

# Leveraging cost advantage

**Bank of America  
Merrill Lynch**



Sanjaya Satapathy >>  
Research Analyst  
DSP Merrill Lynch (India)  
sanjaya.satapathy@baml.com

91 22 6632 8689

## Raising FY11/12E PAT by 6% on new biz; maintain Buy & PO

We have raised FY10E PAT for Exide marginally and PAT of FY11e and FY12e by 6% as we expect additional benefit from (1) increased cost savings from growth in recycling; and (2) introduction of new product lines. However, we maintain our PO at Rs142 as our EPS for FY11E remains unchanged owing to recent issuance of 50mn new equity shares. Our PO is based on (1) P/E of 15x FY11E EPS of Rs8.7; and (2) Rs11/sh as value of investment in ING Vysya Life.

## Higher recycling amidst rising lead price to sustain margin

EBITDA margin of Exide has gone up by nearly 700bp y-o-y to around 25% in FY10E driven by (1) increase in extent of in-house recycling of old batteries from 28% in FY09 to 45% in FY10E boosted margin by about 400bp; (2) inventory gain boosted margin by 200bp; and (3) increase in product mix in favor of retail sales boosted margin by remaining 100bp.

We expect Exide to sustain its margin going forward driven by (1) further increase in the extent of recycling to 70% by FY12E; and (2) further rise in lead price by 25% in FY12E vs FY10E.

## New product plans boost growth outlook

Exide aims to launch new products including (1) battery electric bike; and (2) low cost battery for grabbing unorganized market share. Exide is targeting to increase its share of the commercial vehicle and tractor battery market from around 10%-15% now to 25% in three years through the introduction of batteries at lower price points. Increased cost savings from in-house re-cycling is likely to help Exide introduce such product. These new products and capacity expansion at a total cost of about Rs6bn by FY12E are likely to help sustain 20%+ sales growth.

## Stock Data

Price	Rs110.10
Price Objective	Rs142.00
Date Established	11-Jan-2010
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs37.15-Rs128.15
Mrkt Val / Shares Out (mn)	US\$2,053 / 850.0
Average Daily Volume	1,119,464
BofAML Ticker / Exchange	XEDRF / BSE
Bloomberg / Reuters	EXID IN / EXID.BO
ROE (2010E)	39.8%
Net Dbt to Eqty (Mar-2009A)	31.9%
Est. 5-Yr EPS / DPS Growth	NA / NA
Free Float	54.0%

## Key Changes

(Rs)	Previous	Current
2010E Rev (m)	NA	38,851.9
2011E Rev (m)	NA	46,814.8
2012E Rev (m)	NA	56,214.1
2010E EPS	7.16	6.79
2012E EPS	9.96	9.93
2010E EBITDA (m)	NA	9,568.6
2011E EBITDA (m)	NA	11,535.8
2012E EBITDA (m)	NA	13,084.2

## Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	2,597	2,911	5,774	7,395	8,439
EPS	3.25	3.64	6.79	8.70	9.93
EPS Change (YoY)	55.1%	12.1%	86.7%	28.1%	14.1%
Dividend / Share	0.400	0.600	1.00	1.25	1.50
Free Cash Flow / Share	(1.61)	1.61	5.29	3.54	6.06

## Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	33.91x	30.26x	16.21x	12.66x	11.09x
Dividend Yield	0.363%	0.545%	0.908%	1.14%	1.36%
EV / EBITDA*	19.50x	16.45x	9.92x	8.23x	7.25x
Free Cash Flow Yield*	-1.37%	1.38%	4.81%	3.21%	5.51%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 4.

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Refer to important disclosures on page 5 to 7. Analyst Certification on Page 3. Price Objective Basis/Risk on page 3.

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## iQprofile<sup>SM</sup> Exide Industries Ltd.

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
<b>(Rs Millions)</b>					
Sales	29,798	34,049	38,852	46,815	56,214
Gross Profit	10,294	12,498	17,266	20,241	23,298
Sell General & Admin Expense	(1,718)	(2,011)	(2,312)	(2,729)	(3,138)
Operating Profit	4,229	5,052	8,795	10,669	12,061
Net Interest & Other Income	(330)	(529)	(1)	257	408
Associates	0	0	0	0	0
Pretax Income	3,899	4,523	8,794	10,926	12,469
Tax (expense) / Benefit	(1,282)	(1,579)	(2,990)	(3,496)	(3,990)
Net Income (Adjusted)	2,597	2,911	5,774	7,395	8,439
Average Fully Diluted Shares Outstanding	800	800	850	850	850

### Key Cash Flow Statement Data

Net Income	2,597	2,911	5,774	7,395	8,439
Depreciation & Amortization	640	720	773	866	1,024
Change in Working Capital	(1,556)	507	302	(1,465)	(542)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(943)	(786)	(970)	(765)	(743)
Cash Flow from Operations	739	3,351	5,879	6,031	8,177
Capital Expenditure	(2,024)	(2,061)	(1,379)	(3,025)	(3,025)
(Acquisition) / Disposal of Investments	(179)	356	(799)	(500)	(500)
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(2,204)	(1,705)	(2,178)	(3,525)	(3,525)
Shares Issue / (Repurchase)	1,486	0	5,342	0	0
Cost of Dividends Paid	(375)	(564)	(995)	(1,243)	(1,492)
Cash Flow from Financing	1,111	(564)	4,347	(1,243)	(1,492)
Free Cash Flow	(1,285)	1,290	4,500	3,006	5,152
Net Debt	3,684	3,221	700	700	700
Change in Net Debt	NA	NA	NA	NA	NA

### Key Balance Sheet Data

Property, Plant & Equipment	6,593	7,934	8,540	10,698	12,700
Other Non-Current Assets	2,558	2,756	9,083	10,846	14,506
Trade Receivables	2,918	2,657	2,874	3,463	4,158
Cash & Equivalents	77	390	200	200	200
Other Current Assets	6,873	5,716	6,387	8,978	10,781
Total Assets	19,018	19,453	27,083	34,185	42,345
Long-Term Debt	3,761	3,610	900	900	900
Other Non-Current Liabilities	496	432	432	432	432
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	6,215	5,304	6,493	8,209	10,165
Total Liabilities	10,472	9,346	7,825	9,540	11,497
Total Equity	8,547	10,107	19,258	24,645	31,132
Total Equity & Liabilities	19,018	19,453	27,083	34,185	42,628

### iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	25.3%	24.4%	33.4%	31.2%	28.2%
Return On Equity	36.6%	31.6%	39.8%	34.0%	30.5%
Operating Margin	14.2%	14.8%	22.6%	22.8%	21.5%
EBITDA Margin	16.3%	16.9%	24.6%	24.6%	23.3%

### iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	0.3x	1.2x	1.0x	0.8x	1.0x
Asset Replacement Ratio	3.2x	2.9x	1.8x	3.5x	3.0x
Tax Rate (Reported)	32.9%	34.9%	34.0%	32.0%	32.0%
Net Debt-to-Equity Ratio	43.1%	31.9%	3.6%	2.8%	2.2%
Interest Cover	10.3x	8.6x	NM	NM	NM

### Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

### Company Description

Exide Industries is the largest manufacturer of lead acid storage batteries in India with 25% revenue share. It dominates the branded automotive battery market with over 72% market share. and industrial battery market with nearly 45% market share. Exide has manufacturing presence in India, Srilanka, UK, Singapore and Australia. It also has 50% stake in ING Vysya Life Insurance Co.

### Investment Thesis

Exide, India's largest automotive and industrial battery company, is a key beneficiary of the rising demand for branded lead acid batteries, driven by stricter rules on lead usage. We expect it to benefit from the sharp decline in cost of production driven increase in recycling of old batteries in the company owned smelters.

### Stock Data

Price to Book Value 4.9x

## Price objective basis & risk

### Exide Indus Ltd (XEDRF)

Our price objective of Rs142 for Exide is based on sum-of-the-parts value including Rs131 for its lead acid battery business and Rs11 for its 50% stake in ING Vysya Life Insurance. We have valued its battery business at Rs131 per share assuming that it will trade at a PE of 15x FY11E, similar to one year forward PE auto OEM as the company's retail sales now forms bulk of profit. We have valued the life insurance business at Rs11 per share, based on 13x FY11E NBAP. Value of life insurance business arrived above is also at an implied valuation of 1.5x the amount invested by Exide by end FY09. Key risk for Exide is sharp increase in cost of lead and increase in competition.

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	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	DLF Limited	XVDUF	DLFU IN	Unmesh Sharma, CFA
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy

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India - General Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
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	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Unmesh Sharma, CFA
	Jain Irrigation Systems Ltd	JNIDF	JI IN	Prasad Deshmukh
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Puravankara Projects Ltd	XPJVF	PVKP IN	Unmesh Sharma, CFA
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	Sobha Developers	SBDRF	SOBHA IN	Unmesh Sharma, CFA
	Triveni Engg	TVIEF	TRE IN	Sanjaya Satapathy
	Voltas	VTSJF	VOLT IN	Sanjaya Satapathy
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	UltraTech Cemen	XDJNF	UTCEN IN	Reena Verma Bhasin, CFA
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	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal

iQmethod<sup>SM</sup> Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Amortization Net Income	Amortization Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales}$ Other LT Liabilities	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	45	59.21%	Buy	26	70.27%
Neutral	17	22.37%	Neutral	8	61.54%
Sell	14	18.42%	Sell	9	75.00%

### Investment Rating Distribution: Global Group (as of 01 Jan 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1699	50.78%	Buy	904	58.82%
Neutral	841	25.13%	Neutral	491	65.03%
Sell	806	24.09%	Sell	368	49.80%

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