

4 August 2020

Exide Industries

Recovery expected in FY22; upgrading to a Buy

We continue to expect market-share loss in two-wheelers and weak OEM sales for Exide. This would have a huge impact on its revenue and earnings this year. However, we expect recovery in its OEM business in FY22 and the low-base effect in the aftermarket to lead to overall growth in FY22. Further, we believe Amara raja will continue to gain market share from Exide in two-wheelers. Given the current valuations, we upgrade the stock to a Buy (earlier a Hold) at an unrevised TP of ₹190.

Q1FY21 results: Exide's Q1 FY21 revenue declined 44% y/y due to the impact of the lockdown. The gross margin declined sequentially due to clearance of inventory. The EBITDA margin was down 350bps q/q to 9.6%. PAT came in at ₹440m

Revenue decline due to lower OEM sales, market-share loss. We expect FY21 to be weak for Exide due to the impact of the lockdown, continual decline in OEM volumes (50% of two-wheeler battery sales and little less than 40% of four-wheeler battery sales is from OEM). However, we expect gradual recovery from FY22 on account of a pick-up in OEM volumes. Thus, we expect revenues to decline 18% in FY21, and grow 26% in FY22.

Margin expansion in FY22. We expect the FY21 margin to fall to 13.5% due to loss of production and higher warranty costs. However, we expect it to expand in FY22 due to a strong pick-up in OEM and replacement volumes.

Valuation. We expect FY22 revenue to grow 26% and the margin to expand to 14.4%. Accordingly, we expect strong, ₹9.1bn, earnings, leading to an EPS of ₹10.7. Given the current valuation, we upgrade the stock to a Buy (earlier a Hold) with an unrevised TP of ₹190 (15x FY22e), including ₹30 a share for Exide Life Insurance). **Risk:** Less-than-estimated growth in FY22.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	91,863	1,05,883	98,567	80,825	1,01,839
Net profit (₹ m)	6,684	8,440	8,255	6,299	9,090
EPS (₹)	8.4	9.0	10.0	7.4	10.7
PE (x)	26.7	17.1	15.5	20.8	14.4
EV / EBITDA (x)	15.0	9.1	9.5	11.2	8.0
PBV (x)	2.4	2.2	2.1	2.0	1.8
RoE (%)	12.9	14.8	13.4	9.7	13.0
RoCE (%)	13.3	13.6	13.8	9.8	13.1
Dividend yield (%)	1.9	1.9	3.2	1.8	2.6
Net debt / equity (x)	-0.1	-0.1	-0.0	-0.1	-0.2

Source: Company, Anand Rathi Research

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Rating: **Buy**

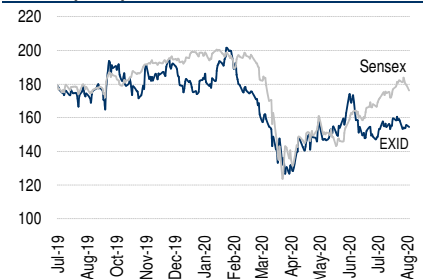
Target Price: ₹190

Share Price: ₹155

Key data	EXID IN / EXID.BO
52-week high / low	₹209 / 122
Sensex / Nifty	36940 / 10892
3-m average volume	\$7.6m
Market cap	₹131bn / \$1751.3m
Shares outstanding	850m

Shareholding pattern (%)	Jun'20	Mar'20	Dec'19
Promoters	46.0	46.0	46.0
- of which, Pledged	-	-	-
Free float	54.0	54.0	54.0
- Foreign institutions	7.2	9.4	8.9
- Domestic institutions	24.8	23.5	23.9
- Public	22.1	21.1	21.2

Relative price performance



Source: Bloomberg

Vijay Sarthy TS
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Net revenues (₹ m)	91,863	1,05,883	98,567	80,825	1,01,839
Growth (%)	21.1	15.3	-6.9	-18.0	26.0
Raw material cost	60,104	69,702	62,664	50,920	64,159
Employee costs	5,972	6,377	6,664	5,900	7,027
Other direct costs	13,379	15,691	15,589	13,094	15,989
EBITDA	12,408	14,113	13,650	10,911	14,665
EBITDA margins (%)	13.5	13.3	13.8	13.5	14.4
- Depreciation	2,459	3,135	3,626	3,614	3,994
Other income	584	385	639	695	822
Interest expenses	52	61	94	94	94
Exceptional items	-418	1,083	-217	-	-
PBT	10,062	12,386	10,352	7,898	11,399
Effective tax rate (%)	34	32	20	20	20
Net income	6,684	8,440	8,255	6,299	9,090
Adjusted income	7,102	7,664	8,472	6,299	9,090
WANS	850	850	850	850	850
FDEPS (₹ /sh)	8.4	9.0	10.0	7.4	10.7

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	850	850	850	850	850
Net worth	53,893	59,870	62,961	66,932	72,663
Debt	-	-	-	-	-
Minority interest	-	-	-	-	-
DTL/(Assets)	1,405	1,751	1,019	1,019	1,019
Capital employed	55,298	61,621	63,980	67,951	73,682
Net tangible assets	19,350	22,660	22,755	23,641	23,147
Net intangible assets	234	313	365	313	313
Goodwill					
CWIP (tang. & intang.)	2,335	2,549	3,243	1,969	1,969
Investments (strategic)	17,063	19,455	20,863	20,863	20,863
Investments (financial)	2,627	2,539	187	4,419	8,651
Current assets (ex cash)	31,489	33,473	33,462	30,263	31,173
Cash	872	736	1,546	4,650	5,732
Current liabilities	18,671	20,103	18,441	18,441	18,441
Working capital	12,818	13,370	15,021	11,822	12,732
Capital deployed	55,298	61,621	63,980	67,676	73,408

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	10,062	12,386	10,352	7,898	11,399
+ Non-cash items	2,459	3,135	3,626	3,614	3,994
Oper. prof. before WC	12,521	15,521	13,978	11,512	15,393
- Incr./ (decr.) in WC	3,737	552	1,651	-3,199	910
Others incl. taxes	3,530	3,794	2,097	1,600	2,309
Operating cash-flow	5,255	11,175	10,231	13,111	12,174
- Capex (tang. + intang.)	7,504	6,739	4,467	3,448	3,500
Free cash-flow	-2,249	4,437	5,764	9,663	8,674
Acquisitions					
- Div. (incl. buyback & taxes)	2,455	2,459	4,154	2,327	3,359
+ Equity raised					
+ Debt raised	-1,702	-	-	-	-
- Fin investments	-7,049	2,304	-944	4,232	4,232
- Misc. (CFI + CFF)	(33)	(191)	1,743	0	0
Net cash-flow	676	-136	810	3,104	1,083

Source: Company, AnandRathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	26.7	17.1	15.5	20.8	14.4
EV / EBITDA (x)	15.0	9.1	9.5	11.2	8.0
EV / Sales (x)	2.0	1.2	1.3	1.5	1.1
P/B (x)	2.4	2.2	2.1	2.0	1.8
RoE (%)	12.9	14.8	13.4	9.7	13.0
RoCE (%) - after tax	13.3	13.6	13.8	9.8	13.1
RoIC (%) - after tax	13.4	13.8	14.1	10.3	14.1
DPS (₹ /sh)	2.9	2.9	4.9	2.7	4.0
Dividend yield (%)	1.9	1.9	3.2	1.8	2.6
Dividend payout (%) - incl. DDT	36.7	29.1	50.3	37.0	37.0
Net debt / equity (x)	-0.1	-0.1	-0.0	-0.1	-0.2
Receivables (days)	31	35	35	35	35
Inventory (days)	100	93	116	116	118
Payables (days)	49	51	59	59	59
CFO : PAT %	74.0	145.8	120.8	208.2	133.9

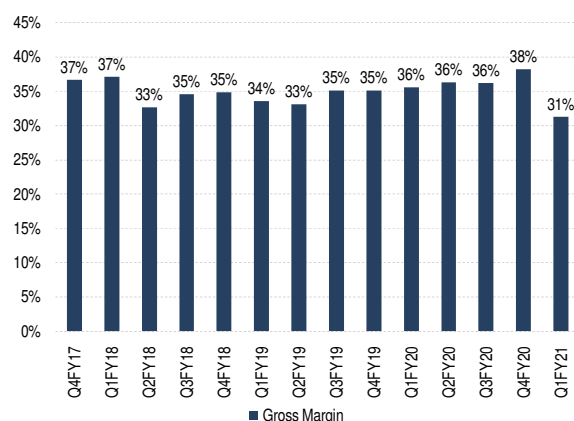
Source: Company, AnandRathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Gross-margin and lead-price growth trends



Source: Company

Quarterly financials

Fig 7 – Quarterly performance

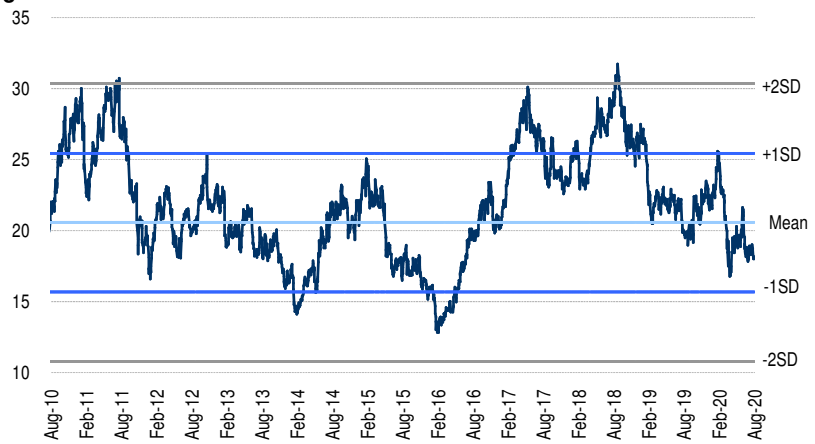
(₹m)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Net sales	27,725	27,204	24,968	25,987	27,793	26,109	24,115	20,551	15,476
Y/Y (%)	31.8	15.4	9.6	5.7	0.2	(4.0)	(3.4)	(20.9)	-44%
Q/Q (%)	12.7	(1.9)	(8.2)	4.1	6.9	(6.1)	(7.6)	(14.8)	-25%
	27,725	27,204	24,968	25,987	27,793	26,109	24,115	20,551	15,476
EXPENDITURE									
(Incr./)decr. in stock-in-trade	766	337	(1,019)	(407)	1,333	(35)	(1,354)	(2,504)	5,904
Materials	17,653	17,869	17,222	17,281	16,587	16,684	16,746	15,207	4,738
% of sales	66.4	66.9	64.9	64.9	64.5	63.8	63.8	61.8	68.8
Y/Y (%)	39.2	14.6	8.6	5.3	(2.7)	(8.6)	(5.0)	(24.7)	-71%
Q/Q (%)	14.9	(1.2)	(11.0)	4.1	6.2	(7.1)	(7.6)	(17.5)	-69%
Gross margins (%)	33.6	33.1	35.1	35.1	35.5	36.2	36.2	38.2	31.2
Staff cost	1,620	1,649	1,632	1,477	1,667	1,743	1,671	1,583	1,396
% of sales	5.8	6.1	6.5	5.7	6.0	6.7	6.9	7.7	9.0
Y/Y (%)	13.2	11.4	7.1	(4.0)	2.9	5.7	2.4	7.2	-16%
Q/Q (%)	5.3	1.8	(1.0)	(9.5)	12.9	4.5	(4.1)	(5.3)	-12%
Other expenditure	3,777	4,022	4,008	3,904	4,129	4,045	3,854	3,562	1,954
% of sales	13.6	14.8	16.1	15.0	14.9	15.5	16.0	17.3	12.6
Y/Y (%)	20.9	24.0	14.0	7.1	9.3	0.6	(3.8)	(8.8)	-53%
Q/Q (%)	3.6	6.5	(0.3)	(2.6)	5.8	(2.0)	(4.7)	(7.6)	-45%
Total expenses	23,815	23,876	21,843	22,254	23,716	22,436	20,916	17,849	13,992
EBITDA	3,909	3,327	3,125	3,733	4,077	3,672	3,198	2,702	1,485
Y/Y (%)	20.6	12.4	10.6	10.4	4.3	10.4	2.3	(27.6)	-64%
Q/Q (%)	15.7	(14.9)	(6.1)	19.4	9.2	(9.9)	(12.9)	(15.5)	-45%
OPM (%)	14.1	12.2	12.5	14.4	14.7	14.1	13.3	13.1	9.6
Other income	42	116	80	166	164	56	251	169	70
Interest	11	14	23	12	18	18	21	37	14
Depreciation	719	768	813	835	864	898	925	939	914
Exceptional items		1,083			-	-	(217)		-
Profit before tax	3,221	3,745	2,369	3,051	3,359	2,812	2,286	1,895	627
Provision for taxation	1,122	1,060	818	945	1,116	439	326	215	188
Tax rate (%)	34.8	28.3	34.5	31.0	33.2	15.6	14.3	11.4	29.9
Profit after tax	2,099	2,684	1,550	2,107	2,243	2,373	1,959	1,680	440
Adjustment on reval. of deferred tax assets		(776)							
PAT	2,099	1,908	1,550	2,107	2,243	2,373	1,959	1,680	440
Y/Y (%)	11.1	40.8	0.5	11.2	6.8	24.4	26.4	(20.3)	-80%
Q/Q (%)	10.8	(9.1)	(18.7)	35.9	6.5	5.8	(17.4)	(14.3)	-74%
PAT margins %	7.6	7.0	6.2	8.1	8.1	9.1	8.1	8.2	2.8
EPS	2.5	2.2	1.8	2.5	2.6	2.8	2.3	2.0	0.52

Source: Company

Valuation

We expect FY22 revenue to grow 26% and the margin to expand to 14.4%. Accordingly, we expect strong, ₹9.1bn, earnings, leading to an EPS of ₹10.7. Given the current valuations, we upgrade the stock to a Buy (earlier a Hold) with an unrevised TP of ₹190 (15x FY22e), including ₹30 a share of Exide Life Insurance).

Fig 8 – Standard deviation of Forward PE



Source: Company, Anand Rathi Research

Risk

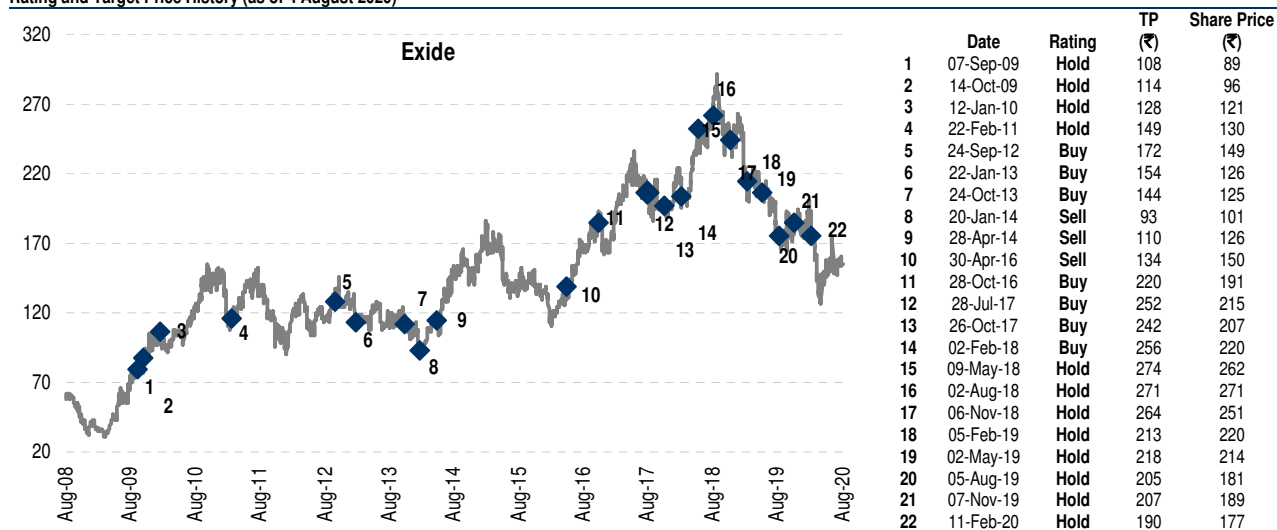
- Less-than-estimated growth

Appendix

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