Deutsche Bank

30 September 2011

Exide Industries Ltd

Reuters: **EXID.NS** Bloomberg: **EXID IN** Exchange: **NSI** Ticker: **EXID**

Stock price weakness appears overdone; upgrading to Buy

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Recommendation Change

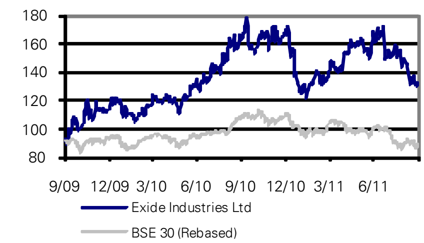
Buy

Price at 29 Sep 2011 (INR)	**131.85**
Price target - 12mth (INR)	**150.00**
52-week range (INR)	**177.90 - 121.90**
BSE 30	**16,446**

Key changes

Rating	Hold to Buy ↑	
Price target	160.00 to 150.00 ↓	**-6.2%**
Sales (FYE)	53,473 to 50,293 ↓	**-5.9%**
Op prof margin (FYE)	16.8 to 16.5 ↓	**-1.7%**
Net profit (FYE)	6,807.6 to 6,459.1 ↓	**-5.1%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-11.4*	*-20.0*	*-19.0*
BSE 30	*0.2*	*-12.0*	*-17.6*

Stock data

Market cap (INRm)	**112,072**
Market cap (USDm)	**2,288**
Shares outstanding (m)	**850.0**
Major shareholders	**Chloride Eastern Ltd (46%)**
Free float (%)	**54**
Avg daily value traded (USDm)	**6.5**

Key indicators (FY1)

ROE (%)	**21.9**
Net debt/equity (%)	**-15.6**
Book value/share (INR)	**37.24**
Price/book (x)	**3.5**
Net interest cover (x)	**236.7**
Operating profit margin (%)	**16.5**

Current valuations factoring in a fairly pessimistic scenario; upgrading to Buy
Our upgrade is premised on: a) improvement in sales mix and market share in the automotive segment (65% of revenues), b) stability in the industrial segment (35% of revenues) after the deceleration seen over the past 12 months, and c) attractive valuations after its recent underperformance (8% vs. Sensex in 3m). The current price implies a further fall in margins, which we believe is unlikely. We have factored in a lower-than-trend rate of growth to reflect the current elevated levels of competition. EBITDA margin improvement would be the key trigger.

Improving sales mix would support profitability
Exide's automotive sales mix deteriorated in the past year due to higher share of supply to OEMs and price competition. The company is in the midst of a capacity ramp-up (9.7m to 12m for 4W and 16m to 22m for 2W) which will help better service the high margin replacement market. We expect 4W replacement demand growth to improve to 14-15% vs. 10-12% currently due to strong new vehicle sales in FY06-11 (17% CAGR). Exide's OEM share of c70% would enable it to capture a significant portion of this demand.

Captive lead and strong distribution remain key competitive advantages
Exide sources c50% of its lead from its captive smelters and the company has guided this to increase to 70% over 2-3 years. We estimate that this leads to c15% cost advantage compared to its peers and adds c200bps to EBITDA margins (consolidating smelter subsidiaries). At the front-end, Exide's large sales network (2x nearest competitor) should enable it to claw back market share in the replacement segment as capacity ramps up.

Trading at 13x FY13E EPS (13% discount to average), 6% FCF yield
We value Exide on a sum-of-the-parts basis at Rs 150/share, comprising: 1) DCF-based valuation of Rs 140/share for the core battery business implying 16x FY13E EPS, and 2) Rs 10/share for its 50% stake in the life insurance JV. Our estimates are 8% below consensus. Risks include the inability to claw back market share in the auto segment and continued deceleration in industrial sales.

Forecasts and ratios

Year End Mar 31	2010A	2011A	**2012E**	2013E	2014E
Sales (INRm)	37,940.0	45,536.0	**50,292.6**	56,759.4	64,584.7
EBITDA (INRm)	8,894.4	8,787.6	**9,253.8**	11,181.6	12,787.8
Reported NPAT (INRm)	5,371.1	6,663.5	**6,459.1**	7,815.5	8,981.3
Reported EPS FD (INR)	6.32	7.84	**7.60**	9.19	10.57
DB EPS FD (INR)	6.32	7.04	**7.60**	9.19	10.57
OLD DB EPS FD (INR)	6.32	7.29	**8.01**	9.61	11.35
% Change	0.0%	-3.3%	**-5.1%**	-4.3%	-6.9%
DB EPS growth (%)	78.9	11.5	**7.9**	21.0	14.9
PER (x)	14.4	20.2	**17.4**	14.3	12.5
Yield (net) (%)	1.1	1.1	**1.2**	1.4	1.6

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items; 2 Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Deutsche Bank AG/Hong Kong

Model updated:29 September 2011

Running the numbers

Asia

India

Automobiles & Components

Exide Industries Ltd

Reuters: EXID.NS Bloomberg: EXID IN

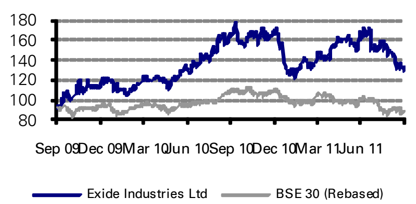
Buy

Price (29 Sep 11)	INR 131.85
Target price	INR 150.00
52-week Range	INR 121.90 - 177.90
Market Cap (m)	INRm 112,073 USDm 2,288

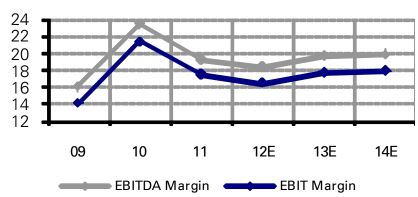
Company Profile

The Company is a leading battery producer in India and one of the largest power storage producers in South Asia. The Company supplies batteries to the automotive, industrial, infrastructure development, information technology and defence sectors in India.

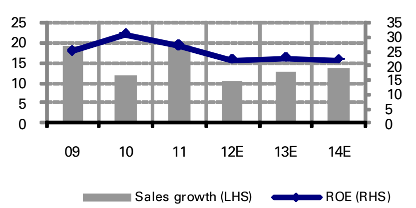
Price Performance



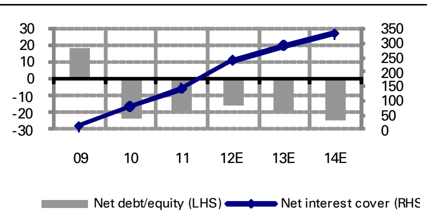
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (INR)	3.53	6.32	7.04	7.60	9.19	10.57
Reported EPS (INR)	3.55	6.32	7.84	7.60	9.19	10.57
DPS (INR)	0.60	0.96	1.50	1.52	1.84	2.11
BVPS (INR)	15.6	26.1	32.3	37.2	44.3	52.4
Weighted average shares (m)	800	850	850	850	850	850
Average market cap (INRm)	45,970	77,291	121,065	112,073	112,073	112,073
Enterprise value (INRm)	42,122	64,808	107,158	96,879	92,969	88,200
Valuation Metrics						
P/E (DB) (x)	16.3	14.4	20.2	17.4	14.3	12.5
P/E (Reported) (x)	16.2	14.4	18.2	17.4	14.3	12.5
P/BV (x)	2.65	4.75	4.45	3.54	2.98	2.52
FCF Yield (%)	5.9	5.6	1.8	3.1	5.1	6.1
Dividend Yield (%)	1.0	1.1	1.1	1.2	1.4	1.6
EV/Sales (x)	1.2	1.7	2.4	1.9	1.6	1.4
EV/EBITDA (x)	7.7	7.3	12.2	10.5	8.3	6.9
EV/EBIT (x)	8.8	8.0	13.5	11.7	9.2	7.6
Income Statement (INRm)						
Sales revenue	**33,930**	**37,940**	**45,536**	**50,293**	**56,759**	**64,585**
Gross profit	**5,455**	**8,894**	**8,788**	**9,254**	**11,182**	**12,788**
EBITDA	**5,455**	**8,894**	**8,788**	**9,254**	**11,182**	**12,788**
Depreciation	679	807	835	968	1,105	1,214
Amortisation	0	0	0	0	0	0
EBIT	**4,776**	**8,088**	**7,953**	**8,286**	**10,077**	**11,574**
Net interest income(expense)	-479	-103	-57	-35	-35	-35
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	18	0	676	0	0	0
Other pre-tax income/(expense)	40	121	832	977	1,123	1,292
Profit before tax	**4,354**	**8,106**	**9,404**	**9,227**	**11,165**	**12,830**
Income tax expense	1,510	2,735	2,740	2,768	3,350	3,849
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**2,844**	**5,371**	**6,664**	**6,459**	**7,816**	**8,981**
DB adjustments (including dilution)	-18	0	-676	0	0	0
DB Net profit	**2,826**	**5,371**	**5,988**	**6,459**	**7,816**	**8,981**
Cash Flow (INRm)						
Cash flow from operations	**4,247**	**5,410**	**4,893**	**7,216**	**8,239**	**9,371**
Net Capex	-1,515	-1,098	-2,708	-3,700	-2,500	-2,500
Free cash flow	**2,732**	**4,312**	**2,184**	**3,516**	**5,739**	**6,871**
Equity raised/(bought back)	0	5,299	-2	2	0	0
Dividends paid	-561	-952	-1,404	-1,511	-1,829	-2,102
Net inc/(dec) in borrowings	-326	-2,272	-878	0	0	0
Other investing/financing cash flows	-946	-1,196	-1,423	-1,500	-1,250	-1,250
Net cash flow	**899**	**5,192**	**-1,524**	**507**	**2,660**	**3,519**
Change in working capital	*808*	*-945*	*-2,015*	*-128*	*-682*	*-825*
Balance Sheet (INRm)						
Cash and other liquid assets	890	6,058	5,180	4,967	7,627	11,147
Tangible fixed assets	6,853	7,144	9,018	11,750	13,145	14,431
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	6,129	7,324	8,748	10,248	11,498	12,748
Other assets	7,082	9,089	13,140	14,200	16,026	18,236
Total assets	**20,954**	**29,616**	**36,085**	**41,165**	**48,297**	**56,562**
Interest bearing debt	3,172	900	22	22	22	22
Other liabilities	5,278	6,519	8,639	9,489	10,634	12,019
Total liabilities	**8,450**	**7,419**	**8,661**	**9,510**	**10,655**	**12,041**
Shareholders' equity	12,504	22,198	27,425	31,655	37,641	44,521
Minorities	0	0	0	0	0	0
Total shareholders' equity	**12,504**	**22,198**	**27,425**	**31,655**	**37,641**	**44,521**
Net debt	*2,282*	*-5,158*	*-5,158*	*-4,945*	*-7,606*	*-11,125*
Key Company Metrics						
Sales growth (%)	19.3	11.8	20.0	10.4	12.9	13.8
DB EPS growth (%)	14.4	78.9	11.5	7.9	21.0	14.9
EBITDA Margin (%)	16.1	23.4	19.3	18.4	19.7	19.8
EBIT Margin (%)	14.1	21.3	17.5	16.5	17.8	17.9
Payout ratio (%)	16.9	15.3	19.1	20.0	20.0	20.0
ROE (%)	25.0	31.0	26.9	21.9	22.6	21.9
Capex/sales (%)	4.5	2.9	5.9	7.4	4.4	3.9
Capex/depreciation (x)	2.2	1.4	3.2	3.8	2.3	2.1
Net debt/equity (%)	18.2	-23.2	-18.8	-15.6	-20.2	-25.0
Net interest cover (x)	10.0	78.6	138.8	236.7	287.9	330.7

Source: Company data, Deutsche Bank estimates

Key highlights

Our upgrade is premised on:

- Automotive division (65% of revenues) – share of higher-margin replacement demand is likely to improve. This would be driven by capacity ramp-up and lower OEM sales. Our belief is supported by strong 4W volume growth between FY07 and FY11 (17% CAGR).
- 4W batteries constitute 85% of auto division revenues. OEM to replacement ratio is currently at 1.13 which we think has bottomed out for Exide.
- Increased sourcing from captive smelters provides a cost advantage vs. competition.
- Current stock price implies EBITDA margin at 17.1% which is lower than 1QFY12. We expect margins to improve going forward.
- Our target price (Rs 150/share) implies 15x FY13E EPS (in line with historical average).

What's in the price?

Current stock price implies a fairly negative margin outlook
Exide's current stock price is implying FY13E EBITDA margins of 17.1%. We base our calculation on an assumption of 15x FY13E P/E (historical average). Exide's 1QFY12 EBITDA margin was 17.8% and has been improving for the last two quarters. We expect margins to continue improving due to better sales mix and higher savings from captive lead sourcing. The market is implying a further compression in margins which we believe is unlikely.

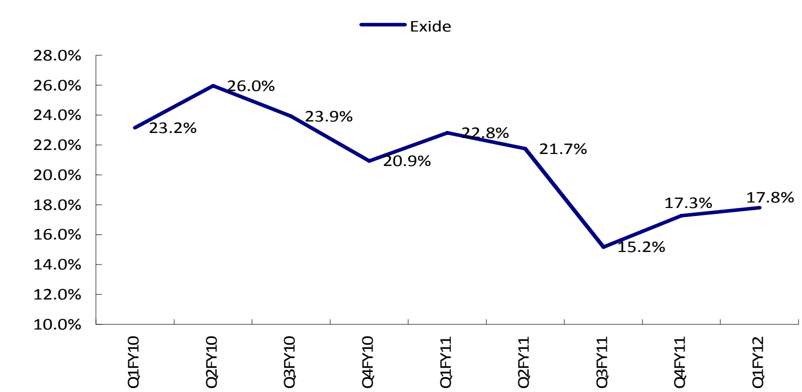
Figure 1: Exide – Sensitivity of FY13E EBITDA margin to various valuation scenarios

		P/E (FY13E)				
		13.0	14.0	15.0	16.0	17.0
Stock price	94	13.8%	12.8%	12.0%	11.2%	10.5%
	117	17.6%	16.4%	15.3%	14.3%	13.5%
	130	19.8%	18.4%	17.1%	16.1%	15.1%
	143	21.9%	20.4%	19.0%	17.8%	16.8%
	156	24.1%	22.3%	20.9%	19.6%	18.4%

Source: Deutsche Bank

EBITDA margins have continued to improve over the last two quarters though the extent of improvement has been disappointing. We expect this trend to continue.

Figure 2: Exide- quarterly EBITDA margin trends



Source: Company data, Deutsche Bank

Key changes in estimates

Figure 3: Exide – changes in estimates

		FY11	FY12E	FY13E	FY14E	Comments
Automotive batteries (nos)	New est	20,709,510	23,902,332	27,200,350	30,951,980	We have not changed our estimates for automotive batteries as we continue to expect a revival in replacement demand.
	Old est		23,694,462	27,011,686	30,912,792	
	Change		*0.9%*	*0.7%*	*0.1%*	
Industrial output (Mah)	New est	1,637	1,593	1,720	1,858	Industrial battery demand continues to be weak due to slowdown in demand for inverters/UPS systems
	Old est		1,972	2,169	2,386	
	Change		*-19.2%*	*-20.7%*	*-22.1%*	
Revenues (Rs m)	New est	45,536	50,293	56,759	64,585	
	Old est		53,473	61,816	71,213	
	Change		*-5.9%*	*-8.2%*	*-9.3%*	
EBITDA (Rs m)	New est	8,788	9,254	11,182	12,788	EBITDA margins are expected to improve in 2HFY12 and in FY13E as higher margin replacement demand revives.
	Old est		9,999	12,116	14,385	
	Change		*-7.5%*	*-7.7%*	*-11.1%*	
EBITDA margin	New est	19.3%	18.4%	19.7%	19.8%	
	Old est		18.7%	19.6%	20.2%	
	Change		*-30bps*	*+10bps*	*-40bps*	
Recurring PAT (Rs m)	New est	5,988	6,459	7,816	8,981	Our net profit has the impact of dividend from the smelter subsidiaries
	Old est		6,808	8,165	9,648	
	Change		*-5.1%*	*-4.3%*	*-6.9%*	
EPS (Rs)	New est	7.0	7.6	9.2	10.6	
	Old est		8.0	9.6	11.4	
	Change		*-5.1%*	*-4.3%*	*-6.9%*	

Source: Company data, Deutsche Bank

Figure 4: Exide - Deutsche Bank estimates vs. consensus

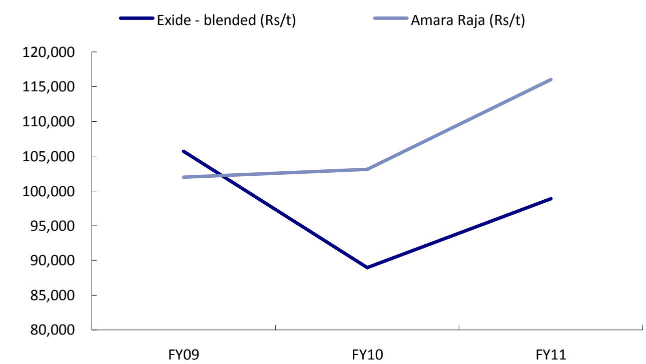
	FY12E			FY13E		
	Deutsche Bank estimates	Consensus	*%diff*	Deutsche Bank estimates	Consensus	*%diff*
Net sales (Rs m)	50,293	54,111	*-7.1%*	56,759	63,904	*-11.2%*
EBITDA (Rs m)	9,254	10,239	*-9.6%*	11,182	12,420	*-10.0%*
EPS (Rs)	7.6	8.2	*-7.9%*	9.2	10.0	*-8.1%*

Source: Bloomberg Finance LP, Deutsche Bank

Ramp-up in captive lead sourcing has led to considerable cost savings

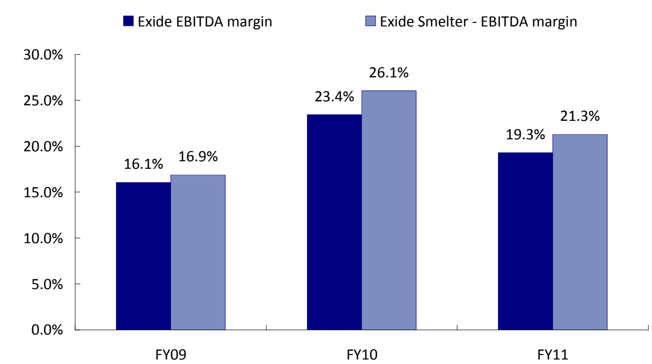
Exide has two captive smelters which process battery scrap (i.e., recycle lead) and lead to make the alloys required for batteries. Exide sources 48% of its requirement from these smelters. Our calculations indicate that Exide is able to achieve a 13-14% lower lead cost than Amara Raja, its key competitor which does not have smelting capacity.

Figure 5: Exide vs. Amara Raja – lead cost per tonne



Source: Company data, Deutsche Bank

Figure 6: Exide and Exide smelter – EBITDA margin



Source: Company data, Deutsche Bank

The company expects to source 57% of its lead requirements from the smelters in FY12E compared to 48% in FY11. This sourcing should increase to 70% over the next 2-3 years. Exide's EBITDA margins (consolidated for the smelters) are 200bps above the stated standalone margins. Overall ROCE for FY10 and FY11 at 82% and 62%, respectively, is broadly in line with standalone ROCE at 84% and 65%. However, consolidated margins are more volatile than the parent.

Smelters do not reduce import dependency

We note that Exide's overall dependency on imported lead is not necessarily lower than Amara Raja as the smelters have significant imports. Blended share of imported lead for Exide was 63% and 49% in FY10 and FY11 compared to 58% and 44% for Amara Raja.

Deutsche Bank forecasts lead prices to be weak in the near term

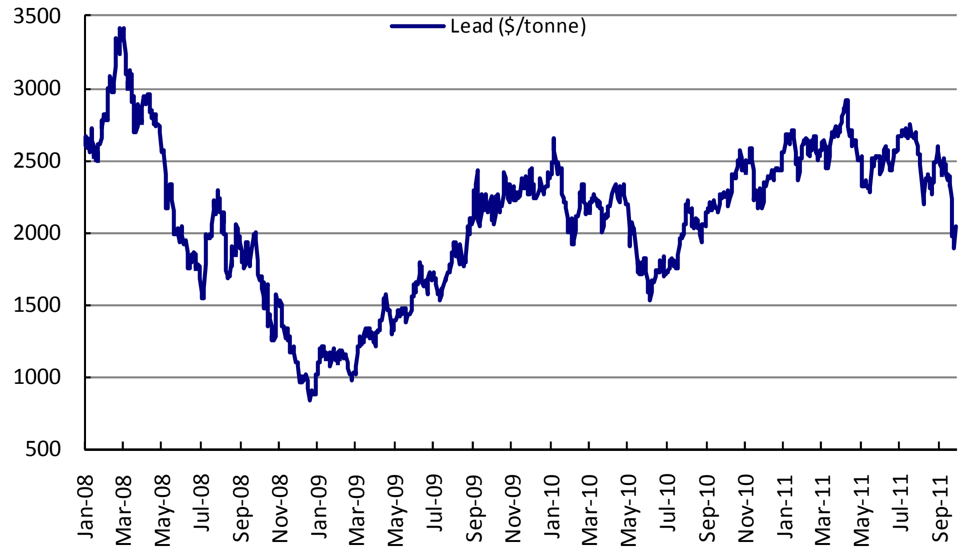
Deutsche Bank's global commodities team has recently cut its lead price forecasts by 7-12%. While lead prices could be weak in the near term, we expect them to trend upwards in CY12.

Figure 7: Lead prices – change in Deutsche Bank estimates

	CY11E	CY12E	CY13E	CY14E
New est (USD/t)	2,486	2,588	2,650	2,700
Old est (USD/t)	2,625	2,950	2,850	2,500
Change (%)	*-5.3%*	*-12.3%*	*-7.0%*	*8.0%*

Source: Deutsche Bank

Figure 8: LME lead price trends



Source: Bloomberg Finance LP

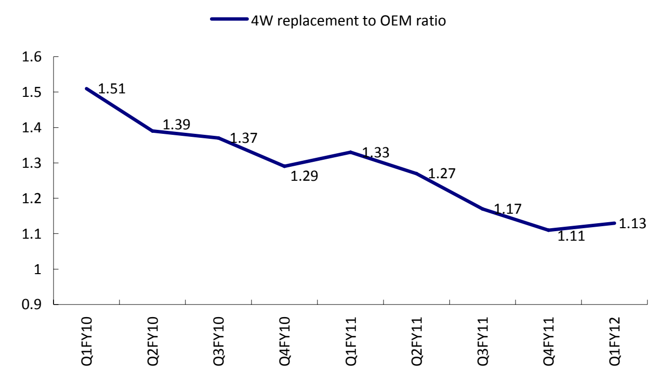
We note that a lower lead price does not necessarily translate into a better EBITDA margin. In industrial batteries, Exide would have to pass on the benefit of the lower lead price to its customers. In the automotive aftermarket, the benefit will depend on competitive intensity which remains elevated at the current times. Our margin forecast is driven primarily by the improvement in the share of aftermarket in battery sales and not a lower lead price.

Automotive division

We expect replacement demand to rebound from 2HFY12 onwards

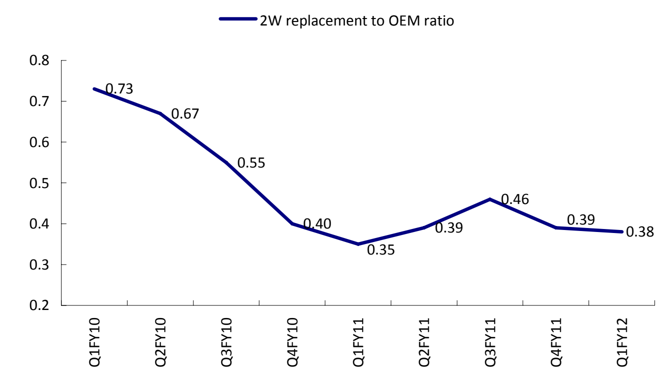
The Automotive division constitutes 65% of Exide's revenues which is further broken up into OEM (20%) and Replacement (45%). While strong OEM volumes are important for long-term revenue generation, we estimate its EBITDA margin at 6-8% vs. 18-20% for the company. Exide's replacement to OEM ratio has been turning adverse for the last seven quarters which has affected its profitability.

Figure 9: 4W – quarterly trend in replacement to OEM ratio



Source: Company data, Deutsche Bank

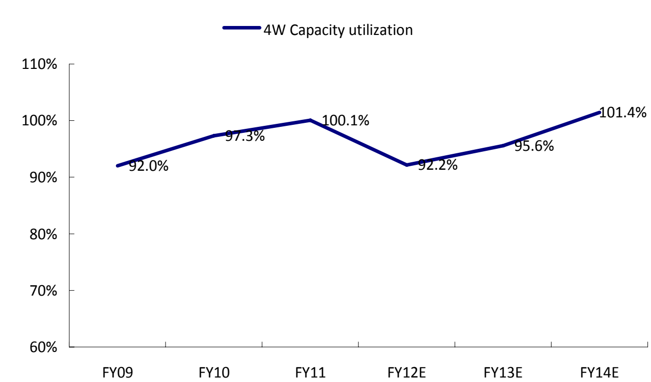
Figure 10: 2W – quarterly trend in replacement to OEM ratio



Source: Company data, Deutsche Bank

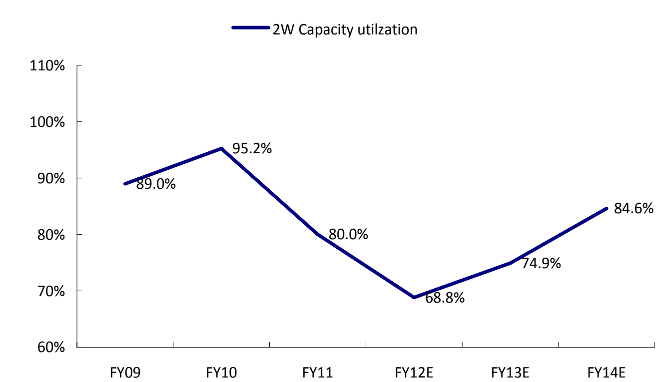
The weakness can be attributed to capacity constraints due to a delay in its expansion project and increased competition from both organized and unorganized players. Amara Raja, Exide's closest peer, has disclosed in its annual report that its replacement market share for 4W has increased from 25% in FY09 to 30% in FY11. It has also garnered a 25% market share in the 2W replacement market within two years of launch.

Figure 11: 4W – capacity utilization



Source: Company data, Deutsche Bank

Figure 12: 2W – capacity utilization



Source: Company data, Deutsche Bank

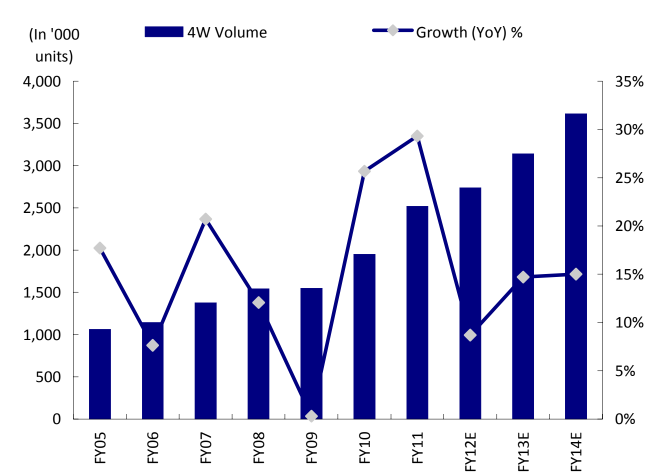
Figure 13: Exide – capacity ramp-up plan

m batteries	FY11 start (Apr-10)	Dec-10	Apr-11	Jul-11	Dec-11	FY13 start (Apr-12)
Motorcycle batteries	10	14.4	16	18.6	21.6	21.6
3/4 wheeler batteries	8.4	9.6	9.7	10.1	12	12
Total	18.4	24	25.7	28.7	33.6	33.6

Source: Company data, Deutsche Bank

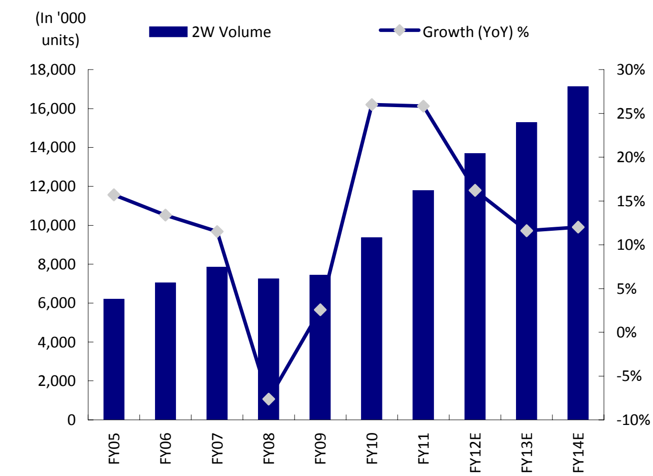
Management commentary from both Exide and Amara Raja indicates a replacement cycle of around three years for automotive batteries. We expect replacement demand to strengthen in FY13/14 as 4W new vehicle sales were strong between FY06 and FY11 (CAGR of 17%). 2W sales also witnessed a similar demand trend over the past three years. Moreover, the increasing proportion of electric-start 2Ws would support replacement volumes further.

Figure 14: 4W – demand growth was strong over FY10/11



Source: SIAM, Deutsche Bank

Figure 15: 2W – demand growth was strong over FY10/11

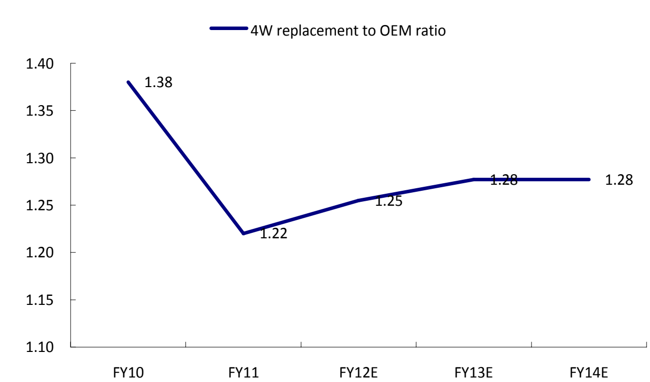


Source: SIAM, Deutsche Bank

Exide's automotive sales mix will likely reflect the underlying trends

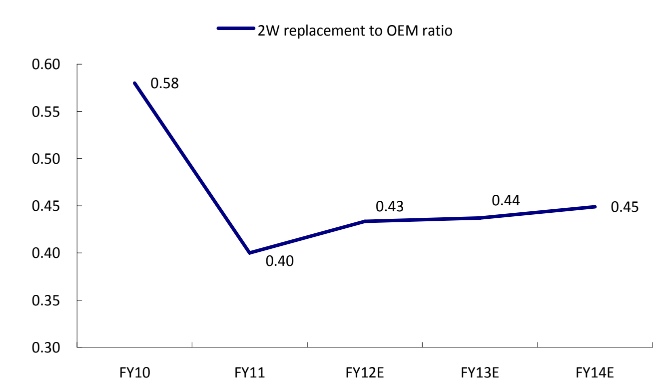
Exide's strong position with the OEM's (65-70% market share) would enable it to capture a healthy share of the replacement demand. However, we do not forecast Exide's sales mix to revert to its peak as we expect it to lose market share.

Figure 16: 4W – annual trend in replacement to OEM ratio



Source: Company data, Deutsche Bank

Figure 17: 2W – annual trend in replacement to OEM ratio

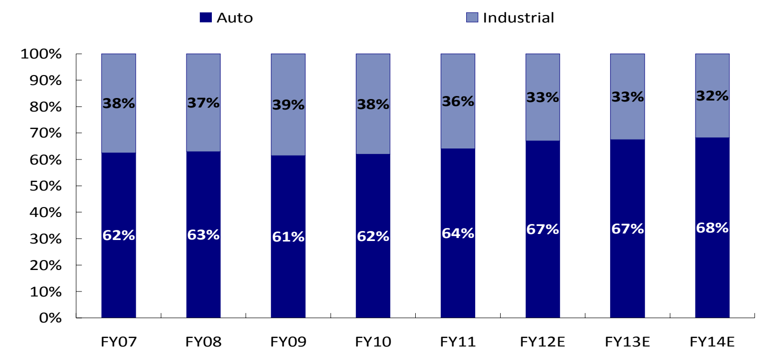


Source: Company data, Deutsche Bank

Industrial division

The Industrial division contributes 35% of Exide's revenues and its revenues are driven by the demand for power back-up solutions (household and commercial). This segment continues to see weak demand and grew 2% in FY11 compared to 18% CAGR during FY05 and FY10. We expect industrial volumes to fall 3% in FY12 and grow at 8% p.a. over FY12-14. We forecast the share of industrial segment to fall from 36% (FY11) to 32% (FY14E).

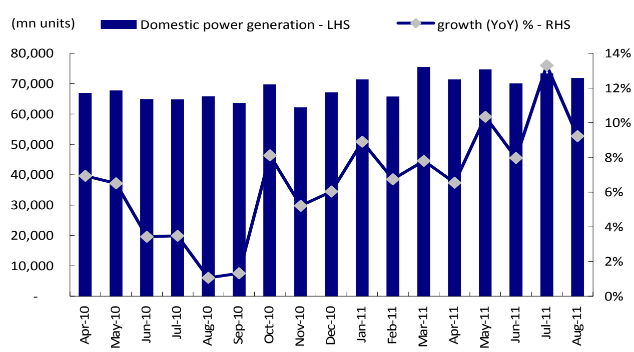
Figure 18: Exide – share of industrial revenues expected to decline



Source: Company data, Deutsche Bank

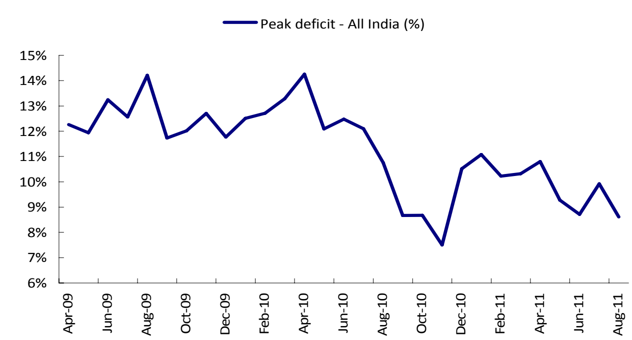
Significant pick-up in power generation has led to lower demand for back-up solutions
Exide derives 20% of its revenues from home inverter/UPS solutions which has been very weak lately. Power generation has grown 6.2% and 5.5% in FY10 and FY11, respectively, and continues to be strong at 9.4% in FY12 YTD. Since demand has grown at a slower pace, there has been significant reduction in the deficit which has likely resulted in lesser power cuts.

Figure 19: India- domestic power generation



Source: Central Electricity Authority

Figure 20: India – peak power deficit



Source: Central Electricity Authority

In addition, management commentary suggests that the summer weather in 2011 was cooler than other years resulting in lower household demand. We note that air-conditioner sales have dipped 20% YoY since the beginning of FY12.

Commentary from Amara Raja and HBL Power systems indicated that battery demand from the telecom sector continued to be muted and overcapacity led to price competition. We expect that the replacement cycle of telecom tower batteries will kick in in FY13 due to significant roll-out during FY07-09.

Financial analysis

Revenue – three-year CAGR (FY11-14E) of 12%

We forecast Exide's revenues to be driven by higher replacement sales in the automotive segment (65% of revenue) and a moderate uptick in industrial volumes in FY13/14. We expect automotive battery volume to grow at a CAGR (FY11-14E) of 14%. In the industrial segment, we expect volume growth to be notably lower (4% p.a.), as the demand outlook for power back-up and UPS solutions remains weak in the medium term.

EBITDA margins to stabilize

We forecast Exide's EBITDA margins to fall 90bps in FY12 to 18.4% and then improve to 19.8% by FY14 on account of an improvement in sales mix in favor of replacement batteries. However, margins are unlikely to revert to the FY10 peak (23.4%), as we do not expect any significant uptick in the industrial segment. Overall, we forecast EBITDA to grow at a CAGR (FY11-14E) of 13.5%.

Net profit growth to be slightly higher than EBITDA

Exide earns dividend incomes from its 100% owned smelter subsidiaries. We expect this dividend to grow in line with the ramp-up in volumes at the smelters. In addition, Exide's other financial incomes would also increase due to its improving cash balance. We forecast EPS CAGR (FY11-14E) of 14.5%.

Capex and cash flows

We expect the company to incur capital expenditure of Rs 8.7bn over FY12-14E to enhance battery capacity in the automotive segment. The company will also likely expect to continue investing in its life insurance joint venture, and we forecast overall investment of Rs 4.0bn over the same period. We expect the company to fund these requirements comfortably as we forecast it to generate operating cashflow of Rs 25bn over the same period.

Figure 21: Exide – capex and cashflows

Mar ending (Rs m)	2007	2008	2009	2010	2011	2012E	2013E	2014E
Cash profit	1,984	3,145	3,439	6,356	6,907	7,344	8,921	10,196
Change in WC	(220)	(1,388)	808	(945)	(2,015)	(128)	(682)	(825)
Cash from operations	**1,764**	**1,757**	**4,247**	**5,410**	**4,893**	**7,216**	**8,239**	**9,371**
Capex	(936)	(1,692)	(1,515)	(1,098)	(2,708)	(3,700)	(2,500)	(2,500)
Investments	(995)	(1,403)	(946)	(1,196)	(1,423)	(1,500)	(1,250)	(1,250)
Operating free cash flow	**(167)**	**(1,337)**	**1,786**	**3,117**	**761**	**2,016**	**4,489**	**5,621**
Net debt/(Cash)	*3,233*	*3,481*	*2,282*	*(5,158)*	*(5,158)*	*(4,945)*	*(7,606)*	*(11,125)*

Source: Company data, Deutsche Bank

Valuation and risks

Target price and valuation methodology

We derive our new target price of Rs 150/share for Exide based on a sum-of-the-parts (SOTP) methodology. We value the core battery business using DCF at Rs 140/share and its 50% stake in the life insurance joint venture at book value (Rs 10/share). The company is a free-cash flow generating company and hence we prefer discounting of future cash flows as our method of valuing the company's battery business.

DCF assumptions and sensitivity

We have used a 15-year timeframe for our DCF forecasts, with revenue growth initially increasing from FY13E to FY17E and then trending down over our forecast period to 6% by 2027. We expect capex/sales to stabilize at around 4.0% and EBIT margin to stabilize close to FY13 levels of 17.6%. Our assumptions are: a risk-free rate of 6.7%, a risk premium of 8.1%, beta of 0.9 and a terminal growth rate of 4%. Our terminal growth rate is in line with the expected long-term growth rate of households in India. Our resulting WACC is 14%.

Figure 22: Exide – DCF assumptions and sensitivity

Assumptions							
WACC	14.0%						
Terminal growth rate of cashflow	4%						
Terminal value	274,679			**Terminal growth rate**			
PV of terminal value	38,532			2.0%	4.0%	6.0%	8.0%
Enterprise value	113,679		13.0%	147	158	176	208
TV as % of total	34%	**WACC**	13.5%	139	148	163	189
Net debt	(4,945)		14.0%	131	140	152	173
Equity value	118,624		14.5%	125	132	142	159
Equity value per share	**140**		15.0%	119	125	134	148

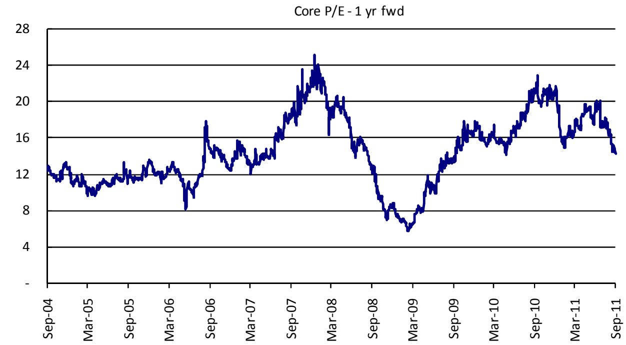
Source: Deutsche Bank

Current valuations are at a discount to historical average

Our implied target multiples translate into 15x FY13E EPS for the core battery business which is in line with Exide's long-term average. The current stock price is valuing the battery business at 13x FY13E EPS (13% discount to average).

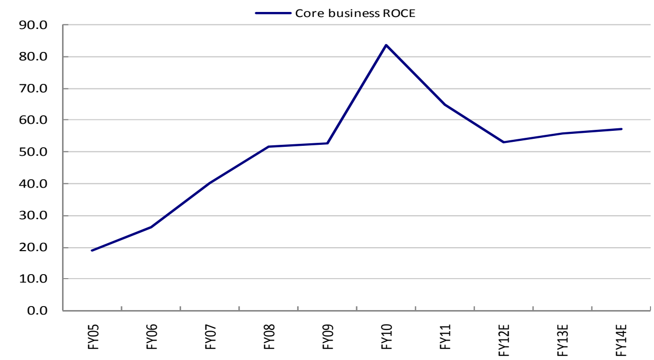
There has been a structural improvement in Exide's profitability and ROCE over the past few years. The average EBITDA margin for Exide over FY05-09 was in the range of 15-16% vs. 19% over FY12-14E. Similarly, core ROCE of the business has been trending up and is now in excess of 50%. The company is now a net cash company, with minimal funding gap going forward. Hence, we believe that the company should trade at least in line with its historical average.

Figure 23: Exide – one-year forward rolling P/E



Source: Bloomberg Finance LP, Deutsche Bank

Figure 24: Exide – ROCE has trended upwards



Source: Company data, Deutsche Bank

Risks

Lower-than-expected pick-up in automotive replacement demand

We have assumed Exide’s margins will improve on the back of higher replacement sales. However, if replacement sales pick up later than expected or if Exide is unable to claw back its market share, it would impact our revenue and earnings estimates.

Further slowdown in demand for industrial batteries

Exide’s profitability was significantly impacted in FY11 by a slowdown in demand for power back-up and UPS solutions. We expect moderate demand growth for these applications over the next three years. However, if there is a further slowdown in demand, it would negatively affect our forecasts.

Intensification of the price war by smaller players

There has been an overcapacity in the industrial batteries segment and automotive capacity is also increasing. We have expected that Exide would not be able to take price increases as frequently as in the past. However, if the price war intensifies, it would result in a fall in realisations which we had not expected at this stage.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Exide Industries Ltd	EXID.NS	131.40 (INR) 29 Sep 11	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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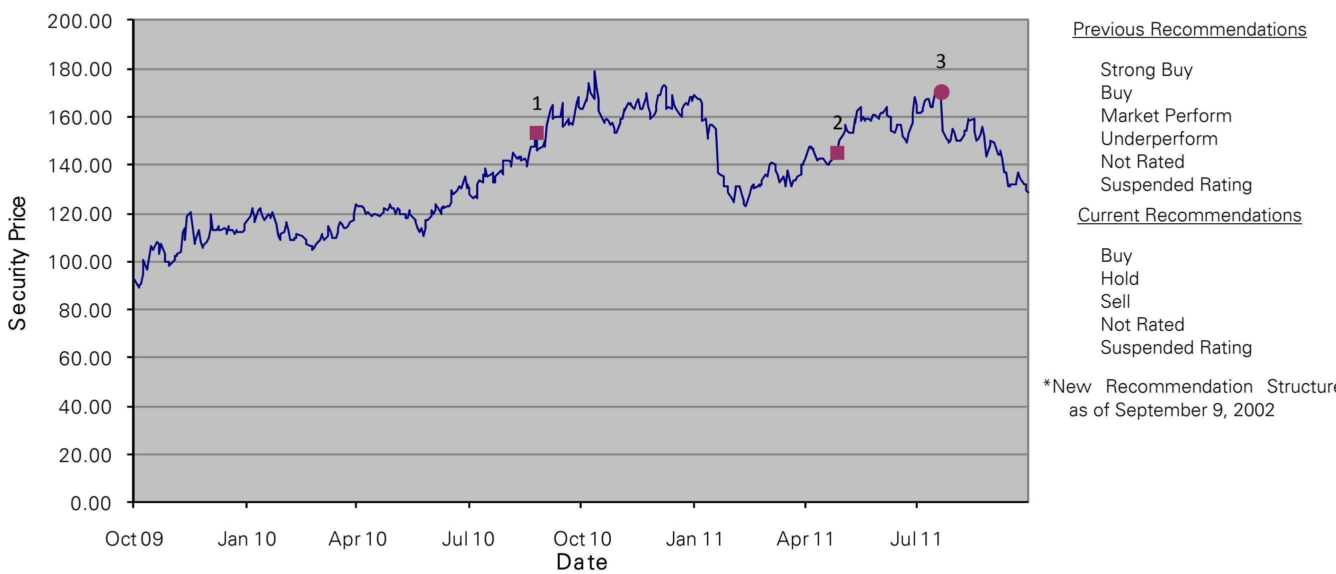
(as of 9/29/2011)



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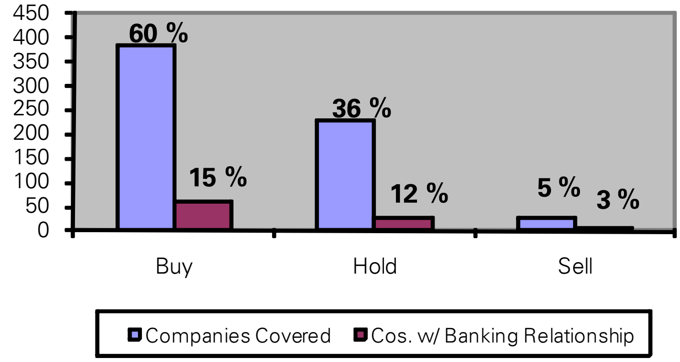

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