

POWERING AHEAD

ANNUAL REPORT 05/06

Report  junction.com

 **Amara Raja**
Powered by Innovation

www.reportjunction.com



| CONTENTS | Page No. |
|---|----------|
| Five years performance - At a glance | 3 |
| Chairman's Message | 4 |
| From the desk of the Managing Director | 5 |
| Notice | 6 |
| Directors' Report | 12 |
| Management Discussion and Analysis Report | 19 |
| Report on Corporate Governance | 23 |
| General Shareholder Information | 32 |
| Auditor's Report | 38 |
| Balance Sheet | 42 |
| Profit and Loss Account | 43 |
| Schedules to Balance Sheet | 44 |
| Schedules to Profit and Loss Account | 50 |
| Statement on Accounting Policies | 53 |
| Notes forming part of the Accounts | 54 |
| Cash Flow Statement | 61 |
| Balance Sheet Abstract | 63 |

BOARD OF DIRECTORS

Ramachandra N. Galla
Non Executive Chairman

Amara Kumari Galla

Jayadev Galla
Managing Director

Raymond J. Brown

John D. Major

Steven Gibbs

P. Lakshmana Rao

Ravi Bhamidipati

Nagarjun Valluripalli

Manjula Chawla
Alternate Director to John D. Major

Kejian Lu
Alternate Director to Raymond J. Brown
(With effect from 7th April 2006)

Chief Financial Officer

Gopal Mahadevan

Company Secretary

N. RamNathan

Auditors

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

M/s. Chevuturi Associates
Chartered Accountants,
Vijayawada

Cost Auditor

M/s. 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

Registrar and Share Transfer Agents

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

FIVE YEARS PERFORMANCE - AT A GLANCE

(Rupees in Million)

| Particulars | 2005-06 | 2004-05 | 2003-04 | 2002-03 | 2001-02 |
|---|----------------|----------------|----------------|----------------|-----------------|
| Production (Nos) | 2129491 | 1230974 | 944632 | 735754 | 604949 |
| Sales (Nos) | 2117664 | 1222943 | 947658 | 709957 | 580369 |
| Sales | 4458.30 | 2685.44 | 1999.23 | 1987.35 | 1882.20 |
| Profit before Depreciation, Interest and Tax | 533.91 | 273.57 | 136.33 | 238.12 | 338.08 |
| Profit before Depreciation | 520.47 | 272.12 | 134.57 | 234.34 | 331.41 |
| Profit after Depreciation | 373.46 | 135.81 | 11.52 | 117.34 | 247.35 |
| Profit After Tax | 238.47 | 86.90 | 13.90 | 74.01 | 182.23 |
| Equity Capital | 113.88 | 113.88 | 113.88 | 113.88 | 113.88 |
| Reserves and surplus | 1898.98 | 1692.97 | 1632.04 | 1637.41 | 1582.68* |
| Net Worth | 2012.85 | 1806.85 | 1745.92 | 1649.10 | 1587.53* |
| Gross Block | 1907.12 | 1672.30 | 1593.02 | 1556.05 | 1453.41 |
| Net Block | 1091.70 | 961.52 | 1001.40 | 1087.12 | 1094.72 |
| Book Value per Share (Rs.) | 176.76 | 158.66 | 153.32 | 144.82 | 139.41 |
| Earning per Share (Rs.) | 20.94 | 7.63 | 1.22 | 6.50 | 16.00 |
| Dividend (%) | 25 | 20 | 15 | 15 | 35 |

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

CHAIRMAN'S MESSAGE



Dear Shareholders,

It gives me great pleasure to share with you that FY 06 has been another path-breaking year for Amara Raja.

We have clocked a record turnover of Rs. 4.45 bn - posting a 66% growth over the previous year. Profit Before Tax at Rs. 373 mm has recorded a 175 % jump over the previous year. Clearly the investments we have made in the past in people, processes, product engineering, brand and assets have resulted in the growth we are experiencing today. And we will continue to further expand capacities and invest in the business.

The year also witnessed the continued growth of the Indian Economy and India becoming one of the favourite investment destinations in the world, next only to China. The Indian Economy posted a robust growth of 8.4% in GDP as against 7.5 % in the previous year. The manufacturing sector grew at 9% in FY 06 as against 8.1% in FY 05. Riding on the back of economic growth and bolstered by domestic and FII investments, the Indian stock markets reached unprecedented heights. While recently the markets have witnessed a correction and have turned choppy, it is expected that in the medium term the stock markets should become more stable. The Indian rupee has also dovetailed the stock markets and has had significant rallies in a relatively short period of time.

One of the concerns for Indian Industry has been rising interest rates. The increase in both the repo and reverse repo rates in June 2006 by the Reserve Bank of India seem to signal a high interest rate regime. This can be a challenge to Indian corporates. Rising petro prices and the resultant inflationary impact it could have, are also factors that could impede growth.

Metal markets continued to harden in FY 06. Lead prices continued to rule high and reached a peak of US \$1448/ MT in February 2006 compared to US \$ 1009/ MT in February 2005. While lead prices have softened recently we continue to watch the price movements carefully. Globalisation has resulted in metal prices being affected by a confluence of factors – not merely by demand and production. We now see that financial markets and commodity markets have become more linked. And the effects of events occurring in one part of the globe are felt almost immediately in other parts as well.

Our Company has posted an excellent performance and outperformed the market significantly both in terms of growth in top line and profits. Amara Raja continues to expand its capacities. Automotive battery plant capacity would more than triple to 3.6 mm units per annum from 1mm units at inception. We have been building our capacity in Industrial batteries as well and will again be increasing it by 50% in the coming months. I believe that the growth in the demand for our products has been the resultant of the passion to offer greater value to customers continuously. This combined with the persistent efforts of our team to achieve greater operational efficiencies has been the key driving factor for the robust performance and growth posted by the Company.

When I founded the Company in 1985, my belief was that with the right technology, people and value systems, we will become a globally recognized player. Today, when I see the performance of the Company, I am convinced that we are on course in the goal we set out to achieve.

I would like to take this opportunity to thank each and every member of the Amara Raja team, our joint venture partner M/s. Johnson Controls Inc., our bankers, the various Government agencies we interact with and our share holders for their continued support.

Ramachandra N. Galla

FROM THE DESK OF THE MANAGING DIRECTOR



Dear Shareholders,

Last year, on the 20th anniversary of the Company, I had been happy to share with you that our top line had crossed the Rs. 2 bn mark. Twelve months later, this year, it gives me great pleasure to state that we almost added another Rs. 2 bn to it. Gross sales at Rs. 4.45 bn in FY 06 has grown 66% over last year's turnover of Rs. 2.68 bn, propelled by the high growth recorded in both Industrial and Automotive batteries business.

Profit before tax at Rs. 373 mm has grown 175% over last year's number of Rs. 135 mm.

And what is significant is that this achievement has been made in a year when Lead prices touched all time highs and the Indian storage battery industry grew at around 20%.

FY 06 has been a very exciting year for us – we witnessed growth in top line, market share, profits and in our capacity as well. As at the end of the financial year our expansion in Automotive batteries to 2.4 mm units was on stream and we are on course in further expanding to 3.6 mm units per annum in FY 07. We would also be expanding Industrial battery capacity by nearly 50% in FY 07.

In FY 06, our Industrial batteries volumes rose 73% over the previous year driven by significant growth in Telecom and UPS batteries. We continue to maintain our position as a leading VRLA manufacturer in the Country and enhance our market share. Quanta UPS batteries, a technologically superior product in terms of deep cycles and high rate discharge, is recognised as a leading brand of UPS batteries in the country. While the off take in the Railways business has been slower than last year, we expect the business to be stable going forward. Industrial battery exports, which is at a nascent stage, holds great potential and we believe that we have only scratched the surface. With a distinctly superior product and world class engineering capabilities, we will focus on growing industrial battery exports in the medium term.

Our success in Automotive batteries continues. OE volumes have grown 61% yoy and market shares are close to 25% with almost all OE accounts under our belt. This year we added Hyundai Motors India Limited as our customer. We were retained by Maruti Udyog Ltd as exclusive supplier to "Swift", one of their most prestigious launches. We also became exclusive supplier to "Ace" – a successful small transport vehicle launched by Tata Motors. Our OE customers have appreciated the technological superiority of our batteries and the higher performance they deliver. Our share of business in existing accounts has grown. Automotive customers ultimately want a battery that is technologically superior and which demands very little attention.

Our after market replacement volumes grew 76% driven by our three factors. First has been the consolidation of our product suite expansion in the previous financial year. Second has been the increased penetration of our expanding channel network which today spans 24 states with over 125 franchisees and 12000 active retailers. Third has been the brand pull of "Amaron". Today our market share in the organized market has risen sharply to almost 20 %. And what gives me great satisfaction is that we have been able to achieve all this just within 6 years of inception.

Automotive battery exports have grown 83% as we continue to consolidate our position in the South-East Asian and Middle Eastern markets. Our products are sold in the premium segment in Japan, a market which is very demanding and technology conscious. We are today the number one after market brand in Singapore and have retained exclusive supplier status with Comfort Delgro Cabs of Singapore for three years in a row. We continue to enhance our presence in the SAARC markets as well.

Even while growing top line, we continue to enhance operational efficiency and work on product development and engineering. The team's focus in building efficiencies in Supply Chain, Operations and Product Engineering have resulted in delivering greater value to customers. Our relationship with OEs and our persistence to deliver greater quality have resulted in new quality initiatives and continuous improvement programmes. We have also embarked on strategic HR initiatives, which we believe would play a key role in supporting our aggressive growth plans.

Team Amara Raja is charged. And ready to take on the future.

I would like to thank our joint venture partner M/s. Johnson Controls Inc, our bankers, our employees and our shareholders for their continued support.

Jayadev Galla

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Twenty First Annual General Meeting of the Members of Amara Raja Batteries Limited will be held on Monday, 14th August 2006, at 3.00 P.M. at the Registered Office of the Company at Renigunta–Cuddapah Road, Karakambadi–517520, Tirupati, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2006 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 in terms of Article 105 (a) of the Articles of Association of the Company and being eligible offers herself for re-appointment.
4. To appoint a Director in place of Mr. John D. Major, who retires by rotation in terms of Article 105 (a) of the Articles of Association of the Company and being eligible offers himself for re-appointment.
5. To appoint a Director in place of Mr. Steven Gibbs, who retires by rotation in terms of Article 105 (a) of the Articles of Association of the Company and being eligible offers himself for re-appointment.
6. To appoint Auditors to hold Office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and in this connection, to consider and if deemed fit, to pass with or without modification(s), the following Resolution as an Ordinary Resolution:
"RESOLVED THAT M/s. E. Phalguna Kumar & Co., Chartered Accountants, Tirupati and M/s. Chevuturi Associates, Chartered Accountants, Vijayawada, be and they are hereby re-appointed Auditors of the Company to hold Office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting on a remuneration to be mutually agreed between the Board of Directors and the Auditors."

SPECIAL BUSINESS

7. To consider and if thought fit to pass, with or without modification(s), the following Resolution as an Ordinary Resolution:
"RESOLVED THAT Mr. Nagarjun Valluripalli, who was appointed as a Director of the Company with effect from 20th December 2005 and whose term expires at this Annual General Meeting, be and is hereby appointed as a Director of the Company liable to retire by rotation."
8. To consider and if thought fit to pass, with or without modification(s), the following Resolution as a Special Resolution:
"RESOLVED THAT in accordance with the provisions of Article 99 of the Articles of Association of the Company and pursuant to the provisions of Section 309 (4) of the Companies Act, 1956 and subject to the approval of the Ministry of Company Affairs, New Delhi and the shareholders, authority be and is hereby accorded to the payment of Commission not exceeding three percent (3%) of the net profits of the Company to Mr. Ramachandra N. Galla, the Non Executive Chairman of the Company and not exceeding one percent (1%) of the net profits of the Company, in the aggregate, to the other Non Executive Directors in such proportion and from such date as the Board may deem fit and proper for a period of five years commencing from 1st September 2005."
"RESOLVED FURTHER THAT authority be and is hereby accorded to the Board of Directors to do all such acts, deeds and things as may be necessary, expedient and proper, for the purpose of giving effect to this Resolution."
9. To consider and if thought fit to pass, with or without modification(s), the following Resolution as an Ordinary Resolution:
"RESOLVED THAT the consent of the Company be and is hereby accorded in terms of Section 293 (1) (a) and all other applicable provisions of the Companies Act, 1956, (including any statutory modification or re-enactment thereof, for the time being in force), to the Board of Directors (hereinafter referred to as "the Board" which term shall be deemed to include any Committee which the Board may constitute for this purpose) to mortgage and/or charge, in addition to the mortgages/charges created/to be created by the Company, in such form and manner and with

such ranking and at such time and on such terms as the Board may determine, on all or any of the moveable and/or immoveable properties of the Company, both present and future and/or the whole or any part of the undertaking(s) in favour of the Lender(s) for securing the borrowings availed/to be availed by the Company by way of loan (in Rupee currency and/or Foreign currency) subject to the limits specified under Section 293 (1) (d) of the Companies Act, 1956 together with interest at the respective agreed rates, additional interest, compound interest in case of default, accumulated interest, liquidated damages, commitment charges, premia on prepayment, all other costs, charges and expenses, including any increase as a result of devaluation/revaluation/ fluctuation in the rates of exchange and all other monies payable by the Company in terms of the Loan Agreement(s)/Heads of Agreement(s) or any other document, entered into/to be entered into between the Company and the Lender(s) in respect of the said loan(s)/borrowing(s)."

"RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to finalise, settle and execute such documents/deeds/writings/agreements as may be required and do all such acts, deeds, matters and things, as it may in its absolute discretion deem necessary, proper and to settle any question, difficulty or doubt that may arise in regard to creating mortgages/charges as aforesaid."

10. To consider and if thought fit to pass, with or without modification(s), the following Resolution as an Ordinary Resolution:

"RESOLVED THAT the Board of Directors (hereinafter referred to as "the Board" which term shall be deemed to include any Committee which the Board may constitute for this purpose), be and is hereby authorised, in accordance with Section 293 (1) (d) of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force) and the Articles of Association of the Company, to borrow any sum or sums of money from time to time at its discretion, for the purpose of the business of the Company, from any one or more banks, financial institutions and other persons, firms, bodies corporate, notwithstanding that the monies to be borrowed together with the monies already borrowed by the Company (apart from the temporary loans obtained from the Company's Bankers in the ordinary course of business) may, at any time, not to exceed Rs.400 crore and that the Board of Directors be and is hereby empowered and authorised to arrange or fix the terms and conditions of all such monies to be borrowed from time to time as to interest, repayment, security or otherwise as they may, in their absolute discretion think fit."

"RESOLVED FURTHER THAT for the purpose of giving effect to this Resolution, the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, proper or desirable and to settle any question, difficulty, doubt that may arise in respect of the borrowing(s) aforesaid and further to do all such acts, deeds and things and to execute all documents and writings as may be necessary, proper, desirable or expedient to give effect to this Resolution."

By Order of the Board

Chennai
22nd June 2006

N. RAMNATHAN
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/herself and the proxy need not be a Member of the Company. 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.**
2. The relevant Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 is annexed hereto.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 3rd August 2006 to 14th August 2006 (both days inclusive).
4. Dividend, if any, declared at the Meeting will be made payable on or after 14th August 2006 in respect of shares held in Physical Form to those Members who are entitled to the same and whose names appear in the Register of Members of the Company after giving effect to all valid share transfers lodged with The Registrar and Share Transfer Agents viz., Cameo Corporate Services Limited, at the end of business hours on 2nd August 2006 and in respect of shares held in electronic form to those "Deemed Members" whose names appear in the statement of beneficial ownership furnished by the National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) as on 3rd August 2006.

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 and those who hold shares in dematerialised form are requested to notify their Depository Participants (DP) their change in address, if any, and change in bank mandate on or before 2nd August 2006.

6. Bank Mandate for Dividend or Electronic Clearing Service

- a) In case of Members holding shares in electronic form i.e. through Demat Account, then address, dividend mandate and the particulars of the Bank, branch and bank account number, etc. available with the Depository Participant as on 3rd August 2006 would be taken into consideration for the purpose of distribution of dividend.
- b) The Members who are holding their shares in physical form may either give a dividend mandate or opt for Electronic Clearing Service (ECS).

7. Dividend Mandate

The Members 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 names of the Members so that these warrants cannot be encashed by anyone else. The first/sole Member should furnish these details directly to Cameo Corporate Services Limited, our Registrar and Share Transfer Agents, quoting the folio number.

8. As per Clause 49 of the listing agreement with Stock Exchanges, the brief resume, functional expertise of the Directors proposed for re-appointment/appointment are furnished below along with details of Companies in which they are Directors and the Board Committee of which they are Members.

(i) Mrs. Amara Kumari Galla

Mrs. Amara Kumari Galla is a graduate from Lakeview College, Chicago, USA. She had her professional career with Chrysler Corporation where she worked from 1974 to 1984 in the EDP Department – Midwest Sales Division.

Mrs. Galla is a renowned social worker and political activist. She is a sitting MLA representing Chandragiri Constituency in Chittoor District of Andhra Pradesh and she is a member in the All India Congress Committee. She had held various positions such as General Secretary – Pradesh Congress Committee, President - AP Mahila Congress, Board Member of APEDA, National Committee Member of the Committee on Small Scale Industries, National Committee Member of the Committee on Human Resources, Board Member in AP State Finance Corporation, Member in Public Accounts Committee, Petitions Committee and Women and Child Welfare Committee etc.

Mrs. Amara Kumari Galla holds 350700 Equity shares of Rs. 10/- each of the Company.

Details of other Directorships/Committee Memberships held by Mrs. Amara Kumari Galla are as follows:-

| Directorship | Committee Membership | Chairman/ Member |
|---|----------------------|------------------|
| Amara Raja Power Systems Private Limited | NIL | NIL |
| Amara Raja Electronics Private Limited * | NIL | NIL |
| Mangal Precision Products Private Limited * | NIL | NIL |
| Galla Foods Private Limited | NIL | NIL |

* Mrs. Amara Kumari Galla is the Managing Director of M/s. Amara Raja Electronics Private Limited and M/s. Mangal Precision Products Private Limited

(ii) Mr. John D Major

Mr. John D Major is Assistant Secretary, Assistant General Counsel and Corporate Officer of Johnson Controls, Inc., since November 2004. He served Johnson Controls Inc. as General Counsel – Asia (1998-2000), Vice President and General Counsel – International (2000-2004), prior to being Assistant Secretary.