

Estimate changes

TP change

Rating change



Bloomberg	AMRJ IN
Equity Shares (m)	171
M.Cap.(INRb)/(USDb)	104.7 / 1.3
52-Week Range (INR)	708 / 479
1, 6, 12 Rel. Per (%)	-10/-7/10
12M Avg Val (INR M)	558

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	103.9	112.6	124.1
EBITDA	13.6	15.0	17.0
Adj. PAT	7.3	8.2	9.2
EPS (INR)	42.7	48.0	53.7
EPS Gr. (%)	42.7	12.5	11.8
BV/Sh. (INR)	310	343	382

Ratios

RoE (%)	14.8	14.7	14.8
RoCE (%)	14.9	14.8	14.9
Payout (%)	15.0	31.2	27.9

Valuations

P/E (x)	14.4	12.8	11.4
P/BV (x)	2.0	1.8	1.6
Div. Yield (%)	1.0	2.4	2.4
FCF yield (%)	4.6	7.7	6.5

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	28.1	28.1	28.1
DII	24.5	23.2	10.8
FII	21.2	22.2	18.3
Others	26.3	26.5	42.8

FII Includes depository receipts

CMP: INR613
TP: INR665 (+9%)
Neutral

Below est.; Weak mix & high operating costs dent EBITDA

New energy business contributed ~4% to revenue (vs. 1% in 1QFY23)

- Amara Raja (AMRJ)'s 1QFY24 performance was weak as it reported lower-than-estimated EBITDA at INR3.5b (vs. est. 4.1b) despite in-line revenue. This was due to weak mix led by high trading content (15-16% of sales), high insurance cost impact of INR60-70m and contribution of new energy business (~4% of revenue) during the quarter.
- We cut our FY24E/FY25E EPS by 9.0/8.5% to factor in the likely slowdown in replacement demand and weaker mix. We reiterate our **Neutral** rating with a TP of INR665 (premised on 12x Sep'25E EPS).

Gross margin contracts sequentially due to high trading content

- AMRJ's 1QFY24 revenue/EBITDA/adj. PAT grew 6%/36%/46% YoY to INR27.7b/INR3.5b/INR1.9b (v/s est. INR28.3b/INR4.1b/INR2.3b).
- Revenue growth was aided by 7-8%/15-16% YoY growth in aftermarket/ industrials while OEM was flat.
- Within auto, 4W/2W revenue grew ~5%/9% YoY while revenue from inverters declined ~20% YoY. Within industrials, revenue from telecom/UPS grew 16-17% /11-12% YoY during the quarter.
- Revenue from new energy business stood at INR1.08b contributing ~4% to the revenue (vs. ~1% in 1QFY23).
- Gross margin expanded 230bp YoY (-410bp QoQ) to 28.9% (v/s est. 32.7%) due to the unfavorable mix as share of traded goods was higher at 15-16%.
- This was further hurt by higher insurance cost (INR60-70m impact) and contribution of new energy business, resulting in an EBITDA miss. EBITDA margin came in at 12.8% (+280bp YoY/-110bp QoQ) vs. est.14.4%.

Highlights from the management commentary

- Industry performance in 1QFY24:** 2W aftermarket grew 12-13% YoY (AMRJ grew 1.5-2% higher) while 4W aftermarket inched up 6-7% YoY (AMRJ grew 0.5-1% higher) due to slowdown in PV demand over the last 3-4 quarters. Exports are expected to grow at 15-20% due to strength in APAC and MENA followed by expansion in other countries.
- Capex for FY24/25:** AMRJ expects INR4b annual capex for the LAB business, including ongoing capacity expansion and a lead recycling plant. For the li-ion cell manufacturing plant, it plans to invest INR15b of which INR2.5-3.0b will be invested in FY24 and the majority of the remaining amount in FY25.
- New energy business contributed ~4% to revenue.** Revenue from the business stood at ~INR1.08b (+3.5x YoY/+23% QoQ). The business includes battery pack for e3Ws (Piaggio), battery chargers for e3Ws (M&M and Piaggio) and stationary application. It is currently preparing packs for e2Ws and high-voltage segments.
- Li-ion cell manufacturing-** Asset turns can go up to 1.3-1.5x. It believes 10-12% is the achievable EBITDA margin based on sourcing, technology and mix. It will have a peak capacity of 500MWh, which can be increased to 1GWh and further to 2GWh with peak annual revenue of INR20b.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- The stock trades at 12.8 x/11.4x FY24E/FY25E EPS. We maintain our **Neutral** rating with a TP of INR665 (based on 12x Sep'25E EPS), as the expectation of better earnings growth was offset by the looming threat of lithium chemistry to the Auto and Industrial businesses.

Quarterly Performance

Y/E March (INR m)	FY23				FY24E				(INR m)		
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY23	FY24E	FY24E
Net Sales	26,200	26,995	26,372	24,292	27,699	28,344	28,482	28,047	1,03,859	1,12,573	28,296
YoY Change (%)	38.9	19.2	11.5	11.4	5.7	5.0	8.0	15.5	19.4	8.4	8.0
RM Cost (% of sales)	73.4	69.5	66.6	67.0	71.1	69.0	69.0	70.3	69.2	69.9	67.3
Staff Cost (% of sales)	5.1	5.6	6.1	6.0	5.8	5.7	5.7	5.8	5.7	5.8	5.7
Other Exp (% of sales)	11.5	11.6	12.2	13.1	10.3	11.5	11.5	11.1	12.1	11.1	12.6
EBITDA	2,609	3,602	3,969	3,373	3,535	3,912	3,931	3,595	13,552	14,972	4,075
Margins (%)	10.0	13.3	15.0	13.9	12.8	13.8	13.8	12.8	13.0	13.3	14.4
Depreciation	963	1,019	1,145	1,145	1,111	1,130	1,155	1,182	4,272	4,577	1,150
Interest	46	54	58	62	56	70	70	79	221	275	60
Other Income	170	237	261	226	216	200	220	224	893	860	220
PBT before EO expense	1,770	2,765	3,026	2,392	2,584	2,912	2,926	2,559	9,952	10,980	3,085
Extra-Ord expense	0	0	0	477	0	0	0	0	477	0	0
PBT after EO	1,770	2,765	3,026	1,915	2,584	2,912	2,926	2,559	9,476	10,980	3,085
Tax	455	744	798	535	659	737	740	642	2,532	2,778	810
Tax Rate (%)	25.7	26.9	26.4	28.0	25.5	25.3	25.3	25.1	26.7	25.3	26.3
Adj PAT	1,315	2,022	2,228	1,729	1,925	2,175	2,185	1,917	7,293	8,202	2,275
YoY Change (%)	6.1	40.3	54.0	75.5	46.4	7.6	-1.9	10.9	42.7	12.5	73.1

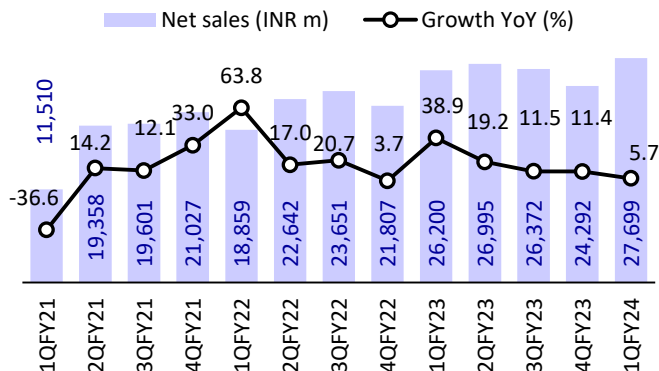
**Key takeaways from the management commentary**

- **Revenue from LAB grew 4% YoY**, wherein 4W/2W rose ~5%/9% YoY while revenue from inverters and other applications declined ~20% YoY due to weak season and fire impact in Jan'23.
- **Aftermarket division grew 7-8%** while OEM was stagnant. Exports were muted due to weakness in some of the regions and anti-dumping in the ME. Exports are expected to recover in the coming quarters.
- **2W aftermarket grew 12-13% YoY** (AMRJ grew 1.5-2% higher). 4W aftermarket grew 6-7% YoY (AMRJ grew 0.5-1% higher) due to slowdown in PV demand over the last 3-4 quarters.
- Revenue mix stood at 70% from automotive and 30% from industrials.
- **New energy business contributed ~4% to revenue in 1QFY24** (~1% in 1QFY23).
- The new energy business has been transferred to Amara Raja Advanced Cell Technology (fully-owned subsidiary of ARBL) w.e.f. 1st Jun'23.
- The business includes battery pack for e3Ws (Piaggio), battery chargers for e3Ws (M&M and Piaggio) and stationary application.
- It is currently preparing packs for e2Ws and high voltage segments.
- **Margin contracted ~110bp QoQ due to:** i) high trading mix (15-16%), ii) increased insurance cost (~INR60-70m impact) and iii) contributions from new energy business.
- It was partially offset by reduction in power cost by INR100-150m due to high use of renewable power (~20% of the power requirement).
- Lead prices stood at an average of INR194 per kg. The company has not taken any price correction in the aftermarket.

- It has received INR1b from the insurance company (against the recognized loss of INR4.39b in 4QFY23) and management is confident of realizing the balance amount. Inventory-related claim is expected to be realized in next 2-3 months.
- **Capex guidance of INR4b for LAB in FY24** is attributable to lead recycling and ongoing capacity expansion.
- Operating utilization stood at 75% for Auto and 95-97% for industrials.
- Plastic component merger is under progress. It is expected to occur by 1st half of next quarter. The business is likely to be EPS and margin accretive.
- Tubular plant is expected to start in next 18-20 months. It hopes to have its own factory ready for FY25 season.
- **Li-ion cell:** It has acquired land, ~70km away from Hyderabad. It has developed its own NMC cell and tied up with other agencies for different cell chemistries.
- **Capex for FY24/25:** Phase 1 includes customer qualification plant, which will start from end of FY25, and R&D lab, all put together will cost INR15b. The company expects to incur INR2.5-3.0b for initial construction in FY24 followed by a major capex (~50% of the total) in FY25.
- Asset turns can go up to 1.3-1.5x (v/s earlier expectations of just 1-1.2x).
- Expect cell realization of USD100-110/KWh in the initial phase and then it should decline to USD70-80/KWh.
- It will have a peak capacity of 500MWh, which can be increased to 1GWh and further to 2GWh with peak annual revenue of INR20b.
- Management believes 10-12% is the achievable EBITDA margin based on sourcing, technology and mix.

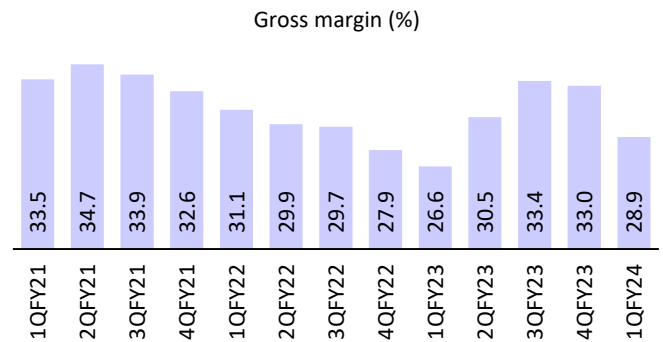
Key exhibits

Exhibit 1: Trends in revenue and growth



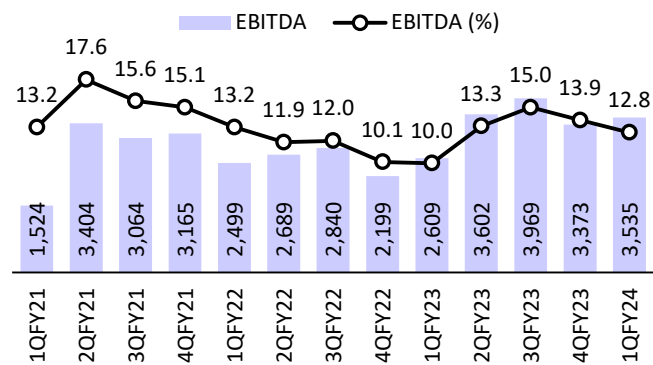
Source: Company, MOFSL

Exhibit 2: Gross margin hit by RM cost inflation



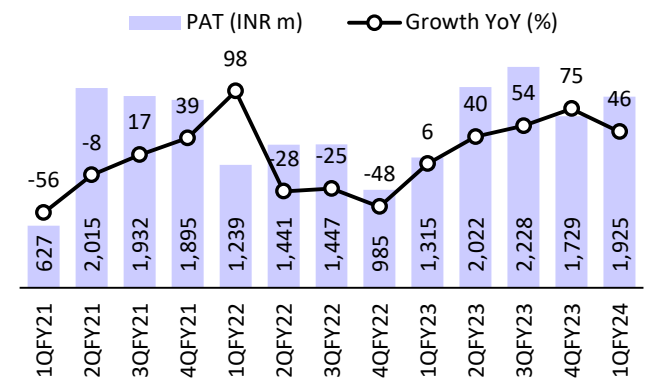
Source: Company, MOFSL

Exhibit 3: Trends in EBITDA and EBITDA margin



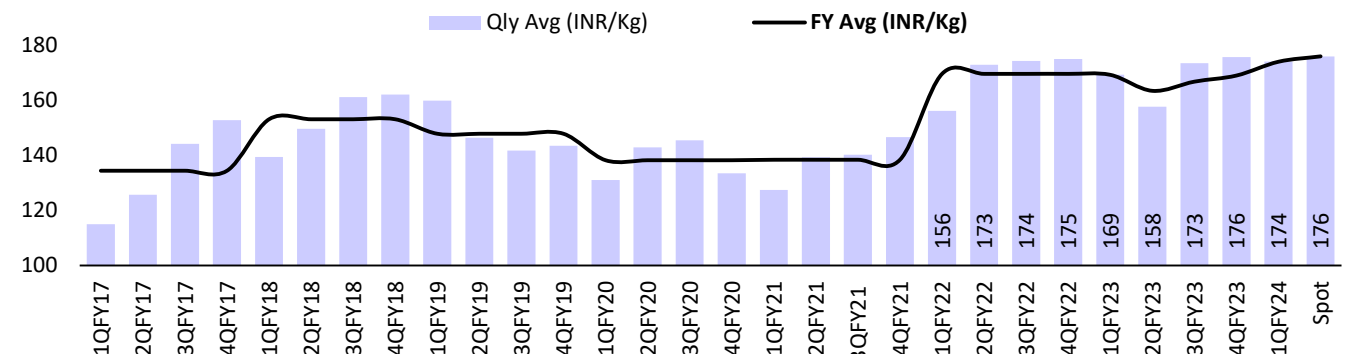
Source: Company, MOFSL

Exhibit 4: PAT and growth trends



Source: Company, MOFSL

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



Source: Bloomberg, MOFSL

Valuation and view

■ 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 the leader EXID, with market leadership in Telecom and UPS segments and it is rapidly gaining share in Auto. Over FY13-23, it clocked a 13%/10% CAGR in net sales/PAT, exceeding EXID's 9%/6% CAGR in both parameters. 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 businesses. The 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 in Telecom, UPS, and other nascent but growth-driving businesses such as Motive Power and Solar. Any further development in this direction could lead to 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 13-15% 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, reiterate Neutral:** We cut our FY24E/FY25E EPS by 9.0/8.5% to factor in expected slowdown in replacement demand and weaker mix. 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. 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 12.8 x/11.4x FY24E/FY25E EPS. We maintain our **Neutral** rating with a TP of INR665 (based on 12x Sep'25E EPS), as the expectation of better earnings growth was offset by the looming threat of lithium chemistry to the Auto and Industrial businesses.

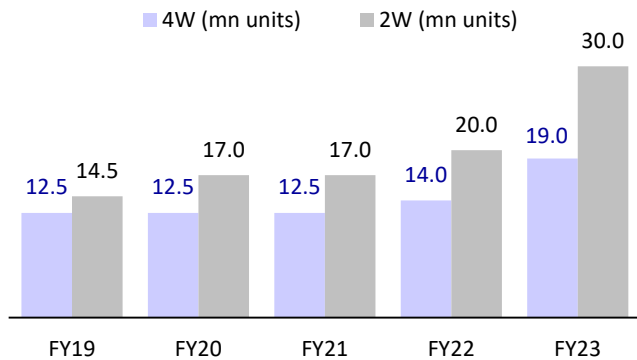
Exhibit 6: Revisions to our estimates

(INR M)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,12,573	1,16,379	-3.3	1,24,075	1,27,460	-2.7
EBITDA (%)	13.3	14.2	-90bp	13.7	14.3	-60bp
Net Profit	8,202	9,058	-9.4	9,167	10,021	-8.5
EPS (INR)	48.0	53.0	-9.4	53.7	58.7	-8.5

Source: MOFSL

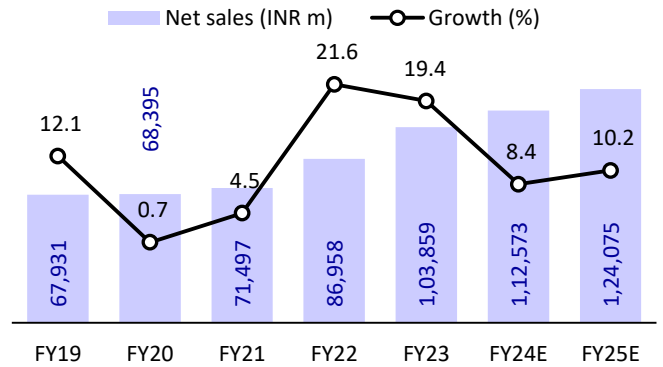
Story in charts

Exhibit 7: Significant addition in 2W capacity



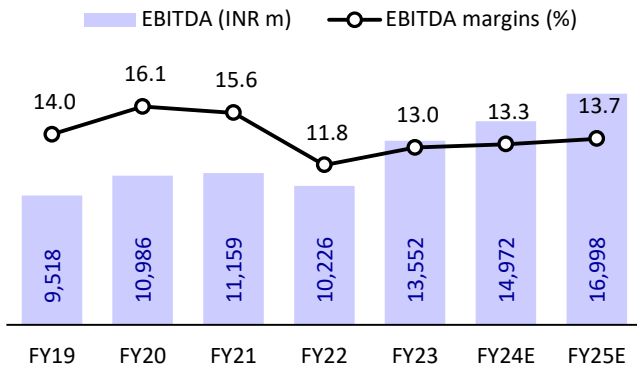
Source: Company, MOFSL

Exhibit 8: Trend in revenue



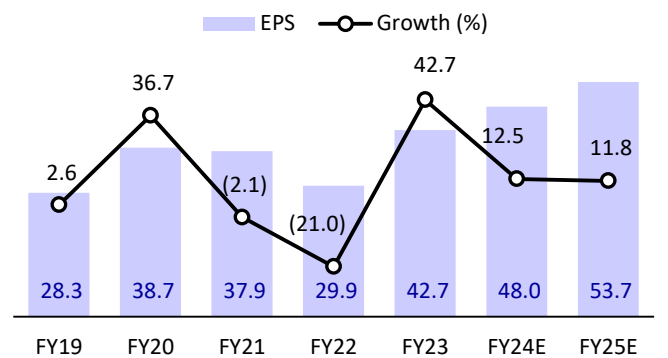
Source: Company, MOFSL

Exhibit 9: EBITDA and EBITDA margin trends



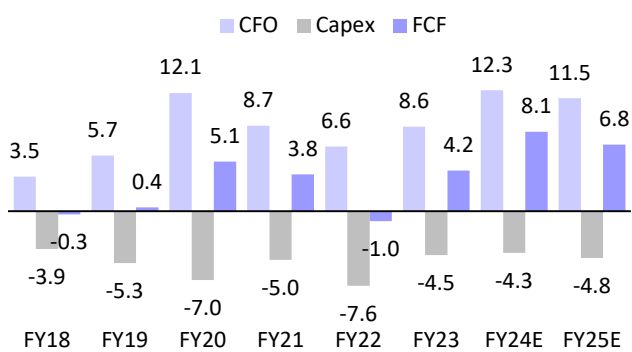
Source: Company, MOFSL

Exhibit 10: Earnings likely to have bottomed out in FY22



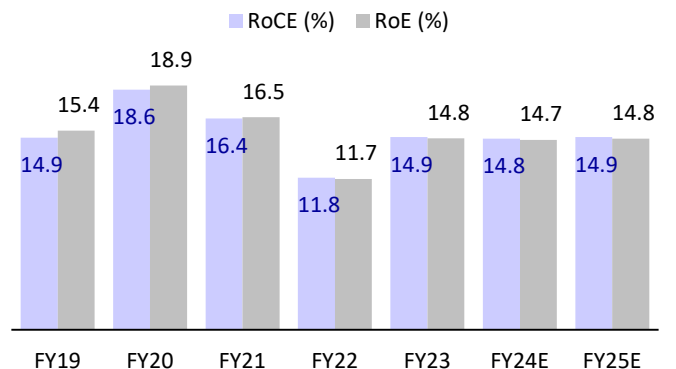
Source: Company, MOFSL

Exhibit 11: Trends 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	1,12,573	1,24,075
Change (%)	12.1	0.7	4.5	21.6	19.4	8.4	10.2
EBITDA	9,518	10,986	11,159	10,226	13,552	14,972	16,998
Margin (%)	14.0	16.1	15.6	11.8	13.0	13.3	13.7
Depreciation	2,612	3,007	3,192	3,957	4,272	4,577	5,110
EBIT	6,906	7,978	7,967	6,269	9,280	10,395	11,888
Int. and Finance Charges	70	122	105	151	221	275	350
Other Income - Rec.	468	551	874	780	893	860	850
PBT bef. EO Exp.	7,304	8,407	8,736	6,898	9,952	10,980	12,388
EO Expense/(Income)	0	0	0	0	477	0	0
PBT after EO Exp.	7,304	8,407	8,736	6,898	9,475	10,980	12,388
Current Tax	2,469	1,799	2,265	1,786	2,479	2,778	3,221
Deferred Tax	0	0	0	0	53	0	0
Tax Rate (%)	33.8	21.4	25.9	25.9	26.7	25.3	26.0
Reported PAT	4,835	6,608	6,470	5,112	6,944	8,202	9,167
PAT Adj for EO items	4,835	6,608	6,470	5,113	7,293	8,202	9,167
Change (%)	2.6	36.7	-2.1	-21.0	42.7	12.5	11.8
Margin (%)	7.1	9.7	9.0	5.9	7.0	7.3	7.4

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	58,448	65,053
Net Worth	33,353	36,556	42,103	45,514	52,978	58,619	65,224
Deferred Liabilities	959	441	407	314	728	728	728
Total Loans	468	343	234	234	165	500	500
Capital Employed	34,780	37,341	42,744	46,062	53,872	59,846	66,452
Gross Block	26,165	29,269	38,628	42,498	50,816	54,403	59,153
Less: Accum. Deprn.	8,037	10,977	14,081	17,575	21,847	26,424	31,534
Net Fixed Assets	18,128	18,292	24,548	24,923	28,969	27,979	27,619
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	8,860	15,860
Curr. Assets, Loans&Adv.	23,480	21,882	26,625	29,761	34,825	38,996	40,348
Inventory	10,614	11,427	14,382	18,038	16,434	20,047	22,096
Account Receivables	7,686	6,363	7,875	7,926	7,797	9,869	10,878
Cash and Bank Balance	502	326	967	536	998	3,450	1,170
Loans and Advances	4,678	3,766	3,401	3,262	9,596	5,629	6,204
Curr. Liability & Prov.	10,179	12,665	15,227	17,697	17,119	18,988	20,374
Account Payables	5,104	6,149	7,465	8,065	7,508	9,253	10,198
Other Current Liabilities	3,761	4,685	5,623	7,177	6,892	9,006	9,926
Provisions	1,314	1,832	2,140	2,455	2,720	730	250
Net Current Assets	13,301	9,217	11,398	12,064	17,706	20,008	19,973
Appl. of Funds	34,780	37,341	42,744	46,062	53,872	59,846	66,452

E: MOFSL 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	48.0	53.7
Cash EPS	43.6	56.3	56.6	53.1	67.7	74.8	83.6
BV/Share	195.3	214.0	246.5	266.5	310.2	343.2	381.9
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	31.2	27.9
Valuation (x)							
P/E	21.6	15.8	16.2	20.5	14.4	12.8	11.4
Cash P/E	14.1	10.9	10.8	11.5	9.1	8.2	7.3
P/BV	3.1	2.9	2.5	2.3	2.0	1.8	1.6
EV/Sales	1.5	1.5	1.5	1.2	1.0	0.9	0.8
EV/EBITDA	11.0	9.5	9.3	10.2	7.7	6.8	6.1
Return Ratios (%)							
RoE	15.4	18.9	16.5	11.7	14.8	14.7	14.8
RoCE	14.9	18.6	16.4	11.8	14.9	14.8	14.9
RoIC	15.8	21.6	19.0	13.0	16.6	17.2	19.3
Working Capital Ratios							
Gross Fixed Asset Turnover (x)	2.6	2.3	1.9	2.0	2.0	2.1	2.1
Inventory (Days)	57.0	61.0	73.4	75.7	57.8	65.0	65.0
Debtor (Days)	41	34	40	33	27	32	32
Creditor (Days)	27	33	38	34	26	30	30
Working Capital Turnover (Days)	69	47	53	48	59	54	55
Leverage Ratio (x)							
Current Ratio	2.3	1.7	1.7	1.7	2.0	2.1	2.0
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net P/L Before Tax and E/O Items	7,304	8,407	8,733	6,898	9,952	10,980	12,388
Depreciation	2,612	3,007	3,192	3,957	4,272	4,577	5,110
Interest & Finance Charges	42	122	105	151	-673	-585	-500
Direct Taxes Paid	2,417	2,364	1,995	1,993	2,401	2,778	3,221
(Inc)/Dec in WC	-1,843	2,892	-1,301	-2,406	-2,529	150	-2,245
CF from Operations	5,698	12,065	8,734	6,607	8,622	12,344	11,532
Others	-284	-296	-714	-277	638	0	0
CF from Operating incl EO	5,413	11,769	8,020	6,329	9,259	12,344	11,532
(inc)/dec in FA	-5,282	-6,999	-4,964	-7,598	-4,459	-4,250	-4,750
Free Cash Flow	131	4,770	3,056	-1,268	4,800	8,094	6,782
Others	10,904	13,305	13,212	16,219	24,731	-3,140	-6,150
CF from Investments	-4,629	-8,497	-6,350	-4,819	-7,704	-3,390	-3,900
(Inc)/Dec in Debt	-51	-275	-321	-359	-335	335	0
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	-2,502	-2,912
Inc/Dec of Cash	-131	-365	455	-624	551	6,452	4,720
Add: Beginning Balance	2,644	2,512	512	967	343	894	7,347
Closing Balance	2,512	2,147	967	343	894	7,347	12,066

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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

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