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Growth by innovation.

Innovation by growth.

Since ages, people have strived to find better ways of doing things.

All thanks to an undying passion for innovation.

This passion has been at the heart of Amara Raja Batteries Limited.

It motivates us. Above all, it helps us surpass our own achievements.

And aim even higher.





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## BOARD OF DIRECTORS

**Ramachandra N. Galla**  
Non Executive Chairman

**Jayadev Galla**  
Managing Director

**Dr. G. Ramadevi**  
*(w.e.f. 22nd June 2007)*

**Kejian Lu**

**Steven Gibbs**

**Jacqueline J Ertl**  
*(w.e.f. 10th April 2007)*

**P. Lakshmana Rao**

**Ravi Bhamidipati**

**Nagarjun Valluripalli**

**Manjula Chewla**  
*Alternate Director to Ms. Jacqueline J Ertl*

**Financial Controller**  
K. Suresh

**Company Secretary**  
N. RamNathan

**Auditors**  
M/s. E. Phalgun 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  
BNP Paribas, Chennai  
Citibank N.A., Chennai

**Registered Office**  
Renigunta – Cuddapah Road,  
Karakambadi – 517 520  
Tirupati  
Andhra Pradesh, India

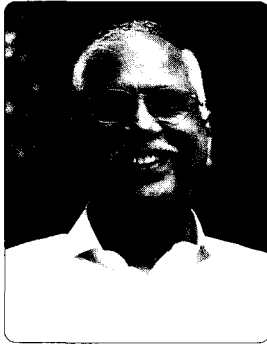
**Registrar and Share Transfer Agent**  
M/s. Cameo Corporate Services Limited  
"Subramanian Building",  
No. 1, Club House Road,  
Chennai – 600 002

## FIVE YEARS PERFORMANCE - AT A GLANCE

Rs. Millions

Particulars	2006-07	2005-06	2004-05	2003-04	2002-03
Production (Nos)	3116954	2129491	1230974	944632	735754
Sales (Nos)	3083573	2117664	1222943	947658	709957
Gross Sales	7451.03	4458.30	2685.44	1999.23	1987.35
Profit before Depreciation, Interest and Tax	912.94	533.91	273.57	136.33	238.12
Profit before Depreciation	882.01	520.47	272.12	134.57	234.34
Profit Before Tax	711.98	373.46	135.81	11.52	117.34
Profit After Tax	470.43	238.47	86.90	13.90	74.01
Equity Capital	113.88	113.88	113.88	113.88	113.88
Reserves and Surplus	2322.78	1898.98	1692.97	1632.04	1637.41
Net Worth	2436.66	2012.85	1806.85	1745.92	1649.10
Gross Block	2577.79	1907.12	1672.30	1593.02	1556.05
Net Block	1629.97	1091.70	961.52	1001.40	1087.12
Book Value per Share (Rs.)	213.98	176.76	158.66	153.32	144.82
Earnings per Share (Rs.)	41.31	20.94	7.63	1.22	6.50
Dividend (%)	35	25	20	15	15

## CHAIRMAN'S MESSAGE



Dear Shareholders,

The last financial year has been a year of great strides both in terms of financial performance and expansion.

We have clocked a record net revenue of Rs.5958 million posting a 64% growth over the previous year. Profit Before Tax at

Rs. 712 million has recorded a 91% rise over the previous year.

Riding the growth momentum of the Economy and the Industry, the Company built quarter-by-quarter, a cadence of tangible achievements and record-breaking results. Today, we continue to further expand capacities and invest in the business. Built on the solid foundation of innovation, agility, long term planning and prudence, our Company is today an exemplar for the new generation manufacturing companies leading the Indian economy into the next wave of growth.

Our expansion plans to grow capacity to 5.4 million p.a. has moved ahead at a good pace and today we have reached a capacity of 4 million p.a. Last quarter we also moved ahead with our plans to enter the two wheeler battery segment. This much awaited venture is set to be another milestone for technology and innovation. I am delighted to record that our technology partner, Johnson Controls Inc. (JCI), have gone beyond the scope of our agreement to help us with technology towards this.

In May 07 we have unveiled another novel initiative - PowerZone, a completely new retail experience in the power solutions sector for the semi urban and rural consumer. Bearing the hall mark of Amara Raja quality, the vibrant PowerZone concept store will bring to the consumer in the rural pockets a hitherto unavailable combination of world class quality and local prices.

Looking at the bigger picture, the Indian economy is expected to be a little less buoyant, a little more choppy and definitely a little less predictable. Stiffer interest rates, climbing inflation and ominous predictions from the policy makers have had a dampening effect on many a peppy forecast.

The battery industry too is grappling with its own concerns like the unrelenting upward climb of lead prices.

Policy changes in China, the largest producer of the lead in the world, investments of hedge funds, investments in mining and smelting and environmental issues are among the many factors behind the price rise. The hardening price has a direct fall out on the battery industry. Price variance clause with OEM customers, timely revision of the prices, better utilization and rationalization of lead usage through better process technology and continuous improvements have helped protect us from price shocks in top line or bottom line. We will also use hedging prudently to further reduce risks on this front.

### The telecom opportunity

The tough challenges have been balanced with some exciting growth opportunities in the battery industry. For instance the astronomical growth in the telecom sector is set to bring in tremendous growth opportunities for us too. We are fully geared to tap this growth curve.

We have sharpened our focus on internal productivity and efficiencies. Amara Raja increased productivity and improved margins at virtually every level of the organization. Guided by our expanded mission, we aggressively pursued the expansion opportunity as we continue to build on key areas of strength, seize market opportunities and achieve operational objectives.

### Continuous Improvement Initiatives

Six Sigma initiatives are helping the company to reduce the variation in processes and save million of rupees every year while enhancing the customer satisfaction through better product and delivery performance. We have implemented more than 100 projects during last 3 years in supply chain, operations and research & engineering functions. It will be deployed in other functions also during the FY 2007-08. Knowledge and skills of problem solving are helping the employees to do better every day and improve the performance

Stake In The Ground (SITG), a tool developed by JCI with a primary focus on cost reduction achieved good results during last two years and contributed significantly to the bottom-line.

Our journey over the last 22 years has been exciting and definitely rewarding.

### Corporate Social Responsibility

Corporate Social Responsibility (CSR) has been a core value for us right from the beginning and goes far beyond

mere doles to the economically disadvantaged. It involves making people more self reliant, providing equal opportunity, employment and protecting the environment.

The organisation's CSR programme christened Pragati Patham is supported monetarily by Amara Raja. More importantly, it is provided with direction, commitment and managerial contribution to develop and implement sustainable CSR programmes. The programmes focus on women empowerment, irrigation facilities, eco-consciousness and community development.

It is a matter of great pride and satisfaction that Amara Raja has been a catalyst of change in the world around us that is the community around our factory.

#### **Our journey to the next milestone**

Our goal as we move towards our next milestone of 25 years is to continue as an innovation leader, constantly challenging the status quo, ushering in cutting edge technology and rewriting the rule book, all without losing sight of economic prudence and productivity. Your support has been an inspiration and encouragement and we thank you, our shareholders, for your continued faith and support. We are committed to delivering value to our investors.

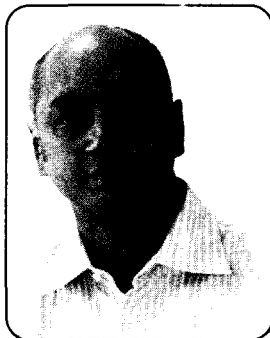
We look forward to having you with us on our exciting growth path ahead.

**Ramachandra N. Galla**





## FROM THE DESK OF THE MANAGING DIRECTOR



### Dear Shareholders,

Spurred by our excellent performance of FY 06, our team set out ambitious growth targets for FY 07 as well. To grow top line by 50% and bottom line by 75%, they painstakingly worked out the strategic, tactical and operational moves to get there, with an

underlying focus on innovation. It is heartening to note that our team has excelled the stiff targets. Gross revenues grew 67% to touch Rs.7451 million and profit after tax grew 97% to reach Rs.470 million in FY 07.

What is remarkable is that it has been achieved despite the pressures owing to the unrelenting escalation of lead prices during the year. We have been able to achieve our growth by tapping into surging demand in both industrial and automotive battery segments, aided by our timely capacity expansion.

What is even more inspiring is our unswerving focus on innovation that today permeates the whole organization. This spirit of innovation goes far beyond product innovation. We innovate in planning, implementation, communication, distribution, marketing and HR policies. We innovate in everything!

### Innovation as a culture

Innovation is today the organizational culture that leverages our business values of transparency, eco-friendliness, social awareness and core strengths in strategy, processes and implementation, to achieve better returns for business and stakeholders. It is evident in the new growth trajectory we are charting with consistent growth over the last 8 quarters.

From this culture was born the hitherto unknown concept of PowerZone - a network of stores catering to the consumers in the rural markets who till now had no better alternative for the substandard, local offerings because of the higher price points. PowerZone brings technology at the right price for the rural consumers.

Our target is to have at least one PowerZone outlet in every taluk head quarters in India in the next two years. The business model for PowerZone has in-built social responsibility components which result in two direct

benefits in the local community. One, PowerZone brings a new self employment opportunity to the rural educated youth, who are constantly seeking better opportunities outside. Our franchisee model nurtures and supports entrepreneurial spirit to develop a vibrant business and non-migratory job opportunities. Two, PowerZone will also help reduce lead related pollution in the rural landscape which results from unregulated battery disposal.

Needless to add, our entry into the two wheeler battery market will also be driven by innovation! The Company's plan to manufacture two wheeler batteries announced in January 2007 is on course. On completion of Phase 1, the capacity for two wheeler batteries will stand at 5.74 million per annum. Come January, you can look forward to another growth category in our company – the two wheeler battery segment driven by innovation and technology.

Another turf for us to excel with innovation is the Home UPS business, growing at a sizzling pace. We will tap into this market with the launch of the small VRLA batteries, scheduled roll off our lines in January 2008. Internal accruals and term loans secured at competitive rates will comfortably support our expansion plans.

Our mark of innovation in building brand **AMARON**<sup>®</sup> has been the sustained association with motor sports which has been paying rich dividends in brand visibility and recall. Narain Kathikeyan, the sensational F1 driver has been our brand ambassador from his karting days. The best of the racing talent in India, Karun Chandok and Armaan Ebrahim too endorse our brand. The initiatives under Amaron Pro Racing make business sense and more importantly provide social dividend in developing talent. This May, we have initiated the Amaron Scholarship Program which will groom young talent by supporting their participation in key racing championships in India.

Another novel programme is the recently launched first ever multi city karting challenge – the Amaron Karting Challenge. This talent search program will spot, encourage and nurture talented youngsters very early – between 13 and 17 years.

### An update on the year gone by

During the year, Industrial VRLA batteries manufacturing capacity grew nearly 50% with industry leading capacity utilization, keeping pace with the escalating demand from the telecom and UPS

segments. Recording a 60% sales growth in Industrial VRLA batteries, the company retained its most preferred supplier status in the segment with a 27% market share in the served market.

The company enjoys a market share of 26% in automotive OEM segment and 20% in the organized segment of aftermarket. Exclusive supplies of auto batteries for Ford and Tata "ACE" coupled with major presence on new launches like Maruti Zen Estilo, Ford Fiesta and Ford Fusion bear ample testimony to the Technology Leadership of Amara Raja in the OEM segment.

In the automotive aftermarket segment, **AMARON®** continues to maintain the scorching pace it is known for and remains the fastest growing auto battery brand in India, with volumes increasing 50% y-o-y. The current manufacturing capacity for automotive batteries is at 4 million units per annum and expansion plans to reach 5.4 million units are underway. Our retail network now includes 152 franchisees and 14,000 retailers. Our Pitstop network spans the entire Country numbering 115 and is a notable asset in distribution reach and brand experience.

Amara Raja's initiative to grow exports in the Indian Ocean Rim countries is gaining ground. The Company retained its *numero uno* position in the automotive aftermarket in Singapore, while gaining increasing acceptance in Japan – the most discerning market.

A key area where we have been seeing gratifying results is in our CIP programme, where our focus has now gone beyond engineering and operations to reap cost efficiencies across the enterprise.

Our Corporate Social Responsibility (CSR) initiative Amaragaon continues to reach out to the rural

consumer by bringing them critical access to information through technology.

The continuing upsurge in lead price remains a concern area. Thanks to our valued customers and to our long standing track record, we have managed to share the increased costs. In the recent months, rupee appreciation against the dollar has been favorable to us in offsetting part of the cost increase in lead. We will continue to watch the prices closely and take appropriate steps to maintain our profits and margins.

The proposal for sub-dividing the equity shares from Rs.10/- each fully paid up to Rs. 2/- each fully paid up, will increase liquidity, leading to rise in market capitalization and thus shareholder value.

#### Looking ahead with confidence

Escalating demand in the telecom and UPS segments and steady rise in consumer preference to our brands in automotive segment will continue to propel our growth.

We are looking at leading the two wheeler battery segment and Small VRLA with advanced technology and innovation.

While reporting to you on a period of excellent performance, I would like to thank our Joint Venture partner M/s. Johnson Controls Inc, our bankers, our employees and our shareholders who made this possible.

I look forward to having your continued support as we carry forward on a more ambitious and exciting growth path ahead.

**Jayadev Galla,**