“Amara Raja Batteries Limited Q2 FY 2016 Results Conference Call”

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Moderator: Ladies and Gentleman, good evening and welcome to the Amara Raja Batteries Limited Q2 FY 2016 Results Conference Call, hosted by Spark Capital Advisors. 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 "*" and then "0" on your touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mukesh Saraf from Spark Capital Advisors. Thank you and over to you Sir!

Mukesh Saraf: Thanks Margaret. Good morning everyone. On behalf of Spark Capital, I welcome you to the 2Q FY2016 Earnings Call of Amara Raja Batteries. We have with us today the management team of Amara Raja represented by Mr. S. V. Raghavendra, CFO, Mr. Rajesh Jindal, Vice President & Chief Marketing Officer (the Automotive Division), Mr. Srinivasa Rao Ganga, Vice President & Chief Marketing Officer (Industrial division). Mr. Raghavendra will now take through the highlights of the quarter gone by after which we will open the floor for Q&A, over to you Sir.

S. V. Raghavendra: Thank you Mukesh. Good morning ladies and gentlemen. I am Raghavendra, the Chief Financial Officer of the company and I have my colleagues, Mr. Rajesh Jindal and Srinivasa Rao Ganga along with me. At the outset, I would like to briefly recall the performance of second quarter. We have recorded a turnover of Rs.1158 Crores as compared to last year same quarter Rs.1060 Crores which is 9.25% growth.

The profit after tax is Rs.122 Crores as against last year Rs.100 Crores which goes at 22%. Both our automotive division in four-wheeler batteries as well as two-wheeler batteries has recorded very good performance and have recorded double-digit growth. On the industrial side also, we had decent growth in the telecom and UPS segments. We will go into more details as when the question and answer session starts.

I would like to mention that the topline is subdued as compared to last year because of the lead prices have been lower in this quarter and in this financial year as compared to last year same quarter. There has been a reduction of about 10% to 15% price over last year, so therefore when you pass on the lead reduction and exchange rate differences to the customers. It will have subduing effect on the topline. So I request the analyst and the participants to keep a make note of this and see that the expenses are inline with our volume growth and there have been no abnormal increase in the expenses. So, with these opening remarks, I would like to invite you to ask questions, so that we can complete the conference within the scheduled time. Thank you.

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

Kapil Singh: Sir, good morning. Thanks for giving me the opportunity. Could you share the breakdown of growth rates in four-wheeler, OEM and replacement and same for two-wheelers?

S. V. Raghavendra: I will just explain the growth rates of four-wheelers and two-wheelers. As far as we are concerned, we have grown in four-wheelers 21% and in two-wheelers we have grown by around 20%. Now, this is overall for automotive business, all segments put together.

Kapil Singh: Would you have split between replacement and OEM?

S. V. Raghavendra: If I say OEM has grown by 17%, so the replacement market would have grown by somewhere around I would say what 23%.

Kapil Singh: This is for Q2 right?

S. V. Raghavendra: Yes. This is for actually full H1, but Q1 and Q2 more or less the same.

Kapil Singh: Okay and in the industrial segment?

Srinivasa Rao Ganga: This is Srinivasa Ganga. In the industrial, we grew in telecom in double digits and as far as UPS is concerned, it is a very flattish growth in lower single digit.

Kapil Singh: Last question on capacity single digits as I was understand where our own capacity utilization and how the capacities are coming on soon?

S. V. Raghavendra: On the industrial battery side, our capacity utilization in the large VRLA is almost 97%, 98% and we are expanding the capacity by about 20% by end of this financial year we will have additional 20% capacity available.

Kapil Singh: In terms of million ampere-hour how much would that be?

S. V. Raghavendra: It will be closed to 1.4 billion at the end of the year. We will have adequate capacities to meet the demand that is expected to grow.

Kapil Singh: End of financial year?

S. V. Raghavendra: Yes, by February, March we will have the additional capacity in place. On the VRLA side, our capacity utilization currently around 80%, if you may recall that we have commissioned this new plant in February 2014 with expanded capacities and therefore on the expanded capacities, we are currently around 80%.

Kapil Singh: Okay and that is what about one billion ampere-hour?

S. V. Raghavendra: About 850.

Kapil Singh: Is there any expansion plan over there as well, because if we are at 80% and we would need?

S. V. Raghavendra: Currently, we are not contemplating any expansion in that sector, but we have enough infrastructure available there readily and as or when the market really opens up we can expand quickly plus we can do some more debottlenecking and then increase by 5% to 7% capacity.

Kapil Singh: Same thing on the four-wheeler and two-wheeler side?

S. V. Raghavendra: On the four-wheeler side currently, we have capacity of 8.25 million batteries per annum, spread out in two locations. First location we have 6 million and second location 2.25 million. The combined capacity utilization is close to 85%.

Kapil Singh: Here also we would be looking to expand further right?

S. V. Raghavendra: Again to recall our discussions last time, we have built the additional infrastructure for 6 million capacities in phase I only put up lines for 2.25 million and as and when the demand is increasing in a matter of four to five months we can add additional lines and then ramp up the capacity. On the two-wheeler side, we have currently a capacity of 8.4 million batteries per annum. The additional capacity of 2.4 is expected to go on stream by end of this month and we will have total capacity of nearly 11 million batteries by end of this financial year and current capacity utilization is almost 90%.

Kapil Singh: Thanks. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: Good morning Sir. Thank you. My questions are on the home invertor business for which I understand your new capacity will come online towards the end of this calender. So, could you give us a sense of how much you are going to invest in this business? What will be the capacity? What is the revenue target and how does this change your margin profile all the home invertor business, because currently it is trading and when you start manufacturing how much of your jump up will you get there?

S. V. Raghavendra: Whole lot of questions. Thank you Joseph. I will answer part of the question and I will leave it to Mr. Rajesh for answering the second part of the question. We have committed approximately Rs.500 Crores for a capacity of 1.4 million, tubular batteries to come up in two phases. In phase I which is expected to go onstream by December or January of 2016, we will have 0.9 million metrics per annum as a capacity and second phase one year down the line another 0.5 million. So for the first phase, we are going to spend about Rs.350 Crores and for second phase is Rs.150

Crores. We have also built in some kind of fungibility in this project taking into account the emerging power situation in the country and take into account next 5 to 10 years horizon. We have built in a fungibility to take address all the risks in case, the market is slowing down. We can use this plant to produce other batteries which I will request Mr. Rajesh to explain that. On the margin front, there could be a difference of about 3% to 4% in the initial stages once we move from the trading to the manufacturing, because as you know when the new plant is there. The initial expense will be high, the capacity utilization will not be 100%, but over a period of time, we can expect a higher margin by about 5% to 6%. I will leave the other part of your questions to be answered by Rajesh.

Rajesh Jindal: Regarding the tubular business we are putting up 0.9 million in the first phase even today we are selling somewhere close to 40% of that through a trigger route. So, what we are looking at this to convert the trading route to our own manufacturing, which would result in increase in margins.

Joseph George: Does the incremental 5% to 6% margin warrant such a high capex, because when you do the math in terms of additional EBITDA; for example, if you are doing say, Rs.400 Crores or may be Rs.1000 Crores if that is the revenue potential when the full capacity is online and if you are talking about an incremental EBITDA of say 6% that is delta of Rs.60 Crores and investing Rs.500 Crores on that, does it make absolute sense or do you really think that you are underplaying the 5% to 6% number?

Rajesh Jindal: There are two things to look at. One is, there is a limit to what you can trade the product. It is not unlimited option. Whatever we are doing at this point of time we are working with around 4 to 5 good manufactures and we have almost underwritten the entire capacity what they have. So, if you want to expand the trading actually puts a limitation on us during the season months for expansion. So, definitely that is not the route, because there is a limitation of quality suppliers. For that reason we have to go in for our own manufacturing to meet the demand. Two, most of the trading route that happens today, the manufactures are based in excise free zone, which is going to end in the next one-and-a-half years or so because their exemptions are going to be over starting next year onwards, few have already gone out of the exemptions, but starting from next year onwards to next two years most of them would actually go out of excise exemptions and hence there will be serious limitation on their ability to actually supply us at the current level of pricing which is available in the market. At which point we will have to look at other options in our case our own manufacturing.

Joseph George: Okay. Just one more question on that topic how soon do you plan to or target achieving a near full capacity utilization in this project, so 1.4 million that you have envisaged when do you think you will reach a stage where you will be using bulk of this capacity?

Rajesh Jindal: We can look at FY2017 as the year by end of FY2017 we can do that. This being a seasonal business FY2016 would mean the coming January to March period that is the time and the first phase is going to be commissioned and it is too shorter time for it to move to peak utilization. So obviously it is going to be the next year FY2017 January to March period when we can see much better utilizations.

Joseph George: When you said fungibility, did you mean that you can use this capacity for making four-wheeler batteries?

Rajesh Jindal: Fungibility in the sense that it is not just for invertors there are many other applications for which the same batteries can be used. It can be used for solar products, solar batteries. It can also be used for motive power. So there are a lot of segments in which the same battery goes. Once we start the first phase, we will look at expanding the product range and the application segments to which we can sell these batteries.

Joseph George: All right and lastly can you just give the total capex guidance for this year and next year?

S. V. Raghavendra: The capex for this year is expected to be about Rs.600 Crores and next year as of the plans what we have finalized it will be about Rs.300 Crores.

Joseph George: Thank you. That is all.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Thank you so much for the opportunity. Can you give some more color on what kind of growth you are saying on the industrial side as of now?

Rajesh Jindal: I think we expect industrial to grow in good double-digit figure even for this year, because in the second half we see that there is a good traction in telecom, there are a lot of new towers are getting added and on the UPS front also, I think we had a very, we did not have a great H1, but we are seeing the revival of the demand in the UPS sector. So, overall, I think we hope to finish this year with the good double-digit growth compared to last year.

Puneet Gulati: On the replacement side, do you expect the 22% growth to continue on the auto side?

S. V. Raghavendra: As far as the auto is concerned, we are definitely hopeful that we will continue this growth for the full year. We had a very good start. We are growing at much, much faster pace what the industry is, because the four-wheeler industry is expected to be growing this year. The replacement market is expected to be growing this year only by around 11% to 12% and the OEM till now if I look at for the first six months has grown only by 6% to 7%. So, we have grown in the OEM space by around 17% and overall around 21%. We expect that we can continue this growth for the balance part of the year also. This is a very good traction that we have got in the first six months. We should definitely, we are hopeful that to continue it for the balance. One month is already over on the balance six months and there is no loss in business.

Puneet Gulati: Okay and lastly how should we think about your margins in a falling lead environment? Would the margins per battery also typically fall or do you think that will remain impact and which is the EBITDA margin in terms of percentage may actually expand?

Rajesh Jindal: As far as the auto is concerned, if we look at it OEMs and international markets actually compensates for us any lead increase and to that extent any lead drop gets passed onto them. So, it is lead and exchange rate neutral. It is only the domestic replacement market, which actually moves in chunks, so at this point of time though the lead price is low. The exchange have also gone up to some extent it has actually negated the benefit of low lead. But still the replacement market at this point of time is giving us some marginal increase in margins since there has not been in appreciable drop in prices commensurate to the drop in lead on the further domestic replacement market.

Puneet Gulati: Are you expecting any cut in prices on the auto replacement side?

S. V. Raghavendra: There is absolutely no news. There is no indication from the market also and nothing has been planned as such.

Puneet Gulati: You are not going to lead this cut if at all it were to be?

S. V. Raghavendra: Absolutely.

Puneet Gulati: That all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Suchit Mehta from SBI Mutual Fund. Please go ahead.

Suchit Mehta: Thanks for the call. If could just give me a few pointers. The growth that we had in the automotive market particularly for the replacement side of the market. Could you give us some characteristics as to how much of that would say coming from market share gains within existing stronghold area, so let us say for example you are traditionally much more stronger in the South of India, so that traditional market of yours, how much you would have gain market share over there. Second is that how much is coming through by the fact if you are expanding your distribution network, western and northern India, so you improved for the past few years but you are still getting into that, so how much has come in, because we are getting into new geography in your new market itself?

S. V. Raghavendra: If we talk about the overall growth, we actually do not give region wise numbers, but suffice to say that the growth is all round; however, the eastern and the western which were lagging behind in earlier years have shown far better growth than the traditional markets of north and south for us. Overall, if you look at replacement market we have grown to the extent of 23%.

Suchit Mehta: Could you give us some sense of what would when your market share at the end of half year vis-à-vis what was at the end of previous fiscal year?

S. V. Raghavendra: At the end of last year, the market shares were 25% for us and 30% for Exide as per our calculation and balance means others unorganized, others organized would takes another 8% or so and balance unorganized. As far as the current market is concerned, we do not calculate on a quarter or half-yearly basis, because it is very difficult to calculate the potential on a monthly basis, because it is a floating thing. It can happen anywhere during the year, but the year is expected to grow at a rate of 11% to 12% overall. The replacement market, the automotive battery replacement market in India for this year is expected to grow at 11% to 12%. So, if we are growing at the rate of 20% to 23% obviously we would have gain somewhere around 2% to 3% as far as market share is concerned.

Suchit Mehta: Just a final bit on the capital expenditure whatever I guess, your most capacities are 80%, 85% plus. So for the subsequent year, so fiscal 2017 and beyond, what is our plan and how quickly can we get capacities in place?

Rajesh Jindal: I think I have answered partly in the previous question. We are having sufficient capacities till FY2017 or may be a part of FY2018 both in terms of industrial batteries as well as automotive four-wheeler and two-wheeler. So till FY2018 mid we are completely getup. At this point of time, we are working on further expansion plans, which we will start sometime in next financial year. We have not frozen the numbers yet.

Suchit Mehta: I just want small clarification. The two-wheeler replacement when you club it when you talk of this 22% growth in replacement that include four-wheeler, two-wheeler all put together?

S. V. Raghavendra: No, I said 21% is four wheelers and 20% is two wheelers.

Suchit Mehta: In terms of replacement growth?

S. V. Raghavendra: In terms of overall growth.

Suchit Mehta: Replacement of each one how much in two wheelers, four-wheelers if you can give us?

S. V. Raghavendra: Replacement in four wheelers would be somewhere in the range of 22%, 23% and in two wheelers would also be it is 24%.

Suchit Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Sreenath Krishnan from Sundaram Mutual Fund. Please go ahead.

Sreenath Krishnan: Thank you Sir. Some of your competitors in the telecom segment have mentioned that environment is not really increasing whereas you have mentioned that some sort of a pickup is expected in the second half. Is this guidance of yours with any concrete orders that you would have got from the telecom companies? Secondly if I look at your run rate in telecom segment, it is around 250 million ampere-hours for the last three to four quarters, so the base also catches up. So in terms of growth rate and telecom segment, you expect it to taper off in the next couple of quarters? The second question is on margin Sir. You mentioned that home invertors would be around 5% to 6% incremental margin to correct me from wrong there, with higher of OEM share also next year. Would sustainable margins that we need to work that would be around 16% to 16.5% next year?

S. V. Raghavendra: I will answer on the telecom and let Rajesh answer the home UPS. As far as telecom is concerned, as for many, many quarters that we have been maintaining that our long-term growth estimate for telecom sector is going to be about 7% to 8% and I think we continue to see that there could be one or two quarters ups and downs, but I think long term we expect it to be 7% to 8%. This year because of improvement the voice quality has to be improved and so thereby we see that many of the tower companies actually started rolling out new towers. So we see some good pickup in the demand for the next two quarters, but as far as Amara Raja is concerned, for many years earlier that we had capacity availability was constraint and last year and then even this year we continue to increase the capacity in the LVRL range, so we were able to improve our share of business in many of these customers. So thereby we are seeing a good growth in telecom sector and then we continue to perform well in the next few quarters. As far as margins are concerned in telecom we are maintaining the margins in the last three, four quarters at the same level, whatever the reduction in lead price that is being passed on, but that just is kind of a cost, but our margins we expect to remain at the same level as there.

Sreenath Krishnan: No Sir, my question is on company level margins for next year with higher home invertor share and OEM share in the automotive segment. Should we expect margins to taper on 16% to 16.5%?

Rajesh Jindal: Our OEM share still we have been able to maintain that one-third, two-third which we have been talking about earlier. So, I do not think OEM is going to impact the margins, but yes once we increase our business in invertors and tubular as a percentage it is a flattish kind of a thing that happens.

S. V. Raghavendra: To add to what Rajesh as said we have sufficiently derisked our entire business being in different, different segments both on a industrial as well as auto while they can be good gains in certain segments because of changing over from trading to manufacturing we should look at the overall margin scenario in terms of the price fluctuations, in terms of cost efficiencies what we are continuously working on and in terms of expanded capacities where initial costs of absorption of overheads will be little low. So, net-net our endeavor is to maintain the margins whatever we will be maintaining in the last few quarters, but it could have a positive effect going forward with all the efforts that we are taking as a management.

Sreenath Krishnan: Thank you Sir. Best of luck.

Moderator: Thank you. The next question is from the line of Arjun Khanna from Principal Mutual Fund. Please go ahead.

Arjun Khanna: Sir, thank you for taking my question. My first question is just on the trading capacities, which are historically, present. Would we stop with them or what is your contract with them?

S. V. Raghavendra: Come again, which capacities?

Arjun Khanna: Trading.

S. V. Raghavendra: The trading capacities we will continue at least for one more year at least this year till our own production comes to on-stream completely. The contract that we have with them does not specify a period. It is something like an ongoing thing and over a period of time we will peter it out.

Arjun Khanna: There would not be any payments to them for cancelation or such?

S. V. Raghavendra: We do not have such classes in the agreement. In fact, we can stop the demand even this month also, so there is nothing that is binding on us. It is entirely a demand in supply issue that is because this is an inverter market it is absolutely seasonal. So, if the demand is not there, we are free to actually stop the purchases.

Arjun Khanna: My second question is in terms of imports, are we seeing any imports of batteries or the segment does not lean to that is it?

S. V. Raghavendra: There is definitely some imports happened, but very minor almost negligible. This is as far as automotive is concerned on the industrial sense.

Rajesh Jindal: On the industrial, we see some imports of UPS batteries that the commercial UPS batteries, but that is again it has been three for last few years. It is also a major player, almost about 25% of the demand is met from the imports and that is a good opportunity for the local manufacturers.

Arjun Khanna: Are these largely from ASEAN countries where we have free trade agreements?

Rajesh Jindal: Yes, there are largely earlier it is come from China and because we have free trade agreement with ASEAN then now we see lot of imports coming from Vietnam and to some extent Malaysia.

Arjun Khanna: Any chances of this spiking up given currency as bit strong and their currency has depreciated?

S. V. Raghavendra: That currency depreciation will also neutralize to a large extent in the sense that domestic manufacturers also has to import separator and lead so, the cost implications are there for both importers as well as local manufacturers. But I think there is not a major factor at this point of time. I think it is a lower import duty from ASEAN, which is one of the positive points for the imports happening to that extent of 25%.

Arjun Khanna: Right Sir and lastly, at the plant visit you showed us some new technology in terms of stamping process and otherwise, have we rolled it out across and what kind of, does it have any margin application?

S. V. Raghavendra: These are new technologies, which would come on stream in the next year or two, and there would be some impact on it will actually result in some kind of cost cutting for us. So definitely it will be positive, but how it will play because at this point of time, we cannot clearly say that it is definitely going to increase margins, but one thing it showed that it is definitely going to cut the cost, but whether how that it is going to play in the overall game is something that we have to be decided.

Arjun Khanna: My final question is right on the top Sir you have mentioned that other expenses would be at the current run rate because of additional facility. Was there any impact to do warranty cost going up in this quarter?

Srinivasa Rao Ganga: Not significantly. As per the increased volume are there, the warranty also is going up, but the percentage has not increased.

Arjun Khanna: Thank you so much. This has been most helpful.

Moderator: Thank you. The next question is from the line of Dipen Sanghvi from Enam Asset Management Company. Please go ahead.

Dipen Sanghvi: Sir, just to clarify you said your two wheelers and four wheelers replacement growth in H1, volume growth was 22% and 24% is that correct?

S. V. Raghavendra: Yes.

Dipen Sanghvi: What will be the similar OEM growth in each of them two and four wheeler?

S. V. Raghavendra: In two wheelers, our OEM growth is 15%. The OEM growth in the first six months is 15% against flat industry that means in the first six months there has been no growth as far as the two-wheeler manufacturing is concerned. As far as four wheelers is concerned, four wheelers we have grown by 17% against an industry growth of 6% to 7%.

Dipen Sanghvi: OEM, we have grown by 17%.

S. V. Raghavendra: 17% in four-wheelers, 15% in two-wheelers.

Dipen Sanghvi: Secondly, if you can just briefly explain the strategy of the positioning of Powerzone brand, I believe you are competing with the low and segment and specially trying to capture from market share gains from unorganized or local brands in the segment. So, with respect to that what is the strategy and also what is the price differential that you have in both brands versus the leading competition Exide as well as other local players over there?

S. V. Raghavendra: Powerzone is actually a low cost model that we have put suppose it is position somewhere between small players and the big players. It is not absolutely at the small player and it is not at the level of pricing of the Amaron and Exide, so it has been positioned somewhere in between that. But also what is important is that we have cut one layer in the distribution, so to that extent our margin do not reduce, yes, the margins are lower in Powerzone as compared to Amaron, but the hit is not to that extent, because we have cut one layer Powerzone as a single layer model whereas Amaron is a two layer models and both are growing at the same pace. Powerzone is also growing at around 25% plus.

Dipen Sanghvi: What will be the pricing differential that you have versus competition Exide as well as other local brands in segment both Powerzone as well as Amaron?

S. V. Raghavendra: Normally, if you look at the price differential would be somewhere in the range at the retail level, the price difference would be in the range of around 10%.

Dipen Sanghvi: So with respect to Exide have been further narrowed down to price differential now?

S. V. Raghavendra: If you look at Exide, we actually compare Exide only with the Amaron brand, Powerzone brand we do not compare with Exide.

Dipen Sanghvi: I am asking both separately actually?

S. V. Raghavendra: As far as the Amaron and Exide is concerned, both are at the same level.

Dipen Sanghvi: At the retail prices?

S. V. Raghavendra: At the retail level.

Dipen Sanghvi: Okay and Powerzone versus SF and other brands over there?

S. V. Raghavendra: Powerzone would be around 10% less than that.

Dipen Sanghvi: I will come back.

S. V. Raghavendra: Not 10% less than SF, 10% less than Exide. SF is somewhere in mixed up, so we cannot say anything SF.

Dipen Sanghvi: Thank you.

Moderator: Thank you. The next question is from the line of Jay Kale from Elara Capital. Please go ahead.

Jay Kale: Thanks for taking my question. My first question was regarding revenue growth for automotive replacement. Are you seeing any mix improvement in terms of the more diesel batteries selling and product mix improving to that extent?

S. V. Raghavendra: I think diesel batteries growth is definitely there. This year we have seen a huge amount of replacement demand for diesel batteries, which were sold, the vehicles, which are sold in the previous years, but yes there is a mixed change that continuously will happen as all the companies are going more and more aggressive. Eventually some share has to come from the unorganized and hence the commercial business will improve, the only thing is that improvement will only happen very progressively.

Jay Kale: Second was, what is the status of your solar power and motive power, the two new products, new business opportunities, how is that progressing and how do you see that going in the next three to five years?

Rajesh Jindal: Motive we have just it's part of our five year plan to offer products for motive power application. I think you would see at the moment there is no sales contribution as such for motive power but over the next four five years we see a significant contribution coming from motive power. The plans are definitive. As far as solar is concerned we are already been supplying our batteries to solar segment that is the maintenance CAGM batteries what we are making it but once the tubular plant is commissioned, a lot of tubular batteries, tubular faded batteries goes into solar segment and we would expect our solar sales to go up in the next few quarters once this plant is up and running in the next couple of months.

Jay Kale: But are you seeing any positive response from any OEMs in terms getting because I understand that large part is the unorganized market in solar batteries so any efforts in kind of changing that or any positive signs from the OEMs?

Rajesh Jindal: Yes it is still as far as solar is concerned it is a very price sensitive and warranty driven market. I think that is something, which we have to live with at least for in the near term but it is only over a period of time because the real warranty game started few years ago. I think the industry would soon realize once lot of batteries were installed in the last couple of years based on the particular performance then there will be probably a shift towards organized sector from the unorganized sector.

Jay Kale: The last question was just some of the telecom operators have now shifted to lithium ion batteries. So how do you see that shaping up and has the response been good for those kinds of batteries and any plan. Are you having any plans of getting into that with your any technology partner?

Rajesh Jindal: It is on the Reliance Jio is there they had actually rolled out lithium ion in a big way but the rest of the operators mostly it is validation programs on going on but even then it is only going to be primarily in urban areas where there is a space is a major constraint and we actually expect a very this lithium ion to be there in WIFI area where it is a small power transmitters are required. So in that way we do not really see lithium ion replacing lead acid in a big way. If at all the penetration is there it could be about 5% to 10% of the total market but having said that we are also definitely on the evaluating few options for we need to offer lithium ion even for the small segment.

Moderator: Thank you. The next question is from the line of Sudhir Kedia from ASK Investment Managers. Please go ahead.

Sudhir Kedia: Good morning Sir. Can you help me with the breakup of auto industrial in Q2?

S. V. Raghavendra: Auto industrial, auto is roughly about 55% and industrial is about 45%.

Sudhir Kedia: So from Q1 to Q2 in spite of higher growth in auto the mix has not changed significantly right because in Q1 also we had a similar breakup?

S. V. Raghavendra: Yes the realizations have been better in industrial.

Sudhir Kedia: Can you also help me with you said that you have taken a price decrease. So of the total sale what percentage of the portfolio we have taken price decrease or pass on of the net prices?

S. V. Raghavendra: We have not taken any price decrease as we said earlier it is only the product mix changes and second the lead prices are exchange rate the impact of that is passed on is what is impact on whatever topline.

Sudhir Kedia: So if net price decrease would have been passed through to OE customers and to some extent the industrial customer?

S. V. Raghavendra: Non-OE customers.

Sudhir Kedia: Sorry come again.

S. V. Raghavendra: Non-OE.

Sudhir Kedia: Non-OE customers you have passed on the lead price decrease?

S. V. Raghavendra: To certain extend yes.

Sudhir Kedia: So I mean in the auto replacements we have not taken any price decrease?

S. V. Raghavendra: Auto replacement there has been no change in prices. The decrease in lead in negated to some extent by the increase in forex. There is a minor gain but till now we have not changed our prices in the replacement market. We only changed in the OEM and the international market where the up and down goes exactly in relation to the lead and exchange rate.

Sudhir Kedia: In the quarter we have seen sales growth of 8.7% where in your auto has grown close to 20%. So my question is that we have passed on some kind of price decrease but to what percent of the total sales we have passed on this price decrease?

S. V. Raghavendra: If you look at that way we have only passed it to the extent of I would say around 40%. The 40% is OEM plus international markets put together.

Sudhir Kedia: Right so close to about 500 odd Crores sales would have been impacted due to price decrease right?

S. V. Raghavendra: No it is not impacted. It goes on a formula any increase gets passed on automatically any decrease gets passed on automatically.

Sudhir Kedia: Which I am clear Sir. I am just trying to understand that our total sales have increased by close to 9% whereas we have seen a significant high double-digit growth in terms of auto. So only the 40% of the sales is where we are seeing a lower value growth right because of the price decrease?

S. V. Raghavendra: Yes.

Sudhir Kedia: 60% would be where we have seen a full value growth in terms of volume?

S. V. Raghavendra: Yes.

Sudhir Kedia: There is no price increase in any of the segments right?

S. V. Raghavendra: No, there is no price increase because lead has gone down to a level if we can maintain the price itself it means a price increase.

Sudhir Kedia: That is right and Sir just to clarify in the segments where we take a price decrease or we pass on the benefit of lower commodity prices the margins in absolute remains same or it remains same in terms of a percentage terms?

S. V. Raghavendra: What happens is any increase or decrease is only passed on account of the actual lead weight. So margin in terms of absolute rupees remains the same. So however when you look at percentages there would be a minor some decimal changes based on the overall value.

Sudhir Kedia: Which will increase right?

S. V. Raghavendra: Which would be very, very marginal.

Sudhir Kedia: Sir when I see you YoY margins have increased slightly if we adjust other operating income only to slight extent in spite of 65% of the portfolio seeing a significant increase in profit margins. Why is that?

S. V. Raghavendra: It is not 60% of the overall business. It is only 60% of automotive.

Sudhir Kedia: In the industrial side how is it happens.

S. V. Raghavendra: Industrial is completely back to lead and forex changes. Any increase gets passed on, any decrease gets pass on. It all goes on formula.

Moderator: Thank you. The next question is from the line of Laxmi KG from Catamaran. Please go ahead.

Dinesh: This is Dinesh here. Thanks for taking my question. I have two questions. One is you talked about lithium ion and lead acid batteries. Can you tell what are the applications where each is more appropriate that is basically the advantage and disadvantages of both the batteries and number two what would be the revenue breakup based on the segments like in telecom how much percentage of revenue comes from telecom and UPS then four wheeler replacement OE, two wheeler replacement OE. These are my two questions Sir thank you.

Rajesh Jindal: The first question lead acid is something, which is used primarily in almost all applications. It is the defacto energy storage technology. Lithium ion is relatively newer technology primarily where the space and weight are major a constraint. You would find applications of lithium ion and also it has ability for getting very fast recharge. Those were the three major advantages of lithium ion. As far as the free charge is concerned now today you have advanced lead acid technologies where they can be charged faster. So and also such a new technologies are coming in within lead acid where there would be very compact and lightweight may not be equivalent to lithium ion, so in that way most of portable areas where you see the lithium ion. That is the major difference and in terms of.

Laxmi KG: Why lithium ion cannot be used as good as lead acid let us say the storage is not a constraint and space is constraint. You told about the advantages of lithium ion so what could be the disadvantages, so let us say the spaces not a constraint for the weight or me is not a constraint for me in that case why is lead acid superior to lithium ion.

S. V. Raghavendra: Lithium ion is very expensive is at least four to seven times costlier than lead acid number one and number two is that there are such a safety such a technologies in lithium ion. Safety is an issue. So you have to be careful with the kind of electronics that is being used and third one is that it is yet to be some the claims of the longevity of the lithium ion is yet to be proven in a stationary applications. So those were the three concerns.

Moderator: Thank you. The next question is from the line of Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam: Sir couple of questions. One was I mean for sometime you have been talking about export. Can you highlight your export strategy which geographies you are targeting and which products you will be introducing and second how that with respect to your margin profile. Is any strategy worked out on that front?

S. V. Raghavendra: As far as international markets is concerned we primarily restrict ourselves to the Indian Ocean Rim, which would mean three blocks, which is the Southeast Asia, the Middle East and the Africa. So Southeast Asia I would say Southeast Asia including Australia, Japan everything. The complete eastern part, now as far as our strategy is concerned we want to focus on Southeast Asia and Middle East as the key business driver and start penetrating Africa and the presence there so that as and when the economies grow we are able to take the benefit of it. As far as the margin and the impact on this is concerned for us international market is profitable and it is as profitable as the domestic replacement market is concerned. This is as far as auto is concerned.

Ashish Nigam: Anything on the industrial side.

S. V. Raghavendra: Yes pretty much the same thing. The only thing is our focus is primarily mostly into Africa in a big way and some of the South Asia. So these are the two major markets that we concentrate and as far as the margin profile is concerned for industrial also is a very healthy margin profile we have in exports.

Moderator: We will move to a next question, which is from the line of Hitesh Goyal from Kotak Securities. Please go ahead.

Hitesh Goyal: Thank you Sir for taking my question. Sir basically pertaining to a last question, which is on so you said four wheeler replacement growths, has been 23% in 2Q. This includes your private label as well. This is for overall replacement growth or this is Amaron brand.

S. V. Raghavendra: This is the overall replacement growth including private label to give you some data points private has been flat which would mean Amaron has grown much higher.

Hitesh Goyal: If you dissect revenue and the industrial growth basically you are saying there is some growth in industrial also on the revenue front then how does 9% tie up on a YoY basis because if your auto has grown by 20% that is 11% coming from auto only. There could some price reduction in OEM. So you could see 2%, 3% growth there decline there. So may be 9%, 10% growth in auto and still basically then you are saying it has been flattish on a revenue growth front.

S. V. Raghavendra: Can you just repeat it.

Hitesh Goyal: I am saying 55% is auto and 45% industrial. You are saying 55% has grown by 20%. So that is 11% right and there could be some price cuts you have taken in the OE segment. So the growth would be 9%, 10% on YoY basis in automotive then in the industrial that 45% basically there is some volume growth but because of price cuts it has been flattish. That is what how we should see it in terms of revenue.

S. V. Raghavendra: We have not seen any price cuts in industrial or auto as we have been seeing.

Hitesh Goyal: On a YoY basis OEM pass on I am not talking about the replacement.

S. V. Raghavendra: Correct. YoY pass on yes there has been a reduction in the topline because of the passing on the lead price exchange rate yes but auto if you look at the combination of four wheeler and two wheeler the revenue streams are different while the volume growths have been quite significant there. The revenue from two-wheeler is as you know the cost of two wheeler batteries is slower than the cost of four wheeler batteries.

Hitesh Goyal: So basically what I was asking is industrial revenue growth has been flattish right on a YoY basis.

S. V. Raghavendra: Yes I think you as we were mentioning from the beginning that industrial mostly it is all PVC based most of the segments in industrial and so whatever the lead price reduction that is passed on if you look at the lead last year to this year there is more than $300 reduction in the lead. So that is approximately contributes to about 4% to 5% of the revenue because of the lead variations. So that gets passed on. So that is where it is a single digit growth as far as the industrial is concerned and the revenue front.

Moderator: We will move to a next question, which is from the line of Amyn Pirani from Deutsche Bank. Please go ahead.

Amyn Pirani: Hi Sir thanks for the opportunity. Sir my question is on the outlook for the automotive replacement demand we move into next year. Given that the OEM growth has been quite flattish for the last two to three years what could that mean for the overall industry replacement growth. Could we see industry growth slowing down the single digit or that may not happen?

S. V. Raghavendra: This year we are witnessing around 11% to 12% as per our calculations we are already given that number long back. Since in automotive you can predict fairly closely for the next three years. Next two years we are looking at growth of somewhere around 7% to 8% as far as automotive growth is concerned on the four wheeler part but again which I always say yes when you look at these numbers over a 15, 16 million base that have got created it yield huge amount of business which our company wants to take it.

Amyn Pirani: Fair enough that's helpful Sir thanks.

Moderator: Thank you. The next question is from the line of Aditya Sundaram from Edelweiss. Please go ahead.

Aditya Sundaram: Thank you very much Sir for the opportunity. So I just have two basic questions. One could you first of all just give us the mix of in terms of two wheeler OEM replacement, four wheeler OEM replacement and industrial within segment like telecom and UPS. I believe someone else asked for it and did not seem to give that to them.

S. V. Raghavendra: You are looking at our growth in OEM and.

Aditya Sundaram: Not growth I am just looking at the sales mix.

S. V. Raghavendra: Sale mix.

Aditya Sundaram: Yes revenue mix.

S. V. Raghavendra: If you look at the sale mix as far as OEM and after market is concerned somewhere one third, two third and we have been maintaining that. It will remain to the same manner 1% to 2%. So that remains the same and as far as automotive and industrial is concerned it is 55%, 45%.

Aditya Sundaram: Okay within industrial would you be able to break that of.

S. V. Raghavendra: Industrial we would about 50% to 53% would be telecom and about 35% would be UPS and rest of the segments will contribute to the balance 10% to 12%.

Aditya Sundaram: Thanks.

Moderator: We will move to the next question which is from the line of Jinesh Gandhi from Motilal Oswal Securities Ltd. Please go ahead.

Jinesh Gandhi: Thanks Sir my questions have been answered.

Moderator: Thank you. The next question is from the line of Kaushal Maroo from Emkay Global. Please go ahead.

Kaushal Maroo: Hi Sir can you just comment on your market shares in the telecom and the UPS segment over the last couple of years how it has moved and does the industrial segment see any benefit from the implementation of the GSP is that limited to just the replacement market.

S. V. Raghavendra: You are asking for market shares in Telecom and UPS.

Kaushal Maroo: Yes Sir.

S. V. Raghavendra: Our market share in telecom would be about 57% to 60% but I think you just need to I just want to caution that its just estimates because you do not have a hard data that on the size of the market. So there could be plus or minus few percentage here and there and then UPS we expect our market share to be anywhere between 32% and 4%.

Kaushal Maroo: The GSP benefit on industrial segment if any.

S. V. Raghavendra: I think in generally yes it should benefit the industry yes.

Kaushal Maroo: Industrial segment Sir.

S. V. Raghavendra: Yes industrial that is what I meant yes.

Moderator: Thank you. The next question is from the line of Pranoy Kurian from Centrum Broking. Please go ahead.

Pranoy Kurian: Thanks for taking my question. My question is on the telecom segment. So if you look at the drivers. So how this 4G and higher data it is plan to higher quality batteries mean that is there a link and the second think is when you look at the fall in realizations in industrial. So what percentage is the price passed on.

S. V. Raghavendra: Okay the first is when you have a lot of data lead growth it what happens is that you start adding lot of boxes in these towers. So it requires more power. So then it is in it is first two drivers as far as the demand is concerned for batteries. Regarding the second question there is no price reduction. Is not a price reduction that what we consider it whatever the benefits of lower lead that gets passed on to the customers. So our net price variation with respect to material cost remains same in the last couple of quarters.

Pranoy Kurian: If power availability improves telecom towers how does not affect. Does the duration of the battery get longer is that a thread if the power availability improves.

S. V. Raghavendra: Yes I think if the market is not growing in terms of newer towers and data grow for a stagnant market if power improves naturally the replacement cycles get elongated that would have a negative impact but we have to see that there is a data lead growth. So lot of new towers are being added and within the existing towers lot of equipment gets added. So that gets compensated.

Pranoy Kurian: So are these 4G towers using that will batteries be a different model we will be the same model but more capacity I mean what I am trying to get that will there be some newer technology require in batteries or newer upgrade or something like that.

S. V. Raghavendra: I think its essentially lot of the exiting towers itself for the 4G equipment would be added. So in that way there is no change in the battery requirement but however having said that is somebody is putting a very small 4G standalone site on a middle of the road and there is a space constraint probably you can look at different type of or what type of battery that you want to use within lead acid we have two volts and we have 12 volts. 12 volts are much space efficient.

Rajesh Jindal: We have 2 volts and we have a 12 volts, 12 volts are much space efficient, so people can look at using a 12 volt lead acid, a smaller capacity battery or lithium-ion could be one of the options, like that you have technology choices can come and/or within the technology, within lead acid whether bigger batteries 2 volt versus smaller 12 volt batteries also could be a choice.

Pranoy Kurian: All right, thanks so much.

Moderator: Thank you. The next question is from the line of Rishinder Goswami from Locus Investments. Please go ahead.

Rishinder Goswami: Sir, my question is on the home inverter business, so one is, what would be the total market size, both organized and unorganized in this segment and secondly what do you think, what is the total sales potential of the 1.4 million plan that you are coating up, which is supposed to come by December 2017?

S. V. Raghavendra: Regarding the first part at one point of time we have looked at the industry having a potential of somewhere around 8 million batteries to be sold, but this keeps on changing for up side and down sides, it is not a simple calculation, the moment there is, it actually get, it impacted by two factors, one is heat conditions and second is power availability, both the things have to happen at the same time for this business to go up, now what happens is that like for the last two years, what you are finding is untimely rains, so even if the power shortage is there, the untimely rains would actually bring down the potential of this business, so it is very difficult to actually predict the kind of potential that or the growth that, the inverter industry is going to have, but suffices to say that we can still look at somewhere between 6 to 8 million batteries potential in the country, which can go up or down depending upon the situation of that particular year.

Rishinder Goswami: Right and full use of the 1.4 million start in INR terms, what would that mean in terms of sales?

S. V. Raghavendra: That would mean somewhere closed to around Rs.1000 Crores.

Rishinder Goswami: Yes, which would been somewhere around Rs.7.5000 for battery essentially?

S. V. Raghavendra: Yes, tube light will give you somewhere around Rs.7.5000.

Rishinder Goswami: Which is something, which will make it 6,000 Crores market today, like 4000 to 6000 Crores market today between organized and unorganized that is correct, right? Assuming that 5%, 10% here and there assuming that your battery would be premium to unorganized?

S. V. Raghavendra: Yes it is always there because what happens is that it is a high value business, very high value business, but in terms of percentage margin it will be relatively low, but in absolute numbers it is very high, like the amount of money that you can make from inverter battery, you might have to sell around three to four automotive batteries, 12% is quite low.

Rishinder Goswami: Sir, the 5% to 6% margin improvement that is somewhat base so if you are trading would that mean that is it about 10% at EBITDA level and that will go to 16% is that a correct assumption something like that with full potential?

S. V. Raghavendra: There will be a differential of about 4% to 5%, trading does not give you 10% kind of margin today.

Rishinder Goswami: So it does not?

S. V. Raghavendra: It does not.

Rishinder Goswami: You mean some single lower single digit and once it is fully in house could go to 4% to 5% above that?

S. V. Raghavendra: That is right.

Rishinder Goswami: Thank you Sir.

Moderator: Thank you. The next question is from the line of Aditya Ahluwalia from Invesco. Please go ahead.

Aditya Ahluwalia: Thanks for the opportunity, I just wanted to ask that if lead price goes up from hereon, can you just sort of quantity what would be the impact on the gross margins?

S. V. Raghavendra: No, so as you are saying the lead price increase or decrease coupled with the exchange rate volatility is passed onto the OE customers, industrial customers and depending on the mix for the replacement market there could be a marginal positive or negative impact depending upon what pricing action is taken, so by and large there should not be any impact on the gross margins because of lead price going up or coming down.

Aditya Ahluwalia: But lead has the significant component of your raw material cost right?

S. V. Raghavendra: That is right, but it is passed through.

Aditya Ahluwalia: But only to the extent of the replacement market, it will have full benefit.

S. V. Raghavendra: Again different geographies, different segments, the pricing can be varied depending upon the market conditions, but overall the gross margin should not be significantly impacted because both, for we as well as replacement customers.

Aditya Ahluwalia: But if you do not change the price of the battery and lead cost falls…

S. V. Raghavendra: For example if the lead price comes down, I do not change the price of battery to the replacement market to that extent I gain.

Aditya Ahluwalia: Which is a pretty significant gain considering the red lead price all that we have seen recently?

S. V. Raghavendra: That is right.

Aditya Ahluwalia: Then why only marginal gain?

S. V. Raghavendra: See again we are not talking about single product and single customer and single market and the applications are varied, so therefore pricing has to be vary, depending on the application, depending on the market and while there can be a combination of factors while there can been some products on which we will not pass on the gains to the customers, we will gain to that extent and to certain segment and certain customers you will have to pass on.

Aditya Ahluwalia: Replacement as a percentage of total is how much Sir?

S. V. Raghavendra: Roughly is about 60% of total business.

Aditya Ahluwalia: Of your overall sales is replacement market?

S. V. Raghavendra: Yes, that will be about 55% to 60%.

Aditya Ahluwalia: Right Sir and this will benefit entirely from the lead price fall or gain if it remain at constant price?

S. V. Raghavendra: See again it is a factor of so many parameters.

Aditya Ahluwalia: No Sir, I am saying constant price, I am keeping the price, the price of the battery constant assuming that.

S. V. Raghavendra: If you keep the selling price then it will have positive impact, yes.

Aditya Ahluwalia: It will have a significant positive impact because?

S. V. Raghavendra: It should be.

Aditya Ahluwalia: Because 64%, 65% of sales is raw material cost?

S. V. Raghavendra: Yes, theoretically you are right, theoretically should have a significant impact, but in practical reality because of various factors, the margins are not significantly more. That will be too optimistic to think that there will be a huge impact, positive impact on the margins.

Aditya Ahluwalia: Are you planning on taking any price hike in the battery?

S. V. Raghavendra: No we are not contemplating?

Aditya Ahluwalia: Right Sir, and on the cost, other operative, other expenditure and the EBITDA margin level, are there more synergies, more efficiency is possible?

S. V. Raghavendra: Yes, possible, yes, it is a continuous process and as I have said earlier in the conversation we have got certain new capacitor, new plants, which are not operating at full capacity, so as and when the capacity is getting ramped up the efficiencies will improve. The overhead absorption will be much better plus also in addition to these, the continuous improvement programs are on in the company in different plants, so this should definitely aid us in cutting down the cost further.

Aditya Ahluwalia: And this is independent of lead price movement.

S. V. Raghavendra: Yes that is right, it is completely independent.

Aditya Ahluwalia: Thank you so much for holding the call Sir, hope we can do at next quarter as well.

S. V. Raghavendra: Sure, thank you.

Moderator: Thank you. Ladies and gentlemen due to time constrains that was the last question. I would now like to hand the floor over to Mr. Mukesh Saraf for closing comments.

Mukesh Saraf: Thank you. On behalf of Spark Capital, I thank everyone for dialing into today's call and I would specifically thank the management of Amara Raja for taking time out and patiently answering the queries. Good day to everyone.

S. V. Raghavendra: Thank you. Thank you for participating and look forward to talking to you again.

Moderator: Thank you. On behalf of Spark Capital Advisors that concludes this conference. Thank you for joining us. You may now disconnect your lines.