

Amara Raja Batteries **ACCUMULATE**

High raw material costs dent margins

Summary

- Amara Raja Batteries (Amara) reported weaker than expected Q1FY18 profitability as EBITDA margin at 12.9% missed our forecast by 370 bps.
- Although net sales at Rs15 bn (+14.4% YoY, +11.4% QoQ) was better than our estimate by 5.5%, EBITDA at Rs1.9 bn (-15.3% YoY, +4.3% QoQ) was below our estimate.
- EBITDA margin slipped to 12.9% (-452bps YoY / -84 bps QoQ) on higher lead prices (a key raw material). Net profit, too, fell by 23.6% YoY to Rs999 mn due to lower EBITDA.
- We recommend an Accumulate on the stock with a TP of Rs940 (Earlier Rs980).

Key Highlights and Investment Rationale

- Management Outlook:** As per the Management, growth in automotive batteries continued; however, demand for industrial batteries was subdued during the quarter.
- Margins to improve with price hikes:** Amara has taken price hikes over the past four months (including hikes taken during April-July). This is likely to result in margin improvement from Q2FY18 in our view.
- Estimates lowered to reflect weak Q1FY18 profitability:** We cut our EBITDA margin estimates by 100 bps for FY18 (reflecting weak Q1FY18 margins) and by 50bps in FY19. Our net profit estimates for FY18/19 stand lower by 7.7%/3.4%, respectively.
- Outlook and Valuation:** We believe Amara holds durable competitive advantages over peers, with strong brand, technical expertise (via parent JCI – global brand) and its lower cost structure. Amara remains well positioned to continue outperforming its peers in an industry that enjoys rare advantages in the Automotive space. We expect margins to improve from Q2FY18 on price hikes taken by the company. **We downgrade the stock to an Accumulate (Buy earlier) with a revised target price of Rs940.**

| | |
|-----------------------------|--------------|
| TP | Rs940 |
| CMP | Rs823 |
| Potential upside / downside | +14% |
| Previous Rating | BUY |

V/s Consensus

| EPS (Rs) | FY18E | FY19E |
|--------------|-------|-------|
| IDBI Capital | 30.9 | 41.9 |
| Consensus | 33.4 | 39.8 |
| % difference | (7.4) | 5.2 |

Shareholding Pattern (%)

| | |
|-----------|------|
| Promoters | 52.1 |
| FII | 19.0 |
| DII | 10.8 |
| Public | 18.1 |

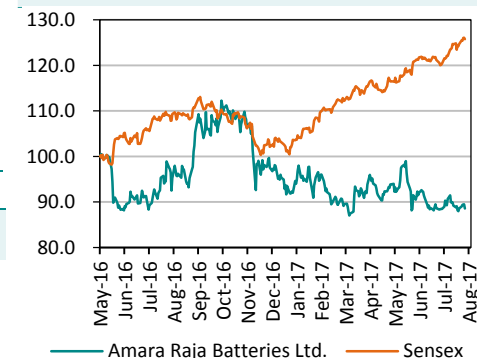
Price Performance (%)

| | -1m | -3m | -12m |
|---------------|-------|--------|--------|
| Absolute | (4.2) | (5.9) | (8.8) |
| Rel to Sensex | (7.1) | (13.9) | (23.7) |

Key Stock Data

| | |
|---------------------------------|-----------------|
| Bloomberg / Reuters | AMRJ IN/AMSR.BO |
| Sector | Auto Ancillary |
| Shares o/s (mn) | 171 |
| Market cap. (Rs mn) | 140,502 |
| Market cap. (US\$ mn) | 2,184 |
| 3-m daily average value (Rs mn) | 835 |
| 52-week high / low | Rs1,077 / 788 |
| Nifty / Sensex | 10,057 / 32,274 |

Relative to Sensex (%)



Financial snapshot

| Year | FY2015 | FY2016 | FY2017 | FY2018E | FY2019E |
|--------------------|--------|--------|--------|---------|---------|
| Revenue | 42,113 | 46,078 | 53,172 | 63,062 | 72,653 |
| EBITDA | 7,017 | 8,230 | 8,499 | 9,081 | 11,624 |
| EBITDA (%) | 16.7 | 17.9 | 16.0 | 14.4 | 16.0 |
| Adj. PAT | 4,109 | 4,916 | 4,785 | 5,280 | 7,153 |
| EPS (Rs) | 24.1 | 28.8 | 28.0 | 30.9 | 41.9 |
| EPS Growth (%) | 10.6 | 19.7 | (2.7) | 10.4 | 35.5 |
| PE (x) | 34.2 | 28.6 | 29.4 | 26.6 | 19.6 |
| Dividend Yield (%) | 0.4 | 0.5 | 0.7 | 1.3 | 1.6 |
| EV/EBITDA (x) | 19.8 | 17.0 | 16.4 | 15.4 | 11.7 |
| RoE (%) | 26.8 | 25.8 | 20.3 | 19.2 | 22.9 |
| RoCE (%) | 34.5 | 33.1 | 25.6 | 23.4 | 27.6 |

Source: Company; IDBI Capital Research

Table 1: Actual vs estimates
(Rs mn)

| | Q1FY18E | Q1FY18 | % Variance |
|--------------------------|---------|--------|------------|
| Net sales | 14,201 | 14,975 | 5.5 |
| EBITDA | 2,356 | 1,928 | (18.2) |
| <i>EBITDA margin (%)</i> | 16.6 | 12.9 | (370)bps |
| Adj net income | 1,313 | 999 | (23.9) |

Source: Company; IDBI Capital Research

Table 2: Quarterly Snapshot
(Rs mn)

| Financial snapshot | Q1FY18 | Q4FY17 | QoQ (%) | Q1FY17 | YoY (%) |
|--------------------------|---------------|---------------|----------------|---------------|-----------------|
| Total revenues | 14,975 | 13,445 | 11.4 | 13,084 | 14.4 |
| Total expenditure | 13,046 | 11,601 | 12.5 | 10,809 | 20.7 |
| EBIDTA | 1,928 | 1,844 | 4.6 | 2,276 | (15.3) |
| EBIDTA margin (%) | 12.9 | 13.7 | (84)bps | 17.4 | (452)bps |
| Depreciation | 544 | 469 | 23.5 | 441 | 23.5 |
| Interest cost | 14 | 15 | (2.1) | 14 | (2.1) |
| Other income | 137 | 151 | (9.2) | 90 | 52.8 |
| PBT | 1,507 | 1,480 | 1.8 | 1,910 | (21.1) |
| Tax | 509 | 489 | 4.1 | 601 | (15.3) |
| Adj. net profit | 999 | 992 | 0.7 | 1,310 | (23.7) |
| Adj. EPS (INR) | 5.8 | 6.6 | 0.7 | 7.7 | (23.7) |

Source: Company; IDBI Capital Research

Table 3: Change in Estimates

| Financials (Rs mn) | FY18E | | | FY19E | | |
|--------------------|---------|---------|----------|---------|---------|----------|
| | Earlier | Revised | % change | Earlier | Revised | % change |
| Total revenues | 63,062 | 63,062 | - | 72,653 | 72,653 | - |
| EBITDA | 9,712 | 9,081 | (6.5) | 11,988 | 11,624 | (3.0) |
| EBITDA margin (%) | 15.4 | 14.4 | (100bps) | 16.5 | 16.0 | (50bps) |
| Net profit | 5,722 | 5,280 | (7.7) | 7,407 | 7,153 | (3.4) |
| Adj. EPS (INR) | 33.5 | 30.9 | (7.7) | 43.4 | 41.9 | (3.4) |

Source: Company, IDBI Capital Research

Table 4: SoTP based valuation

| | Rs |
|------------------------------------|------------|
| FY19E EBIT | 9,303 |
| Target FY19E EV multiple | 17.0 |
| Target EV | 158,156 |
| FY19E Net Debt | (2,435) |
| M. Cap at 1 Year Target | 160,591 |
| 1 Year Target Price | 940 |
| CMP | 823 |
| Upside/(downside) potential | 14% |

Source: Company, IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

| Year-end: March | FY16 | FY17 | FY18E | FY19E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Net sales | 46,078 | 53,172 | 63,062 | 72,653 |
| <i>Growth (%)</i> | 9.4 | 15.4 | 18.6 | 15.2 |
| Operating expenses | (37,848) | (44,672) | (53,981) | (61,029) |
| EBITDA | 8,230 | 8,499 | 9,081 | 11,624 |
| <i>Growth (%)</i> | 17.3 | 3.3 | 6.8 | 28.0 |
| Depreciation | (1,407) | (1,912) | (2,093) | (2,321) |
| EBIT | 6,823 | 6,587 | 6,988 | 9,303 |
| Interest paid | (55) | (58) | (10) | (10) |
| Other income | 459 | 492 | 565 | 925 |
| Pre-tax profit | 7,226 | 7,022 | 7,543 | 10,218 |
| Tax | (2,310) | (2,237) | (2,263) | (3,065) |
| <i>Effective tax rate (%)</i> | 32.0 | 31.9 | 30.0 | 30.0 |
| Net profit | 4,916 | 4,785 | 5,280 | 7,153 |
| Adjusted net profit | 4,916 | 4,785 | 5,280 | 7,153 |
| <i>Growth (%)</i> | 19.7 | (2.7) | 10.4 | 35.5 |
| <i>Shares o/s (mn nos)</i> | 171 | 171 | 171 | 171 |

Cash Flow Statement

(Rs mn)

| Year-end: March | FY16 | FY17 | FY18E | FY19E |
|--------------------------------------|----------------|----------------|----------------|----------------|
| Pre-tax profit | 7,226 | 7,022 | 7,543 | 10,218 |
| Depreciation | 1,399 | 1,912 | 2,093 | 2,321 |
| Tax paid | (2,181) | (1,960) | (2,253) | (3,055) |
| Chg in working capital | (677) | (718) | (775) | (1,219) |
| Other operating activities | (215) | - | - | - |
| Cash flow from operations (a) | 5,552 | 6,256 | 6,608 | 8,265 |
| Capital expenditure | (4,904) | (4,487) | (4,700) | (2,500) |
| Chg in investments | 190 | 11 | - | - |
| Other investing activities | 776 | - | - | - |
| Cash flow from investing (b) | (3,938) | (4,476) | (4,700) | (2,500) |
| Debt raised/(repaid) | (23) | (35) | - | - |
| Dividend (incl. tax) | (1,614) | (1,199) | (2,198) | (2,698) |
| Cash flow from financing (c) | (1,637) | (1,234) | (2,198) | (2,698) |
| Net chg in cash (a+b+c) | (23) | 546 | (290) | 3,068 |

Balance Sheet

(Rs mn)

| Year-end: March | FY16 | FY17 | FY18E | FY19E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Net fixed assets | 14,749 | 17,324 | 19,931 | 20,110 |
| Investments | 200 | 189 | 189 | 189 |
| Other non-curr assets | 478 | 747 | 747 | 747 |
| Current assets | 14,081 | 17,586 | 16,998 | 22,068 |
| Inventories | 6,016 | 8,170 | 5,831 | 6,618 |
| Sundry Debtors | 5,922 | 5,705 | 7,602 | 8,758 |
| Cash and Bank | 1,503 | 1,709 | 1,562 | 4,689 |
| Total assets | 29,508 | 35,846 | 37,864 | 43,113 |
| Shareholders' funds | 21,159 | 25,931 | 29,013 | 33,468 |
| Share capital | 171 | 171 | 171 | 171 |
| Reserves & surplus | 20,988 | 25,760 | 28,842 | 33,297 |
| Total Debt | 725 | 690 | 690 | 690 |
| Secured loans | 725 | 690 | 690 | 690 |
| Unsecured loans | - | - | - | - |
| Other liabilities | 1,246 | 1,629 | 1,781 | 1,851 |
| Curr Liab & prov | 6,378 | 7,596 | 6,380 | 7,105 |
| Current liabilities | 5,832 | 7,060 | 5,156 | 5,930 |
| Provisions | 546 | 537 | 1,224 | 1,175 |
| Total liabilities | 8,349 | 9,915 | 8,852 | 9,646 |
| Total equity & liabilities | 29,508 | 35,846 | 37,864 | 43,113 |
| Book Value (Rs) | 124 | 152 | 170 | 196 |

Source: Company; IDBI Capital Research

Financial Ratios

| Year-end: March | FY16 | FY17 | FY18E | FY19E |
|--|------|-------|-------|-------|
| Adj. EPS (Rs) | 28.8 | 28.0 | 30.9 | 41.9 |
| Adj. EPS growth (%) | 19.7 | (2.7) | 10.4 | 35.5 |
| EBITDA margin (%) | 17.9 | 16.0 | 14.4 | 16.0 |
| Pre-tax margin (%) | 15.7 | 13.2 | 12.0 | 14.1 |
| ROE (%) | 25.8 | 20.3 | 19.2 | 22.9 |
| ROCE (%) | 33.1 | 25.6 | 23.4 | 27.6 |
| Turnover & Leverage ratios (x) | | | | |
| Asset turnover (x) | 1.7 | 1.6 | 1.7 | 1.8 |
| Leverage factor (x) | 1.4 | 1.4 | 1.3 | 1.3 |
| Net margin (%) | 10.7 | 9.0 | 8.4 | 9.8 |
| Net Debt/Equity (x) | 0.0 | 0.0 | 0.0 | (0.1) |
| Working Capital & Liquidity ratio | | | | |
| Inventory days | 48 | 56 | 34 | 33 |
| Receivable days | 47 | 39 | 44 | 44 |
| Payable days | 34 | 34 | 16 | 16 |

Valuation

| Year-end: March | FY16 | FY17 | FY18E | FY19E |
|------------------------|------|------|-------|-------|
| PER (x) | 28.6 | 29.4 | 26.6 | 19.6 |
| Price / Book value (x) | 6.6 | 5.4 | 4.8 | 4.2 |
| PCE (x) | 22.2 | 21.0 | 19.1 | 14.8 |
| EV / Net sales (x) | 3.0 | 2.6 | 2.2 | 1.9 |
| EV / EBITDA (x) | 17.0 | 16.4 | 15.4 | 11.7 |
| Dividend Yield (%) | 0.5 | 0.7 | 1.3 | 1.6 |
| EV/EBIT (x) | 20.5 | 21.2 | 20.0 | 14.7 |



Notes

| | | |
|---------|-------------------|-------------------------|
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|---------|-------------------|-------------------------|

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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