

Amara Raja Batteries

BSE SENSEX	S&P CNX
37,393	11,257
Bloomberg	AMRJ IN
Equity Shares (m)	171
M.Cap.(INRb)/(USDb)	106.7 / 1.5
52-Week Range (INR)	908 / 610
1, 6, 12 Rel. Per (%)	-7/-20/-33
12M Avg Val (INR M)	441
Free float (%)	47.9

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	67.9	74.4	82.6
EBITDA	9.5	11.0	12.5
PAT	4.8	5.7	6.5
EPS (INR)	28.3	33.3	38.0
Gr. (%)	2.6	17.6	14.2
BV/Sh (INR)	195	219	245
RoE (%)	15.4	16.1	16.4
RoCE (%)	14.9	15.4	15.6
P/E (x)	22.1	18.8	16.4
P/BV (x)	3.2	2.9	2.6

Estimate change



TP change



Rating change



CMP: INR625

TP: INR761(+22%)

Buy

Weak OEM, Telecom impacts revenue growth; Mix, decline in RM drives margins

- First revenue decline since 1QFY10:** Revenues declined by 1% YoY to INR15.7b (our est. INR16.9b), impacted by lead price pass-through (in 40-50% of the business). The healthy volume growth in aftermarket (4W – 11-12% YoY, 2W – 18-20% YoY) and exports (15-20% YoY) was offset by ~10% YoY decline in automotive OEM and flat volumes in the industrial segment, even as telecom volumes declined 10-15%.
- Product mix and decline in lead prices help EBITDA margins:** Gross margins improved 200bp QoQ (+350bp YoY) to 34.8% (our est. 32.4%) led by favorable product mix and decline in lead prices (~13% YoY, flat QoQ). It has not taken any price increase in the aftermarket segment in 4QFY19. EBITDA margin expanded 60bp QoQ (+220bp YoY) to 15.5%, while Adj. PAT grew 8.7% YoY to INR1.19b (INR1.24b). FY19 revenue/EBITDA/adj. PAT grew 12%/7.8%/2.6%.
- Takeaways from management interaction:** (a) Market share in telecom segment was stable at ~55% in 4QFY19; it gained 0.5-1% share in auto OEM and replacement segment in FY19, (b) realized lead priced at INR154k/t in 4QFY19 (v/s INR150-152k/t in 3QFY19), (c) capex guidance of INR4-5b for increasing 4W capacity by ~4m units to 14.5m, 2W capacity by 3m units to 17m and ~30% increase in tubular battery to 1.3m units, (d) It plans to launch tubular batteries for E-rickshaw applications in the next few months.
- Valuation and view:** We cut FY20/21 EPS by 8%/12% as we trim revenue estimates by 7%/10% due to weaker auto OEM outlook and weak lead prices. We expect the replacement market growth to remain strong for organized players; some stability in telecom segment volumes and soft lead prices should support margins. With exit of Johnson Control, promoters are expected to play a pivotal role in the long-term strategy as well as in technology sourcing. We estimate revenue/ EBITDA/PAT to grow 10%/15%/16% CAGR (FY19-21E). The stock trades at 18.8x/16.4x FY20E/21E EPS. Maintain **Buy** with a TP of INR761 (20x Mar'21 EPS).

Quarterly Performance

Y/E March	FY18				FY19				FY18	FY19	FY19	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	VAR (%)
Net Sales	14,975	14,275	15,535	15,807	17,787	17,531	16,947	15,667	60,592	67,931	16,941	-7.5
YoY Change (%)	14.5	7.1	17.1	17.6	18.8	22.8	9.1	-0.9	14.0	12.1	7.2	
RM Cost (% of sales)	70.0	66.0	66.9	68.7	71.5	69.1	67.2	65.2	67.9	68.4	67.6	-230bp
Staff Cost (% of sales)	5.4	5.2	4.9	5.0	4.7	5.3	5.1	5.2	4.2	4.9	5.3	-10bp
Other Exp (% of sales)	11.7	12.1	12.7	13.0	11.4	12.1	12.7	14.1	11.6	13.0	12.8	130bp
EBITDA	1,929	2,381	2,416	2,107	2,203	2,366	2,528	2,421	8,832	9,518	2,433	-0.5
Margins (%)	12.9	16.7	15.6	13.3	12.4	13.5	14.9	15.5	14.6	14.0	14.4	110bp
Depreciation	544	584	587	588	630	643	657	683	2,303	2,612	701	
Interest	14	13	11	13	15	18	18	19	51	70	19	
Other Income	137	122	168	237	137	142	125	63	664	468	176	
PBT	1,508	1,907	1,985	1,743	1,695	1,848	1,978	1,783	7,142	7,304	1,888	-5.6
Tax Rate (%)	33.7	33.3	32.3	37.0	33.3	34.9	33.8	33.0	34.0	33.8	33.9	
Adj PAT	999	1,272	1,345	1,098	1,130	1,202	1,309	1,193	4,713	4,835	1,249	-4.4
YoY Change (%)	-23.6	-6.7	19.7	10.7	13.2	-5.5	-2.6	8.7	-1.5	2.6	13.7	

E: MOFSL Estimates

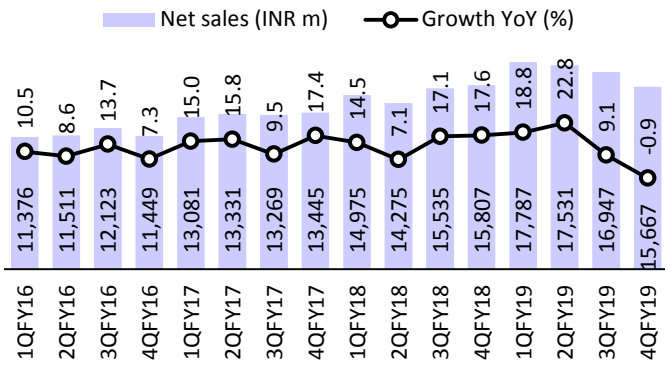
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

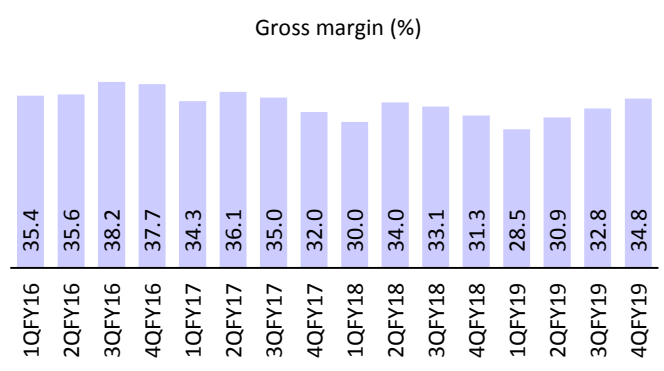
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Trend in revenues and growth



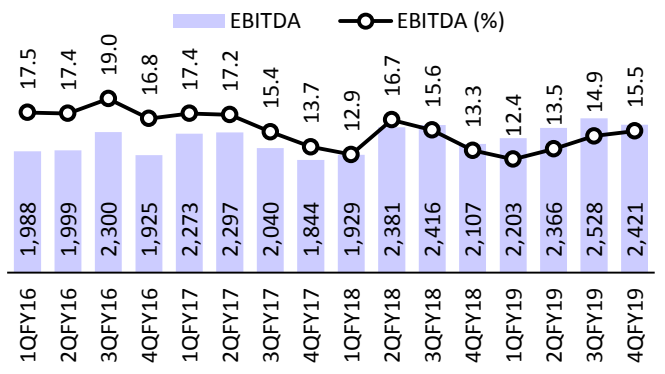
Source: Company, MOFSL

Exhibit 2: Trend in gross margins



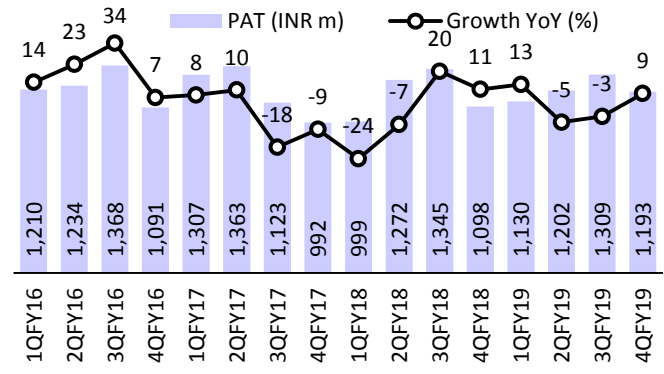
Source: Company, MOFSL

Exhibit 3: Trend in EBITDA and EBITDA margins



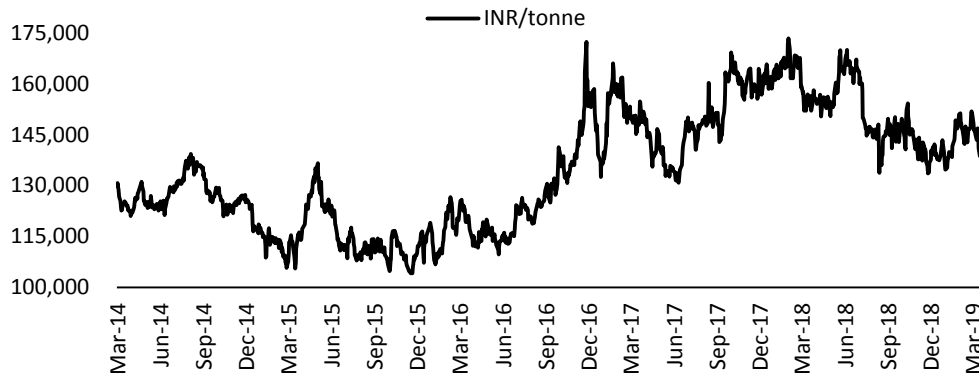
Source: Company, MOFSL

Exhibit 4: PAT and growth trend



Source: Company, MOFSL

Exhibit 5: Spot lead price chart



Source: Company, MOFSL

Valuation and view

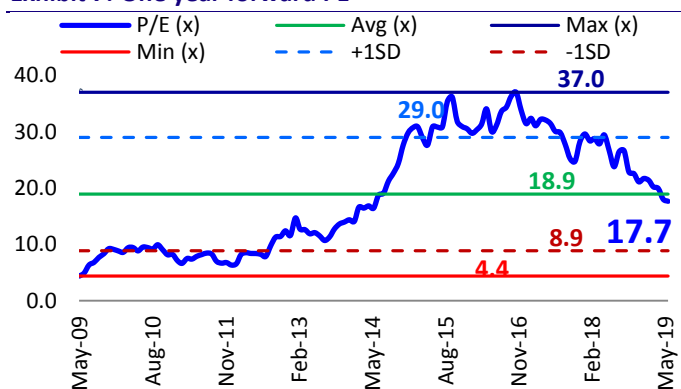
- **Industry structure remains duopoly, but AMRJ is a strong No. 2:** While the industry structure remains largely duopoly, AMRJ has emerged as a formidable challenger to leader EXIDE, with market leadership in telecom (55% share in 4QFY19) and UPS (~32-35%) segments, and a fast gaining share in Autos. Over FY04-16, AMRJ clocked a CAGR of 34% and 68% in net sales and PAT respectively, far exceeding EXID’s 20% CAGR each in net sales and PAT. This has been driven through a combination of technological innovations (first to introduce maintenance-free, factory charged, extended warranty batteries), witty advertising and unique distribution model (franchisee based) supported with operational efficiency-led competitive pricing.
- **AMRJ – gearing up to be leader:** AMRJ is gearing up to be a leader through i) consolidating in existing areas, ii) entering new business opportunities within battery space, mainly home UPS, Solar and Motive Power and iii) aided by capacity and network expansion. In the telecom segment, AMRJ expects to maintain its market share at current levels for FY19 (~55% as of 4QFY19).
- **16% EPS CAGR over FY19-FY21E, improving return ratios; Buy:** We cut FY20/21 EPS by 8%/12% as we cut revenues by 7%/10% to due to weaker auto OEM outlook as well as weak lead prices. We expect replacement market growth to remain strong for organized players. This coupled with some stability in telecom segment volumes and soft lead prices should support margins. With exit of Johnson Control, promoters are expected to play pivotal role in long term strategy as well as technology sourcing. We estimate revenue/ EBITDA/PAT to grow 10%/15%/16% CAGR (FY19-21E). The stock trades at 18.8x/16.4x FY20E/21E EPS. Maintain **Buy** with a TP of INR761 (20x Mar-21 EPS).

Exhibit 6: Revised estimates

(INR M)	FY20E			FY21E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	74,351	79,904	-7.0	82,585	91,280	-9.5
EBITDA (%)	14.7	14.7	0bp	15.2	15.0	10bp
Net Profit	5,687	6,158	-7.6	6,495	7,356	-11.7
EPS (INR)	33.3	36.1	-7.6	38.0	43.1	-11.7

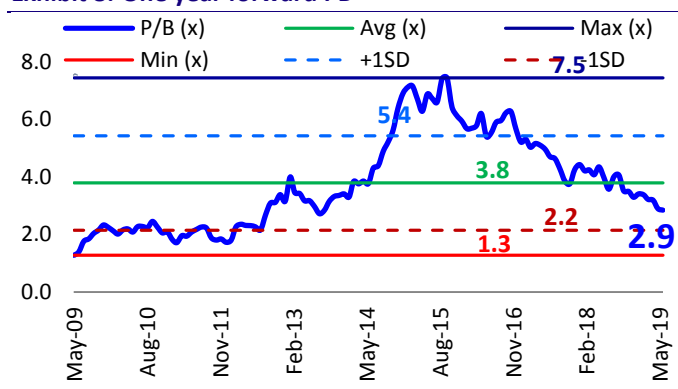
Source: MOFSL

Exhibit 7: One year forward PE



Source: Company, MOFSL

Exhibit 8: One year forward PB



Source: Company, MOFSL

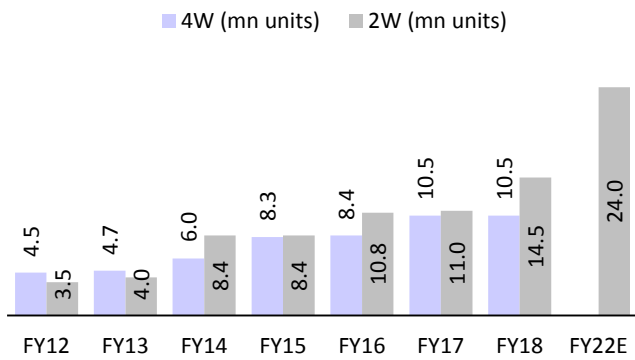
Exhibit 9: Comparative valuation

	CMP (INR)	Rating	TP (INR)	P/E (x)		EV/EBITDA (x)		RoE (%)		Div Yield (%)		EPS CAGR (%)
				FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY19-21E
Auto OEM's												
Bajaj Auto	2,945	Neutral	3,131	16.4	15.0	11.0	9.6	23.0	22.5	2.4	2.5	9.5
Hero MotoCorp	2,516	Neutral	2,912	14.2	13.6	8.2	7.5	26.1	24.8	3.6	3.8	4.4
TVS Motor	491	Neutral	480	27.1	21.4	14.1	11.4	23.5	24.6	0.8	0.8	27.4
M&M	607	Buy	793	13.8	13.7	10.1	10.1	13.1	11.7	1.6	1.6	4.6
Maruti Suzuki	6,478	Buy	8,047	23.4	19.4	13.1	11.0	16.4	18.1	1.9	2.2	16.2
Tata Motors	176	Neutral	194	14.4	11.3	3.5	3.2	6.2	7.4	0.2	0.2	LTP
Ashok Leyland	83	Buy	113	11.4	13.9	5.6	6.3	24.1	17.7	3.2	3.2	-7.4
Eicher Motors	20,287	Buy	23,500	23.1	20.1	19.1	16.2	24.4	23.6	0.6	0.6	11.3
Escorts	563	Neutral	724	9.7	9.3	-0.7	-0.9	17.7	15.8	0.5	0.6	6.5
Auto Ancillaries												
Bharat Forge	448	Buy	604	16.4	16.3	9.7	9.4	21.4	18.7	1.4	1.4	7.2
Exide Industries	214	Buy	281	19.7	17.5	10.8	9.7	14.0	14.2	1.5	1.5	16.1
Amara Raja Batteries	625	Buy	761	18.8	16.4	9.7	8.3	16.1	16.4	1.3	1.5	15.9
BOSCH	16,985	Neutral	19,556	27.7	23.4	18.6	15.1	17.4	20.4	1.2	1.4	16.6
Endurance Tech	1,174	Buy	1,350	27.4	23.7	12.1	10.4	21.7	21.5	0.9	1.1	16.9
Motherson Sumi	119	Buy	186	17.1	15.3	1.1	0.6	19.4	19.1	1.6	1.8	21.5
Mahindra CIE	220	Buy	290	12.9	11.4	7.8	6.4	14.0	13.8	0.0	0.0	17.1
CEAT	945	Buy	1,277	12.9	10.4	3.3	3.1	10.3	11.7	1.3	1.4	19.7

Source: MOFSL

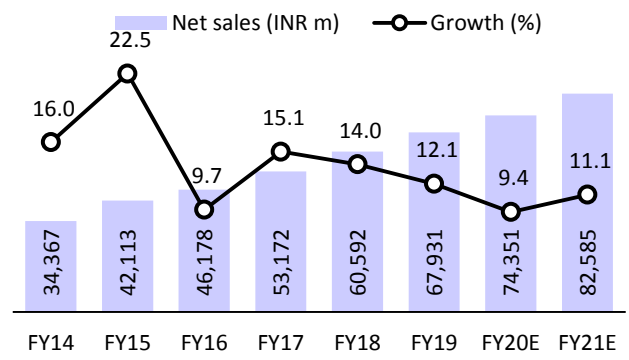
Amara Raja | Story in charts — significant addition in 2W capacity

Exhibit 10: Significant addition in 2W capacity



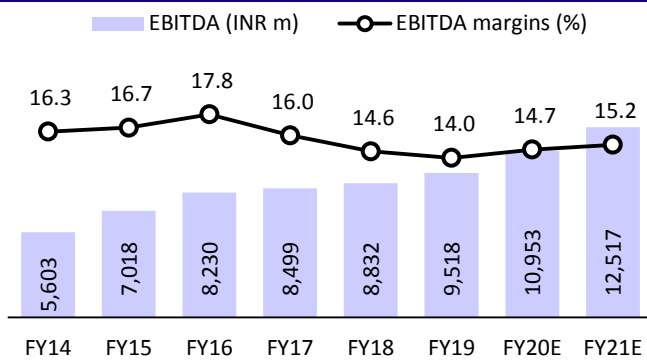
Source: Company, MOFSL

Exhibit 11: Trend in revenues



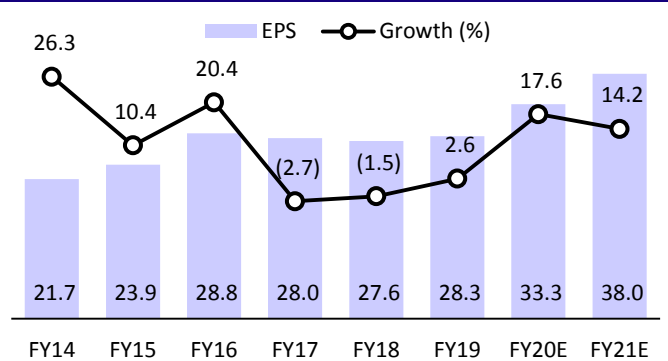
Source: Company, MOFSL

Exhibit 12: EBITDA and EBITDA margin trend



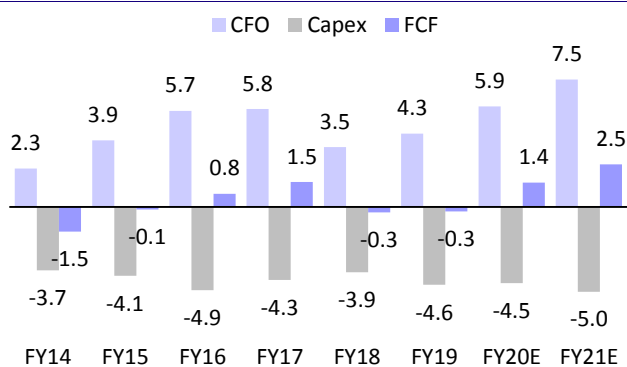
Source: Company, MOFSL

Exhibit 13: Earnings and growth trend



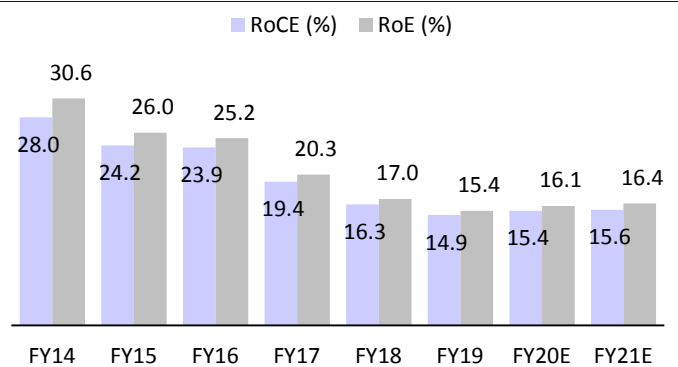
Source: Company, MOFSL

Exhibit 14: Trend in CFO, capex and FCF



Source: Company, MOFSL

Exhibit 15: Trend in return ratios



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Net Sales	42,113	46,178	53,172	60,592	67,931	74,351	82,585
Change (%)	22.5	9.7	15.1	14.0	12.1	9.4	11.1
EBITDA	7018	8,230	8,499	8,832	9,518	10,953	12,517
Margin (%)	16.7	17.8	16.0	14.6	14.0	14.7	15.2
Depreciation	1,340	1,407	1,912	2,303	2,612	2,956	3,503
EBIT	5,678	6,823	6,587	6,529	6,906	7,997	9,014
Int. and Finance Charges	2	55	58	51	70	70	70
Other Income - Rec.	423	459	492	664	468	625	750
PBT bef. EO Exp.	6,099	7,226	7,022	7,142	7,304	8,552	9,694
EO Expense/(Income)	73	0	0	0	0	0	0
PBT after EO Exp.	6,026	7,226	7,022	7,142	7,304	8,552	9,694
Current Tax	1,910	2,310	2,237	2,429	2,469	2,395	2,714
Deferred Tax	80	0	0	0	0	470	485
Tax Rate (%)	33.0	32.0	31.9	34.0	33.8	33.5	33.0
Reported PAT	4,036	4,916	4,785	4,713	4,835	5,687	6,495
PAT Adj for EO items	4,084	4,916	4,785	4,713	4,835	5,687	6,495
Change (%)	10.4	20.4	-2.7	-1.5	2.6	17.6	14.2
Margin (%)	9.7	10.6	9.0	7.8	7.1	7.6	7.9

Standalone - Balance Sheet

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	171	171	171	171	171	171	171
Total Reserves	17,674	20,988	25,760	29,203	33,182	37,161	41,705
Net Worth	17,845	21,159	25,931	29,374	33,353	37,332	41,876
Deferred Liabilities	368	538	815	878	959	1,429	1,914
Total Loans	741	725	690	584	468	725	725
Capital Employed	18,954	22,421	27,436	30,836	34,780	39,486	44,515
Gross Block	12,434	14,851	18,156	22,533	26,241	32,888	37,888
Less: Accum. Deprn.	2,989	1,330	3,257	5,501	8,113	11,069	14,573
Net Fixed Assets	9,444	13,520	14,899	17,033	18,128	21,819	23,315
Capital WIP	863	1,229	2,403	2,264	3,147	1,000	1,000
Total Investments	189	200	1,467	351	205	205	205
Curr. Assets, Loans&Adv.	13,394	14,559	17,077	22,038	23,480	27,406	32,002
Inventory	4,181	6,016	8,170	10,497	10,614	12,222	13,576
Account Receivables	5,541	5,922	5,705	7,825	7,686	8,555	9,503
Cash and Bank Balance	2,222	1,503	1,709	1,113	502	1,508	3,236
Loans and Advances	1,450	1,119	1,494	2,603	4,678	5,120	5,687
Curr. Liability & Prov.	4,935	7,087	8,410	10,849	10,179	10,943	12,007
Account Payables	2,660	3,493	4,184	5,923	5,104	5,587	6,205
Other Current Liabilities	1,458	2,665	3,285	3,916	3,761	4,117	4,573
Provisions	817	929	941	1,011	1,314	1,239	1,229
Net Current Assets	8,459	7,472	8,667	11,189	13,301	16,463	19,995
Appl. of Funds	18,955	22,421	27,436	30,836	34,780	39,486	44,515

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)							
EPS	23.9	28.8	28.0	27.6	28.3	33.3	38.0
Cash EPS	31.8	37.0	39.2	41.1	43.6	50.6	58.5
BV/Share	104.5	123.9	151.8	172.0	195.3	218.6	245.2
DPS	3.6	4.3	4.25	4.2	7.1	8.3	9.5
Payout (%)	18.4	17.7	18.2	18.1	30.0	30.0	30.0
Valuation (x)							
P/E	26.1	21.7	22.3	22.7	22.1	18.8	16.4
Cash P/E	19.7	16.9	15.9	15.2	14.3	12.4	10.7
P/BV	6.0	5.0	4.1	3.6	3.2	2.9	2.6
EV/Sales	2.5	2.3	2.0	1.8	1.6	1.4	1.3
EV/EBITDA	15.0	12.9	12.4	12.0	11.2	9.7	8.3
Dividend Yield (%)	0.6	0.7	0.7	0.7	1.1	1.3	1.5
Return Ratios (%)							
RoE	26.0	25.2	20.3	17.0	15.4	16.1	16.4
RoCE	24.2	23.9	19.4	16.3	14.9	15.4	15.6
RoIC	29.4	26.4	21.7	17.6	15.8	15.7	15.7
Working Capital Ratios							
Gross Fixed Asset Turnover (x)	3.4	3.1	2.9	2.7	2.6	2.3	2.2
Inventory (Days)	36.2	47.6	56.1	63.2	57.0	60.0	60.0
Debtor (Days)	44	42	35	46	41	38	38
Creditor (Days)	23	28	29	36	27	27	27
Working Capital Turnover (Days)	54	47	48	61	69	73	74
Leverage Ratio (x)							
Current Ratio	2.7	2.1	2.0	2.0	2.3	2.5	2.7
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Net P/L Before Tax and E/O Items	6,099	7,226	7,022	7,142	7,304	8,552	9,694
Depreciation	1,245	1,407	1,912	2,303	2,612	2,956	3,503
Interest & Finance Charges	-29	-43	-3	-5	-398	-555	-680
Direct Taxes Paid	1,922	2,181	2,024	2,443	2,469	2,865	3,199
(Inc)/Dec in WC	-1,475	-738	-1,137	-3,475	-2,723	-2,156	-1,804
CF from Operations	3,917	5,672	5,771	3,522	4,325	5,933	7,514
(inc)/dec in FA	-4,062	-4,904	-4,305	-3,853	-4,591	-4,500	-5,000
Free Cash Flow	-180	637	1,224	-637	-265	1,433	2,514
Others	176	24,156	27,395	19,117	615	625	750
CF from Investments	-3,886	-3,938	-5,294	-2,381	-3,976	-3,875	-4,250
(Inc)/Dec in Debt	-36	772	47	-89	-35	727	485
Interest Paid	-84	-5	-3	-7	-70	-70	-70
Dividend Paid	-552	-1,614	0	-1,285	-1,452	-1,708	-1,951
CF from Fin. Activity	-672	-847	44	-1,382	-1,557	-1,051	-1,536
Inc/Dec of Cash	-675	757	279	-546	-1,208	1,007	1,728
Add: Beginning Balance	2,946	2,222	1,503	1,709	1,113	502	1,508
Closing Balance	2,271	2,979	1,782	1,163	-95	1,508	3,236

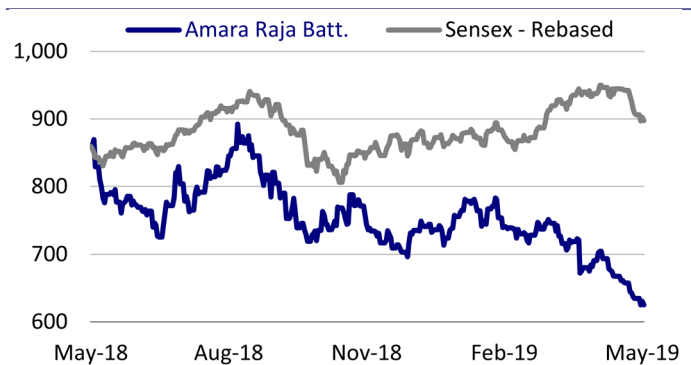
E: MOFSL Estimates

Corporate profile

Company description

Commencing operations in 1992, AMRJ has become India's second-largest lead-acid battery manufacturer (next to market leader EXID), with market leadership in telecom and UPS segments. It is reckoned as one of the pioneers in VRLA (valve regulated lead acid) batteries. Johnson Control USA (JC) is an equal partner and acquired 26% equity in AMRJ in 1997.

Exhibit 1: Sensex rebased



Source: MOFSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-19	Dec-18	Mar-18
Promoter	52.1	52.1	52.1
DII	10.7	9.5	11.3
FII	19.4	20.7	19.0
Others	17.9	17.8	17.7

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Nalanda India Equity Fund Limited	7.8
ICICI Mutual Fund - All Schemes	2.7

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Ramachandra N Galla	Chairman
Jayadev Galla	Vice Chairman & M.D.
M R Rajaram	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Marc D Andraca	Nagarjun Valluripalli*
Bhairavi Tushar Jain*	T R Narayanaswamy*
N Sri Vishnu Raju*	Claudio Morfe

*Independent

Exhibit 6: Auditors

Name	Type
Brahmayya & Co	Statutory
Deloitte Haskins & Sells LLP	Statutory
R Sridharan & Associates	Secretarial Audit

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY20	33.3	40.7	-18.2
FY21	38.0	49.6	-23.4

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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