

Buy

Exide Industries Ltd

Industry: Automobiles and Components

Industry View: Neutral

Company Update

“Still charging”

Slowing demand from OEM to spur high margin replacement business

With macro headwinds slowing down the OEM segment of the auto sector, Exide can now cater more to the replacement market where the demand continues to be robust driven by slew of 4W and 2W launches during the last few years. Management had earlier stated that their topline growth is inversely proportional to the growth in the OEM auto industry. It implies that replacement business which is a high margin business can contribute higher to the total topline. At the end of FY 11, this proportion which had come down to 1.11:1 due to robust OEM demand can move up again, thus aiding the margin performance. Management expects this ratio to go up to 1.35:1 by the end of FY 12.

Cooling lead prices to support margins

LME Lead prices have come down from the highs of \$2,741 seen in April by 11% in May to \$2418, a drop of 11%. In June it averaged out close to the levels of May. Management expects a further decline in lead prices going forward with commodity prices softening, however they are comfortable even if lead prices continue to range at current levels of \$2,400-2,500. This coupled with higher replacement demand may enable Exide to show an improvement in margins. With in-house smelters expected to supply 60% and 70% of lead requirement in FY 12E and FY 13E (priced lower by ~15% than LME lead prices) we may witness robust profitability in the coming years.

Absence in CV segment a blessing in disguise

Exide has a miniscule presence in the CV segment. Exide's absence in this segment is automatically insulating it from the macro headwinds thereby providing it an edge over peers. Furthermore, the 2W industry, the major revenue driver of Exide in the auto segment, is expected to be the last to face the pressure of slowdown in auto and post the highest growth among the various auto segments in FY12. Strong rural demand, expectations of a good monsoon and insignificant impact of interest rates—the positives for 2W in weak markets will drive Exide's business, in which the company is expanding its capacities by more than double this year. Also the launch of new VRLA batteries is finding good demand among 2W makers.

Improvement in telecom industry augurs well for industrial business

Telecom industry which had seen rough times in the past 2 years has started improving recently with competition slowing down, volumes still going robust and regulatory issues taking a back seat. Exide had reduced their focus on telecom business significantly. It now forms 12-15% of the company's revenues from 20% two years back. However, with the increase in its industrial capacities, Exide can easily accommodate higher demand from telecom industry. With summers still harsh in most of the parts of the country, and with a probability of a delayed monsoon across India, inverter demand may go up.

Outlook and Valuation

We like the robust free cash generating business of Exide and have slightly increased our earnings estimates by 2%/6% for FY12E/FY13E and now value the standalone business at a higher multiple of 16x to value it at ₹174. Adding subsidiary value of ₹13 and insurance business at ₹11, we arrive at a TP of ₹196, up from our earlier target of ₹176. We reiterate our BUY rating on Exide with a higher price target of ₹196, which is a 20% upside from current levels.

Stock Data

Current Market Price (₹)	164
12 Month Target Price (₹)	196
Potential upside (%)	20
Reuters	EXID.BO
Bloomberg	EXID IN

What's Changed

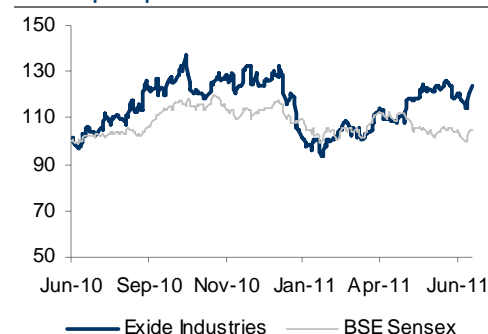
12 month PriceTarget (₹)	176 to 196
F2012E EPS (₹)	8.7 to 8.9
F2013E EPS (₹)	10.3 to 10.8

Key Data

Market Cap (₹.mn)	139
52-Week Range(₹)	180 / 112
Avg. Daily Trading Value (₹.bn)	277
Promoters (%)	46
FII Holding (%)	15
DII Holding (%)	16
Public & Others Holding (%)	23

Y/E 31 march	FY09	FY10	FY11E	FY12E	FY13E
Revenues (₹mn)	33,995	37,974	46,574	53,003	62,147
EBITDA (%)	16.1	23.4	19.3	21.3	22.8
PAT (%)	8.4	14.1	14.3	14.3	14.7
EPS (₹)	3.6	6.3	7.8	8.9	10.8
EPS growth (%)	8.5	76.5	24.1	13.8	20.7
P/E (x)	45.8	26.0	20.9	18.4	15.2
P/B (x)	10.5	6.3	5.1	4.0	3.2
EV/EBITDA (x)	24.6	15.8	15.8	12.3	9.7
ROCE (%)	38.1	36.4	29.0	29.5	29.6
ROE (%)	22.9	24.2	24.3	22.0	21.3
Dividend yield (%)	0.1	0.3	0.4	0.4	0.4

Relative price performance



One Year Indexed

(%)	1 Month	3 Months	12 Months
Exide	4	20	29
BSE Relative	3	23	24

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Financial Summary (Standalone)

Income statement

YE Mar (₹mn)	FY09	FY10	FY11	FY12E	FY13E
Net sales	33,930	37,940	45,536	52,803	61,947
Raw Material Cost	22,484	21,807	28,075	30,470	33,338
Employee Cost	1,709	2,252	2,829	3,485	4,532
Other Exp	4,290	4,986	5,845	7,579	9,943
EBITDA	5,447	8,894	8,788	11,269	14,133
<i>EBITDA Margin(%)</i>	<i>16.1</i>	<i>23.4</i>	<i>19.3</i>	<i>21.3</i>	<i>22.8</i>
<i>Other income</i>	<i>85.5</i>	<i>121.1</i>	<i>1507.8</i>	<i>500.0</i>	<i>350.0</i>
Depreciation	679	807	835	1,087	1,402
EBIT	4,853	8,209	9,461	10,683	13,082
<i>EBIT Margin(%)</i>	<i>14.3</i>	<i>21.6</i>	<i>20.8</i>	<i>20.2</i>	<i>21.1</i>
Interest	479	103	57	3	3
PBT	4,375	8,106	9,404	10,680	13,079
<i>PBT Margin(%)</i>	<i>12.9</i>	<i>21.4</i>	<i>20.7</i>	<i>20.2</i>	<i>21.1</i>
Tax	1,510	2,735	2,740	3,097	3,924
Adj PAT	2,865	5,371	6,664	7,583	9,156
PAT Margins (%)	8.4	14.2	14.6	14.4	14.8

Key Ratios

YE Mar	FY09	FY10	FY11	FY12E	FY13E
Per Share Data (Rs)					
Adj. EPS	3.6	6.3	7.8	8.9	10.8
CEPS	4.4	7.3	8.8	10.2	12.4
BVPS	15.6	26.1	32.3	40.6	50.7
DPS	0.2	0.5	0.6	0.6	0.7
Growth Ratios(%)					
Total revenues	19.2	11.7	22.6	13.8	17.3
EBITDA	16.0	63.3	-1.2	28.2	25.4
PAT	14.4	87.5	24.1	13.8	20.7
EPS Growth	8.5	76.5	24.1	13.8	20.7
Valuation Ratios (X)					
PE	45.8	26.0	20.9	18.4	15.2
P/CEPS	37.0	22.6	18.6	16.1	13.2
P/BV	10.5	6.3	5.1	4.0	3.2
EV/Sales	4.0	3.7	3.1	2.6	2.2
EV/EBITDA	24.6	15.8	15.8	12.3	9.7
Operating Ratios (Days)					
Inventory days	47.1	58.3	67.3	78.0	82.0
Receivable Days	24.8	24.5	28.7	36.0	42.0
Payables day	40.9	47.5	51.7	54.0	55.0
Net Debt/Equity (x)	0.25	0.04	0.00	0.00	0.00
Profitability Ratios (%)					
ROCE	38.1	36.4	29.0	29.5	29.6
ROE	22.9	24.2	24.3	22.0	21.3
Dividend payout	11.2	8.9	11.5	10.0	0.0
Dividend yield	0.1	0.3	0.4	0.4	0.4

Source: Company, LKP Research

Balance sheet

YE Mar (₹mn)	FY09	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS					
Equity Share Capital	800	850	850	850	850
Reserves & Surplus	11,704	21,348	26,575	33,652	42,209
Total Networth	12,504	22,198	27,425	34,502	43,059
Total debt	3,172	900	22	20	20
Net Deferred Tax Liability	412	590	675	700	700
Total Liabilities	16,087	23,688	28,121	35,222	43,779
APPLICATION OF FUNDS					
Net block	6,680	6,767	8,358	9,771	10,870
Capital WIP	173	378	660	1,500	2,200
Investments	6,685	13,354	13,780	14,780	15,780
Current Assets					
Cash and Bank	337	29	148	604	2,671
Inventories	4,385	6,068	8,590	11,327	13,962
Sundry Debtors	2,310	2,546	3,665	5,228	7,151
Loan, Advances & others	384	476	885	1,452	2,384
Current Liab & Prov					
Current liabilities	3,807	4,943	6,603	7,842	9,365
Provisions	1,059	985	1,361	1,597	1,873
Net Current Assets	2,549	3,190	5,324	9,172	14,930
Total Assets	16,087	23,688	28,121	35,222	43,779

Cash Flow

YE Mar (₹mn)	FY09	FY10	FY11	FY12E	FY13E
PBT	4,354	8,106	9,404	10,680	13,079
Depreciation	679	807	835	1,087	1,402
Interest	351	103	57	3	3
Chng in working capital	922	(760)	(2,028)	(3,392)	(3,691)
Tax paid	(1,384)	(2,932)	(2,816)	(3,097)	(3,924)
Other operating activities	126	(84)	(1,473)	25	0
CF from operations (a)	5,047	5,238	3,978	5,305	6,868
Capital expenditure	(1,696)	(1,073)	(2,160)	(3,340)	(3,200)
Chng in investments	(550)	(5,450)	1,000	(1,000)	(1,000)
Acqn of shares	(959)	(1,193)	(1,423)	0	0
Other investing activities	16	24	739	0	0
CF from investing (b)	(3,189)	(7,692)	(1,845)	(4,340)	(4,200)
Free cash flow (a+b)	1,859	(2,453)	2,133	965	2,668
Equity raised/(repaid)	0	5,395	0	0	0
Inc/dec in borrowings	(399)	(1,477)	(671)	(2)	0
Dividend paid (incl. tax)	(749)	(748)	(1,282)	(505)	(599)
Other financing activities	(391)	4,370	(62)	(2)	(3)
CF from financing (c)	(1,538)	2,145	(2,015)	(508)	(602)
Net chng in cash (a+b+c)	320	(308)	119	457	2,066
Closing cash & cash equiv.	337	29	147	604	2,671

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