

Amara Raja Batteries

Refer to important disclosures at the end of this report

Strong revenue performance in Q1; Lower input cost benefits to reflect from Q2

- For Q1FY23, Amara Raja (AMRJ) reported 20% qoq revenue growth (3-year CAGR at 13%) to Rs26.2bn, 5% above estimates, due to improved growth in auto/industrial segments. EBITDA grew by 19% (3-year CAGR at -2%) to Rs2.6bn, 11% below estimates, due to higher-than-expected commodity hit and one-time costs of ~Rs100mn. Management expects benefits of lower commodity prices to reflect in Q2.
- We have cut our FY23 EPS forecast by 2% due to lower margin assumption and broadly retained our FY24 estimates. We have built in a 13% revenue CAGR over FY22-24E, supported by robust growth in the auto OEM segment, pickup in the industrial segment, and stable growth in the auto replacement market.
- AMRJ plans to commence work on a small lithium-ion cell manufacturing facility this year with capability of multiple cathode cell chemistries. Any progress in this regard, such as the announcement of investment plans and forming tie-ups with OEMs for battery supplies, could provide clarity on long-term growth survival.
- We retain our Hold rating on the stock. Our TP of Rs530 (Rs520 earlier) is based on 11x Sep'24E EPS (Jun'24E earlier).

- Strong revenue performance in Q1:** AMRJ's revenue grew by 20% qoq (3-year CAGR at 13%) to Rs26.2bn, 5% above estimates, due to improved growth in both auto and industrial segments. Within auto, two-wheelers (2Ws) have seen higher growth. Within industrials, the inverter segment has witnessed better growth. EBITDA grew by 20% (3-year CAGR at -2%) to Rs2.6bn, 11% below estimates due to higher RM cost and one-time costs of ~Rs100mn. RM/sales increased 130bps to 73.4%, owing to delay in the pass-through of commodity inflation. One-time costs relate to higher energy cost due to power holiday in Andhra Pradesh because of demand-supply mismatch. Management expects margins to improve ahead because of benefits of lower commodity prices to start reflecting in Q2. Overall, earnings grew 33% qoq to Rs1.3bn, 13% below estimates, due to lower-than-expected operating profit.
- FY23 revenue growth expectations:** Management expects auto replacement and industrial segments such as Telecom/UPS to see double-digit growth.
- Maintain Hold:** Despite losing out in the PLI-ACC scheme, AMRJ plans to commence work on lithium-ion cell manufacturing facility this year. Any progress in this regard could provide clarity on long-term survival and growth. It is already working with Piaggio three-wheelers (3Ws) for supplies of lithium-ion batteries. We retain Hold with a TP of Rs530.
Key downside risks: Lower-than-expected demand in key geographies, increased competitive intensity, and adverse movement in commodity prices/currency rates.

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

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	71,497	86,958	102,344	111,506	120,350
EBITDA	11,157	10,226	12,230	14,440	15,706
EBITDA Margin (%)	15.6	11.8	12.0	13.0	13.1
APAT	6,468	5,112	6,462	7,881	8,538
EPS (Rs)	37.9	29.9	37.8	46.1	50.0
EPS (% chg)	(2.1)	(21.0)	26.4	22.0	8.3
ROE (%)	16.4	11.7	13.5	14.9	14.6
P/E (x)	13.3	16.9	13.3	10.9	10.1
EV/EBITDA (x)	7.4	8.4	6.8	5.6	5.0
P/BV (x)	2.0	1.9	1.7	1.6	1.4

Source: Company, Emkay Research

CMP	Target Price
Rs 505 as of (August 8, 2022)	Rs 530 (▲) 12 months
Rating	Upside
HOLD (■)	5.0 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(1.7)/ 0.1
Target Price change (%)	1.9
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	37.8	46.1
Consensus	37.7	45.0
Mean Consensus TP (12M)	Rs 583	

Stock Details

Bloomberg Code	AMRJ IN
Face Value (Rs)	1
Shares outstanding (mn)	171
52 Week H/L	782 / 438
M Cap (Rs bn/USD bn)	86 / 1.09
Daily Avg Volume (nos.)	499,501
Daily Avg Turnover (US\$ mn)	3.1

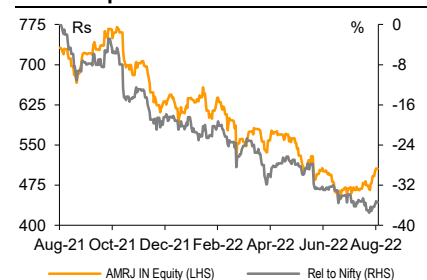
Shareholding Pattern Jun '22

Promoters	28.1%
FIIIs	18.3%
DIIIs	10.8%
Public and Others	42.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	10	(7)	(20)	(30)
Rel. to Nifty	-	(11)	(19)	(34)

Relative price chart



Source: Bloomberg

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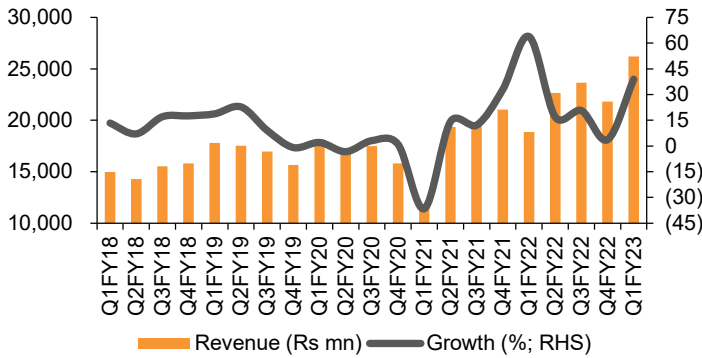
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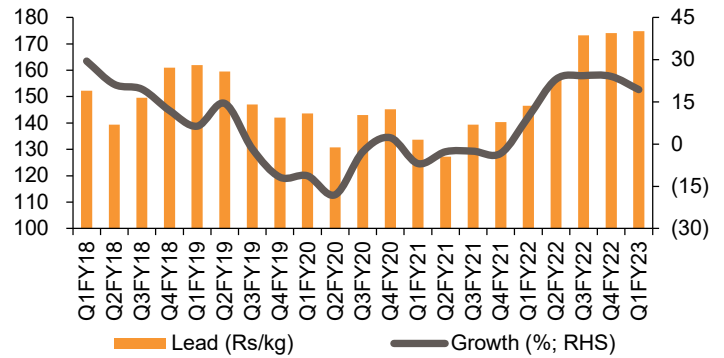
Story in Charts

Exhibit 1: Revenue grew 20% qoq to Rs26.2bn. Expect revenue CAGR at 13% for FY22-24E



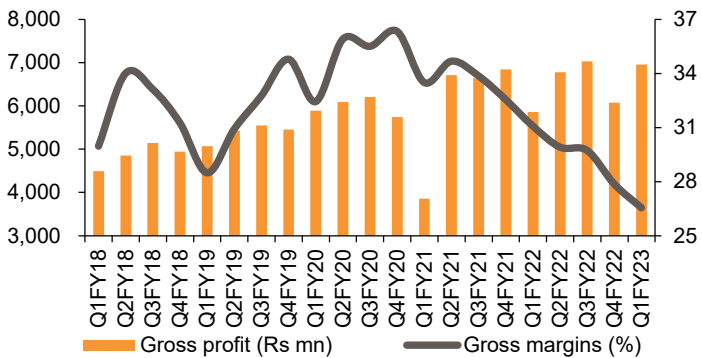
Source: Company, Emkay Research

Exhibit 2: Lead prices have been elevated over past few quarters; Expect benefits of lower lead prices from Q2



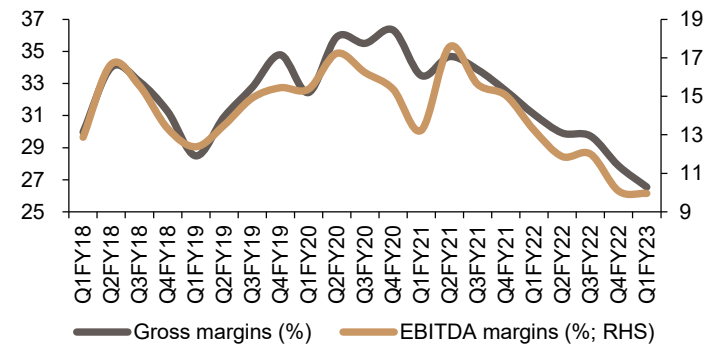
Note: Assumed 2 months inventory. Source: Bloomberg, Emkay Research

Exhibit 3: Gross margin contracted by 130bps to 26.6% due to higher commodity cost



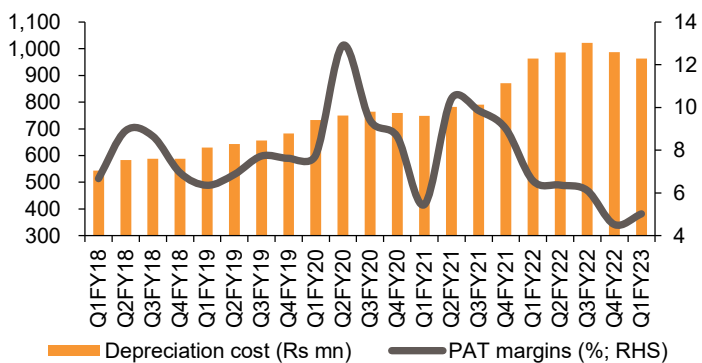
Source: Company, Emkay Research

Exhibit 4: EBITDA margin contracted by 10bps to 10% due to higher-than-expected commodity and one-time costs of ~Rs100mn.



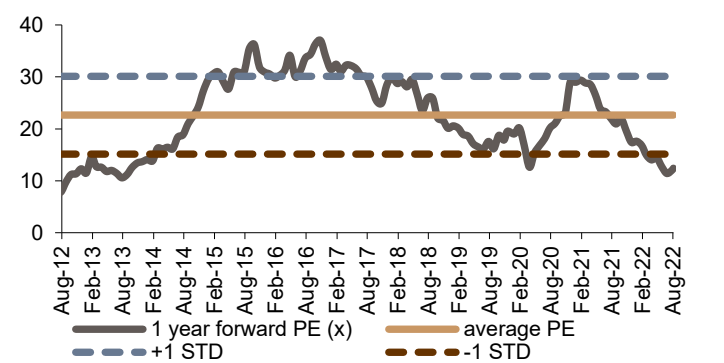
Source: Company, Emkay Research

Exhibit 5: PAT margin expanded by 50bps to 5%



Source: Company, Emkay Research

Exhibit 6: One-year forward P/E (Average: 23x, +1sd: 30x, -1sd: 15x)



Source: Company, Emkay Research

Exhibit 7: Revenue assumptions: Expect revenue to post a 13% CAGR over FY22-24E

Revenue mix	FY21	FY22	FY23E	FY24E	FY25E	CAGR % FY22-24E
Automotive (2W & 4W)	42,656	50,578	60,143	66,351	72,486	15
growth (%)	6.2	18.6	18.9	10.3	9.2	
-OEM	6,281	7,365	9,430	10,899	11,999	22
growth (%)	0.4	17.3	28.0	15.6	10.1	
-Aftermarket	36,375	43,213	50,713	55,452	60,487	13
growth (%)	7.2	18.8	17.4	9.3	9.1	
Industrial	28,841	36,380	42,201	45,155	47,864	11
growth (%)	2.2	26.1	16.0	7.0	6.0	
Total Revenue	71,497	86,958	102,344	111,506	120,350	13
growth (%)	4.5	21.6	17.7	9.0	7.9	

Source: Company, Emkay Research

Exhibit 8: Changes in estimates

Rs mn	FY23E				FY24E				FY25E			
	Earlier	Revised	% Chg	% YoY	Earlier	Revised	% Chg	% YoY	Earlier	Revised	% Chg	% YoY
Net Sales	98,530	102,344	3.9	17.7	107,354	111,506	3.9	9.0	115,877	120,350	3.9	7.9
EBITDA	12,582	12,230	(2.8)	19.6	14,708	14,440	(1.8)	18.1	15,991	15,706	(1.8)	8.8
Margin(%)	12.8	12.0	(82) bps	19 bps	13.7	13.0	(75) bps	100 bps	13.8	13.1	(75) bps	10 bps
APAT	6,571	6,462	(1.7)	26.4	7,874	7,881	0.1	22.0	8,531	8,538	0.1	8.3
EPS (Rs)	38.5	37.8	(1.7)	26.4	46.1	46.1	0.1	22.0	49.9	50.0	0.1	8.3

Source: Company, Emkay Research

Exhibit 9: Actual vs. Estimates (Q1FY23)

(Rs mn)	Actual	Estimates		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Total Revenue	26,200	24,969	22,845	4.9	14.7	Above estimates due to improved growth in auto/industrial segments
EBITDA	2,609	2,939	2,543	(11.2)	2.6	Below estimates due to higher-than-expected commodity and one-time costs of ~Rs100mn
EBITDA Margin (%)	10.0	11.8	11.1	(181) bps	(117) bps	
Adjusted Net profit	1,315	1,502	1,172	(12.5)	12.1	Below estimates due to lower-than-expected operating profit

Source: Bloomberg, Company, Emkay Research

Exhibit 10: Quarterly Financial Summary

Rs mn	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ(%)
Revenue	18,859	22,642	23,651	21,807	26,200	38.9	20.1
Expenditure	16,360	19,953	20,811	19,608	23,591	44.2	20.3
<i>as % of sales</i>	86.8	88.1	88.0	89.9	90.0		
Consumption of RM	12,997	15,868	16,619	15,729	19,243	48.1	22.3
<i>as % of sales</i>	68.9	70.1	70.3	72.1	73.4		
Employee Cost	1,179	1,313	1,293	1,203	1,337	13.4	11.1
<i>as % of sales</i>	6.3	5.8	5.5	5.5	5.1		
Other expenditure	2,184	2,772	2,899	2,677	3,012	37.9	12.5
<i>as % of sales</i>	11.6	12.2	12.3	12.3	11.5		
EBITDA	2,499	2,689	2,840	2,199	2,609	4.4	18.7
Depreciation	963	986	1,021	987	963	0.1	(2.4)
EBIT	1,536	1,703	1,819	1,211	1,646	7.1	35.8
Other Income	166	264	190	160	170	2.2	6.4
Interest	32	36	38	46	46	45.4	(0.9)
PBT	1,670	1,932	1,971	1,325	1,770	5.9	33.6
Total Tax	431	491	524	340	455	5.6	34.1
Adjusted PAT	1,239	1,441	1,447	985	1,315	6.1	33.4
Extra ordinary items Loss/(Gain)	0	0	0	0	0		
Reported PAT	1,239	1,441	1,447	985	1,315	6.1	33.4
Adjusted EPS (Rs)	7.3	8.4	8.5	5.8	7.7	6.1	33.4

Margins (%)						(bps)	(bps)
EBIDTA	13.2	11.9	12.0	10.1	10.0	(329)	(12)
EBIT	8.1	7.5	7.7	5.6	6.3	(186)	73
EBT	8.9	8.5	8.3	6.1	6.8	(210)	68
PAT	6.6	6.4	6.1	4.5	5.0	(155)	50
Effective Tax rate	25.8	25.4	26.6	25.6	25.7	(8)	(87)

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	71,497	86,958	102,344	111,506	120,350
Expenditure	60,340	76,732	90,114	97,066	104,644
EBITDA	11,157	10,226	12,230	14,440	15,706
Depreciation	3,192	3,957	4,322	4,784	5,355
EBIT	7,965	6,269	7,908	9,656	10,351
Other Income	874	780	866	1,019	1,209
Interest expenses	105	151	159	166	175
PBT	8,733	6,898	8,616	10,508	11,385
Tax	2,265	1,786	2,154	2,627	2,846
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	6,468	5,112	6,462	7,881	8,538
Adjusted PAT	6,468	5,112	6,462	7,881	8,538

Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	171	171	171	171	171
Reserves & surplus	41,932	45,343	49,866	55,383	61,360
Net worth	42,103	45,514	50,037	55,554	61,531
Minority Interest	0	0	0	0	0
Loan Funds	343	234	115	65	15
Net deferred tax liability	407	314	314	314	314
Total Liabilities	42,853	46,062	50,466	55,933	61,860
Net block	24,548	24,923	26,601	28,817	31,462
Investment	2,805	778	2,278	4,278	8,278
Current Assets	26,625	29,761	33,808	36,793	37,760
Cash & bank balance	1,758	536	1,427	1,954	594
Other Current Assets	1,204	1,227	1,289	1,353	1,421
Current liabilities & Provision	15,117	17,697	20,517	22,251	23,937
Net current assets	11,508	12,064	13,291	14,542	13,823
Misc. exp	0	0	0	0	0
Total Assets	42,853	46,062	50,466	55,933	61,860

Cash Flow

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	7,860	6,118	7,749	9,490	10,176
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(1,301)	(2,406)	(336)	(723)	(643)
Operating Cashflow	7,147	5,550	9,680	10,933	11,895
Capital expenditure	(4,964)	(7,598)	(6,000)	(7,000)	(8,000)
Free Cash Flow	2,183	(2,048)	3,680	3,933	3,895
Investments	(1,147)	2,505	(1,500)	(2,000)	(4,000)
Other Investing Cash Flow	(239)	273	60	157	322
Investing Cashflow	(5,476)	(4,039)	(6,573)	(7,825)	(10,470)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(125)	(110)	(119)	(50)	(50)
Dividend paid (incl tax)	(854)	(1,708)	(1,939)	(2,364)	(2,562)
Other Financing Cash Flow	261	(848)	0	0	0
Financing Cashflow	(758)	(2,733)	(2,216)	(2,581)	(2,786)
Net chg in cash	913	(1,222)	891	528	(1,361)
Opening cash position	845	1,758	536	1,427	1,954
Closing cash position	1,758	536	1,427	1,954	594

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	15.6	11.8	12.0	13.0	13.1
EBIT Margin	11.1	7.2	7.7	8.7	8.6
Effective Tax Rate	25.9	25.9	25.0	25.0	25.0
Net Margin	9.0	5.9	6.3	7.1	7.1
ROCE	16.0	11.3	13.0	14.3	13.8
ROE	16.4	11.7	13.5	14.9	14.6
RoIC	19.4	13.1	15.8	18.1	18.0

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	37.9	29.9	37.8	46.1	50.0
CEPS	56.6	53.1	63.1	74.1	81.3
BVPS	246.5	266.5	292.9	325.2	360.2
DPS	11.0	4.5	11.3	13.8	15.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	13.3	16.9	13.3	10.9	10.1
P/CEPS	8.9	9.5	8.0	6.8	6.2
P/BV	2.0	1.9	1.7	1.6	1.4
EV / Sales	1.1	1.0	0.8	0.7	0.6
EV / EBITDA	7.4	8.4	6.8	5.6	5.0
Dividend Yield (%)	2.2	0.9	2.2	2.7	3.0

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.1)	0.0	(0.1)	(0.1)	(0.1)
Net Debt/EBIDTA	(0.4)	(0.1)	(0.3)	(0.4)	(0.5)
Working Cap Cycle (days)	49.8	48.4	42.3	41.2	40.1

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4.5	21.6	17.7	9.0	7.9
EBITDA	1.6	(8.3)	19.6	18.1	8.8
EBIT	(0.2)	(21.3)	26.1	22.1	7.2
PAT	(2.1)	(21.0)	26.4	22.0	8.3

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue	18,859	22,642	23,651	21,807	26,200
EBITDA	2,499	2,689	2,840	2,199	2,609
EBITDA Margin (%)	13.2	11.9	12.0	10.1	10.0
PAT	1,239	1,441	1,447	985	1,315
EPS (Rs)	7.3	8.4	8.5	5.8	7.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	28.1	28.1	28.1	28.1	28.1
FIs	22.1	20.8	19.8	18.1	18.3
DIs	15.2	14.5	11.7	11.4	10.8
Public and Others	34.6	36.6	40.5	42.5	42.8

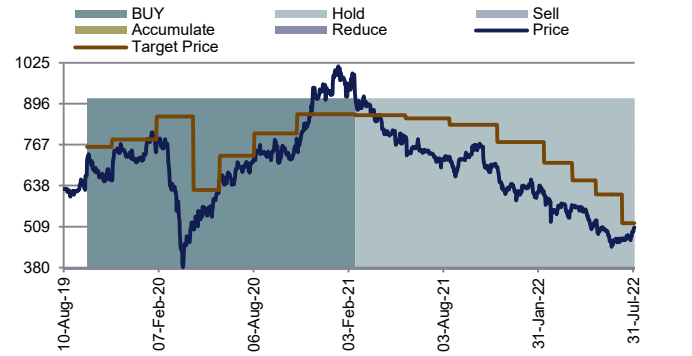
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
10-Jul-22	466	520	12m	Hold	Raghunandhan NL
21-May-22	529	610	12m	Hold	Raghunandhan NL
06-Apr-22	574	655	12m	Hold	Raghunandhan NL
24-Feb-22	524	710	12m	Hold	Raghunandhan NL
11-Feb-22	608	710	12m	Hold	Raghunandhan NL
14-Nov-21	697	775	12m	Hold	Raghunandhan NL
15-Aug-21	729	830	12m	Hold	Raghunandhan NL
02-Jul-21	747	850	12m	Hold	Raghunandhan NL
18-Jun-21	748	850	12m	Hold	Raghunandhan NL
16-Jun-21	772	850	12m	Hold	Raghunandhan NL
01-Jun-21	739	850	12m	Hold	Raghunandhan NL
30-May-21	744	850	12m	Hold	Raghunandhan NL
23-May-21	792	850	12m	Hold	Raghunandhan NL
16-Feb-21	908	860	12m	Hold	Raghunandhan NL
28-Oct-20	746	863	12m	Buy	Raghunandhan NL
11-Oct-20	741	803	12m	Buy	Raghunandhan NL
28-Sep-20	747	803	12m	Buy	Raghunandhan NL
07-Aug-20	718	803	12m	Buy	Raghunandhan NL
29-Jun-20	641	732	12m	Buy	Raghunandhan NL
02-Jun-20	665	732	12m	Buy	Raghunandhan NL
04-May-20	551	624	12m	Buy	Raghunandhan NL
29-Apr-20	540	624	12m	Buy	Raghunandhan NL
13-Apr-20	499	624	12m	Buy	Raghunandhan NL
27-Feb-20	681	856	12m	Buy	Raghunandhan NL
14-Feb-20	756	856	12m	Buy	Raghunandhan NL
03-Feb-20	786	856	12m	Buy	Raghunandhan NL
27-Dec-19	716	784	12m	Buy	Raghunandhan NL
27-Nov-19	763	784	12m	Buy	Raghunandhan NL
10-Nov-19	654	784	12m	Buy	Raghunandhan NL
23-Sep-19	718	760	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 13 years of research experience. His team currently covers 17 stocks in the Indian Automobiles and Ancillaries space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Auto & Auto Ancillaries	5.06	5.06	0%	0	100.00	
Amara Raja Batteries	0.00	0.00	NA	0	0.00	0
Apollo Tyres	0.00	0.00	NA	0	0.00	0
Ashok Leyland	0.20	0.23	14%	3	4.57	0
Atul Auto	0.00	0.03	NA	3	0.60	0
Bajaj Auto	0.51	0.29	-44%	-22	5.68	0
Bharat Forge	0.18	0.18	0%	0	3.48	0
Eicher Motors	0.42	0.42	0%	0	8.29	0
Escorts	0.00	0.03	NA	3	0.56	0
Exide Industries	0.00	0.00	NA	0	0.00	0
Hero MotoCorp	0.35	0.38	7%	3	7.42	0
Mahindra & Mahindra	1.15	1.19	3%	4	23.50	0
Maruti Suzuki India	1.14	1.18	3%	4	23.29	0
Minda Industries	0.00	0.00	NA	0	0.00	0
Motherson Sumi Wiring India	0.00	0.00	NA	0	0.00	0
Samvardhana Motherson International	0.00	0.00	NA	0	0.00	0
Tata Motors	0.80	0.81	2%	1	16.02	0
Tata Motors DVR*	0.10	0.13	23%	2	2.49	0
TVS Motor	0.21	0.21	0%	0	4.08	0
Cash	0.00	0.00	NA	0	0.0	0

Source: Emkay Research

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

Sector portfolio NAV

	Base					Latest
	1-Apr-19	6-Aug-21	4-Feb-22	6-May-22	6-Jul-22	5-Aug-22
EAP - Auto & Auto Ancillaries	100.0	122.3	138.6	125.8	144.4	154.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	121.5	137.5	125.4	144.0	154.0

*Performance measurement base date 1st April 2019

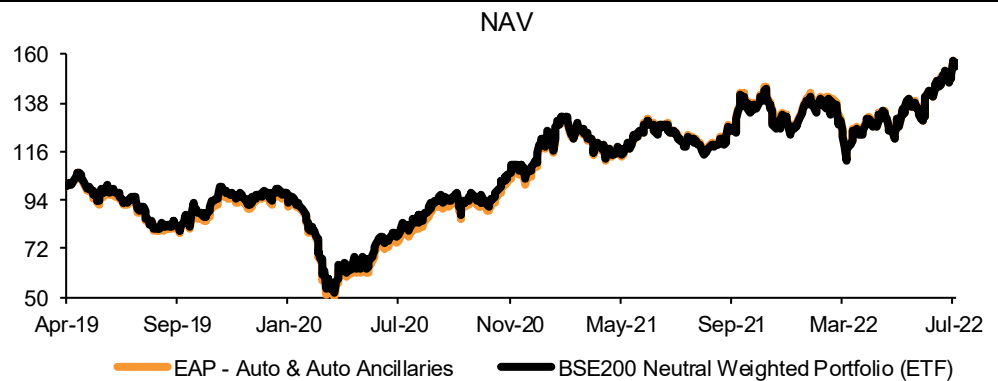
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Auto & Auto Ancillaries	6.8%	22.6%	11.3%	26.1%
BSE200 Neutral Weighted Portfolio (ETF)	6.9%	22.8%	12.0%	26.7%

Source: Emkay Research

NAV chart



Source: Emkay Research

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

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

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