Amara Raja Energy

Operator: Ladies and gentlemen, good day. Welcome to Amara Raja Q3 FY26 earnings conference call hosted by Avendus Spark. As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask a question after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. Now I hand over the conference call to Mr. Krupa Shankar from Avendus Spark. Thank you, and over to you, sir.

Krupa Shankar – Avendus Spark: Thank you, Manasa. Good evening, everyone. This is Krupa Shankar here from Avendus Spark. I appreciate everybody logging in to the Q3 FY26 earnings call of Amara Raja Energy and Mobility Limited. From the management team, I am pleased to host Mr. Y. Delli Babu, Chief Financial Officer, and Ms. Swajita Rapati, Head of Corporate Finance. I will now hand over the call to the management for opening remarks. Over to you, ma'am.

Management: Good evening, everyone. Thank you for joining the call. During Q3, the total consolidated revenue stood at 3,410 crores, which is a growth of approximately 4.2% over the previous year. 93% of the revenue has come from the lead acid business, and the rest has come from the new energy business.

During the quarter, a steady growth of 7% in domestic automotive four-wheeler volumes, along with other applications, supported the top-line expansion in the lead acid business. Four-wheeler OEM volumes demonstrated robust growth of approximately 25%, and aftermarket volumes grew approximately 3% on a year-over-year basis. Other applications, including tubular batteries and UPS, also demonstrated a growth rate of approximately 10%. This quarter marked a significant increase in tubular battery sales from in-house manufacturing, unlike previous years. Lubes also continued to clock a quarterly revenue of approximately 50 crores, maintaining its growth momentum.

Coming to the lead acid industrial side, industrial volumes, excluding telecom volumes, registered a growth of approximately 2%, and UPS volumes grew by approximately 5% on a year-over-year basis during the quarter. Despite these growth numbers, the lead acid business reported a muted top-line of approximately 3,174 crores during the quarter. This was primarily driven by the decline in industrial telecom lead acid volumes and a decline in automotive export volumes by approximately 15% on account of tariff issues and other geopolitical uncertainties.

On the new energy business, during Q3, we delivered a strong performance with revenue of more than 200 crores, which is a growth of almost two times compared to the previous year. This marks the first quarter in which we crossed the 200 crore revenue milestone. This growth is supported by increased demand for telecom packs. During the quarter, we supplied approximately 250 megawatt hours of telecom packs, leading to a stationary capacity utilization of 80% plus.

Besides telecom packs, we are now shifting focus to battery energy storage solutions (BESS), where the market demand is expected to reach approximately 25-30 gigawatt hours by FY31. Our board has approved setting up a 5 gigawatt hour integrated solution plant with an estimated capex outlay of approximately 280 crores to cater to both grid and commercial industrial energy storage solutions. We expect this plant to be operational by the end of FY27.

During Q3, we infused approximately 200 crores into Amara Raja Advanced Cell Technologies, which is our lithium subsidiary. With this, the total investment is now 1,400 crores. With respect to profitability, the standalone operating margins stood at approximately 11.2%. If we adjust for the lithium telecom battery trading business and consider operational efficiency from our lead recycling plant, the margins would go up to 12.3% during Q3.

Our lead recycling plant led to a margin accretion of approximately 0.6% at the EBITDA level during the quarter. At the lead acid battery level, we are able to sustain operating margins of about 12% despite cost pressures at the raw material levels. The raw material cost, particularly in tin alloys, sulfuric acid, and antimony alloys, increased materially during the quarter, which impacted the margins. In addition to this, the OEM mix being higher during the quarter and some provisions around warranty expenses and EPR liability also added to the moderation in margin expansion.

We took a price increase of approximately 2% in January 2026 to mitigate these price and cost pressures. On the capex side, year-to-date December, we have spent approximately 950 crores between the lead acid business and new energy business, out of which 600 crores has been spent towards lead acid and 300 crores towards the new energy business. This is a quick brief on the Q3 performance. We can go ahead with the questions and answers.

Operator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use your headset while asking a question. The first question is from the line of Raghunandan from Nuvama Institutional Equities. Please go ahead.

Raghunandan – Nuvama Institutional Equities: Thank you very much for the opening remarks and for taking my question. My first question was to better understand the volume side. Can you please indicate within four-wheelers, what was the growth in OEM, replacement, and export year-over-year?

Management: In the four-wheeler segment, we have grown approximately 25% on the OEM side. In the aftermarket segment, we have grown approximately 3%.

Raghunandan – Nuvama Institutional Equities: Got it. And what about exports?

Management: In exports, there was a decline of approximately 15% during the quarter on account of tariff issues.

Raghunandan – Nuvama Institutional Equities: Can you also indicate for two-wheelers, what was the OEM and replacement growth?

Management: With respect to the two-wheeler segment, growth has been pretty flat on both the aftermarket and OEM segments. We have grown marginally, by approximately 1%. This is primarily because in the corresponding period of the previous year, the volumes were slightly higher, meaning the base was high. On the OEM side, the growth was muted because certain OEM factories were shut down for a couple of months, which resulted in overall flat growth in volumes.

Management: To add to what Swajita said regarding the two-wheeler segment, if you compare year-over-year growth to the same quarter last year, it was almost close to 15-17%. That higher base impact resulted in muted growth in the two-wheeler aftermarket, but I am sure it will revive in the coming quarters. Regarding OEMs, we have seen a few areas in some of the platforms we occupy where there was some stoppage of lines for annual maintenance. Otherwise, in terms of market share, there is no major change between both aftermarket and OEMs.

Raghunandan – Nuvama Institutional Equities: Good to hear that, sir. On the industrial side, UPS is up 5%. How much was the decline in telecom, and what is the share of telecom now in overall revenues? Is it very small now because of the shift from lead acid to lithium?

Management: In telecom, volumes declined by more than 45% during the quarter. If you compare this to previous quarters, the overall telecom share in revenue has come down significantly. I think the share is now less than 5% of the overall revenue because of the transition to lithium.

Raghunandan – Nuvama Institutional Equities: Thank you for that. Lastly, just to complete the volume bit, what was the growth in home inverters?

Management: Home inverters grew approximately 10%.

Raghunandan – Nuvama Institutional Equities: Got it. This is very helpful. Secondly, regarding under-recoveries, with the 2% price hike taken in January, does that mean all cost-related pressures are covered, or would further price increases be required based on current commodity prices?

Management: There has been a slight uptick again after we took the price increase in the first week of January. While it can cover some portion of the alloy side, other raw material costs like acid are hitting us again. Nevertheless, in Q4, if the season for tubular batteries goes according to expected lines, the increase in manufacturing revenue could mitigate some margin pressure. If acid prices cool down during this quarter, that should help us. Right now, we believe the price increase should be sufficient for the alloy price increase we have seen, but we have to see how all the other factors balance out over the quarter. Lead reached 1,900 and has moved back to 1,930 levels as we speak.

Raghunandan – Nuvama Institutional Equities: Got it, sir. Very helpful. On a full-year basis, would lead acid capex be around 700 crores or higher?

Management: On a full-year basis, it could reach 800 crores in this financial year. This includes the tubular plant reinstatement, and part of that money will come from the insurance claim.

Raghunandan – Nuvama Institutional Equities: So for next year, FY27, should it normalize to about 400-500 crores?

Management: Yes. In terms of lead acid batteries, I think it will be around 300-400 crores. On the new energy side, we may spend approximately 1,000 crores next year.

Raghunandan – Nuvama Institutional Equities: Thank you, ma'am. On the BESS capacity side, with the expansion you indicated—a 280 crore investment—could you talk about the opportunity, how you are approaching orders, the scale-up, and revenue potential?

Management: Initially, our idea is to target a market size that we expect to grow to about 30 gigawatt hours in the next 4-5 years. There are a lot of tenders coming up. Storage requirements are increasing due to round-the-clock power requirements from solar generation and the need to mitigate intermittency. We are focusing on battery energy storage for two major applications. One is at the commercial and industrial level, which involves smaller-sized solutions. The second is at the grid level, which involves a containerized solution with lithium batteries and a DC block.

The per kilowatt hour price will vary significantly depending on the lithium pack levels and the size of the container required. It is difficult to provide specific unit economics right now. This business somewhat mimics the pack business because we will be importing a lot of content initially. Over time, there is a push because the government has stipulated certain percentages of BESS solutions that must be produced within the country. There is also support for domestic content inclusion, similar to what happened in solar.

The business demand is high, and asset turnover ratios are expected to be very high—anywhere around 9-10 times—because Amara Raja is providing the solution architecture while components are initially imported. Over time, this paves the way for localizing components, particularly cells. The cells used in BESS currently have a rating of approximately 314 Ah. Once we see robust demand evolving, we may go back and manufacture the cells as well. From an operating margin percentage level, it will be low, but from an ROCE level, it should be better as we move into this business.

Raghunandan – Nuvama Institutional Equities: Thank you so much, sir. I will fall back into the queue.

Operator: Thank you. The next question is from Kapil Singh from Nomura. Please go ahead.

Kapil Singh – Nomura: Good evening, sir. My question follows up on BESS. I wanted to understand how you are thinking about competitive advantages and building competencies in this business. I understand there will be high competition initially because everyone will be importing. Is that correct? Second, are our existing facilities capable of producing those cells, or do we need additional capex? Which chemistry is used here?

Management: Regarding competition, I suggest looking at what happened in telecom. When we started the telecom packs business, many players entered. Today, on a combined lead acid and lithium basis, we still hold about 55-60% of the market. While we agree that lithium is not a duopoly market like lead acid, especially on the pack side, we believe value will be provided by larger players who understand power requirements. Furthermore, Amara Raja Group is in the EPC business for solar generating stations, which allows us to participate in private tenders and supply solutions. To meet our 5 gigawatt hour target in a 30-40 gigawatt hour demand market would give us approximately a 15% market share, which is a rightful goal.

The cells will be LFP (Lithium Iron Phosphate). Current cells being used have a rating of about 300 Ah. Once we establish our LFP cell factories, one of those lines can be dedicated to the storage side. We expect at least 30-35% of overall lithium cell demand to come from the storage side, including telecom, UPS, and BESS. Whatever rating of cells is relevant for BESS will be developed over time.

Kapil Singh – Nomura: That is very helpful. Secondly, regarding the NMC cell capacity coming up this year, how do you sense the potential to utilize that? Some two-wheeler players have talked about using LFP as a technology going ahead. We are also seeing new technologies like sodium being explored. What are your thoughts on utilizing its NMC facilities?

Management: We hear the same from two-wheeler and even some three-wheeler customers to whom we currently supply packs. However, we believe that capacity will not be more than 2 gigawatt hours. Beyond mobility, there could be demand for high-power cells in segments like power tools. By today's understanding of the market, utilization should not be a problem. In the worst-case scenario, migrating an NMC line to LFP chemistry is not very taxing from a capital point of view. There could also be demand for NMC in export markets. Regarding new chemistries, we have a dedicated team looking into feasibility. As sodium-ion and others become relevant, we will work on them. For now, LFP remains the mainstay for mobility applications.

Kapil Singh – Nomura: Lastly, on overall growth, it was soft this quarter. Can you share your thoughts on growth for different segments? It was surprising to see aftermarket growth in four-wheelers at only 3%. Telecom also had a sharp decline. Is this cyclical? Regarding exports, which markets were impacted by tariffs?

Management: Regarding exports, last year we commenced supplies to the US markets, so those volumes were built into the base. This year, we were not able to supply any volume to the US in this quarter. In the Middle East and Asia-Pacific, where we are strong, competitive intensity is on the rise, leading to a natural drop in volumes. We are looking at mitigations and consider US markets too large to ignore. We are working on forming a small subsidiary to help stabilize our US business. We hope that as trade announcements are finalized, the situation will smoothen out.

In the domestic market, last year's same quarter had very high aftermarket growth, so there is a base impact. The industry growth rate for aftermarket batteries is only about 5-6%. These one-off quarterly volume dips should correct as we move into next year. I do not see a reason to be worried about the 5-6% industry growth potential.

Kapil Singh – Nomura: What about the telecom side?

Management: There is no loss of market share. As chemistry migration to lithium occurs, lead acid volumes are naturally going down. That capacity is getting retired because it is no longer relevant. We expect that if lithium prices sustain, lead acid telecom volumes will continue to decrease over the next 2-3 years. It has already become a very small portion of our overall business.

Kapil Singh – Nomura: Thank you so much for the detailed answer and best wishes.

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

Joseph George – IIFL: Thank you. Looking at this industry, it is a duopoly. Pre-COVID, the blended margins of the two companies used to be approximately 14-15%. Now industry margins are at about 11%. Do you think the industry will display enough pricing power to return to the old margin range?

Management: When referring to the old margin range, you have to adjust for the lead base. At such a large lead base, targeting margins of 16-17% might invite outside competition. We must balance pricing decisions. However, given current cost headwinds, especially in metals, the industry is taking steps to recover what is possible. There are ongoing discussions with large B2B customers. Over time, there will be margin improvement. Our company target is to move back to at least a 13-14% range, but I cannot comment on the industry as a whole.

Joseph George – IIFL: Do you have an automatic pass-through for lead prices for OE contracts?

Management: Yes, it is an automatic pass-through based on the contracts we have, but that is only for lead, not for all commodities.

Joseph George – IIFL: Understood. Thank you.

Operator: Thank you. The next question is from Mumuksh Mandalesha from Anand Rathi Institutional Equities. Please go ahead.

Mumuksh Mandalesha – Anand Rathi Institutional Equities: Thank you for the opportunity. On the BESS opportunity, you mentioned a 9-10 times asset turn. For the 280 crore investment, is this a 2,500 to 2,800 crore revenue opportunity?

Management: A 280 crore investment should give a revenue of approximately 2,700 to 2,800 crores, assuming current cell prices. If cell prices change, that figure will also change.

Mumuksh Mandalesha – Anand Rathi Institutional Equities: Are any orders in place now? What kind of ramp-up do you see for this new capacity over the next three years?

Management: It will be a slow ramp-up. Currently, total supplies across the industry would not cross one gigawatt hour, but multiple tenders are being floated. The solar capacity target for the country is approximately 500 gigawatts, so this will be a larger play in the long term. Being in this segment helps our solution business and eventually our cell manufacturing business.

Mumuksh Mandalesha – Anand Rathi Institutional Equities: You mentioned this as a solution. Along with battery packs, what else is included?

Management: Other DC blocks, which act as inverters and include various electronic components, are included. These are currently imported, but there is a push to localize them internally.

Mumuksh Mandalesha – Anand Rathi Institutional Equities: And this 280 crores will be spent in the next year?

Management: Yes, we will likely complete this by the end of the next financial year.

Mumuksh Mandalesha – Anand Rathi Institutional Equities: Regarding gross margin movement, sequentially we have seen a contraction. Is this largely due to the increase in alloy prices or other factors?

Management: It is majorly due to material costs and unfavorable mix. We are also continuing to provide for certain other expenses. Additionally, the tubular factory commenced operations last

quarter, so there are initial ramp-up admin and employee costs hitting the P&L.; Materially, however, it is the raw material cost.

Mumuksh Mandalesha - Anand Rathi Institutional Equities: Thank you, sir.

Operator: Thank you. The next line is from Vaishnavi Gurung from Craving Alpha Wealth Fund. Please go ahead.

Vaishnavi Gurung - Craving Alpha Wealth Fund: Thank you for taking my question. I wanted to understand our growth in lithium-ion, especially on the telecom side. Can we grow as we did in the lead acid segment? Also, are we trading or manufacturing in this segment?

Management: Regarding telecom packs, we currently buy the cells and convert them into packs in-house. We manufacture the packs and then sell them. Growth depends on the speed of migration from lead acid to lithium by telecom players. Lithium prices are currently hardening, which might change the unit economics for them, but we believe this chemistry migration is here to stay.

Vaishnavi Gurung - Craving Alpha Wealth Fund: What is our current market share in the telecom market?

Management: For both lead and lithium combined, we are at approximately 55%. In lead, our market share is naturally higher because there are only two players. What is more important is our overall sectoral presence across both chemistries.

Vaishnavi Gurung - Craving Alpha Wealth Fund: Regarding UPS, are we planning to expand into lithium-ion batteries? What are your thoughts on the data center market?

Management: Data centers definitely have a preference for lithium. Currently, we supply lead acid batteries to other segments within the UPS application, and those are growing at approximately 5%. While I cannot confirm immediate plans for cell manufacturing for UPS specifically, we are looking at other packs for the storage side. BESS was one of those steps. We will let you know when we enter specific UPS applications.

Vaishnavi Gurung - Craving Alpha Wealth Fund: So we don't have immediate plans to manufacture telecom and UPS lithium batteries in-house?

Management: We manufacture the batteries. Regarding the cells, we must see if the domestic scale is viable for such a capital-intensive investment. We need a certain scale to justify the investment. These decisions will be taken at the appropriate time. It is on our radar, but I don't have a specific update right now.

Vaishnavi Gurung - Craving Alpha Wealth Fund: How are we anticipating further margin impact from rising raw material prices?

Management: As mentioned, the price increase we took this quarter should help mitigate some of the problem. However, we need to see how lead prices move. If costs sustain at this level, we may have to consider an additional price increase depending on the competition. We are seeing jumps

in costs for items like acid.

Vaishnavi Gurung – Craving Alpha Wealth Fund: Thank you.

Operator: The next question is from the line of Aniket Madhwani from Step Trade Capital. Please go ahead.

Aniket Madhwani – Step Trade Capital: My question is on margins. Comparing year-over-year, there is a significant dip in net margins. I know you mentioned EPR liability and the OEM mix, but I want to understand the reason behind it in more detail.

Management: We have discussed the margin question several times. The raw material costs, the higher OEM mix, and other specific expenses this quarter are the reasons. To compensate, we have taken a price increase. If you have any specific technical details you'd like to know, please ask.

Aniket Madhwani – Step Trade Capital: I also wanted to know about the battery recycling plant. Is battery breaking starting from Q4?

Management: Yes, battery breaking will start from Q4. As mentioned earlier, refining operations are providing additional margin comfort currently. We hope that once battery breaking is fully operational, it will mitigate some of the lead costs we are currently incurring. Recycling is generally a lower-margin business, but with our technology, we expect better recovery ratios and improved operating margins for the lead acid business.

Aniket Madhwani – Step Trade Capital: Got it. Thank you.

Operator: The next line is from Professional Capital. Please go ahead.

Meet – Professional Capital: Thank you for the opportunity. When we talk about growth percentage, we are in single digits. The government introduced a GST rate cut for automobiles, and we see growth in car sales, yet our growth is not reflecting that. Also, why is our EPS growth not visible? Excluding the exceptional item, we did approximately 235 crores in profit last quarter, and this time it is 151 crores. That is a 45% drop. Why are we not converting sales growth into EPS growth?

Management: We are absolutely focused on growth and profitability. OEM growth in one quarter doesn't reflect in the aftermarket immediately; it takes at least 3 years. Our OEM business grew by approximately 25% this quarter. Regarding margins, I have explained the cost headwinds and our mitigation steps.

We are also trying to improve our capacity throughput without significant additional capex to sell more batteries in the future. We aim to grow at least a percentage point ahead of the domestic market. We are working on our international footprint, which is currently facing headwinds. If our export business grows at the 10-15% CAGR we projected, it will reflect better in the margins. Cost headwinds currently mean margin dilution, but as the industry recovers these costs, the EPS will improve. Lead and alloy prices have risen significantly compared to past years.

Meet – Professional Capital: For a follow-up, if we focus on the domestic market, we can still do better. In December 2024, sales were 3,164 crores, and now they are 3,351 crores. Expenses

increased by a similar amount as sales, which is why it isn't reflecting in EPS growth. Our 10-year EPS growth is only 8%, which barely beats FD returns.

Management: Please look at the consolidated results. The expense increase includes our lithium-ion business development. We are spending close to 100 crores on development and construction activities. Regarding your suggestion to focus only on the domestic market instead of exports, we believe international growth is necessary for higher profitability, as foreign markets require AGM batteries which are higher margin. However, we will consider your feedback.

Meet – Professional Capital: Thank you.

Operator: The next question is from the line of Vaishnavi Gurung from Craving Alpha Wealth Fund. Please go ahead.

Vaishnavi Gurung – Craving Alpha Wealth Fund: Regarding the telecom side, you mentioned you will manufacturer cells once you see the right scale. Given the chemistry shift is prominent, what is stopping us from having in-house manufacturing now?

Management: It is about the size and scale required for lithium. We need a specific scale for a given cell type to be viable due to capital intensity. The lithium replacement cycle is not as fast as lead acid. We must determine if the demand for a cell type, whether for telecom or other common applications, justifies the investment. If we invest without the required scale, we will not be cost-competitive against other players.

Vaishnavi Gurung – Craving Alpha Wealth Fund: Okay.

Operator: There are no further questions. I now hand the conference over to management for closing comments.

Management: Thank you, everyone, for joining the call. See you next time.

Operator: On behalf of Avendus Spark, that concludes this conference. Thank you for joining us. You may now disconnect your lines.