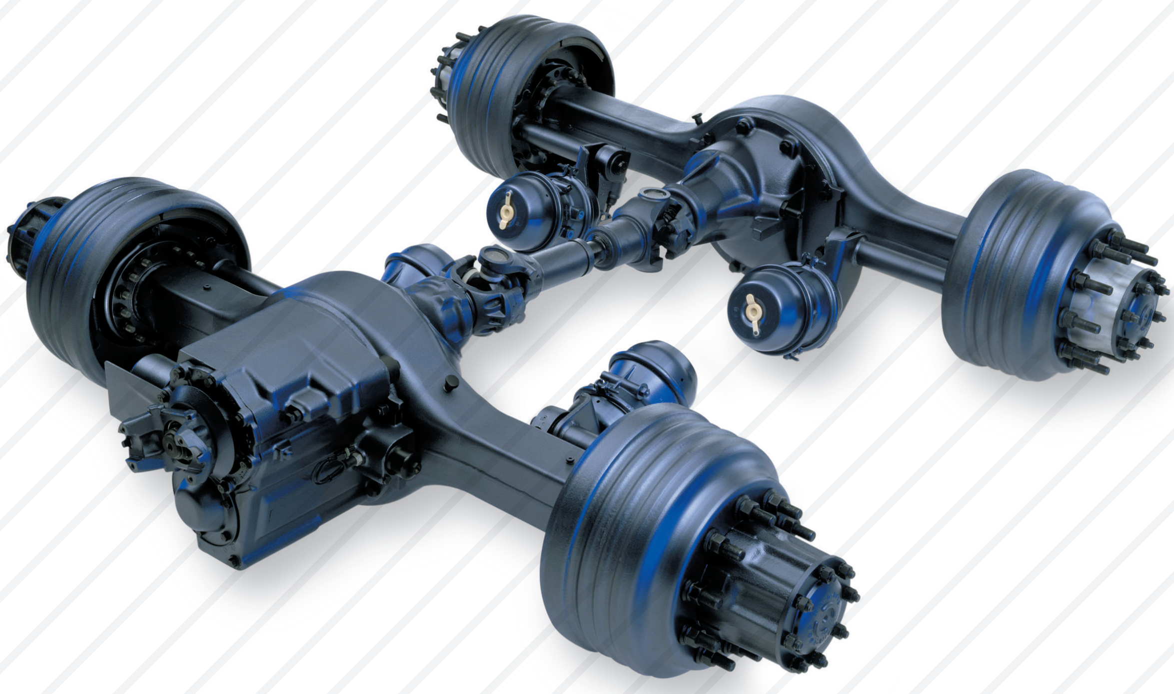
Growth and Performance.... through technology and teamwork

32ND Annual Report 2012-13

Automotive Axles Limited



KALYANI

MERITOR

Our Product Range

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS	**Dr. Babasaheb N. Kalyani,** Chairman **Chris Villavarayan,** Director **Bhalachandra B. Hattarki,** Director **B. C. Prabhakar,** Director **Satish Sekhri,** Director **Amit B. Kalyani,** Director **Joseph A. Plomin,** Director **N. Muthukumar,** Wholetime Director
COMPANY SECRETARY, COMPLIANCE OFFICER & CHIEF FINANCIAL OFFICER	S Ramkumar
STATUTORY AUDITORS	Deloitte Haskins and Sells (Chennai), Bangalore
INTERNAL AUDITORS	PriceWaterHouseCoopers, Bangalore
BANKERS	HDFC Bank Limited Kotak Mahindra Bank IDBI Bank Limited State Bank of India Axis Bank Limited
REGISTRAR & SHARE TRANSFER AGENTS	Integrated enterprises (I) Limited #30, Ramana Residency, 4th cross Sampige Road, Malleshwaram, Bangalore Ph: 080-23460815-818; e-mail: irg@integratedindia.in
REGISTERED OFFICE	Hootagalli Industrial Area, Off Hunsur Road, Mysore - 570018. Ph: 0821 7197500 Website: www.autoaxle.com email: sec@autoaxle.com / info@autoaxle.com
WORKS	**Unit I:** Hootagalli Industrial Area, Off Hunsur Road, Mysore – 570018 **Unit II:** 6 Km Stone, Kichha Road, Village Shimla Pistor, Rudrapur, Udham Singh Nagar, Uttarakhand **Unit III:** No.19, Udyog Vihar, Greater Noida, Uttar Pradesh

CHAIRMAN'S COMMUNIQUÉ

Dear Shareholders,

Global growth continues to be in low gear and the drivers of growth are rapidly shifting, making long-term growth drivers difficult to predict. The IMF forecasts global growth to average 2.9% in 2013 and to rise to 3.6% in 2014. In the Euro zone, while proactive policy initiatives have reduced major risks and stabilised financial conditions, growth in the periphery is still constrained by credit bottlenecks. The Euro bloc is expected to gradually come out of recession, with growth reaching 1% in 2014. In the US, growth is expected to be 2.5% in 2014, driven by continued strength in private demand, which is supported by a recovering housing market and rising household wealth. Overall, the global economy is enroute to gradual expansion, but recovery is expected to be constrained by lower growth in emerging markets and uncertainties in developed markets.

Global growth continues to be in low gear and the drivers of growth are rapidly shifting, making long-term growth drivers difficult to predict. The IMF forecasts global growth to average 2.9% in 2013 and to rise to 3.6% in 2014.

For the Indian economy, 2012-13 was perhaps one of the most challenging in recent years. The impact of the slowdown was felt most in the manufacturing sector, which recorded only 1.3% growth. The Government has recognised the importance of the manufacturing sector to drive economic growth. However, a surge in capital goods imports over the last few years, coupled with the GDP growth rate plummeting to a decade low of 5% this year, has adversely impacted the manufacturing sector. The vision to increase the share of manufacturing in national GDP from 15% to 25% and create 100 million jobs in the next 10 years can be achieved only by putting in place an enabling framework and implementing policies. With focus on indigenisation and import substitution, the priority for the government should be to create a strong domestic manufacturing base which will give an impetus to investment, employment and exports.

Your Company's performance fell short of expectations owing to the slowdown in the automotive sector and the overall economy. The CV industry witnessed an unprecedented downturn of around 12% in the market. However, the slowdown was more pronounced in the M&HCV segment, where production dropped by 30%. This was primarily on account of sluggish industrial activity, weakening investment sentiment and subdued freight rates, which still continue to affect the growth of fleet operators. The performance of the Medium & Heavy Commercial Vehicles (M&HCVs) is an important indicator to gauge the scale of the economy of a country.

The year 2012-13 was another tough year for Automotive Axles Limited (AAL) as sluggish demand, weak currency and high input costs affected business operations. Our gross sales reduced to ₹ 7,137.82 Million in 2012-13 from ₹ 10,425.43 Million in 2011-12. The profit before depreciation and tax (PBDT) declined to ₹ 470.87 Million in 2012-13 from ₹ 939.63 Million in 2011-12. The profit after tax declined to ₹ 126.98 Million in 2012-13 from ₹ 450.18 Million in 2011-12.

Despite weak financial highlights, we were resolute in our approach and strategies to minimise the impact. We launched two new products during the 2012-13 – one in the lower variant of 5T axle and the higher variant of 18T reduction axle. We also won a prestigious contract manufacturing order from TELCON for the manufacture of the 100T dump truck axle. This places us in a completely new segment of axles, expanding our product range from 5T GVW to 100T GVW. We also launched prototypes for four new products: MS04 – 5T axle; HR 610 -18T hub reduction axles; and 6x6 and 8x8 axle for military application.

Going forward, we are determined to broaden our product portfolio to address a wider cross-section of auto component industry participants. Considering the subdued demand in the M&HCV segment, we have strategically diversified into off-highway, LCV and military vehicles segments. Besides, with many global players eyeing the under-penetrated M&HCVs market in India, it gives us an added opportunity to serve them as well. We are also strengthening our technological base to develop new products and improve the existing product performance. We also expect to strengthen our export presence in the coming years and capitalise on emerging opportunities in unexplored regions globally. By expanding our reach, we intend to be closer to our customers.

In our journey towards being a sustainable organisation, we have stood firm on our principles of safety, health and environment. We have always been committed towards building a favourable working environment for our employees. A regular conduct of safety checks of the plant site, safety training practices and conducting sustainable practices ensure that our organisation remains a safe and secure place to work – both for our Team and for the community.

We continue to be a 'people-driven' organisation harnessing our internal strengths and resilience to surge ahead during challenging times. AAL will continue to adapt to the evolving market trends and work harder towards creating a sustainable organisation with long-term stakeholder returns.

With best regards

Dr. B. N. Kalyani

Chairman

Going forward, we are determined to broaden our product portfolio to address a wider cross-section of auto component industry participants. Considering the subdued demand in the M&HCV segment, we have strategically diversified into off-highway, LCV and military vehicles segments.

DIRECTORS' REPORT

To the Members,

Your Directors have the pleasure in presenting the 32nd Annual Report on the business and operations of the Company and the accounts for the financial Year, ended 30th September, 2013.

FINANCIAL RESULTS

(₹ in Million)

	2012-2013	2011-2012
Profit before Depreciation & Tax	470.87	939.63
Less : depreciation & amortisation	285.29	273.88
Provision for Taxation – Current/ Deferred/ Fringe Benefit Tax	58.60	215.57
Profit After Tax	126.98	450.18
Balance of Profit from Previous Year	2,024.87	1,795.43
Profit available for appropriation	2,151.85	2,245.61
Appropriations :		
Dividend for the year	30.22	151.12
Tax on dividend	5.14	24.52
Transfer to General Reserve	12.70	45.10
Surplus retained in Profit & Loss Account	2,103.79	2,024.87

REVIEW OF PERFORMANCE

The Gross Sales and other income for the financial year under review was ₹ 7,154.12 Million as against ₹ 10,445.63 Million for the previous financial year. The Profit Before Tax of ₹ 185.58 Million and the Profit After Tax of ₹ 126.98 Million for the financial year under review as against ₹ 665.75 Million and ₹ 450.18 Million respectively for the financial year.

Despite a volatile economic scenario, your Company launched two new products in 2012-13 - one in the lower variant of 5T axle and the higher variant of 18T reduction axle. Your Company also got a prestigious contract manufacturing order from TELCON for manufacturing the 100T dump truck axle. This places your Company in a completely new segment of axles, expanding our product range from 5T GVW to 100T GVW. Moreover, your Company launched prototypes for four new products: MS04 – 5T axle; HR 610 -18T hub reduction axles; and 6x6 and 8x8 axle for military application.

Your Company will continue to adapt to the evolving market trends and focus on creating a sustainable organisation. Moving ahead, AAL is determined to broaden the product portfolio to address a wider cross-section of auto component industry. You Company has strategically diversified into off-highway and military vehicles segments to try and mitigate the volatility in MHCV segment. Moreover, your Company with many global players eyeing to capitalise on the under-penetrated MHCVs market in India, it gives us an added opportunity to serve them as well.

DIVIDEND

The Directors recommend the payment of dividend of ₹ 2/- 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.

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.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The particulars relating to conservation of energy, technology absorption, foreign exchange earnings and outgo, as required to be disclosed under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are provided as Annexure - A to this report.

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.

DIRECTORS

Chris Villavarayan was appointed as a non-retiring Director based on nomination received from the Meritor Heavy Vehicle System LLC, one of the promoters, in the place of Pedro N. Ferro who resigned from the Board. The Board places its appreciation to Mr. Ferro for his valuable contributions during his tenure.

P. C. Bhalerao resigned from the directorship of the company effective 25.11.2013. The Board accepted his resignation and thanked Mr. Bhalerao for the contribution made by him during his tenure on the Board.

Ashok Rao ceased to be a Whole Time Director effective 30.09.2013 consequent to his resignation from the employment with the company. The Board while accepting his resignation, placed on record its appreciation for the services rendered by him during his tenure on the Board.

N. Muthukumar was appointed Additional Director effective 01.10.2013. As he holds office upto the date of ensuing Annual General Meeting, members' approval is being sought for his appointment and payment of remuneration as Whole Time Director.

Amit B. Kalyani and Joseph A. Plomin were appointed Additional Directors effective 25.11.2013 and hold office up to the date of the ensuing Annual General Meeting where their appointment is being sought as Directors retiring by rotation.

In accordance with the provisions of the Companies Act, 1956, and the Articles of Association of the Company, Bhalchandra B. Hattarki retires by rotation and being eligible, offers himself for re-appointment as Director.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirements under Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed that:

(i) in the preparation of the annual accounts for the financial year ended 30th September, 2013 the applicable Accounting Standards have been followed along with proper explanation relating to material departures;

(ii) the Directors had selected such accounting policies and applied them consistently and made 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 as at 30th September, 2013 and of the profit of the Company for the year under review;

(iii) the Directors had 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; and

(iv) the Directors had prepared the annual accounts for financial year ended on 30th September, 2013 on a 'going concern' basis.

AUDITORS AND AUDITORS' REPORT

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

COST AUDITORS

In Compliance with the Orders and Circulars issued by Ministry of Corporate Affairs (MCA) with respect to Cost Audit, M/s G.S.R & Associates, Mysore were appointed as Cost Auditors of the Company and the relevant filings with MCA with respect to maintenance of Cost Accounts were made well within in the prescribed time limit.

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.

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.

The Directors also take this opportunity to express their gratitude and appreciation to all its executives, officers, workers and staff of 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: 25th November, 2013

Dr. B. N. Kalyani
Chairman

ANNEXURE TO DIRECTORS' REPORT

INFORMATION AS PER SECTION 217(1)(E) OF THE COMPANIES ACT, 1956, READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AS AMENDED AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 30TH SEPTEMBER, 2013

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 2012-13	1. Auto switching off of machines during non productive time by providing timers and modification of Programmable Logic Controllers (PLCs). 2. Auto switching off of Fresh Air supply Fans by providing timers. 3. Loading only Single transformer during Shutdown period. 4. Switching off the Shop lighting during Dinner time and switching on only the Emergency lights. 5. Optimisation of Axle Housing washing machine water tanks to reduce Heat input.
(b)	Additional investments and proposals, if any, being implemented to reduce energy consumption for 2012-13	1. Solar Power & LED lights to canteen periphery and lawn. 2. 1000 Ltrs Solar water heater for washing of utensils in canteen. 3. Steam boiler for cooking at canteen in place of LPG Burners.
(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. Auto switching off of machines during non productive time : ₹ 0.74 Mn. 2. Auto switching off of Fresh Air supply Fans : ₹ 0.24 Mn. 3. Loading only Single transformer during Shutdown period : ₹ 0.25 Mn. 4. Switching off the Shop lighting during Dinner time and switching on only the Emergency lights : ₹ 0.1 Mn. 5. Optimisation of Axle Housing washing machine water tanks to reduce Heat input : ₹ 0.24 Mn (b) 1. Solar Power & LED lights to canteen periphery and lawn : ₹ 0.4 Mn 2. 1000 Ltrs Solar water heater for washing of utensils in canteen : ₹ 0.45 Mn 3 Steam boiler for cooking at canteen inplace of LPG Burners : ₹ 0.7 Mn Total Energy cost saving during 2012-13 is ₹ 3.12 Mn.

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

1. Specific areas in which R & D is conducted by the Company	1. Development of MS 04 Rear axle for Light Commercial Vehicle for Truck & Bus segment. 2. Development of 6x6 axle for military application
2. Benefits derived as a result of the above R & D	• Creation of New Light Axle Segment targeted at Existing & New Customers • Creation of Military Heavy Duty Axle Segment for all wheel drive application
3. Future plan of action	• Development of MS 03 & MS 06 axles for Light Commercial Vehicle segment. • Development of 8x8 & 10x10 axles & Industrialisation of 6x6 axles for Military application • Industrialisation of Hub Reduction axles & Brakes for Daimler & Ashok Leyland. • Development of India Trailer axle • Development of 100 Tonne axles for Heavy Duty Dumper application (Telcon) • Development of Dia 360 Brakes
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	₹ 164.54 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: 25th November, 2013

Dr. B. N. Kalyani
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

INDIAN ECONOMY

The continuing uncertainty of the global economy cast its shadow on India's economy; in addition, and the Indian economy also had its own share of issues. While the GDP grew at 6.0% in the first quarter, it grew at just 5.1%, 5.4% and 5.2% in the second, third and fourth quarter, respectively for the year under review (October 2012-September 2013). A correction of the sluggish growth rate will require faster implementation of reforms, better fiscal discipline and kick-starting of stalled infrastructure projects.

Sliding GDP growth a cause for concern

Q3, 10-11	Q4, 10-11	Q1, 11-12	Q2, 11-12	Q3, 11-12	Q4, 11-12	Q1, 12-13	Q2, 12-13	Q3, 12-13	Q4, 12-13
9.3%	9.2%	7.5%	6.5%	6.0%	5.3%	5.5%	5.3%	4.5%	4.8%

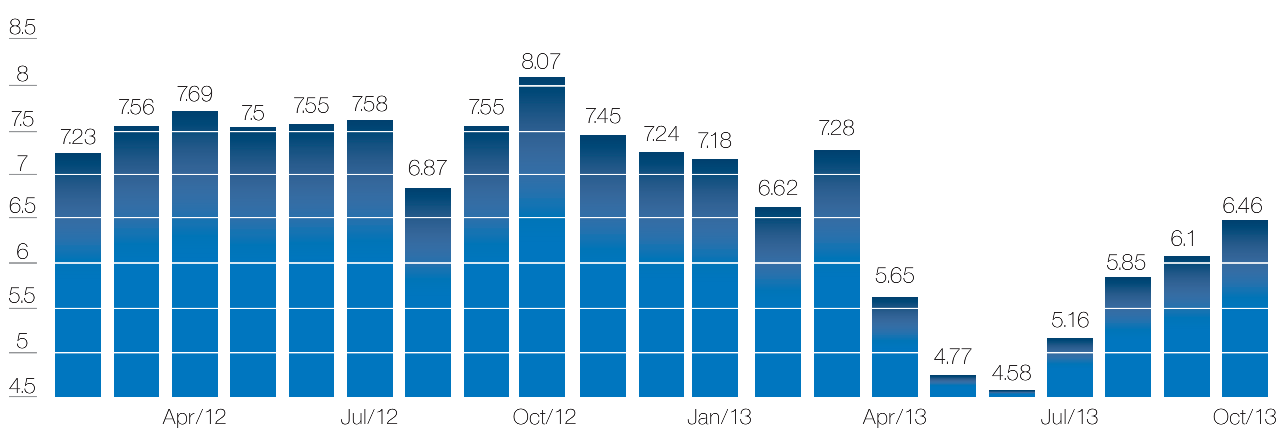
Source: Government of India

Inflation

The year under review (October 2012-September 2013) saw headline inflation stabilize as the year progressed. While the wholesale price index (WPI) stood at 7.45% at the beginning of the year, it declined to 6.46% by September 2013. Non-food manufacturing inflation continued to remain moderate during the year, as the RBI continued its efforts to bring inflation under reasonable limits.

INDIA INFLATION RATE (%)

Annual Change on Consumer Price Index



Souce: www.tradinoeconomics.com | Ministry of Commerce and Industry, India

Index of Industrial Production (IIP)

The prime indicator of industrial growth, IIP, grew by just one percent in 2012-13 (as on March 2013), down from 2.9% in the previous year. This performance was the country's lowest in the past 20 years, contributed by negative growth in mining and feeble growth in the manufacturing sector. On account of shortage in fuel supply, the electricity generation was just over 4% (almost half of the 8.2% growth in FY 2011-12). The largest component of IIP, the manufacturing sector, grew at 1.2% in FY 2012-13 as compared to 3% in FY 2011-12.

Cumulative growth (in %)

Particulars	2011-12	2012-13
IIP	1.0	2.9
Mining	(1.9)	(2.5)
Manufacturing	3.0	1.2
Electricity	8.2	4.0

Source: Ministry of Statistics and Programme Implementation