5 June 2020

4QFY20 Results Update | Sector: Automobile

Exide

CMP: INR173 **TP: INR205(+18%)** **Buy**

Estimate changes	↔
TP change	↔
Rating change	↔

Bloomberg	EXID IN
Equity Shares (m)	850
M.Cap.(INRb)/(USDb)	147.1 / 1.9
52-Week Range (INR)	217 / 122
1, 6, 12 Rel. Per (%)	9/8/-5
12M Avg Val (INR M)	418

Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	98.6	99.7	112.4
EBITDA	13.7	14.6	16.4
Adj. PAT	8.4	8.4	9.8
EPS (INR)	9.9	9.9	11.5
EPS Gr. (%)	9.1	0.6	15.5
BV/Sh. (INR)	74.1	80.2	87.9
Ratios			
Net D:E	0.0	-0.2	-0.2
RoE (%)	13.3	12.4	13.1
RoCE (%)	13.8	13.0	13.7
Payout (%)	41.5	32.2	27.9
Valuations			
P/E (x)	17.5	17.4	15.1
P/BV (x)	2.3	2.2	2.0
Div. Yield (%)	2.4	1.8	1.8
FCF Yield (%)	3.1	10.5	5.3

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	46.0	46.0	46.0
DII	23.5	24.4	23.8
FII	9.4	8.9	10.0
Others	21.1	20.8	20.2

FII Includes depository receipts

In-line; Mix offsets weak revenues; Lead price benefit to remain

Captive smelters dilute benefit of lower lead prices

- EXID's 4QFY20 operating performance was in-line as the impact of weaker revenues was offset by a favorable mix. We expect continued strength in the aftermarket with a shift from the unorganized to organized sector. Furthermore, FY21 would see the continued benefit of the mix (lower OEMs) and lead prices.
- We upgrade our EPS by 8%/10% for FY21/FY22E to factor lower revenues, a better mix, and lower lead prices. Maintain **Buy**, with TP of ~INR205.

RM benefit diluted by -ve op. lev; Other income, lower tax drive PAT beat

- 4QFY20 revenues/EBITDA/PAT declined 21%/28%/19% YoY to INR20.6b/INR2.7b/INR1.7b. FY20 revenues/EBITDA/PAT grew -7%/-3.2%/9%.
- Revenue declined due to volume decline in the Auto OEM business and the impact of lockdown in the last week of Mar'20, resulting in a miss in revenues (~INR20.6b v/s est. of ~INR22.4b).
- The company's gross margin was above estimate and expanded 310bp YoY (200bp QoQ) to 38.2%. This was largely attributed to the benefit of the mix as well as inventory changes, partially offset by an increase in lead prices in 3QFY20 (as the impact of lead prices comes with a quarter lag).
- EBITDA margins contracted 130bp YoY (-20bp QoQ) to 13.1% (est.: 12.5%) as the benefit of lower RM cost was overshadowed by negative operating leverage.
- EBITDA declined 27.6% YoY (-15.5% QoQ) to ~INR2.7b (est.: ~INR2.8b).
- However, higher other income and lower tax restricted PAT decline to ~19% YoY to ~INR1.7b (est.: ~INR1.43b).

Highlights from press release

- The Automotive sector is facing major challenges due to regulatory changes, technology shifts, and demand uncertainty. As a result, a distinct slowdown has been witnessed in the Auto OEM segment.
- Year-end sales across segments were severely impacted due to lockdown.
- The company is focusing on cost-control measures and technology upgrades to improve its bottom-line.

Valuation and view

- We upgrade our EPS by 8%/10% for FY21/FY22E to factor lower revenues, a better mix, and lower lead prices.
- EXID would see a lower benefit from lead prices than AMRJ due to its captive smelter. On the other hand, EXID should see a better mix owing to higher aftermarket share.
- We prefer EXID as it offers superior risk-reward considering its market leadership, technology alliances, backward integration, and better mix.
- The stock trades at valuations of 17.4x/15.1x FY21/22E S/A EPS. Maintain **Buy,** with TP of ~INR205 (~16x S/A Mar'22 EPS + INR21/sh for the Life Insurance business).

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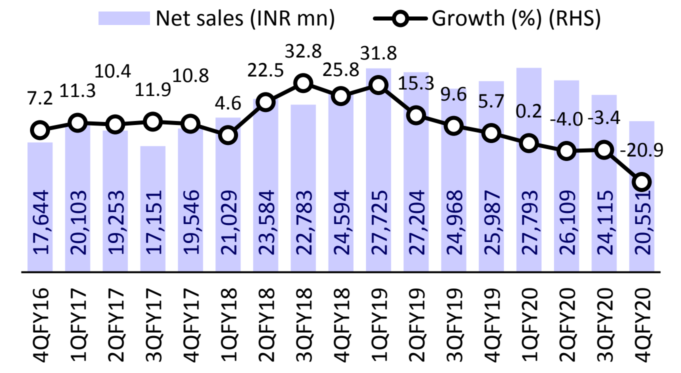
S/A Quarterly Performance (INR m)

Y/E March	FY19				FY20				FY19	FY20	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Net Sales	**27,725**	**27,204**	**24,968**	**25987**	**27,793**	**26,109**	**24,115**	**20551**	**105,883**	**98567**	22359
Growth YoY (%)	32	15	10	6	0	-4	-3	-21	15	-7	-14
EBITDA	**3,909**	**3,327**	**3,125**	**3733**	**4,077**	**3,672**	**3,198**	**2702**	**14,113**	**13650**	2800
Change (%)	21	12	11	10	4	10	2	-28	14	-3	-25
Depreciation	719	768	813	835	864	898	925	939	3135	3626	932
Interest	11	14	23	12	18	18	21	37	61	94	18
Non-Operating Income	42	116	80	166	164	56	251	169	385	639	94
PBT after EO Exp	**3,221**	**3,745**	**2,369**	**3051**	**3,359**	**2,812**	**2,286**	**1895**	**12,386**	**10352**	1944
Tax	1122	1060	818	**945**	1116	439	326	**215**	3945	**2097**	512
Effective Tax Rate (%)	35	28	35	31	33	16	14	11	32	20	26
Adj. PAT	**2,195**	**1,814**	**1,614**	**2079**	**2,243**	**2,373**	**2,132**	**1680**	**7,703**	**8428**	1432
Change (%)	16	11	5	10	2	31	32	-19	11	9	-32
Key performance indicators											
Cost Break-up											
RM(%)	66.4	66.9	64.9	64.9	64.5	63.8	63.8	61.8	65.8	63.6	63.9
Employee cost (%)	5.8	6.1	6.5	5.7	6.0	6.7	6.9	7.7	6.0	6.8	7.5
Other Exp(%)	13.6	14.8	16.1	15.0	14.9	15.5	16.0	17.3	14.8	15.8	16.1
Gross Margin (%)	33.6	33.1	35.1	35.1	35.5	36.2	36.2	38.2	34.2	36.4	36.1
EBITDA Margin(%)	14.1	12.2	12.5	14.4	14.7	14.1	13.3	13.1	13.3	13.8	12.5
EBIT Margin(%)	11.5	9.4	9.3	11.2	11.6	10.6	9.4	8.6	10.4	10.2	8.4
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

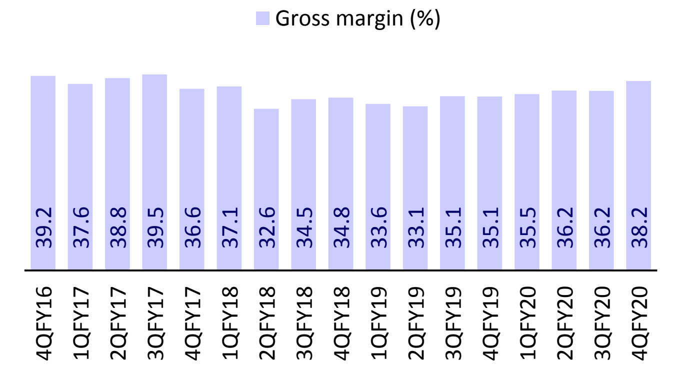
Key Exhibits

Exhibit 1: Trend in revenues and growth



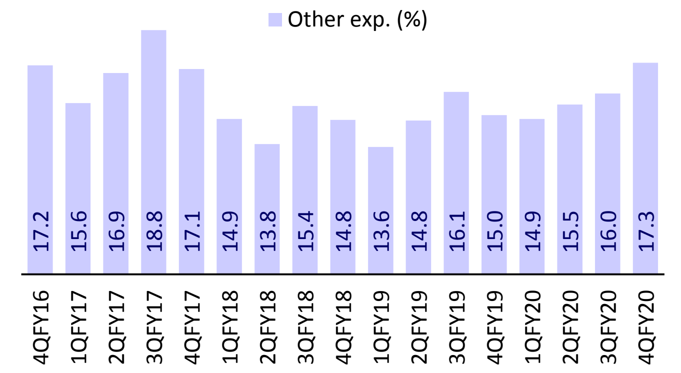
Source: Company, MOFSL

Exhibit 2: Trend in gross margins



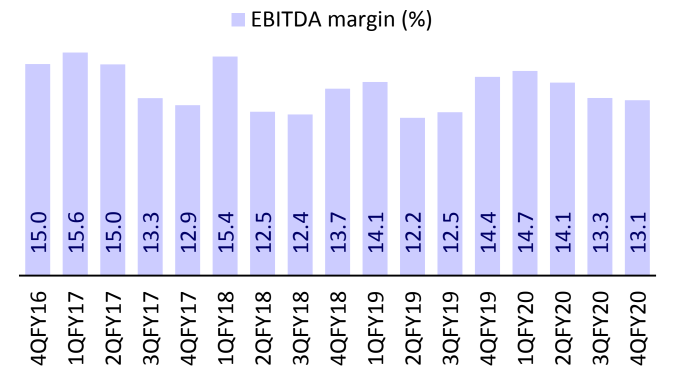
Source: Company, MOFSL

Exhibit 3: Trend in other expense as % of sales



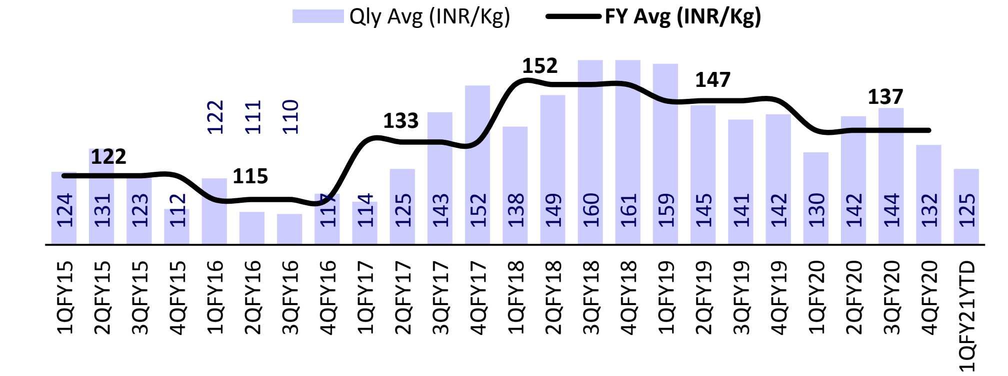
Source: Company, MOFSL

Exhibit 4: Trend in EBITDA margin



Source: Company, MOFSL

Exhibit 5: Spot lead prices are ~5%/9% lower than 4QFY20/FY20 average



Source: Company, MOFSL

Valuation and view

- **Industry structure remains duopoly; EXID leads:** While the industry structure remains largely duopoly, Exide is the largest lead acid battery manufacturer in India, with leadership in the Auto OEM and Replacement segments. Over FY13–17, EXID clocked a CAGR of 5.9% and 7.3% in net sales and PAT, respectively. This stood lower than competitor AMRJ, with 15.9% and 13.1% CAGR in net sales and PAT, respectively. This was due to AMRJ's technological innovations (first to introduce maintenance-free, factory-charged, extended-warranty batteries) and unique distribution model (franchisee-based), supported by operational efficiency-led competitive pricing. However, EXID has largely caught up with competitors by investing in technology, being more proactive in customer service, and plugging the gaps in the product portfolio, among other initiatives.
- **Exide to defend leading position:** EXID plans to improve its market share as economic recovery has resulted in demand from the Auto OEM and Industrial segments. OEM demand would see recovery in 2HFY21. On the other hand, we 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.
- **Management initiatives to revive market share; margins visible:** Since Mr Chatterjee took over as MD & CEO of Exide in May 2016 for a five-year term, EXID has undertaken several initiatives at the market level and in terms of product quality. These are now reflecting in market share recovery, product quality improvement, and margin recovery. We believe EXID is on track to reduce the performance gap vis-à-vis peers such as AMRJ.
- **Electrification of 2W/3W poses risk for lead acid battery players**: The government is pushing for the electrification of 3W/2W from 2023/2025. Unlike e-cars, e-2Ws/e-3Ws do not require lead acid battery as an auxiliary battery. This would in turn impact 15–20% of revenues in lead acid battery players. Any concrete steps in this direction would potentially lead to the de-rating of the PE multiple (due to decline in terminal growth).

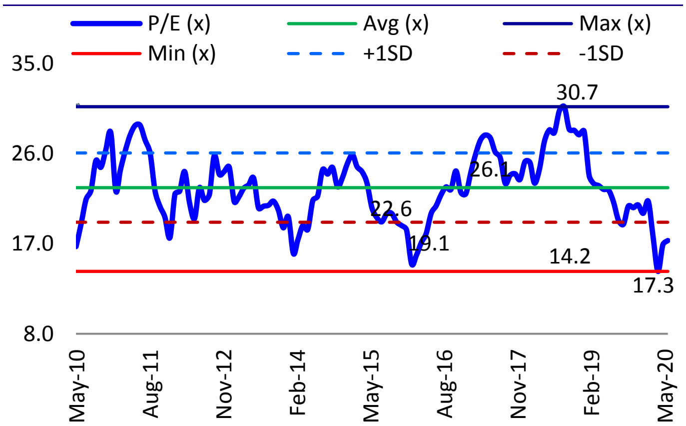
- **Valuation and view:** We upgrade our EPS by 8%/10% for FY21/FY22E to factor lower revenues, a better mix, and lower lead prices. EXID would see a lower benefit from lead prices than AMRJ due to its captive smelter. On the other hand, EXID should see a better mix owing to higher aftermarket share. We prefer EXID as it offers superior risk-reward considering its market leadership, technology alliances, backward integration, and better mix. The stock trades at valuations of 17.4x/15.1x FY21/22E S/A EPS. Maintain Buy, with TP of ~INR205 (~16x S/A Mar'22 EPS + INR21/sh for the Life Insurance business).

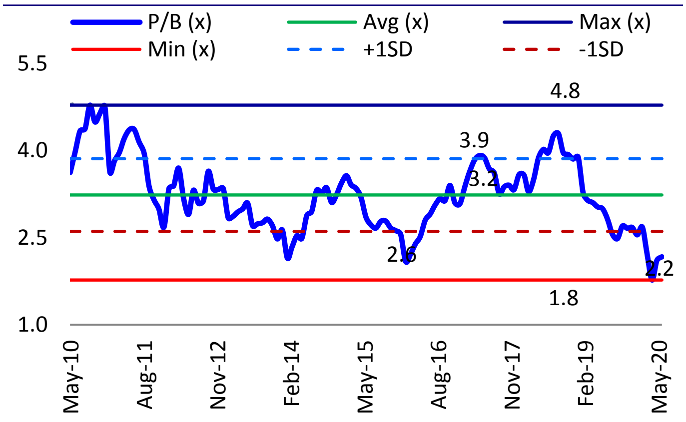
Exhibit 6: Revised estimates

(INR M)	FY21E			FY22E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	99,707	105,563	-5.5	112,406	116,860	-3.8
EBITDA Margin (%)	**14.7**	**13.4**	**130bp**	**14.6**	**13.6**	**100bp**
PAT	8,447	7,833	7.8	9,757	8,841	10.4
EPS (Rs)	**9.9**	**9.2**	**7.8**	**11.5**	**10.4**	**10.4**

Source: MOFSL

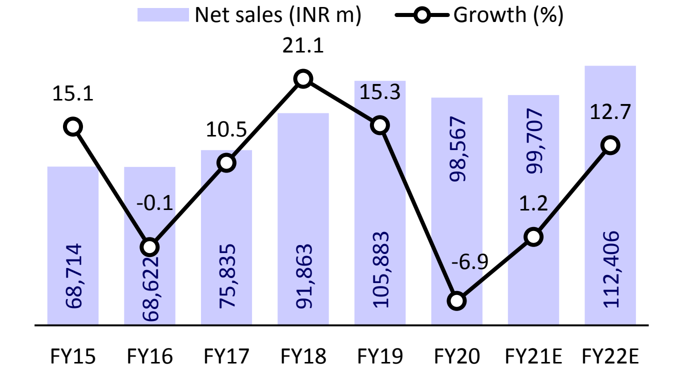
Exhibit 7: Valuations – P/E and P/B trading band





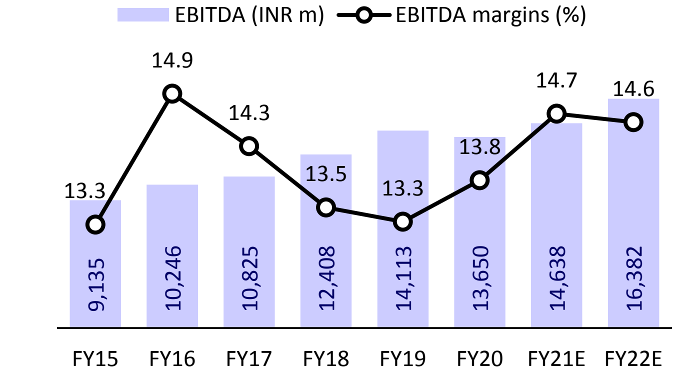
Story in charts

Exhibit 8: Trend in revenues and growth



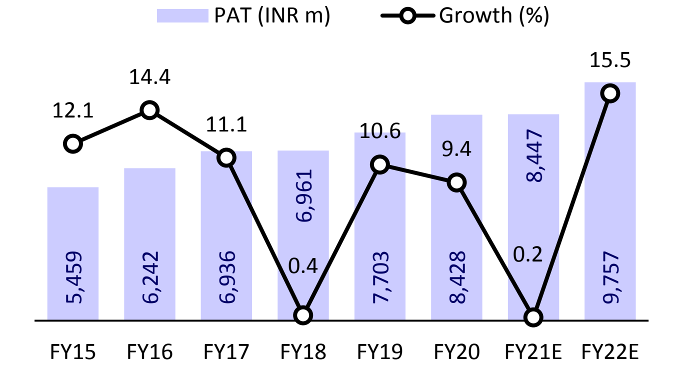
Source: Company, MOFSL

Exhibit 9: Trend in EBITDA and EBITDA margins



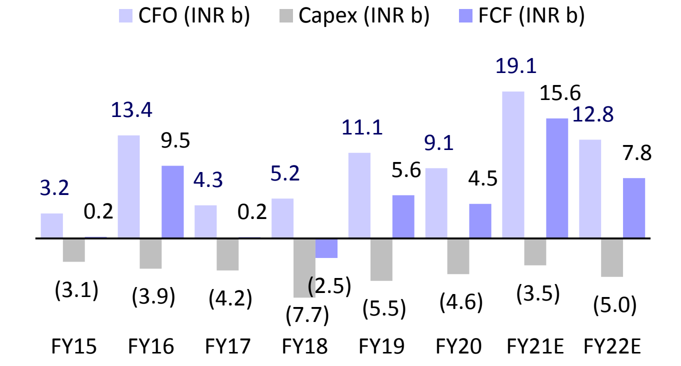
Source: Company, MOFSL

Exhibit 10: PAT and PAT growth trend



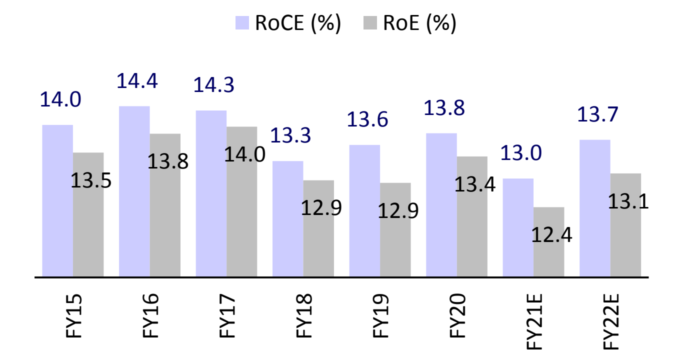
Source: Company, MOFSL

Exhibit 11: Strong FCF driven by healthy CFO



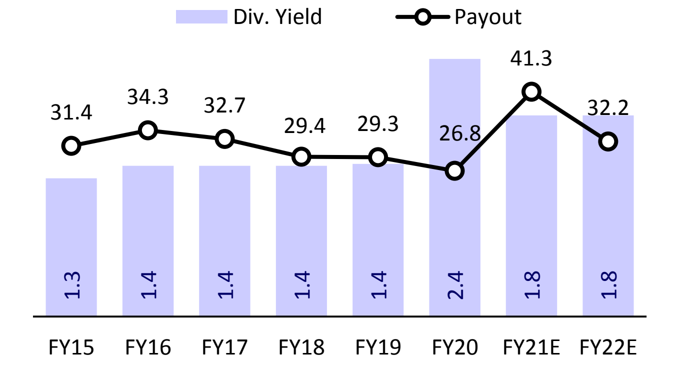
Source: Company, MOFSL

Exhibit 12: Trend in return ratios



Source: Company, MOFSL

Exhibit 13: Div. yield and div. payout (%) trend



Source: Company, MOFSL

Financials and Valuations

Income Statement (INR m)

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Net Sales	**68,655**	**68,477**	**75,835**	**91,863**	**105,883**	**98,567**	**99,707**	**112,406**
Change (%)	15.1	-0.3	10.7	21.1	15.3	-6.9	1.2	12.7
Total Expenditure	**59,579**	**58,376**	**65,010**	**79,456**	**91,770**	**84,916**	**85,068**	**96,023**
EBITDA	**9,135**	**10,246**	**10,825**	**12,408**	**14,113**	**13,651**	**14,639**	**16,383**
EBITDA Margins (%)	13.3	14.9	14.3	13.5	13.3	13.8	14.7	14.6
Change (%)	11.3	12.2	5.7	14.6	13.7	-3.3	7.2	11.9
Depreciation	1,395	1,579	2,063	2,459	3,135	3,626	3,994	4,172
EBIT	**7,740**	**8,666**	**8,762**	**9,948**	**10,978**	**10,025**	**10,645**	**12,210**
Interest Charges	17	3	43	52	61	94	60	60
Other Income	262	416	1,039	584	385	639	668	835
EO Exp/(Inc)	-	-	-	418	(1,083)	217	-	-
PBT	**7,985**	**9,080**	**9,757**	**10,062**	**12,386**	**10,352**	**11,251**	**12,985**
Tax	2,526	2,837	2,821	3,378	3,945	2,097	2,804	3,228
Effective Rate (%)	31.6	31.2	28.9	33.6	31.9	20.3	24.9	24.9
Rep. PAT	**5,459**	**6,242**	**6,936**	**6,683**	**8,440**	**8,255**	**8,447**	**9,757**
Change (%)	12.1	14.4	11.1	-3.6	26.3	-2.2	2.3	15.5
Adj. PAT	**5,459**	**6,242**	**6,936**	**6,961**	**7,703**	**8,428**	**8,447**	**9,757**
Change (%)	12.1	14.4	11.1	0.4	10.6	9.4	0.2	15.5

Balance Sheet (INR m)

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	850	850	850	850	850	850	850	850
Reserves	39,696	44,264	48,786	53,043	59,020	62,111	67,348	73,895
Net Worth	**40,546**	**45,114**	**49,636**	**53,893**	**59,870**	**62,961**	**68,198**	**74,745**
Loans	176	1,025	1,702	0	0	0	0	0
Deferred Tax Liability	1,259	1,270	1,552	1,405	1,751	1,019	1,356	1,746
Capital Employed	**41,981**	**47,409**	**52,890**	**55,298**	**61,621**	**63,980**	**69,555**	**76,491**
Application of Funds								
Gross Fixed Assets	22,261	14,206	19,058	25,588	32,069	33,843	36,312	41,312
Less: Depreciation	11,359	1,551	3,598	6,005	9,097	10,107	14,101	18,274
Net Fixed Assets	**10,902**	**12,654**	**15,460**	**19,583**	**22,973**	**23,736**	**22,211**	**23,038**
Capital WIP	1,002	1,858	1,414	2,335	2,549	2,969	4,000	4,000
Investments	18,957	26,978	26,755	19,690	21,994	20,708	23,208	25,708
Curr.Assets	**23,166**	**20,680**	**24,143**	**32,361**	**34,208**	**35,008**	**41,201**	**47,085**
Inventory	15,228	11,335	15,274	17,602	18,040	21,923	16,936	19,094
Sundry Debtors	5,550	6,039	6,217	9,434	10,812	8,154	9,561	10,779
Cash & Bank Balances	298	738	196	872	736	1,546	11,280	13,352
Loans & Advances	2,077	228	235	272	322	322	325	367
Other Current Assets	13	2,340	2,222	4,181	4,299	3,064	3,099	3,494
Current Liab. & Prov.	**12,046**	**14,762**	**14,881**	**18,671**	**20,103**	**18,441**	**21,066**	**23,340**
Sundry Creditors	6,479	7,449	7,679	10,787	11,428	10,361	10,480	11,815
Other Liabilities	2,740	4,184	4,556	5,091	5,539	4,478	6,010	6,775
Provisions	2,827	3,129	2,647	2,793	3,136	3,602	4,575	4,749
Net Current Assets	**11,121**	**5,918**	**9,262**	**13,690**	**14,105**	**16,567**	**20,136**	**23,745**
Application of Funds	**41,980**	**47,409**	**52,890**	**55,298**	**61,621**	**63,980**	**69,555**	**76,491**

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)								
EPS	**6.4**	**7.3**	**8.2**	**8.2**	**9.1**	**9.9**	**9.9**	**11.5**
Cash EPS	8.1	9.2	10.6	11.1	12.8	14.2	14.6	16.4
Book Value per Share	47.7	53.1	58.4	63.4	70.4	74.1	80.2	87.9
DPS	2.2	2.4	2.4	2.4	2.4	4.1	3.2	3.2
Payout (Incl. Div. Tax) %	34.3	32.7	29.4	29.3	26.8	41.3	32.2	27.9
Valuation (x)								
P/E	26.9	23.6	21.2	21.1	19.1	17.4	17.4	15.1
Cash P/E	21.5	18.8	16.3	15.6	13.6	12.2	11.8	10.6
EV/EBITDA	14.0	11.7	11.3	10.2	8.8	9.1	7.7	6.6
EV/Sales	1.9	1.8	1.6	1.4	1.2	1.3	1.1	1.0
Price to Book Value	3.6	3.3	3.0	2.7	2.5	2.3	2.2	2.0
Dividend Yield (%)	1.3	1.4	1.4	1.4	1.4	2.4	1.8	1.8
Profitability Ratios (%)								
RoE	13.5	13.8	14.0	12.9	12.9	13.4	12.4	13.1
RoCE	14.0	14.4	14.3	13.3	13.6	13.8	13.0	13.7
RoIC	27.3	30.1	29.4	23.2	21.8	21.3	22.9	28.4
Turnover Ratios								
Debtors (Days)	29	32	30	37	37	30	35	35
Inventory (Days)	81	60	74	70	62	81	62	62
Creditors (Days)	34	40	37	43	39	38	38	38
Working Capital (Days)	76	53	66	65	60	73	59	59
Gross Fixed Asset Turnover (x)	3.1	4.8	4.0	3.6	3.3	2.9	2.7	2.7
Leverage Ratio								
Debt/Equity (x)	0.0	-0.2	-0.2	-0.1	-0.1	0.0	-0.2	-0.2

Cash Flow Statement (INR m)

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
OP/(Loss) before Tax	7,985	9,019	9,757	10,062	12,386	10,352	10,644	12,209
Interest/Dividends Received	-223	-413	-898	-358	-217	-429	668	835
Depreciation & Amortisation	1,395	1,579	2,063	2,459	3,135	3,626	3,994	4,172
Direct Taxes Paid	-2,475	-2,684	-2,812	-3,503	-3,733	-2,494	-2,467	-2,838
(Inc)/Dec in Working Capital	-3,457	5,783	-3,840	-3,563	-468	-2,155	6,165	-1,537
CF from Oper. Activity	**3,245**	**13,398**	**4,311**	**5,166**	**11,121**	**9,137**	**19,100**	**12,842**
CF after EO Items	**3,245**	**13,398**	**4,311**	**5,166**	**10,038**	**9,138**	**19,101**	**12,843**
(Inc)/Dec in FA+CWIP	-3,050	-3,948	-4,158	-7,714	-5,510	-4,646	-3,500	-5,000
Free Cash Flow	**195**	**9,450**	**153**	**-2,548**	**5,611**	**4,491**	**15,600**	**7,842**
(Pur)/Sale of Invest.	920	-7,512	1,086	7,433	-2,147	1,397	-2,500	-2,500
CF from Inv. Activity	**-2,130**	**-11,460**	**-3,072**	**-280**	**-7,656**	**-3,249**	**-6,000**	**-7,500**
Interest Rec./(Paid)	-12	-13	-37	-58	-61	-100	-60	-60
Dividends Paid	-2,180	-2,334	-2,417	-2,449	-2,459	-4,986	-3,210	-3,210
CF from Fin. Activity	**-2,016**	**-1,497**	**-1,782**	**-4,209**	**-2,520**	**-5,086**	**-3,270**	**-3,270**
Inc/(Dec) in Cash	**-901**	**441**	**-543**	**676**	**-138**	**803**	**9,832**	**2,073**
Add: Beginning Balance	1,200	298	738	196	872	736	1,546	11,280
Closing Balance	**298**	**739**	**195**	**872**	**734**	**1,539**	**11,378**	**13,353**

E: MOFSL Estimates

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

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