



Amara Raja Batteries Limited

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April 17, 2013

Business Background

Amara Raja Batteries Limited (ARBL) is a battery manufacturing company which caters to the automobile sector as well as industrial sector. It was formed in 1985 by the Chairman, Ramachandra Naidu Galla, who received his higher education from Michigan State University. His son, Jayadev Galla is the MD, who also received his higher education in the United States from the University of Illinois.

Jayadev Galla worked with GNB Battery Technologies in USA before coming back in 1992 and taking control of sales and service network for the industry battery division of the company.

ARBL has a tie up with US based battery giants Johnson Controls, who hold a 26% stake in the company since inception. ARBL is best known for its car batteries "Amaron".

Highlights

- Out of the total revenues, 55% comes from the automobile segment and the rest (45%) comes from the industrial segment. In the industrial segment, the share is almost equally divided between telecom and UPS segment.
- ARBL is currently operating at capacity utilization of above 90% leading to a high asset turnover.
- Good company for investors: 55% return on share price during last year alone, 562% in past 5 years from 2007 and 4475% return in 10 years.
- CAGR of revenues for the past 5 years is 32%.
- Dividend yield is generally low at 1-2%, but that is mostly due to continuous expansion done through internal accruals.

- ARBL purchases its electricity at a relatively low price of Rs. 3.75 per unit.
- Currently it is a zero-debt company, but plans to borrow Rs. 250 Cr in the near future to help the expansion.
- Total capex in the next 3-4 years (including FY 12-13) is Rs. 750 Cr.
- Has an alliance with Bharti Airtel to export batteries in Africa; also has a decent market in Sri Lanka and Bangladesh. A total of Rs. 117 crores was generated from export sales last year.
- Even though current automobile sales are low, battery life on average is 4 to 5 years and hence the replacement market should reflect the vehicle sales from 4 years back.

Holder	Percentage Share
Promoters	52
MF and UTI	19
FII	12
Indian Public	13
Others	4

*Ramachandra Galla and Jayadev Galla hold over 6 million shares (7.5% of total) each.

Segment	Market Share
4-wheeler OEM	26%
2-wheeler OEM	0
4-wheeler replacement	34%
2-wheeler replacement	24%
Telecom	45%
UPS	30%

Based on our research, we believe that Amaron batteries are preferred by many customers in the replacement market owing to a cheaper price and better warranty and quality. This is credit to the management as they have consciously focused on the replacement market.

Valuation				
Year	FY13E	FY14E	FY15E	FY16E
Net Sales	3,027	3,572	4,107	4,600
PAT	242	250	246	368
FCFE	102	105	98	308

The valuation factors in the expected Capex of Rs. 750 Cr in the next 3 years, out of which Rs. 250 Cr will be borrowed.

Using a conservative approach and allowing for a margin of safety, we believe a target price of 350 is achievable. From a current market price of 245, this represents a return of 40%.

The company is currently selling at an earnings multiple of 10.

Financial Analysis				
Measure	FY-12	FY-11	FY-10	FY-09
Net Sales	2,364.7	1,759.9	1,473.0	1,337.5
Net Profit	215.06	148.1	167.03	80.48
NPM(%)	9.09%	8.42%	11.34%	6.02%
Financial Leverage	1.68	1.75	1.97	2.39
Asset Turnover	1.92	1.69	1.58	1.52
ROE(%)	29.27%	24.90%	35.19%	21.79%
CFO(cr)	296.28	85.51	214.25	223.94
BVPS	86.03	69.65	55.58	43.25
EPS	25.18	17.34	19.56	9.42

Automobile Sales (SIAM)

Category	2007-08	2008-09	2009-10	2010-11	2011-12
Passenger Vehicles	15,49,882	15,52,703	19,51,333	25,01,542	26,18,072
Commercial Vehicles	4,90,494	3,84,194	5,32,721	6,84,905	8,09,532
Three Wheelers	3,64,781	3,49,727	4,40,392	5,26,024	5,13,251
Two Wheelers	72,49,278	74,37,619	93,70,951	1,17,68,910	1,34,35,769
Grand Total	96,54,435	97,24,243	1,22,95,397	1,54,81,381	1,73,76,624
% Increase in Sales	-4.64%	0.72%	26.44%	25.91%	12.24%

	Current Capacity	Planned Addition	Capex (Cr)	Year
4 wheeler	5.6 million	2.65 million	405	2014
2 wheeler	4.8 million	3.6 million	100	2014
Medium VRA (UPS)	1.8 million	1.8 million	190	2013
Large VRA	900 million Ah/annum	1000 million Ah/annum	50	2013

Investment Rationale

- ARBL has favorable financials with consistently attractive ROE and good margins.
- It is cash rich and is currently sitting on cash balance of around Rs. 350 crores.
- Good quality of earnings.
- It has an improving Brand with great growth prospects.
- The company is undervalued according to our valuations: target price of 350 and currently trading at 245 rupees per share.

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