

MANAGEMENT DISCUSSION & ANALYSIS

(Annexure A to the Directors' Report)

A MACRO-ECONOMIC ENVIRONMENT

According to World Bank report of January 2016, the global growth in year 2015 fell short of expectations; decelerating to 2.4% from 2.6% in previous year. The disappointing performance mainly reflected a continued growth deceleration in emerging and developing economies amid post-crisis lows in commodity prices, weaker capital flows and subdued global trade.

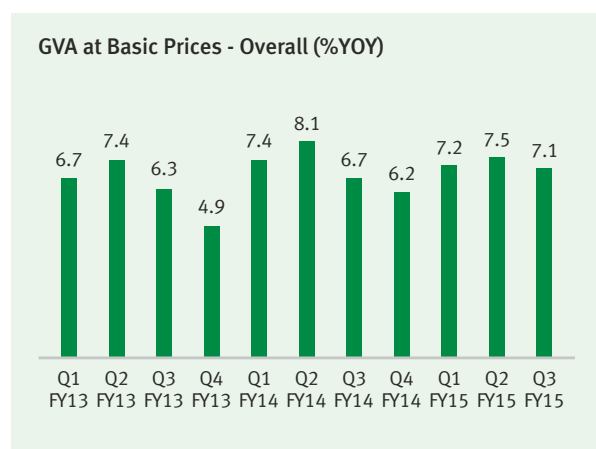
The World Bank forecasts global growth to edge up in the coming years, but at a slower pace; reaching 2.9% in 2016 and 3.1% in 2017-18. The forecast is however subject to substantial downside risk due to overall volatility in global markets.

At home in India, economic performance was impacted by weak monsoon, slowdown in exports, and stalled parliamentary action which delayed critical reform initiatives. Growth in Quarter Oct-Dec slowed down to 7.1%. However IMF forecast suggests that Indian economy will remain on recovery path helped by lower fuel and commodity prices, well managed fiscal deficit and positive policy action of the government.

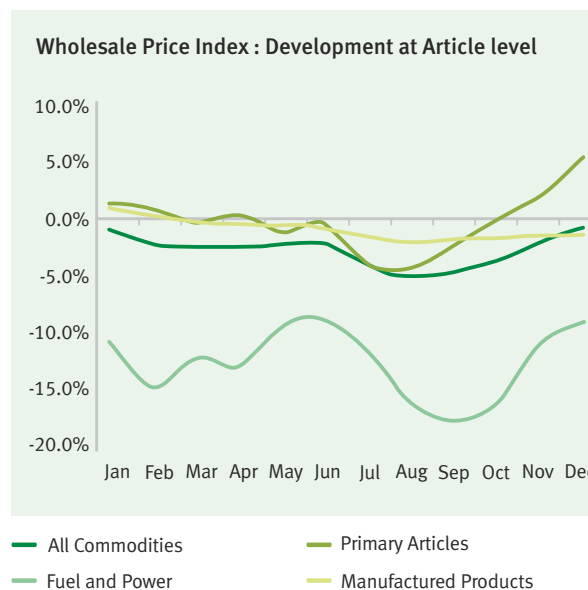
The forecast for Gross Value Added (GVA) growth in year 2015-16 is estimated at 7.3% and is expected to further grow at 7.6% for the year 2016-17.

Experts however caution that the recovery may be uneven and there are downside risks. The pick-up in the investment cycle is yet to gain strength, the banking system is weighed down by bad loans, and the weaker global economy has hit India's exports.

India's wholesale prices continued to fall with the pace of price decline touching 0.73% in December 2015. The pace of price decline was driven by the global meltdown in commodity prices impacting energy and manufactured product costs.



Development of Wholesale Price Index in 2015



B INDUSTRY STRUCTURE AND DEVELOPMENT

Your Company operates across the following major market sectors:



(A) Automotive OEM



(B) Industry OEM



(C) Aftermarket



(D) Exports

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According to first estimates, rolling bearings demand in year 2015 grew by about 5% over last year and is currently estimated at approximately ₹ 95 billion. Besides local production, imports of bearings also grew in 2015 and is currently placed in the range of 45-50% of the total demand.

(1) AUTOMOTIVE

Development of Automotive Production in India

(Quantity in Thousand Numbers)

	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015	Change % 2011 vs 10	Change % 2012 vs 11	Change % 2013 vs 12	Change % 2014 vs 13	Change % 2015 vs 14
Two and Three Wheelers	13,542	15,928	16,524	17,257	19,429	19,462	17.6%	3.7%	4.4%	12.6%	0.2%
Passenger Vehicles	2,806	3,054	3,285	3,132	3,157	3,368	8.8%	7.5%	-4.6%	0.8%	6.7%
Light Truck (LCV)	391	509	539	516	433	427	30.3%	5.8%	-4.3%	-16.0%	-1.4%
M & HCVs	332	372	338	226	249	320	12.2%	-9.1%	-33.1%	9.9%	28.9%
Tractors	496	631	588	683	667	557	27.2%	-6.8%	16.1%	-2.3%	-16.5%

Source: SIAM

Two & Three Wheelers

After a smart growth in year 2014, production of Two & Three Wheelers remained flat in the year 2015. Inconsistent rainfall and low farm output impacted rural demand as sales of base level motorcycles in particular was impacted. For the year 2016, a modest recovery is likely. Due to capacity expansion by leading players in the industry, Two Wheeler market may see increased competitive pressure in the coming years.

Passenger Vehicles

After a flat development in year 2014, Passenger Vehicles (Passenger Cars & Utility Vehicles) market expanded by about 7% in year 2015. Growth was led by Maruti Suzuki with a growth of two-digit increase in production. Outlook for the year 2016 remains positive as growth will be driven by new model launches and replacement demand.

Commercial Vehicles

After a sharp decline in year 2013, production of Medium and Heavy Commercial Vehicles continued to recover in year 2014 and year 2015. The production of light commercial vehicles did not grow due to multiple reasons.

Factors such as replacement of aging fleet and expectations of pick-up in infrastructure demand is expected to drive further growth of Medium and Heavy Commercial Vehicles. Despite current unfavourable trends, long-term prospects of Light Commercial Vehicle segment remains positive due to further proliferation of "Hub and Spoke" logistic model consequent to likely implementation of GST.

Agricultural Tractors

Production of agricultural tractors declined sharply in year 2015 due to multiple factors such as weak monsoon, flood in some parts of southern India, low Kharif crop and stagnant Mandi prices. With expectations of increase in allocation for agriculture and rural infrastructure in forthcoming union budget, coupled with expected increase in minimum support prices of Rabi crops, the industry expects recovery in tractor production in year 2016.

In general, medium and long term outlook for automotive sector is positive. Favourable demographics, growing middle class, rapid urbanisation and expansion of infrastructure will drive the need for personal and public transportation. Industry will increasingly follow the global trend towards higher efficiency, controlled emissions, high safety and improved driving comfort.

As a member of Schaeffler Group, your Company benefits from extensive system competence in this sector. We continue to emphasize on enhancing our engineering and development competence. Our engineers are well trained and leverage their system competence as success factor. We work together with our customers in automotive sector at an early stage of their product development. This gives us opportunity to offer improved products, features and modules that support our customers in realising higher efficiency.

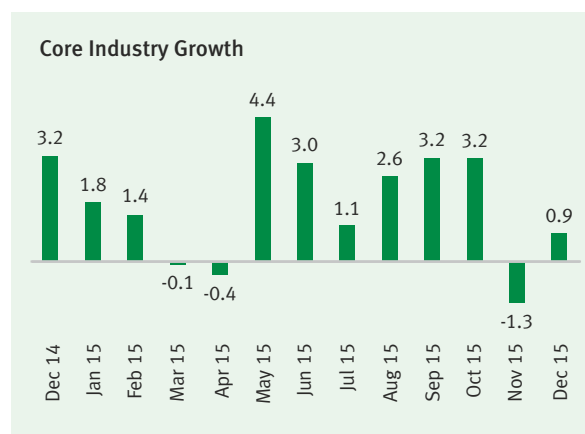
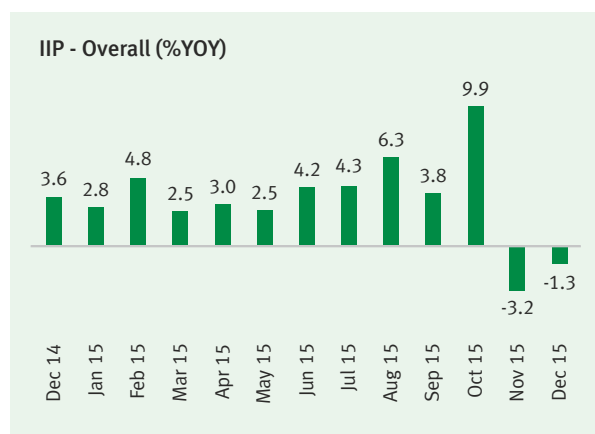
Besides investing in development of engineering competence, your Company is also expanding production of ball bearings and advanced wheel bearings to meet growing demand of our customers.

With our approach to continuously expand our engineering and manufacturing footprint in India, we set basis for long term success in this sector.

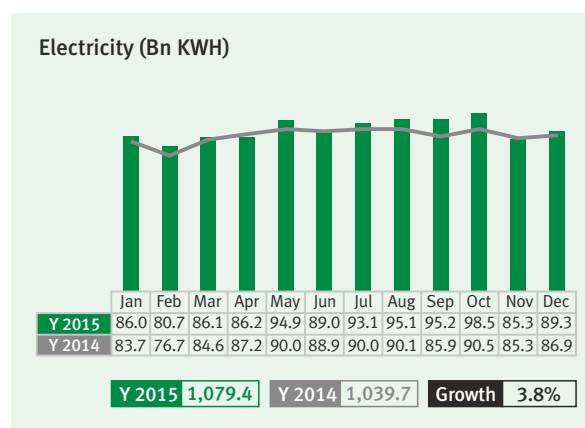
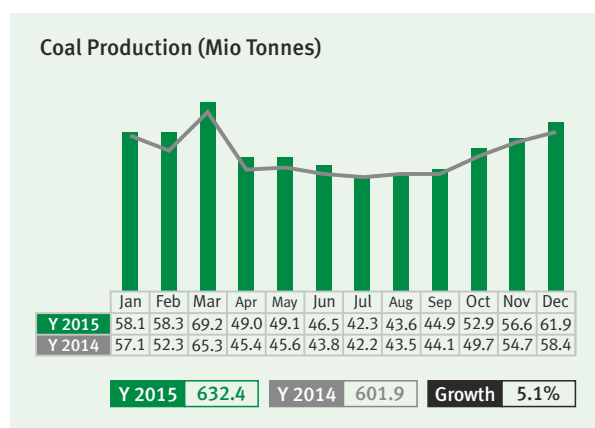
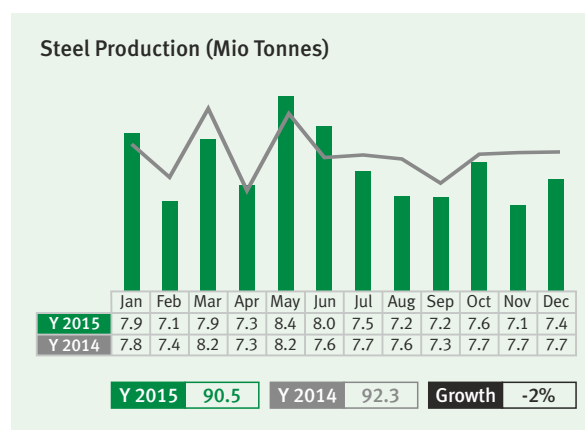
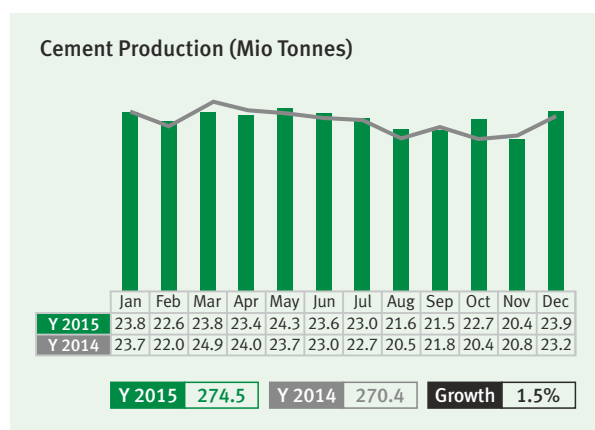
(2) INDUSTRIAL SECTORS

Growth in overall industrial activity was below expectations during the year 2015. The average growth in Index of Industrial Production (IIP) for the year 2015 was placed at 3.3%. Delayed private investment cycle, slower growth in infrastructure industry and weakness in export demand kept industrial development at moderate levels.

Development of Industrial production in 2015



Development of core industry slowed down considerably at 1.7% for the year 2015. Production of Steel in particular was impacted due to increased competition from cheap imports.



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The outlook of our customer sectors such as Industrial Transmission, Electrical Machinery is dependent on new projects resulting from revival of investments.

In Rail sector, the government has ambitious plans for growth and modernisation. 'Dedicated Freight Corridor' project is progressing well. The government has also awarded contracts for production of Diesel and Electrical locomotives to private companies under PPP model.

The new government policies are clearly targeted to provide impetus to renewable sector. Though, solar energy production does not require rolling bearings, stronger development in Wind sector augurs well for your Company.

Development of Aftermarket demand is linked to capacity utilisation and new projects in sectors such as Steel, Mining, Cement and Paper industry to name a few. Since most of our customers in these sectors are still to utilise their full capacities, development in Aftermarket demand therefore remained subdued.

Trend in Aftermarket is clearly towards reduced Total Cost of Ownership (TCO). The customers are also looking for very short lead times. At the same time, the competitive intensity in this sector continues to increase as more and more brands, both local and imported, vie with each other to get share of Aftermarket demand.

Your Company has strong presence in industrial business. The 'Make in India' initiative of the government of India, with its focus on liberalised FDI regime, boost in manufacturing sectors such as defence, aerospace, etc., and concrete measures to improve 'Ease of doing business', will provide necessary impetus to industrial growth in medium and long terms. Trends towards growing urbanisation, multi modal transportation, development of infrastructure and focus on conventional as well as renewable energy will encourage industries to focus on high efficiency, quality and productivity. Your Company with its leadership in engineering and manufacturing technologies as related to rolling bearings, will benefit from these emerging trends. Some of the initiatives taken by our Company to secure long term success in industrial business are as follows:

- 1) We are continuing to expand production of low friction ball bearings at Savli plant.



- 2) Our production technology at Vadodara plant has been upgraded to produce highly efficient X-Life cylindrical roller and spherical roller bearings.

- 3) With setting up of Large Size Bearings (LSB) plant at Savli, we have set a basis for development and production of high performance bearings for demanding applications in Heavy Industries and Energy sectors. We have also invested in special processes like Black Oxidation to meet high quality expectations for applications in renewable sector. Large Size Bearings produced at our Savli plant are gaining excellent recognition from our customers in diverse sectors. The plant is now well utilised near to its capacity.



- 4) The technical competence of our engineers is the key success factor for your organisation. Our application engineers and technical office are continuously expanding their competences. Our Schaeffler technology centre develops comprehensive understanding of customers' business and processes. Deep know-how of key equipment and applications help us in designing and providing efficient and sustainable solutions far beyond a mere supply of products to our customers.

- 5) We continue to develop new products and expand our portfolio to get increased share with our customers in focus sectors.

- 6) In Aftermarket, responding to the trend towards reducing TCO, we offer value added services such as bearing mounting, lubrication, shaft alignment, condition monitoring and roll shop maintenance, to name a few. During the year under review, your Company successfully operated maintenance / condition monitoring projects in steel, cement and paper industries.

- 7) We continued to expand our channel reach in the country, especially in rural markets. Our initiative to enhance technical competence of our channel partners is gaining acceptance.

The central government is laying great emphasis on agricultural revival, rural sector, healthcare and infrastructural development. This will lead to gradual improvement in economic and industrial outlook for the year 2016.

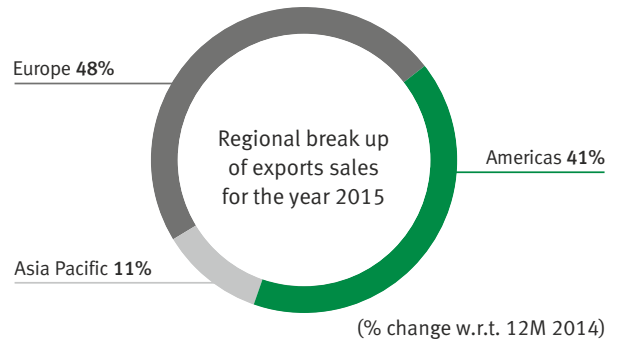
With its strategy to invest in continued expansion of manufacturing and engineering footprint, your Company is determined to maintain its growth approach in the short and long term.

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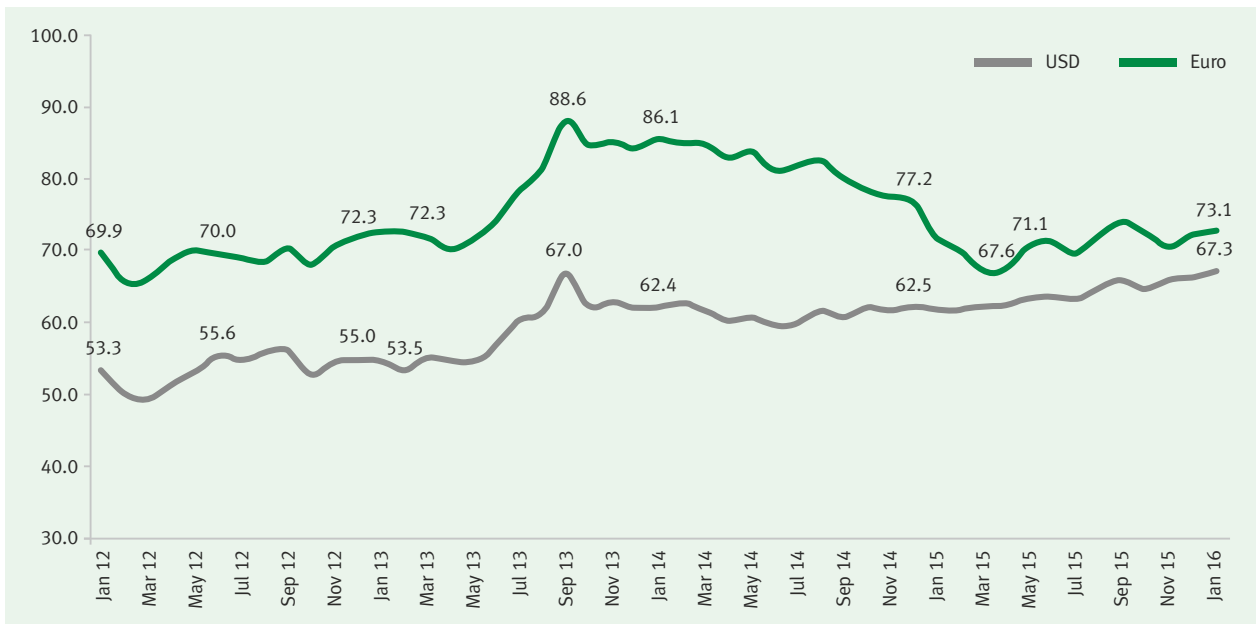
(3) EXPORTS

Your Company sells products manufactured in Vadodara and Savli plants to Schaeffler companies worldwide. During the year, the growth in revenue from exports slowed down to 4.7%.

Global economical environment is expected to remain in stress during year 2016. This may limit further expansion of our exports business. At the same time, your Company will continue to focus on raising its quality, cost and development capabilities to enhance global competitiveness and win markets.



(4) DEVELOPMENT OF FX RATES (USD AND EURO VS INR)



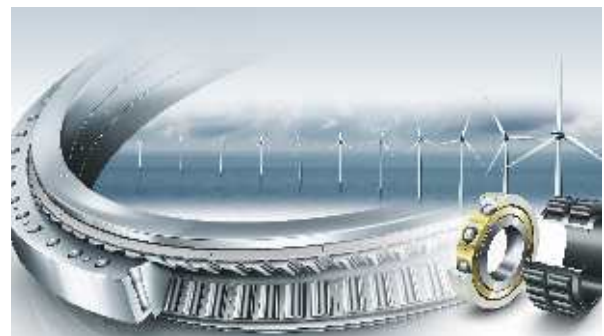
Volatility in exchange rate remained within manageable limits during year 2015. Your Company follows long term hedging strategy with regard to foreign exchange exposure.

(5) COMPETITION

Bearing industry has always been highly competitive. With slow-down in global economies, competition from imports intensified and this led to further pressure on prices.

At the same time, due to weak implementation of IPR in India, counterfeit products continue to pose unhealthy competition to reputed brands like ours.

Your Company focuses on technology, quality and innovation as its core competencies. We are convinced that our customers do not just look for low cost but insist on high product quality, efficiency and management of TCO. With our strategy to invest in best in class products, we are in position to meet growing expectation of our customers.



MANAGEMENT DISCUSSION & ANALYSIS

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C RISK MANAGEMENT SYSTEM

Like any other ongoing business, your Company is exposed to a large number of potential risks that can adversely affect its business. Your Company has established comprehensive Risk Management System to ensure that risks to the Company's continued existence as a going concern and to its development are identified and addressed on timely basis. Consciously dealing with identified risks and regularly monitoring risk factors increases risk awareness and ensure continuing improvement.

Management identifies and evaluates; especially such risks which could jeopardize continued existence or development, at an early stage, defines and implements measures to control these risks. The risk management system consists of multi phased process. Initially, all risks are identified by different departments and functions as bottom up approach. These risks are then analyzed and evaluated by the Company's management team before these are reported to the Board of Directors.

Risks are classified in different categories such as financial risk, operational risk, legal risk and strategic risk. These risks are then classified and quantified depending on probability of occurrence and the extent of potential damage. This analytical approach clearly leads to categorization of risks as follows:

- 1) **Material Risk** - Risk with high probability and high negative impact
- 2) **Significant Risk** - Risk with medium probability and medium negative impact on profit or value of the Company
- 3) **Non Critical Risk** - Risk with either low probability of occurrence or which has negligible impact on profit or value of the Company.

The management presents above risk analysis along with planned mitigation to the Board of Directors periodically. Risk management strategy as approved by Board of Directors is implemented by the Company management.

D INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has an adequate Internal Audit System that promotes reliable financial reporting, safeguards assets, encourages adherence to fair management policies as well as to the Schaeffler Group Guidelines and Specifications, as far as these are applicable and promote ethical conduct. The strong Internal Control Systems have been designed in a way that, they not only prevent fraud and misuse of the Company's resources but also protect shareholders' interest.

The Audit Committee of Board of Directors, on regular intervals and in co-ordination with Internal and Statutory Auditors, reviews the adequacy of Internal Control Systems within the Company.

The Company has an Independent Internal Audit Department.

Based upon the recommendations of the Audit Committee, an Annual Audit Plan (AAP) is prepared by the Internal Audit Department, which is reviewed periodically by the top management and the Audit Committee.

The internal audit focuses on compliance as well as on robustness of various business processes. A feedback on non-conformities along with recommendation for process improvements is directly provided to the top management of the Company. Compliance on audit findings and tracking of process improvements is regularly carried out.

All transactions are authorised as per Company's Approval and Signature Guidelines, which are recorded and reported in an organised manner.

E FINANCE

Your Company's total Income (including other income) was placed at ₹ 17,806 million in year 2015 (Year 2014: ₹ 16,731 million) representing a growth of 6.4%. Profit before tax was placed at ₹ 2,938 million (Year 2014: ₹ 2,324 million) representing a growth of 26.4%.

Reasonable growth in domestic and exports markets together with improvement in operational efficiency led to favourable

impact on bottom line. Our Company has been consistently practising prudent finance and working capital management. The strong focus on working capital and liquidity management has helped timely generation of sufficient internal cash flow to invest in long term strategic objectives of the Company.

We consider your Company's performance as satisfactory.

F HUMAN RESOURCE AND INDUSTRIAL RELATIONS

At FAG, our fundamental belief in immense power of human potential and teamwork is reflected in our people approach.

Your Company continued its focus on people excellence and implemented a number of initiatives involving employees and their families.

(1) COMPETENCE BUILD UP

Engineering Competence Model

Your Company considers engineering competence of its sales and technical team as its core competitive advantage. During the year, we continued implementation of our systematic engineering competence model and covered all our Sales Engineers, Product Designers, Application Engineers and Field Service Engineers. This multi-phased program imparts a clear understanding of bearing and engineering principles.

Team Leader Program

The Team Leader program aims to improve quality of line management at the shop-floor. Team leaders are selected based on extensive assessment of potential candidates' technical, analytical and leadership capabilities. The selected candidates are extensively trained in modern manufacturing practices, lean management, quality management principles and behavioural aspects. In order to emphasise on customer centricity, we provide the team leaders with in depth understanding of the Company's customers and their expectations.

Leadership and Talent Management

As a part of Schaeffler, we follow the globally standardised leadership and talent management practices.



Our EDD (Employee Development Dialogue) program maps employee competence with current and future needs of organisation and thus sets basis for a systematic developmental intervention. During the year, we intensified our multi-level leadership development initiatives such as; Young Leadership program and Accelerated Leadership program.

(2) EMPLOYEE ENGAGEMENT

We lay great emphasis on regular communication with our employees and their families to share and promote organisational values. Town-hall meetings are regularly held as a platform to share organisational priorities and best practices with our employees.



In year 2013, we had set up our WEe Wonder FAG Children Club which provides children of our employees with an excellent platform to ideate, create and interact with peers from diverse background and thus helps in spreading the values of togetherness, positive thinking and mutual respect. This year the WEe Wonder Club hosted a musical event for elderly in their families. This event called Sanskar Setu was extremely successful and strengthened bonds between members of three generations.

In order to ignite curiosity and develop scientific temper, the WEe Wonder Club organised a visit to Science city in Ahmedabad. Over 300 members participated.

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Helping in Crisis

Recognising uncertainties of modern life and the harsh realities that families face in the event of untimely demise of an earning member, the Company continued its 'Employee Death Assistance' scheme to provide immediate additional assistance to the family members in the event of an unforeseen demise of an existing employee.

The scheme provides an assistance of lump sum amount equivalent to 120 months of last salary (basic + DA) drawn by the deceased employee and thus provides immense relief to the family. This unique scheme has been widely appreciated by all our employees.

Other Details

At the end of this year, employee strength of the Company was 1,638. During the year 2015, we largely maintained our track record of industrial harmony and peace.

G ENVIRONMENT

At FAG, we traditionally place great emphasis on combining economic success with taking responsible action towards Environment and Society. The commitment to sustainable management is anchored in our corporate management principles. Additionally, we take care of India specific laws and rules in our daily operations.

- ✓ Towards fulfilling our responsibility for environment, we systematically analyse risks, evaluate all possible impacts and take appropriate decisions to execute our strategy.
- ✓ Our plant at Maneja - Vadodara has long been validated regarding environmental protection in accordance with E-MAS and ISO 14001 certification. In addition Occupational Safety function is certified in accordance with OHSAS 18001.
- ✓ Our new plant at Savli was also recently certified with E-MAS, ISO 14001 and OHSAS 18001.
- ✓ We have competent environmental protection and safety officers stationed at each of our plant sites. These experts have regular communication and interaction with Schaeffler's global Competence Centre for Environmental Protection and Safety (CC-EHS). This allows clear understanding of global benchmark practices and lessons learnt which are then taken as actionable points in respective plant locations.
- ✓ We carry out systematic and periodic measurement of indices such as Water Consumption, Effluent Discharge, Gas Emission and Electricity Consumption. These measurements are transparently shared among all employees. Besides creating general awareness among employees towards environmental protection, the management encourages initiatives that are targeted towards reduction in consumption of resources and improvement in resource efficiency across all our processes.
- ✓ Our organisation-wide initiative - MOVE (German acronym for "More without Waste") has been very effective in identifying waste in our processes and in improving overall process efficiency. We continue to emphasize on training all our employees at our MOVE Academy where they are imparted training on MOVE principles through classroom studies and simulation games.
- ✓ Together with our customers, we design products which are energy efficient. Our plant at Vadodara already produces high performance X-Life bearings. These bearings are designed and manufactured to carry higher load ratings within the existing boundary dimensions. This allows customers to use downsized bearings for the same application or alternatively customers can expect much longer service life in existing applications.
- ✓ Our advanced products such as Wheel Module combine various functionalities within a bearing and thus significantly reduce system weight and improve reliability and efficiency.
- ✓ Our Savli plant is successfully producing Low Friction ball bearings which besides reducing noise levels also reduce friction significantly.
- ✓ FAG has strong presence in the Renewable Energy sector. Our comprehensive product portfolio to wind sector includes technologically advanced Main Rotor shaft bearings, Gear-box bearings, and Generator bearings. With ramp up of Large Size Bearing plant and

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commissioning of Black Oxidation facility at Savli, we are now able to design and manufacture customized products for Wind energy customers in India.

- ✓ Towards the objective of improving efficiency and reducing Total Cost of Ownership (TCO), we offer comprehensive service portfolio to our customers. Our engineers work in customer's shop-floor and identify scope of improving efficiency and reducing overall cost. Due to strong technical capabilities of our service team, our customers can avoid significant break-downs and thus improve overall equipment efficiency.
- ✓ Together with other Schaeffler companies INA and LuK, we collaborate to integrate futuristic concepts

of sustainable development. Our engineers are contributing towards development of India specific next generation vehicle platforms such as Concept Car and Concept Bike. Leveraging this know-how, we are partnering with our customers on specific projects to increase efficiency and reduce waste/emissions.

- ✓ In the area of Occupational Safety, our goal is to create safe and healthy work environment by designing work stations and workflows based on the principles of occupational safety and ergonomics. Our workforce is well trained in preventive aspects of safety and is highly motivated to achieve target of 'ZERO' work related accidents.

H CAUTIONARY STATEMENT

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.

Mumbai: February 12, 2016

For and on behalf of the Board

Avinash Gandhi
Chairman
DIN: 00161107