

Battery | Q3FY23 Result Update

Strong margin performance

- Amara Raja reported strong numbers in Q3FY23, Net revenue was at Rs.26.37bn (+11.5% YoY) while EBITDA stood at Rs.3.96bn with margin at 15% (+170bps QoQ) benefited from fall in Lead, Separator prices and Plastic cost, partially offset by Rupee depreciation.
- The company would be a key beneficiary of strong growth in the PVs segment. 4Ws contributes ~55% of total revenue (25% from OEMs and rest 75% in aftermarket and export). The company has come up with a new product with 72 months' warranty based on stamped grid technology in the pro segment which will help to increase customer faith in the product and gain market share.
- We maintain our positive view on Amara Raja due to: 1) increase in production capacity which will help gain market share in the OEM segment (new business orders in 2W from TVS and Hero); 2) sharp recovery in replacement and OEMs demand 3) diversification through foray into cell manufacturing and 4) correction in RM prices help in margin recovery.
- Valuation- We anticipate EBITDA/PAT CAGR 18/20% over FY22-25E and recommend Accumulate TP of Rs.644 (15x Sep FY24E EPS).

Sharp recovery in Operating Margin

In past 2 years operating margin of the company had seen massive correction (~500bps) due to increase in base metal costs which include higher lead, steel, copper prices) and non-lead costs (like import freight on plastic and separators which are not passed on to OEMs). As lead prices (Rs.175/kg vs Rs.200/kg in last 6 months), separators and logistic cost are softening, we have seen margin expansion to 15% in 3Q. In 2Q Company has taken a ~2-2.5% price hike in the replacement market and currently there is no under recovery in this segment. However Lead prices has again moved to Rs.186/kg which will dent 4Q margin.

Q3FY23 Result (Rs Mn)

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Revenue	26,372	23,651	11.5	26,995	(2.3)
Total Expense	22,404	20,811	7.7	23,393	(4.2)
EBITDA	3,969	2,840	39.7	3,602	10.2
Depreciation	1,145	1,021	12.1	1,019	12.4
EBIT	2,823	1,819	55.2	2,583	9.3
Other Income	261	190	37.6	237	10.1
Interest	58	38	54.9	54	7.6
EBT	3,026	1,971	53.5	2,765	9.4
Tax	798	524	52.2	744	7.3
RPAT	2,228	1,447	54.0	2,022	10.2
APAT	2,228	1,447	54.0	2,022	10.2
			(bps)		(bps)
Gross Margin (%)	33.4	29.7	363	30.5	288
EBITDA Margin (%)	15.0	12.0	304	13.3	170
NPM (%)	8.4	6.1	233	7.5	96
Tax Rate (%)	26.4	26.6	(23)	26.9	(53)
EBIT Margin (%)	10.7	7.7	302	9.6	114

CMP	Rs 565
Target / Upside	Rs 644 / 14%
NIFTY	17,892

Scrip Details

Equity / FV	Rs 171mn / Rs 1
Market Cap	Rs 97bn
	USD 1.2bn
52-week High/Low	Rs 668/ 438
Avg. Volume (no)	13,03,210
Bloom Code	AMRJ IN

Price Performance	1M	3M	12M
Absolute (%)	(8)	11	(7)
Rel to NIFTY (%)	(8)	10	(11)

Shareholding Pattern

	Jun'22	Sep'22	Dec'22
Promoters	28.1	28.1	28.1
MF/Banks/FIs	12.7	11.4	10.6
FIs	36.0	35.6	38.5
Public / Others	23.2	25.0	22.9

Valuation (x)

	FY23E	FY24E	FY25E
P/E	13.9	12.6	11.9
EV/EBITDA	7.2	6.4	5.8
ROE (%)	14.5	14.5	14.9
RoACE (%)	14.5	14.4	14.9

Estimates (Rs bn)

	FY23E	FY24E	FY25E
Revenue	104.4	110.7	121.6
EBITDA	13.6	15.1	16.8
PAT	7.0	7.7	8.8
EPS (Rs.)	40.8	44.9	47.5

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Replacement demand to be strong

In the last 2 years, we have seen strong traction in personal mobility which helped in sharp growth in used car and new car sales. Going ahead these car's batteries will be replaced in coming years which will lead to sustainable demand in the replacement segment. Further 2W battery demand is also showing strong growth in replacement market and company is continuously gaining market share in both OEMS and replacement segment.

Foraying in L-ion Manufacturing

As 2W accounts for 14-15% of overall revenue and telecom 12-14% of revenue which is facing higher EVs risk which would be mitigated by the company's entry in lithium battery packs manufacturing. Initial manufacturing capacity will be 3-4 gigawatts hour (and slowly to be ramped up to 12 gigawatts hour). The company's technology partners are ISRO and log 9 and they created a portfolio of 0.5Kwh to 21.0Kwh products catering to e-mobility and energy storage applications. Due to constant change in technology, management is opting multiple partnership option and developing technology for both NMC and LFP

Company have not been selected for PLI Schemes by the government but this is not going to impact the company's plan and investment for the lithium packs as there is only a difference of USD 5 to USD 6 dollar per KWH(at 60% localization) in terms of costing with and without PLI schemes.

Currently the company is supplying battery Packs, PLU chargers etc. to various OEMS and in FY22 revenue from this segment was Rs.1.50bn. Going forward it is also looking for JVs partner to ramp up its plan in lithium battery capacity, any strategic investment could lead to sharp re- rating of multiples.

Integration of Plastic Component business is margin accretive

Amara Raja Batteries Limited (ARBL) has decided to integrate the Plastic Component for Battery Business (part of Mandal Industries Limited (MIL)), with its core battery manufacturing operations. The turnover of the Plastic Component for Battery Business ("Demerged Undertaking was at Rs.5.69bn in FY22 which constitutes ~ 39% of the total turnover of MI (Rs.14.50bn). This business has 17% EBITDA margin and 10% PAT margin in FY22 and debt Rs.990mn. The backward integration is expected to enhance Amara Raja control over the supply & inventory management of its raw materials along with reduction in operational and logistic cost. This will help in overall margin expansion. The Company expects margin improvement of 75 -100bps due to this integration. This deal will take 12-18 months to close.

Exhibit 1: Actual vs estimated performance

Particulars (Rs mn)	Actual	DART Est	Var (%)
Sales	26,372	26,428	-
EBIDTA	3,969	3,563	11
EBIDTA Margin (%)	15.0	13.5	157bps
APAT	2,228	2,026	10

Source: Company, DART

Exhibit 2: Change in Estimates

Particulars (Rs Mn)	FY23E			FY24E			FY25E		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Net sales	1,04,377	96,383	8.3	1,10,680	1,00,068	10.6	1,21,624	1,13,520	7.1
EBITDA	13,569	12,433	9.1	15,052	14,110	6.7	16,784	16,233	3.4
EBITDA margin(%)	13.0	12.9	10	13.6	14.1	(50)bps	13.8	14.3	(50)bps
APAT	6,974	6,231	11.9	7,690	7,219	6.5	8,787	8,241	6.6
EPS	40.8	36.5	11.9	45.0	42.3	6.5	47.5	45.0	5.5

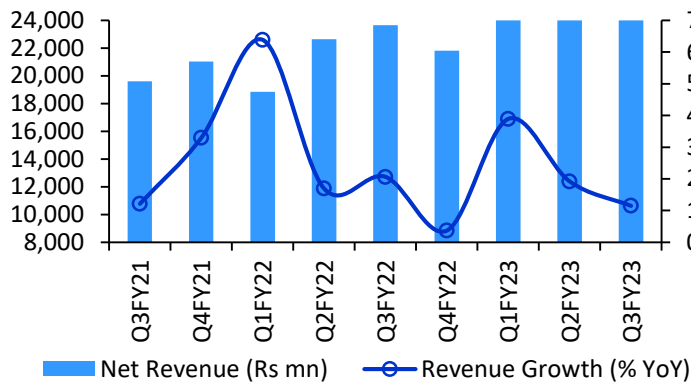
Source: Company, DART

Exhibit 3: Summary for quarterly performance

Particulars	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	FY23E
Net sales (Rs mn)	19,601	21,027	18,859	22,642	23,651	21,807	26,200	26,995	26,428	1,04,377
% YoY	12	33	64	17	21	4	39	19	12	20
% QoQ	1	7	(10)	20	4	(8)	20	3	(2)	
Materials	12,964	14,183	12,997	15,868	16,619	15,729	19,243	18,766	17,575	72,333
% sales	66.1	67.4	68.9	70.1	70.3	72.1	73.4	69.5	66.5	69.3
Employee cost	1,180	1,071	1,179	1,313	1,293	1,203	1,337	1,506	1,604	6,054
% sales	6.0	5.1	6.3	5.8	5.5	5.5	5.1	5.6	6.1	5.8
Other op cost	2,394	2,608	2,184	2,772	2,899	2,677	3,012	3,120	3,225	12,421
% sales	12.2	12.4	11.6	12.2	12.3	12.3	11.5	11.6	12.2	11.9
EBITDA (Rs mn)	3,064	3,165	2,499	2,689	2,840	2,199	2,609	3,602	4,024	13,569
% QoQ	8	30	64	(21)	(7)	(31)	4	34	40	33
Margin (%)	15.6	15.1	13.2	11.9	12.0	10.1	10.0	13.3	15.2	13.0

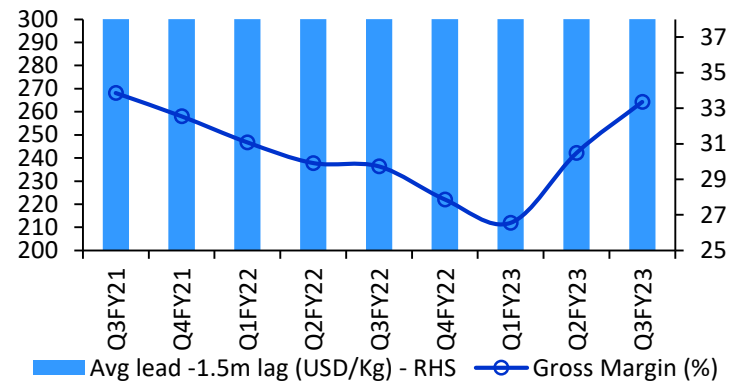
Source: Company, DART

Exhibit 4: Revenue de-grew QoQ



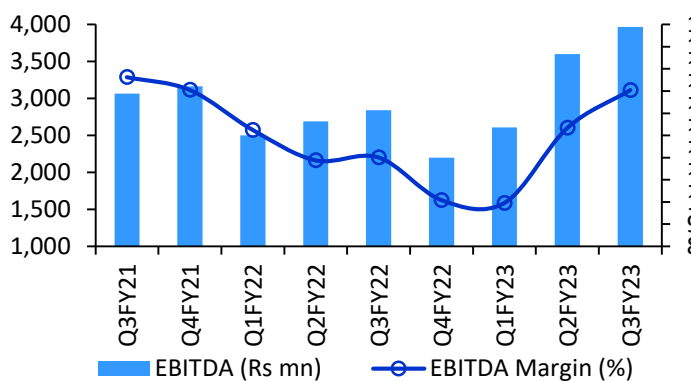
Source: Company, DART

Exhibit 5: Lead prices & Gross margin



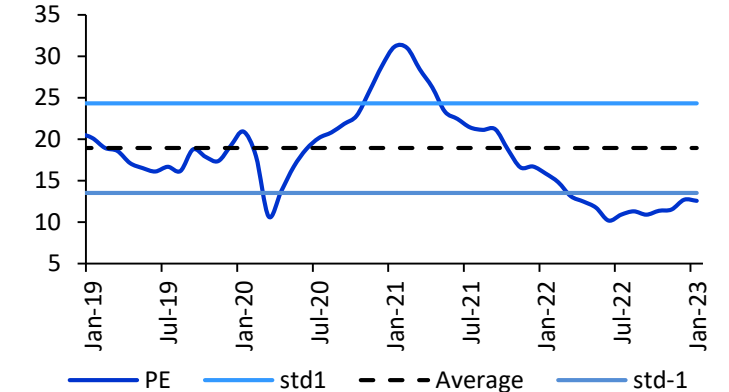
Source: Company, DART

Exhibit 6: EBITDA margin expanded QoQ/YoY



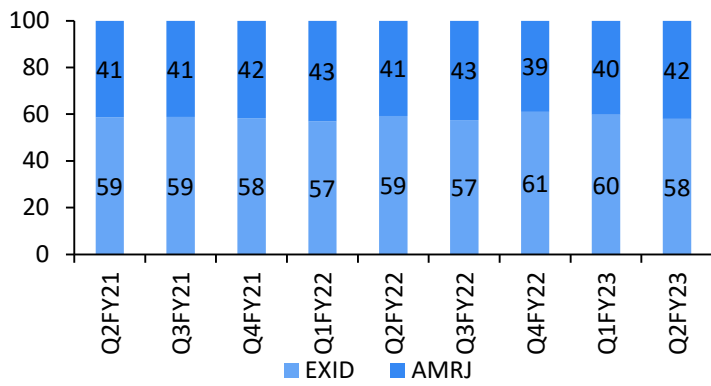
Source: DART, Company

Exhibit 7: P/E Band chart



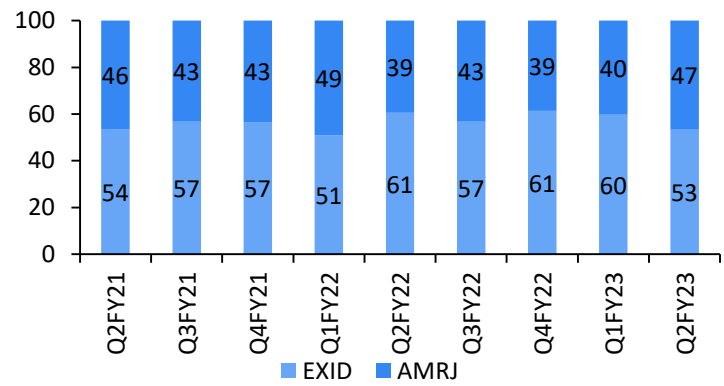
Source: DART, Company

Exhibit 8: AMRJ vs EXID Revenue share improved QoQ (%)



Source: DART, Company

Exhibit 9: AMRJ vs EXID EBIDTA share improved QoQ (%)



Source: DART, Company

Financial Performance

Profit and Loss Account

(Rs Mn)	FY22A	FY23E	FY24E	FY25E
Revenue	86,972	1,04,377	1,10,680	1,21,624
Total Expense	76,732	90,808	95,628	1,04,840
COGS	61,214	72,333	76,369	83,920
Employees Cost	4,993	6,054	6,198	6,689
Other expenses	10,525	12,421	13,060	14,230
EBIDTA	10,240	13,569	15,052	16,784
Depreciation	3,957	4,794	5,256	5,512
EBIT	6,282	8,775	9,797	11,272
Interest	151	163	156	149
Other Income	780	750	751	751
Exc. / E.O. items	0	0	0	0
EBT	6,911	9,361	10,392	11,874
Tax	1,786	2,387	2,702	3,087
RPAT	5,126	6,974	7,690	8,787
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	5,126	6,974	7,690	8,787

Balance Sheet

(Rs Mn)	FY22A	FY23E	FY24E	FY25E
Sources of Funds				
Equity Capital	171	171	171	185
Minority Interest	0	0	1	2
Reserves & Surplus	45,354	50,236	55,619	61,770
Net Worth	45,525	50,407	55,790	61,955
Total Debt	1,259	1,088	1,039	991
Net Deferred Tax Liability	241	241	241	241
Total Capital Employed	47,025	51,736	57,071	63,189

Applications of Funds

Net Block	24,922	24,628	26,372	27,860
CWIP	8,297	8,993	11,493	13,493
Investments	772	3,500	3,850	4,235
Current Assets, Loans & Advances	29,697	30,697	31,990	35,713
Inventories	18,046	17,158	17,284	19,326
Receivables	7,920	10,009	10,613	11,996
Cash and Bank Balances	541	189	592	723
Loans and Advances	167	167	167	168
Other Current Assets	3,023	3,175	3,333	3,500
Less: Current Liabilities & Provisions	16,663	16,081	16,634	18,114
Payables	8,055	8,323	8,788	9,795
Other Current Liabilities	8,608	7,758	7,846	8,319
<i>sub total</i>				
Net Current Assets	13,034	14,616	15,356	17,600
Total Assets	47,025	51,736	57,071	63,189

E – Estimates

Important Ratios

Particulars	FY22A	FY23E	FY24E	FY25E
(A) Margins (%)				
Gross Profit Margin	29.6	30.7	31.0	31.0
EBIDTA Margin	11.8	13.0	13.6	13.8
EBIT Margin	7.2	8.4	8.9	9.3
Tax rate	25.8	25.5	26.0	26.0
Net Profit Margin	5.9	6.7	6.9	7.2
(B) As Percentage of Net Sales (%)				
COGS	70.4	69.3	69.0	69.0
Employee	5.7	5.8	5.6	5.5
Other	12.1	11.9	11.8	11.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	41.6	53.8	62.9	75.8
Inventory days	76	60	57	58
Debtors days	33	35	35	36
Average Cost of Debt	16.1	13.9	14.7	14.6
Payable days	34	29	29	29
Working Capital days	52	50	49	51
FA T/O	3.5	4.2	4.2	4.4
(D) Measures of Investment				
AEPS (Rs)	30.0	40.8	44.9	47.5
CEPS (Rs)	53.1	68.8	75.7	83.6
DPS (Rs)	5.0	10.2	11.2	12.8
Dividend Payout (%)	16.7	25.0	25.0	27.0
BVPS (Rs)	266.1	294.6	326.1	362.1
RoANW (%)	11.7	14.5	14.5	14.9
RoACE (%)	11.7	14.5	14.4	14.9
RoAIC (%)	14.3	17.9	18.1	19.0
(E) Valuation Ratios				
CMP (Rs)	565	565	565	565
P/E	18.9	13.9	12.6	11.9
Mcap (Rs Mn)	96,626	96,626	96,626	96,626
MCap/ Sales	1.1	0.9	0.9	0.8
EV	97,344	97,525	97,073	96,894
EV/Sales	1.1	0.9	0.9	0.8
EV/EBITDA	9.5	7.2	6.4	5.8
P/BV	2.1	1.9	1.7	1.6
Dividend Yield (%)	0.9	1.8	2.0	2.3
(F) Growth Rate (%)				
Revenue	21.6	20.0	6.0	9.9
EBITDA	(8.2)	32.5	10.9	11.5
EBIT	(21.1)	39.7	11.6	15.1
PBT	(20.9)	35.5	11.0	14.3
APAT	(20.8)	36.1	10.3	14.3
EPS	(20.8)	36.1	10.3	5.7

E – Estimates

Cash Flow

Particulars	FY22A	FY23E	FY24E	FY25E
Profit before tax	6,911	9,361	10,392	11,874
Depreciation & w.o.	3,957	4,794	5,256	5,512
Net Interest Exp	151	(237)	(245)	(252)
Direct taxes paid	(1,786)	(2,387)	(2,702)	(3,087)
Change in Working Capital	(2,258)	(1,933)	(337)	(2,112)
Non Cash	(644)	0	0	0
(A) CF from Operating Activities	6,333	9,598	12,364	11,934
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(8,174)	(5,196)	(9,500)	(8,999)
Free Cash Flow	(1,841)	4,402	2,864	2,935
(Inc.)/ Dec. in Investments	2,033	(2,728)	(350)	(385)
Other	1,784	400	401	401
(B) CF from Investing Activities	(4,357)	(7,524)	(9,449)	(8,983)
Issue of Equity/ Preference	0	0	0	12
Inc./(Dec.) in Debt	639	(171)	(49)	(48)
Interest exp net	(151)	(163)	(156)	(149)
Dividend Paid (Incl. Tax)	(1,025)	(2,092)	(2,307)	(2,636)
Other	(2,656)	0	0	0
(C) CF from Financing	(3,192)	(2,426)	(2,512)	(2,821)
Net Change in Cash	(1,216)	(352)	403	131
Opening Cash balances	1,758	541	189	592
Closing Cash balances	541	189	592	723

E – Estimates

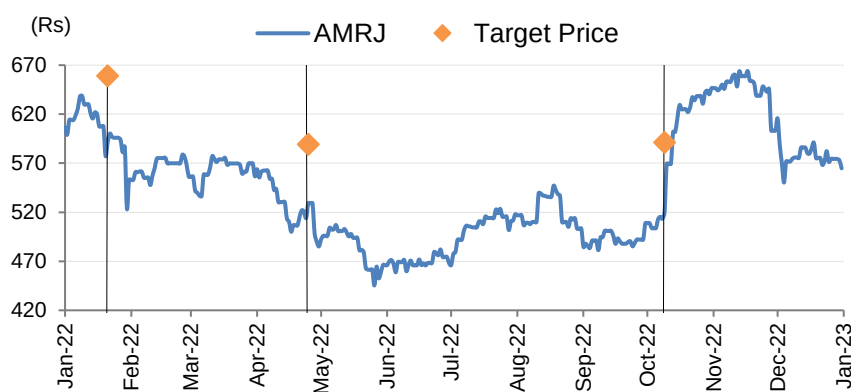
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-22	Accumulate	659	592
May-22	Accumulate	589	529
Nov-22	Buy	591	520

*Price as on recommendation date

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