



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	✗	↔	✓

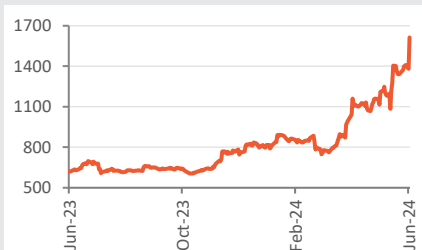
Company details

Market cap:	Rs. 30,144 cr
52-week high/low:	Rs. 1,655/ 599
NSE volume: (No of shares)	7.9 lakh
BSE code:	500008
NSE code:	ARE&M
Free float: (No of shares)	12.3 cr

Shareholding (%)

Promoters	32.9
FII	24.5
DII	15.4
Others	27.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	47.8	113.8	112.2	166.4
Relative to Sensex	44.3	105.5	100.0	142.3

Sharekhan Research, Bloomberg

Amara Raja Energy & Mobility Ltd

A high-tech handshake

Automobiles	Sharekhan code: ARE&M		
Reco/View: Buy	↔	CMP: Rs. 1,647	Price Target: Rs. 1,967
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- A technical licence agreement with GIB EnergyX will provide Amara an access to LFP technology.
- Access to LFP (lithium iron phosphate) technology will make it capable to cater to electric passenger vehicle (PV) space.
- We maintain a Buy on the stock with a revised PT of Rs 1967 on expectation of healthy traction in replacement segment and opportunity to play in the Li-ion cell business.
- Stock trades at P/E of 25.1x and EV/EBITDA of 12.7x its FY26 estimates.

Amara Raja (Amara) has signed a technical licence agreement (via its subsidiary) with Gotion's subsidiary to get access to the lithium ion phosphate (LFP) technology which we believe is in line with the Amara's strategy to tap the Li-ion cell manufacturing space, given the company has been scouting for a tie up with a leading player in the Li-ion cell manufacturing. While Amara's new energy segment has already been catering to the two-wheeler, three-wheeler and telecom segment, we believe a successful command on the LFP technology would make it easy to supply EV battery solutions to electric PV makers. Gotion is a global leading player in battery solution space and its association would help company in gaining command on the Li-ion cell technology, which would make it easy in setting up its Gigafactory projects. Recently, Amara has increased its stake in Norway based InoBat to 9.32%, which is engaged in research, development and production of batteries for electric vehicles. Amara has already planned to invest Rs. 2000-2200 crore in new energy segment next 2 years.

- Entered into a licensing arrangement for LFP technology:** Amara through its wholly owned subsidiary Amara Raja Advanced Cell Technologies Pvt. Ltd (ARACT) has signed a technical licensing agreement Gotion's (Gotion High-Tech Co Ltd) subsidiary GIB EnergyX Slovakia. Under the licensing arrangement ARACT will get LFP technology for lithium-ion cells manufacturing. Along with that, the company will get access to cell technology IP, support in establishing Gigafactory facilities and an opportunity to integration with Gotion's global supply chain network for critical battery materials and customer technical support for solution deployment. Recently Amara has increased its stake in Norway-based InoBat to 9.32%, which is engaged in research, development, and production of batteries for EVs. In parallel to Amara, Gotion also holds a stake in InoBat AS. Gotion High-tech and InoBat, in a JV, have signed an investment agreement with the Government of Slovakia for the development of the first LFP battery gigafactory in the country.
- Tech association augurs well:** Amara has been looking for a suitable partner in expanding its presence in Li-ion cell manufacturing project. In light of this we believe that an association with Gotion would augur well for the company on considering the Gotion's capabilities and expertise in Li-ion cell space. Gotion High-Tech is engaged in R&D, production and sales of Li-ion batteries in China. Its key products are lithium iron phosphate materials and batteries, ternary batteries, power battery packs, battery management systems and energy storage batteries. Gotion High-Tech has 8 global R&D centers, 8,000 patented technologies covering the battery industry value chain, 20 major manufacturing locations around the world and a capacity layout expected to reach 300GWh by 2025. Amara has already planned for setting up an Amara Raja Giga Corridor in Telangana. Association of global players like Gotion would speed up Amara's efforts in research and manufacturing of Gigafactory.
- New energy business on track:** Amara has doubled its revenue from its new energy business in FY24. This business includes the supply of chargers and battery packs, currently serving the three-wheeler, telecom, and two-wheeler segments. In collaboration with a Chinese partner, Amara is developing a lithium-ion cell project for two-wheelers, with SOPs expected to start in the second half of FY26. The company has already installed a 2 GWh capacity for battery packs. As per the management the new energy segment would have a potential to deliver a 10-11% EBITDA margin and hopes that the ROEs in the new business would reach to 12-13% once the business would scale up to 10-12 GWh. 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.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1967: Gotion, a global leader in battery solutions, would support Amara in acquiring Li-ion cell technology, crucial for setting up its Gigafactory projects. Amara's new energy segment, which already caters to the two-wheeler, three-wheeler, and telecom sectors, will benefit from mastering LFP technology, facilitating its entry into the EV battery market for electric passenger vehicles (PVs), in our view. Recently Amara has increased its stake in Norway based InoBat to 9.32%. In its lead acid battery business, growth in the replacement market is expected to support operating performance. Going forward, commencement of tubular battery capacity, reduction in trading revenue and full benefit of amalgamation of plastics business to support profitability. 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 FY25-end. 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. As Amara is trading at 19% discount to Exide We believe that a higher visibility for its Li-ion cell business would narrow valuation gap in the coming period and hence, we maintain a Buy on the stock with a revised PT of Rs 1967 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 costs, 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.

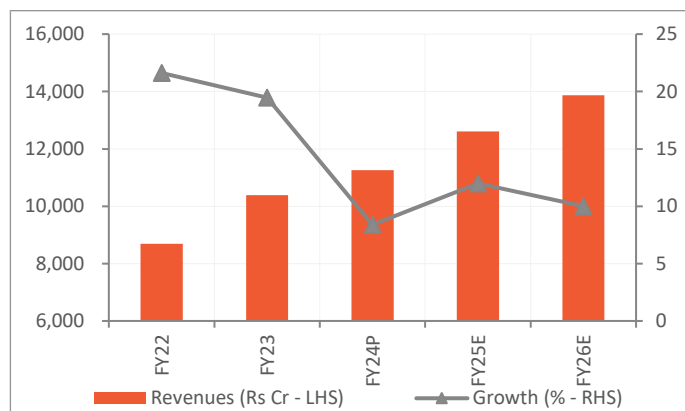
Valuation (Standalone)

Particulars	FY22	FY23	FY24P	FY25E	FY26E
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	27.9	42.5	49.5	57.9	65.6
P/E (x)	59.0	38.7	33.3	28.4	25.1
P/BV (x)	6.6	5.0	4.5	3.9	3.5
EV/EBIDTA (x)	29.4	20.7	17.6	14.8	12.7
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

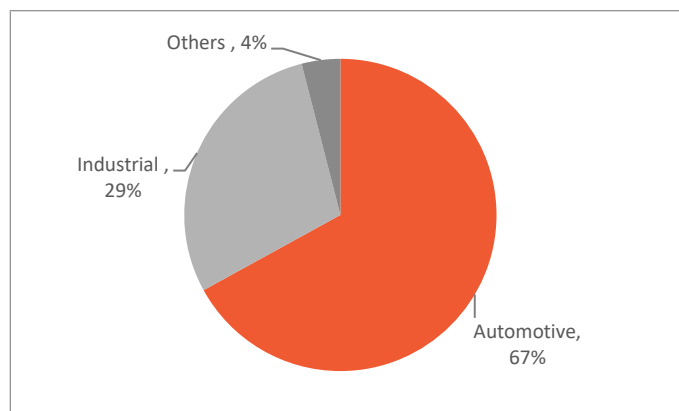
Financials in charts

Revenue and Growth Trend



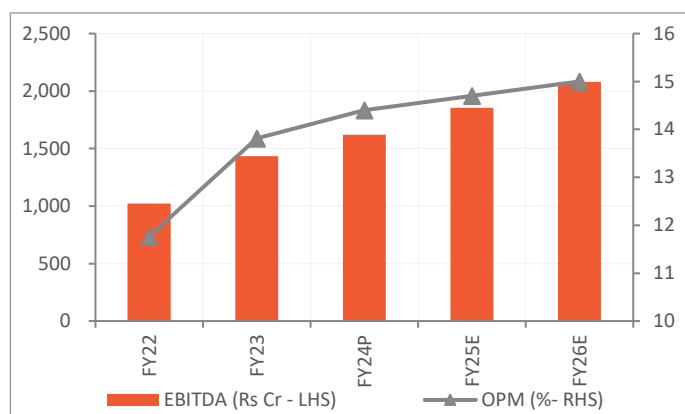
Source: Company, Sharekhan Research

Revenue Mix (%)



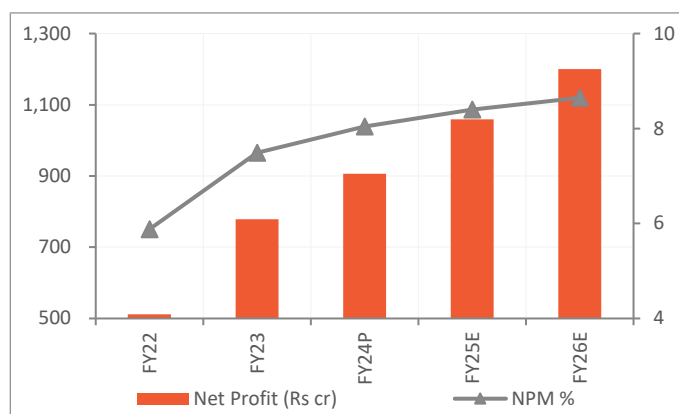
Source: Company, Sharekhan Research

EBITDA - OPM trend



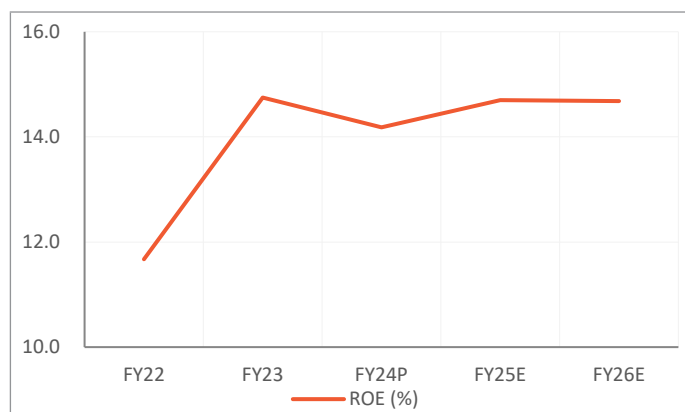
Source: Company, Sharekhan Research

Net Profit trend



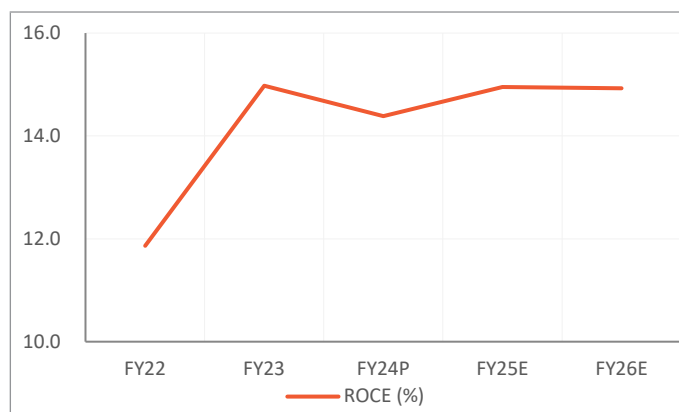
Source: Company, Sharekhan Research

ROE trend



Source: Company, Sharekhan Research

ROCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Demand is 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 – 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 million, 2W - 30 million, industrial batteries – 2.3 billion Ah. The company has a large distribution network comprising over 1 lakh points of sales, over 1000 power zone retail stores and more than 2000 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.1967

Gotion, a global leader in battery solutions, would support Amara in acquiring Li-ion cell technology, crucial for setting up its Gigafactory projects. Amara's new energy segment, which already caters to the two-wheeler, three-wheeler, and telecom sectors, will benefit from mastering LFP technology, facilitating its entry into the EV battery market for electric passenger vehicles (PVs), in our view. Recently Amara has increased its stake in Norway based InoBat to 9.32%. In its lead acid battery business, growth in the replacement market is expected to support operating performance. Going forward, commencement of tubular battery capacity, reduction in trading revenue and full benefit of amalgamation of plastics business to support profitability. 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 FY25-end. 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. As Amara is trading at 19% discount to Exide We believe that a higher visibility for its Li-ion cell business would narrow valuation gap in the coming period and hence, we maintain a Buy on the stock with a revised PT of Rs 1967 on account of expectation of healthy traction in replacement segment and an opportunity to play in the Li-ion cell business.

Change in earning estimates

Particulars	New		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	12,567	13824	12,567	13824	-	-
EBITDA	1,734	1977	1,734	1977	-	-
EBITDA margin (%)	13.8	14.3	13.8	14.3		
PAT	973	1123	973	1123	-	-

Source: Company; Sharekhan Research

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 Chittoor 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	Company Secretary & Compliance officer

Source: Company Website

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

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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 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

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: 022-67502000.

Correspondence 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. BSE – 748, NSE – 10733, MCX – 56125, MSEI – 1043.

Compliance Officer: Ms. Binkle R. 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