

10 November 2020

Exide Industries

Recovery in FY22; maintaining a Buy

Continued expectation of market-share loss in two-wheelers and lower inverter sales would impact Exide's revenue and earnings this year. However, we expect the low-base-effect driven growth in both its OEM and aftermarket businesses in FY22. With this, we maintain our Buy rating at a target price of Rs188.

Continued expectation of decline in market share. We continue to expect market-share loss in two-wheeler OEMs (50% of two-wheeler battery sales are from OEMs) and replacements. However, we expect Exide to recover in four-wheeler OEMs as markets recover in the next two quarters. Thus, we expect revenues to decline 18% in FY21 and grow 26% in FY22.

Margin expansion in FY22. We expect margins of 13.2% in FY21 against 12.6% in H1 FY21. We believe the Q2 FY21 margin of 14.2% is unsustainable and expect a lower margin as we expect a higher proportion of OEMs and increase in the cost of lead. However, we expect the same to expand in FY22 due to a strong pick-up in volume.

Q2 FY21 results. 1) Revenue increased 5.5% y/y due to more replacement and inverter sales. 2) The gross margin declined 120bps y/y while expanded 380bps qoq to 35%.

Valuation. We expect revenue to grow 26% in FY22 and the margin to expand to 14.1%. Accordingly, we expect strong Rs8.8bn earnings, leading to an EPS of Rs10.4. We maintain a Buy rating, with a TP of Rs188 (15x FY22e), including Rs31 a share of Exide Life Insurance.. **Risk:** Less-than-estimated growth in FY22.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (Rs m)	91,863	105,883	98,567	80,825	101,839
Net profit (Rs m)	6,684	8,440	8,255	6,115	8,865
EPS (Rs)	8.4	9.0	10.0	7.2	10.4
PE (x)	26.7	18.0	16.3	22.6	15.6
EV / EBITDA (x)	15.0	9.5	10.0	12.1	8.7
PBV (x)	2.6	2.3	2.2	2.1	1.9
RoE (%)	12.9	14.8	13.4	9.4	12.7
RoCE (%)	13.3	13.6	13.8	9.5	12.8
Dividend yield (%)	1.8	1.8	3.0	1.6	2.4
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: Rs188

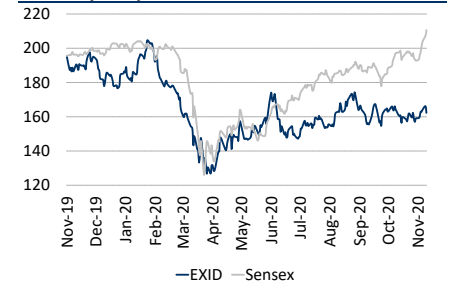
Share Price: Rs162

Key data	EXID IN / EXID.BO
52-week high / low	Rs208 / 122
Sensex / Nifty	43278 / 12631
3-m average volume	\$8.3m
Market cap	Rs138bn / \$1859.8m
Shares outstanding	850m

Shareholding pattern (%)	Sep'20	Jun'20	Mar'20
Promoters	46.0	46.0	46.0
- of which, Pledged	-	-	-
Free float	54.0	54.0	54.0
- Foreign institutions	9.8	7.2	9.4
- Domestic institutions	23.1	24.8	23.5
- Public	21.1	22.1	21.1

Estimates revision (%)	FY21e	FY221e
Revenue	0.0%	0.0%
EBITDA	-2.2%	-2.1%
PAT	-2.9%	-2.5%

Relative price performance



Source: Bloomberg

Vijay Sarthy TS
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Net revenues	91,863	105,883	98,567	80,825	101,839
<i>Growth (%)</i>	<i>21.1</i>	<i>15.3</i>	<i>-6.9</i>	<i>-18.0</i>	<i>26.0</i>
Raw material cost	60,104	69,702	62,664	51,162	64,464
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	10,669	14,359
<i>EBITDA margins (%)</i>	<i>13.5</i>	<i>13.3</i>	<i>13.8</i>	<i>13.2</i>	<i>14.1</i>
- Depreciation	2,459	3,135	3,626	3,614	3,994
Other income	584	385	639	707	845
Interest expenses	52	61	94	94	94
Exceptional items	-418	1,083	-217	-	-
PBT	10,062	12,386	10,352	7,668	11,117
<i>Effective tax rate (%)</i>	<i>34</i>	<i>32</i>	<i>20</i>	<i>20</i>	<i>20</i>
Net Income	6,684	8,440	8,255	6,115	8,865
Adjusted income	7,102	7,664	8,472	6,115	8,865
WANS	850	850	850	850	850
FDEPS (Rs / sh)	8.4	9.0	10.0	7.2	10.4

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	850	850	850	850	850
Net worth	53,893	59,870	62,961	66,816	72,406
Debt	-	-	-	-	-
Minority interest	-	-	-	-	-
DTL / (Assets)	1,405	1,751	1,019	1,019	1,019
Capital employed	55,298	61,621	63,980	67,835	73,424
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	21,648	21,648
Investments (financial)	2,627	2,539	187	4,419	8,651
Current assets (ex cash)	31,489	33,473	33,462	30,301	31,262
Cash	872	736	1,546	3,985	4,876
Current liabilities	18,671	20,103	18,441	18,441	18,441
Working capital	12,818	13,370	15,021	11,860	12,821
Capital deployed	55,298	61,621	63,980	67,835	73,424

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	10,062	12,386	10,352	7,668	11,117
+ Non-cash items	2,459	3,135	3,626	3,614	3,994
Oper. prof. before WC	12,521	15,521	13,978	11,282	15,111
- Incr. / (decr.) in WC	3,737	552	1,651	-3,160	960
Others incl. taxes	3,530	3,794	2,097	1,553	2,252
Operating cash-flow	5,255	11,175	10,231	12,889	11,899
- Capex (tang. + intang.)	7,504	6,739	4,467	3,174	3,500
Free cash-flow	-2,249	4,437	5,764	9,715	8,399
Acquisitions					
- Div.(incl. buyback & taxes)	2,455	2,459	4,154	2,259	3,276
+ Equity raised					
+ Debt raised	-1,702	-	-	-	-
- Fin investments	-7,049	2,304	-944	5,017	4,232
- Misc. (CFI + CFF)	(33)	(191)	1,743	(0)	-
Net cash-flow	676	-136	810	2,439	891

Source: Company, Anand Rathi Research

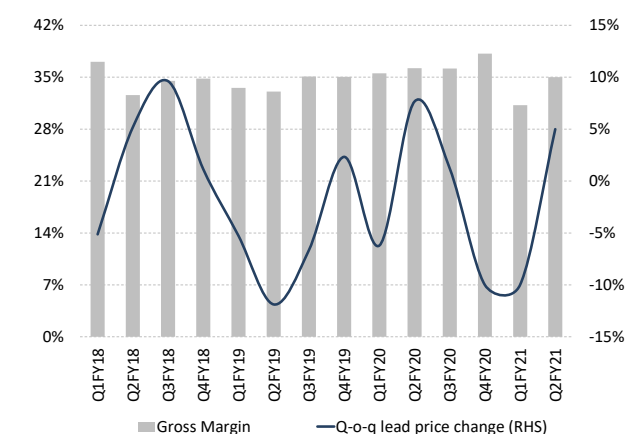
Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	26.7	18.0	16.3	22.6	15.6
EV / EBITDA (x)	15.0	9.5	10.0	12.1	8.7
EV / Sales (x)	2.0	1.3	1.4	1.6	1.2
P/B (x)	2.6	2.3	2.2	2.1	1.9
RoE (%)	12.9	14.8	13.4	9.4	12.7
RoCE (%) - after tax	13.3	13.6	13.8	9.5	12.8
RoIC (%) - after tax	13.4	13.8	14.1	9.6	13.7
DPS (Rs / sh)	2.9	2.9	4.9	2.7	3.9
Dividend yield (%)	1.8	1.8	3.0	1.6	2.4
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	210.8	134.2

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

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


Source: Company

Quarterly financials

Fig 7 – Quarterly performance

(Rs m)	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
Net sales	27,204	24,968	25,987	27,793	26,109	24,115	20,551	15,476	27,534
Y/Y (%)	15.4	9.6	5.7	0.2	(4.0)	(3.4)	(20.9)	-44%	5.5
Q/Q (%)	(1.9)	(8.2)	4.1	6.9	(6.1)	(7.6)	(14.8)	-25%	77.9
	27,204	24,968	25,987	27,793	26,109	24,115	20,551	15,476	27,534
EXPENDITURE									
(Incr.)/decr. in stock-in-trade	337	(1,019)	(407)	1,333	(35)	(1,354)	(2,504)	5,904	59
Materials	17,869	17,222	17,281	16,587	16,684	16,746	15,207	4,738	17,833
% of sales	66.9	64.9	64.9	64.5	63.8	63.8	61.8	68.8	65.0
Y/Y (%)	14.6	8.6	5.3	(2.7)	(8.6)	(5.0)	(24.7)	-71%	7.5
Q/Q (%)	(1.2)	(11.0)	4.1	6.2	(7.1)	(7.6)	(17.5)	-69%	68.1
Gross margins (%)	33.1	35.1	35.1	35.5	36.2	36.2	38.2	31.2	35.0
Staff cost	1,649	1,632	1,477	1,667	1,743	1,671	1,583	1,396	1,908
% of sales	6.1	6.5	5.7	6.0	6.7	6.9	7.7	9.0	6.9
Y/Y (%)	11.4	7.1	(4.0)	2.9	5.7	2.4	7.2	-16%	9.5
Q/Q (%)	1.8	(1.0)	(9.5)	12.9	4.5	(4.1)	(5.3)	-12%	36.7
Other expenditure	4,022	4,008	3,904	4,129	4,045	3,854	3,562	1,954	3,814
% of sales	14.8	16.1	15.0	14.9	15.5	16.0	17.3	12.6	13.9
Y/Y (%)	24.0	14.0	7.1	9.3	0.6	(3.8)	(8.8)	-53%	(5.7)
Q/Q (%)	6.5	(0.3)	(2.6)	5.8	(2.0)	(4.7)	(7.6)	-45%	95.2
Total expenses	23,876	21,843	22,254	23,716	22,436	20,916	17,849	13,992	23,614
EBITDA	3,327	3,125	3,733	4,077	3,672	3,198	2,702	1,485	3,920
Y/Y (%)	12.4	10.6	10.4	4.3	10.4	2.3	(27.6)	-64%	6.8
Q/Q (%)	(14.9)	(6.1)	19.4	9.2	(9.9)	(12.9)	(15.5)	-45%	164.1
OPM (%)	12.2	12.5	14.4	14.7	14.1	13.3	13.1	9.6	14.2
Other income	116	80	166	164	56	251	169	70	148
Interest	14	23	12	18	18	21	37	14	63
Depreciation	768	813	835	864	898	925	939	914	953
Exceptional items	1,083			-	-	(217)		-	-
Profit before tax	3,745	2,369	3,051	3,359	2,812	2,286	1,895	627	3,052
Provision for taxation	1,060	818	945	1,116	439	326	215	188	764
Tax rate (%)	28.3	34.5	31.0	33.2	15.6	14.3	11.4	29.9	25.0
Profit after tax	2,684	1,550	2,107	2,243	2,373	1,959	1,680	440	2,288
Adjustment on reval. of deferred tax assets	(776)								
PAT	1,908	1,550	2,107	2,243	2,373	1,959	1,680	440	2,288
Y/Y (%)	40.8	0.5	11.2	6.8	24.4	26.4	(20.3)	-80%	(3.6)
Q/Q (%)	(9.1)	(18.7)	35.9	6.5	5.8	(17.4)	(14.3)	-74%	420.5
PAT margins %	7.0	6.2	8.1	8.1	9.1	8.1	8.2	2.8	8.3
EPS	2.2	1.8	2.5	2.6	2.8	2.3	2.0	0.52	2.7

Source: Company

Valuation

We expect revenue to grow 26% in FY22 and the margin to expand to 14.1%. Accordingly, we expect strong, Rs8.8bn, earnings, leading to an EPS of Rs10.4. We maintain our Buy rating, with a TP of Rs188 (15x FY22e), including Rs31 a share of Exide Life Insurance

Fig 8 – Estimates revision

(Rs m)	Old estimates		Revised estimates		Change %	
	FY21	FY22	FY21	FY22	FY21	FY22
Revenue	80,825	101,839	80,825	101,839	0.0%	0.0%
EBITDA	10,911	14,665	10,669	14,359	-2.2%	-2.1%
Adj. PAT	6,299	9,090	6,115	8,865	-2.9%	-2.5%
EPS (Rs)	7.4	10.7	7.2	10.4	-2.9%	-2.5%

Source: Anand Rathi Research

Fig 9 – Standard deviation of Forward PE



Source: Company, Anand Rathi Research

Risks

- Less-than-estimated growth

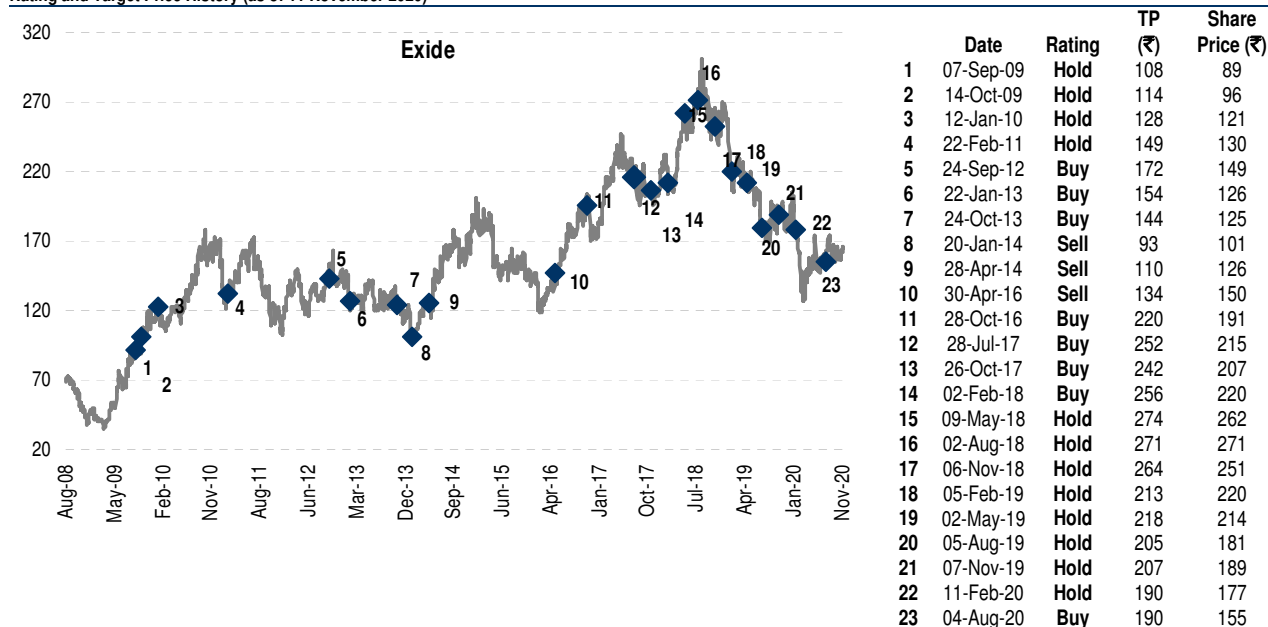
Appendix

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