

INDEPENDENT AUDITORS' REPORT

to the Members of FAG Bearings India Limited

Report on the Financial Statements

We have audited the accompanying financial statements of FAG Bearings India Limited ('the Company'), which comprise the Balance Sheet as at December 31, 2015, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ('the Act') with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act read with Rule 7 of the Companies (Accounts) Rules, 2014.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by Company's Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give

Mumbai: February 12, 2016

the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at December 31, 2015, and its profit and its cash flows for the year ended on that date.

Emphasis of Matter

We draw attention to Note 42 to the financial statements in respect of accounting for forward contracts. The Company has adopted and applied the principles of hedge accounting as set out in Accounting Standard (AS)-30, 'Financial Instruments: Recognition and Measurement' issued by Institute of Chartered Accountants of India to forward contracts in respect of highly probable transactions or firm commitments. Consequently, the Company has recorded ₹ 8.6 million representing marked to market gain in the hedging reserve as at December 31, 2015 (₹ 203 million marked to market loss as at December 31, 2014). Our opinion is not qualified in respect of this matter.

Report on other Legal and Regulatory Requirements

- As required by the Companies (Auditor's Report) Order, 2015 ('the Order'), issued by the Central Government of India in terms of sub-section (11) of Section 143 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.
- As required by Section 143(3) of the Act, we report that:
 - we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this Report are in agreement with the books of account;
 - in our opinion, the aforesaid financial statements comply with the Accounting Standards notified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014;
 - On the basis of the written representations received from the Directors as on December 31, 2015 taken on record by the Board of Directors, none of the Directors is disqualified as on December 31, 2015, from being appointed as a Director in terms of Section 164(2) of the Act; and
 - With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - The Company has disclosed the impact of pending litigations on its financial position in its financial statements - refer note 30 to the financial statements.
 - The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts - refer note 42 to the financial statements.
 - There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.

For **B S R & Co. LLP**
Chartered Accountants
Firm's Reg. No. 101248W / W-100022
Vijay Mathur
Partner
Membership No. 046476

ANNEXURE TO THE INDEPENDENT AUDITORS' REPORT

December 31, 2015

With reference to the Annexure referred to in our report of even date, we report that:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of two years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. Accordingly, a part of the fixed assets were physically verified by the management in the current year and no material discrepancies were noticed on such verification.
- (ii) (a) The inventory, except goods-in-transit and stocks lying with certain third parties, has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable. For stocks lying with third parties at the year-end, written confirmations have been obtained.
- (b) The procedures for the physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- (iii) According to the information and explanations given to us, we are of the opinion that there are no companies, firms or other parties covered in the register required under Section 189 of the Companies Act, 2013. Accordingly, paragraph (iii) of the Order is not applicable.
- (iv) In our opinion and according to the information and explanations given to us, and having regard to the explanation that purchases of certain items of inventories and fixed assets are for the Company's specialised requirements and similarly certain goods sold and services rendered are for the specialised requirements of the buyers and suitable alternative sources are not available to obtain comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventories and fixed assets and with regard to the sale of goods and services. We have not observed any major weakness in the internal control system during the course of the audit.
- (v) In our opinion, and according to the information and explanations given to us, the Company has not accepted deposits as per the directives issued by the Reserve Bank of India under the provisions of Sections 73 to 76 or any other relevant provisions of the Act and the rules framed there under. Accordingly, paragraph (v) of the Order is not applicable to the Company.
- (vi) We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government for maintenance of cost records under Section 148(1) of the Companies Act, 2013, in respect of bearings and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the records.
- (vii) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted / accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Customs duty, Excise duty, Value added tax and other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities.
According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Customs duty, Excise duty, Value added tax and other material statutory dues were in arrears as at December 31, 2015 for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us, there are no dues of Income tax, Sales tax, Service tax, Wealth tax, Excise duty, Customs duty and Value Added Tax, which have not been deposited with the appropriate authorities on account of any dispute other than those mentioned below:

Name of the statute	Nature of the dues	Amount (₹ in million)	Period	Forum where the dispute is pending
State and Central Sales Tax Act	Duty and interest	9.9	2009-10	Commissioner Appeals
		1.4	2009-10	Dy. Commissioner Sales Tax
		0.3	2006-07	Dy. Commissioner Sales Tax
Central Excise Act, 1944	Duty, interest and penalty	12.4	2003-04, 2004-05, 2006-07, 2007-08	High Court

Continued...

December 31, 2015

...Continued

Name of the statute	Nature of the dues	Amount (₹ in million)	Period	Forum where the dispute is pending
Central Excise Act, 1944	Duty, interest and penalty	13.1	2003-04, 2004-05, 2006-07, 2007-08, 2009-10	Commissioner Appeals
		0.9	2004-05	Appellate Tribunal
The Income Tax Act, 1961	Tax and interest	94.2	2000-01 to 2010-11	Income Tax - Appellate Tribunal and Commissioner of Income Tax (Appeals)

The above are net of amounts paid under protest for Sales tax ₹ 19.0 and for Income tax ₹ 3,485.4

- (c) According to the information and explanations given to us, there has been no delay in transferring amounts which were required to be transferred to the Investor Education and Protection Fund in accordance with the relevant provisions of the Companies Act, 1956 (1 of 1956) and rules there under.
- (viii) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year or in the immediately preceding financial year.
- (ix) In our opinion and according to the information and explanations given to us, the Company did not have any outstanding dues to any financial institution, banks or debenture holders during the year.
- (x) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- (xi) The Company did not have any term loans outstanding during the year.
- (xii) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For BSR & Co. LLP
Chartered Accountants
Firm's Reg. No. 101248W / W-100022

Vijay Mathur
Partner
Membership No. 046476

Mumbai: February 12, 2016