



“Exide Industries Limited
Q4 FY '23 Earnings Conference Call”

May 11, 2023



MANAGEMENT: **MR. SUBIR CHAKRABORTY – MANAGING DIRECTOR
AND CHIEF EXECUTIVE OFFICER – EXIDE INDUSTRIES
LIMITED**
**MR. ASISH KUMAR MUKHERJEE – DIRECTOR FINANCE
AND CHIEF FINANCIAL OFFICER – EXIDE INDUSTRIES
LIMITED**
**MS. CHHAVI AGARWAL – HEAD INVESTOR RELATIONS
– EXIDE INDUSTRIES LIMITED**

MODERATOR: **MR. ADITYA JHAWAR – INVESTEC**

Moderator: Ladies and gentlemen, a very good afternoon, and welcome to the Q4 FY '23 Earnings Call of Exide Industries Limited. 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 * then 0 on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Aditya Jhawar from Investec. Thank you, and over to you.

Aditya Jhawar: Good afternoon to you all. From Exide Industries, we have with us MD and CEO, Mr. Subir Chakraborty; Director of Finance and CFO, Mr. Asish Kumar Mukherjee; and Head Investor Relations, Chhavi Agarwal. Before we proceed, here is the disclaimer for the call. A few statements by the company management in the call made could be forward-looking in nature, and we request you to refer to the disclaimer in the earnings presentation. We will start the call with a brief opening remarks from the management, followed by a Q&A session. I would now like to invite Mr. Subir Chakraborty for the opening remarks. Over to you, sir.

Subir Chakraborty: Thank you, Aditya. Good afternoon ladies and gentlemen, and a warm welcome to everyone. Thank you all for joining us on the call. I hope you have gone through the presentation which we shared in the morning on the exchanges.

I will start by talking about the fourth quarter results. Overall, we continue to deliver a steady performance, despite inflationary pressures. In the automotive vertical, domestic sales grew year-on-year supported by OEM demand, though demand momentum was moderate in the replacement market. Automotive exports were impacted by antidumping duties in the GCC countries and by the modest demand in the western countries. On the industrial side, demand was upbeat across verticals such as industrial UPS, solar, traction and telecom, supported by an increase in business and commercial activities.

If we look at the full year's performance, we have delivered impressive growth with sales and PBT growing by 18%, each. Our growth has been broad based with most sectors registering double-digit sales growth. On the automotive side, we continue to strengthen our position, both with the OEMs and in the replacement markets. We have launched technologically advanced products and our distribution reach has significantly expanded. We are making efforts to increase our international presence and to venture in new geographies like Russia.

On the industrial side, 70% of the business, including industrial UPS, traction, telecom and solar have grown at an inspiring rate of 20% to 30% in the previous year. This was driven by strong demand across all the end-markets in the industrial vertical. We have strengthened our product portfolio to offer a comprehensive product range catering to evolving market requirements. We are increasing our geographical footprint by building brand resonance in new markets and increasing customer connect, through the newly launched app called Exide Edge.

This year, margins were impacted by commodity inflation resulting not only in higher material prices, but also high freight and logistics costs. However, prices have broadly stabilized and

inflationary pressures have started easing, this should benefit us in the near term. We are also taking calibrated price increases, which is supporting margins.

Last time I talked about the accelerated digital transformation we went through in the past few years, and this has enabled us to be more agile and efficient. I would like to highlight the benefits we are driving from this exercise. In automotive vertical, now we have more micro-market level visibility and hence sharper deployment of strategic initiatives. Today, our team member has almost real-time visibility of performance and channel partners also enjoy greater transparency and tools to enable growth for their businesses. In industrial vertical, we are better able to connect with customers and understand their requirement through the digital app. Industry 4.0 initiatives have digitalized production process in factories and information is available on a real-time basis. Further, all processes are more streamlined, and we have been able to lower fixed costs.

Moving to our lithium-ion cell manufacturing projects under our subsidiary, Exide Energy Solutions Limited, the project is progressing extremely well. All necessary permissions have been secured and site-enabling work has been completed. On the ground, construction activity has been initiated and foundation linked work is progressing in full swing. We have recruited senior management team comprising experience and senior personnel in functions such as R&D, sales, procurement, quality, IT and others. This team is expected to ensure timely project execution and delivery. We have so far invested INR715 crores in the project.

Other subsidiary, Exide Energy Private Limited, which develops and manufactures Lithium-ion-based modules and packs is also doing well. The company has received orders of INR600 crores to INR700 crores to be executed in the next 12 to 15 months for its various verticals such as 2-wheelers, 3-wheelers, commercial vehicles and telecom.

On the outlook for the lead-acid battery business, we are positive given both near-term and medium-term drivers look promising. With rising preference for personal mobility, increasing inter and intra state connectivity, increasing prominence for technologically advanced products and solutions, demand is expected to be high in the automotive vertical. Increased Government spending on infrastructure development and increasing business activity is keeping order inquiry high in the industrial vertical. We are continuously evaluating the market scenario and working towards introducing products which cater to changing industry requirements. Our balance sheet is strong with zero debt equity and our cash flows are positive. This places us in strong position to tap new opportunities.

With this, I close my opening remarks. We will now be happy to take your questions.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from the line of Jinesh Gandhi from Motilal Oswal.

Jinesh Gandhi: Can you talk about FY '23 broader growth for the key segments- replacement, OEM and industrial and exports? How they would have grown in FY '23 full year?

Subir Chakraborty: Sorry, I could not get your question.

- Jinesh Gandhi:** For full year FY '23, what would have been indicated growth rates for automotive OEMs, automotive aftermarket, industrial segment and exports?
- Subir Chakraborty:** FY '23, we have already said that we have grown at 18% for the whole company, and the growth rates have all been in double digits across verticals.
- Jinesh Gandhi:** Okay. Got it. And second question pertains to the replacement market growth. So are you seeing any pickup in the replacement market, given that it has been moderate for some time now, both on 4-wheelers as well as 2-wheelers batteries?
- Subir Chakraborty:** Yes, there is some momentum in the replacement market as well. And we hope that this year should see a full pickup of the replacement market post the COVID scenario.
- Jinesh Gandhi:** Okay. Do you expect good growth in FY '24 in replacement as well?
- Subir Chakraborty:** Yes,
- Jinesh Gandhi:** Perfect. And in the presentation, you have talked about margin initiatives, which we are taking to improve margins. So can you highlight what kind of margin expansion, and what are the level of margins you would be comfortable with where we are today?
- Subir Chakraborty:** We have been working on 2 fronts. One is the digitalization initiatives, which have been taken, which has certainly given us more visibility across all costs, both in the factories as well as in the corporate. And besides that, we are also undertaking cost optimization measures in a very major way, particularly in our factory, which should result in margin expansion in the coming quarters.
- Jinesh Gandhi:** Okay. So do you expect it to go back to mid-teens margins? Or it should be much lower than what we were doing in the past?
- Subir Chakraborty:** We should certainly see a significant improvement, going forward.
- Jinesh Gandhi:** Okay. And you indicated for Lithium-ion project, we have invested INR750 crores so far.
- Subir Chakraborty:** INR715 crores, not INR750 crores. INR715 crores.
- Jinesh Gandhi:** INR715 crores. Okay. And any guidance for capex for the lead acid batteries for FY '24 and for Lithium-ion also for FY '24?
- Subir Chakraborty:** Mr. Mukherjee will answer that question.
- Asish Mukherjee:** See for lead acid business, we have to spend about INR500 crores to INR600 crores. For Lithium-ion, of course, we are in the process of placing orders for the equipment and all that. So this will come in due course of time, maybe late FY '24 or in FY25. So accordingly, it will be spent because out of the total Phase 1, expenditure of around INR4,000 crores, it is part of that.

- Moderator:** Our next question comes from the line of Raghunandhan from Nuvama Research.
- Raghunandhan:** Sir, 2 questions. Firstly, in domestic market, can you broadly indicate how the market share was for FY '23 across segments?
- Subir Chakraborty:** See, market share at the individual level, we do not really talk about. But at a broad level, I can tell you that we have, in most verticals, either we have remained steady or we have grown market share. .
- Raghunandhan:** Got it, sir. And my second question was on the customer base for the new business. You indicated that company has successfully won orders of INR600 crores to INR700 crores to be executed over 12 to 15 months. Can you indicate major customers or segments? Also, for the upcoming lithium-cell factory, have you tied-up with customers? When can we expect announcements relating to this? I'm just trying to get a visibility on the utilization, in what timeframe the plant can reach optimal utilization.
- Subir Chakraborty:** See, first and foremost, for the Lithium-ion project, the developments which we have done, because you must understand that the homologation process in Lithium-ion takes over 1 to 1.5 years. So there are NDAs covering this, vis-a-vis, each customer that we have been working with. So I won't be able to tell you individual customer names, but I can tell you that it goes across 2-wheelers, 3-wheelers, commercial vehicles, and telecom. That is one.
- Number 2, I will explain to you how the logic behind what we are doing. See, the module and pack making facility today has got orders of INR600 crores to INR700 crores and, in the modules and packs which we are making the cells are imported. But ultimately, these cells will be produced in our own factory in Bangalore, now for which construction has already started. So the customer connect has started long back through our module and pack-making facility. And this will flow into the Exide Energy Solutions Limited once we start making the cells in our own factory.
- So to summarize, we are far ahead in the customer connect rate, vis-a-vis, the other players in this field because of our module and pack making facility, which is already on stream.
- Raghunandhan:** That's good to hear, sir. Just 1 clarification. So the factory cell manufacturing project is expected to start production by end of FY '25. And would you expect that reaching an optimal utilization of 70%- 80% would be possible within the first 3 years?
- Subir Chakraborty:** So ideally, plant stabilization for Li-ion cell making facility takes about anything between 6 to 8 months. So, once we start the actual production run, we'll have to see how, we can quicken this timeline. But normally internationally if you check that this is the kind of timeline it takes. But we hope that with the help of our collaborator and so on, we will be able to compress this time.
- Raghunandhan:** Just the last question. Once you reach optimal utilization, say, 80% maybe 3 years after you commenced the plant, what would be the kind of ROIC you will be looking at?

- Subir Chakraborty:** Mr. Mukherjee will answer this question.
- Asish Mukherjee:** Once we reach the optimum capacity utilization, the ROIC should be in similar level of the lead acid business,
- Raghunandhan:** around 20%.
- Moderator:** Our next question comes from the line of Ashutosh Tiwari from Equirus Securities.
- Ashutosh Tiwari:** Yes. So firstly, on the margin side, if I look at your gross margins, what used to be in earlier years around 35% has now come down to 30%. And lead prices also as we look at, I think they were obviously higher a year back, but now they have come down. So why is there so much a pressure on the gross margin side? Is it because mix of change for us, in-terms of maybe industrial has grown higher and their values are lower? What's the reason behind that? And how should -- and considering all the things, how should we look at margin going ahead? Can we go back to the 13%- 14% kind of margin that you used to do, in the next 1-year period?
- Asish Mukherjee:** So the margin, as you said, that it has come down. It's primarily because of the material price volatility, the kind of lead price fluctuations are happening. Even in the last quarter compared to the previous quarter, sequentially, the cost has gone up by about 4%. So there is a impact on the margin of about 2%. So quarter-to-quarter fluctuations are quite large. And it is not happening in this quarter only, it's happening for the last 2 financial years. So that is the primary reason for the fluctuation of margins from quarter-to-quarter.
- But as you said that earlier, our EBITDA margin was on the higher side. Now we have initiated a lot of cost optimization initiatives, particularly in the manufacturing side as well as in the logistics area. And we expect the results to come in due course of time. And definitely, that will result in an improvement of margin going forward.
- Ashutosh Tiwari:** Sir, the factory cost cutting and all probably can only give you maybe a 1% or 0.5% improvement because other expenses that is not that large a component of the cost. The major reduction that has happened is on the gross margin side. So there things can change. Then only we can probably see a material improvement in the margin.
- So just to understand on that part, can we see the gross margin normalizing? Because I mean the competition is mainly between 2 players. And despite that, we are not able to pass on the lead cost increase of customers. This was not the case 5 years back. We probably had much stable margins that time. But now we have seen this reduction happening. So how should one look at that intensity on the competition side now has been changed versus, what it was 5 years back?
- Asish Mukherjee:** Manufacturing is not restricted to only manufacturing expenses. Also, it includes materials. That is where you are talking about the gross margin, which is after material cost. So we expect a lot of improvement there. And also, once the material cost is also at a more stable situation, it also gives a lot of advantage for improvement of the margin.

- Ashutosh Tiwari:** And you talked about that there's antidumping duty imposed in the Gulf countries. So how big was that market for us? And what kind of drop you see in the volumes over there after this duty? Are we still supplying or it is completely halted?
- Subir Chakraborty:** No, no, it has not been halted. Rather, the anti-dumping duty was imposed on certain base level classes of batteries. But right now, we are exporting enhanced flooded batteries to the Gulf and that has started to pick up, which is not covered under antidumping.
- Ashutosh Tiwari:** So mainly the drop in exports is driven by maybe European softness and all?
- Subir Chakraborty:** Pardon?
- Ashutosh Tiwari:** I mean you mentioned that exports have gone down versus last year. So is that really because of the European market is not doing well because Europe portion used to be sizable for us earlier?
- Subir Chakraborty:** There was some sluggishness in the market last year, international markets. But right now, we see exports growing in this particular year again.
- Ashutosh Tiwari:** Okay. And last question on this lithium-ion side, you mentioned around INR600 crores to INR700 crores kind of order that you have basically for execution over the next 12 to 15 months. So we can assume that almost like INR400 crores sales can come from there in this financial year FY '24?
- Subir Chakraborty:** So Li-ion is under a subsidiary, as you know, Exide Energy Private Limited, which is being now, we have already made the application to NCLT for merger of this company with Exide Energy Solutions Limited. So the turnover will come in that company. And I guess in the consolidated balance sheet, it will show.
- Ashutosh Tiwari:** But we can look at INR400 crore plus kind of sales in this year FY '24?
- Subir Chakraborty:** Certainly look at INR400 crores to INR500 crores of additional turnover from that.
- Moderator:** Our next question comes from the line of Pramod Kumar from UBS.
- Pramod Kumar:** My question pertains to the lithium battery project. You've talked about ROEs in this business on a steady-state basis kind of matching your 20% profile what you have on the lead acid industry. I'm just trying to understand this because if you look at global names, even the best CATL or LG, they struggle to have even high single-digit ROEs consistently. So in that context, what is giving us the confidence that we can match the lead acid industry ROEs in large business? It can just help us understand what the edge we have over some of these global peers when it comes to cost or, input side, which gives you confidence that we even match lead acid battery business ROEs?
- Subir Chakraborty:** Basically, you have to understand not in a global context, but in the national context. In the national context, our factory perhaps will be the first such giga level factory, which will come up, number one. Number two, in the Li-ion space, the first mover advantage is huge. Why this is huge- because it requires 1.5 to 2 years to homologate any product. Unlike lead acid, where if

you have a steady supplier, a competitor can come in and present the product and after a few months of trials, that product can be accepted by an OEM, in lithium, it's not like that. The whole process of homologation approval takes 1.5 to 2 years. So, number one, we firmly believe that Exide will have a huge first mover advantage in this space.

Number two, the OEMs today are having to import batteries from China or whatever. And import of batteries means it's a huge working capital requirement, in an industry which is used to just in time operation. So, Exide will be able to offer the same just-in-time facilities that they are used to, rather than having to predict sales and then import and all the uncertainties and the freight and the logistics, everything else. So, that is another advantage. Third advantage is that, we are tied with our collaborator for the supply chain aspect as well, which means we can ride piggyback along with SVOLT for our raw material requirements. And SVOLT is a very big player in China. So that gives us the third advantage.

Fourth, it will be a turnkey project where all the engineers will be here. There will be 300 to 400 experts from China and other places initially working on this project. So therefore, we can compress the time line to stabilization of the plant and everything else. So we can quickly get out the ground. And I believe we will be far ahead of the race, in comparison with others who are also in this particular game. So this gives us a huge advantage. Now there is a premium, certainly, which we can look forward to from the customer for all the benefits which we are going to offer to them.

Pramod Kumar: No, sir, I'm just trying to understand because a lot of the company's large OEMs are already importing lithium cells from LG Chem.

Subir Chakraborty: This is exactly what I'm trying to tell you, the people who are importing the lithium cells, they are having to suffer all these issues right now.

Pramod Kumar: Even we will be importing the cells initially, right, for the foreseeable future?

Subir Chakraborty: No, no, no. We are not importing. We are going to make these cells.

Pramod Kumar: By '25, you mean?

Subir Chakraborty: This is a manufacturing plant. So we will be able to make cylindrical cells, make prismatic cells in our plant with LFP, NCM chemistry. So which gives us a very wide portfolio. And we are already supplying those same formats through the module and pack making plant presently. So all these are translating to definite advantages for us in the medium and long term.

Pramod Kumar: Sir, understood. And among customers who have placed orders with you, is there any Tier 1 large OEM who has placed orders within either in the 2-wheeler space or in the 3-wheeler space? Or....

Subir Chakraborty: There are multiple OEM who had placed orders with us. Not only OEMs in 2-wheelers and 3-wheelers, also in commercial vehicles and telecom.

- Pramod Kumar:** Yes, that's what. Because the electric vehicle OEM space itself is quite wide. You've got like 500 brands of EVs in India. So I'm just trying to understand the profile of the customer, is it we're talking about Tier 1 names like Ashok Leyland or Mahindra or Tata in the SUV space or Hero or Bajaj or...
- Subir Chakraborty:** I'll tell you that we will not be able to name specific customers because they are NDAs-associated with this development. But yes, it covers a lot of well-known OEM, and we are working with many more today because there is nobody else, because the OEMs understand the readiness of our projects. So there are many, many OEMs today who are already working with us in order to ensure that their customized products are developed and ready.
- Moderator:** Our next question comes from the line of Siddhartha Bera from Nomura.
- Siddhartha Bera:** Sir, first on the Nexcharge order. So are we already booking any revenues in the last quarter or this entire order is incremental, which will come up in the coming years?
- Subir Chakraborty:** No, we have booked a certain amount of turnover in the last financial year, but this is the first year where there will be sizable operations.
- Siddhartha Bera:** Okay. And would it be possible to highlight the margins for this order? Will it be at the company average or it will be different?
- Subir Chakraborty:** No specific margins, we won't be able to highlight, but modules and packs are being made with imported cells. So you must understand one thing in this entire value chain, 70% of the value lies in the cell making and only about 30% lies in module, packs and the rest of the other items. So right now, when we are importing the cells, we are missing out on 70% of that value chain, which we will enjoy once our own plant comes on stream.
- Siddhartha Bera:** Got It. Got it. And in terms of the cells, would it be possible to highlight the cells like we are now importing from China and when you make in India, how much will be the difference in the dollars per kilowatt roughly?
- Subir Chakraborty:** As I told you, 70% of the value chain is in the cell making activity, and these prices internationally go up and down based on the commodity prices. So, you can understand that there is a motivation to get into cell making because when you begin to ensure that 70% of that value chain.
- Siddhartha Bera:** Okay. Okay. But is it possible to highlight how much cheaper can we expect if we are making in India or that...
- Subir Chakraborty:** So how much is, it's very difficult to tell you in terms of dollars because it's a multiple cell chemistry plant, it's a multiple format chemistry plant. So it depends which specific cell you are talking about. It will differ from cell to cell. And in any case, it is too premature at this stage. Once the plant gets under operation, then perhaps one will have a better visibility. All that I'm trying to tell you is, against importing the cell and making the cell, there is a huge difference.
- Moderator:** Our next question comes from the line of Binay Singh from Morgan Stanley.

Binay Singh:

Just continuing on the earlier question, if one was to think about the competitive edge that Exide will get in the next 2, 3 years from the lithium facility, fair to assume that the first one will be cost that cell made in India will be substantially cheaper because broadly, your customers will have 3 options, right? Either they import like everyone is doing today, or they go to the PLI players, where they get an additional incentive which Exide does not get, or they come with Exide. I do understand that like SVOLT is a credible player and you have a lot of technology support over here. But just any sense in terms of competitive edge, if you could quantify any numbers as broadly just for us to get more insight into the competitive positioning of Exide versus these PLI layers and importers?

Subir Chakraborty:

You know the people who qualified for PLI. You can find out where they are in their manufacturing process. I don't wish to comment on others. But if you do that, you will understand where we are, vis-a-vis the others. So who are the people who qualified for PLI, have you heard of them about their plant, where we are making, what is the technology?

So likewise, if you go through the list, we will come to know who are the players and what is the state of readiness at this point in time. All that we are saying is that perhaps, although one cannot say for sure, perhaps we will be the first giga-scale multi-chemistry multi-format plant in operation in the country. We have already started construction of the plant. How many people have started construction of the plant. You can scan the environment and see for yourself. As I've told you, this is resulting huge first-mover advantage because lithium-ion cell is not something that you can go and present one fine morning to a customer saying that I've got to cell for you. All these have to be customized to the customer requirements. And it's not only just the cell format, it is the module and the packs format, which have to be customized. And these require sophisticated engineering processes. And this takes time.

It is subject to a number of approvals, including approvals from Government of India. So therefore, the first mover advantage is huge. So somebody wants to catch up with us is already 2 years behind us. So this is a huge advantage that this factory or this unit will enjoy over competition, number one. Number two, this is not a product where there is any experience in the country. There is no experience set in this country. So we have to learn from others who are already doing Li-ion. And therefore, it is not like lead acid or any other kind of technology where you can import some machinery, get some people who already are in this business and you are all set to go.

Here, this is something which you have to learn and require a very strong partner. And we believe we have got a very strong partner with us. And if you again scan the environment, you'll see many of the players you are talking about this project are still scanning for partners. It's not easy to get a partner. So we have already got a very strong partner, and we are at the point of ordering out the machinery. So we are well ahead at this stage. This is what will give us the competitive advantage.

Binay Singh:

And sir, like if you look at the SVOLT's customer profile in China, they are working with all the major EV players. I think that's our EV players. So -- but in your commentary, you were talking

more about 2-wheeler, 3-wheeler and EVs. Is that more because you're talking about Nexcharge, whereas I assume that passenger car will be a big focus for this facility, right?

Subir Chakraborty: See, we started this project with Nexcharge 3 years back. But now Nexcharge will merge with our main unit, which is Exide Energy Solutions Limited, all one composite company. So it is this experience at Nexcharge, which has given us this head start.

Please understand this is not a product as I said, there is no experience set in this country. Unless you dip your feet into the water, you don't know what it is like and how deep that water is. So because we started with Nexcharge 3 years back, we got the time to understand what this business is really all about, who are the players, what are the constraints, what are the issues that we need to address, which give us this advantage. Now somebody wants to start from today already is 3 years behind us. Because we know what time it takes to understand this technology, because there is nothing available in the country.

Binay Singh: Correct. And so fair to assume that even passenger car companies, though a lot of them are doing their own thing in India on lithium ion, but that is also a target customer for us for this facility, right you will be...

Subir Chakraborty: Certainly, there will be some major OEMs who may decide to set up their own plant for cell manufacturing. However, this is not their core expertise. Making batteries is not part of the core expertise of any automotive plant. Certainly, some big companies may decide that, okay, we will invest in that and develop that expertise. But there will be many companies who will not want to get into it. Number one, it is not part of their core strength.

Number two, this is a very, very capex hungry project. It requires huge capex, USD 70 million to USD 80 million per gigawatt hour. Now an automotive company will need to have very big pockets to really invest in this. On the other hand, if you look globally, there are many models which are in existence today. Some have decided to get into it, like Tesla. But there are others who have tied up with battery manufacturers in terms of dedicating 1 line for their requirements and stuff like that. So all kinds of models are in place.

Now I firmly believe that all the auto companies in India will not have the appetite to get into this. It is a very different kind of technology, very different kind of expertise from what they already have. So many of them will want to tie up. And certainly, there are many companies which will not have the appetite for this kind of capex. So, I think that pure battery manufacturers like us will have a substantial role in this growing market.

Binay Singh: And sir, lastly, just on raw material sourcing. I recall there also you have a tie-up with SVOLT right? Because that's going to be another big thing as all these plants come up.

Subir Chakraborty: So this is important, because today lithium-ion plants are of the order of 30 gigawatt or 40 gigawatt hour, So it requires scale to be able to actually command reasonable raw material prices for yourself. And our advantage is that we will ride piggyback on Svolt supply chain. So that gives us another edge in this market. Today, if you just on a standalone basis set-up a 2-gigawatt hour plant, you will not enjoy the same raw material pricing as somebody who's buying versus

30 gigawatts one. So all these factors, together point to a certain advantageous position for our project.

Moderator: Our next question comes from the line of Vibhav Zutshi from JPMorgan.

Vibhav Zutshi: My first question is on the lithium-ion side. So you mentioned in the past that in Phase II, you will likely also consider blade chemistry, corporate center vehicles, which is actually not going to happen in Phase I. So just also want to try to understand, potentially by 2027 and '28, how are you also preparing for, the rise of advanced chemistries like solid-state, sodium-ion? Do you have the optionality to integrate that? Or would that potentially come later at Phase III or later part?

Subir Chakraborty: See right now, there are many technologies all over the world at various stages of development. There is sodium-ion, there is metal air, there are various kinds of things. Now in terms of scalability today, lithium ion is the only technology which is scalable. Other are at various phases of development. And I'm sure in course of time, many of these technologies will become scalable. Okay. So why we are not looking at other technologies right now is because none of these technologies in our opinion are scalable at this point in time. Are we open to look at alternate technologies in the course of time- Sure. Yes. We can look at it, provided something really crops up on horizon.

Number two, within lithium-ion also, there will be many developments which will take place. And certainly, we will look at each of these development and see whether it fits in with our requirement or not or with the requirements of our customers. And we will certainly, at that point of time, take a decision on this. Because no technology remains static. Even lead acid is not static. Lead acid is also developing in every way. So therefore, there is no reason to believe that we will be static with respect to whatever we are starting off. This is just a starting of point. And the manufacturing machinery is largely the same. What changes will happen will be in the recipes. So the manufacturing machinery, basically calendaring machines, so on and so forth, will not go through any rapid change. But the recipe will change with time.

Vibhav Zutshi: Got it. And when I look at your presentation, it looks like you've revised your lithium-ion demand forecast versus the last presentation that you posted in 2022 and it looks like the increase is broadly on the stationary side as well as slightly on 2-wheelers and 3-wheelers. So is the outlook looking more positive on the stationary side applications? I just wanted your thoughts on that.

Subir Chakraborty: See, this is again an evolving sector. And as time is passing and with the government initiatives happening and so on and so forth, these estimates are getting progressively revised. So all the revisions that I've seen are on the increasing side. It is not on the reducing side. So now with time, I'm sure these estimates initially, it was thought that it will be 100 gigawatt hour total requirement by 2030. Now I'm seeing estimates of 150 gigawatt hours. And there are some positive estimates which are double this number. So it's all a little bit of guess work at this point in time. All that I can tell you is that there is genuine interest now from all the manufacturers

both on the mobility as well as on the stationary side. Because most of the players have realized that they cannot depend only on traditional technology at this point in time.

So if you ask me what the world will look like, you see India is today growing or we have aspirations to go from USD 3.1 trillion to USD 5 trillion economy. If we are able to grow anywhere close to that, I'm sure there will be increasing demand for energy because without energy, you cannot grow. It is impossible for any one kind of chemistry to be able to satisfy this requirement of energy. So if you ask me through a bit of future guessing the world, which is going to emerge, I think we will have a multi chemistry format with respect to energy in the times to come. You will have lithium ion, you have lead acid, you may have metal air, you may have sodium-ion. So all these technologies come with their pros and cons. They are very good for certain applications, not so good maybe for other applications. So therefore, each will find its own space. And if there is growth, I don't think there's anything to fear for any of the business.

Moderator: Our next question comes from the line of Prateek from Nippon AMC.

Prateek: Sir is it possible for you to share what kind of realizations for kilowatt hour we would fetch once the plant gets commissioned?

Subir Chakraborty: Realization depends on basically; they are all linked to the raw material pricing and the situation. And as you know, it keeps on varying. So it's too early now to get into that exercise, maybe 1.5 years down the line, one will be able to give us better visibility. All that I can say is we'll be as competitive as anyone in the world because we are getting a world-class plant, which is going to be initially on a turnkey basis, it will be run. So there is no reason to believe that we will be not as competitive as anyone else in the world.

Prateek: That's helpful, sir. So then in terms of any benchmark your cells via SVOLT versus other competition, how would you stack them? Are you right up there with the other competitors?

Subir Chakraborty: We believe I mean, based on whatever discussions we have had with the customers, we strongly believe that we'll be able to satisfy the requirements. These are all customized to customer requirements. It is not a question of which is better, which is worse. Each customer has its own requirements. They want a certain energy density. They want a certain kind of feature elements on it.

Vibhav Zutshi: So if I was to ask the other reason?

Subir Chakraborty: Based on our discussions, we do not feel in any sense that we are at a disadvantage. We are able to reach whatever we have decided in terms of product portfolio. We will be able to satisfy the customer requirements, which are emanating as on date.

Prateek: So fair to say you have a very good conversion mix with the customers you are having a discussion?

Subir Chakraborty: Sorry, I did not get your question.

Prateek: No, I'm saying in terms of converting i.e. getting firm orders from them in terms of conversions, once you give your products, should we assume a very high conversion rate?

Subir Chakraborty: You are saying that whether these discussions will result in orders. We have already got INR500 crores to INR600 crores of orders.

Prateek: No, I was asking for cells. Because you said there's a 2 year homologation process, right? So since you are globally competitive, there is no difference in technology, I'm just trying to get that are you confident of very high conversions when you talk to a lot of OEMs. Are you getting that confidence that it will get translated into orders?

Subir Chakraborty: Yes. that is what I was trying to tell you. Many of the conversations today have resulted in these orders, which have already declared in our note, INR500 crores to INR600 crores of orders. These orders have resulted from these discussions and more discussions are ongoing at this point in time. We will be supplying cells, imported from SVOLT and from others. And those cells will ultimately be manufactured in our own factory. So it's like a start up to our entire project.

Prateek: Got it. Got it. And lastly, in terms of technology within lithium ion, who would do the R&D, would you depend on SVOLT for giving you the technical capabilities? Or do you also have to set up an R&D plant in India?

Subir Chakraborty: We have got our own R&D already set up. Our Chief Technology Officer, she has spent decades working in General Motors. So she is our Chief Technology Officer. We have sourced people from all over the world for this plant, people with experience in lithium-ion. And we will be having our own R&D setup, our own pilot line. So it will be a full-fledged operation. It's not a question of permanently depending on anybody.

Moderator: Our next question comes from the line of Deepak Jain from Enam AMC.

Deepak Jain: I have 1 question. We have just seen lithium carbonate prices come down by 40%, 50% recently. Now in that scenario, theoretically, the battery prices or the imports may also become cheaper. And also on a long-term basis, we have seen battery costs have come down to, I think, \$150 per kilowatt hour. So if prices of the battery imports come down, don't you think the return ratios of the project, which you are saying that it would be in line with the company average that will be impacted. And also, we don't have a PLI benefit?

Subir Chakraborty: The battery, first of all please understand what is this PLI all about. PLI is not something that will remain forever. Considering even if you had to imagine that somebody has got PLI and that PLI actually is a fixed time format incentive, which has been done by the Government of India. And I do not see any of the plants anywhere close to state of readiness that we are in at this point in time.

In fact, many of them don't even have tie-ups. This is a matter of 4 or 5 years if they are able to really put up a plant and then derive those advantages. So we are not that bothered about PLI at this point in time. As far as the rest of the things are concerned, import prices will come down

only if the commodity prices come down, in which we will also enjoy the same advantage, number one.

Number 2 is in a situation where domestic manufacturing is going to start in India, certainly, Indian government, you know requests can be made for them to look at the duty structure. After all the government is fully committed to encouraging domestic industry, and our honorable prime minister has been talking about Atmanirbhar Bharat. So if a lithium-ion plant comes up of gigawatt cell in our country, I'm sure the government will look at it very favorably.

Deepak Jain:

Okay. Sir, what is the royalty agreement with SVOLT? Anything you can share?

Subir Chakraborty:

It's a technology license agreement. The way it's got a fixed fee and a certain percentage on sales. So there's nothing special or unique about it.

Deepak Jain:

So you can imagine 4%, 5% as royalty just 1 part?

Subir Chakraborty:

I'm sorry, we don't discuss specific royalties or percentages.

Moderator:

Our next question comes from the line of Kapil Singh from Nomura.

Kapil Singh:

Sir, there were some new reports that FAME might not get an extension. So your base case in the presentation, I see that you have even called about FAME extension. So would this -- the orders that you have got, do you see some kind of risk to that going ahead? Because mostly, the benefit of FAME is there for 2-wheelers and 3-wheelers.

Subir Chakraborty:

Yes. you are talking about which orders, the orders we have got for Nexcharge?

Kapil Singh:

Nexcharge and also the future orders that we have for battery cells.

Subir Chakraborty:

So you're seeing the risk is because of what reason?

Kapil Singh:

So basically, there are some news reports saying that FAME might not get an extension. And therefore, if the prices of 2-wheelers and 3-wheelers were to rise, 2-wheelers currently get roughly about INR50,000 per vehicle.

Subir Chakraborty:

I understood. You're talking about the PLI for the 2-wheelers. You're talking about the PLI for the 2-wheelers and 3-wheelers, right?

Kapil Singh:

No, it's not the FAME scheme the FAME benefit which is there.

Asish Mukherjee:

Sorry, which scheme you are talking about, if you just make it clear, please?

Kapil Singh:

What I'm saying is the FAME, which is there. If it is discontinued, yes.

Subir Chakraborty:

Are you talking about paints, P-A-I-N-T-S?

Kapil Singh:

No, no. F-A-M-E, fame.

Subir Chakraborty: I'm sorry, we are not able to really comprehend your question. Are you talking about 2-wheelers, 3-wheelers, their PLI, talking about the battery PLI. What is it that you are talking about?

Kapil Singh: Sir, I'm talking about the FAME scheme, FAME. F-A-M-E, fame scheme.

Subir Chakraborty: Sorry. Yes, FAME scheme. Yes, that basically relates to 2-wheelers, 3-wheelers, the FAME scheme. Because the government has been very strict with respect to disbursement of the subsidies and all that, whether it will affect.

Kapil Singh: Whether it will be discontinued in future and therefore, the prices of 2-wheelers and 3-wheelers can rise going ahead, right? That can impact the volumes of the players.

Subir Chakraborty: I have understood your question. See, you have to look at the broad picture. See, at the end of the day, it's a one-way street. I do not think there is any doubt in anybody's mind about electrification of the economy with the objective of making it pollution free. On that, there is no doubt. Now while joining this part, there may be many options, many obstacles, certain things that you're talking about may come in the way. But I'm sure as a country, we'll be able to find the solution to that. Well, I don't think the solution lies in going on with fossil waste wells and internal combustion engines forever.

Of course, there will always be existence of a certain percentage of these vehicles. But the direction, I think, that has been set for the country and for the whole world, I do not think that is going to change because of one scheme or the other scheme. I'm sure, at some point of time, the economy of the country will take a call as to what is to be done with this. This will be a short-term problem. I'm sure the government will find a way to mitigate this.

Kapil Singh: Okay, sir. just one more thing. Wanted to ask that in terms of margin profile of the business, generally, it has been that B2B margins are lower and the replacement margins are much higher, and therefore, we get to an average margin of around 10%. So when we look at the lithium ion business, do you think the profile of margin will be much higher so that you can enjoy that 15% or 20% ROE that we are talking about? Are there initial signs that we will be able to get much higher margins with lithium-ion?

Subir Chakraborty: See we expect the EBITDA of lithium ion plant to be on par with that of lead acid. So it's only a drag on the lead acid business, number one. Number 2 is that as far as margins are concerned, I do not think that there will be an issue on this front. So going forward, I do not think that there is any cause for worry on this.

Kapil Singh: Basically, the question was like replacement margins generally are much higher, right?

Subir Chakraborty: So I'll tell you a replacement. Now you cannot look at lithium ion business in the same way that you look at lead acid. For the simple reason, lead acid has got an OEM market and replacement market. So it follows a certain model.

Now people who supply to OEMs. For example, if you look at people who supply other parts, carbonators or seats and so on and so forth. They enjoy a fairly good margins. And mostly, that

business is B2B business. So B2B business does not necessarily mean a low-margin business. It depends on the business model. Now if the business model is one where you only supply B2B, then of course, the same equations don't hold, then you have to price your products differently. Even for lithium ion, there will be some replacement business, particularly 2-wheelers and 3-wheelers, I believe there will be a good replacement business there.

Moderator: Our next question comes from the line of Krupashankar from Avendus Spark.

Krupashankar: I had a question relating to the raw material procurement for the lithium-ion plant. Is it mandatory to procure only via SVOLT channel or given that we have lithium reserves in India as well for at least discovered for this one.

Subir Chakraborty: There is nothing mandatory because SVOLT also procures from other people. It's not that they are making all their raw materials. So there is nothing mandatory about it. The supply chain arrangement is such that we will be able to enjoy the same pricing power. Now if we get a source in India, which is acceptable from the point of view of quality and which gives us a better price, certainly we will consider that. There is nothing mandatory in the agreement, which states that you have to procure from a certain source.

Krupashankar: And the second question, if you can share sir, relating to what would be the proportion of revenues currently from 2-wheelers, 4-wheelers and industrial side. And how do you see this evolving over a period because eventually, you would see that the lead acid business would see a decline across 3 segments depending on the electrification. So how do you see that evolving as well?

Subir Chakraborty: So as I've said, if India continues to grow at this rate and we reach a \$5 trillion economy by the time 2028 or so, there is no reason to fear for any energy chemistry. Because the growth will be such and the requirement will be such, it will be impossible for any one chemistry to be able to satisfy the entire requirement, number one. Number two, all chemistries come with their pros and cons. So if you ask me, I do not see lead acid disappearing. Lead acid is very much remain. Why will it remain? Because there are many segments where lead acid will be the battery of choice.

Even for EV, it is not a lithium ion. Every EV requires 1 auxiliary battery, which is lead acid battery. Device is lead acid battery because lead acid battery is not only cheap, it actually technologically serves the requirement very well, which is auxiliary requirement. So lead acid battery is not going to disappear, number one. Other chemistries are going to emerge. And ultimately, we will see a multi chemistry format in our energy space. That's the way I look at it. So there is nothing to fear for any chemistry, if India continues to grow. The problem where is if India does not grow, but I do not think that is an option which we are looking at, at this point in time.

Kapil Singh: Sure, sir. And on the -- regarding the proportion of contribution from 2-wheelers, 4-wheeler and industrial?

Subir Chakraborty: If you look at electrification, then 2-wheelers is a low-hanging fruit. Why is it a low-hanging fruit? Because you can actually charge it in your house. You can open that battery module pack you need, take it to your house and charge it. It's easy to charge, its a small battery. Now as the battery gets bigger and bigger, then you require formal charging stations and so on and so forth, which are not yet fully developed in our country. But I'm sure in the course of time that will also take place. Now starting 2-wheelers, obviously, we will see as a low-hanging fruit. Now intracity buses, they also provide a certain facility, which makes it convenient for them because they do their round and go back to their depots. So depots can have either battery swapping stations or battery charging stations. So it's easy to do that. And that's why we see many road transport undertakings, intra-city buses getting electrified. Then you have the 3-wheelers. 3-wheelers a lot, of them run on lead acid. It could also run on lithium ion. Again, it's possible out there. In the telecom sector, yes, certain applications, 5G and so on and so forth, there is a case for lithium-ion battery. So similarly, there will be many last-mile delivery vehicles. And also, the taxis which lies within the city, there is a case which may be possible to make out for lithium ion. So certain segments will obviously be the first mover in this exercise. Certain segments will take time.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Subir Chakraborty: So thank you very much for your patience and for listening to us. I hope we have been able to answer all your questions satisfactorily. If you have any further questions or would like to know more about the company, we'd be happy to be of assistance. Thank you.

Moderator: Thank you. On behalf of Investec Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.