

Exide Industries Limited**Urmil Negandhi**

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(Rs. 71.00, FY09E - P/E 19.1x, BUY with a Target Price of Rs. 88)*Exide acquired 51% stake in an leading smelting company Leadage Alloys India***Exide has acquired second lead smelting unit Leadage Alloys India Ltd.**

Exide, India's largest storage battery manufacturer has acquired 51% stake in a lead smelting company Leadage Alloys India Ltd. located near Bangalore for an undisclosed amount. As the board had approved maximum investment of Rs 350 mn for the acquisition, it is a good indicator of the cost of acquisition. This is Exide's second acquisition of smelting unit after acquisition of Tondon Metals in Maharashtra.

Leadage is a family run lead refining company with a production capacity of ~24,000 tonnes. It is one of the largest manufacturers of lead and its alloys and is a supplier to Exide. It has been collecting scrap from Exide's dealers and supplying with recycled lead. It is also a supplier to Amara Raja Batteries. Exide has acquired the stake from the promoters and may make additional investments to raise capacity.

Acquisition would lead to increased usage of recycled lead and lower dependence on imported lead, thereby saving costs

Exide had in recent past acquired 100% stake in Tandon Metals, an unlisted company located in Maharashtra, at an investment of Rs220 mn. Tandon Metals has lead smelting capacity of ~6,000 tonnes and was a supplier to Exide. Leadage Alloys is Exide's second acquisition of an existing supplier and indicates management's strategy to have greater control over smelting capacity. This would lead to increased usage of recycled lead and lower dependence on imported lead, thereby saving costs. We believe that Exide will likely expand the production capacity of Leadage which might involve further investments. With this acquisition, the company will be able to exercise control over ~20% of its lead requirement. We assess captive procurement by the company in initial phase will be lower as the acquired company might have commitments to other customers as well. We view this acquisition as positive development. We believe it will help the company to reduce its dependence on imported lead and thus giving boost to its margins.

Business Outlook and Valuation*Exide is the largest power storage solution company in South East Asia*

Exide Industries Limited, India's flagship of the storage battery industry, is also the largest Power Storage Solutions Company in South East Asia. The Company power most of the industrial and automotive segments in the country and the products are used in critical applications in infrastructure and defence sectors. Exide is India's largest manufacturer of automotive batteries with 72% market share in the Original Equipment Manufacturers (OEM) battery segment and 80% market share in passenger vehicles market in India. The company is expected to witness strong revenue growth from high margin and booming replacement demand on the back of its market leadership in OEM automotive segment. The strong growth in high margin industrial battery segment is a key driver for the company going forward. We envisage industrial segment to grow by 22.1% CAGR for FY07- 10E on the back of huge demand and capex/ investment in telecom, power and railway. We expect operating margins to improve by 40 basis points from 16.5% in FY07 to 16.9% in FY10E due to better product mix, high margins and cost reduction exercises. We believe Exide will able to retain if not increase its market share on the back of strong brand and wide-spread sales and distribution network (over 8,000 dealers outlets and 100 Exide Care shops). We view this acquisition as positive development. We believe it will help the company to reduce its dependence on imported lead and thus giving boost to its margins.

Given the company's continued strong performance in domestic market on the back of its market leadership and strong brands, we expect exciting times ahead for Exide. We expect Exide to report strong growth in revenues at CAGR 27% during FY07-FY10E. We expect the company to record Net profit growth at CAGR 35% during FY07-FY10E.

Financial Estimates

Particulars	FY09E	FY10E
Net Sales (Rs Mn)	31034.4	38748.2
EBITDA (Rs Mn)	5182.7	6548.5
EBITDA(%)	16.7	16.9
PAT (RS Mn)	2927.0	3801.6
EPS (Rs)	3.7	4.8
P/E (x) AT Rs 71	19.1	14.7

* Current Order, Source: Company

We are quite optimistic about Exide's future revenue growth. The stock is currently trading at 19.1x FY09E EPS of Rs 3.7 and 14.7x FY10E EPS of Rs 4.8 on a stand alone basis. It is trading at 10.8x FY09E and 8.5x FY10E EV/EBDITA on a stand alone basis. We believe these valuations are attractive and offer excellent long term investment opportunity considering its strong growth potential on the back of market leadership in automotive segment, booming replacement demand, increasing contribution from Industrial segment, latest technological skills, strong brand image and wide spread distribution network. We have valued Exide Industries on sum-of-the-parts basis. We value exide's core battery business at Rs 70 based on DCF valuation. We believe investment in ING Vysa Life insurance company to be value accretive and arrive at a value of Rs 18 for Exide's share in insurance joint venture. We maintain 'BUY' recommendation on the company at SOTP target price of Rs 88.

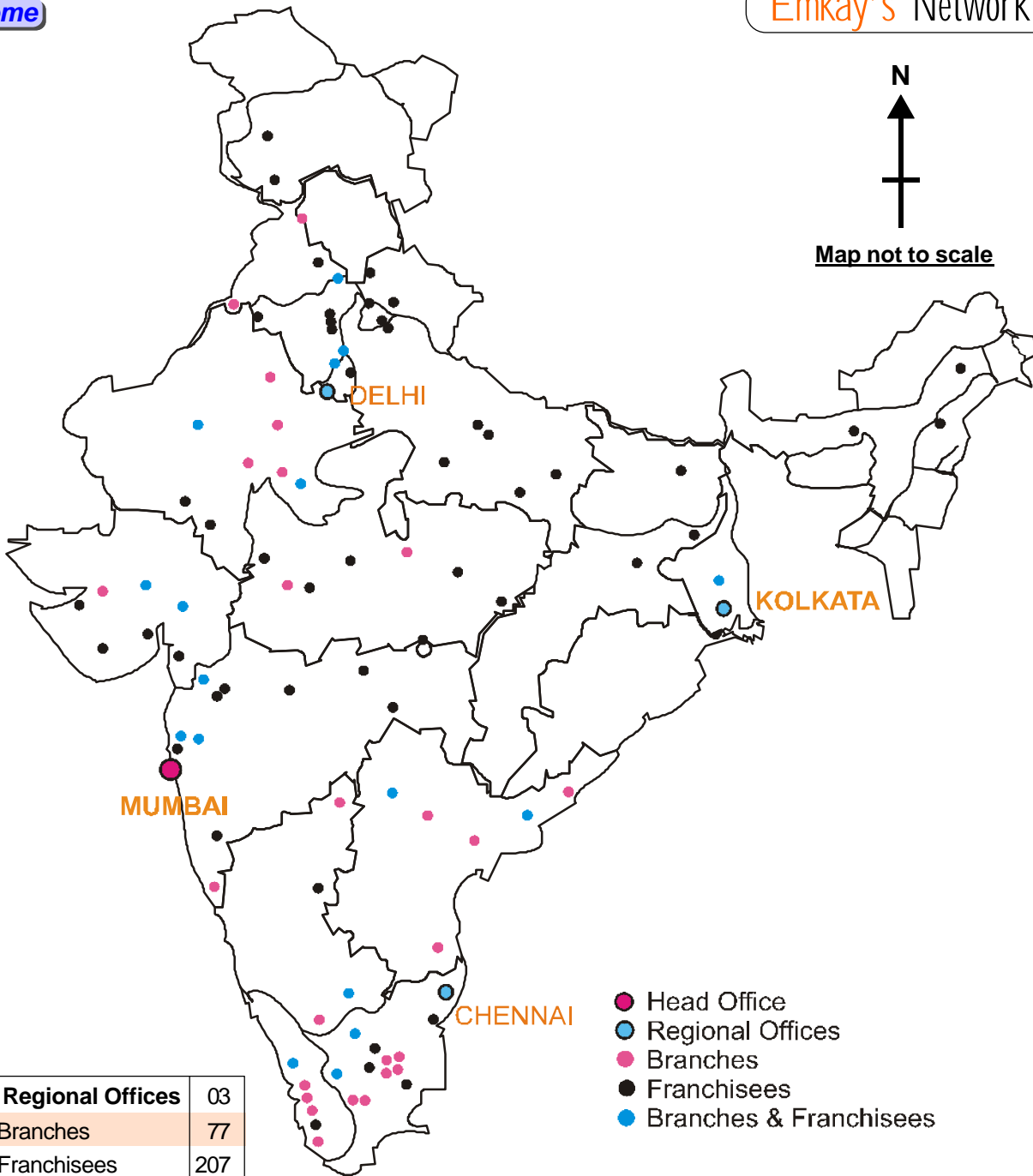
We maintain BUY at SOTP target price of Rs 88

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Emkay's Network



Map not to scale



- Head Office
- Regional Offices
- Branches
- Franchisees
- Branches & Franchisees

Total Regional Offices	03
Total Branches	77
Total Franchisees	207

Regional Offices

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Analyst's holding in the stocks mentioned in the report: **NIL**

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