

27 October 2020

## Amara Raja Batteries

*Strong growth in OEMs, inverters; maintaining a Buy*

Amara Raja's market-share gains in two-wheelers and new business opportunities in telecom would go a long way in building a strong position in its business. We continue to expect market-share gains in the ensuing quarters in 2W batteries. We maintain a Buy at a target of Rs942.

**Strong growth in OEM, replacement, inverters.** The company registered 35% y/y growth in inverters and 40% in 2W batteries, driven by 110% growth in OEMs and 15% in the replacement market. 4W batteries registered 4% growth on 11% growth in the replacement business. We believe that the capacity constraints of others in the market is benefitting Amara and we expect further market-share gains as punch-grid technology gains acceptance.

Accordingly, we expect both OEM and the replacement business to gain market shares. Also, the company's entry into tower-monitoring systems (currently addressing 550 towers) augurs well for a new revenue stream for its industrial business.

**Profitability to hold at ~16%.** While the margin for the current quarter was healthy at 17.6%, we believe headwinds such as lower inverter sales, higher OEM proportion, higher lead cost and increase in other expenses would lead to lower margins in H2 FY21. Accordingly we expect 15.7% for FY21 and a 100bp expansion in FY22 due to volume growth and product mix.

**Q2 FY21 result takeaways.** 1) Provisions towards salary increase and other benefits of Rs100m. 2) Dues from BSNL received in the quarter of Rs120m-130m. 3) Capacity utilisation at above 90%.

**Valuations.** We expect revenue to grow 16% in FY22 and the margin to expand to 16.7%. Accordingly, we expect strong, Rs7.3bn, earnings, leading to an EPS of Rs42.8. We maintain a Buy, with a target of Rs942 (22x FY22e EPS). **Risks:** Lower growth in the replacement market in FY22.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (Rsm)	60,592	67,931	68,395	66,753	77,638
Net profit (Rsm)	4,713	4,835	6,608	5,696	7,315
EPS (RS)	27.6	28.3	38.7	33.3	42.8
PE (x)	28.9	25.4	20.3	23.6	18.4
EV / EBITDA (x)	15.3	12.9	12.0	12.5	9.7
PBV (x)	4.6	3.7	3.7	3.3	2.9
RoE (%)	17.0	15.4	18.9	14.8	16.8
RoCE (%)	22.4	21.0	22.1	18.2	20.9
Dividend yield (%)	0.87	0.58	2.26	1.12	1.12
Net debt/equity (x)	-0.0	-0.0	-0.1	-0.1	-0.2

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: Rs942

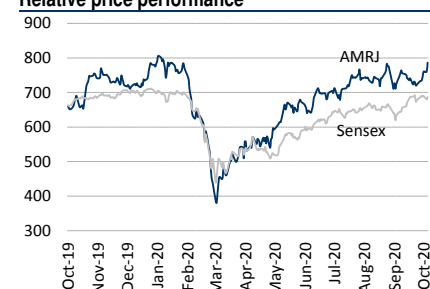
Share Price: Rs787

Key data	AMRJ IN / AMAR.BO
52-week high / low	Rs814 / 349
Sensex / Nifty	40522 / 11889
3-m average volume	\$9.6m
Market cap	Rs134bn / \$1823.1m
Shares outstanding	171m

Shareholding pattern (%)	Sep'20	Jun'20	Mar'20
Promoters	28.1	28.1	28.1
- of which, Pledged	-	-	-
Free float	71.9	71.9	71.9
- Foreign institutions	18.6	19.0	20.9
- Domestic institutions	14.2	13.7	11.1
- Public	39.1	39.2	39.9

Estimates revision (%)	FY21	FY22
Revenue	17.0	7.3
EBITDA	17.0	7.3
PAT	24.5	10.1

### Relative price performance



Source: Bloomberg

Vijay Sarthy TS  
Research Analyst

## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Net revenues	60,592	67,931	68,395	66,753	77,638
Growth (%)	14.0	12.1	0.7	-2.4	16.3
Direct costs	41,163	46,441	44,471	42,722	49,921
SG&A	10,597	11,973	12,938	13,551	14,751
<b>EBITDA</b>	<b>8,832</b>	<b>9,518</b>	<b>10,986</b>	<b>10,480</b>	<b>12,966</b>
EBITDA margins (%)	14.6	14.0	16.1	15.7	16.7
- Depreciation	2,303	2,612	3,007	3,326	3,742
Other income	664	468	551	571	665
Interest expenses	51	70	122	130	135
Extraordinary items	-	-	-	-	-
PBT	7,142	7,304	8,407	7,595	9,754
Effective tax rate (%)	34%	34%	21%	25%	25%
+ Associates / (Minorities)					
Net Income	4,713	4,835	6,608	5,696	7,315
Adjusted income	4,713	4,835	6,608	5,696	7,315
WANS	171	171	171	171	171
FDEPS (Rs/ sh)	27.6	28.3	38.7	33.3	42.8

Substantial part of interest cost is unwinding of discounts on warranty provision

**Fig 3 – Cash-flow statement (Rs m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	7,142	7,304	8,407	7,595	9,754
+ Non-cash items	2,303	2,612	3,007	3,326	3,742
Oper. prof. before WC	9,445	9,916	11,414	10,921	13,496
- Incr./decr. in WC	3,140	2,507	-2,490	2,675	1,730
Others incl. taxes	2,366	2,388	2,316	1,899	2,438
Operating cash-flow	3,940	5,021	11,588	6,347	9,328
- Capex (tang. +intang.)	4,276	4,591	6,510	3,000	2,500
Free cash-flow	-336	430	5,078	3,347	6,828
Acquisitions					
- Div.(incl. buyback& taxes)	1,285	855	3,311	1,645	1,645
+ Equity raised	-	-	-	-	-
+ Debt raised	-106	-116	-125	-	-
- Fin investments	-1,115	-147	1,420	2,500	3,100
- Misc. (CFI + CFF)	-15	1	94	-0	-0
Net cash-flow	-596	-395	128	-798	2,083

Source: Company, AnandRathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (Rs m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	171	171	171	171	171
Networth	29,374	33,353	36,556	40,608	46,278
Debt	584	468	343	343	343
Minority interest					
DTL/(Assets)	878	959	441	441	441
<b>Capital employed</b>	<b>30,836</b>	<b>34,780</b>	<b>37,341</b>	<b>41,392</b>	<b>47,063</b>
Net tangible assets	17,033	18,091	16,476	22,137	20,895
Net intangible assets		846	976	976	976
Goodwill					
CWIP (tang. &intang.)	2,264	2,339	7,326	1,339	1,339
Investments (strategic)					
Investments (financial)	351	205	1,625	4,125	7,225
Current assets (ex cash)	20,925	22,762	22,758	24,903	27,579
Cash	1,113	718	845	47	2,131
Current liabilities	10,849	10,179	12,665	12,134	13,081
Working capital	10,076	12,583	10,093	12,769	14,498
<b>Capital deployed</b>	<b>30,836</b>	<b>34,780</b>	<b>37,341</b>	<b>41,392</b>	<b>47,063</b>

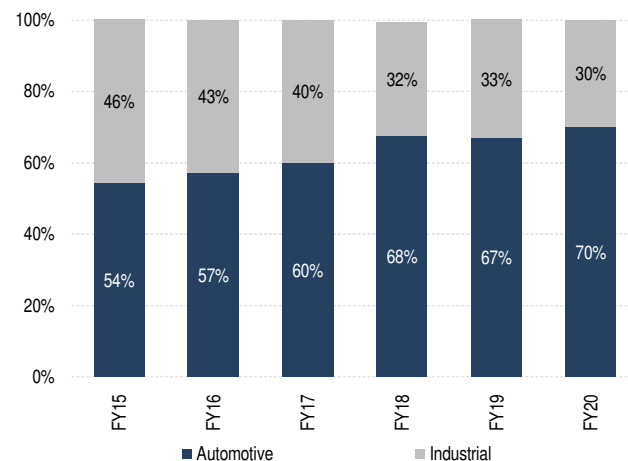
Entire debt is interest-free sales-tax deferment loans

**Fig 4 – Ratio analysis**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	28.9	25.4	20.3	23.6	18.4
EV / EBITDA (x)	15.3	12.9	12.0	12.5	9.7
EV / Sales (x)	2.2	1.8	1.9	2.0	1.6
P/B (x)	4.6	3.7	3.7	3.3	2.9
RoE (%)	17.0	15.4	18.9	14.8	16.8
RoCE (%) - after tax	22.4	21.0	22.1	18.2	20.9
RoIC (%) - after tax	16.0	14.8	18.1	13.9	16.2
DPS (₹ / sh)	7.5	5.0	19.4	9.6	9.6
Dividend yield (%)	0.9	0.6	2.3	1.1	1.1
Dividend payout (%) - incl. DDT	27.3	17.7	50.1	28.9	22.5
Net debt / equity (x)	-0.0	-0.0	-0.1	-0.1	-0.2
Receivables (days)	47	41	34	45	42
Inventory (days)	93	83	94	100	100
Payables (days)	53	40	50	48	48
CFO : PAT %	83.6	103.8	175.4	111.4	127.5

Source: Company, AnandRathi Research

**Fig 6 –Revenue mix (%)**



Source: Company

## Result highlights

**Fig 7 – Quarterly performance**

(Rsm)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
<b>Net Sales</b>	<b>14,275</b>	<b>15,535</b>	<b>15,807</b>	<b>17,787</b>	<b>17,531</b>	<b>16,947</b>	<b>15,667</b>	<b>18,150</b>	<b>16,953</b>	<b>17,478</b>	<b>15,814</b>	<b>11,510</b>	<b>19,358</b>
Other operating income	-	-	-	-	-	-	-	-	-	-	-	-	-
Income	14,275	15,535	15,807	17,787	17,531	16,947	15,667	18,150	16,953	17,478	15,814	11,510	19,358
Y/Y%	7	17	18	19	23	9	(1)	2	(3)	3	1	(0)	0
Q/Q%	(5)	9	2	13	(1)	(3)	(8)	16	(7)	3	(10)	(0)	(1)
Raw materials consumed	8,642	10,867	10,434	11,812	12,163	11,894	10,162	10,035	11,033	11,113	10,010	6,291	11,198
Purchased for trade	437	402	483	766	374	191	371	584	397	339	440	546	1,133
(Increase) / Decrease in stocks	341	(879)	(50)	141	(426)	(690)	(316)	1,644	(563)	(178)	(381)	818	315
Total RM cost	9,420	10,390	10,866	12,719	12,111	11,395	10,217	12,262	10,867	11,273	10,069	7,655	12,645
Y/Y%	11	20	19	21	29	10	(6)	(4)	(10)	(1)	(1)	(0)	0
Q/Q%	(10)	10	5	17	(5)	(6)	(10)	20	(11)	4	(11)	(0)	(1)
% to Sales	66	67	69	72	69	67	65	68	64	64	64	1	1
Gross margins %	34	33	31	28	31	33	35	32	36	36	36	0	0
Employee cost	742	758	783	843	928	866	815	985	986	944	937	840	1,170
% to Sales	5	5	5	5	5	5	5	5	6	5	6	0	0
Depreciation and Amortization	583	587	588	630	643	657	683	733	750	765	760	748	782
Other expenses	1,732	1,972	2,051	2,023	2,125	2,158	2,214	2,110	2,178	2,421	2,377	1,492	2,139
% to Sales	12	13	13	11	12	13	14	12	13	14	15	0	0
<b>Total Expenditure</b>	<b>12,478</b>	<b>13,706</b>	<b>14,288</b>	<b>16,214</b>	<b>15,807</b>	<b>15,076</b>	<b>13,930</b>	<b>16,091</b>	<b>14,781</b>	<b>15,403</b>	<b>14,142</b>	<b>10,735</b>	<b>16,737</b>
Reported EBITDA	2,381	2,416	2,107	2,203	2,366	2,528	2,421	2,792	2,923	2,840	2,432	1,524	3,404
Reported EBITDA margin %	17	16	13	12	13	15	15	15	17	16	15	0	0
EBIT	1,798	1,828	1,519	1,573	1,724	1,871	1,738	2,059	2,173	2,075	1,672	776	2,622
Other income	122	168	237	137	142	125	63	102	180	128	141	88	113
Interest expense	13	11	13	15	18	18	19	29	34	29	30	27	25
PBT	1,907	1,985	1,743	1,695	1,848	1,978	1,783	2,132	2,318	2,174	1,783	837	2,710
PBT Margin	13	13	11	10	11	12	11	12	14	12	11	0	0
Tax expenses	635	640	645	565	646	669	589	723	130	530	416	210	695
Current	615	627	653	550	613	662	563	691	555	583	487	218	722
Deferred	20	14	(9)	15	33	7	26	32	(425)	(54)	(71)	(8)	(27)
Tax for earlier years	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax rate (%)	33	32	37	33	35	34	33	34	6	24	23	25	26
<b>Reported PAT</b>	<b>1,272</b>	<b>1,345</b>	<b>1,098</b>	<b>1,130</b>	<b>1,202</b>	<b>1,309</b>	<b>1,193</b>	<b>1,409</b>	<b>2,189</b>	<b>1,644</b>	<b>1,367</b>	<b>627</b>	<b>2,015</b>
Reported PAT margins %	9	9	7	6	7	8	8	8	13	9	9	0	0
Y/Y Growth	(7)	20	11	13	(6)	(3)	9	25	82	26	0	(1)	(0)
<b>Adjusted EPS (Rs)</b>	<b>7</b>	<b>8</b>	<b>6</b>	<b>7</b>	<b>7</b>	<b>8</b>	<b>7</b>	<b>8</b>	<b>13</b>	<b>10</b>	<b>8</b>	<b>4</b>	<b>12</b>

Source: Company

## Valuations

We expect revenue to grow 16% in FY22 and the margin to expand to 16.7%. Accordingly, we expect strong, Rs7.3bn, earnings, leading to an EPS of Rs42.8. We maintain a Buy, with a target price of Rs942 (22x FY22e EPS).

**Fig 8 – Change in estimates**

(Rs m)	Old estimates		New estimates		Change (%)	
	FY21	FY22	FY21	FY22	FY21	FY22
Revenue	57,041	72,379	66,753	77,638	17.0%	7.3%
EBITDA	8,955	12,087	10,480	12,966	17.0%	7.3%
Adj. PAT	4,574	6,646	5,696	7,315	24.5%	10.1%
EPS (Rs)	26.8	38.9	33.3	42.8	24.5%	10.1%

Source: Anand Rathi Research

**Fig 9 – One-year-forward Standard deviation band**



Source: Bloomberg

## Risk

- Lower growth in the replacement market in FY22.

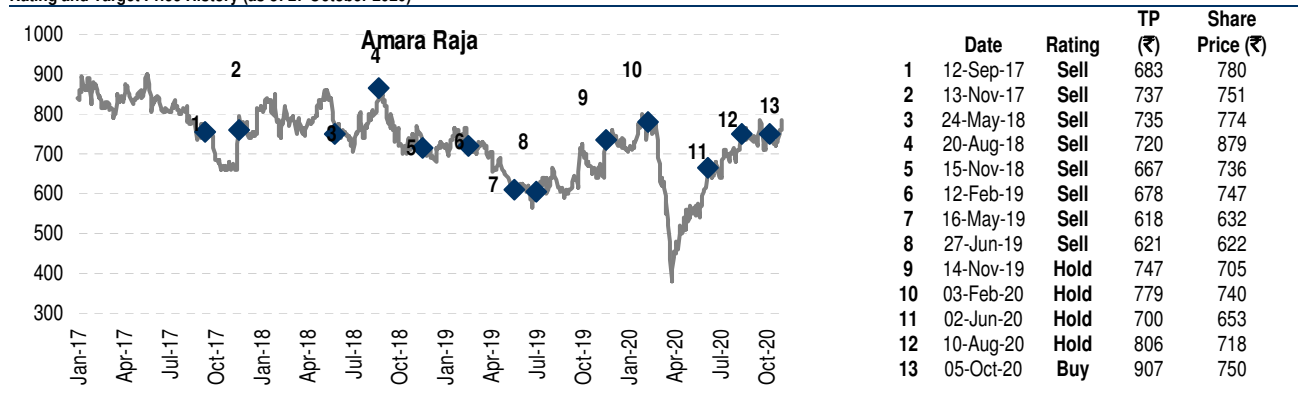
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