

AUTOMOTIVE AXLES LIMITED

9th December 2024

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 Stakeholders Empowerment Services (SES) regarding Postal Ballot Notice.

Dear Sir/Madam,

This is with reference to the Postal Ballot Notice dated October 30, 2024 along with the Statement sent electronically to the members of the Company on November 12, 2024, to Approve Material Related Party Transactions of the Company with Meritor HVS (India) Limited (“MHVSIL”).

The Company has received voting recommendation of **Stakeholders Empowerment Services (SES)** on the proposed resolution in the aforementioned Notice on December 06, 2024.

The Company’s responses to the above-mentioned recommendations sent to SES 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

9th December 2024

To,
Stakeholders Empowerment Services (SES)
109, Shyam Baba House, Upper Govind Nagar,
Malad East, Mumbai - 400097

Subject: Response to Voting Recommendations of the Stakeholders Empowerment Services (SES) on the proposal in the Postal Ballot Notice dated October 30, 2024 ("Postal Ballot Notice") sent electronically to the Members of the Company.

Dear SES 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 license and additional expertise and other proprietary information from MHVS U.S.A., using products, components and subassemblies manufactured by Automotive Axles Limited ("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 and new product testing capabilities. This collaboration has played a crucial role in AAL's significant business growth in India over the past 21 years.

In the advisory report, there is a mention that "*No adequate data to ascertain whether the collaboration is indeed the best possible course of action and other transparency concerns.*" We would like to clarify to the shareholders that MHVSIL primary role encompasses new product design, application analysis, product testing, and the marketing of drive axles, non-drive steer axles, drum brakes, and air disc brake assemblies for commercial, off-highway, and Défense applications. AAL expertise only to manufacture as per the design and supply.

AAL performance for last six years is listed below.



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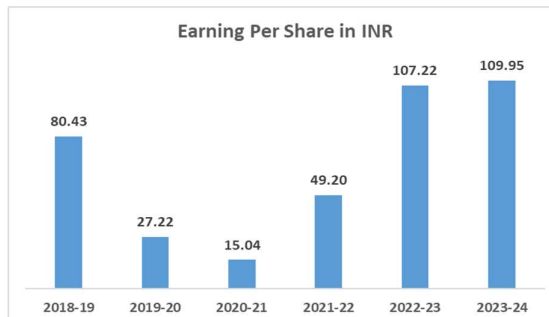
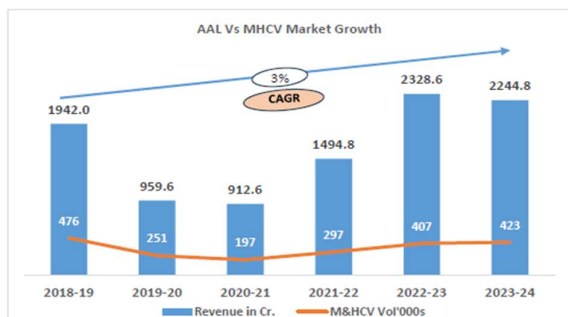
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AUTOMOTIVE AXLES LIMITED



Source : M&HCV Volume from SIAM Report

The proposed transaction with MHVSIL has significant implications for the stability and growth trajectory of AAL. If this transaction does not receive the necessary approval, it could potentially result in disturbances that would directly impact on our valued end customers and the commercial vehicle industry.

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

- Customer Continuity:** The denial of this transaction in the short term might disrupt the seamless services currently enjoyed by our customers.
- Operational Impact:** Non-approval may necessitate a substantial strain in restructuring of our process and operations in the short term to the total value chain of AAL, MHVSIL and end customers. This could cause short-term turbulence, affecting our ability to deliver services efficiently and, subsequently, impacting on our overall performance. Changing the current operating model with customers is too challenging in this situation and will require end-customer approvals.
- 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.

In the advisory report, there is a mention that "Proposed RPTs also include transactions relating to sale or purchase of assets. The nature of assets have not been disclosed in the explanatory statement. Hence, it is not clear whether the same will cover fixed assets or not." We would like to clarify to the shareholders that we may buy and sale tooling as per end customers requirement and new product design"

All the transactions between AAL & MHVSIL have been reviewed and approved by Audit Committee and the Board of Directors of the Company in their respective meeting held on October 30, 2024, before we take up for the approval of shareholders as per our policy on Related Party Transactions. Further the referred transaction for approval is in the ordinary course of business and in line with the past business practices. 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. To terms of transparency and better governance AAL also adopted Tax Transparency Report and the same is available in <https://www.autoaxle.com/Governance.aspx> Company will follow the similar arm's length principle/practices for future proposed transactions.



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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.

Thanking you,

Yours faithfully,

For Automotive Axles Limited

Debadas Panda
Company Secretary & Compliance Officer



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Stakeholders Empowerment Services

Analyze >>> Educate >>> Empower

Proxy Advisory Report

Automotive Axles Ltd

ABOUT SES

Stakeholders Empowerment Services (SES) is a Corporate Governance research and advisory firm. SES assists investors to analyze governance practices including matters relating to sustainability, prevalent at listed entities and empower Investors to undertake meaningful engagement with Investee entities.

SES SERVICES

E-BRSR Tool: Online web-based platform to create BRSR Report by the Company and generate XBRL in seamless, cost and time effective manner
Already Subscribed by HDFC, Hero, M&M, L&T, UPL, Wipro, Reliance group and many others. [Read More](#)

Contact for Demo –

esgdata@sesgovernance.com

SES AIMS:

Designed primarily for Institutional investors to carry out their stewardship activities in an efficient manner. [Read More](#)

Proxy Advisory:

Advises investors on the matters that require shareholder approval at listed entities and identify Governance issues. [Read More](#)

ESG Scores:

Analyze sustainability initiatives of Companies based on various environmental, social and governance factors. [Read More](#)

Corporate Governance Score (CGS):

CGS model measures the Company's compliance and also evaluates the governance practices with respect to global benchmarks. [Read More](#)

E-Ballot:

One stop solution for investors – Online Vote Management System to cater to requirements of Institutional Investors. [Read More](#)

COMPANY INFORMATION

BSE CODE: 505010

NSE SYMBOL: AUTOAXLES

ISIN: INE449A01011

Industry: Auto Components

Email: sec@autoaxle.com

Phone: +91-821-719 7500

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

MEETING DETAILS

Meeting Type: PB

Voting Deadline: 14th December, 2024

Notice Date: 30th October, 2024

Notice: [Click here](#)

Annual Report: [FY 2023-24](#)

SES PA Report (Last AGM): [Report](#)

E-VOTING DETAILS

e-Voting Platform: [NSDL](#)

Cut-off Date: 8th November, 2024

Remote E-voting:

- **Start:** 15th November, 2024
- **Ends:** 14th December, 2024

REPORT RELEASE DATE: 6th December, 2024

Research Analyst: Krupa Hegde

Conflict Disclosure: SES - No Conflict | Analyst - No Conflict

Interaction with the Company - No Interaction



AGENDA ITEM AND RECOMMENDATION

SN	Resolution	Type	SES Observation #	Rec.	Rationale
1	To approve Material Related Party Transactions of the Company with Meritor HVS (India) Limited.	O	LC GC TC	<u>AGAINST</u>	<i>No adequate data to ascertain whether the collaboration is indeed the best possible course of action and other transparency concerns.</i>



RESOLUTION ANALYSIS

RESOLUTION 1: RELATED PARTY TRANSACTION

Material Related Party Transactions of the Company with Meritor HVS (India) Limited (MHVSIL).

O

AGAINST

SES RATIONALE

Compliant with Law. **Governance Concern:** Lack of quantifiable data to ascertain what benefit the Company and MHVSIL are receiving through this collaboration and how it is in the best interest of the Company. No adequate data to make a comparison and conclude that no party is benefitting at the cost of other party. **Transparency Concern:** Basis for Arm's Length pricing: the Company has not provided any context as to what are the methodologies and basis relying upon which the Company has arrived at the proposed pricing. No clarity on the type of asset included in RPT proposal and how Sale/Purchase of assets are in the Ordinary Course of Business.

SES ANALYSIS

PROPOSED RELATED PARTY TRANSACTIONS

Disclosures	Details of disclosure
Name of the Related Party	Meritor HVS (India) Limited (MHVSIL)
Relationship with the Company	Promoter Group Company
Consideration for Transaction	Maximum aggregated value of ₹ 2,500 crores
Ordinary Course of business/Arm's Length	Yes
Nature of Transaction	<ol style="list-style-type: none"> Sale of axles, brakes, suspension and other related automotive components including their parts, components and spares - ₹ 2,450 crores Purchase of goods including their parts, components and spares - ₹ 10 crores Availing/rendering of any kind of service(s), reimbursements received/ paid, purchase/sale/ lease of products, tools and asset(s), purchase and sale of export incentive licenses or any other transaction(s) for transfer of resources, technology, or obligations - ₹ 40 crores
Duration	Financial Year 2025-2026
Audit Committee Approval	Yes, obtained.
% of the Company's annual consolidated turnover for the immediately preceding financial year	Approximately 112 % of annual consolidated turnover of the Company for FY 2023-2024.
% of the counter-party's annual consolidated turnover	Not Disclosed
Justification for why the proposed transaction is in the interest of the listed entity	Discussed below under " PURPOSE OF THE RESOLUTION "
Valuation or other external report	The RPTs have been evaluated by a reputed external independent consulting firm and the same are in line with arm's length guidelines in the past years.
Basis for Arm's length	Company will follow the similar arm's length principle/practices as above for future proposed transactions.
Related Directors/KMPs	Mr. B. N. Kalyani, Mr. Kenneth James Hogan and Mr. B. C. Prabhakar are the common directors on the boards of both the companies.

PURPOSE OF THE RESOLUTION (AS STATED BY THE COMPANY)

A major portion of the Company's product sales are directed towards a single customer, namely MHVSIL, which is a related party to the Company.



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”). **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 defence applications. The company customises and optimize global products to meet rigorous regional requirements, serving major OEMs in India, 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. MHVSIL’s technical expertise and product design capabilities, bolstered by a Technical License from MHVS U.S.A., enable the company to produce innovative solutions tailored to the needs of India’s medium and heavy commercial vehicle segment. This Technical License also positions MHVSIL to tap into **promising export opportunities**.

The new products developed and applied by MHVSIL, in response to the evolving demands of India’s OEMs, now contribute over 50% of the company’s revenue. MHVSIL’s robust product development strategy and forward-looking pipeline further strengthen its ability to navigate the dynamic commercial vehicle market.

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 exist for over 21 years.

SES VIEW

The Company is seeking shareholders' approval to enter into Material Related Party Transactions (“RPT”) with Meritor HVS (India) Limited (“MHVSIL”) for the Financial Year 2025-2026 up to a maximum aggregated value of ₹ 2,500 crores.

Shareholders may note that:

How is the proposed RPT in the best interest of the Company?

- While the Company is stated to have expertise in the manufacturing aspects, MHVSIL specializes in product design, product testing, marketing with a robust distribution network.
- In the present case, approx. 80% of the sales of the Company is directed through MHVSIL.
- The rationale stated is that MHVSIL customises and optimizes global products to meet rigorous regional requirements, is serving major OEMs in India, with a robust marketing, sales, and distribution network both in India and abroad.
- The above justification explains as to how beneficial is this association with MHVSIL for the Company.
- However, the website of MHVSIL shows that the Company is the only manufacturer supplying to MVSHIL. In fact, under production facility MVSHIL website has listed Automotive Axles Ltd as its only manufacturing facility. This indicates that the Company is a sort of captive manufacturing unit for MHVSIL. ([Link](#))
- Hence, it can be stated that operations and performance of both the Companies are inter-dependent.

RPT Proposal	#1
Prior Approval of shareholders	✓
Adequate Justification for RPTs	✗
Ordinary Course (As per Company)	✓
Ordinary Course (As per SES)	✗
Arm’s Length Basis	✓
Basis of Arm’s Length Pricing	✗
Accurate description of transactions	✓
Approval Sought for 1 Year/ Next AGM	✓
Proposed limit in line with Past year transactions	✓

PROXY ADVISORY REPORT | FOR LIMITED CIRCULATION



- The explanatory statement explains the benefits that both, the Company and MHVSIL receive through this collaboration.
- However, to understand this, it is also essential that details regarding performance of MHVSIL in the recent period is also disclosed.
- A comparison of the performance and growth of both the Companies would enable the shareholders to understand that no party is benefitting at the cost of the other party.
- SES, as a policy, does not question management decisions as SES believes that management is in the best position to take a call given their familiarity with the business.
- However, the Company is not a privately held company, rather a company wherein public funds are involved. Hence, when an RPT impacts your majority of the business, then there should be quantifiable disclosures on how channelling its major businesses through MHVSIL is the best possible course of action.
- SES is of the view that there is no proper explanation as to why the Company is selling majority of its production (~80%) through MHVSIL?
- Had MHVSIL been having multiple suppliers and the Company was only one of its many clients or if MHVSIL would have been manufacturing a major portion on its own and the Company would have been only a limited item supplier then, routing of businesses through MHVSIL could have been a better alternative as the same would lead to economies of scale by opting for an already established route rather than building an entire distribution network for itself as the same would avoid costs duplication and lead to resource optimisation.
- However, in the present case, it appears that MVHSIL is selling only those products which are manufactured by the Company. Therefore, it is not clear as to what is the synergy between design, development and marketing?
- Such an arrangement could be possible only when there is an agreement that design development by MHVSIL is passed to the Company only under the condition that MHVSIL will also have to be set as the distribution network. If such an agreement exists, then disclosure regarding the same should be disclosed for the shareholders' information.
- SES has taken cognizance of the announcement made by the Company on 4th December, 2024 ([Link](#)). However, it is to be noted that the analysis made by SES above is independent of the observations made therein.

Since no adequate details are available in above regard, SES is raising transparency concern.

Basis of Arm's Length Pricing:

- SES, as a policy, requires basis of arm's length pricing to be disclosed in the explanatory statement as the same helps shareholders to understand whether the pricing is determined in a fair and a transparent manner.
- In the present case, it is even the more essential when the proposed RPT impacts almost 80% of the business.
- The Company has stated that pricing is determined post an evaluation conducted by an external independent consulting firm. However, the Company has not provided any context as to what are the methodologies and basis relying upon which the Company has arrived at the proposed pricing.

Due to lack of clarity, SES is raising transparency concern.

Sale/Purchase of assets – Can the same be considered to be in the ordinary course of business?

- Proposed RPTs also include transactions relating to sale or purchase of assets.
- The nature of assets have not been disclosed in the explanatory statement.
- Hence, it is not clear whether the same will cover fixed assets or not.
- In case, the same covers fixed assets, then the such a transfer cannot be considered to be done in the ordinary course of business.
- SES is of the view that proper explanation should be made with regard to what kind of asset transfers the Company envisaging as a result of this approval and whether it can indeed be stated to be done in the ordinary course of business or not.



Hence, SES is raising transparency concern in this regard.

In view of the above observations, SES is recommending against the resolution.



Disclaimer Sources

Only publicly available data has been used while making the report. Our data sources include Notice of Shareholders' Meeting, BSE, NSE, SEBI, Capitaline, MCA, Moneycontrol, Businessweek, Reuters, Annual Reports, Sustainability Reports, IPO Documents and Company Website.

Analyst Certification

The Analyst(s) involved in development of this Report certify that no part of the Research Analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the Research Analyst(s) in this Report. The concerned Research Analyst(s) and Director(s) do not have any pecuniary relationship with the Reported Company, except that they may be holding miniscule shares in the Company which does not impact their independence in respect of this Report.

SES may be a shareholder in the Company holding equity shares as disclosed on its [website](#). The objective of SES' investment is solely to obtain Shareholders' communications from the Company as a shareholder.

CAUTIONARY STATEMENT

The recommendations made by SES are based on publicly available information and conform to SES's stated Proxy-Advisory Guidelines. SES opinion is based on SES's interpretation of law and governance benchmarks, which may differ from opinion/ benchmarks of other analysts or practitioners. Further, SES analysis is recommendatory in nature and reflects how SES would have voted if it was a shareholder. Therefore, SES expects that the clients will evaluate the effect of their vote on their investments independently and diligently and will vote accordingly. Subscribers may also carry out an impact analysis of their votes and keep the same as an addendum for their records. In our opinion, Institutional investors are positioned significantly differently from other shareholders due to their ability to engage with the board and the management to bring out desired result. As a firm, it is our endeavour to improve the level of corporate governance while not causing any disruption in company's proceedings and therefore we respect the independence of investors to choose alternate methods to achieve similar results.

Disclaimer

While SES has made every effort, and has exercised due skill, care and diligence in compiling this report based on publicly available information, it neither guarantees its accuracy, completeness or usefulness, nor assumes any liability whatsoever for any consequence from its use. This report does not have any approval, express or implied, from any authority, nor is it required to have such approval. The users are strongly advised to exercise due diligence while using this report.

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All disputes shall be subject to jurisdiction of High Court of Bombay, Mumbai.

Concern terminology

NC – Compliance Concern: The Company has not met statutory compliance requirements

FC – Fairness Concern: The Company has proposed steps which may lead to undue advantage to a particular class of shareholders and can have adverse impact on non-controlling shareholders including minority shareholders

GC – Governance Concern: SES questions the governance practices of the Company. The Company may have complied with the statutory requirements in letter. However, SES finds governance issues as per its standards.

TC - Disclosures & Transparency Concern: The Company has not made adequate disclosures necessary for shareholders to make an informed decision. The Company has intentionally or unintentionally kept the shareholders in dark.

Company Information



Stakeholders Empowerment Services

SEBI Reg. No. INH000000016

CIN No. -

U74120MH2012NPL232154

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Warning

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

