

## Stepping up commitment towards Li-on space...

**About the stock:** Exide Industries (EIL) is a part of the duopolistic organised Indian lead acid battery market with a presence across automotive & industrial applications.

- Segment mix: -automotive sales~75% & industrial application ~25%
- Channel exposure to replacement, OEMs is at ~60%, ~40%, respectively
- Within its automobile segment sales, it derives ~60% of sales from OEMs

**Q4FY22 Results:** The company reported a muted performance in Q4FY22.

- Total operating income for Q4FY22 came in at ₹ 3,408 crore, up 6.6% QoQ
- EBITDA came in at ₹ 349 crore with margins at 10.2%, down 150 bps QoQ.
- PBT in Q4FY22 was at ₹ 271 crore, flat QoQ, aided by higher other income

**What should investors do?** EIL's share price has declined at ~10.2% CAGR from ~₹ 244 in May 2017, thereby vastly underperforming Nifty Auto index in that time.

- We retain **HOLD** tracking changing technology landscape in battery space and long gestation period of greenfield expansion in Li-On cell domain

**Target Price and Valuation:** We value EIL at revised SOTP-based TP of ₹ 155 (₹ 108 for battery business at 10x FYFY24E EPS, ₹ 47 for investments).

### Key triggers for future price performance:

- Sizable investment confirmed in Li-On battery domain (cell manufacturing)
- Given widespread electrification thrust and muted OEM sales in 2-W space, we build 10.5% sales CAGR over FY22-24E
- With elevated commodity cost and limited operating leverage, we expect EBITDA margins to stabilise at ~11.5% mark, going forward, in FY23E-24E
- With HDFC Life stake clubbed under long term investments headline RoE, RoCE to remain muted but core RoIC well above 25% over FY23E-24E

**Alternate Stock Idea:** Leaving aside EIL, in our OEM coverage we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,045



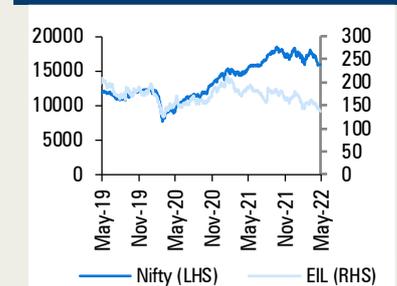
### Particulars

Particular	₹ crore
Market Capitalization	11,730.0
Total Debt (FY22P)	0.0
Cash & Inv. (FY22P)	864.2
EV (₹ Crore)	10,865.8
52 week H/L (₹)	205 /135
Equity capital	₹ 85 Crore
Face value	₹ 1

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	46.0	46.0	46.0	46.0
FII	11.8	9.7	9.6	10.1
DII	23.3	21.7	20.6	19.2
Other	18.9	22.6	23.8	24.7

### Price Chart



### Recent event & key risks

- Posted muted Q4FY22 results.
- **Key Risk:** (i) EIL being declared as PLI beneficiary in ACC battery domain from waitlisted candidate (ii) Pressure on gross margins amid elevated commodity prices

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22P	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	10,588.3	9,856.7	10,040.8	12,381.7	10.2%	14,207.1	15,122.1	10.5%
EBITDA	1,406.9	1,365.0	1,355.6	1,395.6	5.2%	1,561.0	1,731.8	11.4%
EBITDA Margins (%)	13.3	13.8	13.5	11.3		11.0	11.5	
Net Profit	839.7	825.5	758.2	4,683.5	NA	846.1	918.6	NA
EPS (₹)	9.9	9.7	8.9	55.1		10.0	10.8	
Adjusted Net Profit	766.0	842.8	758.2	839.4	3.9%	846.1	918.6	4.6%
Adjusted EPS (₹)	9.0	9.9	8.9	9.9	3.9%	10.0	10.8	4.6%
P/E	14.0	14.2	15.5	2.5		13.9	12.8	
RoNW (%)	12.8	13.4	11.0	7.9		7.5	7.7	
RoCE (%)	17.8	15.7	14.0	9.3		9.7	10.3	
RoIC (%)	19.6	16.9	16.8	24.0		25.1	27.7	

## Conference call highlights & key highlights from presentation...

### Exhibit 1: Battery pack assembly manufacturing



**EXIDE** Exide has built an early lead in the lithium-ion battery market through pack & module business...

**nexcharge**

**Our Headquarters in Prantij, Gujarat**

- Nexcharge existing land: 53,261m<sup>2</sup>
- Existing built-up area: 9,528m<sup>2</sup>
- Located in automotive hub of Gujarat
- Capacity : 1.5 GWh

**Our Li-ion Pack Assembly Lines**

- US\$ 42 Mn invested so far for 84.90% stake
- Pouch/Prismatic/Cylindrical cell to module
- Module to pack/rack
- Cell testing lab
- Prototype and pilot line

**Our Facilities in Bengaluru, Karnataka**

- Facility 1: Offshore R&D center, Ozone Manay Technology Park
- Facility 2: Nexcharge DIA (R&D), Manayata NXT

**Our Capabilities**

- Electronics & firmware development
- Mechanical & thermal design
- Software development

**Our Key Propositions**

- Full technology ownership
- Customised and integrated solutions
- Local manufacturing
- Sustainable initiatives

Commercial production has started



Source: Company, ICICI Direct Research

### Key conference call highlights

Nexcharge facility has been operationalised a couple of weeks ago and has an order book of ~₹ 260 crore. Currently, the company imports Li-ion cells and assembles using fully automated air conditioned facility

The company plans to invest ~₹ 6,000 crore in lithium ion cell manufacturing with estimated capacity of 12 GWh in the coming seven to eight years. This would be done in two phases with phase one capex planned at ~₹2,500 crore to be done over the next three to four years and would have capacity of 6 GWh initially

Above facility would be in addition to existing 1.5 GWh assembly facility, and new cell manufacturing facility may also have assembly inside

For technological collaboration with SVOLT (earlier part of Great wall group) Exide will pay royalty

The company expects to reap the benefits of first mover advantage in this space & is in discussion with more than 100 OEMs for supply of lithium ion battery pack

Currently the company meets ~45% of its lead requirement from its recycling plant

The management said that its existing lead acid battery would find application in EVs also as an auxiliary battery

The company estimates lithium ion battery demand in India to reach 90 GWh by 2030

### Exhibit 2: Lithium Ion cell manufacturing plan



**EXIDE** Exide is establishing a state-of-the-art lithium-ion cell manufacturing plant

**Exide Energy Solutions Ltd.**

- Wholly owned subsidiary set-up for lithium-ion cell manufacturing
- Multi-gigawatt green field project
- Manufacturing of advanced chemistry cells (cylindrical, pouch, prismatic)
- Manufacturing, assembly and sale of battery modules and battery packs
- Total project capacity of 12 GWh to be completed in phases in next 8-10 years

**SVOLT** SVOLT Energy Solutions

- Spin-off of Great Wall Motors and headquartered in China
- One-stop product portfolio for Li-ion batteries
- 3000 R&D team members and -500 experts with rich experience of lithium-ion battery R&D and mass production
- Currently, SVOLT is in the process to expand the capacity to 600 GW by 2025



- Multi-year technical collaboration agreement for li-ion cell manufacturing
- Support for setting the plant on a turnkey basis

Source: Company, ICICI Direct Research

### Exhibit 3: Lithium Ion plant current progress



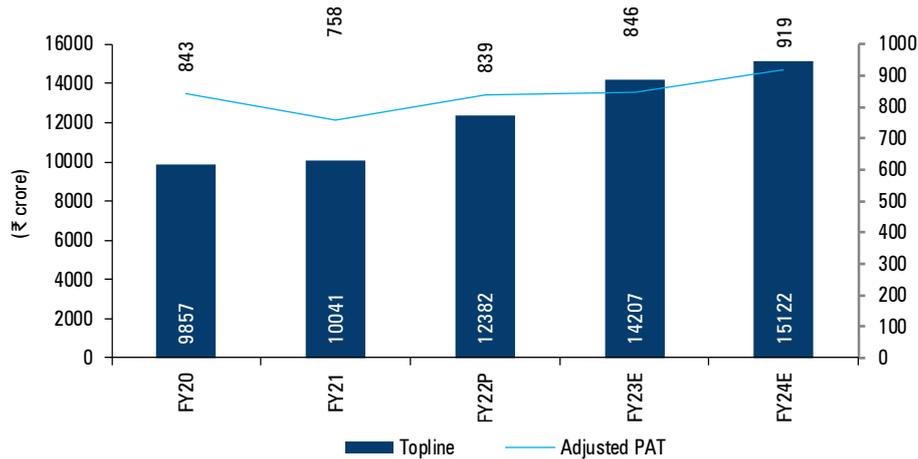
**EXIDE** Key next steps on the lithium-ion cell manufacturing project

Segment	Key next steps
Land	<ul style="list-style-type: none"> <li>We are in advanced stages of procuring the land parcel for the green-field project in the state of Karnataka</li> </ul>
Technology	<ul style="list-style-type: none"> <li>Continue jointly working with SVOLT to achieve key milestones across workstreams</li> </ul>
Project Timeline	<ul style="list-style-type: none"> <li>First phase likely to take 27-30 months for completion</li> </ul>
Funding	<ul style="list-style-type: none"> <li>Initial funding to be met through internal accruals and bridge financing</li> </ul>
Project Construction	<ul style="list-style-type: none"> <li>In discussion with various construction companies for project construction on a turnkey basis</li> </ul>
Organization	<ul style="list-style-type: none"> <li>Onboarding of ACC senior team under progress</li> <li>To Develop &amp; align training plan for R&amp;D with SVOLT post team finalization</li> </ul>

Source: Company, ICICI Direct Research

## Financial story in charts

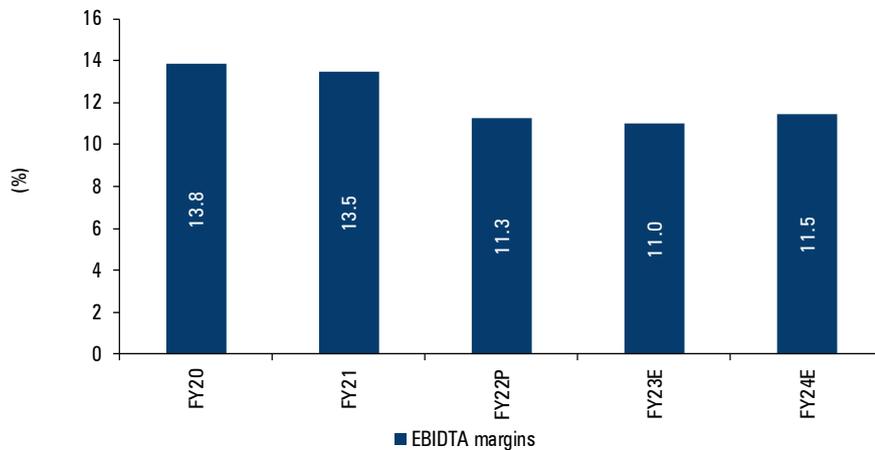
Exhibit 4: Trend in topline and adjusted PAT



EIL revenues, PAT are seen growing at 10.5%, 4.6%, CAGR respectively, over FY22-24E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in EBITDA margins



Margins are seen rising to 11.5% by FY24E

Source: Company, ICICI Direct Research

Exhibit 6: SOTP-based valuation

SOTP Valuation	Estimated value	Value per share	Remark
<b>Standalone Business</b>			
FY24E EPS	10.8		
P/E Multiple	10		Valuing the base business (lead acid battery) at 10x P/E
Value per share (₹)		<b>108</b>	
<b>Investments</b>			
HDFC Life Insurance Stake	3932		Using current market price of ₹565/share & assigning 20% discount
Value per share (₹)		<b>45</b>	
<b>Value of subsidiaries (₹ crore)</b>			
Value of other subsidiaries (₹)	496		2 0.5x trailing P/BV

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 7: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22P	FY23E	FY24E	
<b>Total operating Income</b>	<b>10040.8</b>	<b>12381.7</b>	<b>14207.1</b>	<b>15122.1</b>	
Growth (%)	1.9	23.3	14.7	6.4	
Raw Material Expenses	6579.6	8575.3	10105.7	10668.3	
Employee Expenses	721.5	789.3	852.4	907.3	
Other Expenses	1384.2	1621.6	1687.9	1814.7	
Total Operating Expenditure	8685.3	10986.1	12646.0	13390.3	
<b>EBITDA</b>	<b>1,355.6</b>	<b>1,395.6</b>	<b>1,561.0</b>	<b>1,731.8</b>	
Growth (%)	-0.7	3.0	11.9	10.9	
Depreciation	379.4	412.6	461.7	491.5	
Interest	23.8	38.4	40.4	42.4	
Other Income	65.4	80.3	72.2	30.1	
<b>PBT</b>	<b>1,017.8</b>	<b>1,024.9</b>	<b>1,131.2</b>	<b>1,228.0</b>	
Exceptional Item	0.0	-4693.8	0.0	0.0	
Total Tax	259.6	1035.1	285.1	309.5	
<b>Reported PAT</b>	<b>758.2</b>	<b>4,683.5</b>	<b>846.1</b>	<b>918.6</b>	
Growth (%)	-8.2	517.7	-81.9	8.6	
<b>EPS (₹)</b>	<b>8.9</b>	<b>55.1</b>	<b>10.0</b>	<b>10.8</b>	
Adjusted PAT	758.2	839.4	846.1	918.6	
<b>Adjusted EPS (₹)</b>	<b>8.9</b>	<b>9.9</b>	<b>10.0</b>	<b>10.8</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22P	FY23E	FY24E	
<b>Liabilities</b>					
Equity Capital	85.0	85.0	85.0	85.0	
Reserve and Surplus	6,808.5	10,520.6	11,196.7	11,902.8	
<b>Total Shareholders funds</b>	<b>6,893.5</b>	<b>10,605.6</b>	<b>11,281.7</b>	<b>11,987.8</b>	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	77.1	0.0	0.0	0.0	
Other non-current liabilities	343.4	339.3	374.3	409.3	
<b>Total Liabilities</b>	<b>7,313.9</b>	<b>10,944.9</b>	<b>11,656.0</b>	<b>12,397.1</b>	
<b>Assets</b>					
Gross Block	4,246.6	4,790.4	5,352.8	5,852.8	
Less: Acc Depreciation	1,644.9	2,057.5	2,519.2	3,010.7	
<b>Net Block</b>	<b>2,601.8</b>	<b>2,733.0</b>	<b>2,833.6</b>	<b>2,842.1</b>	
Capital WIP	200.8	312.4	750.0	1,750.0	
Total Fixed Assets	2,802.5	3,045.3	3,583.6	4,592.1	
Investments	3,094.7	6,079.1	6,014.1	5,619.1	
Inventory	2,346.2	2,458.5	2,919.3	3,107.3	
Debtors	887.4	1,192.4	1,362.3	1,450.1	
Loans and Advances	53.2	64.6	74.1	78.9	
<b>Cash</b>	<b>91.6</b>	<b>161.5</b>	<b>177.7</b>	<b>184.1</b>	
Total Current Assets	3,563.7	4,052.2	4,734.4	5,034.3	
Creditors	1,641.6	1,609.7	1,946.2	2,071.5	
Provisions	270.7	263.8	318.9	339.5	
Total Current Liabilities	2,314.9	2,398.2	2,867.2	3,051.9	
<b>Net Current Assets</b>	<b>1,248.8</b>	<b>1,653.9</b>	<b>1,867.2</b>	<b>1,982.4</b>	
Other non-current assets	168.1	166.9	191.4	203.8	
<b>Total Assets</b>	<b>7,313.9</b>	<b>10,944.9</b>	<b>11,656.0</b>	<b>12,397.1</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22P	FY23E	FY24E	
<b>Profit after Tax (adjusted)</b>	<b>758.2</b>	<b>-10.5</b>	<b>846.1</b>	<b>918.6</b>	
Add: Depreciation	379.4	412.6	461.7	491.5	
(Inc)/dec in Current Assets	-241.2	-418.6	-666.0	-293.5	
Inc/(dec) in CL and Provisions	570.6	83.4	469.0	184.7	
<b>CF from operating activities</b>	<b>1,467.0</b>	<b>66.9</b>	<b>1,110.8</b>	<b>1,301.2</b>	
(Inc)/dec in Investments	-863.8	179.8	120.0	450.0	
(Inc)/dec in Fixed Assets	-582.1	-655.4	-1000.0	-1500.0	
Others	76.5	1450.1	-44.6	-32.3	
<b>CF from investing activities</b>	<b>(1,369.4)</b>	<b>974.4</b>	<b>(924.6)</b>	<b>(1,082.3)</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	-170.0	-170.0	-170.0	-212.5	
Others	9.2	-801.5	0.0	0.0	
<b>CF from financing activities</b>	<b>(160.8)</b>	<b>(971.5)</b>	<b>(170.0)</b>	<b>(212.5)</b>	
Net Cash flow	-63.2	69.8	16.2	6.4	
Opening Cash	154.8	91.6	161.5	177.7	
<b>Closing Cash</b>	<b>91.6</b>	<b>161.5</b>	<b>177.7</b>	<b>184.1</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	8.9	55.1	10.0	10.8
Cash EPS	13.4	60.0	15.4	16.6
BV	81.1	124.8	132.7	141.0
DPS	2.0	2.0	2.0	2.5
Cash Per Share	1.1	1.9	2.1	2.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.5	11.3	11.0	11.5
PBT / Net sales	9.7	7.9	7.7	8.2
PAT Margin	7.6	6.8	6.0	6.1
Inventory days	85.3	72.5	75.0	75.0
Debtor days	32.3	35.2	35.0	35.0
Creditor days	59.7	47.5	50.0	50.0
<b>Return Ratios (%)</b>				
RoE	11.0	7.9	7.5	7.7
RoCE	14.0	9.3	9.7	10.3
RoIC	16.8	24.0	25.1	27.7
<b>Valuation Ratios (x)</b>				
P/E	15.5	14.0	13.9	12.8
EV / EBITDA	7.9	7.8	7.0	6.6
EV / Net Sales	1.1	0.9	0.8	0.8
Market Cap / Sales	1.2	0.9	0.8	0.8
Price to Book Value	1.7	1.1	1.0	1.0
<b>Solvency Ratios</b>				
Debt: Equity	-	-	-	-
Quick Ratio	0.5	0.6	0.6	0.6

Source: Company, ICICI Direct Research

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