



**KALYANI**



**MERITOR®**

# **Automotive Axles Limited**

**Tax Transparency Report  
FY 2023-24**

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# Glossary

AAL	Automotive Axles Limited
CFO	Chief Financial Officer
EBITDA	Earnings before interest, tax, depreciation and amortization
ESG	Environment, Social and Governance
ETR	Effective Tax Rate
E-way bill	Electronic way bill
FY	Financial Year
FY 2017-18	Financial Year ended 31st March, 2018
FY 2018-19	Financial Year ended 31st March, 2019
FY 2019-20	Financial Year ended 31st March, 2020
FY 2020-21	Financial Year ended 31st March, 2021
FY 2021-22	Financial Year ended 31st March, 2022
FY 2022-23	Financial Year ended 31st March, 2023
FY 2023-24	Financial Year ended 31st March, 2024
GloBE	Global Anti-Base Erosion Model
GST	Goods and Service Tax
GSTR-3B	Goods and Service Tax Return-3B
INR	Indian Rupee
IT	Information Technology
MAT	Minimum Alternate Tax
OECD	The Organization for Economic Co-operation and Development
OEMs	Original Equipment Manufacturers
SEBI	Securities and Exchange Board of India
SEBI LODR	Securities and Exchange board of India (listing obligations and disclosure requirements) regulations, 2023
TTR or Report	Tax Transparency Report
Section 80JJAA	Section 80JJAA of the Income Tax Act, 1961
Section 115BAA	Section 115BAA of the Income Tax Act, 1961
Section 154	Section 154 of the Income Tax Act, 1961

# 1. Background

## 1.1. Our operations

Automotive Axles Limited (AAL), established in 1981, is a notable joint venture between Bharat Forge Limited and Meritor Heavy Vehicle Systems LLC, USA. AAL holds dual listings on both the National Stock Exchange and the Bombay Stock Exchange, cementing its presence in the Indian market.

Our state-of-the-art manufacturing facilities, strategically situated in Mysuru (Karnataka), Jamshedpur (Jharkhand), Rudrapur (Uttarakhand), and Hosur (Tamil Nadu), lead the way in producing cutting-edge drive axles, non-drive axles, specialty & defense axles, as well as drum & disc brakes. These meticulously crafted products cater to a diverse range of domestic and global manufacturers across segments including light, medium & heavy commercial vehicles, military & off-highway vehicles, aftermarket, and international exports. With a dedicated workforce of 2,401 employees (including contract workers) as of March 31, 2024, AAL stands as a testament to manufacturing excellence.

We take pride in serving an extensive clientele of Original Equipment Manufacturers (OEMs), in India and outside India. Furthermore, our global reach extends through the export of axle & brake components to key markets such as the USA, France, Italy, China, Brazil, and Australia, solidifying our position as a global player in the automotive industry.

## 1.2. Our objective

Our organization places significant emphasis on **Sustainable Growth** as a fundamental philosophy and a prerequisite for our nationwide operations.

Regarding commitment to taxes, we recognize the critical importance of effective tax management and equitable tax contributions to ensure sustainable business practices. With this objective in mind, AAL adheres to a governance and compliance approach that underscores our commitment to paying our fair share of taxes and contributing to the development of an environmentally sustainable ecosystem.

Our vision statement underscores the significance of innovation, solution-oriented manufacturing, enhanced mobility, safety, and environmental consciousness. We aspire to evolve into a green manufacturing facility, progressing toward sustainability excellence by **2028**.

Our commitment to sustainable governance involves aligning our vision, corporate strategy, and accountability mechanisms. Tax transparency is a crucial aspect of this governance. Stakeholders seek clarity on our tangible fiscal contributions, making transparent communication about our tax approach essential.

In our detailed report, AAL outlines tax principles, policies, governance, and tax risk management. This report provides a comprehensive overview of how our business activities and tax contributions support our transformation and transparency.

Just as any successful business strives for excellence, we approach tax matters with the same diligence. Our content and tax approach adhere to prevailing laws and regulations as on the date of this report.

## 2. Message from our CFO

### Progressing ahead with trust and transparency



**Dear Valued Stakeholders,**

In the ever-evolving landscape of business, the pursuit of excellence knows no bounds. Even seemingly stable enterprises must adapt swiftly to rapid technological advancements and navigate complex regulatory changes that were unimaginable just a few decades ago. As a management imperative, embracing change and leveraging innovative technologies isn't merely an option; it's essential for staying relevant and leading the charge toward progress.

#### **Towards Greater Transparency:**

We are delighted to introduce our inaugural voluntary publication of the Tax Transparency Report (TTR). At AAL, our operations span seamlessly across India, guided by a uniform tax strategy meticulously aligned with applicable laws. Rooted in principles of integrity, transparency, and unwavering tax compliance, this report stands as one of the cornerstones of our long-term value proposition and a commitment to deliver value to both shareholders and society at large.

Our active engagement with industry bodies on global and local Indian taxation reforms reflects our commitment to following responsible tax practices. The TTR for FY 2023-24 sheds light on our approach to tax payment and reporting, emphasizing AAL's commitment to best-in-class corporate disclosures and compliance. This report propels us beyond mere compliance, paving the way for governance that transcends expectations.

#### **Our Performance**

Against the backdrop of India's robust economic growth of around 7.6%<sup>1</sup> fueled by favorable government policies, the Indian automobile industry has demonstrated a commendable performance, witnessing a 12.5%<sup>2</sup> growth in the domestic sector during the previous fiscal year. However, the overall exports faced challenges, experiencing significant declines in Commercial Vehicles, Two-Wheelers, and Three-Wheelers, albeit with marginal growth in Passenger vehicles. Despite these hurdles, industry sentiment remains buoyant, buoyed by a positive macroeconomic outlook.

At AAL, our focus on performance improvement, cost reduction initiatives, and operational excellence bore fruit. We achieved an impressive 11.7% EBITDA margin, contributing ₹213.7 Crore in total taxes during 2023-24. Our commitment extends to strategic investments aimed at profitable growth in target markets. We emphasize improved productivity, cost rationalization, cash flow optimization, and streamlined business processes.

The comprehensive details within this report exemplify our earnest effort to transparently explain how, when, and why we pay taxes. We believe that transparency is not just a virtue but a strategic imperative.

<sup>1</sup> <https://www.thehindubusinessline.com/economy/indian-automobile-industry-records-125-growth-in-fy24/article68057552.ece#:-:text=The%20industry's%20performance%20reflects%20the,growth%2C%20supported%20by%20government%20policies&text=The%20Indian%20automobile%20sector%20experienced,53%2C463%20units%2C%20as%20per%20SIAM>  
<sup>2</sup> ibid

## **The Way Forward**

As we forge ahead, I am confident that our implemented strategies will sustain our growth trajectory in a responsible and sustainable manner. Our robust corporate governance framework, underpinned by an unwavering commitment to trust and transparency, will enable us to maintain our strong organizational culture while deftly balancing the diverse needs of our stakeholders.

Thank you for your continued support and partnership.

**Warm regards,**  
**Ranganathan S**  
**Chief Financial Officer**  
**Automotive Axles Limited**

### 3. Approach to tax and tax principles

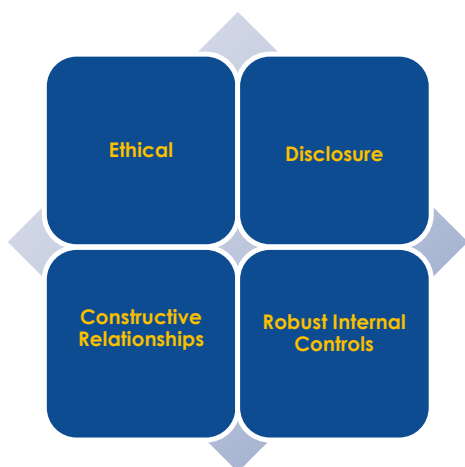


Figure 1: Approach to tax



Figure 2: Tax principles of AAL

Our approach to tax includes the following aspects:

- 1 Ethical:** Our commitment to ethical taxation is built on a foundation of unwavering integrity and rigorous adherence to statutory laws and regulations. We approach our responsibilities with seriousness, ensuring the timely payment of all relevant taxes. Our dedication extends to fostering fair practices in every aspect of legal compliance and taxation.
- 2 Disclosure:** We adhere to a transparent approach, ensuring full disclosure of our activities to all stakeholders. This includes promptly submitting tax returns and responding to information requests promptly. Moreover, should any inadvertent errors be discovered, we are committed to rectifying them at the earliest opportunity.
- 3 Constructive Relationships:** We uphold an open and cooperative relationship with Indian tax authorities, as well as our customers and suppliers, aiming to bolster the reputation of the industry we operate within.
- 4 Robust Internal Controls:** We proactively seek to identify, manage, and mitigate any potential tax risks, staying abreast of key changes and trends in tax matters through our internal control systems and external advisors/consultants as needed

At AAL, we understand that meeting the expectations of global investors goes beyond statutory disclosures and reporting norms. We believe voluntary adherence to the best international disclosure practices is essential. Taking it a step further, we pledge to publish an annual tax transparency report, revealing the taxes contributed and collected in the jurisdictions where we operate. We adhere strictly to all applicable laws and regulations, both in their letter and spirit. The following are the tax laws and allied regulations that guide us:

- Central Goods and Services Tax Act, 2017;
- Integrated Goods and Services Tax Act, 2017;
- State Goods and Services Tax Act, 2017;
- Customs Act, 1962;
- Income Tax Act, 1961 (including Transfer Pricing aspects);
- Allied rules relating the above legislation;
- Foreign Trade Policy 2015-20;

- Companies Act, 2013;
- Karnataka Tax on Professions, Trades, Calling and Employment Act 1976
- Double Taxation Avoidance Agreements; and
- Foreign Exchange Management Act, 1999

## 3.1. Tax strategy and compliance

Guided by a comprehensive code of conduct, AAL remains a competitive provider of high-quality axles and brakes for domestic markets and gears for global markets.

Aligned with our code of conduct, our tax strategy emphasizes timely and fair payment of all taxes. We continuously strive for efficiency, legal compliance, and seek external guidance to enhance our tax planning and strategy. This is achieved through a combination of the following elements:

### Annual Reviews and External Advisors

We conduct annual reviews and alternate audits with the support of external advisors. These reviews ensure the completeness and accuracy of our compliance filings submitted to tax authorities. Certain tax functions are outsourced, and rigorous checks and reviews are performed before filings are made.

### Leveraging Technology

Our commitment to compliance extends to leveraging technology. We utilize a comprehensive compliance and system management tool to automate processes, including taxation. This approach helps mitigate risks associated with non-compliance.

### Board Management and SEBI Compliance

We are in the process of establishing a board management system. This system will facilitate efficient tracking of board of director meetings, including agendas, minutes, and records related to legal compliances submitted to the Securities Exchange Board of India (SEBI).

### Digital Compliance Management Tool

- We have introduced a digital compliance management tool. This tool provides a comprehensive list of all applicable compliances for the company.
- It is linked with internal stakeholders, ensuring control, compliance, and transparency.
- The compliance report generated by this tool will be maintained for future reference and presented to the Board quarterly for their review.

Our commitment to excellence extends beyond mere compliance—it encompasses transparency, efficiency, and responsible corporate governance

## 3.2. Tax planning

As a principle, we refrain from pursuing aggressive tax measures that could potentially result in tax evasion or significant tax risks. All key business decisions, including those related to taxes, are made in accordance with legal requirements, with the goal of maximizing value for our shareholders.

In cases involving changes, amendments, or notifications in tax regulations and laws, AAL follows a structured three-step process, as outlined in Figure 3 below:





**Figure 3: Tax planning approach**

### **3.3. Approach towards transfer pricing and related party transactions**

The transactions between AAL and its related parties or associated enterprises adhere to the arm's length principle contained in the Companies Act, 2013, the Income Tax Act, 1961, along with the Income-tax Rules, 1962, and the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations ('OECD Guidelines – January 2022') published by the Organization for Economic Cooperation and Development,

AAL has maintained a policy to govern its related party transactions which aims to ensure that proper reporting, approval, and disclosure processes are in place for all transactions between the Company and related parties.

All related party transactions undertaken by AAL are approved by the audit committee, with necessary approvals from shareholders for certain material related party transactions, and their disclosures in line with the Companies Act, 2013, and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2023.

Furthermore, the Company conducts specific exercises annually to ensure oversight of compliance with the arm's length standard, with external support from technical advisors. Our transfer pricing documentation provides details of intra-group transactions required for compliance and/or tax audit/litigation. We are pleased to inform our stakeholders that our transfer pricing positions have not been disputed by revenue authorities for completed years up to the financial year 2020-21, with subsequent years yet to be audited by revenue authorities.

## 4. Tax governance & contribution

### 4.1. Tax governance body

We uphold the highest standards of integrity and professionalism in our work, adhering to applicable tax laws and regulations. All our employees, shareholders, and board of directors align with our Code of Conduct to uphold our brand reputation.

Transparency in governance is ensured through various measures and practices aimed at complying with tax obligations, controlling and mitigating tax risks, and enhancing transparency and accountability.



**Figure 4: Governance Structure and Framework**

We have a dedicated in-house team that manages Company's tax matters including a finance and tax team that handles and manages our tax matters diligently and exclusively. Our tax matters are governed by our board of directors which is in turn supported by the following;

- (a) Risk management committee;
- (b) Nomination & Remuneration committee;
- (c) Audit committee;
- (d) Stakeholder relationship committee; and
- (e) Corporate social responsibility committee.

Our audit committee is further supported and assisted by our experienced senior management and our in-house finance and tax team which monitors the progress of tax matters and provides guidance on it. The Finance and tax team meets our board of directors and other senior management personnel on a quarterly basis or more frequently on different tax aspects, as needed.

## 4.2. Tax risk management

At AAL, we prioritize responsible and transparent tax practices. We avoid artificial or aggressive tax arrangements inconsistent with our business objectives or values. Our tax function is aligned with commercial needs, not solely for tax benefits. We manage tax risks from disputes or legislative changes with our in-house tax team, conducting periodic assessments and compliance reviews. Adhering to our code of conduct, we mitigate reputational risks associated with tax activities, integrated into our business strategy and risk mitigation process.

We set a tax risk appetite, seeking expert advice for uncertain transactions. Effective controls and internal checks are established, including robust risk controls for monitoring transactions and reporting processes. We rely on IT systems and applications for tax controls, and continuously working towards automation of data management in tax functions.

## 4.3. Tax assessment & litigation

Our open litigation area as on 31<sup>st</sup> March 2024 is summarized below:

Authority	Issue	Amount	Present Status
GST Central Tax Authorities	Service Tax Input Credit under Tran-1	INR 4.5 Million	Appeal filed with Commissioner Appeals has been rejected. Appeal to be filed before the GST Tribunal (once constituted)
GST Central Tax Authorities	Non furnishing of the issued duplicate E-way bills with supporting invoices and non maintenance of books of accounts for FY 2018-19 at the principal place of business	INR 6.90 Million	Appeal filed with Commissioner Appeals. Awaiting personal hearing intimation from Authorities
GST Central Tax Authorities	Non maintenance of books of accounts for FY 2019-20, FY2020-21, FY2021-22 and FY2022-23 at the principal place of business	INR 0.2 Million	Appeal filed with Commissioner Appeals. Awaiting personal hearing intimation from Authorities
GST Central Tax Authorities	Mismatch of stock and non maintenance of books of accounts for FY 2023-24 at the principal place of business	INR 2.85 Million	Appeal filed with Commissioner Appeals. Awaiting personal hearing intimation from Authorities
GST Central Tax Authorities	Utilization of Input Tax Credit pertaining to non filing of GSTR-3B by the vendor	INR 0.36 Million	Appeal filed with Commissioner Appeals. Awaiting personal hearing intimation from Authorities
GST State Tax Authorities	Discrepancy in availment of the input tax in GSTR3B vis-a vis the amount reflected in GSTR-2A for the tax period April 2019 to March 2020	INR 14.64 Million	Appeal filed with Commissioner Appeals. Awaiting personal hearing intimation from Authorities
Commissioner of Income - tax (Appeals)	Disallowance of claim under section 80JJAA for FY 2017-18	INR 0.21 Million	Appeal filed with Commissioner of Income - tax (Appeals). Awaiting personal hearing intimation from Authorities

Authority	Issue	Amount	Present Status
Assessing Officer – Income Tax	Dividend Distribution Tax for FY 2018-19	INR 5.88 Million	Rectification petition under section 154 filed with the Assessing Officer. Awaiting response from Assessing Officer
Assessing Officer – Income Tax	Dividend Distribution Tax for FY 2019-20	INR 82.85 Million	Rectification petition under section 154 filed with the Assessing Officer. Awaiting response from Assessing Officer
Assessing Officer – Income Tax	Dividend Distribution Tax for FY 2021-22	INR 3.37 Million	Rectification petition under section 154 filed with the Assessing Officer. Awaiting response from Assessing Officer

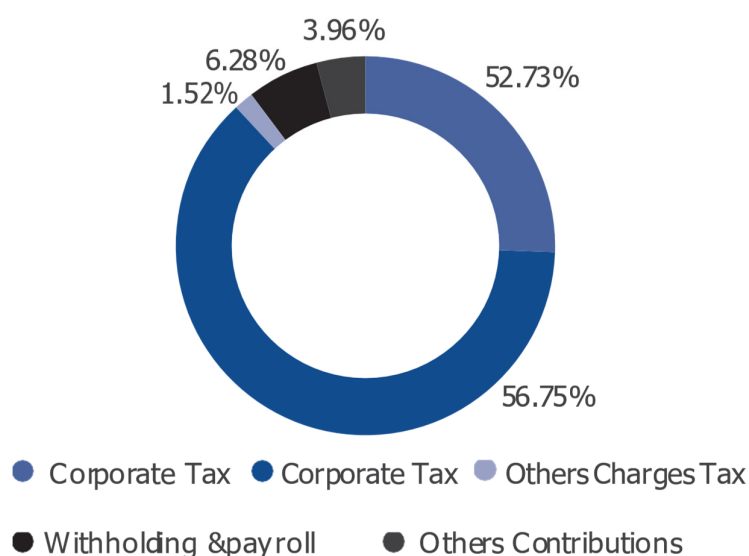
Managing tax litigation involves a holistic approach combining legal, financial, and strategic considerations. We proactively identify potential tax issues and risks, assessing the Company's position and likelihood of success in litigation. Developing a strategic plan for addressing tax disputes, considering legal and business implications, is integral to our dispute resolution strategy.

## 4.4. Total tax contribution

Corporates play a significant role in the overall development of the economy, a fact we at AAL fully acknowledge. The total contribution to the exchequer reflects the value addition throughout our Company's value chain across different business cycles.

We are pleased to announce that we have fulfilled our duty as a responsible corporate citizen by paying our fair share of taxes. During FY 2023-24, the Company contributed INR 213.7 crores to the exchequer in the form of various taxes and levies in India (a detailed breakdown of taxes paid is provided in figure 5 below):

### TOTAL TAX CONTRIBUTION (BREAK UP OF INR 213.7 CRORES)



**Figure 5: Total tax contribution (Break-up)**

We have provided the comparative total tax contribution over the past 3 years in Figure 6 below. The comparative financial performance during the same period is illustrated in Figure 7 below, indicating the increase in overall revenue as well as profitability. Our contributions

towards various taxes align with the growth in our revenue and profits.

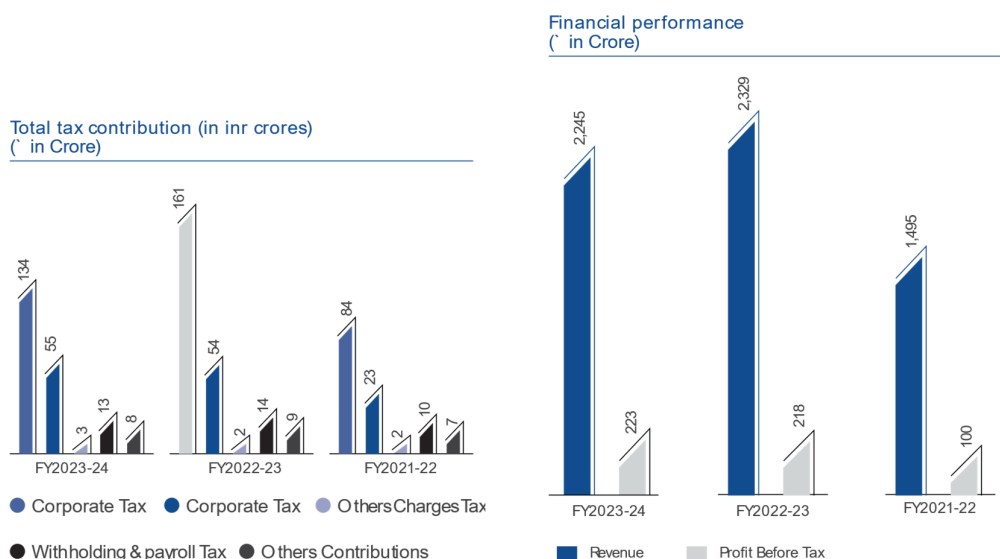


Figure 6: Comparative total tax contribution

Figure 7: Comparative financial performance

## 4.5. Effective tax rate

The Effective Tax Rate (ETR) is a measure of the income tax expense relative to income before taxes, based on the annual audited financial statements. It serves as an important indicator ensuring that the organization fulfills its tax obligations in the jurisdictions where it operates.

For the FY 2023-24, the statutory income-tax rate (including surcharge) on corporates is 34.94%. However, under section 115BAA of the Income-tax Act, 1961, companies have the option to be taxed at a lower rate of 25.168%, provided they forgo certain tax benefits, including the MAT credit.

After evaluating the impact of opting for taxation under Section 115BAA, the Company has chosen the tax rate of 25.168%.

Consequently, our effective tax rate of income tax borne during FY 2023-24 stands at 25.30% (as computed in Figure 8 below), compared to the comparative effective tax rate of 25.71% during FY 2022-23:

$$\begin{array}{r}
 \mathbf{54.87 \text{ crores}^*} \\
 \text{Current taxes}
 \end{array}
 +
 \begin{array}{r}
 \mathbf{1.55 \text{ crores}^*} \\
 \text{Deferred taxes}
 \end{array}
 =
 \begin{array}{r}
 \mathbf{25.30\%} \\
 \text{Effective Tax Rate}
 \end{array}$$


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$$\begin{array}{r}
 \mathbf{222.97 \text{ crores}^*} \\
 \text{Profit before taxes}
 \end{array}$$

**Figure 8: ETR computation**  
 (\*All amounts presented above are in INR crores)

**Current Taxes:** This pertains to income tax assets and liabilities for the current and prior periods

<sup>3</sup> The Company maintains reconciliation of the enacted/ statutory and effective income tax rate in its financial statements. The primary reasons for the variance were tax effect on permanent non-deductible expenses and other elements.

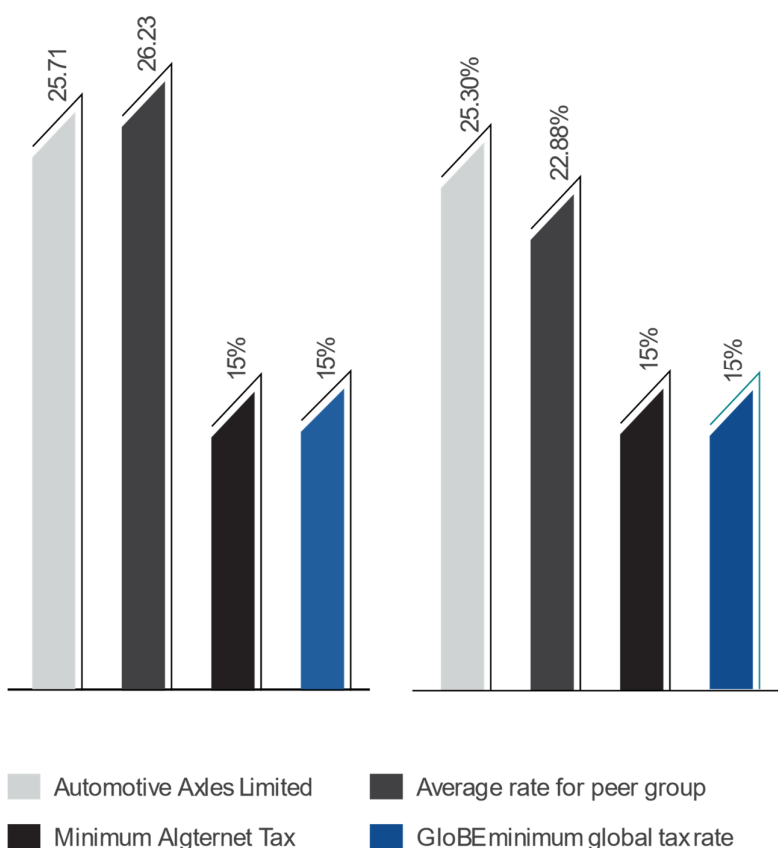
and is measured at the expected amount to be recovered from or paid to tax authorities based on the taxable income for that period.

**Deferred Taxes:** Deferred tax is accounted for using the balance sheet approach on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes as at the reporting date.

The tax rates and tax laws utilized to compute the amount are those that are enacted or substantively enacted by the financial year ending March 31, 2024.

As a guiding principle, we refrain from pursuing aggressive tax measures that could potentially lead to tax evasion or significant tax risks. All key business decisions, including those related to taxes, are made in alignment with our objective of being a compliance-oriented organization and maximizing value **for our shareholders.**

### Comparative effective tax rate



**Figure 9: Comparative effective tax rate<sup>4</sup>**

**Peer Group:** The peer group consists of Bharat Gears Ltd, Kranti Industries Ltd, Wheels India Ltd, Hindustan Hardy Ltd, Rico Auto Industries Ltd, Schaeffler India Ltd, Sona BLW Precision Forgings Ltd, Axles India Ltd, GNA Axles Ltd, Jamna Auto Industries Ltd and MM Forgings Ltd. For the purpose of calculation of ETR in Figure 9 above, the tax payable as a proportion of Profit Before Tax of the respective companies was computed considering the average of the peer group data for each of the years. i.e. FY 2022-23 and FY 2023-24.

<sup>4</sup> The peer group for the purpose of this report excludes Brakes India Pvt Ltd, GKN Driveline (India) Ltd, Madras Engineering Industries Pvt Ltd and MSL Driveline Systems Ltd due to non-availability financial data for FY 2023-24 in the public domain.

**Minimum Alternate Tax (MAT):** The Income Tax Act, 1961 imposes a minimum alternative tax of 15% on companies meeting specific thresholds. Although the agreed 15% tax rate is displayed in the Effective Tax Rate (ETR) chart for reference, the tax is applied to the income in the financial statements after a unique set of adjustments to the accounting figures reported. As a result, it is not directly comparable as it deviates from the standard ETR methodology.

**Minimum Global Tax Rate:** The OECD has introduced the Global Anti-Base Erosion Model Rules (GloBE rules). The agreed 15% minimum tax rate is depicted in the ETR chart for reference. However, the GloBE ETR calculation requires a unique set of adjustments to the accounting figures reported, making it not directly comparable as it deviates from the standard ETR methodology.

## 5. Basis of preparation

We have reported the tax & other contributions on a cash basis unless otherwise specified below. The amounts reported in the Tax Schedule are for the period 1 April 2023 to 31 March 2024 and are denominated in Indian Rupees, rounded off to the nearest crore. The reporting methodology for each type of Tax & Other Contributions is detailed below:

**Corporate Tax/Income Tax:** Direct Tax comprises Corporate Income Tax, excluding Deferred Tax. These taxes represent actual payments made net of refunds received during the financial year under consideration, pertaining to Corporate Income Tax for the same year and/or previous years.

**Indirect Taxes:** Indirect Tax payments such as GST and Customs Duty denote payments remitted to the Government Exchequer on a cash basis. This category also includes indirect tax payments made for reverse charge liability and on imports paid in cash. However, it excludes taxes on procurements where credit has been availed, as well as any indirect taxes paid that are not available as input tax credit. Additionally, it encompasses other indirect taxes collected from customers and deposited with the Government. The amounts are sourced from various statutory periodic forms/returns, statements/challans, or other documents filed and maintained with relevant Government authorities.

**Withholding and Payroll Taxes:** Withholding and payroll taxes comprise withholding taxes collected from vendors and employees, taxes collected from customers, and other payroll taxes. Withholding taxes are income taxes paid to the Government by the payer of income rather than by the recipient. These taxes typically apply to payments made to employees, vendors, service providers, non-residents, etc. This category also includes taxes collected on payments received from customers for prescribed goods or services. Additionally, it encompasses professional tax withheld from employee remuneration, paid to the Government by respective companies in the capacity of an employer.

**Other Taxes and Charges:** This category encompasses taxes, cess, and charges paid on water consumption, electricity generation, property tax, municipal taxes, and other taxes borne by the Company.

**Other Contributions:** This includes social security contributions made by the Company for its employees, such as employee provident funds and employee state insurance, among others.