Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Exide Industries Limited

Buoyant on replacement demand

Automobiles	Sharekhan code: EXIDEIND	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 194**	
Price Target: **Rs. 229**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

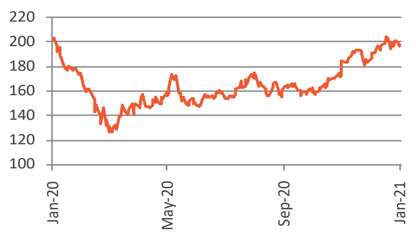
Company details

Market cap:	Rs. 16,396 cr
52-week high/low:	Rs. 209 / 122
NSE volume: (No of shares)	42.6 lakh
BSE code:	500086
NSE code:	EXIDEIND
Free float: (No of shares)	45.9 cr

Shareholding (%)

Promoters	46.0
FII	10.4
DII	27.3
Others	16.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.3	21.7	25.2	-2.2
Relative to Sensex	7.3	6.0	2.3	-16.1

Sharekhan Research, Bloomberg

Summary

- Exide Industries Limited (Exide) reported results in-line with our expectations, driven by strong traction in aftermarket, recovery in OEM growth and margin expansion.
- We expect Exide to be the beneficiary of improving automotive replacement demand, aided by strong recovery in two-wheelers and four-wheelers replacement demand. Our channel checks suggest that the demand for industrial batteries is catching up faster than expected.
- Exide is expected to gain from the buoyant demand in the replacement segment, given its strong brand equity and extensive distribution network.
- The stock is trading attractively at P/Core EPS multiple of 14.5x and EV/EBITDA multiple of 8.8x its FY2023E estimates. We maintain our Buy rating on Exide with unchanged PT of Rs. 229.

Exide Industries Limited (Exide) reported results in-line with our expectations, driven by strong traction in the aftermarket. recovery in OEM growth and margin expansion. Net revenue of the standalone business grew by 16.2% y-o-y at Rs 2,801 crores, led by a strong demand in the replacement market and recovery in demand from OEMs after COVID-19 pandemic. As per the management, the demand sentiments are strong for both Automotive and UPS batteries. During the quarter, Exide saw the demand rising from the OEMs and infrastructure segment. The operating profit margin for the Q3FY21 stood at 14.4% showing an improvement of 112 bps y-o-y and 14 bps q-o-q aided by cost reductions and operating leverage benefits. The other expenditure as a percentage of sales improved 190 bps y-o-y at 14.1% in Q3, leading to margin expansion despite lower gross margins and high employee costs. The employee costs went up 23.2% y-o-y to 206.4 crores. The gross profit margin declined 30 bps y-o-y to 35.9% in Q3, on back of product mix (higher offtake from OEMs) and rise in raw material prices. Standalone PAT grew by 10.9% y-o-y to Rs 241.4 crores. Consolidated revenue grew by 18.1% y-o-y in Q3FY21, while PAT grew by 103% y-o-y due to loss of Rs 70 crores in Life Insurance business last year. Our interactions with battery dealers reveal strong recovery in two-wheelers replacement demand, while four-wheelers replacement demand and industrial demand are catching up strongly. We see a strong recovery in automotive battery demand at OEM, as well as replacement. Higher mobility on road has increased battery demand in replacement markets. Further, we expect Exide to benefit from rising replacement demand and strong recovery in OEM sales. Overall improving replacement to OEM mix will drive revenue and margin improvements for the company. Exide is the largest battery manufacturer in the lead acid battery markets, commanding market share close to 55% in the organised market. Having a strong brand equity and extensive distribution network, we expect Exide to grow strongly in the battery industry. Exide is working on several cost-control measures to improve profitability, such as increasing backward integration, diversifying supplier base, enhancing automation, increasing share of renewable power, and enhancing digital initiatives. Exide is also upgrading technology and working on import substitution of raw materials to enable cost reduction. The company is debt-free and generates strong cash flows of around Rs 400 crores per year. We expect Exide's earnings to grow by 17% in FY2022E and 11.3% in FY2023E, driven by 11.7% CAGR (FY2021-23) in revenue and 40 bps expansion in EBITDA margin. We have retained our earnings estimates.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs 229: Exide is witnessing a recovery in its automotive and industrial demand. The outlook remains positive with a strong recovery expected from FY2022, driven by normalisation of economic activities. Operating profit margin (OPM) would expand because of a favourable product mix, operating leverage and cost-control measures. We have retained our earnings estimates and TP of Rs229. The stock is attractively valued at P/Core EPS multiple of 14.5x and EV/EBITDA multiple of 8.8x its FY2023 estimates. We retain our Buy rating on the stock.

Key Risks

Pricing pressures from automotive OEM customers can impact its profitability.

Valuation (Standalone) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenues	10,588	9,857	9,524	10,797	11,880
Growth (%)	15.3	(6.9)	(3.4)	13.4	10.0
EBIDTA	1,411	1,365	1,305	1,510	1,674
OPM (%)	13.3	13.8	13.7	14.0	14.1
Net Profit	736	847	705	825	919
Growth (%)	3.6	15.1	(16.8)	17.0	11.3
EPS (Rs)	8.7	10.0	8.3	9.7	10.8
Core P/E (x)	18.4	16.4	19.4	16.3	14.5
Core P/BV (x)	4.4	3.7	3.4	3.1	2.7
EV/EBIDTA (x)	11.4	11.9	11.9	10.1	8.8
Core ROE (%)	15.9	17.2	13.0	13.8	13.9
Core ROCE (%)	18.8	16.8	14.0	15.0	15.3

Source: Company; Sharekhan estimates

Q3FY2021 results in-line with our expectations: Exide Industries Limited (Exide) reported results in-line with our expectations, driven by strong traction in aftermarket, recovery in OEM growth and margin expansion. Net revenue of the standalone business grew by 16.2% y-o-y at Rs 2,801 crores, led by a strong demand in the replacement market and recovery in demand from OEMs after COVID-19 pandemic. As per the management, the demand sentiments are strong for both Automotive and UPS batteries. During the quarter, Exide saw demand rising from the OEMs and infrastructure segment. The operating profit margin for the Q3FY21 stood at 14.4% showing an improvement of 112 bps y-o-y and 14 bps q-o-q aided by cost reductions and operating leverage benefits. The other expenditure as a percentage of sales improved 190 bps y-o-y at 14.1% in Q3, leading to margin expansion despite lower gross margins and high employee costs. The employee costs went up 23.2% y-o-y to 206.4 crores. The gross profit margin declined 30 bps y-o-y to 35.9% in Q3, on back of product mix (higher offtake from OEMs) and rise in raw material prices. Standalone PAT grew by 10.9% y-o-y to Rs 241.4 crores. Consolidated revenue grew by 18.1% y-o-y in Q3FY21, while PAT grew by 103% y-o-y due to loss of Rs 70 crores in the Life Insurance business last year.

Underline strong automotive demand: Our channel checks and discussions with battery dealers suggest strong traction for the replacement demand in the two-wheeler and four-wheeler segments have been driven by increased mobility on road. Dealers are not being able to meet up demand for two-wheeler batteries due to low inventory. In our view, supply issues faced by dealers are due to greater-than-expected demand from OEMs, which are preferred over aftermarket sales and shortage of certain imported components. We see strong recovery in automotive battery demand at OEM, as well as replacement. Higher mobility on road has increased battery demand in replacement markets.

Strong replacement demand augurs well for Exide: Exide's revenue growth is largely driven by replacement demand in the automotive sector. Revenue mix from the automotive replacement segment is expected to contribute ~40% to the total revenue. Moreover, margins are much better in replacement sales vis-à-vis OEM sales. We expect Exide to benefit from rising replacement demand. Moreover, there has been strong recovery in OEM sales. Overall, improving replacement to OEM mix drives revenue and margin improvement for the company.

Industrial batteries showing recovery: Industrial battery dealers are also witnessing recovery in sales, driven by returning demand and attractive offers from the company. The ground check suggests that the industrial battery demand has recovered to 90% of pre-COVID demand. Dealers have been receiving strong enquiries from inverter battery and UPS segments. We expect pent-up demand to get converted into actual sales, as the economy gets back to normalcy.

Improved margins are sustainable: The operating profit margin for the Q3FY21 stood at 14.4% showing an improvement of 112 bps y-o-y and 14 bps q-o-q aided by cost reductions and operating leverage benefits. We expect Exide to sustain EBITDA margins in excess of 14% in the medium-term, driven by several cost-control measures taken by the company to improve profitability. The company has taken many initiatives, such as increasing backward integration, diversifying its supplier base, enhancing automation, increasing share of renewable power, and enhancing digital initiatives. Exide is also upgrading technology and working on import substitution of raw materials to enable reduction in costs and improvement in profitability. We expect all these to work positively for Exide to sustain margins.

Strong broad-based recovery; Expect double-digit growth in FY2022: The company is debt-free and generates strong cash flows of around Rs. 400 crore per year. The company has a strong long-term revenue visibility, given its focus on the aftermarket segment and extensive distribution network. We expect Exide's earnings to grow by 17% in FY2022E and 11.3% in FY2023E, driven by an 11.7% CAGR (FY2021-FY2023) in revenue and 40 bps expansion in EBITDA margin. We have retained our earnings estimates.

Results — Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Revenues	2,801.0	2,411.5	16.2	2,753.4	1.7
EBIDTA	402.8	319.8	25.9	392.0	2.7
EBIDTA Margins (%)	14.4	13.3	112 bps	14.2	14 bps
Other income	20.1	25.1	(20.0)	14.8	36.1
Depreciation	95.3	92.5	2.9	95.3	-0.1
PBT	320.0	250.3	27.9	305.2	4.9
Tax	78.6	32.6	140.8	76.4	2.9
Adjusted PAT	241.4	217.6	10.9	228.8	5.5
Reported PAT	241.4	195.9	23.2	228.8	5.5
EPS	2.8	2.6	10.9	2.7	5.5

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Demand picking up in the automotive and industrial sector

Business outlook for the automotive and industrial segments is improving with normalisation of economic activities. Automotive demand is witnessing a strong recovery in two-wheeler and four-wheeler segments, aided by the pent-up demand and increased personal mobility transport. The industrial segment is also witnessing growth, driven by the recovery in telecom and UPS segments. The potential in telecom and UPS industry demand remains buoyant because of increased data usage and digitalisation.

■ Company outlook - Strong earnings growth

Exide is the largest battery manufacturer in the lead acid battery markets, commanding a market share close to ~55% in the organised market. Having a strong brand equity and extensive distribution network, we expect Exide to grow strongly in the battery industry, led by replacement demand, recovery in the industrial battery segment, and benefitting from its extensive distribution network. With the government opening up the economy, demand in the automotive replacement segment and UPS is recovering. The OEM business in both the auto and industrial segments is also recovering, which augur well for the company.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 229

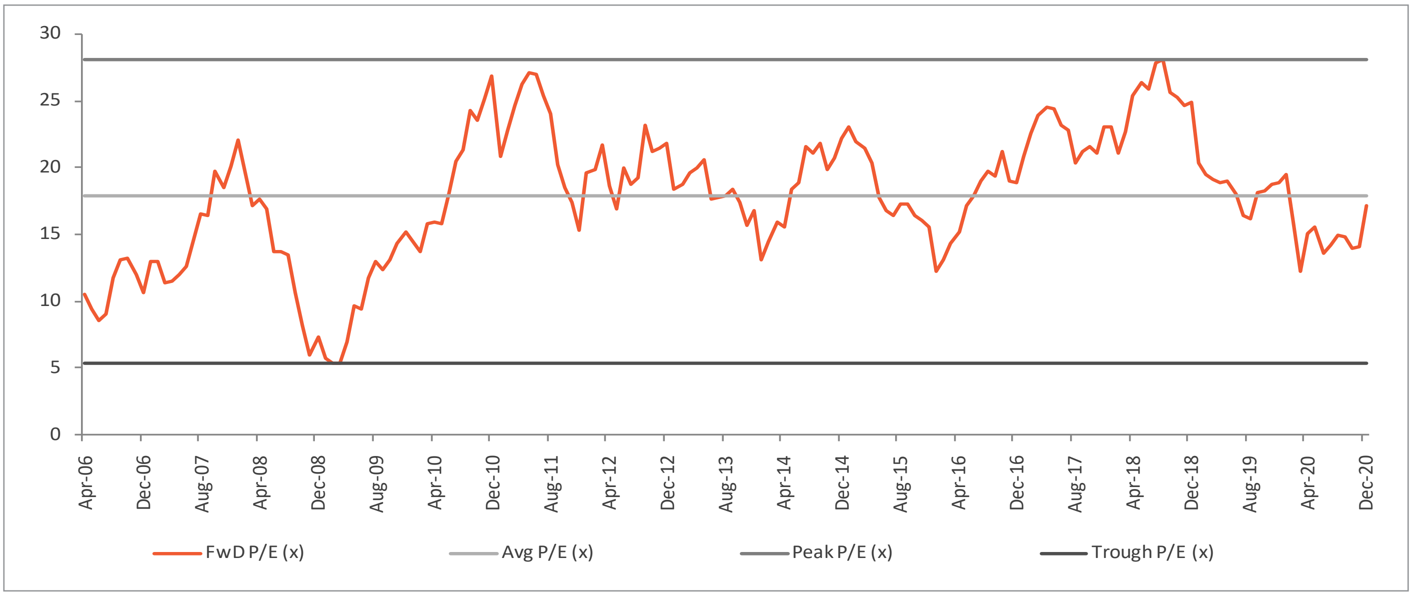
Exide is witnessing recovery in its automotive and industrial demand. The outlook remains positive with strong recovery expected from FY2022, driven by the normalisation of economic activities. Operating profit margin (OPM) would expand because of favourable product mix, operating leverage and cost-control measures. We have retained our earnings estimates and TP of Rs229. The stock is attractively valued at P/Core EPS multiple of 14.5x and EV/EBITDA multiple of 8.8x its FY2023 estimates. We retain our Buy rating on the stock.

SOTP-based price target

Target Price Calculation	Rs/ Share
FY23E Core business EPS (Rs per share)	10.8
Target P/E Multiple (x)	17.7
Core business value	191.8
Life insurance business (1x Embedded Value)	37.0
Target Price (Rs)	229
Upside (%)	18

Source: Company; Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Exide is one of the leading battery manufacturers in India catering to automobiles and industrial segments. The company is present in the OEM as well as replacement and export segments. The company manufactures a wide range of batteries under the brand Exide, SF Sonic, Dynex, and CEIL in the automotive segment 3AH to 200 AH (four wheelers, two wheelers, commercial vehicles, and gensets and home inverter systems) and industrial segment ranging from 7AH to 3,200 AH (power, solar, railways, telecom UPS, and traction batteries). Exide is the preferred OEM supplier having established its brand driven by robust product quality and supply chain management. With strong OEM presence and robust distribution network (has 150+ warehouses and 48,000 direct and indirect dealers), Exide is the market leader in the automotive replacement segment as well.

Investment theme

Exide Industries Limited (Exide) reported results in-line with our expectations, driven by strong traction in aftermarket, recovery in OEM growth and margin expansion. Net revenue of the standalone business grew by 16.2% y-o-y at Rs 2,801 crores, led by strong demand in the replacement market and recovery in demand from OEMs after COVID-19 pandemic. The operating profit margin for the Q3FY21 stood at 14.4% showing an improvement of 112 bps y-o-y and 14 bps q-o-q aided by cost reductions and operating leverage benefits. Standalone PAT grew by 10.9% y-o-y to Rs 241.4 crores. Consolidated revenue grew by 18.1% y-o-y in Q3FY21, while PAT grew by 103% y-o-y due to loss of Rs 70 crores in Life Insurance business last year. Our interactions with battery dealers reveal a strong recovery in two-wheelers replacement demand, while four-wheelers replacement demand and industrial demand are catching up strongly. We see a strong recovery in automotive battery demand at OEM, as well as replacement. Higher mobility on road has increased battery demand in replacement markets. Further, we expect Exide to benefit from rising replacement demand and strong recovery in OEM sales. Overall improving replacement to the OEM mix will drive revenue and margin improvements for the company. Exide is the largest battery manufacturer in the lead acid battery markets, commanding close to 55% market share in the organised market. Having a strong brand equity and extensive distribution network, we expect Exide to grow strongly in the battery industry, led by replacement demand, recovery in the industrial battery segment, and benefitting from its extensive distribution network. Our interactions with battery dealers reveal strong recovery in two-wheelers replacement demand, while four-wheelers replacement demand and industrial demand are catching up strongly. Exide is working on several cost-control measures to improve profitability, such as increasing backward integration, diversifying supplier base, enhancing automation, increasing share of renewable power, and enhancing digital initiatives. Exide is also upgrading technology and working on import substitution of raw materials to enable reduction in costs and improvement in profitability. We expect all these to work positively for Exide to sustain margins. Exide has a strong balance sheet (zero debt) and healthy return ratios of 14%-16%. We retain our Buy recommendation on the stock

Key Risks

Pricing pressures from automotive OEM customers and steep rise in lead prices(a key raw material), can impact profitability.

Additional Data

Key management personnel

Mr. Bharat D Shah	Chairman and Independent Director
Mr. R B Raheja	Vice Chairman and Non-Executive Director
Mr. G Chaterjee	MD and CEO
Mr. A K Mukherjee	Director Finance and CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Chloride Eastern Ltd.	45.99%
2	ICICI Prudential Asset Management	4.63%
3	Hathway Investments Pvt Ltd.	4.32%
4	Life Insurance Corp of India	3.09%
5	HDFC Asset Management Co. Ltd.	2.54%
6	Aditya Birla Sun Life Asset Management	1.95%
7	New India Assurance Co. Ltd.	1.93%
8	HDFC Life Insurance Co. Ltd.	1.76%
9	GOVERNMENT PENSION FUND - GLOBAL	1.47%
10	DSP Investment Managers Pvt. Ltd.	1.44%

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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