

Amara Raja

Estimate changes



TP change



Rating change



Bloomberg	ARENM IN
Equity Shares (m)	183
M.Cap.(INRb)/(USDb)	217.8 / 2.6
52-Week Range (INR)	1278 / 596
1, 6, 12 Rel. Per (%)	9/56/75
12M Avg Val (INR M)	1018

Financials & Valuations (INR b)

Y/E March	2024	2025E	2026E
Sales	112.6	125.9	137.1
EBITDA	16.2	18.4	20.1
Adj. PAT	9.1	10.2	11.1
EPS (INR)	49.5	56.0	60.5
EPS Gr. (%)	10.4	13.1	8.0
BV/Sh. (INR)	370	417	468

Ratios

RoE (%)	14.2	14.2	13.7
RoCE (%)	14.0	14.2	13.7
Payout (%)	20.0	16.1	14.9

Valuations

P/E (x)	24.0	21.3	19.7
P/BV (x)	3.2	2.9	2.5
Div. Yield (%)	0.9	0.8	0.8
FCF yield (%)	4.3	5.4	5.1

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	32.9	28.1	28.1
DII	15.4	17.9	9.2
FII	24.5	24.0	36.2
Others	27.3	30.0	26.5

FII Includes depository receipts

CMP: INR1,190 TP: INR1,090 (-8%)
Neutral

In-line results; scouting for a partner for lithium ion foray

Capex guidance of INR15b for FY25-26 each vs. INR8b in FY24

- Amara Raja (ARE&M) reported in-line 4QFY24 results, with EBITDA margin up 10bp YoY at 14.6% (est. 14.7%). For its new lithium-ion business, the management expects to achieve EBITDA margin of 10-11% (vs. blended five-years average margin of 14.3%) and ROE of 12-13% (vs. blended five-year average ROE of 15.1%) at a scale of 10-12GWh.
- While the market seems to be upbeat about ARE&M's lithium-ion foray, we remain circumspect about the returns from the business. Moreover, after the recent run-up, the stock at ~24x/21x FY25E/FY26E EPS appears fairly valued. We, hence, maintain our Neutral rating on the stock with a revised TP of INR1,090 (based on 18x FY26E EPS).

Operational performance in line with estimates

- The company has restated its financials after the demerger of the plastic component business from Mangal Industries.
- 4QFY24 revenue/EBITDA/adj. PAT grew 15%/15%/30% YoY to INR28b/INR4.1b/INR2.3b (in line). FY24 revenue/EBITDA/adj. PAT increased 8%/15.5%/21% YoY.
- FY24 revenue from the new energy business stood at INR5.2b (up 2x YoY).
- Gross margin contracted 30bp YoY to 34.5% (vs. est. 32.5%).
- Higher other expenses (+50bp YoY; as a % of sales) led to limited EBITDA margin expansion, which improved just 10bp YoY (-50bp QoQ) to 14.6% (est. 14.7%). Other expenses were high due to stamp duty charges of INR200m paid for the merger transaction.
- Adj. PAT stood at INR2.3b (in line, grew 30% YoY).
- The board declared a total dividend of INR9.9/share for FY24 (vs. INR6.1/share for FY23).
- FCFF improved to INR8.7b (vs. INR4.9b in FY24) mainly due to improved operating cash flows, which stood at INR13.1b (vs. INR9.6b in FY23). Capex stood at INR8b in FY24 (vs. INR4.6b in FY23).

Highlights from the management commentary

- Industrial segment** revenue is expected to grow 6-7% YoY in FY25. With the expansion of data centers in India, demand for UPS is expected to get a boost.
- ARE&M has commenced the **NMC 2170 project for manufacturing lithium ion cells** for the 2W segment with a Chinese partner, which has a good presence in the South Asian markets. SOP is expected to start in 2HFY26.
- FY25 capex would be INR15b (INR3-4b for LAB/INR10-11b for NEB).** FY26 capex would be same as FY25 with a slightly lower allocation to the LAB business.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- While the market seems to be upbeat about ARE&M's lithium ion foray, we remain circumspect about the returns from the business. Moreover, after the recent run-up, the stock at ~24x/21x FY25E/FY26E EPS appears fairly valued. We, hence, maintain our Neutral rating on the stock with a revised TP of INR1,090 (based on 18x FY26E EPS).

Quarterly Performance

Y/E March (INR m)	FY23				FY24				(INR Million)		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY23	FY24	4QE
Net Sales	26,200	26,995	26,372	24,330	27,699	28,108	28,817	27,967	1,03,897	1,12,603	27,997
YoY Change (%)	38.9	19.2	11.5	11.6	5.7	4.1	9.3	14.9	19.5	8.4	15.3
RM Cost (% of sales)	73.4	69.5	66.6	65.2	71.1	68.4	66.0	65.5	67.4	66.9	67.5
Staff Cost (% of sales)	5.1	5.6	6.1	6.7	5.8	5.8	6.3	5.8	6.3	6.2	5.8
Other Exp (% of sales)	11.5	11.6	12.2	13.6	10.3	12.1	12.6	14.1	12.6	12.5	12.0
EBITDA	2,609	3,602	3,969	3,532	3,535	3,870	4,349	4,077	14,350	16,214	4,127
Margins (%)	10.0	13.3	15.0	14.5	12.8	13.8	15.1	14.6	13.8	14.4	14.7
Depreciation	963	1,019	1,145	1,238	1,111	1,148	1,202	1,210	4,504	4,787	1196
Interest	46	54	58	81	56	62	77	97	296	332	63
Other Income	170	237	261	229	216	275	238	283	897	1,015	232
PBT before EO expense	1,770	2,765	3,026	2,441	2,584	2,935	3,307	3,053	10,447	12,110	3101
Extra-Ord expense	0	0	0	477	0	0	0	0	477	0	0
PBT after EO	1,770	2,765	3,026	1,965	2,584	2,935	3,307	3,053	9,970	12,110	3,101
Tax	455	744	798	555	659	791	779	773	2,670	3,052	760
Tax Rate (%)	25.7	26.9	26.4	28.2	25.5	27.0	23.6	25.3	26.8	25.2	24.5
Adj PAT	1,315	2,022	2,228	1,759	1,925	2,143	2,528	2,280	7,650	9,059	2,341
YoY Change (%)	6.1	40.3	54.0	78.5	46.4	6.0	13.5	29.7	49.6	18.4	35.4

E: MOFSL Estimates

**Key takeaways from the management commentary****Lead acid business performance (LAB):**

- Revenue growth in 4QFY24 mostly led by volume growth:** Domestic/Exports/Industrial volume growth was 16%/30%/5-6% YoY. Overall aftermarket grew 15% YoY, with 2Ws growing 18-19% YoY and PVs growing 15% YoY. 4W OEMs saw a muted growth (~2%), but 2W OEMs grew 15% YoY. The company had taken one to two price increases in FY24.
- Export growth was led by its entry into new markets (West and East Africa) and reasonable growth in earlier markets like APAC and the Middle East.
- Industrial segment** revenue is expected to grow 6-7% YoY in FY25. With the expansion of data centers in India, demand for UPS is expected to get a boost.
- 4QFY24 trading revenue of inverter batteries stood at 10-11% of total revenues (5% in 4QFY23).
- The company consumes 300k MTPA lead, of which 70-75% comes from recycled sources. This would go up to 85-90% after the commencement of its own recycling plant, which has a capacity of 150k MTPA and is expected to commence in 2Q/3QFY25.
- While lead prices have risen 10% recently, the management would await this trend to stabilize and then take a call on the pass-through of this cost pressure.

New energy business performance (NEB):

- 4Q revenue grew 30% YoY (doubled in FY24). NEB supplies charger and battery packs to telecom players and 3W OEMs. It also commenced the supply of 2W battery packs in 4Q.

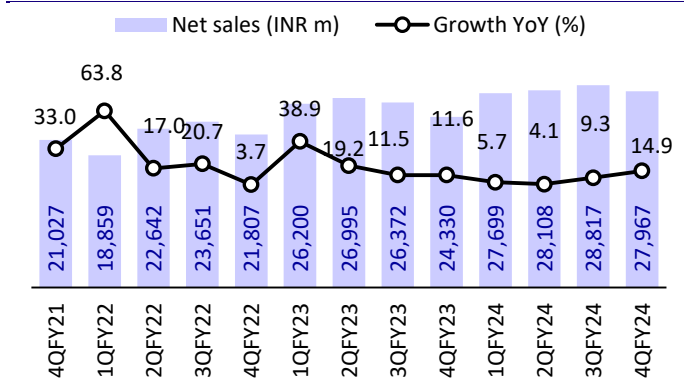
- It has commenced the NMC 2170 project for manufacturing lithium ion cells for the 2W segment with a Chinese partner that has a good presence in the South Asian markets. SOP is expected to start in 2HFY26.
- For cell manufacturing, the company is scouting a partner who could help them set up and stabilize the plant and secure and localize supply chain.
- The management believes the development of the whole downstream activities for using domestically mined lithium would take some time and it is not part of the company's 5-10 year plan as of now.
- Battery pack 2GWh capacity has been installed. Initially 1GWh would commence production next month.
- Once the company scales up, the management is confident of achieving 10-11% EBITDA margin in this business. While returns would depend on input cost prices, the management hopes to deliver RoE of 12-13% once the business scales up to about 10-12 Gwh.

Others:

- FY25 capex would be INR15b (INR3-4b for LAB/ INR10-11b for NEB). FY26 capex would be same as FY25, with a slightly lower allocation to LAB business. FY24 capex stood at INR8b.
- Lubricant business revenue in 4QFY24 was INR250m, which the company aims to scale up to more than INR1.5b in FY25. Margin in this business is similar to overall business margin.
- The demerger of the plastic component business from Mangal Industries has incrementally contributed 0.8% to the overall EBITDA margins. Plastic component is 10% of overall RM basket, with margin improvement expected in the range of 1-2%.
- One-time expenses of INR200m during the quarter for stamp duty payments.

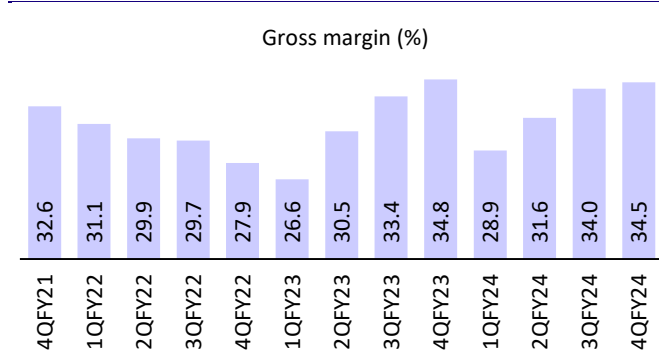
Key exhibits

Exhibit 1: Trend in revenue and growth



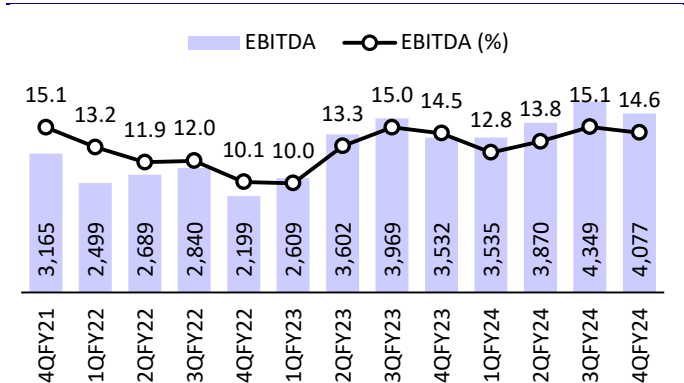
Source: Company, MOFSL

Exhibit 2: Gross margin impacted by RM cost inflation



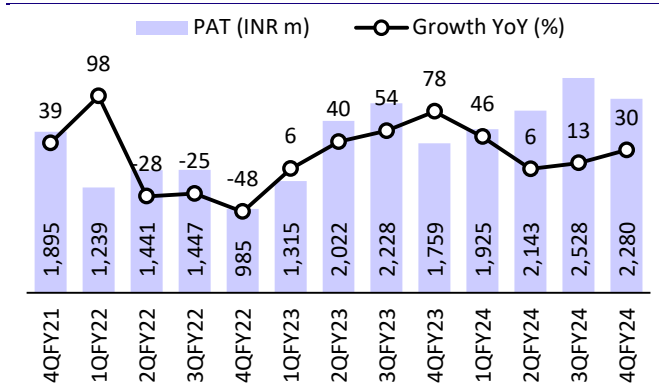
Source: Company, MOFSL

Exhibit 3: Trend in EBITDA and EBITDA margin



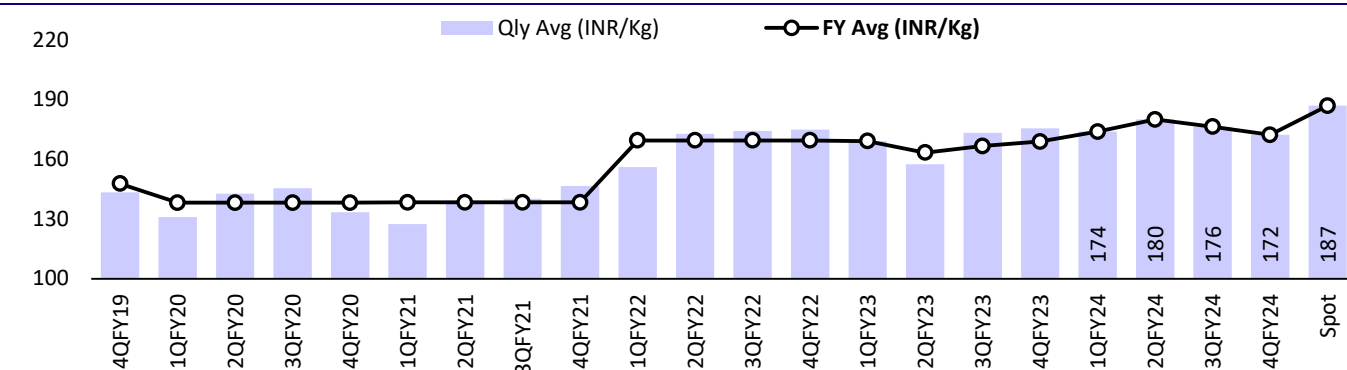
Source: Company, MOFSL

Exhibit 4: PAT and growth trend



Source: Company, MOFSL

Exhibit 5: Trend in spot lead prices (INR/kg)



Source: Bloomberg, MOFSL

Valuation and view

■ **Industry structure remains a duopoly, but AMRJ strong in second position:**

While the industry structure remains largely a duopoly, ARE&M has emerged as a formidable challenger to leader EXID, with market leadership in the telecom and UPS segments and fast gaining share in auto. Over FY14-24, it clocked 13%/9% CAGRs in net sales/PAT, exceeding EXID's 10%/8% CAGRs. This was driven by a combination of technological innovation (first to introduce maintenance-free, factory-charged, extended-warranty batteries), witty advertising, and a unique distribution model (franchisee-based), supported by operational efficiency-led competitive pricing.

■ **ARE&M to emerge as one of the beneficiaries of strong outlook in LAB:** The outlook on both auto and industrial segments remains strong. In the auto segment, strong growth posted by the industry over the last three years is expected to translate into healthy replacement demand in the coming years. The industrial segment is expected to benefit from a surge in demand for power backup for data centers. Thermal power generation is seeing a comeback and should see strong incremental demand, with growth visibility for the next 5-6 years. Given its strong position in the lead acid battery market both in auto and industrial segments, we expect ARE&M to emerge as one the beneficiaries of the healthy demand outlook in the industry.

■ **EV transition remains a real risk for LAB in the long run:** The transition to electrification globally is emerging as a big risk for the lead acid battery players in the long run. The only saving grace for Indian players in the near term is the fact that the EV transition is picking up pace in 2Ws and 3Ws only currently and it is likely to take a bit longer in PVs. However, lithium ion batteries are now increasingly finding application even in various industrial use cases, including telecom, traction, UPS, etc. This transition is clearly emerging as a significant risk for the LAB players like ARE&M in the long run.

■ **Foray into lithium ion will have its own challenges:** Given the significant imminent risk to its core business, ARE&M has forayed into the manufacturing of lithium ion cells in partnership with a Chinese major (details not disclosed) at a total capex outlay of INR95b over a 10-year period, which will have an eventual cell manufacturing capacity of 16 GWh. The company targets to start with a customer qualification plant having capacity of 2 Gwh initially and get the same approved from key customers. ARE&M is also scouting a partner for cell manufacturing who could help them setup and stabilize the plant and secure and localize supply chain. While ARE&M can fund the initial couple of years of this project through internal accruals, we expect it would need to raise funds to finance the remaining project. Further, we think ARE&M's foray into lithium ion cell manufacturing is likely to see multiple challenges in the coming years, such as: 1) most domestic PV OEMs either have their own lithium-ion manufacturing plans or have existing tie-ups, limiting ARE&M's potential addressable market in this space; 2) given that ARE&M is setting up a greenfield plant in this segment without prior experience, we expect its facility to take at least a couple of years to stabilize operations as it goes through its testing and validation phase initially for interested OEMs; 3) given lithium-ion cell manufacturing is a low margin business globally, we expect this business to be return-dilutive for ARE&M in the

long run, even if this venture is successful; 4) given that one is still not sure if the lithium ion cell technology itself will emerge as a sustainable technology in the long run, we think the outcome of this venture remains highly uncertain, at this stage, despite the significant capital commitment required.

- **Valuations fair; reiterate our Neutral rating:** While market seems to be upbeat on Amara's lithium ion foray, we remain circumspect about the returns from the same. Also, post the recent run-up, the stock at ~24x/21x FY25E/FY26E EPS appears fairly valued. We, hence, maintain Neutral rating on the stock with a revised TP of INR1090 (based on 18x FY26E EPS).

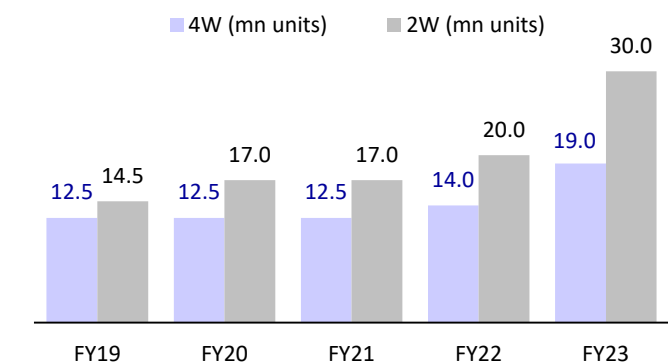
Exhibit 6: Revisions to our estimates

(INR M)	FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,25,927	1,23,876	1.7	1,37,104	1,33,203	2.9
EBITDA (%)	14.7	14.5	10bp	14.7	14.5	20bp
Net Profit	10,243	9,860	3.9	11,067	10,401	6.4
EPS (INR)	56.0	57.7	-3.0	60.5	60.9	-0.7

Source: MOFSL

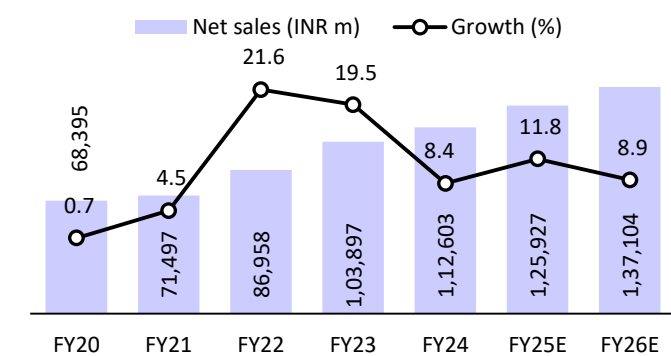
Story in charts

Exhibit 7: Significant addition in 2W capacity



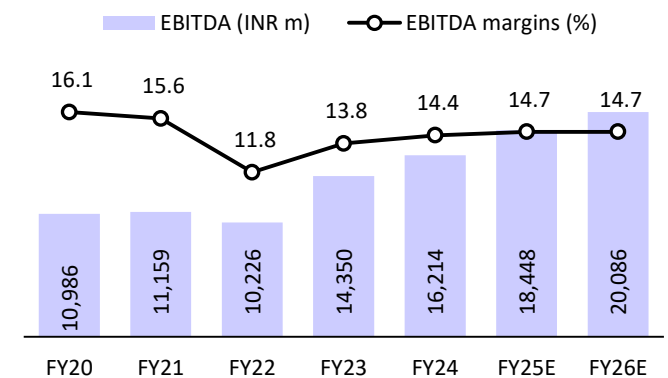
Source: Company, MOFSL

Exhibit 8: Trend in revenue



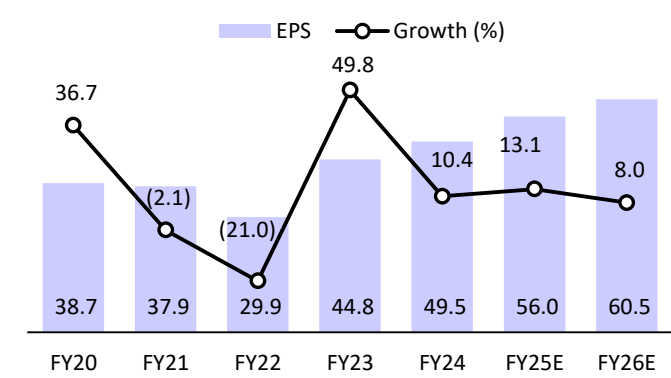
Source: Company, MOFSL

Exhibit 9: EBITDA and EBITDA margin trend



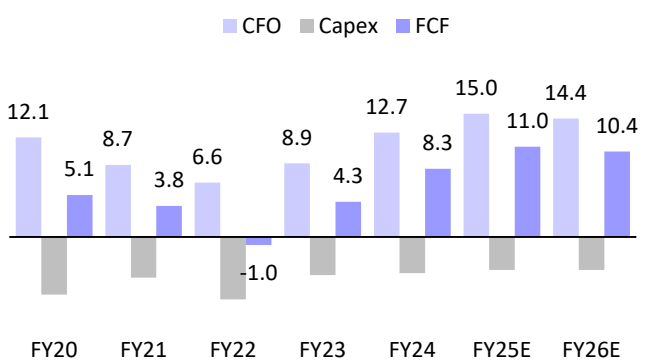
Source: Company, MOFSL

Exhibit 10: Earnings likely to see stability from FY25E



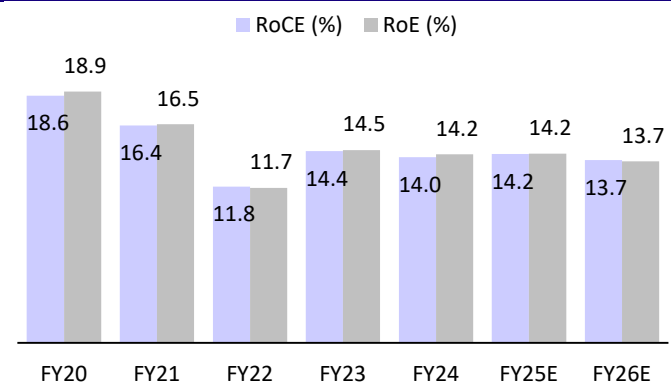
Source: Company, MOFSL

Exhibit 11: Trend in CFO, capex, and FCF



Source: Company, MOFSL

Exhibit 12: Return ratios to recover moderately



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR Million)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Sales	68,395	71,497	86,958	1,03,897	1,12,603	1,25,927	1,37,104
Change (%)	0.7	4.5	21.6	19.5	8.4	11.8	8.9
EBITDA	10,986	11,159	10,226	14,350	16,214	18,448	20,086
Margin (%)	16.1	15.6	11.8	13.8	14.4	14.7	14.7
Depreciation	3,007	3,192	3,957	4,504	4,787	5,057	5,530
EBIT	7,978	7,967	6,269	9,846	11,427	13,392	14,556
Int. and Finance Charges	122	105	151	296	332	350	350
Other Income - Rec.	551	874	780	897	1,015	800	750
PBT bef. EO Exp.	8,407	8,736	6,898	10,447	12,110	13,842	14,956
EO Expense/(Income)	0	0	0	477	0	0	0
PBT after EO Exp.	8,407	8,736	6,898	9,970	12,110	13,842	14,956
Current Tax	1,799	2,265	1,786	2,620	3,191	3,599	3,888
Deferred Tax	0	0	0	43	-140	0	0
Tax Rate (%)	21.4	25.9	25.9	26.7	25.2	26.0	26.0
Reported PAT	6,608	6,470	5,112	7,307	9,059	10,243	11,067
PAT Adj for EO items	6,608	6,470	5,113	7,656	9,059	10,243	11,067
Change (%)	36.7	-2.1	-21.0	49.8	18.3	13.1	8.0
Margin (%)	9.7	9.0	5.9	7.4	8.0	8.1	8.1

Standalone - Balance Sheet

(INR Million)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	171	171	171	171	183	183	183
Total Reserves	36,385	41,932	45,343	59,886	67,504	76,099	85,519
Net Worth	36,556	42,103	45,514	60,056	67,687	76,282	85,702
Deferred Liabilities	441	407	314	1,036	885	885	885
Total Loans	343	234	234	2,014	1,527	500	500
Capital Employed	37,341	42,744	46,062	63,106	70,098	77,667	87,087
Gross Block	29,269	38,628	42,498	54,681	58,089	62,306	66,306
Less: Accum. Deprn.	10,977	14,081	17,575	22,079	26,866	31,923	37,453
Net Fixed Assets	18,292	24,548	24,923	32,602	31,223	30,383	28,853
Capital WIP	8,270	3,993	8,297	2,343	3,217	3,000	3,000
Total Investments	1,562	2,805	778	9,140	19,071	28,071	37,071
Curr. Assets, Loans&Adv.	21,882	26,625	29,761	35,288	34,833	36,524	39,824
Inventory	11,427	14,382	18,038	16,752	18,095	20,010	21,786
Account Receivables	6,363	7,875	7,926	7,797	10,171	10,695	11,644
Cash and Bank Balance	326	967	536	998	1,045	782	908
Loans and Advances	3,766	3,401	3,262	9,741	5,522	5,037	5,484
Curr. Liability & Prov.	12,665	15,227	17,697	16,267	18,245	20,311	21,660
Account Payables	6,149	7,465	8,065	7,514	8,398	10,005	10,893
Other Current Liabilities	4,685	5,623	7,177	6,005	6,924	7,556	8,226
Provisions	1,832	2,140	2,455	2,749	2,923	2,750	2,541
Net Current Assets	9,217	11,398	12,064	19,021	16,588	16,213	18,164
Appl. of Funds	37,341	42,744	46,062	63,106	70,098	77,667	87,087

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)							
EPS	38.7	37.9	29.9	44.8	49.5	56.0	60.5
Cash EPS	56.3	56.6	53.1	71.2	75.7	83.6	90.7
BV/Share	214.0	246.5	266.5	351.6	369.9	416.8	468.3
DPS	11.0	11.0	4.5	6.1	10.6	9.6	9.6
Payout (%)	34.1	29.0	15.0	14.3	20.0	16.1	14.9
Valuation (x)							
P/E	30.8	31.4	39.7	26.5	24.0	21.3	19.7
Cash P/E	21.1	21.0	22.4	16.7	15.7	14.2	13.1
P/BV	5.6	4.8	4.5	3.4	3.2	2.9	2.5
EV/Sales	3.0	2.8	2.3	2.0	1.8	1.6	1.5
EV/EBITDA	18.5	18.1	19.8	14.2	12.6	11.0	10.1
Return Ratios (%)							
RoE	18.9	16.5	11.7	14.5	14.2	14.2	13.7
RoCE	18.6	16.4	11.8	14.4	14.0	14.2	13.7
RoIC	21.6	19.0	13.0	16.6	17.6	21.4	23.4
Working Capital Ratios							
Gross Fixed Asset Turnover (x)	2.3	1.9	2.0	1.9	1.9	2.0	2.1
Inventory (Days)	61.0	73.4	75.7	58.9	58.7	58.0	58.0
Debtor (Days)	34	40	33	27	33	31	31
Creditor (Days)	33	38	34	26	27	29	29
Working Capital Turnover (Days)	47	53	48	63	50	45	46
Leverage Ratio (x)							
Current Ratio	1.7	1.7	1.7	2.2	1.9	1.8	1.8
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Standalone - Cash Flow Statement

(INR Million)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Net P/L Before Tax and E/O Items	8,407	8,733	6,898	10,447	12,110	13,842	14,956
Depreciation	3,007	3,192	3,957	4,504	4,787	5,057	5,530
Interest & Finance Charges	122	105	151	-601	-684	-450	-400
Direct Taxes Paid	2,364	1,995	1,993	2,563	3,289	3,599	3,888
(Inc)/Dec in WC	2,892	-1,301	-2,406	-2,866	-271	111	-1,823
CF from Operations	12,065	8,734	6,607	8,921	12,654	14,961	14,374
Others	-296	-714	-277	641	488	0	0
CF from Operating incl EO	11,769	8,020	6,329	9,562	13,142	14,961	14,374
(inc)/dec in FA	-6,999	-4,964	-7,598	-4,647	-4,401	-4,000	-4,000
Free Cash Flow	4,770	3,056	-1,268	4,915	8,741	10,961	10,374
Others	13,305	13,212	16,219	24,731	28,871	-8,200	-8,250
CF from Investments	-8,497	-6,350	-4,819	-7,892	-10,720	-3,200	-3,250
(Inc)/Dec in Debt	-275	-321	-359	-377	-871	-1,027	0
Interest Paid	-52	-40	-67	-161	-188	-350	-350
Dividend Paid	-3,311	-854	-1,708	-581	-1,367	-1,647	-1,647
CF from Fin. Activity	-3,638	-1,215	-2,135	-1,119	-2,425	-3,024	-1,997
Inc/Dec of Cash	-365	455	-624	551	-2	8,737	9,127
Add: Beginning Balance	2,512	512	967	343	894	892	9,629
Closing Balance	2,147	967	343	894	892	9,629	18,756

E: MOFSL Estimates

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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