

**“Amara Raja Energy & Mobility Limited
Q3 FY'24 Earnings Conference Call”**

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**MODERATOR: MR. AMBER SHUKLA -- MOTILAL OSWAL FINANCIAL
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Moderator: Ladies and gentlemen, good day, and welcome to Amara Raja Energy & Mobility Limited Q3 FY '24 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amber Shukla from Motilal Oswal Financial Services Limited. Thank you, and over to you, sir.

Amber Shukla: Thank you. On behalf of Motilal Oswal, I would like to welcome you all to the Q3 FY '24 Earnings Call of Amara Raja Energy & Mobility Limited. Let me introduce you to the management participating with us on today's earnings call and hand it over to them for the opening remarks. We have Mr. Delli Babu, Chief Financial Officer.

Without any further delay, I request Mr. Babu to start with his opening remarks. Thank you, and over to you, sir.

Y. Delli Babu: Thank you, Amber. Good afternoon to all of you who have joined this call, thanks for coming in. During the current quarter, the consolidated revenue growth was around 15% on Y-o-Y basis. This has come on the back of the lead-acid battery revenue growing by about 12%, while the New Energy business has doubled its revenue compared to the previous year.

The lead-acid battery business, the revenue growth is on the back of the volume growth in 4-wheeler, both in the aftermarket segment and the 2-wheeler aftermarket segment as well, we have seen a volume growth -- robust volume growth. 4-wheeler aftermarket grew at about 11% whereas the 2-wheeler aftermarket grew around 15% during the current quarter.

While the OEM 4-wheeler, there was a very marginal growth of about 2%, the 2-wheeler volume growth was around [30%]. While the other applications in terms of the home UPS batteries, the growth was stagnant because we have been meeting the requirement through the trading group since we don't have the manufacturing facilities added.

On the industrial batteries side, the overall volume growth was around 6% to 7%. Most of the segments grew around the same level, while we have seen some strong growth in the telecom segment, which was about 2% higher than average. The 4-wheeler exports also registered a robust growth this quarter, about 25% in the volume growth.

On the international business side, we have just commenced shipments to the North American geography. While the revenue for these exports is recognized on a delivery basis, the commencement of consignments has started during the quarter.

On the margin side, in the lead-acid battery business, the lead base was around INR2 lakh, which was almost 8%, 9% higher compared to the previous year same time. But on the back of this volume growth, while when we look at the higher lead base, the EBITDA margin will show -- compared to the previous year, there is a reduction, that is completely because of the higher lead

base. And also, during the current quarter we had a trading revenue of about 7% because we are now trading on the tubular batteries.

So on a YTD basis, the margins are cumulatively better than the previous year. And for the current quarter, considering the higher lead base, there is reduction in the overall operating margin. But on a quarter-on-quarter basis, the margins are showing an increasing trajectory.

On the New Energy business, the revenue during the period has doubled. And about 80% of the net revenue is coming from the battery packs that we are selling to 3-wheelers and 2-wheelers. And we have, in this quarter, have commenced battery pack deliveries for the telecom sector and some of the industrial power backup storage requirements as well.

So we are producing chargers for the 3-wheeler and 2-wheelers, which we are supplying to the OEMs like Piaggio and Mahindra and as far as the other updates for the quarter is concerned, the tubular battery factory reinstatement is in progress and we expect the plant to be ready for the season of 2025.

And in the New Energy business, the Divitipally location where we are setting up our giga corridor currently, the land development and the design works are in progress. We expect that the operations in the giga corridor will start as I said earlier, during FY '26. This is the brief from the operations. I will now request any questions that can be taken up.

Before that, maybe let me also give one update that the integration of plastic components business that was purchased from Mangal Industries is also complete. We've received all the required approvals from the NCLT and other stakeholders. The effective date for this merger will be 1st February 2024. So we'll be completing the restatement of the financials and that information will be available to you as part of our annual accounts.

Over to you for questions.

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

Kapil Singh: Good evening sir. My question was on New Energy business. Could you tell us who are the leading customers for the battery pack business for 2-wheelers and 3-wheelers? And also, are we looking at other segments like 4-wheelers for either battery packs or chargers? Is there some product development or likelihood of revenues from that segment as well?

Y. Delli Babu: Yes. See, currently as I have said in the opening remarks, currently, the major customers are Mahindra and the Piaggio. On the 2-wheeler side, -- we have just commenced some of the consignments to the new customers. The volumes on the 2-wheeler side are still low.

As far as other segments are concerned, we have also started supplying some battery packs to BSNL as part of their tendering requirement and also will be commencing the battery pack sales to the telecom tower companies during the coming quarters.

As far as product development road map is concerned, yes, we are looking at developing chargers as well as battery packs at a higher voltage requirements as well, which will be suitable

for 4-wheeler requirements, but I think that will take some more time before we put up those products to be available to the market.

Kapil Singh: Okay. And sir these orders which are coming from telecom segment, are they replacing the lead-acid batteries? Or they are incremental?

Y. Delli Babu: It's actually both. In some of the small cell towers, they are using the lithium packs, and they have also started now looking at replacing lithium battery packs in some of the base tower stations itself where the backup requirements are suiting the lithium requirements, lithium technology characteristics. But I think over a period of time, if the lithium prices were to continue to fall the way that they have been doing in the last six, seven months, yes, they may consider a larger migration as well to the newer customers.

Kapil Singh: Understood. And sir, we have also mentioned entry into the North American market. This is for which product? And what is the scale of order book that we have mentioned?

Y. Delli Babu: This is for the four-wheeler AGM batteries that we are manufacturing. While I will not be able to share the numbers on the order book and all because there is no such concept of order book, these are basically purchase contracts that will come in based on the requirements of the large retail chains that are there in that country. There are reasonably sizable opportunity. So hopeful they will gain more traction in the coming quarters.

Kapil Singh: Okay. Because the press release actually mentioned we have a substantial order book. So that's why I was checking.

Y. Delli Babu: Yes, we do. We do. But these are order books that will come as part of the long-term contracts, which are changeable based on the market conditions over there. You know the size of the market over there. So naturally these are sizeable orders. But in terms of numbers, I wouldn't want to delve into the details here.

Kapil Singh: Sure. I'll come back in the queue. Thanks.

Moderator: Next question is from the line of Raghunandhan N.L from Nuvama Research. Please go ahead.

Raghunandhan N.L: Thank you, sir, for the opportunity. Sir, a couple of clarifications before I get into questions. Firstly, given that near term, some pressures on the cost, have we taken any price hikes in January, February to offset that?

Y. Delli Babu: No, we have not taken any price hikes as yet because these levels of current lead levels has been there for the last almost current year, lead always been hovering at this level. So I don't think we have taken any price correction except for in case of B2B cases where the passing on will happen.

Raghunandhan N.L: Got it. Because your competitor has taken. On the volume side, sir, for inverter, how was the performance Y-o-Y?

Y. Delli Babu: Y-o-Y, there was no growth. We have just done whatever we have done in the last year.

Raghunandhan N.L.: Got it. Coming to my question. One on capex and investments, how much do you expect for FY'24 and '25 both on the lead-acid battery capex and New Energy investments? My second question was on the lithium project, which is progressing as per plan. So for this project, if you can give some color how you are seeing traction with customers, how do you see the ROE over a two, three-year period, assuming the ramp-up happens to 70%, 80%, can you see ROE of 15%? And will there be any support because of the PLI scheme where the rebidding has started, so would that also help your -- would those incentives help your profitability there?

Y. Delli Babu: Yes. See, as far as New Energy is concerned, currently, as we have mentioned in the earlier calls as well about the three projects, one is putting -- increasing our pack capacity as such. Current capacity is about 500 megawatt hour. We'd like to ramp it up to 2 gigawatt hour over a period of time. And the second project is about the customer qualification plan. The work for that has commenced, and then we have ordered the required equipment, which is more for testing the product and then getting it homologated with the OEs. And the third project is about the E-Positive Labs, which is basically a research institution that we are building.

And as far as the initial 2 gigawatt hour plant is concerned, that is something that we said we'll be operational sometime in FY'26. As of now, when we look at the return ratios considering the current pricing levels and also the equipment capex levels, we still believe at the EBITDA level around 10%, 11% is possible. But when we look at the ROE, considering the asset turnover ratio and also the current sale price levels, still it will be very difficult for me to put a number, but at this point of time, we are reasonably confident that return on equity could be in the similar range of 10%, 11%.

But these numbers, as I told you, can only be taken on their face value until we achieve a given scale. Any subscale operation in the cell manufacturing will not be the right time for us to really measure the return on equity. 8 gigawatt, 9 gigawatt hour scale, when we are running at the cell level, is when I think we should really look at what return possibilities are coming up.

Now as far as your first question was...

Raghunandhan N.L.: Capex and investment.

Y. Delli Babu: Capex and investment is concerned, I think current year, we will be closing with an overall investment of about INR250-odd crores in the lead-acid business and around INR250-odd crores to INR300 crores between the lead recycling plant as well as the New Energy business. I think next year, we'll have at least about INR600 crores of capex coming in, which may be predominantly focused around the New Energy business.

Raghunandhan N.L.: Got it. So in stand-alone operations, generally, what we do, that INR400 crores kind of capex, that would continue as -- for lead-acid/lead recycling. And then the New Energy would further take additional investments because the INR1,500 crores, which you are investing in Giga Corridor, that is what you're saying, right, that this year, INR200 crores to INR300 crores and next year, maybe INR500 crores to INR600 crores?

- Y. Delli Babu:** Most of the investment on the recycling plant might get completed by the end of this fiscal or maybe the first quarter of next year. So the overall lead-acid capex may be in the range of INR250 crores to INR300 crores only for next year. And another INR300 crores to INR400 crores will be required for the New Energy business for the equipment that might get delivered in the next year. So the numbers may change by about a margin of INR50 crores here and there depending on how the project progresses.
- Raghunandhan N.L:** Got it, sir. And the question I asked on PLI scheme and whether you will be participating and whether the conditions for the scheme is same this time compared to the last time?
- Y. Delli Babu:** Yes. There were only a few changes that they have done. There are not many, and I don't think they're very seriously material. I think the product characteristics, the value-addition requirements within India and also the ramp-up requirements are more or less the same, and even the subsidy amount is the same.
- I think we should be able to participate in this tender as well. While this is only for a 10-gigawatt hour tender that the government has launched, I think we will be able to participate in this as well. But obviously, I mean, the overall story around the New Energy, I don't think there will be any rethinking whether we qualify for PLI or not.
- Raghunandhan N.L:** Understood, sir. Wishing you all the best and thank you so much. Very useful.
- Moderator:** Thank you. Next question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.
- Jinesh Gandhi:** Congrats on good numbers. Quickly, I wanted clarification on the cell level EBITDA, which you mentioned you are expecting about 10% to 11% EBITDA margin based on current prices or cell manufacturing operations or you're referring to 10% to 11% ROEs?
- Y. Delli Babu:** See, at a level of 7- gigawatt to 9-gigawatt hour scale is what I'm saying that operating, Jinesh, because anything less than a 2 gigawatt, 3 gigawatt hour, definitely, you will not be able to keep those numbers. You need scale for hitting a 10% to 11% EBITDA margin.
- And the ROE requirement based on the current capex, rough estimate suggests that it may be around that lower double digits. But if the capex costs were to come down, then maybe situation might improve.
- But we have seen the kilowatt hour cell price is also coming down quite drastically in the last two, three days owing to the lithium carbonate price is coming down, and also the capacity utilization elsewhere is not full. So there is definitely a tendency to use capacities and then sell at lower prices.
- While this I believe would be more of a temporary blip, I think we will see, again, the prices climbing once the demand increases. And anything around \$80, \$90 per kilowatt hour is a reasonable cell price to expect. Otherwise, the unit economics will be very difficult to manage. But even if we look at the current prices level, I still believe because this is more driven by the material cost that are reduced, I think I still believe the operating margin-wise still 10%, 11% is

possible. But as I said, all these are estimations at a given scale. They cannot be done at subscale hours.

Jinesh Gandhi: Right. Got it. And a couple of questions. One is on the stand-alone revenue, we have seen about 9% growth in this quarter, whereas we are referring to about 12% top growth in the lead-acid business at a consol level. So the gap is due to the price pass-through, which should be there in B2B business? Is that the right understanding?

Y. Delli Babu: No. When you look at the stand-alone statements, last year same quarter, there was a lithium battery revenue as well. So if I take out that revenue and then purely look at the lead-acid battery revenue, we will see that in the segment financials that we have given, where the revenue for lead-acid batteries last year was about INR2,570 crores, which has grown to INR2,896 crores this quarter.

Jinesh Gandhi: Okay. Got it. And on the lead prices side, so are we seeing further inflation from what we have accounted for in Q2 because that's what LME prices are suggesting? And in that context, any thoughts on price increases in the replacement market?

Y. Delli Babu: No, I don't think -- see, lead is hovering between 2,050 to 2,150. That is the range that we are seeing at least for the last four to five months. Given this range and the current levels where we are, I don't think there is a serious correction required after pricing. But if lead was to continue to remain at levels of 2,150 and 2,200, then maybe, yes, there may be a need for a price correction. But otherwise, if it oscillates between these levels, I think we are fairly priced is what I believe.

Moderator: Thank you. Next question is from the line of Vibhav Zutshi from J P Morgan. Please go ahead.

Vibhav Zutshi: My first question is on the New Energy business, and particularly, what's happening in China, where at least the MST battery prices have come down to as low as \$50 per kilowatt hour. Obviously, it's very early days, but just the fact you mentioned that 10%, 11% EBITDA margins are possible, so on one hand, how should we think about it?

Is it as battery prices come lower, is it an opportunity for you to cater more to, say, telecom applications and the volume can go higher? Or is it that pricing can be under some sort of pressure? So how are you thinking about this situation?

Y. Delli Babu: Yes. As you are right, you will see our kilowatt hour prices of MST were to come down to \$50 levels, which at least the last price that I have seen in India is about \$60 to \$65. But if it further come down, right now, I'm seeing two reasons why there is this pressure on the pricing. One is, there is a competition within the Chinese market and also the material prices, particularly under lithium carbonate, the way it has come down, are two contributing reasons for this kind of a price drop.

And when we look at the financials of those companies as well, only large-size capacity -- large-size companies are able to operate around 8%, 9% kind of a margin, whereas smaller companies are trying to achieve even a 5% EBITDA margin. So I don't think this level of pricing can

continue forever and then the products be viable because the capital intensity of this business is quite high.

So these operating margins of 4%, 5% or even 6%, 7% are not sustainable from a business scale point of view. So at some point of time, these prices have to revert back. We cannot continue like this is what at least my reading is. I may be proven wrong because the similar pricing tendency is happening even elsewhere like solar cell prices also.

So now when we look at the Indian cost structure, I think after whatever the understanding that I have -- I think on conversion cost side, I think we have I would say, there is a reasonable possibility that we may not be costlier compared to any other manufacturer in the world, while on the material cost side, yes, the cells ecosystem will definitely give some advantage to them. Now how much is that advantage at this time, we believe there could be a 15% on the material cost advantage that may be there for the same companies. That's something that we need to deal with as we move into this business particularly on the cell side.

On the pack side, I think it is fairly a known story because you simply assemble the pack, and then it is about the BMS and the other thermal management systems that is what the value drivers there. But on the cell price, I think conversion cost side, we are reasonably good. Material cost advantage is something, it will take some more time for the Indian ecosystem to really fill in, and it's going to be a long haul.

Vibhav Zutshi:

Got it. No, that's very helpful. Thanks for the detailed colour. And just as a follow-up, what we are seeing is that there could be a massive overcapacity kind of situation coming in the next couple of years globally as far as manufacturing capacity is concerned. So do you see any risk of, say, dumping of these cells on India and which might result in this kind of a situation? Or given the fact that you mentioned that we'll be okay from a conversion cost point of view, I mean still it's not going to be that big of a threat. Any thoughts on that?

Y. Delli Babu:

Yes. See, I think as we speak also, it's happening. It's not that it is not happening because three years, three months ago or four months ago, if you observed the kilowatt hour prices was somewhere close to 100. So I'm sure that pricing pressure is definitely acting on players who have excess capacity, and they are definitely trying to find sources where they can dump the material as much as possible.

Like I said, the material cost side advantage is what the Chinese ecosystem has. Yes, definitely, it will be a challenge for the Indian ecosystem to meet it. But that is something an industry issue, it is not specific to any but any one particular company. But if you talk about the world capacities, yes.

As we speak, if the penetration levels were to become only 30%, 35% or not beyond that on the 4-wheeler side, then I think, yes, people will feel this higher capacity burden for a long time to come. So unless the penetration levels on the EVs, 4-wheelers were to drastically increase to at least 50%, then I think some respite will be there for the capacity utilization.

And this may also result in some level of consolidation where the excess capacities are there. But yes, it is definitely a new thing that has emerged within the last three, four months. And then we need to be wary about how we invest capital behind it and then be careful that we are not burning too much cash without understanding the operational dynamics of it.

I think we are closely looking at the situation. Then we'll calibrate our plans depending on how this pricing situation emerges.

Moderator: Next question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf: Yes, sir good evening. And thank you for the opportunity. My first question is just only the on numbers. First is the other expenses. I think last couple of quarters, you have mentioned certain one-offs with respect to higher insurance charges and consultancy charges, power costs, etcetera. Other expenses continue to go up Q-o-Q. So are we still incurring some of these costs, sir?

Y. Delli Babu: Yes, Mukesh, the insurance cost is a per annum cost that has increased. So every quarter, we have a INR10 crores burden coming up on a quarter-on-quarter basis. So if we look at it that way, there is that burden that is still there. And we are also working on certain products to enhance the internal efficiencies where we are spending some money under consultancy.

I think that should give us the operational efficiency in the coming quarters. Those two one-offs are still there in this quarter also. And I think the efficiency level, some of them may go in Q4 and the balance in the next year.

Mukesh Saraf: Okay. Got that. And secondly, on the New Energy business, currently on the battery pack, I think you mentioned 80% is pack revenue. We are seeing the margins improve there. So I mean, what's the driver for that? What kind of utilization rates we are at of that 500-megawatt capacity that we have right now on the assembly?

Y. Delli Babu: Yes, see, the profitability driver is less dependent on the total capacity utilization because generally the pack is not a very capital-intensive process. But we are considering the volume that we have sold. There is some bit of material cost advantage we had, and also, the overall process efficiency also has helped in a bit of better margin and as we increase the scale, some of the fixed costs we have in the business also is actually getting observed on a larger volume.

So beyond the scale and some bit of material cost advantage, there are no other factors which are leading that efficiency.

Mukesh Saraf: So I mean, if I look at the other way, what kind of revenues we can do with our current assembly capacities, say, this coming year F25 until -- obviously, the cell manufacturing will start beyond that. So what can we do, sir, on this business?

Y. Delli Babu: See, the current run rate I mean, obviously, the revenue size will also depend on where the battery pricing is because, again, 70% of the pack is full. So the current run rate of INR150 crores can be easily sustained with the existing process, and it can even be stretched to about

INR200 crores. So I think with the current capacity that we have, INR200 crores revenue is possible.

Mukesh Saraf: Got that. Got that. And then lastly, the recycling plant, I think you mentioned from first quarter, you can start operations for us. Is that correct?

Y. Delli Babu: Yes. Next year, first quarter is where we are expecting the operations to commence.

Mukesh Saraf: Okay. And will this largely replace a third-party source right now? Or will we start using a lot more recycled lead?

Y. Delli Babu: We have been increasing the recycled lead portion depending on sources available for a very long time. We have reduced our important funds run rate quite drastically. So as per, our BWMR rule compliance, whatever scrap we are procuring, I think that might get processed in this facility itself. So actually, the proportion of the secondary lead vis-à-vis the primary lead will not alter just because facility has come up. But some of the facilities that we are depending on third parties might come down, but we do not completely eliminate the third-party dependence.

Mukesh Saraf: Got it. Great, sir. Thank you. I'll get back.

Moderator: Thank you. Next question is from the line of Manan Shah from Electrum PMS. Please go ahead.

Manan Shah: Okay. Just a clarification regarding our lithium-ion cell manufacturing of 2-gigawatt plants. So are we going to manufacture NMC batteries or LFP or both?

Y. Delli Babu: Yes. To start with, I think NMC will be the first chemistry. But soon after that, we should also get into LFP because in the long term, we believe LFP will be the dominant chemistry. That's what we have said even in our earlier calls. We believe 60% of the market will be requiring LFP, and the balance only might be the NMC and other chemistries.

Manan Shah: Okay. And have we collaborated with any NMCs for technical know-how?

Y. Delli Babu: No. At this point of time, I don't think I have any update on that front of technology collaboration. There are certain efforts that are happening internally, and we are also working with certain other agencies. As of now, if you ask me whether we have a large technology partner for this business, no.

Manan Shah: Okay. Okay. And last question is regarding our investment in Log 9 batteries, where we own 15%. So are we taking any technical know-how from there? Or if you could shed some light on what exactly is our relationship with them?

Y. Delli Babu: Yes. See, as a start-up, we made our investment. We are also working with them for certain technology requirements that what we have. our intention of investing Log 9 was definitely strategic. So at this point of time, beyond this, I don't think I have any other details to share with you.

Manan Shah: Okay. Got it. Thank you so much.

Moderator: Thank you. Next question is from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Sir, what was the New Energy business -- how much was the New Energy business revenue in 9 months FY'25?

Y. Delli Babu: About INR400 crores.

Abhishek: And what is your target for the next year?

Y. Delli Babu: No, I don't think we have been talking about any targets in these calls.

Abhishek: Okay. And as you are looking to add many products to leverage your distribution network, like you added lubricants, and also, you are looking to install solar panel installation. So just wanted to understand what are your plans to just improve your revenue from your distribution network?

Y. Delli Babu: See, as a matter of leveraging the channel assets, yes, you are right that we have launched our lubes business. I think the all-India rollout has just been concluded. So I think it will gain some traction in the coming quarters. As far as solar panel business along with the batteries is concerned, we look at home energy as one piece, which could be a backup storage, which could be a solar panel requirement.

So there are multiple ways to approach this entire home energy business. Right now, the concept around this business is getting developed. So in the future, as we see the opportunity, either a battery-agnostic solution can be developed around the home energy requirement both for backup as well as solar, so as and when we launch those businesses, we'll update you as to what is the business case opportunity.

Abhishek: Thank you, sir. That's all from my side.

Moderator: Thank you. Next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Sir, you mentioned that there was 30% growth in 2-wheeler OEMs. Can you just give some color like what was the driver? Is there some new customer that has ramped up there?

Y. Delli Babu: No, I think the customer, portfolio-wise, is the same. It's only that value -- volume growth was higher during the current quarter. Kapil.

Kapil Singh: So there is just market growth mainly?

Y. Delli Babu: Yes, there is more of the volume growth that we have seen in the OEMs.

Kapil Singh: Okay. Thanks. That's it from my side.

Moderator: Thank you. Next question is from the line of Vikash from Akon Trade. Please go ahead.

Vikash: This Mangal Industries acquisition/merger there?

Y. Delli Babu: Yes. That's getting concluded now. I think we'll be completing that merger in the current quarter.

- Prakash:** Okay. And the swapping ratio is the same? Whatever the approach on this one is there at the time of merger documents?
- Y. Delli Babu:** Absolutely. Yes, yes.
- Prakash:** And at that time, you mentioned this one is there. Let's say after this merger -- let's say EBITDA margin improvement is the 0.75% to 1%, whether it reflects in the next year?
- Y. Delli Babu:** Yes, once we restate the financials, I think we will be able to comment on those numbers.
- Prakash:** Okay. Thank you.
- Moderator:** Thank you. Next question is from the line of Sanjay Satbaty from Ampersand. Please go ahead.
- Sanjaya Satapathy:** Sir, just little bit clarification, this new this inverter battery factory, when is it likely to come up, sir?
- Y. Delli Babu:** We'll be using the factory for the calendar year '25 season, it should be available. We are expecting to commence the commercial production sometime in Feb 2025 or March 2025.
- Sanjaya Satapathy:** Okay. Until that time, you will be doing this trading for that business?
- Y. Delli Babu:** Yes, you're right.
- Sanjaya Satapathy:** And as far as your electric vehicle -- lithium-ion battery is concerned, can you just give us some updates into those, when would this likely to start commercial production?
- Y. Delli Babu:** As I mentioned earlier, our objective is to look at starting the commercial production in FY'26. And I think as of now, there is no change in the plans. So unless there are further things that require more time or less time, we'll come back to you as and when those -- that understanding emerges.
- Sanjaya Satapathy:** Understood. And sir, lastly, if I can check considering that your competition has taken price hike and the costs have gone up and you are not taking price hikes, so are you likely to see continued margin pressure? Or you have something that you had that will help you to improve margin from where it is now?
- Y. Delli Babu:** See, I think considering the lead base and also once the tubular factory comes back, manufacturing revenue, if we can improve. Yes, there is a possibility of improving the margins further. As far as rate hikes are concerned, I don't think we'll shy away from taking them once we see a stable lead price over and above what we are currently seeing because right now, there is an oscillation happening in a \$100 range. So when such oscillations happen, that's not the time we actually look at the price,
- But yes, if it sustains at the higher lead level, we will definitely consider the price hikes. Whereas in the B2B segment, it's an automatic pass-through that happens as and when there is a price change in the material.

- Sanjaya Satapathy:** Understood. Thanks a lot, sir. Thanks a lot, sir.
- Moderator:** Thank you. Next question is from the line of Apurva Jain, an individual investor. Please go ahead.
- Apurva Jain:** Yes, sir. So I have two questions. So the first question is regarding the fungibility. Sir, let's say right now, as you said, that we would be having 2 chemistries the New Energy plant, right? So it would be LFP, and NMC. I want to understand that in the future, I suppose a couple of years afterwards, if some new chemistry comes into you, for example, the sodium-ion battery which we are hearing, right. So would -- are the new factory would be fungible to manufacture those batteries as well or we have to do some another capex for that if required in future?
- Y. Delli Babu:** Yes, that's a good question. Actually, based on what our understanding that we have so far, the chemistry changes are not going to cause too much capital redundancy, whereas the form factor will change. That's our understanding as of now. So we believe even on the sodium side, at least some of the processes may not significantly change. But some of the processes may undergo a change when it comes to sodium battery chemistry coming up.
- But we believe that capex fungibility or the change of equipment that is required to move into different chemistry, I don't think it's going to be very significant. But between NMC and LFP chemistry changes at this point of time, we don't believe there is too much of capital finality for us to change. It's only that the change over time will be a little longer. So that's our understanding.
- I wouldn't say we have fully understood this, but I think we'll come back once we understand further on what are the equipment that is currently used. But we believe sodium-ion for commercial scale is still some more time away, but we are keeping a close tab on it.
- Apurva Jain:** Okay. And sir, my another question is regarding what is the revenue potential for the new gigawatt plant which we are aiding into, like which will be -- I think will be commercializing in FY '26?
- Y. Delli Babu:** See, at the current price, the NMC pricing is around, let's say, about \$60 to \$70 per kilowatt hour. And then on a 2-gigawatt means it's 2 million kilowatt hours, so you can see what's the math.
- Apurva Jain:** Okay. And sir, yes, so what are the margins we are estimating in this business plan?
- Y. Delli Babu:** As I have mentioned earlier also in the call, I think the time for margins, while we have done a lot of scenario analysis, we believe at a given scale, a 10% operating margin is possible, but that will depend a lot on how the material pricing will behave. So if material pricing were to continuously come down and capital intensity were to remain at the same level, then I think even that will be a challenge. But we believe at this point of time, at 8- to 9-gigawatt-hour scale when we achieve is when we can see an operating margin level of around 10%, 11%.
- Apurva Jain:** Okay. And my last question, how much percentage of our revenue we sell to the aftermarkets, be it 2-wheeler, 3-wheeler, 4-wheeler?

- Y. Delli Babu:** Yes. From a volume point of view, I think almost 50% of our volumes are to aftermarket.
- Apurva Jain:** Thank you. That's it from my side.
- Moderator:** Next question is from the line of Vibhav from JPMorgan.
- Vibhav:** Okay. Okay. Thanks for taking my follow up. Just wanted some clarification on the demerger process, the Mangal Industries. So you said that the deal will get concluded in this quarter and the updated financials will be provided then?
- Y. Delli Babu:** In the annual accounts.
- Vibhav:** Okay. But it will get completed in this coming quarter?
- Y. Delli Babu:** Yes, because past February is the closing date.
- Vibhav:** Okay. Got it. And just one last follow-up. This North American exports that you have commenced, how should we think about the export revenue potential? Because I think last year, we saw some kind of a slowdown because of the antidumping duties. But in general, how much of the growth potential can these new orders bring?
- Y. Delli Babu:** Yes. As I think we have articulated earlier, the idea is considering the opportunities that will be available because of the consolidation that may happen in the lead-acid market. There is a reason scope to grow around 15% kind of a number in terms of volumes. But that depends on enhancing the market share in the existing markets where we are operating and also getting into some of these newer markets. At this point of time, the AGM battery supply is definitely helping us ramp up some of these centers. We have to see how it unfolds as we move ahead.
- Vibhav:** Got it. Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen, as that was the last question of today, I now hand the conference over to management for closing comments.
- Y. Delli Babu:** Thank you, everyone, for joining, and we'll be happy to take your questions next quarter. Thank you.
- Moderator:** On behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.