AUTOMOTIVE AXLES LIMITED

27th Annual Report 2007-08

KALYANI

A KALYANI ARVINMERITOR
JOINT ENTERPRISE

MERITOR™
A Heritage of Rockwell Technology

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27th Annual Report 2007-08

Day : Wednesday

Date : 21st January 2009

Time : 12.30 p.m.

Place : Registered Office, Mysore

Corporate Information

BOARD OF DIRECTORS:	**Mr. Ashok Rao**	President & Whole time Director
	Dr. Babasaheb N Kalyani	Chairman & Non-Executive Director
	Mr. B B Hattarki	Independent Director
	Mr. B C Prabhakar	Independent Director
	Mr. Carsten J Reinhardt	Alternate Director (until 18th January 2008)
	Mr. C K Sabareeshan	Executive Director (Finance) & Company Secretary (until 30th July 2008)
	Mr.Larry Dowers	Non-Executive Director
	Mr. P C Bhalerao	Non-Executive Director (until 30th July 2008)
	Mr. Rakesh Sachdev	Non-Executive Director (until 30th July 2008)
	Mr. S S Marathe	Independent Director (until 28th Sep' 2008)

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

BANKERS:

Axis Bank Limited
BNP Paribas
Citi Bank N.A
Export Import Bank of India
HDFC Bank Limited
ICICI Bank Limited
IDBI Bank Limited
State Bank of India
State Bank of Mysore
Toronto Dominion Bank
The Hong Kong and Shanghai Banking Corpn Ltd.
The Bank of Nova Scotia

REGISTRAR & SHARE TRANSFER AGENTS:

Alpha Systems Pvt. Ltd.
#30, Ramana Residency,
4th cross, Sampige Road, Malleshwaram
Bangalore Ph: 080-23460815-818
e-mail: alfint@vsnl.com

REGISTERED OFFICE & WORKS:

Hootagalli Industrial Area,
Off Hunsur Road, Mysore 570018.

Website: www.autoaxle.com **E-mail:** info@autoaxle.com **Ph:** 0821-2402452-56, 2402452-55

DIRECTORS' REPORT

To the Members,

Your Directors take pleasure in presenting the Twenty-Seventh Annual Report of the Company and audited accounts for the year ended September 30, 2008.

1. Performance of your Company

Turnover:

The turnover comprising gross sales (inclusive of duty and taxes) increased as follows:

(Rupees In Million)

Current Year	Previous Year	% Increase
8479.60	6944.47	22.11

Net Profit:

(Rupees in Million)

	Current Year	Previous Year
Profit for the year before Taxation	**854.30**	819.00
Provision for Taxation-Current/ Deferred/Fringe Benefit Tax	**296.45**	282.73
Net Profit	**557.85**	536.27
Balance of Profit from Previous Year after adjusting transitional provision for deferred tax	**779.99**	518.42
Profit available for appropriation	**1337.84**	1054.69
Appropriations :		
Dividend for the year	**98.23**	188.90
Tax on dividend	**16.69**	32.10
Transfer to General Reserve	**55.90**	53.56
Surplus retained in Profit & Loss Account	**1167.02**	779.98

Management Discussion & Analysis and a report on Corporate Governance are furnished separately.

2. Capital expenditure

As reported in the previous year, your company has already accomplished the capital expenditure programme aggregating to Rs.224.70 Million towards enhancing Drive Axles Capacity by 24000 Nos. p.a.

3. Dividend

Having regard to the downturn in the CV market, and the threat to your company's market share, the Directors have considered it prudent to retain the earnings to a larger extent than what was done hitherto and recommended a total dividend of 65% for the year 2007-08. This, together with the dividend tax aggregates to Rs. 114.92 million or a dividend pay out of 20.60%.

The Dividend Distribution tax shall be paid by the Company and the dividend is exempt from tax in the hands of shareholders.

4. Directors:

In accordance with the provisions of the Companies Act, 1956, and the Articles of Association of the Company, Mr. Ashok Rao retires by rotation, and being eligible, offers himself for re-appointment.

During the year, Mr. Carsten J Reinhardt, who was an alternate Director to Mr. Rakesh Sachdev, vacated the office under section 313 of the Companies Act, 1956. Further, Mr. Rakesh Sachdev, Mr. P C Bhalerao and Mr. C K Sabareeshan resigned from the Board to comply with the amended requirements of clause 49 on the composition of the Board. The Board places its appreciation of their valuable contributions during their tenure.

Mr. S S Marathe, who was a Director of your Company for over a period of 24 years, passed away on 28th September 2008. During his tenure, he made invaluable contribution both during difficult times of the Company, as well as during successful years. The Board condoles his passing away and places on record its appreciation of his invaluable contribution during his tenure on the Board.

5. Directors' Responsibility Statement:

As required under Section 217 (2AA) of the Companies Act, 1956, it is hereby stated that:

- In the preparation of the annual accounts for the year under report, the applicable accounting standards have been followed;
- The Directors have selected such accounting policies and applied them consistently and make judgments and estimates that are

reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the company for that period.

- The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- The Directors have prepared the annual accounts on an ongoing concern basis.

6. Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo :

The additional information required under the provisions of section 217(1) (e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, and forming part of the Directors' Report is given as Annexure "A" to this report.

7. Particulars of Employees:

In accordance with the provisions of section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, the particulars of employees are given in Annexure "B" forming part of the Directors' Report.

8. 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.

9. Acknowledgements:

The Directors thank all the members for their continuing confidence reposed in the company. The Directors wish to place on record their appreciation for the support and assistance received from all the OE customers, the Kalyani Group, Pune, and Arvin Meritor Inc., 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 employees at all levels for their hard work, dedication and commitment.

For and on behalf of the Board of Directors

Place : Pune
Date : 14th November 2008

B.N. Kalyani
Chairman

ANNEXURES TO DIRECTORS' REPORT
ANNEXURE - A

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	1. Installation of Magnetic Resonators at the Furnace Burner Points
(b)	Additional investments and proposals, if any, being implemented for reduction of consumption of energy	1. All Pumps & Blowers controlled thru VFD & Auto logic. 2. Installation of Temperature Controller for Cooling Tower 3. Air Compressor triggering by actual demand in shop. 4. Installation 550 KVAR APFC panel to Heat treatment feeder. 5. Auto control for shop & peripheral lightings.
(c)	The impact of the measures at (a) & (b)	(a) 1: Savings of Rs. 1.44 Million / annum on account of approx. 3% lower LPG consumption (approx. 45 MT p.a.). (b) 1, 2 & 3 : Rs. 2 Million / annum saving due to reduction in Load Current. 4 : Rs. 0.2 Million / annum saving due to reduction in losses and Power Factor improvement. 5 : Rs. 0.3 Million / annum saving by avoiding unnecessary consumption of power.
(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	➢ Robotized Machine Loading for Gear Cutting
2.	Benefits derived as a result of the above R & D	➢ Even better utilization of Dry cut face hobbing Gear Manufacturing Equipment.
3.	Future plan of action	➢ Introduction of Upgraded Axles for Mining / Off Highway application. ➢ Progressive migration from conventional Gear cutting system to face hob dry cutting system. ➢ Introduction of Dry Machining.
4.	Expenditure on R & D	
	a. Capital	Rs. 14.81 million
	b. Recurring	Nil
	c. Total	Rs. 14.81 million
	d. Total R & D expenditure as a percentage to total turnover	0.20%

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)	New Family of Steerable Front Axles for Low Floor Bus application	a)	To capture new business in upcoming Low Floor Bus requirements on intercity applications.

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.

	Technology imported (Product)	Year of Import	Has technology been fully absorbed	If not fully absorbed areas where this has not taken place, reasons there for and future plan of action
	Not applicable			

III. Foreign Exchange Earnings and Outgo :

a.	Activities relating to exports, initiative taken to increase exports, development of new export markets for products and services and export plans	Nil
b.	Total Foreign Exchange used and Earned:	
	Used	Rs. 251.86 million
	Earned	Nil, as all the sales for export are routed through Meritor HVS (India) Ltd in local currency

For and on behalf of the Board of Directors

Place : Pune
Date : 14.11.2008

B.N. Kalyani
Chairman

ANNEXURE - B

Information required as per Section 217 (2A) (b) (ii) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the ended 30th September, 2008.

Name	Age	Qualification & Experience	Designation / Nature of Duties	Gross Remuneration (Rs.)	Date of Commencement of Employment	Particulars of last Employment	
						Name of the Organisation	Designation and period
Mr. Ashok Rao	44	M.S (Mfg Engineering) 18 Years	President & Wholetime Director	6,458,568	21.06.1999	MICO, Bangalore,	Deputy General Manager, 7 years
Mr. C K Sabareeshan#	53	B.Sc., ACA, ACS 28 years	Chief Financial Officer & Company Secretary	4,987,726	06.01.1994	Tata Keltron Ltd., Chennai,	Financial Controller & Secretary 1 year
Mr. N. Muthukumar*	43	M.Sc. (Polymer & Rubber Technology), MBA (International Marketing) 21 years	General Manager - Operations	1,130,077	16.04.2008	TTK-LIG Limited, Chennai	Vice President (Operations) 6 years

ceased to be Director w.e.f. 30.07.08
* Employed during part of the year

Notes: 1. The nature of the employment is contractual
2. None of the employees mentioned above are related to Directors
3. None of the employees hold 2% or more shares in the Company
4. Gross Remuneration includes Salary, Allowances and other perks like Leave Travel Allowance, Security, Medical reimbursement, Company's contribution towards Provident Fund, Gratuity, Superannuation etc.

For and on behalf of the Board of Directors

Place : Pune
Date : 14.11.2008

B.N. Kalyani
Chairman

MANAGEMENT DISCUSSION & ANALYSIS

Economy:

During the fiscal year ended March 2008, the GDP growth was robust @ 9%. Although inflation was high during the last quarter of the year @ 7.75%, the average inflation rate for the fiscal year was recorded only at 4.7%.

However, during the first two quarters of the current fiscal year, ending March 2009, the GDP growth has been moderated. While in the first quarter, the economy registered a GDP growth of 7.9%, significantly lower when compared to 9.2% growth during the corresponding period last year, the second quarter also witnessed a moderate growth of about 7.6 %. This may be attributed to the Government's emphasis on control of the inflation, driven mainly by rise in crude oil and food prices world wide, that reached a 13-year high of **12.54%** during July 2008, as compared to an average inflation during the last fiscal year of under 5%.

Outlook:

The impact of the shrinking global GDP on the economy, and that of the crisis in the global financial market, caused by the fall of huge investment banks in the US and Europe, on the capital markets, would remain a concern at least during the current fiscal year. However, the global financial meltdown will not significantly affect India, on a long term, as its banking fundamentals are strong. Further, the Reserve Bank of India foresees single digit inflation by the end of this fiscal year. The policy measures by the RBI to reduce the inflation and, the cooling down of the crude oil prices at the global level, could pave way for the India's inflation rate to come down to single digit. The overall GDP growth is forecast at over 7% during this financial year.

Industry Structure & Developments:

The Indian CV industry remains fragmented, compared to the structure of fleet management in US or Europe. The small and individual fleet operators form about 60% of the overall commercial vehicle industry. The finance companies which fund these small operators have slowed down their lending primarily due to pressure on containing NPAs and their revised norm for credit to such sectors (cautious approach to sub-prime sectors). This has resulted in reduced buying of CVs.

The Commercial Vehicle industry (M & HCV) posted a flat growth during the year under report. While the growth was significant during first three quarters of the year, the markets started slackening from July'08 onwards. The OEMs now carry high inventory of vehicles due to unexpected downturn in sales and have been resorting to aggressive sales promotion campaigns to liquidate the inventory. Following are the major factors that have influenced downturn:

- High interest rates
- Economic slowdown
- Financial institutions cautious advancing policies to contain NPA
- Delay in new projects due to project cost escalations.
- Business Cyclicity

The demand for multi-axle vehicles hitherto sustained by overloading restrictions appear to have receded as in many States, the over loading practice has resurfaced due to the financial constraints in procurement of new vehicles, as also the slackening enforcement perhaps due to political compulsions. Besides, high cost of commodities (steel, cement etc.) has caused slowdown of many infrastructure related projects.

The above factors have affected not only the Commercial Vehicle industry but also the dependant supply chain. This situation is expected to last about six months to an year.

The performance of M&HCVs during FY2008 is shown below:

Year (Oct-Sep)	2007-08	2006-07	B/ (W)	% B/ (W)
M/H C Vehicles	289,293	284,223	5070	1.8%
Multi-axle Vehicles	116,025	114,780	1245	1.1%

However, the longer term out look seems to be intact. There is a large scale investment planned during 11th Five year plan in Energy & Infrastructure sectors. The investment in Power sector, particularly thermal projects of about 12000 MW, is expected to be a good driver for the CV industry, particularly off-high way tipper, due to resulting heavy investment in Coal Mining.

The structure of the CV Market in future is expected to change dramatically with higher tonnage segments growing, while the demand for medium range vehicles is expected to taper of. This would result in lowered total vehicle production volumes, for the given rate of growth in GVW growth rates.

The strategic partnerships the global OEMs envisaged with local partners (like MAN - Force Motors, Volvo-Eicher, Daimler Chrysler - Hero Group, Navistar with Mahindra) would go well for your company on a long-run, as most of these global OEMs are existing customers of ArvinMeritor. These partnerships will also intensify a healthy competition in the domestic arena and OEMs will be bound to offer innovative and value-added products. Your company with technical strengths of ArvinMeritor is poised to enhance its product offerings to meet these new opportunities.

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 2006-07. A report on segmental performance is furnished in Para 13 of Schedule 18 to the Balance Sheet as at 30th September 2008.

(Rs. In Million)

Turnover	2007-08	2006-07	Growth Rate %
Domestic	7453.77	5972.96	24.79
Exports	1076.13	971.51	10.77

Domestic

As a result of your company's leadership position in the multi-axle vehicles segment, your company's turnover reached the highest ever, during the year under report, representing an improvement of about 25 % 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.1076.13 million from Rs.971.51 million, representing an increase of about 10.77% over the previous year.

Opportunities & Threats:

Domestic:

Your company will, as in the past, be constantly exploring and tapping opportunities even during the difficult period ahead. The company's Product search initiatives have been stepped up to explore potential new products which are innovative in nature and meet growing expectation of OEMs and end customers in the emerging scenario. In this direction, your company has embarked upon a major restructuring of its product portfolio and strong Program Management initiatives to localize them at the shortest possible time frame. Over the next two years your company will have about three new products aimed at enhancing customer satisfaction and product positioning well ahead of market requirements. The company will primarily focus on the high tonnage and high speed vehicles, as these segments are expected to grow above the industry growth rate over the next five years.

The expected downturn this year, together with enhanced competitor activities, new entrants, besides OEMs taking cautious approach to in-source axles with a view to contain input costs (due to high commodity prices) have posed threats on your company's market leadership for these current products. Your company is therefore revisiting its products strategy to upgrade these products to deliver enhanced performance levels with marginal additional costs.

Exports:

The global market slowdown has impacted our exports to ArvinMeritor plants. We expect this situation to prevail over the next one year and during FY 2009 the company has initiated to develop certain new product for Chinese and North American markets. While the revival in export business is expected from FY 2010, the company has been exploring all possible opportunities to sell its existing products base to other geographic locations of Arvin Meritor.

Risks & Concerns:

The high commodity prices which prevailed throughout FY2008 have prompted major OEMs to consider options to in-source axles. In addition, enhanced product offering by existing competition and new entrants pose threats to the company's prospects. The company has embarked on a major programme to implement material cost optimization through value engineering and effective supply-chain and inventory management.

The economic slow down has haunted all auto ancillaries to a large extent. The company has embarked upon a major cost-cutting drive and will be able to reasonably offset certain fixed costs, thus expects to maintain current operating margins.

Internal Control Systems and their adequacy

Your company has a proper and adequate system of internal controls, commensurate with its nature of business and the size of its operations. The internal control measures have been instituted to ensure that all the assets are safeguarded and not exposed to risks arising out of unauthorized use or disposal and also to ensure that assets are properly accounted for and transactions are authorised, recorded and reported correctly. The internal controls are periodically reviewed by the Internal Audit which is performed by M/s Price Waterhouse Coopers Pvt Ltd, to ensure independence of the audit. The Audit Committee of the Board, chaired by an Independent Director, reviews the Internal Audit Reports periodically and ensures that recommendations of the auditors are implemented effectively.

Human Resources:

'Human Capital', being considered the most critical resource of your company, needs to be dynamic, competent, motivated and effective to enable your company meet the challenges of the competitive world.

To this end, the Management/Leadership bandwidth available was reassessed, gaps identified and the following initiatives were taken:

1. Talent Acquisition :-

Based on the competency gaps so identified, recruitments at leadership positions, with requisite talent were taken up, where internal talent was not available. We recruited expertise for leadership positions in the domains of Quality Management System, Operations, Plant Engineering, Heat treatment process, Manufacturing Engineering, & Purchase.

2. Competency Building :-

Internal searches for filling the competency gaps so identified also resulted in identifying talent that could be groomed for acquiring the required competencies. In this regard the following were the initiatives towards training across all levels, from Leadership positions to Middle Management, Operators, and Trainees.

A) **Project Management Simulation Programme :-** A cross functional team of your company was