Exide Industries (EXID IN)

Rating: BUY | CMP: Rs194 | TP: Rs234

December 16, 2020

Company Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	234		194	
Sales (Rs. m)	1,07,790	1,18,266	1,12,671	1,21,415
% Chng.	*(4.3)*	*(2.6)*		
EBITDA (Rs. m)	16,289	18,102	16,914	17,987
% Chng.	*(3.7)*	*0.6*		
EPS (Rs.)	11.5	13.2	11.8	12.9
% Chng.	*(3.0)*	*2.7*		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	98,567	93,294	1,07,790	1,18,266
EBITDA (Rs. m)	13,650	12,715	16,289	18,102
Margin (%)	*13.8*	*13.6*	*15.1*	*15.3*
PAT (Rs. m)	8,428	7,145	9,756	11,219
EPS (Rs.)	9.9	8.4	11.5	13.2
Gr. (%)	*9.4*	*(15.2)*	*36.6*	*15.0*
DPS (Rs.)	4.1	4.5	5.0	5.5
Yield (%)	*2.1*	*2.3*	*2.6*	*2.8*
RoE (%)	*13.7*	*11.1*	*14.1*	*14.9*
RoCE (%)	*16.3*	*13.8*	*17.8*	*18.7*
EV/Sales (x)	1.7	1.7	1.5	1.3
EV/EBITDA (x)	11.9	12.7	9.8	8.8
PE (x)	19.5	23.0	16.9	14.7
P/BV (x)	2.6	2.5	2.3	2.1

Key Data	EXID.BO | EXID IN
52-W High / Low	Rs.208 / Rs.122
Sensex / Nifty	46,263 / 13,568
Market Cap	Rs.165bn/ $ 2,234m
Shares Outstanding	850m
3M Avg. Daily Value	Rs.1372.66m

Shareholding Pattern (%)

Promoter's	45.99
Foreign	9.75
Domestic Institution	23.12
Public & Others	21.13
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	14.3	29.3	4.2
Relative	7.8	(7.1)	(7.7)

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Market share gains intensified; maintain BUY

Quick Pointers:

- ~1-2% market share gains for organised players in auto replacement segment.
- Channel check suggest replacement demand back in high margin telecom segment.

We re-iterate BUY on Exide Industries (EXID) as the company is in a sweet spot, 1) to ride intensified replacement market share gains (~1-2% in each segments) from unorganized players post lockdown, 2) entry with new OEMs to help strengthen its leadership, 3) channel checks indicate replacement demand to come back in high margin telecom segments, post lull of 2-3 years due to lower capex by telcos and 4) exports to scale up. With capex cycle largely over, we estimate FCF of Rs23.7bn in FY21-23E (v/s Rs7.5bn in FY18-20) and factor in revenue/EBITDA/PAT CAGR of 6%/9.9%//10%.

We maintain BUY with revised price target of Rs234 (v/s Rs194) as we raise target multiple to 16x Mar'23E EPS (v/s 14x Sep'22 EPS) to factor in structural market share gains plus Rs23 for value of insurance arm. We tweak FY22/23 EPS estimates by 1-3% to factor in higher trading content in replacement segment.

Shift from unorganized players intensified leading to market share gains

- Our interaction with battery value chain indicated ~1-2% market share gains in replacement segment especially in 2Ws, CVs and tractors. This resulted in ~13-15% volume growth in auto aftermarket segment for leaders like Exide and Amara raja in period of May-Nov'20.
- Auto OEM and aftermarket segment continued to grow strongly with new product launches both in OEM as well as after market segment.
- Exide's differentiated products like a) its EPIQ range has the longest warranty (72 months) to target high-end cars, b) its CABBY range targets the commercial and metered taxi market, and c) its Gold range offers low-cost 4W batteries - targeted at gaining share from regional players. Launch of enhanced flooded battery (for BS6) applications too helped drive the growth.
- In organized replacement segment, EXID's overall market share in 2Ws remained higher than 50% while for 4W was >58% currently.

Auto OEM- Entry with new OEMs/products to strengthened leadership

- Exide currently has ~100% share of business (SOB) with major new launches such as Kia Seltos and Sonet, Hyundai Venue and New Creta, MG Hector and upcoming Tata Gravitas.
- By and large, despite increasing competition from Amara, EXID enjoys ~60% market share in 4W and 3W OEM while in 2W segment its market share remains high at ~65%.

Telecom- channel check suggests replacement demand coming back

- Our interaction with battery value chain indicated replacement demand coming back in the telecom segment which was under pressure over FY17-20 due to lower capex by telcos. Telecom is one of the largest segment in industrial with share range between 15-20%.
- Amara raja (AMRJ) is leader of the segment with market share estimated at ~55-60% currently followed by EXID with ~15-20% share.
- Despite pricing pressure, this segment enjoys highest margins among sub segments. This keeps product mix better for battery manufacturers.

Exide has ~35-38% share of inverter batteries. Total size of segment is ~7mn units in FY20 of which ~30% is unorganized.

New product launches in industrial segment help drive growth

- EXID has launched several new products for diverse industrial applications. For example, a) Ultra and Tubular GEL– Solar micro grids and utility scale storage, b) High watt series UPS – data warehousing applications, c) compact online UPS – for SOHO and large format retail, d) compact telecom batteries – for Indian and international markets, etc.
- Further new product launches for data warehouse, SOHO (small office, home office applications), large format retailers and compact batteries for telecom helped sustain growth.

EXID exports 7 brands of batteries to SE Asia, ME and African nations.

***Key growth pillars for exports** – Double the exports in 3 years and increase market share in each region.*

Scaling up export led by entry in new market and extended product range

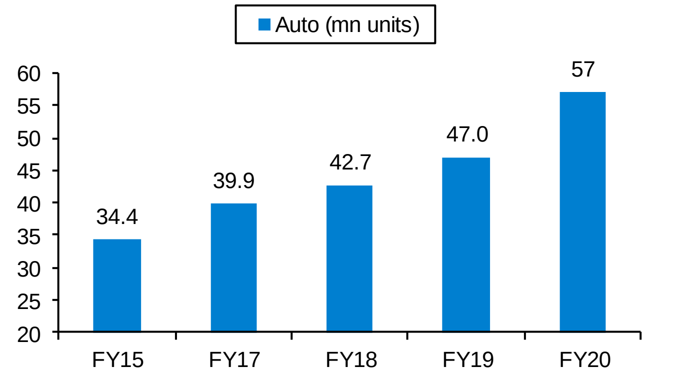
- EXID's exports grew 22% CAGR over FY17-20 to Rs6.6bn. Despite, COVID related disruptions in 4Q globally, overall exports for FY20 declined by just 2% YoY. The contribution of exports is increasing gradually to ~7% in FY20 (v/s ~5% in FY17).
- On the automotive side, EXID exports batteries to key destinations like UK, middle east, South East Asia and African countries.
- On the industrial side, EXID started exporting standby products to African markets (Nigeria, Kenya, South Africa, Uganda and Zimbabwe) while consolidating position in Europe and Middle East.

Estimate average capex spend of 3.7% over FY21-23E (v/s 6.3% over FY16-20).

Capacity enhancement capex largely done- should help FCF in FY21-23E

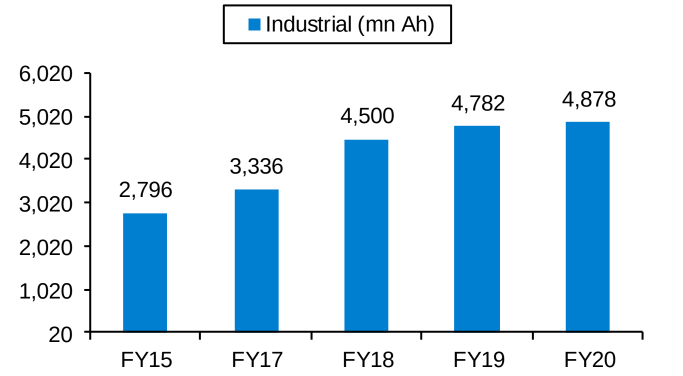
- EXID's capex spend over FY16-20 remained at an average ~6.3% of sales. A large part of capex was spent on capacity expansion (both in automotive and industrial segment) and enhancing charging capacities.
- Capacity expansion accounted for ~35% of capex over FY16-20 while the same increased to ~44% over FY19-20. We believe with ~57mn units and ~5bmph of capacities in hand for auto and industrial respectively, capex spends to decline significantly to average 3.7% over FY21-23E.
- Consequently, we estimate FCF of Rs23.7bn in FY21-23E (v/s Rs7.5bn in FY18-20).

Exhibit 1: Auto- Gradual capacity addition over the years



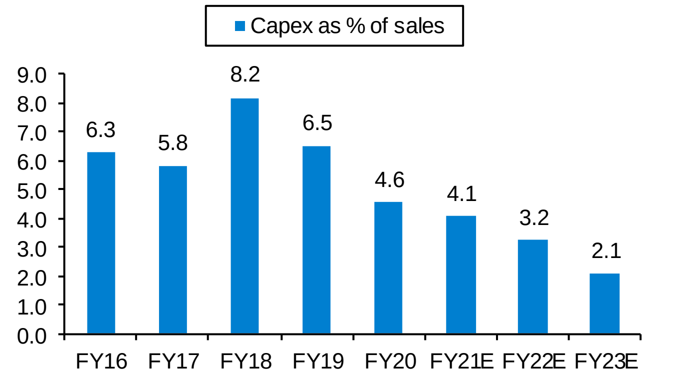
Source: Company, PL

Exhibit 2: Industrial- Capacity addition remained steady



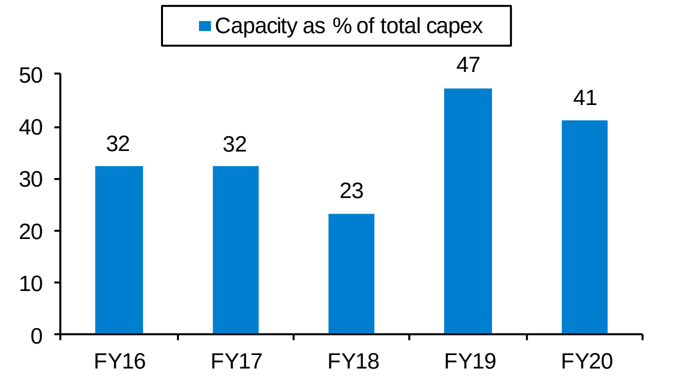
Source: Company, PL

Exhibit 3: Capex to decline significantly in FY21-23E…



Source: Company, PL

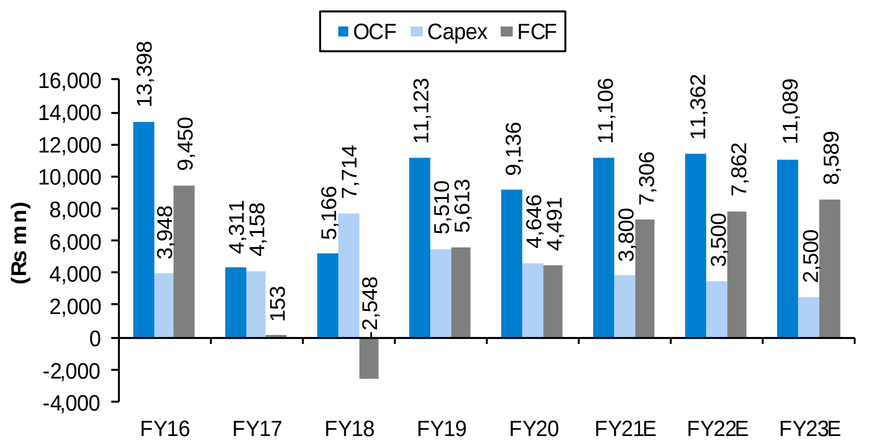
Exhibit 4: …as capacity capex is largely over in FY16-20



Source: Company, PL

OCF improvement and capex moderation to help FCF over FY21-23E. We estimate cumulative capex of Rs9.8bn (v/s Rs17.9bn in FY18-20).

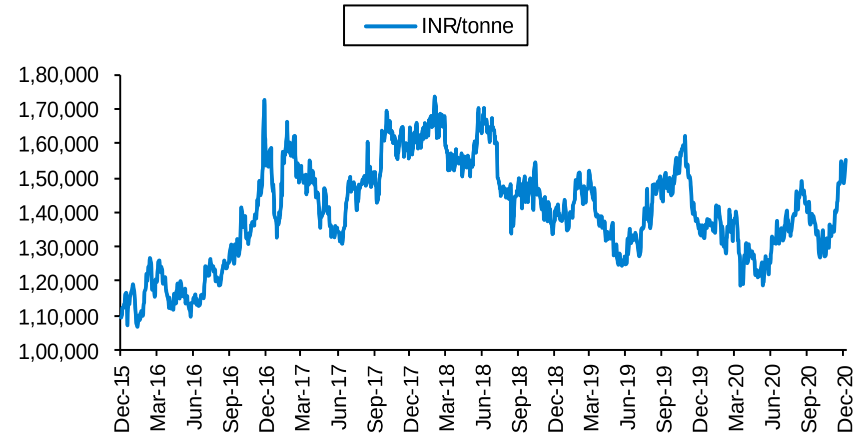
Exhibit 5: FCF to improve gradually with decline in capex over FY21-23E



Source: Company, PL

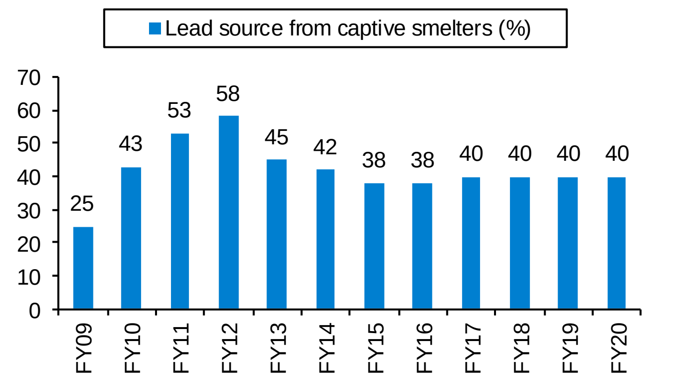
Average lead price for 3QFY21 declined 0.4% YoY (-5% QoQ) to Rs138.4/kg.

Exhibit 6: Lead price still under control unlike spike in other commodities



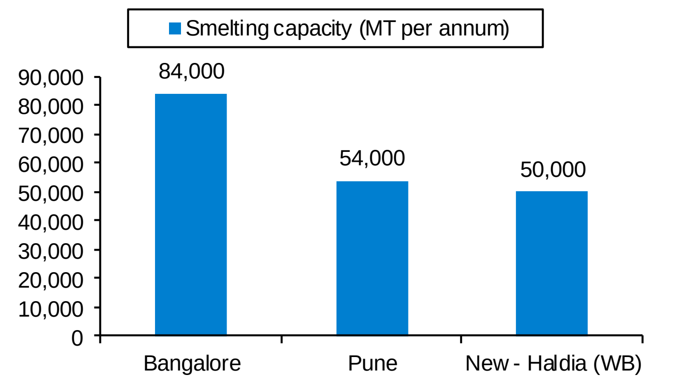
Source: Company, PL

Exhibit 7: Smelters sourcing help mitigate RM volatility



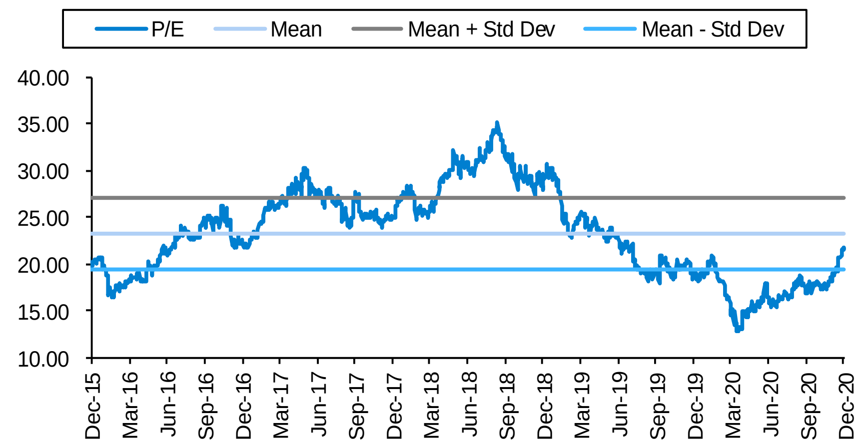
Source: Company, PL

Exhibit 8: New capacity at Haldia to boost captive sourcing



Source: Company, PL

Exhibit 9: Despite recent run-up, valuations still below mean (1yr forward)



Source: Bloomberg, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	**98,567**	**93,294**	**1,07,790**	**1,18,266**
YoY gr. (%)	*(6.9)*	*(5.3)*	*15.5*	*9.7*
Cost of Goods Sold	62,664	61,574	68,663	75,336
Gross Profit	35,903	31,720	39,128	42,931
Margin (%)	*36.4*	*34.0*	*36.3*	*36.3*
Employee Cost	6,664	6,731	6,933	7,141
Other Expenses	15,589	12,274	15,906	17,688
EBITDA	**13,650**	**12,715**	**16,289**	**18,102**
YoY gr. (%)	*(3.3)*	*(6.8)*	*28.1*	*11.1*
Margin (%)	*13.8*	*13.6*	*15.1*	*15.3*
Depreciation and Amortization	3,626	3,809	3,987	4,069
EBIT	**10,024**	**8,906**	**12,302**	**14,033**
Margin (%)	*10.2*	*9.5*	*11.4*	*11.9*
Net Interest	94	103	114	136
Other Income	639	598	649	865
Profit Before Tax	**10,352**	**9,401**	**12,837**	**14,762**
Margin (%)	*10.5*	*10.1*	*11.9*	*12.5*
Total Tax	2,097	2,256	3,081	3,543
Effective tax rate (%)	*20.3*	*24.0*	*24.0*	*24.0*
Profit after tax	**8,255**	**7,145**	**9,756**	**11,219**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**8,428**	**7,145**	**9,756**	**11,219**
YoY gr. (%)	*9.4*	*(15.2)*	*36.6*	*15.0*
Margin (%)	*8.6*	*7.7*	*9.1*	*9.5*
Extra Ord. Income / (Exp)	(217)	-	-	-
Reported PAT	**8,255**	**7,145**	**9,756**	**11,219**
YoY gr. (%)	*(2.2)*	*(13.5)*	*36.6*	*15.0*
Margin (%)	*8.4*	*7.7*	*9.1*	*9.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,255	7,145	9,756	11,219
Equity Shares O/s (m)	**850**	**850**	**850**	**850**
EPS (Rs)	**9.9**	**8.4**	**11.5**	**13.2**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	**36,370**	**41,139**	**44,639**	**47,139**
Tangibles	36,370	41,139	44,639	47,139
Intangibles	-	-	-	-
Acc: Dep / Amortization	**12,634**	**16,442**	**20,430**	**24,499**
Tangibles	12,634	16,442	20,430	24,499
Intangibles	-	-	-	-
Net fixed assets	**23,736**	**24,696**	**24,209**	**22,640**
Tangibles	23,736	24,696	24,209	22,640
Intangibles	-	-	-	-
Capital Work In Progress	2,969	2,000	2,000	2,000
Goodwill	-	-	-	-
Non-Current Investments	20,521	22,573	24,830	27,313
Net Deferred tax assets	(1,019)	(1,019)	(1,019)	(1,019)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	187	1,187	2,187	3,187
Inventories	21,923	20,750	23,974	26,304
Trade receivables	8,154	10,224	11,813	12,313
Cash & Bank Balance	1,546	1,871	2,112	2,406
Other Current Assets	3,064	2,900	3,350	3,676
Total Assets	**82,421**	**86,505**	**94,827**	**1,00,225**
Equity				
Equity Share Capital	850	850	850	850
Other Equity	62,111	65,431	70,937	77,481
Total Networth	**62,961**	**66,281**	**71,787**	**78,331**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	10,309	9,758	11,274	9,072
Other current liabilities	8,132	9,448	10,747	11,803
Total Equity & Liabilities	**82,421**	**86,505**	**94,827**	**1,00,225**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	10,352	8,906	12,302	14,033
Add. Depreciation	3,626	3,809	3,987	4,069
Add. Interest	(372)	598	649	865
Less Financial Other Income	639	598	649	865
Add. Other	(4,131)	-	-	-
Op. profit before WC changes	9,475	13,313	16,938	18,967
Net Changes-WC	2,155	49	(2,496)	(4,335)
Direct tax	(2,494)	(2,256)	(3,081)	(3,543)
Net cash from Op. activities	**9,136**	**11,106**	**11,362**	**11,089**
Capital expenditures	(4,646)	(3,800)	(3,500)	(2,500)
Interest / Dividend Income	-	-	-	-
Others	1,397	(3,052)	(3,257)	(3,483)
Net Cash from Invt. activities	**(3,249)**	**(6,852)**	**(6,757)**	**(5,983)**
Issue of share cap. / premium	-	-	-	-
Debt changes	(30)	-	-	-
Dividend paid	(4,889)	(3,825)	(4,250)	(4,675)
Interest paid	(70)	(103)	(114)	(136)
Others	-	-	-	-
Net cash from Fin. activities	**(4,989)**	**(3,928)**	**(4,364)**	**(4,811)**
Net change in cash	**899**	**325**	**241**	**295**
Free Cash Flow	4,491	7,306	7,862	8,589

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	**24,115**	**20,551**	**15,476**	**27,534**
YoY gr. (%)	*(3.4)*	*(20.9)*	*(44.3)*	*5.5*
Raw Material Expenses	15,392	12,703	10,642	17,891
Gross Profit	8,723	7,848	4,834	9,643
Margin (%)	*36.2*	*38.2*	*31.2*	*35.0*
EBITDA	**3,198**	**2,702**	**1,485**	**3,920**
YoY gr. (%)	*2.3*	*(27.6)*	*(63.6)*	*6.8*
Margin (%)	*13.3*	*13.1*	*9.6*	*14.2*
Depreciation / Depletion	925	939	914	953
EBIT	**2,273**	**1,764**	**571**	**2,967**
Margin (%)	*9.4*	*8.6*	*3.7*	*10.8*
Net Interest	21	37	14	63
Other Income	251	169	70	148
Profit before Tax	**2,286**	**1,895**	**627**	**3,052**
Margin (%)	*9.5*	*9.2*	*4.1*	*11.1*
Total Tax	326	215	188	764
Effective tax rate (%)	*14.3*	*11.4*	*29.9*	*25.0*
Profit after Tax	**1,959**	**1,680**	**440**	**2,288**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**2,145**	**1,680**	**440**	**2,288**
YoY gr. (%)	*38.4*	*(20.3)*	*(80.4)*	*(3.6)*
Margin (%)	*8.9*	*8.2*	*2.8*	*8.3*
Extra Ord. Income / (Exp)	(217)	-	-	-
Reported PAT	**1,959**	**1,680**	**440**	**2,288**
YoY gr. (%)	*26.4*	*(20.3)*	*(80.4)*	*(3.6)*
Margin (%)	*8.1*	*8.2*	*2.8*	*8.3*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**1,959**	**1,680**	**440**	**2,288**
Avg. Shares O/s (m)	850	850	850	850
EPS (Rs)	**2.5**	**2.0**	**0.5**	**2.7**

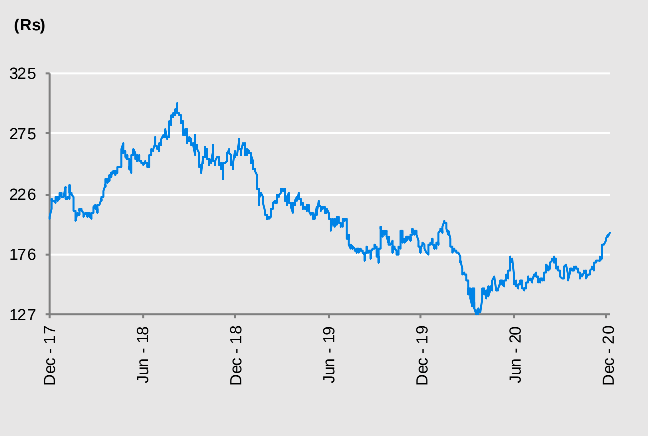
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	9.9	8.4	11.5	13.2
CEPS	14.2	12.9	16.2	18.0
BVPS	74.1	78.0	84.5	92.2
FCF	5.3	8.6	9.2	10.1
DPS	4.1	4.5	5.0	5.5
Return Ratio(%)				
RoCE	16.3	13.8	17.8	18.7
ROIC	13.4	11.0	14.4	15.4
RoE	13.7	11.1	14.1	14.9
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.1)
Net Working Capital (Days)	73	83	83	91
Valuation(x)				
PER	19.5	23.0	16.9	14.7
P/B	2.6	2.5	2.3	2.1
P/CEPS	13.6	15.0	12.0	10.8
EV/EBITDA	11.9	12.7	9.8	8.8
EV/Sales	1.7	1.7	1.5	1.3
Dividend Yield (%)	2.1	2.3	2.6	2.8

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Nov-20	BUY	194	162
2	09-Oct-20	BUY	191	164
3	03-Aug-20	BUY	183	155
4	11-Jul-20	Accumulate	177	155
5	06-Jun-20	Accumulate	179	173
6	09-Apr-20	Accumulate	167	148
7	04-Feb-20	Accumulate	214	188
8	03-Jan-20	Accumulate	214	184

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	100	84
2	Bajaj Auto	Hold	3,108	3,006
3	Bharat Forge	Hold	439	500
4	CEAT	Accumulate	1,223	1,148
5	Eicher Motors	Accumulate	2,598	2,346
6	Exide Industries	BUY	194	162
7	Hero Motocorp	Accumulate	3,282	2,894
8	Mahindra & Mahindra	BUY	826	729
9	Maruti Suzuki	BUY	7,642	7,118
10	Motherson Sumi Systems	BUY	165	140
11	Tata Motors	Hold	146	136
12	TVS Motors	Sell	386	422

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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