January 24, 2012

Exide Industries (EXIIND)

₹ 128

Rating matrix

Rating	:	Buy
Target	:	₹ 141
Target Period	:	12 months
Potential Upside	:	10%

Key Financials

₹ Crore	FY10	FY11	FY12E	FY13E
Net Sales	3,794	4,553.0	4,970.8	5,745.3
EBITDA	889.4	900.2	690.7	1,002.2
Net Profit	537.1	688.3	461.9	692.9
EPS (₹)	6.3	8.1	5.4	8.2

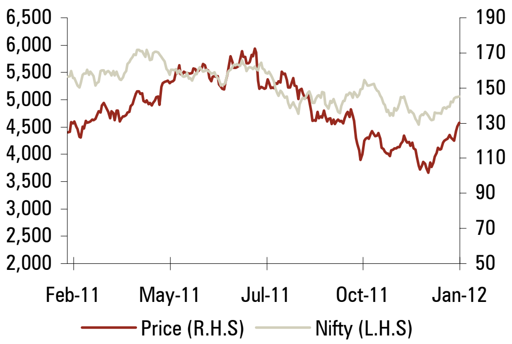
Valuation summary

	FY10	FY11	FY12E	FY13E
Core PE (x)	17.8	13.9	20.7	13.8
Core target PE (x)	19.3	15.1	22.5	15.0
EV to EBITDA (x)	11.0	10.7	13.9	9.4
Price to book (x)	5.0	4.0	3.6	3.1
RoNW (%)	24.2	25.1	15.1	19.4
RoCE (%)	35.0	29.8	19.4	25.1

Stock data

Mcap	₹10884.3crore
Debt (FY11)	₹2.2crore
Cash (FY11)	₹14.8crore
EV	₹10871.6crore
52 week H/L	₹ 188 / 99
Equity cap	₹85crore
Face value	₹1
MF Holding	13.5%
FII Holding	18.8%

Price movement



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WHAT'S CHANGED...

PRICE TARGET.. Changed from ₹ 136 to ₹ 141

EPS (FY12E).. Changed from ₹ 5.9 to ₹ 5.4

EPS (FY13E).. Changed from ₹ 8.4 to ₹ 8.2

RATING.. Unchanged

Resurgence path illuminated!!!

Exide Industries (EIL) reported an improved set of numbers for Q3FY12 with revenues rising 6.3% QoQ to ₹ 1250.1 crore (I-direct estimate: ₹ 1213.8 crore). The revenue performance was driven by higher replacement offtake in both the automotive and industrial battery segments. EBITDA margins, which had contracted to 7.7% in Q2FY12, jumped to 13.2% (up 548 bps QoQ) with RM cost as a proportion of sales dipping 487 bps sequentially. The automotive and industrial gross margins jumped to 14.8% and 31.8%, respectively, as price hikes to OEM happen with a one quarter lag. Lead price for the quarter stood at ₹ 131/kg (down ~2%QoQ). The PAT more than doubled sequentially to ₹104.3 crore but is still down 16.2% YoY.

Highlights of the quarter

The volume bounce back is a major positive during the quarter. EIL clocked sturdy SLI volume of 2.05 million batteries (up 3.5% QoQ) with two-wheeler sales touching 3.55 million units (up 2.6% QoQ) despite lower OEM demand in November and December. The industrial sales of 403 MnAH (up 3.1% QoQ) were driven by home inverter and power back-up segments. These witnessed strong traction as volumes jumped ~40% YoY while the low margin telecom segment saw volumes shrinking ~50%. The margin performance was aided by higher ratio of replacement sales to OEM at 1.24:1 up from ~1:1 in Q2FY12. The company has recently acquired a facility in Uttarakhand for ~₹ 17 crore to supply fully built inverters. The project is expected to generate incremental inverter battery volumes of ~30,000/month.

Valuation

We expect an improved performance from EIL as replacement demand picks up coupled with stable lead prices. We have upgraded our core target P/E multiple to 15x FY13E EPS of ₹ 8.2. At the CMP of ₹ 128, the stock is trading at13.8x FY13E EPS. We have valued the stock on an SOTP basis with the core business at ₹ 122, valuing other subsidiaries and investments at ₹ 19/share to arrive at target price of ₹ 141. We had recommended that our long term investors accumulate the stock at lower levels and continue to have a **BUY** rating on the stock.

Exhibit 1: Valuation Metrics

(₹ Crore)	Q3FY12	Q3FY12E	Q3FY11	Q2FY12	QoQ (Chg %)	YoY (Chg %)
Total Operating Income	1250.1	1213.8	1049.1	1176.1	6.3	19.2
EBITDA	164.4	168.3	159.1	90.2	82.3	3.4
EBITDA Margin (%)	13.2	13.9	15.2	7.7	548 bps	-201 bps
Depreciation	23.0	24.0	21.2	24.6	-6.3	8.6
Interest	4.4	1.0	1.9	1.6	172.0	133.0
Other Income	9.1	18.8	34.2	7.9	14.7	-73.5
Reported PAT	104.3	117.9	124.4	51.1	103.9	-16.2
EPS (₹)	1.2	1.4	1.5	0.6	103.9	-16.2

Source: Company, ICICIdirect.com Research

Result analysis

Sequential improvement across board…

EIL's performance for Q3FY12 improved to a large extent in comparison to the previous quarter, which saw profits plummeting to its lowest in 18 quarters at ₹ 51.1 crore. The recovery was driven by higher replacement market sales and gradual recovery of previously lost market share. The management has indicated a time span of another five to 10 months to attain its previous levels of market share.

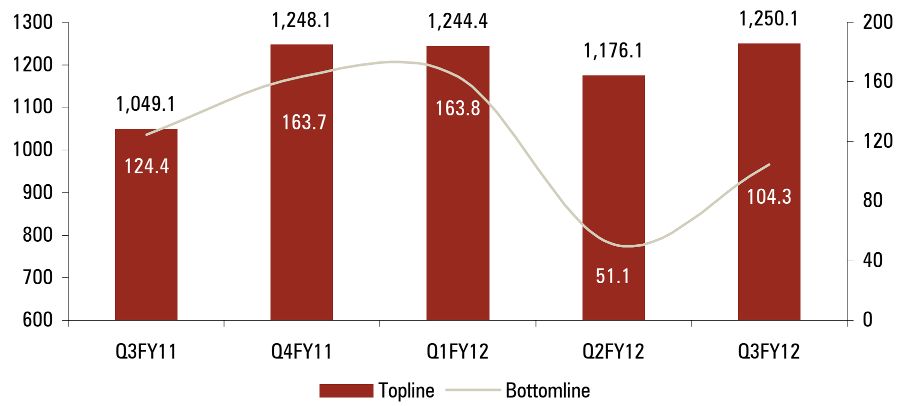
Topline growth was fuelled by higher demand across its product segments viz. automotive and industrial batteries. The margin expansion to the tune of 548 bps QoQ was a function of an improved product mix coupled with lower lead prices at ₹131/kg (down ~2%QoQ). The full benefit of lower commodity price could not flow through on account of a depreciating rupee. Going forward, however, as currency stabilises, margin expansion is on the cards. Moreover, the rolling high cost lead, which had previously dented margins, got consumed during the quarter.

On the market share front, the emergence of small local players is leading to gradual market share dilution for EIL. However, EIL does not consider it a big threat and is confident of regaining its market share in the organised aftermarket from ~52% currently to ~60%. Also, in a bid to improve its volumes, EIL has now allowed cross selling across its SBUs where automotive dealers can meet industrial battery demand and vice versa. EIL had previously dedicated dealers for automotive and industrial batteries.

The SLI battery capacity currently stands at 12 million units with no capacity additions lined up for the same. However, expansion plans are in place for the fast growing inverter and two wheeler segments. We expect a strong replacement wave to flow from Q2FY12 onwards owing to two-wheeler VRLA batteries supplied to HMCL ~15 months back. The capacity utilisation in the automotive segment has improved to ~82% while the industrial battery space is currently operating at ~74% levels.

The ratio of replacement sales to OEM rose to 1.24:1, which stood at ~1:1 during the previous quarter. In the two wheeler space, the ratio stood at 0.38:1, up from 0.32:1 in the previous quarter. There has been no pricing action during the quarter. Going ahead, market share gain through volume enhancement appears to be the theme.

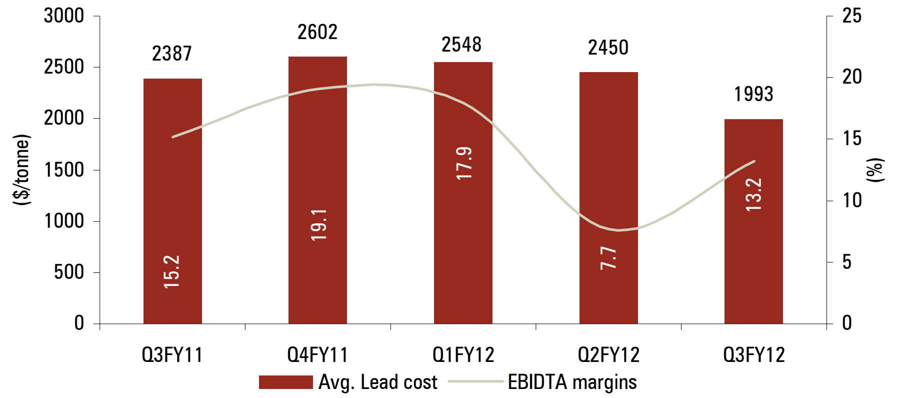
Exhibit 2: Topline and bottomline trends



Source: Company press release, ICICIdirect.com Research

Average lead prices have dipped ~18.7% QoQ enabling a 548 bps QoQ margin expansion

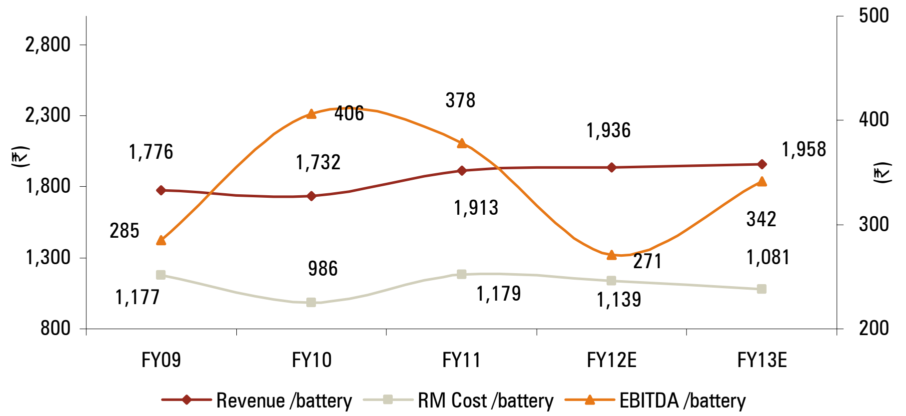
Exhibit 3: Average lead LME price and EBITDA margins trend



Source: Company press release, Bloomberg, , ICICIdirect.com Research

The EBITDA/battery is expected to improve, going ahead, in FY13E as higher operating leverage reduces cost/battery along with revenue enhancement

Exhibit 4: Per battery costs and revenue trends



Source: Company, ICICIdirect.com Research

Outlook and valuation

Outlook

With market dominance, strong brand equity and multi-sector exposure, Exide Industries (EIL) remains an attractive play. However, during the last couple of quarters EIL has performed below par on account of issues ranging from inventory mismanagement to market share losses. The Q3FY12 results have provided some relief as signs of a recovery are evident, reaffirming our view on the robust growth prospects of the company. We expect the ratio of replacement sales to OEM, currently standing at 1.24:1, to improve gradually as replacement demand kicks in coupled with market share gains.

We believe the worst is over for EIL with major negatives factored in the price. The crux of the matter remains that EIL with its ~40,000 touch points and strong branding franchise in the auto-ancillary segment (generally having low brand value) remains one of the strongest brands in the industry. Moreover with the long term growth story in both the OEM and replacement market remaining firmly intact, we expect the recovery to continue in the coming quarters as well with the possibility of touching historical margins, going ahead.

Exhibit 5: Revised financials

	Previous		Revised		%chg.	
(₹ crore)	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net sales	4,987.1	5,782.9	4,970.8	5,745.3	(0.3)	(0.7)
EBITDA	724.6	1,027.3	690.7	1,002.2	(4.7)	(2.4)
EBITDA margin(%)	14.5	17.8	13.9	17.4	(63) bps	(32) bps
Net profit	505.9	717.9	461.9	692.9	(8.7)	(3.5)
EPS(Rs)	6.0	8.4	5.4	8.2	(10.0)	(2.4)

Source: Company, ICICIdirect.com Research

Valuation

EIL has witnessed short-term headwinds in the form of overcapacity issue with domestic demand remaining sluggish due to challenging macros. However, Q3FY12 has shown a revival of the same with the performance improving significantly on a sequential basis. We expect the recovery to continue in the next few quarters and expect an improved performance on both the topline and bottomline front. On a longer term horizon with interest rates peaking out, the demand in the PV segment could see a bounce back in FY13E auguring well for EIL. Thus, we remain positive on EIL's business prospects and find current valuations favourable.

We have upgraded our core target P/E multiple to 15x FY13E EPS of ₹ 8.2. At the CMP of ₹ 128, the stock is trading at13.8x FY13E EPS. We have valued the stock on an SOTP basis with the core business at ₹122, valuing other subsidiaries and investments at ₹19/share to arrive at a target price of ₹ 141. We had recommended that our long term investors accumulate the stock at lower levels and continue to have a **BUY** rating on the stock.

Exhibit 6: Valuation

SOTP Valuation	Estimated value	Value per share	Remark
Standalone Business			
FY13E EPS	8.2		
Multiple	15.0		
Value per share (₹)		122	
Insurance stake (50%)			
Value of ING Vysya Insurance (₹ crore)	2289.4		Market Cap
Value towards Exide Industries	1,144.7		
Value per share (|)		13	
Value of subsidiaries (₹crore)			
Value of smelting subsidiaries (₹)	428	5	Market cap
Value of other subsidiaries (₹)	59	1	1 P/BV
Total Value per Share (₹)		141	

Source: Company annual report, ICICIdirect.com Research

Exhibit 7: Valuation table

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY10	3794.0		6.3		20.6	11.0	24.2	35.0
FY11	4553.0	20.0	8.1	28.2	16.1	10.7	25.1	29.8
FY12E	4970.8	9.2	5.4	-32.9	23.9	13.9	15.1	19.4
FY13E	5745.3	15.6	8.2	50.0	16.0	9.4	19.4	25.1

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

(₹ Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Total operating Income	3,794.0	4,575.0	4,972.9	5,745.3
Growth (%)	11.8	20.6	8.7	15.5
Raw Material Expenses	2,158.3	2,807.5	3,330.4	3,665.2
Employee Expenses	236.1	282.9	284.0	349.4
Other Expenses	510.1	584.5	667.8	728.6
Total Operating Expenditure	2,904.6	3,674.8	4,282.2	4,743.1
EBITDA	889.4	900.2	690.7	1,002.2
Growth (%)	63.3	1.2	-23.3	45.1
Depreciation	81.0	83.1	95.5	104.5
Interest	10.0	5.7	7.1	0.0
Other Income	12.0	151.0	66.8	84.2
PBT	811.1	962.3	654.9	981.9
Others	0.0	0.0	0.0	0.0
Total Tax	274.0	274.0	193.0	289.0
PAT	537.1	688.3	461.9	692.9
Growth (%)	88.9	28.2	-32.9	50.0
EPS (₹)	6.3	8.1	5.4	8.2

Source: Company, ICICIdirect.com Research

Cash flow statement

(₹ Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Profit after Tax	537.1	688.3	461.9	692.9
Add: Depreciation	81.0	83.1	95.5	104.5
(Inc)/dec in Current Assets	-200.8	-405.0	-99.6	-319.6
Inc/(dec) in CL and Provisions	106.6	203.4	86.6	48.8
CF from operating activities	523.9	569.9	544.4	526.5
(Inc)/dec in Investments	-667.2	-42.6	-50.0	-50.0
(Inc)/dec in Fixed Assets	-110.7	-270.7	-332.0	-200.0
Others	17.8	8.5	10.0	10.0
CF from investing activities	-760.1	-304.8	-372.0	-240.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-227.2	-87.8	5.0	0.0
Dividend paid & dividend tax	-95.2	-140.4	-146.6	-179.0
Others	528.0	-25.0	0.0	0.0
CF from financing activities	205.6	-253.3	-141.6	-179.0
Net Cash flow	-30.6	11.8	30.8	107.5
Opening Cash	33.7	3.0	14.8	45.5
Closing Cash	3.1	14.8	45.5	153.1

Source: Company, ICICIdirect.com Research

Balance sheet

(₹ Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity Capital	85.0	85.0	85.0	85.0
Reserve and Surplus	2,134.6	2,657.5	2,972.8	3,486.6
Total Shareholders funds	2,219.6	2,742.5	3,057.8	3,571.6
Total Debt	90.0	2.2	7.2	7.2
Deferred Tax Liability	59.0	67.5	77.5	87.5
Minority Interest / Others				
Total Liabilities	2,368.6	2,812.2	3,142.9	3,666.8
Assets				
Gross Block	1,336.2	1,561.0	1,699.0	1,899.0
Less: Acc Depreciation	659.3	724.5	819.9	924.4
Net Block	676.9	836.5	879.0	974.6
Capital WIP	38.0	66.0	260.0	260.0
Total Fixed Assets	714.9	902.5	1,139.0	1,234.6
Investments	1,335.4	1,378.0	1,428.0	1,478.0
Inventory	606.8	859.0	884.2	1,099.1
Debtors	254.6	366.5	449.4	519.4
Loans and Advances	47.6	88.5	80.0	114.7
Cash	3.0	14.8	45.5	153.1
Total Current Assets	911.9	1,328.7	1,459.1	1,886.3
Creditors	391.2	527.6	626.5	661.1
Provisions	202.0	269.0	256.8	271.0
Total Current Liabilities	593.2	796.6	883.2	932.1
Net Current Assets	318.8	532.1	575.9	954.2
Application of Funds	2,369.0	2,812.6	3,142.9	3,666.8

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Per share data (₹)				
EPS	6.3	8.1	5.4	8.2
Cash EPS	7.3	9.1	6.6	9.4
BV	26.1	32.3	36.0	42.0
DPS	1.0	1.5	1.5	1.8
Cash Per Share	0.0	0.2	0.5	1.8
Operating Ratios (%)				
EBITDA Margin	23.4	19.8	13.9	17.4
PBT / Net sales	21.4	21.1	13.2	17.1
PAT Margin	14.2	15.0	9.3	12.1
Inventory days	50.3	58.8	64.0	63.0
Debtor days	24.5	29.4	33.0	33.0
Creditor days	37.6	42.3	46.0	42.0
Return Ratios (%)				
RoE	24.2	25.1	15.1	19.4
RoCE	35.0	29.8	19.4	25.1
RoIC	22.6	20.9	13.6	18.0
Valuation Ratios (x)				
P/E	20.6	16.1	23.9	16.0
EV / EBITDA	11.0	10.7	13.9	9.4
EV / Net Sales	2.6	2.1	1.9	1.6
Market Cap / Sales	2.9	2.4	2.2	1.9
Price to Book Value	5.0	4.0	3.6	3.1
Solvency Ratios				
Current Ratio	1.5	1.7	1.7	2.0
Quick Ratio	1.5	1.6	1.6	1.9

Source: Company, ICICIdirect.com Research

ICICIdirect.com Research coverage universe (Automotive ancillaries)

Amara Raja Batteries					Sales (₹ cr)	EPS (₹)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	AMARAJ	CMP(₹)	203	FY10	1464.5	19.6	10.4	6.1	30.7	38.5
		Target(₹)	234	FY11	1761.1	17.3	11.7	7.0	22.9	28.7
Mcap (₹cr)	1734	% Upside	15.4	FY12E	2202.9	21.7	9.4	5.5	23.5	30.7
				FY13E	2653.9	26.0	7.8	4.3	23.2	31.6
Apollo Tyres										
Idirect Code	APOTYR	CMP(₹)	65	FY10	8121.0	13.0	5.4	4.1	33.2	25.1
		Target(₹)	70	FY11	8868.0	8.7	8.0	5.9	18.2	14.4
Mcap (₹cr)	3259	% Upside	8.1	FY12E	11705.8	6.8	10.3	5.7	12.4	13.0
				FY13E	12859.8	10.0	7.0	4.6	15.5	15.6
Automotive Axle										
Idirect Code	AUTAXL	CMP(₹)	430	SY10	669.7	29.2	14.4	7.9	21.6	24.5
		Target(₹)	444	SY11	1012.5	38.1	11.0	5.9	23.6	30.5
Mcap (₹cr)	650	% Upside	3.2	SY12E	1220.8	42.7	9.8	4.9	22.2	31.5
				SY13E	1408.8	63.4	6.6	3.6	26.0	35.7
Balkrishna Industries										
Idirect Code	BALIND	CMP(₹)	189	FY10	1395.0	21.6	8.7	5.1	31.6	27.8
		Target(₹)	195	FY11	2011.9	19.2	9.8	5.7	22.3	19.9
Mcap (₹cr)	913	% Upside	3.3	FY12E	2711.2	27.2	7.0	5.5	24.2	16.1
				FY13E	3144.7	28.3	6.7	4.3	20.3	15.6
Bharat Forge										
Idirect Code	BHAFOR	CMP(₹)	275	FY10	3327.6	-2.8	NA	17.9	NA	NA
		Target(₹)	320	FY11	4894.4	4.1	67.9	10.9	5.3	9.5
Mcap (₹cr)	6414	% Upside	16.1	FY12E	6040.8	16.5	16.7	8.9	16.0	18.4
				FY13E	6957.0	21.8	12.6	6.8	17.0	20.9
JK Tyres										
Idirect Code	JKIND	CMP(₹)	71	FY10	3677.7	39.8	1.8	2.3	23.6	21.5
		Target(₹)	79	FY11	4810.9	14.9	4.8	5.1	8.6	9.1
Mcap (₹cr)	293	% Upside	10.1	FY12E	5545.8	(16.5)	(4.3)	7.5	(10.7)	5.5
				FY13E	6208.9	19.7	3.6	4.1	11.6	12.2
Subros										
Idirect Code	SUBROS	CMP(₹)	24	FY10	906.6	4.7	5.2	3.4	14.4	18.4
		Target(₹)	26	FY11	1091.2	4.8	5.1	4.2	13.1	15.2
Mcap (₹cr)	146	% Upside	8.0	FY12E	1040.3	4.2	5.8	4.4	10.4	11.9
				FY13E	1,182.1	5.8	4.2	3.7	13.1	12.3
Motherson Sumi										
Idirect Code	MOTSUM	CMP(₹)	151	FY10	6702.2	6.5	23.4	12.4	24.9	18.3
		Target(₹)	171	FY11	8175.6	10.1	15.0	8.7	28.5	26.6
Mcap (₹cr)	4419	% Upside	13.3	FY12E	9332.3	6.4	23.6	9.2	15.0	17.1
				FY13E	10547.9	13.5	11.2	6.3	28.4	23.6
Exide Industries										
Idirect Code	EXIIND	CMP(₹)	128	FY10	3794.0	6.3	20.3	11.0	24.2	35.0
		Target(₹)	141	FY11	4575.0	8.1	15.8	10.7	25.1	29.8
Mcap (₹cr)	10884	% Upside	10.5	FY12E	4972.9	5.4	23.6	13.9	15.1	19.4
				FY13E	5745.3	8.2	15.7	9.4	19.4	25.1

Source: Company, ICICIdirect.com Research SY~ September Year end

Exhibit 8: Recommendation History

Source: Reuters, ICICIdirect.com Research

Exhibit 9: Recent Releases

Date	Event	CMP	Target Price	Rating
8-Apr-11	Q4FY11 Preview	143	169	ADD
29-Apr-11	Q4FY11 Result Update	153	169	BUY
6-Jun-11	Q1FY12 Preview	163	169	BUY
22-Jul-11	Q1FY12 Result Update	150	171	BUY
5-Oct-11	Q2FY12 Preview	131	171	BUY
25-Oct-11	Q2FY12 Result Update	109	137	BUY
6-Jan-12	Q3FY12 Preview	116	137	BUY

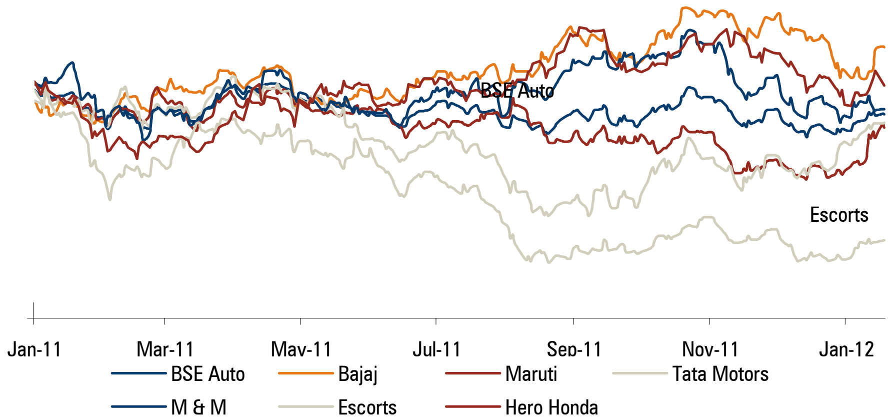
Source: Company, ICICIdirect.com Research

ICICIdirect.com Universe price movement vis-à-vis BSE Auto index

The chart compares the movement of OEM stocks in the ICICIdirect.com Universe with the BSE Auto index, thereby reflecting the degree of mimicking of the index

Since January 2011, Bajaj Auto and M&M have outperformed while Maruti Suzuki and Escorts have underperformed in comparison to the index by being divergent on the upside and downside, respectively

Exhibit 10: OEM comparison with BSE Auto

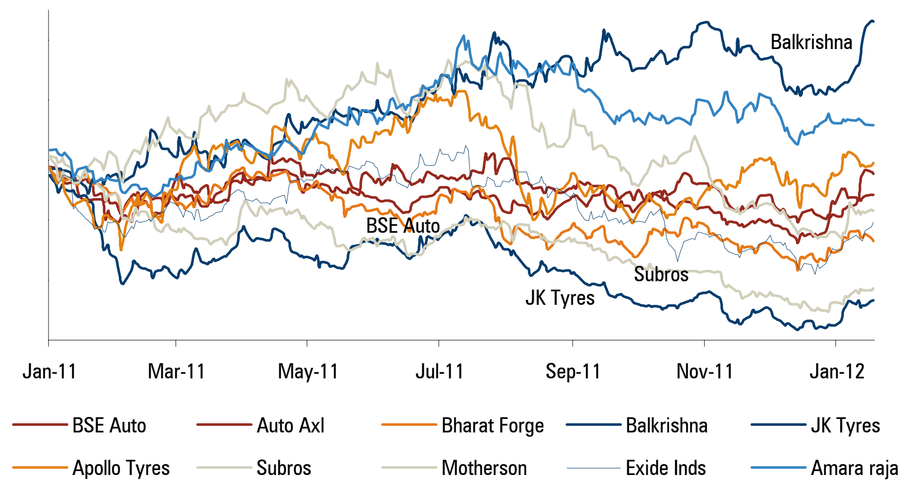


Source:ICICIdirect.com Research

The chart compares the movement of auto ancillary stocks in the ICICIdirect.com universe with the BSE Auto index

The volatile nature of smaller ancillary companies is reflected. These have met with numerous fluctuations with the exception of larger market capitalisation companies like Exide Industries, which mimic the index greatly. JK Tyre and Subros have grossly underperformed due to the intense rubber price overhang and production disruption at Maruti respectively.

Exhibit 11: Ancillaries comparison with BSE Auto



Source: ICICIdirect.com Research

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