

Exide Industries

BUY

INDUSTRY	AUTOS
CMP (as on 08 May 2018)	Rs 268
Target Price	Rs 298
Nifty	10,718
Sensex	35,216
KEY STOCK DATA	
Bloomberg	EXID IN
No. of Shares (mn)	850
MCap (Rs bn) / (\$ mn)	227/3,390
6m avg traded value (Rs mn)	435
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 271/192
	3M 6M 12M
Absolute (%)	27.4 35.0 11.9
Relative (%)	25.1 29.0 (5.8)
SHAREHOLDING PATTERN (%)	
Promoters	45.99
FIs & Local MFs	20.00
FPIs	10.61
Public & Others	23.40
Source : BSE	

Aspiring to ascend

Exide's 4QFY18 Revenue, EBITDA and PAT were 7/11/11% ahead of our estimates. Net revenue at Rs 24.6bn (+26% YoY,) reflects strong traction in automotive and industrial batteries sales. EBITDA at Rs 3.38bn (+34% YoY) with margin at 13.7% (+86bpsYoY/133bpsQoQ), beat estimates led by higher operating leverage. APAT stood at Rs 1.89bn (+16% YoY), impacted by higher depreciation and lower other income (-34% QoQ). We believe Exide is well placed to take advantage of strong OEM volume and accelerating replacement demand.

Exide growth story is premised on 1) Strong growth in OEMs and replacement segment (through product upgradation along with innovative sales and marketing campaign) 2) capturing market from unorganized players post GST and 3) Strong traction in nascent e-rickshaws /solar segments. However, challenges persist in the form of falling lithium-ion battery cost (concern for the demand of lead acid batteries), higher capex requirement and lackluster life insurance biz (loss of Rs 91.7 mn at PBT level in FY18 vs profit of Rs. 769 mn in FY17)

We have inched up EPS by 2.2% for FY20E. Expect revenue/EPS CAGR of 14/25% over FY18-20E. Maintain Buy with revised SOTP-based TP of Rs 298, based on 20x

Financial Summary

(Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	24,594	19,546	25.8	22,765	8.0	75,835	91,863	105,640	120,332
EBITDA	3,380	2,519	34.2	2,826	19.6	10,825	12,408	15,966	18,488
PAT	1,896	1,643	15.4	1,543	22.9	6,936	7,102	9,410	11,082
Diluted EPS (Rs)	2.2	1.9	15.4	1.8	22.9	8.2	8.4	11.1	13.0
P/E (x)						32.8	32.1	24.2	20.6
EV / EBITDA (x)						19.5	18.0	13.8	11.8
RoE (%)						14.9	13.9	16.7	17.6

Source: Company, HDFC sec Inst Research

Abhishek Jain

 abhishekkumar.jain@hdfcsec.com
 +91-22-6171-7314

FY20E EPS + 2x Inv (Rs 37) for the insurance business stake.

Highlights of the quarter

- Strong growth across segment:** Automotive batteries, UPS and telecom batteries exhibited strong volume growth in 4Q. As per our channel check, Exide has recovered a major chunk of the market share it had lost in the automotive replacement segment, aided by (1) improvement in after sales service (2) narrowing the price gap with AMRJ (3) technological upgrades (using punch grid technology), (4) channel financing support to dealers, and (5) traction in brands like Dynex targeted at the lower value segment.
- Gaining share of unorganized segment:** To tap the share of unorganized players Exide is increasingly promoting competitively-priced brands (Dynex and SF Sonic with shorter warranty period). We expect the share of unorganized players to reduce from ~42% to ~30% by FY22.
- Near-term outlook:** Expect strong growth in the top-line for 1Q, but higher lead prices will continue to restrict margins.

Strong traction in OEMs and replacement sales were key driver of 4Q revenue growth

Growth in and UPS batteries was also encouraging

Strong traction in nascent e-rickshaws /solar segments, offsetting pressure in the telecom and inverter segments in industrial batteries

The company is expanding distribution network in the semi-urban and rural markets and offering higher incentives to dealers, this is helping Exide to gain market share

EBITDA margin expanded 86bps YoY/133 bps QoQ, benefited from higher operating leverage

The company started using punched grid technology, which helps to produce more resistant and longer-life batteries.

Quarterly Financials Snapshot

(Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
Net Revenue (incl OOI)	24,594	19,546	25.8	22,765	8.0
Material Expenses	16,032	12,390	29.4	14,902	7.6
Employee Expenses	1,538	1,303	18.0	1,523	1.0
Other Operating Expenses	3,644	3,334	9.3	3,514	3.7
EBITDA	3,380	2,519	34.2	2,826	19.6
Depreciation	674	544	23.9	625	7.8
EBIT	2,706	1,975	37.0	2,200	23.0
Other Income	203	309	(34.3)	111	83.5
Interest Cost	6	-	-	9	(32.3)
PBT	2,902	2,283	27.1	2,302	26.1
Tax	1,007	641	57.1	759	32.7
APAT	1,896	1,643	15.4	1,543	22.9
EO Items (Adj For Tax)	-	-	-	-	-
RPAT	1,896	1,642	15.5	1,542	22.9
Adj EPS	2.2	1.9	15.4	1.8	22.9

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY18	4QFY17	YoY (bps)	3QFY18	QoQ (bps)
Material Expenses as % of Net Sales	65.2	63.4	180	65.5	(27)
Employee Expenses as % of Net Sales	6.3	6.7	(41)	6.7	(44)
Other Expenses as % of Net Sales	14.8	17.1	(224)	15.4	(62)
EBITDA Margin (%)	13.7	12.9	86	12.4	133
Tax rate (%)	34.7	28.1	663	33.0	172
APAT Margin (%)	7.7	8.4	(70)	6.8	93

Source: Company, HDFC sec Inst Research

Change In Estimates

Rs Mn	New		Old		% Chg	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Net sales	105,640	120,332	101,930	114,142	3.6	5.4
EBITDA	15,966	18,488	15,373	17,512	3.9	5.6
EBITDA margin (%)	15.1	15.4	15.1	15.3	3.2	2.2
APAT	9,410	11,082	9,406	10,847	0.0	2.2
EPS	11.1	13.0	11.1	12.8	0.0	2.2

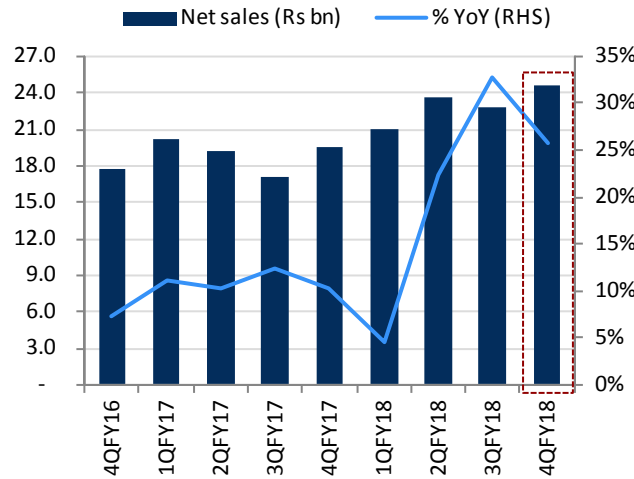
Source: Company, HDFC sec Inst Research

Exide's revamped business strategy, including narrowing the price gap vs AMRJ, aggressive and innovative sales and marketing campaign, better incentive packages and financing support to dealers, have all helped Exide regain some of its lost market share

Falling lithium-ion battery cost is a concern for the demand of lead acid batteries. Hence, Exide is trying to mitigate the risk through foraying into the designing and manufacturing of lithium-ion batteries through a technical JV with Chaowei Group, China

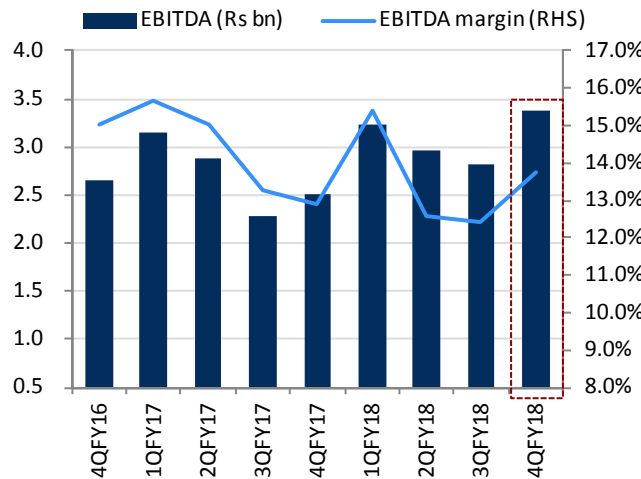
Given higher lithium-ion battery cost (30-40% of cost of EV) and scope of differentiation it offers, we expect OEMs to manufacture EV batteries in-house. In this case, localizing cells would be a bigger opportunity for Lead Acid battery manufactures

Net Sales On The Rise



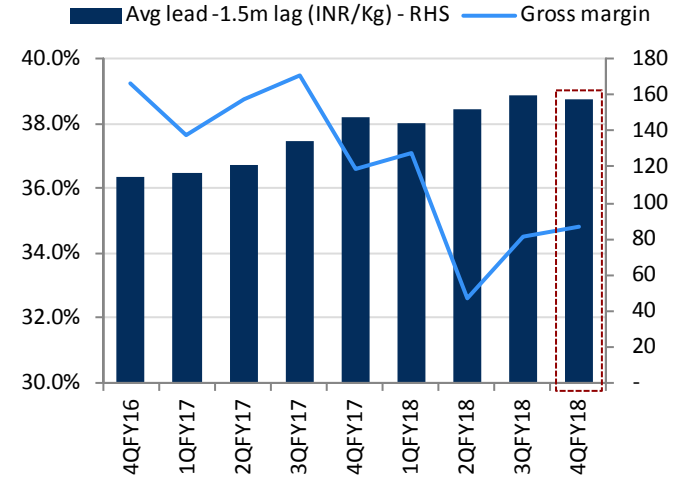
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EBITDA Margin Expanded QoQ/YoY



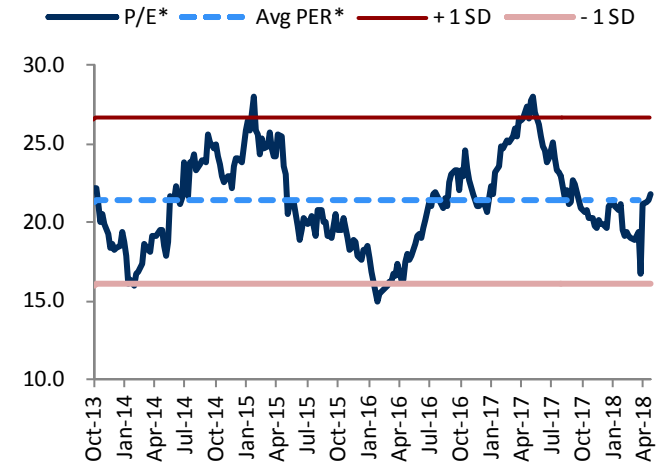
Source: Company, HDFC sec Inst Research

Higher Lead Prices Continue To Be An Overhang



Source: Company, HDFC sec Inst Research

One Year Forward PE Chart



Source: Company, HDFC sec Inst Research

We expect the management's renewed focus on technology, cost controls measures, better mix and oplev would aid margin expansion (190 bps over FY18-20E) despite lead price inflation.

We maintain BUY with revised SOTP-based TP of Rs 298, based on 20x 20E EPS + 2x Inv (Rs 37) for the insurance business stake

SOTP Valuation

	Value
Standalone EPS FY20E (Rs/sh)	13
Multiple (x)	20
Standalone business value (Rs/sh)	261
Insurance stake value/share (2x BV)	37
Target Price (Rs/sh)	298

Source: HDFC sec Inst Research

Peer Valuation

	MCap (Rs bn)	CMP (Rs/sh)	Rating	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Exide Industries	228	268	BUY	298	8.4	11.1	13.0	32.1	24.2	20.6	19.5	18.0	13.8	14.9	13.9	16.7
Jamna Auto	38	96	NEU	90	3.0	3.8	4.8	31.8	25.0	20.1	18.6	14.7	11.9	32.5	33.3	33.5
Suprajit Engineering	37	286	NEU	296	10.3	14.0	16.6	27.8	20.4	17.2	16.6	12.7	11.0	24.6	26.5	25.0
Ramkrishna Forgings	22	780	BUY	913	19.6	34.9	51.3	39.9	22.4	15.2	12.6	9.5	7.1	10.5	14.7	18.7
Subros	19	316	BUY	384	9.1	13.4	19.2	34.7	23.6	16.5	19.4	15.9	13.2	14.8	19.1	23.3
JBM Auto	17	420	BUY	560	18.3	24.8	31.2	22.9	16.9	13.5	9.2	7.7	6.5	17.3	18.4	19.5
NRB Bearings	16	168	BUY	204	7.4	8.7	10.2	22.7	19.3	16.5	13.0	11.2	9.8	21.0	21.3	21.4
Lumax Autotech	12	900	BUY	987	36.3	43.8	54.9	24.8	20.5	16.4	10.3	8.4	6.5	14.7	15.8	17.4

Source: Company, HDFC sec Inst Research

Income Statement

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	68,638	75,835	91,863	105,640	120,332
Growth (%)	(0.0)	10.5	21.1	15.0	13.9
Material Expenses	42,413	47,151	60,104	67,254	77,127
Employee Expenses	4,670	5,196	5,972	6,582	7,231
SG&A Expenses	2,182	2,483	3,116	3,847	4,334
Other Operating Expenses	9,111	10,180	10,264	11,991	13,152
EBITDA	10,261	10,825	12,408	15,966	18,488
EBITDA Margin (%)	15.0	14.3	13.5	15.1	15.4
EBITDA Growth (%)	13.2	5.5	14.6	28.7	15.8
Depreciation	1,579	2,063	2,459	2,974	3,127
EBIT	8,682	8,762	9,948	12,992	15,361
Other Income (Including EO Items)	416	1,039	584	593	616
Interest	17	43	52	-	-
PBT	9,082	9,757	10,480	13,585	15,977
Tax (Incl Deferred)	2,837	2,821	3,378	4,176	4,894
APAT	6,244	6,936	7,102	9,410	11,082
APAT Growth (%)	14.6	11.1	2.4	32.5	17.8
Adjusted EPS (Rs)	7.35	8.16	8.4	11.1	13.0
EPS Growth (%)	14.6	11.1	2.4	32.5	17.8

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	850	850	850	850	850
Reserves	44,264	48,786	53,043	59,344	66,917
Total Shareholders' Funds	45,114	49,636	53,893	60,195	67,769
Long-term Debt	1,025	1,702	-	-	-
Short-term Debt	-	-	-	-	-
Total Debt	1,025	1,702	-	-	-
Net Deferred Taxes	1,270	1,552	1,405	1,505	1,505
Long-term Provisions & Others	2,342	2,647	2,793	3,725	2,532
TOTAL SOURCES OF FUNDS	49,751	55,537	58,091	65,426	71,808
APPLICATION OF FUNDS					
Net Block	12,654	15,460	19,351	22,711	25,584
CWIP	1,858	1,414	2,335	2,835	3,335
Investments	17,700	17,685	17,651	17,651	17,651
LT Loans & Advances	-	-	-	-	-
Total Non-current Assets	32,212	34,558	39,337	43,198	46,572
Inventories	11,335	15,274	17,602	20,260	23,077
Debtors	6,039	6,217	9,434	10,419	11,868
Other Current Assets	987	892	4,686	4,686	4,686
Cash & Equivalents	10,017	9,251	2,911	4,184	4,949
Total Current Assets	28,379	31,633	34,632	39,549	44,581
Creditors	7,449	7,679	10,787	11,977	13,735
Other Current Liabilities & Provns	3,390	2,976	5,091	5,345	5,612
Total Current Liabilities	10,839	10,654	15,878	17,322	19,347
Net Current Assets	17,539	20,978	18,755	22,227	25,234
TOTAL APPLICATION OF FUNDS	49,751	55,537	58,092	65,426	71,808

Source: Company, HDFC sec Inst Research

Cash Flow

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Reported PBT	9,082	9,757	10,480	13,585	15,977
Interest expenses	17	43	52	-	-
Depreciation	1,579	2,063	2,459	2,974	3,127
Working Capital Change	6,297	(3,901)	(3,970)	(1,267)	(3,435)
Tax Paid	(2,872)	(2,539)	(3,525)	(4,076)	(4,894)
OPERATING CASH FLOW (a)	14,102	5,424	5,079	11,217	10,775
Capex	(4,186)	(4,425)	(7,272)	(6,835)	(6,500)
<i>Free cash flow (FCF)</i>	<i>9,916</i>	<i>1,000</i>	<i>(2,193)</i>	<i>4,382</i>	<i>4,275</i>
Investments	(7,863)	239	7,049	(1,500)	(1,500)
Non-operating Income	(38)	(9)	(437)	-	-
INVESTING CASH FLOW (b)	(12,087)	(4,195)	(659)	(8,335)	(8,000)
Debt Issuance/(Repaid)	850	677	(1,702)	-	-
Interest Expenses	(17)	(43)	(52)	-	-
<i>FCFE</i>	<i>10,749</i>	<i>1,634</i>	<i>(3,948)</i>	<i>4,382</i>	<i>4,275</i>
Share Capital Issuance	-	-	-	-	-
Dividend	(2,407)	(2,407)	(2,407)	(3,109)	(3,511)
FINANCING CASH FLOW (c)	(1,574)	(1,773)	(4,162)	(3,109)	(3,511)
NET CASH FLOW (a+b+c)	441	(543)	257	(227)	(736)
Closing Cash & Equivalents	10,017	9,250	2,910	4,184	4,948

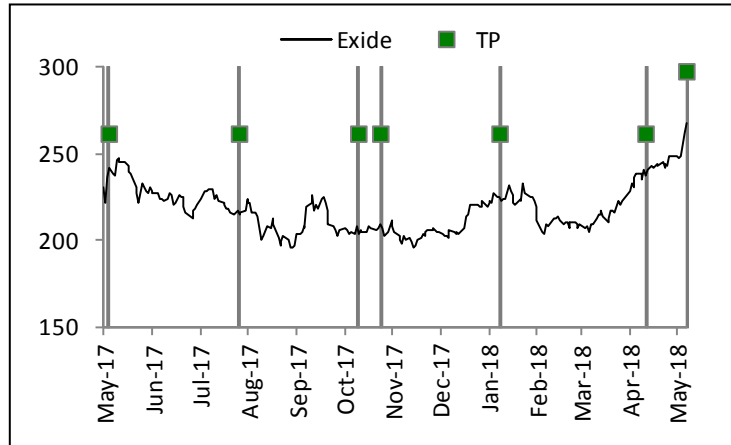
Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	38.2	37.8	34.6	36.3	35.9
EBITDA Margin	15.0	14.3	13.5	15.1	15.4
APAT Margin	9.1	9.1	7.7	8.9	9.2
RoE	14.7	14.9	13.9	16.7	17.6
RoIC (or Core RoCE)	15.2	15.4	14.0	16.4	17.5
RoCE	13.9	13.9	13.2	16.1	16.9
EFFICIENCY					
Tax Rate (%)	31.2	28.9	32.2	30.7	30.6
Fixed Asset Turnover (x)	4.8	4.0	3.3	3.3	3.2
Inventory (days)	60.3	73.5	69.9	70.0	70.0
Debtors (days)	32.1	29.9	37.5	36.0	36.0
Other Current Assets (days)	5.3	4.3	18.6	16.2	14.2
Payables (days)	39.6	37.0	42.9	41.4	41.7
Other Current Liab & Provns (days)	18.0	14.3	20.2	18.5	17.0
Cash Conversion Cycle (days)	40.0	56.4	63.0	62.3	61.5
Debt/EBITDA (x)	0.1	0.2	-	-	-
Net D/E (x)	(0.4)	(0.3)	(0.1)	(0.1)	(0.1)
Interest Coverage (x)	520	203	190	NA	NA
PER SHARE DATA (Rs)					
EPS	7.3	8.2	8.4	11.1	13.0
CEPS	9.2	10.6	11.2	14.6	16.7
Dividend	2.4	2.4	2.4	3.1	3.5
Book Value	53.1	58.4	63.4	70.8	79.7
VALUATION					
P/E (x)	36.5	32.8	32.1	24.2	20.6
P/BV (x)	5.0	4.6	4.2	3.8	3.4
EV/EBITDA (x)	20.4	19.5	18.0	13.8	11.8
EV/Revenues (x)	3.1	2.8	2.4	2.1	1.8
OCF/EV (%)	6.7	2.6	2.3	5.1	4.9
FCF/EV (%)	4.7	0.5	(1.0)	2.0	2.0
FCFE/Mkt Cap (%)	4.7	0.7	(1.7)	1.9	1.9
Dividend Yield (%)	0.9	0.9	0.9	1.2	1.3

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
5-May-17	240	BUY	262
27-Jul-17	215	BUY	262
11-Oct-17	208	BUY	262
27-Oct-17	206	BUY	262
9-Jan-18	227	BUY	262
12-Apr-18	235	BUY	262
8-May-18	268	BUY	298

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
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Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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