

CMP: ₹ 710

Target: ₹ 900 (27%)

Target Period: 12 months

BUY

December 1, 2023

## In value zone, attractive risk reward at play...

About the stock: Amara Raja Energy & Mobility (AREM) is a part of the duopolistic organised Indian lead acid battery market with a strong presence across Automotive (OEM & aftermarket) and Industrial battery space (UPS, Telecom, etc.).

- Geographical mix as of FY23: Domestic ~88%, Export ~12%
- Approaching E-Mobility through a mix of EV chargers, captive Li-On cell manufacturing plant (16 GWh by FY32E) and stake in Log-9 materials

### Investment Rationale:

- Steady state Lead Acid business, exports & aftermarket to cushion growth: Amara Raja is a prominent player in the Lead acid business with sizeable presence across Automobile (~70% of sales) as well as Industrial side (~30% of sales). In the automobile space it is present across the OEM as well as aftermarket channel and is the leader in aftermarket space. Consequently, it has on consistent basis has reported better operating margins vs. its listed peer (last 10-year average EBITDA margins at Amara Raja stands at ~15% vs. its listed peer average of ~13%, a long-term outperformance of ~200 bps). Given the growing impetus on EV transition the growth prospects of this business is at risk. However, given the present population of vehicles as well as healthy OEM sales volumes post Covid (FY22-24) coupled with company's efforts to augment exports, we believe this segment is well poised to grow higher single digit going forward.
- Steadily increasing allocation to new energy space (Li-On battery): The company has lagged competition in terms of commitment and actions towards the new energy space i.e., Li-On battery domain and hence the underperformance in stock price. However, in the recent past it has made a big announcement wherein it has entered into MoU with Govt. of Telangana for setting up of Li-Ion Battery Gigafactory. The said facility is expected to have cell manufacturing capacity of up-to 16GWh & assembly capacity of up to 5 GWh with overall investment pegged at ~₹9,500 crores over next 10 years. In the first phase, it is setting up a Li-On cell plant of 2GWh capacity at a capex outlay of ~₹ 1,200 crore and operational in next 2-3 years. With capex under execution and plans for sizeable foray in the new energy space, long term prospects at AREM are promising.

### Rating and Target Price

- With steady growth prospects in base business, increasing focus in new energy domain, merger of related businesses at fair value, healthy net cash positive B/S & inexpensive valuations, we have a positive view on the stock
- We assign BUY rating to Amara Raja Energy & Mobility with a target price of ₹ 900, thereby valuing it at 17x PE on combined PAT on FY25E basis.



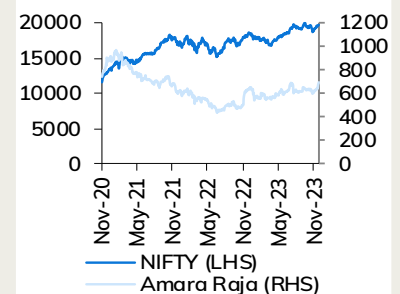
### Particulars

Particular	₹ crore
Market Capitalization	12,127.5
Total Debt (FY23)	16.5
Cash & Investments (FY23)	123.2
Enterprise Value	12,020.8
52 week H/L (₹)	711 / 541
Equity capital	17.1
Face value (₹)	1.0

### Shareholding pattern

	Dec-22	Mar-23	Jun-23	Sep-23
Promoter	28.1	28.1	28.1	28.1
FII	35.5	36.2	35.2	24.6
DII	9.3	9.2	10.5	16.8
Other	27.2	26.5	26.2	30.5

### Price Chart



### Recent event & key risks

- Posted healthy Q2FY24 with EBITDA margins at 13.8%.
- Going forward built in Sales/PAT CAGR of 8%/12% over FY23-25E
- Key Risk: (i) Higher commodity prices denting margins in the base business (ii) delay in capex execution in the new energy business (Li-On battery space)

### Research Analyst

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### Key Financial Summary

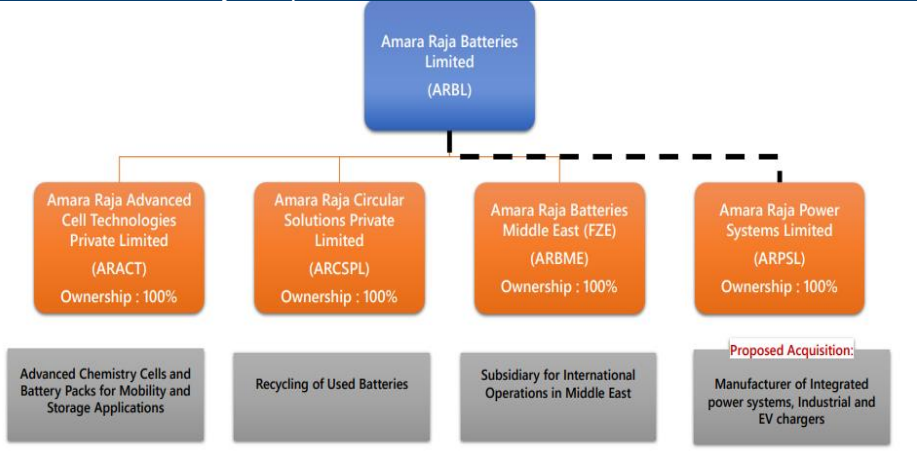
Key Financials	FY19	FY20	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	6,793.1	6,839.5	7,149.7	8,695.8	10,385.9	11.4%	11,338.9	12,078.4	7.8%
EBITDA	951.8	1,098.6	1,115.6	1,022.6	1,355.2	8.9%	1,469.4	1,593.6	8.4%
EBITDA Margins (%)	14.0	16.1	15.6	11.8	13.0		13.0	13.2	
Net Profit	483.5	660.8	646.8	511.2	694.4	8.1%	804.5	877.0	12.4%
EPS (₹)	28.3	38.7	37.9	29.9	40.7		47.1	51.3	
P/E	25.1	18.4	18.8	23.7	17.5		15.1	13.8	
RoNW (%)	14.5	18.1	15.4	11.2	13.8		13.4	13.0	
RoCE (%)	19.8	21.3	18.6	13.6	17.2		16.6	15.9	

Source: Company, ICICI Direct Research

## Company Background

Amara Raja Energy & Mobility (AREM, erstwhile Amara Raja Batteries), is into energy business manufacturing lead acid batteries for use in automobile (~70% of sales) as well as industrial segment (~30% of sales). The company has seven manufacturing plants spread across two locations in the state of Andhra Pradesh. It has successful history of running a capital efficient business with industry leading margins & debt free b/s. It presently drives ~12% of sales from exports.

Exhibit 1: Amara Raja Corporate Structure



It has recently formed a new subsidiary namely Amara Raja Advanced Cell Technologies to foray into new energy business mainly Li-On battery space.

It is also executing lead metal recycling plant for captive use

Source: Company, ICICI Direct Research

Exhibit 2: Business Overview

### OPERATIONS AT A GLANCE

#### LEAD ACID BATTERIES

**AUTOMOTIVE**

- Applications – 2W, 3W, 4W & CV's
- Largest Exporter of 4W Batteries
- First AGM battery manufacturer for 2W
- Setting up 1.5 LPTA of a lead recycling facility through the wholly owned subsidiary ARCSPL, which showcases its commitment to the circular economy
- Entered Lubricants segment

**INDUSTRIAL**

- Application - Telecom, Railways, Power Control, Solar, UPS
- Market Leader in Telecom sector
- First to introduce VRLA batteries in India
- Largest Integrated Facility for MVRLA Batteries
- Pioneered Battery Solutions for Indian Railways

#### AUTOMOTIVE | INDUSTRIALS

- Li Cell and Pack Manufacturing
- EV Charging Solutions
- Energy Storage Solutions
- Developed India's First 21700 Cylindrical Cell (NMC 811)

**FY23 REVENUE BREAKUP (%)**

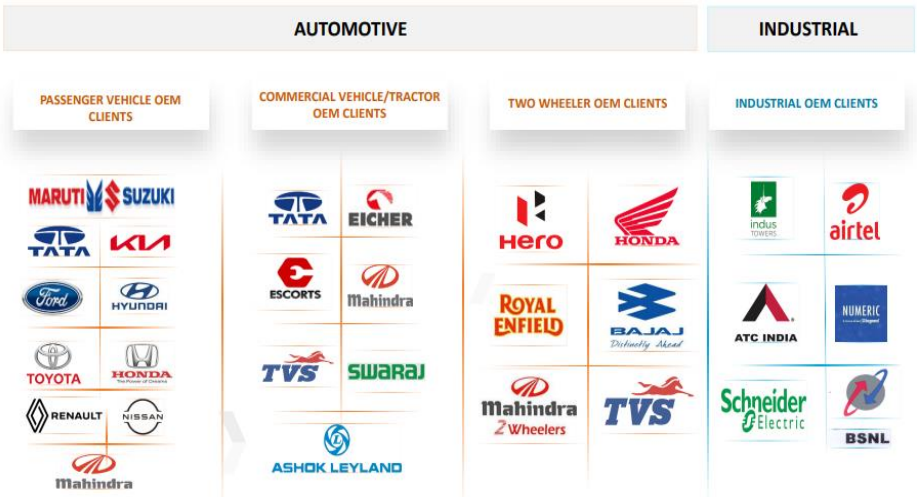
\*Others predominantly includes New Energy business.

**NEW ENERGY BUSINESS**

**APPLICATIONS**

Source: Company, ICICI Direct Research

Exhibit 3: Company counts all OEMs as its clients across the Automotive Segment



In the automotive space, the company has manufacturing capacity of ~50 million units while in the Industrial space its capacity stands at ~2.3 bn Ah

It is the leader in the automotive aftermarket space with Amaron as a popular brand and has over 1 lakh points of sale (touch points)

Source: Company, ICICI Direct Research

## Investment Rationale

### Lead Acid battery business, exports and aftermarket to cushion growth

Amara Raja is part of duopolistic domestic Lead acid battery business with prominence across segments and sales channel. With market leadership in the aftermarket space the company has on a consistent basis has outperformed its peer on the margins front (~200 bps over a 10-year period). The growth outlook for this business is a tad cloudy amidst the transition towards electric vehicles (EV) and reduced lead acid battery content in EV's. However, given large population of vehicles on Indian roads and post covid OEM sales volume pick up across vehicle categories (representing aftermarket opportunity in auto space), steady pace of electrification (present penetration at ~5% for 2-W and ~1% for PV's), increasing application across industrial segment and company's effort on the aftermarket & exports front, we expect this segment to grow higher single digit going forward. The growth concerns on this business are overdone with company's intent to grow this business at ~11-12% CAGR going forward. On the exports front its intent is to augment its reach from ~50 countries as on date to 80+ countries by FY28

### Exhibit 4: Lead Acid Battery Business overview

**Amara Raja Batteries Limited : Lead Acid Battery Business**

**ARBL**

- 7 Battery Manufacturing Plants in two locations
- Largest Private Sector Employer in AP
- Strong work force with average age of 29 years

**AUTOMOTIVE**

- Leading Automotive Battery Brand
- Largest Exporter of 4W Batteries in India
- First AGM battery manufacturer for 2W

**INDUSTRIAL**

- First VRLA Battery Manufacturer in India
- Market Leader in Telecom.
- Largest Integrated Facility for MVRLA Batteries.
- Pioneered Battery Solutions for Indian Railways.



**CURRENT CAPACITIES**

- 4W Batteries**
  - Annualised Capacity: 19 Mn Nos
- 2W Batteries**
  - Annualised Capacity: 30 Mn Nos
- Industrial Batteries**
  - Annualised Capacity: 2.3 Bn Ah

Source: Company, ICICI Direct Research

### Sizeable Commitment towards New Energy Space (Li-On battery)

EV's are seen as future of mobility amidst the call for clean air and sustainable living. In the Indian parlance it is also seen with the sense of energy security given we import large part of our crude oil needs. The government is promoting this sunrise sector through both demand (FAME-II scheme) as well as production linked incentives (ACC- PLI Scheme). As per industry sources, India's electrification demand is expected to be ~150 GWh by 2030 providing ample space for new as well as existing players to grow in this domain. Amara was initially slow to respond to this transition change, however has now made a big commitment with intent to incur a capex of ₹9,500 crore over the next 10 years, providing long term visibility.

Amara Raja has entered into MoU with Govt. of Telangana for setting up of Li-Ion Battery Gigafactory. The said facility is expected to have cell manufacturing capacity of up-to 16GWh & assembly capacity of up to 5 GWh with overall investment pegged at ~₹9,500 crores over next 10 years.

### Exhibit 5: New Energy Business overview

**NEW ENERGY BUSINESS : THE FUTURE GROWTH ENGINE**

**150 GWH**

- India's electrification demand expected to be 150GWh by 2030
- Adoption across user segments like Mobility Telecom and Data Centres
- Significant market share gain opportunity

**ARE&M'S FORAY IN NEW ENERGY SOLUTIONS**

- Li Cell and pack Manufacturing
- EV Charging Solutions
- Energy Storage Solutions

**POLICY PUSH**

- Financial subsidies including manufacturing subsidies valued 50,000cr +
- High customer pull for EVs ensuring market expansion in specific segments as a near given




**COMPLETED AMARA RAJA POWER SYSTEMS LIMITED (ARPSL) ACQUISITION**

- WOS effective from September 29, 2023
- Expected to strengthen charging solutions offerings

**ROADMAP FOR CAPITALISING ON THE NEW ENERGY BUSINESS**

**PLANNED A GIGA CORRIDOR IN DIVITIPALLY, TELANGANA**

- Setting up E+ve Energy Labs: a unique innovation & research facility, Hyderabad, Telangana
- Land allotment completed, spread across 262 acres at Divitipally, Telangana
  - Customer Qualification plant
  - 16 GWH Cell Capacity over the next 10 years
  - Phase 1 commercialization expected by FY26

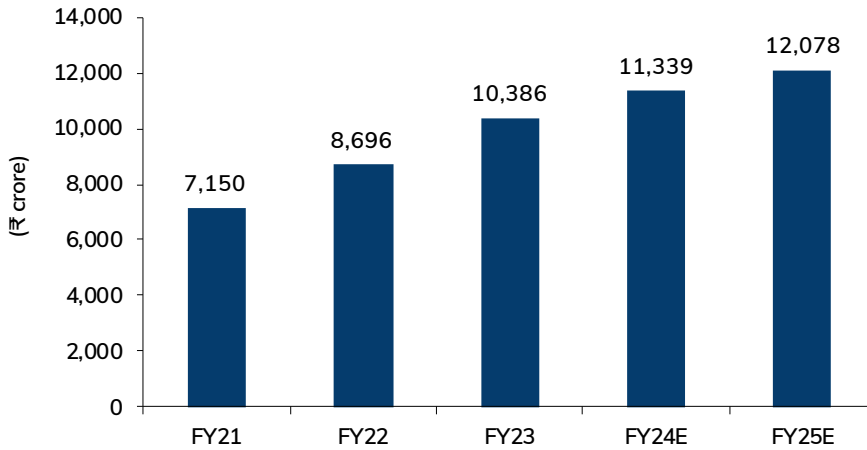
In the first phase, it is setting up a Li-On cell plant of 2GWh capacity at a capex outlay of ~₹ 1,200 crore and operational in next 2-3 years (utilising inhouse know how in NMC chemistry space).

The company also has indirect presence in this space through minority stake in Log-9 materials; a start-up entity involved in innovative research in the space of Li-On battery

Source: Company, ICICI Direct Research

### Financial Story in Charts

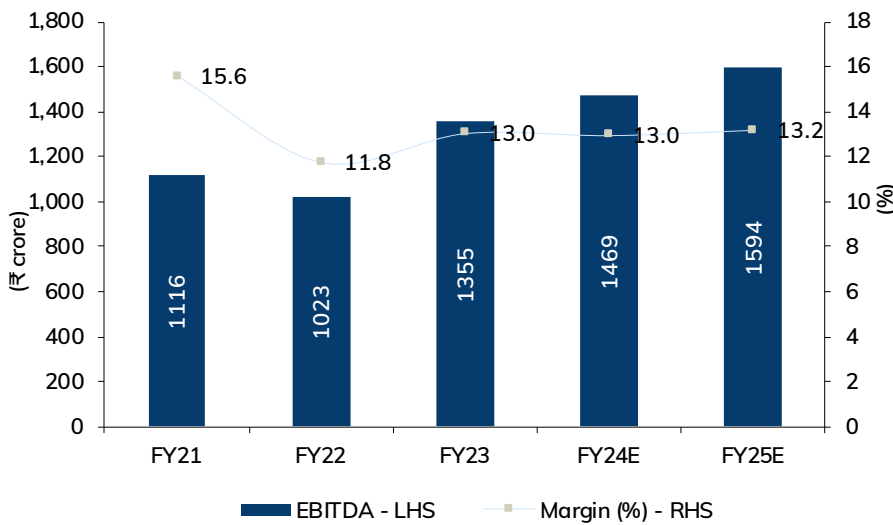
Exhibit 6: Sales trend over FY21-25E



Topline at the company is seen growing at 7.8% CAGR over FY23-25E. It is primarily driven by automotive aftermarket segment, industrials and exports. Auto OEM growth is expected to taper on a high industry base.

Source: Company, ICICI Direct Research

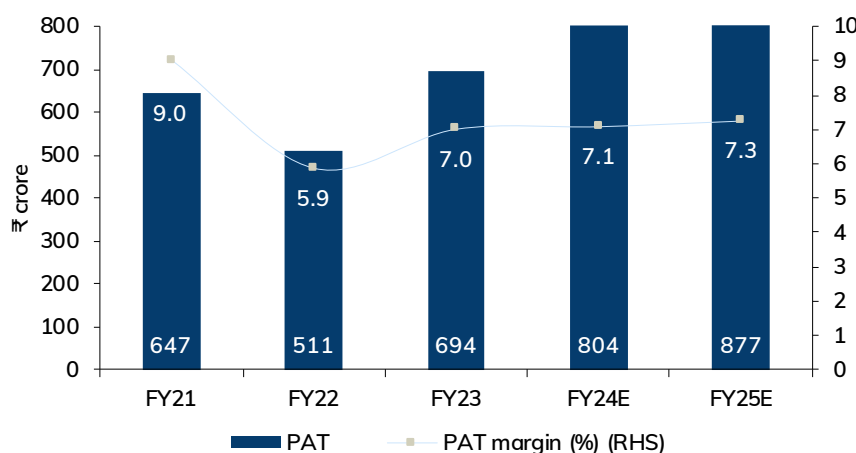
Exhibit 7: EBITDA and EBITDA margin trend over FY21-25E



EBITDA at the company is seen growing at a CAGR of 8.4% over FY23-25E with margins seen in the range of ~13% over FY23-25E. These are our conservative estimates with margins in Q2FY24 at 13.8%

Source: Company, ICICI Direct Research

Exhibit 8: PAT and PAT margin trend over FY21-25E



PAT at the company is seen growing at a CAGR of 12.4% over FY23-25E to ₹877 crore by FY25E

Source: Company, ICICI Direct Research

## Valuation

We have a positive view on Amara Raja Energy & Mobility amidst:

- Steady growth prospects in base Lead Acid battery business
- Increasing focus in new energy domain with sizeable capex commitment
- Merger of related businesses (plastic division and EV charger) at fair value
- Healthy net cash positive B/S (₹100 crore + as of FY23) & capital efficient business model (core RoIC's at ~20%)
- Inexpensive valuations (trades at ~14x PE on FY25E)

We assign BUY rating to Amara Raja Energy & Mobility with a target price of ₹ 900, thereby valuing it at 17x PE on combined PAT on FY25E basis.

### Exhibit 9: SoTP - target price calculation

Particulars	Units	Amount
FY25E PAT of Base Business (Lead Acid Battery)	₹ crore	877.0
FY25E PAT of Acq. Plastic Business incorp. synergies	₹ crore	94.2
<b>Total FY25E PAT (A)</b>	<b>₹ crore</b>	<b>971.2</b>
Existing No of Shares	crore	17.1
New Shares to be issues for acquisition	crore	1.2
<b>Total No of Shares (B)</b>	<b>crore</b>	<b>18.3</b>
FY25E EPS (A/B)	₹/share	53.1
PE Multiple Assigned	x	17.0
<b>Target Price</b>	<b>₹/share</b>	<b>900</b>

Source: ICICI Direct Research

### Exhibit 10: Peer Comparison

Company	CMP Target			Mcap	Key Financials (FY23, ₹ crore)				EPS			P/E (x)			EV/EBITDA (x)			RoIC (%)		
	(₹)	(₹)	Rating		₹ Cr	Sales	EBITDA	OPM (%)	PAT	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E
Amara Raja	710	900	Buy	12,128	10,386	1,355	13.0	694	40.7	47.1	51.3	16.6	15.1	13.8	8.9	7.9	7.2	18.4	18.7	19.4
Exide Industries	285	335	Buy	24,225	14,592	1,568	10.7	904	10.6	11.5	12.6	20.2	18.7	17.0	11.2	10.3	9.4	23.7	29.3	32.6

Source: ICICI Direct Research; OPM: Operating margins, Exide Industries valuation multiples (PE, EV/EBITDA) adjusted for stake in HDFC life Insurance

Amara Raja trades at decent discount to the industry leader i.e., Exide Industries despite healthy margin profile and capital efficient business model. We see this as an opportunity to accumulate the stock and expect this discount to narrow down going forward as Amara Raja accelerates the execution in the new energy space.

## Risk and Concerns

Accelerated EV transition to limit growth in the base (lead-acid battery) business

Lead Acid batteries find limited application in Electric Vehicles wherein they are just used for some auxiliary functions (vs. critical application in ICE powered vehicles) and consequent lower content per vehicle. Any faster than anticipated EV transition will limit the growth prospects at Amara Raja's base Lead Acid battery business and is a risk to our forward assumptions. Amara Raja is however trying to mitigate this risk through tangible steps in the Li-On battery domain which are used in EV's.

Awaiting Technology partner for larger capex spend in new energy (Li-On) space

Amara Raja is yet to on-board a technology partner for the larger capex play in the new energy space and hence the delay in execution. Although it has committed ₹9,500 crore as capex spend for 16 GWh of cell manufacturing capacity, it is presently executing a relatively small 2GWh cell manufacturing plant utilising its captive know how in the NMC chemistry. Any inordinate delay in onboarding technology partner will lower our confidence in Amara's ability to execute its larger gigafactory plans and will change our long-term positive outlook on the company.

Rise in Lead metal prices to limit margins and profitability

Lead is the major raw material for battery players like Amara Raja who operate in the Lead-Acid battery domain. The metal prices have been broadly range bound in the recent past (at ~US\$ 2,100-2,200 per tonne) with stable outlook. Any in advert rise in metal prices and consequent inability of Amara Raja to pass on the same to its end consumers will limit the margins and overall profitability at the company going forward. This is negative for our target price calculation for the company.

## Financial Summary

Exhibit 11: Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23	FY24E	FY25E	
Total operating Income	8,696	10,386	11,339	12,078	
Growth (%)	21.6	19.4	9.2	6.5	
Raw Material Expenses	6,121.4	7,186.7	7,928.4	8,427.8	
Employee Expenses	498.8	591.0	654.0	716.2	
Other Expenses	1,053.1	1,253.0	1,287.1	1,340.7	
Total Operating Expenditure	7,673.2	9,030.7	9,869.5	10,484.7	
EBITDA	1,022.6	1,355.2	1,469.4	1,593.6	
Growth (%)	-8.3	32.5	8.4	8.5	
Depreciation	395.8	427.2	464.9	507.3	
Interest	15.1	22.1	19.9	17.9	
Other Income	78.0	89.3	101.0	108.7	
PBT	689.7	995.2	1,085.6	1,177.2	
Total Tax	178.6	253.2	281.1	300.2	
PAT	511.2	694.4	804.5	877.0	
Growth (%)	-21.0	35.8	15.8	9.0	
EPS (₹)	29.9	40.7	47.1	51.3	

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23	FY24E	FY25E	
Profit after Tax	511.2	694.4	804.5	877.0	
Add: Depreciation	395.8	427.2	464.9	507.3	
(Inc)/dec in Current Assets	-364.0	-201.2	-333.7	-213.3	
Inc/(dec) in CL and Provisions	201.9	-66.2	266.9	112.3	
CF from operating activities	744.8	854.2	1,202.5	1,283.2	
(Inc)/dec in Investments	202.7	-408.2	-450.0	-250.0	
(Inc)/dec in Fixed Assets	-863.6	-236.3	-600.0	-900.0	
Others	-61.2	-628.3	-143.3	-94.8	
CF from investing activities	(686.1)	(853.6)	(1,043.3)	(1,144.8)	
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	-104.2	-119.6	-128.1	
CF from financing activities	(181.0)	45.2	(129.6)	(133.1)	
Net Cash flow	-122.3	45.8	29.6	5.3	
Opening Cash	175.9	53.6	99.5	129.1	
Closing Cash	53.6	99.5	129.1	134.4	

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet					₹ crore
(Year-end March)	FY22	FY23	FY24E	FY25E	
<b>Liabilities</b>					
Equity Capital	17.1	17.1	17.1	17.1	
Reserve and Surplus	4,534.3	5,280.8	5,965.7	6,714.6	
Total Shareholders funds	4,551.4	5,297.9	5,982.8	6,731.6	
Total Debt	23.4	16.5	6.5	1.5	
Deferred Tax Liability	31.4	72.8	79.5	84.7	
Total Liabilities	4,855.4	5,644.9	6,326.4	7,075.5	
<b>Assets</b>					
Gross Block	4,240.5	5,087.3	5,670.2	6,220.2	
Less: Acc Depreciation	1,827.8	2,255.0	2,719.9	3,227.2	
Net Block	2,412.8	2,832.3	2,950.3	2,993.0	
Capital WIP	829.7	232.9	250.0	600.0	
Total Fixed Assets	3,322.0	3,131.0	3,266.1	3,658.8	
Investments	77.8	486.0	936.0	1,186.0	
Inventory	1,803.8	1,643.4	1,863.9	1,985.5	
Debtors	792.6	779.7	1,242.6	1,323.7	
Loans and Advances	16.7	402.4	42.4	45.2	
Other Current Assets	122.7	111.4	121.7	129.6	
Cash	53.6	99.5	129.1	134.4	
Total Current Assets	2,789.3	3,036.4	3,399.7	3,618.3	
Creditors	806.5	750.8	932.0	992.7	
Provisions	137.3	141.3	175.5	186.9	
Other current liabilities	576.8	562.1	613.7	653.7	
Total Current Liabilities	1,520.5	1,454.2	1,721.1	1,833.4	
Net Current Assets	1,268.9	1,582.1	1,678.6	1,784.9	
Other Non-Current Assets	186.8	445.8	445.8	445.8	
Application of Funds	4,855.4	5,644.9	6,326.4	7,075.5	

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	29.9	40.7	47.1	51.3
Cash EPS	53.1	65.7	74.3	81.0
BV	266.5	310.2	350.3	394.1
DPS	4.5	6.1	7.0	7.5
Cash Per Share	5.2	7.2	26.5	35.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	11.8	13.0	13.0	13.2
PBT / Net sales	7.2	8.9	8.9	9.0
PAT Margin	5.9	6.7	7.1	7.3
Inventory days	75.7	57.8	60.0	60.0
Debtor days	33.3	27.4	40.0	40.0
Creditor days	33.9	26.4	30.0	30.0
<b>Return Ratios (%)</b>				
RoE	11.2	13.8	13.4	13.0
RoCE	13.6	17.2	16.6	15.9
RoC	17.0	18.4	18.7	19.4
<b>Valuation Ratios (x)</b>				
P/E	23.7	16.6	15.1	13.8
EV / EBITDA	11.8	8.9	7.9	7.2
EV / Net Sales	1.4	1.2	1.0	1.0
Market Cap / Sales	1.4	1.2	1.1	1.0
Price to Book Value	2.7	2.3	2.0	1.8
<b>Solvency Ratios</b>				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	2.0	1.9	1.9
Quick Ratio	0.6	0.9	0.8	0.8

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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