

#### Stellar quarter with solid margins; slow-down could be round the corner; Outperform stays on inexpensive valuation

Amara Raja's 2QFY10 results beat our estimates, driven largely by expansion in operating margins, even as revs at Rs. 3,611mn (↑6% yoy and ↓18% qoq) tracked our estimate of Rs. 3,796mn. Operating margins at 23.6% (↑20bps qoq and 940 bps yoy) was significantly ahead of our expectation of 17.5%; as a result, EBITDA at Rs. 851mn (↑19% qoq and 77% yoy) was higher than our estimate by 28%. Adjusted earnings at Rs. 476mn (↑ 27% qoq and 74% yoy) beat expectations by 31%.

Our chat with the management suggested that the industrial battery business (predominantly telecom) will likely encounter headwinds near term. Rising competition on account of aggressive upstarts and tepid trends in both new tower roll-outs and replacement demand will likely temper the segment's prospects. We make appropriate adjustments to our assumptions for this business, assume an average lead price of USD 2,000 per tonne for the next fiscal and make revisions to our earnings model.

**Outperform** stays, noting attractive valuation (7.9x FY10E EPS and 7.3x FY11E EPS)

#### Management call takeaways

- Indl battery business grew 18% yoy in vol terms; auto biz vol growth (blended) was 11%
- In the auto biz, OEM vols grew 18% yoy versus 9% for the replacement biz – mkt share loss on latter
- Margin expansion driven by a misalignment between the revenue and cost line – avg. lead price for the quarter was USD 1,450 per tonne; on all segments barring OE, end prices reflected higher lead prices, on account of the nature of the price pass-through arrangement; no inventory-related margin gains
- Replacement market products were upped by 4% in October to reflect hardening lead prices
- MVRLA battery expansion to 1.8mn units complete; two-wheeler capacity will go to 2.4mn units by June-10 (three-month delay); current run rate on the latter biz is 125,000 units per month; plans afoot to stitch up engagements with OE players
- Interest bearing-debt at end-September is Rs. 650mn; cash on hand is Rs. 700mn

#### Valuation and view

We value Amara Raja at a 30% discount to market leader Exide; our target price of Rs. 178 is 9.5x Sep-10 EPS, which leaves an upside of 27%. With superior balance sheet quality and RoE likely to sustain at >25% this year and the next, we think cushions to downside risk are in place. **Outperform** stays.

#### MARKET DATA

Date	4 Nov 2009
SENSEX	15404
NIFTY	4563
Bloomberg   Reuters code	AMRJ IN   AMAR.BO
Market cap (Rs. mn)	11,949
Free float (%)	47.9
52-week High-Low (Rs.)	163 – 31
3m Avg.Daily Volume	382,589
Shareholding as of Sep '09 (%)	
Promoters	52.1%
Institutions	17.2%
Public	30.7%

Stock Performance (in %)	1m	3m	12m
Amara Raja	(1.0)	19.6	158.4
Sensex	(10.1)	(1.7)	57.4

#### FINANCIAL SUMMARY

YEAR	SALES (Rs.mn)	EBITDA (Rs. mn)	PAT (Rs.)	EPS (Rs.)	P/E (x)
FY09	13,177	1,997	998	11.7	12.1
FY10E	15,190	2,768	1,515	17.7	7.9
FY11E	17,705	2,971	1,658	19.4	7.3

#### Quarterly financial results (all figures in Rs mn except EPS, which is in Rs)

	YoY			QoQ			YoY		
	2QFY09	2QFY10	% yoy	1QFY10	2QFY10	% qoq	FY09	FY10E	% yoy
<b>Net sales</b>	3,400	3,611	6.2%	3,065	3,611	17.8%	13,241	15,975	20.6%
<b>Expenditure</b>									
Raw material costs	2,317	2,024	-12.6%	1,729	2,024	17.0%	8,691	9,892	13.8%
Employee costs	113	154	35.9%	148	154	3.9%	516	594	15.0%
Other expenses	488	583	19.4%	471	583	23.7%	1,973	2,396	21.4%
<b>Total expenditure</b>	2,918	2,760	-5.4%	2,348	2,760	17.6%	11,181	12,882	15.2%
<b>EBIDTA</b>	482	851	76.7%	717	851	18.7%	2,060	3,093	50.1%
<b>margin</b>	14.2%	23.6%		23.4%	23.6%		15.6%	19.4%	
Other income	64	10	-85.0%	6	10	57.4%	17	40	141.1%
Interest	43	26	-40.6%	30	26	-13.8%	182	99	-45.7%
Depreciation	83	107	27.7%	102	107	4.4%	346	408	18.0%
MTM gains/(losses)	(129.0)			49	0		(322)	0	
<b>PBT</b>	290	729	151.3%	641	729	13.7%	1,227	2,626	114.1%
Tax provision	100	252	151.2%	215	252	17.3%	422	896	112.4%
<b>Tax rate</b>	34.6%	34.6%		33.6%	34.6%		34.4%	34.1%	
Profit after tax	190	476	151.4%	426	476	11.9%	805	1,730	114.9%
Extraordinary Items	(2)	(3)		0	(3)		0	0	
<b>Reported PAT</b>	188	479	154.9%	426	479	12.5%	805	1,730	114.9%
<b>Adjusted PAT</b>	274	476	74.0%	376	476	26.6%	998	1,730	73.4%
<b>margin</b>	8.1%	13.2%		12.3%	13.2%		6.1%	9.5%	
<b>EPS (Rs.)</b>									
<b>Reported</b>	2.2	5.6	154.9%	5.0	5.6	12.5%	9.4	20.3	114.9%
<b>Adjusted</b>	3.2	5.6	74.0%	4.4	5.6	26.6%	11.7	20.3	73.4%

#### Key revisions to estimates

	FY10E			FY11E		
	Old	New	Change	Old	New	Change
<b>Sales</b>	15,018	15,190	1.1%	17,008	17,705	4.1%
<b>EBIDTA</b>	2,638	2,768	4.9%	2,878	2,971	3.2%
<b>PAT</b>	1,429	1,515	6.0%	1,596	1,658	3.9%
<b>EPS</b>	16.7	17.7	6.0%	18.7	19.4	3.9%

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

#### Profit & Loss (Rs.Mn)

Year Ended 31st March	2008	2009	2010E	2011E
Net Sales	10,833	13,177	15,190	17,705
Operating Costs	9,256	11,180	12,422	14,734
Operating Profit/ EBITDA	1,578	1,997	2,768	2,971
Other Income	256	80	30	48
Depreciation/Amortization	244	346	408	458
Interest	129	182	99	66
PBT	1,460	1,227	2,292	2,495
<b>PAT - As reported</b>	<b>945</b>	<b>805</b>	<b>1,509</b>	<b>1,647</b>
<b>PAT - After adjustments</b>	<b>945</b>	<b>998</b>	<b>1,509</b>	<b>1,647</b>

#### Valuation metrics

Year Ended 31st March	2008	2009	2010E	2011E
Current price (Rs.)	140	140	140	140
Shares outstanding (mn)	85.4	85.4	85.4	85.4
Market capitalisation (Rs. mn)	11,949	11,949	11,949	11,949
Market cap/Sales (x)	1.1	0.9	0.8	0.7
Total debt (Rs. mn)	3,163	2,858	1,588	1,488
Cash and equivalents (Rs. mn)	673	1,174	845	1,561
Enterprise value (Rs. mn)	14,438	13,633	12,692	11,876
EBIDTA (Rs. mn)	1,578	1,997	2,768	2,971
EV/EBIDTA (x)	9.2	6.8	4.6	4.0
EV/Sales (x)	1.3	1.0	0.8	0.7
Per-share earnings (Rs.)	11.1	11.7	17.7	19.3
Price-earnings multiple (x)	12.6	12.0	7.9	7.3
Dividend per share (Rs.)	0.7	0.8	1.5	1.6
Dividend yield (%)	0.5%	0.6%	1.1%	1.2%

#### Capacities at year ends

Year Ended 31st March	2008	2009	2010E	2011E
Auto & MVRLA batteries (in mn)	5.0	5.4	6.0	6.0
Industrial batteries (in mn AH)	400.0	900.0	900.0	900.0
Two-wheeler batteries (in mn)	1.0	1.8	2.4	3.8

#### Balance Sheet (Rs.Mn)

Year Ended 31st March	2008	2009	2010E	2011E
Paid up Capital	171	171	171	171
Reserves & Surplus	3,160	3,885	5,245	6,728
Total debt	3,163	2,858	1,588	1,488
Deferred Tax	170	183	183	183
<b>Total Liabilities</b>	<b>6,663</b>	<b>7,097</b>	<b>7,186</b>	<b>8,570</b>
Gross Fixed assets	3,106	4,271	5,117	5,717
Accl. Depreciation	1,217	1,458	1,865	2,323
Net fixed assets	1,889	2,813	3,252	3,394
Capital WIP	657	396	0	0
Investments	162	471	471	471
<b>Total long-term assets</b>	<b>2,708</b>	<b>3,680</b>	<b>3,723</b>	<b>3,865</b>

Current assets, loans & adv.	5,976	5,260	5,633	7,104
Inventory	1,943	1,608	1,857	2,193
Sundry debtors	2,265	2,079	2,532	2,951
Cash	511	703	374	1,090
Loans & Advances	1,249	870	870	870
Other current assets	8	0	0	0
Current liabilities & provisions	2,021	1,843	2,169	2,399
<b>Net current assets</b>	<b>3,955</b>	<b>3,417</b>	<b>3,464</b>	<b>4,705</b>

<b>Total Assets</b>	<b>6,663</b>	<b>7,097</b>	<b>7,186</b>	<b>8,570</b>
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#### Cash Flows (Rs. Mn)

Year Ended 31st March	2008	2009	2010E	2011E
Cash flows from operations	-297	2,239	1,540	1,583
Cash flows from investments	-1,157	-1,321	-420	-552
Cash flows from financing	1,709	-727	-1,449	-316
Cash generated during the year	255	192	-329	716
Opening cash	256	511	703	374
<b>Closing cash</b>	<b>511</b>	<b>703</b>	<b>374</b>	<b>1,090</b>

### Rating Interpretation

<b>OUTPERFORM</b>	<b>Greater than 15% upside from current price</b>
<b>NEUTRAL</b>	<b>Upside or downside from the current price is within 15%</b>
<b>UNDERPERFORM</b>	<b>Greater than 15% downside from current price</b>

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