

India

ADD (no change)

Consensus ratings*: Buy 14 Hold 6 Sell 3

Current price:	Rs266
Target price:	Rs307 ▲
Previous target:	Rs294
Up/downside:	15.4%
InCred Research / Consensus:	10.4%
Reuters:	EXID.NS
Bloomberg:	EXID IN
Market cap:	US\$2,719m
	Rs226,440m
Average daily turnover:	US\$9.9m
	Rs820.6m
Current shares o/s:	850.0m
Free float:	54.0%

*Source: Bloomberg

Key changes in this note

- Sales cut by ~1% for FY24F-26F.
- EBITDA cut by ~2% for FY24F-26F.
- EPS cut by 2-3% for FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.9	2.0	50.6
Relative (%)	3.7	3.6	41.5

Major shareholders	% held
Raheja Family	46.0
LIC	4.3
Kotak Mahindra Mutual Fund	3.9

Analyst(s)



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Exide Industries Ltd

Stable 2Q performance

- 2Q EBITDA growth of 12% qoq was impressive, beating our/consensus estimates. 1H EPS formed 45% of FY24F EPS amid high interest & tax outgo.
- We marginally cut our FY24F-26F EPS by 2-3% because of slow sales growth and the recent rise in lead prices.
- Retain ADD rating with a higher SOTP-based target price of Rs307, with the stock trading near 10-year mean P/E. Li-ion battery order win can be a trigger.

2QFY24 EBITDA beat is impressive

2QFY24 EBITDA of Exide Industries grew 17% yoy and 12% qoq to Rs4.83bn, 3% above our estimate and 7% above Bloomberg estimate. Improvement in the sales momentum to register 10% growth in 2Q led to a beat vs. our estimate. Management indicated that the entire sales growth was driven by volume momentum while the selling price was stable. Benign raw material costs and seasonality benefit lifted the EBITDA margin to 11.8%. PAT witnessed a 17% yoy and 19% qoq rise to Rs2.87bn, in line with our estimate (due to higher tax provision) but posted a 10% beat vs. consensus estimate.

Management conference-call highlights

Management highlighted that the improvement in market share and stability in the sector's growth momentum helped in driving the superior sales growth in 2Q. The company's dominance in the industrial sectors, barring telecom, was also aided by the improving Index of Industrial Production or IIP growth momentum. Management plans to fund a major portion of its Rs45bn lithium-ion cell-making facility from equity and hence, infused Rs11bn of capital into the subsidiary, totaling to Rs30bn of investment so far. Management is planning to start the production of both NMC (nickel manganese cobalt) and LFP (lithium ferrophosphate) battery chemistry cells from FY25F. The company seems hopeful of getting stationary application orders to begin with.

We marginally cut our estimates due to rising lead and interest costs

The recent uptick in lead prices is a cause of concern. We marginally cut our EBITDA estimates by 2% to reflect cost pressure and the slower-than-expected OEM sales volume growth. Although management plans to fund the lithium-ion battery cell project mostly from parent's equity, the high interest costs in 1H led us to cut our FY24F-26F EPS by 2-3%.

Attractive valuation provides comfort; retain ADD rating

Despite the recent run-up in the stock price, the forward P/E valuation of Exide Industries, which is near the 10-year mean level, is attractive. With the lithium-ion battery cell project commissioning gaining momentum vs. rest of the production-linked incentive or PLI scheme winners, we feel Exide Industries has better prospects of emerging as a winner with the help of Svolt technology and its global sourcing scale. We retain our ADD rating on the stock with a SOTP-based of Rs307, where the battery business is valued at 15x P/E, or 10-year mean level. Downside risk: Rise in competitive intensity in the lead-acid battery business hurting profit margins.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	123,817	145,919	163,513	181,273	199,623
Operating EBITDA (Rsm)	13,956	15,681	18,976	21,840	24,683
Net Profit (Rsm)	7,158	9,037	11,392	13,225	15,310
Core EPS (Rs)	8.4	10.6	13.4	15.6	18.0
Core EPS Growth	(5.6%)	26.3%	26.1%	16.1%	15.8%
FD Core P/E (x)	31.63	25.06	19.88	17.12	14.79
DPS (Rs)	5.0	6.0	7.0	8.5	9.5
Dividend Yield	1.88%	2.25%	2.63%	3.19%	3.57%
EV/EBITDA (x)	11.78	10.35	8.23	6.93	5.92
P/FCFE (x)	57.17	54.58	31.87	32.71	26.88
Net Gearing	(1.5%)	(0.7%)	(1.6%)	(1.3%)	(1.5%)
P/BV (x)	2.14	2.02	1.93	1.83	1.73
ROE	8.2%	8.3%	9.9%	11.0%	12.0%
% Change In Core EPS Estimates			(3.29%)	(5.65%)	(2.70%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Stable 2Q performance

Management conference-call highlights➤

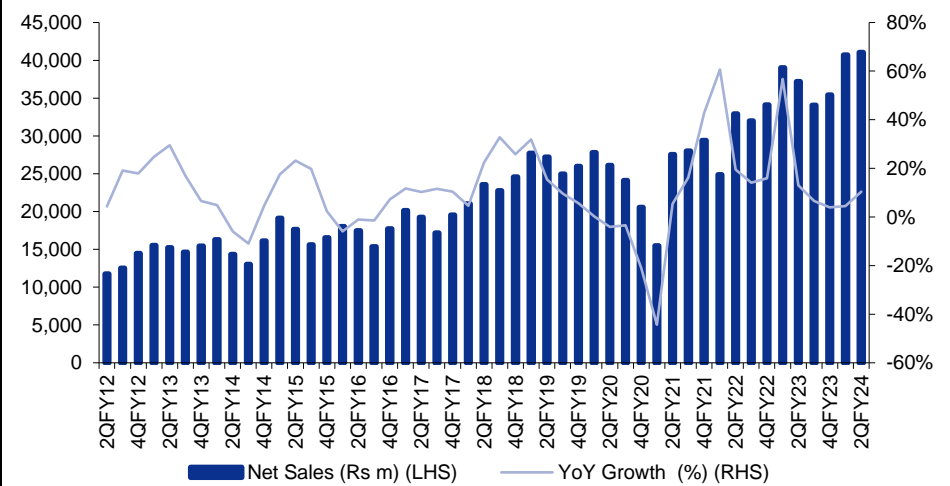
- **Outlook:** Indian demand for lithium-ion battery cells is likely to touch 100-200 GW soon led by electrification of automotive vehicles and industrial demand - from the telecom sector, data centres, etc. Management believes that most original equipment manufacturers or OEMs and industrial companies will rely on batteries supplied by battery manufacturers via long-term agreements or by sourcing energy, as setting up a battery plant requires huge investment and deep expertise.
- **Lithium-ion battery space:** Management plans to set up the first phase of lithium-ion plant of 6gigawatt or GW by spending ~Rs 45bn, which will be largely from equity infusion, and the plant is likely to go on stream in FY25F. Currently, the company is importing lithium-ion packs and modules and has started negotiations for supply of batteries with two-wheeler OEMs, four-wheeler OEMs and telecom companies. The EBITDA margin in the lithium-ion battery space is likely to be near the current levels. The order book has remained unchanged in 2QFY24 while the timeline has been delayed due to the decline in PLI scheme of the government, which impacted electric vehicle or EV two-wheeler OEMs.
- **Lead-acid battery space:** Management believes that replacement demand for lead-acid batteries is likely to get impacted in the next three-to-four years, but it will witness a gradual uptick in demand led by the private sector and the government's spending on infrastructure and data centres. On the export front, the momentum is likely to remain positive led by the automotive and industrial segments. The company informed that it is currently supplying lead-acid batteries to a German OEM and has a manufacturing plant in Europe.
- **Industrial segment:** On the domestic front, management believes the growth in the industrial segment was led by market share gains. On the export front, the company aims to grow on the back of superior quality of its products at reasonable price.
- **Automotive segment:** Domestic demand remains positive. On the export front, the company witnessed headwinds due to anti-dumping norms of a few countries. The company has come up with new products and the situation is likely to improve from the current levels.
- **Others:**
 - The EBITDA margin was up by 115bp qoq led by easing raw material prices and cost optimization initiatives. On a long-term perspective, management aims to achieve margin of 14.5-15%.
 - The current order book is likely to be executed in 18-20 months.
 - Capacity utilization stood at 80% in 2QFY24.
 - Industrial exports contributed 9% to the company's topline.

Figure 1: Results comparison

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy % chg	1QFY24	qoq % chg	Comments for the quarter
Revenue	41,067	37,189	10.4	40,726	0.8	2.2% above our estimate.
Raw material costs	28,292	25,846	9.5	29,220	(3.2)	
Raw material costs as a % of revenue	68.9	69.5	(60.7)	71.7	(285.6)	41bp below our estimate.
EBITDA	4,831	4,125	17.1	4,322	11.8	3.3% above our estimate.
EBITDA margin (%)	11.8	11.1	67.4	10.6	115.2	12bp above our estimate.
Depreciation & amortization	1,259	1,120	12.4	1,194	5.5	
EBIT	3,572	3,005	18.9	3,128	14.2	
Interest expenses	115	62	86.0	98	17.9	65% above our estimate.
Other Income	392	356	10.1	192	103.9	2% below our estimate
Pre-tax profit	3,849	3,298	16.7	3,222	19.4	
Tax	979	836	17.1	803	21.9	
Tax rate (%)	25.4	25.3	8	24.9	51.2	
Normalized net profit	2,870	2,462	16.6	2,419	18.6	In line with our estimate.
Reported net profit	2,870	2,462	16.6	2,419	18.6	
Normalized EPS (Rs)	3.4	2.9	16.6	2.8	18.6	
Reported EPS (Rs)	3.4	2.9	16.6	2.8	18.6	

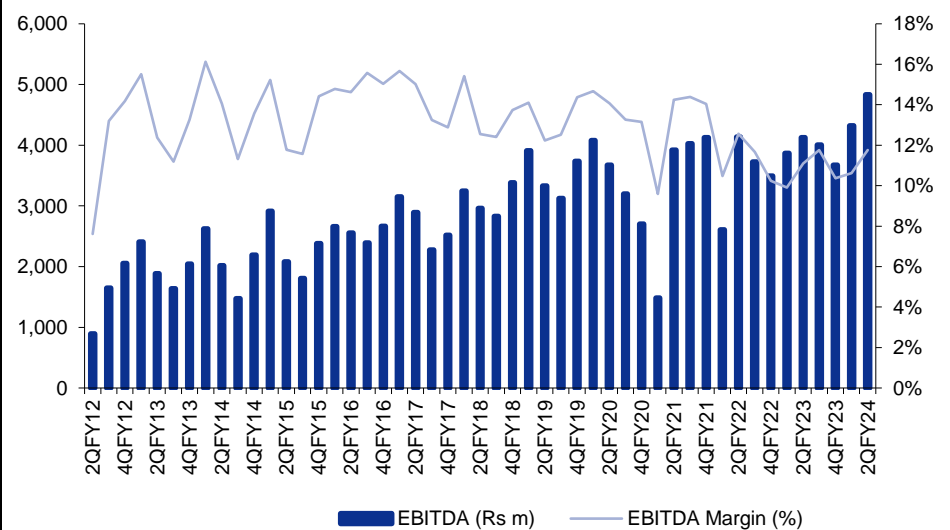
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Sales growth is still muted



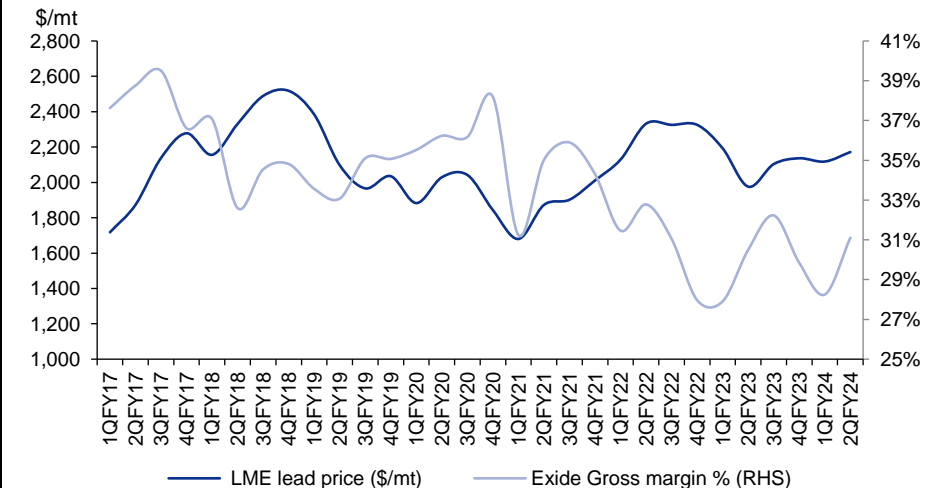
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: EBITDA margin stabilizes



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Stable lead prices should help Exide Industries' gross margin recovery



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates summary

Rs m	FY24F		FY25F		FY26F	
	Old	New	Old	New	Old	New
Net sales	165,834	163,513	181,184	181,273	202,585	199,623
Change (%)		-1.4%		0.0%		-1.5%
EBITDA	19,423	18,976	22,254	21,840	25,234	24,683
Change (%)		-2.3%		-1.9%		-2.2%
EBITDA Margin	11.7%	11.6%	12.3%	12.0%	12.5%	12.4%
Change (bp)		-11		-23		-9
PAT	11,718	11,392	13,524	13,225	15,734	15,310
Change (%)		-2.8%		-2.2%		-2.7%
EPS (Rs)	13.79	13.40	15.91	15.56	18.50	18.01
Change (%)		-2.8%		-2.2%		-2.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Key assumptions

	FY20	FY21	FY22	FY23	FY24F	FY25F
Gross Revenue						
4W OEM	8,394	8,801	11,224	14,709	16,503	18,426
% Growth	-23%	5%	28%	31%	12%	12%
4W Replacement	35,015	41,199	52,602	59,651	65,742	73,091
% Growth	2%	18%	28%	13%	10%	11%
2W OEM	7,599	7,725	8,167	9,173	9,825	10,969
% Growth	-22%	2%	6%	12%	7%	12%
2W Replacement	13,828	16,123	19,864	22,317	24,018	25,714
% Growth	5%	17%	23%	12%	8%	7%
Total Auto	64,835	73,848	91,858	105,850	116,088	128,200
% Growth	-5%	14%	24%	15%	10%	10%
Industrial	33,677	26,436	31,826	39,398	46,675	52,172
% Growth	-10%	-22%	20%	24%	18%	12%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: SOTP-based target price

	Methodology	Amount in Rs m	Per share	Value per share (Rs)
Core battery business	15x 1-year forward P/E		17.05	256
Holding in HDFC Life	Value post 20% holding discount	43,163	50.8	51
SOTP value of Exide Industries				307

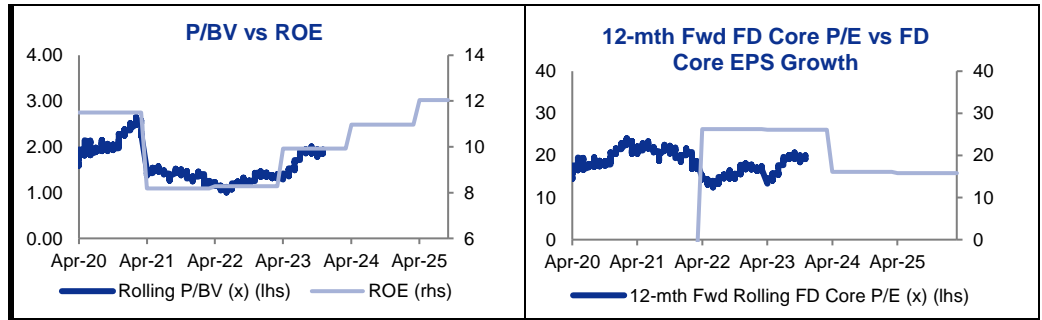
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Forward P/E valuation still at a comfortable level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	123,817	145,919	163,513	181,273	199,623
Gross Profit	38,065	43,933	50,162	57,807	66,075
Operating EBITDA	13,956	15,681	18,976	21,840	24,683
Depreciation And Amortisation	(4,126)	(4,558)	(5,145)	(5,734)	(6,262)
Operating EBIT	9,830	11,123	13,831	16,105	18,421
Financial Income/(Expense)	(384)	(295)	(325)	(335)	(300)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	803	1,324	1,483	1,631	1,762
Profit Before Tax (pre-EI)	10,249	12,152	14,989	17,402	19,883
Exceptional Items					
Pre-tax Profit	10,249	12,152	14,989	17,402	19,883
Taxation	(3,091)	(3,115)	(3,597)	(4,176)	(4,573)
Exceptional Income - post-tax					
Profit After Tax	7,158	9,037	11,392	13,225	15,310
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	7,158	9,037	11,392	13,225	15,310
Recurring Net Profit	7,158	9,037	11,392	13,225	15,310
Fully Diluted Recurring Net Profit	7,158	9,037	11,392	13,225	15,310

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	13,956	15,681	18,976	21,840	24,683
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,480)	(6,941)	(1,395)	(2,121)	(3,117)
(Incr)/Decr in Total Provisions	1,189	2,125	370	485	520
Other Non-Cash (Income)/Expense	(979)	(454)			
Other Operating Cashflow	39,678				
Net Interest (Paid)/Received	419	1,029	1,158	1,296	1,462
Tax Paid	(3,466)	(3,237)	(3,298)	(3,828)	(4,374)
Cashflow From Operations	46,316	8,203	15,811	17,672	19,173
Capex	(6,543)	(2,930)	(3,456)	(5,500)	(5,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments	(35,813)	(1,125)	(5,250)	(5,250)	(5,250)
Other Investing Cashflow					
Cash Flow From Investing	(42,355)	(4,054)	(8,706)	(10,750)	(10,750)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(4,250)	(5,100)	(5,950)	(7,225)	(8,075)
Preferred Dividends					
Other Financing Cashflow	988	84	(22)	50	50
Cash Flow From Financing	(3,262)	(5,016)	(5,972)	(7,175)	(8,025)
Total Cash Generated	699	(867)	1,132	(253)	398
Free Cashflow To Equity	3,961	4,149	7,105	6,922	8,423
Free Cashflow To Firm	4,345	4,444	7,430	7,257	8,723

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	1,612	745	1,877	1,624	2,022
Total Debtors	13,115	13,662	16,431	17,292	18,554
Inventories	24,585	29,891	32,255	34,765	38,831
Total Other Current Assets	1,962	2,128	2,400	2,600	2,800
Total Current Assets	41,273	46,425	52,963	56,281	62,207
Fixed Assets	31,140	28,468	27,823	27,589	26,827
Total Investments	60,434	63,414	68,414	73,414	78,414
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	91,574	91,881	96,237	101,002	105,240
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	16,175	15,360	18,815	19,865	21,876
Other Current Liabilities	8,009	9,670	10,154	10,662	11,195
Total Current Liabilities	24,185	25,030	28,969	30,527	33,071
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions	2,607	2,223	2,692	3,217	3,603
Total Liabilities	26,792	27,253	31,661	33,744	36,674
Shareholders Equity	106,056	112,098	117,539	123,539	130,774
Minority Interests					
Total Equity	106,056	112,098	117,539	123,539	130,774

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	23.3%	17.9%	12.1%	10.9%	10.1%
Operating EBITDA Growth	3.0%	12.4%	21.0%	15.1%	13.0%
Operating EBITDA Margin	11.3%	10.7%	11.6%	12.0%	12.4%
Net Cash Per Share (Rs)	1.90	0.88	2.21	1.91	2.38
BVPS (Rs)	124.77	131.88	138.28	145.34	153.85
Gross Interest Cover	25.58	37.67	42.56	48.08	61.40
Effective Tax Rate	30.2%	25.6%	24.0%	24.0%	23.0%
Net Dividend Payout Ratio	59.4%	56.4%	52.2%	54.6%	52.7%
Accounts Receivables Days	30.66	30.85	31.22	31.33	30.03
Inventory Days	102.25	97.48	100.06	99.06	100.57
Accounts Payables Days	69.50	56.43	55.02	57.18	57.04
ROIC (%)	23.7%	23.9%	28.2%	32.2%	35.6%
ROCE (%)	10.8%	10.0%	11.8%	13.0%	14.1%
Return On Average Assets	6.6%	6.9%	8.2%	8.8%	9.6%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Unit sales grth (% , main prod./serv.)	8.1%	9.6%	6.3%	8.4%	8.4%
Unit sales grth (% ,2ndary prod/serv)	20.4%	23.8%	18.5%	11.8%	9.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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