

Estimate changes

TP change

Rating change



Bloomberg	EXID IN
Equity Shares (m)	850
M.Cap.(INRb)/(USD\$)	226.4 / 2.7
52-Week Range (INR)	280 / 169
1, 6, 12 Rel. Per (%)	4/33/44
12M Avg Val (INR M)	662

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Net Sales	145.9	164.6	183.9
EBITDA	15.7	18.8	21.7
Adj. PAT	9.0	10.9	12.7
Adj. EPS (INR)	10.6	12.8	14.9
EPS Gr. (%)	7.5	20.2	16.6
BV/Sh. (INR)	131.9	141.5	153.2

Ratio

RoE (%)	8.1	9.0	9.7
RoCE (%)	8.5	9.4	9.9
Payout (%)	18.8	25.0	21.5

Valuations

P/E (x)	25.0	20.8	17.8
P/BV (x)	2.0	1.9	1.7
Div Yield (%)	0.8	1.2	1.2
FCF Yield (%)	2.2	5.9	5.0

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	46.0	46.0	46.0
DII	19.1	19.8	17.8
FII	12.8	12.9	10.5
Others	22.1	21.4	25.7

FII Includes depository receipts

CMP: INR266

TP: INR310 (+16%)

Buy

Revenue in line; profit beat led by cost optimization

INR5-6b order book at Nexcharge, to be executed in next 8-12 months

- Exide (EXID) reported a healthy result in 2QFY24, led by gross margin expansion of 290bp QoQ to 31.1% (est. 28.6%) despite a ~4% increase in lead prices. We expect a sequential recovery to continue for its Lead acid battery (LAB) vertical. For its li-ion cell business, homologation has started and its venture into cell manufacturing is likely to start in FY26.
- We raise our FY24E EPS by 5% to factor in better gross margin, and maintain FY25E EPS. We value EXID at 16x Sep'25E EPS (vs. 14x earlier) to account for developments in its li-ion business, which is likely to start from FY26. We add INR51/sh value for HDFC Life stake. **Reiterate BUY with a TP of INR310.**

Revenue growth mainly aided by volumes

- 2QFY24 revenue/EBITDA/Adj. PAT grew 10%/17%/17% YoY to INR41.1b/4.8b/2.9b (est. INR40.9b/4.6b/2.7b).
- 1HFY24 revenue/EBITDA/Adj. PAT grew 7%/15%/12% YoY.
- Revenue growth was largely driven by volume growth. Gross margin rose 60bp YoY (+290bp QoQ) to 31.1% (est. 28.6%), led by cost optimization.
- Higher employee costs (+30bps YoY) restricted EBITDA margin expansion at 70bp YoY (+120bp QoQ) to 11.8% (est. 11.2%).
- Higher interest cost was partially offset a better operating performance. As a result, adj. PAT grew 17% YoY to ~INR2.9b (est. INR2.7b).
- FCFF improved to INR12.8b (vs. INR8.5b in 1HFY23) due to better CFO at INR14.9b (vs. INR10.1b in 1HFY23) despite higher capex of INR2.1b (vs. INR1.5b in 1HFY23).
- The board has decided to invest further INR11b in one or more tranches in Exide Energy Solutions Ltd (EESL), taking total investments to INR30b (vs. INR19b proposed earlier, of which INR15.3b already invested – INR2.75b in 2QFY24 and INR4.4b in Oct'23).

Highlights from the management interaction

- Revenue growth was largely driven by volumes** and calibrated pricing strategies. Lead prices rose ~4%, resulting in a ~2% impact on RM costs. However, gross margin improved due to cost optimization process. EXID aims to return to the EBITDA margin range of 14.5-15% in the future.
- Li-ion business:** The order book stands at INR6-7b. Homologation process has already started and initiated discussion process with 4W, 2W and telecom customers in the stationary space. Hence, the company will get the first-mover advantage.
- Capex:** Requirement for phase-1 is INR45-50b, which will be largely funded through equity infusion. It can look for external borrowings if required, which can be later paid through cash flows from the core business.
- LAB** will require annual capex of INR5b. Overall capacity utilization for the business stands at ~80% with de-bottlenecking required in few sectors.

Valuation and view

- Considering its market leadership, technological alliances, backward integration, a favorable product mix, and a strong balance sheet following the sale of its insurance business, EXID is our preferred name due to its superior risk-reward potential. Further, EXID has embarked on lithium ion cell manufacturing, supported by a partnership with SVolt and a strong balance sheet. However, lithium chemistry poses a risk to the 2W/3W segments (~15% of revenue) and the Industrial segment (~26% of revenue).
- The stock trades at 20.8x/17.8x FY24E/FY25E standalone EPS. Valuing it at ~16x standalone Sep'25E EPS + INR51/sh for a stake in HDFC Life Insurance (at 20% Holdco discount). **We reiterate our BUY rating with a TP of ~INR310.**

S/A Quarterly Performance**(INR M)**

Y/E March	FY23				FY24E				FY23	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Net Sales	38,994	37,189	34,121	35,430	40,726	41,067	40,263	42,559	1,45,919	1,64,614	40,908
Growth YoY (%)	56.8	13.0	6.7	3.7	4.4	10.4	18.0	20.1	17.6	12.8	10.0
Gross operating income	38,994	37,189	34,121	35,430	40,726	41,067	40,263	42,559	1,45,919	1,64,614	40,908
Growth YoY (%)	56.8	13.0	6.7	3.7	4.4	10.4	18.0	20.1	17.6	12.8	10
RM(%)	72.1	69.5	67.7	70.2	71.7	68.9	69.4	69.4	69.9	69.9	71.4
Employee cost (%)	5.5	5.9	6.3	6.2	5.8	6.2	6.3	6.2	6.0	6.1	5.9
Other Exp(%)	12.5	13.5	14.3	13.3	11.8	13.1	12.8	12.7	13.4	12.6	11.6
Total Cost	35,127	33,065	30,111	31,758	36,404	36,235	35,613	37,543	1,30,239	1,45,796	36,347
EBITDA	3,866	4,124	4,010	3,672	4,322	4,831	4,650	5,015	15,680	18,819	4,561
EBITDA Margin(%)	9.9	11.1	11.8	10.4	10.6	11.8	11.6	11.8	10.7	11.4	11.2
Change (%)	48.4	-0.2	7.6	4.9	11.8	17.1	16.0	36.6	12.1	20.0	11
Non-Operating Income	322	356	234	412	192	392	250	274	1,324	1,108	350
Interest	64	62	82	83	98	115	115	112	295	440	80
Depreciation	1,091	1,120	1,153	1,193	1,194	1,259	1,265	1,288	4,558	5,005	1,225
PBT after EO Exp	3,034	3,298	3,009	2,808	3,222	3,849	3,520	3,890	12,151	14,481	3,606
Effective Tax Rate (%)	25.4	25.3	25.8	26.0	24.9	25.4	25.0	24.6	25.6	25.0	25.0
Adj. PAT	2,263	2,462	2,232	2,078	2,419	2,870	2,640	2,931	9,036	10,861	2,705
Change (%)	80.5	5.1	9.4	-24.7	6.9	16.6	18.3	41.1	7.5	20.2	9.8

Key performance indicators

Cost Break-up											
RM(%)	72.1	69.5	67.7	70.2	71.7	68.9	69.4	69.4	69.9	69.9	71.4
Employee cost (%)	5.5	5.9	6.3	6.2	5.8	6.2	6.3	6.2	6.0	6.1	5.9
Other Exp(%)	12.5	13.5	14.3	13.3	11.8	13.1	12.8	12.7	13.4	12.6	11.6
Gross Margin (%)	27.9	30.5	32.3	29.8	28.3	31.1	30.6	30.6	30.1	30.2	28.6
EBITDA Margin(%)	9.9	11.1	11.8	10.4	10.6	11.8	11.6	11.8	10.7	11.4	11.2
EBIT Margin(%)	7.1	8.1	8.4	7.0	7.7	8.7	8.4	8.8	7.6	8.4	8.2
Lead Price (INR/Kg)	169.2	157.6	173.4	175.6	174.0	0.0	0.0	0.0	169.0	121.4	0.0
Change (%)	8.4	-8.8	-0.5	0.4	2.8	-100.0	-100.0	-100.0	-0.4	-28.1	-100.0

E: MOFSL Estimates



Key takeaways from the management commentary

- **Revenue growth was largely driven by volumes** and calibrated pricing strategies. Exports currently account for 9% of standalone business.
 - Automotive division witnessed demand uptick both from OEMs and in the replacement market. Large-scale capex across sectors is driving volumes and sales growth in the industrial division.
 - Lead prices increased ~4%, which in turn negatively impacted RM by ~2%. Despite that, gross margin improved QoQ due to cost optimization. It aims to return to the EBITDA margin range of 14.5-15% in future.
- **Aftermarket division:** Replacement demand usually kicks in after three years of OEM supplies. Hence, the company is still facing the impact of Covid-related slowdown. However, it is seeing an uptick in replacement for both 2W and 4W.
- **Industrials:** Huge scope thanks to smart city initiatives, data centers, telecoms, power plants, growth in public sector and gradual pickup in private segments. Seeing growth across telecom, solar UPS, power, project sector. EXID is the market leader in all the segments, except Telecom.
- **Exports** present a promising opportunity in both auto and industrials. It is already supplying traction battery to Germany. In auto exports, there was anti-dumping duty in Middle East and UAE; however, it has configured products that are outside the ambit of antidumping, and supplies have started now.
- **Li-ion business:** The project is expected to start by the end of FY25 and it should take a few months to stabilize.
 - Started having a discussion with 4W, 2W and telecom customers in the stationary space. Hence, the company will get the first-mover advantage. Homologation of Li-ion products takes ~18 months. Hence, the early-mover advantage is crucial. The company will initially start with both LFP and NMC.
 - The homologation process has already started. Capex requirement for phase-1 is INR45-50b, which will be largely done through equity infusion. It can look for external borrowings if required, which can be later paid through cash flows from core business. So, liquidation of investment is not needed.
 - The order book for the segment is INR6-7b, which has remained stable sequentially, but the timeline has changed due to PLI-related issues. This order book also includes a high share of stationary applications like telecom.
- **Advantages of sourcing locally:** OEMs have to go through a huge working capital cycle due to high RM inventory of li-ion batteries vs. lead, which was earlier used to work on time basis. Advantage of having local suppliers will help OEMs get back to previous working capital cycle. Also, dialogues between OEMs and suppliers will improve. Along with this, the company is confident to manufacture the products at international pricing.
- LAB business will require an annual capex of INR5b.

Key exhibits

Exhibit 1: Trends in revenue and growth

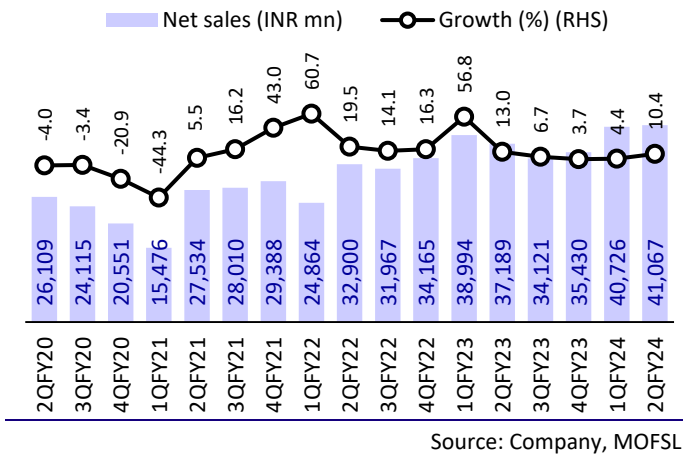


Exhibit 2: Trend in gross margin

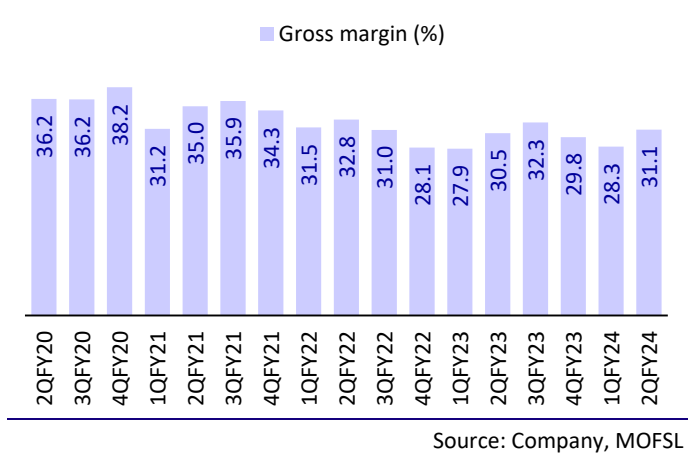


Exhibit 3: Trend in other expense as a percentage of sales

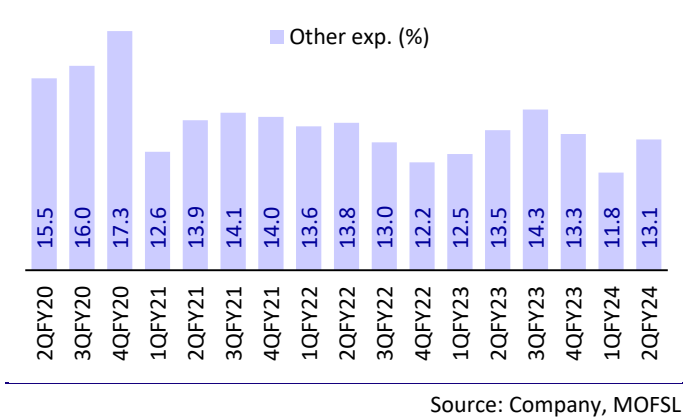


Exhibit 4: Trend in EBITDA margin

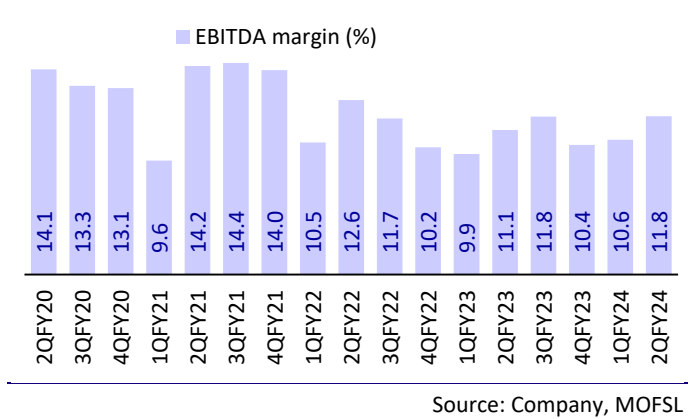
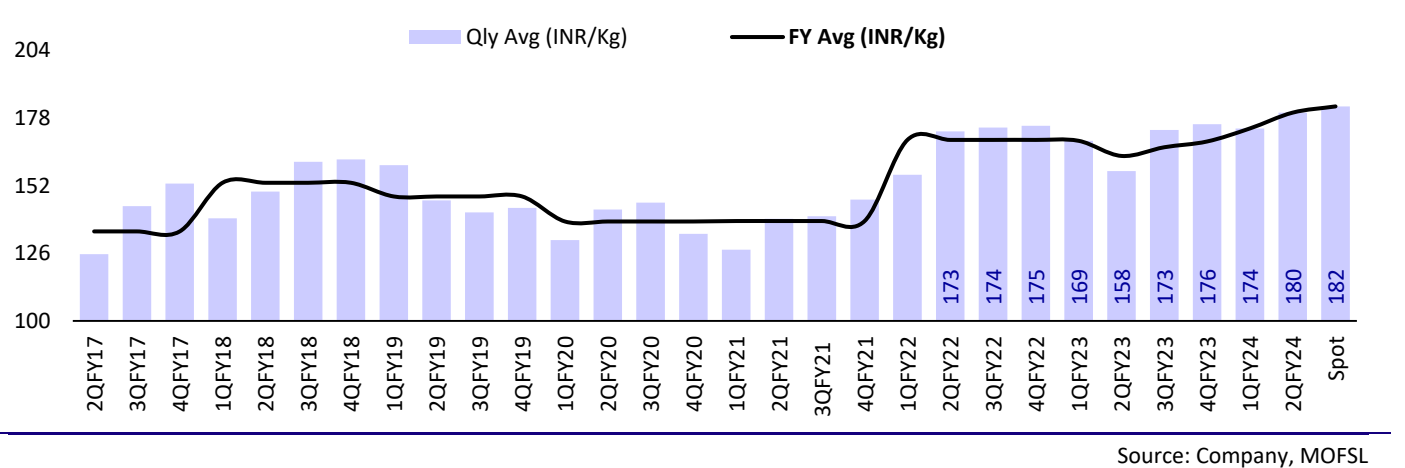


Exhibit 5: Lead price is expected to remain at elevated levels



Valuation and view

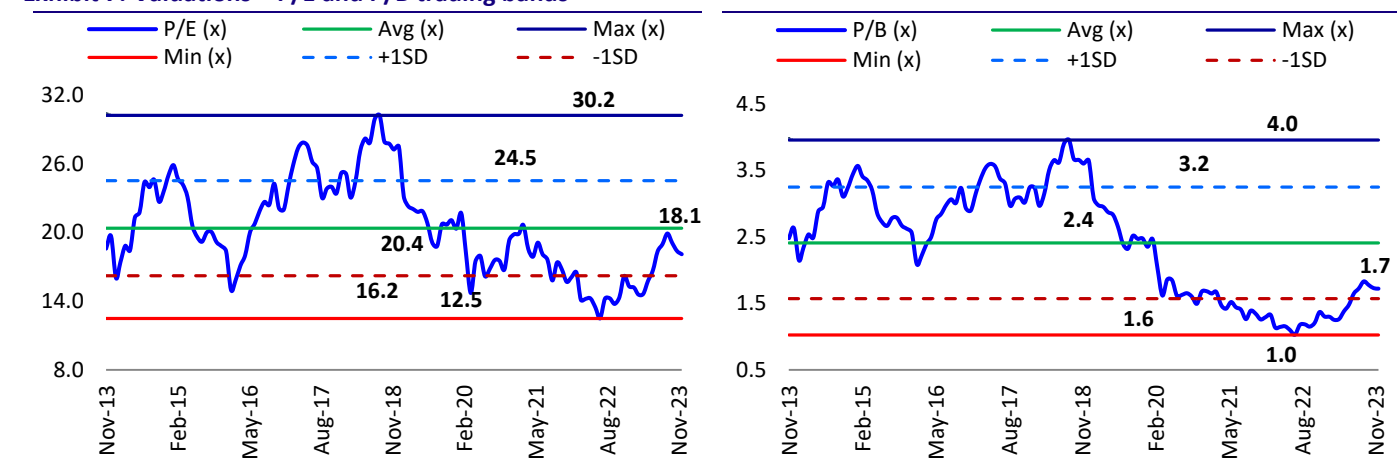
- **Industry structure remains duopoly; EXID leads:** While the industry structure remains largely a duopoly, EXID is the largest lead acid battery manufacturer in India, with leadership among auto OEMs and the Replacement segment. EXID has largely caught up with competitors by investing in technology and being more proactive in customer service as well as plugging the gaps in its product portfolio.
- **EXID to defend its top position:** With demand recovery in auto OEMs and the Industrial segment, EXID should improve its market share. PV OEM demand saw strong recovery in FY23, while 2Ws too are now witnessing a gradual recovery. We expect value migration from unorganized to organized players, such as EXID and AMRJ, in the Replacement segment, driven by tax reforms such as GST and lower corporate tax rates. Recovery in replacement demand would lead to better capacity utilization and margins.
- **Electrification of 2Ws/3Ws a risk for lead acid battery players, but the new Li-ion battery plant is a step in the right direction:** Unlike e-cars, e-2Ws/e-3Ws do not require a lead acid battery as an auxiliary battery. This would impact 15–20% of the revenue of lead acid battery players. Lithium further poses a risk to industrial batteries (~26% of revenue). EXID's venture into li-ion technology is progressing well, and the company plans to initiate battery pack assembly revenue starting this year. The manufacturing of li-ion cells is also anticipated to commence from FY26. However, evolving competitive landscape for li-ion cell manufacturing due to rising demand for EVs makes it difficult to assess the potential for EXID's success in this domain.
- **War chest in the form of HDFC Life stake available for investments in new technology:** With access to over INR45b worth of stake in HDFC Life, EXID is well-positioned for potential investments in new technologies. This timely monetization of the Insurance business provides a perfect opportunity for the company to pursue its plans for investing in lithium-ion cell manufacturing.
- **Valuation and view:** We raise our FY24E EPS by 5% to factor in better gross margin, and maintain FY25E EPS. Considering its market leadership, technological alliances, backward integration, favorable product mix, and strong balance sheet following the sale of the Insurance business, EXID is our preferred name due to its superior risk-reward potential. Further, EXID has embarked on lithium-ion cell manufacturing supported by partnership with SVolt and strong balance sheet. However, lithium chemistry poses a risk to the 2W/3W segments (~15% of revenue) and the Industrial segment (~26% of revenue). We now value EXID at 16x Sep-25E EPS (vs 14x earlier, to reflect development in its li-ion business, likely to start from FY26) and INR51/sh value from HDFC Life stake (after 20% HoldCo discount). **We reiterate our BUY rating with a TP of ~INR310.**

Exhibit 6: Our revised estimates

(INR m)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,64,903	1,63,855	0.6	1,84,212	1,83,031	0.6
EBITDA Margin (%)	11.4	10.8	70bp	11.8	11.7	10bp
PAT	10,899	10,336	5.4	12,709	12,867	-1.2
EPS (Rs)	12.8	12.2	5.4	15.0	15.1	-1.2

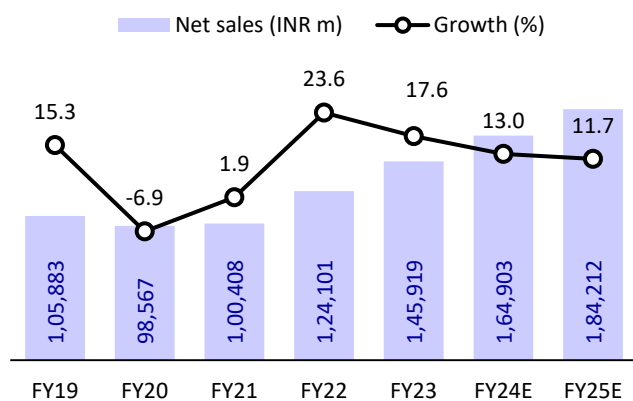
Source: MOFSL

Exhibit 7: Valuations – P/E and P/B trading bands



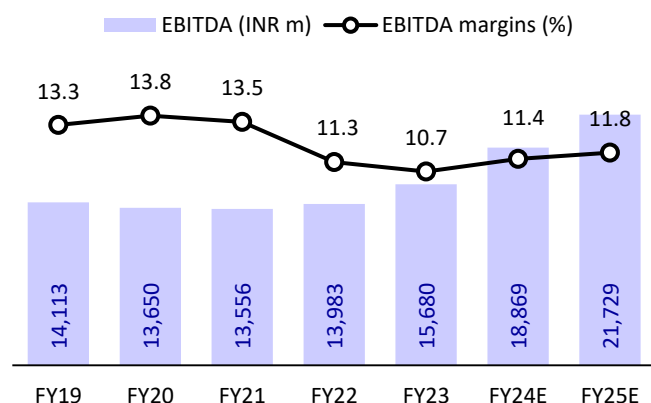
Story in charts

Exhibit 8: Trends in revenue and growth



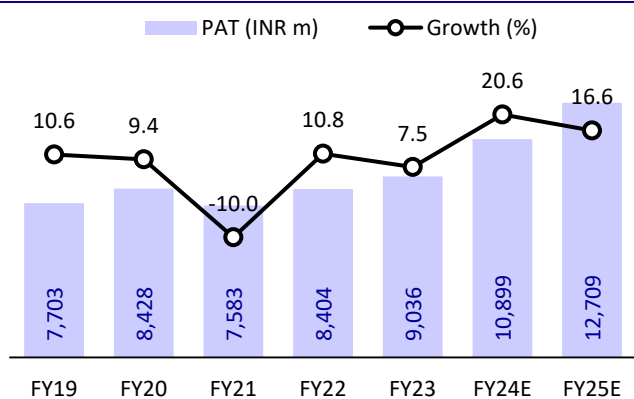
Source: Company, MOFSL

Exhibit 9: Trends in EBITDA and EBITDA margin



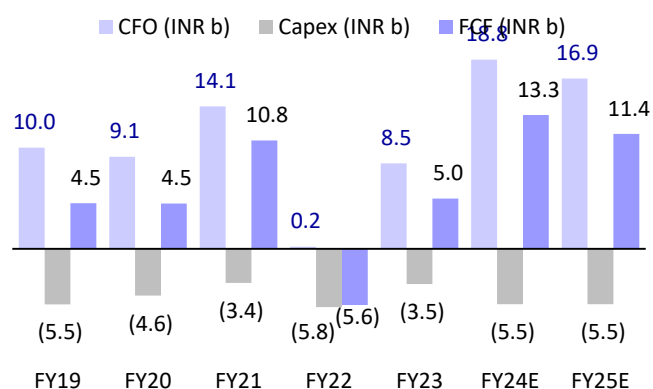
Source: Company, MOFSL

Exhibit 10: PAT and PAT growth trends



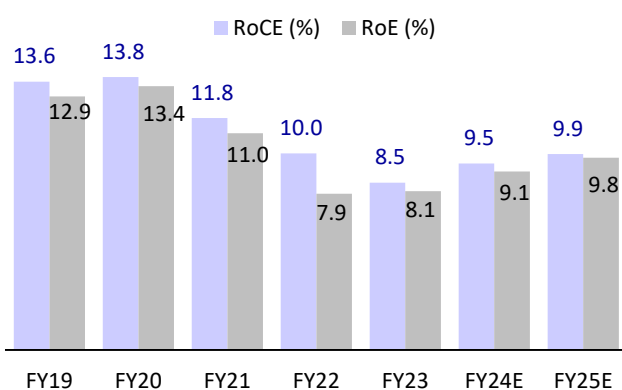
Source: Company, MOFSL

Exhibit 11: Strong FCF driven by healthy CFO



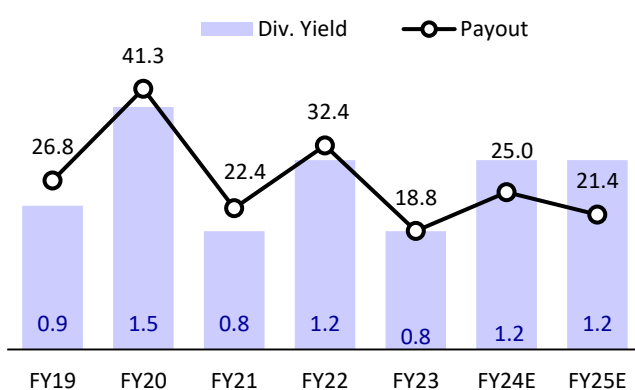
Source: Company, MOFSL

Exhibit 12: Trend in return ratios



Source: Company, MOFSL

Exhibit 13: Dividend yield and dividend payout (%) trend



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR M)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	1,05,883	98,567	1,00,408	1,24,101	1,45,919	1,64,903	1,84,212
Change (%)	15.3	-6.9	1.9	23.6	17.6	13.0	11.7
EBITDA	14,113	13,651	13,557	13,984	15,681	18,870	21,730
EBITDA Margins (%)	13.3	13.8	13.5	11.3	10.7	11.4	11.8
Change (%)	13.7	-3.3	-0.7	3.1	12.1	20.3	15.2
Depreciation	3,135	3,626	3,794	4,131	4,558	5,005	5,383
EBIT	10,978	10,025	9,763	9,852	11,123	13,865	16,347
Interest Charges	61	94	238	394	295	440	550
Other Income	385	639	654	805	1,324	1,108	1,172
EO Exp/(Inc)	(1,083)	217	-	(46,938)	-	-	-
PBT	12,386	10,352	10,179	57,199	12,151	14,532	16,968
Tax	3,945	2,097	2,596	10,356	3,115	3,633	4,259
Effective Rate (%)	31.9	20.3	25.5	18.1	25.6	25.0	25.1
Rep. PAT	8,440	8,255	7,583	46,843	9,036	10,899	12,709
Change (%)	26.3	-2.2	-8.1	517.8	-80.7	20.6	16.6
Adj. PAT	7,703	8,428	7,583	8,404	9,036	10,899	12,709
Change (%)	10.6	9.4	-10.0	10.8	7.5	20.6	16.6

Balance Sheet							(INR M)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	850	850	850	850	850	850	850
Reserves	59,020	62,111	68,085	1,05,131	1,11,248	1,19,426	1,29,415
Net Worth	59,870	62,961	68,935	1,05,981	1,12,098	1,20,276	1,30,265
Loans	0	0	0	0	0	5,000	8,500
Deferred Tax Liability	1,751	1,019	771	-654	-1,160	-1,160	-1,160
Capital Employed	61,621	63,980	69,706	1,05,327	1,10,938	1,24,116	1,37,606
Application of Funds							
Gross Fixed Assets	32,069	36,039	42,740	48,228	53,553	57,062	62,562
Less: Depreciation	9,097	12,645	16,361	20,493	25,050	30,056	35,439
Net Fixed Assets	22,973	23,394	26,379	27,736	28,503	27,006	27,123
Capital WIP	2,549	2,969	2,008	3,124	1,009	3,000	3,000
Investments	21,994	21,050	30,924	60,695	63,414	78,195	90,695
Curr.Assets	34,208	35,008	36,977	41,430	46,425	50,703	55,648
Inventory	18,040	21,923	23,462	24,647	29,891	31,625	35,328
Sundry Debtors	10,812	8,154	8,874	11,945	12,745	14,457	16,150
Cash & Bank Balance	736	1,546	914	1,614	745	1,006	132
Loans & Advances	322	322	383	0	0	0	0
Other Current Assets	4,299	3,064	3,345	3,223	3,045	3,614	4,038
Current Liab. & Prov.	20,103	18,441	26,582	27,657	28,413	34,788	38,861
Sundry Creditors	11,428	10,361	16,483	16,268	15,360	20,331	22,711
Other Liabilities	5,539	4,478	6,856	8,191	9,670	10,843	12,113
Provisions	3,136	3,602	3,244	3,198	3,383	3,614	4,038
Net Current Assets	14,105	16,567	10,395	13,773	18,012	15,915	16,787
Application of Funds	61,621	63,980	69,705	1,05,327	1,10,938	1,24,116	1,37,606

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	9.1	9.9	8.9	9.9	10.6	12.8	15.0
Cash EPS	12.8	14.2	13.4	14.7	16.0	18.7	21.3
Book Value per Share	70.4	74.1	81.1	124.7	131.9	141.5	153.3
DPS	2.4	4.1	2.0	3.2	2.0	3.2	3.2
Payout (Incl. Div. Tax) %	26.8	41.3	22.4	32.4	18.8	25.0	21.4
Valuation (x)							
P/E	29.4	26.9	29.9	26.9	25.0	20.8	17.8
Cash P/E	20.9	18.8	19.9	18.1	16.7	14.2	12.5
EV/EBITDA	14.4	14.9	14.3	11.7	10.3	8.1	6.6
EV/Sales	1.9	2.1	1.9	1.3	1.1	0.9	0.8
Price to Book Value	3.8	3.6	3.3	2.1	2.0	1.9	1.7
Dividend Yield (%)	0.9	1.5	0.8	1.2	0.8	1.2	1.2
Profitability Ratios (%)							
RoE	12.9	13.4	11.0	7.9	8.1	9.1	9.8
RoCE	13.6	13.8	11.8	10.0	8.5	9.5	9.9
RoIC	21.8	21.4	19.6	21.3	19.3	23.7	28.6
Turnover Ratios							
Debtors (Days)	37	30	32	35	32	32	32
Inventory (Days)	62	81	85	72	75	70	70
Creditors (Days)	39	38	60	48	38	45	45
Working Capital (Days)	60	73	58	60	68	57	57
Gross Fixed Asset Turnover (x)	3.3	2.7	2.3	2.6	2.7	2.9	2.9
Leverage Ratio							
Net Debt/Equity (x)	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.1

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR M)							
OP/(Loss) before Tax	12,386	10,352	10,179	57,199	12,151	13,864	16,346
Interest/Dividends Received	-217	-429	-362	-225	-233	1,108	1,172
Depreciation & Amortisation	3,135	3,626	3,794	4,131	4,558	5,005	5,383
Direct Taxes Paid	-3,733	-2,494	-2,721	-10,472	-3,212	-3,633	-4,259
(Inc)/Dec in Working Capital	-468	-2,155	3,044	-3,479	-4,538	2,422	-1,746
Other Items	-1,065	237	200	-46,951	-242	1	0
CF from Oper. Activity	10,038	9,137	14,134	205	8,484	18,767	16,896
(Inc)/Dec in FA+CWIP	-5,510	-4,646	-3,384	-5,783	-3,493	-5,500	-5,500
Free Cash Flow	4,528	4,491	10,750	-5,579	4,991	13,267	11,396
(Pur)/Sale of Invest.	-2,147	1,397	-9,385	8,537	-5,385	-14,782	-12,500
CF from Inv. Activity	-7,656	-3,249	-12,769	2,754	-8,878	-20,282	-18,000
Interest Rec./ (Paid)	-61	-100	-289	-549	-461	-440	-550
Dividends Paid	-2,459	-4,986	-1,700	-1,700	0	-2,720	-2,720
CF from Fin. Activity	-2,520	-5,086	-1,989	-2,249	-461	1,840	230
Inc/(Dec) in Cash	-138	802	-623	709	-855	325	-874
Add: Beginning Balance	785	647	1,449	826	1,534	745	1,006
Closing Balance	647	1,449	826	1,534	679	1,070	132

E: MOFSL Estimates

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NOTES

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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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