

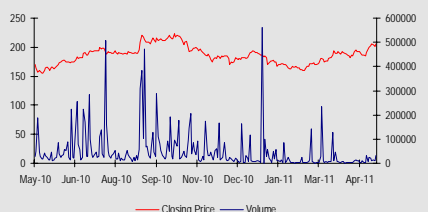
## Auto Ancillary

CMP **Rs.208**Target Price **Rs 230**

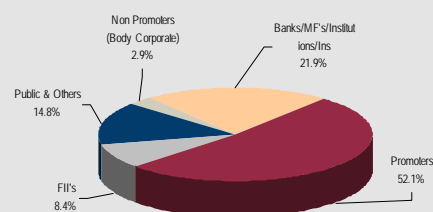
## Key Data

|                           |          |
|---------------------------|----------|
| Face value                | 2.0      |
| Market cap(Rs in mn)      | 17,763.2 |
| Total O/S shares mn       | 85.4     |
| Free Float                | 47.94%   |
| 52 week High/Low          | 228/144  |
| Avg. Monthly Volume (BSE) | 11582    |
| Avg Monthly volume (NSE)  | 77980    |
| BSE Code                  | 500008   |
| NSE Code                  | AMARJBAT |
| Bloomberg code            | AMRJ IN  |
| Beta                      | 0.45     |
| Date of Incorporation     | 1985     |
| Last Dividend Declared    | 130%     |
| Six month's return        | 16.10%   |
| Indices                   | BSE"B"   |
| FCCB's O/s                | N.A.     |
| Warrants O/s              | N.A.     |

## One Year Price Chart



Source: Capitaline

Share Holding Pattern 31<sup>st</sup>March 2011

Source: Company, KJMC Research

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## Amara Raja Batteries Ltd

## Accumulate

Amara Raja Batteries Ltd declared its Q4FY11 & FY11 results which remained above our estimates. Net sales for Q4FY11 reported a 16% growth on y-o-y basis at Rs 5,008.5 mn. Profits after tax reported a double digit growth of 12.1% on a y-o-y basis at Rs 411.3 mn. EBITDA margins for the quarter declined by 20 bps at 14.5% due to the rising prices of the key raw material ie lead and the intensified competition faced in its user segment ie after markets in the auto segment. PAT margins too declined by 30 bps to 8.2% from 8.5% in the corresponding quarter last year.

## Key Highlights

- ▶ **Q4FY11 performance remains above estimates:** Net sales for the quarter reported a decent 16% growth at Rs 5,008.5 mn which remained above estimates. However due to the increase in prices of lead, the raw material to sales ratio increased by 60 bps at 66.5%. This resulted in the EBITDA margins shrinking by 20 bps at 14.5%. Net profits after tax reported a growth of 12.1% at Rs 411.3 mn with a decline of 30 bps in PAT margins. Erosion in the margins due to the pricing pressure in the telecom sector was mitigated by way of increased volumes of UPS battery and effective cost control practices.
- ▶ **Stupendous volume growth in the UPS and two wheeler segment drives the growth during FY11:** In spite of the challenging environment in the telecom sector and tremendous pressure on the realization, ARBL has been able to gain the market leadership due to the preferred supplier status with all the major telecom players. It has also started increasing its presence into African markets by way of tying up with Bharti Africa to supply the batteries for their African Telecom network.

Strong demand for the UPS batteries and increasing applications in the newer areas such as renewable energy has resulted in increased volumes of UPS for FY11 and is also likely to drive the growth for FY12 and future years. It was able to gain market leadership through the launch of premium battery Amaron Volt, a premium battery for applications in telecom networks, renewable energy and power control business segment.

The two wheeler battery segment cloaked a 50% volume growth and has contributed substantially in the overall performance for FY11.

## Consolidated Financial Snapshot

Rs in mn

| Particulars      | FY09     | FY10     | FY11P    | FY12E    | FY13E    |
|------------------|----------|----------|----------|----------|----------|
| Net Sales        | 13,131.8 | 14,652.1 | 17,647.9 | 20,904.5 | 23,270.1 |
| growth %         | 21.2%    | 11.6%    | 20.4%    | 18.5%    | 11.3%    |
| EBITDA           | 1,673.9  | 2,873.3  | 2,582.5  | 3,123.7  | 3,564.9  |
| EBITDA margins % | 12.7%    | 19.6%    | 14.6%    | 14.9%    | 15.3%    |
| PAT              | 804.8    | 1,670.3  | 1,480.9  | 1,736.0  | 2,000.4  |
| PAT margins%     | 6.1%     | 11.4%    | 8.4%     | 8.3%     | 8.6%     |
| EPS              | 9.4      | 19.6     | 17.3     | 20.3     | 23.4     |
| P/E(x)           | 22.0     | 10.6     | 11.9     | 10.2     | 8.8      |
| EV/EBITDA        | 11.8     | 6.3      | 7.0      | 5.4      | 4.3      |
| ROE%             | 21.8%    | 35.2%    | 24.1%    | 22.9%    | 21.4%    |

Source: KJMC Research

**Capacity expansions to drive growth for FY12E:** The four wheeler battery segment has reported a 20% volume growth during FY11. Installed capacity for the two-wheeler/small VRLA battery has been doubled from 1.80 mn units to 3.6 mn units during FY11 in order to meet the increased demand. The capacities for two-wheeler as well as four-wheeler batteries will be further increased during FY12 which will help in targeting the demand in the export market as well as the after markets.

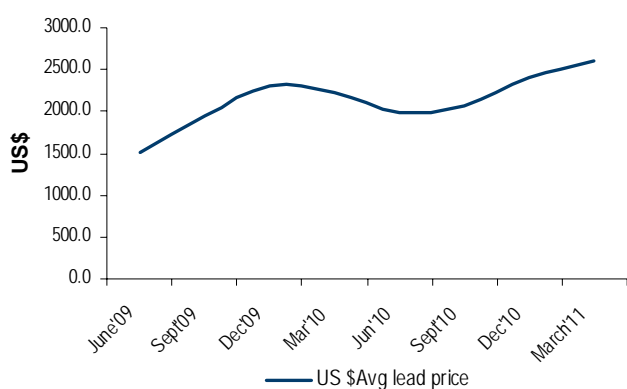
### Q4FY11 Result Update - Standalone

Rs in mn

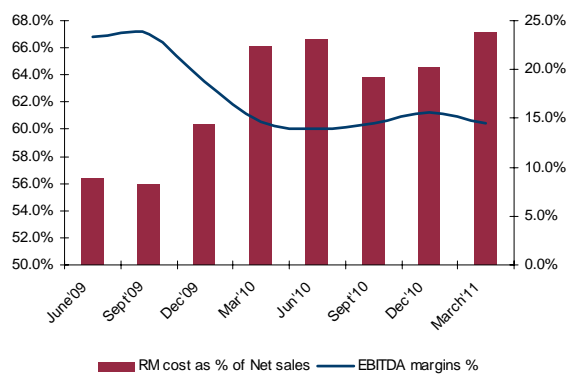
| Particulars                | Q4FY11       | Q4FY10       | VAR [%]         | FY11P         | FY10          | VAR [%]          |
|----------------------------|--------------|--------------|-----------------|---------------|---------------|------------------|
| Net Sales                  | 5008.5       | 4317.4       | 16.0%           | 17611.2       | 14644.8       | 20.3%            |
| Other Operating Income     | 14.8         | 8.2          | 81.0%           | 36.7          | 21.5          | 70.7%            |
| Total Income               | 5023.4       | 4325.6       | 16.1%           | 17647.9       | 14666.3       | 20.3%            |
| Raw Material Consumed      | 3329.1       | 2847.2       | 16.9%           | 11524.5       | 8761.0        | 31.5%            |
| Purchase of Finished Goods | 40.7         | 13.7         | 197.7%          | 74.1          | 35.3          | 109.8%           |
| Employee Expenses          | 180.3        | 163.4        | 10.4%           | 774.9         | 623.7         | 24.2%            |
| Other Expenses             | 744.1        | 667.3        | 11.5%           | 2691.9        | 2351.3        | 14.5%            |
| TOTAL EXPENDITURE          | 4294.2       | 3691.6       | 16.3%           | 15065.4       | 11771.4       | 14.5%            |
| <b>PBIDT</b>               | <b>729.2</b> | <b>634.0</b> | <b>15.0%</b>    | <b>2582.5</b> | <b>2894.9</b> | <b>-10.8%</b>    |
| <b>PBIDTM(%)</b>           | <b>14.5%</b> | <b>14.7%</b> | <b>- 20 bps</b> | <b>14.6%</b>  | <b>19.7%</b>  | <b>- 510 bps</b> |
| Other Income               | 13.5         | 6.0          | 124.0%          | 54.4          | 28.0          | 94.2%            |
| Interest                   | 3.1          | 5.8          | -46.1%          | 14.5          | 67.7          | -78.6%           |
| PBDT                       | 739.6        | 634.2        | 16.6%           | 2622.4        | 2855.2        | -8.2%            |
| <b>PBDTM(%)</b>            | <b>14.7%</b> | <b>14.7%</b> | <b>0 bps</b>    | <b>14.9%</b>  | <b>19.5%</b>  | <b>- 460 bps</b> |
| Depreciation               | 104.7        | 104.3        | 0.3%            | 417.1         | 429.4         | -2.9%            |
| Exceptional items          | 19.6         | -30.4        | -164.6%         | -4.8          | -120.6        | -96.0%           |
| PBT                        | 615.3        | 560.3        | 9.8%            | 2210.1        | 2546.4        | -13.2%           |
| Tax                        | 204.0        | 193.3        | 5.6%            | 729.2         | 876.0         | -16.8%           |
| Reported Profit After Tax  | 411.3        | 367.0        | 12.1%           | 1480.9        | 1670.4        | -11.3%           |
| <b>PATM(%)</b>             | <b>8.2%</b>  | <b>8.5%</b>  | <b>- 30 bps</b> | <b>8.4%</b>   | <b>11.4%</b>  | <b>- 300 bps</b> |
| EPS (Unit Curr.)           | 4.8          | 4.3          | 12.1%           | 17.3          | 19.6          | -11.3%           |
| Equity                     | 170.8        | 170.8        | 0.0%            | 170.8         | 170.8         | 0.0%             |
| Face Value                 | 2            | 2            |                 | 2             | 2             |                  |

Source: Company, KJMC Research

### US \$ Avg Lead price



### RM Cost as % of Net Sales



Source: Company, KJMC Research

### **Movement in International Lead prices**

The average international lead prices as on March'11 stood at US\$ 2,603.1 per tonne representing an increase of 16.5% on y-o-y basis and an 8.2% increase on q-o-q basis. For Q4FY11 the average lead prices stood at US\$ 2,573 a tonne as against US\$ 2,234 a tonne for Q4FY10.

### **Outlook & Valuation**

The slow down in the auto segment due to rising interest cost and fuel prices will impact the auto OEM's business of the company. However increased focus on exports market for the telecom sector and the after markets for auto industry in the domestic markets backed by the capacity expansion in the two & four wheeler battery segment will help in maintaining the growth momentum for FY12 and future years. Further telecom industry is likely to witness a turnaround with volume growth coming in from the global operations of domestic players as well as the replacement demand.

We remain positive on the growth in the major user industries of ARBL and hence foresee a reasonable and a healthy growth in the company's net sales and earnings at a CAGR of 16.6% and 19.8% respectively for FY11P – 13E.

At the CMP of Rs 208 the stock is trading at 10.2x & 8.8x its FY12E & FY13E earnings of Rs 20.3 & 23.4 respectively. We continue to maintain our target price of Rs 230 and downgrade our recommendation to "accumulate". The target price translates into a potential upside of 11% on the CMP.

|                          |                                 |                        |               |
|--------------------------|---------------------------------|------------------------|---------------|
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#### Recommendation Parameters

Expected returns in absolute terms over a one-year period

|                       |   |                                                  |
|-----------------------|---|--------------------------------------------------|
| <b>Buy</b>            | - | appreciate more than 20% over a 12- month period |
| <b>Accumulate</b>     | - | appreciate 10% to 20% over a 12- month period    |
| <b>Hold / Neutral</b> | - | appreciate up to 10% over a 12- month period     |
| <b>Reduce</b>         | - | depreciate up to 10% over a 12- month period     |
| <b>Sell</b>           | - | depreciate more than 10% over a 12- month period |

### KJMC Research Basket

| Products                                                | Contains                                                                                                                                                                     | Frequency    |
|---------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <b>(A) Fundamental Reports</b>                          |                                                                                                                                                                              |              |
| Company Reports                                         | Initiating Coverage on Company based on Fundamental Research                                                                                                                 | Time to Time |
| Company Updates                                         | Quarterly / Event Update on companies covered                                                                                                                                | Time to Time |
| Visit Note / Analyst Meet Note / Concall Update         | Reports containing management meet, analyst meet & concall update on companies                                                                                               | Time to Time |
| IPO Note                                                | Reports based on IPO Analyst Meet and Company Fundamentals                                                                                                                   | Time to Time |
| Event Report                                            | Reports based on special events such Budget, Monetary policy etc.                                                                                                            | Time to Time |
| Morning Market Compass                                  | Morning Market Compass containing information on Indian & Global Markets, Indices and key company events.                                                                    | Mon-Fri      |
| <b>(B) Alternative Research</b>                         |                                                                                                                                                                              |              |
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| Alternative Research Note                               | Investments based on Open Offer, Buy-Back, FPO Arbitrage, IPO/FPO leverage investments.                                                                                      | Time to Time |
| What's in & What's out                                  | List of companies, Purchase / Sold in particular month by different AMC's.                                                                                                   | Monthly      |
| <b>(C) Mutual Funds &amp; IPO's Research</b>            |                                                                                                                                                                              |              |
| Daily Performance Report for Liquid & Liquid Plus Funds | Report containing daily, weekly, monthly, half yearly & yearly performance of only Liquid & Liquid Plus plans along with ranking of each fund for Corporates & Institutions. | Mon-Fri      |
| Daily Performance Report for all Debt & Equity Funds    | Report containing daily, weekly, monthly, half yearly & yearly performance along with ranking of each fund.                                                                  | Mon-Fri      |
| Product Notes                                           | Brief Details about different products like Mutual fund, Fixed Deposits, Bonds, IPOs, Insurance & Home Loans.                                                                | Time to time |

Data Sources : Capitalline, Companies, Bloomberg, Various Websites & publication available on Public domain.

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