

Amara Raja

Estimate change	↑
TP change	↑
Rating change	↓

Bloomberg	AMRJ IN
Equity Shares (m)	171
M.Cap.(INRb)/(USDb)	111.6 / 1.4
52-Week Range (INR)	814 / 350
1, 6, 12 Rel. Per (%)	16/5/19
12M Avg Val (INR M)	527

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	68.4	66.1	74.3
EBITDA	11.0	11.1	12.1
Adj. PAT	6.6	6.1	6.8
EPS (INR)	38.7	35.7	39.9
EPS Gr. (%)	36.7	-7.7	11.9
BV/Sh. (INR)	214	238	264

Ratios

RoE (%)	18.9	15.8	15.9
RoCE (%)	18.6	15.6	15.7
Payout (%)	34.1	34.1	34.1

Valuations

P/E (x)	16.9	18.3	16.4
P/BV (x)	3.1	2.8	2.5
Div. Yield (%)	1.7	1.6	1.7
FCF Yield (%)	4.3	4.4	1.9

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	28.1	28.1	52.1
DII	11.6	11.1	10.7
FII	20.9	21.2	19.4
Others	39.4	39.6	17.9
FII Includes depository receipts			

CMP: INR654 TP: INR719 (+10%) Downgrade to Neutral Above est.; Mix drives margins; Downgrade to Neutral

Market share gains from unorganized continues

- AMRJ's 4QFY20 performance beat was driven by a better mix (lower OEM sales). While aftermarket continued with strong growth, endorsing our view of value migration from unorganized, 4Q saw recovery in Telecom.
- We downgrade rating to Neutral as valuations fairly reflects for recovery and market share gains. Our TP is INR719 (18x Mar'22 EPS, 10% discount to 10 year LPA).

All segments perform well, except OEM; Margins driven by mix

- 4QFY20 revenue/EBITDA/PAT grew 0.9%/0.4%/14.5% YoY to ~INR15.8b/INR2.4b/INR1.4b. FY20 revenues/EBITDA/PAT grew 0.7%/15%/37% YoY to ~INR 68.4b/INR11b/INR6.6b.
- In 2W, OEM volumes grew 25%, driven by the addition of two new OEMs. The aftermarket also grew 18–19%. 4W volumes were flat as growth in replacement and exports was offset by a 20% fall in OEM. Telecom grew 6% and inverter sales were flat due to lost sales in a seasonally strong March.
- Gross margins expanded 150bp YoY (+80bp QoQ) to ~36.3% (est.: ~35.3%), driven by a better mix (lower OEM sales). Lead prices saw 2% QoQ inflation (in 3QFY20 as the impact was witnessed with a quarter lag).
- EBITDA margins were flat YoY (-80bp QoQ) at ~15.4% (est.: ~15.7%) as the benefit of the mix was offset by operating deleverage.
- EBITDA was flat YoY at ~INR2.4b (est.: ~INR2.23b). PAT grew 14.5% YoY to ~INR1.37b (est.: INR 1.2b), led by a lower tax rate.

Highlights from management commentary

- **Status of operations:** Retail sales by the end of May were over 60% of the normal, with most of the channels operational. There was reasonable traction in Tractors, Inverter, 2W, and 4W as pent-up demand was observed to be returning.
- Exports (10% of revenues) grew strongly in FY20 in both Auto and Industrial in the Indian Ocean Rim markets. With a presence in most of the markets, it has a premium positioning and serves 25–30% of the addressable market.
- **Stamped grid:** In 2W, products were launched in the aftermarket and in the testing stages for OEMs. In 4W, implementation would be witnessed in due course. It offers the benefit of cleaner and efficient operations; process flexibility, enabling the creation of product variants; and RM savings.
- **Tie-up with Gridtential Energy** for bipolar batteries for application in low-end traction batteries, commercial UPS etc. as it offers better reliability.
- **Telecom:** It gained market share in FY20, returning to over 65%.
- **Capex:** INR3.5–4b in FY21 would be for automotive capacity expansion, debottlenecking, and maintenance capex.

Valuation and view

- The stock trades at valuations of 18.3x/16.4x FY21/FY22 EPS. Downgrade to Neutral with TP of INR719.

Quarterly Performance

(INR M)

	FY19				FY20				FY19	FY20	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Net Sales	17,787	17,531	16,947	15,667	18,150	16,953	17,478	15,814	67,931	68,395	14,594
YoY Change (%)	18.8	22.8	9.1	-0.9	2.0	-3.3	3.1	0.9	12	0.7	-6.9
EBITDA	2,203	2,366	2,528	2,421	2,792	2,923	2,840	2,432	9,518	10,986	2,288
Margins (%)	12.4	13.5	14.9	15.5	15.4	17.2	16.2	15.4	14.0	16.1	15.7
Depreciation	630	643	657	683	733	750	765	760	2,612	3,007	785
Interest	15	18	18	19	29	34	29	30	70	122	23
Other Income	137	142	125	63	102	180	128	141	468	551	140
PBT after EO	1,695	1,848	1,978	1,783	2,132	2,319	2,174	1,783	7,304	8,407	1,620
Tax Rate (%)	33.3	34.9	33.8	33.0	33.9	5.6	24.4	23.4	33.8	21.4	25.6
Adj PAT	1,130	1,202	1,309	1,193	1,409	2,189	1,644	1,366	4,835	6,608	1,205
YoY Change (%)	-58.7	-5.5	-2.6	8.7	24.7	82.0	25.6	14.5	2.6	36.7	0.9

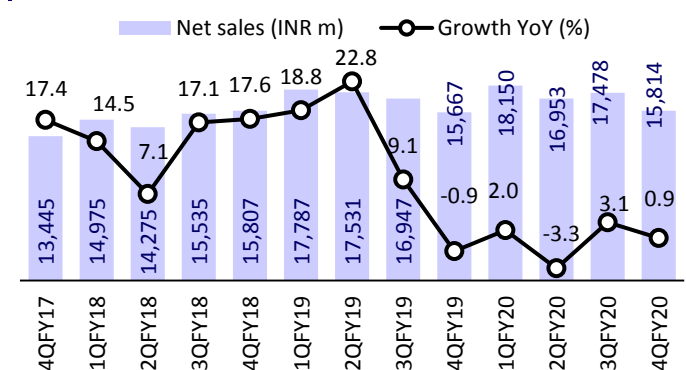
Key Performance Indicators

	FY19				FY20				FY19	FY20	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
RM Cost (% of sales)	71.5	69.1	67.2	65.2	67.6	64.1	64.5	63.7	68.4	65.0	66.8
Staff Cost (% of sales)	4.7	5.3	5.1	5.2	5.4	5.8	5.4	5.9	5.1	5.6	5.6
Other Exp (% of sales)	11.4	12.1	12.7	14.1	11.6	12.8	13.9	15.0	12.5	13.3	11.5
Gross Margin (%)	28.5	30.9	32.8	34.8	32.4	35.9	35.5	36.3	31.6	35.0	35.3
EBITDA Margin (%)	12.4	13.5	14.9	15.5	15.4	17.2	16.2	15.4	14.0	16.1	15.7
Lead Price (INR/Kg)	158.8	145.3	140.7	142.4	130.1	141.8	144.5	132.5	146.8	137.2	132.5
Change (%)	14.7	-2.3	-12.1	-11.6	-18.1	-2.4	2.7	-7.0	-3.5	-6.5	-7.0

E: MOFSL Estimates

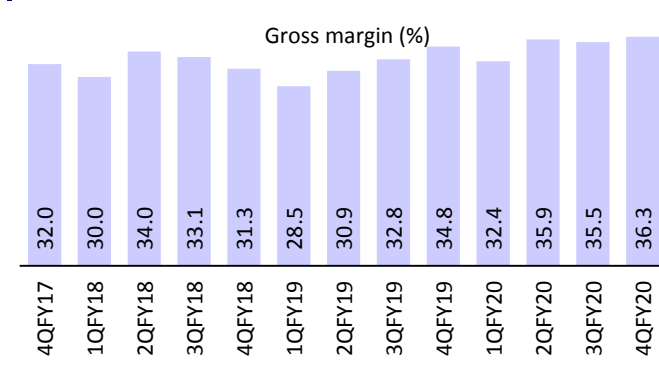
Key Exhibits

Exhibit 1: Trend in revenues and growth



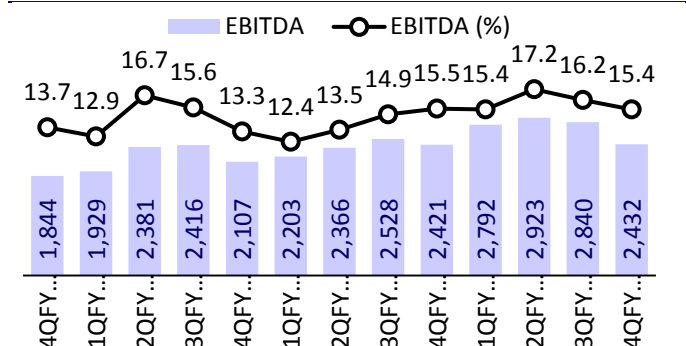
Source: Company, MOFSL

Exhibit 2: Trend in gross margins



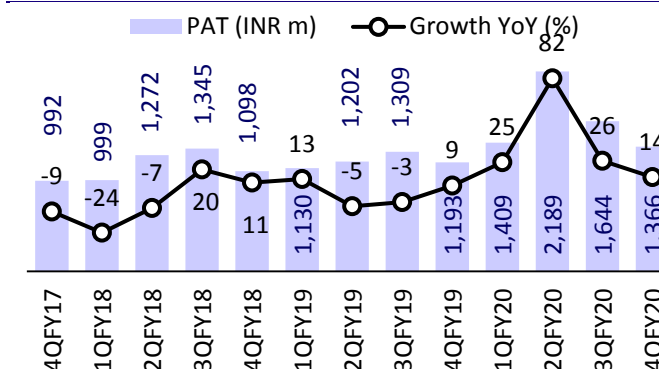
Source: Company, MOFSL

Exhibit 3: Trend in EBITDA and EBITDA margins



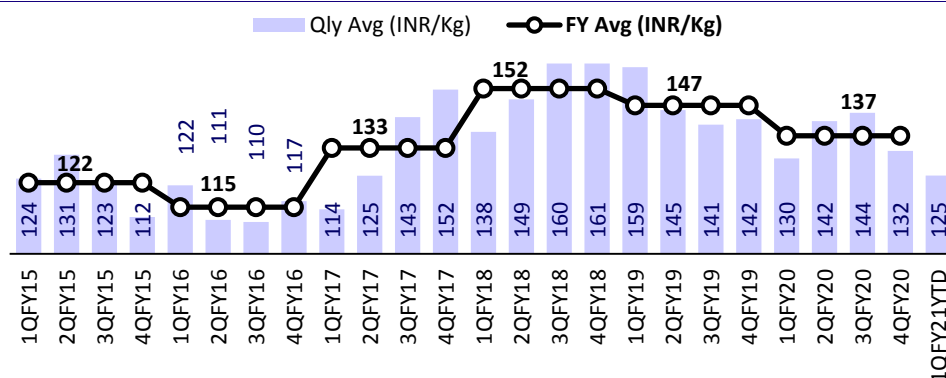
Source: Company, MOFSL

Exhibit 4: PAT and growth trend



Source: Company, MOFSL

Exhibit 5: Spot lead prices ~9% higher than 1QFY20 average, but still ~5% lower than FY19 average



Source: Company, MOFSL

Valuation and view

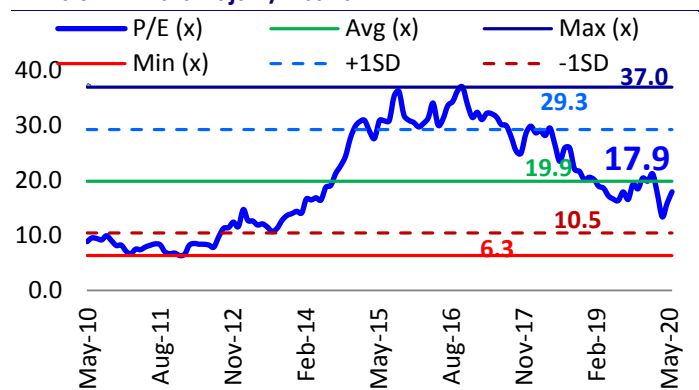
- Industry structure remains duopoly, but AMRJ strong at second position:** While the industry structure remains largely duopoly, AMRJ has emerged as a formidable challenger to leader EXIDE, with market leadership in the Telecom (55% share in 4QFY19) and UPS (32–35%) segments and fast-gaining share in Auto. Over FY04–16, AMRJ clocked a CAGR of 34% and 68% in net sales and PAT, respectively, far exceeding EXIDE's 20% CAGR in each net sales and PAT. This was driven by a combination of technological innovation (first to introduce maintenance-free, factory-charged, extended-warranty batteries), witty advertising, and a unique distribution model (franchisee-based), supported by operational efficiency led competitive pricing.

- **AMRJ – Gearing up to lead:** AMRJ is gearing up to be a leader through: a) consolidating in existing areas; b) entering new business opportunities within the battery space, mainly Home UPS, Solar, and Motive Power; and c) capacity and network expansions. In the Telecom segment, AMRJ expects to maintain its market share at current levels for FY19 (~55% as of 4QFY19).
- **Li-ion technology poses risk to both Auto as well as Industrial businesses:** Falling cost of lithium batteries poses threat not just of Auto segment but also to the industrial batteries. In Autos, E-2W/E-3W does not require lead acid battery as an auxiliary battery. This would in turn impact 15–20% of revenues in lead acid battery players. Further, at USD100/KwHr lithium can give competition to LAB in industrial segments particularly in telecom, UPS and other nascent but growth drivers like motive power, solar etc. Any further development in this direction would potentially lead to the de-rating of the PE multiple (due to decline in terminal growth).
- **Valuations fair, downgrade to Neutral:** We marginally upgrade our EPS estimates for FY20/FY21 to reflect for lower lead prices, but reduce OEM volumes. We expect value migration from unorganized to organized players such as EXID and AMRJ in the Replacement segment, driven by tax reforms such as GST and lower corporate tax rates. Healthy replacement demand would lead to better capacity utilization and margins. However, current margin performance might not sustain in FY22 as volume recovery with OEMs would result in mean reversion of mix and margins. Also, with the exit of Johnson Control, promoters are expected to play a pivotal role in long-term strategy as well as technology sourcing. Current valuations at 18.3x/16.4x FY21/FY22 consol. EPS are at 10% discount to 10 year LPA of ~20x and fairly captures for recovery in business and possible market share gains. Hence, we downgrade our rating to Neutral (from Buy), with TP of INR719 (~18x Mar'22 consol. EPS).

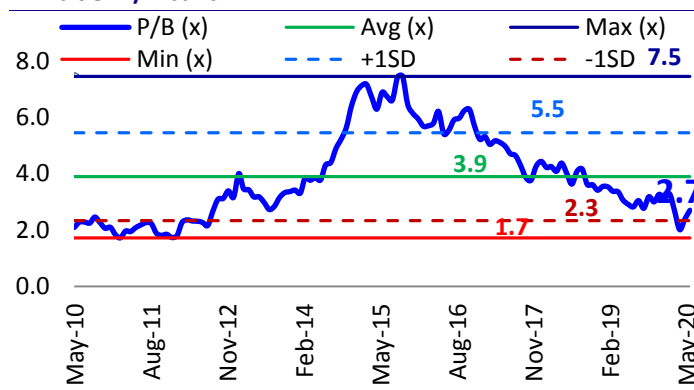
Exhibit 6: Revised estimates

(INR M)	FY21E			FY22E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	66,077	70,602	-6.4	74,309	78,715	-5.6
EBITDA (%)	16.8	15.7	110bp	16.4	16.0	30bp
Net Profit	6,100	5,911	3.2	6,823	6,727	1.4
EPS (INR)	35.7	34.6	3.2	39.9	39.4	1.4

Source: MOFSL

Exhibit 7: Amara Raja P/E band

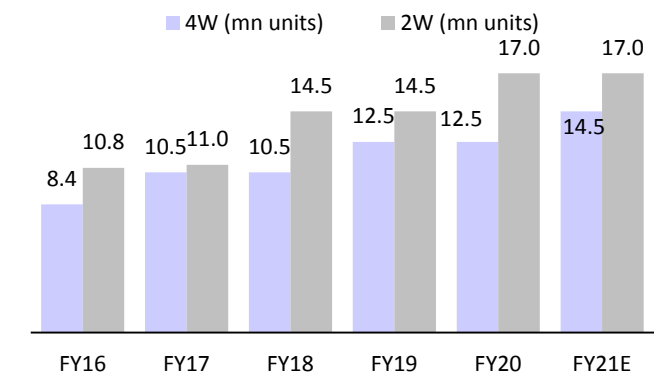
Source: MOFSL, Company

Exhibit 8: P/B band

Source: MOFSL, Company

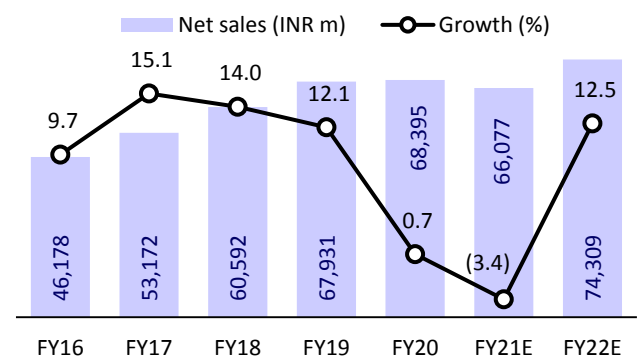
Story in charts

Exhibit 9: Significant addition in 2W capacity



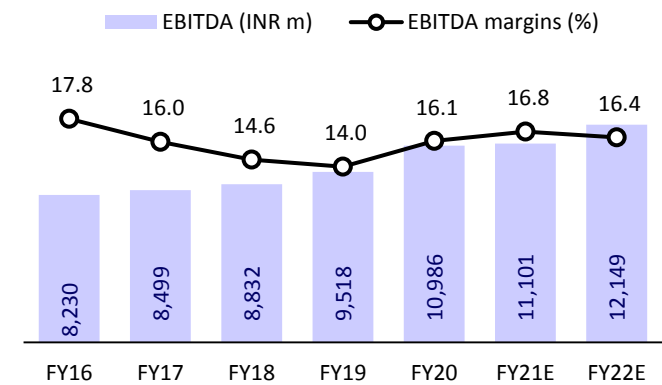
Source: Company, MOFSL

Exhibit 10: Trend in revenues



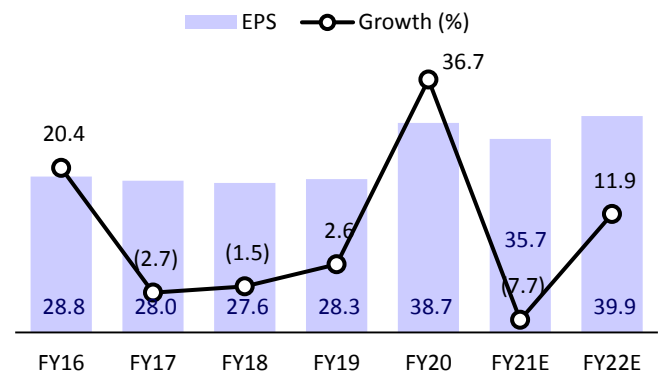
Source: Company, MOFSL

Exhibit 11: EBITDA and EBITDA margin trend



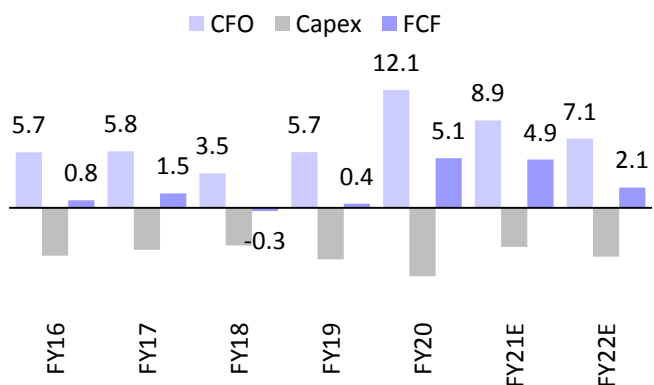
Source: Company, MOFSL

Exhibit 12: Earnings and growth trend



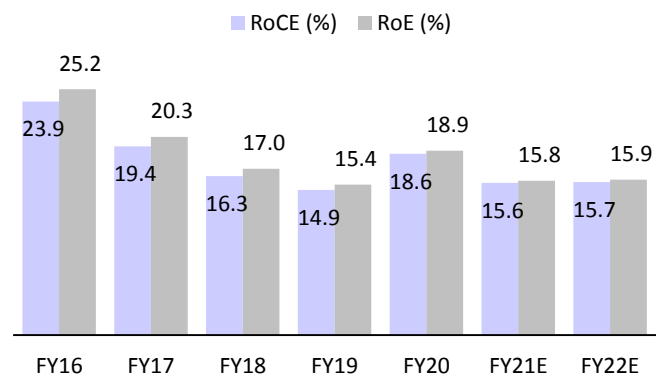
Source: Company, MOFSL

Exhibit 13: Trend in CFO, capex, and FCF



Source: Company, MOFSL

Exhibit 14: Trend in return ratios



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement

(INR Million)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Sales	46,178	53,172	60,592	67,931	68,395	66,077	74,309
Change (%)	9.7	15.1	14.0	12.1	0.7	-3.4	12.5
EBITDA	8,230	8,499	8,832	9,518	10,986	11,101	12,149
Margin (%)	17.8	16.0	14.6	14.0	16.1	16.8	16.4
Depreciation	1,407	1,912	2,303	2,612	3,007	3,295	3,617
EBIT	6,823	6,587	6,529	6,906	7,978	7,806	8,532
Int. and Finance Charges	55	58	51	70	122	100	60
Other Income - Rec.	459	492	664	468	551	450	650
PBT bef. EO Exp.	7,226	7,022	7,142	7,304	8,407	8,156	9,122
EO Expense/(Income)	0	0	0	0	0	0	0
PBT after EO Exp.	7,226	7,022	7,142	7,304	8,407	8,156	9,122
Tax Rate (%)	32.0	31.9	34.0	33.8	21.4	25.2	25.2
Reported PAT	4,916	4,785	4,713	4,835	6,608	6,100	6,823
PAT Adj for EO items	4,916	4,785	4,713	4,835	6,608	6,100	6,823
Change (%)	20.4	-2.7	-1.5	2.6	36.7	-7.7	11.9
Margin (%)	10.6	9.0	7.8	7.1	9.7	9.2	9.2

Standalone - Balance Sheet

(INR Million)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	171	171	171	171	171	171	171
Total Reserves	20,988	25,760	29,203	33,182	36,385	40,403	44,896
Net Worth	21,159	25,931	29,374	33,353	36,556	40,573	45,067
Deferred Liabilities	538	815	878	959	441	539	649
Total Loans	725	690	584	468	343	725	0
Capital Employed	22,421	27,436	30,836	34,780	37,341	41,837	45,715
Gross Block	14,851	18,156	22,529	26,165	29,337	38,607	43,607
Less: Accum. Deprn.	1,330	3,257	5,497	8,037	11,045	14,340	17,957
Net Fixed Assets	13,520	14,899	17,033	18,128	18,292	24,267	25,650
Capital WIP	1,229	2,403	2,264	3,147	8,270	3,000	3,000
Total Investments	200	1,467	351	205	0	0	0
Curr. Assets, Loans&Adv.	14,559	17,077	22,038	23,480	21,882	26,409	30,154
Inventory	6,016	8,170	10,497	10,614	11,427	10,862	12,215
Account Receivables	5,922	5,705	7,825	7,686	6,363	6,336	8,551
Cash and Bank Balance	1,503	1,709	1,113	502	326	5,572	5,296
Loans and Advances	1,119	1,494	2,603	4,678	3,766	3,638	4,092
Curr. Liability & Prov.	7,087	8,410	10,849	10,179	12,665	11,839	13,088
Account Payables	3,493	4,184	5,923	5,104	6,149	5,941	6,681
Other Current Liabilities	2,665	3,285	3,916	3,761	4,685	4,526	5,090
Provisions	929	941	1,011	1,314	1,832	1,372	1,317
Net Current Assets	7,472	8,667	11,189	13,301	9,217	14,570	17,066
Appl. of Funds	22,421	27,436	30,836	34,780	35,779	41,837	45,715

E: MOFSL Estimates

Financials and Valuations

Ratios	(INR Million)						
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)							
EPS	28.8	28.0	27.6	28.3	38.7	35.7	39.9
Cash EPS	37.0	39.2	41.1	43.6	56.3	55.0	61.1
BV/Share	123.9	151.8	172.0	195.3	214.0	237.5	263.9
DPS	4.3	4.25	4.2	7.1	11.0	10.2	11.4
Payout (%)	17.7	18.2	18.1	30.0	34.1	34.1	34.1
Valuation (x)							
P/E	22.7	23.3	23.7	23.1	16.9	18.3	16.4
Cash P/E	17.7	16.7	15.9	15.0	11.6	11.9	10.7
P/BV	5.3	4.3	3.8	3.3	3.1	2.8	2.5
EV/Sales	2.4	2.1	1.8	1.6	1.6	1.6	1.4
EV/EBITDA	13.5	13.0	12.6	11.7	10.2	9.6	8.8
Dividend Yield (%)	0.7	0.7	0.6	1.1	1.7	1.6	1.7
Return Ratios (%)							
RoE	25.2	20.3	17.0	15.4	18.9	15.8	15.9
RoCE	23.9	19.4	16.3	14.9	18.6	15.6	15.7
RoIC	26.4	21.7	17.6	15.8	21.0	18.8	18.1
Working Capital Ratios							
Gross Fixed Asset Turnover (x)	3.1	2.9	2.7	2.6	2.3	1.7	1.7
Inventory (Days)	47.6	56.1	63.2	57.0	61.0	60.0	60.0
Debtor (Days)	42	35	46	41	34	35	42
Creditor (Days)	28	29	36	27	33	33	33
Working Capital Turnover (Days)	47	48	61	69	47	50	58
Leverage Ratio (x)							
Current Ratio	2.1	2.0	2.0	2.3	1.7	2.2	2.3
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Standalone - Cash Flow Statement							
	(INR Million)						
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net P/L Before Tax and E/O Items	7,226	7,022	7,142	7,304	8,407	8,156	9,122
Depreciation	1,407	1,912	2,303	2,612	3,007	3,295	3,617
Interest & Finance Charges	-43	-3	-5	42	122	-350	-590
Direct Taxes Paid	2,181	2,024	2,443	2,417	2,364	2,055	2,299
(Inc)/Dec in WC	-738	-1,137	-3,475	-1,843	2,892	-107	-2,772
CF from Operations	5,672	5,771	3,522	5,698	12,065	8,938	7,079
Others	-130	-242	-306	-284	-296	0	0
CF from Operating incl EO	5,542	5,529	3,216	5,413	11,769	8,938	7,079
(inc)/dec in FA	-4,904	-4,305	-3,853	-5,282	-6,999	-4,000	-5,000
Free Cash Flow	637	1,224	-637	131	4,770	4,938	2,079
Others	24,156	27,395	19,117	10,904	13,305	450	650
CF from Investments	-3,938	-5,294	-2,381	-4,591	-8,465	-3,550	-4,350
(Inc)/Dec in Debt	772	47	-89	-51	-275	479	-615
Interest Paid	-5	-3	-7	-11	-52	-100	-60
Dividend Paid	-1,614	0	-1,285	-855	-3,311	-2,083	-2,330
CF from Fin. Activity	-847	44	-1,382	-916	-3,638	-1,704	-3,005
Inc/Dec of Cash	757	279	-546	-94	-334	3,685	-276
Add: Beginning Balance	2,222	1,503	1,709	1,113	502	326	5,572
Closing Balance	2,979	1,782	1,163	1,019	168	4,011	5,296

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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