

AUTOMOTIVE AXLES LIMITED



Report 24th Annual Report 2004-05
Report Junction.com



A
Joint venture
between





New Fabricated Hub Reduction Axle Housing for Domestic and Export Market



Fully Built-up MS-14-160 Axle for Domestic Market

TWENTY FORTH ANNUAL REPORT 2004-2005

BOARD OF DIRECTORS

● Ashok Rao	<i>President & Wholetime Director</i>
● B.C. Prabhakar	
● B.N. Kalyani	<i>Chairman</i>
● Blake Palmer	
● Bradely A. Arnold	
● P.C. Bhalerao	
● P.M. Mc Namara	
● Pratap Bhogilal	
● S.S. Marathe	
● Sabareeshan C.K.	<i>Executive Director (Finance) & Company Secretary</i>

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

Bankers *BNP Paribas
Export Import Bank of India
State Bank of India
ICICI Bank Limited
IDBI Bank Limited
HDFC Bank Limited
UTI Bank Limited
The Hongkong and Shanghai Banking Corpn Ltd.*

**Registered Office
And works** *Hootagalli Industrial Area,
Off Hunsur Road,
Mysore 570018.*

Listing of Stock *The Stock Exchange, Mumbai
National Stock Exchange of India Limited*

24th Annual General Meeting		Contents	Page No.
Day: Wednesday		1. Notice	2
Date: 18 th January 2006		2. Management Discussion & Analysis	5
Time: 12.30 p.m.		3. Report on Corporate Governance	9
Place: Registered office, Mysore.		4. Director's Report	17
		5. Annexures to Director's Report	21
		6. Auditor's Report	23
		7. Balance Sheet	29
		8. Profit and Loss account	31
		9. Cash Flow statement	33
		10. Schedules to accounts	35

NOTICE

Notice Is hereby given that the Twenty-fourth 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 570 018 on Wednesday, 18th day of January 2006, at 12.30 p.m. to transact the following business.

1. To receive, consider and adopt the Balance Sheet as at 30th September 2005, the Profit and Loss Account for the year ended on that date and Reports of the Directors' and Auditors thereon.
2. To declare the payment of interim dividend and final dividend for the year ended 30.09.2005.
3. To appoint a Director in place of Mr. Blake G Palmer who retires by rotation and, being eligible, offers himself for reappointment
4. To appoint a Director in place of Mr. C K Sabareeshan who retires by rotation and, being eligible, offers himself for reappointment
5. To appoint a Director in place of Mr. Ashok Rao who retires by rotation and, being eligible, offers himself for reappointment
6. 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.

By Order of the Board of Directors
For **Automotive Axles Limited**

Place : Pune
Date : 23rd November 2005

C.K. Sabareeshan
Executive Director (Finance) &
Company Secretary

Registered Office :
Hootagalli Industrial Area
Off Hunsur Road
Mysore 570 018

Notes :

1. The Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, in respect of item No.7 of the Notice is annexed.
2. A member entitled to attend and vote at the meeting entitled to appoint a proxy to attend and vote instead of himself and proxy need not be a member of the company.
3. As required under the Companies Act, 1956, dividends unclaimed/unpaid for a period of seven years, have to be transferred to the 'Investor Protection Fund, constituted by the Central Government. The Dividend warrants remaining unpaid for the year 1996-97, are to be claimed by the members on or before 14th April 2006. Those who have not encashed these or for any subsequent years may write to the Company.



Annexure to Notice

The following Explanatory Statement sets out material facts relating to the item No.7 mentioned in the Notice, as required under section 173 (2) of the Companies Act, 1956

Additional Information pursuant to clause 49 of the listing agreement:

The information relating to the Directors being appointed / re-appointed at the ensuing Annual General Meeting to be held on 18th January 2005 are given below:

Mr. Ashok Rao, born on 27th October 1964, is a Mechanical Engineer from Karnataka Regional Engineering College, Surathkal, with a Masters Degree in Manufacturing Engineering from the University of Massachusetts, Amherst and has served your Company as Wholetime Director since year 2001 and was appointed President & Wholetime Director in Nov 2002. Before taking assignment at the Company, Mr. Ashok Rao, was with MICO, Bangalore and worked in various capacities in Machine Design, Machine Building and Production / Process Planning. Having regard to his significant contribution to the performance and growth of the company, the Directors recommend his reappointment.

Mr. C. K. Sabareeshan, born on 29th January, 1955 is a Chartered Accountant and Company Secretary and has served as Executive Director of your Company since year 2001. He has 25 years experience in the field of Finance and Secretarial matters. Before taking assignment at the Company, Mr. C. K. Sabareeshan was with Tata Keltron Ltd., Chennai and was in charge of Finance and Corporate Affairs. Having regard to his significant contribution to the performance and growth of the company, the Directors recommend his reappointment.

Mr. Blake G Palmer has served as the Director of your Company since year 2001. He is the Business Controller, CVS – Axles at Arvin Meritor Inc., USA. Mr. Blake G Palmer also serves on the Board of the Meritor HVS (India) Limited. Having regard to his significant contribution to the performance and growth of the company, the Directors recommend his reappointment.

Place: Pune
Date : 23rd November 2005

C.K. Sabareeshan
Executive Director (Finance)
& Company Secretary

Registered Office:
Hootagalli Industrial Area
Off Hunsur Road, Mysore 570 018

Management Discussion & Analysis

Industry Structure & Developments

Your Company still retains its pre-eminent position as the largest independent manufacturer of Drive Axle Assemblies for Commercial Vehicles in the country, apart from the in-house capabilities with the Original Equipment Manufacturers such as Telco and Ashok Leyland, and continues to be the single source for Drive Axle assemblies for certain Military application. The demand for your company's products continues to largely arise from the OEMs mentioned above and is driven by certain Key Economic factors such as the growth in agriculture, investment in infrastructure such as Roads, Telecom, and Power etc.

The Government's initiatives on these infrastructure sectors have continued to drive the demand for Multi-Axle Vehicles and, hence, for your company's products. A recent development in the core sector is the planned expansion of steel manufacturing capacity that is expected to have a significant impact on the growth of commercial vehicles market and consequentially, the growth of your company's performance. The imminent entry of other OEMs such as Eicher Motors, Asia Motor Works, & Bajaj Tempo into the multi-axle segment of the CV market, would also drive the demand for heavier axles that have already been tried out on their new vehicles.

Segment analysis

Your Company has two primary segments namely, Domestic and Exports. The following table gives break-up for domestic sales and exports for the reporting period as compared to 2003-04. A report of segmental performance is furnished in Para 14 of Schedule 16 to the Balance Sheet as at 30th September 2005.

(Rs. in Million)			
Turnover	2004-05	2003-04	Growth Rate
Domestic	3902.74	2879.84	35.52%
Exports	186.62	112.59	65.75%

Domestic

As a result of the unprecedented growth in the multi-axle vehicles segment, your company's turnover reached the highest ever, during the year under report, representing an improvement of **35.52%** over last year.

Exports

The Company is addressing all exports through Meritor HVS (India) Limited. Exports of the Company's products including DEPB amounted to Rs.186.62 million, an increase of **65.75 %** over last year.

Opportunities & Threats

Domestic

Your company has already validated Drive axles & Tag Axles applications from new customers like Eicher, Bajaj tempo, Swaraj Mazda & Asia Motor Works, for higher horse power vehicles planned to be introduced by these OEMs shortly.

Your company is also gearing up to meeting the threat of the competition, by aggressive pursuit of specific cost improvement aimed at protecting its competitive pricing. These measures would also enable your company to partly neutralize the increase in cost of inputs such as steel etc.

Exports

Your company has already commenced supplies to Arvin Meritor Plants in Brazil & China on a regular basis and is on the threshold of commencing regular supplies of Drive Axles assemblies to Arvin Meritor in Europe. Besides, the new gear capacity that will be ready by January 2006 would cater to Arvin Meritor's requirements almost on an exclusive basis. These, would enable your company to grow its exports business substantially in the current year.

Risks & Concerns

While the steel prices, seems to have stabilised, the OEM's compulsion to reduce their prices due to competition would result in pressures on your company's margins. Your company has therefore intensified its efforts to accelerate cost reduction programmes aimed at protecting its margins. Retention of talented manpower appears to be another area of concern in view of a buoyant job market.

Internal Control Systems and their adequacy

Automotive Axles Limited has a proper and adequate system of internal controls to ensure that all its assets are safeguarded and not exposed to risks arising out of unauthorised use or disposal and that the assets are properly accounted for and transactions are authorised, recorded and reported correctly.

Your Company has an Audit Committee of the Board of Directors, which reviews, inter alia, risk management policies, adequacies of internal controls and the audit findings on the various segments of the business. M/s. Price Waterhouse Coopers Pvt. Ltd., perform the internal audit function.

Human Resources

Your company continuously reviews skills & critical positional requirements based on the business needs of the future, having due regard to up gradation of manufacturing technologies that are comparable with elsewhere in the world. In order to address the concern on retaining talent, under buoyant employment market conditions, your

company restructured its compensation to all the management staff, based a survey done by an external professional consulting agency. You company has also beefed up certain strategic/key senior level positions to meet the emerging challenges in the future. During the year Graduate Engineer Trainees were recruited from Campuses and they have been deployed into key functional process, after a structure induction program.

Training & Development:

Training programmes were conducted on various Technical & non Technical areas and the total man hours trained were 6181 hours.

Industrial Relations:

Your Company had excellent relations with its employees during the year. A path breaking longer term wage settlement was signed with Union for a period of 4 years, and this is considered to be a unique wage settlement in terms of its content and the manner in which the negotiation process was concluded.

Employee Involvement initiatives:

The Employee Involvement initiatives were reviewed for the year. About 180 projects involving 234 employees were taken up for evaluation for suitable reward.

Employee Welfare:

Various welfare activities were carried out during the year 2004-05. On January 26th a colourful Cultural Day was celebrated and the employees & their family members attended the function various cultural and sports competitions were conducted for employees and their family members. Winners were distributed prizes during the cultural day.

A Summer Camp was organized for employee's children between the age group of 8 & 13, for a period of 6 days. About 100 children participated in the summer camp & various sessions were organized to develop the personality of the children. The programme was organized by involving external faculties.

Your company provided managerial assistance to the Employees Housing Co-operative Society for development sites for house construction at affordable prices.

Health and Safety:

Your company regards Health and Safety of all its employees as its primary concern and towards this end organized several training & awareness programmes during the year. About 65 employees were trained on first aid. An experienced Safety Officer was recruited and several safety related training programmes were conducted aggregating to total man-hours 1666.

Quality Management System:

Your company's Quality Management System was certified to ISO/TS16949:2002 by UL India in June 2005. Certain initiatives have been taken to encourage Quality Circles to promote internal customer concept and also to reduce drastically the PPM levels for all operations.

Financial Ratios

The following table lists out the key financial ratios for 2004-05 and 2003-04.

	2004-05 (%)	2003-04 (%)
PBT / Total Income	15.46	13.86
PAT / Total Income	10.36	8.77
Return On Capital Employed	30.71	24.84
Return on Net Worth	45.06	34.44
Earning Per Share Rs.	24.39	14.97
Dividend Pay Out Ratio	58	76

Cautionary Statement

Statements in this management discussion and analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ substantially or materially from those expressed or implied. Important developments that could affect the Company's operations include a downtrend in the automobile industry – global or domestic or both, significant changes in political and economic environment in India or key markets abroad, tax laws, litigation, labour relation and interest costs.