

Exide Industries

BSE SENSEX 37,522 S&P CNX 11,346

CMP: INR270 TP: INR316(+17%) Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2018 for India Research, Sales and Trading team. We [request your ballot](#).



Bloomberg	EXID IN
Equity Shares (m)	850
M.Cap.(INRb)/(USDb)	229.8 / 3.4
52-Week Range (INR)	285 / 193
1, 6, 12 Rel. Per (%)	-1/19/6
12M Avg Val (INR M)	480
Free float (%)	54.0

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	91.9	112.8	131.7
EBITDA	12.4	16.0	19.0
PAT	7.0	8.9	11.0
EPS (INR)	8.2	10.5	12.9
Gr. (%)	0.4	28.5	22.5
BV/Sh (INR)	63.4	70.9	80.0
RoE (%)	12.9	14.8	16.1
RoCE (%)	13.3	15.7	17.1
P/E (x)	33.0	25.7	21.0
P/BV (x)	4.3	3.8	3.4

Estimate change	↔
TP change	↔
Rating change	↔

Operating performance better than expected; PAT in-line

- Volume growth in Automotive, UPS, Inverter, Telecom, Solar and Infra segments drives revenue:** Net sales grew 31.8% YoY (and 12.7% QoQ) to INR27.7b, driven by growth in Automotive, UPS, Inverter, Telecom, Solar and Infrastructure batteries. Our channel check suggests that the company has taken cumulative price increase of 1-1.5% during the quarter, which also aided revenue growth. Average spot lead price for 1QFY19 declined 1.4% QoQ (but increased 15% YoY) to INR160 per kg. In July 2018, lead prices declined 4.5% v/s 1QFY19 average (+4% YoY).
- Healthy operating performance drives PAT:** Gross margin contracted 350bp YoY (and 120bp QoQ) to 33.6%, led by higher lead prices and likely lag in lead inflation pass-through. The management indicated that lead inflation coupled with adverse currency movement impacted margins in 1QFY19. Higher RM cost was offset by operating leverage benefits, as staff cost declined 100bp YoY (and 50bp QoQ) to 5.8%. Other expense too declined by 120bp YoY and QoQ to 13.6%. Consequently, EBITDA margin came in-line at 14.1% (our estimate: 14.3%) while EBITDA grew 20.6% YoY (and 15.6% QoQ) to INR3.9b (our estimate: INR3.7b). Other income declined 68% YoY (and 80% QoQ) to INR42m (our estimate: INR200m). This coupled with higher tax rate at 34.8% (our estimate: 32.5%) restricted adjusted PAT growth at 11.1% YoY (and 10.7% QoQ) to INR2.1b (in-line).
- Valuation and view:** We maintain FY19/FY20 estimates. We factor in revenue/EBITDA/PAT CAGR of 19.6%/23.5%/25.2% over FY18-20. The stock trades at 21.1x FY19E and 17.2x FY20E earnings adjusted for Insurance value of ~INR48/share. Maintain **Buy** with a TP of INR315 (valuing core business at 20x June 2020E EPS, 20% discount to 25x target multiple for AMRJ + Insurance business value).

S/A Quarterly Performance

Y/E March	(INR Million)											
	FY18				FY19				FY18	FY19E	FY19	Var (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Net Sales	21,029	23,713	22,783	24,594	27,725	28,693	26,428	29,628	91,863	112,474	25,865	7.2
Growth YoY (%)	4.6	23.2	32.8	25.8	31.8	21.0	16.0	20.5	21.1	22.4	23.0	
RM(%)	62.9	67.0	65.5	65.2	66.4	65.6	65.5	65.7	65.4	65.8	65.0	140bp
Employee cost (%)	6.8	6.2	6.7	6.3	5.8	5.7	6.3	5.7	6.5	5.9	6.1	-30bp
Other Exp(%)	14.9	14.3	15.4	14.8	13.6	14.1	15.0	14.1	14.6	14.2	14.6	-100bp
EBITDA	3,243	2,959	2,826	3,380	3,909	4,196	3,478	4,306	12,408	15,890	3,699	5.7
EBITDA Margin(%)	15.4	12.5	12.4	13.7	14.1	14.6	13.2	14.5	13.5	14.1	14.3	-20bp
Change (%)	3.2	2.3	24.3	34.2	20.6	41.8	23.1	27.4	14.6	28.1	14	
Non-Operating Income	132	139	111	203	42	150	150	145	584	487	200	-79.0
Interest	16	21	9	6	11	16	10	18	52	55	16	
Depreciation	563	597	625	674	719	724	732	758	2,459	2,933	694	
PBT after EO Exp	2,796	2,061	2,302	2,903	3,221	3,606	2,886	3,675	10,062	13,388	3,189	1.0
Tax	906	706	759	1,007	1,122	1,194	955	1,214	3,378	4,485	1,036	8.3
Effective Tax Rate (%)	32.4	34.3	33.0	34.7	34.8	33.1	33.1	33.0	33.6	33.5	32.5	230bp
Adj. PAT	1,890	1,630	1,543	1,896	2,099	2,413	1,931	2,461	6,961	8,903	2,153	-2.5
Change (%)	-3.6	-10.3	1.8	15.4	11.1	48.0	25.2	29.8	0.4	27.9	13.9	

E: MOSL Estimates

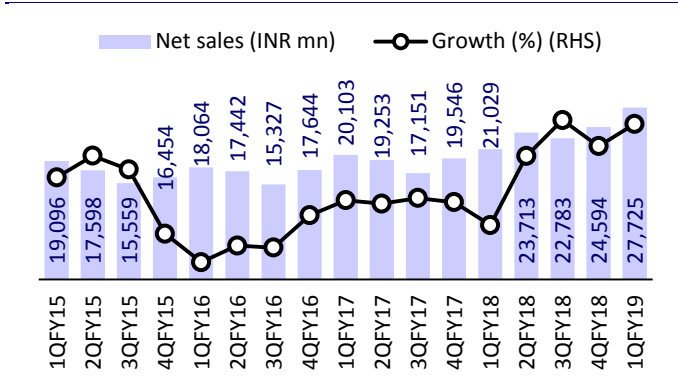
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

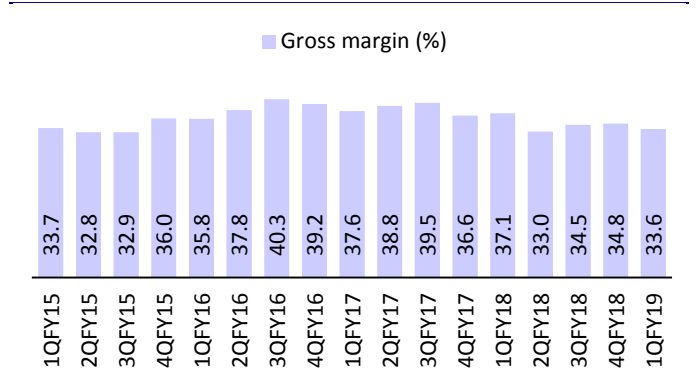
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Growth in automotive, UPS, Telecom, solar and infra segments drives growth



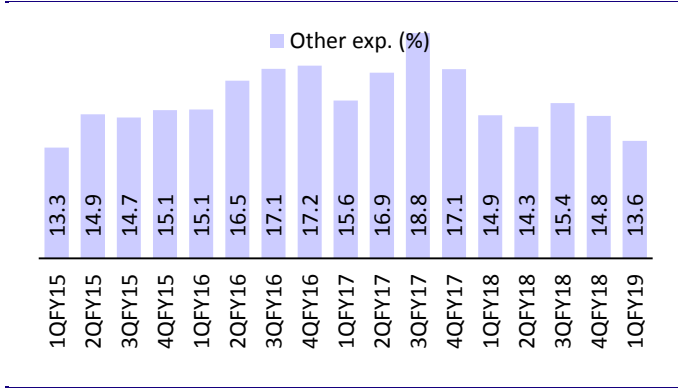
Source: Company, MOSL

Exhibit 2: Gross margins deteriorate QoQ and YoY due to lead price inflation and unfavorable currency movement



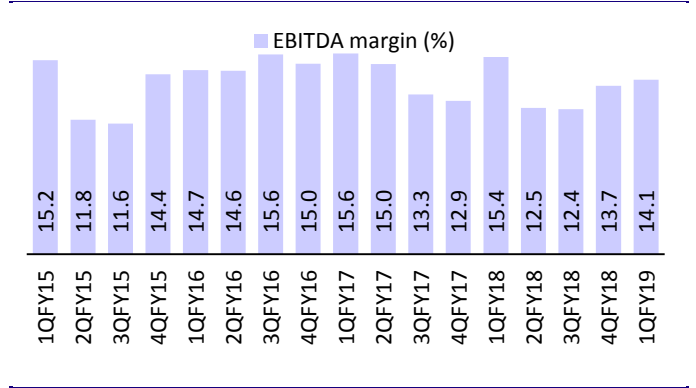
Source: Company, MOSL

Exhibit 3: Trend in other expense as % of sales



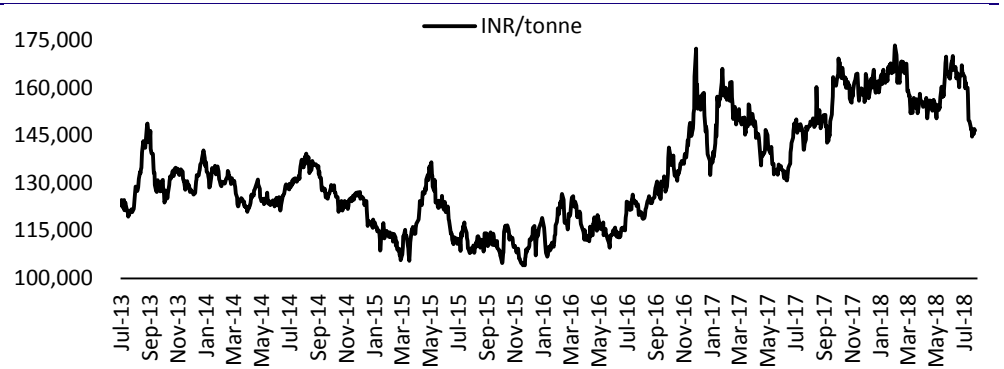
Source: Company, MOSL

Exhibit 4: Trend in EBITDA margin



Source: Company, MOSL

Exhibit 5: Softening lead prices bodes well for the battery industry



Source: Bloomberg

Valuation and view

- **Industry structure remains duopoly, EXIDE is leader:** While the industry structure remains largely duopoly, Exide is the largest lead acid battery manufacturer in India with leadership in Auto OEM and replacement segment. Over FY13-17, EXIDE clocked a CAGR of 5.9% and 7.3% in net sales and PAT respectively, lower than its competitor AMRJ 15.9% and 13.1% CAGR in net sales and PAT respectively. Exide growth in last few years has remained subdued as compared to its competitor AMRJ due to latter's technological innovations (first to introduce maintenance-free, factory charged, extended warranty batteries), and unique distribution model (franchisee based) supported with operational efficiency-led competitive pricing.
- **Exide to defend No.1 Position:** EXIDE to improve its market share as economic recovery led demand to come in from AUTO OEM and Industrial segment. Early improvement signs are visible in 4W replacement segment driven by sharp improvement in sales and service processes. Besides pick up in 2 wheeler sales on the back of a normal monsoon is also likely to aid OEM demand as well as replacement sales. Thus leading to better capacity utilization; leads to better margins.
- **Management initiatives to revive market share and margins visible:** Since Mr Chatterjee took over as MD & CEO of Exide since May 2016, EXID has taken several initiatives at market level and product quality level, which are now reflecting in market share recovery, product quality improvement and recovery in margins. We believe EXID is on track to reduce performance gap vis-à-vis its peers like AMRJ.
- **Valuation & view:** We maintain FY19/FY20 estimates. We factor in revenue/EBITDA /PAT CAGR of 19.7%/23.7%/25.5% respectively in FY18-20E. The stock trades at 25.7x FY19E and 21x FY20 adj. for Insurance value of ~INR48/share. Maintain **Buy** with a TP of INR316 (valuing core business at 20x June-20E EPS, 20% discount to 25x target multiple for AMRJ + Insurance business value).

Exhibit 6: Revised estimates

(INR m)	FY19E			FY20E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	112,793	107,678	4.8	131,718	125,946	4.6
EBITDA Margin (%)	14.1	14.0	20bp	14.4	14.1	30bp
PAT	8,946	8,824	1.4	10,960	10,745	2.0
EPS (INR)	10.5	10.4	1.4	12.9	12.6	2.0

Source: MOSL

Exhibit 7: Valuations – PE and PB trading band

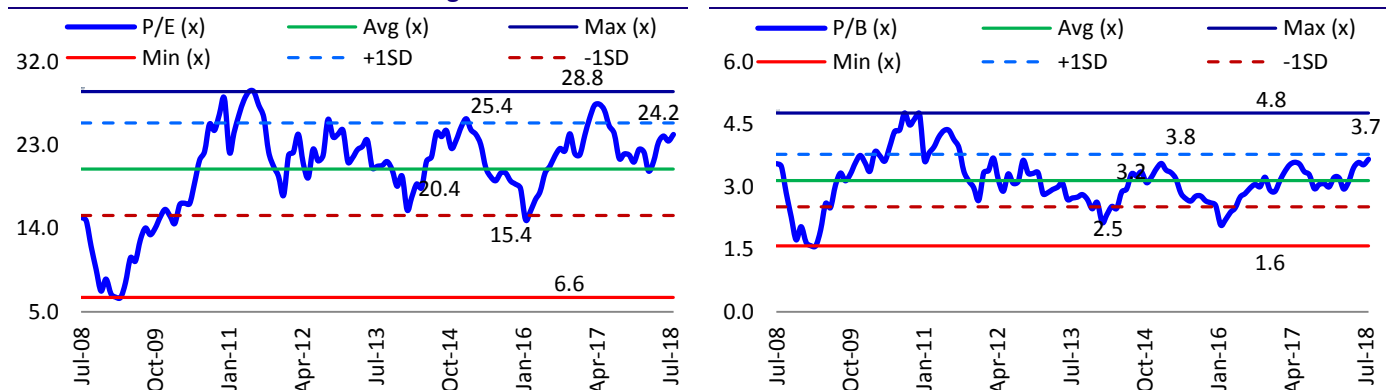


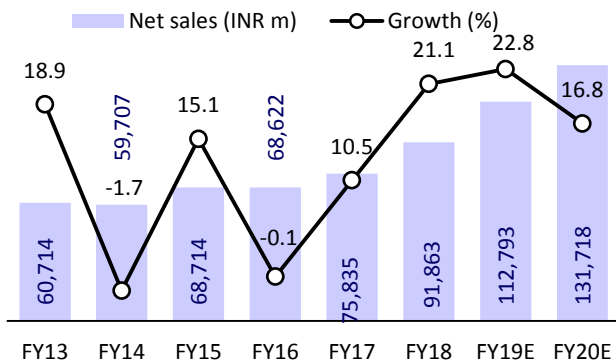
Exhibit 8: Comparative valuations

	CMP (INR)*	Rating	TP (INR)	P/E (x)		EV/EBITDA (x)		RoE (%)		Div Yield (%)		EPS CAGR (%)
				FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY18-20E
Auto OEM's												
Bajaj Auto	2,686	Buy	3,223	15.7	13.6	10.4	8.5	24.4	25.3	2.6	3.0	14.2
Hero MotoCorp	3,272	Neutral	3,442	16.9	14.9	9.9	8.8	31.1	31.5	3.2	3.5	8.8
TVS Motor	513	Neutral	572	29.1	20.0	17.0	12.4	26.3	30.8	0.8	1.0	35.7
M&M	928	Buy	1,063	18.4	16.8	14.8	13.2	15.1	15.0	1.1	1.1	16.0
Maruti Suzuki	9,340	Buy	10,805	30.0	22.8	17.5	14.4	19.5	22.1	1.1	1.3	23.9
Tata Motors	265	Buy	360	8.8	6.9	2.9	2.2	10.1	11.5	0.1	0.1	29.1
Ashok Leyland	119	Buy	149	17.9	13.7	8.9	6.0	25.1	27.7	1.9	2.1	26.9
Eicher Motors	27,301	Buy	34,264	27.7	21.2	22.4	18.2	33.2	33.2	0.6	0.7	27.0
Escorts	904	Neutral	988	17.2	13.7	14.1	10.9	19.3	20.4	0.6	0.6	29.1
Auto Ancillaries												
Bharat Forge	645	Buy	754	27.0	21.4	15.3	12.8	22.0	23.4	0.8	1.0	30.6
Exide Industries	270	Buy	316	25.7	21.0	14.4	11.9	14.8	16.1	1.0	1.2	25.5
Amara Raja Batteries	823	Buy	945	25.8	21.8	13.4	11.1	17.2	17.7	0.6	0.7	17.1
BOSCH	18,844	Neutral	19,017	32.5	26.8	20.7	16.8	16.8	18.4	1.0	1.3	22.4
Endurance Tech	1,395	Buy	1,483	38.1	28.2	17.8	14.0	21.7	24.7	0.5	0.9	30.4
Motherson Sumi	315	Buy	414	27.6	19.1	10.0	6.9	23.7	28.5	0.9	1.4	42.4
CEAT	1,404	Buy	1,588	18.4	14.1	10.6	8.1	11.2	13.2	0.6	0.8	24.6

Source: MOSL

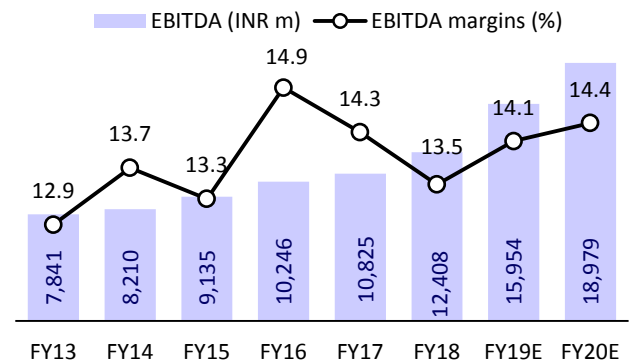
Exide Ind. | Story in Charts: 25.5% EPS CAGR expected over FY18-20E

Exhibit 9: Demand recovery to drive revenue growth



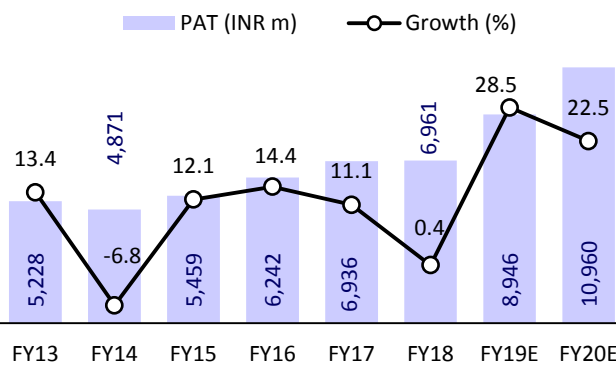
Source: Company, MOSL

Exhibit 10: Operating leverage to drive margin improvement



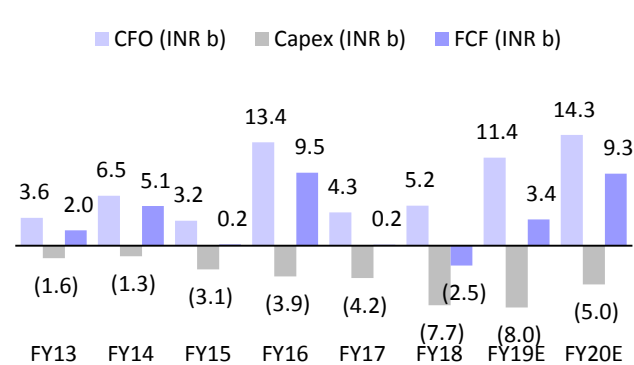
Source: Company, MOSL

Exhibit 11: Expect PAT CAGR of 25.5% over FY18-20E



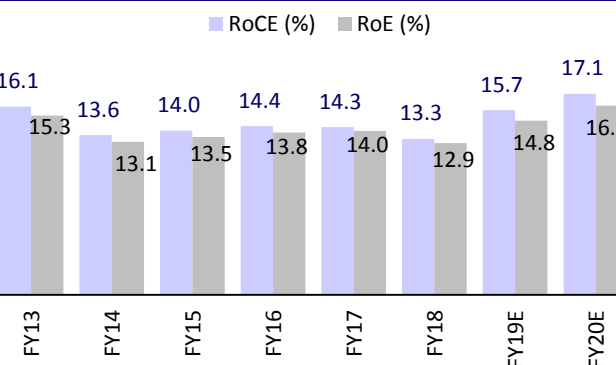
Source: Company, MOSL

Exhibit 12: Strong FCF driven by healthy CFO



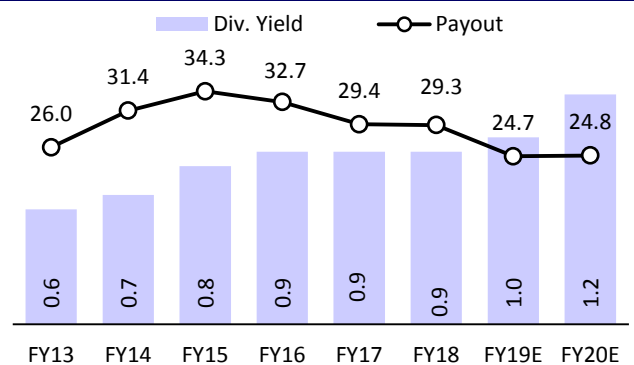
Source: Company, MOSL

Exhibit 13: Return ratios to improve



Source: Company, MOSL

Exhibit 14: Div. Yield and Div. Payout (%)



Source: Company, MOSL

Financials and Valuations

Income Statement						(INR Million)
Y/E March	2015	2016	2017	2018	2019E	2020E
Gross Sales	76,468	77,276	85,537	94,598	112,793	131,718
Less: Excise	7,812	8,799	9,703	2,735	0	0
Net Sales	68,655	68,477	75,835	91,863	112,793	131,718
Change (%)	15.1	-0.3	10.7	21.1	22.8	16.8
Operating Other Income	58	145	0	0	0	0
Total Income	68,714	68,622	75,835	91,863	112,793	131,718
Change (%)	15.1	-0.1	10.5	21.1	22.8	16.8
Total Expenditure	59,579	58,376	65,010	79,456	96,839	112,738
EBITDA	9,135	10,246	10,825	12,408	15,954	18,980
EBITDA Margins (%)	13.3	14.9	14.3	13.5	14.1	14.4
Change (%)	11.3	12.2	5.7	14.6	28.6	19.0
Depreciation	1,395	1,579	2,063	2,459	2,933	3,494
EBIT	7,740	8,666	8,762	9,948	13,020	15,486
Interest Charges	17	3	43	52	55	55
Other Income	262	416	1,039	584	487	807
EO Exp/(Inc)	-	-	-	418	-	-
PBT	7,985	9,080	9,757	10,062	13,452	16,237
Tax	2,526	2,837	2,821	3,378	4,506	5,277
Effective Rate (%)	31.6	31.2	28.9	33.6	33.5	32.5
Rep. PAT	5,459	6,242	6,936	6,683	8,946	10,960
Change (%)	12.1	14.4	11.1	-3.6	33.8	22.5
% of Net Sales						
Adj. PAT	5,459	6,242	6,936	6,964	8,946	10,960
Change (%)	12.1	14.4	11.1	0.4	28.5	22.5
Balance Sheet						(INR Million)
Y/E March	2015	2016	2017	2018	2019E	2020E
Share Capital	850	850	850	850	850	850
Reserves	39,696	44,264	48,786	53,043	59,403	67,153
Net Worth	40,546	45,114	49,636	53,893	60,253	68,003
Loans	176	1,025	1,702	0	0	0
Deferred Tax Liability	1,259	1,270	1,552	1,405	1,809	2,296
Capital Employed	41,981	47,409	52,890	55,298	62,061	70,299
Application of Funds						
Gross Fixed Assets	22,261	14,206	19,058	25,588	31,923	35,923
Less: Depreciation	11,359	1,551	3,598	6,005	8,938	12,432
Net Fixed Assets	10,902	12,654	15,460	19,583	22,985	23,491
Capital WIP	1,002	1,858	1,414	2,335	4,000	5,000
Investments	18,957	26,978	26,755	19,690	20,690	23,190
Curr.Assets	23,166	20,680	24,143	32,361	38,251	47,038
Inventory	15,228	11,335	15,274	17,602	21,631	25,622
Sundry Debtors	5,550	6,039	6,217	9,434	10,507	10,826
Cash & Bank Balances	298	738	196	872	645	4,205
Loans & Advances	2,077	228	235	272	334	390
Other Current Assets	13	2,340	2,222	4,181	5,134	5,995
Current Liab. & Prov.	12,046	14,762	14,881	18,671	23,865	28,420
Sundry Creditors	6,479	7,449	7,679	10,787	13,245	15,467
Other Liabilities	2,740	4,184	4,556	5,091	6,798	7,939
Provisions	2,827	3,129	2,647	2,793	3,822	5,014
Net Current Assets	11,121	5,918	9,262	13,690	14,386	18,618
Application of Funds	41,980	47,409	52,890	55,298	62,061	70,299

E: MOSL Estimates

Financials and Valuations

Ratios						
Y/E March	2015	2016	2017	2018	2019E	2020E
Basic (INR)						
EPS	6.4	7.3	8.2	8.2	10.5	12.9
Cash EPS	8.1	9.2	10.6	11.1	14.0	17.0
Book Value per Share	47.7	53.1	58.4	63.4	70.9	80.0
DPS	2.2	2.4	2.4	2.4	2.6	3.2
Payout (Incl. Div. Tax) %	34.3	32.7	29.4	29.3	24.7	24.8
Valuation (x)						
P/E	42.1	36.8	33.1	33.0	25.7	21.0
Cash P/E	33.5	29.4	25.5	24.4	19.3	15.9
EV/EBITDA	23.1	19.8	18.9	16.9	13.1	10.7
EV/Sales	3.1	3.0	2.7	2.3	1.8	1.5
Price to Book Value	5.7	5.1	4.6	4.3	3.8	3.4
Dividend Yield (%)	0.8	0.9	0.9	0.9	1.0	1.2
Profitability Ratios (%)						
RoE	13.5	13.8	14.0	12.9	14.8	16.1
RoCE	14.0	14.4	14.3	13.3	15.7	17.1
RoIC	27.3	30.1	29.4	23.2	25.1	28.0
Turnover Ratios						
Debtors (Days)	29	32	30	37	34	30
Inventory (Days)	81	60	74	70	70	71
Creditors (Days)	34	40	37	43	43	43
Working Capital (Days)	76	53	66	65	61	58
Gross Fixed Asset Turnover (x)	3.1	4.8	4.0	3.6	3.5	3.7
Leverage Ratio						
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow Statement						
						(INR Million)
Y/E March	2015	2016	2017	2018	2019E	2020E
OP/(Loss) before Tax	7,985	9,019	9,757	10,062	13,020	15,485
Interest/Dividends Received	-223	-413	-898	-358	487	807
Depreciation & Amortisation	1,395	1,579	2,063	2,459	2,933	3,494
Direct Taxes Paid	-2,475	-2,684	-2,812	-3,503	-4,103	-4,790
(Inc)/Dec in Working Capital	-3,457	5,783	-3,840	-3,563	-923	-672
CF from Oper. Activity	3,245	13,398	4,311	5,166	11,414	14,324
CF after EO Items	3,245	13,398	4,311	5,166	11,414	14,325
(Inc)/Dec in FA+CWIP	-3,050	-3,948	-4,158	-7,714	-8,000	-5,000
Free Cash Flow	195	9,450	153	-2,548	3,414	9,324
(Pur)/Sale of Invest.	920	-7,512	1,086	7,433	-1,000	-2,500
CF from Inv. Activity	-2,130	-11,460	-3,072	-280	-9,000	-7,500
Interest Rec./ (Paid)	-12	-13	-37	-58	-55	-55
Dividends Paid	-2,180	-2,334	-2,417	-2,449	-2,586	-3,210
CF from Fin. Activity	-2,016	-1,497	-1,782	-4,209	-2,641	-3,265
Inc/(Dec) in Cash	-901	441	-543	676	-227	3,560
Add: Beginning Balance	1,200	298	738	196	872	645
Closing Balance	298	739	195	872	645	4,206

E: MOSL Estimates

Corporate profile

Company description

Exide Industries (EXIDE) is the largest lead acid battery manufacturer in India with market leadership in auto OEM and replacement segment. Exide derives ~60% of revenues from auto segment, while balance comprises industrial revenues. The company has also recently entered into Home UPS/Inverter segment.

Exhibit 1: Sensex rebased

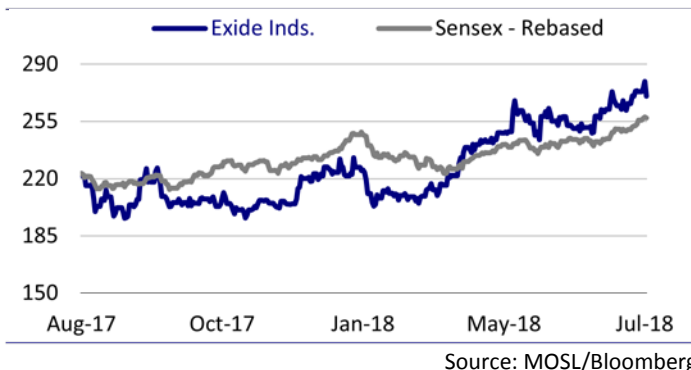


Exhibit 2: Shareholding pattern (%)

	Jun-18	Mar-18	Jun-17
Promoter	46.0	46.0	46.0
DII	23.2	19.9	18.9
FII	11.2	13.8	14.5
Others	19.6	20.3	20.6

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Hathway Investments Ltd	4.3
HDFC TRUSTEE COMPANY LTD - A/C. HDFC MID - CAPOPPORTUNITIES FUND	2.3
ICICI PRUDENTIAL VALUE DISCOVERY FUND	2.2
LIFE INSURANCE CORPORATION OF INDIA	1.8
BARON EMERGING MARKETS FUND	1.7

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Bharat Shah	Chairman
R B Raheja	Vice Chairman & Non executive
G Chatterjee	Managing Director & CEO
A K Mukherjee	Director (Finance) & CFO
Jitendra Kumar	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Mona N Desai	Sudhir Chand
Vijay Aggarwal	Nawshir H Mirza
Arun Mittal	Subir Chakraborty

*Independent

Exhibit 6: Auditors

Name	Type
S M Gupta & Co	Secretarial Audit
S R Batliboi & Co LLP	Statutory
Shome & Banerjee	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	10.5	10.2	3.3
FY20	12.9	11.9	8.2

Source: Bloomberg

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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