

RESULTS FIRST LOOK

At INR0.63bn, adjusted PAT was significantly below our and consensus estimates on higher raw material costs and decline in volumes. Volumes declined 6% y/y in the Auto 4W and 5% y/y in the industrial segment. According to Exide, there was a loss of INR0.4-0.5bn given higher cost inventory in the quarter; further, the benefit of lower lead prices will only come at the end of the next quarter. Management expects an improvement in PBDIT margins to 18-19% next year. Our FY13E earnings are 7% below consensus; we see potential downside risks to both ours and consensus estimates. Maintain Neutral.

Price target: 148.0 INR

Price (20 Oct 2011): 121.3 INR

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Results disappoint on higher raw material prices and decline in volumes

• Earnings vs. our Forecast: **BELOW**

Likely Impact:

• Earnings Estimates: **DOWN**

• Dividend Estimates: **DOWN**

• Price Target: **DOWN**

• Long-term View: **CONFIRMED**

According to Exide, there was a loss of INR0.4-0.5bn owing to higher cost inventory in the quarter. The company usually keeps an inventory of two months; therefore, the actual benefit of softer lead prices would only come at the end of the next quarter, according to management. Further, there was a forex loss of INR114mn in the current quarter. Adjusted for inventory and forex losses, the EBITDA margin came in at 12.5%, still below our expectations of 16.9%.

During the quarter, volumes declined in both Auto 4W and the industrial segment.

- Auto 4W Segment: Lower off-take from both OEMs and the Replacement segment led to sales volumes being lower by 6% y/y.
- OEM to replacement ratio declined to 1.0 in 2QFY12 from 1.13 in 1QFY12, which also had a negative impact on margins
- Industrial segment: Volumes were down 5% y/y owing to a lack of growth across the board
- Two-wheeler segment: Volumes were up 30% y/y

Other result highlights

- Net sales at INR 11.7bn came in below our estimate of INR 12.3bn
- EBITDA margins came in at 8.6%, sharply lower than our estimate of 16.9%
- RM/Sales came in at 72.3% compared to our estimate of 63.8%
- Employee cost/sales came in at 5.5% compared to our estimate of 5.8%
- Other expenses/sales came in at 14.6% compared to our estimate of 13.5%
- Other income is lower q/q given higher dividend income from subsidiaries in the previous quarter
- During the quarter, there was a net mark-to-market loss of INR114mn on forex hedging instruments because of rupee depreciation.

Figure 1: Earnings significantly below ours and consensus estimates

	INR mn			% difference from	
	Actual	Consensus	Nomura	Consensus	Nomura

Net Sales	11,718	12,393	12,285	-5.4%	-4.6%
EBITDA	1,009	2,165	2,070	-53.4%	-51.3%
Net Profit	626	1,504	1,522	-58.4%	-58.9%

Source: Company data, Bloomberg, Nomura estimates

Figure 2: 2QFY12 Results

Quarter Ended	Sep-10	Jun-11	Sep-11	QoQ	YoY	Sep-11F
Net Sales	11,267	12,437	11,718	-5.8%	4.0%	12,285
Operating Costs	8,823	10,247	10,709	4.5%	21.4%	10,215
as % of Net Sales	78.3%	82.4%	91.4%	9.0%	13.1%	83%
Material Costs	6,692	7,932	8,350	5.3%	24.8%	7,838
as % of Net Sales	59.4%	63.8%	71.3%	7.5%	11.9%	63.8%
Personnel Costs	660	719	644	-10.4%	-2.4%	719
as % of Net Sales	5.9%	5.8%	5.5%	-0.3%	-0.4%	5.8%
Other Overheads	1,471	1,596	1,715	7.4%	16.6%	1,658
as % of Net Sales	13.1%	12.8%	14.6%	1.8%	1.6%	13.5%
Gross Profit	4,576	4,504	3,368	-25.2%	-26.4%	4,447
EBITDA	2,445	2,190	1,009	-53.9%	-58.7%	2,070
Other Income	196	315	87	-72.4%	-55.5%	315
PBDIT	2,640	2,505	1,096	-56.2%	-58.5%	2,385
Depreciation	201	237	247	4.1%	22.5%	237
Interest	17	11	16	0.0%	0.0%	11
Pre-tax Profit	2,422	2,257	833	-63.1%	-65.6%	2,137
Tax	768	650	208	-68.1%	-73.0%	616
PAT	1,655	1,607	626	-61.0%	-62.2%	1,522
EO Gain / (Loss)	475	26	(114)			-
Reported Net Profit	2,129	1,633	511	-68.7%	-76.0%	1,522
EBITDA Margin	21.7%	17.6%	8.6%	-9.0%	-13.1%	16.9%
PBDIT Margin	23.4%	20.1%	9.4%	-10.8%	-14.1%	19.4%
EPS	2.51	1.92	0.60	-68.7%	-76.0%	1.79
NPM (%)	14.7%	12.9%	5.3%			12.4%
Adj EPS	1.95	1.89	0.74	-61.0%	-62.2%	1.79

Source: Company data, Nomura estimates

Valuation Methodology and Investment Risks: Valuation Methodology: Our target price is INR148. We value Exide Industries' core business at 15x FY13F EPS of INR 9.3. This is in line with past three-year average one-year forward P/E multiples. We value the investment in insurance business at book value of INR 8.8/share. Risks that may impede the achievement of the target price: Upside risks: New areas of growth Exide Industries is focusing on developing and marketing lithium-ion batteries for emerging electric vehicles. The company also developed deep cycling E-bike batteries and is in the process of developing stop-start batteries for micro hybrid vehicles. These can be new areas of growth that we have not factored in. Expanding reach to gain back lost market share in replacement segment Exide has developed a hub-and-spoke model for distribution that is controlled by regional monitoring centers. The company has expanded to 206 locations through this and plans to increase it to 250 by end 2011. This has enabled the company to reach out to class B and class C companies and improve market share in the replacement market. Increased market share in segments like CVs and tractors can provide additional volumes to the company. Downside risks: High competition in Industrial Segment High competition and low demand in the telecom and home inverter segment is forcing the company to give discounts. The company has also been unable to pass on the sharp increase in lead price to customers. In case this trend continues, there will be downside risks to our estimates. Market share loss in the replacement segment According to the company they have lost 8% to 9% market share in the replacement segment over the last one year. In case Exide is unable to win back some of the lost share there will be downside risks to our estimates.

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Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Exide Industries	EXID IN	121.3 INR	20 Oct 2011	Neutral	

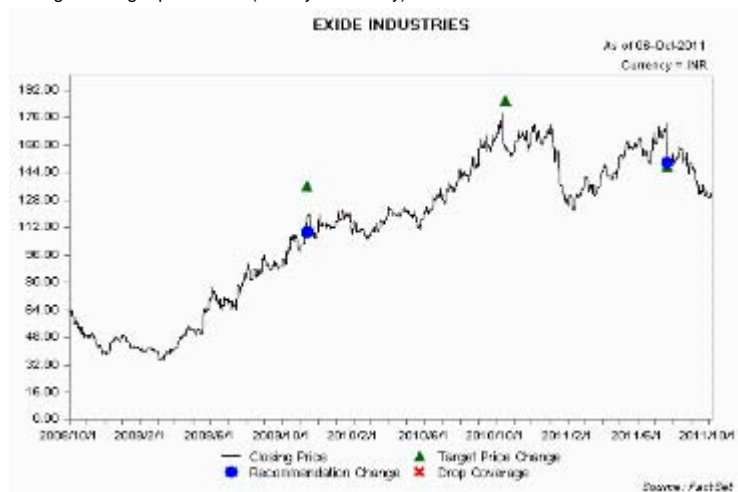
Previous Rating

Issuer name	Previous Rating	Date of change
Exide Industries	Buy	22 Jul 2011

Exide Industries (EXID IN)

121.3 INR (20 Oct 2011) Neutral

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
22-Jul-2011		148.00	149.80
22-Jul-2011	Neutral		149.80
18-Oct-2010		186.00	156.50
12-Nov-2009		136.00	109.10
12-Nov-2009	Buy		109.10

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price is INR148. We value Exide Industries' core business at 15x FY13F EPS of INR 9.3. This is in line with past three-year average one-year forward P/E multiples. We value the investment in insurance business at book value of INR 8.8/share.

Risks that may impede the achievement of the target price Key RisksUpside risksNew areas of growthExide Industries is focussing on developing and marketing lithium-ion batteries for emerging electric vehicles. The company also developed deep-cycling E-bike batteries and is in the process of developing stop-start batteries for micro hybrid vehicles. These can be new areas of growth that we have not factored in. Expanding reach to gain back lost market share in replacement segmentExide has developed a hub-and-spoke model for distribution that is controlled by regional monitoring centers. The company has expanded to 206 locations through this and plans to increase it to 250 by end 2011. This has enabled the company to reach out to class B and class C companies and improve market share in the replacement market. Increased market share in segments like CVs and tractors can provide additional volumes to the company. Downside risksHigh competition in Industrial SegmentHigh competition and low demand in the telecom and home inverter segment is forcing the company to give discounts. The company has also been unable to pass on the sharp increase in lead price to customers. In case this trend continues, there will be downside risks to our estimates. Market share loss in the replacement segmentAccording to the company they have lost 8% to 9% market share in the replacement segment over the last one year. In case Exide is unable to win back some of the lost share there will be downside risks to our estimates.

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