

Exide Industries (EXID)

Rating: ◀▶

Target price: ▲

EPS: ◀▶

CMP

Rs. 149

Target

Rs. 142

Rating

REDUCE

How does our one year outlook change?

- We retain our negative stance on Exide due to intensifying competition and expectations of staid growth rates in major end markets, compounded by miniscule near-term margin benefit expected from on-going technology upgrade and cost cutting initiatives. **We value the stock at Rs. 142 based on 14x FY18 EPS of Rs. 9.0 and Rs. 15/share for Insurance business.**
- 4QFY16 revenue registered a 7% YoY growth led by improvement in both the auto and industrial segments. Notably, 4QFY16 was the only quarter in FY16 which saw favorable mgmt. commentary on industrial battery, specifically UPS and inverter batteries. Auto replacement continued to perform well in 4QFY16.
- GM for the quarter declined ~80bps, QoQ. We believe that this could be due to the QoQ increase in the lead prices by 5.6%, which is passed to the B2B portion of the business, typically, only with a lag of one quarter.
- EBITDA margin for 4QFY16 at 15.2% declined by ~20bps, QoQ, with increase in RM costs being partially offset by a decline in employee costs by ~70bps. PAT registered a 29% YoY growth, led by 300% YoY growth in other income (primarily dividend from subsidiaries) and lower tax rates.
- Expect the Auto segment (~65% of revenue) to propel growth in FY17, driven by both 2Ws and 4Ws; expect the segment to grow at CAGR of 10% over FY16-FY18. Revenue from industrial segment is expected to pick up in FY18, and grow at a CAGR of 11%, over FY16-FY18, largely back-ended.
- Exide has embarked upon a capex plan involving an outlay of ~Rs. 7bn on tech and plant upgrade. Capex for FY16 stood at ~Rs.4.2bn. Benefits - lower material costs and product quality, are expected only in late FY17/ early FY18. Mgmt. has guided for ~100bps margin expansion over a longer term when majority of its facilities are upgraded.
- We believe that the huge magnitude of capex (for 2 plants) and limited benefits expected (~100 bps improvement in margins), that too only on upgradation of all facilities, could depress inhibit significant improvement in RoCE going forward.
- Longer term capacity targets: 4W - 12.2mn to 15.2mn; 2W - 22 to 26mn and Industrial from 2.8 to 3.1bn 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

4QFY16 Update				29th Apr 2016	
Promoters	46.0 %			Bloomberg	EXID IN
Institutions	35.4%			Shares o/s	850mn
Public	18.6 %			Market Cap	Rs. 125bn
	1m	3m	12m	52-wk High-Low	Rs. 182-116
EXID	8%	24%	-17%	3m Avg. Daily Vol	Rs. 211mn
Sensex	3%	5%	-7%	Index	BSE100
BSE Auto	5%	11%	-1%		

Key estimate revision

	FY17E			FY18E		
	Old	New	Change	Old	New	Change
Revenue	72,869	73,822	1.3%	80,971	82,593	2.0%
EBITDA	11,513	11,442	-0.6%	13,036	12,884	-1.2%
Margin (%)	15.8%	15.5%	-30 bps	16.1%	15.6%	-50 bps
PAT	6,660	6,789	1.9%	7,647	7,675	0.4%
PAT Margin	9.1%	9.2%	6 bps	9.4%	9.3%	-15 bps
EPS	7.8	8.0	2.4%	9.0	9.0	0.3%

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

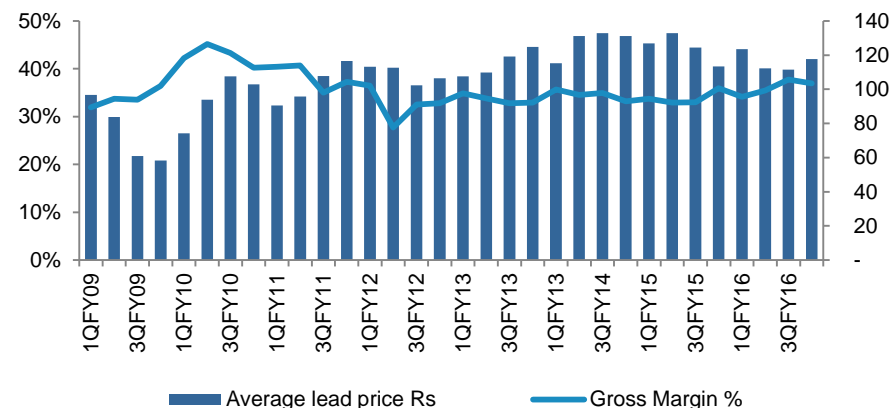
Standalone Financial summary

Year	Revenues (Rs. mn)	EBITDA Margin	Adj .PAT (Rs. mn)	Adj EPS (Rs.)	P/E (x)	EV/EBITDA (x)
FY15	68,862	13.3%	5,459	6.4	23.2	14.0
FY16E	68,246	15.0%	6,228	7.3	20.4	12.8
FY17E	73,822	15.5%	6,789	8.0	18.7	11.3
FY18E	82,593	15.6%	7,675	9.0	16.5	10.2

Standalone financial results

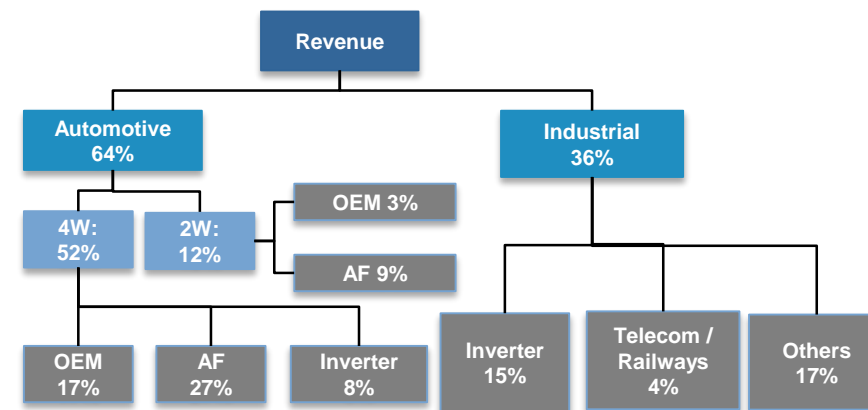
Rs. mn\Period	Mar-16	Mar-15	yoy %	Dec-15	qoq Growth
Revenue	17,614	16,518	6.6%	15,247	15.5%
Raw Material	11,108	10,578	5.0%	9,488	17.1%
Employee cost	1,266	1,065	18.9%	1,200	5.6%
Other cost	2,565	2,494	2.9%	2,217	15.7%
Total Expenditure	15,384	14,527	5.9%	13,311	15.6%
EBITDA	2,674	2,382	12.3%	2,343	14.2%
Margin %	15.2%	14.4%	77 bps	15.4%	-18 bps
D&A	445	391	13.8%	406	9.6%
EBIT	2,230	1,991	12.0%	1,937	15.1%
Other income	226	57	300.4%	75	203.2%
Net Interest exp (inc)	0	3	-88.9%	1	-40.0%
PBT	2,456	2,045	20.1%	2,011	22.1%
Tax provision	(680)	(669)	1.7%	(671)	1.3%
Tax rate %	27.7%	32.7%	-501 bps	33.4%	-569 bps
PAT (Reported)	1,776	1,376	29.0%	1,340	32.5%
PAT Margin %	10.1%	8.3%	175 bps	8.8%	130 bps
Shares Outstanding	850	850	0.0%	850	0.0%
EPS (Reported)	2.09	1.62	29.0%	1.58	32.5%

Average lead price and gross margin movement for Exide



Source: Spark Capital Research

Estimated Revenue Breakup for FY16



Source: Company, Spark Capital Research

Abridged Financial Statements (Standalone)				
Rs. mn	FY15	FY16	FY17E	FY18E
Profit & Loss				
Revenues	68,862	68,246	73,822	82,593
Manufacturing & Other Expenses	14,162	57,995	15,503	17,262
EBITDA	9,172	10,251	11,442	12,884
Depreciation	1,395	1,602	1,737	1,872
EBIT	7,777	8,649	9,706	11,012
Net Interest Exp / (inc)	17	3	2	2
Profit Before Tax	7,985	9,063	10,133	11,455
Tax	2,526	2,835	3,344	3,780
Adj. Net Profit	5,459	6,228	6,789	7,675
Balance Sheet (Rs. mn)				
Shareholders Equity	40,546	44,325	48,564	53,587
Loan funds	176	1,075	1,075	1,075
SOURCES OF FUNDS	41,980	46,659	50,898	55,922
Net block	10,902	13,486	16,749	17,377
Investments	18,957	26,870	26,870	26,870
Capital WIP	1,002	1,002	1,002	1,002
Current assets, loans & advances	23,166	22,094	22,334	28,366
Current liabilities & provisions	12,046	16,792	16,056	17,693
Net Current Assets	11,121	5,301	6,277	10,673
APPLICATION OF FUNDS	41,980	46,659	50,898	55,922
Cash Flows (Rs. mn)				
Cash flow s from operations	3,263	16,007	5,821	8,792
Capex	(3,073)	(4,186)	(5,000)	(2,500)
Cash flow s from investments	(2,148)	(12,100)	(5,000)	(2,500)
Cash flow s from financing	(2,016)	(1,301)	(2,448)	(2,550)
Free cashflow	190	11,821	821	6,292
Closing cash	298	2,904	1,277	5,019

Key metrics				
	FY15	FY16	FY17E	FY18E
Growth ratios				
Revenues	15.2%	-0.9%	8.2%	11.9%
EBITDA	11.1%	11.8%	11.6%	12.6%
PAT	12.1%	14.1%	9.0%	13.1%
Margins				
EBITDA	13.3%	15.0%	15.5%	15.6%
EBIT	11.3%	12.7%	13.1%	13.3%
PAT	7.9%	9.1%	9.2%	9.3%
Leverage & WC ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Current ratio (x)	1.9	1.3	1.4	1.6
Debtor days (Sales)	29	32	29	29
Inventory days (COGS)	80	60	65	65
Creditor Days (COGS)	34	39	38	38
Performance & turnover ratio	75	53	56	56
RoACE	13.2%	13.4%	13.3%	13.8%
RoAE	14.0%	14.7%	14.6%	15.0%
Total asset turnover (x)	1.4	1.2	1.2	1.2
Fixed asset turnover (x)	3.3	2.8	2.6	2.5
Valuation metrics				
Current price (Rs.)	149			
Shares outstanding (mn)	850	850	850	850
Market capitalisation (Rs. mn)	126,735	126,735	126,735	126,735
Enterprise value (Rs. mn)	128,440	131,046	129,419	131,754
EV/EBITDA (x)	14.0	12.8	11.3	10.2
Adj. Per-share earnings (Rs.)	6.4	7.3	8.0	9.0
Price-earnings multiple (x)	23.2	20.4	18.7	16.5
Dividend yield (%)	1.5%	1.6%	1.7%	1.7%

Exide Industries (EXID) - Crystal Gazing

FY11-16 CAGR %			
Revenue	EBITDA	PAT	Price
8.4%	3.0%	0.3%	0.2%

Expect EXIDE to lose further ground to AMRJ due to AMRJ's cost effective operations, aggressive, and well thought out marketing strategies

Cost benefits for Exide on the back of technology upgradation (~100bps) will be more than offset by the intensifying competition (making it increasingly unsustainable for Exide to maintain premium pricing)

There has been a change at the helm with Mr. Gautam Chatterjee (who has spent more than 2 decades in various capacities at Exide) being appointed as the MD. We would await details of any change in business strategy that could result due to this appointment.

Revenue CAGR of 10.7% from FY16 to FY20

Rs. Mn	FY15	FY16E	FY17E	FY18E	FY19E	FY20E	
Auto	42,620	44,869	48,822	54,126	59,593	65,492	▲
Industrial	26,122	23,075	25,000	28,466	32,225	36,396	▲
Total	68,742	67,944	73,822	82,593	91,818	101,888	▲

EBITDA improvement to be capped intensifying competition

	FY11	FY15	FY16E	FY17E	FY18E	FY19E	FY20E	
EBITDA (Rs.mn)	8,827	9,172	10,251	11,442	12,884	14,415	16,098	▲
EBITDA Margin(%)	19.4%	13.3%	15.0%	15.5%	15.6%	15.7%	15.8%	▲

Limited re-rating potential

Trading History – % of times stock traded					
PE range	<15x	15x-17x	17x-19x	19x-21x	>21x
	10%	34%	33%	14%	9%

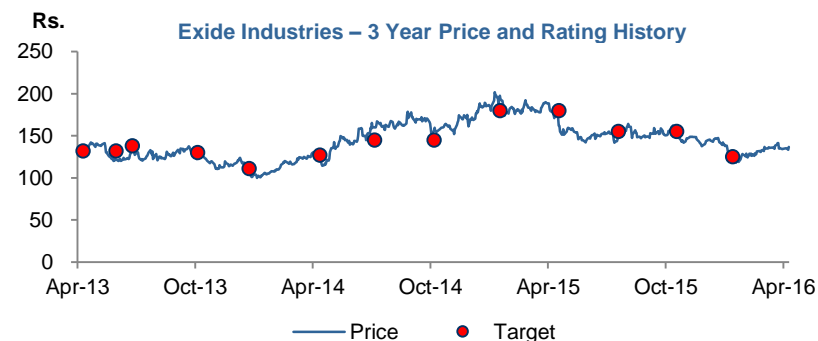
Entry = Rs. 147
(18.4x FY17 P/E)

Cumulative Dividends of Rs. 10.6
+
Rs.15/share for Exide Life

Exit at 14x FY20 P/E
Rs.185

TOTAL RETURN OF 26%

Spark Disclaimer



Report Date	Price	Target	Reco.
22/Jan/16	120	125	Reduce
29/Oct/15	161	155	Reduce
03/Aug/15	146	155	Reduce
04/May/15	172	180	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

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