

## Amara Raja Batteries

### Performance Highlights

Y/E March (₹ cr)	2QFY16	2QFY15	% chg (yoy)	1QFY16	% chg (qoq)
<b>Net Sales</b>	<b>1,158</b>	<b>1,060</b>	<b>9.2</b>	<b>1,138</b>	<b>1.8</b>
EBITDA	199	180	10.4	199	(0.1)
EBITDA Margin (%)	17.2	17.0	20 bp	17.5	(30 bp)
<b>Adj. PAT</b>	<b>123</b>	<b>100</b>	<b>22.2</b>	<b>122</b>	<b>0.4</b>

Source: Company, Angel Research

Amara Raja Batteries (ARBL)'s 2QFY2016 results have come in line with estimates. The top-line continued to grow in double digits, but the growth was slightly moderated given the decrease in realization. Realization declined on account of passing of lower lead prices to consumers and due to slowdown in the UPS segment. Still, ARBL managed to keep its margins above the 17% mark. The net profit grew in robust double-digits, and came in line with estimates.

**Top-line maintains double-digit growth:** ARBL's revenues grew a healthy 9% yoy to ₹1,158cr on back of a robust 21% yoy growth in the automotive segment. The industrial segment was a bit subdued, growing by 5% yoy, due to slowdown in the UPS segment.

**Margin improvement and lower depreciation boosts profitability:** For the quarter, ARBL's net profit grew a robust 22% yoy to ₹122.6cr. Margin improvement due to soft lead prices coupled with lower depreciation expenses boosted the profits.

**Outlook and Valuation:** ARBL is likely to continue gaining market share in the automotive battery segment. The strategy followed by automotive OEMs of sourcing from multiple vendors as against having a single vendor is likely to benefit ARBL. Further, given the strengthening distribution network in the Western and Eastern markets, replacement sales are also expected grow in strong double digits, going forward. We also expect the industrial segment to recover from 2HFY2016, given the network expansion by telecom players and with ARBL entering into tubular battery manufacturing. We expect ARBL to record a healthy top-line CAGR of 19% over FY2015 to FY2017. Also, given the softness in lead prices, margins are expected to remain at elevated levels. We expect ARBL to clock 27% earnings CAGR over the next two years. **Hence, we have a positive view on the stock and maintain our Buy rating with a target price of ₹1,039 (based on 28x FY2017 earnings).**

### Key financials (Standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
<b>Net Sales</b>	<b>3,452</b>	<b>4,230</b>	<b>4,892</b>	<b>5,871</b>
% chg	16.7	22.5	15.7	20.0
<b>Net Profit</b>	<b>371</b>	<b>418</b>	<b>493</b>	<b>634</b>
% chg	25.5	12.6	17.8	28.8
EBITDA (%)	16.7	17.2	17.4	17.6
<b>EPS (₹)</b>	<b>21.7</b>	<b>24.5</b>	<b>28.8</b>	<b>37.1</b>
P/E (x)	40.5	36.0	30.6	23.7
P/BV (x)	11.0	8.9	7.1	5.7
RoE (%)	27.2	24.6	23.4	24.1
RoCE (%)	36.6	34.1	33.0	38.0
EV/Sales (x)	4.3	3.5	3.1	2.5
EV/EBITDA (x)	25.8	20.5	17.5	14.2

Source: Company, Angel Research

## BUY

CMP	₹881
Target Price	₹1,039

Investment Period	12 Months
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### Stock Info

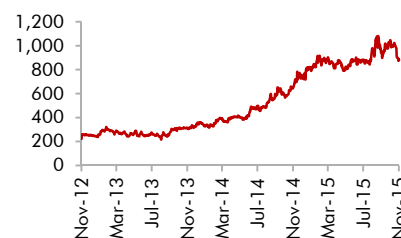
Sector	Auto Ancillary
Market Cap (₹ cr)	15,055
Net Debt (₹ cr)	(148)
Beta	0.8
52 Week High / Low	1,132/643
Avg. Daily Volume	46,950
Face Value (₹)	1
BSE Sensex	26,304
Nifty	7,955
Reuters Code	AMAR.BO
Bloomberg Code	AMRJ@IN

### Shareholding Pattern (%)

Promoters	52.1
MF / Banks / Indian Fls	11.3
FII / NRIs / OCBs	24.9
Indian Public / Others	11.7

Abs. (%)	3m	1yr	3yr
Sensex	(6.8)	(5.8)	40.2
Amara Raja	(9.9)	35.7	294.3

### 3-year price chart



Source: Company, Angel Research

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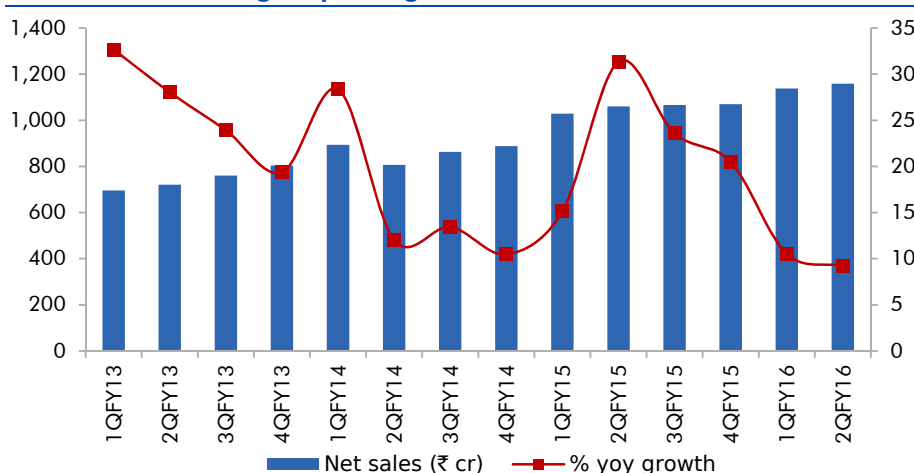
**Exhibit 1: Quarterly financial performance (Standalone)**

Y/E March (₹ cr)	2QFY16	2QFY15	% chg (yoy)	1QFY16	% chg (qoq)	1HFY16	1HFY15	% chg (yoy)
<b>Net Sales</b>	<b>1,158</b>	<b>1,060</b>	<b>9.2</b>	<b>1,138</b>	<b>1.8</b>	<b>2,296</b>	<b>2,089</b>	<b>9.9</b>
Consumption of RM	742	703	5.6	735	0.9	1,477	1,390	6.3
(% of Sales)	64.0	66.3		64.6		64.3	66.5	
Staff Costs	58	48	20.8	56	3.7	114	95	19.8
(% of Sales)	5.0	4.5		4.9		5.0	4.5	
Other Expenses	160	129	23.4	148	8.3	307	248	23.7
(% of Sales)	13.8	12.2		13.0		13.4	11.9	
<b>Total Expenditure</b>	<b>960</b>	<b>880</b>	<b>9.0</b>	<b>939</b>	<b>2.2</b>	<b>1,898</b>	<b>1,734</b>	<b>9.5</b>
<b>Operating Profit</b>	<b>199</b>	<b>180</b>	<b>10.4</b>	<b>199</b>	<b>(0.1)</b>	<b>397</b>	<b>356</b>	<b>11.8</b>
OPM (%)	17.2	17.0		17.5		17.3	17.0	
Interest	0	0	-	0	(33.3)	0	0	66.7
Depreciation	34	37	(6.4)	33	4.4	67	68	(0.7)
Other Income	12	11	6.4	13	(10.5)	25	17	46.5
<b>PBT (incl. Extr. Items)</b>	<b>176</b>	<b>154</b>	<b>14.1</b>	<b>179</b>	<b>(1.6)</b>	<b>355</b>	<b>305</b>	<b>16.5</b>
(% of Sales)	15.2	14.5		15.7		15.5	14.6	
Provision for Taxation	53	54	(0.9)	57	(5.9)	110	98	12.0
(% of PBT)	30.4	35.0		31.8		31.1	32.3	
Exceptional items	-	-		-		-	-	
<b>Reported PAT</b>	<b>123</b>	<b>100</b>	<b>22.2</b>	<b>122</b>	<b>0.4</b>	<b>245</b>	<b>206</b>	<b>18.6</b>
<b>Adj PAT</b>	<b>123</b>	<b>100</b>	<b>22.2</b>	<b>122</b>	<b>0.4</b>	<b>245</b>	<b>206</b>	<b>18.6</b>
Adj. PATM	10.6	9.5		10.7		10.7	9.9	
Equity capital (cr)	17.1	17.1		17.1		17.1	17.1	
<b>Reported EPS (₹)</b>	<b>7.2</b>	<b>5.9</b>	<b>22.2</b>	<b>7.1</b>	<b>0.4</b>	<b>14.3</b>	<b>12.1</b>	<b>18.6</b>

Source: Company, Angel Research

**Top-line grows in double digits:** ARBL revenues maintained healthy double digit growth momentum, reporting a 9% yoy growth in 2QFY2016. ARBL continued to gain market share in the automotive segment (constituting 55% of the topline), registering a growth of about 21%. The automotive OEM segment reported growth of 17% whereas the automotive replacement segment grew strongly 23%. The industrial segment (contributing 45% of revenues) growth was relatively subdued (reported 5% growth) owing to slowdown in the UPS segment. The revenues were dragged by the pass thru of lower lead prices (lead prices have dipped by about 7% yoy) in both the automotive OEM and the industrial segment.

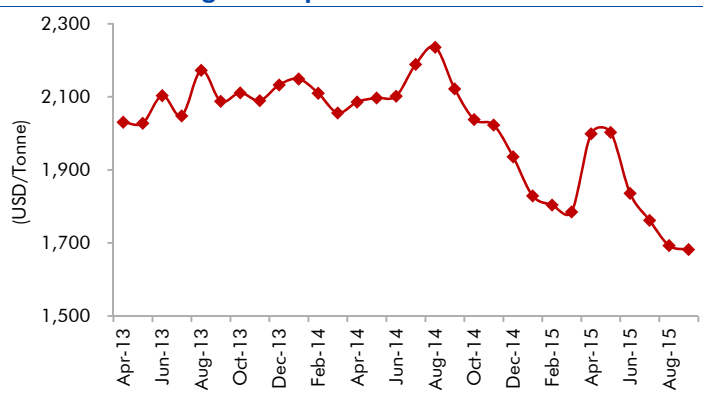
**Exhibit 2: Double digit top-line growth continues**



Source: Company, Angel Research

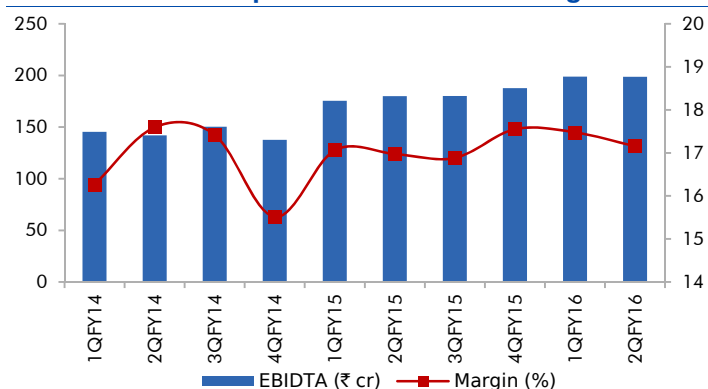
**Soft lead prices boost operating performance:** ARBL continued to maintain margins upward of the 17% mark. The margin for the quarter, at 17.2%, improved marginally 20bp yoy. Raw material cost as a percentage of sales dipped 230bp yoy to 64%, given the softness in the price of lead, which is its key raw material.

**Exhibit 3: Average lead price trend**



Source: Company, Angel Research

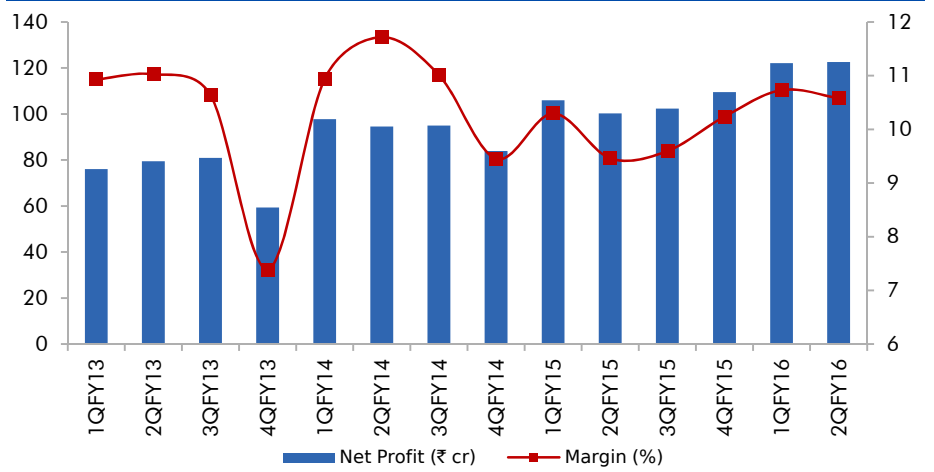
**Exhibit 4: Soft lead prices boost EBITDA margin**



Source: Company, Angel Research

**Net profit grows strongly on back of healthy top-line growth and margin improvement:** ARBL's adjusted net profit for the quarter grew strongly by 22% yoy to ₹123cr, tracking robust operating performance.

**Exhibit 5: Strong bottom-line growth**



Source: Company, Angel Research

## Conference call – Key highlights

- ARBL continues to outpace the automotive battery segment growth, on the back of market share gains. During 1HFY2016, ARBL's automotive replacement segment, which constitutes about 36% of its revenues, grew by a healthy 21% yoy. ARBL outpaced the auto replacement industry growth of 11-12% yoy. ARBL's current market share in the auto replacement segment stands at about 25%.
- ARBL outgrew the automotive OEM industry as well. In the 4W OEM segment (which forms 15% of its top-line), ARBL grew 17% yoy as against industry growth of 6-7% yoy. Similarly in the 2W OEM segment (which constitutes about 4% of its topline), ARBL's revenue grew 15% yoy as against a flat industry.
- ARBL expects the outperformance in the automotive segment (which forms about 56% of the revenues) to continue given the increased sourcing by OEMs and continued market share gains in the automotive replacement space given the strengthening of its distribution network particularly in the Eastern and the Western markets where it has a relatively lesser presence.
- ARBL expects demand in the industrial segment (which forms about 44% of the top-line) to pick up in 2HFY2016. Increased data usage and the need to improvise on the call quality has led to tower additions by telecom players (telecom forms about 22% of the top-line) which would boost demand, going forward. Further, ARBL expects the UPS segment (which forms 15% of the top-line) and other industrial segments to recover from 2HFY2016, which would augment the industrial revenues.
- In order to meet increased demand in both the automotive and the industrial space, ARBL is expanding capacities. In the automotive 4W segment, ARBL has current capacity of 8.25mn units with capacity utilization of 85%. ARBL can enhance the 4W capacity by 6mn units by introducing new manufacturing lines within the current location. In the automotive 2W segment, ARBL has current capacity of 8.4mn units with the utilization level at 90%. ARBL is in the process of expanding its 2W capacity to 11mn units by FY2016-end.
- Similarly in the industrial segment, ARBL is enhancing large VRLA capacity (suitable for making telecom batteries) by 20% to 1.4bn Ah which would come on stream by FY2016-end. The capacity utilization in LVRLA stands at 97%. In MVRLA (suitable for UPS), the company has capacity of 850mn Ah and the capacity utilization currently stands at 80%.
- In order to effectively tap the home inverter segment, ARBL is setting up a tubular battery manufacturing plant with a capacity of 1.4mn units. ARBL is investing ₹500cr in the plant and expects a revenue potential of ₹1,000cr at full utilization. The first phase with capacity of 0.9mn units would commence in December 2015 with the balance coming in by December 2016. ARBL currently sells home inverters through the trading route and the current run rate is of 0.35mn units.
- ARBL has guided for overall capex of ₹900cr over the next two years.

- As per ARBL, changes in lead prices are a pass thru to 60% of the customer base (automotive OEM and the entire industrial segment). ARBL takes a call on pricing in the automotive replacement market depending on the competitive scenario. Currently, ARBL has not taken any pricing action in the replacement space and is enjoying the benefits of lower lead prices.

## Investment arguments

- **Demand scenario for automotive and industrial batteries to remain positive in the long run:** We expect growth traction in the automotive battery segment to continue over the next two years. The automotive OEM segment has witnessed volume recovery in FY2015 post improvement in consumer sentiments. Further, robust automotive replacement demand is likely to maintain growth momentum. Also, given the economic recovery, the industrial segment (railways, UPS and telecom) is also poised to register double-digit growth over the next two years.
- **Likely to outpace industry growth on increased sourcing from automotive OEM segment:** ARBL has outpaced the battery industry over the last four to five years. Penetration into the new automotive OEM segment has led to market share gains for ARBL. OEM customers both in the 4W and 2W segments have strategically opted to source from ARBL in order to have multiple sourcing and reduce dependence on a single supplier. Also, by strengthening its distribution reach in the Eastern and Western markets, ARBL is likely to gain market share in the automotive replacement segment as well. We believe ARBL would continue to gain market share in the near term and expect it to post a top-line CAGR of 21% over FY2015-2017.

## Outlook and valuation

ARBL is likely to continue gaining market share in the automotive battery segment. The strategy followed by automotive OEMs of sourcing from multiple vendors as against having a single vendor is likely to benefit ARBL. Further, given the strengthening distribution network in the Western and Eastern markets, replacement sales are also expected to grow in strong double digits, going forward. We also expect the industrial segment to recover from 2HFY2016, given the network expansion by telecom players and with ARBL entering into tubular battery manufacturing. We expect ARBL to record a healthy top-line CAGR of 19% over FY2015 to FY2017. Also, given the softness in lead prices, margins are expected to remain at elevated levels. We expect ARBL to clock 27% earnings CAGR over the next two years. **Hence, we have a positive view on the stock and maintain our Buy rating with target price of ₹1,039 (based on 28x FY2017 earnings).**

## Company background

Amara Raja Batteries Ltd (ARBL) is a leading automobile and industrial battery manufacturer in India. It is the second largest lead acid battery manufacturer having a market share of about 35% in the organized battery industry. ARBL has a technological tie up with US based Johnson Controls, which also holds 26% stake in it. The automotive and industrial battery segments each accounted for 50% of the company's total revenue in FY2015.

**Profit and loss statement (Standalone)**

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Total operating income</b>	<b>2,375</b>	<b>2,959</b>	<b>3,452</b>	<b>4,230</b>	<b>4,892</b>	<b>5,871</b>
% chg	34.4	24.6	16.7	22.5	15.7	20.0
<b>Total expenditure</b>	<b>2,017</b>	<b>2,508</b>	<b>2,876</b>	<b>3,502</b>	<b>4,039</b>	<b>4,840</b>
Net raw material costs	1,598	1,991	2,283	2,776	3,195	3,851
Employee expenses	100	126	158	195	234	274
Other expenses	319	390	435	531	611	715
<b>EBITDA</b>	<b>357</b>	<b>451</b>	<b>575</b>	<b>728</b>	<b>853</b>	<b>1,031</b>
% chg	38.4	26.1	27.6	26.5	17.2	20.9
(% of total op. income)	15.1	15.2	16.7	17.2	17.4	17.6
Depreciation & amort.	46	66	65	134	178	204
<b>EBIT</b>	<b>323</b>	<b>431</b>	<b>541</b>	<b>617</b>	<b>725</b>	<b>920</b>
% chg	45.4	33.7	25.5	14.1	17.5	26.9
(% of total op. income)	13.6	14.6	15.7	14.6	14.8	15.7
Interest and other charges	4	0	1	0	1	1
Other income	12	47	30	24	50	93
<b>Recurring PBT</b>	<b>319</b>	<b>431</b>	<b>541</b>	<b>617</b>	<b>724</b>	<b>919</b>
% chg	44.5	35.3	25.4	14.2	17.4	26.9
Extraordinary items	-	(9)	(4)	(7)		
<b>PBT (reported)</b>	<b>319</b>	<b>422</b>	<b>537</b>	<b>610</b>	<b>724</b>	<b>919</b>
Tax	104	135	169	199	232	285
(% of PBT)	32.5	31.4	31.3	32.2	32.0	31.0
<b>PAT (reported)</b>	<b>215</b>	<b>287</b>	<b>367</b>	<b>411</b>	<b>493</b>	<b>634</b>
<b>ADJ. PAT</b>	<b>215</b>	<b>296</b>	<b>371</b>	<b>418</b>	<b>493</b>	<b>634</b>
% chg	45.7	37.6	25.5	12.6	17.8	28.8
(% of total op. income)	9.1	10.0	10.8	9.9	10.1	10.8
<b>Adj. EPS (₹)</b>	<b>12.6</b>	<b>17.3</b>	<b>21.7</b>	<b>24.5</b>	<b>28.8</b>	<b>37.1</b>
% chg	45.7	37.6	25.5	12.6	17.8	28.8



**Balance sheet statement (Standalone)**

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>SOURCES OF FUNDS</b>						
Equity share capital	17	17	17	17	17	17
Reserves & surplus	806	1,043	1,346	1,682	2,091	2,618
<b>Shareholders' Funds</b>	<b>823</b>	<b>1,060</b>	<b>1,363</b>	<b>1,700</b>	<b>2,108</b>	<b>2,635</b>
Total loans	84	87	84	74	50	50
Deferred tax liability	22	20	30	37	37	37
Other long term liabilities						
<b>Total Liabilities</b>	<b>930</b>	<b>1,166</b>	<b>1,477</b>	<b>1,811</b>	<b>2,195</b>	<b>2,722</b>
<b>APPLICATION OF FUNDS</b>						
Gross block	621	680	996	1,441	2,041	2,341
Less: Acc. depreciation	267	321	372	497	675	878
<b>Net Block</b>	<b>355</b>	<b>359</b>	<b>623</b>	<b>944</b>	<b>1,367</b>	<b>1,463</b>
Capital work-in-progress	32	103	145	86	100	100
<b>Investments</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>22</b>	<b>25</b>
Other noncurrent assets	0	0	0	0	0	0
<b>Current assets</b>	<b>949</b>	<b>1,292</b>	<b>1,199</b>	<b>1,341</b>	<b>1,395</b>	<b>1,960</b>
Cash	229	411	295	222	119	427
Loans & advances	131	201	113	140	160	192
Other	589	680	792	980	1,116	1,341
Current liabilities	422	604	506	578	689	827
<b>Net current assets</b>	<b>527</b>	<b>688</b>	<b>693</b>	<b>764</b>	<b>707</b>	<b>1,134</b>
<b>Total Assets</b>	<b>930</b>	<b>1,166</b>	<b>1,477</b>	<b>1,811</b>	<b>2,195</b>	<b>2,722</b>

**Cash flow statement (Standalone)**

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	319	422	537	610	724	919
Depreciation	43	55	51	125	178	204
Change in working capital	55	21	(121)	(143)	(45)	(120)
Others	2	(2)	11	5	-	-
Direct taxes paid	(104)	(135)	(169)	(199)	(232)	(285)
<b>Cash Flow from Operations</b>	<b>314</b>	<b>360</b>	<b>308</b>	<b>397</b>	<b>625</b>	<b>718</b>
(Inc./Dec. in fixed assets	(76)	(130)	(357)	(388)	(614)	(300)
(Inc./Dec. in investments	(0)	-	-	-	(6)	(3)
<b>Cash Flow from Investing</b>	<b>(76)</b>	<b>(130)</b>	<b>(357)</b>	<b>(388)</b>	<b>(620)</b>	<b>(303)</b>
Issue of equity						
Inc./(Dec.) in loans	(11)	3	(3)	(10)	(24)	-
Dividend paid (Incl. Tax)	(38)	(50)	(65)	(72)	(84)	(108)
Others	0	0	(0)	(0)	-	-
<b>Cash Flow from Financing</b>	<b>(48)</b>	<b>(47)</b>	<b>(68)</b>	<b>(82)</b>	<b>(108)</b>	<b>(108)</b>
Inc./(Dec.) in cash	189	182	(117)	(72)	(103)	308
<b>Opening Cash balances</b>	<b>40</b>	<b>229</b>	<b>412</b>	<b>295</b>	<b>222</b>	<b>120</b>
<b>Closing Cash balances</b>	<b>229</b>	<b>412</b>	<b>295</b>	<b>222</b>	<b>120</b>	<b>427</b>

**Key ratios**

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	70.0	50.9	40.5	36.0	30.6	23.7
P/CEPS	57.6	41.6	34.5	27.3	22.5	18.0
P/BV	18.3	14.2	11.0	8.9	7.1	5.7
Dividend yield (%)	0.2	0.3	0.4	0.4	0.6	0.7
EV/Sales	6.3	5.0	4.3	3.5	3.1	2.5
EV/EBITDA	41.6	32.6	25.8	20.5	17.5	14.2
EV / Total Assets	16.0	12.6	10.0	8.2	6.8	5.4
<b>Per Share Data (₹)</b>						
EPS (Basic)	12.6	17.3	21.7	24.5	28.8	37.1
EPS (fully diluted)	12.6	17.3	21.7	24.5	28.8	37.1
Cash EPS	15.3	21.2	25.5	32.3	39.2	49.1
DPS	1.9	2.5	3.2	3.6	4.9	6.3
Book Value	48.2	62.0	79.8	99.5	123.4	154.3
<b>Dupont Analysis</b>						
EBIT margin	13.6	14.6	15.7	14.6	14.8	15.7
Tax retention ratio	0.7	0.7	0.7	0.7	0.7	0.7
Asset turnover (x)	3.4	3.9	2.9	2.7	2.4	2.6
ROIC (Post-tax)	31.1	39.2	31.4	26.3	23.8	27.7
Cost of Debt (Post Tax)	3.2	0.2	0.6	0.2	1.1	1.4
Leverage (x)	(0.2)	(0.3)	(0.2)	(0.1)	(0.0)	(0.1)
Operating ROE	26.2	27.3	26.7	24.1	23.0	23.9
<b>Returns (%)</b>						
ROCE (Pre-tax)	34.7	37.0	36.6	34.1	33.0	33.8
Angel ROIC (Pre-tax)	46.1	57.1	45.8	38.9	34.9	40.1
ROE	26.1	27.9	27.2	24.6	23.4	24.1
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	3.8	4.3	3.5	2.9	2.4	2.5
Inventory / Sales (days)	41.0	36.1	35.4	36.1	35.9	36.1
Receivables (days)	49.1	47.0	47.9	47.8	46.8	46.8
Payables (days)	64.9	74.5	53.5	49.8	51.4	51.4
WC cycle (ex-cash) (days)	45.8	34.2	42.1	46.7	43.8	43.9
<b>Solvency ratios (x)</b>						
Net debt to equity	(0.2)	(0.3)	(0.2)	(0.1)	(0.0)	(0.1)
Net debt to EBITDA	(0.4)	(0.7)	(0.4)	(0.2)	(0.1)	(0.4)
Interest Coverage (EBIT / Int.)	80.5	1603.1	753.9	2572.4	906.5	920.4

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**Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Pvt. Limited and its affiliates may have investment positions in the stocks recommended in this report.**

Disclosure of Interest Statement	Amara Raja Batteries
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors*

<b>Ratings (Based on expected returns over 12 months investment period):</b>	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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