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3R MATRIX			
	+	=	-
Right Sector (RS)	✓	Grey	Orange
Right Quality (RQ)	✓	Grey	Orange
Right Valuation (RV)	✓	Grey	Orange

+ Positive = Neutral - Negative

What has changed in 3R MATRIX		
	Old	New
RS	Green	↔
RQ	Green	↔
RV	Green	↔

Company details

Market cap:	Rs. 20,327 cr
52-week high/low:	Rs. 1278/599
NSE volume:	7.9 lakh
(No of shares)	
BSE code:	500008
NSE code:	AMARAJABAT
Free float:	12.3 cr
(No of shares)	

Shareholding (%)	
Promoters	32.9
FII	24.5
DII	15.4
Others	27.3



Price performance				
(%)	1m	3m	6m	12m
Absolute	8.0	42.3	86.1	87.7
Relative to Sensex	9.1	41.3	74.2	68.5

Sharekhan Research, Bloomberg

Amara Raja Energy & Mobility Ltd

Eyeing good traction in replacement biz

Automobiles		Sharekhan code: AMARAJABAT		
Reco/View: Buy	↔	CMP: Rs. 1,190	Price Target: Rs. 1,377	↑
↑ Upgrade	↔ Maintain	↓ Downgrade		

Summary

- Adjusted EBITDA margin came in line with estimates, while revenue and EBITDA missed the estimates by 6.7% and 6.2%, respectively.
- Amalgamation of plastics business contributed 0.8% margin in FY24 and tubular battery's capacity is expected to commence by the end of FY25.
- We maintain a Buy rating on the stock with revised PT of Rs 1377 on account of expectation of healthy traction in replacement segment and an opportunity to play in the Li-ion cell business.
- Stock trades at P/E multiple of 18.2x and EV/EBITDA multiple of 8.6x its FY26 estimates.

Adjusted to stamp duty charges EBITDA margin came in line with estimates on a healthy gross margin expansion though revenue and AEBITDA missed estimates by 6.7% and 6.2%, respectively. Revenue declined by 2.9% q-o-q to Rs 2797 crore (against estimates of Rs 2996 crore). Gross margins have expanded by 240 bps q-o-q in support of benign RM cost trend. During the quarter, the company has incurred a one-time charge of Rs 20 crore pertaining to stamp duty charges and hence excluding the one-time charges AEBITDA rose by 4.3% q-o-q to Rs 428 crore (as against an estimate of Rs 456 crore) and AEBITDA margins rose by 110 bps q-o-q to 15.3% (as against an estimate of 15.2%). APAT increased by 3.5% q-o-q to Rs 248 crore (against estimate of Rs 255 crore). The board declared a total dividend of Rs. 9.9/share for FY24 (against Rs 6.1/share for FY23). The amalgamation of plastic business with the company has contributed 0.8% margin in FY24 and it is expected that the benefit of the amalgamation would be more visible on commencement of the tubular battery capacity. Tubular battery capacity which was impacted due to fire is expected to commence by FY25-end. New energy business which has been catering to telecom players and three-wheeler OEMs has started catering to two-wheeler OEMs also.

Key positives

- Replacement market saw 15% y-o-y volume growth in both two-wheeler and four-wheeler segments.
- Two-wheeler OEMs registered 20% growth on y-o-y basis.
- New energy business grew by 30% y-o-y.

Key negatives

- RM prices have started showing upward trend, while the company has yet to decide about price hikes.
- Benefit of amalgamation of plastic business has not been fully visible due to lack of adequate capacity for tubular batteries.
- Revenue contribution from trading business has increased to 10-11% in Q4FY24 compared to 5% in Q4FY23 as tubular battery plant was impacted due to fire incident.

Management Commentary

- Management will decide on pricing action due to rise in raw material cost when the RM prices would stabilise.
- Capacities for tubular battery is expected to come back by the end of FY25.
- Procurement of recycled lead would increase to 85-90% on commencement of inhouse recycling plant.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1377: Growth in the replacement market and steady RM cost trend has been supporting the operating performance so far. Going forward, commencement of tubular battery capacity, reduction in trading revenue and full benefit of amalgamation of plastics business to support its profitability. The amalgamation of plastic component business with the company has been completed effective from February 1, 2024 and contributed 0.8% to EBITDA margins. The benefit of amalgamation of the plastics business would enhance on commencement of the tubular battery capacity. Tubular battery capacity is expected to commence by the end of FY25. The return back of in-house tubular battery capacity would support the profitability in expectation of reduction in trading revenue. Li-ion project is on track and its battery pack business has started catering to two-wheeler OEMs also. Overall, the company has earmarked a capex of Rs 3000 crore over next two years. Further, the lithium ion (Li-ion) battery project is expected to begin deliveries from FY2026. We believe that lead acid batteries to remain in demand for the next few years in the replacement market, while Li-ion battery segment would expand from current levels. The company continues to look for strategic partner for its Li-ion project. We maintain a Buy on the stock with a revised PT of Rs 1377 on account of expectation of healthy traction in replacement segment and an opportunity to play in the Li-ion cell business.

Key Risks

Volatile RM cost trend, correction in replacement demand and rise in competition are key risk. Along with that the company is investing heavily in Li-ion project and hence carries a project execution risk with uncertainty of demand.

Valuation

Particulars	FY22	FY23	FY24P	FY25E	FY26E	Rs cr
Revenues (Rs cr)	8,696	10,390	11,260	12,612	13,873	
Growth (%)	21.6	19.5	8.4	12.0	10.0	
AEBIDTA (Rs cr)	1,023	1,435	1,621	1,854	2,081	
OPM (%)	11.8	13.8	14.4	14.7	15.0	
Adj Net Profit (Rs cr)	511	778	906	1,060	1,200	
Growth (%)	-21.0	52.2	16.4	17.0	13.2	
AEPS (Rs)	27.9	42.5	49.5	57.9	65.6	
P/E (x)	42.6	28.0	24.0	20.6	18.2	
P/BV (x)	4.8	3.6	3.2	2.8	2.5	
EV/EBIDTA (x)	21.2	14.8	12.5	10.3	8.6	
ROE (%)	11.7	14.7	14.2	14.7	14.7	
ROCE (%)	11.9	15.0	14.4	15.0	14.9	

Source: Company; Sharekhan estimates

Traditional business

- ♦ In Q4FY24, while domestic and export volumes increased in double digits, industrial volumes grew by low single digit rate. Domestic, export and industrial volumes grew by 16%, 30% and 5-6% respectively.
- ♦ Robust growth in exports is attributed to healthy traction in existing markets and addition of new markets.
- ♦ Trading revenues constituted 10-11% of total revenue in Q4FY24 compared to 5% in Q4FY23.
- ♦ Out of the total consumption of lead of 300,000 MTPA almost 70-75% comes from recycled sources. Going forward the management assumes that the lead procurement from recycled sources would go up to 85-90% on commencement of its recycling plant. It is expected that Amara's recycled plant with capacity of 150,000 MTPA would commence in next two quarters.
- ♦ Though lead prices have started showing rising trend but Amara has yet to take a decision for price hikes, as generally it waits for input prices to stabilize before taking any pricing action.
- ♦ Revenue mix remained stable at approximately 70% automotive and 30% industrial.

New energy business

- ♦ New energy business is catering to three-wheeler OEMs, two-wheeler OEMs and telecom segment.
- ♦ Pack business is expected to commence SOP for two wheeler players by 2HFy26.
- ♦ The company is continue to look for strategic partner for Li ion cell manufacturing project.
- ♦ EBITDA margin in 2-GWH Li-ion cell project is assumed to be 10-11% and ROE may reach to 12-13% on scaling up of the business.

Outlook

- ♦ Industry segment to grow by 6-7% in FY25.
- ♦ The company has scheduled a capex of Rs 1500 crore for both FY25 and FY26. Out of Rs 1500 crore, it assumes to invest Rs 1000-1100 crore in new energy segment in both the years.
- ♦ Lead-acid battery business is expected to maintain low to mid-single-digit growth in the automotive sector, with a stable outlook for industrial applications.
- ♦ The amalgamation of Mangal industries has contributed 80 bps to EBITDA margin in Fy24. Further efficiency of the amalgamation would be seen on commencement of tubular battery capacity.
- ♦ Capacity for tubular batteries (which was impacted by a fire incident) is expected to come back by the end of FY25.

Change in earning estimates (Rs cr)

Particulars	New		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	12,612	13873	12,567	13824	0.4	0.4
EBITDA	1,854	2081	1,734	1977	6.9	5.3
EBITDA margin (%)	14.7	15.0	13.8	14.3		
PAT	1,060	1200	973	1123	8.9	6.8

Source: Company, Sharekhan Research

Results (Standalone)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Net sales	2,797	2,429	15.1	2,881	(2.9)
Total operating expenses	2,369	2,092	13.2	2,471	(4.1)
EBITDA	428	337	26.8	410	4.3
Depreciation	121	114	5.7	114	5.7
Interest	10	6	56.2	6	65.5
Other Income	28	23	25.4	24	19.5
PBT	305	192	59.4	313	(2.5)
Tax	77	54	44.4	74	4.9
RPAT	228	138	65.3	240	(4.8)
Adjusted PAT	248	186	33.6	240	3.5
Adjusted EPS	13.6	10.1	33.6	13.1	3.5

Source: Company, Sharekhan Research

Key Ratios (Standalone)

Particulars	Q4FY24	Q4FY23	YoY (bps)	Q3FY24	QoQ (bps)
Gross margin (%)	34.5	33.0	150	32.1	240
EBIDTA margin (%)	15.3	13.9	140	14.2	110
Net profit margin (%)	8.9	7.6	120	8.3	60
Effective tax rate (%)	25.3	28.0	(260)	23.5	180

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Demand is picking up in the automotive and industrial sector

Business outlook for 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 - Set for a steady ride

We expect Amara to continue to outpace the organised lead-acid battery industry, led by new client acquisitions, new product launches, and benefit from its extensive distribution network. Current capacities (batteries) : 4W – 50 mn, 2W- 30 mn, industrial batteries – 2.3 billion Ah. The company has a large distribution network comprising over 1 lakh plus point of sales, over 1000 power zone retail stores and 2000 plus extensive service hubs. The company has a strong long-term revenue visibility, given its focus on the aftermarket segment. Further the company is investing in Li ion battery cell manufacturing to drive its long-term growth

■ Valuation - Maintain Buy with a revised PT of Rs. 1377

Growth in the replacement market and steady RM cost trend has been supporting the operating performance so far. Going forward, commencement of tubular battery capacity, reduction in trading revenue and full benefit of amalgamation of plastics business to support its profitability. The amalgamation of plastic component business with the company has been completed effective from February 1, 2024 and contributed 0.8% to EBITDA margins. The benefit of amalgamation of the plastics business would enhance on commencement of the tubular battery capacity. Tubular battery capacity is expected to commence by the end of FY25. The return back of in-house tubular battery capacity would support the profitability in expectation of reduction in trading revenue. Li-ion project is on track and its battery pack business has started catering to two-wheeler OEMs also. Overall, the company has earmarked a capex of Rs 3000 crore over next two years. Further, the lithium ion (Li-ion) battery project is expected to begin deliveries from FY2026. We believe that lead acid batteries to remain in demand for the next few years in the replacement market, while Li-ion battery segment would expand from current levels. The company continues to look for strategic partner for its Li-ion project. We maintain a Buy on the stock with a revised PT of Rs 1377 on account of expectation of healthy traction in replacement segment and an opportunity to play in the Li-ion cell business.

About company

Amara is the flagship company of Amara Raja Group. The company is one of the leading manufacturers of lead acid storage batteries catering to the needs of both industrial as well as automotive space. In the automotive segment, the company makes batteries for 4Ws and 2Ws and caters to the OEM as well as aftermarket segments. Products for the automotive segment are marketed under the Amaron and Powerzone brands. In the industrial segment, the company is a preferred supplier to major telecom service providers, telecom equipment manufacturers, the UPS sector (OEM and replacement), Indian Railways, and to power, oil, and gas segments, among others. The company has a commendable share in the telecom and UPS batteries segment. Amara's manufacturing plants are located in the Chittor district in Andhra Pradesh and are equipped with state-of-the-art manufacturing plants.

Investment theme

Amara is one of the leading battery manufacturers in the duopolistic Indian lead acid battery space. The company is present in the automobile as well as industrial segments. Having a strong brand equity and extensive distribution network, we expect Amara to grow strongly in the battery industry. The company 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. Amara is also upgrading its technology and working on import substitution of raw materials to enable cost reduction. We expect the company to outperform the battery industry, driven by new client additions in the OEM space and market share gains in the auto replacement segment, driven by network expansion.

Key Risks

- ♦ A steep rise in lead prices, a key raw material, can impact profitability.
- ♦ Delay in completion or failure Li ion project may impact its future growth potential

Additional Data

Key management personnel

Jayadev Galla	CEO MD
Delli Babu Y	Chief Financial Officer
Vikas Sabarwal	Compnay Secretary & Compliance officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Rngalla Family Pvt Ltd	32.86
2	Nalanda India Equity Fund Ltd	9.22
3	Life Insurance Corp of India	6.75
4	Tata AIA Life Insurance Co Ltd	2.81
5	Vanguard Group Inc/The	2.64
6	Kotak Mahindra Asset Management Co	1.31
7	BlackRock Inc	1.2
8	Dimensional Fund Advisors LP	1.19
9	Nippon Life India Asset Management	1.07
10	Pinebridge Global Funds	1.04

Source: Bloomberg

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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 external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating 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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