

July 10, 2012

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| Rating | Accumulate |
|----------------|------------|
| Price | Rs314 |
| Target Price | Rs350 |
| Implied Upside | 11.5% |
| Sensex | 17,392 |
| Nifty | 5,275 |

(Prices as on July 09, 2012)

Trading data

| | |
|----------------------------|------|
| Market Cap. (Rs bn) | 26.1 |
| Shares o/s (m) | 85.4 |
| 3M Avg. Daily value (Rs m) | 16.1 |

Major shareholders

| | |
|----------------|--------|
| Promoters | 52.06% |
| Foreign | 6.22% |
| Domestic Inst. | 19.65% |
| Public & Other | 22.07% |

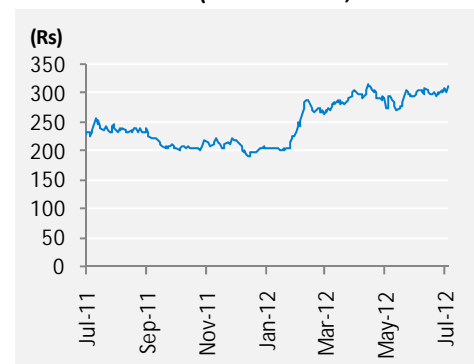
Stock Performance

| (%) | 1M | 6M | 12M |
|----------|-------|------|------|
| Absolute | 2.3 | 53.9 | 34.6 |
| Relative | (1.7) | 43.9 | 42.4 |

How we differ from Consensus

| EPS (Rs) | PL | Cons. | % Diff. |
|----------|------|-------|---------|
| 2013 | 29.0 | 28.4 | 1.9 |
| 2014 | 33.4 | 33.5 | -0.3 |

Price Performance (RIC:AMAR.BO, BB:AMRJ IN)



Source: Bloomberg

We had a concall with the CFO – Mr. Suresh Kalyan of Amara Raja Batteries (AMRJ) to get an update on their business. The management guided for a double-digit volume growth, with an EBITDA margin of 14-15% in FY13E. According to them, the automotive replacement segment is likely to grow by 12-14%, whereas the UPS segment is likely to grow at 15% in FY13E. The company has upped its capex guidance to Rs2.2bn for FY13E. The following are the key highlights of our interaction:

- Automotive replacement segment likely to grow @ 12-14%:** AMRJ volumes increased by 28% in the automotive replacement segment in FY12. Management is confident of a double-digit growth in the automotive replacement market in FY13E based on robust automobile sales in FY10. AMRJ is expanding its capacity in the four-wheeler automotive segment from 5.6m units to 6.0m units in FY13E.
- UPS segment volumes to grow at 15%:** UPS segment registered a volume growth of 18% in FY12 amidst very competitive market conditions. AMRJ has gained its market share (which stands at ~33% currently) in this segment at the cost of the importers in the unorganised market. It is expanding its capacity from 1.8m to 3.0m units in FY13E and expects the segment to grow by 14-15%.
- Capex pegged to Rs2.3bn in FY13E:** In order to cater to the higher demand in the UPS segment and augment its capacity in the automotive four-wheeler segment (current utilisation @90%), the company has earmarked a capex of Rs2.3bn in FY13E as against Rs1.9bn guided earlier. With strong cash flows, we expect the company to fund its capex via internal accruals.

Contd...2

| Key financials (Y/e March) | 2011 | 2012 | 2013E | 2014E |
|----------------------------|--------|--------|--------|--------|
| Revenues (Rs m) | 17,634 | 23,711 | 27,312 | 30,219 |
| Growth (%) | 20.2 | 34.5 | 15.2 | 10.6 |
| EBITDA (Rs m) | 2,597 | 3,578 | 4,183 | 4,755 |
| PAT (Rs m) | 1,474 | 2,152 | 2,473 | 2,854 |
| EPS (Rs) | 17.3 | 25.2 | 29.0 | 33.4 |
| Growth (%) | (4.9) | 46.0 | 14.9 | 15.4 |
| Net DPS (Rs) | 2.6 | 3.8 | 4.4 | 4.8 |

| Profitability & Valuation | 2011 | 2012 | 2013E | 2014E |
|---------------------------|------|------|-------|-------|
| EBITDA margin (%) | 14.7 | 15.1 | 15.3 | 15.7 |
| RoE (%) | 24.8 | 29.3 | 26.7 | 24.9 |
| RoCE (%) | 21.7 | 26.4 | 24.9 | 23.8 |
| EV / sales (x) | 1.6 | 1.1 | 0.9 | 0.8 |
| EV / EBITDA (x) | 10.5 | 7.1 | 6.0 | 5.0 |
| PE (x) | 18.2 | 12.5 | 10.8 | 9.4 |
| P / BV (x) | 4.2 | 3.3 | 2.6 | 2.1 |
| Net dividend yield (%) | 0.8 | 1.2 | 1.4 | 1.5 |

Source: Company Data; PL Research

- **Telecom vertical to grow at 6-8% CAGR over the next three years:** Overall, the Telecom Operators and Service Providers have shifted to one-on-one negotiations with reliable vendors as against the earlier followed norm of reverse auction mechanism, where the lowest bidders used to get the orders. Currently, it enjoys ~46% market share in the Telecom segment. Bharti Airtel is likely to give a similar order to the tune of 5,000 – 6,000 sets for its African operations in FY13E as against 7,000 sets in FY12E. Management has guided a 6-8% CAGR in volume terms in the telecom vertical.
- **Outlook and Valuation:** AMRJ has maintained a strong balance sheet, with the return ratios in excess of 24% for the past few years. We expect revenues to grow at a CAGR of 13.0% and net profit to grow at a CAGR of 15.2% for FY12-FY14E period. The stock is currently trading at 10.8x its FY13E EPS and 9.4x FY14E EPS, which in our view is attractive. We maintain our '**Accumulate**' rating on the stock. Our Target Price of Rs350 is based on 10.5x FY14E EPS (30% discount to 15x FY14E earnings target multiple for Exide).

Income Statement (Rs m)

| Y/e March | 2011 | 2012 | 2013E | 2014E |
|----------------------------|---------------|---------------|---------------|---------------|
| Net Revenue | 17,634 | 23,711 | 27,312 | 30,219 |
| Raw Material Expenses | 11,578 | 15,954 | 18,253 | 20,191 |
| Gross Profit | 6,056 | 7,757 | 9,058 | 10,028 |
| Employee Cost | 885 | 1,003 | 1,147 | 1,209 |
| Other Expenses | 2,575 | 3,175 | 3,728 | 4,064 |
| EBITDA | 2,597 | 3,578 | 4,183 | 4,755 |
| Depr. & Amortization | 417 | 465 | 600 | 629 |
| Net Interest | 30 | 41 | 34 | 29 |
| Other Income | 54 | 115 | 135 | 150 |
| Profit before Tax | 2,204 | 3,187 | 3,685 | 4,247 |
| Total Tax | 724 | 1,035 | 1,212 | 1,393 |
| Profit after Tax | 1,480 | 2,152 | 2,473 | 2,854 |
| Ex-Od items / Min. Int. | (6) | — | — | — |
| Adj. PAT | 1,474 | 2,152 | 2,473 | 2,854 |
| Avg. Shares O/S (m) | 85.4 | 85.4 | 85.4 | 85.4 |
| EPS (Rs.) | 17.3 | 25.2 | 29.0 | 33.4 |

Cash Flow Abstract (Rs m)

| Y/e March | 2011 | 2012 | 2013E | 2014E |
|---------------------|-------|-------|---------|-------|
| C/F from Operations | 1,355 | 3,187 | 2,720 | 2,591 |
| C/F from Investing | (690) | (799) | (2,054) | (554) |
| C/F from Financing | (223) | (490) | (590) | (630) |
| Inc. / Dec. in Cash | 442 | 1,898 | 76 | 1,407 |
| Opening Cash | 625 | 402 | 2,300 | 2,376 |
| Closing Cash | 1,067 | 2,300 | 2,376 | 3,782 |
| FCFF | 219 | 2,385 | 663 | 2,044 |
| FCFE | 257 | 2,275 | 513 | 1,894 |

Key Financial Metrics

| Y/e March | 2011 | 2012 | 2013E | 2014E |
|-------------------------|--------|-------|-------|-------|
| Growth | | | | |
| Revenue (%) | 20.2 | 34.5 | 15.2 | 10.6 |
| EBITDA (%) | (10.3) | 37.8 | 16.9 | 13.7 |
| PAT (%) | (4.9) | 46.0 | 14.9 | 15.4 |
| EPS (%) | (4.9) | 46.0 | 14.9 | 15.4 |
| Profitability | | | | |
| EBITDA Margin (%) | 14.7 | 15.1 | 15.3 | 15.7 |
| PAT Margin (%) | 8.4 | 9.1 | 9.1 | 9.4 |
| RoCE (%) | 21.7 | 26.4 | 24.9 | 23.8 |
| RoE (%) | 24.8 | 29.3 | 26.7 | 24.9 |
| Balance Sheet | | | | |
| Net Debt : Equity | 0.1 | (0.2) | (0.2) | (0.3) |
| Net Wrkng Cap. (days) | 93 | 64 | 55 | 62 |
| Valuation | | | | |
| PER (x) | 18.2 | 12.5 | 10.8 | 9.4 |
| P / B (x) | 4.2 | 3.3 | 2.6 | 2.1 |
| EV / EBITDA (x) | 10.5 | 7.1 | 6.0 | 5.0 |
| EV / Sales (x) | 1.6 | 1.1 | 0.9 | 0.8 |
| Earnings Quality | | | | |
| Eff. Tax Rate | 32.9 | 32.5 | 32.9 | 32.8 |
| Other Inc / PBT | 2.5 | 3.6 | 3.7 | 3.5 |
| Eff. Depr. Rate (%) | 7.3 | 7.1 | 7.0 | 6.9 |
| FCFE / PAT | 17.4 | 105.7 | 20.7 | 66.4 |

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

| Y/e March | 2011 | 2012 | 2013E | 2014E |
|-------------------------------|--------------|--------------|---------------|---------------|
| Shareholder's Funds | 6,459 | 8,235 | 10,270 | 12,647 |
| Total Debt | 950 | 841 | 691 | 541 |
| Other Liabilities | 205 | 205 | 205 | 205 |
| Total Liabilities | 7,615 | 9,280 | 11,166 | 13,392 |
| Net Fixed Assets | 3,526 | 3,860 | 5,315 | 5,239 |
| Goodwill | — | — | — | — |
| Investments | 161 | 161 | 161 | 161 |
| Net Current Assets | 3,928 | 5,259 | 5,690 | 7,982 |
| <i>Cash & Equivalents</i> | <i>402</i> | <i>2,300</i> | <i>2,376</i> | <i>3,782</i> |
| <i>Other Current Assets</i> | <i>7,017</i> | <i>7,179</i> | <i>8,202</i> | <i>9,244</i> |
| <i>Current Liabilities</i> | <i>3,491</i> | <i>4,220</i> | <i>4,887</i> | <i>5,044</i> |
| Other Assets | — | — | — | — |
| Total Assets | 7,615 | 9,280 | 11,166 | 13,382 |

Quarterly Financials (Rs m)

| Y/e March | Q3FY12 | Q3FY12 | Q4FY12 | Q1FY13E |
|--------------------------|--------------|--------------|--------------|--------------|
| Net Revenue | 6,131 | 6,131 | 6,711 | 6,040 |
| EBITDA | 1,063 | 1,063 | 954 | 885 |
| <i>% of revenue</i> | <i>17.3</i> | <i>17.3</i> | <i>14.2</i> | <i>14.7</i> |
| Depr. & Amortization | 120 | 120 | 122 | 130 |
| Net Interest | 15 | 15 | 2 | 5 |
| Other Income | 15 | 52 | 36 | 20 |
| Profit before Tax | 943 | 980 | 866 | 770 |
| Total Tax | 321 | 321 | 283 | 254 |
| Profit after Tax | 622 | 659 | 583 | 516 |
| Adj. PAT | 622 | 659 | 583 | 516 |

Key Operating Metrics

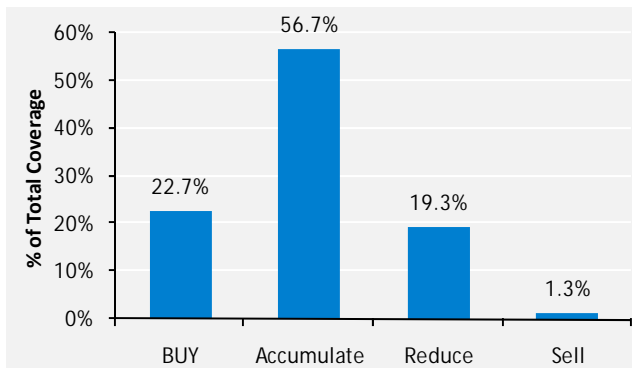
| Y/e March | 2011 | 2012 | 2013E | 2014E |
|----------------------------|--------|--------|--------|--------|
| Industrial Revenues (Rs m) | 9,689 | 11,275 | 12,825 | 14,420 |
| Automotive Revenues (Rs m) | 11,313 | 13,254 | 14,487 | 15,799 |
| Lead Prices (\$/ tonne) | 2,400 | 2,400 | 2,300 | 2,400 |
| Lead & Lead Alloys (Rs m) | 9,313 | 12,760 | 15,027 | 16,616 |
| Other Raw Material (Rs m) | 2,547 | 3,073 | 3,472 | 3,750 |

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

| | | | |
|-----------------------|--|--------------------------|--|
| BUY | : Over 15% Outperformance to Sensex over 12-months | Accumulate | : Outperformance to Sensex over 12-months |
| Reduce | : Underperformance to Sensex over 12-months | Sell | : Over 15% underperformance to Sensex over 12-months |
| Trading Buy | : Over 10% absolute upside in 1-month | Trading Sell | : Over 10% absolute decline in 1-month |
| Not Rated (NR) | : No specific call on the stock | Under Review (UR) | : Rating likely to change shortly |

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