

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	AMRJ IN
Equity Shares (m)	171
M.Cap.(INRb)/(USDb)	126.9 / 1.8
52-Week Range (INR)	814 / 573
1, 6, 12 Rel. Per (%)	7/7/-12
12M Avg Val (INR M)	482

#### Financials & Valuations (INR b)

Y/E March	FY20E	FY21E	FY22E
Sales	68.8	76.6	85.0
EBITDA	11.1	12.2	13.7
Adj. PAT	6.7	6.7	7.5
EPS (INR)	39.0	39.4	44.1
EPS Gr. (%)	37.8	1.1	11.9
BV/Sh. (INR)	223	250	281

#### Ratios

RoE (%)	18.7	16.7	16.6
RoCE (%)	18.1	16.1	16.2
Payout (%)	30.0	30.0	30.0

#### Valuations

P/E (x)	20.1	19.9	17.8
P/BV (x)	3.5	3.1	2.8
Div. Yield (%)	1.2	1.3	1.4
FCF Yield (%)	1.4	2.3	3.1

#### Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	28.1	28.1	52.1
DII	11.1	12.1	9.5
FII	21.2	20.1	20.7
Others	39.6	39.8	17.8
FII Includes depository receipts			

**CMP: INR786 TP: INR885 (+13%) Buy**

**In-line; strong aftermarket offset by weak OEM/Telecom**

**Robust performance as expected; market share gain continues**

- AMRJ's performance was expectedly strong with ~26% YoY PAT growth. More importantly, its volume growth in aftermarket continues to endorse our view of value migration from the unorganized to organized segment.
- We marginally upgrade our EPS estimate and maintain **Buy** with a target price of ~INR885 (~20x Mar'22E consol EPS).

**Margins driven by mix and RM**

- Revenue/EBITDA/PAT grew 3%/12%/26% YoY to INR17.5b/INR2.8b/INR1.6b in 3QFY20. For 9MFY20, revenue/EBITDA/PAT increased ~1%/20%/44% YoY.
- Revenues were driven by strong volume growth in the auto aftermarket business (4Ws: +11% YoY; 2Ws: +16-17%), 4W exports and the UPS/rail business. However, weakness in the OEM (15-16% decline) and Telecom (13-14% decline) businesses, along with the impact of lower lead prices (2.5-3% YoY decline), resulted in moderate revenue growth.
- Gross margin of 35.5% (+270bp YoY, -40bp QoQ) exceeded our estimate due to inventory changes and a better mix.
- However, EBITDA margin expanded at a lower rate of 130bp YoY (-100bp QoQ) to 16.2% (our estimate: 16.1%) as higher-than-estimated other cost diluted the benefit of gross margin improvement.
- EBITDA increased ~12% YoY (-3% QoQ) to ~INR2.8b. Lower tax boosted PAT growth to ~26% YoY (~INR1.6b).

**Highlights from management commentary**

- Exports of 4W batteries increased 20-25%, led by ramp-up in existing S.E Asian markets.
- No pricing action was taken for 3QFY20 and Jan'20, though there has been some volatility in lead prices.
- Commercial production for e-rickshaw batteries to start in 4QFY20, as both product and tubular battery capacity is expanded by ~0.36m units p.a.
- Capex guidance maintained at INR5.5-6b for ongoing capacity expansion in (a) 2W batteries (by ~2.5m units to 17m by Mar/Apr-20) and (b) 4W batteries (by ~2m units to 14.5m by 3Q/4QFY21).

**Valuation and view**

- We marginally increase our EPS estimates for FY20/21 to factor in the improving OEM volume outlook.
- The stock trades at 19.9x/17.8x FY21/22 consol. EPS. Maintain **Buy** with a target price of INR885 (~20x Mar'22 consol. EPS).

## Quarterly Performance

	FY19				FY20				FY19	FY20E	FY20 3QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
<b>Net Sales</b>	<b>17,787</b>	<b>17,531</b>	<b>16,947</b>	<b>15,667</b>	<b>18,150</b>	<b>16,953</b>	<b>17,478</b>	<b>16,240</b>	<b>67,931</b>	<b>68,820</b>	<b>17,624</b>
YoY Change (%)	18.8	22.8	9.1	-0.9	2.0	-3.3	3.1	3.7	12	1.3	4.0
<b>EBITDA</b>	<b>2,203</b>	<b>2,366</b>	<b>2,528</b>	<b>2,421</b>	<b>2,792</b>	<b>2,923</b>	<b>2,840</b>	<b>2,562</b>	<b>9,518</b>	<b>11,117</b>	<b>2,843</b>
Margins (%)	12.4	13.5	14.9	15.5	15.4	17.2	16.2	15.8	14.0	16.2	16.1
Depreciation	630	643	657	683	733	750	765	785	2,612	3,033	775
Interest	15	18	18	19	29	34	29	23	70	115	25
Other Income	137	142	125	63	102	180	128	140	468	550	110
<b>PBT after EO</b>	<b>1,695</b>	<b>1,848</b>	<b>1,978</b>	<b>1,783</b>	<b>2,132</b>	<b>2,319</b>	<b>2,174</b>	<b>1,894</b>	<b>7,304</b>	<b>8,518</b>	<b>2,153</b>
Tax Rate (%)	33.3	34.9	33.8	33.0	33.9	5.6	24.4	25.1	33.8	21.8	25.0
<b>Adj PAT</b>	<b>1,130</b>	<b>1,202</b>	<b>1,309</b>	<b>1,193</b>	<b>1,409</b>	<b>2,189</b>	<b>1,644</b>	<b>1,419</b>	<b>4,835</b>	<b>6,661</b>	<b>1,615</b>
YoY Change (%)	-58.7	-5.5	-2.6	8.7	24.7	82.0	25.6	18.9			23.4

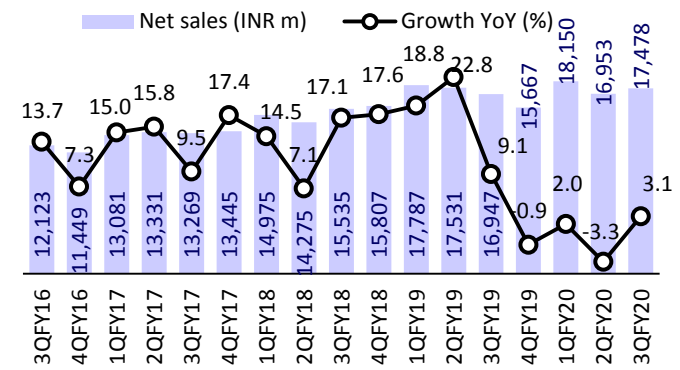
## Key Performance Indicators

	FY19				FY20				FY19	FY20E 3QE	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
RM Cost (% of sales)	71.5	69.1	67.2	65.2	67.6	64.1	64.5	65.1	67.6	65.3	66.8
Staff Cost (% of sales)	4.7	5.3	5.1	5.2	5.4	5.8	5.4	6.0	5.4	5.7	5.6
Other Exp (% of sales)	11.4	12.1	12.7	14.1	11.6	12.8	13.9	13.1	11.6	12.9	11.5
Gross Margin (%)	28.5	30.9	32.8	34.8	32.4	35.9	35.5	34.9	32.4	34.7	
EBITDA Margin (%)	12.4	13.5	14.9	15.5	15.4	17.2	16.2	15.8	14.0	16.2	16.1
<b>Lead Price (INR/Kg)</b>	<b>146.8</b>	<b>146.8</b>	<b>146.8</b>	<b>146.8</b>	<b>136.0</b>	<b>136.0</b>	<b>138.8</b>		<b>146.8</b>		
Change (%)	-3.5	-3.5	-3.5	-3.5	-7.4	-7.4	-5.5		-3.5		

E: MOFSL Estimates

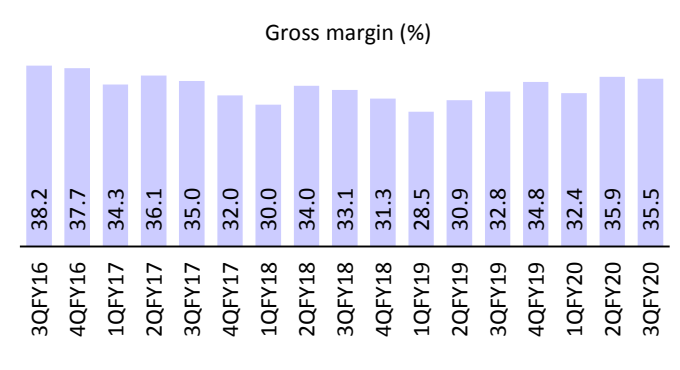
**Key Exhibits**

**Exhibit 1: Trend in revenues and growth**



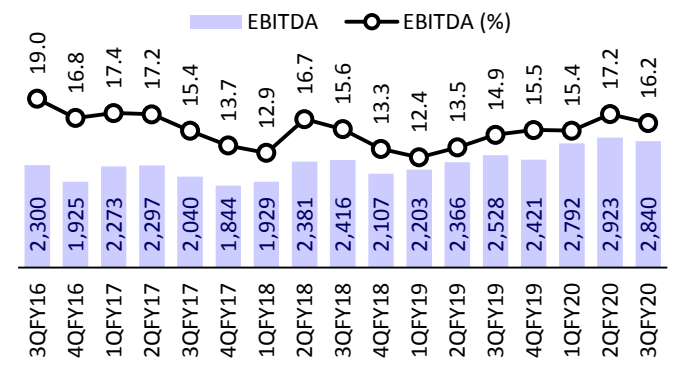
Source: Company, MOFSL

**Exhibit 2: Trend in gross margins**



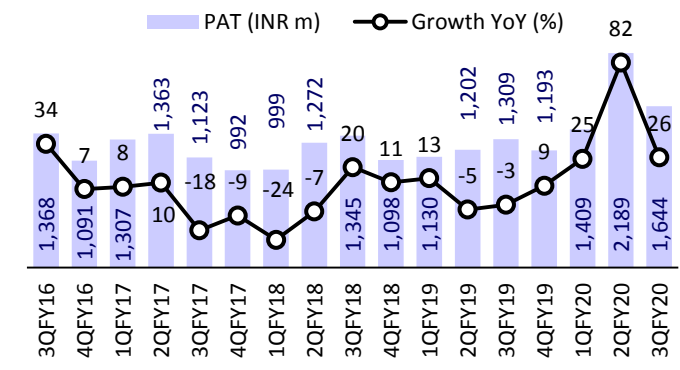
Source: Company, MOFSL

**Exhibit 3: Trend in EBITDA and EBITDA margins**



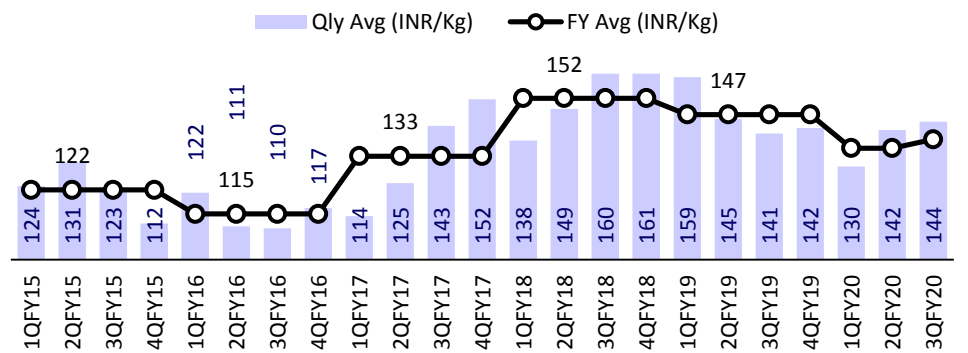
Source: Company, MOFSL

**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 view**

- **Industry structure remains duopoly, but AMRJ is a strong No. 2:** While the industry structure remains largely duopoly, AMRJ has emerged as a formidable challenger to leader EXIDE, with market leadership in Telecom (55% share in 4QFY19) and UPS (32-35%) segments, and a fast gaining share in Autos. Over FY04-16, AMRJ clocked a CAGR of 34% and 68% in net sales and PAT respectively, far exceeding EXID's 20% CAGR each in net sales and PAT. This has been driven through a combination of technological innovations (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.

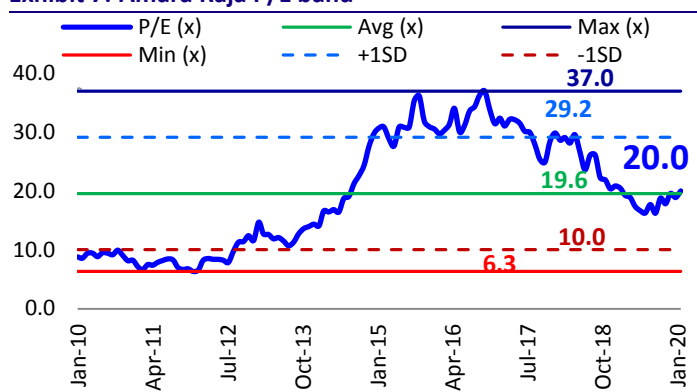
- **AMRJ – gearing up to be leader:** AMRJ is gearing up to be a leader through (i) consolidating in existing areas, (ii) entering new business opportunities within battery space, mainly home UPS, Solar and Motive Power and (iii) aided by capacity and network expansion. In Telecom, AMRJ expects to maintain its market share at current levels for FY19 (~55% as of 4QFY19).
- **Electrification of 2W/3Ws poses risk for lead acid battery players:** The government is pushing for electrification of 3Ws/2Ws from 2023/2025. Unlike e-car, e-2Ws/e-3Ws do not require lead acid battery as auxiliary battery. This in turn would impact 15-20% of revenues of lead acid battery players. Any concrete steps in this direction would potentially lead to de-rating of the P/E multiple (due to decline in terminal growth).
- **6% EPS CAGR over FY20-22, stable return ratios; Buy:** We marginally upgrade our EPS estimates for FY20/21 to reflect the improving OEM volume outlook. We expect value migration from unorganized to organized players like EXID and AMRJ in the replacement segment, driven by tax reforms like GST and lower corporate tax rates. Healthy replacement demand would lead to better capacity utilization and margins. With exit of Johnson Control, promoters are expected to play pivotal role in the long-term strategy as well as technology sourcing. The stock trades at 19.9x/17.8x FY21/22E consol. EPS. Maintain Buy with a TP of INR885 (~20x Mar’22E consol EPS).

Exhibit 6: Revised estimates

(INR M)	FY20E			FY21E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	68,820	68,923	-0.1	76,588	76,733	-0.2
EBITDA (%)	16.2	16.0	20bp	15.9	15.4	50bp
Net Profit	6,661	6,490	2.6	6,733	6,559	2.7
EPS (INR)	39.0	38.0	2.6	39.4	38.4	2.7

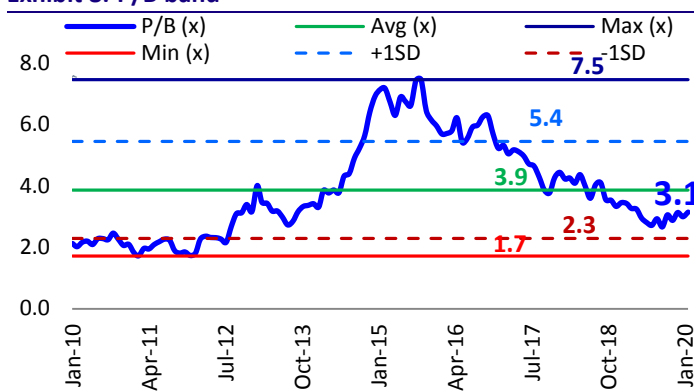
Source: MOFSL

Exhibit 7: Amara Raja P/E band



Source: MOFSL, Company

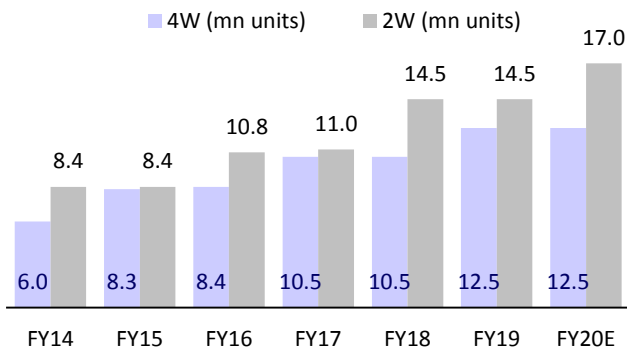
Exhibit 8: P/B band



Source: MOFSL, Company

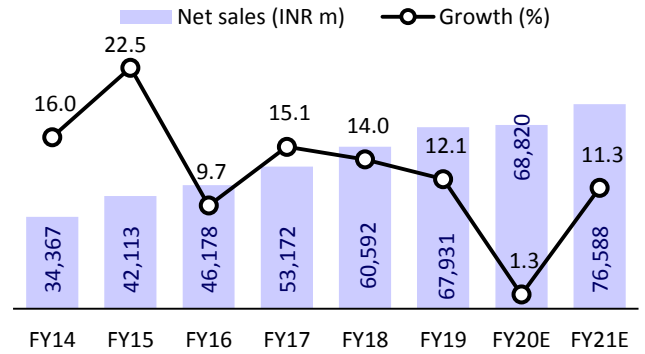
Story in charts

Exhibit 9: Significant addition in 2W capacity



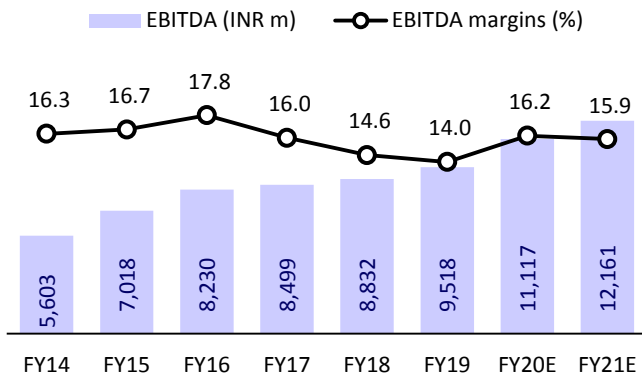
Source: Company, MOFSL

Exhibit 10: Trend in revenues



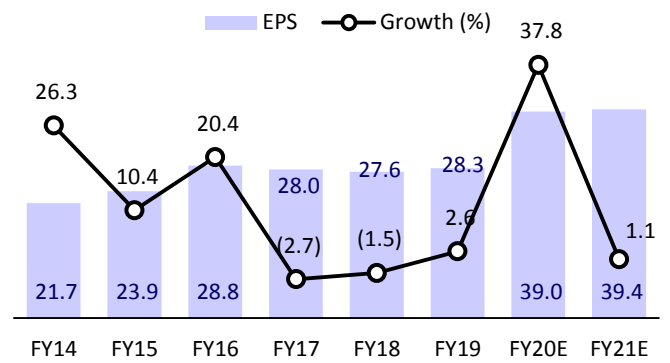
Source: Company, MOFSL

Exhibit 11: EBITDA and EBITDA margin trend



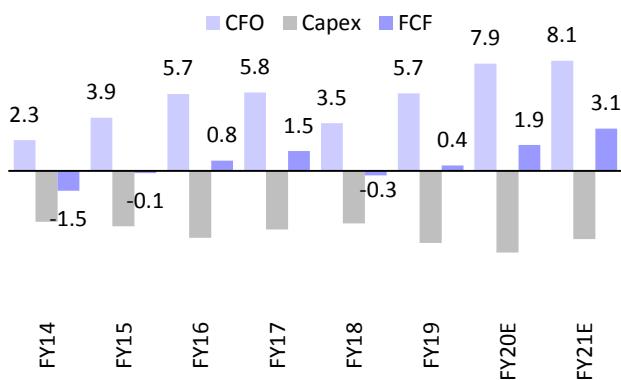
Source: Company, MOFSL

Exhibit 12: Earnings and growth trend



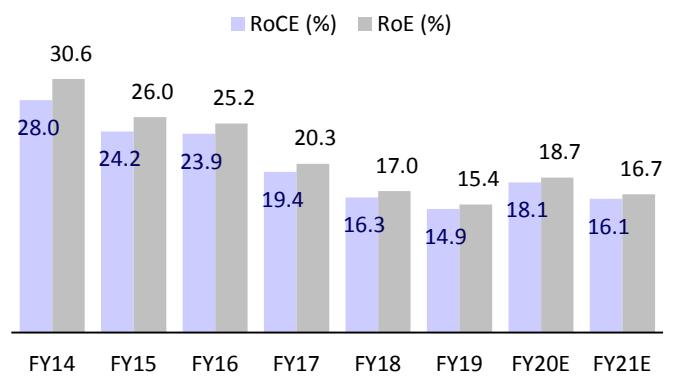
Source: Company, MOFSL

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	FY20E	FY21E	FY22E
<b>Net Sales</b>	<b>46,178</b>	<b>53,172</b>	<b>60,592</b>	<b>67,931</b>	<b>68,820</b>	<b>76,588</b>	<b>85,002</b>
Change (%)	9.7	15.1	14.0	12.1	1.3	11.3	11.0
<b>EBITDA</b>	<b>8,230</b>	<b>8,499</b>	<b>8,832</b>	<b>9,518</b>	<b>11,117</b>	<b>12,161</b>	<b>13,728</b>
Margin (%)	17.8	16.0	14.6	14.0	16.2	15.9	16.2
Depreciation	1,407	1,912	2,303	2,612	3,033	3,595	4,140
<b>EBIT</b>	<b>6,823</b>	<b>6,587</b>	<b>6,529</b>	<b>6,906</b>	<b>8,083</b>	<b>8,566</b>	<b>9,588</b>
Int. and Finance Charges	55	58	51	70	115	115	115
Other Income - Rec.	459	492	664	468	550	550	600
<b>PBT bef. EO Exp.</b>	<b>7,226</b>	<b>7,022</b>	<b>7,142</b>	<b>7,304</b>	<b>8,518</b>	<b>9,001</b>	<b>10,073</b>
EO Expense/(Income)	0	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>7,226</b>	<b>7,022</b>	<b>7,142</b>	<b>7,304</b>	<b>8,518</b>	<b>9,001</b>	<b>10,073</b>
Tax Rate (%)	32.0	31.9	34.0	33.8	21.8	25.2	25.2
<b>Reported PAT</b>	<b>4,916</b>	<b>4,785</b>	<b>4,713</b>	<b>4,835</b>	<b>6,661</b>	<b>6,733</b>	<b>7,535</b>
<b>PAT Adj for EO items</b>	<b>4,916</b>	<b>4,785</b>	<b>4,713</b>	<b>4,835</b>	<b>6,661</b>	<b>6,733</b>	<b>7,535</b>
Change (%)	20.4	-2.7	-1.5	2.6	37.8	1.1	11.9
Margin (%)	10.6	9.0	7.8	7.1	9.7	8.8	8.9

### Standalone - Balance Sheet

(INR Million)

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	171	171	171	171	171	171	171
Total Reserves	20,988	25,760	29,203	33,182	37,843	42,553	47,824
<b>Net Worth</b>	<b>21,159</b>	<b>25,931</b>	<b>29,374</b>	<b>33,353</b>	<b>38,014</b>	<b>42,724</b>	<b>47,995</b>
Deferred Liabilities	538	815	878	959	1,112	1,220	1,341
Total Loans	725	690	584	468	725	725	0
<b>Capital Employed</b>	<b>22,421</b>	<b>27,436</b>	<b>30,836</b>	<b>34,780</b>	<b>39,851</b>	<b>44,669</b>	<b>49,337</b>
Gross Block	14,851	18,156	22,529	26,165	33,312	39,312	44,312
Less: Accum. Deprn.	1,330	3,257	5,497	8,037	11,071	14,666	18,805
<b>Net Fixed Assets</b>	<b>13,520</b>	<b>14,899</b>	<b>17,033</b>	<b>18,128</b>	<b>22,242</b>	<b>24,647</b>	<b>25,507</b>
Capital WIP	1,229	2,403	2,264	3,147	2,000	1,000	1,000
<b>Total Investments</b>	<b>200</b>	<b>1,467</b>	<b>351</b>	<b>205</b>	<b>205</b>	<b>205</b>	<b>205</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>14,559</b>	<b>17,077</b>	<b>22,038</b>	<b>23,480</b>	<b>25,227</b>	<b>29,560</b>	<b>34,276</b>
Inventory	6,016	8,170	10,497	10,614	11,313	12,590	13,973
Account Receivables	5,922	5,705	7,825	7,686	7,919	8,813	9,781
Cash and Bank Balance	1,503	1,709	1,113	502	1,256	2,882	4,668
Loans and Advances	1,119	1,494	2,603	4,678	4,740	5,275	5,854
<b>Curr. Liability &amp; Prov.</b>	<b>7,087</b>	<b>8,410</b>	<b>10,849</b>	<b>10,179</b>	<b>9,823</b>	<b>10,742</b>	<b>11,651</b>
Account Payables	3,493	4,184	5,923	5,104	5,171	5,755	6,387
Other Current Liabilities	2,665	3,285	3,916	3,761	3,810	4,241	4,706
Provisions	929	941	1,011	1,314	841	746	558
<b>Net Current Assets</b>	<b>7,472</b>	<b>8,667</b>	<b>11,189</b>	<b>13,301</b>	<b>15,404</b>	<b>18,818</b>	<b>22,625</b>
<b>Appl. of Funds</b>	<b>22,421</b>	<b>27,436</b>	<b>30,836</b>	<b>34,780</b>	<b>39,851</b>	<b>44,669</b>	<b>49,337</b>

E: MOFSL Estimates

## Financials and Valuations

Ratios	(INR Million)						
Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>28.8</b>	<b>28.0</b>	<b>27.6</b>	<b>28.3</b>	<b>39.0</b>	<b>39.4</b>	<b>44.1</b>
Cash EPS	37.0	39.2	41.1	43.6	56.8	60.5	68.4
BV/Share	123.9	151.8	172.0	195.3	222.6	250.1	281.0
DPS	4.3	4.25	4.2	7.1	9.8	9.9	11.0
Payout (%)	17.7	18.2	18.1	30.0	30.0	30.0	30.0
<b>Valuation (x)</b>							
P/E	27.3	28.1	28.5	27.8	20.1	19.9	17.8
Cash P/E	21.2	20.0	19.1	18.0	13.8	13.0	11.5
P/BV	6.3	5.2	4.6	4.0	3.5	3.1	2.8
EV/Sales	2.9	2.5	2.2	2.0	1.9	1.7	1.5
EV/EBITDA	16.2	15.7	15.1	14.1	12.0	10.9	9.4
Dividend Yield (%)	0.5	0.5	0.5	0.9	1.2	1.3	1.4
<b>Return Ratios (%)</b>							
RoE	25.2	20.3	17.0	15.4	18.7	16.7	16.6
RoCE	23.9	19.4	16.3	14.9	18.1	16.1	16.2
RoIC	26.4	21.7	17.6	15.8	18.8	16.6	17.1
<b>Working Capital Ratios</b>							
Gross Fixed Asset Turnover (x)	3.1	2.9	2.7	2.6	2.1	1.9	1.9
Inventory (Days)	47.6	56.1	63.2	57.0	60.0	60.0	60.0
Debtor (Days)	42	35	46	41	38	38	38
Creditor (Days)	28	29	36	27	27	27	27
Working Capital Turnover (Days)	47	48	61	69	75	76	77
<b>Leverage Ratio (x)</b>							
Current Ratio	2.1	2.0	2.0	2.3	2.6	2.8	2.9
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	FY20E	FY21E	FY22E
Net P/L Before Tax and E/O Items	7,226	7,022	7,142	7,304	8,518	9,001	10,073
Depreciation	1,407	1,912	2,303	2,612	3,033	3,595	4,140
Interest & Finance Charges	-43	-3	-5	42	-435	-435	-485
Direct Taxes Paid	2,181	2,024	2,443	2,417	1,857	2,268	2,538
(Inc)/Dec in WC	-738	-1,137	-3,475	-1,843	-1,350	-1,787	-2,021
<b>CF from Operations</b>	<b>5,672</b>	<b>5,771</b>	<b>3,522</b>	<b>5,698</b>	<b>7,910</b>	<b>8,106</b>	<b>9,168</b>
Others	-130	-242	-306	-284	0	0	0
<b>CF from Operating incl EO</b>	<b>5,542</b>	<b>5,529</b>	<b>3,216</b>	<b>5,413</b>	<b>7,910</b>	<b>8,106</b>	<b>9,168</b>
(inc)/dec in FA	-4,904	-4,305	-3,853	-5,282	-6,000	-5,000	-5,000
<b>Free Cash Flow</b>	<b>637</b>	<b>1,224</b>	<b>-637</b>	<b>131</b>	<b>1,910</b>	<b>3,106</b>	<b>4,168</b>
Others	24,156	27,395	19,117	10,904	550	550	600
<b>CF from Investments</b>	<b>-3,938</b>	<b>-5,294</b>	<b>-2,381</b>	<b>-4,591</b>	<b>-5,450</b>	<b>-4,450</b>	<b>-4,400</b>
(Inc)/Dec in Debt	772	47	-89	-51	410	108	-604
Interest Paid	-5	-3	-7	-11	-115	-115	-115
Dividend Paid	-1,614	0	-1,285	-855	-2,001	-2,022	-2,263
<b>CF from Fin. Activity</b>	<b>-847</b>	<b>44</b>	<b>-1,382</b>	<b>-916</b>	<b>-1,706</b>	<b>-2,029</b>	<b>-2,982</b>
<b>Inc/Dec of Cash</b>	<b>757</b>	<b>279</b>	<b>-546</b>	<b>-94</b>	<b>754</b>	<b>1,627</b>	<b>1,786</b>
Add: Beginning Balance	2,222	1,503	1,709	1,113	502	1,256	2,882
<b>Closing Balance</b>	<b>2,979</b>	<b>1,782</b>	<b>1,163</b>	<b>1,019</b>	<b>1,256</b>	<b>2,882</b>	<b>4,668</b>

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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