

Amara Raja Batteries

Refer to important disclosures at the end of this report

Replacement demand to support quick recovery; Retain Buy

CMP: Rs 718
as of (August 7, 2020)

TP: Rs 803 (▲)
12 months

Rating: BUY (■)

Upside: 11.8 %



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- Q1FY21 revenue stood at Rs11.5bn, down 37% yoy but better than the estimated 56% fall. Revenue was aided by flat growth in the telecom segment and pickup in auto replacement demand in May-Jun'20.
- EBITDA margin at 13.2% beat our estimate of 11.3%, led by better-than-expected revenue and cost reduction efforts. AMRJ was able to retain the benefits of low lead prices with no pass-through in the replacement market.
- Amid weakness in the auto sector in FY21E, a swift recovery is expected in the battery segment, led by a pickup in replacement demand. Volumes should improve gradually in Industrial/OEM segments ahead. Also, we expect market share gains to continue for AMRJ.
- We expect a 10%/15% CAGR in revenue/earnings over FY20-23E, with average ROCE of 24% and FCF of Rs5bn/year. We retain Buy with a TP of Rs803 (Rs732 earlier), based on 15x Sep'22E EPS (Mar'22E EPS earlier). We maintain EW stance in sector EAP.

Weak results but above estimates: Q1 revenue fell 37% to Rs11.5bn, better than the estimated 56% fall. The telecom segment has witnessed improvement with flat growth. Auto replacement demand improved in May-Jun'20, limiting the decline in Q1 volume at 26% in automotive and 21% in 2Ws. In comparison, the OEM segment was weak with a steep fall of 80% in automotive and 60% in 2Ws. EBITDA margin contracted 210bps yoy to 13.2%, better than the estimate of 11.3%, due to higher-than-expected revenues. Gross margin contracted 110bps yoy to 33.5%, owing to a decrease in inventory. Employee expenses fell 15% to Rs840mn, owing to pay-cuts. Despite a provision of Rs125mn relating to receivables from BSNL, Other expenses declined 29% to Rs1.5bn, due to lower scale and cost reduction efforts. Overall, PAT stood at Rs627mn, down 56% (vs. estimate of 86% fall), owing to better-than-expected operating performance.

AMRJ remains a formidable second player; Retain Buy: In the duopoly battery market, AMRJ continues to be a formidable 2nd player behind Exide Industries. Excellent franchise model and operational efficiency have enabled AMRJ to deliver a strong performance, and we expect the momentum to continue. Revenue/Earnings CAGR is expected at 10%/15% over FY20-23E, with average ROCE of 24% and FCF of Rs5.2bn/year. We retain Buy and EW in sector EAP, with a TP of Rs803 (Rs732 earlier), based on 15x Sep'22E EPS (Mar'22E EPS earlier). Although the shift toward EVs remains a structural risk, EV penetration could be gradual. Other risks are lower-than-expected revenue in OEM/replacement demand in the Auto segment, weak demand for inverter batteries, higher competitive intensity, and adverse currency/commodity prices.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries \(page 9\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	67,931	68,395	65,640	80,535	91,057
EBITDA	9,518	10,986	10,371	13,610	15,707
EBITDA Margin (%)	14.0	16.1	15.8	16.9	17.3
APAT	4,835	6,608	5,884	8,355	9,927
EPS (Rs)	28.3	38.7	34.4	48.9	58.1
EPS (% chg)	2.6	36.7	(11.0)	42.0	18.8
ROE (%)	15.4	18.9	15.3	19.4	20.3
P/E (x)	25.4	18.6	20.8	14.7	12.4
EV/EBITDA (x)	12.9	11.0	11.3	8.4	7.0
P/BV (x)	3.7	3.4	3.0	2.7	2.4

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	2.5/0.3
Target Price change (%)	9.7
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	34.4	48.9
Consensus	33.5	41.4
Mean Consensus TP (12M)	Rs 719	

Stock Details

Bloomberg Code	AMRJ IN
Face Value (Rs)	1
Shares outstanding (mn)	171
52 Week H/L	814 / 349
M Cap (Rs bn/USD bn)	123 / 1.64
Daily Avg Volume (nos.)	1,404,780
Daily Avg Turnover (US\$ mn)	12.1

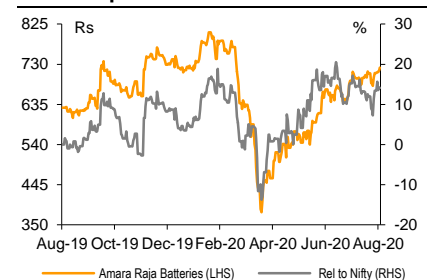
Shareholding Pattern Jun '20

Promoters	28.1%
FIIs	19.0%
DIIIs	13.3%
Public and Others	39.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	29	(9)	11
Rel. to Nifty	(2)	6	(1)	8

Relative price chart



Source: Bloomberg

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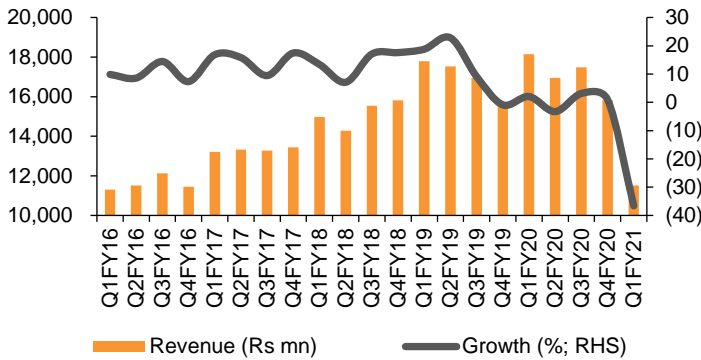
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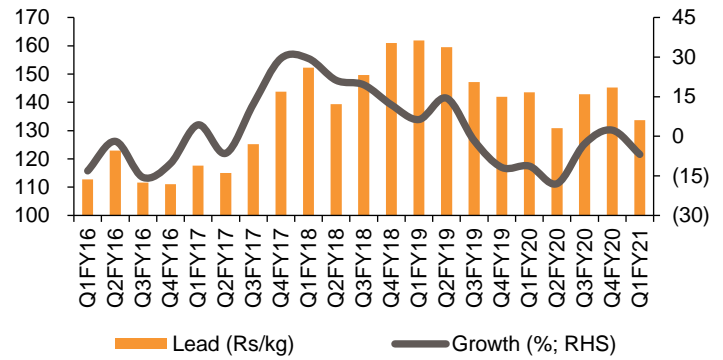
Story in Charts

Exhibit 1: Revenues declined by 37% yoy, better than estimates owing to flat growth in telecom and pickup in replacement demand



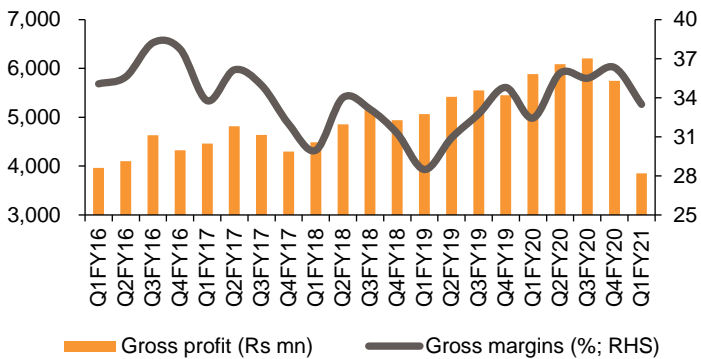
Source: Company, Emkay Research

Exhibit 2: Lead prices have been benign, but has trended higher in Jul'20



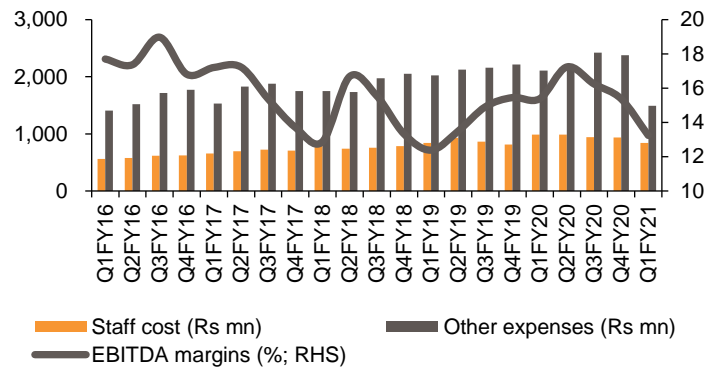
Source: Bloomberg, Emkay Research

Exhibit 3: Gross margins expanded 110bps yoy due to better mix and lower lead prices



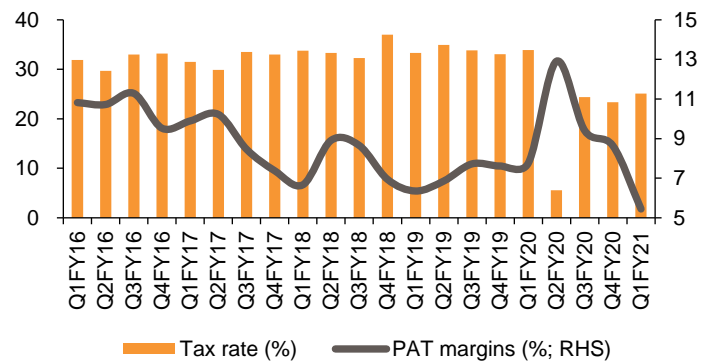
Source: Company, Emkay Research

Exhibit 4: EBITDA margin fell by 210bps yoy to 13.2%, but was above estimates due to better than expected revenues



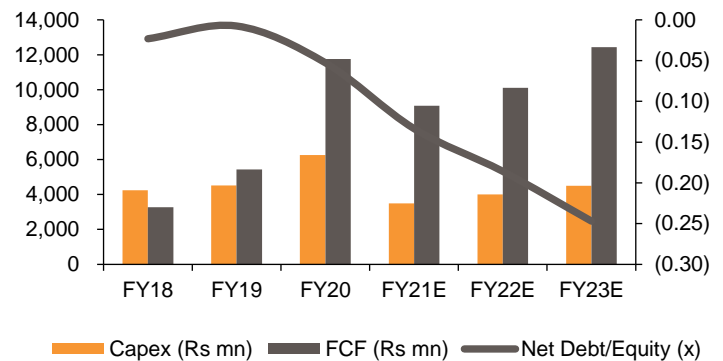
Source: Company, Emkay Research

Exhibit 5: PAT margins contracted 230bps yoy to 5.4%, but was above estimates



Source: Company, Emkay Research

Exhibit 6: Free cash flow and Net debt/equity (x) to remain healthy



Source: Company, Emkay Research

Exhibit 7: Revenue assumptions

Revenue mix	FY19	FY20	FY21E	FY22E	FY23E
Automotive (2W & 4W)	37,550	39,461	38,732	47,707	55,274
growth (%)	11.1	5.1	(1.8)	23.2	15.9
-OEM	7,254	5,534	4,369	6,075	6,953
growth (%)	1.1	(23.7)	(21.1)	39.1	14.5
-Aftermarket	30,296	33,927	34,363	41,632	48,321
growth (%)	13.8	12.0	1.3	21.2	16.1
Industrial	30,381	28,934	26,908	32,828	35,783
growth (%)	13.4	(4.8)	(7.0)	22.0	9.0
Total Revenue	67,931	68,395	65,640	80,535	91,057
growth (%)	12.1	0.7	(4.0)	22.7	13.1

Source: Company, Emkay Research

Exhibit 8: Actual vs. Estimates (Q1FY21)

(Rs mn)	Actual	Estimate		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Total Revenue	11,510	7,913	10,117	45.5	13.8	Above estimates, due to flat growth in Telecom segment and pickup in replacement demand in months of May-June'20
EBITDA	1,524	892	1,314	70.8	16.0	
EBITDA Margin (%)	13.2	11.3	13.0	197 bps	26 bps	Above estimates, owing to better than expected revenues and cost reduction efforts
Adjusted Net profit	627	195	530	221.9	18.3	Above estimates due to higher than expected operating margin

Source: Bloomberg, Company, Emkay Research

Exhibit 9: Quarterly Financial Summary

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Revenue	18,150	16,953	17,478	15,814	11,510	(36.6)	(27.2)
Expenditure	15,358	14,030	14,639	13,382	9,986	(35.0)	(25.4)
as % of sales	84.6	82.8	83.8	84.6	86.8		
Consumption of RM	12,262	10,867	11,273	10,069	7,655	(37.6)	(24.0)
as % of sales	67.6	64.1	64.5	63.7	66.5	(105.6)	
Employee Cost	985	986	944	937	840	(14.8)	(10.4)
as % of sales	5.4	5.8	5.4	5.9	7.3	186.5	
Other expenditure	2,110	2,178	2,421	2,377	1,492	(29.3)	(37.2)
as % of sales	11.6	12.8	13.9	15.0	13.0	133.3	
EBITDA	2,792	2,923	2,840	2,432	1,524	(45.4)	(37.3)
Depreciation	733	750	765	760	748	2.1	(1.5)
EBIT	2,059	2,173	2,075	1,672	776	(62.3)	(53.6)
Other Income	102	180	128	141	88	(14.1)	(37.7)
Interest	29	34	29	30	27	(7.3)	(11.6)
PBT	2,132	2,318	2,174	1,783	837	(60.8)	(53.1)
Total Tax	723	130	530	416	210	(71.0)	(49.6)
Adjusted PAT	1,409	2,189	1,644	1,367	627	(55.5)	(54.1)
Extra ordinary items Loss/(Gain)	0	0	0	0	0		
Reported PAT	1,409	2,189	1,644	1,367	627	(55.5)	(54.1)
Adjusted EPS	8.3	12.8	9.6	8.0	3.7	(55.5)	(54.1)

Margins (%)						(bps)	(bps)
EBIDTA	15.4	17.2	16.2	15.4	13.2	(214)	(213)
EBIT	11.3	12.8	11.9	10.6	6.7	(460)	(383)
EBT	11.7	13.7	12.4	11.3	7.3	(448)	(400)
PAT	7.8	12.9	9.4	8.6	5.4	(232)	(320)
Effective Tax rate	33.9	5.6	24.4	23.4	25.1	(881)	174

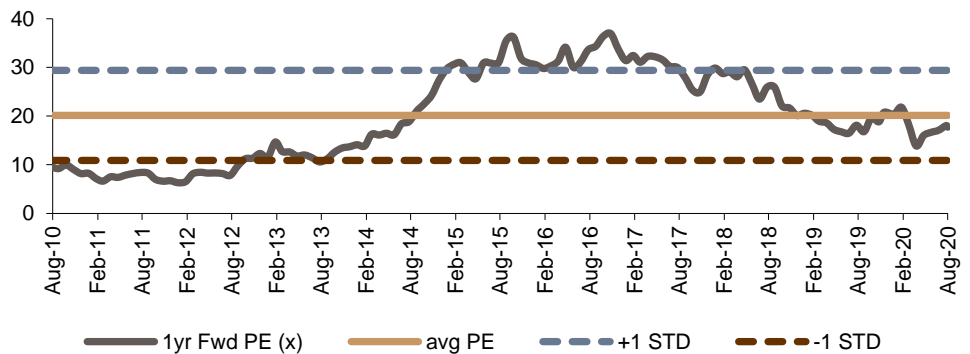
Source: Company, Emkay Research

Exhibit 10: Changes in estimates

Rs mn	FY21E				FY22E				FY23E			
	Old	New	% Chng	% YoY	Old	New	% Chng	% YoY	Old	New	% Chng	% YoY
Net Sales	65,548	65,640	0.1	(4.0)	81,133	80,535	(0.7)	22.7	91,055	91,057	0.0	13.1
EBITDA	10,167	10,371	2.0	(5.6)	13,558	13,610	0.4	31.2	15,261	15,707	2.9	15.4
Margin (%)	15.5	15.8	30 bps	(26) bps	16.7	16.9	20 bps	110 bps	16.8	17.3	45 bps	35 bps
APAT	5,740	5,884	2.5	(11.0)	8,331	8,355	0.3	42.0	9,601	9,927	3.4	18.8
EPS	33.6	34.4	2.5	(11.0)	48.8	48.9	0.3	42.0	56.2	58.1	3.4	18.8

Source: Company, Emkay Research

Exhibit 11: One-year forward P/E



Source: Bloomberg, Emkay Research

Exhibit 12: Peer comparison

Companies	CMP (Rs)	Target (Rs)	Mcap (Rs.bn)	Reco	EPS (Rs)			PE (x)			ROE (%)			ROCE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Ashok Leyland	50	74	147	Buy	1.3	0.0	3.4	39.4	1748.2	14.6	4.8	0.1	13.4	6.2	1.7	14.1
Atul Auto	165	238	4	Buy	23.9	9.6	23.8	6.9	17.1	6.9	18.6	6.8	15.3	23.9	9.3	20.3
Bajaj Auto	3,002	2,978	869	Hold	176.2	136.6	192.2	17.0	22.0	15.6	24.5	19.1	24.6	30.7	24.5	31.6
Eicher Motors	21,793	19,954	595	Buy	669.0	520.4	995.9	32.6	41.9	21.9	19.3	13.5	22.5	23.7	18.5	28.0
Escorts Ltd	1,124	1,256	152	Buy	55.4	53.2	72.0	20.3	21.1	15.6	15.2	12.7	13.7	19.4	16.8	17.8
Hero Motocorp	2,706	2,530	541	Hold	159.4	112.4	171.4	17.0	24.1	15.8	23.6	15.7	22.7	28.1	19.7	29.2
Mahindra & Mahindra	600	718	746	Buy	30.0	24.0	38.1	20.0	25.0	15.8	10.3	8.0	11.8	14.2	10.0	14.5
Maruti Suzuki India	6,680	6,910	2018	Buy	187.1	133.4	268.8	35.7	50.1	24.9	11.9	8.1	15.4	15.0	10.5	19.8
Tata Motors	119	120	389	Hold	-20.7	-28.0	12.6	-5.7	-4.3	9.4	-12.1	-18.2	8.4	0.8	-2.0	8.1
TVS Motor	422	331	200	Sell	13.0	5.8	13.6	32.4	72.8	31.0	17.7	7.4	16.2	16.5	8.4	16.8
Amara Raja Batteries	718	803	123	Buy	38.7	34.4	48.9	18.6	20.8	14.7	18.9	15.3	19.4	23.7	20.0	25.3
Apollo Tyres	124	111	71	Hold	8.3	4.1	10.9	14.8	30.2	11.3	4.8	2.5	6.1	5.0	3.8	6.5
Exide Industries	162	205	138	Buy	9.9	8.2	10.8	16.3	19.8	15.0	13.7	10.7	13.1	17.0	14.0	17.1
Motherson Sumi	100	115	315	Buy	3.7	2.7	5.8	26.9	37.3	17.3	10.7	7.5	15.2	10.3	5.6	15.2
Bharat Forge	408	363	190	Buy	12.2	7.1	17.9	33.4	57.7	22.8	10.6	6.0	14.3	9.7	6.5	13.7

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	67,931	68,395	65,640	80,535	91,057
Expenditure	58,414	57,409	55,269	66,924	75,350
EBITDA	9,518	10,986	10,371	13,610	15,707
Depreciation	2,612	3,007	3,253	3,509	3,797
EBIT	6,906	7,978	7,118	10,101	11,910
Other Income	468	551	720	965	1,210
Interest expenses	70	122	96	73	58
PBT	7,304	8,407	7,742	10,993	13,062
Tax	2,469	1,799	1,858	2,638	3,135
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	4,835	6,608	5,884	8,355	9,927
Adjusted PAT	4,835	6,608	5,884	8,355	9,927

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	171	171	171	171	171
Reserves & surplus	33,182	36,385	40,151	45,498	51,852
Net worth	33,353	36,556	40,322	45,669	52,023
Minority Interest	0	0	0	0	0
Loan Funds	468	343	293	243	193
Net deferred tax liability	959	441	441	441	441
Total Liabilities	34,780	37,341	41,057	46,354	52,657
Net block	18,128	16,507	16,754	17,245	17,948
Investment	205	1,562	5,562	8,562	12,562
Current Assets	23,480	23,667	22,464	26,652	29,968
Cash & bank balance	718	845	251	307	616
Other Current Assets	2,934	2,056	2,098	2,202	2,313
Current liabilities & Provision	10,179	12,665	11,994	14,375	16,091
Net current assets	13,301	11,002	10,470	12,277	13,877
Misc. exp	0	0	0	0	0
Total Assets	34,780	37,341	41,057	46,354	52,657

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	6,836	7,856	7,022	10,028	11,852
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(1,843)	2,892	(63)	(1,750)	(1,291)
Operating Cashflow	4,946	11,219	8,210	8,738	10,551
Capital expenditure	(5,282)	(6,999)	(3,500)	(4,000)	(4,500)
Free Cash Flow	(337)	4,220	4,710	4,738	6,051
Investments	204	(1,232)	(4,000)	(3,000)	(4,000)
Other Investing Cash Flow	450	(263)	240	485	730
Investing Cashflow	(4,161)	(7,943)	(6,540)	(5,550)	(6,560)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(51)	(116)	(50)	(50)	(50)
Dividend paid (incl tax)	(855)	(3,311)	(2,118)	(3,008)	(3,574)
Other Financing Cash Flow	(264)	332	0	0	0
Financing Cashflow	(1,180)	(3,148)	(2,264)	(3,131)	(3,682)
Net chg in cash	(395)	128	(594)	56	309
Opening cash position	1,113	718	845	251	307
Closing cash position	718	845	251	307	616

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	14.0	16.1	15.8	16.9	17.3
EBIT Margin	10.2	11.7	10.8	12.5	13.1
Effective Tax Rate	33.8	21.4	24.0	24.0	24.0
Net Margin	7.1	9.7	9.0	10.4	10.9
ROCE	22.5	23.7	20.0	25.3	26.5
ROE	15.4	18.9	15.3	19.4	20.3
RoIC	23.9	27.8	26.5	36.0	39.4

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	28.3	38.7	34.4	48.9	58.1
CEPS	43.6	56.3	53.5	69.5	80.3
BVPS	195.3	214.0	236.1	267.4	304.6
DPS	7.1	11.0	10.3	14.7	17.4

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	25.4	18.6	20.8	14.7	12.4
P/CEPS	16.5	12.8	13.4	10.3	8.9
P/BV	3.7	3.4	3.0	2.7	2.4
EV / Sales	1.8	1.8	1.8	1.4	1.2
EV / EBITDA	12.9	11.0	11.3	8.4	7.0
Dividend Yield (%)	1.0	1.5	1.4	2.0	2.4

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.0	(0.1)	(0.1)	(0.2)	(0.2)
Net Debt/EBIDTA	0.0	(0.2)	(0.5)	(0.6)	(0.8)
Working Cap Cycle (days)	67.6	54.2	56.8	54.2	53.2

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	12.1	0.7	(4.0)	22.7	13.1
EBITDA	7.8	15.4	(5.6)	31.2	15.4
EBIT	5.8	15.5	(10.8)	41.9	17.9
PAT	2.6	36.7	(11.0)	42.0	18.8

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue	18,150	16,953	17,478	15,814	11,510
EBITDA	2,792	2,923	2,840	2,432	1,524
EBITDA Margin (%)	15.4	17.2	16.2	15.4	13.2
PAT	1,409	2,189	1,644	1,367	627
EPS (Rs)	8.3	12.8	9.6	8.0	3.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	28.1	28.1	28.1	28.1	28.1
FIs	17.3	20.1	21.2	20.9	19.0
DIs	13.4	11.6	10.6	11.1	13.3
Public and Others	41.2	40.3	40.1	39.9	39.7

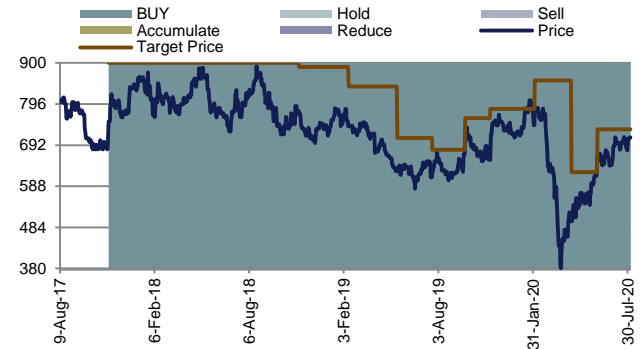
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Jun-20	641	732	12m	Buy	Raghunandhan NL
2-Jun-20	665	732	12m	Buy	Raghunandhan NL
4-May-20	551	624	12m	Buy	Raghunandhan NL
29-Apr-20	540	624	12m	Buy	Raghunandhan NL
13-Apr-20	499	624	12m	Buy	Raghunandhan NL
27-Feb-20	681	856	12m	Buy	Raghunandhan NL
14-Feb-20	756	856	12m	Buy	Raghunandhan NL
3-Feb-20	786	856	12m	Buy	Raghunandhan NL
27-Dec-19	716	784	12m	Buy	Raghunandhan NL
27-Nov-19	763	784	12m	Buy	Raghunandhan NL
10-Nov-19	654	784	12m	Buy	Raghunandhan NL
23-Sep-19	718	760	12m	Buy	Raghunandhan NL
22-Jul-19	621	680	12m	Buy	Raghunandhan NL
16-May-19	626	710	12m	Buy	Raghunandhan NL
12-Feb-19	740	840	12m	Buy	Raghunandhan NL
9-Nov-18	773	890	12m	Buy	Raghunandhan NL
31-Aug-18	846	900	12m	Buy	Raghunandhan NL
21-May-18	808	900	12m	Buy	Raghunandhan NL
12-Feb-18	849	900	12m	Buy	Raghunandhan NL
10-Nov-17	752	900	12m	Buy	Raghunandhan NL
8-Aug-17	801	840	12m	Hold	Raghunandhan NL

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Automobiles & Auto Ancillaries



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Sector

Automobiles and Ancillaries

Analyst bio

Raghu holds an MBA and comes with total 11 years of research experience. His team currently covers 14 stocks in the Indian Automobiles and Ancillaries space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Auto & Auto Ancillaries	5.43	5.43	0%	0	100.00
Amara Raja Batteries	0.10	0.10	0%	0	1.80
Apollo Tyres	0.06	0.06	0%	0	1.17
Ashok Leyland	0.12	0.23	95%	11	4.18
Atul Auto	0.00	0.11	NA	11	1.97
Bajaj Auto	0.65	0.30	-53%	-34	5.57
Bharat Forge	0.17	0.28	68%	11	5.20
Eicher Motors	0.50	0.62	23%	12	11.35
Escorts	0.00	0.00	NA	0	0.00
Exide Industries	0.12	0.12	0%	0	2.20
Hero Motocorp	0.58	0.32	-46%	-27	5.81
Mahindra & Mahindra	0.97	1.07	11%	11	19.79
Maruti Suzuki India	1.45	1.56	8%	11	28.72
Motherson Sumi	0.20	0.20	0%	0	3.66
Tata Motors	0.35	0.35	0%	0	6.38
Tata Motors DVR*	0.03	0.03	0%	0	0.63
TVS Motor	0.14	0.08	-39%	-5	1.56
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

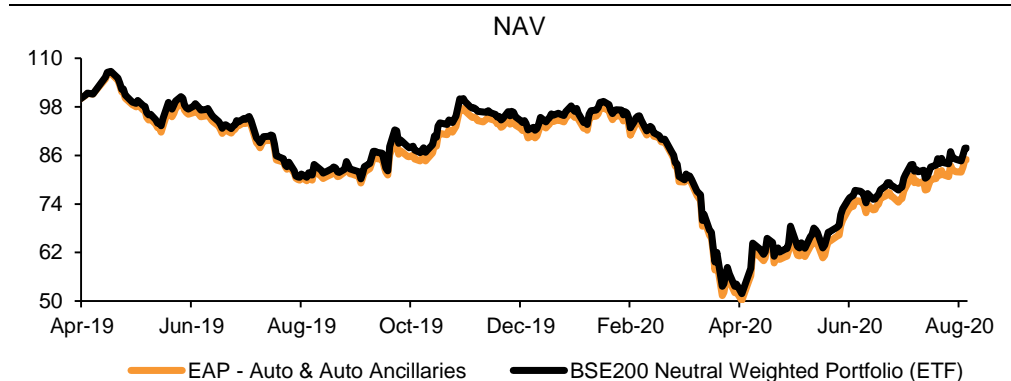
Sector portfolio NAV

	Base					Latest
	1-Apr-19	5-Nov-19	6-Feb-20	7-May-20	7-Jul-20	6-Aug-20
EAP - Auto & Auto Ancillaries	100.0	95.4	94.7	61.7	81.0	85.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	97.7	95.8	63.9	83.8	87.8

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 08 Aug 2020 03:44:26 (SGT)

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