Amara Raja Batteries — HOLD

Results in line; Volume outlook muted

Summary

Amara Raja's Q1FY20 result was broadly in-line of our expectations; however net sales was better than our estimate by 5.3%. Its net sales stood at Rs18.1 bn (+2.0% YoY, 15.8% QoQ) led by higher automotive and export sales. EBITDA was in-line with our forecast at Rs.2.7 bn (+26.8% YoY, +15.3% QoQ); EBITDA margin improved 300bps YoY to 15.4% mainly on price hikes and lower prices of key raw material, lead. Net profit increased 24.7% YoY to Rs 1,409 mn.

As Q1FY20 result was in line with our expectation, we broadly maintain our FY20/FY21 forecasts. We continue to value the stock at PE of 18x on our FY21E EPS and maintain our target price at Rs641 with HOLD rating.

Key Highlights and Investment Rationale

- **Automotive and Exports remain healthy:** Amara Raja's Q1FY20 net sales stood at Rs18.1 bn (+2.0% YoY, 15.8% QoQ). Automotive business was healthy in the aftermarket category. Also, international business continued to grow led by South East Asia and Middle East. However, OEM sales fell due to de-growth in new vehicle sales. Even Telecom volumes remained subdued due to consolidation of the tower companies and the competitive pressures.
- **EBTIDA margin to improve in FY20:** We expect EBITDA margins to improve 140bps to 15.4% in FY20 mainly due to to fall in lead prices (down ~10% in last 12 months) and cost improvement measures.
- **Outlook and valuation:** Although Amara Raja's Q1FY20 results were broadly in line with our expectations; we remain concerned on the slowdown in the company's key markets (OEMs and Telecom). Recently, the company has taken price cuts in some segments due to competitive pressures. While our margin forecast for FY20/ FY21 are progressively higher, we believe it will be challenging for the company to meaningfully grow volumes given weak outlook in auto OEMs/ telecom. Hence, we maintain our HOLD rating on the stock.

TP	**Rs641**
CMP	**Rs621**
Potential upside / downside	+3%
Previous Rating	HOLD

V/s Consensus

EPS (Rs)	FY20E	FY21E
IDBI Capital	34.0	36.6
Consensus	33.3	38.0
% difference	*2.1*	*(3.7)*

Shareholding Pattern (%)

Promoters	28.1
FII	17.3
DII	12.3
Public	42.3

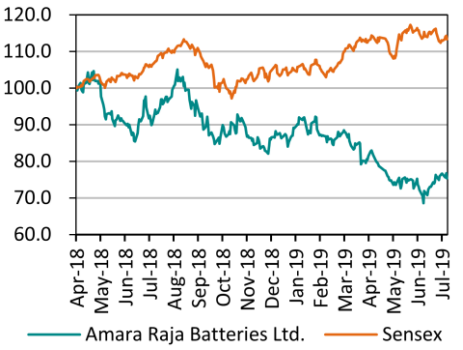
Price Performance (%)

	-1m	-3m	-12m
Absolute	0.4	(12.0)	(20.2)
Rel to Sensex	2.6	(10.0)	(25.3)

Key Stock Data

Bloomberg / Reuters	AMRJ IN/AMSR.BO
Sector	Auto Ancilliary
Shares o/s (mn)	171
Market cap. (Rs mn)	104,272
Market cap. (US$ mn)	1,506
3-m daily avg Trd value (Rs mn)	274.2
52-week high / low	Rs908 / 573
Sensex / Nifty	38,337 / 11,419

Relative to Sensex (%)



Financial snapshot (Rs mn)

Year	FY2017	FY2018	FY2019	FY2020E	FY2021E
Net sales	53,172	60,592	67,931	74,123	79,389
EBITDA	8,499	8,832	9,518	11,398	12,570
EBITDA (%)	16.0	14.6	14.0	15.4	15.8
Adj. PAT	4,785	4,713	4,835	5,800	6,256
EPS (Rs)	28.0	27.6	28.3	34.0	36.6
EPS Growth (%)	(2.7)	(1.5)	2.6	20.0	7.9
PE (x)	21.8	22.1	21.6	18.0	16.7
Dividend Yield (%)	1.0	1.8	1.8	1.8	1.8
EV/EBITDA (x)	12.1	11.7	10.9	9.0	8.0
RoE (%)	20.3	17.0	15.4	16.5	16.0
RoCE (%)	25.6	21.8	20.4	22.2	21.8

Source: Company; IDBI Capital Research

Exhibit 1: Actual vs estimates (Rs mn)

	Q1FY20E	Q1FY20A	% Variance
Net sales	17,234	18,150	*5.3*
EBITDA	2,730	2,792	*2.3*
EBITDA margin (%)	*15.8*	*15.4*	*(42)bps*
Adj net income	1,397	1,409	*0.9*
Adj EPS	8.2	8.3	*0.6*

Source: Company; IDBI Capital Research

Exhibit 2: Quarterly Snapshot (Rs mn)

Financial snapshot	Q1FY20	Q4FY19	QoQ (%)	Q1FY19	YoY (%)
Net sales	**18,150**	**15,667**	***15.8***	**17,787**	***2.0***
Total expenditure	15,358	13,246	*15.9*	15,584	*(1.5)*
EBIDTA	**2,792**	**2,421**	***15.3***	**2,203**	***26.8***
EBIDTA margin (%)	***15.4***	***15.5***	***(7)bps***	***12.4***	***300bps***
Depreciation	733	683	*7.3*	630	*16.5*
Interest cost	29	19	*56.2*	15	*94.0*
Other income	102	63	*61.9*	137	*(25.4)*
PBT	**2,132**	**1,783**	***19.6***	**1,695**	***25.8***
Tax	723	589	*22.7*	565	*28.0*
Adj. net profit	**1,409**	**1,193**	***18.1***	**1,130**	***24.7***
Adj. EPS (INR)	8.3	7.0	*18.1*	6.6	*24.7*

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net sales	**60,592**	**67,931**	**74,123**	**79,389**
Growth (%)	*14.0*	*12.1*	*9.1*	*7.1*
Operating expenses	(51,759)	(58,414)	(62,725)	(66,818)
EBITDA	**8,832**	**9,518**	**11,398**	**12,570**
Growth (%)	*3.9*	*7.8*	*19.8*	*10.3*
Depreciation	(2,303)	(2,612)	(3,024)	(3,528)
EBIT	**6,529**	**6,906**	**8,373**	**9,042**
Interest paid	(51)	(70)	(76)	(78)
Other income	664	468	491	516
Pre-tax profit	**7,142**	**7,304**	**8,788**	**9,479**
Tax	(2,429)	(2,469)	(2,988)	(3,223)
Effective tax rate (%)	*34.0*	*33.8*	*34.0*	*34.0*
Net profit	**4,713**	**4,835**	**5,800**	**6,256**
Adjusted net profit	**4,713**	**4,835**	**5,800**	**6,256**
Growth (%)	*(1.5)*	*2.6*	*20.0*	*7.9*
Shares o/s (mn nos)	*171*	*171*	*171*	*171*

Cash Flow Statement

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Pre-tax profit	7,142	7,304	8,788	9,479
Depreciation	2,303	2,612	3,024	3,528
Tax paid	(2,366)	(2,388)	(2,978)	(3,213)
Chg in working capital	(2,114)	(884)	(321)	(690)
Other operating activities	1,027	92	-	-
Cash flow from operations (a)	**5,993**	**6,737**	**8,513**	**9,105**
Capital expenditure	(4,276)	(4,591)	(5,000)	(5,000)
Chg in investments	(9)	(4)	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	**(4,285)**	**(4,594)**	**(5,000)**	**(5,000)**
Debt raised/(repaid)	(106)	(116)	-	-
Dividend (incl. tax)	(2,198)	(2,198)	(2,198)	(2,198)
Cash flow from financing (c)	**(2,304)**	**(2,314)**	**(2,198)**	**(2,198)**
Net chg in cash (a+b+c)	**(596)**	**(172)**	**1,315**	**1,907**

Balance Sheet

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net fixed assets	19,296	21,275	23,251	24,723
Investments	198	202	202	202
Other non-curr assets	668	1,442	1,442	1,442
Current assets	**21,523**	**22,041**	**24,907**	**28,279**
Inventories	10,497	10,614	11,518	12,336
Sundry Debtors	7,825	7,686	8,462	9,063
Cash and Bank	1,113	718	1,904	3,857
Total assets	**41,686**	**44,959**	**49,801**	**54,646**
Shareholders' funds	**29,374**	**33,353**	**36,955**	**41,013**
Share capital	171	171	171	171
Reserves & surplus	29,203	33,182	36,784	40,843
Total Debt	**584**	**468**	**468**	**468**
Secured loans	584	468	468	468
Unsecured loans	-	-	-	-
Other liabilities	1,798	2,114	1,995	2,051
Curr Liab & prov	**9,930**	**9,025**	**10,383**	**11,113**
Current liabilities	9,370	8,406	9,694	10,398
Provisions	560	619	689	715
Total liabilities	**12,312**	**11,606**	**12,846**	**13,632**
Total equity & liabilities	**41,686**	**44,959**	**49,801**	**54,646**
Book Value (Rs)	**172**	**195**	**216**	**240**

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY18	FY19	FY20E	FY21E
Adj. EPS (Rs)	27.6	28.3	34.0	36.6
Adj. EPS growth (%)	*(1.5)*	*2.6*	*20.0*	*7.9*
EBITDA margin (%)	*14.6*	*14.0*	*15.4*	*15.8*
Pre-tax margin (%)	*11.8*	*10.8*	*11.9*	*11.9*
ROE (%)	*17.0*	*15.4*	*16.5*	*16.0*
ROCE (%)	*21.8*	*20.4*	*22.2*	*21.8*
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.6	1.6	1.6	1.5
Leverage factor (x)	1.4	1.4	1.3	1.3
Net margin (%)	*7.8*	*7.1*	*7.8*	*7.9*
Net Debt/Equity (x)	(0.0)	(0.0)	(0.0)	(0.1)
Working Capital & Liquidity ratio				
Inventory days	63	57	57	57
Receivable days	47	41	42	42
Payable days	42	32	35	35

Valuation

Year-end: March	FY18	FY19	FY20E	FY21E
PER (x)	22.1	21.6	18.0	16.7
Price / Book value (x)	3.5	3.1	2.8	2.5
PCE (x)	14.9	14.0	11.8	10.7
EV / Net sales (x)	1.7	1.5	1.4	1.3
EV / EBITDA (x)	11.7	10.9	9.0	8.0
Dividend Yield (%)	*1.8*	*1.8*	*1.8*	*1.8*

Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com

Key to Ratings Stocks:

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

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