

About Company:

Exide is a leading battery manufacturer in India & one of the largest power storage producers in South Asia. It supplies batteries to the automotive, industrial, infrastructure development, and information technology & defense sector in India. It has six battery manufacturing facilities located across India. In addition through its subsidiaries, the company has two lead smelting facilities that supply a significant amount of companies lead requirement. The company is servicing 8 mn customers via all different types of batteries. Current capacity in 4W, 2W and industrial batteries is at 12.2mn units, 22mn units and 2.5mn amph, respectively. The company recently increased its stake in ING Vysya Life Insurance Company (IVL) to 100%. IVL began its operations in 2001 and currently services more than 1mn customers.

Investment Rationale:

Exide industries is coming along with punch grid technology, which will lead to superior battery life and lower warranty costs, for which company is incurring huge capex of INR 5-6bn. Also the company is taking measures to improve service at dealer's level. Double digit growth in inverter segment in Q4FY16 led by early onset of summer, is expected to continue in Q1FY17.

Company is ready for cyclical uptick in OEM within automotives & inverter & telecom segments within industrial batteries. This would result into improvement of margins led by operating leverage with increasing capacity utilization which is currently at 79% in automotives & 83% in motorcycles. Also company is undertaking technological upgradation and cost cutting initiatives. We expect a9.9% sales CAGR & 10% PAT CAGR over FY16-18E.

Inverters: Rising demand to be continued:

Early coming of the summers in 2016 has seen a rising demand for inverter which in turn leads to increase the existing capacity. Also after facing a negative growth in first three quarter the company reported double digit growth in inverter segment in Q4FY16, & hence management is expecting this healthy tract to continue in Q1FY17.

Punch grid technology: enhanced battery life with lower warranty cost:

Exide is planning to implement punch grid technology in replacement segment by the end of CY16. East Penn Manufacturing Company Inc. USA would be providing the knowhow. It is a superior technology as the punching system produces consistent grids, which in turn provides better life & reduces the warranty cost of the battery.

Enriching the distribution network:

The company historically has lost some market share because of longer service time in replacement segment. The company is taking steps to regain share in replacement segment, for which company has started 2W courier service for picking batteries from service centre for faster replacement & also the company is providing equipments to its dealers to detect the defect in batteries with in 10 minutes. Management is aiming to touch the smaller vendors in FY17 in order to fortify the distribution network. In FY15 the company has 15500 dealers in total.

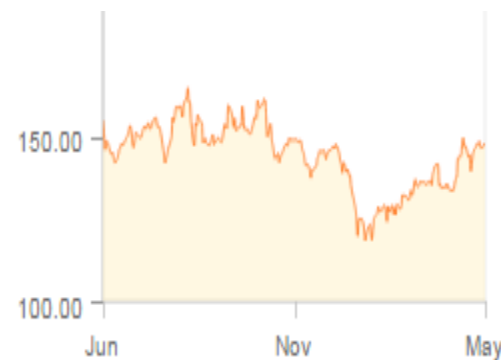
Stock Summary:

Particular	
CMP	150.10
Target Price	177
Potential Upside	18%
O/S no of Shares (cr.)	85
Market Cap. (cr.)	116
Equity Cap. (cr.)	85
52 week high	168.60
52 week low	116
Face Value	1
NSE Code	EXIDEIND
BSE Code	50086

Share Holding Pattern:

Particular	Q4FY 16	Q3FY 16
Promoters	46.0	46.0
MF's, FI's & BKs	30.9	32.3
FII's	4.5	3.2
Others	18.6	18.5

Stock Price Movement:



Outlook & Valuation:

Exide being leading player in batteries division in India, is well poised to benefit in OEM cycle & margin improvement driven by cost-cutting initiatives. Hence we recommend a “BUY” with SOTP based Target Price of INR 177 valuing standalone at 18x FY18E EPS. The stock is trading at an EPS of 18.6x for FY17E & at 16.5x for FY18E.

Key Risks:
Downside Risk:

If economic slowdown continues, not only it will affect OEM demand but also affect the replacement cycle, which in turn will affect the replacement demand.

Competition and Price War:

An increase in competitive activity will trigger the price war. This will impact the whole scenario & margins negatively.

Economic Impact:

The bounce back in lead prices, USD-INR volatility will impact the performance of the company and will lead the margins to come down. In such scenario any significant fall in lead prices in INR terms will affect the margin.

Key Financials

Particular	FY15	FY16	FY17E	FY18E
Revenues (INR mn)	68,742	68,091	73,322	82,300
EBITDA (INR mn)	9,076	10,105	11,058	12,494
Adjusted Profit (INR mn)	5,458	6,228	6,726	7,542
Adjusted Diluted EPS (INR)	6.4	7.3	7.9	8.9
Diluted P/E (x)	22.9	20.0	18.6	16.5
EV/EBITDA (x)	13.6	11.5	10.2	8.8
ROAE (%)	14.0	14.7	14.1	13.8

Projected Financials:

(INR Mn)

Projected Income Statement:

(INR Mn)

Particular	FY15	FY16	FY17E	FY18E	Particular	FY15	FY16	FY17E	FY18E
Macro					Income from operations	68,742	68,091	73,322	82,300
GDP(Y-o-Y %)	7.2	7.4	7.9	8.3	Materials costs	45,528	43,665	46,852	52,919
Inflation (Avg)	5.9	4.8	5.0	5.2	Manufacturing expenses	614	675	716	759
Repo rate (exit rate)	7.5	6.8	6.0	6.0	Employee costs	4,168	4,747	5,175	5,796
USD/INR (Avg)	61.2	64.5	67.5	67.0	Total SG&A expenses	9,356	8,898	9,521	10,333
Sector					Total operating expenses	59,665	57,986	62,264	69,806
4W OEM - Volume sold (mn units)	3.6	3.4	3.7	4.1	EBITDA	9,076	10,105	11,058	12,494
4W replacement - Volume sold (mn units)	7.5	8.4	9.3	10.3	Depreciation	1,395	1,602	1,764	2,044
2W OEM - Volume sold (mn units)	12.2	12.1	13.2	14.4	EBIT	7,681	8,504	9,294	10,449
2W replacement - Volume sold (mn units)	6.3	6.9	7.9	8.9	Add: Other income	320	562	516	523
Company					Less: Interest Expense	17	3	62	42
OEM	26	25	26	25	Profit Before Tax	7,985	9,063	9,748	10,931
Aftermarket	41	46	47	48	Less: Provision for Tax	2,526	2,835	3,022	3,389
Others	1	1	1	1	Reported Profit	5,458	6,228	6,726	7,542
Industrial	32	27	25	26	Adjusted Profit	5,458	6,228	6,726	7,542
UPS	4	4	4	4	Shares o /s (mn)	850	850	850	850
Inverters	17	13	11	11	Adjusted Basic EPS	6.4	7.3	7.9	8.9
Infrastructure	7	6	6	6	Diluted shares o/s (mn)	850	850	850	850
Traction	1	1	1	1	Adjusted Diluted EPS	6.4	7.3	7.9	8.9
Exports	2	2	2	2	Adjusted Cash EPS	8.3	9.2	10.0	11.3
Others	1	1	1	1	Dividend per share (DPS)	2.2	2.4	3.0	3.5
Submarine	0.4	0.5	0.5	0.5	Dividend Payout Ratio(%)	40.4	38.7	44.7	46.5
RM cost (% sales)	67.1	65.1	64.9	65.2					
Other costs as % of sales	19.6	20.0	20.0	19.6	Common Size Matrix				
Depreciation rate (%)	6.6	6.1	5.8	13.4	Particular	FY15	FY16	FY17E	FY18E
Tax rate (%)	28.9	31.4	31.0	31.0	Materials costs	66.2	65.1	64.9	65.2
Dividend payout (%)	40.4	38.7	44.7	46.5	S G & A expenses	13.6	13.1	13.0	12.6
Net borrowings (INR mn)	176	850	(500)	-	EBITDA margins	13.2	14.8	15.1	15.2
Capex (INR mn)	3,067	4,186	4,000	4,000	Net Profit margins	7.9	9.1	9.2	9.2
Debtor days	28	31	32	31					
Inventory days	109	111	94	96	Growth Ratios (%)				
Payable days	52	58	57	51	Particular	FY15	FY16	FY17E	FY18E
Cash conversion cycle	85	84	69	77	Revenues	15.3	(0.9)	7.7	12.2
					EBITDA	11.1	11.3	9.4	13.0
					PBT	10.4	13.5	7.6	12.1
					Adjusted Profit	12.1	14.1	8.0	12.1
					EPS	12.1	14.1	8.0	12.1

Projected Balance Sheet

Particular	(INR mn)			
	FY15	FY16	FY17E	FY18E
Share capital	850	850	850	850
Reserves & Surplus	39,696	43,491	50,172	57,667
Shareholders' funds	40,546	44,341	51,022	58,517
Short term borrowings	176	1,025	525	525
Total Borrowings	176	1,025	525	525
Long Term Liabilities	330	395	345	345
Def. Tax Liability (net)	1,259	1,249	1,249	1,249
Sources of funds	42,311	47,009	53,141	60,636
Gross Block	22,261	26,447	30,447	34,447
Net Block	10,700	13,284	15,520	17,476
Capital work in progress	1,002	1,002	1,002	1,002
Intangible Assets	202	202	202	202
Total Fixed Assets	11,903	14,488	16,724	18,680
Non current investments	17,550	17,607	17,607	17,607
Cash and Equivalents	1,705	10,001	12,505	15,554
Inventories	15,228	11,335	12,856	15,107
Sundry Debtors	5,550	6,075	6,629	7,441
Loans & Advances	2,077	1,773	1,128	1,267
Other Current Assets	13	7	7	7
Current Assets (ex cash)	22,868	19,191	20,621	23,823
Trade payable	6,479	7,449	7,232	7,441
Other Current Liab	5,237	6,829	7,086	7,587
Total Current Liab	11,716	14,278	14,318	15,028
Net Curr Assets-ex cash	11,152	4,913	6,304	8,795
Uses of funds	42,311	47,009	53,141	60,636
BVPS (INR)	47.7	52.2	60.0	68.8

Cashflow Matrix:

Particular	(INR mn)			
	FY15	FY16	FY17E	FY18E
Operating cash flow	3,262	12,425	6,447	6,594
Investing cash flow	(2,372)	(12,100)	(4,000)	(4,000)
Financing cash flow	(1,785)	115	57	455
Net cash Flow	(895)	440	2,504	3,049
Capex	(3,067)	(4,186)	(4,000)	(4,000)
Dividend paid	(1,961)	(709)	(2,407)	(3,009)

Profitability and efficiency ratios

Particular	FY15	FY16	FY17E	FY18E
ROAE (%)	14.0	14.7	14.1	13.8
ROACE (%)	20.5	21.1	20.2	19.8
Inventory Days	109	111	94	96
Debtors Days	28	31	32	31
Payable Days	52	58	57	51
Cash Conversion Cycle	85	84	69	77
Current Ratio	2.1	2.0	2.3	2.6
Fixed asset turnover (x)	6.6	5.6	5.0	4.9
Gross Debt/EBITDA	-	0.1	-	-
Gross Debt/Equity	-	-	-	-

Operating ratios

Particular	FY15	FY16	FY17E	FY18E
Total Asset Turnover	1.7	1.5	1.5	1.4
Fixed Asset Turnover	6.6	5.6	5.0	4.9
Equity Turnover	1.8	1.6	1.5	1.5

Projected Cashflow

Particular	(INR mn)			
	FY15	FY16	FY17E	FY18E
Reported Profit	5,458	6,228	6,726	7,542
Add: Depreciation	1,395	1,602	1,764	2,044
Interest (Net of Tax)	11	2	42	28
Others	(163)	(12)	(42)	(28)
Less: Changes in WC	3,439	(4,606)	2,042	2,992
Operating cash flow	3,262	12,425	6,447	6,594
Less: Capex	3,067	4,186	4,000	4,000
Free Cash Flow	195	8,239	2,447	2,594

Valuation parameters

Particular	FY15	FY16	FY17E	FY18E
Adj. Diluted EPS (INR)	6.4	7.3	7.9	8.9
Y-o-Y growth (%)	12.1	14.1	8.0	12.1
Adjusted Cash EPS (INR)	8.3	9.2	10.0	11.3
Diluted P/E (x)	23.1	20.2	18.7	16.7
P/B (x)	3.1	2.8	2.5	2.2
EV / Sales (x)	1.8	1.7	1.5	1.3
EV / EBITDA (x)	13.7	11.6	10.3	8.9
Dividend Yield (%)	1.5	1.6	2.0	2.4

Peer Comparison Valuation

Particular	Market cap	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)		
		Name	(USD mn)	FY17E	FY18E	FY17E	FY18E	FY17E
Exide Industries	1,887		18.7	16.7	10.3	8.9	14.1	13.8
Amara Raja Batteries	2,445		28.9	24.0	16.1	13.6	24.1	23.9
Median	-		23.8	20.3	13.2	11.2	19.1	18.8
AVERAGE	-		23.8	20.3	13.2	11.2	19.1	18.8

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