Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Exide Industries Ltd

Weak Q4; Focus on Lithium-ion business

Automobiles	Sharekhan code: EXIDEIND

Reco/View: Buy	↔	CMP: **Rs. 146**	Price Target: **Rs. 183**	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 21.53

Updated Feb 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

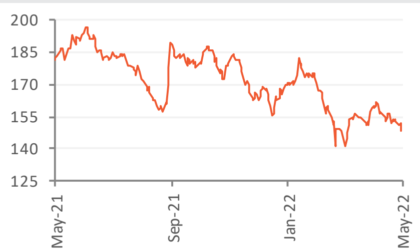
Company details

Market cap:	Rs. 12,410 cr
52-week high/low:	Rs. 203 / 139
NSE volume: (No of shares)	22.9 lakh
BSE code:	500086
NSE code:	EXIDEIND
Free float: (No of shares)	45.9 cr

Shareholding (%) as on March 31, 2022

Promoters	46.0
FII	10.1
DII	19.2
Others	24.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.4	-15.1	-15.2	-16.4
Relative to Sensex	3.5	-12.4	-6.6	-28.3

Sharekhan Research, Bloomberg

Summary

- In Q4FY2022, Exide EBITDA and adjusted PAT came below street's expectations by 8.8% and 4.8%, respectively, largely driven by input cost inflation coupled with high fuel and freight costs.
- Exide is expected to benefit from recovery in automotive demand, improving share of replacement sales, and rising sales of industrial batteries.
- Exide formed a new subsidiary to set up a multi-gigawatt lithium-ion cell manufacturing plant in technical collaboration with SVOLT Energy Solutions.
- We have cut our estimates to build margin pressure, but valuations are attractive at P/E multiple of 9.2x and EV/EBITDA multiple of 5.6x its FY2024E estimates.

For Q4FY2022, Exide Industries Limited's (Exide) EBITDA and adjusted PAT came below street's expectations by 8.8% and 4.8%, respectively, largely driven by input cost inflation, coupled with high fuel and freight costs. Standalone net revenue increased by 16% y-o-y to Rs. 3,409 crore in Q4FY2022, led by continued growth momentum from original equipment manufacturers (OEMs) and improved two-wheeler (2W) and four-wheeler (4W) battery sales in aftermarkets. Standalone EBITDA margin for Q4FY2022 contracted by 140 bps q-o-q to 10.2%, led by rise in input costs and increased fuel and freight costs, partially offset by lower other operating expenses. As a result, standalone EBITDA and adjusted PAT declined 15.4% y-o-y and 17.3% y-o-y to Rs. 349 crore and Rs. 202 crore, respectively. The company's reported PAT stood at Rs. 4,120 crore in Q4FY2022, which included net gain of Rs. 4,694 crore from disposal of investments from Exide Life Insurance Company. We maintain our Buy rating on the stock, led by positive business outlook, foray into lithium-ion cell manufacturing, and attractive valuations.

Key positives

- Exide witnessed strong growth in automotive replacement markets and in industrial batteries, driven by makeshift home offices data centres.
- The company has strengthened its relationship with large OEMs becoming their preferred partner for fuel-efficient and new-age vehicles.

Key negatives

- The company's EBITDA and adjusted PAT came below street's expectations by 8.8% and 4.8%, respectively, largely driven by input cost inflation, coupled with high fuel and freight costs.
- Standalone EBITDA margin for Q4FY2022 contracted 90 bps q-o-q to 11.7%, led by higher input costs. Gross margin also contracted by 170 bps q-o-q to 31%.

Management Commentary

- Exide witnessed strong replacement demand for automotive batteries in 2W and 4W segments.
- Management expects to maintain its leadership position with auto OEMs and gain market share in the aftermarket segment, especially from the unorganised sector.
- The company continues to focus on increasing its global footprint, while targeting to double its exports in the medium term.
- Exide formed a new subsidiary to set up a multi-gigawatt lithium-ion cell manufacturing plant in technical collaboration with SVOLT Energy Solutions.

Revision in estimates – We have cut our earnings estimates by 9.2% and 14.2% for FY2023E and FY2024E, respectively, to build the impact of margin pressure. We expect Exide's earnings to post a 12.6% CAGR during FY2022-FY2024E, driven by an 8.5% revenue CAGR and a 130-bps expansion in EBITDA margin to 12.6% in FY2024E from 11.3% in FY2022.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 183: Exide is the largest battery manufacturer in the lead acid battery markets, commanding a market share of close to 55% in the organised market. Having a strong brand equity and extensive distribution network, we expect Exide to grow strongly. The company 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 flow of ~Rs. 400 crore annually. The stock is attractively valued at P/E multiple of 9.2x and EV/EBITDA multiple of 5.6x its FY2024E estimates. We retain our Buy rating on the stock with a revised price target (PT) of Rs. 183.

Key Risks

Pricing pressures from automotive OEM customers can affect profitability. The fear of geopolitical tension could potentially affect international business and margins.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenues	10,041	12,382	13,496	14,576
Growth (%)	1.9	23.3	9.0	8.0
EBIDTA	1,356	1,396	1,651	1,839
OPM (%)	13.5	11.3	12.2	12.6
Net Profit	758	766	900	971
Growth (%)	(10.5)	1.0	17.5	7.9
EPS (Rs)	8.9	9.0	10.6	11.4
Core P/E (x)	12.7	12.2	10.2	9.2
Core P/BV (x)	2.4	2.2	1.9	1.7
EV/EBIDTA (x)	8.5	8.2	6.6	5.6
Core ROE (%)	13.9	12.8	13.6	13.3
Core ROCE (%)	15.2	14.3	15.2	15.0

Source: Company; Sharekhan estimates

Weak performance continues in Q4 due to input cost inflation: Exide's EBITDA and adjusted PAT came below street's expectations by 8.8% and 4.8%, respectively, largely driven by input cost inflation, coupled with high fuel and freight costs. Standalone net revenue increased by 16% y-o-y to Rs. 3,409 crore in Q4FY2022, led by continued growth momentum from OEMs and improved 2W and 4W battery sales in aftermarkets. In the automotive vertical, the company reported double-digit growth, aided by new initiatives in trade sales and services. The company has witnessed robust sales growth of UPS in industrial SBU, driven by makeshift home offices data centres. Solar, railways, and infrastructure verticals have also registered robust volume growth in Q4. Exports continue to be key growth driver for the company for both automotive and industrial verticals. Standalone EBITDA margin for Q4FY2022 contracted by 140 bps q-o-q to 10.2%, led by rise in input costs and increased fuel and freight costs, partially offset by lower other operating expenses. Gross margin contracted by 300 bps q-o-q to 28%. On a y-o-y basis, EBITDA margin contracted by 380 bps, while gross margin contracted by 310 bps. As a result, standalone EBITDA and adjusted PAT declined 15.4% y-o-y and 17.3% y-o-y to Rs. 349 core and Rs. 202 crore, respectively. The company's reported PAT stood at Rs. 4,120 crore in Q4FY2022, which included net gain of Rs. 4,694 crore from disposal of investments from Exide Life Insurance Company.

Setting up multi-gigawatt lithium-ion cell manufacturing plant: Exide has set up a wholly owned subsidiary, Exide Energy Solutions Limited, for lithium-ion business. The subsidiary will be manufacturing battery cells of advanced chemistry in multiple formats. Exide has entered into a multi-year technical collaboration agreement with SVOLT Energy Solutions Co. Ltd. (SVOLT), for lithium-ion cell manufacturing. SVOLT will also provide the support required for setting the plant on a turnkey basis. The company may not require to raise funds for the lithium business, as the company has 4.1% stake in HDFC Life. The company, through its JV partner Leclanché SA (Swiss Firm), would build lithium-ion batteries and provide energy storage systems for India's electric vehicle (EV) market. The company has increased its stake in the JV to 80.2%.

Management guidance: Management continues to focus on sales transformation and cost compression as key strategies for growth in future. Management expects to maintain its leadership position with auto OEMs and gain market share in the aftermarket segment, especially from the unorganised sector. The company continues to focus on increasing its global footprint, while targeting to double its exports in the medium term. Management expects to benefit from recovery in the industrial battery segment.

Strong replacement demand augurs well: 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 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 battery dealers are also witnessing sales recovery, driven by returning demand and attractive offers from the company.

Cut EPS estimates for FY2023E and FY2024E: We have cut our earnings estimates by 9.2% and 14.2% for FY2023E and FY2024E, respectively, to build the impact of margin pressure. We expect Exide's earnings to post a 12.6% CAGR during FY2022-FY2024E, driven by an 8.5% revenue CAGR and a 130-bps expansion in EBITDA margin to 12.6% in FY2024E from 11.3% in FY2022.

Change in Estimates Rs cr

Particulars	Revised		Earlier		% Change	
	FY2023E	FY2024E	FY2023E	FY2024E	FY2023E	FY2024E
Revenue	13,496	14,576	12,595	13,855	7.2	5.2
EBITDA	1,651	1,839	1,739	1,965	(5.1)	(6.4)
EBITDA margin (%)	12.2	12.6	13.8	14.2	(160 bps)	(160 bps)
PAT	900	971	991	1,133	(9.2)	(14.2)
EPS (Rs.)	10.6	11.4	11.7	13.3	(9.2)	(14.2)

Source: Company; Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q4FY22	Q4FY21	%YoY	Q3FY22	%QoQ
Revenues	3,408.6	2,938.8	16.0	3,196.7	6.6
Total operating costs	3,059.6	2,526.5	21.1	2,824.0	8.3
EBIDTA	349.0	412.3	(15.4)	372.6	(6.3)
Depreciation	106.5	97.4	9.3	104.1	2.2
Interest	10.6	8.5	25.3	8.3	28.2
Other income	39.2	23.5	66.8	15.0	161.1
PBT	271.2	330.0	(17.8)	275.3	(1.5)
Tax	69.1	85.9	(19.5)	71.2	(2.8)
Reported PAT	4,119.7	244.1	1,587.6	204.1	1,918.4
Adjusted PAT	202.0	244.1	(17.3)	204.1	(1.0)
Adjusted EPS	2.4	2.9	(17.3)	2.4	(1.0)

Source: Company; Sharekhan Research

Key Ratios (Standalone) Rs cr

Particulars	Q4FY22	Q4FY21	YoY (bps)	Q3FY22	QoQ (bps)
Gross margin (%)	28.0	34.3	(630)	31.0	(310)
EBIDTA margin (%)	10.2	14.0	(380)	11.7	(140)
EBIT margin (%)	7.1	10.7	(360)	8.4	(130)
Net profit margin (%)	5.9	8.3	(240)	6.4	(50)
Effective tax rate (%)	25.5	26.0	(50)	25.8	(30)

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 strong recovery in 2W and 4W segments, aided by pent-up demand and increased personal mobility transport. The industrial segment is also witnessing growth, driven by recovery in telecom and UPS segments. The potential in telecom and UPS industry demand remains buoyant because of increased data usage and digitalisation.

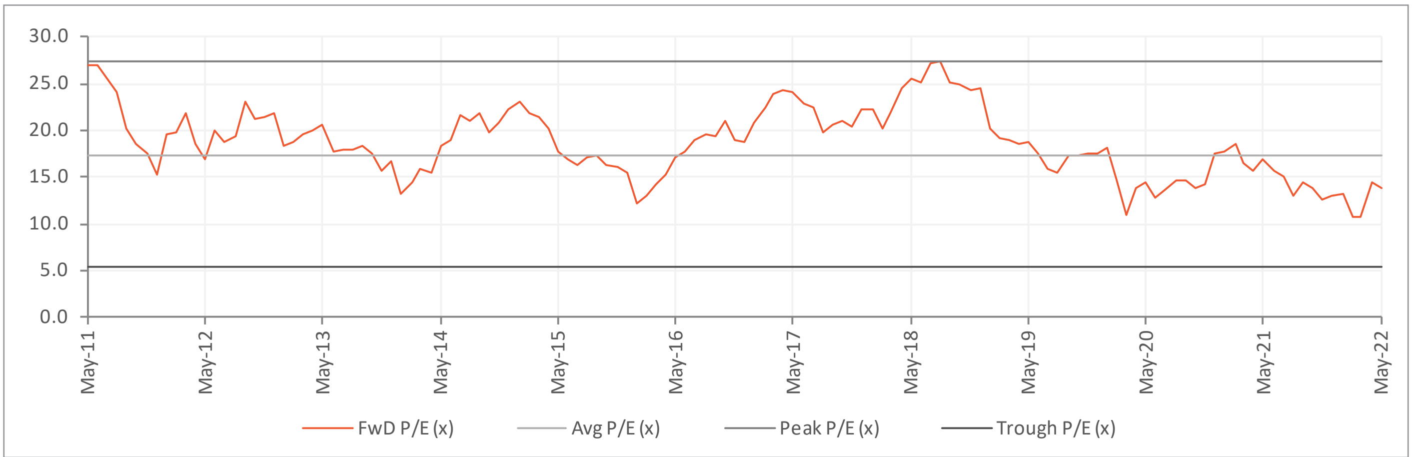
■ Company Outlook – Strong earnings growth

Exide is expected to maintain its leadership position with auto OEMs and gain market share in the aftermarket segment, especially from the unorganised sector. We see strong recovery in automotive battery demand in OEM as well as replacement demand. Higher mobility on road is expected to increase battery demand in replacement markets. Overall, an improving replacement to OEM mix will boost revenue and margin for the company going forward. We expect Exide's earnings to post a 12.6% CAGR during FY2022-FY2024E, driven by an 8.5% revenue CAGR and a 130-bps expansion in EBITDA margin to 12.6% in FY2024E from 11.3% in FY2022.

■ Valuation – Maintain Buy with a revised PT of Rs.183

Exide is the largest battery manufacturer in the lead acid battery markets, commanding a market share of close to 55% in the organised market. Having a strong brand equity and extensive distribution network, we expect Exide to grow strongly. The company 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 flow of ~Rs. 400 crore annually. The stock is attractively valued at P/E multiple of 9.2x and EV/EBITDA multiple of 5.6x its FY2024E estimates. We retain our Buy rating on the stock with a revised PT of Rs. 183.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	Rs/Share	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Exide Industries	146	12.7	12.2	10.2	8.5	8.2	6.6	15.2	14.3	15.2
Amara Raja Batteries	537	14.2	14.5	11.6	7.8	7.2	5.8	19.6	17.4	19.5

Source: Company, Sharekhan estimates

About company

Exide is one of the leading battery manufacturers in India catering to automobiles and industrial segments. The company is present in 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 ranging from 3AH to 200 AH (four wheelers, two wheelers, commercial vehicles, 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 a 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 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. 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 crore per year.

Key Risks

- Pricing pressures from automotive OEM customers and steep rise in lead prices (a key raw material) can impact profitability.
- The fear of geopolitical tensions could potentially affect international business and margins.

Additional Data

Key management personnel

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

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Chloride Eastern Ltd	46.0
2	Life Insurance Corporation Of India	5.5
3	Hathway Investments Private Limited	4.3
4	Icici Prudential Value Discovery Fund	2.6
5	Government Pension Fund Global	2.1
6	Aditya Birla Sun Life	1.7
7	The New India Assurance Company Limited	1.5
8	Hdfc Trustee Company Ltd	1.2
9	Icici Prudential Life Insurance Company Limited	1.1
10	Kotak Equity Savings Fund	1.0

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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