

Estimate changes	↔
TP change	↔
Rating change	↔

CMP: INR990 TP: INR957(-3%) Neutral

Miss in operating performance, higher other income drives in line PAT

Announces capex of INR5b for lead recycling unit and solar power

- AMRJ's 3QFY21 operating performance was below our estimate due to revenue miss and higher staff cost. RM cost pressures continue due to lead price inflation. However, sustenance of demand momentum will dilute impact through price pass-through and operating leverage.
- We have largely left unchanged our FY21E/FY22E EPS estimate. We maintain **Neutral** with a TP of INR957 per share (20x Mar'23E EPS) as valuations fairly capture in expected growth.

Strong growth in Autos in both OEMs and Aftermarket

- Revenue/EBITDA/PAT came in ~INR19.5b/INR3b/INR1.9b in 3QFY21, up ~12%/8%/17.5% YoY. In 9MFY21, the same declined by 4%/7%/13% YoY.
- All segments witnessed a growth - 2W OEM/Aftermarket (25%/27%), 4W OEM (double-digit), 4W Aftermarket (8-9%), and Home Inverter (35-40%). The Industrial segment grew by 8-9% driven by Telecom (8-9%) and UPS (8-9%). 4W growth was impacted due to supply constraints, impacting exports.
- Gross margin fell 80bp QoQ (-160bp YoY) to 33.9% (in line), impacted by higher commodity costs and normalizing mix (faster OEM growth QoQ).
- Higher staff cost impacted EBITDA margin, which declined 200bp QoQ (-160bp YoY) to 15.6% (v/s our estimate of 16.5%). EBITDA grew 8% YoY to INR3.06b (v/s our expectation of INR3.3b).
- Higher other income (due to reversal of provisioning of INR150m) boosted adjusted PAT to INR1.93b (v/s our estimate of INR1.95b), up 17.5% YoY.
- Declared an interim dividend of INR5/share (INR11/share for FY20).

Highlights from the management commentary

- The management is yet to decide on price increases in the Aftermarket segment, while price pass-through is happening in the OEM segment. While LME lead prices have risen, strengthening of the USD:INR has diluted lead cost inflation.
- Manufacturing capacities are fully ramped up to optimum utilization across all segments. Additional capacity of 1.5m/3m units of 4W/2W would come on stream in 1QFY22.
- AMRJ has inaugurated its "Advanced Lithium Technology Research Hub" with a pilot plant facility for cell development based on technology sourced from ISRO. It already has an operational commercial scale battery pack assembly unit and has developed a wide range of battery packs for e-Mobility and Energy storage applications. It has secured approvals from various OEMs (2W and 3W) and Telcos for their storage applications.
- It is setting up a greenfield lead recycling unit, with a capacity of 0.1mt at a capex of INR2.8b. The unit will start operations in two years. Around 20-25% of its lead requirement would be catered by this recycling unit.

Bloomberg	AMRJ IN
Equity Shares (m)	171
M.Cap.(INRb)/(USDb)	169.1 / 2.3
52-Week Range (INR)	1025 / 350
1, 6, 12 Rel. Per (%)	-5/-1/5
12M Avg Val (INR M)	782

Financials & Valuations (INR b)

Y/E March	2020E	2021E	2022E
Sales	68.4	69.9	80.3
EBITDA	11.0	11.1	12.7
Adj. PAT	6.6	6.4	7.3
EPS (INR)	38.7	37.4	42.5
EPS Gr. (%)	36.7	-3.3	13.7
BV/Sh. (INR)	214	239	267

Ratios

RoE (%)	18.9	16.5	16.8
RoCE (%)	18.6	16.3	16.6
Payout (%)	34.1	34.1	34.1

Valuations

P/E (x)	25.6	26.5	23.3
P/BV (x)	4.6	4.1	3.7
Div. Yield (%)	1.1	1.3	1.5
FCF yield (%)	2.8	2.3	0.0

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	28.1	28.1	28.1
DII	14.5	14.7	11.1
FII	20.9	18.6	21.2
Others	36.5	38.6	39.6

FII Includes depository receipts

- The company is setting up a 50MW solar power plant, at a total capex of INR2.2b. This will further reduce the cost of power as ~30% of its power requirement would be met via this plant.
- Capex planned for FY21/FY22 stands at INR4.5-5b/INR5-6b.

Valuation and view

The stock trades at a valuation of 23.3x/20.7x FY22E/FY23E EPS. Maintain **Neutral** with TP is INR957 per share (20x Mar'23E EPS, in line with 10-year LPA) as valuations fairly capture in expected growth.

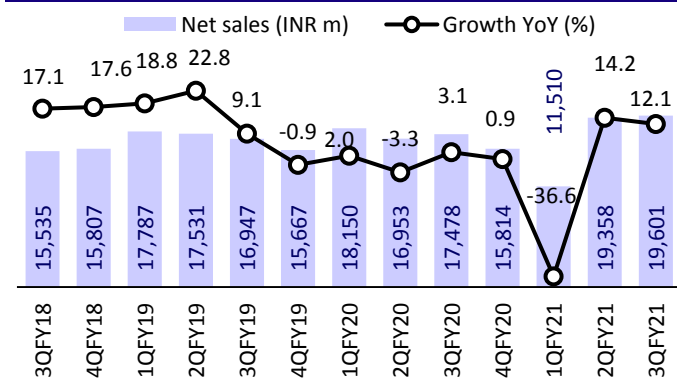
Quarterly performance (INR m)	FY20				FY21				FY20	FY21E	3QFY21E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Net Sales	18,150	16,953	17,478	15,814	11,510	19,358	19,601	19,462	68,395	69,932	20,100
YoY Change (%)	2.0	-3.3	3.1	0.9	-36.6	14.2	12.1	23.1	0.7	2.2	15.0
EBITDA	2,792	2,923	2,840	2,432	1,524	3,404	3,064	3,110	10,986	11,102	3,309
Margin (%)	15.4	17.2	16.2	15.4	13.2	17.6	15.6	16.0	16.1	15.9	16.5
Depreciation	733	750	765	760	748	782	791	810	3,007	3,131	790
Interest	29	34	29	30	27	25	26	42	122	120	30
Other Income	102	180	128	141	88	113	352	147	551	700	120
PBT after EO	2,132	2,319	2,174	1,783	837	2,710	2,599	2,405	8,407	8,550	2,609
Tax Rate (%)	33.9	5.6	24.4	23.4	25.1	25.6	25.7	24.6	21.4	25.3	25.2
Adjusted PAT	1,409	2,189	1,644	1,366	627	2,015	1,932	1,814	6,608	6,387	1,951
YoY Change (%)	24.7	82.0	25.6	14.5	-55.5	-8.0	17.5	32.8	36.7	-3.3	18.7

Key performance indicators

RM Cost (% of sales)	67.6	64.1	64.5	63.7	66.5	65.3	66.1	66.3	65.0	66.0	66.0
Staff Cost (% of sales)	5.4	5.8	5.4	5.9	7.3	6.0	6.0	5.4	5.6	6.1	5.0
Other Expenses (% of sales)	11.6	12.8	13.9	15.0	13.0	11.1	12.2	12.3	13.3	12.1	12.5
Gross Margin (%)	32.4	35.9	35.5	36.3	33.5	34.7	33.9	33.7	35.0	34.0	34.0
EBITDA Margin (%)	15.4	17.2	16.2	15.4	13.2	17.6	15.6	16.0	16.1	15.9	16.5
Lead price (INR/Kg)	131.1	142.8	145.5	133.5	127.4	139.2	138.2		138.2		138
Change (%)	-18.0	-2.4	2.7	-6.9	-2.8	-2.5	-5.0		-6.5		-5

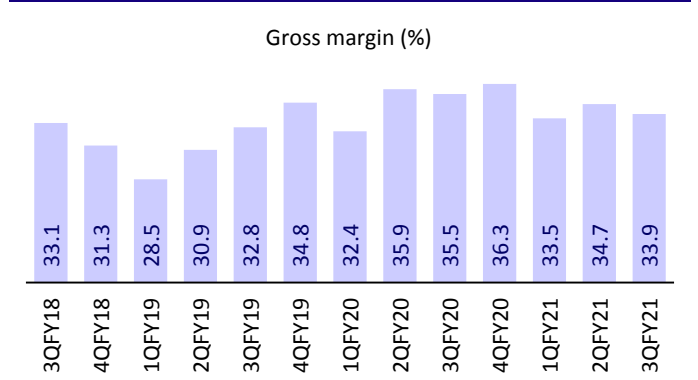
Key exhibits

Exhibit 1: Trend in revenue and growth



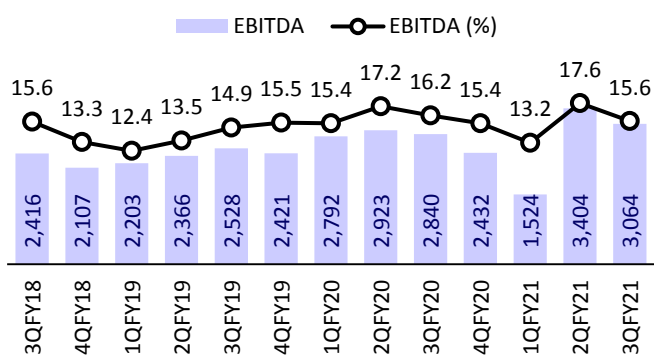
Source: Company, MOFSL

Exhibit 2: Trend in gross margin



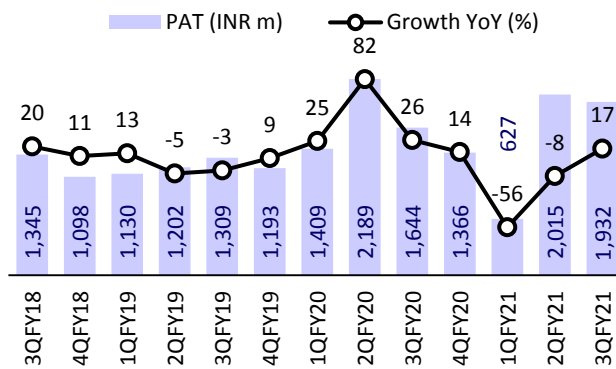
Source: Company, MOFSL

Exhibit 3: Trend in EBITDA and EBITDA margin



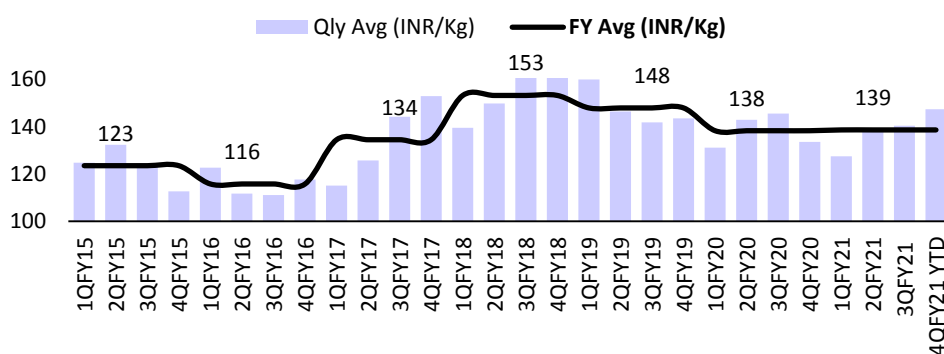
Source: Company, MOFSL

Exhibit 4: PAT and growth trend



Source: Company, MOFSL

Exhibit 5: Trend in lead prices (INR/kg)



Source: Bloomberg, MOFSL

Valuation and view

- Industry structure remains a duopoly, but AMRJ strong at second position:**
 While the industry structure remains largely a duopoly, AMRJ has emerged as a formidable challenger to leader EXIDE, with market leadership in Telecom (55% share in 4QFY20) and UPS (32-35%) segments and fast gaining share in the Auto space. Over FY04-16, AMRJ clocked 34%/68% in net sales/PAT, far exceeding EXIDE’s 20% CAGR each. This was driven by a combination of technological innovation (first to introduce maintenance free, factory-charged, and extended-warranty Batteries), witty advertising, and a unique distribution model (franchisee-based), supported by operational efficiency-led competitive pricing.
- AMRJ – Gearing up to lead:** AMRJ is gearing up to be a leader via: a) consolidation in existing areas; b) targeting new business opportunities within the Battery space, mainly Home UPS, Solar, and Motive Power; and c) capacity and network expansions. In the Telecom segment. The management expects to maintain its market share at current levels (~55%).
- Li-ion technology poses a risk to both Auto as well as Industrial businesses:**
 Falling cost of lithium batteries poses a threat not just to the Auto segment, but also to Industrial batteries. In Autos, E-2W/E-3W does not require a Lead Acid Battery (LAB) as an auxiliary power source. This would in turn impact 15-20% of revenues for LAB players. At USD100/KwHr, lithium can pose a competition to LAB players in the Industrial segment, particularly in Telecom, UPS, and other nascent but growth drivers like Motive Power, Solar, etc. Any further

development in this direction would potentially lead to the de-rating of the P/E multiple (due to decline in terminal growth).

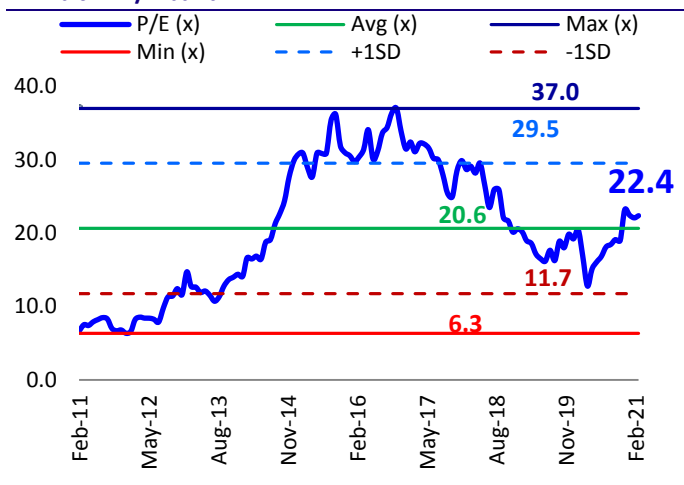
- Valuations fair, maintain Neutral:** We have largely left unchanged our FY21E/FY22E EPS estimate. We expect value migration to organized from unorganized players such as EXID and AMRJ in the Replacement segment, driven by tax reforms such as GST and lower corporate tax rates. Healthy replacement demand would lead to better capacity utilization and margin. However, current margin performance may not sustain in FY22 as volume recovery with OEMs would result in mean reversion of mix and margin. With the exit of Johnson Control, promoters are expected to play a pivotal role in the long-term strategy as well as technology sourcing. The stock trades at a valuation of 23.3x/20.7x FY22E/FY23E EPS. Maintain **Neutral** with TP is INR957 per share (20x Mar'23E EPS, in line with 10-year LPA) as valuations fairly capture in expected growth.

Exhibit 6: Revised estimates

(INR m)	FY21E			FY22E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Net Sales	69,932	69,932	0.0	80,319	80,319	0.0
EBITDA (%)	15.9	16.2	-30bp	15.8	15.8	0bp
Net Profit	6,387	6,392	-0.1	7,262	7,160	1.4
EPS (INR)	37.4	37.4	-0.1	42.5	41.9	1.4

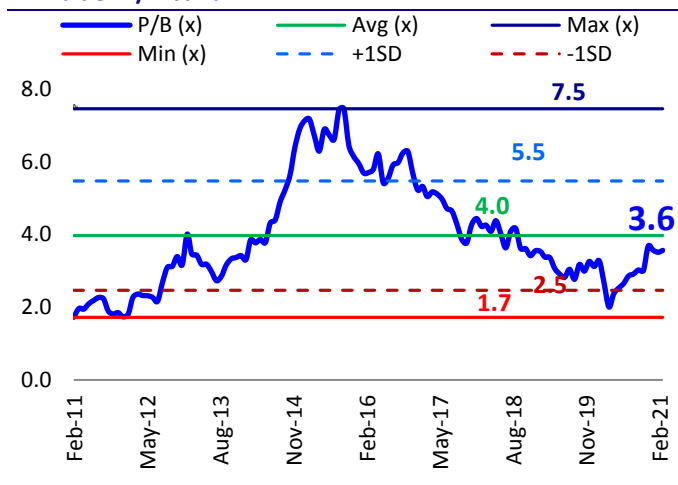
Source: MOFSL

Exhibit 7: P/E band



Source: MOSL, Company

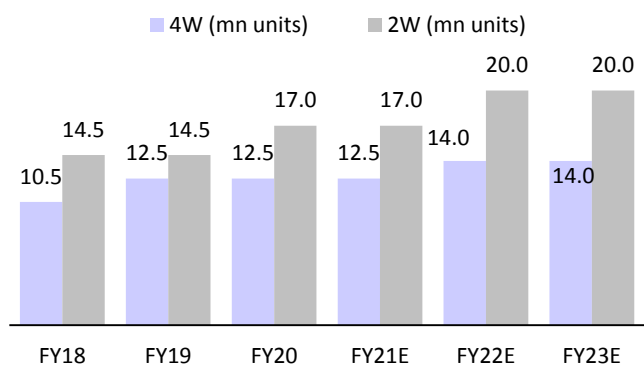
Exhibit 8: P/B band



Source: MOSL, Company

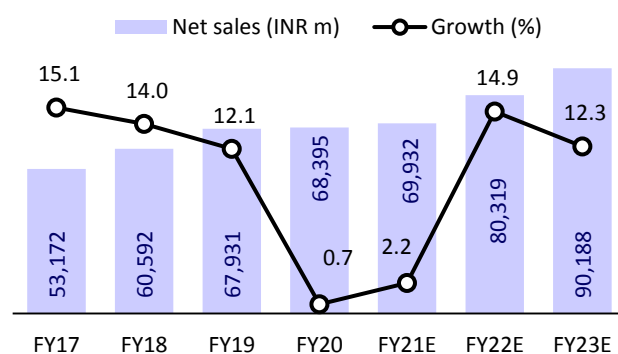
Stories in chart

Exhibit 9: Significant addition in 2W capacity



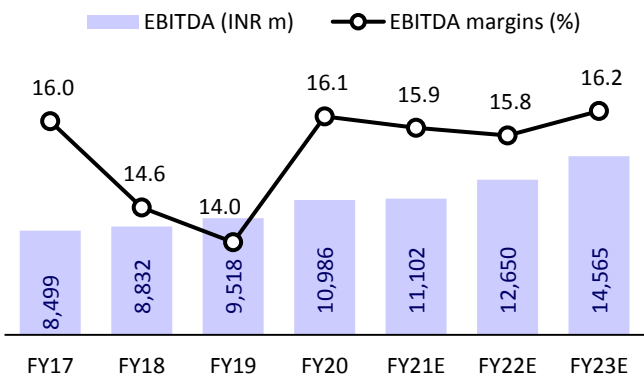
Source: Company, MOFSL

Exhibit 10: Revenue trend



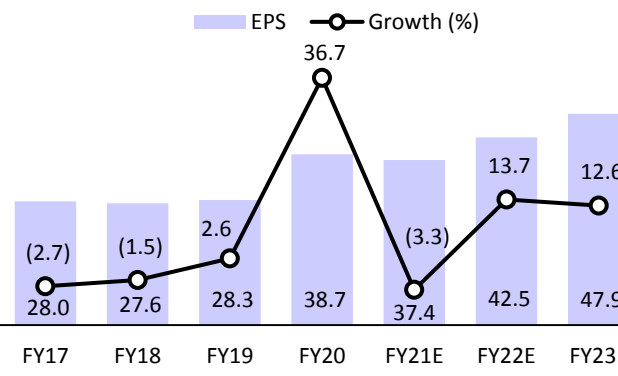
Source: Company, MOFSL

Exhibit 11: EBITDA and EBITDA margin trend



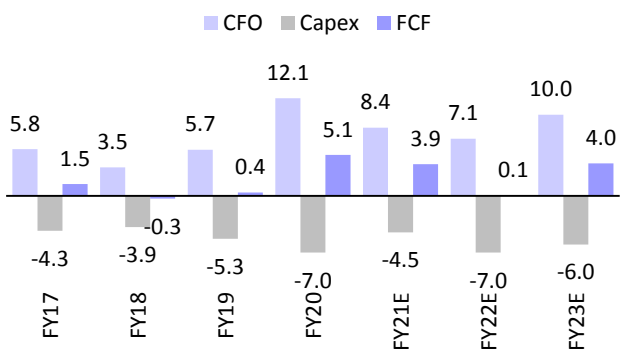
Source: Company, MOFSL

Exhibit 12: Earnings and growth trend



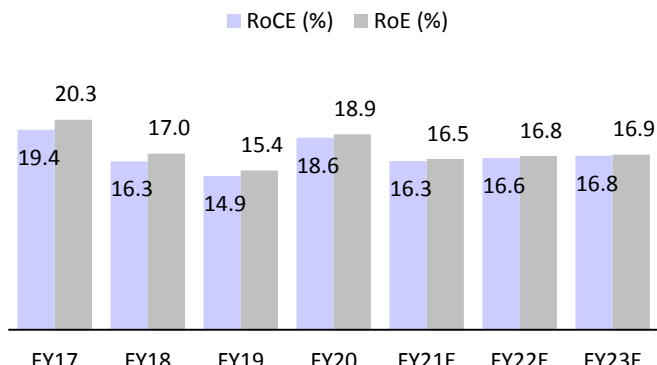
Source: Company, MOFSL

Exhibit 13: Trend in CFO, capex, and FCF



Source: Company, MOFSL

Exhibit 14: Trend in return ratios



Source: Company, MOFSL

Financials and valuations

Standalone Income Statement								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	46,178	53,172	60,592	67,931	68,395	69,932	80,319	90,188
Change (%)	9.7	15.1	14.0	12.1	0.7	2.2	14.9	12.3
EBITDA	8,230	8,499	8,832	9,518	10,986	11,102	12,650	14,565
Margin (%)	17.8	16.0	14.6	14.0	16.1	15.9	15.8	16.2
Depreciation	1,407	1,912	2,303	2,612	3,007	3,131	3,579	4,223
EBIT	6,823	6,587	6,529	6,906	7,978	7,970	9,071	10,342
Int. and Finance Charges	55	58	51	70	122	120	100	100
Other Income - Rec.	459	492	664	468	551	700	750	700
PBT bef. EO Exp.	7,226	7,022	7,142	7,304	8,407	8,550	9,721	10,942
EO Expense/(Income)	0	0	0	0	0	0	0	0
PBT after EO Exp.	7,226	7,022	7,142	7,304	8,407	8,550	9,721	10,942
Tax Rate (%)	32.0	31.9	34.0	33.8	21.4	25.3	25.3	25.3
Reported PAT	4,916	4,785	4,713	4,835	6,608	6,387	7,262	8,174
PAT Adj. for EO items	4,916	4,785	4,713	4,835	6,608	6,387	7,262	8,174
Change (%)	20.4	-2.7	-1.5	2.6	36.7	-3.3	13.7	12.6
Margin (%)	10.6	9.0	7.8	7.1	9.7	9.1	9.0	9.1

Standalone Balance Sheet								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	171	171	171	171	171	171	171	171
Total Reserves	20,988	25,760	29,203	33,182	36,385	40,591	45,374	50,756
Net Worth	21,159	25,931	29,374	33,353	36,556	40,762	45,544	50,927
Deferred Liabilities	538	815	878	959	441	552	679	821
Total Loans	725	690	584	468	343	725	0	0
Capital Employed	22,421	27,436	30,836	34,780	37,341	42,039	46,223	51,748
Gross Block	14,851	18,156	22,529	26,165	29,337	39,107	46,107	52,107
Less: Accum. Deprn.	1,330	3,257	5,497	8,037	11,045	14,176	17,755	21,978
Net Fixed Assets	13,520	14,899	17,033	18,128	18,292	24,931	28,352	30,129
Capital WIP	1,229	2,403	2,264	3,147	8,270	3,000	3,000	3,000
Total Investments	200	1,467	351	205	0	0	0	0
Curr. Assets, Loans and Adv.	14,559	17,077	22,038	23,480	21,882	26,750	29,204	34,480
Inventory	6,016	8,170	10,497	10,614	11,427	11,496	13,203	14,825
Account Receivables	5,922	5,705	7,825	7,686	6,363	6,706	9,242	10,378
Cash and Bank Balance	1,503	1,709	1,113	502	326	4,698	2,336	4,311
Loans and Advances	1,119	1,494	2,603	4,678	3,766	3,851	4,423	4,966
Curr. Liability and Prov.	7,087	8,410	10,849	10,179	12,665	12,642	14,333	15,861
Account Payables	3,493	4,184	5,923	5,104	6,149	6,287	7,221	8,108
Other Current Liabilities	2,665	3,285	3,916	3,761	4,685	4,790	5,501	6,177
Provisions	929	941	1,011	1,314	1,832	1,565	1,611	1,575
Net Current Assets	7,472	8,667	11,189	13,301	9,217	14,108	14,871	18,619
Appl. of Funds	22,421	27,436	30,836	34,780	35,779	42,039	46,223	51,748

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)								
EPS	28.8	28.0	27.6	28.3	38.7	37.4	42.5	47.9
Cash EPS	37.0	39.2	41.1	43.6	56.3	55.7	63.5	72.6
BV/Share	123.9	151.8	172.0	195.3	214.0	238.7	266.7	298.2
DPS	4.3	4.25	4.2	7.1	11.0	12.8	14.5	16.3
Payout (%)	17.7	18.2	18.1	30.0	34.1	34.1	34.1	34.1
Valuation (x)								
P/E	34.4	35.3	35.9	35.0	25.6	26.5	23.3	20.7
Cash P/E	26.7	25.3	24.1	22.7	17.6	17.8	15.6	13.6
P/BV	8.0	6.5	5.8	5.1	4.6	4.1	3.7	3.3
EV/Sales	3.6	3.2	2.8	2.5	2.5	2.4	2.1	1.8
EV/EBITDA	20.5	19.8	19.1	17.8	15.4	14.9	13.2	11.3
Dividend Yield (%)	0.4	0.4	0.4	0.7	1.1	1.3	1.5	1.7
Return Ratios (%)								
RoE	25.2	20.3	17.0	15.4	18.9	16.5	16.8	16.9
RoCE	23.9	19.4	16.3	14.9	18.6	16.3	16.6	16.8
RoIC	26.4	21.7	17.6	15.8	21.0	18.9	18.0	18.1
Working Capital Ratios								
Gross Fixed Asset Turnover (x)	3.1	2.9	2.7	2.6	2.3	1.8	1.7	1.7
Inventory (Days)	47.6	56.1	63.2	57.0	61.0	60.0	60.0	60.0
Debtor (Days)	42	35	46	41	34	35	42	42
Creditor (Days)	28	29	36	27	33	33	33	33
Working Capital Turnover (Days)	47	48	61	69	47	49	57	58
Leverage Ratio (x)								
Current Ratio	2.1	2.0	2.0	2.3	1.7	2.1	2.0	2.2
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Standalone Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
(INR m)								
Net P/L Before Tax and E/O Items	7,226	7,022	7,142	7,304	8,407	8,550	9,721	10,942
Depreciation	1,407	1,912	2,303	2,612	3,007	3,131	3,579	4,223
Interest and Finance Charges	-43	-3	-5	42	122	-580	-650	-600
Direct Taxes Paid	2,181	2,024	2,443	2,417	2,364	2,163	2,459	2,768
(Inc.)/Dec. in WC	-738	-1,137	-3,475	-1,843	2,892	-520	-3,124	-1,774
CF from Operations	5,672	5,771	3,522	5,698	12,065	8,419	7,066	10,023
Others	-130	-242	-306	-284	-296	0	0	0
CF from Operating incl. EO	5,542	5,529	3,216	5,413	11,769	8,419	7,066	10,023
(inc.)/dec. in FA	-4,904	-4,305	-3,853	-5,282	-6,999	-4,500	-7,000	-6,000
Free Cash Flow	637	1,224	-637	131	4,770	3,919	66	4,023
Others	24,156	27,395	19,117	10,904	13,305	700	750	700
CF from Investments	-3,938	-5,349	-2,442	-4,629	-8,497	-3,800	-6,250	-5,300
(Inc.)/Dec. in Debt	772	47	-89	-51	-275	492	-598	142
Interest Paid	-5	-3	-7	-11	-52	-120	-100	-100
Dividend Paid	-1,614	0	-1,285	-855	-3,311	-2,181	-2,480	-2,791
CF from Fin. Activity	-847	44	-1,382	-916	-3,638	-1,808	-3,178	-2,749
Inc./Dec. in Cash	757	223	-607	-131	-365	2,810	-2,362	1,974
Add: Beginning Balance	2,271	3,028	3,251	2,644	2,512	2,147	4,957	2,596
Closing Balance	3,028	3,251	2,644	2,512	2,147	4,957	2,596	4,570

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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