



“Amara Raja Batteries Limited Q1 FY2024 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Amara Raja Batteries Limited Q4 FY2024 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the belief, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involves risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mukesh Saraf from Aventus Spark. Thank you, and over to you Sir!

Mukesh Saraf: Thank you Dovin. Good afternoon, Mukesh Saraf here from Spark Capital. I appreciate everybody logging in. I am pleased to be hosting Mr. Delli Babu, CFO of Amara Raja Batteries. We will start with brief opening remarks from Mr. Babu and follow it with Q&A. Over to you Sir!

Delli Babu: Good evening, everyone. Welcome to this call. Thanks for your time. Before I get into the details, we wish to inform you that the new energy business comprising of lithium packs and battery chargers which was hitherto part of ARBL has been transferred to Amara Raja Advanced Cell Technologies Private Limited, a wholly owned subsidiary of Amara Raja Batteries Limited with effect from 1st June 2023. So the standalone financial results of Amara Raja Batteries Limited will contain two months revenue of this new energy business while the consolidated revenue will include the entire quarter. In the first quarter of the financial year at a consolidated level, the company had a revenue of Rs.2795 Crores of which about 4% of the revenue is coming from the new energy business and this reflects a growth of around 7% on a Y-o-Y basis. When we look at the further detailing into the revenue, the lead acid battery revenue growth on Y-o-Y basis was around 4%. The four-wheeler segment grew at about 5% and the two-wheeler segment grew up at about 9%, but there was reduction of about 20% as far as inverters and other applications are concerned both owing to a poor season as well as the lack of complete production facilities as the tubular factory was gutted due to a fire in the month of January. Within the four-wheeler segment, the aftermarket has grown around 7% to 8% while the OEM volumes have remained stagnant. Our export volume growth was also muted during the current quarter due to certain supply chain adjustments in some of the regions and also the antidumping duty that was there in the Middle East market. While this is a temporary blip, we expect the export growth to be recovered in the coming quarters. As far as the two-wheeler aftermarket and OEM are concerned, both have grown in the lower double digit around 12 to 13%. The industrial segment has shown a strong growth with about 15% on Y-o-Y basis, while telecom has grown a shade more than the average, all other segments have grown at around 14 to 15% during the current quarter. The reduction in the inverter volumes is mainly due to the lack of production facility and also considering the seasonal factors. During the quarter we have replaced this entire tubular range with plated products which is why of the total revenue around 15 to 16% is coming from the trading piece which also had an impact on the margin percentages when you look at on

a Q-o-Q basis. The lead average for the quarter was around Rs.194 per kg while currently the lead base is still hovering around \$2150, the current depreciation is keeping the lead levels elevated. The overall lead acid revenue still has a mix of 70% from automotive which includes four-wheeler, two-wheeler, and the inverters and 30% is from the industrial segment. While the inverter volumes are protected to maintain our market share the further growth is getting limited considering the lack of manufacturing facilities. The overall capacity utilizations on the automotive side for the quarter was around 75% whereas the industrial segment has been fully utilizing their capacities almost to the extent of around 95 to 97%. While the margins have improved during the current quarter on a Y-o-Y basis, there is a reduction in the overall EBITDA when we look at on a Q-o-Quarter basis largely due to the trading mix and also increased insurance cost. While these two are compensated by reduction in the power cost due to higher mix of self generated solar power and there are also certain other expenses which were reduced during the current quarter.

Our renewable energy efforts both on the rooftop solar as well as the ground mounted solar are helping us to reduce the power cost apart from the reduction in the overall specific energy consumption. Higher new energy business also will reflect EBITDA margin negatively considering this being a new business, the EBITDA levels are still to mature. The overall new energy business during the current quarter was around 107 Crores to 108 Crores, which is 3.5 times increase over the same period in the previous year. On a Q-o-Q basis also the new energy business has registered a growth of 23% from the revenue point of view. The mix of new energy business as I have stated earlier is around 4% during the current quarter as compared to about 1% in the previous year. The overall capital investment for the year as a whole will still be around 400 odd Crores with respect to the lead acid business, which is going to be spent on the lead recycling plant as well as some of the ongoing capacity expansion programs. As far as other updates are concerned, the plastics components business merger with ARBL is on progress. The NCLT approval is awaited which we are expecting sometime either in this quarter or in the first half of the next quarter. The tubular plant is also going as per the plans. Right now, the equipment, designs and the negotiations are undergoing. We expect to reinstate the tubular plant in the next 18 to 20 months period. With those opening remarks, I would be happy to answer any queries that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kapil Singh with Nomura. Please go ahead.

Kapil Singh: Good afternoon, sir. Thanks for the opportunity. Sir first I wanted to check on the demand outlook if you could share your thoughts in the replacement segment for both two-wheeler, four-wheeler as well as industrial and how much revenue do you think we lost because of the fire incident. Also if we have taken any pricing actions which you can comment on that in the aftermarket?

Delli Babu: Sure, see the aftermarket demand outlook for four-wheeler as I had explained earlier also Kapil is still in the range of 6 to 7% considering to be OEM slowdown what we have seen in the last three

to four quarters and with respect to two-wheeler demand, we still believe two-wheelers are growing strong at about 11 to 12%. We are growing a shade more than that as far as two-wheeler aftermarket is concerned, so these numbers are not significantly oscillating as I was speaking to you earlier as well. As far as industrial is concerned yes, we have seen a strong uptake in the demand for telecom batteries because some of the tower argumentation requirements have increased substantially and that is actually providing additional demand, which is why telecom is now growing more in this quarter if we look at it around 16, 17% kind of growth was seen in telecom volumes. The UPS segment also has shown a very strong growth domestically. Earlier we used to see a growth of about 7 to 8%, at least in this quarter we have seen about 11 to 12% kind of growth we have seen. We expect that both the telecom and UPS demand at this demand level may sustain during the current year, but we need to wait and see how this is going to shape up as we move into the next year. As far as the inverter batteries is concerned while we would have not lost much of the market share because we are using the strong vendor network to replace all the requirements of our channel, but further acceleration might have got limited, We could have seen more upside if our manufacturing facility were to be available.

Kapil Singh: Sir on pricing?

Delli Babu: Yes. We have not taken any aftermarket price corrections during the current quarter.

Kapil Singh: Okay because sir margins are under bit of pressure so do you think excluding the new energy business and trading also there is some margins pressure which you need to pass with price hike?

Delli Babu: No if you adjust the margins compared to the previous quarter for the higher insurance costs, trading mix and the new energy business, there will not be a significant change in the margin profile, maybe a 0.1%, 0.2%, that is a quarterly oscillation that happens, but I think we will be able to recover it as we move ahead into the year and as I was saying today, the lead prices are still around the Rs.195 to Rs.200 a kg. As I was mentioning to you earlier also that around 150, 170 is where we can look for a 15% kind of an EBITDA margin. Beyond that, EBITDA margins do get diluted considering the lead level. We have more or less during FY2023 e closed at an EBITDA margin in the range of 13% even though the lead level was at an elevated level and we expect we will further improve in this current financial year, but for the tubular issue.

Kapil Singh: Understood. Sir second question was just on the cost side, if you see other expenses we have seen a pretty reduction both on a Y-o-Y as well as Q-o-Q basis are there any one time elements here because this percentage of sales also looks to be on the lower side of what we have been doing for last many quarters, so are there any sustainable elements here and what should be the right level?

Delli Babu: See power cost reduction as I was alluding to earlier is sustainable because now all our renewable capacities are adequately running so that while in the summer, yes you will get a bit of higher generation compared to the other months. So barring for that adjustment we believe power is something sustainable and the insurance cost increase is also something that we will see in the

coming quarters, but as we move into next year or year thereafter, I think they should slowly come back. Barring these two operations, rest of the expenses are more of a timing issue, maybe some expenditure such as promotional expenditure might have got deferred depending on the activity that we do, beyond that there are no special one off reductions that have happened during the current quarter.

Kapil Singh: Got it. If you could quantify these two issues, power costs, how much reduction you think we have been able to get and how much is the impact of insurance of and that is it from my side?

Delli Babu: See power would have given us a saving of around 10 to 15 Crores and insurance costs had an impact of additional expenditure of about 6 to 7 Crores and rest is the timing issue.

Kapil Singh: Okay, thanks a lot sir. I will join back in the queue.

Delli Babu: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Raghu Nandhan from Nuvama Institutional Equities. Please go ahead.

Raghu Nandhan: Thank you, Sir, for the opportunity. Raghu here. Sir my first question was on the new energy side. We have seen a very good jump in terms of contribution to revenue, if you can broadly indicate which segments we are catering to and any major customers whom company supplies to?

Delli Babu: Yes. Today we are supplying battery packs to mostly three-wheeler applications. One of our largest customers in that segment is Piaggio and we are also supplying battery chargers to again three-wheeler OEM's and we are also supplying to some of the other stationary application. The two large customers are Mahindra & Mahindra and Piaggio. We are now currently getting ourselves prepared for the next level of packs for two-wheeler applications and going forward certain high voltage applications also.

Raghu Nandhan: On the industrial side, do we have products, are we selling to telecom customers or any other segment?

Delli Babu: Yes, the regular telecom customers also now looking at for some of their applications, for lithium packs. We are participating in those products as well. We have supplied some quantities in the last quarter also. Going forward we expect that business to substantially increase.

Raghu Nandhan: Got it, Sir and in terms of localization of lithium cell manufacturing, so company has signed the MOU with Telangana State government. So just wanted to understand like in terms of are you planning to tie up with any global nature as a technical partner, when do you plan to start construction of the, the cell manufacturing facility?

Delli Babu: See the construction and the site development of the lithium-ion park, the giga corridor as we call it is underway. We have acquired the land at about 70 kilometres from Hyderabad. The construction is underway and the departments required for the construction are all tied up. As far as the product technology is concerned as you know our own internal development effort is going on as far as NMC is concerned and we are working for other chemistries with other agencies. As of now it is not that we have a large technology partner that is on board, but we believe that in the process of creating self-sufficiency and technology we have also started now constructing the E positive labs as we call it near Hyderabad International Airport. Groundbreaking of it has happened day before yesterday, on 11th of this month.. So, I think we are having enough technology partners who can give us the product technology and we are also creating a robust mechanism to ensure self-sufficiency for further developments. As far as manufacturing know how is concerned, I think we have got the right vendors and other partners who will help us in terms of building this entire giga factory. So, as we move ahead in this journey if some other partnership which might be synergistic with our long-term growth strategy, definitely we would be open for those ideas, but at this time the idea is to have our own self-sufficient method of achieving the product technology and also offer the right product to the Indian market.

Raghu Nandhan: Got it sir and in timeline Sir, when you expect to commence the pilot production.

Delli Babu: At this point of time, we believe the customer qualification plant as we call it the first plant where we will be producing all the chemistries and form factors, we believe will start sometime towards the end of FY2025 and the gigawatt hour line should deliver some production in FY2026.

Raghu Nandhan: Understood, Sir. And just one last question before I fall back to the queue. Sir government may reopen that PLI scheme qualification so would you consider looking at the PLI scheme which does bring in incentives, how are you thinking about the opportunity there?

Delli Babu: See I think the balance capacity, 20 gigawatt is what is proposed to be reauctioned so depending on the terms at which the tender is going to come, we will definitely explore the possibility of participating in it, but until the terms are clear, I do not think I am in a position to give you an yes or no answer, but we hope to see that if the terms are within our achievability metrics, we may look at participating in the tender and also take a call at that time with respect to other conditions.

Raghu Nandhan: Thank you very much sir. This is very helpful. I will fall back to the queue.

Delli Babu: Thanks Raghu.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Hi. To check the tubular plant you are saying will get reinstated in 18 to 20 months? Is it?

Delli Babu: Yes.

Jinesh Gandhi: Hello?

Delli Babu: Yes Jinesh. I can hear you please.

Jinesh Gandhi: So tubular will take 18 to 20 months to start back.

Delli Babu: Yes, yes.

Jinesh Gandhi: So, in that context broadly our margins will be in this kind of frames which are totalling to 14% range depending on the seasonality of inverter. Is that the right way to look at our margin profile from where we are today?

Delli Babu: So, again we need to look into the lead levels as well. So. the core business will again follow the same margin trajectory what I have explained earlier. So FY2025 season is what we hope to use our own factory so until that time we may meet the tubular demand with the trading volumes. Yes, it will have some negative impacts on the margin.

Jinesh Gandhi: Okay. So effectively FY2025 is what we should be looking at. Got it. The second question pertains to the capex given that we expect the plant to be ready by FY2025 end, what kind of capex should be budget for lithium cell plant for FY2024 and FY2025?

Delli Babu: As I have mentioned earlier also Jinesh the first phase capex which includes these three projects, one is E positive labs, secondly the customer qualification plant and third one is our cell line. All three put together will cost us about 1500 Crores and this year we may need about 200 to 300 Crores towards the initial construction. We believe next year will have the higher cash flow as most of the machinery and other things might come in. So, while I will not be able to put a number at this point of time, at least 50% of the capex may be falling between next year and the year after, so I will leave it at that.

Jinesh Gandhi: Okay. So for the phase one plus your customer qualification plant 2000 Crores, okay?

Delli Babu: I said 1500 Crores between these.

Jinesh Gandhi: 1500 okay sorry. Coming to the replacement market demand, so the 7% growth which we have seen that is for the market, right, not for us. We would have grown slightly more?

Delli Babu: Yes, we are seeing a market to grow around 6 to 7, while we have grown in this quarter between 7 to 8%. So, there is a shade higher in terms of growth.. The industry growth rate is somewhere around 6 to 7%.

Jinesh Gandhi: Okay and aftermarket should continue to grow in similar range, low single digit to high single digit kind of range?

- Delli Babu:** Yes, on four-wheeler yes.
- Jinesh Gandhi:** Okay and what are you telling in two-wheeler strong demand growth because underlying market had been quite weak for some time the two-wheeler market has been weak for quite some time. So what is driving the strong growth in the two-wheeler aftermarket?
- Delli Babu:** Yes. I think there has been considerable improvement in our share as far as the aftermarket of two-wheeler is concerned. We have been growing at this pace at least for the last four to five quarters to my immediate memory so that robustness for the overall vehicle parts vis-a-vis the total battery demand I think is continuing. I would attribute most of this for lesser unorganised as well as our improved market share.
- Jinesh Gandhi:** Okay but underlying market would be still growing at high single digit to low double digit or?
- Delli Babu:** , That is our view, that at least we must be growing more than the market in two-wheeler segment at least a shade more than 1 to 1.5% while in the four-wheeler maybe around 0.5 to 1%.
- Jinesh Gandhi:** Got, got it. Great. Thanks. I will come back in queue.
- Moderator:** Thank you. The next question is from the line of Vibhav Zutshi from JP Morgan. Please go ahead.
- Vibhav Zutshi:** Yes, hello, good afternoon, sir. Thanks for taking my questions. Just firstly on the lithium-ion side, just wanted to understand what is our supply chains in terms of sourcing the raw materials at least for the first phase of the plant which is 2 gigawatts so just related to that you do have strategic investments in Log 9 as well as InoBat Auto so are you also like kind of collaborating with them, would you call them as your partner which you just mentioning sometime back?
- Delli Babu:** No, as far as the investments into start-ups is concerned, I would not call them as partners, I would definitely call them as our associates, we do exchange and collaborate with them. There are activities that are going between some of these entities in terms of some of the technology development works, but that is the relationship currently. As far as the overall supply chain is concerned, yes, we are currently developing and working with certain partners. For our equipment we are working with at least three to four vendors and for our material also there is a team working with at least four or five people right now because it will depend on the material mixes also. Once we finally decide on material mixes we will have to choose the right source for those material mixes and then select accordingly and then see how we tie up about it. While we work in terms of arriving at the right mix, right partner and other things are going on at this point of time I do not think I have specific details to share about it.
- Vibhav Zutshi:** Okay and just a follow up on this, so you mentioned that currently you are supplying to three-wheelers and then also cater to two-wheelers. So is it fair to say that three-wheelers, two-wheelers and the telecom industry, the industrial side is what you will be focusing on initially?

Delli Babu: Yes, demand trajectory also is going to look like that depending on the penetration levels that we are seeing. Obviously three-wheeler is the first one and two-wheeler is the next. Some of the storage applications like telecom are actually seeing traction while data centres and UPS may catch up little slowly considering the price that is going to be spent on those applications because depending on the charge characteristics and the power requirement and energy requirements, each segment will have a different penetration cycle. So, we guess right now these three sets of applications is what is going to cause the initial demand and as we move ahead, yes, we will get into other segments as well as far as the pack development is concerned.

Vibhav Zutshi: Okay thanks and my second question is on the export side. So clearly your export revenue has grown at a very strong CAGR of 20% plus if I look at the last seven years. Even other percentage contribution that has now risen to double digits. So, is there any target that you have in mind how much should it contribute to the percentage of topline and you have been talking about making certain potential inorganic intervention as well so what is the thought process on the export side going forward?

Delli Babu: See right now as we have articulated in our annual report also, we currently cater to about 50 odd countries in and around the Indian Ocean with respect to export market. The idea is to look at what are the other markets in the western part of the world that we can actually penetrate into and some work is happening over there and we expect that the volumes will ramp up in the export segment again and then we continue to maintain these healthy growth rates of 15 to 20% a year as a whole as we move ahead, while we are also seeing some of the global market behaviour towards product demand is steadily increasing and now we are ready with the product and then we are going to supply those products for some of these markets. So, considering the product readiness and also our distribution reach getting significantly improved, we expect to continue this growth momentum in exports. While we are very strong in the APAC markets, with respect to the Middle Eastern markets and also the African markets we expect to increase our presence in these markets and also spread ourselves horizontally to other countries so that the volume trajectory for exports remains focussed.

Vibhav Zutshi: Got it. Thank you so much.

Moderator: Thank you. We have the next question from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Thanks for help the opportunity. How is the RM came for the non lead RM like separator in the plastics item?

Delli Babu: Yes, I mean what we have seen as an inflation in the last year has now tapered up. We have now seen materials like bass, plastic separator, acid, have reached reasonable levels and we see the levels of freights are now more or less come back while they are still a shade above the lowest levels what we have seen. I think that they are at moment at manageable levels.

Abhishek: Okay and sir when can we expect the integration of the plastic component business and what would be the addition in the top line and the margin sir because of this integration?

Delli Babu: Yes. As I was mentioning in my initial remarks, we expect the NCLT to give its approval, I mean in the next couple of months and then the integration will start soon thereafter. We expect it will be an EPS accretive, that is what we have said as a rational and also our EBITDA should improve I would wait to provide you the details once the complete integration is done. We are very clear that it will be an EPS accretive as well as the margin accretive. The exact numbers I have some numbers in my memory, but I would like to wait till once the integration is completely done.

Abhishek: Okay and sir I assumed that two-wheeler segment current capacity utilization is around 90%. So how do you see the capex in this particular segment?

Delli Babu: As far as two-wheeler is concerned currently, we are around the 80% levels if I look at on an annualised basis, so we will be around 85% levels. So, we still have some headroom to utilise those capacities and we are also trying to do some throughput enhancement work which should take care of the requirements for the coming periods, but any further Greenfield capacities on two-wheeler, we need to be extremely careful about how the penetration of two wheelers is going to happen and how it is going to impact overall demand. While two-wheeler factories to some extents are fungible with our SVRLA battery requirements where we are looking at the demand for both these and then take a call. At this point of time, we believe we have sufficient capacities for two-wheeler at least for the next 1 to 1.5 year and also we are looking at any export volume growth if at all were to come even in the two wheeler segment we will see if there is any alternative arrangement we can work with instead of completely going on a Greenfield project where the capital requirements and any risk associated with that has to be gauged before we actually take the decision. So, we are thinking about it, but at this point of time, I do not have further plans to share with you on any capacity addition as far as two-wheeler is concerned.

Abhishek: And sir in the lithium-ion batteries, you are adding the capacity of 3.5 gigawatt so what would be the revenue from this business if you take the 3.5 gigawatts capacity from FY2026, what would be the peak revenue and the margin?

Delli Babu: See these are definitely changing scenarios. We have said earlier that the asset turns could be only 1 to 1.2 based on the latest capex numbers we are seeing if we scale it up, even it can improve as high as 1.4 to 1.5 as well. Now the question is depending on the cell price today, if I look at it, different chemistries have different cell prices so on an weighted average basis at cell level, we may think about \$100 to \$110 as a realisation in the initial period and there is also a target price to reach because we are seeing on a global basis the per kilowatt hour cost is still shown as a possible reduction from about 100 to 110 to about maybe \$70 or \$80 per kWh so if we take average \$100 as per kWh revenue and you can at a two gigawatt hour level and our current currency at 83, so you know the numbers. So that is how we are looking at today. On the pack side also, we currently have our pack capacity close to about the 500 megawatts hour. We

expect that can be increased to about 1 gigawatt hour. We also think that capacity can be further increased to about 2 gigawatts hour in the coming future. So, if we do that, even the packs over a period of time should deliver roughly about 3000 crore revenues if we use our entire full gigawatt hour packs. So, the numbers on the specifics can only be detailed out maybe some more quarters into the future, but at this point of time this is our thinking.

Abhishek: Thanks for detailed insight sir.

Delli Babu: Thank you.

Moderator: The next question is from the line of Manav Choksey from KR Choksey Shares & Securities. Please go ahead.

Manav Choksey: Hi, thank you for giving this opportunity. I had a question on Amara Raja Electronics Limited. Can you suggest the synergy or the benefits that Amara Raja Batteries would have with that subsidiary and is there any plan of it going forward with the merger or getting it listed going forward?

Delli Babu: See right now Amara Raja Electronics supplies for the home UPS the inverter piece of it, while we make the battery so beyond that, it is only a vendor and customer relationship at this point of time, I would not want to comment on any other strategic possibilities going forward at this point of time.

Manav Choksey: Okay, thank you and my second question is add on to you what you mentioned about Log9, your investment in Log9 can you suggest how it would complement Amara Raja the investment like because it is in the same sector so what are the synergies you see with the Log9 investment towards the Amara Raja Batteries Limited.

Delli Babu: sLog9 was focusing on certain fast charging solutions, LTO cell and PACK development and apart from that they are also working on certain other technologies like fuel cells and they are also working on things like other lithium chemistry cell development.. So, we are working with them on certain product development areas and then over a period of time we will have to see what other strategic possibilities can come in. So, the idea is, it is not possible in this segment for everyone to do everything. So, we have initially talked about ability to draw the technological inputs, what initiatives that these start-ups are doing and we are working with them on certain projects in that process obviously we had to make those investments. So, as we move ahead, we will see how those relationships can be nurtured and then see how we can take this journey forward.

Manav Choksey: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Sanjaya Satapathy from Ampersand Capital. Please go ahead.

- Sanjaya Satapathy:** Hello, Sir.
- Delli Babu:** Yes, hi good evening.
- Sanjaya Satapathy:** Sir two things. First of all, while you have given lot of details on your lithium-ion cell programme, just wanted to clarify whether your focus is a lot more towards non- passenger vehicle side?
- Delli Babu:** No, see at the cell level the chemistry what we are focusing are currently NMC and LFP because cells can go into any application starting from stationary application to a low voltage two-wheeler application to high voltage four-wheeler application. As far as the packs are concerned obviously currently our focus is telecom, two-wheeler, and three-wheeler. Naturally, four-wheeler is only a matter of time that we will be prepared for all requirements for all vehicle categories, but we also need to understand that some of the OEMs it is not necessarily that they would want to outsource the pack development.. While yes cells definitely the battery players will make and then the OEMs will be buying it but it is not the same case for packs. Some OEMs think they can outsource the packs; some OEMs thinks that the packs have to remain with them itself. So, our capability development is for developing packs for all categories of applications whereas with respect to cells I would say little agnostic to which application they are going, yes there will some requirements and technically there may be some variations, but cells may get into any of these applications categories.
- Sanjaya Satapathy:** On the timeline, I am little confused you said that you will take 18 to 24 months, but at the same time you were also saying that the revenue will start to flow in only from early fiscal 2026. So just can you just clarify the timeline sir?
- Delli Babu:** See FY2025 is when we expect to start our customer qualification plant which is more to test out the products for the applications and get the approvals etc. So initially we said we will start with the 2 gigawatts in our NMC line which is going to take that much time and that is why I said revenue may come only in FY2026.
- Sanjaya Satapathy:** Understood. Thanks a lot sir.
- Moderator:** Thank you. The next question is from the line of Harsh Beria an Individual Investor. Please go ahead. Hello.
- Harsh Beria:** I think you have mentioned about the power costs which we have got, which was in the vicinity of 10 to 15 Crores a year. What is the capital investment that went behind these solar power plants?
- Delli Babu:** Right now, out of our overall energy requirement about 20% is coming from these renewable sources. The overall investment which we made into s both the ground mounted and the rooftop solar will be around 300 odd Crores.

- Harsh Beria:** And we see further investments like at optimum utilisation, what is the percentage of power which we can utilise from a captive power unit?
- Delli Babu:** We are using 100% of it because we have created the capacities by keeping in view the peak requirement and then we are currently using these solar plants fully now. Any further expansion or investment into these plants will be guided by our requirements and also the government policies with respect to the power banking and the net metering related story. So as and when we see that policy environment and also the requirement of energy for the company as a whole then we will take a call whether to make total investment.
- Harsh Beria:** Perfect. My second question is at the AGM our chairman had mentioned that we will be putting up Greenfield plants for lead acid batteries of capacity of 7 million plus, which is almost equivalent to our current capacity. Can you talk more about these plants because that would be very large capex commitments from our company.
- Delli Babu:** See today our four-wheeler capacity is about 20 million[SR1] capacity and two-wheeler capacity is about 30 million. We had two things to consider obviously the coming future capacity expansion that is required for the future demand and we have been discussing about keeping both the plants which have been running for the last one year, as and when we see a need for a large refurbishment of those or maybe technology improvements that we have done over a period of time we may consider look at having a facility. When we put up that facility, naturally we do not want to put up with the same location considering the risk that we have discussed for a long time. So, when we look at our next plant which will obviously be in a different location, the sizing of any plant when we look at it, the optimum size of any plant will be the range of 7 to 7.5 million batteries. It used to be fixed considering the equipment efficiency now that has increased. So, whenever we look at a new plant, we look at that size and it does not mean we directly go and put a capacity for the entire 7 million at one go. We do that in phases, the line addition will happen only when there is a clear demand signal.
- Harsh Beria:** Perfect. Thanks for answering my questions. That is all from my side.
- Moderator:** Yes, thank you. We have the next question from the line of Rajesh Aynor from ITI Ltd. Please go ahead.
- Rajesh Aynor:** Thanks for the opportunity, sir. Sir in some part of the discussion how much is the capex for this 2.5-gigawatt unit battery that we are setting up how much is phase one and second part is what kind of profit will be expected in this unit kind of some margins?
- Delli Babu:** I did not hear you clearly, but I will repeat your question, confirm it that is right. You are asking about the margin profile for the lithium business.
- Rajesh Aynor:** Yes, and the capex.

- Delli Babu:** Yes, capex as I have mentioned earlier for the first phase, we are looking at about 1500 Crores as an investment. As far as profitability is concerned at the operating level, we believe 10 to 12% kind of a margin is possible at this point of time, but once we finalise the entire product mix and also the sourcing of raw material, I think I will be able to come back to you with clear numbers, but at this point of time that is our view, but I would wait for some more time before we actually put a clear number on table as far as profitability is concerned.
- Rajesh Aynor:** Sir when you phase one what all components you are saying, 2.5 gigawatt and 1400 Crores is I think on lower side for that capacity?
- Delli Babu:** No, I said 2-gigawatt hour of NMC and customer qualification plant and I have energy research labs. So those are the three projects which would call for 1500 to 1600 gross capex that is what I said.
- Rajesh Aynor:** Okay. Thanks a lot sir.
- Moderator:** Thank you. The next question is from the line of Udhayaprakash from Value Research India Pvt. Limited. Please go ahead.
- Udhayaprakash:** Hi sir. Good afternoon.
- Delli Babu:** Good afternoon.
- Udhayaprakash:** I have three questions from my side. The first is it is more of a future new energy. Sir the thing is, whenever we have a new technology, the normal thing, what happens over the years as adoption grows and demand grows, the cost of production falls relatively over the years, but we have quite a typical situation case where the lithium prices have climbed up and with difficulty to find new mines and make it operational. Do you think we would not have this effect in lithium energy business going forward in let's say another 5 to 10 years, I am not asking can you start operating the plan in 5 to 10 years. Is it possible for us to witness a falling cost of production levels similar to other technologies?
- Delli Babu:** Are you are you asking, I am not very clear about what your question is. If you can repeat it again, please.
- Udhayaprakash:** Yes sir. So similarly, what happens whenever we adopt a new technology, it is that as demand grows and volumes grow, relatively cost of production falls on a per unit basis, but here we have a situation where the lithium prices are growing every year and the demand is also growing. So, do you think we may not witness the same thing in new energy business not just for Amara Raja but for the entire industry?
- Delli Babu:** See lithium prices have gone through its own cycle, citing any metal price that is what happens even with the lead I mean if you go back to the history, you would have seen even \$800 per tonne also as a price but today we are at \$2150 or \$2200. We have seen even \$2500 happening at

some point of time. So I think the metal supply equation cannot be the sole factor for us to decide cell prices, what is the impact of the cell prices that will come in so as more and more resources come up and then the identification of the minerals happen. I think that demand supply equation of the metal will go through certain trajectory., but as far as the conversion cost efficiency, how to improve the density so that you are consuming lesser material per kWh power delivered. These things are a continuous effort which will definitely have impact on the overall conversion costs and over a period of time scale will definitely give those efficiencies. But I think in my view, I think these two things have to be delinked and then looked that. The mineral availability, vis-a-vis the conversion cost efficiency and technology innovation, these two may have to be delinked and then looked at.

Udhayaprakash: Okay sir thank you. My next question is on our investment in renewable gas in our solar plants and all. So, with new plans coming up both for VRLA and lithium-ion are we planning to invest further in these power sources or are we trying to just maintain what we already have?

Delli Babu: So as I mentioned earlier, I think the decision to go further on the renewable thing will depend not only on our demand but also on the policies and the interstate power movement charges and various other things. So, it is not necessary that we should only put all the facilities, there are other structures that are getting available in the market so we will explore those possibilities with an idea to further reduce our power cost as we move ahead.

Udhayaprakash: Okay, thank you sir. My final question is regarding the contribution of the revenue mix between automotive and industrial. As you said mini sectors in many sectors in industrial segment have very good growth of such as data centre and telecom and all so do you still believe the revenue contribution will continue to be 70:30, let's say FY2024, FY2025 or is there chance for the industrial segment to contribute more going forward?

Delli Babu: I think this ratio of 70:30 will continue because we are also seeing equal growth opportunities in our automotive side as well. So, I do not see that significantly altering on an annual basis going forward.

Udhayaprakash: And sir the 70:30 same on operating level too, I mean revenue level it is 70:30, is this the operating profit level too?

Delli Babu: We would not comment on these subsegment level profitability in this call please.

Udhayaprakash: Okay sir. Thanks a lot, that is it from my side.

Moderator: The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Sir just one follow up. On the pricing for lithium-ion cells, do you expect that to be at import parity or do you see that there is an opportunity to get some premium in this because of proximity of source etc.,

- Delli Babu:** I think the first objective is to be import parity. So, anything beyond that I would not want to venture a guess at this point of time. See idea is now to first get, how to be competitive. Because the scale at which other players are producing and for Indian players to reach that scale and also deliver the cost efficiency in parity with the import that itself is a big task. I think people are gearing up towards that. I do not want to go beyond that.
- Kapil Singh:** Okay. So, you think the first target is to get to import parity pricing with the OEMs and then later on, we will think about it?
- Delli Babu:** Yes, I would think so. I mean, obviously I have not consulted my colleagues before I give you this answer, but that is my view, yes.
- Kapil Singh:** Okay and would you also look at segments like buses for example, which have potential to grow more so is that a segment where you think we can be a significant supplier as well?
- Delli Babu:** See. As I said as we move, we need to develop the packs for all the possible applications depending on what is the demand that we have for each of the vehicle segment. At this point of time we are not saying that we will rule out one for other. So the idea is wherever our product development initiative and the demand initiative both as and when they match, we obviously offer products for all the applications it is not that we are staying away from any given application, as and when those are ready and then we are able to get the customers approval for those product, yes, we are not staying away from any one of those products, but at this point of time the focus is to build products for these segments which are currently requiring those and there is a good demand signal that is available so the focus currently is on both segments that I have explained earlier.
- Kapil Singh:** Understood and sir lastly just on the technology tie up, how should we understand that you are not really looking for a major partner so are we comfortable with whatever inputs we have got through our investments or otherwise internal developments or we are still looking out for a major technology partner?
- Delli Babu:** See it is like this. We have to continue our effort of developing the required product for this market whether a large partner like our lead acid business partner is available or not, I think we have got the wherewithal to develop those products and then run on our own. Naturally if there is a larger partner i you can compress these cycles times and maybe get market ready little ahead of time, but we are not saying we are absolutely closed that part of it, we will see as long as there is a synergistic relationship we can build with any large partner we definitely clearly open for such idea, but until then that happens it is not that we can keep quiet and then do nothing. So, we have to put all of our efforts and then have our strategy in place whether with partner or without partner in whichever direction it is going .. If any partner were to come on board for other relationship or to be coming on board, then naturally there will be some advantage. We are definitely open for such ideas.

- Kapil Singh:** Okay sir. Thank you and wish you all the best.
- Delli Babu:** Thank you Kapil.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi:** Hi. So just quickly wanted to clarify on inverter business, the seasonality of that business is Q1 is heavy inverter sales is concerned and Q1 and Q4 at the heavy quarters, right?
- Delli Babu:** Yes, yes, yes.
- Jinesh Gandhi:** Got it, got it. Yes, great. Thanks and all the best.
- Delli Babu:** Thank you.
- Moderator:** Thank you. The next question is from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.
- Madhur Rathi:** Good afternoon, sir. Sir I have just one question. When you were telling that said asset turnover for the lithium-ion battery would be in the range of 1 to 1.2, an operating profit margins will be 10 to 12% so what kind of ROC are we expecting because this will be a decline in our current ROC looking from this.
- Delli Babu:** Yes. So, as I was the earlier also based on our current capital projection, sometime back it looked 1 to 1.2. Now there is a possibility of it growing up to 1 to 1.4 as well. So even the bill of material, the cost of procurement, all these numbers are also work in progress. So, while we have certain views at a given point of time it is not that there are more improvements possible on top of it. I do understand that these numbers, yes, the ROC maybe little diluted, but the opportunity size and the future growth potential for this business is too big for us to ignore and I also think that the ROC levels will continue to be under pressure by looking at the current numbers. The idea is to get into this and then see how we improve from there as we increase the scale; I believe both the asset and the profitability numbers will improve. I will only be able to put those numbers with lot of conviction as we move into the times and then see how we are able to implement.
- Madhur Rathi:** Sir so what was the IRR or the ROC that we expected before embarking on this capex and could you just highlight on the future two-to-three-year guideline when we shift from lead acid batteries to lithium-ion batteries and what are our expectation going forward.
- Delli Babu:** See, I do not think I will be able to put numbers around at this point of time and I do not think lead acid future is only limited for the next two years. There is a large future available for lead acid as well. We have embarked on this journey by seeing the size of the opportunity and also the attractiveness and the requirements for the Indian market, so we are sure the return and profitability ratios can be improved as and when we scale up this activity.

- Madhur Rathi:** Okay, thank you sir and just a final question, what will be our outlook for top line and bottom line for a FY2024 and maybe next one or two years so that will be very helpful?
- Delli Babu:** As we have discussed the possible market growth rates, we generally have been mentioning those numbers, we have not been giving a very clear numbers around the possible revenue per se.
- Madhur Rathi:** Okay. Thank you, sir.
- Delli Babu:** Thank you.
- Moderator:** Thank you. We will be taking the last question from the line of Hemant an individual investor. Please go ahead.
- Hemant:** Thank you for opportunity, most of my questions are answered. Just on bookkeeping, sir for the insurance claim that we had, can you give us some updates that claim process and money any timeline of when the money is expected to be received?
- Delli Babu:** Yes, we received about Rs.100 Crores on account payment which we have mentioned in our results as well. Right now, we are working on the balance claim for the inventory loss and as and when we reinstate our tubular plant going forward as I mentioned earlier to the current status, we are confident of realising the claim for the full reinstatement.
- Hemant:** So generally does it take like next additional three to six months or would it take longer?
- Delli Babu:** The inventory claim should take next two to three months, but machinery will come only as and when we reinstate. So, it will go along with the project execution.
- Hemant:** Okay. Thank you, sir. Good luck.
- Delli Babu:** Thank you. Thanks everyone.
- Moderator:** Thank you. I would now like to hand the conference over to Mr. Mukesh Saraf for closing comments. Over to you sir.
- Mukesh Saraf:** Thank you so much for your time. If you have any closing remarks, maybe you could kind of quickly mention.
- Delli Babu:** Yes, nothing more to add Mukesh. Thanks everyone. Thanks for your time and insightful questions. Thank you.
- Moderator:** Thank you. On behalf of Avendus Spark that concludes this conference. Thank you for joining us. You may now disconnect your line.