



AUTOMOTIVE AXLES LIMITED

16th Annual Report
1996-97

Report Junction.com

MD	✓				BKC	✓
CS	✓				DPY	ND
RO	✓				DIV	✓
TRA	✓				AC	✓
AGM	✓	✓			SHI	✓
YE	✓	✓	✓	✓		

A
JOINT VENTURE
BETWEEN



MERITOR™
A Heritage of Rockwell Technology



KALYANI



16TH ANNUAL GENERAL MEETING

Day : Thursday
 Date : 5th March 1998
 Time : 10.30 a.m.
 Place : Registered Office
 Mysore

CONTENTS.....	Page No.
Notice.....	4
Annexure to the Notice.....	5
Directors' Report.....	6
Annexure to Directors' Report	8
Auditors' Report.....	10
Balance Sheet	12
Profit and Loss Account.....	13
Schedules to Accounts.....	14
Cashflow Statement	23
Proxy	25

The share work is handled directly by the Company. All correspondences should be addressed to the Registered Office of the Company. If you are holding multiple folios send us all the share certificates for consolidation of folios. This will help us serve you better and save cost to the Company.

AUTOMOTIVE AXLES LIMITED

SIXTEENTH ANNUAL REPORT 1996-97

BOARD OF DIRECTORS

NEELAKANTH A. KALYANI	<i>Chairman</i>
B. N. KALYANI	
S. S. MARATHE	
PRATAP BHOGILAL	
K. RAMASWAMI	
MARIO CATTANEO	<i>President & Wholetime Director</i>
P. R. MULCHANDANI	
BRADLEY A. ARNOLD	
P. M. McNAMARA	
CHANDRA MANI	
M. K. VENKATESHAN	<i>(Nominee of ICICI)</i>
C. RAMANATHAN	<i>(Nominee of LIC)</i>
KAMALA SAMBASIVAN	<i>(Nominee of SBI)</i>

Report  Junction.com

AUDITORS

M/s. Deloitte Haskins & Sells

BANKERS

State Bank of India
Canara Bank
State Bank of Mysore

REGISTERED OFFICE & WORKS

Hootagalli Industrial Area
Off Hunsur Road, Mysore-571 186

LISTINGS AT STOCK EXCHANGES AT

Bangalore, Bombay & Pune



NOTICE

NOTICE is hereby given that the Sixteenth Annual General Meeting of the Members of Automotive Axles Limited will be held at the Registered Office of the Company at Hootagalli Industrial Area, Off Hunsur Road, Mysore-571 186, on **Thursday, the 5th March 1998 at 10.30 a.m.** to transact the following business:

1. To receive, consider and adopt the Balance Sheet as at 30th September 1997 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and of the Auditors thereon.
2. To declare a dividend on Equity Shares.
3. To appoint a Director in place of Mr. P. M. McNamara, who was appointed Director in the casual vacancy caused by the resignation of Mr. Enrico Tonetti. Pursuant to Article 118 of the Articles of Association of the Company, read with Section 262 of the Companies Act, 1956, Mr. P. M. McNamara holds office upto the date of this Annual General Meeting. The Company has received a notice in writing from a member as required under Section 257 of the Companies Act, 1956 signifying his intention to propose Mr. P. M. McNamara for the office of the Director.
4. To appoint a Director in place of Mr. Bradley A. Arnold, who was appointed Director in the casual vacancy caused by the resignation of Mr. S. S. McKenney. Pursuant to Article 118 of the Articles of Association of the Company, read with Section 262 of the Companies Act, 1956, Mr. Bradley A. Arnold, holds office upto the date of this Annual General Meeting. The Company has received a notice in writing from a member as required under Section 257 of the Companies Act, 1956 signifying his intention to propose Mr. Bradley A. Arnold, for the office of the Director.
5. To appoint a Director in place of Mr. B. N. Kalyani, who retires by rotation and, being eligible offers himself for re-appointment.
6. To appoint a Director in place of Mr. M. K. Venkateshan, who retires by rotation and, being eligible offers himself for re-appointment.
7. To appoint a Director in place of Mr. K. Ramaswami, who retires by rotation and, being eligible offers himself for re-appointment.
8. To consider, and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution.

"RESOLVED that the Company's Auditors M/s. Deloitte Haskins and Sells, Chartered Accountants, Bangalore, be and they are re-appointed Auditors of the Company to hold office from conclusion of this meeting until conclusion of the next Annual General Meeting of the Company and that the Board of Directors be and is hereby authorised to fix their remuneration for the period."
9. To consider, and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution.

"RESOLVED that pursuant to provisions of Section 269, 198, 309, 310, 311 read with Schedule XIII, and other applicable

provisions, if any, of the Companies Act, 1956 and subject to the approval of the Central Government, if required, approval be and is hereby granted to the re-appointment of Mr. Mario Cattaneo, as the President and Wholtime Director of the Company from 01-01-1998 upto 31-12-1998 on the remuneration, the abstract of which are furnished below :

- I. **Salary** : Rupee equivalent to US \$ 52,000 per annum payable monthly subject to deduction of income tax at source.

II. Perquisites :

PART-I

Housing

Rent-free furnished accommodation or in lieu thereof, hotel accommodation at reasonable rates.

PART-II

Medical/Personal Accident Insurance

The Wholtime Director and his family shall be entitled to reimbursement of the following :

- (a) Johnson & Higgins medical expenses integration
- (b) SAI High Risk Insurance
- (c) SOS Assistance S.A. of Switzerland
- (d) Frequent Traveller Membership

PART-III

Leave Travel Concession

The Wholtime Director and his wife are entitled to Business class return fare to Italy or any equivalent destination.

PART-IV

Provision of Car

The Company shall provide a Chauffeur driven Car to the Wholtime Director for use on Company's business. Personal use of car for private purpose shall be billed by the Company to the Wholtime Director.

In the event of inadequacy of profits or no profits in the financial year, Mr. Mario Cattaneo will be paid the same remuneration by way of salary, perquisites and other allowances."

By Order of the Board of Directors
for **AUTOMOTIVE AXLES LIMITED**

C. K. Sabareeshan
Sr. General Manager (Finance) &
Company Secretary

Place : Mysore,
Dated : 10th December 1997

Registered Office :
Hootagalli Industrial Area
Off Hunsur Road
Mysore-571 186

AUTOMOTIVE AXLES LIMITED**NOTES :**

1. The relative Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 in respect of Item No. 9 of the Notice is annexed.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE ABOVE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY.
3. Dividend on Equity Shares as recommended by the Board of Directors if declared at the Meeting, will be paid to those Members, whose names appear on the Company's Register of Members on 5th March 1998.
4. The Register of Members and Share Transfer Books of the Company will remain closed from **27th February 1998 to 5th March 1998 both days inclusive.**

ANNEXURE TO THE NOTICE

The following Explanatory Statement sets out the material facts relating to the item mentioned in the Notice pursuant to Section 173 (2) of the Companies Act, 1956.

Item No. 9

Mr. Mario Cattaneo, was appointed Wholetime Director of the Company upto the period ending 31st December 1997 at the 15th Annual General Meeting held on 31st March 1997. In view of the encouraging performance of the Company during the year ended 30th September 1997, under his leadership, Directors are confident that the Company will benefit from his re-appointment.

Approval of the members, is sought under Section 269, 198, 310, 311, read with Schedule XIII and other relevant provisions thereof, to the re-appointment of Mr. Mario Cattaneo, as Wholetime Director of the Company and to the payment of remuneration as detailed in the Resolution for a further period of one year with effect from 1st January 1998.

Mr. Mario Cattaneo shall not be liable to retire by rotation. If he ceases to hold the office of Wholetime Director for whatever reason, he shall also cease to be the Director of the Company.

Mr. Mario Cattaneo, being the recipient of the remuneration may be regarded as concerned or interested in the Resolution. None of the other Directors of the Company is interested in the Resolution.

By the Order of the Board of Directors
for **AUTOMOTIVE AXLES LIMITED**

C. K. Sabareeshan
*Sr. General Manager (Finance) &
Company Secretary*

Place : Mysore
Dated : 10th December 1997

Registered Office :

Hootagalli Industrial Area
Off Hunsur Road
Mysore-571 186



DIRECTORS' REPORT

To The Members

Your Directors have pleasure in presenting their SIXTEENTH ANNUAL REPORT on the business and operations of the Company and the audited statement of Accounts for the financial year ended 30th September, 1997.

Year 1996-97 in Retrospect :

The buoyancy in the economy and the growth rate of the Automotive Industry, that were witnessed during the previous year, disappeared since January '97, leading to a recessionary phase by July, '97. Viewed in this perspective, the performance of your Company is indeed encouraging. This was possible mainly due to all-round improvements achieved by the Company in its operations. The financial sector reforms initiated by the Government also enabled the Company to access cheaper source of funds and reduce interest costs.

REVIEW OF OPERATIONS

(a) Turnover

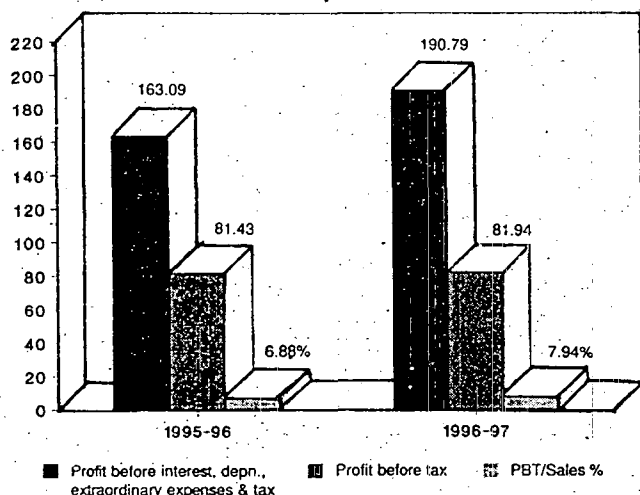
Your Company achieved a turnover of Rs. 1172.00 million, which is less than the previous year's turnover by 14%. This was mainly due to a downturn of the market, and an adverse change in the product mix.

The product-wise break-up is given below :

Product	% Change
Housings	44.61
Rear Axles	(38.13)
Brakes	(0.59)

(b) Net Profit

Despite the drop in the turnover, your Company earned a net profit of Rs. 81.94 million which, considering the extraordinary items of expenditure aggregating to Rs. 27.62 million absorbed, is a substantial improvement over the previous year's results. This, as mentioned earlier, is attributable to various cost improvement measures taken by the Company. Particular mention needs to be made of value engineering, cost reduction, optimal utilisation of working capital borrowings and cheaper sourcing of funds, which have contributed significantly to the improvement of the bottomline.



The Company has taxable profits, having set-off the carried forward losses, but is entitled to set-off MAT already paid, under the Income Tax Act.

(Rs. in Million)

	Current Year	Previous Year
Profit before interest, depn., extraordinary exp., and tax	190.79	163.09
Profit before Taxation	81.94	81.43
Provision for Taxation	11.50	6.07
Profit for the year	70.44	75.36
Prior year adjustments	.08	2.42
Prior Year's balance Profit/(Loss)	37.16	(25.51)
Profit available for appropriation	107.68	52.27
APPROPRIATIONS		
Proposed dividend and Tax thereon	24.93	15.11
Transfer to General Reserve	7.56	—
Retained earnings	75.19	37.16

(c) Profit before interest, depreciation, extraordinary expenses and tax improved by 17% to Rs. 190.79 from 163.09 million.

EXPANSION OF CAPACITY

As mentioned in the last Report, your Company undertook Capital Expenditure aimed at expansion of Capacities further to 35,500 Complete Axles and 2,64,000 Brake Assemblies per annum. While the expansion of Axles capacity was accomplished, that of brakes was put on hold in view of down turn in the market. Your Directors are however confident that the Brakes expansion can be accomplished in a short time, should the market show signs of recovery.

VISION 2000

In the last Report, the salient features of the blue print for the growth of the Company beyond year 2000, were presented. Your Directors are pleased to report that significant progress has been achieved towards this end :

(1) **Be a world class supplier of least cost products :** Value engineering accomplished during the year, together with other cost improvements, has improved the material cost significantly. This exercise will be supplemented by TQM programme initiated during the year, as a part of which Quality system implementation, leading to certification to ISO 9001, is targeted for completion in Jan '98 and is expected to lead to further improvements in cost of quality.

(2) **Attain leadership position in addressed markets :** While your Company is the market leader in Rear Drive Axles, Efforts are on to improve the market share of air actuated cam brakes.

(3) **Develop business of US \$ 100 Million :** As reported below, MERITOR Heavy Vehicles Systems LLC., USA, will hereafter take the lead in developing export markets for your Company. With the planned enhancement of the quality management system as mentioned above, your Company is confident of meeting international quality levels within a reasonable period of time. This should lead to a sizable export business for your Company. While on a short term, the domestic market will remain dormant, on the long term, the market is expected to grow reasonably well.

OUTLOOK

The recession in the Automotive Industry has impacted adversely not only the OEMs, but also the entire auto ancillary/component

AUTOMOTIVE AXLES LIMITED

segment. While the Government has shown its eagerness to put the Economy back on growth track, the Industry is unlikely to see the growth rates of 93-96, at least on the short term. Your Company is however focusing on increasing penetration into export markets. Bharath Forge Ltd., the flagship Company of the Kalyani Group, and an Export House, is already sourcing Complete axles, from your Company, for exports. Rockwell International Corporation, USA, the other co-promoter of your Company announced a major restructuring of its businesses, as a result of which the automotive business was spun off as a separate entity named Meritor Automotive Inc. This restructuring is expected to sharpen its focus on automotive business needs, in terms of investments and growth. Meritor Heavy Vehicles Systems LLC, USA, a subsidiary of Meritor Automotive Inc., is the new co-promoter of your Company and will lead your Company in upgrading technology, enhancing exports in future. Your Company is therefore confident that, with support from Meritor, and Kalyani Group, a sizable export business would be generated during the current year.

DIVIDEND

In keeping with the management's commitment to enhance returns to the shareholders, your Directors are pleased to recommend a dividend @ 15%, which is 50% more than last year. Besides, the dividend received by the members this year, being tax-free at their hands, would not entail any deduction of tax at source, though the Company will be taxed at 10% on the dividend. This would absorb Rs. 24.93 million. As the dividend exceeds 10%, in terms of the Companies (Transfer of profits to Reserves) Rules, 1975, an amount equal to such excess has been transferred to General Reserve.

CONTRIBUTION TO EXCHEQUER

During the year under report, your Company contributed to the Exchequer sums aggregating to Rs. 251.00 Million as follows :

	Rs.
a. Excise duty	141.81
b. Customs duty	46.67
c. Sales Tax (including Rs. 10.23 Million deferment availed)	46.64
d. Income Tax	15.88
	<u>251.00</u>

CONSERVATION OF ENERGY, R & D AND ABSORPTION

The information required under the provisions of Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, and forming part of this Report, is annexed hereto.

PARTICULARS OF EMPLOYEES

Information required under Section 217 (2A) of the Companies Act, 1956, read with the Companies (particulars of employees) Rules, 1975, and forming part of this Report is annexed hereto.

INFORMATION UNDER CLAUSE 43 OF THE LISTING AGREEMENT

Your Company had made certain financial projections in its letter of offer dated 1st February 1995, in respect of the rights issue of Equity Shares. Furnished below is the information required under the listing agreement with the Bangalore Stock Exchange :

Statement of Projected vs. Actual Profitability

Particulars	Rs. Million			
	Projected for the year ended 31-03-97	Actual for the year ended 31-03-97	Variance B/(W)	%
Total Income	950.00	1226.29	276.29	29.08
P.B.I.D.T.	175.10	180.48	5.38	3.07
P.B.T.*	107.10	93.87	(13.23)	(12.35)
E.P.S. (Rs.)	7.04	5.38	(1.66)	(23.58)

* The adverse variance in PBT and EPS is mainly due to unfavourable product mix, write off software costs Rs. 4.30 Million and charge of difference in restatement of Sales Tax Liability under the deferred scheme Rs. 7.40 Million.

DIRECTORS

During the year, Messrs. O. V. Kuruvilla and S. S. McKenney resigned from the Board after a long and fruitful tenure as directors. Messrs P. M. McNamara and Bradley A. Arnold, who were appointed directors to fill in the casual vacancies, arising from the resignations tendered by Messrs. Enrico Tonetti and S. S. McKenney, respectively, hold office only until the conclusion of the ensuing Annual General Meeting.

In terms of the Articles of Association of the Company, Messrs. M. K. Venkateshan, B. N. Kalyani and K. Ramaswami retire by rotation and, being eligible, offer themselves for re-appointment. Board places on record its appreciation of the valuable services rendered by Messrs. O. V. Kuruvilla and S. S. McKenney during their tenure on the Board.

AUDITORS

M/s. Deloitte Haskins & Sells, Auditors of your Company hold office upto the conclusion of the ensuing Annual General Meeting but are eligible for re-appointment. The Company has received a certificate as required under Section 224 (1) (B) of the Companies Act, 1956 from the Auditors informing that the appointment, if made, will be within the prescribed limits.

ACKNOWLEDGEMENTS

The Directors wish to place on record their appreciation of the support and assistance received from the Kalyani Group, Pune and Meritor Heavy Vehicles Systems LLC., USA. The Directors thank the financial institutions/banks, Government of Karnataka and the Central Government for their understanding co-operation and assistance extended to the Company. The Directors also wish to place on record their appreciation of the unstinted efforts put in by the employees at all levels for the progress of the Company.

For and on behalf of the
Board of Directors

Mario Cattaneo B.N. Kalyani
Wholtime Director Director

Place : Mysore,
Dated : 10th December 1997



ANNEXURE TO DIRECTORS' REPORT

INFORMATION IN ACCORDANCE WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988

A. Conservation of energy :

- | | |
|--|---|
| (a) Energy conservation measures taken | 200 KVAR Capacitors installed. Static Power Sources for Induction Hardening Machines installed in place of inefficient Motor Generator sets. |
| (b) Additional investments and proposal, if any, being implemented for reduction of consumption of energy | Installing a continuous carburising Furnace of capacity bigger than the existing CCF and Two Endo Gas Generators all at a cost of Rs. 22.00 million are being commissioned. |
| (c) The impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods | <p>The impact of measures :</p> <p>i at (a) : Power factor improved from 0.89 to 0.92 resulting in avoidance of penalty from KEB. Static power sources have resulted in at least 25% reduction in energy cost of induction hardening.</p> <p>ii at (b) : To be ascertained after installation of the furnace.</p> |
| (d) Total energy consumption and energy consumption per unit of production as per Form A of the Annexure in respect of industries specified in the Schedules thereto | Your industry is not covered by the schedule. |

B. I. Research and Development (R & D)

- | | |
|---|----------------|
| 1. Specific areas in which R & D carried out by Company | Not applicable |
| 2. Benefits derived as a result of the above R & D | |
| 3. Future plan of action | |
| 4. Expenditure on R & D | |
| (A) Capital | |
| (B) Recurring | |
| (C) Total | |
| (D) Total R & D expenditure as a percentage to total turnover | |

II. Technology Absorption, Adaptation and Innovation

- | | |
|---|--|
| 1. Efforts in brief, made towards technology absorption, adaptation and innovation | 1. Upgradation of Welding Technology
2. Simplification of process
3. Value Engineering |
| 2. Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development and import substitution, etc. | 1. Significant improvement in conversion cost in respect of most of the housings and axles.
2. Improvement in Cycle time
3. Significant improvement in material cost |
| 3. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year) following information may be furnished :— | |

Technology imported (Product)	Year of Import	Has Technology been fully absorbed	If not fully absorbed areas where this has not taken place, reasons therefor and future plan of action
Technical Know-how and Technical Assistance for the manufacture of Telco 410 'S' cam Brakes	1995	Fully absorbed	—
Technical Know-how and Technical Assistance for the manufacture of RS-120 Axles	1995	fully absorbed	—
Technical Know-how and Technical Assistance for the manufacture of 325 "Q" S Cam Brakes	1997	Being absorbed	Prototypes are approved, pilot batch is under testing