

Estimate changes

TP change

Rating change



Bloomberg	AMRJ IN
Equity Shares (m)	171
M.Cap.(INRb)/(USDb)	88.8 / 1.1
52-Week Range (INR)	714 / 438
1, 6, 12 Rel. Per (%)	1/-13/-27
12M Avg Val (INR M)	386

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	87.0	106.9	118.6
EBITDA	10.2	13.0	14.9
Adj. PAT	5.1	7.0	8.0
EPS (INR)	29.9	41.2	47.1
EPS Gr. (%)	-21.0	37.6	14.3
BV/Sh. (INR)	266	293	325
Ratios			
RoE (%)	11.7	14.7	15.2
RoCE (%)	11.8	14.6	15.1
Payout (%)	15.0	36.4	31.9
Valuations			
P/E (x)	17.4	12.6	11.0
P/BV (x)	2.0	1.8	1.6
Div. Yield (%)	0.9	2.9	2.9
FCF yield (%)	-1.4	1.9	4.5

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	28.1	28.1	28.1
DII	10.0	10.8	14.5
FII	18.5	18.3	20.8
Others	43.5	42.8	36.6

FII Includes depository receipts

CMP: INR520

TP: INR590 (+14%)

Neutral

Earnings beat led by lower RM costs

Sets up a wholly owned subs for li-ion cell and pack manufacturing

- AMRJ's 2QFY23 earnings were led by softening of RM costs coupled with volume growth across segments. The recent moderation in lead prices will aid margin recovery. Volumes should see an upward trajectory in both automotive and industrial segments.
- We raise FY23E/FY24E EPS by 28%/14% to factor in the recovery in the automobile segment and exports coupled with the benefit from softening RM costs. We reiterate our **Neutral** rating with a TP of INR590 (12x Sep'24E EPS).

EBITDA beat driven by improving gross margin

- Revenue/EBITDA/Adj.PAT grew 19%/34%/40% YoY to INR27b/INR3.6b/INR2b in 2QFY23 (v/s est. INR25.4b/INR2.65b/INR1.3b). 1HFY23 revenues/ EBITDA/ Adj. PAT grew 28%/20%/24.5% YoY.
- Overall volumes grew 10% YoY with similar growth witnessed in autos and industrial segment.
- Gross margins improved 60bp YoY (390bp QoQ) at 30.5% (v/s est. 27.5%), led by a 9% YoY decline (down 6.5% QoQ) in spot lead prices. Price hikes (2-2.5% QoQ) and soft lead prices boosted gross margins.
- Higher gross margins led to a 150-bp YoY improvement in EBITDA margin (up 340bp QoQ) to 13.3% (v/s est 10.5%). EBITDA grew 34% YoY (up 38% QoQ) to INR3.6b (v/s est. INR2.65b) in 2QFY23.
- Further, tax diluted adj. PAT grew 40% YoY/54% QoQ to INR2b (v/s est. INR1.3b) in 2QFY23.
- CFO for 1HFY23 was at INR6.7b (v/s INR4.5b in 1HFY22). Capex for the period was INR2.6b (v/s INR3b in 1HFY22). FCF improved to INR4.1b (v/s INR1.5b in 1HFY22) due to lower capex and better operating performance
- The company announced an interim dividend of INR2.9 for FY23YTD.

Highlights from the management commentary

- 4W volumes grew 13-14% YoY, driven by strong growth in OEMs, ~10% growth in replacement, and 18-19% growth in exports. 2W volumes grew 10% YoY, with 11-12% growth in replacement, and 7-8% YoY growth in OEMs. Home inverter volumes declined 10% YoY.
- Industrial segment grew ~10% YoY, with ~15% growth in Telecom, and 8-10% growth in other segments.
- It has incorporated wholly owned subs for li-ion cell and pack manufacturing. It plans to start investing for the new energy venture from 2HFY23 onwards.
- Capex in lead acid business for FY23 is expected to be at INR5-6b for capacity expansion, solar power, and recycling plant. Investment in li-ion will be over and above it.

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Valuation and view

- The stock trades at 12.6x/11x FY23E/FY24E EPS. We reiterate our **Neutral** rating with a TP of INR590 (12x Sep'24E EPS) as the expectation of better earnings growth balances out the increasing threat of lithium chemistry to the Auto and Industrial businesses.

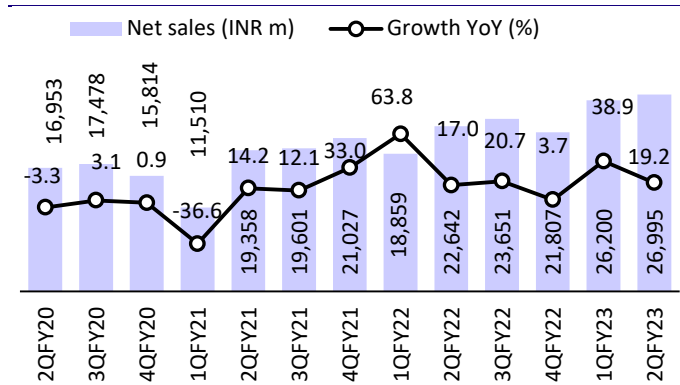
Quarterly Performance

Y/E March (INR m)	FY22				FY23E				(INR Million)		
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY22	FY23E	FY23E
Net Sales	18,859	22,642	23,651	21,807	26,200	26,995	26,489	27,249	86,958	1,06,933	25,359
YoY Change (%)	63.8	17.0	20.7	3.7	38.9	19.2	12.0	25.0	21.6	23.0	12.0
RM Cost (% of sales)	68.9	70.1	70.3	72.1	73.4	69.5	70.0	69.9	70.4	70.7	72.5
Staff Cost (% of sales)	6.3	5.8	5.5	5.5	5.1	5.6	5.7	5.3	5.7	5.4	5.2
Other Exp (% of sales)	11.6	12.2	12.3	12.3	11.5	11.6	11.7	12.0	12.1	11.7	11.8
EBITDA	2,499	2,689	2,840	2,199	2,609	3,602	3,347	3,487	10,226	13,046	2,656
Margins (%)	13.2	11.9	12.0	10.1	10.0	13.3	12.6	12.8	11.8	12.2	10.5
Depreciation	963	986	1,021	987	963	1,019	1,030	1,080	3,957	4,092	980
Interest	32	36	38	46	46	54	50	50	151	200	40
Other Income	166	264	190	160	170	237	180	163	780	750	160
PBT after EO	1,670	1,932	1,971	1,325	1,770	2,765	2,447	2,521	6,898	9,503	1,796
Tax	431	491	524	340	455	744	641	668	1,786	2,471	460
Tax Rate (%)	25.8	25.4	26.6	25.6	25.7	26.9	26.2	26.5	25.9	26.0	25.6
Adj PAT	1,239	1,441	1,447	985	1,315	2,022	1,806	1,853	5,113	7,032	1,336
YoY Change (%)	97.7	-28.5	-25.1	-48.0	6.1	40.3	24.9	88.1	-21.0	37.6	-7.3

E: MOFSL Estimates

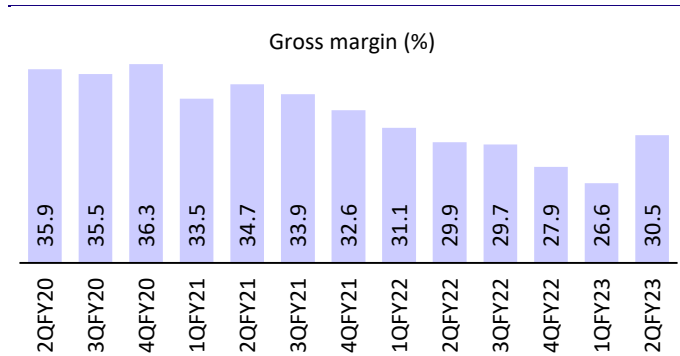
Key exhibits

Exhibit 1: Trend in revenue and growth



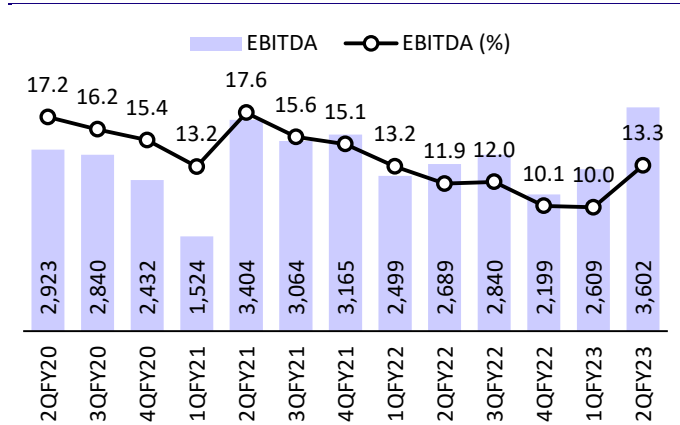
Source: Company, MOFSL

Exhibit 2: Gross margin adversely impacted by RM cost inflation



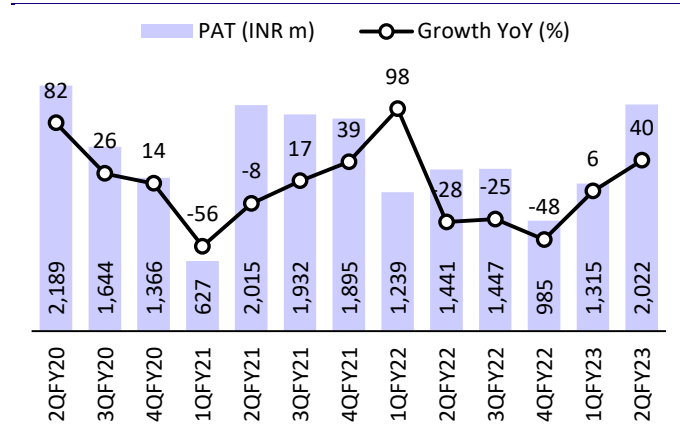
Source: Company, MOFSL

Exhibit 3: Trend in EBITDA and EBITDA margin



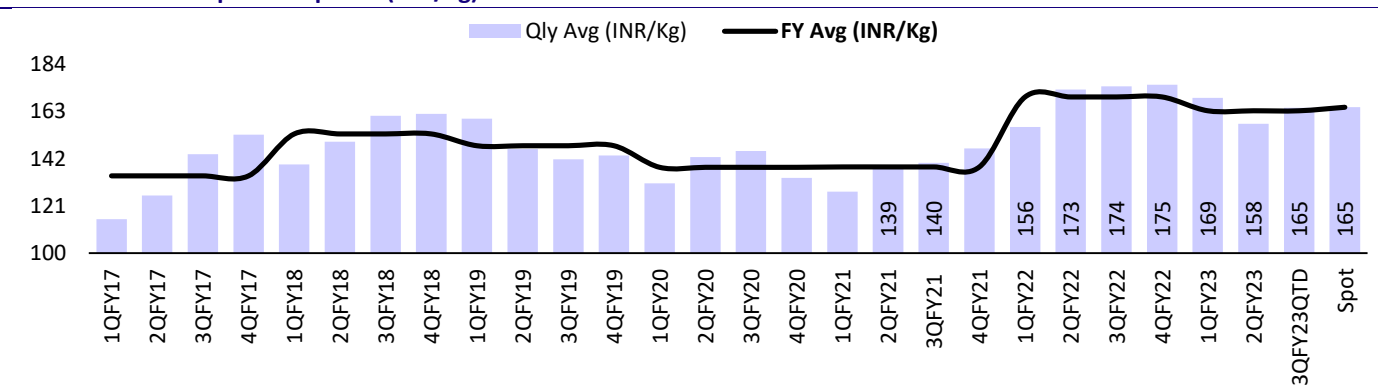
Source: Company, MOFSL

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 largely remains 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. 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 its 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, reiterate our Neutral rating:** We raise FY23E/FY24E EPS by 28%/14% to factor in the recovery in the automobile segment and exports coupled with the benefit from falling RM costs. 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 margins. 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 12.6x/11x FY23E/FY24E EPS. We reiterate our **Neutral** rating, with a TP of INR590 (12x Sep'24E EPS) as the expectation of better earnings growth balances out the increasing threat of lithium chemistry to the Auto and Industrial businesses.

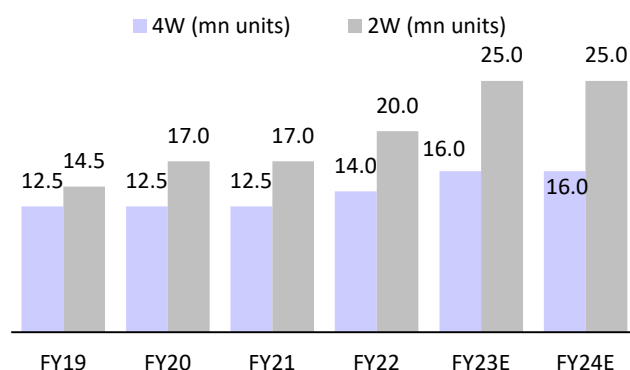
Exhibit 6: Revisions to our estimates

(INR M)	FY23E			FY24E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,06,933	1,04,745	2.1	1,18,593	1,16,220	2.0
EBITDA (%)	12.2	10.6	170bp	12.6	11.7	90bp
Net Profit	7,032	5,501	27.9	8,040	7,076	13.6
EPS (INR)	41.2	32.2	27.9	47.1	41.4	13.6

Source: MOFSL

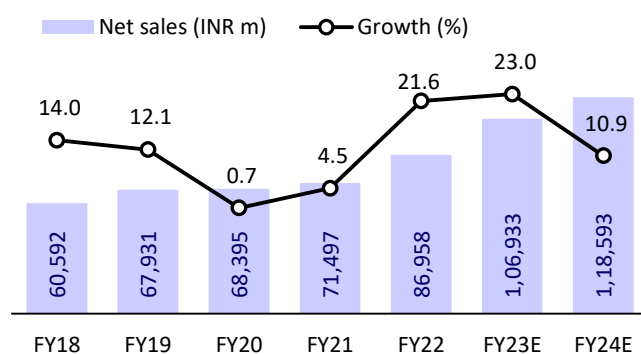
Story in charts

Exhibit 1: Significant additions in 2W capacity



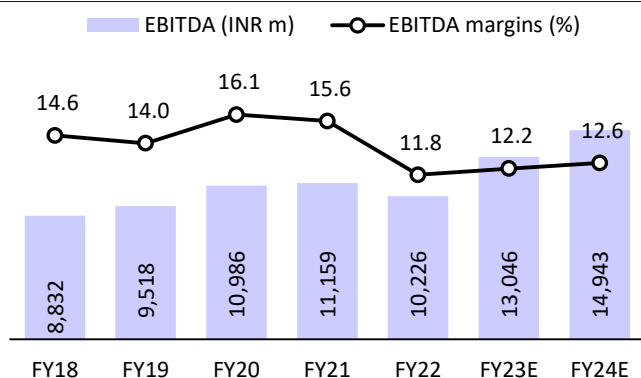
Source: Company, MOFSL

Exhibit 2: Trend in revenue



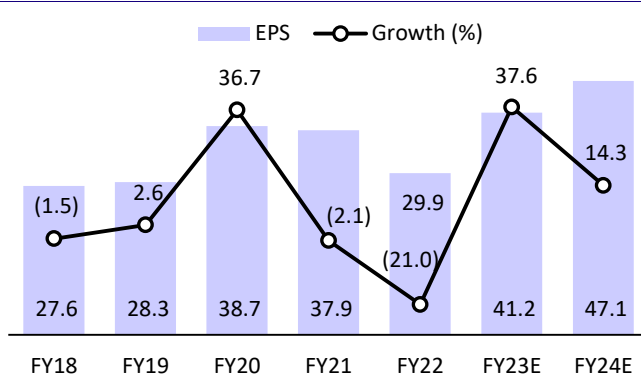
Source: Company, MOFSL

Exhibit 3: EBITDA and EBITDA margin trend



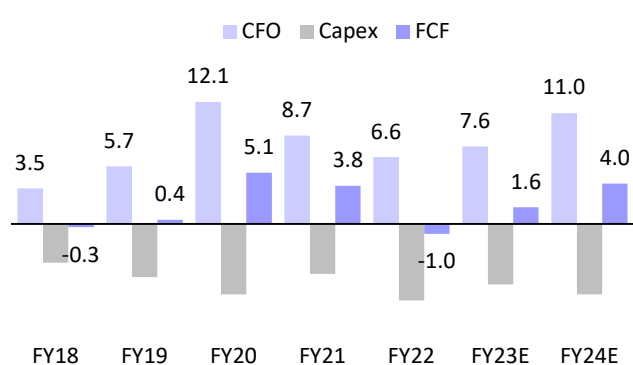
Source: Company, MOFSL

Exhibit 4: Earnings have bottomed out in FY22



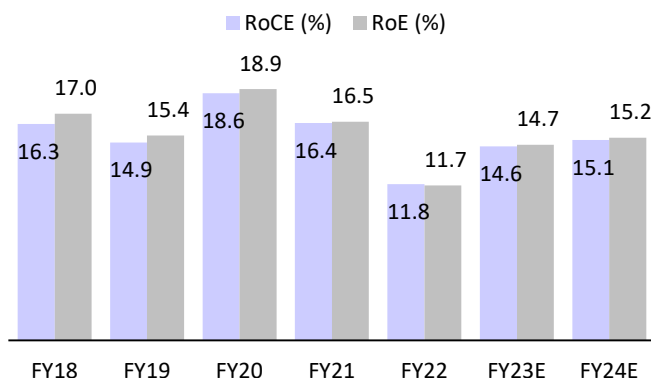
Source: Company, MOFSL

Exhibit 5: Trend in CFO, capex, and FCF



Source: Company, MOFSL

Exhibit 6: Return ratios to recover moderately



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR Million)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	60,592	67,931	68,395	71,497	86,958	1,06,933	1,18,593	1,30,436
Change (%)	14.0	12.1	0.7	4.5	21.6	23.0	10.9	10.0
EBITDA	8,832	9,518	10,986	11,159	10,226	13,046	14,943	16,826
Margin (%)	14.6	14.0	16.1	15.6	11.8	12.2	12.6	12.9
Depreciation	2,303	2,612	3,007	3,192	3,957	4,092	4,678	5,282
EBIT	6,529	6,906	7,978	7,967	6,269	8,953	10,265	11,544
Int. and Finance Charges	51	70	122	105	151	200	200	200
Other Income - Rec.	664	468	551	874	780	750	800	800
PBT bef. EO Exp.	7,142	7,304	8,407	8,736	6,898	9,503	10,865	12,144
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	9,503	10,865	12,144
Tax Rate (%)	34.0	33.8	21.4	25.9	25.9	26.0	26.0	26.0
Reported PAT	4,713	4,835	6,608	6,470	5,112	7,032	8,040	8,987
PAT Adj for EO items	4,713	4,835	6,608	6,470	5,113	7,032	8,040	8,987
Change (%)	-1.5	2.6	36.7	-2.1	-21.0	37.6	14.3	11.8
Margin (%)	7.8	7.1	9.7	9.0	5.9	6.6	6.8	6.9

Standalone - Balance Sheet

(INR Million)

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	49,814	55,292	61,716
Net Worth	29,374	33,353	36,556	42,103	45,514	49,984	55,462	61,887
Deferred Liabilities	878	959	441	407	314	314	314	314
Total Loans	584	468	343	234	234	2,000	500	500
Capital Employed	30,836	34,780	37,341	42,744	46,062	52,298	56,276	62,701
Gross Block	22,529	26,165	29,269	38,628	42,498	53,794	60,794	67,794
Less: Accum. Deprn.	5,497	8,037	10,977	14,081	17,575	21,667	26,345	31,627
Net Fixed Assets	17,033	18,128	18,292	24,548	24,923	32,127	34,449	36,167
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	36,978	39,685	45,885
Inventory	10,497	10,614	11,427	14,382	18,038	20,508	21,119	23,228
Account Receivables	7,825	7,686	6,363	7,875	7,926	10,254	11,372	12,508
Cash and Bank Balance	1,113	502	326	967	536	1,940	2,450	4,932
Loans and Advances	2,603	4,678	3,766	3,401	3,262	4,277	4,744	5,217
Curr. Liability & Prov.	10,849	10,179	12,665	15,227	17,697	20,585	21,636	23,129
Account Payables	5,923	5,104	6,149	7,465	8,065	10,840	11,372	12,508
Other Current Liabilities	3,916	3,761	4,685	5,623	7,177	8,555	9,487	10,435
Provisions	1,011	1,314	1,832	2,140	2,455	1,191	776	187
Net Current Assets	11,189	13,301	9,217	11,398	12,064	16,393	18,049	22,756
Appl. of Funds	30,836	34,780	37,341	42,744	46,062	52,298	56,276	62,701

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	41.2	47.1	52.6
Cash EPS	41.1	43.6	56.3	56.6	53.1	65.1	74.5	83.5
BV/Share	172.0	195.3	214.0	246.5	266.5	292.6	324.7	362.3
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	36.4	31.9	28.5
Valuation (x)								
P/E	18.8	18.4	13.4	13.7	17.4	12.6	11.0	9.9
Cash P/E	12.7	11.9	9.2	9.2	9.8	8.0	7.0	6.2
P/BV	3.0	2.7	2.4	2.1	2.0	1.8	1.6	1.4
EV/Sales	1.5	1.3	1.3	1.2	1.0	0.8	0.7	0.6
EV/EBITDA	10.0	9.3	8.1	7.9	8.7	6.8	5.8	5.0
Return Ratios (%)								
RoE	17.0	15.4	18.9	16.5	11.7	14.7	15.2	15.3
RoCE	16.3	14.9	18.6	16.4	11.8	14.6	15.1	15.4
RoIC	17.6	15.8	21.6	19.0	13.0	16.0	15.7	16.4
Working Capital Ratios								
Gross Fixed Asset Turnover (x)	2.7	2.6	2.3	1.9	2.0	2.0	2.0	1.9
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	49	48	50
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	0.0	0.0	0.0

Standalone - Cash Flow Statement						(INR Million) (INR Million)		
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	9,503	10,865	12,144
Depreciation	2,303	2,612	3,007	3,192	3,957	4,092	4,678	5,282
Interest & Finance Charges	-5	42	122	105	151	-550	-600	-600
Direct Taxes Paid	2,443	2,417	2,364	1,995	1,993	2,471	2,825	3,157
(Inc)/Dec in WC	-3,475	-1,843	2,892	-1,301	-2,406	-2,925	-1,146	-2,225
CF from Operations	3,522	5,698	12,065	8,734	6,607	7,650	10,972	11,444
Others	-306	-284	-296	-714	-277	0	0	0
CF from Operating incl EO	3,216	5,413	11,769	8,020	6,329	7,650	10,972	11,444
(inc)/dec in FA	-3,853	-5,282	-6,999	-4,964	-7,598	-6,000	-7,000	-7,000
Free Cash Flow	-637	131	4,770	3,056	-1,268	1,650	3,972	4,444
Others	19,117	10,904	13,305	13,212	16,219	750	800	800
CF from Investments	-2,442	-4,629	-8,497	-6,350	-4,819	-5,250	-6,200	-6,200
(Inc)/Dec in Debt	-89	-51	-275	-321	-3,776	1,766	-1,500	0
Interest Paid	-7	-11	-52	-40	-67	-200	-200	-200
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	-996	-4,262	-2,762
Inc/Dec of Cash	-607	-131	-365	455	-624	1,404	510	2,482
Add: Beginning Balance	3,251	2,644	2,512	512	967	343	1,747	2,257
Closing Balance	2,644	2,512	2,147	967	343	1,747	2,257	4,739

E: MOFSL Estimates

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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