

## Accumulate

### Upward march continues

- Exide posted a strong operating performance in 3Q led by strong replacement demand. Revenue grew 16% YoY to Rs 28bn led by improvement in automotive replacement demand and traction in UPS batteries. EBITDA was in line with estimates, at Rs 4bn (+26% YoY) with margin of 14.4% (+112bps YoY) led by cost control measures.
- The key near to medium term tailwinds for Exide include – 1) Strong pickup in replacement demand led by increasing preference of personal mobility, traction in used car sales, pick up in logistics movement and change in rural vs urban sales mix, (where Exide's presence is better than AMRJ), 2) recovery in OEMs volume (where Exide is ahead of AMRJ) 3) improved traction for batteries in tractor segment, 4) gaining market share from unorganized players, 5) traction in life insurance business and 6) strong FCF.
- The inverter segment has shown promising growth due to the ongoing work from home situation and replacement demand continues to be strong owing to increasing penetration.
- After consistent underperformance against its peer Amara Raja (AMRJ) over the past three quarters, Exide made a strong comeback (shown in Exhibit 6 and 7) in 2QFY21 primarily due to its core strengths including a strong dealer network (~48k direct plus indirect dealers), diverse geographic footprint with deep presence in rural market, manufacturing units spread across regions and digital marketing engagement.
- Life insurance business is showing promising growth with topline growth of 15% YoY at Rs 34bn for 9MFY21. For Q3FY21, company has reported PBIT of Rs 59.7mn (vs loss of Rs 699mn in Q3FY20) thereby showing signs of improvement.
- EXID has taken 3-4% price hikes in the Auto and inverter segments to offset the rise in RM prices and demand-supply mismatch. Moreover, demand recovery in OEMs and Industrial segments shall also benefit bottom-line. We recommend Accumulate with SOTP-based TP of Rs 222 (17x FY23E EPS + 1x Inv. (Rs 20) for insurance business).

### Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	28,010	24,115	16.2	27,534	1.7
Total Expense	23,982	20,916	14.7	23,614	1.6
EBITDA	4,028	3,198	25.9	3,920	2.7
Depreciation	953	925	2.9	953	(0.1)
EBIT	3,075	2,273	35.3	2,967	3.7
Other Income	201	251	(20.0)	148	36.1
Interest	76	21	254.7	63	20.9
EBT	3,200	2,286	40.0	3,052	4.9
Tax	786	326	140.8	764	2.9
RPAT	2,415	1,959	23.2	2,288	5.5
APAT	2,415	1,959	23.2	2,288	5.5
			(bps)		(bps)
Gross Margin (%)	35.9	36.2	(28)	35.0	88
EBITDA Margin (%)	14.4	13.3	112	14.2	14
NPM (%)	8.6	8.1	50	8.3	31
Tax Rate (%)	24.6	14.3	1028	25.0	(48)
EBIT Margin (%)	11.0	9.4	155	10.8	20

CMP	Rs 193
Target / Upside	Rs 222 / 15%
NIFTY	13,818

### Scrip Details

Equity / FV	Rs 850mn / Rs 1
Market Cap	Rs 164bn
	USD 2bn
52-week High/Low	Rs 209/ 125
Avg. Volume (no)	46,50,510
Bloom Code	EXID IN

Price Performance	1M	3M	12M
Absolute (%)	1	23	(5)
Rel to NIFTY (%)	2	5	(19)

### Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	46.0	46.0	46.0
MF/Banks/FIs	22.9	23.1	27.3
FIIIs	9.6	10.3	11.0
Public / Others	21.5	20.6	15.8

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	22.3	18.2	16.2
EV/EBITDA	12.3	10.4	9.1
ROE (%)	11.3	13.0	13.4
RoACE (%)	11.3	12.9	13.3

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	97,195	1,11,789	1,22,480
EBITDA	13,206	15,516	17,382
PAT	7,347	9,011	10,127
EPS (Rs.)	8.6	10.6	11.9

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### Surge in replacement demand

Our channel checks indicate that the demand scenario has improved since reopening of the economy. The aftermarket saw strong pent up demand in Q3 with easing of logistics movement and preference of personal mobility.

While, 2W battery demand is strong, there is a short supply in most parts of the country which is attributed to 1) high pent up demand due to preference of personal mobility, 2) supply chain disruptions for a few components sourced from China and 3) existing commitment to fulfil OEMs orders, thereby impacting supply in the aftermarket. Both companies (AMRJ and EXID) are making their best efforts to remove bottlenecks in the production and supply chain in order to accelerate dispatches.

Inverter battery sales have witnessed a surge in demand due to the ongoing work from home situation. Demand for other industrial batteries like solar and telecom segments continue to be strong.

### Price hike to offset RM price increase and low inventory

EXID has taken 3-4% price hikes in the Auto and inverter segments to offset the rise in RM prices and demand-supply mismatch. The company has rolled back most of the additional offers/schemes to end users. The unorganized players are getting squeezed out of the market due to 1) inability to cater to the new launches by the OEMs which come with advanced fitments and upgraded technology and 2) challenging to source lead (key raw material), as there is no inventory of used batteries in the market, which is positively impacting the organized companies. We expect a surge in demand as channel inventory is lower than the same period last year.

### Focus on Lithium Ion Batteries

Exide has increased its stake in its subsidiary Exide Leclanche Energy Pvt Ltd from 77.87% to 80.15% to satisfy the funding requirement towards capital expenditure projects. The JV to build lithium-ion batteries and energy storage solutions with module and battery pack assembly to help Exide target e-transport (fleet vehicles, e-buses, and e-rickshaws) and battery energy storage solutions for industrial applications. This should address concerns about its readiness to tap opportunity as the mobility landscape changes. Exide has also entered the e-rickshaw manufacturing segment and it aims to capture a 10% market share.

#### Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	DART Est	Var (%)	Remarks
Sales	28,010	28,359	(1)	NA
EBIDTA	4,028	4,055	(1)	NA
EBIDTA Margin (%)	14.4	14.3	8bps	
APAT	2,415	2,409	0	NA

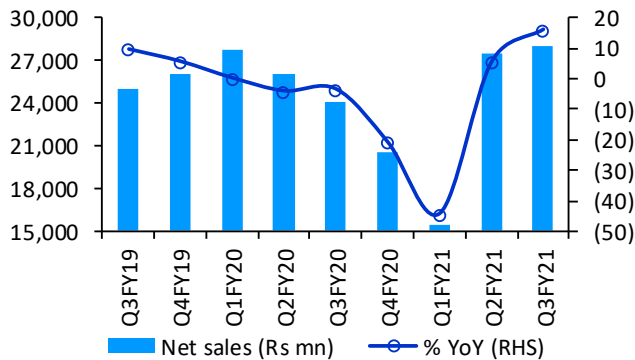
Source: DART, Company

#### Exhibit 2: Change in Estimates

(Rs mn)	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	1,11,789	1,05,270	6.2	1,22,480	1,14,846	6.6
EBITDA	15,516	15,149	2.4	17,382	16,736	3.9
EBITDA Margin (%)	13.9	14.4	(51)bps	14.2	14.6	(38)bps
PAT	9,011	8,738	3.1	10,127	9,646	5.0
EPS (Rs)	10.60	10.28	3.1	11.91	11.35	5.0

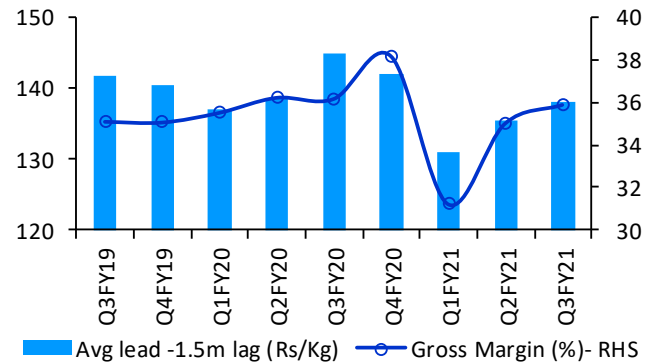
Source: DART, Company

**Exhibit 3: Revenue grew 16% on YoY basis**



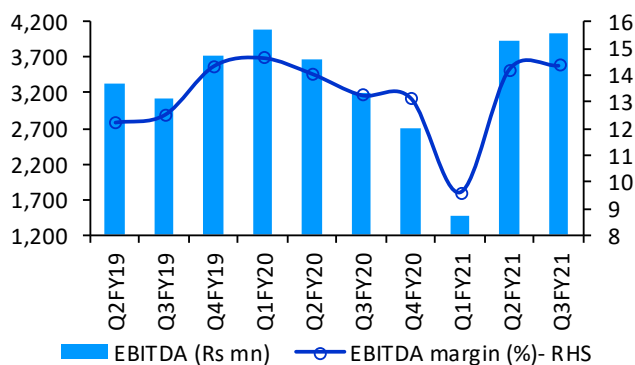
Source: Company, DART

**Exhibit 4: GM expanded QoQ due to better mix**



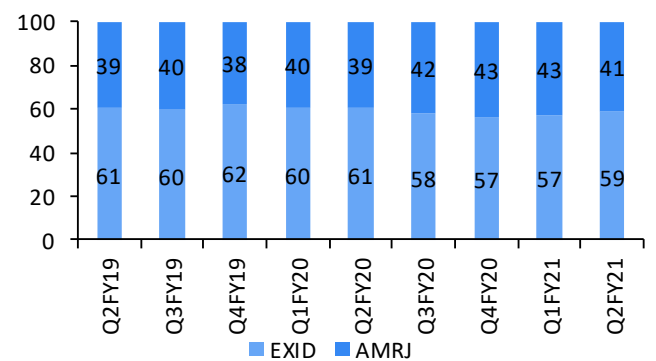
Source: Company, DART

**Exhibit 5: EBITDA margin grew YoY/QoQ**



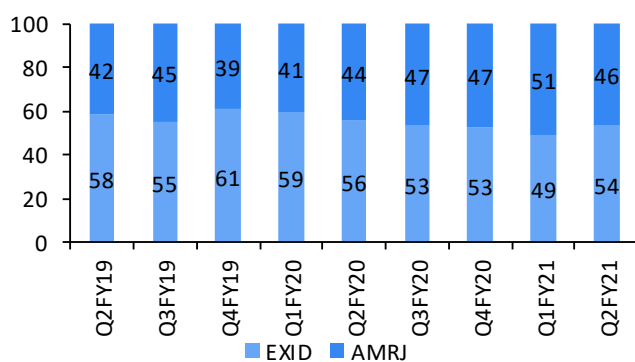
Source: Company, DART

**Exhibit 6: Exide vs AMRJ Industry Revenue share\* (%)**



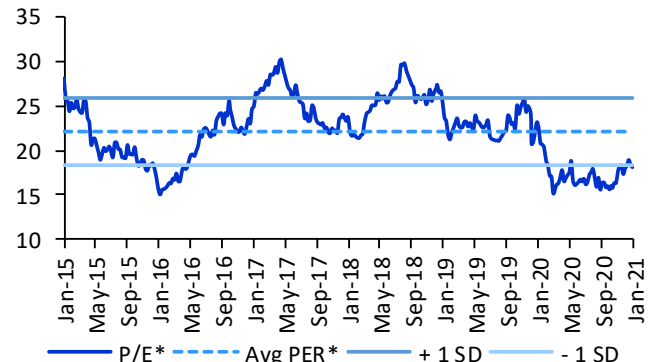
Source: Company, DART, \*Industry revenue = (AMRJ+ Exide Revenue)

**Exhibit 7: Exide vs AMRJ Industry EBITDA share\* (%)**



Source: Company, DART, \* Company, DART, \*Industry EBITDA= (AMRJ+ Exide REBITDA)

**Exhibit 8: P/E Band at near historical low (1 yr fwd PE)**



Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>98,567</b>	<b>97,195</b>	<b>1,11,789</b>	<b>1,22,480</b>
<b>Total Expense</b>	<b>84,917</b>	<b>83,989</b>	<b>96,273</b>	<b>1,05,098</b>
COGS	62,664	63,149	71,902	78,972
Employees Cost	6,664	7,330	7,844	8,314
Other expenses	15,589	13,510	16,527	17,813
<b>EBIDTA</b>	<b>13,650</b>	<b>13,206</b>	<b>15,516</b>	<b>17,382</b>
Depreciation	3,626	3,744	3,860	4,228
<b>EBIT</b>	<b>10,024</b>	<b>9,461</b>	<b>11,656</b>	<b>13,154</b>
Interest	94	100	80	80
Other Income	639	500	520	520
Exc. / E.O. items	(218)	0	0	0
<b>EBT</b>	<b>10,351</b>	<b>9,861</b>	<b>12,096</b>	<b>13,594</b>
Tax	2,097	2,515	3,084	3,466
RPAT	8,254	7,347	9,011	10,127
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>8,472</b>	<b>7,347</b>	<b>9,011</b>	<b>10,127</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	850	850	850	850
Minority Interest	0	0	0	0
Reserves & Surplus	62,111	65,947	71,448	78,065
<b>Net Worth</b>	<b>62,961</b>	<b>66,797</b>	<b>72,298</b>	<b>78,915</b>
Total Debt	280	0	0	0
Net Deferred Tax Liability	1,019	1,120	1,222	1,324
<b>Total Capital Employed</b>	<b>64,260</b>	<b>67,917</b>	<b>73,520</b>	<b>80,239</b>

**Applications of Funds**

Net Block	<b>23,736</b>	<b>23,492</b>	<b>23,631</b>	<b>23,403</b>
CWIP	2,969	2,969	3,469	3,969
Investments	20,521	26,521	28,521	30,521
<b>Current Assets, Loans &amp; Advances</b>	<b>35,197</b>	<b>34,060</b>	<b>38,780</b>	<b>44,709</b>
Inventories	21,923	19,972	21,439	23,489
Receivables	8,154	8,521	10,719	11,745
Cash and Bank Balances	1,733	1,179	2,233	5,087
Loans and Advances	0	0	0	0
Other Current Assets	3,387	4,388	4,388	4,388
<b>Less: Current Liabilities &amp; Provisions</b>	<b>18,163</b>	<b>19,124</b>	<b>20,881</b>	<b>22,363</b>
Payables	10,361	10,727	12,213	13,414
Other Current Liabilities	7,802	8,397	8,668	8,949
<i>sub total</i>				
Net Current Assets	17,034	14,936	17,899	22,346
<b>Total Assets</b>	<b>64,260</b>	<b>67,917</b>	<b>73,520</b>	<b>80,239</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	36.4	35.0	35.7	35.5
EBIDTA Margin	13.8	13.6	13.9	14.2
EBIT Margin	10.2	9.7	10.4	10.7
Tax rate	20.3	25.5	25.5	25.5
Net Profit Margin	8.4	7.6	8.1	8.3
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	63.6	65.0	64.3	64.5
Employee	6.8	7.5	7.0	6.8
Other	15.8	13.9	14.8	14.5
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	106.6	94.6	145.7	164.4
Inventory days	81	75	70	70
Debtors days	30	32	35	35
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	38	40	40	40
Working Capital days	63	56	58	67
FA T/O	4.2	4.1	4.7	5.2
<b>(D) Measures of Investment</b>				
AEPS (Rs)	10.0	8.6	10.6	11.9
CEPS (Rs)	14.2	13.0	15.1	16.9
DPS (Rs)	4.1	3.5	3.5	3.5
Dividend Payout (%)	41.1	40.5	33.0	29.4
BVPS (Rs)	74.1	78.6	85.1	92.8
RoANW (%)	13.4	11.3	13.0	13.4
RoACE (%)	13.6	11.3	12.9	13.3
RoAIC (%)	16.6	14.6	16.9	18.0
<b>(E) Valuation Ratios</b>				
CMP (Rs)	193	193	193	193
P/E	19.4	22.3	18.2	16.2
Mcap (Rs Mn)	1,64,050	1,64,050	1,64,050	1,64,050
MCap/ Sales	1.7	1.7	1.5	1.3
EV	1,62,597	1,62,871	1,61,817	1,58,963
EV/Sales	1.6	1.7	1.4	1.3
EV/EBITDA	11.9	12.3	10.4	9.1
P/BV	2.6	2.5	2.3	2.1
Dividend Yield (%)	2.1	1.8	1.8	1.8
<b>(F) Growth Rate (%)</b>				
Revenue	(6.9)	(1.4)	15.0	9.6
EBITDA	(3.3)	(3.3)	17.5	12.0
EBIT	(8.7)	(5.6)	23.2	12.9
PBT	(16.4)	(4.7)	22.7	12.4
APAT	15.2	(13.3)	22.7	12.4
EPS	15.2	(13.3)	22.7	12.4
<b>Cash Flow</b>				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	9,096	12,836	11,145	12,944
CFI	(4,578)	(13,500)	(10,500)	(10,500)
CFF	(3,926)	(3,891)	(3,591)	(3,591)
FCFF	4,287	9,336	6,645	8,444
Opening Cash	4,358	1,515	1,179	2,233
Closing Cash	1,515	1,179	2,233	5,087

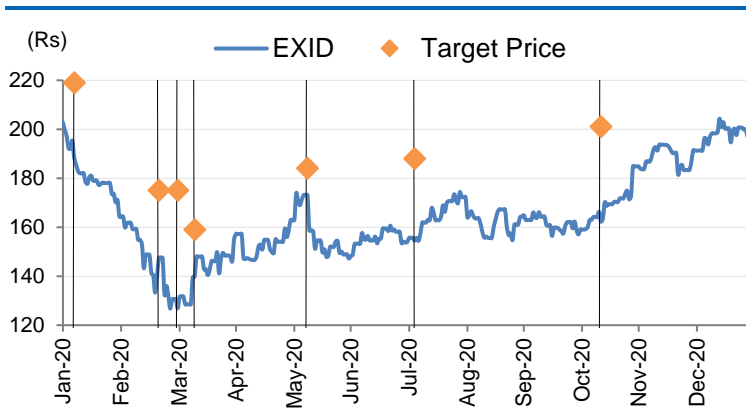
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-20	Accumulate	219	188
Mar-20	Buy	175	148
Mar-20	Buy	175	127
Apr-20	Accumulate	159	140
Jun-20	Reduce	184	173
Aug-20	Buy	188	155
Nov-20	Buy	201	162

\*Price as on recommendation date

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