Amara Raja Energy – REDUCE

02 June 2025

Result review

All-round miss in 4QFY25

Amara Raja's 4Q results were much weaker than expected (20% Ebitda miss) due to lower revenue growth and spike in operating costs. Demand environment is mixed, with good growth in auto and some non-auto segments, offset by weakness in Telecom and exports. Cost pressures are likely to sustain in the near term due to higher alloy prices and regulatory issues related to power costs. However, we see positive margin levers beyond (listed below). Mgmt. target is to improve margin from 11.5% in 4Q to 14.0%. We cut our FY26/FY27 EPS estimates by 8-9% due to lower revenue and margin assumptions (we were building >14% margins in FY26/FY27). We are negative on Li-ion cell manufacturing as Ebitda break-even is several years out, and we expect the project to be negative-FCF through this decade. Retain Reduce.

4Q results much weaker than expected: AMRJ's 4QFY25 rev grew 6% yoy and came in 7% below our est. Gross margin contracted 80bps qoq to 32.3% in 4QFY25 due to higher RM and missed our est. by 20bps. Ebitda margin contracted 160bps qoq to 11.5% (200bp miss), due to GM contraction and higher operating expenses. Absolute Ebitda and PAT missed our est. by 20% and 30%, respectively. Mgmt. mentioned that margins were adversely impacted due to surge in alloy prices and higher power cost due to regulatory changes in solar power settlements and fuel surcharges.

Cost pressure in near term, but positive levers beyond: Power cost related headwinds and high cost of alloys are likely to continue for 1-2 quarters. To offset the headwinds, there are few positive margins levers: i) commencement of Tubular battery plant will convert low-margin trading revenue to high-margin, ii) lead recycling plant to lower cost of lead, iii) 2% price hikes effective Apr'25. Mgmt's target is to improve Ebitda margin to 14.0% from 11.5% in 4QFY25, aided by the above levers.

Concerns on Li-ion investment remain: Amara's NMC and LFP chemistry Li-ion cell manufacturing plants should become operational in 2027 and 2028, respectively. Li-ion cell manufacturing is not likely to become profitable in the first 2 years. Mgmt. had guided to Li-ion cell manufacturing reaching low-double-digit Ebitda margin after reaching a scale of 7-8GWh, and at optimum utilisation of 85%. This implies that the Li-ion cell project would be negative FCF through this decade.

Result update

CMP	Rs1031
12-mth TP (Rs)	1020 (-1%)
Market cap (US$m)	2,204
Enterprise value(US$m)	2,184
Bloomberg	ARENM IN
Sector	Auto

Price performance (%)

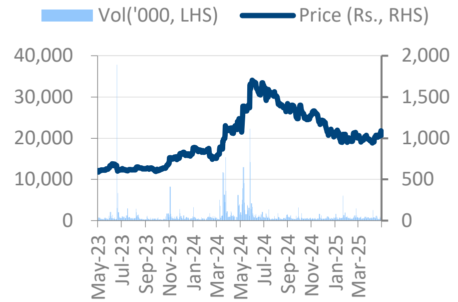
	1M	3M	1Y
Absolute (Rs)	6.1	5.3	(12.7)
Absolute (US$)	4.7	7.6	(14.9)
Relative Perf.	(4.1)	(13.5)	(20.4)
Cagr (%)		**3 yrs**	**5 yrs**
EPS (Rs)		15.9	3.8

Shareholding pattern (%)

Promoter	32.9
Pledged (as % of promoter share)	0.0
FII	20.7
DII	14.6

52Wk High/Low (Rs)	1702/942
Shares o/s (m)	183
Del Value 3mth avg (US$ m)	3.7
Dividend yield FY26ii (%)	1.1
Free float (%)	67.1

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Parent	FY24A	FY25A	FY26ii	FY27ii	FY28ii
Revenues (Rs m)	112,603	124,049	134,646	146,687	159,975
Ebitda margins (%)	*14.4*	*13.1*	*13.4*	*14.0*	*14.3*
Pre-exceptional PAT (Rs m)	9,059	8,528	9,915	11,337	12,822
Reported PAT (Rs m)	9,059	9,639	9,915	11,337	12,822
Pre-exceptional EPS (Rs)	52.1	46.6	54.2	61.9	70.1
Growth (%)	*19.9*	*-10.6*	*16.3*	*14.3*	*13.1*
IIFL vs consensus (%)			*(7.3)*	*(5.5)*	*4.0*
PER (x)	**19.8**	**22.1**	**19.0**	**16.6**	**14.7**
ROE (%)	*15.6*	*12.8*	*13.5*	*13.8*	*13.9*
Net debt/equity (x)	0.0	0.0	0.0	0.0	0.0
EV/Ebitda (x)	10.9	11.5	10.5	9.3	8.3
Price/book (x)	2.8	2.7	2.4	2.2	1.9
OCF/Ebitda (x)	0.8	0.8	0.8	0.8	0.8

Source: Company, IIFL Research. Priced as on 30 May 2025

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Figure 1:Amara Raja – 4QFY25 Ebitda/PAT 20%/30% below estimates, on higher opex

Rsmn	4QFY24	3QFY25	4QFY25	% YoY	% QoQ
Net Sales	**27,967**	**31,640**	**29,739**	**6.3**	**(6.0)**
Raw Material	18,314	21,164	20,132	9.9	(4.9)
Employee costs	1,629	1,912	1,801	10.5	(5.8)
Other Expenditure	3,947	4,406	4,383	11.1	(0.5)
Ebitda	**4,077**	**4,158**	**3,422**	**(16.1)**	**(17.7)**
Depreciation	1,210	1,233	1,284	6.1	4.1
Interest	97	107	95	(2.5)	(10.9)
Other income	283	293	200	(29.4)	(31.6)
Exceptional items	0	(1,111)	0		
PBT	**3,053**	**4,222**	**2,244**	**(26.5)**	**(46.9)**
Tax	773	1,103	576	(25.6)	(47.8)
Reported PAT	**2,280**	**3,118**	**1,668**	**(26.8)**	**(46.5)**
Exceptional items	0	(1,111)	0		
Pro-Forma PAT	**2,280**	**2,008**	**1,668**	**(26.8)**	**(16.9)**
Gross margin	34.5%	33.1%	32.3%	(221) bps	(81) bps
EBITDA margin	**14.6%**	**13.1%**	**11.5%**	**(307) bps**	**(163) bps**
Adj. PAT margin	8.2%	6.3%	5.6%	(254) bps	(74) bps

Source: Company, IIFL Research

AMRJ's 4QFY25 revenue grew 6% yoy and came in 7% below our estimate.

Absolute Ebitda/PAT came in 20%/30% below our estimate, due to lower rev and higher opex.

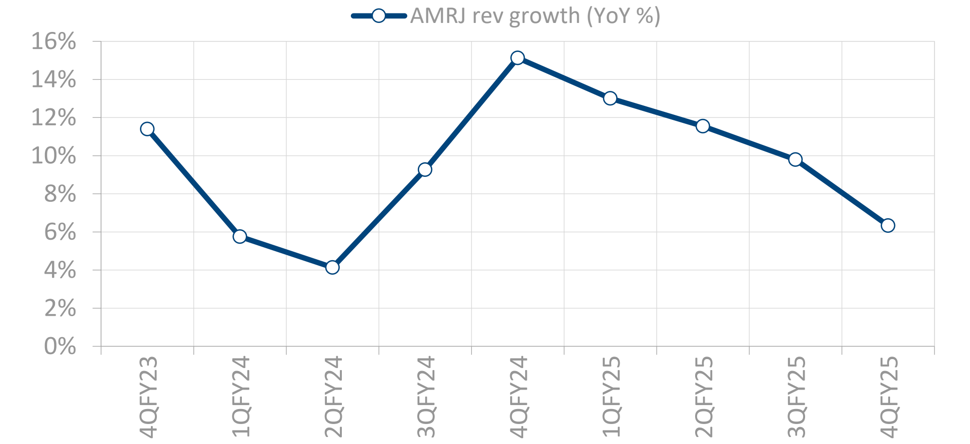
Gross margin contracted 80bps qoq to 32.3% in 4QFY25 due to higher RM and missed our expectations by 20bps.

Ebitda margin contracted 160bps qoq to 11.5% (200bp miss), due to GM contraction and higher operating expenses.

Conference call: Key takeaways

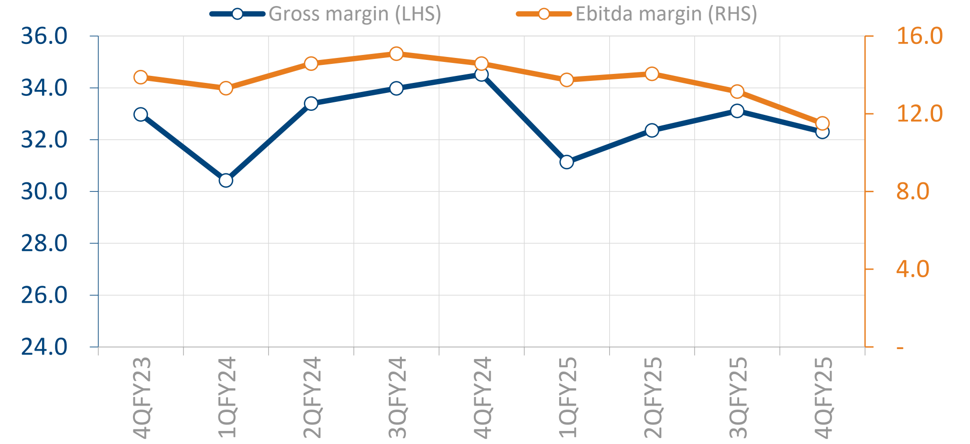
1. In domestic lead acid business, most of the key segments registered revenue growth. Telecom segment was weak with almost 15% yoy decline. HUPS and Inverter batteries registered 15% yoy growth. Trading revenue stood at ~15% of overall revenue share.
2. Exports declined 10% yoy in 4QFY25 due to muted demand from international markets especially Western countries and parts of APAC.
3. Margins saw headwind of 1.5-2% due to rise in antimony prices and regulatory issues pertaining to power cost.
4. New energy business (including battery packs and chargers) saw 35% yoy growth in 4QFY25. Mgmt. expects more traction on the charging side owing to increasing localisation efforts by OEMs.
5. Tubular battery (inverter) plant would commence production in 1QFY26. Lead acid battery recycling plant is operational, but recycling shall commence after battery braking becomes operational in 2QFY26.
6. Mgmt. guided for Ebitda margin target of 14% with margin levers like i) positive contribution from Tubular battery plant (conversion of trading business to own manufacturing), ii) lead recycling plant, iii) price hikes.
7. Company has implemented price hike of ~2% in Apr'25 and might look into further price hikes depending on competitive intensity and input cost levels.
8. Mgmt. mentioned capex was Rs12bn for FY25 at the consolidated level, which is mainly for its tubular battery plant, lead acid battery capacity and New Energy business (Li-ion). Mgmt. expects similar number for FY26, with higher allocation to New Energy business.
9. Mgmt. mentioned that there are no supply issues on raw material procurement from China but cost of materials is increasing. On tariffs, mgmt. highlighted that differential duties between countries may impact choice of sourcing country. However, it may be clear post signing of trade agreements.
10. Import price of LFP cells is ~USD55/kWh and NMC at USD60/kWh.

Figure 2: Revenue growth has decelerated in recent quarters



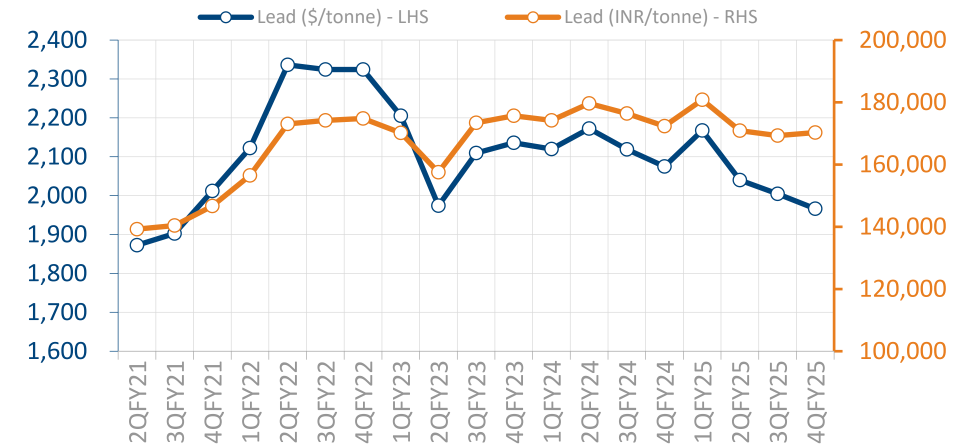
Source: Company; IIFL Research

Figure 3:GM contracted 80bps qoq in 4Q, reflecting higher RM



Source: Company; IIFL Research

Figure 4: Lead price moderated in recent months (benefit to come with lag)



Source: Bloomberg, IIFL Research

Figure 5: Amara Raja – Summary of estimates

Financials (in Rsmn)	FY24	FY25	FY26ii	FY27ii	FY28ii
Revenue	112,603	124,049	134,646	146,687	159,975
Revenue growth	8.4%	10.2%	8.5%	8.9%	9.1%
Ebitda	16,214	16,291	18,015	20,467	22,911
Ebitda margin	14.4%	13.1%	13.4%	14.0%	14.3%
PAT	9,059	8,528	9,915	11,337	12,822
PAT growth	22.1%	-5.9%	16.3%	14.3%	13.1%
EPS (Rs)	52.1	46.6	54.2	61.9	70.1

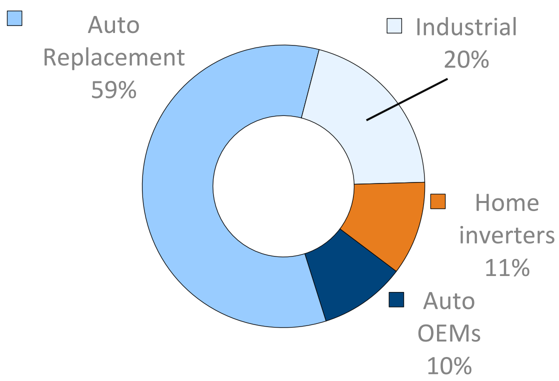
Source: Company, IIFL Research

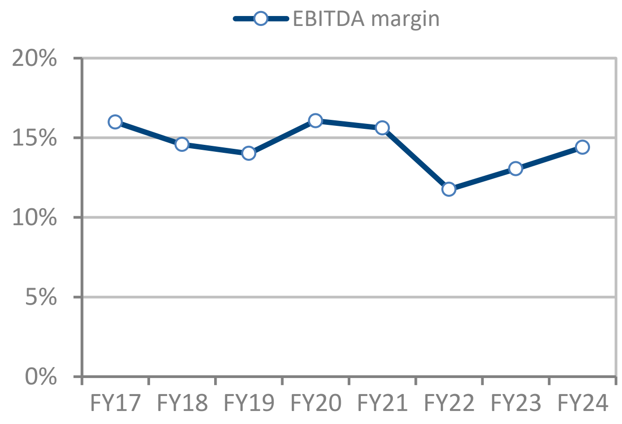
Background: Amara Raja Energy & Mobility Limited, the flagship company of the Amara Raja Group, is the technology leader and one of the largest manufacturers of lead-acid batteries for both industrial and automotive applications in the Indian storage battery industry. The leading brands of the company are 'Amaron', 'PowerZone', 'Power Stack', 'AmaronVolt' and 'Quanta'. Its erstwhile association with Johnson Controls enhanced Amara Raja's technological capabilities and enabled it to steadily increase market share. It has introduced innovative products such as VRLA (Valve Regulated Lead Acid) batteries in both, the industrial and 2W segments. The company offers Li-ion cells, battery packs and charging solutions for light electric vehicles and telecom industry.

Management

Name	Designation
Jayadev Galla	Chairman & MD
S Vijayanand	CEO
Y Delli Babu	CFO

Revenue split by segments (FY24E)





PE Chart

EV/Ebitda

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Parent	FY24A	FY25A	FY26ii	FY27ii	FY28ii
Revenues	**112,603**	**124,049**	**134,646**	**146,687**	**159,975**
Ebitda	16,214	16,291	18,015	20,467	22,911
Depreciation and amortisation	(4,787)	(4,921)	(5,221)	(5,646)	(6,071)
Ebit	11,427	11,370	12,794	14,821	16,841
Non-operating income	1,015	933	862	913	929
Financial expense	(332)	(422)	(347)	(517)	(560)
PBT	12,110	11,881	13,309	15,217	17,210
Exceptionals	0	1,111	0	0	0
Reported PBT	12,110	12,992	13,309	15,217	17,210
Tax expense	(3,052)	(3,353)	(3,394)	(3,880)	(4,389)
PAT	9,059	9,639	9,915	11,337	12,822
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	**9,059**	**9,639**	**9,915**	**11,337**	**12,822**

Ratio analysis

Y/e 31 Mar, Parent	FY24A	FY25A	FY26ii	FY27ii	FY28ii
Per share data (Rs)					
Pre-exceptional EPS	52.1	46.6	54.2	61.9	70.1
DPS	9.9	10.5	11.5	12.5	13.5
BVPS	364.7	379.7	423.4	473.9	531.4
Growth ratios (%)					
Revenues	8.4	10.2	8.5	8.9	9.1
Ebitda	19.6	0.5	10.6	13.6	11.9
EPS	19.9	(10.6)	16.3	14.3	13.1
Profitability ratios (%)					
Ebitda margin	14.4	13.1	13.4	14.0	14.3
Ebit margin	10.1	9.2	9.5	10.1	10.5
Tax rate	25.2	25.8	25.5	25.5	25.5
Net profit margin	8.0	7.8	7.4	7.7	8.0
Return ratios (%)					
ROE	15.6	12.8	13.5	13.8	13.9
ROIC ex goodwill	18.1	18.2	20.1	23.0	25.9
Solvency ratios (x)					
Net debt-equity	0.0	0.0	0.0	0.0	0.0
Net debt to Ebitda	(0.1)	(0.1)	0.1	0.1	0.1
Interest coverage	34.4	26.9	36.9	28.7	30.1

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Parent	FY24A	FY25A	FY26ii	FY27ii	FY28ii
Cash & cash equivalents	3,694	4,303	4,492	4,188	4,480
Inventories	18,095	20,364	21,638	23,410	25,536
Receivables	10,171	11,428	12,404	13,514	14,738
Other current assets	5,522	3,318	3,601	3,923	4,278
Creditors	8,398	9,252	10,042	10,940	11,931
Other current liabilities	9,847	13,580	14,298	15,422	16,823
Net current assets	**19,237**	**16,581**	**17,795**	**18,673**	**20,277**
Fixed assets	33,923	38,580	38,359	37,714	36,643
Intangibles	517	328	328	328	328
Investments	12,142	17,330	27,330	37,330	47,330
Other long-term assets	0	0	0	0	0
Total net assets	**65,818**	**72,819**	**83,812**	**94,044**	**104,578**
Borrowings	1,527	2,583	5,583	6,583	6,583
Other long-term liabilities	885	732	732	732	732
Shareholders equity	**63,407**	**69,503**	**77,496**	**86,728**	**97,262**
Total liabilities	**65,818**	**72,819**	**83,812**	**94,044**	**104,578**

Cash flow summary (Rs m)

Y/e 31 Mar, Parent	FY24A	FY25A	FY26ii	FY27ii	FY28ii
Ebit	11,427	11,370	12,794	14,821	16,841
Tax paid	(3,289)	(3,283)	(3,394)	(3,880)	(4,389)
Depreciation and amortization	4,787	4,921	5,221	5,646	6,071
Net working capital change	(271)	85	(1,025)	(1,181)	(1,312)
Other operating items	488	659	0	0	0
Operating cash flow before interest	13,142	13,752	13,596	15,405	17,210
Financial expense	(188)	(253)	(347)	(517)	(560)
Non-operating income	49	30	862	913	929
Operating cash flow after interest	**13,004**	**13,530**	**14,111**	**15,801**	**17,580**
Capital expenditure	**(5,425)**	**(6,522)**	**(5,000)**	**(5,000)**	**(5,000)**
Long-term investments	(4,085)	(6,907)	(10,000)	(10,000)	(10,000)
Others	1,202	1,828	0	0	0
Free cash flow	**4,696**	**1,929**	**(889)**	**801**	**2,580**
Equity raising	0	0	0	0	0
Borrowings	(871)	590	3,000	1,000	0
Dividend	(1,367)	(1,904)	(1,922)	(2,105)	(2,288)
Net chg in cash and equivalents	2,458	616	189	(304)	292

Source: Company data, IIFL Research

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Key to our recommendation structure
BUY - Stock expected to give a return 10%+ more than average return on a debt instrument over a 1-year horizon.
SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.
Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.
Reduce - Stock expected to give a return 0-10% below the average return on a debt instrument over a 1-year horizon.

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Price Target: Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.

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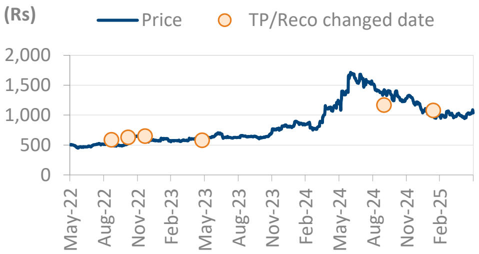
Amara Raja Energy & Mobility: 3 year price and



Date	Rating	Close price (Rs)	Target price (Rs)	Upside (%)
11 Feb 2025	REDUCE	1032	1080	4.7
30 Sep 2024	REDUCE	1330	1170	-12.0
24 May 2023	REDUCE	635	580	-8.7
20 Dec 2022	ADD	648	650	0.3
04 Nov 2022	ADD	520	630	21.1
20 Sep 2022	ADD	505	590	16.8