

2010

COMPANY RESEARCH REPORT INITIATING COVERAGE

AMARA RAJA BATTERIES LIMITED

RECOMMENDATION: HOLD

CMP: Rs. 164.65

1st TARGET: Rs. 197

HOLDING PERIOD: 1 Year

RISK PROFILE: AGGRESSIVE

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BUSINESS SUMMARY

Amara Raja Batteries Limited (ARBL) is a joint venture between the Amara Raja Group and Johnson Controls Inc. (JCI). The company is one of the leading lead acid battery manufacturers, whose batteries are used in a wide array of industries, ranging from the automobile industry, the telecom industry, the power industry, the railways industry, the oil industry and the defense industry.

INVESTMENT RATIONALE/RISKS

After a disappointing show in the current fiscal, ARBL looks set to come back strongly in FY12, aided by strong expansion plans in its automobile battery segment. We also like the fact that around 65% of ARBL's automobile battery sales come from the replacement market where the margins are much higher and where effects of a tightening interest rate regime are quite marginal, as car batteries are required to be replaced every three to four years.

ARBL has a strong pan-India distribution network of 18000 retailers and 200 franchisees across 2300 towns and is now looking to further increase its geographical diversification by setting up a manufacturing plant in North India. The company currently manufactures all its products in Tirupati (South India).

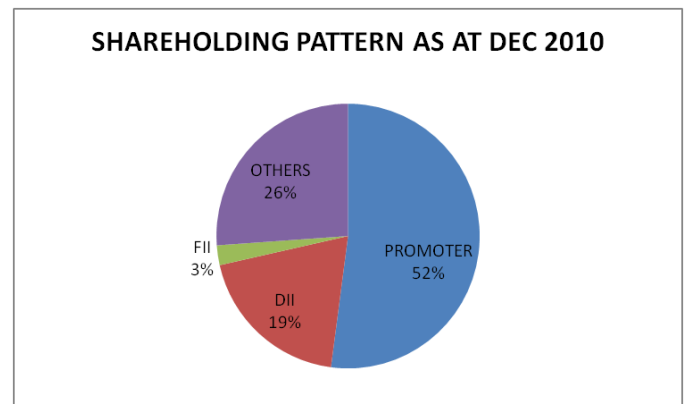
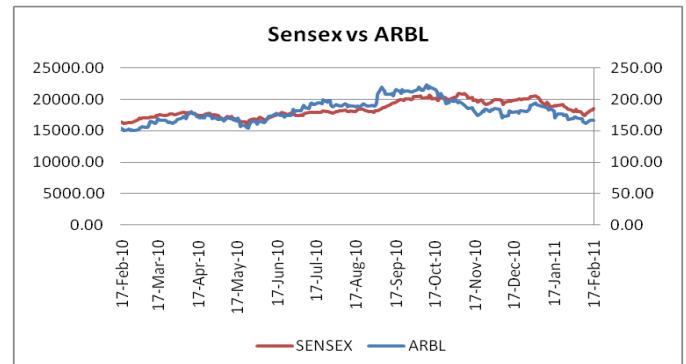
The stock is currently trading at relatively cheap pe valuations to the industry leader Exide (19), the average industry pe (14) and ARBL's 5 year PE average (11.1) as well. This is mainly due to the disappointing performance in the current fiscal. We believe that with time, one will see a convergence in the pe valuation of ARBL with the average industry level and Exide.

Intermittently high lead prices have damaged the bottom line performance coupled with the weak demand and pricing pressures seen in the telecom segment which accounts for 20% of ARBL's sales volumes (Q3FY11). All this will, most likely see the FY11 annual EPS fall below last year's annual eps as well as the current trailing EPS. Lead prices look set to stay at elevated levels until the end of the current fiscal atleast and the telecom sector could take another 1-2 quarters to revive.

Sector: Batteries
EPS (TTM): Rs.16.82
PE (TTM): 9.80
Industry PE: 16.82
Mkt. Cap: 1406 cr.
52 Wk high: Rs. 228.05
52 Wk low: Rs. 139.65
P/BV: 2.16
Beta: 0.53
Yield (%): 1.74
Face Value: 2.00
Debt/Equity: 0.40
Institutional: 21.82 %

NSE Code: AMARAJABAT
BSE Code: 500008
ISIN Code: INE885A01024
Reuters Code: AMAR.BO
Bloomberg Code: AMRJ IN
Website:
www.amararaja.co.in

(In crores)	FY09	FY10	FY11E	FY12E
SALES	1319.58	1467.36	1752.17	2137.64
PAT	80.46	167.03	137.26	171.86
EPS	9.42	19.55	16.07	20.12
PE	17.51	8.43	10.26	8.19

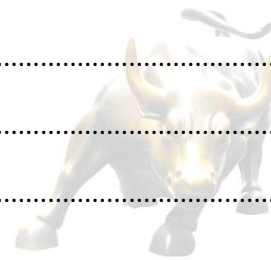


Source: Multiple Sources

Contents

BRIEF PROFILE	1
COMPANY ADDRESS.....	1
BOARD MEMBERS.....	1
BUSINESS.....	2
Automotive Battery SBU	2
Industrial Battery SBU	3
ARBL's R&D and Manufacturing capacity	4
SECTOR.....	5
Automobile Battery Sector	5
Industrial Battery Sector	7
OUTLOOK AND SCOPE.....	9
FINANCIALS AND VALUATIONS.....	12
HISTORICAL FINANCIALS	12
FINANCIAL OUTLOOK.....	13
RISKS.....	16
INVESTMENT RATIONALE.....	17
FINANCIAL HIGHLIGHTS-STANDALONE- [INR-Crore]	19
FINANCIAL RATIOS- STANDALONE	20
FINANCIALS GRAPH AND PEER GROUP COMPARISON	21
ANALYST NOTES AND COMPANY NEWS	22

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BRIEF PROFILE

Amara Raja Batteries Ltd (ARBL) is one of the leading lead acid battery manufacturers in India and was founded in 1985 by Mr. Ramachandra Galla, the current chairman of the company. In 1998 the company entered into a joint venture agreement with the USD 35 billion valued conglomerate-Johnson Controls Inc (JCI) making it the world's largest battery manufacturing alliance. The company's batteries are used in a wide array of industries, ranging from the automobile industry, the telecom industry, the power industry, the railways industry, the oil industry and the defense industry. The company possesses an impressive list of clients, most of whom are bigwigs in their respective industries. Companies such as Daimler Chrysler, Ford, Maruti, BSNL, Bharti Airtel, Nokia, BHEL, NTPC, Power Grid Corporation, Crompton Greaves, Doordashan and the Indian Railways are some of the companies that make up ARBL's impressive client list. What is also noteworthy is that the Lakshwadeep islands are powered by Amara Raja Power Systems. ARBL is responsible for pioneering VRLA (Valve Regulated Lead Acid) batteries in India. The company manufactures the extremely popular 'Amaron' brand of automotive batteries. ARBL has received a slew of awards since its inception, some of which include the "Quality Excellence" award by Indus Towers Limited, "Best Telecom Equipment Manufacturer" award by BSNL and the "Best Employer Award in the Electronics Industry Category" by the Employer Branding Institute of India.

COMPANY ADDRESS

Renigunta Cuddapah Road,
Karakambadi, Tirupati
517520, Andhra Pradesh

BOARD MEMBERS

Non Executive Chairman – Ramachandran Galla

Managing Director – Jayadev Galla

Director – Shu Qing Yang

Director – Jorge Gonzalez

Director – P Lakshmana Rao

Director – Nagarjun Valluripalli

Director – N Sri Vishnu Raju

Director – N T Ramaswamy

Director – T R Narayanaswamy

Alternate Director – Tony Huang

Alternate Director – Rochit Kochchar

Chief Financial Officer – K Suresh

BUSINESS

Amara Raja Batteries' business income arises from operations in two strategic business units (SBU):- The Automotive Battery division and The Industrial Battery division. The revenue mix at the end of FY10 between the two SBUs stood at 50: 50 but as far as the trend in the current fiscal is concerned, and the likely outcome in the years ahead, it is apparent that the automotive battery division has been fast increasing its stake and is likely to make up for a greater proportion of the revenue mix going forward.

Automotive Battery SBU

ARBL manufactures batteries used in all the vehicle segments including passenger cars, multi-utility vehicles, tractors, commercial vehicles, motorcycles and scooters (for both the self start option and kick start options). These batteries are provided with warranties ranging from 12 to 60 months (In fact ARBL was the first company to offer a two wheeler battery with a 60 month warranty).

Revenue from ARBL's automotive battery business

is generated not only through the supply of automotive batteries as part of its OE (Original Equipment) relationships with major automobile companies, but through the aftermarket battery segment or the replacement market as well, where margins are considered to be much higher (It must be noted that automobile batteries generally have a lifespan of around 3-4 years). The company also generates a marginal amount through exports (3.56% of FY10 annual revenues). In fact over 65% of the total automobile battery sales of ARBL accrue from the automobile replacement market, which ARBL seeks to tap through an exceptionally strong and well spread retail network around the country. ARBL's pan-India retail network consists of 18000 retailers, 200 franchisees across 2300 towns. In addition to that the company also has over 700 PowerZone (a one-stop shop, offering a range of products such as automotive batteries, tractor batteries and home UPS systems) units. The company enjoys a 26% market share in the organized segment of the automobile battery replacement market.

BUSINESS

- ARBL's business is divided into the Automotive Battery SBU and the Industrial Battery SBU with more SBUs having made equal contributions to the revenue in FY10.
- ARBL's automotive battery sales takes place both at the OEM (Original Equipment Manufacturer) level and the replacement market.
- The replacement market has better margins and is relatively insulated from tightening interest rates that tend to affect auto and auto ancillary sales. 65% of ARBL's automobile revenue comes from its replacement sales.
- ARBL enjoys a 26% market share in the organized segment of the auto replacement market and a 22-27% share in the OEM market. FY10 figures.
- In the industrial battery sales segment, ARBL services the telecom industry, the power industry, the railway industry, oil and gas industry, the IT industry and the UPS industry.
- Telecom battery sales account for 45-50% of the industrial battery sales, while UPS batteries account for 35-40% and the other industries account for the rest of the share.
- ARBL enjoys a 28% market share in the industrial battery segment (FY10).

With regard to its OEM sales the company has battery supply agreements with some

of the most well-known automobile manufacturers including Daimler Chrysler, Ashok Leyland, Hindustan Motors, Tata Motors, General Motors, Mahindra & Mahindra, Maruti. Ford, Swaraj Mazda and Hyundai. In fact in the recent past, ARBL has got into some crucial supply deals with some major automobile players. In FY10 the company secured battery product approval for the Ford Figo vehicle of Ford and the tractors of Escorts. In addition to that it developed and commenced supplies to the first Indian micro hybrid vehicle of M&M's Scorpio and also completed the design and development of a micro hybrid programme for the Tata Motors' Ace Vehicle. ARBL also recently got into a development agreement with Honda, Japan for motor cycle VRLA batteries. ARBL enjoys a 22-27% market share in the OEM market.

Industrial Battery SBU

ARBL's industrial battery products include large VRLA batteries (sold under the brand- Powerstack), medium and small VRLA batteries (sold under the Quanta brand). The company's industrial battery product portfolio ranges from capacities of 4.5 Ah to 5000 Ah. While both PowerStack and Quanta medium VRLA have been around for quite a while, small VRLA batteries were only announced in FY10.

As previously mentioned approximately half of ARBL's topline comes from the industrial battery

segment, but gauging by the management's initiatives on capex and so on, it is apparent that greater impetus is being seen in the automotive battery division, atleast over the next two years. Besides another reason why the share of the Industrial battery segment in proportion to the overall revenue mix has been declining in the current fiscal and could for the next year is due to

AMARA RAJA'S AUTOMOBILE BATTERY PRODUCT OFFERING		
BRAND	USER SEGMENT	WARRANTY
PRO	PASSENGER CARS	60 months
FLO	PASSENGER CARS	48 months
GO	PASSENGER CARS	36 months
BLACK	PASSENGER CARS	18 months
FRESH	PASSENGER/MUVs	12 months
HI-WAY	COMMERCIAL VEHICLES	24 months
HARVEST	TRACTORS	24 months
SHIELD	INVERTERS	24 months
AMARON PRO BIKE RIDER	2 WHEELERS	60 months

Source: Company

the weak performance of the telecom vertical- a key vertical to which ARBL supplies its industrial batteries. In FY10 Telecom battery sales contributed around 45-50 % of ARBL's industrial battery revenue with UPS sales accounting for around 35-40%.

The remaining industrial battery sales accrue from segments such as railways, oil & gas and solar energy. In the telecom sector, the batteries support switching and transmission (wireline and wireless) networks; the Indian Railways uses ARBL's batteries for train lighting, coach airconditioning and signalling. In the power sector, the batteries support generation, transmission and distribution networks. The UPS batteries support IT and ITeS operations; they form a part of UPS systems, which provide backup power and regulate power supply to critical equipment during voltage fluctuations. The company's small VRLA batteries find application in small UPS and emergency lamps. Some of the major industrial battery clients of ARBL include BSNL and MTNL exchanges (ARBL batteries power almost half the exchanges belonging to those companies), Bharti Airtel, Idea, Tata Tele, NTPC, NHPC, Power Grid, ONGC, Siemens, Crompton

Greaves, the Indian railways (over 50% of the Indian railways tier-II and tier-III self-generation air conditioned coaches and over 40% of the railway's signaling and telecom power supply solutions are provided by ARBL) and leading UPS back-up manufacturers such as APC, Numeric, DB Power, APLab, Electronics & Controls. In FY10 the company enjoyed a 28% market share in the industrial battery segment.

As with its automobile batteries, ARBL also has a strong distribution network for its industrial batteries as well. To distribute its medium and small VRLA batteries (UPS) sold under the Quanta brand, ARBL has around 75 AQUA partners across the country.

ARBL had increased the manufacturing capacities of its industrial battery segment over the last two fiscals. The large VRLA capacity was increased by 100% from 450 million units to 900 million units while the medium VRLA capacity was increased by 50% from 1.2 million units to 1.8 million units. It must be noted that the company had shifted its medium VRLA battery lines from the automotive plant to the industrial plant in FY10 for the purpose of consolidation.

ARBL's R&D and Manufacturing capacity

The company also owns a one-of-a-kind Battery Excellence Centre that is highly automated and enables the firm to leverage its strong R&D culture for which it has developed quite a reputation. Owing to its strong R&D facilities, the company developed and introduced its pioneering VRLA (Valve Regulated Lead Acid) technology that gave it a first mover advantage in the automotive battery segment (Exide, Amara Raja's biggest competitor started using the VRLA technology much later). This

expertise in VRLA technology is one of the underlying contributors to its rapid growth over the last few years. ARBL also leverages a lot of its technology from its global jv partner- Johnson Controls Inc.

ARBL manufactures its automobile and industrial batteries through an integrated manufacturing capacity in Tirupati. ARBL's four wheeler battery manufacturing capacity stands at 4.2 million units while its two wheeler battery capacity stands at 1.8 million units.

AMARA RAJA'S INDUSTRIAL BATTERY PRODUCT OFFERING		
Brand	Rating	Applications
PowerStackTM	2V / 100 – 5600 Ah	Telecom exchanges, power stations, oil and gas, Indian Railways and other industrial applications
QuantaTM	12V / 4.5 – 200 Ah	UPS segment, IT and ITeS industry, corporate and hotels, among others
PowerSleekTM (Front Terminal Access)	12V / 100 -150 Ah	Wireless telecom networks, UPS application and niche applications
Amaron Volt	2V High integrity	Telecom, renewable and solar energy, high end UPS & data centre applications

Source: Company

SECTOR

The Indian battery market is estimated to be valued at Rs.90 billion (FY10 figures) with the organized sector accounting for around 72% (Rs.65 billion) and the unorganized sector accounting for around 28% (Rs.25 billion). Essentially automobiles and industrials are the two broad consumers of lead acid batteries. Within the Rs.65 billion valued organized battery segment, the automobile battery business accounts for a slightly larger portion, contributing Rs.33 billion while the industrial battery business contributes the remaining Rs. 32 billion.

Automobile Battery Sector

With regard to the automobile battery segment, demand is a manifestation of automotive sales which in turn, is dependent on the level of domestic savings), domestic demand, domestic consumption and consumer prosperity in a certain country. It is well documented that India has a fantastic consumer theme, a burgeoning middle class, a strong savings rate (more than 30% of GDP) on account of a revision of personal rates which in turn has fuelled demand for new automobiles. However looking at battery sales purely from this perspective, is a tad myopic as there also exists a very resplendent replacement or secondary market which survives on the foundations of

SECTOR

- The Indian battery market is estimated to be worth Rs.90 billion with the organized sector accounting for 72% of that figure and the unorganized sector accounting for 28%.
- Of the Rs.65 billion valued organized battery sector, automobile batteries account for Rs.33 billion while industrial batteries account for Rs.32 billion.

AUTOMOBILE SECTOR

- The unorganized automobile battery sector is much bigger valued at Rs.20-25 billion relative to the unorganized industrial battery sector valued at Rs.5 billion.
- The unorganized segment is dominated by small players and cheap imports from neighbouring Asian countries. These players are mostly found in tier-II and tier-III cities and lack strong brand equity but are able to offer new or rebranded batteries at attractive rates.
- In FY10, the automobile OEM market and the replacement market grew by 30% and 10% respectively. In FY11, growth rates for those two segments are expected to be 18% and 11% respectively.
- Rs.80000 crore is expected to be invested in fresh capacity over the next four years.
- Car manufacturing capacity is expected to grow at a 10-15% CAGR until 2015.
- The Indian government is looking to ensure that automobiles contribute 10% of the GDP over the next 10 years.

necessity, as automobile batteries tend to last only for 2-4 years and are fundamental to an automobile's existence.

As can be seen from the statistics in the first paragraph of the sector section, even though the organized segment accrues for a sizeable component (72%) of the overall lead acid battery market, there also lies a strong unorganized segment worth Rs.20-25 billion. The unorganized battery segment while seemingly opportunistic for the major organized players such as AmaraRaja Batteries and Exide Industries, is also a cause for concern, most notably in the automobile segment. The unorganized sector in the automobile market alone is estimated to be worth Rs. 20 billion relative to the unorganized industrial battery segment estimated to be worth Rs. 5 billion. What is worth noting is that automobile battery manufacturers prefer to orient their revenue mix more towards the replacement or secondary market where margins tend

to be higher. In fact 65% of ARBL's automobile battery sales accrue from the replacement market. However the competition in the automobile replacement market is exceptionally intense with a large number of unorganized players (in the industrial battery segment this situation is not as acute, with organized players with a strong brand recall dominating the sector) who are essentially small scale in nature. The smaller players in the automobile replacement market are able to offer new or

In FY10, the OEM (Original Equipment Manufacturer) segment of the automotive battery market grew by 30% while it grew by 10% in the secondary aftermarket. By the end of FY11, growth rates are estimated to be 18% in the OEM automobile market and 11% in the aftermarket.

Road ahead

While the automobile industry has indeed staged a fantastic recovery from the recessionary era, the

INDIAN AUTOMOBILE PRODUCTION OVER THE YEARS							
	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Passenger Vehicles	989,560	1,209,654	1,308,913	1,544,850	1,767,867	1,838,249	2,334,363
Commercial Vehicles	275,040	350,033	391,078	519,982	549,006	416,870	566,430
Three Wheelers	356,223	374,414	434,424	556,126	500,660	497,020	619,093
Two wheelers	5,629,663	6,575,584	7,569,573	8,469,345	8,052,056	8,395,768	10,510,331
Grand Total	7,250,486	8,509,685	9,703,988	11,090,303	10,869,589	11,147,907	14,030,217

Source: SIAM

rebranded batteries at very attractive rates. These smaller players are mostly found in the tier-II and tier-III cities and lack a strong brand image. Their specialty lies in providing batteries for old automobiles, tractors, farm equipments and heavy commercial vehicles. What intensifies the matter even more is that there is also the existence of cheaper imports from neighbouring countries such as China, Singapore, Thailand, Bangladesh, Hong Kong, Korea, etc. It is also suggested that the foreign battery imports are sold at a price lower than the importer's home market, though that statement might appear apocryphal to a fair few. Organized players with a strong brand image will have to counter this trend by strengthening their marketing and networking ties, improving and spreading their distribution network and leveraging on their strong R&D culture to come out with innovative products.

following year could see a handbrake on the strong growth as the RBI employs a hardening interest rate regime that are bound to affect automobile sales, most notably four wheelers and three wheelers that are largely bought on credit. This will consequently have an effect on OEM battery sales. Nevertheless the long term future of the auto industry looks very encouraging and opportunistic due to factors such as low vehicle penetration (India has a low vehicle penetration which is 11% per 1000 people for passenger vehicles and 66% per 1000 people for two-wheelers) and the government's impetus on road building. The government has also put in place a 10 year roadmap to make India an automobile hub, with the target of doubling the industry's contribution to 10% of GDP. Besides according to Ernst & Young, the Indian automobile industry expects to invest up to Rs.80000 crore in fresh

capacity over the next four years and car manufacturing capacity is expected to rise to 57 lakh units by 2015 growing at a 10-15% CAGR.

Industrial Battery Sector

The Rs.32 billion valued industrial battery sector in India does not have as big an unorganized segment as its automobile battery counterpart, with the unorganized segment accounting only for Rs.5 billion compared to the Rs.32 billion valued organized segment. The main reason for this is due to fact that it is a very capital intensive segment, where investments in technology and manufacture are much higher than the investments in the automotive battery segment. The per-unit realization in the industrial batteries as well is much higher than automotive batteries but the frequency of purchase is limited. This has consequently resulted in strong entry barriers for unorganized players. The major growth drivers in the industrial battery business are infrastructure and technology-related industries such as telecommunications, UPS and power and renewable energy sectors.

Telecom

The Indian telecom market has

been through its fair share of ups and downs and is currently in a stage of convalescence. While it proved be one of the world's fastest growing and most competitive markets upto FY09, intense competition in the wireless-dominated telecom services in India forced to telecom operators to

reduce tariffs to rock bottom levels. A massive drop in the ARPUs (Average Revenue Per Users) ensued. This trend has continued for a while and the telecom segment has proved to be a real downer for battery manufacturers catering to this segment. Pricing trends for telecom batteries are currently not very encouraging as the battery industry had witnessed significant additions during the telecom boom seen all the way upto FY09 resulting in the supply outstripping demand. However after the prolonged impasse, the outlook look is likely to be marginally positive in the near future. Tariff stability, potential M&As, revenue from 3G/BWA services(According to Evalueserve, about 995 million subscribers will use 3G-enabled handsets by 2013 necessitating investments in adequate telecom

INDUSTRIAL BATTERY SECTOR

- The unorganized segment in industrial batteries is less intense than that of the automobile battery segment as it is a very capital intensive segment and where there per unit realization of batteries is higher and the frequency of purchase is limited.
- The main growth drivers in the industrial battery business are infrastructure and technology-related industries such as telecommunications, UPS, power and renewable energy.
- While the telecom sector is undergoing some pressure, the outlook looks fairly encouraging with tariff stability, potential M&As, revenue from 3G/BWA services, rural network expansion and improving tele-density.
- UPS battery demand has grown at a 15% CAGR in the last five years and are expected to continue growing at that rate.
- Under the 11th plan the government in planning to spend Rs.2000 billion to modernize and expand the railways.
- Under the 11th plan, the government has revised the incremental power capacity target from 78577 mw to 92700 mw with the objective of raising per capita consumption to 1000kwh by 2012.

infrastructure) and the introduction of MNP (Mobile Number Portability), network expansion to rural India, improved tele-density (the government of India has set a target of reaching 40% tele-density for rural India by 2014) are some of the key developments that will help improve the fortunes of the beleaguered telecom industry. According to Gartner Inc., the total mobile services revenue in India is projected to grow at a CAGR of 12.5% from 2009-2013, surging past \$30 Billion while India's mobile subscriber base is expected to exceed 771 million connection by 2013, growing at a CAGR of 14.3%.

The country's tower population had crossed over 350,000 and since then, network expansion activity has slowed down. The emphasis now seems to be on enhancing efficiency and maximizing utility by increasing the tenancy ratio. Telecom industry battery manufacturers believe that demand for their batteries will mostly accrue from the replacement market (batteries are replaced every two to three years) and those existing 350,000 towers will have to be serviced during different stages from now on.

Information Technology and UPS

This is another key user segment of industrial batteries and is a segment that ARBL has been giving greater importance to, in recent times, to negate the weak conditions emanating from the telecom segment. Battery demand in the UPS segment has grown at a 15% CAGR in the last five years. The main growth drivers where large scale computerization of banking networks and government departments (e-governance is a \$9 billion business opportunity), aggressive growth in the IT sector and increasing demand for data

services. The market for UPS batteries is expected to grow by around 10% at the end of FY11, mainly aided through the IT initiatives of the government of India (the government's IT spend stood at \$3.2 billion in 2009 and is expected to reach \$ 5.4 billion in 2011) and momentum in the services sector. PC sales, server sales and laptop sales continue to be robust growing at a rate of around 15% CAGR. Besides addition of high powered data centres in telecom, IT, BFIS and government sectors, continued growth in the ATM population at 18% CAGR (ATM penetration in the country is quite low at just 1 ATM for 28570 people and offers good opportunities to ramp up this figure over the next three to five years), and huge government funded-projects such as the Accelerated Power Development and Reform Program (APDRP), National e Governance Plan (NeGP) will continue to drive the demand for UPS batteries. Gartner Inc. believes India's IT end-user spending is expected to grow at a CAGR of 14.8% (2007-2012) generating \$110 billion in business potential in 2012.

Other sectors

The other key industrial battery sectors for ARBL include the railway sector and the power sector and the situation and the likely outcome in both those sectors point to a rather healthy future for battery manufacturers. Under the eleventh plan, the government is planning to invest Rs.2000 billion to expand pan-India railway connectivity and modernize its facilities. Some of the measures include acquisition of 18000 new wagons, introduction of 101 suburban services in Mumbai area, introduction of 54 new train services, 28 passenger train services and the setting up of a new

coach factory at Rae Bareli with an annual capacity of 1000 coaches.

In the power sector as well, things are looking up due to government initiatives. Under the Eleventh Plan (2007-2012) the government has revised the incremental power capacity target from 78577 MW to 92700 MW with the objective of raising per capita consumption to 1000 kwh by 2012 and a planned 100,000 MW of fresh capacity for the twelfth plan. There was also an increased budgetary allocation for the Revised Accelerated Power Development and Reform Programme (RAPDRP) from Rs.2230 crore in FY10 to Rs.5130 crore in FY11. Unremitting power deficits are a constant feature in the Indian subcontinent (particularly during the summer months which are just around the corner) necessitating the need for battery backup.

OUTLOOK AND SCOPE

ARBL is one of the fastest growing lead acid battery manufacturers in the country and is also one of the biggest players, with a very strong brand image. Despite those feats, there is much to be done. The Indian lead acid battery market is still extremely fragmented (particularly the automobile battery segment), there is a huge prevalence of unorganized and small-scale players, coupled with cheap imports from neighbouring countries and the industry leader-Exide still continues to dominate market share. Considering all these factors, there still is a lot of work to be done for ARBL as it seeks to mould things in its favour and begin its next leg of growth.

It must also be noted that ARBL provides batteries to some of the fastest growing sectors such as automobiles, IT and UPS and power. The telecom sector is another key area for ARBL, but it has been a while since this segment has set the world alight. Nevertheless, in

OUTLOOK AND SCOPE

- ARBL has the potential to grow and scale up, in a market that is extremely fragmented with a noteworthy unorganized segment that can be tapped into and where brand loyalty can still be strengthened by the big players.
- After already having increased its large industry battery capacity in previous years the capex focus in the near future is on the four wheeler and two wheeler battery capacity.
- In the current calendar year, ARBL will complete two phases of expansion. In the first phase it will increase its four wheeler capacity by 23% from 4.1 million units to 5.05 million units and increase its two wheeler capacity by 100% from 1.8 million units to 3.6 million units. In the second phase the four wheeler battery capacity and two wheeler battery capacity will be further increased to 6 million units and 5 million units respectively.
- The company is also on the lookout for setting up a new manufacturing capacity in North India.
- Some of the other initiatives that ARBL intends to undertake include investment in low-cost automation, aggressive cost management strategies, improve reuse and recycling methods, consolidate market share in Indian railways battery segment, improve reach and brand visibility and strengthen presence in foreign territory particularly the Indian Ocean rim geography.
- Some of the potential products in the anvil include LM tubular batteries for motive power application, AGM motor cycle batteries, and automotive batteries for stop-start vehicle application.

keeping with the growth seen in its focus verticals, ARBL as well, is moving in tandem. It is evident that capacity expansions will be the 'name of the game' for ARBL over the next two years as it seeks to service its high growth sectors. In fact that seems to be the dominant theme in the management outlook notes.

In FY09, the focus on capacity expansion went towards the industrial battery segment, as the company increased its large VRLA (Valve Regulated Lead Acid) capacity (used to manufacture large industrial batteries used by telecom towers, power units, etc.) by 100% from 450 million units to 900 million units. Later on, in FY10, it increased its medium VRLA capacity (capacity used to manufacture both industrial batteries used for UPS etc and two-wheeler battery capacities) by 50% from 1.2 million units to 1.8 million units. Considering the robust state of the automobile sector, improving UPS sales and the rather tepid growth seen in the telecom segment (which incidentally is the biggest focus segment for ARBL's industrial batteries contributing around 45-50% of ARBL's industrial battery revenue and around 20% of the overall sales volume), has consequently led the management of ARBL to direct the capex plans for the coming years towards the automobile segment and the medium VRLA/two wheeler battery segment. Before the end of the current fiscal the company will finish the expansion of its automobile battery segment from the present 4.1 million capacity to 5.05 million units at a cost of Rs. 22 crore. That will be followed by a Rs. 35 crore outlay on the 100% expansion of its two wheeler battery plant from the current 1.8 million units to 3.6 million units. In the second phase of its expansion plans, due to be carried out in August-

September, ARBL will be spending close to Rs. 47 crore to further increase the four wheeler battery capacity from 5.05 million units to 6 million units and the two wheeler capacity from 3.6 million units to 5 million units. In addition to that the company will also be spending close to Rs.23 crore on IT and other capex.

ARBL's need to embark on this capex phase is not just tied down to the fact that it wants to service its high growth focus vertical but also, and perhaps more crucially, it is down to the fact that capacity constraints could soon crop up. In fact in the December quarter, the company's automobile battery division was functioning at 90% of its current capacity. The overall existing utilization currently is around 80% and the management believes that in another 1-2 years they will be functioning at full capacity. Currently, all of ARBL's existing manufacturing (along with its planned expansions) take place at an integrated facility in Tirupati. To deal with the likely full capacity utilization that is likely to accrue in around 2 years time, the management has stated that they are looking to set up new units in North India, preferably in states such as Rajasthan, Uttarakhand and Harayana. This is a welcome measure and not only will it ease the likely capacity constraints of the company in future but also give it a strong geographical exposure in the North Indian markets.

In addition to large scale capacity additions some of the other initiatives that the company intends to take include investing in low-cost automation, improve the reuse and recycling methods in the enhancing operational efficiencies, implementing aggressive cost management strategies, consolidate market share in train lighting applications for Indian

Railways, explore opportunities to establish a presence in other industrial battery user segment, extending the reach and improving brand visibility and creating a road map for reaching out to focused markets in the Indian Ocean rim geography.

In the third quarter of the current fiscal, ARBL launched a specialized storage battery for the Indian telecom industry called Amaron Volt. This 2V high integrity battery is expected to be extremely beneficial for the telcos, particularly as it is designed to function in the era of a 3G&BWA enabled data driven market and mobile internet, which seemingly appear to be the dominant themes in the Indian telecom market for the next 3-4 years atleast. Some of the advantages of this battery include robustness, enhances life performance even in partial state of charge conditions, high life in remote locations, leak proof joints and zero maintenance operation and best in class back up power offering substantially higher savings from operational expenses. Besides this battery is extremely conducive for rapid network deployment and telecom infrastructure, even in the remotest regions of India. While the Amaron Volt has all the makings of being a blockbuster product, it remains to be seen if it will catch the fancy of the telecom operations, particularly during a time period when things are quite negative for the telecom sector. In fact this is something ARBL will be wary off, and to be fair to the company, they have actually reduced their dependence on the telecom sector (reduced telecom sales volumes from 40% in the previous years to 20% at the end of December 2010), while strengthening their UPS battery volumes. But despite the drop in telecom battery sales as a % of total sales (yoy) the management has reiterated that they expect things to turn around in the future

and have also stated that they will continue to remain an aggressive player in the same. Going forward it seems apparent that pressures will be continued to be seen in the telecom sector atleast for the next two quarters so one can perhaps expect a revival only in the 2nd half of FY12.

Some of the other new products from ARBL that are in the anvil and could come to fruition are LM tubular batteries for motive power applications, motor cycle batteries (AGM version) for original equipment application, automotive batteries for stop-start vehicle application and AGM battery technology for automotive application.

AMARON VOLT

- Amaron Volt is the new industrial battery product introduced by ARBL in the current fiscal designed particularly for the telecom industry.
- This product is a result of over 3 years of Research and Development work by ARBL.
- This 2V high integrity telecom battery is most conducive in the era of a 3G&BWA enabled data driven market and is suitable for functioning even in the most remotest regions in India.
- The advantages of this battery include robustness, enhanced life performance even during partial state of charge conditions, high life in remote locations, leak proof joints and zero maintenance operation, best in class back up power and higher savings from operational expenses.

FINANCIALS AND VALUATIONS

HISTORICAL FINANCIALS

ARBL's high growth achievements are very well represented by its historical income statements, with fantastic figures being posted on the top line, the operating profit levels and the bottom line. From FY07- FY10, the sales have grown from Rs. 596 crores to Rs. 1467 crores at a very impressive 35%. However if one were to actually dissect those figures even further one would discover that a bulk of that growth was actually seen in the initial years (FY08) with sales growth tapering off on a yoy basis ever since. That however is only to be accepted as the economic downturn stunted the robust sales growth seen during the previous years. Sales from FY07 grew by 82% from Rs. 596 crores to Rs. 1084 crores at the end of FY08, while the sales from FY08 grew by 22% to Rs. 1319 crores at the end of FY09 before the sales growth rate fell even lower to 11.2% yoy (the

recessionary period) at the end of FY10, reaching Rs. 1467 crores.

HISTORICAL FINANCIALS

- From FY07- FY10, ARBL's sales have grown from Rs.596 crores to Rs.1467 crores at a CAGR of 35%.
- Most of the growth was seen in the initial period with the FY08 (yoy) sales growth rate coming in at a whopping 82%.
- Until the current fiscal ARBL has always been impressive at the operating profit level. Operating profit (yoy) growth rates for FY08, FY09 and FY10 have been 107%, 15% and 40.5% respectively.
- In the last fiscal EBITDA margins shot up by 410 basis points from 15.6% to 19.7% while NET PROFIT margins shot up by 520 basis points from 6.1% to 11.3%.
- ARBL is very efficient with its inventory and has a much better inventory turnover ratio than industry leader- Exide. ARBL's average 4 year inventory turnover ratio stands at 9.2 relative to Exide's 7.2.
- Net profits from FY07-FY10 have grown from Rs.47 crores to Rs.167 crores at a CAGR of 52%.
- ARBL's debt equity ratio has never exceeded 0.81
- In the last 5 years ARBL's dividend payout ratio has never exceeded 15%. Last year's dividend payout ratio was 14.83%.

While there has been a declining trend in the sales growth rate on a yoy basis, it is at the operating profit level where one can really gauge the strength of ARBL's improving operating efficiencies. The operating profits surged by 107% in FY08 (but this was mainly on account of a spectacular rise in sales volumes in that year), before growing by 15% in FY09. In FY10, one got a sense of how effective the company was with its cost management and the like, as despite the sales growth levels (11%) not quite living upto the previous years' figures, operating profits grew by an impressive (40.5%). Material consumption as a % of net sales improved from 66.19% in FY09 to 60.21% in FY10 abetted by superior operational efficiency and lower lead base for FY10 relative to the previous years. This consequently also saw the EBITDA margins shoot up by 410 basis points from 15.6% in FY09 to 19.7% in FY10. It is well documented that Exide Industries is ARBL's biggest listed competitor and is infact also considered to be the industry leader. One area in where ARBL scores over Exide (and

this is particularly relevant with regard to their operating efficiency), is the inventory turnover

ratio- an indicator of how efficiently ARBL converts its stock to sales. ARBL's inventory turnover in FY10 stood at 8.9 times and its four year average stood at 9.2 times, while Exide's inventory turnover for FY10 stood at 7.3 times, with its four year average coming in at 7.2 times.

Interest payments have not caused a strain on the financials, and have in fact ranged between .05% to .12% of net sales for the last four years leading to FY10. This is only to be expected, considering the company's relatively moderate debt levels. In the last 10 years the debt equity ratio has never exceeded 0.81. At the end of the last fiscal, the debt equity ratio stood at 0.39. This is quite commendable as the ARBL management has been quite prudent in funding their expansion plans, using a combination of both internal accruals and debt, rather than a large portion of debt. Depreciation as well, has been fairly consistent over the years, hovering between 2.3% of sales to 2.9% of sales for the last four years. The tax rates as well have been fairly stable over the last few years, ranging between 33-35%. All in all the net profits of the company have grown by 52% from Rs.47 crores at the end of FY07 to Rs.167 crores at the end of FY10. As with the EBITDA margins, the net profit margins as well, soared at the end of FY10 jumping by 520 basis points from 6.1% in the previous year to 11.3%.

In the last five years ARBL has maintained a very consistent dividend payout strategy of not distributing more than 15% of its annual profits. In the last fiscal, the company distributed 14.83% of its net profits as dividend.

FINANCIAL OUTLOOK

While ARBL's historical financials are indeed very good

Unfortunately the same can't be said of the financial outlook (though FY12 is expected to benefit from the low base effect and much better outlook). This has only been reinforced even more by the rather disappointing performance in the year so far. That being said, the top line growth has still continued to look quite

encouraging, with the exception of Q2 when sales only rose in single digits yoy (8.6%).

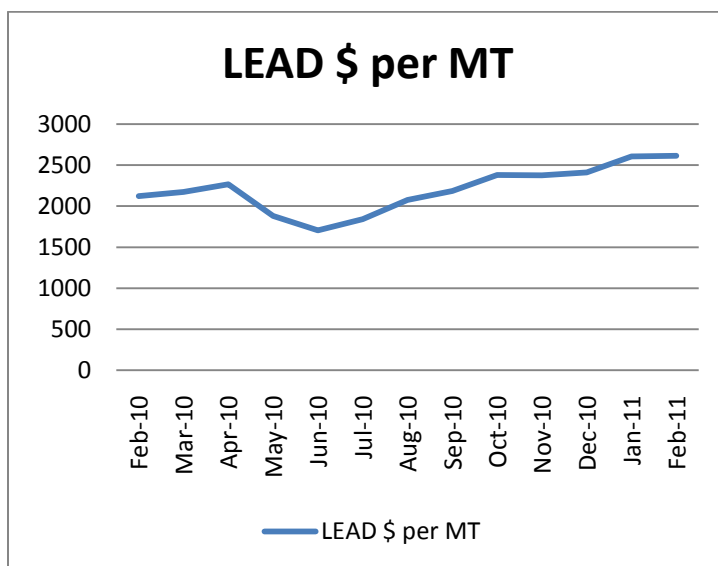
It is on the operating profit level and the net profit level, where the company has taken a real hit.

In FY11 q1 one saw a meteoric rise in the sales, as it grew by 45.7% yoy, but that figure has been

FINANCIAL OUTLOOK

- Disappointing FY11 results in the first 3 quarters coupled with yet another likely disappointing quarter (Q4) will dampen the overall two year outlook.
- Downbeat sentiment in the telecom sector, tightening interest rate cycle (affecting OEM automobile battery sales) and high cost of lead prices will see a disappointing Q4.
- Lead prices are a serious concern. In FY10 it averaged around \$1600-1700 per MT, but in the current year it has been well above the \$2100 per MT mark and the Q4 realization will in all probability average \$2600-2700 per MT.
- Raw material as a % of net sales which was 62.3% in FY10 is expected to go up to 66.7% in FY11E but drop to 65.5% in FY12E.
- Depreciation is expected to grow by 40% yoy in FY12.
- PAT is expected to drop from Rs. 167 crores in FY10 to Rs.137 crores in FY11E but increase once again in FY12E by 25% to reach Rs. 172 crores.
- PAT margins are expected to be 7.8% in FY11E and 8% in FY12E.

stumped by an even superior yoy rise of 64% in the total operating expenditure. The chief culprit was the cost of raw materials, which grew by an even bigger 73%. This has consequently resulted in a drop in both the operating profits and net profits (even though interest payments and depreciation haven't been a concern). In the ensuing quarters, top line growth hasn't been as robust as Q1 and the company has also been hammered by rising operating expenditures.



Source: LME

As one can see from the lead price graph, prices have indeed been at quite elevated levels for the fiscal year so far. The raw material effect was most felt in Q3, with the cost of raw materials as a % of net sales figure rising from 62.4% in Q2 to 70.2% in Q3. Lead prices averaged around \$1700 per metric tonne in FY10, but in the current fiscal year so far, lead prices have averaged \$2191 per metric tonne. Coming back to the ordinary top line growth seen in Q2 and Q3, this is mainly on account of severe pricing and volume pressures seen in the telecom segment. The telecom segment contributes around

45-50% of the total industrial battery revenue and around 20% of ARBL's overall revenue.

All in all, the nine month figures of ARBL in the current fiscal don't make for pleasant reading and it is all but certain that the annual net profits in the current year will be lower than that seen in the previous year. In the nine months of FY11 so far, the top line has grown by 22% from Rs. 1033 crores to Rs. 1262 crores, while the bottom line has fallen by 18% from Rs. 130 crores to Rs.107 crores.

The downbeat sentiment in the telecom sector, tightening interest rate cycle (affecting OEM automobile battery sales), and high cost of lead prices will see Q4 earnings of FY11 put on a disappointing show. We expect the telecom sector to be under pressure for atleast another two quarters. What's worrying is the ongoing ruling by the TRAI that certain prominent telecom operations will have to pay further spectrum charge for the previously acquired 2G. Even though the ARBL management believes that the telecom sector outlook will turn in its favour soon with 3G/BWA revenues kicking in and mobile number portability (MNP), we believe that the telecom sector could perhaps see a revival only in the 2nd half of FY12. We welcome the ARBL management's decision to devote more attention to the UPS sales and we believe that segment can mitigate the negative effect of the telecom sector to a certain extent. The automobile battery segment continues to be robust and considering the fact that ARBL derives 65% of its automobile battery revenue from the replacement market, one would imagine that they might not be as badly affected as a company that derives a greater proportion from the OEM market. Our concern with the OEM market in the near term

is solely down to the tightening interest rate regime employed by the RBI which is bound to affect automobile sales. Nevertheless overall sales are expected to be robust. Sales for FY11 is expected to grow by 19.4% yoy in FY11E and 22% in FY12E.

Lead prices are expected to cause a strain and don't show any signs of dropping. The ARBL management has stated that they expect lead prices for Q4 to average around \$2600-2700 per tonne for Q4. We believe lead prices might drop marginally as FY12 progresses and compared to FY11 where raw materials are expected to finish at 66.7% of net sales, it will drop to 65.5% in FY12. It must be noted that in FY10, that figure was 62.3% so it clearly tells us how high that item as jumped. With regard to the other operating expenditure items, we don't expect a massive jump in any of the other items and they are likely to grow at rates relative to their historical averages.

Capacity additions at ARBL's four wheeler battery plant and its two wheeler battery plant are due to play out in the coming years and this will see an expansion in the depreciation component. Depreciation which only grew by around 1.1% in FY11 will grow by a much superior 40% in FY12. Since the company generally adopts a judicious mix of internal accruals and debt while funding projects, one is not expecting the debt component and consequently the interest percentage to shoot up by huge margins. Tax rates are expected to be at historical levels of 33%. All in all we are forecasting the topline to grow by 21% CAGR during FY10-FY12 from Rs. 1467 crores to Rs. 2137 crores and the bottom line to grow by 1.4% for the same time period from Rs.167 crores to Rs. 172 crores. The marginal growth seen is mainly due to the

disappointing bottom line performance in FY11. FY12 over FY11 we expect the PAT to grow by 25% from Rs. 137 crores to Rs. 171 crores. PAT margins are expected to be 7.8% in FY11 and 8% in FY12.

The ARBL stock is currently trading at 10.2 times its FY11E earnings and 8.19 times its FY12E earnings.



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RISKS

Lead which accounts for 75% of ARBL's raw materials component, has caused a severe strain on the otherwise decent financials of ARBL. Lead prices have shown significant volatility in the current fiscal and for a large part of the year have been on an upward trajectory. This has consequently compressed operating profit margins (EBITDA margins for the three completed quarters in the current year have averaged only 14.6% relative to last year's figure of 22%). Lead prices which averaged around \$1700 per metric tonne in the previous fiscal has averaged around \$2190 per metric tonne in the year so far. Things don't look like dissipating and the ARBL management actually believes that in Q4 lead prices could average \$2600-2700 for the entire quarter. That seems more than a realistic possibility as from the start of the calendar year until 9th of February, lead prices have averaged \$2712 per metric tonne. ARBL's biggest competitor- Exide Industries is in a far better position to weather the storm as they possess captive lead smelters (the company acquired two lead smelter companies in FY08 and FY09) to recycle used lead and thereby reduce the dependence on market driven lead prices. ARBL has no such captive lead

smelters, putting it at the mercy of the market driven lead prices.

While lead prices seek to put a spanner in the works of the operating profit growth, the top line too is far from

assured with the telecom industrial battery segment playing spoilsport. ARBL's batteries are used to power telecom towers and due to the telecom boom seen prior to FY09 a number of towers were set up necessitating the need for batteries. Since then, intensified competition and falling revenues have resulted in the telecom sector falling into the doldrums. The biggest solace now is that telecom tower batteries are required to be replaced every three to four years so in all probability one can expect replacement demand for telecom batteries to pick up. The woeful performance of the telecom sector has been one of the reasons, why ARBL's top line growth in the current fiscal hasn't been as robust as it would like it to be. However ARBL has sought to mitigate this problem by reducing its dependence on telecom batteries and strengthening the impetus in its UPS sales, which is seeing a lot of traction. Telecom batteries which used to account for 40% of ARBL's sales volumes has dropped

to around 20% at the end of Q3 FY11. It must be noted that Exide has a much lower exposure to the telecom segment.

OEM automobile batteries could also see some strain due to the tightening interest rate cycle adopted by the

RISKS

- Lead prices which account for 75% of the raw material cost are a huge worry for ARBL. In the current year so far it has averaged more than \$2100 per MT mark. In Q4 it is expected to average \$2600-2700. Unlike the market leader- Exide, ARBL does not have any captive sources of lead recycling. Margins are consequently likely to be under pressure.
- The telecom sector which contributes around 20% of ARBL's sales volumes (FY11Q3) is undergoing a lot of pressure and this has consequently resulted in pricing and volume pressures for ARBL.
- The OEM automobile sales of ARBL could come under strain as automobile sales are expected to grow at a lower rate in the current fiscal due to hardening of interest rates.
- FY11E EPS is all but certain to be lower than both the trailing EPS and last year's annual EPS.

RBI. However that is not such a massive concern as only 35% of ARBL's automobile battery sales come from OEM sales with the rest coming from the replacement market.

The FY11E forecasted eps is all but certain to be lower than both last year's annual eps of 19.5 and the trailing eps of 16.82 and that essentially means a sell call on the ARBL share. However considering that the markets have already discounted FY11 results and are now looking at FY12 earnings (which are expected to be much superior) we are initiating coverage into the stock.

INVESTMENT RATIONALE

While this might not seem like the most alluring line to begin an investment rationale section, it must be said that ARBL will, in all probability, finish FY11 on a low, as net profits are likely to decline and margins are bound to compress. This is mainly due to dual pressures seen at the topline level and the operating profits level. The disappointing scenario in the telecom segment (which accounts for 20% of ARBL's sales volumes and 45-50% of the industrial battery revenue) and intermittently high lead prices are likely to compress margins and result in a drop in net profits. However considering that

the negatives have already been priced into the stock price, we believe it would be more appropriate to look

at ARBL from the FY12 perspective where things are likely to pick up. We are expecting the company's sales and PAT to grow by 22% and 25% in FY12.

It seems apparent that ARBL is devoting greater attention to its automobile battery segment in the near term, particularly while gauging its capex plans. This seems all the more appropriate as in FY09 the company had already expanded its large VRLA capacity (mainly used to service large scale industrial battery applications such as telecom, power, etc.) and with big industrial battery revenue contributor- telecom acting as a downer, the need for further expansion in that segment in the near term may not be felt. In the early parts of calendar year 2011, the company will complete the 100% capacity expansion of its two-wheeler battery capacity from 1.8 million units to 3.6 million units coupled with a 23% expansion of its four wheeler battery capacity from 4.1 million units to 5.05 million units. In the second half of the year ARBL plans to embark on its second wave of expansion, by further increasing the four-wheeler battery capacity from 5.05 million units to 6 million units and its two-wheeler battery capacity from 3.6 million units to

5 million units. These capacity additions will aid ARBL in boosting its sales volumes as the company's automobile

INVESTMENT RATIONALE

- FY11 hasn't been a great year for ARBL with a drop in net profits. However we believe most of the negatives have already been priced into the stock and investors can look forward to a better year in FY12 where sales and PAT are expected to grow by 22% and 25% respectively.
- Massive capacity additions particularly in the automobile segment are likely to boost sales volumes in the next fiscal.
- ARBL also has a very strong pan-India distribution network of 18000 retailers and 200 franchisees across 2300 and is now looking for further geographical diversification by setting up a new plant in North India.
- We like the fact that 65% of ARBL's automobile sales come from the secondary market which is relatively insulated from a high interest rate regime.
- ARBL can leverage on the strength of its global JV partner- Johnson Controls Inc. particularly in the field of technology. The pioneering VRLA technology that was introduced by ARBL in India fructified due to this association.
- Valuations are currently ideal as the stock is trading at a rate lower than the industry average and its own 5 year average. We also believe that the wide spread in the valuation gap between Exide (industry leader) and ARBL will decline.

battery unit was functioning at close to 90% of its capacity in the December quarter. Automobile battery demand is likely to be strong, particularly in the high margin replacement market which accounts for 65% of ARBL's automobile sales and have great prospects, as automobile batteries need to be replaced every three years. We like the fact that the company derives a greater proportion of its automobile battery revenue from this segment, not just for the margin factor but also due to the fact that demand for these products are less immune to hardening interest rate cycles as opposed to OEM sales. We expect the automobile battery division to make a greater contribution in the revenue mix in the following year relative to the industrial battery division.

ARBL already has a very strong pan-India distribution network of 18000 retailers and 200 franchisees across 2300 towns but now the company wants to add to its geographical diversification by setting up a manufacturing plant in North India, preferably in states such as Rajasthan, Uttarakhand and Harayana. We welcome this development as previously all the manufacturing used to take place at an integrated plant in Tirupati (Andhra Pradesh).

The likely revival in FY12 coupled with relatively cheaper valuations compared to both the industry average and industry leader- Exide provide credence to make an investment bet on ARBL. Currently the average industrial PE is 14.6, while Exide trades at around 19 times its trailing earnings. ARBL on the other hand is trading at a much lower PE valuation of around 9.5 times to 9.8 times its trailing earnings. Even though the spread between the valuation of ARBL and Exide is comparatively large and with good reason (Exide is the leader with dominant market share, larger scale of operations, better pricing power, captive source of lead recycling, less exposure to telecom vertical) we believe that with time, that gap will reduce as ARBL scales up. ARBL was known for its high growth nature, prior to the FY11 period. We expect the company to fall back into the high growth trajectory from FY12 onwards. We also

feel that by the latter half of FY12, the situation in the telecom sector will improve as potential M&As, consolidation and tariff stability takes place, 3G/BWA services start making great contributions to revenue, rural expansion of networks and 40% tele-density by 2014. Besides batteries used to power telecom towers will need to be replaced after 2-3 years. We also feel that ARBL can leverage on the strengths of its global jv partner- Johnson Controls Inc. (JCI) particularly in the field of technology (incidentally ARBL was able to tap into JCI's R&D and become the first lead acid battery company to introduce VRLA (Valve Regulated Lead Acid) technology in India) , and this will prove to be a crucial asset, as it seeks to close down the gap on Exide and starve off the threats posed by the unorganized segment that tends to offer cheap product but lack the brand equity and quality.

Aggressive risk investors can consider investing in the stock for a time period of 1 year with a price target of Rs. 197.

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FINANCIAL HIGHLIGHTS-STANDALONE- [INR-Crore]

DESCRIPTION	FY10	FY09	FY08	FY07	FY06	FY05	FY04	FY03
Inc / Exp Performance								
Gross Sales	1691.08	1579.41	1349.99	745.10	445.83	268.54	199.92	198.73
Total Income	1480.42	1319.46	1105.89	604.15	370.51	242.90	180.03	175.46
Total Expenditure	1174.92	1142.15	921.08	511.22	315.63	215.55	166.40	151.65
PBIDT	305.50	177.31	184.81	92.93	54.88	27.36	13.63	23.81
PBT	254.63	122.66	145.94	71.20	37.35	13.58	1.15	11.73
PAT	167.03	80.48	94.36	47.04	23.85	8.69	1.39	7.40
Sources of Funds								
Equity Paid Up	17.08	17.08	11.39	11.39	11.39	11.39	11.39	11.39
Reserves and Surplus	526.56	388.51	321.71	232.28	189.90	169.30	163.20	163.74
Net Worth	543.64	405.59	333.10	243.67	201.29	180.68	174.59	164.91
Total Debt	91.19	285.87	316.26	140.71	40.54	23.31	14.88	9.74
Capital Employed	634.83	691.46	649.36	384.37	241.83	203.99	189.47	174.65
Application of Funds								
Gross Block	491.11	427.09	310.58	257.78	190.71	167.23	158.35	151.37
Investments	16.08	47.10	16.20	16.19	32.01	23.56	20.88	13.16
Cash and Bank balance	62.47	70.29	51.15	25.60	20.52	16.91	15.23	15.30
Net Current Assets	311.98	341.68	395.52	218.79	112.64	97.37	82.95	70.33
Total Assets	634.83	691.46	649.36	384.37	241.83	203.99	189.47	184.87
Cash Flow								
Cash Flow from Operations	214.25	236.36	-29.65	-37.57	26.64	6.68	6.43	22.66
Cash Flow from Investing activities	-17.68	-132.15	-115.70	-54.28	-34.99	-11.53	-9.72	-9.59
Cash Flow from Finance activities	-204.39	-85.07	170.89	96.92	11.96	6.53	3.22	-7.62
Free Cash flow	167.47	-83.61	223.65	106.44	29.26	30.20	18.47	15.61
Key Ratios								
Debt to Equity(x)	0.40	0.82	0.79	0.41	0.17	0.11	0.07	0.07
Current Ratio(x)	3.81	4.62	5.82	4.76	3.38	4.67	7.33	5.53
ROCE(%)	39.59	21.29	31.03	24.25	18.02	6.98	0.73	6.99
RONW(%)	35.19	21.79	32.72	21.15	12.49	4.89	0.82	4.57
PBIDTM(%)	18.07	11.23	13.69	12.47	12.31	10.19	6.82	11.98
PATM(%)	9.88	5.10	6.99	6.31	5.35	3.24	0.70	3.72
Market Cues								
Market Capitalization	1397.67	315.58	1099.46	387.00	266.81	105.51	64.74	54.66
Adjusted EPS	19.56	9.42	11.05	5.51	2.79	1.02	0.16	0.87
Price / Book Value(x)	2.57	0.78	3.30	1.59	1.33	0.58	0.37	0.33
Equity Dividend %	145.00	40.00	35.00	35.00	25.00	20.00	15.00	15.00
Enterprise Value	1426.40	531.16	1364.58	502.11	286.83	111.90	64.39	49.09
Dividend Yield %	1.77	2.17	0.36	1.03	1.07	2.16	2.64	3.13

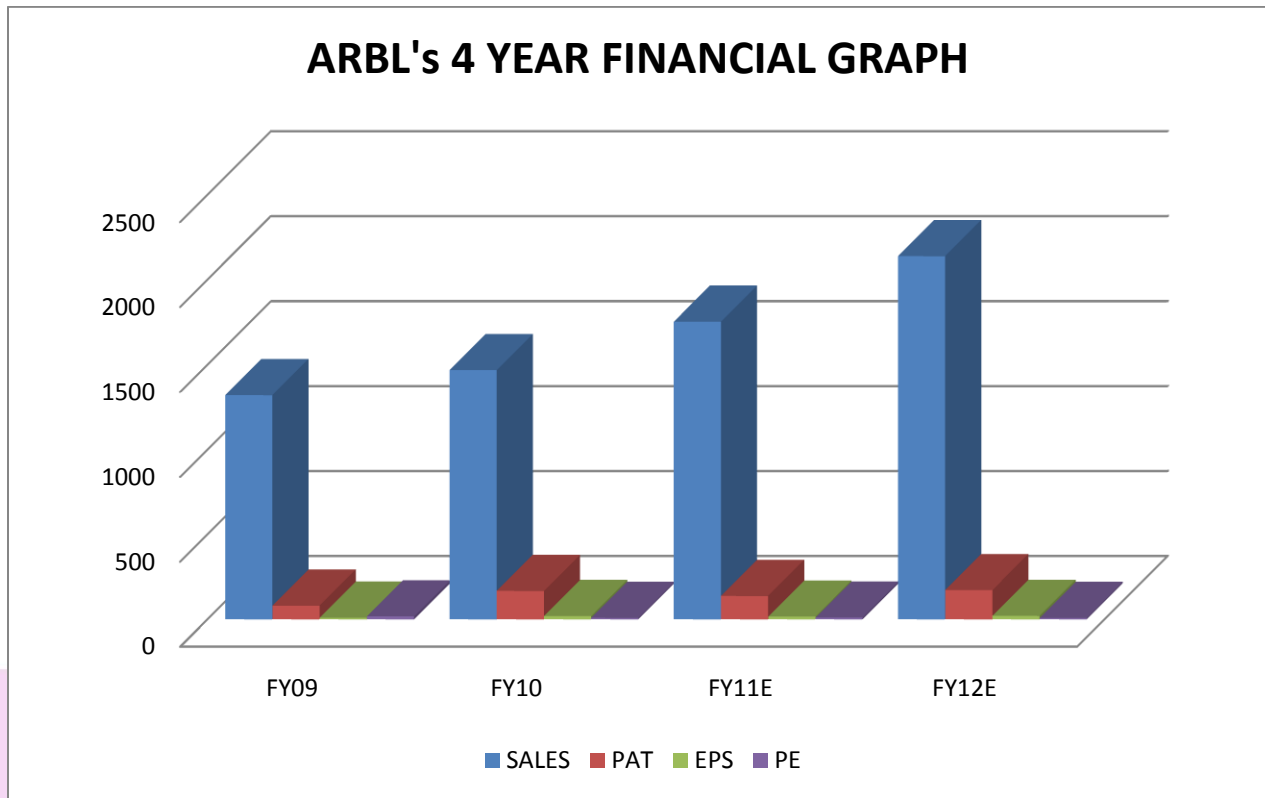
Source: Ace Equity

FINANCIAL RATIOS- STANDALONE

DESCRIPTION	FY10	FY09	FY08	FY07	FY06	FY05	FY04	FY03
Operational & Financial Ratios								
Earnings Per Share (Rs)	19.56	9.42	16.57	41.31	20.94	7.63	1.22	6.50
Adjusted EPS (Rs.)	19.56	9.42	11.05	5.51	2.79	1.02	0.16	0.87
CEPS(Rs)	24.59	13.47	13.91	7.50	4.51	2.61	1.60	2.24
DPS(Rs)	2.90	0.80	0.70	3.50	2.50	2.00	1.50	1.50
Adj DPS(Rs)	2.90	0.80	0.70	0.70	0.50	0.40	0.30	0.30
Book Value (Rs)	63.65	47.49	58.50	213.98	176.76	158.67	153.32	144.82
Adjusted Book Value (Rs)	63.65	47.49	39.00	28.53	23.57	21.16	20.44	19.31
Tax Rate(%)	34.40	34.39	35.34	33.93	36.15	36.01	-20.65	36.93
Dividend Pay Out Ratio(%)	14.83	8.49	4.22	8.47	11.94	26.21	122.91	23.08
Performance Ratios								
Asset Turnover(x)	2.55	2.36	2.61	2.38	2.00	1.37	1.07	1.08
Inventory Turnover(x)	8.94	8.89	9.42	9.98	8.80	7.18	6.65	6.66
Debtors Turnover(x)	7.51	7.27	7.25	6.43	5.92	4.79	4.31	4.36
Sales/Fixed Asset(x)	3.68	4.28	4.75	3.32	2.49	1.65	1.29	1.36
Working Capital/Sales(x)	5.42	4.62	3.41	3.41	3.96	2.76	2.41	2.83
Efficiency Ratios								
Fixed Capital/Sales(x)	0.27	0.23	0.21	0.30	0.40	0.61	0.77	0.74
Receivable days	48.58	50.19	50.35	56.73	61.66	76.21	84.66	83.74
Inventory Days	40.84	41.04	38.73	36.58	41.46	50.85	54.90	54.77
Payable days	35.32	28.74	27.36	42.08	49.57	34.87	35.35	49.13
Growth Ratio								
Net Sales Growth(%)	11.59	21.39	81.75	63.63	54.20	33.95	1.97	5.27
Core EBITDA Growth(%)	72.29	-4.06	98.86	69.35	100.60	100.67	-42.75	-29.57
EBIT Growth(%)	83.92	-10.98	111.19	88.99	192.71	934.07	-89.04	-52.32
PAT Growth(%)	107.55	-14.71	100.59	97.28	174.41	525.29	-81.22	-59.39
EPS Growth(%)	107.55	-43.14	-59.88	97.28	174.41	525.29	-81.22	-59.39
Financial Stability Ratios								
Total Debt/Equity(x)	0.40	0.82	0.95	0.58	0.20	0.13	0.09	0.06
Current Ratio(x)	3.81	4.62	5.82	4.76	3.38	4.67	7.33	5.53
Quick Ratio(x)	2.50	3.21	3.93	3.51	2.54	3.40	5.44	4.20
Interest Cover(x)	33.16	7.10	11.12	16.04	14.19	94.76	7.57	32.06
Total Debt/Mcap(x)	0.07	0.91	0.43	2.73	1.14	1.66	1.72	1.34

Source: Ace Equity

FINANCIALS GRAPH AND PEER GROUP COMPARISON



Source: Multiple Sources

PEER GROUP COMPARISON (IN CRORES)									
Company Name	Year End	Net Sales	PBIDT	PAT	Adj. EPS(Rs)	PBIDTM%	PATM%	ROCE%	ROE%
Motherson Sumi Sys	201003	1704.87	358.13	178.47	4.76	19.59	9.76	28.62	32.45
Amara Raja	201003	1463.4	305.5	167.03	19.56	18.07	9.88	39.59	35.19
Amtek Auto	201006	1277.7	491.83	143.06	7.09	38.49	11.2	5.19	4.62
Bosch	200912	4809.53	1098.24	590.65	188.11	21.6	11.62	22.61	18.23
Exide Inds	201003	4420.73	990.32	580.88	5.81	20.53	12.04	53.12	41.35

Source: Ace Equity

ANALYST NOTES AND COMPANY NEWS

19/1/2011 – ARBL can be bought at the Rs. 160-165 levels with a target of Rs. 197.

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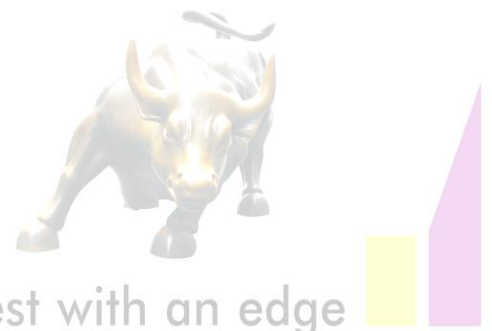
Amar Chandramohan
 Sr. Fundamental Analyst
 Email: amar.c@hedgeequities.com
 Ph: (0484) 3040400, 3040419

Krishnan Thampi K
 Head of Research and Strategies
 Email: krishnanthampi.k@hedgeequities.com

Muhammed Aslam E
 Jr. Fundamental Analyst
 Email: muhammedaslam.e@hedgeequities.com

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**HEDGE RESEARCH & STRATEGIES GROUP**

Head of Research: Krishnan Thampi K
 Sr. Fundamental Analyst: Amar Chandramohan
 Jr. Fundamental Analyst: Muhammed Aslam E
 Sr. Equity Technical Analyst: Anish Chandran C V
 Sr. Commodity & Equity Technical Analyst: Kesavamoorthy B
 Jr. Technical Analyst: James George
 Futures & Options Analyst: Yunus Ismail
 Access all our research reports online at www.HedgeEquities.com

DIRECT ALL RESEARCH QUERIES TO:

Research & Strategies Group
 Hedge Equities Ltd
 12 Floor, -Mini Muthoot Tech Towers
 Kaloor, Kochi- 682017, Kerala, India
 Phone: (0484) 3040400
 Email: research@HedgeEquities.com

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