

December 12th, 2014

Exide Industries Ltd.

BSE Code: 500086 NSE Code: EXIDEIND Reuters Code: EXID.NS Bloomberg Code: EXID:IN

Exide Industries Ltd (Exide), founded in 1947, manufactures the widest range of lead acid storage batteries and allied products. The company supplies batteries to automotive, industrial, infrastructure development, IT and defense sectors. Exide has ~71% share in the replacement market and has increased its presence in the industrial space with ~64% market share in the power back-up segment. With a distribution network of over 4,000 dealer outlets, the company has 7 battery manufacturing facilities in India. The company sells its products under Exide, SF, Sonic and Standard Furukawa brand names. In the international market, the company's products are sold under Dynex, Index and Sonic brands.

Investment Rationale

Revenue grew decently; EBITDA margin contracted in Q2FY15: Exide showcased healthy numbers in Q2FY15, with 23.1% YoY rise in standalone total income at ₹17,633.4 mn led by 37% and 21% YoY growth in revenue from industrial batteries and four-wheeler batteries. While revenue from motorcycles batteries grew by 12% YoY, sales to OEMs remained flat in Q2FY15. The company saw a 3.2% YoY rise in EBITDA, as raw material cost grew massively by 1730bps YoY (as a % of sales). Consequently, EBITDA margin declined 228bps YoY to 11.8%. The contraction in margin was further augmented by 30% fall in high margin inverter sale. Moreover, higher spends on technology and quality improvement measures impacted margins during Q2FY15. However, the management expects that a price increase of 5% on inverter battery will help improve margins by 1-2% sequentially.

PAT remained range-bound as higher other income was offset by rise in depreciation cost: The company's PAT grew by 6% in Q2FY15 to ₹1,257.6 mn, followed by a mix of 86.9% YoY growth in other income, a 12.8% YoY decline in finance cost, 1.6% rise in taxation charges and a 5% increase in depreciation cost. NPM, on the other hand, contracted 115bps YoY to 7.1% in Q2FY15.

Realization across the auto and industrial battery segments to improve further: Diesel vehicle sales in the passenger car segment have improved substantially. This has a positive impact on the company's average realizations as the diesel vehicle batteries are sold at a premium as compared to the petrol variant batteries. Further, an increase in dieselization of domestic passenger vehicle would also help the company in maintaining the realization growth. Further, most of the two wheelers (2W) are now equipped with electric start and use valve regulated lead acid (VRL) batteries, which have a shorter replacement cycle and thus, the company's volume of the two-wheeler segment is expected to grow at a better pace.

Expansion Plans: Exide had acquired 100% ownership of ING Vysya Life Insurance Company Ltd last year and the name of the life insurance company has been renamed as Exide Life Insurance Co Ltd in May 2014. Exide Life insurance is planning to open nine offices in the east in FY15, thereby expanding its presence outside south. The company has always been cautious in expanding outside south since ING brand name was not very renowned in other markets. Setting up new offices in these markets will be an easier task for Exide as it is a well-known brand in these markets and will take the company's insurance business to new heights.

Market Data

Rating	BUY
CMP (₹)	170.3
Target Price	196
Stop Loss	157
Duration	Short-term
52-week High-Low (₹)	183.4/99.0
Rise from 52WL (%)	72.0
Correction from 52WH (%)	(7.2)
Beta	1.0
1 year Average Volume (mn)	2.4
Stock Return (%)	3M- (2.9) 6M- 17.2 1Y- 49.5
Market Cap (₹bn)	144.7
Book Value (₹)	40.7

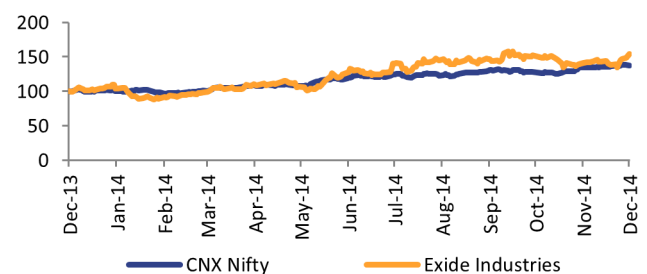
Shareholding Pattern

	Sep'14	Jun'14	Chg
Promoters (%)	46.0	46.0	-
FII (%)	17.0	14.9	2.1
DII (%)	17.8	19.6	(1.8)
Public & Others (%)	19.2	19.5	(0.3)

Quarterly Performance

(₹mn)	Q2 FY'15	Q1 FY'15	Q2 FY'14	QoQ Change(%)	YoY Change(%)
Total income	17,633.4	19,123.6	14,320.7	(7.8)	23.1
Op. exp	15,556.3	16,212.3	12,307.2	(4.0)	26.4
EBITDA	2,077.1	2,911.3	2,013.5	(28.7)	3.2
OPM (%)	11.8	15.2	14.1	(344) bps	(228)bps
Net profit	1,257.6	1,853.0	1,186.3	(32.1)	6.0
NPM (%)	7.1	9.7	8.3	(256)bps	(115)bps
EPS (₹)	1.5	2.2	1.4	(32.1)	5.7

One Year Price Chart





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