

Amara Raja Batteries

BSE SENSEX	S&P CNX
27,035	8,349
Bloomberg	AMRJ IN
Equity Shares (m)	170.8125
M.Cap.(INRb)/(USD\$)	158.1 / 2.3
52-Week Range (INR)	1077 / 776.5
1, 6, 12 Rel. Per (%)	0/3/1
Avg Val, INRm	293.9
Free float (%)	47.94

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	46.9	53.8	63.6
EBITDA	8.2	9.1	11.3
NP	4.9	5.3	6.9
EPS (INR)	28.7	30.9	40.1
EPS Gr. (%)	19.8	7.8	30.0
BV/Sh. (INR)	123.0	148.8	182.3
RoE (%)	25.8	22.7	24.2
RoCE (%)	24.2	21.6	23.1
Payout (%)	32.0	29.7	22.8
Div. Yield	7.4	6.2	5.0

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR902 TP: INR1,087(+20%)
Buy

Operating performance in-line; sales grew ~10% YoY; EBITDA margin lowest in 14 quarters due to higher fixed cost; first PAT decline since 3QFY09

- Net sales grew 10% YoY (but declined 1% QoQ) to INR13.3b (v/s our estimate of ~INR12.6b), driven by 16-17% YoY growth in the automotive segment; industrial segment grew by a modest 2-3% YoY.
- EBITDA margin declined 170bp QoQ (and 360bp YoY) to 15.4% (v/s our estimate of 16.5%) due to higher employee and other expenses, despite in-line gross margin.
- RM cost increased ~80bp QoQ (and 330bp YoY) due to increase in lead prices, despite increase in prices by 3% in November and 4% in December in the replacement market.
- Fixed cost was higher due to new tubular plant, bonus provisioning for employees and negative operating leverage. This translated into EBITDA decline of ~11% YoY/QoQ to INR2.04b (v/s our estimate of INR2.06b).
- Adjusted PAT declined 18% YoY/QoQ to INR1.12b (v/s our estimate of INR1.2b), impacted by higher tax rate.

Takeaways from management interaction: (a) Impact of demonetization felt in 2W segment, (b) Increased market share in both 2W and 4W replacement segment, (c) Auto OEM growth in low single digit, implying strong growth in replacement segment, (d) New tubular plant operated at ~30% utilization (off-season), (e) Lead prices for 3QFY17 at USD1,950-2,000/ton, which could be over USD2,150/ton for 4QFY17, (f) Expansion of 4W battery capacity by 2.4m units (to 10.8m) on track for commissioning in 4QFY17, (g) Inventory is slightly higher due to lower demand in 2W batteries and on account of pre-season buildup of inverter batteries, (h) Capex for FY17 to be at INR4.5b-5b for 2W and 4W battery capacity, and (i) Net cash as at the end of December 2016 at INR2.5b.

Valuation and view: We have cut our EPS estimates by 1.5-2.7% to factor in stronger than estimated revenue growth and higher costs (RM and fixed costs). The stock trades at 23.9x/19.9x FY18/19E EPS. Maintain **Buy** with a target price of ~INR1,087 (25x December 2018E EPS).

Quarterly Performance

Y/E March (INR m)	(INR Million)											
	FY16				FY17				FY16	FY17E	FY17	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	VAR (%)
Net Sales	11,376	11,511	12,123	11,697	13,208	13,455	13,283	13,135	46,907	53,082	12558	5.8
YoY Change (%)	10.5	8.6	13.7	9.7	16.1	16.9	9.6	12.3	11.4	13.2	2	
RM Cost (% of sales)	64.6	64.4	61.8	62.7	66.2	64.3	65.1	64.4	63.2	65.0	65.2	-10bp
Staff Cost (% of sales)	4.9	5.0	5.1	5.3	5.0	5.2	5.4	5.3	4.6	4.7	5.1	30bp
Other Exp (% of sales)	13.0	13.2	14.2	15.7	11.6	13.5	14.1	14.4	13.3	13.9	13.3	80bp
EBITDA	1,988	1,999	2,300	1,908	2,273	2,297	2,040	2,082	8,169	8,692	2066	-1.3
Margins (%)	17.5	17.4	19.0	16.3	17.2	17.1	15.4	15.9	17.4	16.4	16.5	-110bp
Depreciation	328	343	355	372	441	457	469	460	1,399	1,827	475	-1.2
Interest	13	13	16	1	14	15	14	11	5	53	4	245.0
Other Income	136	112	114	97	90	120	133	133	457	475	125	6.0
PBT before EO expense	1,782	1,756	2,043	1,632	1,908	1,945	1,689	1,745	7,222	7,287	1712	-1.3
PBT	1,782	1,756	2,043	1,632	1,908	1,945	1,689	1,745	7,222	7,287	1712	-1.3
Rate (%)	32.1	29.7	33.0	33.5	31.5	29.9	33.7	31.2	32.2	31.5	30	
Adj PAT	1,210	1,234	1,368	1,086	1,307	1,363	1,121	1,201	4,894	4,992	1198	-6.5
YoY Change (%)	14.2	23.1	33.7	6.2	8.0	10.4	-18.1	10.6	24.8	2.0	-12	

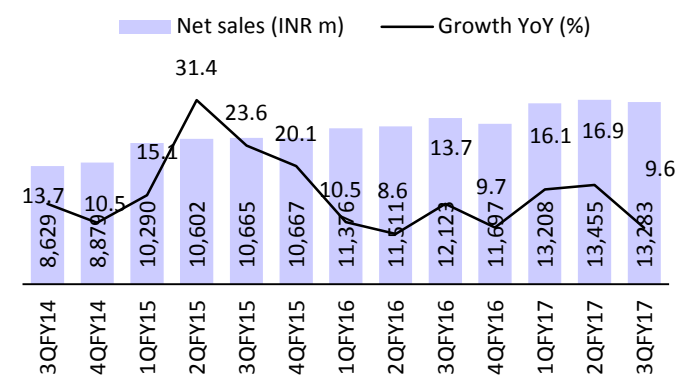
E: MOSL Estimates

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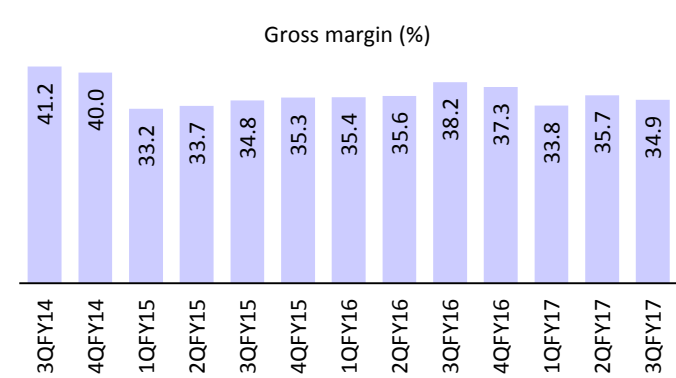
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

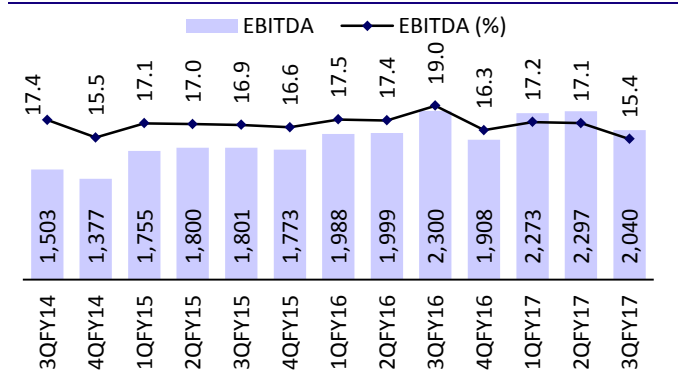
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Net sales grew by 9.3% YoY

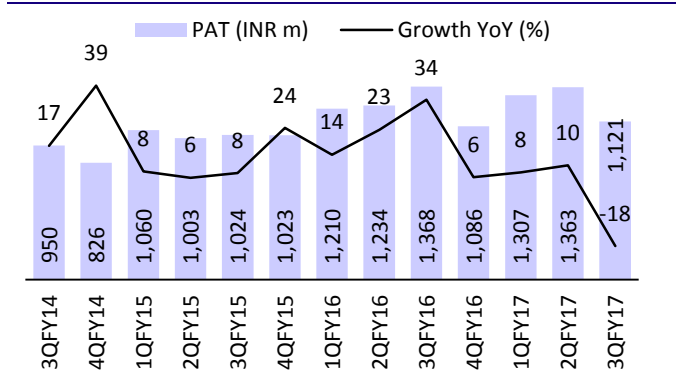
Source: Company, MOSL

Exhibit 2: Gross margins decline 330bp YoY (-80bp QoQ)

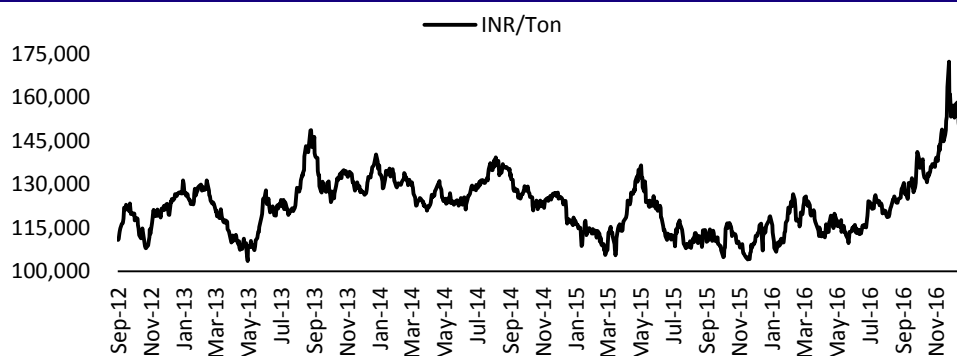
Source: Company, MOSL

Exhibit 3: EBITDA margins at 14 quarter low

Source: Company, MOSL

Exhibit 4: PAT decline for the 1st time since 3QFY09

Source: Company, MOSL

Exhibit 5: Spot lead prices exhibiting high volatility

Source: Company, MOSL

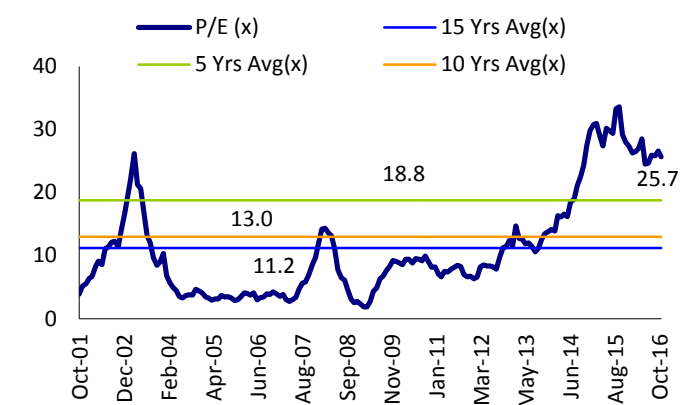
Valuation and view

- **Industry structure remains duopoly, but AMRJ is a strong No. 2:** While the industry structure remains largely duopoly, AMRJ has emerged as a formidable challenger to leader EXIDE, with market leadership in telecom (46% share) and UPS (32%) segments, and a fast gaining share in Autos. Over FY04-16, AMRJ clocked a CAGR of 34% and 68% in net sales and PAT respectively, far exceeding EXID's 20% CAGR each in net sales and PAT. This has been driven through a combination of technological innovations (first to introduce maintenance-free, factory charged, extended warranty batteries), witty advertising and unique distribution model (franchisee based) supported with operational efficiency-led competitive pricing.
- **AMRJ – gearing up to be leader:** AMRJ is gearing up to be a leader through i) consolidating in existing areas, ii) entering new business opportunities within battery space, mainly home UPS, Solar and Motive Power and iii) aided by capacity and network expansion. Company aims to increase its share in the OEM and replacement segments to 40% (from current 30%) and 30% (from current 24%) respectively over the medium term. In the telecom segment, AMRJ expects to maintain its market share at current levels (60% currently).
- **Strong ~24% EPS CAGR over FY17-FY19E, robust return ratios and FCF; Buy:** We have marginally revised our EPS estimate downwards by 1.5-2.7%, to factor in stronger than estimated revenue growth and higher cost (RM and fixed cost). Stable competitive environment, recovery in demand and stable margins would drive ~24% CAGR in EPS over FY17-19E. Significant FCF generation (~INR5.8b over FY17-19E) and stable RoE of 22-23% —coupled with potential shift from unorganized to organized players due to GST would continue to drive stock re-rating. The stock trades at 23.9x/19.9x FY18/19E EPS. Maintain Buy with a TP of ~INR1,087 (25x Dec-18E EPS).

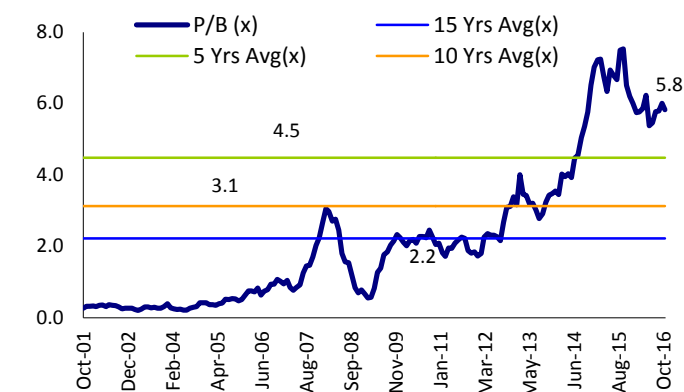
Exhibit 6: Revised estimates

(INR M)	FY17E			FY18E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	53,082	52,537	1.0	62,927	62,294	1.0
EBITDA (%)	16.4	16.7	-30bp	17.0	17.6	-60bp
Net Profit	4,992	5,067	-1.5	6,443	6,619	-2.7
EPS (INR)	29.2	29.7	-1.5	37.7	38.8	-2.7

Source: MOSL

Exhibit 7: Valuations trading above historical average, reflecting improving fundamentals

Source: MOSL



Source: MOSL

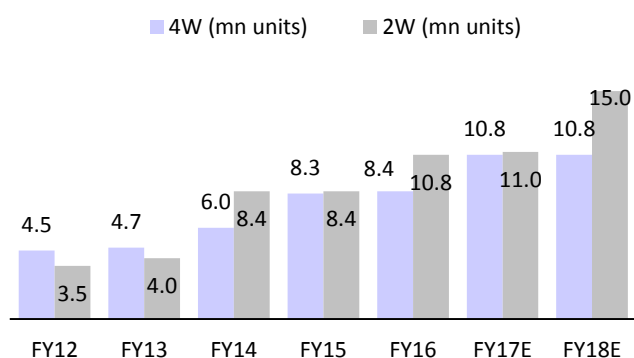
Exhibit 8: Comparative valuation

	CMP	Rating	TP	P/E (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)		EPS CAGR (%)
Auto OEM's	(INR)		(INR)	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY16E-18E
Bajaj Auto	2,698	Buy	3,097	20.3	17.0	14.2	11.5	29.4	30.9	28.6	30.0	9.8
Hero MotoCorp	3,057	Neutral	3,288	18.0	15.9	12.0	10.4	39.0	37.5	38.1	36.7	10.2
TVS Motor	379	Buy	407	31.3	23.0	19.7	14.7	26.5	29.5	27.4	32.1	34.7
M&M	1,192	Buy	1,497	18.1	14.2	14.9	13.1	14.5	14.5	12.1	12.3	11.9
Maruti Suzuki	5,672	Buy	6,121	21.9	18.2	14.2	11.4	23.1	23.1	31.1	31.0	31.4
Tata Motors	523	Buy	473	18.0	11.5	5.3	4.0	11.5	15.9	8.8	11.9	11.3
Ashok Leyland	86	Buy	92	17.7	13.0	9.4	7.2	23.5	26.5	17.3	20.8	29.7
Eicher Motors	22,744	Buy	28,755	37.1	26.2	28.7	21.8	40.3	41.6	27.1	30.7	32.8
Auto Ancillaries												
Bharat Forge	924	Buy	974	36.9	25.4	17.3	13.7	15.9	20.0	10.9	14.4	13.8
Exide Industries	195	Buy	213	24.9	20.6	15.3	13.0	13.6	14.7	14.0	15.3	13.5
Amara Raja Batteries	902	Buy	1,087	30.9	23.9	17.6	14.2	21.6	23.1	20.6	22.1	14.7
BOSCH	21,290	Neutral	20,937	41.9	32.4	33.1	24.8	19.7	24.5	27.9	33.6	16.7

Source: MOSL

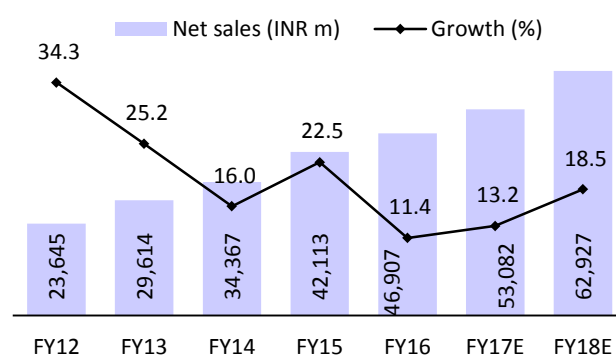
Amara Raja | Story in charts: Robust ~24% EPS CAGR expected over FY16-19E

Exhibit 9: Capacity for various batteries



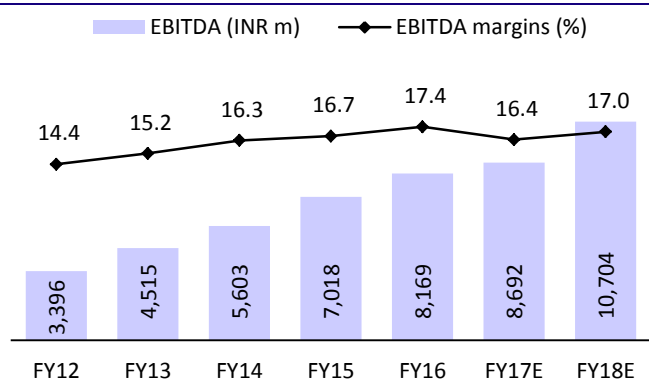
Source: Company, MOSL

Exhibit 10: Expect net sales to register a CAGR of ~18% over FY16-19E



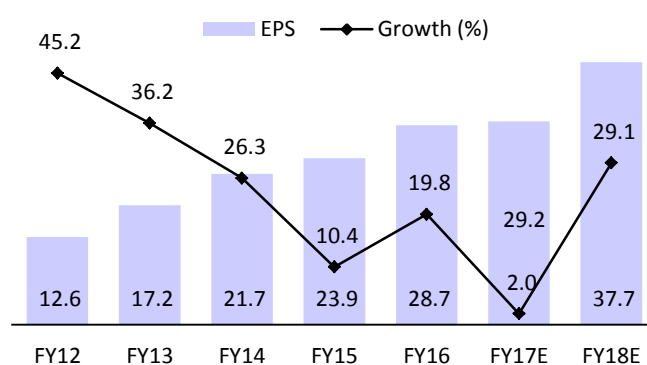
Source: Company, MOSL

Exhibit 11: Expect margins to sustain and improve to 18% by FY18E



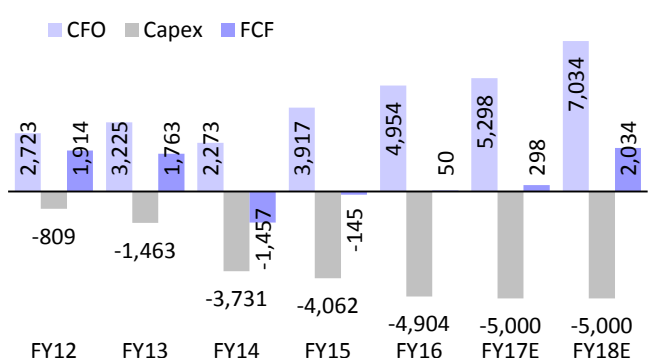
Source: Company, MOSL

Exhibit 12: Strong EPS growth of ~20% over FY16-18E



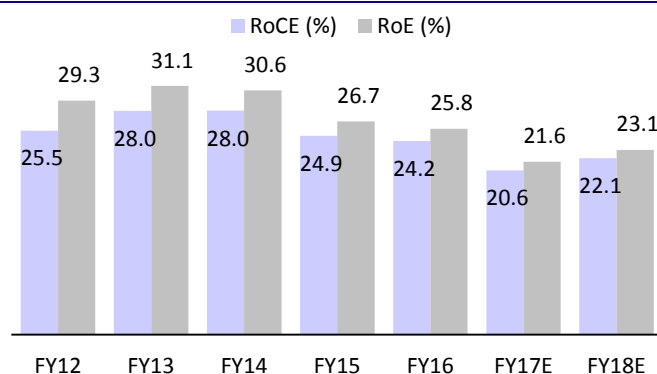
Source: Company, MOSL

Exhibit 13: FCF to turn positive in FY18E



Source: Company, MOSL

Exhibit 14: Return ratios to remain strong



Source: Company, MOSL

Financials and Valuations

Standalone - Income Statement

(INR Million)

Y/E March	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Gross Revenues	16,904	19,443	26,029	33,110	38,372	46,372	52,418	59,452	69,219	79,860
Less: Excise Duty	2,259	1,833	2,384	3,496	4,005	4,258	5,511	6,370	6,293	7,260
Net Sales	14,645	17,611	23,645	29,614	34,367	42,113	46,907	53,082	62,927	72,600
Change (%)	11.5	20.3	34.3	25.2	16.0	22.5	11.4	13.2	18.5	15.4
Gross operating income	16,904	19,443	26,029	33,110	38,372	46,372	52,418	59,452	69,219	79,860
Total Expenditure	11,760	15,037	20,249	25,099	28,764	35,095	38,738	44,390	52,223	59,914
EBITDA	2885	2574	3396	4515	5603	7018	8,169	8,692	10,704	12,686
Margin (%)	19.7	14.6	14.4	15.2	16.3	16.7	17.4	16.4	17.0	17.5
Depreciation	429	417	465	661	646	1,340	1,399	1,827	2,228	2,643
EBIT	2,455	2,157	2,931	3,854	4,957	5,678	6,770	6,865	8,476	10,043
Int. and Finance Charges	79	31	25	10	7	2	5	53	51	46
Other Income - Rec.	170	78	280	466	455	423	457	475	650	850
PBT bef. EO Exp.	2,546	2,204	3,186	4,310	5,405	6,099	7,222	7,287	9,074	10,847
EO Expense/(Income)	0	0	0	92	39	73	0	0	0	0
PBT after EO Exp.	2,546	2,204	3,186	4,218	5,367	6,026	7,222	7,287	9,074	10,847
Tax Rate (%)	34.4	32.8	32.5	32.0	31.5	33.0	32.2	31.5	29.0	28.5
Reported PAT	1,670	1,481	2,151	2,867	3,674	4,036	4,894	4,992	6,443	7,756
PAT Adj for EO items	1,670	1,481	2,151	2,929	3,701	4,084	4,894	4,992	6,443	7,756
Change (%)	107.5	-11.3	45.2	36.2	26.3	10.4	19.8	2.0	29.1	20.4
Margin (%)	11.4	8.4	9.1	9.9	10.8	9.7	10.4	9.4	10.2	10.7

Standalone - Balance Sheet

(INR Million)

Y/E March	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	171	171	171	171	171	171	171	171	171	171
Total Reserves	5,266	6,289	8,064	10,427	13,456	16,825	20,846	25,004	30,395	36,884
Net Worth	5,436	6,459	8,235	10,598	13,627	16,996	21,016	25,174	30,565	37,055
Deferred Liabilities	216	205	220	195	301	368	588	698	788	897
Total Loans	912	1,000	855	881	843	741	725	725	725	725
Capital Employed	6,565	7,664	9,310	11,674	14,772	18,106	22,330	26,597	32,079	38,677
Gross Block	4,911	5,388	6,213	6,803	9,955	14,414	19,147	24,346	29,346	34,346
Less: Accum. Deprn.	1,854	2,237	2,667	3,214	3,860	4,970	5,984	7,810	10,038	12,682
Net Fixed Assets	3,057	3,151	3,546	3,589	6,096	9,444	13,163	16,536	19,308	21,664
Capital WIP	227	375	315	1,030	1,447	863	1,199	1,000	1,000	1,000
Total Investments	161	161	161	161	161	161	161	161	161	161
Curr. Assets, Loans&Adv.	6,311	7,472	9,493	12,925	13,691	13,414	14,560	15,574	19,511	24,982
Inventory	2,176	2,847	2,666	2,929	3,350	4,181	6,017	6,108	6,896	7,757
Account Receivables	2,423	3,057	3,197	3,807	4,528	5,541	5,922	6,701	7,944	9,165
Cash and Bank Balance	625	451	2,292	4,108	2,946	2,222	1,503	1,498	3,170	6,327
Loans and Advances	1,087	1,117	1,339	2,082	2,867	1,469	1,120	1,267	1,502	1,733
Curr. Liability & Prov.	3,191	3,496	4,206	6,030	6,623	5,775	6,754	6,674	7,901	9,130
Account Payables	1,376	1,091	949	1,577	1,577	2,616	3,301	2,472	2,931	3,381
Other Current Liabilities	281	937	1,196	1,960	1,858	1,521	2,471	2,796	3,314	3,824
Provisions	1,535	1,468	2,061	2,493	3,188	1,639	983	1,406	1,656	1,925
Net Current Assets	3,120	3,977	5,288	6,895	7,068	7,638	7,806	8,900	11,610	15,851
Appl. of Funds	6,565	7,664	9,310	11,674	14,771	18,106	22,330	26,597	32,079	38,677

Financials and Valuations

Ratios

Y/E March	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Basic (INR)										
EPS	9.8	8.7	12.6	17.2	21.7	23.9	28.7	29.2	37.7	45.4
Cash EPS	12.3	11.1	15.3	21.0	25.4	31.8	36.8	39.9	50.8	60.9
BV/Share	31.8	37.8	48.2	62.0	79.8	99.5	123.0	147.4	179.0	216.9
DPS	1.5	2.3	1.9	2.5	3.6	3.6	4.3	4.1	5.1	6.2
Payout (%)	17.4	30.9	17.4	17.6	19.3	18.4	17.8	16.7	16.3	16.3
Valuation (x)										
P/E						37.7	31.5	30.9	23.9	19.9
Cash P/E						28.4	24.5	22.6	17.8	14.8
P/BV						9.1	7.3	6.1	5.0	4.2
EV/Sales						3.6	3.3	2.9	2.4	2.0
EV/EBITDA						21.8	18.8	17.6	14.2	11.7
Dividend Yield (%)						0.4	0.5	0.5	0.6	0.7
Return Ratios (%)										
RoE	35.2	24.9	29.3	31.1	30.6	26.7	25.8	21.6	23.1	22.9
RoCE	25.2	21.1	25.5	28.0	28.0	24.9	24.2	20.6	22.1	22.0
RoIC	29.1	23.7	29.9	40.6	40.9	30.3	26.7	21.7	23.3	24.4
Working Capital Ratios										
Gross Fixed Asset Turnover (x)	3.0	3.3	3.8	4.4	3.5	2.9	2.4	2.2	2.1	2.1
Inventory (Days)	54.2	59.0	41.2	36.1	35.6	36.2	46.8	42.0	40.0	39.0
Debtor (Days)	52	57	45	42	43	44	41	41	42	42
Creditor (Days)	34	23	15	19	17	23	26	17	17	17
Working Capital Turnover (Days)	62	73	46	34	44	47	49	51	49	48
Leverage Ratio (x)										
Current Ratio	2.0	2.1	2.3	2.1	2.1	2.3	2.2	2.3	2.5	2.7
Debt/Equity	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0

Standalone - Cash Flow Statement

(INR Million)

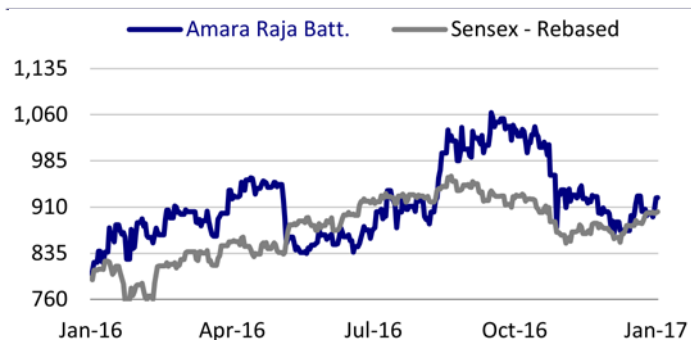
Y/E March	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Net P/L Before Tax and E/O Items	2,546	2,204	3,187	4,218	5,366	6,099	7,222	7,287	9,074	10,847
Depreciation	430	417	470	577	637	1,245	1,399	1,827	2,228	2,643
Interest & Finance Charges	61	9	-28	-110	-808	-29	-452	-422	-599	-804
Direct Taxes Paid	785	776	1,026	1,366	1,606	1,922	2,327	2,295	2,632	3,091
(Inc)/Dec in WC	-260	-1,138	120	-94	-1,315	-1,475	-887	-1,098	-1,038	-1,084
CF from Operations	1,992	716	2,723	3,225	2,273	3,917	4,954	5,298	7,034	8,511
(inc)/dec in FA	-515	-667	-809	-1,463	-3,731	-4,062	-4,904	-5,000	-5,000	-5,000
Free Cash Flow	1,628	195	2,176	1,892	-943	-180	50	298	2,034	3,511
Others	338	54	82	269	294	176	457	475	650	850
CF from Investments	-177	-612	-727	-1,194	-3,437	-3,886	-4,447	-4,525	-4,350	-4,150
(Inc)/Dec in Debt	-1,908	17	-271	3	-87	-112	203	109	91	108
Interest Paid	-68	-21	84	-17	-14	-84	-5	-53	-51	-46
Dividend Paid	-68	-419	-222	-323	-430	-552	-874	-834	-1,052	-1,266
CF from Fin. Activity	-2,044	-422	-409	-336	-531	-748	-675	-777	-1,012	-1,204
Inc/Dec of Cash	-78	-174	1,848	1,825	-1,180	-751	-169	-4	1,672	3,157
Add: Beginning Balance	703	625	444	2,283	4,138	2,897	2,146	1,977	1,972	3,644
Closing Balance	625	451	2,292	4,108	2,958	2,146	1,977	1,972	3,644	6,801

Corporate profile

Company description

Commencing operations in 1992, AMRJ has become India's second-largest lead-acid battery manufacturer (next to market leader EXID), with market leadership in telecom and UPS segments. It is reckoned as one of the pioneers in VRLA (valve regulated lead acid) batteries. Johnson Control USA (JC) is an equal partner and acquired 26% equity in AMRJ in 1997.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Dec-16	Sep-16	Dec-15
Promoter	52.1	52.1	52.1
DII	8.0	7.8	9.3
FII	21.7	21.5	19.5
Others	18.3	18.6	19.1

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Franklin Templeton Investment Funds	2.8
ICICI Prudential Value Discovery Fund	2.0
Smallcap World Fund, Inc	1.1
Baron Emerging Markets Fund	1.2

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Ramachandra N Galla	Chairman
Jayadev Galla	Vice Chairman & M.D.
M R Rajaram	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
N Sri Vishnu Raju*	Nagarjun Valluripalli*
Raymond J Brown*	Shu Qing Yang
T R Narayanaswamy*	Bhairavi Tushar Jain
Raphael John Shemanski	

*Independent

Exhibit 6: Auditors

Name	Type
Brahmayya & Co	Statutory
Deloitte Haskins & Sells LLP	Statutory
Sagar & Associates	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	29.2	33.9	-13.9
FY18	37.7	41.6	-9.3

Source: Bloomberg

NOTES

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AMARA RAJA BATTERIES

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