

Exide Industries

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In-line Results

Exide surprised us (as well as the street) positively with its robust Q1FY10 results, which came far ahead of expectations. The 1000bps fall in raw material to sales ratio (coming from lower lead prices) pulled up the operating margin to +23%, triggering a 49% YoY jump in net profit at Rs 1.22 billion.

In our view, the battery demand outlook in the domestic market stands reasonably strong, especially in the industrial battery space (UPS, Invertors, Telecom, etc). Though the auto battery space remains challenging, we believe that Exide is well placed to sail through with the help of its unmatched distribution network, competitive pricing and increasing backward integration strength. We maintain our BUY rating on the stock with a revised price target of Rs 90 (earlier Rs 71).

Q1FY10 Result Highlights and Outlook

- Net sales for the quarter stood at Rs 9.03billion (-0.4% YoY), above our estimate, reflecting a better-than-estimated pricing power (mainly in the replacement market).
- Driven by substantially higher input cost benefits, operating margin came at 23.2% (+660bps YoY and +650bps QoQ) surprised us positively. We believe that the company also gained on account of lower imports and growing backward integration, that is, captive sourcing from Tandon Metals and Leadage Alloys.
- Operating profit for the quarter grew by 39.5% YoY at Rs 2.09billion.
- PAT for the quarter grew 49% YoY and 79.5% QoQ at Rs 1.22billion, far ahead of estimates.
- In view of the company's strong Q1FY10 performance, we revisit our full-year estimates. We upgrade our FY10E and FY11E EPS to Rs 5.2 and Rs 5.7, respectively.

Valuation & Rating

At the current price of Rs 71, EIL trades at 11.2x and 10.2x PER on FY10E and FY11E (net of insurance value), respectively. Maintain Buy with a target price of Rs 90 (14x FY11E EPS + Rs 10 from investment in ING Vysya Life Insurance).

Maintain Buy / Rs 71
Target Rs 90 (+27%)

Sector Rating

OW	N	UW

Stock Rating

Buy	Neutral	Sell
> 15%	-15% to +15%	> -15%

This note should be read for:

- Q1FY10 Results Update

Bloomberg code :

CHLR IN

Reuters code :

EXID.BO

www.exideindustries.com

BSE Sensex :

14760

NSE Nifty :

4380

Company data

O/S shares :	800mn
Market cap (Rs) :	56bn
Market cap (USD) :	1.2bn
52 - wk Hi/Lo (Rs) :	80 / 35
Avg. daily vol. (3mth) :	1mn
Face Value (Rs) :	1

Share holding pattern, %

Promoters :	48.9
FII / NRI :	8.1
FI / MF :	21.1
Non-Promoter Corp. Holdings :	11.1
Public & Others :	10.8

Price performance, %

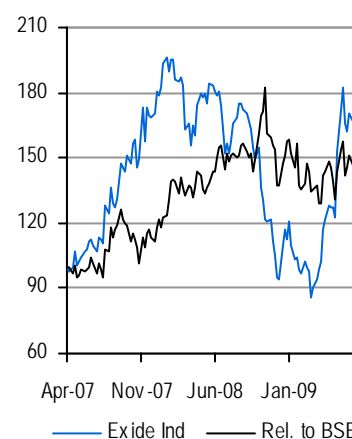
	1mth	3mth	1yr
Abs	0.9	43.6	17.0
Rel to BSE	5.6	13.5	3.7

Valuation summary

Y/E Mar, Rs mn	FY2007	FY2008	FY2009	FY2010E	FY2011E
Net Operating Income	18,703	28,449	33,930	35,935	43,339
Growth, %	35.6	52.1	19.3	5.9	20.6
Core EBITDA	3,077	4,695	5,448	7,302	7,926
EBITDA margins, %	16.5	16.5	16.1	20.3	18.3
Net profit	1,552	2,503	2,844	4,156	4,543
EPS, Rs	2.1	3.1	3.6	5.2	5.7
Growth, %	54.1	51.2	13.6	46.2	9.3
PER, x	34.1	22.6	19.9	13.6	12.4
PER, x (ex-insurance value)		18.5	16.3	11.2	10.2
EV/EBITDA, x	19.4	12.8	10.9	8.0	7.2
EV/Net Sales, x	3.2	2.1	1.7	1.6	1.3
Price/Book Value, x	7.9	5.5	4.5	3.5	2.8
ROIC, %	23.8	30.9	30.8	38.3	35.5
ROE, %	25.4	29.5	25.0	29.1	25.2
Dividend Yield, %	0.5	0.6	0.8	0.8	1.0

Source: Company, MF Global India Research Estimates

Price vs. Sensex



Source: Bloomberg, MF Global India Research

Q1FY10 Results

Rs mn	Q1FY10	Q1FY09	Q4FY09
Net sales	9,031	9,065	7,983
<i>Growth, %</i>	-0.4	36.5	0.9
Total income	9,031	9,065	7,983
Operating expenses	6,940	7,566	6,654
EBITDA	2,091	1,499	1,329
<i>Growth, %</i>	39.5	14.4	18.3
<i>Margin, %</i>	23.2	16.5	16.6
Depreciation	188	162	179
EBIT	1,903	1,337	1,150
<i>Growth, %</i>	42.4	19.5	18.9
<i>Margin, %</i>	21.1	14.7	14.4
Interest paid	4	108	114
Other Non-Operating Income	12	24	28
Pre-tax profit	1,911	1,252	1,065
Tax provided	687	430	383
MF PAT	1,224	822	682
Reported PAT	1,224	822	682
<i>Growth, %</i>	49.0	17.2	8.6
<i>Margin, %</i>	13.6	9.1	8.5
Extraordinary items: Gains/(Losses)	0	0	0
EPS, Rs	1.5	1.0	0.9
Unadj. shares (m)	800	800	800
Wtd avg shares (m)	800	800	800

Source: Company, MF Global India Research

FINANCIALS

Income Statement

Y/E Mar, Rs mn	FY2007	FY2008	FY2009	FY2010E	FY2011E
Net sales	18703	28449	33930	35935	43339
<i>Growth %</i>	35.6	52.1	19.3	5.9	20.6
Total income	18703	28449	33930	35935	43339
Operating expenses	15626	23754	28483	28633	35413
EBITDA	3077	4695	5448	7302	7926
<i>Growth %</i>	38.3	52.6	16.0	34.0	8.5
<i>Margin %</i>	16.5	16.5	16.1	20.3	18.3
Depreciation	542	642	679	756	863
EBIT	2535	4053	4768	6546	7064
<i>Growth %</i>	51.2	59.8	17.7	37.3	7.9
<i>Margin %</i>	13.6	14.2	14.1	18.2	16.3
Interest received	8	8	3	8	15
Interest paid	285	382	482	317	265
Net interest Expense	277	374	479	309	250
Non-operating items	94	65	65	61	69
Pre-tax profit	2352	3743	4354	6298	6883
Tax provided	800	1240	1510	2141	2340
MF Net Profit	1552	2503	2844	4156	4543
Net profit	1552	2503	2844	4156	4543
<i>Growth %</i>	54.1	61.3	13.6	46.2	9.3
Extraordinary items: Gains/(Losses)	0	0	0	0	0
Unadj. shares (m)	750	800	800	800	800
Wtd avg shares (m)	750	800	800	800	800

Cash Flow

Y/E Mar, Rs mn	FY2007	FY2008	FY2009	FY2010E	FY2011E
Pre-tax profit	2352	3743	4354	6298	6883
Depreciation	542	642	679	756	863
Chg in working capital	(1088)	(1082)	1410	(1232)	(825)
Total tax paid	(865)	(1208)	(1577)	(2141)	(2340)
Other operating activities	0	0	0	0	0
Cash flow from operating activities (a)	942	2096	4866	3680	4580
Capital expenditure	(1009)	(1748)	(1558)	(1275)	(1225)
Chg in investments	(995)	(1403)	(1499)	(1100)	(900)
Cash flow from investing activities (b)	(2004)	(3150)	(3057)	(2375)	(2125)
Free cash flow (a+b)	(1062)	(1054)	1809	1306	2455
Equity raised/(repaid)	0	1486	0	0	0
Debt raised/(repaid)	1216	(55)	(928)	(300)	(450)
Dividend (incl. tax)	(307)	(374)	(562)	(562)	(655)
Other financing activities	(7)	0	0	0	0
Cash flow from financing activities (c)	902	1057	(1489)	(862)	(1105)
Net chg in cash (a+b+c)	(160)	3	320	444	1350

Balance Sheet

As at 31st Mar, Rs mn	FY2007	FY2008	FY2009	FY2010E	FY2011E
Cash & bank	14	17	337	781	2131
Debtors	1484	2592	2310	3249	3918
Inventory	3966	5707	4385	5907	7124
Loans & advances	258	448	387	539	650
Total current assets	5708	8748	7082	9695	11693
Investments	3780	5183	6682	7782	8682
Gross fixed assets	9462	10975	12567	13740	15015
Less: Depreciation	4803	5424	5887	6643	7506
Add: Capital WIP	310	467	173	275	225
Net fixed assets	4968	6018	6853	7372	7734
Total assets	14471	19965	20954	25630	30240
Current liabilities	3231	4671	3807	4622	5587
Provisions	841	1054	1059	1626	1832
Total current liabilities	4072	5725	4866	6248	7420
Non-current liabilities	3694	3977	3584	3284	2834
Total liabilities	7766	9702	8450	9531	10254
Paid-up capital	750	800	800	800	800
Reserves & surplus	5955	9464	11704	15298	19186
Shareholders' equity	6705	10264	12504	16098	19986
Total equity & liabilities	14471	19965	20954	25630	30239

Per-share data

	FY2007	FY2008	FY2009	FY2010E	FY2011E
MF EPS (INR)	2.1	3.1	3.6	5.2	5.7
Growth (%)	54.1	51.2	13.6	46.2	9.3
Book NAV/share (INR)	8.9	12.8	15.6	20.1	25.0
FDEPS (INR)	2.1	3.1	3.6	5.2	5.7
CEPS (INR)	2.8	3.9	4.4	6.1	6.8
CFPS (INR)	2.3	2.2	5.2	4.5	5.6
DPS (INR)	0.4	0.4	0.6	0.6	0.7

Financial structure

	FY2007	FY2008	FY2009	FY2010E	FY2011E
Operating cash flow/Total debt (x)	0.3	0.6	1.5	1.3	1.9
Total debt/Equity (x)	0.5	0.3	0.3	0.2	0.1
Net debt/Equity (x)	0.5	0.3	0.2	0.1	0.0

Profitability, Productivity, Liquidity and Valuation Ratios

	FY2007	FY2008	FY2009	FY2010E	FY2011E
Return on assets (%)	13.2	16.0	15.4	18.7	16.9
Return on equity (%)	25.4	29.5	25.0	29.1	25.2
Return on Invested capital (%)	23.8	30.9	30.8	38.3	35.5
RoIC/Cost of capital (x)	2.1	2.7	2.6	3.5	3.3
RoIC - Cost of capital (%)	12.6	19.5	19.1	27.4	24.6
Return on capital employed (%)	18.2	21.7	20.8	24.6	22.0
Cost of capital (%)	11.2	11.4	11.7	10.9	10.9
RoCE - Cost of capital (%)	7.0	10.3	9.1	13.8	11.1
Asset turnover (x)	2.7	3.2	3.4	3.2	3.3
Sales/Total assets (x)	1.4	1.7	1.7	1.5	1.6
Sales/Net FA (x)	3.9	5.2	5.3	5.1	5.7
Working capital/Sales (x)	0.1	0.1	0.1	0.1	0.1
Fixed capital/Sales (x)	0.2	0.2	0.0	0.0	0.0
Receivable days	29	33	25	33	33
Inventory days	77	73	47	60	60
Payable days	62	61	39	50	50
Current ratio (x)	1.5	1.6	1.4	1.7	2.0
Quick ratio (x)	0.5	0.6	0.6	0.8	1.0
Interest cover (x)	9.2	10.8	10.0	21.2	28.3
Dividend cover (x)	5.9	7.8	5.9	8.7	8.1
PER (x)	34.1	22.6	19.9	13.6	12.4
PEG (x) - 2 Yr CAGR			0.8		
PCE (x)	25.3	18.0	16.0	11.5	10.4
PCF (x)	30.9	32.7	13.4	15.6	12.5
Price/Book (x)	7.9	5.5	4.5	3.5	2.8
Yield (%)	0.5	0.6	0.8	0.8	1.0
EV/Net sales (x)	3.2	2.1	1.7	1.6	1.3
EV/EBITDA (x)	19.4	12.8	10.9	8.0	7.2
EV/EBIT (x)	23.6	14.8	12.4	8.9	8.0
EV/NOPLAT (x)	35.7	22.1	19.0	13.6	12.2
EV/CE	5.5	4.1	3.8	3.0	2.4
EV/IC (x)	8.5	6.8	5.9	5.2	4.3

Source: Company, MF Global India Research Estimates

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Rating Rationale

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