Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Exide Industries Ltd

Q2 misses mark despite strong replacement demand

Automobiles	Sharekhan code: EXIDEIND
Reco/View: **Buy** ↔	CMP: **Rs. 437**
	Price Target: **Rs. 534** ↓

↑ 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		↔	

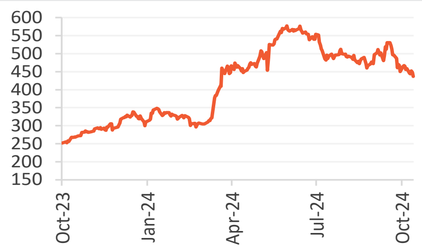
Company details

Market cap:	Rs. 37,145 cr
52-week high/low:	Rs. 620/266
NSE volume: (No of shares)	53.3 lakh
BSE code:	500086
NSE code:	EXIDEIND
Free float: (No of shares)	45.9 cr

Shareholding (%)

Promoters	46.0
FII	12.3
DII	18.0
Others	23.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.3	8.4	51.4	103.8
Relative to Sensex	-7.1	-1.4	38.1	76.6

Sharekhan Research, Bloomberg

Summary

- A muted show by OEMs marred Q2FY25 numbers, even though replacement demand was strong.
- Li-ion project on track , while management is emphasising on an increase in penetration in export markets.
- We retain a Buy with a revised SOTP-based PT of Rs 534 on the expectation of continued recovery in replacement demand, improvement in EBITDA margins on steady raw material costs and timely execution of Li-ion cell project.
- Stock trades at P/E multiple of 25.7x/ 22.6x and EV/EBITDA multiple of 11.4x/10.2x its FY26/FY27 estimates.

Q2FY25 performance was below estimates on account of (1) lower offtake in OEM segment and (2) negative operating leverage. Further, a 40 bps y-o-y expansion in gross margins cushioned the fall in operating profitability. Revenues increased by 3.9% y-o-y to Rs 4267 crore (against an estimate of Rs 4572 crore) on the back of healthy uptick in replacement market and international markets. EBITDA increased by 0.1% y-o-y to Rs 484 crore (against estimate of Rs 567 crore).EBITDA margin contracted by 40 bps y-o-y to 11.3% (against estimate of 12.4%) on negative operating leverage .APAT has increased by 3.8% y-o-y to Rs 298 crore (against estimate of Rs 332 crore). Exide is prioritising improved profitability in its lead-acid battery division. The company has implemented a comprehensive cost-excellence project over the last two years, with expected savings largely coming from back-end efficiencies. Furthermore, Exide is focusing on optimising its product mix and expanding into higher-margin premium products. In Q2, the company implemented a 1.5% price hike on the aftermarket products segment.

Key positives

- Two-wheeler and four-wheeler replacement markets experienced healthy demand, leading to double-digit sales growth.
- Demand trends were positive in Industrial UPS and solar B2C market.
- Gross margin expanded by 40 bps y-o-y.

Key negatives

- Home UPS, telecom and OEM space witnessed weak performance in Q2FY25.
- Operating profitability was hit by lower absorption of fixed overheads.
- Inflationary pressure has resulted in a 10.5% y-o-y increase in other expenses.

Management Commentary

- Lithium-ion project is on track, first phase to be commissioned in CY25E
- In its core business, the management is aspiring for a 13% EBITDA margin in near term and 14% EBITDA margin in long term.
- Exide expects double-digit growth in both the four-wheeler and two-wheeler replacement markets over the medium term.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 534: After Q2FY25 performance, the management is eyeing a 13% EBITDA Margin in near term and aspiring for 14% EBITDA margin in long term. Further the management appears to be optimistic on its performance in H2FY25 in expectation of rebound in lagging business, while it continue to expect for a double-digit growth in replacement demand. While Exide has been investing in new age technologies (Li-ion), we assumes that lead acid battery segment would also exist in future due to its advantage in certain segments. We expect the company would maintain its dominance in the lead acid battery segment led by its strong distribution network. Given that Exide has already been working on an Li-Ion cell project and the association with marquee clients gives a visibility on the probable capacity utilisation of its upcoming project. While there is no major indication from the management, we foresee few more tie-ups with OEMs in coming period also. In addition, the company's foray into lithium cell manufacturing holds strong prospects in the automotive segment, driven by the expected traction in hybrid and electric vehicles (EV) in India. We retain a Buy rating on the stock with revised SOTP-based PT of Rs. 534 on the expectation of continued recovery in replacement demand, improvement in EBITDA margins on steady raw material costs and timely execution of its Li-ion cell project.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenues (Rs crore)	14,592	16,029	17,107	18,540	19,981
Growth (%)	17.9	9.8	6.7	8.4	7.8
AEBIDTA (Rs crore)	1,568	1,871	2,104	2,447	2,737
OPM (%)	10.7	11.7	12.3	13.2	13.7
Adj Net Profit (Rs crore)	904	1,053	1,210	1,447	1,646
Growth (%)	17.6	16.5	14.9	19.6	13.7
AEPS	10.6	12.4	14.2	17.0	19.4
P/E (x)	41.1	35.3	30.7	25.7	22.6
P/BV (x)	3.3	2.8	2.6	2.4	2.2
EV/EBIDTA (x)	19.6	15.1	13.3	11.4	10.2
ROE (%)	8.3	8.6	8.9	9.8	10.2
ROCE (%)	8.5	8.9	9.1	10.0	10.5

Source: Company; Sharekhan estimates

Traditional business

- Demand patterns were varied in Q2FY25. While demand in the automotive aftermarket (both in the four-wheeler and two-wheeler segments), was strong, sales from automotive OEMs were relatively subdued.
- Exide achieved a 4% growth in sales for Q2FY25 and 5% for H1. Key segments driving this growth included the automotive aftermarket (especially four-wheelers), solar, industrial UPS trade and infrastructure (excluding telecom), with these segments registering growth of 14-15%. Additionally, exports grew at a double-digit rate.
- Exide saw declines in the home UPS, automotive OEM, and telecom segments, which partially offset gains in other areas. Decline in automotive OEM segment was linked to high channel inventories, prompting production cuts by OEMs. However, the robust sales during the festive season in October indicate a potential rebound in H2FY25. The telecom segment's drop was mainly due to a high base effect from the 5G tower rollouts last year, though this is expected to stabilise moving forward.
- Exide is taking proactive measures to address weak spots, including enhancing its go-to-market strategy and expansion its distribution networks, particularly for inverters. Additionally, the company is working through its subsidiary, Exide Energy Solutions Limited, to supply lithium battery banks to telecom tower operators.
- Exide is prioritising improved profitability in its lead-acid battery division. The company has implemented a comprehensive cost-excellence project over the last two years, with expected savings largely coming from backend efficiencies. Furthermore, Exide is focusing on optimizing its product mix and expanding into higher-margin premium products. In Q2, the company implemented a 1.5% price hike on aftermarket products segment.
- Exide's export growth in the lead-acid battery business can be attributed to a low base in automotive exports and development of new products for emerging markets. The company is targeting developed markets with its premium products and is currently engaged in product homologations and trials. Despite geopolitical uncertainties and an economic slowdown in Europe, the company expects demand to recover.
- Growth in the automotive replacement market is being driven by several factors, including rising rural consumption, a shift from unorganized to organized players, and rising brand awareness. Exide holds a strong market position in the four-wheeler segment and is focusing on capturing market share in untapped areas. The company expects double-digit growth in both the four-wheeler and two-wheeler replacement markets over the medium term

New energy business

- Exide's lithium-ion cell manufacturing plant is on track, with equipment installation currently underway and site offices being relocated. The company has invested Rs 550 crore in equity in the subsidiary during FY25, bringing the total equity investment to Rs 2,852 crore so far.
- Exide anticipates starting commercial production of lithium-ion cells by mid-2025, with installation and commissioning expected to be completed earlier in the year.
- Exide is focused on ensuring a smooth startup and improved utilization of its lithium-ion business. The company plans to offer both LFP and NMC cell chemistries and believes its partnership with an experienced technology partner will help meet production deadlines.
- Exide plans to invest approximately Rs 5,000 crore for phase I of the lithium-ion plant, with a significant portion of the investment expected in FY25. The remaining portion might spill over into the Q1FY26. The company is confident that it can manage the investment through a combination of equity infusion and bridge loans.
- While Exide is open to exploring potential monetization or strategic partnerships for its lithium-ion business once capacity utilization improves, it does not foresee any immediate need for equity partnerships.

Results (Standalone) Rs cr

Particulars	Q2FY25	Q2FY24	%YoY	Q1FY25	%QoQ
Revenues	4,267	4,107	3.9	4,313	(1.1)
Total operating costs	3,784	3,624	4.4	3,818	(0.9)
EBIDTA	484	483	0.1	494	(2.2)
Depreciation	127	126	0.9	126	1.0
Interest	10.3	12	(10.8)	8.7	18.8
Other income	52.8	39	34.8	14	273.2
PBT	399	385	3.7	374	6.7
Tax	101	98	3.6	94	7.3
Reported PAT	298	287	3.8	280	6.5
Adjusted PAT	298	287	3.8	280	6.5
Adjusted EPS	3.5	3.4	3.8	3.3	6.5

Source: Company, Sharekhan Research

Outlook and Valuation

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

Business outlook for automotive and industrial segments is improving as economic activities normalise. 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 - 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 is expected to 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.534

After Q2FY25 performance, the management is eyeing a 13% EBITDA Margin in near term and aspiring for 14% EBITDA margin in long term. Further the management appears to be optimistic on its performance in H2FY25 in expectation of rebound in lagging business, while it continue to expect for a double-digit growth in replacement demand. While Exide has been investing in new age technologies (Li-ion), we assumes that lead acid battery segment would also exist in future due to its advantage in certain segments. We expect the company would maintain its dominance in the lead acid battery segment led by its strong distribution network. Given that Exide has already been working on an Li-Ion cell project and the association with marquee clients gives a visibility on the probable capacity utilisation of its upcoming project. While there is no major indication from the management, we foresee few more tie-ups with OEMs in coming period also. In addition, the company's foray into lithium cell manufacturing holds strong prospects in the automotive segment, driven by the expected traction in hybrid and electric vehicles (EV) in India. We retain a Buy rating on the stock with revised SOTP-based PT of Rs. 534 on the expectation of continued recovery in replacement demand, improvement in EBITDA margins on steady raw material costs and timely execution of its Li-ion cell project.

Change in earning estimates (Rs cr)

Particulars	New		Earlier		% change		Introduction
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY27E
Revenue	17,107	18,540	17,107	18,601	-	(0.3)	19,981
EBITDA	2,104	2,447	2,224	2,604	(5.4)	(6.0)	2,737
EBITDA margin (%)	12.3	13.2	13.0	14.0	(5.4)	(5.7)	13.7
PAT	1,210	1,447	1,308	1,578	(7.5)	(8.3)	1,646
EPS	14.2	17.0	15.4	18.6	(7.5)	(8.3)	19.4

Source: Company, 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	Non-Executive - Non Independent Director
Mr. Avik Kumar Roy	CEO MD

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Chloride Eastern Ltd	46.0
2	Kotak Mahindra Asset Management Co	4.8
3	Hathway Investments Pvt Ltd	4.3
4	Vanguard Group Inc/The	2.1
5	Life Insurance Corp of India	1.8
6	Norges Bank	1.4
7	Franklin Resources Inc	1.3
8	Aditya Birla Sun Life Asset Manage	1.2
9	Blackrock Inc	0.9
10	Dimensional Fund Advisors LP	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

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