

# Mar Q strong as expected

**Bank of America  
Merrill Lynch**



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## Q4FY10 PAT up 96% and is in line with estimate

Exide's Q4FY10 net profit at Rs1.35bn grew 96% y-o-y and is marginally ahead of estimate. The company negatively surprised in EBITDA margin, but positively surprised on sales. Company's consolidated PAT of Rs5.6bn for FY10 was marginally below estimate largely due to higher than estimated stock loss accrued in the process of cancelling inter company transactions.

## Q-o-Q EBITDA margin decline led by weaker product mix

Q4FY10 EBITDA margin at 21% declined 300bp q-o-q and is 160bp lower than estimate. Decline in margin was driven by (1) change in product mix in favour of less profitable OEM segment; and (2) around 10% q-o-q decline in international lead price leading to inventory loss. Both these factor are seasonal and likely to turn favorable for the company going forward.

## Capacity expansion from Q2FY11 to help meet demand

Exide is currently constrained in terms of capacity and is in the process of expanding its capacity in a phased manner starting Q2FY11. The company plans to invest a total of Rs6bn on new capacity in next two years, nearly double the amount spent in last two years. Company is doubling capex owing to expectation of strong demand growth.

## Maintain Buy on 22% CAGR in FY10-12e despite high base

We maintain Buy with a PO of Rs142 including (1) Rs131/sh as value of battery business based on 15x FY11e EPS; and (2) Rs11 as value of insurance JV. We expect company's profit to grow at 22% CAGR in FY10-12e even though EBITDA margin could decline to sustainable level of 22%. Key driver of strong growth are likely to be (1) sales growth CAGR of 23% driven by expansion of product range and increase in market share (2) change in product mix in favour of retail sales. Please see slight adjustments to our forecasts in the Key Changes table.

## Stock Data

Price	Rs123.75
Price Objective	Rs142.00
Date Established	11-Jan-2010
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs48.80-Rs128.15
Mrkt Val / Shares Out (mn)	US\$2,356 / 850.0
Average Daily Volume	1,609,529
BofAML Ticker / Exchange	XEDRF / BSE
Bloomberg / Reuters	EXID IN / EXID.BO
ROE (2010E)	39.0%
Net Dbt to Eqty (Mar-2009A)	31.9%
Est. 5-Yr EPS / DPS Growth	20.0% / NA
Free Float	54.0%

## Key Changes

(Rs)	Previous	Current
2010E Rev (m)	38,851.9	39,832.6
2011E Rev (m)	46,814.8	49,996.6
2012E Rev (m)	56,214.1	60,358.6
2010E EPS	6.79	6.61
2011E EPS	8.70	8.68
2012E EPS	9.93	9.86
2010E EBITDA (m)	9,568.6	9,615.6
2011E EBITDA (m)	11,535.8	11,706.7
2012E EBITDA (m)	13,084.2	13,372.2

## Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	2,597	2,911	5,619	7,377	8,378
EPS	3.25	3.64	6.61	8.68	9.86
EPS Change (YoY)	55.1%	12.1%	81.7%	31.3%	13.6%
Dividend / Share	0.400	0.600	1.00	1.25	1.50
Free Cash Flow / Share	(1.61)	1.61	5.22	3.47	6.46

## Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	38.12x	34.01x	18.72x	14.26x	12.56x
Dividend Yield	0.323%	0.485%	0.808%	1.01%	1.21%
EV / EBITDA*	21.91x	18.49x	11.10x	9.11x	7.98x
Free Cash Flow Yield*	-1.22%	1.23%	4.22%	2.80%	5.22%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 10933337

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## iQprofile<sup>SM</sup> Exide Industries Ltd.

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
<b>(Rs Millions)</b>					
Sales	29,798	34,049	39,833	49,997	60,359
Gross Profit	10,294	12,498	17,796	21,401	24,762
Sell General & Admin Expense	(1,718)	(2,011)	(2,612)	(3,082)	(3,544)
Operating Profit	4,229	5,052	8,940	10,840	12,349
Net Interest & Other Income	(330)	(529)	(123)	417	408
Associates	0	0	0	0	0
Pretax Income	3,899	4,523	8,817	11,257	12,757
Tax (expense) / Benefit	(1,282)	(1,579)	(3,009)	(3,670)	(4,159)
Net Income (Adjusted)	2,597	2,911	5,619	7,377	8,378
Average Fully Diluted Shares Outstanding	800	800	850	850	850

### Key Cash Flow Statement Data

Net Income	2,597	2,911	5,619	7,377	8,378
Depreciation & Amortization	640	720	675	866	1,024
Change in Working Capital	(1,556)	507	232	(1,683)	(606)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(943)	(786)	(810)	(590)	(280)
Cash Flow from Operations	739	3,351	5,716	5,971	8,515
Capital Expenditure	(2,024)	(2,061)	(1,281)	(3,025)	(3,025)
(Acquisition) / Disposal of Investments	(179)	356	(799)	(500)	(500)
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(2,204)	(1,705)	(2,080)	(3,525)	(3,525)
Shares Issue / (Repurchase)	1,486	0	5,342	0	0
Cost of Dividends Paid	(375)	(564)	(995)	(1,243)	(1,492)
Cash Flow from Financing	1,111	(564)	4,347	(1,243)	(1,492)
Free Cash Flow	(1,285)	1,290	4,435	2,946	5,490
Net Debt	3,684	3,221	700	700	700
Change in Net Debt	NA	NA	NA	NA	NA

### Key Balance Sheet Data

Property, Plant & Equipment	6,593	7,934	8,540	10,698	12,700
Other Non-Current Assets	2,558	2,756	9,018	10,720	14,719
Trade Receivables	2,918	2,657	2,947	3,698	4,465
Cash & Equivalents	77	390	200	200	200
Other Current Assets	6,873	5,716	6,548	9,588	11,576
Total Assets	19,018	19,453	27,252	34,905	43,659
Long-Term Debt	3,761	3,610	900	900	900
Other Non-Current Liabilities	496	432	432	432	432
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	6,215	5,304	6,657	8,767	10,914
Total Liabilities	10,472	9,346	7,989	10,098	12,246
Total Equity	8,547	10,107	19,263	24,807	31,413
Total Equity & Liabilities	19,018	19,453	27,252	34,905	43,659

### iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	25.3%	24.4%	33.9%	31.3%	28.3%
Return On Equity	36.6%	31.6%	39.0%	34.2%	30.6%
Operating Margin	14.2%	14.8%	22.4%	21.7%	20.5%
EBITDA Margin	16.3%	16.9%	24.1%	23.4%	22.2%

### iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	0.3x	1.2x	1.0x	0.8x	1.0x
Asset Replacement Ratio	3.2x	2.9x	1.9x	3.5x	3.0x
Tax Rate (Reported)	32.9%	34.9%	34.1%	32.6%	32.6%
Net Debt-to-Equity Ratio	43.1%	31.9%	3.6%	2.8%	2.2%
Interest Cover	10.3x	8.6x	NM	NM	NM

### Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

### Company Description

Exide Industries is the largest manufacturer of lead acid storage batteries in India with 25% revenue share. It dominates the branded automotive battery market with over 72% market share, and industrial battery market with nearly 45% market share. Exide has manufacturing presence in India, Srilanka, UK, Singapore and Australia. It also has 50% stake in ING Vysya Life Insurance Co.

### Investment Thesis

Exide, India's largest automotive and industrial battery company, is a key beneficiary of the rising demand for branded lead acid batteries, driven by stricter rules on lead usage. We expect it to benefit from the sharp decline in cost of production driven increase in recycling of old batteries in the company owned smelters.

### Stock Data

Price to Book Value 5.6x

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**Table 1: Exide Industries Q4FY10 result summary**

YE Mar, Rs mn	Standalone entity					Consolidated entity		
	4Q FY10	4Q FY09	y-o-y	3Q FY10	q-o-q	FY10	FY09	y-o-y
Net sales	10,303	7,983	29%	9,129	13%	39,833	34,049	17%
Raw Material Cost	6,161	5,063	22%	5,176	19%	22,037	21,551	2%
<i>RM/Net sales</i>	<i>59.8%</i>	<i>63.4%</i>		<i>56.7%</i>		<i>55.3%</i>	<i>63.3%</i>	
Staff cost	572	436	31%	552	4%	2,612	2,011	30%
<i>Staff Cost/Net sales</i>	<i>5.5%</i>	<i>5.5%</i>		<i>6.0%</i>		<i>6.6%</i>	<i>5.9%</i>	
Other expenditure	1,395	1,136	23%	1,214	15%	5,568	4,716	18%
<i>Other Exp/ Net Sales</i>	<i>13.5%</i>	<i>14.2%</i>		<i>13.3%</i>		<i>14.0%</i>	<i>13.9%</i>	
Total Operating Expenditure	8,128	6,635	23%	6,942	17%	30,217	28,278	7%
EBITDA	2,175	1,349	61%	2,187	-1%	9,616	5,771	67%
<i>EBITDA Margin</i>	<i>21.1%</i>	<i>16.9%</i>		<i>24.0%</i>		<i>24.1%</i>	<i>16.9%</i>	
Depreciation and Ammortisation	208	179	16%	189	11%	675	720	-6%
<i>Depreciation as % of sales</i>	<i>2.0%</i>	<i>2.2%</i>		<i>2.1%</i>		<i>1.7%</i>	<i>2.1%</i>	
EBIT	1,967	1,170	68%	1,999	-2%	8,940	5,052	77%
<i>EBIT Margin</i>	<i>19.1%</i>	<i>14.7%</i>		<i>21.9%</i>		<i>22.4%</i>	<i>14.8%</i>	
Interest	26	114		29		161	587	
Other Income	57	12		10		38	59	
PBT	1,998	1,068	87%	1,980	1%	8,817	4,523	95%
<i>PBT Margin</i>	<i>19.4%</i>	<i>13.4%</i>		<i>21.7%</i>		<i>22.1%</i>	<i>13.3%</i>	
Tax	653	383	71%	675	-3%	3,009	1,579	91%
<i>Tax/ PBT</i>	<i>32.7%</i>	<i>35.8%</i>		<i>34.1%</i>		<i>34.1%</i>	<i>34.9%</i>	
PAT	1,346	685	96%	1,305	3%	5,809	2,944	97%
<i>PAT growth</i>	<i>96.4%</i>	<i>10.8%</i>		<i>132.4%</i>		<i>14.6%</i>	<i>12.5%</i>	
<i>PAT Margin</i>	<i>13.1%</i>	<i>8.6%</i>	<i>52%</i>	<i>14.3%</i>	<i>265%</i>	<i>14.6%</i>	<i>8.6%</i>	<i>69%</i>
Extraordinary / VRS								
Reported PAT	1,346	685	96%	1,305	3%	5,809	2,944	97%
Minority interest						190	33	
Net profit after minority interest	1,346	685	96%	1,305	3%	5,619	2,911	93%
EPS (Rs/sh)	1.58	0.86	85%	2	-3%	6.61	3.64	82%

Source: Company

## Price objective basis & risk

### Exide Indus Ltd (XEDRF)

Our price objective of Rs142 for Exide is based on sum-of-the-parts value including Rs131 for its lead acid battery business and Rs11 for its 50% stake in ING Vysya Life Insurance. We have valued its battery business at Rs131 per share assuming that it will trade at a PE of 15x FY11E, similar to one year forward PE auto OEM as the company's retail sales now forms bulk of profit. We have valued the life insurance business at Rs11 per share, based on 13x FY11E NBAP. Value of life insurance business arrived above is also at an implied valuation of 1.5x the amount invested by Exide by end FY09. Key risk for Exide is sharp increase in cost of lead and increase in competition.

## Link to Definitions

### Industrials

Click [here](#) for definitions of commonly used terms.

## Analyst Certification

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**India - General Coverage Cluster**

<b>Investment rating</b>	<b>Company</b>	<b>BofAML ticker</b>	<b>Bloomberg symbol</b>	<b>Analyst</b>
<b>BUY</b>				
	Anant Raj Industries Ltd	XNRJF	ARCP IN	Unmesh Sharma, CFA
	Brigade Enterprises	XBDGF	BRGD IN	Gagan Agarwal
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	DLF Limited	XVDUF	DLFU IN	Unmesh Sharma, CFA
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Fortis Healthcare Limited	XFFTF	FORH IN	Prasad Deshmukh
	Housing Development and Infrastructure	XGHSF	HDIL IN	Unmesh Sharma, CFA
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Unmesh Sharma, CFA
	Jain Irrigation Systems Ltd	JNIDF	JI IN	Prasad Deshmukh
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Puravankara Projects Ltd	XPJVF	PVKP IN	Unmesh Sharma, CFA
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	Sobha Developers	SBDRF	SOBHA IN	Unmesh Sharma, CFA
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	Voltas	VTSJF	VOLT IN	Sanjaya Satapathy
<b>NEUTRAL</b>				
	Aditya Birla Nu	ADYAF	ABNL IN	Reena Verma Bhasin, CFA
	Shree Cements	SREEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Unmesh Sharma, CFA
<b>UNDERPERFORM</b>				
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	APIL	ANSFF	APIL IN	Gagan Agarwal
	Assoc. Cement	ADCLF	ACC IN	Reena Verma Bhasin, CFA
	Bajaj Hindusthan	BJJHF	BJH IN	Sanjaya Satapathy
	Balrampur Chini	BMPRF	BRCM IN	Sanjaya Satapathy
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMZY	ICEM LX	Reena Verma Bhasin, CFA
	Jindal Saw	SWPFF	JSAW IN	Sanjaya Satapathy
	Nagarjuna Fertilizers & Chemicals Ltd	NFACF	NFCL IN	Prasad Deshmukh
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
	Triveni Engg	TVIEF	TRE IN	Sanjaya Satapathy
	Welspun Gujarat	XUQRF	WGS IN	Sanjaya Satapathy
<b>RSTR</b>				
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	UltraTech Cemen	XDJNF	UTCEN IN	Reena Verma Bhasin, CFA

**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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### XEDRF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

\*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of March 31, 2010 or such later date as indicated.

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### Investment Rating Distribution: Autos Group (as of 01 Apr 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	43	55.84%	Buy	23	65.71%
Neutral	18	23.38%	Neutral	10	62.50%
Sell	16	20.78%	Sell	10	83.33%

### Investment Rating Distribution: Global Group (as of 01 Apr 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1818	52.41%	Buy	952	58.01%
Neutral	873	25.17%	Neutral	490	61.95%
Sell	778	22.43%	Sell	355	49.72%

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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