

# Amara Raja Batteries (AMARAJ)

CMP: ₹ 580

Target: ₹ 615 (6%)

Target Period: 12 months

HOLD

January 30, 2023

## Margin recovery at risk as lead prices climb up, also await contours on Li-On cell manufacturing plant...

**About the stock:** Amara Raja Batteries (ARBL) is a part of the duopolistic organised Indian lead acid battery market with a strong presence across automotive (OEM and aftermarket) and industrial battery space (UPS, telecom, solar, etc)

- Geographical mix as of FY22: domestic ~87%, export ~13%

**Q3FY23 Results:** Reported a healthy performance in Q3FY23.

- Net sales for the quarter came in at ₹ 2,637 crore, down 2.3% QoQ.
- EBITDA in Q3FY23 came in at ₹ 397 crore with corresponding EBITDA margins at 15%, up 170 bps QoQ (highest since Q4FY21)
- PAT in Q3FY23 was at ₹ 222.8 crore, up 10.2% QoQ

**What should investors do?** ARBL's share price has declined at ~6% CAGR from ₹ 768 in January 2020 thereby vastly underperforming the Nifty Auto index.

- We retain **HOLD** rating given that lead prices have climbed up in the recent past thereby eroding a large part of gross margin expansion witnessed over Q2-Q3FY23 and await further affirmative actions in Li-On battery space.

**Target Price and Valuation:** Introducing FY25E and rolling over our valuation, we now value ARBL at ₹ 615 on SOTP basis i.e. 15x PE on FY24-25E average PAT (includes numbers for recent acquisition of plastics division, earlier TP ₹ 500).

**Key triggers for future price performance:**

- With healthy OEM volume growth in the offing and volatile RM price outlook, we expect sales, PAT to grow at a CAGR of 9.3%, 11.7% over FY22-25E. Margins in the same time frame are seen in the range of 11-13%
- Signing of MoU with the Telangana government for setting up Li-On Battery Gigafactory. The said facility is expected to have cell manufacturing capacity of up-to 16GWh and assembly capacity of up to 5 GWh with overall investment pegged at ₹ 9,500 crore over the next 10 years
- Inorganic presence in Li-On space though investment in start up i.e. Log-9 Materials (~15%+ stake). Log 9 possess competencies across materials, electrode, cell & pack level fabrication of energy storage technologies
- Cash rich b/s with consistent healthy cash flow from operations

**Alternate Stock Idea:** Leaving aside ARBL, in our auto coverage we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,590



**AMARA RAJA**  
Gotta be a better way

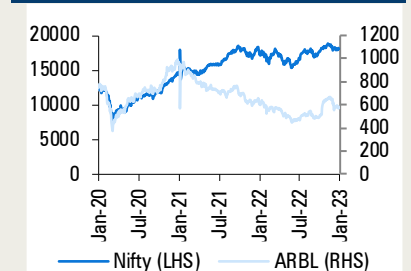
### Particulars

Particular	₹ crore
Market Capitalization	9,907.0
Total Debt (FY22)	23.4
Cash & Investments (FY22)	88.3
Enterprise Value	9,842.0
52 week H/L (₹)	670 / 438
Equity capital	17.1
Face value (₹)	₹ 1

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	28.1	28.1	28.1	28.1
FII	18.1	18.3	18.5	35.5
DII	11.4	10.8	10.0	9.3
Other	42.5	42.8	43.5	27.2

### Price Chart



### Recent event & key risks

- Posted healthy Q3FY23 numbers. Transferred existing new energy business (Li-On domain) to its wholly owned subsidiary
- Key Risk:** (i) Sizeable investment & market share in Li-on domain (ii) Higher pace of electrification limiting growth prospects in base i.e. lead acid battery business

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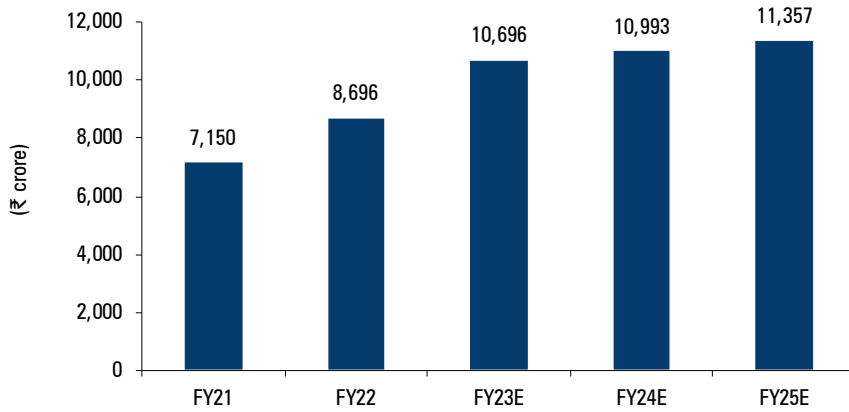
### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	6,793.1	6,839.5	7,149.7	8,695.8	10.3%	10,696.1	10,992.7	11,357.5	9.3%
EBITDA	951.8	1,098.6	1,115.6	1,022.6	3.8%	1,360.7	1,187.4	1,318.5	8.8%
EBITDA Margins (%)	14.0	16.1	15.6	11.8		12.7	10.8	11.6	
Net Profit	483.5	660.8	646.8	511.2	1.3%	744.2	621.7	711.8	11.7%
EPS (₹)	28.3	38.7	37.9	29.9		43.6	36.4	41.7	
P/E	20.5	15.0	15.3	19.4		13.3	15.9	13.9	
RoNW (%)	14.5	18.1	15.4	11.2		14.4	10.9	11.3	
RoCE (%)	19.8	21.3	18.6	13.6		17.8	12.8	13.2	

Source: Company, ICICI Direct Research

## Key Highlights from presentation

Exhibit 1: Topline trend over FY21-25E



Source: Company, ICICI Direct Research

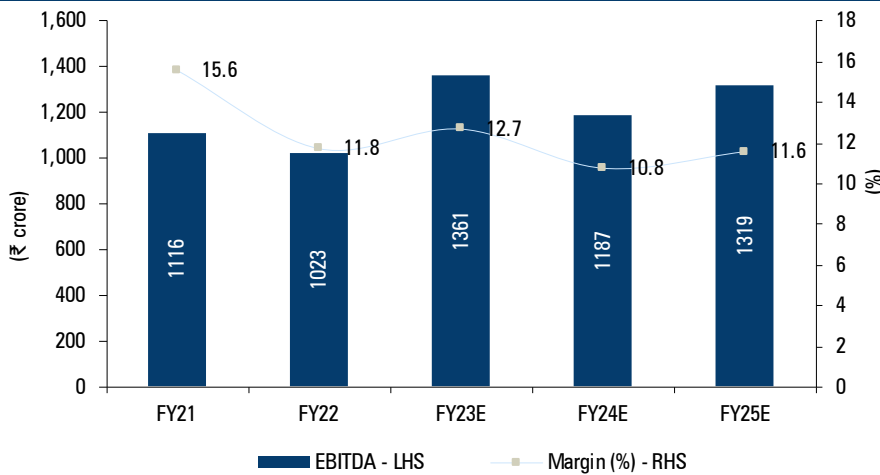
ARBL- ESG Disclosure Score\*

Score	FY20	FY21	FY22
Environmental	2.4	2.4	2.4
Social	25.2	25.2	22.6
Governance	78.6	78.6	78.6
<b>Overall ESG Score</b>	<b>35.4</b>	<b>35.4</b>	<b>34.6</b>

Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Topline at the company is seen growing at a CAGR of 9.3% over FY22-25E to ₹11,357 crore by FY25E

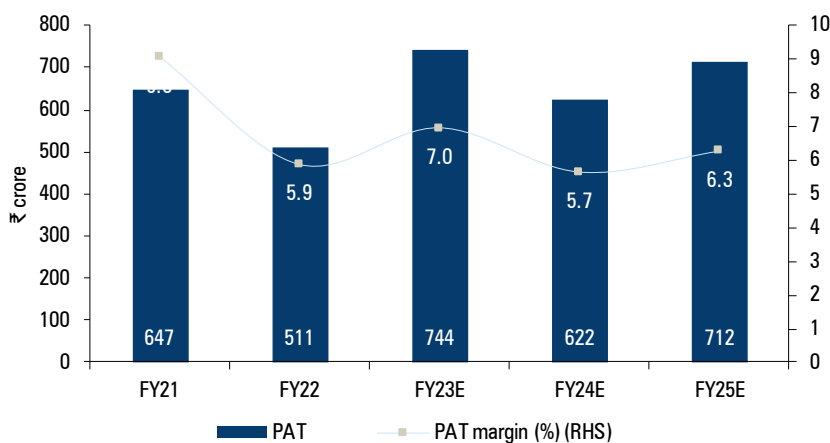
Exhibit 2: EBITDA and EBITDA margin trend over FY21-25E



Source: Company, ICICI Direct Research

EBITDA at the company is seen growing at a CAGR of 8.8% over FY22-25E with margins seen dropping from 12.7% levels in FY23E to 11.6% in FY25E amid sequential rise in lead prices during Q3FY23, thereby reversing some of the recent gross margin gains

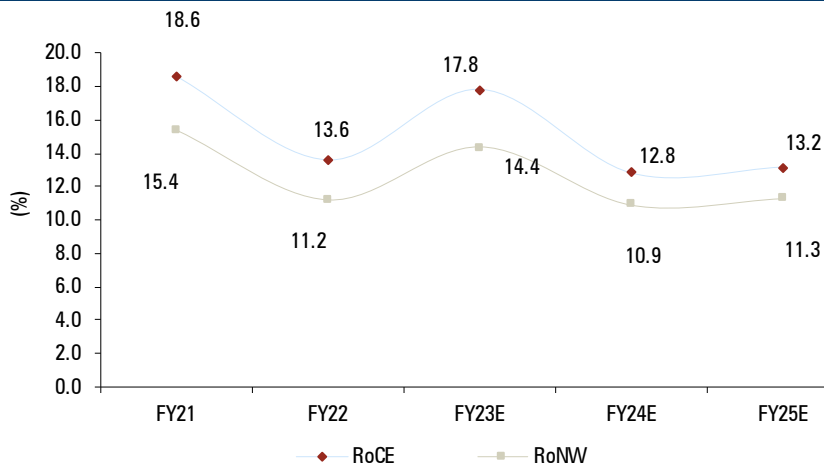
Exhibit 3: PAT and PAT margin trend over FY22-25E



Source: Company, ICICI Direct Research

PAT at the company is seen growing at a CAGR of 11.7% over FY22-25E to ₹ 712 crore by FY25E

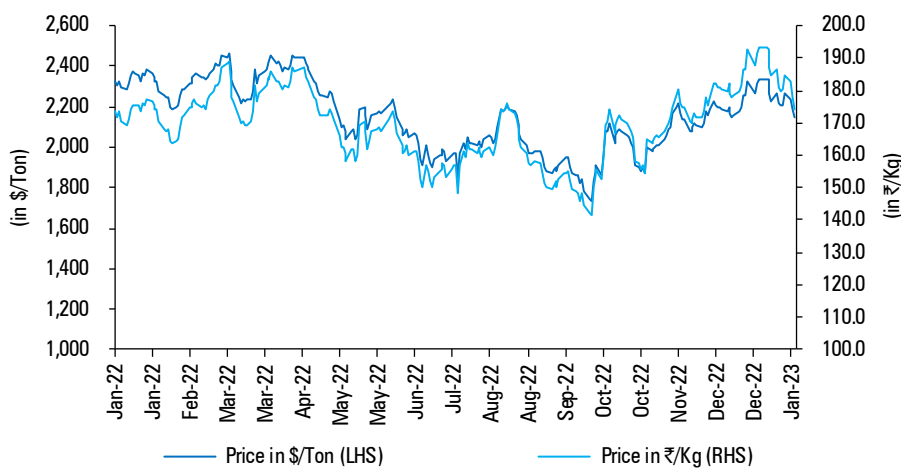
Exhibit 4: Return ratios profile over FY22-25E



Source: Company, ICICI Direct Research

Amidst lower margin profile of ~11-13% vs. previous trajectory of ~15-16% & high single digit forward topline, EBITDA growth, return ratios are seen tapering to below 15% mark, going forward

Exhibit 5: Lead price movement over past 1 year



Source: Company, ICICI Direct Research

Lead prices were down from a quarterly avg. of ₹ 175/kg in Q4FY22 to ₹ 169/kg in Q1FY23 and further to ₹ 158/kg in Q2FY23. Since then, however, they are on the uptick and were quoting at a quarterly average ₹ 173/kg levels in Q4FY23 and presently quoting at ~₹ 180/kg. This we believe will result in reversal of large part of gross margin gains witnessed over Q2-Q3FY23

Exhibit 6: New Acquired Business – brief financials and projection

Particulars	Units	FY22	FY23E	FY24E	FY25E
Sales	₹ crore	569.0	625.9	657.2	690.1
EBITDA	₹ crore	98.0	109.5	118.3	124.2
EBITDA margins	%	17.2	17.5	18.0	18.0
PAT	₹ crore	57.0	68.8	78.9	86.3
PAT margins	%	10.0	11.0	12.0	12.5
Net Debt	₹ crore	99.0	49.0	-1.0	-51.0

Source: Company, ICICI Direct Research

Exhibit 7: SoTP - target price calculation

Particulars	Units	Amount
FY24-25E Average PAT of Base Business (Lead Acid Battery)	₹ crore	666.8
FY24-25E Average PAT of Acq. Plastic Business incorp. synergies	₹ crore	82.6
<b>Total FY24-25E Average PAT (A)</b>	<b>₹ crore</b>	<b>749.3</b>
Existing No of Shares	crore	17.1
New Shares to be issues for acquisition	crore	1.2
<b>Total No of Shares in FY24E (B)</b>	<b>crore</b>	<b>18.3</b>
FY24-25E Average EPS (A/B)	₹/share	40.9
PE Multiple Assigned	x	15.0
<b>Target Price</b>	<b>₹/share</b>	<b>615</b>

Source: ICICI Direct Research

## Financial Summary

Exhibit 8: Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
<b>Total operating Income</b>	<b>8,696</b>	<b>10,696</b>	<b>10,993</b>	<b>11,357</b>	
Growth (%)	21.6	23.0	2.8	3.3	
Raw Material Expenses	6,121.4	7,475.8	7,881.7	8,051.4	
Employee Expenses	498.8	595.3	659.6	681.4	
Other Expenses	1,053.1	1,264.4	1,264.2	1,306.1	
Total Operating Expenditure	7,673.2	9,335.5	9,805.4	10,038.9	
<b>EBITDA</b>	<b>1,022.6</b>	<b>1,360.7</b>	<b>1,187.4</b>	<b>1,318.5</b>	
Growth (%)	-8.3	33.1	-12.7	11.0	
Depreciation	395.8	427.8	450.7	482.7	
Interest	15.1	18.8	12.1	5.3	
Other Income	78.0	94.1	109.9	124.9	
<b>PBT</b>	<b>689.7</b>	<b>1,008.1</b>	<b>834.5</b>	<b>955.5</b>	
Total Tax	178.6	263.9	212.8	243.6	
<b>PAT</b>	<b>511.2</b>	<b>744.2</b>	<b>621.7</b>	<b>711.8</b>	
Growth (%)	-21.0	45.6	-16.5	14.5	
<b>EPS (₹)</b>	<b>29.9</b>	<b>43.6</b>	<b>36.4</b>	<b>41.7</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
<b>Profit after Tax</b>	<b>511.2</b>	<b>744.2</b>	<b>621.7</b>	<b>711.8</b>	
Add: Depreciation	395.8	427.8	450.7	482.7	
(Inc)/dec in Current Assets	-364.0	-659.2	-94.1	-115.8	
Inc/(dec) in CL and Provisions	201.9	389.2	53.0	65.1	
<b>CF from operating activities</b>	<b>744.8</b>	<b>902.1</b>	<b>1,031.2</b>	<b>1,143.9</b>	
(Inc)/dec in Investments	202.7	-350.0	-400.0	-400.0	
(Inc)/dec in Fixed Assets	-863.6	-400.0	-500.0	-600.0	
Others	-61.2	-142.8	-98.9	-48.7	
<b>CF from investing activities</b>	<b>(686.1)</b>	<b>(742.8)</b>	<b>(898.9)</b>	<b>(998.7)</b>	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	
Dividend paid & dividend tax	-76.9	-119.6	-102.5	-111.0	
<b>CF from financing activities</b>	<b>(181.0)</b>	<b>(124.6)</b>	<b>(112.5)</b>	<b>(116.0)</b>	
Net Cash flow	-122.3	34.7	19.8	29.2	
Opening Cash	175.9	53.6	88.3	108.2	
<b>Closing Cash</b>	<b>53.6</b>	<b>88.3</b>	<b>108.2</b>	<b>137.3</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
<b>Liabilities</b>					
Equity Capital	17.1	17.1	17.1	17.1	
Reserve and Surplus	4,534.3	5,159.0	5,678.2	6,279.0	
<b>Total Shareholders funds</b>	<b>4,551.4</b>	<b>5,176.1</b>	<b>5,695.3</b>	<b>6,296.1</b>	
Total Debt	23.4	18.4	8.4	3.4	
Deferred Tax Liability	31.4	38.6	39.7	41.0	
<b>Total Liabilities</b>	<b>4,855.4</b>	<b>5,482.3</b>	<b>5,992.6</b>	<b>6,589.7</b>	
<b>Assets</b>					
Gross Block	4,240.5	5,120.2	5,770.2	6,370.2	
Less: Acc Depreciation	1,827.8	2,255.6	2,706.3	3,189.0	
Net Block	2,412.8	2,864.6	3,063.9	3,181.2	
Capital WIP	829.7	350.0	200.0	200.0	
<b>Total Fixed Assets</b>	<b>3,322.0</b>	<b>3,294.1</b>	<b>3,343.4</b>	<b>3,460.7</b>	
Investments	77.8	427.8	827.8	1,227.8	
Inventory	1,803.8	2,051.3	2,108.2	2,178.1	
Debtors	792.6	1,172.2	1,204.7	1,244.7	
Loans and Advances	16.7	20.5	21.1	21.8	
Other Current Assets	122.7	150.9	155.1	160.3	
<b>Cash</b>	<b>53.6</b>	<b>88.3</b>	<b>108.2</b>	<b>137.3</b>	
Total Current Assets	2,789.3	3,483.3	3,597.2	3,742.2	
Creditors	806.5	1,025.7	1,054.1	1,089.1	
Provisions	137.3	174.6	179.4	185.3	
Other current liabilities	576.8	709.4	729.1	753.3	
Total Current Liabilities	1,520.5	1,909.7	1,962.6	2,027.7	
<b>Net Current Assets</b>	<b>1,268.9</b>	<b>1,573.6</b>	<b>1,634.6</b>	<b>1,714.4</b>	
Other Non-Current Assets	186.8	186.8	186.8	186.8	
<b>Application of Funds</b>	<b>4,855.4</b>	<b>5,482.3</b>	<b>5,992.6</b>	<b>6,589.7</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	29.9	43.6	36.4	41.7
Cash EPS	53.1	68.6	62.8	69.9
BV	266.5	303.0	333.4	368.6
DPS	4.5	7.0	6.0	6.5
Cash Per Share	5.2	18.9	37.6	59.8
<b>Operating Ratios (%)</b>				
EBITDA Margin	11.8	12.7	10.8	11.6
PBT / Net sales	7.2	8.7	6.7	7.4
PAT Margin	5.9	7.0	5.7	6.3
Inventory days	75.7	70.0	70.0	70.0
Debtor days	33.3	40.0	40.0	40.0
Creditor days	33.9	35.0	35.0	35.0
<b>Return Ratios (%)</b>				
RoE	11.2	14.4	10.9	11.3
RoCE	13.6	17.8	12.8	13.2
RoIC	17.0	20.5	15.0	16.3
<b>Valuation Ratios (x)</b>				
P/E	19.4	13.3	15.9	13.9
EV / EBITDA	9.6	7.1	7.8	6.7
EV / Net Sales	1.1	0.9	0.8	0.8
Market Cap / Sales	1.1	0.9	0.9	0.9
Price to Book Value	2.2	1.9	1.7	1.6
<b>Solvency Ratios</b>				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.8	1.8	1.8
Quick Ratio	0.6	0.7	0.7	0.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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