

16th January 2024

Exide Industries Limited – BUY

CMP : Rs. 328
Target Price : Rs. 426
Upside : 30%
Stop Loss : Rs. 275 (Closing basis)

Investment Thesis

- Exide Industries is the market leader in the domestic automobile battery industry, both in the OEM as well as replacement battery space. The company's established presence, its distribution network, brand and product quality has resulted in its strong position in the domestic battery segment.
- Apart from the automobiles, Exide also sells its batteries to the industrial segment. Its industrial battery customers are primarily from power, solar, railways, and telecom sectors
- While the diversified presence in lead acid batteries protects revenue risks arising from segment/customer specific impacts to a large extent, foray into lithium-ion cell manufacturing would help leverage potential disruptions from higher penetration of electric vehicles (EVs) over the medium to long term
- According to rating agencies, EV penetration is expected to be ~30% for two wheelers (2W), ~40% each for three wheelers (3W) and buses and ~25% for light commercial vehicles (LCVs) as a percentage of total sales by 2030. Given the medium to long term demand prospects for EVs, domestic auto OEMs and ancillaries are investing in developing a local vendor ecosystem, and Exide is one of the early movers in lithium-ion cell manufacturing in India.
- It is setting up a 12 GWh lithium-ion cell manufacturing facility at Bengaluru, Karnataka in two phases, through its subsidiary Exide Energy Solutions Limited (EESL). The project cost for the same is Rs6,000 crore for both phases.
- It will be engaged in manufacturing of advanced chemistry cells (cylindrical, pouch, prismatic). It will also be engaged in manufacturing, assembly and sale of battery modules and battery packs. In October 2023, it further invested Rs340 crs in EESL by way of right issue.
- It is net debt free for the last several years, primarily aided by healthy cash accruals. At the consolidated level, the company's cumulative cash accruals for FY2019-FY2023 stood at over Rs.5,000 crore, and it had sizeable cash and liquid investments of Rs. 735.0 crore against a consolidated gross debt of Rs. 588.4crore (including lease liabilities of Rs. 309.0crore) as on March 31, 2023

Financials

- Exide's revenues increased 17.9% YoY in FY23. Operating and net profit have increased at a CAGR of 2.26% and 1.94%, respectively, over the same period.
- Presently, automotive sector accounts for 73% of revenues of the segment, followed by industrial (26%) and submarine (1%).

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs in Crs)	10,359	12,789	15,078	16,435	17,914
EBITDA (Rs in Crs)	1,366	1,402	1,593	1,922	2,275
Adj. PAT (Rs in Crs)	803	4,357	823	1,068	1,254
Adj. EPS (Rs.)	9.53	51.38	9.68	12.56	14.75
PE Multiple (x)	19.27	2.94	18.42	22.00	28.50
RoE (%)	11.13	41.26	7.39	8.75	9.32

Stock Data

Market Cap (Rs. Crs)	27,854
Market Cap (\$ Mn)	3,481
Shares O/S (in Mn)	850
Avg. Volume (3 month)	30,69,310
52-Week Range (Rs.)	334 / 170

Shareholding Pattern

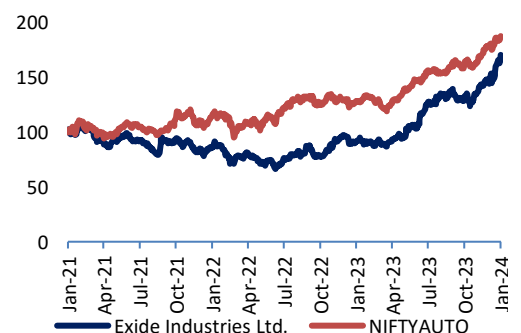
Promoters	46 %
FII's	12.81 %
Institutions	19.15 %
Others (incl. body corporate)	22.04 %

Key Ratios

Div Yield	0.61%
TTM PE	32.6x
ROE	7.28 %
TTM EPS (Rs.)	10.2 /-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	15.5	34.2	85.2
NIFTYAUTO	10.5	14.1	38.1



- In Q2FY24, Exide reported revenue and net profit of Rs.308Cr and Rs24Cr, up 4.76% YoY and 4.34% YoY, respectively.
- It is focusing on its core business and currently has no plans to add additional products to the Exide brand.
- It's overall capacity utilization is upward of 80%

Key Business Highlights

- Exide Industries Limited designs, manufactures, markets, and sells lead acid storage batteries in India and internationally.
- The company operates in two segments, Automotive and Industrial. It offers automotive, industrial, genset, solar, inverter, institutional uninterrupted power supply (UPS), and submarine batteries, as well as home UPS systems, integrated power back-up systems, and e-rickshaw vehicles.
- The company manufactures and supplies recycled lead and lead alloys; offers lithium-ion batteries; produces and distributes industrial battery chargers, rectifiers, and parts; and provides energy storage solutions, as well as engages in the non-conventional energy business.
- The company offers solutions in the areas of equipment selection, battery sizing, optimum room layout, installation, operation, and maintenance. It sells its batteries under the Exide, Index, Dynex, SF Sonic, Black Panther, Nexcharge, Chloride, and CEIL brand names through a distribution network of direct and indirect dealers.
- It has one of the largest storage-battery manufacturing capacity in India with geographically diversified manufacturing facilities.
- It has almost all 4 wheeler, 3 wheeler and 2 wheeler automotive companies as its customers in India. It is dominant in the OEM segment, with market share of ~60% for 3/4W vehicles and ~75% for 2W vehicles. Its industrial customers include Emerson, Ericsson, Hitachi, Cipla, General Electric, Mitsubishi, Godrej, BSNL, Finolex, BHEL, Tata, NTPC, Indus Towers and others.
- It has a wide distribution network with 150+ warehouses and sales offices and 95000 direct & indirect dealers across India as of FY23. Exide has 1600+ Exide Care outlets and 300+ SF batteries Power Bay outlets
- In January 2022, Exide completed the sale of its subsidiary, Exide Life Insurance Company Ltd., for Rs. 4,694 crores. This one-time event significantly boosted the company's other income in FY22.

Valuation

Given Exide's strategic positioning, technological foresight, and diversified revenue streams, the outlook is positive. The ongoing investments in EV-related ventures align with industry trends, and the diversified industrial segment provides a cushion against cyclical downturns. It is trading at P/E of 31.8 vs industry PE of 33.3, which is nearly at par. We forecast company's revenues will grow at least 9% in FY24 and net profit margin will increase to 6.5%-7% on the back of increasing EBITDA margins. We are valuing Exide Industries at FY25E EPS of Rs.14.75 to arrive at a **BUY** rating with a **target price of Rs.426**, translating to an **upside of ~30%**.

Risk & Concern

- The Indian battery market, characterized by intense competition among numerous players, poses a threat to Exide's margins and may trigger price wars.
- The rise of EVs poses a long-term challenge to the traditional lead-acid battery market. Exide needs to adapt its product portfolio and technology to cater to the growing EV demand
- It's dependence on lead as the primary raw material exposes the company to the impact of global market dynamics, leading to fluctuations in raw material prices that can influence Exide's overall costs and profitability.
- With a substantial portion of its revenue derived from the replacement market for automotive batteries, its financial performance is sensitive to economic conditions and fluctuations in vehicle scrappage rates.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Crs)

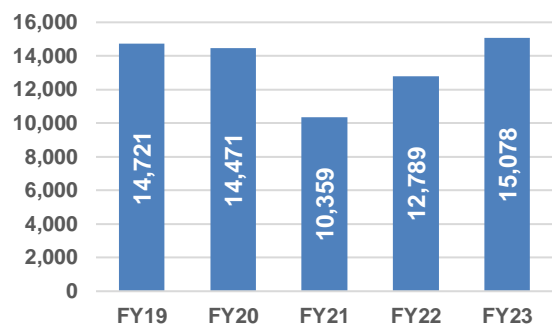


Figure 2: EBITDA & EBITDA margin trend

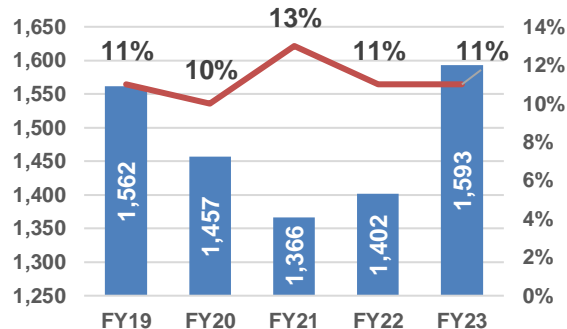


Figure 3: PAT & PAT margin trend

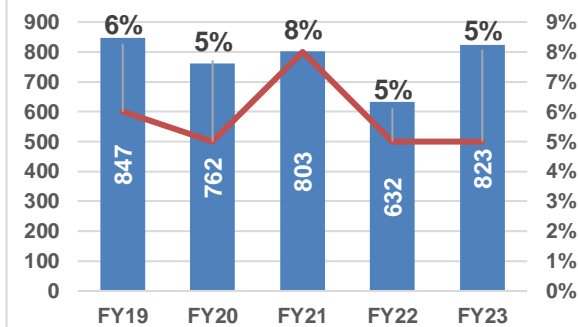
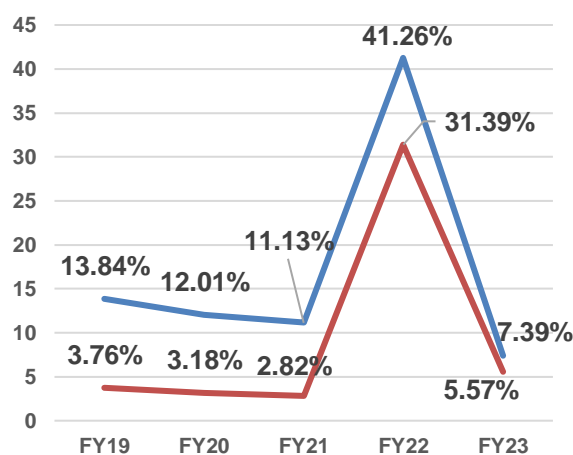


Figure 4: ROE & ROA trend.



Name
Pratik Chothani

Designation
Research Analyst

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M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

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