

30 January 2023

Exide Industries

Volume growth, margin betterment; maintaining a Buy

For Exide Industries, volumes across most verticals improved during the quarter. Raw material inflation continued to ease, aiding gross margins. Automotive demand was strong for OEMs while replacements saw modest growth. Within Industrials, railways, telecoms and other verticals saw strong growth. The lithium-ion-cell manufacturing plant construction is on track. We retain our Buy rating at a revised TP of Rs210 (14x FY25e)

Volume growth across verticals. Q3 FY23 revenue grew 7% y/y to Rs34bn, but q/q was down 8%. The overall ~7% sales growth for the quarter was driven by volume growth in most verticals, said management. In automotives, replacements continued to grow. Similarly for OEMs, demand was robust as semi-conductor supplies have started to improve gradually. In Industrials, most verticals such as Railways, projects, telecoms, solar and traction saw strong demand for batteries. We expect demand to be positive in the next few quarters for automotives and industrials. Also, the construction of the 12-gigawatt lithium-ion-cell manufacturing plant is on schedule, it would require a capex of ~Rs60bn (Phase-1 ~Rs40bn capacity to be available end-FY25 and Phase-2 ~Rs20bn, by FY27). This augurs well for long-term growth, in our view. Accordingly, we expect 12% growth in FY24 and FY25.

Margin betterment in the next two years. The Q3 FY23 gross margin expanded 173bps to 32.2% on lead prices cooling off in Q2. As they have gone up ~6% in Q3, we expect margins to be under pressure in Q4. As the company focuses on improving sales mix by increasing the proportion of premium products, we expect margins to improve to 12.7% in FY24 and FY25.

Valuation. We expect a 12% revenue CAGR over FY23-25, and 14% earnings growth, leading to an EPS of Rs15. We maintain a Buy rating, with a revised TP of Rs210 (14x FY25e).

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	100,408	123,817	147,330	165,009	184,810
Net profit (Rs m)	7,583	42,454	8,865	11,106	12,727
EPS (Rs)	8.9	9.0	10.4	13.1	15.0
P/E (x)	19.8	19.6	16.9	13.5	11.8
EV / EBITDA (x)	10.3	10.1	8.9	8.0	7.1
P/BV (x)	2.2	1.4	1.3	1.2	1.2
RoE (%)	11.5	48.5	8.1	9.6	10.2
RoCE (%)	11.5	8.7	8.5	9.5	9.4
Dividend yield (%)	1.1	1.1	1.8	2.2	2.5
Net debt / equity (x)	-0.1	-0.1	-0.0	0.1	0.1

Source: Company, Anand Rathi Research

Rating: Buy

Target Price: Rs.210

Share Price: Rs.176

Key data	EXID IN/ EXID.BO
52-week high / low	Rs.194 / 130
Sensex / Nifty	59500 / 17649
3-m average volume	\$7.8m
Market cap	Rs.150bn / \$1,840.3m
Shares outstanding	850m

Shareholding pattern (%)	Dec'22	Sep-22	Jun'22
Promoters	46.0	46.0	46.0
- of which, Pledged	0.0	0.0	0.0
Free float	54.0	54.0	54.0
- Foreign institutions	11.0	10.5	11.8
- Domestic institutions	19.6	17.8	23.3
- Public	23.5	25.7	18.9

Estimates revision	FY23	FY24
Revenue	-5.6	-3.8
EBITDA	-8.8	0.1
PAT	-11.6	-8.7

Relative price performance



Source: Bloomberg

Vijay Sarthy TS
Research Analyst

AkshayKarwa
Research Associate

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

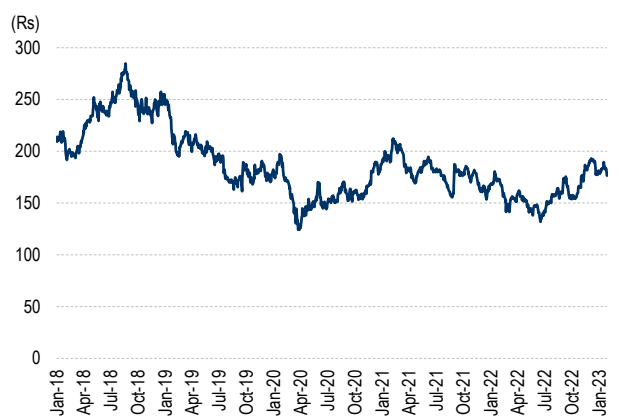
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net revenues	100,408	123,817	147,330	165,009	184,810
Growth (%)	1.9	23.3	19.0	12.0	12.0
Raw material cost	65,795	85,753	97,665	106,761	119,572
Employee costs	7,215	7,893	10,166	11,386	12,752
Other direct costs	13,842	16,216	23,131	25,906	29,015
EBITDA	13,556	13,956	16,368	20,956	23,471
EBITDA margins (%)	13.5	11.3	11.1	12.7	12.7
- Depreciation	3,794	4,126	4,248	5,175	5,603
Other income	654	803	580	680	680
Interest expenses	238	384	800	1,552	1,464
Exceptional items	-	46,938	-	-	-
PBT	10,179	57,186	11,900	14,909	17,084
Effective tax rates (%)	17	26	26	26	26
Net income	7,583	42,454	8,865	11,106	12,727
Adjusted income	7,583	7,668	8,865	11,106	12,727
WANS	850	850	850	850	850
FDEPS (Rs / sh)	8.9	9.0	10.4	13.1	15.0

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT	10,179	57,186	11,900	14,909	17,084
+ Non-cash items	3,794	4,126	4,248	5,175	5,603
Oper. prof. before WC	13,973	61,313	16,148	20,084	22,687
- Incr. / (decr.) in WC	-5,539	3,134	288	4,771	4,741
Others incl. taxes	2,596	14,732	3,035	3,803	4,357
Operating cash-flow	16,915	43,446	12,825	11,511	13,588
- Capex (tang. + intang.)	5,817	6,550	4,457	4,500	4,500
Free cash-flow	11,098	36,896	8,368	7,011	9,088
Acquisitions					
- Div. (incl. buyback & taxes)	1,700	1,700	2,642	3,310	3,793
+ Equity raised					
+ Debt raised	-	-	-	20,000	-1,200
- Fin investments	9,874	29,510	6,000	24,000	4,000
- Misc. (CFI + CFF)	157	4,987	0	0	0
Net cash-flow	-632	699	-273	-299	96

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	850	850	850	850	850
Net worth	68,935	106,056	112,279	120,076	129,010
Debt	-	-	-	20,000	18,800
Minority interest	-	-	-	-	-
DTL / (Assets)	771	-584	-584	-584	-584
Capital employed	69,706	105,472	111,695	139,492	147,226
Net tangible assets	26,018	27,330	27,582	26,906	25,804
Net intangible assets	361	356	313	313	313
Goodwill					
CWIP (tang. & intang.)	2,008	3,124	3,124	3,124	3,124
Investments (strategic)	22,099	53,406	63,406	88,406	93,406
Investments (financial)	8,825	7,028	3,028	2,028	1,028
Current assets (excl. cash)	36,064	39,992	40,280	45,050	49,792
Cash	914	1,612	1,339	1,040	1,135
Current liabilities	26,582	27,376	27,376	27,376	27,376
Working capital	9,482	12,616	12,904	17,675	22,416
Capital deployed	69,706	105,472	111,695	139,492	147,226

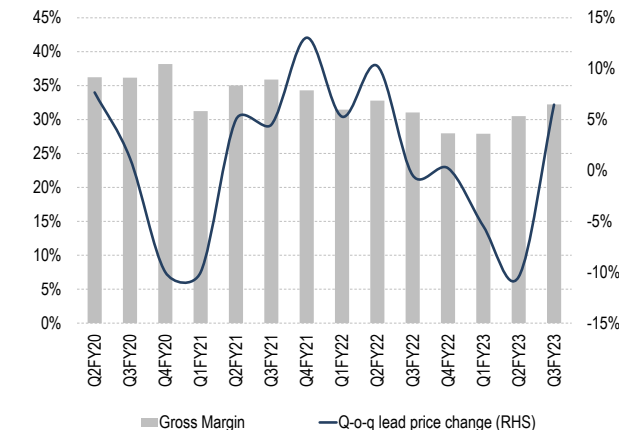
*Investment is towards wholly owned subsidiary which will manufacture lithium ion cells.

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	19.8	19.6	16.9	13.5	11.8
EV / EBITDA (x)	10.3	10.1	8.9	8.0	7.1
EV / Sales (x)	1.4	1.1	1.0	1.0	0.9
P/B (x)	2.2	1.4	1.3	1.2	1.2
RoE (%)	11.5	48.5	8.1	9.6	10.2
RoCE (%) - after tax	11.5	8.7	8.5	9.5	9.4
RoIC (%) - after tax	11.7	8.9	8.6	9.6	9.5
DPS (Rs / sh)	2.0	2.0	3.1	3.9	4.5
Dividend yield (%)	1.1	1.1	1.8	2.2	2.5
Dividend payout (%) - incl. DDT	22.4	4.0	29.8	29.8	29.8
Net debt / equity (x)	-0.1	-0.1	-0.0	0.1	0.1
Receivables (days)	31	31	28	28	28
Inventory (days)	126	102	94	96	95
Payables (days)	74	70	66	72	76
CFO : PAT %	223.1	566.6	144.7	103.6	106.8

Source: Company, Anand Rathi Research

Fig 6 – Gross-margin, lead price: growth trends



Source: Company

Quarterly financials

Fig 7 –Quarterly performance

Particulars	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
Net sales	28,010	29,388	24,864	32,900	31,967	34,086	38,994	37,189	34,053
YoY (%)	16.2	43.0	61	19.5	14.1	16.0	57	13.0	6.5
QoQ (%)	1.7	4.9	-15	32.3	(2.8)	6.6	14	(4.6)	(8.4)
	28,010	29,388	24,864	32,900	31,967	34,086	38,994	37,189	34,053
EXPENDITURE									
(Inc)/dec in stock-in-trade	(2,040)	(3,478)	1,762	(3,245)	(2,367)	1,872	2,050	(1,907)	(2,666)
Materials	19,996	22,785	15,280	25,360	24,409	22,682	26,061	27,753	25,745
% of sales	64.1	65.7	68.5	67.2	69.0	72.0	72.1	69.5	67.8
YoY (%)	16.7	52.0	223	23.6	22.8	27.2	71	16.9	4.7
QoQ (%)	0.4	7.5	-33	29.8	(0.3)	11.4	15	(8.1)	(10.7)
Gross margin (%)	35.9	34.3	31.5	32.8	31.0	28.0	27.9	30.5	32.2
Staff cost	2,064	1,847	1,831	2,125	2,044	1,893	2,128	2,210	2,120
% of sales	7.4	6.3	7.4	6.5	6.4	5.6	5.5	5.9	6.2
YoY (%)	23.5	16.7	31	11.4	(1.0)	2.5	16	4.0	3.7
QoQ (%)	8.2	(10.5)	-1	16.1	(3.8)	(7.4)	12	3.9	(4.1)
Other expenditure	3,963	4,112	3,386	4,527	4,154	4,149	4,888	5,009	4,849
% of sales	14.1	14.0	13.6	13.8	13.0	12.2	12.5	13.5	14.2
YoY (%)	2.8	15.4	73	18.7	4.8	0.9	44	10.6	16.7
QoQ (%)	3.9	3.8	-18	33.7	(8.2)	(0.1)	18	2.5	(3.2)
Total expenses	23,982	25,265	22,258	28,767	28,240	30,596	35,127	33,065	30,048
EBITDA	4,028	4,123	2,606	4,134	3,726	3,490	3,866	4,124	4,005
YoY (%)	25.9	52.6	76	5.4	(7.5)	(15.4)	48	(0.2)	7.5
QoQ (%)	2.7	2.4	-37	58.6	(9.8)	(6.3)	11	6.7	(2.9)
OPM (%)	14.4	14.0	10.5	12.6	11.7	10.2	9.9	11.1	11.8
Other income	201	235	152	109	150	392	322	356	234
Interest	76	85	109	86	83	106	64	62	80
Depreciation	953	974	1,009	1,012	1,041	1,065	1,091	1,120	1,151
Exceptional items	-	-				46,937.50			
Profit before tax	3,200	3,300	1,640	3,145	2,752	49,649	3,034	3,298	3,008
Provision for taxation	786	859	385	802	712	12,834	771	836	776
Tax Rate (%)	24.6	26.0	23.5	25.5	25.8	25.8	25.4	25.3	25.8
Profit after tax	2,414	2,441	1,254	2,344	2,041	36,815	2,263	2,462	2,232
Adjustment on reval of deffered tax assets									
PAT	2,414	2,441	1,254	2,344	2,041	36,815	2,263	2,462	2,232
YoY (%)	23.2	45.3	185	2.4	(15.5)	1408.1	80	5.1	9.3
QoQ (%)	5.5	1.1	-49	86.9	(12.9)	1703.8	-94	8.8	(9.4)
PAT Margin	8.6	8.3	5.0	7.1	6.4	108.0	5.8	6.6	6.6
Adj EPS	2.8	2.9	1.48	2.8	2.4	(11.9)	2.66	2.9	2.6

Source: Company

Valuation

We expect a 12% revenue CAGR over FY23-25, and 14% earnings growth, leading to an EPS of Rs15. We maintain a Buy rating, with a revised TP of Rs210 (14x FY25e).

Fig 8 – Change in estimates

(Rs m)	Old		Revised		Change %	
	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Revenue	156,009	171,610	147,330	165,009	-5.6	-3.8
EBITDA	17,941	20,936	16,368	20,956	-8.8	0.1
Adj. PAT	10,033	12,162	8,865	11,106	-11.6	-8.7
EPS (Rs)	11.8	14.3	10.4	13.1	-11.6	-8.7

Source: Anand Rathi Research

Fig 9 – Standard deviation of one-year forward PE



Source: Company, Anand Rathi Research

Risks

- Less-than-estimated growth in FY24

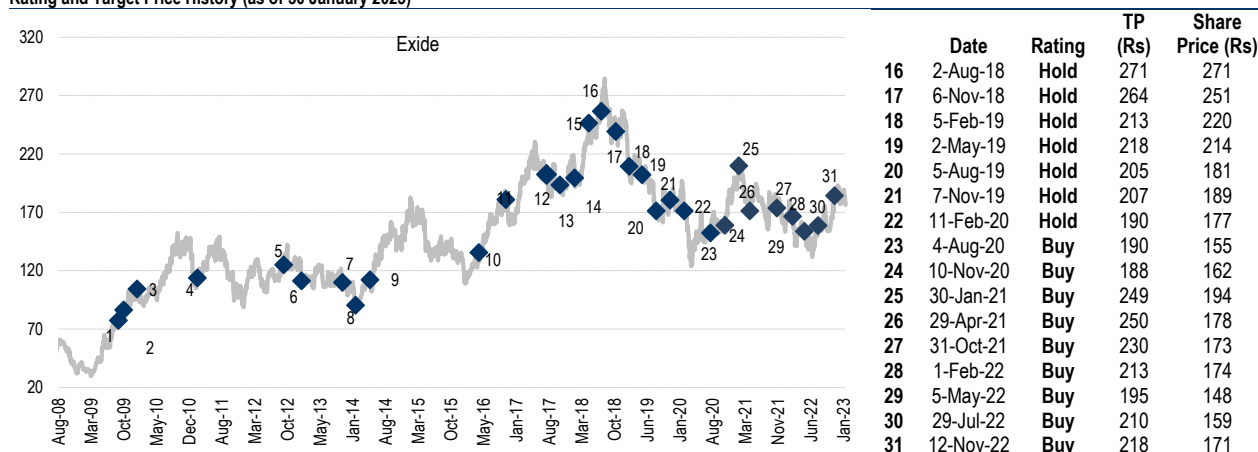
Appendix

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