

Amara Raja Batteries

BUY

Results in line; Maintain BUY

Summary

Amara Raja's Q1FY22 result was broadly in line with our expectations. Amara Raja's sales increased by 64% YoY to Rs19 bn as automotive and industrial sales rebounded strongly; even exports and OEMs sales witnessed sharp increase. EBITDA jumped 64% YoY to Rs2,500 mn, although EBITDA margin remained flat YoY but fell 179 bps on QoQ to 13.3% on rising prices of raw materials (mainly lead). Amara Raja's net profit nearly doubled YoY to Rs1,241 mn.

We broadly maintain our FY22/FY23 sales forecasts. However, we lower our FY22-FY23 EBITDA margin estimates by ~100 bps to account for higher price of raw materials. Thus, our net profit estimates for FY22/FY23 stand lowered by 4%/7%. Nevertheless, we continue to value the stock at a PER of 20x FY23E EPS to derive a target price of Rs918 (earlier Rs990). We maintain our BUY rating on the stock.

Key Highlights and Investment Rationale

- Demand strong despite lockdown:** Despite regional lockdowns witnessed in Q1FY22, the aftermarket demand across product segments in automotive and industrial segments was strong. The Automotive segment sales grew on the back of strong growth in Exports and OEMs on a YoY basis. In the industrial segments, Telecom and UPS applications registered strong YoY growth.
- Recovery likely from H2FY22:** While the second wave of Covid-19 is likely to impact Amara Raja's H1FY21 performance, we expect strong recovery in battery sales from H2FY22 and expect further improvement in FY23 mainly led by improvement in demand from replacement/exports segments.
- Outlook:** We expect Amara Raja's sales/EBITDA/net profit to grow at a CAGR of 14%/10%/10%, respectively over FY21-23E. The recent decline in stock price provides an attractive entry point in the stock in our view as it has gained market share in some sub-segments in the past one year. Hence, we maintain our positive stance on the stock with a BUY rating.

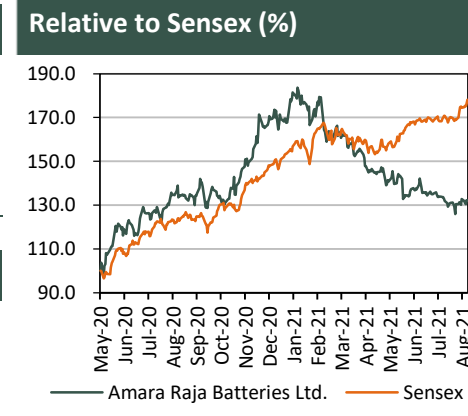
TP	Rs918
CMP	Rs729
Potential upside / downside	+26%

V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	39.1	45.9
Consensus	41.5	47.6
% difference	(5.9)	(3.6)

Shareholding Pattern (%)	
Promoters	28.1
FII	22.1
DII	15.1
Public	34.7

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(1.2)	(5.4)	(1.8)
Rel to Sensex	(5.9)	(19.2)	(48.2)

Key Stock Data	
Bloomberg / Reuters	AMRJ IN/AMSR.BO
Sector	Auto Ancillary
Shares o/s (mn)	171
Market cap. (Rs mn)	124,591
Market cap. (US\$ mn)	1,678
3-m daily avg Trd value (Rs mn)	1,332.1
52-week high / low	Rs1,025 / 693
Sensex / Nifty	55,437 / 16,529



Financial snapshot					
	(Rs mn)				
Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	67,931	68,392	71,498	83,646	93,265
EBITDA	9,518	10,985	11,157	11,975	13,586
EBITDA (%)	14.0	16.1	15.6	14.3	14.6
Adj. PAT	4,835	6,608	6,468	6,684	7,841
EPS (Rs)	28.3	38.7	37.9	39.1	45.9
EPS Growth (%)	2.6	36.7	(2.1)	3.3	17.3
PE (x)	25.8	18.8	19.2	18.6	15.9
Dividend Yield (%)	1.5	1.5	0.9	1.6	1.9
EV/EBITDA (x)	13.1	11.3	11.0	9.9	8.5
RoE (%)	15.4	18.9	16.4	15.0	15.9
RoCE (%)	20.4	21.3	19.0	17.2	18.4

Source: IDBI Capital Research;

Exhibit 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	YoY (%)
Net sales	18,862	21,026	(10.3)	11,512	63.8
Total expenditure	16,362	17,862	(8.4)	9,990	63.8
EBIDTA	2,500	3,164	(21.0)	1,522	64.2
<i>EBIDTA margin (%)</i>	13.3%	15.0%	-179bps	13.2%	3bps
Depreciation	963	871	10.6	748	28.7
Interest cost	32	28	14.5	27	17.5
Other income	166	321	(48.2)	88	89.1
PBT	1,672	2,587	(35.4)	835	100.3
Tax	431	693	(37.8)	210	105.2
Adj. net profit	1,241	1,894	(34.5)	625	98.6
Adj. EPS (INR)	7.3	11.1	(34.5)	3.7	98.6

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs estimates

(Rs mn)

	Q1FY22E	Q1FY22A	% Variance
Net sales	17,844	18,862	5.7
EBITDA	2,507	2,500	(0.3)
<i>EBITDA margin (%)</i>	14.1%	13.3%	-80bps
Adj net income	1,272	1,241	(2.4)
Adj EPS	7.4	7.3	(2.4)

Source: Company; IDBI Capital Research

Exhibit 3: Change in estimates

	FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	79,750	83,646	4.9	89,799	93,265	3.9
EBITDA (Rs mn)	12,009	11,975	(0.3)	14,110	13,586	(3.7)
EBITDA margin (%)	15.1	14.3	-78bps	15.7	14.6	-113bps
Net profit (Rs mn)	6,938	6,684	(3.7)	8,456	7,841	(7.3)
EPS (Rs)	40.6	39.1	(3.6)	49.5	45.9	(7.3)

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	68,392	71,498	83,646	93,265
<i>Growth (%)</i>	<i>0.7</i>	<i>4.5</i>	<i>17.0</i>	<i>11.5</i>
Operating expenses	(57,406)	(60,341)	(71,671)	(79,680)
EBITDA	10,985	11,157	11,975	13,586
<i>Growth (%)</i>	<i>15.4</i>	<i>1.6</i>	<i>7.3</i>	<i>13.4</i>
Depreciation	(3,007)	(3,192)	(3,910)	(4,027)
EBIT	7,978	7,965	8,066	9,558
Interest paid	(122)	(105)	(108)	(87)
Other income	551	874	991	1,011
Pre-tax profit	8,407	8,734	8,948	10,483
Tax	(1,799)	(2,265)	(2,265)	(2,642)
<i>Effective tax rate (%)</i>	<i>21.4</i>	<i>25.9</i>	<i>25.3</i>	<i>25.2</i>
Minority interest	-	-	-	-
Net profit	6,608	6,468	6,684	7,841
Adjusted net profit	6,608	6,468	6,684	7,841
<i>Growth (%)</i>	<i>36.7</i>	<i>(2.1)</i>	<i>3.3</i>	<i>17.3</i>
<i>Shares o/s (mn)</i>	<i>171</i>	<i>171</i>	<i>171</i>	<i>171</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	8,407	8,734	8,948	10,483
Depreciation	3,007	3,192	3,910	4,027
Tax paid	(2,316)	(2,299)	(2,255)	(2,632)
Chg in working capital	2,503	(2,191)	560	(924)
Other operating activities	(923)	(199)	(61)	113
Cash flow from operations (a)	10,677	7,236	11,103	11,067
Capital expenditure	(8,295)	(5,170)	(5,000)	(5,000)
Chg in investments	68	68	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(8,227)	(5,102)	(5,000)	(5,000)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(125)	(110)	-	-
Dividend (incl. tax)	(2,198)	(1,110)	(2,050)	(2,391)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(2,323)	(1,220)	(2,050)	(2,391)
Net chg in cash (a+b+c)	128	915	4,053	3,676

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	26,562	28,540	29,631	30,604
Investments	134	66	66	66
Other non-curr assets	1,076	1,151	1,151	1,151
Current assets	22,233	28,212	31,206	37,310
Inventories	11,430	14,389	13,022	14,520
Sundry Debtors	6,363	7,869	8,133	9,068
Cash and Bank	845	1,760	5,857	9,528
Loans and advances	-	-	-	-
Total assets	50,004	57,969	62,052	69,129
Shareholders' funds	36,553	42,100	46,734	52,184
Share capital	171	171	171	171
Reserves & surplus	36,382	41,929	46,563	52,013
Total Debt	343	234	234	234
Secured loans	343	234	234	234
Unsecured loans	-	-	-	-
Other liabilities	2,087	2,340	2,333	2,451
Curr Liab & prov	11,021	13,295	12,751	14,261
Current liabilities	10,026	12,109	11,765	13,161
Provisions	994	1,186	986	1,100
Total liabilities	13,451	15,869	15,318	16,945
Total equity & liabilities	50,004	57,969	62,052	69,129
Book Value (Rs)	214	246	274	306

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	38.7	37.9	39.1	45.9
Adj. EPS growth (%)	36.7	(2.1)	3.3	17.3
EBITDA margin (%)	16.1	15.6	14.3	14.6
Pre-tax margin (%)	12.3	12.2	10.7	11.2
ROE (%)	18.9	16.4	15.0	15.9
ROCE (%)	21.3	19.0	17.2	18.4
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.4	1.3	1.4	1.4
Leverage factor (x)	1.4	1.4	1.4	1.3
Net margin (%)	9.7	9.0	8.0	8.4
Net Debt/Equity (x)	(0.0)	(0.0)	(0.1)	(0.2)
Working Capital & Liquidity ratio				
Inventory days	61	73	57	57
Receivable days	34	40	35	35
Payable days	40	45	39	39

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	18.8	19.2	18.6	15.9
Price / Book value (x)	3.4	3.0	2.7	2.4
PCE (x)	12.9	12.9	11.8	10.5
EV / Net sales (x)	1.8	1.7	1.4	1.2
EV / EBITDA (x)	11.3	11.0	9.9	8.5
Dividend Yield (%)	1.5	0.9	1.6	1.9



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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