

Exide Industries

OUTPERFORM

Rating: ◀▶

Target price: ◀▶

EPS: ▲

2QFY11 Update

CMP

Rs. 167

Target

Rs. 189

New capacity to ensure favourable revenue mix henceforth

Revenue declined 2.2% qoq primarily driven by pass-through of reduction in lead cost (~11% fall in lead price between 4QFY11 and 1QFY11) across business segments except in auto replacement market. Also, the company's auto volumes were skewed towards OEMs (to maintain relationship) due to capacity constraints. EBITDA margin declined sequentially (~110bps) due to higher OEM sales which earns relatively lower margins than auto replacement business and undercutting in the telecom battery business (In 1HFY11, EIL was the L1 bidder at Rs. 6.9 per AH for Indus tower order).

We expect the proportion of two-wheeler replacement battery business to increase on the back of new capacity in Ahmednagar and four-wheeler batteries in Haldia and Shamnagar facility. Also, with 5% price increase in the auto replacement market from August 2010 (effective increase of 1.6% in 3QFY11 on a sequential basis) we expect the auto revenue mix to be favorably positioned (increasing proportion of replacement market) in the forthcoming quarters.

Balance sheet continues to be healthy with working capital cycle reduced to 53 days in 1HFY11 against 60 days in FY10 primarily due to reduction in inventory days to 86 as on 1HFY11 from 100 days as on FY10. Cash and bank balances increased to Rs768.8mn as on 1HFY11 to Rs. 28.8mn as on FY10.

Valuations: We expect consol EPS of Rs. 7.7 for FY11E and Rs. 9.1 for FY12E. The stock trades at 21.6x FY11E EPS and 18.3x FY12E EPS. We maintain an Outperform rating at an SOTP based target price of Rs. 189 .

Highlights of the quarter's performance

- 1) Recycled lead sourcing increased to 45% in 2QFY11 against 42% in 1QFY11
- 2) The company recorded an exceptional gain of Rs. 469mn on account of transfer of leasehold land
- 3) Other income tripled sequentially to Rs. 191mn on the back of higher dividend from surplus funds available
- 4) Effective tax rate was at 26% against 33% in 1QFY11 due to rise in dividend (non-taxable) from surplus funds (FY10 cash of Rs28.8mn increased to Rs. 768.8mn in 1HFY11), lower capital gain tax of ~23% on sale of land and higher R&D expenditure
- 5) Standalone capex of Rs. 4bn towards expansion of four-wheeler and two-wheeler batteries expected in FY11

Financial summary (Consolidated)

Year	Revenue (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	EV/EBITDA (x)
FY10	39,789	9,772	5,619	5.8	28.7	14.7
FY11E	47,109	10,562	6,570	7.7	21.6	13.5
FY12E	56,861	12,776	7,760	9.1	18.3	10.7

Date	Oct 14, 2010
Market data	
SENSEX	20688
NIFTY	6234
Bloomberg	EXID IN
Reuters code	EXID.BO
Market cap	Rs. 141.9bn
Shares o/s	850mn
52-week High-Low	Rs. 179.8 – 95.5
3m Avg. Daily Vol	Rs. 224.5mn

Latest shareholding (%)

Promoters	46.0
Institutions	32.0
Public	22.0

Stock performance (%)

	1m	3m	12m
Exide	0.9	24.1	64.3
Sensex	6.9	15.5	20.1
BSE Auto	7.9	20.0	49.6

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Quarterly Financial Results (Standalone)

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Standalone financial results

Rs. mn\Period	30-Sep-10	30-Sep-09	yoy Growth	30-Jun-10	qoq Growth	FY11E	FY12E	yoy Growth
Revenue	11,272	9,507	18.6%	11,521	-2.2%	45,022	54,440	20.9%
Raw Material	6,686	5,215	28.2%	6,863	-2.6%	26,969	33,150	22.9%
Employee cost	660	592	11.6%	678	-2.6%	2,727	3,000	10.0%
Other cost	1,471	1,230	19.6%	1,348	9.1%	5,419	6,313	16.5%
Total Expenditure	9,019	7,257	24.3%	9,083	-0.7%	36,063	43,742	21.3%
EBITDA	2,455	2,471	-0.7%	2,632	-6.7%	9,907	11,977	20.9%
<i>Margin %</i>	<i>21.8%</i>	<i>26.0%</i>	<i>-421 bps</i>	<i>22.8%</i>	<i>-107 bps</i>	<i>22.0%</i>	<i>22.0%</i>	<i>0 bps</i>
D&A	201	222	-9.1%	194	3.7%	948	1,280	35.0%
EBIT	2,254	2,250	0.2%	2,438	-7.6%	8,959	10,698	19.4%
Other income	191	11	<i>NM</i>	62	209.9%	430	459	6.6%
Net Interest exp (inc)	17	44	-61.6%	13	26.1%	108	108	0.0%
PBT	2,897	2,217	30.7%	2,486	16.5%	9,750	11,048	13.3%
Tax provision	(768)	(720)	6.6%	(833)	-7.8%	(2,954)	(3,646)	23.4%
<i>Tax rate %</i>	<i>26%</i>	<i>32%</i>	<i>-600 bps</i>	<i>33%</i>	<i>-699 bps</i>	<i>30%</i>	<i>33%</i>	<i>270 bps</i>
PAT (Reported)	2,129	1,497	42.3%	1,653	28.8%	6,796	7,402	8.9%
PAT (Adjusted)	1,766	1,497	18.0%	1,653	6.8%	6,433	7,402	15.1%
<i>Adjusted PAT Margin %</i>	<i>15.7%</i>	<i>15.7%</i>	<i>-8 bps</i>	<i>14.4%</i>	<i>132 bps</i>	<i>14.3%</i>	<i>13.6%</i>	<i>-69 bps</i>
Shares Outstanding	850	800	6.3%	850	0.0%	850	850	0.0%
EPS (Reported)	2.51	1.87	33.9%	1.95	28.8%	8.00	8.71	8.9%
EPS (Adjusted)	2.08	1.87	11.1%	1.95	6.8%	7.57	8.71	15.1%

2QFY11 PAT adjusted for gain (after tax) on transfer of leasehold land

Key estimate revision (Consolidated)

	FY11E			FY12E		
	Old	New	Change	Old	New	Change
Revenue	47,016	47,109	0.2%	57,356	56,861	-0.9%
EBITDA	10,599	10,562	-0.4%	12,914	12,776	-1.1%
Margin (%)	22.5%	22.4%	-12 bps	22.5%	22.5%	-5 bps
PAT	6,304	6,570	4.2%	7,630	7,760	1.7%
PAT Margin	13.4%	13.9%	54 bps	13.3%	13.6%	34 bps
EPS	7.4	7.7	4.2%	9.0	9.1	1.7%

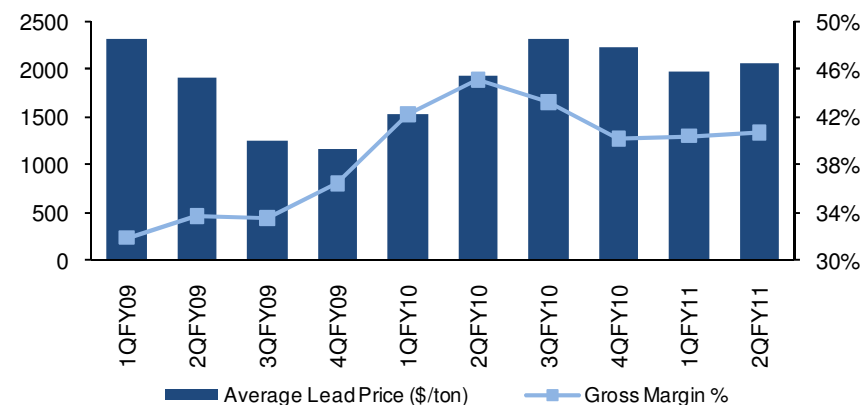
All figures in Rs. mn, except EPS, which is in Rs.

Lead sourcing mix

	FY10	1QFY11	2QFY11
Hindustan Zinc	25%	25%	25%
Local Smelters	40%	42%	45%
Imported	35%	33%	30%

Source: Company, Spark Capital

Average quarterly lead price (LME \$/ton) vs. gross margin



Source: Spark Capital, Bloomberg

Balance sheet ratios

	FY10	2HFY11
Debt to equity (x)	0.04x	0.03x
Current ratio (x)	5.0x	5.5x
Debtor days (Sales)	24.2	25.1
Inventory days (COGS)	100.2	85.8
Creditor Days (COGS)	64.6	57.8
Fixed Assets turnover (x)	2.9x	3.0x
Cash (Rs. mn)	28.8	768.8

Source: Company, Spark Capital

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Financial Summary

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Abridged Financial Statements (Consolidated)				
Rs. mn	FY09	FY10	FY11E	FY12E
Profit & Loss (Rs. mn)				
Revenues	34,049	39,789	47,109	56,861
Manufacturing & Other Expenses	28,278	30,017	36,547	44,085
EBITDA	5,771	9,772	10,562	12,776
Depreciation	720	875	1,132	1,423
EBIT	5,052	8,897	9,429	11,353
Net Interest Exp / (inc)	587	161	160	160
Profit Before Tax	4,523	8,817	9,693	11,644
Tax	1,579	3,009	3,092	3,846
Less: Minority interest	33	190	31	38
Adj. Net Profit	2,911	5,619	6,570	7,760
Balance Sheet (Rs. mn)				
Shareholders Equity	9,929	19,165	24,744	31,513
Minority interest	178	366	398	435
Loan funds	3,610	1,741	1,741	1,741
SOURCES OF FUNDS	14,153	21,879	27,489	34,296
Net block	7,736	7,938	11,519	12,939
Investments	2,759	8,768	8,768	8,768
Capital WIP	198	429	943	569
Current assets, loans & advances	8,760	12,107	15,387	23,240
Current liabilities & provisions	5,304	7,366	9,130	11,223
Net Current Assets	3,456	4,741	6,257	12,017
APPLICATION OF FUNDS	14,153	21,879	27,489	34,296
Cash Flows (Rs. mn)				
Cash flow s from operations	5,005	5,341	7,194	8,713
Capex	(1,790)	(1,303)	(5,226)	(2,471)
Cash flow s from investments	(3,241)	(7,940)	(5,226)	(2,471)
Cash flow s from financing	(1,473)	2,483	(991)	(991)
Free cashflow	3,215	4,038	1,967	6,242
Cash generated during the year	292	(116)	977	5,252

Key metrics				
	FY09	FY10	FY11E	FY12E
Growth ratios				
Revenues	14.3%	16.9%	18.4%	20.7%
EBITDA	18.5%	69.3%	8.1%	21.0%
PAT	12.1%	93.0%	16.9%	18.1%
Margins				
EBITDA	16.9%	24.6%	22.4%	22.5%
EBIT	14.8%	22.4%	20.0%	20.0%
PAT	8.5%	14.1%	13.9%	13.6%
Leverage & WC ratios				
Debt to equity (x)	0.4	0.1	0.1	0.1
Current ratio (x)	1.7	1.6	1.7	2.1
Debtor days (Sales)	28	27	29	31
Inventory days (COGS)	89	133	127	120
Creditor Days (COGS)	55	82	85	88
Working Capital days	62	78	71	63
Performance & turnover ratios				
RoACE	24.4%	32.5%	26.0%	24.6%
RoAE	31.6%	38.6%	29.9%	27.6%
Total asset turnover (x)	2.0	2.1	2.0	1.8
Fixed asset turnover (x)	2.7	2.8	2.7	2.7
Working capital turnover (x)	9.9	8.4	7.5	4.7
Valuation metrics				
Current price (Rs.)	166.9			
Shares outstanding (mn)	800	850	850	850
Market capitalisation (Rs. mn)	133,520	141,865	141,865	141,865
Enterprise value (Rs. mn)	136,741	143,305	142,328	137,077
EV/EBITDA (x)	23.7	14.7	13.5	10.7
Adj. Per-share earnings (Rs.)	2.4	5.8	7.7	9.1
Price-earnings multiple (x)	69.7	28.7	21.6	18.3
Dividend yield (%)	0.4%	0.6%	0.6%	0.6%

Rating Interpretation	
BUY	More than 100% absolute return over a maximum of three years
OUTPERFORM	Expect the stock to outperform peers/ relevant sector index but is not a Buy
UNDERPERFORM	Expect the stock to underperform peers/ relevant sector index but is not a Sell
SELL	More than 25% downside to the stock price

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