

May 20, 2010

Rating	Accumulate
Price	Rs164
Target Price	Rs173
Implied Upside	5.7%
Sensex	16,408

(Prices as on May 19, 2010)

Trading Data

Market Cap. (Rs bn)	14.0
Shares o/s (m)	85.4
Free Float	47.94%
3M Avg. Daily Vol ('000)	321.7
3M Avg. Daily Value (Rs m)	55.3

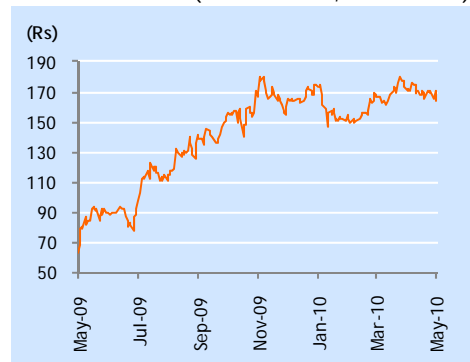
Major Shareholders

Promoters	52.06%
Foreign	4.17%
Domestic Inst.	13.91%
Public & Others	29.86%

Stock Performance

(%)	1M	6M	12M
Absolute	(10.4)	(13.4)	96.9
Relative	(4.5)	(9.9)	79.6

Price Performance (RIC: AMAR.BO, BB: AMRJ IN)



Source: Bloomberg

- **Results below expectations:** Amara Raja Batteries (ARBL) reported a 30.9% growth in its top-line at Rs4.3bn in Q4FY10, mainly led by strong sales in the automotive segment. However, due to pricing pressure in the telecom vertical (which accounts for 30% of the topline), EBITDA margins declined by 350bps to stand at 14.6%. At the same time, the raw material cost increased by 480bps YoY at 66.1% of net sales in Q4FY10. As a result, EBITDA growth was muted at 5.9% at Rs634m. On a sequential basis, EBITDA margins declined by 420bps QoQ on account of higher lead prices and a slowdown on the telecom side of the business. As a result, Adj. PAT grew by 7% YoY at Rs337m (we expected Rs360m).
- **FY10 performance:** ARBL's automotive battery division revenues grew by 18%, whereas the industrial battery division witnessed a double-digit growth in the volumes. As a result, the top-line grew by 11.2% YoY at Rs14.7bn, whereas the Adj. PAT grew by 37.6% at Rs1.5bn for FY10.
- **Revision in our estimates:** We are revising our earnings estimates downwards by 6% each for FY11E and FY12E to take into account the pricing pressure in the telecom vertical.
- **Capitalizing on opportunities in the medium & small VRLA batteries:** UPS, a 3.5m unit industry, is growing at 16-18%, with ARBL growing at 30%+ in volume terms. As a result, the Medium VRLA capacity (mainly UPS) was enhanced from 1.2m to 1.8m units p.a. in FY10. The motorcycle batteries, with breakthrough VRLA technology, have been well accepted by the customers. ARBL is looking at expanding its small VRLA battery capacities further by ~30% to 2.4m units.
- **Strong balance sheet to support better valuations:** ARBL has maintained a strong balance sheet with the return ratios in excess of 25% for the past few years. We expect revenues to grow at a CAGR of 19.8% and net profit to grow at a CAGR of 12.9% for FY10-FY12E period. At the CMP, the stock is trading at 8.6x and 7.1x its FY11E and FY12E earnings estimate, respectively. Maintain 'Accumulate'.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	13,196	14,674	17,840	21,065
Growth (%)	21.8	11.2	21.6	18.1
EBITDA (Rs m)	2,060	2,895	2,997	3,574
PAT (Rs m)	1,127	1,549	1,630	1,976
EPS (Rs)	13.2	18.1	19.1	23.1
Growth (%)	23.8	37.5	5.2	21.2
Net DPS (Rs)	0.8	2.9	2.5	3.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	15.6	19.7	16.8	17.0
RoE (%)	30.5	32.6	26.9	26.9
RoCE (%)	25.2	36.5	35.4	35.9
EV / sales (x)	1.2	1.0	0.8	0.7
EV / EBITDA (x)	7.8	4.9	4.7	3.8
PE (x)	12.5	9.1	8.6	7.1
P / BV (x)	3.5	2.6	2.1	1.7
Net dividend yield (%)	0.5	1.8	1.5	1.8

Source: Company Data; PL Research

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Q4FY10 Result Overview

(Rs m)

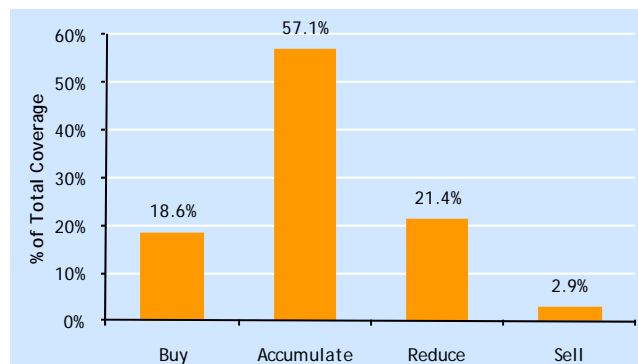
Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Net Sales	4,333	3,311	30.9	3,675	14,674	13,196	11.2
Expenditure							
Raw Material	2,864	2,030	41.0	2,216	8,821	8,692	1.5
<i>% of Net Sales</i>	<i>66.1</i>	<i>61.3</i>		<i>60.3</i>	<i>60.1</i>	<i>65.9</i>	
Salaries & Wages	163	143	14.6	161	624	516	20.9
<i>% of Net Sales</i>	<i>3.8</i>	<i>4.3</i>		<i>4.4</i>	<i>4.3</i>	<i>3.9</i>	
Other Exp.	672	539	24.7	605	2,334	1,928	21.1
<i>% of Net Sales</i>	<i>15.5</i>	<i>16.3</i>		<i>16.5</i>	<i>15.9</i>	<i>14.6</i>	
Total Expenditure	3,699	2,712	36.4	2,982	11,779	11,136	
EBITDA	634	599	5.9	692	2,895	2,060	40.5
<i>EBITDA Margin (%)</i>	<i>14.6</i>	<i>18.1</i>	<i>(19.1)</i>	<i>18.8</i>	<i>19.7</i>	<i>15.6</i>	
Depreciation	104	100	4.6	117	429	346	24.3
Net interest	6	49	(88.1)	6	68	182	(62.9)
Non Operative Income	6	6		6	28	16	70.7
Exceptional	(30)	34		(38)	(121)	322	
PBT	560	422	32.9	614	2,546	1,226	107.7
Total Tax	193	141		215	876	422	107.7
<i>Tax Rate (%)</i>	<i>34.5</i>	<i>33.5</i>		<i>35.1</i>	<i>34.4</i>	<i>34.4</i>	
Rep. PAT	367	280	30.9	399	1,670	804	107.7
Adj. profit	337	315	7.0	361	1,550	1,127	37.6

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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