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LKP
Since 1948

Underperformer

Exide Industries Ltd

Industry: Auto and Auto Components | Industry View: Neutral

Result Update

"Positive developments factored in"

Q3 FY12 - Sequential improvement

On the back of strength shown from 2 wheeler segment, Exide was in a position to put up a sequential improvement in numbers. Total income increased by 6% qoq, while 19% yoy. At the EBITDA levels, there was an increase of 84% qoq and a 3% yoy. RM to sales came down significantly to 67.4% v/s 72.3% qoq while it was still up from 62.7% yoy. The reason for sequential dip was the exhaustion of high cost lead which impacted Q2 margins. EBITDA margins came in at 13.2% v/s 7.6% qoq and 15.2% yoy.PAT almost doubled to Rs1.04 mn on strong operational performance.

2W volumes strong, 4W subdued, industrial post a growth

The volume improvement in the quarter was on the back of strong 2W battery sales. The auto battery volumes grew 19% yoy and 3% qoq to 3.55mn while 4W volumes declined by 21% yoy, while grew by 6% qoq. On the industrial side, volume growth was 13% yoy and 3% qoq on harsh October summer and demand from telecom industry increasing. On the capacity side, the company is through with 4W capacity expansion at 12mn units, while is still in the process of increasing 2W capacity which is slated to move up to 21mn. The management is confident about 2W demand getting back on track quickly, while has pessimistic outlook on 4W demand. In Q3 FY12, the company functioned at 82% utilization rate on the auto side while 81% on the industrial side, which was a sequential improvement of 72% and 62% respectively. The replacement: OEM ratio on the auto side was 1.24:1 which was an improvement qoq. Going forward, we believe that 2W demand on the OEM side will be slightly soft as the sector has seen some slowdown off late, while on the 4W side OEM demand, we believe softness will continue over a couple of quarters. On the replacement side, we believe that Q1 FY13 will see some turnaround emanating from the demand for automobiles 3 years ago, both on 2W as well as 4W.

Margin improvement may come in coming quarters

The improvement in margin performance was in line with our expectations as high cost lead was expected to get over this quarter. The composition of replacement in the total volumes also improved and is expected to improve even more from FY 13. This will assist margin performance.Softening of lead prices as seen in Q3 is expected to continue and help the margins going forward. We have already factored in about 400 bps improvement in margins in FY 13 to 15.7%.

Industrial segment to remain subdued

Going forward with improving power conditions,we see the demand for inverters going down from current levels in the long term. In Q3, inverter sales were up due to strong summer in October, while stronger winter in most parts of the country would be reducing the sales of inverters in Q4. We expect the contribution of inverter sales to reduce in the total topline from FY 13, though the company is planning to enter the inverter business. On the telecom side of the industrial batteries, winning of contract by rival Amara Raja for supplying batteries to Bharti's Africa business may take some market share from Exide.

Stock Data

Current Market Price (₹)	130
Target Price (₹)	128
Potential upside (%)	(1)
Reuters	EXID.BO
Bloomberg	EXID IN

What's Changed

12 month PriceTarget	₹128 to ₹128
F2012 EPS	₹5 to ₹ 5
F2013 EPS	₹7.7 to ₹7.7

Key Data

Market Cap (₹bn)	108
52-Week Range (₹)	175 / 99
Avg. Daily Trading Value last 6 months (₹mn)	36
Promoters (%)	46
FII Holding (%)	19
DII Holding (%)	14
Public & Others Holding (%)	22

Fiscal YE	FY 10	FY 11	FY 12E	FY 13E
Revenues (₹mn)	37,974	46,574	47,843	56,109
EBITDA (%)	23.4	19.3	11.8	15.7
PAT (%)	14.1	14.3	8.8	11.6
EPS (₹)	6.3	7.8	5.0	7.7
EPS growth (%)	76.5	24.1	-36.5	54.4
P/E (x)	20.4	16.5	25.9	16.8
P/B (x)	4.9	4.0	3.5	2.9
EV/EBITDA (x)	12.4	12.5	20.3	12.9
ROCE (%)	36.4	29.0	14.4	20.4
ROE (%)	24.2	24.3	13.5	17.4
Dividend yield (%)	0.4	0.5	0.3	0.4

Relative Price Performance

One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	21	19	(22)
BSE Relative	15	21	(5)

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Outlook and valuation

With results coming inline and the stock having rallied to reach our target price of Rs128, we believe the stock is fairly priced at current levels. With all the positives factored in our numbers and replacement demand yet to pick up, we believe the stock will hover in the range of Rs125 and Rs135. At CMP of Rs 128, the stock trades at 16.8x FY13E earnings. We maintain Exide's standalone business value at Rs 116(15x times FY 13E EPS of Rs 7.7) and insurance business at Rs 12 taking the total TP to Rs128, thus downgrading the stock from a Neutral to Underperformer.

Financial Highlights

	Q3 FY12	Q2 FY12	%qoq	Q3 FY11	% yoy
Total income	12502	11761	6.3%	10502	19.0
RM costs	8428	8499	-0.8%	6831	23.4
Employee costs	752	644	16.8%	636	18.3
Other expenses	1667	1715	-2.8%	1434	16.3
EBITDA	1649	895	84.3%	1601	3.0
EBITDA margins %	13.2%	7.6%	520 bps	15.2%	(200 bps)
Other income	100	79	26.1%	331	-70.0
Depreciation	250	247	1.5%	212	18.1
Interest	44	16	172.0%	19	133.0
PBT	1461	719	103.1%	1712	-14.7
Tax	418	208	101.2%	458	-8.7
PAT	1043	511	103.9%	1255	-16.9

Financial Summary (Standalone)

Income statement

YE Mar (₹mn)	FY10	FY11	FY12E	FY 13E
Net sales	**37,940**	**45,536**	**46,843**	**55,109**
Raw Material Cost	21,807	28,075	31,770	35,218
Employee Cost	2,252	2,829	2,871	3,367
Other Exp	4,986	5,845	6,698	7,855
EBITDA	**8,894**	**8,788**	**5,505**	**8,669**
EBITDA Margin(%)	*23.4*	*19.3*	*11.8*	*15.7*
Other income	121.1	1507.8	1500.0	1600.0
Depreciation	807	835	996	1,031
EBIT	**8,209**	**9,461**	**6,009**	**9,239**
EBIT Margin(%)	*21.6*	*20.8*	*12.8*	*16.8*
Interest	103	57	50	40
PBT	**8,106**	**9,404**	**5,959**	**9,199**
PBT Margin(%)	*21.4*	*20.7*	*12.7*	*16.7*
Tax	2,735	2,740	1,728	2,668
Adj PAT	**5,371**	**6,664**	**4,231**	**6,531**
PAT Margins (%)	*14.2*	*14.6*	*9.0*	*11.9*

Key Ratios

YE Mar	FY10	FY11	FY12E	FY 13E
Per Share Data (₹)				
Adj. EPS	6.3	7.8	5.0	7.7
CEPS	7.3	8.8	6.1	8.9
BVPS	26.1	32.3	36.9	44.0
DPS	0.5	0.6	0.4	0.5
Growth Ratios(%)				
Total revenues	11.7	22.6	2.7	17.3
EBITDA	63.3	-1.2	-37.4	57.5
PAT	87.5	24.1	-36.5	54.4
EPS Growth	76.5	24.1	-36.5	54.4
Valuation Ratios (X)				
PE	20.4	16.5	25.9	16.8
P/CEPS	17.8	14.6	21.0	14.5
P/BV	4.9	4.0	3.5	2.9
EV/Sales	2.9	2.4	2.4	2.0
EV/EBITDA	12.4	12.5	20.3	12.9
Operating Ratios (Days)				
Inventory days	58.3	67.3	78.0	82.0
Recievable Days	24.5	28.7	36.0	42.0
Payables day	47.5	51.7	54.0	55.0
Net Debt/Equity (x)	0.04	0.00	0.00	0.00
Profitability Ratios (%)				
ROCE	36.4	29.0	14.4	20.4
ROE	24.2	24.3	13.5	17.4
Dividend payout	8.9	11.5	10.0	0.0
Dividend yield	0.4	0.5	0.3	0.4

Balance sheet

YE Mar (₹mn)	FY10	FY11	FY12E	FY 13E
SOURCES OF FUNDS				
Equity Share Capital	850	850	850	850
Reserves & Surplus	21,348	26,575	30,501	36,591
Total Networth	22,198	27,425	31,351	37,441
Total debt	900	22	20	20
Net Deferred Tax Liability	590	675	700	700
Total Liabilities	**23,688**	**28,121**	**32,071**	**38,161**
APPLICATION OF FUNDS				
Net block	6,767	8,358	9,862	11,331
Capital WIP	378	660	1,500	2,200
Investments	13,354	13,780	14,780	15,780
Current Assets				
Cash and Bank	29	148	-1,803	-2,218
Inventories	6,068	8,590	10,224	12,605
Sundry Debtors	2,546	3,665	4,719	6,456
Loan, Advances & others	476	885	1,311	2,152
Current Liab & Prov				
Current liabilities	4,943	6,603	7,078	8,455
Provisions	985	1,361	1,442	1,691
Net Current Assets	3,190	5,324	5,930	8,850
Total Assets	**23,688**	**28,121**	**32,071**	**38,161**

Cash Flow

YE Mar (₹mn)	FY10	FY11	FY12E	FY 13E
PBT	8,106	9,404	5,959	9,199
Depreciation	807	835	996	1,031
Interest	103	57	50	40
Chng in working capital	(760)	(2,028)	(2,558)	(3,334)
Tax paid	(2,932)	(2,816)	(1,728)	(2,668)
Other operating activities	(84)	(1,473)	25	0
CF from operations (a)	**5,238**	**3,978**	**2,744**	**4,267**
Capital expenditure	(1,073)	(2,160)	(3,340)	(3,200)
Chng in investments	(5,450)	1,000	(1,000)	(1,000)
Acqn of shares	(1,193)	(1,423)	0	0
Other investing activities	24	739	0	0
CF from investing (b)	**(7,692)**	**(1,845)**	**(4,340)**	**(4,200)**
Free cash flow (a+b)	(2,453)	2,133	(1,596)	67
Equity raised/(repaid)	5,395	0	0	0
Inc/dec in borrowings	(1,477)	(671)	(2)	0
Dividend paid (incl. tax)	(748)	(1,282)	(304)	(442)
Other financing activities	4,370	(62)	(49)	(40)
CF from financing (c)	**2,145**	**(2,015)**	**(354)**	**(482)**
Net chng in cash (a+b+c)	(308)	119	(1,951)	(415)
Closing cash & cash equiv.	**29**	**147**	**(1,803)**	**(2,218)**

Source: Company , LKP Research

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