AMARA RAJA

nuvama institutional equities

COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	1,667
12 month price target (INR)	2,000
52 Week High/Low	1,776/599
Market cap (INR bn/USD bn)	295/3.5
Free float (%)	66.9
Avg. daily value traded (INR mn)	4,367.8

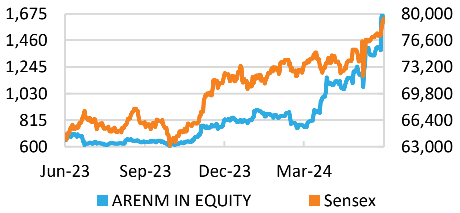
SHAREHOLDING PATTERN

	Mar-24	Dec-23	Sep-23
Promoter	32.86%	28.06%	28.06%
FII	24.46%	24.00%	24.64%
DII	15.36%	17.91%	16.81%
Pledge	0.00%	0.00%	0.00%

FINANCIALS (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Revenue	103,897	112,603	123,783	134,746
EBITDA	14,350	16,214	18,454	20,223
Adjusted profit	7,784	9,059	9,990	10,647
Diluted EPS (INR)	45.6	49.5	54.6	58.2
EPS growth (%)	52.3	8.6	10.3	6.6
RoAE (%)	14.7	14.2	14.0	13.6
P/E (x)	36.6	33.7	30.5	28.7
EV/EBITDA (x)	19.8	17.5	15.8	14.6
Dividend yield (%)	0.4	0.3	1.0	1.0

PRICE PERFORMANCE



Gotion tie-up enhancing EV focus

Amara Raja has signed a technical licensing agreement with Gotion, one of the top-10 global lithium battery makers. The tie-up is for LFP cells for auto/industrial applications, support in establishing Gigafactory, integration with Gotion's global supply chain, and customer technical support.

We believe this tie-up would propel Amara's plan to set up 16GWH capacity over next ten years at INR95bn investment, to cater to both domestic and overseas markets. We are ascribing 3x investment value to lithium battery investments, and raising the fair value of lithium business to INR1,100/share (INR532/share earlier). Consequently, our TP increases to INR2,000 (INR1,420 earlier). Maintain 'BUY'.

Gotion collaboration to power Amara's lithium plan

Currently, Amara is assembling lithium battery packs and manufacturing chargers. It is supplying battery packs to customers in the 2W, 3W and industrial segments (Piaggio, Mahindra, Omega SEKI, Indus Towers, and BSNL). Amara is working on setting up a small lithium-ion cell manufacturing facility with 2GWH capacity at an investment of INR15bn, which is likely to come on stream in FY26.

Amara has now signed a technical-licensing agreement with Gotion, which is among the top-ten global lithium battery makers, has 8,000 patented technologies covering the battery industry value chain, and a capacity layout likely to reach 300GWh by 2025. The tie-up is for i) LFP cells' IP for auto/industrial applications; ii) support in establishing Gigafactory; iii) integration with Gotion's global supply chain network for critical battery materials; and iv) customer technical support for solution deployment. We believe this tie-up would propel Amara's plan to set up 16GWH capacity covering LFP and NMC technologies, over the next ten years at INR95bn investment, to cater to both domestic (industry size expected at 130–150GWH) and overseas markets. Furthermore, to enhance focus on the new energy business, Amara has acquired 9.32% in Inobat, which is setting up a lithium-cell manufacturing facility in Slovakia in a joint venture with Gotion.

Stable growth likely in core business (lead acid batteries)

We are building in 9% revenue CAGR for the core lead acid batteries business over FY24–26E on the back of growth in the auto and industrial segments. We reckon auto revenue CAGR shall be 10% driven by growth in the underlying OEM industry and stable replacement demand. The revenue CAGR of the industrial segment shall be 9%—likely driven by categories such as UPS, telecom, traction and solar/power segments.

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Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Total operating income	103,897	112,603	123,783	134,746
Gross profit	33,917	37,262	41,467	45,140
Employee costs	6,511	6,994	7,689	8,370
Other expenses	13,055	14,053	15,325	16,547
EBITDA	14,350	16,214	18,454	20,223
Depreciation	4,504	4,787	5,206	5,510
Less: Interest expense	296	332	563	1,040
Add: Other income	897	1,015	816	716
Profit before tax	10,447	12,110	13,500	14,388
Prov for tax	2,663	3,052	3,510	3,741
Less: Other adj	(477)	0	0	0
Reported profit	7,307	9,059	9,990	10,647
Less: Excp.item (net)	0	0	0	0
Adjusted profit	7,784	9,059	9,990	10,647
Diluted shares o/s	171	183	183	183
Adjusted diluted EPS	45.6	49.5	54.6	58.2
DPS (INR)	6.1	5.1	16.4	17.5
Tax rate (%)	25.5	25.2	26.0	26.0

Balance Sheet (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Share capital	171	183	183	183
Reserves	59,886	67,504	74,497	81,949
Shareholders funds	60,056	67,687	74,680	82,132
Minority interest	0	0	0	0
Borrowings	1,111	533	5,513	8,493
Trade payables	14,612	16,315	17,974	19,566
Other liabs & prov	3,785	3,808	3,916	4,067
Total liabilities	79,564	88,343	102,083	114,259
Net block	27,654	26,447	24,502	22,241
Intangible assets	4,948	4,776	5,015	5,266
Capital WIP	2,343	3,217	3,217	3,217
Total fixed assets	34,945	34,440	32,734	30,723
Non current inv	4,860	14,791	29,091	41,591
Cash/cash equivalent	998	1,045	(553)	(1,509)
Sundry debtors	7,797	10,171	10,841	11,432
Loans & advances	6,554	3,916	4,111	4,317
Other assets	20,130	19,701	21,578	23,424
Total assets	79,564	88,343	102,083	114,259

Important Ratios (%)

Year to March	FY23A	FY24A	FY25E	FY26E
Gross profit margin (%)	32.6	33.1	33.5	33.5
Staff cost % sales	6.3	6.2	6.2	6.2
Other expenses % sales	12.6	12.5	12.4	12.3
EBITDA margin (%)	13.8	14.4	14.9	15.0
Net profit margin (%)	7.5	8.0	8.1	7.9
Revenue growth (% YoY)	19.5	8.4	9.9	8.9
EBITDA growth (% YoY)	40.3	13.0	13.8	9.6
Adj. profit growth (%)	52.2	16.4	10.3	6.6

Free Cash Flow (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Reported profit	9,074	11,095	12,685	13,672
Add: Depreciation	4,504	4,787	5,206	5,510
Interest (net of tax)	221	332	563	1,040
Others	296	(110)	(182)	(282)
Less: Changes in WC	(2,866)	2,419	(977)	(899)
Operating cash flow	8,666	15,234	13,784	15,300
Less: Capex	(4,647)	(4,282)	(3,500)	(3,500)
Free cash flow	4,019	10,952	10,284	11,800

Assumptions

Year to March	FY23A	FY24A	FY25E	FY26E
Auto OEM (INRmn)	11,548.4	12,405.2	13,348.7	14,242.3
Auto Aftermarket (INRmn)	56,500.6	63,295.0	69,325.5	75,512.8
Industrial (INRmn)	32,829.4	35,664.4	39,031.6	42,327.2
Others (INRmn)	3,018.9	1,238.2	2,077.2	2,663.4

Key Ratios

Year to March	FY23A	FY24A	FY25E	FY26E
RoE (%)	14.7	14.2	14.0	13.6
RoCE (%)	20.1	19.2	19.0	18.1
Inventory days	91	84	84	85
Receivable days	28	29	31	30
Payable days	78	75	76	76
Working cap (% sales)	16.5	12.9	12.5	12.2
Gross debt/equity (x)	0	0	0.1	0.1
Net debt/equity (x)	0	0	0	0.1
Interest coverage (x)	36.3	37.5	25.0	14.8

Valuation Metrics

Year to March	FY23A	FY24A	FY25E	FY26E
Diluted P/E (x)	36.6	33.7	30.5	28.7
Price/BV (x)	4.7	4.5	4.1	3.7
EV/EBITDA (x)	19.8	17.5	15.8	14.6
Dividend yield (%)	0.4	0.3	1.0	1.0

Source: Company and Nuvama estimates

Valuation Drivers

Year to March	FY23A	FY24A	FY25E	FY26E
EPS growth (%)	52.3	8.6	10.3	6.6
RoE (%)	14.7	14.2	14.0	13.6
EBITDA growth (%)	40.3	13.0	13.8	9.6
Payout ratio (%)	14.3	10.3	30.0	30.0

Management call highlights

- Amara Raja Advanced Cell Technologies, a wholly-owned subsidiary of Amara Raja, has partnered with GIB EnergyX Slovakia s.r.o., a subsidiary of Gotion High-Tech Co Ltd. Gotion is among the top-ten global battery makers, among the top five in China and top three in China LFP cells.
- This comprehensive agreement enables Amara to manufacture world class LFP cells in both cylindrical and prismatic form factors. The scope of licensing provides access to cell technology IP, support in establishing Gigafactory facilities, integration with Gotion's global supply chain network for critical battery materials, and customer technical support for solution deployment. Amara would pay upfront technical fees and royalty to Gotion.
- Although this a non-exclusive partnership, Amara would have exclusivity over specific part numbers, which are important for India. Amara would also be able to export these lithium cells, with some exceptions. Gotion and Amara would have rights to reach out to other partners.
- The initial capacity for LFP batteries has been planned at 4–6 GWH. In phase I, the focus would be to cater to automotive applications. In phase 2, the focus would be on industrial applications. The project funding is expected through internal accruals, debt and equity. This LFP capacity should be able to meet the conditions for the PLI scheme. The qualifying companies in the second round of the PLI scheme are expected to be announced in Jul-24.
- Amara has planned total 16GWH capacity comprising both LFP and NMC cells, over eight–ten years at an investment of INR95bn to cater to both domestic and overseas markets. Of the total capacity, management expects 75–80% to be LFP cells.
- Management expects RoCE of 11–12% when capacity reaches eight–ten GWH with optimal utilisation. In this calculation, management has factored in USD70–80/KWH for lithium cells. Cost efficiency is expected due to technology transfer, manufacturing know-how and raw material access, provided by Gotion.
- Management expects India's lithium-batteries demand at 150GWh by 2030, comprising both automotive and industrial applications (such as telecom, and data centres).
- Amara has increased its stake to 9.32% in Inobat, which is setting up a lithium-cell manufacturing facility in Slovakia in a joint venture with Gotion.

Exhibit 1: Key assumptions: Core business revenue CAGR of 9% over FY24–26E

Revenue (INR mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	CAGR % FY24-26E
Automotive (2W & 4W)	45,044	56,001	68,049	75,700	82,674	89,755	9
growth (%)	5	24	22	11	9	9	
-OEM	7,180	9,168	11,548	12,405	13,349	14,242	7
growth (%)	(3)	28	26	7	8	7	
-Aftermarket	37,865	46,833	56,501	63,295	69,325	75,513	9
growth (%)	7	24	21	12	10	9	
Industrial	24,099	28,298	32,829	35,664	39,032	42,327	9
growth (%)	3	17	16	9	9	8	
Others	2,353	2,589	3,019	1,238	2,077	2,663	47
growth (%)	6	10	17	(59)	68	28	
Total Revenue	**71,497**	**86,888**	**103,897**	**112,603**	**123,783**	**134,746**	**9**
growth (%)	5	22	20	8	10	9	

Source: Company, Nuvama Research

Company Description

AMRJ is the second-largest automotive battery manufacturer and the largest supplier of industrial storage batteries in India. It is promoted by the Galla family with 33% stake. The company has been a technology leader in the Indian market, having introduced valve-regulated lead acid (VRLA) batteries for the first time for industrial applications and two-wheelers. In the automotive segment too, AMRJ was the first to introduce batteries with five-year warranties and zero maintenance fully charged batteries. Its business model is de-risked as it caters to automotive as well as industrial segments. Sales are well diversified among automotive and industrial segments. It has entered the lithium battery space, through own R&D efforts and collaborations with global technology majors such as Gotion.

Investment Theme

Old-line auto and industrial batteries shall charge up Amara's core business revenue/EBITDA CAGR to 9%/12% over FY24–26E—fair for India's second-largest lead-acid battery manufacturer. Amara Raja is enhancing focus on EVs, with expected start of lithium cell facility in FY26E and investments in battery startups such as Inobat and Log9. Amara has also recently tied-up with Gotion, which should propel the plan to set up 16 GWH lithium cell capacity over the next ten years at INR95bn investment, to cater to both domestic and overseas markets.

These efforts improve long-term growth visibility. Led by stable core business and higher EV focus, retain '**BUY**' with TP of INR2,000, based on 15x FY26E EPS for lead acid batteries business and value of lithium business investments at INR1,100/share.

Key Risks

- Slowdown in OEM and replacement demand
- Sharp surge in input costs
- Increased competitive intensity in the lithium ion space
- Slow ramp-up in utilization for lithium ion manufacturing unit

Additional Data

Management

MD	Jayadev Galla
CFO	Y Delli Babu
CTO	M Jagadish
COO	C Narasimhulu Naidu
Auditor	Brahmayya & Co & Deloitte Haskins & Sells LLP

Holdings – Top 10*

	% Holding		% Holding
Nalanda Fund	9.22	Kotak AMC	1.31
LIC	6.75	Dimensional Fund	1.24
Tata AIA	2.81	BlackRock Inc	1.12
Vanguard Group	2.64	Nippon Life AMC	1.08
Pine Bridge Inv	2.07	Govt. pension fund	1.03

**Latest public data*

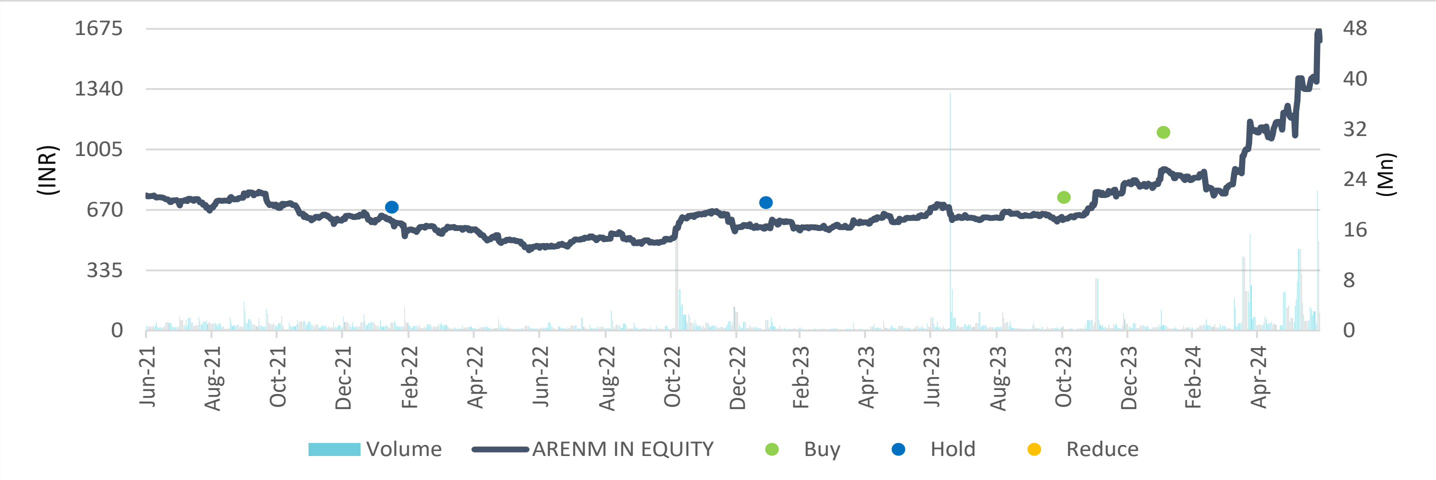
Recent Company Research

Date	Title	Price	Reco
30-May-24	Healthy Q4; augmenting focus on EVs; *Result Update*	1190	Buy
02-Feb-24	EBITDA in line; doubling down on EVs; *Result Update*	892	Buy
01-Nov-23	Stable Q2; enhancing focus on EVs; *Result Update*	618	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
26-Jun-24	Automobiles	Growth likely in 2Ws and PVs; *Sector Update*
15-Jun-24	Mahindra & Mahindra	Firing on all cylinders; *Company Update*
11-Jun-24	Tata Motors	PV outlook positive, but CV to moderate; *Visit Note*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	213
Hold	<15% and >-5%	65
Reduce	<-5%	24

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