

Amara Raja Group: Transforming Lives by Filling Technology Gaps

Dr Vipin Gupta

Dhruva Consulting Group

In 2009, Jayadev (Jay) Galla, CEO of Amara Raja Batteries, contemplated the future of his family business group in India and the best way to fulfill its corporate social responsibility. Jay's father and group founder - Ramachandra (Ram) Naidu Galla, had the vision to fill the technology gap in India, by bringing state-of-the-art technology from overseas and innovating that. Ram belonged to a rural farming family, and had established Amara Raja in 1985. He set up his factories in the most backward regions, and secured 100% commitment and performance from the local workforce. Ram later conceded, "This was challenging to execute with the inward-oriented human resources and work culture we had in India at that time, but I found a very simple solution!" "Rather than asking employees to do something, I believe in setting an example by doing it myself, so that people would follow me on their own." Jay's mother, Aruna Kumari, had followed the footsteps of her father, Rajagopala Naidu - a prominent parliamentarian, to run for office, and was presently a Health minister in the Andhra Pradesh State government, devoted to rural development.

Jay succeeded as the CEO in 2003, and since 2005, the sales and post-tax profits of Amara Raja batteries had grown at a compounded rate of 60 percent annually. The sales had surpassed Rs. 15 billion, making it the second largest battery business in India. The group had also diversified through five start-up sister companies, with combined revenues of Rs. 6 billion. The flagship and the new businesses were projected to reach Rs. 50 billion each in another five years. Jay had declared his intention to bring all these together under a single holding company, overseen by a corporate board. The holding company will have clear codes enabling

involvement of the next generation of family members, and allowing equity participation from strategic international partners. Jay's vision for 2030 was to be counted in Fortune 500.

As Jay contemplated the future of Amara Raja group, he saw three strategic opportunities:

- Growth of Amara Raja's flagship battery business, in industrial as well as automotive segments, into untapped markets – especially amongst youth and women, and in rural areas.
- Further expansion of new revenue streams, in related sectors such as small electronics and power systems, and unrelated sectors such as food processing and infrastructure, that had originally been set up as small internally funded corporate social responsibility ventures.
- Pursuit of international markets.

How should the group plan in the present to realize the future Vision 2030? This is what Jay planned to discuss with his father.

Seeds of Entrepreneurship

Ram was the second of five children. His father was a farmer, and his family hadn't been educated. Ram recalled, "When I came to fifth grade my parents said, 'Now you are educated.'" Young Ram, eager to learn, completed his electrical engineering from the Anantapur Engineering College, and started working as a lecturer in the College of Engineering, Kakinada, Andhra Pradesh. His eyes were on a PhD from the Indian Institute of Technology – Madras. Unable to get in, he joined a MS program in control systems in the US in 1969. While in the program, his interests changed from academics to industry. He joined the Power consultants Sargent &

Lundy as a senior engineer, designing electrical systems for nuclear power plants.

Guided by his entrepreneurial ambitions, Ram delivered religious and social seminars to the immigrant Andhra community, promoting its Telugu language cultural and literary traditions. To better organize these efforts, he founded Telugu Association of North America (TANA) in 1977 as a founding President. TANA was a forum for literary, cultural, educational, social, and charitable interactions among the American Andhra community. He organized the first national conference of TANA in 1977 in Chicago, focused on three subjects.

First, cultural: understanding how the children of the Andhra medical doctor parents, born and raised in the US, are facing the challenge of assimilating two cultures – Indian and the American.

Second, emigration: if some people from Andhra wish to go back because of cultural or other reasons, what investment opportunities are opening up in Andhra?

Third, immigration: what could other professionals learn from the experiences of the medical doctors who had moved in big numbers to the US?

In the 1980s, a public outcry against nuclear energy in the US led Ram to shift gears. Ram thought of starting a new business in an emerging area in the US. However, he could not find partners, because all his friends had children and not ready to take the risk of a startup. He then began thinking about the several new incentives by the Government of India for the overseas Indians to return and invest in India. Ram observed, “Until that time, I didn’t have any idea of coming back to India, because the US has lot more opportunities than India.” But now the time was opportune from a family front also. Jay had just finished his schooling, and joined a college in the US. In 1984, Ram in his late 40s made an emotional decision to quit his \$50,000 job, sell his suburban house, and return to India after a gap of 17 years, to start his own venture.

Taking the Industrial Battery Market by Storm

Ram’s foremost goal was to participate in and to contribute to the economic development of the State

and the nation. Instead of looking at a wide range of opportunities, he believed in selecting an area where he could achieve excellence and success. He observed, “There is no point in taking too many things at a time, you cannot succeed that way. Therefore I selected limited products and concentrated only on them.” He wanted to create a center of excellence with some new, unique approach – instead of developing a me-too product. He wanted to take part in the technology progress, as opposed to just making money. He felt if money alone had been his motive, he could have remained in the US and made money there also.

In the mid-1980s, a lot of excitement existed around the electronics and instrumentation, and the newly emerging computer field both in India as well as in the US. For investing in the state-of-art technology in these fields, the market in India was very limited, so the economies of scale were insufficient. Ram wanted to focus on something for which there was a need – where the customers were already using some solution and where it would be possible for him to deliver a better alternative. That way he could be assured of success. His first thought of being a consultant for power plants to help increase their efficiency. A family friend was chairman of Andhra Pradesh Electricity Board at that time. He visited state power plants for doing checks. He found them using four generations old batteries, compared to the US. He decided to fill this gap.

On February 13, 1985, Ram founded Amara Raja (lit. everlasting king) Batteries as a privately held enterprise. Know-how was secured under a technical collaboration with GNB Industrial Battery Co. – the third largest industrial battery manufacturer in the US. Ram felt that creating a green-field factory would be better than correcting the problems in existing factories and existing industrial estates. He purchased a 3 hectares barren land and built a factory, with an initial production capacity of 100,000 batteries annually, and the infrastructure, from scratch. The factory was in Tirupati – a religious center point of South India. With the growth in transport and communication technologies, Ram saw more future for the smaller towns. Ram was attracted by the concept of universal good at the religious center of Tirupati. The

concept upheld the principle that the work being done should be beneficial to the society and to the people, and should not be harmful to anybody.

The next challenge was finance. Ram noted, "When I approached the government for orders and financial institutions for money, they said the competitors are going to kill you... "There's nothing you can do to survive." Ram understood he would need to take company public for securing funds to support successful commercialization. In 1990, Ram converted into a public company, and went with the initial public offering in 1991. In the interim, finishing his college degree in 1989, Jay joined the international marketing department for GNB Industrial Battery Co. in the US to gain experience. Coinciding with the IPO, Jay returned home and joined the business, and was entrusted the task of setting up the sales and service network, based on his experiences of markets and consumer expectations in the US.

Because of the bureaucracy in India, Ram had to go through considerable hardship in creating everything new. Despite the government connections of his parliamentarian father-in-law, "it took more than a year just to get the paperwork for getting the factory license completed." But once it started going, it was easy to sustain – for Ram had a new unique creative environment, where he hired fresh minds not exposed to established ways of the industry. He felt that these two factors "have made a lot of difference and helped to strengthen the organization. By starting from scratch, we had a new concept, environment, and people to work." Ram was committed to offering opportunities for exploiting something, delivering something, and learning something, and to grow those opportunities. His goal was to exploit all the talent in the best possible way. He established an environment of creativity, emphasizing the positive nature of the product as beneficial to the society. Ram focused on creating an organization that could withstand any type of challenge, and an environment where he alone was not running it. He noted, "I cannot expect myself to be permanent, though at the same time I do not want to leave as of now. I want to establish a system that can guide the whole operation. The system would then guide the things to move and that will become the guideline."

After the IPO, Amara Raja became the first company in India to launch Value Regulated (VRLA) lead acid batteries for the government-run telecom sector. Ram recalled, "But we had to convince them to pay three times the price they were paying for conventional batteries. It was a huge challenge for us. We proved to them that we are technically and economically superior to conventional batteries. Within six months the entire Department of Telecommunications (DoT) moved over to VRLA batteries. At that time we were the only manufacturers of VRLA batteries."

Amara Raja also entered the Uninterrupted Power Supply (UPS) systems segment of VRLA, with sealed maintenance free (SMF) lead acid batteries. The public sector enterprises found these batteries very valuable for their new infrastructure projects. Railways, in particular, found these assured uninterrupted power supply for expanding the fleet of air-conditioned coaches. Additional markets were opened in the government run power, oil and gas sector.

Over the following years, Ram grew Amara Raja through vertical and horizontal integration, developing a niche market position, centering on these same two products. He noted, "I have not deviated far away from my products, and have tried to build capacity for making them the best that could compete anywhere in the world, and be better than what anybody else is making in the world.... But one segment and one technology wasn't enough." By 1999, Amara Raja commanded a share of 60% in the VRLA segment, and a 40% share in the overall Rs. 4 billion industrial batteries market.

Auto Battery Diversification

In the late 1990s, Exide announced plans to enter the industrial battery segment, by acquiring GNB Technologies. Fortunately, Amara Raja by now had capabilities to innovate in the industrial battery segment on its own, and was not hurt on breaking of the ties with its technology partner. However, Exide was a leader in the automotive battery segment in India, and so a larger threat loomed on the horizon. Jay convinced Ram to consider diversification into the auto battery market. Jay was entrusted responsibility to find a global technology and strategic partner. In 1997, Jay concluded

the partnership with Johnson Controls Inc. – the largest auto batteries maker in the US, who agreed to take a 23% stake in Amara Raja through private placement of shares at Rs. 89 per share. The existing industrial battery plant was adapted to allow manufacturing of auto batteries, giving a potential capacity of 500,000 annually. The commercial production of auto batteries started in 1999.

Unlike the valve-regulated lead acid (VRLA) battery segment where Amara Raja enjoyed the first mover advantage, entry into the auto sector was a rather late one. And in comparison to the industrial batteries segment, auto batteries segment offered a larger scale but lower margins. The competition was more sophisticated. The name of Exide was synonymous with auto batteries, and most consumers referred to any auto battery as Exide. A number of car manufacturers had invested in India over the 1990s, forging deep relationships with the existing battery manufacturers, and creating barriers to entry for the new entrants.

Yet, the decision to diversify into the auto batteries was very strategic and prophetic. By the late 1990s, low price competition from China brought the volumes and margins in the SMF segment under pressure. And, in 1998, after entering the industrial battery segment, Exide appeared to make significant inroads. Consequently, in 1999, the industrial battery prices were about 30% lower than in 1998. Amara Raja's revenues dropped by 30% - though volumes remain stagnant, and profits before depreciation fell by 50%. The net operating margins fell from the historical 20% plus to less than 15%, though they were still higher than the average 6% for the most top players that had a wider portfolio of products (Exhibits 1 to 5).

Even as a late entrant, Jay saw immense opportunities in the ongoing boom of the auto sector: "We are not late. We are there at the right time.... The boom is yet to come. And, in any case we are not slow." He added, "Exide may be a strong player but nothing prevents us in the world from being the second largest player." Exide had led the auto batteries segment for fifty years with a 90 percent market share in the original

equipment manufacturer (OEM) market and a 75 percent share in the organized aftermarket, and an overall 40 percent share of the market. Still there was scope for new entrants, as the auto battery market was growing by 10-12 percent annually, and some foreign players were also looking at entering. The auto battery segment was worth Rs. 10.5 billion, and was the dominant part of the Rs. 22 billion storage battery industry. The industrial batteries market was only Rs. 6 billion.

Ram added, "We realized that there was a huge technology gap between what was available to consumers here and those in the international markets, very similar to the situation when we entered the market for industrial batteries. Our strategy has always been to bring the latest technology that exists anywhere in the world and adapt it to the local environment here and offer it to the customer at rates at which they find great value. Our assessment at that time was that the competition was not doing this. There was a clear gap to be filled."

It still remained to be seen if Amara Raja could replicate its industrial batteries success in the auto segment. The industrial battery market required a few large customers to be served. The auto market was very different. Prices were constantly under pressure, because the auto assemblers were facing increasing cost pressure. Exide, by virtue of its size, had an obvious scale advantage. In the after-market, distribution and customer service were extremely important. Both institutional and retail customers didn't easily switch brands in case of need-based purchases like batteries, and so securing volumes required creativity.

Jay conceded, "We knew that we couldn't play Exide's game and win... We had to play a different game." In January 2000, Amara Raja launched hi-life "Amaron" brand auto batteries targeted at the owners of the new-generation vehicles, and distributed them through Amaron pit stop franchisees in major cities. Amaron was a zero maintenance product incorporating the latest technological advances in the field, on par with batteries manufactured and marketed in developed countries. Amaron were at the premium segment with a

36-month prorated warranty. All the products were shrink-wrapped and with a chrome finish. Ram explained, "We had to be seen and believed as a credible alternative to the market leader Exide."

In addition to offering access to best technology, the alliance with Johnson Controls also provided a foot in the door through its Original Equipment Manufacturers (OEM) network. Through that, Jay secured exclusive contracts from Ford India for Ikon cars, General Motors India for Opel Diesel cars, Daimler Chrysler, and Mercedes Benz India for 'E' class vehicles. But his eyes were on the retail replacement market, which was much larger size and growing at 12% annually. One million new cars were sold each year and the 8.5 million were on the roads.

Penetration of the replacement market was critical to gain economies of scale, and build market share in the auto battery segment. 60% of the replacement market was, however, dominated by the unorganized sector, and lacked product differentiation despite an active advertising by Exide. Still a new opportunity was emerging. The unorganized sector was focused on supplying hard rubber batteries. Since the late 1990s, there had been a shift in demand towards plastic batteries, where the unorganized sector was slow to enter because of high initial investments. The unorganized sector was also facing increasing government pressures around environmental and tax evasion issues.

Jay researched the evolution of distribution in the US and Europe, and its adaptation, use and distribution in emerging markets such as China, Brazil and Mexico where the market structure was similar to that in India. He identified how the companies in those nations managed the unorganized sector and dealt with credit and money collection from the small dealers. Internationally, batteries were marketed based on distribution, not brands, and the emphasis was on R&D. The batteries were a low interest product; and customers selected batteries based on where they were distributed (e.g. Wal Mart), and their price, features, warranty and shelf space.

Jay saw significant opportunities for restructuring the industry, away from the domestic as well as international

trends. He knew to succeed, consumer attitudes would need to be changed. Few people thought of car battery till it failed some day. He observed, "Batteries generally had long life of three years, so it was a slow moving consumer good. The product itself was hidden under the hood of the car, and people were not able to show that off. Our first challenge was not selling our brand, but getting people to start thinking about automotive batteries. If they start thinking, they will automatically start comparing and realize that our product is superior." He added, "The Amaron brand was launched only in January 2000. We looked at advertising as a route to increasing consumer interest and thus play the role of a catalyst to get other players to start advertising. The more the advertising - whether it is our brand or somebody else's - the better it is for us as more people will be forced to take cognizance of our existence and draw comparisons." "At least people have my brand tucked away in their sub-conscious mind and will voice it at the time of purchase. My company will have a sound image and represent a certain value to the customers. In that sense, treating my product like an FMCG (fast moving consumer goods) has its rewards."

To promote a knowledgeable use of the battery, Jay introduced programs like online battery monitoring to check the health of an installed battery, organizing symposiums teaching the selection of right battery and increase its life. Keeping in mind consumer convenience, each Amaron battery had a unique barcode. The barcode contained entire history of the product - the date, time, the assembly line it was put together on, which truck loaded it, which warehouse it was stored in, when it went to which retailer, when did it exactly go to the consumer and in what condition. It had a distinctive look and feel, in an attempt to establish a standard like 'Intel Inside'. To create an initial buzz, in 2001, Amara Raja gave away 350,000 mineral water bottles at major traffic junctions with the message, "In this heat you need water, not the Amaron battery under your hood". The brand launch was highly successful. In 2001, two thirds of Amara Raja's auto battery sales came from the replacement market, and the rest from the OEMs, giving it a 14% market share in the passenger car market.

Inspired by the success, an aggressive plan was designed to create capacity to drive demand, and to reach new international markets. In September 2001, Amara Raja commissioned a new auto battery plant at Karakambadi Village, near Tirupati, with a capacity of 1 million, investing Rs. 450 million – all through internal accruals. This high-tech plant, with in-house advanced battery excellence center for R&D and integrated manufacturing facility to produce all critical components, set global standards for the auto batteries. Own R&D-based auto batteries allowed a major foray into the exports of SLI (start light ignition) auto batteries in Europe and Southeast Asia. To mark the occasion, a new corporate identity was adopted – with the new logo being a yin and yang symbol in green and black.

Jay also decided to expand from the passenger car market into the commercial vehicle and tractor segments. The unorganized sector had a 90% share in these segments. In 2002, a focused marketing campaign was launched to switch the customers. The ‘Chicken Leg’ ad campaign adapted an innovative approach from the successful FMCG sector, to make an otherwise dull category look attractive. Backed by cumulative communication spending of just Rs. 80 million, the campaign won nomination for 2002 Creative Advertiser of the Year award. After the campaign, top-of-mind recall in major markets for the Amaron brand surged from 2% to 6%, and then to 20% by end-2002. By 2002, Amaron had become the second largest selling brand in India. It was being sold to all light vehicle and truck manufacturers in India, excluding Hyundai and Toyota, on either exclusive or preferential basis.

Amara Raja also started designing a battery for the two-wheeler market, with technology from Johnson Controls. It invested Rs. 350 million to start creating a two-wheeler assembly line with a capacity of 1 million units. Ram was excited and saw additional opportunity in manufacturing private label auto batteries for other brands, such as Bosch, Lucas and AC Delco, to help utilize capacity and accelerate learning curve. The auto battery production capacity was planned to double within a year from 1 million to 2 million units.

Leadership Succession

The automotive segment helped Amara Raja reverse the decline in revenues. However, its profitability situation remained under stress. The cost of entry was high, both in terms of capital expenditures as well as gaining market presence. Therefore, while the sales volumes and revenues grew significantly during 2001 and 2002, the net profit margins came down from about 15% in 2000, to 11% in 2001, and to 4% in 2002. By 2003, auto batteries accounted for 55% of the company’s revenues, up from 30% in 2002. However, the overall revenues of the company were stagnating, because of the high cost of marketing of auto batteries, along with escalating prices of raw materials. The net profit margins dropped sharply to only 0.40%, a far cry from 20% plus achieved during the 1990s. The plan to double the auto battery production capacity had to be revised, because of a significant under utilization of capacity, and a decision to use internal accruals for investments. Under the revised plan, the next capacity increase would be to only 1.5 million, and that would occur only in 2004.

By 2003, Ram recognized that Amara Raja had a strong potential, but needed a fresh leader to tap and move that potential. On August 1, 2003, he resigned as the Managing Director position, while retaining the Chairman of the Board position, and passed the reins to Jay. A close working relationship was developed with the engineers of Johnson controls to improve the technology possibilities and efficiencies. Based on its R&D, Amara Raja was able to introduce batteries across different price segments. Jay observed, “Our research and development department is our pride, with annual R&D expenditure accounting for 1.5 to 2% of turnover.” With this, relationships with the existing OEM manufacturers were deepened, such as with Ford India for Fusion, General Motors for Chevrolet-Tavera, Mahindra & Mahindra for Force Motors. Ford India rated Amara Raja as a top tier supplier of batteries, paving way for it to supply to Ford worldwide. Amara Raja also secured an exclusive contract to supply batteries for Swift – the latest offering of the largest car firm Maruti in India.

A unique four-year warranty product – Amaron Pro – was introduced for the replacement market. Amara Raja’s

warranty costs were only 2%, compared to 10-12% usual in the market. Other products launched in this newly created super-premium category included Amaron Hi-life for passenger cars, Amaron Hi-way for trucks, and Amaron Harvest for tractors. The category, with high margins, accounted for a sixth of the aftermarket revenues. Amaron Quanta was introduced for the UPS systems. An authorized collection center for the used batteries was also established. The distribution strategy helped expand retail outlets across the nation – through a network of 60+ pitstops, 100 franchisees, and 9,000 dealers.

Amara Raja worked with a recognized Non-Government Organization (NGO) to set up forty information kiosks in remote villages, to acquaint farmers and local businessmen with technology, internet, and information on farming and other topics. Thus, Amaron gained mindspace in even these difficult to penetrate pockets. In another similar confidence-building initiative, Amara Raja worked with the trucking companies to help fleet owners understand better maintenance of the electricals of their vehicles. Moreover, factory charged battery brands Go and Fresh were launched for the three-wheeler and taxi segments.

With these creative programs, a significant share was captured from the unorganized sector, whose share in the auto battery segment was now down to 50%. The auto battery market in the nation was growing at 8 percent. Amara Raja had gained a 12% share in the organized sector. The industrial battery segment performance also substantially improved, and Amara Raja's domestic volumes surged 48% in fiscal 2004. After years of price decline, battery prices in the telecom sector stabilized, and new capacity was coming up from both private and public sector telecom players.

Thus, in fiscal 2004, the sales grew by 34% to more than Rs. 2 billion. Exports grew proportionately, accounting for 7% of sales, with major demand in Japan, China, Taiwan, Singapore, Australia, Philippines, UAE, Kuwait, and Greece. In some markets, Amara Raja became a leader – in Singapore it gained a 25% market share. Exports contributed 20% of sales in fiscal 2005, with new markets in Africa, Middle East, Southeast Asia, and Europe, including through supply of private label batteries as

the partner Johnson Controls replaced the reputed European names like Bosch and Waltair batteries. In fiscal 2004, both auto batteries and industrial batteries accounted roughly 50% to company revenues.

Inspired Jay decided to expand the auto battery capacity from 1.5 million units to 2.4 million units by December 2005, with internally generated funding of Rs. 388 million. He planned to raise the capacity of industrial batteries also to 150 million ampere hours. By 2005, Amara Raja was back on a robust footing, with growing sales and profitability. The troubles of the late 1990s and early 2000s appeared to be behind. In fiscal 2005, the company revenues actually grew by more than 70%, and net profit margin doubled. Backed by better than expected market performance, the capacity was actually increased to 3 million units of auto batteries and 240 million ampere hours of industrial batteries by December 2005.

In 2005, Amara Raja became the first battery company to win the 5S Excellence Award from the Confederation of Indian Industry (CII). The 5S award recognized the use of Japanese principles of 'seiri' (sort), 'seiton' (systematic arrangement), 'seiso' (shine), 'seiketsu' (standardize) and 'shitsuke' (sustain), which translated into higher standards of efficiency and productivity. Amara Raja now had entered a rapid growth phase, securing a compounded annual growth of over 60% in sales, and in profit after tax, over the next five year period. By 2009, Amara Raja had a 26% market share in the industrial batteries, with growth in both the telecom as well as UPS divisions. Telecom service providers embarked on network expansions and infrastructure sharing, generating rising demand for batteries. And, growth in the Services industry and household affluence drove UPS battery sales, for back-up power from both households and offices due to the continued power shortage.

The auto battery division also grew through new product lines in new segments, with an eye for the high growth niches of youth and women in urban and sub-urban areas, and of general population in small towns and villages. Jay took the Amaron brand to the youth by investing in brand building initiatives through motor

sport sponsorships. In 2006, he started a racing academy in collaboration with Narain Karthikeyan, Formula 1 racer. An exciting growth area was the rising popularity of premium two-wheelers including electric motor vehicles among Generation Y and of ungeared scooters among urban and sub-urban women. These were based on a self-start mechanism, compared to the self-start mechanism used in the traditional two wheelers. Amaron battery technology offered a 30 percent higher cranking power than the traditional ones, and so was better for the self-start mechanism. Jay observed, "Two-wheeler riders traditionally were not required to pay much attention to the battery in the kick-start models. However, with increasing shift to self-start, the battery technology and choice is becoming critical."

In 2007, Amara Raja decided to further scale the VLRA manufacturing capacity of 2-wheeler batteries and UPS batteries to 3.2 million units by 2010. The two-wheeler battery was introduced to the market in 2008, under 'Amaron Pro Bike Rider' brand, with a first in India 60-month warranty. 25% of the overall communications budget was allocated for brand building and marketing promotions, with a goal to acquire a 20 percent share of the two wheeler battery market. India's two-wheeler battery market was valued at Rs. 5 billion, growing @ 8% annually.

Jay considered involvement with the motorsports as an example of a 720-degree approach for brand promotion. It allowed building brand not only through expenditures, but also through activities in which the firm was involved as a self-financing business venture. He also set up Amaron Roadtrips to help 'groups' interested in long road trips in logistics, safety and maintenance issues. The goal was to encourage more and more people to get out on the road for vacation. Most competitors offered dry charged products for which dealers needed space, infrastructure and equipment for recharging. Like plug and play monitors, Amara Raja batteries were however factory charged, thus ready to install. Jay recognized that this allowed Amara Raja batteries a potentially unlimited retail channel opportunity, including in shopping malls and general stores. For rapid and smooth nation-wide ramping of the distribution network, Jay decided on the franchisee approach, as opposed to the set up of

individual dealers. In 2007, 130 franchisees around the nation offered access to 15,000 retailers. Of these more than half were new to the battery trade. Amara Raja team worked with and nurtured the franchisees, and pitched sales calls jointly with the franchisee team in order to expand retailer base.

In 2008, Jay launched a new retail store format – Powerzone – to cater to the growing need in rural markets for superior technology of automotive and power-related products. Powerzone offered a one-stop shop for the household and business needs, assuring quality service and affordable prices. Jay planned to have one Powerzone in each of the district subdivisions of India by 2010. As Amara Raja evolved, Jay continued to put a strong emphasis on its employees and values. Amara Raja was committed to transparency, accountability and efficiency in its activities within the organization, and with its partners and customers. Amara Raja offered primary schooling facilities for the children of its employees, and offered an on-site library for employees. It took responsibility for providing complete social infrastructure for its employees, including a bank, a post office, medical facilities, recreational clubs, and residential complexes. It invested substantially in the development of villages, including through support for roads, street lighting, rainwater storage, and check dams. One of its core values was sustainability, and environment friendliness, including through energy conservation and water harvesting.

In 2008, Jay set up a new battery plant in the north, in the spiritual town of Haridwar, to better and more cost-effectively access the region's retail market. In 2009, Employer Branding Institute of India recognized Amara Raja for the "Best HR Strategy in line with Business" and "Continuous innovation in HR Strategy at work" in South India. The marketing initiatives of Amara Raja were also recognized by Amity Business School, who gave it the 'Corporate Excellence Award in Marketing' in 2009.

Diversified Family Business Group

In 2004, Ram and Jay jointly laid a vision for leveraging Amara Raja's learning in the battery business into other sectors, in order to create a diversified Galla family

business group. They noted, "A company is known by the society it keeps... Our vision is to create communities that are economically and socially vibrant enough to stimulate growth and self-reliance; within and without the company." They also laid the mission statement: "To transform our spheres of influence and to improve the quality of life by building institutions that provide better access to better opportunities, goods and services to more people...all the time." The group was committed to introducing latest generation technologies, adapting these technologies to the operating environment, developing and manufacturing globally competitive customer focused quality products, responsibly introducing these products, and providing world-class customer support.

In 2004-05, Mangal Precision Products was set up with an investment of Rs. 150 million to fabricate advanced sheet metal products and fasteners, plastic component and compounds for both the export and the domestic market. Amara Raja Electronics was established to manufacture battery chargers, digital inverters, and trickle chargers for Amara Raja Batteries and for outside clients. Amara Raja Power Systems was set up to design and develop power electronic products. And, a fourth new company, Galla Foods was set up with an initial investment of Rs. 200 million, as a 100% export oriented food processing facility. Jay observed, "None of these four companies were built in a grand scale. They were started in a small scale... Rural job development is an underlying theme for all the businesses."

While the first three businesses had some links with the core business, Galla Foods was an unrelated diversification, as part of the Corporate Social Responsibility of the group. This operation was based in Chittoor, Andhra Pradesh – an economically backward region of India, which had rich varieties of mango. The initial focus was on the European market, and on the pulp extract and puree of mangoes. A research facility was added to help brand and to assure international level of quality. Collaborations were established with the local farming community. Ram noted, "We have brought in the world's latest technology to the battery market... Our goal now is to do the same in the fruit processing. We are confident enough that, this will

bring the revolutionary changes in present Industry practices and translates the benefits to farmers, industry and country." Ram's rural focus was key to securing committed workforce, and underpinned his vision of revitalizing the places that he came from.

As the mango pulp and puree business stabilized and the world-class capabilities were built, a decision was made to expand Galla Foods into the domestic market. An additional investment of Rs. 370 million created state-of-the-art infrastructure facilities to widen the fruit-processing capability to include more fruits, and supported expansion into the fruit beverage market with a mango nectar product Galla Thick Mango. Ram noted, "We source the fruits from our own and other select farms and produce the pulp with minimal human intervention. The choicest grade pulp is then used for the production of Galla Thick Mango Nectar," he said. The entire process right from formulation to bottling was automated and totally hands-free. This ensured high consistency in taste across batches and longer shelf life.

Galla Thick Mango was launched in the domestic market in May 2008. Ram planned to establish the retail distribution first in South India by 2009, and then expand to the rest of India by 2010, to capture a market share of 14% in the packaged natural fruit beverages market. This market was estimated at Rs. 15 billion, and growing @ 15% annually. All major retail chains in South India signed up on the launch, giving a starting network of 400 modern retail outlets and 4,000 traditional shops. The goal was to increase Galla Foods revenues from Rs. 400 million in 2007 to Rs. 7 billion by 2012.

In 2007-08, a need was being felt to have greater transparency in the family business codes for inducting GenNext. The five wholly-owned group companies now included a newly formed Amara Raja Infra to focus on the infrastructure projects for group companies such as civil works. Jay decided to set up a holding company to bring the six companies under a single umbrella. He wondered if some overseas investors will be interested in taking strategic equity stake in the five new ventures, and help Galla Group realize a future of being a Fortune 500 corporation by 2030.

Exhibit 1: Balance Sheet for Amara Raja Batteries Ltd. (Rs. Million)

Liabilities	Ended	Ended	Ended	Ended	Ended	Ended	Ended	Ended	Ended	Ended	Ended
	Mar-98	Mar-99	Mar-00	Mar-01	Mar-02	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08
Share Capital	102.7	102.7	102.7	113.9	113.88	113.88	113.88	113.88	113.9	113.9	113.9
Reserves & Surplus	758.40	1,129.60	1,290.70	1,555.60	1,582.68	1,637.41	1,632.04	1,692.97	1,899.00	2,322.80	3,217.10
» Net Worth (1)	861.20	1,232.30	1,393.50	1,669.40	1,696.55	1,751.29	1,745.92	1,806.85	2,012.90	2,436.70	3,331.00
» Secured Loans (2)	53.3	47.7	58.2	115.5	56.2	10.7	44.95	73.67	162.3	1074.9	2266.5
» Unsecured Loans (3)	0	56.9	69.6	83.7	77.48	86.67	103.85	159.39	216.4	332.2	896.1
Total Liabilities (1+2+3) »	914.50	1,336.90	1,521.30	1,868.70	1,830.23	1,848.66	1,894.72	2,039.91	2,391.60	3,843.80	6,493.60
Assets	Ended	Ended	Ended	Ended	Ended	Ended	Ended	Ended	Ended	Ended	Ended
	Mar-98	Mar-99	Mar-00	Mar-01	Mar-02	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08
Fixed Assets											
Gross Block	460.50	633.70	783.50	977.10	1,410.59	1,513.71	1,583.51	1,672.30	1,907.10	2,577.80	3,105.80
(-) Acc. Depreciation	108.6	155.4	206.5	274.8	358.7	468.94	591.62	723.67	863.6	1009.5	1,217.30
Net Block (A)	351.90	478.30	577.00	702.30	1,051.90	1,044.78	991.89	948.63	1,043.50	1,568.30	1,888.50
Capital Work in Prgs. (B)	10.7	13.7	39.8	31.5	42.82	42.34	9.51	12.89	48.2	61.7	657.4
Investments (C)	1	53.6	130	130	130.34	131.57	208.78	235.63	320.1	161.9	162
Current Assets, Loans & Adv.											
Inventories	98.9	137.1	148.8	176.1	302.16	294.21	307.25	440.96	572	921.7	1943.3
Sundry Debtors	253.2	368.1	243.8	362	453.48	455.72	471.67	649.71	856.5	1459.5	2264.7
Cash And Bank	298.5	398.5	316	310.2	98.58	153.03	152.29	169.12	205.2	49.9	289.6
Loans And Advances	256.4	417.4	402.5	534.5	346.79	328.18	267.27	352.86	672.1	1069	1478.3
(i)	907	1321.1	1111.1	1382.8	1,201.01	1,231.15	1,198.48	1,612.64	2,305.80	3500.1	5975.9
Current Liab. & Provs.											
Current Liabilities	167.8	176.9	143.4	172.8	408.87	401.53	315.52	475.97	845.8	871.4	1196.9
Provisions	188.3	352.9	203.7	271.5	295.98	301.84	198.42	293.92	480.2	577	993.4
(ii)	356.1	529.8	347.1	444.3	704.85	703.37	513.94	769.89	1,326.00	1448.4	2190.3
Net Curr. Assets (i - ii (D))	550.9	791.3	764.1	938.5	496.15	527.78	684.54	842.76	979.8	2051.7	3785.6
» Misc. Expenses (E)	0	0	10.4	66.4	109.02	102.19	0	0	0	0	0
Total Assets (A+B+C+D+E) »	914.50	1,336.90	1,521.30	1,868.70	1,830.23	1,848.66	1,894.72	2,039.91	2,391.60	3,843.80	6,493.60

Exhibit 2: Amara Raja Income Statement, Fiscal Year Ending (Rs. Million)

	Mar-98	Mar-99	Mar-00	Mar-01	Mar-02	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08
Net Sales	1443.8	1865.5	1314.9	1550.1	1646.73	1736.11	1775.99	2377.91	3916.9	6024.9	11006.8
Other Income	15	42.4	65.9	60.9	47.33	10.55	18.63	16.3	73.5	-2.4	38.4
Total Income	1458.8	1907.9	1380.8	1611	1694.05	1746.67	1794.61	2394.21	3990.4	6022.5	11045.2
Raw Material Cost	447.8	589	483.4	582.6	753.96	810.35	835.51	1332.21	2194.9	3829.8	7310.6
Operating Profit	443.4	622.4	320.1	308.9	387.96	334.57	236.66	256.69	533.6	934.5	1816.8
Interest Name	14	2.6	3.6	5.5	6.67	3.78	1.75	1.45	13.4	47.3	147.1
Gross Profit	429.4	619.8	316.5	303.4	381.29	330.8	234.91	255.24	520.2	884.8	1708.1
Depreciation	24.3	46.8	52.7	68.3	137.76	219.19	225.24	136.31	147	170	244.5
Profit Bef. Tax	405.2	573	263.8	235.1	243.53	111.61	9.67	118.93	373.2	714.8	1463.6
Tax	92	134.1	61.1	27.6	65.48	43.33	2.58	45.47	134.8	237.1	519.5
Net Profit	313.2	438.9	202.7	207.5	178.04	68.28	7.09	73.46	238.4	477.7	944.1
Other Non-Recurring Income			-7.4	-2.3	4.18	5.73	6.81	13.44	0	-7.3	-0.5
Reported Profit	313.2	438.9	195.2	205.3	182.23	74.01	13.9	86.9	238.4	470.4	943.6
Equity Dividend	40.2	67.8	34.2	40.8	39.86	17.08	17.08	22.78	28.5	39.9	39.9

Exhibit 3: Balance Sheet for the Competitors (Rs. Million)

	Amara Raja	Bosch	Exide Industries	Motherson	Amtek Auto
	Mar '08	Dec '08	Mar '08	Mar '08	Jun '08
Sources Of Funds					
Equity Share Capital	113.9	320.2	800.0	355.6	972.0
Reserves	3217.1	30634.3	9463.5	3668.9	23016.4
Networth	3331.0	30954.5	10263.5	4024.5	23988.4
Secured Loans	2266.5	99.2	2724.0	1584.6	832.3
Unsecured Loans	896.1	2544.4	774.1	3026.0	22422.4
Total Debt	3162.6	2643.6	3498.1	4610.6	23254.7
Total Liabilities	6493.6	33598.1	13761.6	8635.1	47243.1
Application Of Funds					
Gross Block	3105.8	27285.6	10974.7	6790.5	21139.3
Less: Accum. Depreciation	1217.3	21199.4	5423.6	2667.3	2971.3
Net Block	1888.5	6086.2	5551.1	4123.2	18168.0
Capital Work in Progress	657.4	1671.1	466.7	196.5	8080.6
Investments	162.0	8665.3	5182.8	1775.3	4183.8
Inventories	1943.3	5480.7	5707.4	1484.9	2502.3
Sundry Debtors	2264.7	6995.1	2592.1	2046.2	2634.4
Cash and Bank Balance	289.6	410.4	16.8	242.6	433.9
Total Current Assets	4497.6	12886.2	8316.3	3773.7	5570.6
Loans and Advances	1256.5	5550.5	571.6	1925.6	5453.5
Fixed Deposits	221.8	10297.8	0.0	84.0	8804.5
Total CA, Loans & Advances	5975.9	28734.5	8887.9	5783.3	19828.6
Current Liabilities	1196.9	7206.6	5272.9	2152.3	2557.3
Provisions	993.4	4352.2	1053.9	1510.8	481.9
Total CL & Provisions	2190.3	11558.8	6326.8	3663.1	3039.2
Net Current Assets	3785.6	17175.7	2561.1	2120.2	16789.4
Miscellaneous Expenses	0.0	0.0	0.0	419.8	21.3
Total Assets	6493.5	33598.3	13761.7	8635.0	47243.1
Net Profit	943.6	6338.6	2503.3	1281.9	2612.5

Exhibit 4 - Market Value of Competing Firms: 2008 (Rs. Billion)

	Share Price	Market Capitalization.
Bosch	3,374.55	106.84
Exide Industries	71.00	56.80
Motherson	68.20	24.25
Amtek Auto	146.65	20.68
Amara Raja Batt	90.15	7.70

Exhibit 5: Profit & Loss Account for the Competitors (Rs. Million)

	Amara Raja	Bosch	Exide Industries	Motherson	Amtek Auto
	Mar '08	Dec '08	Mar '08	Mar '08	Jun '08
Income					
Sales Turnover	13703.8	51313.3	36036.6	15257.7	13079.7
Excise Duty	2697	4911.2	4491	2124.8	0
Net Sales	11006.8	46402.1	31545.76	13132.9	13079.7
Other Income	38.4	3305.1	93.6	298.1	1166.8
Stock Adjustments	582.1	334.6	835.1	111.9	511.3
Total Income	11627.3	50041.8	32474.3	13542.9	14757.8
Expenditure					
Raw Materials	7892.7	26424.1	19884.9	8010.8	8686.8
Power & Fuel Cost	225.7	538.3	1006.9	235	261.7
Employee Cost	534.8	5304	1510.3	1193.8	600.7
Other Manufacturing Expenses	82.5	1039.2	229.1	350.7	88.1
Selling and Admin Expenses	944.2	4978.5	4999.1	1058.3	267.8
Miscellaneous Expenses	92.2	1226.4	50	299.2	52.6
Preoperative Exp Capitalised	0	-291	0	0	0
Total Expenses	9772.1	39219.5	27680.3	11147.8	9957.7
Operating Profit	1816.8	7517.2	4700.4	2097	3633.3
PBDIT	1855.2	10822.3	4794	2395.1	4800.1
Interest	147.1	87.3	408.2	266.9	313.9
PBDT	1708.1	10735	4385.8	2128.2	4486.2
Depreciation	244.5	3024.6	642.4	500.6	967
Profit Before Tax	1463.6	7710.4	3743.4	1627.6	3519.2
Extra-ordinary items	4.7	947.9	0	14.7	-9.4
PBT (Post Extra-ord Items)	1468.3	8658.3	3743.4	1642.3	3509.8
Tax	519.5	2319.4	1240	360.3	906.9
Net Profit	943.6	6338.6	2503.3	1281.9	2612.5

Dr Vipin Gupta (gupta05@gmail.com) is an Associate Professor and Roslyn Solomon Jaffe Chair in Strategy at the Simmons School of Management and Faculty Director of SOM International Outreach program. He has a doctoral degree from the Wharton School of Business, Pennsylvania, a post doctoral fellowship from Tokyo University and a Post Graduate Diploma in Business Management from the Indian Institute of Management, Ahmedabad. Under his stewardship, Dhruva conducted Global Leadership and Organisational Behaviour Effectiveness (GLOBE) – a Wharton School’s path breaking research.

Dhruva Consulting Group (DCG) is an eclectic mix of Industry and Academia which undertakes consulting projects far and wide. Global Leadership and Organizational Behavior Effectiveness (GLOBE) is a multi-phase, multi-method research project in which investigators spanning over 72 countries in the world are examining the inter-relationship between societal culture, organizational culture and organizational leadership. This project is envisaged by Robert J House of Wharton School along with Dr Vipin Gupta. DCG has been retained as the sole Principal co-investigator for the state of Andhra Pradesh, India. DCG has managed the daunting task of profiling the case studies of about top 50 CEOs of Andhra Pradesh. DCG retains the right over these case studies including that of Amara Raja. DCG eventually will publish these GLOBE case studies under the title - “Models Of Organizational Excellence in AP”.