

Exide Industries

BSE SENSEX	S&P CNX
33,043	10,295
Bloomberg	EXID IN
Equity Shares (m)	850
M.Cap.(INRb)/(USDb)	184.4 / 2.9
52-Week Range (INR)	250 / 168
1, 6, 12 Rel. Per (%)	-4/-18/-15
Avg Val, INRm	456
Free float (%)	54.0

Financials & Valuations (INR b)

Y/E Mar	2018E	2019E	2020E
Net Sales	87.6	100.3	111.9
EBITDA	11.5	13.5	15.7
PAT	6.7	8.2	9.9
EPS (INR)	7.9	9.7	11.7
Gr. (%)	-2.6	22.2	20.7
BV/Sh (INR)	63.4	70.5	78.4
RoE (%)	12.5	13.7	14.9
RoCE (%)	12.7	14.1	15.3
P/E (x)	26.4	17.7	14.7
P/BV (x)	3.3	2.4	2.2

Estimate change

TP change

Rating change



CMP: INR209 TP: INR254(+22%)

Buy

EBITDA margin below estimate; lead inflation, mix dent performance

- **Volume growth in Automotive, UPS, Telecom and Infra drives revenue:** Net sales increased 23.2% YoY to INR23.7b (est. of INRb21.7), driven by growth in Auto OEM and replacement market (both 2Ws and 4Ws), UPS, Telecom and Infrastructure batteries. Our channel check suggests that the company has taken a cumulative price increase of ~1-2% during the quarter, which also aided growth. Spot lead price rose 7.6% QoQ (+19% YoY) to INR149.6 per kg. In October, lead price grew 21% YoY, and 9.5% v/s 1QFY18.
- **EBITDA margin at nine-quarter low led by inflation and mix impact:** EBITDA margin contracted 250bp YoY (-290bp QoQ) to 12.5% (est. of 15.1%), largely led by lead inflation and product mix impact (higher proportion of OE sales in Automotive). However, the decline in staff cost and other expenses by 60bp YoY and 260bp YoY, respectively, restricted further margin contraction. EXID reported an exceptional item of INR0.4b toward the settlement of the trademark-related dispute with Exide Technologies, USA. Lower other income (-40% YoY, +5% QoQ) and weak operating performance led to a 10.3% YoY decline in adjusted PAT to INR1.6b (est. of INR2.0b).
- Management indicated that growth momentum in Automotive and Motorcycle batteries was healthy, while demand for Telecom, UPS and Other infrastructure segments was also good. EXID is focusing on cost-control initiatives and technology upgradation to improve profitability.
- **Valuation and view:** We downgrade our EPS for FY18E by 11.5% and for FY19E by 10.1% to factor in higher lead price and tax rate. We factor in revenue/EBITDA/PAT CAGR of 13.7%/12.9%/12.8%. The stock trades at 26.4x FY18E and 17.7x FY19E adj. for Insurance value of ~INR38/share. Maintain **Buy** with a TP of INR254 (valuing core business at 20x Sep-19E EPS, 20% discount to 25x target multiple for AMRJ + Insurance business value).

S/A Quarterly Performance

Y/E March (INR Million)	FY17				FY18E				FY17	FY18E	FY18	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Var (%)
Net Sales	20,103	19,253	17,253	19,717	21,029	23,713	20,202	22,666	76,203	87,611	21,680	9.4
Growth YoY (%)	11.3	10.4	12.6	11.7	4.6	23.2	17.1	15.0	11.3	15.0	12.7	
RM(%)	62.4	61.2	60.0	62.7	62.9	67.0	65.5	65.4	61.6	65.3	63.0	400bp
Employee cost (%)	6.4	6.9	7.4	6.6	6.8	6.2	6.9	6.4	6.8	6.6	6.7	-40bp
Other Exp(%)	15.6	16.9	19.3	17.6	14.9	14.3	15.5	15.9	17.3	15.1	15.2	-90bp
EBITDA	3,142	2,891	2,296	2,578	3,243	2,959	2,447	2,812	10,919	11,461	3,278	-9.8
EBITDA Margin(%)	15.6	15.0	13.3	13.1	15.4	12.5	12.1	12.3	14.3	13.1	15.1	-260bp
Change (%)	18.4	13.3	-4.0	-3.2	3.2	2.3	6.6	9.1	6.8	5.0	12	
Non-Operating Income	150	231	350	255	132	139	250	304	899	824	200	-30.7
Interest	17	6	46	0	16	21	16	7	30	60	8	
Depreciation	491	506	522	544	563	597	600	607	2,063	2,367	570	4.7
PBT after EO Exp	2,784	2,611	2,079	2,289	2,796	2,061	2,081	2,502	9,725	9,440	2,901	-28.9
Tax	824	793	564	641	906	706	624	761	2,821	2,997	885	-23.1
Effective Tax Rate (%)	29.6	30.4	27.1	28.0	32.4	34.3	30.0	30.4	29.0	31.8	30.5	380bp
Adj. PAT	1,961	1,818	1,515	1,648	1,890	1,630	1,457	1,741	6,904	6,728	2,016	-19.1
Change (%)	25.9	17.2	9.4	-6.0	-3.6	-10.3	-3.8	5.7	10.6	-2.5	11.2	

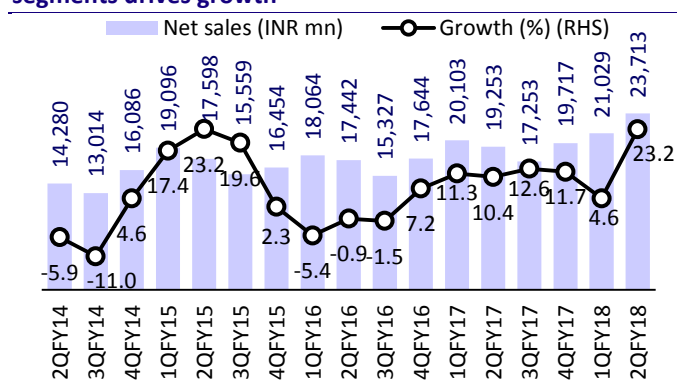
E: MOSL Estimates

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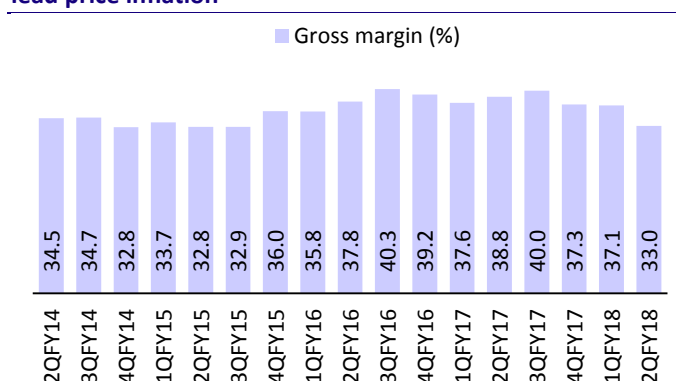
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

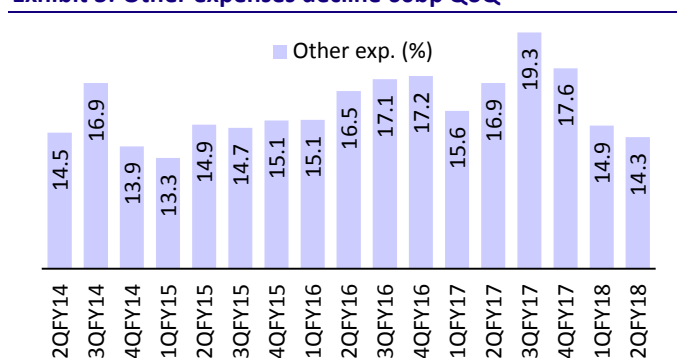
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Growth in Automotive, UPS, Telecom and Infra segments drives growth

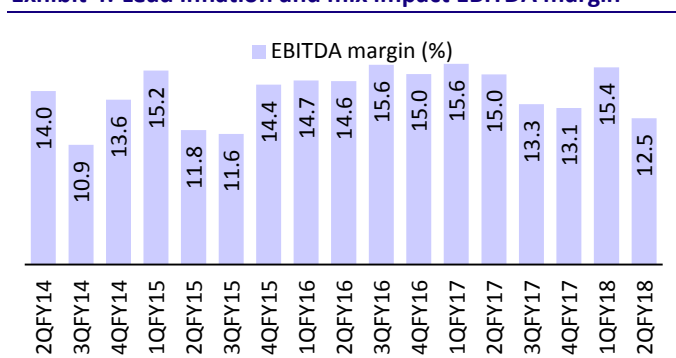
Source: Company, MOSL

Exhibit 2: Gross margin deteriorates QoQ and YoY due to lead price inflation

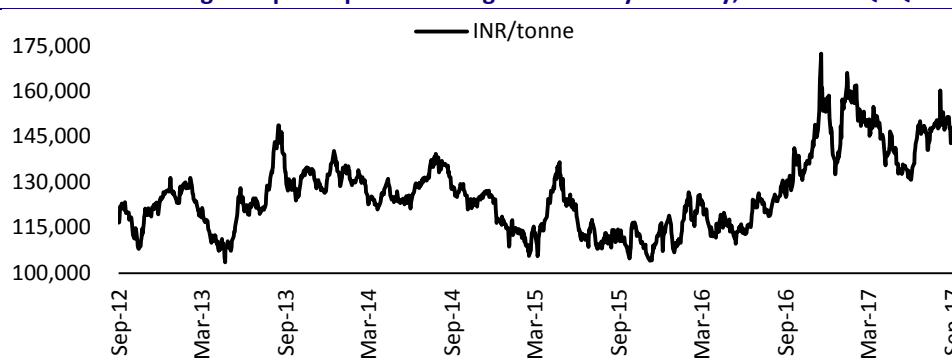
Source: Company, MOSL

Exhibit 3: Other expenses decline 60bp QoQ

Source: Company, MOSL

Exhibit 4: Lead inflation and mix impact EBITDA margin

Source: Company, MOSL

Exhibit 5: Hardening lead prices pose challenge for battery industry; increased QoQ

Source: Bloomberg

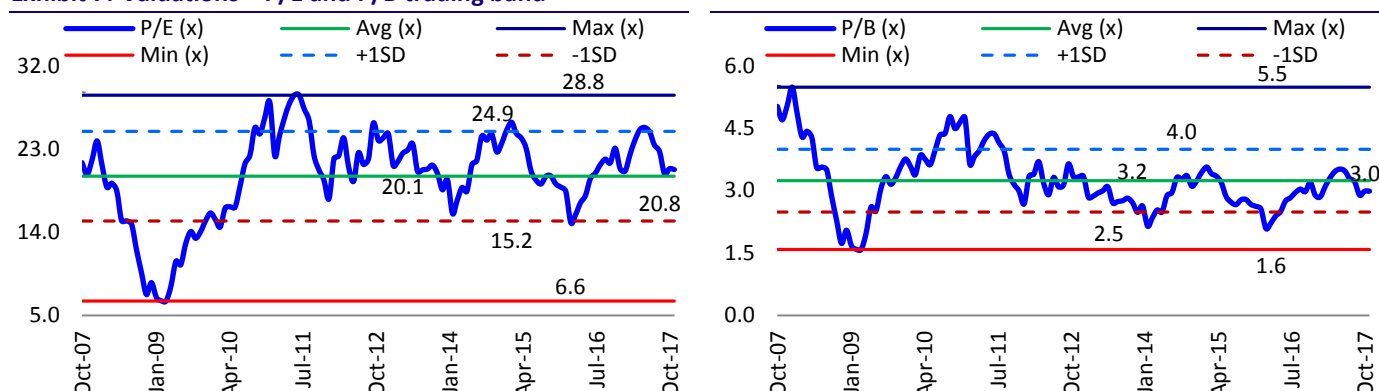
Valuation and view

- **Industry structure remains duopoly, EXIDE is leader:** While the industry structure remains largely duopoly, Exide is the largest lead acid battery manufacturer in India with leadership in Auto OEM and replacement segment. Over FY13-17, EXIDE clocked a CAGR of 5.9% and 7.3% in net sales and PAT respectively, lower than estimates of its competitor AMRJ 15.9% and 14.3% CAGR in net sales and PAT respectively. Exide growth in last few years has remained subdued as compared to its competitor AMRJ due to latter's technological innovations (first to introduce maintenance-free, factory charged, extended warranty batteries), and unique distribution model (franchisee based) supported with operational efficiency-led competitive pricing.
- **Exide to defend no.1 position:** EXIDE to improve its market share as economic recovery led demand to come in from AUTO OEM and Industrial segment. Early improvement signs are visible in 4W replacement segment driven by sharp improvement in sales and service processes. Besides pick up in 2 wheeler sales on the back of a normal monsoon is also likely to aid OEM demand as well as replacement sales. Thus leading to better capacity utilization; leads to better margins.
- **Management initiatives to revive market share; positive impact on margins visible:** Since Mr Chatterjee took over as MD & CEO of Exide since May 2016, EXID has taken several initiatives at market level and product quality level, which are now reflecting in market share recovery, product quality improvement and recovery in margins. We believe EXID is on track to reduce performance gap vis-à-vis its peers like AMRJ.
- **Valuation and view:** We downgraded our EPS estimate for FY18 by 11.5% and FY19 by 10.1% to factor in higher lead price and tax rate. We factor in revenue/EBITDA/PAT CAGR of 13.7%/12.9%/12.8%. The stock trades at 26.4x FY18E and 17.7x FY19E adj. for Insurance value of ~INR38/share. Maintain **Buy** with a TP of INR254 (valuing core business at 20x Sep-19E EPS, 20% discount to 25x target multiple for AMRJ + Insurance business value).

Exhibit 6: Revised estimates

(INR m)	FY18E			FY19E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	87,611	85,335	2.7	100,250	95,263	5.2
EBITDA Margin (%)	13.1	14.6	-150bp	13.5	15.2	-170bp
PAT	6,723	7,595	-11.5	8,219	9,147	-10.1
EPS (INR)	7.9	8.9	-11.5	9.7	10.8	-10.1

Source: MOSL

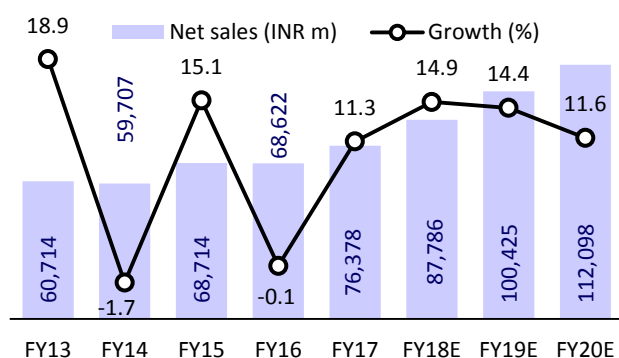
Exhibit 7: Valuations – P/E and P/B trading band**Exhibit 8: Comparative valuations**

	CMP	Rating	TP	P/E (x)		EV/EBITDA (x)		RoE (%)		Div Yield (%)		EPS CAGR (%)
Auto OEM's	(INR)*		(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY17-19E
Bajaj Auto	3,234	Buy	3,753	22.3	18.5	16.8	13.4	23.3	25.3	2.0	2.5	15.0
Hero MotoCorp	3,769	Neutral	3,868	20.4	19.1	13.1	12.4	34.0	31.4	2.4	2.4	8.0
TVS Motor	693	Buy	719	45.9	28.3	29.6	19.0	26.7	34.2	0.4	0.6	44.5
M&M	1,364	Buy	1,585	19.6	16.7	14.8	12.8	13.5	14.3	1.5	1.5	22.7
Maruti Suzuki	7,872	Buy	9,417	27.6	20.6	17.4	13.3	20.4	23.0	1.1	1.3	23.9
Tata Motors	422	Buy	562	21.1	6.9	4.9	2.8	11.0	27.4	0.1	0.1	75.9
Ashok Leyland	129	Buy	145	24.1	18.3	12.5	9.7	23.8	27.0	1.6	1.8	24.2
Eicher Motors	31,696	Buy	36,487	38.3	28.3	29.2	23.6	36.1	36.4	0.5	0.6	35.2
Auto Ancillaries												
Bharat Forge	657	Buy	726	35.9	25.8	19.8	15.7	19.3	22.9	0.6	0.8	39.5
Exide Industries	209	Buy	254	26.4	21.6	15.6	13.0	12.5	13.7	1.1	1.1	9.1
Amara Raja Batteries	704	Buy	854	27.5	21.4	14.8	11.4	15.8	17.7	0.6	0.7	8.4
BOSCH	21,271	Neutral	22,781	39.3	30.4	24.3	19.0	17.8	20.5	0.9	1.1	21.5
Endurance Tech	1,106	Buy	1,229	37.3	28.2	17.7	14.7	21.8	24.0	0.3	0.6	29.3

Source: MOSL

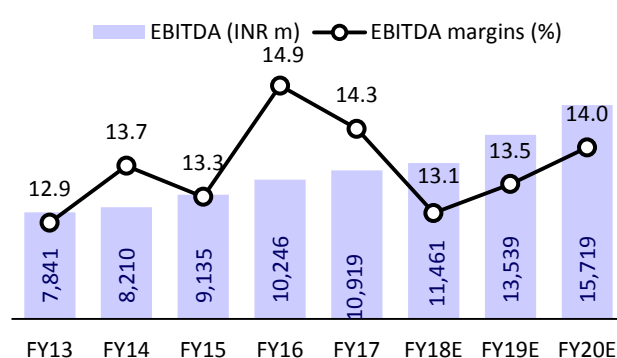
Exide Ind. | Story in Charts: 13% EPS CAGR expected over FY17-20E

Exhibit 9: Demand recovery to drive revenue growth



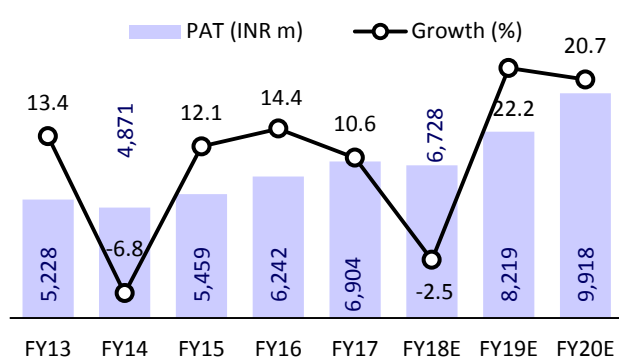
Source: Company, MOSL

Exhibit 10: Operating leverage to drive margin improvement



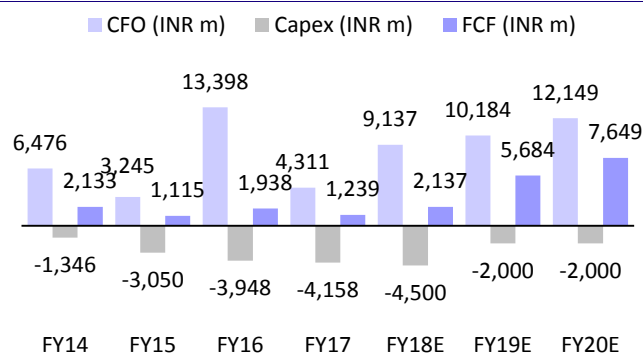
Source: Company, MOSL

Exhibit 11: Expect PAT CAGR of 12.8% over FY17-20E



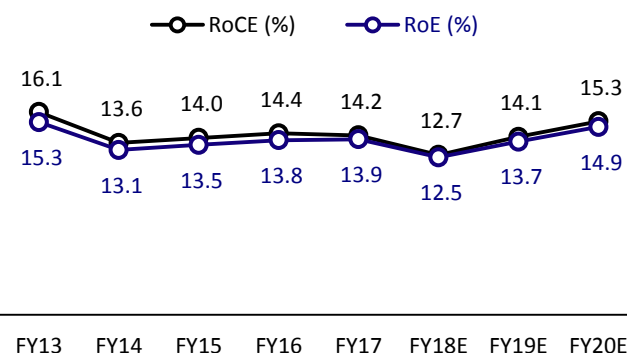
Source: Company, MOSL

Exhibit 12: Strong FCF driven by healthy CFO



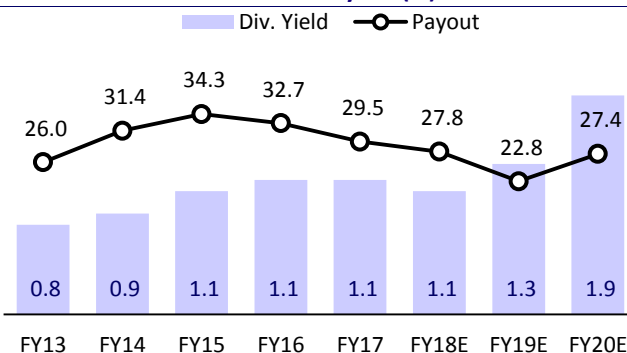
Source: Company, MOSL

Exhibit 13: Return ratios to improve



Source: Company, MOSL

Exhibit 14: Div. Yield and Div. Payout (%)



Source: Company, MOSL

Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net Sales	60,714	59,707	68,714	68,622	76,378	85,651	95,600	108,661
Change (%)	18.9	-1.7	15.1	-0.1	11.3	12.1	11.6	13.7
EBITDA	7,841	8,210	9,135	10,246	10,919	12,614	14,555	16,564
EBITDA Margin (%)	12.9	13.7	13.3	14.9	14.3	14.7	15.2	15.2
Depreciation	1,135	1,256	1,395	1,579	2,063	2,313	2,622	2,832
EBIT	6,706	6,954	7,740	8,666	8,856	10,301	11,933	13,732
Interest	42	12	17	3	30	35	35	35
Other Income	759	289	262	416	899	901	1,259	1,591
Extraordinary items	0	0	0	0	0	0	0	0
PBT	7,423	7,231	7,985	9,080	9,725	11,167	13,157	15,288
Tax	2,195	2,360	2,526	2,837	2,821	3,350	3,815	4,281
Tax Rate (%)	29.6	32.6	31.6	31.2	29.0	30.0	29.0	28.0
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	5,228	4,871	5,459	6,242	6,904	7,817	9,341	11,007
Adjusted PAT	5,228	4,871	5,459	6,242	6,904	7,817	9,341	11,007
Change (%)	13.4	-6.8	12.1	14.4	10.6	13.2	19.5	17.8

Balance Sheet						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Share Capital	850	850	850	850	850	850	850	850
Reserves	33,386	36,465	39,696	44,264	48,786	54,415	61,569	69,366
Net Worth	34,236	37,315	40,546	45,114	49,636	55,265	62,419	70,216
Debt	71	58	176	1,025	1,702	1,702	1,702	1,702
Deferred Tax	977	1,051	1,259	1,270	1,552	1,887	2,282	2,587
Total Capital Employed	35,284	38,423	41,981	47,409	52,890	58,854	66,402	74,506
Gross Fixed Assets	19,002	20,145	22,261	14,206	19,058	23,972	25,972	27,972
Less: Acc Depreciation	9,058	10,164	11,359	1,551	3,598	5,911	8,533	11,365
Net Fixed Assets	9,944	9,980	10,902	12,654	15,460	18,061	17,439	16,607
Capital WIP	588	510	1,002	1,858	1,414	1,000	1,000	1,000
Investments	16,401	19,670	18,957	26,978	26,755	29,255	31,755	34,255
Current Assets	18,550	19,406	23,166	20,680	24,128	27,429	34,810	44,811
Inventory	11,671	11,856	15,228	11,335	15,274	16,627	18,301	21,103
Debtors	5,092	5,166	5,550	6,039	6,217	6,739	7,262	8,917
Cash & Bank	748	1,200	298	738	196	1,324	6,190	11,315
Loans & Adv, Others	1,040	1,185	2,090	2,567	2,442	2,739	3,058	3,477
Curr Liabs & Provns	10,200	11,143	12,046	14,762	14,866	16,890	18,601	22,166
Curr. Liabilities	8,229	9,015	9,219	11,633	12,219	13,765	15,367	17,470
Provisions	1,971	2,129	2,827	3,129	2,647	3,125	3,234	4,696
Net Current Assets	8,351	8,263	11,121	5,918	9,262	10,539	16,209	22,645
Total Assets	35,284	38,423	41,980	47,409	52,890	58,854	66,402	74,506

Financials and Valuations

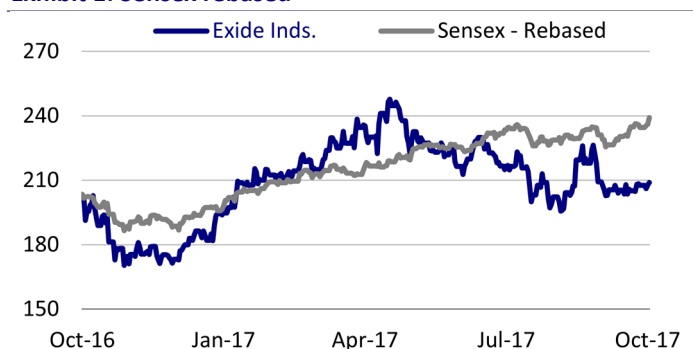
Ratios								
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Basic (INR)								
EPS	6.2	5.7	6.4	7.3	8.1	9.2	11.0	0.2
Cash EPS	7.5	7.2	8.1	9.2	10.5	11.9	14.1	0.0
Book Value	40.3	43.9	47.7	53.1	58.4	65.0	73.4	0.0
DPS	1.6	1.8	2.2	2.4	2.4	2.2	2.2	0.0
Payout (incl. Div. Tax.)	26.0	31.4	34.3	32.7	29.5	23.9	20.0	0.0
Valuation(x)								
P/E	35.3	37.9	33.8	29.5	26.7	23.6	16.3	194.8
Price / Book Value	5.4	4.9	4.5	4.1	3.7	3.3	2.4	0.0
EV/Sales	2.8	2.7	2.4	2.3	2.1	1.8	1.2	0.0
EV/EBITDA	21.3	19.9	18.1	15.4	14.6	12.3	8.0	0.0
Dividend Yield (%)	0.7	0.8	1.0	1.1	1.1	1.0	1.2	0.0
Profitability Ratios (%)								
RoE	15.3	13.1	13.5	13.8	13.9	14.1	15.0	176.7
RoCE	16.1	13.6	14.0	14.4	14.2	14.5	15.5	201.2
RoIC	28.5	27.1	27.3	30.1	29.7	27.8	31.0	0.0
Turnover Ratios (%)								
Asset Turnover (x)	3.2	3.0	3.1	4.8	4.0	3.6	3.7	0.0
Debtors (No. of Days)	31	32	29	32	30	29	28	0
Inventory (No. of Days)	70	72	81	60	73	71	70	0
Creditors (No. of Days)	34	40	34	40	37	37	37	0
Leverage Ratios (%)								
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1
Cash Flow Statement								
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
(INR Million)								
Adjusted EBITDA	7,841	8,210	9,135	10,246	10,919	12,614	14,555	16,564
Non cash opr. exp (inc)	-418	-972	-1,150	-1,227	-1,162	-2,313	-2,622	-2,832
(Inc)/Dec in Wkg. Cap.	-2,352	474	-3,457	5,783	-3,840	-149	-804	-1,310
Tax Paid	-1,950	-2,258	-2,475	-2,684	-2,812	-3,015	-3,421	-3,975
Other operating activities	476	1,022	1,192	1,280	1,206	3,214	3,881	4,423
CF from Op. Activity	3,597	6,476	3,245	13,398	4,311	10,351	11,589	12,870
(Inc)/Dec in FA & CWIP	0	0	0	0	0	0	0	0
Free cash flows	3,597	6,476	3,245	13,398	4,311	10,351	11,589	12,870
(Pur)/Sale of Invt	-214	-2,996	920	-7,512	1,086	-2,500	-2,500	-2,500
Others	-1,587	-1,346	-3,050	-3,948	-4,158	-4,500	-2,000	-2,000
CF from Inv. Activity	-1,801	-4,343	-2,130	-11,460	-3,072	-7,000	-4,500	-4,500
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	0	0	176	850	672	0	0	0
Interest Paid	-47	-14	-12	-13	-37	-35	-35	-35
Divd Paid (incl Tax) & Others	-1,578	-1,661	-2,180	-2,334	-2,417	-2,188	-2,188	-3,210
CF from Fin. Activity	-1,625	-1,675	-2,016	-1,497	-1,782	-2,223	-2,223	-3,245
Inc/(Dec) in Cash	171	458	-901	441	-543	1,128	4,866	5,125
Add: Opening Balance	576	747	1,200	298	739	196	1,324	6,190
Closing Balance	747	1,206	298	739	196	1,324	6,190	11,315

Corporate profile

Company description

Exide Industries (EXIDE) is the largest lead acid battery manufacturer in India with market leadership in auto OEM and replacement segment. Exide derives ~60% of revenues from auto segment, while balance comprises industrial revenues. The company has also recently entered into Home UPS/Inverter segment.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-17	Jun-17	Sep-16
Promoter	46.0	46.0	46.0
DII	22.0	18.9	22.3
FII	10.1	14.5	11.8
Others	21.9	20.6	19.9

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
HATHWAY INVESTMENTS LTD	4.3
LIFE INSURANCE CORPORATION OF INDIA	3.2
THE NEW INDIA ASSURANCE COMPANY LIMITED	2.0
ICICI PRUDENTIAL VALUE DISCOVERY FUND	1.5
BARON EMERGING MARKETS FUND	1.3

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Bharat Shah	Chairman
R B Raheja	Vice Chairman & Non executive
G Chatterjee	Managing Director & CEO
A K Mukherjee	Director (Finance) & CFO
Jitendra Kumar	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Mona N Desai	Sudhir Chand
Vijay Aggarwal	Nawshir H Mirza
Arun Mittal	Subir Chakraborty

*Independent

Exhibit 6: Auditors

Name	Type
S M Gupta & Co	Secretarial Audit
S R Batliboi & Co LLP	Statutory
Shome & Banerjee	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	9.2	9.2	0.5
FY19	11.0	10.5	4.4
FY20	0.2	12.3	-98.4

Source: Bloomberg

NOTES

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