Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Exide Industries Ltd

Shining bright

Automobiles	Sharekhan code: EXIDEIND
Reco/View: Buy ↔	CMP: Rs. 182 / Price Target: Rs. 215 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- The stock trades at an attractive valuation at P/E multiple of 11.4x and EV/EBITDA multiple of 6.8x its FY2024E estimates.
- Exide Industries (Exide) reported mixed results in Q2FY23, with revenues below our expectations by 9.5%, while EBITDA margins expanded 30 bps more than expectations.
- Exide is expected to benefit from a robust automotive and industrial demand and expects its market share to grow in both OEMs and replacement markets.
- The company plans its 12-gigawatt lithium-ion cell manufacturing plant to start production by FY24 and fully operative by FY26, with a total investment of Rs6,000 crore from internal accruals.

Exide Industries (Exide) reported mixed results in Q2FY23, with revenues below our expectations by 9.5%, while EBITDA margins expanding 30 bps more than expectations. Standalone net revenues were up 13% y-o-y to Rs. 3,719 crores in Q2FY23, led by high single-digit volume growth and price hikes taken by the company during the year. The company benefitted from continued growth momentum from OEMs and improved two-wheeler and four-wheeler battery sales in the aftermarket. EBITDA margin for Q2FY23 expanded 120bps q-o-q to 11.1%, led by a softening raw material costs and cost reductions. The demand is expected to remain strong going forward. As a result, adj. PAT grew by 5.1% y-o-y and 8.8% q-o-q to Rs. 246 crores. We expect the company to benefit from robust demand in the automotive sector and increasing mobility on the road to increase replacement. In addition, the company's foray into lithium cell manufacturing holds a strong future in the automotive segment, driven by growing traction of hybrid and electric vehicles (EV) in India. We maintain a Buy rating on the stock with a revised price target (PT) of Rs.215.

Key positives

- Exide saw strong growth in automotive replacement markets and in the industrial batteries segment, driven by makeshift home office data centres.
- The company has strengthened its relationship with large OEMs, becoming their preferred partner for fuel-efficient and new-age vehicles.
- Exide to start work on the 12-Gigawatt lithium cell manufacturing plant and production in FY24. The company is to invest Rs4,000 crore in phase 1 of the plant construction and another Rs2,000 crore in phase 2. The plant is to be fully operative and running by FY26.

Key negatives

- Revenues were below expectations by 9.2% from our expectations during Q2FY23.

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.
- The management guided 30-35% in revenues in FY23E and EBITDA margins to stabilise around 14%.
- Besides the lithium cell manufacturing plans, the company does a capex of Rs400-500 crore yearly.

Revision in estimates – We have fine-tuned our estimates for FY23E and FY24E and included FY25E estimates. We expect Exide's earnings to post a 17.8% CAGR during FY2022-FY2024E, driven by an 11.4% revenue CAGR and a 340-bps expansion in EBITDA margin to 12.4% in FY2024E from 9% in FY2022.

Our Call

Valuation – Maintain Buy with a revised PT of Rs.215: 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 free cash flow of ~Rs. 400 crores annually. The stock is attractively valued at P/E multiple of 11.4x and EV/EBITDA multiple of 6.8x its FY2024E estimates. We retain our Buy rating on the stock with a revised PT of Rs.215.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenues	10,041	12,382	14,239	15,378	16,301
Growth (%)	1.9	23.3	15.0	8.0	6.0
EBIDTA	1,356	1,396	1,717	1,950	2,152
OPM (%)	13.5	11.3	12.1	12.7	13.2
Net Profit	758	766	950	1,054	1,174
Growth (%)	(10.5)	1.0	24.0	11.0	11.3
EPS (Rs)	8.9	9.0	11.2	12.4	13.8
Core P/E (x)	16.7	16.2	12.9	11.4	10.1
Core P/BV (x)	3.1	2.9	2.6	2.3	2.0
EV/EBIDTA (x)	10.8	10.4	8.2	6.8	5.8
Core ROE (%)	13.9	12.8	14.3	14.3	14.3
Core ROCE (%)	15.2	14.3	16.0	16.1	16.4

Source: Company; Sharekhan estimates

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 Aug 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. 15,470 cr
52-week high/low:	Rs. 185 / 130
NSE volume: (No of shares)	25.8 lakh
BSE code:	500086
NSE code:	EXIDEIND
Free float: (No of shares)	45.9 cr

Shareholding (%)

Promoters	46.0
FII	10.5
DII	17.8
Others	25.7

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	17.4	14.4	25.0	-0.6
Relative to Sensex	9.1	9.9	11.0	-3.3

Sharekhan Research, Bloomberg

Key highlights of Q2FY23 results and conference call

- **Mixed bag performance:** Exide Industries (Exide) reported mixed results in Q2FY23, with revenues below our expectations by 9.5%, while EBITDA margins expanded 30 bps more than expectations. Standalone net revenues were up 13% y-o-y to Rs. 3,719 crores in Q2FY23, led by high single-digit volume growth and price hikes taken by the company during the year. The company benefitted from continued growth momentum from OEMs and improved two-wheeler and four-wheeler battery sales in the aftermarket. EBITDA margin for Q2FY23 expanded 120bps q-o-q to 11.1%, led by softening raw material costs and cost reductions. The demand is expected to remain strong going forward. As a result, adj. PAT grew by 5.1% y-o-y and 8.8% q-o-q to Rs. 246 crores. The company continues to gain market share across its segments in both organised and unorganised markets.
- **Setting up multi-gigawatt lithium-ion cell manufacturing plant:** Exide has set up a wholly owned subsidiary, Exide Energy Solutions Limited, for the 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. Exide to start work on the 12-Gigawatt lithium cell manufacturing plant and production in FY24. The company is to invest Rs4,000 crore in phase 1 of the plant construction and another Rs2,000 crore in phase 2. The plant is to be fully operative and running by FY26.
- **Management guidance:** Management continues to focus on sales transformation and cost compression as key future growth strategies. 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 the recovery in the industrial battery segment. The management guided 30-35% in revenues in FY23E and EBITDA margins to stabilise around 14%. Besides the lithium cell manufacturing plans, the company does a capex of Rs400-500 crore every year.
- **Strong replacement demand augurs well:** Exide's revenue growth is primarily 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	Q2FY23	Q2FY22	Y-o-Y %	Q1FY23	Q-o-Q %
Revenues	3,718.9	3,290.0	13.0	3,899.4	(4.6)
Total operating costs	3,306.5	2,876.7	14.9	3,512.7	(5.9)
EBIDTA	412.4	413.4	(0.2)	386.6	6.7
Depreciation	112.0	101.2	10.7	109.1	2.7
Interest	6.2	8.6	(27.7)	6.4	(2.7)
Other income	35.6	10.9	225.7	32.2	10.5
PBT	329.8	314.5	4.9	303.4	8.7
Tax	83.6	80.2	4.3	77.0	8.6
Reported PAT	246.2	234.4	5.1	226.4	8.8
Adjusted PAT	246.2	234.4	5.1	226.4	8.8
Adjusted EPS	2.9	2.8	5.1	2.7	8.8

Source: Company; Sharekhan Research

Key Ratios Rs cr

Particulars	Q2FY23	Q2FY22	Y-o-Y (bps)	Q1FY23	Q-o-Q (bps)
Gross margin (%)	30.5	32.8	(230)	27.9	260
EBIDTA margin (%)	11.1	12.6	(150)	9.9	120
EBIT margin (%)	8.1	9.5	(140)	7.1	100
Net profit margin (%)	6.6	7.1	(50)	5.8	80
Effective tax rate (%)	25.3	25.5	(10)	25.4	-

Source: Company; Sharekhan Research

Outlook and Valuation

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

Business outlook for the automotive and industrial segments is improving with the 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 part is also witnessing growth, driven by a recovery in the telecom and UPS segments. The potential in telecom and UPS industry demand remains buoyant because of increased data usage and digitalisation.

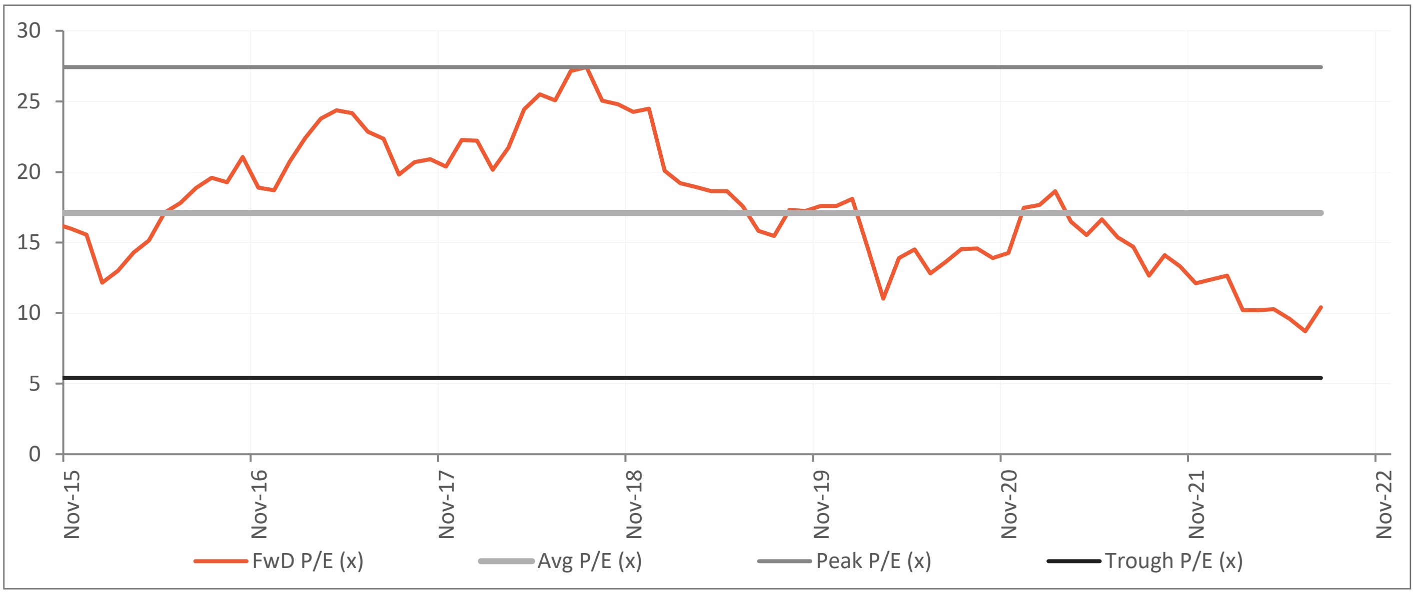
■ Company Outlook – Strong earnings growth

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 and replacement demand. Higher mobility on the road is expected to increase battery demand in replacement markets. Overall, an improving replacement to OEM mix will boost revenues and margins for Exide in the future. We have fine-tuned our estimates for FY23E and FY24E and included FY25E estimates. We expect Exide's earnings to post a 17.8% CAGR during FY2022-FY2024E, driven by an 11.4% revenue CAGR and a 340-bps expansion in EBITDA margin to 12.4% in FY2024E from 9% in FY2022.

■ Valuation – Maintain Buy with a revised PT of Rs.215:

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 the 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 a strong free cash flow of ~Rs. 400 crores annually. The stock is attractively valued at a P/E multiple of 11.4x and an EV/EBITDA multiple of 6.8x its FY2024E estimates. We retain our Buy rating on the stock with a revised PT of Rs.215.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	Rs/Share	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Exide Industries	182	16.2	12.9	11.4	10.4	8.2	6.8	14.3	16.0	16.1
Amara Raja Batteries	637	21.3	17.3	14.2	10.3	8.2	6.6	14.6	16.4	18.2

Source: Company, Sharekhan estimates

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 brands 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 the robust product quality and supply chain management. With a strong OEM presence and robust distribution network (150+ warehouses and 48,000 direct and indirect dealers), Exide is also the market leader in the automotive replacement segment.

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 substantial 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 the supplier base, enhancing automation, increasing the 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 crores 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 & Independent Director
Mr R B Raheja	Vice Chairman & Non-Executive Director
Mr G Chaterjee	MD & CEO
Mr A K Mukherjee	Director Finance & CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Chloride Eastern Ltd	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

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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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