Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Exide Industries Ltd

Inline result, hoping for improvement

Automobiles	Sharekhan code: EXIDEIND
Reco/View: Buy ↔	CMP: Rs. 259 / Price Target: Rs. 301 ↑

↑ 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 13.38
Updated Jun 08, 2023

Low Risk

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

Source: Morningstar

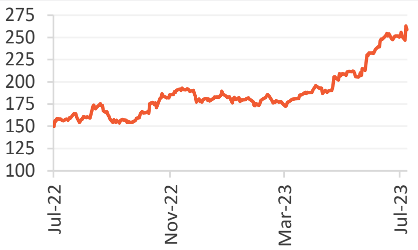
Company details

Market cap:	Rs. 22,015 cr
52-week high/low:	Rs. 266 / 152
NSE volume: (No of shares)	29.6 lakh
BSE code:	500086
NSE code:	EXIDEIND
Free float: (No of shares)	45.9 cr

Shareholding (%)

Promoters	46.0
FII	12.9
DII	19.8
Others	21.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.0	34.3	38.9	72.6
Relative to Sensex	7.1	26.8	30.4	53.5

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on Exide Industries (Exide) with SOTP based PT of Rs 301 on expectation of recovery in replacement demand, healthy traction in OEM business and timely execution of its LI ion project.
- Management foresees a steady demand in automotive segment and healthy traction in industrial segment.
- Soft commodity cost trend and revival in replacement demand would support its operating performance.
- The stock trades at P/E multiple of 16.4x and EV/EBITDA multiple of 7.9x its FY2025E estimates.

Led by healthy operating leverage benefits, Exide reported an EBITDA that was in line with estimates in Q1FY24, as topline exceeded estimates by 6.4%. EBITDA margin missed estimates by 70 bps on in-line EBITDA and a higher-than-expected topline performance. We believe that topline performance in Q1FY24 was largely driven by volume growth. Revenue increased by 14.9% q-o-q to Rs. 4,073 crore (against estimate of Rs 3,826 crore) led by steady growth in automobile battery segment and healthy traction in the industrial battery segment. In the industrial segment the company has witnessed an improvement in demand in telecom, solar, traction motors and railways in 1QFY24. EBITDA Increased by 17.7% q-o- q to Rs 432 crore (against estimate of Rs 431 crore). EBITDA margin expanded by 20 bps q-o-q to 10.6% (against estimate of 11.3%) on operating leverage benefit as gross margin contracted by 160 bps q-o-q. With this operating performance APAT increased by 16.4% q-o-q to Rs 242 crore (against estimate of Rs 255 crore) on lower-than-expected other income. Other income fell by 53.4% q-o- q to Rs 19 crore. We maintain our Buy rating on the stock with PT of Rs. 301.

Key positives

- Revenue exceeded estimates by 6.4% and registered 14.9% growth on q-o- q basis to Rs 4,073 crore.
- Operating leverage benefit helped EBITDA margin rise by 20 bps q-o-q to 10.6%.
- Effective tax rate stood at 24.9% In Q1FY24 against 26.0% in Q4FY23.

Key negatives

- Gross margins contracted by 160 bps q-o-q to 28.3%.
- Other income fell sharply by 53.4% q-o-q to Rs 19 crore

Management Commentary

- Demand remains steady in the domestic automotive market.
- Steady sales expansion in key verticals along with cost optimisation benefits resulted in healthy EBITDA growth in Q1FY24.
- Overall demand scenario is expected to be positive in the near-term and profitability levels to increase on benign RM cost trend.

Our Call

Valuation - Maintain Buy with a revised PT of Rs.301: Exide reported an EBITDA in line with estimates in Q1FY24 as topline came above estimates driven by volume growth in our view. While Exide saw headwinds in FY23, replacement demand is expected to recover in FY24 due to extended life cycle of batteries as Exide largely maintains its market penetration in the domestic market. Further, a better product mix along with benign raw material cost trend is expected to support operating performance. The 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. While Exide 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 the future. We expect the company would maintain its dominance in lead acid battery segment led by its strong distribution network, as Exide has expanded its distribution network f 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 (EVs) in India. We build up 21.8% earning CAGR on expectation of 7.9% revenue CAGR and 230 bps expansion in EBITDA margin over next 2 years. We maintain our Buy rating on the stock with SOTP-based price target (PT) of Rs. 301 (16x core FY25E EPS and Rs 49 for its stake in HDFC life Insurance) on expectation of recovery in replacement demand, healthy traction in OEM business and timely execution of its Li-ion project.

Key Risks

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

Valuation Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenues	12,382	14,592	15,693	16,999
Growth (%)	23.3	17.9	7.5	8.3
AEBIDTA	1,396	1,568	1,852	2,210
OPM (%)	11.3	10.7	11.8	13.0
Adj Net Profit	769	904	1,095	1,341
Growth (%)	1.4	17.6	21.2	22.4
AEPS	9.0	10.6	12.9	15.8
P/E (x)	28.6	24.4	20.1	16.4
P/BV (x)	2.1	2.0	1.8	1.7
EV/EBIDTA (x)	11.3	10.0	9.4	7.9
ROE (%)	8.8	8.3	9.4	10.6
ROCE (%)	-0.1	8.5	9.6	10.7

Source: Company; Sharekhan estimates

Replacement demand : likely to revive in near term

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

Focussing on improvement in operating performance

- With a recovery in the volumes the management is aiming to expand EBITDA margins via focusing on premiumisation of product profile, digitisation initiatives and price hikes.
- Further, soft RM cost to support the operating margin performance in medium term.

Li-ion project is on track

- Company invested Rs. 715 crore on Li-ion project (Exide Energy Solutions Ltd) in FY23 out of the total planned investment of Rs. 6,000 crore.
- Post receiving required approvals the construction work has been going on at Banglaru site. Initially, the plant would have capacity of 6 GW and is expected to commence operations by the end of FY25E. The plant would take at least 6-8months in stabilizing the operations after commencement.

Strong order book in battery pack business

- Exide's battery pack assembly business (Exide Energy Private Limited) is expecting Rs 400-500 crore of revenues in FY25 on the back of strong order book.
- Currently the company has an order book of Rs 600-700 crore with an execution timeline of next 12-15 months.
- As Exide 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 battery.

Network expansion continues

- 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 maintain its dominant position in lead acid battery segment.

Change in estimates Rs cr

Particulars	New		Earlier		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	15,693	16,999	15,204	16,023	3.2	6.1
EBITDA	1,852	2,210	1,794	2,083	3.2	6.1
EBITDA margin (%)	11.8	13.0	11.8	13.0		
PAT	1,095	1,341	1,052	1,246	4.1	7.6
EPS	12.9	15.8	12.4	14.7	4.1	7.6

Source: Company, Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q1FY24	Q1FY23	% YoY	Q4FY23	% QoQ
Revenues	4,073	3,899	4.4	3,543	14.9
Total operating costs	3,640	3,513	3.6	3,176	14.6
EBIDTA	432	387	11.8	367	17.7
Depreciation	119	109	9.5	119	0.1
Interest	9.8	6	53.5	8.3	17.5
Other income	19	32	(40.3)	41	(53.4)
PBT	322	303	6.2	281	14.7
Tax	80	77	4.3	73	10.0
Reported PAT	242	226	6.9	208	16.4
Adjusted PAT	242	226	6.9	208	16.4
Adjusted EPS	2.8	2.7	6.9	2.4	16.4

Source: Company, Sharekhan Research

Key Ratios (Standalone)

Particulars	Q1FY24	Q1FY23	YoY (bps)	Q4FY23	QoQ (bps)
Gross margin (%)	28.3	27.9	30	29.8	(160)
EBIDTA margin (%)	10.6	9.9	70	10.4	20
Net profit margin (%)	5.9	5.8	10	5.9	10
Effective tax rate (%)	24.9	25.4	(50)	26.0	(110)

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - 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 two-wheeler and four-wheeler 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.

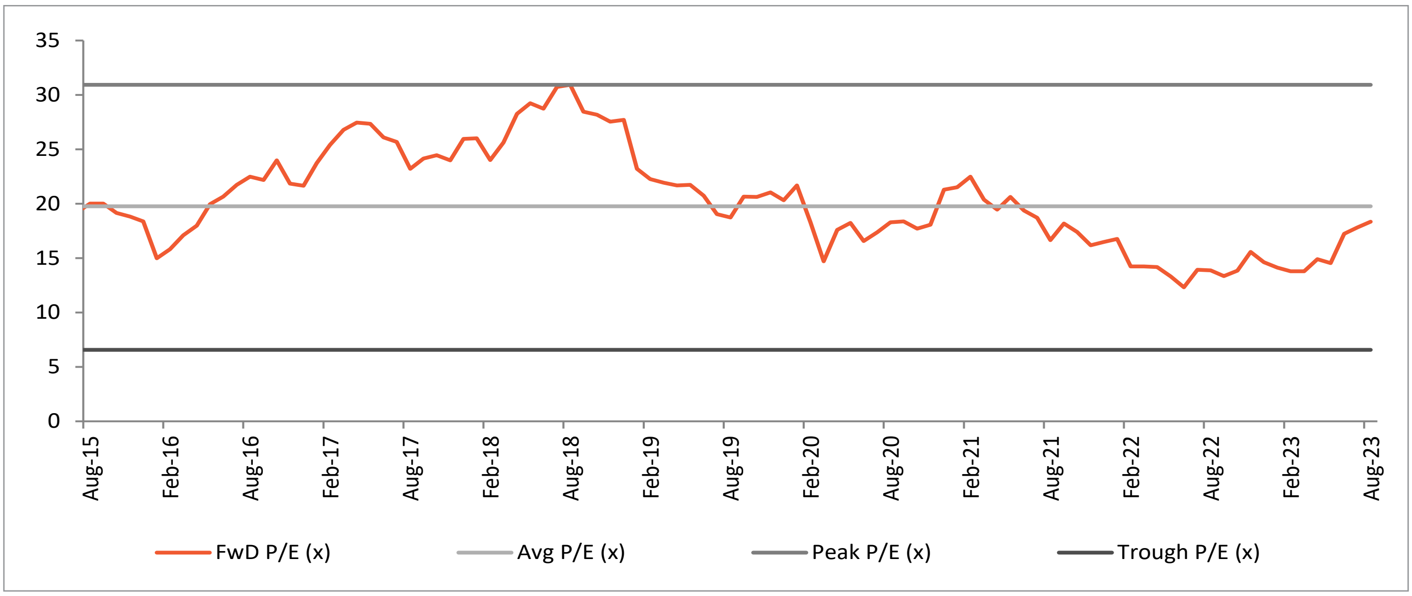
■ Company outlook - Strong earnings growth

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 would 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.301

Exide reported an EBITDA in line with estimates in Q1FY24 as topline came above estimates driven by volume growth in our view. While Exide saw headwinds in FY23, replacement demand is expected to recover in FY24 due to extended life cycle of batteries as Exide largely maintains its market penetration in the domestic market. Further, a better product mix along with benign raw material cost trend is expected to support operating performance. The 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. While Exide 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 the future. We expect the company would maintain its dominance in lead acid battery segment led by its strong distribution network, as Exide has expanded its distribution network f 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 (EVs) in India. We build up 21.8% earning CAGR on expectation of 7.9% revenue CAGR and 230 bps expansion in EBITDA margin over next 2 years. We maintain our Buy rating on the stock with SOTP-based price target (PT) of Rs. 301 (16x core FY25E EPS and Rs 49 for its stake in HDFC life Insurance) on expectation of recovery in replacement demand, healthy traction in OEM business and timely execution of its Li-ion project.

One-year forward P/E (x) band



Source: Sharekhan Research

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 and Independent Director
Mr. R. B. Raheja	Vice Chairman and Non-Executive Director
Mr. G. Chaterjee	MD and CEO
Mr. A. K. Mukherjee	Director Finance and CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Chloride Eastern Ltd	45.99%
2	Kotak Mahindra Asset Management Co Ltd/India	4.69%
3	Hathway Investments Pvt Ltd	4.32%
4	Life Insurance Corp of India	3.56%
5	Norges Bank	2.36%
6	Government Pensi	2.36%
7	Vanguard Group Inc/the	1.73%
8	Franklin Resources Inc	1.68%
9	ICICI Prudential Asset Management Co Ltd/India	1.40%
10	Aditya Birla Sun Life Asset Management Co Ltd	1.35%

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

Sharekhan
by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/ CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022 - 33054600