Recharge through Turnaround

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The Indian Storage Batteries Industry consists of two segments - automotive and industrial. In India, these batteries are currently manufactured by both organized and unorganized sectors. Tudor India Limited is a wholly owned subsidiary of CMP Batteries Ltd., U.K., which is turn, is the British Arm of the world's largest battery manufacturing group based on Pennsylvania, USA. The Company is in manufacturing automotive batteries. The major manufacturers of the automotive and industrial batteries in the organized sector are Chloride Industries Ltd., Standard Batteries Ltd., Amco Batteries Ltd., Willard India Ltd., etc. An automotive battery is a matured product in a product life cycle. Tudor is manufacturing a full range of automotive batteries in polypropylene containers and lids for use in four wheelers, light and heavy commercial vehicles.

The case focuses on the turnaround strategy of the company. It scans external environment and shows how company has adopted strategy to revive from its external and internal problems.

Keywords: SWOT Analysis, Turnaround strategy

Introduction:

"The company promotes professionalism. The affairs of the company managed by adopting practices which are honest, transparent and in the long term interest of the company" said by Mr. Mohan Agarwal, Country Manager, Extreme Power India Ltd. The company with an international background started in 1888 by Mr. John Desilva in Pennsylvania, USA. Around 84% of the stake with the parent company, 5% to the Indian public and remaining with the board of directors and the financial institutions. The company manufactured lead acid storage batteries being only one primary reportable segment or product.

With relaxation of import duties and the recent removal of quantitative restrictions, Indian Companies were facing the threat of cheaper imports.

The company had manufactured its first battery in 1905 for Special Motors Ltd. The company had started its operations in 1945 in India and it had established the first and only manufacturing plant in 1987 at Patan, Gujarat State. While in 1997 it came with a brand Duralite. The company manufactured different kinds of batteries, which were used for two-wheelers, cars, tractors, trucks, construction equipments, batteries for automotive power applications and even batteries for the mobile phones. The company enjoys monopoly in the production of batteries for the electric driven vehicles in India.

Industry Information:

The Indian Storage Batteries Industry consists of two segments - automotive and industrial. The major players in this industry include Excel Industries, Amara Raja Industries, Amco and Extreme Power India. With relaxation of import duties and the recent removal of quantitative restrictions, Indian Companies were facing the threat of cheaper imports. Out of this, the industrial battery market estimated at around Rs 860 crores, which includes the VRLA (valve regulated lead acid) battery market, which estimated at around Rs 500 crores in the current year. The telecom segment considered the largest consumer of industrial batteries followed by the railways. The power and UPS industries were other key user segments. The automotive battery business was estimated at around Rs 1200 crores, including OE (original equipment) and after-market or replacement market segments. The OE market was around 1.2 million units and the replacement market was around 5 million units per annum. Industrial segment had a growth of 15% while the automotive segment had grown at 10% to 12%. The margin in industrial segment was high while the automotive segment leaded by volume. The lead acid battery enjoys a market share of more than 60 % of the total sales of all kind of batteries in the world. With the phenomenal growth of automobile industries, the demand of such batteries also increased at a very fast pace.

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The unorganized sector comprises the small-scale assemblers and re-builders; it was estimated the share of 60-65% of the replacement market. This sector largely dominated the tractor and commercial vehicle segments although in some areas of the country they had a significant presence in the car and multi-utility segments too.

High quality high tech batteries were gradually replacing demand for conventional batteries. The consumer preferred long lasting maintenance free batteries at value for money. The new generation vehicles demand technologically superior batteries. Companies having access to latest technology would definitely have an advantage over others. The markets were increasingly driven by the price line. Under cutting became more common. The product differentiation got narrow with consolidation in market segments. The threats were more from the market dynamics than the technology obsolescence and new entrants.

The industry continues to be highly competitive. High warranties replacements had eroded industry margins in general and company margins in particular. Though there had been a continued increase in metal prices, the corresponding increase in product prices was not commensurate. With the market being extremely price sensitive and very competitive on the price front, it increasingly became difficult to pass on full cost increases to the customers. The budget seems to have neutral effect on the industry, as there were negligible changes in the taxes and other duties.

Extreme Power India Ltd.

Extreme Power India Limited (EPIL), makers of automotive batteries, focused on the domestic market which contributes almost 90% of its sales, while continued to export plates, a critical component of automotive batteries to an affiliate of Excel Corporation, USA. EPIL concentrates on its umbrella brand Duralite while strengthening its other brands Platinumline and Diamondline. Meanwhile new brands had been introduced namely Bronzeline targeted at the price-conscious customers and CrestoMaster for UPS and inverter applications.

The company followed the target costing method to decide the price and they also consider the competitors prices to make this decision.

In Gujarat, it had a market share of around 35 per cent. Extreme Power had turnover of Rs 72.6 crores in its fiscal year July-June 2004-05. For the financial year (9 months*) 05-06 the company had registered a net profit of Rs 1.74 crore from a net loss of Rs 2.31 crore during the same period last year. It had also expanded its network in the country. Currently the company had 250 distributors and 1500 dealers and 2500 authorized service centers. The company had been awarded with ISO 9001 certificate while ISO 14001 (Pollution) and TS-16949 (Quality Control) were under process, which they would achieve by the year 2006-07.

Turnaround at Extreme Power India Ltd.

"Profits can be earned either by reducing costs or by increasing prices, but we have done both," said Mr. Shahil Basu, General Manager Finance, Extreme Power India Ltd. The price of the battery decided basically on the main input cost, which is lead. The price of the lead were purely dependent upon the London Metal Exchange, where the demand and supply

* The company has changed its financial year from July-June to April-March from the year 2005-06.

scenario would decide the price which might be continuously fluctuating. Generally the lead cost was 55% of the battery cost. Therefore, the price of the finished product was fluctuating; with another factor affecting i.e. the change in the seasonal demand. The company followed the target costing method to decide the price and they also consider the competitors prices to make this decision. In spite of increased input costs and less corresponding increase in sales prices, the company maintained overall sales in quantity terms and made profit in last year after losses in past ten years.

The company had tried to mitigate hardship arising out of increase in material cost to some extent by partial increase in selling price of products and controlling operating expenses. Company had taken various measures for cost reduction in the last two years at operating level. Cost reduction measures were taken at different functions of the organization like Human Resource, Production and Operation, Finance, Selling and Distribution, Research and Development and Administration.

Human Resource

Starting with the Human resources, the company had implemented the efficient reward system in Gujarat state. According to this system, the employees were given certain targets, which were directly linked with the incentives and perks. Due to implementation of this system, in last two years 15% of the employees had left job, which had reduced the unnecessary cost of excess human resource. Even though, the company had never forced any employee to leave the job but this system created an environment where employees need to overcome the costs and had to achieve the budgets.

Production and Operations

The various stages involved in the production of lead acid batteries were :

- Grid casting
- Mixing, pasting and curing
- Forming and drying
- Assembly
- Testing.

The process developed here had main additives for the production of the paste with incorporation of suitable components such as hard rubber containers, covers, separators were to be procured from standard suppliers. The know-how was very well suited advantageously to the small-scale sector.

The company used full capacity and appropriate level of inventory, which fulfilled the demand against the supply.

The General Manager Finance had an experience of reduction in the operations cost by introducing the Management Information System on daily bases. The company had developed departmental reporting system and day-to-day check for the wastage and scrap control. Which resulted into decrease in the wastage from 5% to 2% in last two years. The company used full capacity and appropriate level of inventory, which fulfilled the demand against the supply. And in the same line, for the direct cost of basic raw material the company purchased lead at spot prices form London Metal Exchange without using hedging mechanism. Another measure taken by the company was to introduce the ERP system for the efficient working, which was in pipeline.

The another factor affecting the costs of the production and operation was the battery recycling. Recycling was a big part of beneficial use and responsible handling of lead and products made. Extreme Power India invested in battery recycling because it was good for business as well as for the environment. In the recycling process, used or dead batteries were broken apart and the lead, plastic and acid were separated.

The one of the important factor affecting the costs of the production and operation was the battery recycling.

The lead was melted, poured into ingots and delivered to battery plants to use in new battery production. The plastic was chipped, washed and delivered to plastic plants where it was melted and made into new battery cases and other parts. This process helped the company to reduce the costs of the input.

Selling and Distribution

The company had divided the costs of selling and distribution into three major heads, they were, Logistics, Advertising and Traveling & telephone expenses. As far as the logistics were concerned, the company had entered in an agreement with All India Red Company and with few big transport companies to reduce the cost. In case of the advertising, the company had implemented decentralized approach. The company had given an authority to the dealers and wholesalers to advertise the product in local areas on their own for which the budgeted amount was allocated to them. The company had adopted short run cost reduction method by not advertising at national level but after a few years the company might think to advertise nationally to build their brand. The traveling and telephone expenses were the major expenses for the company before two years due to haphazard system. However, in last two years the company had developed a structure for these expenses, according to which the employees at all level were bounded with a particular limit that they had to follow. The company was continuously checking the expenses of these two heads to decrease it and to contribute in controlling the cost.

Finance

The company had been free from the financial charges in terms of interest payment as the parent company had already paid its secured loans in the year 2005-06. In this year due to decrease in different costs and increase in the prices of the finished product the company had made profit for the first time in the history of last ten years. Therefore, the company planned to go for an expansion of the plant capacity with the use of internal funds of Rs. 4 crores. The company followed the conservative approach of financing, as they were funding their current assets and the inventory with certain long-term funds. This approach also helped the company in reducing the cost of short-term funds interest. As the budget was not going to have much impact on the taxes and other duties for this industry, the company was not expecting much change in these costs too. The company made efforts to ensure better and timely collection from sales and convert to a credit based procurement mechanism.

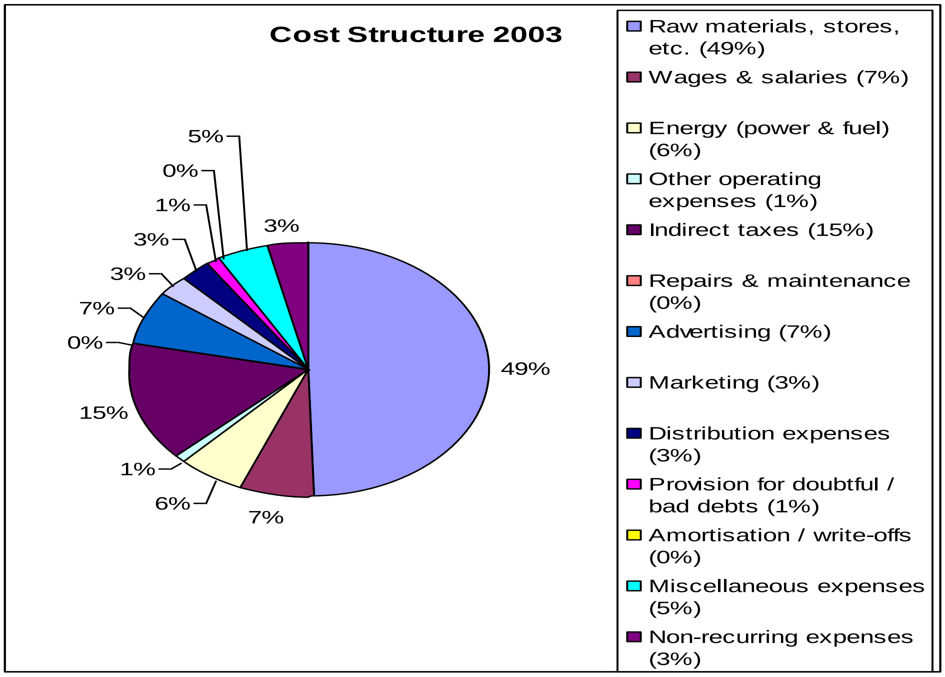
Research & Development

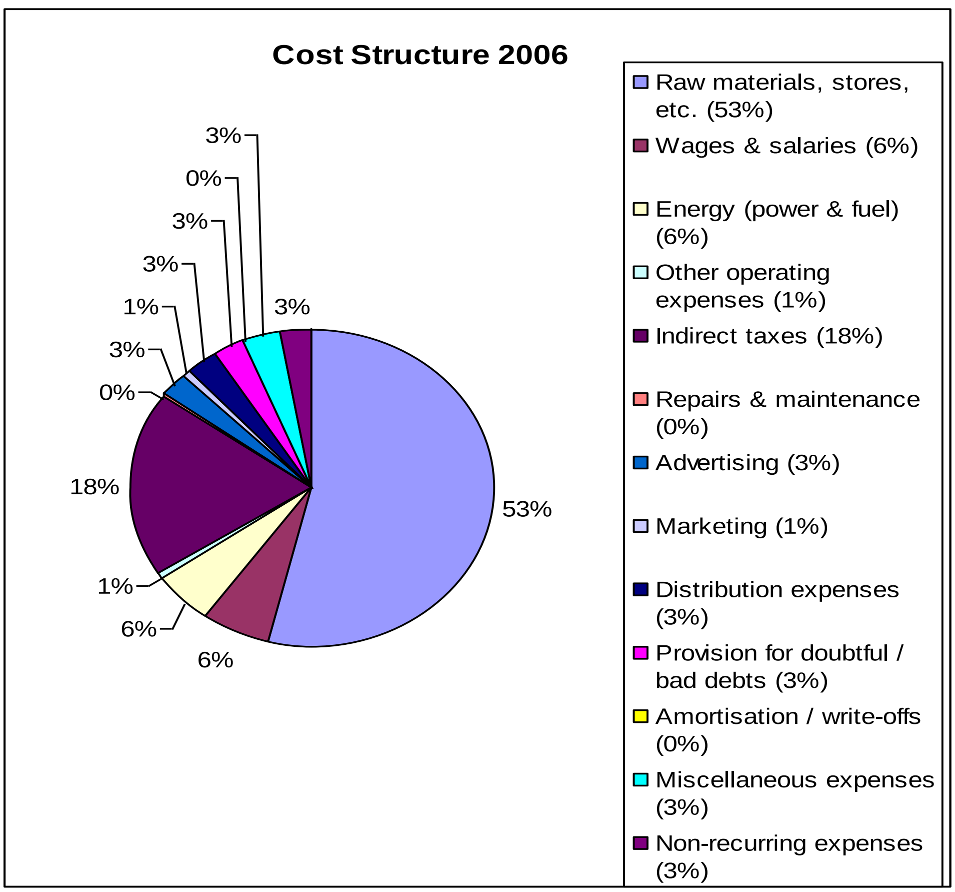
As far as the research and development was concerned, it was very much required in this industry. Because, the power of battery was measured in terms of Cold Cracking Amp (CCA), Cracking Amp (CA), Reserve Capacity (RC) which were the consistent power delivery for a finite amount of time at fixed temperature. In the manufacturing of the batteries, the companies had to consider these parameters. As well as light weighted and maintenance free batteries were required in new era. Considering the different temperatures at different regions, the company changed the features of the battery. Being a second largest company in world, the research and development was taken at the central level with the parent company. Being a subsidiary company, Extreme Power India was not paying any charges for the R & D.

Administration

The company had implemented the day-to-day check and the continuous reporting system for all support activities, which improved the administration and decreases the costs. In the same line, the company also planned to implement ERP system, which would improve the efficiency of the administration as well as the management.

The following charts show the comparison of pre and post scenario for the cost reduction measures taken by the company.


Cost Structure 2003
49%
7%
6%
1%
15%
0%
7%
3%
3%
1%
0%
5%
3%
Raw materials, stores, etc. (49%)
Wages & salaries (7%)
Energy (power & fuel) (6%)
Other operating expenses (1%)
Indirect taxes (15%)
Repairs & maintenance (0%)
Advertising (7%)
Marketing (3%)
Distribution expenses (3%)
Provision for doubtful / bad debts (1%)
Amortisation / write-offs (0%)
Miscellaneous expenses (5%)
Non-recurring expenses (3%)


Cost Structure 2006
53%
6%
6%
1%
18%
0%
3%
1%
3%
3%
0%
3%
3%
Raw materials, stores, etc. (53%)
Wages & salaries (6%)
Energy (power & fuel) (6%)
Other operating expenses (1%)
Indirect taxes (18%)
Repairs & maintenance (0%)
Advertising (3%)
Marketing (1%)
Distribution expenses (3%)
Provision for doubtful / bad debts (3%)
Amortisation / write-offs (0%)
Miscellaneous expenses (3%)
Non-recurring expenses (3%)

Extreme Power India Ltd. was in the process of decreasing the costs and in achieving the budgets. The company had reached to the minimum level of the unit cost, now there was a negligible scope in the cost reduction in this part, but there could be lot to improve to increase the profitability. The expansion of the plant capacity could be an added advantage to improve the growth of the company if the parent company could take such decision. The parent company could also choose an option to reduce its stake to increase the investment for such expansions by introducing new securities.

Questions:

1) Find out and analyze the opportunities and threats prevailing in the environment.
2) Which are the internal factors affecting the organization? What are the strengths and weaknesses of the company?
3) Develop the internal control system of different functional areas of the organization.
4) Compare and contrast the financial performance of last three years and link it with the cost reduction strategy.
5) As a head of this subsidiary unit, what do you suggest to the company for improving the bottom and top line results?

Annexure I (Profit & Loss A/C)

Profit & loss account: summary / mfg. cos.

	Jun 2001	Jun 2002	Jun 2003	Jun 2004	Jun 2005	Mar 2006
Rs. Crore (Non-Annualised)	12 mths	12 mths	12 mths	12 mths	12 mths	9 mths
Income						
Sales	47.46	51.17	61.63	76.5	87.99	64.57
Other income	0.14	0.11	0.9	0.27	0.96	0.09
Change in stocks	-1.78	-0.19	1.39	0.48	0.39	2.2
Non-recurring income	0.1	0.15	0.15	0.31	2.67	0.32
Expenditure						
Raw materials, stores, etc.	25.32	26.49	29.62	39.3	47.32	33.76
Wages & salaries	3.22	3.37	3.97	4.57	4.6	3.7
Energy (power & fuel)	3.58	2.86	3.44	4.29	4.68	3.55
Indirect taxes (excise, etc.)	5.59	6.45	9.16	10.85	13.81	11.89
Advertising & marketing expenses	1.65	1.58	5.6	6.05	5.85	2.04
Distribution expenses	1.86	1.62	1.68	2.34	2.34	1.79
Others	6.57	4.87	4.24	5.28	6.67	4.39
Less: expenses capitalised	0	0	0	0	0	0
Non-recurring expenses	0.01	2.62	2.09	0.94	4.07	1.72
Profits / losses						
PBDIT	-1.88	1.38	4.27	3.94	2.67	4.34
Financial charges (incl. lease rent)	3.04	1.98	2.27	2.3	1.78	1.14
PBDT	-4.92	-0.6	2	1.64	0.89	3.2
Depreciation	2.94	3.17	3.21	3.29	3.18	1.38
PBT	-7.86	-3.77	-1.21	-1.65	-2.29	1.82
Tax provision	0	0	0	0	0.03	0.08
PAT	-7.86	-3.77	-1.21	-1.65	-2.32	1.74
Appropriation of profits						
Dividends	0	0	0	0	0	0
Retained earnings	-7.86	-3.77	-1.21	-1.65	-2.32	1.74

Annexure II (Assets)

Assets : mfg. cos.

	Jun 2001	Jun 2002	Jun 2003	Jun 2004	Jun 2005	Mar 2006
Rs. Crore (Non-Annualised)	12 mths	12 mths	12 mths	12 mths	12 mths	9 mths
Gross fixed assets	32.03	32.48	33.3	34.95	35	34.49
Land & building	5.36	5.48	5.67	6.01	6.02	6.08
Plant & machinery	25.1	25.38	25.76	26.56	27.13	25.73
Other fixed assets	1.52	1.59	1.72	1.88	1.83	1.78
Capital WIP	0.05	0.03	0.15	0.5	0.02	0.9
Less: cummulative depreciation	13.26	16.22	19.09	21.94	25.22	25.38
Net fixed assets	18.77	16.26	14.21	13.01	9.78	9.11
Revalued assets	0	0	0	0	0	0
Investments	0	0	0	0	0	0
In group / associate cos.	0	0	0	0	0	0
In mutual funds	0	0	0	0	0	0
Other investments	0	0	0	0	0	0
Marketable investment	0	0	0	0	0	0
In group / associate cos.	0	0	0	0	0	0
Quoted investment	0	0	0	0	0	0
Market value of quoted investment	0	0	0	0	0	0
Deferred tax assets	0	0	2.33	1.51	0	0
Inventories	7.54	7.29	8.94	9.53	10.31	11.42
Raw materials and stores	4.17	4.11	4.37	4.48	4.87	3.78
Raw materials	3.75	3.72	3.88	3.96	4.34	3.19
Stores and spares	0.42	0.39	0.49	0.52	0.53	0.59
Finished and semi-finished goods	3.37	3.18	4.57	5.05	5.44	7.64
Finished goods	1.56	1.64	2.51	2.52	2.99	5.14
Semi-finished goods	1.81	1.54	2.06	2.53	2.45	2.5
Incomplete construction contracts	0	0	0	0	0	0
Stock real estate	0	0	0	0	0	0

Stock of shares / securities	0	0	0	0	0	0
Other stock	0	0	0	0	0	0
Receivables	21.62	24.75	21.19	22.8	20.77	21.48
Sundry debtors	19.09	22.76	19.53	21.22	19.14	20.1
Debtors exceeding six months	0.8	1.73	1.17	1.19	0.33	0.28
Accrued income	0	0	0	0	0.01	0.02
Advances / loans to corporate bodies	0.12	0.07	0	0	0	0
Group / associate cos.	0.12	0.07	0	0	0	0
Other cos.	0	0	0	0	0	0
Deposits with govt. / agencies	0.06	0.09	0.05	0.05	0.26	0.58
Advance payment of tax	0.04	0.02	0.03	0.02	0.03	0.06
Other receivables	2.31	1.81	1.58	1.51	1.33	0.72
Cash & bank balance	3.91	3.9	6.6	5.88	7.89	7.33
Cash in hand	1.7	1.6	2.2	0.01	0	0
Bank balance	2.21	2.3	4.4	5.87	7.89	7.33
Intangible / DRE not written off	4.66	3.61	1.34	0.22	0.01	0
Intangible assets (goodwill, etc.)	0.8	0.63	0.42	0.2	0	0
DRE not written off	3.86	2.98	0.92	0.02	0.01	0
Share issue expenses not written off	0.08	0.06	0.04	0.02	0.01	0
VRS expenses not written off	0	0	0	0	0	0
Other misc. expenses not written off	3.78	2.92	0.88	0	0	0
Total assets	56.5	55.81	54.61	52.95	48.76	49.34

Annexure III (Liabilities)

Liabilities: mfg. cos.

	Jun 2001	Jun 2002	Jun 2003	Jun 2004	Jun 2005	Mar 2006
Rs. Crore (Non-Annualised)	12 mths	12 mths	12 mths	12 mths	12 mths	9 mths
Net worth	13.59	9.82	8.61	6.96	4.3	6.05
Authorised capital	35	35	35	35	35	35
Issued equity capital	24.62	24.62	24.62	24.62	24.62	24.62
Paid-up equity capital	24.62	24.62	24.62	24.62	24.62	24.62
Preference capital	0	0	0	0	0	0
Bonus equity capital	0	0	0	0	0	0
Buy back amount	0	0	0	0	0	0
Buy back shares (nos.)	0	0	0	0	0	0
Reserves & surplus	-11.03	-14.8	-16.01	-17.66	-20.32	-18.57
Free reserves	18.22	18.22	18.22	18.22	18.22	18.22
Share premium reserves	18.22	18.22	18.22	18.22	18.22	18.22
Other free reserves	0	0	0	0	0	0
Specific reserves	0.15	0.15	0.15	0.15	0.15	0.15
Revaluation reserves	0	0	0	0	0	0
Accumulated losses	-29.4	-33.17	-34.38	-36.03	-38.69	-36.94
Borrowings	28.74	28.93	26.16	26.57	21.22	19.34
Bank borrowings	6.97	6.29	4.18	4.71	0	0
Short term bank borrowings	6.54	6.29	4.18	4.57	0	0
Long term bank borrowings	0.43	0	0	0.14	0	0
Financial institutional borrowings	5.17	0	0	0	0	0
Govt. / sales tax deferral borrowings	0	0	0	0	0	0
Debentures / bonds	0	0	0	0	0	0
Fixed deposits	0	0	0	0	0	0
Foreign borrowings	15.49	21.53	20.87	20.75	20.06	18.23
Borrowings from corporate bodies	0	0	0	0	0	0
Group / associate cos.	0	0	0	0	0	0
Borrowings from promoters / directors	0	0	0	0	0	0
Commercial paper	0	0	0	0	0	0
Other borrowings	1.11	1.11	1.11	1.11	1.11	1.11
Secured borrowings	13.18	6.29	4.18	4.71	0.05	0
Unsecured borrowings	16.6	22.64	21.98	21.86	21.17	19.34
Current portion of long term debt	0	0	16.65	22.41	21.17	19.34

Total foreign currency borrowings	15.53	21.53	20.87	0	0	0
Deferred tax liabilities	0	0	2.33	1.51	0	0
Current liabilities & provisions	14.17	17.06	17.51	17.91	23.24	23.95
Current liabilities	13.74	16.39	16.39	16.72	18.12	15.47
Sundry creditors	8.95	12.9	12.78	13.13	15.94	13.54
Interest accrued / due	1.08	0	0	0	0.05	0
Creditors for capital goods	0	0	0	0	0	0
Other current liabilities	3.71	3.49	3.61	3.59	2.13	1.93
Share application money	0	0	0	0	0	0
Advance against WIP	0	0	0	0	0	0
Provisions	0.43	0.67	1.12	1.19	5.12	8.48
Tax provision	0.01	0	0.06	0.06	0.06	0.06
Dividend provision	0	0	0	0	0	0
Dividend tax provision	0	0	0	0	0	0
Other provisions	0.42	0.67	1.06	1.13	5.06	8.42
Total liabilities	56.5	55.81	54.61	52.95	48.76	49.34
Contingent liabilities						
Bills discounted	0.16	0.08	0	0	0	0
Disputed taxes	0.85	0.84	5.45	7.49	6.82	9.74
Letters of credit	0	0	0	0	0	0
Total guarantees	0.51	0.11	0.08	0	0	0
Future lease rent payable	0	0	0	0	0	0
Liabilities on capital account	0.2	0.11	0.5	0.25	0.05	0.19