

Amara Raja Batteries

Accumulate



Above estimates, Long term thesis intact

- Amara Raja demonstrated a decent performance in Q1FY21 amid a challenging environment. Net revenue declined 37% YoY to Rs.11.5bn due to weak demand from auto OEMs impacted by countrywide lockdown, partially offset by better than anticipated Auto replacement demand. Industrial division was supported by traction in UPS and Telecom sector.
- EBITDA was Rs.1.52bn (-45% YoY) with margin at 13.2% (-214bps YoY), due to negative operating leverage partially offset by better product mix.
- We maintain a positive view on Amara Raja due to: 1) increase in production capacity that will help to gain market share in OEM segment (new business orders in 2W from RE and HMSI); 2) sharp demand recovery in the automotive replacement market; 3) low channel inventory is expected to support both, dispatches and pricing and 4) strong prospects for industrial batteries owing to increasing demand for UPS and telecom batteries. Management expects sharp uptick in telecom revenue with rapid increase in data usage, focus to improve rural coverage and launch of 5G, which can increase the power requirement for the towers. In addition, fall in import of industrial batteries is also positive for organized batteries players.
- Although production/supply-side constraints are a near term challenge, we expect improvement in capacity utilization, stable lead prices, firm pricing environment and favorable product mix would lead to revival in EBITDA margins starting from 2HFY21. Moreover, demand recovery in OEMs and Industrial segments shall also benefit bottom-line.
- At CMP, the stock trades at 17.5/16x FY22/23E EPS (vs 5-year historical mean of 25), we value the stock Rs.817 (18x FY23E EPS) and maintain our Accumulate rating.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	11,510	18,150	(36.6)	15,814	(27.2)
Total Expense	9,986	15,358	(35.0)	13,382	(25.4)
EBITDA	1,524	2,792	(45.4)	2,432	(37.3)
Depreciation	748	733	2.1	760	(1.5)
EBIT	776	2,059	(62.3)	1,672	(53.6)
Other Income	88	102	(14.1)	141	(37.7)
Interest	27	29	(7.3)	30	(11.6)
EBT	837	2,132	(60.8)	1,783	(53.1)
Tax	210	723	(71.0)	416	(49.6)
RPAT	627	1,409	(55.5)	1,367	(54.1)
APAT	627	1,409	(55.5)	1,367	(54.1)
			(bps)		(bps)
Gross Margin (%)	33.5	32.4	106	36.3	(283)
EBITDA Margin (%)	13.2	15.4	(214)	15.4	(213)
NPM (%)	5.4	7.8	(232)	8.6	(320)
Tax Rate (%)	25.1	33.9	(881)	23.4	174
EBIT Margin (%)	6.7	11.3	(460)	10.6	(383)

CMP	Rs 718
Target / Upside	Rs 817 / 14%
BSE Sensex	38,047
NSE Nifty	11,214

Scrip Details

Equity / FV	Rs 171mn / Rs 1
Market Cap	Rs 123bn
	US\$ 2bn
52-week High/Low	Rs 814/Rs 349
Avg. Volume (no)	13,68,300
NSE Symbol	AMARAJABAT
Bloomberg Code	AMRJ IN

Shareholding Pattern Jun'20(%)

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

Valuation (x)

	FY21E	FY22E	FY23E
P/E	22.2	17.5	15.8
EV/EBITDA	12.0	10.0	9.0
ROE (%)	14.3	16.2	15.8
RoACE (%)	14.0	15.9	15.6

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	60,537	74,042	80,689
EBITDA	9,989	11,921	12,991
PAT	5,522	7,026	7,752
EPS (Rs.)	32.3	41.1	45.3

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Replacement demand drives growth

Our channel checks indicate strong uptick in demand in the replacement battery segment after the lockdown was lifted. There is a reasonable traction in tractors, UPS, 2W, and 4W batteries. However, the company is facing multiple challenges on the production, distribution and supply chain front due to spread of Covid-19 and district level lockdowns disrupting raw material supplies and labor availability. Both companies (AMRJ and Exide) are making their best efforts to remove bottlenecks in the production/ supply chain in order to accelerate dispatches.

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 2-2.5mn to 12mn units and 2W capacity by 4mn units to 19mn units. Amara Raja is expected to complete their Greenfield capacity expansion of its third plant in FY21 adding capacity of 6mn batteries (First 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, further strengthening its existing clientele and expanding its distribution partnerships. Across the EV battery value chain, AMRJ is positioning itself as a credible battery management and pack assembly supplier.

Stable pricing and low inventory

Despite the sharp fall in lead prices, pricing remains firm as a result of demand-supply mismatch. In addition, post COVID-19, the unorganized players are likely to find it a challenge to source lead, a key raw material, as there is no inventory of used batteries in the market. This will have a positive impact on the organized companies. We expect a surge in demand as channel inventory is lower than the same period last year. We expect benign lead prices, firm pricing environment and favorable product mix would lead to revival in EBITDA margins starting from 2HFY21.

Exhibit 1: Actual vs DART Estimates

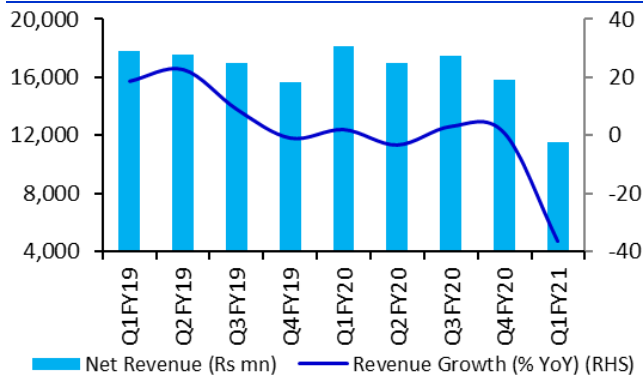
Particulars (Rs mn)	Actual	DART Est	Var (%)	Remarks
Sales	11,510	8,394	37	Better than anticipated revival in replacement demand and cost control measures.
EBIDTA	1,524	695	119	
EBIDTA Margin (%)	13.2	8.3	496bps	
APAT	627	4	NA	

Source: DART, Company

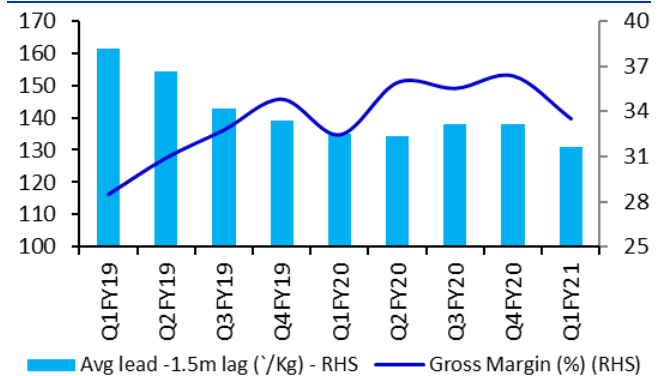
Exhibit 2: Change in Estimates

₹ Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	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
PAT	5,522	5,844	(5.5)	7,026	6,812	3.2
EPS (Rs.)	32.3	34.2	(5.5)	41.1	39.9	3.2

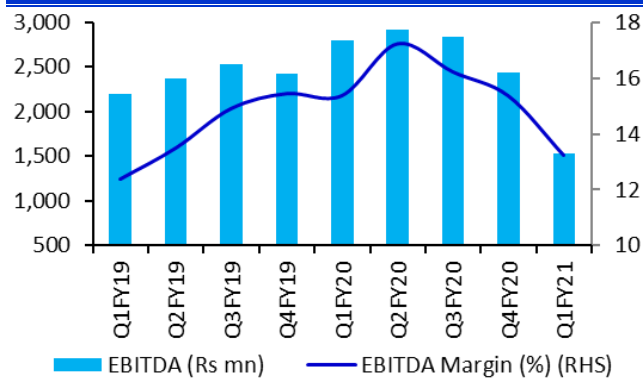
Source: DART, Company

Exhibit 3: Revenue declined YoY


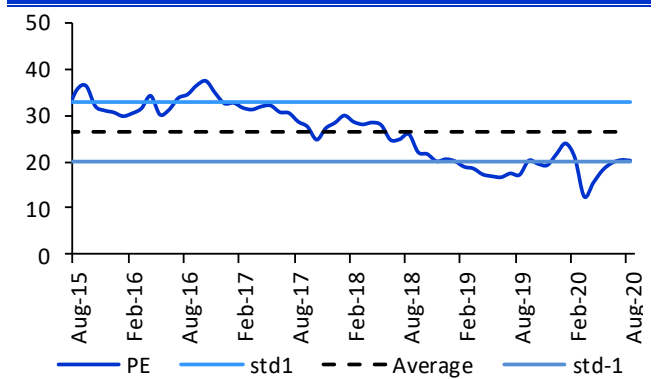
Source: Company, DART

Exhibit 4: Gross margins improved YoY


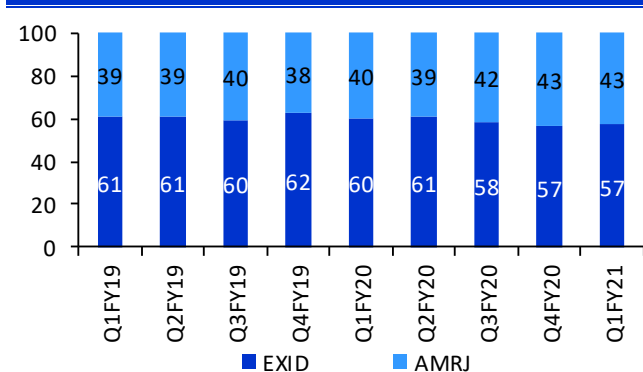
Source: Company, DART

Exhibit 5: EBITDA margin de-grew YoY/QoQ


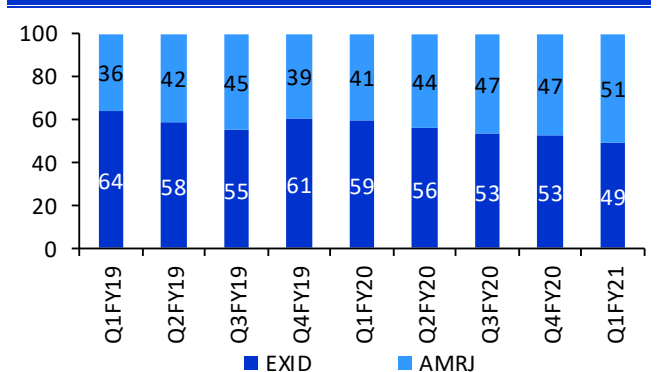
Source: Company, DART

Exhibit 6: P/E Band at near historical low


Source: Company, DART

Exhibit 7: AMRJ vs EXID Industry Revenue share* (%)


Source: Company, DART, *Industry revenue = AMRJ+ EXID Revenue

Exhibit 8: AMRJ vs EXID Industry EBITDA share* (%)


Source: Company, DART, *Industry EBITDA= AMRJ+ EXID EBITDA

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	3,116	3,097	3,222
EBIT	7,981	6,873	8,824	9,769
Interest	122	41	37	33
Other Income	551	580	644	670
Exc. / E.O. items	0	0	0	0
EBT	8,410	7,412	9,431	10,406
Tax	1,799	1,890	2,405	2,653
RPAT	6,611	5,522	7,026	7,752
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	6,611	5,522	7,026	7,752

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	40,582	45,922	51,814
Net Worth	36,556	40,753	46,093	51,985
Total Debt	560	510	460	410
Net Deferred Tax Liability	441	441	441	441
Total Capital Employed	37,557	41,704	46,994	52,836

Applications of Funds

Net Block	18,292	18,676	18,580	19,357
CWIP	8,270	8,270	8,270	8,270
Investments	1,562	2,718	2,990	3,289
Current Assets, Loans & Advances	21,882	22,379	28,726	33,515
Inventories	11,427	9,951	12,171	13,264
Receivables	6,363	5,805	8,114	9,285
Cash and Bank Balances	845	3,094	4,598	6,775
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
<i>sub total</i>				
Net Current Assets	9,433	12,040	17,155	21,920
Total Assets	37,558	41,704	46,994	52,836

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	11.4	11.9	12.1
Tax rate	21.4	25.5	25.5	25.5
Net Profit Margin	9.7	9.1	9.5	9.6
(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	168.4	239.7	297.8
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	3.2	4.0	4.2
(D) Measures of Investment				
AEPS (Rs)	38.6	32.3	41.1	45.3
CEPS (Rs)	56.2	50.5	59.2	64.1
DPS (Rs)	11.0	6.5	8.2	9.1
Dividend Payout (%)	28.4	20.0	20.0	20.0
BVPS (Rs)	213.7	238.2	269.4	303.9
RoANW (%)	18.9	14.3	16.2	15.8
RoACE (%)	18.6	14.0	15.9	15.6
RoAIC (%)	22.6	18.2	21.8	22.1
(E) Valuation Ratios				
CMP (Rs)	718	718	718	718
P/E	18.6	22.2	17.5	15.8
Mcap (Rs Mn)	1,22,861	1,22,861	1,22,861	1,22,861
MCap/ Sales	1.8	2.0	1.7	1.5
EV	1,22,576	1,20,277	1,18,723	1,16,496
EV/Sales	1.8	2.0	1.6	1.4
EV/EBITDA	11.2	12.0	10.0	9.0
P/BV	3.4	3.0	2.7	2.4
Dividend Yield (%)	1.5	0.9	1.1	1.3
(F) Growth Rate (%)				
Revenue	0.7	(11.5)	22.3	9.0
EBITDA	15.5	(9.1)	19.3	9.0
EBIT	15.6	(13.9)	28.4	10.7
PBT	15.2	(11.9)	27.2	10.3
APAT	36.8	(16.5)	27.2	10.3
EPS	36.8	(16.5)	27.2	10.3

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	11,769	8,072	6,169	8,019
CFI	(8,497)	(4,406)	(2,892)	(3,899)
CFF	(3,144)	(1,416)	(1,773)	(1,943)
FCFF	4,770	4,572	3,169	4,019
Opening Cash	718	845	3,094	4,598
Closing Cash	845	3,094	4,598	6,775

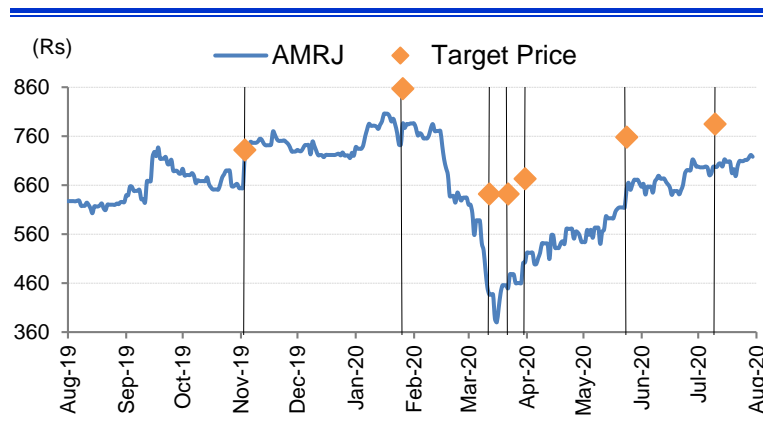
E – Estimates

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.)
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
Jul-20	Accumulate	785	698

*Price as on recommendation date

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