AUTOMOTIVE AXLES LIMITED



# 29th Annual Report 2009-10

KALYANI

A Kalyani ArvinMeritor
Joint Enterprise

ArvinMeritor

## Contents

**Page No.**



# 29th Annual Report 2009-10

**Day :** Friday

**Date :** 21st Jan 2011

**Time :** 12.30 p.m.

**Place :** Registered Office, Mysore

## *Corporate Information*

| | | |
|---|---|---|
| **Board of Directors** | **Dr. Babasaheb N Kalyani** | Chairman |
| | **Mr. Timothy Earl Joseph Bowes** | Director |
| | **Mr. Bhalachandra B Hattarki** | Director |
| | **Mr. B C Prabhakar** | Director |
| | **Mr. Prakash C. Bhalerao** | Director |
| | **Mr. Satish Sekhri** | Director |
| | **Mr. Ashok Rao** | Director |
| **Company Secretary & Chief Financial Officer** | **Mr. S Ramkumar** | |
| **Statutory Auditors** | Deloitte Haskins and Sells (Chennai), Bangalore | |
| **Internal Auditors** | PriceWaterHouseCoopers, Bangalore | |
| **Bankers** | Axis Bank Limited<br>BNP Paribas<br>ICICI Bank Limited<br>HDFC Bank Limited<br>State Bank of India<br>State Bank of Mysore<br>The Toronto Dominion Bank<br>Citi Bank N.A<br>IDBI Bank Limited<br>Kotak Mahindra Bank | |
| **Registered Office & Works** | Hootagalli Industrial Area,<br>Off Hunsur Road, Mysore - 570018.<br>Ph: 0821-2402582-86, 2402452-53<br>Website: www.autoaxle.com<br>Email : info@autoaxle.com | |
| **Registrar & Share Transfer Agents** | Integrated Enterprises (I) Limited<br>#30, Ramana Residency,<br>4th cross, Sampige Road, Malleshwaram<br>Bangalore Ph: 080-23460815-818;<br>e-mail: investorgrievance@123alpha.com | |

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# DIRECTORS' REPORT

To the Members,

The Directors are pleased to present the Twenty-Ninth Annual Report of your company with the audited accounts for year ended September 30, 2010.

## Financial Results

(₹ in Million)

| | 2009-2010 | 2008-2009 |
|---|---|---|
| Profit before Depreciation & Tax | **868.83** | 311.66 |
| Less: Depreciaation & amortization | **209.95** | 184.97 |
| Provision for Taxation-Current / Deferred / Fringe Benefit Tax | **218.13** | 30.07 |
| Profit After Tax | **440.74** | 96.61 |
| Balance of Profit from Previous Year | **1,205.66** | 1,167.01 |
| Profit available for appropriation | **1,646.98** | 1,263.63 |
| Appropriations : | | |
| Dividend for the year | **128.45** | 41.29 |
| Tax on dividend | **21.33** | 7.01 |
| Transfer to General Reserve | **44.10** | 9.66 |
| Surplus retained in Profit & Loss Account | **1,453.09** | 1,205.66 |

## Review of performance

The Gross Sales and other income for the financial year under review was ₹7323.62 Mn as against ₹2,907.99 Mn for the previous financial year registering a growth of 152%. The Profit Before Tax of ₹658.87 Mn and the Profit After Tax of ₹440.74 Mn for the financial year under review as against ₹126.69 Mn and ₹96.61 Mn respectively for the financial year, improved by 420% and 356% respectively.

## Dividend

The Directors recommend payment of dividend of ₹8.50 per share of ₹ 10.00 each.

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

## Fixed deposits

Your company has not accepted any fixed deposits and, as such, no amount of principal or interest was outstanding as of the Balance Sheet date.

## Auditors' Report

The Auditors' Report to the Shareholders does not contain any qualification.

## Disclosure of Particulars

Information as per the Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988 relating to conversion of Energy, Technology Absorption, Foreign Exchange Earning and outgo is provided in the Annexure "A" forming part of this report.

## Management Discussion and analysis Report and Report of the Directors on Corporate Governance

In accordance with clause 49 of the Listing Agreement with Stock Exchanges, the Management Discussion and Analysis Report and the Report of the Directors on Corporate Governance form part of this report.

## Particulars of Employees

The Board of Directors wishes to express their appreciation to all the employees for their contribution to operation of the company during the year. The information required under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, form part of this Report. In terms of Section 219(1)(b)iv) of the Act, the report and accounts are being sent to the shareholders of the company excluding the aforesaid Annexure. Any member interested in obtaining a copy of the statement, may write to the Company Secretary of the Company. None of the employees listed in the said Annexure is related to any Director of the company.

## Directors' Responsibility Statement

The Board of Directors of the Company confirms that:

- In the preparation of the annual accounts, the applicable accounting standards have been followed and there has been no material departure:

- Appropriate accounting policies have been selected and applied consistently, and judgments and estimates that have been made 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.
- Proper and sufficient care has been taken 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 annual accounts have been prepared on an ongoing concern basis.

## Directors

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

Mr. P C Bhalerao was appointed a director in casual vacancy created by resignation of Mr. Larry Dowers and he holds office upto the date of ensuing Annual General meeting up to which Mr.Larry Dowers would have held office. In accordance with the provisions of the Companies Act, 1956, Mr. P C Bhalerao retires with effect from the date of the Annual General Meeting. The appointment of Mr. P C Bhalerao as Director liable to retire by rotation is proposed.

Mr.Satish Sekhri who was appointed as an Additional Director on 18th November 2010, holds office only up to the ensuing Annual General Meeting and his appointment has been proposed for the approval of the members.

## Auditors

M/s. Deloitte Haskins & Sells (Chennai), Bangalore, Chartered Accountants, Statutory Auditors of the company hold office until the conclusion of ensuing AGM and are eligible for Reappointment.

The company has received a confirmation from M/s. Deloitte Haskins & Sells (Chennai) to the effect that their appointment if made, would be within the limits prescribed under section 224(1B) of the companies Act, 1956.

## Acknowledgements

Your directors take an opportunity to thank the financial institutions, Banks, Central & State Governments' Authorities, Regulatory Authorities, Stock Exchanges and the stake holders for their continued co-operation and support to the company.

Your directors wish to place on record their appreciation for the continued co-operation and support received from, the Kalyani Group, Pune, and Arvin Meritor Inc., USA.

**For and on behalf of the**
**Board of Directors**

Place : Mysore — **B.N. Kalyani**
Date : 18th November 2010 — 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 2009-10 | 1. Planned project of VFD panel to ABB Paint booth is under final stage of installation<br>2. 150 HP friction weld motor logic modified to run in STAR during idle condition instead of DELTA<br>3. Planned project of Coolant recovery treatment plant- Will be operational in the month of Nov 2010 |
| (b) | Additional investments and proposals, if any, being implemented for reduction of consumption of energy for the year 2009-10 | 1. VFD Panels to cooling towers - ₹ 0.6 Mn.<br>2. Conversion of power intensive Metal Halide lightings to energy efficient lightings - ₹0.8 Mn.<br>3. Solar LED lights to factory periphery walk path - ₹ 1.5 Mn<br>4. Conversion of swaging machines hyd power pack with latest design and energy efficient motors - ₹1.3 Mn<br>5. Automation of 1000 CFM compressors - ₹ 1.5 Mn |
| (c) | The impact of the measures at (a) & (b) | (a)<br>1. The energy cost savings will be ₹ 0.47Mn per annum when implemented fully<br>2. Energy cost of ₹ 0.5 Mn per annum saved on account power reduction during non welding time<br>3. Savings of ₹ 0.5 Mn per annum on account of coolant usage by ozone treatment process<br>(b)<br>4. The total energy cost saving will be ₹ 2.05 Mn per annum on account of controlled frequency<br>5. ₹ 0.4 Mn per annum on account of less power for same illumination level<br>6. No additional energy cost of approx ₹ 0.1 Mn per annum<br>7. Energy cost savings of ₹ 0.5 Mn per annum due to replacement of inefficient pumps and motors<br>8. Energy cost savings of ₹ 0.8 Mn per annum on account of optimum utilisation of air consumption |
| (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 Appplicable |

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

| | | |
|---|---|---|
| 1. | Specific areas in which R & D carried out by Company | ➢ Development of High Performance Brakes for ICV segment. |
| 2. | Benefits derived as a result of the above R & D | ➢ High Performance Brake for ICV segment providing additional braking performance (15%+) in the same envelope |
| 3. | Future plan of action | ➢ Development of existing high value axle parts with alternate grades of steel / modified processes to achieve the same performance at lower cost |
| 4. | Expenditure on R & D | |
| | a. Capital | Nil |
| | b. Recurring | ₹ 5 Lacs |
| | c. Total | ₹ 5 Lacs |
| | d. Total R & D expenditure as a percentage to total turnover | 0.007% |

## 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 completed | a) | Cost effective solution to decrease turn-around time / increase vehicle utilization at improved fuel performance levels. |
| b) | Hub Reduction Axle Indigenization initiated | b) | Provide cost effective high performance solutions for very heavy on & off highway axle requirements |

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 therefor 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 | ₹ 73.58 Mn |
| | 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 : Mysore
Date : 18th November 2010

**B.N. Kalyani**
**Chairman**

# MANAGEMENT DISCUSSION & ANALYSIS

## Economy

The year under report saw the Indian economy bouncing back strongly after a sudden and steep down turn and witnessed a strong growth in domestic consumption which was fueled by government spending and sustained by private growth. The first three quarters saw the economy registering a Gross Domestic Product growth rate of 8.0% with the economy likely to pass 8.5% levels for FY11.

Agriculture growth is forecasted to improve upto 3.5% on account of abundant rainfall in FY11. This is likely to give a boost to all industry dependent on Agriculture. This is by and large expected to influence Commercial Vehicle (CV) sales.

The Industry sector posted a very strong show during the said period with a consistent growth number of above 10% through the first three quarters. This was fueled by a healthy mix of spread across the sectors which make up the industry sector. The growth was led by Capital goods, the index of which went up by 53% signaling significant capacity addition and an increasing confidence in the future prospects of the industry

The service sector was the most consistent of the three sectors with an average growth of 8.4% in the first three quarters.

The resilience of Indian economy and the banking system was well demonstrated by the fast return to normalcy. The growth estimates for FY11 is being pegged at 8.5%

The Index of Industrial Production Index (IIP index) which follows the industry mirrored the strong show by the economy with a quarterly growth of as high as 15.1% on account of the strong capacity addition undertaken by the industry which was backed strongly by increased private consumption. The IIP showed signs of moderation to a level which would be much more sustainable in the future and is expected to settle by 10% by the end of the period under report.

Inflation (WPI) started rising from Oct-09 onwards due to demand and supply side pressures. The accommodative outlook of the government and a fast paced growth of the economy were the chief reasons behind it. The government had to maintain a fine line between excessive inflation and facilitating growth. The policy rates were regularly hiked to keep both variables under check, with an YTD cumulative increase of 275 bps with another increase being expected by the end of the year. The Inflation reached it peak June'10 and has come under control by September'10 though it is still higher than the government's targets of 6%.

The INR started to appreciate with respect to the USD from September'09 onwards on account of strong show by the economy and increased inflows. The INR reached a peak of 44.44 Rs per Dollar in Apr'10 and was later controlled on account of rising current account deficit and balance of payments weakness. However the rupee continued to appreciate once again on account of very strong capital inflows into the economy fuelled by strong show by the economy and confidence of the foreign investor. RBI is likely to intervene and cap the appreciation due to widening trade and current account deficit.

## Outlook

In the long, the Indian economy is expected to restore to 8-9% GDP growth and the large scale investment planned in infrastructure will result in the CV industry witnessing healthy growth.

Most of the plans by domestic and international Original Equipment Manufacturers (OEMs) which had been put on hold due to economic pressures have been revived. India has seen intense movement in the last 12 months in the number of players who have entered the Indian CV market while many more OEMs have plans to do so in the next 1-2 years.

The industry has seen a large number of players entering the market which is dominated by two players. These two account for over 80% of the market. The entry by so many new entrants will result in margin pressures across the value chain and result in introduction of the latest technology in the Indian market.

The industry also benefited from the introduction of emission norms. The change was affected in two steps. BS-IV norms were introduced in 13 cities on 1st April 2010, while BS-II norms were introduced in rest of India from 1st Oct 2010. This move by the government resulted in up-gradation of technology, phasing out of old truck models and price increases. The market has reacted favorably despite the price increase and this was proved by the strongest sales performance ever in India.

The strong show was facilitated by the improved liquidity situation on account of the accommodative and growth intensive path followed by the government. While the policy rates have been revised upwards regularly, it has not resulted in significant increase in the interest rates and hence the market was less affected by the hikes.

In the short term, also, the CV market is likely to show the following trends:

- OEMs to target niche segment and needs
- Sales to moderate after the intense activity before the emission norm introduction
- Improved liquidity situation to tighten and further moderate sales
- The strong infusion of capacity to strengthen demand for trucks
- Bus sales to moderate since most of the state transport authorities have renewed their fleets
- Export market to grow and aid sales
- Rising fiscal deficit to impact further infusion of capital and moderating growth
- Government steps in order to curtail inflation will moderate growth

Market has witnessed a strong comeback in high tonnage vehicles and this can be seen by the 143% improvement in production of Multi-Axle trucks over last year. The tractor market of above 26.4 Tonnes also witnessed an increase of 233% over last year. Existing 4x2 vehicles are being replaced by 6x2 and 8x2 vehicles for their increased load carrying capacity and the same trend is also being recognized by new entrants with launches of more and more trucks in the higher tonnage category. Emission norms introduction has facilitated the introduction of better engine technology to power these heavier trucks and better infrastructure has given the necessary support for these trucks to do what they are being designed for.

## Industry Structure & Developments

### Commercial Vehicles' Market :

During the year (Oct '09 - Sep '10) under report, the addressed CV (Medium & Heavy Commercial Vehicles) market recovered from a low of 159,447 units of vehicles above 7.5T in 2009 to a healthy level of 317,387 units in 2010. This is a significant increase of 100%. This increase is among the highest across the world and it goes to prove that India recovered the down turn at a much faster pace as compared to other nations. The production figures ending September 2010 are infact the highest ever recorded by the industry.

This increase was experienced across the segment of commercial vehicles. The M&HCV Trucks went up from 123,036 units in FY09 to 263,078 units in FY10. The M&HCV Buses market went up from 36,421 units in FY09 to 54,309 units in FY10, mainly due to stronger sales on account of JNNURM project. LCV market also saw an increase with the below 3.5T market registering 55% growth. This was largely due to the products from Tata Motors (Ace model) and similar model from Mahindra.

Large and heavy truck sales improved significantly on account of increased good movement, improved industry activity fueled by government and private spending. The inflation remained high and RBI had to resort to regular hikes in policy rates, despite these the industry posted a strong growth.