

Retail Equity Research

Amara Raja Energy & Mobility Ltd.

Automobile – Auto Ancillaries

BSE CODE: 500008 NSE CODE: ARE&M

BLOOMBERG CODE: ARENM:IN SENSEX: 72,152

12 Months Investment Period Rating as per small cap

CMP Rs. 884 TARGET Rs. 990 RETURN 12% 

(Closing: (07-02-24))

Accumulate

KEY CHANGES: TARGET  RATING  EARNINGS 

Strong performance across segment.

Amara Raja Energy & Mobility Ltd. (ARE&M), the flagship company of the Amara Raja Group, is one of the largest manufactures of lead-acid batteries. Its segments comprise 70% automotive & the remaining industrial, with market dominance in the telecom segment.

- ARE&M, Q3FY24 revenue grew by 9%YoY on the back of volume growth in the aftermarket & OEM segments. Industrial battery volume saw a moderate growth of 6-7% YoY.
- EBITDA margin came in line with our expectations at 14.2%, largely due to the superior product mix and benign lead price.
- We expect growth in the auto sector & New energy businesses to continue in the near term. New energy business almost doubled to Rs.147cr.
- Investment for technological upgrade in the lithium ion project for 2W/3W batteries is progressing as per schedule, and have started supplying lithium battery packs for 3W applications.
- The company's strategy is to incorporate lithium ion projects and expansion as a wholly owned subsidiary to support long term visibility. We value ARBL at 15x FY25E EPS and recommend Accumulate rating.

Strong growth across segments.

In Q3FY24, revenue grew by 9%YoY, led by robust demand in the automotive and aftermarket segments. Exports showed very healthy growth in Middle East and Southeast Asian markets, growing by 25%YoY (constitutes 15%). Volume growth in both four-wheelers and two-wheelers, with aftermarket segments showing robust growth rates of 11% and 15%, respectively. OEM four-wheeler growth was marginal at 2%, while two-wheeler OEM revenue surged by 30%YoY. The company announced the current expansion in the lithium-ion cell manufacturing facility will be culminated under a wholly-owned subsidiary that will set up a multi-gigawatt hour lithium-ion cell manufacturing facility, as it intends to set up a domestic manufacturing eco-system for the same. In the last 9months the new energy or lithium business has generated a revenue of Rs.408cr., and is planning to reach Rs.750cr in the current fiscal year. The demand signal is positive across all segments and we believe respite in commodity price and cost optimisation to limit margin degradation.

Strategy to power newer mobility.

Strategic decision to shift from solely being a battery manufacturer to a comprehensive Energy & Mobility solutions provider, and also changed the company name to Amara Raja Energy & Mobility Limited in 2023. ARBL's investments in capacity expansion are in line with the future demand for 2/3W and 4W. The company has launched several strategic initiatives to take advantage of alternative power batteries, both through lithium ion and other new age chemistries that are enabling faster transformation in renewable energy, electric mobility, microgrids, etc. India's electrification demand is expected to be 150GWh by 2030. Adoption across user segments like Mobility Telecom and Data Centers and enables significant market share gains. Currently, the phased project with regard to lithium ion expansion is progressing as per schedule and has started supplying lithium battery packs and chargers to 3W-applications.

Inclusive development in battery technology

There will be multiple battery or storage technologies in the system, which will be used according to its capabilities, and industry. In addition, the company is planning to develop partnerships and create amalgamation activities with OEMs. Here, ARBL will start the piolet production, and as a first step, send samples to various customers to get approval. The company announced the lithium ion expansion under separate subsidiary to attract prospective investors or synergies to overcome the current legacy approach.

Valuations.

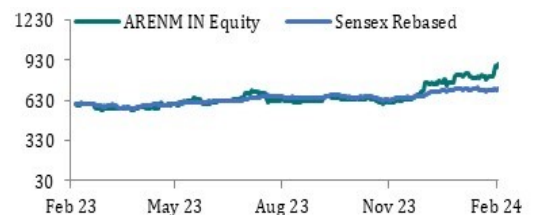
We believe moderation in the prices of raw materials and improving volume will drive margin growth. In addition, the 2W sector is likely to show a pick up in H1FY24 owing to a strong rebound in the domestic volume. We rollover our valuation and value ARBL at 15x FY26E EPS with a target price of Rs. 990/share and recommend Accumulate rating at CMP.

Company Data			
Market Cap (Rs.cr)	15,288		
Enterprise Value (Rs.cr)	14,821		
Outstanding Shares (cr)	17		
Free Float (%)	72.0		
Dividend Yield	0.9%		
52 week high (Rs.)	922		
52 week low (Rs.)	547		
6m average volume (cr)	0.08		
Beta	1.0		
Face value Rs.	1.0		

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24
Promoters	28.1	28.1	28.1
FII's	35.2	24.6	24.0
MFs/Insti	2.7	12.8	17.9
Public	34.1	34.5	30.0
Total	100.0	100.0	100.0
Promotor pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	42.8%	44.6%	49.2%
Absolute Sensex	11.3%	9.5%	18.8%
Relative Return	31.5%	35.1%	30.4%

*over or under performance to benchmark index



Standalone (cr)	FY24E	FY25E	FY26E
Sales	11,324	12,447	13,727
Growth (%)	9.0	9.9	10.3
EBITDA	1,568	1,768	1,963
EBITDA Margin (%)	13.9	14.2	14.3
Adj. PAT	876	1,007	1,127
Growth (%)	17.6	14.9	11.9
Adj. EPS	51.3	59.0	66.0
Growth (%)	17.6	14.9	11.9
P/E	17.3	15.0	13.4
P/B	2.6	2.3	2.0
EV/EBITDA	9.7	8.6	7.7
ROE (%)	15.9	16.0	15.7
D/E	0.1	0.1	0.1

Saji John

Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr.	Q3FY24	Q3FY23	YoY Growth (%)	Q2FY24	QoQ Growth (%)	9MFY24	9MFY23	YoY Growth (%)
Sales	2,881	2,637	9.2	2,811	2.5	8,462	7,957	6.3
EBITDA	410	397	3.3	387	5.9	1,150	1,018	13.0
EBITDA margins (%)	14	15	-82bps	14	46bps	14	13	80bps
Depreciation	114	115	-0.1	115	-0.4	340	313	8.8
EBIT	295	282	4.7	272	8.6	810	705	14.9
Interest	6	6	0.7	6	-5.5	18	16	11.9
Other Income	24	26	-9.1	28	-13.9	73	67	9.1
Exceptional Items	-	-	0.0	-	0.0	-	-	0.0
PBT	313	303	3.6	293	6.8	865	756	14.4
Tax	74	80	-7.6	79	-6.9	219	200	9.6
Share of profit from associates	-	-	0.0	-	0.0	-	-	0.0
Minority interest	-	-	0.0	-	0.0	-	-	0.0
Reported PAT	240	223	7.6	214	11.8	646	556	16.2
Adjustments	-	-	0.0	-	0.0	-	-	0.0
Adj PAT	240	223	7.6	214	11.8	646	556	16.2
No. of Shares	17	17	0.0	17	0.0	17	17	0.0
Adj EPS (Rs)	14	13	7.6	13	11.8	4	3	16.2

Change in Estimates

	Old estimates		New estimates		Change (%)	
Year / Rs cr	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	11,471	12,518	11,324	12,447	-1.3	-0.6
EBITDA	1,514	1,750	1,568	1,768	3.6	1.0
Margins (%)	13.2	14.0	13.9	14.2	65bps	22bps
Adj. PAT	845	1,001	876	1,007	3.7	0.6
EPS	47.9	58.9	51.3	59.0	7.1	0.1



Standalone Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	6,793	7,150	8,696	10,386	11,324	12,447	13,727
% change	0.0	5.2	21.6	19.4	9.0	9.9	10.3
EBITDA	1,052	1,116	1,023	1,355	1,568	1,768	1,963
% change	10.6	6.0	-8.3	32.5	15.7	12.7	11.1
Depreciation	298	314	383	416	444	486	534
EBIT	753	797	628	931	1115	1269	1414
Interest	12	11	15	22	20	28	35
Other Income	55	87	78	89	100	131	158
PBT	796	873	691	951	1,194	1,373	1,536
% change	0.9	1.0	-2.1	3.8	2.6	1.5	1.2
Tax	180	227	179	253	318	365	409
Tax Rate (%)	22.6	25.9	25.8	26.6	26.6	26.6	26.6
Reported PAT	616	647	513	697	876	1,007	1,127
Adj*	0.0	0.0	0.0	47.7	0.0	0.0	0.0
Adj PAT	616	647	513	745	876	1,007	1,127
% change	27.4	0.5	-2.1	45.4	17.6	14.9	11.9
No. of shares (cr)	17	17	17	17	17	17	17
Adj EPS (Rs.)	36.1	37.9	30.0	43.6	51.3	59.0	66.0
% change	27.4	0.5	-2.1	4.5	1.8	1.5	1.2
DPS (Rs.)	19.4	5.0	8.3	10.0	10.0	10.0	10.0
CEPS (Rs.)	54	57	53	68	78	88	98

BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	39	127	44	104	132	142	706
Accounts Receivable	636	787	793	780	869	955	1053
Inventories	1,143	1,439	1,804	1,643	2,028	2,336	2,576
Other Cur. Assets	377	340	337	1072	1241	1364	1504
Investments	114	127	78	224	300	450	450
Gross Fixed Assets	3,215	3,998	4,393	5,181	5,781	6,381	6,981
Net Fixed Assets	1,826	2,360	2,413	2,831	3,032	3,185	3,289
CWIP	733	398	829	233	250	250	250
Intangible Assets	98	191	80	69	87	109	137
Def. Tax (Net)	-44	-41	-31	-73	-79	-86	-93
Other Assets	0	0	0	0	0	0	0
Total Assets	4,921	5,728	6,346	6,883	7,860	8,705	9,872
Current Liabilities	468	562	718	689	854	818	902
Provisions	183	214	246	272	310	341	376
Debt Funds	34	23	23	17	24	32	39
Other Liabilities	0	0	7	7	7	7	7
Equity Capital	17	17	17	17	17	17	17
Reserves & Surplus	3,603	4,164	4,536	5,138	5,843	6,680	7,637
Shareholder's Fund	3,620	4,181	4,553	5,155	5,861	6,697	7,654
Total Liabilities	4,921	5,728	6,346	6,883	7,860	8,705	9,872
BVPS (Rs.)	212	245	267	302	343	392	448

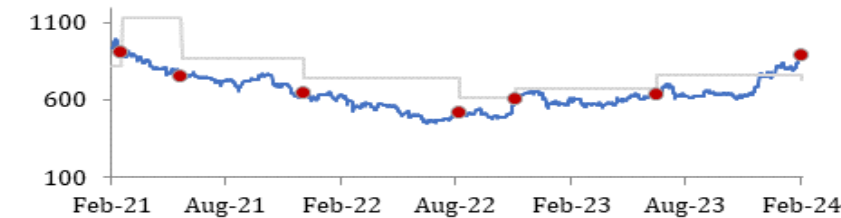
CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	1,094	1,187	1,074	1,366	1,638	1,859	2,070
Non-cash adj.	-178	-221	-167	-245	-308	-353	-394
Changes in W.C	390	-154	-121	-620	-379	-516	-275
C.F. Operation	1,306	812	786	502	951	989	1,401
Capital exp.	-150	-783	-300	-789	-601	-601	-601
Change in inv.	112	15	-93	-13	49	-146	-76
Other invest.CF	0	0	0	0	0	0	0
C.F - Investment	-922	-624	-719	-381	-766	-823	-681
Issue of equity	0	0	0	0	0	0	0
Issue/repay debt	-12	-11	0	-7	8	8	8
Dividends paid	-331	-85	-141	-95	-171	-171	-171
Other finance.CF	-52	-3	-9	41	6	7	8
C.F - Finance	-395	-100	-151	-61	-157	-156	-156
Chg. in cash	-11	89	-84	60	28	10	564
Closing cash	39	127	44	104	132	142	706

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab. & Return							
EBITDA margin (%)	15.5	15.6	11.8	13.0	13.9	14.2	14.3
EBIT margin (%)	11.1	11.1	7.2	9.0	9.8	10.2	10.3
Net profit mgn.(%)	9.1	9.0	5.9	7.2	7.7	8.1	8.2
ROE (%)	17.7	16.6	11.7	15.4	15.9	16.0	15.7
ROCE (%)	15.3	14.1	10.0	13.4	14.1	14.5	14.3
W.C & Liquidity							
Receivables (days)	37.7	36.3	33.1	27.6	26.6	26.7	26.7
Inventory (days)	90.5	99.3	96.7	87.5	86.0	93.4	95.3
Payables (days)	34.7	39.6	38.2	35.7	36.1	35.8	33.4
Current ratio (x)	3.4	3.5	3.1	3.7	3.7	4.1	4.6
Quick ratio (x)	1.4	1.6	1.2	1.3	1.2	1.3	2.0
Turnover & Leverage							
Gross asset T.O (x)	2.2	2.0	2.1	2.2	2.1	2.0	2.1
Total asset T.O (x)	1.5	1.3	1.4	1.6	1.5	1.5	1.5
Int. coverage ratio (x)	61.8	75.6	41.6	42.2	54.8	45.5	39.9
Adj. debt/equity (x)	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Valuation							
EV/Sales (x)	2.2	2.1	1.7	1.5	1.3	1.2	1.1
EV/EBITDA (x)	14.4	13.6	14.8	11.2	9.7	8.6	7.7
P/E (x)	24.6	23.4	29.6	20.3	17.3	15.0	13.4
P/BV (x)	4.3	3.8	3.4	3.0	2.6	2.3	2.0

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

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Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

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