



“Amara Raja Batteries Ltd Q1 FY16 Earnings Conference Call”

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MODERATOR: **MR. ANNAMALAI JAYRAJ - DIRECTOR & DEPUTY HEAD OF
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Moderator:

Ladies and Gentlemen, Good Day and Welcome to the Amara Raja Batteries Q1FY16 Earnings Conference Call hosted by Batlivala & Karani Securities. As a reminder, all participants' line 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 Annamalai Jayraj from Batlivala & Karani Securities. Thank you and over to you, sir.

Annamalai Jayraj:

Thank you, Margaret. Welcome all to the 1QFY16 Conference Call of Amara Raja Batteries. We welcome the management of Amara Raja Batteries for the call. From the management, today, we have Mr. S V Raghavendra – CFO; Mr. Rajesh Jindal – CMO, Automotive Batteries Vertical and Mr. Srinivas Ganga – CMO, Industrial Batteries Vertical. To start with, CFO will brief on the 1QFY16 Results of Amara Raja and it will be followed by a Q&A Session. Over to you, sir.

S V Raghavendra:

Good Morning. Thank you all for joining us today for this conference call on the performance of the company for the first quarter of FY16. We have two broad business verticals – First is the Industrial Battery segment, other one is Automotive Battery segment, including Inverter Batteries. We have recorded a turnover of Rs.1,137 crores in the first quarter as compared to Rs.1,024 crores last year same quarter which is a 11% growth in terms of top line. And the profit after tax was Rs.122 crores as against Rs.106 crores last year, a growth of 15%. In terms of volumes, we have had a decent double digit growth in most of the segments excepting a few. The growth momentum is continuing on a sequential quarter basis.. On the capacity front, we have the Four Wheelers Batteries, capacity of 8.25 million Batteries per annum, for the Two Wheelers Batteries, we have 8.4 million Batteries per annum, and on the Industrial Battery side we have about 2 billion ampere hours per year as capacity available. The capacity utilization in most of the plants have been quite satisfactory, it is upward of about 75-80% and we still have enough room for growth in the coming quarters and coming years.

With these words, I request you to start asking questions which can be answered by my colleagues, Mr. Rajesh Jindal and Mr. Srinivas Ganga on specific business segments. Thank you.

Moderator:

Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Surjit Arora from Tata Mutual Fund. Please go ahead

Surjit Arora:

A couple of questions: If you can give us a breakup in terms of segment wise growth in this particular quarter in terms of Four Wheelers, Two Wheelers, UPS as well as on the Telecom side, that will be helpful sir?

Rajesh Jindal:

I am Rajesh Jindal. As far as our Four-Wheelers growth is concerned, it has grown 28% over the corresponding quarter last year and as far as Two-Wheelers is concerned we have grown around 21% over last year. Coming to the Inverter segment, the sale is almost flat as last year because we had quite a different season with two out of the three months actually getting washed out because of unseasonal rains and weather conditions

Srinivas Ganga:

This is Srinivas Ganga. In ISBU overall we had a 10% growth. The UPS segment growth is almost flat, on a quarter-on-quarter basis. In Telecom, we continue to grow in lower double-digit numbers. Overall as a segment, ISBU vertical we grew 10%.

Surjit Arora:

Second question is what is the mix in terms of OEM to Replacement in the Auto side, please?

Rajesh Jindal:

Mix is somewhere in the range of one-third, two-third between OEM and Replacement

Surjit Arora:

How it was same year last quarter?

Rajesh Jindal:

We are maintaining this ratio +/- 3% more or less the same for the last many years.at

- Surjit Arora:** In your assessment, what will be our market share in the Four-Wheelers Replacement side?
- Rajesh Jindal:** As per our calculation we are at 25% market share in the Four-Wheeler Replacement market after considering unorganized sector as part of entire market. As far as Two Wheelers is concerned it will be somewhere 27%.
- Surjit Arora:** Are you witnessing a trend where you are gaining market share at the cost of unorganized segment at this point of time?
- Rajesh Jindal:** We are definitely growing market share because we are growing at the rate of 28%, while the industry is not growing at that rate. The industry is growing at the rate of hardly around 10-11%. So, obviously it means we are gaining share. Now, whether that share is coming from unorganized or other regional brands, difficult to say but looking at the overall picture and the way the Q1 has panned out, definitely, we would have taken share from the unorganized as well.
- Surjit Arora:** What was the average cost of lead this quarter vis-à-vis last year same quarter?
- Srinivas Ganga:** \$1860 approximately in Q1 against close to \$2100 in the previous year Q1.
- Moderator:** Thank you. The next question is from the line of Sumanta Khan from ICICI Prudential Life Insurance. Please go ahead.
- Sumanta Khan:** Want to know, within Automotive, what would be the likely business split between Four-Wheelers and Two Wheelers?
- S V Raghavendra:** Two wheeler batteries is about 20% within the Automotive segment, 80% is four wheeler batteries
- Sumanta Khan:** When you say you earn two-third is Replacement, I understand this would be predominantly the Four-Wheelers Replacement which is there in the overall Replacement system?

- S V Raghavendra:** This includes Two Wheelers also.
- Sumanta Khan:** But I think predominantly should include Four-Wheelers?
- S V Raghavendra:** That is right.
- Sumanta Khan:** Given Lead prices have corrected so much from last year, how are you seeing the pricing environment in the market at this point of time?
- Rajesh Jindal:** As far as Automotive is concerned, firstly though the Lead prices have corrected, the impact of that is only visible from this quarter. Secondly, if you look at how it is going to impact the market pricing, at least OEMs are definitely directly related to Lead prices, so they keep on correcting prices plus or minus either way based on PVC Clause / what the Lead situation is. So OEM pricing decision does not come into play. Only in case of Replacement market where the market pricing comes into play. At this point of time we are adopting a wait and watch policy because though Lead is correcting, suddenly the rupee has also depreciated quite a lot. At this point of time, we are not evaluating any pricing action at least for the next two months.
- Moderator:** Thank you. The next question is from the line of Miten Vora from BNP Paribas. Please go ahead.
- Miten Vora:** When is the Telecom Battery capacity expected to come on stream?
- Srinivas Ganga:** Last year we have increased our Telecom Battery production capacity by about 250 million ampere hour. This year also sometime during Q3 you would be seeing another minor increase in the Telecom Battery production capacity.
- Miten Vora:** Any color on the expansion in the manufacturing Inverters also?
- S V Raghavendra:** On the tubular batteries for the Inverters, expected date of commissioning of the new plant is December 2015. As of now the project is progressing on schedule. We will have about 0.9 million

batteries per annum capacity in Phase-I, and in Phase-II we are expecting to add another 0.5 million, that will go on stream roughly one year down the line, maybe in December 2016 or January 2017. So the total expected capacity for the Inverter Batteries is about 1.4 million.

Miten Vora:

What would be the total CAPEX for FY16?

S V Raghavendra:

FY16 the estimated CAPEX is about Rs.600 crores.

Miten Vora:

How much have we started with?

S V Raghavendra:

We have already done about Rs.200 crores as of now and the remaining portion of the year we will be completing the capital expenditure.

Moderator:

Thank you. The next question is from the line of Janaki Raman from Franklin Templeton. Please go ahead.

Janaki Raman:

You mentioned about the kind of growth that you had in the aftermarket in Q1 within the Auto segment. Broadly, how did the OE segment grow during that time?

Rajesh Jindal:

We had a good growth in the OEM as well; in the Four-Wheelers OEM we grew by around 14% and Two-Wheelers OEM we grew by 18%.

Janaki Raman:

After this new plant has been commissioned, so you have an increase in capacity and with higher capacity what is your ability to retain that two-third, one-third mix because since you have higher capacity, will you use the capacity available to push up the OE so that mix gets slightly skewed towards OE let us say in the next 1-2-years?

Rajesh Jindal:

If you look at it, we are growing the OE business also at a good pace; it is growing at 14% while the industry growth in Q1 was almost flattish and it is somewhere around just 4% growth as far as the OEM is concerned. So we are definitely growing OEM and

Aftermarket both, and we expect that the first phase of new plant that we have put in we should be in a position to fill it up by the end of this year.

Janaki Raman: Which means even the Phase-I of new capacity will go to a reasonably high utilization by end of current fiscal, is it?

Rajesh Jindal: Absolutely.

Janaki Raman: Can you throw some light on, there is a fairly big gap between the OE growth that you had in Q1 and the actual Auto industry volumes, how have that happened – is it because you have gained some new clients or new models?

Rajesh Jindal: It is not a question of new clients. The new clients business will happen during the course of the year but Q1 is basically a reflection of the existing efforts done in the last year. So, it is basically new platforms within the existing OEM which has given us this one.

Janaki Raman: On Telecom, just to clarify the numbers, you mentioned that about 250 million ampere hour added last year. So, with that now, where is the capacity stand?

Srinivas Ganga: Probably close to 1.1 billion ampere hour. But then that whole thing need not go to Telecom. So far we looked at that segment as something which is a large capacity format, but the way now the Telecom is growing, we need to redefine the format that includes both large capacity batteries and medium capacity batteries. With the grid power situation improving in some places and with new 4G sites coming up, Telecom will also start using Batteries of both Large Capacity as well as the Medium Capacity Batteries. The large capacity cells are used for other applications like UPS, railways, solar and exports apart from Telecom.

Janaki Raman: With The improving availability of grid power, has it lead to longer replacement cycle for Telecom towers as far as Battery is concerned?

Srinivas Ganga:

We have not seen that as yet. Theoretically over a period of time you can actually say that so, because with the improved power situation the replacement cycles can get elongated, but I think it is too early to really indicate a number now and say that it is been happening now.

Janaki Raman:

Where does your market share now stand in Telecom sir?

Srinivas Ganga:

It is difficult to project an accurate number, especially in Industrial battery segment. Estimating potentials accurately is difficult. But based on our share we maintain with our key customers in Telecom, we believe our share is well above 50%.

Janaki Raman:

And the thought process earlier was that when large national operators like Airtel for example when they have diversified into Africa, you will also probably piggyback them and then get back those African Tower Battery businesses as well, has that panned out as expected?

Srinivas Ganga:

We are quite happy with the way our exports, especially for Telecom application shaped up. In Africa, we did a very good job with Airtel almost on a single vendor basis. last couple of quarters you would have seen that Airtel started divesting the basic infrastructure to other tower companies. They sold a few towers to AT&T, some towers to Eaton like that. We got the initial foothold thanks to Airtel in Africa. We are working with other tower companies to carry on the work that has been done so far.

Janaki Raman:

On this Tubular Inverters, a large capacity is being created at a time where demand for that product is looking a bit on the weaker side. If demand continues to be a bit weak and you have surplus capacity on those lines, is that capacity fungible to make let us say the large VRLA products?

Srinivas Ganga:

That is a good question. Amara Raja from the beginning and every time we created a new capacity we always looked at fungibility. Though we mention that the Tubular flooded batteries are going to be for Home Inverter applications but we also see that these

batteries can be used in rural UPS applications, Solar, Power Utilities and Transmission sectors. So we have a large set of untapped markets / applications by Amara Raja earlier since we were using AGM VRLA technology for some of these applications. This should address the capacity utilization of the new plant even if the power situation improves.

Janaki Raman:

As far as the Battery design or the way to measure your productivity is concerned, whether it is productivity of the manufacturing process or the product design itself, do you measure it in terms of Lead consumed per unit and do you have a target in terms of gradually reducing it on a periodic annual or a 3-year basis?

Srinivas Ganga:

I let Rajesh answer as far as the Automotive is concerned about the weight reduction programs. As far as the Industrial is concerned we do look at how much is the Lead content getting into the Batteries and what newer technologies, whether it is a plate making or any alloy combination, we can use to reduce the lead content without reducing the performance of the Batteries. These kind of CIP programs we undertake in Industrial.

Rajesh Jindal:

Regarding Automotive, the introduction of the Batteries is a continuous process, but the only thing that we also look at is weight reduction in conjunction to the performance. While weight reduction happens, but beyond a certain level it starts impacting the performance. So, since we have multiple options where we give to a stage in the aftermarket, it comes with varying weight options as well.

Janaki Raman:

Just to understand it further, so you have for a same application a one year and a five year warranty, does it mean that the longer warranty perhaps carries a bit more content?

Rajesh Jindal:

You are absolutely right. We provide for the same application a one year warranty and a five year warranty. The product structure is different in each of the variants. Obviously, the higher warranties carry slightly higher Lead.

Janaki Raman: So for the same application for the same warranty, if I take a product and compare with what the product would have looked let us say three years back, would you have optimized the Lead consumption materially let us say would you have reduced the Lead consumption by 5%, by 10%?

Rajesh Jindal: There is a difference in the Lead consumption if you are looking at over a period of time, but I do not think I can put a number to that, whether it is 5% or 10% because the weight reduction actually happens from all the things, whether it is plastics or **others**, all components actually contribute to the optimization. But replying to you question that over a period of time, yes, there is a change in the lead.

Moderator: Thank you. The next question is from the line of Nalin Ladiwala from Tata AIA Life Insurance. Please go ahead.

Nalin Ladiwala: My first question is within the Auto segment, how much of the sale would be coming from Commercial Vehicles?

Rajesh Jindal: If you are looking at Commercial Vehicles, I would say, the Three Wheelers, Tractors and Commercial Vehicles, I am clubbing all these three, because all these are basically Commercial Vehicles, so all these three segments put together will contribute somewhere around 35-40%.

Nalin Ladiwala: This 35% of Auto, or 35% of Four-Wheelers and above?

Rajesh Jindal: Four-Wheelers.

Nalin Ladiwala: What is our strategy with respect to OE clients of Commercial Vehicles or are we focused on the Aftermarket?

Rajesh Jindal: No, we are equally focused on OE as well and we are focused on all segments of OE and hence we supply to all the Commercial Vehicles manufacturers.

Nalin Ladiwala: What portion of our sale is private labels within the Auto segment?

- S V Raghavendra:** Private label at this point of time I would say is fairly low; we can put it as somewhere around 7-8% max.
- Nalin Ladiwala:** 7-8% of the entire Auto segment, right?
- S V Raghavendra:** Yes, of the entire Auto segment.
- Nalin Ladiwala:** What would be our pricing strategy in the Four Wheeler Replacement market – is there a difference that we are targeting with respect to the market leader?
- Rajesh Jindal:** At this point of time, our strategy is to maintain the parity and hence we keep ourselves equal to competition within the same 1-2% plus/minus but almost at the same level.
- Moderator:** Thank you. The next question is from the line of Annamalai Jayraj from Batlivala & Karani Securities. Please go ahead.
- Annamalai Jayraj:** Currently, how much percentage of our Lead is recycled Lead? With the Lead price dropping, will there be any cost advantage even now?
- S. V Raghavendra:** There is anywhere between 5-10% is the Lead consumed from recycle sources, but as you know the lead procure from recycle sources also are linked to the international LME prices. There will be a slight advantage in terms of the logistics.
- Annamalai Jayraj:** No, but the recycle some we get from pure lead and some are old batteries I think we get in recycle?
- S. V Raghavendra:** When we convert the impure lead into 99.9% purity lead, we can consume only the pure lead, not the impure lead.
- Annamalai Jayraj:** Second thing is on the dealership network. What is the dealership network now and what is going to be your strategy going forward?
- Rajesh Jindal:** Our dealership network is continuously expanding. At this point of time, we have upwards of 30,000 network of points at which we do business.

- Annamalai Jayraj:** Are we focusing on any specific regions for expansion or we will be expanding right across?
- Rajesh Jindal:** No, at this point of time if you look at Amaron is a pan India brand, its presence almost into every nook and corner of the country. So we put our focus almost at every place.
- Annamalai Jayraj:** Then coming to the EBITDA margin, last quarter you have reported around 18.3% EBITDA level, and with the current soft lead... of course, partly to be taken away by the currency, still what will be the sustainable margins that we can look at going forward?
- S V Raghavendra:** We will not be able to give any guidance as such because there can be improvement in certain segments, while there can be reduction in certain segments, because of either market conditions or the capacity utilizations, but overall it could get evened out.
- Annamalai Jayraj:** Then coming to GST, though there are some issues on that when it is going to come and all, but still what maybe the implications assume that it comes through sir?
- S V Raghavendra:** As on date there is uncertainty over implementation of GST as you know, but we expect broadly two changes – one is reduction in the unorganized number of players, and second-there could be improvement in the logistics costs. These are the two major benefits anticipated.
- Moderator:** Thank you. The next question is from the line of Natalie Koo from Lloyed Baughan. Please go ahead.
- Natalie Koo:** I am sure you get this question a lot, but Johnson Controls owns 26% of Amara Raja. Why would they give you their proprietary technology without taking a larger controlling position and do you have any plans to increase that ownership in the future?
- S V Raghavendra:** The agreement we have signed with Johnson Controls way back in 1997-98 envisages 26% holding for each of the promoters; 26% for Indian promoters and 26% for Johnson Controls. As of now, there

are no plans of changing that percentage. The technology support we have received from Johnson Controls for the Automotive Battery manufacturing has been gradually absorbed by the company over a period of time and for any improvements in that technology we still have access to the same without having to pay anything extra. In case we have to get any new technologies, we have to renegotiate the terms with Johnson Controls but we have access to get those technologies on priority.

Moderator:

Thank you. The next question is from the line of Nilesh Dhamnaskar from Religare Invesco. Please go ahead.

Nilesh Dhamnaskar:

My question pertains to the size of opportunity for Lead Batteries in the Solar segment. You spoke about that when you were discussing the fungibility of your Inverter capacity towards solar power investments also. So, could you give us some sense on that?

Srinivas Ganga:

What we have been saying is that in Solar, there are large power plants and then as well as home lighting systems and street lights. Certain segments / applications will be promoting only the VRLA concept that is the maintenance-free Battery concept from the beginning. But there are certain areas where you see the flooded Tubular batteries are also quite popular. So, when the plant starts commercial production in December, they would be offered for Solar applications. That is what we are actually looking at.

Nilesh Dhamnaskar:

No, that is fair, my question was what is the current requirement of Batteries for that kind of a segment?

Srinivas Ganga:

The street light applications and home light applications, uses typically 100 ampere hour 12 volt, 150 ampere 12 volt like that. It is something similar to what the Inverter range is. But when you go into slightly bigger capacity Batteries for bigger solar plants, then the capacities of the Batteries would go all the way up to 600 ampere hour. Similar range would be used for motive-power application as well and some of the power generation area and distribution area.

- Nilesh Dhamnaskar:** Just as a connected thing, whenever Wind Power related capacities are put, does that also require Lead Acid Batteries in the set up?
- Srinivas Ganga:** No, in the Wind Power, generally, there is nothing like energy storage. They directly pump the energy into the grid. Very small battery is used for motor controls typically the UPS range.
- Nilesh Dhamnaskar:** You spoke about the telecom Battery related exports. But what is your sense on the Automotive Battery related exports in Asia that is where you can export, so how is that piece doing?
- Rajesh Jindal:** That is doing very well; it is around 10% of our overall business, we are growing at the rate of close to around 30-35% year-on-year as far as the exports of Auto Batteries is concerned to the Indian Ocean.
- Nilesh Dhamnaskar:** What is the split between Telecom and the Automotive Batteries?
- Rajesh Jindal:** This I told you entirely on Automotive.
- Srinivas Ganga:** In Industrial export business, especially the Telecom is a project driven business most of the times. Hence it is difficult to pick up a number on a quarter-on-quarter basis. We had a pretty good Q1 as far as exports are concerned...
- Nilesh Dhamnaskar:** No, I am talking about FY15, I wanted a broader sense on an annual basis, not for the...
- Rajesh Jindal:** It will be probably 40-60; 40% could be Industrial side exports and 60% on Automotive side.
- Moderator:** Thank you. The next question is from the line of Manoj Shroff from Baring Private Equity. Please go ahead.
- Manoj Shroff:** Sir, as you said, the capacity will get filled up by the end of the year. So for the growth going forward, what is the capital expenditure will be thinking of in FY17?

S V Raghavendra: FY17 we have not finalized our expansion plan as of now, but based on the current plans, for the second stage of the Tubular Inverter Battery expansion capex will be about Rs.150 crores approximately and another Rs.150 crores of normal maintenance CAPEX. So Rs.300 crores is the CAPEX plan for FY17 as of now.

Manoj Shroff: But for new capacity in the Auto segment?

S V Raghavendra: In the Auto segment, as I said at the beginning, our current capacity for Four-Wheelers Battery is 8.25 million which is sufficient for this year and maybe part of next year. Depending upon the demand growth, we have the capability to expand further by another 4 million Batteries. That takes us our total Auto Batteries to about 10 million once we complete that expansion. In the Two Wheelers, we have adequate capacity right now. By end of the year we have 10.8 million Batteries per year as the capacity. Therefore, further expansions in both Auto as well as Two Wheelers will be decided only in FY17.

Manoj Shroff: For that additional 4 million, will the capital intensity be lower because earlier we had a much lower capital intensity but because the new plant would have had some land acquisitions, etc., so now will the cost be lower?

S V Raghavendra: You are right, the civil structures and the utilities are actually built for a larger capacity. So as and when the demand is increasing, we only have to add the assembly lines for increasing Battery production at a much lower cost, it should not be as significant as we had said earlier.

Manoj Shroff: Approximately, what range lower cost would it be compared to the year in FY15, any rough...?

S V Raghavendra: Depends on the prices at that point of time. It could be in the range of maybe Rs.100 crores for every 2 million Batteries.

Moderator: Thank you. As there are no further questions I would now like to hand the floor over to Mr. Annamalai Jayraj for closing comments.



*Amara Raja Batteries Limited
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Annamalai Jayraj:

We thank all the participants for participating in the call and we thank Amara Raja management for giving us the opportunity to host the call. Have a good day.

S V Raghavendra:

Thank you very much from Amara Raja team. Look forward to speaking to you again.

Moderator:

Thank you. On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.