10 June 2013

Initiating Coverage | Sector: Automobile

Exide Industries

Watch out for speed barriers

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Exide Industries: Watch out for speed barriers

Exide Industries

BSE SENSEX	S&P CNX
19,441	5,878

Bloomberg	EXID IN
Equity Shares (m)	800.0
M.Cap. (INR b)/(USD b)	104.4/1.8
52-Week Range	166/115
1,6,12 Rel. Perf. (%)	0/-12/-15

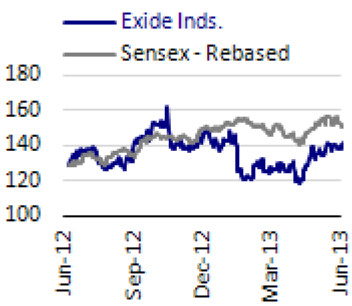
Financial summary (INR b)

Y/E March	2013	2014E	2015E
Net Sales	60.8	69.9	80.7
EBITDA	7.9	10.3	11.6
Adj. PAT	5.2	6.8	7.7
Adj. EPS (INR)	6.2	8.0	9.0
EPS Gr. (%)	13.4	29.8	12.9
BV/Sh. (INR)	40.3	46.2	52.9
RoE (%)	15.3	17.3	17.0
RoCE (%)	21.2	24.0	23.7
Payout (%)	26.0	21.9	22.2
Valuations			
P/E (x)	21.2	16.3	14.5
P/BV (x)	3.2	2.8	2.5
EV/EBITDA (x)	11.9	9.0	7.6
Div. Yield (%)	1.2	1.3	1.5

Shareholding pattern (%)

As on	Mar-13	Dec-12	Mar-12
Promoter	46.0	46.0	46.0
Dom. Inst	13.6	13.3	13.4
Foreign	18.1	17.1	18.5
Others	22.3	23.6	22.2

Stock performance (1 year)



CMP: INR131 | **TP: INR140** | **Neutral**

Watch out for speed barriers

Better operating performance prospects factored in current valuations

- **Expect 4W replacement demand to remain robust over FY13-15E, thus reflecting strong FY10-11 OEM volumes driving 16.1% CAGR in auto segment revenue (60% of revenue). Power back-up segment to drive 13.9% growth in industrial revenue.**
- **We estimate Exide's margin to expand by 140bp over FY13-15E to 14.4% in FY15E (but lower than the FY10-12 average margin of 18.7%), thereby driving 21% EBITDA and PAT CAGR over FY13-15E.**
- **Significant capacity addition by Amara Raja (~40% increase) by FY15 though would restrict Exide's margin expansion, we expect a recovery in its profitability led by OEM demand recovery from 2HFY14 and continued strength of 4W replacement demand.**
- **Valuation at 12.8x FY15E EPS (ex Insurance valuation) though captures the positive operating performance outlook. Initiate coverage with a Neutral rating and target price of INR140 (14x FY15E EPS + INR15/sh of Insurance business).**

Continued strength of 4W replacement and power back-up segment to drive 15.2% revenue CAGR over FY13-15E

Expect 4W replacement demand to remain healthy over FY13-15E, reflecting strong FY10-11 OEM volumes, dieselization over FY12-13 and emerging opportunity from self-start 2W replacement. This coupled with OEM demand recovery from 2HFY14E to drive 16.1% CAGR in auto segment revenue over FY13-15E. Continued power shortage and recent launch of own inverter brand to drive 13.9% growth in industrial revenue (~40% of revenue).

OEM demand revival and strong replacement demand to drive profitability recovery

OEM demand recovery from 2HFY14E, continuance of strong replacement demand and ramp-up in inverters to drive ~170bp EBITDA margin improvement to 14.7% in FY14E. However, new capacity addition by competition would result in ~30bp moderation in Exide's FY15 margin to 14.4%. Overall, we estimate ~21% CAGR during FY13-15E in EBITDA and PAT.

Competitive intensity to restrict pace of margin expansion

We note that Exide's pricing power and consequent margins have structurally narrowed (FY13 margin at 13% v/s 18.7% FY10-12 average margins), with Amara Raja emerging as a formidable competitor over the last few years (4W replacement market share of 20% v/s 12% in FY08). Amara Raja's ~40% capacity expansion by FY15 would restrict the pace of margin recovery over FY13-15E.

Initiate coverage with Neutral rating and target price of INR140

The stock trades at 16.3x/14.5x FY14E/FY15E EPS. With changes in competitive dynamics, recent higher earnings volatility and lower-than-historical return ratios, we value Exide at an implied PE of 15.5x (10% discount to LPA), with 14x FY15E S/A EPS and INR15/share for the insurance business. Initiate coverage with a **Neutral** rating as current valuation factors positive outlook.

4W replacement segment to remain robust

Coupled with OEM demand recovery to drive auto segment revenues

- **With an average replacement cycle of two to three years, replacement demand growth typically tracks OEM demand growth of past years, translating into linear replacement demand. Replacement demand is not only less cyclical but also enjoys higher profitability than OEM supplies.**
- **Auto replacement market is highly fragmented, with small unorganized manufacturers (~40% share) providing large opportunity for the organized segment, given increasing brand and quality consciousness and environmental restrictions. Exide enjoys a market leadership (~33% share) in 4W replacement segment.**
- **4W replacement segment grew over 20% growth in FY13 ; expect growth momentum to remain strong over FY13-15 with support from higher dieselization (FY12-13) and emerging opportunity from self-start 2W replacement segment.**
- **While near term OEM demand outlook remains muted, we expect demand recovery 2HFY14 onwards driving 10% over FY13-15E in auto industry volumes.**

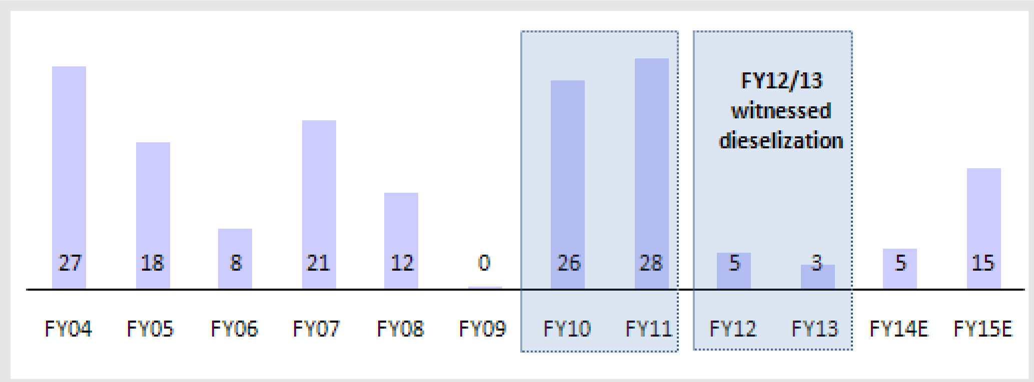
Past growth of auto volumes provides a base for strong replacement demand

New vehicles to post a volume CAGR of 13% over FY04-13 (~25% CAGR over FY09-11) auguring well for replacement demand. The latter is driven by factors such as the number of vehicles in use, average battery life and average age of vehicles.

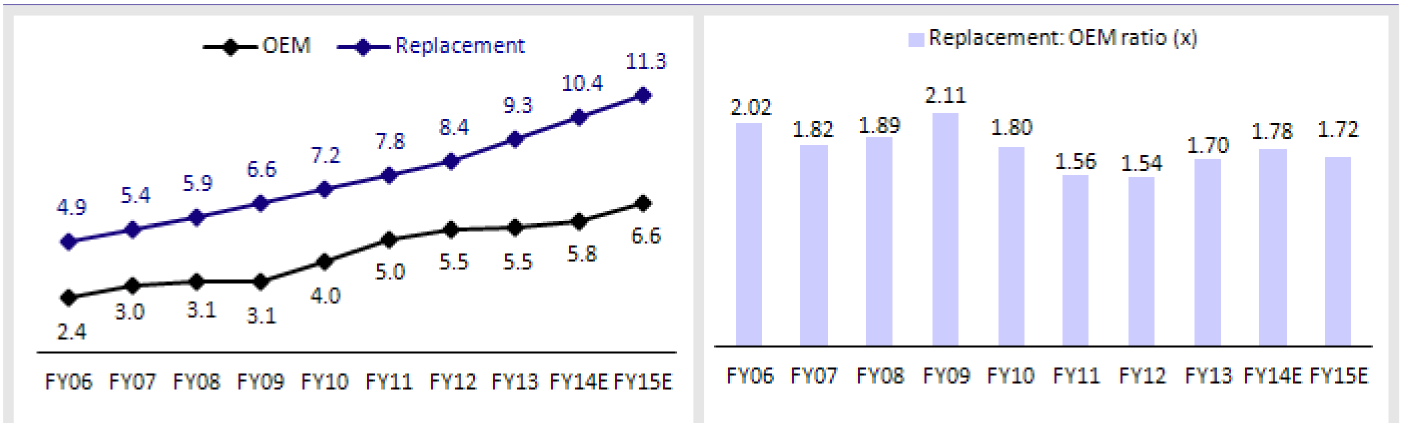
An automobile battery's life is of ~3 years (~2 years for 2Ws) and translates into linear replacement demand from the existing vehicle population. Given the average battery replacement cycle, growth in replacement demand typically tracks OEM demand growth of past years.

Replacement demand is not only less cyclical but also enjoys higher profitability than OEM supplies

Domestic PV sales registered strong growth in FY10-11, FY12-13 witnessed increase in diesel share (%)



Trend in volumes for battery industry (m units)



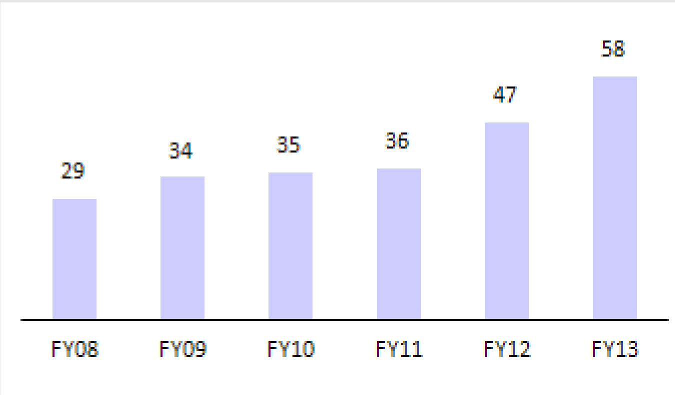
4W replacement demand robust in FY13, expect momentum to continue

4W replacement demand has been improving, thus reflecting strong OEM demand over FY10-11. Exide witnessed over 20% growth in FY13 v/s less than 5% growth in FY12. We expect the growth momentum to remain strong over FY13-15 driven by continued benefit of higher OEM demand in FY10-11, higher dieselization (FY12-13) and emerging opportunity from electric-start 2Ws. Market share gains from unorganized segment particularly in CVs and tractors could support replacement demand as well.

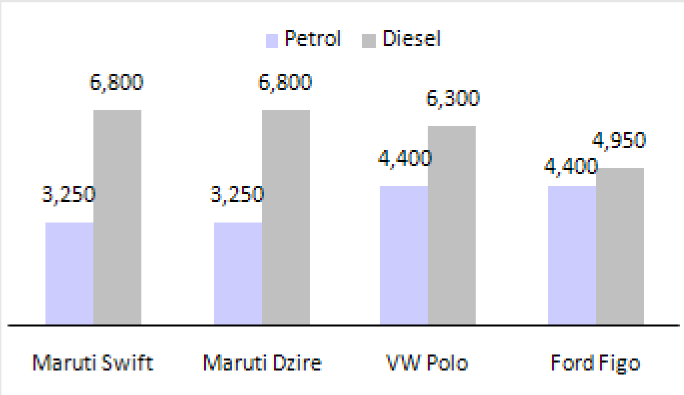
Dieselization trend to benefit over FY15-16E, with higher realizations

- **Share of diesel vehicles increased over FY12-13:** While the overall auto volumes remained muted over FY12-13, the share of diesel vehicles increased significantly due to wide differential between petrol and diesel price.
- **Diesel batteries have higher realizations:** Diesel cars require higher cranking power and have higher ampere batteries, thereby leading to higher realizations (~1.5x higher) for battery companies. Increase in dieselization trend would enable the battery industry to benefit from robust replacement demand for diesel batteries over FY15-16E.

Higher share of diesel variants augurs well (%)



Exide's retail prices - 18 months warranty (INR/unit)



Source: Industry, MOSL

2W batteries: An emerging opportunity with rising penetration of electric-start 2Ws

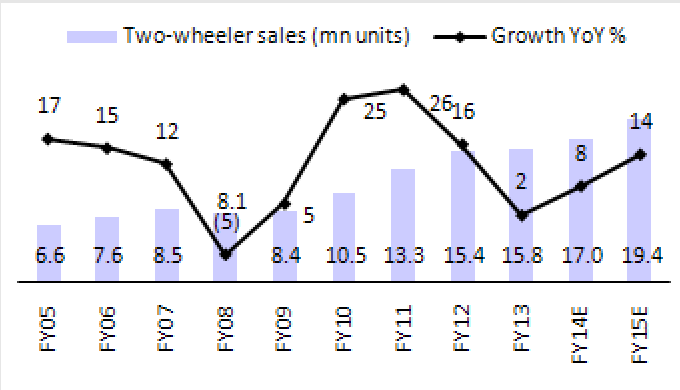
Over the past few years, electric start has been slowly becoming a standard feature across product categories in the two-wheeler industry. This is an important development for battery companies, as traditionally, 100-125cc motorcycles have been kick-start, while gearless scooters and high-end motorcycles used electric start. We understand that over 60% of all two-wheelers are electric-start vs 10% in FY08.

Due to the shift towards electric-start two-wheelers, we expect strong growth in two-wheeler replacement demand due to the following reasons:

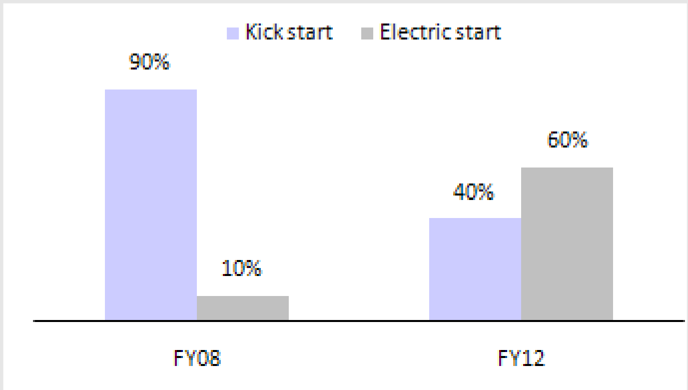
- **Shorter replacement cycle of electric-start two-wheeler battery:** Replacement cycle for electric-start two-wheelers is shorter at ~2 years, compared to 6-8 years for a kick-start two-wheeler.

- **Critical in an electric-start two-wheeler:** Battery becomes indispensible in an electric-start motorcycle as it used for cranking apart from traditional lightening requirements.
- **Electric-start requires a higher Ah VRLA v/s traditional batteries:** Electric start vehicles require a higher Ah battery at 5Ah v/s the traditional 2.5Ah battery, as the battery in electric start vehicle also handles the engine cracking application (previously only lighting). In addition, OEMs prefer VRLA batteries vs traditional batteries, as VRLA provide more deepcycle recharge and are maintenance free. We note that the price differential between the two battery types is >50%, benefiting realizations of the battery companies.

Strong growth in two-wheeler industry over the years



Share of electric-start 2Ws on the rise

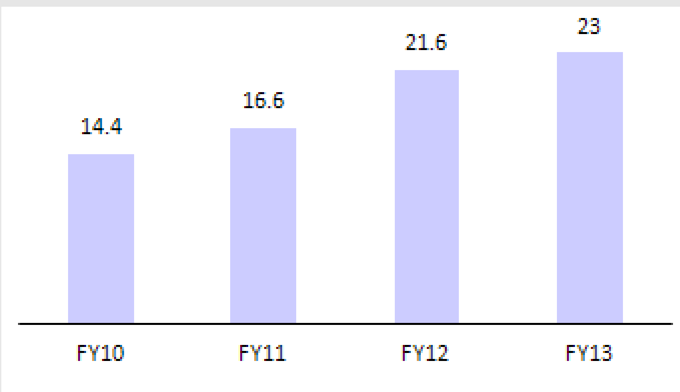


Source: Company, MOSL

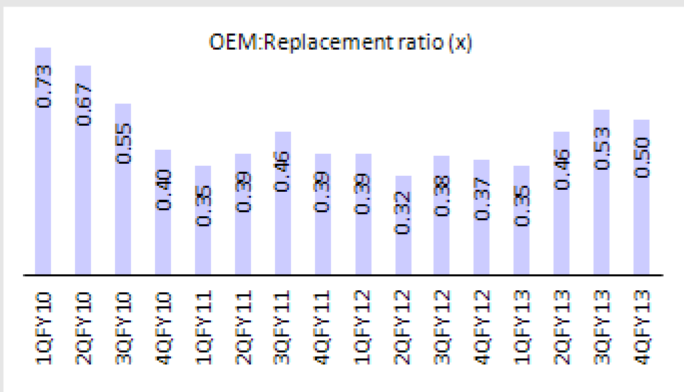
Exide registered ~40% growth in two-wheelers in FY13

Rising penetration of electric-start two-wheelers, the growth in replacement battery demand for the two-wheeler segment has increased significantly. Exide registered ~40% growth in FY13 in the two-wheeler segment. While the current OE to replacement ratio is lower at 0.5:1, we expect is to grow at a rapid pace driving realizations and margins. Given the large opportunity in two-wheelers, together with limited competition for VRLA capacity, Exide commissioned a new plant in Ahmednagar in FY12 taking total two-wheeler capacity to 21.6m units.

2W capacity raised to 23m units by FY13



Replacement ratio low at 0.5x, offering significant opportunity

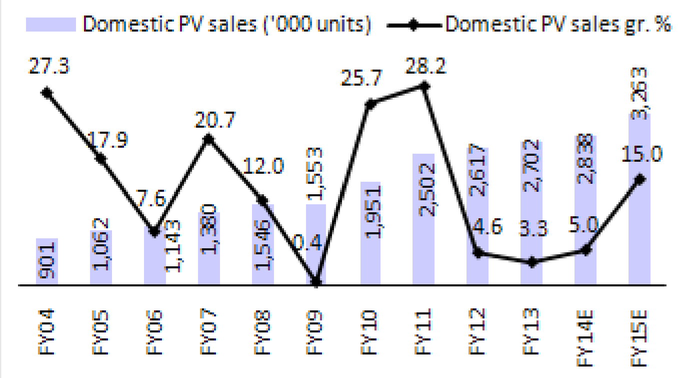


Source: Company, MOSL

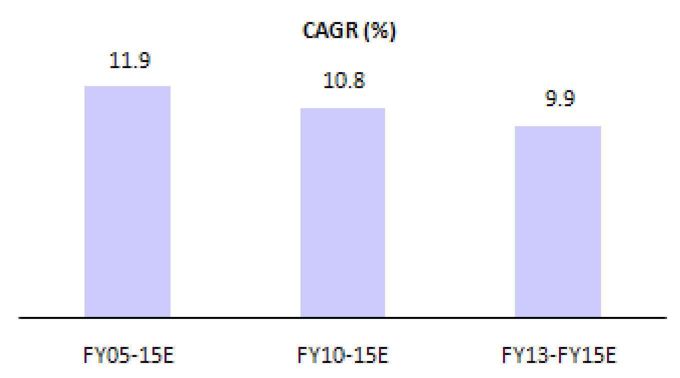
Near term OEM demand outlook weak, expect recovery 2HFY14 onwards

While the long term demand drivers are intact, over the near term we expect the growth in auto industry to remain weak on the back of challenging economic environment and consequent weakness in consumer sentiments. We expect the auto industry to grow by 10% annually over FY13-15E driven by a recovery from 2HFY14E and led by a gradual recovery in the economic environment.

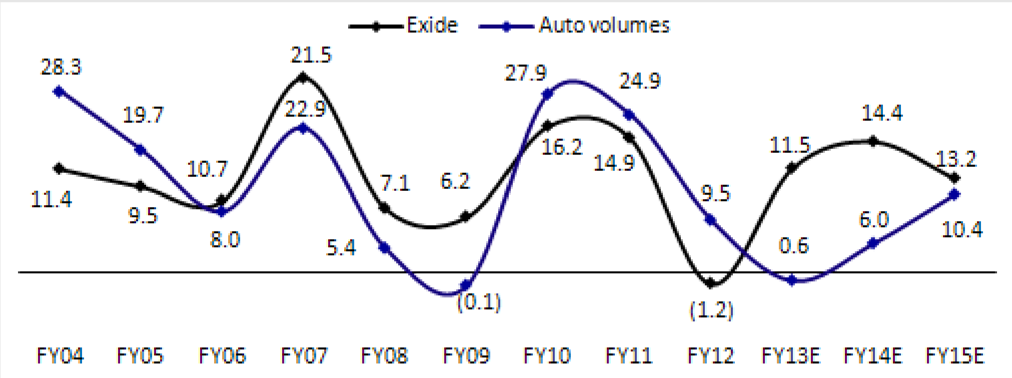
Auto industry to recover in FY15E driven by expected economic recovery from 2HFY14E



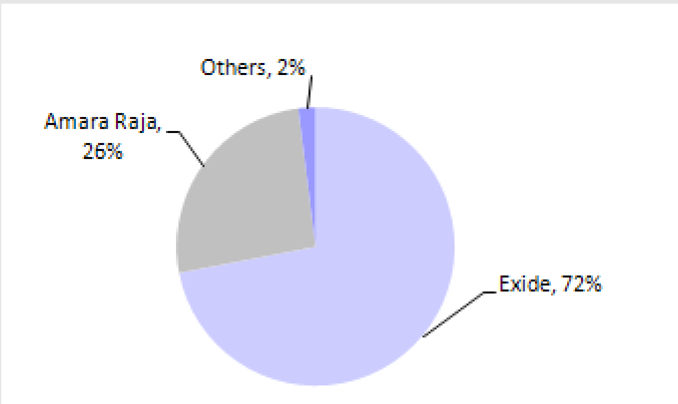
Auto volumes to register 10% CAGR over FY13-15E



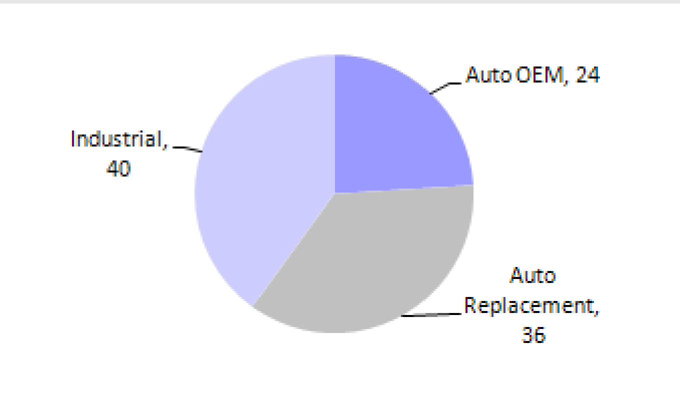
OEM demand recovery to further support Exide's auto batteries growth in FY15 (%)



Exide to be a key beneficiary with over 70% OEM share

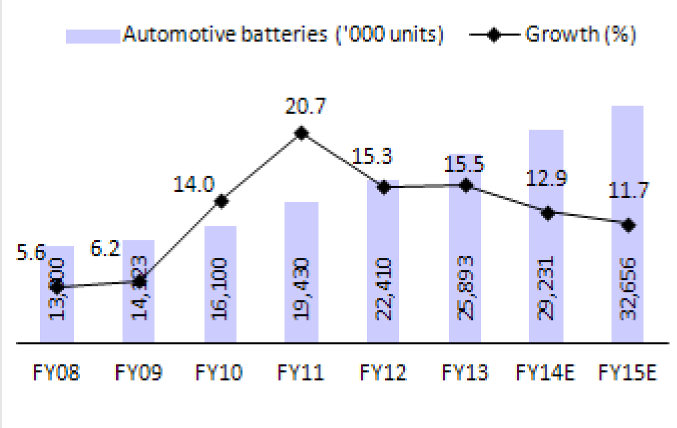


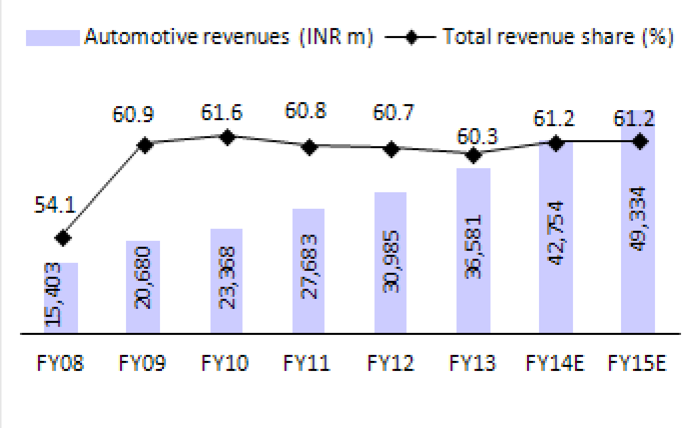
Auto OEMs constitute ~24% of Exide's revenue (est)



Source: Company, MOSL

Exide's automobile battery volumes, revenue growth to remain healthy over FY13-15E





Source: Company, MOSL

Large unorganized market provides big opportunity

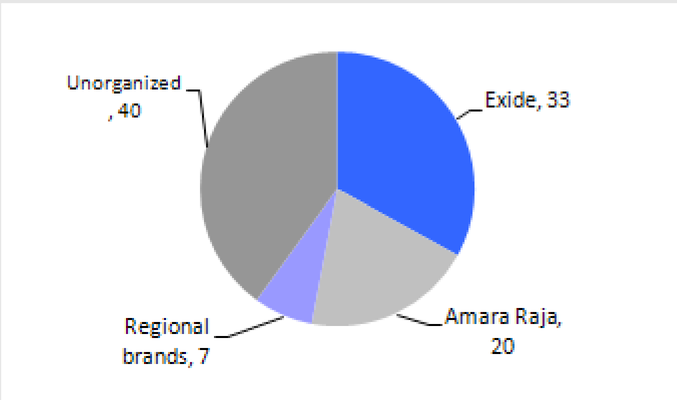
Commercial vehicles and tractor segment largely unorganized: The organized segment accounts for ~60% of replacement battery market, with rest of the market (unorganized) being highly fragmented and consists of several regional players and small manufacturers, especially for commercial vehicles and tractors. Unorganized players also enjoy competitiveness in cost conscious markets due to their lower pricing.

Unorganized segment competes on price: The unorganized sector, often unbranded, competes by selling products at a discount as it uses raw material procured through open market purchases of exhausted batteries.

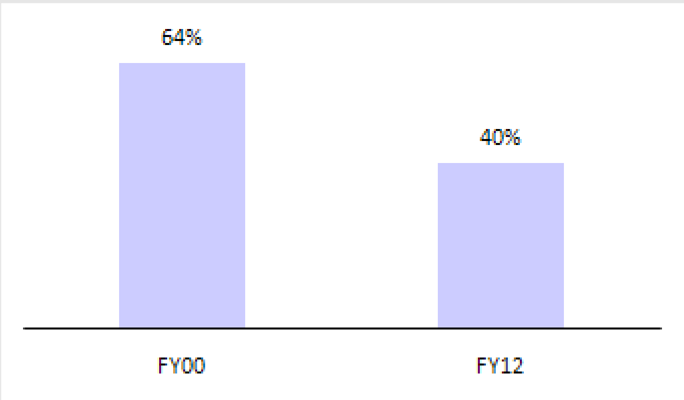
Unorganized segment provides huge opportunity: The unorganized segment offers organized players like Exide and Amara Raja a big opportunity due to increasing quality consciousness of consumers, unreliability of unbranded batteries, technological advancement in the automobile industry, environmental restrictions and focused efforts by organized players to increase their presence outside major cities, including parts of rural India.

Share of organized players increasing: Increased use of scrap batteries by organized players (leading to reduced raw material supply to unorganized players) and a shift in preference to branded batteries due to brand awareness is improving the share of players in the organized sector.

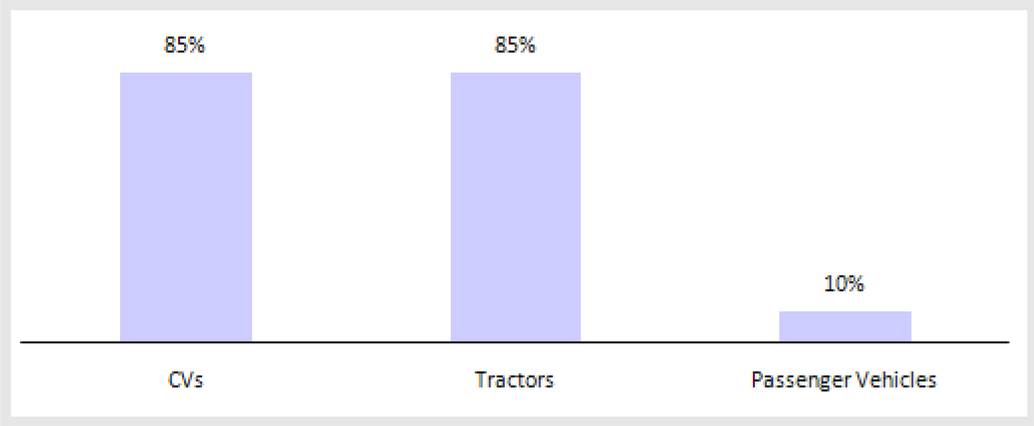
Unorganized players forms 40% of replacement market



Share of unorganized market has reduced over the years



Share of unorganized segment high in CVs and tractors



Source: Industry, MOSL

Exide, key beneficiary of strong replacement demand and gradual shift towards organized segment

As India's leading supplier to the OEM market with 70% share, Exide will be the key beneficiary of demand for replacement batteries and gradual shift from unorganized to organized segment. Majority of the consumers tend to buy the same battery brand as the factory fitted one when seeking for the first replacement battery in the aftermarket, relatively less in the second and beyond replacement cycles. Within the organized replacement segment, Exide is the market leader with ~33% share (~60% of the organized segment), followed by Amara Raja with ~20% share.

Moreover, to improve market share in the replacement segment, Exide is undertaking various measures as discussed below:

- **Launch of *Little Champ* (entry level) brand targeted towards unorganized segment:** *Little Champ* brand is being priced competitively to gain market share from the unorganized segment, particularly in the price sensitive segments like CVs, tractors and rural markets.
- **Focus on sales network:** Exide aims to leverage its superior sales network by doubling the current depot network from ~200 to ~500 over the next 3-4 years to drive market share improvement and volumes.
- **Marketing campaigns:** Exide has increased the sales promotion activities to further strengthen its brand.

Power back-up segment to drive industrial revenues

Power shortage and own inverter brand to be key growth driver

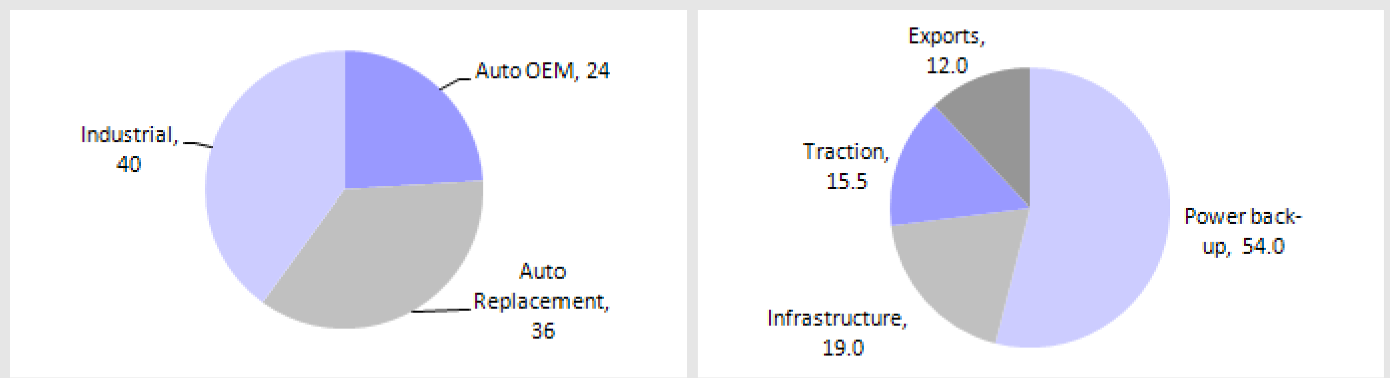
- **Valve regulated lead acid (VRLA) batteries are among the most widely used in the industrial segment. Exide offers industrial batteries ranging from 2.5Ah to 20,600Ah. The industrial segment contributes ~40% of revenue, driven by power back-up and infrastructure segments.**
- **Power back-up segment, comprising UPS and inverter segments, accounts for 54% (est) of industrial revenue. Telecom segment has been a major driver of the infrastructure segment.**
- **Continued power shortage and launch of own inverter brand to drive 13.9% industrial revenue CAGR over FY13-15E**
- **New avenues in railways, traction segment and exports could support industrial revenues.**

Exide is one of the largest players in the industrial batteries space which constituted 40% of its FY13 revenue. The industrial battery segment is estimated ~INR60b in revenues, with Amara Raja being the market leader followed by Exide.

Industrial batteries comprise of four key segments: 1) power b ack-up (inverters and UPS), 2) infrastructure (telecom), 3) railways and 4) exports. Industrial storage batteries in India are primarily used for power back-up, followed by usage in the infrastructure sector (~19% in railways, telecom, power) and traction.

Exide's revenue break-up

Industrial constitutes ~40% of Exide's revenue | **Power back-up constitutes over half of the industrial revenue**



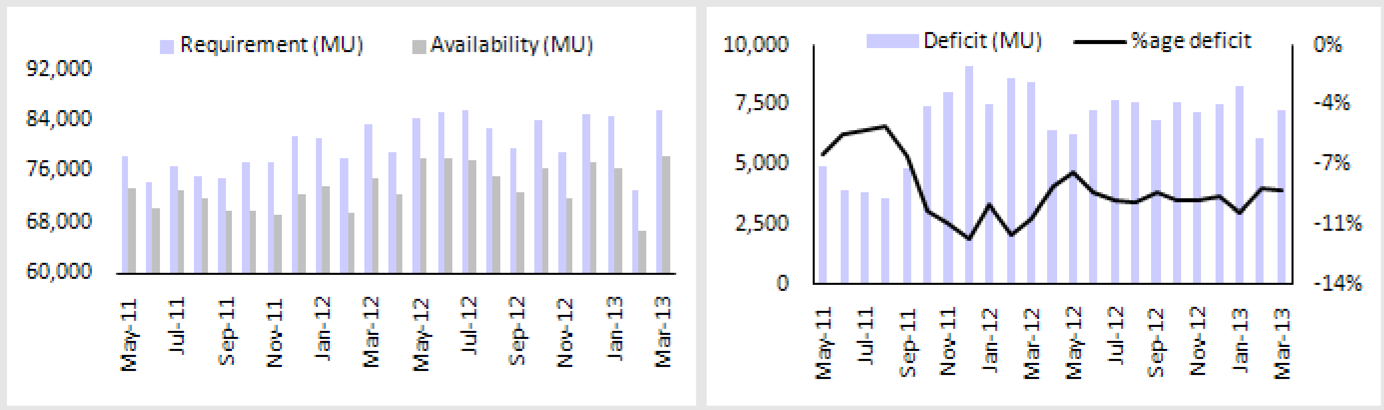
Source: Company, MOSL

Power back-up segment: Healthy momentum to continue

Power back-up segment can be classified into inverter and UPS systems (both contributing equally to power back-up revenues). These are used as power back-up for residential, retail and commercial usage to provide seamless flow of power to electronic machinery.

Power back-up industry has been witnessing strong growth in demand given the sharp power deficit, particularly in Southern states. Exide witnessed robust 20% growth in the power back-up segment in FY13.

Power deficit trend in India



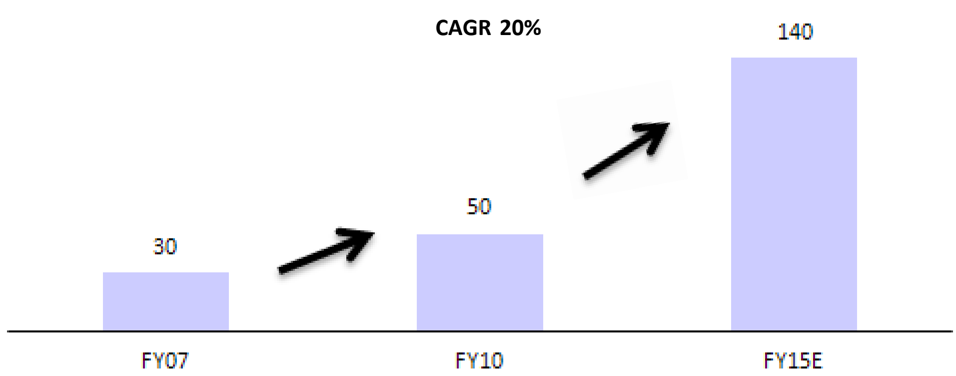
Source: Company, MOSL

According to Schneider Electric estimates, the Indian inverter and power storage market is expected to grow ~3x (from ~INR50b to ~INR140b over FY10-15E) driven by sustained electricity supply deficit, increased lower-tier town and rural penetration, higher load requirements and switch over from generators.

Schneider Electric forecast strong growth for Indian inverter and power storate market (INR b)

Growth drivers:

a) Sustained electricity supply deficit
b) Increased lower tier town & rural penetration
c) Higher load requirements
d) Switch over from generators



Source: Schneider Electric Investor Presentation

Exide has forward integrated into inverter manufacturing

Exide sold only UPS batteries that could be attached to inverters, which were then combined to form a home UPS solution. However, inverter companies have either started to manufacture the batteries themselves or buy white-label batteries from mass makers and rebrand them. Due to the loss in market share, Exide has integrated forward to manufacture inverters as well. Our industry interactions suggest that 60% of the inverters are sold through Exide's dealer network. We believe this forward integration would support healthy growth in the power back-up segment.

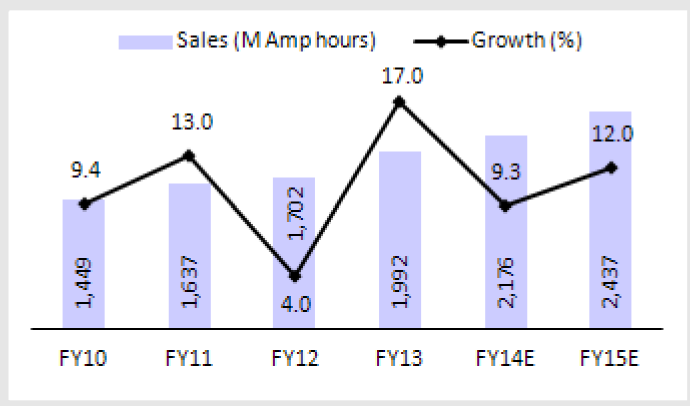
Infrastructure: Demand concerns remain, recovery dependent on economic revival

Infrastructure batteries segment volumes primarily reflect the demand from telecom (transmission towers), railways (train lighting, signaling, air conditioning, diesel locomotive starter) and power sector (for network related usage).

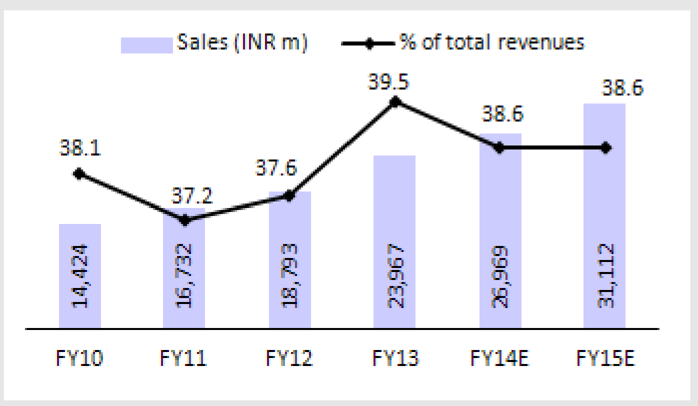
Telecom segment is the largest contributor to infrastructure revenues despite demand slowdown over the last few years. The boom in telecom towers over 2000-08 resulted in large capacity additions by all players. As telecom companies lowered their expansion plans and began sharing infrastructure, these capacities have been underutilized, leading to price war in the segment. Of late, however the segment has witnessed some pricing discipline. Demand from telecom segment is primarily driven by replacement requirements, as opposed to new roll-outs. This sector during the year has witnessed significant slowdown in both network expansion and up-gradation plans.

While over the near term, railways and power segments remain weak as well, this segment could pose healthy growth on increased government's focus on infrastructure. While batteries are used for signaling, train lighting and railway telecommunication, power segment requires batteries for generation, transmission and distribution.

Trend in industrial batteries volumes



Trend in industrial revenue



Source: Company, MOSL

Industry structure remains largely duopolistic but Amara Raja now a formidable competitor

Exide's pricing premium over competitors and consequent margins have been structurally impacted

- **With a surge in OEM demand in FY09, Exide was unable to supply to after-sales market due to capacity constraints, thus leading to a market share reduction to ~24% in FY12 from ~34% in FY10.**
- **While Exide is regaining the lost market share (currently at ~33%), the pace of gain has been gradual, despite pricing adjustments (pricing premium over competitors now at 4-5% v/s historical 8-10%) and higher promotional spends.**
- **Amara Raja, due to its innovative product introductions and aggressive marketing strategies, has emerged as a formidable competitor over the last few years.**
- **We believe Exide's pricing premium and consequent margins have been impaired structurally.**

Capacity constraints in FY09 led to market share loss in 4W replacement segment

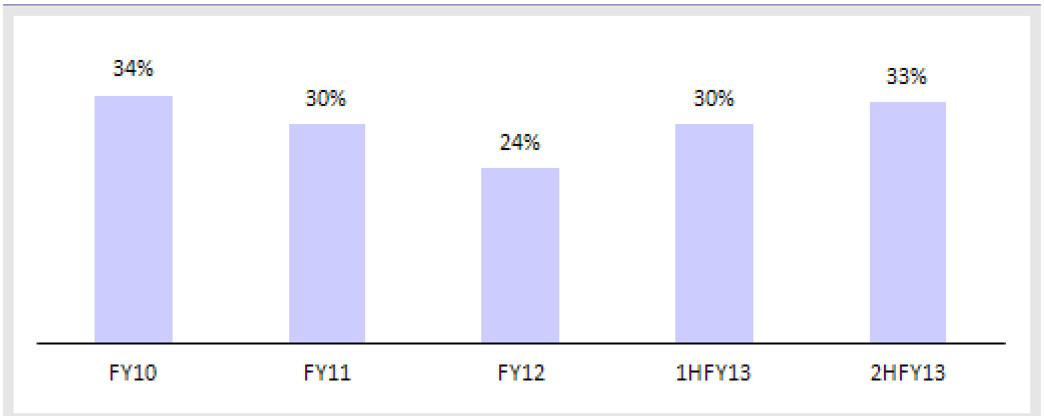
A sharp downturn in automobile volumes in FY09 led to under-investment in capacity creation by OEMs and automobile ancillary companies. However, with a surge in OEM demand in FY10-11, company prioritized sales to OEMs over replacement market, with a view that loss in OEM market share would be tough to regain. Moreover, it would also impact the demand generated in the 1st/2nd replacement cycles.

Curtailing supplies to the replacement market led to losing ground to the second-largest competitor (Amara Raja) and other regional players in the after-sales market. Hence, its market share in the 4W replacement segment declined from 34-35% in FY10 to ~24% in FY12.

Exide regains lost market share but at a price and time lag

Post capacity expansion, Exide has been able to regain lost market share (currently at ~33%) in 4W replacement segment. However, the gain has been slower-than-anticipated together with pricing reduction and higher marketing spends.

Exide gradually regains lost market share but at a price



Source: Company, MOSL

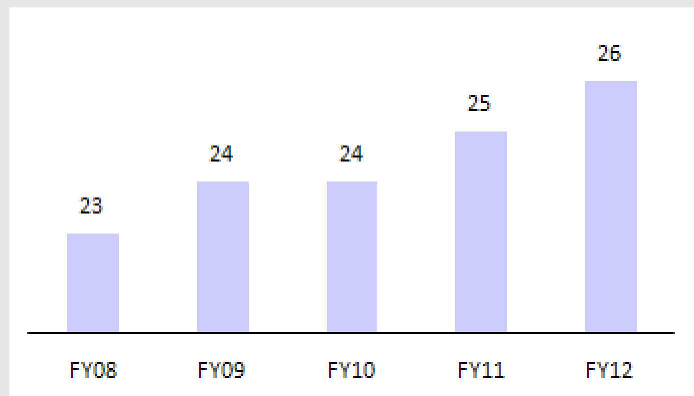
Amara Raja, now a formidable competitor to Exide; Pricing power and margins structurally narrowed

Innovatibe product introductions and aggressive market strategies have helped Amara Raja to gain share: With innovative product introductions (such as maintenance free batteries, pro rata warranties etc) with the help of JV partner (Johnson Control, USA) and aggressive marketing strategies (distributor-driven), Amara Raja has emerged as a formidable competitor to Exide over the last few years.

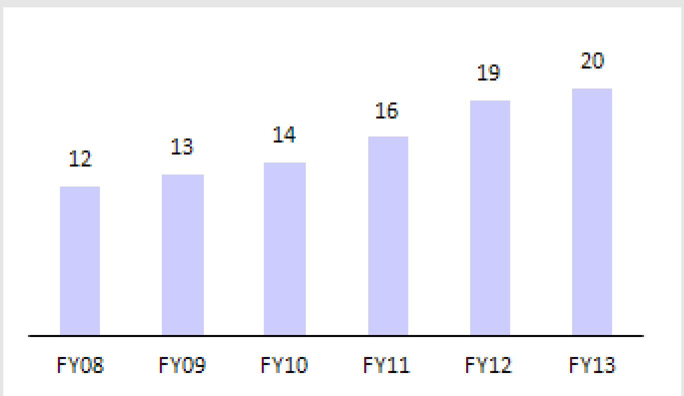
Quality perception difference between Exide and Amara Raja have reduced: Exide has acknowledged that consumers' perception about quality difference between Exide and Amara Raja has narrowed over the last few quarters. Thus, reducing pricing premium over Amara Raja (currently estimated at 4-5%) was necessary to improve market share and volumes.

Exide's pricing premium to Amara Raja to settle at current 4-5%: We believes Exide's pricing premium to the former would settle at current 4-5%, against earlier levels of 8-10%. The premium though is justified given Exide's strong distribution and service network. We believe Exide's pricing power and margins have been structurally impacted due to lower pricing premium and higher marketing spend. Further, Amara Raja's significant capacity addition scheduled for FY15 would result in sustained pressure.

Amara Raja's have risen in OEMs (%).....

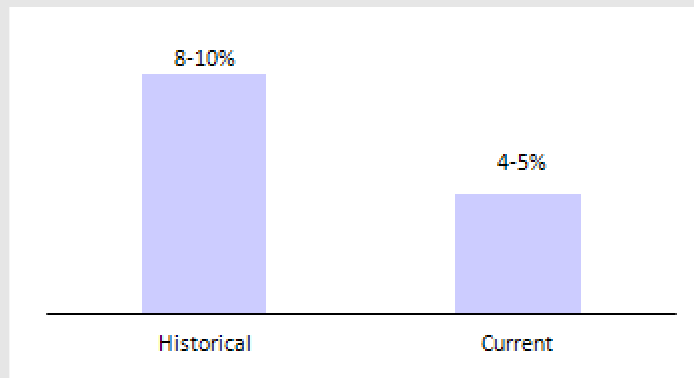


....as well as in 4W replacement segment (%)

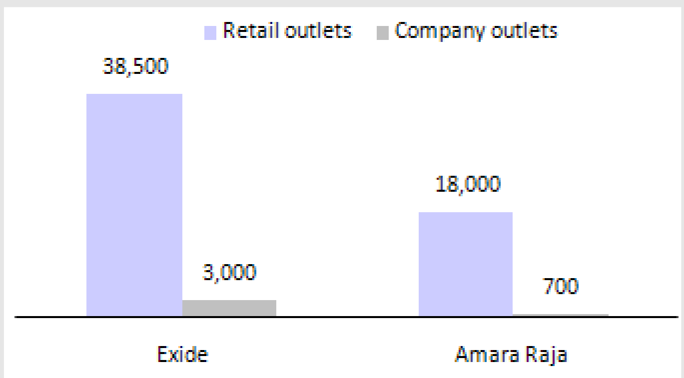


Source: Company, MOSL

Exide's pricing premium over peers has reduced to 4-5%...



...however, sustainable given its wide reach (Nos)

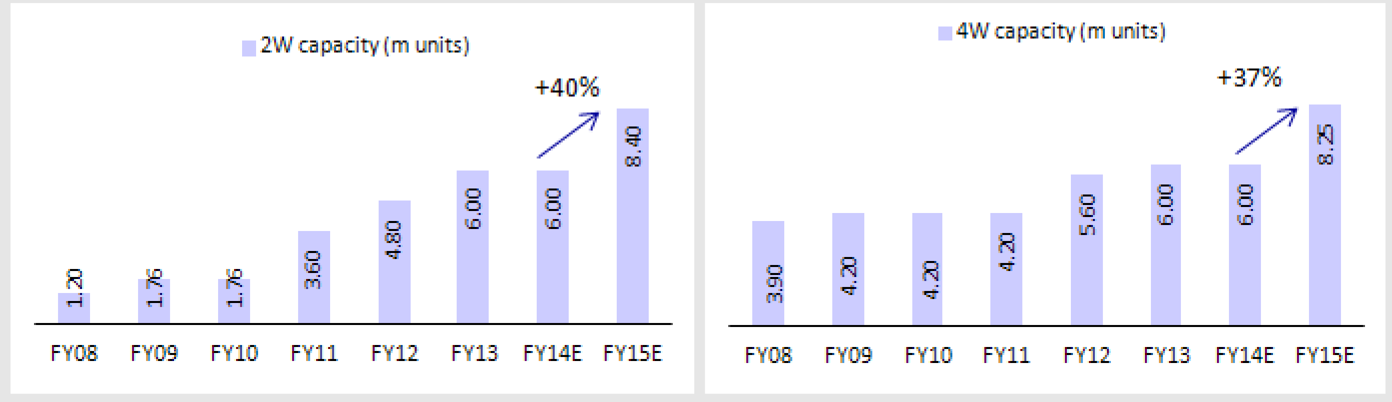


Source: Company, MOSL

Amara Raja's capacity addition by FY15 could test competitive dynamics

Amara Raja is investing ~INR7.6b over FY13-15E to increase its capacity significantly across all segments. In 4W batteries, it is enhancing its capacity from 5.60m units to 8.25m units, while in 2W battery it is raising capacity from 4.80m units to 8.40m units through green and brown field projects. In Industrial batteries, it is investing on the capacity enhancement in the medium and large VRLA batteries. In medium VRLA batteries, it is setting up green field capacity to increase capacity from 1.80m units to 3.60m units, while in large VRLA batteries it is expanding at its current plant from 750m Ah to 900m Ah by 3QFY 14.

Key competitor Amara Raja plans aggressive capacity addition both in 2W and 4W segment



Source: Company, MOSL

OEM demand recovery 2HFY14 onwards to drive margins

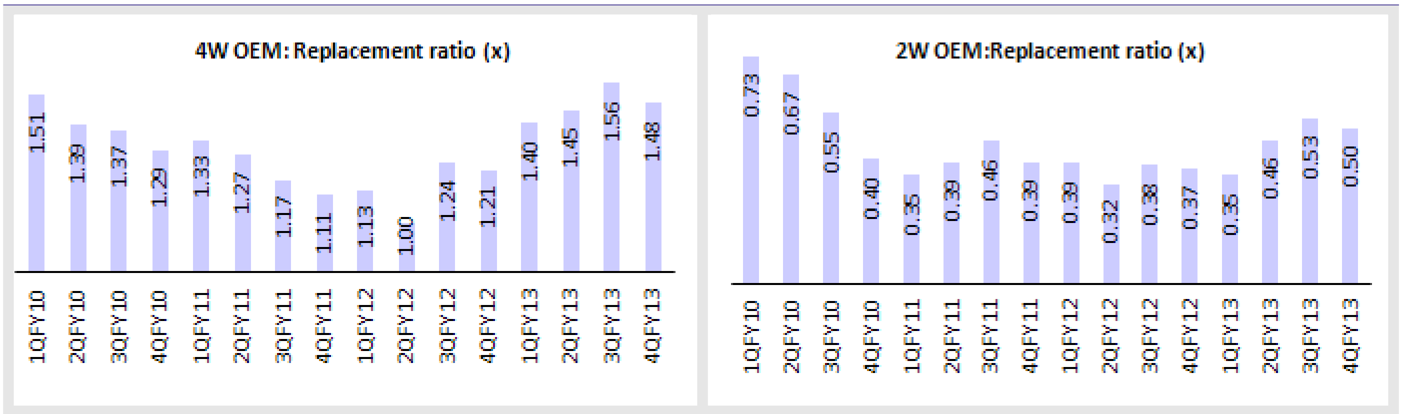
Amara Raja's ~40% capacity addition though to restrict pace of recovery

- **While OEM is a low margin segment (typical gross margins of 5-6%), it provides the necessary operating leverage benefits as it constitutes 40-45% of Exide's total volumes.**
- **OEM demand recovery from 2HFY14E, continuance of strong replacement demand and ramp-up in inverters to drive ~170bp EBITDA margin improvement to 14.7% in FY14E.**
- **However, new capacity addition by competition (~40% by FY15) would result in ~30bp moderation in FY15 margins to 14.4%.**
- **We estimate the product mix to improve over FY13-15E driven by a) continued strength in 4W replacement demand, reflecting higher OEM demand in FY10-11 and dieselization trend in FY12-13, b) continued traction in inverters, with the launch of own brand and c) emerging opportunity from two-wheeler segment.**

We expect margins to improve by 140bp to 14.4% over FY13-15E driven by:

- **OEM demand recovery 2HFY14 onwards providing operating leverage:** While near term OEM demand is expected to remain weak, we expect the auto industry to grow by 10% annually over FY13-15E driven by economic recovery and consequent improvement in consumer sentiments.
- **Continued strength in 4W replacement segment:** We expect replacement segment demand to remain strong, reflecting healthy FY10-11 OEM demand, higher dieselization (over FY12-13) together with market share gains from unorganized segment in CVs and tractors, we expect 4W replacement segment to remain strong.
- **Higher growth from two-wheeler replacement battery segment**: Rising share of electric-start motorcycles coupled with shorter replacement cycles and higher realizations would continue to drive strong growth in two-wheeler segment.
- **Continued power shortage and launch of own brand to drive healthy growth in inverters:** Our industry interactions suggest that 60% of the inverters in the industry are sold through Exide's dealer network. Hence, we believe Exide's forward integration into inverter manufacturing would drive growth in the inverter segment. Additionally, continued power shortage (particularly southern market) would keep the demand for inverter segment healthy.

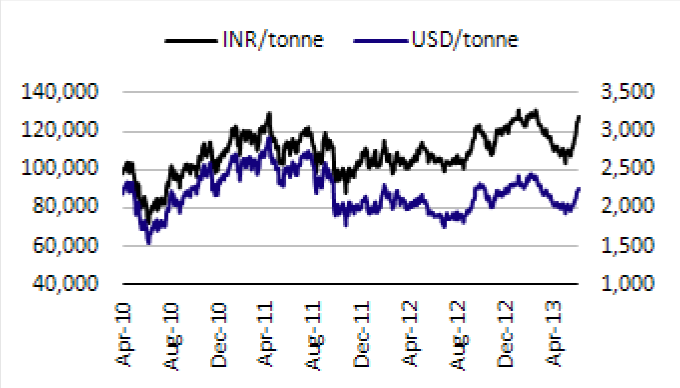
OEM:Replacement ratio have improved led by healthy demand from the replacement segment



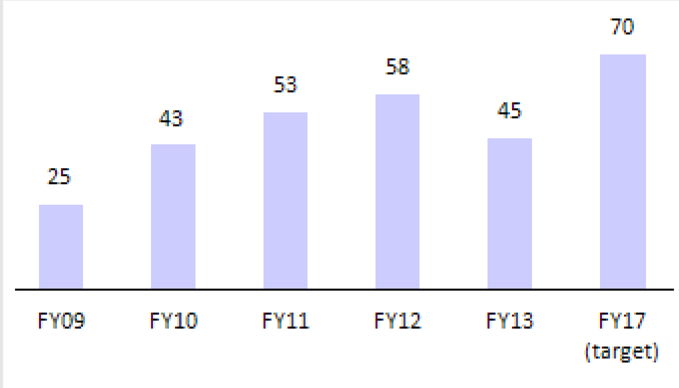
Source: Company, MOSL

Over the past few weeks, lead prices have again shown a rising trend. Lead is the key raw material and thus could impact Exide's profitability. However, higher sourcing from captive smelters could provide cost benefits (~6-8%) . Exide plans to increase sourcing from captive smelters to 70% by FY17 from 45% in FY13.

Lead prices have risen over past few weeks



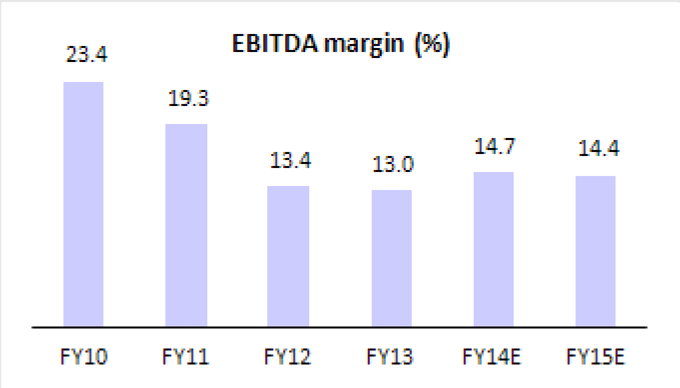
Higher sourcing from captive smelters could benefit (%)



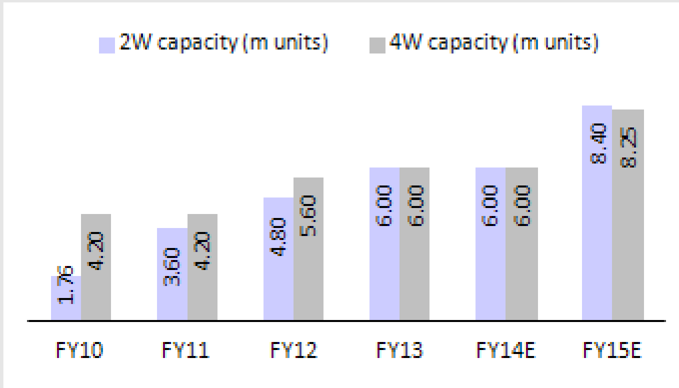
Source: Company, MOSL

While we expect profitability to improve, it is expected to remain lower than historical avareages on higher competitive intensity.

Margins to improve but to remain below historical average



Amara Raja's capacity expansion to restrict margin expansion



Source: Company, MOSL

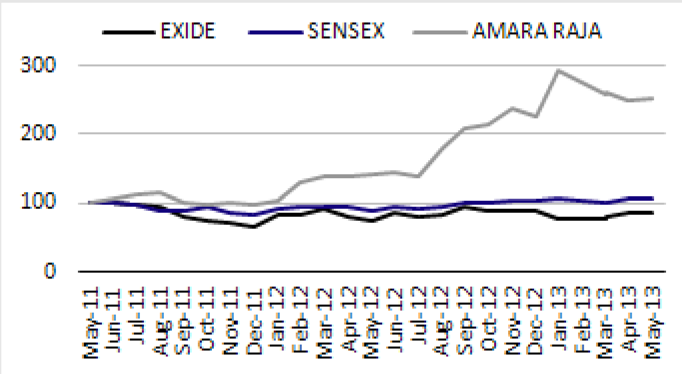
Initiating coverage with Neutral rating

Better operating performance prospects factored in current valuations

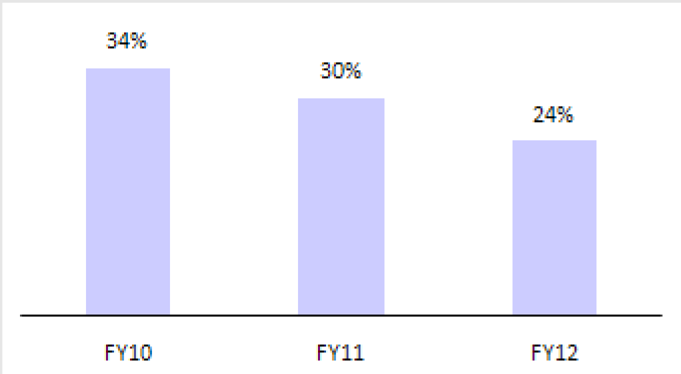
- **Exide has underperformed the Sensex and Amara Raja (since May 2011) on concerns related to 4W replacement market share loss , thus leading to pricing adjustments and a hit on margins.**
- **Management's acknowledgement that consumers' perception about quality difference between Exide and Amara Raja has narrowed over the last few quarters indicates that Exide's pricing premium and consequent margins have structurally narrowed.**
- **However, OEM demand recovery 2HFY14E onwards coupled with contineud strength in 4W replacement and inverters to drive ~140bp EBITDA margin improvement to 14.4% and EBITDA and PAT CAGR of 21% each over FY13-15E.**
- **Given the changes in competitive positioning, higher earnings volatility recently and lower-than-historical return ratios (structurally lower margins due to higher competitive pressures), we value Exide at an implied PE of 15.5x (10% discount to LPA), with 14x FY15E S/A EPS and INR15/share for the insurance business.**
- **Key risks: faster recovery in OEM demand, higher-than-anticipated competitive pressures, volatility in lead prices.**

Exide has underperformed the Sensex and Amara Raja (since May 2011) on concerns related to market share loss in 4W replacement segment, thus leading to pricing adjustments and a hit on margins.

Exide underperformed Sensex post first price cut in May-11



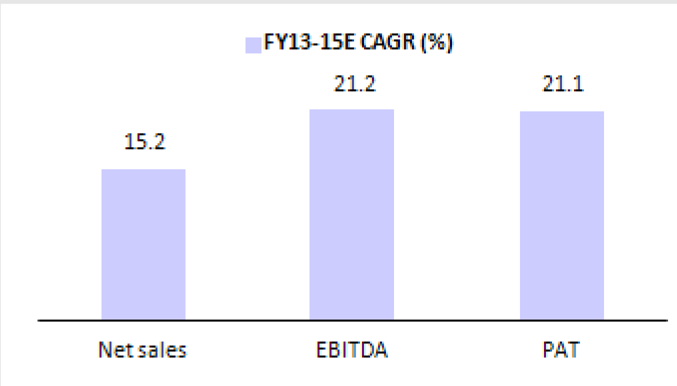
Market share loss in 4W replacement segment



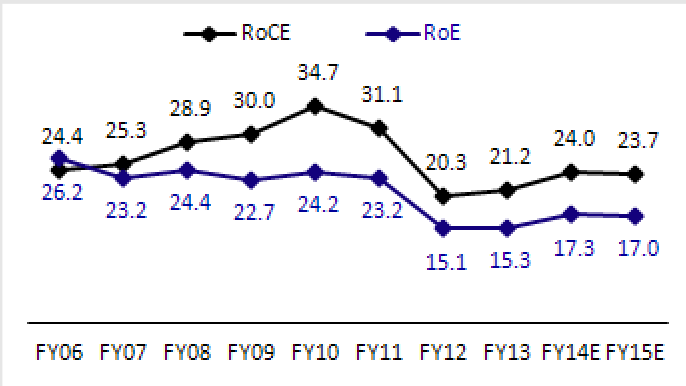
Source: Company, MOSL

OEM demand recovery 2HFY14 onwards and continued strength in 4W replacement and inverters to drive 140bp margin rise to 14.4% over FY13-15E. We expect Exide to post 15.2% revenue CAGR, and 21.2% EBITDA and PAT CAGR over FY13-15E.

Financial performance across key parameters

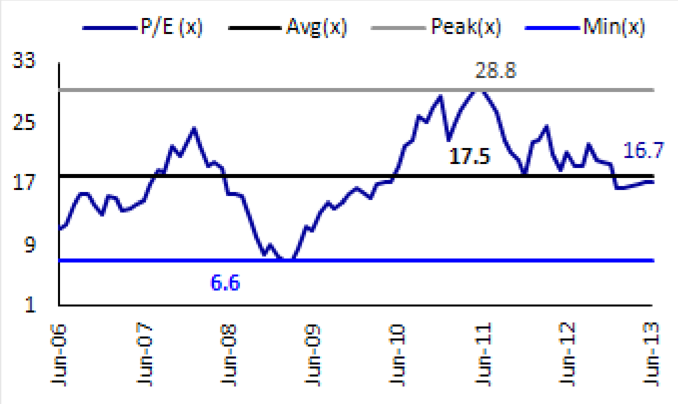


Return ratios to improve but lower than historical average (%)

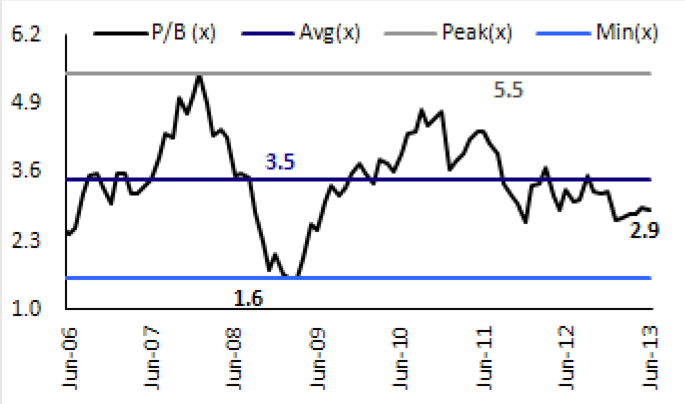


Given the changes in competitive positioning, higher earnings volatility recently and lower-than-historical return ratios (structurally lower margins due to higher competitive pressures), we value Exide at an implied PE of 15.5x (10% discount to LPA), with 14x FY15E S/A EPS and INR15/share for the insurance business.

Exide Inds: PE Chart



Exide Inds: PB Chart



Investment in Insurance business, a drag on return ratios and an overhang on valuations

In FY06, Exide entered into the life insurance business with acquiring 50% stake in ING Vysya Life Insurance Company (IVL) with an investment of INR2.6b. The acquisition was made with a view to generating long term returns to shareholders, since India is a large and under-penetrated market.

Recently, Exide entered into an agreement to buy out its partners and raise its stake in IVL from 50% to 100% for INR5.5b. Following this transaction, cumulative investment by Exide in IVL will rise to INR12.94b (INR15/share of Exide).

Exide's acquisition of this 50% tranche values the business at ~3.7x P/B (tangible book value, adjusting for accumulated losses). This deal valuation implies IVL value of ~INR11b (v/s Exide's total investment of ~INR12.9b).

We note that over the past three years, Exide's investment into ING has been constant, with ING not requiring any additional capital. We view the lack of any cash flow drain as a positive for Exide. Moreover, Exide also announced that it is looking for another international life insurance company to invest into IVL to fund future expansion.

However, given its weak financial performance, it will continue to be a drag on return ratios as ~36% of Exide's capital employed (INR13b) is invested in this business. Moreover, Exide might have to infuse funds to recapitalize the business in the absence of finding a suitable partner.

We value Exide's stake in IVL at 12x NBAP, which adds INR15/share to valuations (i.e INR12b).

Valuation of Exide's stake in ING Life Insurance (100% stake)

(INR m)	FY14E	FY15E
APE	5,988	6,887
Growth (%)	15.0	15.0
NBAP Margin (%)	15.0	15.0
NBAP	898	1,033
NBAP Multiple (x)	12.0	12.0
Value of ING Life Insurance (INR b)	11	12
Exide's share (100% stake, INR b)	10.8	12.4
A. Intrinsic value (INR/share)	**12.7**	**14.6**
B. Transaction Value (INR/share)		**12.9**
Exide acquired remaining 50% stake for INR5.5b		
C. Actual cost (INR/share)		**15.3**

Source: Company, MOSL

Key assumptions

	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Automotive Batteries						
Two Wheelers						
Volumes ('000 nos)	8,700	10,930	13,910	16,414	18,383	20,681
Growth (%)	12.2	25.6	27.3	18.0	12.0	12.5
Sales (INR m)	4,440	5,941	7,938	9,789	11,402	13,340
Growth (%)	14.8	33.8	33.6	23.3	16.5	17.0
% of Auto segment revenues	19.0	21.5	25.6	26.8	26.7	27.0
Four Wheelers						
Volumes ('000 nos)	7,400	8,500	8,500	9,479	10,848	11,975
Growth (%)	16.2	14.9	-	11.5	14.4	10.4
Sales (INR m)	18,928	21,742	23,047	26,792	31,352	35,994
Growth (%)	12.6	14.9	6.0	16.3	17.0	14.8
% of Auto segment revenues	81.0	78.5	74.4	73.2	73.3	73.0
Total Auto Segment Volumes (nos)	**16,100**	**19,430**	**22,410**	**25,893**	**29,231**	**32,656**
Growth (%)	14.0	20.7	15.3	15.5	12.9	11.7
Auto Segment Sales (INR m)	**23,368**	**27,683**	**30,985**	**36,581**	**42,754**	**49,334**
Growth (%)	13.0	24.9	6.4	17.8	16.9	15.4
% of total revenues	61.7	61.5	62.0	60.2	61.2	61.2
Industrial Batteries						
Sales (M Amp hours)	1,449	1,637	1,702	1,992	2,176	2,437
Growth (%)	9.4	13.0	4.0	17.0	9.3	12.0
Sales (INR m)	14,424	16,732	18,793	23,967	26,969	31,112
Growth (%)	10.4	16.0	12.3	27.5	12.5	15.4
% of total revenues	38.1	37.2	37.6	39.5	38.6	38.6
Total Sales (INR m)	**37,890**	**45,035**	**49,948**	**60,718**	**69,910**	**80,652**
Growth (%)	11.8	20.0	12.2	18.9	15.1	15.4

Source: Company, MOSL

Financials and Valuation

Income Statement (INR Million)

Y/E March	2011	2012	2013	2014E	2015E
Net Sales	**45,536**	**51,070**	**60,768**	**69,910**	**80,652**
Change (%)	20.0	12.2	19.0	15.0	15.4
Total Income	**45,536**	**51,070**	**60,768**	**69,910**	**80,652**
Change (%)	20.0	12.2	19.0	15.0	15.4
Total Expenditure	36,748	44,232	52,873	59,625	69,054
EBITDA	**8,788**	**6,839**	**7,895**	**10,284**	**11,597**
EBITDA Margins (%)	19.3	13.4	13.0	14.7	14.4
Change (%)	-1.2	-22.2	15.4	30.3	12.8
Depreciation	835	1,007	1,135	1,244	1,394
EBIT	**7,953**	**5,832**	**6,760**	**9,041**	**10,204**
Interest & Finance Charges	57	53	42	9	9
Other Income	1,038	673	704	663	753
PBT	**9,404**	**6,452**	**7,423**	**9,695**	**10,947**
Tax	2,740	1,840	2,195	2,908	3,284
Effective Rate (%)	29.1	28.5	29.6	30.0	30.0
Rep. PAT	**6,664**	**4,612**	**5,228**	**6,786**	**7,663**
Change (%)	24.1	-30.8	13.4	29.8	12.9
Adj. PAT	**6,349**	**4,612**	**5,228**	**6,786**	**7,663**
Change (%)	18.2	-27.4	13.4	29.8	12.9

Balance Sheet (INR Million)

Y/E March	2011	2012	2013	2014E	2015E
Share Capital	850	850	850	850	850
Reserves	26,575	29,723	33,386	38,432	44,106
Net Worth	**27,425**	**30,573**	**34,236**	**39,282**	**44,956**
Loans	815	584	71	71	71
Deferred Tax Liability	675	825	977	1,073	1,183
Capital Employed	**28,915**	**31,982**	**35,284**	**40,427**	**46,210**
Gross Fixed Assets	15,600	17,747	19,475	21,975	24,475
Less: Depreciation	7,242	8,081	9,293	10,537	11,930
Net Fixed Assets	**8,358**	**9,666**	**10,182**	**11,439**	**12,545**
Capital WIP	660	319	350	350	350
Investments	13,780	15,546	16,401	16,401	16,401
Curr.Assets, L & Adv.	**13,272**	**15,413**	**18,550**	**22,148**	**28,329**
Inventory	8,589	9,681	11,671	12,852	14,164
Sundry Debtors	3,662	4,023	5,092	5,666	6,316
Cash & Bank Balances	147	577	748	2,079	6,061
Loans & Advances	762	1,079	998	1,478	1,705
Other Current Assets	111	53	41	73	84
Current Liab. & Prov.	**7,155**	**8,962**	**10,200**	**9,911**	**11,415**
Sundry Creditors	4,074	5,212	5,604	6,447	7,438
Other Liabilities	1,719	2,104	2,625	958	1,105
Provisions	1,362	1,646	1,971	2,507	2,873
Net Current Assets	**6,117**	**6,452**	**8,351**	**12,237**	**16,914**
Application of Funds	**28,915**	**31,982**	**35,284**	**40,427**	**46,210**

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2011	2012	2013	2014E	2015E
Basic (INR)					
EPS	7.5	5.4	6.2	8.0	9.0
Standalone EPS	7.5	5.4	6.2	8.0	9.0
Cash EPS	8.5	6.6	7.5	9.4	10.7
EPS Growth (%)	18.2	-27.4	13.4	29.8	12.9
Book Value per Share	32.3	36.0	40.3	46.2	52.9
DPS	1.5	1.5	1.6	1.8	2.0
Payout (Incl. Div. Tax) %	20.1	27.6	26.0	21.9	22.2
Valuation (x)					
P/E			21.2	16.3	14.5
Cash P/E			17.4	13.8	12.2
EV/EBITDA			11.9	9.0	7.6
EV/Sales			1.5	1.3	1.1
Price to Book Value			3.2	2.8	2.5
Dividend Yield (%)			1.2	1.3	1.5
Profitability Ratios (%)					
RoE	23.2	15.1	15.3	17.3	17.0
RoCE	31.1	20.3	21.2	24.0	23.7
Turnover Ratios					
Debtors (Days)	29	29	31	30	29
Inventory (Days)	69	69	70	67	64
Creditors (Days)	33	37	34	34	34
Working Capital (Days)	66	61	67	63	59
Leverage Ratio					
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement (INR Million)

Y/E March	2011	2012	2013	2014E	2015E
OP/(Loss) before Tax	9,404	6,452	6,760	9,041	10,204
Interest/Dividends Received	-742	-584	704	663	753
Depreciation & Amortisation	835	1,007	1,135	1,244	1,394
Direct Taxes Paid	-2,816	-1,842	-2,044	-2,812	-3,175
(Inc)/Dec in Working Capital	-2,026	67	-1,728	-2,555	-696
Other Items	-206	3	77	0	0
CF from Oper. Activity	**4,447**	**5,102**	**4,905**	**5,581**	**8,480**
Extra-ordinary Items	-469	0	0	0	0
Other Items	0	0	0	0	0
CF after EO Items	**3,978**	**5,102**	**4,905**	**5,581**	**8,480**
(Inc)/Dec in FA+CWIP	-2,160	-1,991	-1,760	-2,500	-2,500
(Pur)/Sale of Invest.	315	-1,239	-855	0	0
CF from Inv. Activity	**-1,845**	**-3,230**	**-2,615**	**-2,500**	**-2,500**
Issue of Equity	-2	0	26	0	0
Inc/(Dec) in Debt	-672	-22	-512	0	0
Interest Rec./(Paid)	-59	-50	-42	-6	-6
Dividends Paid	-1,282	-1,371	-1,591	-1,740	-1,989
CF from Fin. Activity	**-2,014**	**-1,443**	**-2,119**	**-1,746**	**-1,995**
Inc/(Dec) in Cash	**119**	**429**	**170**	**1,335**	**3,984**
Add: Beginning Balance	29	147	577	748	2,082
Closing Balance	**148**	**577**	**747**	**2,083**	**6,067**

E: MOSL Estimates

N O T E S

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