

Exide Industries

Cost control leads to margin beat; 'Accumulate'

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Rating	Accumulate
Price	Rs268
Target Price	Rs281
Implied Upside	4.9%
Sensex	35,216
Nifty	10,718

(Prices as on May 08, 2018)

Trading data

Market Cap. (Rs bn)	227.6
Shares o/s (m)	850.0
3M Avg. Daily value (Rs m)	462.2

Major shareholders

Promoters	45.99%
Foreign	10.61%
Domestic Inst.	23.11%
Public & Other	20.29%

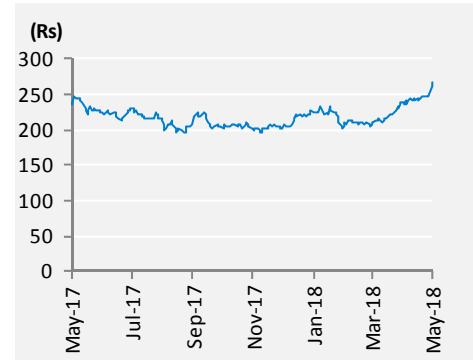
Stock Performance

(%)	1M	6M	12M
Absolute	12.1	34.8	11.8
Relative	7.3	28.8	(5.9)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	10.5	10.3	2.8
2020	12.5	12.0	4.6

Price Performance (RIC: EXID.BO, BB: EXID IN)



Source: Bloomberg

Exide Industries reported a strong operating performance over Q4FY18, with operating margins at 13.7%, higher 80bps YoY/130bps QoQ, slightly ahead of our expectations of 13%. This was on account of significant reduction of other operating costs leading to a 220bps YoY/60bps QoQ decline in other expenses as a % of sales, while gross margins were lower by 180bps YoY (up 30bps QoQ) owing to lead price escalation of ~11% YoY. Staff costs as a % of sales too declined 40bps YoY as well as QoQ. Revenue growth was robust at 26% YoY (up 8% QoQ) to Rs24.6bn (in-line with PLE: Rs24.6bn). The company has stated that over Q4FY18, there has been strong growth across segments i.e Automotive, Motorcycle, Infrastructure, Telecom, Solar, Inverter as well as Home UPS.

While margins rose 80bps YoY to 13.7% (PLE: 13%), absolute EBITDA surged 34% YoY (higher 20% QoQ) to Rs3.4bn (PLE: Rs3.2bn). With higher depreciation provision & tax rate (at 34.7% v/s PLE: 31.5%) along with lower non-operating income (down 34% YoY), net profit for the company grew 15.4% YoY to Rs1.9bn (slightly below PLE: Rs1.95bn).

Continued growth in the automotive and industrial segment has been impressive and further gains in the unorganized and replacement market post GST implementation has helped Exide lower its dependence on the declining inverter/UPS segment. Introduction of the cheaper brand Dynex has helped increase market share in the LCV and Tractor segment. Increased traction in the e-Rickshaw and solar batteries will further aid revenues in the near-to-medium term. Management's focus on cost control and technology upgradation to improve performance has impacted margins positively and coupled with now softening lead prices (down 7% in Q1FY19TD over Q4FY18) will boost margins in the near term. We increase our margin estimates for FY19/20E by 80bps/110bps, respectively and maintain "Accumulate" with a price target of Rs281, based on 20xMar'20E standalone EPS plus value of investments. The stock is currently trading at 22.6x FY19E and 18.9x FY20E standalone core EPS.

Key financials (Y/e March)

	2017	2018	2019E	2020E
Revenues (Rs m)	76,530	91,863	108,897	126,690
Growth (%)	11.5	20.0	18.5	16.3
EBITDA (Rs m)	11,071	12,408	14,972	17,689
PAT (Rs m)	6,936	6,541	8,961	10,643
EPS (Rs)	8.2	7.7	10.5	12.5
Growth (%)	11.1	(5.7)	37.0	18.8
Net DPS (Rs)	2.5	2.8	3.0	3.0

Profitability & Valuation

	2017	2018	2019E	2020E
EBITDA margin (%)	14.5	13.5	13.7	14.0
RoE (%)	14.6	12.6	15.6	16.4
RoCE (%)	14.3	12.5	15.7	16.4
EV / sales (x)	3.0	2.5	2.1	1.7
EV / EBITDA (x)	20.7	18.3	15.0	12.5
PE (x)	32.8	34.8	25.4	21.4
P / BV (x)	4.6	4.2	3.7	3.3
Net dividend yield (%)	0.9	1.0	1.1	1.1

Source: Company Data; PL Research

Exhibit 1: Q4FY18 Result Overview (Rs m)

Y/e March	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	FY18	FY17	YoY gr. (%)
Net Revenues	24,594	19,546	25.8	22,765	91,955	76,089	20.9
Raw Materials	16,032	12,390	29.4	14,902	60,051	47,099	27.5
<i>% of Net Sales</i>	<i>65.2</i>	<i>63.4</i>		<i>65.5</i>	<i>65.3</i>	<i>61.9</i>	
Personnel	1,538	1,303	18.0	1,523	5,972	5,196	14.9
<i>% of Net Sales</i>	<i>6.3</i>	<i>6.7</i>		<i>6.7</i>	<i>6.5</i>	<i>6.8</i>	
Manufacturing & Other Exp	3,644	3,334	9.3	3,514	13,525	12,932	4.6
<i>% of Net Sales</i>	<i>14.8</i>	<i>17.1</i>		<i>15.4</i>	<i>14.7</i>	<i>17.0</i>	
Total Expenditure	21,214	17,027	24.6	19,940	79,548	65,227	22.0
EBITDA	3,380	2,519	34.2	2,826	12,408	10,862	14.2
<i>EBITDA Margin (%)</i>	<i>13.7</i>	<i>12.9</i>		<i>12.4</i>	<i>13.5</i>	<i>14.3</i>	
Depreciation	674	544	23.9	625	2,459	2,063	19.2
EBIT	2,706	1,975	37.0	2,200	9,948	8,799	13.1
Interest Expenses	6	0		9	52	69	(24.1)
Non-operating income	203	309	(34.3)	111	584	1,023	(42.9)
Extraordinary Expenses	0	0		0	418	0	
PBT	2,903	2,283	27.1	2,302	10,062	9,752	3.2
Tax-Total	1,007	641	57.1	759	3,378	2,821	19.8
<i>Tax Rate (%) – Total</i>	<i>34.7</i>	<i>28.1</i>	<i>23.6</i>	<i>33.0</i>	<i>33.6</i>	<i>28.9</i>	<i>16.1</i>
Reported PAT	1,896	1,643	15.4	1,543	6,684	6,931	(3.6)
Adj. PAT	1,896	1,643	15.4	1,543	6,976	6,931	0.6

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Net Revenue	76,530	91,863	108,897	126,690
Raw Material Expenses	46,920	59,856	69,041	80,322
Gross Profit	29,609	32,007	39,856	46,369
Employee Cost	5,196	5,972	7,296	8,488
Other Expenses	13,343	13,628	17,588	20,191
EBITDA	11,071	12,408	14,972	17,689
Depr. & Amortization	2,063	2,459	2,702	3,125
Net Interest	43	52	55	58
Other Income	793	584	495	591
Profit before Tax	9,757	10,480	12,710	15,097
Total Tax	2,821	3,378	3,750	4,454
Profit after Tax	6,936	7,102	8,961	10,643
Ex-Od items / Min. Int.	—	561	—	—
Adj. PAT	6,936	6,541	8,961	10,643
Avg. Shares O/S (m)	850.0	850.0	850.0	850.0
EPS (Rs.)	8.2	7.7	10.5	12.5

Cash Flow Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
C/F from Operations	4,341	4,639	8,337	10,421
C/F from Investing	(4,186)	(455)	(4,500)	(4,500)
C/F from Financing	(698)	(3,508)	(2,110)	(2,017)
Inc. / Dec. in Cash	(543)	676	1,728	3,904
Opening Cash	738	196	872	2,600
Closing Cash	196	872	2,600	6,503
FCFF	(930)	(1,320)	(1,374)	4,348
FCFE	(253)	(3,022)	(1,374)	4,348

Key Financial Metrics

Y/e March	2017	2018	2019E	2020E
Growth				
Revenue (%)	11.5	20.0	18.5	16.3
EBITDA (%)	7.7	12.1	20.7	18.1
PAT (%)	11.1	(5.7)	37.0	18.8
EPS (%)	11.1	(5.7)	37.0	18.8
Profitability				
EBITDA Margin (%)	14.5	13.5	13.7	14.0
PAT Margin (%)	9.1	7.1	8.2	8.4
RoCE (%)	14.3	12.5	15.7	16.4
RoE (%)	14.6	12.6	15.6	16.4
Balance Sheet				
Net Debt : Equity	—	—	—	(0.1)
Net Wrkng Cap. (days)	89	79	90	90
Valuation				
PER (x)	32.8	34.8	25.4	21.4
P / B (x)	4.6	4.2	3.7	3.3
EV / EBITDA (x)	20.7	18.3	15.0	12.5
EV / Sales (x)	3.0	2.5	2.1	1.7
Earnings Quality				
Eff. Tax Rate	31.2	28.9	32.2	29.5
Other Inc / PBT	4.3	8.1	5.6	3.9
Eff. Depr. Rate (%)	8.3	8.0	7.6	7.3
FCFE / PAT	(4.0)	(43.6)	(21.0)	48.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	49,636	53,893	60,958	69,051
Total Debt	1,702	—	—	—
Other Liabilities	1,552	1,405	1,405	1,405
Total Liabilities	52,890	55,298	62,363	70,456
Net Fixed Assets	16,874	21,918	23,716	25,091
Goodwill	—	—	—	—
Investments	26,739	19,690	19,690	19,690
Net Current Assets	9,277	13,690	18,957	25,676
<i>Cash & Equivalents</i>	196	872	2,600	6,503
<i>Other Current Assets</i>	23,947	31,489	35,830	40,998
<i>Current Liabilities</i>	14,866	18,671	19,472	21,826
Other Assets	—	—	—	—
Total Assets	52,890	55,298	62,363	70,456

Quarterly Financials (Rs m)

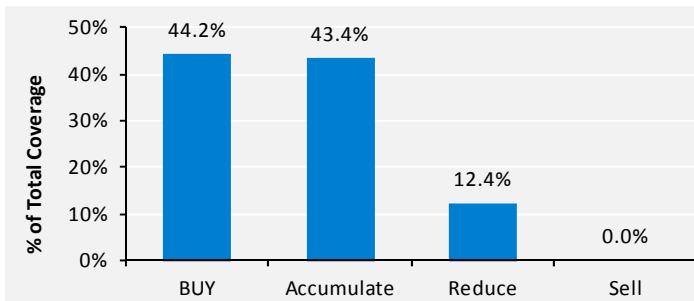
Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Revenue	21,029	23,567	22,765	24,594
EBITDA	3,243	2,959	2,826	3,380
<i>% of revenue</i>	15.4	12.6	12.4	13.7
Depr. & Amortization	563	597	625	674
Net Interest	16	21	9	6
Other Income	132	139	111	203
Profit before Tax	2,796	2,480	2,302	2,903
Total Tax	906	706	759	1,007
Profit after Tax	1,890	1,355	1,543	1,896
Adj. PAT	1,890	1,648	1,543	1,896

Source: Company Data, PL Research.

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