

Exide Industries (EXID)

Rating: ◀▶

Target price: ◀▶

EPS: ▼

CMP

Rs. 161

Target

Rs. 155

Rating

REDUCE

How does our one year outlook change?

- We retain our negative stance on Exide due to continued weakness in its end-markets and miniscule near term margin benefit from tech upgrade and cost cutting initiatives. We value the stock at Rs. 155 based on 16x FY17 EPS of Rs. 8.6 and Rs. 15/share for Insurance business
- Revenue in 2QFY16 was impacted by the de-growth in industrial (continues to be weak as witnessed in 1Q) and Auto OEM segments (down 5% yoy). 4W replacement volumes also witnessed muted growth of 1% yoy driven by a high base. Industrial segments contribute ~38% of revenue and the key end-markets viz. solar, power, projects, traction, railway, inverter are expected to remain weak in 2HFY16
- While FY16 is expected to remain weak, we expect recovery in industrial segments in FY17 on a low base, resulting in better revenue growth in FY17. However, FY15-FY17 CAGR is expected to be muted at ~8%
- Historically, product mix resulted in highest margins in 1Q, however we have seen margins maintained in 2QFY16 (qoq). We believe this was primarily due to soft lead costs. Expect this to continue in 2H. Moreover, auto OEM volumes are expected to be stronger in 2H resulting in operating leverage. Expect EBITDA margin of 15.1%/15.5% in FY16/FY17
- Capex is steep at ~Rs. 7bn on tech and plant upgrade (from Hitachi and East Penn). Upgrade would initially start with two plants and later in other facilities. Benefits, by way of lower material costs, product quality, productivity and consistency would come in FY17/FY18 (4QFY16 in one plant and June'16 for another). Management guide for ~100bps margin expansion over a longer term when majority of its facilities are upgraded.
- Longer term capacity targets: 4W - 12.2mn to 13.8mn; 2W - 22 to 26mn and Industrial from 2.8 to 3.2bn Ah)

How does our 3 year Outlook change?

- Expect higher competition from Amara Raja to impact Exide across all segments as Amara Raja adds capacity across the board. Growth in OEM segment for Exide could also be at risk given Amara having a high share in incremental business from new platforms/launches by OEMs
- Expect the unorganised auto replacement market to structurally shrink over the next three years benefitting organised players. We believe automotive aftermarket would structurally see double digit growth CAGR

2QFY16 Update				29th Oct 2015	
Promoters	46.0 %			Bloomberg	EXID IN
Institutions	32.9%			Shares o/s	850mn
Public	21.1 %			Market Cap	Rs. 137bn
	1m	3m	12m	52-wk High-Low	Rs. 207-136
EXID	3%	14%	3%	3m Avg. Daily Vol	Rs. 260mn
Sensex	6%	-2%	1%	Index	BSEAUTO
BSE Auto	5%	-2%	5%		

Key estimate revision

	FY16E			FY17E		
	Old	New	Change	Old	New	Change
Revenue	76,465	72,793	-4.8%	87,697	80,636	-8.1%
EBITDA	11,080	11,016	-0.6%	13,418	12,499	-6.9%
Margin (%)	14.5%	15.1%	63 bps	15.3%	15.5%	20 bps
PAT	6,431	6,603	2.7%	7,791	7,318	-6.1%
PAT Margin	8.41%	9.07%	66 bps	8.88%	9.08%	20 bps
EPS	7.6	7.8	2.2%	9.2	8.6	-6.4%

All figures in Rs. mn, except EPS, which is in Rs.

Standalone Financial summary

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	Adj .PAT (Rs. mn)	Adj EPS (Rs.)	P/E (x)	EV/EBITDA (x)
FY14	59,765	8,253	4,871	5.7	27.9	17.1
FY15	68,862	9,172	5,459	6.4	24.9	15.0
FY16E	72,793	11,016	6,603	7.8	20.6	12.9
FY17E	80,636	12,499	7,318	8.6	18.6	11.9

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Key takeaways from the post results conference call

- Overall industry CAGR (2011-2015) for key segments catered to are as follows: Passenger vehicles : 2%; CV: (2%), tractors : (3%), 2W: 8%, and construction vehicles (2.6%). The estimated growth in production for FY17, based on interactions with industry players, is expected to be as follows: PV: 5%, CV 7%, Tractors 5%, and 3W 5%.
- Except the vehicular replacement and traction battery segments, all segments including OEM, railway, telecom, UPS segments are not performing well, while the inverter segment has been subdued.
- The volumes in the auto segment was down by 10.5%, with OEM volumes down by 5%.
- Growth in telecom segment has been subdued as the batteries are lasting longer, while good weather conditions, and better power availability due to lower industry demand for electricity has impacted inverter business.
- Replacement revenue as % of overall revenue is ~ 41% H1FY16, of which plate inverters would be 10% and the balance 31% would be 2W and 4W replacement. OEM revenue as % of overall revenue would be 59%.
- Industrial segment revenue as % of sales for H1FY16 was 38%, with industrial inverters ~ 17% of revenue, infra at ~ 9%, telecom at ~ 2% and others contributing the rest.
- The market share in the telecom segment has improved to around 10% from around 3 – 4% last year. Plan to introduce products using the gel technology as the electrolyte.
- Railways is not seen as a big market; with a size of ~Rs.250mn; Exide has a share of ~23% in the segment.
- Soft lead costs have benefitted, however, in the B2B segment there has been a price reset, partially offsetting any gains. No major price cuts were taken in the replacement market . Benefitted to the extent of ~ Rs. 210 mn by soft lead prices in Q2. Benefits also derived from better negotiation of contracts and efficient procurement. The average lead cost in Q2 was Rs. 140,000 (Q1 Rs. 144,000) Medium term target would be to sustain margins at 15%; and gradually see margins at 16%.
- Volume in industrial segment for Q2FY16: 520 Ah with Q2FY15 at 525 Ah. Replacement ratio: 4W (includes flat plate) – 1.75 in Q2 (1.8 in Q2FY15), 2W: 0.57 in Q2 (0.58 in Q2FY15)
- Focus on tech upgradation and cost reduction efforts have been reflected in this quarter, though not fully. Have only concluded Phase1 of cost cutting efforts, and the production under the said plant should commence in Q4 (represents 0.8mn batteries capacity). Tech upgradation across all plants will take at least 2 years; benefits by lower weight - lower lead consumption, higher productivity - lower manpower, better quality - lower warranty. Expect benefits of around 100 bps as a result of the technology upgradation efforts, when all plants are on-stream with the new technology.
- Capacity utilisation levels for Q2 – 80% in the SLI segment, 91% in the MC segment and 75% in the industrial segment.
- Capex estimates for FY16 would be around Rs.7 bn. Some capacity will come on stream in Q1 and Q2 of FY17 and increase capacity by ~1.5mn. 2W capacity is witnessing high utilisation levels; planning to add capacity of 1mn batteries in the near term with an objective is to increase capacity to around 26mn by 2017-18
- No further increase in A&P expenses is foreseen; in fact, there might be cuts going forward as part of cost cutting efforts.
- The share of the unorganised market in the 2W and 4W replacement market is ~ 40%
- Exide charges a premium of ~8-10% over competition for its products.

Exide Industries (EXID)

Quarterly Financial Results

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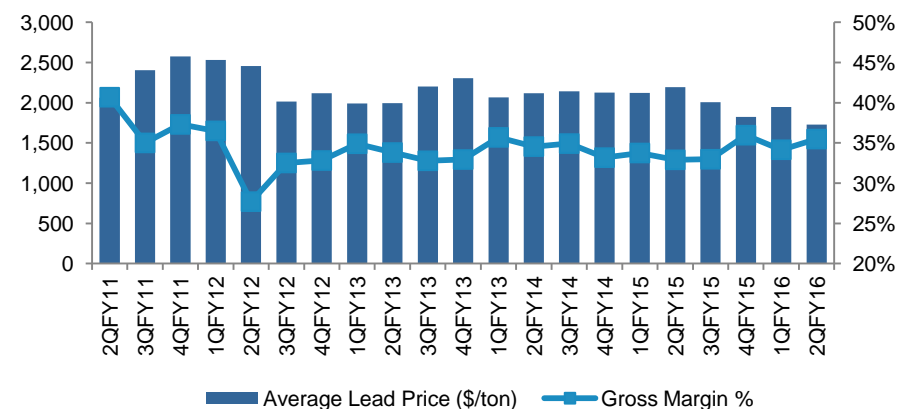
Rating

REDUCE

Standalone financial results

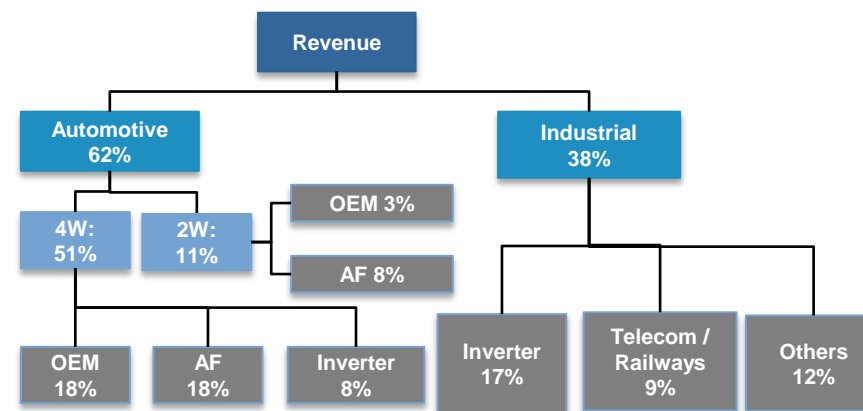
Rs. mn\Period	Sep-15	Sep-14	yoy %	Jun-15	qoq Growth
Revenue	17,390	17,633	-1.4%	17,995	-3.4%
Raw Material	11,220	11,832	-5.2%	11,850	-5.3%
Employee cost	1,170	1,083	8.1%	1,111	5.3%
Other cost	2,425	2,641	-8.2%	2,375	2.1%
Total Expenditure	15,199	15,885	-4.3%	15,703	-3.2%
EBITDA	2,574	2,077	23.9%	2,660	-3.2%
Margin %	14.8%	11.8%	302 bps	14.8%	2 bps
D&A	383	329	16.5%	368	4.3%
EBIT	2,191	1,748	25.3%	2,292	-4.4%
Other income	84	69	23.0%	31	172.3%
Net Interest exp (inc)	0	4	-97.6%	2	-95.2%
PBT	2,275	1,813	25.5%	2,321	-2.0%
Tax provision	-715	-555	28.8%	-769	-7.0%
Tax rate %	31.4%	30.6%	80 bps	33.1%	-172 bps
PAT (Reported)	1,561	1,258	24.1%	1,552	0.6%
PAT Margin %	9.0%	7.1%	184 bps	8.6%	35 bps
Shares Outstanding	850	850		850	
EPS (Reported)	1.84	1.48	24.1%	1.83	0.6%

Average lead price and gross margin movement for Exide



Source: Spark Capital Research

Estimated Revenue Breakup for 2QFY16



Source: Company, Spark Capital Research

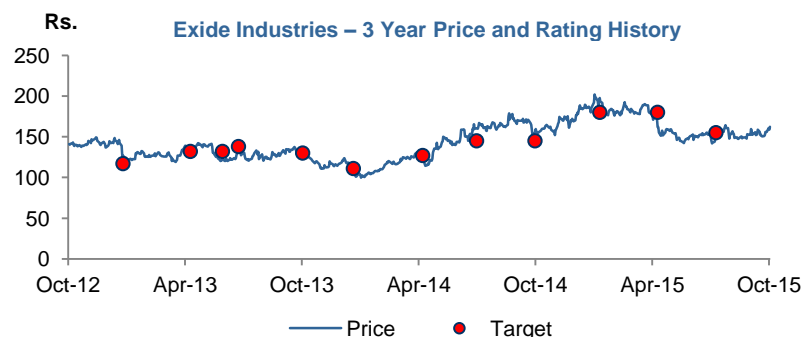
Abridged Financial Statements (Standalone)

Rs. mn	FY14	FY15	FY16E	FY17E
Profit & Loss				
Revenues	59,765	68,862	72,793	80,636
Manufacturing & Other Expenses	51,512	14,162	37,641	16,127
EBITDA	8,253	9,172	11,016	12,499
Depreciation	1,256	1,395	1,505	1,773
EBIT	6,997	7,777	9,510	10,726
Net Interest Exp / (inc)	12	17	10	16
Profit Before Tax	7,231	7,985	9,686	10,923
Tax	2,360	2,526	3,083	3,605
Adj. Net Profit	4,871	5,459	6,603	7,318
Balance Sheet (Rs. mn)				
Shareholders Equity	37,315	40,546	49,349	58,868
Loan funds	-	176	-	-
SOURCES OF FUNDS	38,365	41,980	50,609	60,128
Net block	9,980	10,902	16,407	19,434
Investments	19,670	18,957	18,957	18,957
Capital WIP	510	1,002	1,002	200
Current assets, loans & advances	19,406	23,166	26,484	34,738
Current liabilities & provisions	11,201	12,046	12,229	13,190
Net Current Assets	8,205	11,121	14,254	21,548
APPLICATION OF FUNDS	38,365	41,980	50,609	60,128
Cash Flows (Rs. mn)				
Cash flows from operations	6,470	3,263	9,645	8,758
Capex	(1,352)	(3,073)	(7,000)	(3,998)
Cash flows from investments	(4,343)	(2,148)	(7,000)	(3,998)
Cash flows from financing	(1,675)	(2,016)	2,025	2,201
Free cashflow	5,118	190	2,645	4,760
Closing cash	1,200	298	4,968	11,929

Key metrics

	FY14	FY15E	FY16E	FY17E
Growth ratios				
Revenues	-1.7%	15.2%	5.7%	10.8%
EBITDA	4.5%	11.1%	20.1%	13.5%
PAT	-6.8%	12.1%	21.0%	10.8%
Margins				
EBITDA	13.8%	13.3%	15.1%	15.5%
EBIT	11.7%	11.3%	13.1%	13.3%
PAT	8.2%	7.9%	9.1%	9.1%
Leverage & WC ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Current ratio (x)	1.7	1.9	2.2	2.6
Debtor days (Sales)	31	28	28	28
Inventory days (COGS)	108	107	105	100
Creditor Days (COGS)	53	49	51	51
Performance & turnover ratios				
RoACE	12.8%	13.2%	14.0%	13.0%
RoAE	13.6%	14.0%	14.7%	13.5%
Total asset turnover (x)	1.3	1.4	1.2	1.2
Fixed asset turnover (x)	3.1	3.3	2.8	2.5
Valuation metrics				
Current price (Rs.)	160			
Shares outstanding (mn)	850	850	850	850
Market capitalisation (Rs. mn)	1,36,000	1,36,000	1,36,000	1,36,000
Enterprise value (Rs. mn)	1,40,924	1,37,705	1,42,375	1,49,335
EV/EBIDTA (x)	17.1	15.0	12.9	11.9
Adj. Per-share earnings (Rs.)	5.7	6.4	7.8	8.6
Price-earnings multiple (x)	27.9	24.9	20.6	18.6
Dividend yield (%)	1.1%	1.4%	1.4%	1.4%

Spark Disclaimer

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Report Date	Price	Target	Reco.	Report Date	Price	Target	Reco.
03/Aug/15	146	155	Reduce	21/Jan/13	127	117	Reduce
04/May/15	172	180	Reduce	23/Oct/12	140	125	Reduce
03/Feb/15	195	180	Sell				
22/Oct/14	151	145	Reduce				
24/Jul/14	160	145	Sell				
30/Apr/14	119	127	Reduce				
15/Jan/14	105	111	Reduce				
28/Oct/13	122	130	Add				
18/Jul/13	127	138	Add				
25/Jun/13	120	132	Add				
06/May/13	136	132	Reduce				

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