

Non-core sale welcome; await firm new energy forays

About the stock: Exide Industries (EIL) is a part of the duopolistic organised Indian battery market with a presence across automotive and industrial applications (~73%, ~26% of sales). Channel exposure to replacement and OEMs is at ~60% and ~40%, respectively.

Event:

- EIL's board of directors has approved the divestment of the company's life insurance business Exide Life Insurance Company (100% stake). HDFC Life Insurance is the purchaser
- The total consideration for the transaction is ₹ 6,687 crore, proposed to be received via two routes – (a) ₹ 726 crore via cash and (b) ~₹ 5,961 crore worth of the purchaser's shares (~8.7 crore shares of ₹ 685 each)
- Exide Life reported revenue of ₹ 4,937 crore in FY21, with networth at ₹ 1,481 crore. EIL's total investment in the divested entity is at ~₹ 1,680 crore. Consequently, the transaction has taken place at attractive valuation of ~2.5x embedded value, with EIL's gains at ~₹ 5,007 crore
- The deal is subject to shareholder approval. The company expects to complete the sale by June 30, 2022 once requisite formalities are complete

What should investors do? We believe the move is directionally positive (allows EIL to focus fully on the core battery business) and also value accretive for shareholders. However, from a technology standpoint, the underlying battery industry continues to face the increasing challenge of electrification. While EIL has made investments in this space, we await firmer commitment before turning decisively positive. Our forward numbers are largely unchanged from an operational standpoint. We built exceptional gain (~₹ 5,007 crore) on account of this transaction.

- We retain **HOLD** rating given future growth challenge posed by EV transition

Target Price and Valuation: We value EIL at revised SOTP-based TP of ₹ 210 (₹ 135 for battery business at 12x FY23E EPS, ₹ 75 for investments; earlier TP ₹ 200).

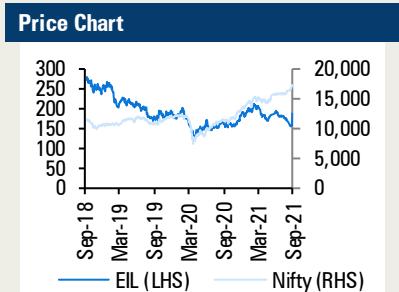
Key triggers for future price performance:

- FY21-23E sales, PAT CAGR at 16.9%, 12.1%; FY23E margins at 12.2%
- Decisive moves on lithium ion battery side would aid future readiness



Particulars	
Particular	₹ crore
Market Capitalization	16,150.0
Total Debt (FY21)	0.0
Cash & Inv. (FY21)	974.1
EV (₹ Crore)	15,175.9
52 week H/L (₹)	221 / 154
Equity capital	₹ 85 Crore
Face value	₹ 1

Shareholding pattern				
	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	46.0	46.0	46.0	46.0
FII	9.8	10.4	12.0	11.8
DII	23.1	27.3	24.6	23.3
Other	21.1	16.4	17.5	18.9



Recent event & key risks

- Announced sale of life insurance business to HDFC Life
- Key Risk:** (i) Firm commitment towards new energy space, (ii) Channel mix normalisation post FY22E to impact margins

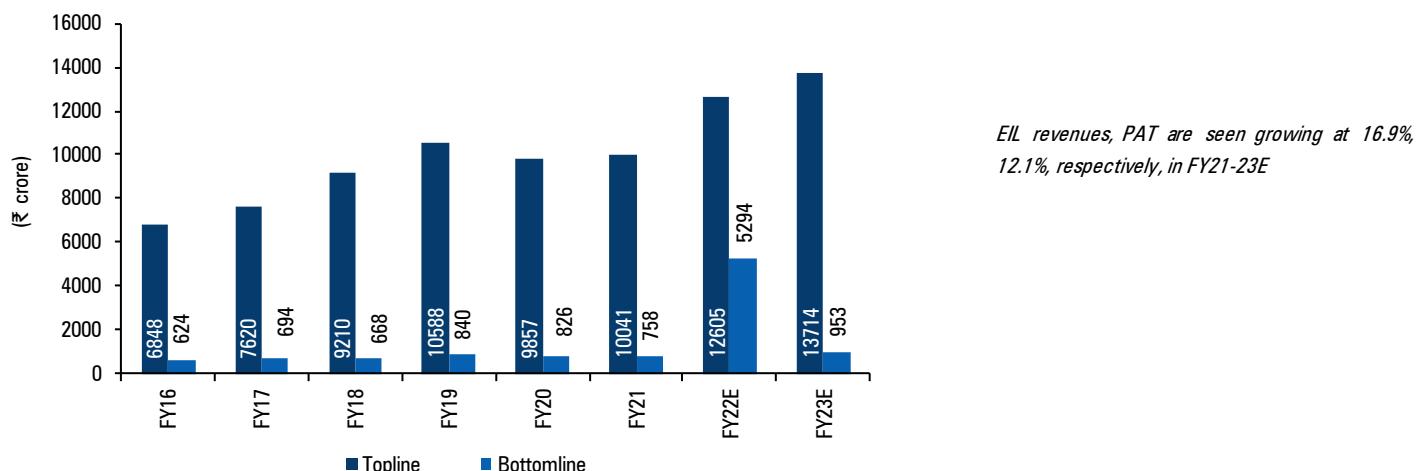
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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	10,588.3	9,856.7	10,040.8	7.9%	12,604.7	13,714.1	16.9%
EBITDA	1,406.9	1,365.0	1,355.6	5.9%	1,452.6	1,678.2	11.3%
EBITDA Margins (%)	13.3	13.8	13.5		11.5	12.2	
Net Profit	839.7	825.5	758.2	4.0%	5,294.2	953.3	12.1%
EPS (₹)	9.9	9.7	8.9		62.3	11.2	
Adjusted Net Profit	766.0	842.8	758.2	4.0%	932.0	953.3	
Adjusted EPS (₹)	9.0	9.9	8.9	4.0%	11.0	11.2	
P/E	19.2	19.6	21.3		3.1	16.9	
Core P/E	13.5	13.8	15.0		2.1	11.9	
RoNW (%)	12.8	13.4	11.0		7.9	7.7	
RoCE (%)	17.8	15.7	14.0		8.8	9.9	

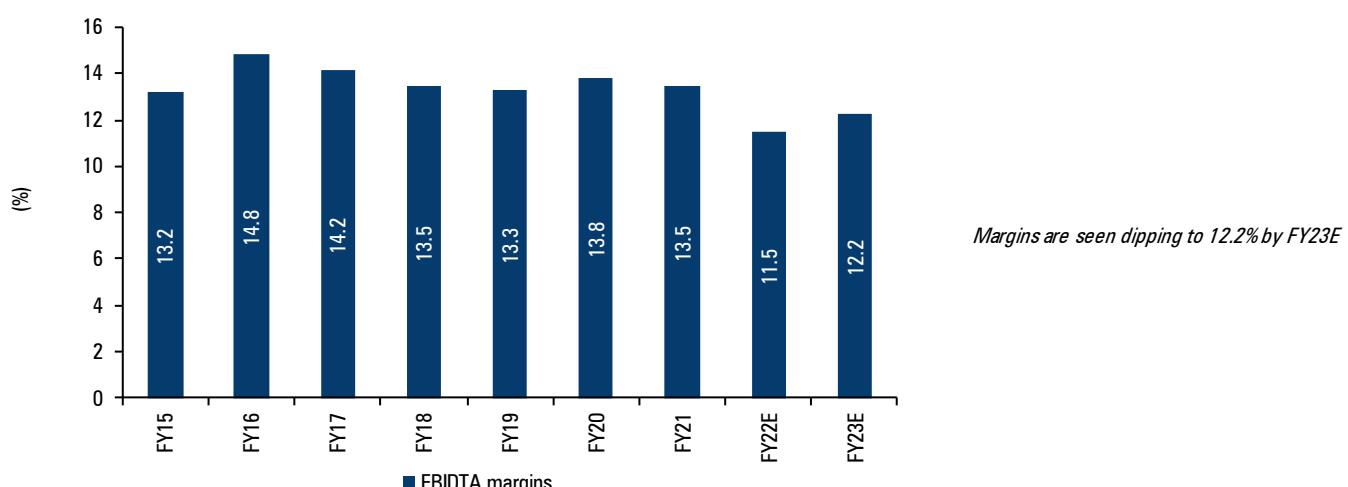
Financial story in charts

Exhibit 1: Trend in topline and bottomline



Source: Company, ICICI Direct Research

Exhibit 2: Trend in EBITDA margins



Source: Company, ICICI Direct Research

Exhibit 3: SOTP-based valuation

SOTP Valuation	Estimated value	Value per share	Remark
Standalone Business			
FY23E EPS	11.2		Reduced forward P/E multiple to 12x to reflect base business risk i.e. electrification
P/E Multiple	12.0		
Value per share (₹)		135	
Investments			
HDFC Life Insurance Stake	5960		At issued price of ₹685/share
Value per share (₹)		70	
Value of subsidiaries (₹ crore)			
Value of other subsidiaries (₹)	496	5	1x trailing P/BV
Total Value per Share (₹)		210	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement				
(Year-end March)	FY20	FY21	FY22E	₹ crore
Total operating Income	9856.7	10040.8	12604.7	13714.1
Growth (%)	-6.9	1.9	25.5	8.8
Raw Material Expenses	6266.4	6579.6	8426.8	9121.6
Employee Expenses	666.4	721.5	834.6	891.4
Other Expenses	1558.9	1384.2	1890.7	2022.8
Total Operating Expenditure	8491.7	8685.3	11152.1	12035.9
EBITDA	1,365.0	1,355.6	1,452.6	1,678.2
Growth (%)	-3.0	-0.7	7.2	15.5
Depreciation	362.6	379.4	409.7	432.0
Interest	9.4	23.8	25.0	26.2
Other Income	63.9	65.4	51.8	54.5
PBT	1,056.9	1,017.8	1,069.7	1,274.5
Exceptional Item	21.7	0.0	-5007.0	0.0
Total Tax	209.7	259.6	782.5	321.2
Reported PAT	825.5	758.2	5,294.2	953.3
Growth (%)	-1.7	-8.2	598.3	-82.0
EPS (₹)	9.7	8.9	62.3	11.2
Adjusted PAT	825.5	758.2	932.0	953.3
Adjusted EPS (₹)	9.7	8.9	11.0	11.2

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
(Year-end March)	FY20	FY21	FY22E	₹ crore
Profit after Tax	825.5	758.2	794.2	953.3
Add: Depreciation	362.6	379.4	409.7	432.0
(Inc)/dec in Current Assets	2.2	-241.2	-798.7	-375.9
Inc/(dec) in CL and Provisions	-213.8	570.6	201.9	2.7
CF from operating activities	976.6	1,467.0	607.0	1,012.1
(Inc)/dec in Investments	235.2	-863.8	125.0	-150.0
(Inc)/dec in Fixed Assets	-441.5	-582.1	-500.0	-500.0
Others	-172.8	76.5	206.7	-30.1
CF from investing activities	(379.1)	(1,369.4)	(168.3)	(680.1)
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-418.2	-170.0	-425.0	-255.0
Others	-93.9	9.2	0.0	0.0
CF from financing activities	(512.1)	(160.8)	(425.0)	(255.0)
Net Cash flow	85.4	-63.2	13.8	77.0
Opening Cash	69.5	154.8	91.6	105.4
Closing Cash	154.9	91.6	105.4	182.4

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
(Year-end March)	FY20	FY21	FY22E	₹ crore
Liabilities				
Equity Capital	85.0	85.0	85.0	85.0
Reserve and Surplus	6,211.1	6,808.5	11,677.7	12,376.0
Total Shareholders funds	6,296.1	6,893.5	11,762.7	12,461.0
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	101.9	77.1	96.7	105.2
Other non-current liabilities	99.9	343.4	378.4	413.4
Total Liabilities	6,497.8	7,313.9	12,237.8	12,979.6
Assets				
Gross Block	3,568.4	4,246.6	4,697.4	5,197.4
Less: Acc Depreciation	1,265.5	1,644.9	2,054.5	2,486.5
Net Block	2,302.9	2,601.8	2,642.9	2,710.9
Capital WIP	296.9	200.8	250.0	250.0
Total Fixed Assets	2,599.8	2,802.5	2,892.9	2,960.9
Investments	2,107.3	3,094.7	7,274.7	7,479.7
Inventory	2,192.3	2,346.2	2,762.7	3,005.8
Debtors	815.3	887.4	1,208.7	1,315.1
Loans and Advances	39.6	53.2	66.7	72.6
Cash	154.8	91.6	105.4	182.4
Total Current Assets	3,385.7	3,563.7	4,376.1	4,829.1
Creditors	1,030.3	1,641.6	1,726.7	1,690.8
Provisions	296.4	270.7	284.8	278.8
Total Current Liabilities	1,744.3	2,314.9	2,516.7	2,519.4
Net Current Assets	1,641.5	1,248.8	1,859.4	2,309.7
Other non-current assets	149.5	168.1	211.1	229.7
Total Assets	6,497.8	7,313.9	12,237.8	12,979.6

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	9.7	8.9	62.3	11.2
Cash EPS	14.0	13.4	67.1	16.3
BV	74.1	81.1	138.4	146.6
DPS	4.1	2.0	5.0	3.0
Cash Per Share	1.8	1.1	1.2	2.1
Operating Ratios (%)				
EBITDA Margin	13.8	13.5	11.5	12.2
PBT / Net sales	10.2	9.7	8.3	9.1
PAT Margin	8.6	7.6	7.4	7.0
Inventory days	81.2	85.3	80.0	80.0
Debtor days	30.2	32.3	35.0	35.0
Creditor days	38.2	59.7	50.0	45.0
Return Ratios (%)				
RoE	13.4	11.0	7.9	7.7
RoCE	15.7	14.0	8.8	9.9
RoIC	16.9	16.8	9.7	11.1
Valuation Ratios (x)				
Core P/E	11.7	12.8	1.8	10.2
EV / EBITDA	11.7	11.2	10.5	9.0
EV / Net Sales	1.6	1.5	1.2	1.1
Market Cap / Sales	1.6	1.6	1.3	1.2
Price to Book Value	2.6	2.3	1.4	1.3
Solvency Ratios				
Debt: Equity	-	-	-	-
Quick Ratio	0.6	0.5	0.6	0.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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