

20 June 2019

## Amara Raja Batteries – BUY

**CMP** :Rs.612.0  
**Target Price** :Rs.763.0  
**Upside** : 24%+  
**Stop Loss** :Rs.561.0 (Closingbasis)

### Investment Thesis

Recently, the stock price of Amara Raja Batteries Ltd. (ARBL) corrected by ~27% from 52-week high of Rs.908 as it has reported lower-than-expected volume growth of automotive OEM and industrial segment.

ARBL is the 2<sup>nd</sup> largest automotive battery manufacturer and the largest supplier of industrial storage batteries in India. It has gradually diversified its risk as it caters to automotive as well as industrial segments and generates 66% and 34% revenue, respectively. Within the automotive space, replacement segment accounts for ~49% of revenue while OEM accounts for ~17% of revenue. ARBL has embarked on a strong capacity addition program for the next three years, which will cater to the growing demands in replacement market. Capacity, on the automotive side, is expected to go up to ~36mn units by FY20E from ~25.5mn units in FY18 on the automotive side. Its 2-Wheelers capacity is also expected to increase by 3mn to 17.5mn units in FY20E and further to 24mn units in FY22E while its 4-Wheelers capacity will increase by 4mn to 14.5mn units by FY20E. We believe, with gradual demand recovery in the industrial segment revenue growth of ARBL is likely to improve going forward.

ARBL has strong pan-India distribution network with over 30,000 touch points on automotive side and ~100 aqua channel partners on industrial side. It has created a dominant network of retailers, PowerZone network spread across semi urban & rural locations. It executed strategic moves to counter competitive forces and strengthen the value proposition for customer. ARBL has plans to expand its distribution network further by entering areas where its penetration is low, filling gaps in its product range and ensuring supply chain efficiency. Moreover, it will continue to invest in brand promotion and will focus more on areas where unorganized players are predominant i.e. semi urban and rural areas.

### Financials

- During the past 5 years, revenue of ARBL grew at a CAGR of 14.6% while PAT grew at a CAGR of 5.6% in the same period.

Standal. (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	53,172	60,592	67,931	78,121	89,839
EBITDA	8,992	9,496	9,518	10,945	12,587
% growth	3.5	5.6	0.2	15.0	15.0
PAT	4,785	4,713	4,835	5,550	6,361
EPS (INR)	28.0	27.6	28.3	32.5	37.2
P/E (x)	22.7	23.1	22.5	19.6	17.1
RoE (%)	18.5%	16.0%	14.5%	15.1%	15.8%

- ARBL has reported 0.9% YoY decline in revenue in Q4FY19 to Rs.15,667mn as healthy volume growth in aftermarket and exports was offset by decline in automotive OEM and industrial segment.

### Stock Data

Market Cap (Rs. Mn)	108,936
Market Cap (\$ Mn)	1,573.0
Shares O/S (in Mn)	170.8
Avg. Volume (3 month)	827,000
52-Week Range (Rs.)	908/ 603

### Shareholding Pattern

Promoters	52.06%
FIIIs	19.38%
Institutions	10.69%
Others (incl. body corporate)	17.87%

Performance (%)	1M	6M	1Yr
Absolute	4.9%	1.0%	13.3%
BSE 500	2.6%	-2.4%	1.7%

### Key Ratios

Div Yield	1.1%
TTM PE	22.5x
ROE	14.5%
TTM EPS (Rs.)	28.3/-

- ARBL's EBITDA for Q4FY19 improved by 14.9% YoY to Rs.2,421mn led by favorable product mix and ~13% YoY decline in lead prices. As a result, EBITDA margin has gained by 212bps YoY to 15.5%.
- ARBL's PAT for Q4FY19 increased by 8.7% YoY to Rs.1,193mn due to better operating measures and lower tax outgo.

## Key Business Highlights

- ARBL is one of the largest manufacturers of lead-acid storage batteries for industrial and automotive applications in India. It is a dominant market leader of standby batteries in Railways, Telecom, Power Generating stations in India.
- ARBL's products are supplied to segments such as power control, UPS under industrial battery and to automobile OEMs, replacement market and private label customers under automotive battery business.
- ARBL's automotive and industrial battery brands are Amaron, PowerZone, Power Stack, AmaronVolt and Quanta. It has pan India presence with distribution network spread across over 30,000 retail outlets, 294 franchised distributors for Amaron and 1,100 PowerZone retail outlets ensuring widespread rural and urban presence.

## Valuation

- While the Battery industry structure remains largely duopoly in India, ARBL has emerged as a formidable challenger to leader Exide, with market leadership in telecom (55% share in 4QFY19) and UPS (~32-35%) segments and a fast gaining share in Automobiles. Over FY04-16, ARBL posted a CAGR of 34% and 68% in revenue and PAT respectively, far exceeding Exide's 20% CAGR each in revenue and PAT. This has been driven through a combination of technological innovations (maintenance-free, factory charged, extended warranty batteries), witty advertising and unique distribution model (franchisee based) supported with operational efficiency-led competitive pricing. We believe, ARBL will emerge as leader through consolidating in existing areas and entering new business opportunities within battery space, mainly home UPS, Solar and Motive Power along with aided capacity and network expansion.
- With GST implementation, the cost competitiveness of organized players like ARBL has increased vis-à-vis unorganized players, thereby gaining market share going forward. ARBL has been consistent in its performance and been able to gain on all fronts ranging from market share to strong financials in the past. ARBL not only has a strong foothold in the replacement market (through a pan-India retail network) but also caters to leading OEMs like, Ashok Leyland, Honda, Hyundai, M&M, Maruti, etc. Even in the industrial battery segment, ARBL has continued to be among the preferred vendor in a wide spectrum of industries like telecom, infra, power, Railways and others.
- With leading player in lead-acid storage batteries for industrial and automotive applications, embarked on a strong capacity addition program, strong pan-India distribution network, pricing power due to duopoly in nature, higher cost competitiveness post GST, we value ARBL at 20.5x FY21E EPS of Rs.37.20 to arrive at target price of Rs.763.00, an upside of ~24%.

## Risk & Concern

- Increasing competition from the unorganized sector may restrict potential growth prospects of ARBL.
- Any slowdown in domestic economy may have negatively impact on user industries of ARBL.
- Relatively inexpensive imports from China and some ASEAN countries have been a key concern for the Indian battery industry.

## Graphs & Charts

Figure 1: Net Sales Trend

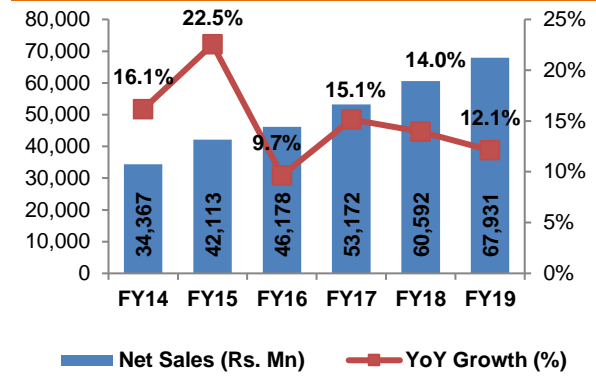


Figure 2: EBITDA & EBITDA Margin Trend

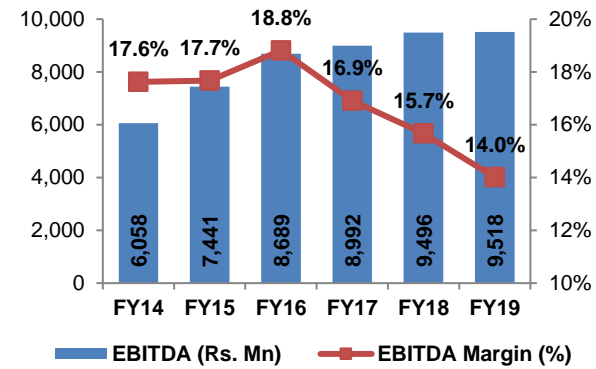


Figure 3: PAT Trend

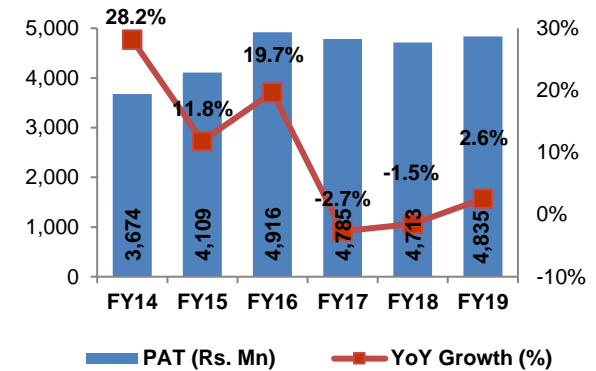
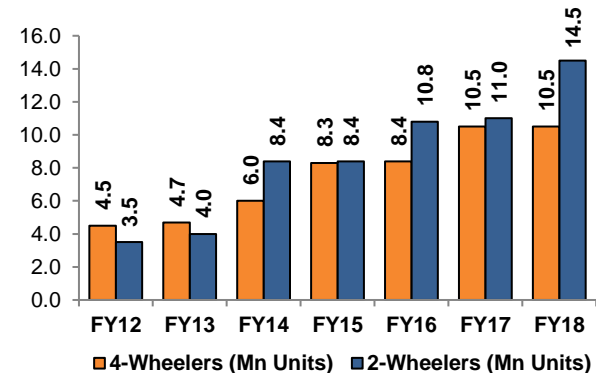


Figure 4: Market-share of Paint Companies



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