Amara Raja Batteries — BUY

Results mixed; Maintain BUY

TP	Rs940
CMP	Rs697
Potential upside / downside	35%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	39.2	47.6	55.3
Consensus	40.5	46.9	52.1
% difference	*(3.3)*	*1.5*	*6.1*

Key Stock Data

Bloomberg / Reuters	AMRJ IN/AMSR.BO
Sector	Auto Ancilliary
Shares o/s (mn)	171
Market cap. (Rs mn)	119,056
Market cap. (US$ mn)	1,588
3-m daily avg Trd value (Rs mn)	68.1
52-week high / low	Rs1,025 / 665
Sensex / Nifty	60,687 / 18,103

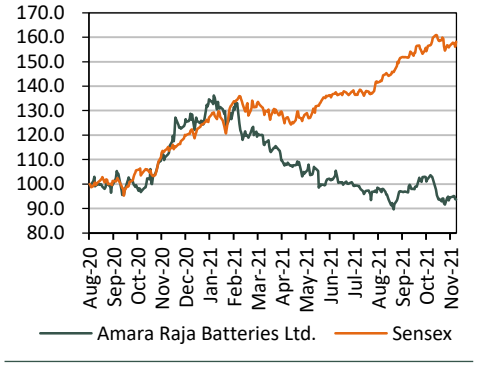
Shareholding Pattern (%)

Promoters	28.1
FII	20.8
DII	14.4
Public	36.7

Price Performance (%)

	-1m	-3m	-12m
Absolute	(9.2)	(4.4)	(16.5)
Rel to Sensex	(9.9)	(15.1)	(56.4)

Relative to Sensex (%)



Summary

Amara Raja's Q2FY22 result was a mixed bag as its sales was ahead of our estimate while EBITDA was lower than our forecast. Amara Raja's sales increased by 17% YoY to Rs22 bn as automotive and industrial sales rebounded. However, sharp increase in prices of raw material (lead) led to sharp contraction in margins. Its EBITDA declined by 21% YoY to Rs2,689 mn; EBITDA margins fell by 570 bps YoY and 138 bps QoQ to 11.9%. Net profit increased 16% QoQ to Rs1.4 bn due to higher other income (59% QoQ to Rs264 mn).

We broadly maintain our FY22/FY23 sales forecasts. However, we lower our FY22-FY23 EBITDA margin estimates by 110-120 bps to account for higher price of raw materials. We introduce FY24 estimates in the report and expect sales/EBITDA to grow by 12%/13%, respectively. We now value the stock at a PER of 17x FY24E (earlier 20x FY23E) EPS to derive a target price of Rs940 (earlier Rs918).

Key Highlights and Investment Rationale

- **Automotive segment strong:** During Q2FY22, Automotive revenues growth was led by robust demand from Aftermarket across all product segments. Industrial volume growth was stable across all segments and volume growth was higher in UPS. However, supply chain challenges continue to persist in select export markets and the firm raw material prices will have adverse impact on margins in the near term.
- **Recovery likely in H2FY22:** While the second wave of Covid-19 has impacted 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 12%/15%/19%, respectively over FY22-24E. The recent decline in stock price provides an attractive entry point in the stock in our view ad valuation at 13x FY24 EPS remains inexpensive in our view.

Financial snapshot (Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	68,392	71,498	85,381	95,200	106,910
EBITDA	10,985	11,157	11,905	13,885	15,716
EBITDA (%)	16.1	15.6	13.9	14.6	14.7
Adj. PAT	6,608	6,468	6,691	8,134	9,445
EPS (Rs)	38.7	37.9	39.2	47.6	55.3
EPS Growth (%)	36.7	(2.1)	3.4	21.6	16.1
PE (x)	18.8	19.2	18.8	15.4	13.3
Dividend Yield (%)	1.5	0.9	1.6	1.9	2.2
EV/EBITDA (x)	11.3	11.0	10.1	8.4	7.1
RoE (%)	18.9	16.4	15.1	16.4	16.9
RoCE (%)	21.3	19.0	16.9	18.8	19.7

Source: IDBI Capital Research;

Exhibit 1: Quarterly Snapshot (Rs mn)

Financial snapshot	Q2FY22	Q1FY22	QoQ (%)	Q2FY21	YoY (%)
Net sales	**22,642**	**18,859**	***20.1***	**19,355**	***17.0***
Total expenditure	19,953	16,360	*22.0*	15,954	*25.1*
EBIDTA	**2,689**	**2,499**	***7.6***	**3,402**	***(20.9)***
EBIDTA margin (%)	*11.9%*	*13.3%*	*-138bps*	*17.6%*	*-570bps*
Depreciation	986	963	*2.4*	782	*26.1*
Interest cost	36	32	*13.0*	25	*43.0*
Other income	264	166	*59.1*	113	*134.4*
PBT	**1,932**	**1,671**	***15.6***	**2,708**	***(28.6)***
Tax	491	431	*13.9*	695	*(29.4)*
Adj. net profit	**1,441**	**1,240**	***16.2***	**2,013**	***(28.4)***
Adj. EPS (INR)	**8.4**	**7.3**	***16.2***	**11.8**	***(28.4)***

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs estimates (Rs mn)

	Q2FY22E	Q2FY22A	% Variance
Net sales	20,904	22,642	*8.3*
EBITDA	2,888	2,689	*(6.9)*
EBITDA margin (%)	*13.8*	*11.9*	*-194bps*
Adj net income	1,500	1,441	*(3.9)*
Adj EPS	8.8	8.4	*(3.9)*

Source: Company; IDBI Capital Research

Exhibit 3: Change in estimates

	FY22E			FY23E			FY24E
	Old	New	(%) Chg	Old	New	(%) Chg	
Revenue (Rs mn)	83,646	85,381	*2.1*	93,265	95,200	*2.1*	1,06,910
EBITDA (Rs mn)	11,975	11,905	*(0.6)*	13,586	13,885	*2.2*	15,716
EBITDA margin (%)	*15.1*	*13.9*	*-116bps*	*15.7*	*14.6*	*-111bps*	*14.7*
Net profit (Rs mn)	6,938	6,691	*(3.6)*	7,841	8,134	*3.7*	9,445
EPS (Rs)	40.6	39.2	*(3.6)*	45.9	47.6	*3.7*	55.3

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	**71,498**	**85,381**	**95,200**	**106,910**
Growth (%)	*4.5*	*19.4*	*11.5*	*12.3*
Operating expenses	(60,341)	(73,477)	(81,315)	(91,194)
EBITDA	**11,157**	**11,905**	**13,885**	**15,716**
Growth (%)	*1.6*	*6.7*	*16.6*	*13.2*
Depreciation	(3,192)	(3,950)	(4,068)	(4,190)
EBIT	**7,965**	**7,955**	**9,817**	**11,526**
Interest paid	(105)	(128)	(102)	(82)
Other income	874	1,137	1,160	1,183
Pre-tax profit	**8,734**	**8,964**	**10,875**	**12,627**
Tax	(2,265)	(2,273)	(2,740)	(3,182)
Effective tax rate (%)	*25.9*	*25.4*	*25.2*	*25.2*
Minority interest	-	-	-	-
Net profit	**6,468**	**6,691**	**8,134**	**9,445**
Exceptional items	-	-	-	-
Adjusted net profit	**6,468**	**6,691**	**8,134**	**9,445**
Growth (%)	*(2.1)*	*3.4*	*21.6*	*16.1*
Shares o/s (mn)	*171*	*171*	*171*	*171*

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	8,734	8,964	10,875	12,627
Depreciation	3,192	3,950	4,068	4,190
Tax paid	(2,299)	(2,263)	(2,730)	(3,172)
Chg in working capital	(2,190)	384	(943)	(1,176)
Other operating activities	(199)	(61)	113	113
Cash flow from operations (a)	**7,237**	**10,974**	**11,382**	**12,582**
Capital expenditure	(5,170)	(5,000)	(5,000)	(5,000)
Chg in investments	62	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	**(5,107)**	**(5,000)**	**(5,000)**	**(5,000)**
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(110)	-	-	-
Dividend (incl. tax)	(1,110)	(2,050)	(2,391)	(2,733)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	**(1,220)**	**(2,050)**	**(2,391)**	**(2,733)**
Net chg in cash (a+b+c)	**910**	**3,925**	**3,991**	**4,849**

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	28,540	29,591	30,523	31,332
Investments	71	71	71	71
Other non-curr assets	1,151	1,151	1,151	1,151
Current assets	**28,209**	**31,534**	**38,005**	**45,835**
Inventories	14,382	13,292	14,821	16,644
Sundry Debtors	7,875	8,302	9,256	10,395
Cash and Bank	1,758	5,746	9,735	14,602
Marketable securities	-	-	-	-
Loans and advances	-	-	-	-
Other current assets	4,194	4,194	4,194	4,194
Total assets	**57,971**	**62,346**	**69,750**	**78,389**
Shareholders' funds	**42,103**	**46,744**	**52,487**	**59,199**
Share capital	171	171	171	171
Reserves & surplus	41,932	46,573	52,316	59,029
Total Debt	**234**	**234**	**234**	**234**
Secured loans	234	234	234	234
Unsecured loans	-	-	-	-
Other liabilities	2,340	2,352	2,472	2,614
Curr Liab & prov	**13,295**	**13,016**	**14,556**	**16,342**
Current liabilities	12,109	12,009	13,434	15,082
Provisions	1,186	1,007	1,123	1,261
Total liabilities	**15,869**	**15,602**	**17,263**	**19,190**
Total equity & liabilities	**57,971**	**62,346**	**69,750**	**78,389**
Book Value (Rs)	**247**	**274**	**307**	**347**

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	37.9	39.2	47.6	55.3
Adj. EPS growth (%)	*(2.1)*	*3.4*	*21.6*	*16.1*
EBITDA margin (%)	*15.6*	*13.9*	*14.6*	*14.7*
Pre-tax margin (%)	*12.2*	*10.5*	*11.4*	*11.8*
ROE (%)	*16.4*	*15.1*	*16.4*	*16.9*
ROCE (%)	*19.0*	*16.9*	*18.8*	*19.7*
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.3	1.4	1.4	1.4
Leverage factor (x)	1.4	1.4	1.3	1.3
Net margin (%)	*9.0*	*7.8*	*8.5*	*8.8*
Net Debt/Equity (x)	(0.0)	(0.1)	(0.2)	(0.2)
Working Capital & Liquidity ratio				
Inventory days	73	57	57	57
Receivable days	40	35	35	35
Payable days	45	39	39	39

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	19.4	18.8	15.4	13.3
Price / Book value (x)	3.0	2.7	2.4	2.1
PCE (x)	13.0	11.8	10.3	9.2
EV / Net sales (x)	1.7	1.4	1.2	1.0
EV / EBITDA (x)	11.1	10.1	8.4	7.1
Dividend Yield (%)	*0.9*	*1.6*	*1.9*	*2.2*

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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Compliance Officer: Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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