

Retail Equity Research

Amara Raja Energy & Mobility Ltd.

Automobile – Auto Ancillaries

BSE CODE: 500008 NSE CODE: ARE&M
BLOOMBERG CODE: ARENM:IN SENSEX: 82,963

Buy

12 Months Investment Period Rating as per small cap

CMP Rs. 1,403 TARGET Rs. 1,682 RETURN 20% ↑
(Closing: (12-09-24)

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.

- We expect growth in the auto sector & New energy businesses to continue in the near term. A technical license agreement with GIB EnergyX, China will provide Amara raja an access to LFP technology.
- ARE&M, Q1FY25 revenue grew by 13%YoY on the back of volume growth in the aftermarket & OEM segments. Industrial battery volume saw a moderate growth driven by recovery in telecon and UPS segments.
- EBITDA margin came in line with our expectations at 14.2%, largely due to the superior product mix and benign lead price.
- Investment for technological upgrade in the lithium ion project for 2W/3W batteries is progressing as per schedule, and have initiated supplying lithium battery packs for 3W applications.
- We value ARE&M on SOTP with 16x EPS (Standalone) at Rs.1,010/share, new mobility & energy investments at Rs.672 per share, with a target price of Rs. 1,682/share and recommend Buy rating at CMP.

Strategic partnership with GIB to power newer mobility.

ARML has now signed a technical licensing agreement with GIB (Gotion InoBat Batteries), which is among the top-ten global lithium battery makers. Gotion has 8 global R&D centers, 8,000 patented technologies covering the battery industry value chain, 20 major manufacturing locations around the world, and a capacity layout expected to reach 300GWh by 2025. The agreement enables ARBL 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 material and customer technical and solution support.** The technology transfer and service support will fully complement Amara Raja’s effort to operationalize its Giga factory manufacturing in Telegana. Furthermore, to enhance focus on the new energy business, Amara has acquired 9.32% in GIB for a value of Euro 20Mn. (Previously 4.5% stake) which is setting up a lithium-cell manufacturing facility in Slovakia in a joint venture with InoBat. Gotion (holds 25% stake in GIB)

Strong growth across segments.

In Q1FY25, revenue increased by 13% year-over-year. When excluding the impact of the lithium revenue demerger, lead acid revenue rose by 15%. The company saw strong volume growth in both domestic and international automotive segments. The domestic 4-wheeler aftermarket experienced an 11% increase in volume, with OEM growth at 6-7%. For 2-wheelers, aftermarket volume grew by 18-19%, and OEM growth reached 25%. International 4-wheeler volumes jumped by 45%, fuelled by new accounts in Latin America. However, the industrial segment saw a 5% decline in volume. The demand signal is positive across all segments and we believe respite in commodity price and cost optimisation to limit margin degradation.

New business on track.

Amara’s new energy business, which supplies chargers and battery packs to various segments, doubled its revenue in FY24. The company expects a ROCE of 11–12% when capacity reaches eight–ten GWH with optimal utilization. In this calculation, management has factored in USD70–80/KWH for lithium cells. Further, cost efficiencies driven by technology transfer and manufacturing expertise from Gotion will enhance margin expansion. Amara has planned a Rs 1,500 crore capex for FY25 and FY26, with Rs 1-1.1k crore allocated to the new energy segment each year.

Valuations.

We believe the tie up will propel ARE&M plan to set 16GWH capacity this decade at Rs. 9,500 cr. investment to cater to both the Indian and overseas market. In addition, the 2W sector is likely to show stability in H1FY24 owing to a strong rebound in the overall domestic volume. We value ARE&M on SOTP with 16x EPS (Standalone) at Rs.1,010/ share, new mobility & energy investments at Rs.672 per share, with a target price of Rs. 1,682/share and recommend Buy rating at CMP.

Company Data	
Market Cap (Rs.cr)	25,969
Enterprise Value (Rs.cr)	25,654
Outstanding Shares (cr)	18.3
Free Float (%)	67.1
Dividend Yield (%)	0.7
52 week high (Rs.)	1,775
52 week low (Rs.)	599
6m average volume (cr)	0.22
Beta	1.4
Face value Rs.	1.0

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	28.1	32.9	32.9
FII’s	24.0	24.5	23.8
MFs/Insti	17.9	15.4	14.5
Public	30.0	27.3	28.8
Total	100.0	100.0	100.0
Promotor pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	5.8%	78.7%	118.4%
Absolute Sensex	7.5%	14.0%	22.6%
Relative Return	-1.8%	64.8%	95.8%

*over or under performance to benchmark index



Standalone (cr)	FY24A	FY25E	FY26E
Sales	11,260	12,531	13,813
Growth (%)	8.4	11.3	10.2
EBITDA	1,621	1,779	1,975
EBITDA Margin (%)	14.4	14.2	14.3
Adj. PAT	906	1,028	1,155
Growth (%)	16.4	13.5	12.3
Adj. EPS	49.5	56.2	63.1
Growth (%)	16.4	13.5	12.3
P/E	28.3	25.0	22.2
P/B	4.1	3.6	3.2
EV/EBITDA	14.8	13.5	12.2
ROE (%)	16.3	16.2	15.9
D/E	0.1	0.1	0.1

Saji John
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr.	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Sales	3,131	2,771	13.0	2,797	12.0
EBITDA	430	369	16.7	408	5.6
EBITDA margins (%)	14	13	43bps	15	-83bps
Depreciation	118	117	1.3	121	-2.2
EBIT	312	252	23.8	287	8.8
Interest	9	8	17.6	10	-7.8
Other Income	26	22	17.4	28	-9.8
Exceptional Items	-	-	0.0	-	0.0
PBT	329	266	23.4	305	7.6
Tax	84	68	24.4	77	8.8
Share of profit from associates	-	-	0.0	-	0.0
Minority interest	-	-	0.0	-	0.0
Reported PAT	245	199	23.1	228	7.2
Adjustments	-	-	0.0	-	0.0
Adj PAT	245	199	23.1	228	7.2
No. of Shares	17	17	0.0	17	0.0
Adj EPS (Rs)	13	11	23.1	12	7.2

Change in Estimates

	Old estimates		New estimates		Change (%)	
Year / Rs cr	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	12,447	13,727	12,531	13,813	0.7	0.6
EBITDA	1,768	1,963	1,779	1,975	0.6	0.6
Margins (%)	14.2	14.3	14.2	14.3	0bps	0bps
Adj. PAT	1,007	1,127	1,028	1,155	2.1	2.5
EPS	55.0	61.6	56.2	63.1	2.1	2.5

Standalone Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	6,793	7,150	8,696	10,390	11,260	12,531	13,813
% change	0.0	5.2	21.6	19.5	8.4	11.3	10.2
EBITDA	1,052	1,116	1,023	1,435	1,621	1,779	1,975
% change	10.6	6.0	-8.3	40.3	13.0	9.8	11.0
Depreciation	298	314	383	442	469	476	523
EBIT	753	797	628	985	1143	1291	1438
Interest	12	11	15	30	33	31	35
Other Income	55	87	78	90	102	113	140
PBT	796	873	691	997	1,211	1,373	1,542
% change	0.9	1.0	-2.1	4.4	2.1	1.3	1.2
Tax	180	227	179	266	305	345	387
Tax Rate (%)	22.6	25.9	25.8	26.7	25.2	25.1	25.1
Reported PAT	616	647	513	731	906	1,028	1,155
Adj*	0.0	0.0	0.0	47.7	0.0	0.0	0.0
Adj PAT	616	647	513	778	906	1,028	1,155
% change	27.4	0.5	-2.1	51.8	16.4	13.5	12.3
No. of shares (cr)	17	17	17	17	17	18	18
Adj EPS (Rs.)	36.1	35.3	28.0	42.5	49.5	56.2	63.1
% change	27.4	-0.2	-2.1	5.2	1.6	1.4	1.2
DPS (Rs.)	19.4	5.0	8.3	10.0	10.0	10.0	10.0
CEPS (Rs.)	54	57	53	72	81	83	92

BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	39	127	44	137	220	175	727
Accounts Receivable	636	787	793	780	864	961	1060
Inventories	1,143	1,439	1,804	1,643	1,961	2,352	2,592
Other Cur. Assets	377	340	337	1072	1234	1373	1514
Investments	114	127	78	224	300	450	450
Gross Fixed Assets	3,215	3,998	4,393	5,207	5,807	6,407	7,007
Net Fixed Assets	1,826	2,360	2,413	2,831	3,008	3,171	3,287
CWIP	733	398	829	233	250	250	250
Intangible Assets	98	191	80	69	87	109	137
Def. Tax (Net)	-44	-41	-31	-73	-59	-52	-44
Other Assets	0	0	0	0	0	0	0
Total Assets	4,921	5,728	6,346	6,917	7,866	8,789	9,972
Current Liabilities	468	562	718	689	826	823	907
Provisions	183	214	246	272	309	343	378
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	5,171	5,906	6,751	7,723
Shareholder's Fund	3,620	4,181	4,553	5,188	5,923	6,768	7,740
Total Liabilities	4,921	5,728	6,346	6,917	7,866	8,789	9,972
BVPS (Rs.)	212	245	267	304	347	396	453

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	1,094	1,187	1,074	1,439	1,680	1,849	2,065
Non-cash adj.	-178	-221	-167	-258	-296	-333	-372
Changes in W.C	390	-154	-121	-620	-357	-557	-276
C.F. Operation	1,306	812	786	561	1,028	960	1,417
Capital exp.	-150	-783	-300	-815	-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	-408	-767	-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	-183	-183
Other finance.CF	-52	-3	-9	41	-14	-7	-8
C.F - Finance	-395	-100	-151	-61	-177	-182	-183
Chg. in cash	-11	89	-84	93	83	-46	552
Closing cash	39	127	44	137	220	175	727

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return							
EBITDA margin (%)	15.5	15.6	11.8	13.8	14.4	14.2	14.3
EBIT margin (%)	11.1	11.1	7.2	9.5	10.1	10.3	10.4
Net profit mgn.(%)	9.1	9.0	5.9	7.5	8.0	8.2	8.4
ROE (%)	17.7	16.6	11.7	16.0	16.3	16.2	15.9
ROCE (%)	15.3	14.1	10.0	14.0	14.6	14.7	14.5
W.C & Liquidity							
Receivables (days)	37.7	36.3	33.1	27.6	26.6	26.6	26.7
Inventory (days)	90.5	99.3	96.7	89.9	87.3	91.7	95.4
Payables (days)	34.7	39.6	38.2	36.7	36.7	35.1	33.4
Current ratio (x)	3.4	3.5	3.1	3.8	3.8	4.2	4.6
Quick ratio (x)	1.4	1.6	1.2	1.3	1.3	1.4	2.0
Turnover & Leverage							
Gross asset T.O (x)	2.2	2.0	2.1	2.2	2.0	2.1	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	33.3	34.4	41.6	40.6
Adj. debt/equity (x)	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Valuation							
EV/Sales (x)	3.5	3.4	2.8	2.3	2.1	1.9	1.7
EV/EBITDA (x)	22.8	21.5	23.5	16.7	14.8	13.5	12.2
P/E (x)	38.9	39.7	50.1	33.0	28.3	25.0	22.2
P/BV (x)	6.8	6.0	5.4	4.7	4.1	3.6	3.2

Recommendation summary (Last 3 Years)



Dates	Rating	Target
05.06.2021	Buy	872
14.12.2021	Buy	741
12.08.2022	Buy	615
08.11.2022	Accumulate	670
21.06.2023	Buy	762
08.02.2024	Accumulate	990
13.09.2024	Buy	1,682

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	-	-	-

Definition:
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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