

COMMENT

Exide Industries (EXID.BO) Rs131.35**Negative News – Estimates Under Review**

Equity Research

First Take: below estimates on significant margin surprise**News**

Exide Industries reported 2QFY12 net income of Rs512mn, down 69% yoy, 69% qoq, 62% below Bloomberg consensus and 66% below our estimates. While revenue was about 4% above our expectations at Rs11.7bn (up 4% yoy and 5.5% qoq), EBITDA margin was 7.7% for the quarter, vs 21.8% in 2QFY11 and 17.9% in 1QFY12. In the previous 18 quarters, this is the first time the company has reported single-digit EBITDA margins. Raw material cost as a percentage of sales was 72.3%, the highest since FY07, vs 63.5% in 1QFY12 and 59.3% in 2QFY11, which probably explains the disappointment in the results, in our view. The company also reported a decline in stock in trade and work in progress of Rs1.4bn, included under expenditures during the quarter.

Analysis

As per the company, sales volume in the auto replacement and industrial battery segments did not take off to the extent earlier envisaged by management. As a result, volumes were down 5% yoy (weaker volumes were in line with our expectations), resulting in adverse operating leverage during the quarter. Exide also reported encouraging initial sales reports from test marketing its own range of inverters under the Chloride brand name. The company had cash reserves of Rs5bn at the end of the quarter.

Implications

We believe Exide's results were likely affected by an adverse product mix, raw material cost and pricing in the more profitable auto replacement and industrial segments. Our 12-month TP is unchanged, but we put our estimates under review and will come back with updated views after speaking with management.

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Asia Pacific Buy List
Asia Pacific Conviction Buy List

Coverage View: Neutral

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Exhibit 1: Exide Industries – 2QFY12 results snapshot

(Rs mn)	Quarterly results snapshot							Bloomberg	
	2QFY12A	2QFY11A	1QFY12A	2QFY12E	Y-o-Y %	Q-o-Q %	Vs GS Est	2QFY12E	vs Bbg est
Net Sales	11,753	11,267	12,437	11,267	4.3%	-5.5%	4.3%	12,393	-5.2%
EBITDA	901	2,455	2,226	1,861	-63.3%	-59.5%	-51.6%	2,165	-58.4%
EBITDA margin	7.7%	21.8%	17.9%	16.5%	(- 1,412 bps)	(- 1,024 bps)	(- 885 bps)	17.5%	
PBT (Pre-exceptional) *	719	2,428	2,286	1,861	-70.4%	-68.5%	-61.4%		
Adj PAT (Pre-exceptional) *	512	1,660	1,636	1,332	-69.2%	-68.7%	-61.6%	1,504	-66.0%
Net income margin	4.4%	14.7%	13.2%	11.8%	(- 1,038 bps)	(- 880 bps)	(- 747 bps)	12.1%	

* Excludes extraordinary gain of Rs469.6mn in 2QFY11

Source: Company data, Bloomberg, Goldman Sachs Research estimates.

Reg AC

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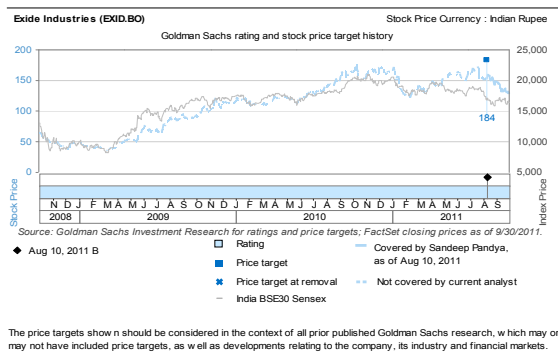
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Price target and rating history chart(s)



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