

Technological disruption to weigh on valuations...

Amara Raja Batteries (ARBL) reported steady Q4FY21 results. Net sales rose 33% YoY, 7.3% QoQ to ₹ 2,103 crore. As per management commentary, demand during the quarter was strong across all automotive and industrial segments. Margins were at 15.1% (down 50 bps QoQ) amid 130 bps gross margin contraction and increase in other expenses on percentage of sales basis. PAT grew 39% YoY (down 2% QoQ) to ₹ 189 crore. ARBL declared a total dividend of ₹ 11/share for FY21.

Aftermarket to stabilise near-term sales, margin performance

ARBL has significant exposure to the aftermarket channel (forms ~65% of automotive segment, which constitutes ~70% of overall revenues). Courtesy healthy OEM industry performance in FY17-19 and ~two to three years blended replacement cycle in automotive battery space, aftermarket channel is set to continue to impart an element of stability to ARBL's topline for FY22E. The same is seen benefitting blended realisations and margins on account of better pricing power in the channel (B2C business, near duopoly market in organised space). However, in FY21-23E, OEM channel is seen outperforming as production ramps up once effects of the ongoing second pandemic wave taper off. Consequent mix deterioration, along with uptick in commodity cost inflation (ARBL gross margins have contracted ~210 bps over H2FY21) are seen pressurising margins over the medium term. The company has recently outlined capex towards 50 MW solar power plant (₹ 220 crore) and greenfield lead recycling (₹ 280 crore), which are seen lowering production costs in a back-ended manner. We build 11.6% revenue CAGR in FY21-23E. Margins are seen dipping to 14.1% in FY22E before climbing to 14.7% in FY23E amid operating leverage benefits.

Electric future to constrict addressable market

The domestic lead acid battery space is set to witness substantial disruption in coming years as India increasingly encourages green mobility. While the transition away from fossil fuel-powered transport is set to be fairly gradual, addressable market for incumbent lead acid ecosystem would shrink, thereby throwing up both an opportunity as well as a challenge to players like ARBL. At present, ARBL has set up a lithium-ion technology research hub with pilot plant facility for cell development and has pack assembly capabilities for industrial and automotive use. ARBL can potentially benefit from the recently announced ₹ 18,100 crore PLI scheme for advance cell chemistry if it ramps up efforts to address this opportunity. However, we await affirmative action from ARBL on this front, before turning decisively positive on the company's long term demand prospects.

Valuation & Outlook

We expect 7.4% FY21-23E PAT CAGR for ARBL. While the company currently trades at reasonable valuations, we maintain our **REDUCE** rating, valuing it at ₹ 700 i.e., 16x FY23E EPS (earlier target price ₹ 800) on account of (a) expected softening of margin profile and (b) imminent EV threat.

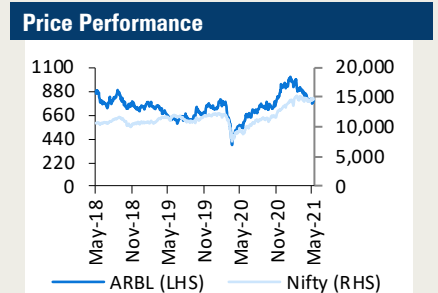
Key Financial Summary

Key Financials	FY19	FY20	FY21P	FY22E	FY23E	CAGR (FY21P-23E)
Net Sales	6,793.1	6,839.5	7,149.7	8,887.3	8,903.7	11.6%
EBITDA	951.8	1,098.6	1,115.6	1,249.8	1,308.1	8.3%
EBITDA Margins (%)	14.0	16.1	15.6	14.1	14.7	
Net Profit	483.5	660.8	646.8	716.9	746.5	7.4%
EPS (₹)	28.3	38.7	37.9	42.0	43.7	
P/E	26.0	19.0	19.4	17.5	16.8	
RoNW (%)	14.5	18.1	15.4	15.2	14.3	
RoCE (%)	19.8	21.3	18.6	18.7	17.6	

Source: Company, ICICI Direct Research



Particulars	₹ crore
Market Capitalization	12,554.5
Total Debt (FY21P)	35.9
Cash & Investments (FY21P)	449.3
EV (FY21P)	12,141.1
52 week H/L (₹)	1025 / 595
Equity capital	17.1
Face value (₹)	₹ 1



Key highlights

- Q4FY21 revenues up 33% YoY tracking broad-based pickup across segments. Margins dip 50 bps QoQ due to 130bps gross margin decline
- Aftermarket channel to rescue topline & bottomline performance in FY22E. Long term industry transition towards Li-On presents opportunity and threat

Risks to our call

- Fast progress and demonstrated offtake on lithium-ion offerings
- Continued market share gains

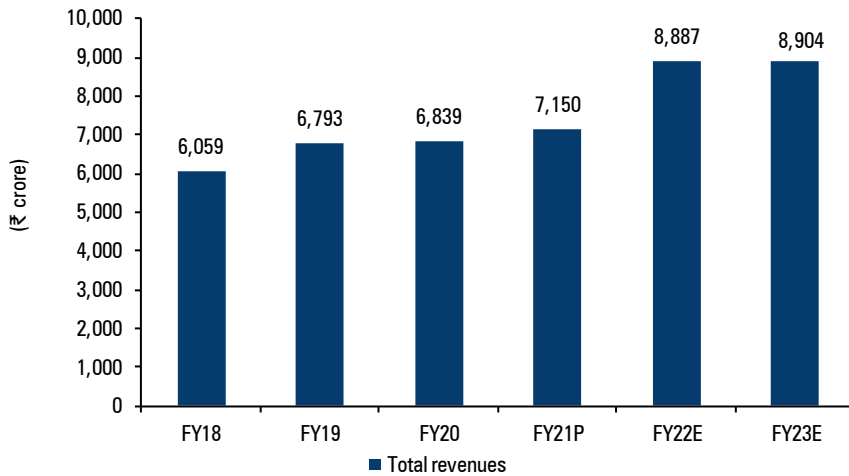
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Financial story in charts

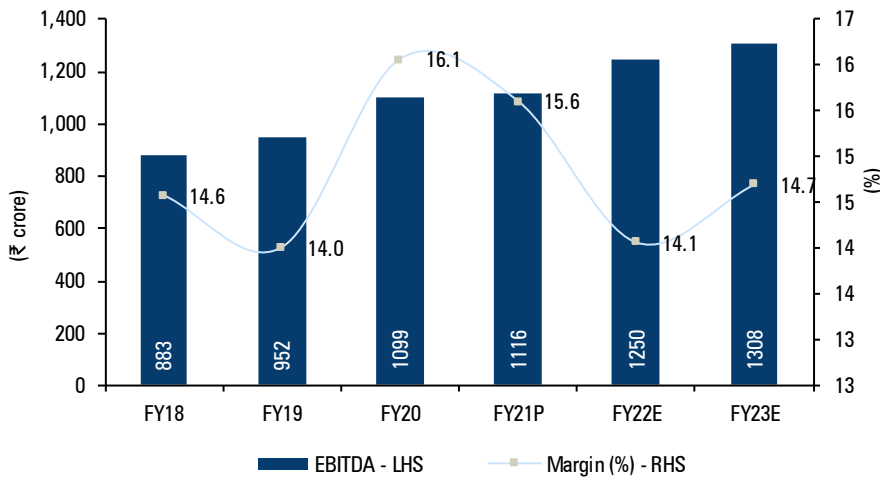
Exhibit 1: Topline trend



We expect sales to grow at a CAGR of 11.6% over FY21-23E

Source: Company, ICICI Direct Research

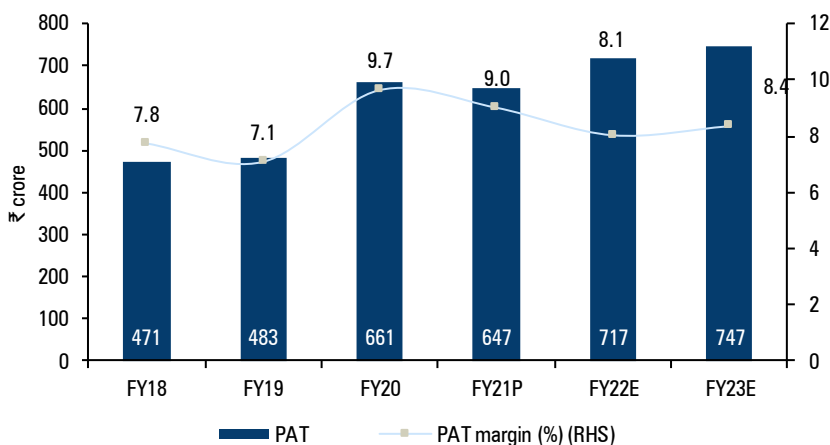
Exhibit 2: EBITDA & EBITDA margin trend



Margins are seen dipping to 14.1% in FY22E before climbing to 14.7% in FY23E

Source: Company, ICICI Direct Research

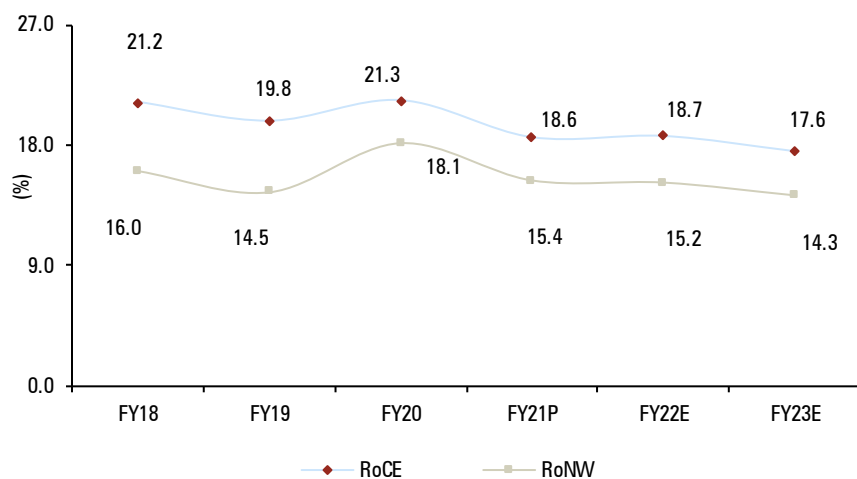
Exhibit 3: Profitability trend



PAT is expected to grow to ₹ 747 crore by FY23E at a CAGR of 7.4% from FY21

Source: Company, ICICI Direct Research

Exhibit 4: Return ratios



Return ratios are expected to be in the 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	26.0	13.2	14.5	19.8
FY20	6839.5	0.7	38.7	36.7	19.0	11.3	18.1	21.3
FY21P	7149.7	4.5	37.9	-2.1	19.4	10.9	15.4	18.6
FY22E	8887.3	24.3	42.0	10.8	17.5	9.6	15.2	18.7
FY23E	8903.7	0.2	43.7	4.1	16.8	8.9	14.3	17.6

Source: Company, ICICI Direct Research

Exhibit 6: Shareholding pattern

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	28.1	28.1	28.1	28.1	28.1
FII	20.9	19.0	18.6	20.9	21.3
DII	11.1	13.3	14.2	14.5	12.6
Others	39.9	39.7	39.1	36.5	38.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Total operating Income	6,839	7,150	8,887	8,904
Growth (%)	0.7	4.5	24.3	0.2
Raw Material Expenses	4,447.1	4,744.7	6,043.5	5,972.2
Employee Expenses	385.2	426.1	472.5	510.4
Other Expenses	908.6	863.3	1,121.4	1,113.0
Total Operating Expenditure	5,740.9	6,034.0	7,637.5	7,595.6
EBITDA	1,098.6	1,115.6	1,249.8	1,308.1
Growth (%)	15.4	1.6	12.0	4.7
Depreciation	300.7	319.2	355.5	378.4
Interest	12.2	10.5	9.3	7.3
Other Income	55.0	87.4	73.3	75.7
PBT	840.7	873.3	958.4	998.1
Total Tax	179.9	226.5	241.5	251.5
PAT	660.8	646.8	716.9	746.5
Growth (%)	36.7	-2.1	10.8	4.1
EPS (₹)	38.7	37.9	42.0	43.7

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Profit after Tax	660.8	646.8	716.9	746.5
Add: Depreciation	300.7	319.2	355.5	378.4
(Inc)/dec in Current Assets	135.9	-375.6	-488.1	-5.3
Inc/(dec) in CL and Provisions	198.6	227.5	232.4	2.9
CF from operating activities	1,296.2	817.9	816.6	1,122.5
(Inc)/dec in Investments	-135.7	-124.4	-100.0	-300.0
(Inc)/dec in Fixed Assets	-829.4	-517.0	-500.0	-550.0
Others	40.3	24.6	9.9	0.1
CF from investing activities	(931.1)	(623.5)	(590.1)	(849.9)
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	-187.9	-213.5	-230.6
CF from financing activities	(352.2)	(103.1)	(223.5)	(240.6)
Net Cash flow	12.9	91.3	3.0	32.0
Opening Cash	71.7	84.6	175.9	178.9
Closing Cash	84.6	175.9	178.9	211.0

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Liabilities				
Equity Capital	17.1	17.1	17.1	17.1
Reserve and Surplus	3,638.5	4,193.2	4,696.5	5,212.5
Total Shareholders funds	3,655.6	4,210.3	4,713.6	5,229.6
Total Debt	46.8	35.9	25.9	15.9
Deferred Tax Liability	44.1	40.7	50.6	50.7
Total Liabilities	3,911.1	4,480.2	4,983.5	5,489.5
Assets				
Gross Block	2,938.9	3,791.7	4,391.0	5,041.0
Less: Acc Depreciation	1,112.8	1,432.0	1,787.5	2,165.9
Net Block	1,826.1	2,359.7	2,603.5	2,875.1
Capital WIP	827.0	399.3	300.0	200.0
Total Fixed Assets	2,656.2	2,854.1	2,998.6	3,170.2
Investments	156.2	280.5	380.5	680.5
Inventory	1,142.7	1,438.2	1,704.4	1,707.6
Debtors	636.3	787.5	974.0	975.8
Loans and Advances	11.5	25.5	31.7	31.8
Other Current Assets	205.6	120.4	149.7	150.0
Cash	84.6	175.9	178.9	211.0
Total Current Assets	2,080.7	2,547.6	3,038.7	3,076.0
Creditors	614.9	746.5	852.2	853.8
Provisions	99.4	118.6	135.4	135.6
Other current liabilities	375.2	451.9	561.8	562.8
Total Current Liabilities	1,089.5	1,317.0	1,549.4	1,552.2
Net Current Assets	991.2	1,230.6	1,489.4	1,523.8
Other Non-Current Assets	107.5	115.1	115.1	115.1
Application of Funds	3,911.1	4,480.2	4,983.5	5,489.5

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY20	FY21P	FY22E	FY23E
Per share data (₹)				
EPS	38.7	37.9	42.0	43.7
Cash EPS	56.3	56.6	62.8	65.9
BV	214.0	246.5	276.0	306.2
DPS	11.0	11.0	12.5	13.5
Cash Per Share	13.3	26.3	32.3	51.8
Operating Ratios (%)				
EBITDA Margin	16.1	15.6	14.1	14.7
PBT / Net sales	11.7	11.1	10.1	10.4
PAT Margin	9.7	9.0	8.1	8.4
Inventory days	61.0	73.4	70.0	70.0
Debtor days	34.0	40.2	40.0	40.0
Creditor days	32.8	38.1	35.0	35.0
Return Ratios (%)				
RoE	18.1	15.4	15.2	14.3
RoCE	21.3	18.6	18.7	17.6
RoIC	29.6	23.2	22.7	22.1
Valuation Ratios (x)				
P/E	19.0	19.4	17.5	16.8
EV / EBITDA	11.3	10.9	9.6	8.9
EV / Net Sales	1.8	1.7	1.4	1.3
Market Cap / Sales	1.8	1.8	1.4	1.4
Price to Book Value	3.4	3.0	2.7	2.4
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.8	1.8	1.8
Quick Ratio	0.8	0.7	0.7	0.7

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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