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AUTOMOTIVE AXLES LIMITED

17th Annual Report
1997-98

Report  Junction.com

A
JOINT VENTURE
BETWEEN



MERITOR™
A Heritage of Rockwell Technology



KALYANI



17TH ANNUAL GENERAL MEETING

Day : **Saturday**
 Date : **27th February 1999**
 Time : **2.00 p.m.**
 Place : **Registered Office
 Mysore**

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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.

SEVENTEENTH ANNUAL REPORT 1997-98**BOARD OF DIRECTORS**

Mr. B. N. KALYANI

Chairman

Mr. S. S. MARATHE

Mr. PRATAP BHOGILAL

Mr. K. RAMASWAMI

Mr. P. R. MULCHANDANI

Mr. P. M. McNAMARA

Mr. BRADLEY A. ARNOLD

Mr. COLIN IMRIE

President & Wholetime Director

Ms. CHANDRA MANI

Ms. SHUBA RAO MAYYA

(Nominee of ICICI)

Mr. C. RAMANATHAN

*(Nominee of LIC)**Chairman Emeritus*

Dr. NEELKANTH A. KALYANI

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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, Mumbai & Pune



NOTICE

NOTICE is hereby given that the Seventeenth Annual General Meeting 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 **Saturday, 27th February 1999 at 2.00 p.m.** to transact the following business :

1. To receive, consider and adopt the Balance Sheet as at 30th September 1998, the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To declare a dividend on Equity Shares
3. To appoint a Director in place of Mr. S.S. Marathe, who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Pratap Bhogilal, who retires by rotation and, being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Ms. Chandramani, who retires by rotation and, being eligible, offers herself for re-appointment.
6. To consider, and if thought fit, to pass with or without modification the following resolution as an Ordinary Resolution.

"RESOLVED that M/s. Deloitte Haskins and Sells (Chennai), Chartered Accountants, Bangalore, be, and they are hereby, appointed Auditors of the Company in place of M/s. Deloitte Haskins & Sells, Bangalore, to hold office from conclusion of this meeting until conclusion of the next Annual General Meeting and that the Board of Directors, be and is hereby authorised to fix their remuneration for the period."

7. 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 and the Reserve Bank of India, if required, approval be and is hereby, granted to the appointment of Mr. Colin Imrie, a Wholtime Director of the Company from 23.11.98 to 18.10.2001 on the remuneration, the abstract of which is furnished below :

- I. **Salary :** Rupees equivalent to US \$ 60,000 (US Dollars sixty thousand only) per annum, payable monthly as remuneration subject to deduction of income tax at source.

II. Perquisites:

Part-I

Housing

- (a) Company will provide fully furnished rent free residential accommodation, with telephone and other utilities and

domestic help restricted to one servant together with necessities including gas, electricity and water etc.

Part-II

Medical/Personal Accident Insurance

- (a) Medical expenses incurred by the Whole-time Director and his wife, shall be reimbursed at actuals.
- (b) The Whole-time Director shall also be entitle to reimbursement premium for the following insurance coverage :
 - (i) SOS Assistance S.A. of Switzerland.
 - (ii) Frequent Traveller Membership.

Part-III

Leave Travel Concession

The Whole-time Director and his wife shall be entitled to Business class return fare to U.K. or any equivalent destination not exceeding three times in a year.

Part-IV

Provision of Car

The Company shall provide a Chauffeur driven Car to the Whole-time Director for use on Company's business. The Company shall also provide a chauffeur driven car for his personal use.

In the event of inadequacy absence of profits or no profits in the financial year during the period of appointment, Mr. Colin Imrie will be paid the same remuneration as minimum 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 : 23rd November 1998

Registered Office :

Hootagalli Industrial Area
Off Hunsur Road
Mysore-571 186

NOTES :

1. The relative Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, in respect of Item Nos. 6 & 7 of the Notice are 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 paid to those Members, whose names appear on the Company's Register of Members on 27th February 1999.
4. The Register of Members and Share Transfer Books of the Company will remain closed from 12th February 1999 to 27th February 1999, 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. 6

Consequent to a re-constitution of M/s. Deloitte Haskins & Sells, Bangalore, they expressed their unwillingness to offer themselves for re-appointment. As required under Section 225 (1) of the Companies Act, 1956, a Special Notice pursuant to Section 190 of the said Act, has been received from a shareholder proposing the appointment of M/s. Deloitte Haskins & Sells (Chennai), Bangalore, as Auditors of the Company. The retiring Auditors have informed the Company that they have no representation to make to the members of the Company relating to the Special Notice.

The Board recommends the appointment of Deloitte Haskins & Sells (Chennai), Bangalore, as Auditors of the Company.

None of the Directors of the Company is interested in the Resolution.

Item No. 7

Mr. Colin Imrie, joined the Company as President, and is looking after day-to-day operations of the Company from 18.10.1998. The Board of Directors, at its meeting held on 23rd November 1998 appointed Mr. Colin Imrie, Whole-time Director of the Company for a period from 23.11.1998 to 18.10.2001. Mr. Colin Imrie has over 34 years of experience at a very senior level with the Rolls Royce (Aero Engine) including as the Executive Director Operations with Rolls Royce Transmission & Distribution Worldwide, U.K., etc. and the Directors are confident that the Company will benefit immensely from this appointment. Approval of the members, is sought under Section 269, 198, 310 311, read with Schedule XIII and other relevant provisions thereof, to the appointment of Mr. Colin Imrie, as Whole-time Director of the Company and to the payment of remuneration as detailed in the Resolution for a period with effect from 23.11.1998 to 18.10.2001.

Mr. Colin Imrie 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 Director of the Company.

Mr. Colin Imrie, 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.

Disclosure under Section 302 of the Companies Act :

The details of remuneration furnished in the resolution also constitute the abstract of terms of contract, as required to be disclosed pursuant to provisions under Section 302 of the Companies Act, 1956.

Notice under Section 640-B of the Companies Act :

This may also be treated as the notice under Section 640-B of the Company's intention to make an application to the Central Government for its approval to the proposed appointment.

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

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

Place : Mysore

Dated : 23rd November 1998

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



DIRECTORS' REPORT

To the Members

Your Directors have pleasure in presenting their SEVENTEENTH ANNUAL REPORT on the business and operations of the Company and the audited statement of Accounts for the financial year ended 30th September 1998.

Year 97-98 in Retrospect:

The slow-down in the Economy, and consequently, in the commercial vehicles segment of the Automotive Industry, that was witnessed during the previous year worsened further, leading to recessionary conditions. The Sales of Commercial Vehicles in the addressed market, during the year under report, were substantially below that of the previous year, as shown below:

Numbers

Year (Oct-Sep) →	1996-97	1997-98	Change B/(W)	% B/(W)
Segment				
H/M Commercial	130468	74008	(56460)	(43)
Light Commercial	53033	39303	(13730)	(26)
Total	183501	113311	(70190)	(38)

Viewed in this perspective, the performance of your Company is indeed satisfactory. This was possible mainly due to increase in exports and after market sales.

Review of Operations

- (a) **Turnover:** Your Company achieved a turnover of Rs. 647 Million, which is less than the previous year's turnover by 37%. This was only due to a severe downturn of the market, and an abrupt fall out of the Indonesian economy that affected exports.
- (b) **Net Profit:** Due to a substantial drop in the turnover, your company earned a net profit (before tax) of Rs. 28.59 million which, though substantially below the previous year's results, is to be considered satisfactory under the circumstances. This was possible due to better product mix and sustenance of various cost improvements measures undertaken by the Company. Particular mention needs to be made about value engineering, scrap reduction, better working capital management.
- (c) **Profit before interest, depreciation, extra-ordinary items & tax** was at Rs. 101.56 Million, down from Rs. 190.79 Million for the previous year. The Company has no taxable profits, but is liable to Minimum Alternate Tax, which is available for set-off in the coming years.

(Rs. Million)

	Current Year	Previous Year
Profit before interest, depn., extra-ordinary exp., & tax	101.56	190.79
Profit before Taxation	28.59	109.56
Provision for Taxation	4.79	11.50
Profit for the year	23.80	98.06
Prior year adjustments	(2.12)	(27.54)
Prior year's balance profit/(loss)	75.19	37.16
Profit available for appropriation	96.87	107.68
APPROPRIATIONS		
Proposed dividend & tax thereon	16.82	24.93
Transfer to General Reserve	0.00	7.56
Retained earnings	80.25	75.19

Expansion of Capacity

During the year under report, your Company established capacity of 24,000 nos. for air actuated brakes for light commercial vehicles. Your Directors are confident that the expansion of other capacities can be accomplished in a short time, should the market show signs of recovery.

Vision 2000

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 efforts sustained during the year, together with other cost improvements, has protected the profitability of your Company. This exercise is being supplemented by TQM programme initiated earlier, as a part of which Quality system implementation, leading to certification by RWTUV to ISO 9001, was accomplished in March 98 and has lead to further improvements in cost of quality. Your Company is now targeting accreditation to QS9000 standards during the current year.

(2) **Attain leadership position in addressed markets:** While your Company is the market leader in Rear Drive Axles, efforts to improve market share of air actuated cam brakes have shown encouraging results, and market share is expected to go up as and when the market improves.

(3) **Exports:** As reported earlier, MERITOR Heavy Vehicle Systems LLC., USA, is taking 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 standards within a reasonable period of time. These have already resulted in a sizable export business, of about US \$ 4 million, for your Company for the current year, which is expected to grow to about US \$20 million during the next three to five years. The domestic market that was dormant has now shown signs of improvement, albeit on a small scale, is expected to grow reasonably well during the next two to three years to take the Company's business close to the target.

Outlook

The continuing recessionary trend in the Automotive Industry has impacted adversely not only the OEMs, but also the entire auto ancillary/component segment. This has prompted the Government to announce, recently, a package of measures, entailing large investment on infrastructure, to put the Economy back on growth track. These measures focus on infrastructure development entailing large-scale investments on roads. Though the Industry is unlikely to see the growth rates of 93-96, atleast on the short term, some signs of improvement in commercial vehicles market are now visible. Your Company is however focusing on increasing penetration into export markets. Meritor Heavy Vehicle Systems LLC, USA, a subsidiary of Meritor Automotive Inc., and the new co-promoter of your Company, will, hereafter, lead your company in upgrading technology, enhancing exports in future. A separate company by name Meritor HVS (India) Ltd., with 51% majority holding of Meritor Heavy Vehicle Systems LLC., has been set up to ensure inflow of technology and export business to AAL. Your Company is therefore confident that, a sizable export business, of the order of US \$ 20 million, would be generated during the next three to five years.

AUTOMOTIVE AXLES LIMITED**Dividend**

In keeping with the management's commitment to ensure returns to the shareholders, your Directors are pleased to recommend a dividend @ 10%, as against 15% in the previous year. This would absorb Rs. 16.6 million.

Contribution to Exchequer

During the year under Report, your Company contributed to the Exchequer sums aggregating to Rs. 127.53 Million as follows:

	Rs. Mn
a. Excise duty & Service tax	77.75
b. Customs duty	13.66
c. Sales tax	27.81
d. Income tax	8.31
Total	127.53

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.

Directors

During the year, Dr. N.A.Kalyani, the founder Director and Chairman of your Company since September 1984, resigned from the Board due to his advancing age. The Board, while accepting his resignation with regret, appointed him the Chairman emeritus of your Company, having regard to his long and fruitful association with your Company.

Mr. Mario Cattaneo resigned from the Board, after a successful tenure as the President and Whole-time Director of your Company, due to health problems. The Board places on record its appreciation of the leadership provided by Mr. Cattaneo and the manner in which your Company achieved the turnaround.

Mrs. Kamala Sambasivan's nomination was withdrawn by State Bank of India, having regard to your Company's substantially improved state of affairs. Mr. M.K. Venkateshan a nominee of ICICI Ltd. resigned from the Board, consequent to expiry of his term of nomination. ICICI Ltd. recommended Mrs. Shuba Rao Mayya as their nominee on the Board in place of Mr. M.K. Venkateshan. The Board places on record their appreciation of the services rendered by them during their tenure.

Mr. Colin Imrie President and Whole-time Director, who was appointed additional Director to succeed Mr. Cattaneo, holds office only until the conclusion of the ensuing Annual General Meeting, whereat members' approval is being sought for his appointment as Wholetime Director.

In terms of the Articles of Association of the Company, Messrs. S.S. Marathe, Pratap Bhogilal, and Ms. Chandramani retire by rotation and, being eligible, offer themselves for re-appointment.

Auditors' Report

With reference to note No. 8 to the Accounts referred to by Auditors in their Report to the Members, the Directors have taken note of the same while according their approval to the Accounts and wish to state that the note is self-explanatory and does not call for any further explanation under Section 217 (3) of the Companies Act, 1956.

Auditors

The retiring auditors M/s. Deloitte Haskins & Sells, Bangalore (DHS) have, consequent to re-constitution of their firm in India, not offered themselves for re-appointment as auditors of the Company. The Company received a notice from a shareholder proposing Deloitte Haskins & Sells (Chennai), Bangalore as auditors. The Company has been informed by DHS that they have no representation to make in this connection.

Board recommends the appointment of M/s. Deloitte Haskins & Sells (Chennai), Bangalore, as auditors of the Company from the conclusion of this meeting until conclusion of the next Annual General Meeting.

None of the Directors is interested in the resolution.

Acknowledgements

The Directors wish to place on record their appreciation of the support and assistance received from the Kalyani Group, Pune, and Meritor Heavy Vehicle Systems LLC., USA. The Directors thank the financial institutions/banks, Government of Karnataka and Government of India 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

B.N. Kalyani
Chairman

Place: Mysore
Dated: 23rd November. 1998



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
- (b) Additional investments and proposal, if any, being implemented for reduction of consumption of energy
- (c) The impact of the measures at
- (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

Induction Hardening Machines installed in place of inefficient Motor Generator sets are working satisfactorily.

During the year Holcraft continuous carboursing furnace and Two Endo Gas Generators were successfully commissioned.

The impact of measures :

i at (a) : Power factor improved further to 0.93.

ii at (b) to be ascertained after further running in period.

Not applicable

B I. Research and Development (R & D)

1. Specific areas in which R & D carried out by Company
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

Not applicable

II. Technology Absorption, Adaptation and Innovation

1. Efforts in brief, made towards technology absorption, adaptation and innovation
2. Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development and import substitution, etc.
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 :

1. Technology absorption

Development of S Cam Brakes for Light Commercial Vehicles under license from Meritor Heavy Vehicle Systems, LLC

2. Innovation : Value engineering

1. Ability to address the LCV segment of markets for brake alongwith the already existing markets for axles.
2. Improvement in material/process cost.

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	Prototype are approved, Commercial production expected from November 98