# 25th

## Annual Report 2005-06

# AUTOMOTIVE AXLES LIMITED

*A Joint venture between*

KALYANI

MERITOR

A Heritage of Rockwell Technology

# Board of Directors

Dr. B. N. Kalyani
Chairman

Ashok Rao
President & Whole time Director

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

P. C. Bhalerao
Director

Bradley A. Arnold
Director

P. M. McNamara
Director

B. C. Prabhakar
Independent Director

B. B. Hattarki
Independent Director

S. S. Marathe
Independent Director

# Vision

- Be a world class quality supplier of cost competitive products;
- Retain leadership in Indian markets for Rear Axles & attain leadership in Brakes;
- Grow content per vehicle to supplement organic growth;
- Grow exports business to US $ 50 Million annually;

# Management Team

Ashok Rao
President & Whole time Director

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

S. R. Sreenivasa Gopal
General Manager
MFE & Quality

S. C. Balawat
General Manager
Operations & PLE

John Kurien
General Manager
Materials

K. Jose
Divisional Manager
HRD

G. Natarajan
Financial Controller

Jayathirtha Rao
Divisional Manager
Information Systems

**Registered Office & Works**
Hootagalli Industrial Area,
Off Hunsur Road,
Mysore - 570 018.

**25th Annual General Meeting**
Day : Friday
Date : 12th January 2007
Time : 12.30 p.m.
Place : Registered Office, Mysore

**AUDITORS**
M/s Deloitte Haskins and 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.
Toranto Dominion Bank, Singapore



## CONTENTS

## *From Chairman's Desk*
-Journey to the Silver Jubilee Year

Dear Shareholder,

It gives me immense pride and pleasure to address you this year, which commemorates the completion of a voyage that started 25 years ago! This journey has been a marathon of sorts that has resulted in your company having emerged financially stronger, professionally more competent and technologically advanced. We are perhaps among the best in the world in our product segment and more importantly, ready to take on bigger challenges that lie ahead.

There have been many events of great significance during this 25 - year journey - some happy and a few that were more in the nature of challenges. Before I take you through these, I would like to familiarize you with your company and its promoters.

### Your Company

Automotive Axles Limited (AAL) was incorporated in 1981 as a joint venture between Bharat Forge Ltd, (the flagship company of the Kalyani Group, which today is the second largest forging company in the world), and Arvin Meritor Inc., USA, a Fortune 500 Global MNC that was formerly a part of Rockwell International Inc. AAL's products include Rear Drive/Non-Drive Axle Assemblies, Carrier Assemblies and Air Actuated brake components for application on Commercial Vehicles. (CVs). AAL was the first, and still is, the largest independent facility of its kind in the country that manufactures the complete range of such products for CVs made in India.

Prior to AAL's setting up, these products were manufactured entirely in-house by CV manufacturers in the country. Domestic customers of AAL include Ashok Leyland, Tata Motors Ltd., Vehicle Factory (Jabalpur), Mahindra & Mahindra Ltd., Asia Motor Works, and Force Motors. We export to Arvin Meritor plants in USA, Europe, and China. Product design and sales & marketing support are provided to us by Meritor HVS (India) Ltd., a JV in which Arvin Meritor Inc. is majority shareholder with the Kalyani Group as partner.

Front View of AAL

## Our Promoters

### Arvin Meritor

MERITOR

Arvin Meritor, Inc. is a premier Tier-1 automotive supplier with a 100-year history of delivering technologically advanced systems, modules and components to the motor vehicle industry. Arvin Meritor was formed from the merger of heritage companies, Arvin Industries and Meritor Automotive (formerly Rockwell) on July 10, 2000. Arvin Meritor represents the joining of two strong companies and their heritages .

Arvin Industries Inc. established its reputation as a global manufacturer of automotive components and systems. Arvin consistently ranked as a leading manufacturer of automotive exhaust systems; ride and motion control products; air, oil, and fuel filters and gas-charged lift supports.

Meritor Automotive Inc. established its reputation as a global automotive supplier of a broad range of components and systems for commercial, specialty and light vehicle OEMs and the aftermarket. The Meritor product line consisted of two businesses: Commercial Vehicle Systems, a leading supplier of complete drive train systems and components for medium and heavy-duty trucks, trailers and off-highway equipment and specialty vehicles, including military, bus and coach, and fire and rescue; and Light Vehicle Systems, a major supplier of roof, door, automotive body, access control and suspension systems, and wheel products for passenger cars, light trucks and sport utility vehicles.


SHAREHOLDERS AGREEMENT

AN AGREEMENT made the 8th day of APRIL 1981, between BHARAT FORGE COMPANY LIMITED, a company incorporated under the Companies Act, 1956, of India and having its registered office at Mundhwa, Pune, Maharashtra, India (hereinafter referred to as "BHARAT FORGE", which expression shall include its successors and permitted

Joint Venture Agreement



### Kalyani Group

KALYANI

The Kalyani Group is one of the leading Industrial Houses in India, whose core businesses include manufacture of specialty steel and steel based products, forgings and automotive components. The Group's Annual Turnover is over USD 1.5 billion and it has joint ventures with world leaders that include Meritor, USA; Carpenter Technology Corporation, USA; Hayes Lemmerz, Germany; FAW Corporation, China; and Singapore Technologies Kinetics, Singapore.  In addition, Kalyani Group companies have technical collaborations with several leading companies in the world.

The Kalyani Group's vertical integration, with upstream steel making and downstream machining facilities coupled with the strong sources of competitiveness that it has developed across the value chain has enabled it to become a major supplier to the global automotive industry and also to customers in the non-automotive industry segments. The Group is regarded as a benchmark for world-class technologies, product quality and customer service.

Kalyani Group Companies are market leaders in India for forging and machined components, axle aggregates, wheels and alloy steel. The Group is also the country's largest exporter of automotive components, a position that it has continued to occupy for the past 5 years.

I would now like to share with you some of the key milestones in AAL's 25-year history, events that were defining moments in an exciting and challenging journey.

## Key Mile Stones

Foundation stone laying ceremony

1981 - Foundation Stone Laid

1981 - Incorporation and commencement of business

1982 - First Annual General Meeting of Members

1983 - First Public Issue of equity shares

1984 - Commercial Production of Rear Axle Housing

1986 - Commercial production of Brake Assembly

1988 - Commercial production of Axle Assembly for LCV manufacturers

1991 - Entered Export market by exporting prototype axles to MB-Germany

1995 - Rights Issue in the ratio of 1:4

1996 - Sales cross Rs. 1 billion

First public issue of equity shares

1998 - Quality Management System certified to ISO 9001

2000 - Quality System certified to QS 9000

2003 - Sales cross Rs. 2 billion

2005 - Quality System certified to TS 16949

2005 - Sales cross Rs.3.5 billion


Foundation stone for Kalyaninagar

2005 - Foundation Stone Laid for 'Kalyani Nagar' Colony of Employees

2006 - Environment Management System Certified to IS 14001

2006 - Silver Jubilee Year - Sales cross Rs. 4.5 billion


Automotive Axles Limited
Hootagalli Industrial Area
Off. Hunsur Road
Mysore – 570 018
Karnataka
INDIA

ISO/TS 16949: 2002

## Defining Moments

### Reference to the BIFR in 1989

Your company brought in Rockwell's state-of-the-art axle manufacturing technology to India way ahead of its time expecting that it would be able to penetrate a market segment in which CV manufacturers were making their own axles. Due to unforeseen delays caused due to various factors, it took us several years to achieve this objective. We had therefore to be content with the business of contract manufacturing in which we could barely recover variable costs resulting in accumulation of significant losses with interest and depreciation burden contributing to the erosion of over 50% of the company's net worth which led to its reference to BIFR.

### Dilution of Promoters' control-Private Placement of shares in 1995

The above situation led to a total erosion of the investment of Rockwell (now Arvin Meritor) in your company under the US GAAP, which prohibited their further participation in equity funding. In order to maintain parity of controlling interests, your company had to seek such participation from private investment banking companies, which resulted in dilution of control of the Promoters from 80% to 71%.


### 1996-Maiden dividend - The Turning Point

Consequent to the private placement and the subsequent Rights Issue of shares, your company restructured its capital by swapping high cost debt with equity. The recovery of the Commercial Vehicle Segment of the market since 1994 together with your company's ability to penetrate the CV manufacturers for their axles requirements resulted in substantial improvement in profitability of the company's operations and enabled us to wipe off our entire accumulated losses during year ended 30th September 1996. We were also able to pay our maiden dividend of 10% to our valued shareholders. Your company has not looked back and since then, we have been able to consistently reward our shareholders for the trust and confidence they have reposed in our management. Earnings per Share (EPS) has grown at an annual compounded rate of 35 % in the last 10 years.



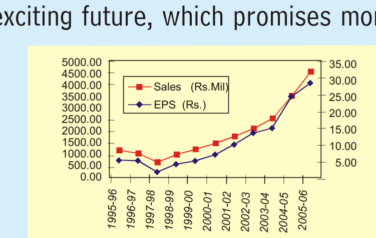
### Employees Strike in 1999

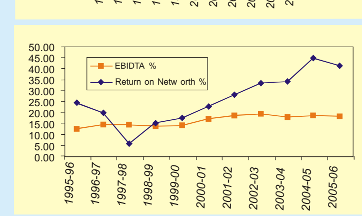
In 1999 a section of your company's workforce unfortunately struck work for about 4 months. Their demand was for a prohibitive increase in wages, which was not practicable. During this trying period, your company continued its operations only because of the sterling support of our committed management staff, who ensured continuance of operations at near normal production levels. We were also privileged to receive unstinted support from our valued customers, which was a reflection of their faith in us and their confidence in our capabilities to maintain reliable supplies. This led to the forging of strong partnerships with your company's OE customers, which have sustained and grown and have immensely contributed to your company's sustained performance in the past decade.

Except for that brief period, employee relations have remained cordial and your company's workforce has played a very constructive role in the growth and development of AAL. Our employees are our assets and we value their contributions to your company's performance and success. We are confident that they will continue to partner us in an exciting future, which promises more progress and prosperity.

### Financial Highlights of the past decade:

| | CAGR% |
|---|---|
| Sales | 18 |
| EBIDTA | 17 |
| Return on Net worth | 35 |
| Earnings per share | 35 |



## Awards and recognitions

Your company's efforts have been recognized at various levels. Some of the distinguished recognitions that have come our way include:

Gold Card for Honest Payer from Karnataka Power Transmission Corporation Ltd., in 1999.

Exports Award from State Bank of India in 2005.

Honest Tax Payer Award from Government of Karnataka in 2005.

Rev'd Up Award from QAD during December 2005.

First Prize at the Horticultural show during Dasara of 2006

Following Rankings by the “Industry 2 Magazine” out of the Top 500 Manufacturing Companies in 2006:

- Overall Financial Risk - 103
- Overall operating efficiency - 100
- Overall growth - 204
- Overall profitability - 169




## Corporate Social Responsibility

Your company places tremendous emphasis in contributing to the wellbeing of the community in which we operate. Some of the initiatives that we have taken as a socially responsible citizen are:

1. Free medical checkup for Government School children.
2. Free medical check up for Senior Citizens of rural area surrounding the company.
3. Contribution of a Vehicle to Akshaya Patra scheme of ISKCON (International Society for Krishna Consciousness) for distribution of mid day meals for school children.
4. Distribution of note books to school going children.
5. Sponsorship to Global Organization Summit of SDM Institute of Management.
6. AAL has sponsored the Dasara Gold Cards.


Medical Checkup for School Children


Distribution of Note books to School Children