Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 21.53

Updated July 08, 2022

Medium Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 13,430 cr
52-week high/low:	Rs. 203 / 130
NSE volume: (No of shares)	21.4 lakh
BSE code:	500086
NSE code:	EXIDEIND
Free float: (No of shares)	45.9 cr

Shareholding (%)

Promoters	46.0
FII	10.4
DII	17.8
Others	25.8

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	13.7	3.5	-10.8	-10.7
Relative to Sensex	5.1	2.6	-7.6	-20.2

Sharekhan Research, Bloomberg

Exide Industries Ltd

Mixed bag Q1; growth prospects bright

Automobiles	Sharekhan code: EXIDEIND
Reco/View: Buy ↔	CMP: **Rs. 158**
	Price Target: **Rs. 183** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Exide Industries (Exide) reported mixed results in Q1FY23, with revenues exceeding our expectations by 9.5%, while EBITDA margins contracting by 90 bps more than expectations.
- Exide is expected to benefit from a recovery in automotive demand, greater share of replacement sales, and rising sales of industrial batteries.
- Company procured land in Karnataka to set up multi-gigawatt lithium-ion cell manufacturing plant in technical collaboration with SVOLT Energy Solutions.
- Stock trades at attractive valuations at P/E multiple of 10.3x and EV/EBITDA multiple of 6.1x its FY2024E estimates.

Exide Industries (Exide) reported mixed results in Q1FY23, with revenues exceeding our expectations by 9.5%, while EBITDA margins contracted 90 bps more than expectations. Standalone net revenues were up 56.8% y-o-y and 14.4% q-o-q at Rs. 3,899 crore in Q1FY23, led by continued growth momentum from OEMs and improved two-wheeler and four-wheeler battery sales in the aftermarket. EBITDA margin for Q1FY23 contracted 30 bps q-o-q to 9.9%, led by a 10 bps increase in raw material costs and a 30 bps increase in other operating costs, partially mitigated by 10bps lower employee costs. The escalation in raw material prices and freight costs were key reasons for the decline in margins. As a result, standalone EBITDA and adj. PAT grew by 48.4% y-o-y and 80.5% y-o-y to Rs. 387 crore and Rs. 226 crore, respectively. We expect the company to benefit from robust demand in the automotive sector and increasing mobility on road to increase replacement. In addition, the company's foray into lithium cell manufacturing holds a strong future in the automotive segment, driven by increasing traction for hybrid and electric vehicles (EV) in India. We maintain a Buy rating on the stock with a price target (PT) of Rs. 183.

Key positives

- Exide saw strong growth in automotive replacement markets and in the industrial batteries segment, driven by makeshift home office data centres. As a result, revenues exceeded expectation by 9.5% in Q1FY23.
- The company has strengthened its relationship with large OEMs becoming their preferred partner for fuel-efficient and new-age vehicles.
- Exide has procured 80 acres for lithium-ion manufacturing project in Karnataka.

Key negatives

- EBITDA margins contracted 90 bps more than expectations to 9.9%, driven by input cost inflation and higher other operating costs.

Management Commentary

- Exide witnessed strong replacement demand for automotive batteries in 2W and 4W segments.
- Management expects to maintain its leadership position with auto OEMs and gain market share in the aftermarket segment, especially from the unorganised sector.
- The company continues to focus on increasing its global footprint, while targeting to double its exports in the medium term.

Revision in estimates – We have maintained our estimates for FY23E and FY24E. We expect Exide's earnings to post a 12.6% CAGR during FY2022-FY2024E, driven by an 8.5% revenue CAGR and a 130-bps expansion in EBITDA margin to 12.6% in FY2024E from 11.3% in FY2022.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 183: Exide is the largest battery manufacturer in the lead acid battery markets, commanding a market share of close to 55% in the organised market. Having a strong brand equity and extensive distribution network, we expect Exide to grow strongly. 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. Exide is also upgrading technology and working on import substitution of raw materials to enable cost reduction. The company is debt-free and generates strong cash flow of ~Rs. 400 crore annually. The stock is attractively valued at P/E multiple of 10.3x and EV/EBITDA multiple of 6.1x its FY2024E estimates. We retain our Buy rating on the stock with an unchanged PT of Rs. 183.

Key Risks

Pricing pressures from automotive OEM customers can affect profitability. The fear of geopolitical tension could potentially affect international business and margins.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenues	10,041	12,382	13,496	14,576
Growth (%)	1.9	23.3	9.0	8.0
EBIDTA	1,356	1,396	1,651	1,839
OPM (%)	13.5	11.3	12.2	12.6
Net Profit	758	766	900	971
Growth (%)	(10.5)	1.0	17.5	7.9
EPS (Rs.)	8.9	9.0	10.6	11.4
Core P/E (x)	14.0	13.5	11.3	10.3
Core P/BV (x)	2.6	2.4	2.2	1.9
EV/EBIDTA (x)	9.3	8.9	7.2	6.1
Core ROE (%)	13.9	12.8	13.6	13.3
Core ROCE (%)	15.2	14.3	15.2	15.0

Source: Company; Sharekhan estimates

Mixed bag performance: Exide Industries (Exide) reported mixed results in Q1FY23, with revenues exceeding 9.5% higher than our expectations, while EBITDA margins contracted 90 bps higher than expectations. Standalone net revenues were up 56.8% y-o-y and 14.4% q-o-q at Rs. 3,899 crore in Q1FY23, led by continued growth momentum from OEMs and improved two-wheeler and four-wheeler battery sales in the aftermarket. In the automotive vertical, the company is witnessing a strong demand, especially from the replacement markets. The company has saw robust sales growth of I-UPS, solar and power projects in the industrial segment. The pickup in the commercial and business activities has been the key driver for rising battery demand. Also, exports continue to grow faster in both the automotive and industrial verticals. Standalone EBITDA margin for Q1FY23 contracted 30 bps q-o-q to 9.9%, led by 10 bps rise in raw material costs and 30 bps increase in other operating costs, partially mitigated by 10bps lower employee costs. Escalation in raw material prices and freight costs are the key reasons for margin decline. On y-o-y basis, the EBITDA margin contracted 60 bps, while gross margins contracted 360 bps. As a result, standalone EBITDA and adj. PAT grew by 48.4% y-o-y and 80.5% y-o-y to Rs. 387 core and Rs. 226 crore, respectively.

Setting up multi-gigawatt lithium-ion cell manufacturing plant: Exide has set up a wholly owned subsidiary, Exide Energy Solutions Limited, for lithium-ion business. The subsidiary will be manufacturing battery cells of advanced chemistry in multiple formats. Exide has entered into a multi-year technical collaboration agreement with SVOLT Energy Solutions Co. Ltd. (SVOLT), for lithium-ion cell manufacturing. SVOLT will also provide the support required for setting the plant on a turnkey basis. It has procured 80 acres for a lithium-ion manufacturing project in Karnataka and the same is progressing as per the schedule.

Management guidance: Management continues to focus on sales transformation and cost compression as key strategies for growth in future. Management expects to maintain its leadership position with auto OEMs and gain market share in the aftermarket segment, especially from the unorganised sector. The company continues to focus on increasing its global footprint, while targeting to double its exports in the medium term. Management expects to benefit from recovery in the industrial battery segment.

Strong replacement demand augurs well: Exide's revenue growth is largely driven by replacement demand in the automotive sector. Revenue mix from the automotive replacement segment is expected to contribute ~40% to total revenue. Moreover, margins are much better in replacement sales vis-à-vis OEM sales. We expect Exide to benefit from rising replacement demand. Moreover, there has been a strong recovery in OEM sales. Overall, improving replacement to OEM mix drives revenue and margin improvement for the company. Industrial battery dealers are also witnessing sales recovery, driven by returning demand and attractive offers.

Results (Standalone) Rs cr

Particulars	Q1FY23	Q1FY22	YoY %	Q4FY22	QoQ %
Revenues	3,899.4	2,486.4	56.8	3,408.6	14.4
Total operating costs	3,512.7	2,225.8	57.8	3,059.6	14.8
EBIDTA	386.6	260.6	48.4	349.0	10.8
Depreciation	109.1	100.9	8.1	106.5	2.5
Interest	6.4	10.9	(41.7)	10.6	(40.1)
Other income	32.2	15.2	112.5	39.2	(18.0)
PBT	303.4	164.0	85.1	271.2	11.9
Tax	77.0	38.5	99.9	69.1	11.4
Reported PAT	226.4	125.4	80.5	4,119.7	(94.5)
Adjusted PAT	226.4	125.4	80.5	202.0	12.1
Adjusted EPS	2.7	1.5	80.5	2.4	12.1

Source: Company, Sharekhan Research

Key Ratios (Standalone)

Particulars	Q1FY23	Q1FY22	YoY (bps)	Q4FY22	QoQ (bps)
Gross margin (%)	27.9	31.5	(360)	28.0	(10)
EBIDTA margin (%)	9.9	10.5	(60)	10.2	(30)
EBIT margin (%)	7.1	6.4	70	7.1	-
Net profit margin (%)	5.8	5.0	80	5.9	(10)
Effective tax rate (%)	25.4	23.5	190	25.5	(10)

Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Demand picking up in the automotive and industrial sector

Business outlook for the automotive and industrial segments is improving with normalisation of economic activities. Automotive demand is witnessing strong recovery in 2W and 4W segments, aided by pent-up demand and increased personal mobility transport. The industrial segment is also witnessing growth, driven by recovery in telecom and UPS segments. The potential in telecom and UPS industry demand remains buoyant because of increased data usage and digitalisation.

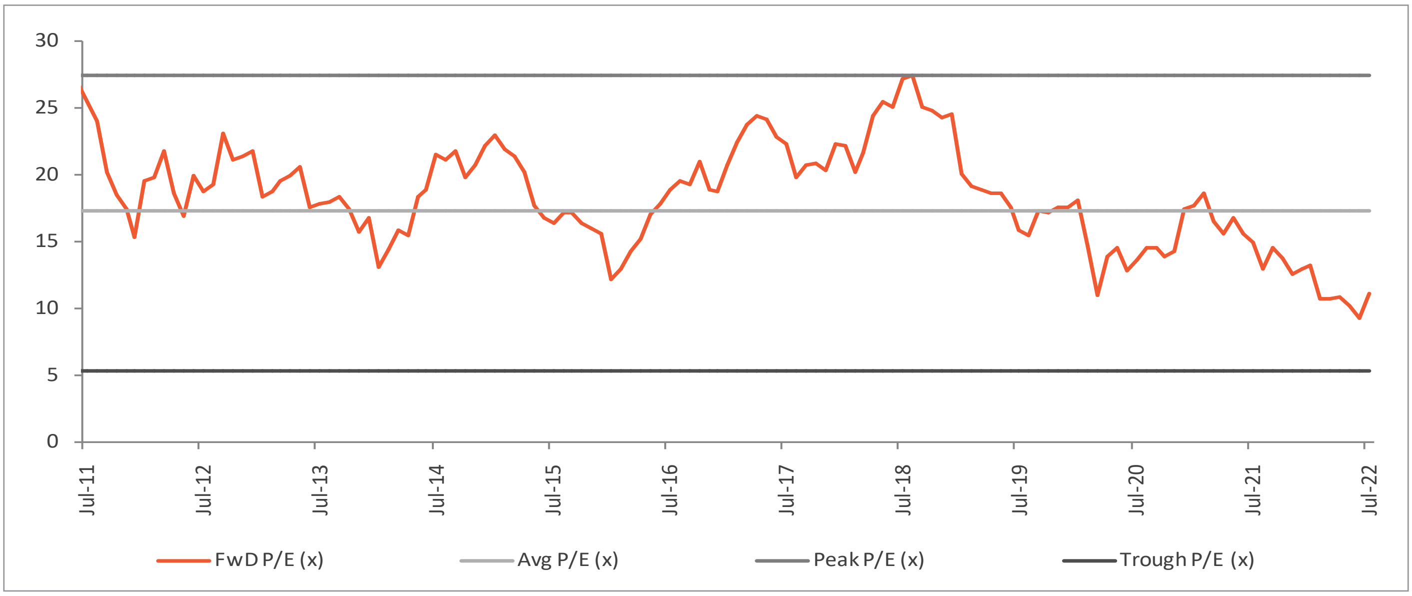
Company outlook - Strong earnings growth

Exide is expected to maintain its leadership position with auto OEMs and gain market share in the aftermarket segment, especially from the unorganised sector. We see a strong recovery in automotive battery demand in OEM as well as replacement demand. Higher mobility on road is expected to increase battery demand in replacement markets. Overall, an improving replacement to OEM mix will boost revenues and margin for Exide going forward. We expect Exide's earnings to post a 12.6% CAGR during FY2022-FY2024E, driven by an 8.5% revenue CAGR and a 130-bps expansion in EBITDA margin to 12.6% in FY2024E from 11.3% in FY2022.

Valuation - Maintain Buy with an unchanged PT of Rs.183

Exide is the largest battery manufacturer in the lead acid battery markets, commanding a market share of close to 55% in the organised market. Having a strong brand equity and extensive distribution network, we expect Exide to grow strongly. 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. Exide is also upgrading technology and working on import substitution of raw materials to enable cost reduction. The company is debt-free and generates strong cash flow of ~Rs. 400 crore annually. The stock is attractively valued at P/E multiple of 10.3x and EV/EBITDA multiple of 6.1x its FY2024E estimates. We retain our Buy rating on the stock with an unchanged PT of Rs. 183.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs/ Share)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Exide Industries	158	13.5	11.3	10.3	8.9	7.2	6.1	14.3	15.2	15.0
Amara Raja Batteries	492	16.4	13.3	11.7	7.9	6.2	5.1	14.6	16.5	16.8

Source: Company; Sharekhan Research

About company

Exide is one of the leading battery manufacturers in India catering to automobiles and industrial segments. The company is present in OEM as well as replacement and export segments. The company manufactures a wide range of batteries under the brand Exide, SF Sonic, Dynex, and CEIL in the automotive segment ranging from 3AH to 200 AH (four wheelers, two wheelers, commercial vehicles, gensets, and home inverter systems) and industrial segment ranging from 7AH to 3,200 AH (power, solar, railways, telecom UPS, and traction batteries). Exide is the preferred OEM supplier having established its brand, driven by robust product quality and supply chain management. With a strong OEM presence and robust distribution network (has 150+ warehouses and 48,000 direct and indirect dealers), Exide is the market leader in the automotive replacement segment as well.

Investment theme

Exide is the largest battery manufacturer in the lead acid battery markets, commanding a market share close to 55% in the organised market. Having a strong brand equity and extensive distribution network, we expect Exide to grow strongly in the battery industry. Exide 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. Exide is also upgrading technology and working on import substitution of raw materials to enable cost reduction. The company is debt-free and generates strong cash flows of around Rs. . 400 crore per year.

Key Risks

- Pricing pressures from automotive OEM customers and steep rise in lead prices (a key raw material) can impact profitability.
- The fear of geopolitical tensions could potentially affect international business and margins.

Additional Data

Key management personnel

Mr. Bharat D. Shah	Chairman and Independent Director
Mr. R. B. Raheja	Vice Chairman and Non-Executive Director
Mr. G. Chaterjee	MD and CEO
Mr. A. K. Mukherjee	Director Finance and CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Chloride Eastern Limited	46.0
2	Life Insurance Corporation Of India	5.5
3	Hathway Investments Private Limited	4.3
4	ICICI Prudential Value Discovery Fund	2.6
5	Government Pension Fund Global	2.1
6	Aditya Birla Sun Life	1.7
7	The New India Assurance Company Limited	1.5
8	HDFC Trustee Company Ltd	1.2
9	ICICI Prudential Life Insurance Company Limited	1.1
10	Kotak Equity Savings Fund	1.0

Source: Bloomberg

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 detoriating 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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