

Estimate changes
TP change
Rating change


Bloomberg	AMRJ IN
Equity Shares (m)	171
M.Cap.(INRb)/(USD\$b)	86.2 / 1.1
52-Week Range (INR)	781 / 438
1, 6, 12 Rel. Per (%)	0/-19/-37
12M Avg Val (INR M)	535

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	87.0	104.7	116.2
EBITDA	10.2	10.9	14.4
Adj. PAT	5.1	5.4	7.7
EPS (INR)	29.9	31.6	45.1
EPS Gr. (%)	-21.0	5.4	42.9
BV/Sh. (INR)	266	283	313
Ratios			
RoE (%)	11.7	11.5	15.1
RoCE (%)	11.8	11.1	14.5
Payout (%)	15.0	47.5	33.3
Valuations			
P/E (x)	16.9	16.0	11.2
P/BV (x)	1.9	1.8	1.6
Div. Yield (%)	0.9	3.0	3.0
FCF yield (%)	-1.5	-0.2	5.9

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	28.1	28.1	28.1
DII	10.8	11.4	15.2
FII	18.3	18.1	22.1
Others	42.8	42.5	34.6

FII Includes depository receipts

CMP: INR505
TP: INR555 (+10%)
Neutral
Beats estimates; Cut FY23 estimates by 11%
Margin should see a recovery due to softening of lead prices

- AMRJ's 1QFY23 earnings were led by strong revenue growth across segments. High RM costs continued to impact margin. The recent moderation in lead prices will aid a margin recovery. Volumes should see good growth across segments in FY23.
- We lower out FY23 earnings by 11% due to a cut in margin, whereas we raise our FY24 earnings by 11% to factor in an upgrade in revenue and the lowering of depreciation. We maintain our **Neutral** rating with a TP of INR555/share (12x Jun'24E EPS).

Margin decline due to weaker mix offset by operating leverage

- Revenue/EBITDA/adjusted PAT grew 39%/4%/6% YoY to INR26.2b/INR2.6b/INR1.3b (est. INR22.6b/INR2.4b/INR1.1b). Blended volume growth is estimated at 27-28% YoY. Realizations are estimated to have grown by 11-12%.
- Overall 4W/2W/Industrial volume is estimated to have grown by 11-13%/38-40%/18-20% YoY.
- Gross margin decline of 4.5pp YoY and 130bp QoQ to 26.6% (est. 28.2%). The QoQ decline in gross margin was due to a weaker mix (higher OEM contribution and an increase in traded goods).
- EBITDA margin declined by 3.2pp YoY and 10bp QoQ to 10% (est. 10.5%) due to lower gross margin, but the same was offset by operating leverage. EBITDA grew 4% YoY and 19% QoQ to INR2.6b (est. INR2.4b).
- Adjusted PAT grew 6% YoY and 33% QoQ to INR1.3b (est. INR1.1b).

Highlights from the management interaction

- AMRJ witnessed robust Auto demand from the Aftermarket as well as 4W and 2W OEM segments. Industrial battery volumes have shown a healthy growth, especially in UPS and Telecom segments.
- Power and other input costs have risen, which resulted in margin pressures. The management is confident of mitigating the inflation in power costs through captive solar generation.
- It indicated that its immediate focus is on expansion of the pack and charger business for EVs. It soon plans to enter cell manufacturing through a customer qualification plant.
- Capex in FY23 is expected to be in the INR5-5.5b range, for which it will be investing in the Li-ion cell technology.
- AMRJ has made changes to the Articles of Association indicating it will be looking at other Auto-related products though specific details have not been shared.

Valuation and view

- The stock trades at 16x/11.2x FY23E/FY24E EPS. We maintain our **Neutral** rating, with a TP of INR555 (12x Jun'24E EPS) as the expectation of better earnings growth balances out the increasing threat from lithium chemistry to the Auto and Industrial businesses.

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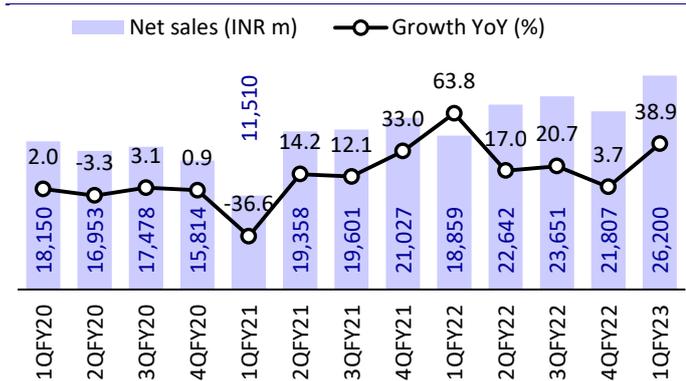
Quarterly Performance

Y/E March (INR m)	FY22				FY23E				FY22	FY23E	FY23E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
Net Sales	18,859	22,642	23,651	21,807	26,200	25,359	26,962	26,224	86,958	1,04,745	22,630
YoY Change (%)	63.8	17.0	20.7	3.7	38.9	12.0	14.0	20.3	21.6	20.5	20.0
RM Cost (% of sales)	68.9	70.1	70.3	72.1	73.4	72.8	72.3	72.0	70.4	72.6	71.8
Staff Cost (% of sales)	6.3	5.8	5.5	5.5	5.1	5.2	5.0	5.3	5.7	5.2	5.7
Other Exp (% of sales)	11.6	12.2	12.3	12.3	11.5	11.8	12.0	11.9	12.1	11.8	12.0
EBITDA	2,499	2,689	2,840	2,199	2,609	2,593	2,896	2,847	10,226	10,946	2,377
Margins (%)	13.2	11.9	12.0	10.1	10.0	10.2	10.7	10.9	11.8	10.5	10.5
Depreciation	963	986	1,021	987	963	1,025	1,070	1,094	3,957	4,153	1000
Interest	32	36	38	46	46	40	35	29	151	150	40
Other Income	166	264	190	160	170	160	150	120	780	600	150
PBT after EO	1,670	1,932	1,971	1,325	1,770	1,688	1,941	1,844	6,898	7,243	1,487
Tax	431	491	524	340	455	432	497	470	1,786	1,854	381
Tax Rate (%)	25.8	25.4	26.6	25.6	25.7	25.6	25.6	25.5	25.9	25.6	25.6
Adj PAT	1,239	1,441	1,447	985	1,315	1,256	1,444	1,374	5,113	5,389	1,107
YoY Change (%)	97.7	-28.5	-25.1	-48.0	6.1	-12.9	-0.1	39.4	-21.0	5.4	-10.7

E: MOFSL Estimates

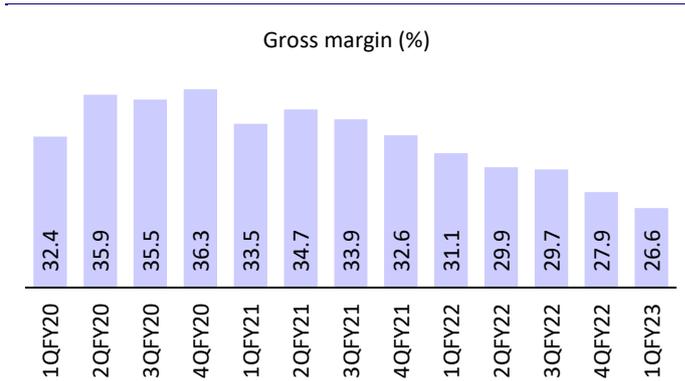
Key exhibits

Exhibit 1: Trend in revenue and growth



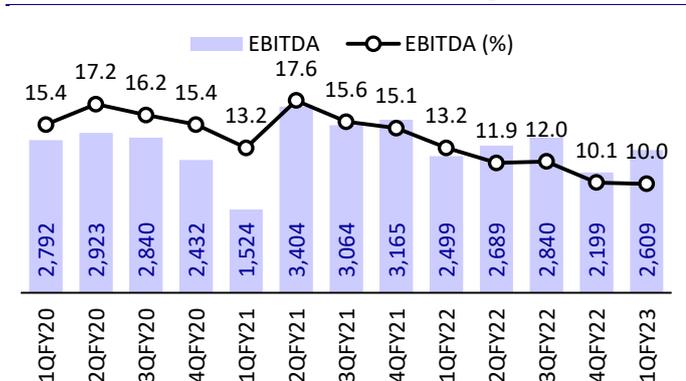
Source: Company, MOFSL

Exhibit 2: Gross margin impacted by RM cost inflation



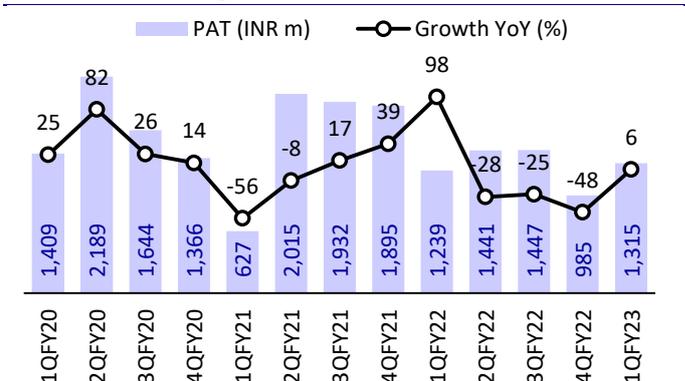
Source: Company, MOFSL

Exhibit 3: Trend in EBITDA and EBITDA margin



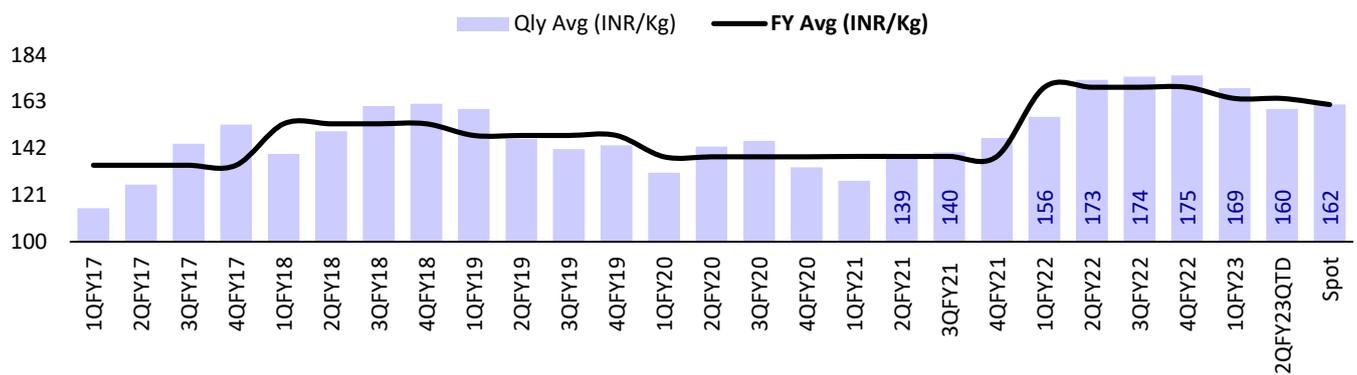
Source: Company, MOFSL

Exhibit 4: PAT and growth trend



Source: Company, MOFSL

Exhibit 5: Trend in spot lead prices (INR/kg)



Source: Bloomberg, MOFSL

Valuation and view

- Industry structure remains a duopoly, but AMRJ strong in second position:** While the industry structure remains largely a duopoly, AMRJ has emerged as a formidable challenger to leader EXID, with market leadership in Telecom (55% share in 4QFY20) and UPS (32–35%) segments and fast-gaining share in Auto. Over FY04-16, it clocked 34%/68% CAGR in net sales/PAT, exceeding EXID's 20% CAGR each in net sales and PAT. This was driven by a combination of technological innovation (first to introduce maintenance-free, factory-charged, extended-warranty batteries), witty advertising, and a unique distribution model (franchisee-based), supported by operational efficiency-led competitive pricing.
- Gearing up to lead:** AMRJ is gearing up to be a leader by: a) consolidation in existing areas; b) undertaking new business opportunities within the Battery space, mainly Home UPS, Solar, and Motive Power; and c) undertaking capacity and network expansion. In the Telecom segment, the management expects to maintain its market share at current levels (~55%).
- Li-ion technology poses a risk to Auto and Industrial segments:** The declining cost of lithium batteries poses a threat to the Auto and the Industrial Batteries business. e-2Ws/e-3Ws do not require a lead acid battery as an auxiliary battery. This will in turn impact 15-20% of revenue of lead acid battery players. At USD100/KwHr, lithium can offer competition to a lead acid battery (LAB) in the Industrial segment – particularly Telecom, UPS, and other nascent, but growth-driving, businesses such as Motive Power and Solar. Any further development in this direction will potentially lead to the de-rating of the P/E multiple (due to the decline in terminal growth).
- Strategic initiatives to drive growth:** AMRJ is focusing on maximizing its core LAB business and foraying into the New Energy business (in the form of li-ion cells and battery packs, EV charging products, energy storage solutions, etc.). While the LAB business will go global, the New Energy business will focus on opportunities in India. While growth in LAB will recover strongly, the delivery of 15-17% CAGR over the next five years depends on the successful execution of its export strategy. While its entry into the New Energy business is a step in the right direction, its success will depend on a technology partner, cost competitiveness, targeted segments, etc. For lithium cell manufacturing, it is targeting an 8-10GW capacity (requiring an investment of USD0.8-1b) to achieve

global competitiveness. As the investment in the New Energy business will be spread over 5-10 years, it can fund the capex through free cash flows in the core business (average INR3-4b p.a.) as well as debt (currently net cash on the Balance Sheet).

- **Valuations fair, maintain our Neutral rating:** We cut out FY23 earnings by 11% due to cut in margins, whereas we increase our FY24 upgrades by 11% to factor in upgrade in revenues & lowering of depreciation. We expect value migration to organized players (such as EXID and AMRJ) from unorganized ones in the Replacement segment, driven by tax reforms such as GST and lower corporate tax rates. Healthy replacement demand will lead to better capacity utilization and margin. However, its current margin performance may not sustain over the near term as volume recovery with OEMs will result in mean reversion of the mix and margin. Also, with the exit of Johnson Controls, promoters are expected to play a pivotal role in its long-term strategy as well as technology sourcing. The stock trades at 16x/11.2x FY23E/FY24E EPS. We maintain our **Neutral** rating, with a TP of INR555/share (12x Jun'24E EPS) as the expectation of better earnings growth balances out the increasing threat of lithium chemistry to the Auto and Industrial businesses.

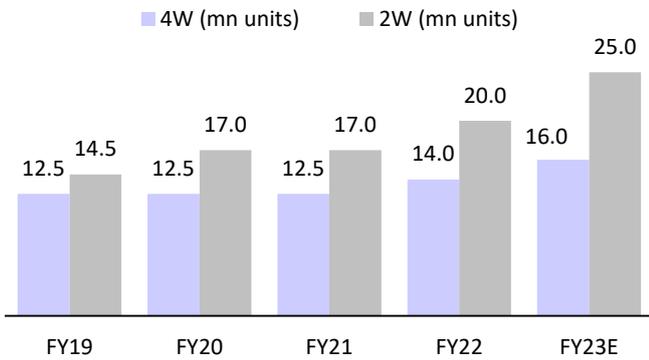
Exhibit 6: Revisions to our estimates

(INR M)	FY23E			FY24E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,04,745	97,777	7.1	1,16,219	1,06,928	8.7
EBITDA (%)	10.5	12.2	-170bp	12.4	13.0	-60bp
Net Profit	5,389	6,049	-10.9	7,703	6,959	10.7
EPS (INR)	31.6	35.4	-10.9	45.1	40.7	10.7

Source: MOFSL

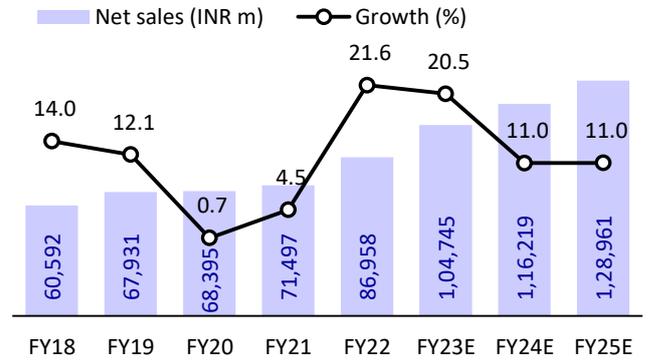
Story in charts

Exhibit 7: Significant addition in 2W capacity



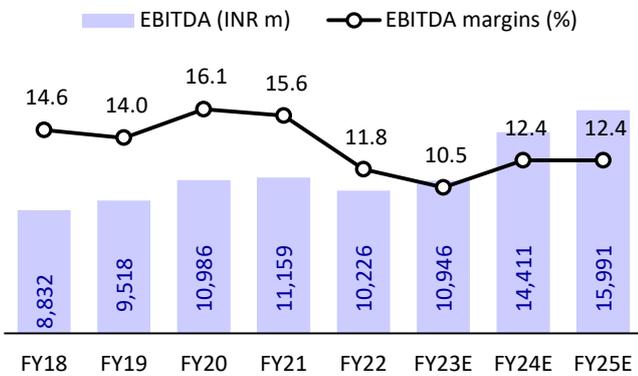
Source: Company, MOFSL

Exhibit 8: Trend in revenue



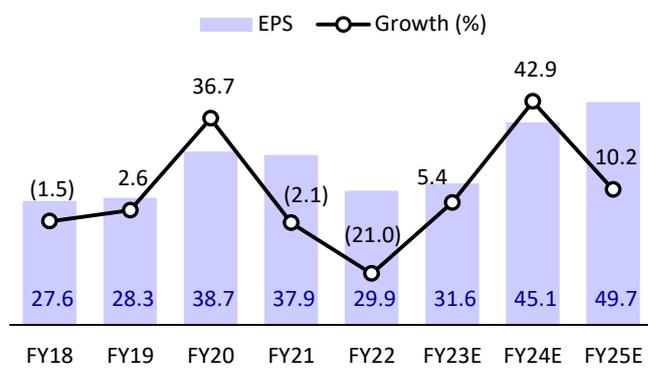
Source: Company, MOFSL

Exhibit 9: EBITDA and EBITDA margin trend



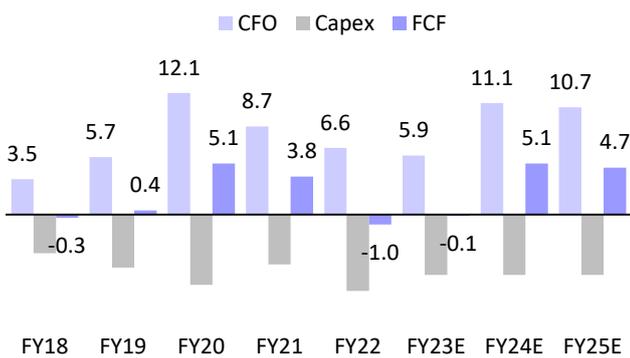
Source: Company, MOFSL

Exhibit 10: Earnings are expected to be bottomed in FY22



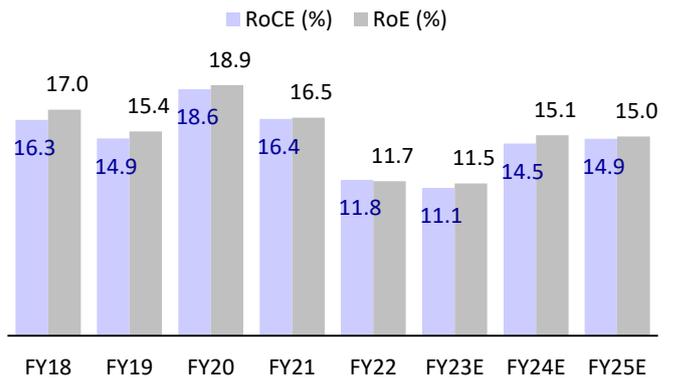
Source: Company, MOFSL

Exhibit 11: Trend in CFO, capex, and FCF



Source: Company, MOFSL

Exhibit 12: Return ratios to recover moderately



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement						(INR M)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	60,592	67,931	68,395	71,497	86,958	1,04,745	1,16,219	1,28,961
Change (%)	14.0	12.1	0.7	4.5	21.6	20.5	11.0	11.0
EBITDA	8,832	9,518	10,986	11,159	10,226	10,946	14,411	15,991
Margin (%)	14.6	14.0	16.1	15.6	11.8	10.5	12.4	12.4
Depreciation	2,303	2,612	3,007	3,192	3,957	4,153	4,637	5,159
EBIT	6,529	6,906	7,978	7,967	6,269	6,793	9,774	10,832
Int. and Finance Charges	51	70	122	105	151	150	120	120
Other Income - Rec.	664	468	551	874	780	600	700	700
PBT bef. EO Exp.	7,142	7,304	8,407	8,736	6,898	7,243	10,354	11,412
EO Expense/(Income)	0	0	0	0	0	0	0	0
PBT after EO Exp.	7,142	7,304	8,407	8,736	6,898	7,243	10,354	11,412
Tax Rate (%)	34.0	33.8	21.4	25.9	25.9	25.6	25.6	25.6
Reported PAT	4,713	4,835	6,608	6,470	5,112	5,389	7,703	8,491
PAT Adj for EO items	4,713	4,835	6,608	6,470	5,113	5,389	7,703	8,491
Change (%)	-1.5	2.6	36.7	-2.1	-21.0	5.4	42.9	10.2
Margin (%)	7.8	7.1	9.7	9.0	5.9	5.1	6.6	6.6

Standalone - Balance Sheet						(INR M)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	171	171	171	171	171	171	171	171
Total Reserves	29,203	33,182	36,385	41,932	45,343	48,170	53,311	59,240
Net Worth	29,374	33,353	36,556	42,103	45,514	48,341	53,482	59,411
Deferred Liabilities	878	959	441	407	314	314	314	314
Total Loans	584	468	343	234	234	4,000	1,000	1,000
Capital Employed	30,836	34,780	37,341	42,744	46,062	52,655	54,796	60,725
Gross Block	22,529	26,165	29,269	38,628	39,004	50,300	56,300	62,300
Less: Accum. Deprn.	5,497	8,037	10,977	14,081	14,081	18,233	22,870	28,029
Net Fixed Assets	17,033	18,128	18,292	24,548	24,923	32,067	33,430	34,271
Capital WIP	2,264	3,147	8,270	3,993	8,297	3,000	3,000	3,000
Total Investments	351	205	1,562	2,805	778	778	778	778
Curr. Assets, Loans&Adv.	22,038	23,480	21,882	26,625	29,761	34,382	38,133	44,810
Inventory	10,497	10,614	11,427	14,382	18,038	20,088	20,697	22,966
Account Receivables	7,825	7,686	6,363	7,875	7,926	10,044	11,144	12,366
Cash and Bank Balance	1,113	502	326	967	536	60	1,643	4,320
Loans and Advances	2,603	4,678	3,766	3,401	3,262	4,190	4,649	5,158
Curr. Liability & Prov.	10,849	10,179	12,665	15,227	17,697	19,572	21,044	22,634
Account Payables	5,923	5,104	6,149	7,465	8,065	10,618	11,144	12,366
Other Current Liabilities	3,916	3,761	4,685	5,623	7,177	8,380	9,298	10,317
Provisions	1,011	1,314	1,832	2,140	2,455	574	602	-49
Net Current Assets	11,189	13,301	9,217	11,398	12,064	14,810	17,088	22,176
Appl. of Funds	30,836	34,780	37,341	42,744	46,062	50,655	54,296	60,225

E: MOFSL Estimates

Financials and valuations

Ratios								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	27.6	28.3	38.7	37.9	29.9	31.6	45.1	49.7
Cash EPS	41.1	43.6	56.3	56.6	53.1	55.9	72.3	79.9
BV/Share	172.0	195.3	214.0	246.5	266.5	283.0	313.1	347.8
DPS	4.2	7.1	11.0	11.0	4.5	15.0	15.0	15.0
Payout (%)	18.1	30.0	34.1	29.0	15.0	47.5	33.3	30.2
Valuation (x)								
P/E	18.3	17.8	13.0	13.3	16.9	16.0	11.2	10.2
Cash P/E	12.3	11.6	9.0	8.9	9.5	9.0	7.0	6.3
P/BV	2.9	2.6	2.4	2.0	1.9	1.8	1.6	1.5
EV/Sales	1.4	1.3	1.3	1.2	1.0	0.9	0.7	0.6
EV/EBITDA	9.7	9.1	7.8	7.7	8.4	8.2	5.9	5.2
Return Ratios (%)								
RoE	17.0	15.4	18.9	16.5	11.7	11.5	15.1	15.0
RoCE	16.3	14.9	18.6	16.4	11.8	11.1	14.5	14.9
RoIC	17.6	15.8	21.6	19.0	13.0	11.9	14.8	15.8
Working Capital Ratios								
Gross Fixed Asset Turnover (x)	2.7	2.6	2.3	1.9	2.2	2.1	2.1	2.1
Inventory (Days)	63.2	57.0	61.0	73.4	75.7	70.0	65.0	65.0
Debtor (Days)	46	41	34	40	33	35	35	35
Creditor (Days)	36	27	33	38	34	37	35	35
Working Capital Turnover (Days)	61	69	47	53	48	51	49	51
Leverage Ratio (x)								
Current Ratio	2.0	2.3	1.7	1.7	1.7	1.8	1.8	2.0
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0

Standalone - Cash Flow Statement								(INR M)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net P/L Before Tax and E/O Items	7,142	7,304	8,407	8,733	6,898	7,243	10,354	11,412
Depreciation	2,303	2,612	3,007	3,192	3,957	4,153	4,637	5,159
Interest & Finance Charges	-5	42	122	105	151	-450	-580	-580
Direct Taxes Paid	2,443	2,417	2,364	1,995	1,993	1,854	2,651	2,921
(Inc)/Dec in WC	-3,475	-1,843	2,892	-1,301	-2,406	-3,222	-696	-2,411
CF from Operations	3,522	5,698	12,065	8,734	6,607	5,870	11,065	10,659
Others	-306	-284	-296	-714	-277	0	0	0
CF from Operating incl EO	3,216	5,413	11,769	8,020	6,329	5,870	11,065	10,659
(inc)/dec in FA	-3,853	-5,282	-6,999	-4,964	-7,598	-6,000	-6,000	-6,000
Free Cash Flow	-637	131	4,770	3,056	-1,268	-130	5,065	4,659
Others	19,117	10,904	13,305	13,212	16,219	600	700	700
CF from Investments	-2,442	-4,629	-8,497	-6,350	-4,819	-5,400	-5,300	-5,300
(Inc)/Dec in Debt	-89	-51	-275	-321	-3,776	1,766	-1,500	0
Interest Paid	-7	-11	-52	-40	-67	-150	-120	-120
Dividend Paid	-1,285	-855	-3,311	-854	1,708	-2,562	-2,562	-2,562
CF from Fin. Activity	-1,382	-916	-3,638	-1,215	-2,135	-946	-4,182	-2,682
Inc/Dec of Cash	-607	-131	-365	455	-624	-476	1,583	2,677
Add: Beginning Balance	3,251	2,644	2,512	512	967	343	-133	1,450
Closing Balance	2,644	2,512	2,147	967	343	-133	1,450	4,127

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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