Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Exide Industries Ltd

Soft Q4, forecast looks charged up

Automobiles	Sharekhan code: EXIDEIND
Reco/View: Buy ↔	CMP: Rs. 194
Price Target: Rs. 227 ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

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 12.72

Updated Dec 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 16,490 cr
52-week high/low:	Rs. 197 / 130
NSE volume: (No of shares)	28.8 lakh
BSE code:	500086
NSE code:	EXIDEIND
Free float: (No of shares)	45.9 cr

Shareholding (%)

Promoters	46.0
FII	12.3
DII	18.9
Others	22.8

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-0.8	6.9	16.1	2.0
Relative to Sensex	1.5	7.7	9.3	-1.5

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on Exide Industries with a revised PT of Rs 227 in expectations of a recovery in replacement demand and a 17.4% earnings CAGR over FY23-25E.
- The management is optimistic on EBITDA margin expansion and a rise in replacement demand in FY24.
- Battery pack assembly business has won an order of Rs 600-700 crore, Li-ion cell project is on track.
- Stock trades at an attractive valuation at a P/E multiple of 13.2x and EV/EBITDA multiple of 5.6x its FY2025E estimates.

Q4FY23 results lagged estimates led by a moderation in replacement demand and raw material cost pressure. Revenue missed estimates by 3.3%, while EBITDA margin was 170 bps below estimates led by a drop in gross margins. Revenue increased by 4% q-o-q to Rs 3,543 crore on account of healthy traction in demand from OEMs and Industrial vertical, given the replacement demand has yet to recover and exports were weak. EBITDA margins contracted by 140 bps q-o-q to 10.4% on account of 240 bps q-o-q contraction in gross margin, while 90 bps q-o-q improvement in other expenses (as a percentage of sales) cushioned the fall in EBITDA margins. FY23 performance was hit by a slow uptick in replacement demand, weak exports due to antidumping duty imposed by Gulf countries and subdued demand in Europe. However, OEMs' demand was better on account of recovery in vehicle production and industrial segment saw 20% -30% increase in demand from UPS, Solar and traction verticals. Further the operating performance was impacted by a rise in raw material cost, higher freight costs and overall inflationary pressure. Despite external pressures, the company continued to maintain its market share or gained market share in most segments. While Exide witnessed headwinds in FY23 the management has shared optimistic outlook for FY24 and guided for a recovery in replacement demand and increase in exports. Further it is hoping for EBITDA margin expansion in coming years on improvement in product mix and price hikes. The Rs. 4,000 crore Li-ion project is on track and likely to commence production by the end of FY25 and battery pack assembly business has enjoying healthy order book of Rs. 600-700 crore.

Key positives

- Demand from OEM segment and industrial segment has been healthy and driving the Exide's performance.
- Other expenses as a percentage of sales improved by 90 bps q-o-q and cushioned the contraction in EBITDA margins.
- Li ion project is on track, while battery pack assembly segment has been receiving healthy orders.

Key negatives

- The demand in replacement demand has been slow in comparison to OEM segment.
- With increase in raw material cost, the gross margin has contracted by 240 bps q-o-q.
- Gross margin contraction resulted in below estimated EBITDA margin performance, given EBITDA margin came 170 bps below estimates to 10.4%.

Management Commentary

- While the management has been investing in new age technologies (Li ion) it assumes that Lead acid battery segment would also exist in future due to its advantage in certain segments. The management foresee new age technologies and lead acid technology would co-exist in future.
- Li-ion battery project is on track and is expected to commence operation by the end of FY25E.
- Battery pack assembly business is enjoying an order book of Rs 600-700 crore with execution time line of 12-18 months.

Our Call

Valuation – Maintain Buy with a revised PT of Rs.227: While Exide reported below estimated performance in Q4Fy23 the management has shared optimistic guidance for FY24 led by expected recovery in replacement demand and an increase in exports. The management assumes that volume growth along with in house cost cutting advantages would support the margin expansion and correction in RM cost would augur well for EBITDA margin expansion in coming year. Further battery back assembly segment has been enjoying strong order book position of Rs 600-700 crore and Li-ion cell manufacturing project has been on track. We expect the company would continue to maintain its dominance in lead acid battery segment led by its strong distribution network, given Exide has expanded its distribution network from 48,000 in FY20 to 95,000 in FY23 . 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 build up a 17.4% earnings CAGR over on expectation of 4.8% revenue CAGR and 230 bps expansion in EBIDTA margin over next two years. Stock trades at P/E multiple of 12.8x and EV/EBITDA multiple of 5.3x FY25E estimates. We maintain a Buy rating on the stock with a revised PT at Rs.227 in expectation of 17.4% earning CAGR over next 2 years lead by margin expansion, recovery in replacement demand and continued traction in OEM demand.

Key Risks

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

Valuation (Standalone) Rs cr

Valuation table	FY21	FY22	FY23P	FY24E	FY25E
Revenues (Rs cr)	10,008	12,335	14,592	15,204	16,023
Growth (%)		23.3	18.3	4.2	5.4
AEBIDTA (Rs cr)	1,356	1,396	1,568	1,794	2,083
OPM (%)	13.5	11.3	10.7	11.8	13.0
Adj Net Profit (Rs cr)	758	769	904	1,052	1,246
Growth (%)		1.4	17.6	16.4	18.4
AEPS	8.9	9.0	10.6	12.4	14.7
P/E (x)	21.7	21.5	18.2	15.7	13.2
P/BV (x)	2.4	1.6	1.5	1.4	1.3
EV/EBIDTA (x)	10.5	7.4	6.4	6.6	5.6
ROE (%)	11.5	8.8	8.3	9.0	9.9
ROCE (%)	11.8	-0.1	8.5	9.2	10.1

Source: Company; Sharekhan estimates

Replacement demand to revive in FY24 : The company shared positive outlook for lead acid battery segment in the near to medium term and has been experiencing healthy enquires in industrial segment. While the replacement market in FY23 was little bit slow, the management expects, the management has shared a positive outlook for replacement demand in FY24. Similarly, the management is optimistic on a recovery in export volumes in FY24.

Focus on operating performance: With recovery in the volumes the management is aiming to expand EBITDA margins via focusing on premiumization of product profile, digitization initiatives and price hikes.

Li- ion project is on track: The company has so far invested Rs 715 cr on Li ion project (Exide Energy Solutions Ltd) out of the total planned investment of Rs 4000 crore. After receiving required approvals the construction work has been going on at the Bengaluru site. Initially the plant would have capacity of 6GW and is expected to commence operations by the end of FY25E. The plant would take at least 6-8months in stabilizing the operations.

Strong order book in battery pack business: Exide's battery pack assembly business (Exide Energy Private Limited) is expecting Rs 400-500 crore kind of revenue in FY25 on the back of strong order book. Currently the company has an order book of Rs 600 – Rs 700 cr with an execution timeline of next 12- 15 months. As the company would have to import cells the margin profile of battery pack business would improve when its Li ion project would commence production. Cells are assumed to account for 70% of the total value of a battery.

Capex: The company would invest Rs 500cr to Rs 600 cr on its core business (lead acid batteries) in FY24 , while capex intensity on Li ion project would remain high in next 2 years.

Network expansion continue: The company has been continuously increasing its penetration in domestic market via expanding its distribution network . The touch points have been increased from 48,000 in FY20 to 95,000 in FY23. With real time visibility of channel partners and micro level understanding Exide is looking to continue to maintain its dominant position in the lead acid battery segment.

Change in estimates Rs cr

	New		Earlier		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	15,204	16,023	15378	16301	(1.1)	(1.7)
EBITDA	1,794	2,083	1950	2152	(8.0)	(3.2)
EBITDA margin (%)	11.8	13.0	12.7	13.2		
PAT	1,052	1,246	1054	1174	(0.2)	6.2
EPS	12.4	14.7	12.4	13.8	(0.2)	6.2

Source: Company; Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q4FY23	Q4FY22	%YoY	Q3FY23	%QoQ
Revenues	3,543	3,409	3.9	3,405	4.0
Total operating costs	3,176	3,060	3.8	3,005	5.7
EBIDTA	367	349	5.2	401	(8.3)
Depreciation	119	106	12.0	115	3.6
Interest	8	11	(21.8)	8	4.4
Other income	41	39	5.0	23	76.2
PBT	281	271	3.6	301	(6.6)
Tax	73	69	5.6	78	(5.9)
Reported PAT	208	4,120	(95.0)	223	(6.9)
Adjusted PAT	208	202	2.9	223	(6.9)
Adjusted EPS	2	2	2.9	3	(6.9)

Source: Company; Sharekhan Research

Key Ratios (Standalone)

Particulars	Q4FY23	Q4FY22	YoY (bps)	Q3FY23	QoQ (bps)
Gross margin (%)	29.8	28.0	190	32.2	(240)
EBIDTA margin (%)	10.4	10.2	10	11.8	(140)
Net profit margin (%)	5.9	5.9	(10)	6.6	(70)
Effective tax rate (%)	26.0	25.5	50	25.8	20

Source: Company; Sharekhan Research

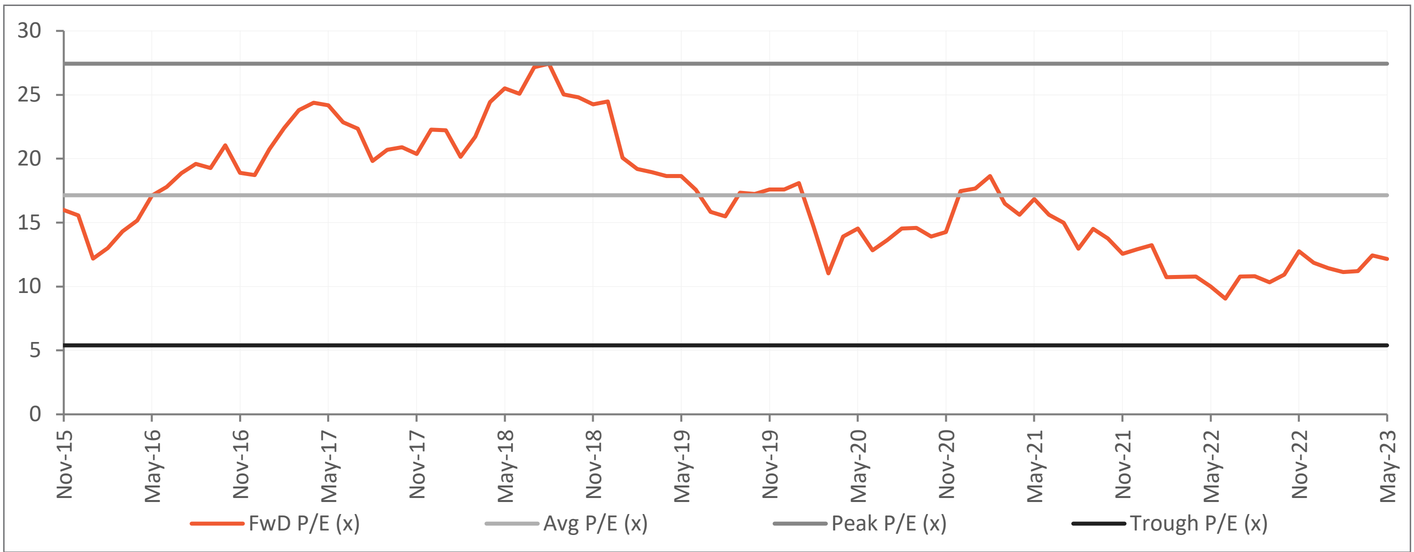
Outlook and Valuation

■ **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. Further its investment in Li ion project would help it to sustain its growth in long term.

■ **Valuation – Maintain Buy with a revised PT of Rs.227:** While Exide reported below estimated performance in Q4Fy23 the management has shared optimistic guidance for FY24 led by expected recovery in replacement demand and an increase in exports. The management assumes that volume growth along with in house cost cutting advantages would support the margin expansion and correction in RM cost would augur well for EBITDA margin expansion in coming year. Further battery back assembly segment has been enjoying strong order book position of Rs 600-700 crore and Li-ion cell manufacturing project has been on track. We expect the company would continue to maintain its dominance in lead acid battery segment led by its strong distribution network, given Exide has expanded its distribution network from 48,000 in FY20 to 95,000 in FY23 . 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 build up a 17.4% earnings CAGR over on expectation of 4.8% revenue CAGR and 230 bps expansion in EBIDTA margin over next two years. Stock trades at P/E multiple of 12.8x and EV/EBIDTA multiple of 5.3x FY25E estimates. We maintain a Buy rating on the stock with a revised PT at Rs.227 in expectation of 17.4% earning CAGR over next 2 years lead by margin expansion, recovery in replacement demand and continued traction in OEM demand.

One-year forward P/E (x) band



Source: 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	194	21.5	18.2	15.7	7.4	6.4	6.6	-0.1	8.5	9.2
Amara Raja Batteries	626	20.9	14.4	12.5	10.2	7.4	6.0	14.6	19.3	19.7

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, Exide is assumed to be the market leader in the automotive replacement segment.

Investment theme

Exide is the largest battery manufacturer in the lead acid battery markets, commanding a leadership position 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.

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. Subir Chakraborty	MD & CEO
Mr A K Mukherjee	Director Finance & CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Chloride Eastern Ltd	45.99
2	Hathway Investments Private Limited	4.32
3	Life Insurance Corporation Of India	4.29
4	Kotak Mahindra AMC	3.89
5	Norges Bank	2.36
6	Government Pensi	2.36
7	ICICI Pru AMC	2.21
8	Vanguard group	2.02
9	Franklin Resources	1.57
10	Aditya Birla Sunlife AMC	1.42

Source: Bloomberg

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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