

AUTOMOTIVE AXLES LIMITED

14th December 2023

The BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001
Scrip Code: 505010

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G- Block
Bandra (E)
Mumbai - 400 051
Scrip Symbol: AUTOAXLES

Attn: Listing Department

Sub: Response to the proxy advisory report issued by Institutional Investor Advisory Services India Limited (IIAS) regarding Postal Ballot Notice.

Dear Sir/Madam,

This is with reference to the Postal Ballot Notice dated November 22, 2023 along with the Statement sent electronically to the members of the Company on November 24, 2023, to Approve Material Related Party Transactions of the Company with Meritor HVS (India) Limited.

The Company has received voting recommendation of Institutional Investor Advisory Services India Limited (IIAS) on the proposed resolution in the aforementioned Notice on 12th December 2023.

The Company's responses to the above-mentioned recommendations sent to IIAS is enclosed.

We request the members to consider the above clarifications while exercising their vote.

You are requested to take the above information on your records.

Thanking you,

Yours faithfully,

For Automotive Axles Limited

Debadas Panda
Company Secretary & Compliance Officer

Encl. : As above



Regd. Office & Mysuru Unit :

Hootagalli Industrial Area, Off Hunsur Road, Mysuru – 570 018, Karnataka, India

Telephone : 91-821-719 7500, Fax : 91-821-2402451

Email : sec@autoaxle.com, Website : www.autoaxle.com

CIN : L51909KA1981PLC004198

ISO 9001:2015 / IATF 16949 : 2016, EMS : ISO : 14001:2015 & OHSAS : ISO : 45001 : 2018



Automotive Axles Limited

Postal Ballot (PB)

Report Date: 12 December 2023
BSE: 505010 | NSE: AUTOAXLES
Index : S&P BSE SMALL-CAP
Face Value: Rs.10.0 per share
Fiscal Year End: March
Annual Report: [FY23](#)

Result Date:	On or before 27 December 2023
Receipt Deadline:	Facility not available¹
E-voting Period:	26 November 2023, 9:00 AM to 25 December 2023, 5:00 PM
E-Voting Site:	http://www.evoting.nsdl.com
Notice:	PB notice dated 22 November 2023

¹In terms of MCA circulars 14/2020 dated 8 April 2020, 17/2020 dated 13 April 2020, 22/2020 dated 15 June 2020, 33/2020 dated 28 September 2020, 39/2020 dated 31 December 2020, 10/2021 dated 23 June 2021, 20/2021 dated 8 December 2021, 3/2022 dated 5 May 2022, 11/2022 dated 28 December 2022 and 9/2023 dated 25 September 2023, the company will send the postal ballot notice in electronic form only. The hard copy of the notice along with postal ballot forms and pre-paid business envelope will not be sent to shareholders for the postal ballot in accordance with the requirements specified under the MCA circulars. Accordingly, the communication of the assent or dissent of the members would take place through e-voting only.

Agenda Items

#	Type ¹	Description of resolution	IiAS Recommendation See Legend
1	O	<p>Approve related party transactions with Meritor HVS (India) Limited (MHVSIL) aggregating Rs. 40.0 bn for FY25</p> <p>MHVSIL is a 51:49 JV between Meritor Heavy Vehicle Systems, LLC and BF Investment Limited, who are also the JV partners of Automotive Axles Limited (AAL). MHVSIL is a dominant distributor of AAL's products in the domestic and global markets. We do not support this arrangement, since there is no clear rationale for housing the distribution network a separate promoter controlled entity – MHVSIL and AAL have the same JV partners: Meritor and the Kalyani group own a higher share of MHVSIL's equity than in AAL. We believe the distribution must be directly carried out through AAL so that all the shareholders of the listed entity reap the benefits of the margin earned on sale to the final customer. We do not support the current arrangement.</p>	<p>AGAINST</p> <p>G I F V T R</p> 

[1] O/S: Ordinary/Special

Company Overview

Automotive Axles Ltd. (AAL) is a joint venture of the Kalyani Group and Meritor Inc., USA. It manufactures drive axles, non-drive axles, front steer axles, off-highway Axles, drum & disc brakes and suspension. It provides these products to the major domestic and global manufacturers of trucks and buses pertaining to segments such as light, medium & heavy commercial vehicles, military and off-highway vehicles and aftermarket. In February 2022, Cummins Inc. entered into an Agreement and Plan of Merger with Meritor, Inc., to acquire 100% of the capital stock of Meritor Inc. The merger was completed in August 2022.

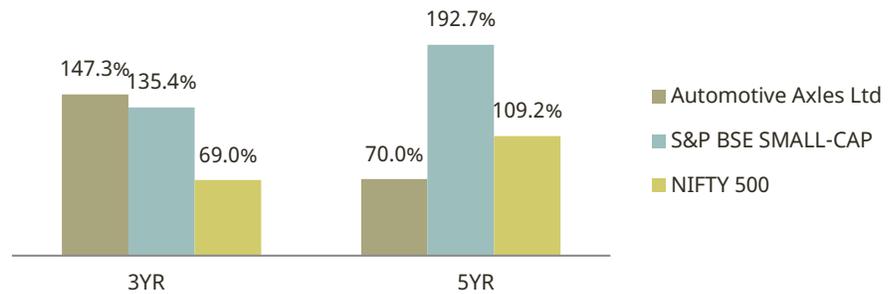
Promoters:

BF Investment Limited (35.52%)
Meritor Heavy Vehicle Systems, LLC (35.52%)

Market snapshot

Market Price (Rs): 2,243.8
Market Cap (Rs bn): 33.9
Net-worth (Rs bn): 7.5
52-week H-L: 2,690.0 - 1,870.6
Current P/E (x): 18.4
Current P/B (x): 4.3

Price Performance on 7 December 2023



Source : Capitaline database

Source : Capitaline database

Financial performance

	(Rs.bn)		
Year ending 31-Mar	2021	2022	2023
Total Income	9.1	14.9	23.3
EBITDA	0.7	1.4	2.6
EBITDA Margin (%)	7.6	9.3	11.3
PBT	0.3	1.0	2.2
PBT Margin (%)	3.3	6.7	9.4
PAT	0.2	0.7	1.6
PAT Margin (%)	2.5	5.0	7.0
EPS (Rs.)	15.0	49.2	107.2
ROANW (%)	4.2	12.7	23.5
ROACE (%)	5.9	17.0	31.5
Debt/EBITDA (x)	0.3	0.1	0.0

Source : Capitaline database

Trend in Shareholding Pattern (%)

Date	Promoter ¹	FII	DII	Others
30-Sep-23	71.0	0.7	12.0	16.3
30-Jun-23	71.0	0.7	12.5	15.7
31-Mar-23	71.0	0.7	13.6	14.7
31-Dec-22	71.0	0.7	13.9	14.3
31-Dec-21	71.0	1.4	13.5	14.0
31-Dec-20	71.0	0.8	11.8	16.4
31-Dec-19	71.0	0.8	13.9	14.3
31-Dec-18	71.0	1.4	8.9	18.7

[1] Pledged Shares: Nil

Source: BSE

Top Public Shareholders on 30 September 2023

No.	Name of the Shareholder	Shares held in (million)	Holding as % of total
1	Nippon India Small Cap Fund	1.28	8.51
2	SBI Contra Fund	0.20	1.32
Total		1.48	9.83

Source: BSE

Category: Related Party Transactions

#	Type	Description of resolution	IIAS Recommendation	Indicators See Legend
1	O	Approve related party transactions with Meritor HVS (India) Limited (MHVSIL) aggregating Rs. 40.0 bn for FY25	AGAINST	G I F V T R 

Discussion

Automotive Axles Limited (AAL) is a joint venture between Kalyani Group (35.52% held through BF Investment Limited) and Meritor Inc., USA. (35.52% held through Meritor Heavy Vehicle Systems, LLC). Cummins Inc. [acquired](#) Meritor Inc. USA in 2022 and thus AAL is effectively a JV between the Kalyani group and Cummins Inc. USA.

Meritor HVS (India) Limited (MHVSIL) is an unlisted entity and a related party of AAL. The notice states that MHVSIL is a JV promoted by Meritor Heavy Vehicle Systems, LLC and Bharat Forge Limited, Pune. However, as per the latest shareholding pattern available on MCA website, MHVSIL is a 51:49 JV between Meritor Heavy Vehicle Systems, LLC and BF Investment Limited (who are also the JV partners of AAL).

Exhibit 1: Details of the proposed related party transactions

Name of the Related Party	Meritor HVS (India) Limited (MHVSIL)										
Nature of Relationship	MHVSIL is part of the promoter group										
Directors/ KMPs who are related	Babasaheb Kalyani, Kenneth James Hogan, B. C. Prabhakar and Ms. Shalini Sarin are common directors										
Nature of the relationship	MHVSIL provides the company with a strong marketing, sales and distribution network with a customer base. AAL manufactures the components and routes majority of its revenue through MHVSIL (>75%).										
Nature of transactions	<ul style="list-style-type: none"> Sale of goods Purchase of goods Availing/rendering any services, reimbursements received/ paid, purchase/sale/lease of products, tools and asset, purchase and sale of export incentive licenses or any other transactions for transfer of resources, technology, or obligations 										
Whether at arm's length	Yes, evaluated by an external independent consulting firm										
Whether in ordinary course of business	Yes										
Tenure	FY25										
Proposed value of transactions	Rs. 40.0 bn										
	<table border="1"> <thead> <tr> <th>Category</th> <th>Rs. billion</th> </tr> </thead> <tbody> <tr> <td>Sale of goods</td> <td>39.5</td> </tr> <tr> <td>Purchase of goods</td> <td>0.2</td> </tr> <tr> <td>Other RPTs</td> <td>0.3</td> </tr> <tr> <td>Total</td> <td>40.0</td> </tr> </tbody> </table>	Category	Rs. billion	Sale of goods	39.5	Purchase of goods	0.2	Other RPTs	0.3	Total	40.0
Category	Rs. billion										
Sale of goods	39.5										
Purchase of goods	0.2										
Other RPTs	0.3										
Total	40.0										
Proposed transactions as a % of annual turnover for FY23	172%										

Source: Shareholder notice

The company had sought shareholder approval at the 2018 AGM for transactions with MHVSIL for five years, from FY20 to FY24, upto Rs. 30.0 bn per annum. Subsequently, at the 2023 AGM, the company sought shareholder approval for transactions with MHVSIL upto Rs. 40.0 bn per annum for FY24 and FY25. The approval sought at the 2023 AGM failed to receive the requisite majority from shareholders. Since the current approval is valid only for FY25, the approved limit for FY24 is maintained at Rs. 30.0 bn.

Exhibit 2: Past transactions with MHVSIL (in Rs mn)

Nature of transactions	FY19	FY20	FY21	FY22	FY23	H1FY24
Sale of goods	15,606.2	7,847.4	7,648.5	11,490.2	18,182.9	8,699.4
Tooling income	36.9	58.0	3.1	3.3	4.0	-
Lease rental payment	-	2.2	4.5	4.6	4.6	2.3
Purchase of MEIS licenses (export incentive)	23.6	61.5	5.1	5.0	3.3	-
Services received	94.9	39.9	39.9	84.1	119.2	-
Services provided	-	-	-	-	-	10.0
Expenses incurred by the company on behalf of related parties	-	-	-	-	192.1	-
Expenses incurred by related parties on behalf of the company	-	-	-	-	0.8	-
Warranty claims	-	-	-	8.9	238.7	39.0
Other recoveries	100.8	51.2	-	-	-	-
Total	15,862.3	8,060.1	7,701.0	11,596.1	18,745.5	8,750.7

Source: Annual reports, BSE filings

Exhibit 3: Sales to MHVSIL (in Rs. mn)

Particulars	FY19	FY20	FY21	FY22	FY23
Total turnover of Automotive Axles (AAL)	19,390.4	9,519.6	9,055.7	14,906.2	23,237.0
Sale of goods to MHVSIL	15,606.2	7,847.4	7,648.5	11,490.2	18,182.9
Percentage of AAL's sales to MHVSIL	80.5%	82.4%	84.5%	77.1%	78.2%

Source: Annual reports

Exhibit 4: Financials of MHVSIL (in Rs. mn)

Particulars	FY19	FY20	FY21	FY22	FY23
Total Revenue	17,992.6	9,602.7	8,957.4	13,771.3	NA
EBITDA	1,027.2	644.1	536.2	1,086.5	NA
EBITDA Margin (for MHVSIL)	5.7%	6.7%	6.0%	7.9%	NA

Source: MCA filings

Company's rationale for the proposed transactions:

- MHVSIL is engaged in new product design, application analysis, product testing, and marketing of drive axles, non-drive steer axles, drum brakes, and air disc brake assemblies for commercial, off-highway and defense applications.
- The company customizes and optimize global products to meet rigorous regional requirements, serving major OEMs like Ashok Leyland, TATA Motors, Daimler, Mahindra & Mahindra, among others, with a robust marketing, sales, and distribution network both in India and abroad.
- MHVSIL's technical and product design prowess, supported by a Technical License from MHVS U.S.A., empowers the company to manufacture innovative products tailored to the needs of medium and heavy commercial vehicle customers in India.
- Leveraging these capabilities, the company actively collaborates with MHVSIL, focusing on the export market to expand its customer base and geographical reach.
- MHVS U.S.A. has a century-long history in providing innovative drivetrain products like Axles and Brakes. MHVSIL was established in 1998 (promoted by MHVS U.S.A. & BFL) to accelerate business growth in India, catering to both domestic customers and MERITOR Global markets.
- The partnership brings in not only the MERITOR brand but also proven technical and design capabilities and product licenses.
- This collaboration significantly shortens the new product design, development, and testing cycle time, enhancing the company's chances of securing new business and expanding its market share. MHVS U.S.A., also brought in customer & technical knowhow which is key to success as a tier-I supplier.
- Transactions with MHVSIL offer the company access to global product/technical know-how and associated licenses/permits, opening up additional export opportunities to MERITOR global customers/plants.
- Approval from shareholders is crucial to prevent disruptions in the customer line and safeguard the current and future business prospects, thereby avoiding any potential loss of reputation in the market. The current structure and the relationship between the company and MHVSIL exists for over 20 years.
- To ensure the continuity and sustain company's current operations, company is proposing to seek approval from its members for potential transactions with MHVSIL.

Source: PB Notice, AGM notice

The company seeks shareholder approval for transactions with MHVSIL in the nature of sale of goods, purchase of goods, availing/rendering services, reimbursements received/ paid, purchase/sale/lease of products, tools and asset, purchase and sale of export incentive licenses or any other transactions for transfer of resources, technology, or obligations – we raise concern that the nature of transactions is very enabling in nature. AAL and MHVSIL are joint ventures of the same JV partners: Meritor Heavy Vehicle Systems, LLC (ultimately held by Cummins Inc. USA) and BF Investment Limited (Kalyani group). AAL is a listed entity and MHVSIL is an unlisted entity. MHVSIL is engaged in new product design, application analysis, product testing, and marketing of drive axles, non-drive steer axles, drum brakes, and air disc brake assemblies. MHVSIL customizes the products based on regional requirements. AAL manufactures the components and routes majority of its revenue through MHVSIL (>75%). The company opines that MHVSIL has a strong marketing, sales and distribution network with a customer base.

While we recognize the need to avail technical knowhow and other essential services like product testing, customization, etc. from Meritor Heavy Vehicle Systems LLC, Troy, U.S.A. and MHVSIL, it is unclear why MHVSIL is appointed as a distribution arm of AAL. Given that both MHVSIL and AAL have the same JV partners, shareholders must engage with the company to understand why AAL is not in a position to get access to the distribution network/ customer base that MHVSIL has. We believe the distribution/ sale to the customers must be directly carried out through AAL so that all the shareholders of the listed entity (including public shareholders) reap the benefits of the margin earned on sale to the final customer. We do not support the current arrangement. IiAS recommends voting **AGAINST** the resolution.

We note that a similar resolution was presented to shareholders by the company in its 2023 AGM, which was defeated (Exhibit 5).

Exhibit 5: Voting outcome 2023 AGM: Approve related party transactions with Meritor HVS (India) Limited (MHVSIL) aggregating Rs. 40.0 bn per annum from 1 April 2023 till 31 March 2025

Voting outcome	No. of shares held (mn)	No. of votes polled (mn)	% of votes polled	No. of votes in favour (mn)	No. of votes against (mn)	% of votes in favour	% of votes against
Promoter group	10.7	-	-	-	-	-	-
Institutional holders	2.0	1.8	91.0	0.4	1.4	19.8	80.2
Others	2.4	0.0	1.2	0.0	0.0	99.7	0.3
Total	15.1	1.8	12.0	0.4	1.4	21.0	79.0

Source: BSE

Legend

IiAS recommendations are based on [IiAS' Voting Guidelines](#), which can be viewed on our website. The data and regulations reviewed while arriving at a recommendation are disclosed, to provides investors and companies clarity regarding the basis for our recommendations.

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Our voting recommendations do not constitute advice to buy, sell or hold securities.

To allow for a more nuanced discussion on resolutions, IiAS recommendations may be supplemented with a risk or a transparency indicator (refer table below). This helps balance the narrative for proposals which have multiple connotations in terms of their implications for the company and its stakeholders.

Risk Indicator	Coverage	Description
	Governance Matters	This symbol is used for resolutions which in IiAS' opinion indicate corporate governance practices that have room for improvement or are non-compliant with regulations or their intent.
	Inequitable Treatment	This symbol is used for resolutions which in IiAS' opinion benefit the controlling shareholders (or any other class of shareholders) at the expense of the public shareholders. This also includes resolutions which may result in excessive dilution or disproportionate voting powers.
	Financial Impact	This symbol is used for resolutions which, as per IiAS, will have a negative impact on the company's financials.
	Valuation Divergence	This symbol is generally used for resolutions associated with corporate restructurings, which include schemes of arrangement, and slump sales, where a fair valuation cannot be ascertained or where IiAS believes the valuation is prejudicial to the interests of public shareholders.
	Other Risks	This symbol is used for operating decisions taken by the company management and IiAS will usually recommend voting FOR such resolutions. However, they carry an element of risk which may subsequently have a negative impact on the financials. Investors are therefore advised to review the risk factors highlighted by IiAS in its analysis before voting.

Transparency Indicator	Quality of Disclosure	Description
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	Weak	Indicates lack of adequate disclosures supporting the resolution. Investors are advised to seek further clarifications from the company to make a more informed decision.

Indicator	Quality of Disclosure	Description
	Engagement	This icon is used for resolutions wherein IiAS believes that the shareholders should engage with the company for granular details.

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- IiAS, the research analyst(s) responsible for this report, and their associates or relatives, do not have any other material conflict of interest at the time of publication of this report.
- None of IiAS, the research analyst(s) responsible for this report, and their associates or relatives, have received any compensation from the subject company or any third party in the past 12 months in connection with the provision of services of products (including investment banking or merchant banking or brokerage services or any other products and services), or managed or co-managed public offering of securities of the subject company.
- The research analyst(s) responsible for this report has not served as an officer, director or employee of the subject company in the past twelve months.
- None of IiAS or the research analyst(s) responsible for this report have been engaged in market making activity for the subject company.

Disclosures relating to the subject company.

IiAS as a proxy advisor provides various services including publishing reports on corporate governance and related matters. The subject company has not subscribed to any of IiAS' services and IiAS has not received any remuneration from the subject company in the past twelve months

AUTOMOTIVE AXLES LIMITED

14th December 2023

To,
Institutional Investor Advisory Services India Limited (IIAS)
Ground Floor, DGP House 88-C,
Old Prabhadevi Road, Mumbai - 400 025

Subject: Response to Voting Recommendations of the Institutional Investor Advisory Services India Limited (IIAS) on the proposal in the Postal Ballot Notice dated November 22, 2023 ("Postal Ballot Notice") sent electronically to the Members of the Company.

Dear IIAS team

We acknowledge the receipt of your report and appreciate the detailed insights presented on the matter at hand. In response to the voting advisory report received from your esteemed firm, we have thoroughly reviewed and considered the recommendations put forth. Your firm's input is highly valued, and we wish to address and clarify certain points outlined in the report.

MHVSIL is a joint venture company promoted by Meritor Heavy Vehicle Systems LLC, Troy, U.S.A., ("MHVS U.S.A.") and Bharat Forge Limited, Pune ("BFL") and was established in the year 1998 with the primary objective of product application engineering, assembly marketing and sale of drivetrain and brake products for light, medium and heavy commercial vehicles under licence and additional expertise and other proprietary information from MHVS U.S.A., using products, components and subassemblies manufactured by AAL with the assistance and support provided by BFL for fostering business growth in India. MHVSIL main objective is to develop a robust engineering team and engineering test capabilities for India business growth, design and develop new products tailored to India's road conditions in collaboration with our end customers, the acceleration and expansion of exports from India, and the continuous enhancement of relationships with customers.

Regarding the products (i.e. Axles & Brakes), it is essential to clarify that AAL manufactures these products and sells them through MHVSIL. MHVSIL, in turn, holds the Intellectual Property rights of MHVS U.S.A., contributing its expertise in engineering design capabilities. This collaboration has played a crucial role in AAL's significant business growth in India over the past 20 years.

In the advisory report, there is a mention that "MHVSIL is a dominant distributor of AAL's products in the domestic and global market as a distributing Company." We would like to clarify to the shareholders that MHVSIL is not a distributing company; rather, its primary role encompasses new product design, application analysis, product testing, and the marketing of



Regd. Office & Mysuru Unit :

Hootagalli Industrial Area, Off Hunsur Road, Mysuru – 570 018, Karnataka, India

Telephone : 91-821-719 7500, Fax : 91-821-2402451

Email : sec@autoaxle.com, Website : www.autoaxle.com

CIN : L51909KA1981PLC004198

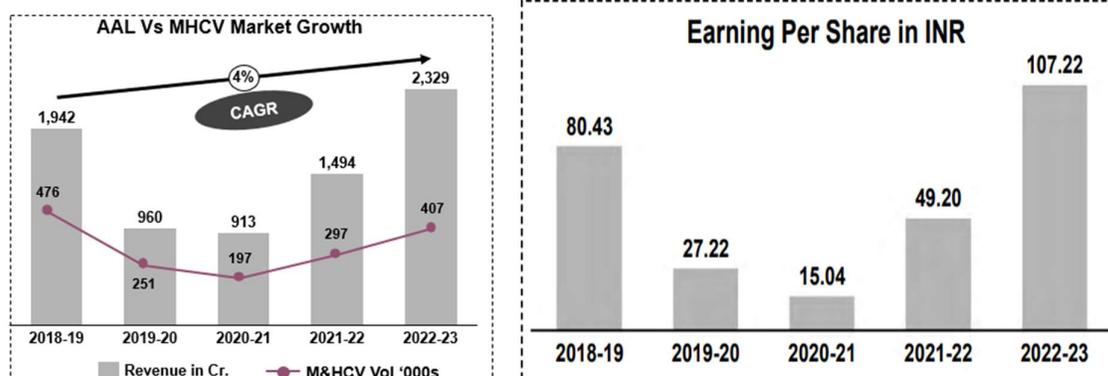
ISO 9001:2015 / IATF 16949 : 2016, EMS : ISO : 14001:2015 & OHSAS : ISO : 45001 : 2018



AUTOMOTIVE AXLES LIMITED

drive axles, non-drive steer axles, drum brakes, and air disc brake assemblies for commercial, off-highway, and defense applications.

AAL performance for last five years is listed below.



Source : M&HCV Volume from SIAM Report

The proposed transaction with Meritor HVS (India) Limited has significant implications for the stability and growth trajectory of Automotive Axles Limited. If this transaction does not receive the necessary approval, it could potentially result in disturbances that would directly impact our valued end customers and the commercial vehicle industries.

Outlined below are the key reasons why your approval is crucial:

- 1. Customer Continuity:** The denial of this transaction in the short term might disrupt the seamless services currently enjoyed by our customers.
- 2. Operational Impact:** Non-approval may necessitate a substantial strain in restructuring of our process and operations in short term to the total value chain of AAL, MHVSIL and with end customers. This could cause short-term turbulence, affecting our ability to deliver services efficiently and, subsequently, impacting our overall performance. Changing the current operating model with customers is too challenging in this situation and will require end-customer approvals.
- 3. Long-term Viability:** Any proposed changes in the current structure would disturb the trust that we have built with all our end customers and might impact the future business growth for AAL in India.

We assure you that every effort has been made to ensure transparency, fairness, and alignment with good governance practices to the best interests of AAL and its shareholders in this proposed transaction.

All the transactions between AAL & MHVSIL has been reviewed and approved by Audit Committee and the Board of Directors of the Company before we take up for the approval of shareholders as per our policy on Related Party Transactions. Also the RPT(s) / contract(s) / arrangement(s) has been evaluated by a reputed external independent consulting firm and the same are in line with arm's length guidelines in the past years. Company will follow the similar arm's length principle/practices for future proposed transactions.



Regd. Office & Mysuru Unit :

Hootagalli Industrial Area, Off Hunsur Road, Mysuru – 570 018, Karnataka, India

Telephone : 91-821-719 7500, Fax : 91-821-2402451

Email : sec@autoaxle.com, Website : www.autoaxle.com

CIN : L51909KA1981PLC004198

ISO 9001:2015 / IATF 16949 : 2016, EMS : ISO : 14001:2015 & OHSAS : ISO : 45001 : 2018



AUTOMOTIVE AXLES LIMITED

We sincerely urge you to amend your recommendations on these resolutions based on the above and issue a revised report under intimation to us. Further we request you to share your response with all your subscribers and persons to whom the original report has been circulated to.

Thanking you,

Yours faithfully,

For Automotive Axles Limited

Debadas Panda
Company Secretary & Compliance Officer



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