

Decent growth, awaiting margin improvement

Exide Industries (EXID) posted good set of numbers with top line growth of 31.8% YoY. Margin improvement did not follow through due to increase in lead prices and adverse forex movement. EXID has been consistently showing good top line growth since last 4 quarters but is a miss on margins primarily due to higher raw material cost. We believe EXID can take a small price hike to cover the impact on margins to a certain extent. Considering that EXID has been doing lot of activities to gain back brand perception and customer recall, it will get easier for EXID to pass on hike in input prices. EXID reported a dip of 350 and 132 bps on gross margin (33.6%) and EBITDA margin (14.1%) level. Focus is on cost control and technology upgradation to improve margins. Reiterate Accumulate with a target of ₹ 318.

Growth across segments

EXID has been able to clock strong numbers driven by high OEM sales across all categories as well as replacement market. We expect this traction to continue except some hiccups in the CV segment. Industrial segment growth is marginally lower than OEM segment, however, same is expected to pick up.

Ramping up to gain customer mindshare

EXID is ramping up its activities and is actively perusing to capture the market share. It has taken several initiatives in Q1FY19. During the start of the quarter Q1FY19, EXID launched a new product, "Advanz", for automotive after-market. It is maintenance / topping free. Exide has developed "Exide Care" concept through its distribution channel to offer sales, service and replacement.

Margin Outlook

With currency expected to get stable along with lead prices, we believe that margins should remain stable / improve marginally from Q1FY19 onwards. EXID seems to have got its marketing and sales strategy right in terms of revenue growth and last 4 quarters outperformance makes us believe that this trend is likely to continue in coming years. With more brand thrust, ability to take price hikes should also increase and protect / expand margins.

Q1FY19 Result (₹ Mn)

Particulars	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net Sales	27,725	21,029	31.8	24,594	12.7
Total Raw Mat	18,419	13,232	39.2	16,032	14.9
Total Operating Cost	23,815	17,786	33.9	21,214	12.3
EBIDTA	3,909	3,243	20.6	3,380	15.6
Other Income	42	132	(68.2)	203	(79.3)
Interest	11	16		6	77.8
Depreciation	719	563	27.7	674	6.6
PBT	3,221	2,796	15.2	2,903	11.0
Tax	1,122	906	23.8	1,007	11.4
Net Profit	2,099	1,890	11.1	1,896	10.7
EPS (in ₹)	2.5	2.2	11.1	2.2	10.7
Gross Profit (in %)	33.6	37.1		34.8	
OPM (in %)	14.1	15.4		13.7	
Net Profit (in %)	7.6	9.0		7.7	

CMP	₹ 273
Target / Upside	₹ 318/16%
BSE Sensex	37,556
NSE Nifty	11,361
Script Details	
Equity / FV	₹ 850mn/₹ 1/-
Market Cap	₹ 232bn
	USD 3.4bn
52-week High/Low	₹ 285/192
Avg. Volume (no)	2,746,119
NSE Symbol	EXIDEND
Bloomberg Code	EXID IN
Shareholding Pattern June'18 (%)	
Promoters	46.0
MF/Banks/FIs	23.2
FII	11.7
Public / Others	19.1

Valuation (x)

	FY18	FY19E	FY20E
P/E	34.7	25.7	22.0
EV/EBITDA	18.6	14.6	12.5
ROE	12.9	15.9	16.5
ROCE	19.7	23.5	23.8

Estimates (₹ mn)

	FY18	FY19E	FY20E
Net Sales	91,863	110,236	123,464
EBITDA	12,408	16,102	18,622
PAT	6,683	9,028	10,571
EPS (₹)	7.9	10.6	12.4

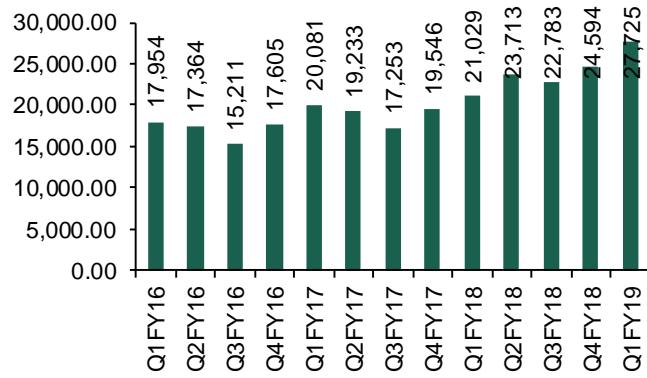
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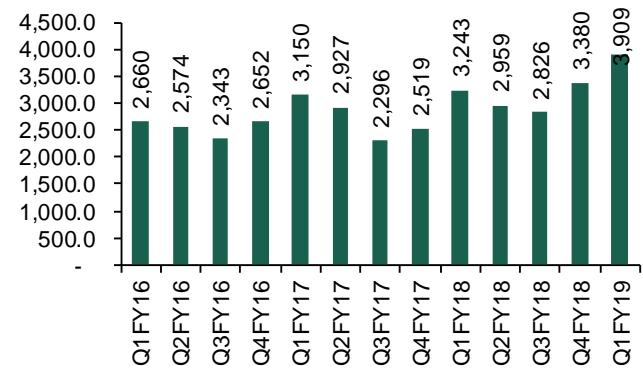


Valuation:

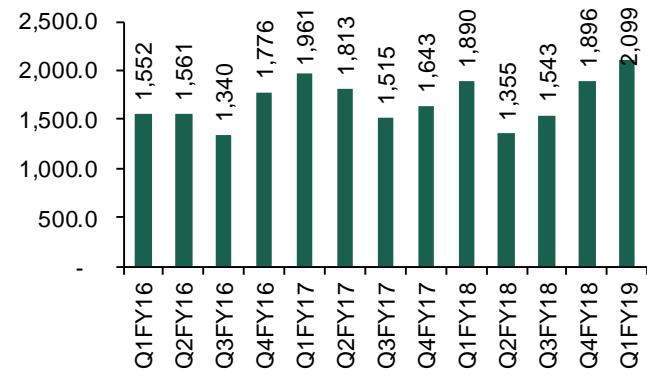
We are positively surprised by the revenue growth and its outperformance to the industry. Drop in margins is attributed to lead prices and currency depreciation rather than any undercutting. Considering the operating efficiencies, we believe that Exide should be able to expand on these margins in coming quarters. Reiterate our Accumulate recommendation with a target price of Rs 318. We value the stock at 24x FY20E EPS (₹ 298) and ₹ 20 for stake in insurance venture.

Exhibit 1: Net Sales (₹ in Mn)


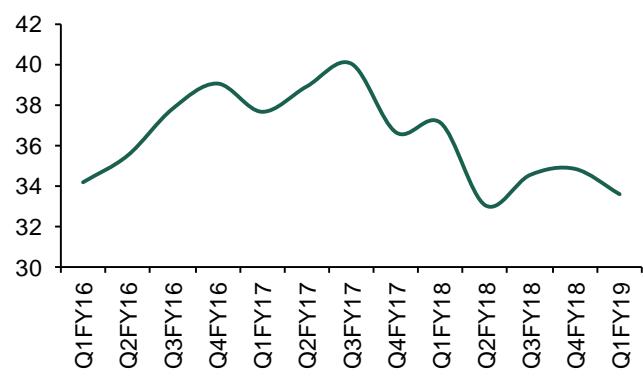
Source: Company, DART

Exhibit 2: EBITDA (₹ in Mn)


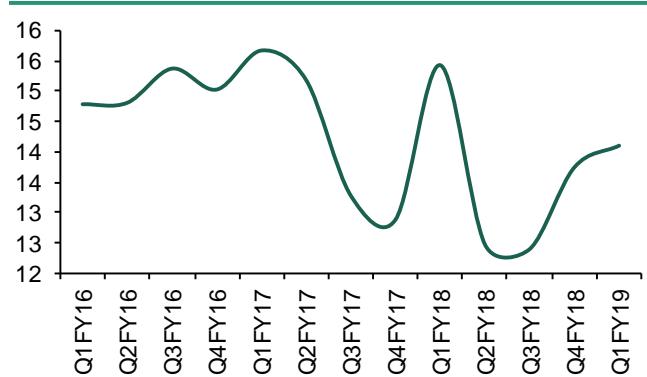
Source: Company, DART

Exhibit 3: Net profit (₹ in Mn)


Source: Company, DART

Exhibit 4: Gross Margin %


Source: Company, DART

Exhibit 5: OPM %


Source: Company, DART

Exhibit 6: NPM %


Source: Company, DART

Income Statement (₹ mn)

Particulars	Mar'17	Mar'18	Mar'19E	Mar'20E
Net Sales	75,835	91,863	110,236	123,464
Other Income	1,039	584	600	540
Total Income	76,874	92,447	110,836	124,004
Total Expenditure	65,010	79,456	94,134	105,382
Cost of materials consumed	49,936	61,301	73,561	82,389
Purchase of traded goods	157	248	286	329
Change in Inventory	(2,943)	(1,445)	(1,000)	(750)
Employee Benefits Exp.	5,196	5,972	6,569	7,226
Other Expenses	12,664	13,380	14,718	16,189
EBIDTA (Excl. OI)	10,825	12,408	16,102	18,622
EBIDTA (Incl. OI)	11,864	12,992	16,702	19,162
Interest	43	52	58	60
Depreciation	2,063	2,459	2,755	3,085
Profit Before Tax	9,757	10,062	13,890	16,017
Tax	2,821	3,378	4,861	5,446
Net Profit	6,936	6,683	9,028	10,571

Cash Flow (₹ mn)

Particulars	Mar'17	Mar'18	Mar'19E	Mar'20E
Profit before tax	9,757	10,480	13,890	16,017
Depreciation & w.o.	2,063	2,459	2,755	3,085
Net Interest Exp	43	52	58	60
Direct taxes paid	(2,821)	(3,378)	(4,861)	(5,446)
Change in Working Capital	(3,840)	(3,763)	(3,974)	(2,469)
Other	(892)	(225)	64	450
(A) CF from Opt. Activities	4,311	5,625	7,931	11,697
Capex	(4,158)	(7,452)	(1,465)	(3,200)
Free Cash Flow	153	(1,826)	6,466	8,497
Inc./ (Dec.) in Investments	1,126	7,049	(7,310)	(3,000)
Other	(40)	(406)	414	(200)
(B) CF from Invt. Activities	(3,072)	(808)	(8,361)	(6,400)
Inc./ (Dec.) in Debt	677	(1,702)	2,600	(950)
Interest exp net	(37)	(52)	(58)	(60)
Dividend Paid (Incl. Tax)	(2,422)	(2,387)	(2,784)	(2,784)
(C) CF from Financing	(1,781)	(4,141)	(242)	(3,794)
Net Change in Cash	(543)	676	(673)	1,503
Opening Cash balances	738	196	872	199
Closing Cash balances	196	872	199	1,702

Balance Sheet (₹ mn)

Particulars	Mar'17	Mar'18	Mar'19E	Mar'20E
Sources of Funds				
Equity Capital	850	850	850	850
Share Premium	7,379	7,379	7,379	7,379
Other Reserves	41,352	45,580	51,824	59,611
Net Worth	49,581	53,809	60,053	67,840
Loan Funds	1,702	0	2,600	1,650
Deferred Tax Liability	809	688	1,250	1,500
Total Capital Employed	52,147	54,582	63,903	70,990
Applications of Funds				
Gross Block	19,058	25,588	28,788	31,788
Less: Accumulated Dep.	3,598	6,005	8,760	11,845
Net Block	15,460	19,583	20,029	19,944
Capital Work in Progress	1,414	2,335	600	800
Investments	26,739	19,690	27,000	30,000
Current Assets, Loans & Advances				
Inventories	15,274	17,602	22,651	25,369
Sundry Debtors	6,217	9,434	9,665	10,824
Cash and Bank Balance	196	872	199	1,702
Loans and Advances	1,555	3,589	4,127	4,746
Other Current Assets	158	148	170	196
sub total	23,400	31,644	36,812	42,838
Less: Current Liabilities & Provisions				
Current Liabilities	12,219	15,878	17,465	19,212
Provisions	2,647	2,793	3,072	3,380
sub total	14,866	18,671	20,538	22,592
Net Current Assets	8,534	12,973	16,274	20,246
Total Assets	52,147	54,582	63,903	70,990

E – Estimates

Important Ratios

Particulars	Mar'17	Mar'18	Mar'19E	Mar'20E
(A) Measures of Performance (%)				
EBIDTA Marg. (excl. O.I.)	14.1	13.4	14.5	15.0
Interest / Sales	0.1	0.1	0.1	0.0
Tax/PBT	28.9	33.6	35.0	34.0
Net Profit Margin	9.0	7.2	8.1	8.5
(B) As Percentage of Net Sales				
Cost of materials cons.	65.8	66.7	66.7	66.7
Purch. of stock in trade	6.9	6.5	6.0	5.9
Other Expenses	16.7	14.6	13.4	13.1
(C) Measures of Financial Status				
Interest Coverage (x)	275.3	247.9	288.0	319.4
Avg. Cost Of Debt (%)	3.2	6.2	4.5	2.8
Debtors Period (days)	29.9	37.5	32.0	32.0
Closing stock (days)	73.5	69.9	75.0	75.0
Inventory Turn. Ratio (x)	5.0	5.2	4.9	4.9
Fixed Assets Turnover (x)	4.0	3.6	3.8	3.9
WC Turnover (x)	8.9	7.1	6.8	6.1
Non-Cash WC (₹ Mn)	8,338	12,101	16,075	18,544
(D) Measures of Investment				
EPS (₹.)	8.2	7.9	10.6	12.4
CEPS (₹.)	10.6	10.8	13.9	16.1
DPS (₹.)	2.4	2.4	2.8	2.8
Dividend Payout (%)	29.4	30.5	26.4	22.5
Profit Ploughback (%)	70.6	69.5	73.6	77.5
Book Value (₹.)	58.3	63.3	70.7	79.8
RoANW (%)	14.8	12.9	15.9	16.5
RoACE (%)	19.8	19.7	23.5	23.8
(E) Valuation Ratios				
CMP (₹.)	273	273	273	273
P/E (x)	33.5	34.7	25.7	22.0
Market Cap. (₹. mn.)	232,050	232,050	232,050	232,050
MCap/ Sales (x)	3.1	2.5	2.1	1.9
EV (₹. mn.)	233,557	231,178	234,451	231,998
EV/Sales (x)	3.1	2.5	2.1	1.9
EV/EBDTA (x)	21.6	18.6	14.6	12.5
P/BV (x)	4.7	4.3	3.9	3.4
Dividend Yield (%)	0.9	0.9	1.0	1.0

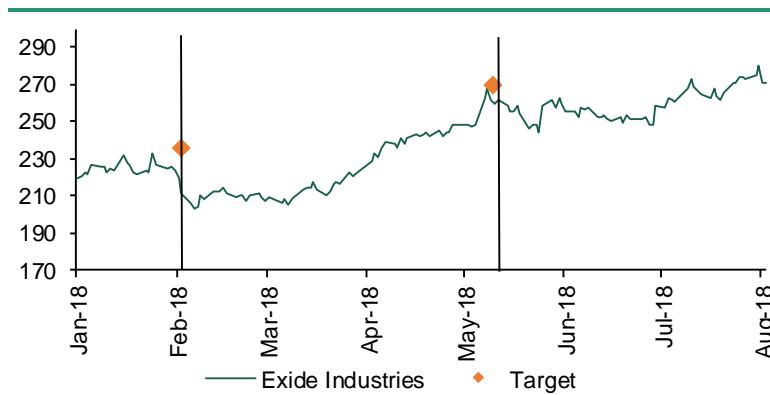
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Feb-18	Reduce	235	224
May-18	Reduce	269	259

* As on Recommendation Date

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