

Amara Raja Batteries

BSE SENSEX	S&P CNX
34,300	10,540
Bloomberg	AMRJ IN
Equity Shares (m)	171
M.Cap.(INRb)/(USD\$b)	144.3 / 2.2
52-Week Range (INR)	955 / 665
1, 6, 12 Rel. Per (%)	-1/-5/-24
Avg Val, INRm	459.0
Free float (%)	47.9

Financials & Valuations (INR b)

Y/E Mar	2018E	2019E	2020E
Net Sales	59.9	70.1	81.1
EBITDA	9.1	11.0	12.9
PAT	4.8	5.9	7.1
EPS (INR)	28.3	34.7	41.4
Gr. (%)	0.9	22.7	19.4
BV/Sh (INR)	175	203	237
RoE (%)	17.3	18.3	18.8
RoCE (%)	16.5	17.4	17.8
P/E (x)	29.9	24.4	20.4
P/BV (x)	4.8	4.2	3.6

Estimate change



TP change



Rating change



CMP: INR845 TP: INR1,035(+23%)

Buy

In-line operating performance; PAT above est. led by higher other income

- Revenue in-line, helped by growth in auto, UPS and telecom segments:** Net sales grew 17.1% YoY (+8.8% QoQ) to INR15.5b (in-line), led by growth in auto across the OE and aftermarket segments. This was led by continued channel expansion of Amaron and Powerzone brands. Further, higher exports to South-East Asia and Middle-East countries aided growth in the auto segment. Industrial battery segment too recorded growth, backed by higher sales in UPS segment and a sequential increase in volumes in the telecom segment.
- EBITDA margin in line at 15.6%; lead inflation partially offset by price hike:** Gross margin shrunk 90bp YoY (-190bp YoY) to 33% (in-line). Management indicated that continued lead price inflation was partially offset by appropriate pricing actions. EBITDA margin expanded 20bp YoY (-110bp YoY) to 15.6%, led by a favorable product mix (higher share of autos), optimal utilization, and price hikes. High other income and low depreciation boosted PAT by 20% YoY (+5.7% QoQ) to INR1.34b (est. of INR1.24b).
- Takeaways from management interaction:** a) Auto (including home UPS) grew 30-31% YoY in value terms and 18-20% YoY in volume terms. b) Industrial segment declined 6% YoY; except telecom, all other segments posted growth. c) ~3% price increase in Nov-17; over the past one year, AMRJ has taken cumulative price increase of ~12%. d) ~85% of lead inflation in telecom segment has been passed on. e) Growth in exports (~5-6% of revenue) was led by UPS and 4W batteries. f) Can extend tubular batteries catering to new applications like solar, E-rickshaw and rural UPS. g) Guided for capex of INR4b each in FY18/19. h) Expect 2W capacity to touch 15m units (by May-18). Current 4W capacity is 10.5m units (expect 12m units by end FY19).
- Valuation view:** We keep FY19/FY20E earnings unchanged. The stock trades at 24.4x/20.4x FY18E/19E EPS. Maintain **Buy** with a TP of INR1,035 (23x Mar-20 EPS).

Quarterly Performance

Y/E March (INR m)	FY17				FY18				FY17	FY18E	FY18	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	VAR (%)
Net Sales	13,081	13,331	13,269	13,445	14,975	14,275	15,535	15,109	53,172	59,893	15,073	3.1
YoY Change (%)	15.0	15.8	9.5	17.4	14.5	7.1	17.1	12.4	15.1	12.6	13.5	
RM Cost (% of sales)	65.7	63.9	65.0	68.0	70.0	66.0	66.9	66.7	65.6	67.4	67.0	-10bp
Staff Cost (% of sales)	5.0	5.2	5.5	5.2	5.4	5.2	4.9	5.1	4.7	4.2	5.3	-40bp
Other Exp (% of sales)	11.9	13.7	14.1	13.0	11.7	12.1	12.0	12.8	13.9	11.6	12.0	0bp
EBITDA	2,273	2,297	2,040	1,844	1,929	2,381	2,416	2,327	8,499	9,052	2,365	2.1
Margins (%)	17.4	17.2	15.4	13.7	12.9	16.7	15.6	15.4	16.0	15.1	15.7	-10bp
Depreciation	441	457	469	499	544	584	587	656	1,912	2,371	625	-6.0
Interest	14	15	14	15	14	13	11	14	58	51	12	-5.8
Other Income	90	120	133	151	137	122	168	148	492	575	150	11.7
PBT	1,908	1,945	1,689	1,480	1,508	1,907	1,985	1,806	7,022	7,205	1,878	5.7
Rate (%)	31.5	29.9	33.5	33.0	33.7	33.3	32.3	32.9	31.9	33.0	33.5	
Adj PAT	1,307	1,363	1,123	992	999	1,272	1,345	1,212	4,785	4,828	1,249	7.6
YoY Change (%)	8.0	10.4	-17.9	-9.1	-23.6	-6.7	19.7	22.2	-2.7	0.9	11.2	

E: MOSL Estimates

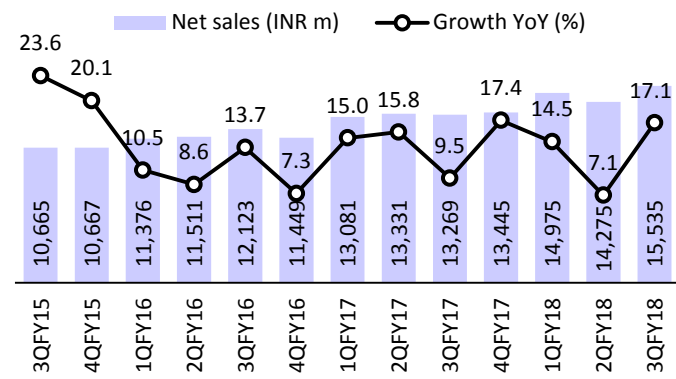
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

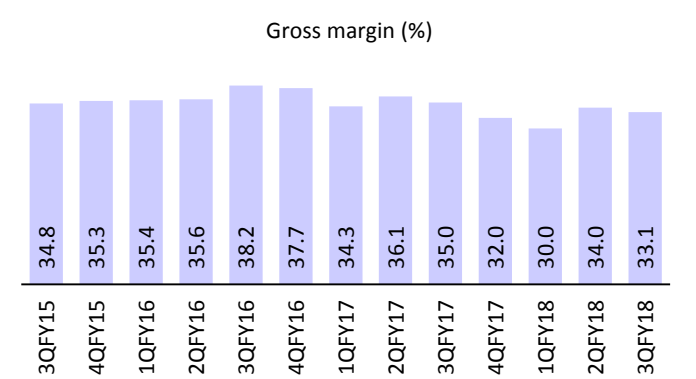
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Auto and industrial segments drive revenues



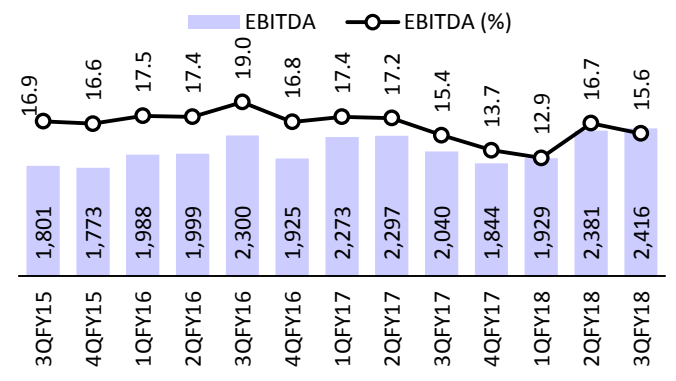
Source: Company, MOSL

Exhibit 2: Gross margins contract 90bp QoQ (-190bp YoY)



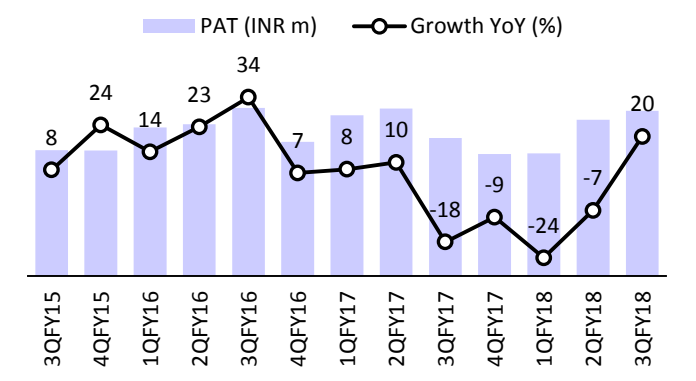
Source: Company, MOSL

Exhibit 3: Lead inflation dents EBITDA margins



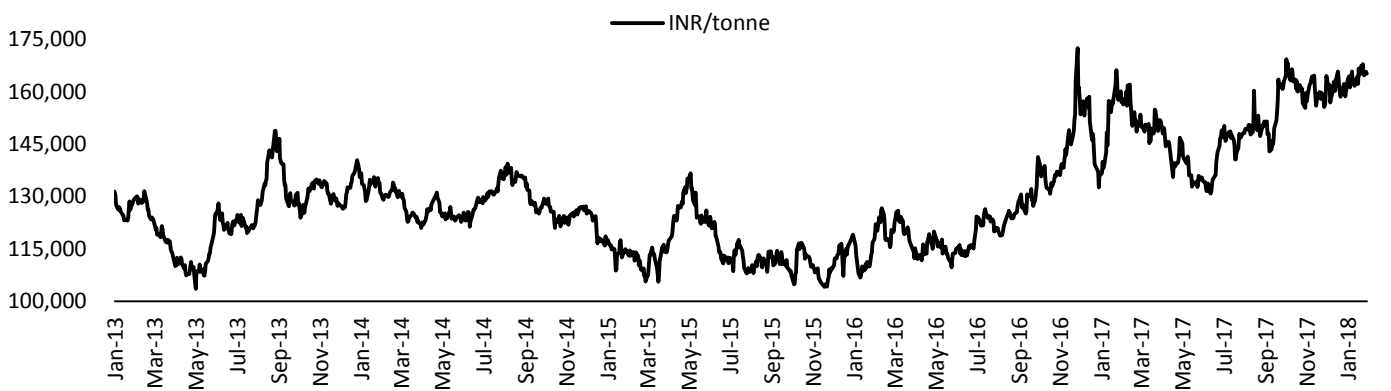
Source: Company, MOSL

Exhibit 4: Higher other income drives PAT recovery



Source: Company, MOSL

Exhibit 5: Spot lead price chart



Source: Company, MOSL

Valuation and view

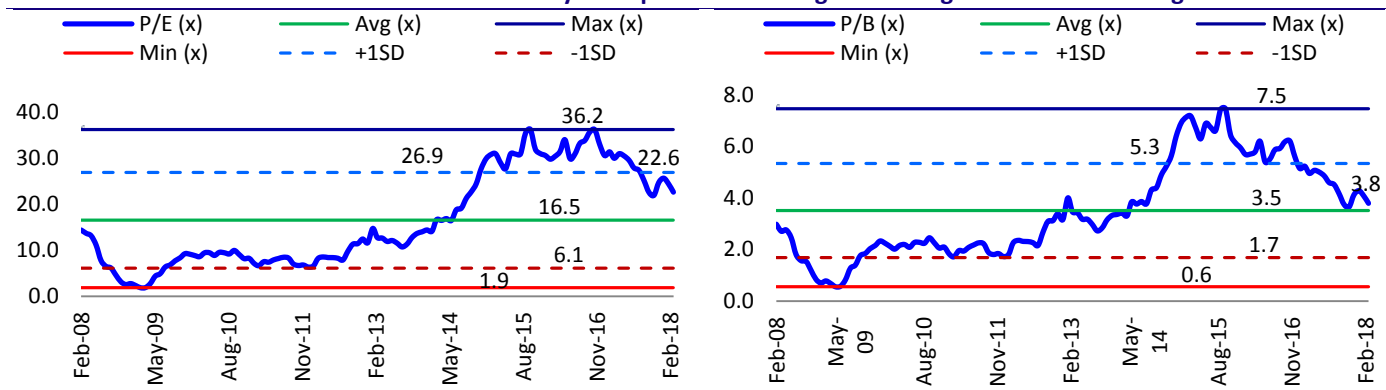
- **Industry structure remains duopoly, but AMRJ is a strong No. 2:** While the industry structure remains largely duopoly, AMRJ has emerged as a formidable challenger to leader EXIDE, with market leadership in telecom (48% share) and UPS (32%) segments, and a fast gaining share in Autos. Over FY04-16, 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. Company aims to increase its share in the OEM and replacement segments to 40% (from current 30%) and 30% (from current 24%) respectively over the medium term. In the telecom segment, AMRJ expects to maintain its market share at current levels (50% currently).
- **~14% EPS CAGR over FY17-FY20E, healthy return ratios and FCF; Buy:** We keep FY19/FY20E earnings estimates unchanged. Stable competitive environment, recovery in demand and stable margins would drive 13.9% CAGR in EPS over FY17-20E. Significant FCF generation (~INR9.3b over FY18-20E) and stable RoE of ~18% —coupled with potential shift from unorganized to organized players due to GST would drive stock re-rating. The stock trades at 24.4x/20.4x FY18E/19E EPS. Maintain **Buy** with a TP of INR1,035 (23x Mar-20 EPS).

Exhibit 6: Revised estimates

(INR M)	FY19E			FY20E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	70,067	70,067	0.0	81,150	81,150	0.0
EBITDA (%)	15.7	15.7	0bp	15.9	15.9	0bp
Net Profit	5,924	5,839	1.5	7,073	7,016	0.8
EPS (INR)	34.7	34.2	1.5	41.4	41.1	0.8

Source: MOSL

Exhibit 7: Valuations have moderated considerably from peak and trading in the range of historical average



Source: MOSL

Source: MOSL

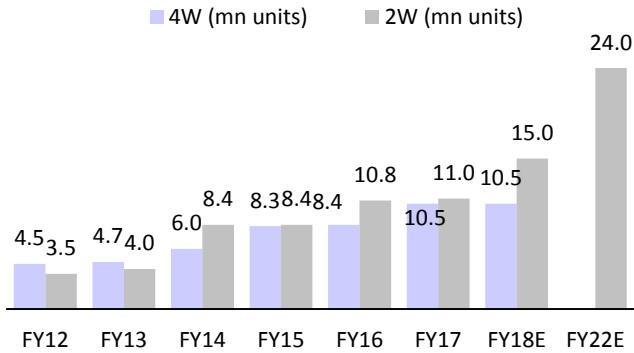
Exhibit 8: Comparative valuation

Auto OEM's	CMP (INR)	Rating	TP (INR)	P/E (x)		EV/EBITDA (x)		RoE (%)		Div Yield (%)		EPS CAGR (%)
				FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY18-19E
Bajaj Auto	3,143	Buy	4,031	18.1	15.6	13.3	11.1	25.3	26.2	2.4	2.7	15.8
Hero MotoCorp	3,619	Neutral	3,986	18.1	17.0	11.3	10.4	32.0	29.9	2.6	2.9	7.2
TVS Motor	662	Neutral	741	26.3	19.5	16.7	12.4	35.3	35.6	0.6	0.8	56.0
M&M	747	Buy	886	17.0	15.4	13.3	11.7	14.4	14.7	1.3	1.3	13.2
Maruti Suzuki	9,106	Buy	10,972	24.6	19.3	15.6	12.6	22.8	24.5	1.2	1.5	30.8
Tata Motors	372	Buy	515	6.4	6.4	2.8	2.5	24.3	19.6	0.1	0.1	44.7
Ashok Leyland	133	Buy	158	21.4	17.3	10.8	8.9	24.7	26.4	1.7	1.9	25.3
Eicher Motors	27,874	Buy	34,764	26.5	20.9	22.0	17.8	34.6	33.2	0.6	0.7	26.9
Auto Ancillaries												
Bharat Forge	776	Buy	880	29.0	22.1	16.9	13.5	23.5	25.5	0.7	0.8	32.1
Exide Industries	213	Buy	268	20.8	18.3	12.3	10.9	14.4	14.7	1.0	1.5	20.4
Amara Raja Batteries	845	Buy	1,035	24.4	20.4	12.5	10.4	18.3	18.8	0.6	0.8	21.0
BOSCH	19,544	Neutral	21,951	32.8	26.7	19.6	15.9	17.9	19.6	1.0	1.3	26.2
Endurance Tech	1,165	Buy	1,554	30.3	22.5	14.9	11.7	23.8	26.6	0.6	1.1	37.0
Motherson Sumi	365	Buy	458	25.3	19.9	1.2	0.6	28.1	29.2	1.0	1.4	35.3
Mahindra CIE	216	Buy	297	18.0	14.5	9.9	8.1	11.8	12.9	0.0	0.0	28.6

Source: MOSL

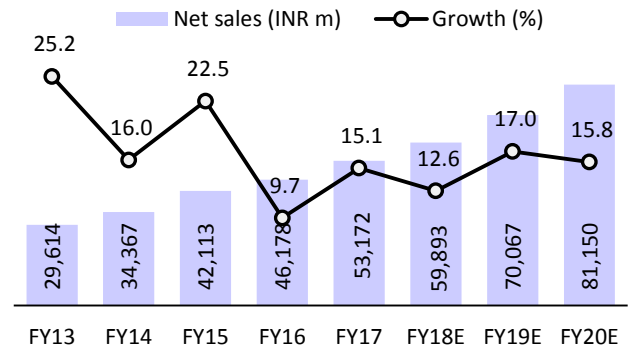
Amara Raja | Story in charts: Healthy ~14% EPS CAGR over FY17-20E

Exhibit 9: 2W battery capacity to increase more than 2x by FY22E



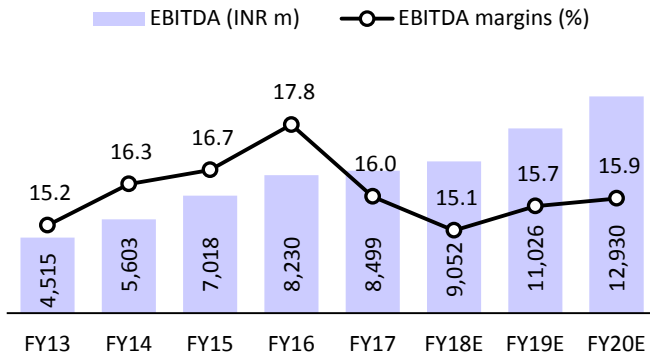
Source: Company, MOSL

Exhibit 10: Expect net sales to register a CAGR of 15.1% over FY17-20E



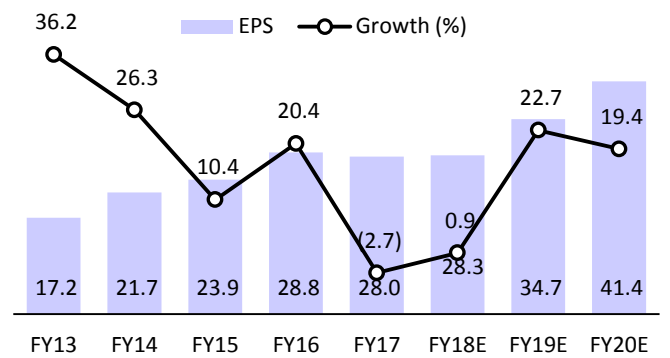
Source: Company, MOSL

Exhibit 11: Expect margins to sustain above 15% by FY20E



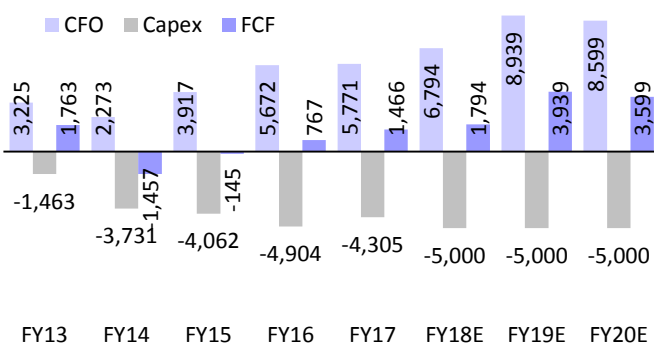
Source: Company, MOSL

Exhibit 12: Strong EPS growth of 13.9% over FY17-20E



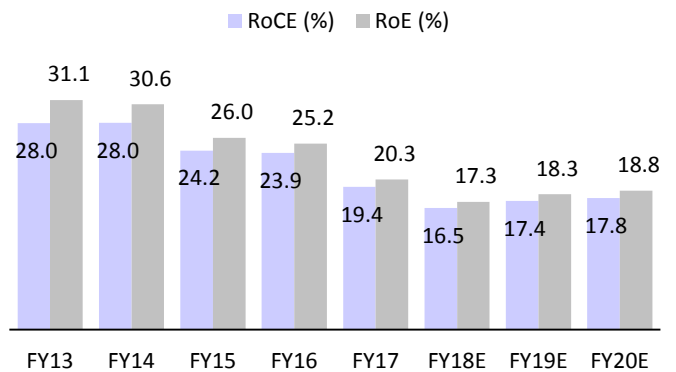
Source: Company, MOSL

Exhibit 13: FCF to grow gradually by FY20E



Source: Company, MOSL

Exhibit 14: Return ratios to remain strong



Source: Company, MOSL

Financials and Valuations

Standalone - Income Statement						(INR Million)		
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Gross Revenues	33,110	38,372	46,372	51,843	59,814	67,081	78,475	90,888
Less: Excise Duty	3,496	4,005	4,258	5,666	6,642	7,187	8,408	9,738
Net Sales	29,614	34,367	42,113	46,178	53,172	59,893	70,067	81,150
Change (%)	25.2	16.0	22.5	9.7	15.1	12.6	17.0	15.8
Gross operating income	33,110	38,372	46,372	51,843	59,814	67,081	78,475	90,888
Total Expenditure	25,099	28,764	35,095	37,948	44,672	50,841	59,041	68,220
EBITDA	4515	5603	7018	8,230	8,499	9,052	11,026	12,930
Margin (%)	15.2	16.3	16.7	17.8	16.0	15.1	15.7	15.9
Depreciation	661	646	1,340	1,407	1,912	2,371	3,003	3,558
EBIT	3,854	4,957	5,678	6,823	6,587	6,682	8,023	9,371
Int. and Finance Charges	10	7	2	55	58	51	46	46
Other Income - Rec.	466	455	423	459	492	575	800	1,000
PBT bef. EO Exp.	4,310	5,405	6,099	7,226	7,022	7,205	8,777	10,325
EO Expense/(Income)	92	39	73	0	0	0	0	0
PBT after EO Exp.	4,218	5,367	6,026	7,226	7,022	7,205	8,777	10,325
Tax Rate (%)	32.0	31.5	33.0	32.0	31.9	33.0	32.5	31.5
Reported PAT	2,867	3,674	4,036	4,916	4,785	4,828	5,924	7,073
PAT Adj for EO items	2,929	3,701	4,084	4,916	4,785	4,828	5,924	7,073
Change (%)	36.2	26.3	10.4	20.4	-2.7	0.9	22.7	19.4
Margin (%)	9.9	10.8	9.7	10.6	9.0	8.1	8.5	8.7

Standalone - Balance Sheet						(INR Million)		
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	171	171	171	171	171	171	171	171
Total Reserves	10,427	13,456	17,674	20,988	25,760	29,699	34,534	40,305
Net Worth	10,598	13,627	17,845	21,159	25,931	29,870	34,704	40,476
Deferred Liabilities	195	301	368	538	815	1,031	1,338	1,700
Total Loans	881	843	741	725	690	725	725	725
Capital Employed	11,674	14,772	18,954	22,421	27,436	31,626	36,767	42,900
Gross Block	6,803	9,955	12,434	14,851	18,156	24,558	29,558	34,558
Less: Accum. Deprn.	3,214	3,860	2,989	1,330	3,257	5,627	8,631	12,189
Net Fixed Assets	3,589	6,096	9,444	13,520	14,899	18,931	20,927	22,369
Capital WIP	1,030	1,447	863	1,229	2,403	1,000	1,000	1,000
Total Investments	161	161	189	200	1,467	1,467	1,467	1,467
Curr. Assets, Loans&Adv.	12,925	13,691	13,394	14,559	17,077	19,703	24,465	30,792
Inventory	2,929	3,350	4,181	6,016	8,170	8,205	7,679	8,893
Account Receivables	3,807	4,528	5,541	5,922	5,705	6,426	7,518	8,707
Cash and Bank Balance	4,108	2,946	2,222	1,503	1,709	3,390	7,300	10,913
Loans and Advances	2,082	2,867	1,450	1,119	1,494	1,682	1,968	2,280
Curr. Liability & Prov.	6,030	6,623	4,935	7,087	8,410	9,475	11,092	12,728
Account Payables	1,577	1,577	2,660	3,493	4,184	4,713	5,514	6,386
Other Current Liabilities	1,960	1,858	1,458	2,665	3,285	3,700	4,328	5,013
Provisions	2,493	3,188	817	929	941	1,061	1,249	1,329
Net Current Assets	6,895	7,068	8,459	7,472	8,667	10,229	13,373	18,064
Appl. of Funds	11,674	14,771	18,955	22,421	27,436	31,626	36,767	42,900

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)								
EPS	17.2	21.7	23.9	28.8	28.0	28.3	34.7	41.4
Cash EPS	21.0	25.4	31.8	37.0	39.2	42.1	52.3	62.2
BV/Share	62.0	79.8	104.5	123.9	151.8	174.9	203.2	237.0
DPS	2.5	3.6	3.6	4.3	4.25	4.3	5.3	6.3
Payout (%)	17.6	19.3	18.4	17.7	18.2	18.4	18.4	18.4
Valuation (x)								
P/E				29.4	30.2	29.9	24.4	20.4
Cash P/E				22.8	21.6	20.0	16.2	13.6
P/BV				6.8	5.6	4.8	4.2	3.6
EV/Sales				3.1	2.7	2.4	2.0	1.7
EV/EBITDA				17.4	16.9	15.6	12.5	10.4
Dividend Yield (%)				0.5	0.5	0.5	0.6	0.8
Return Ratios (%)								
RoE	31.1	30.6	26.0	25.2	20.3	17.3	18.3	18.8
RoCE	28.0	28.0	24.2	23.9	19.4	16.5	17.4	17.8
RoIC	40.6	40.9	29.4	26.4	21.7	18.8	20.5	22.7
Working Capital Ratios								
Gross Fixed Asset Turnover (x)	4.4	3.5	3.4	3.1	2.9	2.4	2.4	2.3
Inventory (Days)	36.1	35.6	36.2	47.6	56.1	50.0	40.0	40.0
Debtor (Days)	42	43	44	42	35	35	35	35
Creditor (Days)	19	17	23	28	29	29	29	29
Working Capital Turnover (Days)	34	44	54	47	48	42	32	32
Leverage Ratio (x)								
Current Ratio	2.1	2.1	2.7	2.1	2.0	2.1	2.2	2.4
Debt/Equity	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Standalone - Cash Flow Statement

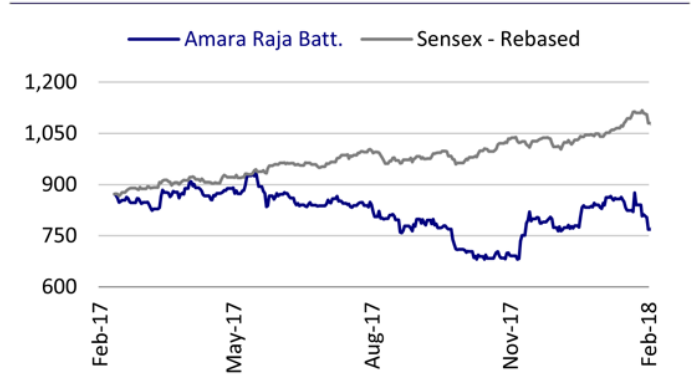
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net P/L Before Tax and E/O Items	4,218	5,366	6,099	7,226	7,022	7,205	8,777	10,325
Depreciation	577	637	1,245	1,407	1,912	2,371	3,003	3,558
Interest & Finance Charges	-110	-808	-29	-43	-3	-524	-754	-954
Direct Taxes Paid	1,366	1,606	1,922	2,181	2,024	2,378	2,852	3,252
(Inc)/Dec in WC	-94	-1,315	-1,475	-738	-1,137	120	765	-1,078
CF from Operations	3,225	2,273	3,917	5,672	5,771	6,794	8,939	8,599
(inc)/dec in FA	-1,463	-3,731	-4,062	-4,904	-4,305	-5,000	-5,000	-5,000
Free Cash Flow	1,892	-943	-180	637	1,224	1,794	3,939	3,599
Others	269	294	176	24,156	27,395	575	800	1,000
CF from Investments	-1,194	-3,437	-3,886	-3,938	-5,294	-4,425	-4,200	-4,000
(Inc)/Dec in Debt	3	-99	-36	772	748	251	307	361
Interest Paid	-17	-14	-84	-5	-3	-51	-46	-46
Dividend Paid	-323	-430	-552	-1,614	0	-888	-1,090	-1,301
CF from Fin. Activity	-336	-543	-672	-847	745	-689	-829	-986
Inc/Dec of Cash	1,825	-1,192	-675	757	981	1,681	3,910	3,613
Add: Beginning Balance	2,283	4,138	2,897	746	784	1,709	3,390	7,300
Closing Balance	4,108	2,946	2,222	1,503	1,765	3,390	7,300	10,913

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: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Dec-17	Sep-17	Dec-16
Promoter	52.1	52.1	52.1
DII	13.1	12.1	8.0
FII	16.7	17.9	21.7
Others	18.2	17.9	18.3

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Smallcap world fund, inc	1.8
Icici prudential value discovery fund	1.8

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
N Sri Vishnu Raju*	Nagarjun Valluripalli*
Raymond J Brown*	Shu Qing Yang
T R Narayanaswamy*	Bhairavi Tushar Jain
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*Independent

Exhibit 6: Auditors

Name	Type
Brahmayya & Co	Statutory
Deloitte Haskins & Sells LLP	Statutory
Sagar & Associates	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	28.3	28.8	-1.7
FY19	34.7	34.9	-0.7
FY20	41.4	40.2	3.1

Source: Bloomberg

NOTES

Explanation of Investment Rating

Investment Rating

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

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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