

Amara Raja Energy – ADD

19 August 2025

Recommendation
upgrade



IIFL CAPITAL

Margins bottoming out; GST cut to be positive

Amara Raja's (AMRJ) 1Q results were weaker than expected (16% Ebitda miss) due to cost pressures. Demand environment is mixed, with good growth in auto and some non-auto segments, offset by weakness in telecom and exports. AMRJ's margins have come off in recent quarters, leading to earnings decline and EPS cuts. We cut FY26/FY27/FY28ii EPS by 11%/4%/3% following these results. We now see multiple catalysts for margin improvement. We expect EPS growth to resume in 3QFY26 and pick up pace in FY27. The government's proposal to reduce GST tier from 28% to 18% would be positive for after-market segment (margin normalisation, market-share gain from unorganised). We were negative on Li-ion investment due to long lead-time for Ebitda breakeven. AMRJ's management has hinted at potential scale-down on investment in Li-ion cell (NMC). The stock has corrected ~40% from peak and is now trading at 16x FY27 EPS. We upgrade AMRJ from REDUCE to ADD with TP of 1090 (14% upside).

1Q results much weaker than expected: Rev grew 7% yoy and came in-line with our estimate. Gross margin (GM) contracted 280bps qoq to 29.5% (310bp miss). Ebitda margin was flattish qoq at 11.5% (200bp miss), due to weak GM. Absolute Ebitda/PAT came in 16%/24% below est.

Margin levers ahead; GST cut would be positive: Over the past two years, Ebitda margin has come off from ~15% to 11.5%. We see multiple catalysts for margin improvement: i) Plateauing of input costs, ii) Moderation of lumpy overheads, iii) Commencement of tubular battery plant which will convert low-margin trading revenue to high-margin, iv) Battery recycling plant. Reduction in GST rate from 28% to 18% would make end products cheaper, opening up the possibility of price hikes to get to normalised margins. About 15% of the industry is unorganised/unbranded. Lower GST would narrow price gap vs these categories and should drive market-share gains for branded players.

Scale-down of Li-ion investment is positive: Mgmt. is scaling back on Li-ion cell investment, with plans to commence operations with 1GWh NMC cell capacity, instead of 2GWh planned earlier. Cell manufacturing should start in late FY27. We were cautious on Li-ion due to long lead time for Ebitda breakeven. Lower capital deployment is positive, in our view.

Result update

CMP	Rs955
12-mth TP (Rs)	1090 (14%)
Market cap (US\$m)	2,001
Enterprise value(US\$m)	1,981
Bloomberg	ARENM IN
Sector	Auto

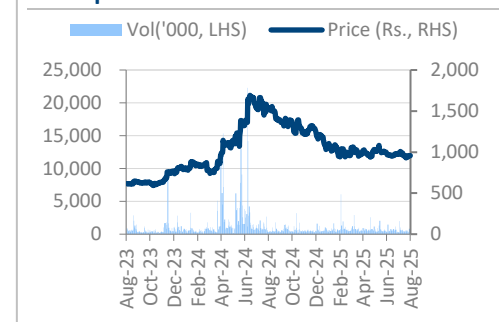
Shareholding pattern (%)

Promoter	32.9
Pledged (as % of promoter share)	0.0
FII	19.4
DII	14.0
52Wk High/Low (Rs)	1557/930
Shares o/s (m)	183
Del Value 3mth avg (US\$ m)	3.6
Dividend yield FY26ii (%)	1.0
Free float (%)	67.1

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	(2.2)	(7.8)	(38.8)
Absolute (US\$)	(3.5)	(9.7)	(41.2)
Relative Perf.	3.0	(10.4)	(38.5)
Cagr (%)	3 yrs	5 yrs	
EPS (Rs)	15.9	3.8	

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Parent	FY24A	FY25A	FY26ii	FY27ii	FY28ii
Revenues (Rs m)	112,603	124,049	133,177	144,960	158,207
Ebitda margins (%)	14.4	13.1	12.6	13.6	14.0
Pre-exceptional PAT (Rs m)	9,059	8,528	8,794	10,916	12,478
Reported PAT (Rs m)	9,059	9,639	8,794	10,916	12,478
Pre-exceptional EPS (Rs)	52.1	46.6	48.0	59.6	68.2
Growth (%)	19.9	-10.6	3.1	24.1	14.3
IIFL vs consensus (%)			(12.8)	(5.9)	(0.1)
PER (x)	18.3	20.5	19.9	16.0	14.0
ROE (%)	15.6	12.8	12.1	13.5	13.8
Net debt/equity (x)	0.0	0.0	0.0	0.0	0.0
EV/Ebitda (x)	10.1	10.6	10.5	8.9	7.8
Price/book (x)	2.6	2.5	2.3	2.0	1.8
OCF/Ebitda (x)	0.8	0.8	0.8	0.8	0.7

Source: Company, IIFL Research. Priced as on 18 August 2025



Figure 1: Amara Raja – 1QFY26 Ebitda/PAT 16%/24% below estimates

Rsmn	1QFY25	4QFY25	1QFY26	% YoY	% QoQ
Net Sales	31,312	29,739	33,499	7.0	12.6
Raw Material	21,563	20,132	23,629	9.6	17.4
Employee costs	1,856	1,801	1,976	6.5	9.7
Other Expenditure	3,590	4,383	4,028	12.2	(8.1)
Ebitda	4,304	3,422	3,867	(10.2)	13.0
Depreciation	1,183	1,284	1,292	9.3	0.7
Interest	90	95	104	15.4	9.1
Other income	256	200	139	(45.4)	(30.4)
Exceptional items	0	0	0		
PBT	3,287	2,244	2,610	(20.6)	16.3
Tax	841	576	670	(20.3)	16.4
Reported PAT	2,446	1,668	1,940	(20.7)	16.3
Exceptional items	0	0	0		
Pro-Forma PAT	2,446	1,668	1,940	(20.7)	16.3
Gross margin	31.1%	32.3%	29.5%	(167) bps	(284) bps
EBITDA margin	13.7%	11.5%	11.5%	(220) bps	3 bps
Adj. PAT margin	7.8%	5.6%	5.8%	(202) bps	18 bps

Source: Company, IIFL Research

AMRJ's 1QFY26 revenue grew 7% yoy and came largely in-line with our estimate.

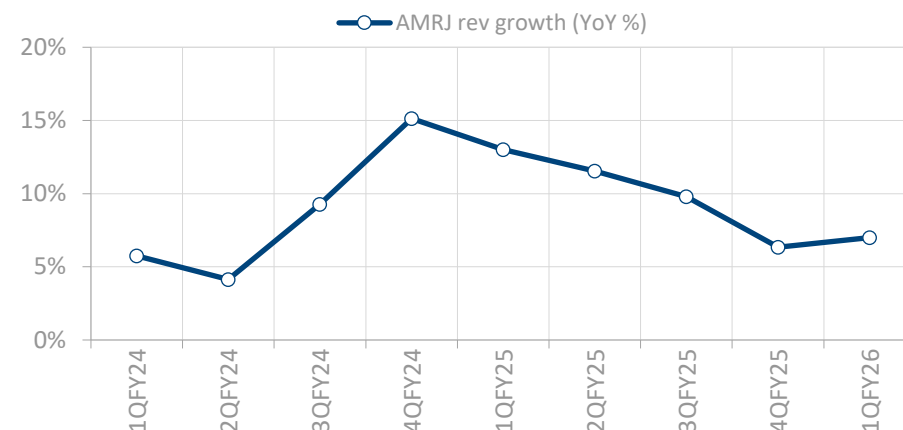
Absolute Ebitda/adj. PAT came 16%/24% below estimate.

GM contracted 280bps qoq to 29.5% in 1QFY26 due to higher RM and missed our expectations by 310bps.

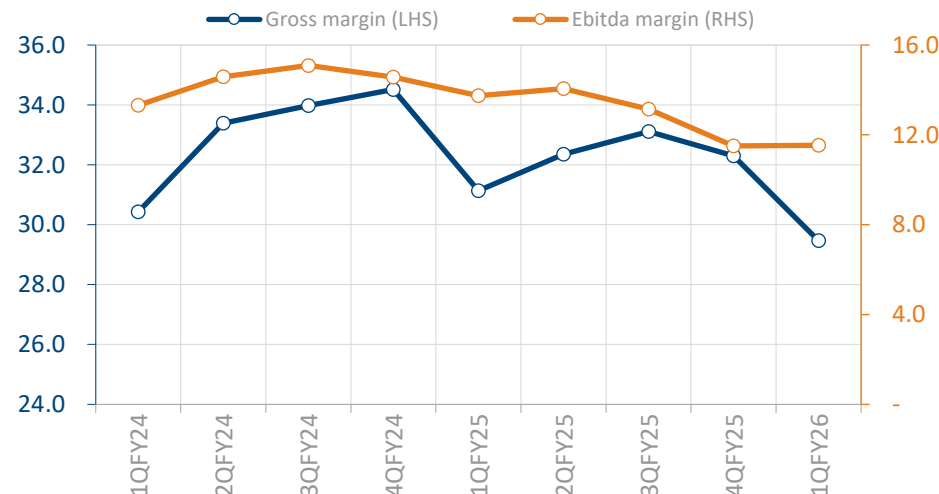
Ebitda margin flattish qoq to 11.5% (200bp miss), due to GM contraction.

**Conference call: Key takeaways**

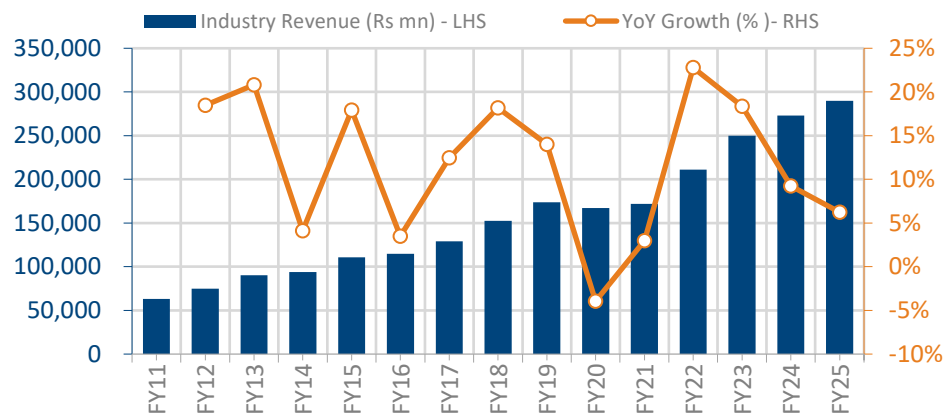
1. In domestic lead acid business, most of the key segments registered revenue growth. Telecom segment was weak with almost 30% yoy decline, whereas Industrial UPS registered 15% yoy growth. Trading revenue stood at ~23% of overall revenue share.
2. Exports declined 7-8% yoy in 1QFY26 due to muted demand from international markets due to tariff situation. This is expected to improve in coming quarters.
3. Margins were subdued due to higher material cost, greater share of trading business (23% vs 19% in 1QFY25), revised provisions for warranty claims & elevated levels of power cost, some of which shall normalise in 2Q.
4. Tubular battery (inverter) plant commenced production in Jul'25. This shall ramp up in the next 2-3 months, resulting in a capacity of 150k batteries a month.
5. Mgmt. mentioned that refining operations have started in the lead recycling plant. Battery breaking shall commence in October or November.
6. Mgmt. guided for a capex of Rs12bn for FY26 at the consolidated level, which is mainly for its New Energy business (Li-ion). Investment of Rs3.5bn was made in ARACT (cell-making Sub) in 1Q, which cumulatively stands at Rs12bn.
7. Mgmt. is slightly cautious on Li-ion cell manufacturing plant. The company plans to start 21700 cells with 1GWh capacity (earlier 2GWh was planned) for NMC cells. This is mainly due to shift of E2W players towards LFP cells (lower cost).
8. The company is establishing its presence in the BESS segment (retail, commercial & grid).
9. GST rate rationalisation may reduce rate on lead acid batteries from 28% to 18%, bringing it at par with GST rate for Lithium-ion batteries.
10. Cost of antimony (input) is now stabilising. No price hikes were implemented in 1Q due to competitive intensity.

Figure 2: Revenue growth has decelerated in recent quarters, but stays positive

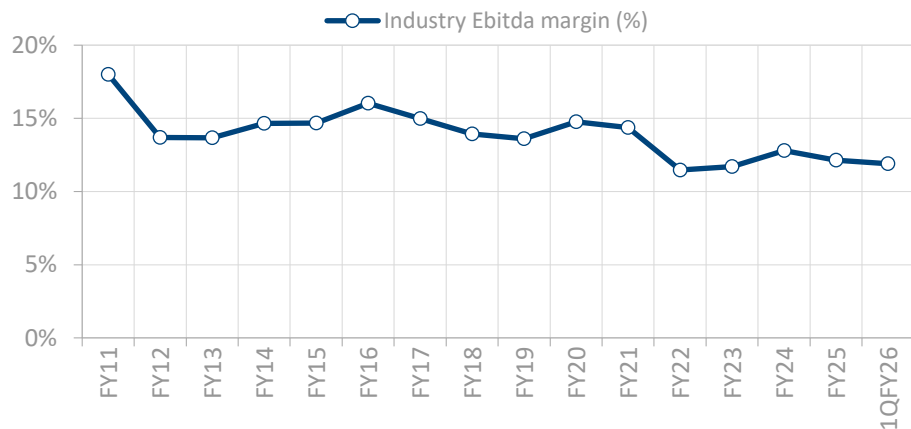
Source: Company; IIFL Research

Figure 3: GM contracted 284bps qoq in 1QFY26

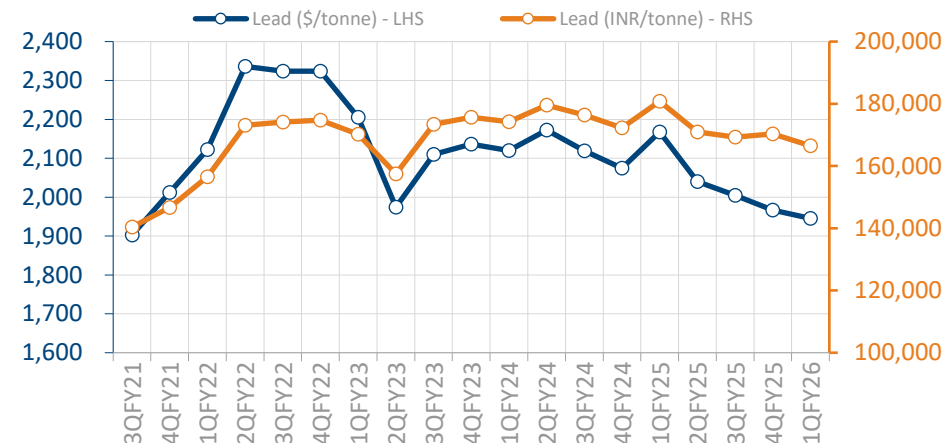
Source: Company; IIFL Research


Figure 4: Battery industry – Only one instance of revenue decline in last 25 years


Source: Company, IIFL Research; Industry growth based on aggregate revenue of Exide & AMRJ

Figure 5: Industry Ebitda margin has come off from normalised levels


Source: Company, IIFL Research; Industry margins based on 'Exide + AMRJ'

Figure 6: Lead price moderated in recent months (benefit to come with lag)


Source: Bloomberg, IIFL Research

Figure 7: Amara Raja – Summary of estimates

Financials (in Rsmn)	FY24	FY25	FY26ii	FY27ii	FY28ii
Revenue	112,603	124,049	133,177	144,960	158,207
Revenue growth	8.4%	10.2%	7.4%	8.8%	9.1%
Ebitda	16,214	16,291	16,714	19,711	22,183
Ebitda margin	14.4%	13.1%	12.6%	13.6%	14.0%
PAT	9,059	8,528	8,794	10,916	12,478
PAT growth	22.1%	-5.9%	3.1%	24.1%	14.3%
EPS (Rs)	52.1	46.6	48.0	59.6	68.2

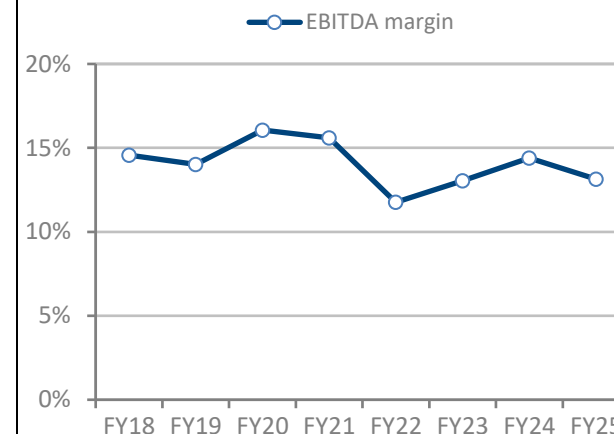
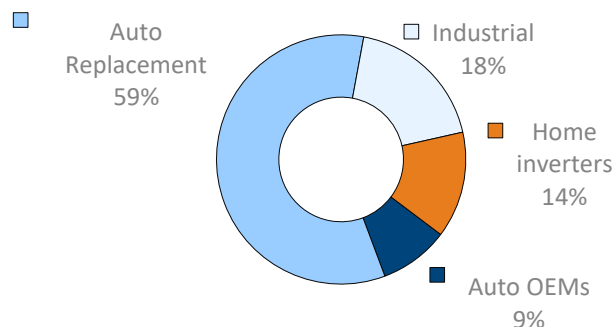
Source: Company, IIFL Research

Background: Amara Raja Energy & Mobility Limited, the flagship company of the Amara Raja Group, is the technology leader and is 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 Valve Regulated Lead Acid (VRLA) 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
Y Delli Babu	CFO
S Vijayanand	CEO - ARACT

Revenue split by segments (FY25)



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	133,177	144,960	158,207
Ebitda	16,214	16,291	16,714	19,711	22,183
Depreciation and amortisation	(4,787)	(4,921)	(5,279)	(5,490)	(5,894)
Ebit	11,427	11,370	11,435	14,221	16,290
Non-operating income	1,015	933	770	820	849
Financial expense	(332)	(422)	(400)	(390)	(390)
PBT	12,110	11,881	11,804	14,652	16,749
Exceptionals	0	1,111	0	0	0
Reported PBT	12,110	12,992	11,804	14,652	16,749
Tax expense	(3,052)	(3,353)	(3,010)	(3,736)	(4,271)
PAT	9,059	9,639	8,794	10,916	12,478
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	9,059	9,639	8,794	10,916	12,478

Ratio analysis

Y/e 31 Mar, Parent	FY24A	FY25A	FY26ii	FY27ii	FY28ii
Per share data (Rs)					
Pre-exceptional EPS	52.1	46.6	48.0	59.6	68.2
DPS	9.9	10.5	10.0	12.5	13.5
BVPS	364.7	379.7	417.3	466.9	522.6
Growth ratios (%)					
Revenues	8.4	10.2	7.4	8.8	9.1
Ebitda	19.6	0.5	2.6	17.9	12.5
EPS	19.9	(10.6)	3.1	24.1	14.3
Profitability ratios (%)					
Ebitda margin	14.4	13.1	12.6	13.6	14.0
Ebit margin	10.1	9.2	8.6	9.8	10.3
Tax rate	25.2	25.8	25.5	25.5	25.5
Net profit margin	8.0	7.8	6.6	7.5	7.9
Return ratios (%)					
ROE	15.6	12.8	12.1	13.5	13.8
ROIC ex goodwill	18.1	18.2	18.2	22.7	25.9
ROIC	17.3	16.7	16.7	20.8	23.7
Solvency ratios (x)					
Net debt to Ebitda	(0.1)	(0.1)	0.0	0.0	0.0
Interest coverage	34.4	26.9	28.6	36.5	41.8

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	4,547	4,476	5,255
Inventories	18,095	20,364	21,948	23,489	25,551
Receivables	10,171	11,428	12,269	13,354	14,575
Other current assets	5,522	3,318	3,562	3,877	4,231
Creditors	8,398	9,252	9,933	10,812	11,800
Other current liabilities	9,847	13,580	14,659	15,576	16,920
Net current assets	19,237	16,581	17,733	18,809	20,892
Fixed assets	33,923	38,580	37,301	36,311	35,417
Intangibles	517	328	328	328	328
Investments	12,142	17,330	26,330	35,330	44,330
Other long-term assets	0	0	0	0	0
Total net assets	65,818	72,819	81,691	90,777	100,967
Borrowings	1,527	2,583	4,583	4,583	4,583
Other long-term liabilities	885	732	732	732	732
Shareholders equity	63,407	69,503	76,375	85,461	95,651
Total liabilities	65,818	72,819	81,691	90,777	100,967

Cash flow summary (Rs m)

Y/e 31 Mar, Parent	FY24A	FY25A	FY26ii	FY27ii	FY28ii
Ebit	11,427	11,370	11,435	14,221	16,290
Tax paid	(3,289)	(3,283)	(3,010)	(3,736)	(4,271)
Depreciation and amortization	4,787	4,921	5,279	5,490	5,894
Net working capital change	(271)	85	(908)	(1,146)	(1,305)
Other operating items	488	659	0	0	0
Operating cash flow before interest	13,142	13,752	12,796	14,829	16,607
Financial expense	(188)	(253)	(400)	(390)	(390)
Non-operating income	49	30	770	820	849
Operating cash flow after interest	13,004	13,530	13,166	15,260	17,066
Capital expenditure	(5,425)	(6,522)	(4,000)	(4,500)	(5,000)
Long-term investments	(4,085)	(6,907)	(9,000)	(9,000)	(9,000)
Others	1,202	1,828	0	0	0
Free cash flow	4,696	1,929	166	1,760	3,066
Equity raising	0	0	0	0	0
Borrowings	(871)	590	2,000	0	0
Dividend	(1,367)	(1,904)	(1,922)	(1,830)	(2,288)
Net chg in cash and equivalents	2,458	616	244	(71)	778

Source: Company data, IIFL Research

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Name, Qualification and Certification of Research Analyst: Joseph George(Chartered Accountant, Chartered Financial Analyst), Ankit Ruparel(Chartered Accountant), Ishaan Singh(MBA)

Joseph George



IIFL Capital Services Limited (Formerly known as IIFL Securities Limited), CIN No.: L99999MH1996PLC132983, Corporate Office – IIFL Securities Ltd. 24th Floor, One Lodha Place, Senapati Bapat Marg, Lower Parel, Mumbai – 400013 Tel: (91-22) 4249 9000 Fax: (91-22) 4060 9049, Regd. Office – IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane – 400604 Tel: (91-22) 39294000. Fax: (91-22) 25806654 Website: <https://www.iiflcapital.com/>, please click [here](#) to know about IIFLCAP's organisational structure and its associates Details of pending Enquiry Proceedings of IIFL Capital Services Limited (Formerly known as IIFL Securities Limited) and Investor Charter are available on the website at <https://ttweb.indiaonline.com/trade/frmInformation2customer.aspx>

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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.

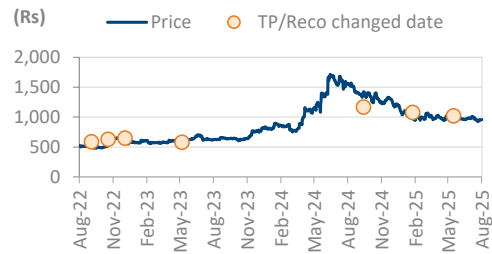
Distribution of Ratings: Out of 305 stocks rated in the IIFL coverage universe, 158 have BUY ratings, 7 have SELL ratings, 97 have ADD ratings, 0 have NR ratings and 42 have REDUCE ratings

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 (%)
02 Jun 2025	REDUCE	1031	1020	-1.1
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