

Amara Raja Batteries (AMARAJ)

CMP: ₹ 510

Target: ₹ 475 (-7%)

Target Period: 12 months

August 24, 2022

REDUCE

Await larger commitment to new energy, Li-On space...

About the stock: Amara Raja Batteries (ARBL) is a part of the duopolistic organised Indian lead acid battery market with a strong presence across automotive (OEM, aftermarket) and industrial battery space (UPS, telecom, solar, etc).

- Geographical mix as of FY22: domestic ~87%, export ~13%
- Battery capacity as of FY22: 1.62 crore units for 4-W, 2.91 crore units for 2-W, 2 bn AH for industrial battery; cumulative across eight plants in India

Q1FY23 Results: The company reported a steady performance in Q1FY23.

- Operating income for Q1FY23 came in at ₹ 2,620 crore, up 20% QoQ
- EBITDA came in at ₹ 261 crore, up 19% QoQ with margins at 10%, flat QoQ
- PAT for the quarter was at ₹ 132 crore, up 33% QoQ

What should investors do? ARBL's share price has de-grown at ~8.5% CAGR from ~₹ 800 in August 2017, thereby underperforming Nifty Auto index in that time.

- We downgrade from HOLD to **REDUCE** rating given future growth challenge posed by EV transition and delayed commitment towards Li-On space

Target Price and Valuation: Revising our estimates we now value ARBL at a revised TP of ₹ 475 i.e. 13x P/E on FY24E EPS of ₹ 36.6/share (earlier TP ₹ 650).

Key triggers for future price performance:

- Sizeable presence in Li-On battery domain in both automotive & industrial
- Scalable business prospects in the present capabilities in the EV ecosystem such as EV chargers & electronics that go into energy storage systems
- Given widespread electrification thrust, healthy OEM sales & pick-up in industrial segment, we build ~14% sales CAGR over FY22-24E
- With commodity prices expected to stabilise in the near term, EBITDA margins are seen in the range of ~10-11%, going forward, over FY23E-24E
- Strong dealer network in after market segment (Amaron Dealers)

Alternate Stock Idea: Leaving aside ARBL, in our auto OEM coverage we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,550



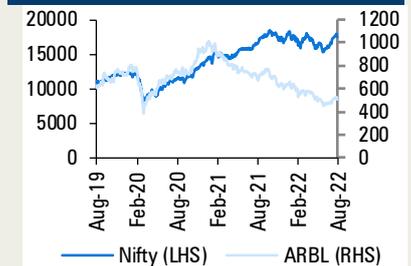
Particulars

Particular	₹ crore
Market Capitalization	8,711.3
Total Debt (FY22)	23.4
Cash & Investments (FY22)	88.3
Enterprise Value	8,646.4
52 week H/L (₹)	782 / 438
Equity capital	17.1
Face value (₹)	₹ 1

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	28.1	28.1	28.1	28.1
FII	20.8	19.8	18.1	18.3
DII	14.5	12	11.4	10.8
Other	36.6	40.5	42.5	42.8

Price Chart



Recent event & key risks

- Posted steady Q1FY23 results
- **Key Risk:** (i) Technology tie-up and consequent big capex announcement in the Li-On space (ii) More than anticipated recovery in margin trajectory

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	6,793.1	6,839.5	7,149.7	8,695.8	10.3%	10,907.2	11,297.0	14.0%
EBITDA	951.8	1,098.6	1,115.6	1,022.6	3.8%	1,137.5	1,245.9	10.4%
EBITDA Margins (%)	14.0	16.1	15.6	11.8		10.4	11.0	
Net Profit	483.5	660.8	646.8	511.2	1.3%	563.6	625.4	10.6%
EPS (₹)	28.3	38.7	37.9	29.9		33.0	36.6	
P/E	18.0	13.2	13.5	17.0		15.5	13.9	
RoNW (%)	14.5	18.1	15.4	11.2		11.2	11.2	
RoCE (%)	19.8	21.3	18.6	13.6		13.6	13.6	

Source: Company, ICICI Direct Research

Annual Report FY22 – Key takeaways & presentation highlights

- The company has created a portfolio of 0.5Kwh to 21.0Kwh products catering to e-mobility and energy storage applications in India. The team has successfully developed the HV Li-Ion Battery pack for E-Mobility application using pouch cells, active liquid cooling system (BTMS) and smart BMS with master
- Over the next three to five years, the management expects to establish a leadership position in the Li-ion battery space with a wide range of products catering to diverse applications
- The company has invested in a state-of-the-art R&D facility to assemble battery packs as well as manufacture lithium cells. In FY22, the company invested in a couple of technology start-ups to support in the development of lithium cell chemistry and manufacturing technologies and continues to scout technology partners for evolving energy space
- The company is planning investment in a Giga factory of 10-12 GWh along with the provision to expand further in line with market demand
- The company’s lithium batteries for telecom applications are currently undergoing field trials and should be ready for commercial deployment shortly
- It has successfully received the technology transfer from the Indian Space Research Organization (Isro) for the development of various types of Li-on cells as power sources for satellite and launch vehicle applications

Whether it is a conventional internal combustion engine vehicle, a hybrid or an electric vehicle they will all still have a lead acid battery inside to power the low voltage electrical requirements like the AC, power windows, power steering, audio system, navigation, locking-unlocking, etc.

Exhibit 1: Key Clientele – June 2021 PPT
Our Customers

Supplier of choice to Auto OE's	Private Label Brands	Industrial Customers

Source: Company, ICICI Direct Research

Exhibit 2: New energy portfolio – June 2021 presentation

Li Cell and pack product

- ACC PLI Scheme
- Tech partner search
- Set up Giga Factory
- Scale up Pack capability

EV Charging products

- AC/DC chargers
- Battery Swapping
- Public charging infra

Telecom & Data Centre products & Solutions

ESS

- Grid scale ES storage solutions
- Behind the Meter solutions
- Mini Grids

Home Energy Solutions

- Solar roof top
- Li HUPS product
- Intelligent Energy Management

Set E-Hub concept

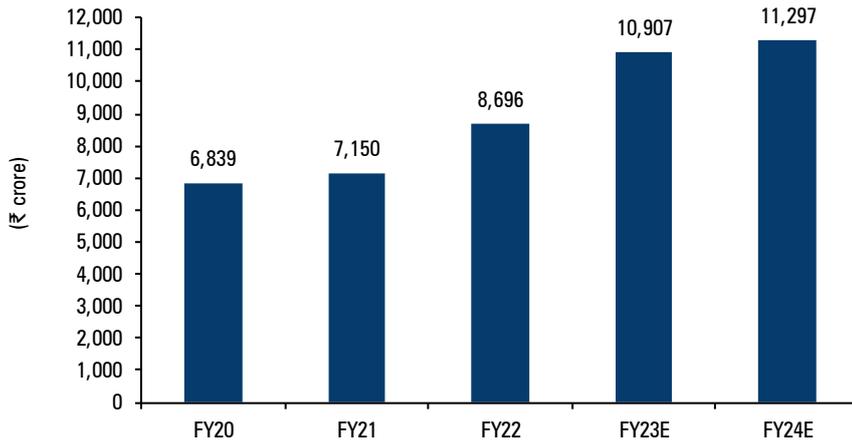
- Start-up eco-system
- Incubation & Accelerator programs
- Early phase investments into innovative technology start ups

The company expects Indian Li battery market to reach 30 GWh by 2025 and 150 GWh by 2030

Source: Company, ICICI Direct Research

Financial story in charts

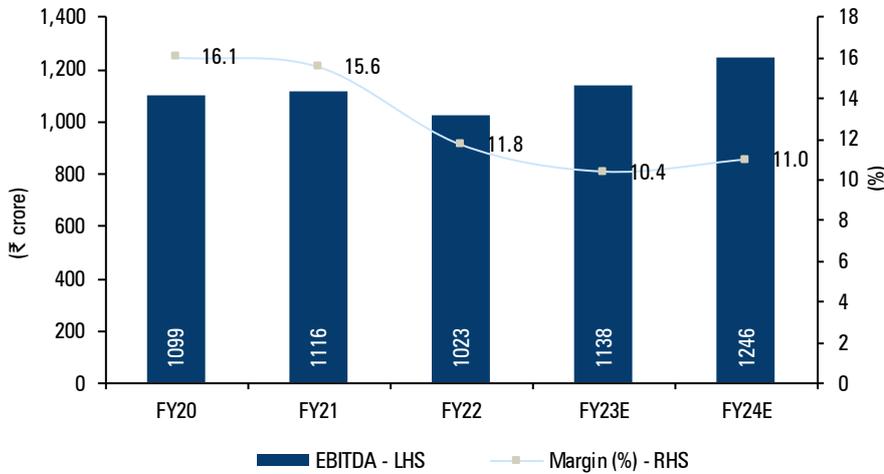
Exhibit 3: Topline trend



ARBL revenues are seen growing at 14.0% CAGR in FY22-24E to ₹ 11,297 crore in FY24E

Source: Company, ICICI Direct Research

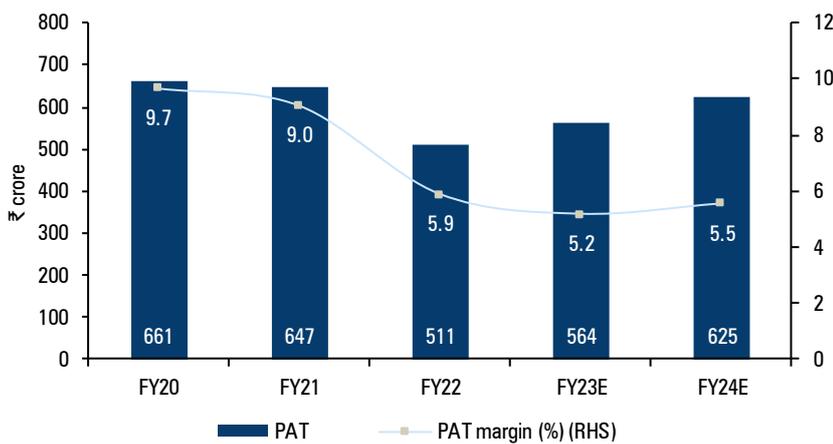
Exhibit 4: EBITDA & EBITDA margins trend



With commodity prices expected to stabilise in the near term, EBITDA margins are seen in the range of ~10-11%, going forward, over FY23E-24E

Source: Company, ICICI Direct Research

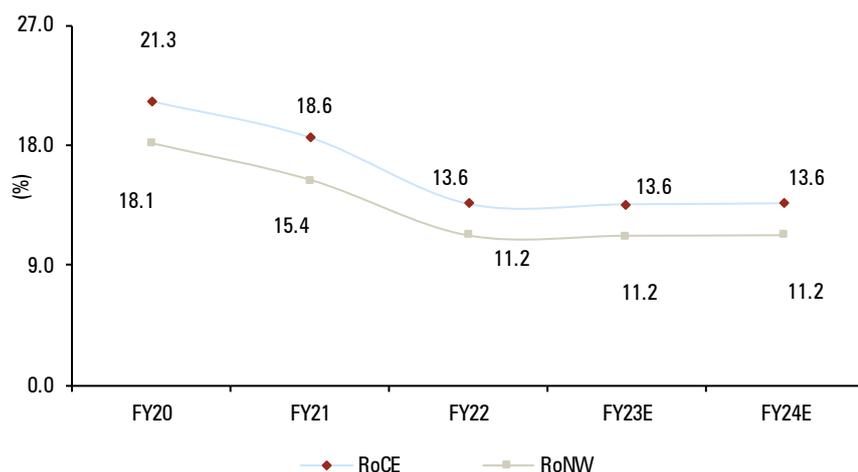
Exhibit 5: PAT & PAT margins trend



PAT is seen growing at a CAGR of 10.6% over FY22-24E to ₹ 625 crore in FY24E

Source: Company, ICICI Direct Research

Exhibit 6: Return ratios trend



Capital efficiency has been healthy with return ratios in the double digit range

Source: Company, ICICI Direct Research

Exhibit 7: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	6793.1	12.1	28.3	2.6	18.0	9.1	14.5	19.8
FY20	6839.5	0.7	38.7	36.7	13.2	7.8	18.1	21.3
FY21	7149.7	4.5	37.9	-2.1	13.5	7.4	15.4	18.6
FY22	8695.8	21.6	29.9	-21.0	17.0	8.5	11.2	13.6
FY23E	10907.2	25.4	33.0	10.3	15.5	7.4	11.2	13.6
FY24E	11297.0	3.6	36.6	11.0	13.9	6.4	11.2	13.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	7,150	8,696	10,907	11,297
Growth (%)	4.5	21.6	25.4	3.6
Raw Material Expenses	4,744.7	6,121.4	7,967.5	8,158.9
Employee Expenses	426.1	498.8	548.0	593.1
Other Expenses	863.3	1,053.1	1,254.2	1,299.2
Total Operating Expenditure	6,034.0	7,673.2	9,769.7	10,051.2
EBITDA	1,115.6	1,022.6	1,137.5	1,245.9
Growth (%)	1.6	-8.3	11.2	9.5
Depreciation	319.2	395.8	447.2	480.1
Interest	10.5	15.1	8.4	5.4
Other Income	87.4	78.0	75.0	79.1
PBT	873.3	689.7	757.0	839.5
Total Tax	226.5	178.6	193.4	214.1
PAT	646.8	511.2	563.6	625.4
Growth (%)	-2.1	-21.0	10.3	11.0
EPS (₹)	37.9	29.9	33.0	36.6

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	646.8	511.2	563.6	625.4
Add: Depreciation	319.2	395.8	447.2	480.1
(Inc)/dec in Current Assets	-375.6	-364.0	-726.2	-123.7
Inc/(dec) in CL and Provisions	229.0	201.9	426.9	69.6
CF from operating activities	819.4	744.8	711.4	1,051.4
(Inc)/dec in Investments	-124.4	202.7	-200.0	-400.0
(Inc)/dec in Fixed Assets	-517.0	-863.6	-400.0	-500.0
Others	24.6	-61.2	8.0	1.4
CF from investing activities	(623.5)	(686.1)	(592.0)	(898.6)
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-187.9	-76.9	-85.4	-93.9
CF from financing activities	(104.6)	(181.0)	(90.4)	(103.9)
Net Cash flow	91.3	-122.3	29.0	48.9
Opening Cash	84.6	175.9	53.6	82.6
Closing Cash	175.9	53.6	82.6	131.5

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	17.1	17.1	17.1	17.1
Reserve and Surplus	4,193.2	4,534.3	5,012.5	5,543.9
Total Shareholders funds	4,210.3	4,551.4	5,029.6	5,561.0
Total Debt	34.4	23.4	18.4	8.4
Deferred Tax Liability	40.7	31.4	39.3	40.8
Total Liabilities	4,478.6	4,855.4	5,336.5	5,859.4
Assets				
Gross Block	3,791.7	4,240.5	5,120.2	5,770.2
Less: Acc Depreciation	1,432.0	1,827.8	2,274.9	2,755.1
Net Block	2,359.7	2,412.8	2,845.2	3,015.1
Capital WIP	399.3	829.7	350.0	200.0
Total Fixed Assets	2,854.1	3,322.0	3,274.8	3,294.6
Investments	280.5	77.8	277.8	677.8
Inventory	1,438.2	1,803.8	2,091.8	2,166.6
Debtors	787.5	792.6	1,195.3	1,238.0
Loans and Advances	25.5	16.7	20.9	21.6
Other Current Assets	120.4	122.7	153.9	159.4
Cash	175.9	53.6	82.6	131.5
Total Current Assets	2,547.6	2,789.3	3,544.6	3,717.1
Creditors	746.5	806.5	1,045.9	1,083.3
Provisions	118.6	137.3	178.0	184.4
Other current liabilities	453.5	576.8	723.4	749.3
Total Current Liabilities	1,318.5	1,520.5	1,947.3	2,016.9
Net Current Assets	1,229.0	1,268.9	1,597.2	1,700.2
Other Non-Current Assets	115.1	186.8	186.8	186.8
Application of Funds	4,478.6	4,855.4	5,336.5	5,859.4

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	37.9	29.9	33.0	36.6
Cash EPS	56.6	53.1	59.2	64.7
BV	246.5	266.5	294.5	325.6
DPS	11.0	4.5	5.0	5.5
Cash Per Share	26.3	5.2	18.6	44.9
Operating Ratios (%)				
EBITDA Margin	15.6	11.8	10.4	11.0
PBT / Net sales	11.1	7.2	6.3	6.8
PAT Margin	9.0	5.9	5.2	5.1
Inventory days	73.4	75.7	70.0	70.0
Debtor days	40.2	33.3	40.0	40.0
Creditor days	38.1	33.9	35.0	35.0
Return Ratios (%)				
RoE	15.4	11.2	11.2	11.2
RoCE	18.6	13.6	13.6	13.6
RoIC	23.2	17.0	15.6	16.5
Valuation Ratios (x)				
P/E	13.5	17.0	15.5	13.9
EV / EBITDA	7.4	8.5	7.4	6.4
EV / Net Sales	1.2	1.0	0.8	0.7
Market Cap / Sales	1.2	1.0	0.8	0.8
Price to Book Value	2.1	1.9	1.7	1.6
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.8	1.8	1.8
Quick Ratio	0.7	0.6	0.7	0.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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