

2QFY24 Result Update

Amara Raja Energy & Mobility

Beat on margin; new energy business to watch out for

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CMP (Rs): 618

Market cap. (Rs bn): 105

Target price (Rs): 634

Maintain Hold

First Cut Feel of the Results

- Amara Raja Energy & Mobility (AREM), erstwhile Amara Raja Batteries, reported the highest ever quarterly revenue of Rs 28.1 bn, growth of 4% YoY (+1.5% QoQ), on stable demand across segments. In the industrial segment, telecom witnessed improvement in demand driven by 5G.
- AREM reported EBITDA margin at 13.8%, improvement of 40 bps YoY (~100 bps QoQ) on drop in raw material costs by 110 bps YoY (~270 bps QoQ), due to drop in lead price. However, offset by increase in other expenses by 50 bps YoY (~175 bps QoQ) coupled with increase in employee costs by ~20 bps YoY.
- Adjusted PAT grew 11% YoY (+6% QoQ) to Rs 2.14 bn on increase in other income.
- The company has declared an interim dividend of Rs 4.8 per share.
- Promoter holdings remain unchanged at 28.06% as of September 2023 with nil pledged shares.

Financial highlights

(Rs mn)	2QFY23	2QFY24	YoY (%)	1QFY24	QoQ (%)
Net sales	26,995	28,108	4.1	27,699	1.5
EBITDA	3,602	3,870	7.4	3,535	9.5
EBITDA margin (%)	13.3	13.8	–	12.8	–
Other income	237	275	16.3	216	27.7
Interest	54	62	14.5	56	10.5
Depreciation	1,019	1,148	12.7	1,111	3.4
PBT	2,765	2,935	6.1	2,584	13.6
Tax	744	791	6.4	659	20.1
PAT	2,022	2,143	6.0	1,925	11.3
Adjusted PAT	2,022	2,143	6.0	1,925	11.3
EPS (Rs)	11.8	12.5	6.0	11.3	11.3

Key variables

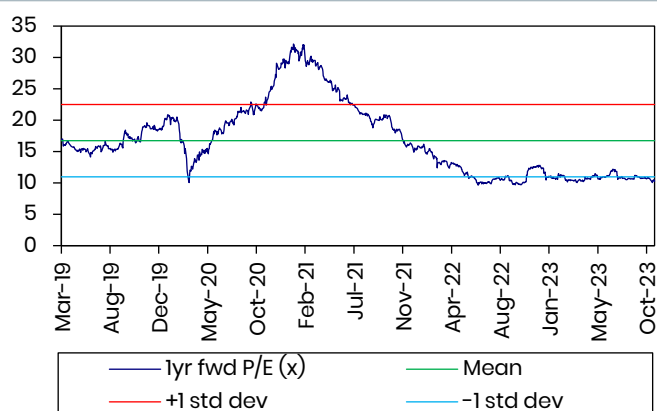
	Improvement on (%)	
	B&K est.	Consensus
Net sales	1.1	(3.0)
EBITDA	6.2	2.0
Adjusted PAT	13.9	3.6

	FY23	FY24E	FY25E
Valuations			
PER (x)	14.2	11.8	9.7
PBV (x)	2.0	1.7	1.5
EV/EBITDA (x)	7.8	6.5	5.6

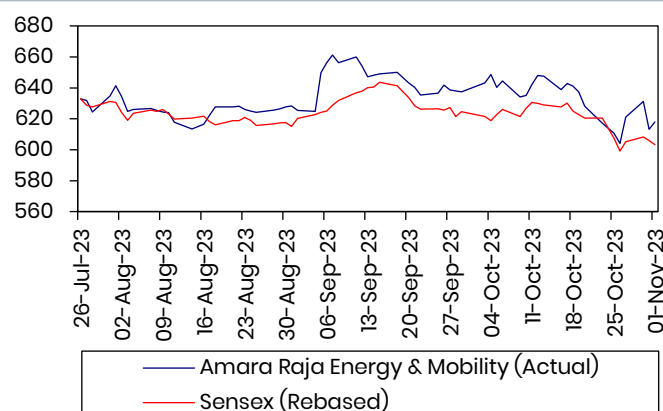
Key Ratios			
RoE (%)	15.1	15.8	16.5

Liquidity			
Net D/E (x)	(0.0)	(0.0)	(0.1)

One-year forward PE



Relative performance



Is it in the Price?

- AREM reported revenue of Rs 28.1 bn was broadly in line with market expectations of Rs 28.9 bn.
- EBITDA margin reported at 13.8%, above market estimates of 13.1% on reduction in raw material costs.
- Considering beat on margin, we expect the stock to react marginally positive.

Connecting the Dots

Going forward, we expect AREM to improve performance on:

- **Two-pronged growth strategy:** AREM's strategy is built on two pillars –
 1. **Value maximisation in core business** – an approach to expand existing core lead acid business.
 - In the domestic batteries market, AREM is the second largest player with strong positioning in automotive (OE and replacement) and Industrial Battery space (UPS and Telecom).
 - Lead-acid battery demand is expected to remain robust in telecom segment which is likely to witness an annual growth rate of 10-15% up to FY25.
 2. **Establishment of New Energy business** – Emergence of lithium as alternative energy storage business unit for development of new energy solutions is expected to fuel the next phase of growth. AREM is pursuing opportunities to build lithium cells, lithium battery packs, EV chargers, Energy storage solutions, etc. The company has also developed India's first 21,700 Cylindrical Cell (NMC 811).
- **Uptick in OEM segment:** With expected normalisation of supply chain constraints, OEM volumes are expected to witness further improvement driven by strong demand sentiments for personal mobility, increasing fleet utilisation levels and improvement in overall economic activity levels.
- **Growth momentum in replacement segment:** AREM derives ~40% of revenues from auto replacement segment. AREM has improved its market share in the replacement segment with promotion of entry-level brands at competitive pricing and gaining market share from the unorganised players. Going forward, AREM is expected to sustain the growth momentum in replacement segment aided by efforts to improve market share and improved realisation on price hikes in replacement segment.
- **Exports:** AREM has steadily improved its exports from ~7% of revenues in FY17 to ~12% of revenues. Over the last four years, the exports have witnessed accelerated growth at 14-15% CAGR and aided by strong market presence in South-East Asia, Middle East and Africa. AREM is focused on creating local presence through offices and warehouses to grow exports and improve market position in the Indian Ocean rim countries. The company is also looking for exploring new geographies. The company already exports 3 mn units and their aspiration is to have facility with 6 mn units output, which will be ideal either in South-East Asia or Middle East. The company holds market share of 2.5% of the global market.
- **Focus on digitalisation:** Over the last two years, AREM has been focused on improving the digital infrastructure. Currently, the company is working on bringing digital warranty product as a service offering. Going forward, the company has laid out plans to digitally engage with customers and vendors and also implement digital factory solutions to enhance operational efficiency.
- **New energy business:** Under new energy business, the company offers energy storage solutions, Li-Cell & supply battery pack and battery charger to three-wheeler players. Battery packs to Piaggio, battery chargers to 3W OEMs and other companies. In three-wheelers, the company supplies to M&M and Piaggio. New energy business revenue was ~Rs 1.5 bn in 2QFY24 (1HFY24 revenue stood at ~Rs 2.6 bn). The business is highly competitive in nature and is operating at 7-8% margin.

- **Lithium-ion battery plant:** The company is setting up plant in Divitipally, Telangana. Phase-1 is expected to be commercialised by FY26. The plant will have total capacity of 16 GWH cells which will be completed in the next 10 years.

To mitigate risk of market transition to Lithium-ion batteries, the company is working on building capabilities. AREM has started supplying Li-ion battery packs (with imported cells) for three-wheeler applications. The company has established a separate subsidiary for Lithium-ion batteries and is open for technology partnerships. However, challenges of high investment for Lithium-ion plant with uncertainty in terms of demand and battery technology remain. Further, large OEMs are expected to have control over battery technology on transition to EVs considering that battery cost forms a major cost of the electric vehicle.

Outlook and Recommendation

Considering the positive demand outlook, we expect AREM to maintain the growth momentum aided by growth across auto, industrial, export and new energy businesses.

In the long-term, though AREM is planning to enter the Lithium-ion battery space, uncertainty around AREM's lithium-ion technology and market acceptance remain.

On the margin front, due to scale benefits, in-house recycling and cost reduction measure, we expect margin to improve to 14-15% levels.

At the current market price of Rs 618, the stock is trading at 11.8x FY24E EPS of Rs 52.4 and 9.7x FY25E EPS of Rs 63.4.

Despite positive growth momentum across segments and expected margin improvement, given the uncertainty around AREM's lithium-ion technology and market acceptance, we maintain Hold rating on the stock with an unchanged target price of Rs 634 (10x FY25E EPS).

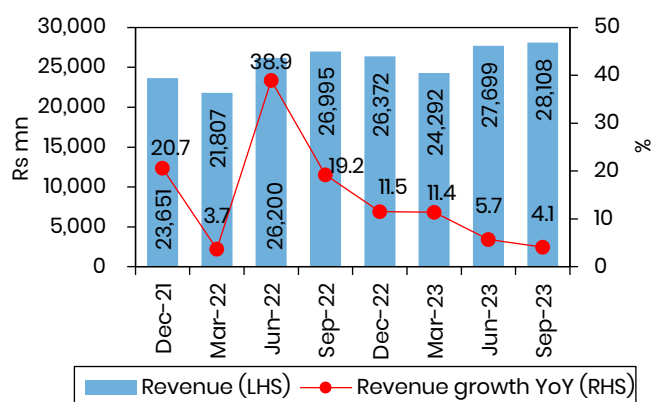
Concall highlights

- **Performance and outlook:** The company witnessed strong growth of 8% in the aftermarket segment, while exports shipments were delayed, OEM and export growth was 2-3%. Four-wheeler and two-wheeler volume growth was 7%/9% YoY, respectively, mainly led by aftermarket growth. For FY24, the company expects 10% growth YoY led by growth in Aftermarket and Exports. Export inventory has been built up as 3Q being the high demand season.
- **New energy business:** The new energy business also witnessed good growth (Rs 1.5 bn in 2QFY24 versus Rs 1.08 bn in 1QFY24). The new energy business supplies to two-wheeler/three-wheeler battery pack, chargers and other storage solutions. The business is highly competitive in nature and operates at 7-8% as margin levels.
- **Acquisitions:** The company completed acquisition of Amara Raja Power System Ltd. of charging business. Plastic business (Mangal Industries) backward integration will be completed by November 2023. The recycling plant is expected to commence in 1QFY25, with final capacity of 1.5 lakh MT, out of which the company's initial capacity will be 1 lakh MT.
- **Industrial segment:** The company witnessed 8-9% growth led by traction in UPS and the target is to maintain market leadership in Telecom and UPS and capitalise 5G rollout.
- **Operating margin:** Operating margin expanded due to better mix (high aftermarket revenue). As solar plant started, power cost remains stable. Raw material was stable between 1QFY24 and 2QFY24. The company is witnessing an uptick in lead prices and currency depreciation which is to be watched out for.

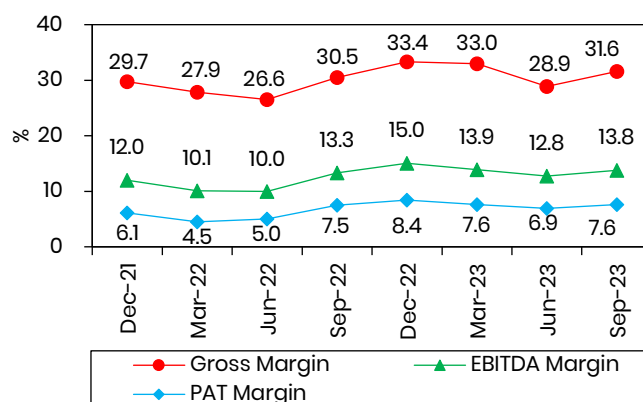
Lead acid battery

- Lead acid business is on a standalone basis, the revenue growth is about 6.4% YoY on volume growth in four-wheeler by 7% and two-wheeler by 9%. Within four-wheeler segment, the company saw robust growth in the aftermarket, which grew around 8%. While OEMs and exports had a subdued growth during the current quarter at about 3-4%.
- In two-wheeler segment**, while the aftermarket has grown about 12-13%, the OEM growth has been subdued at about 2-3%. That's culminated into the overall revenue growth of about 6.5% on the regular lead acid battery business.
- Industrial business:** UPS and Telecom business grew by 6-8% and expected to sustain in the coming year. The company has maintained a dominant market leadership in these segments..
- Recycling plant:** The company is setting up a recycling plant with a capacity of 1.5 lakh tonnes. Phase-1 has capacity of 1 lakh tonnes, expected to be commercialised in 1QFY25. In India, scrap prices move with LME. Management expects 1-2% cost reduction with recycling of lead and plastics.
- New energy business capex:** Currently, the company is having three projects, 1) setting up of research hub-near Hyderabad international airport, 2) customer qualification plant and 3) 2GW NMC line. The company plans to spend Rs 15 bn (FY24 – Rs 1.4-1.5 bn, FY25 – Rs 5-6 bn and rest will be in FY26).

Quarterly revenue growth

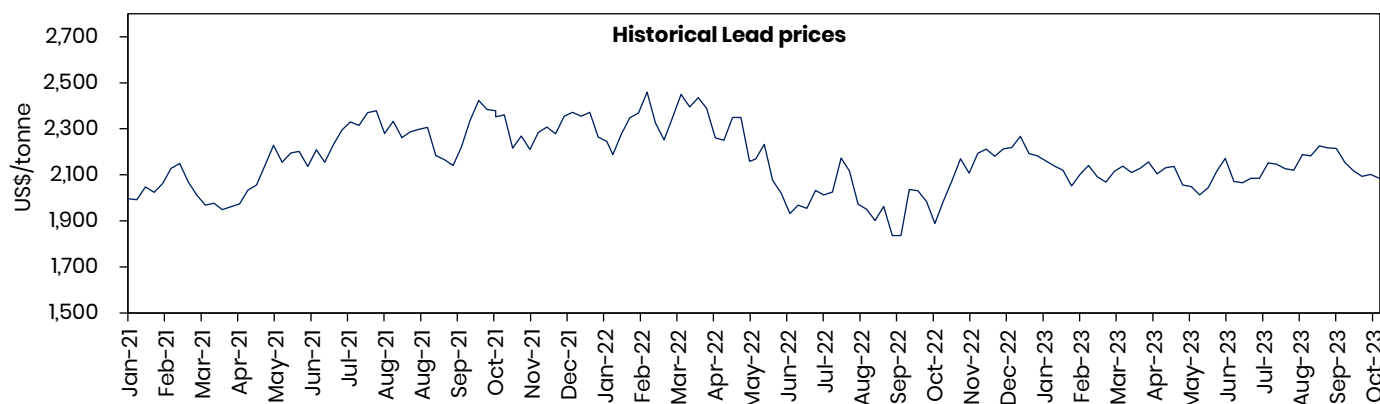


Quarterly profitability margin



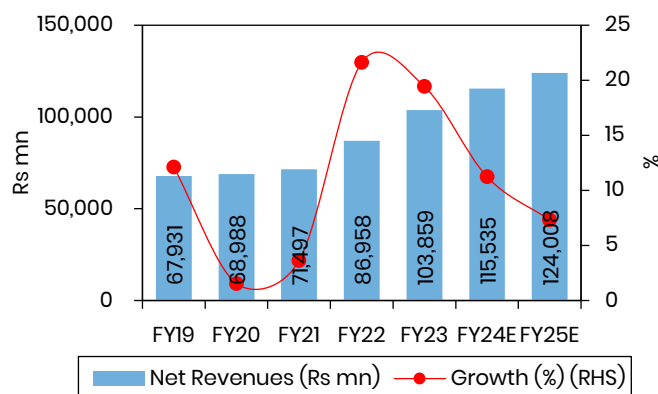
Source: Company, B&K Research

Lead prices



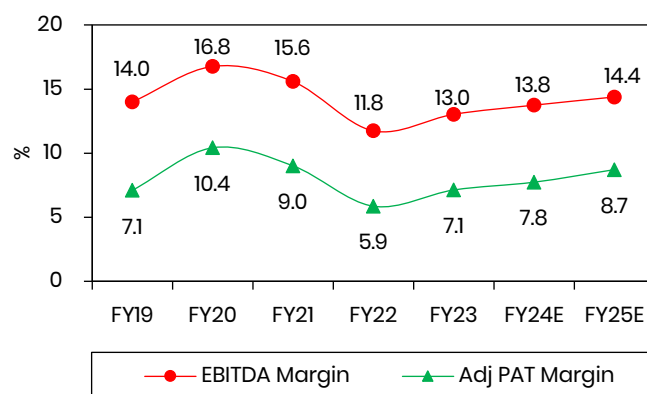
Source: in.investing.com, B&K Research

Annual revenue

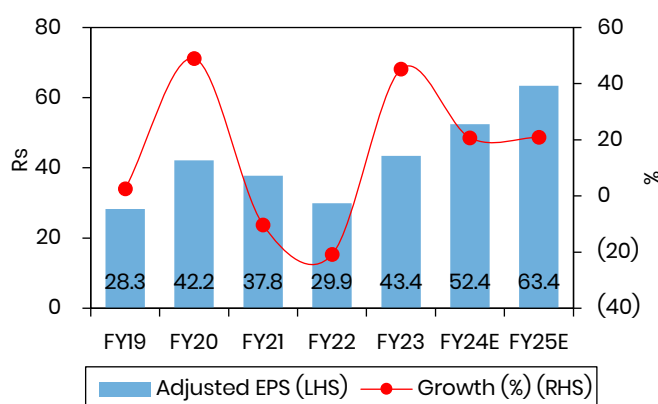


Source: Company, B&K Research

Margin trend

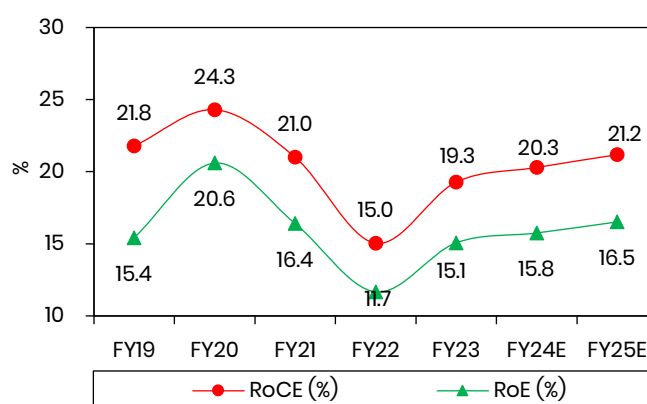


Adjusted EPS growth



Source: Company, B&K Research

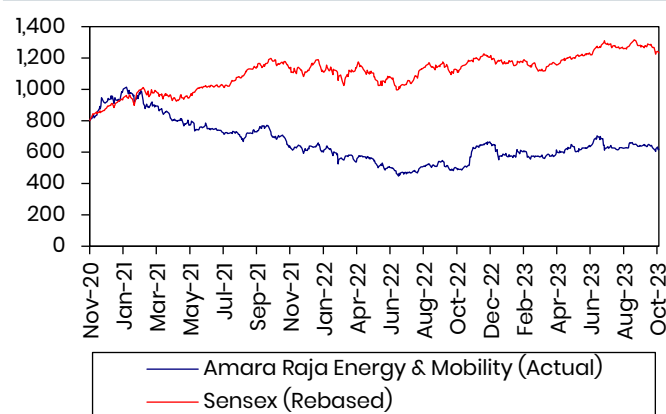
RoE/RoCE trend



Major shareholders (%)

	Jun 23	Sep 23	Change
Promoters	28.1	28.1	0.0
GOI	0.0	0.0	0.0
FII's	35.2	24.6	(10.6)
MFs	2.5	5.1	2.7
BFSI's	8.0	11.7	3.7
Public & Others	26.3	30.5	4.2
Pledge	0.0	0.0	0.0

Relative to Sensex 3 Years



Income Statement

Period end (Rs mn)	Mar 22	Mar 23	Mar 24E	Mar 25E
Revenue	86,958	103,859	115,535	124,008
Growth (%)	21.6	19.4	11.2	7.3
Operating expenses	(76,733)	(90,307)	(99,635)	(106,149)
Operating profit	10,225	13,552	15,900	17,859
EBITDA	10,225	13,552	15,900	17,859
Growth (%)	(8.3)	32.5	17.3	12.3
Depreciation	(3,957)	(4,272)	(4,595)	(4,912)
Other income	780	893	983	1,687
EBIT	7,048	10,173	12,288	14,633
Finance cost	(151)	(221)	(183)	(99)
Exceptional & extraordinary	0	(477)	0	0
Profit before tax	6,897	9,476	12,105	14,535
Tax (current + deferred)	(1,786)	(2,532)	(3,147)	(3,706)
Profit / (Loss) for the period	5,111	6,944	8,957	10,828
Reported Profit / (Loss)	5,111	6,944	8,957	10,828
Adjusted net profit	5,111	7,421	8,957	10,828
Growth (%)	(20.8)	45.2	20.7	20.9

Balance Sheet

Period end (Rs mn)	Mar 22	Mar 23	Mar 24E	Mar 25E
Share capital	171	171	171	171
Reserves & surplus	45,343	52,808	60,566	70,195
Shareholders' funds	45,514	52,978	60,737	70,366
Non-current liabilities	2,971	3,401	3,283	3,105
Long-term borrowings	938	731	395	58
Other non-current liabilities	2,033	2,670	2,888	3,047
Current liabilities	15,273	14,611	16,971	18,813
ST borrowings, Curr maturity	321	337	337	337
Other current liabilities	14,953	14,274	16,634	18,476
Total (Equity and Liab.)	63,759	70,991	80,991	92,284
Non-current assets	35,518	38,153	43,008	48,306
Fixed assets (Net block)	33,220	31,306	33,411	34,027
Non-current Investments	431	4,622	7,122	11,622
Long-term loans and adv.	1,868	2,225	2,475	2,657
Current assets	28,240	32,838	37,982	43,977
Cash & current investment	883	1,236	2,455	5,165
Other current assets	27,357	31,602	35,527	38,812
Total (Assets)	63,759	70,991	80,991	92,284
Total debt	1,259	1,068	731	395
Capital employed	48,806	56,716	64,356	73,808

Cash Flow Statement

Period end (Rs mn)	Mar 22	Mar 23	Mar 24E	Mar 25E
Profit before tax	6,897	9,476	12,105	14,535
Depreciation	3,957	4,272	4,595	4,912
Change in working capital	(2,378)	(5,055)	(1,669)	(1,518)
Total tax paid	(1,879)	(2,117)	(3,147)	(3,706)
Others	55	115	66	(29)
Cash flow from oper. (a)	6,652	6,690	11,950	14,193
Capital expenditure	(8,636)	(2,358)	(6,700)	(5,529)
Change in investments	2,028	(4,082)	(2,524)	(4,526)
Others	96	106	116	128
Cash flow from inv. (b)	(6,513)	(6,335)	(9,107)	(9,927)
Free cash flow (a+b)	139	355	2,842	4,266
Debt raised/(repaid)	445	(191)	(337)	(337)
Dividend (incl. tax)	(899)	(639)	(1,199)	(1,199)
Others	(908)	938	(111)	(47)
Cash flow from fin. (c)	(1,362)	107	(1,647)	(1,583)
Net chg in cash (a+b+c)	(1,222)	463	1,195	2,684

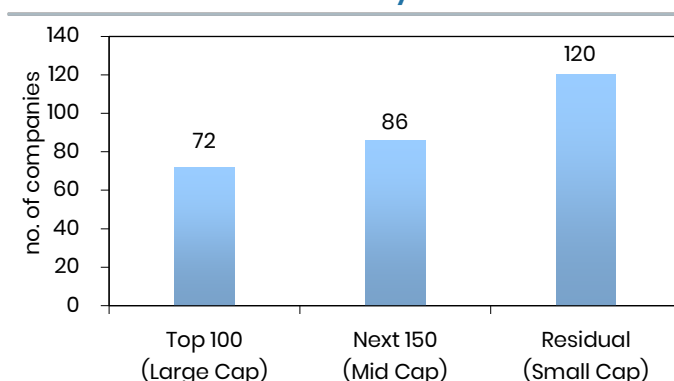
Key Ratios

Period end (%)	Mar 22	Mar 23	Mar 24E	Mar 25E
Adjusted EPS (Rs)	29.9	43.4	52.4	63.4
Growth	(20.8)	45.2	20.7	20.9
CEPS (Rs)	53.1	68.5	79.3	92.2
Book NAV/share (Rs)	266.5	310.2	355.6	412.0
Dividend/share (Rs)	4.5	3.2	6.0	6.0
Dividend payout ratio	17.6	9.2	13.4	11.1
EBITDA margin	11.8	13.0	13.8	14.4
EBIT margin	8.1	9.8	10.6	11.8
Tax rate	25.9	25.4	26.0	25.5
RoCE	15.0	19.3	20.3	21.2
Net debt/Equity (x)	0.0	(0.0)	(0.0)	(0.1)
Du Pont Analysis – RoE				
Net margin	5.9	7.1	7.8	8.7
Asset turnover (x)	1.4	1.5	1.5	1.4
Leverage factor (x)	1.4	1.4	1.3	1.3
Return on equity	11.7	15.1	15.8	16.5

Valuations

Period end (x)	Mar 22	Mar 23	Mar 24E	Mar 25E
PER	20.6	14.2	11.8	9.7
PCE	11.6	9.0	7.8	6.7
Price/Book	2.3	2.0	1.7	1.5
Yield (%)	0.7	0.5	1.0	1.0
EV/EBITDA	10.4	7.8	6.5	5.6

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BUY	>+15%	>+20%
HOLD	+15% to -10 %	+20% to -15 %
SELL	<-10%	<-15%

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