

AUTOMOTIVE AXLES LIMITED

4th 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 Institutional Investor Advisory Services India Limited (IIAS) 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 Institutional Investor Advisory Services India Limited (IIAS) on the proposed resolution in the aforementioned Notice on December 02, 2024.

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
Digitally signed by
DEBADAS PANDA
Date: 2024.12.04
09:55:55 +05'30'

**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

4th December 2024

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 October 30, 2024 ("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 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 "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 drive axles, non-drive steer axles, drum brakes, and air disc brake assemblies for commercial, off-highway, and Défense applications.

AAL performance for last six years is listed below.



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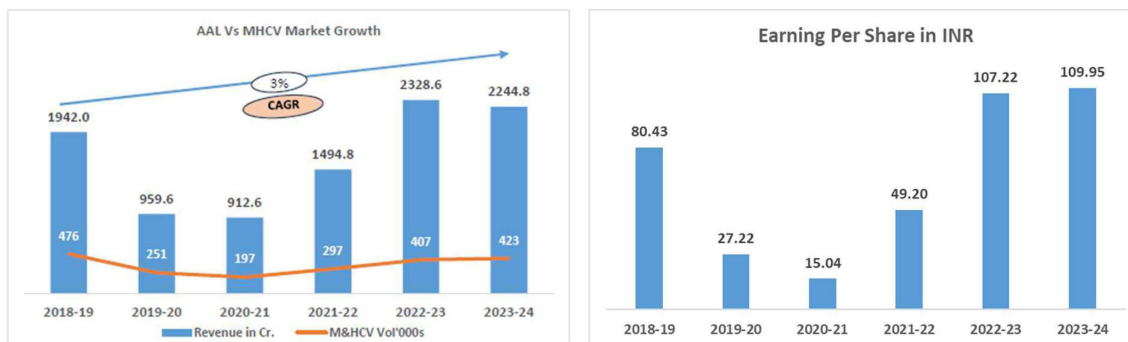
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AUTOMOTIVE AXLES LIMITED



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.

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. Company will follow the similar arm's length principle/practices for future proposed transactions.

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

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Automotive Axles Limited


Postal Ballot (PB)

Report Date: 28 November 2024
BSE: 505010 | NSE: AUTOAXLES
Index: S&P BSE SmallCap
Face Value: Rs.10.0 per share
Fiscal Year End: March
Annual Report: [FY24](#)

Result Date:	On or before 17 December 2024
Proxy Deadline:	Facility not available since PB is being held virtually¹
E-voting Period:	15 November 2024, 9:00 AM to 14 December 2024, 5:00 PM
E-Voting Site:	https://www.evoting.nsdl.com/
Notice:	PB Notice dated 30 October 2024

^[1] On account of terms of the MCA circulars, 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. 25.0 bn for FY26</p> <p>The company is seeking shareholder approval for entering into related party transactions with Meritor HVS (India) Limited (MHVSIL) aggregating Rs. 25.0 bn for FY26. The transactions are in the nature of sale goods, purchase of goods, and availing/rendering of services, reimbursements received/ paid, purchase/sale/lease of products, tools and assets, purchase and sale of export incentive licenses or any other transactions for transfer of resources, technology, or obligations.</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 in 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:

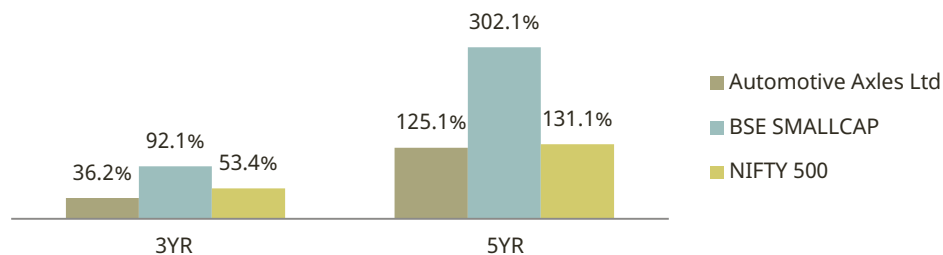
BF Investment Limited (35.52%)
Meritor Heavy Vehicle Systems, LLC (35.52%)

Market snapshot:

Market Price (Rs): 1,762.3
Market Cap (Rs bn): 26.6
Net-worth (Rs bn): 8.7
52-week H-L: 2,377.9 - 1,722.0
Current P/E (x): 17.4
Current P/B (x): 3.0

Source: Capitaline Database

Price Performance on 26 November 2024



Financial Performance (consolidated) (Rs.bn)

Year ending 31-Dec	2022	2023	2024
Total Income	14.9	23.3	22.4
EBITDA	1.4	2.6	2.6
EBITDA Margin (%)	9.3	11.3	11.7
PBT	1.0	2.2	2.2
PBT Margin (%)	6.7	9.4	9.9
PAT	0.7	1.6	1.7
PAT Margin (%)	5.0	7.0	7.4
EPS (Rs.)	49.2	107.2	110.0
ROANW (%)	12.7	23.5	20.3
ROACE (%)	17.0	31.5	27.3
Debt/EBITDA (x)	0.1	0.0	0.0

Source: Capitaline Database

Trend in Shareholding Pattern (%)

Date	Promoter ¹	FII	DII	Others
30-Sep-24	71.0	0.6	12.8	15.6
30-Jun-24	71.0	0.6	11.6	16.8
31-Mar-24	71.0	0.5	12.0	16.4
31-Dec-23	71.0	0.6	12.0	16.3
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

¹ No pledge as on 30 September 2024

Source: Company website

Top Public Shareholders on 30 September 2024

No.	Name of the Shareholder	Shares held in (mn)	Shareholding as % of total
1	Nippon Life India (various Schemes)	1.33	8.81
2	SBI Contra Fund (various Schemes)	0.36	2.38
	Total	1.69	11.19

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. 25.0 bn for FY26	AGAINST	G I F V T R 

Discussion

Automotive Axles Limited (AAL) is a JV between Kalyani Group (35.52% held through BF Investment Ltd) 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. Major portion of the company’s product sales are to MHVSIL.

Meritor HVS (India) Limited (MHVSIL) is an unlisted entity and a related party of AAL. 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 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 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.										
Nature of transactions	<ul style="list-style-type: none"> Sales of axles, brakes, suspension and other related automotive components products including their parts, components and spares Purchase of goods including their parts, components and spares 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, (Other RPT’s) 										
Whether at arm’s length	Yes, evaluated by an external independent consulting firm										
Whether in ordinary course of business	Yes										
Tenure	FY26										
Proposed value of transactions	<table border="1"> <thead> <tr> <th>Category</th> <th>Rs. billion</th> </tr> </thead> <tbody> <tr> <td>Sale of goods</td> <td>24.5</td> </tr> <tr> <td>Purchase of goods</td> <td>0.1</td> </tr> <tr> <td>Other RPTs</td> <td>0.4</td> </tr> <tr> <td>Total</td> <td>25.0</td> </tr> </tbody> </table>	Category	Rs. billion	Sale of goods	24.5	Purchase of goods	0.1	Other RPTs	0.4	Total	25.0
Category	Rs. billion										
Sale of goods	24.5										
Purchase of goods	0.1										
Other RPTs	0.4										
Total	25.0										
Proposed transactions as a % of annual turnover for FY24	112%										

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.

The shareholders then approved related party transactions upto Rs. 40.0 bn with Meritor HVS (India) Ltd (MHVSIL) for FY25 through postal ballot on 25 December 2023. The company is seeking shareholder approval for entering into related party transactions with Meritor HVS (India) Limited (MHVSIL) aggregating Rs. 25.0 bn for FY26.

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

Nature of transactions	FY20	FY21	FY22	FY23	FY24
Sale of goods	7,847.4	7,648.5	11,490.2	18,182.9	17,495.8
Tooling income	58.0	3.1	3.3	4.0	1.5
Lease rental payment	2.2	4.5	4.6	4.6	5.1
Purchase of MEIS licenses (export incentive)	61.5	5.1	5.0	3.3	-
Services received	39.9	39.9	84.1	119.2	123.7
Expenses incurred by the company on behalf of related parties	-	-	-	192.1	47.1
Warranty claims	-	-	8.9	238.7	70.0
Total	8,009.0	7,701.1	11,596.1	18,744.8	17,743.2

Source: Annual reports, BSE filings

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

Particulars	FY20	FY21	FY22	FY23	FY24
Total turnover of Automotive Axles (AAL)	9,519.6	9,055.7	14,906.2	23,237.0	22,291.7
Sale of goods to MHVSIL	7,847.4	7,648.5	11,490.2	18,182.9	17,495.8
Percentage of AAL's sales to MHVSIL	82.4%	84.5%	77.1%	78.2%	78.5%

Source: Annual reports

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

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

Source: MCA filings

Company's rationale for the proposed transactions:

- 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 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 positions MHVSIL to tap into promising export opportunities.
- 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. 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.
- The company is seeking shareholder approval 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.

Source: PB Notice, AGM notice

The company seeks shareholder approval for transactions with MHVSIL in the nature of sales of axles, brakes, suspension and other related automotive components products including their parts, components and spares; purchase of goods including their parts, components and spares; and 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 – we raise concern that the nature of transactions is 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 for commercial, off-highway and defence applications. 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.

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. However, 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 cannot 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 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.

Exhibit 5: Voting outcome December 2023 Postal Ballot: Approve related party transactions with Meritor HVS (India) Limited (MHVSIL) aggregating Rs. 40.0 bn for FY25

Voting outcome	Votes polled	Votes in favour	Votes against	No of shares held
Promoter group	0.00%	0.00%	0.00%	10,735,226
Institutional holders	93.02%	91.88%	8.12%	1,909,645
Others	4.30%	41.17%	58.83%	2,467,104
Total	12.46%	89.02%	10.98%	15,111,975

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 provide investors and companies clarity regarding the basis for our recommendations.


IiAS recommendations are non-binding in nature. Investors may have their own voting rationale which may, on aspects, differ from those of IiAS. On such occasions, investors could use these recommendations as a guiding tool.

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
	Leadership	Indicates that the disclosures on the resolution are significantly superior to other similar resolutions. IiAS encourages other companies to emulate such disclosure levels.
	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.

On occasions, IiAS' advisory reports may contain the following terms for specific resolutions:

- **REVISED:** This implies that the IiAS recommendation has changed. IiAS may, on occasion, revise its voting recommendations based on incremental information. Such incremental information is usually filed by companies on the stock exchange websites. All changes are subject to a review by the Review and Oversight Committee (ROC).
- **MODIFIED:** This implies that the commentary and/or rationale for IiAS' analysis has changed, without any change in the voting recommendation. Such changes reflect minor corrections to language or text, for better communication of the voting recommendation and / or its rationale.
- **ADDENDUM/CORRIGENDUM:** This is used to highlight that the company has issued an addendum or made corrections to its initial shareholder notice and that IiAS' report has been updated to reflect the impact of the same.

Disclaimer

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IiAS Voting Guidelines

IiAS' voting recommendations are based on a set of guiding principles, which incorporate the basic tenets of the legal framework along with the best practices followed by some of the better governed companies. These policies clearly list out the rationale and evaluation parameters which are taken into consideration while finalizing the recommendations. The detailed [IiAS Voting Guidelines](#) are available at our website. In compliance with SEBI's procedural guidelines made applicable from 1 January 2021, IiAS has articulated its stance vis-à-vis legal requirements. This can be accessed on our website [here](#) and shall form a part of this report. The draft report prepared by the analyst is referred to an internal Review and Oversight Committee (ROC), which is responsible for ensuring consistency in voting recommendations, alignment of recommendations to the IiAS' voting criteria and setting and maintaining quality standards of IiAS' proxy reports. Details regarding the functioning and composition of the ROC committee are available at <https://www.iiasadvisory.com/about>. In undertaking its activities, IiAS relies on information available in the public domain i.e. information that is available to public shareholders. However, in order to provide a more meaningful analysis, IiAS, generally seeks clarifications from the subject company. IiAS reserves the right to share the information provided by the subject company in its reports. Further details on IiAS policy on communication with subject companies are available at <https://www.iiasadvisory.com/about>.

Analyst Certification

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