

7 April 2020

## Amara Raja Batteries—BUY

**CMP** :Rs.501.0  
**Target Price** :Rs.601.0  
**Upside** : 20%+  
**Stop Loss** :Rs.441.0 (Closingbasis)

### Investment Thesis

Recently, the stock price of Amara Raja Batteries Ltd. (ARBL) corrected by ~34% from 52-week high of Rs.813.85 as it has reported lower-than-expected volume growth of automotive OEM and industrial segment.

ARBL is India's second 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. ARBL is looking for the market leader position with consolidating in existing areas, entering new business opportunities within battery space, mainly home UPS, Solar and Motive Power and capacity and network expansion. ARBL is also gaining market share from the unorganized sector owing to the implementation of GST. We believe, with gradual demand recovery in the industrial segment revenue growth of ARBL is likely to improve going forward.

ARBL is investing in capacity expansion to cater to the future demand. Its 2-W capacity is likely to touch 19mn units (from 14.0mn units in FY19) while the new Greenfield expansion (adding 6.5mn units) will take the 4-W capacity to 14mn units. It has approved an investment of Rs.5,400mn for the capacity of advanced stamped grid technology that will enable high performance batteries. The project will be implemented over 3-phases and all investments are likely to come in gradually over the next three to five years. ARBL will benefit from the new capacity addition and also flexible in entering into newer verticals like home UPS, Solar and Motive Power.

### 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	5,783	6,627
EPS (INR)	28.0	27.6	28.3	33.9	38.8
P/E (x)	17.9	18.2	17.7	14.8	12.9
RoE (%)	18.5%	16.0%	14.5%	15.8%	16.4%

- ARBL has reported a growth of 3.1% YoY in revenue in Q3FY20 to Rs.17,478mn due to strong replacement market, offset by decline in automotive OEM and industrial segment.

### Stock Data

Market Cap (Rs. Mn)	85,509
Market Cap (\$ Mn)	1,130.7
Shares O/S (in Mn)	170.8
Avg. Volume (3 month)	824,000
52-Week Range (Rs.)	813.85/ 348.55

### Shareholding Pattern

Promoters	28.06%
FII's	21.24%
Institutions	11.11%
Others (incl. body corporate)	39.59%

Performance (%)	1M	6M	1Yr
Absolute	-19.2%	-26.7%	-26.3%
BSE 500	-23.0%	-26.6%	-31.1%

### Key Ratios

Div Yield	1.4%
TTM PE	13.3x
ROE	15.5%
TTM EPS (Rs.)	37.7/-

- ARBL's EBITDA for Q3FY20 improved by 12.3% YoY to Rs.2,840mn on account of cost control initiatives and muted lead price. As a result, EBITDA margin has gained by 130bps YoY to 16.2%.
- ARBL's PAT for Q3FY20 increased by 25.6% YoY to Rs.1,644mn due to better operating measures and lower tax outgo.

## Key Business Highlights

- ARBL is second 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 supplied to segments such as automobile OEMs, UPS under industrial battery, 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

- 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.
- 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) and UPS (~32-35%) segments and a fast gaining share in Automobiles. During the past few years, 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 leading player in lead-acid storage batteries for industrial and automotive applications, embarked on a strong capacity addition program, strong pan-India distribution network and pricing power due to duopoly in nature, we value ARBL at 15.5x FY21E EPS of Rs.38.80 to arrive at target price of Rs.601.00, an upside of ~20%.

## 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

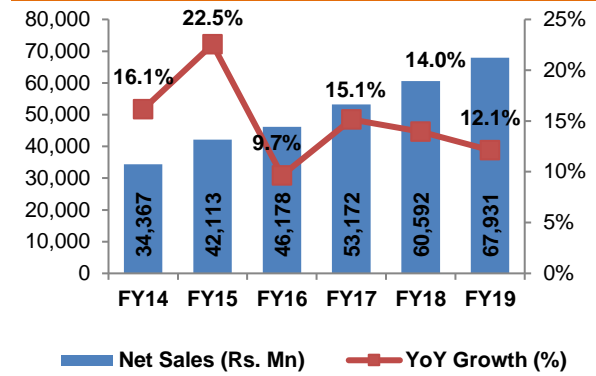


Figure 2: EBITDA & EBITDA Margin Trend

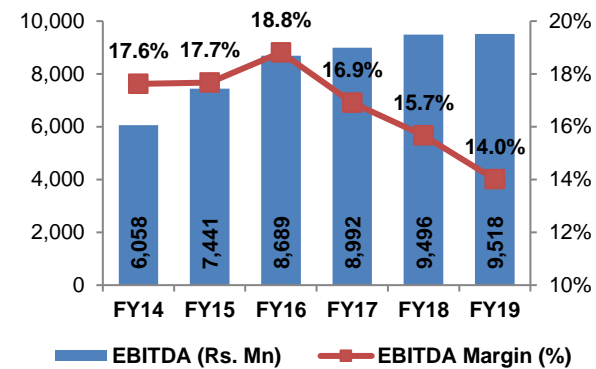


Figure 3: PAT Trend

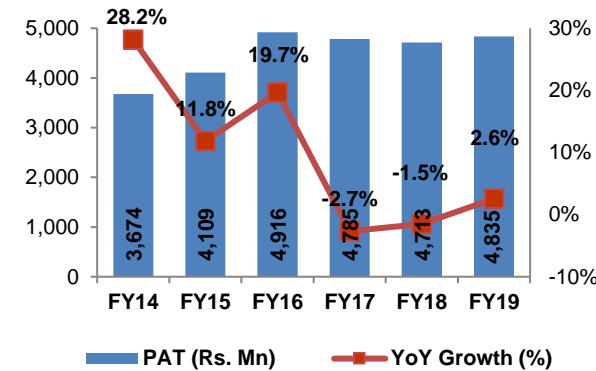
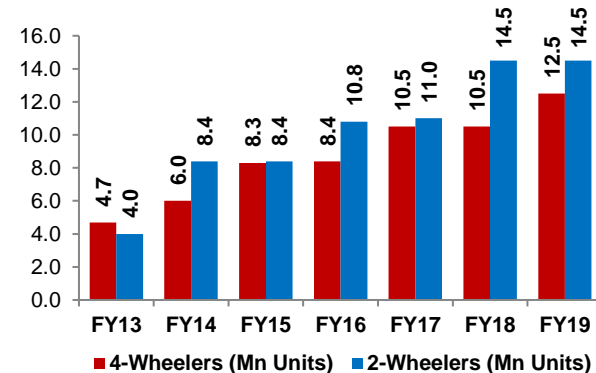


Figure 4: Capacity Addition Trend



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