

## Retail Equity Research

# Amara Raja Batteries

Automobile – Auto Ancillaries

BSE CODE : 500008

NSE CODE: AMARAJABAT

BLOOMBERG CODE: AMRJ IN

SENSEX : 33,228

**Buy**

12M Investment Period

Rating as per Mid cap

CMP Rs 645 TARGET Rs 746 RETURN 16% 

(Closing: 15.06.20)

### KEY CHANGES:

**TARGET **

**RATING **

**EARNINGS **

### Strong aftermarket sales aided margin.

Amara Raja Batteries Ltd (ARBL) is India's second largest Lead-acid battery manufacturer. Its segment include automotive and industrial lead acid batteries, with market leadership in Telecom segment.

- Under challenging market condition domestic replacement demand and export has substantially overcome the demand slowdown in Auto OE segment aided by significant traction in volume growth.
- During Q4FY20, ARBL revenue came flat at 0.9%YoY, (marginally in-line with our estimate). PAT grew by 14.5%YoY.
- Despite weak demand, EBITDA margin came at above 15% (-10bps), due to cost control initiatives and muted lead price.
- Investment of Rs540cr for technological up-gradation in the passenger cars batteries is progressing as per schedule and will drive volume growth and help to gain market share.
- We believe the auto sector is likely to show some pick up in H2FY21 owing to lower base and new launches. We value ARBL at 16x FY22EPS and upgrade our rating to buy at CMP.

### Revenue in-line with our estimate

During Q4FY20, ARBL revenue grew by 0.9%YoY, (marginally in-line our estimate) due to strong replacement market. In spite of market disruptions towards the year end due to the COVID -19 induced lockdown restrictions, both the automotive brands, AMARON and POWER ZONE continued strong growth momentum across vehicle segments. However, growth in home UPS segment has been moderate as the seasonal demand for inverter batteries was severely impacted by the lockdown restrictions in March. During the quarter 2W & 4W volume declined by -19% & -18% YoY and the muted trend to continue even in the H1FY21. EBITDA margin came above at 15.4% on account of cost control initiatives and lower lead price. PAT grew by 14.5%YoY due to other income.

### Capacity addition to cater rising demand

ARBL's investments in capacity expansion is in line with the future demand. Its 2 -W capacity is likely to touch 19mn units (from 14.0mn units in FY19) while the new Greenfield expansion (adding 6.5mn units) will take the 4-W capacity to 14mn units. The board also approved an investment of Rs540cr for the capacity of advanced stamped grid technology that will enable high performance batteries. The project will be implemented over 3 phases and JCI will continue to provide inputs for ARBL to implement the technology . All investments are likely to come in gradually over the next three to five years while the guidance for FY21E is Rs400cr each. ARBL will benefit from the new capacity addition and also flexible in entering into newer verticals like home ups, solar & motive power. We expect Revenue/PAT to grow by 8%/21% respectively over FY20-22E.

### Margin to show some resilience

Amid Covid 19, lower demand globally has dragged the lead price for the quarter. For the quarter lead price has come down by -8.8%YoY . We expect the material price will trade lower and the recent price correction in lead is expected to support margin for the battery manufacturers. ARBL higher penetration in the unorganized sector and pick up in the telecom sector is likely to expand margin and factor 50bps by FY22 from the current level.

### Valuations

Despite weak auto numbers the company posted flat revenue growth supported by strong replacement market. This is largely led by the market share gain from the unorganized secto. However we lower our PAT estimate by 2% for FY20 due to lower demand in the auto sector. We believe the auto sector is likely to show some pick up in H2FY21 owing to lower base and new launches. Considering the strong financials and larger visibility in the telecom sector (Constitutes 25% of revenue) we value ARBL at 16x FY22 EPS and recommend buy rating with a revised target price of Rs746 at CMP.

### Company Data

Market Cap (cr)	Rs. 11,017		
Enterprise Value (cr)	Rs. 11,059		
Outstanding Shares (cr)	17.1		
Free Float	71.9%		
Dividend Yield	1.6%		
52 week high	814		
52 week low	350		
6m average volume (cr)	0.10		
Beta	1.0		
Face value	1		
Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	28.1	28.1	28.1
FII's	20.1	21.4	20.9
MFs/Insti	11.6	10.8	9.7
Public	39.8	39.7	41.4
Total	100.0	100.0	100.0

Price Performance	3month	6month	1 Year
Absolute Return	1.2%	-12.4%	2.4%
Absolute Sensex	-13.8%	-18.5%	16.1%
Relative Return	15.0%	6.1%	18.6%
<i>over or under performance to benchmark index</i>			
AMARA ARAJA	630	630	630
Sensex Rebased	630	630	630

Standalone (cr)	FY20A	FY21E	FY22E
Sales	6,839	7,542	8,629
Growth (%)	0.7	10.3	14.4
EBITDA	1,098	1,252	1,433
EBITDA Margin(%)	16.1	16.6	16.6
PAT Adj.	660	714	850
Growth (%)	36.6	8.14	18.9
Adj.EPS	38.7	41.8	49.8
Growth (%)	36.6	8.14	18.9
P/E	16.7	15.4	13.0
P/B	2.9	2.5	2.2
EV/EBITDA	10.1	8.8	7.7
ROE (%)	18.4	17.4	18.0
D/E	0.2	0.2	0.2

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Research Analyst

## Quarterly Financials (Standalone)

### Profit & Loss

Rs cr	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %
<b>Sales</b>	1581	1567	0.9	1748	-9.5
<b>EBITDA</b>	243	242	0.4	284	-14.4
EBITDA margins	15.4	15.5	-10bps	16.2	-80bps
Depreciation	76	68	11.2	76	-0.7
<b>EBIT</b>	167	174	-3.8	208	-19.4
Interest	3	18.5	-83.6	3	4.5
Other Income	14	6	123.3	13	10.6
Exceptional Items	0	0	0	0	0
<b>PBT</b>	178	178	0	217	-18.0
Tax	42	59	-29.3	53	-21.4
Share of profit from Associate	0	0	0	0	0
Minority Interest	0	0	0	0	0
<b>Reported PAT</b>	137	119	14.5	164	-16.9
Adjustments	0	0	0	0	0
<b>Adj PAT</b>	137	119	14.5	164	-16.9
No. of Shares (cr)	17	17	0	17	0
<b>EPS (Rs)</b>	8.0	7.0	14.5	9.6	-16.9

### Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	FY21E	FY22E	FY21E	FY22E	FY20E	FY21E
Revenue	7,712	8,824	7,542	8,629	-2.2	-2.2
EBITDA	1,280	1,465	1,252	1,433	-2.2	-2.2
Margins (%)	16.6	16.6	16.6	16.6	-	-
Adj. PAT	735	874	714	850	-2.8	-2.8
EPS	43.1	51.2	41.8	49.7	-2.8	-2.8

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Sales</b>	<b>6059</b>	<b>6793</b>	<b>6839</b>	<b>7542</b>	<b>8629</b>
% change	14.0	12.1	0.7	10.3	14.4
<b>EBITDA</b>	<b>883</b>	<b>952</b>	<b>1098</b>	<b>1252</b>	<b>1432</b>
% change	3.9	7.8	15.4	14.0	14.4
Depreciation	229	260	298	353	352
<b>EBIT</b>	<b>653</b>	<b>691</b>	<b>798</b>	<b>896</b>	<b>1076</b>
Interest	5.1	7.0	12.2	10.2	8.9
Other Income	66	47	55	68	68
<b>PBT</b>	<b>714</b>	<b>730</b>	<b>840</b>	<b>954</b>	<b>1135</b>
% change	1.7	2.3	15.1	13.5	19.0
Tax	243	247	180	239	285
Tax Rate (%)	34.0	33.8	21.4	25.1	25.1
<b>Reported PAT</b>	<b>471</b>	<b>483</b>	<b>661</b>	<b>714</b>	<b>850</b>
Adj.	0.0	0.0	0.1	0.0	0.0
<b>Adj. PAT</b>	<b>471</b>	<b>483</b>	<b>661</b>	<b>714</b>	<b>850</b>
% change	-1.5	2.6	36.6	8.1	19.0
No. of shares (cr)	17.1	17.1	17.1	17.1	17.1
<b>Adj EPS (Rs)</b>	<b>27.6</b>	<b>28.3</b>	<b>38.7</b>	<b>41.8</b>	<b>49.8</b>
% change	-1.5	2.6	36.6	8.1	19.0
DPS (Rs)	7.5	5.1	9.5	9.5	9.5

### BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	146	141	227	345	624
Accounts Receivable	782	769	806	930	1040
Inventories	1050	1061	1036	1147	1299
Other Cur. Assets	233	130	75	83	95
Investments	35	20	40	40	40
Gross Fixed Assets	2699	3446	4196	4846	5496
Net Fixed Assets	1689	2176	2628	2925	3224
CWIP	226	230	230	230	230
Intangible Assets	7	12	20	31	48
Def. Tax (Net)	-88	-96	-44	-45	-46
Other Assets	0	0	0	0	0
<b>Total Assets</b>	<b>4081</b>	<b>4443</b>	<b>5017</b>	<b>5686</b>	<b>6553</b>
Current Liabilities	392	442	423	468	537
Provisions	101	112	112	124	142
Debt Funds	58	47	42	37	32
Other Liabilities	0	0	0	0	0
Equity Capital	17	17	17	17	17
Reserves & Surplus	2920	3316	3814	4366	5053
Shareholder's Fund	2937	3333	3831	4383	5070
<b>Total Liabilities</b>	<b>4081</b>	<b>4443</b>	<b>5017</b>	<b>5686</b>	<b>6553</b>
BVPS	172	195	224	257	297

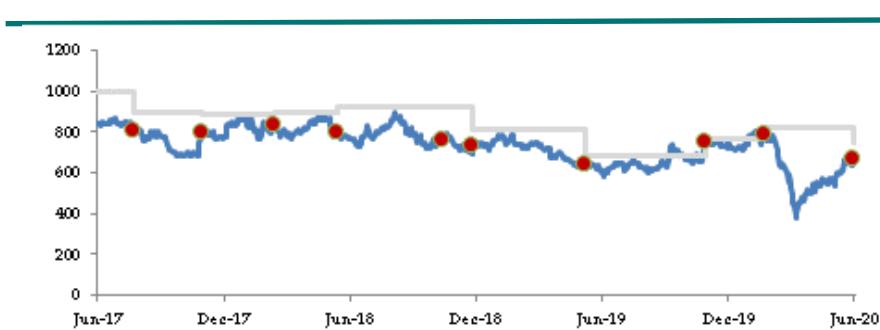
### CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	943	990	1,138	1,306	1,486
Non-cash adj.	-275	-265	-177	-236	-279
Changes in W.C	-216	83	125	-121	-90
<b>C.F. Operation</b>	<b>452</b>	<b>808</b>	<b>1,086</b>	<b>950</b>	<b>1,117</b>
Capital exp.	-441	-746	-750	-650	-650
Change in inv.	-2,319	-127	112	15	-20
Other invest.CF	34	20	0	0	0
<b>C.F - Investment</b>	<b>-286</b>	<b>-723</b>	<b>-780</b>	<b>-665</b>	<b>-672</b>
Issue of equity	0	0	0	0	0
Issue/repay debt	-11	-12	-5	-5	-5
Dividends paid	-129	-88	-163	-163	-163
Other finance.CF	6	8	-52	1	1
<b>C.F - Finance</b>	<b>-133</b>	<b>-91</b>	<b>-219</b>	<b>-167</b>	<b>-167</b>
Chg. in cash	34	-6	87	118	279
<b>Closing cash</b>	<b>146</b>	<b>141</b>	<b>227</b>	<b>345</b>	<b>624</b>

### RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	14.6	14.0	16.1	16.6	16.6
EBIT margin (%)	10.8	10.2	11.7	11.9	12.5
Net profit mgn.(%)	7.8	7.1	9.7	9.5	9.9
ROE (%)	17.0	15.4	18.4	17.4	18.0
ROCE (%)	14.2	13.1	16.0	15.1	15.6
<b>W.C &amp; Liquidity</b>					
Receivables (days)	40.8	41.7	42.0	42.0	41.7
Inventory (days)	82.8	83.0	86.1	80.9	79.1
Payables (days)	31.9	32.7	35.5	33.0	32.5
Current ratio (x)	4.5	3.8	4.0	4.2	4.5
Quick ratio (x)	2.4	2.1	2.4	2.7	3.1
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.4	2.2	1.8	1.7	1.7
Total asset T.O (x)	1.6	1.6	1.4	1.4	1.4
Int. covge. ratio (x)	129.0	99.4	65.4	87.7	120.6
Adj. debt/equity (x)	0.2	0.2	0.2	0.2	0.2
<b>Valuation</b>					
EV/Sales (x)	1.8	1.6	1.6	1.5	1.3
EV/EBITDA (x)	12.5	11.6	10.1	8.8	7.7
P/E (x)	23.4	22.8	16.7	15.4	13.0
P/BV (x)	3.8	3.3	2.9	2.5	2.2

## Recommendation summary (Last 3 Years)



Dates	Rating	Target
31.05.2017	Accumulate	895
08.08.2017	Accumulate	895
14.11.2017	Accumulate	886
26.02.2019	Accumulate	892
30.05.2018	Buy	921
14.09.2018	Accumulate	914
27.05.2019	Hold	680
14.11.2019	Hold	766
06.02.2020	Hold	820
16.06.2020	Buy	746

Source: Bloomberg, Geojit Research.

### Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated :** The analyst has no investment opinion on the stock.

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