

EV risk (Li-ion battery) to limit valuation multiples...

Amara Raja Batteries (ARBL) reported healthy Q2FY21 results. Net sales rose 14.2% YoY to ₹ 1,936 crore. As per management commentary, growth was attributable to all-round traction across business segments in automotive (OEM, replacement, exports) and industrial operations (telecom, commercial UPS). EBITDA in Q2FY21 was at ₹ 340 crore with corresponding margins at 17.6% (up 40 bps YoY) largely tracking lower other expenses. PAT declined 8% YoY to ₹ 201 crore, suffering from exceptionally low tax rate in base quarter. PBT for the quarter was up 17% YoY at ₹ 271 crore.

Replacement demand provides visibility till FY22E

For ARBL, the automotive segment contributes ~70% of revenues with industrial batteries forming the balance ~30%. Aftermarket, replacement channel, constitutes ~65% of automotive segment and has been the driver of overall revenue performance over the past few quarters amid ongoing slowness in the OEM channel (Indian OEM space witnessed slowing growth for ~two years, with peak volumes of FY19 unlikely to be achieved before FY23E at the earliest). However, healthy OEM offtake in FY16-19 (CAGR of 8.7%) should result in continued traction on the aftermarket side given the usual replacement cycle of ~three years. This provides an element of revenue visibility till FY22E, post which replacement demand is slated to soften given the steep drop off in FY20 OEM volumes. Post lifting of Covid restrictions, OEM channel is witnessing a gradual ramp up with sequential improvement across industry segments – which would lend further topline support in the short to medium term. On-boarding to two major 2-W OEMs during FY20 would help ARBL consolidate market share. On the industrial side, the company continues to focus on telecom demand (market share ~65%), given its relatively stronger growth prospects despite the ongoing economic slowdown due to higher data usage & improving rural coverage.

Margin profile to remain stable

Healthy replacement offtake is seen leading to a favourable channel mix (as aftermarket margins are higher on account of it being a B2C business with better pricing power), thereby leading to margin trajectory at ARBL remaining broadly stable near the ~16% mark over FY22E-23E. We expect full year FY21E margins at ~15%, notwithstanding superior Q2FY21 margin performance, as incrementally higher OEM demand in H2FY21E is seen leading to normalised mix in that time frame.

Valuation & Outlook

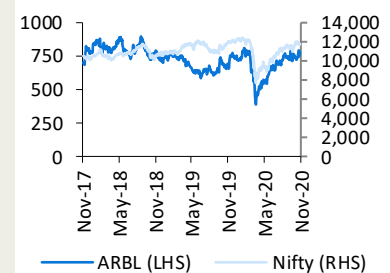
We introduce FY23E estimates and expect sales, PAT CAGR at 5.9%, 3.4%, respectively, over FY20-23E. We value ARBL at ₹ 715 i.e. 17x P/E on FY22E & FY23E average EPS of ₹ 42; ~15% discount to its long period averages amid ABRL's product category susceptible to EV risk. We downgrade the stock from HOLD to **REDUCE**. Capital efficient business model in terms of RoCE at ~18-20% and positive consistent CFO provide some comfort.



Particulars

Particular	₹ crore
Market Capitalization	13,579.4
Total Debt (FY20)	46.8
Cash & Investments (FY20)	226.3
EV (FY20)	13,399.9
52 week H/L (₹)	814 / 350
Equity capital	17.1
Face value (₹)	₹ 1

Price Chart



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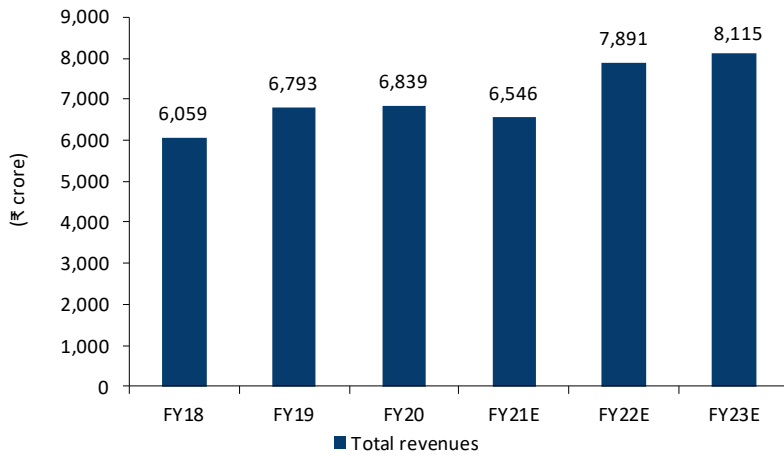
Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	6,793.1	6,839.5	6,546.1	7,891.4	8,115.5	5.9%
EBITDA	951.8	1,098.6	977.9	1,248.3	1,302.3	5.8%
EBITDA Margins (%)	14.0	16.1	14.9	15.8	16.0	
Net Profit	483.5	660.8	524.8	710.6	731.0	3.4%
EPS (₹)	28.3	38.7	30.7	41.6	42.8	
P/E	28.1	20.5	25.9	19.1	18.6	
RoNW (%)	14.5	18.1	13.1	15.9	14.7	
RoCE (%)	19.8	21.3	16.2	19.6	18.2	

Source: ICICI Direct Research, Company

Financial story in charts

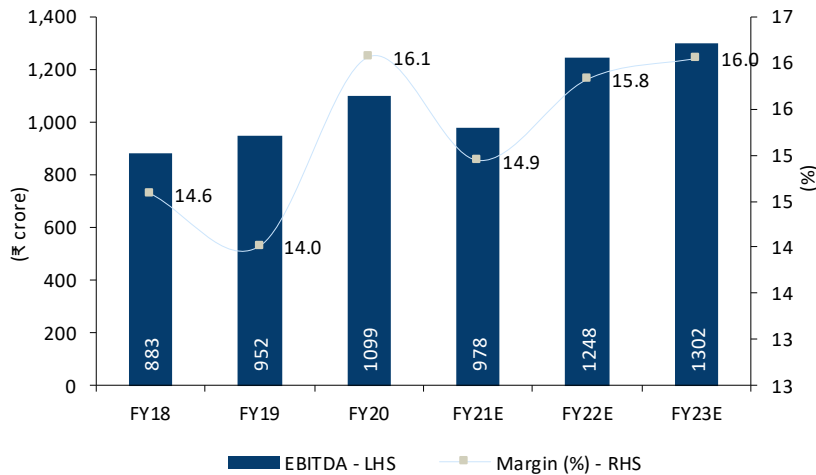
Exhibit 1: Topline trend



We expect sales to grow at a CAGR of 5.9% over FY20-23E

Source: Company, ICICI Direct Research

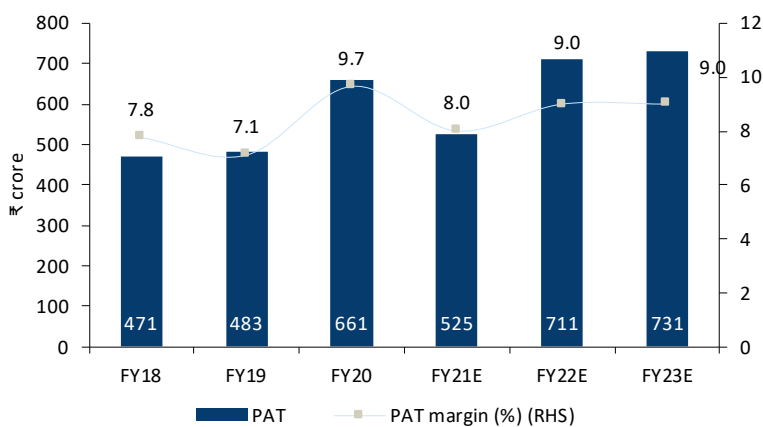
Exhibit 2: EBITDA & EBITDA margin trend



Margins are seen remaining stable around the ~16% mark in FY22E & FY23E

Source: Company, ICICI Direct Research

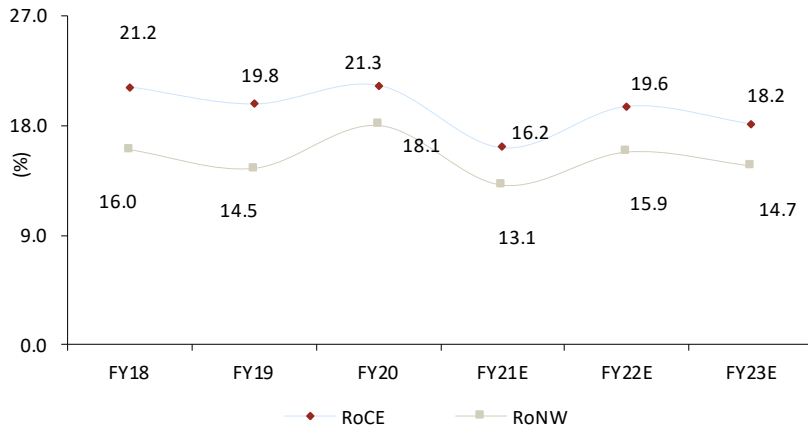
Exhibit 3: Profitability trend



PAT is expected to grow to ₹ 731 crore by FY23E at a CAGR of 3.4% from FY20

Source: Company, ICICI Direct Research

Exhibit 4: Return ratios



Return ratios expected to be in high teens in coming years

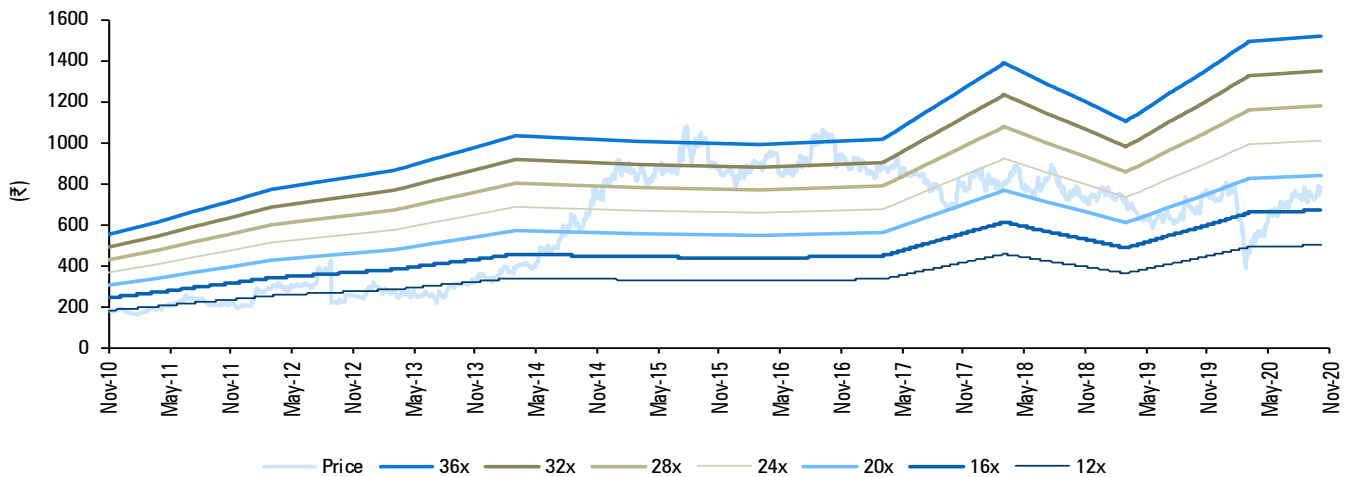
Source: Company, ICICI Direct Research

Exhibit 5: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	6793.1	12.1	28.3	2.6	28.1	14.3	14.5	19.8
FY20	6839.5	0.7	38.7	36.7	20.5	12.2	18.1	21.3
FY21E	6546.1	-4.3	30.7	-20.6	25.9	13.4	13.1	16.2
FY22E	7891.4	20.6	41.6	35.4	19.1	10.4	15.9	19.6
FY23E	8115.5	2.8	42.8	2.9	18.6	9.7	14.7	18.2

Source: Bloomberg, ICICI Direct Research

Exhibit 6: Amara Raja currently trades at ~18.5x its FY23E EPS of ₹ 42.8/share



Source: Bloomberg, ICICI Direct Research

Exhibit 7: Shareholding pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	28.1	28.1	28.1	28.1	28.1
FII	20.1	21.2	20.9	19.0	18.6
DII	11.6	10.6	11.1	13.3	14.2
Others	40.2	40.1	39.9	39.7	39.1

Source: Bloomberg, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Total operating Income	6,839	6,546	7,891	8,115	
Growth (%)	0.7	-4.3	20.6	2.8	
Raw Material Expenses	4,447.1	4,329.6	5,088.5	5,217.6	
Employee Expenses	385.2	408.5	449.8	475.7	
Other Expenses	908.6	830.1	1,104.8	1,119.9	
Total Operating Expenditure	5,740.9	5,568.2	6,643.1	6,813.2	
EBITDA	1,098.6	977.9	1,248.3	1,302.3	
Growth (%)	15.4	-11.0	27.7	4.3	
Depreciation	300.7	314.2	355.1	385.5	
Interest	12.2	8.4	6.4	4.4	
Other Income	55.0	47.8	63.1	64.9	
PBT	840.7	703.1	949.9	977.3	
Total Tax	179.9	178.3	239.4	246.3	
PAT	660.8	524.8	710.6	731.0	
Growth (%)	36.7	-20.6	35.4	2.9	
EPS (₹)	38.7	30.7	41.6	42.8	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	660.8	524.8	710.6	731.0	
Add: Depreciation	300.7	314.2	355.1	385.5	
(Inc)/dec in Current Assets	135.9	-5.1	-411.3	-68.5	
Inc/(dec) in CL and Provisions	198.6	-1.2	98.1	33.7	
CF from operating activities	1,296.2	832.6	752.5	1,081.7	
(Inc)/dec in Investments	-135.7	-225.0	-100.0	-400.0	
(Inc)/dec in Fixed Assets	-830.0	-400.0	-400.0	-400.0	
Others	40.3	-1.9	8.7	1.4	
CF from investing activities	(931.7)	(626.9)	(491.3)	(798.6)	
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	-226.2	-170.8	-239.1	-239.1	
CF from financing activities	(352.2)	(180.8)	(249.1)	(249.1)	
Net Cash flow	12.3	24.9	12.0	34.0	
Opening Cash	71.7	84.0	109.0	121.0	
Closing Cash	84.0	109.0	121.0	155.0	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Liabilities					
Equity Capital	17.1	17.1	17.1	17.1	
Reserve and Surplus	3,638.5	3,992.5	4,463.9	4,955.8	
Total Shareholders funds	3,655.6	4,009.6	4,481.0	4,972.9	
Total Debt	46.8	36.8	26.8	16.8	
Deferred Tax Liability	44.1	42.2	50.9	52.4	
Total Liabilities	3,911.1	4,253.2	4,723.3	5,206.6	
Assets					
Gross Block	2,938.9	3,865.9	4,365.9	4,765.9	
Less: Acc Depreciation	1,112.8	1,427.0	1,782.1	2,167.6	
Net Block	1,826.1	2,438.9	2,583.8	2,598.3	
Capital WIP	827.0	300.0	200.0	200.0	
Total Fixed Assets	2,656.2	2,742.0	2,786.9	2,801.4	
Investments	156.2	381.2	481.2	881.2	
Inventory	1,142.7	1,076.1	1,297.2	1,334.1	
Debtors	636.3	717.4	864.8	889.4	
Loans and Advances	11.5	11.0	13.3	13.6	
Other Current Assets	205.6	196.8	237.2	244.0	
Cash	84.0	109.0	121.0	155.0	
Total Current Assets	2,080.1	2,110.2	2,533.5	2,636.0	
Creditors	614.9	627.7	648.6	667.0	
Provisions	99.4	101.5	104.9	107.8	
Other current liabilities	375.2	359.1	432.9	445.2	
Total Current Liabilities	1,089.5	1,088.3	1,186.4	1,220.1	
Net Current Assets	990.7	1,021.9	1,347.1	1,416.0	
Other Non-Current Assets	107.5	107.5	107.5	107.5	
Application of Funds	3,911.1	4,253.2	4,723.3	5,206.6	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	38.7	30.7	41.6	42.8
Cash EPS	56.3	49.1	62.4	65.4
BV	214.0	234.7	262.3	291.1
DPS	11.0	10.0	14.0	14.0
Cash Per Share	13.2	27.9	34.4	59.8
Operating Ratios (%)				
EBITDA Margin	16.1	14.9	15.8	16.3
PBT / Net sales	11.7	10.1	11.3	11.3
PAT Margin	9.7	8.0	9.0	9.5
Inventory days	61.0	60.0	60.0	60.0
Debtor days	34.0	40.0	40.0	40.0
Creditor days	32.8	35.0	30.0	30.0
Return Ratios (%)				
RoE	18.1	13.1	15.9	14.7
RoCE	21.3	16.2	19.6	18.2
RoIC	29.6	20.0	23.7	24.0
Valuation Ratios (x)				
P/E	20.5	25.9	19.1	18.6
EV / EBITDA	12.2	13.4	10.4	9.7
EV / Net Sales	2.0	2.0	1.6	1.5
Market Cap / Sales	2.0	2.1	1.7	1.7
Price to Book Value	3.7	3.4	3.0	2.7
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.8	2.0	2.0
Quick Ratio	0.8	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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