KALYANI

MERITOR

Automotive Axles Limited

30th Annual Report 2010-11

30th Anniversary Celebration

Celebration started with lighting of lamps by dignitaries

One Millionth Axle unveiled by Dr. Baba Kalyani (Chairman, Automotive Axles Ltd.) and Mr. Chip McClure (Chairman, Meritor Inc.)

Dignitaries on dias

The senior most employees were felicitated for their uninterrupted services

Audience being stakeholders

Contents

CORPORATE INFORMATION

Board of Directors	**Mr. Babasaheb N Kalyani**	Chairman
	Mr. Pedro N Ferro	Director
	Mr. Bhalachandra B Hattarki	Director
	Mr. B C Prabhakar	Director
	Mr. Prakash C. Bhalerao	Director
	Mr. Satish Sekhri	Director
	Mr. Ashok Rao	Executive Director

Company Secretary & Chief Financial Officer — **Mr. S Ramkumar**

Statutory Auditors — Deloitte Haskins and Sells (Chennai), Bangalore

Internal Auditors — PriceWaterHouseCoopers, Bangalore

Banker

Axis Bank Limited
HDFC Bank Limited
State Bank of Mysore
The Toronto Dominion Bank
Citi Bank N.A
IDBI Bank Limited
Kotak Mahindra Bank

Registrar & Share Transfer Agents:

Integrated Enterprises (I) Limited
#30, Ramana Residency, 4th cross, Sampige Road, Malleshwaram
Bangalore Ph: 080-23460815-818; e-mail: alfint@vsnl.com

Registered Office

Hootagalli Industrial Area, Off Hunsur Road, Mysore - 570018.
Ph: 0821-2402582-86, 2402452-53
Website: www.autoaxle.com
Email : info@autoaxle.com

Works

Unit I : Hootagalli Industrial Area,
Off Hunsur Road, Mysore - 570018.

Unit II : Plot No.34 & 35P, Hootagalli Industrial Area,
Off Hunsur Road, Mysore – 570018

Unit III : 6KM Stone, Kichha Road, Village Shimla Pistor,
Rudrapur, Udham Singh Nagar, Uttarakhand

Unit IV : No.19, Udyog Vihar, Greater Noida, Uttar Pradesh

CHAIRMAN'S COMMUNIQUÉ

Operating in a largely volatile business environment, our performance at Automotive Axles Limited (AAL) was commendable. We rationalised costs, improved organisational flexibility, diversified proactively, encouraged innovation and optimised capital allocation.

Dear Friends,

As we celebrate the 30th year of our existence, we are more confident to face the future. Thanks for your trust and support in all these years, which has helped us achieve more than what we anticipated, when we began our journey three decades ago. We believe we can shape our future by dint of coordinated strategy and sensible action.

In all these years, our fundamental business strategy has been to drive product-process innovation, notwithstanding challenges. We have always worked closely with the evolving market scenario and customer aspirations, and delivered on the strength of technology and teamwork.

Despite an uncertain global business scenario, our performance in 2010-11 has been encouraging: we registered a 52% growth in gross sales (including other income) from ₹ 7,323.62 Million in 2009-10 to ₹ 11,113 Million in 2010-11. Moreover, our PAT and PBT increased by 32% and 31%, respectively. We focused on high-growth areas, accelerated product launches and extended the portfolio of customers. Diversification was also big on our intellectual radar. Recently, we forayed into the automotive brakes business, which has an attractive opportunity in the auto component OEM and aftermarkets.

Global economies have now entered into a phase in which the share of volatility will be higher than that of stability. Opportunities for growth will surely be there, but those will be punctuated by extended phases of uncertainties, bewildering governments and policy makers. The truth of the statement is borne out by sluggish growth in the US, financial crises in Eurozone economies and unmistakable signs of inertia in the Indian economy.

Despite the temporary shortcomings, the long-term outlook for India continues to be bright. We are confident that India's GDP growth rate will hover around 7-7.5% going ahead. Operating in a largely volatile business environment, our performance at Automotive Axles Limited (AAL) was commendable. We rationalised costs, improved organisational flexibility, diversified proactively, encouraged innovation and optimised capital allocation.

In business, as in life, we can either get bogged down by current realities, or choose to look beyond them. In line with the deeply cherished values and technology prowess of both the Kalyani Group and Meritor, AAL continues to focus on the long term. The organisation is concentrating on expanding capacities and continuously diversifying the product portfolio. We are continuing with our investment plans, so that when the markets gain momentum, we can reap maximum benefits.

AAL has established a brake manufacturing facility at Mysore and Rudrapur to foray into the brakes business, and has also started a contract manufacturing facility for the manufacture of Trailer Axles in Greater Noida, Uttar Pradesh. This will help diversify our business offerings and enhance product portfolio.

Emphasising on eco-friendliness in productisation, we have indigenously developed a product called the 'green axle'. This product will help reduce fuel consumption from 7-10% and higher levels of performance. Currently, it is in pilot production stage and we foresee high demand when commercially launched. We also launched the Hub Reduction Axle for heavy automobiles with advanced traction control, heavy load-bearing capability and enhanced durability.

Our clients comprise most of the commercial automobile industry players, such as Ashok Leyland, Tata Motors, Asia MotorWorks, Volvo Eicher, Vehicle Factory-Jabalpur, BEML, Man Force Trucks Pvt. Ltd. and Mahindra Navistar, among others. During the year under review, our strategy was to reduce dependence on a small group of clients and widen our client base, resulting in a more de-risked revenue source. Moreover, in 2010-11 we got associated with Caterpillar to cater to their needs for off-highway products. These products primarily address the construction and mining sectors, witnessing a steady growth with consistent government investment, increasing urbanisation and escalating foreign investments. We are also reducing our carbon footprint and enhancing our use of clean energy. Besides, enhanced automation at AAL is expected to drive productivity and achieve economies of scale.

We have planned a technology investment to the tune of ₹ 65 crores to elevate our product portfolio for the next fiscal, and going ahead we are committed to enhance focus on product-process innovation, strengthen intellectual capital through prudent recruitment and focused training, generate repeat business from existing client portfolio, foray into unexplored geographies and finally increased proportion of margin-accretive products.

Our robust financials, enduring brand appeal, strong national and international footprints and highly motivated employees represent the growth engines for the future. Let me take this opportunity to thank the entire family of AAL stakeholders.

The best days of AAL are still ahead!

Dr. B N Kalyani
Chairman

we are committed to enhance focus on product-process innovation, strengthen intellectual capital through prudent recruitment and focused training, generate repeat business from existing client portfolio, foray into unexplored geographies and finally increase proportion of margin-accretive products.

DIRECTORS' REPORT

To the Members,

At Automotive Axles Limited, our vision is to emerge as a world-class manufacturer of cost competitive products nationally and internationally. The year 2010-11 has witnessed a decisive step in that direction in terms of capacity expansion, operational excellence, enhanced technological focus and fiscal prudence. The result has been a substantial growth in revenue and profits and a wider visibility in multiple markets globally.

Your Directors have the pleasure in presenting the Thirtieth Annual Report on the business and operations of the Company and the accounts for the Financial Year, ended 30th September, 2011.

FINANCIAL RESULTS

(₹ in Million)

	2010-2011	2009-2010
Profit before Depreciation & Tax	1,105.28	868.83
Less : depreciation & amortisation	233.93	209.96
Provision for Taxation – Current/ Deferred/ Fringe Benefit Tax	295.78	218.13
Profit After Tax	575.57	440.74
Balance of Profit from the Previous Year	1,453.09	1,206.24
Profit available for appropriation	2,028.66	1,646.98
Appropriations :		
Dividend for the year	151.12	128.45
Tax on dividend	24.52	21.33
Transfer to General Reserve	57.60	44.10
Surplus retained in Profit & Loss Account	1,795.42	1,453.10

REVIEW OF PERFORMANCE

The Gross Sales and other income for the financial year under review was ₹ 11,112.58 Million as against ₹ 7323.62 Million for the previous financial year, registering a 52% growth. The Profit Before Tax of ₹ 871.35 Million and the Profit After Tax of ₹ 575.56 Million for the financial year under review as against ₹ 658.87 Million and ₹ 440.74 Million respectively for the financial year, improved by 32% and 31% respectively.

Your Company has established brake manufacturing facility at Mysore & Rudrapur with Building, Plant and Machinery purchased from Kalyani Global Engineering Pvt Ltd.

Your Company has also established Contract Manufacturing Facility for manufacturing Trailer Axles in Greater Noida, Uttar Pradesh with the plant and inventories purchased from ANG Industries Limited.

DIVIDEND

The Directors recommend the payment of dividend of ₹ 10 per share of ₹ 10.00 each.

The Dividend Distribution tax shall be paid by the Company and the dividend distributed to shareholders is exempt from tax.

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 dedicated contribution to facilitate smooth operations 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, M/s B B Hattarki & Mr. Ashok Rao retires by rotation and being eligible, offer themselves for re-appointment.

Mr. Timothy Bowes who was appointed in November 2009 as a non-retiring Director based on nomination received from Meritor HVS LLC, USA has resigned from the Board. The Board places its appreciation for his valuable contributions during their tenure.

Meritor HVS LLC, USA 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. Pedro N Ferro as non-retiring Director w.e.f. 28.11.2011.

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 this opportunity to thank the financial institutions, Banks, central & state government authorities, Regulatory authorities, Stock exchanges and the stakeholders 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 Meritor Inc., USA.

For and on behalf of the Board of Directors

Place: Mysore — B.N. Kalyani
Date: 29th November, 2011 — 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 2010-11	1. VFD panel to Housing line Cooling tower adopted with temperature feedback – ₹ 0.7 Million
.		2. Solar LED lights to factory periphery walk path installed - ₹ 1.5 Million
		3. Coolant recovery treatment plant installed in the month of November 2010 - ₹ 1.5 Million
(b)	Additional investments and proposals, if any, being implemented to reduce energy consumption for 2010-11	1. VFD Panels to Heat treatment cooling towers – ₹ 1.3 Million
		2. Modification of hot swage machine heating system – ₹ 1.5
		3. Automation of 1000 CFM compressors- ₹ 1.5 Million
(c)	The impact of the measures at (a) & (b)	(a)
		1. The energy cost of ₹ 0.55 Million per annum saved on account of frequency and temp control
		2. Energy cost of ₹ 0.1 Million per annum saved on account of elimination of conventional light fittings.
		3. Cost of ₹ 0.8 Million per annum on account of coolant usage by ozone treatment process
		(b)
		1. The total energy cost saving will be ₹ 0.9 Million per annum on account of controlled frequency and temp.
		2. ₹ 2.5 Million will be the savings by modifying the coil design and reducing running frequency
		3. Energy cost savings of ₹ 0.8 Million per annum on account of optimum utilisation of air consumption

B. I. RESEARCH AND DEVELOPMENT (R & D)

1.	Specific areas in which R & D is conducted by the Company	• Development of Hub Reduction solo axle with modified 1495 Drive head and housing integrated with Hub Reduction wheel end.
2.	Benefits derived as a result of the above R & D	• Creation of new axle segment for Agriculture Tractor sector.
		• Expansion of product portfolio to target new customers
3.	Future plan of action	• Development of Rear axle for Light Commercial Vehicle
		• Part development, & Industrialisation of completely dressed Rear Axle for 60 Tonne dumpers
4.	Expenditure on R & D	
	a. Capital	Nil
	b. Recurring	
	c. Total	Nil
	d. Total R & D expenditure as a percentage to total turnover	

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
Nil	Nil

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	₹ 161.94 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: Mysore
Date: 29th November, 2011

B.N. Kalyani
Chairman

MANAGEMENT DISCUSSION & ANALYSIS

INDIAN ECONOMIC OVERVIEW

The year under review commenced on a high note, but a mild pessimism crept in due to combination of domestic and international factors. As 2011 draws to a close, multiple issues plague the Indian economy: high inflation, low industrial growth, policy slowdown, weak currency and global economic uncertainties.

The first quarter registered a GDP growth of 8.2%, but the growth declined in the subsequent quarters: 7.8% in the second and 7.7% in the third quarter. The GDP growth rate is expected to plummet, touching 7.5% or even lower, belying the high expectations at the beginning of the year.

High inflation persisted throughout the year (October 2010 – September 2011) and this prompted the Central Bank to increase interest rates 13 times in the preceding 18 months. Escalating interest rates are detrimental to economic growth and the RBI has clearly indicated that controlling inflation is its top most priority.

Industrial Production Index, an indicator of industrial growth, demonstrated strong growth in the first six months (October 2010 – March 2011) after which the growth moderated. The recent slowdown in industrial activities can be partially attributed to the high interest rates. Agriculture sector performed well in the first two quarters, posting 8%-plus growth rates, and it moderated in the third quarter. The services sector continues to remain strong and exceeded the overall growth rate of the economy.

Indian Rupee (INR) remained robust, hovering around ₹ 45 per US$ for most of the year, but depreciated sharply in the last two months of the year. Weak currency has made the imports costlier and for a country which imports more than 70% of its crude oil requirements, this could put a significant strain on the exchequer. However, FY'2010-11 witnessed spectacular export performance, reinforcing the idea that India's export capability is witnessing exciting times.

INDUSTRY STRUCTURE AND DEVELOPMENTS

Commercial Vehicles Market

The commercial vehicle (CV) industry witnessed robust growth in the year under report (October 2010 to September 2011). Medium & Heavy commercial vehicle production (M&HCV) (>7.5T) grew by 14% to cross 3,61,000 units in FY2011.

M&HCV domestic sales registered a 9% growth to cross 3,31,000 units. Strong economic growth was seen in the first half of the year and the robust growth of construction industry catalysed CV sales. Besides, the enforcement of overloading ban in states, such as Uttar Pradesh, Madhya Pradesh and Bihar has facilitated the sales growth.

Although there were uncertainties in the global macro-economic environment, the export market for M&HCVs witnessed a 25% growth to surpass 29,000 units. The weakening rupee in the last two months has made the export market more attractive.

Commercial vehicle growth

Year (Oct-Sep)	2010-11	2009-10	B(W)	% growth
7.5 T – 12 T	67,014	59,892	7,122	12%
> 12 T	293,347	257,502	35,845	14%

[Source: Society of Indian Automobile Manufacturers (SIAM)]

As large fleet owners (>20 vehicles) gain more share in the transportation industry, the adoption of hub-and-spokes model is gaining ground. This is pushing sales to both ends of the tonnage spectrum. The sales this year falls in the continuing trend of medium commercial vehicles (MCV) losing share to heavy commercial vehicles (HCV) and light commercial vehicles (LCV). The 31T vehicles had the highest Y-O-Y growth in M&HCV category and tractor segment saw an impressive growth. Also, the sub 3.5T segment witnessed phenomenal growth. Improving road infrastructure, organised retail and emergence of goods & service tax will aid the sales momentum, going forward.

India's CV market (currently dominated by three players) is expected to witness intense competition due to the emergence of new entrants. This year saw a considerable number of new models being launched by original equipment manufacturers (OEM). The enhanced competition is expected to unleash more choices to customers, exerting pressures on margins.

Road Ahead

- High interest rate and fuel price act as dampeners to the growth of CV industry in the short term. The retail prices of diesel were increased this year and the possibility of further revision to reduce the subsidy burden of the government could become a dampener for CV sales.
- In its second quarterly review of credit policy, RBI had revised its GDP growth projection downward to 7.6 % from its earlier