

Amara Raja Batteries

Accumulate



DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH • PRECISE • ACTIONABLE

Charged up

The theme of 'Progress on', in AMRJ's FY20 annual report, accurately throws light on various initiatives such as expanding product offering and capacity, further strengthen its existing and new distribution partnerships as well as widening its overall OEM customer base. Despite management's subdued take on the OEM segment (4w mainly), sharp expected pickup in replacement market and telecom segment to keep its growth momentum intact in FY21. Furthermore, capacity expansion and new business wins in the 2W space would be key tailwind for AMRJ. Company has gained market share in the replacement segment in 2W, 4W, as well as the Telecom segment, driven by leveraging channel expansion strategy and product innovation. Additionally, management continues to constantly explore and analyze newer technologies (advanced stamp grid technology) to enhance long term business prospects, simultaneously whilst strengthening its leadership in lead acid space. At CMP, the stock is trading at 17.4x FY22E EPS (vs 5-year historical mean of 25). We roll forward our valuation from FY22E to FY23E, and raise TP to Rs 785 (18x FY23E EPS).

Outperformance continues

AMRJ delivered a decent performance despite the continued deceleration in the automotive sector in FY20. Net revenue grew 0.7% YoY led by strong double digit growth in the aftermarket segment, which was partially offset by de-growth in OEM sales volumes. Revenue mix Automotive: Industrial: Export were 60:30:10. AMRJ is promoting more entry-level brands at competitive pricing and is expanding its distribution network in the semi-urban and rural markets to gain market share.

Automotive Division: The slowdown in OEM sales continues (20-22% YoY fall in FY20) while replacement market remains strong with 8-10% growth. Post reopening of economy, a surge in demand is expected, as the channel inventory is low. In 4W space, overall volume grew 2-3% YoY in FY20. Replacement market grew by 10% YoY, offset by 22-23% fall in OEMs volume. In 2W space, volume grew 13% YoY in FY20. Replacement market grew by 18% YoY, offset by 10% fall in OEMs volume.

Industrial Division: Overall industrial volumes grew 5% YoY led by 10% growth in UPS segment, offset by 5% de-growth in telecom segment. Management see sharp uptick in telecom revenue as sharp increase in data usage, focus to improve rural coverage and launch of 5G can increase the power requirement at towers

Capacity addition – Next growth driver

AMRJ intends to continue its capacity expansion drive, as long-term growth prospects remain strong. Company has expanded its 4W capacity by 2-2.5m to 12m and 2W capacity by 4mn units to 19mn. Amara Raja is expected to complete their Greenfield capacity expansion of its third plant in FY21 adding capacity of 6mn batteries. 1st phase will add 2mn batteries. This will take its total 2W battery capacity to 21m units/year. With new capacities in place, the company is strategically positioned to gain volume in exports and OEMs in the automotive segment Amara Raja added two large 2W OEM customers to its client base.

Financial Snapshot

Net revenue grew 0.7% YoY at Rs 68.4bn. EBITDA grew 15.5% YoY with 200bps margin expansion at 16.1%. The Capex for FY20 stood at Rs 7bn attributed towards third Greenfield plant in Chittoor and debottlenecking of existing facilities. ROE and ROCE expanded by ~350bps/380bps YoY to 18.9/18.6% respectively in FY20 backed by operating efficiency and strong replacement growth.

CMP	Rs 698
Target / Upside	Rs 785 / 13%
BSE Sensex	37,114
NSE Nifty	10,902

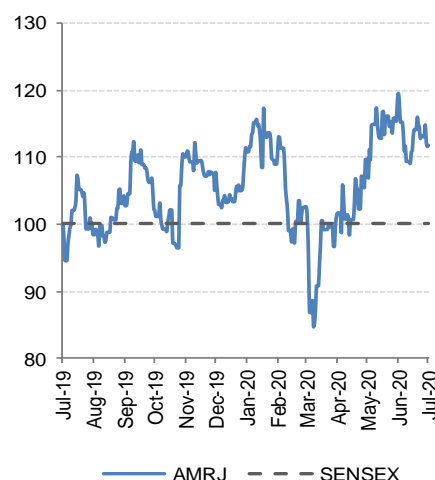
Scrip Details

Equity / FV	Rs 171mn / Rs 1
Market Cap	Rs 119bn
	USD 2bn
52-week High/Low	Rs 814/Rs 349
Avg. Volume (no)	14,07,890
NSE Symbol	AMARAJABAT
Bloomberg Code	AMRJ IN

Shareholding Pattern Mar'20(%)

Promoters	28.1
MF/Banks/FIs	11.1
FIIIs	48.6
Public / Others	12.2

AMRJ Relative to Sensex



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Annual Report Macro View

Key Management Changes	The Board at its meeting held on February 1, 2020 had appointed Dr. Ramadevi Gourineni as an additional director of the Company and holds office upto the date of Annual General Meeting. A resolution seeking her appointment as Director is being placed for approval of the members.		
Auditors	No change. Brahmayya & Co. Chartered Accountants & Deloitte Haskins & Sells LLP Chartered Accountants continue to be the Auditors of the Company.		
Credit Ratings	Rating Agency	FY20	FY19
	CRISIL	AA+/stable (long term), A1+ (short term)	AA+/stable (long term), A1+ (short term)
Pledged Shares	RN Galla Family Pvt Ltd has pledged 5.93% of total shares.		
Macro-economic Factors	The Indian Lead acid battery market size stands at \$5bn at the end of FY20 and is likely to de-grow in FY21 due to COVID-19 impact. The 5 year CAGR up to FY25E is expected to be in the range of 5-7% largely determined by the speed and scale of auto OEM recovery. While the post COVID-19 market rebound in after market segment is expected to be sharp, the OEM de-growth is expected to last several quarters. Given the high share of replacement demand for sectors like automotive, home inverter, UPS and traction, the share of unorganized/semi-organized players is high. To beat the increasing competition, the organized players are promoting more entry-level brands at competitive pricing and shorter warranty periods and are expanding their distribution network in the semi-urban and rural markets. This should help raise their share in the overall battery market.		
Key Holders	Category of Shareholder (%)	FY20	FY19
	A. Promoters		
	i) RN Galla Family Private Limited	28.06	24.24
	ii) Mangal Industries Limited	-	1.82
	iii) Johnson Controls Private Limited	-	26.00
	B. Banks, FIs, Mutual Funds, Central Government, FPIs and AIFs	32.52	30.07
	C. Non-Institutions	39.42	17.87
	Total	100.00	100.00

Source: DART, Company

Stake Sale Update

- During the year, RN Galla Family (promoters group) acquired 2% equity shares of the Company from M/s Johnson Controls (Mauritius) Private Limited and the latter have been de-classified from the promoter group of the company. JCI continue to hold 24% stake in Amara Raja.
- In the near-term, overhang is likely to persist as JCI may sell the remaining 24% stake.

Subsidiary Financials

- Amara Raja Batteries Middle East (FZE) (ARBME), a wholly owned subsidiary of the Company, reported a profit of Rs 0.6mn for the year ended March 31, 2020. ARBME did not conduct any operations during FY19 and reported a loss of Rs 3mn in FY18.

Automotive Battery Division

- Despite the continued deceleration in the automotive sector, AMRJ delivered a good performance. Strong double digit growth in the aftermarket segment was offset by de-growth in OEM sales volumes. The company's performance in the replacement market was good across 2W, 4W, and commercial UPS segments. Both Amaron and PowerZone brands continued to make further inroads in markets across the Country supported by channel expansion initiatives, leading to incremental gain in market share.
- In 4W space, overall volume grew 2-3% YoY in FY20. Replacement market grew by 10% YoY, offset by 22-23% fall in OEMs volume.
- In 2W space, volume grew 13% YoY in FY20. Replacement market grew by 18% YoY, offset by 10% fall in OEMs volume. In the 2-wheeler space, company secured approvals from two large two-wheeler OEMs operating in India and firmed up business share with a fast-growing two-wheeler major.
- It has strengthened its presence in the aftermarket by expanding its distribution network and launching varied customer centric initiatives like extended warranty schemes and quick turnout for settlement claims.
- There is a huge opportunity in the aftermarket of two and four wheelers due to healthy sales volumes in the past 4 years
- E-rickshaws attribute to 80% of the EV market in India and is likely to grow to 1mn units by FY25 from 0.4mn in FY2019. Around 72% of the electric rickshaws plying on Indian roads providing last mile mobility solutions to in Tier II and III cities, are 0-2 years old and approximately 98% of them are powered by lead acid batteries which is a promising market for Amara Raja.

Industrial Battery Division

Telecom

- The slowdown in battery demand continued in the telecom sector for the third consecutive year by as much as 25%. Despite this, the division performed well and Amara Raja increased its market share. Overall volume de-grew 5% in FY20. However, the company witnessed good recovery from 4Q with 6% volume growth
- While most sectors are saddled by terrible slump in business, telecom is slated to grow by 15-20% even in the midst of the economic slowdown. As data usage skyrockets, focus to improve rural coverage and launch of 5G can increase the power requirement at towers. Estimates suggest that the total mobile data traffic per month may record a CAGR of 23% from 4.6 exabytes in 2018 to 16 exabytes in 2024.
- In addition, it will focus its energy on absorbing the new plate-making technology which is expected to be introduced this year.

UPS

- The UPS Business continues to grow on the back of a strong performance in the data center market. India's UPS market size is around \$1bn and it is expected to continue growing because of the digital transformation sweeping through the country.
- AMRJ consolidated its position as the most preferred battery supplier for UPS applications with growth exceeding the industry average, increasing the market share. Company strengthened preferred supplier status with all major UPS OEMs in India.

- AMRJ completed the world's largest lead-acid energy storage system in Africa.

Renewable Energy

- Company launched long-warranty variants of Amaron Solar Tubular and VRLA series. The product basket now covers the complete range of 2 Volt & 12 Volt VRLA and tubular range of batteries to suit all applications in renewable energy space. This will widen the Company's prospects with the rise in green energy.
- Home inverter business have shown an improvement of about 5% in terms of the overall volumes.

Exports

- In FY20, Amara Raja was the largest automotive battery exporter in India with gaining traction for its products across geographies, resulting in an increase in export volumes.
- The distribution channels have been further strengthened in focus markets such as Australia, Malaysia, Indonesia, Saudi Arabia etc. The company is focusing on increasing its presence by strengthening its reach in Africa, Middle East, Central and South-East Asia by initiating supplies to UPS OEMs for their regional requirements.
- The "Amaron" brand is positioned in the premium product category and has received a good response in the export markets.

Capex

- Amara Raja is expected to complete the Greenfield capacity expansion of its third plant at Chittoor in FY21, which will add overall capacity of 6mn batteries. The first phase will commence with 2mn battery units.
- It also added more lines at its 2-wheeler battery plant which will help cater to the new demand from the OEM alliances forged in FY20.
- In FY20, the company completed expansion of its second automotive plant adding capacity in the 2W and 4W battery segments. The overall 4W battery capacity is 12mn units and 2W battery is 19mn units. No capacity was added in the industrial segment, which continues to operate at 2bn Amp Hr.
- Current capacity of tubular batteries is 1.3mn units which is to be increased to 1.6-1.7mn units by the end of FY21 to cater to the home UPS and e-Rickshaw battery demand.
- Total Capex expected for FY21 is Rs3-3.5bn for the new plant, de-bottlenecking existing capacity and for maintenance.

Technological innovations

- The company has implemented stamp grid technology for the motorcycle segment in aftermarket. For 4Ws, this technology is under execution and expected to be launched soon. Also, the company is working on approvals for 2W OEMs. Advantages of Stamp grid technology are 1) efficient operations, 2) cleaner for environment, 3) process has high flexibility (multiple variants possible without much tooling or equipment change) 4) material savings.
- The company has also tied up with Gridtential Energy for bipolar battery technology. Bipolar battery has better reliability under higher load and can be used for applications such as Automotive, UPS, low-end traction, fast charging, etc.

Financial Analysis (Standalone)

Profit & Loss Analysis

- Net revenue for the year remained flattish with 0.7% growth YoY at Rs 68.4bn (vs Rs 67.9bn in FY19).
- The company reported EBITDA margin of 16.1% (+210bps YoY) and EBITDA of Rs 10.98bn in FY20 grew by 15.5% over FY19. Margins are expected to improve owing to softening of lead prices and better product mix.
- Total employee expenses as a percentage of sales increased from 5.1% to 5.6%. Employee expenses increased from Rs 3.4bn in FY19 to Rs 3.8bn in FY20 on account of escalation in annual compensation and additions in the headcount to meet new capacity expansions during the year.
- Adjusted PAT in FY20 was Rs 6.6bn as compared to Rs 4.8bn in FY19, reporting a growth of 36.8% YoY, attributed to margin expansion and reduced tax rate.
- Gross margins improved 340bps to 35% in FY20 attributable to decline in key raw material prices (especially lead).

Balance Sheet Analysis

- Amara Raja Batteries continues to remain virtually debt free. The amount of total debt has increased from Rs 468mn in FY19 to Rs 560mn in FY20. The Gross Debt to Equity Ratio stands at 0.02x.
- The capital expenditure for the year stood at Rs 7bn attributed towards its third Greenfield plant and de-bottlenecking of existing facilities.
- Despite FY20 being a challenging year, Amara Raja has efficiently managed its working capital cycle. Inventory days increased to 61 days from 57 days at Rs 11.4bn due to sudden lockdown in India due to the COVID-19 crisis at the end of March'20. Debtor days reduced to 34 days versus 41 days in the previous year. Creditors' payable days increased to 33 days from 27 days in FY19. Cash conversion cycle days stood at 45 days in FY20 against 67 days in FY19.
- ROE and ROCE expanded by ~350bps/370bps YoY to 18.9%/18.6% respectively in FY20.

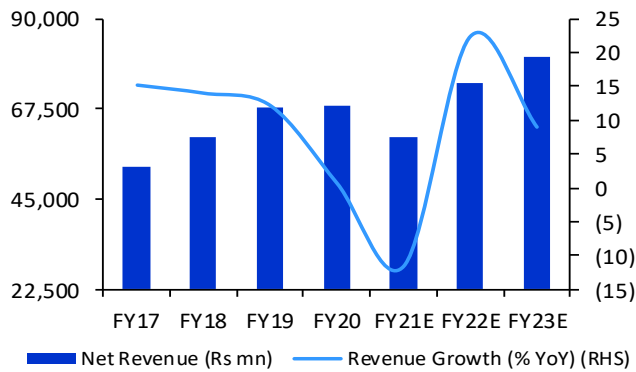
Cash Flow Analysis

- The Net Cash Flow from Operating Activities improved to Rs 11.8bn in FY20 from Rs 5.4bn in FY19.
- Despite significant capex to the tune of Rs 7bn, company has reported positive FCF of Rs 4.8bn for the year FY20 vs FCF of Rs 131mn in FY19.
- The total dividend (including interim dividend) for FY20 amounts to Rs 11 per equity share (versus Rs 7.08 per equity share in FY19). Total dividend outflow (including DDT) for FY20 was Rs 3.31bn.

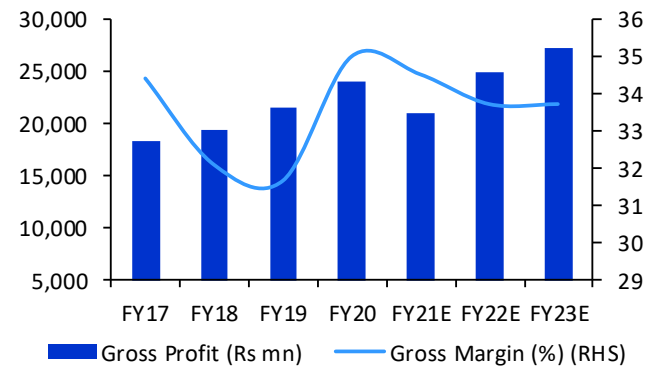
Exhibit 1: Change in Estimates

Particulars (Rs Mn)	FY21E			FY22E		
	New	Previous	% Cng	New	Previous	% Cng
Net sales	60,537	65,680	(7.8)	74,042	74,954	(1.2)
EBITDA	9,989	10,312	(3.1)	11,921	11,843	0.7
EBITDA margin(%)	16.5	15.7	80bps	16.1	15.8	30bps
APAT	5,485	5,844	(6.1)	6,870	6,812	0.9
EPS	32.1	34.2	(6.1)	40.2	39.9	0.9

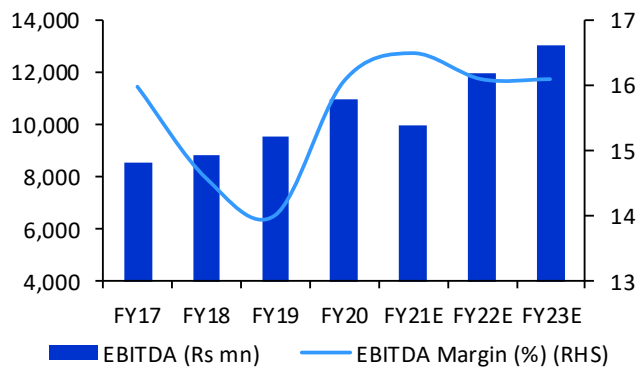
Source: Company, DART

Exhibit 2: Revenue to grow 15% CAGR over FY21-23E


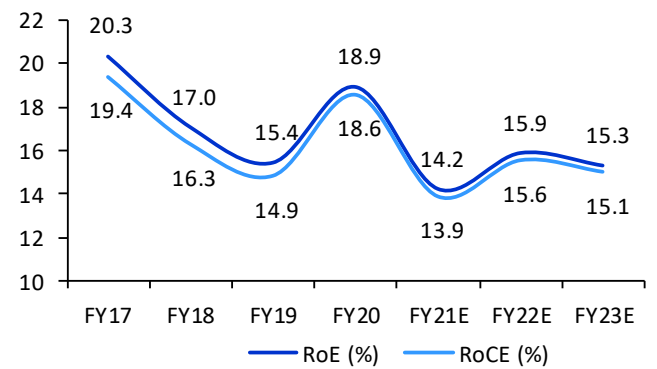
Source: Company, DART

Exhibit 3: GM improved YoY with falling Lead Prices


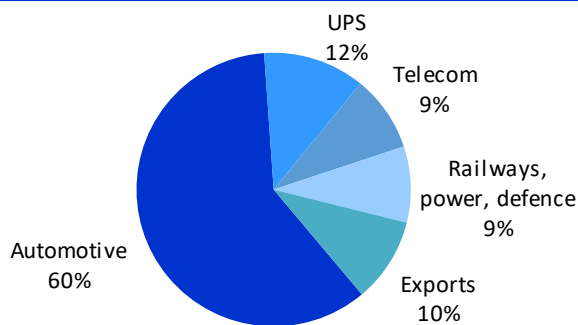
Source: Company, DART

Exhibit 4: Improvement in EBITDA Margin


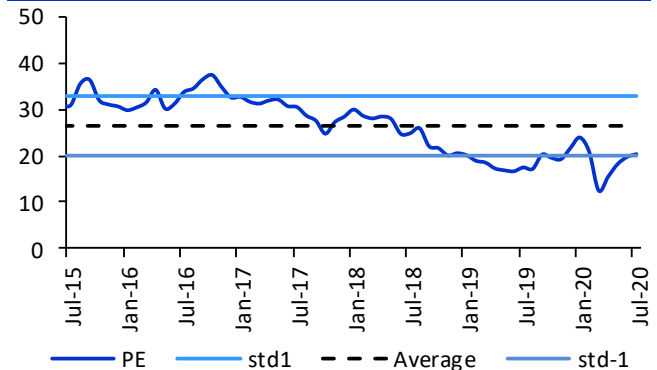
Source: Company, DART

Exhibit 5: ROE (%) vs ROCE (%)


Source: Company, DART

Exhibit 6: Segment Revenue Mix (%)


Source: Company, DART

Exhibit 7: P/E Band at near historical low


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	68,395	60,537	74,042	80,689
Total Expense	57,406	50,549	62,121	67,698
COGS	44,469	39,652	49,090	53,497
Employees Cost	3,858	3,390	3,998	4,357
Other expenses	9,080	7,507	9,033	9,844
EBIDTA	10,988	9,989	11,921	12,991
Depreciation	3,007	3,166	3,277	3,520
EBIT	7,981	6,823	8,644	9,471
Interest	122	41	37	33
Other Income	551	580	614	561
Exc. / E.O. items	0	0	0	0
EBT	8,410	7,362	9,221	10,000
Tax	1,799	1,877	2,351	2,550
RPAT	6,611	5,485	6,870	7,450
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	6,611	5,485	6,870	7,450

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	171	171	171	171
Minority Interest	0	0	0	0
Reserves & Surplus	36,385	40,554	45,775	51,437
Net Worth	36,556	40,725	45,946	51,608
Total Debt	560	510	460	410
Net Deferred Tax Liability	441	441	441	441
Total Capital Employed	37,557	41,676	46,847	52,459

Applications of Funds

Net Block	18,292	19,626	21,350	22,830
CWIP	8,270	8,270	8,270	8,270
Investments	1,562	2,718	2,990	3,289
Current Assets, Loans & Advances	21,882	21,401	25,808	29,665
Inventories	11,427	9,951	12,171	13,264
Receivables	6,363	5,805	8,114	9,285
Cash and Bank Balances	845	2,116	1,681	2,925
Loans and Advances	1,191	1,369	1,575	1,811
Other Current Assets	2,056	2,159	2,267	2,381
Less: Current Liabilities & Provisions	12,448	10,339	11,571	11,595
Payables	6,149	5,215	6,052	6,156
Other Current Liabilities	6,300	5,125	5,518	5,439
sub total				
Net Current Assets	9,433	11,062	14,238	18,070
Total Assets	37,558	41,676	46,847	52,459

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	35.0	34.5	33.7	33.7
EBIDTA Margin	16.1	16.5	16.1	16.1
EBIT Margin	11.7	11.3	11.7	11.7
Tax rate	21.4	25.5	25.5	25.5
Net Profit Margin	9.7	9.1	9.3	9.2
(B) As Percentage of Net Sales (%)				
COGS	65.0	65.5	66.3	66.3
Employee	5.6	5.6	5.4	5.4
Other	13.3	12.4	12.2	12.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	65.5	167.2	234.8	288.7
Inventory days	61	60	60	60
Debtors days	34	35	40	42
Average Cost of Debt	23.7	7.6	7.6	7.5
Payable days	33	31	30	28
Working Capital days	46	54	62	69
FA T/O	3.7	3.1	3.5	3.5
(D) Measures of Investment				
AEPS (Rs)	38.6	32.1	40.2	43.5
CEPS (Rs)	56.2	50.6	59.3	64.1
DPS (Rs)	11.0	6.4	8.0	8.7
Dividend Payout (%)	28.4	20.0	20.0	20.0
BVPS (Rs)	213.7	238.0	268.6	301.7
RoANW (%)	18.9	14.2	15.9	15.3
RoACE (%)	18.6	13.9	15.6	15.1
RoAIC (%)	22.6	17.9	20.4	20.0
(E) Valuation Ratios				
CMP (Rs)	698	698	698	698
P/E	18.1	21.8	17.4	16.0
Mcap (Rs Mn)	1,19,337	1,19,337	1,19,337	1,19,337
MCap/ Sales	1.7	2.0	1.6	1.5
EV	1,19,052	1,17,731	1,18,116	1,16,822
EV/Sales	1.7	1.9	1.6	1.4
EV/EBITDA	10.8	11.8	9.9	9.0
P/BV	3.3	2.9	2.6	2.3
Dividend Yield (%)	1.6	0.9	1.2	1.2
(F) Growth Rate (%)				
Revenue	0.7	(11.5)	22.3	9.0
EBITDA	15.5	(9.1)	19.3	9.0
EBIT	15.6	(14.5)	26.7	9.6
PBT	15.2	(12.5)	25.3	8.4
APAT	36.8	(17.0)	25.3	8.4
EPS	36.8	(17.0)	25.3	8.4

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	11,769	8,084	6,222	8,064
CFI	(8,497)	(5,406)	(4,922)	(4,949)
CFF	(3,144)	(1,407)	(1,736)	(1,871)
FCFF	4,770	3,584	1,222	3,064
Opening Cash	718	845	2,116	1,681
Closing Cash	845	2,116	1,681	2,925

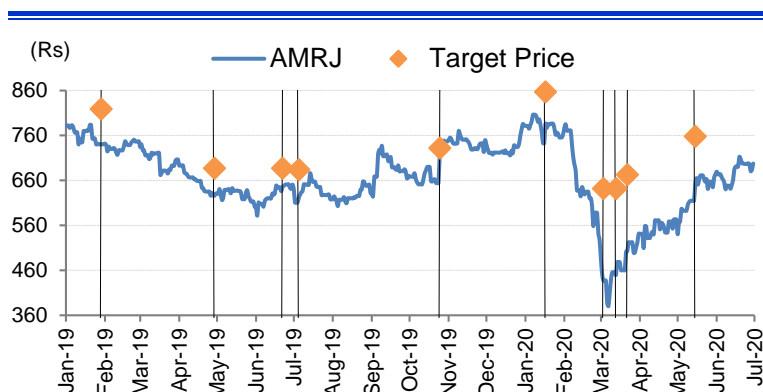
E – Estimates

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 (Rs.)	Price (Rs.)
Feb-19	Accumulate	819	740
May-19	Accumulate	687	626
Jul-19	Accumulate	687	645
Jul-19	Accumulate	684	621
Nov-19	Accumulate	732	717
Feb-20	Accumulate	857	786
Mar-20	Buy	642	437
Mar-20	Buy	642	450
Apr-20	Buy	673	502
Jun-20	Accumulate	758	652

*Price as on recommendation date

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