

Shifting technology landscape remains reality...

Amara Raja Batteries (ARBL) reported steady Q3FY21 results. Net sales were up 12.1% YoY to ₹ 1,960 crore. According to management commentary, growth was achieved on the back of broad-based strength across automotive channels, telecom & commercial UPS segments. Margins were at 15.6% (down 195 bps QoQ) amid 82 bps gross margin contraction and increase in other expenses on a percentage of sales basis. PAT grew 17.5% YoY to ₹ 193 crore, partly aided by higher other income (₹ 35 crore vs. ₹ 13 crore in Q3FY20). ARBL declared interim dividend of ₹ 5/share for FY21E and announced ₹ 500 crore capex towards – (1) ₹ 220 crore for 50 MW solar power plant and (2) ₹ 280 crore for greenfield lead recycling unit.

Profitability to outshine topline on pricing power, o/p leverage

Automotive OEM production has ramped up significantly across segments over the past six months, with general near to medium term outlook remaining positive - partly on account of pent-up demand. Ensuing improved prospects for the entire channel (aftermarket revival started earlier) are set to benefit ARBL. Industrial demand has also been encouraging in the post Covid months. We expect continued traction there, with overall FY21E-23E sales CAGR at 11.2%. During Q3FY21, other expenses rose sequentially (absolute quantum as well as on percentage of sales basis) despite largely flattish QoQ revenue performance and management indication of capacities running at full utilisation. Nevertheless, the company's substantial ~65% exposure to aftermarket channel in automotive space (constitutes ~70% of overall topline) and consequent superior pricing power (B2C characteristic in a largely duopolistic industry) are seen lending strength to gross and operating margins in coming quarters. We expect greater operating leverage benefits to accrue from FY22E onwards as expanded 4-W and tubular capacities get utilised and build 15.6%, 16% margins for FY22E & FY23E, respectively.

Li-ion adoption to change industry landscape in coming times

Government thrust on vehicular electrification, going forward (FAME-1 & 2, PLI, other incentives) is set to change business landscape for traditional lead acid battery manufacturers including ARBL – although the transition away from fossil fuel vehicles would be gradual. To this end, ARBL has set up a Li-ion technology research hub with pilot plant facility for cell development and currently has pack assembly capabilities for industrial and automotive use. We await further exciting developments on this front for the company.

Valuation & Outlook

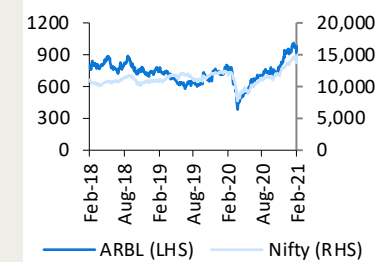
While topline, margin performance is set to be broadly positive, impending EV threat for lead acid business is a reality – and could limit valuation multiples commanded by ARBL. We maintain **REDUCE** recommendation, valuing ARBL at ₹ 800 i.e., 17x FY23E EPS (earlier target price ₹ 715).



Particulars

Particular	₹ crore
Market Capitalization	14,963.0
Total Debt (FY20)	46.8
Cash & Investments (FY20)	226.3
EV (FY20)	14,783.5
52 week H/L (₹)	1025 / 350
Equity capital	17.1
Face value (₹)	₹ 1

Price Performance



Key highlights

- Q3FY21 revenues up 12% on good performance across automotive, industrial segments. Margins down 200 bps QoQ to 15.6% on higher raw material costs, other expenses
- Operating leverage, aftermarket to help bottomline grow faster than sales in FY21E-23E

Risks to our call

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

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

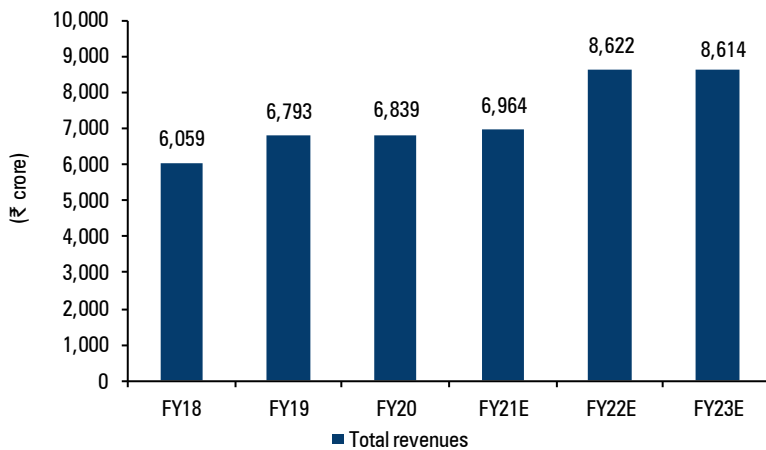
Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Net Sales	6,793.1	6,839.5	6,964.1	8,621.6	8,613.5	11.2%
EBITDA	951.8	1,098.6	1,074.3	1,348.9	1,374.2	13.1%
EBITDA Margins (%)	14.0	16.1	15.4	15.6	16.0	
Net Profit	483.5	660.8	611.8	797.1	803.1	14.6%
EPS (₹)	28.3	38.7	35.8	46.7	47.0	
P/E	30.9	22.6	24.5	18.8	18.6	
RoNW (%)	14.5	18.1	15.0	17.2	15.5	
RoCE (%)	19.8	21.3	18.3	21.3	19.1	

Source: ICICI Direct Research, Company

Financial story in charts

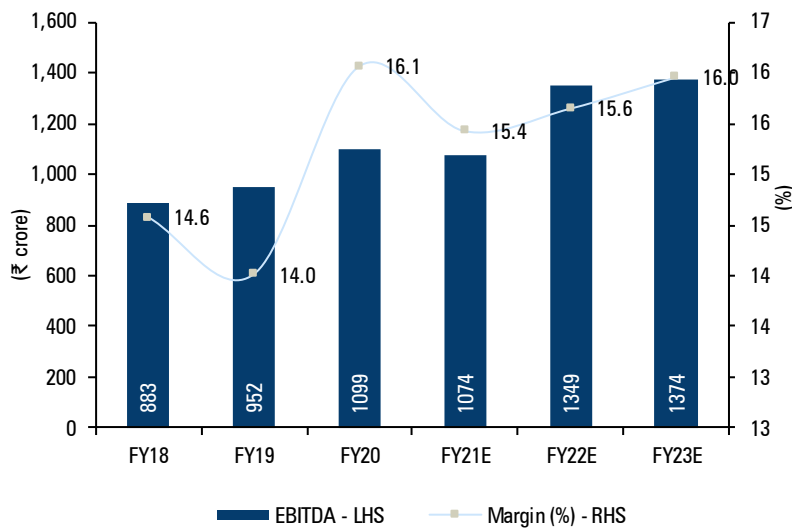
Exhibit 1: Topline trend



We expect sales to grow at a CAGR of 11.2% over FY21E-23E

Source: Company, ICICI Direct Research

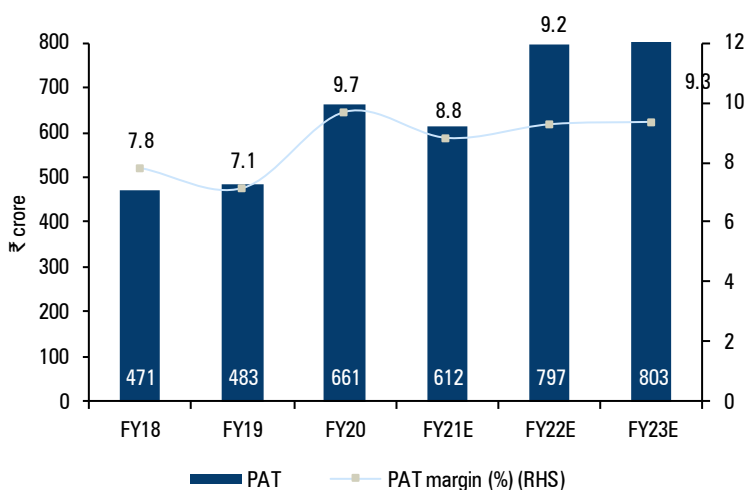
Exhibit 2: EBITDA & EBITDA margin trend



Margins are seen returning to 16% by FY23E on better operating leverage, high aftermarket share

Source: Company, ICICI Direct Research

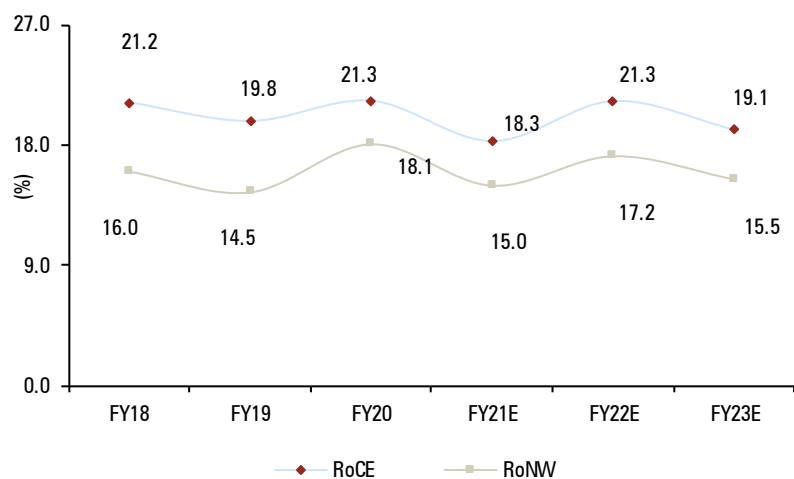
Exhibit 3: Profitability trend



PAT is expected to grow to ₹ 803 crore by FY23E at a CAGR of 14.6% from FY21E

Source: Company, ICICI Direct Research

Exhibit 4: Return ratios



Return ratios are expected to improve slightly over FY21E-23E

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	30.9	15.7	14.5	19.8
FY20	6839.5	0.7	38.7	36.7	22.6	13.5	18.1	21.3
FY21E	6964.1	1.8	35.8	-7.4	24.5	13.7	15.0	18.3
FY22E	8621.6	23.8	46.7	30.3	18.8	10.8	17.2	21.3
FY23E	8613.5	-0.1	47.0	0.8	18.6	10.3	15.5	19.1

Source: Company, ICICI Direct Research

Exhibit 6: Shareholding pattern

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	28.1	28.1	28.1	28.1	28.1
FII	21.2	20.9	19.0	18.6	20.9
DII	10.6	11.1	13.3	14.2	14.5
Others	40.1	39.9	39.7	39.1	36.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	6,839	6,964	8,622	8,614
Growth (%)	0.7	1.8	23.8	-0.1
Raw Material Expenses	4,447.1	4,604.1	5,694.0	5,637.2
Employee Expenses	385.2	433.9	479.5	516.8
Other Expenses	908.6	851.7	1,099.3	1,085.3
Total Operating Expenditure	5,740.9	5,889.8	7,272.7	7,239.4
EBITDA	1,098.6	1,074.3	1,348.9	1,374.2
Growth (%)	15.4	-2.2	25.6	1.9
Depreciation	300.7	313.4	344.9	366.1
Interest	12.2	10.5	9.5	7.6
Other Income	55.0	70.6	71.1	73.2
PBT	840.7	821.1	1,065.6	1,073.7
Total Tax	179.9	209.3	268.5	270.6
PAT	660.8	611.8	797.1	803.1
Growth (%)	36.7	-7.4	30.3	0.8
EPS (₹)	38.7	35.8	46.7	47.0

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	660.8	611.8	797.1	803.1
Add: Depreciation	300.7	313.4	344.9	366.1
(Inc)/dec in Current Assets	135.9	-132.9	-506.7	2.5
Inc/(dec) in CL and Provisions	198.6	-42.5	249.2	-1.2
CF from operating activities	1,296.2	749.8	884.4	1,170.4
(Inc)/dec in Investments	-135.7	-90.0	-125.0	-350.0
(Inc)/dec in Fixed Assets	-830.0	-450.0	-500.0	-550.0
Others	40.3	0.8	10.7	-0.1
CF from investing activities	(931.7)	(539.2)	(614.3)	(900.1)
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	-239.1	-247.7
CF from financing activities	(352.2)	(197.9)	(249.1)	(257.7)
Net Cash flow	12.3	12.7	21.0	12.7
Opening Cash	71.7	84.0	96.7	117.7
Closing Cash	84.0	96.7	117.7	130.4

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	17.1	17.1	17.1	17.1
Reserve and Surplus	3,638.5	4,062.5	4,620.4	5,175.9
Total Shareholders funds	3,655.6	4,079.6	4,637.5	5,192.9
Total Debt	46.8	36.8	26.8	16.8
Deferred Tax Liability	44.1	44.9	55.6	55.6
Total Liabilities	3,911.1	4,325.8	4,884.5	5,429.9
Assets				
Gross Block	2,938.9	3,915.9	4,515.9	5,065.9
Less: Acc Depreciation	1,112.8	1,426.2	1,771.1	2,137.1
Net Block	1,826.1	2,489.7	2,744.8	2,928.8
Capital WIP	827.0	300.0	200.0	200.0
Total Fixed Assets	2,656.2	2,792.8	2,948.0	3,131.9
Investments	156.2	246.2	371.2	721.2
Inventory	1,142.7	1,144.8	1,417.2	1,415.9
Debtors	636.3	763.2	944.8	944.0
Loans and Advances	11.5	11.7	14.5	14.5
Other Current Assets	205.6	209.3	259.2	258.9
Cash	84.0	96.7	117.7	130.4
Total Current Assets	2,080.1	2,225.7	2,753.4	2,763.7
Creditors	614.9	572.4	708.6	708.0
Provisions	99.4	92.5	114.6	114.4
Other current liabilities	375.2	382.0	473.0	472.5
Total Current Liabilities	1,089.5	1,047.0	1,296.2	1,294.9
Net Current Assets	990.7	1,178.8	1,457.3	1,468.7
Other Non-Current Assets	107.5	107.5	107.5	107.5
Application of Funds	3,911.1	4,325.8	4,884.5	5,429.9

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	38.7	35.8	46.7	47.0
Cash EPS	56.3	54.2	66.9	68.5
BV	214.0	238.8	271.5	304.0
DPS	11.0	11.0	14.0	14.5
Cash Per Share	13.2	19.3	27.8	49.0
Operating Ratios (%)				
EBITDA Margin	16.1	15.4	15.6	16.0
PBT / Net sales	11.7	10.9	11.6	11.7
PAT Margin	9.7	8.8	9.2	9.3
Inventory days	61.0	60.0	60.0	60.0
Debtor days	34.0	40.0	40.0	40.0
Creditor days	32.8	30.0	30.0	30.0
Return Ratios (%)				
RoE	18.1	15.0	17.2	15.5
RoCE	21.3	18.3	21.3	19.1
RoIC	29.6	21.5	24.8	23.8
Valuation Ratios (x)				
P/E	22.6	24.5	18.8	18.6
EV / EBITDA	13.5	13.7	10.8	10.3
EV / Net Sales	2.2	2.1	1.7	1.6
Market Cap / Sales	2.2	2.1	1.7	1.7
Price to Book Value	4.1	3.7	3.2	2.9
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	2.0	2.0	2.0
Quick Ratio	0.8	0.9	0.9	0.9

Source: Company, 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%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets) and Jaimin Desai, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc. as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.