

## EXIDE INDUSTRIES LTD

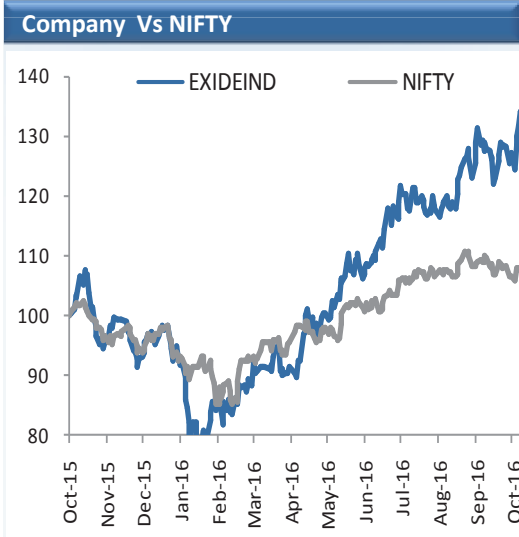
27-Oct-16

Result Update	
CMP	202
Target Price	220
Previous Target Price	210
Upside	9%
Change from Previous	-

Market Data	
BSE Code	500086
NSE Symbol	EXIDEIND
52wk Range H/L	208/116
Mkt Capital (Rs Cr)	17,179
Av. Volume	334216
Nifty	8,615

Stock Performance			
	1Month	1Year	YTD
Absolute	5.3	27.5	38.3
Rel.to Nifty	6.5	23.6	29.9

Share Holding Pattern-%			
	2QFY17	1QFY17	4QFY16
Promoter	45.99	45.99	45.99
Public	54.01	54.01	54.01
Others	--	--	--
Total	100.00	100.00	100.00



Exide Industries reported Rs. 1929 cr revenue in 2QFY17, a growth of 10.9% YoY. Automotive OEMs; especially PVs and 2 Wheelers, witnessed strong volume growth, which resulted in firm revenue growth during 2QFY17 for the company. M&HCV segment remained sluggish on the back of freight issue during the quarter. But the issue seems to have been resolved as major CV players reported a decent growth in the September. The company is focusing on technology up-gradation through collaboration with East Penn Manufacturing Company Inc, USA, which will result in 100 bps margin improvements. Life Insurance business remain profitable for last consecutive 3 years and it is not diluting any stake at the moment even after the government allowed up to 49 per cent stake-holding by foreign companies in the Indian insurance sector. Going ahead, we assume that better monsoon, GST rollout and 7th pay commission to boost automotive segment demand and improving industrial segment can led to better revenue and margin growth.

### Result Update

Revenue grew by 10.9%YoY to Rs. 1929 crore in 2QFY17. The growth in top-line was supported by higher sales of Passenger vehicles and 2 wheelers segment.

Gross Margin improved by 340 bps YoY due to lower lead cost.

EBITDA Margin expanded by 40 bps YoY. Other expenses remain higher due to sales and promotion expenses.

PAT Margin improved by 50 bps YoY. Company reported Rs.1.08 crore of other comprehensive income under the new IndAS.

### Outlook and Valuation

Going ahead, we assume management's strategy of cost control and technology up-gradation to improve the margin up to 100bps by 2017-18. Better monsoon, GST rollout and 7th pay commission to boost automotive segment demand and improving industrial segment can led to better revenue and margin growth. Management is not diluting any stake at the moment even after the government allowed upto 49 per cent stakeholding by foreign companies in the Indian insurance sector. Considering all the above arguments we maintain "BUY" on this stock with a revised target price of Rs.220 and we value insurance business at Rs.19 per share.

	Rs. In crore				
Financials	2QFY17	1QFY17	2QFY16	QoQ	YoY
Sales	1929	2011	1739	-4%	11%
EBITDA	293	315	257	-7%	14%
Net Profit	182	193	156	-6%	17%
EBITDA%	15.2%	15.7%	14.8%		
PAT %	9.4%	9.6%	9.0%		

(Source: Company/Eastwind)

### Investment Argument

>>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 will be invested in its plant at Haldia in West Bengal from where batteries with punch-grid technology will be rolled out in the coming 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.

>>In the automotive segment passenger vehicle and 2 wheelers segment have seen robust demand. Commercial vehicles sales have been tapered during the quarter due to freight issue and monsoon. Upcoming BS-IV norms which will be implemented from 1st April 2017 will boost the commercial vehicles sales in second half of FY17.

>>The introduction of GST will help the company to capture more market share in Tractor and CV space. Unorganized sector's market share is around 40% in Tractor, CV and 3Wheeler space. GST will help the company source raw material (lead) from its own smelters. It should reduce the tax load on batteries manufactured by the organized sector from 28 per cent to 18 per cent and should bring the unorganized sector in the tax net.

>>Better monsoon and seventh pay commission may drive the OEM demand in FY17.

>>According to the management, industrial segment should grow over 15% in next two years.

>>Exide has 10% market share in the telecom segment, and it is very small portion of total revenue. So it can be a good opportunity for Exide to capture more market share.

>>Life Insurance business remain profitable for last consecutive 3 years and it is not diluting any stake at the moment even after the government allowed upto 49 per cent stakeholding by foreign companies in the Indian insurance sector.

### 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
<b>Total</b>	<b>12.2</b>	<b>17.9</b>	<b>2824.0</b>	<b>1.0</b>

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.

## Financials Snap Shot

### INCOME STATEMENT

	FY14	FY15	FY16	FY17E
Revenue (Net of Excise D	8309	9535	9479	10049
Other Income	73	95	135	186
Total Revenue	8382	9630	9615	10235
COGS	4014	4652	4429	4703
GPM	48%	49%	47%	47%
Other Expenses	2466	2959	2550	2713
EBITDA	862	937	1055	1134
EBITDA Margin (%)	10%	10%	11%	11%
Depreciation	140	155	180	211
EBIT	721	782	875	923
Interest	8	3	2	3
PBT	787	874	1009	1105
Tax	241	257	292	332
Tax Rate (%)	31%	29%	29%	30%
Reported PAT	545	615	714	774
Dividend Paid	179	219	239	259
No. of Shares	85	85	85	85

Source: Eastwind/Company

### RATIOS

	FY14	FY15	FY16	FY17E
EPS	6.4	7.2	8.4	9.1
Book Value	40.7	45.2	50.9	57.0
DPS	2.1	2.6	2.8	3.0
Payout (incl. Div. Tax.)	33%	36%	33%	33%
<b>Valuation(x)</b>				
P/E	18.9	24.6	16.6	19.2
Price / Book Value	3.0	3.9	2.7	3.1
Dividend Yield (%)	1.74%	1.45%	2.02%	1.74%
<b>Profitability Ratios</b>				
RoE	16%	16%	16%	16%
RoCE	21%	20%	20%	19%
<b>Turnover Ratios</b>				
Asset Turnover (x)	0.7	0.7	0.6	0.6
Debtors (No. of Days)	29	26	28	28
Inventory (No. of Days)	118	129	103	103
Creditors (No. of Days)	48	40	44	44
Net Debt/Equity (x)	0	0	0	0

Source: Eastwind/Company

### BALANCE SHEET

	FY14	FY15	FY16	FY17E
Share Capital	85	85	85	85
Reserves	3375	3756	4245	4760
Net Worth	3460	3841	4330	4845
Long term Debt	4	3	2	2
Short term Debt	30	51	109	115
Deferred Tax	112	131	131	131
Total Capital Employed	3464	3844	4332	4847
Net Fixed Assets	1167	1314	1602	1654
Capital WIP	63	115	192	192
Debtors	658	690	722	766
Cash & Bank Balances	287	207	294	187
Trade payables	1101	1046	1132	1200
Total Provisions	245	292	327	347
Net Current Assets	1365	1537	1896	1807
Total Assets	12494	13887	15326	16793

Source: Eastwind/Company

### CASH FLOW STATEMENT

	FY14	FY15	FY16	FY17E
OP/(Loss) before Tax	787	874	1009	1105
Depreciation	140	155	180	211
Direct Taxes Paid	(235)	(253)	(278)	(332)
Operating profit before w	950	831	1298	1320
CF from Op. Activity	872	180	1616	973
Capital expenditure on fix	(158)	(332)	(423)	(263)
CF from Inv. Activity	(602)	(56)	(1351)	(824)
Repayment of Long Term	(38)	(2)	(1)	0
Interest Paid	(8)	(3)	(1)	(3)
Divd Paid (incl Tax)	(171)	(223)	(238)	(259)
CF from Fin. Activity	(215)	(199)	(182)	(256)
Inc/(Dec) in Cash	55	(74)	83	(107)
Add: Opening Balance	221	287	207	294
Closing Balance	287	207	294	187

Source: Eastwind/Company