


Retail Equity Research
Amara Raja Batteries Ltd.
Automobile – Auto Ancillaries

BSE CODE: 500008
BLOOMBERG CODE: AMRJ:IN

NSE CODE: AMARAJABAT
SENSEX: 63,328

12 Months Investment Period
CMP Rs. 634 TARGET Rs. 762 RETURN 20%

Rating as per small cap


Buy

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Strong performance across segment.

Amara Raja Batteries Ltd. (ARBL) is India’s second largest Lead-acid battery manufacturer. Its segments comprise 70% automotive & the remaining industrial, with market dominance in the telecom segment.

- We expect growth in the auto sector, superior product mix and higher RM pass through to OEMs will support the margin expansion.
- Investment for technological up-gradation in the lithium ion project for 2W/3W batteries is progressing as per schedule and have started supplying lithium battery packs for 3W applications.
- ARBL, Q4FY23 revenue grew by 11%YoY on the back of volume growth in the aftermarket & OEM segments. Overall, 4W & 2W volume grew by 7% and 20%, respectively. Revenue for the full year grew by 19%YoY.
- EBITDA margin expanded by +380bps, owing to higher RM pass though to customers and internal efficiencies.
- The company’s strategy is to incorporate lithium ion projects and expansion as a wholly owned subsidiary, to support long term visibility. We value ARBL at 13x FY25E EPS and recommend Buy rating.

Strong growth across segments.

During Q4FY23, revenue grew by 11%YoY, led by robust demand in the automotive and aftermarket segments. Exports showed very healthy growth in Middle East and Southeast Asian markets. As expected, EBITDA margin expanded by 380bps to 13.9% in Q4, making it the highest figure in the past 5 quarters. The avg. lead price witnessed respite, As a result , PAT grew by 89% YoY. Currently, the lead price is trading at Rs.175/kg, which is likely to witness moderation. The company announced the current expansion in the lithium-ion cell manufacturing facility will be culminated under a wholly-owned subsidiary that will set up a multi-gigawatt hour lithium-ion cell manufacturing facility, as it intends to set up a domestic manufacturing eco-system for the same. Currently, the new energy or lithium business is doing Rs250 cr., and planning to reach Rs750cr in the current fiscal year. The demand signal is positive across all segments and we believe respite in the commodity price and cost optimisation to limit margin degradation.

Strategy to power newer mobility.

ARBL’s investments in capacity expansion are in line with the future demand for 2/3W and 4W. The company has launched several strategic initiatives to take advantage of alternative power batteries both through lithium ion and other new age chemistries that are enabling faster transformation in renewable energy, electric mobility, microgrids, etc. The first commercial production for sell side will take anywhere between 24– 30 months to start 2 gigawatt hours of production. Currently, the pilot project with regard to the technology transfer from ISRO is progressing as per schedule and has started supplying lithium battery packs and chargers to 3W applications.

Lack of synergies restricts lithium expansion.

Despite the use of lead in the industry, slower progress in Li-ion cells in automotive and industrial segments is posing a threat to revenue expansion. There is no use of a lead acid battery in e-2W and e-3W as an auto component. As a result, it will impact lead acid battery makers. In addition to in-house R&D and production, the company is planning to develop partnerships and create amalgamation activities with OEMs. Here, ARBL will start the piolet production and as a first stage, send samples to various customers to get approval. The company announced the lithium ion expansion under separate subsidiary, to attract prospective investors or synergies to overcome the current legacy approach.

Valuations.

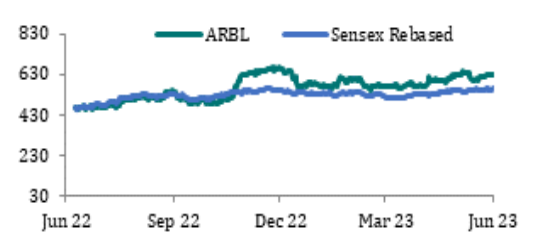
We believe moderation in the raw material price and improving volume will drive margin growth. In addition, the auto sector is likely to show a pick up in H1FY24 owing to a strong rebound in volume and margin expansion. We expect margins to expand due to respite in raw material prices. However, on a 1 year fwd. basis, the stock is trading below its historical average and has shown good attraction in the last month. We value ARBL at 13x FY25E EPS with a target price of Rs. 762/share and recommend Buy rating at CMP.

Company Data	
Market Cap (Rs.cr)	10,666
Enterprise Value (Rs.cr)	10,502
Outstanding Shares (cr)	17
Free Float	0.72
Dividend Yield	0.5%
52 week high (Rs.)	670
52 week low (Rs.)	445
6m average volume (cr)	0.05
Beta	0.9
Face value Rs.	1.0

Shareholding (%)	Q2FY23	Q3FY23	Q4FY23
Promoters	28.1	28.1	28.1
FII's	18.5	35.5	36.2
MFs/Insti	10.0	9.2	9.2
Public	43.5	27.2	26.5
Total	100.0	100.0	100.0
Promotor pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	10.9%	5.2%	36.7%
Absolute Sensex	9.3%	5.8%	20.6%
Relative Return	1.6%	-0.6%	16.1%

*over or under performance to benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
Sales	10,386	11,471	12,518
Growth (%)	19.4	10.4	9.1
EBITDA	1,355	1,514	1,740
EBITDA Margin (%)	13.0	13.2	13.9
Adj. PAT	745	845	1,001
Growth (%)	45.4	13.3	18.5
Adj. EPS	43.6	49.4	58.6
Growth (%)	45.4	13.3	18.5
P/E	14.5	12.8	10.8
P/B	2.1	1.9	1.7
EV/EBITDA	8.0	7.2	6.2
ROE (%)	15.4	15.4	16.0
D/E	0.2	0.1	0.1

Saji John
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr.	Q4FY23	Q4FY22	YoY Growth (%)	Q3FY23	QoQ Growth (%)
Sales	2429	2181	11.4	2637	-7.9
EBITDA	337	220	53.4	397	-15.0
EBITDA margins (%)	13.9	10.1	380bps	15.0	-117bps
Depreciation	114	99	15.9	115	-0.1
EBIT	223	121	83.9	282	-21.1
Interest	6	5	34.8	6	6.7
Other Income	23	16	41.5	26	-13.3
Exceptional Items	-477	0	0.0	0	0.0
PBT	192	132	44.6	303	-36.7
Tax	54	34	57.7	80	-32.9
Share of profit from associates	0	0	0.0	0	0.0
Minority interest	0	0	0.0	0	0.0
Reported PAT	138	99	40.0	223	-38.1
Adjustments	477	0	0.0	0	0.0
Adj PAT	186	99	88.4	223	-16.7
No. of Shares	17	17	0.0	17	0.0
Adj EPS (Rs)	10.9	5.8	88.4	13.0	-16.7

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	11,674	-	11,471	12,518	-1.7	-
EBITDA	1,471	-	1,514	1,740	2.9	-
Margins (%)	12.6	-	13.2	13.9	60bps	-
Adj. PAT	818	-	845	1,001	3.2	-
EPS	47.9	-	49.4	58.6	3.2	-

Standalone Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	6,793	7,150	8,696	10,386	11,471	12,518
% change	0.0	5.2	21.6	19.4	10.4	9.1
EBITDA	1,052	1,116	1,023	1,355	1,514	1,740
% change	10.6	6.0	-8.3	32.5	11.7	14.9
Depreciation	298	314	383	416	438	486
EBIT	753	797	628	931	1066	1242
Interest	12	11	15	22	20	28
Other Income	55	87	78	89	105	150
PBT	796	873	691	951	1,151	1,364
% change	0.9	1.0	-2.1	3.8	2.1	1.9
Tax	180	227	179	253	306	363
Tax Rate (%)	22.6	25.9	25.8	26.6	26.6	26.6
Reported PAT	616	647	513	697	845	1,001
Adj*	0.0	0.0	0.0	47.7	0.0	0.0
Adj PAT	616	647	513	745	845	1,001
% change	27.4	0.5	-2.1	45.4	13.3	18.5
No. of shares (cr)	17	17	17	17	17	17
Adj EPS (Rs.)	36.1	37.9	30.0	43.6	49.4	58.6
% change	27.4	0.5	-2.1	4.5	1.3	1.9
DPS (Rs.)	19.4	5.0	8.3	10.0	10.0	10.0
CEPS (Rs.)	54	57	53	68	76	88

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	1,094	1,187	1,074	1,366	1,589	1,850
Non-cash adj.	-178	-221	-167	-245	-297	-351
Changes in W.C	390	-154	-121	-620	-408	-502
C.F. Operation	1,306	812	786	502	885	997
Capital exp.	-150	-783	-300	-789	-601	-601
Change in inv.	112	15	-93	-13	49	-146
Other invest.CF	0	0	0	0	0	0
C.F - Investment	-922	-624	-719	-381	-766	-823
Issue of equity	0	0	0	0	0	0
Issue/repay debt	-12	-11	0	-7	8	8
Dividends paid	-331	-85	-141	-95	-171	-171
Other finance.CF	-52	-3	-9	41	6	7
C.F - Finance	-395	-100	-151	-61	-157	-156
Chg. in cash	-11	89	-84	60	-38	17
Closing cash	39	127	44	104	65	83

BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	39	127	44	104	65	83
Accounts Receivable	636	787	793	780	880	960
Inventories	1,143	1,439	1,804	1,643	2,060	2,349
Other Cur. Assets	377	340	337	1072	1257	1372
Investments	114	127	78	224	300	450
Gross Fixed Assets	3,215	3,998	4,393	5,181	5,781	6,381
Net Fixed Assets	1,826	2,360	2,413	2,831	3,037	3,190
CWIP	733	398	829	233	250	250
Intangible Assets	98	191	80	69	87	109
Def. Tax (Net)	-44	-41	-31	-73	-79	-85
Other Assets	0	0	0	0	0	0
Total Assets	4,921	5,728	6,346	6,883	7,858	8,678
Current Liabilities	468	562	718	689	867	822
Provisions	183	214	246	272	314	343
Debt Funds	34	23	23	17	24	32
Other Liabilities	0	0	7	7	7	7
Equity Capital	17	17	17	17	17	17
Reserves & Surplus	3,603	4,164	4,536	5,138	5,812	6,642
Shareholder's Fund	3,620	4,181	4,553	5,155	5,829	6,659
Total Liabilities	4,921	5,728	6,346	6,883	7,858	8,678
BVPS (Rs.)	212	245	267	302	341	390

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return						
EBITDA margin (%)	15.5	15.6	11.8	13.0	13.2	13.9
EBIT margin (%)	11.1	11.1	7.2	9.0	9.3	9.9
Net profit mgn.(%)	9.1	9.0	5.9	7.2	7.4	8.0
ROE (%)	17.7	16.6	11.7	15.4	15.4	16.0
ROCE (%)	15.3	14.1	10.0	13.4	13.6	14.4
W.C & Liquidity						
Receivables (days)	37.7	36.3	33.1	27.6	26.4	26.8
Inventory (days)	90.5	99.3	96.7	87.5	85.4	93.8
Payables (days)	34.7	39.6	38.2	35.7	35.9	36.0
Current ratio (x)	3.4	3.5	3.1	3.7	3.6	4.1
Quick ratio (x)	1.4	1.6	1.2	1.3	1.1	1.3
Turnover & Leverage						
Gross asset T.O (x)	2.2	2.0	2.1	2.2	2.1	2.1
Total asset T.O (x)	1.5	1.3	1.4	1.6	1.6	1.5
Int. coverage ratio (x)	61.8	75.6	41.6	42.2	52.4	44.5
Adj. debt/equity (x)	0.2	0.2	0.2	0.2	0.1	0.1
Valuation						
EV/Sales (x)	1.6	1.5	1.2	1.0	0.9	0.9
EV/EBITDA (x)	10.3	9.7	10.6	8.0	7.2	6.2
P/E (x)	17.6	16.7	21.1	14.5	12.8	10.8
P/BV (x)	3.1	2.7	2.4	2.1	1.9	1.7

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
06.02.2020	Hold	820
16.06.2020	Buy	746
11.08.2020	Hold	818
23.02.2021	Buy	1,129
05.06.2021	Buy	872
14.12.2021	Buy	741
12.08.2022	Buy	615
08.11.2022	Accumulate	670
21.06.2023	Buy	762

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

- Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.
- Accumulate:** Partial buying or to accumulate as CMP dips in the future.
- Hold:** Hold the stock with the expected target mentioned in the note.
- Reduce:** Reduce your exposure to the stock due to limited upside.
- Sell:** Exit from the stock.
- Not rated/Neutral :** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL. Neutral- The analyst has no investment opinion on the stock under review

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