Discussion and Analysis are given below.

(a) Industry structure and developments

Indian Bearing market size is estimated at Rs. 24 billion. Approximately one third of this demand is met through imports and the balance is met through indigenous production. Sales of the organised bearing industry are estimated at Rs. 15.5 billion. The industry experienced a significant growth of 9% during the year 2003. FAG India has continued its growth along the lines of the industry and has maintained its market position.

The fortunes of the bearing industry are, to a large extent, linked to the growth of the automotive industry. Passenger Car and commercial vehicle industries registered the fastest growth (about 28%). While sales of two wheelers, especially motorcycles, grew at a faster pace over the past few years, during the year sales - growth was around 10%. The tractor industry could manage only a marginal growth. Demand from Railways- another important market segment - remained stagnant.

OEM industries including two-wheelers and cars are facing intense price competition and continue to exert price pressure on the local bearing suppliers. Bearing capacity available in the country is in excess of demand and this has resulted in price competition.

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

(b) Opportunities and threats

The impact of good monsoon rains has provided a boost to the economy and it is set to grow at 7% to 8% supported by a smart growth in manufacturing and services sectors. Outlook for the year 2004 is positive. While the overall demand outlook for the year 2004 remains good, the Company expects the pressure on prices to continue due to competition. The Government has recently reduced customs duty on imports from 25% to 20%. Special additional duty of 4% has been withdrawn. This will intensify competition from imports.

(c) *Segmentwise performance*

The business of the Company falls under a single segment i.e."Ball/Roller Bearings and related components" for the purpose of Accounting Standard AS-17.

(d) Outlook

The continual growth in the automobile sector is expected to give the necessary support to the bearing industry. The Company is making all efforts to accelerate growth of its business. It expects to improve its position in the market by focussing on technologically advanced and more profitable products/market segments and working aggressively in the areas of productivity, efficiency and cost reductions.

(e) Risks and concerns

The menace of spurious bearings has further compounded the problems of the organised bearing industry.

There is a sharp increase in the price of steel that forms the basic material for bearings. It may not be possible for the Company to recover the increase in material cost from customers entirely.

(f) Internal control system

Internal audit and other controls have been found to be adequate. These are reviewed periodically by the Audit Committee. Financial Internal Audit team from FAG, Germany audited the Company during the year and found the performance satisfactory.

(g) Developments in human resources and industrial relations

The total number of employees at the year end was 1053 (2002: 1064). Information as per Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particular of Employees) Rules, 1975 forms part of this Report. The Managing Director is the only employee covered by these Rules and details of his remuneration are covered in this Annual Report. During the year, the Workers' Union and Staff Association merged and formed a single body. The Company continued to have cordial relations with all the employees.

9. DIRECTORS

Your Directors Mr. A.P. Gandhi and Dr. V. Sagar retire by rotation and, being eligible, offer themselves for reappointment. Mr.Cornelius Fricke was appointed as an Additional Director. He is the Head of operations, Schaeffler Group, Asia-Pacific and is based in China. His appointment will be considered at the ensuing Annual General Meeting.

Mr. H. Bieber was appointed as an Additional Director on July 31,2003. He resigned with effect from December 31, 2003.

10. CORPORATE GOVERNANCE

A separate Section on Corporate Governance is included in the Annual Report and the certificate from the Company's auditors confirming the compliance of conditions on Corporate Governance as stipulated in Clause 49 of the Listing Agreement with Stock Exchanges is annexed thereto.

11. AUDITORS

The Auditors, Messrs A.F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment.

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

12. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNING AND OUTGO

Information required as per Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 has been given in the Annexure forming part of this Report.

13. DIRECTORS' RESPONSIBILITY STATEMENT

The directors state that :

i) in the preparation of annual accounts all applicable accounting standards have been followed ;

ii) accounting policies as listed in the schedule 16 to the financial statements have been selected and consistently applied and reasonable and prudent judgements and estimates have been made so as to give a true and fair view of the state of affairs of the Company as on December 31, 2003 and of the profit of the Company for the accounting year ended on that day;

iii) proper and sufficient care for maintenance of adequate accounting records has been taken in accordance with the provisions of the Act so as to safeguard the assets of the Company and to prevent and detect fraud and other irregularities;

iv) the annual accounts have been prepared on a going concern basis.

14. ACKNOWLEDGEMENTS

Certain statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be "forward-looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ from those expressed or implied therein. Important factors that could make a difference include raw material availability and prices thereof, cyclical demand and pricing in the Company's principal markets, changes in Government regulations and tax regime, economic developments within India and the countries in which the Company conducts business and other incidental factors.

Your Directors place on record their appreciation for the wholehearted and continued support extended by the Schaeffler Group, INA and FAG Germany, suppliers, customers, stockists & importers, lending institutions, banks and all employees of the Company during the year under report.

For and on behalf of the Board

A.P. Gandhi
Chairman

New Delhi : February 19, 2004

www.reportjunction.com

SANSCO SERVICES - Annual Reports Library Services - www.sansco.net

Annexure to Directors' Report

Particulars under the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988.

(A) CONSERVATION OF ENERGY

1. Average power factor maintained at 0.99 earning rebate in power bill.
2. Synergy through alternative fixtures in indoor industrial lighting.
3. MTO plant with water cooled chilling units.
4. Alternative cooling tower for central air conditioning plants.
5. Lux monitoring during day time.

FORM B

(B) TECHNOLOGY ABSORPTION

In the field of product development, many new types of bearings have been developed successfully. Process optimization has been done on spherical roller bearing by introduction of hard turning. This resulted in process cost saving, productivity and quality improvement.

TECHNOLOGY ADAPTATION, ABSORPTION & INNOVATION

During the year, the Company upgraded four machines to meet the requirement of CNC grinding resulting in higher productivity and quality improvement.

With the recent modernisation of its SRB-CRB plant, FAG India is equipped and capable of meeting the best quality standards in bearing manufacturing in this field. FAG India is a pioneer in establishing the latest manufacturing facility for ANGULAR CONTACT BALL BEARINGS.

(C) FOREIGN EXCHANGE EARNING AND OUTGO

Import substitution is used as a measure of cost reduction, where possible.

(Rs. in million)

	Year 2003	Year 2002
Imports CIF value of		
Raw materials, Components, Products purchased for Sale, Stores & Spares, Capital goods and intangible assets	402.3	357.4
Expenditure in foreign currency	109.9	91.5
Interest on foreign currency loans, Fees for use of technology, interest on Foreign suppliers credit, professional fees and other expenses		
Dividend paid to Shareholders (net of tax)	33.9	26.7
Total foreign exchange used	546.1	475.6
Earning in foreign exchange		
Service Income	22.2	19.8
FOB value of exports	385.0	424.3
Total foreign exchange earned	407.2	444.1

For and on behalf of the Board

A.P. Gandhi
Chairman

New Delhi: February 19, 2004

www.reportjunction.com