

May 11, 2023

**RESULT REPORT Q4 FY23** | Sector: Automobile

# Exide Industries (EXID)

## Looking at margin expansion in FY24E

### Valuation and View

EXID's 4QFY23 results was a weak as EBITDA/Adj.PAT missed our/street estimates by 12-18%. This was led by weak gross margins at 29.8% (-240bp QoQ, est 31.3%) impacting EBITDA margins, which came in at 10.4% (-140bp QoQ, est 11.9%). The management indicated ~2% margins impact as RM basket increased ~4% QoQ. However, going ahead led by digital, cost control initiatives and RM decline, margins are expected to expand. Moderate growth in revenues at 4% YoY and QoQ was explained by higher growth in auto OEM/ industrial while relatively weak volumes in replacement and exports segment. We believe with recent stability in lead price and price hikes to drive margins in 1QFY24E.

Over the mid-long term, EXID's speedy ramp-up of as lithium-ion battery cell manufacturing, would be closely watched as it has received all the approvals while senior management hiring is complete and have spent Rs7.15b in the project so-far. While EXID's LAB business is expected to grow 7-8% CAGR over 3-5 years, significant ramp-up in EV battery manufacturing and order wins to act as key re-rating trigger for the stock. EXID is trading at 13.2x/11x FY24/25 S/A EPS (v/s 10-year LPA of ~20.4x). We estimate Revenue/EBITDA/PAT CAGR of 9%/22%/27% over FY23-25E as we raise our FY24/25 EPS by ~6% to factor in anticipated gains on cost control initiatives. Maintain BUY with TP of Rs235 (12x Mar-25 EPS + 50% holdco discount to HDFC Life stake at Rs29).

### Result Highlight – Performance continues to be sub-par

- Revenues grew 3.9% YoY (+4% QoQ) at Rs35.4b (est Rs36.4b, cons Rs36.1b). Auto vertical growth was led by OEM segment as replacement volumes were still muted. Industrial segment too witnessed growth in UPS, Solar, Traction, Telecom and Power led by increase in capex and economic activity.
- Gross margins contracted 240bp QoQ (+190bp YoY, est 31.3%), impacted by weak product mix and RM (~2% impact as RM increased ~4% QoQ). Consequently, EBITDA declined 8.3% QoQ (+5.2% YoY) at Rs3.8b (est Rs4.3b, cons Rs4.2b) with margins contracted 140bp QoQ (+10bp YoY) at 10.4% (est 11.9%, cons 11.6%).
- Led by weak op. performance, Adj. PAT declined 7% QoQ (+3.4% YoY) at Rs2.1b (est Rs2.5b, cons Rs2.4b).
- FY23 dividend at Rs4/share (incl Rs/shr interim div) v/s Rs2/share in FY22.
- FY23 performance** – Revenues/EBITDA/Adj. PAT grew 17.6%/12.1%/7.5% to Rs145.9b/Rs15.7b/Rs9b.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	35,430	36,434	36,061	-2.8	-1.8	Weak gross margins dent overall performanc.
EBITDA	3,672	4,332	4,184	-15.2	-12.2	
EBITDA margins %	10.4	11.9	11.6	-150bp	-120bp	
Adjusted PAT	2,078	2,549	2,404	-18.5	-13.6	

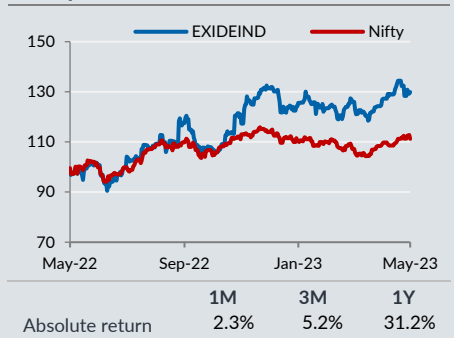
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 190
Target Price	: Rs 235
Potential Return	: +22%

### Stock data (as on May 11, 2023)

Nifty	18,297
52 Week h/l (Rs)	197 / 130
Market cap (Rs/USD mn)	160,905 / 1,968
Outstanding Shares (mn)	850
6m Avg t/o (Rs mn):	479
Div yield (%):	1.0
Bloomberg code:	EXID IN
NSE code:	EXIDEIND

### Stock performance



### Shareholding pattern (As of Mar'23)

Promoter	46.0%
FII+DII	31.2%
Others	22.8%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	235	219

### Δ in earnings estimates

	FY24e	FY25e
EPS (New)	14.3	17.2
EPS (Old)	13.5	16.2
% change	+6.3%	+6.1%

### Financial Summary

Y/E MARCH (Rs b)	2023	2024E	2025E
Sales	145.9	163.7	176.2
EBITDA	15.7	19.7	23.3
Adj. PAT	9.0	12.2	14.6
Adj. EPS (INR)	10.6	14.3	17.2
EPS Gr. (%)	7.5	34.6	20.3
BV/Sh. (INR)	131.9	141.7	153.9
RoE (%)	8.1	10.1	11.2
RoCE (%)	8.5	10.7	11.9
Payout (%)	37.6	31.4	29.0
P/E (x)	17.8	13.2	11.0
P/BV (x)	1.4	1.3	1.2
EV/EBITDA (x)	6.2	4.5	3.6
Div. Yield (%)	2.1	2.4	2.6

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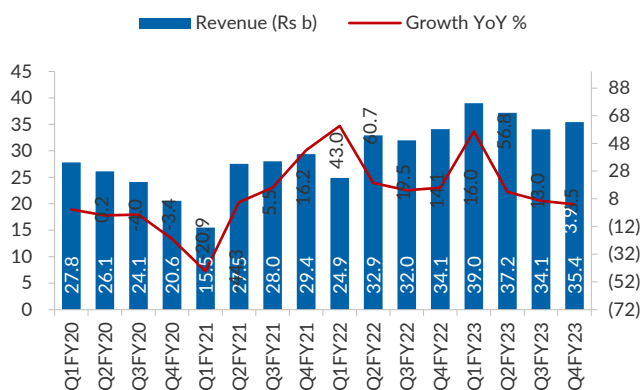
## Exhibit 2: Quarterly snapshot

Y/e Mar (Rs m)	Q4FY23	Q4FY22	YoY chg	Q3FY23	FY23	FY22	YoY chg
Net Revenues	35,430	34,086	3.9	34,053	145,665	123,817	17.6
Raw Materials	24,857	24,554	1.2	23,079	101,893	85,753	18.8
% of Net Sales	70.2%	72.0%		67.8%	70.0%	69.3%	
Personnel	2,181	1,893	15.2	2,120	8,639	7,893	9.4
% of Net Sales	6.2%	5.6%		6.2%	5.9%	6.4%	
Manufacturing & Other Exp	4,720	4,149	13.7	4,849	19,466	16,216	20.0
% of Net Sales	13.3%	12.2%		14.2%	13.4%	13.1%	
Total Expenditure	31,758	30,596	3.8	30,048	129,998	109,861	18.3
EBITDA	3,672	3,490	5.2	4,005	15,668	13,956	12.3
EBITDA Margin (%)	10.4%	10.2%		11.8%	10.8%	11.3%	
Depreciation	1,193	1,065	12.0	1,151	4,555	4,126	10.4
EBIT	2,479	2,426	2.2	2,854	11,113	9,830	13.1
Interest Expenses	83	106		80	289	384	(24.9)
Non-operating income	412	392	5.0	234	1,324	803	64.8
Extraordinary Expenses	0	(46,938)		0	0	(46,938)	
PBT	2,808	49,649	(94.3)	3,008	12,149	57,186	(78.8)
Tax-Total	730	8,453	(91.4)	776	3,113	10,351	(69.9)
Tax Rate (%) - Total	26.0%	17.0%		25.8%	25.6%	18.1%	
Reported PAT	2,078	41,197	(95.0)	2,232	9,036	46,835	(80.7)
Adj. PAT	2,078	2,011	3.4	2,232	9,036	7,649	18.1
PAT Margin	5.9%	6.6%		6.6%	6.2%	6.2%	

Source- Company, YES Sec

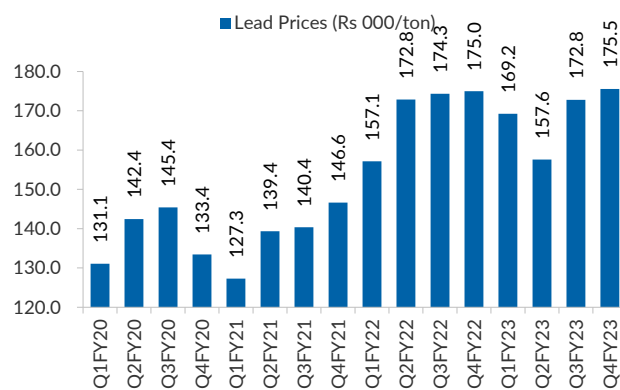
## CHARTS

**Exhibit 1: 4QFY23 revenue grew 4% QoQ**



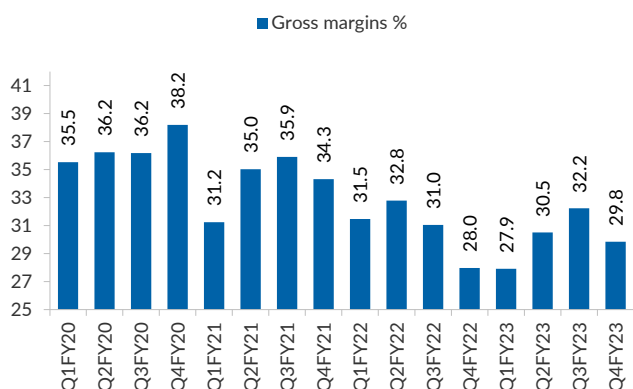
Source: Company, YES Sec

**Exhibit 2: Lead price increased to Rs175.5k/ton in 4Q**



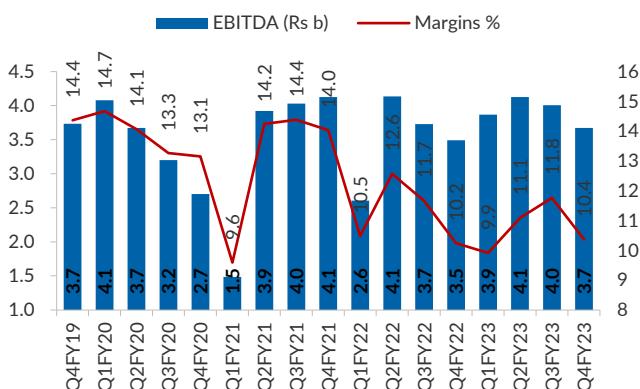
Source: Bloomberg, YES Sec

**Exhibit 3: Gross margins contracted led by RM increase**



Source: Company, YES Sec

**Exhibit 4: EBITDAM contracted ~140bp QoQ at 10.4%**



Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- **Auto vertical – domestic OEM volumes grew while replacement volumes were still moderated. Overall double-digit sales growth achieved in FY23.**
  - **Replacement** – seeing some momentum building up and expect FY24E to see full pick-up.
  - **Market share movement** - Have either gained market share or have remained steady.
  - **FY23 growth** – most sector saw double digit growth across verticals
  - **Exports** – Gulf countries have imposed anti-dumping duties on base level classes of batteries, but Exide is supplying enhanced flooded batteries which is not part of anti-dumping program. **Entered new exports markets such as Russia and strengthened presence in other Asian countries.**
  - **Distribution** – Direct and indirect distributors/dealers increased to 95k+ in FY23 (v/s 48k+ in FY20). Exide exclusive stores (Exide care at 1,600+ outlets) and SF (300+ outlets).
- **Industrial** – Volumes upbeat across verticals with 20-30% growth in UPS, Solar and traction verticals.
- **Margins expansion initiatives** – Digital initiatives across manufacturing, logistics and corporate functions, cost control measures at factory level. Expect margins improvements to come through in FY24E.
- **Capex of Rs5-6b** envisaged for Lead acid batteries for FY24E.
- **RM** – inflation is largely over while co have been taking calibrated price increases. **There was 2% impact on margins as RM basket increased ~4% QoQ in 4QFY23.**
- **Smelting capacity** - Lead recycling plants as of FY23 at 200KMT.
- **Electric vehicle battery projects** -
  - **Li-ion facility** – have received all the approvals while senior management hiring is complete and have spent Rs7.15b in the project so-far.
    - Phase 1 expenditure would be Rs40b. Generally, plant stabilization will be achieved in 6-8 months. **At optimum capacity, ROEs will be at par with Lead Acid business of ~20% (reasons are high homologated product approval cycles means high entry barriers, JIT value proposition to OEM, supply chain tie up with suppliers (like SVOLT) will ensure smooth operations).**
    - **Will make cylindrical and prismatic cells under LFP and NMC chemistries under Phase 1.** Believe li-ion is scalable today vs other are under development but exide can look at alternate chemistries as manufacturing machineries are largely the same.
    - **Technology license agreement with SVOLT will involve initial fees + some % on sales will be paid.**
  - **Nexcharge (module and packs facility) – have order book of Rs6-7b to be executed in 12-15 months for 2W, 3W, CV and Telecom vertical.** Currently cells are imported for the same (~70% of value chain).
    - Have booked small revenues for Nexcharge in FY23 but it will be picked up in FY24E.

## FINANCIALS

### Exhibit 5: Balance Sheet

Y/E March	2020	2021	2022	2023	2024E	2025E
Share Capital	850	850	850	850	850	850
Reserves	62,111	68,085	105,131	111,248	119,588	129,978
Net Worth	62,961	68,935	105,981	112,098	120,438	130,828
Loans	-	-	-	-	-	-
Deferred Tax Liability	1,019	771	654	1,160	1,160	1,160
Capital Employed	63,980	69,706	106,635	113,257	121,598	131,987
<b>Application of Funds</b>						
Gross Fixed Assets	36,370	42,740	47,871	53,296	59,062	66,062
Less: Depreciation	12,634	16,361	20,493	25,050	29,678	34,501
Net Fixed Assets	23,736	26,379	27,378	28,245	29,385	31,561
Capital WIP	2,969	2,008	3,381	1,267	2,000	2,000
Investments	20,708	30,924	60,355	63,414	68,407	72,501
Curr.Assets	35,008	36,977	40,862	46,486	55,836	62,510
Inventory	21,923	23,462	24,647	29,891	33,536	36,084
Sundry Debtors	8,154	8,874	11,945	12,741	15,250	18,339
Cash & Bank Balances	1,449	825	1,614	745	3,561	4,333
Loans & Advances	322	0	0	-	-	-
Other Current Assets	3,161	3,816	2,656	3,109	3,488	3,753
Current Liab. & Prov.	18,441	26,581	25,341	26,154	34,030	36,585
Sundry Creditors	10,309	16,478	16,254	15,328	17,197	18,339
Other Liabilities	4,530	6,860	5,173	6,862	10,765	11,583
Provisions	3,602	3,243	3,914	3,964	6,068	6,663
Net Current Assets	16,567	10,396	15,521	20,332	21,806	25,925
Application of Funds	63,980	69,706	106,635	113,257	121,598	131,987

Source: Company, YES Sec

## Exhibit 6: Income statement

Y/E March	2020	2021	2022	2023	2024E	2025E
Total Operating Income	98,567	100,408	124,101	145,919	163,717	176,155
Change (%)	(6.9)	1.9	23.6	17.6	12.2	7.6
Total Expenditure	84,917	86,853	110,119	130,239	144,044	152,818
EBITDA	13,650	13,556	13,983	15,680	19,672	23,337
EBITDA Margins (%)	13.8	13.5	11.3	10.7	12.0	13.2
Change (%)	(3.3)	(0.7)	3.1	12.1	25.5	18.6
Depreciation	3,626	3,794	4,131	4,558	4,627	4,823
EBIT	10,024	9,762	9,851	11,122	15,045	18,514
Deferred Revenue Exp.	-	-	-	-	-	-
Interest Charges	94	238	394	295	325	390
Other Income	639	654	805	1,324	1,287	1,138
EO Exp/(Inc)	217	-	(46,938)	-	-	-
PBT	10,352	10,179	57,199	12,151	16,008	19,262
Tax	2,097	2,596	10,356	3,115	3,842	4,623
Effective Rate (%)	20.3	25.5	18.1	25.6	24.0	24.0
Rep. PAT	8,255	7,583	46,843	9,036	12,166	14,639
Change (%)	(2.2)	(8.1)	517.8	(80.7)	34.6	20.3
Adj. PAT	8,428	7,583	8,404	9,036	12,166	14,639
Change (%)	9.4	(10.0)	10.8	7.5	34.6	20.3

Source: Company, YES Sec

## Exhibit 7: Cash Flow Statement

Y/E March	2020	2021	2022	2023	2024E	2025E
OP/(Loss) before Tax	10,352	10,179	57,199	12,151	15,045	18,514
Interest/Dividends Received	(372)	(365)	(156)	(233)	1,287	1,138
Depreciation & Amortisation	3,626	3,794	4,131	4,558	4,627	4,823
Direct Taxes Paid	(2,494)	(2,721)	(10,472)	(3,212)	(3,842)	(4,623)
(Inc)/Dec in Working Capital	2,155	3,044	(3,479)	(4,538)	1,342	(3,346)
Other Items	(4,131)	203	(93,957)	(242)	-	-
CF from Oper. Activity	9,136	14,134	(46,733)	8,484	18,460	16,506
Extra-ordinary Items	-	-	46,938	-	-	-
Other Items	-	-	-	-	-	-
CF after EO Items	9,136	14,134	205	8,484	18,460	16,506
(Inc)/Dec in FA+CWIP	(4,646)	(3,384)	(5,795)	(3,716)	(6,500)	(7,000)
Free Cash Flow	4,491	10,750	(52,528)	4,768	11,960	9,506
(Pur)/Sale of Invest.	1,397	(9,385)	8,549	(5,162)	(4,994)	(4,094)
CF from Inv. Activity	(3,249)	(12,769)	2,754	(8,878)	(11,494)	(11,094)
Issue of Equity	-	-	-	-	0	(0)
Inc/(Dec) in Debt	(30)	(244)	(67)	(101)	66	-
Interest Rec./(Paid)	(70)	(45)	(482)	(360)	(325)	(390)
Dividends Paid	(4,986)	(1,700)	(1,700)	-	(3,825)	(4,250)
CF from Fin. Activity	(5,086)	(1,989)	(2,249)	(461)	(4,084)	(4,640)
Inc/(Dec) in Cash	802	(623)	709	(855)	2,882	772
Add: Beginning Balance	736	1,449	825	1,614	745	3,561
Closing Balance	1,537	825	1,534	759	3,626	4,333

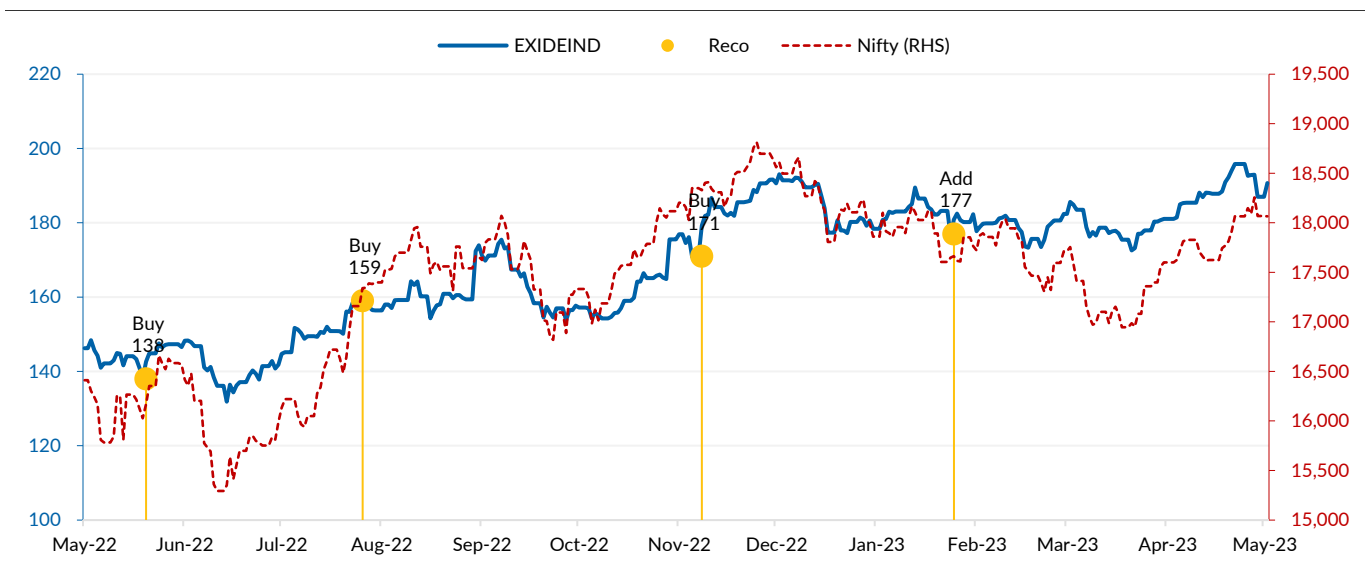
Source- Company, YES Sec

**Exhibit 8: Growth and Ratio matrix**

Y/E March	2020	2021	2022	2023	2024E	2025E
<b>Basic (INR)</b>						
EPS	9.9	8.9	9.9	10.6	14.3	17.2
Cash EPS	14.2	13.4	14.7	16.0	19.8	22.9
Book Value per Share	74.1	81.1	124.7	131.9	141.7	153.9
DPS	4.1	2.0	2.0	4.0	4.5	5.0
Payout (Incl. Div. Tax) %	41.3	22.4	20.2	37.6	31.4	29.0
<b>Valuation (x)</b>						
P/E	19.1	21.2	19.2	17.8	13.2	11.0
Cash P/E	13.4	14.2	12.9	11.9	9.6	8.3
EV/EBITDA	10.2	9.5	7.1	6.2	4.5	3.6
EV/Sales	1.4	1.3	0.8	0.7	0.5	0.5
Price to Book Value	2.6	2.3	1.5	1.4	1.3	1.2
Dividend Yield (%)	2.2	1.1	1.1	2.1	2.4	2.6
<b>Profitability Ratios (%)</b>						
RoE	13.4	11.0	7.9	8.1	10.1	11.2
RoCE	13.8	11.8	10.0	8.5	10.7	11.9
RoIC	21.3	19.4	20.9	18.6	24.0	27.9
<b>Turnover Ratios</b>						
Debtors (Days)	30.2	32.3	35.1	31.9	34.0	38.0
Inventory (Days)	81.2	85.3	72.5	74.8	74.8	74.8
Creditors (Days)	38.2	59.9	47.8	38.3	38.3	38.0
Working Capital (Days)	73.2	57.6	59.8	68.3	70.4	74.8
Gross Fixed Asset Turnover (x)	2.7	2.3	2.6	2.7	2.8	2.7
<b>Leverage Ratio</b>						
Debt/Equity (x)	-	-	-	-	-	-

Source- Company, YES Sec

## Recommendation Tracker



Source - YES Sec

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4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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