

CMP: ₹ 940

Target: ₹ 1,200 (28%)

Target Period: 12 months

BUY

April 16, 2024

Double digit growth on anvil, base valuations to prevail

About the stock: Amara Raja Energy & Mobility (AREM) is a part of the duopolistic organised Indian lead acid battery market with a strong presence across Automotive (OEM & aftermarket) and Industrial battery space (UPS, Telecom, etc.).

- Approaching E-Mobility through a mix of EV chargers, captive Li-On cell manufacturing plant (16 GWh by FY32E) and stake in Log-9 materials

Q3FY24 Result Summary: Company reported healthy performance in Q3FY24. Net sales for the quarter came in at ₹ 2,881 crore, up 9% YoY. EBITDA in Q3FY24 came in at ₹ 410 crore with corresponding EBITDA margins at 14.2%, up 40 bps QoQ. PAT in Q3FY24 stood at ₹ 240 crore, up 7.5% YoY. In the automotive battery business, the company witnessed healthy growth from both domestic and exports as well as OEM and aftermarket segments. While the boom in telecom sector acted as the major driver for the industrial battery volumes which witnessed strong growth.

Investment Rationale

- Steady Lead Acid business, exports & aftermarket to cushion growth:** Amara Raja is a prominent player in Lead acid business with sizeable presence across Automobile (~70%) & Industrial side (~30%). In automobile space it is present across OEM & aftermarket channel and is the leader in aftermarket space. It has on consistent basis reported better operating margins vs. its listed peer (last 10-year avg. EBITDA margins at Amara Raja stands at ~15% vs. its listed peer avg. of ~13%, a long-term outperformance of ~200 bps). Given the present population of vehicles and healthy OEM sales volumes over FY22-24 coupled its efforts to augment exports, we believe this segment is well poised to grow higher single digit going forward.
- Steadily increasing allocation to new energy space (Li-On battery):** The company has in the recent past has entered into MoU with Govt. of Telangana for setting up of Li-Ion Battery Gigafactory. The said facility is expected to have cell manufacturing capacity of up-to 16GWh & assembly capacity of up to 5 GWh with overall investment pegged at ~₹9,500 crores over next 10 years. In the first phase, it is setting up a Li-On cell plant of 2GWh capacity at capex outlay of ~₹ 1,200 crore with likely commissioning by FY26E. With capex under execution and plans for sizeable foray in the new energy space, long term prospects at Amara Raja are promising.

Rating and Target Price

- Introducing FY26E & rolling over our valuations, we now value Amara Raja at **₹1,200** i.e. 18x PE on FY26E, broadly in tandem with peer. We assign **BUY** rating on the stock. We are yet to ascribe any value to its efforts in the new energy space and await more meaningful developments in this domain
- Capital efficient business model, healthy net cash positive B/S & inexpensive valuations, act as good margin of safety to our investment call.


AMARA RAJA
Gotta be a better way

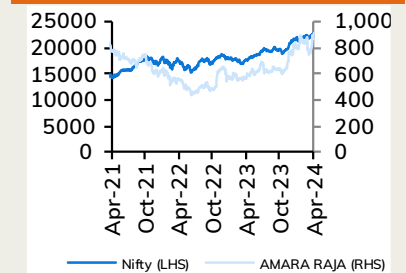
Particulars

Particular	₹ crore
Market Capitalization	17,202
Total Debt (FY23)	17
Cash & Investments (FY23)	123
Enterprise Value	17,095
52 week H/L (₹)	950 / 576
Equity capital	18.3
Face value (₹)	1.0

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	28.1	28.1	28.1	28.1
FI	36.2	35.2	24.6	24.0
DII	9.2	10.5	16.8	17.9
Other	26.5	26.3	30.5	30.0

Price Chart



Recent event & key risks

- Posted healthy Q3FY24 with EBITDA margins at 14.2%.
- Going forward built in Sales/PAT CAGR of 8%/17% over FY23-26E
- Key Risk: (i) lower than built in margin recovery in the base business (ii) delay in capex execution in the new energy business (Li-On battery space)

Research Analyst

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
Net Sales	6,793.1	6,839.5	7,149.7	8,695.8	10,385.9	11.4%	11,477.3	12,463.6	13,117.6	8.1%
EBITDA	951.8	1,098.6	1,115.6	1,022.6	1,355.2	8.9%	1,587.7	1,822.5	1,930.0	12.5%
EBITDA Margins (%)	14.0	16.1	15.6	11.8	13.0		13.8	14.6	14.7	
Net Profit	483.5	660.8	646.8	511.2	694.4	8.1%	899.9	1,054.4	1,101.4	16.6%
EPS (₹)	28.3	38.7	37.9	29.9	40.7		52.7	61.7	64.5	
P/E	33.2	24.3	24.8	31.4	23.1		17.8	15.2	14.6	
RoNW (%)	14.5	18.1	15.4	11.2	13.8		14.8	15.1	13.9	
RoCE (%)	19.8	21.3	18.6	13.6	17.2		18.4	18.8	17.3	

Source: Company, ICICI Direct Research

Company Background

Amara Raja Energy & Mobility (AREM, erstwhile Amara Raja Batteries), is into energy business manufacturing lead acid batteries for use in automobile (~70% of sales) as well as industrial segment (~30% of sales). The company has seven manufacturing plants spread across two locations in the state of Andhra Pradesh. It has successful history of running a capital efficient business with industry leading margins & debt free b/s. It presently drives ~12% of sales from exports.

In the automotive space, the company has manufacturing capacity of ~50 million units while in the Industrial space its capacity stands at ~2.3 bn Ah

Exhibit 1: Business Overview

OPERATIONS AT A GLANCE


LEAD ACID BATTERIES

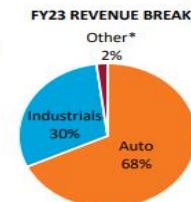
AUTOMOTIVE

- **Applications** – 2W, 3W, 4W & CV's
- Largest Exporter of 4W Batteries
- First AGM battery manufacturer for 2W
- Setting up 1.5 LPTA of a lead recycling facility through the wholly owned subsidiary ARCSPL, which showcases commitment to the circular economy

INDUSTRIAL

- **Application** - Telecom, Railways, Power Control, Solar, UPS
- Market Leader in Telecom sector
- **First** to introduce VRLA batteries in India
- **Largest** Integrated Facility for MVRLA Batteries
- Pioneered Battery Solutions for Indian Railways






FY23 REVENUE BREAKUP (%)

Auto 68%
Industrials 30%
Other* 2%

*Others predominantly includes New Energy business.


AUTOMOTIVE | INDUSTRIALS

- Li Cell and Pack Manufacturing
- EV Charging Products
- Energy Storage Solutions
- Developed India's First 21700 Cylindrical Cell (NMC 811)
- Successfully powered an E-Bike using in-house NMC based 2170 cylindrical cells
- Setting up E Positive Energy Labs: a unique innovation & research facility



NEW ENERGY BUSINESS

APPLICATIONS




Source: Company, ICICI Direct Research

Exhibit 2: Company counts all OEMs as its clients across the Automotive Segment

MARQUEE OEM CLIENTELE



AUTOMOTIVE			INDUSTRIAL
PASSENGER VEHICLE OEM CLIENTS	COMMERCIAL VEHICLE/TRACTOR OEM CLIENTS	TWO-WHEELER OEM CLIENTS	INDUSTRIAL OEM CLIENTS
			

Source: Company, ICICI Direct Research

Exhibit 3: New Energy Business overview

NEW ENERGY BUSINESS : THE FUTURE GROWTH ENGINE

150 GWH

- India's electrification demand expected to be 150GWh by 2030
- Adoption across user segments like Mobility Telecom and Data Centres
- Significant market share gain opportunity


POLICY PUSH


- Financial subsidies including manufacturing subsidies valued 50,000cr +
- High customer pull for EVs ensuring market expansion in specific segments as a near given

ROADMAP FOR CAPITALISING ON THE NEW ENERGY BUSINESS

PLANNED A GIGA CORRIDOR IN DIVITIPALLY, TELANGANA

- Total CAPEX announced – INR 9,500 crores, MoU signed with Government of Telangana
- Setting up E Positive Energy Labs: a unique innovation & research facility, Hyderabad, Telangana
- Land allotment completed, spread across 262 acres at Divitipally, Telangana
 - + Customer Qualification plant
 - 16 GWH Cell Capacity over the next 10 years
 - Phase 1 commercialization expected by FY26





AREM'S FORAY IN NEW ENERGY SOLUTIONS

- Li Cell and pack Manufacturing
- EV Charging Solutions
- Energy Storage Solutions

COMPLETED AMARA RAJA POWER SYSTEMS LIMITED(ARPSL) ACQUISITION

- WOS effective from September 29, 2023
- Expected to strengthen charging solutions offerings

Amara Raja has entered into MoU with Govt. of Telangana for setting up of Li-Ion Battery Gigafactory. The said facility is expected to have cell manufacturing capacity of up-to 16GWh & assembly capacity of up to 5 GWh with overall investment pegged at ~₹9,500 crores over next 10 years.

In the first phase, it is setting up a Li-On cell plant of 2GWh capacity at a capex outlay of ~₹ 1,200 crore and operational by FY26 (utilising inhouse know how in NMC chemistry space).

The company also has indirect presence in this space through minority stake in Log-9 materials; a start-up entity involved in innovative research in the space of Li-On battery

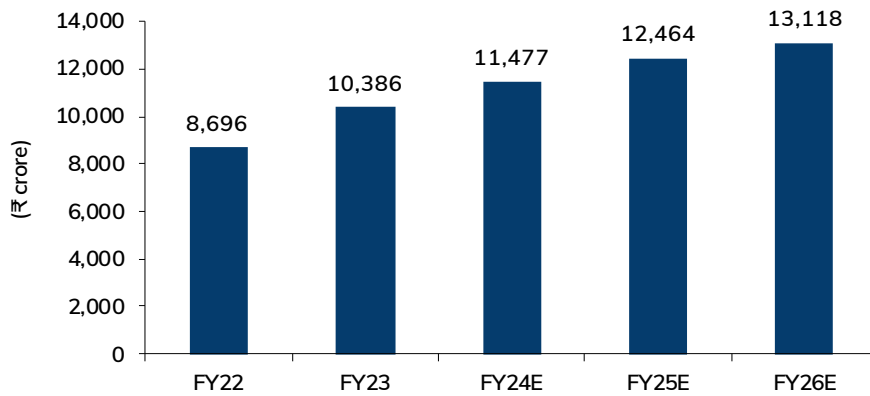
Source: Company, ICICI Direct Research

ICICI Securities | Retail Research

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Financial Story in Charts

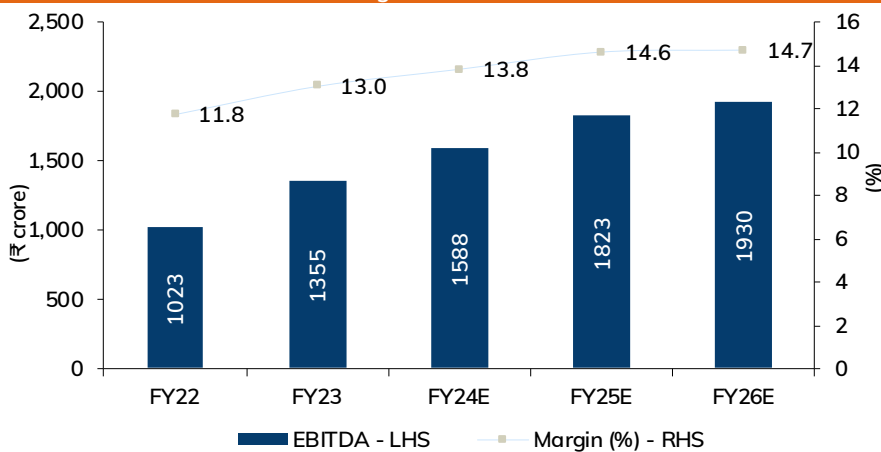
Exhibit 4: Sales trend over FY21-25E



Topline at the company is seen growing at 8.1% CAGR over FY23-26E. It is a mix of volume led growth across its automotive and industrial verticals and price hikes especially in the aftermarket segment

Source: Company, ICICI Direct Research

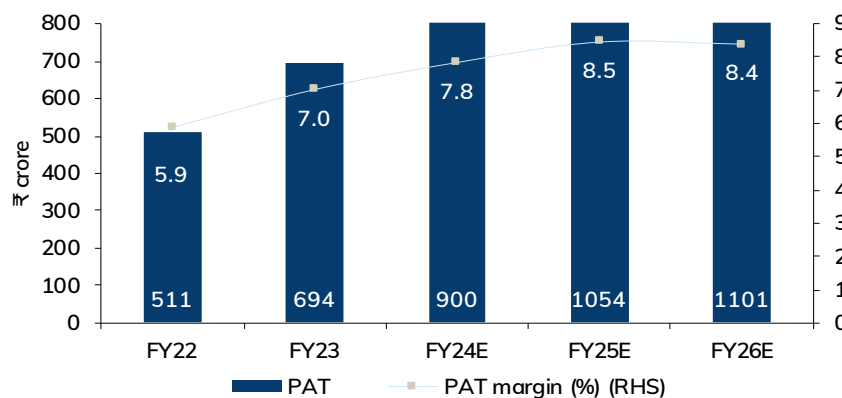
Exhibit 5: EBITDA and EBITDA margin trend over FY21-25E



EBITDA at the company is seen growing at a CAGR of 12.5% over FY23-26E with margins seen improving to ~15% by FY26E. These are our conservative estimates with margins in Q3FY24 at 14.2%

Source: Company, ICICI Direct Research

Exhibit 6: PAT and PAT margin trend over FY21-25E



PAT at the company is seen growing at a CAGR of 16.6% over FY23-26E to ₹1,100 crore by FY26

Source: Company, ICICI Direct Research

Exhibit 7: SoTP - target price calculation

Particulars	Units	Amount
FY26E PAT of Base Business (Lead Acid Battery)	₹ crore	1,101.4
FY26E PAT of Acq. Plastic Business + Other businesses	₹ crore	113.9
Total FY26E PAT (A)	₹ crore	1,215.3
Existing No of Shares	crore	17.1
New Shares to be issues for acquisition	crore	1.2
Total No of Shares (B)	crore	18.3
FY26E EPS (A/B)	₹/share	66.4
PE Multiple Assigned	x	18.0
Target Price	₹/share	1,200

Source: ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Total operating Income	10,385.9	11,477.3	12,463.6	13,117.6	
Growth (%)	19.4	10.5	8.6	5.2	
Raw Material Expenses	7,186.7	7,886.4	8,397.6	8,826.4	
Employee Expenses	591.0	659.5	710.4	773.9	
Other Expenses	1,253.0	1,343.7	1,533.0	1,587.2	
Total Operating Expenditure	9,030.7	9,889.6	10,641.1	11,187.6	
EBITDA	1,355.2	1,587.7	1,822.5	1,930.0	
Growth (%)	32.5	17.2	14.8	5.9	
Depreciation	427.2	459.1	498.5	550.9	
Interest	22.1	23.2	20.9	18.8	
Other Income	89.3	100.0	112.2	118.1	
PBT	995.2	1,205.4	1,415.3	1,478.4	
Total Tax	253.2	305.5	360.9	377.0	
PAT	694.4	899.9	1,054.4	1,101.4	
Growth (%)	35.8	29.6	17.2	4.5	
EPS (₹)	40.7	52.7	61.7	64.5	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Profit after Tax	694.4	899.9	1,054.4	1,101.4	
Add: Depreciation	427.2	459.1	498.5	550.9	
(Inc)/dec in Current Assets	(201.2)	(373.7)	(284.5)	(188.6)	
Inc/(dec) in CL and Provisions	(66.2)	287.9	149.7	99.3	
CF from operating activities	854.2	1,273.3	1,418.2	1,562.9	
(Inc)/dec in Investments	(408.2)	(500.0)	(350.0)	(500.0)	
(Inc)/dec in Fixed Assets	(236.3)	(600.0)	(900.0)	(900.0)	
Others	(628.3)	(142.4)	(93.1)	(95.4)	
CF from investing activities	(853.6)	(1,092.4)	(1,243.1)	(1,395.4)	
Issue/(Buy back) of Equity	-	-	-	-	
Inc/(dec) in loan funds	-	-	-	-	
Dividend paid & dividend tax	(104.2)	(136.6)	(153.7)	(162.3)	
CF from financing activities	45.2	(146.6)	(158.7)	(162.3)	
Net Cash flow	45.8	34.3	16.3	5.3	
Opening Cash	53.6	99.5	133.7	150.1	
Closing Cash	99.5	133.7	150.1	155.3	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Liabilities					
Equity Capital	17.1	17.1	17.1	17.1	
Reserve and Surplus	5,280.8	6,044.1	6,944.7	7,883.8	
Total Shareholders funds	5,297.9	6,061.1	6,961.8	7,900.9	
Total Debt	16.5	6.5	1.5	1.5	
Deferred Tax Liability	72.8	80.4	87.4	91.9	
Total Liabilities	5,644.9	6,405.8	7,308.4	8,252.1	
Assets					
Gross Block	5,087.3	5,670.2	6,220.2	6,820.2	
Less: Acc Depreciation	2,255.0	2,714.1	3,212.6	3,763.6	
Net Block	2,832.3	2,956.1	3,007.6	3,056.6	
Capital WIP	232.9	250.0	600.0	900.0	
Total Fixed Assets	3,131.0	3,271.9	3,673.4	4,022.4	
Investments	486.0	986.0	1,336.0	1,836.0	
Inventory	1,643.4	1,886.7	2,048.8	2,156.3	
Debtors	779.7	1,257.8	1,365.9	1,437.5	
Loans and Advances	402.4	43.0	46.6	49.1	
Other Current Assets	111.4	123.1	133.7	140.7	
Cash	99.5	133.7	150.1	155.3	
Total Current Assets	3,036.4	3,444.3	3,745.1	3,939.0	
Creditors	750.8	943.3	1,024.4	1,078.2	
Provisions	141.3	177.6	192.9	203.0	
Other current liabilities	562.1	621.2	674.6	710.0	
Total Current Liabilities	1,454.2	1,742.1	1,891.9	1,991.1	
Net Current Assets	1,582.1	1,702.1	1,853.3	1,947.9	
Other Non-Current Assets	445.8	445.8	445.8	445.8	
Application of Funds	5,644.9	6,405.8	7,308.4	8,252.1	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY23	FY24E	FY25E	FY26E
Per share data (₹)				
EPS	40.7	52.7	61.7	64.5
Cash EPS	65.7	79.6	90.9	96.7
BV	310.2	354.8	407.6	462.6
DPS	6.1	8.0	9.0	9.5
Cash Per Share	7.2	29.7	45.3	69.0
Operating Ratios (%)				
EBITDA Margin	13.0	13.8	14.6	14.7
PBT / Net sales	8.9	9.8	10.6	10.5
PAT Margin	6.7	7.8	8.5	8.4
Inventory days	57.8	60.0	60.0	60.0
Debtor days	27.4	40.0	40.0	40.0
Creditor days	26.4	30.0	30.0	30.0
Return Ratios (%)				
RoE	13.8	14.8	15.1	13.9
RoCE	17.2	18.4	18.8	17.3
RoIC	18.4	20.9	23.3	23.3
Valuation Ratios (x)				
P/E	22.0	17.8	15.2	14.6
EV / EBITDA	12.6	10.5	9.0	8.3
EV / Net Sales	1.6	1.5	1.3	1.2
Market Cap / Sales	1.7	1.5	1.4	1.3
Price to Book Value	3.0	2.6	2.3	2.0
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	2.0	1.9	1.9	1.9
Quick Ratio	0.9	0.8	0.8	0.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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