

HOLD Amara Raja Energy & Mobility

Your success is our success

Muted growth though on expected lines

Auto & Auto Ancillaries ▶ Result Update ▶ November 2, 2023

TARGET PRICE (Rs): 615

AMRJ's Q2 reported in-line performance with revenue/EBITDA growth of 4%/7% YoY. We have built in ~9%/~9% revenue/EBITDA CAGR over FY24-26E, factoring in continued recovery in the base lead acid business (amid a modest uptick in replacement demand and stability in raw-material prices). We have tweaked our FY24E/FY25E/FY26E EPS by 1%. Importantly, SOP for phase-1 of lithium cell capacity (2 GWh) remains at least two years away (AMRJ plans 16 GWh by 2032), hence immediate triggers on the new technology front remain absent. We retain our HOLD rating with a revised TP of Rs615 at unchanged 11x P/E (roll-fwd. to FY26E). Key upside risk: Large order wins in lithium cells. Key downside risk: Adverse commodity prices.

Amara Raja Energy & Mobility: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	86,958	1,03,859	1,12,846	1,23,996	1,34,067
EBITDA	10,232	13,552	15,347	16,987	18,300
Adj. PAT	5,118	7,421	8,307	9,132	9,551
Adj. EPS (Rs)	30.0	43.4	48.6	53.5	55.9
EBITDA margin (%)	11.8	13.0	13.6	13.7	13.7
EBITDA growth (%)	(8.3)	32.4	13.2	10.7	7.7
Adj. EPS growth (%)	(20.9)	45.0	11.9	9.9	4.6
RoE (%)	11.7	15.1	14.7	14.3	13.3
RoIC (%)	13.2	16.8	16.4	16.5	15.7
P/E (x)	20.6	14.2	12.7	11.6	11.1
EV/EBITDA (x)	10.3	7.7	6.7	6.1	5.6
P/B (x)	2.3	2.0	1.8	1.6	1.4
FCFF yield (%)	(1.2)	4.6	5.0	3.7	5.0

Source: Company, Emkay Research

Steady performance; to invest further Rs5bn in lithium-ion subsidiary

AMRJ's revenue grew by 4.1% YoY to Rs28.1bn (Emkay est.: Rs29bn; Consensus est.: Rs28.9bn), ~3% below estimates. EBITDA grew 7.4% YoY to Rs3.87bn, in line with Emkay estimates (Rs3.83bn) and ~2% above Consensus estimates (~Rs3.8bn). EBITDA margin expanded by 42bps YoY (101bps QoQ) to 13.8%(Emkay est.: 13.2%; Consensus est.: 13.1%). Sequential gross margin expansion was chiefly on account of lower raw-material cost, with gross margin up ~270bps QoQ. EBITDA margin expansion was restricted by higher other expenses. PAT grew by 6% YoY to Rs2.1bn, ~3.5% above Emkay/Consensus estimates. The company has declared an interim dividend of Rs4.8/share for FY24. The company further plans to invest of Rs5bn in its wholly owned lithium-ion battery subsidiary, Amara Raja Cell Technologies.

Earnings call KTAs

i) 2W/4W aftermarket grew by 12%/8% YoY, while the 2W/4W OEM segment grew by modest 2%/3% YoY; overall, the 2W segment grew by 6.5%; AMRJ's OEM market share remains stable at 35-36%, telecom grew by 9% due to an uptick in demand owing to the 5G network's growth; the inverter segment witnessed a decline of 11%. ii) Can register >15% margin, if lead prices drop to Rs175/kg (vs. Rs200/kg now). iii) Rs15bn combined capex envisaged for Phase-1 of the lithium ion facility (2GWh), initial pilot facility (for customer validation, etc.) and research lab; Rs2-3bn to be spent this year; the balance to be spent by FY26E; iv) Management expects Phase 1 of the lead recycle plant (smelters) with 100k MT capacity to start production from Q1FY25, which will lead to savings of at least 1-2% on raw-material cost; v) Expects 10-11% growth in the export market in FY24; vi) Would evaluate participating in the proposed 20GWh re-auction of the PLI scheme if conditions are reasonable; vii) Slight uptick seen in lead prices and currency depreciation but raw-material prices are stable QoQ.

Target Price – 12M	Sep-24
Change in TP (%)	4.3
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	(0.5)
CMP (01-Nov-23) (Rs)	617.9

Stock Data	Ticker
52-week High (Rs)	709
52-week Low (Rs)	509
Shares outstanding (mn)	170.8
Market-cap (Rs bn)	106
Market-cap (USD mn)	1,267
Net-debt, FY24E (Rs mn)	-2,275
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	427.4
ADTV-3M (USD mn)	5.1
Free float (%)	71.9
Nifty-50	18,989
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	28.1
FPIs/MFs (%)	24.6/16.8

Price Performance

(%)	1M	3M	12M
Absolute	(3.1)	(3.7)	19.9
Rel. to Nifty	0.3	0.1	14.6

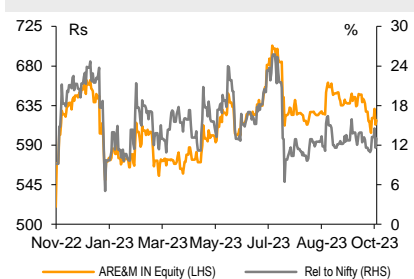
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Exhibit 1: Actual vs. Estimates

Rs mn	Actual	Estimated	Variance (%)	Consensus	Variance (%)
Net sales	28,108	29,084	(3.4)	28,979	(3.0)
EBITDA	3,870	3,839	0.8	3,761	2.9
EBITDA margin (%)	13.8	13.2	57 bps	13.0	79 bps
Adj net income	2,143	2,071	3.5	2,050	4.5
FDEPS (Rs)	12.5	12.1	3.5	12.0	4.5

Source: Company, Emkay Research

Exhibit 2: Quarterly performance table

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ(%)
Revenue	26,995	26,372	24,292	27,699	28,108	4.1	1.5
Expenditure	23,393	22,404	20,920	24,165	24,238	3.6	0.3
As a % of sales	86.7	85.0	86.1	87.2	86.2		
Consumption of RM	18,766	17,575	16,282	19,695	19,230	2.5	(2.4)
As a % of sales	69.5	66.6	67.0	71.1	68.4		
Employee Cost	1,506	1,604	1,464	1,611	1,617	7.4	0.4
As a % of sales	5.6	6.1	6.0	5.8	5.8		
Other expenditure	3,120	3,225	3,173	2,859	3,390	8.7	18.6
As a % of sales	11.6	12.2	13.1	10.3	12.1		
EBITDA	3,602	3,969	3,373	3,535	3,870	7.4	9.5
EBITDA margin (%)	13.3	15.0	13.9	12.8	13.8		
Depreciation	1,019	1,145	1,145	1,111	1,148	12.7	3.4
EBIT	2,583	2,823	2,228	2,424	2,721	5.4	12.3
Other Income	237	261	226	216	275	16.3	27.7
Interest	54	58	62	56	62	14.5	10.5
PBT	2,765	3,026	2,392	2,584	2,935	6.1	13.6
Total Tax	744	798	535	659	791	6.4	20.1
Adjusted PAT	2,022	2,228	1,856	1,925	2,143	6.0	11.3
Extraordinary items Loss/(Gain)	0	0	-477	0	0		
Reported PAT	2,022	2,228	2,333	1,925	2,143	6.0	11.3
Adjusted EPS (Rs)	11.8	13.0	10.9	11.3	12.5	6.0	11.3

Margins (%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
EBIDTA	13.3	15.0	13.9	12.8	13.8	42	101
EBIT	9.6	10.7	9.2	8.8	9.7	11	93
EBT	10.2	11.5	9.8	9.3	10.4	20	111
PAT	7.5	8.4	7.6	6.9	7.6	14	68
Effective Tax rate	26.9	26.4	22.4	25.5	27.0	8	147

Source: Company, Emkay Research

Exhibit 3: Change in Estimates

Rs mn	FY24E				FY25E				FY26E			
	Earlier	Revised	Chg. (%)	YoY (%)	Earlier	Revised	Chg. (%)	YoY (%)	Earlier	Revised	Chg. (%)	YoY (%)
Net Sales	115,709	112,846	(2.5)	8.7	124,900	123,996	(0.7)	9.9	133,506.0	134,067	0.4	8.1
EBITDA	15,274	15,347	0.5	13.2	17,111	16,987	(0.7)	10.7	18,224	18,300	0.4	7.7
Margin (%)	13.2	13.6	40 bps	55 bps	13.7	13.7	(0) bps	10 bps	13.7	13.7	(0) bps	(5) bps
APAT	8,218	8,307	1.1	19.6	9,164	9,132	(0.4)	9.9	9,440	9,551	1.2	4.6
EPS (Rs)	48.1	48.6	1.1	19.6	53.7	53.5	(0.4)	9.9	55.3	55.9	1.2	4.6

Source: Company, Emkay Research

Exhibit 4: Revenue Model

Revenue mix	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR % FY24E-26E
Automotive (2W and 4W)	45,044	56,001	68,049	72,635	79,726	85,818	9
Growth (%)	5	24	22	7	10	8	
- OEM	7,180	9,168	11,548	11,972	12,900	13,894	8
Growth (%)	(3)	28	26	4	8	8	
- Aftermarket	37,865	46,833	56,501	60,663	66,826	71,924	9
Growth (%)	7	24	21	7	10	8	
Industrial	24,099	28,298	31,632	34,143	36,873	39,841	8
Growth (%)	3	17	12	8	8	8	
Others	2,353	2,589	4,179	6,068	7,397	8,408	18
Growth (%)	6	10	61	45	22	14	
Total Revenue	71,497	86,888	1,03,860	112,846	123,996	134,067	9
Growth (%)	5	22	20	9	10	8	

Source: Company, Emkay Research

Exhibit 5: Change in estimates

Rs mn	FY24E				FY25E				FY26E			
	Earlier	Revised	Chg. (%)	YoY (%)	Earlier	Revised	Chg. (%)	YoY (%)	Earlier	Revised	Chg. (%)	YoY (%)
Net Sales	115,709	112,846	(2.5)	8.7	124,900	123,996	(0.7)	9.9	133,506.0	134,067	0.4	8.1
EBITDA	15,274	15,347	0.5	13.2	17,111	16,987	(0.7)	10.7	18,224	18,300	0.4	7.7
Margin (%)	13.2	13.6	40 bps	55 bps	13.7	13.7	(0) bps	10 bps	13.7	13.7	(0) bps	(5) bps
APAT	8,218	8,307	1.1	19.6	9,164	9,132	(0.4)	9.9	9,440	9,551	1.2	4.6
EPS (Rs)	48.1	48.6	1.1	19.6	53.7	53.5	(0.4)	9.9	55.3	55.9	1.2	4.6

Source: Company, Emkay Research

Amara Raja Energy & Mobility:Standalone Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	86,958	1,03,859	1,12,846	1,23,996	1,34,067
Revenue growth (%)	21.6	19.4	8.7	9.9	8.1
EBITDA	10,232	13,552	15,347	16,987	18,300
EBITDA growth (%)	(8.3)	32.4	13.2	10.7	7.7
Depreciation & Amortization	3,957	4,272	4,838	5,415	6,260
EBIT	6,275	9,280	10,509	11,573	12,040
EBIT growth (%)	(21.2)	47.9	13.2	10.1	4.0
Other operating income	0	0	0	0	0
Other income	780	893	933	991	1,095
Financial expense	151	221	216	223	227
PBT	6,904	9,952	11,225	12,341	12,907
Extraordinary items	0	0	0	0	0
Taxes	1,786	2,532	2,919	3,209	3,356
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	5,118	7,421	8,307	9,132	9,551
PAT growth (%)	(20.9)	45.0	11.9	9.9	4.6
Adjusted PAT	5,118	7,421	8,307	9,132	9,551
Diluted EPS (Rs)	30.0	43.4	48.6	53.5	55.9
Diluted EPS growth (%)	(20.9)	45.0	11.9	9.9	4.6
DPS (Rs)	4.5	6.1	7.3	8.0	8.4
Dividend payout (%)	15.0	14.0	15.0	15.0	15.0
EBITDA margin (%)	11.8	13.0	13.6	13.7	13.7
EBIT margin (%)	7.2	8.9	9.3	9.3	9.0
Effective tax rate (%)	25.9	25.4	26.0	26.0	26.0
NOPLAT (pre-IndAS)	4,652	6,919	7,776	8,564	8,909
Shares outstanding (mn)	170.8	170.8	170.8	170.8	170.8

Source: Company, Emkay Research

Cash Flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	6,904	9,952	11,225	12,341	12,907
Others (non-cash items)	3,701	4,568	4,838	5,415	6,260
Taxes paid	(1,993)	(2,401)	(2,919)	(3,209)	(3,356)
Change in NWC	(2,406)	(2,529)	(1,195)	(1,416)	(1,332)
Operating cash flow	6,330	9,259	12,154	13,340	14,666
Capital expenditure	(7,598)	(4,459)	(7,000)	(9,500)	(9,500)
Acquisition of business	2,135	(2,543)	(2,500)	(2,500)	(3,500)
Interest & dividend income	47	17	0	0	0
Investing cash flow	(4,819)	(7,704)	(9,487)	(11,987)	(12,959)
Equity raised/(repaid)	(110)	(69)	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(250)	(267)	0	0	0
Interest paid	(67)	(88)	(216)	(223)	(227)
Dividend paid (incl tax)	(1,708)	(581)	(1,246)	(1,370)	(1,433)
Others	(598)	(89)	0	0	0
Financing cash flow	(2,733)	(1,093)	(1,462)	(1,593)	(1,660)
Net chg in Cash	(1,222)	462	1,205	(239)	47
OCF	6,330	9,259	12,154	13,340	14,666
Adj. OCF (w/o NWC chg.)	8,736	11,789	13,349	14,757	15,999
FCFF	(1,268)	4,800	5,154	3,840	5,166
FCFE	(1,372)	4,596	4,938	3,617	4,939
OCF/EBITDA (%)	61.9	68.3	79.2	78.5	80.1
FCFE/PAT (%)	(26.8)	61.9	59.4	39.6	51.7
FCFF/NOPLAT (%)	(27.3)	69.4	66.3	44.8	58.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	171	171	171	171	171
Reserves & Surplus	45,343	52,808	59,868	67,631	75,749
Net worth	45,514	52,978	60,039	67,801	75,920
Minority interests	0	0	0	0	0
Deferred tax liability (net)	314	728	728	728	728
Total debt	234	165	165	165	165
Total liabilities & equity	46,062	53,872	60,932	68,695	76,813
Net tangible fixed assets	21,276	24,600	26,761	30,846	34,086
Net intangible assets	795	659	659	659	659
Net ROU assets	2,852	3,710	3,710	3,710	3,710
Capital WIP	8,297	2,337	2,337	2,337	2,337
Goodwill	0	0	0	0	0
Investments [JV/Associates]	431	4,622	7,122	9,622	12,122
Cash & equivalents	883	1,236	2,440	2,201	3,248
Current assets (ex-cash)	29,226	33,827	36,403	39,508	42,387
Current Liab. & Prov.	17,697	17,119	18,501	20,190	21,736
NWC (ex-cash)	11,529	16,708	17,902	19,318	20,651
Total assets	46,062	53,872	60,932	68,695	76,813
Net debt	(649)	(1,071)	(2,275)	(2,036)	(3,083)
Capital employed	46,062	53,872	60,932	68,695	76,813
Invested capital	36,452	45,677	49,033	54,534	59,106
BVPS (Rs)	266.5	310.2	351.5	396.9	444.5
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Net Debt/EBITDA (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	11.4	14.7	14.5	14.1	13.1

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	20.6	14.2	12.7	11.6	11.1
P/CE(x)	11.6	9.0	8.0	7.3	6.7
P/B (x)	2.3	2.0	1.8	1.6	1.4
EV/Sales (x)	1.2	1.0	0.9	0.8	0.8
EV/EBITDA (x)	10.3	7.7	6.7	6.1	5.6
EV/EBIT(x)	16.7	11.3	9.8	8.9	8.5
EV/IC (x)	2.9	2.3	2.1	1.9	1.7
FCFF yield (%)	(1.2)	4.6	5.0	3.7	5.0
FCFE yield (%)	(1.3)	4.4	4.7	3.4	4.7
Dividend yield (%)	0.7	1.0	1.2	1.3	1.4
DuPont-RoE split					
Net profit margin (%)	5.9	7.1	7.4	7.4	7.1
Total asset turnover (x)	2.0	2.1	2.0	1.9	1.8
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	11.7	15.1	14.7	14.3	13.3
DuPont-RoIC					
NOPLAT margin (%)	5.3	6.7	6.9	6.9	6.6
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	13.2	16.8	16.4	16.5	15.7
Operating metrics					
Core NWC days	48.4	58.7	57.9	56.9	56.2
Total NWC days	48.4	58.7	57.9	56.9	56.2
Fixed asset turnover	2.1	2.3	2.1	2.0	1.9
Opex-to-revenue (%)	17.8	17.8	17.4	17.4	17.4

Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
15-Aug-23	614	590	Hold	Chirag Jain
24-May-23	617	590	Hold	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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