



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive		= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✓

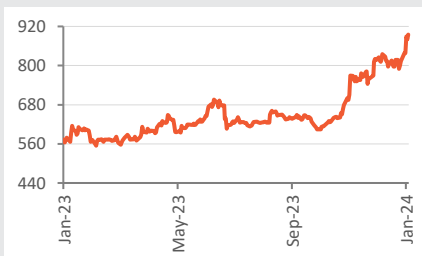
Company details

Market cap:	Rs. 15,236 cr
52-week high/low:	Rs. 708 / 509
NSE volume: (No of shares)	7.7 lakh
BSE code:	500008
NSE code:	ARE&M
Free float: (No of shares)	12.3 cr

Shareholding (%)

Promoters	28.1
FII	24.0
DII	17.9
Others	30.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.8	46.3	44.0	56.3
Relative to Sensex	10.1	34.1	36.1	38.8

Sharekhan Research, Bloomberg

Amara Raja Energy & Mobility Ltd

In-line Q3, eyeing better margins

Automobiles	Sharekhan code: ARE&M		
Reco/View: Buy	↔	CMP: Rs. 892	Price Target: Rs. 1,052
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- ♦ APAT grew by 6.8% q-o-q Rs 240 crore, matching our expectation.
- ♦ EBITDA margin to improve further on steady RM cost trend.
- ♦ We maintain a Buy with a revised PT of Rs 1052 lead by expectation of healthy traction in the replacement market, soft raw material cost trend and an opportunity to play in the Li-ion cell business.
- ♦ Stock trades at a P/E multiple of 13.6x and EV/EBITDA multiple of 6.6x its FY26E estimates.

Amara Raja Energy & Mobility Ltd (Amara) has reported in-line performance in Q3FY24 as 1.9% miss EBITDA estimates was compensated by lower tax provisions and hence, bottomline came exact in line with estimates. Revenues rose by 2.5% q-o-q to Rs 2,881 crore (versus estimate of Rs. 2,895 crore) as both aftermarket and OEM segments performed well and a healthy uptick in the telecom segment. In OEM space the company registered a 30% y-o-y growth in the two-wheeler segment and 2% y-o-y growth in OEM segment. Industrial business expanded by 6-7% y-o-y, driven by the telecom segment. Four-wheelers aftermarket segment witnessed 11% y-o-y growth as compared to 15% in the two-wheeler aftermarket segment. Trading revenues of ~7% was attributed to tubular batteries, affecting operating margins on a YTD basis, while quarter-on-quarter margins showed an increasing trajectory. In the new energy business, revenue doubled, with 80% coming from battery packs sold to three-wheelers and two-wheelers. EBITDA increased by 3.3% q-o-q to Rs 410 crore (vs estimate of Rs 418 crore) EBITDA margin expanded by 10 bps q-o-q to 14.1% (versus estimates of 14.4%). With this operating performance and lower tax provisioning, APAT has rose by 6.8% q-o-q to Rs 240 crore (vs estimate of Rs 240 crore). Effective tax rate in Q3FY24 stood at 23.5% against 27.0% in Q2FY24. The new energy business also involves supplying chargers to OEMs with deliveries to the telecom sector and other industrial power backup storage requirements. Further, the company has entered the North American market.

Key positives

- ♦ Two-wheeler OEM segment grew by 30% y-o-y and the replacement segment grew by 15%.
- ♦ Four-wheeler OEM segment grew mere 2% y-o-y and the replacement segment grew by 11%.
- ♦ The company has entered North American market.

Key negatives

- ♦ Other income declined by 13.9% q-o-q.
- ♦ It is lacking growth in the UPS segment as it is playing in UPS segment via trading route.
- ♦ Other expenses include additional charges pertain to insurance cost and consultancy charges.

Management Commentary

- ♦ The amalgamation of plastic component business with the company has been completed effective from February 1, 2024.
- ♦ EBITDA margin is expected to improve on q-o-q basis due to benign input cost trend.
- ♦ The company is witnessing healthy volume growth in both replacement and OEM space in automobile segment.

Our Call

Valuation – Maintain Buy with a revised PT of Rs.1,052: Amara has reported in-line performance in Q3FY24 and the management has indicated that demand in OEMs as well as in the replacement space in automotive segment has been reviving. Further, the telecom space has been giving healthy growth opportunity and overall industrial segment has been growing at 6-7%. Lack of manufacturing of tubular battery space is impacting the performance due to trading activity, which we believe would reverse once the tubular capacity would be reinstalled. New energy business is registering healthy traction. We expect EBITDA margins to improve further as input cost trend has been steady and the company has amalgamated plastic business with itself effective from February 1, 2024. The merger of the plastic business would be margin and EPS accretive. Further, the lithium ion (Li-ion) battery project is expected to begin deliveries from FY2026. We believe that lead acid batteries to remain in demand for the next few years in the replacement market, while Li ion battery segment would expand from current levels. With incorporation of Q3FY24 performance and introduction of FY26 earnings estimates, we maintain a Buy rating on the stock with revised PT of Rs 1052 on account of expectation of healthy traction in replacement segment, soft RM cost trends and an opportunity to play in the Li-ion cell business.

Key Risks

Volatile RM cost trend, delay in recovery in replacement demand and rise in competition are key risk. Along with that the company is investing heavily in Li ion project and hence carries a project execution risk with uncertainty of demand.

Valuation (Standalone)

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenues (Rs crore)	8,696	10,386	11,425	12,567	13,824
Growth (%)	21.6	19.4	10.0	10.0	10.0
AEBIDTA (Rs crore)	1,023	1,355	1,519	1,734	1,977
OPM (%)	11.8	13.0	13.3	13.8	14.3
Adj Net Profit (Rs crore)	511	742	847	973	1,123
Growth (%)	-21.0	45.2	14.0	14.9	15.5
AEPS (Rs)	29.9	43.5	49.6	56.9	65.8
P/E (x)	29.8	20.5	18.0	15.7	13.6
P/BV (x)	3.3	2.9	2.5	2.2	1.9
EV/EBIDTA (x)	14.8	10.8	9.5	8.0	6.6
ROE (%)	11.7	15.1	14.9	15.0	15.2
ROCE (%)	11.9	15.3	15.2	15.3	15.4

Source: Company; Sharekhan estimates

Lead acid business

- Lead acid business witnessed a 12% growth on y-o-y basis in Q3FY24.
- Four-wheeler OEM segment grew by 2%, while two-wheeler OEM segment saw a significant 30% growth.
- The industrial business expanded by 6-7%, driven by the telecom segment. Notably, four-wheeler exports surged by 25%.
- Tubular battery factory reinstatement is in progress, with expectations for the plant to be ready for the 2025 season.
- Additionally, the integration of the plastic component business from Mangal Industries is now complete.

New energy business

- The new energy sector saw double-digit growth on y-o-y in Q3FY24.
- In the telecom sector, robust growth played a pivotal role in driving industrial battery volumes. Under the New Energy business, the company initiated the supply of battery packs to the telecom sector.
- New Energy business, generating 80% of revenue from the two/three-wheeler segment, has begun supplying battery packs to telecom tower companies. In the first three quarters of FY24, revenue reached Rs 4.1 billion and the company aims to maintain 10-11% EBITDA margin levels and a Return on Equity (RoE) of 10-11%, exceeding 2.5 GW. While supplying battery packs and chargers to three-wheeler players like Piaggio and M&M, the company is developing higher-level battery packs for two-wheelers and four wheelers.

Others

- Expanding product range, the company recently entered the automotive lubricant business, gaining significant traction.
- Furthermore, by entering the North American market, the company secured a substantial order book, with the pack and charger business growing at a healthy rate.
- In terms of investments, Rs 2.5 billion was allocated to lead acid and another Rs 2.5 billion to the new energy business for FY24. Looking ahead to FY25, the company plans a capex of Rs 6 billion, primarily for the new energy business, with Rs 2.5-3 billion earmarked for a lead acid recycling plant.

Outlook

- EBITDA margins to improve q-o-q due to a decline in commodity prices and effective cost control measures.
- While there have been no general price hikes, some B2B contracts have seen adjustments.
- Global reductions in lithium-ion cell prices are contributing to improved profitability.
- Despite capacity utilisation being less critical, enhanced cost efficiency is positively impacting margins, even as volume and material advantage costs affect profitability.

Change in earnings estimates

Rs cr

Particulars	New			Earlier			% change		
	FY24E	FY25E	FY26	FY24E	FY25E	FY25E	FY24E	FY25E	FY26
Revenue	11,425	12,567	13824	11,425	12,567	13824	-	-	-
EBITDA	1,519	1,734	1977	1,519	1,697	1935	-	2.2	2.1
EBITDA margin (%)	13.3	13.8	14.3	13.3	13.5	14.0			
PAT	847	973	1123	847	944	1092	-	3.0	2.8
EPS (Rs)	49.6	56.9	65.8	49.6	55.3	63.9	-	3.0	2.8

Source: Company; Sharekhan Research

Results (Standalone)

Particulars	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Net sales	2,881	2,637	9.2	2,811	2.5
Total operating expenses	2,471	2,240	10.3	2,414	2.4
EBITDA	410	397	3.3	397	3.3
Depreciation	114	115	(0.1)	115	(0.4)
Interest	6	6	0.7	6	(5.5)
Other Income	24	26	(9.1)	28	(13.9)
PBT	313	303	3.6	293	6.8
Tax	74	80	(7.6)	79	(6.9)
RPAT	240	223	7.6	214	11.8
Adjusted PAT	240	223	7.6	224	6.8
Adjusted EPS	14.0	13.0	7.5	13.1	6.8

Source: Company; Sharekhan Research

Key Ratios (Standalone)

Particulars	Q3FY24	Q3FY23	Y-o-Y (bps)	Q2FY24	Q-o-Q (bps)
Gross margin (%)	32.1	33.4	(120)	31.6	50
EBIDTA margin (%)	14.2	15.0	(80)	14.1	10
Net profit margin (%)	8.3	8.4	(10)	8.0	30
Effective tax rate (%)	23.5	26.4	(280)	27.0	(350)

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Demand is picking up in the automotive and industrial sector

Business outlook for the automotive and industrial segments is improving with the normalisation of economic activities. Automotive demand is witnessing strong recovery in two-wheeler and four-wheeler segments, aided by pent-up demand and increased personal mobility transport. The industrial part is also witnessing growth, driven by a recovery in the telecom and UPS segments. The potential in telecom and UPS industry demand remains buoyant because of increased data usage and digitalisation.

■ Company Outlook – Set for a steady ride

We expect Amara to continue to outpace the organised lead-acid battery industry, led by client acquisitions, product launches, and benefit from its extensive distribution network. Current capacities (batteries): 4W – 50 million, 2W- 30 million, industrial batteries – 2.3bnAh. The company has a large distribution network comprising over 1 lakh plus point of sales, 1000 plus-power zone retail stores and 2,000 plus extensive service hubs. The company has a strong long-term revenue visibility, given its focus on the aftermarket segment. Further the company is investing in Li ion battery cell manufacturing to drive its long-term growth.

■ Valuation – Maintain Buy with aa revised PT of Rs.1,052

Amara has reported in-line performance in Q3FY24 and the management has indicated that demand in OEMs as well as in the replacement space in automotive segment has been reviving. Further, the telecom space has been giving healthy growth opportunity and overall industrial segment has been growing at 6-7%. Lack of manufacturing of tubular battery space is impacting the performance due to trading activity, which we believe would reverse once the tubular capacity would be reinstalled. New energy business is registering healthy traction. We expect EBITDA margins to improve further as input cost trend has been steady and the company has amalgamated plastic business with itself effective from February 1, 2024. The merger of the plastic business would be margin and EPS accretive. Further, the lithium ion (Li-ion) battery project is expected to begin deliveries from FY2026. We believe that lead acid batteries to remain in demand for the next few years in the replacement market, while Li ion battery segment would expand from current levels. With incorporation of Q3FY24 performance and introduction of FY26 earnings estimates, we maintain a Buy rating on the stock with revised PT of Rs 1052 on account of expectation of healthy traction in replacement segment, soft RM cost trends and an opportunity to play in the Li-ion cell business.

About company

Amara is the flagship company of Amara Raja Group. The company is one of the leading manufacturers of lead acid storage batteries catering to the needs of both industrial as well as automotive space. In the automotive segment, the company makes batteries for 4Ws and 2Ws and caters to the OEM as well as aftermarket segments. Products for the automotive segment are marketed under the Amaron and Powerzone brands. In the industrial segment, the company is a preferred supplier to major telecom service providers, telecom equipment manufacturers, the UPS sector (OEM and replacement), Indian Railways, and to power, oil, and gas segments, among others. The company has a commendable share in the telecom and UPS batteries segment. Amara's manufacturing plants are located in the Chittoor district in Andhra Pradesh and are equipped with state-of-the-art manufacturing plants.

Investment theme

Amara is one of the leading battery manufacturers in the duopolistic Indian lead acid battery space. The company is present in the automobile as well as industrial segments. Having a strong brand equity and extensive distribution network, we expect Amara to grow strongly in the battery industry. The company is working on several cost-control measures to improve profitability, such as increasing backward integration, diversifying the supplier base, enhancing automation, increasing the share of renewable power, and enhancing digital initiatives. Amara is also upgrading its technology and working on import substitution of raw materials to enable cost reduction. We expect the company to outperform the battery industry, driven by new client additions in the OEM space and market share gains in the auto replacement segment, driven by network expansion.

Key Risks

- ♦ A steep rise in lead prices, a key raw material, can impact profitability.
- ♦ Delay in completion or failure LI ion project may impact its future growth potential.

Additional Data

Key management personnel

Jayadev Galla	CEO MD
Delli Babu Y	Chief Financial Officer
Vikas Sabarwal	Company Secretary & Compliance officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Rngalla Family Pvt Ltd	28.06
2	Nalanda India Equity Fund Ltd	09.88
3	Life Insurance Corporation of India	07.23
4	Kotak Mahindra Asset Management Co Ltd/India	03.41
5	Tata AIA Life Insurance	03.41
6	Vanguard Group Inc/The	02.85
7	BlackRock Inc	01.23
8	Nippon Life India Asset Management Ltd	01.23
9	Dimensional Fund Advisors LP	01.22
10	Tata AMC	00.83

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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