

16 August 2021

## Amara Raja Batteries

*Lockdown-led sequential decline; maintaining a Buy*

**Amara Raja's continuous market-share gains in automotives, expected strong replacement growth and higher industrial segment growth for telecoms and UPS applications augurs well for its strong growth and goes a long way in building a strong position in its business verticals. With strong volume growth expected led by replacements, we expect margin expansion in the next two years. We continue to be positive on the stock, with a Buy rating at an unchanged target price of Rs.1,131 (22x FY23e).**

**Growth across verticals.** For the quarter, the company posted a ~10-15% sequential volume decline across segments (except exports) due to lockdowns. Exports grew ~5% sequentially. We expect FY22 revenues across verticals to grow, primarily led by two- and four-wheeler OEMs, home inverters and the industrials business. While the company operated at ~90% capacity in Q4 FY21, we believe it would operate at similar levels in Q2 FY22, as we expect strong demand to return on the easing lockdowns and strong product off-take. Accordingly, we expect 17% growth in FY22, and 13% in FY23.

**Margins to improve.** In Q1 FY22, gross margin contracted 147bps sequentially due to higher lead costs plus a greater proportion of traded inverter goods. Lead costs went up 5.3% in Q1 FY22 and the company had raised prices across product categories 1.5-2% each in Apr, Jul and Aug. We believe there is still some under-recovery in RM cost escalation and we expect the company to further raise prices in subsequent quarters. In our view, if lead prices remain at ~\$2,400, we believe another round of prices hikes is a possibility. With a favourable product mix and expectation of strong volume growth, we expect stable margins of 16% in FY22 and FY23.

**Valuation.** We expect a 15% revenue CAGR over FY21-23, and the margin to expand to 16.1%. Accordingly, we expect earnings to register a 17% CAGR over FY21-23 to Rs8.8bn, leading to an EPS of Rs51. We maintain a Buy rating, with an unchanged TP of Rs1,131 (22x FY23e).

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rsm)	67,931	68,395	71,497	83,294	93,804
Net profit (Rsm)	4,835	6,608	6,468	7,843	8,783
EPS (Rs)	28.3	38.7	37.9	45.9	51.4
PE (x)	25.4	18.8	19.3	15.9	14.2
EV / EBITDA (x)	12.9	11.1	10.8	8.6	7.2
PBV (x)	3.7	3.4	3.0	2.6	2.3
RoE (%)	15.4	18.9	16.4	17.4	17.0
RoCE (%)	21.0	22.1	19.9	21.3	21.0
Dividend yield (%)	0.58	2.26	0.84	0.84	0.84
Net debt/equity (x)	-0.0	-0.1	-0.1	-0.2	-0.3

Source: Company, Anand Rathi Research

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Rating: Buy

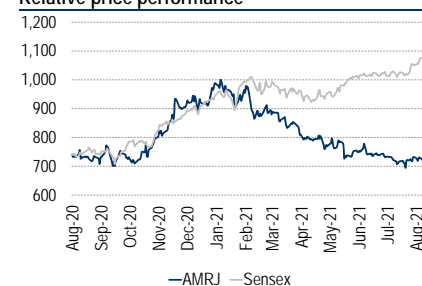
Target Price: Rs.1,131

Share Price: Rs.729

Key data	AMRJ IN / AMAR.BO
52-week high / low	Rs.1026 / 693
Sensex / Nifty	55598 / 16557
3-m average volume	\$19.6m
Market cap	Rs.123bn / \$1661m
Shares outstanding	171m

Shareholding pattern (%)	Jun'21	Dec'20	Mar'21
Promoters	28.1	28.1	28.1
- of which, Pledged	-	-	-
Free float	71.9	71.9	71.9
- Foreign institutions	22.1	20.9	21.3
- Domestic institutions	15.2	14.5	12.6
- Public	34.6	36.5	38.0

### Relative price performance



Source: Bloomberg

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Research Analyst

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## Quick Glance – Financials and Valuations

### Fig 1 – Income statement (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Net revenues	67,931	68,395	71,497	83,294	93,804
<i>Growth (%)</i>	12.1	0.7	4.5	16.5	12.6
Direct costs	46,441	44,471	47,447	54,141	60,972
SG&A	11,973	12,938	12,893	15,743	17,729
<b>EBITDA</b>	<b>9,518</b>	<b>10,986</b>	<b>11,157</b>	<b>13,410</b>	<b>15,102</b>
<i>EBITDA margins (%)</i>	14.0	16.1	15.6	16.1	16.1
- Depreciation	2,612	3,007	3,192	3,646	4,104
Other income	468	551	874	950	1,000
Interest expenses	70	122	105	125	140
Extraordinary items	-	-	-	-	-
PBT	7,304	8,407	8,733	10,589	11,859
<i>Effective tax rate (%)</i>	34	21	26	26	26
+ Associates / (Minorities)					
Net Income	4,835	6,608	6,468	7,843	8,783
Adjusted income	4,835	6,608	6,468	7,843	8,783
WANS	171	171	171	171	171
FDEPS (Rs/ sh)	28.3	38.7	37.9	45.9	51.4

Substantial part of interest cost is unwinding of discounts on warranty provision

### Fig 3 – Cash-flow statement (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
PBT	7,304	8,407	8,733	10,589	11,859
+ Non-cash items	2,612	3,007	3,192	3,646	4,104
Oper. prof. before WC	9,916	11,414	11,925	14,235	15,962
- Incr./ (decr.) in WC	2,507	-2,490	1,940	514	1,931
Others incl. taxes	2,388	2,316	2,299	2,747	3,076
Operating cash-flow	5,021	11,588	7,685	10,975	10,955
- Capex (tang. +intang.)	4,591	6,510	4,518	4,000	3,000
Free cash-flow	430	5,078	3,167	6,975	7,955
Acquisitions	-	-	-	-	-
- Div. (incl. buyback& taxes)	855	3,311	1,025	1,645	1,645
+ Equity raised	-	-	-	-	-
+ Debt raised	-116	-125	-110	-	-
- Fin investments	-147	1,420	1,223	1,500	1,500
- Misc. (CFI + CFF)	1	94	-103	103	0
Net cash-flow	-395	128	913	3,727	4,811

Source: Company, Anand Rathi Research

### Fig 5 – Price movement



Source: Bloomberg

### Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	171	171	171	171	171
Networth	33,353	36,556	42,103	48,198	55,336
Debt	468	343	234	234	234
Minority interest	-	-	-	-	-
DTL/(Assets)	959	441	407	408	407
<b>Capital employed</b>	<b>34,780</b>	<b>37,341</b>	<b>42,744</b>	<b>48,839</b>	<b>55,977</b>
Net tangible assets	18,091	16,476	21,160	24,151	23,047
Net intangible assets	846	976	968	968	968
Goodwill	-	-	-	-	-
CWIP (tang. &intang.)	2,339	7,326	3,976	1,339	1,339
Investments (strategic)	-	-	-	-	-
Investments (financial)	205	1,625	2,848	4,348	5,848
Current assets (ex cash)	22,762	22,758	27,260	28,828	31,834
Cash	718	845	1,758	5,485	10,296
Current liabilities	10,179	12,665	15,227	16,280	17,355
Working capital	12,583	10,093	12,034	12,548	14,479
<b>Capital deployed</b>	<b>34,780</b>	<b>37,341</b>	<b>42,744</b>	<b>48,839</b>	<b>55,977</b>

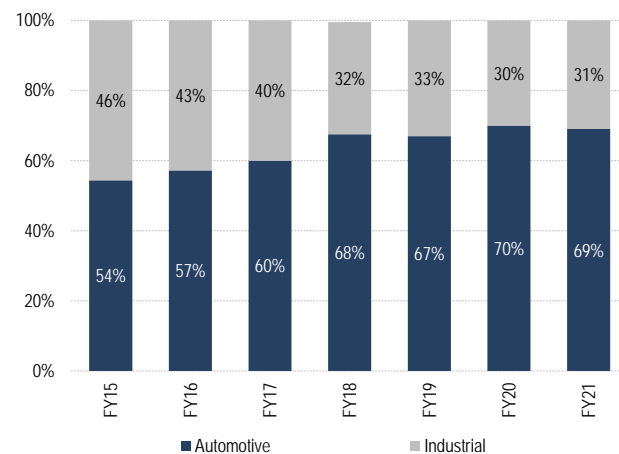
Entire debt is interest-free sales-tax deferment loans

### Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	25.4	18.8	19.3	15.9	14.2
EV / EBITDA (x)	12.9	11.1	10.8	8.6	7.2
EV / Sales (x)	1.8	1.8	1.7	1.4	1.2
P/B (x)	3.7	3.4	3.0	2.6	2.3
RoE (%)	15.4	18.9	16.4	17.4	17.0
RoCE (%) - after tax	21.0	22.1	19.9	21.3	21.0
RoIC (%) - after tax	14.8	18.1	15.4	17.3	18.5
DPS (Rs / sh)	5.0	19.4	6.0	9.6	9.6
Dividend yield (%)	0.6	2.3	0.8	0.8	0.8
Dividend payout (%) - incl. DDT	17.7	50.1	15.8	21.0	18.7
Net debt / equity (x)	-0.0	-0.1	-0.1	-0.2	-0.3
Receivables (days)	41	34	40	32	32
Inventory (days)	83	94	111	111	111
Payables (days)	40	50	57	57	57
CFO : PAT %	103.8	175.4	118.8	139.9	124.7

Source: Company, Anand Rathi Research

### Fig 6 – Revenue mix (%)



Source: Company

## Result highlights

Fig 7 – Quarterly performance

(Rsm)	Q3 FY19	Q4 FY19	Q1 FY20	Q2FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22
<b>Net Sales</b>	<b>16,947</b>	<b>15,667</b>	<b>18,150</b>	<b>16,953</b>	<b>17,478</b>	<b>15,814</b>	<b>11,510</b>	<b>19,358</b>	<b>19,601</b>	<b>21,027</b>	<b>18,859</b>
Other operating income	-	-	-	-	-	-	-	-	-	-	-
<b>Income</b>	<b>16,947</b>	<b>15,667</b>	<b>18,150</b>	<b>16,953</b>	<b>17,478</b>	<b>15,814</b>	<b>11,510</b>	<b>19,358</b>	<b>19,601</b>	<b>21,027</b>	<b>18,859</b>
<i>Y/Y%</i>	9	(1)	2	(3)	3	1	(37)	14	12	33	64
<i>Q/Q%</i>	(3)	(8)	16	(7)	3	(10)	(27)	(72)	1	7	(10)
Raw materials consumed	11,894	10,162	10,035	11,033	11,113	10,010	6,291	11,198	12,734	13,603	12,484
Purchased for trade	191	371	584	397	339	440	546	1,133	943	1,678	1,490
(Increase) / Decrease in stocks	(690)	(316)	1,644	(563)	(178)	(381)	818	315	(714)	(1,098)	(977)
<b>Total RM cost</b>	<b>11,395</b>	<b>10,217</b>	<b>12,262</b>	<b>10,867</b>	<b>11,273</b>	<b>10,069</b>	<b>7,655</b>	<b>12,645</b>	<b>12,964</b>	<b>14,183</b>	<b>12,997</b>
<i>Y/Y%</i>	10	(6)	(4)	(10)	(1)	(1)	(38)	16	15	41	70
<i>Q/Q%</i>	(6)	(10)	20	(11)	4	(11)	(24)	(72)	3	9	(8)
<i>% to Sales</i>	67	65	68	64	64	64	67	65	66	67	69
<i>Gross margins %</i>	33	35	32	36	36	36	33	35	34	33	31
Employee cost	866	815	985	986	944	937	840	1,170	1,180	1,071	1,179
<i>% to Sales</i>	5	5	5	6	5	6	0	0	0	0	0
Depreciation and Amortization	657	683	733	750	765	760	748	782	791	871	963
Other expenses	2,158	2,214	2,110	2,178	2,421	2,377	1,492	2,139	2,394	2,608	2,184
<i>% to Sales</i>	13	14	12	13	14	15	13.0	11.1	12.2	12.4	11.6
<b>Total Expenditure</b>	<b>15,076</b>	<b>13,930</b>	<b>16,091</b>	<b>14,781</b>	<b>15,403</b>	<b>14,142</b>	<b>10,735</b>	<b>16,737</b>	<b>17,328</b>	<b>18,733</b>	<b>17,323</b>
Reported EBITDA	2,528	2,421	2,792	2,923	2,840	2,432	1,524	3,404	3,064	3,165	2,499
<i>Reported EBITDA margin %</i>	15	15	15	17	16	15	13	18	16	15	13
<b>EBIT</b>	<b>1,871</b>	<b>1,738</b>	<b>2,059</b>	<b>2,173</b>	<b>2,075</b>	<b>1,672</b>	<b>776</b>	<b>2,622</b>	<b>2,273</b>	<b>2,295</b>	<b>1,536</b>
Other income	125	63	102	180	128	141	88	113	352	321	166
Interest expense	18	19	29	34	29	30	27	25	26	28	32
<b>PBT</b>	<b>1,978</b>	<b>1,783</b>	<b>2,132</b>	<b>2,318</b>	<b>2,174</b>	<b>1,783</b>	<b>837</b>	<b>2,710</b>	<b>2,599</b>	<b>2,588</b>	<b>1,670</b>
PBT Margin	12	11	12	14	12	11	7	14	13	12	9
Tax expenses	669	589	723	130	530	416	210	695	667	693	431
Current	662	563	691	555	583	487	218	722	693	666	426
Deferred	7	26	32	(425)	(54)	(71)	(8)	(27)	(26)	27	5
Tax for earlier years	-	-	-	-	-	-	-	-	-	-	-
<i>Tax rate (%)</i>	34	33	34	6	24	23	25	26	26	27	26
<b>Reported PAT</b>	<b>1,309</b>	<b>1,193</b>	<b>1,409</b>	<b>2,189</b>	<b>1,644</b>	<b>1,367</b>	<b>627</b>	<b>2,015</b>	<b>1,932</b>	<b>1,895</b>	<b>1,239</b>
<i>Reported PAT margins %</i>	8	8	8	13	9	9	5	10	10	9	7
<i>Y/Y Growth</i>	(3)	9	25	82	26	15	(56)	(8)	18	39	98
<b>Adjusted EPS (Rs)</b>	<b>8</b>	<b>7</b>	<b>8</b>	<b>13</b>	<b>10</b>	<b>8</b>	<b>4</b>	<b>12</b>	<b>11</b>	<b>11</b>	<b>7</b>

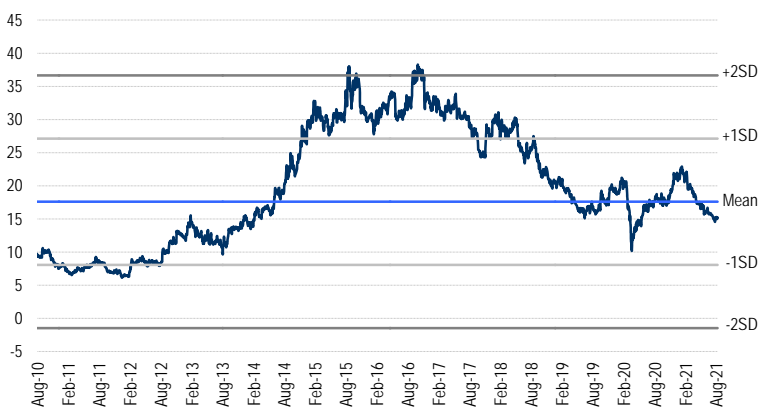
Source: Company

## Valuations

We expect a 15% revenue CAGR over FY21-23, and the margin to expand to 16.1%. Accordingly, we expect earnings to register a 17% CAGR over FY21-23 to Rs8.8bn, leading to an EPS of Rs51.

We maintain a Buy rating, with an unchanged TP of Rs1,131 (22x FY23e).

Fig 8 – One-year-forward Standard deviation band



Source: Bloomberg

### Risk

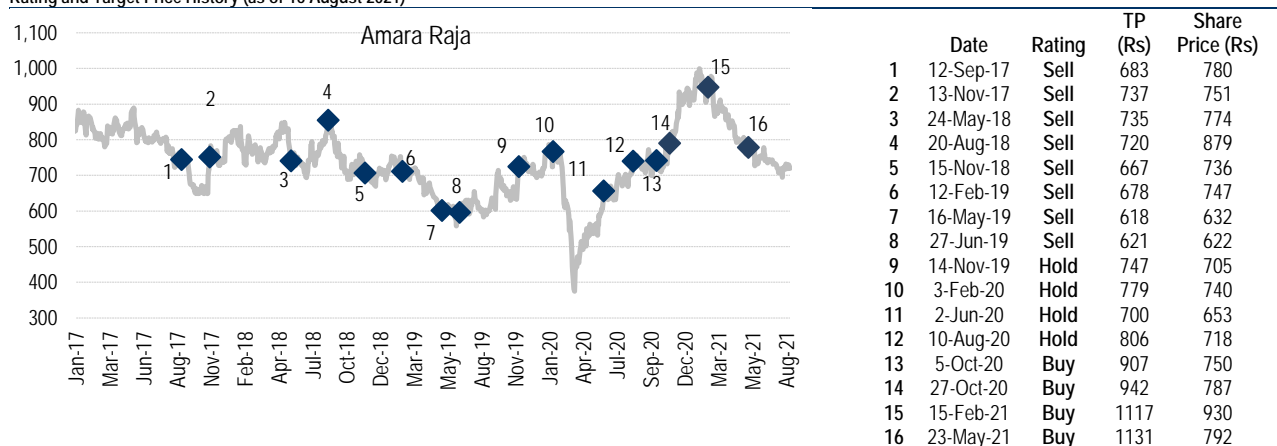
- Lower growth in the replacement market in FY22.

## Appendix

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