

## Amara Raja Batteries

### Performance Highlights

Y/E March (₹ cr)	3QFY16	3QFY15	% chg (yoy)	2QFY16	% chg (qoq)
<b>Net Sales</b>	<b>1,346</b>	<b>1,158</b>	<b>16.2</b>	<b>1,321</b>	<b>1.9</b>
EBITDA	230	199	15.6	227	1.1
EBITDA Margin (%)	17.1	17.2	(8 bp)	17.2	(13 bp)
<b>Adj. PAT</b>	<b>136</b>	<b>123</b>	<b>11.2</b>	<b>131</b>	<b>4.3</b>

Source: Company, Angel Research

**Results ahead of estimates:** Amara Raja Batteries (ARBL) reported 16.2% yoy growth in its 2QFY2017 sales to ₹1,346cr. The company reported PAT of ₹136cr, yoy 11.2% growth. EBITDA margins were at 17.1% vs. 17.2% in Q2FY2016. Margins contracted by 8bp yoy as raw material costs increased by 16.6% yoy. In percent of sale terms, RM costs were at 64.3% vs. 64.0% in Q2FY2016. During this period, lead prices have gone up by 9% yoy. In Q2FY2017, ARBL gained market share in the automotive battery segment, due to double digit growth in aftermarket brands, Amaron and PowerZone. During the quarter company also saw higher sales of batteries to automobile OEMs. Capacity utilization improved as exports have picked up. Company also reported a double digit growth in its industrial battery business despite a challenging environment.

**Outlook and Valuation:** We believe that 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, with the company's strengthening distribution network in the Western and Eastern markets, we expect replacement sales to grow in strong double digits, going forward. We also expect healthy growth in exports as company is targeting ~10% of sales from exports from current ~6%. Overall, we expect ARBL to post a healthy top-line CAGR of 19% over FY2016 to FY2018E on the back of strong recovery in OEM market, brand strength and gain in market share. We also assume company to benefit from its ongoing capacity expansion program. We expect ARBL to clock 20% earnings CAGR over the next two years. **We maintain our positive view on the stock and reiterate our Buy rating on the stock with a target price of ₹1,167 (based on 28.5x FY2018E earnings).**

### Key financials (Standalone)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
<b>Net Sales</b>	<b>4,211</b>	<b>4,691</b>	<b>5,504</b>	<b>6,605</b>
% chg	22.0	11.4	15.7	15.7
<b>Net Profit</b>	<b>411</b>	<b>489</b>	<b>571</b>	<b>699</b>
% chg	11.8	19.1	16.7	22.4
OPM (%)	16.7	17.4	17.6	17.5
<b>EPS (₹)</b>	<b>24.1</b>	<b>28.7</b>	<b>33.4</b>	<b>40.9</b>
P/E (x)	42.0	35.3	30.2	24.7
P/BV (x)	10.2	8.2	6.7	5.4
RoE (%)	24.2	23.3	22.1	22.0
RoCE (%)	32.0	31.1	29.8	29.4
EV/Sales (x)	4.1	3.7	3.1	2.6
EV/EBITDA (x)	24.4	21.0	17.8	14.7

Source: Company, Angel Research; Note: CMP as of November 8, 2016

## BUY

CMP	₹1,010
Target Price	₹1,167

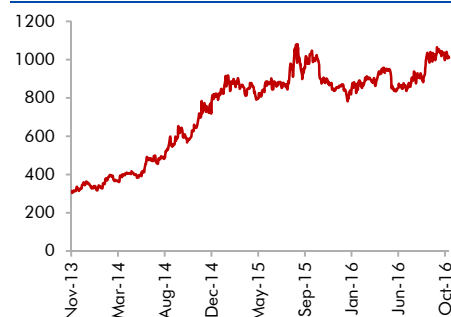
Investment Period	12 Months
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Stock Info	
Sector	Auto Ancillary
Market Cap (₹ cr)	17,259
Net Debt (₹ cr)	(76)
Beta	0.8
52 Week High / Low	1,077/773
Avg. Daily Volume	28,165
Face Value (₹)	1
BSE Sensex	27,591
Nifty	8,544
Reuters Code	AMAR.BO
Bloomberg Code	AMRJ@IN

Shareholding Pattern (%)	
Promoters	52.1
MF / Banks / Indian FIs	7.8
FII / NRIs / OCBs	21.5
Indian Public / Others	18.6

Abs. (%)	3m	1yr	3yr
Sensex	6.3	(2.3)	37.5
Amara Raja	11.6	14.2	221.6

### 3-year price chart



Source: Company, Angel Research

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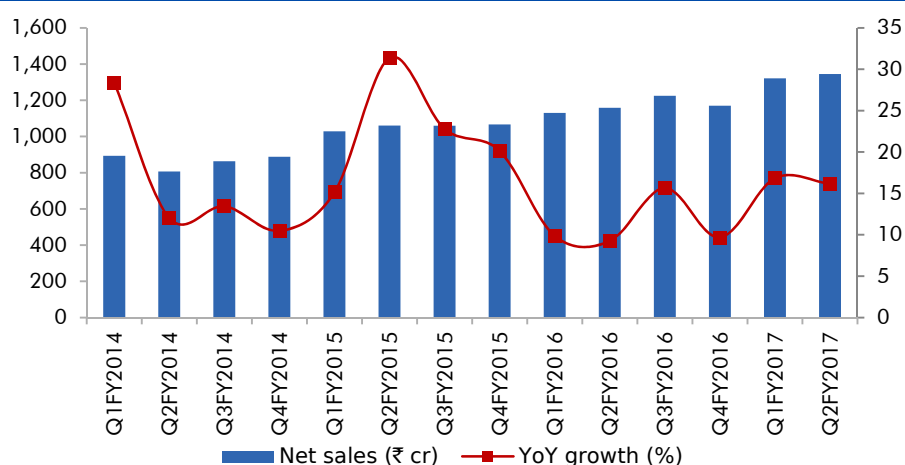
**Exhibit 1: Quarterly financial performance (Standalone)**

Y/E March (₹ cr)	2QFY17	2QFY16	% chg (yoy)	1QFY17	% chg (qoq)	6MFY17	6MFY16	% chg (yoy)
<b>Net Sales</b>	<b>1,346</b>	<b>1,158</b>	<b>16.2</b>	<b>1,321</b>	<b>1.9</b>	<b>2,666</b>	<b>2,289</b>	<b>16.5</b>
Raw-material cost	865	742	16.6	875	(1.1)	1,739	1,476	17.9
(% of Sales)	64.3	64.0		66.2		519.2	491.5	
Staff cost	69	58	19.6	66	5.7	135	114	18.5
(% of Sales)	5.2	5.0		5.0		40.3	37.9	
Other Expenses	182	160	13.8	153	18.7	335	300	11.6
(% of Sales)	13.5	13.8		11.6		100.0	100.0	
<b>Total Expenditure</b>	<b>1,116</b>	<b>960</b>	<b>16.3</b>	<b>1,094</b>	<b>2.0</b>	<b>2,209</b>	<b>1,890</b>	<b>16.9</b>
<b>Operating Profit</b>	<b>230</b>	<b>199</b>	<b>15.6</b>	<b>227</b>	<b>1.1</b>	<b>457</b>	<b>399</b>	<b>14.6</b>
OPM (%)	17.1	17.2		17.2		136.4	132.8	
Interest	1	0	n.a.	1	6.4	2.89	1	118.9
Depreciation	46	34	33.2	44	3.7	90	67	33.7
Other Income	12	12	2.9	9	33.9	20.93	25	-16.9
<b>PBT (excl. Extr. Items)</b>	<b>195</b>	<b>176</b>	<b>10.5</b>	<b>191</b>	<b>2.0</b>	<b>385</b>	<b>356</b>	<b>8.4</b>
Extr. Income/(Expense)						0		
<b>PBT (incl. Extr. Items)</b>	<b>195</b>	<b>176</b>	<b>10.5</b>	<b>191</b>	<b>2.0</b>	<b>385</b>	<b>356</b>	<b>8.4</b>
(% of Sales)	14.5	15.2		14.4		115.0	118.4	
Provision for Taxation	58	53	8.9	60	(3.2)	118	111	6.9
(% of PBT)	29.9	30.4		31.5		44.3	45.2	
<b>Reported PAT</b>	<b>136</b>	<b>123</b>	<b>11.2</b>	<b>131</b>	<b>4.3</b>	<b>267</b>	<b>245</b>	<b>9.0</b>
<b>Adj PAT</b>	<b>136</b>	<b>123</b>	<b>11.2</b>	<b>131</b>	<b>4.3</b>	<b>267</b>	<b>245</b>	<b>9.0</b>
Adj. PATM	10.1	10.6		9.9		79.7	81.6	
Equity capital (cr)	17	17		17		17	17	
<b>Reported EPS (₹)</b>	<b>7.98</b>	<b>7.18</b>	<b>11.2</b>	<b>7.65</b>	<b>4.3</b>	<b>15.6</b>	<b>14.3</b>	<b>9.0</b>

Source: Company, Angel Research

**ARBL continues to gain market share:** ARBL in the first quarter of FY2017 reported a healthy 16.8% growth in its revenues and in Q2FY2017 the momentum has continued. Its competitor Exide Industries in FY2017 so far has reported a yoy growth of 11% which indicates that ARBL continues to gain market share. From the results, it is also clear ARBL continues to maintain higher profitability compared to its competitor. While ARBL reported EBITDA margin of 17.1% in Q2FY2017, Exide Industries reported EBITDA margin of 15.2% in the same quarter. This superior performance has on the back of competitive pricing, just in-time deliveries, custom designed products and solutions and strong brand positioning.

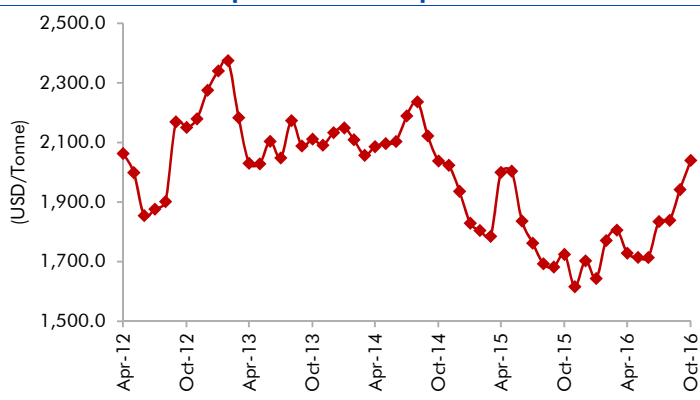
**Exhibit 2: Top-line is witnessing strong growth in FY2017**



Source: Company, Angel Research

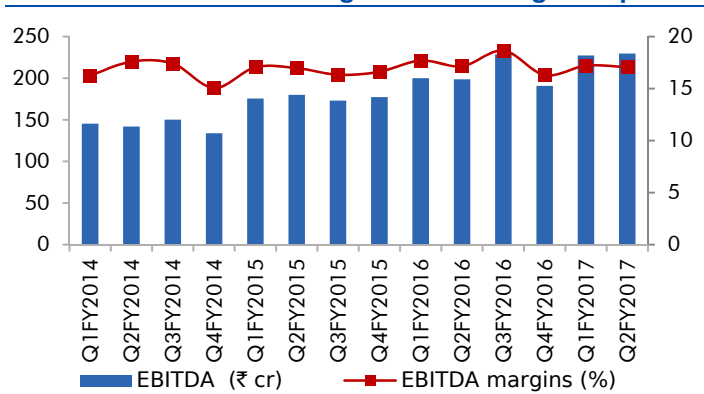
**Lead prices slowly firming up:** In 2QFY2017, lead prices have moved up by 9% yoy which led to increase in ARBL's raw material costs. Its raw material costs increased by 16.6% yoy vs. sales growth of 16.2% yoy which led to 22bp yoy decline in gross margins to 35.7%. Currently the lead prices are at USD 2,070 per MT, showing yoy rise of 23% indicating that the company may see rise in the raw material prices in the next quarter.

**Exhibit 3: Recent uptrend in lead prices**



Source: Company, Angel Research

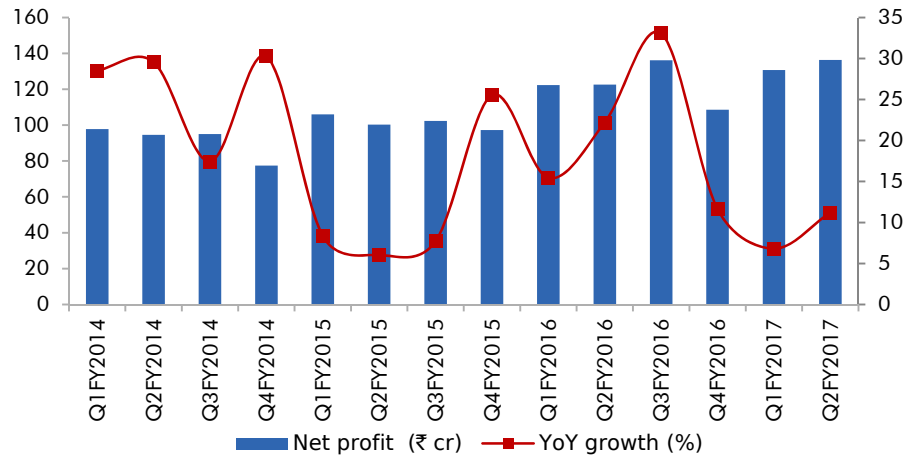
**Exhibit 4: Flat EBITDA margin due to rising lead prices**



Source: Company, Angel Research

**Net profit grows by yoy 11%:** ARBL's adjusted net profit for the quarter was at ₹136cr, showing a yoy growth of 11.2%. Net margins however declined by ~100bp mainly due to the higher depreciation expenses on account its ongoing capacity expansion plan, which rose by 33.2% yoy to ₹45.7cr.

**Exhibit 5: Bottom-line growth impacted due to the high base in Q2FY16**



Source: Company, Angel Research

## 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 is likely to witness strong growth over the next two years on the back of recovery in the OEM sales, subdued fuel prices and further easing of interest rates. The high margin automotive replacement demand is likely to maintain growth momentum. Further, 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 by 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 follow 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 19% over FY2016-2018E.
- **Capacity expansion to address growing demand:** To cater the growing demand in automotive segment, ARBL has taken capacity expansion program in 2W battery segment. This will be completed in the next four years taking its capacity from current ~11mn units to ~25mn units per annum. ARBL has already commissioned its Chittoor 2W battery capacity. On 4W battery front, ARBL is expanding its capacity from 8.25mn units to 11mn units per year. The tubular capacity has already been completed has started to contribute in production. Overall company is in capacity expansion mode and commissioning of new capacities will give a much required thrust for future growth of the company.

## Outlook and valuation

We believe that 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, with the company's strengthening distribution network in the Western and Eastern markets, we expect replacement sales to grow in strong double digits, going forward. We also expect the Industrial segment growth to be in healthy double digits over FY2017E-2018E, given that the telecom players are resorting to aggressive network expansion, and also with ARBL entering tubular battery manufacturing. We expect ARBL to record a healthy top-line CAGR of 19% over FY2016 to FY2018E on the back of strong recovery in OEM market, brand strength and gain in market share. We assume some impact of the increasing lead prices on its raw material however we expect net profit growth to remain strong. We expect ARBL to clock 20% earnings CAGR over the next two years. **We maintain our positive view on the stock and reiterate our Buy rating on the stock with a target price of ₹1,167 (based on 28.5x FY2018E 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)	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Total operating income</b>	<b>2,979</b>	<b>3,452</b>	<b>4,211</b>	<b>4,691</b>	<b>5,504</b>	<b>6,605</b>
% chg	25.5	15.9	22.0	11.4	17.3	20.0
<b>Total Expenditure</b>	<b>2,517</b>	<b>2,880</b>	<b>3,510</b>	<b>3,874</b>	<b>4,537</b>	<b>5,447</b>
Cost of Materials	1,991	2,283	2,776	2,964	3,513	4,241
Personnel	127	158	195	243	285	337
Others Expenses	399	439	538	666	739	869
<b>EBITDA</b>	<b>461</b>	<b>572</b>	<b>702</b>	<b>817</b>	<b>967</b>	<b>1,159</b>
% chg	29.0	23.9	22.8	16.4	18.4	19.8
(% of Net Sales)	15.5	16.6	16.7	17.4	17.6	17.5
Depreciation & Amortisation	66	65	134	140	175	200
<b>EBIT</b>	<b>395</b>	<b>507</b>	<b>568</b>	<b>677</b>	<b>792</b>	<b>959</b>
% chg	27.0	28.3	12.0	19.2	17.0	21.0
(% of Net Sales)	13.3	14.7	13.5	14.4	14.4	14.5
Interest & other Charges	0	1	0	0	5	4
Other Income	27	30	42	46	45	56
(% of PBT)	6.4	5.7	6.9	6.3	5.4	5.6
Share in profit of Ass.	-	-	-	-	-	-
<b>Recurring PBT</b>	<b>422</b>	<b>537</b>	<b>610</b>	<b>722</b>	<b>833</b>	<b>1,011</b>
% chg	32.4	27.2	13.6	18.4	15.3	21.4
Prior Period & Extra. Exp.	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>422</b>	<b>537</b>	<b>610</b>	<b>722</b>	<b>833</b>	<b>1,011</b>
Tax	135	169	199	233	261	311
(% of PBT)	32.0	31.5	32.6	32.2	31.4	30.8
<b>PAT (reported)</b>	<b>287</b>	<b>367</b>	<b>411</b>	<b>489</b>	<b>571</b>	<b>699</b>
Add: Share of earnings of ass.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
<b>PAT after MI (reported)</b>	<b>287</b>	<b>367</b>	<b>411</b>	<b>489</b>	<b>571</b>	<b>699</b>
<b>ADJ. PAT</b>	<b>287</b>	<b>367</b>	<b>411</b>	<b>489</b>	<b>571</b>	<b>699</b>
% chg	32.4	28.2	11.8	19.1	16.7	22.4
(% of Net Sales)	9.6	10.6	9.8	10.4	10.4	10.6
<b>Basic EPS (₹)</b>	<b>16.8</b>	<b>21.5</b>	<b>24.1</b>	<b>28.7</b>	<b>33.4</b>	<b>40.9</b>
<b>Fully Diluted EPS (₹)</b>	<b>16.8</b>	<b>21.5</b>	<b>24.1</b>	<b>28.7</b>	<b>33.4</b>	<b>40.9</b>
% chg	32.4	28.2	11.8	19.1	16.7	22.4

**Balance sheet statement (Standalone)**

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	17	17	17	17	17	17
Reserves & Surplus	1,043	1,346	1,683	2,085	2,570	3,164
<b>Shareholders' Funds</b>	<b>1,060</b>	<b>1,363</b>	<b>1,700</b>	<b>2,102</b>	<b>2,587</b>	<b>3,181</b>
Minority Interest	-	-	-	-	-	-
Total Loans	88	86	76	74	75	75
Deferred Tax Liability	24	34	42	65	65	65
<b>Total Liabilities</b>	<b>1,172</b>	<b>1,482</b>	<b>1,817</b>	<b>2,241</b>	<b>2,727</b>	<b>3,321</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	680	996	1,441	1,915	2,415	2,865
Less: Acc. Depreciation	314	365	497	598	773	973
<b>Net Block</b>	<b>366</b>	<b>631</b>	<b>944</b>	<b>1,316</b>	<b>1,641</b>	<b>1,891</b>
Capital Work-in-Progress	103	145	86	120	120	120
Investments	16	16	16	16	16	16
Current Assets	1,285	1,192	1,340	1,456	1,641	2,085
Inventories	293	335	418	602	709	851
Sundry Debtors	381	453	554	592	679	814
Cash	411	295	222	150	127	268
Loans & Advances	173	60	75	64	72	86
Other Assets	28	49	70	48	55	66
Current liabilities	603	505	574	674	697	797
<b>Net Current Assets</b>	<b>682</b>	<b>687</b>	<b>766</b>	<b>782</b>	<b>944</b>	<b>1,288</b>
<b>Deferred Tax Asset</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>6</b>
Mis. Exp. not written off	-	-	-	-	-	-
<b>Total Assets</b>	<b>1,172</b>	<b>1,482</b>	<b>1,817</b>	<b>2,241</b>	<b>2,727</b>	<b>3,321</b>



**Cash flow statement (Standalone)**

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	422	537	610	722	833	1,011
Depreciation	59	65	134	140	175	200
Change in Working Capital	(9)	(132)	(145)	(68)	(185)	(203)
Interest / Dividend (Net)	(26)	(28)	(17)	(9)	5	4
Direct taxes paid	(137)	(160)	(192)	(218)	(261)	(311)
Others	27	(3)	5	(12)	-	-
<b>Cash Flow from Operations</b>	<b>335</b>	<b>279</b>	<b>395</b>	<b>555</b>	<b>566</b>	<b>700</b>
(Inc.)/ Dec. in Fixed Assets	(119)	(342)	(294)	(387)	(500)	(450)
(Inc.)/ Dec. in Investments	-	-	-	-	-	-
<b>Cash Flow from Investing</b>	<b>(119)</b>	<b>(342)</b>	<b>(294)</b>	<b>(387)</b>	<b>(500)</b>	<b>(450)</b>
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	-	(1)	-	-	1	-
Dividend Paid (Incl. Tax)	(32)	(43)	(65)	(161)	(86)	(105)
Interest / Dividend (Net)	(1)	(7)	138	70	(5)	(4)
<b>Cash Flow from Financing</b>	<b>(34)</b>	<b>(51)</b>	<b>73</b>	<b>(92)</b>	<b>(90)</b>	<b>(109)</b>
Inc./(Dec.) in Cash	182	(115)	174	76	(24)	141
<b>Opening Cash balances</b>	<b>228</b>	<b>409</b>	<b>48</b>	<b>75</b>	<b>150</b>	<b>127</b>
<b>Closing Cash balances</b>	<b>411</b>	<b>295</b>	<b>222</b>	<b>150</b>	<b>127</b>	<b>268</b>

**Key ratios**

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	60.2	47.0	42.0	35.3	30.2	24.7
P/CEPS	65.6	48.9	39.9	31.7	27.4	23.1
P/BV	16.3	12.7	10.2	8.2	6.7	5.4
Dividend yield (%)	0.2	0.2	0.3	0.4	0.4	0.5
EV/Sales	5.7	4.9	4.1	3.7	3.1	2.6
EV/EBITDA	36.7	29.8	24.4	21.0	17.8	14.7
EV / Total Assets	9.5	8.6	7.2	5.9	5.0	4.1
<b>Per Share Data (₹)</b>						
EPS (Basic)	16.8	21.5	24.1	28.7	33.4	40.9
EPS (fully diluted)	16.8	21.5	24.1	28.7	33.4	40.9
Cash EPS	15.4	20.7	25.3	31.9	36.8	43.7
DPS	1.9	2.5	3.2	3.6	4.3	5.0
Book Value	62.1	79.8	99.5	123.0	151.5	186.3
<b>Returns (%)</b>						
ROCE	34.4	35.0	32.0	31.1	29.8	29.4
Angel ROIC (Pre-tax)	54.8	44.6	36.9	33.7	31.5	32.2
ROE	27.1	27.0	24.2	23.3	22.1	22.0
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	4.4	3.5	2.9	2.4	2.3	2.3
Inventory / Sales (days)	36	35	36	47	47	47
Receivables (days)	47	48	48	46	45	45
Payables (days)	19	15	24	29	28	27
WC cycle (ex-cash) (days)	63	68	60	64	64	65

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### Amara Raja Batteries

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)