

Amara Raja Batteries

Refer to important disclosures at the end of this report

Uncertain times ahead; maintain Hold

- Q4FY21 EBITDA margin of 15.1% came in above estimate of 14.3% on lower employee expenses due to a write-back of provisions. Revenues stood at Rs21bn - above estimate of Rs19.4bn on higher-than-expected sales in inverter and other industrial segments.
- We trim FY22/23 EPS estimates by 3%/1% to Rs46.2/56.7. We are introducing FY24E EPS of Rs64.7, factoring in 11% revenue growth and 17.1% EBITDA margins. There could be downside risks to our estimates, if the company announces investments in lithium battery manufacturing capacities.
- EV penetration remains a structural risk in the medium term, as companies such as Amara Raja will have to make large investments in R&D and for setting up lithium battery manufacturing capacities, leading to a dilution in ROE. The entry of new players could also increase competition and negatively impact margins.
- Despite expectations of an improvement in economic activity and automobile sector recovery ahead, we maintain Hold rating due to imminent technological disruption. Our revised TP stands at Rs850 (Rs860 earlier), based on 15x FY23E EPS.

EBITDA margin above estimate: Considering the low base in Q4FY20, results have been compared with Q4FY19 (2-year CAGR). Revenue grew at 16% CAGR to Rs21bn (est.: Rs19.4bn). This beat was due to higher-than-expected revenues in inverter and other industrial products. Gross margin contracted to 32.6% (est.: 32.7%) from 34.8% in Q4FY19 due to increasing lead prices. EBITDA margin contracted to 15.1% from 15.5% in Q4FY19 but came in above estimate of 14.3% on lower-than-expected employee expenses due to a write-back of provisions. Overall, adjusted PAT grew at 26% CAGR to Rs1.9bn and was above estimate of Rs1.6bn due to higher operating profit and other income. Other income grew at a 125% CAGR to Rs3.2bn. It includes one-time income of ~Rs100mn relating to BSNL and other receivables.

Maintain Hold: We trim FY22/23 EPS estimates by 3%/1% to Rs46.2/56.7. We are introducing FY24E EPS of Rs64.7, factoring in 11% revenue growth and 17.1% EBITDA margins. Applying a P/E multiple of 15x, we arrive at a TP of Rs850 (Rs860 earlier). Considering the risk of technology disruption in the battery space, we maintain our Hold rating on the stock. **Key downside risks:** announcement of investments in lithium battery manufacturing capacities, lower-than-expected demand in Automotive and Industrial segments, and adverse currency/commodity prices.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	68,395	71,497	83,811	94,148	104,583
EBITDA	10,986	11,157	13,347	15,892	17,831
EBITDA Margin (%)	16.1	15.6	15.9	16.9	17.1
APAT	6,608	6,468	7,890	9,678	11,048
EPS (Rs)	38.7	37.9	46.2	56.7	64.7
EPS (% chg)	36.7	(2.1)	22.0	22.7	14.2
ROE (%)	18.9	16.4	17.6	19.0	19.0
P/E (x)	20.5	20.9	17.1	14.0	12.2
EV/EBITDA (x)	12.1	11.7	9.6	7.7	6.5
P/BV (x)	3.7	3.2	2.8	2.5	2.2

Source: Company, Emkay Research

CMP Rs 792 as of (May 23, 2021)	Target Price Rs 850 (▼) 12 months
Rating HOLD (■)	Upside 7.4 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(2.6)/(1.2)
Target Price change (%)	(1.2)
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	46.2	56.7
Consensus	43.6	49.9
Mean Consensus TP (12M)	Rs 915	

Stock Details

Bloomberg Code	AMRJ IN
Face Value (Rs)	1
Shares outstanding (mn)	171
52 Week H/L	1,026 / 563
M Cap (Rs bn/USD bn)	135 / 1.86
Daily Avg Volume (nos.)	1,093,042
Daily Avg Turnover (US\$ mn)	12.5

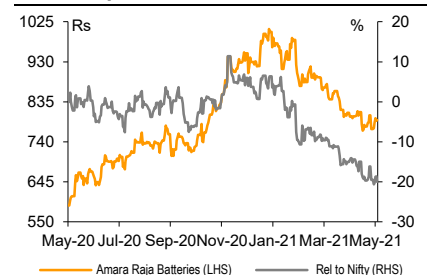
Shareholding Pattern Mar '21

Promoters	28.1%
FIIIs	21.3%
DIIIs	12.6%
Public and Others	38.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(10)	(8)	33
Rel. to Nifty	(7)	(11)	(22)	(20)

Relative price chart



Source: Bloomberg

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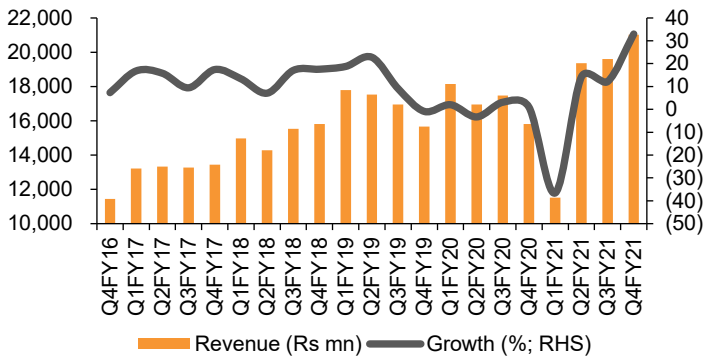
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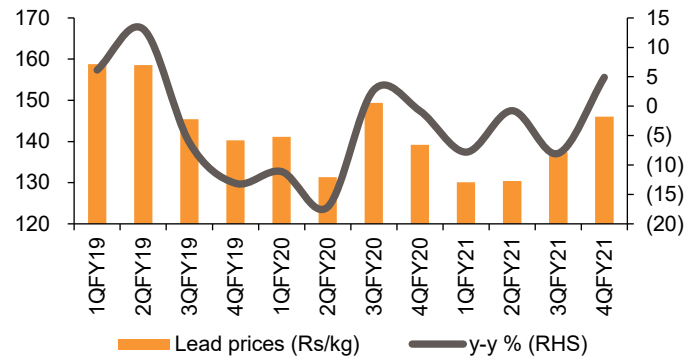
Story in Charts: Comparing performance with Q4FY19 (2-yr CAGR)

Exhibit 1: Revenues grew 16% CAGR to Rs21bn, above estimates due to higher-than-expected revenues in inverter and other industrial products



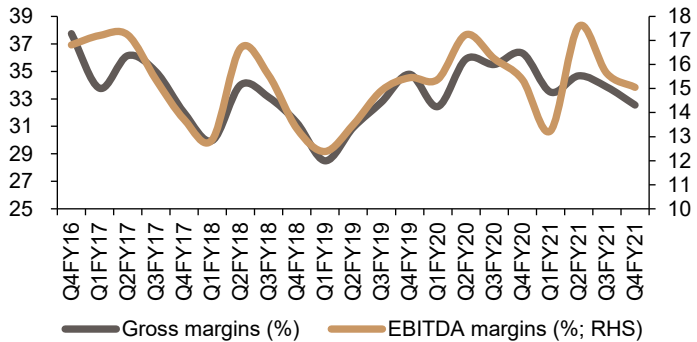
Source: Company, Emkay Research

Exhibit 2: Lead prices remain elevated; Price increases are expected with a lag



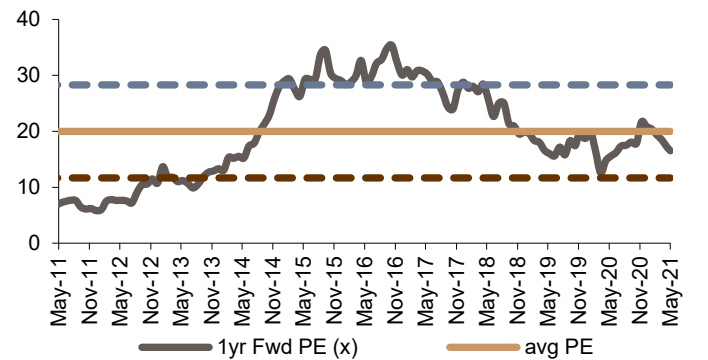
Note: Assumed 2 months inventory. Source: Bloomberg, Emkay Research

Exhibit 3: EBITDA margin contracted to 15.1% from 15.5% in Q4FY19, above estimates on lower-than-expected employee expenses due to write-back of provisions



Source: Company, Emkay Research

Exhibit 4: One-year forward P/E (Average: 20x, +1sd: 28x, -1sd: 12x)



Source: Company, Emkay Research

Exhibit 5: Revenue assumptions

Revenue mix	FY21	FY22E	FY23E	FY24E
Automotive (2W & 4W)	44,878	53,731	61,662	69,498
growth (%)	13.7	19.7	14.8	12.7
-OEM	6,765	9,058	10,337	11,585
growth (%)	22.2	33.9	14.1	12.1
-Aftermarket	38,113	44,673	51,325	57,913
growth (%)	12.3	17.2	14.9	12.8
Industrial	26,619	30,079	32,486	35,085
growth (%)	(8.0)	13.0	8.0	8.0
Total Revenue	71,497	83,811	94,148	104,583
growth (%)	4.5	17.2	12.3	11.1

Source: Company, Emkay Research

Exhibit 6: Changes in estimates

Rs mn	FY22E				FY23E				FY24E	
	Earlier	Revised	% Chng	% YoY	Earlier	Revised	% Chng	% YoY	Introducing	% YoY
Net Sales	83,936	83,811	(0.1)	17.2	94,459	94,148	(0.3)	12.3	104,583	11.1
EBITDA	13,933	13,347	(4.2)	19.6	16,426	15,892	(3.3)	19.1	17,831	12.2
Margin (%)	16.6	15.9	(68) bps	32 bps	17.4	16.9	(52) bps	95 bps	17.1	17 bps
APAT	8,100	7,890	(2.6)	22.0	9,796	9,678	(1.2)	22.7	11,048	14.2
EPS	47.42	46.2	(2.6)	22.0	57.35	56.7	(1.2)	22.7	64.7	14.2

Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q4FY21)

(Rs mn)	Actual	Estimates		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Total Revenue	21,207	19,405	19,552	8.4	7.5	Above estimates due to higher revenues in inverter and other industrial segments
EBITDA	3,165	2,768	2,968	14.4	6.6	
EBITDA Margin (%)	15.1	14.3	15.2	79 bps	(13) bps	Above estimates due to lower employee expenses on account of provision write-backs
Adjusted Net profit	1,895	1,591	1,702	19.1	11.3	Above estimates on higher operating profit and other income

Source: Bloomberg, Company, Emkay Research

Exhibit 8: Quarterly financial summary

Rs mn	Q4FY19	Q4FY20	Q3FY21	Q4FY21	YoY (%)	QoQ (%)	2yr Chg (%)	FY21	FY20	YoY (%)
Revenue	15,667	15,814	19,601	21,027	33.0	7.3	15.8	71,497	68,395	4.5
Expenditure	13,246	13,382	16,537	17,862	33.5	8.0	16.1	60,340	57,409	5.1
as % of sales	84.5	84.6	84.4	84.9				84.4	83.9	
Consumption of RM	10,217	10,069	12,964	14,183	40.9	9.4	17.8	53,577	51,329	4.4
as % of sales	65.2	63.7	66.1	67.4				74.9	75.0	
Employee Cost	815	937	1,180	1,071	14.4	(9.2)	14.6	4,260	3,852	10.6
as % of sales	5.2	5.9	6.0	5.1				6.0	5.6	
Other expenditure	2,214	2,377	2,394	2,608	9.7	9.0	8.5	2,502	2,228	12.3
as % of sales	14.1	15.0	12.2	12.4				3.5	3.3	
EBITDA	2,421	2,432	3,064	3,165	30.2	3.3	14.3	11,157	10,986	1.6
Depreciation	683	760	791	871	14.6	10.1	12.9	3,192	3,007	6.1
EBIT	1,738	1,672	2,273	2,295	37.2	0.9	14.9	7,965	7,978	(0.2)
Other Income	63	141	352	321	127.4	(8.8)	125.3	874	551	58.7
Interest	19	30	26	28	(9.2)	5.4	21.9	105	122	(13.6)
PBT	1,783	1,783	2,599	2,588	45.2	(0.4)	20.5	8,733	8,407	3.9
Total Tax	589	416	667	693	66.5	3.9	8.5	2,265	1,799	25.9
Adjusted PAT	1,193	1,367	1,932	1,895	38.7	(1.9)	26.0	6,468	6,608	(2.1)
Extra ordinary items Loss/(Gain)	0	0	0	0				0	0	
Reported PAT	1,193	1,367	1,932	1,895	38.7	(1.9)	26.0	6,468	6,608	(2.1)
Adjusted EPS	7.0	8.0	11.3	11.1	38.7	(1.9)	26.0	37.9	38.7	(2.1)

Margins (%)					(bps)	(bps)	(bps)			(bps)
EBIDTA	15.5	15.4	15.6	15.1	(32)	(58)	(40)	15.6	16.1	(46)
EBIT	11.1	10.6	11.6	10.9	34	(68)	(18)	11.1	11.7	(52)
EBT	11.4	11.3	13.3	12.3	103	(95)	93	12.2	12.3	(8)
PAT	7.6	8.6	9.9	9.0	37	(84)	139	9.0	9.7	(62)
Effective Tax rate	33.0	23.4	25.7	26.8	343	111	(627)	25.9	21.4	454

Source: Company, Emkay Research

Exhibit 9: Peer comparison

	CMP (Rs)	Target (Rs)	Mcap (Rs bn)	Reco	EPS (Rs)			PE (x)			ROE (%)			ROCE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Ashok Leyland	125	155	368	Buy	-0.9	3.8	6.7	-137.4	33.1	18.6	-3.8	15.3	24.1	-0.6	15.7	24.6
Atul Auto	189	275	4	Buy	0.0	16.3	27.5	7703.0	11.6	6.9	0.0	11.3	16.9	0.4	14.1	20.8
Bajaj Auto	4,126	4,340	1194	Buy	157.4	200.8	237.1	26.2	20.5	17.4	20.2	22.8	26.3	25.7	29.1	33.6
Eicher Motors	2,522	3,300	689	Buy	54.9	107.6	135.5	46.0	23.4	18.6	14.2	23.8	24.5	17.9	28.5	28.6
Escorts Ltd	1,159	1,240	156	Hold	86.4	87.2	88.6	13.4	13.3	13.1	19.8	15.3	13.7	26.3	20.5	18.3
Hero Motocorp	2,884	3,870	576	Buy	148.4	177.5	204.1	19.4	16.3	14.1	20.2	22.5	24.2	26.0	29.0	31.1
Mahindra & Mahindra	819	1,020	1018	Buy	34.1	45.8	50.7	24.0	17.9	16.1	12.2	15.3	15.1	14.9	18.6	18.5
Maruti Suzuki	6,815	8,500	2059	Buy	140.1	262.5	334.2	48.7	26.0	20.4	8.5	14.7	17.0	10.4	18.8	21.8
Tata Motors	313	410	1115	Buy	-3.7	25.1	42.0	-84.3	12.4	7.5	-2.4	16.7	23.7	5.2	10.9	14.8
TVS Motor	625	730	297	Buy	12.9	21.3	28.4	48.5	29.4	22.0	15.7	22.3	25.2	17.1	25.0	29.1
Amara Raja Batteries	792	850	135	Hold	37.9	46.2	56.7	20.9	17.1	14.0	16.4	17.6	19.0	22.1	23.3	25.2
Apollo Tyres	217	290	138	Buy	15.1	13.6	18.1	14.4	15.9	12.0	9.0	7.4	9.2	8.9	8.5	10.1
Exide Industries	187	200	159	Hold	8.9	10.1	11.7	21.0	18.5	15.9	11.5	12.0	12.9	15.6	16.2	17.3
Motherson Sumi	245	240	775	Buy	3.4	9.9	12.0	72.9	24.9	20.4	9.3	24.4	25.0	6.3	15.4	17.9
Bharat Forge	645	760	300	Buy	6.6	18.3	27.5	97.6	35.2	23.5	5.7	14.6	19.4	5.5	13.7	18.7

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	68,395	71,497	83,811	94,148	104,583
Expenditure	57,409	60,340	70,464	78,256	86,751
EBITDA	10,986	11,157	13,347	15,892	17,831
Depreciation	3,007	3,192	3,569	4,004	4,439
EBIT	7,978	7,965	9,778	11,888	13,392
Other Income	551	874	837	1,100	1,408
Interest expenses	122	105	67	49	31
PBT	8,407	8,733	10,548	12,939	14,770
Tax	1,799	2,265	2,658	3,261	3,722
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	6,608	6,468	7,890	9,678	11,048
Adjusted PAT	6,608	6,468	7,890	9,678	11,048

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	171	171	171	171	171
Reserves & surplus	36,385	41,932	47,454	54,229	61,963
Net worth	36,556	42,103	47,625	54,400	62,134
Minority Interest	0	0	0	0	0
Loan Funds	343	234	184	134	84
Net deferred tax liability	441	407	407	407	407
Total Liabilities	37,341	42,744	48,217	54,941	62,625
Net block	18,292	24,548	25,978	26,974	27,535
Investment	1,562	2,805	6,805	10,805	16,305
Current Assets	21,882	26,625	28,752	32,468	36,101
Cash & bank balance	845	1,758	1,036	2,175	3,344
Other Current Assets	2,056	1,204	1,325	1,457	1,603
Current liabilities & Provision	12,665	15,227	17,312	19,299	21,309
Net current assets	9,217	11,398	11,440	13,169	14,792
Misc. exp	0	0	0	0	0
Total Assets	37,341	42,744	48,217	54,941	62,625

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	7,856	7,860	9,710	11,839	13,361
Other Non-Cash items	0	0	0	0	0
Chg in working cap	2,892	(1,301)	(764)	(591)	(454)
Operating Cashflow	11,219	7,147	9,664	11,561	12,914
Capital expenditure	(6,999)	(4,964)	(5,000)	(5,000)	(5,000)
Free Cash Flow	4,220	2,183	4,664	6,561	7,914
Investments	(1,232)	(1,147)	(4,000)	(4,000)	(5,500)
Other Investing Cash Flow	(263)	(239)	260	480	742
Investing Cashflow	(7,943)	(5,476)	(7,903)	(7,420)	(8,350)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(116)	(125)	(50)	(50)	(50)
Dividend paid (incl tax)	(3,311)	(854)	(2,367)	(2,904)	(3,314)
Other Financing Cash Flow	332	261	0	0	0
Financing Cashflow	(3,148)	(758)	(2,484)	(3,002)	(3,395)
Net chg in cash	128	913	(722)	1,139	1,169
Opening cash position	718	845	1,758	1,036	2,175
Closing cash position	845	1,758	1,036	2,175	3,344

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	16.1	15.6	15.9	16.9	17.1
EBIT Margin	11.7	11.1	11.7	12.6	12.8
Effective Tax Rate	21.4	25.9	25.2	25.2	25.2
Net Margin	9.7	9.0	9.4	10.3	10.6
ROCE	23.7	22.1	23.3	25.2	25.2
ROE	18.9	16.4	17.6	19.0	19.0
RoIC	27.8	26.2	27.7	32.0	34.8

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	38.7	37.9	46.2	56.7	64.7
CEPS	56.3	56.6	67.1	80.1	90.7
BVPS	214.0	246.5	278.8	318.5	363.8
DPS	11.0	11.0	13.9	17.0	19.4

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	20.5	20.9	17.1	14.0	12.2
P/CEPS	14.1	14.0	11.8	9.9	8.7
P/BV	3.7	3.2	2.8	2.5	2.2
EV / Sales	1.9	1.8	1.5	1.3	1.1
EV / EBITDA	12.1	11.7	9.6	7.7	6.5
Dividend Yield (%)	1.4	1.4	1.8	2.1	2.5

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)
Net Debt/EBIDTA	(0.2)	(0.4)	(0.6)	(0.8)	(1.1)
Working Cap Cycle (days)	44.7	49.2	45.3	42.6	40.0

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	0.7	4.5	17.2	12.3	11.1
EBITDA	15.4	1.6	19.6	19.1	12.2
EBIT	15.5	(0.2)	22.8	21.6	12.7
PAT	36.7	(2.1)	22.0	22.7	14.2

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenue	15,814	11,510	19,358	19,601	21,027
EBITDA	2,432	1,524	3,404	3,064	3,165
EBITDA Margin (%)	15.4	13.2	17.6	15.6	15.1
PAT	1,367	627	2,015	1,932	1,895
EPS (Rs)	8.0	3.7	11.8	11.3	11.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	28.1	28.1	28.1	28.1	28.1
FIs	20.9	19.0	18.6	20.9	21.3
DIs	11.1	13.3	14.2	14.5	12.6
Public and Others	39.9	39.7	39.1	36.5	38.0

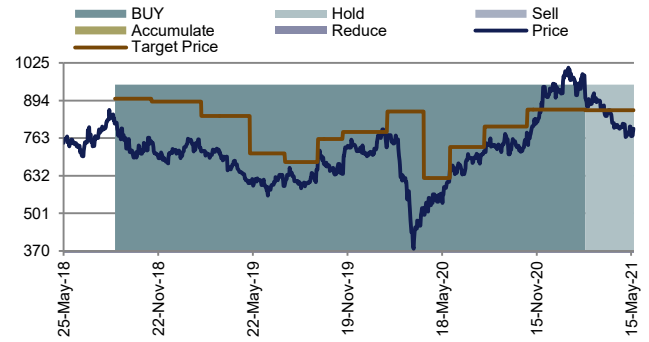
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
16-Feb-21	903	860	12m	Hold	Raghunandhan NL
28-Oct-20	742	863	12m	Buy	Raghunandhan NL
11-Oct-20	737	803	12m	Buy	Raghunandhan NL
28-Sep-20	743	803	12m	Buy	Raghunandhan NL
7-Aug-20	714	803	12m	Buy	Raghunandhan NL
29-Jun-20	638	732	12m	Buy	Raghunandhan NL
2-Jun-20	661	732	12m	Buy	Raghunandhan NL
4-May-20	548	624	12m	Buy	Raghunandhan NL
29-Apr-20	537	624	12m	Buy	Raghunandhan NL
13-Apr-20	496	624	12m	Buy	Raghunandhan NL
27-Feb-20	670	856	12m	Buy	Raghunandhan NL
14-Feb-20	744	856	12m	Buy	Raghunandhan NL
3-Feb-20	773	856	12m	Buy	Raghunandhan NL
27-Dec-19	705	784	12m	Buy	Raghunandhan NL
27-Nov-19	751	784	12m	Buy	Raghunandhan NL
10-Nov-19	639	784	12m	Buy	Raghunandhan NL
23-Sep-19	701	760	12m	Buy	Raghunandhan NL
22-Jul-19	606	680	12m	Buy	Raghunandhan NL
16-May-19	606	710	12m	Buy	Raghunandhan NL
12-Feb-19	717	840	12m	Buy	Raghunandhan NL
9-Nov-18	746	890	12m	Buy	Raghunandhan NL
31-Aug-18	817	900	12m	Buy	Raghunandhan NL

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Automobiles & Auto Ancillaries



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Sector

Automobiles and Ancillaries

Analyst bio

Raghu holds an MBA and comes with total 11 years of research experience. His team currently covers 14 stocks in the Indian Automobiles and Ancillaries space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Auto & Auto Ancillaries	5.26	5.26	0%	0	100.00
Amara Raja Batteries	0.08	0.00	-100%	-8	0.00
Apollo Tyres	0.00	0.00	NA	0	0.00
Ashok Leyland	0.21	0.30	43%	9	5.65
Atul Auto	0.00	0.00	NA	0	0.00
Bajaj Auto	0.62	0.62	0%	0	11.82
Bharat Forge	0.19	0.19	0%	0	3.68
Eicher Motors	0.41	0.41	0%	0	7.86
Escorts	0.00	0.00	NA	0	0.00
Exide Industries	0.10	0.00	-100%	-10	0.00
Hero Motocorp	0.44	0.44	0%	0	8.29
Mahindra & Mahindra	0.90	0.90	0%	0	17.13
Maruti Suzuki India	1.05	1.05	0%	0	19.95
Motherson Sumi	0.34	0.33	0%	0	6.36
Tata Motors	0.68	0.73	7%	5	13.90
Tata Motors DVR*	0.08	0.14	64%	5	2.58
TVS Motor	0.15	0.15	0%	0	2.79
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	21-May-20	20-Nov-20	18-Feb-21	20-Apr-21	20-May-21
EAP - Auto & Auto Ancillaries	100.0	64.7	100.4	129.2	114.9	121.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	67.0	102.6	129.7	115.3	121.4

*Performance measurement base date 1st April 2019

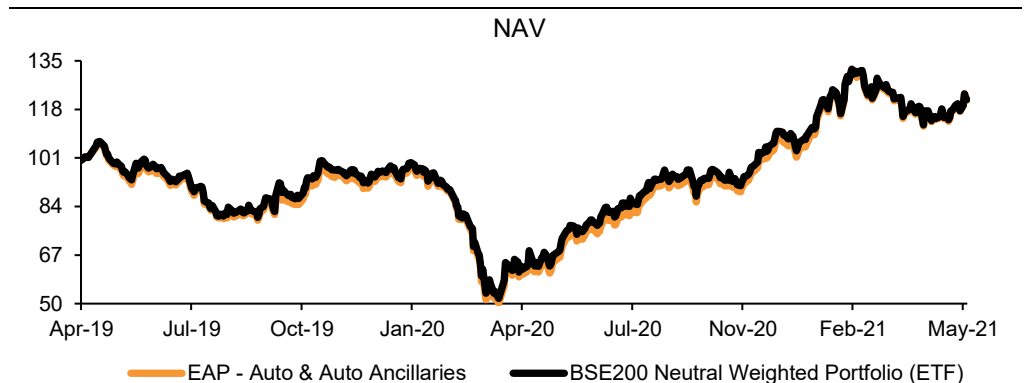
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Auto & Auto Ancillaries	5.5%	-6.1%	20.8%	87.3%
BSE200 Neutral Weighted Portfolio (ETF)	5.3%	-6.4%	18.3%	81.2%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 23 May 2021 23:34:49 (SGT)
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