"Amara Raja Batteries Limited Q2 FY18 Post Results Conference Call"

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MANAGEMENT:	**MR. S. VIJAYANAND - CEO, AMARA RAJA BATTERIES LIMITED** **MR. S. V. RAGHAVENDRA - CFO, AMARA RAJA BATTERIES LIMITED**
MODERATOR:	**MR. MUKESH SARAF - SPARK CAPITAL ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the Amara Raja Batteries Limited Q2 FY18 Post Results Conference Call, hosted by Spark Capital Advisors. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference has been recorded. I now hand over the conference to Mr. Mukesh Saraf from Spark Capital Advisors. Thank you and over to you, Mr. Saraf.

Mukesh Saraf: Thanks Karuna. Good morning, everyone. On behalf of Spark Capital, I welcome you to the Q2 Amara Raja Batteries Limited Q2 FY18 Post Results conference Call . We have with us today the management team of Amara Raja represented by the CEO - Mr. Vijayanand and the CFO - Mr. S. V. Raghavendra. We can start with some quick remarks from Mr. S. V. Raghavendra and Mr. Vijayanand and then followed by the Q&A. Over to you, sir**.**

S. V. Raghavendra: Thank you Mukesh and good morning ladies and gentlemen. This is Raghavendra, CFO of Amara Raja Batteries. I have Mr. Vijayanand with me. Thank you for joining the investor call this morning. You would have seen the results from the media yesterday and today. We had a turnover of Rs. 1,428 crores in this quarter which is 7% growth over last year same quarter. EBITDA margin has significantly improved to 16.7%, compared to the previous quarter from Rs. 192 to Rs, 238 crore. Profit after tax is Rs. 127 crore compared to Rs. 131 crores last year same quarter. We had a healthy growth in all the automotive segments.

The margins improved mainly on account of 3 reasons. One- improvement in the product mix, Two- improvement in the production efficiencies and three- due to some pricing actions we have taken in both automotive as well as industrial battery segments. The capacity utilizations have been 90% plus in almost all the plants **except in the LVRLA** plant. CAPEX plans are as per schedule. Now I request Mr. S. Vijayanand to add few comments.

S. Vijayanand: Thank you Raghav and good morning ladies and gentlemen. I am happy to join you on this call. Raghav has just brief the numbers that we announced yesterday. Couple of things I want to emphasis here is that the commodity price challenge in terms of the lead prices moving up continues. We have seen almost close to 25% growth in the LME prices in the last 12 months and our visibility to the next 5 months for the rest of the year, so just that the lead prices could be in the range of $ 2,400 to $ 2,500 per metric tonnes. That poses certain cost input challenges for us but the industry structure and our own business portfolio indicates that close to about two-thirds of that volume is backed up by price variation clauses in our contracts with customers. So, there is a risk on the balance one-third volume and thankfully we have taken the pricing decisions that are helped us mitigate this risk. And as Raghav mentioned the product mix change that we experienced in Q2 has definitely helped us report the numbers that we did yesterday.

We would be very happy to take any questions from all of you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer and session. First question is from the line of Jay Kale from Elara Capital. Please go ahead.

Jay Kale: Sir, my first question was regarding to your gross margin expansion as you mentioned that it is mainly because of product mix. If you can just elaborate as it what you mean product mix, is it higher share of replacement automotive and because we presume that telecom segment would have been under pressure and also thus we are lower inverter revenues from your new plant also aid in product mix for you in terms of gross margins?

S. V. Raghavendra: Automotive segment consisting of four-wheeler, two-wheeler and the inventor battery has performed well. We have introduced new products for e-rickshaw and solar batteries. Four-wheeler batteries and two-wheeler batteries grew in double digit. We had a significant growth in invertor batteries and e-rickshaw batteries. The inverter batteries from our own manufacturing plant gave us improved profit margins.

Jay Kale: Basically, from Q1 to Q2 your product efficiency from your new tubular plant has improved substantially which was negative in Q1 which has turned positive in Q2?

S. V. Raghavendra: Yes.

Jay Kale: And in terms of your telecom if you could just share your outlook in terms of what your current market share would be like what kind of declines are you seeing over there and are the pricing actions in that segment largely behind us or there is some more pricing actions to be taken because of competition in that segment?

S. Vijayanand: We have been watching the developments in the telecom segment very closely both at the telco level and also at the tower company level and all of you are aware that there are significant amount of disruptive moves happening in the segment, consolidation efforts are in place. The tower operating companies are looking at enhancing their tenancy ratio but with the consolidation at the operator level they are trying to rejig the customer portfolio. As a consequence, there is certain level of uncertainty in sourcing of batteries and that has impacted the volume growth in H1. In fact there is a negative growth in the overall telecom potential in H1. Our guess is that the uncertainty will continue into H2 and hence ,overall as a year, we might see volumes de-growth in telecom segment and that definitely had an impact on us. As far as pricing is concerned, the kind of ability that we have to pass on the commodity price increase in other segments currently, it is limited in telecom. Historically that is the way the telecom market has worked but there is rediscovery of price point being experienced there. The good news is that we work very closely with all our customers and we are working on various value proposition initiatives. Some of them started bearing fruits in terms of execution. So, while there will be uncertainty in the demand pattern over the next two quarters, I think we will be able to improve our volume throughput compared to H1 to our customers and price stability will appear before end of the year. I would not say at this point of time it has, but before the end of the year we will see price stability setting in the telecom segment.

Jay Kale: And in terms of you can just give us the volume break-up of different segments, volume and revenue breakup, whatever segments that you could give, and others is on lithium-ion batteries any progress on that any plans over there anything that you finalized if you can just share that?

S. V. Raghavendra: Jay, volume breakups will not be shared on the call. On the lithium technology I request Mr. Vijayanand to respond.

S. Vijayanand: That scenario where we are paying lot of our attention and there is lot of effort going and understanding how that lithium space will evolve in Indian context. We are looking at global benchmarking to see which segment of the automotive or industrial segment will adopt lithium faster than others. But I think primarily our effort right now is to be able to build certain competencies and capabilities in that area.We are not ready to make any specific announcements in this call. One thing I can assure everybody listening to this conversation is to say that it is a priority area for Amara Raja and we would be making the right moves at the right time.

Moderator: Thank you. Next question is from the line of Pratik Poddar from ICICI Prudential Asset Management. Please go ahead.

Pratik Poddar: Sir, just one question, one of the telecom operators is actually on lithium-ion, right for their towers. What are your thoughts on that space? Do you see the industry also virtually or eventually migrating to lithium-ion or the industry would broadly be lead-acid based and how would Amara Raja in that case, if in case the industry actually moves towards lithium-ion how Amara Raja would be placed? If you could just talk a bit about that, thank you.

S. Vijayanand: I have 3 observations just to answer that question. You are right that one of the operator in India has adopted lithium as the only battery solution for the towers that they set up here in Indian context. I am not aware of any other telecom operator anywhere else in the world adopting lithium as the only solution. Having said that there are few other operators who have been trying it not just recently but for many years. The value equation is something that is still not fully resolved but we have to now look at what is likely to evolve into future. I believe the networks will go through certain amount of restructuring. Today we largely go on the BTS tower sites, the telecom towers. But there are many in-building solutions being tried out. When 5G network comes it will have a different architecture. So, overall there will be certain elements of telecom network that will be more conducive for lithium deployment. Whereas lead-acid batteries will continue to be the preferred choice of energy back up in larger footprint installations like the telecom towers. So, the form factors, space limitation might drive adoption of lithium and eventually we need to look at the cost equation of lithium versus lead-acid and at what point of time lithium would be on cost parity for the customer to be able to increase the adoption of lithium. So, there are many predictions out there in terms of how lithium prices will move in the future while the manufacturing companies are looking it bringing it down. I think we have started seeing that some of the ingredients that go into lithium in terms of the metal prices skyrocketing in the last few months. So, there is need for right equation to be established there in terms of watts per kilowatt price that would definitely make lithium equally attractive compare to lead-acid in the overall value proposition. That is, I think will be a critical factor and in the next 2 to 3 years we do not see that change happening in a very dramatic manner. But coming to Amara Raja's response to this we would as I said it is an area of our interest and we will continue to evaluate and look at the product solutions and as and when we think it is relevant we should be able to offer it to our customers.

Pratik Poddar: Anything which we are doing as of now on this side or you would?

S. Vijayanand: From my R&D side, yes. There are efforts on. We have been understanding the product proposition and getting prepared to see how lithium in the Indian context would be the right solution. So, while there are internal efforts going through on the R&D side there is nothing more beyond that I could be able to say at this point in time.

S. V. Raghavendra: Lithium technology adoption for telecom and e- rickshaws is in R&D stage. We are working on the product development for e-rickshaws.

Pratik Poddar: And sir, if I may just squeeze in one question, what is the value proposition gap today you have versus lead versus lithium-ion and could you just talk a bit about that as and how much is the value gap today which is making lead favorable over lithium-ion?

S. Vijayanand: I think the value of proposition comes in 2 levels, lithium at the initial deployment cost is still 3 to 4 times costlier than lead-acid. Now depending upon what application, you are looking for there is sometimes justification to spend that money upfront which as I mentioned earlier with telecom it does not look like so unless, unless there is a form factor of constraint. Life cycle of lithium is higher than lead-acid but then we will have to look at whether the applications really need that kind of life cycle. So if you look at globally, I think electric vehicles have adapted lithium as probably the only feasible solution because the lead-acid is too bulky. But when it comes to stationery energy storage applications that adaption rate is limited right now to some high-level energy connections energy storage integration to renewables which is more at the experimentation stage right now. I do not think that market has maturity level where huge amount of deployment of energy storage being done. So, on a lithium to lead-acid, lead-acid continues to have economic advantage, now add to that the salvage value of lead at the end of its life cycle that the net of the total cost of ownership is significantly still tilted towards lead-acid.

Pratik Poddar: Sir, could you just talk a bit about how should we look at gross margins and its sustainability given the competitive intensity which we are seeing in all segments as of now?

S. V. Raghavendra: We definitely like to sustain the margins what we have achieved in second quarter. We are taking measures for continuous cost improvements and change in product mix to see how we can be a little more aggressive in industrial batteries not only for telecom applications but for other applications also. We are also focusing on exports. So, all these efforts what we are taking both in the automotive as well as industrial segment should help us in sustaining margin and we endeavour to maintain this margin, though there will be some challenges on quarter-to-quarter basis.

S. Vijayanand: I think if you historically look at, if I may add my bit to that, we have always maintained that range of 14% to 16% at EBITDA level is something this sustainable in this industry. We would make all our efforts to stay at the upper end of that range but there could be some quarters where there could be short term challenges and opportunities and whenever there are opportunities as an organization we have always been able to capitalize on them. So, while we may not be able to have any kind of future guidance on that, our view have been that the industry can sustain a 14% to 16% kind of EBITDA range and Amara Raja would endeavour to be at the upper end of that range.

Moderator: Thank you. Next question is from the line of Sanjay Doshi from Reliance Mutual Fund. Please go ahead.

Sanjay Doshi: Sir, first would be on the gross margin expansion that we have seen in the second quarter, can you just help us to clarify if there is any inventory gain in this? Did you have any low-cost inventory which has supported it?

S. V. Raghavendra: No, all accounting entries are normal accounting entries, they are no significant inventory gains.

Sanjay Doshi: And the second on the same given that you expect lead to be around $ 2,400 to $ 2,500 per tonnes. Do you believe we have taken adequate price hikes in the market for this kind of lead cost?

S. V. Raghavendra: Yes, we have taken price increases adequately, at the appropriate times, going forward if the price goes up to $ 2,500 we will be taking further pricing actions as required.

Sanjay Doshi: Last one thing on the telecom business sir, it was encouraging to hear that you expect a better second half as compared to one half given that some product offerings of yours have been accepted by customers. Can we be confident about profitability of this business also while pricing you mentioned is under pressure? What we have seen in the first half do you believe that given our improved off-takes and better offerings this profitability can be maintained?

S. Vijayanand: I think the larger question for us here is that we have maintained the market share of close to 60%-70% historically and there is a question of can you sustain that market share and hence still maintain a high level of profitability that we have seen. The overall industry trends and the uncertainty will probably force us to look at how do we add value proposition to our customers. So, I do not think we would be seeing the profitability levels of telecom that we have seen in the past. That is where I go back to my statement that a sustainable profitability range should be more in the 14% to 16%. So, whether telecom will be able to match that there will be some quarters where there is a challenge but eventually in the medium term we should be able to get back to that level.

Sanjay Doshi: Sir, I was referring more to the nearer term, in terms of the first half of this year that we would have seen in terms of profitability of that business, do you think that is sustainable or there is challenges on that also?

S. Vijayanand: There will be short term challenges on that.

Moderator: Thank you. Next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Sir, can you please provide what is the mix between automotive and industrial in quarter term **in** terms of sales mix**?**

S. V. Raghavendra: One-third industrial and two-third automotive.

Ashutosh Tiwari: And sir you mentioned that automotive you have seen double-digit growth in terms of volume and if we look at pricing also for last 1 year it has gone up by roughly 18%, is it that automotive revenue would have grown by 20% number?

S. V. Raghavendra: In four-wheeler and two-wheeler, there was low double-digit growth, whereas in the inverter batteries and tubular batteries we had significant growth.

Ashutosh Tiwari: So, in that case if really double-digit growth close to 20% and then 8% to 10% appears lower because only segments where we are taking about decline are telecom.

S. V. Raghavendra: Telecom industry is declining I did not understand your question, can you please repeat it?

Ashutosh Tiwari: Sir, my question is that if all the segment except telecom has grown in double-digit and telecom growth is only around say, it is only declined in terms of volumes and may be sales also then why is the sales growth only 7%?

S. V. Raghavendra: Is it in terms of revenue ?

Ashutosh Tiwari: Yes, revenue.

S. V. Raghavendra: In terms of revenue from industrial there has been some pressure which has been off-set by the gains we had in the automotive segment.

Ashutosh Tiwari: So, the industrial revenue would have been flattish Y-o-Y is that the correct?

S. V. Raghavendra: Yes, there was dip.

Ashutosh Tiwari: So, there was decline in industrial revenue?

S. V. Raghavendra: There was decline both in terms of revenue as well as volume.

Ashutosh Tiwari: Overall volumes, you are saying, okay.

S. V. Raghavendra: Yes, in the telecom volumes there was a decline, whereas we had growth in UPS, railways and in exports though they are not significant in volumes but if you look at only telecom, there has been de-growths in volume as well as revenue, given the fact that the entire industry is undergoing some kind of rejig.

Ashutosh Tiwari: So, industrial overall volumes would have declined Y-o-Y?

S. V. Raghavendra: Yes.

Ashutosh Tiwari: And secondly on the price increases what kind of price increase you have taken in this quarter so far, third quarter?

S. Vijayanand: Third quarter we have looked it about 3% to 5% but then it would be difficult to say one number because we calibrate it based on different product ranges and the different applications but if you were to look at, we have been able to neutralize the commodity price increase impact on that.

Ashutosh Tiwari: Sir, lastly in terms of we would have seen some kind of destocking in the first quarter at dealer level, have you seen some stocking also happening in Q2 or that is not the case?

S. V. Raghavendra: Around 15th of August the situation started to become normal. We had the impact of GST changes for about 1.5 month. Now things are back to normal.

Ashutosh Tiwari: Because my question is that have you seen some destocking happening at dealer level in terms of dealer inventory in the first quarter?

S. V. Raghavendra: Not now.

Ashutosh Tiwari: In Q1 I am saying, in June quarter?

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

Kapil Singh: Firstly, on the revenue growth, I just wanted to understand is GST implementation in some way impacting the accounting because of which Y-o-Y revenue growth numbers are they comparable or is this leading to any significant change in Y-o-Y growth?

S. V. Raghavendra: No, GST did not have any significant impact on accounting, except in the way of presentation where earlier excise duty used to be shown as part of the gross turnover and also shown as expenditure. Whereas post GST implementation excise duty element is not there. Therefore we do not have to gross up the revenue with GST. The numbers that are reported are strictly not comparable and you can refer to the note given.

Kapil Singh: What I would like to understand is there seems to be a very strong product mix change in favor So, if you could help us understand that what is the mix of those segments in Q2 compared to Q1 which have contributed heavily to the margin expansion like if you talking about e-rickshaw or some other segments what is the contribution of those inverters and e-rickshaws to the revenue in Q2 and Q1?

S. Vijayanand: I would like to mention 2 things in terms of product mix shift. We have seen growth in four-wheeler and two-wheeler that is our regular product lines and also specific to the tubular product range that we started manufacturing last year. We have had significant gains on that. So, all 3 things put together and also on the automotive motor cycle the replacement market growth has been strong which we all know is relatively more profitable. So, the product mix impact which Raghav talked at the very beginning of this conversation is a strong positive for us on the automotive growth. In terms of overall revenue that is where we will say that our overall topline growth is offsetting some of the challenges we had on the industrial side and because we are talking about the replacement market being strong in the four-wheeler, two-wheeler and inverter and e-rickshaw applications. The margin gain has happened there and also you will have to understand that the pricing actions that we took to offset the commodity price increase helped us stay on to those margins.

Kapil Singh: So, what kind of pricing actions we have done in the replacement automotive space in the last quarter?

S. Vijayanand: I think I would like to look at it from November onwards from last year when the lead price started shooting up. I think we would have probably intervened the pricing in the replacement market at least to 6 to 7 times in the last 12 months. So, there has been consistent calibration that has been done on the product pricing with respect to how commodity price is moving.

Kapil Singh: Sir, would you be able to quantify what is the contribution of e-rickshaw segment currently?

S. Vijayanand: No, at this point in time we would not be able to give that breakup.

Kapil Singh: And lastly one thing I wanted to check, we have talked about in the press release that we are on the anvil of making investments for energy storage as well as EVs. So, would you like to elaborate a bit more on that?

S. Vijayanand: I did mention earlier that we will not be able to make any specific announcements or numbers at this stage. It is definitely at the centre of our radar in terms of focus, there has been strategic reviews happening with the management team and lithium would be strong focus point in our strategy and when Jay made that statement in the press release yesterday he was only providing an input to the largest stakeholders that at the appropriate time we would definitely start investing behind this technology, right now there is a developmental work going on within the organization.

Moderator: Thank you. We take the next question from the line of Sahil Kedia from Merrill Lynch. Please go ahead.

Sahil Kedia: I have two questions. One, when there was a plan of capacity expansion, when is this new capacity especially on the two-wheeler side coming on track over the next 12 months or so and can you just, I know there have been lot of questions asked on this, can you please help us what is the share of telecom in total revenues in this quarter and how it has changed on a year-on-year basis?

S. Vijayanand: First on the capacity expansion for two-wheelers. Our new greenfield project, the second battery plant for two-wheeler batteries is coming up. It would be commissioned in Q4 of this year and it will have an initial capacity of 4 million. I think sometime when the original project was approved we have announced to the market that it will be a 14 million unit when it completes all 3 phases of expansion. The first phase, which is the start-up phase would be completed and the capacities will be available from Q4 of this financial year. Come to next question, telecom has been a significant revenue stream for us while I would not like to quantify at this stage. We have talked enough about the disruption in the telecom segment and the uncertainty in terms of the telecom consolidation, tower company consolidation there are too many factor playing out there. We believe that it will take at least couple of more quarters before it settles down. But in terms of telecom contribution to the industrial revenue it has been a significant component almost to the tune of 50%.

Sahil Kedia: Sir, any four-wheeler capacity coming on stream this year and also can you also reiterate your CAPEX numbers for the year please?

S. Vijayanand: We have just added in our second four-wheeler battery plant which was commissioned last year. We have just added the second phase of 2.25 million units that is rolled out in the Q2 and there is a third phase expansion that will be taken up and that will be coming up sometime during FY19 or earlier part of FY20, which has been another 2.25 million units.

Sahil Kedia: And CAPEX for the year, sir?

S. V. Raghavendra: Rs. 500 crores as indicated earlier, we are on track on the all the CAPEX plans.

Moderator: Thank you. Next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.

Nishit Jalan: Sir, I have 2 questions. Firstly, on the pricing side you have been talking about that you are trying to take price increases from the last 2 quarters. So, the price increase that we have got in this quarter is it any element of price increases for the previous quarters as well?

S. V. Raghavendra: No.

Nishit Jalan: So, this price increase pertains only to this quarter numbers?

S. V. Raghavendra: Only current quarter because as Mr. Vijayanand said we have been taking pricing action at the appropriate time without too much of lag or lead.

Nishit Jalan: And sir my second question is, if you can just breakdown the overall revenue growth of 7% in to volume growth and pricing because how we understand by your commentary is that pricing growth on a Y-o-Y basis would be more than 7%. So, is it fair to assume than that the volume for the company overall has declined on a Y-o-Y basis?

S. V. Raghavendra: As I said earlier we will not be able to share the segment wise details on the call. On overall basis, we have grown. one-third revenue share is from the industrial segment and two-third from the automotive segment. inverterThe revenue growth has come significantly from automotive segment. On the industrial segment we have seen growth both in terms of volume as well as revenue in all segments except telecom. So, net-net the decline we have seen in the telecom segment has been more than offset by the automotive segment in this quarter. But going forward as I said we are definitely hoping for consolidation of our position in telecom. We will see some improvement in the volumes and revenues of industrial also.

Nishit Jalan: Sir, just to clarify when you talk about double-digit growth in automotive batteries you are talking about volume growth or you talking about revenue growth?

S. V. Raghavendra: Volume and revenue also more or less inline.

Moderator: Thank you. Next question is from the line of Harsh Shah from Dimensional Securities. Please go ahead.

Harsh Shah: Sir, I wanted to ask you, you mentioned that you had intervene 6-7 times to increase prices. So, can you specify since November how much percentage price increase has we taken on automotive batteries?

S. Vijayanand: I think last November is almost a history for me to say a number there but if you look at lead, lead is grown by about 25% over the last, it used to be in the range of $ 1,800 per metric tonnes and now it is hovering around $ 2,400 per metric tonnes. So, there is almost a $ 550 to $ 600 increase. All these interventions since November to now is to keep track of that commodity price increase and neutralize its impact on our bottom line.

S. V. Raghavendra: Just to help you understand better Harsh, in the OEM contracts there is a specified formula and the frequencies of adjusting the price is specified. It should be M - 1 or M -2 or M -0. As and when the lead price increase happens, our prices also have been increased that many numbers of times. When it comes to after-market we wait for the appropriate time to make the price changes. Since last November we would have made price changes about 5 or 6 times or may be more.

Harsh Shah: And sir what will be our average cost of lead procurement for FY17 and first half FY18?

S. Vijayanand: **Raghav, Do w**e have the data point immediately available?

S. V. Raghavendra: Yes, I have for the quarter. Last year the average price was about $ 1750whereas1750 whereas in this second quarter our average consumption price was around $ 2,170.

Harsh Shah: And the last question from my side, sir how much of the replacement market in commercial vehicles has been addressed by the organized players and how do you see change post the GST implementation?

S. Vijayanand: There are 2 segments that I would like to address in that question. One is the commercial vehicle segment other is the tractor segment, looking it the way the vehicle ownership is there and the way the vehicle is serviced there is a significant presence of unorganized sector in that. It could be ranging anyway between 40%-50%. Now post-GST we expect some level of consolidation in the unorganized sector. I am sure there will be some strong regional players who will be able to emerge in this to cater to their nearby geography customers. But that also opens up opportunities for large brands like Amaron to be able to make more in roads. We have put together specific strategy to reach out to these let’s say trucking centres in specific locations and today since it is coming under tax net it makes it that much easy for us to go on probably off-road products, service that customer and compete with the local competition.

Moderator: Thank you. Next question is from the line of Raghu Nandan from Emkay Global. Please go ahead.

Raghu Nandan: Sir, my question was on market share gains. Historically we have been gaining market share across segments and some of our interactions indicate that even like currently in the automotive space especially Two-wheelers and on the industrial space especially for the UPS with your Quanta battery, you continue to gain market share. So, some color on that as to in which segments you are seeing some increase penetration and do you expect to gain share ahead there and also if you can share your market share in e-rickshaw and solar batteries it would be helpful? Thank you.

S. Vijayanand: Our market share in four-wheeler OE and after market is pretty healthy. Four-wheeler we are close to about 38% OE and about 30%-32%, quarterly it is difficult to calibrate market share in the replacement market because data is not available in a very structured manner. So, we are giving a range here, will be in the range of 30% to 32% in our after-market market share. OE we are more in that range of 38%. Two-wheeler, we are again in the range of close to about 30% on the after-market and close to about 15% in the OE and OE market share is an opportunity that we are closely looking at enhancing as the new capacities kick in we would be able to probably address additional OE requirements in that. You asked also about the industrial Quanta, in the UPS segment our market share is a little over 40% right now that makes us industrial leader and we continue to maintain that position quarter-on-quarter.

Raghu Nandan: And for e-rickshaw and solar how we could be there?

S. Vijayanand: e-rickshaw and solar there is a lot of guess work in estimating the actual market size there. I would say it's largely driven by either government running process on the solar side or e-rickshaw is limited to certain pockets in the country. We do not have a specific market share number there. I am sorry we do not have a number that I can really share right now.

Raghu Nandan: And sir like what would be our current lead inventory like 2 months, 1.5 month how much do we maintain?

S. V. Raghavendra: It is about 45 days.

Moderator: Thank you. Next question is from the line of Bhaskar Bukrediwala from ASK Investments. Please go ahead.

Bhaskar Bukrediwala: Couple of questions, one on the volume growth, just wanted to understand how has been the volume growth on a Q-on-Q basis?

S. Vijayanand: You are talking about Q1 to Q2?

Bhaskar Bukrediwala: June to September?

S. Vijayanand: There are 3 segments that we have talked about earlier in the automotive space, Four-wheeler and Two-wheeler. We have had close to double-digit growth in the Four-wheeler side, if we were to look at quarter-on-quarter that has been close to 18% to 20% growth there. On the Two-wheeler side we had close to about 13%-15% growth on the combined volume on OE after-market requirements. Actually, the real growth story for us is also in the tubular where we have seen significant growth year-on-year for the inverter and various other applications that we talked about. And normally you see that the inverter market demands peaks-up in summer season and cools off a bit as we get into Q2 and Q3, while there has been a de-growth in the volume for us in Q2 over Q1 but on year-on-year basis we have still sustained a significant growth on the tubular product range.

Bhaskar Bukrediwala: So sir, there is one clarification here, if I am looking at your net sales number that close to 1,430 crores versus June numbers we closer to 1,497 crores. So, that is a Q-on-Q decline of 5% and like you said that very robust growth in both Four-wheeler and Two-wheeler while the industrial I understand which is still in terms of your proportion little bit smaller business. So if the largest business has grown fairly at a healthy pace plus there has been some pricing action just trying to understand why would there be a net sales de-growth of 5% on a Q-on-Q basis, is there some adjustment related to GST or accounting which I am missing?

S. V. Raghavendra: There are no adjustments on account of GST. If lead price increase happens towards end of the quarter, selling pricing revision will be taken in the first week of the following quarter. There could be some small timing differences. By the time we roll out the revised prices it may be 1 to 2 weeks.

Bhaskar Bukrediwala: Because your RM also on a Q-on-Q basis if I look at your cost of goods sold that comes down by almost 10% so 1,050 odd in June to 942 in September so that is a 10% dip. When the volume has gone up Q-on-Q quite a bit and like you said that pricing is what you have taken at the fag-end of the quarter for it to show why the RM has gone down significantly.

S. V. Raghavendra: Yes, Bhaskar, as I said we had a change in the product mix. The manufactured volume of tubular batteries has increased in the current quarter along with significant cost improvement due to plant stabilization, which has helped in reducing overall cost of production.

Bhaskar Bukrediwala: One more question sir, you said you also talked about e-rickshaw and the solar opportunity picking up for you. In terms of the margins in both the segments especially for e-rickshaw are these higher than other businesses in terms of the automotive segment or the margins higher there?

S. Vijayanand: If I benchmark them against the replacement market margins they will probably be comparable. It is not necessarily higher or significantly over. The solar is a slightly different scenario because the tendered business and depending upon how much we really want to push that sometimes there has been pricing pressure and there are multiple players on that side. So, if you just focus on e-rickshaw I see the margins will be comparable with what we would see in the replacement sector for both Four-wheeler and Two-wheeler.

S. V. Raghavendra: The e-rickshaw batteries are still finding their pricing levels as these are relatively newernew products. There will be some variations in margins in 1 or 2 quarters.

Bhaskar Bukrediwala: Just a follow up for the same thing, what we understand is that the e-rickshaw replacement market is still fairly unorganized; correct me if I am wrong. What I have heard is that 70%-80% of that market is still unorganized and are you seeing a shift in that market (a) and (b) in terms of the pricing difference between players like you and unorganized guys what will be the kind of difference that exits currently?

S. Vijayanand: You are absolutely right. It is very unorganized consolidation of the supply chain is yet to be done in that area and we see that as the growth opportunity for us because I do not think our current participation in this market is anything really significant in terms of volume. But that I see as a growth opportunity and when that happens there will be definitely more opportunity to take the price up.

S. V. Raghavendra: Price discovery is still happening in the market as far as organized players are concerned.

Bhaskar Bukrediwala: But is it safe to assume that the organized players would be around 15% odd higher than the unorganized?

S. V. Raghavendra: I think that is a fair assumption.

Moderator: Thank you. We take the next question from the line of Lakshmi Narayanan from Catamaran. Please go ahead.

Lakshmi Narayanan: I have 2 questions. First in terms of your distribution setup. Can you just help me understand the last 6 months how have we increased our distribution in terms of the replacement for automotive and subsequently your automotive replacement and OE mix you mention it is around two-third. What is the split between auto OE and auto replacement and I think these are the 2 questions I have. One in terms of distribution and second is auto and also if I can squeeze in one more question it is that you are actually setting up an expansion in your batteries and you said it is going to staggered over the next 5 years and we also have the government talking about making it completely e-vehicles by 2030. So you must be really planning a scenario if something pans out, right. So if you can just help me understand what is your confidence levels in expanding and then what it means for you?

S. Vijayanand: In terms of distribution setup we continue to expand our reach to the market, we have 2 formats of distribution. One is the Amaron franchise model, the other one is the Powerzone retailer model and we continue to map where we are strong and where there are weaker geographies where we need to strengthen our channel strength so that is an ongoing exercise and that has really paid the dividends to us in terms of penetrating the market. Post-GST we are in the process of working on making sure about warehouse footprint is much more efficient you do not have state borders limiting us in terms of the warehouse footprint. So we would work on that and then rationalize the warehouse footprint.

Lakshmi Narayanan: But number comparable like start of the year and now in terms of the Powerzone of franchisee have you expanded any number?

S. Vijayanand: I do not have those numbers immediately available. As far as the Amaron franchisee network is concerned I think we have a strong presence there. On the Powerzone there are incremental additions that have been done in specific geographies where we think that Powerzone brand can fill an existing vacancy.

S. V. Raghavendra: In this quarter because of GST and required changes to be made, we have not focused on changing the dealer or franchisee network. But we have some plans of rejigging some of the distribution channel in the next half.

S. Vijayanand: Now, I will move on to quickly the OEM to aftermarket. Traditionally we have always looked it the OEM aftermarket ratio in the market itself is probably 1:3 and we being in the organized sector we try to maintain that ratio in the ratio of 1:2 to 1:2.5, so 30%-35% of our volume comes from OE and balance come from replacement market both on Amaron brand as well as Powerzone. The third question that you talked about the scenario planning for future in terms of government push for EV, we see that as an attractive emerging opportunity to electric mobility but any significant penetration of electric vehicles are probably 10 years away. Even at 10% penetration of electric vehicles is big numbers and globally that is the case. So we believe that at least for a 10 years period or a 15 years period in terms of growing demand, today the India is probably 6th position in terms of vehicle production numbers but it will ramp-up further based on demand signals. So I believe that the capacity expansion programs that we are having are reasonably de-risked in terms of future demand. But any future investments we would be definitely calibrating basis on how technology shift is happening.

Lakshmi Narayanan: How flexible is your capacity is that the case because you may be thinking of that, right?

S. Vijayanand: Flexibility within the product range that we have is there to some extent but if the technology is like lithium that flexibility will not be there.

Moderator: Thank you. Next question is from the line of Raghav Mittal from Locus Investments. Please go ahead.

Raghav Mittal: Just a quick clarification, I think you have made a comment earlier on the board that telecom was 50% of revenues, did I hear that correct, sir?

S. Vijayanand: Within industrial.

S. V. Raghavendra: Yes, within industrial it is 50%.

Raghav Mittal: That is today, in its hay day when it was doing well like may be 2 years ago what would that has been?

S. V. Raghavendra: It was close to about 60%-65%.

Moderator: Thank you. Next question is from the line of Deepak Gupta from Progress India Opportunities Fund. Please go ahead.

Deepak Gupta: Sir, can you please certify your capacity for each segment and utilization level for them?

S. V. Raghavendra: On the industrial side we have a capacity of more than 2 billion ampere hours/year. And on the two-wheeler, motor cycle batteries our current capacity is close to about 11 million and we are increasing the capacity by 4 million by end of this financial year. We will have 15 million by March 2018. On the invertor batteries our current capacity is about 0.9 million per year which is almost nearing 100% capacity utilization now and we are launching second phase expansion. For four-wheeler automotive batteries we are currently at 10.5 million batteries per annum and will be adding another 2.25 in the next 6 months.

Deepak Gupta: And sir, Four-wheeler batteries also running at 90% capacity utilization?

S. Vijayanand: Yes.

S. V. Raghavendra: Four-wheeler and Two-wheeler batteries we are at 90%+.

Deepak Gupta: And industrial battery, what kind of capacity utilization on that?

S. V. Raghavendra: As I said in the LVRLA 90%+ the capacity utilization has come down to around 60% and industrial UPS we are 90%+.

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

Jinesh Gandhi: Did I understand it correctly that overall industrial segment revenues and volumes have declined, is that correct?

S. V. Raghavendra: Telecom has declined both in terms of volumes and revenue, whereas UPS and railways we have seen a marginal growth.

Jinesh Gandhi: So but given that telecom would have declined severely overall the industrial is that grown or that is would be flattish or decline?

S. V. Raghavendra: Overall telecom segment has declined. Which has been off-set by the growth in automotive in this quarter. But going forward, we have taken corrective action and we will see some improvement in the third quarter.

Jinesh Gandhi: And second question pertains to the GST regime, are we seeing how is unorganized segment coping with GST regime? Have they taken adequate.

S. V. Raghavendra: I think the confusion about GST still prevails. Hopefully after today's meeting in Guwahati. Some more clarification will emerge. We have been maintaining that post-GST implementation it may take about 1.5 – 2 years for the shift to happen. It will not happen overnight. It will happen gradually and now with this confusion caused, it may take a little longer also.

Jinesh Gandhi: And one last question on telecom. So our market share has been stable despite all the increase in competitive intensity and pricing pressure which has been there.

S. Vijayanand: We have had a market share close to about 65% earlier. We would not say that we have been able to hold on to that level, there has been a de-growth in the market and we have also lost market share to competition during this quarter. So I would say today we would be probably close to about 50% in our market share.

S. V. Raghavendra: While there have been pressures in one or two customer accounts, we had gains in one or two other customers. We are altering the customer profile as far the telecom business is concerned.

Jinesh Gandhi: If I can squeeze in one last question, e-rickshaw opportunity as per you what could be the size of this opportunity given that it is a very nascent industry what could be the size of this opportunity?

S. Vijayanand: There is no authentic data available on that we would assume that there are probably close to 800,000 to 10,00,000 e-rickshaws out there on the road. In terms of sizing that from a battery replacement perspective we do not have accurate number on that maybe we will be able to get back to you on that as we do our plan this year. But that is a changing number every quarter.

Moderator: Thank you. Next question is from the line of Sraddha Jain from Edelweiss. Please go ahead.

Sraddha: Just one question wanted to know what is the size of the opportunity for renewable energy storage in the battery space?

S. Vijayanand: Sraddha, very nascent at this stage depending upon which segment are will looking at, the home UPS segment some of this people have actually added rooftop solar to that so, their batteries been sold into that segment. At the grid scale level, only pilot projects have been announced they have not seen any major projects rolling out on that. Going forward industrial rooftop and commercial rooftop could adopt energy storage as a way of de-risking their dependence on the grid. But if you were to take a 5-year look this may emerge as a very strong market. But this is too early to predict what that number would be 5 years from now.

Sraddha: And just lastly, sir will it be possible to give an outlook in terms of revenues over say next 2 years to 3 years as we see these newer segments emerging like e-rickshaws and energy storage, I mean will it be big enough to off-set the impact of the telecom for our overall revenues.

S. Vijayanand: A lead neutral growth if you were to look at it, our endeavor is to continue to grow at around 13% to 15% on a CAGR basis but that scenario could alter if any of these new requirements whether it is e-mobility or whether it is energy storage of the grid scale, emerge out based on government policy push. But in a steady state manner the market will continue to grow in the close to 8% to 10% overall and since our endeavor is to grow faster than the market we would be happy to maintain a 13%-15% kind of a CAGR on our revenues this at a steady state lead value.

Moderator: Thank you. Next question is from the line of Manjeet Buaria from Solidarity. Please go ahead.

Manjeet Buaria: I have 2 questions, the first one is when you are looking to do lithium-ion storage batteries development, do we have like know how which will come from Johnson Controls or we will have to do it from scratch ourselves that is the first question. The second question which I have is, for the last 20-50 months are biggest competitor has become very aggressive in the replacement market is what we understand from channel sets. So, just wanted your perspective whether it is true on the ground or you feel you are not losing market share, how is it working in the replacement side? Thank you.

S. Vijayanand: The option of sourcing technology is from Johnson Control is open to us and we will be definitely having a dialogue around that whenever we firm up our investments plans. So, and there are few other options as well for us to evaluate on the table right now. As far as the competitive scenario in the market is concerned, I think we have not really seen our automotive business getting significantly impacted by any competition moves as of now. Probably there is enough space for 2 large players in this country to continue to pursue their own growth objectives. So, if your question was about whether that had any impact on our replacement quarter-to-quarter they could be shades of variations on that but in a larger averaged out behaviour, I think we were able to sustain our growth momentum in continue to gain market share.

Moderator: Thank you. Next question is from the line of Deepak Jain from Subhkam Ventures. Please go ahead.

Deepak Jain: Sir, the lithium battery technology you would source from the Johnson Control only that is what we understand?

S. Vijayanand: That is an option open to us, but we have not made the final decision on that.

S. V. Raghavendra: We have the option to go to any other source. Tt is not necessary that we should only take it from Johnson Control.

Deepak Jain: And on revenue you are targeting 13% to 15% in a medium term. So, given the pricing action also which is expected given the sharp escalation in the lead, so the same range could be expected for FY18 also?

S. Vijayanand: Our growth projection was based on volume growth that is our endeavour. When lead price changes suppose the lead returns back to below $ 2,000 per metric tonnes there will be pricing correction that will be required and hence the revenues should probably be impacted by that. But we always have to look at our growth neutral to lead price variation.

Deepak Jain: So, let say if volume growth is let's say 7% just for our understanding and lead price is up 7%, so revenue is 14%-15% on that 14%-15% you are saying the margin of 14% to 16% range that is what we should to understand?

S. Vijayanand: One correction when lead goes up by 7% it does not translate into a pricing action of 7% because lead is a major portion but a portion of the total pricing. So, it does not really move in linear tandem. Yes, when the lead continues to grow those margins may be difficult to protect at that level. So, our margin projection is based on certain level of stability in the commodity market. Theoretically, we can say if lead goes to $ 4,000 can we still sustain maring levels? Not possible because there price changes are only to pass through the commodity cost. But that becomes a theoretical framework of discussion because assuming lead is moving in the range of 2,000 to 2,500 we should be able to see that these margins are sustainable in the 14% to 16% range.

Deepak Jain: Sir, just one last question you are expecting telecom demand to revive let's say in Q4. So, you think on a low base a double-digit growth is possible from Q4 onwards?

S. Vijayanand: Our view is that telecom demand will stay uncertain in Q3, Q4. The kind of stability that we had in terms of demand forecasting from our customer is currently not possible or not happening. We will take couple of more quarters before it stabilizes. So, we would look it probably next financial year is where some stability will return. Yes, you are right on a low base it should probably see a strong double-digit growth coming from next financial year onwards.

Deepak Jain: So, FY19 you are expecting strong double-digit growth because of the issues in FY18?

S. Vijayanand: That is a fair statement.

S. V. Raghavendra: Because of lower base in FY18.

Moderator: Thank you. Next question is from the line of Mahesh Bendre from Karvy Stock Broking. Please go ahead.

Mahesh Bendre: Before the post-GST implementation it was expected that the battery manufactures like us are going to benefit because there could be shift from unorganized players to organized players in the replacement markets. So, post that have we witnessed anything similar like that?

S. Vijayanand: A quarter is too short a period to be able to see any trend change happening more so the confusion we have on continuing changes in the GST guidelines. I think it will probably take a full year or 2 to see that shift being tangible but we are geared up as I said earlier in terms of our distribution reach to address some of these opportunities emerging on account of GST.

S. V. Raghavendra: You must be aware that many of these unorganized firms are splitting their business into 3 or 4 smaller units to avoid GST. In today's GST Council meeting that is going to be one of the important points for discussion by the government to see how they are going to address this kind of avoidance of tax by some of these unorganized players. So, if any stringent action is proposed by the GST Council now that will be putting more pressure on the unorganized sector and therefore shift can happen little faster. But unorganized sector also is undergoing some kind of metamorphosis and we have to wait and see in the next 6 months to 1 year, what kind of metamorphosis we can expect in the unorganized sector. Post that things will begin to stabilize.

Moderator: Thank you. We take the last question from the line of Dhimant Shah from Principal Mutual Fund. Please go ahead.

Dhimant Shah: Two quick questions, number one, if you can just help us understand is the key technological difference between we have the stamp base and our competitor has a different technology but now he seems to have our channel checks suggests that he seems to have bridge the gap that we were talking about, so existing technology difference can you just suggest where are we in the curve, number one. Number two, do we necessarily have to kind of bank on our parent which is

Johnson Control for the balance technologies and how is that kind of decided meaning what are the corner stones based on which finally imparting the relevant technology decided if you can just help us understand both of these?

S. Vijayanand: Yes, I would like to look at technology enabling on 3 different parameters. One is about driving operational excellence which is focussed around process technology, the other one is about product performance in reliability which is the product technology and the third one is one that provides its cost advantage by delivering both the product reliability as well as the operational efficiency. I think this is an advantage that we have had and that is something that Johnson Controls has immensely helped us when we launched our automotive product range and we have continuously invested into this to keep up the ladder in terms of driving operational excellence parameters, improving the product reliability and driving the cost efficiencies. There are couple of opportunities that we are looking at and going to the next phase within the lead-acid spectrum in terms of continuous plate making technologies that will ensures productivity gains in terms of long life products that will help us occupy some premium space in terms of our products offering. So the effort is on continues improvement spectrum. As far as Johnson Control support is concerned we would consider Johnson Control as a knowledge reservoir and withdraw from it appropriate to our needs for the market here. Johnson Controls have the repertoire of various options available, some of them relevant for Indian market some probably not and we have the option and they have been extremely supportive to us as needed. For example, one anecdote I might give here to reinforce this point when the market started adopting let say the idle start stop vehicle technology which means the engine automatically switches off if you are parking the vehicle or stuck at a traffic signal and kicks in again automatically. It needs a different type of product offering and we had help coming in from Johnson Controls to offer that product to our OEs. It has still not reached in terms of replacement requirement, so we always had the option of picking and choosing what is relevant for Indian market from what Johnson Controls can offer to us.

Dhimant Shah: So, we have a product offering in this, I believe?

S. V. Raghavendra: Yes, we do.

Dhimant Shah: No, in terms of comparative where I was coming from was the gap that Exide earlier had to be specific and we were contemplating some punch stand technology and they have also they have technology from chloride. If you can just help us right now in the current offerings are we meaningfully different or we are at almost at the same level?

S. Vijayanand: First of all in a forum like this I would not like to speculate or make comments about competition. We have huge respect for what Exide does and it will stay that way. But let me comment about the technology per say the continuous plate making technology which has different versions. We have adapted that almost 7-8 years ago for the negative plate making and on positive plate making we will be introducing some of this continuous plate making technologies and are we differentiated in what we make, and offer to the market, yes we continued to differentiate our product in terms of choice of materials that we use, in terms of process technology that we have, in terms of life and reliability coming from product design offering that we do and we strongly believe that we continue to maintain that edge over competition.

Dhimant Shah: And your Four-wheeler capacity was how much you said your pas car?

S. V. Raghavendra: 10.5 million per annum.

Dhimant Shah: And we are at 90% in the both categories?

S. V. Raghavendra: Yes.

Moderator: Thank you. Ladies and gentlemen, I would now like to hand over the conference to Mr. Mukesh Saraf for his closing comments. Over to you, sir.

Mukesh Saraf: Thank you. On behalf of Spark Capital, I thank you all for dialling in today's call. I would specifically thank the management team of Amar Raja Batteries for taking timeout and patiently answering the queries. Thanks a lot, sir.

S. V. Raghavendra: On behalf of Amara Raja we also would like to thank all the participants and thank Spark Capital and the coordinator from Bombay for facilitating this call. Look forward to meeting you sometime.

S. Vijayanand: Thank you ladies and gentlemen, we appreciate all the support that we have got from all of you all the years.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of Spark Capital Advisors that concludes this conference call. Thank you for joining us and you may now disconnect your lines.