

EXIDE INDUSTRIES LTD

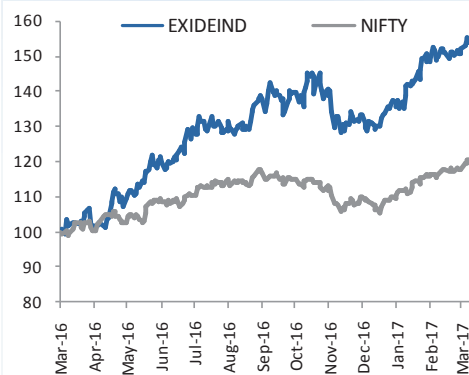
| Result Update | |
|-----------------------|-----|
| CMP | 218 |
| Target Price | 240 |
| Previous Target Price | 220 |
| Upside | 10% |
| Change from Previous | - |

| Market Data | |
|---------------------|----------|
| BSE Code | 500086 |
| NSE Symbol | EXIDEIND |
| 52wk Range H/L | 225/130 |
| Mkt Capital (Rs Cr) | 18,607 |
| Av. Volume | 2,00,169 |
| Nifty | 9,127 |

| Stock Performance | | | |
|-------------------|--------|--------|-------|
| | 1Month | 3Month | 1Year |
| Absolute | 1.7 | 25.9 | 60.9 |
| Rel.to Nifty | -1.0 | 13.0 | 40.9 |

| Share Holding Pattern-% | | | |
|-------------------------|--------|--------|--------|
| | 3QFY17 | 2QFY17 | 1QFY17 |
| Promoter | 45.99 | 45.99 | 45.99 |
| Public | 54.01 | 54.01 | 54.01 |
| Others | -- | -- | -- |
| Total | 100.00 | 100.00 | 100.00 |

Company Vs NIFTY



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Exide Industries Limited is well placed to take advantage of growing mobility demand in the country. The company has plans to invest Rs 1,400 crore over the next two years to introduce more durable automotive batteries in India. Batteries with the new technology will be initially rolled out from our Haldia plant and gradually, other facilities will also start producing the same. Unorganized players constitute over 35% market share in the Indian battery industry and introduction of Goods and Services Tax in FY18 will play a major role in the growth of Exide. We expect that the industrial battery segment's demand will pick up gradually in line with the economic improvement going ahead. To promote eco-friendly vehicles, the government has been offering incentives on electric and hybrid vehicles under the National Electric Mobility Mission Plan which will also boost demand for Exide. The nation-wide rollout of this scheme is scheduled from 1 April, 2017.

Result Update

Revenue grew by 12.6%YoY to Rs. 1729 crore in 3QFY17. The growth in top-line was supported by higher sales of Passenger vehicles and 2 wheelers segment.

EBITDA Margin decreased by 230 bps YoY. Other expenses remain higher due to sales and promotion expenses.

PAT Margin decreased by 20 bps YoY. Company reported Rs.2.63 crore of other comprehensive income under the new IndAS.

Outlook and Valuation

We expect that management's strategy of cost control and technology up-gradation may improve the margin up to 100bps by 2017-18. Technological innovation, segment branding and increased distribution reach along with GST implementation will help the company to gain market share going forward. We recommended this stock at Rs.175 for a target price of Rs.220 and the stock has achieved our recommended target. So we advise our investors to Book Part Profit at current levels and considering the future growth potential of the stock we revise our target and recommend fresh BUY for a target price of Rs.240 and we value insurance business at Rs.19 per share.

| | Rs. In crore | | | | |
|------------|--------------|--------|--------|------|-----|
| Financials | 3QFY17 | 2QFY17 | 3QFY16 | QoQ | YoY |
| Sales | 1729 | 1929 | 1536 | -10% | 13% |
| EBITDA | 230 | 293 | 239 | -22% | -4% |
| Net Profit | 154 | 182 | 140 | -15% | 10% |
| EBITDA% | 13.3% | 15.2% | 15.6% | | |
| PAT % | 8.9% | 9.4% | 9.1% | | |

Investment Arguments

- ◆ **Capex in new technology** - Exide has planned to invest Rs.1400 crore over the next two years to introduce more durable automotive batteries in India. Out of total Rs.1400 crores, Rs 700 crore has been invested in its plant at Haldia in West Bengal from where batteries with punch-grid technology have started rolling out this year. The remaining Rs 700 crore of the planned capex will be invested across the rest of the four automotive battery manufacturing plants over 2017-18. The plant will roll-out 1 mn batteries and these batteries would be targeting primarily aftermarket.
- ◆ **Technological Innovation**- Exide has tie ups with technological partners like East Penn Inc. USA, Hitachi chemicals Japan, Furukawa Battery Co.Ltd Japan which provides requisites technology to develop better products. These companies have technical expertise in 2Ws, 4Ws and Industrial segments batteries and they provide technological edge to the Exide over its peers and unorganized players.
- ◆ **Market share shift towards organized from unorganized** - Unorganized players constitutes over 35% market share in the Indian battery industry.major unorganized players operate in Tractor, 3Ws and CV space. We believe that the introduction of GST will bring down the price differential between organized and unorganized players, so there could be a prompt shift of market share towards the organized players from unorganized players.
- ◆ **Telecom a big opportunity**- Exide has 10% market share in the telecom segment, and it is very small portion of total revenue. The telecom industry has started data escalation and tower companies offer immense potential for industrial batteries. So it can be a good opportunity for Exide to capture more market share. According to the management, industrial segment should grow over 15% in next two years.
- ◆ Life Insurance business remains profitable for last consecutive 3 years. The company has started investing on branding and promotion of its insurance arm to make it one of the big insurance companies of India.

Plant Location and Capacity

| Plant Location | Capacity | | | |
|-------------------|------------------|----------------|-------------------|--------------------------|
| | Auto mn units | MC mn units | Industrial Mah | HUPS Systems mn units |
| Shamnagar (1946) | 1.6 | | 636 | |
| Chinchwad (1969) | 2.9 | | | |
| Haldia (1981) | 2.1 | | 1102 | |
| Hosur (1997) | 2.8 | | 1086 | |
| Taloja (1998) | 2.8 | 0.6 | | |
| Bawal (2003) | | 8.4 | | |
| Ahmednagar (2010) | | 8.9 | | |
| Roorkee (2011) | | | | 0.5 |
| Haridwar (2012) | | | | 0.5 |
| Total | 12.2 | 17.9 | 2824.0 | 1.0 |

adding 1 mn capacity in auto space in FY17

Key Risk

- ◆ Increase in Lead prices can affect the margins because of competitive replacement market.
- ◆ Power deficit in the country has reduced from 3.6% to 2.1% in FY16, so improving power condition in the country can hamper fast growing inverter segment growth.
- ◆ Economic slowdown in the country can negatively impact both the industrial and automotive segments.

EXIDEIND

Financials Snap Shot

| | INCOME STATEMENT | | | | | RATIOS | | | |
|--------------------------|------------------|------|------|-------|-----------------------------|--------|-------|-------|-------|
| | FY14 | FY15 | FY16 | FY17E | | FY14 | FY15 | FY16 | FY17E |
| Revenue (Net of Excise D | 8309 | 9535 | 9479 | 10155 | EPS | 6.4 | 7.2 | 8.4 | 9.3 |
| Other Income | 73 | 95 | 135 | 186 | Book Value | 40.7 | 45.2 | 50.9 | 57.1 |
| Total Revenue | 8382 | 9630 | 9615 | 10341 | DPS | 2.1 | 2.6 | 2.8 | 3.1 |
| COGS | 4014 | 4652 | 4429 | 4753 | Payout (incl. Div. Tax.) | 33% | 36% | 33% | 33% |
| GPM | 48% | 49% | 47% | 47% | Valuation(x) | | | | |
| Other Expenses | 2466 | 2959 | 2550 | 2742 | P/E | 18.9 | 24.6 | 16.6 | 18.9 |
| EBITDA | 862 | 937 | 1055 | 1152 | Price / Book Value | 3.0 | 3.9 | 2.7 | 3.1 |
| EBITDA Margin (%) | 10% | 10% | 11% | 11% | Dividend Yield (%) | 1.74% | 1.45% | 2.02% | 1.77% |
| Depreciation | 140 | 155 | 180 | 211 | Profitability Ratios | | | | |
| EBIT | 721 | 782 | 875 | 941 | RoE | 16% | 16% | 16% | 16% |
| Interest | 8 | 3 | 2 | 3 | RoCE | 21% | 20% | 20% | 19% |
| PBT | 787 | 874 | 1009 | 1123 | Turnover Ratios | | | | |
| Tax | 241 | 257 | 292 | 337 | Asset Turnover (x) | 0.7 | 0.7 | 0.6 | 0.6 |
| Tax Rate (%) | 31% | 29% | 29% | 30% | Debtors (No. of Days) | 29 | 26 | 28 | 28 |
| Reported PAT | 545 | 615 | 714 | 786 | Inventory (No. of Days) | 118 | 129 | 103 | 103 |
| Dividend Paid | 179 | 219 | 239 | 263 | Creditors (No. of Days) | 48 | 40 | 44 | 44 |
| No. of Shares | 85 | 85 | 85 | 85 | Net Debt/Equity (x) | 0 | 0 | 0 | 0 |

| | BALANCE SHEET | | | | | CASH FLOW STATEMENT | | | |
|------------------------|---------------|-------|-------|-------|---------------------------|---------------------|-------|--------|-------|
| | FY14 | FY15 | FY16 | FY17E | | FY14 | FY15 | FY16 | FY17E |
| Share Capital | 85 | 85 | 85 | 85 | OP/(Loss) before Tax | 787 | 874 | 1009 | 1123 |
| Reserves | 3375 | 3756 | 4245 | 4769 | Depreciation | 140 | 155 | 180 | 211 |
| Net Worth | 3460 | 3841 | 4330 | 4854 | Direct Taxes Paid | (235) | (253) | (278) | (337) |
| Long term Debt | 4 | 3 | 2 | 2 | Operating profit before w | 950 | 831 | 1298 | 1338 |
| Short term Debt | 30 | 51 | 109 | 117 | CF from Op. Activity | 872 | 180 | 1616 | 983 |
| Deferred Tax | 112 | 131 | 131 | 131 | Capex | (158) | (332) | (423) | (263) |
| Total Capital Employed | 3464 | 3844 | 4332 | 4856 | CF from Inv. Activity | (602) | (56) | (1351) | (824) |
| Net Fixed Assets | 1167 | 1314 | 1602 | 1654 | Repayment of Long Term | (38) | (2) | (1) | 0 |
| Capital WIP | 63 | 115 | 192 | 192 | Interest Paid | (8) | (3) | (1) | (3) |
| Debtors | 658 | 690 | 722 | 774 | Divd Paid (incl Tax) | (171) | (223) | (238) | (263) |
| Cash & Bank Balances | 287 | 207 | 294 | 194 | CF from Fin. Activity | (215) | (199) | (182) | (259) |
| Trade payables | 1101 | 1046 | 1132 | 1213 | Inc/(Dec) in Cash | 55 | (74) | 83 | (100) |
| Total Provisions | 245 | 292 | 327 | 350 | Add: Opening Balance | 221 | 287 | 207 | 294 |
| Net Current Assets | 1365 | 1537 | 1896 | 1817 | Closing Balance | 287 | 207 | 294 | 194 |
| Total Assets | 12494 | 13887 | 15326 | 16824 | | | | | |