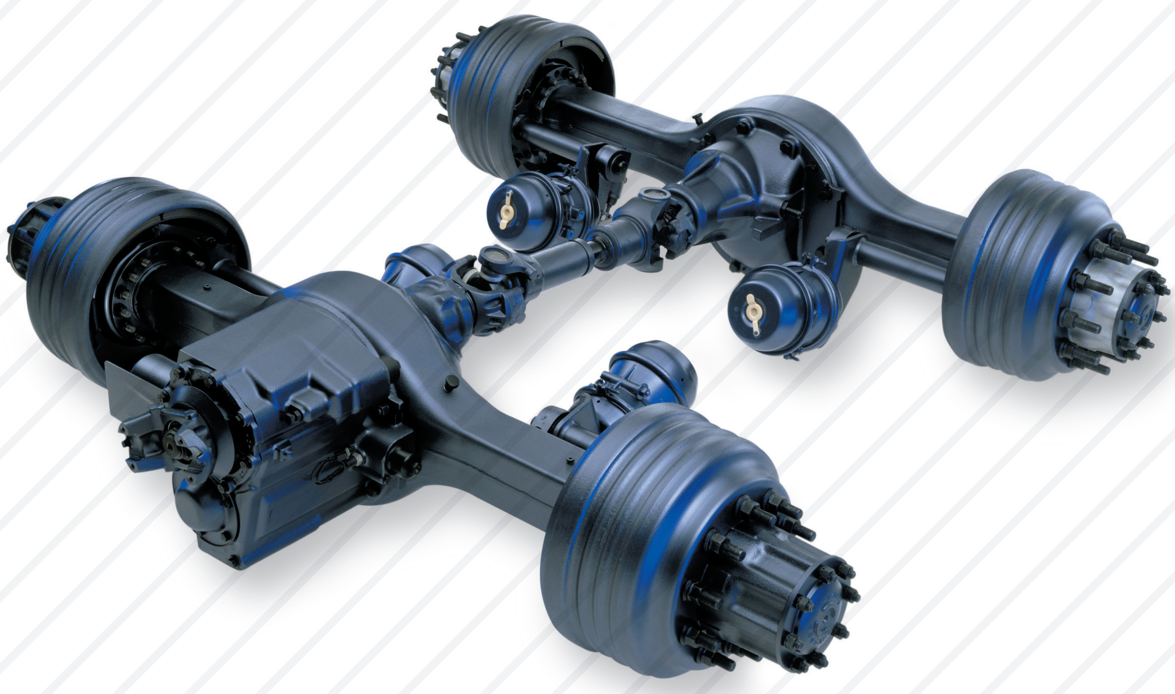
Growth and Performance.... through technology and teamwork

31ST Annual Report 2011-12

Automotive Axles Limited



KALYANI

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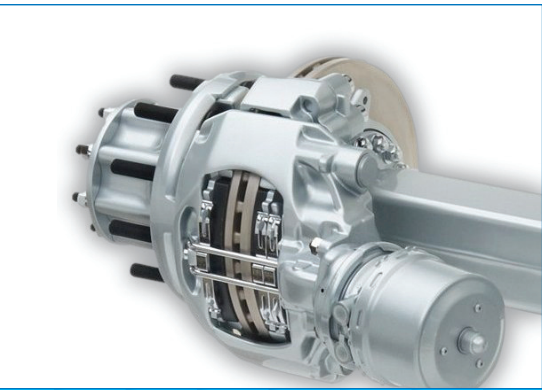
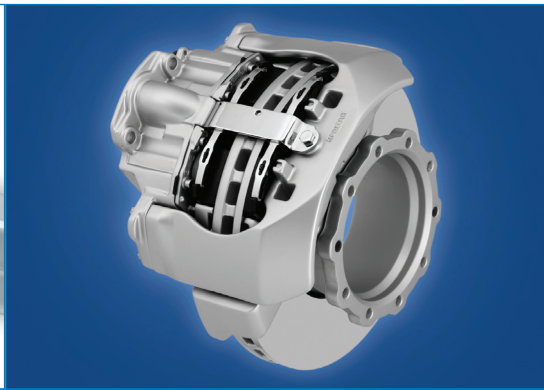
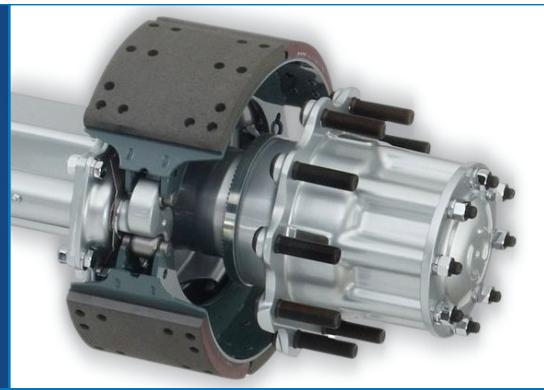
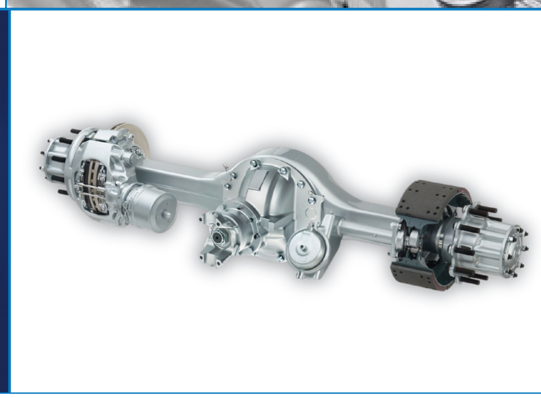




Our product range







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,** Wholetime Director
COMPANY SECRETARY, COMPLIANCE OFFICER & CHIEF FINANCIAL OFFICER	Mr. S Ramkumar
STATUTORY AUDITORS	Deloitte Haskins and Sells (Chennai), Bangalore
INTERNAL AUDITORS	PriceWaterHouseCoopers, Bangalore
BANKER	HDFC Bank Limited Kotak Mahindra Bank State Bank of Mysore IDBI Bank Limited State Bank of India Axis Bank Limited ICICI 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 / sec@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:** 6 Km Stone, Kichha Road, Village Shimla Pistor, Rudrapur, Udham Singh Nagar, Uttarakhand **Unit IV:** No.19, Udyog Vihar, Greater Noida, Uttar Pradesh

CHAIRMAN'S COMMUNIQUÉ

Dear Shareholders,

The world is still grappling with a fragile economic recovery. However, if properly analysed, we can safely claim that future growth prospects will hinge on two critical factors: a) the ability of European policy makers to rein in the Euro crisis without further confusion; b) the US government's capability to rappel safely on ground from the enormous fiscal cliff, without reducing public spending or allowing tax increases considerably. These factors will have important ramifications for the emerging economies including India.

India's pro-reform approach will augur well for the country's long-term economic growth. One encouraging turn of events is the recent surge (8.2% in October) in manufacturing output, pushing India's industrial growth to its highest in more than one year. This is widely interpreted as a sign that Asia's third largest economy is gathering pace, despite sluggish growth and a high rate of inflation.

In the Commercial Vehicle (CV) industry, the year under review began well and we saw January-March 2012 quarter registering a record production in Medium & Heavy Commercial Vehicles (M&HCV) space. But the second half of 2011-12 saw a sharp decline in the number of vehicles produced, owing to global headwinds and faltering business confidence.

Moreover, there was a decline in tipper truck production due to reduced mining activity. However, we are witnessing that the CV industry is moving towards higher tonnage vehicles, as it provides higher operating efficiency to fleet owners and more 'tonnage per km', ensuring optimised variable cost. This is encouraging for us as we are predominantly catering to the HCV segment.

The industry is not going to fare any better in the coming few months, but the second half of 2013 is expected to see a gradual strengthening of the economy. The automobile industry is also expected to revive, simultaneously pushing demand for automobile ancillaries. With more than 30 years of industry presence, Automotive Axles Limited (AAL) has navigated several industry cycles through relevant risk-focused initiatives.

In 2011-12, we focused on sustainability in the face of multiple challenges like demand slowdown nationally and internationally and a high rate of inflation. We registered a topline of ₹ 10,445.64 Million, representing a marginal decline as compared to ₹ 11,144.89 Million in 2010-11 which was on account of demand slowdown. The EBIDTA was ₹ 1,032.21 Million in 2011-12 as against ₹ 1,171.06 Million last year.

India's pro-reform approach will augur well for the country's long-term economic growth. One encouraging turn of events is the recent surge (8.2% in October) in manufacturing output, pushing India's industrial growth to its highest in more than one year.

Profit after tax stood at ₹ 450.18 Million in 2011-12 against ₹ 575.57 Million during the previous year. The earnings per share stood at ₹ 29.79.

During the year, we launched two-speed axle for Ashok Leyland and Tata Motors. We also successfully launched two-speed axle for Ashok Leyland's haulage applications. Moreover, we expanded our customer portfolio and initiated new business with existing customers. We also enhanced our value-added product basket to cater to a larger pie of our customer's requirements. We also strengthened our supply chain management capability to help us provide faster response to customer demands.

As part of our Group initiatives to produce green energy, we have installed one wind turbine generator with 2 MW aggregate capacity at Tithwa, Gujarat. This will enable us to reduce our environmental impact by focusing on wind energy. Green energy will also entitle us for Clean Development Mechanism (CDM) benefits.

ROAD AHEAD FOR AAL

- Diversify our portfolio for existing and new clients, driving both volumes and margins
- Explore opportunities into the CV market with our 'Green Axle' (2-Speed Axle) and the hub-reduction axle
- Strengthen our presence in brakes, aftermarket and trailer businesses
- Widen visibility in the under-penetrated markets of USA, France, Italy, China and Brazil
- Generate repeat business from existing clients
- Strengthen intellectual capital through timely recruitments

We are driven by our people. Our achievement is the result of our people, who are willing to take challenges in their strides. We are more determined than ever to put our competitive advantages to work for long-term stakeholder returns.

As businesses are continuously being reshaped by global headwinds, we will continue to stay on course by virtue of our wide product basket, quality excellence and evolving marketing strategies. With the entry of global automobile players in the Indian market the prospects for our products are growing stronger.

Dr. B N Kalyani
Chairman

As businesses are continuously being reshaped by global headwinds, we will continue to stay on course by virtue of our wide product basket, quality excellence and evolving marketing strategies.

DIRECTORS' REPORT

To the Members,

Your Directors have the pleasure in presenting the 31st Annual Report on the business and operations of the Company and the accounts for the financial Year, ended 30th September, 2012.

FINANCIAL RESULTS

	(₹ in Million)	
	2011-2012	2010-2011
Profit before Depreciation & Tax	939.63	1,105.28
Less : depreciation & amortisation	273.88	233.93
Provision for Taxation – Current/ Deferred/ Fringe Benefit Tax	215.57	295.78
Profit After Tax	450.18	575.57
Balance of Profit from Previous Year	1,795.43	1,453.09
Profit available for appropriation	2,245.61	2,028.66
Appropriations :		
Dividend for the year	151.12	151.12
Tax on dividend	24.52	24.52
Transfer to General Reserve	45.10	57.56
Surplus retained in Profit & Loss Account	2,024.87	1,795.43

REVIEW OF PERFORMANCE

The Gross Sales and other income for the financial year under review was ₹10,445.60 Million as against ₹ 11,144.87 Million for the previous financial year. The Profit Before Tax of ₹ 665.75 Million and the profit After tax of ₹ 450.18 Million for the financial year under review as against ₹ 871.35 Million and ₹ 575.56 Million respectively for the financial year.

DIVIDEND

The Directors recommend the payment of dividend of ₹ 10/- per share of ₹ 10/- 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.

WIND MILL

During the year the Company took up the initiative, along with other group companies, to generate power from Green Energy sources and installed one Wind Turbine Generator with 2.00 MW generation capacity at Tithwa, Gujarat. Total Generation of power from the wind mill during the year was 17.42 Lacs KwH (April to September, 2012) which was in turn sold to Gujarat Urja Vikas Nigam Limited.

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 conservation 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 C Prabhakar & Satish Sekhri retires by rotation and being eligible, offer themselves for re-appointment.

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
Date: 29th November, 2012

B. N. Kalyani
Chairman

Annexure 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 2011-12	1. Introduction of 150 watts induction lamps for the new buildings instead of 250 watts metal halide fittings – ₹ 0.7 Million 2. Commercial gas introduction for LPG burners – ₹ 4.5 Million
(b)	Additional investments and proposals, if any, being implemented to reduce energy consumption for 2011-12	1. Modification of cold swage machine hyd power pack – ₹ 2.5 Million 2. Solar & LED lights to canteen periphery and lawn – ₹ 0.4 Million
(c)	The impact of the measures at (a) & (b) for reduction of energy consumption and consequent impact on the cost of production of goods	(a) 1. The energy cost of ₹ 0.14 Million per annum saved on account of less power consumption 2. LPG cost saving/year on account of commercial gas introduction : ₹ 4 Million/year
		(b) 1. ₹ 0.5 Million will be the savings & technology up gradation by modifying the hyd circuits and motor sizing 2. Electrical power cost savings by ₹ 0.8 Million 3 Our green energy focus will help reduce our environmental impact. We have a merchant sale agreement with the Gujarat Urja Vikas Nigam Limited (GUVNL).

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

1.	Specific areas in which R & D is conducted by the Company	• Development of Rear axle for Light Commercial Vehicle • Part development, & Industrialisation of completely dressed Rear Axle for 60 Tonnes dumpers
2.	Benefits derived as a result of the above R & D	• Creation of New Light Axle Segment targeted at Existing & New Customers • Creation of new Off Highway Heavy Duty Axle Segment catering to Big Dump Trucks
3.	Future plan of action	• Development of Military Axles for all Wheel Drive Vehicles • Development of next Gen Light Commercial Vehicle Axle
4.	Expenditure on R & D	
	a. Capital	Nil
	b. Recurring	Nil
	c. Total	
	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	₹ 166.02 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, 2012

B. N. Kalyani
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

INDIAN ECONOMIC OVERVIEW

The year under review (October 2011 – September 2012) began on a cautious note with GDP falling continuously since quarter ending September 2010. The GDP grew 6.1% in the first quarter and continued to perform discouragingly 5.3% in the second quarter and 5.5% in the third quarter in the succeeding quarters. Increasing fuel and food prices, coupled with economic uncertainty and sluggish exports, resulted in the lowest GDP growth witnessed in the Q2 (quarter ending March 2012). However, towards the end of the year, the growth story painted a slightly more reassuring picture with government focusing on reforms to regain investor confidence.

After decelerating for over four successive quarters from 9.2% y-o-y in Q4 of FY 2010-11 to 5.3% in Q4 of FY 2011-12, the fiscal year 2011-12 closed with a GDP of 6.5%, much lower than the preceding two years. However, GDP growth was marginally higher at 5.5% in Q1 of FY 2012-13. The slight improvement in GDP growth in Q1 of FY 2012-13 was primarily driven by growth in construction and supported by better than expected growth in agriculture.

While headline inflation related to the wholesale price index (WPI) hovered around 9.5% at the start of the year, it gradually came down in the succeeding months to 7% levels primarily due to the receding demand from consumers. Towards the end of the year under review, inflation rose to 7.8% (September 2012) due to strong consumer demand. Amid growing inflation, RBI has clearly stated that its efforts will be to rein in inflation and support growth.

Index of Industrial Production (IIP), an indicator of industrial growth, showed a meagre growth of 2.9% in year ended March 2012. While the power sector showed a strong growth of 8.9% (Y-o-Y), mining sector de-grew 2% as a consequence of mining ban imposed on several states in India. The manufacturing sector, which contributes 75.5% to the IIP index, saw a modest growth of 3%, largely due to sluggish economic growth. The CMIE (Centre for Monitoring Indian Economy) however has estimated that in FY 2012-13 (April-March) the industrial output grew at 5.1%, which is lower than the preceding 7-year average of 7.9%, but significantly higher than the growth witnessed in FY 2012-13.

The Indian currency (₹) weakened sharply during the year, touching levels of ₹ 57 against the US dollar and continues to be weak at ₹ 53 levels during the end of the year. The rupee over the past year has been volatile. While weakening rupee helped the IT sector and exporters, it adversely impacted the trade deficit, which rose to US$ 189.7 Billion in the year ending March 2012, compared to the deficit of US$ 130.6 Billion in the corresponding period the year before. Rising crude oil prices, coupled with drying-up of FDI smothered the rupee against the dollar. However, the rupee is expected to strengthen following the government's focus on reforms, breaking the prevailing culture of policy impasse and low investor confidence. Sluggish economic growth affected each and every industry and the Commercial Vehicle (CV) industry was no exception; it posted negative growth in the year under review.

INDUSTRY STRUCTURE AND DEVELOPMENTS

Medium & Heavy Commercial Vehicles (M&HCV) (GVW above 7.5T)

India stands as the fifth largest manufacturer of commercial vehicle globally. M&HCV saw a strong growth in the first half (October 2011 – March 2012) of the year under review and a sharp decline in second half (April – September 2012). While production in the first half grew 12.4% over the corresponding period in the previous year, second half de-grew 17.4%, making it an overall 2.4% de-growth.

In Q2 (January – March 2012) 111,982 vehicles were produced, which was a historical high; 69,290 vehicles were produced in Q3 (April – June 2012) which was the lowest quarterly production since January 2010. Overall, 351,543 vehicles were produced during the year under review, which is 2.4% lower than 360,358 units during the previous year.

M&HCV Domestic sales posted de-growth of 1% to reach 328,881 units, whereas exports declined 18% over the previous year to reach 24,508 units. While the haulage truck production slowed