AUTOMOTIVE AXLES LIMITED

28th Annual Report 2008-09

KALYANI

A Kalyani ArvinMeritor
Joint Enterprise

MERITOR
A Heritage of Rockwell Technology

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28th Annual Report 2008-09

Day : Friday

Date : 15th Jan 2010

Time : 12.30 p.m.

Place : Registered Office, Mysore

Corporate Information

Board of Directors	**Dr. Babasaheb N Kalyani**	Chairman Non-Independent & Non-executive Director
	Mr. Larry Dowers	Non-Independent & Non-executive Director (until 2nd November, 2009)
	Mr. Timothy Earl Joseph Bowes	Non-Independent & Non-executive Director (w.e.f 16th November, 2009)
	Mr. Bhalachandra B Hattarki	Independent Director
	Mr. B C Prabhakar	Independent Director
	Mr. Prakash C. Bhalerao	Independent Director (w.e.f 16th November, 2009)
	Mr. Ashok Rao	Whole Time Director
Company Secretary & Compliance Officer	**Mr. C K Sabareeshan**	
Statutory Auditors	M/s. Deloitte Haskins and Sells (Chennai), Bangalore	
Internal Auditors	M/s. PriceWaterHouseCoopers, Bangalore	
Bankers	Axis Bank Limited BNP Paribas ICICI Bank Limited HDFC Bank Limited State Bank of India State Bank of Mysore Toronto Dominion Bank Citi Bank N.A Punjab National Bank	
Registered Office & Works	Hootagalli Industrial Area, Off Hunsur Road, Mysore - 570018. Ph: 0821-2402452-56, 2402452-55; Website: www.autoaxle.com	
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	

DIRECTORS' REPORT

Dear Member,

The Directors take pleasure in presenting the Twenty-Eighth Annual Report together with the Audited Statements of Accounts of the Company for the financial year ended September 30, 2009.

1. Performance of your Company

Turnover:

The turn over comprising gross sales (inclusive of duty and taxes) and profit decreased dramatically as shown below:

(Rs. in Million)

Current Year	Previous Year	% drop
2907.99	8479.60	65.70

Net Profit: (Rs in Million)

	Current Year	Previous Year
Profit for the year before Taxation	**126.69**	854.30
Provision for Taxation-Current/ Deferred/Fringe Benefit Tax	**30.07**	296.45
Net Profit	**96.61**	557.85
Balance of Profit from Previous Year after adjusting transitional provision for deferred tax	**1,167.01**	779.99
Profit available for appropriation	**1,263.63**	1,337.84
Appropriations :		
Dividend for the year	**41.29**	98.23
Tax on dividend	**7.01**	16.69
Transfer to General Reserve	**9.66**	55.90
Surplus retained in Profit & Loss Account	**1,205.66**	1,167.02

Management Discussion & Analysis furnished separately carries a detail analysis of the performance during the year under report.

2. Capital expenditure

Owing to the severe downturn in the addressed market, your company had to freeze all capital expenditure, aimed at capacity increase, but did authorize capital expenditure aggregating to Rs.16.82 Mn towards new products and product upgrades that were considered required to either penetrate product segments or retain market share.

3. Dividend

The Directors recommend a total dividend of Rs. 2.70 per share of Rs.10/- each for the year 2008-09 being 50% of PAT including Dividend Distribution Tax. This aggregates to Rs. 48.31 Million.

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. B.B. Hattarki retires by rotation, and being eligible, offers himself for re-appointment.

In the casual vacancy that arose by the resignation of Mr. Larry Dowers, effective 02.11.2009, Mr. Prakash C. Bhalerao was appointed an Independent Director in accordance with Section 262 of the Companies Act, 1956 w.e.f. 16.11.2009. He holds office up to the date which Mr.Larry Dowers would have held office but for his resignation.

Arvin Meritor has, in exercise of powers conferred under Clause 113 of Article of Association of the Company and as permitted under Section 255 of the Companies Act, 1956 appointed Mr. Timothy Earl Joseph Bowes, Non-retiring Director w.e.f 02.11.2009.

Your Directors wish to place on record their appreciation for the valuable contribution made by Mr. Larry Dowers 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 : Mysore
Date : 16.11.2009

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 in 2008-09	1. Elimination of Idle running of machines (fume killers, chilling units, fresh air units) across the plant. 2. Installation of Temperature Controller for Cooling Tower to regulate the running of the fan. 3. Auto control for shop and peripheral lightings 4. Auto shut down software on all stand alone PCs. 5. All Pumps and Blowers controlled through VFD & Auto Logic 6. Max Demand maintained within 2470 KVA 7. Surrendering of additional special concession units provided by electricity board.
(b)	Additional investments and proposals, if any, being implemented for reduction of consumption of energy for the year 2009-10	1. Electrical panel with VFD for Paint booth -Rs.0.8 Mn 2. Conversion of power intensive Metal Halide lightings to energy efficient lightings - Rs.0.75 Mn 3. VFD Panels to cooling towers - Rs.0.6 Mn 4. Heat recovery from additional furnace to Painting Shop - Rs.4.2 Mn 5. Coolant recovery treatment plant - Rs.1.4 Mn
(c)	The impact of the measures at (a) & (b)	**I** 1. The total energy cost saving during the year aggregate to Rs.4.44 Mn due to the energy conservation initiatives taken during the year 2008-09 (Point 1 to 7 in (a)) 2. LPG cost savings of Rs.1.44 Mn/annum on account of installation of Magnetic Resonators to the Furnace (3% lower LPG consumption). **II** 1. The total energy cost saving will be Rs.2.05 Mn/annuam when measures listed in 1 to 3 of (b) implemented fully. 2. Saving of Rs. 1.92 Mn per annum on account of LPG Saving of approx. 60 MT per annum. (Point No.4) 3. Savings of Rs. 0.5 Mn/annum on account of coolant usage by ozone treatment process (Point No.5)
(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	NA

B. I. Research and Development (R & D)

1.	Specific areas in which R & D carried out by Company	➢ Introduction of Upgraded Axles for Mining / Off Highway application. ➢ Progressive migration from conventional Gear cutting system to face hob dry cutting system.

2.	Benefits derived as a result of the above R & D	➢ Upgraded Axles when used after testing / validation, will provide better performance in their respective segments for the harsh mining / off highway applications. The additional performance (15%+) is available to the customer at affordable price. ➢ More than 50% of the high runner gear part numbers have been migrated to Face Hob Dry Cutting system
3.	Future plan of action	➢ Development of New High Performance Brakes (15%+) for ICV segment.
4.	Expenditure on R & D a. Capital b. Recurring c. Total d. Total R & D expenditure as a percentage to total turnover	 Rs. 3 Million Nil Rs. 3 million 0.10%

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)	2 Speed Axle indigenization in Progress	a)	Cost effective solution to decrease turn around time / increase vehicle utilization at improved fuel performance levels

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 Earned	 Rs. 139.86 million 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 : Mysore
Date : 16.11.2009

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, 2009

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	45	M.S (Mfg Engineering) 19 Years	President & Wholetime Director	5,637,362	21.06.1999	MICO, Bangalore,	Deputy General Manager, 7 years
Mr. C K Sabareeshan	54	B.Sc., ACA, ACS 29 years	Chief Financial Officer & Company Secretary	4,762,693	06.01.1994	Tata Keltron Ltd., Chennai,	Financial Controller & Company Secretary, 1 year
Mr. N. Muthukumar	44	M.Sc. (Polymer & Rubber Technology), MBA (International Marketing) 22 years	General Manager - Operations	2,399,496	16.04.2008	TTK-LIG Limited, Chennai	Vice President (Operations), 6 years

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.
5. Contribution to Superannuation was suspended during the year.

For and on behalf of the Board of Directors

Place : Mysore
Date : 16.11.2009

B.N. Kalyani
Chairman

MANAGEMENT DISCUSSION & ANALYSIS

Economy

The year 2008-09 (Apr 08-Mar 09) ended with a reviving Gross Domestic Product growth rate of 6.7%. The agriculture component of the GDP was low and dipped into negative growth in the 3rd quarter while the manufacturing growth declined in the 3rd and 4th quarters due to global economic meltdown. The services sector remained string and stable at 9% through the year. The developing markets seem to have been less affected by the global meltdown and at the same time coming out of it sooner than developed nations. The growth estimates for FY10 is being pegged at 6.3%.

Inflation (WPI) numbers remained volatile through the year. Inflation rose to around 13% in Aug'08 from 8% during Apr'08, while fell as low as 0.4% by Mar'09. The fall in inflation was mainly attributed to the economic meltdown and softening of commodities, fuel and food articles. Oil prices also dipped to the lows of USD 40 per barrel from the highs of USD 144 per barrel due to changing economic conditions. The oil price has however recovered to around USD 70 per barrel by Sep'09.

The exchange rate though went to the highs of 1USD=INR50 during early FY09, has weakened to 1USD = INR 46 during fag end of the year, due to inflow of USD consequent to renewed interest by foreign institutional investors in the Indian markets in the wake of market recovery. Though the weakening of US currency has hit the exporting community, government is expected to announce incentives in the event of any further weakening.

Outlook

In the long term we expect the Indian economy restoring to 8-9% GDP growth and the large scale investment planned in infrastructure will result in the Commercial Vehicle industry witnessing healthy growth.

Many international players had put their India specific plans on hold due to the economic slowdown. With market situation improving, these players have revived their plans. The OEMs have already started interacting with the supplier base with RFQs and at the same time are focusing on establishing market and service networks. These new players will not only provide healthy competition to the existing OEMs but will also have plans to introduce the latest technology.

In the short term, also, the CV market started looking up from Aug-Sept 09 onwards, on expectations of the following:

- Rising domestic consumption
- New Emission norms being introduced in April 10 and pre-buying spree by operators, as the vehicle prices are bound to increase
- Improved liquidity situation
- Infusion of fresh capital consequent to market revival

The retarding factors are:

- High oil prices and consequential impact on economy.
- Inflationary pressures and consequential impact on liquidity and interest rates
- High fiscal deficits
- Concerns on extending stimulus package
- Export growth concerns

Market is expected to witness a distinct shift towards higher tonnage vehicles. Existing 4x2 vehicles are being replaced by 6x2 and 8x2 vehicles for their increased load carrying capacity. With improved road infrastructure, markets will also witness switch over to high powered engines.

Industry Structure & Developments

Commercial Vehicles' Market :

During the year under report, the addressed CV (M &HCV) market fell by an unprecedented level of over 44 % as a result of the Global Financial Crisis and recession in developed economies. The industry also saw a marked shift in the product mix during the downturn. The LCV market especially the below 3.5T market registered growth despite the industry declining as a whole. This was largely due to the products from Tata Motors (Ace model) and similar models from other manufacturers. The liquidity crunch plays an important role here as financiers were comfortable handing out loans for small vehicles.

Large and heavy truck sales not only suffered from high interest rates but also due to the decision by large fleet owners to postpone the renewal of the fleets due to sudden stoppage of iron ore mining activities for almost one or two quarters.

The performance of M&HCVs during FY2009 is shown below:

Year (Oct-Sep)	2008-09	2007-08	B (W)	% B (W)
M/H C Vehicles	160,362	289,293	(128,931)	(45%)
Multi-axle Vehicles	53,200	116,025	(62,825)	(54%)

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 2007-08. A report on segmental performance is furnished in Para 13 of Schedule 18 to the Balance Sheet as at 30th September 2009.

(Rs. In Million)

Turnover	2008-09	2007-08	Drop Rate %
Domestic	2,728.56	7,453.77	63.39%
Exports	188.78	1,076.13	82.45%

Domestic :

Ashok Leyland production dipped to a larger extent as compared to Tata Motors. This was due to high inventory at Ashok Leyland and also due to a relatively higher regional exposure of Ashok Leyland. Meritor's presence in the heavier end of the CV market made us vulnerable to the credit crunch as finance firms refused loans to fleet owners who themselves were skeptic of investing in fleet renewal.

The economic slow down has challenged all auto and commercial vehicle ancillaries to a large extent. The company has embarked upon a major cost-cutting drive to offset certain fixed costs, and thus, plans to maintain current operating margins.

The company has taken this opportunity to explore new market segments and diversify its portfolio of products so as to reduce the effects of cyclic nature of the business. At the same time the company has improved and implemented new project management philosophies so as to reduce internal costs and streamline processes. The company is working towards launching new products which the industry will be using in the future and plans to utilize its technological advantage over its competitors to gain market share, as well improve profit margins. .

Exports :

The global market slowdown has impacted our exports to ArvinMeritor plants. Existing and firm schedules were stopped, we expect this situation to continue in the first half of FY10 and slowly improve towards the financial year end. However the new programs like 177 for China market, improved schedules for 177/160 housings from China and