

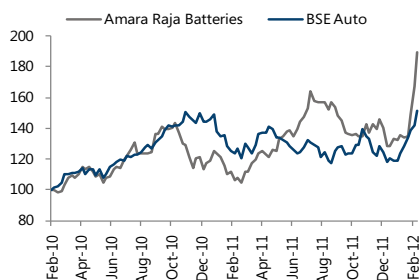
Result Update - Q3FY12

Accumulate

Reco	Maintained
CMP	₹ 285
Target Price	₹ 305
Upside Potential	7%

Price Performance

52 wk Hi/Lo	299/150
All time Hi/Lo	299/6
6 mnth Average Vol	56478
Stock Beta	0.37



Valuation

	FY11	FY12P	FY13P
P/E (x)	16.8	12.0	10.0
P/BV (x)	3.8	3.0	2.4
RONW (%)	23%	28%	27%
ROCE (%)	31%	37%	37%

Peer Valuation (BBG cons - FY13E)

	Exide Inds
PE	16.5
P/BV	3.5

Equity Data

Market Cap. (₹ bln)	24
Face value (₹)	2
No of shares o/s (mln)	85

	Dec'10	Dec'11	%Δ
Promoters	52.06	52.06	0.00
DFI's	19.39	19.61	1.13
FII's	2.42	6.32	161.16
Public	26.13	22.01	-15.77

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Amara Raja Batteries

Strong quarterly performance

Amara Raja Batteries (ARBL) recorded a 9% growth in sales sequentially driven largely by volume growth across segments. EBITDA margins improved 160bps q-o-q to 17.3% partially due to lower input costs and higher benefits of operating leverage. PAT grew 27% q-o-q to ₹ 659mln. We believe that company with increased capacity is adequately geared to benefit from the turn in automotive cycle, replacement demand and fast expanding industrial segment. We maintain Accumulate at a target price of ₹ 305.

Key takeaways from management call

- Sales growth driven by volume growth across segments. UPS segment drive industrial revenues. Telecom segment stable with lead cost increases passed on to customers
- Market share relatively stable, capacity constraints in the UPS segment (93% utilisation) restricting growth
- Q3 average lead cost at \$2,360/t and guidance for 4Q is at \$2,100-2,200/t
- Capacity utilisation has improved sequentially across segments and positive impact of operating leverage seen
- New capacity on 4W automotive segment (now 5.6mln units) to come in from end FY12 and management expects OEM:replacement ratio to maintain at 33:67
- Capacity expansion in 2W automotive segment (now 5mln units) completed. Sales to 2W OEM to begin in 1Q FY13 and management target to achieve OEM:replacement ratio of 1:1 by FY14. Currently it caters to aftermarket segment
- Will take action on pricing only if Exide, the market leader takes any further corrective action. We do not think any price war will take place
- The company has proposed a greenfield expansion to increase industrial segment capacity with overall capex of ₹ 1,900mln

Financial Summary

We expect a sales growth CAGR of 23% and EPS CAGR of 30% over FY11-13E. With lead prices below \$2,000/t and currency stable we expect margins to be 15.9% and 15.7% in FY12E and FY13E respectively.

Maintain Accumulate at TP ₹ 305

ARBL is currently trading at 12.0x and 10.0x FY 12E and FY 13E EPS, respectively. ARBL has historically traded at a discount to the market leader Exide and expect that to continue in the near term. However with demand scenario in the industrial telecom segment (>40% of industrial revenues) improving and new capacity to kick in from early FY13 we expect the discount to narrow down. We therefore maintain our Accumulate rating at a target price of ₹ 319/share implying a P/E multiple of 10.5x FY13E earnings a discount of nearly 40% to Exide.

Summary Financials

₹ in Mln	FY10	FY11	FY12E	FY13E
Net Sales	14,652	17,648	22,190	26,769
EBITDA Margin	19.6%	14.6%	15.9%	15.7%
Net Profit	1,670	1,476	2,056	2,477
Adj EPS (per share)	19.6	17.3	24.1	29.0
Networth	5,436	6,459	8,216	10,333
Debt	912	950	610	510
Fixed Assets	3,284	3,526	3,253	3,107
Net Current Assets	3,120	3,927	5,117	6,780

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012E	2013E
Net Sales	13,177	14,652	17,648	22,190	26,769
Total Expenditure	11,181	11,779	15,065	18,668	22,555
EBITDA	1,996	2,873	2,583	3,522	4,213
EBITDA Margin (%)	15.1%	19.6%	14.6%	15.9%	15.7%
Depreciation	346	429	417	453	539
EBIT	1,651	2,444	2,165	3,069	3,675
Interest	182	68	15	40	18
OPBT	1,468	2,376	2,151	3,029	3,657
Non-Op Income	81	50	54	40	40
PBT	1,227	2,546	2,205	3,069	3,697
Tax	422	876	729	1,013	1,220
PAT	805	1,670	1,476	2,056	2,477
PAT Margin (%)	6.1%	11.4%	8.4%	9.3%	9.3%
EPS	9.4	19.6	17.3	24.1	29.0
Sales Growth %	22%	11%	20%	26%	21%
OP Profit Growth %	27%	44%	-10%	36%	20%
PAT Growth %	-15%	108%	-12%	39%	20%
Tax rate	34%	34%	33%	33%	33%

Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012E	2013E
Sources of Funds					
Equity Capital	171	171	171	171	171
Reserves	3,885	5,266	6,288	8,045	10,162
Net worth	4,056	5,436	6,459	8,216	10,333
Borrowings	2,859	912	950	610	510
Deferred Tax Liability	183	216	205	205	205
Total Liability	7,097	6,565	7,615	9,031	11,048
Application of Funds					
Net Fixed Assets	3,209	3,284	3,526	3,253	3,107
Investments	471	161	161	661	1,161
Current Assets	5,260	6,311	7,419	9,527	12,050
Current Liabilities	1,843	3,191	3,492	4,410	5,271
Net Current Assets	3,417	3,120	3,927	5,117	6,780
Total Assets	7,097	6,565	7,615	9,031	11,048

Cash Flow

Particulars (₹ in mln)	2009	2010	2011	2012E	2013E
Internal Accruals	1,139	2,317	1,893	2,509	3,016
(Inc)/Dec in Net Working Capital	730	219	-1,030	339	-482
Operating Cash Flow	1,869	2,536	863	2,848	2,533
Dividend/dividend tax	80	289	460	300	360
Increase in Equity	57	0	0	0	0
Inc/(Dec) in Debt	-304	-1,947	39	-340	-100
Cash flow from Financing	-327	-2,236	-421	-640	-460
Capex	904	471	625	179	393
Inc/(Dec) in Investments	309	-310	0	500	500
Cash flow from Investments	-1,213	-161	-625	-679	-893
Net Change in Cash	330	139	-183	1,529	1,180

Ratios

Valuation Ratio	2009	2010	2011	2012E	2013E
P/E	30.8	14.8	16.8	12.0	10.0
P/BV	6.1	4.6	3.8	3.0	2.4
EV/EBIDTA	13.6	8.8	10.0	6.7	5.3
EV/Sales	2.1	1.7	1.5	1.1	0.8
Dividend Yield (%)	0.3%	1.0%	1.6%	1.0%	1.2%
EPS	9.4	19.6	17.3	24.1	29.0
DPS	0.8	2.9	4.6	3.0	3.6
Book Value	47.5	63.7	75.6	96.2	121.0
Adj. ROE	28%	29%	23%	28%	27%
Adj. ROCE	25%	37%	31%	37%	37%

Solvency Ratio (x)

Debt/Equity	0.7	0.2	0.1	0.1	0.0
Net Debt/EBIDTA	1.4	0.3	0.4	0.2	0.1

Turnover Ratio (x)

Asset Turnover	4.6	4.5	5.2	6.5	8.4
Current Ratio	3.2	2.9	2.0	2.1	2.2
Inventory (days)	58.0	58.6	59.0	59.0	59.0
Debtors (days)	60.2	56.1	56.6	57.0	57.0
Creditors (days)	49.1	66.1	64.0	62.0	62.0

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Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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