Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Amara Raja Energy & Mobility Ltd

Reviving replacement demand

Stock Update

Result Update

Automobiles	Sharekhan code: ARE&M
Reco/View: Buy ↔	CMP: **Rs. 1,331**
	Price Target: **Rs. 1,638** ↓

↑ 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		↔	

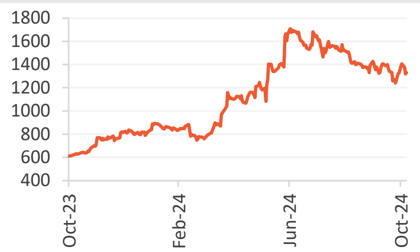
Company details

Market cap:	Rs. 24,361 cr
52-week high/low:	Rs. 1774/625
NSE volume: (No of shares)	7.8 lakh
BSE code:	500008
NSE code:	ARE&M
Free float: (No of shares)	12.3 cr

Shareholding (%)

Promoters	32.9
FII	22.3
DII	15.4
Others	29.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.5	-9.2	19.5	117.5
Relative to Sensex	1.3	-11.5	11.7	91.6

Sharekhan Research, Bloomberg

Summary

- Amara Raja missed bottom-line estimates on weak performance in the telecom and 4W OEM fronts, though EBITDA margin matched estimates.
- Amara Raja targets a 15% volume CAGR in export markets in the next three years.
- We maintain BUY on the stock with a revised PT of Rs.1,638 on account of expectation of healthy traction in the replacement segment and an opportunity to play in the Li-ion cell business.
- The stock trades at a P/E multiple of 19.5x and EV/EBITDA multiple of 8.9x its FY2027 estimates.

In Q2FY2025, Amara Raja's 4W OEM segment and telecom segment witnessed a decline in volumes, which impacted its revenue growth trajectory, while most of its segments registered healthy volume growth. Further, higher trading mix and additional provisions pertaining to levy on fuels for earlier years (Rs. 15 crore) impacted its EBITDA margin in Q2FY2025. The company undertook an average 1.5% price hike in the aftermarket segment ahead of Q2FY2025. Amara Raja's Q2FY2025 results were below estimates, as it missed revenue estimates by 4.7% and AEBITDA estimates by 5.2%. AEBITDA margin at 14.1% came in line with estimates as the negative operating leverage impact was offset by an 80bps y-o-y gross margin expansion. Revenue increased by 11.6% y-o-y to Rs. 3,136 crore (against our estimate of Rs. 3,291 crore). AEBITDA increased by 11% y-o-y to Rs. 441 crore (against our estimate of Rs. 465 crore). AEBITDA margin remained flat on a y-o-y basis at 14.1% (against our estimate of 14.1%). APAT increased by 7.3% y-o-y to Rs. 241 crore (against our estimate of Rs. 268 crore).

Key positives

- Both 2W and 4W divisions have witnessed healthy volume growth in the replacement segment on a y-o-y basis.
- In the OEM segment, the two-wheeler division reported robust volume growth on a y-o-y basis in sync with the increase in two-wheeler production.
- UPS and exports segment registered decent growth during the quarter.

Key negatives

- In the OEM segment, the 4W division witnessed a decline in volumes, as 4W production was relatively weak.
- The lead acid business in the telecom industry has faced headwinds due to the transition to Li-ion batteries from lead acid batteries.
- Despite the 80bps y-o-y expansion in gross margin, AEBITDA margin remained flat y-o-y due to negative operating leverage.

Management Commentary

- The commencement of tubular plant from Q4FY2025 would reduce the trading mix and, hence, would be margin accretive.
- Management aims for a 15% volume CAGR for the next three years in exports.
- Li-ion business can deliver an EBITDA margin of 11-12% on reaching optimum utilisation.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 1,638: While Amara Raja has reported AEBITDA margin in line with estimates, the bottom line missed estimates in Q2FY2025, given the higher trading mix, additional provision of Rs. 15 crore, and muted performance in the telecom and 4W OEM segments, which impacted its performance in Q2FY2025. Management has indicated that it would commission its lead recycling plant by Q3FY2025, and the tubular battery plant would be commissioned by Q4FY2025, which we believe would be EBITDA margin accretive for the company. Beyond the domestic market, the company aims to expand its overseas business and targets a 15% volume CAGR in export volumes in the next three years, as it is now planning to expand its presence in European markets. Post factoring Q2FY2025 performance in our estimates, we maintain BUY on the stock with a revised PT of Rs. 1,638 on account of the expectation of healthy traction in the replacement segment and an opportunity to play in the Li-ion cell business.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenues (Rs cr)	10,390	11,260	12,492	13,693	14,928
Growth (%)	19.5	8.4	10.9	9.6	9.0
AEBIDTA (Rs cr)	1,435	1,621	1,786	1,985	2,194
OPM (%)	13.8	14.4	14.3	14.5	14.7
Adj Net Profit (Rs cr)	778	906	997	1,121	1,250
Growth (%)	52.2	16.4	10.1	12.4	11.5
AEPS (Rs)	42.5	49.5	54.5	61.2	68.3
P/E (x)	31.3	26.9	24.4	21.7	19.5
P/BV (x)	4.1	3.6	3.2	2.8	2.5
EV/EBIDTA (x)	16.6	14.1	12.2	10.4	8.9
ROE (%)	14.7	14.2	13.9	13.9	13.7
ROCE (%)	15.0	14.4	14.2	14.1	13.9

Source: Company; Sharekhan estimates

Lead acid battery segment

- The lead acid business saw a 12% increase in volumes as most of the segments witnessed improvement in volumes, except the telecom segment. Lead acid business has seen subdued demand in the Telecom segment due to a shift towards Li-ion batteries.
- The 4W battery business registered 15% y-o-y volume growth in the aftermarket segment and 20% y-o-y volume growth in exports, while it registered a 3% decline in the OEM segment's volumes.
- The 2W battery business has registered a 17% y-o-y increase in volumes in both OEM and aftermarket segments.
- The industrial battery business has registered a 10% y-o-y decline in volumes due to a 30% y-o-y dip in supplies to the telecom industry.
- Inverter battery volumes grew by 10% y-o-y in support of outsourcing of batteries as its tubular battery plant is under construction. The tubular battery plant is likely to be commissioned by Q4FY2025. The commissioning of the tubular plant would reduce trading revenue and, hence, enhance the operating profitability.
- The company currently collects 70% of the market for old battery recycling. The company's lead acid recycling plant is expected to begin operations in Q3FY2025, which could result in some amount of cost saving from recycled material.
- The company is optimistic about its export prospects, with exports currently accounting for 25% of total volumes. Growth is being seen in APAC, the Middle East, and African markets, and the company has made initial progress in Europe. Exports are expected to report a CAGR of approximately 15% over the next 3-4 years.
- The company is expanding its 4W capacity in the lead acid business, leading to an increase in lead acid capex, with approximately Rs. 500 crore allocated for the lead acid segment in FY2025.

New energy business segment

- There were some delays in the 3W battery segment due to changes in OEM schedules.
- Charger revenue has declined on a y-o-y basis due to a slowdown in OEM off-take and some specification changes.
- The company remains optimistic about the demand for Nickel Manganese Cobalt (NMC) batteries, as the 2170 cells are well-suited for 2W and 3W applications in some cases.
- The company does not anticipate underutilization of its facilities once they are operational. The company expects EBITDA margin of 11-12% in the Li-ion business once reaching the scale close to 8 GWH, driven by strong capacity utilization and lower scrap costs.

Results (Standalone) Rs cr

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Net sales	3,136	2,811	11.6	3,131	0.1
Total operating expenses	2,695	2,414	11.7	2,701	(0.2)
AEBITDA	441	397	11.0	430	2.4
Depreciation	122	115	6.3	118	3.2
Interest	13	6	111.1	9	46.4
Other Income	18	28	(32.9)	26	(27.7)
PBT	324	293	10.4	329	(1.4)
Tax	83	79	5.2	84	(1.0)
RPAT	241	214	12.3	245	(1.6)
Adjusted PAT	241	224	7.3	245	(1.6)
Adjusted EPS	13.2	12.3	7.3	13.4	(1.6)

Source: Company, Sharekhan Research

Key Ratios (Standalone)

Particulars	Q2FY25	Q2FY24	YoY (bps)	Q1FY25	QoQ (bps)
Gross margin (%)	32.4	31.6	80	31.1	120
AEBIDTA margin (%)	14.1	14.1	(10)	13.7	30
Net profit margin (%)	7.7	8.0	(30)	7.8	(10)
Effective tax rate (%)	25.7	27.0	(130)	25.6	10

Source: Company, Sharekhan Research

Outlook and Valuation

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

The business outlook for the automotive and industrial segments is improving with the normalisation of economic activities. Automotive demand is witnessing strong recovery in the 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 Raja to continue to outpace the organised lead-acid battery industry, driven 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 – 2.3bnAh. The company has a large distribution network comprising over 1 lakh plus point of sales, 1,000 plus power zone retail stores, and 2,000 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. 1,638

While Amara Raja has reported AEBITDA margin in line with estimates, the bottom line missed estimates in Q2FY2025, given the higher trading mix, additional provision of Rs. 15 crore, and muted performance in the telecom and 4W OEM segments, which impacted its performance in Q2FY2025. Management has indicated that it would commission its lead recycling plant by Q3FY2025, and the tubular battery plant would be commissioned by Q4FY2025, which we believe would be EBITDA margin accretive for the company. Beyond the domestic market, the company aims to expand its overseas business and targets a 15% volume CAGR in export volumes in the next three years, as it is now planning to expand its presence in European markets. Post factoring Q2FY2025 performance in our estimates, we maintain BUY on the stock with a revised PT of Rs. 1,638 on account of the expectation of healthy traction in the replacement segment and an opportunity to play in the Li-ion cell business.

Change in earning estimates Rs cr

Particulars	New		Earlier		% change		Introduction
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY27E
Revenue	12,492	13,693	12,612	13,873	(0.9)	(1.3)	14,928
EBITDA	1,786	1,985	1,854	2,081	(3.6)	(4.6)	2,194
EBITDA margin (%)	14.3	14.5	14.7	15.0			14.7
PAT	997	1,121	1,060	1,200	(5.9)	(6.6)	1,250
EPS (Rs)	54.5	61.2	57.9	65.6	(5.9)	(6.6)	68.3

Source: Company, Sharekhan Research

About company

Amara Raja 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 power, oil, and gas segments, among others. The company has a commendable share in the telecom and UPS batteries segment. Amara Raja'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 Raja 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 strong brand equity and extensive distribution network, we expect Amara Raja 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 Raja 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 of 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	32.9
2	Nalanda India Equity Fund Ltd	8.8
3	Life Insurance Corp of India	6.3
4	Vanguard Group Inc/The	2.9
5	Franklin Resources Inc	1.9
6	Dimensional Fund Advisors LP	1.3
7	Blackrock Inc	1.1
8	Vanguard Total International Stock	1.0
9	PineBridge Investments LP	0.9
10	Nippon Life India Asset Management	0.9

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 Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

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- 41523200/022-69920600.