

Morgan Stanley India Company  
Private Limited+

**Binay Singh**  
Binay.Singh@morganstanley.com  
+91 22 6118 2218

**Shreya Gaunekar**  
Shreya.Gaunekar@morganstanley.com  
+91 22 6118 2219

October 20, 2011

Stock Rating  
**Overweight**

Industry View  
**Attractive**

## Exide Industries

### F2Q12 Results: Another Disappointing Quarter

**Below our expectations:** The company reported disappointing F2Q12 results. Revenue grew 4% YoY, while EBITDA and net income fell 63% and 70% YoY. While revenue was 4% ahead of our expectation, EBITDA was 54% below our expectation, mainly because of high-cost lead inventory. EBITDA margins fell to 7.7% from 17.9% in F1Q12. PAT was Rs511mn, down 70% YoY and 69% QoQ, 65% below our expectations.

**Slowdown on top line continues:** Revenues at Rs11.8bn were subdued, up 4% YoY and down 5% QoQ. Management attributed the slowdown to slowing OEM sales, lower than expected pickup in the replacement segment, and slowdown in industrial (mainly inverter) sales.

**F2Q12 EBITDA margin at 7.7% vs. 17.9% in F1Q12:** High-cost lead inventory drove gross margins down by 870 bps QoQ, coupled with an increase in other spending as a percentage of sales by 176bps, owing to higher marketing expenditure. Overall, absolute EBITDA stood at Rs903mn.

**Other income was at Rs79mn, down 74% QoQ:** Dividends from subsidiaries were lower.

**Forex loss was Rs150mn:** Adjusting for this, PAT would be Rs661mn, down 62% YoY and 59% QoQ.

**Benefit of softening commodity prices will be seen only by the end of Q3 to Q4:** Lead prices are down 20% since March 2011. Yet amid the slowdown at OEMs (like Exide's key customer Maruti) and in the replacement market, Exide is still using high-cost lead, thus leading to a sharp increase in cost of materials. The company will continue to hold some portion of the high-cost inventory in Q3 as well – thus the benefit of softening commodity prices will be seen only by the end of Q3 to Q4. We will return with details after a call with management.

#### Key Ratios and Statistics

Reuters: EXID.BO Bloomberg: EXID IN

##### India Autos & Auto Parts

Shr price, close (Oct 20, 2011)	Rs121.55
52-Week Range	Rs176.30-112.00
Sh out, dil, curr (mn)	850
Mkt cap, curr (mn)	Rs103,318
EV, curr (mn)	Rs98,159
Avg daily trading value (mn)	Rs277

Fiscal Year ending	03/10	03/11e	03/12e	03/13e
ModelWare EPS (Rs)	6.32	7.50	9.76	12.22
Revenue, net (Rs mn)	37,974	46,551	57,352	76,256
EBITDA (Rs mn)	8,928	10,435	13,508	16,684
ModelWare net inc (Rs mn)	5,371	6,378	8,293	10,387
P/E	19.6	19.0	12.5	9.9
P/BV	4.8	4.4	3.0	2.4
RNOA (%)	36.3	36.8	36.4	39.7
ROE (%)	43.0	28.7	30.1	30.1
EV/EBITDA	11.2	11.2	7.0	5.4
Div yld (%)	0.8	0.8	1.3	1.6
FCF yld ratio (%)	4.1	2.3	5.7	7.5
Leverage (EOP) (%)	(23.2)	(16.8)	(24.4)	(31.8)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

e = Morgan Stanley Research estimates

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Exhibit 1

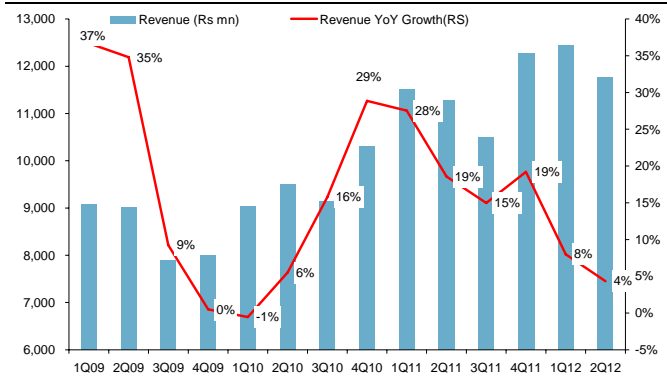
## F2Q12 Results Snapshot

Exide Industries(Rsmn)	2Q11	1Q12	2Q12	YoY	QoQ
<b>Net Sales</b>	<b>11,272</b>	<b>12,442</b>	<b>11,761</b>	<b>4%</b>	<b>-5%</b>
Total Expenditure	8,817	10,220	10,858	23%	6%
<b>EBITDA</b>	<b>2,455</b>	<b>2,222</b>	<b>903</b>	<b>-63%</b>	<b>-59%</b>
Depreciation	201	237	247	22%	4%
<b>EBIT</b>	<b>2,254</b>	<b>1,985</b>	<b>656</b>	<b>-71%</b>	<b>-67%</b>
Other Income	191	308	79	-59%	-74%
Net Interest	17	11	16	-5%	42%
<b>PBT before Extras</b>	<b>2,428</b>	<b>2,282</b>	<b>719</b>	<b>-70%</b>	<b>-68%</b>
Tax	703	650	208	-70%	-68%
<b>PAT</b>	<b>1,725</b>	<b>1,632</b>	<b>511</b>	<b>-70%</b>	<b>-69%</b>
<b>Ratios</b>					
Gross Margin	41%	36%	28%	-1295 bps	-872 bps
EBIDTA Margin	22%	18%	8%	-1410 bps	-1018 bps
PBT Margin	22%	18%	6%	-1542 bps	-1223 bps
Net Margin	15%	13%	4%	-1096 bps	-877 bps
Tax Rate	29%	28%	29%	-8 bps	37 bps
Adjusted EPS	2	2	1	-70%	-69%
<b>%age of Sales</b>					
Materials	59.3%	63.5%	72.3%	1295 bps	872 bps
Staff Cost	5.9%	5.8%	5.5%	-38 bps	-30 bps
Other Expenditure	13.0%	12.8%	14.6%	154 bps	176 bps

Source: Company data, Morgan Stanley Research

Exhibit 2

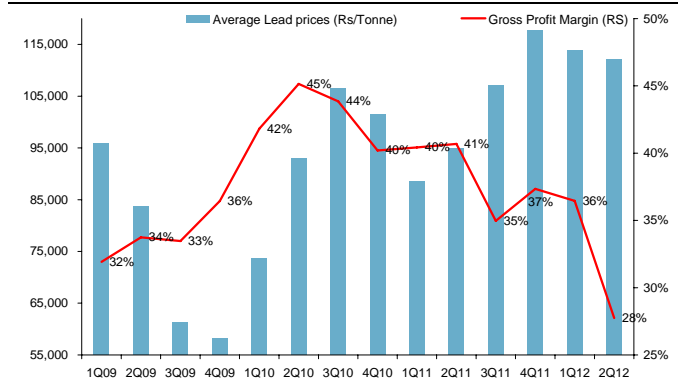
## Revenue continues to fall



Source: Company data, Morgan Stanley Research..

Exhibit 3

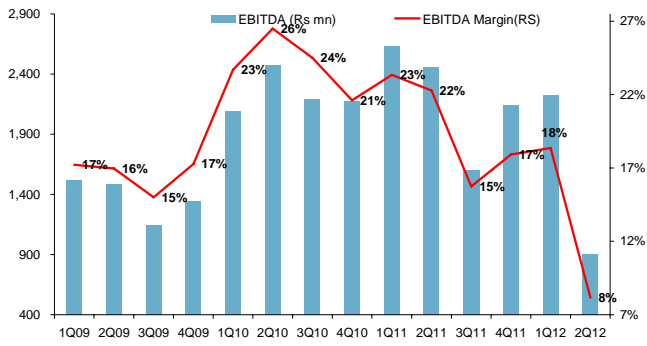
## Gross Margins dip 870bps QoQ




Source: Company data, Morgan Stanley Research

Exhibit 4

## EBITDA Margins drop to 7.7%



Source: Company data, Morgan Stanley Research

	<p><b>Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.</b> For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.</p>
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(as of September 30, 2011)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1130</b>	<b>40%</b>	<b>457</b>	<b>46%</b>	<b>40%</b>
<b>Equal-weight/Hold</b>	<b>1168</b>	<b>42%</b>	<b>419</b>	<b>42%</b>	<b>36%</b>
<b>Not-Rated/Hold</b>	<b>112</b>	<b>4%</b>	<b>23</b>	<b>2%</b>	<b>21%</b>
<b>Underweight/Sell</b>	<b>400</b>	<b>14%</b>	<b>104</b>	<b>10%</b>	<b>26%</b>
<b>Total</b>	<b>2,810</b>		<b>1003</b>		

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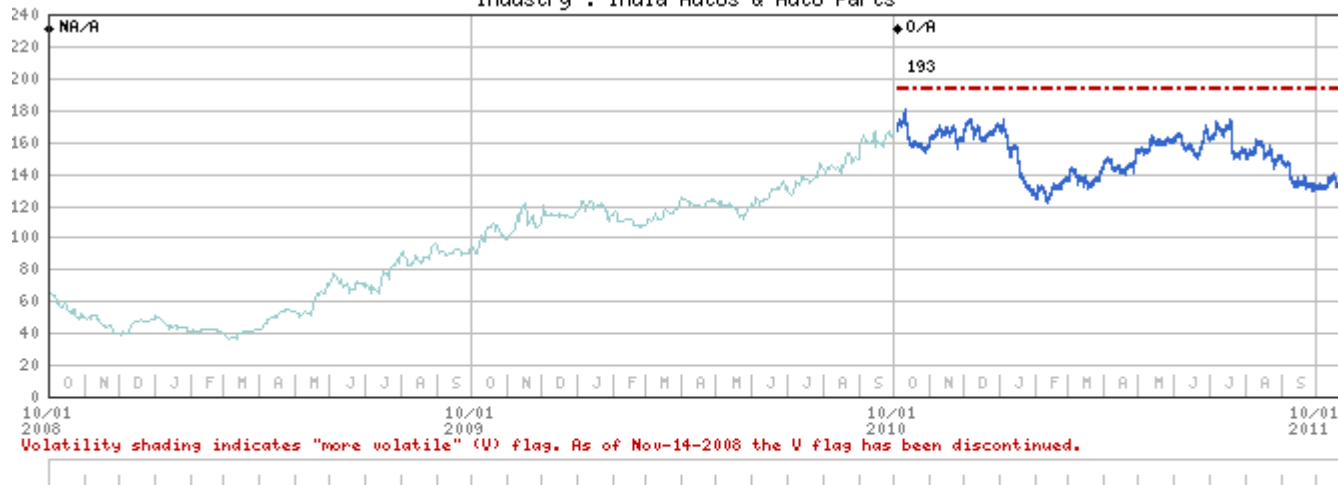
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

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## Stock Price, Price Target and Rating History (See Rating Definitions)

Exide Industries (EXID.BO) - As of 10/20/11 in INR  
Industry : India Autos & Auto Parts



Stock Rating History: 10/1/08 : NA/A; 10/4/10 : O/A

Price Target History: 10/4/10 : 193

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target --      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■  
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View  
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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1585 Broadway  
New York, NY 10036-8293

**United States**

Tel: +1 (1) 212 761 4000

**Europe**

20 Bank Street, Canary Wharf  
London E14 4AD

**United Kingdom**

Tel: +44 (0) 20 7 425 8000

**Japan**

4-20-3 Ebisu, Shibuya-ku  
Tokyo 150-6008

**Japan**

Tel: +81 (0) 3 5424 5000

**Asia/Pacific**

1 Austin Road West  
Kowloon

**Hong Kong**

Tel: +852 2848 5200

**Industry Coverage: India Autos & Auto Parts**

Company (Ticker)	Rating (as of)	Price* (10/20/2011)
<b>Binay Singh</b>		
Bharat Forge (BFRG.BO)	U (05/23/2007)	Rs286.8
Exide Industries (EXID.BO)	O (10/04/2010)	Rs121.55

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\* Historical prices are not split adjusted.