

HOLD Exide Industries

Your success is our success

Healthy operational performance; Li-ion uncertainty lingers

Auto & Auto Ancillaries ▶ Result Update ▶ November 9, 2023

TARGET PRICE (Rs): 260

Exide's Q2 results were healthy, with a beat on margin (up by 115bps QoQ to 11.8% vs Emkay: 11%) and PAT, driven by cost efforts. Continued recovery in core lead acid replacement demand, along with sustained cost management actions, would help drive ~8%/~15% EPS CAGR over FY23-26E (our forward estimates are unchanged). However, uncertainty around the lithium-ion space in terms of adoption rates (e.g., stagnating E-2W penetration levels) and competitive intensity (with large OEMs looking to in-source cells) continues. This, coupled with heavy capex requirements (Rs45bn for Exide's phase-1 lithium plant, apart from the regular Rs5bn/year for the lead acid business vs the Rs10-12bn annual FCF from the core business), compel us to retain HOLD, with revised TP of Rs260/sh (13x FY26E PER, rolled over; previous TP: Rs230).

Exide Industries: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,24,101	1,45,919	1,60,587	1,74,620	1,89,511
EBITDA	13,983	15,680	20,087	22,693	25,167
Adj. PAT	7,651	9,036	11,254	12,194	13,765
Adj. EPS (Rs)	9.0	10.6	13.2	14.3	16.2
EBITDA margin (%)	11.3	10.7	12.5	13.0	13.3
EBITDA growth (%)	3.1	12.1	28.1	13.0	10.9
Adj. EPS growth (%)	517.7	(80.7)	24.5	8.4	12.9
RoE (%)	8.7	8.3	9.7	9.8	10.3
RoIC (%)	19.4	19.3	23.8	26.6	29.1
P/E (x)	29.6	25.1	20.1	18.6	16.4
EV/EBITDA (x)	15.6	14.2	11.5	10.6	9.8
P/B (x)	4.3	4.4	5.0	6.0	7.2
FCFF yield (%)	(2.6)	2.4	4.5	5.1	5.5

Source: Company, Emkay Research

Gross-margin expansion drives operational beat

Revenue grew 10.4% YoY to Rs41.07bn (volume-led). EBITDA grew 17% YoY to Rs4.8bn and EBITDA margin expanded by 67bps YoY/115bps QoQ to 11.8% (Emkay est: 11.0%); this was on the back of gross-margin expansion of ~280bps QoQ. Margin rose YoY, despite lead prices being up 4% due to cost optimization efforts. Overall, adjusted PAT grew 16.6% YoY to Rs2.87bn (~7% above estimate). Exide invested Rs2.75bn in Exide Energy Solutions (EESL; manufacturing of Li-ion cells, modules and packs); total investment in EESL stands at Rs15.3bn, including the Rs4.4bn investment in Oct-23. Company has also taken Board approval to invest another ~Rs11bn in EESL, in one or more tranches in the future, thus taking the total potential equity investment to Rs30bn (approval for investments up to Rs19bn already taken).

Earning calls KTAs

1) OEM demand has picked up, replacement is seeing gradual uptick and will see better momentum going forward; industrial demand is healthy too. 2) Does not foresee decline in the lead acid business due to electrification; for Exide, the overall addressable market is seen growing due to lithium ion. 3) Has started discussions with potential 2W, 4W and telecom customers for lithium ion offtake; expects early-mover advantage to be crucial, as homologation with customers takes ~18months; Exide's homologation process is under way. 4) Lithium ion cell production to initially commence by the end of next year, followed by a period of stabilization and eventual start of actual commercial scale; in lithium ion, Exide aims to eventually achieve margin levels similar to those of the current business. 5) While some OEM clients (especially 4Ws) may look to set up own battery capacities, Exide is confident that others and 2Ws/customers for stationary applications would look to outsource; Exide has a strong growth headroom (would set up a 12GWh capacity in two phases; overall lithium ion demand seen at ~150GWh). 6) Continues to target 14.5-15% EBITDA margin. 7) Capex for Phase 1 of the lithium-ion plant would be ~Rs45bn; core lead acid business would entail annual capex of ~Rs5bn. 7) Packs and modules' order book is at ~Rs6-7bn, and growing; would be executed over 8-12 months.

Target Price – 12M	Sep-24
Change in TP (%)	13.0
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	(2.4)
CMP (08-Nov-23) (Rs)	266.4

Stock Data	Ticker
52-week High (Rs)	280
52-week Low (Rs)	169
Shares outstanding (mn)	850.0
Market-cap (Rs bn)	226
Market-cap (USD mn)	2,719
Net-debt, FY24E (Rs mn)	4,123
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	630.0
ADTV-3M (USD mn)	7.6
Free float (%)	54.0
Nifty-50	19,444
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	46.0
FPIs/MFs (%)	12.8/19.1

Price Performance (%)	1M	3M	12M
Absolute	2.9	2.0	50.6
Rel. to Nifty	4.0	2.6	41.0

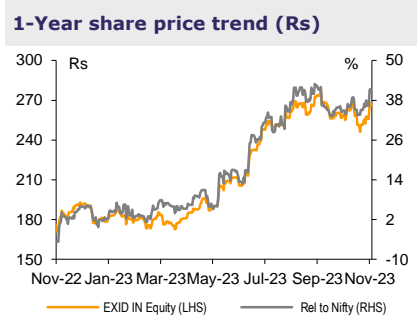
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Exhibit 1: Q2FY24 result snapshot – Gross-margin expansion drives operational beat

(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Change YoY (%)	Change QoQ (%)
Revenue	37,189	34,121	35,430	40,726	41,067	10.4	0.8
Expenditure	33,065	30,111	31,758	36,404	36,235	9.6	(0.5)
<i>as % of sales</i>	88.9	88.2	89.6	89.4	88.2		
Consumption of RM	25,846	23,095	24,857	29,220	28,292	9.5	(3.2)
<i>as % of sales</i>	69.5	67.7	70.2	71.7	68.9		
Employee Cost	2,210	2,147	2,181	2,373	2,561	15.9	7.9
<i>as % of sales</i>	5.9	6.3	6.2	5.8	6.2		
Other expenditure	5,009	4,870	4,720	4,812	5,383	7.5	11.9
<i>as % of sales</i>	13.5	14.3	13.3	11.8	13.1		
EBITDA	4,124	4,010	3,672	4,322	4,831	17.1	11.8
EBITDA margin (%)	11.1	11.8	10.4	10.6	11.8		
Depreciation	1,120	1,153	1,193	1,194	1,259	12.4	5.5
EBIT	3,005	2,858	2,479	3,128	3,572	18.9	14.2
Other Income	356	234	412	192	392	10.1	103.9
Interest	62	82	83	98	115	86.0	17.9
PBT	3,298	3,009	2,808	3,222	3,849	16.7	19.4
Total Tax	836	777	730	803	979	17.1	21.9
Adjusted PAT	2,462	2,232	2,078	2,419	2,870	16.6	18.6
Extra ordinary items Loss/(Gain)	0	0	0	0	0		
Reported PAT	2,462	2,232	2,078	2,419	2,870	16.6	18.6
Adjusted EPS (Rs)	2.9	2.6	2.4	2.8	3.4	16.6	18.6
(%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
EBITDA margin	11.1	11.8	10.4	10.6	11.8	67	115
EBIT margin	8.1	8.4	7.0	7.7	8.7	62	102
EBT margin	8.9	8.8	7.9	7.9	9.4	50	146
PAT margin	6.6	6.5	5.9	5.9	7.0	37	105
Effective Tax rate	25.3	25.8	26.0	24.9	25.4	8	51

Source: Company, Emkay Research

Exhibit 2: Actual vs. Estimates (Q2FY24)

(Rs mn)	Actual	Emkay Est	Var (%)	Consensus	Var (%)
Net Sales	41,067	42,355	(3.0)	40,574	1.2
EBITDA	4,831	4,659	3.7	4,533	6.6
<i>EBITDA margin (%)</i>	<i>11.8</i>	<i>11.0</i>	<i>76 bps</i>	<i>11.2</i>	<i>59 bps</i>
APAT	2,870	2,680	7.1	2,613	9.8
EPS (Rs)	3.4	3.2	7.1	3.1	9.8

Source: Company, Emkay Research

Exhibit 3: Revenue Model – Expect 9%/15% revenue/EPS CAGR over FY23-26E

(Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	98,567	1,00,408	1,24,101	1,45,919	1,60,587	1,74,620	1,89,511
Growth YoY (%)	-6.9	1.9	23.6	17.6	10.1	8.7	8.5
Automotive revenue	69,917	68,992	89,552	1,03,924	1,13,184	1,23,139	1,33,599
Growth YoY (%)	(10)	(1)	30	16	9	9	8
Industrial revenue	28,649	31,112	34,776	41,995	47,403	51,481	55,913
Growth YoY (%)	1	9	12	21	13	9	9
EBITDA	13,650	13,556	13,983	15,680	20,087	22,693	25,167
EBITDA margin (%)	13.8	13.5	11.3	10.7	12.5	13.0	13.3
EBIT	10,024	9,762	9,851	11,122	14,847	17,162	19,371
EBIT margin (%)	10.2	9.7	7.9	7.6	9.2	9.8	10.2
PAT	8,255	7,583	46,841	9,036	11,254	12,194	13,765
PAT margin (%)	8.4	7.6	37.7	6.2	7.0	7.0	7.3
EPS (Rs)	9.9	8.9	9.0	10.6	13.2	14.3	16.2
Capex and strategic investments	3,657	13,171	(2,601)	9,942	19,272	21,500	22,000
% of sales	3.7	13.1	(2.1)	6.8	12.0	12.3	11.6
Post-tax ROCE (%)	12.2	11.3	8.9	8.4	9.9	9.9	9.7

Source: Company, Emkay Research

Exhibit 4: Change in Estimates

(Rs mn)	FY24E				FY25E				FY26E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Revenue	1,60,587	1,60,587	0.0	10.1	1,74,620	1,74,620	0.0	8.7	1,89,511	1,89,511	0.0	8.5
EBITDA	20,080	20,087	0.0	28.1	22,695	22,693	(0.0)	13.0	25,162	25,167	0.0	10.9
- Margin (%)	12.5	12.5	0 bps	176 bps	13.0	13.0	0 bps	49 bps	13.3	13.3	0 bps	28 bps
Net Profit	11,251	11,254	0.0	24.5	12,200	12,194	(0.0)	8.4	13,763	13,765	0.0	12.9
EPS (Rs)	13.2	13.2	0.0	24.5	14.4	14.3	(0.0)	8.4	16.2	16.2	0.0	12.9

Source: Emkay Research

Exhibit 5: Emkay vs. Consensus

(Rs mn)	Emkay			Bloomberg			Difference		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net revenue	1,60,587	1,74,620	1,89,511	1,59,853	1,74,851	1,92,464	0.5%	-0.1%	-1.5%
EBITDA	20,087	22,693	25,167	18,566	21,425	23,900	8.2%	5.9%	5.3%
EBITDA margin (%)	12.5	13.0	13.3	11.6	12.3	12.4	7.7%	6.1%	6.9%
EPS (Rs)	13.2	14.3	16.2	12.7	14.9	16.7	4.3%	-3.7%	-3.1%

Source: Bloomberg, Emkay Research

Exide Industries: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,24,101	1,45,919	1,60,587	1,74,620	1,89,511
Revenue growth (%)	23.6	17.6	10.1	8.7	8.5
EBITDA	13,983	15,680	20,087	22,693	25,167
EBITDA growth (%)	3.1	12.1	28.1	13.0	10.9
Depreciation & Amortization	4,131	4,558	5,240	5,531	5,797
EBIT	9,851	11,122	14,847	17,162	19,371
EBIT growth (%)	0.9	12.9	33.5	15.6	12.9
Other operating income	0	0	0	0	0
Other income	805	1,324	1,059	1,006	1,056
Financial expense	394	295	800	1,800	1,950
PBT	10,262	12,151	15,106	16,368	18,477
Extraordinary items	0	0	0	0	0
Taxes	2,610	3,115	3,852	4,174	4,712
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	46,841	9,036	11,254	12,194	13,765
PAT growth (%)	517.7	(80.7)	24.5	8.4	12.9
Adjusted PAT	7,651	9,036	11,254	12,194	13,765
Diluted EPS (Rs)	9.0	10.6	13.2	14.3	16.2
Diluted EPS growth (%)	517.7	(80.7)	24.5	8.4	12.9
DPS (Rs)	2.0	2.0	4.0	4.3	4.9
Dividend payout (%)	3.6	18.8	30.0	30.0	30.0
EBITDA margin (%)	11.3	10.7	12.5	13.0	13.3
EBIT margin (%)	7.9	7.6	9.2	9.8	10.2
Effective tax rate (%)	25.4	25.6	25.5	25.5	25.5
NOPLAT (pre-IndAS)	7,345	8,271	11,061	12,786	14,431
Shares outstanding (mn)	850.0	850.0	850.0	850.0	850.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	10,262	12,151	15,106	16,368	18,477
Others (non-cash items)	(43,044)	5,063	5,834	7,105	7,494
Taxes paid	(10,472)	(3,115)	(3,852)	(4,174)	(4,712)
Change in NWC	(3,479)	(5,615)	(1,741)	(1,507)	(1,552)
Operating cash flow	204	8,484	15,347	17,792	19,708
Capital expenditure	(5,783)	(3,215)	(5,000)	(5,500)	(6,000)
Acquisition of business	8,384	(6,728)	(14,272)	(16,000)	(16,000)
Interest & dividend income	129	0	0	0	0
Investing cash flow	2,754	(8,878)	(19,066)	(21,273)	(21,748)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	0	0	10,000	10,000	10,000
Payment of lease liabilities	(303)	(303)	(303)	(303)	(303)
Interest paid	(149)	(55)	(800)	(1,800)	(1,950)
Dividend paid (incl tax)	(1,700)	0	(3,376)	(3,658)	(4,130)
Others	(105)	(117)	303	303	303
Financing cash flow	(2,257)	(475)	5,824	4,541	3,920
Net chg in Cash	701	(870)	2,104	1,060	1,880
OCF	204	8,484	15,347	17,792	19,708
Adj. OCF (w/o NWC chg.)	3,684	14,099	17,088	19,299	21,260
FCFF	(5,579)	5,269	10,347	12,292	13,708
FCFE	(5,844)	4,974	9,547	10,492	11,758
OCF/EBITDA (%)	1.5	54.1	76.4	78.4	78.3
FCFE/PAT (%)	(12.5)	55.0	84.8	86.0	85.4
FCFF/NOPLAT (%)	(75.9)	63.7	93.5	96.1	95.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	850	850	850	850	850
Reserves & Surplus	1,05,131	1,11,248	1,19,125	1,27,661	1,37,296
Net worth	1,05,981	1,12,098	1,19,975	1,28,511	1,38,146
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(654)	(1,160)	(1,160)	(1,160)	(1,160)
Total debt	0	0	10,000	20,000	30,000
Total liabilities & equity	1,05,327	1,10,938	1,28,815	1,47,351	1,66,986
Net tangible fixed assets	23,976	24,891	24,651	24,620	24,823
Net intangible assets	356	257	257	257	257
Net ROU assets	3,354	3,354	3,354	3,354	3,354
Capital WIP	3,124	1,009	1,009	1,009	1,009
Goodwill	0	0	0	0	0
Investments [JV/Associates]	53,658	60,386	74,658	90,658	1,06,658
Cash & equivalents	8,642	3,773	5,877	6,936	8,816
Current assets (ex-cash)	39,816	45,681	50,271	54,691	59,390
Current Liab. & Prov.	27,657	28,413	31,262	34,175	37,321
NWC (ex-cash)	12,158	17,268	19,009	20,516	22,069
Total assets	1,05,327	1,10,938	1,28,815	1,47,351	1,66,986
Net debt	(8,642)	(3,773)	4,123	13,064	21,184
Capital employed	1,05,327	1,10,938	1,28,815	1,47,351	1,66,986
Invested capital	39,904	45,770	47,271	48,748	50,503
BVPS (Rs)	61.6	60.8	53.3	44.5	37.0
Net Debt/Equity (x)	(0.1)	0.0	0.0	0.1	0.2
Net Debt/EBITDA (x)	(0.6)	(0.2)	0.2	0.6	0.8
Interest coverage (x)	0.0	0.0	0.1	0.1	0.1
RoCE (%)	8.9	8.4	9.9	9.9	9.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	29.6	25.1	20.1	18.6	16.4
P/CE(x)	19.2	16.7	13.7	12.8	11.6
P/B (x)	4.3	4.4	5.0	6.0	7.2
EV/Sales (x)	1.8	1.5	1.4	1.4	1.3
EV/EBITDA (x)	15.6	14.2	11.5	10.6	9.8
EV/EBIT(x)	22.1	20.0	15.5	14.0	12.8
EV/IC (x)	5.5	4.9	4.9	4.9	4.9
FCFF yield (%)	(2.6)	2.4	4.5	5.1	5.5
FCFE yield (%)	(2.6)	2.2	4.2	4.6	5.2
Dividend yield (%)	0.8	0.8	1.5	1.6	1.8
DuPont-RoE split					
Net profit margin (%)	6.2	6.2	7.0	7.0	7.3
Total asset turnover (x)	1.4	1.3	1.3	1.3	1.2
Assets/Equity (x)	1.0	1.0	1.0	1.1	1.2
RoE (%)	8.7	8.3	9.7	9.8	10.3
DuPont-RoIC					
NOPLAT margin (%)	5.9	5.7	6.9	7.3	7.6
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	19.4	19.3	23.8	26.6	29.1
Operating metrics					
Core NWC days	35.8	43.2	43.2	42.9	42.5
Total NWC days	35.8	43.2	43.2	42.9	42.5
Fixed asset turnover	2.8	2.9	2.9	2.9	2.9
Opex-to-revenue (%)	19.6	19.4	18.6	18.3	18.0

Source: Company, Emkay Research

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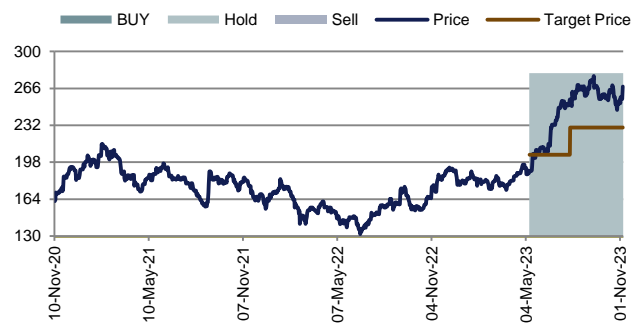
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
28-Jul-23	251	230	Hold	Chirag Jain
11-May-23	190	205	Hold	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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