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Exide Industries - Buy Investment Overview

- Exide Industries is the largest manufacturer of lead acid storage batteries in India with 25% revenue share.
- The company is having 50% stake in ING Vysya Life Insurance.
- The continuous uptrend in the automobile sector, both in four wheelers and two wheelers, coupled with new products and deeper market penetration has led to increased growth in the automotive battery business.
- The company's is focusing on the replacement market in a major way to counter the unorganised segment. In-house recycling is likely to help the company in a big way.
- The company has charted out an ambitious plan to increase its share in the domestic UPS cell market to over 50 per cent in a year and a half, on the back of new launches.
- After a slight decline during the last year, the battery market is again picking up and is likely to regain the 15-20 per cent annual growth.

Business Overview

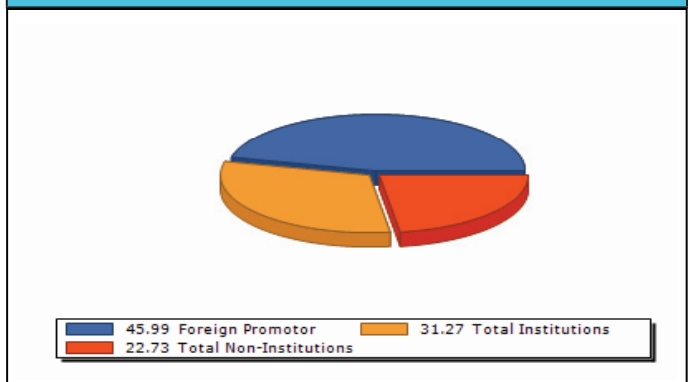
The Company manufactures the widest range of storage batteries in the world from 2.5 Ah to 20,400 Ah capacity, covering the broadest spectrum of applications.

In the domestic market, the Company sells its products under EXIDE, SF, SONIC and Standard Furukawa Brands. 'EXIDE' and 'SF' are its flagship brands. In the international market the products are sold mainly under DYNEX, INDEX & SONIC brands. The Company supplies batteries to almost all the car and two-wheeler manufacturers in the country. It has a distribution network comprising over 4000 dealer outlets.

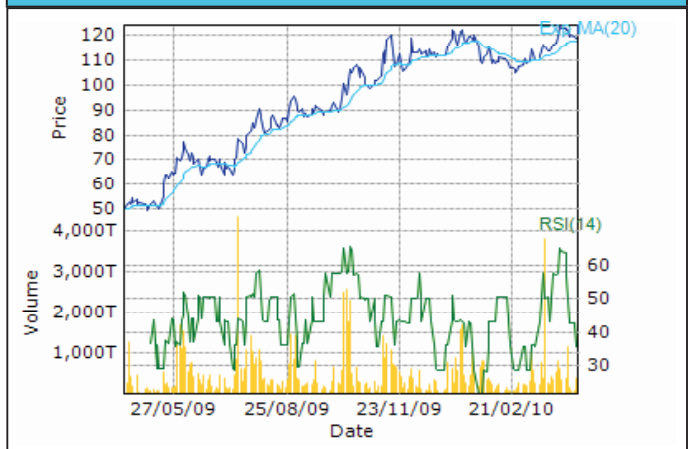
The Company designs and manufactures its industrial batteries in a wide range from 2.5 Ah to 20,600 Ah in conventional flooded and Valve Regulated Lead Acid (VRLA) design. The Company also manufactures high-end submarine batteries (Type 1, 2 & 3). The Company manufactures two to three submarine batteries a year

Stock Data		16/04/2010
Current Mkt Price (Rs)		119.75
52 Week High		128.10
52 Week Low		48.80
Mkt Cap (Rs. in Million)		101787.50
Return in last one Month (%)		2.70

Share Holding



Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	33930.20	28449.35	19.27
Other Income	67.70	112.44	-39.79
Total Expenditure	28448.60	23727.74	19.90
Operating Profit	5549.30	4834.05	14.80
Interest	516.00	448.42	15.07
Profits After Tax	2843.90	2503.28	13.61
Reserve & Surplus	0.00	9463.53	-100.00
Reported EPS(Rs)	3.55	3.13	13.42
Core EBITDA Margin (%)	12.95	13.09	-1.11



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to meet the country's defence requirements.

On the marketing front, with an objective to get a global platform to expand its business the Company acquired 100% stake in Caldyne Automatics Ltd in July 2007 and 100% stake in Chloride Batteries S E Asia Pte Ltd., Singapore and 49% stake in Associated Battery Manufacturers (Ceylon) Limited, Sri Lanka in the year 2001. The stake in Associated Battery Manufacturers (Ceylon) Limited, Sri Lanka was increased to 61.5% by acquiring additional 12.5% stake in 2004.

Financial Health

Exide Industries, declared a 132.38% rise in the net profit to Rs 130.48 crore during the third quarter of financial year 2009-10 from Rs 56.15 crore of same quarter last year.

During the period under review the company's net sales rose 15.76% to Rs 912.91 crore from Rs 788.65 crore in corresponding previous quarter.

Total income of the company stood at Rs 913.93 crore, down by 3.98% from Rs 951.84 crore.

Operating profit margin of the company improved by huge 950 basis points to 24.07% from 14.57% while the net profit margin improved by more than 700 basis points to 7.12%.

Industry Scenario

Indian auto component industry is currently worth \$18 billion and ranks among the most sophisticated ancillary industries in world. The huge growth in productivity and competitiveness that the industry has achieved is reflected in the fact that it has been able to post a CAGR in excess of 15% despite the average tariffs on the auto components declining to 7.5% from 30%, during the current decade.

A major threat being faced by the Indian automotive component industry is surging imports. Indian government has been lowering the import duty on various auto parts in line with its commitments at bilateral and multilateral trade agreements. This however has resulted in a surge in imports, particularly from China. From about Rs 30 crore in 2000, imports of Chinese made auto parts has increased to over Rs 2,500 crore in 2009. Chinese products now account for 10% of the total Indian auto components market compared with just 1% in 2000.

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Dec 2009	Dec 2008	Change(%)
Net Sales	9129.10	7886.50	15.76
Expenditure	6942.00	6737.80	3.03
Other Income	10.00	0.00	0.00
EBITDA	2197.30	1148.70	91.29
Interest	29.00	123.50	-76.52
Net Profit	1304.80	561.50	132.38
EBITDA Margin (%)	0.24	0.15	65.25
NPM (%)	0.14	0.07	100.75
EPS	1.63	0.70	132.86

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	33930.20	28449.35	19.27
Total Income	33997.90	28561.79	19.03
Total Expenditure	28448.60	23727.74	19.90
Operating Profit	5549.30	4834.05	14.80
Profits After Tax	2843.90	2503.28	13.61

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	800.00	800.00	0.00
Reserve & Surplus	11703.50	9463.53	23.67
Total Liabilities	15675.30	13761.64	13.91
Investments	6681.80	5182.76	28.92
Current Liabilities	3807.30	4670.69	-18.49
Net Current Assets	2552.40	3040.15	-16.04
Total Assests	15675.30	13761.64	13.91

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	3.55	3.13
Core EBITDA Margin (%)	12.95	13.09
EBIT Margin (%)	11.50	11.62
ROA (%)	19.32	21.11
ROE (%)	25.77	30.95
ROCE (%)	33.89	36.58
Price/Book (x)	2.72	5.43
Net Sales Growth (%)	19.27	52.11
EBIT Growth (%)	16.18	57.47
PAT Growth (%)	13.61	61.29
Total Debt/Mcap (%)	0.10	0.07



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Peer group comparison (Rs. crore)

*latest based on last traded price

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS*	P/E*
Exide Industries	200903	3393.02	548.16	284.39	8.38	5.54	21.62
Amtek Auto	200906	1052.46	249.71	152.23	14.46	7.75	25.16
Motherson Sumi	200903	1294.94	131.61	69.54	5.37	3.65	40.91
Amara Raja Battery	200903	1317.72	169.26	80.48	6.11	18.54	9.34

Auto component makers have seen significant improvement in demand in the current fiscal after facing serious depression in second half of 2008-09. The improvement has been owing to strong auto sales riding on stimulus measures taken by the government. Baring the medium and heavy commercial vehicle segment, all other segments started performing right from start for the fiscal and the upward trend only gathered the momentum month-after month. Even the commercial vehicle segment started performing in the second half of the 2009-10 while passenger cars and two-wheelers saw record sales as economic outlook improved and deferred demand returned into the market.

Overall, the auto ancillary industry is now in a recovery mode. Strong demand from the OEM segment and continued expansion of the replacement demand will provide reasonable revenue visibility going forward. Although the export segment will continue to underperform, this will be partly compensated with India becoming a hub for manufacturing for small cars and resulting increase in demand from export oriented production within the country.

Latest developments:

The company has recently launched its premium range of Powersafe NXT batteries for UPS which have faster recharge quality, targeted at consumers who face longer power outages.

Investment Rationale

The company, which currently claims around 42 per cent share in the 30 lakh units? annual UPS battery market is planning to launch 2-3 new products in the industrial segment in this fiscal and to maintain its leadership position; the Company will continue to invest in technology, R&D and capacity upgradation.

The company has been focusing on the replacement market in a major way to counter the unorganised

segment and also to make up for the losses on the original equipment front in the earlier quarters of the current fiscal due to a decline in sales in the auto market. Increased cost savings from in-house recycling is likely to help Exide introduce such product. These new products and capacity expansion at a total cost of about Rs 600 crore by FY12 are likely to sustain 20% sales growth. Recycled category are priced almost 20% lower depending on the size. It has started production of these batteries at its plants at Shyamnagar and Haldia in West Bengal.

Exide gets almost 65% of its earnings from the automotive segment and 35% from the industrial segment. Now it is targeting to increase its share of the commercial vehicle and tractor battery market from around 10-15% now to 25% in three years through the introduction of batteries at lower price points. This initiative will help it continue its profit growth.

Exide Industries is powering up its charge in the automotive battery market. It is getting into new product categories such as electric bike batteries and low-cost branded batteries in the recycled car battery market.

The company is having majority stake in ING Life having a pan India network and the New Business Achieved Profits (NBAP) of the insurance company is likely to increase further in coming years.

At the CMP of Rs 120, Exide Industries is trading at FY2010E PE multiple of 17.60x and 16.8x of FY12E and an EV/EBIDTA of 9.92x for FY10E and 8.23x of FY11E. We will recommend a buy in the stock with a price target of Rs 148; expecting Exide to sustain its margin going forward driven by further increase in the extent of recycling and rise in lead price by about 25% in coming two years. The company has new products planned in its aisle that will give a further boost to the revenue.



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