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AMARA RAJA BATTERIES LIMITED



19TH ANNUAL REPORT-2003-04

AN AMARA RAJA - JOHNSON CONTROLS COMPANY

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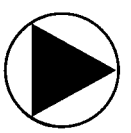
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BOARD OF DIRECTORS

Mr. Ramachandra N. Galla
Executive Chairman

Dr. Upendranath Nimmagadda

Alternate Director : **Mr. V. R. Rao**

Mrs. Amara Kumari Galla

Mr. P. Lakshmana Rao

Mr. John P. Kennedy
Alternate Director : **Ms. Manjula Chawla**

Mr. Raymond J. Brown

Mr. Mark L. Koczela

Mr. Jayadev Galla
Managing Director

COMPANY SECRETARY

Mr. K. Ramakrishna

AUDITORS

M/s. E. Phalguna Kumar & Co
Chartered Accountants, Tirupati

M/s. Chevuturi Associates
Chartered Accountants, Vijayawada

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COST AUDITORS

M/s. P. Parankusam & Co.,
Hyderabad

BANKERS

State Bank of India
Settipalle, Tirupati

Andhra Bank
Main Branch, Tirupati

State Bank of Hyderabad
Main Branch, Tirupati

REGISTERED OFFICE

Renigunta - Cuddapah Road
Karakambadi 517 520
Tirupati, Andhra Pradesh, India.

REGISTRARS AND SHARE TRANSFER AGENTS

M/s. Cameo Corporate Services Limited
"Subramanian Building"
No.1, Club House Road
Chennai 600 002.

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CHAIRMAN'S MESSAGE

Dear Shareholders,

This has been a year of challenge. And I believe we have weathered it well. While our top line did not grow significantly and we experienced a decrease in profits, I believe that the resilience of the Company has been proved - our cash flows have remained strong and we have continued to fund the Company's investment in fixed assets through internal accruals. As of the date of the Balance Sheet, close to 15% of the net worth of Rs.1745 mm stands invested in secure investments or bank deposits and we are predominantly a zero debt Company. I would also like to bring to your attention that if we were to factor our financials for the non-cash deferred revenue charge of Rs.102 mm, our Profits Before Tax would be close to the same levels as last year.

The Company faced intense competition in Telecom batteries and the year witnessed realisations going down to unprecedented levels - levels that could have driven any other Company to serious hardships. As a strategy we decided to stay out of non-remunerative businesses and focus on customer relationships, customer satisfaction and building good quality batteries - things, which should see us win in the long run.

Our Quanta™ UPS battery was launched during the last financial year. Within a very short period of time Quanta™ has established itself as a leading brand in the organized UPS battery market. Volumes have grown 272% and we are pursuing business relationships with leading UPS manufacturers in India. We believe that Quanta™ also has a good potential in the export markets.

Automotive battery volumes continued to grow. We have been successful in strengthening our OE and private label relationships. We are further strengthening our aftermarket network and are complementing the efforts of our channel partners with on-the-ground promotions and schemes, which should establish closer touch with end customers. The Amaron™ brand is a truly national brand today and is recognized for the innovative ways in which it reaches out to potential customers.

Our Export revenues grew 147% over the previous year to Rs. 110.8 mm. We continue to invest in exploring new markets and establishing new relationships. We expect the efforts of the company to bear fruit in the coming years.

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International prices of lead - the major input raw material - witnessed a 120 % increase in the last year and were close to historical high levels. While it is expected that the Lead prices will soften, this is outside of our control. We will continue to watch this, as the global demand-supply position of lead still seems mismatched. The Indian Battery industry also faces a challenge from imports into the country as currently the import duty on Lead and the import duty on finished batteries are at the same rate of 20%. The Indian Battery industry has made representations to the Government of India to address this misalignment of the duty structure to afford *domestic battery industry a level playing field with imports.*

I am happy to share with you the fact that Amara Raja Batteries was the recipient of the coveted Q1 status for best supplier, by Ford. A Q1 status represents that the product and processes of the vendor meet Ford's highest global standards.

The Company was also awarded the Ford Silver World Excellence Award. Amara Raja competed with Ford vendors across the globe for this award and was the only manufacturer from India and one of only 24 companies world wide to have received the award in this category.

Going forward, while the full impact of the increased Lead prices would be felt in the current financial year - FY 04-05 - we expect that prices should come down. We are confident that our continued efforts in building customer relationships, exploring new markets, introducing innovative products and creating new opportunities would go to build long term value for the Company as well you, our cherished shareholders.

I would like to take this opportunity to thank Johnson Controls, Inc. our joint venture partner, for their active participation in Amara Raja. I would also like to thank our bankers, suppliers, customers and you, our esteemed shareholders for your continued support.

Thank you

Ramachandra N. Galla
Executive Chairman

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Performance of Five Years At A Glance

(Rupees in Million)

Particulars	2003-04	2002-03	2001-02	2000-01	1999-00
Production (Nos)	944632	735754	604949	382774	247039
Sales (Nos)	947658	709957	580369	378153	244992
Sales	1999.23	1987.35	1882.20	1550.13	1320.81
Profit before Depreciation, Interest and Tax	136.33	238.12	338.08	308.94	320.11
Profit before Depreciation	134.57	234.34	331.41	303.47	316.49
Profit after Depreciation	11.52	117.34	247.35	235.14	263.83
Profit After Tax	13.90	74.01	182.23	205.32	195.36
Equity Capital	113.88	113.88	113.88	113.88	102.73
Reserves and Surplus	1632.04	1637.41	1582.68*	1555.57	1290.73
Net Worth	1745.92	1649.10	1587.53*	1602.99	1393.46
Gross Block	1593.02	1556.05	1453.41	1008.57	823.32
Net Block	1001.40	1087.12	1094.72	733.80	616.83
Book Value per Share (Rs.)	153.32	144.82	139.41	140.77	135.64
Earnings per Share (Rs.)	1.22	6.50	16.00	19.64	19.02
Dividend (%)	15	15	35	35	30

* Rs.115.27 million has been adjusted against net deferred tax liability up to 31 March 2001.

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NOTICE

Notice is hereby given that the Nineteenth Annual General Meeting of the Members of Amara Raja Batteries Limited will be held at 11.00 AM on Wednesday, 11 August 2004 at the Registered Office of the Company at Renigunta - Cuddapah Road, Karakambadi, 517 520, Tirupati, Andhra Pradesh to transact the following business:

Ordinary Business

1. To receive, consider and adopt the audited Balance Sheet as at 31 March 2004 and the Profit and Loss Account for the year ended on that date and the reports of the Directors and the Auditors thereon.
2. To declare Dividend.
3. To appoint a Director in place of Mrs. Amara Kumari Galla, who retires by rotation and being eligible offers herself for re-appointment.
4. To appoint a Director in place of Dr. Upendranath Nimmagadda, who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint Auditors. M/s. E. Phalguna Kumar & Co., Chartered Accountants, Tirupati and M/s. Chevuturi Associates, Chartered Accountants, Vijayawada, the retiring Auditors of the Company, eligible for re-appointment.

By Order of the Board

Place: Milwaukee, USA
Date: 24 June 2004

K. Ramakrishna
Company Secretary

Notes:

1. **A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member.**
2. The Proxy form in order to be effective must be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
3. The Register of Members of the Company will remain closed from 7 August 2004 to 11 August 2004 (both days inclusive).
4. Dividend, if any, declared at the meeting will be paid to the members whose names appear in the Register of Members of the Company as on 11 August 2004.
5. Members holding shares in physical form are requested to notify changes, if any, in their address immediately to the Company or to its Registrars and Share Transfer Agents, M/s. Cameo Corporate Services Limited, "Subramanian Building", No.1 Club House Road, Chennai - 600 002.
6. Bank mandate for Dividend or Electronic Clearing Service

a) In case of shareholders holding shares in the Electronic form i.e., through Demat Account, address, dividend mandate and the particulars of the Bank, Branch and Bank Account No. etc., available with DP as on 11 August 2004 would be taken into consideration for the purpose of distribution of dividend.

b) The shareholders who are keeping their shares in physical form may either give a Dividend Mandate or opt for Electronic Clearing System.

Electronic Clearing System (ECS) :

Electronic Clearing System is a method of directly crediting the dividend to the shareholders account by electronic transfer. This facility is available to shareholders who are having account at the cities having this facility. Shareholders desirous of using this facility are requested to submit the ECS Mandate in the enclosed format to Cameo Corporate Services Limited on or before 11 August 2004. In case of any change in Bank name or Account No. or Branch name or name of the place etc., shareholders are requested to intimate those changes immediately to the Cameo Corporate Services Limited.

Dividend Mandate :

The Shareholders should furnish their Bank Account No, the name of the Bank and the Branch where they would like to deposit Dividend Warrants for encashment.These particulars would be printed on the portion of the Dividend Warrants, besides the name of the shareholder so that these warrants cannot be encashed by any one else. These details should be furnished by the first / sole shareholder directly to the Cameo Corporate Services Limited quoting the Folio Number.

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DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting the Nineteenth Annual Report together with the Audited Accounts for the financial year ended 31 March 2004.

Financial Results

The financial results for the year ended 31 March 2004 were as follows: Rupees in million

Particulars	For the year ended	
	31 March 2004	31 March 2003
Profit After Tax	13.90	74.01
Add: Profit brought forward from last year	518.88	467.84
Profit available for appropriation	532.78	541.85
Appropriation:		
General Reserve	1.05	3.70
Dividend (Including Dividend Tax)	19.27	19.27
Surplus carried to Balance Sheet	512.46	518.88

Appropriation from Profits

A sum of Rs. 1.05 Million is proposed to be transferred to General Reserve.

Dividend

Your Directors have pleasure in recommending a Dividend of Rs.1.50 per Equity Share for the financial year ended 31 March 2004. The Dividend will absorb a sum of Rs.19.27 million inclusive of tax on Dividend.

Results of Operations

Gross Sales for the financial year 2003-04 was Rs. 1999.2 mm as against Rs. 1987.3 mm in the previous year. Profit After Tax for the year was Rs 13.90 mm as against Rs 74.01 mm in the previous year. The Company had to absorb a non-cash charge for deferred revenue expenses of Rs. 102.18 mm in the current year, which has significantly reduced the Profit Before Tax and Profit After Tax. This year being the final year the entire brought forward expenditure is written off during the year and there is no further carry forward.

While the Indian Telecom Industry witnessed very high growth, demand for batteries for the Telecom industry did not keep pace. The year also witnessed a reduction in battery prices to all time lows, which was aggravated by the excess capacity in the battery industry. The company as a strategy decided to keep away from un-remunerative businesses owing to which volumes declined. The impact of lower volumes combined with the reduction in realisations affected both sales and profitability.

Quanta™ UPS batteries, launched in the last financial year, drew good response from UPS manufacturers as well as trade channels. Quanta volumes grew 272% year on year.

Automotive Batteries volumes continued to grow on the back of strong demand from OEMs. New OEM relationships included Eicher Motor Commercial Vehicles, Eicher Tractors and International Tractors and also supplies for Honda City, GM's Optra, and Ford Endeavour. The Company 's Private Label volumes witnessed 40% growth over the previous year owing to the strong relationships with MICO, GMSPO & Lucas Indian Service.

Recognition for Amaron brand continued to grow. The continued investments in the brand as well as the network have helped build steady aftermarket volumes. The Company's aftermarket network spans 21 states making Amaron™ available in most parts of the country.

Exports

Export revenues grew 147% from Rs. 44.8 mm in the previous year to Rs. 110.8 mm in the current year.

Automotive Batteries were exported to a number of countries including Singapore, Taiwan, Philippines, Japan, UAE and Greece. The Amaron™ programs in Srilanka, Nepal, UAE and Singapore were strengthened further. The Company has recently acquired accounts in Australia, Kuwait and Tanzania.

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DIRECTORS' REPORT

Industrial Battery Exports included shipments to Taiwan, Oman and Ghana. Enquiries received for Quanta™ UPS Batteries are encouraging.

Profitability

The Company continued to fund its investments in fixed assets through internal accruals and had no long-term borrowings from banks or financial institutions.

The reduced volumes and price realizations in Telecom batteries did have an adverse impact on the profitability of the Company. This was partially offset by the growth in Domestic Automotive Batteries, Quanta™ and Exports volumes.

Lead prices also witnessed a steep increase, which impacted the profitability of the Company. Significant variations to lead prices impacts the battery industry as Lead is the primary raw material. While impact of increased lead prices can be passed on to customers in certain sectors of the business, in many cases the company would need to absorb the impact of the higher lead price.

Gross Sales for the financial year at Rs. 1999.2 mm was marginally higher than the previous year. Profit After Tax for the year was Rs. 13.90 mm as against Rs. 74.07 mm in the previous year. The non-cash charge for deferred revenue expenses of Rs. 102.18 mm in the current year had significantly reduced the Profit Before Tax and Profit After Tax. Financial Year 2003-04 is the final year of the deferred revenue expenditure policy of the Company.

Future Outlook

The Indian Telecom Industry witnessed a year of transformation and change. The Telecom industry continues to be dynamic and telecom charges in India are one of the lowest in the world. Thus while vendors to the Telecom Industry, including battery manufacturers would need to face the challenges of an ever changing and dynamic environment, it is expected that this sector would continue to witness growth in investments and subscribers which should create demand for batteries. It is also expected that replacement demand in this segment has not yet set in fully and once that happens, the demand for industrial VRLA batteries should increase. The Company in the mean while continues to focus on building relationships with its customers and providing them complete solutions for their back-up power requirements.

In Automotive Batteries, the Company is encouraged by the increased demand from OEMs. The Company also expects to add new clients in the coming year which should see volumes increase. The quality of the Company's batteries and the processes of the Company have helped gain OEM confidence. The Company was awarded the coveted Q1 status for best supplier, by Ford. A Q1 status represents that the product and processes of the vendor meet the highest global standards set out by Ford. The Company was also awarded the Ford Silver World Excellence Award. Amara Raja competed with Ford vendors across the globe for this award and was the only manufacturer from India to have received it.

The Company's investment in the Aftermarket network and Amaron™ Brand helped build After Market volumes. The Company's wide range of Automotive Batteries serve a very significant portion of the four-wheeler models in India, including passenger cars, LCVs, MUVs, Heavy Commercial Vehicles and Tractors. The Company also produces batteries designed specifically for Home Invertor applications. The wide reach of the Amaron™ network and the growing brand recall have been responsible for the continued growth of Amaron™.

The Company is continuing to invest in growing its export volumes as both Industrial Batteries and Automotive Batteries receive encouraging responses. Going forward, the company believes that Exports should play a key role in the growth of the company and make it a truly global player.

Public Deposits

Your Company has not accepted any deposits from the public during the year under review and there are no outstanding deposits as on 31 March 2004.

Health, Safety and Environmental Protection

Your Company has substantially complied with all the applicable Environmental Laws and Labour Laws. The Company continues to be certified under ISO 14001 for its Environment Management System. The Company has been complying with the relevant Laws and has been taking all necessary measures to protect the environment and maximise worker protection and safety.

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DIRECTORS' REPORT

Conservation of Energy, Technology and Foreign Exchange

The particulars of conservation of energy, technology absorption, Foreign Exchange outgo and earnings, required to be disclosed under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 are annexed hereto and form part of this report.

Employees and Industrial Relations

Industrial relations in the Company were very cordial and stable.

Information on the particulars of employees as required under Section 217 (2A) of the Companies Act, 1956 and the rules made thereunder is given in the annexed statement and the same forms part of this report.

Directors

Mrs. Amara Kumari Galla and Dr. Upendranath Nimmagadda retire by rotation and being eligible, offer themselves for re-appointment.

Auditors

M/s. E. Phalguna Kumar & Co., Chartered Accountants, Tirupati and M/s. Chevuturi Associates, Chartered Accountants, Vijayawada, the joint Auditors of the Company retire at the ensuing Annual General Meeting and are eligible for re-appointment.

Corporate Governance

Your Company has complied with the provisions of Clause 49 of the Listing Agreement relating to Corporate Governance and believes that the initiatives on Corporate Governance will assist the Management in the efficient conduct of the business and in meeting its obligation to all its stakeholders.

A detailed report on Corporate Governance together with the Management Discussion and Analysis and Auditors' Certificate on compliance of conditions of Corporate Governance as required under Clause 49 of the Listing Agreement is attached to this report.

Directors' Responsibility Statement

As required under the Companies Act, 1956, your Directors wish to state:

a) That in the preparation of the annual accounts, the applicable accounting standards had been followed and that there are no material departures therefrom;

b) That they have selected such accounting policies and applied them consistently and made judgment and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;

c) That they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and

d) That they have prepared the accounts for the year ended 31 March 2004 on a 'going concern' basis.

Acknowledgements

The Directors express their gratitude to the Company's Bankers, various Government Agencies and employees of the Company. They also take the opportunity to thank the Company's valued customers, vendors and the shareholders who have extended their support to the Company.

For and on behalf of the Board

Place : Milwaukee, USA
Date : 24 June 2004

Ramachandra N. Galla
Executive Chairman

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