

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 CMP	Rs918
Potential upside / downside	Rs729

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

Relative to Sensex (%)



Financial snapshot

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

Financial snapshot	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	(Rs mn)
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

	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>	0.7	4.5	17.0	11.5
Operating expenses	(57,406)	(60,341)	(71,671)	(79,680)
EBITDA	10,985	11,157	11,975	13,586
<i>Growth (%)</i>	15.4	1.6	7.3	13.4
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>	21.4	25.9	25.3	25.2
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>	36.7	(2.1)	3.3	17.3
<i>Shares o/s (mn)</i>	171	171	171	171

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

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578**Compliance Officer:** Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907**Disclaimer**

This report has been published by IDBI Capital Markets & Securities Ltd.(hereinafter referred to as "IDBI Capital") for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

We, Bhavesh Chauhan and Mansi Korlekar, hereby certify that the views expressed in this report accurately reflect our personal views about the subject companies and / or securities. We also certify that no part of our compensation were, are or would be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, we will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

Other Disclosure

IDBI Capital Markets & Securities Ltd.(herein after referred to as "IDBI Capital") was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India's leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail) , Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relatives may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at www.bseindia.com; www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes.