

## Exide Industries

### Performance Highlights

**Net Sales grow marginally; Net Profit up by 132.3%:** Exide Industries, India's largest Auto Battery manufacturer, clocked a 15.9% yoy growth for 3QFY2010 in its Net Sales to Rs912.9cr (Rs787.7cr), which was marginally lower than our estimate of Rs961cr, on the back of a 13% yoy growth in Total Volumes. The company's OE and Replacement Sales, which had started improving in 1HFY2010, continued the same during 3QFY2010. The improving growth in Replacement sales aided the company's Auto Battery Segment in clocking better growth during the quarter. This was also supported by the robust growth registered by the Industrial Battery Segment during the quarter. The company's Bottom-line growth at 132.3% yoy to Rs130.5cr (Rs56.2cr) also came in marginally above our estimate of Rs121.8cr.

**Substantial improvement in Raw Material Costs pumps up Margins:** During 3QFY2010, Exide witnessed a 949bp yoy increase in its EBITDA Margins, owing to a 942bp yoy fall in Raw Material costs, which accounted for around 56.6% of Sales (66.1% in 3QFY2009). During the quarter, average lead prices have grown by 19.1% qoq to \$2,313/tonne, while yoy average lead prices have substantially spurted by 82.8% (from \$1,265/tonne levels in 3QFY2009). This was also aided by a favourable Rupee-Dollar movement during the quarter. Exide registered a Net Exchange gain of Rs11.6cr (as against a Net Exchange loss of Rs18.4cr in 3QFY2009) during the quarter. However, the 45bp jump in Other expenditure and Staff costs (combined) marginally restricted OPM growth, while Operating Profit during the quarter increased by a robust 92% yoy to Rs218.7cr (Rs113.9cr).

**Bottom-line grows by 132.3%:** The company reported a 132.3% yoy increase in its Net Profit to Rs130.5cr (Rs56.2cr) during the quarter. Interest costs fell by 76.5% yoy to Rs2.9cr (Rs12.4cr); however, Depreciation increased by 11.7% yoy to Rs18.9cr (Rs16.9cr). Overall, Exide's Net Profit Margins improved by a healthy 716bp yoy, on the back of a healthy growth in the Top-line, a reduction in raw material costs, a reduction in leveraging costs and a marginally lower Tax provisioning for the quarter.

### Key Financials

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
<b>Net Sales</b>	<b>3,393</b>	<b>3,703</b>	<b>4,469</b>	<b>5,049</b>
% chg	19.3	9.1	20.7	13.0
<b>Net Profits</b>	<b>284</b>	<b>518</b>	<b>563</b>	<b>627</b>
% chg	13.6	82.3	8.6	11.4
OPM (%)	16.1	23.6	21.1	20.7
<b>EPS (Rs)</b>	<b>3.6</b>	<b>6.5</b>	<b>7.0</b>	<b>7.8</b>
P/E (x)	34.3	18.8	17.3	15.6
P/BV (x)	8.0	5.9	4.7	3.8
RoE (%)	23.4	31.6	26.9	24.1
RoCE (%)	30.5	40.0	35.7	32.7
EV/Sales (x)	3.0	2.7	2.2	1.9
EV/EBITDA (x)	18.3	11.3	10.4	9.4

Source: Company, Angel Research

## ACCUMULATE

CMP	Rs122
Target Price	Rs130

Investment Period	15 Months
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### Stock Info

Sector	Auto Ancillary
Market Cap (Rs cr)	9,732
Beta	0.6
52 WK High / Low	125 / 35
Avg Daily Volume	379,986
Face Value (Rs)	1
BSE Sensex	17,527
Nifty	5,249
Reuters Code	EXID.BO
Bloomberg Code	EXID@IN

### Shareholding Pattern (%)

Promoters	48.9
MF/Banks/Indian FLs	31.2
FII/NRIs/OCBs	8.9
Indian Public	11.0

Abs.	3m	1yr	3yr
Sensex (%)	5.3	86.3	28.6
Exide (%)	21.1	170.0	210.6

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## Key Business Highlights

**Industry Outlook:** Battery demand is expected to remain robust, on the back of a strong growth in the Auto Battery Replacement market. A better performance by the Industrial Segment, especially in the Railway and Power Sectors, also works in favour of the company. For 3QFY2010, the demand growth in the Industrial segment was around 10-11% and the Automotive segment recorded around a 14-15% growth, while Telecom de-grew by around 47%. Going ahead, we expect the demand for Auto Batteries (contributes almost 65% of Exide's Profit) to grow at 9-10% per annum, while the Industrial Battery Segment is expected to register a higher, 12-13% growth per annum over the next couple of years.

**Lead smelter acquisitions:** During FY2009, Exide acquired a 51% shareholding in Leadage Alloys India, a lead smelter, at a total investment of Rs33.4cr, to augment the availability of indigenous raw materials. We believe that this will facilitate the company in recycling scrap batteries collected under the Batteries (Management and Handling) Rules, 2001. The acquisition came on the heels of its buy-out of another unlisted lead-smelting company, Tandon Metals, in October 2007 for Rs25cr.

Since global lead prices have been extremely volatile, the two acquisitions are expected to help Exide increase its use of recycled lead and lead alloys for making storage batteries. This would, in turn, reduce the company's dependence on imported lead, which is the principal raw material for storage batteries. Exide may expand its lead smelting capacity during the year to meet its increased lead requirement from captive sources. A proposal in this regard may be placed before the Board. The company's two smelters contributed 28% of its lead and lead alloy requirements during FY2009.

The strong earnings growth during 3QFY2009 can largely be attributed to the substantial increase in EBITDA margins to almost 24%, which were driven by an increase in the contribution of the in-house lead smelter to the total consumption of lead (almost 40%). Overall, the Lead Smelter acquisition has reduced the company's dependence upon imports and on purchase of pure lead from the market, due to which the management expects the EBITDA margins to be in the range of 20-25%, going ahead.

**Capex to meet long-term demand and to improve the company's market reach:** Exide plans to double its Industrial Battery capacity and increase its Automobile Battery capacity by 50%, at an investment of Rs450cr over FY2008-10E. It has been operating at over 90% capacity utilisation since the last five years and has steadily improved its Fixed Asset Turnover ratio from 1.2x in FY2002 to 2.8x in FY2009.

## Outlook and Valuation

We estimate the company to clock around a 12% CAGR in volumes over FY2009-11E. However, the Top-line and Bottom-line are estimated to post a CAGR of 14.8% and 40.7% respectively, in the mentioned period. The revenue growth appears muted due to a pass-through of lower lead prices. We envisage prices of its main raw materials to decline by around 13-15% in FY2010E, and to increase by around 15% in FY2011E, which will gradually be passed on to customers. We believe that Revenue growth will largely be driven by an increasing contribution from the high-Margin Industrial Segment and the Replacement market in the Automobile Sector. Exide's Operating Cost to Sales ratio is expected to decline, with the company targeting to achieve higher operational efficiencies through its R&D efforts and the increasing usage of recycled lead in batteries. Moreover, Exide's strong brand image has been creating value while continuously improving its RoCE, due to better Asset Turnover on incremental capacities.

We believe that on the back of its superior pricing power and declining input costs, Exide will continue to achieve higher Return Ratios and Margins. We believe that a strong Balance Sheet and lower Debt-Equity ratio will aid the company in sustaining strong cash flows and to meet the challenges of the industry, going forward.

We upgrade our EPS estimates for the company to Rs7 (Rs6.8 earlier) and to Rs7.8 (Rs7.4 earlier) for FY2011E and FY2012E, respectively. At the CMP, the stock is quoting at 17.3x FY2011E and 15.6x FY2012E Earnings. We have valued its stake in ING Vysya Life Insurance at Rs12/share on the FY2012E New Business Arrived Profit (NBAP). At the adjusted valuations of 14x FY2012E Earnings for its core business, the stock is available at reasonable valuations. **Hence, we maintain an Accumulate on the stock, with a revised Target Price of Rs130 (Rs124).**

**Exhibit 1: 3QFY2010 Financials**

Y/E March (Rs cr)	3QFY10	3QFY09	% Chg	9MFY10	9MFY09	% Chg
<b>Net Sales</b>	<b>912.9</b>	<b>787.7</b>	<b>15.9</b>	<b>2,767.1</b>	<b>2,594.7</b>	<b>6.6</b>
Consumption of RM	516.9	520.4	(0.7)	1,560.0	1,729.9	(9.8)
(% of Sales)	56.6	66.1		56.4	66.7	
Staff Costs	55.2	45.6	21.2	168.0	127.3	32.0
(% of Sales)	6.0	5.8		6.1	4.9	
Purchase of Finished goods	0.6	4.4	(85.5)	4.6	10.3	(55.0)
(% of Sales)	0.1	0.6		0.2	0.4	
Other Expenses	121.4	103.4	17.4	359.1	315.4	13.9
(% of Sales)	13.3	13.1		13.0	12.2	
<b>Total Expenditure</b>	<b>694.2</b>	<b>673.8</b>	<b>3.0</b>	<b>2,091.8</b>	<b>2,182.9</b>	<b>(4.2)</b>
<b>Operating Profit</b>	<b>218.7</b>	<b>113.9</b>	<b>92.0</b>	<b>675.3</b>	<b>411.8</b>	<b>64.0</b>
OPM	24.0	14.5		24.4	15.9	
Interest	2.9	12.4	(76.5)	7.7	36.5	(78.9)
Depreciation	18.9	16.9	11.7	160.0	160.0	-
Other Income	1.0	0.9	8.5	3.1	3.7	(17.1)
<b>PBT (excl. Extr. Items)</b>	<b>198.0</b>	<b>85.7</b>	<b>131.2</b>	<b>610.8</b>	<b>328.9</b>	<b>85.7</b>
Extr. Income/(Expense)	-	-		-	-	
<b>PBT (incl. Extr. Items)</b>	<b>198.0</b>	<b>85.7</b>	<b>131.2</b>	<b>610.8</b>	<b>328.9</b>	<b>85.7</b>
(% of Sales)	21.7	10.9		22.1	12.7	
Provision for Taxation	67.5	29.5	129.0	208.3	112.7	84.7
(% of PBT)	34.1	34.4		34.1	34.3	
<b>Reported PAT</b>	<b>130.5</b>	<b>56.2</b>	<b>132.3</b>	<b>402.6</b>	<b>216.2</b>	<b>86.2</b>
PATM	14.3	7.1		14.5	8.3	
Equity shares (cr)	80.0	80.0		80.0	80.0	
<b>EPS (Rs)</b>	<b>1.6</b>	<b>0.7</b>	<b>132.3</b>	<b>5.0</b>	<b>2.7</b>	<b>86.2</b>

Source: Company, Angel Research

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Disclosure of Interest Statement	Exide Industries
1. Analyst ownership of the stock	No
2. Angel Group ownership of the stock	No
3. Broking relationship with company covered	No

<b>Ratings (Returns) :</b>	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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