

Automotive Axles Limited
“40th Annual General Meeting call transcript”
10th August 2021
(3.00 PM- 4.00 PM IST)

Corporate Participants:

Dr. B.N. Kalyani
Chairman

Mr. B.B. Hattarki
Director & Chairman of Audit Committee

Mr. B. C. Prabhakar
Independent Director & Chairman NRC, SRC, CSR and Risk Management Committee

Mr. Rakesh Kalra
Independent Director

Dr. Shalini Sarin
Independent Director

Dr. Muthukumar N.
President & COO of Meritor HVS India Ltd.

Mr. Ranganathan
Chief Financial Officer

Mr. Debadas Panda
Company Secretary

Mr. Pradip Agarwal
Representative- Statutory Auditors

Ms. Pracheta M
Scrutinizer & Secretarial Auditor

Mr. K. Harish
Representative from Integrated Registry Management Services (RTA)

Shareholders

Introduction and briefing on conduct of AGM through VC /OAVM

Debadas Panda (Company Secretary):

Good afternoon all ladies and gentlemen, I, Debadas Panda, Company Secretary of Automotive Axles Limited welcome you all to the 40th Annual General Meeting of the Company and will introduce the dignitaries in the dais today.

Dr. B.N. Kalyani our chairman

Mr. B.B. Hattarki, Independent Director & Chairman of Audit Committee

Mr. B. C. Prabhakar

Independent Director & Chairman Nomination and Remuneration Committee, Stake Holder Relationship Committee, Corporate Social Responsibility Committee and Risk Management Committee

Mr. Rakesh Kalra Independent Director

Dr. Shalini Sarin Independent Director

Mr. Ranganathan Chief Financial Officer

Dr. Muthukumar N., President & Chief Operating Officer of Meritor HVS India Ltd.

Mr. Pradip Agarwal, Representative of our Statutory Auditors

Ms. Pracheta M, Scrutinizer & our Secretarial Auditor

Mr. K. Harish Representative from our RTA

Now I request our CFO Mr. Ranganathan to make few necessary announcements before we proceed for the meeting.

Mr. Ranganathan (Chief Financial Officer):

I take this afternoon and welcome you all for the 40th Annual General Meeting of Automotive Axles Limited.

For convenience of Members, I would now like to brief on certain points regarding participation by Members and speakers at this meeting.”

“Facility of participation by Members in this AGM through NSDL e-voting platform is provided on first come first serve basis. All Members present at this meeting are by default put on mute by the Moderator to avoid any disturbance arising out of background noise and for smooth and seam-less conduct of the meeting.”

“Members may please note that: On receipt of requests from certain shareholders, Company has registered them as speakers at this AGM.”

“Once the floor for questions and answers is opened by the Chairman, name of the Members registered will be announced one by one. Each Speaker, on his/her turn will be unmuted by the

Company's Moderator. Concerned speaker is thereafter requested to click audio and video ON button in his/her system. If speakers are not able to activate video mode, speakers can speak by audio mode. While speaking, we request speakers to use earphone to minimize any noise in the background, ensure that wifi / internet is not connected to any other devices, no other applications are running, and it will help proper lighting and sound is in place for having good video and audio experience. If there is connectivity problem at speakers end, Company reserves the right to ask next speakers to join. Once the connectivity improves, the speaker Member will be re- connected to speak, after other registered speaker Members complete their turn."

"Speaker Member once allowed to speak is requested to mention his/her name, folio no. and place from where they are joining."

"We would like to request speakers to limit their speech to three minutes. Questions should be relevant and should not be forward looking or personal."

"Speaker members may please note that in order to avoid repetition, answers will be given by the Chairman at the end after completion of queries by speakers."

"During the AGM, if a member faces any technical issue, he/she may contact the helpline no. mentioned in the Notice of AGM. "

With this I conclude about the brief note on conduct of the meeting and thank you very much and over to Company Secretary.

Debadas Panda (Company Secretary):

I hereby declare that the requisite quorum is present in this meeting, and I request the Chairman to proceed for conducting the Meeting.

Dr. B.N Kalyani (Chairman),

Dr. B.N Kalyani (Chairman), then welcomed the Members and declared quorum:

Ladies & Gentlemen, very warm good afternoon to all of you. I am happy to welcome all the Members to the 40th Annual General Meeting of your Company. As the requisite quorum is present and the meeting is validly convened, I will now call the meeting to order. Before proceeding further, I would like to request Directors, to introduce themselves one by one.

1. *Mr. B. B. Hattarki, Independent Director*

I am B. B. Hattarki, Independent Director and Chairman of Audit Committee. I am Attending from my residence from Kalyani Nagar, Pune. I can see and hear the proceeding of the meeting.

2. *Mr. B. C. Prabhakar, Independent Director*

I am B. C. Prabhakar, Independent Director; Chairman of Stakeholder Relationship Committee, Nomination and Remuneration Committee, Corporate Social Responsibility Committee & Risk Manage of the Company - Attending from Bangalore.

3. *Dr. Shalini Sarin*

I am Shalini Sarin, Independent Women Director - Attending from home office New Delhi. I can able to see everybody clearly.

4. Mr. Rakesh Kalra

I am Rakesh Kalra, Independent Director of the Company - Attending from Pune. Able to see all the proceedings and hear everybody clearly.

Let me introduce myself. This is Baba Kalyani. I am in my office in Bharat Forge Limited, Mundhwa, Pune. I have all the papers and I am able to hear proceedings of the meeting.

Dr. B. N. Kalyani announced that:

We also have Statutory Auditor, Secretarial Auditor, Chief Financial Officer and Company Secretary participating in this AGM through VC from their respective locations.

I would like to thank all Directors, officials and Members for joining this meeting.

Due to the spread of COVID-19 and social distancing norms, we are conducting this meeting through Video Conferencing or Other Audio-Visual Means. This is in compliance with the directions issued by Ministry of Corporate Affairs and SEBI. Live streaming of this AGM is also webcasted through NSDL website.

Since this AGM is being held pursuant to the MCA Circulars through VC without physical attendance of Members, the requirement of appointing proxies by the Members is not applicable."

Statutory Registers, as required under Companies Act, 2013, are open to the Members for inspection. Members who want to inspect these registers may kindly send their request to email id provided on Company's website under the Investors Service Center.

Chairman Speech:

Dear shareholders,

On behalf of the Board of Directors of Automotive Axle Limited, I welcome you all to our 40th Annual General Meeting. For the last 15 months, the world has been riddled by uncertainty in every aspect, from health and lifestyle to the way we work and conduct business, due to the infectious virus that is affecting all of us.

Without the selfless efforts of frontline workers in protecting the humanity, the situation would have been much worse. Thus, let us start the event by extending our heartfelt gratitude to those who serve us day and night during these trying times. I hope you and your family got vaccinations and are following the COVID guidelines.

In response to the pandemic, we collaborated with the local government administration and healthcare organisations to provide support to communities surrounding us through our CSR initiatives. Your Company has donated two number of "Lab Built on Wheels," enabling rural people to receive convenient healthcare services in their village or town. We will also continue to support society through appropriate measures in order to contain the pandemic in the future.

With the requisite quorum being present, I now call the meeting to order. I hope you have already gone through our Annual Report for FY 2020-21, which also contains our Directors' Report and Audited Financial Report.

Economic environment

As the pandemic-induced lockdowns and restricted movement halted most businesses for a considerable period of the year, the global economy witnessed a sharp decline during FY21. The economic downturn depleted international trade throughout 2020 disrupting manufacturing activities, supply chain distribution, as well as drastic reduction in demand structure.

The horrendous effect of the outbreak also had a significant impact on the Indian economy, causing a 7.3% drop in India's GDP. The Government of India and the Reserve Bank of India supported the economy with massive stimulus packages and supporting policies that aided citizens and businesses, preventing the economy from further decline. Even though some sectors experienced recovery and marginal growth following the first half of the year due to the easing of lockdown, the second wave of the pandemic in the final quarter halted progress.

Industry landscape

FY2021 was one of the toughest years for the Indian automotive industry, which was already dealing with pressures from a sluggish economy, and pandemic-induced restrictions aggravated the situation, resulting in a 13.6% drop in overall sales. However, as soon as economic activity resumed after the first quarter and the industry experienced a steady recovery. Concurrently, the auto component industry posted a subdued performance in the first half of FY21, but the industry rebounded in the second half with economic resumption. For the first time ever, auto component exports exceeded imports; however, both imports and exports fell during the fiscal year under review. The industry is expected to become self-reliant in the future as a result of the industry's increased emphasis on deep localisation along with the government's announcement of the PLI scheme.

Our progress

With this challenging industry landscape, your Company's performance suffered, but it remained profitable with revenues of ₹913 crore and EBITDA of ₹73 crore due to a strong revival in sales in the second half of the financial year under review. The performance offset was caused by a weak demand scenario in the first half of the year, as OEMs remain cautious in ramping up BS-VI production. The market for Medium and Heavy Commercial Vehicles fell by 21% year on year. However, we outperformed the industry due to increased market share and the introduction of new value-added products to the customers.

Our strategies

Considering the uncertainties of the evolving pandemic situation, we have implemented strategies aimed at strengthening our position to meet a diverse consumer demand and capitalising on long-term growth opportunities.

- Incorporating latest technology: We focused our efforts on embracing and implementing Industry 4.0 technology, and our new CNC gear line enabled us to meet global manufacturing standards.
- Improving productivity & flexibility: With a focus on increasing productivity and responding quickly to volatile volume, we installed specialised equipment to meet the

demands of new models and variants. We also altered our plant layouts to improve line flexibility by implementing single piece flow and cell concepts on the shop floor.

- Resource optimisation: Through lean manufacturing processes such as Total Productive Maintenance, we are focusing on optimising our resources and thus lowering costs.
- New Product Development: We will augment our market share by providing new products to our customers, utilising cutting-edge technologies and equipment for both housing line balancing and gear manufacturing.

Caring for our people

Even though technology and automation have transformed business operations, our people remain the most fundamental aspects of our organisation that enable us to grow and prosper. With the safety of our employees in view, we formed a special medical team to provide counselling and medical assistance. We have undertaken a vaccination drive and 95% of our employees has been inoculated to date. Furthermore, we adhere to all COVID safety protocols in accordance with the government and health ministry advisory. We will continue to monitor the emerging pandemic situation while prioritizing the safety and well-being of our people and society by providing necessary support and assistance.

Looking ahead

The shift in global supply chains, as well as India's focus on self-sufficiency, are creating new opportunities for the automotive industry. As an auto component manufacturer, we remain confident that our technological adoption will provide us with a competitive advantage in terms of productivity, flexibility, and cost reduction, and that our new product development will bring us a sizable market share going forward.

Finally, I truly thank our customers, suppliers, and the government for their continued support on behalf of the Board and the leadership team. I also extend my deepest gratitude to our people for their perseverance, fortitude, and efforts in steering us through these trying times.

Thank you.

I would now before going to the formal agenda of the meeting I would like to take any questions from members registered as Speakers.

Mr. Abhishek Yogesh Shah please go ahead.

Mr. Abhishek Yogesh Shah:

Sir I have few questions.

My DP ID is: 1201090005761606

Sir some of my questions are in our annual report and through the speech you mentioned about cost cutting so:

- 1. You mentioned about cost cutting - is it possible to quantify your costs savings in the past two years and what cost savings do you expect to sustain of the next few years as well?*
- 2. When do you expect we could hit FY19 peak turnover sales and at that level what could be your operating margins? So, in the last cycle we hit at 12% operating margin this cycle because of our saving is much higher and is 14% operating margins in this business is possible?*

3. *Can you spend sometime on new products that we could develop/get from Meritor and introduce to our customers?*
4. *In our MDA, we have mentioned we are steadily growing our presence in China, USA, France, Italy, Brazil etc. Can you talk about the plans there and what could be the potential scale in next 3, 4 or 5 years?*
5. *Can you spend sometime explain on the export opportunity especially when steel prices in India are almost 20% cheaper than US and Europe? Would that help to get orders and explore export opportunity?*
6. *In the local market we have been talking about gaining market share. Leyland and Tata have more than 80% share where for Leyland we make all their axles whereas Tata makes their in-house axles. Can you explain the scope here for other customers as well?*
7. *Freight charges are up from Rs. 3.5 crores to Rs. 10.7 crores on lower turnover. Can you explain why this has happened? Why was the reimbursement not done from Meritor HVS in this year like past years?*
8. *Also trade receivables from Meritor HVS India has shot up from Rs. 109.4 crores to Rs. 248.1 crores. Can you explain why this happened and if this was just temporary?*

Would appreciate if this could be answered. Thank you

Thank you Mr. Shah. I will answer the questions after I get all the questions.

Debadas Panda (Company Secretary):

There is no any other shareholders to ask the questions. You can answer the questions.

Dr. B.N Kalyani (Chairman):

Mr. Abhishek shah the question no.1 is about cost cutting whether it is possible to quantify cost cutting savings.

We have fairly elaborate cost cutting plan in place almost 2.5 years ago and we have strived how we we deal with cost cutting both in terms of product engineering as well as in a reducing material cost by weight saving etc. we have improved our material cost performance performance on 100 basis point y-o-y scale. We had a very large commodity price increase this year as you all know. It is very difficult to see what the actual number of cost cutting is. Therefore, it is very difficult to see in the numbers what actual cost cutting is but that's been the kind of performance on 100 basis point y-on-y. We will continue to focus on improving our business performance and once the revenue starts growing then the impact of the cost cutting measure will be more visible then what they are right now. Because the revenues are less than 50% of our even normal revenue in the past but this process is pretty much on and Management has lot of focus on this.

Your second question when do you expect we could hit the peak revenue of FY 19 and operating margin @ 14%? Our target is pretty much to get to operating margin of 14% or better but as far as peak revenue of FY19 is concerned, please remember FY19 medium and heavy duty truck production was around 4,76,000 vehicles and as of today Q1 was less than 15K looking when will hit 476,000 would be at best while guess. We need to have little patience for our economy to expand a little more before we expect to see this numbers but, in my gut, feeling it will take few years before we get this kind of numbers. But we will hopefully outperform the market on a continual basis and while improving revenue and cost we will also improve our profitability.

Your third question was new products that we could develop/get from Meritor and introduce to our customers? We are already launching a lot of new products to give you a list of the new product launches in the recent times and one is in the pipeline and once in pipeline that include 15i, 160 EVO, MS 185, MT 846, MT 145, MS 177, ICV brakes – 325 & 360 dia just to give you some examples. We are continuing to focus our investment on new product developments and even during the market downturn and pandemic period and we have spent a considerable amount of effort in this area. We are steadily growing our presence in export in China, in United States, in France, in Italy and in Brazil.

You asked the question can you talk about plan in terms of scales. During the pandemic period as you are probably aware that the markets in almost all the geography had some amount of contractual and problem. I think now we are seeing a fairly steady growth and demand so we should hopefully see our export increasing in going forward.

Your next question was can you spend sometime explain on the export opportunities specially when steel prices in India are almost 20% cheaper than the US and Europe. While we are working with Meritor and non-Meritor customers also on export business opportunities as I said export to china, export to France, export to Brazil, so this is all pretty much happening. Demand in those countries keep fluctuating for various reasons, currently it is supply chain problem that are there because of semi-conductor etc., but the thrust on export and taking the help of our partner Meritor is pretty much happening right now.

Your next question was about market share and the situation with Ashok Leyland and TATA Motors. Yes... we continue to expand our market share with Ashok Leyland and we are also doing some amount of business with TATA Motors considering that they have in-house axle manufacturing capacity this business can never be very large going forward but we have lot of business with other OEMs such as DICV, Volvo Eicher, Mahindra for the trucks to whom we supply axles. So as this volume expand so will our volume expand.

You had a question on freight charges. Why they have gone up from 3.5 Crs to 10 Cr. on lower turnover? And why we haven't recovered from Meritor HVS (India) Limited? The answer for this is that in the financial year ended 2020, freight charges are reimbursed by our customer however in 2021 the freight is included as part of selling price. Hence, year ended 21 the gross freight is reflected in the expenses line item. Also trade receivables, why they have gone up? This is largely in-line with the increase in business volume in the last quarter of the financial year and that's why you see a temporary ballooning of receivables and hopefully this should get straightened out in the next month also.

So, there are no more questions I will take up the agenda items for this AGM:

Can I just take the Notice of meeting as read?

“Since Notice convening 40th Annual General Meeting was already circulated, I request the Members present to take the Notice of the AGM together with the Financial Statements and Board's Report as read.”

The Auditors' Report on the Financial Statements of the Company for the year ended 31st March 2021 and Secretarial Audit doesn't have any qualifications, observations or comments on financial statements (which have any adverse effect on the functioning of the Company). Accordingly, as per section 145 of the Companies Act, 2013, with the concurrence of the Members the Auditors' Report to be taken as read.”

In terms of the agenda items the company has taken requisite steps and provided facilities to enable members to participate and vote electronically on all the four agenda items of the Notice of this AGM. Members who have not voted earlier on remote e-voting can cast their vote during the course of the meeting through NSDL e-voting facility. We now take up the agenda items as set forth in the notice namely:

Item No. 1: Adoption of the Audited Financial Statements of the Company for the financial year ended 31st March 2021, including the Audited Balance Sheet as at 31st March, 2021, the Statement of Profit and Loss for the year ended on that date and Reports of the Board of Directors and the Auditors thereon.

Item No. 2: Declaration of final dividend of Rs. 4.50 per equity share of Rs. 10/- each for the financial year 2020-21.

Item No. 3: To appoint a director in place of Dr. B. N. Kalyani, who retires by rotation and being eligible, offers himself for re-appointment. This is about me.

Item No. 4: Appointment of Mr. Kenneth James Hogan as Director of the Company

I will hand it over to the Company Secretary:

Debadas Panda (Company Secretary):

“As per the Companies Act, 2013 and SEBI Listing Regulations, the Company had provided remote e-voting facility to the Members, whose shareholding are recorded as on cut-off date of 4th August 2021, to enable them to cast their votes electronically on all the AGM agenda items between 7th August 2021 (9:00 am) to 9th August 2021 (5:00 pm).”

“Facility of e-voting is also provided to Members present in the meeting and who have not yet cast their votes. Such Members may please go to voting page of NSDL e-voting website and can now exercise their votes, while at the same time watch the proceedings of AGM.”

“Ms. Pracheta M., Practicing Company Secretaries has been appointed as the Scrutinizer to scrutinize the votes cast at the meeting and through remote e-voting. The Scrutinizer will submit her report in the prescribed manner to the Chairman or his authorised representative within 24 hours of the conclusion of the meeting.”

“Since the AGM has been convened through Video Conferencing and Other Audio-Visual Means and all resolutions contained in the Notice have already been put to vote through remote e-voting and also announced by the Chairman at this meeting, there will be no vote by show of hands or no proposing and seconding of resolutions.”

Now I request Chairman to proceed with rest of proceedings.

Dr. B.N Kalyani (Chairman):

Thank you very much

We have finished all the agenda items of this Annual General Meeting of your company. We also had questions from one member which have been answered.

I would like to conclude the meeting as closed.

I thank all the members and directors for joining this meeting in this video conference.

Thank you very much

Debadas Panda (Company Secretary):

Now E-voting facility will be open on NSDL site for next 15 minutes to enable those Members who have not casted their votes and would like to cast their votes at this AGM.”

“Results of the votes would be announced to stock exchanges at the earliest and the same would also be available on the website of the Company and NSDL.”

“With your consent, I and other Board Members would like to leave the meeting and wish all stakeholders a safe and healthy future.”

Thank you very much.
