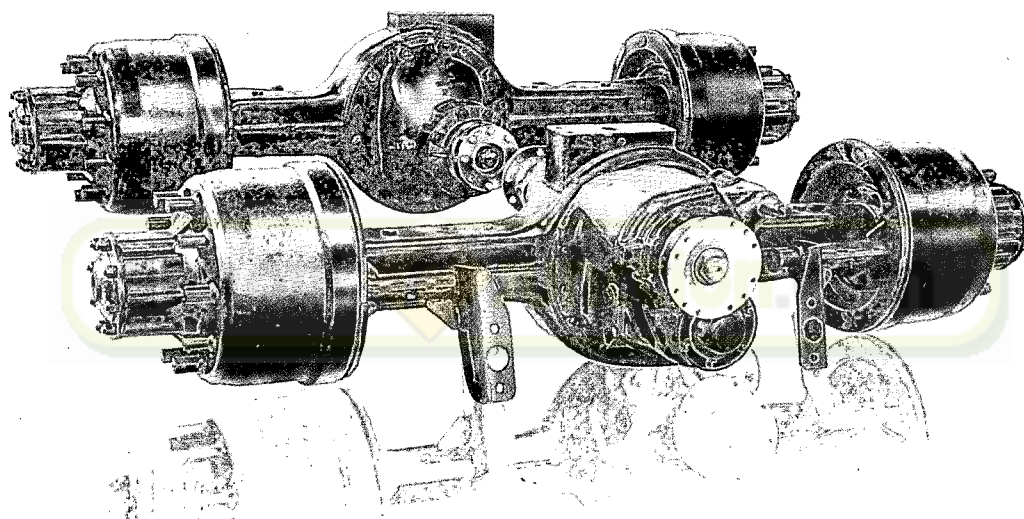




AUTOMOTIVE AXLES LIMITED



26th Annual Report 2006-07

A Joint venture between



Vision

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

AUTOMOTIVE AXLES LIMITED*Corporate Information***BOARD OF DIRECTORS:**

Mr. Ashok Rao	President & Whole time Director
Dr. Babasaheb N Kalyani	Chairman (Non-Executive) & Non-retiring Director
Mr. Bhalachandra B Hattarki	Independent Director
Mr. Carsten J. Reinhardt	Non-Executive Director (Alternate Director)
Mr. Larry Dowers	Non-Executive Director
Mr. Prabhakar B C	Independent Director
Mr. Prakash C. Bhalerao	Non-Executive Director
Mr. Rakesh Sachdev	Non-Executive & Non-retiring Director
Mr. Sabareeshan C K	Executive Director (Finance) & Company Secretary
Mr. Sharad S Marathe	Independent Director

Auditors: M/s Deloitte Haskins and Sells (Chennai),
Bangalore.

Bankers: Axis Bank Limited
BNP Paribas
Export Import Bank of India
ICICI Bank Limited
IDBI Bank Limited
HDFC Bank Limited
State Bank of India
State Bank of Mysore
The Hong Kong and Shanghai Banking Corpn Ltd.
Toronto Dominion Bank, Singapore

Registered Office and Works Hootagalli Industrial Area,
Off Hunsur Road, Mysore 570018.

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MANAGEMENT DISCUSSION & ANALYSIS

Economy

The Indian economy registered an encouraging GDP growth @9.4%, during the fiscal year 2006-07. This was mainly contributed by services and manufacturing sectors. While the GDP growth was at 9.3% during the first quarter of fiscal year 2007-08, the RBI's mid-term review of Annual Policy 2007-08, forecasts the GDP growth rate at 8.5% this fiscal year.

The inflation that was threatening to rise above 5.5% was admirably controlled by the RBI by effective monetary measures.

The rise in the exports, surge in the inflow of FDIs and FIIs and, the weakness of the US dollar against most of the currencies, were some of the reasons for the appreciation in the rupee value. The stock market index (Sensex) reached a historic high of 20,000.

The strengthening of rupee versus the US\$, that threatened India's competitiveness of exports, does not seem to have had a serious impact on the growth of exports so far this fiscal.

On the other hand, the volatility in the international prices of the crude oil, and the resulting inflationary pressure would challenge the sustainability of this growth rate in the year ahead.

Industry Structure & Developments:

The Commercial Vehicle Industry, after a sterling performance during the year ended March 2007, saw a contracted demand partly due to the hike in interest rates and partly due to better capacity utilization of the new fuel efficient trucks.

The Government's initiatives on key infrastructure sectors, such as Roads, Ports, Power

and steel capacity expansion, have continued to drive the demand for Multi-Axle Vehicles and, hence, for your company's products. A recent development in the CV segment is the enforcement of anti-lock braking system for certain select vehicles in the heavy CV segment, which has improved the content per vehicle of your company's products. The shift in the market towards the high speed vehicles expected to result in further growth in demand for multi-axle vehicles, and consequentially, the growth of your company's performance. The new entrants into the multi-axle segment of the CV market are now seeing visible demand for their multi-axle vehicles and hence for your company's products that have already been tried out on their new vehicles.

The need for strategic partnership/ownership structure initiated by some of the upcoming OEMs, is seen finding favour with some of the existing OEMs. The strategy seems to be to partner with some of the well known MNC Truck Manufacturers in the world. This would auger well for the growth of your company as its products are well known to these MNC Truck manufacturers most of whom are customers of Arvin Meritor.

While your company still retains its pre-eminent position as the largest independent manufacturer of Drive Axle Assemblies for Commercial Vehicles in the country, it is aware of the emerging competition and OEM's review of strategy for a possible in sourcing of these products.

During the year under report, Multi Axle Vehicles segment registered an impressive growth of 21.10%. The production of MCVs and HCVs, in general, was also significantly higher compared to last fiscal as shown in the table below:

Year (Oct-Sep)	2006-07	2005-06	B/ (W)	% B/ (W)
M/H C Vehicles	284223	252962	31261	12.30%
Multi-axle Vehicles	114780	94818	19962	21.10%

AUTOMOTIVE AXLES LIMITED

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 2005-06. A report on segmental performance is furnished in Para 13 of Schedule 18 to the Balance Sheet as at 30th September 2007.

(Rs. In Million)

Turnover	2006-07	2005-06	Growth Rate %
Domestic	5972.96	4831.17	23.63
Exports	971.51	453.12	114.40

Domestic

As a result of the sustained growth in the multi-axle vehicles segment, your company's turnover reached the highest ever, during the year under report, representing an improvement of 23.63 % over the previous year.

Exports

The Company is addressing all exports through Meritor HVS (India) Limited. During the year under report the exports increased to Rs. 971.51million from Rs. 453.12 million, representing an increase of about 114.40% over the previous year. Your company continues to be the single source for some of these products.

Opportunities & Threats

Domestic

The demand for multi-axle vehicles is seen as encouraging and would sustain the growth rate achieved during the year under report. Besides this, the emerging trend shows increasing preference by OEMs for heavier trucks that offer more cost efficient operating economies. Anticipating this, your company had initiated the development of the bigger axle models that have been approved by existing as well as new customers. The opportunity to broad base the customer portfolio is also better than ever before.

There is however the threat of not being able to meet the customers' requirement on time and this

could encourage competition and threaten our leadership position in the addressed market. Your company is however taking appropriate measures to cope with the increasing demand by adding adequate capacity, sprucing up its supply chain capabilities as well as by better inventory planning.

The unabated increase in crude oil price could also to some extent affect the growth of the Commercial Vehicles Segment, depending upon how the fuel costs impact the freight market.

Exports

Consequent to qualifying as a single source for some parts to Arvin Meritor, France, for their Renault Volvo Industry programme, your company is poised for a sustained growth in its exports, particularly to Europe. The ongoing export programme for supply of Gear Sets to Arvin Meritor in Europe also would drive this growth.

Risks & Concerns

Customers' expectation of on time delivery, every time, on shorter lead times, would be a challenge that needs to be handled carefully.

The price of steel both hot rolled and carbon / forging quality steel have been volatile and are becoming increasingly challenging to cope with, given the OEM customers unwillingness to concede increases on account of these. Your company has already initiated necessary steps to achieve cost reduction by identifying internal opportunities and setting up dedicated teams to work on those programmes all of which are aimed at neutralizing this.

Risk Management

We, at Automotive Axles Limited, believe that the existence of sound Risk Management Framework is critical and of utmost importance for the survival and progress of any organization. Your Company believes that the management of the risk can be successful if all employees understand the risk and take ownership of and responsibility for assisting the management in this regard. Your Company has set up a Risk Management Framework consisting of the



Risk Management Committee, Chief Risk Co-ordinators and Risk coordinators, who carry out an Entity Level Risk Assessment, and a Risk Matrix for the Inherent & Residual Risks confronting the company. Your company has put in place a Risk Management Process to continuously monitor and mitigate these risks. Risk Management Manual has been developed to deal with strategic, operational and financial risks. Internal control framework is being developed to control and mitigate the risks identified in the heat map. Risk Co-ordinators are trained to review the risks matrix regularly and assist the risk owners to mitigate them periodically.

Internal Control Systems and their adequacy

Your company 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 unauthorized 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

Human Resources of your company play a pivotal role in creating value for organization and in meeting the customer expectation. Considering the importance of this, a good number of initiatives have been taken during the year in sourcing, developing and retaining the talent at your company.

a) Sourcing

It was a challenge to support the growth, as recruitment of personnel, at various competency levels, was critical. To get technically qualified personnel at operator level and, intensively training them to be engaged on the state of the art machines, was indeed an uphill task and, drew our strategy to identify new talent pools.

While attracting fresh Engineers and Middle level managers, in a rather high job mobility situation was very difficult, the good reputation of your company with the growth opportunities available here greatly assisted this task.

b) Developing Talent

Talent management was identified as another critical area for meeting the growing needs of your company. Several Employee Development Initiatives were taken at various levels.

(i) Operator Level Training

- Setting up of an in house training facility, on the model of a finishing school with infrastructure for CNC Machining, Material Handling, Welding, Assembly & Disassembly along with simulation software for off line programming.
- Experienced Training faculty was recruited to manage the technical training centre.
- Systematic training programs are being organized for operators on CNC operation, programming and trouble shooting aimed at enhancing the operator capability.
- Focus was also on Measurement System, Operator Document familiarization aimed at consistently meeting the process specification.

(ii) Competency Based Training

The middle and junior level management staffs were given training on the identified competencies to build over all performance capability of this group.

- Leadership Development, Team building and Stress Management programs were organized to bridge the gaps found in the competency assessment carried out during the year.

(iii) Leadership Development Programme

Leadership positions arising due to superannuation of certain senior management personnel were filled internally by identifying and grooming middle level management personnel within your company. As a part of building Leadership team, three more senior managers were nominated to undergo a two year M.Sc. programme in Engineering Business Management course with the renowned University of Warwick, UK and CII's Centre of Excellence.

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c) Retaining Talent

It was an even greater challenge to retain talent in such a growing job market. The talent pool built by your company, over a period of time, was a great attraction to prospective poachers. Your company took up this challenge by effecting Compensation Correction in three consecutive years 2005 to 2007 to keep pace with the market comparators. This together with good learning opportunities and the career development programs placed your company in good stead. The attrition rate during the financial year among the management staff was much below the industry level at 4%. This would speak about the management practices/retention strategies followed at your company.

d) Employee Relation

Your company believes in transparency in its communication with its employees and engages them in healthy dialogue to understand and resolve any employee grievance in a proactive manner. The relationship we built goes beyond the employees - the family members. The various programs we organized during the year for spouses and employees' children strengthen the fabric of our employee bond. This has helped your company in maintaining healthy employee relations.

e) Employee Health & Welfare

The company is committed to the health and welfare of the employees. Periodic medical check up and counseling is carried out by the medical officer and specialist in the respective field. A detailed study was carried out segmenting the jobs and specific medical check up was carried for the groups. The Management has decided to expand the occupational health centre in line with the requirements of ISO18000, and the internal infrastructure facilities have been improved. Further, we are strengthening the medical team.

Employees activities and their participation to the programmes is a sign of the valued culture of AAL, be it the annual family day, week long summer camp for children or the sports day. The management promote various cultural activities within and outside AAL. Our drama team has won various prizes in the state level inter industry drama competition held recently.

Safety Health and Environment Management (SHE) at AAL

Safety:

- All the new entries including contract workmen undergo pre employment **SHE** training including the On Site Emergency Plan & Preparedness.
- External and in house training on **Accident Prevention** is being organized periodically.
- Exclusive Fork Lift Drivers Training being conducted annually with the help of external competent agency.
- Appropriate **Personal Protective Equipment/gadgets** are provided wherever required, and their use monitored continuously during working hours.
- Safety **handbooks** are also issued to all Employees i.e. on safety oath, emergency preparedness, instructions to fight against Fire, emergency phone Nos. etc.,
- **On Site Emergency Mock drills** are being conducted periodically to evaluate our strengths & weaknesses.
- **Safety day** is being observed in AAL on 4th March of every year. Competition on Slogan writing, cartoons drawing & essay writing on Industrial safety are held and the winners of the competition are being awarded.
- **Chemical disaster day** is being observed on 4th December every year to create awareness amongst the employees.
- Reported **near miss/safety incidents** are being investigated and immediate corrective and preventive actions are being initiated.
- Periodical monitoring of **ambient air quality, ambient noise level** is being carried in the shop as well as outside the shop and necessary action is being initiated in case it is found beyond the permissible limits.
- **Work permit** systems is followed strictly for hazardous work in nature both internal and sub-contract works.



- External and internal periodical **Safety Audit** is being carried and the Corrective & Preventive actions are being initiated on the observations made.
- 600 Nos of wind driven **Turbo Ventilators** installed on the roof to improve the shop Ventilation level.
- 100 M² **Poly carbonate** sheets installed on the roof to enhance the natural light entry into shop during day time.
- 70 Nos of wall mounting type **Air circulators** installed across the plant to improve the air changes in the shop.
- 100 Nos of laminated **Safety awareness posters** displayed across the plant.
- **LPG gas leak detectors** installed in LPG storage yard and furnace area for early warning.

Health

- Pre & Post employment Medical checkup for all Employees including contract labours being conducted and individual medical records maintained.
- Special medical examinations of colour vision test, skin checkup, pulmonary function test & audiometric test being conducted based on individual nature of work exposure for better monitoring of health status.
- Bio-medical wastes are handled, stored & disposed as per Bio-medical waste management Rules.

Environment

- In line with EMS-14001:2004, periodical awareness training being conducted for all Employees.
- World Environmental Day is being observed on June 5th every year & quiz competition has been conducted and winners of the competition have been awarded.
- Weather monitoring station has been installed for continuous monitoring of weather forecast.
- 1500 Nos of plants planted during 2006-07.
- All hazardous wastes are being handled, stored & disposed in scientific manner.
- Water flow meters for all incoming water line have been provided for better water consumption monitoring.

- Biological Oxygen Demand (BOD) analyzing Incubator installed in our chemical laboratory for better monitoring of BOD requirement in our water treatment process.

Quality Management System:

Our Quality Management System that is certified to ISO/ TS 16949:2002 during 2005 is now attained maturity encouraging the company to continue its quality journey to the TQM destination. In this direction, your company is embarking on TPM programme in the current year.

Financial Ratios

The following table lists out the key financial ratios for 2006-07 and 2005-06.

	2006-07 (%)	2005-06 (%)
PBT / Total Income	13.26	14.03
PAT / Total Income	8.69	9.38
Return on Capital employed	23.65	27.89
Return on Net Worth	42.97	41.63
Earnings Per Share Rs.	35.49	28.69
Dividend Pay out Ratio	41.26	52

The marginal drop in the % of PBT & PAT to sales is mainly on account of the material cost increases that could not be passed on to the customer. The Return on Capital employed is expected to improve during the current year due to better utilization of capacity and optimization of working capital resources. The lower dividend pay out ratio is aimed at conserving internal accruals to meet the ongoing and future requirements of capital expenditure.

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.

AUTOMOTIVE AXLES LIMITED**REPORT ON CORPORATE GOVERNANCE**

Your Company is fully committed to sound principles of Corporate Governance, encompassing high standards of transparency, accountability, social responsiveness and good/ethical commercial practices. On these principles your Company aims to maximize the value for all stake holders in the company namely, the shareholders, business partners, suppliers, employees and the society.

Category	No. of Directors	Percentage to total no. of Directors
Executive Directors	2	22.22
Non-Executive Directors-Independent	3	33.33
Non-Executive Directors-Others	4	44.45
Total	9	100

Board of Directors:

● **Composition of the Board**

The Board is headed by a Non-Executive Chairman and has an optimum blend of Executive and Non-Executive Directors. The following is the Composition of the Board :

● **Number of Board Meetings**

During the year 2006-07, four Board Meetings were held on 15th November 2006, 12th January 2007, 30th April 2007 and 21st July 2007. The maximum interval between two board meetings, during the year, was less than four months.

● **Directors' Attendance Record and Directorship held**

Name of Director	Status	Number of meetings attended	Whether Attended last AGM	Number of Directorships of other Public Limited Companies	No. of Board Committees of other Companies in which a Member #
Mr. B.N. Kalyani	Non-Executive (Chairman)	3	Yes	11	4 (Chairman of 1)
Mr. S.S. Marathe	Non-Executive Independent	2	No	9	7 (Chairman of 2)
Mr. P.C. Bhalerao	Non-Executive	2	Yes	5	-
Mr. Larry Dowers*	Non-Executive	0	NA	1	-
Mr. Rakesh Sachdev*	Non-Executive	1	NA	1	-
Mr. Ashok Rao	Executive	4	Yes	-	-
Mr. C.K. Sabareeshan	Executive	4	Yes	-	-
Mr. B C Prabhakar	Non-Executive Independent	3	Yes	2	2
Mr. B B Hattarki	Non-Executive Independent	3	No	9	6 (Chairman of 1)
Mr. Carsten Reinhardt*	Alternate Director (to Mr. Rakesh Sachdev)	0	NA	1	-

* Appointed w.e.f. 30.04.2007

excludes Committees of the Companies other than public limited companies and section 25 companies. Committee includes Audit Committee and Shareholders' grievance Committee only.



None of the Directors is a member of more than ten Board Level Committees, or a Chairman of more than five such committees.

● **Code of Conduct**

The company has adopted a code of conduct for the Board of Directors and the senior management of the Company. The same is available on Company's website www.autoaxle.com. An affirmation as to compliance with the code of conduct is obtained from all the Directors and the senior management personnel annually.

● **Directors with materially significant pecuniary transaction or relationship with the Company**

There was no materially significant pecuniary transaction, or relationship between the Company and any of the Directors, during the year as contemplated under relevant guidelines of the SEBI/ Stock Exchanges.

● **Information supplied to the Board**

The Board is being provided with all the essential information necessary for decision making. Detailed notes as necessary, along with the agenda, are presented well in advance of the meeting. The following is the list of some of the information provided regularly to the Board of Directors:

- Annual operating plans and budgets, capital budget, updates
- Quarterly results for the company and its operating divisions or business segments
- Minutes of meetings of Audit Committee and other Committees
- Materially important issues, disputes with the Government Authorities on show cause, demand, prosecution and penalty notices
- Fatal or serious accidents or dangerous occurrences
- Significant labour problems and their proposed solutions
- Significant development in human resources and industrial relations front

- Sale of material nature, of assets, which is not in normal course of business
- Quarterly updations on Risk Management system
- Quarterly details of foreign exchange exposure and the steps taken by management to limit the risks of adverse exchange rate movement; and
- Non-compliance of any regulatory, statutory nature or listing requirements and shareholders service such as non-payment of dividend and delay in share transfer.

Audit Committee:

Audit Committee of your Board consists of only Non-Executive Directors. The composition of the committee is as follows:

Mr. B B Hattarki (Independent) - Chairman
 Mr. S.S. Marathe (Independent)
 Mr. B C Prabhakar (Independent) and
 Mr. P.C. Bhalerao.

M/s Price Waterhouse Coopers, Chartered Accountants, perform the Internal Audit function.

The terms of reference of Audit committee include the following:

- Oversight of Company's financial reporting system to ensure the disclosure of financial information is correct, sufficient and credible
- Review of the annual financial statements, before submission to the Board, focusing primarily on changes if any, in the accounting policies or practices, compliance of accounting standards, qualifications in draft audit report, compliance with Stock Exchanges and legal requirements concerning financial statements, related party transactions etc.,
- Reviewing with the management, external and internal auditors, the adequacy of internal control systems
- Reviewing the effectiveness of the internal audit function

The committee met four times during the course of the year.