Amara Raja

Estimate changes	↓
TP change	↓
Rating change	↔

Bloomberg	ARENM IN
Equity Shares (m)	183
M.Cap.(INRb)/(USDb)	157.7 / 1.7
52-Week Range (INR)	1109 / 805
1, 6, 12 Rel. Per (%)	-3/-15/-26
12M Avg Val (INR M)	563

Financials & Valuations (INR b)

Y/E March	2026E	2027E	2028E
Sales	134.8	146.4	159.1
EBITDA	15.5	17.9	20.0
Adj. PAT	7.8	8.9	10.0
EPS (INR)	42.6	48.5	54.9
EPS Gr. (%)	-11.6	13.9	13.1
BV/Sh. (INR)	441	480	525
Ratios			
RoE (%)	10.1	10.5	10.9
RoCE (%)	9.9	10.4	10.7
Payout (%)	17.5	18.5	19.1
Valuations			
P/E (x)	20.2	17.8	15.7
P/BV (x)	2.0	1.8	1.6
Div. Yield (%)	1.0	1.1	1.3
FCF yield (%)	4.5	5.4	6.5

Shareholding pattern (%)

As On	Dec-25	Sep-25	Dec-24
Promoter	32.9	32.9	32.9
DII	17.1	16.2	14.8
FII	17.4	18.0	21.8
Others	32.6	32.9	30.5

FII Includes depository receipts

CMP: INR861 TP: INR891 (+3%) Neutral

Weak performance in 3Q

Earmarks fresh investments for the BESS opportunity

- Amara Raja's (ARENM) 3QFY26 PAT at INR1.8b came in well below our estimate of INR2.1b. The earnings miss was due to a slower-than-expected demand and sustained margin pressure.
- Given the continued margin pressure seen in 3Q, we cut our FY26/FY27 EPS estimates by 5%/4%. 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 17.8x FY27E/15.7x FY28E EPS, appears fairly valued. **We reiterate our Neutral rating with a TP of INR891, based on 15x standalone EPS and INR92/sh value of the investment in the New Energy business.**

Margins continue to be under pressure

- ARENM's 3QFY26 revenue grew ~6% YoY to INR33.5b, below our estimate of INR35.1b. Revenue growth was muted due to a 40% YoY dip in telecom, slower replacement demand over a high base, and weak export demand.
- New energy business revenue doubled YoY to INR1.2b, aided by robust demand for Li-ion telecom battery packs. The revenue from lead acid and allied products was flat YoY at INR31.7b.
- While the 4W OEM segment saw a healthy 25% YoY growth, overall auto replacement growth was muted over a high base. Exports also witnessed weak demand due to heightened competition. The industrial, ex-telecom segment, posted a 2% YoY growth.
- EBITDA margin dipped ~200bp YoY to 11.2%, below our estimate of 12.2%. The margin miss was led by higher input costs, adverse mix, and higher provision for warranty and EPR. EBITDA declined ~10% YoY to INR3.7b.
- During the quarter, AMRJ faced a one-time extraordinary expense of INR438m as provisions against changes in the labor code.
- Adjusted for this, PAT declined 20.1% YoY to INR1.8b (well below our estimate of INR2.1b).
- The 9MFY26 revenue/EBITDA/PAT stood at +7%/-9.3%/-17.5% at INR101b/INR11.7b/INR5.9b.

Highlights from the management commentary

- ARENM's 3Q growth was muted due to a 40% YoY dip in telecom, slower replacement demand over a high base, and weak export demand.
- Margin pressure continued in 3Q due to higher input costs, adverse mix, and higher provision for warranty and EPR.
- To mitigate the rising cost impact, the company has taken ~2% price hike with effect from the first week of January.
- Over the medium term, management reiterated its intent to restore operating margins toward the 13–14% range, subject to normalization in input costs.

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- Capex guidance for FY6 stands at INR 7.5-8b for the lead acid business. For FY27, lead-acid business capex is expected to normalize to INR3-4b, while new energy capex could increase to INR10b.
- Market size for the BESS application is expected to be 30 GWh by FY31. For the same, they are setting up a battery pack assembly line of 5GWh to cater to this demand at an estimated capex of INR 2.8b.

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 17.8x FY27E/15.7x FY28E EPS, appears fairly valued. **We reiterate our Neutral rating with a TP of INR891, based on 15x standalone EPS and INR92/sh value of the investment in the New Energy business**.

Quarterly Performance- SA **(INR m)**

Y/E March (INR m)	FY25				FY26E				FY25	FY26E	3QE	VAR
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				(%)
Net Sales	**31,312**	**31,358**	**31,640**	**29,739**	**33,499**	**33,882**	**33,508**	**33,915**	**124,049**	**134,804**	**35,121**	**-4.6**
YoY Change (%)	13.0	11.6	9.8	6.3	7.0	8.0	5.9	14.0	10.2	8.7	11.0	
RM Cost (% of sales)	68.9	67.6	66.9	67.7	70.5	67.2	68.2	68.2	67.8	68.6	68.2	0bp
Staff Cost (% of sales)	5.9	6.1	6.0	6.1	5.9	6.6	6.1	6.0	6.0	6.2	6.4	-30bp
Other Exp (% of sales)	11.5	12.2	13.9	14.7	12.0	14.2	14.5	14.5	13.1	13.8	13.2	130bp
EBITDA	**4,304**	**4,407**	**4,158**	**3,422**	**3,867**	**4,059**	**3,745**	**3,818**	**16,291**	**15,489**	**4,285**	**-12.6**
Margins (%)	13.7	14.1	13.1	11.5	11.5	12.0	11.2	11.3	13.1	11.5	12.2	-100bp
Depreciation	1,183	1,220	1,233	1,284	1,292	1,380	1,409	1,427	4,921	5,508	1,450	**-2.8**
Interest	90	131	107	95	104	83	87	89	422	362	80	**8.6**
Other Income	256	185	293	200	139	241	263	243	933	886	180	**46.3**
PBT before EO expense	**3,287**	**3,240**	**3,111**	**2,244**	**2,610**	**2,838**	**2,513**	**2,545**	**11,881**	**10,505**	**2,935**	**-14.4**
Extra-Ord expense	0	0	-1,111	0	0	-1,218	438	0	-1,111	-780	0	
PBT after EO	**3,287**	**3,240**	**4,222**	**2,244**	**2,610**	**4,056**	**2,075**	**2,545**	**12,992**	**11,285**	**2,935**	**-29.3**
Tax	841	833	1,103	576	670	1,032	558	652	3,353	2,912	763	
Tax Rate (%)	25.6	25.7	26.1	25.7	25.7	25.4	26.9	25.6	25.8	25.8	26.0	
Adj PAT	**2,446**	**2,407**	**2,298**	**1,668**	**1,940**	**2,116**	**1,842**	**1,893**	**8,815**	**7,795**	**2,172**	**-15.2**
YoY Change (%)	23.1	6.3	-9.1	-26.8	-20.7	-12.1	-19.8	13.5	-2.7	-11.6	-5.5	

E: MOFSL Estimates

CONFERENCE CALL

Key takeaways from the management commentary

Result highlights

- The lead-acid battery business contributed ~93% of total consolidated revenues at INR31.7b (flat YoY), while the new energy business accounted for the balance INR2.4b (doubled YoY), with continued scale-up momentum.
- The lead-acid segment reported a muted topline, largely due to a sharp decline in telecom volumes and lower automotive export sales.
- Telecom lead-acid volumes declined ~40% YoY, with revenue contribution reducing to less than 5% of overall lead-acid revenues, driven entirely by the continued migration to lithium-ion.
- Combined lead-acid and lithium market share in telecom remains strong at ~55%.
- The Industrial business ex-telecom posted 2% YoY growth
- The home inverter segment recorded ~10% YoY growth, supported by steady replacement demand.
- The UPS segment posted 5% YoY growth
- The lubes business continues to clock in INR500m in revenue
- The growth in the new energy business was supported by strong demand for telecom lithium packs.
- Standalone operating margin stood at 11.2%. However, only the lead acid business margin stood at 12.3% for 3Q, stable QoQ despite the surge in input costs.
- Lead recycling operations contributed ~60 bps margin accretion during the quarter, with further benefits expected as battery breaking operations commence from Q4 FY26.
- Margin pressure continued in Q3 due to higher input costs (sulphuric acid, as well as non-lead components). An adverse mix in 3Q in favor of OEMs also led to a margin impact. Further, the sustained impact of higher warranty and EPR-related provisions continued drive margin pressure.
- To mitigate the rising cost impact, the company has taken ~2% price hike with effect from the first week of January.
- Improved seasonal demand and higher internal manufacturing of tubular batteries could help mitigate margin pressure in Q4FY26.
- Over the medium term, management reiterated its intent to restore operating margins toward the 13–14% range, subject to normalization in input costs.

Auto Segment

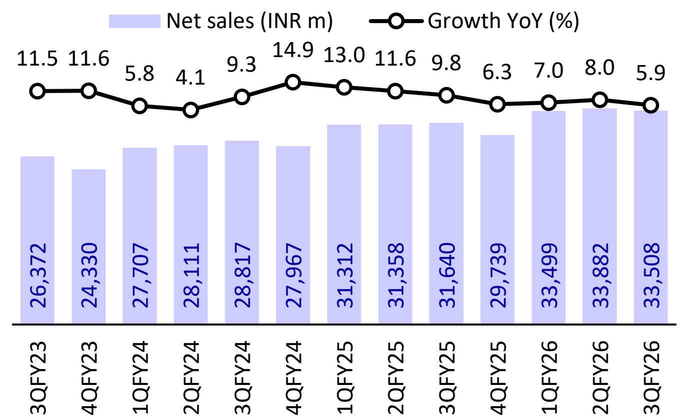
- Four-wheeler OEM volumes grew ~25% YoY. Four-wheeler aftermarket volumes grew ~3% YoY, impacted by a high base YoY.
- Two-wheeler OEM and aftermarket volumes were largely flat (~1% YoY), driven by a higher base in the aftermarket and temporary shutdowns at select OEM plants during the quarter.
- Automotive export volumes declined ~15% YoY, primarily due to tariff-related disruptions, geopolitical uncertainties, and heightened competition in key export markets like the Middle East and APAC.
- Management highlighted that there was no material change in market share across OEM and aftermarket channels.

Capex guidance

- AMRJ has invested INR 2b in the New Energy business in 3Q, and the cumulative investment in this business to date stands at INR14b
- They have so far invested INR 9.5b for 9MFY26 in capex, of which INR 6b has been in the lead acid business. For FY26, capex for the lead-acid business is expected to be at INR7.5-8.b. However, part of this is likely to be funded by the insurance refund received on the tubular battery fire incident.
- For FY27, lead-acid business capex is expected to normalize to INR3-4b, while new energy capex could increase to INR10b, reflecting accelerated investments in lithium and energy storage.
- Market size for the BESS application is expected to be 30 GWh by FY31. For the same, they are setting up a battery pack assembly line of 5GWh to cater to this demand at an estimated capex of INR 2.8b. This plant is targeted to be operational by end-FY27, positioning the company to benefit from India's expanding solar and grid-scale storage opportunity. Asset turns in this business can be significantly high at 9-10x, and will largely depend on the end-use application. While margins are likely to be relatively lower, this business is expected to be highly returns accretive at scale, given the low capex.

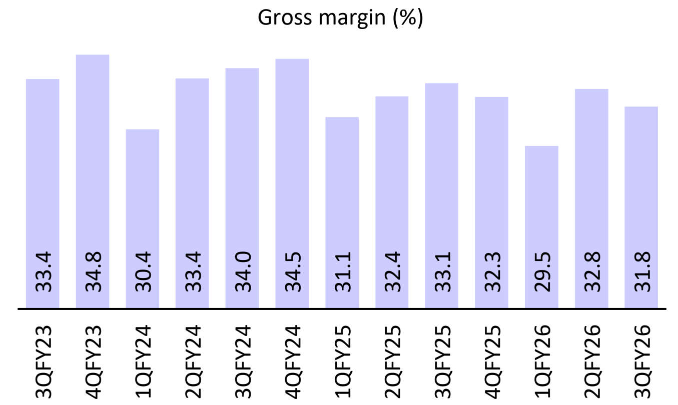
Key exhibits

Exhibit 1: Trends in revenue and growth



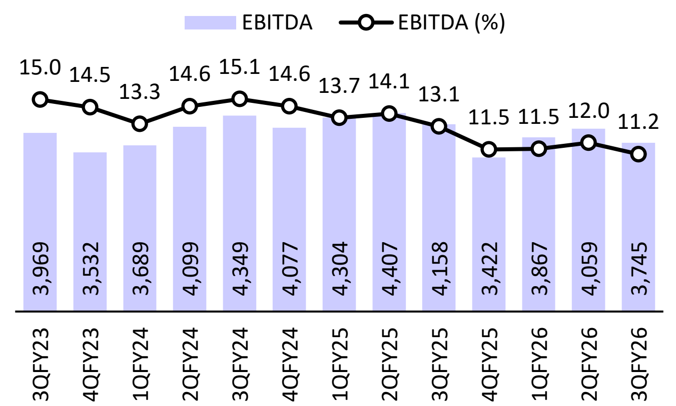
Source: Company, MOFSL

Exhibit 2: Gross margin hit by RM cost inflation



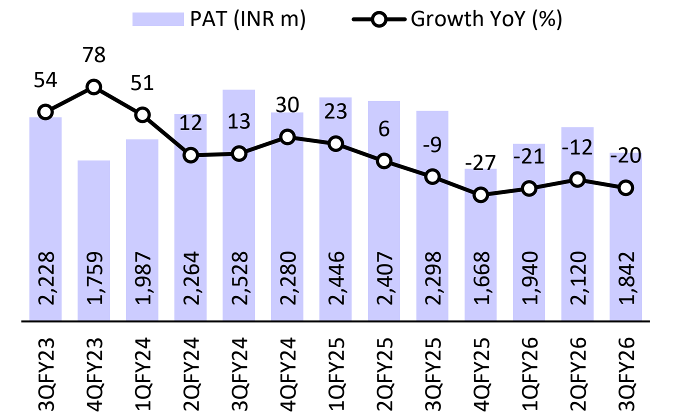
Source: Company, MOFSL

Exhibit 3: Trends in EBITDA and EBITDA margin



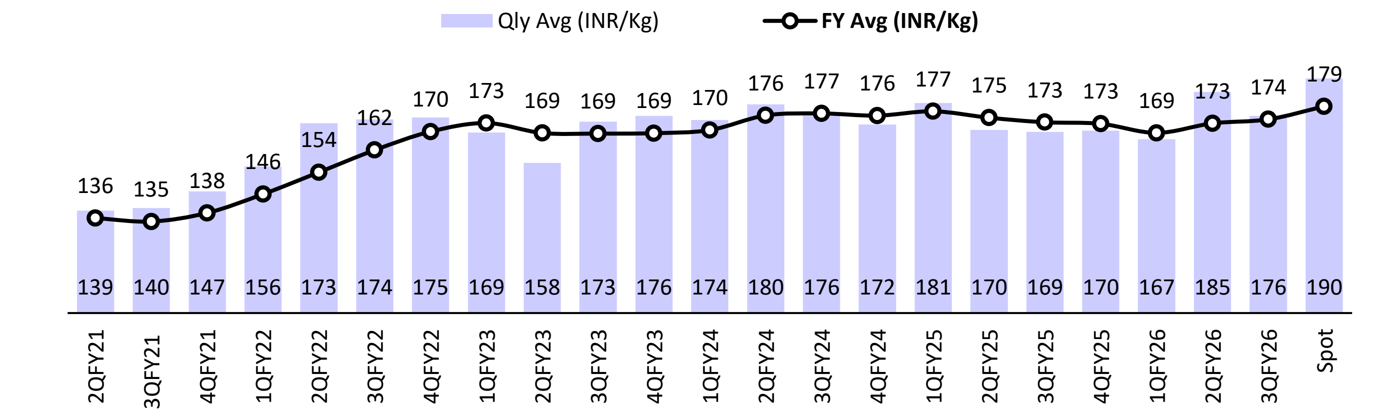
Source: Company, MOFSL

Exhibit 4: PAT and growth trends



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 (ex-telecom) 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 major Chinese player. 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 have their own lithium-ion manufacturing plans or have 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:** Given the continued margin pressure seen in Q3, we cut our FY26/FY27 EPS estimates by 5%/4%. 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 17.8x FY27E/15.7x FY28E EPS, appears fairly valued. **We reiterate our Neutral rating with a TP of INR891, based on 15x standalone EPS and INR92/sh value of the investment in the New Energy business.**

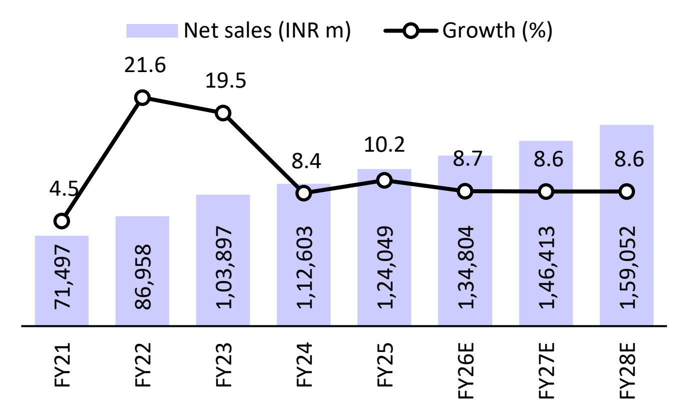
Exhibit 6: Revisions to our estimates

(INR M)	FY26E			FY27E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	134,804	136,441	-1.2	146,413	148,170	-1.2
EBITDA (%)	11.5	12.0	-3.8	12.2	12.5	-30bp
Net Profit	7,795	8,182	-4.7	8,881	9,260	-4.1
EPS (INR)	42.6	44.7	-4.7	48.5	50.6	-4.1

Source: MOFSL

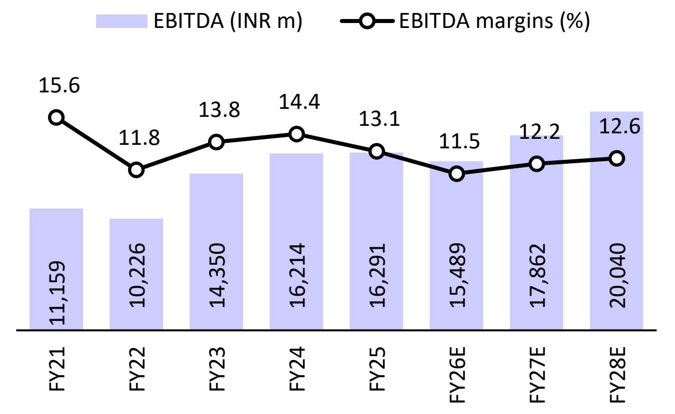
Story in charts

Exhibit 7: Trend in revenue



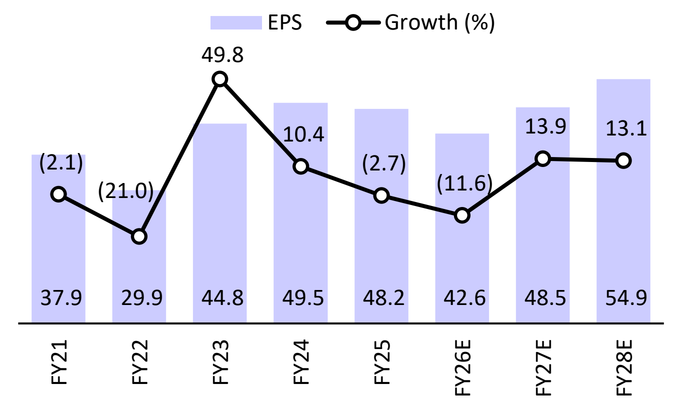
Source: Company, MOFSL

Exhibit 8: EBITDA and EBITDA margin trends



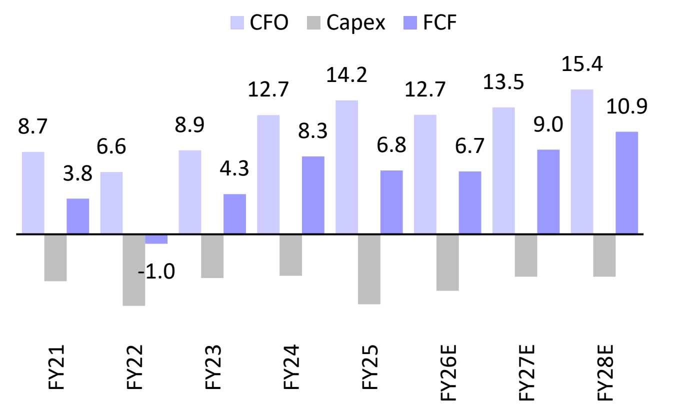
Source: Company, MOFSL

Exhibit 9: Earnings likely to see a rebound from FY27E



Source: Company, MOFSL

Exhibit 10: Trends 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**	**134,804**	**146,413**	**159,052**
Change (%)	4.5	21.6	19.5	8.4	10.2	8.7	8.6	8.6
EBITDA	**11,159**	**10,226**	**14,350**	**16,214**	**16,291**	**15,489**	**17,862**	**20,040**
Margin (%)	15.6	11.8	13.8	14.4	13.1	11.5	12.2	12.6
Growth	1.6	-8.4	40.3	13.0	0.5	-4.9	15.3	12.2
Depreciation	3,192	3,957	4,504	4,787	4,921	5,508	6,002	6,304
EBIT	**7,967**	**6,269**	**9,846**	**11,427**	**11,370**	**9,981**	**11,861**	**13,737**
Int. and Finance Charges	105	151	296	332	422	362	600	770
Other Income - Rec.	874	780	897	1,015	933	886	709	567
PBT bef. EO Exp.	**8,736**	**6,898**	**10,447**	**12,110**	**11,881**	**10,505**	**11,970**	**13,534**
EO Expense/(Income)	0	0	477	0	-1,111	-780	0	0
PBT after EO Exp.	**8,736**	**6,898**	**9,970**	**12,110**	**12,992**	**11,285**	**11,970**	**13,534**
Current Tax	2,265	1,786	2,620	3,191	3,259	2,934	3,112	3,519
Deferred Tax	0	0	43	-140	93	-23	-24	-27
Tax Rate (%)	25.9	25.9	26.7	25.2	25.8	25.8	25.8	25.8
Reported PAT	**6,470**	**5,112**	**7,307**	**9,059**	**9,639**	**8,374**	**8,881**	**10,042**
PAT Adj for EO items	**6,470**	**5,113**	**7,656**	**9,059**	**8,815**	**7,795**	**8,881**	**10,042**
Change (%)	-2.1	-21.0	49.8	18.3	-2.7	-11.6	13.9	13.1

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	80,509	87,744	95,865
Net Worth	**42,103**	**45,514**	**60,056**	**67,687**	**73,783**	**80,692**	**87,927**	**96,048**
Deferred Liabilities	407	314	1,036	885	732	710	686	659
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**	**85,202**	**94,313**	**103,806**
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	33,960	39,962	46,266
Net Fixed Assets	**24,548**	**24,923**	**36,882**	**35,503**	**34,747**	**35,239**	**33,737**	**31,934**
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**	**36,813**	**39,182**	**42,636**
Inventory	14,382	18,038	16,752	18,095	20,364	21,421	23,266	25,274
Account Receivables	7,875	7,926	7,797	10,171	11,428	11,449	12,435	13,508
Cash and Bank Balance	967	343	894	892	1,528	1,247	553	672
Loans and Advances	3,401	3,455	9,845	5,674	3,443	2,696	2,928	3,181
Curr. Liability & Prov.	**15,227**	**17,697**	**16,267**	**18,245**	**22,832**	**23,270**	**25,027**	**27,183**
Account Payables	7,465	8,065	7,514	8,398	10,465	11,449	12,435	13,508
Other Current Liabilities	5,623	7,177	6,005	6,924	8,863	9,436	10,249	11,134
Provisions	2,140	2,455	2,749	2,923	3,503	2,385	2,343	2,541
Net Current Assets	**11,398**	**12,064**	**19,021**	**16,588**	**13,931**	**13,543**	**14,155**	**15,452**
Appl. of Funds	**42,744**	**46,062**	**63,106**	**70,098**	**77,098**	**85,202**	**94,313**	**103,806**

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**	**42.6**	**48.5**	**54.9**
Growth	-2.1	-21.0	49.8	10.4	-2.7	-11.6	13.9	13.1
Cash EPS	56.6	53.1	71.2	75.7	75.1	72.7	81.3	89.3
BV/Share	246.5	266.5	351.6	369.9	403.2	440.9	480.5	524.9
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	17.5	18.5	19.1
Valuation (x)								
P/E	22.8	28.8	19.2	17.4	17.9	20.2	17.8	15.7
Cash P/E	15.2	16.2	12.1	11.4	11.5	11.9	10.6	9.7
P/BV	3.5	3.2	2.5	2.3	2.1	2.0	1.8	1.6
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	11.0	9.7	8.7
Dividend Yield (%)	1.3	0.5	0.7	1.1	1.3	1.0	1.1	1.3
FCF per share	17.9	-7.4	28.8	47.8	34.5	40.8	49.0	59.4
Return Ratios (%)								
RoE	16.5	11.7	14.5	14.2	12.5	10.1	10.5	10.9
RoCE	16.4	11.8	14.4	14.0	12.4	9.9	10.4	10.7
RoIC	19.0	13.0	15.7	16.1	17.2	15.6	18.6	21.7
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	31	31	31
Creditor (Days)	38	34	26	27	31	31	31	31
Working Capital Turnover (Days)	53	49	64	51	36	33	34	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	28	20	18

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	10,505	11,970	13,534
Depreciation	3,192	3,957	4,504	4,787	4,921	5,508	6,002	6,304
Interest & Finance Charges	105	151	-601	-684	-511	-524	-109	203
Direct Taxes Paid	1,995	1,993	2,563	3,289	3,283	2,912	3,088	3,492
(Inc)/Dec in WC	-1,301	-2,406	-2,866	-271	85	108	-1,306	-1,178
CF from Operations	**8,734**	**6,607**	**8,921**	**12,654**	**14,204**	**12,685**	**13,468**	**15,370**
Others	-714	-277	641	488	-452	780	0	0
CF from Operating incl EO	**8,020**	**6,329**	**9,562**	**13,142**	**13,752**	**13,465**	**13,468**	**15,370**
(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**	**7,465**	**8,968**	**10,870**
(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	-7,114	-9,291	-9,433
CF from Investments	**-6,350**	**-4,819**	**-7,892**	**-10,720**	**-11,543**	**-13,114**	**-13,791**	**-13,933**
(Inc)/Dec in Debt	-321	-359	-377	-871	583	1,194	1,876	1,373
Interest Paid	-40	-67	-161	-188	-253	-362	-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**	**-632**	**-371**	**-1,319**
Inc/Dec of Cash	**455**	**-624**	**551**	**-2**	**636**	**-281**	**-694**	**119**
Add: Beginning Balance	512	967	343	894	892	1,528	1,247	553
Closing Balance	**967**	**343**	**894**	**892**	**1,528**	**1,247**	**553**	**672**

E: MOFSL Estimates

NOTES

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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