

# Amara Raja Batteries

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## Q3 EBITDA beats estimates; Lead price increase to hit Q4 margin

- AMRJ's Q3 EBITDA grew by 40% YoY to Rs4bn, 7% above our estimates, as benefits from easing commodity prices were higher than our expectations. However, the recent increase in lead prices is expected to hit margins in the near term. Revenue increased by 12% to Rs26.4bn, standing 2% below estimates. Factoring in the strong Q3 performance, we have increased our FY23E EPS by 5% and slightly increase FY24-25E EPS by 1%. Despite losing out in the PLI-ACC scheme, AMRJ plans to commence construction work on the lithium-ion cell manufacturing facility and production may commence after two years. However, as we do not see any near-term triggers, we retain HOLD with a TP of Rs575/share (Rs560/share), based on 11x FY25E EPS (Dec-24E earlier). Key downside risks: Lower-than-expected demand in key geographies, increased competitive intensity, and adverse movement in commodity prices/currency rates.
- Q3 EBITDA above estimates:** Revenue grew by 12% YoY to Rs26.4bn, 2% below our estimates. Volumes grew by 8%, led by 15% growth in industrial, 15% growth in 2Ws, and 5% growth in PVs. Within industrials, the telecom segment has witnessed better growth at 17%. Realization increased by 4%. EBITDA grew by 40% to Rs4bn, 7% above our estimates, led by gross margin beat. Gross margin improved by 360bps YoY (+290bps QoQ) to 33.4% on price hikes in the aftermarket and correction in input prices. Accordingly, PAT grew 54% to Rs2.2bn, 6% above our estimate, on higher operating profit. **What we liked:** Improvement in Q3 gross margin. However, Q4 margin is likely to contract on increasing lead prices. **What we did not like:** 1) The company's selection under the PLI-ACC scheme is not foreseeable, despite the exit of players like Hyundai. 2) Work on the lithium-ion cell manufacturing facility project will commence soon. However, commissioning of the project is not expected for at least two years.
- Management Call KTAs:** 1) **Q3FY23 volume performance:** The PV segment's volume grew by 5%, led by 5-6% growth in the OEM segment, 5-6% in aftermarket, and 3% in exports. The 2W segment grew by 15%, led by 17% growth in aftermarket and flat growth in the OEM segment. The industrial segment grew by 15%, led by 17% growth in telecom and 15% growth in UPS. The home inverter segment witnessed flat growth. 2) Increase in lead prices may affect gross margins ahead. Q4 lead cost is expected to be higher by ~\$100/tonne QoQ. 3) FY23 capex is expected to be Rs5-6bn.

### Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	71,497	86,958	103,929	112,977	122,119
EBITDA	11,157	10,226	13,251	15,252	16,669
EBITDA Margin (%)	15.6	11.8	12.8	13.5	13.7
APAT	6,468	5,112	7,072	8,242	8,924
EPS (Rs)	37.9	29.9	41.4	48.2	52.2
EPS (% chg)	(2.1)	(21.0)	38.3	16.5	8.3
ROE (%)	16.4	11.7	14.7	15.4	15.0
P/E (x)	14.9	18.8	13.6	11.7	10.8
EV/EBITDA (x)	8.3	9.3	7.2	6.2	5.7
P/BV (x)	2.3	2.1	1.9	1.7	1.5

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 563</b> as of (January 26, 2023)	<b>Rs 575 (▲)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>HOLD (■)</b>	<b>2.1 %</b>

### Change in Estimates

EPS Chg FY23E/FY24E (%)	4.7/0.7
Target Price change (%)	2.7
Target Period (Months)	12
Previous Reco	HOLD

### Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	41.4	48.2
Consensus	39.7	47.3
Mean Consensus TP (12M)	Rs 634	

### Stock Details

Bloomberg Code	AMRJ IN
Face Value (Rs)	1
Shares outstanding (mn)	171
52 Week H/L	670 / 438
M Cap (Rs bn/USD bn)	96 / 1.18
Daily Avg Volume (nos.)	1,349,513
Daily Avg Turnover (US\$ mn)	9.9

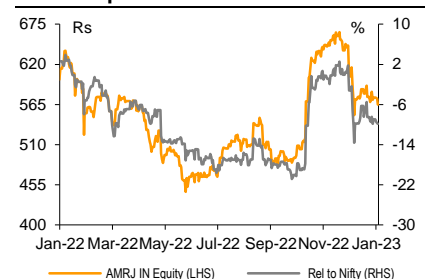
### Shareholding Pattern Dec '22

Promoters	28.1%
FIIIs	35.5%
DIIIs	9.3%
Public and Others	27.2%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(7)	11	20	(7)
<b>Rel. to Nifty</b>	(7)	9	12	(10)

### Relative price chart



Source: Bloomberg

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**Exhibit 1: Key revenue assumptions; Expect revenue CAGR of 8% over FY23-25E**

Revenue mix	FY21	FY22	FY23E	FY24E	FY25E	CAGR % FY23-25E
<b>Automotive (2W and 4W)</b>	<b>45,044</b>	<b>56,001</b>	<b>68,100</b>	<b>74,611</b>	<b>81,386</b>	<b>9</b>
Growth (%)	5	24	22	10	9	
<b>-OEM</b>	<b>7,180</b>	<b>9,168</b>	<b>11,548</b>	<b>12,823</b>	<b>13,987</b>	<b>10</b>
Growth (%)	(3)	28	26	11	9	
<b>-Aftermarket</b>	<b>37,865</b>	<b>46,833</b>	<b>56,552</b>	<b>61,788</b>	<b>67,399</b>	<b>9</b>
Growth (%)	7	24	21	9	9	
<b>Industrial</b>	<b>24,099</b>	<b>28,298</b>	<b>32,825</b>	<b>35,123</b>	<b>37,230</b>	<b>6</b>
Growth (%)	3	17	16	7	6	
<b>Others</b>	<b>2,353</b>	<b>2,589</b>	<b>3,003</b>	<b>3,243</b>	<b>3,502</b>	<b>8</b>
Growth (%)	6	10	16	8	8	
<b>Total Revenue</b>	<b>71,497</b>	<b>86,888</b>	<b>103,929</b>	<b>112,977</b>	<b>122,119</b>	<b>8</b>
<b>Growth (%)</b>	<b>5</b>	<b>22</b>	<b>20</b>	<b>9</b>	<b>8</b>	

Source: Company, Emkay Research

**Exhibit 2: Changes in estimates**

Rs mn	FY23E				FY24E				FY25E			
	Earlier	Revised	% Chg	% YoY	Earlier	Revised	% Chg	% YoY	Earlier	Revised	% Chg	% YoY
Net Sales	104,705	103,929	(0.7)	19.5	113,827	112,977	(0.7)	8.7	123,045	122,119	(0.8)	8.1
EBITDA	12,743	13,251	4.0	29.6	15,139	15,252	0.7	15.1	16,550	16,669	0.7	9.3
Margin (%)	12.2	12.8	58 bps	99 bps	13.3	13.5	20 bps	75 bps	13.5	13.7	20 bps	15 bps
APAT	6,757	7,072	4.7	38.3	8,186	8,242	0.7	16.5	8,824	8,924	1.1	8.3
EPS (Rs)	39.6	41.4	4.7	38.3	47.9	48.2	0.7	16.5	51.7	52.2	1.1	8.3

Source: Company, Emkay Research

**Exhibit 3: Actual vs. Estimates (Q3FY23)**

(Rs mn)	Actual	Estimates		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Total Revenue	26,372	26,962	26,973	(2.2)	(2.2)	Below our estimates
EBITDA	3,969	3,694	3,606	7.4	10.0	Above our estimates led by gross margin beat
EBITDA Margin (%)	15.0	13.7	13.4	135 bps	168 bps	
Adjusted net profit	2,228	2,098	1,992	6.2	11.9	Above our estimates due to higher operating profit

Source: Bloomberg, Company, Emkay Research

**Exhibit 4: Quarterly performance**

Rs mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ(%)	FY23 YTD	FY22 YTD	YoY(%)
<b>Revenue</b>	<b>23,651</b>	<b>21,807</b>	<b>26,200</b>	<b>26,995</b>	<b>26,372</b>	<b>11.5</b>	<b>(2.3)</b>	<b>79,567</b>	<b>65,151</b>	<b>22.1</b>
<b>Expenditure</b>	<b>20,811</b>	<b>19,608</b>	<b>23,591</b>	<b>23,393</b>	<b>22,404</b>	<b>7.7</b>	<b>(4.2)</b>	<b>69,388</b>	<b>57,124</b>	<b>21.5</b>
as a % of sales	88.0	89.9	90.0	86.7	85.0			87.2	87.7	
Consumption of RM	16,619	15,729	19,243	18,766	17,575	5.8	(6.3)	55,585	45,484	22.2
as a % of sales	70.3	72.1	73.4	69.5	66.6			69.9	69.8	
Employee Cost	1,293	1,203	1,337	1,506	1,604	24.0	6.5	4,446	3,785	17.5
as a % of sales	5.5	5.5	5.1	5.6	6.1			5.6	5.8	
Other expenditure	2,899	2,677	3,012	3,120	3,225	11.3	3.3	9,357	7,854	19.1
as a % of sales	12.3	12.3	11.5	11.6	12.2			11.8	12.1	
<b>EBITDA</b>	<b>2,840</b>	<b>2,199</b>	<b>2,609</b>	<b>3,602</b>	<b>3,969</b>	<b>39.7</b>	<b>10.2</b>	<b>10,180</b>	<b>8,028</b>	<b>26.8</b>
<b>EBITDA margin (%)</b>	<b>12.0</b>	<b>10.1</b>	<b>10.0</b>	<b>13.3</b>	<b>15.0</b>			<b>12.8</b>	<b>12.3</b>	
Depreciation	1,021	987	963	1,019	1,145	12.1	12.4	3,128	2,970	5.3
<b>EBIT</b>	<b>1,819</b>	<b>1,211</b>	<b>1,646</b>	<b>2,583</b>	<b>2,823</b>	<b>55.2</b>	<b>9.3</b>	<b>7,052</b>	<b>5,058</b>	<b>39.4</b>
Other Income	190	160	170	237	261	37.6	10.1	667	620	7.6
Interest	38	46	46	54	58	54.9	7.6	159	105	51.2
<b>PBT</b>	<b>1,971</b>	<b>1,325</b>	<b>1,770</b>	<b>2,765</b>	<b>3,026</b>	<b>53.5</b>	<b>9.4</b>	<b>7,561</b>	<b>5,573</b>	<b>35.7</b>
Total Tax	524	340	455	744	798	52.2	7.3	1,996	1,446	38.0
<b>Adjusted PAT</b>	<b>1,447</b>	<b>985</b>	<b>1,315</b>	<b>2,022</b>	<b>2,228</b>	<b>54.0</b>	<b>10.2</b>	<b>5,564</b>	<b>4,127</b>	<b>34.8</b>
Extraordinary items Loss/(Gain)	0	0	0	0	0			0	0	
Reported PAT	1,447	985	1,315	2,022	2,228	54.0	10.2	5,564	4,127	34.8
<b>Adjusted EPS (Rs.)</b>	<b>8.5</b>	<b>5.8</b>	<b>7.7</b>	<b>11.8</b>	<b>13.0</b>	<b>54.0</b>	<b>10.2</b>	<b>32.6</b>	<b>24.2</b>	<b>34.8</b>

Source: Company, Emkay Research

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**Key Financials (Standalone)****Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>71,497</b>	<b>86,958</b>	<b>103,929</b>	<b>112,977</b>	<b>122,119</b>
<b>Expenditure</b>	<b>60,340</b>	<b>76,732</b>	<b>90,678</b>	<b>97,725</b>	<b>105,450</b>
<b>EBITDA</b>	<b>11,157</b>	<b>10,226</b>	<b>13,251</b>	<b>15,252</b>	<b>16,669</b>
Depreciation	3,192	3,957	4,300	4,784	5,295
<b>EBIT</b>	<b>7,965</b>	<b>6,269</b>	<b>8,951</b>	<b>10,468</b>	<b>11,374</b>
Other Income	874	780	850	899	926
Interest expenses	105	151	219	230	241
<b>PBT</b>	<b>8,733</b>	<b>6,898</b>	<b>9,582</b>	<b>11,137</b>	<b>12,059</b>
Tax	2,265	1,786	2,510	2,896	3,135
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>6,468</b>	<b>5,112</b>	<b>7,072</b>	<b>8,242</b>	<b>8,924</b>
<b>Adjusted PAT</b>	<b>6,468</b>	<b>5,112</b>	<b>7,072</b>	<b>8,242</b>	<b>8,924</b>

**Balance Sheet**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	171	171	171	171	171
Reserves & surplus	41,932	45,343	50,293	56,062	62,309
<b>Net worth</b>	<b>42,103</b>	<b>45,514</b>	<b>50,464</b>	<b>56,233</b>	<b>62,480</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>343</b>	<b>234</b>	<b>115</b>	<b>65</b>	<b>15</b>
Net deferred tax liability	407	314	314	314	314
<b>Total Liabilities</b>	<b>42,853</b>	<b>46,062</b>	<b>50,893</b>	<b>56,612</b>	<b>62,808</b>
<b>Net block</b>	<b>24,548</b>	<b>24,923</b>	<b>26,623</b>	<b>28,840</b>	<b>31,544</b>
<b>Investment</b>	<b>2,805</b>	<b>778</b>	<b>3,278</b>	<b>5,778</b>	<b>8,278</b>
<b>Current Assets</b>	<b>26,625</b>	<b>29,761</b>	<b>33,489</b>	<b>36,207</b>	<b>38,937</b>
Cash & bank balance	1,758	536	660	956	1,279
Other Current Assets	1,204	1,227	1,289	1,353	1,421
<b>Current liabilities &amp; Provision</b>	<b>15,117</b>	<b>17,697</b>	<b>20,794</b>	<b>22,509</b>	<b>24,247</b>
<b>Net current assets</b>	<b>11,508</b>	<b>12,064</b>	<b>12,695</b>	<b>13,698</b>	<b>14,690</b>
Misc. exp.	0	0	0	0	0
<b>Total Assets</b>	<b>42,853</b>	<b>46,062</b>	<b>50,893</b>	<b>56,612</b>	<b>62,808</b>

**Cash Flow**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>7,860</b>	<b>6,118</b>	<b>8,732</b>	<b>10,238</b>	<b>11,133</b>
Other Non-Cash items	0	0	0	0	0
Chg. in working cap	(1,301)	(2,406)	(506)	(707)	(669)
<b>Operating Cashflow</b>	<b>7,147</b>	<b>5,550</b>	<b>10,215</b>	<b>11,630</b>	<b>12,846</b>
Capital expenditure	(4,964)	(7,598)	(6,000)	(7,000)	(8,000)
<b>Free Cash Flow</b>	<b>2,183</b>	<b>(2,048)</b>	<b>4,215</b>	<b>4,630</b>	<b>4,846</b>
Investments	(1,147)	2,505	(2,500)	(2,500)	(2,500)
Other Investing Cash Flow	(239)	273	19	19	19
<b>Investing Cashflow</b>	<b>(5,476)</b>	<b>(4,039)</b>	<b>(7,631)</b>	<b>(8,582)</b>	<b>(9,555)</b>
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(125)	(110)	(119)	(50)	(50)
Dividend paid (incl. tax)	(854)	(1,708)	(2,121)	(2,472)	(2,677)
Other Financing Cash Flow	261	(848)	0	0	0
<b>Financing Cashflow</b>	<b>(758)</b>	<b>(2,733)</b>	<b>(2,459)</b>	<b>(2,752)</b>	<b>(2,968)</b>
<b>Net chg. in cash</b>	<b>913</b>	<b>(1,222)</b>	<b>125</b>	<b>296</b>	<b>323</b>
Opening cash position	845	1,758	536	660	956
<b>Closing cash position</b>	<b>1,758</b>	<b>536</b>	<b>660</b>	<b>956</b>	<b>1,279</b>

Source: Company, Emkay Research

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**Key Ratios**

<b>Profitability (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EBITDA Margin	15.6	11.8	12.8	13.5	13.7
EBIT Margin	11.1	7.2	8.6	9.3	9.3
Effective Tax Rate	25.9	25.9	26.2	26.0	26.0
Net Margin	9.0	5.9	6.8	7.3	7.3
ROCE	16.0	11.3	14.6	15.4	15.0
ROE	16.4	11.7	14.7	15.4	15.0
RoIC	19.4	13.1	17.6	19.3	19.5

<b>Per Share Data (Rs)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EPS	37.9	29.9	41.4	48.2	52.2
CEPS	56.6	53.1	66.6	76.3	83.2
BVPS	246.5	266.5	295.4	329.2	365.8
DPS	11.0	4.5	12.4	14.5	15.7

<b>Valuations (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
PER	14.9	18.8	13.6	11.7	10.8
P/CEPS	10.0	10.6	8.5	7.4	6.8
P/BV	2.3	2.1	1.9	1.7	1.5
EV / Sales	1.3	1.1	0.9	0.8	0.8
EV / EBITDA	8.3	9.3	7.2	6.2	5.7
Dividend Yield (%)	2.0	0.8	2.2	2.6	2.8

<b>Gearing Ratio (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net Debt/ Equity	(0.1)	0.0	0.0	0.0	0.0
Net Debt/EBIDTA	(0.4)	(0.1)	(0.1)	(0.1)	(0.1)
Working Cap Cycle (days)	49.8	48.4	42.3	41.2	40.1

<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Revenue	4.5	21.6	19.5	8.7	8.1
EBITDA	1.6	(8.3)	29.6	15.1	9.3
EBIT	(0.2)	(21.3)	42.8	16.9	8.7
PAT	(2.1)	(21.0)	38.3	16.5	8.3

<b>Quarterly (Rs mn)</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>	<b>Q3FY23</b>
Revenue	23,651	21,807	26,200	26,995	26,372
EBITDA	2,840	2,199	2,609	3,602	3,969
<b>EBITDA Margin (%)</b>	<b>12.0</b>	<b>10.1</b>	<b>10.0</b>	<b>13.3</b>	<b>15.0</b>
PAT	1,447	985	1,315	2,022	2,228
<b>EPS (Rs)</b>	<b>8.5</b>	<b>5.8</b>	<b>7.7</b>	<b>11.8</b>	<b>13.0</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>	<b>Sep-22</b>	<b>Dec-22</b>
Promoters	28.1	28.1	28.1	28.1	28.1
FII	19.8	18.1	18.3	18.5	35.5
DII	11.7	11.4	10.8	10.0	9.3
Public and Others	40.5	42.5	42.8	43.5	27.2

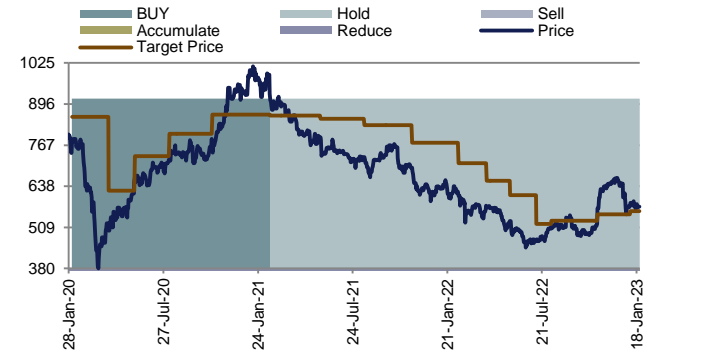
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
6-Jan-23	586	560	12m	Hold	Raghunandhan NL
4-Nov-22	569	550	12m	Hold	Raghunandhan NL
9-Oct-22	501	530	12m	Hold	Raghunandhan NL
8-Aug-22	510	530	12m	Hold	Raghunandhan NL
10-Jul-22	466	520	12m	Hold	Raghunandhan NL
21-May-22	529	610	12m	Hold	Raghunandhan NL
6-Apr-22	574	655	12m	Hold	Raghunandhan NL
24-Feb-22	524	710	12m	Hold	Raghunandhan NL
11-Feb-22	608	710	12m	Hold	Raghunandhan NL
14-Nov-21	697	775	12m	Hold	Raghunandhan NL
15-Aug-21	729	830	12m	Hold	Raghunandhan NL
2-Jul-21	747	850	12m	Hold	Raghunandhan NL
18-Jun-21	748	850	12m	Hold	Raghunandhan NL
16-Jun-21	772	850	12m	Hold	Raghunandhan NL
1-Jun-21	739	850	12m	Hold	Raghunandhan NL
30-May-21	744	850	12m	Hold	Raghunandhan NL
23-May-21	792	850	12m	Hold	Raghunandhan NL
16-Feb-21	908	860	12m	Hold	Raghunandhan NL
28-Oct-20	746	863	12m	Buy	Raghunandhan NL
11-Oct-20	741	803	12m	Buy	Raghunandhan NL
28-Sep-20	747	803	12m	Buy	Raghunandhan NL
7-Aug-20	718	803	12m	Buy	Raghunandhan NL
29-Jun-20	641	732	12m	Buy	Raghunandhan NL
2-Jun-20	665	732	12m	Buy	Raghunandhan NL
4-May-20	551	624	12m	Buy	Raghunandhan NL
29-Apr-20	540	624	12m	Buy	Raghunandhan NL
13-Apr-20	499	624	12m	Buy	Raghunandhan NL
27-Feb-20	681	856	12m	Buy	Raghunandhan NL
14-Feb-20	756	856	12m	Buy	Raghunandhan NL
3-Feb-20	786	856	12m	Buy	Raghunandhan NL

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 26 Jan 2023 19:26:28 (SGT)  
Dissemination Date: 26 Jan 2023 19:27:28 (SGT)

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