

29th July 2021

Exide Industries–BUY

CMP : Rs.176.0
Target Price : Rs.221.0
Upside : 20%+
Stop Loss : Rs.153.0 (Closing basis)

Investment Thesis

Recently, the stock price of Exide Industries Ltd.(Exide Industries) corrected by ~16% from 52-week high of Rs.219.30 despite the company reported good set of numbers in the recent quarters.

Exide Industries is market leader in battery manufacturing in India, catering to automobiles and industrial segments. It is present in the OEM as well as replacement and export segments. It is the market leader in the organized lead acid battery segment, commanding a lion market share in the domestic market. In organized OEM segment, its overall market share in 3 and 4 Wheelers is ~60% while in 2 Wheelers, it is ~65%. In the organized replacement market side, its market share in 2 and 4 Wheelers are ~50% and 58%, respectively. Exide Industries has a huge distribution network with a strong brand image in India. During the country-wide lockdown post Covid-19, Exide Industries' offtake across product segments impacted, however, it registered healthy performance from Q2FY21 onward. We expect the replacement demand to recover faster for Exide Industries while OEM segment may recover gradually.

India is one of the fastest growing economy and sold ~2.5-3.0mn vehicles every year over the last five years. This provides a large and growing aftermarket opportunity for batteries company like Exide Industries. Automotive replacement demand forms more than 35% of revenues and is expected to recover sharply post lockdown. Automotive battery is used for SLI (starting, lighting and ignition) requirement, which are key functions for running the vehicle and demand in the aftermarket segment tends to remain steady during challenging times. Further, post GST, organized players like Exide Industries are gaining market share from unorganized players. Moreover, stricter environmental norms relating to scrapping of old batteries would lead to market share gains for organized players.

Financials

- During the past 5 years, revenue of Exide Industries grew at a CAGR of 9.9% while PAT grew at a CAGR of 3.0% in the same period.

Consol. (Rs.Mn.)	FY19	FY20	FY21	FY22E	FY23E
Revenue	147,209	144,710	152,969	180,503	207,579
EBITDA	15,297	14,215	15,804	18,570	21,355
% growth	11.1	-7.1	11.2	17.5	15.0
PAT	8,456	7,768	8,099	9,314	10,711
EPS (INR)	9.9	9.1	9.5	11.0	12.6
P/E (x)	18.5	20.1	19.3	16.8	14.6
RoE (%)	13.8%	12.0%	11.1%	11.7%	12.2%

- Exide Industries has reported 31.4% YoY growth in revenue to Rs.45,755mn in Q4FY21 mainly due to primarily due to lower base and strong growth from the Aftermarket & UPS segment.

Stock Data

Market Cap (Rs. Mn)	1,56,270
Market Cap (\$ Mn)	2,134.5
Shares O/S (in Mn)	850.0
Avg. Volume (3 month)	38,42,000
52-Week Range (Rs.)	219.30/ 145.00

Shareholding Pattern

Promoters	45.99%
FII's	11.95%
Institutions	24.56%
Others (incl. body corporate)	17.50%

Performance (%)	1M	6M	1Yr
Absolute	1.2%	7.1%	20.5%
BSE Auto	-0.5%	16.8%	67.5%

Key Ratios

Div Yield	1.1%
TTM PE	19.3x
ROE	11.1%
TTM EPS (Rs.)	9.5/-

- Exide Industries' EBITDA grew by 52.2% YoY in Q4FY21 to Rs.5,481mn mainly due to higher revenue growth and stringent cost control measure taken despite higher raw material cost in the quarter. As a result, EBITDA margin also improved by 165bps YoY to 12.0% in Q4FY21.
- Exide Industries' PAT grew by 29.5% YoY to Rs.3,219mn due to higher revenue and better operating performance in the quarter.

Key Business Highlights

- Exide Industries is largest storage battery company in India with the widest range of both conventional flooded as well as latest Valve Regulated Lead Acid (VRLA) batteries.
- Exide Industries designs, manufactures, markets and sells widest range of lead acid storage batteries. With constant emphasis on innovation & extensive distribution network, it has emerged as leading lead-acid storage batteries company for automotive and industrial segments.
- Exide Industries manufactures batteries for automotive, power, renewable energy, telecom, infrastructure projects, railways, mining and defence sectors. It derives ~52% of its revenues from automotive segment while ~48% revenues from industrial battery segment.

Valuation

- Exide Industries is the largest battery manufacturer in the lead acid battery markets, commanding market share of about 50% in the organized market. It has a strong brand equity and extensive distribution network with 150+ warehouses and 48,000 direct and indirect dealers. It has done large capex in FY18-19 for Haldia unit in West Bengal, which has made Exide Industries as one of the largest integrated and self-sufficient battery-making centres in South East Asia, focusing on recycled lead to finished battery. During the last five years, it has spent significant amount of Rs.27,000mn in capex, which helped it to enhance manufacturing capacity and upgrade technology, improving performance of automotive batteries and other energy storage applications. In India, we believe EV adoption is likely to be quite slow and we do not see any significant risk to lead acid battery manufacturers like Exide Industries for the next 3-4 years.
- Lead and lead alloys are key raw material for the battery players and its prices are on a declining trend due to weak global demand on account of Covid-19. Prices of lead which forms large part of the raw materials for battery players had declined in the first quarter however it has increased marginal from Q2FY21. The share of high margin automotive replacement business is expected to go up given the faster recovery anticipated which will help in better margins. Exide Industries is also focusing on technological upgradation with help of the latest technology and targeting to reduce the power consumption and overall manufacturing time for battery production.
- With market leader in lead acid battery segment, huge distribution network with a strong brand image, large and growing aftermarket opportunity for batteries company, organized players are gaining market share from unorganized players and huge capex to enhance manufacturing capacity, we value Exide Industries at 17.5x FY23E EPS of Rs.12.60 to arrive at target price of Rs.221.00, an upside of ~20%.

Risk & Concern

- Any prolonged slowdown in automotive volumes on account of Covid-19 or any other reasons in future may adversely impact Exide Industries' overall performance.
- Any surge in lead prices or Exide Industries' inability to pass-on may adversely impact its margin as lead is one of the key raw materials.
- With increase in competition, if Exide Industries is unable to retain market share in replacement market, it may impact future growth.

Graphs & Charts

Figure 1: Net Sales Trend

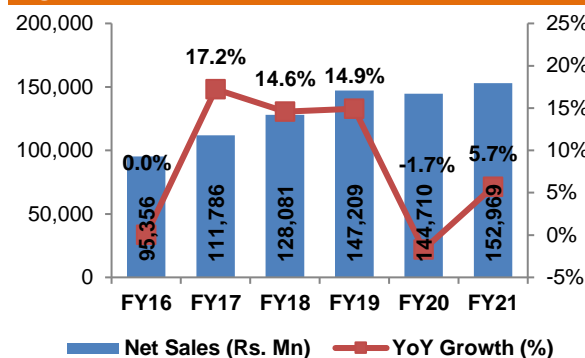


Figure 2: EBITDA & EBITDA Margin Trend

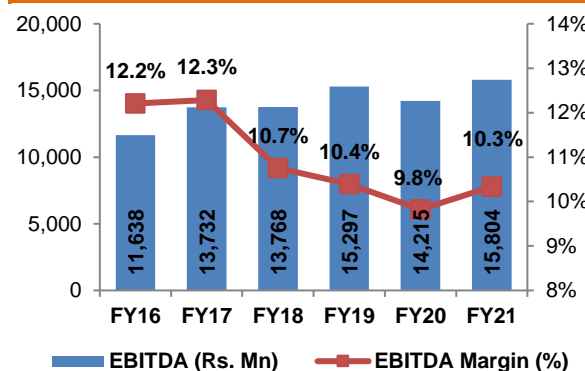


Figure 3: PAT Trend

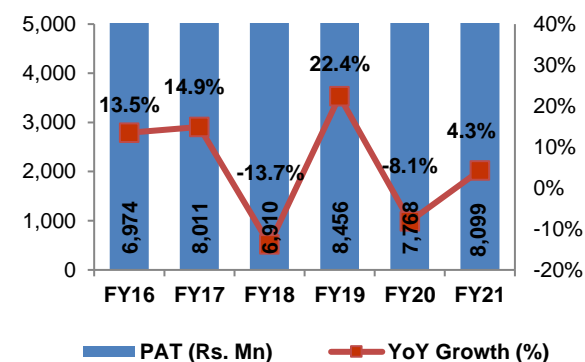
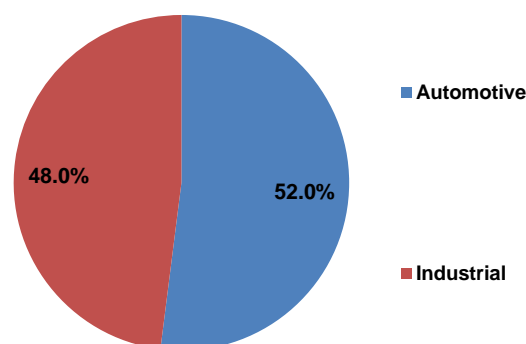


Figure 4: Segment-wise Revenue (FY21)



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