



“Amara Raja Batteries Limited Q4 FY2023 Earnings Conference Call”

May 24, 2023



ANALYST: MR. JAY KALE – SENIOR VICE PRESIDENT - ELARA SECURITIES PRIVATE LIMITED

MANAGEMENT: MR. VIKRAMADITHYA GOURINENI - EXECUTIVE DIRECTOR, NEW ENERGY BUSINESS - AMARA RAJA BATTERIES LIMITED
MR. HARSHAVARDHANA GOURINENI - EXECUTIVE DIRECTOR, LEAD ACID BATTERY BUSINESS - AMARA RAJA BATTERIES LIMITED
MR. DELLI BABU – CHIEF FINANCIAL OFFICER - AMARA RAJA BATTERIES LIMITED



Amara Raja Batteries Limited
May 24, 2023

Moderator: Ladies and gentlemen, good day and welcome to Amara Raja Batteries Limited's Q4 FY2023 Earnings Conference Call hosted by Elara Securities Private Limited. 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 call, 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. Jay Kale, Senior Vice President from Elara Securities. Thank you and over to you!

Jay Kale: Thank you. Good evening, everyone. On behalf of Elara Securities India Private Limited we welcome you to the Q4 FY2023 result conference call of Amara Raja Batteries Limited. We have with us today from the management side Mr. Vikram, Executive Director, New Energy Business; Mr. Harsha, Executive Director, Lead Acid Battery Business, and CFO, Mr. Delli Babu. Thanks, team, for giving us the opportunity to host the call and over to you for your initial comments.

Delli Babu: Good afternoon, everybody. Thanks for joining the call. This is Delli Babu. As a whole FY2023 we have grown our revenues by about 19% that is coming on the back of 9% to 10% kind of a volume growth in the aftermarket side of four wheeler and almost 13% to 14% kind of a growth in the exports as well and also the OEM business in four wheeler also grew about 15% in terms of volumes and the two wheeler business both on the aftermarket as well as OEMs grew around 20% kind of numbers while our tubular battery volume remains stagnant because of the unfortunate incident that has happened towards the end of the financial year.

This year has been good in terms of improving our margins. From a gross margin point of view, the numbers were better than the previous year. While in the initial part of the financial year we have faced some headwinds in terms of higher raw material cost coming in, over a period of time we were able to pass on some of that to the customers and also improve our own internal efficiencies so that the margins were able to be improved. Here also had some of the issues with respect to expenses like power where we had to pay some surcharges and other charges levied by the government also had some impact on our overall net margins, but considering the volume growth and also the efficiencies that were brought into the company we were able to improve those margin levels compared to the previous year.

When we look at the quarter per se again the revenue growth was about 11% on the back of 6% to 7% kind of a volume growth in four wheelers both in the OEM and aftermarket. OEMs grew shade more than the aftermarket volumes and also the two wheeler segment continued its growth around 20% during the current quarter while we had a reduction in our tubular batteries because of the incidence that I was alluding to earlier, so even in this quarter we had power cost hitting us about Rs.18 Crores and also because of the incident in our tubular factory we had to spend an additional amount on the employee cost because those employees obviously were retained and now we are redeploying them into other factories, so in that sense both the year and quarter have definitely registered a decent volume growth and also the efficiencies that what the operations team was able to bring onto the table helped improve the overall margins.

As far as our new energy business is concerned the overall revenue from the packs and charges, we have grown almost three-and-a-half times compared to the previous year and the new energy business is now taking definitive steps towards getting into the larger cell manufacturing and also completing the entire new energy products and solutions portfolio, so with that we look at the future with optimism. Those are my initial opening remarks. I would now request any questions and clarifications we will start answering them.

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

Kapil Singh: Good evening. Can you please share the growth for the quarter also like what kind of growth you have seen in each of the sub segments?

Delli Babu: I have just shared with you Kapil. The four wheelers both in the aftermarket and OEM grew about 6% to 7% and two-wheeler about 20% in both the segments and tubular volumes were lower than the previous year and as far as the industrial is concerned the industrial again grew by about 7% kind of a volume growth was seen in the current quarter as well.

Kapil Singh: Sir, what is the mix of the battery pack business that we are doing what is a scale of revenue that it has and any color on profitability over there?

Delli Babu: Both the quarter and for the year we have almost as I have mentioned grew three times, currently the annual revenue from the packs and charges is about Rs.250 Crores odd. Today at the EBITDA level this business is positive, but it will take some more time before the numbers came through substantially. Today the overall business is around 3% to 4% kind of an EBITDA because this business also is spending money on the other cell development



Amara Raja Batteries Limited
May 24, 2023

activities as well, so on a standalone basis both packs and charges are profitable, but a shade lower than what our lead acid business delivers.

Kapil Singh: Can you talk of the outlook that you have for replacement business for two wheelers, four wheelers for next year and also when can we expect the lithium-ion business to start going in from a revenue perspective?

Delli Babu: On the lead acid battery outlook Harsha will give you the outlook and then Vikram will respond to you on the question on the new energy business.

Harshavardhana G: Thank you for your question. In terms of the demand going forward on both two-wheeler and four-wheeler we saw very strong recovery in OE reproduction in the past financial year and that the momentum is going forward into the next year, so demand signals from both OE and aftermarket is strong. In terms of the electrification two-wheeler segment is definitely electrifying at a quicker rate although we have not seen the peak IC engine production as of yet.

Vikramadithya G: Good question. I think the question was when lithium revenues will start to come in. Delli Babu had explained that as on date we are doing Rs.250 Crores in the new energy business which is predominantly coming from lithium packs as well as the off-board chargers that we are selling at the moment and lithium packs we are predominantly selling for the three wheeler application as well as some stationary storage and telecom this next year we will be seeing pretty robust growth while we saw Rs.3.5x Crores to get to Rs.250 Crores, this year we are anticipating 3x Crores with Rs.750 Crores or more in which we are expecting continued growth of good strong segments that we already served as well as making our entry into the two wheeler segment as well with a couple of OEMs for commercial supplies. This is limited to the lithium pack as well as our charger business. As for the real growth coming in the lithium cell, as most of you are aware we go around just a couple of weeks back in the state of Telangana to start our first commercial lithium production on the cell side. We are expecting that it will take anywhere from 18 to 24 months before start our production and with another six months from then before we start 2-gigawatt hour production, so probably on the cell side we can see more commercial sales and all happening in about two-and-a-half years.

Kapil Singh: Thank you very much. I will come back in the queue.

Moderator: Thank you. Next question comes from the line of Raghu Nandhan from Nuvama Wealth Management. Please go ahead.



Amara Raja Batteries Limited
May 24, 2023

Raghu Nandhan: Thank you Sir for the opportunity. On the lithium cell manufacturing have you finalized the technology tie-up, will you be using technology support of Log9, InoBat or any other player and also in terms of homologation with customer we understand it is a one-and-a-half-year process, so any color there whether you are working with startups or marquee customers?

Vikramadithya G: On the technology the initial investment will come up in two phases. The first phase is a commercial qualification plant. It is kind of an extension of our own R&D facilities where we will be playing with not only the in-house cell technology that we have been developing for the last couple of years, but also with other partners as well and, this is where the homologation activities with OEMs to begin this is where we start doing pilot productions and sending the samples out to the various customers to get approved in that as you said is a minimum one-year process and hopefully that can be optimized further in the coming years. As for further technology development we have invested of course in Log9, we have invested in a couple of companies, we will continue to work with in-house, our own R&D and wherever we have the opportunity we continue to engage with others as well for custom cell development, but broadly speaking we would be working with LFP and NMC chemistry and the overall mix of the 16 gigawatt hour kind of footprint that we are building will be dynamic, the initial two gigawatt hour capacity most likely coming from NMC.

Raghu Nandhan: Initial capacity will be two-gigawatt hour coming in NMC and the timeline you mentioned at two-and-a-half years would that be right Sir?

Vikramadithya G: That is right.

Raghu Nandhan: Thank you and in terms of capex and investments for FY2024 and 2025, Babu Sir can you give some color there?

Delli Babu: From the overall capex and investment point of view both the lead acid as well as new energy will be requiring capital, so lead acid also as you know we are now increasing the throughput in existing plants and also look at opportunities where it is possible to expand further. So on an average for FY2024 and 2025 on the existing lead acid business including the recycling plant that we are coming up with in Tamil Nadu we may be have to spend on lead acid about Rs.300 Crores to Rs.400 Crores and we need to spend about another Rs.300 Crores odd money during FY2024 on new energy business and FY2025 depending on how the project implementation progresses, yes we will have to allocate another Rs.500 Crores there for the new energy business in the FY2025 also.



Amara Raja Batteries Limited
May 24, 2023

- Raghu Nandhan:** So, this will get classified as investment or capex because I think new energy will be done in a separate venture?
- Delli Babu:** Correct. So, we have coined a separate subsidiary for all the new energy business, we will be doing the pack business as well as the cell manufacturing investments through that separate vehicle and as the initial capital will be invested by Amara Raja Batteries into this subsidiary and the further plans of capital infusion will be taken up from time-to-time as to what is the best structure keeping the interest of all stakeholders.
- Raghu Nandhan:** Thank you Sir. Last question on the input cost side there has been some pressure in the previous quarter, any color whether any price hikes are being taken in the replacement market?
- Delli Babu:** Input cost for Q4 yes, there was a bit of a lead price inflation that was seen though it is not a very significant change from the previous quarter, the price rises earlier that were taken are sufficient to recover these costs because we do not change the prices in the aftermarket for every small movement in the lead price because sustained price level needs to be witnessed before we attempt any change in the aftermarket, so in Q4 we have not taken any price rises as far as lead acid batteries is concerned.
- Raghu Nandhan:** Got it Sir and some benefits should come on the cost side because of the efforts on the recycling plant and the captive power plant?
- Harshavardhana G:** Yes, those benefits would take some time to be realized, we also have large initiative around renewable energy usage with our own captive solar plant commissioned now.
- Delli Babu:** Just to add on what Harsha said the recycling plant once it comes up into operation as well as the solar plant which is already operational, so 30% of our overall net requirement will be coming through that recycling implant and we expect that there will be cost synergy that will come in once we have our own recycling unit, power cost already is helping us in terms of reducing overall cost.
- Raghu Nandhan:** Thank you Sir, very helpful. I will come back in the queue.
- Moderator:** Thank you. Next question comes from the line of Jinesh Gandhi from Motilal Oswal Financial Services Limited. Please go ahead.



Amara Raja Batteries Limited
May 24, 2023

- Jinesh Gandhi:** Can you clarify what kind of investments we will need to do for this two-gigawatt hour capacity on lithium cells overall across that entire phase?
- Delli Babu:** The CQP plus the two-gigawatt hour NMC plant will require anywhere between Rs.1300 Crores kind of a capex to be spent over the next two-and-a-half years.
- Jinesh Gandhi:** We have not yet materially spend anything on that FY2023, is that correct?
- Delli Babu:** We have so far completed the land acquisition and also you would have seen the MoU with the government in terms of land acquisition plus other incentives that what we need to get, and we have started working on the equipment collection and the other works are in progress. As of now money spent wise FY2023 is not very significant.
- Jinesh Gandhi:** Got it. Secondly can you talk about how big exports pan out in fourth quarter, we were seeing some bit of moderation in exports in earlier quarters, was fourth quarter did we see any stability in exports or signs of recovery?
- Delli Babu:** When we look at exports compared to the previous year because previous year we had some one-time orders coming up and then when we look at from a simple growth point of view we will see some reduction from the particular quarter, but that is not the case with year as a whole, so from a run rate point of view, yes, the exports as you have seen in the last four years we have been growing at a CAGR of about 14% to 15% that kind of momentum is possible to continue even in the coming years.
- Jinesh Gandhi:** Exports have now what about 11%, 12% of revenues or higher than that?
- Delli Babu:** 12% of the revenue.
- Jinesh Gandhi:** Got it and lastly if you can talk about the RM cost trend which you have seen, just on lead side but on the input side as well, it seems like further inflating, so are you also witnessing that in terms of actual cost of purchase?
- Delli Babu:** No, Jinesh. I think lead at least is now stabilizing around 2100 levels, the other raw material also there is some bit of the status quo being maintained; so, on that side there is no more major cost reduction.
- Jinesh Gandhi:** Got it. Thank you and all the best.



Amara Raja Batteries Limited
May 24, 2023

Moderator: Thank you. The next question comes from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf: Good evening and thank you for the opportunity. Firstly, on the two-gigawatt hour NMC that we are looking at in the next couple of years, I am not sure if you mentioned that you have already working with some customers on this or do you have some customers who are interested and you are working with them, how do we see the visibility of the utilization of this and which segments we are targeting?

Harshavardhana G: So, in terms of working with customers I cannot say that we have started supplying samples to any customers as yet, the major segment that we think that we will be able to address through this two-gigawatt hour NMC supply capacity is the two-wheeler segment. We believe that the two-wheeler segment will see the most robust growth in the short term and as we start building up our new R&D center as well as the commercial qualification plant this is where we will start building our initial samples and start sending out to the OEMs as we are trying to target mainly in the two-wheeler segment.

Mukesh Saraf: Right and the current Rs.250 Crores revenues that we are doing out of the packs that is largely going to the telecom space is what you had mentioned?

Harshavardhana G: It is likely going to the three-wheeler space followed by telecom.

Mukesh Saraf: Okay.

Harshavardhana G: We have a couple of customers who are doing consistent supplies.

Mukesh Saraf: The question is that when once we start making these cells would not we want to first address that telecom and three wheeler space given that where we are just doing assembly right now, the question is basically in relation to that?

Harshavardhana G: So, I think by the time we get that capacity up and running we would expect our pack overall business mix also change to be more dominated by the two-wheeler segment as well as three-wheeler segments. In the initial couple of years we may consume most of the cells that we are making in-house, and then business mix changes and the total cell production increases as well.

Mukesh Saraf: Secondly which is on your existing business, the fire impacting the tubular capacities what portion do you think we can still address by trading in these tubular batteries because in the



Amara Raja Batteries Limited
May 24, 2023

past we have done a lot of trading in these tubular batteries so either contract manufactured or any other such measures we can take, maybe some sense on that?

Harshavardhana G: So, we will be able to address the market opportunity through trading but as we alluded to, we would not be able to cover that 100%, I think we can confidently say with the existing supply ecosystem in the country 60% to 70% of that can be addressed. We are in the process of reinstating that capacity so we will be able to be address all of our customers' needs pretty soon.

Mukesh Saraf: Got it and just the last question is on the existing telecom business, and you have commented that it is quite strong, and you have a 60% market share there, any more colour you can provide on the margins that we are making in the telecom space, the capacity we have there and then expansion plans for capacities or the utilization that we have on that space?

Harshavardhana G: So, I cannot comment on subsegment profitability, but I can share that we are able to supply all the lead acid requirements and the rising lithium requirements for existing capacity.

Mukesh Saraf: Alright thank you so much. I will get back in queue.

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

Abhishek: Thank you for the opportunity. Sir how much is the industrial versus automotive goods in FY2023 earlier it was used to be around 70%, 30%?

Delli Babu: It is the same ratio 70 automotive and 30 industrial and this year obviously about 3 to 4% revenue came from lithium side of it.

Abhishek: In automotive how much is four-wheeler versus two-wheeler?

Delli Babu: The mix-wise there is no significant change Abhishek compared to the previous years, it remains the same.

Abhishek: So, it is at 65% to 70% from the four-wheeler which is used to be earlier?

Delli Babu: Yes.



Amara Raja Batteries Limited
May 24, 2023

- Abhishek:** Apart from the lead prices, the non-lead communities showing some decline so how do we see the margin trend ahead will give the benefit of it like that gone down so how do you see the margin trend?
- Delli Babu:** While there is some softening on the other raw material also equally there are pricing pressures in the market so from a margin profile point of view what we used to guide earlier in terms of a lead base and an EBITDA margin of 14% to 16% still remains but naturally the lead base currently is far higher than the lead base that we used to guide which was 150 to 175, today we are seeing a lead level of 200,000, so while we are running towards improving our operating margins still our overall margin guidance of 14% to 16% given a lead base of 150 to 175, 180 still remains the same.
- Abhishek:** Have you taken any price increases in the last quarter sir?
- Delli Babu:** No.
- Abhishek:** Thanks, that is all from mine.
- Moderator:** Thank you. Next question comes from the line of Vibhav Zutshi from JP Morgan. Please go ahead.
- Vibhav Zutshi:** Good afternoon and thanks for the opportunity. My first question is on the lithium-ion side especially on the presentation that you have uploaded we have talked about phase two going actually seeing an 8 gigawatt hour cell capacity and 5 gigawatts of pack capacity so just to clarify should we view this as like 13 gigawatt hour of total capacity or in the pack at least like can you like take the cells from externally or will you be deploying the cells that you manufacture in your in our facility into the pack so how should we view the total capacity?
- Vikramadithya G:** The cell and pack capacity should be viewed separately. There will be a significant amount of packs that we make with in-house cells but there still be some new cells for specific applications like let us say energy storage or something where we may continue to buy and outsource cells and import cells that we do not decide to make immediately ourselves.
- Vibhav Zutshi:** Got it sir. It will be probably a bit less than 13 gigawatt, or we thought that more than 8. Got it thanks and my second question is on the acquisition that you have announced of Amara Raja Power Systems now you may expect the acquisition to be closed within three months I guess and you talked about 50 Crores of revenue in the EV battery packs and



Amara Raja Batteries Limited
May 24, 2023

charger business so does this account the synergy that you will be getting from this acquisition or 70 Crores is just a separate organic route?

Vikramadithya G: So already this if I can give a quick summary. Amara Raja Power Systems is the first company that was started in Amara Raja Group originally started as a specialty manufacturer of industrial charger, thereafter we started industrial batteries in ARBL, so today the company is made up of probably three categorized products, industrial chargers, integrated power supplies for railways and then the balance is coming from the new products in EV charger, EV chargers are already being supplied to Amara Raja Batteries and then going to the end market so we would continue to kind of utilize this facility, utilize the design and manufacturing of power electronics and their sales will be driven through the now subsidiary Amara Raja Advanced Cell Technologies.

Vibhav Zutshi: Got it. Thanks a lot.

Moderator: Thank you. The next question comes from the line of Sameer Deshpande from Fairdeal Investments. Please go ahead.

Sameer Deshpande: Good afternoon. Congratulations on good results and the expansion we are planning in lithium-ion cells you mentioned would require a capital investment of around 1300 Crores over the period of next two years, is it correct?

Delli Babu: Two to two-and-a-half years yes.

Sameer Deshpande: So, in that how much will be the capacity that is currently we are selling some x or 100 units of the local battery how much will be the capacity which can be replaced with this lithium-ion cell?

Delli Babu: Sorry can you ask your question again?

Sameer Deshpande: Yes, actually what I am mentioning suppose we have been selling 10000 batteries totally today out of that with this capacity lithium-ion cells manufacturing how many batteries for electric vehicles we can manufacture as a percentage of the current cells?

Delli Babu: See currently we have lithium packs by imported cells so when we get the capacity of two gigawatt hour NMC cells as Vikram was referring to that will be going into a two wheeler application and wherever packs are being made by us we will be using our own cells and wherever cells need to be sold to other pack making customers it will be sold, so right now



Amara Raja Batteries Limited
May 24, 2023

to fit a ratio of how many packs that we will be making internally vis-à-vis how much cells we will be selling to outside parties is not possible for us to put a number right now.

Sameer Deshpande: Actually, the line was I think disconnected something had happened. Can you just repeat what you were mentioning about that?

Delli Babu: Sure. See today we are selling our battery packs for three wheeler and telecom applications and we are importing the cells so once our initial capacity on NMC is ready that cell capacity is supposed to be used for the two wheeler applications as Vikram was explaining earlier so it will not be right for me to put a number as to how much of the current battery pack will be substituted with the cells that we will make ideally 100% of the packs that we will be making will be substituted by our own cells but right now it is not right for me to put a number around it.

Sameer Deshpande: But this much investment will be sufficient for going ahead with the things?

Delli Babu: Yes, the initial capacity because as we were mentioning the technology center, the customer qualification plant and the 2-gigawatt hour line and also some investments on the further expansion of the gigafactory initial capex is what we have indicated, we will come back to you as and when further plans are formed up and approved by the Board.

Sameer Deshpande: We hope to finance it through internal accruals?

Delli Babu: The initial seed capital we expect to finance it with the internal accruals and also possibly some leverage on the Amara Raja batteries but at an appropriate time we will decide what should be the right capital mix for the new business and then we will see how the outside investment can be brought into that subsidiary itself so there is some initial capex which capital will come from Amara Raja after that we will decide what is the best way forward in terms of financing the rest of the venture.

Sameer Deshpande: Are we under this PLI scheme, etc.?

Delli Babu: No, we have not been qualified under the PLI scheme.

Sameer Deshpande: Thank you and all the best.

Moderator: Thank you. The next question comes from the line of Mr. Khale. Please go ahead.



Amara Raja Batteries Limited
May 24, 2023

- Khale:** Yes, sir just one question from my side. In terms of the telecom batteries demand as you can just throw some light on how are you seeing the demand currently and the mix of the industry between lead acid and lithium-ion because essentially you know from your main entity you would be supplying lead acid and as the industry shifting to lithium-ion that would be going into your subsidy so how do you see the growth rate for individual lead acid as well as the lithium-ion segments for telecom and telecom industry as a whole?
- Harshavardhana G:** Sure, so when it comes to the demand in telecom, we actually saw increases in demand for both technologies lithium of course is growing at a faster rate starting with the lower rate, lead acid also saw strong volume growth, low double digits this year and we continue to see that going forward supported by the 5 gigawatt. Of course, over time we will be experiencing some transition as well but there is a clear runway in the next few quarters.
- Khale:** Okay sure and also if you can throw some light on the two wheeler lead acid batteries capacity expansion going forward you know if EV penetration continues to rise of course you have the aftermarket that will be growing but what is the kind of optimal capacity you think you will need probably in the next two to three years and how are you planning for that especially on the two wheeler lead acid?
- Harshavardhana G:** Within our existing plant we will be scaling up to about 30 million two-wheeler batteries per annum. We feel that would be sufficient for the demand we foresee given that we are seeing the electrification of that segment and we are able to also have confidence that we will be able to utilize those capacities going forward by also diversifying into other geographies.
- Khale:** Great. Thanks, and all the best.
- Moderator:** Thank you. The next question comes from the line of Udhayaprakash from Value Research India Private Limited. Please go ahead.
- Udhayaprakash:** Hi sir. Congratulations on the great set of numbers. I have two questions from my side. The first is since we have started working on the lithium-ion plants and all, have we contacted any company for raw material sourcing or if it is still on the top or are we doing it later?
- Vikramadithya G:** That is a great question so we are continuing to reach out to all the critical raw material suppliers, we have recognized that there is not much supply in India today at the time that we started plant capacity I think the initial target would be somewhere around 25% can come from domestic value addition, the major kind of raw materials like cathode, anodes,



Amara Raja Batteries Limited
May 24, 2023

there is some talk in the market that some people are interested, there is no immediate suppliers available so mostly from Asian sources we are expecting that we will have to source for the first couple of years and we continue to discuss with all these players, we continue to buy samples and test it out in our own R&D facility today and get these people qualified into our supply chain.

Udhayaprakash: What will be R&D spend as a percentage of revenue for the year and can you give it for FY2022 also if the numbers are available?

Delli Babu: See I think the R&D spent today is around including the development capex that what we are investing will be in the range of 2 to 2.5% of the Revenue that will be scaled up as we move into the separate facilities what we are currently creating, so right now it is more of the R&D pilot cell that we have established last year itself with about a total capital outlay about 20 Crores to 25 Crores and the current manpower cost and everything put together on the new energy business we will be spending around 2% to 2.5% of our overall revenue in this financial year on both revenue and capex, both lead and new energy business put together.

Udhayaprakash: My final question is bit on the future, so we have been investing heavily both on new energy business and lead acid business but there will be some time where the growth in new energy business will be much higher than lead acid business and it may lead to some kind of cannibalization so do we have any plans for that so that whatever we are spending on lead acid business does not go to waste in future let us say five to seven years into?

Harshavardhana G: Great question. I think one thing is we are very confident that in five to seven years we are not going to see any significant cannibalization, especially across our major segments. I think one thing that we are kind of bolstered by if you look at Indian market and also adjacent markets southeast Asia, other developing markets while we have penetration of lithium, electric mobility, other applications as well we continue to be an underserved market as far as automotive penetration is concerned so even Harsha mentioned earlier that we require 30 million two wheeler batteries we require expansion in many of our facilities and when we do not really see even a complete plateau of lead acid market for another 10 to 15 years at least in the Indian market Indian concept even after India plateau we still believe that nearby markets to us will continue to see some level of lead acid replacement demand so probably at least to this time period I talked about through the end of the decade we are not going to see any major cannibalization, whatever there is some cannibalization or some



Amara Raja Batteries Limited
May 24, 2023

conversion of capacities and stationary or other I think there is enough of opportunities in exports and other applications where we can easily deploy our lead acid batteries.

Udhayaprakash: Just if I could squeeze just one final question. We have seen some very good momentum in our industrial segments both on telecom and data centers have been growing and that also we have very good demand, so as you mentioned previously that we have a mix of 70 automotive and 30 industrial, do you see the same going forward with the same level of growth in automotive segment or is this mix supposed to change to 60, 40, maybe or 65, 45?

Harshavardhana G: We see roughly the same ratio maintained going forward. This is not to say that industrial by any means is deprioritized it is just that we are taking aggressive targets across segments growing industrial both domestically and internationally the same way we are taking automotives, so aside from making a little bit of movement that way that will continue going forward.

Udhayaprakash: Does the industrial segment have better EBITDA margins in automotive or this is the same as automotive?

Delli Babu: On the margin profiling we do not comment at the subsegment level.

Udhayaprakash: Thank you.

Moderator: Thank you. The next question comes from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Congratulations on decent numbers. Sorry I joined the call a bit late so my question might be repetitive. Firstly, on the utilization side on four-wheeler and two-wheeler and industrial battery, what is the utilization level currently?

Delli Babu: Current capacity utilization is around 90% Ashutosh.

Ashutosh Tiwari: This is across all capacities or what is four-wheeler and two-wheeler separately?

Delli Babu: It will be in the same range around 90% to 93%.

Ashutosh Tiwari: How much capex we plan for this lead acid in this year?



Amara Raja Batteries Limited
May 24, 2023

- Delli Babu:** In FY2024 on the battery recycling plant and also some of the line expansions that we have planned we may have to spend about apart from the regular capex of 100, 150 we may have to spend total capex of about Rs. 300 Crores to Rs. 350 Crores.
- Ashutosh Tiwari:** Rs. 300 Crores to Rs. 350 Crores apart from maintenance or including maintenance?
- Delli Babu:** Including maintenance.
- Ashutosh Tiwari:** How much capex for this lithium-ion cell plant in this year?
- Delli Babu:** This year depending on how the project progress and what are the terms that are agreed with the vendors I think our estimate right now is we may have to spend about Rs.250 Crores to Rs.300 Crores on the building construction as well as some of the equipment advances that we need to put.
- Ashutosh Tiwari:** You mentioned around 1300 Crores capex over next two to two-and-a-half years?
- Delli Babu:** Yes, because once the 2-gigawatt hour line also comes in this year it will be more of the commercial customer qualification plant, once the 2-gigawatt hour line kicks in that is when I think even higher numbers need to be allocated.
- Ashutosh Tiwari:** This two-wheeler battery plant let us say will we be reinstating that and also the thought process on that?
- Delli Babu:** Yes, we are we are going to reinstate.
- Ashutosh Tiwari:** That will be separate capex basically?
- Delli Babu:** Yes, because that will partially be covered by the insurance claim what we will be receiving so hence that is a separate capacity.
- Ashutosh Tiwari:** You mentioned we already received 100 Crores on them, remaining around 300 will come extra?
- Delli Babu:** It depends on how much cost we need to spend on the reinstatement. Our expectation is that it will be in the order of some what you have mentioned but it will be difficult for me to put a specific number at this point of time.



Amara Raja Batteries Limited
May 24, 2023

- Ashutosh Tiwari:** We mentioned on the lithium-ion side that on battery packs is applying for three-wheeler and telecom applications right, but are there any two-wheeler orders as well for battery packs?
- Vikramadithya G:** We have been selling smaller lots and we are giving samples to two-wheeler manufacturers. We do not have any major supply contracts today with any of the two-wheeler OEMs which hopefully this year we are planning on breaking.
- Ashutosh Tiwari:** On this data center side are you seeing any signs of shift towards lithium-ion and how are we prepared for that?
- Harshavardhana G:** So, I would not call it a shift, we are getting definitely requirements for both, still not be dominated by the lead acid requirement. There are certain challenges in here to lithium that the market is still figuring out but in the long term we feel that this type of transitioning will be happening.
- Ashutosh Tiwari:** On the two-wheeler replacement side because last three, four years we have seen a decline in the overall industry volumes on OEM side considering that what kind of growth we expect in next two years can we really maintain double digit growth or that will fall?
- Harshavardhana G:** I think on the two-wheeler front demand as we said has been strong this year on the aftermarket and OE, though it came back with a bit of a rebound characteristics I think for the next two years we can see similar growth not just as inflated as we might have been this year this previous year.
- Ashutosh Tiwari:** So, is it because now unorganized smaller player market share has fallen a lot and that is why we are benefitting from this shift basically is that the reason why still we expect to grow well in this segment?
- Harshavardhana G:** It was not in a market share it was a contraction of the market itself. I think we are aware there was a lower production over the last two, three years we mentioned and right now we are seeing on OE level almost reminiscent of pre-pandemic numbers so we feel that will be caught up and that momentum is very important for the next few years.
- Ashutosh Tiwari:** That would be all from my side. Thank you.
- Moderator:** Thank you. The next question comes from the line of Sagar Parekh from One Up Financial Consultants. Please go ahead.



Amara Raja Batteries Limited
May 24, 2023

- Sagar Parekh:** Thank you for taking my question. Couple of questions, so just to be clear you said that you do not expect two-wheeler lead acid side industry declining for the next few years did I hear it correctly?
- Harshavardhana G:** That is correct.
- Sagar Parekh:** So, you continue to maintain kind of double-digit kind of volume growth for OEMs for two-wheeler OEMs for next couple of years at least?
- Harshavardhana G:** Low double digit, high single digit.
- Sagar Parekh:** High single digit, so the replacement will continue, and OEM will grow at a high single digit.
- Harshavardhana G:** That is correct.
- Sagar Parekh:** On the lithium-ion side I understand we are doing such a large kind of capex though initial capex is lower but eventually you would be spending a lot of money so I just wanted to check on if there is a let us say five years out there is a technology shift from lithium-ion to let us say sodium ion or any other sort of technology then does it mean that this capex that we are doing will have like sort of no value like we will have to do new capex to for sodium ion or what is your thoughts on this?
- Vikramadithya G:** I think we need to definitely evaluate what some of these new chemistries look like. I think my understanding is that between sodium and lithium manufacturing process is actually quite similar maybe the capex is not entirely wasted, but I think when we talk about 16 gigawatt hour of our final capacity in this location it is a very dynamic plan so beyond the 2 gigawatt hour NMC plant everything in the future is going to be decided based on the best information we have at that time.
- Sagar Parekh:** Sure.
- Vikramadithya G:** You will see a significant shift to some new chemistry. I definitely believe that 2-gigawatt hour NMC that we are setting up most definitely find its own market penetration and we will be able to definitely offload that capacity looking at the larger market demand that is going to be in India and adjacent market.

- Sagar Parekh:** Sure understood, so sodium ion is you are saying is possible to convert some existing capacities but if there is like let us say solid state batteries or any other solid state is the next one which people are talking about so in that case then there would be completely new sort of capex requirement to manufacture the cells right for solid state?
- Vikramadithya G:** What I said about sodium having a similar manufacturing process as lithium. I do not want to speak out of turn and say that it is a completely fungible capex to what we are setting up that may not be very accurate in that. On the solid state as well at least from what I know today I do not believe that I think it will be new capex it is a completely dissimilar manufacturing process but a lot has yet to be seen and there is few companies that have really shown any, we are close to commercializing that so I may not believe that that will happen in the next five years so definitely we are watching out for when significant shifts can happen in the technology line.
- Sagar Parekh:** Got it and my last question would be on the homologation process you mentioned it will take about a year at least so when do we start this entire process so do we start once the plant is I mean under construction, or can we start now with already we are already supplying the battery packs so just wanted to?
- Vikramadithya G:** Generally speaking, the way that our products often happen is that you have three samples that have to come on A, B and C and usually around the D sample we would be supplying that through the OEMs to work in their upcoming platforms, existing platforms, and get that tested. With our R&D facility coming up closer to the city of Hyderabad that is where we start immediately once ready building out our A sample and we already have that facility in Tirupati as well which will be moved. When our commercial qualification plant we will be ready to start building up the samples and from there I think it is when we start the homologation activities along with the OEMs who are looking for our products.
- Sagar Parekh:** Perfect. Great Sir. Thank you. That is it from my side.
- Moderator:** Thank you. Next question comes from the line of Deepak Jain from ENAM AMC. Please go ahead.
- Deepak Jain:** What is the expected asset turn in the lithium-ion project once it matures, so let us say maybe 6 gigawatt hour and second thing since there will be different chemistries is there a requirement or a minimum capex required in a particular chemistry like NMC to reach optimal level margins let us say we are expecting to reach corporate level margin in this



Amara Raja Batteries Limited
May 24, 2023

project so is there any minimum capex per line or per chemistry required or we should look at an aggregate level only?

Delli Babu: As far as the asset turn is concerned at this point of time based on the gigawatt hour price what is available it may be around 1 to 1.2 times that is the number what we are seeing today. As far as the other question in terms of the optimum capex I would let Vikram respond.

Vikramadithya G: So as on date with the kind of mapping we have done we believe that around 8 gigawatt hour we will be able to reach a better kind of economies of scale especially if we start to bring in all the raw materials but I think I also need to kind of put an asterisk on the statement and say that it is a moving target as the capacities around the world is going to ramp up quite a lot whether that will remain the competitive care whether we also need to start looking at higher numbers in a shorter period of time I think has yet remains to be seen but today we are targeting around 8 gigawatt hour so that kind of benefits.

Deepak Jain: Thank you.

Moderator: Thank you. The next question comes from the line of Vibhav Zutshi from JP Morgan. Please go ahead.

Vibhav Zutshi: Thank you for taking my follow-up question. I just had one clarification. The battery pack you made is going to have NMC chemistry and the 2-gigawatt hour cell plant will have both LFP and NMC is this understanding, correct?

Vikramadithya G: No, the battery pack depending on the segment we will supply whatever chemistry is required, we are saying that in the initial phase one there is 2 parts to this plan, one is the commercial qualification plant which is kind of a commercial scale R&D line that will be being conjugal between LFP and NMC chemistry. The 2-gigawatt hour today we are planning as an NMC capacity.

Vibhav Zutshi: Got it. Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, we have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Vikramadithya G: Thank you everyone. I think we continue to look forward to the support and anytime we will be happy to get on calls and answer your questions, very enlightening questions also



Amara Raja Batteries Limited
May 24, 2023

that helps us to really expand our plans and our future readiness. I want to thank everyone again for patiently sitting through this call and allowing us to interact with each case.

Moderator:

Thank you. On behalf of Elara Securities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.