Exide Industries (EXIIND)

ICICI direct Research

CMP: ₹ 263 | Target: ₹ 335 (27%) | Target Period: 12 months | **BUY**

August 11, 2023

Conviction Idea

Charge it up, Li-On cell manufacturing- structurally positive ...

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. It also has dual presence in Li-On battery space through assembly operations (1.5 GwH, Nexcharge) & Li-On Cell manufacturing venture in technical collaboration with SVOLT (6 GwH, commissioning in CY25E)

- Segment mix: automotive sales - 70% & industrial application - 30%.
- Geography mix: India – 92% & International – 8%

Investment Thesis

- **Good EV proxy play, first movers' advantage to prevail:** EIL was the early one to take tangible steps in the new age Li-On battery business by first venturing into a JV with Leclanché SA for setting up of EV battery assembly operations in India. The company now owns 100% ownership in this venture with assembly capacity of 1.5 GWH and present order book of ₹ 600-700 crore as of FY23 end thereby surpassing the initial gestation period of testing, validation and at the same time building important relationships with EV-OEM's. With assembly operations in place and awareness of cell being core i.e., ~70% of battery costs, EIL has ventured into quite essential manufacturing of Li-On cells in technical collaboration with SVOLT with total capex outlay of ~₹6,000 crore for a 12 GWH capacity with 1st phase of 6 GWH slated to be operational in CY25E at a capex outlay of ~₹4,000 crore (~₹715 crore incurred till FY23). With margins in cell manufacturing to be at par with base business and capital efficiency to the core we believe it to be structurally positive for the company ushering a new stream of profitable growth with longevity. It will also help EIL maintain its industry leadership in the automotive battery space.
- **Steady state Lead Acid battery base business to prevail:** EIL is the industry leader in the Lead Acid battery space which finds application in both automotive as well as industrial space (including sunrise sectors like renewables, data centre, etc.). With healthy OEM sales in FY22-24E, steady rise in EV penetration and export opportunity (China+1 trend), we expect this base business to grow at steady state in near to medium term. EIL continues to be capital efficient in this domain with RoIC's>20%. Going forward, we have built 9.7% sales CAGR over FY23-25E. With stable raw material prices, we expect margins to stabilize ~11-12% mark over FY23-25E.

Rating and Target Price

- We assign **BUY** rating to Exide Industries amidst its firm commitment to new age Li-On battery space (cell manufacturing plant + battery assembly operations); steady state lead acid battery business & healthy B/S to fund upcoming capex requirements (cushioned through stake in HDFC Life worth ~₹ 5,750 crore)
- We value EIL at SOTP-based target price of ₹ 335 (₹214 for base business at 17x FY25E EPS, ₹121 for investments, stake in subsidiary and CWIP of Li-On Cell plant).

EXIDE

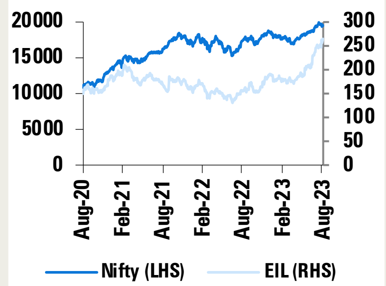
Particulars

Particular	₹ crore
Market Capitalization	22,355.0
Total Debt (FY23)	0.0
Cash & Inv. (FY23)	627.9
EV (₹ Crore)	21,727.1
52 week H/L (₹)	267 /153
Equity capital	₹ 85 Crore
Face value	₹ 1

Shareholding pattern

	Sep-22	Dec-22	Mar-23	Jun-23
Promoter	46.0	46.0	46.0	46.0
FII	10.5	11.0	12.3	12.9
DII	17.8	19.6	18.9	19.8
Other	25.7	23.5	22.8	21.4

Price Chart



Recent event & key risks

- Posted steady Q1FY24 results.
- **Key Risk:** (i) delay in commissioning of new Li-On cell manufacturing plant (ii) adverse RM prices limiting margin recovery in base battery business

Research Analyst

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ICICI Securities – Retail Equity Research

Key Financial Summary

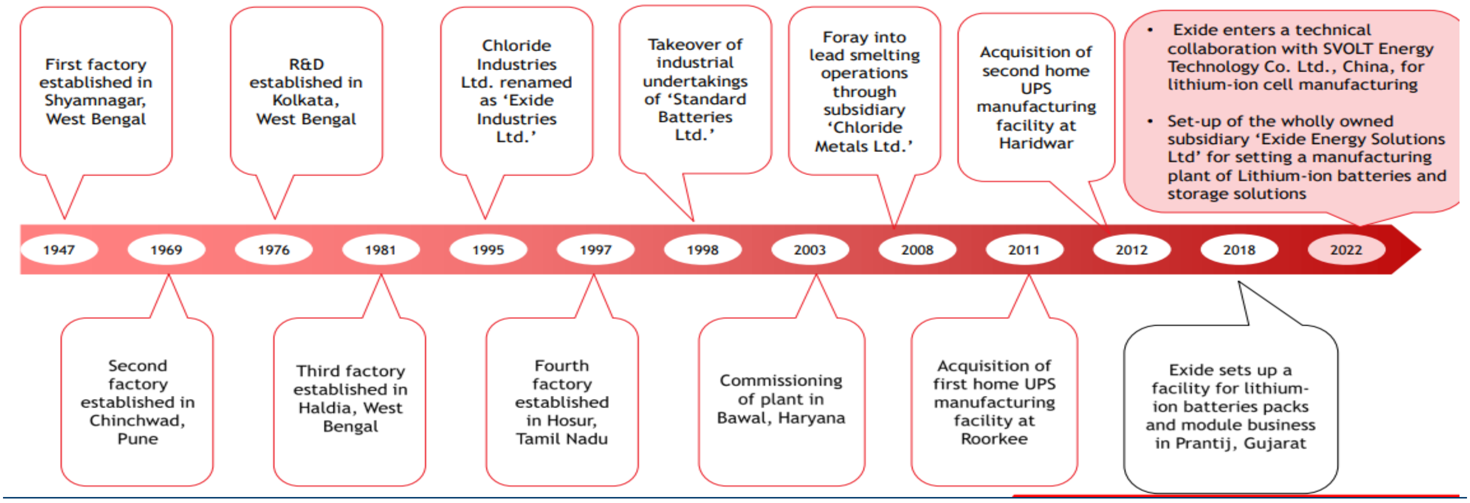
Key Financials	FY19	FY20	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	10,588.3	9,856.7	10,040.8	12,410.1	14,591.9	9.6%	16,251.1	17,572.6	9.7%
EBITDA	1,411.3	1,365.0	1,355.6	1,398.3	1,568.0	4.8%	1,782.5	2,014.4	13.3%
EBITDA Margins (%)	13.3	13.8	13.5	11.3	10.7		11.0	11.5	
Net Profit	844.0	825.5	758.2	4,684.3	903.6	NA	974.5	1,069.7	8.8%
EPS (₹)	9.9	9.7	8.9	55.1	10.6		11.5	12.6	
Adjusted Net Profit	770.3	842.8	758.2	840.3	903.6	5.4%	974.5	1,069.7	8.8%
Adjusted EPS (₹)	9.1	9.9	8.9	9.9	10.6	5.4%	11.5	12.6	8.8%
P/E	26.5	27.1	29.5	4.8	24.7		22.9	20.9	
RoNW (%)	12.9	13.4	11.0	7.9	8.1		8.1	8.3	
RoCE (%)	17.8	15.7	14.0	9.3	9.9		10.2	10.5	
RoIC (%)	19.7	16.9	16.8	24.0	23.7		29.3	32.6	

Source: Company, ICICI Direct Research

Company Background

- Exide Industries (EIL) is a part of the duopolistic organized Indian lead acid battery market with 95,000+ dealership count as of FY23 & presence across automotive (~70% of sales) & industrial applications (~30% of sales). EIL with an operational history of ~75+ years in India with 10 manufacturing plants and presence in 60+ countries. It produced ~65 million automotive batteries in FY23 & ~5.8 billion AH of industrial power supply. Within Industrial segment company carters to various applications like solar power storage system, telecom, railways, I-UPS, data centres etc.

Exhibit 1: EIL Journey along the years



Source: Company, ICICI Direst Research

- EIL has dual presence in Li-On battery space; first an Li-On battery assembly plant with robust orderbook in place to ensure industry leading growth and second being a sizeable Li-On cell manufacturing plant which is presently under executing phase.

Exhibit 2: Current presence in Li-On space (battery assembly, cell manufacturing)

A – Exide Energy Private Limited (nexcharge)

- 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**

B – Exide Energy Solutions Limited (EXIDE ENERGY)

- 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**

Technical collaboration with SVolt

- Multi-year technical collaboration for li-ion cell manufacturing
- Support for setting the plant on a turnkey basis

SVOLT

- 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

Source: Company, ICICI Direct Research

Exhibit 3: Nexcharge Product portfolio

Source: Company, ICICI Direct Research

Investment Rationale

EV Vehicles a reality, Exide Industries a good proxy to play sunrise EV sector

Electric Vehicles are a reality amid greater focus of government on green mobility (aimed at energy security) and record capex commitment by OEM's (both existing as well as new age) in this space. Key enablers to drive electrification domestically are government schemes like PLI scheme for Automobile & auto components (₹ 25,938 crore) and PLI for Advance Cell Chemistry (₹ 18,100 crore) largely promoting capex spend in this new field along with FAME-2 Scheme (₹ 10,000 crore) which incentivises demand. Domestic capex commitment in this space is pegged at > ₹ 1 lakh crore over next 5-7 years. With such capacity build up, there is going to be enormous demand for EV batteries with not many suppliers domestically at this juncture. Sensing the EV opportunity as well as to de-risk itself from the inherent risk in its base Lead Acid business, Exide Industries has commenced onto its path for construction of Li-On cell manufacturing unit & has conceptualized the same in two phases (cell manufacturing; 6 GWh + 6 GWh) with sizeable capex of ~₹ 6,000 crore over next 7-8 years. This is in technical collaboration with SVOLT which has a sizeable presence in this space. In first phase (6 GwH), EIL plans to spend ~₹ 4,000 crores with likely commissioning in CY25E. The plant would be used for manufacturing of Li-Ion batteries for new age electric mobility as well as industrial applications.

As per EIL, near term Li-On battery demand is pegged at ~50 GwH by FY25E with long term (FY30E) demand envisaged at 150 GwH

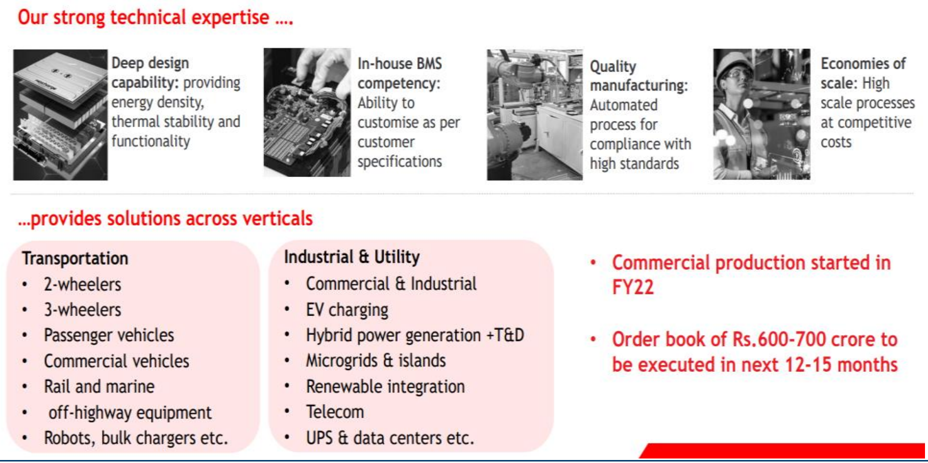
Exhibit 4: Estimated Li-On battery demand in India (in GwH)

		2025	2030
Mobility	2Ws	10 - 12	40 - 45
	3Ws	1.2 - 1.7	5 - 6
	4Ws	4 - 5	40 - 45
	LCV / HCV	0.9 - 1.2	3 - 4
	Buses	1 - 1.5	4 - 5
	Tractors	1 - 1.5	6 - 7
Mobility Total		20-30	100-110
Stationary		20 - 25	50 - 60
Total		40 - 50	150 -160

Source: Company, ICICI Direct Research

Furthermore, EIL has 1.5 GwH cell assembly capacity under separate subsidiary Exide Energy Pvt Ltd (i.e., Nexcharge) & has encouragingly secured an order book of ~₹ 600-700 crore giving company first mover advantage in terms of homologation & strengthening relations with OEMs.

Exhibit 5: Developments on Exide Energy Pvt Ltd (Nexcharge)



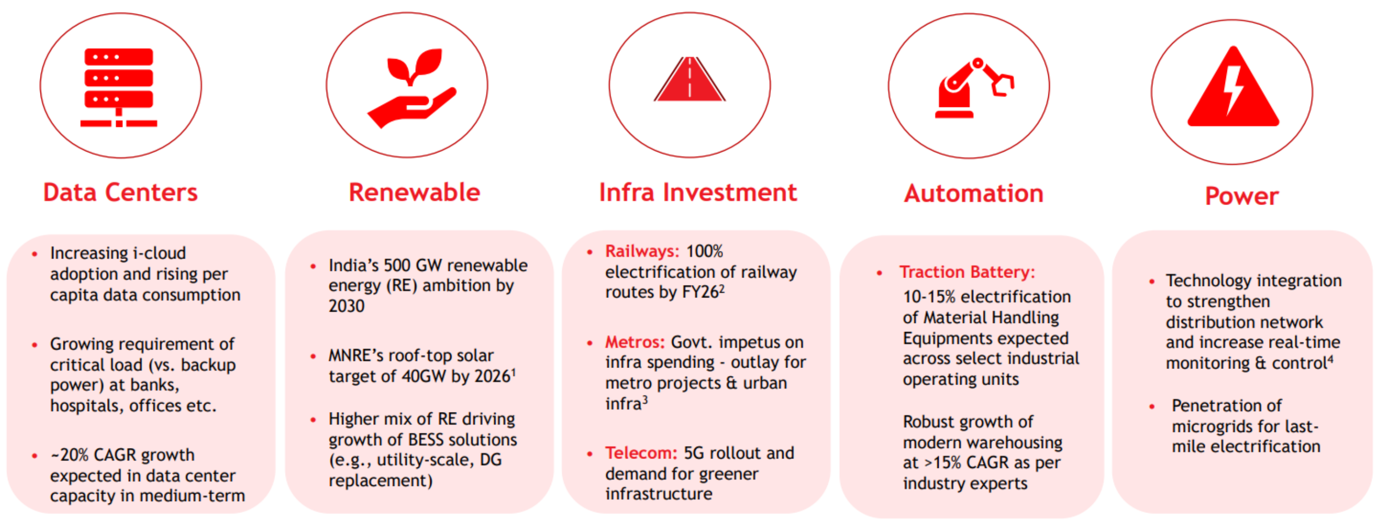
Source: Company, ICICI Direct Research

On Li-On cell manufacturing, EIL has informed about appointment of senior officials & starting construction of its giga factory with ~₹715 crore of capex spends by FY23. Management expects ~20% RoIC from Li-Ion business at optimum utilization level. It also informed about its factory to enjoy first mover advantage in terms of early commissioning, JIT inventory system to OEM's, tech support from SVOLT. Further management informed about this factory to be multi chemistry (i.e., LFP & NMC) & multi format (i.e., cylindrical, prismatic & pouch cells). It also 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 being a key competitive edge.

Industrial, Auto Replacement and export markets aiding steady outlook for base lead acid battery business

EIL is the leader in organised market for industrial & automotive lead acid battery. In the industrial side EIL is witnessing steady demand from the traditional UPS & Telecom segment and is well positioned to capture the upcoming growth in the sunrise sectors like data centres, renewables, railways, etc. which has wide applications for battery Energy Storage Systems (BESS). We believe this to be a lead revenue growth driver for the company going forward.

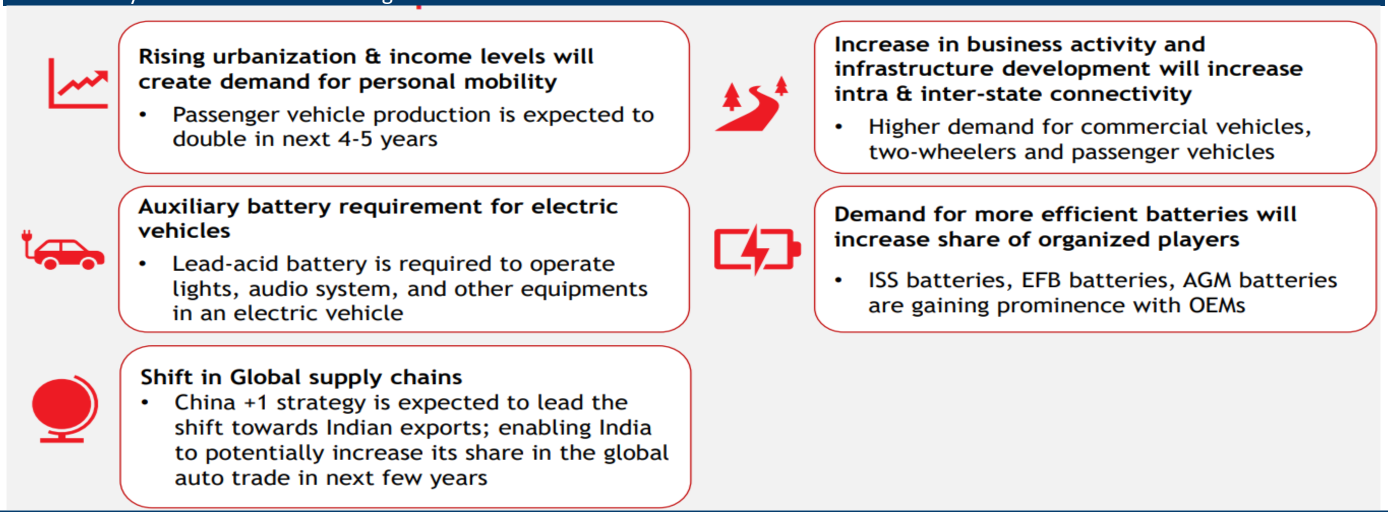
Exhibit 6: Mega trends in industrial domain



Source: Company, ICICI Direct Research

In the automotive space which forms bulk of EIL's revenues (~70%), we expect the company to benefit from steady replacement market which will witness an uptick in FY25-27E encashing upon the replacement demand generated from robust auto OEM sales volume growth witnessed in FY22-23. In our opinion, EIL also stands to benefit from increasing electronic content in vehicles as well as shift in consumer demand towards SUV space amid broader PV category. At the OEM level, with FY23 being a superlative year with 21% YoY volume growth we expect auto volumes to grow albeit on a lower rate of ~7-8% over FY23-25 supporting OEM sales at EIL. The company is expected to maintain its market leadership in auto space also supported by investments in newer technologies & increasing dealership count in the replacement market.

Exhibit 7: Key drivers of automotive segment revenue



Source: Company, ICICI Direct Research

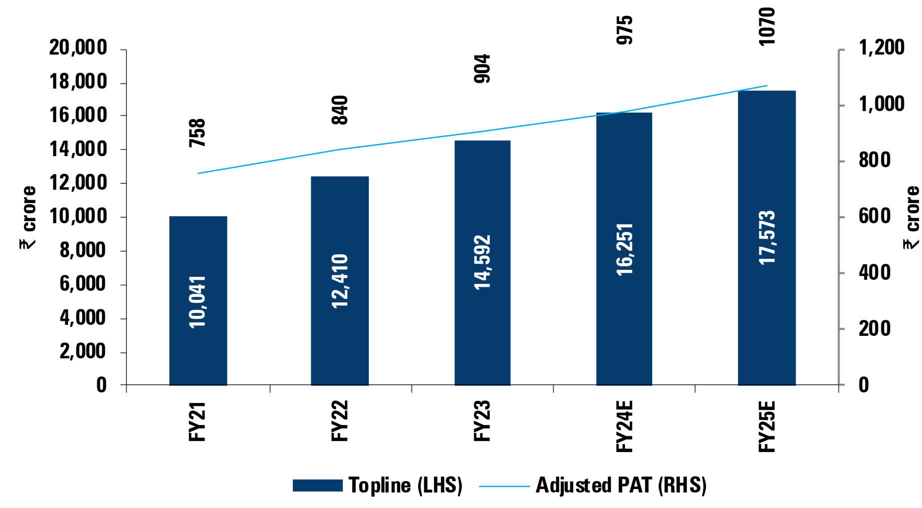
Healthy B/S cushioned with HDFC life stake -comfort on capex execution capabilities

Financial discipline has been the key USP at EIL with company still being debt free in nature with surplus cash of ~₹ 625 crore as of FY23 end and long-term investments in the form of HDLF Life stake worth ~₹ 5,750 crore. With impressive and large capex plan in the offering (~₹ 6,000 crore for Li-On cell manufacturing), healthy CFO generation from base business, we expect company to largely retain its debt free status with intermittent bridge loan pencilled in (FY24-25E) to fund this capex. HDFC life stake in B/S provides comfort amid large capex spend at the company.

Topline, bottom-line to grow high single digit over FY23-25E, RoIC's pegged at 20%+

With positives built in we expect topline at EIL to grow at a CAGR of 9.7% over FY23-25E. EBITDA margins in the same time frame are expected to improve by 80 bps to 11.5% by FY25E. PAT CAGR over FY23-25E is pegged at 8.8%. EIL's business is capital efficient in nature with company on a consistent basis clocking healthy double digit return ratio. The headline RoE, RoCE however optically look muted in the near term amidst sizeable capex spend by the company. Its core RoIC's on the other hand are still healthy and clocking >20% levels on consistent basis. On the conservative basis we have not built in Li-On cell plant commissioning in FY25E

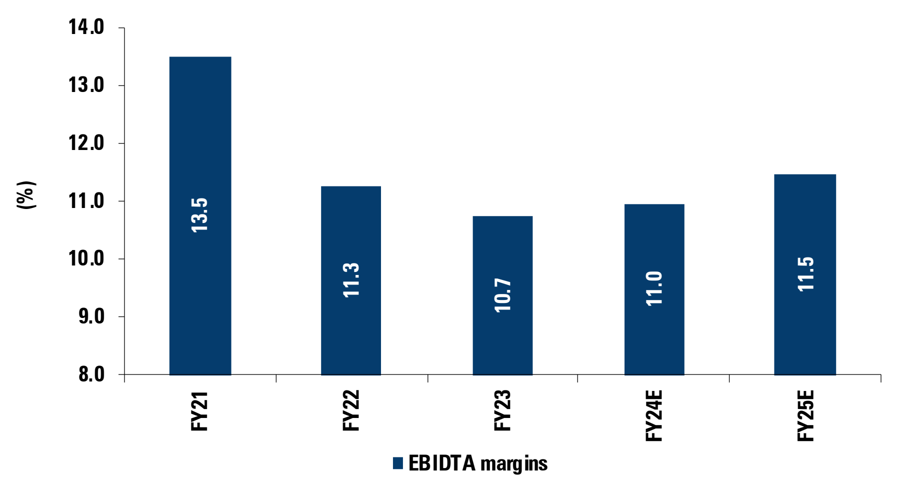
Exhibit 8: Trend in topline and Adjusted PAT



Source: Company, ICICI Direct Research

EIL revenues, PAT are seen growing at 9.7%, 8.8%, CAGR respectively, over FY23-25E

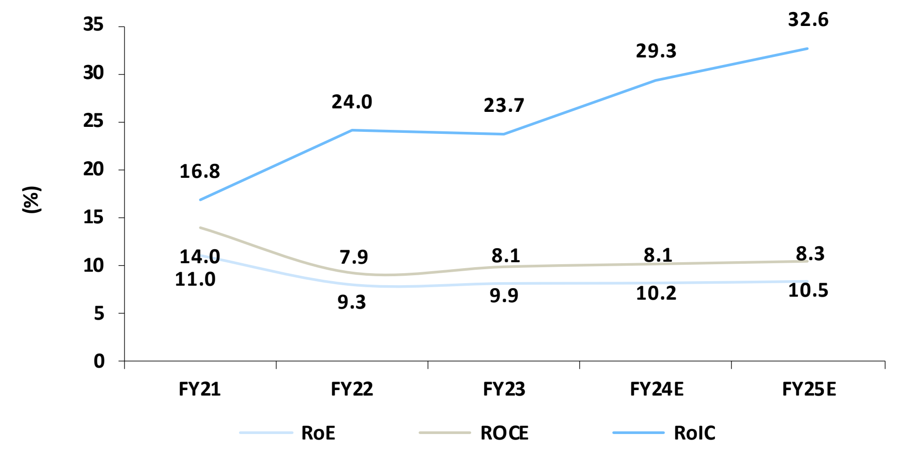
Exhibit 9: Trend in EBITDA margins



Source: Company, ICICI Direct Research

Margins are seen rising to 11.5% by FY25E

Exhibit 10: Trend in Return ratios



Source: Company, ICICI Direct Research

RoIC is seen surpassing ~30% levels by FY25E

Valuation Outlook

- We have a positive view on Exide Industries and place it as our **conviction BUY** in the auto ancillary space.
- We like EIL amidst its firm commitment to new age Li-On battery space (cell manufacturing plant + battery assembly operations); steady state lead acid battery business & healthy B/S to fund upcoming capex requirements (cushioned through stake in HDFC Life worth ~₹ 5,750 crore)
- We value EIL at SOTP-based target price of **₹ 335** (₹ 214 for base business at 17x FY25E EPS, ₹ 121 for investments, stake in subsidiary and CWIP of Li-On Cell plant).

Exhibit 11: SOTP-based valuation

SOTP Valuation	Estimated value	Value per share	Remark
Standalone Business			
FY25E EPS	12.6		Valuing the base business (lead acid battery) at 17x P/E
P/E Multiple	17		
Value per share (₹, A)		214	
Long Term Investments			
HDFC Life Insurance Stake (₹ crore)	5,742		Using current market price of ₹660/share
Value per share (₹, B)		68	
Value of other subsidiaries (₹ crore)	729		
Value of other subsidiaries (₹, C)		10	1x trailing P/BV
FY25E CWIP in Li-On Cell space (₹ crore)	3,700		
Value per share (₹, D)		44	
SoTP based target price (A+B+C+D)		335	

Source: ICICI Direct Research

Risks and Concerns

Potential loss of revenue in base business due to electrification

Electric Vehicles are a risk to EIL's base lead acid battery business with rising pace of electrification leading to lower content per vehicle for the company. EV's will use lead acid batteries albeit on a small scale (lower output) for some ancillary functions. EIL is however trying to mitigate this risk through tangible steps in the Li-On battery domain which are used in EV's.

Emergence of newer cell chemistry bringing in new challenges

E-Mobility continues to be a dynamic field with new cell chemistries being tested across the globe. Any development & mass adoption of newer cell chemistry other than Li-On for powering E-Mobility may require additional capex for modification of existing lines and homologation process thereby increasing payback period of incurred capex in this domain.

Delay in project commissioning leading to subdued return ratios profile

Any major delay in completion of Li-On cell manufacturing project may result in capex being continued to be classified as CWIP leading to subdued return ratios (RoE, RoCE) in the interim. This may also elongate leverage on B/S although small in nature with long term investments in books providing more than sufficient cushioning for the same.

Financial Summary

Exhibit 12: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
Total operating Income	12410.1	14591.9	16251.1	17572.6
Growth (%)	23.6	17.6	11.4	8.1
Raw Material Expenses	8580.3	10198.7	11558.0	12447.8
Employee Expenses	801.6	872.0	968.0	1054.4
Other Expenses	1629.9	1953.3	1942.6	2056.0
Total Operating Expenditure	11011.9	13023.9	14468.6	15558.2
EBITDA	1,398.3	1,568.0	1,782.5	2,014.4
Growth (%)	3.2	12.1	13.7	13.0
Depreciation	413.1	455.8	503.8	553.5
Interest	39.4	29.5	60.0	110.0
Other Income	80.3	132.4	82.9	79.1
PBT	1,026.1	1,215.1	1,301.6	1,430.0
Exceptional Item	-4693.8	0.0	0.0	0.0
Total Tax	1035.5	311.5	327.1	360.4
Reported PAT	4,684.3	903.6	974.5	1,069.7
Growth (%)	517.8	-80.7	7.8	9.8
EPS (₹)	55.1	10.6	11.5	12.6
Adjusted PAT	840.3	903.6	974.5	1069.7
Adjusted EPS (₹)	9.9	10.6	11.5	12.6

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax (adjusted)	-9.7	903.6	974.5	1069.7
Add: Depreciation	413.1	455.8	503.8	553.5
(Inc)/dec in Current Assets	-433.6	-581.3	-659.8	-418.5
Inc/(dec) in CL and Provisions	101.0	83.4	380.6	234.2
CF from operating activities	70.8	861.5	1,199.1	1,438.9
(Inc)/dec in Investments	181.3	149.4	250.0	75.0
(Inc)/dec in Fixed Assets	-660.8	-331.0	-2000.0	-2000.0
Others	1449.9	-464.9	257.6	212.2
CF from investing activities	970.3	(646.5)	(1,492.4)	(1,712.8)
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	-800.5	-132.0	500.0	500.0
CF from financing activities	(970.5)	(302.0)	330.0	330.0
Net Cash flow	70.5	-87.0	36.7	56.0
Opening Cash	91.0	161.5	74.5	111.2
Closing Cash	161.5	74.5	111.2	167.2

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	85.0	85.0	85.0	85.0
Reserve and Surplus	10,513.1	11,124.8	11,929.3	12,829.0
Total Shareholders funds	10,598.1	11,209.8	12,014.3	12,914.0
Total Debt	10.1	0.0	500.0	1,000.0
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	12,891.5	14,326.1
Assets				
Gross Block	4,795.8	5,338.3	5,239.2	5,739.2
Less: Acc Depreciation	2,058.0	2,513.8	3,017.6	3,571.1
Net Block	2,737.8	2,824.5	2,221.6	2,168.1
Capital WIP	312.4	100.9	2,200.0	3,700.0
Total Fixed Assets	3,050.2	2,925.4	4,421.6	5,868.1
Investments	6,071.3	6,367.4	5,872.4	5,602.4
Inventory	2,464.7	2,989.1	3,339.3	3,610.8
Debtors	1,194.5	1,274.1	1,558.3	1,685.0
Loans and Advances	64.6	42.2	47.0	50.9
Cash	161.5	74.5	111.2	167.2
Total Current Assets	4,067.2	4,561.5	5,258.0	5,732.6
Creditors	1,619.0	1,525.9	1,780.9	1,925.8
Provisions	264.0	280.1	326.9	353.5
Total Current Liabilities	2,415.8	2,499.2	2,879.8	3,114.0
Net Current Assets	1,651.4	2,062.3	2,378.2	2,618.6
Other non-current assets	175.4	197.1	219.5	237.3
Total Assets	10,948.0	11,551.9	12,891.5	14,326.1

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	55.1	10.6	11.5	12.6
Cash EPS	60.0	16.0	17.4	19.1
BV	124.7	131.9	141.3	151.9
DPS	2.0	2.0	2.0	2.0
Cash Per Share	1.9	0.9	1.3	2.0
Operating Ratios (%)				
EBITDA Margin	11.3	10.7	11.0	11.5
PBT / Net sales	7.9	7.6	7.9	8.3
PAT Margin	6.8	6.2	6.0	6.1
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	8.1	8.3
RoCE	9.3	9.9	10.2	10.5
RoIC	24.0	23.7	29.3	32.6
Valuation Ratios (x)				
P/E	26.6	24.7	22.9	20.9
EV / EBITDA	15.4	13.9	12.6	11.4
EV / Net Sales	1.7	1.5	1.4	1.3
Market Cap / Sales	1.8	1.5	1.4	1.3
Price to Book Value	2.1	2.0	1.9	1.7
Solvency Ratios				
Debt: Equity	0.0	-	0.0	0.1
Quick Ratio	0.6	0.6	0.6	0.6

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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