

Estimate change



TP change



Rating change



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Bloomberg	AMRJ IN
Equity Shares (m)	171
M.Cap.(INRb)/(USDb)	122.6 / 1.6
52-Week Range (INR)	814 / 350
1, 6, 12 Rel. Per (%)	-2/-1/8
12M Avg Val (INR M)	609

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	68.4	65.9	74.5
EBITDA	11.0	10.5	11.9
Adj. PAT	6.6	5.8	6.7
EPS (INR)	38.7	33.8	39.1
EPS Gr. (%)	36.7	-12.6	15.6
BV/Sh. (INR)	214	236	262

Ratios

RoE (%)	18.9	15.0	15.7
RoCE (%)	18.6	14.9	15.5
Payout (%)	34.1	34.1	34.1

Valuations

P/E (x)	18.6	21.2	18.4
P/BV (x)	3.4	3.0	2.7
Div. Yield (%)	1.5	1.3	1.5
FCF Yield (%)	3.9	3.5	1.9

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	28.1	28.1	28.1
DII	13.7	11.6	13.9
FII	19.0	20.9	17.3
Others	39.2	39.4	40.8
FII Includes depository receipts			

CMP: INR718
TP: INR739(+3%)
Neutral
In-line; Replacement demand good, rise in lead price a risk
Market share gains from unorganized to continue

- AMRJ's 1QFY21 performance was supported by a better mix (lower OEM sales) and lower lead prices. While aftermarket recovery was good, recently there has been inflation in lead prices (14.6% increase in spot INR prices v/s 1QFY21 average).
- We have upgraded our FY21/FY22E EPS estimates by 3.5% each to factor in the faster-than-expected replacement recovery and lower depreciation. Maintain **Neutral** with TP of INR739 (18x Sep'22E EPS).

Telecom and aftermarket shines; Margins supported by mix

- 1QFY21 revenue/EBITDA/PAT declined ~37%/45%/56% YoY to ~INR11.5b/INR1.52b/INR0.62b.
- Telecom volumes were flat while all other segments declined – Aftermarket (20-25% down), Home inverter (25% down), UPS (40% down), 2W OEM (60% down) and 4W OEM (80% down).
- Gross margin expanded by 105bp YoY (-280bp QoQ) to ~33.5% (v/s est. ~37%) due to consumption of high-cost inventory. Adjusted for impact in change in inventory, gross margins were stable on QoQ basis. Benefit of mix was off-set by high-cost inventory. Pricing in aftermarket was stable.
- EBITDA margins declined 220bp YoY (-220bp QoQ) to ~13.2% (v/s est. ~14.3%) due to operating deleverage. EBITDA declined 45% YoY to ~INR1.52b (in-line). PAT declined ~56% YoY to ~INR0.627m (in-line).

Highlights from management commentary

- **Status of production** – Currently, capacity utilization is at 80-85%, though it is lower than pre-COVID levels. However, the situation is dynamic due to the sporadic lockdown and its possible impact on supply chain.
- **Demand** – Aftermarket demand is good; however, its sustenance after normalization of the current situation is a key monitorable.
- **Other expenses** – One-off expense of INR125m for provision in delay for BSNL's receivables.
- **Exports** faced major challenges as many countries were either impacted by the lockdowns or disruption in logistics.
- **Spot lead prices** have seen inflation of ~14.5% from 1QFY21 average of ~INR127/kg.
- It has launched its e-rickshaw battery in 1QFY21 and expects small sales to happen in 2QFY21.
- **Capex** was largely maintained at ~INR4b for FY21. The company is planning to expand its 4W (2m units) and 2W (2-3m units) capacity.

Valuation and view

- We have upgraded our FY21/FY22E EPS estimates by 3.5% each to factor in the faster-than-expected replacement recovery and lower depreciation.
- The stock trades at valuations of 21.2x/18.4x FY21/FY22E EPS. Maintain **Neutral** with TP of INR739 (18x Sep'22E EPS, 10% discount to 10-year LPA).

Quarterly Performance

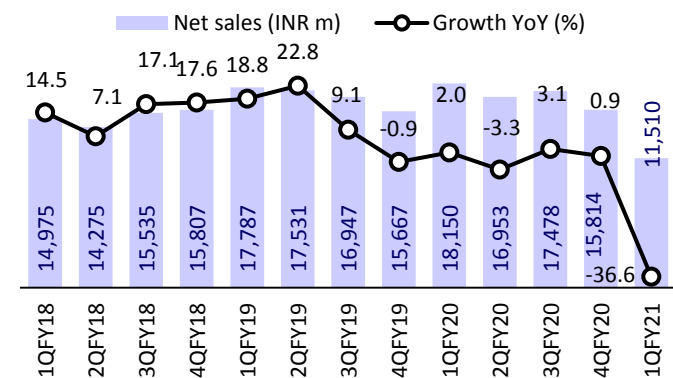
INR M

March	FY20				FY21E				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	18,150	16,953	17,478	15,814	11,510	17,462	19,226	17,735	68,395	65,933
YoY Change (%)	2.0	-3.3	3.1	0.9	-36.6	3.0	10.0	12.1	0.7	-3.6
EBITDA	2,792	2,923	2,840	2,432	1,524	2,888	3,215	2,890	10,986	10,516
Margins (%)	15.4	17.2	16.2	15.4	13.2	16.5	16.7	16.3	16.1	16.0
Depreciation	733	750	765	760	748	760	790	827	3,007	3,125
Interest	29	34	29	30	27	30	30	33	122	120
Other Income	102	180	128	141	88	120	120	122	551	450
PBT after EO	2,132	2,319	2,174	1,783	837	2,218	2,515	2,152	8,407	7,721
Tax Rate (%)	33.9	5.6	24.4	23.4	25.1	25.2	25.2	25.2	21.4	25.2
Adj PAT	1,409	2,189	1,644	1,366	627	1,659	1,881	1,608	6,608	5,775
YoY Change (%)	24.7	82.0	25.6	14.5	-55.5	-24.2	14.4	17.7	36.7	-12.6
Key Performance Indicators										
RM Cost (% of sales)	67.6	64.1	64.5	63.7	66.5	64.0	64.5	63.9	65.0	64.6
Staff Cost (% of sales)	5.4	5.8	5.4	5.9	7.3	5.4	5.1	5.9	5.6	5.8
Other Exp (% of sales)	11.6	12.8	13.9	15.0	13.0	14.0	13.7	13.9	13.3	13.7
Gross Margin (%)	32.4	35.9	35.5	36.3	33.5	36.0	35.5	36.1	35.0	35.5
EBITDA Margin (%)	15.4	17.2	16.2	15.4	13.2	16.5	16.7	16.3	16.1	16.0
Lead Price (INR/Kg)	130.1	141.8	144.5	132.5	126.4	126.9	0.0	0.0	137.2	136.3
Change (%)	-18.1	-2.4	2.7	-7.0	-2.8	-10.5	-100.0	-100.0	-6.5	-0.7

E: MOFSL Estimates

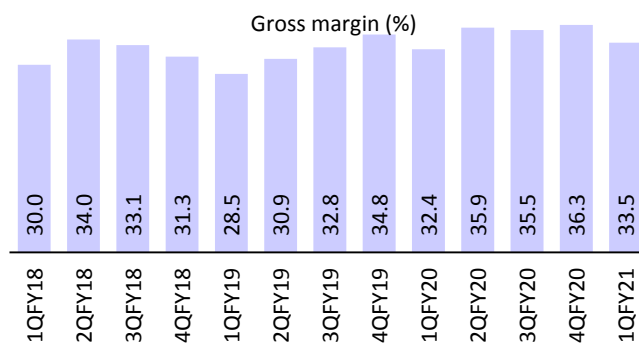
Key Exhibits

Exhibit 1: Trend in revenue and growth



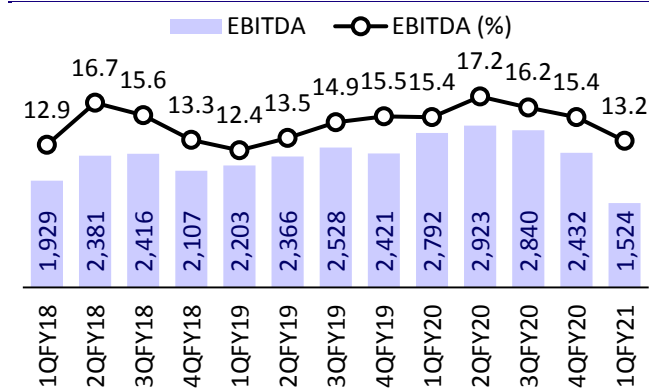
Source: Company, MOFSL

Exhibit 2: Trend in gross margins



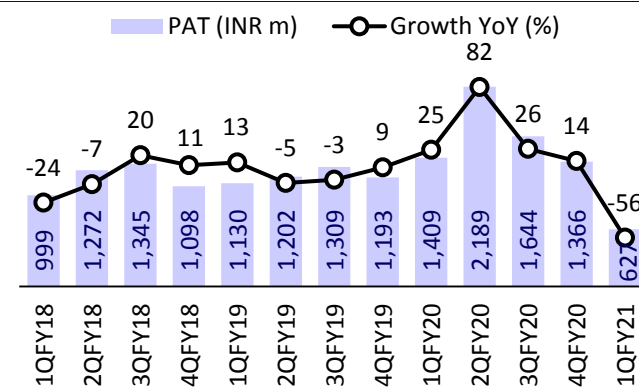
Source: Company, MOFSL

Exhibit 3: Trend in EBITDA and EBITDA margins



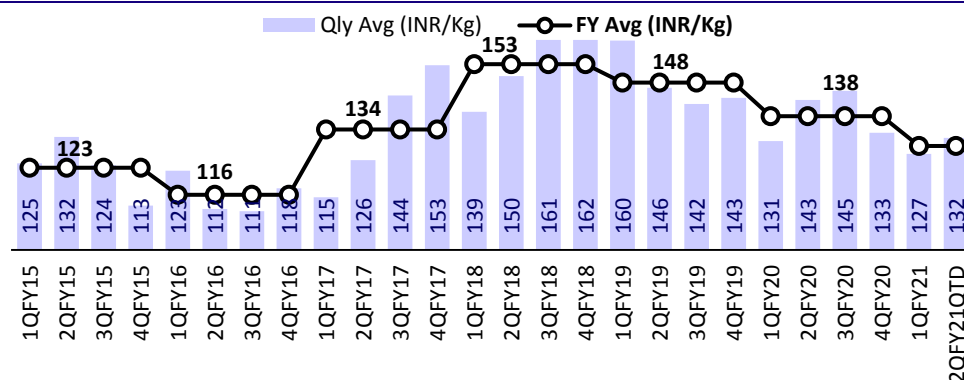
Source: Company, MOFSL

Exhibit 4: PAT and growth trend



Source: Company, MOFSL

Exhibit 5: Trend in lead prices (INR/Kg)



Source: Company, MOFSL

Valuation and view

- Industry structure remains duopoly, but AMRJ strong at second position:** While the industry structure remains largely duopoly, AMRJ has emerged as a formidable challenger to the market leader EXID. AMRJ has market leadership in the Telecom (55% share in 4QFY20) and UPS (32–35%) segments and is fast gaining share in Auto. Over FY04–16, AMRJ clocked CAGR of 34% and 68% in net sales and PAT, respectively, far exceeding EXID's 20% CAGR in each net sales and PAT. This was driven by a combination of technological innovation (first to

introduce maintenance-free, factory-charged, extended-warranty batteries), witty advertising and a unique distribution model (franchisee-based), supported by operational efficiency led competitive pricing.

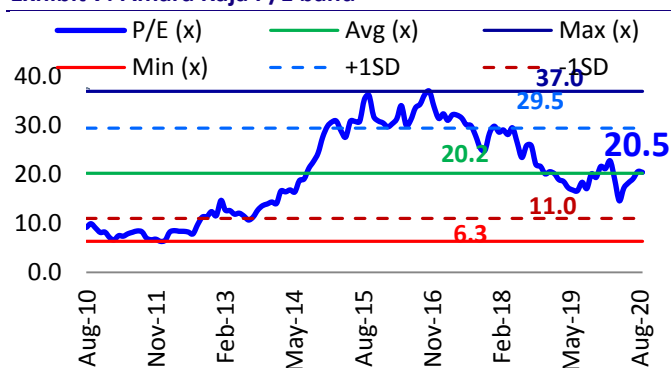
- **AMRJ – Gearing up to lead:** AMRJ is gearing up to be a leader through: (a) consolidating in existing areas, (b) entering new business opportunities within the battery space, mainly Home UPS, Solar, and Motive Power, and (c) capacity and network expansions. In the Telecom segment, AMRJ expects to maintain its market share at current levels (~55% as of 4QFY20).
- **Li-ion technology poses risk to both Auto as well as Industrial businesses:** Falling cost of lithium batteries poses a threat not just to the Auto segment but also to industrial batteries. In Autos, E-2Ws/E-3Ws do not require lead acid batteries as an auxiliary battery. This, in turn, would impact 15-20% of revenues for lead acid battery players. Further, at USD100/KwHr, lithium can give competition to LAB in industrial segments, particularly in Telecom, UPS and other nascent but growth drivers like Motive/Solar Power, etc. Any further development in this direction would potentially lead to the de-rating of the P/E multiple (due to decline in terminal growth).
- **Valuations fair, Maintain Neutral:** We marginally upgrade our EPS estimates for FY21/FY22E to reflect the lower lead prices, but reduce OEM volumes. We expect value migration from unorganized to organized players such as EXID and AMRJ in the replacement segment, driven by tax reforms such as GST and lower corporate tax rates. Healthy replacement demand would lead to better capacity utilization and margins. However, current margin performance might not sustain in FY22E as volume recovery with OEMs would result in mean reversion of mix and margins. Also, with the exit of Johnson Control, promoters are expected to play a pivotal role in long-term strategy as well as technology sourcing. The stock trades at valuation of 21.2x/18.4x FY21/FY22E consol. EPS and fairly captures the recovery in business and possible market share gains. We maintain Neutral with TP of INR739 (~18x Sep'22E EPS, 10% discount to 10-year LPA).

Exhibit 6: Revised estimates

(INR M)	FY21E			FY22E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	65,933	65,043	1.4	74,536	73,562	1.3
EBITDA (%)	16.0	16.0	0bp	15.9	15.9	0bp
Net Profit	5,775	5,579	3.5	6,678	6,454	3.5
EPS (INR)	33.8	32.7	3.5	39.1	37.8	3.5

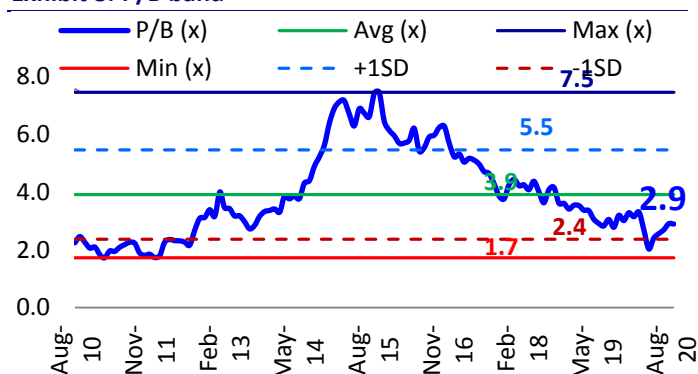
Source: MOFSL

Exhibit 7: Amara Raja P/E band



Source: MOFSL, Company

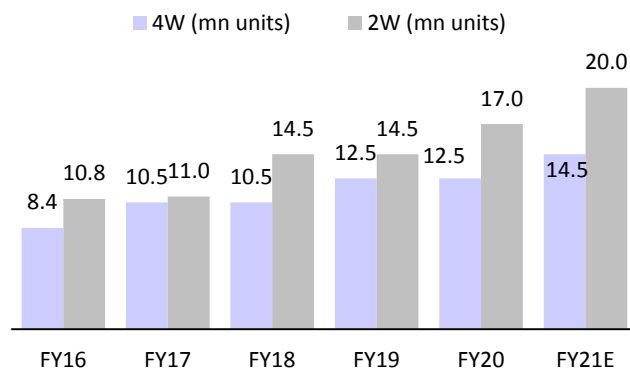
Exhibit 8: P/B band



Source: MOFSL, Company

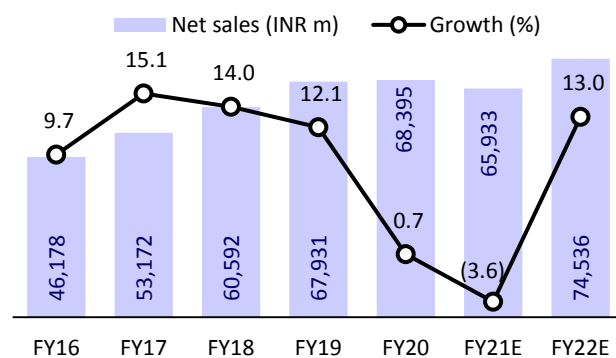
Story in charts

Exhibit 9: Significant addition in 2W capacity



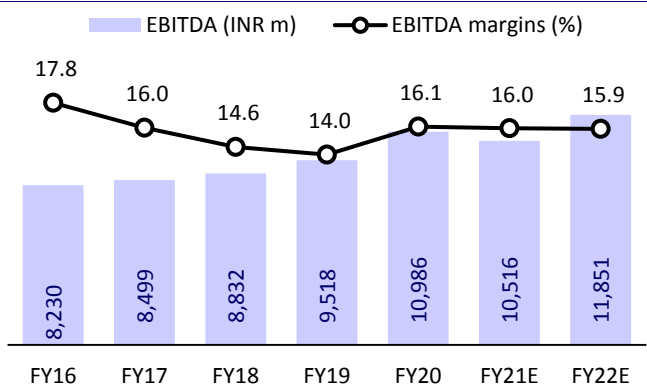
Source: Company, MOFSL

Exhibit 10: Trend in revenues



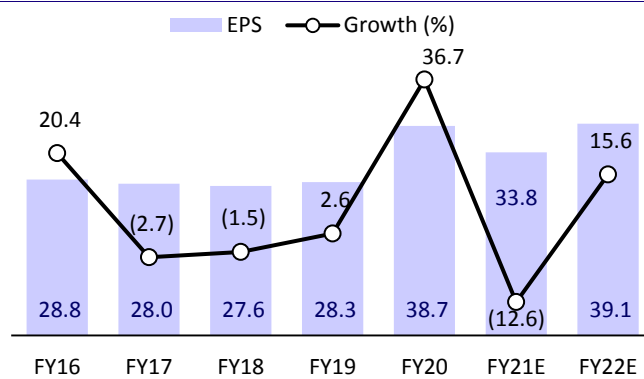
Source: Company, MOFSL

Exhibit 11: EBITDA and EBITDA margin trend



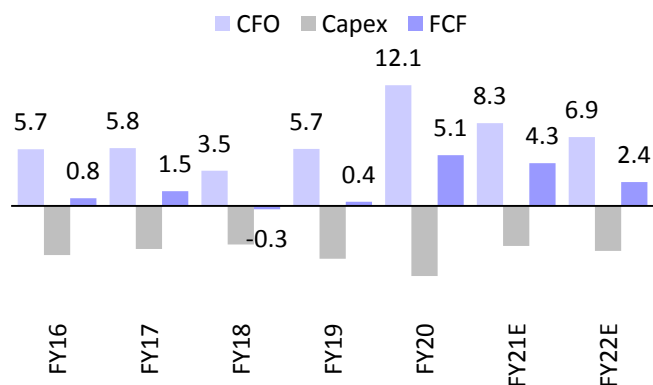
Source: Company, MOFSL

Exhibit 12: Earnings and growth trend



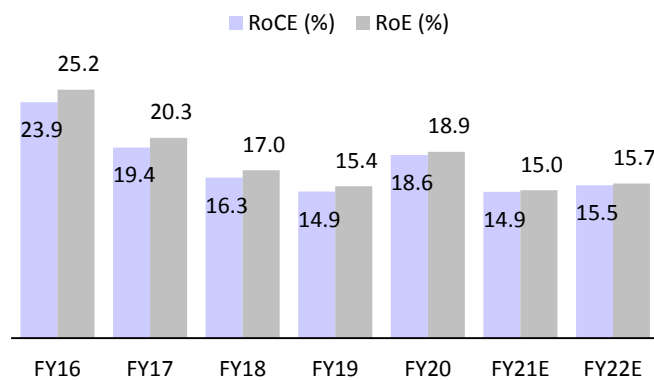
Source: Company, MOFSL

Exhibit 13: Trend in CFO, capex, and FCF



Source: Company, MOFSL

Exhibit 14: Trend in return ratios



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement

(INR Million)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Sales	46,178	53,172	60,592	67,931	68,395	65,933	74,536
Change (%)	9.7	15.1	14.0	12.1	0.7	-3.6	13.0
EBITDA	8,230	8,499	8,832	9,518	10,986	10,516	11,851
Margin (%)	17.8	16.0	14.6	14.0	16.1	16.0	15.9
Depreciation	1,407	1,912	2,303	2,612	3,007	3,125	3,473
EBIT	6,823	6,587	6,529	6,906	7,978	7,391	8,378
Int. and Finance Charges	55	58	51	70	122	120	100
Other Income - Rec.	459	492	664	468	551	450	650
PBT bef. EO Exp.	7,226	7,022	7,142	7,304	8,407	7,721	8,928
EO Expense/(Income)	0	0	0	0	0	0	0
PBT after EO Exp.	7,226	7,022	7,142	7,304	8,407	7,721	8,928
Tax Rate (%)	32.0	31.9	34.0	33.8	21.4	25.2	25.2
Reported PAT	4,916	4,785	4,713	4,835	6,608	5,775	6,678
PAT Adj for EO items	4,916	4,785	4,713	4,835	6,608	5,775	6,678
Change (%)	20.4	-2.7	-1.5	2.6	36.7	-12.6	15.6
Margin (%)	10.6	9.0	7.8	7.1	9.7	8.8	9.0

Standalone - Balance Sheet

(INR Million)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	171	171	171	171	171	171	171
Total Reserves	20,988	25,760	29,203	33,182	36,385	40,189	44,587
Net Worth	21,159	25,931	29,374	33,353	36,556	40,359	44,757
Deferred Liabilities	538	815	878	959	441	534	641
Total Loans	725	690	584	468	343	725	0
Capital Employed	22,421	27,436	30,836	34,780	37,341	41,618	45,398
Gross Block	14,851	18,156	22,529	26,165	29,337	38,607	43,107
Less: Accum. Deprn.	1,330	3,257	5,497	8,037	11,045	14,170	17,643
Net Fixed Assets	13,520	14,899	17,033	18,128	18,292	24,437	25,464
Capital WIP	1,229	2,403	2,264	3,147	8,270	3,000	3,000
Total Investments	200	1,467	351	205	0	0	0
Curr. Assets, Loans&Adv.	14,559	17,077	22,038	23,480	21,882	25,782	29,962
Inventory	6,016	8,170	10,497	10,614	11,427	10,838	12,252
Account Receivables	5,922	5,705	7,825	7,686	6,363	6,322	8,577
Cash and Bank Balance	1,503	1,709	1,113	502	326	4,990	5,029
Loans and Advances	1,119	1,494	2,603	4,678	3,766	3,631	4,104
Curr. Liability & Prov.	7,087	8,410	10,849	10,179	12,665	11,601	13,028
Account Payables	3,493	4,184	5,923	5,104	6,149	5,928	6,701
Other Current Liabilities	2,665	3,285	3,916	3,761	4,685	4,516	5,105
Provisions	929	941	1,011	1,314	1,832	1,157	1,222
Net Current Assets	7,472	8,667	11,189	13,301	9,217	14,181	16,934
Appl. of Funds	22,421	27,436	30,836	34,780	35,779	41,618	45,398

E: MOFSL Estimates

Financials and Valuations

Ratios	(INR Million)						
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)							
EPS	28.8	28.0	27.6	28.3	38.7	33.8	39.1
Cash EPS	37.0	39.2	41.1	43.6	56.3	52.1	59.4
BV/Share	123.9	151.8	172.0	195.3	214.0	236.3	262.0
DPS	4.3	4.25	4.2	7.1	11.0	9.6	11.1
Payout (%)	17.7	18.2	18.1	30.0	34.1	34.1	34.1
Valuation (x)							
P/E	24.9	25.6	26.0	25.4	18.6	21.2	18.4
Cash P/E	19.4	18.3	17.5	16.5	12.8	13.8	12.1
P/BV	5.8	4.7	4.2	3.7	3.4	3.0	2.7
EV/Sales	2.6	2.3	2.0	1.8	1.8	1.8	1.6
EV/EBITDA	14.8	14.3	13.8	12.9	11.2	11.3	9.9
Dividend Yield (%)	0.6	0.6	0.6	1.0	1.5	1.3	1.5
Return Ratios (%)							
RoE	25.2	20.3	17.0	15.4	18.9	15.0	15.7
RoCE	23.9	19.4	16.3	14.9	18.6	14.9	15.5
RoIC	26.4	21.7	17.6	15.8	21.0	17.7	17.7
Working Capital Ratios							
Gross Fixed Asset Turnover (x)	3.1	2.9	2.7	2.6	2.3	1.7	1.7
Inventory (Days)	47.6	56.1	63.2	57.0	61.0	60.0	60.0
Debtor (Days)	42	35	46	41	34	35	42
Creditor (Days)	28	29	36	27	33	33	33
Working Capital Turnover (Days)	47	48	61	69	47	51	58
Leverage Ratio (x)							
Current Ratio	2.1	2.0	2.0	2.3	1.7	2.2	2.3
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Standalone - Cash Flow Statement	(INR Million)						
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net P/L Before Tax and E/O Items	7,226	7,022	7,142	7,304	8,407	7,721	8,928
Depreciation	1,407	1,912	2,303	2,612	3,007	3,125	3,473
Interest & Finance Charges	-43	-3	-5	42	122	-330	-550
Direct Taxes Paid	2,181	2,024	2,443	2,417	2,364	1,946	2,250
(Inc)/Dec in WC	-738	-1,137	-3,475	-1,843	2,892	-300	-2,715
CF from Operations	5,672	5,771	3,522	5,698	12,065	8,271	6,886
Others	-130	-242	-306	-284	-296	0	0
CF from Operating incl EO	5,542	5,529	3,216	5,413	11,769	8,271	6,886
(inc)/dec in FA	-4,904	-4,305	-3,853	-5,282	-6,999	-4,000	-4,500
Free Cash Flow	637	1,224	-637	131	4,770	4,271	2,386
Others	24,156	27,395	19,117	10,904	13,305	450	650
CF from Investments	-3,938	-5,294	-2,381	-4,591	-8,465	-3,550	-3,850
(Inc)/Dec in Debt	772	47	-89	-51	-275	474	-618
Interest Paid	-5	-3	-7	-11	-52	-120	-100
Dividend Paid	-1,614	0	-1,285	-855	-3,311	-1,972	-2,280
CF from Fin. Activity	-847	44	-1,382	-916	-3,638	-1,618	-2,998
Inc/Dec of Cash	757	279	-546	-94	-334	3,103	38
Add: Beginning Balance	2,222	1,503	1,709	1,113	502	326	4,990
Closing Balance	2,979	1,782	1,163	1,019	168	3,429	5,029

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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