

Oct 27, 2010

Key Data	₹
CMP	193
Target Price	201
Bloomberg Code	AMRJ IN
Reuters Code	AMAR.BO
BSE Code	500008
NSE Code	AMARAJABAT
Face Value (₹)	2
Market Cap (₹ Bn)	16.4
52 Week High (₹)	228
52 Week Low (₹)	139
Avg. Daily Volume (6m)	2,68,469

Shareholding	%
Promoters Group	52.1
Banks / Mutual Fund / FI	17.8
FII	3.3
Bodies Corporate	4.5
Individuals	15.7
Others	6.6
Total	100

## Amara Raja Batteries Ltd

### 2Q FY11 Results

Amara Raja Batteries Ltd (ARBL) reported lower than estimated numbers for Q2 FY11. ARBL revenue grew 8.7% on YoY basis to ₹3,924.7 million. Operating profit margins declined 910 bps on YoY basis to 14.5%. Net profits declined 34% on YoY basis to ₹316 million.

### Key Highlights

- In Q2 FY11, ARBL revenue decreased to ₹ 3,924.7 million from ₹ 4,467.4 million in Q1 FY11 – decline of 12.1% on Q-o-Q basis.
- The Operating margins in Q2 FY11 stood at 14.5%. The operating margins increased 60 basis points on Q-o-Q basis. ARBL reported operating profit of ₹ 568.3 million as compared to 620.5 million in Q1 FY11.
- ARBL continues to face margin pressure due to slowdown in the telecom segment. The telecom segment contributes significant portion of company's revenues (~30%), and hence pricing pressures continue to drag the operating margin.
- Net Profit was ₹ 316 million as against ₹ 357.2 million in Q1 FY11.
- Auto volumes continue to remain robust on back of strong OEM demand. Sales in the automotive replacement segment have also remained robust. The Industrial segment is growing steadily except for the telecom segment. Network expansion has slowed down in the telecom segment as the companies are now focusing on enhancing efficiency and upgrading existing networks. ARBL is likely to face margin pressure in the telecom segment for next 2-3 quarters, which will drag on the overall margins.

### Quarterly Financials

Particulars (₹ Mn)	Q2 FY11	Q2 FY10	Y-o-Y Change	Q1 FY11	Q-o-Q Change
Net Sales	3,909.8	3,606.3	8.4	4,466.3	-12.5
Other operating income	14.9	5.4	176.3	1.1	1213.2
<b>Total Operating Income</b>	<b>3,924.7</b>	<b>3,611.7</b>	<b>8.7</b>	<b>4,467.4</b>	<b>-12.1</b>
Total Expenditure	3,356.4	2,760.4	21.6	3,846.9	-12.7
<b>Operating Profit</b>	<b>568.3</b>	<b>851.3</b>	<b>-33.2</b>	<b>620.5</b>	<b>-8.4</b>
<b>OPM%</b>	<b>14.5</b>	<b>23.6</b>		<b>13.9</b>	
Other Income	15.7	9.6	63.1	9.0	74.0
Depreciation	105.1	106.6	-1.4	102.6	2.4
Interest	4.3	25.7	-83.1	4.3	1.0
<b>Profit Before Tax &amp; Excep Item</b>	<b>474.5</b>	<b>728.6</b>	<b>-34.9</b>	<b>522.6</b>	<b>-9.2</b>
Exceptional item	2.4	-2.6	-192.3	-10.9	-122.0
<b>Profit Before Tax</b>	<b>472.0</b>	<b>731.2</b>	<b>-35.4</b>	<b>533.5</b>	<b>-11.5</b>
<b>PBT%</b>	<b>12.1</b>	<b>20.3</b>		<b>11.9</b>	
Tax	156.0	252.2	-38.1	176.2	-11.5
<b>Net Profit</b>	<b>316.0</b>	<b>479.0</b>	<b>-34.0</b>	<b>357.2</b>	<b>-11.5</b>
<b>PAT %</b>	<b>8.1</b>	<b>13.3</b>		<b>8.0</b>	

Source: Company, ACMIL Research

Analyst

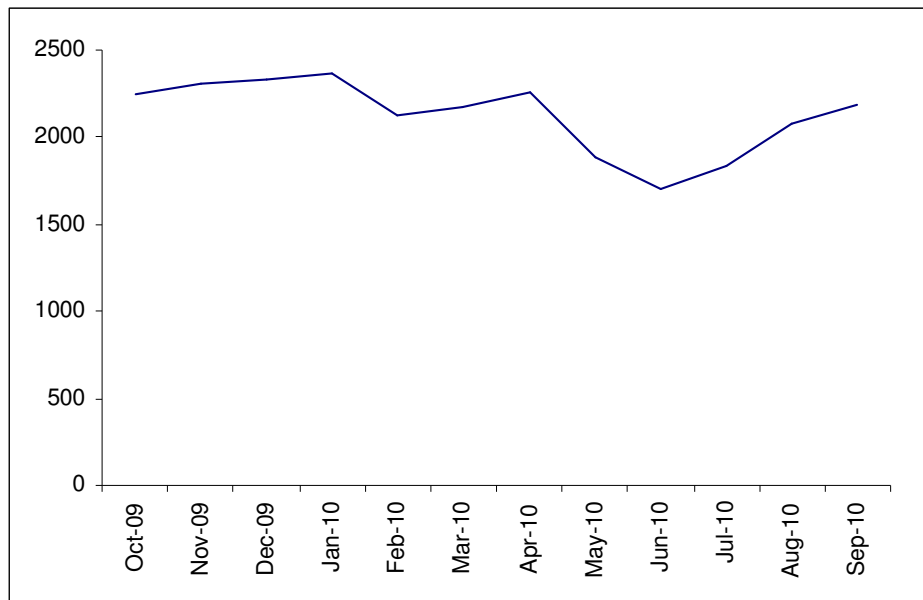
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**Lead Prices Movement**

(USD Per tonne)



**Source: LME, ACMIIL Research**

After recent correction, lead prices have moved up. After reaching a low of \$1,703 per tonne in June 2010, prices are now trading at \$2,184 per tonne.

**Valuation**

We have estimated EPS of ₹ 18.3 in FY12. We assign multiple of 11x (30% discount to market leader Exide’s target P/E of 16x) to arrive at value of ₹ 201 per share. Given the continuing slowdown in the telecom segment, we downgrade our recommendation to **“Hold”**.

### Financials

#### Profit & Loss Statement

(₹ Mn)

Particulars	FY08	FY09	FY10	FY11E	FY12E
Net Sales	10,833.3	13,177.2	14,652.1	16,326.1	19,329.0
Add : Other Income	56.4	80.6	170.2	81.6	96.6
<b>Total Income</b>	<b>10,889.6</b>	<b>13,257.8</b>	<b>14,822.3</b>	<b>16,407.7</b>	<b>19,425.6</b>
<b>less: Expenditure</b>	<b>9,056.5</b>	<b>11,503.3</b>	<b>11,778.8</b>	<b>13,880.4</b>	<b>16,456.7</b>
Operating Profit	1,776.8	1,996.2	2,873.3	2,396.7	2,891.6
less: Depreciation	244.5	345.6	429.5	489.1	547.8
PBIT	1,588.7	1,409.0	2,614.1	2,038.1	2,421.1
less:Interest	129.3	182.4	67.7	103.4	81.9
<b>PBT</b>	<b>1,459.4</b>	<b>1,226.6</b>	<b>2,546.3</b>	<b>1,934.7</b>	<b>2,339.2</b>
less:Tax	515.8	421.8	876.0	644.3	776.6
<b>Net Profit</b>	<b>943.6</b>	<b>804.8</b>	<b>1,670.3</b>	<b>1,290.5</b>	<b>1,562.6</b>
Sales Growth (%)	81.8	21.6	11.2	11.4	18.4
Operating Profit Growth (%)	116.8	12.3	43.9	-16.6	20.7
Net Profit Growth (%)	100.6	-14.7	107.5	-22.7	21.1
Operating Margin (%)	16.4	15.1	19.6	14.7	15.0
NP Margin (%)	8.7	6.1	11.3	7.9	8.0

Source: Company, ACMIIL Research

#### Balance Sheet

(₹ Mn)

Particulars	FY08	FY09	FY10	FY11E	FY12E
<b>Share Capital</b>	<b>113.9</b>	<b>170.8</b>	<b>170.8</b>	<b>170.8</b>	<b>170.8</b>
Reserves & Surplus	3,217.1	3,885.1	5,265.6	6,266.3	7,539.1
<b>Total Shareholders Fund</b>	<b>3,331.0</b>	<b>4,055.9</b>	<b>5,436.4</b>	<b>6,437.1</b>	<b>7,709.9</b>
Total Loans	3,162.6	2,858.7	911.9	1,149.0	861.7
Deferred Tax Liability	169.5	182.5	216.4	216.4	216.4
<b>Total Sources of Fund</b>	<b>6,663.1</b>	<b>7,097.1</b>	<b>6,564.7</b>	<b>7,802.4</b>	<b>8,788.0</b>
Application of Fund					
Gross Block	3,105.8	4,270.9	4,911.1	5,893.3	6,600.5
less:Depreciation	1,217.3	1,457.7	1,853.8	2,343.0	2,890.8
<b>Net Block</b>	<b>1,888.5</b>	<b>2,813.2</b>	<b>3,057.3</b>	<b>3,550.3</b>	<b>3,709.7</b>
Investments	162.0	471.0	160.8	192.9	165.9
Total Current Assets	5,749.3	5,259.9	6,310.6	6,590.1	7,791.3
Total Current Liabilities	1,794.1	1,843.1	3,068.9	2,820.9	3,278.9
<b>Net Current Assets</b>	<b>3,955.2</b>	<b>3,416.8</b>	<b>3,241.7</b>	<b>3,769.2</b>	<b>4,512.4</b>
<b>Total Application Of Fund</b>	<b>6,663.1</b>	<b>7,097.1</b>	<b>6,564.7</b>	<b>7,802.4</b>	<b>8,788.0</b>

Source: Company, ACMIIL Research

### Cash Flow Statement

(₹ Mn)

Particulars	FY08	FY09	FY10	FY11E	FY12E
Profit Before Tax	1,459.4	1,226.6	2,546.3	1,934.7	2,339.2
Depreciation	244.5	345.6	429.5	489.1	547.8
Interest Paid	129.3	182.4	67.7	103.4	81.9
Net Operating Profit Before working capital change	1,949.3	1,956.0	3,186.7	2,527.3	2,968.9
<b>Net Cash Flow from Operating activities</b>	<b>-170.8</b>	<b>2,239.4</b>	<b>2,142.5</b>	<b>960.5</b>	<b>1,471.9</b>
<b>Net Cash used in Investment Activities</b>	<b>-1,157.0</b>	<b>-1,321.5</b>	<b>-176.8</b>	<b>-1,077.5</b>	<b>-790.2</b>
<b>Net Cash from Financing activities</b>	<b>1,583.3</b>	<b>-726.5</b>	<b>-2,044.0</b>	<b>-156.1</b>	<b>-658.9</b>
Net Increase/decrease in cash & cash equivalent	255.5	191.4	-78.2	-273.0	22.8
Cash at Beginning	256.0	511.5	702.9	624.7	351.6
<b>Cash at End of Period</b>	<b>511.5</b>	<b>702.9</b>	<b>624.7</b>	<b>351.6</b>	<b>374.4</b>

Source: Company, ACMIL Research

### Valuation Ratios

Particulars	FY08	FY09	FY10	FY11E	FY12E
<b>Profitability Ratios</b>					
Operating Margins (%)	16.4	15.1	19.6	14.7	15.0
PAT After Minority Interest (%)	8.7	6.1	11.3	7.9	8.0
ROCE (%)	23.8	19.9	39.8	26.1	27.5
RONW (%)	28.3	19.8	30.7	20.0	20.3
<b>Capital Structure Ratios</b>					
Debt-Equity	0.9	0.7	0.2	0.2	0.1
<b>Turnover Ratios</b>					
Fixed Assets	3.5	3.1	3.0	2.8	2.9
Inventory	5.6	8.2	6.7	6.9	6.9
Debtors	4.8	6.3	6.0	6.1	5.9
Creditors	11.2	12.3	8.6	10.6	10.9
<b>Solvency Ratios</b>					
Current Ratio	3.2	2.9	2.0	2.3	2.4
Interest Coverage Ratio	12.3	7.7	38.6	19.7	29.6
<b>Valuation Ratios</b>					
EPS	16.6	9.4	19.6	15.1	18.3
BV/Share	58.5	47.5	63.7	75.4	90.3
P/E (X)			9.9	12.8	10.5

Source: Company, ACMIL Research

## Notes

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