

SENSEX
16741.3**Automobile Battery Industry**

Sep 19, 2009

NIFTY
4965.6**EXIDE Battery**

(Rs. In Crores)	Exide Batteries	
	2009	2010E
Revenue	3798.8	4337.0
EBITDA	583.0	838.0
EBITDA Mar	15%	19%
PAT	294.3	489.6
PAT Mar	8%	11%
Out standing shares	80	80
EPS (Rs)	3.6	6.1
Price as on 18/09/09	90.4	90.4
P/E	24.5	14.7

Amara Raja Battery

(Rs. In Crores)	Amara Raja Batteries	
	2009	2010E
Revenue	1583.9	1670.0
EBITDA	151.0	346.0
EBITDA Mar	10%	24%
PAT	80.0	1180.2
PAT Mar	5%	14%
Out standing shares	8.54	8.54
EPS	9.3	19.9
Price as on 18/09/09	134.0	134.0
P/E	14.3	6.7

Industry Overview

Lead acid battery technology has been in use for over 100 years, widely used as secondary storage device. The popularity of lead acid batteries is attributed to

- Maturity of the technology
- Low maintenance costs
- Low cost of materials
- Widespread recycling of lead
- Relatively wide temperature range for both cycling and non-cycling applications.

The commercial lead acid battery market is almost totally driven by automotive and stand-by power applications, although they are also used in portable computers and communications devices.

Automotive Market**OEM Segment**

The Indian automobile battery industry is about Rs.900 crore as on June 20 2009. The automotive battery market is divided into the OEM market and replacement market. The OEM market is catered to by established companies like Exide, Amara Raja etc. Rapid increase in demand for automobiles in the recent past has created higher demand for batteries and will continue to present growth opportunities for lead acid battery industry.

Replacement Market

The replacement market is dominated by the unorganized players. The unorganized players make up about 55% of the market, while the organized players account for the remaining 45% of the market. The market share for the organized players was 30% in this segment 4 years before. Exide and Amara Raja account for major part of the organized market.

We have analyzed Exide Batteries and Amara Raja Batteries the two largest players in the Indian battery industry.

Industry Financial Performance

(Rs.in crores)	EXIDE Batteries		Amara Raja Batteries	
	2008	2007	2008	2007
Revenue	3605.9	2382.0	1349.9	745.1
EBITDA	479.1	320.1	184.8	92.9
EBITDA Margin	13%	13%	14%	12%
PAT	250.3	155.3	94.3	47
PAT Margin	7%	7%	7%	6%
Out standing shares (no)	80.0	80.0	8.5	8.5
EPS (Rs)	3.1	1.9	11.0	5.5

HOLD

Exide Batteries**Company**

Exide Batteries

CMP

Rs.90

Market Cap

7200crs

52 week H/L

97/34

Face value

Rs10

Share Holding pattern

	Shares in 000s'	% holding
Foreign	6450	8.0%
Institutions	16772	20.9%
Non Promoter Corp Hold	8875	11.1%
Promoters	39095	48.8%
Public	8805	11.0%
Totals	80000	100%

Company Background

Exide Industries is the leading manufacturer of lead acid battery in India as well as in South and South East Asia. It has plants in Kolkata, Maharastra, Tamil Nadu and Haryana. It has a market share of 60% in automobile battery industry, 35% in Industrial battery and 5% in Submarine Industry. It owns 7 brands in automotive battery segment, and sells its products under these brands in domestic as well as international markets. Its major customers are Tata Motors, Maruti, Ford India, Hyundai and Toyota, etc. It is also the supplier for the new car Nano from Tata Motors stable. The company has a technical collaboration with Japan's Hitachi group in order to access technology for the new automotive vehicles entering into India.

Market leader in Automotive Batteries

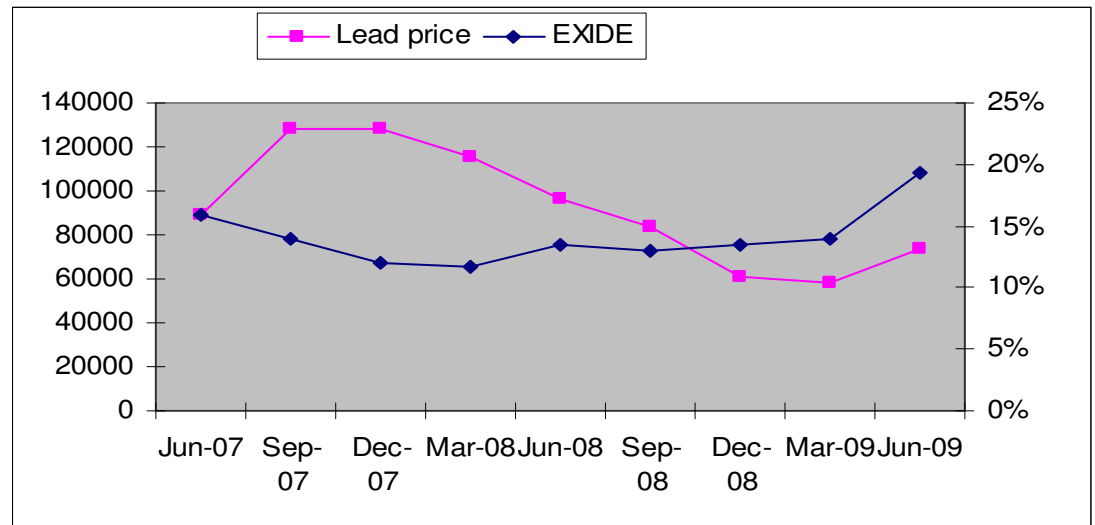
Exide is the market leader in automotive batteries. It has a dominant market share of 60% in the OEM market as an organized player. In the replacement market amongst the organized players, it has 70% of market share. Going forward, Exide is expected to focus on segments where it has, low market share, such as commercial vehicle and tractors in replacement market.

Investment concerns**Lead prices**

Lead is the main raw material for batteries as it contributes 50% of the operational cost and volatility in the lead prices will directly impact the margins. As seen in the below graph, the lead prices increased between June and Dec 07, from then onwards, the prices started falling till Dec 2008. If we observe, EBITDA margins also started falling from June 2007 because, the company has been saddled with high cost inventory of lead in the preceding quarters and is forced to sell end product to customers at the prevailing market price of lead, which was lower than procurement price. This has resulted in a declining margin scenario due to the downward trend in lead prices.

From June 2008 onwards, this trend has reversed as the company now holds low cost inventory of the previous quarters and will reap of the benefits of higher end product prices, which is expected to move up along with lead prices. However, the OEM and the industrial segment have pass through clauses for lead prices, which essentially resulted in stable margins, in comparison to its peers the EBITDA margins of Exide are quite stable.

Lead prices Vs EBITDA margins



Conclusion

Exide has a dominant share in automotive market. It has major market share in OEMS and replacement markets. With its wide presence throughout the country, company is focusing to improve its market share in commercial vehicle segment. If the trend of lead price continue over the next quarter the company might make substantial gains on account of its low cost inventory, however continuing increase in raw material prices will put pressure on margins in the long run.

BUY**Amara Raja Batteries: (ARBL)**

Company
Amara Raja Batteries

Company Background

CMP
Rs.140

The Company was established in 1985, and is located in Tirupati, Andhra Pradesh. It holds 25% market share in automobile battery industry. ARBL is the pioneer in Valve regulated lead acid batteries. It owns 7 brands and sells in domestic and international markets. The customers of the Company are Ford, GM, Dalmia Chrysler, Tata Motors and M&M etc.

Market Cap
1195.6 crs

Automotive batteries

52 week H/L
145/30

Amara Raja caters to the segments like Passenger cars, Utility Vehicles, High/medium commercial vehicles, etc. It has a 16% markets share in OEMs and 13% in replacement market as an organized player. It also contract manufactures batteries on behalf of Bosch, Lucas and Denso. It has a Joint Venture with Johnson Control Inc, (USA) for the import of technology to manufacture automotive batteries. It is also focusing to improve its market share in replacement market.

Face value
Rs 10

Exports**Share Holding pattern**

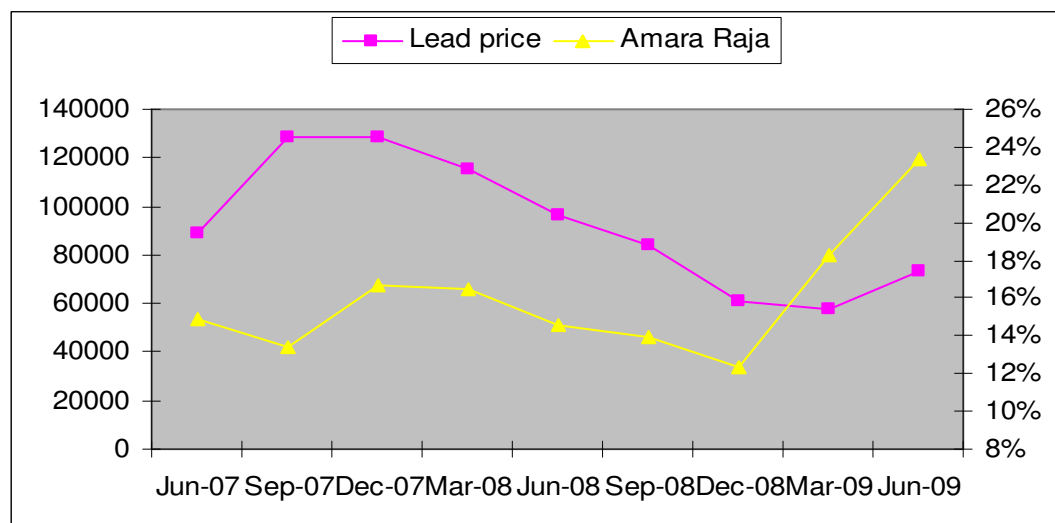
	Shares in 000s'	% holding
Foreign	792	9.2%
Institutions	11743	13.2%
Non Promoter Corp Hold	555	6.5%
Promoters	4446	52.0%
Public	1571	18.4%
Totals	8540	100%

Exports contribute 20-25% of Amara Raja's revenue. It exports automotive batteries as well as industrial batteries to countries like Singapore, Greece, Australia, Japan and the Middle-East.

Key concerns**Lead prices**

India is a net importer of lead; Amara Raja imports more than 50% of its lead requirement. Volatility in lead prices directly impacts the EBITDA margins, as seen in the graph. The lead prices increased in June 2007 and continued to be in the same range till Dec 2007. Post this period, prices have trended downwards till Dec 2008. EBITDA margins predictably inched up for a couple of quarters in FY2008 on account of the combination of low cost inventory and higher market prices. However, consistent decline has lead to a falling margin as the inventory effect reversed and the company got saddled with higher cost inventory as against prevalent market prices. However, since Dec 2008, there seems to be a reversal in the trend as lead prices have started going up and the company has benefited by the low cost inventory flowing through to the P&L, which is reflected in the spurt in margins in 1Q10.

Lead prices Vs EBITDA margins



Conclusion

Amara Raja is a pioneer in Valve manufacturing battery. It has plans to improve its exports to the Middle-east, Singapore Etc. It is also planning to increase its market share, in Replacement market. It is expected that ARBL may benefit from this rising lead price trend because of low inventory holding or fixed contract.

Valuation and recommendations

(Rs. In Crores)	Exide Batteries		Amara Raja Batteries	
	2009	2010E	2009	2010E
Revenue	3798.8	4337.04	1583.9	1670.0
EBITDA	583.0	838.0	151.0	346.0
EBITDA Margin	15%	19%	10%	24%
PAT	294.3	489.6	80.0	180.0
PAT Margin	8%	11%	5%	14%
Out standing shares	80	80	8.5	8.5
EPS	3.6	6.1	9.3	19.9
Price as on 15/09/09	90.4	90.4	134.0	134.0
P/E	24.5	14.7	14.3	6.7

Recommendation

- ❖ Exide – Hold – Valuations are looking expensive and the stock has gone up three fold from its 52 week low. Since the fundamentals of the sector look positive, we recommend to Hold now and BUY on corrections.
- ❖ Amara Raja – Buy - Valuations are cheap compared to its peers. The rise in price in lead prices from September is expected to improve its margins on the back of low cost inventory holding. However, further rise in lead prices may result in margin volatility in the future, and hence the risk.

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