



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING

Updated July 08, 2021

23.59

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 8,626 cr
52-week high/low:	Rs. 781 / 438
NSE volume: (No of shares)	4.7 lakh
BSE code:	500008
NSE code:	AMARAJABAT
Free float: (No of shares)	12.3 cr

Shareholding (%) as on June 30, 2022

Promoters	28.1
FII	18.3
DII	10.8
Others	42.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.3	-3.0	-17.9	-30.3
Relative to Sensex	-0.3	-10.2	-19.9	-38.8

Sharekhan Research, Bloomberg

Amara Raja Batteries Ltd

Mixed bag Q1; steady growth path ahead

Automobiles

Sharekhan code: AMARAJABAT

Reco/View: Buy



CMP: Rs. 505

Price Target: Rs. 629



Upgrade



Maintain



Downgrade

Summary

- Amara Raja Batteries Ltd (Amara) reported mixed results in Q1FY23, with revenues exceeding our expectations by 14.2%, while EBITDA margins contracting by 60 bps more than expectations.
- Amara is expected to benefit from a recovery in automotive demand, greater share of replacement sales and rising sales of industrial batteries.
- The stock trades below its historical average at P/E multiple of 12x and EV/EBITDA multiple of 5.2x its FY24E estimates.
- We maintain a Buy rating on Amara Raja Batteries Limited (Amara) with an unchanged PT of Rs.629, owing to moderation of valuation multiple, earning cut- and an improving outlook for batteries.

Amara Raja Batteries' (Amara's) Q1FY23 results were mixed, with revenues exceeding our expectations by 14.2%, while EBITDA margins contracted by 60 bps more than expectations. Net revenues increased by 38.9% y-o-y and 24.6% q-o-q at Rs. 2,620 crore in Q1FY23, led by robust demand in the automotive sector from the aftermarket as well as four-wheeler and 2-Wheeler OEM segments. Industrial battery volumes have shown a healthy growth, especially in the UPS and telecom segments. Amara's management is taking several strategic initiatives to take advantage of the rapidly emerging new opportunities to accelerate growth in the medium term. The company's immediate focus remains on the expansion of pack and charger business and plans on lithium cell technology. Amara laid down the company's vision to remain a dominant battery player in the Indian Ocean Rim and one of the leading global players in batteries through enduring partnerships. The company is open to grow through partnerships, joint ventures and acquisitions. The company has guided for a 15-17% revenue CAGR in the next five years versus an 8% revenue CAGR during FY2016 to FY2021. We stay positive on the company's growth prospects, led by recovery in auto and industrial sales with improved aftermarket sales. Thus, we maintain our Buy rating on the stock.

Key positives

- Industrial volume growth was stable across all segments – particularly the UPS business that registered higher volume growth.

Key negatives

- EBITDA margins contracted by 60 bps higher than expectations at 10% versus expectation of 10.6%, largely hit inflation in raw material costs and an increase in freight costs

Management Commentary

- Demand is positive across all product segments but increased input material costs are driving margins negatively.
- Company guided for a 15-17% revenue CAGR in the next five years, through partnerships, joint ventures, and acquisitions.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 629: Amara is one of the largest manufacturers of lead acid batteries, commanding a market share of ~40% in the organised market. Having a strong brand equity and extensive distribution network, we expect Amara to grow strongly in the battery industry, led by a higher offtake by the replacement market. The company has laid down its long-term strategic plans for energy and mobility sectors by maximising on its brand recall in the lead acid battery space and investing into new energy product developments. However, the stock has corrected by ~30.3% and underperformed SENSEX by 38.8% in last one year, due to weak OEM offtake, pending case in High Court by AP Pollution Control Board (APPCB) regarding closure orders for its plants in Chittoor district (AP) and trailing behind global competitors in terms of research and development (R&D) investments in lithium-ion technology. Correction in the stock provides a good entry point for investors. The stock is trading below its historical average multiples at P/E multiple of 12x and EV/EBITDA multiple of 5x its FY24E estimates. We retain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 629.

Key Risks

Prolonged supply constraints of OEMs can affect our future projections. Moreover, if the Hon'ble Court gives verdict against the company, there could uncertainties regarding production of products in its plants in Chittoor district (Andhra Pradesh).

Valuation (Standalone)

Particulars	FY21	FY22	FY23E	FY24E
Net sales	7,150	8,696	9,870	10,857
Growth (%)	4.5	21.6	13.5	10.0
EBITDA	1,116	1,023	1,273	1,498
OPM (%)	15.6	11.8	12.9	13.8
PAT (Rs cr)	647	511	633	716
Growth (%)	(2.1)	(21.0)	23.9	13.1
FD EPS (Rs)	37.9	29.9	37.1	41.9
P/E (x)	13.3	16.9	13.6	12.0
P/BV (x)	2.0	1.9	1.7	1.6
EV/EBITDA (x)	7.3	8.1	6.4	5.2
RoE (%)	15.2	11.2	12.8	13.3
RoCE (%)	19.6	14.6	16.5	16.8

Source: Company; Sharekhan estimates

Mixed bag Q1: Amara Raja Batteries' (Amara's) Q1FY23 results were mixed, with revenues exceeding our expectations by 14.2%, while EBITDA margins contracted by 60 bps more than expectations. Net revenue increased by 38.9% y-o-y and 24.6% q-o-q at Rs. 2,620 crore in Q1FY23, led by robust demand in the automotive sector from the aftermarket as well as 4-Wheeler and 2-Wheeler OEM segments. Industrial battery volumes have shown a healthy growth, especially in the UPS and telecom segments. As a result, EBITDA and PAT declined by 30.5% y-o-y and 48% y-o-y to Rs. 220 crore and Rs. 99 crore, respectively, in Q1FY23. EBITDA margin for the quarter contracted by 60 bps higher than expectations at 10% versus expectation of 10.6%, largely hit inflation in raw material costs and increase in freight costs. EBITDA margin for the Q1FY23 contracted 10 bps q-o-q, led by increase in raw material costs.

Underline strong automotive demand: The management believes that demand signals are positive across all product segments but increased input material costs are driving margins negatively. We expect strong traction for the replacement demand in the two-wheeler and four-wheeler segments, driven by pent-up demand. We see a strong recovery in automotive battery demand at OEM as well as replacement. Higher mobility on roads has increased battery demand in replacement markets to emerge faster than OEM demand. Amara is expected to be the beneficiary of improving business outlook for the automotive and industrial sectors, driven by normalisation of economic activities. The automotive aftermarket segment, which constitutes more than 85% of Amara's automotive business, is expected to remain buoyant, aided by pent-up demand and increased preference for personal transport. We expect Amara to continue outpacing the organised lead-acid battery industry, led by new client acquisition, product launches, and benefits of its extensive distribution network.

Energy and Mobility theme: The company has announced "Energy and Mobility" as its new theme for growth, driven by transformative changes in key operative markets. Amara has laid down a vision to remain a dominant battery player in the Indian Ocean Rim and one of the leading global players in batteries through enduring partnerships. The company has also outlined its R&D capabilities and strategies for growth through value maximisation in the lead acid business segment and establishment of a new energy SBU encompassing lithium cell and battery pack, EV chargers, energy storage systems, advanced home energy solutions, and other related products and services. The company is open to grow through partnerships, joint ventures, and acquisitions. The company has guided for a 15-17% revenue CAGR over the next five years versus 8% revenue CAGR during FY2016-FY2021.

Exports remain key focus area: The company is present in more than 35 countries and exports contribute ~12% to total revenue. With aggressive foraying into the new energy business, the company expects to grow at a faster pace in exports as compared to domestic revenue. The company is open to grow inorganically in export markets as well.

New Energy business: Amara will establish a new energy SBU encompassing lithium cell and battery packs, EV chargers, energy storage systems, advanced home energy solutions, and other related products and services. The new energy division will build on technological innovations such as lithium and other new-age chemistries that enable accelerated transformation in renewable energy, electric mobility, and micro grids, among others. Technology in this space is emerging rapidly and evolving. The company is all geared up for the electric vehicle space as well. It is coming up with a 100 megawatt-hour lithium-ion battery plant, has already launched an e-rickshaw battery, and has started supplying to original equipment manufacturers. The company has also invested \$5 million in Log 9 Materials, a battery tech start-up in August 2021, as Series A investment round.

Strong balance sheet to aid growth led by internal accruals: The company is debt free and generates free cash flow (FCF) of Rs. 300 crore-400 crore every year, sufficient to meet its strategic goals. The company has a strong long-term revenue visibility, given its focus on the aftermarket segment. The company plans to grow in the new energy space through partnership. As of the now, the company has not revealed capex plans in the new energy business but expects to set up ACC plant for a capacity of 8-12 GWH.

Results (Standalone)

Particulars	Rs cr				
	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Net sales	2,620	1,886	38.9	2,181	20.1
Total operating expenses	2,359	1,636	44.2	1,961	20.3
EBITDA	261	250	4.4	220	18.7
Depreciation	96	96	0.1	99	(2.4)
Interest	5	3	45.4	5	(0.9)
Other Income	17	17	2.2	16	6.4
PBT	177	167	5.9	132	33.6
Tax	46	43	5.6	34	34.1
Adjusted PAT	131	124	6.1	99	33.4
Adjusted EPS	7.7	7.3	6.1	5.8	33.4

Source: Company; Sharekhan Research

Key Ratios (Standalone)

Particulars	Q1FY23	Q1FY22	YoY (bps)	Q4FY22	QoQ (bps)
Gross margin (%)	26.6	31.1	(450)	27.9	(130)
EBIDTA margin (%)	10.0	13.2	(330)	10.1	(10)
EBIT margin (%)	6.3	8.1	(190)	5.6	70
Net profit margin (%)	5.0	6.6	(160)	4.5	50
Effective tax rate (%)	25.7	25.8	(10)	25.6	10

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Demand picking up in the automotive and industrial sector

Business outlook for automotive and industrial segments is expected to improve as economic activities get normalised. Automotive demand is expected to see a strong recovery in the two-wheeler and four-wheeler segments, aided by pent-up demand and increased need for personal mobility transport amid the COVID-19 pandemic. The industrial segment may take a little more time to recover compared to automotive, except the telecom segment.

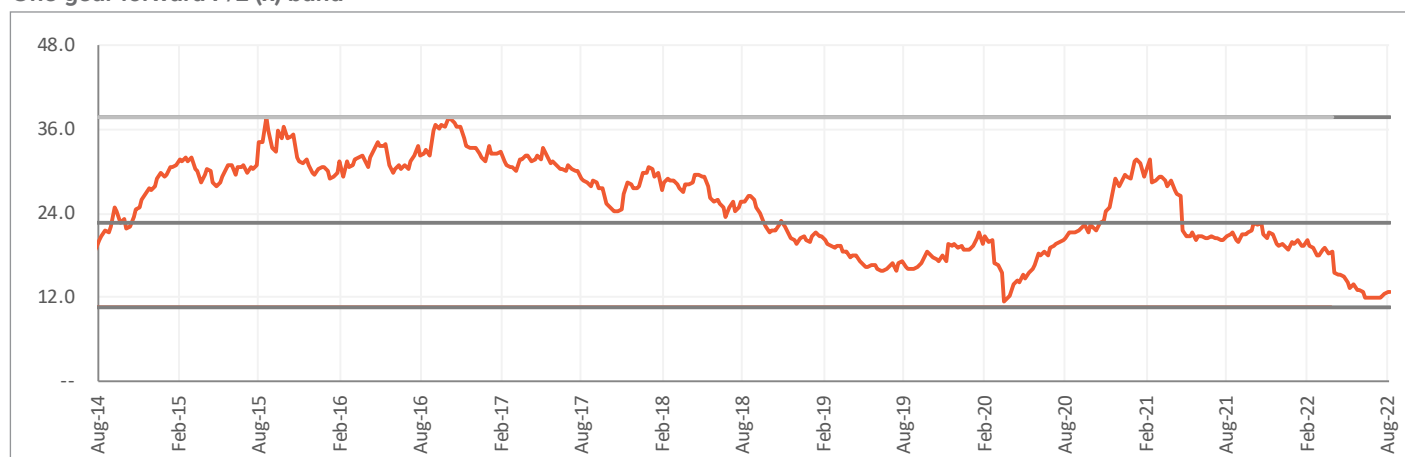
■ Company Outlook – Set for a steady ride ahead

We expect Amara to continue to outpace the organised lead-acid battery industry, led by new client acquisitions, new product launches, and benefitting from its extensive distribution network. The company has a large distribution network comprising 30,000+ Amaron and PowerZone retailers across India. The company is increasing its automotive battery capacity from 29 million units to 34 million units to benefit from the expected rise in demand. The company is debt-free and generates strong cash flows, sufficient to expand capacity through internal accruals. The company has a strong long-term revenue visibility, given its focus on the aftermarket segment.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 629

Amara is one of the largest manufacturers of lead acid batteries, commanding a market share of ~40% in the organised market. Having a strong brand equity and extensive distribution network, we expect Amara to grow strongly in the battery industry, led by a higher offtake by the replacement market. The company has laid down its long-term strategic plans for energy and mobility sectors by maximising on its brand recall in the lead acid battery space and investing into new energy product developments. However, the stock has corrected by ~30.3% and underperformed SENSEX by 38.8% in last one year, due to weak OEM offtake, pending case in High Court by AP Pollution Control Board (APPCB) regarding closure orders for its plants in Chittoor district (AP) and trailing behind global competitors in terms of research and development (R&D) investments in lithium-ion technology. Correction in the stock provides a good entry point for investors. The stock is trading below its historical average multiples at P/E multiple of 12x and EV/EBITDA multiple of 5x its FY24E estimates. We retain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 629.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	Rs/Share	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Amara Raja Batteries	505	16.9	13.6	12.0	8.1	6.4	5.2	14.6	16.5	16.8
Exide Batteries	156	13.3	11.1	10.1	8.8	7.1	6.0	14.3	15.2	15.0

Source: Company, Sharekhan estimates

About company

Amara is a flagship company of Amara Raja Group. The company is one of the leading manufacturers of lead acid storage batteries catering to the needs of both industrial as well as the automotive space. In the automotive segment, the company makes batteries for 4Ws and 2Ws and caters to the OEM as well as aftermarket segments. Products for the automotive segment are marketed under the Amaron and Powerzone brands. In the industrial segment, the company is a preferred supplier to major telecom service providers, telecom equipment manufacturers, UPS sector (OEM and replacement), Indian Railways, and to power, oil, and gas segments among others. The company has a commendable share in the telecom and UPS batteries segment. Amara's manufacturing plants are located in Chittoor district in Andhra Pradesh and are equipped with state-of-the-art manufacturing plants.

Investment theme

Amara is one of the leading battery manufacturers in the duopolistic Indian lead acid battery space. The company is present in the automobile as well as industrial segments. Having a strong brand equity and extensive distribution network, we expect Amara to grow strongly in the battery industry. The company is working on several cost-control measures to improve profitability, such as increasing backward integration, diversifying supplier base, enhancing automation, increasing share of renewable power, and enhancing digital initiatives. Amara is also upgrading its technology and working on import substitution of raw materials to enable cost reduction. We expect the company to outperform the battery industry, driven by new client additions in the OEM space and market share gains in the auto replacement segment, driven by network expansion. Amara is a debt-free company with healthy return ratios.

Key Risks

- ♦ If the Hon'ble Court gives verdict against the company, there could be uncertainties regarding production of products in its plants in Chittoor district (Andhra Pradesh).
- ♦ A steep rise in lead prices, a key raw material, can impact profitability.

Additional Data

Key management personnel

Ramachandra N Galla	Chairman
Jayadev Galla	Vice - Chairman & Managing Director
Vijayanand S	Chief Executive Officer
Delli Babu Y	Chief Financial Officer

Source: Company Website

Top shareholders

Sr. No.	Holder Name	Holding (%)
1	RNGALLA FAMILY PVT LTD	28.1
2	Clarios Arbl Holding Lp	14.0
3	Nalanda India Equity Fund Limited	9.9
4	Life Insurance Corporation Of India	7.1
5	Kotak Equity Arbitrage Fund	1.4
6	Vanguard Emerging Markets	1.1

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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