

Research Flash - Company Note

EXIDE INDUSTRIES LIMITED

Buoyancy in automobile and industrial sector bodes well for the company

Private Banking

Well placed to tap the rising demand from OEM and replacement market

The buoyant outlook for automobile industry is positive for the ancillary industries like battery manufacturers. Exide Industries, who is a market leader in this segment, will benefit from this positive outlook. Gaining market share in replacement market will enable the company to grow at more than industry average. Margins are likely to stabilize at higher levels as compared to historic average. Driven by healthy earnings growth, we initiate coverage with a positive view.

Valuations are comfortable given the earnings growth

The company is likely to report growth of 17% p.a. in standalone earnings over the period 2009-2011E (FY ending March 2010). Earnings are driven by 20% p.a. growth in sales. The stock trades at a P/E 2011E of 14.4, which we believe is attractive given the earnings growth. We, therefore, initiate coverage with a BUY rating. Our target price of INR 145 includes the value of batteries business (INR 134 using the HOLT DCF model) and the value of insurance business (INR 11).

Beneficiary of the current strength in auto and industrial cycle

India has recovered well from the credit crises of 2008 as indicated by the latest industrial production, which was at a near 20 year high in terms of growth. The automobile industry has also bounced back along with the economic recovery. The economic and automobile segment recovery has benefited ancillary players like Exide Industries. The company is a market leader with market share of 70% in automobile batteries and 45% share in industrial batteries. The outlook for automobile batteries is also supported by the fact that major global automobile majors have set up their base in India for export of their products. This would expand the market base for automobile batteries manifold. Together with replacement market, we expect overall sales of Exide to grow at a CAGR of 20% over the next few years. Please note that trading facilities for these securities may be limited.

Current price: INR 122.85 / target price: INR 145.00



BUY Upside potential 18.0%

Highlights

- Well placed to tap the rising demand from OEM and replacement market.
- Valuations are comfortable given the earnings growth.
- Beneficiary of the current strength in auto and industrial cycle.
- Company to gain market share in replacement market.
- Margins to settle at higher levels as compared to historic average.
- Please note that trading facilities for these securities may be limited..

EXIDE INDUSTRIES LIMITED, 13 weeks moving average



Source: Thomson Financial. Any reference to past performance is not necessarily indicative of future results.

Company profile

Exide Industries is the largest manufacturer of lead acid storage batteries in India. Exide's batteries are utilized in automobile and industrial sectors. Automobile segment is the largest business segment, contributing 60% of total revenues. The company also has a significant presence in the organized replacement market. The company also owns 50% stake in ING Vysya Life Insurance Company.

Key figures

ISIN / Sec. no.:	INE302A01020 / 2646098
Bloomberg / Reuters	EXID IN / EXID.NS
52 week low/high (INR)	62.80 / 128.15
Outstanding shares	850.00 m
Book value / share (2010E)	29.00
Market capitalization (INR)	104.42 bn

Source: Company data, Credit Suisse | Closing price of 15 Jun 2010

Valuation			
Fiscal year-end: 3/2010	2009A	2010E	2011E
EPS (INR)	6.31	7.08	8.55
P/E	n.a.	17.4	14.4
Dividend per share (INR)	1.00	1.20	1.40
Dividend yield	n.a.	1.0%	1.1%
Source: Credit Suisse			

Company to gain market share in replacement market

The replacement market is equally important as the OEM market. This market, however, is dominated by unorganized players. As per some estimates, the unorganized sector is about three times the size of the organized business. The company is looking to increase its footprint in the replacement market by introducing products at lower price points and increasing its distribution network. Gaining market share in the unorganized sector will help the company to grow at more than industry growth rate.

Margins to settle at higher levels as compared to historic average

Lead is the most important raw material for Exide. In order to reduce the vulnerability to rising lead prices, the company recently acquired two smelters to recycle used lead. The company currently recycles 45% of its total lead requirement with plans to increase this to 70% over the next 12-18 months. This has led to margin expansion. Though, margins may not sustain at 2009 levels, we believe they will settle at higher levels as compared to their past average.

Please note that trading facilities for these securities may be limited.

Relative to MSCI sector



Source: Thomson Financial. Any reference to past performance is not necessarily indicative of future results.

Disclosure Appendix

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Equity rating history as of (16/06/2010)		
Company	Rating	Date
EXIDE INDUSTRIES LIMITED (EXID IN)	BUY	16/06/2010
	BUY	11/06/2010

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Guide to analysis

Equity rating allocation as of (16/06/2010)		
	Overall	Investment banking interests only
BUY	51.11 %	50.96 %
HOLD	44.87 %	44.83 %
SELL	3.57 %	3.68 %
RESTRICTED	0.45 %	0.53 %

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At the stock level, the selection takes into account the relative attractiveness of individual shares versus the sector, market position, growth prospects, balance-sheet structure and valuation. The sector and country recommendations are "overweight," "neutral", and "underweight" and are assigned according to relative performance against the respective regional and global benchmark indices.

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HOLD	variation between -10% and +10% in absolute share price
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