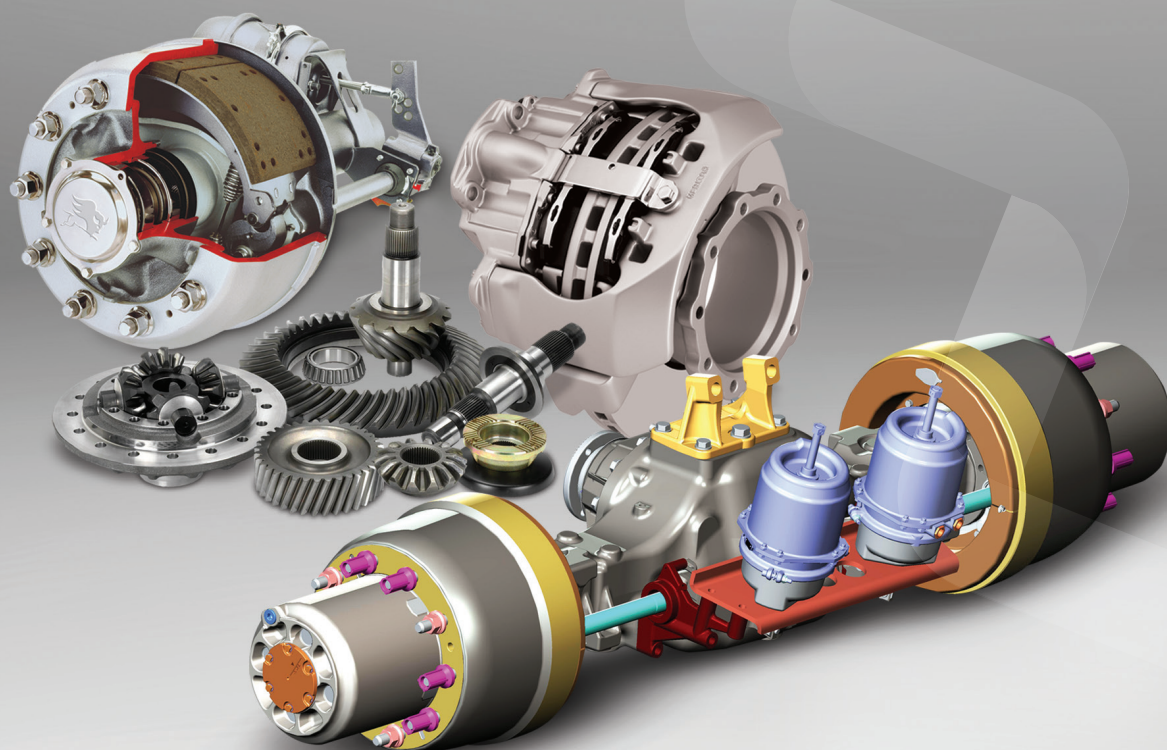




34th Annual Report 2014-15

GROWTH AND
PERFORMANCE...
THROUGH TECHNOLOGY
AND TEAMWORK



Automotive Axles Limited



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CORPORATE INFORMATION

BOARD OF DIRECTORS	<p>Dr. Babasaheb N Kalyani, Chairman Mr. Joseph A Plomin, Director Mr. Bhalachandra B Hattarki, Director Mr. B C Prabhakar, Director Mr. Satish Sekhri, Director Ms. Sudhasri A, Director Dr. N Muthukumar, Whole-time Director</p>
KEY MANAGERIAL PERSONNEL	<p>Dr. N Muthukumar, President & Whole-time Director Mr. S Ramkumar, Chief Financial Officer & Company Secretary</p>
STATUTORY AUDITORS	<p>Deloitte Haskins and Sells (Chennai), Bangalore</p>
INTERNAL AUDITORS	<p>PriceWaterHouseCoopers Pvt. Ltd., Bangalore</p>
BANKERS	<p>HDFC Bank Limited IDBI Bank Limited Kotak Mahindra Bank</p>
REGISTRAR & SHARE TRANSFER AGENTS	<p>Integrated enterprises (I) Limited #30, Ramana Residency, 4th cross Sampige Road, Malleshwaram Bangalore ph: 080-23460815-818; e-mail: irg@integratedindia.in</p>
REGISTERED OFFICE	<p>Automotive Axles Limited CIN: L51909KA1981PLC004198 Hootagalli Industrial Area, Off Hunsur Road, Mysuru - 570018. Ph: 0821-7197500 Website: www.autoaxle.com Email: sec@autoaxle.com</p>
WORKS	<ol style="list-style-type: none"> 1. Mysuru Hootagalli Industrial Area, Off Hunsur Road, Mysuru 2. Rudrapur 6 Km Stone, Kichha Road, Village Shimla Pistor, Rudrapur, Udham Singh Nagar, Uttarakhand 3. Jamshedpur Old Khakripara, Vill & Post – Chhota Govindpur, Jamshedpur, Dist. E. Singhbhum, Jharkhand



CHAIRMAN'S MESSAGE

Dear Shareholders,

'Recovery' is the big message for the global economy. However, it comes with a caveat that the process is fragile and can be disrupted by headwinds, posed by legacy risks and volatilities. FY 2014-15 saw contrasting patterns of growth. The economies of the US and the UK performed well during the year, although Japan and Eurozone smarted under considerable economic stress and fear of deflation. China's growth trajectory also appeared to be losing its momentum, and countries of the emerging world registered muted growth.

In a world grappling with sluggish growth, India is steadily accelerating the pace of economic development, thanks to the new government's growth-oriented policies. The economy grew by 7.5% in the October-December quarter, overtaking China's 7.3% growth in the same quarter, to become the world's fastest growing major economy. In the April-February period of FY 2014-15, the IIP grew by 2.8%, compared to the contraction of 0.1% during the same period of FY 2013-14. Positive sentiments attracted FDI inflows of US\$ 35 billion into the economy, a 26% escalation in FY 2014-15.

The government's Make in India initiative augurs well for the economy in general and the manufacturing sector in particular. This initiative aims to increase the sector's contribution to the GDP by removing the bottlenecks that had so far restricted growth. There is more focus on indigenous manufacturing of components or products, which hitherto were imported. Such a scenario will help the domestic automotive and allied sectors to perform encouragingly, going forward.

The automotive sector currently contributes around 7% to India's GDP. During FY 2014-15, sales grew by around 7-8%, primarily driven by moderate vehicle demand (heavy commercial vehicles, buses and passenger vehicles) and reduced excise duty.

Going forward, the automotive sector expects double-digit growth in sales this fiscal on improving macro-economic sentiments, stable commodity prices, enhanced mining activity and infrastructure projects, and higher industrial activity.

The domestic auto-components industry is anticipated to become the next automobile ancillary hub in Asia by 2020. It is estimated to grow at 17% CAGR to reach US\$115 billion (as per ACMA) by 2021, backed by the automobile sector's steady growth. Exports from this sector contribute around 17% of the auto component industry's revenues, and are estimated to contribute 26% by 2021.

PERIOD UNDER REVIEW

During the period under review, we changed the financial year from October-September to April-March, effective from April 1, 2015 to align ourselves with the requirements of the New Companies Act. The current financial year will be for a period of six months (1st October, 2014 to 31st March, 2015). During this period, we registered sales of ₹ 4,617.03 million with an EBITDA of ₹ 378.86 million and profit after tax of ₹ 105.42 million. Subsequently, our earnings per share stood at ₹ 6.98. Our consistent focus on product value addition, cost optimisation and quality assurance has enabled our growth. We are building a sustainable and scalable business with a comprehensive portfolio of medium and heavy duty drive axles, front steer axles, non-drive axles, axles for defence and off-highway applications, light duty drive axles and drum and disc brakes.

We have commenced operation at our new 50,000 sq. ft. plant at Jamshedpur, manufacturing brakes and trailer axles. The plant is equipped with the capacity to produce 30,000 brakes and 2,500 tags and trailers per month. During this year, we doubled our monthly capacity of Hub Reduction Axles, from 300 to 600 sets at our Mysuru plant.

We are consistently enhancing our quality standards to sustain our competitive advantage. Over 60% of our operations follow the Built in Quality (BIQ) concept for manufacturing processes, in synergy with the Auto Axle Production Systems (APS). We are now deploying the BIQ concept across all our plants.

We have strengthened our operating architecture through multiple and continuous improvement projects, preventive maintenance, higher wastage control, environmental friendliness, optimising raw material & energy consumption and enhanced recyclability.

ACCOLADES

Meritor India's new tandem axle for 8x8 solution has won the Commercial Vehicle (CV) Component of the Year 2015 award at the sixth Apollo CV awards in Mumbai. This new tandem axle was chosen for its technology and value engineering (cost savings and adaptability). The product has been designed, developed and manufactured in India.

TALENT-DRIVEN

We are taking proactive initiatives to create a growth-driven environment for our people. We have established transparent communication across all levels through all-employee town hall gatherings to align our people to our strategies and vision. We focused on strategic people development through Succession and Development Planning (SDP) and Capability Development programmes. We have also commenced various customised training programmes to elevate technical acumen, soft skills and behavioural attributes of our team.

We are committed to reduce our carbon footprint and contribute to the global movement for climate change. We are focusing on rain water harvesting (reducing the use of fresh water in manufacturing processes and re-charging systems) and tree plantations, as a part of our overall sustainability mission.

OPTIMISM ON THE HORIZON

The macro scenario is indeed positive and we are committed to leverage the emerging opportunities in our sector through greater scale, technology and teamwork. I seek the support and guidance of all members of the Automotive Axles family and the stakeholder fraternity to create value in an economically viable, environmentally sustainable and socially responsible manner.

I would like to thank each and every one of our employees whose commitment and passion made 2015 yet another successful year for the Company.

I would also like to thank you, all our shareholders, for your continued support in our journey.

Warm regards,

Dr. B N Kalyani
Chairman



BOARD'S REPORT

To the Members,

Your Directors have the pleasure in presenting the 34th Annual Report on the business and operations of the Company together with the Audited Statements of Accounts for the 6 months financial period ended 31st March, 2015 :

FINANCIAL HIGHLIGHTS :

	₹ in Millions	
Particulars	2014-2015 (6 months)	2013-2014 (12 months)
Total Revenue	4,617.03	6,825.77
Profit before Depreciation & Tax	338.03	553.41
Less : depreciation & amortisation	173.21	294.79
Provision for Taxation	59.40	76.83
Profit After Tax	105.42	181.79
Balance of Profit from Previous Year	2,223.20	2,103.79
Profit available for appropriation	2,328.62	2,285.58
Appropriations :		
Dividend for the year	15.11	37.78
Tax on dividend (includes ₹ 1.14 Million pertaining to prior year)	4.16	6.42
Transfer to General Reserve	10.54	18.18
Surplus retained in Profit & Loss Account	2,298.81	2,223.20

As communicated in our previous year's report, we have closed the Financial Year (FY) 2014-15 by 6 months to comply with the provisions of the new Companies Act, 2013. The Act has mandated the financial year to be in line with the Section 2(41) of the Act which is April to March as against our earlier system of having FY October to September.

DIVIDEND

Your Directors are pleased to recommend a Final Dividend of ₹ 1/- per equity share of face value of ₹ 10/- each for the period ended 31st March, 2015 aggregating to ₹ 15.11 Million, excluding Dividend Distribution Tax.

The Final Dividend, subject to the approval of Members at the Annual General Meeting to be held on 5th August, 2015, will be paid to the Members whose names appear in the Register of Members, as on the date of book closure, i.e. from 3rd August 2015 to 5th August, 2015 (both days inclusive).

In terms of the provisions of Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001 ₹ 278,200/- of unpaid/unclaimed dividends was transferred during the year to the Investor Education and Protection Fund.

PERFORMANCE OF THE COMPANY

The Sales and other income for the financial period (6 months) under review was ₹ 4,617.03 Million as against ₹ 6,825.77 Million for the previous financial year (12 months). The Profit before Tax of ₹ 164.82 Million and the Profit after Tax of ₹ 105.42 Million for the financial period under review, as against ₹ 258.62 Million and ₹ 181.79 Million respectively for the previous financial year.

₹ 10.54 Million, being 10% of the Profit after Tax has been transferred to the General Reserves.

The Company has expanded its manufacturing foot print with a new state-of-the-art plant at Jamshedpur for manufacturing Brakes and Trailer axles.

The Company has installed a facility to manufacture Hub Reduction Axles at its Mysuru plant.

The Company, in its journey towards world class manufacturing has embraced a concept of Built in Quality (BIQ) where the quality is ensured by each and every operator by not receiving, not producing and not passing on defects. Also implemented zero Chips, Oil & Coolant (COC) initiative across the plant to make it clean from Chips, Oil and Coolant on floor, thus making the plant a safe place to work.

In the previous financial year, mounded type bullet for LPG has been commissioned to eliminate the safety hazard arising out of storage of LPG required for heat treatment process.

BOARD OF DIRECTORS

Mr. Marco Bassi & Mr. Amit B. Kalyani resigned from the board due to their other pressing engagements effective 31st March 2015. The Board places its appreciation for their valuable contributions made during their tenure.

Pursuant to Sections 149 and 152 of the Companies Act, 2013 and in terms of Clause 49 of the Listing Agreement, the Board of Directors has at its meeting held on 31st March 2015, appointed Ms. Sudhasri A as an Additional Independent Director with effect from the date of ensuing Annual General Meeting, subject to approval of shareholders in their meeting. The requisite resolution for approval of her appointment as Independent Director is being proposed in the notice of the meeting for the approval of the members.

In terms of the provisions of the Companies Act, 2013 and the Articles of Association of the Company, Dr. N Muthukumar, Whole-time Director of the Company retires by rotation at the ensuing Annual General Meeting and, being eligible, offers him for re-appointment.

The Company has received declarations from all the Independent Directors of the Company confirming that they meet with the criteria of independence as prescribed both under sub-section (6) of Section 149 of the Companies Act, 2013 and under Clause 49 of the Listing Agreement with the Stock Exchanges.

FIXED DEPOSITS

Your Company has not accepted any Public Deposits under Chapter V of Companies Act, 2013, during this year.

POLICY ON NOMINATION & REMUNERATION OF DIRECTORS, KEY MANAGERIAL PERSONNEL (KMP) & OTHER EMPLOYEES:

The Company has framed a policy on Nomination & Remuneration of Directors, KMP & other employees as per the requirement of the Companies Act, 2013 which formulates the criteria for determining qualifications, positive attributes & independence of a director and their remuneration. The policy is hosted on the website of the Company @ <http://autoaxle.com/Policy.aspx>.

AUDITORS & AUDITORS' REPORT

The Report given by the Auditors on the financial statements of the Company is part of the Annual Report. There has been no qualification, reservation, adverse remark or disclaimer given by the Auditors in their Report.

M/s. Deloitte Haskins & Sells (Chennai), Bangalore were appointed as Statutory Auditors of your Company at the last Annual General Meeting held on 5th February 2015 for a term of three consecutive years. As per the provisions of Section 139 of the Companies Act, 2013, the appointment of Auditors is required to be ratified by Members at every Annual General Meeting.

The Secretarial Audit Report for 2014-15 in form MR-3 is annexed to the Report under **Annexure - A**

Explanation for observations made by the Company Secretary in Practice :

Under Companies Act, 2013:

(a) The Companies Act, 2013 which came into effect on 1st April 2014 was effective to the Company's financial transactions effective 1st October 2014. This being the transitional period from old act to new act, the ratification/ approval of members for the related party transactions with Meritor HVS (India) Limited could be sought only in the then first Annual General Meeting held after the commencement of the Act.



Under Listing Agreement with Stock Exchanges :

- (a) A policy on Performance Evaluation of the Board has been put in place now. Based on the policy the Independent Directors' evaluation would be carried on during the current financial year.
- (b) The Company is in the process of arranging a suitable training program for Independent Directors in association with eminent institutions imparting the required training program.
- (c) The Company has constituted Risk Management Committee at the Board Level in its meeting held on 13th May, 2015.
- (d) Due to the unavoidable reasons, the Chairman of the Audit Committee could not attend the previous Annual General Meeting.
- (e) The procedures of the Committee are defined and taken on record by the Board in its meeting held on 13th May, 2015.

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and the Rules made there under and based on the recommendation from the Audit Committee, CS. Pracheta M, Practicing Company Secretary has been appointed by the Board to conduct a secretarial audit of Company's Secretarial and related records for the Financial year 2015-16.

CORPORATE GOVERNANCE

Your Company is renowned for exemplary governance standards since inception and continues to lay a strong emphasis on transparency, accountability and integrity.

The new Companies Act, 2013 and amended Listing Agreement have strengthened the governance regime in the country. Your Company is in compliance with the governance requirements provided under the new law and had proactively adopted many provisions of the new law, ahead of time. Your Company is committed to embrace the new law in letter and spirit. In line with the requirements of new law, your Company has constituted new Board Committees.

Your Company has in place all the statutory committees required under the law. Details of Board Committees along with their terms of reference, composition and meetings of the Board and Board Committees held during the year, are provided in the Corporate Governance Report.

A Certificate from an Independent Practicing Company Secretary confirming compliance with the conditions of Corporate Governance as stipulated under the aforesaid Clause 49 is attached to the Corporate Governance 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 134 of the Companies Act, 2013 read with Companies (Accounts) Rules, 2014 are provided as **Annexure - B** to this report.

ANNUAL RETURN 2014-15

The extract of annual return in MGT - 9 is annexed under **Annexure - C**

RELATED PARTY TRANSACTIONS (RPT) :

In line with the requirements of the Companies Act, 2013 and Equity Listing Agreement, your Company has formulated a Policy on Related Party Transactions which is also available on Company's website at <http://autoaxle.com/Policy.aspx>. This Policy specifically deals with the review and approval of Material Related Party Transactions keeping in mind the potential or actual conflicts of interest that may arise because of entering into these transactions. All Related Party Transactions are placed before the Audit Committee for review and approval. Prior omnibus approval is obtained for Related Party Transactions on annual basis for transactions which are of repetitive nature and / or entered in the ordinary course of business and are at Arm's Length.

All Related Party Transactions entered during the year were in ordinary course of the business and on Arm's Length basis. The particulars on RPTs in AOC 2 is annexed to the Report as **Annexure D**

CORPORATE SOCIAL RESPONSIBILITY (CSR):

Disclosure on CSR has been annexed to the Report under **Annexure E**

PARTICULARS OF REMUNERATION OF DIRECTORS & CERTAIN SPECIFIED EMPLOYEES:

In terms of the provisions of Section 197(12) of the Companies Act, 2013 read with Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014, the names and other particulars of employees, which are applicable to AAL, are set out in the **Annexure F** to the Directors' Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirements under Section 134(5) of the Companies Act, 2013 with respect to Directors' Responsibility Statement, it is hereby confirmed that:

- (a) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (b) we have 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 at the end of the financial year and of the profit and loss of the Company for that period;
- (c) we have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) we have prepared the annual accounts on a going concern basis; and
- (e) we have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively.
- (f) we have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems are adequate and operating effectively.

RISK MANAGEMENT SYSTEM AND ITS POLICY :

The Company's Risk Management System is 9 year old and has attained the maturity whereby the Enterprise-wise Risk-log-cum-register is being maintained by the departmental head and is being periodically reviewed for adequacy and effectiveness by the Audit Committee and the Board. The Company's Risk Management Committee is being assisted by Chief Risk-Coordinator.

The Board level Committee on Risk Management is formed with the following directors as its members :

- (a) Mr. B C Prabhakar, Chairman
- (b) Dr. N Muthukumar, Member

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

In accordance with Clause 49 of the Listing Agreement with Stock Exchanges, the Management Discussion and Analysis Report is presented in a separate section forming part of the Annual Report.

BOARD ANNUAL EVALUATION:

The Nomination & Remuneration Committee arranges for a performance evaluation of the Board, its Committees and its individual Directors on an annual basis. The Committee will conduct an annual review of the role of the Board, assess the performance of the Board over the previous 12 months and examine ways of assisting the Board in performing its duties more effectively.

The review will include:

- (a) comparing the performance of the Board with the requirements of the Act;
- (b) examination of the Board's interaction with management;
- (c) the nature of information provided to the Board by management; and
- (d) management's performance in assisting the Board to meet its objectives.

A similar review will be conducted for each Committee by the Board with the aim of assessing the performance of each Committee and identifying areas where improvements can



be made. The Remuneration Committee will oversee the performance evaluation of the Senior Management Team. This evaluation is based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved and the development of management and personnel.

ACKNOWLEDGEMENTS

Your Directors would like to express their sincere appreciation of the positive co-operation received from the Central Government, the Government of Karnataka, Financial Institutions and the Bankers. The Directors also wish to place on record their deep sense of appreciation

for the commitment displayed by all executives, officers, workers and staff of the Company resulting in the successful performance of the Company during the year.

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: Pune
Date: 13th May, 2015

Dr. B.N. Kalyani
Chairman