

Retail Equity Research

Amara Raja Batteries

Automobile – Auto Ancillaries

BSE CODE : 500008 NSE CODE: AMARAJABAT
BLOOMBERG CODE: AMRJ IN SENSEX : 49,751

Buy

12M Investment Period Rating as per Mid cap

CMP Rs891 TARGET Rs1,129 RETURN 27% ↑
(Closing: 23.02. 21)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↓

Future project likely to retain premium valuation.

Amara Raja Batteries Ltd (ARBL) is India's second largest Lead-acid battery manufacturer. Its segment include 70% from automotive & rest from industrial with a market leadership in Telecom segment.

- During Q3FY21, ARBL revenue came at 12%YoY led by sustained demand recovery both in OEM and replacement sales.
- EBITDA margin came lower at 15.6% (-60bps) due to higher lead price. However, continued cost control initiative offset further decline.
- Investment of Rs350cr for technological & capacity up-gradation in the lithium ion pilot project and 2W/4W batteries is progressing as per schedule, and will drive volume growth in medium to long term.
- Setting up 50MW solar power plant in Andra Pradesh for an outlay of Rs220cr and setting up a Greenfield lead recycling unit with capacity of 1lac ton, for an outlay of Rs280cr to be spend over 18months.
- Given the strong aftermarket reach and brand visibility ARBL to gain market share from the unorganized sector. The aftermarket segment accounts for 40% of the automotive sales & rest from the OEM
- We believe the auto sector is likely to show meaningful pick up in near term owing to lower base and new launches. We value ARBL at 20x FY23EPS and recommend Buy rating at CMP.

Strong replacement demand offset further decline.

During Q3FY21 revenue grew by 12%YoY led by sustained demand recovery both in OEM and replacement sales. Demand for batteries in the after market sales recovered sharply and supplies were ramped up in the quarter, supported by strong OEM export. Both the automotive brands continued its growth momentum across vehicle segments. Similarly the industrial channels like telecom and UPS are doing well. EBITDA margin came lower at 15.6%(-60bps) due to lead price inflation, by 80bps sequentially and 160bpsYoY. However, continuous cost control initiative offset further decline. Additionally PAT came at 18%YoY supported by increase in other income.

Capacity addition in line with future demand

ARBL's investments in capacity expansion is in line with the future demand for 2W and 4W. AMRL has inaugurated its "Advance lithium Technology Research Hub" with a Pilot plant facility for cell development project based on the technology transferred from ISRO. The company has already got approval for the storage application for major 2W/3W OEM Players. The board approved an investment of Rs350cr to Rs400cr to complete the third Green field unit of automotive battery and other technology and maintenance capex. The company has also announced capex of Rs500cr. towards setting up lead acid recycling plant of 1 lakh tonnes per annum capacity (Rs280cr.) and captive 280 MW solar power plant (Rs220cr.).The strategic investments is focused on improving operational efficiencies, cost optimisation and technology up gradation. The planned investments in solar and lead recycling plants will aid reducing costs and provide long term support to key raw material procurement. .

Margin to expand going forward

Despite increase in lead price globally we expect the cost reduction method and superior product mix to expand margin going forward. We believe that the company's capacity addition in newer technology and lead recycling plant will reduce material cost for the battery manufactures. ARBL higher penetration in the unorganized sector and reasonable pick up in the telecom sector is likely to expand margin and factor 60bps improvement from FY21E.

Valuations

Despite pressure in margin due to lower material cost pass through to OEM, comparing to its peer Exide, the company continues to be a second formidable player behind Exide in the OEM & Aftermarket sales. This is largely led by the strong franchise network and operational efficiency. We believe the auto sector is likely to show pick up in H2FY21 owing to lower base and new launches. Considering the strong financials and larger visibility we value ARBL at 20x FY23 EPS and recommend Buy rating with a revised target price of Rs1,129.

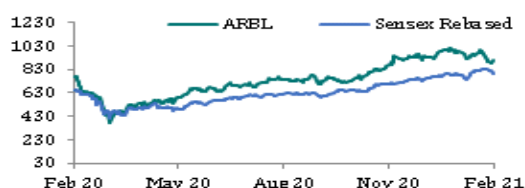
Company Data

Market Cap (cr)	Rs. 15,457
Enterprise Value (cr)	Rs. 14,894
Outstanding Shares (cr)	17.1
Free Float	71.9%
Dividend Yield	0.6%
52 week high	1,025
52 week low	350
6m average volume (cr)	0.10
Beta	1.0
Face value	1

Shareholding (%)	Q1FY21	Q2FY21	Q3FY21
Promoters	28.1	28.1	28.1
FII's	19.0	18.6	20.9
MFs/Insti	13.3	14.2	14.5
Public	39.7	39.1	36.5
Total	100.0	100.0	100.0

Price Performance	3month	6month	1 Year
Absolute Return	1.5%	21.7%	17.4%
Absolute Sensex	11.7%	27.3%	20.8%
Relative Return	-10.2%	-5.6%	-3.4%

over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Sales	6,898	8,674	10,070
Growth (%)	0.9	25.8	16.1
EBITDA	1,083	1,388	1,641
EBITDA Margin(%)	15.7	16.0	16.3
PAT Adj.	619	804	965
Growth (%)	-6.3	30.0	19.9
Adj.EPS	36.2	47.1	56.5
Growth (%)	-6.3	30.0	19.9
P/E	25.0	19.2	16.0
P/B	3.6	3.2	2.7
EV/EBITDA	14.3	11.1	9.4
ROE (%)	15.2	17.5	18.1
D/E	0.2	0.2	0.2

Saji John
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr	Q3FY21	Q3FY20	YoY Growth %	Q2FY20	QoQ Growth %
Sales	1960	1748	12.1	1936	1.3
EBITDA	306	284	7.9	340	-10.0
EBITDA margins	15.6	16.2	-61	17.6	-195
Depreciation	79	76	3.4	78	1.1
EBIT	227	208	9.5	262	-13.3
Interest	2.6	2.9	-10.0	2.5	4.8
Other Income	35	13	175.9	11	212.1
Exceptional Items	0	0	0	0	0
PBT	260	217	19.6	271	-4.1
Tax	67	53	26.0	70	-4.0
Share of profit from Associate	0	0	0	0	0
Minority Interest	0	0	0	0	0
Reported PAT	193	164	17.5	201	-4.1
Adjustments	0	0	0	0	0
Adj PAT	193	164	17.5	201	-4.1
No. of Shares (cr)	17.1	17.1	0	17.1	0
EPS (Rs)	11.3	9.6	17.5	11.8	-4.1

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	7,464	-	8,210	9,509	10.0	-
EBITDA	1254	-	1314	1550	4.8	-
Margins (%)	16.8	-	16.0	16.3	-80bps	-
Adj. PAT	776	-	750	897	-3.4	-
EPS	45.4	-	43.9	52.5	-3.3	-

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	6793	6839	6898	8674	10070
% change	12.1	0.7	0.9	25.8	16.1
EBITDA	952	1098	1083	1388	1641
% change	7.8	15.4	-1.4	28.2	18.3
Depreciation	260	298	307	352	382
EBIT	691	798	772	1032	1252
Interest	7.0	12.2	10.6	9.3	7.9
Other Income	47	55	80	72	68
PBT	730	840	842	1095	1312
% change	2.3	15.1	0.2	30.0	19.9
Tax	247	180	223	290	348
Tax Rate (%)	33.8	21.4	26.5	26.5	26.5
Reported PAT	483	661	619	804	965
Adj.	0.0	0.1	0.0	0.0	0.0
Adj. PAT	483	661	619	804	965
% change	2.6	36.6	-6.3	30.0	19.9
No. of shares (cr)	17.1	17.1	17.1	17.1	17.1
Adj EPS (Rs)	28.3	38.7	36.2	47.1	56.5
% change	2.6	36.6	-6.3	30.0	19.9
DPS (Rs)	5.1	9.5	9.5	9.5	9.5

BALANCE SHEET

EY.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	141	227	292	459	824
Accounts Receivable	769	806	850	1046	1214
Inventories	1061	1036	1062	1322	1523
Other Cur. Assets	130	75	76	95	110
Investments	20	40	40	40	40
Gross Fixed Assets	3446	4196	4846	5496	6146
Net Fixed Assets	2176	2628	2971	3269	3537
CWIP	230	230	230	230	230
Intangible Assets	12	20	31	49	73
Def. Tax (Net)	-96	-44	-57	-73	-93
Other Assets	0	0	0	0	0
Total Assets	4443	5017	5495	6436	7458
Current Liabilities	442	423	433	546	629
Provisions	112	112	113	143	166
Debt Funds	47	42	37	32	27
Other Liabilities	0	0	0	0	0
Equity Capital	17	17	17	17	17
Reserves & Surplus	3316	3814	4270	4912	5714
Shareholder's Fund	3333	3831	4287	4929	5731
Total Liabilities	4443	5017	5495	6436	7458
BVPS	195	224	251	289	336

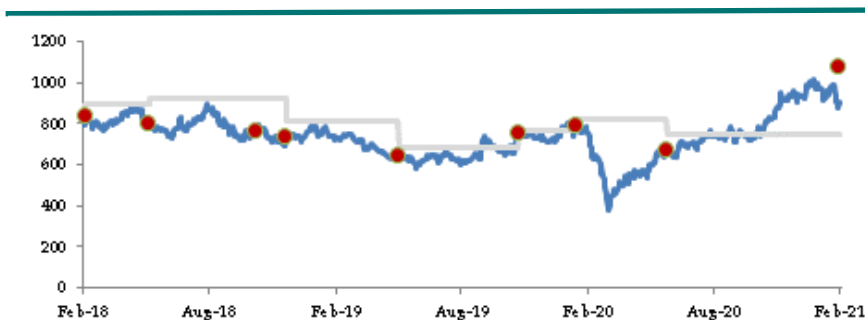
CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Depn.	990	1,138	1,149	1,446	1,695
Non-cash adj.	-265	-177	-220	-285	-341
Changes in W.C	83	125	-44	-171	-159
C.F. Operation	808	1,086	885	990	1,195
Capital exp.	-746	-750	-650	-650	-650
Change in inv.	-127	112	15	-20	0
Other invest.CF	20	0	0	0	0
C.F - Investment	-723	-780	-665	-672	-682
Issue of equity	0	0	0	0	0
Issue/repay debt	-12	-5	-5	-5	-5
Dividends paid	-88	-163	-163	-163	-163
Other finance.CF	8	-52	13	16	20
C.F - Finance	-91	-219	-155	-151	-148
Chg. in cash	-6	87	65	167	365
Closing cash	141	227	292	459	824

RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab & Return					
EBITDA margin (%)	14.0	16.1	15.7	16.0	16.3
EBIT margin (%)	10.2	11.7	11.2	11.9	12.4
Net profit mgn.(%)	7.1	9.7	9.0	9.3	9.6
ROE (%)	15.4	18.4	15.2	17.5	18.1
ROCE (%)	13.1	16.0	13.3	15.2	15.6
W.C & Liquidity					
Receivables (days)	41.7	42.0	43.8	39.9	41.0
Inventory (days)	83.0	86.1	84.0	75.7	78.5
Payables (days)	32.7	35.5	34.3	31.1	32.4
Current ratio (x)	3.8	4.0	4.2	4.2	4.6
Quick ratio (x)	2.1	2.4	2.6	2.8	3.2
Turnover & Leverage					
Gross asset T.O (x)	2.2	1.8	1.5	1.7	1.7
Total asset T.O (x)	1.6	1.4	1.3	1.5	1.4
Int. covge. ratio (x)	99.4	65.4	72.8	111.4	158.3
Adj. debt/equity (x)	0.2	0.2	0.2	0.2	0.2
Valuation					
EV/Sales (x)	2.3	2.3	2.2	1.8	1.5
EV/EBITDA (x)	16.3	14.1	14.3	11.1	9.4
P/E (x)	31.9	23.4	25.0	19.2	16.0
P/BV (x)	4.6	4.1	3.6	3.2	2.7

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
31.05.2017	Accumulate	895
08.08.2017	Accumulate	895
14.11.2017	Accumulate	886
26.02.2019	Accumulate	892
30.05.2018	Buy	921
14.09.2018	Accumulate	914
27.05.2019	Hold	680
14.11.2019	Hold	766
06.02.2020	Hold	820
16.06.2020	Buy	746
11.08.2020	Hold	818
23.02.2021	Buy	1,129

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

General Disclosures and Disclaimers

CERTIFICATION

I, Saji John, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

he, his associates and his relatives have not financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Saji John Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange board of India.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226

