

Higher lead prices weigh on base business, first mover's advantage to prevail on Li-on cell manufacturing front

About the stock: Exide Industries (EIL) is a part of the duopolistic organised Indian lead acid battery market with a presence across automotive & industrial applications.

- Segment mix: -automotive sales~75% & industrial application ~25%
- Channel exposure to replacement, OEMs is at ~60%, ~40%, respectively
- Within its automobile segment sales, it derives ~60% of sales from OEMs

Q4FY23 Results: The company reported a muted Q4FY23 performance.

- Total operating income came in at ₹ 3,543 crore, up 4% QoQ
- EBITDA came in at ₹ 367 crore with margins at 10.4%, down 140 bps QoQ
- PAT in Q4FY23 was at ₹ 207.8 crore, down 6.9% QoQ

What should investors do? EIL's share price has de-grown at ~6% CAGR from ~₹ 261 in May 2018, thereby underperforming the Nifty Auto index in that time.

- We retain **BUY** rating following a persistent focus & tangible steps taken towards setting up Li-On cell manufacturing unit in India with initial capacity of 6 GWh to be operationalised in CY25E; healthy orderbook at existing Li-Ion battery assemble plant & healthy capital efficiency with RoIC >20%+

Target Price and Valuation: Revising our estimates, we value EIL at SOTP-based target price of ₹ 230 (₹ 176 for base business at 16x FY25E EPS, ₹ 46 for investments).

Key triggers for future price performance:

- Sizeable capex under execution in the Li-On battery domain (cell manufacturing; 6 GWh + 6 GWh) at a total outlay of ~₹ 6,000 crore. Robust order book of ~₹ 600-700 crore at its existing Li-Ion battery assembly plant
- We build 6.9% sales CAGR over FY23-25E. With stable raw material prices, we expect margins to stabilise at ~10-10.5% mark over FY23-25E
- Technological & raw material sourcing from its JV partner in the Li-On domain i.e. SVOLT Energy Solutions (one of largest player in China) leading to first mover advantage in EV space (cost competitiveness)
- Debt free b/s with significant cash accrual to fund upcoming capex requirements, cushioned through stake in HDFC Life (worth ~₹ 5,000 crore)

Alternate Stock Idea: Apart from EIL, in our coverage we like Mahindra CIE.

- Focused on growth capex in India & efficiencies in European operations
- BUY with a target price of ₹ 520



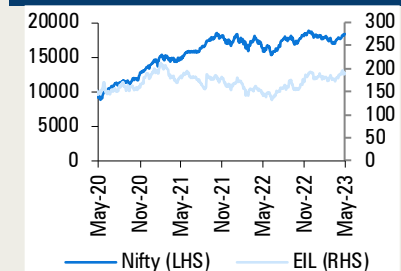
Particulars

Particular	₹ crore
Market Capitalization	16,150.0
Total Debt (FY23P)	0.0
Cash & Inv. (FY23P)	627.9
EV (₹ Crore)	15,522.1
52 week H/L (₹)	197 /130
Equity capital	₹ 85 Crore
Face value	₹ 1

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	46.0	46.0	46.0	46.0
FII	10.4	10.5	11.0	12.3
DII	17.8	17.8	19.6	18.9
Other	25.8	25.7	23.5	22.8

Price Chart



Recent event & key risks

- Posted muted Q4FY23 results.
- **Key Risk:** (i) Delay in commissioning of Li-On cell manufacturing plant leading to asset heavy b/s and muted return ratios (ii) Continuing rise in lead prices limiting margin recovery in base business

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23P	5 year CAGR (FY18-23P)	FY24E	FY25E	2 year CAGR (FY23P-25E)
Net Sales	10,588.3	9,856.7	10,040.8	12,410.1	14,591.9	9.6%	15,442.7	16,690.4	6.9%
EBITDA	1,406.9	1,365.0	1,355.6	1,398.3	1,568.0	4.8%	1,582.0	1,751.6	5.7%
EBITDA Margins (%)	13.3	13.8	13.5	11.3	10.7		10.2	10.5	
Net Profit	839.7	825.5	758.2	4,684.3	903.6	NA	869.1	939.7	2.0%
EPS (₹)	9.9	9.7	8.9	55.1	10.6		10.2	11.1	
Adjusted Net Profit	766.0	842.8	758.2	840.3	903.6	5.4%	869.1	939.7	2.0%
Adjusted EPS (₹)	9.0	9.9	8.9	9.9	10.6	5.4%	10.2	11.1	2.0%
P/E	19.2	19.6	21.3	3.4	17.9		18.6	17.2	
RoNW (%)	12.8	13.4	11.0	7.9	8.1		7.3	7.4	
RoCE (%)	17.8	15.7	14.0	9.3	9.9		9.1	9.5	
RoIC (%)	19.6	16.9	16.8	24.0	23.7		25.5	27.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Muted results for Q4FY23

- Standalone revenues for Q4FY23 were at ₹ 3,543 crore, up 4% QoQ and was largely on expected lines
- EBITDA for the quarter was at ₹ 367.2 crore with margins at 10.4%, down 140 bps QoQ. The company reported ~240 bps gross margin contraction (with lead prices up ~10% QoQ in Q3FY23; impacts with a quarterly lag) but positive operating leverage mitigated the overall margin dip
- Consequently, PAT was at ₹ 207.8 crore, down 6.9% QoQ
- The management informed about orderbook of ~₹ 600-700 crore on the Li-Ion battery assembly front and steady state execution of the first phase of Li-Ion cell manufacturing plant

Q4FY23 key conference call highlights






- The management informed about market share gain witnessed in OEM as well as replacement space in FY23. Further, they said double digit growth was witnessed across segments during FY23
- The management added there was 20-30% growth in industrial space in FY23 (largely led by solar & telecom). Further, they guided about entering into European & Russian markets for expanding share of exports
- The management expects growth in data centres, increased government focus towards renewables, railway electrification, 5G rollout, etc, to be key drivers for battery business growth, going forward
- On the margins front, the management said an increase in input cost, hiked freight & logistics cost were limiting margin recovery. However, the company has taken adequate price hikes and is focusing on internal efficiencies to aid margin recovery in coming quarters
- On the Li-Ion front, the management said appointment of top management & starting construction of giga factory with ~₹ 715 crore of spends till date. Further, JV with Nexcharge (i.e. Exide Energy Pvt Ltd) engaged in assembly of battery pack received orders worth ~₹ 600-700 crore to be executed over 12-15 months
- Further, the company has applied to NCLT for merger of Exide Energy Solutions Pvt Ltd (i.e. cell manufacturing plant) and Exide Exergy Pvt Ltd (i.e. battery assembly plant)
- On the capex front, the management plans to spend ~₹ 500-600 crore on lead acid battery business per annum & ~₹ 4,000 crore on Li-Ion by FY25E. Exact cash outflow may vary on the new plant depending upon execution
- The management informed about homologation project going on for 2-W, 3-W & CV Li-Ion battery. Further, the management expects ~20% RoIC from Li-Ion business at optimum utilisation level
- The management informed about its factory being the first giga factory in India and will enjoy first mover advantage in terms of early commissioning, JIT inventory system to OEMs, tech support from SVOLT. Further, the management said this factory would be multi chemistry (i.e. LFP & NMC) & multi format (i.e. cylindrical, prismatic & pouch cells)
- The management said cell manufacturing is forming 70% of the value chain in an EV battery ecosystem
- The management guided about EBITDA margin in Li-Ion to be equivalent to base lead acid battery business with bulk sourcing of raw material by its tech partner on its behalf being a key cost advantage for the project

EIL- ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	3.3	33.2	33.2
Social	18.1	26.0	27.8
Governance	83.6	83.6	83.6
Overall ESG Score	35.0	47.6	48.2

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

Key presentation highlights

Exhibit 1: Developments in Li-Ion space

<p>Exide Energy Private Limited</p> 	<ul style="list-style-type: none"> Started in 2018, now a wholly owned subsidiary for pack and module business, earlier was a JV between Exide and Leclanché SA of Switzerland Capacity: 1.5 GWh, located in auto hub of Gujarat Develops and manufactures Li-ion-based modules and packs with Battery Management Systems (BMS) for e-mobility (EV) and stationary power application 	 <p>Technical collaboration with SVOLT</p> <ul style="list-style-type: none"> Multi-year technical collaboration for li-ion cell manufacturing Support for setting the plant on a turnkey basis 	 <p>Formation of subsidiary Exide Energy Solutions Limited</p> <ul style="list-style-type: none"> Multi-gigawatt green field project for li-ion cell manufacturing Offer complete end to end solution: from cell to system, from molecule to megawatt 	 <p>Purchase of land parcel for setting the plant</p> <ul style="list-style-type: none"> Purchased 80 acres of land at the Hi-Tech Defense & Aerospace Park Phase 2, Bengaluru
<p>Exide Energy Solutions Limited</p> 	<ul style="list-style-type: none"> Wholly owned subsidiary set-up for lithium-ion cell manufacturing Total project capacity 12 GWh and project cost of Rs.6,000 crore to be completed in 2 phases Engaged in the manufacturing of advanced chemistry cells (cylindrical, pouch, prismatic). Also engaged in manufacturing, assembly and sale of battery modules and battery packs 	<p>SVOLT</p> <ul style="list-style-type: none"> Leading li-ion cell manufacturer Headquartered in China -3000 team members and -500 experts in Li-ion battery R&D In the process to expand the capacity to 600 GW in medium-term 	<ul style="list-style-type: none"> Ramp up in 2 phases: <ul style="list-style-type: none"> Phase 1 (2024): 6 GWh + R&D pilot line Phase 2 : Additional 6 GWh 	

Source: Company, ICICI Direct Research

Exhibit 2: Developments on Exide Energy Pvt Ltd

Our strong technical expertise

 <p>Deep design capability: providing energy density, thermal stability and functionality</p>	 <p>In-house BMS competency: Ability to customise as per customer specifications</p>	 <p>Quality manufacturing: Automated process for compliance with high standards</p>	 <p>Economies of scale: High scale processes at competitive costs</p>
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...provides solutions across verticals

<p>Transportation</p> <ul style="list-style-type: none"> 2-wheelers 3-wheelers Passenger vehicles Commercial vehicles Rail and marine off-highway equipment Robots, bulk chargers etc. 	<p>Industrial & Utility</p> <ul style="list-style-type: none"> Commercial & Industrial EV charging Hybrid power generation +T&D Microgrids & islands Renewable integration Telecom UPS & data centers etc. 	<ul style="list-style-type: none"> Commercial production started in FY22 Order book of Rs.600-700 crore to be executed in next 12-15 months
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Source: Company, ICICI Direct Research

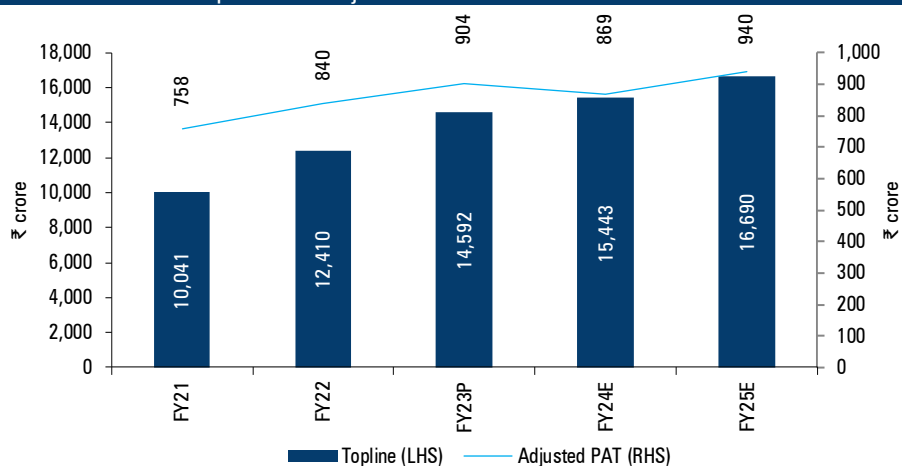
Exhibit 3: Product portfolio at Exide Energy Pvt Ltd

			
<p>Bus Battery Pack</p>	<p>3 Wheeler Battery Pack</p>	<p>2 Wheeler Light Duty</p>	<p>2W Medium Duty & Heavy Duty</p>
			
<p>UPS Battery</p>	<p>Lead Acid Alternative</p>	<p>Telecom</p>	<p>UPS Battery</p>

Source: Company, ICICI Direct Research

Financial story in charts

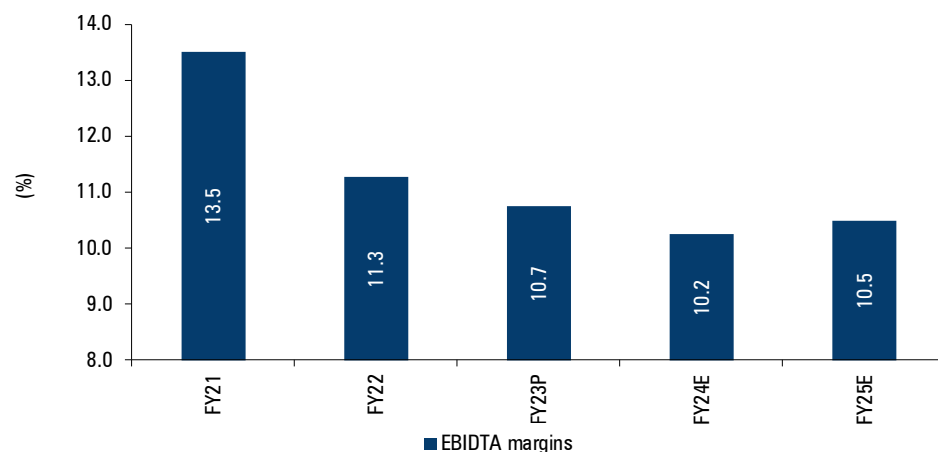
Exhibit 4: Trend in topline and adjusted PAT



EIL's revenues, PAT are seen growing at 6.9%, 2%, CAGR, respectively, over FY23-25E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in EBITDA margins



Margins are seen rising to 10.5% by FY25E

Source: Company, ICICI Direct Research

Exhibit 6: SOTP-based valuation

SOTP Valuation	Estimated value	Value per share	Remark
Standalone Business			
FY25E EPS	11.1		Valuing the base business (lead acid battery) at 16x P/E
P/E Multiple	16		
Value per share (₹)		176	
Investments			
HDFC Life Insurance Stake	3932		Using current market price of ₹565/share & assigning 20% discount
Value per share (₹)		46	
Value of subsidiaries (₹ crore)			
Value of other subsidiaries (₹)	649	8	1x trailing P/BV
Total Value per Share (₹)		230	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Total operating Income	12410.1	14591.9	15442.7	16690.4	
Growth (%)	23.6	17.6	5.8	8.1	
Raw Material Expenses	8580.3	10198.7	10888.0	11767.7	
Employee Expenses	801.6	872.0	926.6	1001.4	
Other Expenses	1629.9	1953.3	2046.2	2169.8	
Total Operating Expenditure	11011.9	13023.9	13860.7	14938.9	
EBITDA	1,398.3	1,568.0	1,582.0	1,751.6	
Growth (%)	3.2	12.1	0.9	10.7	
Depreciation	413.1	455.8	501.9	542.4	
Interest	39.4	29.5	26.0	23.4	
Other Income	80.3	132.4	107.7	70.5	
PBT	1,026.1	1,215.1	1,161.9	1,256.3	
Exceptional Item	-4693.8	0.0	0.0	0.0	
Total Tax	1035.5	311.5	292.8	316.6	
Reported PAT	4,684.3	903.6	869.1	939.7	
Growth (%)	517.8	-80.7	-3.8	8.1	
EPS (₹)	55.1	10.6	10.2	11.1	
Adjusted PAT	840.3	903.6	869.1	939.7	
Adjusted EPS (₹)	9.9	10.6	10.2	11.1	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet					₹ crore
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Liabilities					
Equity Capital	85.0	85.0	85.0	85.0	
Reserve and Surplus	10,513.1	11,124.7	11,823.8	12,593.5	
Total Shareholders funds	10,598.1	11,209.7	11,908.8	12,678.5	
Total Debt	10.1	0.0	0.0	0.0	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Other non-current liabilities	339.9	342.1	377.1	412.1	
Total Liabilities	10,948.0	11,551.9	12,285.9	13,090.6	
Assets					
Gross Block	4,795.8	5,338.3	5,239.2	5,739.2	
Less: Acc Depreciation	2,058.0	2,513.8	3,015.7	3,558.1	
Net Block	2,737.8	2,824.5	2,223.5	2,181.1	
Capital WIP	312.4	100.9	1,700.0	2,700.0	
Total Fixed Assets	3,050.2	2,925.4	3,923.5	4,881.1	
Investments	6,071.1	6,367.1	5,922.1	5,577.1	
Inventory	2,464.7	2,989.1	3,173.2	3,429.5	
Debtors	1,194.5	1,274.1	1,480.8	1,600.5	
Loans and Advances	64.6	42.2	44.7	48.3	
Cash	161.7	74.7	77.8	79.0	
Total Current Assets	4,067.4	4,561.7	4,968.6	5,365.0	
Creditors	1,619.0	1,525.9	1,692.3	1,829.1	
Provisions	264.0	280.1	310.6	335.7	
Total Current Liabilities	2,415.8	2,499.2	2,736.5	2,957.6	
Net Current Assets	1,651.6	2,062.5	2,232.0	2,407.3	
Other non-current assets	175.4	197.1	208.5	225.4	
Total Assets	10,948.0	11,551.9	12,285.9	13,090.6	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Profit after Tax (adjusted)	-9.7	903.6	869.1	939.7	
Add: Depreciation	413.1	455.8	501.9	542.4	
(Inc)/dec in Current Assets	-433.6	-581.3	-403.8	-395.2	
Inc/(dec) in CL and Provisions	101.0	83.4	237.4	221.1	
CF from operating activities	70.8	861.5	1,204.6	1,308.1	
(Inc)/dec in Investments	179.8	149.7	200.0	150.0	
(Inc)/dec in Fixed Assets	-660.8	-331.0	-1500.0	-1500.0	
Others	1450.0	-465.1	268.5	213.2	
CF from investing activities	969.0	(646.4)	(1,031.5)	(1,136.8)	
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	-170.0	-170.0	-170.0	-170.0	
Others	-799.7	-132.0	0.0	0.0	
CF from financing activities	(969.7)	(302.0)	(170.0)	(170.0)	
Net Cash flow	70.0	-86.9	3.1	1.2	
Opening Cash	91.6	161.7	74.7	77.8	
Closing Cash	161.7	74.7	77.8	79.0	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY22	FY23P	FY24E	FY25E
Per share data (₹)				
EPS	55.1	10.6	10.2	11.1
Cash EPS	60.0	16.0	16.1	17.4
BV	124.7	131.9	140.1	149.2
DPS	2.0	2.0	2.0	2.0
Cash Per Share	1.9	0.9	0.9	0.9
Operating Ratios (%)				
EBITDA Margin	11.3	10.7	10.2	10.5
PBT / Net sales	7.9	7.6	7.0	7.2
PAT Margin	6.8	6.2	5.6	5.6
Inventory days	72.5	74.8	75.0	75.0
Debtor days	35.1	31.9	35.0	35.0
Creditor days	47.6	38.2	40.0	40.0
Return Ratios (%)				
RoE	7.9	8.1	7.3	7.4
RoCE	9.3	9.9	9.1	9.5
RoIC	24.0	23.7	25.5	27.7
Valuation Ratios (x)				
P/E	19.2	17.9	18.6	17.2
EV / EBITDA	10.9	9.9	9.9	9.1
EV / Net Sales	1.2	1.1	1.0	1.0
Market Cap / Sales	1.3	1.1	1.0	1.0
Price to Book Value	1.5	1.4	1.4	1.3
Solvency Ratios				
Debt: Equity	0.0	-	-	-
Quick Ratio	0.6	0.6	0.6	0.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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