Notes to the Financial Statements

for the year ended December 31, 2019

1. Corporate information

Schaeffler India Limited ('the Company') is a public limited company domiciled and incorporated in India and having its registered office at Nariman Bhavan, 8th Floor, 227, Backbay Reclamation, Nariman Point, Mumbai – 400 021. The Company's shares are listed on BSE Limited (BSE) and National Stock Exchange of India Limited (NSE) in India. During the previous year, INA Bearings India Private Limited and LuK India Private Limited merged with the Company pursuant to a Scheme of Amalgamation.

The Company is engaged in the development, manufacturing and distribution of high-precision roller and ball bearings, engine systems and transmission components, chassis applications, clutch systems and related machine building manufacturing activities. The Company's manufacturing units are located in the State of Gujarat at Vadodara and Savli, in the State of Maharashtra at Talegoan (Pune) and in the State of Tamil Nadu at Hosur.

2. Significant accounting policies

2.1 Basis of preparation

(i) These financial statements of Schaeffler India Limited ('the Company') have been prepared in accordance with Indian Accounting Standards as per the Companies (Indian Accounting Standards) Rules, 2015 as amended and notified under Section 133 of the Companies Act, 2013 (the 'Act') and other relevant provisions of the Act.

The accounting policies adopted in the preparation of these financial statements are consistent for all the periods presented.

The financial statements are presented in Indian Rupees, which is the Company's functional currency and all values are rounded off to the nearest million with one decimal place, except when otherwise indicated.

(ii) The financial statements have been prepared on a historical cost convention basis, except for the following:

- certain financial assets and liabilities (including derivatives) that are measured at fair value;
- defined benefit plans - net defined benefit (asset)/liabilities – Fair value of plan assets less present value of defined benefit obligation.

2.2 Current and non-current classification

All assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria set out in Schedule III of the Act. Based on the nature of the products and time taken between acquisition of assets for processing and their realisation in cash and cash equivalents, the Company has ascertained its normal operating cycle as twelve months for the purpose of current or non-current classification of assets and liabilities.

Deferred tax assets and deferred tax liabilities are classified as non-current assets and non-current liabilities.

2.3 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with Ind AS requires the Company's management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities. Actual results could differ from those estimates.

Estimates and judgements are reviewed on an ongoing basis. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Company and that are believed to be reasonable under the circumstance. Revisions to accounting estimates are recognised in the period in which the estimates are revised and future periods are affected.

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

a) Impairment of Property, Plant and Equipment (PPE)

The evaluation of applicability of indicators of impairment of assets requires assessment of external factors (significant decline in asset's value, significant changes in the technological, market, economic or legal environment, market interest rates etc.) and internal factors (obsolescence or physical damage of an asset, poor economic performance of the asset etc.) which could result in significant change in recoverable amount of the PPE.

b) Determination of the estimated useful lives

Useful lives of all PPE are based on the estimation done by the Company's management which is in line with the useful lives as prescribed in Part 'C' of Schedule II of the Act. In cases, where the useful lives are different from those prescribed in Schedule II and in case of intangible assets, these are estimated by the Company's management based on technical advice, taking into account the nature of the asset, estimated usage of the asset, operating conditions of the asset, past history of replacement, anticipated technological changes, manufacturers' warranties and maintenance support.

c) Current and deferred taxes

Significant management judgement is required to determine the amount of current and deferred taxes that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

d) Employee benefits

Management's estimate of the Company's obligation is determined based on actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexities involved in the valuation and its long-term nature, these liabilities are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate for plans operated in India, the Company's management considers the interest rates of Government bonds. Future salary increases and gratuity increases are based on expected future inflation rates for India.

Refer Note 41 for details of the key assumptions used in determining the accounting of these plans.

e) Provision for inventory obsolesce

The inventories are valued at lower of cost and net realisable value after providing for cost of obsolescence wherever considered necessary. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

2.4 Property, Plant and Equipment and intangible

Property, Plant and Equipment (PPE) are stated at cost of acquisition or construction (including directly attributable expenses thereto), net of impairment loss if any, less depreciation / amortisation. Cost includes financing costs of borrowed funds attributable to acquisition or construction of qualifying fixed assets, up to the date the assets are put to use.

If significant parts of an item of PPE have different useful lives, then they are accounted for as separate items (major components) of PPE.

Capital work-in-progress is carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are substantially ready for their intended use. Advances given towards acquisition or construction of PPE outstanding at each reporting date are disclosed as Capital Advances under "Other non-current Assets".

An item of PPE is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of PPE is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of Profit and Loss.

Cost of assets not ready for intended use, as on the reporting date, is shown under capital work-in-progress. Advances given towards acquisition of property, plant and equipment outstanding as at reporting date are disclosed as "other non-current assets".

Intangible assets are initially recognised at cost.

Intangible assets with definite useful lives are amortised on a straight-line basis so as to reflect the pattern in which the asset's economic benefits are consumed.

Expenditure pertaining to research is expensed out as and when incurred. Expenditure incurred on development is capitalised if such expenditure leads to creation of an asset, otherwise such expenditure is charged to the statement of profit and loss.

At the time of first-time adoption of Ind AS the Company has opted to continue with the carrying value for all of its property, plant and equipment and intangible assets as recognised in financial statement prepared under previous GAAP and use the same as deemed cost in the financial statement as at the transition date i.e. January 1, 2017.

Depreciation / amortisation

(i) Leasehold land is depreciated over the period of lease except where the lease is convertible to freehold land under lease agreements at future dates.

(ii) Depreciation on cost of PPE is provided on straight-line method (SLM) over the useful lives as specified in Part 'C' of Schedule II of the Act. Useful lives are reviewed by the Company's management at each reporting date and revised, if appropriate. In case of a revision, the unamortised depreciable amount is charged over the revised remaining useful life.

Notes to the Financial Statements

for the year ended December 31, 2019

(iii) Depreciation on additions / deletions to PPE during the year is provided on pro-rata basis with reference to the date of additions/deletions except low value of items costing ₹ 5,000 or less which are fully depreciated in the year when the assets are put to use.

(iv) Depreciation on subsequent expenditure on PPE arising on account of capital improvement or other factors is provided for prospectively over the remaining useful life.

(v) Intangible assets (software) are recorded at its acquisition price and amortised on the straight-line method over a period of three years.

2.5 Impairment

The carrying amounts of PPE are reviewed at each reporting date to determine if there is any indication of impairment based on internal/external factors. Assessment of indication of impairment of an asset is made at the year end. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the Company measures its 'value in use' on the basis of estimated discounted cash flows of projections based on current prices. After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

When an impairment loss subsequently reverses, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset earlier.

2.6 Inventories

Inventories comprise of all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition.

Raw materials are valued at the lower of cost and net realisable value. Cost is ascertained on a moving weighted average basis, except for goods in transit which is ascertained on a specific identification basis.

Work-in-progress, finished goods and traded goods are carried at the lower of cost and net realisable value. Cost is determined on a weighted average basis. In case of work-in-progress and manufactured finished goods, cost includes material, labour and production overheads. Fixed production overheads are allocated on the basis of normal capacity of production facilities.

Net realisable value of work-in-progress and finished goods is determined with reference to the estimated selling price less estimated cost of completion and estimated costs necessary to make the sale of related finished goods as applicable.

Stores, spares and tools other than obsolete and slow moving items are carried at cost.

2.7 Foreign currency transactions

Initial recognition

Foreign currency transactions are translated in the functional currency, by applying to the foreign currency amount, the exchange rate between functional currency and foreign currency prevailing at the date of transaction.

Conversion

Foreign currency monetary items as at reporting date are translated using the closing exchange rate on that date.

Exchange differences

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year end exchange rates are recognised in the Statement of Profit and Loss in the year in which they arise, except exchange differences arising from the translation of qualifying cash flow hedge to the extent that the hedges are effective, which are recognised in Other Comprehensive Income (OCI).

Cash flow hedges

The Company uses foreign currency forward contracts to hedge its risks associated with foreign currency fluctuations relating to highly probable and forecast transactions. These forward contracts are stated at fair value at each reporting date. Changes in the fair value of these forward contracts that are designated and effective as hedges of future cash flows are recognised directly in cash flow hedge reserve under OCI, net of taxes and the ineffective portion is recognised immediately in the Statement of Profit and Loss. Amounts accumulated in cash flow hedge reserve are reclassified to Surplus (Profit and loss balance) in the same period during which the forecasted transaction occurs.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. For forecasted transactions, any cumulative gain or loss on the hedging instrument recognised in cash flow hedge reserve is retained until the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in cash flow hedge reserve is immediately transferred to the Statement of Profit and Loss for the period.

2.8 Operating leases

Leases, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets during the lease term, are classified as operating leases. Operating lease payments are recognised as expense in the Statement of Profit and Loss on a straight-line basis over the lease term, unless such payments are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

2.9 Revenue recognition

Effective April 1, 2018, Ind AS 115 – 'Revenue from contracts with customers' has replaced Ind AS 18 – 'Revenue' and Ind AS 11 – 'Construction contracts'. The Company has applied Ind AS 115 – 'Revenue from Contracts with customers' ("hereinafter referred to as Ind AS 115") effective from January 1, 2019, using modified retrospective approach for the purpose of transition. Accordingly, comparatives for the previous period have not been restated. The application of Ind AS 115 did not have any material impact on the financial results of the Company.

Revenue from sale of goods is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. Company recognised revenue at a point-in-time. The point-in-time is determined when the control of the goods or services is transferred which is generally determined based on when the significant risks and rewards of ownership are transferred to the customer. Apart from this, the Company also considers its present right to payment, the legal title to the goods, the physical possession and the customer acceptance in determining the point in time where control has been transferred. The Company assesses promises in the contract that are separate performance obligations to which a portion of transaction price is allocated.

In determining the transaction price, the Company considers below, if any:

Variable consideration

This includes discounts, incentives, volume rebates, etc. It is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. It is reassessed at end of each reporting period.

Contract balances

Trade receivables: A receivable represents the Company's right to an amount of consideration that is unconditional i.e. only the passage of time is required before payment of consideration is due.

Contract liabilities: A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. Contract liabilities are recognised as revenue when the Company performs under the contract.

Significant payment terms

Generally, the Company provides credit period ranging from 60 to 75 days.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the amortised cost and at the effective interest rate applicable.

2.10 Employee benefits

a) Short-term employee benefits

Employee benefits payable wholly within twelve months of rendering the service are classified as short-term employee benefits and are recognised in the period in which the employee renders the related service.

b) Post-employment benefits

Defined benefit plans

All employees are covered under Employees' Group Gratuity Scheme, which is a defined benefit plan. The Company contributes to a fund maintained with Life Insurance Company (LIC) on the basis of the year end liability determined based on actuarial valuation using the Projected Unit Cost Method. Remeasurements of the net defined benefit liability, which comprise actuarial gains/losses, return on plan assets (excluding interest) and the effect of asset ceiling (if any, excluding interest) are recognised in Other Comprehensive Income. Net interest expense and other expenses related to defined benefit plans are recognised in the Statement of Profit and Loss.

Defined contribution plans

All other employees are covered under contributory provident fund benefit of specific percentage contribution of basic salary. Certain employees are also covered by a Company managed superannuation fund. Both are defined contribution schemes and the contributions are charged to the Statement of Profit and Loss of the year, when the contributions to the respective funds are due. There are no obligations other than the contributions payable to the respective funds.

Notes to the Financial Statements

for the year ended December 31, 2019

Long-term employee benefits

Provision for long-term employee benefits comprise of compensated absences. These are measured on the basis of year end actuarial valuation in line with the Company's rules for compensated absences. Remeasurement gains or losses are recognised in statement of profit and loss in the period in which they arise.

2.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are recognised initially at fair value. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets not recorded at fair value through profit and loss) are added to the fair value of financial assets. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit and loss are recognised immediately in Statement of Profit and Loss.

Subsequent measurement

For the purposes of subsequent measurement, financial assets are classified into below categories:

- Financial assets at amortised cost
- Financial assets including derivatives at fair value through profit or loss (FVTPL)
- Financial assets at fair value through other comprehensive income (FVTOCI).

Financial assets are not reclassified subsequent to their initial recognition, except if and in the period the Company changes its business model for managing financial assets.

(i) Financial assets at amortised cost

Financial assets are subsequently measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the financial asset is held within a business where the objective is to hold these assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in the Statement of Profit and Loss. The losses arising from impairment are recognised in the Statement of Profit and Loss. This category generally applies to trade and other receivables, loans and other financial assets.

(ii) Financial assets including derivatives at fair value through profit or loss (FVTPL)

Financial assets are measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income on initial recognition. The transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are immediately recognised in the Statement of Profit and Loss.

(iii) Financial assets at fair value through other comprehensive income (FVTOCI)

Financial assets are measured at fair value through Other Comprehensive Income if these financial assets are held within a business whose objective is achieved by both collecting contractual cash flows and selling financial assets and contractual terms of the financial asset give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding. Derivative instruments included in FVTOCI category are measured initially as well as at each reporting date at fair value. Movement in fair value is recognised in OCI.

Derecognition

A financial asset is derecognised when the right to receive cash flows from the asset has expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party and the Company has transferred substantially all risks and rewards of the asset or has transferred control of the asset to a third party. On derecognition of a financial asset in its entirety, the differences between the carrying amounts at the date of derecognition and the consideration received is recognised in the Statement of Profit and Loss.

Impairment of financial assets

The Company applies the expected credit loss (ECL) model for measurement and recognition of impairment losses on trade receivables or any other financial assets that result from transactions that are within the scope of "Ind AS 115 – Revenue from Contracts with Customers". The Company follows the simplified approach for recognition of impairment loss allowance on receivables (net of advances). The application of the simplified

approach does not require the Company to track changes in credit risk. As a practical expedient, the Company uses a provision matrix to determine impairment loss allowance on trade receivables. Impairment loss allowance (or reversal) during the period is recognised in the Statement of Profit and Loss. This amount is reflected under the head 'Other expenses (or other income)' in the Statement of Profit and Loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as measured at amortised cost or financial liabilities at fair value through profit or loss (FVTPL). A financial liability is classified as at FVTPL if it is classified as held for trading or is a derivative or it is designated as such on initial recognition. The Company's financial liabilities include trade payables and other payables.

Equity instruments issued by the Company are classified as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Subsequent measurement

Financial liabilities, including derivatives, which are designated for measurement at FVTPL are subsequently measured at fair value. Other financial liabilities such as deposits are measured at amortised cost using Effective Interest Rate (EIR) method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Profit and Loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.12 Income and deferred taxes

Tax expense comprises current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the provisions of the Indian Income Tax Act, 1961. Deferred tax is provided using the liability method on temporary differences between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax is measured based on the tax rates and tax laws enacted or substantively enacted at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax relating to items recognised outside Statement of Profit and Loss is recognised outside Statement of Profit and Loss. Deferred tax items are recognised in correlation to the underlying transaction either in Other Comprehensive Income or directly in Equity.

At each reporting date, the Company reassesses unrecognised deferred tax assets. It recognises unrecognised deferred tax assets to the extent that it has become probable that sufficient future taxable income will be available against which such deferred tax assets can be realised.

2.13 Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and in respect of which a reliable estimate can be made of the amount of obligation. Provisions are not discounted to its present value and are determined based on best estimates required to settle the obligation at the reporting date. These are reviewed at each reporting date and adjusted to reflect the current best estimates.

A disclosure by way of a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Contingent assets are not recognised or disclosed in the financial statements.

2.14 Warranties

Provisions for the expected cost of warranty obligations are recognised at the time of sale of the relevant products, at the best estimate of the expenditure required to settle the Company's obligation.

Notes to the Financial Statements

for the year ended December 31, 2019

2.15 Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the year attributable to equity shareholders, by the weighted average number of equity shares outstanding during the period.

Diluted earnings per share is computed by dividing the net profit or loss for the year attributable to the equity shareholders, by the weighted average number of equity and equivalent diluted equity shares outstanding during the year except where the results would be antidilutive.

2.16 Cash and cash equivalents

Cash and cash equivalents include cheques in hand, cash at bank and deposits with banks having original maturity of not more than three months.

2.17 Fair value measurement

The Company's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company has an established control framework with respect to the measurement of fair values. The Company's management regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the Company's management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of Ind AS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of a financial asset or a financial liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. In determining the fair value of its financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each reporting date. The methods used to determine fair value includes discounted cash flow analysis, available quoted market prices and dealer quotes. All methods of assessing fair value result from general approximation of value and the same may differ from the actual realised value. Further information about the assumptions made in measuring fair value is included in the Note 2.11 on financial instruments.

2.18 Segment Reporting - Identification of Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's Chief Operating Decision Maker ("CODM") to make decisions for which discrete financial information is available. Based on the management approach as defined in Ind AS 108, the CODM evaluates the Company's performance and allocates resources based on an analysis of various performance indicators by business segments and geographic segments.

2.19 Business combinations

As part of its transition to Ind AS, the Company elected to apply "Ind AS 103 - Business Combinations", to only those business combinations that occurred on or after the date of transition to Ind AS i.e. January 1, 2016. Business combinations arising from transfers of interests in entities that are under the common control of the shareholder that controls the Company are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at their carrying amounts. The identity of the reserves is preserved as they appear in the financial statements of the Company in the same form in which they appeared in the financial statements of the acquired entities. The difference, if any, between the consideration and the amount of share capital of the acquired entities is treated as capital reserve. Transaction costs are expensed as they are incurred in respective periods.

2.20 Recent accounting pronouncements

Standards issued but not yet effective

In March 2019, the Ministry of Corporate Affairs issued the Companies (Indian Accounting Standards) (Amendments) Rules, 2019 and Companies (Indian Accounting Standards) (Second Amendment) Rules, 2019 notifying Ind AS 116 – 'Leases' and making amendments to various other Ind AS standards viz. Ind AS 12 – 'Income Taxes', Ind AS 19 – 'Employee benefits', Ind AS 23 – 'Borrowing Cost',

Ind AS 28 – 'Investments in Associates and Joint Ventures', Ind AS 111 – 'Joint Arrangements', Ind AS 103 – 'Business Combinations' and Ind AS 109 – 'Financial Instruments'. These amendments are in accordance with the recent amendments made by International Accounting Standards Board (IASB). The amendments are effective from accounting periods beginning on or after April 1, 2019.

Ind AS 116 – Leases

This standard will supersede Ind AS 17 – 'Leases'. It abolishes for lessees the previous classification of leasing agreements as either operating or finance leases. Instead, Ind AS 116 introduces a single lessee accounting model, requiring lessees to recognise assets for right to use assets and lease liability representing its obligation to make lease payments. This means that leases which were previously not reported in the Balance Sheet will have to be reported in subsequent reporting periods. The depreciation expense will include amortisation of right to use asset and finance costs will include interest expense on lease liability. Ind AS 116 also provides exception from recognition of right to use asset and lease liability where lease term is less than 12 months or leases for which underlying asset is of low value. In such cases, lease payments are recognised as an expense over lease term either on straight-line basis unless another systematic basis is representative of time pattern of the user's benefit. Likely impact on account of adoption of the standard will result into the recognition of right of use of assets and liabilities of ₹ 67.3 million.

Amendments to Ind AS 12 – Income Taxes

The amendment relating to income tax consequences of dividend clarify that an entity shall recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. Further, the amendment to Appendix C specifies that when an entity is uncertain how tax laws applies to a particular transaction or circumstance until the relevant tax authorities or a court takes a decision in future and it is not probable that taxation authorities may accept entities tax position then entity is required to estimate effect of such uncertain position on income tax and deferred tax. The Company does not expect any significant impact of the amendment on its financial statements.

Amendment to Ind AS 19 – Employee Benefits

The amendment clarifies that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement. In addition, amendment has been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. There is no impact of the amendment on the Company's financial statements.

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

3.1 Property Plant and Equipment

	Freehold land	Leasehold land	Buildings	Plant and equipments	Furniture & fixtures	Office equipments	Vehicles	Total
Cost								
As at January 1, 2018	40.7	187.7	1,181.9	7,770.9	129.8	95.9	11.4	9,418.3
Additions	-	-	14.3	1,264.5	65.4	4.7	1.7	1,350.6
Disposals	-	-	0.4	2.3	0.4	-	0.8	3.9
As at December 31, 2018	40.7	187.7	1,195.8	9,033.1	194.8	100.6	12.3	10,765.0
Additions	-	-	661.5	2,365.6	105.9	93.2	1.2	3,227.4
Disposals	-	-	-	4.2	0.4	-	0.5	5.1
As at December 31, 2019	**40.7**	**187.7**	**1,857.3**	**11,394.5**	**300.3**	**193.8**	**13.0**	**13,987.3**
Accumulated Depreciation								
As at January 1, 2018	-	-	68.2	1,824.2	51.0	35.0	2.7	1,981.1
Depreciation for the year	-	-	48.0	1,372.5	45.0	13.2	3.4	1,482.1
Deletions	-	-	-	1.2	0.2	-	0.5	1.9
As at December 31, 2018	-	-	116.2	3,195.5	95.8	48.2	5.6	3,461.3
Depreciation for the year	-	-	57.9	1,458.3	29.6	37.7	1.6	1,585.1
Deletions	-	-	-	1.8	0.3	-	0.4	2.5
As at December 31, 2019	**-**	**-**	**174.1**	**4,652.0**	**125.1**	**85.9**	**6.8**	**5,043.9**
Net Block								
As at December 31, 2018	40.7	187.7	1,079.6	5,837.6	99.0	52.4	6.7	7,303.8
As at December 31, 2019	**40.7**	**187.7**	**1,683.2**	**6,742.5**	**175.2**	**107.9**	**6.2**	**8,943.4**

Note:
Buildings include ₹ 250, being cost of five ordinary shares of ₹ 50 each of Nariman Bhavan Premises Co-operative Society Limited and ₹ 500 being cost of ten ordinary shares of ₹ 50 each of Parekh Market Premises Co-operative Society Limited, which entitle the Company to real estate.

3.2 Capital work-in-progress

	Total
As at January 1, 2018	534.5
Additions	2,434.2
Deductions / Adjustments	0.9
Assets capitalised during the year	1,350.6
As at December 31, 2018	1,617.2
Additions	3,272.7
Deductions	-
Assets capitalised during the year	3,227.4
As at December 31, 2019	**1,662.5**

(₹ in million)

3.3 Intangible assets

	Software	Total
Cost		
As at January 1, 2018	10.4	10.4
Additions	1.1	1.1
Disposals	-	-
As at December 31, 2018	11.5	11.5
Additions	1.3	1.3
Disposals	-	-
As at December 31, 2019	**12.8**	**12.8**
Accumulated Amortisation	5.4	5.4
Amortisation for the year	2.9	2.9
Deletions	-	-
As at December 31, 2018	8.3	8.3
Amortisation for the year	2.0	2.0
Deletions	-	-
As at December 31, 2019	**10.3**	**10.3**
Net Block		
As at December 31, 2018	3.2	3.2
As at December 31, 2019	**2.5**	**2.5**

4. Non-current financial assets

	2019	2018
(i) Loans		
Secured, considered good	-	35.3
Less: Current portion disclosed under "Current Financial Assets - Loans" (refer Note 12)	-	(35.3)
Security deposits	**95.3**	86.8
Total	**95.3**	86.8
(ii) Other financial assets		
Bank deposits with remaining maturity of more than 12 months*	**1,391.4**	505.1
Total	**1,391.4**	505.1

* Includes deposits of ₹ 161.4 million under lein.

5. Deferred tax assets / (liabilities) (net)

		2019	2018
Deferred tax liabilities			
Excess of depreciation / amortisation on property, plant and equipment under tax law over depreciation /amortisation provided in accounts		-	89.0
Effective portion of loss on hedging instruments in cash flow hedge		**1.2**	-
	(A)	**1.2**	89.0
Deferred tax assets			
Excess of depreciation / amortisation on property, plant and equipment under tax law over depreciation /amortisation provided in accounts		**7.5**	-
Provision for employee benefits		**122.1**	160.7
Provision for expenses and others		**87.7**	179.0
Allowance for expected credit loss		**18.9**	47.9
Effective portion of gain on hedging instruments in cash flow hedges		-	26.3
	(B)	**236.2**	413.9
Net deferred tax assets	**(B - A)**	**235.0**	324.9

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

Movement in deferred tax assets / (liabilities) net

	Depreciation	Provision for employee benefits	Provision for expenses and others	Allowance for expected credit loss	Effective portion of gain / (loss) on cash flow hedges	Total
As at January 1, 2018	(177.2)	170.0	115.6	62.7	(4.4)	166.7
(Charged) / credited to:						
Statement of Profit and Loss	88.2	(4.3)	63.4	(14.8)	-	132.5
Other Comprehensive Income	-	(5.0)	-	-	30.7	25.7
As at December 31, 2018	(89.0)	160.7	179.0	47.9	26.3	324.9
(Charged) / credited to:						
Statement of Profit and Loss	96.5	(46.9)	(91.3)	(29.0)	(1.1)	(71.8)
Other Comprehensive Income	-	8.3	-	-	(26.4)	(18.1)
As at December 31, 2019	**7.5**	**122.1**	**87.7**	**18.9**	**(1.2)**	**235.0**

6. Non-current tax assets (net)

	2019	2018
Advance tax recoverable (net of provisions)	**814.8**	893.9
Total	**814.8**	893.9

7. Other non-current assets

	2019	2018
VAT, excise and others receivable (paid under protest)	**39.8**	38.3
Stamp duty (paid under protest, refer note no. 35 d)	**250.0**	-
Other balance with government authorities	**55.5**	-
Capital advance	**315.2**	263.2
Total	**660.5**	301.5

8. Inventories

(Valued at the lower of cost and net realisable value)

	2019	2018
Raw materials and components (including goods-in-transit ₹ 494.8 million; 2018: ₹ 1,124.0 million)	**1,069.6**	2,730.3
Work-in-progress	**381.7**	452.4
Finished goods	**2,670.7**	2,004.6
Stock-in-trade (including goods-in-transit ₹ 534.8 million; 2018: ₹ 1,584.4 million)	**2,511.2**	3,264.9
Stores and spares (including goods-in-transit ₹ 0.3 million; 2018: ₹ 22.9 million)	**571.7**	648.5
Total	**7,204.9**	9,100.7

The Company follows suitable provisioning norms for writing down the value of Inventories towards slow moving and non-moving inventory. As at December 31, 2019, provision for write-down of inventories to net realisable value is ₹ 704.2 million (2018: ₹ 472.6 million).

(₹ in million)

9. Current financial assets - Trade receivables

	2019	2018
Other than related parties	5,643.9	6,336.0
From related parties (refer Note 37)*	750.4	1,314.4
Less: Allowance for expected credit loss	(74.9)	(137.1)
	6,319.4	7,513.3
Of which;		
secured, considered good	30.6	6.9
unsecured, considered good	6,353.7	7,569.1
which have significant increase in credit risk	8.8	25.2
credit impaired	1.2	49.2
	6,394.3	7,650.4
Less: Allowance for expected credit loss	(74.9)	(137.1)
Total	6,319.4	7,513.3

*Includes receivable of ₹ 1.5 million, from a private limited companies in which an Independent Director is a Director.

The Company's exposure to credit risk and currency risk related to trade receivables are disclosed in Note 39 C.

10. Current financial assets - Cash and cash equivalents

	2019	2018
Balances with banks:		
on current accounts	859.1	741.2
on deposit accounts (with original maturity of 3 months or less)	300.0	679.7
Cheques on hand	-	4.1
Total	1,159.1	1,425.0

11. Current financial assets - Bank balances other than above

	2019	2018
Bank deposits with original maturity of more than 3 months and remaining maturity of less than 12 months*	7,188.0	7,045.0
Restricted deposits (unclaimed dividend)	6.5	6.0
Total	7,194.5	7,051.0

* Includes deposits of ₹ 278.0 million under lein.

12. Current financial assets - Loans

	2019	2018
Secured and considered good		
Current portion of loans to others (refer Note 4)	-	35.3
Security deposits	78.4	7.8
Total	78.4	43.1

13. Other financial assets

	2019	2018
Interest accrued - fixed deposits	190.6	249.2
Interest accrued - others	0.5	5.4
Derivative forward exchange contracts	4.7	-
Insurance claim receivable	48.4	83.9
Total	244.2	338.5

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

14. Other current assets

	2019	2018
Unsecured and considered good		
Other receivables - related parties (refer Note 37)	**13.9**	15.5
Balance with Government authorities	**92.2**	880.3
VAT, excise and others receivable (paid under protest)	**3.2**	-
Advances for supply of goods	**178.2**	133.1
Export incentives receivable	**134.7**	103.8
Advances to employees	**11.5**	17.8
Prepaid expenses	**12.7**	15.2
Total	**446.4**	1,165.7

15. Equity share capital

	2019	2018
Authorised capital		
125,500,000 equity shares of ₹ 10 each (2018: 20,000,000 equity shares)	**1,255.0**	200.0
Add: Pursuant to the Scheme of Amalgamation (refer Note 46)		
105,500,000 equity shares of ₹ 10 each	**-**	1,055.0
Total 125,500,000 equity shares of ₹ 10 each	**1,255.0**	1,255.0
Issued, subscribed and paid-up		
31,260,734 fully paid-up equity shares of ₹ 10 each (2018: 31,260,734 fully paid-up equity shares)	**312.6**	312.6
Total	**312.6**	312.6

Reconciliation of shares outstanding at the beginning and at the end of the year:

	2019		2018	
	No. of shares	**Amount**	No. of shares	Amount
Equity shares				
Shares outstanding at the beginning of the year	**31,260,734**	**312.6**	16,617,270	166.2
Shares issued pursuant to the scheme of amalgamation (refer Note 46)	**-**	**-**	14,643,464	146.4
Shares outstanding at the end of the year	**31,260,734**	**312.6**	31,260,734	312.6

Rights, preferences and restrictions attached to equity shares:

The Company has a single class of equity shares having par value of ₹ 10 per share. Accordingly, all equity shares rank equally with regard to one vote per share held. The dividends proposed by the Board of directors is subject to the approval of shareholders at the ensuing Annual General Meeting, except in case of interim dividend. In the event of liquidation of the Company, the equity shareholders are eligible to receive assets of the Company, after distribution of all preferential amounts, in the proportion to their shareholding.

(₹ in million)

Shares held by ultimate holding company and/or their subsidiaries/associates:

Name of Shareholders	2019		2018	
	No. of Shares held	**Amount**	No. of Shares held	Amount
Equity shares of ₹ 10 each fully paid-up held by				
Schaeffler Schweinfurt Beteiligungs GmbH	**8,529,183**	**85.3**	8,529,183	85.3
Schaeffler Bühl Verwaltungs GmbH	**6,428,573**	**64.3**	6,428,572	64.3
Schaeffler Verwaltungsholding Sechs GmbH	**4,692,451**	**46.9**	4,692,451	46.9
Industriewerk Schaeffler INA-Ingenieurdienst GmbH	**3,522,440**	**35.2**	3,522,439	35.2
Schaeffler Beteiligungsgesellschaft mbH*	**-**	**-**	1	0.0
Schaeffler Bühl Beteiligungs GmbH*	**-**	**-**	1	0.0
Total	**23,172,647**	**231.7**	23,172,647	231.7

(*) Represents amount less than ₹ 1,00,000

Particulars of shareholders holding more than 5% shares of a class of shares:

Name of Shareholders	2019		2018	
	No. of Shares held	**% of shareholding**	No. of Shares held	% of shareholding
Schaeffler Schweinfurt Beteiligungs GmbH	**8,529,183**	**27.28%**	8,529,183	27.28%
Schaeffler Bühl Verwaltungs GmbH	**6,428,573**	**20.56%**	6,428,572	20.56%
Schaeffler Verwaltungsholding Sechs GmbH	**4,692,451**	**15.01%**	4,692,451	15.01%
Industriewerk Schaeffler INA-Ingenieurdienst GmbH	**3,522,440**	**11.27%**	3,522,439	11.27%

Aggregate number of equity shares allotted as fully paid-up pursuant to contract without consideration received in cash, Bonus Shares issued and shares bought back during the period of 5 years immediately preceding the financial year:

Particulars	**2019**	2018
Equity shares of ₹ 10 each issued in financial year 2018 as fully paid-up equity shares to shareholders of INA Bearings India Private Limited and LuK India Private Limited pursuant to the Scheme of Amalgamation (refer Note 46)	**-**	14,643,464

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

16. Other equity

		2019	2018
Capital reserve		**617.8**	617.8
	(A)	**617.8**	617.8
Securities premium		**600.0**	600.0
	(B)	**600.0**	600.0
General reserve		**4,218.4**	4,218.4
	(C)	**4,218.4**	4,218.4
Retained earnings			
At the commencement of the year		**21,361.5**	17,494.7
Add: Net profit for the year		**3,676.4**	4,198.0
Remeasurements of defined benefit liability / asset (net of tax) (FVTOCI)		**(34.5)**	9.3
Less: Appropriations			
Dividends paid		**937.8**	282.4
Dividend distribution tax		**192.8**	58.1
	(D)	**23,872.8**	21,361.5
Share suspense account			
At the commencement of the year		**-**	146.4
Less: Issue of equity shares		**-**	(146.4)
	(E)	**-**	-
Other Comprehensive Income			
At the commencement of the year		**(49.1)**	8.1
Cash flow hedge reserve (FVTOCI)		**49.1**	(57.2)
	(F)	**-**	(49.1)
Total (A + B + C + D + E + F)		**29,309.0**	26,748.6

The following dividends were declared and paid by the Company during the year:

	2019	2018
₹ 30 per equity share (2018: ₹ 17)	**937.8**	282.4
Dividend distribution tax (DDT) on dividend to equity shareholders	**192.8**	58.1
	1,130.6	340.5

After the reporting dates, the following dividends (excluding dividend distribution tax) were proposed by the Board of Directors subject to the approval at the ensuing annual general meeting and hence, dividends have not been disclosed as liabilities. Dividends would attract dividend distribution tax when recommended or paid.

	2019	2018
Dividend of ₹ 35 per equity share (2018: ₹ 30 per equity share, including special one time dividend of ₹ 10)	**1,094.1**	937.8

(₹ in million)

17. Borrowings

Non-current	2019	2018
Loans from related parties		
Unsecured loans		
Schaeffler Bühl Verwaltungs GmbH**	-	48.7
Total	-	48.7

Current	2019	2018
Loans from related parties		
Unsecured loans		
Industriewerk Schaeffler INA-Ingenieurdienst GmbH*	-	480.0
Schaeffler Bühl Verwaltungs GmbH**	-	48.7
Total	-	528.7

Unsecured loans from related parties

* Indian rupee unsecured loans from related parties carry interest at 7.50% - 7.57% p.a. The loan is repayable in half yearly equal instalments from December 2017 has been fully repaid during the year.

** The Company has availed External Commercial Borrowing (ECB) from Schaeffler Bühl Verwaltungs GmbH (formerly known as LuK vermögensverwaltungsgesellschaft mbH) of USD 3,500,000 on December 23, 2014 for purchase of capital equipments. The repayment of loan commenced from March 15, 2016 onwards in 10 half yearly instalments of USD 350,000 each, at an interest rate of 2.556% p.a., has been fully repaid during the year.

Analysis of change in net debt	2018	Cash (Inflow)/ outflow	Non-cash changes (Foreign Exchange rates)	2019
Non-current borrowing (Including current maturity of non-current borrowing)	97.40	96.40	(1.00)	-
Current borrowing	480.00	480.00	-	-
Net debt	577.40	576.40	(1.00)	-

18. Other financial liabilities (non-current)

	2019	2018
Security deposits from customers / suppliers	33.5	9.9
Total	33.5	9.9

19. Provisions (Non-current)

	2019	2018
Provision for employee benefits		
Gratuity (refer Note 41)	71.3	49.3
Compensated absences	337.9	328.1
Other provisions		
Provision for other statutory matters (being litigated) *	12.2	6.2
Total	421.4	383.6

* Provisions are made for ongoing litigation on tax and regulatory matters, the liabilities for which will be ascertained on conclusion of the respective assessments.

20. Current financial liability - Trade payables

	2019	2018
Total outstanding dues of micro and small enterprises	18.9	33.4
Total outstanding dues of creditors other than micro and small enterprises		
Other than related parties	2,493.0	3,666.9
Related parties (refer note 37)	2,479.6	4,177.7
Total	4,991.5	7,878.0

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

Under the Micro, Small and Medium Enterprises Development Act, 2006, (MSMED) which came into force from October 2, 2006, certain disclosures are required to be made relating to Micro, Small and Medium enterprises.

Particulars	2019	2018
a) the principal amount and the interest due thereon remaining unpaid to any supplier at the end of each accounting year, if any:		
Principal	**18.9**	33.4
Interest	**-**	-
b) the amount of interest paid by the Company in terms of Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006 along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year.	**-**	-
c) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006.	**-**	-
d) the amount of interest accrued and remaining unpaid at the end of each accounting year; and	**-**	-
e) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under Section 23 of Micro, Small and Medium Enterprises Development Act, 2006.	**-**	-

The above information has been compiled by the Company on the basis of information made available by vendors during the year ended December 31, 2019 and year ended December 31, 2018.

The Company's exposure to currency and liquidity risks related to trade payables is disclosed in Note 39.

21. Other financial liabilities

	2019	2018
Employee liabilities:		
- Personnel cost	**425.0**	263.4
- Contribution to provident fund	**12.4**	12.7
Creditors for capital goods	**415.1**	291.8
Accrued expense	**163.2**	581.2
Derivative forward exchange contracts	**-**	118.8
Unclaimed dividends*	**6.5**	6.0
Other payables	**13.1**	41.3
Total	**1,035.3**	1,315.2

*The figures reflect the position as at the year end. The actual amount to be transferred to Investor Education and Protection Fund in this respect shall be determined on the due dates.

22. Other current liabilities

	2019	2018
Advances from customers	**105.5**	96.4
TDS payable	**22.0**	52.7
Other statutory dues	**5.7**	1.3
Total	**133.2**	150.4

(₹ in million)

23. Provisions (Current)

	2019	2018
Provision for employee benefits		
Current portion of compensated absences	**73.0**	79.5
Other provisions		
Provision for warranties*	**113.2**	71.1
Total	**186.2**	150.6

* Warranty provision is estimated for expected warranty claims in respect of products sold during the year by the Company, which usually carry a warranty period of 12 months from the date of sale. The provision is determined based on the historical data. The timing and amount of cashflows will determined on receipt of claims.

Additional disclosures relating to certain provisions (as per Ind AS 37):

Warranties	2019	2018
At the commencement of the year	**71.1**	58.1
Provision made during the year	**113.6**	47.1
Provision utilised during the year	**(71.5)**	(34.1)
At the end of the year	**113.2**	71.1

24. Revenue from operations

	2019	2018
Revenue from Contract with Customer		
Sale of products		
Manufactured goods	**30,925.9**	30,682.2
Traded goods	**12,016.9**	14,283.9
	42,942.8	44,966.1
Sale of services	**73.3**	59.7
Other operating revenues		
Export incentives	**212.3**	200.7
Scrap sales	**377.9**	388.6
Total	**43,606.3**	45,615.1

Revenue as per Geographical segment disclosed in note No 43

The management determines that the segment information reported under Note 43 Segment reporting is sufficient to meet the disclosure objective with respect to disaggregation of revenue under Ind AS 115 Revenue from contract with Customers. Hence, no separate disclosures of disaggregated revenues are reported.

25. Other income

	2019	2018
Interest income		
On fixed deposits	**492.6**	570.2
On loan and others	**14.6**	82.1
Provisions no longer required written-back	**62.2**	73.6
Other income	**61.3**	182.1
Profit on sale / retirement of assets (net)	**1.4**	-
Total	**632.1**	908.0

26. Cost of materials consumed*

	2019	2018
Inventory of materials at the beginning of the year	**2,730.3**	2,276.1
Purchases	**15,646.8**	18,630.1
Inventory of materials at the end of the year	**1,069.6**	2,730.3
Total	**17,307.5**	18,175.9

* The consumption figures shown above have been ascertained on the basis of materials consumed and after considering excess/shortages ascertained on physical verification.

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for the year ended December 31, 2019

(₹ in million)

27. Purchases of stock-in-trade

	2019	2018
Purchase of traded goods	**10,030.1**	12,858.8
Total	**10,030.1**	12,858.8

28. Changes in inventories of finished goods, stock-in-trade and work-in progress*

		2019	2018
Increase in inventory of manufactured goods			
Opening inventory		**2,004.6**	1,480.0
Less: Closing inventory		**2,670.7**	2,004.6
	(A)	**(666.1)**	(524.6)
Increase in inventory of traded goods			
Opening inventory		**3,264.9**	1,605.5
Less: Closing inventory		**2,511.2**	3,264.9
	(B)	**753.7**	(1,659.4)
Increase in inventory of work-in-progress			
Opening inventory		**452.4**	337.2
Less: Closing inventory		**381.7**	452.4
	(C)	**70.7**	(115.2)
Total (A + B + C)		**158.3**	(2,299.2)

*Closing stock is net off scrapped/ reworked items and shortages/ excesses.

29. Employee benefits expense

	2019	2018
Salaries, wages and incentives	**2,964.6**	2,734.5
Contributions to: (refer Note 41)		
- Provident fund	**143.1**	136.6
- Gratuity fund	**46.4**	44.4
- Superannuation fund	**32.6**	33.5
Compensated absences	**45.3**	13.8
Staff welfare expenses	**219.7**	215.8
Total	**3,451.7**	3,178.6

30. Finance costs

	2019	2018
Interest expense	**18.5**	52.6
Bank and other financial charges	**5.9**	5.5
Guarantee commission paid	**10.3**	12.3
Total	**34.7**	70.4

31. Depreciation and amortisation expense

	2019	2018
Depreciation on property, plant and equipment	**1,585.1**	1,482.1
Amortisation of intangible assets	**2.0**	2.9
Total	**1,587.1**	1,485.0

(₹ in million)

32. Other expenses

	2019	2018
Consumption of stores and spare parts	1,818.2	1,828.9
Power and fuel	648.9	657.3
Freight, clearing and forwarding	524.4	550.4
Rent	86.4	84.0
Repairs and maintenance		
Building	3.1	8.5
Machinery	2.4	8.5
Others	17.9	61.2
Insurance	32.1	24.8
Rates and taxes	34.2	23.1
Travelling expenses	196.7	231.0
Legal and professional fees	94.6	127.7
Payments to auditors (refer note below)	12.4	10.6
Fees for use of technology	813.4	864.4
Advertising and sales promotion	81.0	78.9
Bank charges	10.1	5.6
Telephone and other communication expenses	22.9	21.0
Printing and stationery	18.3	21.5
Bad debts written off	14.7	26.9
Loss on sale / retirement of assets (net)	-	0.9
Loss on account of foreign exchange fluctuations (net)	258.2	5.7
Warranty costs	113.6	47.1
Outside services	1,484.0	1,578.9
Corporate Social Responsibility expenditure (refer note below)	92.7	56.3
Miscellaneous expenses	62.8	475.9
Less: Capitalised for own consumption	(116.8)	(62.5)
Less: Exceptional items (merger cost) (refer Note 46)	(3.4)	(432.0)
Total	6,322.8	6,304.6

	2019	2018
Note: Payments to auditors		
As auditors		
- Statutory audit	7.3	7.3
- Limited review	2.9	2.5
- Other services	2.0	0.1
Reimbursement of expenses	0.2	0.7
Total	12.4	10.6

	2019	2018
Note: Corporate Social Responsibility expenditure		
Amount required to be spent as per Section 135 of the Act	89.1	63.7
Amount incurred during the year on:		
(i) Construction/acquisition of assets	-	-
(ii) On purpose other than (i) above	92.7	56.3
	92.7	56.3
Amount yet to be paid on:		
(i) Construction/acquisition of assets	-	-
(ii) On purpose other than (i) above	4.6	5.8
Total	4.6	5.8

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

33. Tax expense

	2019	2018
(a) Current tax		
Current tax on profit during the year	**1,554.6**	2,365.0
Tax in respect of prior years	**40.0**	(113.5)
Total current tax expense	**1,594.6**	2,251.5
(b) Deferred tax		
Deferred tax (credit) attributable to origination and reversal of temporary differences	**71.8**	(132.5)
Total tax expense	**1,666.4**	2,119.0
Reconciliation of effective tax rate		
Profit before tax	**5,342.8**	6,317.0
Current tax at the Indian tax rate of 34.94% / 25.17%	**1,503.4**	2,201.8
Tax adjustments of earlier years	**40.0**	(113.5)
Expenses allowable when paid and other timing differences	**51.2**	163.2
Current tax expense (A)	**1,594.6**	2,251.5
Deferred tax		
On WDV of property, plant and equipment	**(96.5)**	(88.2)
Provision for employee benefits	**46.9**	4.3
Provision for expenses	**91.3**	(63.4)
Provision for doubtful trade receivables	**29.0**	14.8
Effective portion of gain / (loss) on cash flow hedge	**1.1**	-
Deferred tax expense (B)	**71.8**	(132.5)
Tax expense recognised in Statement of Profit and Loss (A + B)	**1,666.4**	2,119.0
Tax impact recognised in Other Comprehensive Income (OCI)		
Remeasurement of defined benefits obligation	**8.3**	(5.0)
Effective portion of gain / (loss) on hedging instruments in cash flow hedge	**(26.4)**	30.7
Total	**(18.1)**	25.7

34. Earnings Per Share (EPS)

		2019	2018
a)	**Amount used as the numerator**		
	Profit after tax attributable to equity shareholders (₹ in million)	**3,676.4**	4,198.0
b)	**Weighted average number of equity shares used as the denominator (Nos.)***	**31,260,734**	31,260,734
c)	**Nominal value of share (in ₹)**	**10.0**	10.0
d)	**Earnings per share (Basic and Diluted) (in ₹)**	**117.6**	134.3

* Previous year 14,643,464 equity shares were issued on account of scheme of amalgamation (refer Note 15).

(₹ in million)

35. Contingent liabilities not provided for in respect of

	2019	2018
Claims against the Company not acknowledged as debts:		
a) Employees and ex-employees related matters:		
(i) Matters pending in labour court/ civil court/ High Court for reinstatement of service/recovery of salary	**101.9**	99.6
(ii) Demand for discontinuing of contract system and for differential wages	**12.7**	12.7
	114.6	112.3
b) (i) Sales-tax		
For non-receipt of C Forms and non-acceptance of Company's claim of certain sales as exempt sales in respect of various assessment years.	**15.2**	40.7
(ii) Excise duty and Service tax: In respect of matters decided against the Company, for which the Company is in appeal with higher authorities	**134.1**	139.9
	149.3	180.6
c) Income tax:		
i) In respect of matters decided against the Company, for which the Company is in appeal with higher authorities.	**67.2**	497.2
ii) In respect of matters where the Company has received favourable orders/ partial relief from the First Appellate authorities but the Income Tax Department is pursuing further with higher Appellate authorities (excluding the matters if not ultimately allowed, would be allowed in the following assessment years).	**-**	11.6
	67.2	508.8
In respect of above matters, it is not practicable for the Company to estimate the closure of these issues and consequential timing of cash flows, if any.		
d) Others:		
Demand notice for stamp duty on Order of Hon'ble National Company Law Tribunal, Mumbai Bench, approving the Scheme of Amalgamation of INA Bearings India Private Limited and LuK India Private Limited with the Company, for which the Company is in appeal with higher authorities.	**250.0**	250.0
	250.0	250.0

36. Commitments

	2019	2018
a) Contracts on capital account:		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of capital advance)	**2,278.7**	2,917.3
b) Lease commitments:		
Minimum lease payments under non-cancellable operating leases		
Within one year	**76.0**	7.4
Later than one year but less than 5 year	**225.1**	5.8
	301.1	13.2

Operating lease payment recognised in the Statement of Profit and Loss amounting to ₹ 86.4 million (2018: ₹ 84.0 million).

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

37. Related Party disclosures as required under Ind AS-24 are given below:

1. Name and nature of relationship of the related party where control exists:

The ultimate control lies with INA Holding Schaeffler GmbH & Co. KG, Germany.

2. Names of the Related Parties having transactions with the Company during the year.

2019	2018
Ultimate holding Company	Ultimate holding Company
INA Holding Schaeffler GmbH & Co. KG, Germany	INA Holding Schaeffler GmbH & Co. KG, Germany
Fellow subsidiaries / Affiliates	Fellow subsidiaries / Affiliates
Schaeffler Australia Pty Ltd., Australia	Schaeffler Australia Pty. Ltd., Australia
Schaeffler Brasil Ltda., Brazil	Schaeffler Brasil Ltda., Brazil
Schaeffler (China) Co., Ltd., China	Schaeffler (China) Co. Ltd., China
Schaeffler Trading (Shanghai) Co., Ltd., China	Schaeffler Trading (Shanghai) Co. Ltd., China
Schaeffler (Ningxia) Co., Ltd., China	Schaeffler (Nanjing) Co. Ltd., China
Schaeffler Friction Products (Suzhou) Co., Ltd., China	Schaeffler (Ningxia) Co. Ltd., China
Schaeffler (Nanjing) Co., Ltd., China	Schaeffler Holding (China) Co. Ltd., China
Schaeffler Holding (China) Co., Ltd., China	Schaeffler Friction Products (Suzhou) Co., Ltd., China
Schaeffler (Xiangtan) Co., Ltd., China	Schaeffler Middle East FZE, Dubai
Schaeffler France SAS, France	Schaeffler France SAS, France
Schaeffler Chain Drive Systems SAS, France	Schaeffler Chain Drive Systems SAS, France
WPB Water Pump Bearing GmbH & Co. KG, Germany	Schaeffler Technologies AG & Co. KG, Germany
Schaeffler Technologies AG & Co. KG, Germany	Schaeffler AG, Germany
Schaeffler Automotive Buehl GmbH & Co. KG, Germany (formerly known as LuK GmbH & Co. KG,)	Schaeffler Elfershausen AG & Co. KG, Germany
Schaeffler Automotive Aftermarket GmbH & Co. KG, Germany	Schaeffler Automotive Aftermarket GmbH & Co. KG, Germany
Schaeffler AG, Germany	FAG Industrial Services GmbH, Germany
LuK Truckparts GmbH & Co. KG, Germany	LuK Truckparts GmbH & Co. KG, Germany
Schaeffler Engineering GmbH, Germany	LuK GmbH & Co. KG, Germany
Schaeffler Monitoring Services GmbH, Germany (formerly known as FAG Industrial Services GmbH,)	WPB Water Pump Bearing GmbH & Co. KG, Germany
Schaeffler Friction Products GmbH, Germany	Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Germany
LuK Unna GmbH & Co. KG, Germany	LuK Unna GmbH & Co. KG, Germany
Schaeffler Schweinfurt Beteiligungs GmbH, Germany	Schaeffler Schweinfurt Beteiligungs GmbH, Germany (formerly known as FAG Kugelfischer GmbH)
Schaeffler Bühl Verwaltungs GmbH, Germany	Schaeffler Verwaltungsholding Sechs GmbH, Germany (formerly known as INA Beteiligungsverwaltungs GmbH)
Schaeffler Verwaltungsholding Sechs GmbH, Germany	Schaeffler Bühl Verwaltungs GmbH, Germany (formerly known as LuK Vermögensverwaltungsgesellschaft mbH)
Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Germany	Schaeffler Beteiligungsgesellschaft mbH, Germany
Schaeffler Beteiligungsgesellschaft mbH, Germany	Schaeffler Bühl Beteiligungs GmbH, Germany
Schaeffler Bühl Beteiligungs GmbH, Germany	Schaeffler Friction Products GmbH, Germany
Schaeffler Hong Kong Company Limited, Hong Kong	Schaeffler Schweiz GmbH, Switzerland
Schaeffler Savaria Kft., Hungary	Schaeffler Hong Kong Company Ltd, Hong Kong
Schaeffler Bearings Indonesia, PT, Indonesia	Schaeffler Savaria Kft., Hungary
Schaeffler Japan Co., Ltd., Japan	Schaeffler Bearings Indonesia, PT, Indonesia
Schaeffler Ansan Corporation, Korea	Schaeffler Water Pump Bearing Italia S.r.l., Italy
Schaeffler Korea Corporation, Korea	Schaeffler Japan Co. Ltd. Japan
Schaeffler Mexico, S. de R.L. de C.V., Mexico	Schaeffler Korea Corporation, Korea
Schaeffler Transmisión, S. de R.L. de C.V., Mexico (formerly known as LuK Puebla, S. de R.L. de C.V.)	Schaeffler Ansan Corporation, Korea
Schaeffler Mexico Servicios, S. de R.L. de C.V., Mexico	LuK Puebla, S. de R.L. de C.V., Mexico
Radine B.V., Netherlands	Schaeffler Mexico, S. de R.L. de C.V., Mexico

(₹ in million)

2019	2018
Schaeffler Philippines Inc., Philippines	Schaeffler Mexico Services, S. de R.L. de C.V., Mexico
Schaeffler Portugal, Unipessoal, Lda., Portugal	Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V., Mexico
Schaeffler Romania S.R.L., Romania	Schaeffler Nederland B.V., Netherlands
Schaeffler (Singapore) Pte. Ltd., Singapore	Schaeffler Philippines Inc., Philippines
Schaeffler Kysuce, spol. s r.o., Slovakia	Schaeffler Portugal Unipessoal Lda., Portugal (formerly known as Schaeffler Portugal S.A.)
Schaeffler Skalica, spol. s r.o., Slovakia	SC Schaeffler Romania S.R.L., Romania
Schaeffler South Africa (Pty.) Ltd., South Africa	Schaeffler (Singapore) Pte. Ltd., Singapore
Schaeffler Schweiz GmbH, Switzerland	Schaeffler Kysuce, spol. s.r.o., Slovakia
Schaeffler (Thailand) Co., Ltd., Thailand	Schaeffler Skalica, spol. s.r.o., Slovakia
Schaeffler Manufacturing (Thailand) Co., Ltd., Thailand	Schaeffler South Africa (Pty.) Ltd., South Africa
Schaeffler (UK) Limited, UK	Schaeffler Schweiz GmbH, Switzerland
The Barden Corporation (UK) Ltd., UK	Schaeffler (Thailand) Co. Ltd., Thailand
Schaeffler Group USA, Inc., USA	Schaeffler Manufacturing (Thailand) Co. Ltd., Thailand
Schaeffler Transmission, LLC, USA	Schaeffler Group USA Inc., USA
Schaeffler Transmission Systems, LLC, USA	Schaeffler Transmission Systems, LLC, USA
Schaeffler Vietnam Co., Ltd., Vietnam	Schaeffler (UK) Ltd. UK
	The Barden Corporation (UK) Ltd., UK
	Schaeffler Vietnam Co. Ltd., Vietnam

Key Management Personnel	Key Management Personnel
Mr. Harsha Kadam, Managing Director (with effect from October 1, 2019 onwards)	Mr. Dharmesh Arora, Managing Director
Mr. Sathish Patel, Director Finance & CFO	
Mr. Dharmesh Arora, Managing Director (up to September 30, 2019)	

3. Transactions with related parties during the year:

Nature of transactions	Fellow subsidiaries/ Affiliates	Key Management Personnel	Total
Purchase of finished goods	7,983.5	-	7,983.5
	(9,256.4)	-	(9,256.4)
Purchase of raw materials and components and spares	3,751.3	-	3,751.3
	(5,213.8)	-	(5,213.8)
Purchase of tangible assets	932.5	-	932.5
	(286.0)	-	(286.0)
Fees for use of technology / trademark	808.0	-	808.0
	(864.2)	-	(864.2)
Travelling, training, testing, support fee and other cost	232.8	-	232.8
	(179.4)	-	(179.4)
Dividend for the year -2017	695.1	-	695.1
	(145.0)	-	(145.0)
SAP, other IT systems and connectivity cost	305.0	-	305.0
	(437.4)	-	(437.4)
Expat cost	12.5	-	12.5
	(26.3)	-	(26.3)
Commission on guarantee	10.3	-	10.3
	(18.2)	-	(18.2)
Interest on loan taken	18.5	-	18.5
	(43.8)	-	(43.8)

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

Nature of transactions	Fellow subsidiaries/ Affiliates	Key Management Personnel	Total
Loan repayment	577.4	-	577.4
	(127.9)	-	(127.9)
Sale of finished goods	4,339.6	-	4,339.6
	(4,440.3)	-	(4,440.3)
Reimbursement of expenses	64.3	-	64.3
	(32.4)	-	(32.4)
Service income	5.1	-	5.1
	(2.5)	-	(2.5)
Managerial remuneration*	-	58.3	58.3
	-	(36.3)	(36.3)
Issuance of equity shares	-	-	-
	(146.4)	-	(146.4)

* In the case of present key management personnel, remuneration does not include gratuity and leave encashment benefits which are determined for the Company as a whole.

4. Balances outstanding as at December 31, 2019:

Nature of Transaction	Fellow subsidiaries / Affiliates
Trade receivables	
Schaeffler Technologies AG & Co. KG, Germany	257.3
	(669.3)
Schaeffler Trading (Shanghai) Co. Ltd., China	183.8
	(120.2)
Others	309.3
	(524.9)
Trade payables	
Schaeffler Technologies AG & Co. KG, Germany	1,967.8
	(3,269.2)
Others	511.8
	(908.5)
Other receivables	
Schaeffler Technologies AG & Co. KG, Germany	4.3
	(6.4)
Schaeffler Manufacturing (Thailand) Co. Ltd., Thailand	3.4
	-
Schaeffler Group USA Inc., USA	2.4
	(3.1)
Others	3.8
	(6.0)
Loans payable	
Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Germany	-
	(480.0)
Schaeffler Bühl Verwaltungs GmbH, Germany	-
	(97.4)

(₹ in million)

5. The significant related party transactions are as under:

Nature of Transactions	Fellow subsidiary / Affiliates	Amount
Purchase of finished goods	Schaeffler Technologies AG & Co. KG, Germany	5,925.2
		(7,195.5)
Purchase of raw material and components and spares	Schaeffler Technologies AG & Co. KG, Germany	2,330.0
		(2,846.0)
	Schaeffler (China) Co. Ltd., China	458.6
		(674.0)
Purchase of tangible assets	Schaeffler Technologies AG & Co. KG, Germany	358.6
		(78.2)
	Schaeffler (China) Co. Ltd., China	445.8
		(80.0)
Sale of finished goods	Schaeffler Technologies AG & Co. KG, Germany	1,172.1
		(1,381.0)
	Schaeffler Trading(Shanghai) Co. Ltd., China	951.1
		(842.1)
Fees for use of technology / trademark	Schaeffler Technologies AG & Co. KG, Germany	807.6
		(861.3)
SAP, other IT systems and connectivity cost	Schaeffler Technologies AG & Co. KG, Germany	305.0
		(436.3)
Travelling, training, testing, support fee and other cost	Schaeffler Technologies AG & Co. KG, Germany	76.6
		(84.6)
	Schaeffler Japan Co. Ltd., Japan	61.5
		(39.9)
	Schaeffler Brasil Ltda., Brazil	28.0
		(0.3)
Expat cost	Schaeffler Technologies AG & Co. KG, Germany	8.9
		(13.9)
	Schaeffler Japan Co. Ltd., Japan	3.6
		(8.0)
Commission on guarantee	Schaeffler AG, Germany	10.3
		(18.2)
Interest on loan taken	Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Germany	17.8
		(40.7)
Loan repayment	Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Germany	480.0
		(80.0)
	Schaeffler Bühl Verwaltungs GmbH, Germany	97.4
		(47.9)
Reimbursement of expenses	Schaeffler Technologies AG & Co. KG, Germany	43.4
		(18.3)
	Schaeffler Manufacturing (Thailand) Co. Ltd., Thailand	7.3
		(5.9)
Service income	Schaeffler Kysuce, spol. s.r.o., Slovakia	3.4
		-
	Schaeffler Brasil Ltda., Brazil	1.7
		-
Managerial remuneration	Mr. Harsha Kadam	7.8
		-
	Mr. Satish Patel	13.0
		-
	Mr. Dharmesh Arora	37.5
		(36.3)
Dividend paid	Schaeffler Schweinfurt Beteiligungs GmbH, Germany	255.9
		(145.0)
	Schaeffler Bühl Verwaltungs GmbH, Germany	192.9
		-

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

Nature of Transactions	Fellow subsidiary / Affiliates	Amount
	Schaeffler Verwaltungsholding Sechs GmbH, Germany	140.8 -
	Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Germany	105.7 -
Issuance of equity shares	Schaeffler Bühl Verwaltungs GmbH, Germany	- (64.3)
	Schaeffler Verwaltungsholding Sechs GmbH, Germany	- (46.9)
	Industriewerk Schaeffler INA-Ingenieurdienst GmbH, Germany	- (35.2)

Numbers in brackets represents previous year numbers.

Terms and conditions with related parties.

The sales to and purchases from related parties including fixed Assets and other expenses are made in the normal course of business and on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free.

During the year company has repaid borrowings from related parties.

38. Derivative instruments:

The Company's exposure to foreign currency fluctuations relates to foreign currency assets, liabilities and forecasted cash flows. The Company limits the effects of foreign exchange rate fluctuations by following established risk management policies including the use of derivatives like forward contracts. The Company has entered into foreign currency forward contracts, majority having maturity of less than one year from reporting date, to hedge its risks associated with foreign currency fluctuations relating to such highly probable transactions. The currencies in which these transactions are mainly denominated are US Dollars and Euro.

Gain / (loss) on the fair valuation of forward contracts, which qualify as effective cash flow hedge amounting to Loss ₹ NIL million (2018: Loss ₹ 75.5 million) on the Balance Sheet has been recognised in Cash Flow Hedge Reserve.

Outstanding derivative instruments

Category	Currency hedged	**2019**		2018	
		Notional amount in foreign currency	**Equivalent amount (₹ in million)**	Notional amount in foreign currency	Equivalent amount (₹ in million)
Forward exchange contracts (to hedge highly probable import payables)	USD	**-**	**-**	16,020,000	1,115.6
	EUR	**13,050,000**	**1,045.5**	31,410,000	2,505.2

The Company holds the following instruments to hedge exposures to changes in foreign currency:

	Maturity			
	2019		2018	
	1-6 months	**6-12 months**	1-6 months	6-12 months
Foreign currency risk				
Forward exchange contracts				
Net exposure (₹ in million)	**1,045.5**	**-**	2,175.4	1,445.4
Average ₹: USD forward contract rate			71.8	73.2
Average ₹ : EUR forward contract rate	**80.4**		84.6	87.4

(₹ in million)

Foreign currency exposures as at December 31, 2019:

Particulars	Currency	Amount in foreign currency	Equivalent amount
Trade Payables	USD	10,137,093.7 (17,477,015.5)	723.2 (1,217.1)
	EUR	17,575,946.9 (27,609,979.5)	1,408.2 (2,202.2)
	CHF	127,347.9 -	9.4 -
	JPY	3,583,478.0 (993,492.0)	2.4 (0.6)
	CNY	13,247,813.8 (28,102,774.1)	135.8 (284.5)
	GBP	- (2,675.3)	- (0.2)
Trade Receivables	USD	7,322,896.5 (9,787,998.2)	522.5 (681.6)
	EUR	3,063,237.7 (8,538,668.7)	245.4 (680.8)
Advances to Suppliers	USD	385,829.3 (322,097.7)	27.5 (22.4)
	EUR	3,014,427.8 (623,931.8)	241.5 (49.8)
	GBP	980.1 (980.1)	0.1 (0.1)
	AUD	5,496.1 (5,496.1)	0.3 (0.3)
	CHF	- (1,136.3)	- (0.1)
Bank balance in EEFC accounts	USD	3,378,312.7 (1,103,855.9)	241.0 (76.8)
	EUR	1,026,363.7 (1,074,425.2)	82.1 (85.7)
External commercial borrowings	USD	- (1,400,000.0)	- (97.5)

Numbers in brackets represents previous year numbers.

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

The Company's exposure to foreign currency risk at the end of reporting period are as follows:

	2019	2018
Financial assets		
Trade receivables		
USD	**522.5**	681.6
EUR	**245.4**	680.8
Bank Balances in EEFC account		
USD	**241.0**	76.8
EUR	**82.1**	85.7
Total Exposure to foreign currency assets	**1,091.0**	1,524.9

	2019	2018
Financial liabilities		
Trade payables		
USD	**723.2**	1,217.1
EUR	**1,408.2**	2,202.2
CHF	**9.4**	-
JPY	**2.4**	0.6
CNY	**135.8**	284.5
GBP	**-**	0.2
External commercial borrowings		
USD	**-**	97.5
Total Exposure to foreign currency liabilities	**2,279.0**	3,802.1

39. Financial risk management

The Company has exposure to the following risks arising from financial instruments:

- market risk [refer 39 (A) below]

- liquidity risk [refer 39 (B) below]

- credit risk [refer 39 (C) below]

In the course of its business, the Company is exposed primarily to aforesaid risks, which may impact the fair value of its financial instruments. The Company has a risk management system which not only covers the foreign exchange risks but also other risks associated with the financial assets and liabilities such as credit risks. The risk management strategy is approved by Board of Directors which is implemented by the Company's management. The risk management framework aims to create a stable business planning environment by reducing the impact of market related risks, credit risks and currency fluctuations on the Company's earnings. The risks identified through the risk management system are analysed and evaluated by the Company's management and reported to the Board of Directors periodically along with report of planned mitigation measures.

A) Market risk

Market risk is the risk of any loss in future earnings, in realisable fair values or in future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the foreign currency exchange rates, liquidity and other market changes. Future specific market movements cannot be normally predicted with reasonable accuracy.

(i) Foreign currency risk

The Company is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US Dollars and Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Company's functional currency (Indian Rupees).

(₹ in million)

The Company has import and export transactions in foreign currencies. Imports are higher than exports and hence the Company has foreign currency exposure to the extent of imports being higher than exports. The risk of foreign currency fluctuation is mitigated through hedging. Please refer Note 38 for details of foreign currency exposure.

The Company's exposure to foreign currency risk at the end of reporting period are as follows:

Foreign Currency Sensitivity

The following table demonstrates sensitivity to a reasonable possible change in major foreign currencies like USD and EUR with all other variables held constant:

		Effect on Profit Before Tax	
		2019	2018
USD	+ 5%	**2.0**	(27.8)
	- 5%	**(2.0)**	27.8
EUR	+ 5%	**(54.0)**	(71.8)
	- 5%	**54.0**	71.8
CHF	+ 5%	**(0.5)**	0.0
	- 5%	**0.5**	0.0
JPY	+ 5%	**(0.1)**	(0.0)
	- 5%	**0.1**	0.0
CNY	+ 5%	**(6.8)**	(14.2)
	- 5%	**6.8**	14.2
GBP	+ 5%	**-**	(0.0)
	- 5%	**-**	0.0

(ii) Interest rate risk

The Company has granted loans to third party. The Company recovers interest as per the terms of the agreement which approximates the prevailing market rate of interest, from time to time. Accordingly, interest rate risk for loans given is not considered to be substantial.

The Company's borrowings comprise of fixed rate loan from the related parties. The terms of the agreement which approximates the prevailing market rate of interest.

Surplus funds are being invested in bank deposits at fixed interest rates and the tenure is managed to match with the Company's liquidity profile.

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

B) Liquidity risk

The Company's principal sources of liquidity are cash and cash equivalents and cash flows generated from operations. The Company regularly monitors actual cash flows and forecasts to ensure that the Company maintains sufficient liquidity to meet the operation needs.

The following table shows the maturity analysis of the Company's financial liabilities based on contractually agreed undiscounted cash flows at the balance sheet date:

	Carrying amount	Less than 12 months	More than 12 months	Total
As at December 31, 2019				
Financial liabilities				
Trade payables	**4,991.5**	**4,991.5**	**-**	**4,991.5**
Security deposits from customers / suppliers	**33.5**	**-**	**33.5**	**33.5**
Employee liabilities	**437.4**	**437.4**	**-**	**437.4**
Creditors for capital goods	**415.1**	**415.1**	**-**	**415.1**
Accrued expense	**163.2**	**163.2**	**-**	**163.2**
Unclaimed dividends	**6.5**	**6.5**	**-**	**6.5**
Other payables	**13.1**	**13.1**	**-**	**13.1**
As at December 31, 2018				
Financial liabilities				
Trade payables	7,878.0	7,878.0	-	7,878.0
Borrowings	577.4	528.7	48.7	577.4
Security deposits from customers / suppliers	9.9	-	9.9	9.9
Employee liabilities	276.1	276.1	-	276.1
Creditors for capital goods	291.8	291.8	-	291.8
Accrued expense	581.1	581.1	-	581.1
Derivative forward exchange contracts	118.8	118.8	-	118.8
Unclaimed dividends	6.0	6.0	-	6.0
Other payables	41.3	41.3	-	41.3

C) Credit Risk

Credit risk is the unexpected loss in financial instruments if the counter parties fails to discharge it's contractual obligations in entirety and timely. The Company is exposed to credit risks arising from it's operating and financing activities such as trade receivables, loans and advances and other financial instruments. The carrying amounts of financial assets represent the maximum credit exposure.

Trade receivables

Credit risk on trade receivables is limited due to the Company's diversified customer base which includes public sector enterprises and reputed private corporates. For trade receivables, the Company computes expected credit loss allowance based on provision matrix which is prepared considering customer's industry segment and historically observed overdue rate over expected life of trade receivables. The expected credit loss allowance is considered as a percentage of net receivable position.

	2019		2018	
	Less than 6 months	**More than 6 months**	Less than 6 months	More than 6 months
Gross carrying amount	**6,229.9**	**164.4**	7,458.4	192.0
Allowance for expected credit loss	**(68.0)**	**(6.9)**	(70.9)	(66.2)
Carrying amount of trade receivables (net)	**6,161.9**	**157.5**	7,387.5	125.8

Reconciliation of expected credit loss allowance is as follows:

As at January 1, 2019	**137.1**
Change in loss allowance	**(62.2)**
As at December 31, 2019	**74.9**

(₹ in million)

Other financial assets

The Company does not have significant credit risk from loans given considering available securities against which such loans have been given.

40. Capital management

For the purpose of Company's capital management, capital includes equity share capital and all other reserves attributable to equity shareholders. The Company has a long-term strategy of pursuing profitable growth. Capital is managed proactively to secure the existence of the Company as a going concern in the long-term and create financial flexibility for profitable growth in order to add value to the Company. A further aim of the capital management is to ensure long-term availability of liquidity, maintain strong credit ratings and ensure optimal capital structure in order to support business through continuing growth and maximising shareholders value. The Company funds it's operations through internal accruals and the Management along with the Board of Directors regularly monitor the returns on capital as well as dividend levels to shareholders.

41. Employee benefits: Post employment benefit plans

Defined contribution plans

The Company makes contributions, determined as a specified percentage of employee salaries, in respect of qualifying employees towards Provident Fund and Superannuation Fund which are defined contribution plans. The Company has no obligations other than to make the specified contributions. The contributions are charged to the Statement of Profit and Loss as they accrue. The amount recognised as an expense towards contribution to Provident Fund for the year aggregated to ₹ 143.1 million (2018: ₹ 136.6 million) and contribution to superannuation fund for the year aggregated to ₹ 32.6 million (2018: ₹ 33.5 million).

Defined benefit plans

The Company has defined benefit plans that provide gratuity benefit. The gratuity plan entitles an employee, who has rendered at least five years of continuous service, to receive one-half month's salary for each year of completed service at the time of retirement/exit. The Scheme is funded by the plan assets.

The following table summarises the position of assets and obligations:

	Gratuity	
	2019	2018
Present value of funded obligations	**628.6**	556.2
Fair value of plan assets	**557.3**	506.9
(Asset)/Liability recognised in balance sheet	**71.3**	49.3

Classification into current / non-current:

The (asset) / liability in respect of each of the plans comprises of the following non-current and current portions:

	Gratuity	
	2019	2018
Non-current liability	**71.3**	49.3
Current liability	**-**	-
Total	**71.3**	49.3

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

Movement in present values of defined benefit obligations:

	Gratuity	
	2019	2018
Defined benefit obligation at January 1	**556.2**	519.8
Service cost	**44.5**	42.4
Interest cost	**39.7**	34.7
Actuarial (gains)/ losses recognised in Other Comprehensive Income due to:		
Change in assumptions	**28.8**	(29.1)
Demographic assumptions	**(0.1)**	8.5
Experience changes	**15.1**	15.5
Benefits paid / Employees contribution	**(55.6)**	(35.6)
Defined benefit obligation at December 31	**628.6**	556.2

Movement in fair value of plan assets:

	Gratuity	
	2019	2018
Fair value of plan assets at January 1	**506.9**	458.7
Return on plan assets recognised in other comprehensive income	**1.0**	9.2
Interest on plan assets	**37.7**	32.7
Contributions by employer	**67.3**	41.9
Benefits paid / Employees contribution	**(55.6)**	(35.6)
Fair value of plan assets at December 31	**557.3**	506.9

Expense recognised in the Statement of Profit and Loss:

	Gratuity	
	2019	2018
Current service cost	**44.5**	42.4
Interest on net defined benefit liability / (asset)	**1.9**	2.0
Total included in Employee benefits expense	**46.4**	44.4

Remeasurements recognised in other comprehensive income:

	Gratuity	
	2019	2018
Actuarial (gain)/ loss on defined benefit obligation	**43.9**	(5.10)
Return on plan assets excluding interest income	**(1.0)**	(9.20)
	42.9	(14.30)

Principal actuarial assumptions at the balance sheet date:

	Gratuity	
	2019	2018
Discount rate per annum as at December 31	**6.70%**	7.90%
Expected return per annum on plan assets as at December 31	**6.70%**	7.90%
Future salary increment	**6.50%**	6.50%
Retirement age	**58 Years**	58 Years
Mortality	**Indian Assured Lives Mortality (2012-14) Ult table**	Indian Assured Lives Mortality (2006-08) Ult table
Attrition rate	**6%- 13%**	6%- 13%

At December 31, 2019. the weighted-average duration of the defined benefit obligation was 6.95 years (December 31, 2018: 6.22 years).

Note: The estimates of future salary increases, considered in actuarial valuation takes into account inflation, seniority, promotion and other relevant factors.

(₹ in million)

Sensitivity Analysis

The following table summarises the impact in percentage terms on the reported defined benefit obligation at the end of the reporting period arising on account of an increase or decrease in the reported assumption by 100 basis points:

	2019		2018	
	Increase	**Decrease**	Increase	Decrease
Discount rate (100 bps movement on DBO)	**(6.52%)**	**7.45%**	(5.86%)	6.63%
Salary escalation rate (100 bps movement pn DBO)	**7.37%**	**(6.57%)**	6.66%	(5.98%)

These sensitivities have been calculated to show the movement in defined benefit obligation in isolation and assuming there are no other changes in market conditions at the accounting date. There have been no changes from the previous periods in the methods and assumptions used in preparing the sensitivity analyses.

The major categories of plan assets are as follows:

	2019		
	Quoted	**Unquoted**	**Total**
Insurer managed funds	**-**	**554.0**	**554.0**
Others	**-**	**3.3**	**3.3**

Maturity profile of defined benefit obligations:

Year	**2019**	2018
Year 1	**109.3**	107.9
Year 2	**76.9**	73.0
Year 3	**70.1**	67.1
Year 4	**67.0**	62.3
Year 5	**63.1**	59.8
Year 6	**66.9**	56.4
Year 7	**50.5**	63.2
Year 8	**41.3**	45.2
Year 9	**43.5**	37.8
Year 10 and above	**530.4**	487.7

Characteristics of defined benefit plans and risks associated with them:

Valuations of defined benefit plan are performed on certain basic set of pre-determined assumptions and other regulatory framework which may vary over time. Thus, the Company is exposed to various risks in providing the above benefit plans which are as follows:

(i) Interest Rate Risk: The plan exposes the Company to the risk of fall in interest rates. A fall in interest rates will result in an increase in the ultimate cost of providing the above benefit and will thus result in an increase in the value of the liability (i.e. value of defined benefit obligation).

(ii) Salary Escalation Risk: The present value of the defined benefit plan is calculated with the assumption of salary increase rate of plan participants in future. Deviation in the rate of increase of salary in future for plan participants from the rate of increase in salary used to determine the present value of obligation will have a bearing on the plan's liability.

(iii) Demographic Risk: The Company has used certain mortality and attrition assumptions in valuation of the liability. The Company is exposed to the risk of actual experience turning out to be worse compared to the assumption.

(iv) Investment Risk: The Company has funded with well established Government of India undertaking & other IRDA approved agency and therefore, there is no material investment risk.

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

42. Financial instruments

A) Accounting classifications

The following tables shows the carrying amount / fair values of financial assets and financial liabilities:

Financial instruments category	Carrying value / Fair value	
	2019	2018
Financial Assets		
a) Measured at fair value through Profit or Loss (FVTPL)		
Derivative contracts not designated as cash flow hedges	**4.7**	-
b) Measurement at amortised cost:		
Trade receivables	**6,319.4**	7,513.3
Cash and cash equivalents	**1,159.1**	1,425.0
Bank balances other than cash and cash equivalents	**7,194.5**	7,051.0
Loans	**173.7**	129.9
Other financial assets	**1,630.9**	843.6
Total Financial Assets	**16,482.3**	16,962.8
Financial Liabilities		
a) Measured at fair value through Profit or Loss (FVTPL)		
Derivative contracts not designated as cash flow hedges	**-**	43.3
b) Measured at fair value through Other Comprehensive Income (OCI)	**-**	75.5
Derivative contracts designated as cash flow hedges		
c) Measurement at amortised cost:		
Trade payables	**4,991.5**	7,878.0
Borrowings	**-**	577.4
Other financial liabilities	**1,068.8**	1,206.3
Total Financial Liabilities	**6,060.3**	9,780.5

The carrying amounts of all financial instruments (except derivative instruments which are measured at fair value through Other Comprehensive Income and long-term loans) are not materially different from their fair values, since these are of Short-term nature.

(₹ in million)

B) Fair value hierarchy

The following table provides quantitative disclosures of fair value measurement hierarchy of financial instruments as referred above:

December 31, 2019

	Level 1	Level 2	Level 3	Total as at December 31, 2019
Financial Assets				
Derivative contracts not designated as cash flow hedges	-	4.7	-	4.7
Trade receivables	-	-	6,319.4	6,319.4
Loans	-	-	173.7	173.7
Other financial assets	-	-	1,630.9	1,630.9
Total	-	4.7	8,124.0	8,128.7
Financial Liabilities				
Derivative contracts not designated as cash flow hedges	-	-	-	-
Derivative contracts designated as cash flow hedges	-	-	-	-
Trade payables	-	-	4,991.5	4,991.5
Borrowings	-	-	-	-
Other financial liabilities	-	-	1,068.8	1,068.8
Total	-	-	6,060.3	6,060.3

December 31, 2018

	Level 1	Level 2	Level 3	Total as at December 31, 2018
Financial Assets				
Derivative contracts designated as cash flow hedges	-	-	-	-
Trade receivables	-	-	7,513.3	7,513.3
Loans	-	-	129.9	129.9
Other financial assets	-	-	843.6	843.6
Total	-	-	8,486.8	8,486.8
Financial Liabilities				
Derivative contracts not designated as cash flow hedges	-	43.3	-	43.3
Derivative contracts designated as cash flow hedges	-	75.5	-	75.5
Trade payables	-	-	7,878.0	7,878.0
Borrowings	-	-	577.4	577.4
Other financial liabilities	-	-	1,206.3	1,206.3
Total	-	118.8	9,661.7	9,780.5

Valuation techniques and significant unobservable inputs

Specific valuation techniques used in measuring Level 2 and Level 3 fair values for financial instruments include:

- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.
- All financial assets and liabilities referred in Level 3 are measured at amortised cost, their carrying amount are reasonable approximation of their fair value.

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

43. Segment reporting

(i) Information about business segments:

As per 'Ind AS 108 - Operating Segments', the Company has reported segment information under two segments i.e. 1) Mobility components and related solutions and 2) Others.

Particulars	2019	2018
(a) Segment Revenue (Net revenue / income)		
Mobility components and related solutions	**35,015.9**	37,732.9
Others	**8,590.4**	7,882.2
Revenue from operations	**43,606.3**	45,615.1
(b) Segment Results (Profit before finance cost, depreciation and tax)		
Mobility components and related solutions	**3,640.9**	5,137.6
Others	**1,157.8**	773.8
Total profit before finance costs and tax	**4,798.7**	5,911.4
Less: Finance cost	**34.7**	70.4
Less: Unallocable expenses	**3.4**	432.0
Add: Unallocable Income	**582.2**	908.0
Profit before tax	**5,342.8**	6,317.0
(c) Segment assets		
Mobility components and related solutions *	**21,781.5**	22,713.9
Others	**2,664.3**	2,824.3
Unallocated	**12,006.5**	12,135.5
Total assets	**36,452.3**	37,673.7
(d) Segment liabilities		
Mobility components and related solutions	**4,639.0**	6,499.4
Others	**1,015.5**	1,378.6
Unallocated	**1,176.2**	2,734.5
Total liabilities	**6,830.7**	10,612.5
(e) Net capital employed	**29,621.6**	27,061.2

* Property, plant and equipment (PPE) of the Company is predominantly used for 'Mobility solutions and related components' and hence has been disclosed as a segment asset under that reportable segment.

(ii) Secondary segment information:

The geographical information analyses the Company's revenues and non-current assets by the Company's country of domicile (i.e. India) and outside India. In presenting the geographical information, segment revenue has been based on geographical location of customers and segment assets which have been based on the geographical location of the assets.

(a) Revenues

	2019	2018
India	**39,037.5**	40,968.1
Outside India	**4,568.8**	4,647.0
Total	**43,606.3**	45,615.1

(b) Non-current assets*

	2019	2018
India	**12,008.9**	10,119.6
Outside India	**-**	-
Total	**12,008.9**	10,119.6

*Non-current assets exclude financial instruments, deferred tax assets, post employment benefit assets and rights arising under insurance contracts, if any.

(₹ in million)

44. Research and development expenses under the respective heads aggregate to ₹ 582.4 million (2018: ₹ 598.9 million) including of capital nature ₹ 28.5 million (2018:₹ 42.6 million).

	2019				2018			
	Vadodara	**Talegoan, Pune**	**Hosur**	**Total**	Vadodara	Talegoan, Pune	Hosur	Total
Revenue expenses on research and development included under various heads of expenditure	**181.5**	**246.1**	**126.3**	**553.9**	151.8	230.4	174.1	556.3
Capital expenses on research and development capitalised along with other Fixed assets	**1.9**	**19.5**	**7.1**	**28.5**	0.5	29.2	12.9	42.6
Total	**183.4**	**265.6**	**133.4**	**582.4**	152.3	259.6	187.0	598.9

45. The tax year for the Company being the year ending March 31, 2020, provision for taxation for the year ended December 31, 2019 is aggregate of provision made for three months ended March 31, 2019 and provision based on amounts for remaining nine months ended December 31, 2019, the ultimate tax liability of which will be determined on the basis of figures for the fiscal year April 1, 2019 to March 31, 2020.

The Company's international transactions with associated enterprises are at arm's length, as per the independent accountant's report for the year ended March 31, 2019. The Management believes that the Company's international transactions with associated enterprises post March 31, 2019 continue to be at arm's length and that transfer pricing legislations will not have any impact on the Ind AS financial statements, particularly on the amount of tax expenses for the year and the amount of provision for taxation at the year end.

The Company elected to exercise the option permitted under Section 115BAA of the Income-tax Act 1961 as introduced by the Taxation Laws (Amendment) Ordinance, 2019 with effect from April 1, 2019. Accordingly, the Company has recognised provision for Income Tax and deferred tax expenses for the twelve months ended December 31, 2019 on the basis of estimated annual effective income tax rate.

46. Amalgamation of INA Bearings India Private Limited and LuK India Private Limited with the Company

(a) Previous year the Scheme of Amalgamation of INA Bearings India Private Limited ('INA') and LuK India Private Limited ('LuK') (jointly referred to as 'transferor companies') with Schaeffler India Limited ('the Scheme'), has been approved by the National Company Law Tribunal, Chennai and Mumbai Benches vide their orders dated June 13, 2018 and October 8, 2018 respectively. The Company has carried out the accounting prescribed in the Scheme and made the required disclosure for Amalgamations in the nature of merger, as required under Appendix C of Ind AS 103 Business Combinations, for Business Combinations of entities under "Common Control" and accordingly has already been given effect in the financial statements of 2018.

(b) In accordance with the Scheme:
The Company has taken over all the assets aggregating to ₹ 12,144.8 million liabilities aggregating to ₹ 5,845.1 million and other equity amounting to ₹ 5,540.7 million at their respective book values against capital issuance of 146.4 million to the shareholders of respective Companies as on the appointed date, the resultant surplus of ₹ 612.6 million has been credited to capital reserve.

(c) In terms of the Scheme, the Company has allotted 8,214,891 equity shares of ₹ 10 each to existing shareholders of INA and 6,428,573 equity shares of ₹ 10 each to existing shareholders of LuK based on share entitlement ratio as per the Scheme.

(d) Exceptional items pertain to provision for stamp duties, professional/consulting fees and other costs incurred pursuant to the Scheme.

Notes to the Financial Statements

for the year ended December 31, 2019

(₹ in million)

47. Revenue (Ind AS 115)

Effective from January 1, 2019, the Company has applied Ind AS 115 which establishes a comprehensive framework for determining whether, how much and when revenue is to be recognised. Ind AS 115 replaces Ind AS 18 Revenue and Ind AS 11 Construction contracts.

A. Revenue recognised from Contract liability (Advances from Customers):

Particulars	2019	2018
Closing Contract liability	105.5	96.4

The Contract liability outstanding at the beginning of the year has been recognised as revenue during the year ended December 31, 2019.

B. Reconciliation of revenue as per contract price and as recognised in statement of profit and loss:

Particulars	2019	2018
Revenue as per Contract price	43,428.0	45,492.3
Less: Incentives and rebates	428.2	425.6
Less: Discounts	57.0	100.6
Revenue as per statement of profit and loss	42,942.8	44,966.1

48. The financial statement are approved for issued by the Board of Directors in their meeting held on February 12,2020.

As per our report of even date attached
For B S R & Co. LLP
Chartered Accountants
Firm's Registration No: 101248W/W-100022

Nirav Patel
Partner
Membership No. 113327

Place: Pune
Date: February 12, 2020

For and on behalf of the Board of Directors

Avinash Gandhi
Chairman
DIN: 00161107

Harsha Kadam
Managing Director
DIN: 07736005

Satish Patel
Director-Finance & CFO
DIN: 00690869

Chirag Shukla
Company Secretary

Place: Pune
Date: February 12, 2020