



AUTOMOTIVE AXLES LIMITED

Annual Report 1998-99



A
JOINT VENTURE
BETWEEN





EIGHTEENTH ANNUAL REPORT 1998-99

BOARD OF DIRECTORS

B. N. Kalyani

Chairman

S. S. Marathe

Pratap Bhogilal

P. R. Mulchandani

P. M. McNamara

Bradley A. Arnold

Colin Imrie

Wholetime Director

Shuba Rao Mayya

(Nominee of ICICI)

C. Ramanathan

(Nominee of LIC)

Auditors

*M/s. Deloitte Haskins & Sells (Chennai),
Bangalore*

Bankers

State Bank of India

Canara Bank

State Bank of Mysore

**Registered Office
& Works**

Hootagalli Industrial Area

Off Hunsur Road

Mysore 571 186

**Listing at stock
Exchanges at**

Bangalore, Mumbai & Pune

18th ANNUAL GENERAL MEETING

Day : Monday

Date : 24th January 2000

Time: 10.30 a.m.

Place: Registered Office
Mysore

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NOTICE

NOTICE is hereby given that the Eighteenth 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 Monday, 24th day of January 2000 at 10.30 a.m. to transact the following business:

1. To receive, consider and adopt the Balance Sheet as at 30th September 1999, the Profit and Loss Account for the year ended on that date and Reports of the Directors' and Auditor's thereon.
2. To declare a dividend on Equity Shares
3. To appoint a Director in place of Mr. P.M. McNamara, who retires by rotation and, being eligible, offers himself for re-appointment
4. To appoint a Director in place of Mr. Bradley A. Arnold, who retires by rotation and, being eligible, offers himself for re-appointment.
5. To appoint M/s. Deloitte Haskins and Sells (Chennai), Chartered Accountants, Bangalore, the retiring auditors, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors, to fix their remuneration for the period.
6. To consider and, if thought fit, to pass with or without modification, the following resolution as a **Special Resolution**.

"RESOLVED that, in exercise of the powers conferred under Section 31, and subject to other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company be, and are hereby, altered as follows :

I) The following new Article 2 (a) shall be inserted after article 2.

2 (a) Dematerialisation of Securities

- i. For the purposes of Dematerialisation of Securities, the expressions "beneficial owner", "depository", "registered owner" and "security" shall have the meaning as defined in the Depositories Act, 1996 any re-enactment or modifications thereof.
- ii. Notwithstanding anything contained in these Articles, the Company shall be entitled to dematerialise/rematerialise its securities and to offer securities in dematerialised form pursuant to the Depositories Act, 1996.
- iii. All the securities held by a Depository shall be dematerialised and be in fungible form.
- iv. Notwithstanding anything to the contrary contained in these Articles, a Depository shall be deemed to be registered owner for the purpose of effecting transfer of ownership of security on behalf of the beneficial owner. The Depository shall not have any voting right or any other rights in respect of the securities held by it.

- v. Every person whose name is entered as beneficial owner of Company's equity shares in the records of the depository shall be deemed to be a member of the Company.
- vi. Nothing contained in these Articles particularly Articles 53, 54 and 55 relating to transfer of shares in physical form shall apply to transfer of securities held in a Depository.
- vii. The register and index of beneficial owners maintained by a Depository shall be deemed to be the register and index of members and register and index of security holders of the Company.

II) Existing Article 176(b) shall be deleted and the following substituted thereto :

176(b) Any unpaid dividend, unclaimed, application moneys, matured deposits, matured debentures of the Company and also interest received thereon, which remains unpaid or unclaimed for a period of 7 years or such other period as may be prescribed by the Act or as per the directive of the Central Government from time to time, shall be transferred by the Company to Investor Education and Protection Fund established under sub-section (1) of section 205-C of the Companies (Amendment) Act, 1999 or any amendments thereof.

III) The following new article 60 a) shall be inserted after article 60

60 a) Upon receipt of Nomination Form 2B, duly signed by a shareholder or, as the case may be, all the joint shareholders of the Company, the nominated person only shall be recognised by the Company as having right, title or interest in such shares, instead of joint shareholders, executors or administrators or holders of a Succession Certificate, if any or the legal representatives of a deceased member.

"RESOLVED FURTHER that the Board of Directors be and is hereby authorised to do all such acts, deeds, matters and things as may be considered necessary, appropriate and desirable to give effect to this resolution."

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

C.K. Sabareeshan
Sr. General Manager- Finance &
Company Secretary

Place : Mysore
Date : 4th December, 1999

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



NOTES :

- i. The Explanatory Statement, pursuant to Section 173(2) of the Companies Act, 1956, in respect of item No. 6 of the Notice is annexed.
- ii. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND, THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- iii. Dividend on equity shares, if declared at the Meeting, will be paid to those Members, whose names appear on the Company's Register of Members as on 24th January, 2000.
- iv. The Register of Members and Share Transfer Books of the Company will remain closed from 18th January, 2000 to 24th January, 2000 (both days inclusive).
- v. A copy of the Articles of Association of the Company together with the proposed alterations/inserted articles, is available for inspection by the members of the Company at its Registered Office between 10.30 a.m. to 4.00 p.m. on any working day of the Company.

ANNEXURE TO THE NOTICE

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

Item No. 6

- I) With the introduction of Depositories Act, 1996, some of the provisions of the Companies Act, 1956 relating to the issue, holding, transfer of shares and other securities need to be amended to facilitate the implementation of the new system. It is, therefore, proposed that the Articles of Association of the Company be suitably altered to reflect the provisions introduced by the Depositories Act, 1996. This amendment is aimed at improving value to the shareholder. The proposed resolution is therefore placed before the members for adoption.
- II) The Companies (Amendment) Act, 1999 has made certain changes in the Companies Act, 1956, necessitating corresponding changes in the Articles of Association of the Company as follows:

Article 176 (b) : Section 205-C of the Companies (Amendment) Act, 1999 states that any unclaimed unpaid dividend, unclaimed application moneys, matured deposits, matured debentures, and also interest received thereon, shall be transferred by the Company to "Investor Education and Protection Fund", which remains unpaid or unclaimed for a period of 7 years. (earlier it was 3 years period). The Article is accordingly proposed to be amended.

III) Insertion of new Article 60 (a) after Article 60

Article 60 (a) : The Companies (Central Government's) General Rules and Form (Amendment) Rules 1999 read with Section 109A (1) of the Companies (Amendment) Act, 1956, has made certain changes in the Companies Act, 1956, necessitating corresponding changes in the Articles of Association of the Company. Accordingly, the shareholders of the Company can nominate any person as Nominee and such nominated person only shall be recognised by the Company as having any right, title or interest in such shares, instead of joint shareholders, executors or administrators or holders of a Succession Certificate, if any, or the legal representatives of a deceased member.

The Directors therefore recommend the adoption of this resolution.

None of the Directors of the Company is concerned or interested in the resolution.

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

C.K. Sabareeshan
Sr. General Manager- Finance &
Company Secretary

Place: Mysore

Date : 4th December, 1999

Registered Office:

Hootagalli Industrial Area
Off Hunsur Road
Mysore - 571 186

AUTOMOTIVE AXLES LIMITED**DIRECTORS' REPORT****To the Members**

Your Directors have pleasure in presenting their Eighteenth Annual Report on the business and operations of the Company and the audited statement of Accounts for the financial year ended 30th September 1999.

Year 98-99 in Retrospect:**Economy & the Market:**

The recession in the Economy and, consequently, in the Commercial Vehicles market, that was witnessed during the previous year gradually improved, leading to a recovery of the markets. The Sales of Commercial Vehicles in the addressed market, during the year under report, were substantially higher than in the previous year, as shown below:

Year(Oct-Sep) —>	1997-98	1998-99	Volume	
			Change B/(W)	% B/(W)
H/M Commercial	74008	98495	24487	33
L. Commercial	39303	63969	24666	62
Total	113311	162464	49153	43

The sales growth achieved by your Company, however, was higher due to a better market share for some of its products. Besides the recovery of the domestic market, the export markets were developed for some of its products, in North America & Europe, with the active support of Meritor Automotive Inc. The performance of your Company was therefore impressive.

Review of Operations:**Industrial Relations:**

During the year, your Company was confronted by a total strike by all the workmen from February, 99 to end May, 99. This was inspite of all efforts by the management to reach an amicable settlement of their charter of demands. The charter of demands was eventually settled, on management's terms, after the Government of Karnataka prohibited the strike and referred the dispute to the Tribunal for adjudication. During the strike period all the management staff stood by the Company and maintained almost normal production, though development programmes, particularly exports related, suffered.

Turnover:

Rs. In million

Current Year	Previous Year	% Increase
1145	722	58.59

Exports:

US \$ in Million

Current Year	Previous Year	% Increase
2.06*	0.88	134.09

*Includes deemed exports of \$ 0.97 million

Net Profit:

The increased turnover resulted in a more than proportionate increase in profit before tax of Rs. 76.14 million which is 166% higher than the previous year's results. This was possible due to better product mix and sustenance of various cost improvement measures undertaken by the Company. Profit before interest, depreciation, extra-ordinary items & tax was, therefore, at Rs. 143.63 million, up from Rs.101.56 million for the previous year.

Rs. Million

	Current Year	Previous Year
Profit before interest, depn., extra-ordinary exp., & tax	143.63	101.56
Profit before Taxation	76.14	28.59
Provision for Taxation	18.60	4.79
Profit for the year	57.54	23.80
Prior year adjustments	.09	(2.12)
Prior year's balance profit/(loss)	80.24	75.19
Profit available for appropriation	137.87	96.87
Appropriations		
Proposed dividend & tax thereon	33.55	16.62
Transfer to General Reserve	4.32	0.00
Retained earnings	109.83	80.25

Dividend:

In keeping with the management's commitment to ensure fair returns to the shareholders, your Directors are pleased to recommend a dividend @ 20%, as against 10% in the previous year. This would absorb Rs. 33.55 million.

Contribution to Exchequer:

During the year under Report, your Company contributed to the Exchequer sums aggregating to Rs.233.82 Million as follows:

Rs. Million.

a. Excise duty & Service tax	141.45
b. Customs duty	33.03
c. Sales tax	45.94
d. Income tax	13.40
Total	233.82

Outlook:

The recovery of the Economy has been visible in the last six months, with Cement Industry registering impressive growth. The industrial growth also was at an encouraging rate of 6.8% during this period. The general elections 99 have improved the probability of a stable government at the centre, thereby improving the chances of infrastructure development, entailing large-scale investments on roads. The growth of Medium/Heavy commercial vehicles market, during the last six months, is encouraging. Telco and Ashok Leyland have achieved 51% & 30 % increase in sales, respectively.



Some of the key determinants of growth are:

- **Growth in GDP** - this is now forecast at a healthy 6 to 6.5%;
- **Government's Policy** - Higher depreciation already announced and scrapping of 20 year old trucks, would contribute to this growth;
- **Freight rates** - attractive rates would encourage fleet operations;
- **Movement of diesel prices** - the recent hike would, however, have a dampening effect on the spectacular growth seen between April & September 99;

Your Company is nevertheless focusing on increasing penetration into export markets. Meritor Heavy Vehicle Systems LLC, USA, a subsidiary of Meritor Automotive Inc., and the co-promoter of your Company, is already helping your Company in upgrading technology, enhancing exports in future. A separate Company by name Meritor HVS (India) Limited, with 51% majority holding of Meritor Heavy Vehicle Systems LLC., USA set up last year, is operational since April, 99, and will ensure inflow of technology and export business to AAL. Already export business worth US\$ 7 million has been obtained and is expected to be achieved during the current year. Your Company is therefore confident that, a significant export business, of the order of US \$ 20 million annually, would be generated during the next three to five years.

Capital Expenditure & Funding

During the year under report, your Company took effective steps to upgrade gear manufacturing capacity for export of 20000 Gear sets to Meritor and housing manufacturing capacity, for export of housings also to Meritor. This would entail a capital expenditure of over Rs. 149.10 million and is expected to be completed during the current year. This expenditure is expected to be funded partly by long term borrowings and partly by internal cash accruals. Your Directors are reviewing further expansion of capacities, having regard to changing market conditions and potential export opportunities, and are confident that such expansion of capacities can be accomplished in a reasonably short time.

Conservation of Energy, R & D and Technology 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, Ms. Chandramani and Mr. K. Ramaswami resigned from the Board. The Board, while accepting their resignations, placed on record their appreciation of the services rendered by them during their tenure on the Board. In terms of the Articles of Association of the Company, Messrs. P.M. McNamara and Bradley Arnold retire by rotation and, being eligible, offer themselves for re-appointment.

Auditors:

The retiring auditors Deloitte Haskins & Sells (Chennai), Bangalore, have confirmed their availability, if re-appointed as auditors. Board recommends the appointment of M/s. Deloitte Haskins & Sells (Chennai), Bangalore, as auditors of the Company, to hold office from

the conclusion of this meeting until conclusion of the next Annual General Meeting.

Status of Y2K Preparedness:

Your Company has evaluated the risks, arising out of the year 2000 issue, both internally and externally. Such evaluation was done by the senior management team and audited by an external agency, and covered, internally *a) IT infrastructure, b) All software, c) PLC driven equipment/support installations;* and externally, *Customers/Supply chain and other service providers.* Based on the evaluation, your Company does not expect any interruption to its activities, as all perceivable risks have been taken care of. A contingency plan has, however, been drawn up to meet any eventuality arising out of a chance occurrence of Y2K problem.

Investor Relations:

Having regard to capital market reforms in progress in the country, aimed at improving relations with the shareholding community, your Company has decided to dematerialise its shares by subscribing to the Depository System. Certain amendments have, therefore, been proposed to the Articles of Association of the Company to bring them in line with the Depositories Act, 1996 and the relevant amendments to the Companies Act, 1956. Members are therefore encouraged to avail of this facility.

Corporate Governance:

The subject of corporate governance has never been so widely debated as it is being done since the integration of the Indian Corporate sector with the Global mainstream began. Your Company believes in effectiveness and transparency of its governance, which would enhance, among other things, shareholder value. Towards this end, certain actions have already been completed aimed at rationalising the constitution of the board. An audit committee and a law committee of the board, constituted almost since the inception of the Company, have been effectively discharging their responsibilities. All the directors, except one, are non-executive members on the Board. A majority of the recommendations of the CII in this regard have already been addressed by your Company.

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 special appreciation of the unprecedented efforts put in by all the management staff for the progress of the Company and in honouring its customer commitments during the strike period.

For and on behalf of the Board of Directors

B.N. Kalyani
Chairman

Place: Pune
Dated: 3rd December, 1999.

AUTOMOTIVE AXLES LIMITED**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 | Holcraft Continuous Carbourising furnace and two Endo Gas Generators are effectively monitored. |
| (b) Additional investments and proposal, if any, being implemented for reduction of consumption of energy | No major investments proposed during the year. |
| (c) The impact of the measures at | Reduction of LPG consumption from 0.935kg to 0.840 kg per 1kg production. |
| (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 there to | 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 efforts, e.g., product improvement, cost reduction, product development and import substitution, etc. |
|--|--|

a) Technology Absorption, Adaptation:

- | | |
|--|--|
| i. Developed 'S' Cam Brakes (Dia 325 mm) for commercial vehicles under license from Meritor HVS. | Application of Air Brakes on Indian Light Commercial Vehicles, a new market segment. |
| ii. Development of RS-28-145 Axle Assembly for Indian Market for upgraded vehicles is in progress. | This will enhance the market share in domestic heavy commercial vehicles segment. |
| iii. RS 120 Housings developed for export to Meritor. | New export market. Already exported housings worth US \$44301 (Deemed export) |
| iv. Gear Sets developed to meet the requirement of Meritor HVS. | New export market. Already exported gear sets worth US\$ 75234 (Deemed export) |