

Amara Raja

Estimate changes

TP change

Rating change



Bloomberg	ARENM IN
Equity Shares (m)	183
M.Cap.(INRb)/(USD\$)	179.4 / 2
52-Week Range (INR)	1360 / 805
1, 6, 12 Rel. Per (%)	-4/0/-31
12M Avg Val (INR M)	669

Financials & Valuations (INR b)

Y/E March	2026E	2027E	2028E
Sales	135.3	148.4	162.8
EBITDA	16.1	18.5	21.2
Adj. PAT	7.8	9.2	10.6
EPS (INR)	42.7	50.1	57.8
EPS Gr. (%)	-11.5	17.4	15.5
BV/Sh. (INR)	438	479	526

Ratios

RoE (%)	10.1	10.8	11.4
RoCE (%)	10.0	10.6	11.1
Payout (%)	16.9	18.0	18.2

Valuations

P/E (x)	23.0	19.6	17.0
P/BV (x)	2.2	2.0	1.9
Div. Yield (%)	0.9	1.0	1.1
FCF yield (%)	3.9	5.5	6.7

Shareholding pattern (%)

As On	Sep-25	Jun-25	Sep-24
Promoter	32.9	32.9	32.9
DII	16.2	14.0	15.4
FII	18.0	19.4	22.3
Others	32.9	33.8	29.4

FII Includes depository receipts

CMP: INR980

TP: INR940 (-4%)

Neutral

Steady quarter

Medium-term margin guidance maintained

- Amara Raja's (ARENM) 2QFY26 PAT at INR2.1b came in line with our estimates. Even at the operating level, EBITDA margin was in line with our estimates at 12% (+50bp QoQ).
- We cut our FY26/FY27 EPS estimates by 6%/8.5% to factor in continued margin pressure in 2Q. While the market is optimistic about ARENM's Li-ion initiative, we are cautious about its potential returns. We believe the stock, trading at around 23.0x FY26E/19.6x FY27E EPS, appears fairly valued. We reiterate a Neutral rating with a TP of INR940, based on 15x standalone EPS and Investment in New Energy business valued at INR 131 per share.

2Q earnings in line with estimates

- ARENM's revenue grew 8% YoY to INR33.9b, in line with our estimate. This growth was primarily driven by the new energy business (+68.9% to INR1.7b), while lead acid and allied products posted modest growth (+4.7% to INR33b).
- EBITDA margin expanded 50bp QoQ (-210bp YoY) to 12% and was in line with our estimate. EBITDA declined ~8% YoY to INR4.1b.
- During the quarter, ARENM received a reimbursement in response to claims against a fire accident at its Chittoor facility. This translated into a one-time extraordinary gain of INR1.2b.
- Hence, reported PAT grew 25.4% YoY to INR4.1b. However, adjusted for this gain, PAT declined 12.1% YoY to INR2.1b (in line with our estimate).
- The Board has approved an interim dividend of INR5.4 per equity share for this quarter.
- At a consolidated level, OCF for 1HFY26 came in at INR5.3b, with INR6.4b spent on capex. AMRJ posted a negative free cash of INR1.1b for 1HFY26.
- 1HFY26 Revenue/EBITDA/PAT grew 7.5%/ -9.0%/ -16.4%, respectively, to INR67b/7.9b/4.1b, respectively. For the remainder of FY26, we expect each of these metrics to grow ~11%/8%/-5%, respectively, to INR68b/INR8.1b/INR3.7b.

Highlights from the management commentary

- OEM volumes across both 4W and 2W grew ~30% YoY, supported by strong festive season demand and pre-buying following GST revisions. Management expects growth to normalize to industry levels in subsequent quarters.
- Management reiterated its confidence in sustaining high single-digit growth in the lead-acid business and scaling the new energy business to contribute 7-8% of total revenue by FY27.
- Management guided for further improvement in the coming quarters, as the tubular battery plant ramps up to full capacity in 3Q and the battery recycling facility commences operations in 4QFY26.

- The company aims to restore consolidated EBITDA margins to 13-14% over time, driven by operational efficiencies, backward integration through recycling, and cost normalization.
- FY26 outlay of INR13b is planned. Of this, about INR6b is likely to be invested in the lead acid battery business (including tubular plant and battery breaking operations) and another INR7b is likely to be invested in the cell manufacturing facility.
- The company is likely to incur capex of INR3.5-4b for its lead acid business in FY27E, and INR10b for its cell manufacturing facility.

Valuation and view

- ARENM's venture into the lithium-ion business is strategically sound, given the opportunities in the segment and risks facing its core business. However, there are notable challenges: 1) market opportunities are limited by existing OEM partnerships; 2) the low-margin nature of the lithium-ion business is likely to dilute returns; and 3) the long-term viability of the technology remains uncertain despite the large capital investment.
- While the market is optimistic about ARENM's Li-ion initiative, we are cautious about its potential returns. We believe the stock, trading at around 23.0x FY26E/19.6x FY27E EPS, appears fairly valued. Therefore, we reiterate a Neutral rating with a TP of INR940, based on 15x standalone EPS and Investment in New Energy business valued at INR 131 per share.

Quarterly Performance- SA

Y/E March (INR m)	FY25				FY26E				FY25	FY26E	VAR	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			2QE	(%)
Net Sales	31,312	31,358	31,640	29,739	33,499	33,882	34,488	33,405	1,24,049	1,35,274	33,553	1.0
YoY Change (%)	13.0	11.6	9.8	6.3	7.0	8.0	9.0	12.3	10.2	9.0	7.0	
RM Cost (% of sales)	68.9	67.6	66.9	67.7	70.5	67.2	69.0	68.9	67.8	68.9	69.5	-230bp
Staff Cost (% of sales)	5.9	6.1	6.0	6.1	5.9	6.6	5.8	5.7	6.0	6.0	6.0	60bp
Other Exp (% of sales)	11.5	12.2	13.9	14.7	12.0	14.2	13.2	13.4	13.1	13.2	12.5	170bp
EBITDA	4,304	4,407	4,158	3,422	3,867	4,059	4,139	4,033	16,291	16,098	4,026	0.8
Margins (%)	13.7	14.1	13.1	11.5	11.5	12.0	12.0	12.1	13.1	11.9	12.0	0bp
Depreciation	1,183	1,220	1,233	1,284	1,292	1,380	1,390	1,399	4,921	5,461	1,298	6.3
Interest	90	131	107	95	104	83	115	149	422	450	110	-24.9
Other Income	256	185	293	200	139	241	180	139	933	700	135	78.4
PBT before EO expense	3,287	3,240	3,111	2,244	2,610	2,838	2,814	2,625	11,881	10,886	2,753	3.1
Extra-Ord expense	0	0	-1,111	0	0	-1,218	0	0	-1,111	-1,218	0	
PBT after EO	3,287	3,240	4,222	2,244	2,610	4,056	2,814	2,625	12,992	12,104	2,753	47.3
Tax	841	833	1,103	576	670	1,032	715	1,009	3,353	3,425	688	
Tax Rate (%)	25.6	25.7	26.1	25.7	25.7	25.4	25.4	38.5	25.8	28.3	25.0	
Adj PAT	2,446	2,407	2,298	1,668	1,940	2,116	2,099	1,615	8,815	7,805	2,065	2.5
YoY Change (%)	23.1	6.3	-9.1	-26.8	-20.7	-12.1	-8.7	-3.2	-2.7	-11.5	-14.2	

E: MOFSL Estimates



Key takeaways from the management commentary

Result highlights

- ARENM's revenue rose 8% YoY to INR33.9b, driven by robust OEM demand in both 4W and 2W segments, healthy traction in industrial and lubes, and a strong growth in the new energy business.
- Revenue from the core lead-acid segment stood at INR32.97b, up 4.7% YoY, supported by strong OEM demand across 4W and 2W segments (+30% YoY). Aftermarket volumes remained stable (while 4W was flat, 2W grew 1-2% YoY) due to temporary GST-related channel destocking, while industrial demand was mixed with telecom volumes declining 35% YoY but UPS volumes growing modestly at 5%.
- The lubricants business crossed INR500m in quarterly revenue, showcasing continued momentum.
- The new energy division reported a sharp rise in revenue to INR1.7b, driven by strong traction in telecom lithium packs (150 MWh supplied) and continued momentum in EV chargers, where the order book crossed 5,000 units. The company has also begun commercial supplies of LFP-based 3W battery packs.
- Export revenue remained muted due to tariff uncertainties and logistical disruptions. The company expects a gradual recovery as global trade conditions stabilize in 2HFY26.
- Gross margins expanded sequentially in 2QFY26, aided by a favorable product mix, lower antimony prices (down ~10%), and reduced trading of tubular batteries as in-house production ramped up. However, elevated warranty and EPR provisions partly offset these gains.
- However, reported PAT grew 25.4% YoY on account of an exceptional gain of INR1.2b as reimbursement for an insurance claim. Adjusted for one-offs, PAT declined 12.1% YoY to INR2.1b

Auto demand outlook

- **Demand outlook:** OEM volumes across both 4W and 2W grew ~30% YoY, supported by strong festive season demand and pre-buying following GST revisions. Management expects growth to normalize to industry levels in subsequent quarters.
- Replacement demand remained stable, impacted temporarily by channel inventory corrections post-GST rate changes. Retailers are expected to resume normal stocking in the coming quarters.
- UPS volumes grew 5% YoY, while telecom lead-acid demand declined ~35%, offset by higher lithium telecom pack sales. Combined, telecom and UPS make up ~20% of the company's total revenue base.
- Export remained muted due to tariff challenges and weaker demands in some of the markets. ARENM continues expanding its international footprint, with new offices in Dubai, and the first Amaron pit stops launched in Qatar and Morocco.
- Management reiterated confidence in sustaining high single-digit growth in the lead-acid business and new energy business to contribute 7–8% of total revenue by FY27.

Margin outlook

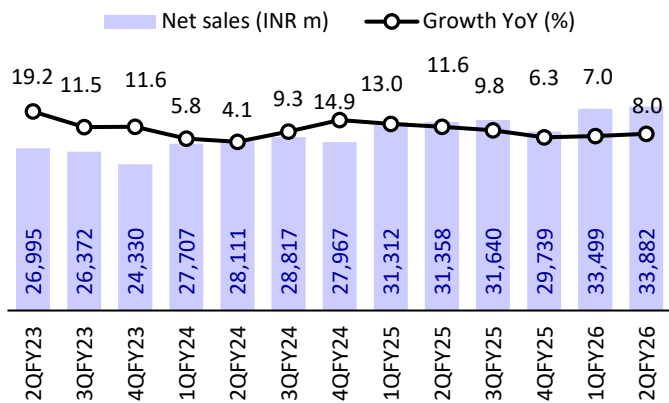
- Management has indicated that rising lead price remains a concern in the near term.
- However, over the medium term, management guided for further margin improvement as the tubular battery plant ramps up to full capacity in 3Q and the battery recycling facility commences operations in 4QFY26.
- The company aims to restore consolidated EBITDA margins at 13–14% over time, driven by operational efficiencies, backward integration through recycling, and cost normalization.
- Warranty and EPR related costs are unlikely to be recurring expenses.

Capex guidance

- FY26 outlay of INR13b is planned. Of this, about INR 6b is likely to be invested in the lead acid battery business (including tubular plant and battery breaking operations) and another INR 7b is likely to be invested in the cell manufacturing facility. Of this, they have invested INR 4b in H1.
- About INR 12b is invested in the new energy business so far.
- The company is likely to incur capex of INR3.5-4b in the lead acid business in FY27E, and INR10b in its cell manufacturing facility.
- The advanced lead recycling plant (1.5 lakh MTPA) has commenced refinery operations. The battery-breaking operations are scheduled to begin in 4QFY26, enhancing lead recovery.

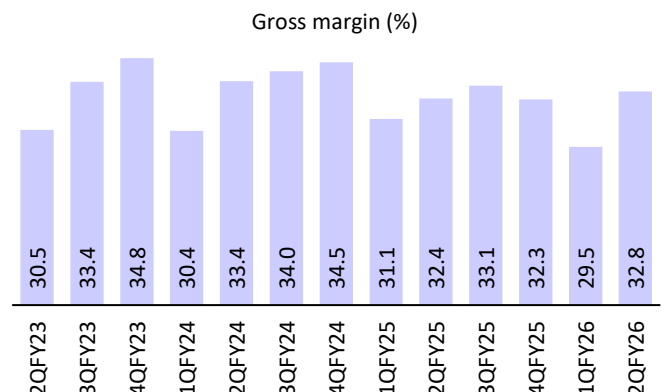
Key exhibits

Exhibit 1: Trend in revenue and growth



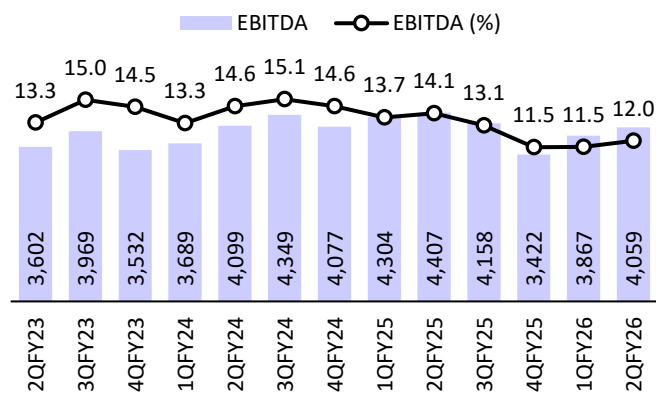
Source: Company, MOFSL

Exhibit 2: Gross margin impacted by RM cost inflation



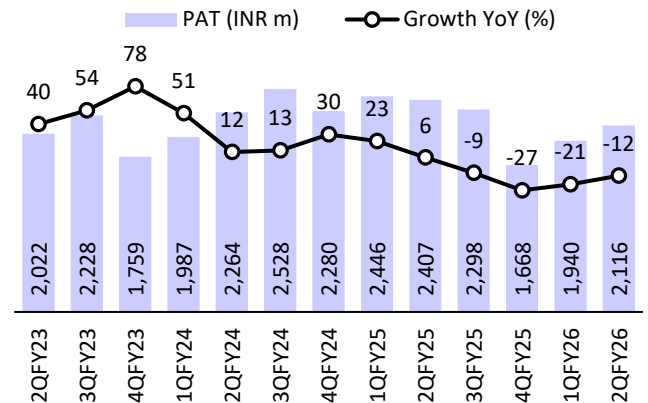
Source: Company, MOFSL

Exhibit 3: Trend in EBITDA and EBITDA margin



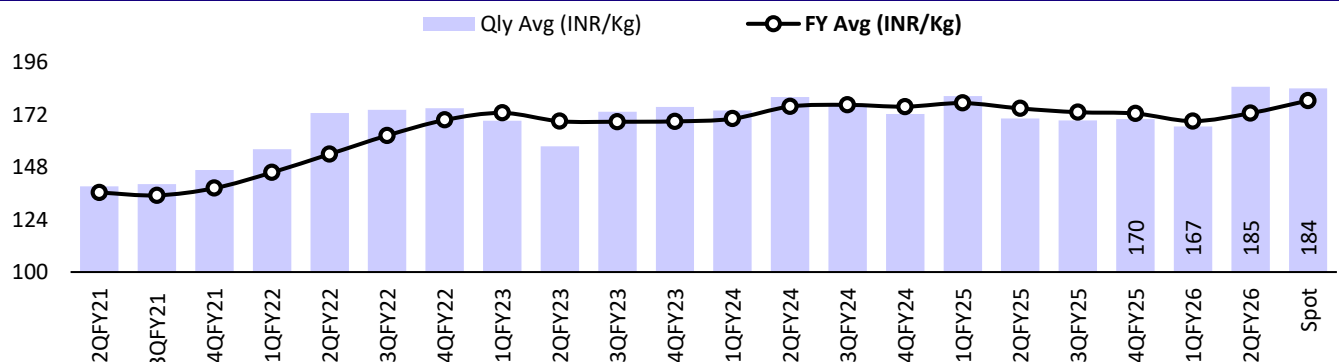
Source: Company, MOFSL

Exhibit 4: PAT and growth trend



Source: Company, MOFSL

Exhibit 5: Trend in spot lead prices (INR/kg)



Source: Bloomberg, MOFSL

Valuation and view

- **ARENM to emerge as one of the beneficiaries of a steady outlook in LAB:** The outlook on both auto and industrial segments has improved post the GST rate cuts. In the auto segment, steady growth posted by the industry over the last three years is expected to translate into healthy replacement demand in the coming years. The industrial segment is expected to benefit from the surge in demand for power backup for data centers. Thermal power generation is seeing a comeback and should see strong incremental demand with growth visibility for the next 5-6 years. Given its strong position in LAB in both auto and industrial segments, we expect the company to emerge as a beneficiary of the healthy demand outlook in the industry.
- **Foray into lithium-ion will have its own challenges:** Given the significant imminent risk to its core business, the company has forayed into the manufacturing of lithium-ion cells in partnership with a Chinese major. The total capex outlay will be INR95b over a 10-year period, which will have an eventual cell manufacturing capacity of 16 GWh. While ARENM can fund the initial couple of years of this project through internal accruals, we expect the company will need to raise funds to finance the remaining project. Further, we think the company's foray into lithium-ion cell manufacturing is likely to see multiple challenges in the coming years, which include: 1) most domestic PV OEMs either having their own lithium-ion manufacturing plans or having existing tie-ups, limiting ARENM's potential addressable market in this space; 2) given ARENM is setting up a greenfield in this segment without prior experience, we expect its facility to take at least a couple of years to stabilize operations as it goes through its testing and validation phase initially for interested OEMs; 3) since lithium-ion cell manufacturing is a low-margin business, we expect this business to be return-dilutive for ARENM in the long run, even if this venture is successful; and 4) given that it is still not certain if the lithium-ion cell technology will emerge as a sustainable technology in the long run, we think the outcome of this venture remains highly uncertain at this stage, despite the significant capital commitment required.
- **Valuations fair; reiterate our Neutral rating:** We cut our FY26/FY27 EPS estimates by 6%/8.5% to factor in continued margin pressure in 2Q. While the market is optimistic about ARENM's Li-ion initiative, we are cautious about its potential returns. We believe the stock, trading at around 23.0x FY26E/19.6x FY27E EPS, appears fairly valued. Therefore, we maintain a Neutral rating with a TP of INR940, based on 15x FY27E standalone EPS and Investment in New Energy business valued at INR 131 per share.

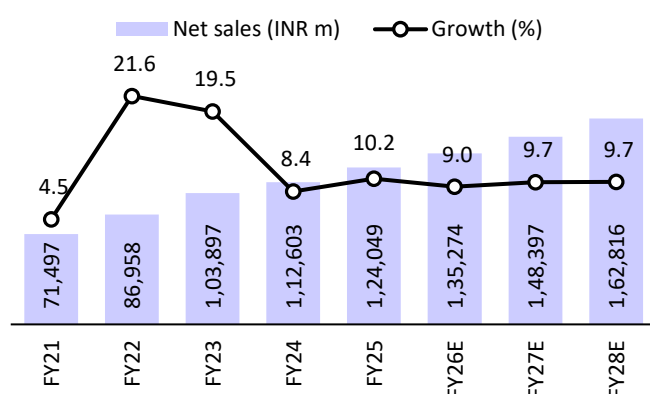
Exhibit 6: Revisions to our estimates

(INR M)	FY26E			FY27E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	135,274	135,274	0.0	148,397	148,397	0.0
EBITDA (%)	11.9	12.0	-10bp	12.5	12.8	-30bp
Net Profit	7,805	8,304	-6.0	9,160	10,008	-8.5
EPS (INR)	42.7	45.4	-6.0	50.1	54.7	-8.5

Source: MOFSL

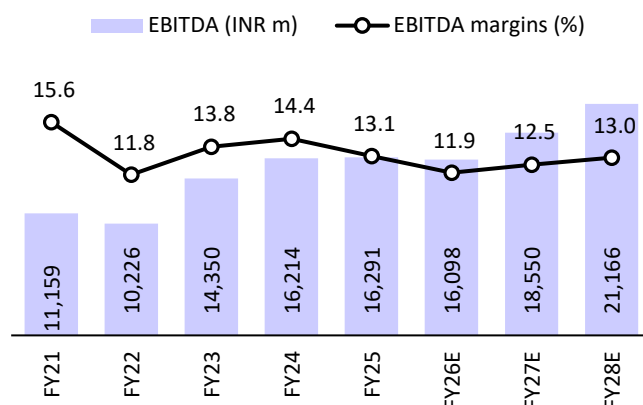
Story in charts

Exhibit 7: Trend in revenue



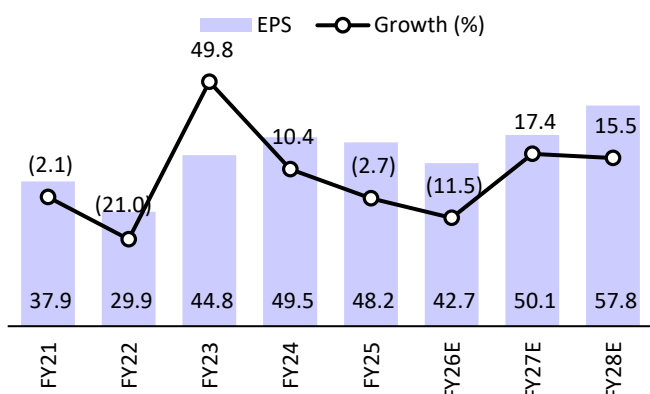
Source: Company, MOFSL

Exhibit 8: EBITDA and EBITDA margin trend



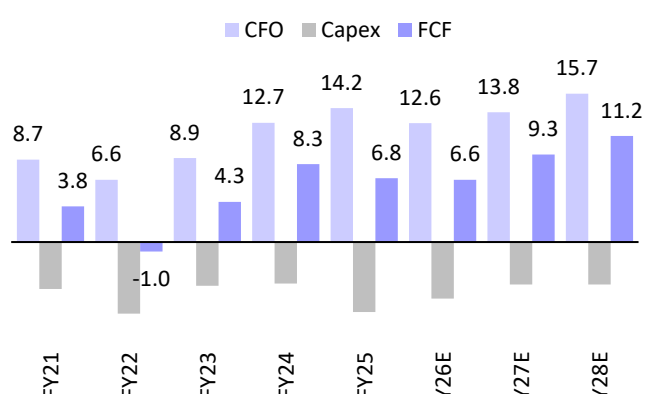
Source: Company, MOFSL

Exhibit 9: Earnings likely to see a rebound from FY27E



Source: Company, MOFSL

Exhibit 10: Trend in CFO, capex, and FCF



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(InR M)

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net Sales	71,497	86,958	103,897	112,603	124,049	135,274	148,397	162,816
Change (%)	4.5	21.6	19.5	8.4	10.2	9.0	9.7	9.7
EBITDA	11,159	10,226	14,350	16,214	16,291	16,098	18,550	21,166
Margin (%)	15.6	11.8	13.8	14.4	13.1	11.9	12.5	13.0
Growth	1.6	-8.4	40.3	13.0	0.5	-1.2	15.2	14.1
Depreciation	3,192	3,957	4,504	4,787	4,921	5,461	5,787	6,152
EBIT	7,967	6,269	9,846	11,427	11,370	10,636	12,762	15,014
Int. and Finance Charges	105	151	296	332	422	450	600	770
Other Income - Rec.	874	780	897	1,015	933	700	560	448
PBT bef. EO Exp.	8,736	6,898	10,447	12,110	11,881	10,886	12,722	14,692
EO Expense/(Income)	0	0	477	0	-1,111	0	0	0
PBT after EO Exp.	8,736	6,898	9,970	12,110	12,992	10,886	12,722	14,692
Current Tax	2,265	1,786	2,620	3,191	3,259	2,830	3,308	3,820
Deferred Tax	0	0	43	-140	93	250	254	294
Tax Rate (%)	25.9	25.9	26.7	25.2	25.8	28.3	28.0	28.0
Reported PAT	6,470	5,112	7,307	9,059	9,639	7,805	9,160	10,578
PAT Adj for EO items	6,470	5,113	7,656	9,059	8,815	7,805	9,160	10,578
Change (%)	-2.1	-21.0	49.8	18.3	-2.7	-11.5	17.4	15.5

Standalone - Balance Sheet

(InR M)

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	171	171	171	183	183	183	183	183
Total Reserves	41,932	45,343	59,886	67,504	73,600	79,941	87,454	96,110
Net Worth	42,103	45,514	60,056	67,687	73,783	80,124	87,637	96,293
Deferred Liabilities	407	314	1,036	885	732	983	1,237	1,531
Total Loans	234	234	2,014	1,527	2,583	3,800	5,700	7,100
Capital Employed	42,744	46,062	63,106	70,098	77,098	84,906	94,574	104,924
Gross Block	38,628	42,498	57,236	59,035	63,199	69,199	73,699	78,199
Less: Accum. Deprn.	14,081	17,575	20,354	23,532	28,452	33,914	39,701	45,853
Net Fixed Assets	24,548	24,923	36,882	35,503	34,747	35,285	33,998	32,346
Capital WIP	3,993	8,297	2,343	3,217	8,441	8,441	8,441	8,441
Total Investments	2,805	778	4,860	14,791	19,979	27,979	37,979	47,979
Curr. Assets, Loans&Adv.	26,625	29,761	35,288	34,833	36,763	36,440	39,686	44,226
Inventory	14,382	18,038	16,752	18,095	20,364	21,496	23,581	25,872
Account Receivables	7,875	7,926	7,797	10,171	11,428	11,860	13,010	14,274
Cash and Bank Balance	967	343	894	892	1,528	379	127	823
Loans and Advances	3,401	3,455	9,845	5,674	3,443	2,705	2,968	3,256
Curr. Liability & Prov.	15,227	17,697	16,267	18,245	22,832	23,239	25,530	28,068
Account Payables	7,465	8,065	7,514	8,398	10,465	11,489	12,604	13,828
Other Current Liabilities	5,623	7,177	6,005	6,924	8,863	9,469	10,388	11,397
Provisions	2,140	2,455	2,749	2,923	3,503	2,281	2,539	2,842
Net Current Assets	11,398	12,064	19,021	16,588	13,931	13,201	14,156	16,158
Appl. of Funds	42,744	46,062	63,106	70,098	77,098	84,906	94,574	104,924

E: MOFSL Estimates

Financials and valuations

Ratios								
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Basic (INR)								
EPS	37.9	29.9	44.8	49.5	48.2	42.7	50.1	57.8
Growth	-2.1	-21.0	49.8	10.4	-2.7	-11.5	17.4	15.5
Cash EPS	56.6	53.1	71.2	75.7	75.1	72.5	81.7	91.4
BV/Share	246.5	266.5	351.6	369.9	403.2	437.8	478.9	526.2
DPS	11.0	4.5	6.1	9.9	11.3	8.6	9.6	11.3
Payout (%)	29.0	15.0	14.3	20.0	19.9	18.8	18.0	18.2
Valuation (x)								
P/E	25.9	32.7	21.9	19.8	20.3	23.0	19.6	17.0
Cash P/E	17.3	18.5	13.8	13.0	13.1	13.5	12.0	10.7
P/BV	4.0	3.7	2.8	2.6	2.4	2.2	2.0	1.9
EV/Sales	2.3	1.9	1.6	1.5	1.4	1.3	1.2	1.1
EV/EBITDA	14.9	16.4	11.7	10.4	10.3	10.6	9.3	8.2
Dividend Yield (%)	1.1	0.5	0.6	1.0	1.1	0.9	1.0	1.1
FCF per share	17.9	-7.4	28.8	47.8	34.5	36.1	50.7	61.5
Return Ratios (%)								
RoE	16.5	11.7	14.5	14.2	12.5	10.1	10.9	11.5
RoCE	16.4	11.8	14.4	14.0	12.4	10.0	10.7	11.2
RoIC	19.0	13.0	15.7	16.1	17.2	16.0	19.1	22.6
Working Capital Ratios								
Inventory (Days)	73.4	75.7	58.9	58.7	59.9	58.0	58.0	58.0
Debtor (Days)	40	33	27	33	34	32	32	32
Creditor (Days)	38	34	26	27	31	31	31	31
Working Capital Turnover (Days)	53	49	64	51	36	35	35	34
Leverage Ratio (x)								
Current Ratio	1.7	1.7	2.2	1.9	1.6	1.6	1.6	1.6
Interest Cover Ratio	76	42	33	34	27	24	21	19

Standalone - Cash Flow Statement

(InR M)

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net P/L Before Tax and E/O Items	8,733	6,898	10,447	12,110	12,992	10,886	12,722	14,692
Depreciation	3,192	3,957	4,504	4,787	4,921	5,461	5,787	6,152
Interest & Finance Charges	105	151	-601	-684	-511	-250	40	322
Direct Taxes Paid	1,995	1,993	2,563	3,289	3,283	3,081	3,562	4,114
(Inc)/Dec in WC	-1,301	-2,406	-2,866	-271	85	-418	-1,207	-1,306
CF from Operations	8,734	6,607	8,921	12,654	14,204	12,599	13,780	15,746
Others	-714	-277	641	488	-452	0	0	0
CF from Operating incl EO	8,020	6,329	9,562	13,142	13,752	12,599	13,780	15,746
(inc)/dec in FA	-4,964	-7,598	-4,647	-4,401	-7,440	-6,000	-4,500	-4,500
Free Cash Flow	3,056	-1,268	4,915	8,741	6,312	6,599	9,280	11,246
(Pur)/Sale of Investments	-14,598	-13,440	-27,976	-35,190	-37,490	0	0	0
Others	13,212	16,219	24,731	28,871	33,386	-7,300	-9,440	-9,552
CF from Investments	-6,350	-4,819	-7,892	-10,720	-11,543	-13,300	-13,940	-14,052
(Inc)/Dec in Debt	-321	-359	-377	-871	583	1,467	2,154	1,694
Interest Paid	-40	-67	-161	-188	-253	-450	-600	-770
Dividend Paid	-854	-1,708	-581	-1,367	-1,904	-1,464	-1,647	-1,922
CF from Fin. Activity	-1,215	-2,135	-1,119	-2,425	-1,573	-447	-93	-998
Inc/Dec of Cash	455	-624	551	-2	636	-1,149	-253	696
Add: Beginning Balance	512	967	343	894	892	1,528	379	127
Closing Balance	967	343	894	892	1,528	379	127	823

E: MOFSL Estimates

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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