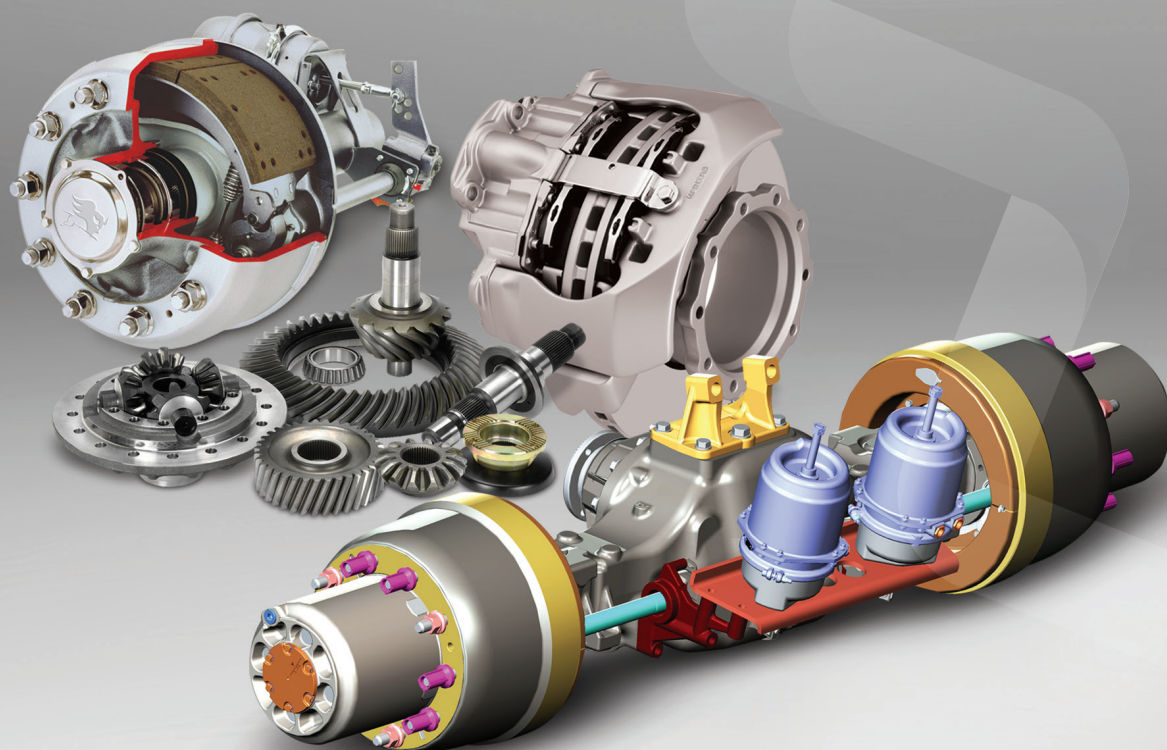




35th Annual Report 2015-16

GROWTH AND
PERFORMANCE...
THROUGH TECHNOLOGY
AND TEAMWORK



Automotive Axles Limited



CONTENTS

Corporate Information	01
Chairman's Insight	02
Board's Report	04
Management Discussion and Analysis	26
Report on Corporate Governance	36
Independent Auditor's Report	47
Balance Sheet	52
Statement of Profit & Loss	53
Cash Flow Statement	54
Notes	56
Notice	83

CORPORATE INFORMATION

BOARD OF DIRECTORS	Dr. Babasaheb N Kalyani, Chairman Mr. Joseph A Plomin, Director Mr. Bhalachandra B Hattarki, Independent Director Mr. B C Prabhakar, Independent Director Mr. Satish Sekhri, Independent Director Ms. Supriti Bhandary, Independent Director Dr. N Muthukumar, Whole-time Director
KEY MANAGERIAL PERSONNEL	Dr. N Muthukumar, President & Whole-time Director Mr. Ranganathan S, Chief Financial Officer
STATUTORY AUDITORS	Deloitte Haskins and Sells (Chennai), Bengaluru
INTERNAL AUDITORS	Price Waterhouse & Co Bangalore LLP, Bengaluru
BANKERS	HDFC Bank Limited Kotak Mahindra Bank State Bank of India
REGISTRAR & SHARE TRANSFER AGENTS	Integrated Enterprises (I) Limited #30, Ramana Residency, 4th cross Sampige Road, Malleshwaram Bengaluru Ph: 080-23460815-818; E-mail: irg@integratedindia.in
REGISTERED OFFICE	Hootagalli Industrial Area, Off Hunsur Road, Mysuru – 570018. Ph: 0821-7197500 Website: www.autoaxle.com Email: sec@autoaxle.com
WORKS	<ol style="list-style-type: none">Mysuru Hootagalli Industrial Area, Off Hunsur Road, Mysuru – 570018Rudrapur 6 Km Stone, Kichha Road, Village Shimla Pistor, Rudrapur, Udham Singh Nagar, Uttarakhand – 263153Jamshedpur Old Khakripara, Vill & Post – Chhota Govindpur, Jamshedpur, Dist. E. Singhbhum, Jharkhand – 831015



CHAIRMAN'S INSIGHT

Dear Shareholders,

It is heartening to note that global economic recovery continued in 2015, despite challenges. The pace of recovery was rather sluggish and fragile. The big picture has not changed dramatically since my last communication to you. Overall, businesses and governments have rather reconciled themselves to the fact that global economic activity will not be consistent in the short to medium term; headwinds will come and go, but the road ahead has to be charted, despite unpredictable scenarios. Challenges will be there, but as in sports winning is the only option. Strategies may differ, but the objective is to clinch the best bargain in a slow-growth world.

In advanced economies the recovery was modest and largely uneven. The US economy demonstrated resilience undoubtedly, supported by relatively easy financial conditions with strengthening housing and labour markets. In the Euro area, robust private consumption, supported by lower oil prices and easy financial conditions outweighed a weakening in net exports.

The scenario for emerging markets and developing economies is not uniform. The collapse of Brazilian economy, slowdown and rebalancing of the Chinese economy, low commodity prices and geopolitical tensions in West Asia continued to weigh on growth prospects.

India's position is relatively better, but it can't afford to be complacent. Corporate balance sheets are to a very large extent overleveraged, manufacturing is passing through challenging phases of either slow growth or contraction, based on volatile demand; and inadequate rainfall and drought-like scenario is hurting agricultural growth and rural income. However, low interest rates, lower oil prices, fiscal deficit does not look threatening and inflation is within manageable limits. These are definite positives.

The government is also focusing on across-the-board reforms and big-ticket public investments (especially in the infrastructure sector) as India continues to be one of the bright spots in a slow-growth regime. Besides, India is reaping significant gains from the commodity cycle, which can be channelised for building infrastructure and grow sustainably.

The Government of India (GoI) has set an ambitious target of increasing the contribution of manufacturing output to

During 2015-16, we registered sales of ₹ 10,875 million, growing 30% from ₹ 8,345 million during previous 12 months.

25% of GDP by 2025, from 16% through the 'Make in India' initiative. Interestingly, FDI into the country has increased by 37% after the launch of 'Make in India' programme till February 2016.

INDIAN AUTOMOBILE SECTOR PROGRESS

India's automobile sector production during April-March, 2016 grew marginally by 2.58%. Passenger vehicle segment grew by 5.97% and commercial vehicle segment grew by 12.10% over the last year owing to growth in the passenger vehicles and commercial vehicles segments. Overall, automobile exports grew by 1.91% during the same period. (Source: SIAM)

India's auto-components industry has experienced sustainable growth in the last few years on account of high demand from end-user market, improved consumer sentiment and rising vehicle demand. The country has become an automobile component sourcing hub for major OEMs and exports to five continents. Europe accounts for the largest share, followed by Asia and North America. With global auto component players adopting a dual-shore manufacturing model, India is poised to emerge as an outsourcing hub.

Going forward, India's auto-components industry is set to become the world's third largest by 2025. The country's auto-component makers are well positioned to benefit from this sector's globalisation as the exports potential could be increased by up to four times to US\$ 40 billion by 2020.

The country's working population is likely to help stimulate the growing market for private vehicles. Moreover, rising affordability, growing urbanisation and easier accessibility to finance are expected to positively affect vehicle consumption.

OUR BUSINESS PERFORMANCE

Our performance has been encouraging throughout the year. During the period, we registered sales of ₹ 10,875 million, growing 30% from ₹ 8,345 million during previous 12 months. Our EBITDA was ₹ 973 million, increasing by 38% from ₹ 707 million during previous 12 months. Profit after tax was ₹ 348 million rising 74% from ₹ 200 million during previous 12 months. Subsequently, our earnings per share stood at ₹ 23.01. Our consistent drive to grow in the existing vertical and increased customer penetration, new product developments in existing and new verticals and enhanced cost optimisation has facilitated the growth paradigm.

We continue to work on new product development, while driving down costs and serving the needs of a large customer base. Our wide portfolio comprises auto components and designs efficient engineering modules or systems with high-efficiency gearing, integral brake to axle design, weight option designs and driver-operated differential locks.

We continued to work on the concept of Built in Quality (BIQ) to achieve high standards of advanced manufacturing architecture across all our plants. This initiative will ensure that quality is ascertained by each and every operator by following a procedure to eliminate defects.

We expanded our manufacturing scale with a new plant in Jamshedpur, which will primarily manufacture brakes and trailer axles. Moreover, we commissioned a specialty axles unit in our Mysuru plant as a part of our new product development strategy. The plant can currently manufacture 300 sets of Hub Reduction Axles per month and going forward, we will enhance the capacity to 600 sets.

We ensure quality products are delivered to our customers, every time. Our quality performance stood at 100 PPM for domestic customers and 80 PPM for overseas customers. Our production facilities were developed consistently with the installation of flexible output endo gas generator and robotic gear quenching to reduce gas consumption by 20%.

We have launched a new initiative called Mission 18 to drive revenue growth across all segments and cost savings across all areas.

We have built an ecosystem encompassing integrated sustainable practices. We contribute to environmental wellbeing by using rainwater harvesting for manufacturing processes; recharging systems; and participating in green nurturing programmes, among others.

SUSTAINABLE PRACTICES

We have built an ecosystem encompassing integrated sustainable practices. We contribute to environmental wellbeing by using rainwater harvesting for manufacturing processes; recharging systems; and participating in green nurturing programmes, among others. Moreover, we have introduced induction lamps for shop floor, solar roof panels and energy-efficient motors. We are effectively utilising the power bidding scheme to reduce energy consumption.

OUR TEAM

On behalf of my colleagues on the Board of Management, I would like to take this opportunity to thank our dedicated employees whose expertise and reliability drive the Company's consistent growth. We are encouraging a progressive, high-performing and inclusive culture that recognises and rewards talent, enhances transparency and stimulates open communication.

We would also like to thank our valued customers, shareholders, suppliers and business associates for the confidence they have reposed in our Company.

Warm regards,

Dr. B N Kalyani
Chairman



BOARD'S REPORT

To the Members,

Your Directors have the pleasure in presenting the 35th Annual Report on the business and operations of the Company together with the Audited Statements of Accounts for the financial period ended 31st March 2016:

FINANCIAL HIGHLIGHTS:

Particulars	2015-2016 (12 months)	2014-2015 (6 months)
Total Revenue	10,875.44	4,617.03
Profit before depreciation & tax	919.94	338.03
Less : Depreciation, amortization & Loss on assets discarded	404.70	173.21
Provision for Taxation	167.50	59.40
Profit After Tax	347.74	105.42
Balance of Profit from Previous Year	2,298.81	2,223.20
Profit available for appropriation	2,646.55	2,328.62
Appropriations :		
Dividend for the year	83.12	15.11
Tax on dividend	16.98	4.16
Transfer to General Reserve	-	10.54
Surplus retained in Profit & Loss Account	2,546.45	2,298.81

DIVIDEND

Your Directors are pleased to recommend a Dividend of ₹ 5.50 per equity share of face value of ₹ 10/- each for the period ended 31st March 2016 aggregating to ₹ 83.12 million, excluding Dividend Distribution Tax.

The Dividend, subject to the approval of Members at the Annual General Meeting to be held on 12th August 2016, will be paid within 30 days from the date of declaration of dividend to the Members whose names appear in the Register of Members, as on the date of book closure, i.e. from 10th August 2016 to 12th August 2016 (both days inclusive).

In terms of the provisions of the Companies Act, a sum of ₹ 304,635/- 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 (12 months) under review was ₹ 10,875.44 Million as against ₹ 4,617.03 Million for the previous financial year (6 months). The Profit before tax (PBT) of ₹ 515.24 Million and the Profit after tax (PAT) of ₹ 347.74 Million for the financial period

under review, as against ₹ 164.82 Million and ₹ 105.42 Million respectively for the previous financial year.

The Company in its journey towards world class manufacturing has further improved the quality standards towards Zero Chips, Oil & Coolant (COC) initiatives implemented last financial year in all plants, to make it clean from Chips, Oil and Coolant on floor. Further, to improve the standards of Organisation Health and Safety, your organisation implemented OHSAS 18001 and was certified for OHSAS 18001 2007 which is valid for three years.

BOARD OF DIRECTORS

Ms.Sudhasri.A resigned from the Board due to other pressing engagements effective 10th February 2016. The Board places its appreciation for her valuable contributions made during her tenure.

Pursuant to Sections 149 and 152 of the Companies Act, 2013 and in terms of Regulation 17 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, the Board of Directors has at its meeting held on 10th February 2016, appointed Ms.Supriti Bhandary as an additional director, who

is being proposed to be appointed as an Independent Director with effect from the date of ensuing Annual General 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, Mr. Joseph A Plomin, Non-Executive Director of the Company retires by rotation at the ensuing Annual General Meeting and, being eligible, offers himself 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 under sub-section (6) of Section 149 of the Companies Act, 2013.

FIXED DEPOSITS

Your Company has not accepted any Public Deposits under Chapter V of Companies Act, 2013, during the 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 Nomination and Remuneration Policy is annexed herewith as **Annexure – A** to this report.

AUDITORS & AUDITORS' REPORT

The report given by the Statutory 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), Bengaluru were appointed as Statutory Auditors of your Company in the 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.

No frauds have been reported by the Auditors in their reports.

The Secretarial Audit Report for 2015-16 in form MR-3 is annexed to this Report under **Annexure – B**

Explanation for observations made by the Company Secretary in Practice :

The compliances under Secretarial Standards on meetings of the Board of Directors have been largely met with but for certain minor improvements which would be complied henceforth.

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 the secretarial audit of Company's secretarial and related records for the financial year 2016-17.

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 Companies Act, 2013 and the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 (LODR Regulations) have strengthened the governance regime in the Country. Your Company is in compliance with the governance requirements provided under the new law and has 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 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 Regulation 34(3) (Schedule V(E)) of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 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 - C** to this report.

ANNUAL RETURN 2015-16

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

RELATED PARTY TRANSACTIONS (RPT)

In line with the requirements of the Companies Act, 2013 and LODR Regulations, your Company has formulated a Policy on Related Party Transactions which is also available on Company's website at www.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 E**

CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

PARTICULARS OF REMUNERATION OF DIRECTORS & CERTAIN SPECIFIED EMPLOYEES

In terms of the provisions of Section 197(12) of the Companies Act, 2013 read with Rule 5(2) of Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014, the names and other particulars of certain

employees, who are covered by the said rules, are set out in the **Annexure G** to the 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

Your Company introduced the Risk Management System almost a decade back and it 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 Risk Management policy developed by the Company aims to cover all the business and other risks, which are revisited at reasonable intervals.

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 Regulation 34(2)(e) of LODR Regulations, 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 Nomination & 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 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: 10th May 2016

Dr. B.N. Kalyani
Chairman



ANNEXURE A

NOMINATION AND REMUNERATION POLICY

The Board of Directors of Automotive Axles Limited ("the Company") constituted the "Nomination and Remuneration Committee" ("Committee") at the Meeting held on April, 29 2014 with immediate effect.

1. OBJECTIVE

The Nomination and Remuneration Committee and this Policy shall be in compliance with Section 178 of the Companies Act, 2013, as amended from time to time, read along with the applicable rules thereto and Regulation 19 of SEBI (Listing Obligations & Disclosure Requirements) Regulation, 2015. The Key Objectives of the Committee would be:

- 1.1. To guide the Board in relation to appointment and removal of Directors, Key Managerial Personnel (hereinafter referred to as "KMP") and Senior Management.
- 1.2. To evaluate the performance of the members of the Board and provide necessary report to the Board for further evaluation of the Board.
- 1.3. To recommend to the Board on Remuneration payable to the Directors, KMP and Senior Management.
- 1.4. To provide to KMP and Senior Management reward linked directly to their effort, performance, dedication and achievement relating to the Company's operations.
- 1.5. To retain, motivate and promote talent and to ensure long term sustainability of talented managerial persons and create competitive advantage.
- 1.6. To devise a policy on Board diversity.
- 1.7. To develop a succession plan for the Board and to regularly review the plan;

2. DEFINITIONS

- 2.1. Act means the Companies Act, 2013 and Rules framed thereunder, as amended from time to time.
- 2.2. Board means Board of Directors of the Company.
- 2.3. Directors mean Directors of the Company.
- 2.4. Key Managerial Personnel (KMP) means

2.4.1. Whole-time Directors;

2.4.2. Chief Financial Officer; and

2.4.3. Company Secretary;

2.5. Listing Agreement means Agreement, as amended from time to time, executed with Stock Exchanges for Listing of Securities of the Company.

2.6. Senior Management means personnel of the Company who are members of its core management team being functional heads not below grade of Senior Vice President.

3. ROLE OF COMMITTEE

3.1. Matters to be dealt with, perused and recommended to the Board by the Nomination and Remuneration Committee

The Committee shall:

3.1.1. Formulate the criteria for determining qualifications, positive attributes and independence of a director.

3.1.2. Identify persons who are qualified to become Director and persons who may be appointed in Key Managerial and Senior Management positions in accordance with the criteria laid down in this policy.

3.1.3. Recommend to the Board, appointment and removal of Director, KMP and Senior Management Personnel.

3.2. Policy for appointment and removal of Director, KMP and Senior Management

3.2.1. Appointment criteria and qualifications

a) The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Director, KMP or at Senior Management level and recommend to the Board his / her appointment.

b) A person should possess adequate qualification, expertise and experience for the position he / she is considered for appointment. The Committee has discretion to decide whether qualification, expertise