

Estimate changes

TP change

Rating change



Bloomberg	AMRJ IN
Equity Shares (m)	171
M.Cap.(INRb)/(USDb)	105.6 / 1.3
52-Week Range (INR)	670 / 438
1, 6, 12 Rel. Per (%)	1/-2/13
12M Avg Val (INR M)	403

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	103.9	118.8	130.2
EBITDA	13.6	16.4	18.0
Adj. PAT	7.3	8.9	9.8
EPS (INR)	42.7	52.2	57.6
EPS Gr. (%)	42.7	22.3	10.2
BV/Sh. (INR)	310	347	390

Ratios

RoE (%)	14.8	15.9	15.6
RoCE (%)	14.9	15.9	15.7
Payout (%)	15.0	28.7	26.1

Valuations

P/E (x)	14.5	11.8	10.7
P/BV (x)	2.0	1.8	1.6
Div. Yield (%)	1.0	2.4	2.4
FCF yield (%)	4.5	10.1	7.4

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	28.1	28.1	28.1
DII	23.2	23.3	11.4
FII	22.2	21.5	18.1
Others	26.5	27.2	42.5

FII Includes depository receipts

CMP: INR618
TP: INR690 (+12%)
Neutral

Below est.; tepid revenue growth hurts overall performance

Investing INR13b to set up 2GWh Li-ion cell plant

- Weak revenue growth dragged down AMRJ's overall performance in 4QFY23. Its New Energy business has started contributing, albeit marginally. It has finalized investments for the li-ion cell manufacturing plant, with the first phase of 2GWH expected to commence in FY25, though it is yet to decide on a technology partner for this foray.
- We raise FY24E/FY25E EPS by 9%/12% to factor in the benefit from falling RM costs (margin gains). We maintain our **Neutral** rating with a TP of INR690/share (12x Mar'25E EPS).

New Energy business contributes INR2.5b in revenue in FY23

- 4QFY23 revenue/EBITDA/adj. PAT grew 11%/53%/75.5% YoY to INR24.3b/INR3.4b/INR1.7b (v/s est. INR26.2b/INR3.8b/INR2.1b). FY23 revenue/EBITDA/adj. PAT grew 19%/32.5%/43% YoY.
- 4QFY23 saw 6-7% volume growth in both PV aftermarket and OEMs. 2W OEMs and replacement recorded 20% volume growth. Industrial batteries grew 7% YoY. Tubular batteries declined due to a fire at the plant.
- In FY23, volume growth stood at 9-10% for PV aftermarket and 15% YoY for OEMs. Volume growth for 2W OEM and aftermarket came in at 20% YoY. The Industrial segment saw 12% volume growth.
- Gross margin expanded 510bp YoY (-40bp QoQ) to 33% (est. 33.2%; 29.8% for EXID).
- Better gross margin was partially offset by higher other expenses, resulting in EBITDA margin of 13.9% (+380bp YoY/-110bp QoQ; est. 14.4%; 10.4% for EXID). EBITDA grew 53% YoY to INR3.4b (est. INR3.8b).
- AMRJ incurred a loss of INR477m due to a fire at its plant in AP, which was recorded as an extraordinary item.
- Adj. PAT stood at INR1.7b (est. INR2.1b).
- The company has declared a final dividend of INR3.2/share. Total dividend for FY23 stood at INR6.1/share v/s INR4.5 for FY22.
- FCFF improved to INR4.8b (v/s outflow of INR1.3b in FY22), led by a better operating performance of INR9.3b (v/s INR6.3b in FY22) and lower capex of INR4.5b (v/s INR7.6b in FY22).

Highlights from the management commentary

- Demand outlook:** AMRJ expects demand momentum to remain strong in FY24 for both OEM and replacement markets. Exports are expected to sustain a 13-14% CAGR going forward.
- Li-ion cell manufacturing facility:** It is setting up a 2GWh capacity in the first phase with investment of INR13b and targets to increase it to 16GWh by FY32. It would take another 2.5 years to start commercial production in the first phase, including trials with customers. This facility will focus on e-2W batteries and NMC chemistry in the initial phase.

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- The new energy business (battery pack and charger business) reported revenue of INR2.5b in FY23, with primary supplies to e-3W OEMs and the telecom segment. This business posted EBITDA margin of 3-4%. This business is expected to ramp up its revenue by 3x (~INR7.5b) in FY24, as it will also start supplies to e-2Ws.
- **Capex for FY24/25:** AMRJ expects INR3-4b annual capex for the LAB business, including capex for maintenance and a lead recycling plant. For the li-ion cell manufacturing plant, it plans to invest INR3b in FY24 and ~INR5b in FY25.

Valuation and view

- The stock trades at 11.8 x/10.7x FY24E/FY25E EPS. We maintain our **Neutral** rating with a TP of INR690/share (12x Mar'25E EPS), as the expectation of better earnings growth balances out the increasing threat of lithium chemistry to the Auto and Industrial businesses.

Quarterly Performance

Y/E March (INR m)	FY22				FY23				(INR M)		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY22	FY23	4QE
Net Sales	18,859	22,642	23,651	21,807	26,200	26,995	26,372	24,292	86,958	1,03,859	26,228
YoY Change (%)	63.8	17.0	20.7	3.7	38.9	19.2	11.5	11.4	21.6	19.4	20.3
RM Cost (% of sales)	68.9	70.1	70.3	72.1	73.4	69.5	66.6	67.0	70.4	69.2	66.8
Staff Cost (% of sales)	6.3	5.8	5.5	5.5	5.1	5.6	6.1	6.0	5.7	5.7	6.2
Other Exp (% of sales)	11.6	12.2	12.3	12.3	11.5	11.6	12.2	13.1	12.1	12.1	12.5
EBITDA	2,499	2,689	2,840	2,199	2,609	3,602	3,969	3,373	10,226	13,552	3,785
Margins (%)	13.2	11.9	12.0	10.1	10.0	13.3	15.0	13.9	11.8	13.0	14.4
Depreciation	963	986	1,021	987	963	1,019	1,145	1,145	3,957	4,272	1,172
Interest	32	36	38	46	46	54	58	62	151	221	67
Other Income	166	264	190	160	170	237	261	226	780	893	258
PBT before EO expense	1,670	1,932	1,971	1,325	1,770	2,765	3,026	2,392	6,898	9,952	2,805
Extra-Ord expense	0	0	0	0	0	0	0	477	0	477	0
PBT after EO	1,670	1,932	1,971	1,325	1,770	2,765	3,026	1,915	6,898	9,476	2,805
Tax	431	491	524	340	455	744	798	535	1,786	2,532	744
Tax Rate (%)	25.8	25.4	26.6	25.6	25.7	26.9	26.4	28.0	25.9	26.7	26.5
Adj PAT	1,239	1,441	1,447	985	1,315	2,022	2,228	1,729	5,113	7,293	2,061
YoY Change (%)	97.7	-28.5	-25.1	-48.0	6.1	40.3	54.0	75.5	-21.0	42.7	109.2

E: MOFSL Estimates

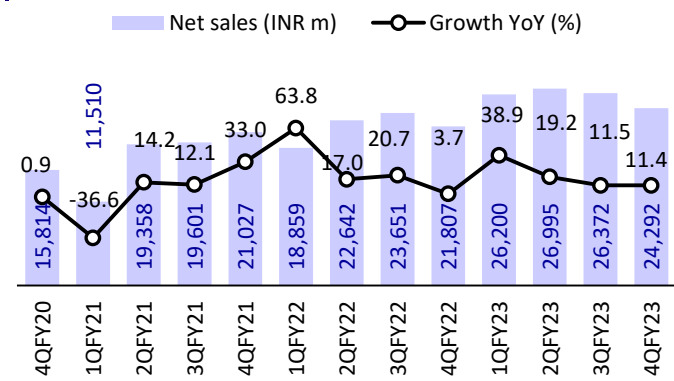


Key takeaways from the management commentary

- **Demand outlook:** It expects demand momentum to remain strong in FY24 for both OEM and replacement market. Exports are expected to sustain a 13-14% CAGR going forward.
- **Li-ion cell manufacturing facility:** It is setting up a 2GWh capacity in the first phase with investment of INR13b and targets to increase it to 16GWh by FY32. It would take another 2.5 years to start commercial production in the first phase, which would include trials with customers. This facility will focus on e-2W batteries and NMC chemistry in the initial phase.
- The new energy business (battery pack and charger business) reported revenue of INR2.5b in FY23, with primary supplies to e-3W OEMs and the telecom segment. This business posted EBITDA margin of 3-4%. Revenue is expected to ramp up by 3x (~INR7.5b) in FY24, as it will also start supplies to e-2Ws.
- **Margins:** Lead prices remained stable at elevated levels in 4QFY23. Yet, the company did not increase prices in 4Q, as earlier price hikes were sufficient to offset this rise. It is in the process of setting up a lead acid recycling plant, which would cater to 30% of its lead acid requirements going forward, thus aiding margins. It had an impact (INR180m) of increase in power cost in 4Q and some manpower-related costs due to a fire at its plant. The company has maintained its guidance of 14-16% EBITDA margin for the near term.
- **Capex for FY24/25:** AMRJ expects INR3-4b annual capex for the LAB business, including capex for maintenance and the lead recycling plant. For the li-ion cell manufacturing plant, it plans to invest INR3b in FY24 and ~INR5b in FY25.
- The company plans to acquire a 100% stake for INR1.33b in Amara Raja Power Systems Limited (ARPSL) from the promoter family.
- It is involved in the manufacturing of industrial chargers, integrated power systems, EV chargers for 2W/3Ws and other energy management devices.
- FY23 revenue/EBITDA/PBT stood at INR1.84b/INR205m/INR174m (v/s INR1.3b/INR130m/INR97m in FY22).
- **Fire at tubular battery facility:** Around 60-70% of the demand could be satisfied through trading, but the company aims to reconstruct it. INR1b is received from the insurance company and further claim is yet to be settled.

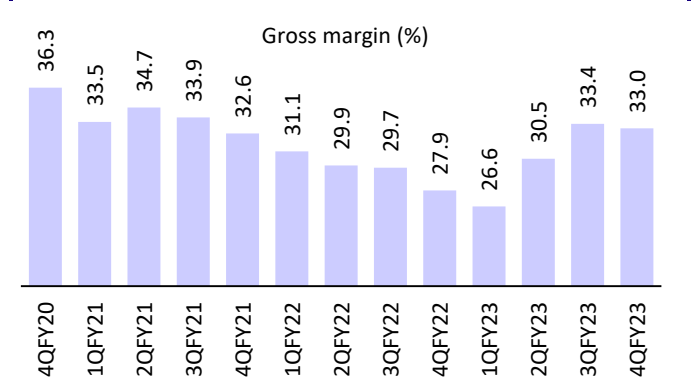
Key exhibits

Exhibit 1: Trend in revenue and growth



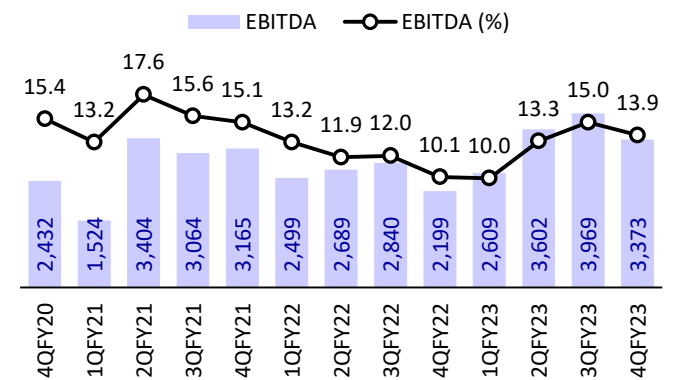
Source: Company, MOFSL

Exhibit 2: Gross margin impacted by RM cost inflation



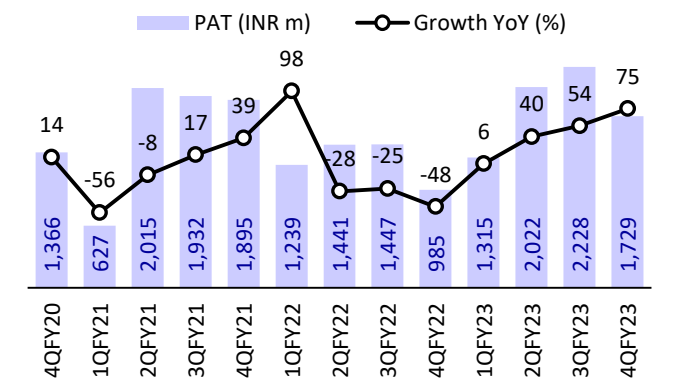
Source: Company, MOFSL

Exhibit 3: Trend in EBITDA and EBITDA margin



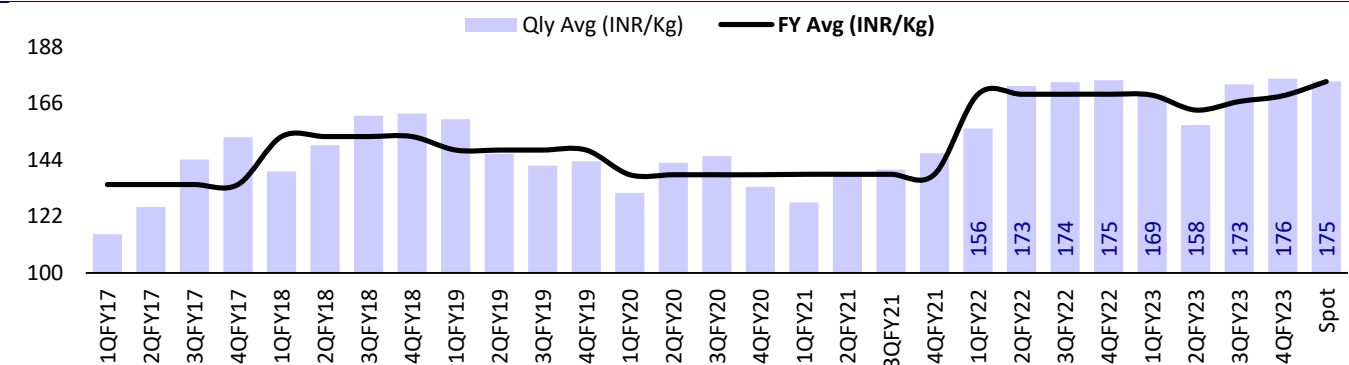
Source: Company, MOFSL

Exhibit 4: PAT and growth trend



Source: Company, MOFSL

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



Source: Bloomberg, MOFSL

Valuation and view

■ Industry structure remains a duopoly, but AMRJ strong in second position:

While the industry structure remains largely a duopoly, AMRJ has emerged as a formidable challenger to leader EXID, with market leadership in Telecom (55% share in 4QFY20) and UPS (32–35%) segments and fast gaining share in Auto. Over FY04-16, it clocked 34%/68% CAGRs in net sales/PAT, exceeding EXID's 20% CAGR each in net sales and PAT. This was driven by a combination of technological innovation (first to introduce maintenance-free, factory-charged,

extended-warranty batteries), witty advertising, and a unique distribution model (franchisee-based), supported by operational efficiency-led competitive pricing.

- **Gearing up to lead:** AMRJ is gearing up to be a leader by undertaking new business opportunities in the battery space, mainly Home UPS, Solar, and Motive Power, and by expanding capacity and network, along with consolidation in existing areas. In the Telecom segment, the management expects to maintain its market share at current levels (~55%).
- **Li-ion technology poses risk to Auto and Industrial segments:** The declining cost of lithium batteries poses a threat to the Auto and the Industrial Batteries business. E-2Ws/e-3Ws do not require a lead acid battery as an auxiliary battery. This will in turn impact 15-20% of revenue of lead acid battery players. At USD100/KwHr, lithium can offer competition to a lead acid battery (LAB) in the Industrial segment – particularly Telecom, UPS, and other nascent but growth-driving businesses such as Motive Power and Solar. Any further development in this direction could lead to the de-rating of the P/E multiple (due to the decline in terminal growth).
- **Strategic initiatives to drive growth:** AMRJ is focusing on maximizing its core LAB business and foraying into the New Energy business (in the form of li-ion cells and battery packs, EV charging products, energy storage solutions, etc.). While the LAB business will go global, the New Energy business will focus on opportunities in India. Growth in LAB will recover strongly, and the delivery of a 15-17% CAGR over the next five years depends on the successful execution of its export strategy. Its entry into the New Energy business is a step in the right direction, but its success will depend on the technology partner, cost competitiveness, targeted segments, etc. For lithium cell manufacturing, it targets an 8-10GW capacity (requiring an investment of USD0.8-1b) to achieve global competitiveness. As the investment in the New Energy business will be spread over 5-10 years, it can fund the capex through free cash flows in the core business (average INR3-4b p.a.) as well as debt (currently net cash on the balance sheet).
- **Valuations fair, maintain our Neutral rating:** We raise FY23E/FY24E EPS by 9%/12% to factor in the benefit from falling RM costs (margin gains). We expect value migration to organized players (such as EXID and AMRJ) from unorganized ones in the Replacement segment, driven by tax reforms such as GST and lower corporate tax rates. Healthy replacement demand will lead to better capacity utilization and margin. However, its current margin performance may not sustain over the near term as volume recovery with OEMs will result in the reversion of the mix and margin. With the exit of Johnson Controls, promoters are expected to play a pivotal role in its long-term strategy as well as technology sourcing. The stock trades at 11.8x/10.7x FY24E/FY25E EPS. We maintain our **Neutral** rating with a TP of INR690/share (12x Mar'25E EPS), as the expectation of better earnings growth balances out the increasing threat of lithium chemistry to the Auto and Industrial businesses.

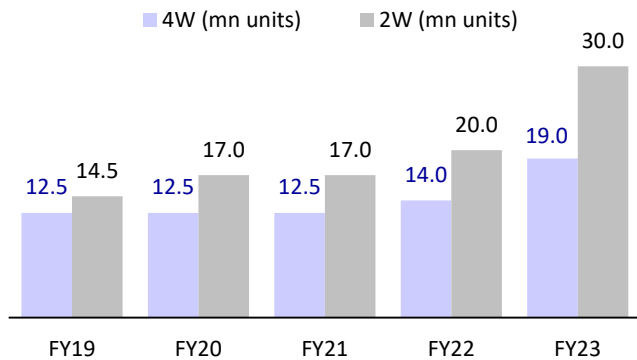
Exhibit 6: Revisions to our estimates

(INR M)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,18,828	1,18,828	0.0	1,30,205	1,30,205	0.0
EBITDA (%)	13.8	12.9	90bp	13.8	12.9	90bp
Net Profit	8,920	8,191	8.9	9,830	8,750	12.3
EPS (INR)	52.2	48.0	8.9	57.6	51.2	12.3

Source: MOFSL

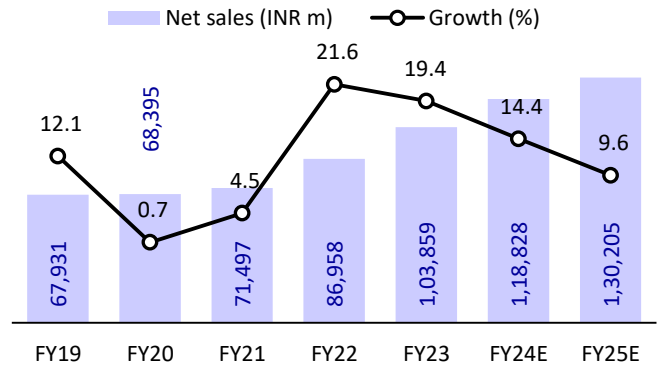
Story in charts

Exhibit 7: Significant addition in 2W capacity



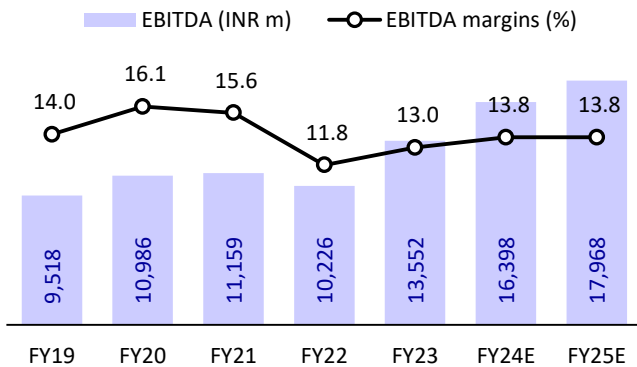
Source: Company, MOFSL

Exhibit 8: Trend in revenue



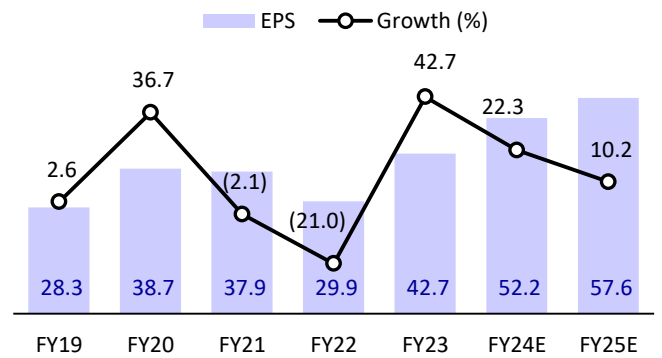
Source: Company, MOFSL

Exhibit 9: EBITDA and EBITDA margin trend



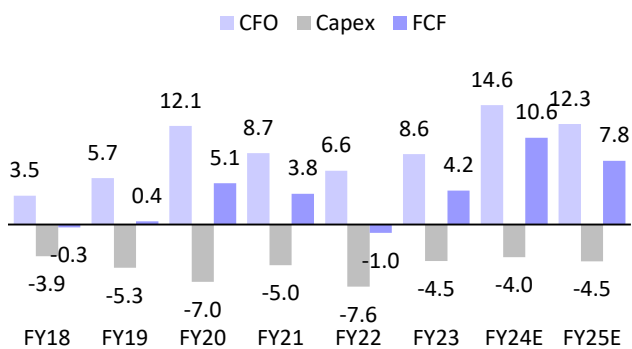
Source: Company, MOFSL

Exhibit 10: Earning likely to have bottomed out in FY22



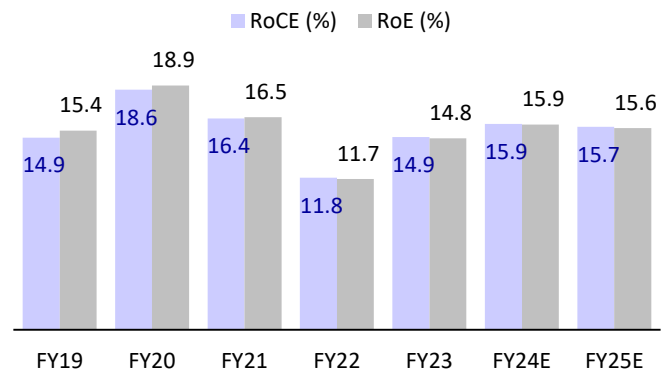
Source: Company, MOFSL

Exhibit 11: Trend in CFO, capex, and FCF



Source: Company, MOFSL

Exhibit 12: Return ratios to recover moderately



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	67,931	68,395	71,497	86,958	1,03,859	1,18,828	1,30,205
Change (%)	12.1	0.7	4.5	21.6	19.4	14.4	9.6
EBITDA	9,518	10,986	11,159	10,226	13,552	16,398	17,968
Margin (%)	14.0	16.1	15.6	11.8	13.0	13.8	13.8
Depreciation	2,612	3,007	3,192	3,957	4,272	4,829	5,189
EBIT	6,906	7,978	7,967	6,269	9,280	11,570	12,779
Int. and Finance Charges	70	122	105	151	221	275	350
Other Income - Rec.	468	551	874	780	893	800	900
PBT bef. EO Exp.	7,304	8,407	8,736	6,898	9,952	12,095	13,329
EO Expense/(Income)	0	0	0	0	477	0	0
PBT after EO Exp.	7,304	8,407	8,736	6,898	9,475	12,095	13,329
Current Tax	2,469	1,799	2,265	1,786	2,479	3,145	3,466
Deferred Tax	0	0	0	0	53	30	33
Tax Rate (%)	33.8	21.4	25.9	25.9	26.7	26.3	26.3
Reported PAT	4,835	6,608	6,470	5,112	6,944	8,920	9,830
PAT Adj for EO items	4,835	6,608	6,470	5,113	7,293	8,920	9,830
Change (%)	2.6	36.7	-2.1	-21.0	42.7	22.3	10.2
Margin (%)	7.1	9.7	9.0	5.9	7.0	7.5	7.5

Standalone - Balance Sheet

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	171	171	171	171	171	171	171
Total Reserves	33,182	36,385	41,932	45,343	52,808	59,165	66,434
Net Worth	33,353	36,556	42,103	45,514	52,978	59,336	66,605
Deferred Liabilities	959	441	407	314	728	758	791
Total Loans	468	343	234	234	165	500	500
Capital Employed	34,780	37,341	42,744	46,062	53,872	60,594	67,896
Gross Block	26,165	29,269	38,628	42,498	50,816	54,153	58,653
Less: Accum. Deprn.	8,037	10,977	14,081	17,575	21,847	26,676	31,865
Net Fixed Assets	18,128	18,292	24,548	24,923	28,969	27,477	26,788
Capital WIP	3,147	8,270	3,993	8,297	2,337	3,000	3,000
Total Investments	205	1,562	2,805	778	4,860	7,860	12,860
Curr. Assets, Loans&Adv.	23,480	21,882	26,625	29,761	34,825	44,254	48,645
Inventory	10,614	11,427	14,382	18,038	16,434	21,161	23,187
Account Receivables	7,686	6,363	7,875	7,926	7,797	11,394	12,485
Cash and Bank Balance	502	326	967	536	998	6,945	7,764
Loans and Advances	4,678	3,766	3,401	3,262	9,596	4,753	5,208
Curr. Liability & Prov.	10,179	12,665	15,227	17,697	17,119	21,997	23,397
Account Payables	5,104	6,149	7,465	8,065	7,508	11,394	12,485
Other Current Liabilities	3,761	4,685	5,623	7,177	6,892	9,506	10,416
Provisions	1,314	1,832	2,140	2,455	2,720	1,096	495
Net Current Assets	13,301	9,217	11,398	12,064	17,706	22,257	25,248
Appl. of Funds	34,780	37,341	42,744	46,062	53,872	60,594	67,896

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	28.3	38.7	37.9	29.9	42.7	52.2	57.6
Cash EPS	43.6	56.3	56.6	53.1	67.7	80.5	87.9
BV/Share	195.3	214.0	246.5	266.5	310.2	347.4	390.0
DPS	7.1	11.0	11.0	4.5	6.1	15.0	15.0
Payout (%)	30.0	34.1	29.0	15.0	15.0	28.7	26.1
Valuation (x)							
P/E	21.8	16.0	16.3	20.6	14.5	11.8	10.7
Cash P/E	14.2	11.0	10.9	11.6	9.1	7.7	7.0
P/BV	3.2	2.9	2.5	2.3	2.0	1.8	1.6
EV/Sales	1.6	1.5	1.5	1.2	1.0	0.8	0.8
EV/EBITDA	11.1	9.6	9.4	10.3	7.7	6.0	5.5
Return Ratios (%)							
RoE	15.4	18.9	16.5	11.7	14.8	15.9	15.6
RoCE	14.9	18.6	16.4	11.8	14.9	15.9	15.7
RoIC	15.8	21.6	19.0	13.0	16.6	19.3	21.7
Working Capital Ratios							
Gross Fixed Asset Turnover (x)	2.6	2.3	1.9	2.0	2.0	2.2	2.2
Inventory (Days)	57.0	61.0	73.4	75.7	57.8	65.0	65.0
Debtor (Days)	41	34	40	33	27	35	35
Creditor (Days)	27	33	38	34	26	35	35
Working Capital Turnover (Days)	69	47	53	48	59	47	49
Leverage Ratio (x)							
Current Ratio	2.3	1.7	1.7	1.7	2.0	2.0	2.1
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Standalone - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR M)							
Net P/L Before Tax and E/O Items	7,304	8,407	8,733	6,898	9,952	12,095	13,329
Depreciation	2,612	3,007	3,192	3,957	4,272	4,829	5,189
Interest & Finance Charges	42	122	105	151	-673	-525	-550
Direct Taxes Paid	2,417	2,364	1,995	1,993	2,401	3,175	3,499
(Inc)/Dec in WC	-1,843	2,892	-1,301	-2,406	-2,529	1,396	-2,172
CF from Operations	5,698	12,065	8,734	6,607	8,622	14,619	12,297
Others	-284	-296	-714	-277	638	0	0
CF from Operating incl EO	5,413	11,769	8,020	6,329	9,259	14,619	12,297
(inc)/dec in FA	-5,282	-6,999	-4,964	-7,598	-4,459	-4,000	-4,500
Free Cash Flow	131	4,770	3,056	-1,268	4,800	10,619	7,797
Others	10,904	13,305	13,212	16,219	24,731	-2,200	-4,100
CF from Investments	-4,629	-8,497	-6,350	-4,819	-7,704	-3,200	-3,600
(Inc)/Dec in Debt	-51	-275	-321	-359	-335	365	33
Interest Paid	-11	-52	-40	-67	-88	-275	-350
Dividend Paid	-855	-3,311	-854	-1,708	-581	-2,562	-2,562
CF from Fin. Activity	-916	-3,638	-1,215	-2,135	-1,004	-2,472	-2,879
Inc/Dec of Cash	-131	-365	455	-624	551	8,947	5,819
Add: Beginning Balance	2,644	2,512	512	967	343	894	9,841
Closing Balance	2,512	2,147	967	343	894	9,841	15,660

E: MOSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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