Exide Industries Ltd.

EQUITY REPORT

August 8th, 2014

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Exide Industries Ltd. manufactures the widest range of storage batteries in the world from 2.5 AH to 20,400 AH capacities, covering the broadest spectrum of applications. Exide Industries is the only company in the country to design and manufacture batteries from 2.5AH – 20,600AH in conventional flooded and valve regulated lead acid (VRLA) design. The Company has seven factories strategically located across the country-two in Maharashtra and Tamil Nadu, one in West Bengal, and one in Haryana. The Company has grown steadily, modernized its manufacturing processes and taken initiatives on the service front. Exide Industries enjoys a dominant position in the Indian automotive battery industry with more than 27% market share in OEM motorcycle batteries.

Investor's Rationale

Realisation across the battery segments set to improve further: Diesel vehicle sales in the passenger car segment have improved substantially. This has a positive impact on Exide Industries' 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 two wheelers (2W) are now coming 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.

Revenue to grow at a CAGR of ~15% over FY14-16E: Exide Industries has been delivering strong performance from last two quarters. The company posted stellar revenue growth of ~18% in Q1FY15 driven by seasonally strong inverter business and market share gains in the telecom segment. The replacement segment has continued to remain largely positive despite the drop in overall economic activity levels. With a revival in demand for replacement and industrial batteries along with better pricing, we anticipate Exide Industries to post ~15% CAGR revenue growth over FY14-FY16E.

Up-tick in economic activity to improve industrial batteries demand: Demand for industrial segment comprising primarily inverters, telecom, UPS, railways and infrastructure (power, traction) are highly linked with economic activity. With expected pick-up in economic activity, we expect industrial revenues to improve further in the coming quarters. Company's market share in the telecom segment (~currently 17% of industrial revenues) has improved significantly from 8% in Q1FY14 to 21% in Q1FY15 and has a potential to improve further.

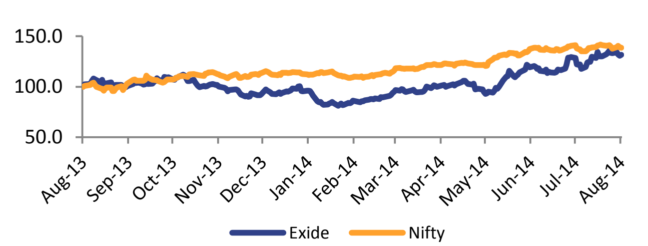
Market Data

Rating	**BUY**
CMP (₹)	157.0
Target (₹)	**183**
Potential Upside	~16.6%
Duration	Long Term
Face Value (₹)	1.0
52 week H/L (₹)	170.0/99.0
Adj. all time High (₹)	179.8
Decline from 52WH (%)	7.6
Rise from 52WL (%)	58.6
Beta	1.1
Mkt. Cap (₹bn)	133.5
Enterprise Value (₹bn)	130.9

Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Revenue (₹bn)	63.7	83.1	101.3	125.3
EBITDA (₹bn)	8.5	8.6	15.5	20.2
Net Profit (₹bn)	5.5	5.4	10.3	13.7
EPS (₹)	6.5	6.4	12.1	16.1
P/E (x)	24.3	24.5	12.9	9.8
P/BV (x)	4.3	3.9	3.1	2.7
EV/EBITDA (x)	15.5	15.1	8.4	6.4
ROCE (%)	8.3	7.7	13.2	16.1
ROE (%)	17.8	15.7	24.2	27.1

One year Price Chart



Shareholding Pattern	Jun'14	Mar'14	Diff.
Promoters	45.99	45.99	0.00
FII	14.93	17.25	(2.32)
DII	19.61	17.18	2.43
Others	19.47	19.58	(0.11)

Exide Industries, the leading manufacturer of lead acid batteries in India

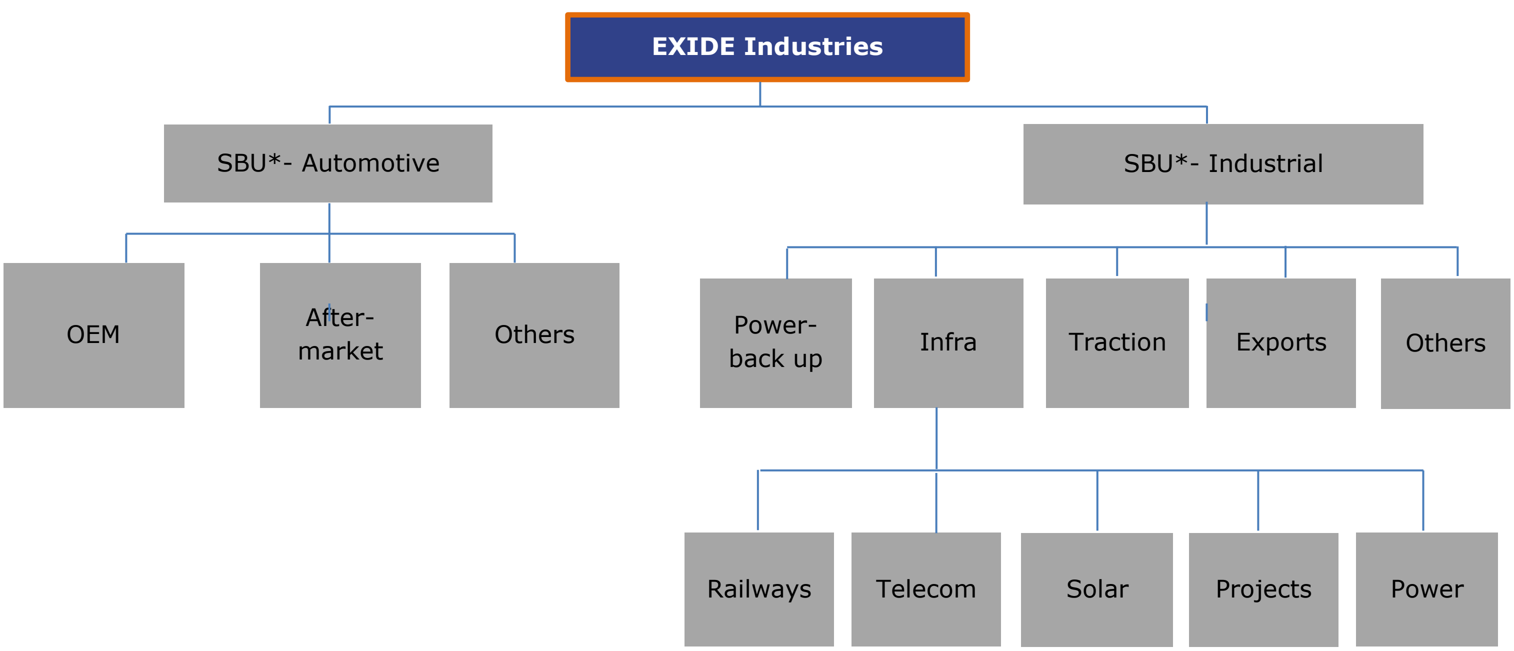
Exide Industries is the only company in the country to design and manufacture batteries from 2.5AH – 20,600AH in conventional flooded and VRLA design

Exide Industries manufacture the widest range of lead acid storage batteries and allied products. For over 85 years, Exide Industries has been dominating in battery technology space in India. The Company's predecessor carried on their operations as import house from 1916 under name Chloride Electrical Storage Company. Thereafter, the Company started manufacturing storage batteries in the country and has grown to become one of the largest manufacturer and exporter of batteries in the sub-continent. Exide separated from its UK-based parent, Chloride Group Plc., in 1989, after the latter divested its ownership in favour of a group of Indian shareholders. The company supplies batteries to automotive, industrial, infrastructure development, information technology and defense sectors. Exide Industries has 7 battery manufacturing facilities in India, which excludes two Home UPS manufacturing facilities. Exide Industries 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.

Exide Industries 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. The company has a distribution network comprising over 4,000 dealer outlets. Exide Industries is the only company to produce submarine batteries in the country.

Exide Industries has 8 subsidiaries in total. This includes the 2 lead smelting units. In FY13, the company has acquired the remaining stake in 2 of its subsidiaries viz ING Vysya life insurance and Espax batteries (UK), making them 100% subsidiaries. The company also exports its products to Europe, South and South East Asia and other overseas markets either directly or through its subsidiaries.

Exide Industries' organisation structure



**Strategic business units (SBU)*

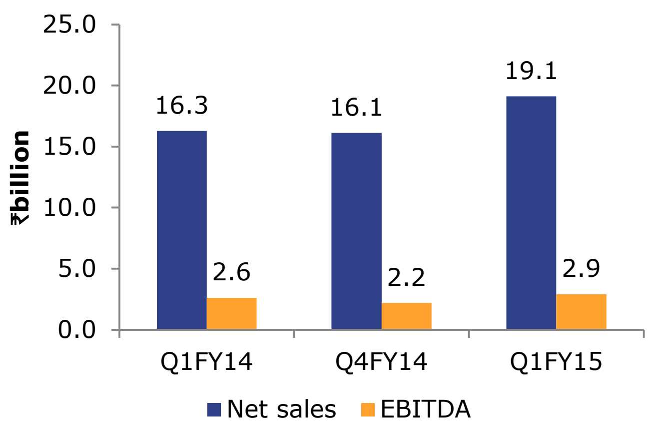
We expect the company to deliver better performance driven by an increase in market share in automotive replacement market during FY15-16E. Furthermore, the company's distribution network, after sales services, Research & Development (R&D) and technical collaborations are likely to boost the performance.

Volumes growth drives Q1FY15 margins up....

On standalone basis, Exide Industries positively surprised on the top-line front, with a growth of 17.5% YoY at ₹19.1 bn in Q1FY15 as compared to same period last year on account of a strong demand in the industrial segment. The company's industrial segment grew by 33% YoY in value terms driven by sharp volume growth led by Inverter/UPS and Telecom segments. Automotive segment's value growth was at 9% driven by 8% and 5% volume growth in 2W and 4W batteries respectively.

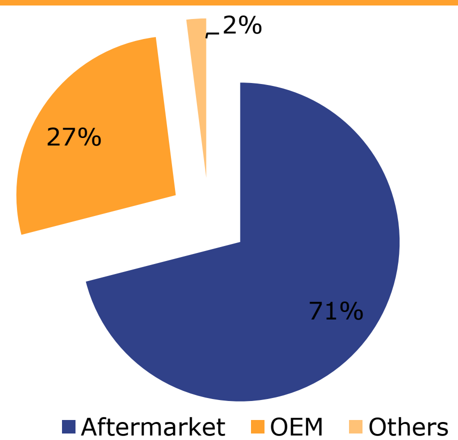
Growth in industrial segment was led by 31% growth in UPS/Inverter segment and manifold increase in the Telecom segment (new improved products at lower prices). Auto OEM volumes remained flat, while the replacement segment reported a growth of 3% YoY during the quarter. Better than expected performance was owing to benefits of operating leverage as the chunk of top-line growth was driven by volumes. Stable lead prices and appreciating rupee allowed raw material cost to decline by 58bps sequentially as a percentage of sales. But on yearly basis, raw material costs were higher by 196bps YoY. As a result, the company's EBITDA surged by 10.9% on YoY and 33% on QoQ basis to ₹2.9 bn, led by better product-mix (in favour of higher margin inverter batteries), the benefits of lower lead prices, which fell 4% on QoQ basis, and operating leverage benefits. Consequently, the EBITDA margin of the company improved by 160 bps QoQ to 15.2% in Q1FY15. However, on a YoY basis, EBITDA margins declined by 90bps, mainly on account of 170 bps YoY decline in gross margins. Finally, on account of higher other income, the net profit of the company rose significantly by 16.7% YoY and 40.2% QoQ to ₹1.9 bn.

Quarterly Net sales and EBITDA trend*



On standalone basis

Exide Industries' automotive segmental revenue(FY14)

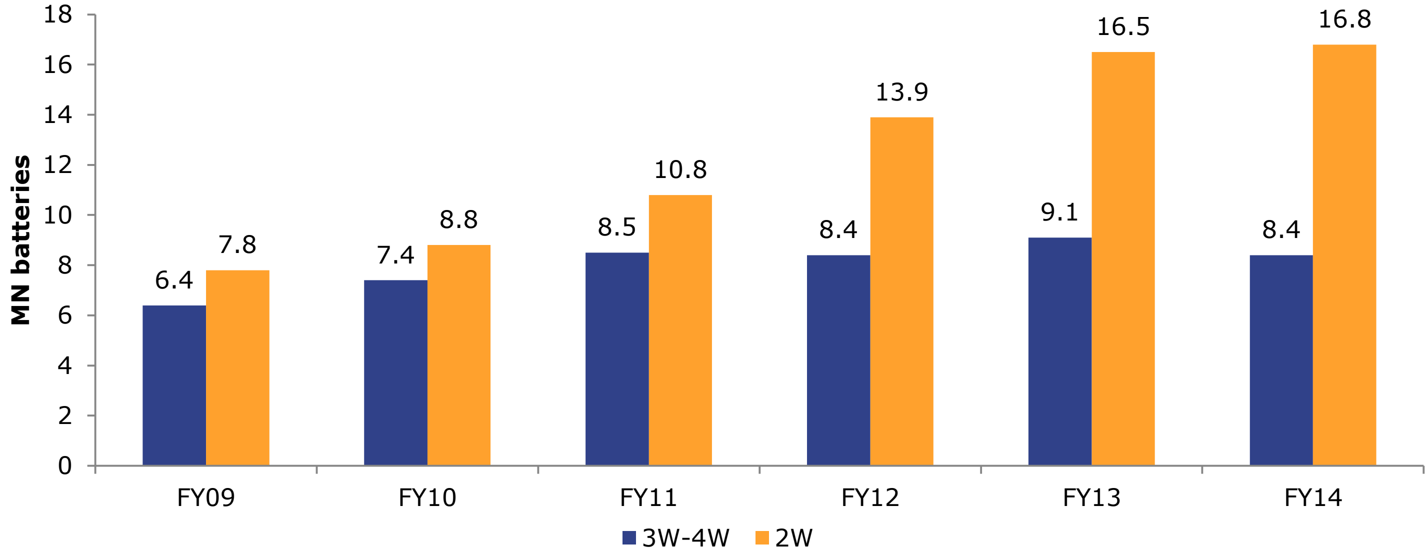


With the revival in the auto industry, we expect the sales of OEM batteries by company to gain momentum and further likely to increase company's market share in OEM segment.

Improvement in auto sales to boost demand for OEM batteries

During Q1FY15, the company has witnessed an improved performance in the replacement market of the automotive battery segment, with OEM segment showing flat growth. With the revival in the auto sector, the company expects demand to increase in the replacement battery market. The company expects revival in demand for batteries in the OEM segment beginning June 2014 in line with the growth in Auto Industry (as per SIAM), with capacity utilisation touching 90% when automobile production grew by 12%. During Q1FY15, the company's capacity utilisation levels for the 2W and 4W segments stood at ~76% and ~78%, respectively. The company plans to focus on its new strategy to enhance capacity as soon as it reaches 90% capacity utilisation. We expect the sale of commercial vehicles to improve with higher economic activities, which should lead to additional demand in the OEM market from Q2FY15 onwards. Thus, we believe that the replacement market, which accounts for 30% of the turnover of automotive batteries, churns out better margins for the company in FY16E.

Exide Industries' 2W & 3W-4W's volume performance during FY09-14



Richer product mix oriented towards higher replacement market would build a strong case for Exide Industries' margin expansion in FY15-FY16E.

Replacement market set to grow at a faster pace

Generally, a battery lasts for around three years in a car/auto and hence the replacement demand for cars/ autos sold in FY12-FY14 is expected to increase over the next two years, due to higher numbers of cars sold in FY10-12. Initial signs of demand recovery are visible in autos. Passenger vehicles demand has bounced back strongly in Q1FY15 post weak performance for last 3 years. Thus, we expect replacement demand to remain strong in FY15-FY16.

Exide Industries low exposure to the replacement market, which enjoys a high margin. Thus, with the growing demand in replacement market, margins in the replacement market are also likely to improve. In our view, a richer product mix oriented towards higher replacement market would build a strong case for Exide Industries' margin expansion in FY15-FY16E.

Focus on batteries meant for diesel cars to help improve realisation

A significant increase in the petrol prices has severely impacted the sales of petrol based vehicle models. While the recent marginal increase in the diesel price is a step to narrow down the gap between price per litre of diesel and petrol, still the difference is huge, ~₹22/lt. Consequently, the customers switched to diesel products and this led to decline in petrol variant sales. In our view, higher sales of diesel cars will also act as a strong positive trigger for companies in the battery space, as diesel car batteries require higher cranking power compared to petrol car batteries, and accordingly, usage of diesel car battery increases. Thus, diesel car batteries require early replacement as compared to petrol car batteries. Diesel car batteries are also sold at a ~70-100% premium compared to petrol car batteries, which in turn is expected to boost realisation.

Exide Industries is concentrating to increase 2-wheeler VRLA batteries to meet the increasing demand and improve the foregoing realization.

Increasing demand of VRLA two wheeler batteries to aid growth

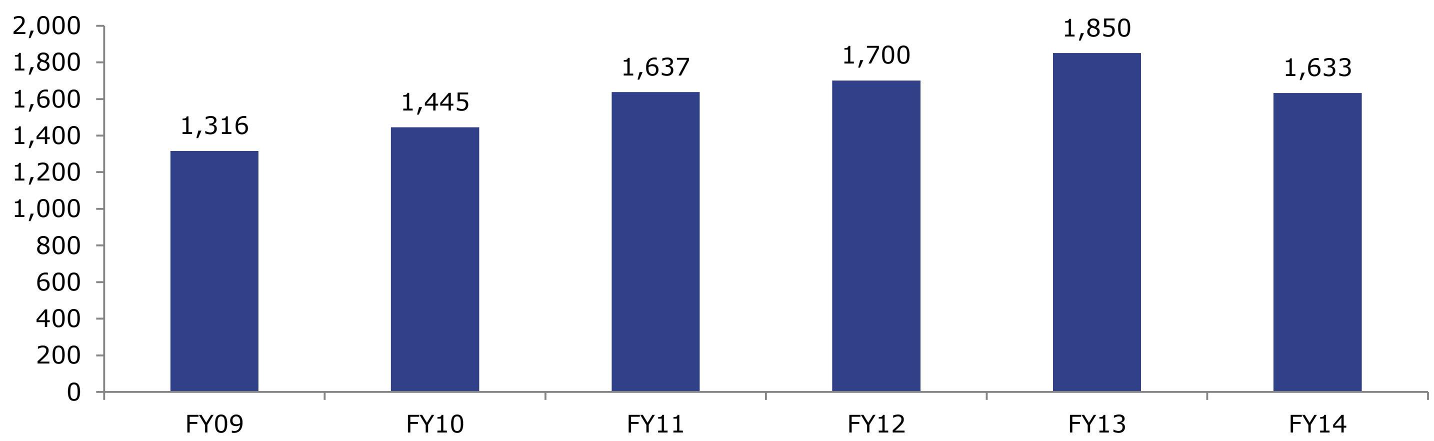
Under two–wheeler segment, the replacement market for batteries is highly dominated by unorganised players as the customers are mostly in rural areas. But there is a movement taking place in the two-wheeler space, with more and more vehicles now having VRLA (valve regulated lead acid) batteries. These batteries are used in electric-start two-wheelers as against the traditional kick-start two-wheelers. The batteries have a shorter replacement cycle and are also expensive than normal two-wheeler batteries.

Improvement in non-auto business prospects to be an important trigger

In FY14, the company's revenue from industrial battery segment fell 4% YoY to ₹20.7 bn. Lack of demand from Power & Projects and less than expected demand in Traction batteries on account of slowdown in manufacturing sector impacted the performance. But, from past two quarters, the company has seen a noticeable improvement in performance from its industrial battery segment aided by an uptick in the inverter and UPS segments, which is seasonal in nature.

During Q1FY15, industrial segment of the company recorded a revenue growth of 33% YoY. This robust growth in industrial segment was led by 31% YoY growth in UPS/Inverter segment and manifold increase in the Telecom segment.

Exide Industries' Industrial battery sales trend during FY09-14



We expect that increase in industrial demand coupled with a demand recovery in the automotive segment will help the company to improve its business performance.

Exide Industries has its presence in the inverter and UPS segment, which contributes together ~64% to its industrial revenue. Typically, inverter demand shoots up during the first half of the financial year because of the summer season. We expect that UPS and inverter segments will have a decent opportunity to grow in coming years as power deficit is expected to remain at elevated levels. On the back of new and technically advanced products with aggressive pricing, the company has improved its market share in the telecom segment to 20% in Q1FY15.

On track to meet excess demand by expanding capacity

Exide Industries has decided to increase manufacturing capacity at its existing plant by adding new capacity in the beginning of FY16 as the signs of revival in the automobile sector have begun to show up after the car makers reported improvement in sales over the past couple of months following subdued demand in the past two years. The company is planning to invest ₹3,500 mn in FY15 mainly to increase industrial battery making capacity at its existing plants. The company has over 80% market share in the power, projects and manufacturing segments. During Q1FY15, the industrial segment of the company operated at over 100% capacity utilisation. With expectations of an overall demand revival, the company's industrial segment volume growth is expected to be healthy.

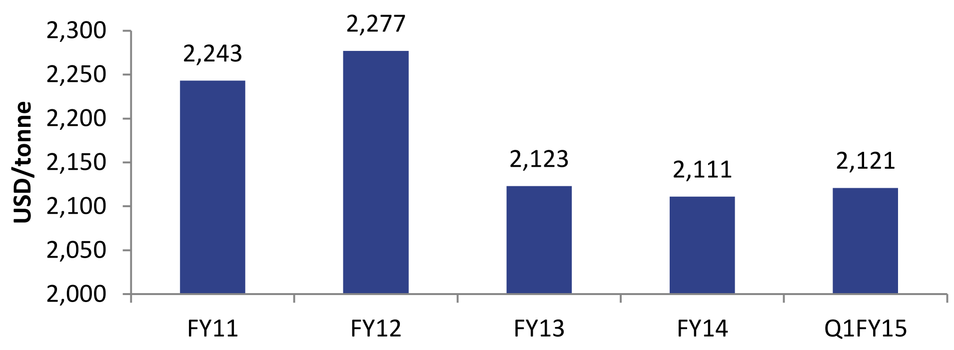
Stable lead price to result in improved operational performance

Lead is the main raw material for the battery manufacturers and constitutes ~75% of the total raw material cost. Volatility in lead prices is generally a major concern for battery manufacturers across the globe. Exide Industries has reduced its dependence on imported lead by backward integration through acquisition of lead smelting and refining facilities. Captive smelting and refining operations result not only enhancing supplies but also provides a price advantage compared to the competition. Now, ~40% of the company's lead requirements are met through supplies from captive operations and ~40% of the requirement of lead is outsourced from Hindustan Zinc Ltd. This makes them less dependent on imported lead. While competitors import ~45% of their total lead requirement, only ~20% of the total lead requirement is imported from outside India by Exide Industries.

Even if there is a significant weakening of rupee and high lead price in the international market, the impact on the total raw material cost of the company will be less as compared to competitors. Recent stability in prices of lead combined with rupee appreciation vis-à-vis US Dollar resulted in lower cost of production and consequently brought some relief on the margin front. With captive smelting & refining facilities, the company has displayed a considerable amount of pricing power, thus warding off sharp volatility in lead prices.

We believe that the increase in the capacity of smelters would help the company to further reduce its dependence on imported lead.

Global lead price trend during FY09-14



Exide Industries' higher emphasis on technical collaboration and R&D to improve product performance

In order to maintain its leadership position in battery space, EXIDE is continuously upgrading its technology and also acquiring new technology to meet the increasing demands of the customers.

In view of the emerging needs for advanced lead-acid batteries for varied applications, the focus on technology and innovation would continue. In FY14, Exide entered into technical collaboration and assistance agreements with a leading US manufacturer of high quality lead-acid battery and accessory products - East Penn Manufacturing Company Inc. USA, (East Penn). According to the agreement, East Penn would provide technical assistance and support for the manufacturing of automotive, motive power, standby, telecom, UPS, solar and traction batteries. East Penn is also providing technical assistance and support to the two captive smelters of the company.

The company already has on-going agreements with Furukawa Battery company, Japan for Lead Acid Storage Batteries including VRLA motorcycle battery and Maintenance Free Batteries for four-wheelers and for Idle Stop Start (ISS) automotive batteries. The company plans to spend ~₹2 bn on technological up-gradation to reduce material wastage and warranty costs.

Balance Sheet (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Share Capital	850	850	850	850
Reserve & Surplus	29,947	33,747	41,839	49,492
Net Worth	**30,797**	**34,597**	**42,689**	**50,342**
Minority Interest	112	117	117	117
Loans	24	43	42	41
Other long-term liabilities	74	59	61	66
Long-term provisions	267	269	269	269
Net deferred tax liability	1,037	1,118	1,118	1,118
Other liabilities	62,574	66,795	68,139	69,511
Current liabilities	18,203	21,942	22,877	24,129
Capital Employed	**113,087**	**124,939**	**135,312**	**145,592**
Fixed assets	11,562	11,669	12,290	12,536
Goodwill	5,819	5,819	5,819	5,819
Investments	36,966	47,943	52,258	56,961
Loans and advances	1,056	1,317	1,475	1,652
Other assets	**23,783**	**22,896**	**22,900**	**22,905**
Current assets	33,902	35,294	40,570	45,719
Capital Deployed	**113,087**	**124,939**	**135,312**	**145,592**

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Net Sales	**63,659**	**83,087**	**101,291**	**125,321**
Operating expense	55,138	74,449	85,793	105,094
EBITDA	**8,521**	**8,637**	**15,498**	**20,227**
Other Income	561	708	850	1,020
Depreciation	1,220	1,404	1,530	1,668
EBIT	**7,862**	**7,941**	**14,817**	**19,578**
Interest	91	76	44	42
Profit before tax	**7,771**	**7,865**	**14,773**	**19,536**
Tax	2,371	2,406	4,432	5,861
Minority Interest	19	15	15	15
Share of associate	112	0	0	0
Net Profit	5,493	5,445	10,326	13,660

Key Ratios (Consolidated)

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	13.4	10.4	15.3	16.1
EBIT Margin (%)	12.4	9.6	14.6	15.6
NPM (%)	8.6	6.6	10.2	10.9
ROCE (%)	8.3	7.7	13.2	16.1
ROE (%)	17.8	15.7	24.2	27.1
EPS (₹)	6.5	6.4	12.1	16.1
P/E (x)	24.3	24.5	12.9	9.8
BVPS(₹)	36.2	40.7	50.2	59.2
P/BVPS (x)	4.3	3.9	3.1	2.7
EV/Operating Income (x)	2.1	1.6	1.3	1.0
EV/EBITDA (x)	15.5	15.1	8.4	6.4

Valuation and view

We expect Exide Industries' revenue to grow at a CAGR of ~15% over FY14-16E, owing to improving demand outlook, initial signs of market share gains in replacement segment and consequent margin expansion on operating leverage. The company's focus on two-wheeler VRLA batteries and diesel vehicle batteries is likely to improve the overall product mix and impact the margins positively. With volume recovery expected in FY15E, we expect operating leverage benefits to help the company in maintaining its EBITDA margins in the 15-16% range in FY15-16E.

Considering the above aspects, we rate the stock as 'BUY' at a current CMP of ₹157.0, attractively placed at EV/EBITDA of ~8.4x and ~6.4x, for FY15E and FY16E, respectively to arrive at a target price of ₹183.0, with a potential upside of ~16.6% for the coming 12 months.

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