

Expresses intent of going big on new energy (Li-On) space

We attended the virtual Amara Raja Batteries (ARBL) investor event wherein the company laid out its plans on maximising lead acid battery (LAB) business potential and exploring the upcoming opportunity presented by the mega change i.e. lithium-ion batteries (LIB). With limited organic growth prospects in the LAB domain amid increasing pace of adoption of electric vehicles, ARBL expressed its intent to scout for a partnership (technology partner, JV, etc) and venture into Li-On cell manufacturing domestically. It is envisaging setting up a globally competitive facility with capacity of ~10 GWh at a potential capex outlay of ~US\$1billion, over a period of time.

LAB: Potential maximisation focus of status quo business

ARBL said (1) it is targeting ~15-17% revenue CAGR over the next five years, (2) efficiency improvement, focus on exports as growth driver and inorganic acquisitions form the core of future LAB strategy, with global consolidation underway in the industry seen leading to opportunities, (3) as of FY20, global LAB market was ~US\$38 billion in size comprising automotive (66%), industrial (29%) and others (5%), (4) Indian LAB market was worth ~₹ 36,500 crore in FY20 (automotive 51%, inverter 22%, stationary 15%, unorganised 12%), (5) lead acid will continue to find application in EVs (PV segment) as auxiliary power source (12v) for electronics-based content, (6) lead acid is preferred by domestic tower companies except the major new provider, (7) as per forecasts, LAB demand globally (490 GWh in 2020) is seen being stable till 2030, although LIB industry is set to overtake LAB after 2025 and (8) majority of lead acid components are recyclable, (9) with an overall output of ~15 GWh, ARBL commands ~22-25% market share domestically.

LIB: Broad intent outlined for new energy domain

ARBL said (1) electric 3-W and 2-W are expected to lead India's EV journey, (2) it is looking to address cell manufacturing and pack assembly (combined form ~55-60% of LIB value chain) along with possible local procurement of some materials like copper and aluminium foils, (3) global competitiveness can be achieved with ~10 GWh capacity (requires ~US\$1 billion investment), (4) ~2-3 GWh capacity is required for every 1 million electric 2-Ws sold, (5) present capabilities include 500 MWh assembly plant capacity, pilot R&D plant for cell chemistry/design and products for electric 2-W, 3-W, (6) EV charging solutions capabilities span slow & fast AC charging and DC fast charging with the vertical having future revenue potential and (8) Indian LIB market size annually is seen at ~30 GWh by 2025 & ~150 GWh by 2030

Valuation & Outlook

Recently notified Advance Cell Chemistry PLI scheme by the government (provides ₹ 18,100 crore incentives over 5 years) promotes indigenisation of fast growing LIB market. ARBL's intent of competing strongly in the new technology landscape is a step in the right direction but we await specific action and funding contours before decisively turning position on the stock. Revising our estimates, we upgrade the stock from REDUCE to **HOLD**, valuing ARBL at ₹ 850 i.e., 18x PE on FY23E (earlier target price ₹ 700).

Key Financial Summary

| Key Financials | FY19 | FY20 | FY21P | FY22E | FY23E | CAGR (FY21P-23E) |
|--------------------|---------|---------|---------|---------|---------|------------------|
| Net Sales | 6,793.1 | 6,839.5 | 7,149.7 | 8,887.3 | 9,314.2 | 14.1% |
| EBITDA | 951.8 | 1,098.6 | 1,115.6 | 1,249.8 | 1,398.0 | 11.9% |
| EBITDA Margins (%) | 14.0 | 16.1 | 15.6 | 14.1 | 15.0 | |
| Net Profit | 483.5 | 660.8 | 646.8 | 716.9 | 803.4 | 11.4% |
| EPS (₹) | 28.3 | 38.7 | 37.9 | 42.0 | 47.0 | |
| P/E | 27.7 | 20.3 | 20.7 | 18.7 | 16.7 | |
| RoNW (%) | 14.5 | 18.1 | 15.4 | 15.2 | 15.2 | |
| RoCE (%) | 19.8 | 21.3 | 18.6 | 18.7 | 18.7 | |

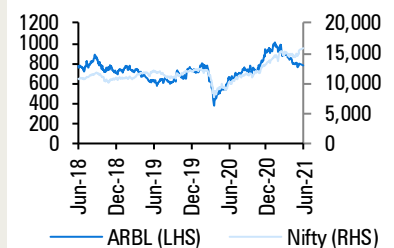
Source: Company, ICICI Direct Research



Particulars

| Particular | ₹ crore |
|----------------------------|------------|
| Market Capitalization | 13,408.6 |
| Total Debt (FY21P) | 35.9 |
| Cash & Investments (FY21P) | 449.3 |
| EV (FY21P) | 12,995.2 |
| 52 week H/L (₹) | 1025 / 635 |
| Equity capital | 17.1 |
| Face value (₹) | ₹ 1 |

Price Performance



Key highlights

- ARBL is targeting a revenue CAGR of ~15-17% for LAB segment backed by exports growth and inorganic plays amid global consolidation
- Cell manufacturing, pack assembly being targeted under LIB with PLI scheme an industry tailwind. ARBL is open to exploring partnership route in this domain

Risks to our call

- Fast progress and demonstrated offtake on the LIB domain
- Potential arrival of large global battery makers in India could limit addressable opportunity size

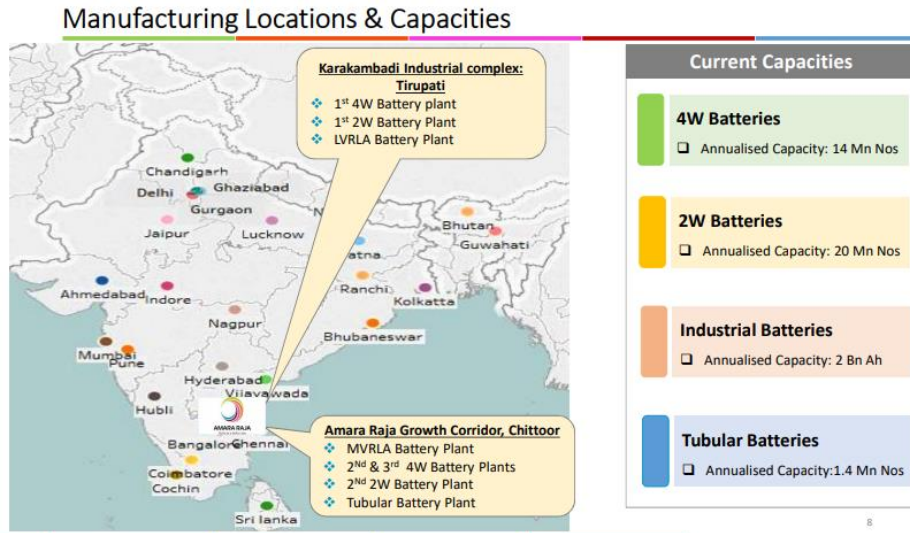
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Story in charts

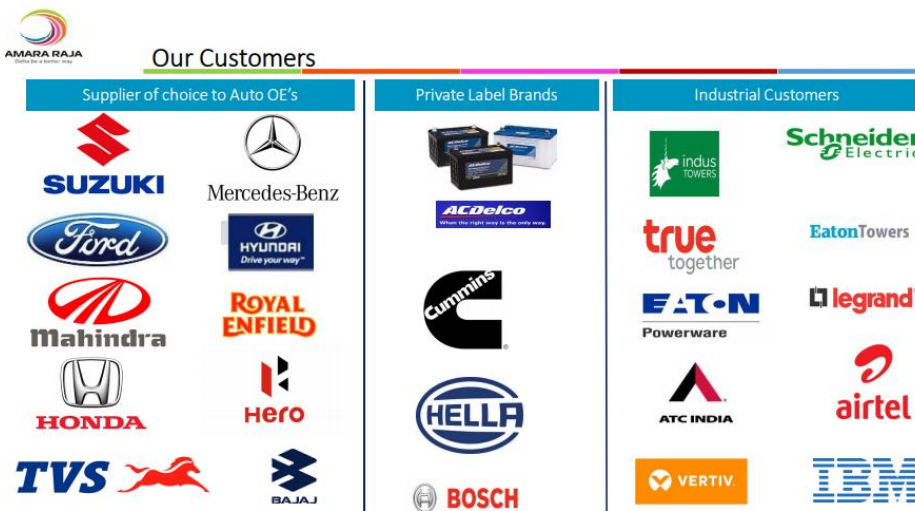
Exhibit 1: ARBL present manufacturing landscape



ARBL has eight manufacturing plants in India spread over two clusters at Tirupati and Chittoor districts (both in Andhra Pradesh)

Source: Company, ICICI Direct Research

Exhibit 2: ARBL present customer profile



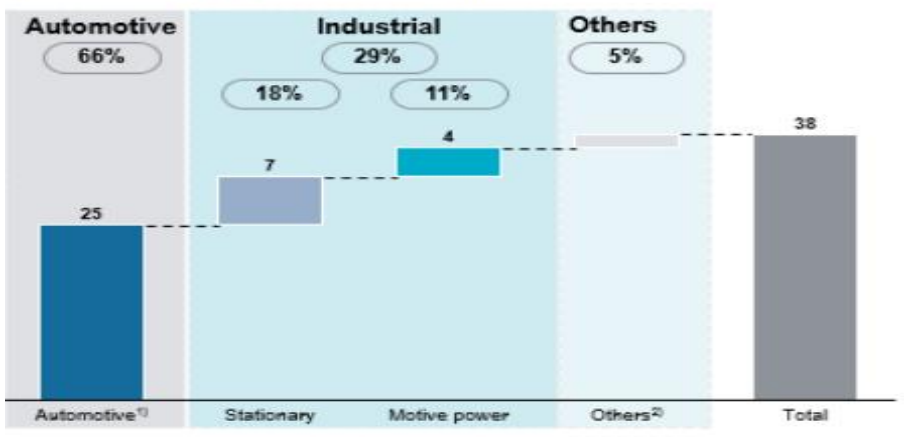
The company counts all leading OEMs as its clients in the automotive segment while it is also meaningfully present in the industrial segment (including telecom powers, UPS)

Source: Company, ICICI Direct Research

Exhibit 3: Global LAB industry sizing and segments

Lead-acid battery market overview by application

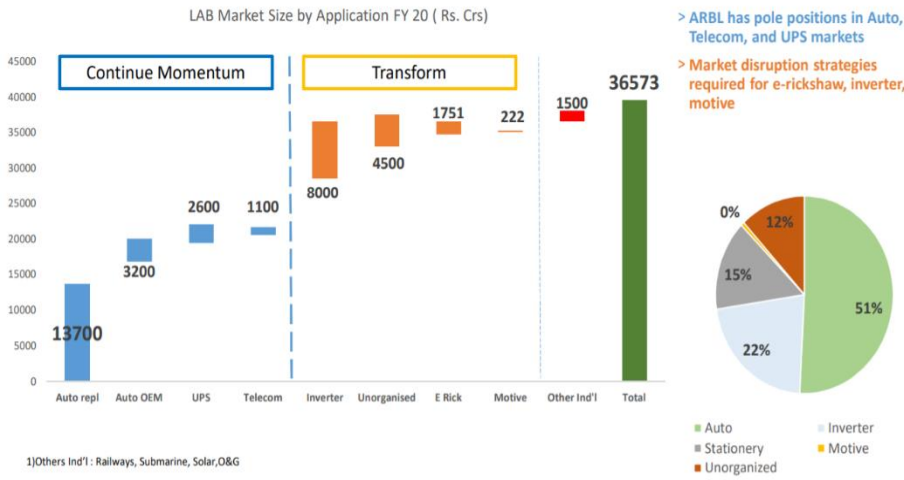
Market size by application, FY20 [USD bn]



As of FY20, global LAB market was ~US\$38 billion in size comprising automotive (66%), industrial (29%) and others (5%)

Source: Company, ICICI Direct Research

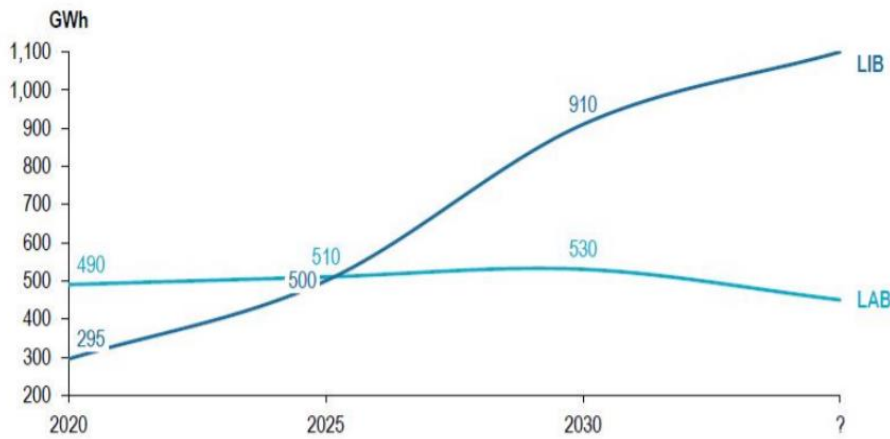
Exhibit 4: India LAB industry sizing and segments



ARBL commands ~22-25% domestic market share

Source: Company, ICICI Direct Research

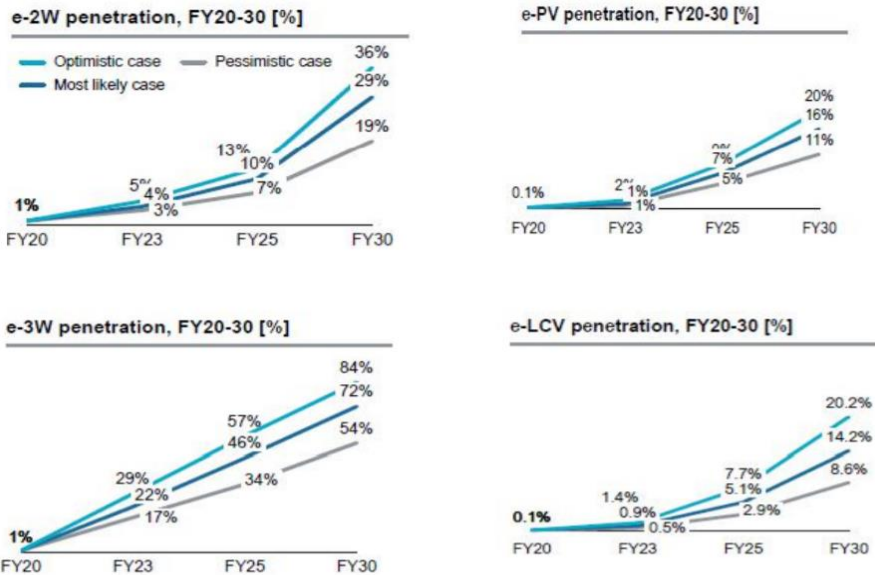
Exhibit 5: LAB vs. LIB – expected demand evolution



ARBL currently forms ~3% of global LAB output. Global LAB demand is seen being steady till 2030, albeit LIB is seen becoming a bigger industry than LAB post 2025

Source: Avicenne, Roland Burger, Company, ICICI Direct Research

Exhibit 6: India EV penetration expected by segment



Electric 2-W and 3-W are seen leading the charge for electrification in India

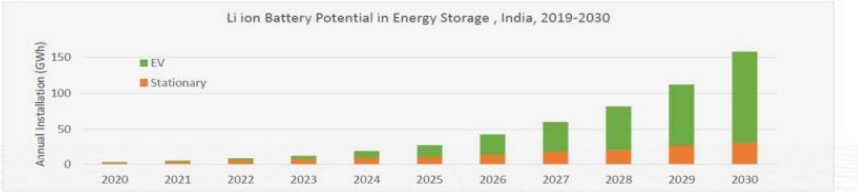
Source: Company, ICICI Direct Research

Exhibit 7: Indian LIB market sizing projections

AMARA RAJA Indian Li Battery Market: 30 GWh by 2025 and 150 GWh by 2030



India Lithium Ion Battery Market



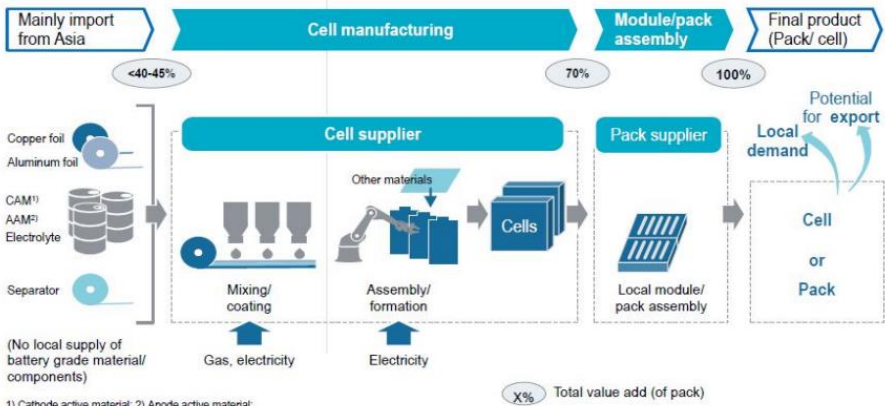
| Annual GWh Potential | ACC Window | | | | | | | | | | Cumulative 2020-2030 GWh | |
|----------------------|------------|------|------|------|------|------|------|------|------|------|--------------------------|--------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | | 2030 |
| Worst Case | 2 | 4 | 6 | 8 | 11 | 16 | 24 | 34 | 48 | 64 | 86 | ~300 |
| Base case | 3 | 5 | 8 | 13 | 20 | 28 | 43 | 60 | 82 | 112 | 157 | ~530 |
| Best case | 5 | 11 | 21 | 34 | 46 | 59 | 93 | 131 | 187 | 262 | 358 | ~1,200 |

Indian LIB market size annually is seen at ~30 GWh by 2025 & ~150 GWh by 2030

Source: CES Emerging Technologies, Company, ICICI Direct Research

Exhibit 8: Value chain in LIB segment

AMARA RAJA Value Creation and Origin



Source: Ronald Burger, Company, ICICI Direct Research

Exhibit 9: ARBL EV charging product portfolio

| | Slow AC (Level 1) | Fast AC (Level 2) | Direct Current Fast charging (Level 4) | | | |
|---|--|--|--|--------------------------|----------------------|----------------------|
| Power | 1.5 KW – 3.3 KW | 7 – 22 KW | 15 KW | 30 KW | 50 KW | 150 KW |
| Voltage | 230 V | 230 V+ | 230 V+ | 480 V+ | | |
| Time to charge a 39 KWH Hyundai Kona Battery | ~10 Hrs | 5-7 Hrs | ~2 Hrs | Battery Swapping | < 1.5 Hrs | < 30 mins |
| Plug type | IEC 60309 | TYPE -2 | GB/T | ANDERSON / HOT PLUGGABLE | CCS -2/CHADEMO | GB/T, CCS -2/CHADEMO |
| Availability | ✓ | ✓ | Bought out and Available | | Available by Q3 2021 | |
| Application Area | Residential Work place Parking Lots Malls | Residential (7KW) Work place Parking Lots Malls | Gas stations, Parking Lots, Dedicated Charging Stations, Malls, Highways | | | |

Source: Company, ICICI Direct Research

Financial Summary

| Exhibit 10: Profit and loss statement | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | FY20 | FY21P | FY22E | FY23E |
| Total operating Income | 6,839 | 7,150 | 8,887 | 9,314 |
| Growth (%) | 0.7 | 4.5 | 24.3 | 4.8 |
| Raw Material Expenses | 4,447.1 | 4,744.7 | 6,043.5 | 6,239.7 |
| Employee Expenses | 385.2 | 426.1 | 472.5 | 512.3 |
| Other Expenses | 908.6 | 863.3 | 1,121.4 | 1,164.3 |
| Total Operating Expenditure | 5,740.9 | 6,034.0 | 7,637.5 | 7,916.2 |
| EBITDA | 1,098.6 | 1,115.6 | 1,249.8 | 1,398.0 |
| Growth (%) | 15.4 | 1.6 | 12.0 | 11.9 |
| Depreciation | 300.7 | 319.2 | 355.5 | 395.9 |
| Interest | 12.2 | 10.5 | 9.3 | 7.3 |
| Other Income | 55.0 | 87.4 | 73.3 | 79.2 |
| PBT | 840.7 | 873.3 | 958.4 | 1,074.0 |
| Total Tax | 179.9 | 226.5 | 241.5 | 270.7 |
| PAT | 660.8 | 646.8 | 716.9 | 803.4 |
| Growth (%) | 36.7 | -2.1 | 10.8 | 12.1 |
| EPS (₹) | 38.7 | 37.9 | 42.0 | 47.0 |

Source: Company, ICICI Direct Research

| Exhibit 11: Cash flow statement | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | FY20 | FY21P | FY22E | FY23E |
| Profit after Tax | 660.8 | 646.8 | 716.9 | 803.4 |
| Add: Depreciation | 300.7 | 319.2 | 355.5 | 395.9 |
| (Inc)/dec in Current Assets | 135.9 | -375.6 | -488.1 | -137.4 |
| Inc/(dec) in CL and Provisions | 198.6 | 227.5 | 232.4 | 74.4 |
| CF from operating activities | 1,296.2 | 817.9 | 816.6 | 1,136.3 |
| (Inc)/dec in Investments | -135.7 | -124.4 | -100.0 | -300.0 |
| (Inc)/dec in Fixed Assets | -829.4 | -517.0 | -500.0 | -550.0 |
| Others | 40.3 | 24.6 | 9.9 | 2.4 |
| CF from investing activities | (931.1) | (623.5) | (590.1) | (847.6) |
| 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 | -226.2 | -187.9 | -213.5 | -230.6 |
| CF from financing activities | (352.2) | (103.1) | (223.5) | (240.6) |
| Net Cash flow | 12.9 | 91.3 | 3.0 | 48.1 |
| Opening Cash | 71.7 | 84.6 | 175.9 | 178.9 |
| Closing Cash | 84.6 | 175.9 | 178.9 | 227.0 |

Source: Company, ICICI Direct Research

| Exhibit 12: Balance Sheet | | | | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | FY20 | FY21P | FY22E | FY23E |
| Liabilities | | | | |
| Equity Capital | 17.1 | 17.1 | 17.1 | 17.1 |
| Reserve and Surplus | 3,638.5 | 4,193.2 | 4,696.5 | 5,269.3 |
| Total Shareholders funds | 3,655.6 | 4,210.3 | 4,713.6 | 5,286.4 |
| Total Debt | 46.8 | 35.9 | 25.9 | 15.9 |
| Deferred Tax Liability | 44.1 | 40.7 | 50.6 | 53.1 |
| Total Liabilities | 3,911.1 | 4,480.2 | 4,983.5 | 5,548.7 |
| Assets | | | | |
| Gross Block | 2,938.9 | 3,791.7 | 4,391.0 | 5,041.0 |
| Less: Acc Depreciation | 1,112.8 | 1,432.0 | 1,787.5 | 2,183.3 |
| Net Block | 1,826.1 | 2,359.7 | 2,603.5 | 2,857.7 |
| Capital WIP | 827.0 | 399.3 | 300.0 | 200.0 |
| Total Fixed Assets | 2,656.2 | 2,854.1 | 2,998.6 | 3,152.7 |
| Investments | 156.2 | 280.5 | 380.5 | 680.5 |
| Inventory | 1,142.7 | 1,438.2 | 1,704.4 | 1,786.3 |
| Debtors | 636.3 | 787.5 | 974.0 | 1,020.7 |
| Loans and Advances | 11.5 | 25.5 | 31.7 | 33.2 |
| Other Current Assets | 205.6 | 120.4 | 149.7 | 156.9 |
| Cash | 84.6 | 175.9 | 178.9 | 227.0 |
| Total Current Assets | 2,080.7 | 2,547.6 | 3,038.7 | 3,224.2 |
| Creditors | 614.9 | 746.5 | 852.2 | 893.1 |
| Provisions | 99.4 | 118.6 | 135.4 | 141.9 |
| Other current liabilities | 375.2 | 451.9 | 561.8 | 588.8 |
| Total Current Liabilities | 1,089.5 | 1,317.0 | 1,549.4 | 1,623.8 |
| Net Current Assets | 991.2 | 1,230.6 | 1,489.4 | 1,600.4 |
| Other Non-Current Assets | 107.5 | 115.1 | 115.1 | 115.1 |
| Application of Funds | 3,911.1 | 4,480.2 | 4,983.5 | 5,548.7 |

Source: Company, ICICI Direct Research

| Exhibit 13: Key ratios | | | | |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March) | FY20 | FY21P | FY22E | FY23E |
| Per share data (₹) | | | | |
| EPS | 38.7 | 37.9 | 42.0 | 47.0 |
| Cash EPS | 56.3 | 56.6 | 62.8 | 70.2 |
| BV | 214.0 | 246.5 | 276.0 | 309.5 |
| DPS | 11.0 | 11.0 | 12.5 | 13.5 |
| Cash Per Share | 13.3 | 26.3 | 32.3 | 52.7 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 16.1 | 15.6 | 14.1 | 15.0 |
| PBT / Net sales | 11.7 | 11.1 | 10.1 | 10.8 |
| PAT Margin | 9.7 | 9.0 | 8.1 | 8.6 |
| Inventory days | 61.0 | 73.4 | 70.0 | 70.0 |
| Debtor days | 34.0 | 40.2 | 40.0 | 40.0 |
| Creditor days | 32.8 | 38.1 | 35.0 | 35.0 |
| Return Ratios (%) | | | | |
| RoE | 18.1 | 15.4 | 15.2 | 15.2 |
| RoCE | 21.3 | 18.6 | 18.7 | 18.7 |
| RoIC | 29.6 | 23.2 | 22.7 | 23.6 |
| Valuation Ratios (x) | | | | |
| P/E | 20.3 | 20.7 | 18.7 | 16.7 |
| EV / EBITDA | 12.0 | 11.6 | 10.3 | 9.0 |
| EV / Net Sales | 1.9 | 1.8 | 1.4 | 1.3 |
| Market Cap / Sales | 2.0 | 1.9 | 1.5 | 1.4 |
| Price to Book Value | 3.7 | 3.2 | 2.8 | 2.5 |
| Solvency Ratios | | | | |
| Debt/Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Ratio | 1.8 | 1.8 | 1.8 | 1.8 |
| Quick Ratio | 0.8 | 0.7 | 0.7 | 0.7 |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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