

## Stable operational prospect, EV plans prompt upgrade

Exide Industries (EIL) reported a healthy Q3FY21 performance. Net sales for the quarter were at ₹ 2,801 crore (up 16.2% YoY). EBITDA in Q3FY21 was at ₹ 403 crore with corresponding EBITDA margins at 14.4% (up 14 bps QoQ, 112 bps YoY). Resilience in margins was on account of gross margin expansion (up ~90 bps QoQ). Consequent standalone PAT for the quarter came in at ₹ 241 crore. EIL declared an interim dividend of ₹ 2/share for FY21.

### Higher OEM share to aid topline but temper margins...

For EIL, automotive forms 73% of sales with industrial demand constituting 26%. In terms of channel mix, replacement accounts for 60% of topline (automotive, industrial combined), with the rest coming from OEMs. Within automotive, however, OEM share is higher at 60% for 2-W and 4-W. EIL is the market leader in all automotive categories except exports as well as in all industrial categories except telecom. Healthy replacement demand (to serve good OEM production during FY16-19 cycle) is seen supporting topline till FY22E. In FY23E, however, we see OEM channel share rising within overall mix – thereby constraining margins to an extent (replacement channel enjoys higher pricing power). Nevertheless, no major dip in realisations or margins is expected, going ahead, given the organised lead acid battery's duopolistic nature, EIL's substantial market presence across segments and stable medium term outlook on lead prices. We build 14.4% sales CAGR for EIL in FY21E-23E on the back of improved OEM offtake outlook while EIL aims to grow faster than industry by 2%. Margins are seen at ~13-13.5% in FY21E-23E, with operating leverage benefits largely cancelling out adverse channel mix. Progress on exports (aims to double it in three years) would be keenly watched as a de-risking measure.

### Relative lithium ion proactiveness encouraging!

Among large lead acid battery players in India, EIL has been slightly ahead of the curve in recognising impending technological disruption from lithium-ion. Its JV with Swiss partner Leclanche (Nexcharge) has capacity of > 1.5GWh across five lines – with intended usage across the vehicle category namely 3-W, 2-W, buses, cars, telecom and has also received ~₹ 18 crore worth 3-W OEM order for 3,000 battery packs. Recently, EIL acquired additional 2.28% stake in Nexcharge (total stake now at 80.15%) for ~₹ 33.2 crore, valuing it at ~₹ 1,450 crore – reflecting its intent on this front. EIL could be one of the beneficiaries of the government's PLI scheme in the area of advance cell chemistry (total outlay of ~₹ 18,000 over a five-year period).

### Valuation & Outlook

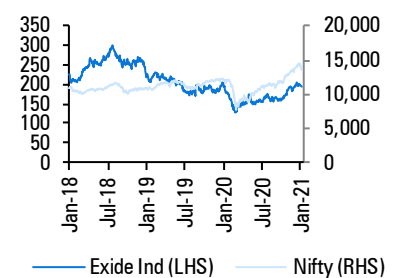
We believe EIL trades at fairly reasonable valuations (~13.6x FY23E core EPS) and turn positive on the stock. We upgrade EIL from HOLD to **BUY** with a revised SOTP target price of 225 (earlier target ₹ 200), valuing battery business at ₹ 180 i.e., 16.5x P/E & insurance & smelting operations at ₹ 45.



#### Particulars

Particular	Amount
Market Capitalization (₹ crore)	16,490.0
Total Debt (FY20, ₹ Crore)	0.0
Cash & Inv. (FY20, ₹ Crore)	169.2
EV (₹ Crore)	16,320.8
52 week H/L (₹)	209 /122
Equity capital	₹ 85 Crore
Face value	₹ 1

#### Price Performance



#### Key Highlights

- EIL reported healthy performance in Q3FY21 with sales growth coming in at 16.2% YoY and EBITDA margins being resilient at 14.4%
- EIL differentiates vs. its competition through its new venture in Li-On battery domain thereby de-risking its dominance on lead-acid batteries amidst growing global focus on EV

#### Key risk to our call

- Higher than anticipated rise in lead prices and EIL's inability to pass it onto its customers
- EIL being unable to capitalise on the growing Li-on opportunity domestically

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#### Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-FY23E)
Net Sales	10,588.3	9,856.7	9,716.8	11,819.8	12,725.6	14.4%
EBITDA	1,406.9	1,365.0	1,268.3	1,541.8	1,703.3	15.9%
EBITDA Margins (%)	13.3	13.8	13.1	13.0	13.4	
Net Profit	839.7	825.5	683.6	840.1	927.3	16.5%
EPS (₹)	9.9	9.7	8.0	9.9	10.9	
P/E	19.6	20.0	24.1	19.6	17.8	
Core P/E	NA	15.0	18.4	15.0	13.6	
RoNW (%)	12.8	13.4	10.2	11.6	11.8	
RoCE (%)	17.8	15.7	12.9	14.7	15.0	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (Chg %)	Q2FY21	QoQ (Chg %)	Comments
Total Operating Income	2,801	2,952	2,411	16.2	2,753	1.7	Topline came in lower than our estimates at ₹ 2,801 crore, up 16.2% YoY and 1.7% QoQ
Raw Material Expenses	1,796	1,958	1,539	16.7	1,789	0.4	RM to sales came in lower than anticipated at 64.1% vs. our estimates of 66.3%
Employee Expenses	206	192	167	23.5	191	8.2	Employee costs came in a tad higher at 7.4% of sales
Other expenses	396	443	385	2.8	381	3.9	Other expenses were controlled at ~14% of sales vs. our estimates of 15%
EBITDA	403	359	320	25.9	392	2.7	
EBITDA Margin (%)	14.4	12.2	13.3	112 bps	14.2	14 bps	EBITDA margins came in ahead of estimates tracking out-performance of gross margins as well as lower other expenses
Other Income	20.1	7.3	25.1	-20.0	14.8	36.1	
Depreciation	95.3	100.2	92.5	2.9	95.3	-0.1	Depreciation came in largely on expected lines
Interest	7.6	2.2	2.1	255.1	6.3	21.0	
Tax	78.6	66.4	32.6	140.8	76.4	2.9	Tax rate for the quarter stood at 24.6% of PBT
Reported PAT	241.4	197.1	195.9	23.2	228.8	5.5	
EPS (₹)	2.8	2.3	2.3	23.2	2.7	5.5	Pat for the quarter came in higher tracking beat on margins and higher than anticipated other income

Source: Company, ICICI Direct Research

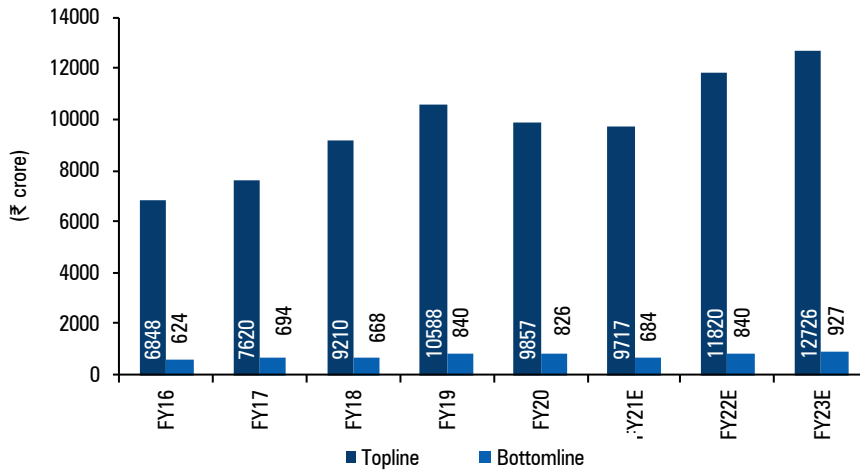
Exhibit 2: Change in estimates

₹ Crore	FY21E			FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	9,587	9,717	1.4	11,044	11,820	7.0	11,313.0	12,726	12.5	Tweaked the topline estimates tracking 9MFY21 performance and robust OEM sales outlook. Going forward over FY21-23E, topline at Exide is expected to grow at a CAGR of 14.4%
EBITDA	1,190	1,268	6.6	1,434	1,542	7.5	1,527.9	1,703	11.5	
EBITDA Margin (%)	12.4	13.1	64 bps	13.0	13.0	6 bps	13.5	13.4	-12 bps	Margins at Exide are expected to be in the range of 13-13.5% amid near term increasing share of OEM sales volume
PAT	619	684	10.4	780	840	7.7	844.6	927	9.8	
EPS (₹)	7.3	8.0	10.4	9.2	9.9	7.7	9.9	10.9	9.8	Upward revision in sales and tweaking of margin estimates leads to ~10% upgrade in our earnings estimates over FY20-23E. We expect bottom-line at Exide to grow at a CAGR of 16.5% over FY21-23E

Source: ICICI Direct Research

### Financial story in charts

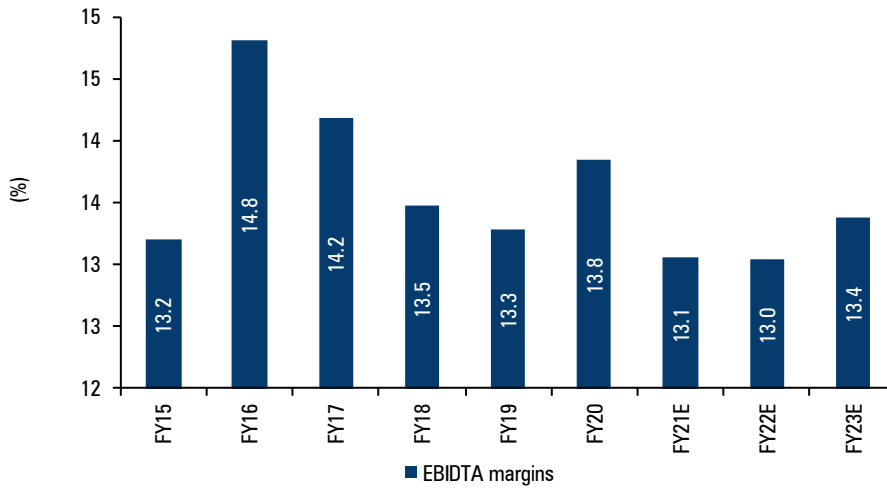
Exhibit 3: Topline and bottomline trend



We expect sales to grow at 14.4% CAGR over FY21E-23E while PAT is seen growing at a CAGR of 16.5% in the aforesaid period

Source: Company, ICICI Direct Research

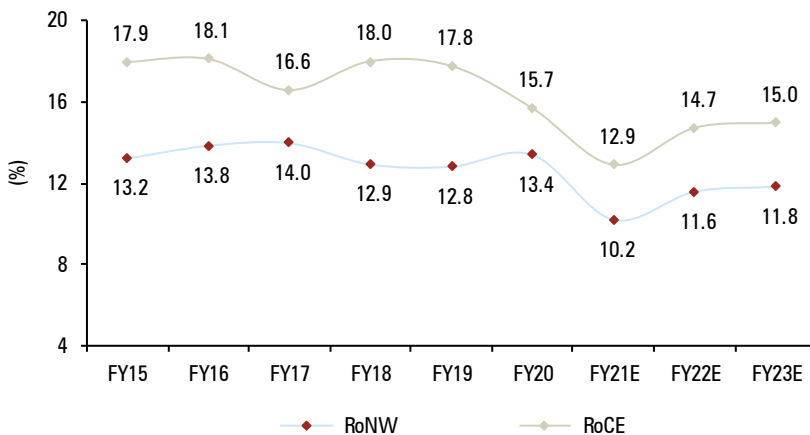
Exhibit 4: EBITDA margin trend



We expect margins to improve to 13.4% by FY23E

Source: Company, ICICI Direct Research

Exhibit 5: RoE, RoCE trend



RoCE profile is seen improving to ~15% levels by FY23E post dip expected in FY21E (~13% levels)

Source: Company, ICICI Direct Research

**Exhibit 6: Valuation Matrix (SOTP Valuation)**

SOTP Valuation	Estimated value	Value per share	Remark
<b>Standalone Business</b>			
FY23E EPS	10.9	1x PEG on FY21E-23E earnings	
P/E Multiple	16.5	CAGR of 16.5%	
Value per share (₹)		<b>180</b>	
<b>Insurance business</b>			
Value of Exide Life Insurance (₹ crore)	3606	1.5x FY19 Embedded Value	
Value per share (₹)		<b>42</b>	
<b>Value of subsidiaries (₹ crore)</b>			
Value of smelting subsidiaries (₹)	288	3 2x P/B on investment (FY20)	
<b>Total Value per Share (₹)</b>		<b>225</b>	

Source: ICICI Direct Research

**Exhibit 7: Valuation Summary**

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	10,588	15.0	9.0	10.0	19.6	11.5	12.8	17.8
FY20	9,857	(6.9)	9.9	10.0	20.0	12.0	13.4	15.7
FY21E	9,717	(1.4)	8.0	(18.9)	24.1	12.4	10.2	12.9
FY22E	11,820	21.6	9.9	22.9	19.6	10.1	11.6	14.7
FY23E	12,726	7.7	10.9	10.4	17.8	8.9	11.8	15.0

Source: Bloomberg, ICICI Direct Research

**Exhibit 8: Shareholding pattern**

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	46.0	46.0	46.0	46.0	46.0
FII	8.9	9.4	9.1	9.8	10.4
DII	24.4	23.5	22.9	23.1	27.3
Others	20.7	21.1	22.0	21.1	16.3

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>9856.7</b>	<b>9716.8</b>	<b>11819.8</b>	<b>12725.6</b>
Growth (%)	-6.9	-1.4	21.6	7.7
Raw Material Expenses	6266.4	6350.2	7671.6	8239.2
Employee Expenses	666.4	746.0	833.5	906.0
Other Expenses	1558.9	1352.2	1773.0	1877.0
Total Operating Expenditure	8491.7	8448.4	10278.0	11022.2
<b>EBITDA</b>	<b>1,365.0</b>	<b>1,268.3</b>	<b>1,541.8</b>	<b>1,703.3</b>
Growth (%)	-3.0	-7.1	21.6	10.5
Depreciation	362.6	388.7	455.1	509.0
Interest	9.4	19.2	20.1	21.1
Other Income	63.9	53.9	56.5	66.5
<b>PBT</b>	<b>1,056.9</b>	<b>914.4</b>	<b>1,123.1</b>	<b>1,239.7</b>
Exceptional Item	21.7	0.0	0.0	0.0
Total Tax	209.7	230.9	283.0	312.4
<b>Reported PAT</b>	<b>825.5</b>	<b>683.6</b>	<b>840.1</b>	<b>927.3</b>
Growth (%)	-1.7	-17.2	22.9	10.4
<b>EPS (₹)</b>	<b>9.7</b>	<b>8.0</b>	<b>9.9</b>	<b>10.9</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Profit after Tax</b>	<b>825.5</b>	<b>683.6</b>	<b>840.1</b>	<b>927.3</b>
Add: Depreciation	362.6	388.7	455.1	509.0
(Inc)/dec in Current Assets	2.2	215.5	-652.6	-281.1
Inc/(dec) in CL and Provisions	-213.8	38.5	385.9	166.2
<b>CF from operating activities</b>	<b>976.6</b>	<b>1,326.3</b>	<b>1,028.4</b>	<b>1,321.4</b>
(Inc)/dec in Investments	235.2	-575.0	-150.0	-375.0
(Inc)/dec in Fixed Assets	-448.3	-400.0	-450.0	-450.0
Others	-166.0	-70.0	-109.7	-143.1
<b>CF from investing activities</b>	<b>(379.1)</b>	<b>(1,045.0)</b>	<b>(709.7)</b>	<b>(968.1)</b>
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	-418.2	-255.0	-297.5	-340.0
Others	-98.2	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>(516.4)</b>	<b>(255.0)</b>	<b>(297.5)</b>	<b>(340.0)</b>
Net Cash flow	81.1	26.2	21.2	13.3
Opening Cash	69.5	150.5	176.8	197.9
<b>Closing Cash</b>	<b>150.6</b>	<b>176.8</b>	<b>197.9</b>	<b>211.2</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	85.0	85.0	85.0	85.0
Reserve and Surplus	6,206.8	6,635.4	7,178.0	7,765.3
<b>Total Shareholders funds</b>	<b>6,291.8</b>	<b>6,720.4</b>	<b>7,263.0</b>	<b>7,850.3</b>
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	101.9	100.4	122.1	131.5
Other non-current liabilities	99.9	84.2	88.2	103.9
<b>Total Liabilities</b>	<b>6,493.5</b>	<b>6,905.0</b>	<b>7,473.4</b>	<b>8,085.6</b>
<b>Assets</b>				
Gross Block	3,575.2	4,022.1	4,472.1	4,922.1
Less: Acc Depreciation	1,265.5	1,654.2	2,109.2	2,618.2
<b>Net Block</b>	<b>2,309.7</b>	<b>2,367.9</b>	<b>2,362.9</b>	<b>2,303.8</b>
Capital WIP	296.9	250.0	250.0	250.0
Total Fixed Assets	2,606.6	2,617.9	2,612.9	2,553.8
Investments	2,107.3	2,737.3	2,992.3	3,522.3
Inventory	2,192.3	1,863.5	2,266.8	2,440.5
Debtors	815.3	931.7	1,133.4	1,220.3
Loans and Advances	39.6	39.1	47.5	51.2
<b>Cash</b>	<b>150.5</b>	<b>176.8</b>	<b>197.9</b>	<b>211.2</b>
Total Current Assets	3,381.4	3,192.2	3,866.0	4,160.3
Creditors	1,030.3	1,064.9	1,295.3	1,394.6
Provisions	296.4	306.4	372.7	401.2
Total Current Liabilities	1,744.3	1,782.8	2,168.6	2,334.8
<b>Net Current Assets</b>	<b>1,637.2</b>	<b>1,409.4</b>	<b>1,697.3</b>	<b>1,825.5</b>
Other non-current assets	142.7	140.7	171.2	184.3
<b>Total Assets</b>	<b>6,493.5</b>	<b>6,905.0</b>	<b>7,473.4</b>	<b>8,085.6</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	9.9	8.0	9.9	10.9
Cash EPS	13.6	12.6	15.2	16.9
BV	70.4	79.1	85.4	92.4
DPS	2.4	4.1	3.0	3.5
Cash Per Share	0.8	2.1	2.3	2.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.3	13.1	13.0	13.4
PBT / Net sales	10.3	9.1	9.2	9.4
PAT Margin	7.2	7.0	7.1	7.3
Inventory days	62.2	70.0	70.0	70.0
Debtor days	37.3	35.0	35.0	35.0
Creditor days	39.4	40.0	40.0	40.0
<b>Return Ratios (%)</b>				
RoE	12.8	10.2	11.6	11.8
RoCE	17.8	12.9	14.7	15.0
RoIC	19.6	15.2	17.5	18.7
<b>Valuation Ratios (x)</b>				
Core P/E	15.0	18.4	15.0	13.6
EV / EBITDA	11.5	12.4	10.1	8.9
EV / Net Sales	1.5	1.6	1.3	1.2
Market Cap / Sales	1.6	1.7	1.4	1.3
Price to Book Value	2.8	2.5	2.3	2.1
<b>Solvency Ratios</b>				
Debt: Equity	-	-	-	-
Quick Ratio	0.7	0.6	0.6	0.6

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Auto & auto ancillary)

Sector / Company	CMP			M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
	(₹)	(₹)	Rating		(₹ Cr)	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E
Apollo Tyre (APOTYR)	197	200	Hold	11,269	8.3	5.8	11.6	14.6	23.7	34.1	16.9	13.5	9.0	7.2	6.3	5.0	4.5	5.0	7.0	8.4	4.8	3.3	6.3	7.5
Ashok Leyland (ASHLEY)	110	120	Buy	32,198	0.8	-0.6	2.4	4.7	134.8	-173.2	45.1	23.6	29.1	51.1	18.4	12.3	4.5	0.0	9.5	15.8	4.7	-2.6	9.5	16.2
Bajaj Auto (BAAUTO)	4,007	4,500	Buy	1,15,951	176.2	154.1	184.5	219.6	22.7	26.0	21.7	18.2	19.4	20.3	16.1	12.9	23.9	25.3	26.6	27.5	25.6	19.7	20.6	21.3
Balkrishna Ind. (BALIND)	1,590	1,770	Hold	30,737	48.9	48.1	58.6	68.0	32.5	33.1	27.1	23.4	25.0	19.7	16.3	14.2	14.4	17.6	19.7	20.4	18.8	16.7	18.2	18.8
Bharat Forge (BHAFOR)	582	510	Hold	27,096	7.5	0.3	9.4	17.0	77.6	NM	61.6	34.3	26.7	48.0	23.8	17.0	5.6	0.3	6.0	9.9	7.8	0.8	8.8	14.0
Eicher Motors (EICMOT)	2,745	2,650	Hold	74,829	67.0	46.6	70.2	90.2	40.9	59.0	39.1	30.4	31.3	38.5	27.4	21.3	17.3	11.8	15.2	16.9	18.3	11.6	15.3	17.1
Escorts (ESCORT)	1,205	1,500	Hold	14,771	39.6	59.5	71.0	80.9	30.4	20.3	17.0	14.9	20.5	13.2	11.0	9.3	16.2	15.3	15.3	14.9	14.2	14.0	14.5	14.3
<b>Exide Industries (EXIIND)</b>	<b>194</b>	<b>225</b>	<b>Buy</b>	<b>16,490</b>	<b>9.7</b>	<b>8.0</b>	<b>9.9</b>	<b>10.9</b>	<b>15.0</b>	<b>18.4</b>	<b>15.0</b>	<b>13.6</b>	<b>12.0</b>	<b>12.4</b>	<b>10.1</b>	<b>8.9</b>	<b>15.7</b>	<b>12.9</b>	<b>14.7</b>	<b>15.0</b>	<b>13.4</b>	<b>10.2</b>	<b>11.6</b>	<b>11.8</b>
Hero Moto (HERHON)	3,255	3,480	Hold	65,002	181.9	123.6	161.8	183.1	17.9	26.3	20.1	17.8	14.8	17.0	12.8	11.0	21.3	16.6	20.6	21.3	22.7	16.0	19.0	19.4
M&M (MAHMAH)	750	870	Buy	93,240	11.2	22.8	40.1	46.4	67.3	32.9	18.7	16.2	15.5	15.0	12.0	10.2	8.8	8.4	10.5	11.5	6.4	9.5	11.9	12.5
Maruti Suzuki (MARUTI)	7,200	7,000	Reduce	2,17,498	187.1	144.5	198.8	233.4	38.5	49.8	36.2	30.8	24.9	34.8	22.2	18.5	7.4	3.9	7.8	9.1	11.7	8.5	10.9	11.8
Minda Industries (MININD)	456	440	Buy	12,399	5.9	6.7	10.8	14.7	77.2	68.2	42.1	30.9	21.6	21.4	15.6	12.8	9.1	7.9	12.3	15.2	10.3	9.4	14.2	16.3
Motherson (MOTSUM)	145	165	Hold	45,790	3.7	0.3	5.1	6.3	39.1	NM	28.6	22.9	10.1	13.9	7.5	6.3	9.0	2.8	13.1	16.0	10.4	0.9	13.2	14.9
Tata Motors (TATMOT)	262	301	Buy	94,260	-33.3	-14.7	9.0	21.7	NM	NM	29.2	12.1	7.0	5.8	4.1	3.1	1.3	3.7	7.9	11.1	-18.7	-9.3	5.3	11.5

Source: ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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