

Amara Raja Batteries

Sector: Auto Parts & Equipment /Mid-Cap | Earnings Update – 2QFY18

BUY

13 November 2017

Background: Amara Raja Batteries Ltd (ARBL), a Joint Venture between Amara Raja Group & Johnson Controls, each holding 26% stake, is the second largest battery manufacturer in India. It is the largest manufacturer of standby valve regulated lead acid (VRLA) batteries in the Indian Ocean Rim region and manufactures automotive batteries for all vehicle segments. With a production capacity of 18mn units (Automotive: 19 mn & Industrial (MVRLA) - 3.6 mn), ARBL has built a strong pan-India distribution network of 30,000 retailers and 274 franchisees (Amaron network) & 900 retailers (Powerzone network).

Sensex	33,108
Nifty	10,218
Price	INR 788
Target Price	INR 908
Recommendation	BUY
52 Week High/Low	INR 1,008/665
Bloomberg / Reuters	AMRJ IN /AMAR.BO
Equity (shares in mn)	170.8
Mkt. Cap in bn	INR 134.6/\$ 2.1
Avg. Daily Vol. ('000)	439.4
Avg. Daily Vol. (mn)	INR 346.2/\$ 5.4

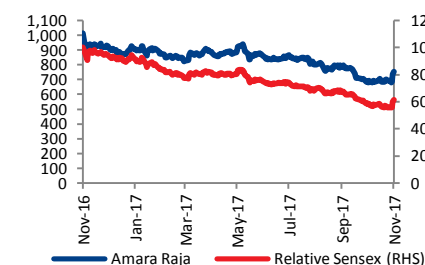
Shareholding	Sep 16	Jun 17	Sep 17
Promoters (%)	52.06	52.06	52.06
FII (%)	21.51	18.99	17.93
DII (%)	7.81	10.8	11.91
Others (%)	18.62	18.15	18.1
Pledge (% of promoter holding)	1.32	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2017	2018E	2019E
Revenue	53.2	59.5	67.9
EBIDTA	8.5	8.8	10.8
Adj PAT	4.8	4.8	5.9
Adj EPS*	28	27.9	34.9
% growth	-2.8	-0.4	25.1
PE	28.1	28.2	22.6
P/ BV	4.9	4.3	3.7
EV/EBIDTA	14.9	14.0	11.2
EV/Sales	2.4	2.1	1.8
Div Yield (%)	0.6	0.6	0.7
ROE (%)	20.3	17.1	18.5

*Consolidated earnings

Performance %	1M	3M	12M
Amara Raja	10.3	-6.4	-25.7
Sensex	4.7	4.8	21.1



Strong performance; maintain BUY

- In 2QFY18, ARBL's revenue grew by 7.1% YoY to INR 14.2bn despite decline in Industrial segment. Automotive segment witnessed double digit revenue growth led by strong growth in both 4W and 2W segments. In Industrial segment, UPS and Railways witnessed positive growth while Telecom segment witnessed steep decline in revenue.
- EBITDA grew by 3.7% YoY & 23.5% QoQ to INR 2.3bn. EBITDA margin declined 60 bps YoY to 16.7%. However, sequentially increased by 380 bps on account of price hike, better product mix and cost optimization. Product mix improved on the back of higher share of Replacement segment and lower share of telecom business. PAT declined by 6.7% YoY to INR 1.2bn, impacted by higher tax rate.
- Average lead cost for 2QFY18 stood at USD 2,170 MT vs USD 1750 MT in 2QFY17. ARBL expects lead prices to be in the range of USD 2,400-2,500 MT in 2HFY18. The company has lead inventory of 45 days.
- ARBL's market share as on 2QFY18: 4W OEM: 38%, 4W Replacement: 30-32%, 2W OEM: 15%, 2W Replacement: 20%. ARBL has been actively taking price hikes over the past quarter to pass on impact of higher lead prices.
- Management highlighted that demand was robust across all segment, except Telecom sector. Industrial segment witnessed strong volume growth during the quarter.
- Management expects 13-15% revenue growth over medium term, led by strong demand in automotive segment and market share gains from unorganized players. Management expects EBITDA margin in the range of 14-16%.
- Management is evaluating opportunities and tie-ups in Lithium Ion Battery space for Telecom and e-rickshaw segments. Currently, Jio is the only player using Lithium Ion Batteries. ARBL has option of sourcing this technology either from Johnson Control or other players.
- Current capacity utilization across segments stands at 90% barring one large plant. The capacity of 4W batteries is being expanded by 2.25mn units.

Valuation: At CMP, the stock is trading at 22.6X FY19E. We maintain a **BUY** rating on the stock with a target price of INR 908 assigning 26X FY19E. **Risks:** Uptrend in lead prices would negatively impact margins.

Results Summary 2QFY18

Y/E March (INR mn)	2QFY18	2QFY17	YoY Growth	1QFY18	QoQ Growth
Revenue	14,275	13,331	7.1%	14,975	-4.7%
EBITDA	2,381	2,297	3.7%	1,928	23.5%
Depreciation	584	457	27.8%	544	7.4%
Other Income	13	120	-89.2%	137	-90.5%
PBT	1907	1954	-2.4%	1384	37.8%
Tax	635	582	9.1%	509	24.8%
PAT	1272	1363	-6.7%	999	27.3%
EBIDTA Margin	16.7	17.2		12.9	
Tax Incidence	33.3	29.8		36.8	
PAT Margin	8.9	10.2		6.7	

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