

## Positive surprise; strong B/S to navigate troubled waters

Exide Industries (EIL) reported a healthy operational performance in Q1FY21 with limited topline fall primarily tracking healthy aftermarket/ replacement demand in automobile, UPS segment amid muted OEM prints. Net sales for Q1 were at ₹ 1,548 crore, down 44% YoY. EBITDA for the quarter was at ₹ 148 crore (down 63.6% YoY, 45.1% QoQ) with corresponding EBITDA margins at 9.6%, down 356 bps QoQ. Gross margins declined 695 bps QoQ primarily due to higher use of finished goods inventory. Other expenses as percentage of sales came down by 471 bps and limited the margin damage. Consequent PAT in Q1FY21 came in at ₹ 44 crore, down 80.4% YoY.

### Replacement demand to help tide muted OEM prints...

Domestic automobile battery industry derives ~35-40% demand from the OEM channel pertaining to new vehicle sales and derives the rest i.e. ~60-65% demand from the replacement/aftermarket channel pertaining to existing vehicle population. New vehicle sales demand has been muted in the recent past tracking increasing penetration of shared mobility as well as increase in cost of ownership of vehicles. The same is expected to be subdued in FY21E tracking soft personal income prints amid muted economic activity on account of Covid-19. On the other hand, replacement market demand is largely steady and long lasting with present replacement cycle pegged at ~2-4 years depending upon the vehicle usage. This provides longevity and sustainability to business model for domestic automobile battery players. Amidst our assumption of ~15-20% volume decline for the OEM segment in FY21E and similar re-bounce in FY22E; and steady double digit growth in replacement market over FY21E-22E, we factor in single digit volume decline of EIL and double digit volume growth in FY22E. Overall topline, however, may decline in double digit in FY21E, tracking soft lead prices on YoY basis and its follow through at-least to OEM's. On CAGR basis, we bake in largely flat sales at EIL over FY20-22E.

### Debt free B/S with positive CFO, FCF's; high margin of safety

EIL has a healthy balance sheet that is debt free in nature and surplus cash of ~₹ 170 crore as of FY20P. It has a capital efficient business model with nearly ~15% RoCE, ~>20% RoIC's and controlled working capital cycle (<90 days). It has also been a consistent CFO and FCF positive company with present CFO & FCF yield presently placed at ~7% & ~4% respectively. These attributed place EIL in good stead making it aptly capable to tide over the somewhat overall muted demand scenario domestically.

### Valuation & Outlook

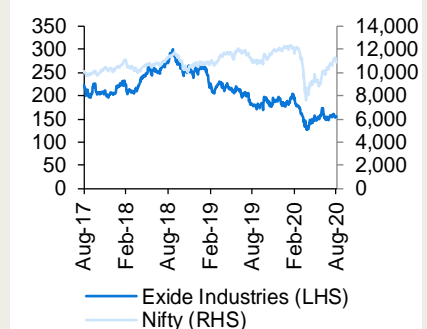
We are constructive on EIL given its exposure to steady replacement market demand, healthy B/S parameters as well as its industry leading work on new technologies in the battery space. Hence, we upgrade EIL to **BUY**, valuing it at **₹ 180 (SOTP basis)**, (battery business at ₹ 135 i.e. 15x P/E on FY22E EPS of ₹ 8.9; ₹ 45 for insurance business & smelting operations).



#### Particulars

Particular	Amount
Market Capitalization (₹ crore)	13,175.0
Total Debt (FY20P, ₹ C crore)	0.0
Cash & Inv. (FY20P, ₹ C crore)	173.5
EV (₹ C crore)	13,001.5
52 week H/L (₹)	209 / 122
Equity capital	₹ 85 C crore
Face value	₹ 1

#### Price Chart



#### Key Highlights

- Q1FY21 performance was ahead of estimates and steep OEM volumes decline for the quarter tracking healthy replacement demand in the auto as well as UPS segment
- High share of replacement market demand to limit the decline in FY21E while soft lead prices to support margins in near term
- Proactive steps on lithium ion front (pack assembly and cell production plans), entry into electric rickshaws; differentiate company from peers
- Upgrade from HOLD to BUY with revised SOTP based target of ₹ 180

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#### Key Financial Summary

Key Financials	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20P-FY22E)
Net Sales	9,210.2	10,588.3	9,856.7	8,320.1	9,933.6	0.4%
EBITDA	1,240.8	1,411.3	1,365.0	1,083.6	1,387.4	0.8%
EBITDA Margins (%)	13.5	13.3	13.8	13.0	14.0	
Net Profit	668.4	844.0	825.5	538.0	753.2	-4.5%
EPS (₹)	7.9	9.9	9.7	6.3	8.9	
P/E	19.7	15.6	16.0	24.5	17.5	
Core P/E	17.0	11.5	11.8	18.0	12.9	
RoNW (%)	12.9	12.9	13.4	8.2	10.7	
RoCE (%)	18.0	17.8	15.7	10.3	13.5	

Source: ICICI Direct Research, Company

**Exhibit 1: Variance Analysis**

	Q1FY21	Q1FY21E	Q1FY20	YoY (Chg %)	Q4FY20	QoQ (Chg %)	Comments
Total Operating Income	1,548	801	2,779	-44.3	2,055	-24.7	Topline came in much ahead of estimates tracking management commentary of robust replacement market sales both in the auto as well as UPS
Raw Material Expenses	1,064	469	1,792	-40.6	1,270	-16.2	
Employee Expenses	140	144	167	-16.3	158	-11.8	Employee costs came in on expected lines and was down double digit tracking cost cutting initiatives undertaken at the company
Other expenses	195	160	413	-52.7	356	-45.2	
EBITDA	149	28	408	-63.6	270	-45.0	
EBITDA Margin (%)	9.6	3.4	14.7	-507 bps	13.1	-355 bps	EBITDA margins in ahead of estimates tracking beat on sales number and consequent less impact on negative operating leverage
Other Income	7.0	18.1	16.4	-57.1	16.9	-58.2	
Depreciation	91.4	96.9	86.4	5.8	93.9	-2.6	Depreciation came in largely on expected lines
Interest	1.4	1.9	1.8	-21.8	3.7	-62.1	
Tax	18.8	-13.4	111.6	-83.2	21.5	-12.8	Tax rate for the quarter was marginally higher at
Reported PAT	44.0	-39.7	224.3	-80.4	168.0	-73.8	
EPS (₹)	0.5	-0.5	2.6	-80.4	2.0	-73.8	EPS came in positive at ₹ 0.5 /share vs. our estimates of loss at the PAT level

Source: Company, ICICI Direct Research

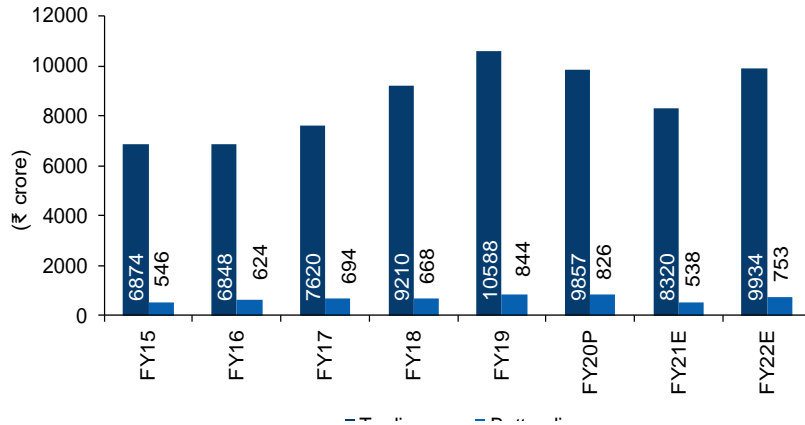
**Exhibit 2: Change in estimates**

	FY21E			FY22E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	8,399	8,320	-0.9	9,627	9,934	3.2	Marginally tweak our estimates factoring in replacement market outperformance over domestic OEM segment
EBITDA	1,256	1,084	-13.7	1,472	1,387	-5.7	
EBITDA Margin (%)	15.0	13.0	-193 bps	15.3	14.0	-132 bps	Lower margin estimates tracking gross margin deterioration in Q1FY21. Lower lead prices to support margins in near term
PAT	690	538	-22.0	820	753	-8.2	
EPS (₹)	8.1	6.3	-22.0	9.6	8.9	-8.2	Downward revision in margin estimates lead to decline in EPS estimates, going forward

Source: ICICI Direct Research

## Financial story in charts

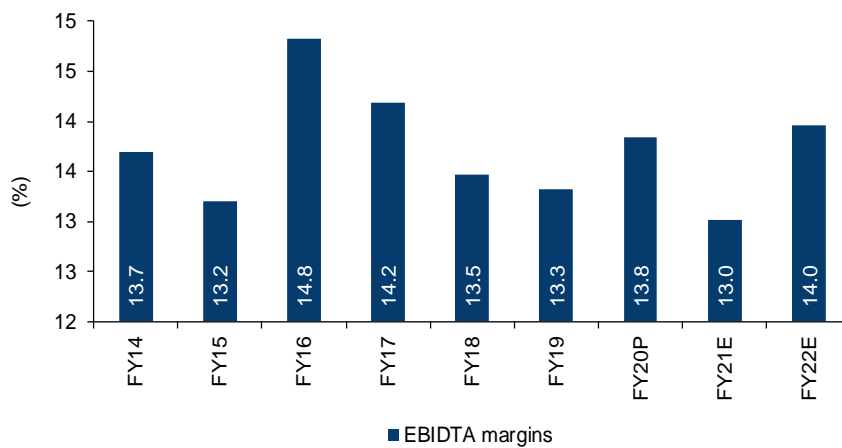
Exhibit 3: Topline and bottomline trend



We expect sales to be largely flat on CAGR basis over FY20P-22E while PAT is seen de-growing at a CAGR of 4.5% in the aforesaid period

Source: Company, ICICI Direct Research

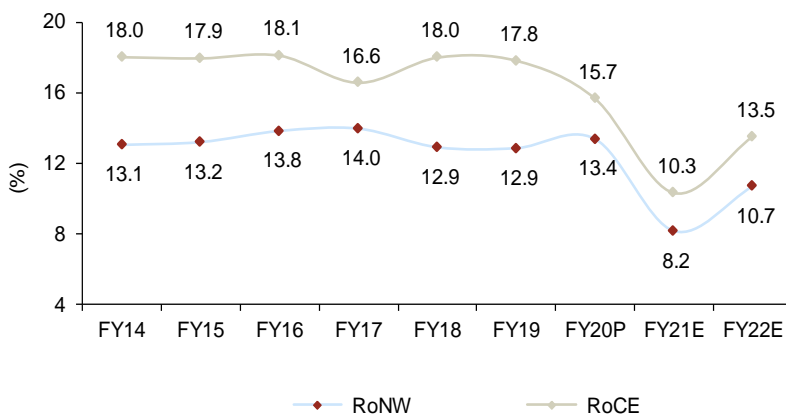
Exhibit 4: EBITDA margin trend



Muted lead prices to support margins in the near term, the benefits of which however shall be limited in FY21E tracking decline in volumes. FY22E EBITDA margins are seen at 14%

Source: Company, ICICI Direct Research

Exhibit 5: RoE, RoCE trend



Post blip in FY21E, RoE & RoCE profile is seen reverting back to its healthy double digit trajectory in FY22E

Source: Company, ICICI Direct Research

**Exhibit 6: Valuation Matrix (SOTP Valuation)**

SOTP Valuation	Estimated value	Value per share	Remark
<b>Standalone Business</b>			
2-year forward EPS (FY22E)	8.9		
P/E Multiple	15.0	~10% discount to competitor	
Value per share (₹)		<b>135</b>	
<b>Insurance business</b>			
Value of Exide Life Insurance (₹ crore)	3606	1.5x FY19 Embedded Value	
Value per share (₹)		<b>42</b>	
<b>Value of subsidiaries (₹ crore)</b>			
Value of smelting subsidiaries (₹)	288	3	2x P/B on investment (FY19)
<b>Total Value per Share (₹)</b>		<b>180</b>	

Source: ICICI Direct Research

**Exhibit 7: Valuation Summary**

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY19	10,588	15.0	9.1	10.6	11.5	9.1	12.9	17.8
FY20P	9,857	(6.9)	9.9	9.4	11.8	9.5	13.4	15.7
FY21E	8,320	(15.6)	6.3	(36.2)	18.0	11.8	8.2	10.3
FY22E	9,934	19.4	8.9	40.0	12.9	9.1	10.7	13.5

Source: Bloomberg, ICICI Direct Research

**Exhibit 8: Shareholding pattern**

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	46.0	46.0	46.0	46.0	46.0
FII	8.9	9.1	8.9	9.4	9.1
DII	24.7	24.2	24.4	23.5	22.9
Others	20.4	20.7	20.7	21.1	22.1

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 9: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Total operating Income</b>	<b>10588.3</b>	<b>9856.7</b>	<b>8320.1</b>	<b>9933.6</b>	
Growth (%)	15.0	-6.9	-15.6	19.4	
Raw Material Expenses	6970.2	6266.4	5373.4	6387.8	
Employee Expenses	637.7	666.4	586.9	659.8	
Other Expenses	1569.1	1558.9	1276.2	1498.6	
Total Operating Expenditure	9177.0	8491.7	7236.6	8546.2	
<b>EBITDA</b>	<b>1,411.3</b>	<b>1,365.0</b>	<b>1,083.6</b>	<b>1,387.4</b>	
Growth (%)	13.7	-3.3	-20.6	28.0	
Depreciation	313.5	362.6	395.2	422.2	
Interest	6.1	9.4	9.4	9.9	
Other Income	38.5	63.9	44.3	51.5	
<b>PBT</b>	<b>1,130.3</b>	<b>1,056.9</b>	<b>723.3</b>	<b>1,006.9</b>	
Exceptional Item	-108.3	21.7	0.0	0.0	
Total Tax	394.5	209.7	185.2	253.7	
<b>Reported PAT</b>	<b>844.0</b>	<b>825.5</b>	<b>538.0</b>	<b>753.2</b>	
Growth (%)	26.3	-2.2	-34.8	40.0	
<b>EPS (₹)</b>	<b>9.9</b>	<b>9.7</b>	<b>6.3</b>	<b>8.9</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Profit after Tax</b>	<b>770.3</b>	<b>825.5</b>	<b>538.0</b>	<b>753.2</b>	
Add: Depreciation	313.5	362.6	395.2	422.2	
(Inc)/dec in Current Assets	-200.4	2.2	534.9	-522.8	
Inc/(dec) in C L and Provisions	144.4	-213.8	-364.5	267.6	
<b>CF from operating activities</b>	<b>1,027.8</b>	<b>976.6</b>	<b>1,103.7</b>	<b>920.1</b>	
(Inc)/dec in Investments	-50.0	235.2	-250.0	0.0	
(Inc)/dec in Fixed Assets	-665.9	-448.3	-350.0	-400.0	
Others	-152.7	-166.0	-229.3	-150.4	
<b>CF from investing activities</b>	<b>(868.7)</b>	<b>(379.1)</b>	<b>(829.3)</b>	<b>(550.4)</b>	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	
Dividend paid & dividend tax	-244.8	-418.2	-255.0	-297.5	
Others	72.1	-98.2	0.0	0.0	
<b>CF from financing activities</b>	<b>(172.7)</b>	<b>(516.4)</b>	<b>(255.0)</b>	<b>(297.5)</b>	
Net Cash flow	-13.5	81.1	19.4	72.2	
Opening Cash	87.3	73.7	154.8	174.2	
<b>Closing Cash</b>	<b>73.8</b>	<b>154.8</b>	<b>174.2</b>	<b>246.4</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Liabilities</b>					
Equity Capital	85.0	85.0	85.0	85.0	
Reserve and Surplus	5,902.0	6,211.1	6,494.1	6,949.8	
<b>Total Shareholders funds</b>	<b>5,987.0</b>	<b>6,296.1</b>	<b>6,579.1</b>	<b>7,034.8</b>	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	175.1	101.9	86.0	102.7	
Other non-current liabilities	52.2	99.9	69.2	80.4	
<b>Total Liabilities</b>	<b>6,214.3</b>	<b>6,497.8</b>	<b>6,734.3</b>	<b>7,217.9</b>	
<b>Assets</b>					
Gross Block	3,168.8	3,575.2	4,022.1	4,422.1	
Less: Acc Depreciation	902.9	1,265.5	1,660.7	2,082.9	
<b>Net Block</b>	<b>2,266.0</b>	<b>2,309.7</b>	<b>2,361.4</b>	<b>2,339.2</b>	
Capital WIP	254.9	296.9	200.0	200.0	
Total Fixed Assets	2,520.9	2,606.6	2,561.4	2,539.2	
Investments	2,230.7	2,107.3	2,562.3	2,717.3	
Inventory	1,804.0	2,192.3	1,709.6	2,041.2	
Debtors	1,081.0	815.3	797.8	952.5	
Loans and Advances	47.2	39.6	33.5	39.9	
<b>Cash</b>	<b>73.7</b>	<b>154.8</b>	<b>174.2</b>	<b>246.4</b>	
Total Current Assets	3,306.9	3,385.7	2,870.2	3,465.1	
Creditors	1,142.8	1,030.3	797.8	952.5	
Provisions	268.5	296.4	229.5	274.0	
Total Current Liabilities	1,958.1	1,744.3	1,379.8	1,647.4	
<b>Net Current Assets</b>	<b>1,348.8</b>	<b>1,641.4</b>	<b>1,490.4</b>	<b>1,817.8</b>	
Other non-current assets	114.2	142.7	120.5	143.8	
<b>Total Assets</b>	<b>6,214.3</b>	<b>6,497.8</b>	<b>6,734.3</b>	<b>7,217.9</b>	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Per share data (₹)</b>					
EPS	9.9	9.7	6.3	8.9	
Cash EPS	13.6	14.0	11.0	13.8	
BV	70.4	74.1	77.4	82.8	
DPS	2.4	4.1	3.0	3.5	
Cash Per Share	0.9	1.8	2.0	2.9	
<b>Operating Ratios (%)</b>					
EBITDA Margin	13.3	13.8	13.0	14.0	
PBT / Net sales	10.4	10.2	8.3	9.7	
PAT Margin	7.3	8.6	6.5	7.6	
Inventory days	62.2	81.2	75.0	75.0	
Debtor days	37.3	30.2	35.0	35.0	
Creditor days	39.4	38.2	35.0	35.0	
<b>Return Ratios (%)</b>					
RoE	12.9	13.4	8.2	10.7	
RoCE	17.8	15.7	10.3	13.5	
RoIC	30.7	26.2	18.5	24.4	
<b>Valuation Ratios (x)</b>					
Core P/E	11.5	11.8	18.0	12.9	
EV / EBITDA	9.1	9.5	11.8	9.1	
EV / Net Sales	1.2	1.3	1.5	1.3	
Market Cap / Sales	1.2	1.3	1.6	1.3	
Price to Book Value	2.2	2.1	2.0	1.9	
<b>Solvency Ratios</b>					
Debt: Equity	-	-	-	-	
Quick Ratio	0.7	0.6	0.7	0.7	

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Auto & auto ancillary)

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Apollo Tyre (APOTYR)	115	100	Hold	6,579	8.3	2.4	7.6	13.8	48.4	15.1	6.5	6.1	4.8	4.8	3.5	6.1	4.8	1.2	4.3
Ashok Leyland (ASHLEY)	49	58	Hold	14,343	0.8	0.1	2.1	60.1	733.0	23.8	13.9	19.9	10.0	5.6	2.2	8.6	4.7	0.3	8.0
Bajaj Auto (BAAUTO)	2,970	3,210	Hold	85,943	176.2	136.9	173.5	16.9	21.7	17.1	13.5	16.3	12.0	23.8	23.3	26.6	25.6	17.9	20.2
Bharat Forge (BHAFOR)	382	300	Hold	17,785	7.5	0.0	10.0	50.9	NM	38.2	18.3	34.0	16.9	7.7	2.2	8.2	7.8	0.0	8.6
Eicher Motors (EICMOT)	21,000	18,070	Hold	57,246	670.4	495.4	690.9	31.3	42.4	30.4	24.4	30.7	21.7	22.5	15.9	19.1	18.3	12.2	14.9
Escorts (ESCORT)	1,120	1,300	Buy	13,729	39.6	46.1	54.5	28.3	24.3	20.5	18.9	16.0	13.4	18.9	15.0	15.2	14.2	11.2	11.8
<b>Exide Industries (EXIIND)</b>	<b>155</b>	<b>180</b>	<b>Buy</b>	<b>13,175</b>	<b>9.7</b>	<b>6.3</b>	<b>8.9</b>	<b>11.8</b>	<b>18.0</b>	<b>12.9</b>	<b>9.5</b>	<b>11.8</b>	<b>9.1</b>	<b>15.7</b>	<b>10.3</b>	<b>13.5</b>	<b>13.4</b>	<b>8.2</b>	<b>10.7</b>
Hero Moto (HERHON)	2,677	2,500	Hold	53,460	181.9	109.8	147.6	14.7	24.4	18.1	12.0	15.9	11.5	26.5	18.7	23.2	22.7	14.5	17.9
M&M (MAHMAH)	605	600	Buy	75,214	10.7	28.4	39.7	56.5	21.3	15.2	12.4	13.2	9.7	13.0	11.1	14.2	6.4	9.5	12.0
Maruti Suzuki (MARUTI)	6,260	5,300	Reduce	1,89,102	187.1	124.9	203.4	33.5	50.1	30.8	21.1	28.9	17.7	7.4	3.5	8.2	11.7	7.4	11.1
Minda Industries (MININD)	288	320	Buy	7,551	5.9	2.8	9.6	48.8	102.0	29.9	13.6	15.3	10.4	10.6	6.6	12.7	10.3	5.1	13.6
Tata Motors (TATMOT)	112	115	Hold	40,936	-32.8	-24.6	7.4	NM	NM	15.1	4.7	4.9	3.3	1.4	1.1	6.8	-18.7	-16.5	4.8

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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