

Amara Raja Batteries Ltd.

Company Overview

Amara Raja Batteries Limited (ARBL) is a leading manufacturer of lead-acid storage batteries for industrial and automotive applications in India.

Promoted by Mr. Ramachandra Galla in 1985, ARBL initially manufactured standby valve-regulated lead acid (VRLA) batteries at its unit in Karakambadi (Andhra Pradesh). In 1998, Johnson Controls International (JCI) acquired 26 per cent in the company and, in 1999-2000 (refers to financial year, April 1 to March 31), ARBL diversified into the manufacture of automotive batteries.

Today Company's products are supplied to various user segments, such as telecom, railways, power control, solar and uninterruptible power supply (UPS) under industrial battery business; and to automobile original equipment manufacturers (OEMs), replacement market and private label customers under automotive battery business. It also provides installation, commissioning and maintenance services.

ARBL's automotive and industrial battery brands are Amaron, PowerZone, Power Stack, AmaronVolt and Quanta. Its industrial batteries include AMARON SLEEK and AMARON QUANTA. Its automotive batteries include PRO, FLO, GO, Black, Fresh, Hi-way, Harvest, Shield and Pro Bike Rider.

Its industrial and automotive batteries are exported to Singapore, Malaysia, Hong Kong, Thailand, Indonesia, Vietnam, Taiwan, Philippines, Tanzania and South Africa, among others.

Primary business activity

Sl. No.	Name and Description of main products / services	NIC Code of the Product/ service	% to total turnover of the company
1.	Batteries and Accumulators	27201	97.98

Products/ Services

Lead acid batteries catering to automotive and industrial sectors.

Automotive Battery Division

The Amaron and PowerZone range finds application in passenger vehicles, commercial vehicles, tractors, three-wheelers and two-wheelers and caters to OEMs and the aftermarket segments. The automotive battery division also produces home UPS batteries.

Over the years, Amara Raja has set up an entrenched distribution network comprising 30,000-plus Amaron and PowerZone retailers for a pan-India reach. This distribution edge has helped the Company sustain its competitive dominance in the aftermarket segment.

Industrial Battery Division

The Industrial Battery Division powers telecom equipment, UPS, railways and solar and motive power sectors

The Company largely handles the business on B2B basis to serve customers like telecom operators, tower companies, UPS OEMs, power utilities and solar integrators. The

Company has a strong distribution network covering 130 AQuA channel partners across the nation to serve the replacement markets of UPS batteries. The sales team is aptly supported by a network of 120 SWEAR service partners in addition to its own personnel.

Customers

Amara Raja supplies automotive batteries under OE relationships to Ford India, Honda, Hyundai, Mahindra & Mahindra, Maruti Suzuki, Ashok Leyland, Tata Motors, Honda Motorcycles & Scooters India Private Ltd, Royal Enfield, Bajaj Auto Ltd among others.

Amara Raja is the preferred supplier to major telecom service providers, telecom equipment manufacturers, the UPS sector (OEM & Replacement), Indian Railways and to the Power, Oil & Gas, Motive among other industry segments

ARBL also caters to B2C after-market business, private labels.

Existing Capacity & Expansion Plans

Expansion plans

Company invested heavily in augmenting capacities in FY20.

1. Added a third unit at its Chittoor facility for manufacturing batteries for passenger cars will go on stream by the end of 2020-21.
2. ARBL added more lines at its two-wheeler battery plant for serving the demand from OE alliances forged in 2019-20.
3. A capacity enhancement project has been launched at its tubular battery unit to meet the demand for home UPS applications.
4. ARBL also increased installed capacity of solar rooftop panels from 6.3 MW to 9.25 MW in FY20 as part of its commitment to use clean energy.

Raw materials

Lead and alloys, separators.

Locations

- Renigunta - Cuddapah Road, Karakambadi Tirupati, Andhra Pradesh 517 520
- Nunegundlapalle Village Bangarupalayam Mandal, Chittoor District Andhra Pradesh 517 416

Industry Overview

Battery market in India

The Indian Lead acid battery market is about \$5bn in FY20 and is likely to de-grow in FY21 due to Covid19 impact. While the post COVID19 rebound in after market segment is expected to be sharp, the OE de-growth over last several quarters will have a dampening impact in the medium term. The 5 year CAGR upto FY25 is expected to be in the range of 5-7% largely determined by the speed and scale of auto OE recovery.

The sectoral structure

The Indian lead-acid battery industry is split equally between the automotive segment and the nonautomotive segment.

The industry is divided into three segments: (a) Organized segment – controlled by five manufacturers, (b) SME segment and (c) SSI segment.

Given the high share of replacement demand for sectors like automotive, home inverter, UPS and traction, the share of unorganized/semi-organized players is high. To beat the increasing competition, the organized players are promoting more and more entry-level brands at competitive pricing and shorter warranty periods and are expanding their distribution network in the semi-urban and rural markets. This should help raise their share in the overall battery market

Market share

Industry structure remains duopoly, but ARBL is a strong number two. Over the years, ARBL has emerged as a formidable challenger to leader EXIDE, with market leadership in the telecom (55% share in 4QFY19) and UPS (~32-35%) segments, and a fast gaining share in autos. Over FY04-16, ARBL clocked a CAGR of 34% and 68% in net sales and PAT respectively, far exceeding EXID's 20% CAGR each in net sales and PAT. This has been driven by a combination of technological innovations (first to introduce maintenance-free, factory charged, extended warranty batteries), witty advertising and a unique distribution model (franchisee based) supported by operational efficiency-led competitive pricing.

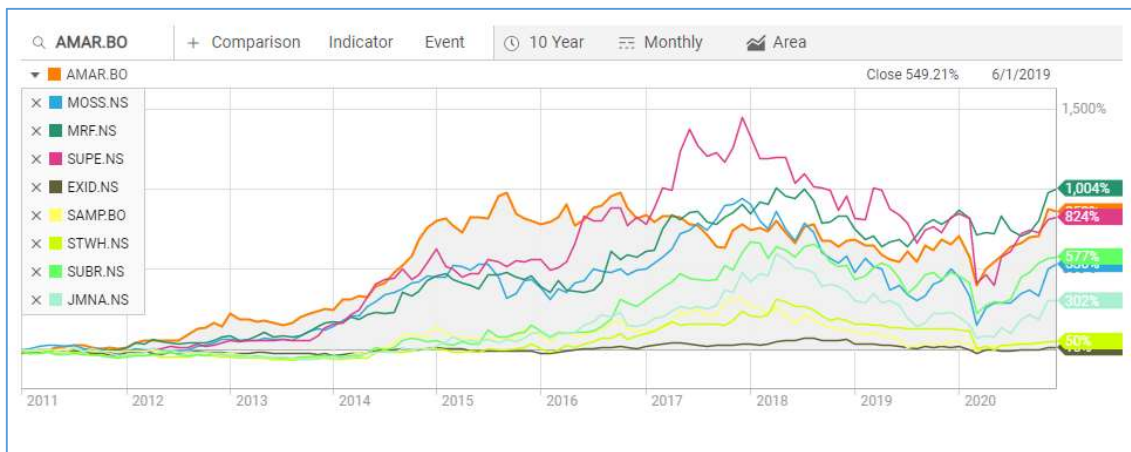
Going forward, ARBL is gearing up to be a leader through (a) consolidating in existing areas, (b) entering new business opportunities within the battery space, mainly home UPS, Solar and Motive Power and (iii) aided by capacity and network expansion. In the telecom segment, ARBL expects to maintain its market share at current levels (~55% as of 4QFY19).

Competitors

	Motherson Sumi	Amara Raja Batt	Suprajit Engg	Exide Inds	Jamna Auto Inds	Samkrp Pistons	Steel Str. Wheel	MRF	Subros
Mcap	48379.55	15642.15	2789.76	15614.50	2243.35	123.88	786.09	33827.25	1943.37
PER	16.48	12.36	15.15	14.40	19.81	3.84	23.59	17.17	10.05
PSR	0.76	2.29	1.79	1.08	1.99	0.54	0.50	2.08	0.98
PBR	4.30	4.28	3.27	2.41	4.34	0.83	1.13	2.77	2.58
Dividend Yield	0.98%	1.20%	0.88%	2.23%	0.71%	3.96%	0.00%	0.13%	0.27%
1Y Sales Gr Rate	0.02%	0.68%	-1.70%	-1.70%	-36.41%	-18.19%	-19.68%	1.09%	-6.20%
3Y Sales Gr Rate	14.46%	8.75%	9.12%	8.99%	-4.41%	0.23%	5.54%	6.58%	9.09%
5Y Sales Gr Rate	12.89%	10.19%	20.90%	8.85%	0.61%	0.30%	6.37%	4.03%	10.83%
10Y Sales Gr Rate	25.48%	16.27%	18.28%	13.24%	2.51%	2.79%	10.20%	9.03%	6.98%
1Y NP Gr Rate	-27.46%	36.68%	-22.29%	-8.14%	-65.17%	-6.84%	-71.53%	25.82%	11.27%
3Y NP Gr Rate	-9.03%	11.36%	-2.95%	-1.02%	-23.02%	0.24%	-25.04%	-1.45%	86.01%
5Y NP Gr Rate	6.29%	9.97%	15.64%	4.80%	10.26%	9.73%	-9.86%	9.39%	33.49%
9Y NP Gr Rate	12.96%	18.08%	13.70%	2.56%	2.84%	7.86%	-2.63%	16.59%	12.82%
1Y OPM	6.26%	15.90%	12.21%	9.14%	8.18%	14.90%	10.05%	16.62%	7.78%
3Y OPM	8.55%	14.90%	15.03%	10.52%	12.67%	15.90%	12.05%	14.77%	10.41%
5Y OPM	8.87%	15.55%	15.41%	11.14%	13.23%	16.00%	12.16%	17.39%	8.80%
10Y OPM	8.40%	15.59%	15.72%	11.74%	11.49%	15.82%	11.36%	15.27%	9.15%
1Y NPM	1.84%	9.66%	6.65%	5.37%	4.24%	8.48%	1.50%	8.76%	4.26%
RoE	10.39%	18.08%	12.18%	12.01%	9.27%	13.15%	3.36%	11.65%	11.28%
RoA	2.60%	13.21%	6.52%	3.19%	6.06%	9.23%	1.08%	7.32%	6.11%
RoCE	11.56%	23.96%	13.06%	16.80%	15.20%	16.31%	7.25%	12.66%	17.51%
D/E	1.17	0.02	0.46	0.03	0.29	0.12	1.43	0.15	0.21
Interest Cover	8.69	90.12	9.66	13.40	6.36	37.36	1.93	7.92	5.20
Receivable Days	29.75	33.96	64.23	26.76	25.89	60.60	48.98	51.69	34.67
Inventory Days	29.62	60.98	67.74	60.90	42.02	43.09	76.89	65.31	42.90
WC Cycle	11.49	48.65	79.29	-322.98	54.20	41.94	71.64	43.58	13.52
Tax Rate	38.73%	21.39%	21.75%	21.55%	33.17%	24.47%	28.29%	0.81%	31.56%
5Y (OCF - PAT)	12689.7	561.77	250.66	2928.61	143.24	41.01	438.79	3257.21	657.8
5Y FCF	-3158.4	397.72	189.36	3553.19	157.05	34.95	-235.93	545.99	274.65
10Y FCF	-2759	716.36	239.07	4204.8	293.89	61.85	-161.68	1830.67	207.57
Issued Capital GR	26.25%	0.00%	1.72%	0.00%	0.14%	0.00%	0.55%	0.00%	0.94%
(Cash + Inv)/TA	12.60%	4.81%	21.32%	66.35%	0.52%	0.17%	4.22%	13.89%	6.65%
OPM/TA	11.55%	21.97%	13.73%	5.96%	14.66%	18.13%	7.86%	12.25%	13.61%

- In terms of profitability and returns, Amara Raja clearly stands out from the rest of the pack, with nearly 24x RoCE, 18x RoE and 13x RoA. OPM/Total Assets is 22x – way above the rest.
- ARBL is virtually debt free. So is its competitor Exide.
- Most of the companies have excellent FCF generation, except for Motherson Sumi & Steel Strips Wheels

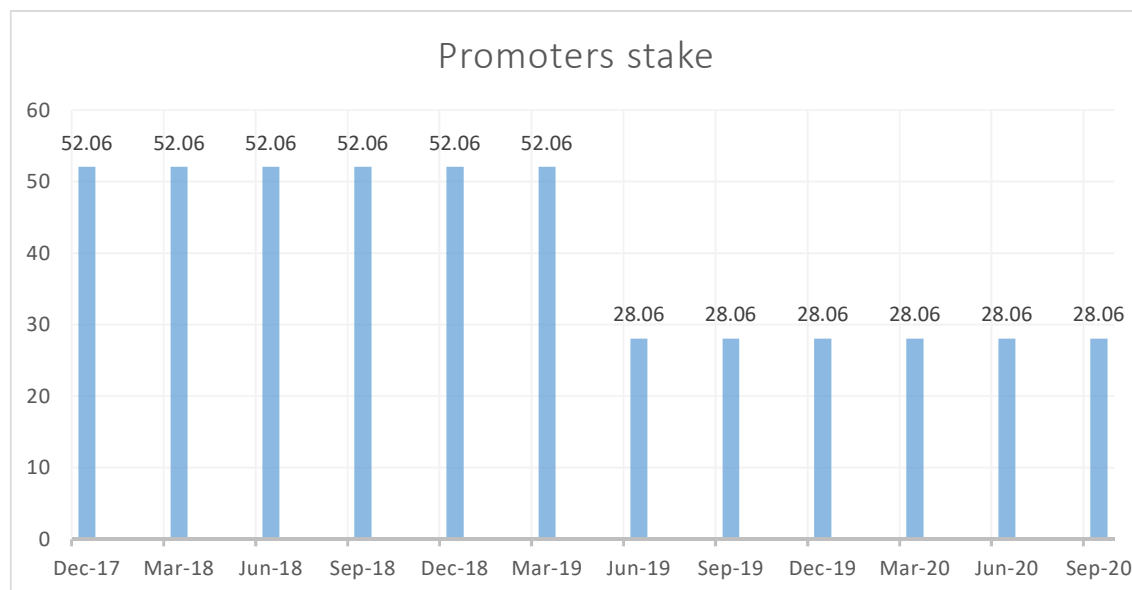
- As far as growth is concerned, ARBL has a consistent track-record of both sales as well as NP growth. Motherson Sumi has been expanding into new geographies, leading to slightly better sales growth, but it has a complex business model, and top-line growth hasn't necessarily translated into profits.
- Between 2017 and 2019, the auto sector faced strong headwinds due to multiple issues which got reflected in the subdued stock prices. However, going forward there is optimism that green-shoots are beginning to emerge.



Shareholding

Promoter holding & recent changes

As of September 2020, Promoter own 28.06%, down from 52.06% one year back.



This is due to the exit of co-promoter and technology partner Johnson Controls.

c. Change in Promoters' Shareholding

	At the beginning of the year		Cumulative shareholding during the year	
	No. of shares	% of total Shares of the Company	No. of shares	% of total Shares of the Company
RNGalla Family Private Limited				
At the beginning of the year	4,14,00,702	22.24		
Off market purchases/transfers on:				
August 2, 2019	31,15,500	1.82	4,45,16,202	26.06
August 7, 2019	34,16,250	2.00	4,79,32,452	28.06
At the end of the year			4,79,32,452	28.06
Mangal Industries Limited				
At the beginning of the year	31,15,500	1.82		
Off market transfer on:				
August 2, 2019	(31,15,500)	1.82	-	-
At the end of the year			-	-
Johnson Controls (Mauritius) Private Limited				
At the beginning of the year	4,44,11,250	26.00		
Off market sale on:				
June 28, 2019	(4,09,95,000)	24.00	34,16,250	2.00
August 2, 2019	(34,16,250)	2.00	-	-

Galla Family consolidated and increased stake from 24.06% to 28.06% - up by 4%.

Johnson Controls, reduced stake from 26% to 2%, selling 24%. They have also been changed to public shareholders.

Insider trades

Insider Trades						
Date	Person	Buy / Sell	Transaction Type	No. of Shares	Price (₹)	Value (₹ Lakhs)
07-Aug-2019	Johnson Controls Mauritius Pvt Ltd	Sell	Off Market	34,16,250	644.65	22,022.86
07-Aug-2019	RNGalla Family Pvt Ltd	Buy	Off Market	34,16,250	644.65	22,022.86
27-Jul-2019	Mangal Industries Ltd	Sell	Off Market	31,15,500	651.00	20,281.91
27-Jul-2019	RNGalla Family Pvt Ltd	Buy	Off Market	31,15,500	651.00	20,281.91
22-Jun-2019	Johnson Controls Mauritius Pvt Ltd	Sell	Off Market	4,09,95,000	607.50	2,49,044.63

- Johnson Controls sold 2% stake to Galla Family on Aug
- 1.82% stake held under Mangal Industries (promoter a/c) was consolidated under Galla Family a/c in July
- In June, Johnson Controls sold 24% stake to Clarios ARBL holding, new name of Johnson Controls spinoff, after it was acquired by Brookfield Business Partners, Canadian Asset Management firm (now a public holder)

More than 1% shareholders

Shareholders more than 1%						
Company Name	Category	Sep-20	Jun-20	Mar-20	Dec-19	
RNGALLA FAMILY PRIVATE LIMITED	Promoter	28.06	28.06	28.06	28.06	
CLARIOS ARBL HOLDING LP	Public	24.00	--	--	--	
NALANDA INDIA EQUITY FUND LIMITED	Public	9.88	9.88	9.88	9.88	
LIFE INSURANCE CORPORATION OF INDIA P & GS FUND	Public	3.65	--	--	--	
ICICI Mutual Fund - All Schemes	Public	3.21	3.58	3.86	3.54	
UTI Mutual Fund- All Schemes	Public	1.59	1.77	1.57	2.38	
L&T Mutual Fund - All Schemes	Public	1.56	1.75	1.54	1.51	
HDFC LIFE INSURANCE COMPANY LIMITED	Public	1.17	--	--	--	

- Clarios ARBL Holding LP is erstwhile Johnson Controls that still holds 24% stake.
- Nalanda India Equity also holds close to 10% stake.

Management Analysis

Remuneration

In FY20, MD Mr Jaydev Galla received 45.43 crores, which is also the maximum permissible ceiling as per companies act.

Management Integrity

No allegations could be found in public domain

Employee feedback

Employee feedback about the company is quite positive.

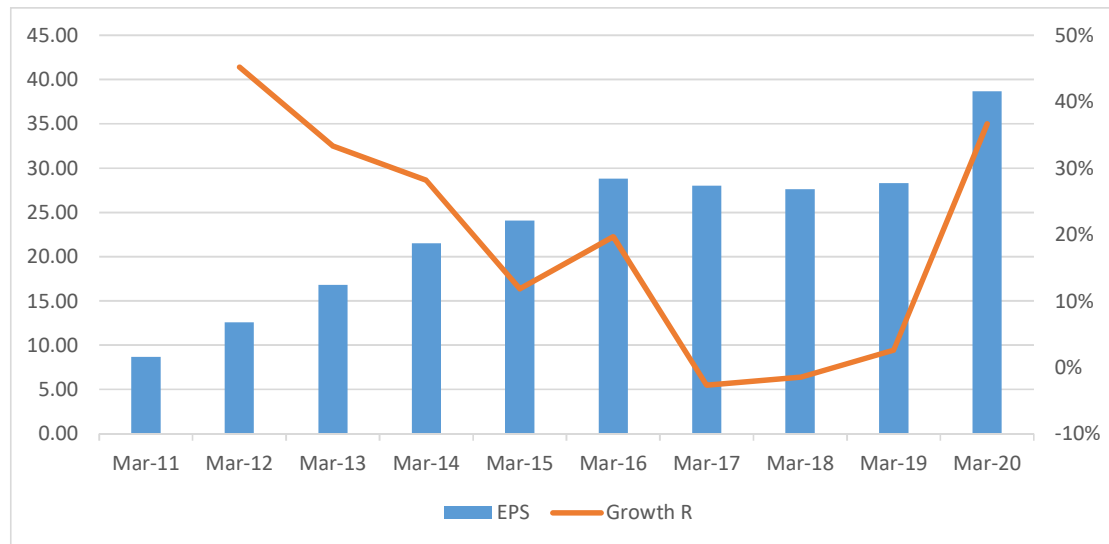
Platform	Score	No. of reviews
Indeed.co.in	4	110
Ambitionbox.com	4.2	639
Glassdoor.co.in	3.4	57
Jobbuzz.timesjobs.com	3.5	68

Financials

10Y historical financials

AMARA RAJA BATTERIES LTD											Reuters										MCAP										15642.15										CMP										915.75										# Shares										17.08										FV										1																																																																																																																																																																																										
10 Y PNL	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	PSR	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	PER	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	PBV	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	PCF	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	DY	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	RoE	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	RoA	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Asset Turn	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Interest Cover	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	D/E	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Cost of Funds	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Receivable days	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Inventory/Sales	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	# Shares	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Valuation	PSR	PER	PBV	PCF	PDY	Market	EPS	Growth	Sales	Growth																																																																																																						
Sales	1,761.05	2,364.48	2,958.91	3,436.65	4,210.86	4,617.76	5,317.15	6,059.15	6,793.11	6,839.46	0.47	0.54	1.62	2.01	3.46	3.33	2.93	2.30	1.85	1.22	10.94	11.64	16.36	18.33	34.63	30.49	31.77	28.81	25.43	12.36	1.29	1.56	4.53	5.07	8.58	7.26	6.01	4.74	3.78	2.29	9.64	4.30	14.32	24.76	36.91	27.69	28.18	43.26	23.28	7.11	41.71	46.47	66.09	64.57	133.99	140.69	191.17	230.34	261.20	300.74	22.93%	26.12%	27.05%	26.96%	24.17%	23.24%	18.45%	16.05%	14.50%	18.08%	13.27%	15.91%	16.19%	18.52%	17.22%	16.66%	13.35%	11.31%	10.75%	13.21%	5.59	6.67	8.25	5.51	4.46	3.42	3.56	3.56	3.75	3.74	84.11	138.61	1669.56	777.65	2924.13	148.82	147.30	174.55	136.94	90.12	0.15	0.10	0.08	0.06	0.04	0.04	0.03	0.02	0.02	0.02	3.1%	2.9%	0.3%	0.8%	0.3%	7.3%	8.0%	8.0%	11.9%	17.8%	63.4	49.3	47.0	48.1	48.0	46.8	39.2	47.1	41.3	34.0	16.17%	11.28%	9.90%	9.75%	9.93%	13.03%	15.36%	17.32%	15.62%	16.71%	8.75	8.75	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50	2.0	2.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	2.44	27.68	4.28	13.29	1.20%	FY19E	-	-	-	-	2.33	25.77	4.81	25.90	0.93%	FY20E	-	-	-	-	10 Q Results	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Mar-20	Jun-20	Sep-20	Sales	1778.67	1753.05	1694.66	1566.73	1814.95	1695.31	1747.81	1581.39	1151.04	1935.82	NP	113.03	120.23	130.89	119.34	140.91	218.85	164.41	136.65	62.68	201.46	Y Growth	10Y	5Y	3Y	1Y	Q Growth	5Q	4Q	3Q	2Q	1Q	Sales	16.3%	10.2%	8.8%	0.7%	Sales	-3.29%	3.1%	0.9%	-36.6%	14.2%	EBITDA	17.5%	9.4%	8.9%	15.4%	NP	82.03%	25.6%	14.5%	-55.5%	-7.9%	NP	18.1%	10.0%	11.4%	36.7%							Price	94.9	146.5	274.6	394.4	833.1	877.6	890.1	795.0	720.0	478.1	SSGR	21.30%	38.44%	49.48%	39.75%	22.79%	20.59%	14.39%	9.99%	5.59%	9.41%

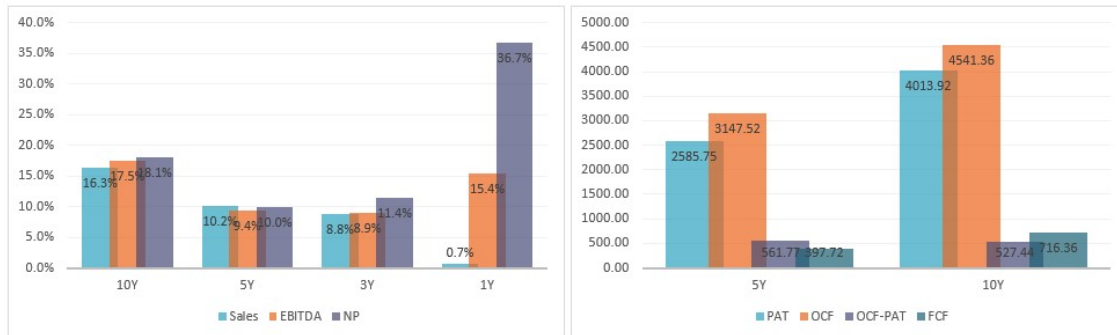
Growth rates



Y Growth	10Y	5Y	3Y	1Y	Q Growth	5Q	4Q	3Q	2Q	1Q
Sales	16.3%	10.2%	8.8%	0.7%	Sales	-3.29%	3.1%	0.9%	-36.6%	14.2%
EBITDA	17.5%	9.4%	8.9%	15.4%	NP	82.03%	25.6%	14.5%	-55.5%	-7.9%
NP	18.1%	10.0%	11.4%	36.7%						

ARBL was growing at a healthy pace, before witnessing stagnation between FY17 and FY19 due to sectoral headwinds. However, company has made a recovery in FY20 (mostly due to increase in demand in the after-market segment)

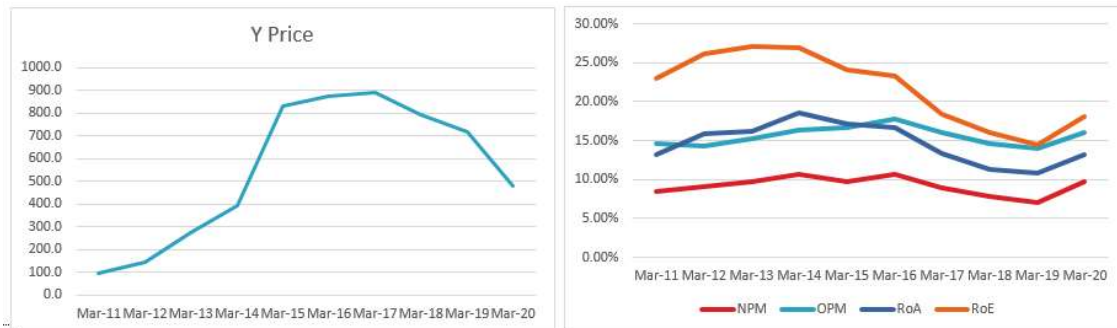
Cash Flow



Healthy cash generation. OCF consistently higher than PAT, cumulative FCF positive for both past 5 and 10 years despite high capex. Receivable days is around a month.

10Y CF	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
OCF	86.12	298.48	335.46	278.75	395.03	554.71	552.90	321.66	541.34	1176.9
Capex		79.95	141.84	370.58	396.71	584.97	448.70	427.58	459.07	829.48
FCF		218.53	193.62	-91.83	-1.68	-30.26	104.20	-105.92	82.27	347.43

Profitability

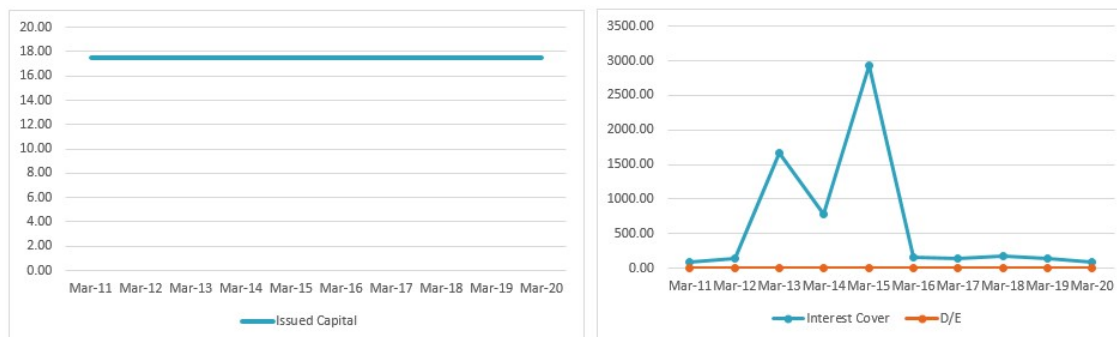


Margins have largely remained steady, except in FY18 & FY19. However FY20 saw margins return to normal levels on the back of softer raw material costs.

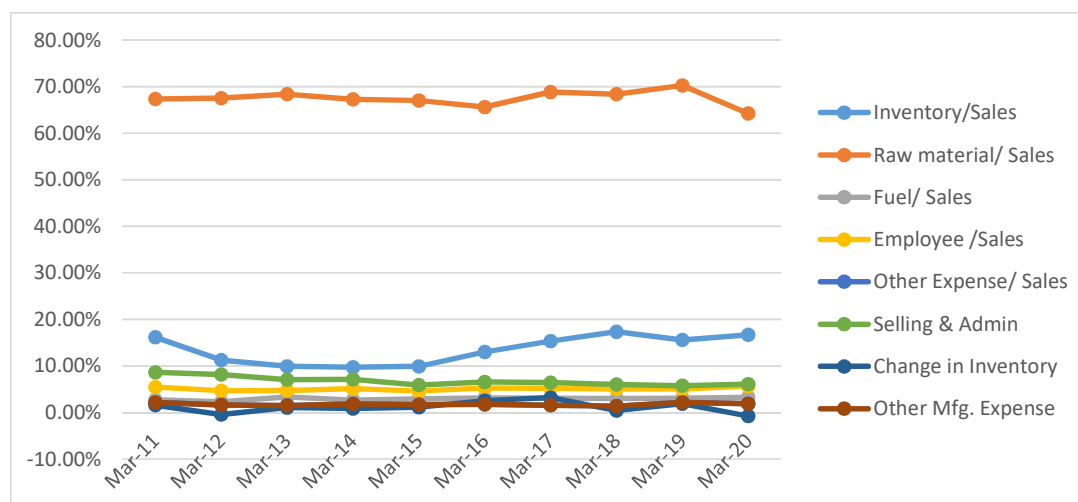
10 Y PNL	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
OPM	14.62%	14.36%	15.23%	16.29%	16.67%	17.82%	15.98%	14.58%	14.01%	16.06%
NPM	8.41%	9.10%	9.69%	10.69%	9.76%	10.65%	9.00%	7.78%	7.12%	9.66%

Leverage & Liquidity, debt outlook

ARBL is virtually debt free, no equity dilution over the past 10 years.



Cost analysis



Raw material costs are mostly steady and saw a decline in FY20. Also, there seems to be a marginal inventory build-up over the past few years.

Tax rates & benefits if any

10 year average tax rate is 31.45%. However, going forward, the expected tax rate will be 25.17%.

Cash + Investments

Cash plus investments form around 5% of the assets.

Cash + Investm	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Assets	1,115.92	1,351.52	1,770.47	1,983.55	2,386.28	2,950.76	3,584.57	4,168.55	4,495.94	5,000.59
Cash + Investm	61.20	245.27	426.87	310.65	238.25	170.25	317.58	146.42	92.21	240.68
As % of assets	5.5%	18.1%	24.1%	15.7%	10.0%	5.8%	8.9%	3.5%	2.1%	4.8%

Credit rating

CRISIL has reaffirmed its ratings on the bank facilities of Amara Raja Batteries Limited (ARBL) at 'CRISIL AA+/Stable/CRISIL A1+'.

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee [^]	115	CRISIL AA+/Stable	Bank Guarantee [^]	120	CRISIL AA+/Stable
Cash Credit [*]	65	CRISIL AA+/Stable	Cash Credit [*]	25	CRISIL AA+/Stable
Letter of Credit [^]	5	CRISIL A1+	Foreign Exchange Forward	5	CRISIL A1+
--	0	--	Letter of Credit [^]	5	CRISIL A1+
--	0	--	Proposed Short Term Bank Loan Facility	30	CRISIL A1+
Total	185	--	Total	185	--

^{*}Interchangeable with working capital demand loan and export credit.

[^]Fully interchangeable with LC and BG.

Corporate structure

Subsidiaries, Associates & JVs

Sl No.	Name and Address of the Company	CIN/GLN	Holding/Subsidiary/Associate	% of shares held	Applicable Section
1.	Amara Raja Batteries Middle East (FZE) SAIF OFFICE, P8-15-84, P.O. Box 124018 Sharjah, U.A.E	Certificate of Incorporation No. 11257	Subsidiary	100	2(87)

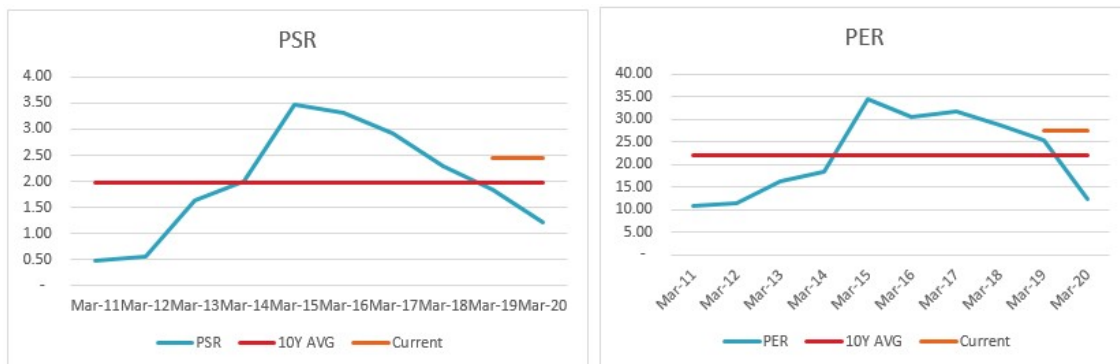
Contribution of subsidiaries, JVs & associates to consolidated financials

Subsidiary do not make any meaningful contribution to consolidated financials.

Valuation, earnings estimates

Relative valuations

Stock is currently trading marginally above its 10 year historical price multiples.



Valuation	PSR	PER	PBV	PCF	PDY
Current	2.44	27.68	4.28	13.29	1.20%
Historical (5Y average)	2.33	25.77	4.81	25.90	0.93%

However, stock is trading at par with 5 year historical averages.

Risk Analysis

Exposure to intense competition

The telecom segment has been going through a tough consolidation phase, wherein the telecom operators/ infrastructure players continue to exert pressure on vendors to reduce prices. Competition is also intensifying in the auto aftermarket battery segment and small-to-mid sized organized players (hitherto operating only in the industrial segment and now increasing focus on the auto segment) offering products at competitive prices. During periods of subdued end market demand, the increase in lead prices cannot be fully transferred to end customers especially in the after-market segment. Nevertheless, ARBL has performed better than its peers, largely because of its diversified revenue streams and product quality.

Logistical disadvantages due to geographical concentration in operations

ARBL currently operates from a single geographical location in Andhra Pradesh (Tirupati and Chittoor), while demand is spread across the country, thereby restricting distribution logistics. The single-location facility will expose the company to risks relating to geographical concentration of operations, like natural calamities and others. However, ARBL's closely linked facilities does offer benefits in the form of economies of scale because of its large size. The plant is completely integrated with all critical components, including plastics battery cases which are sourced in-house.

Constantly evolving technology may blunt the Company's product edge

Company keeps a close watch on innovations in manufacturing of lead-acid batteries. ARBL has absorbed and localised the stamped grid technology which promises to improve our products while optimising costs

For the lithium-ion technology, the Company did an in-depth groundwork to understand it, analyse its positives and challenges. ARBL first set up a lithium-ion pack assembly unit to enter the e-rickshaw and telecom sectors. ARBL is now doing the spadework on the lithium-ion cell to grab the opportunities whenever they emerge without any delay.

Lead price risk

Lead is the key input in battery manufacturing. Swing in the price of lead can impact the Company's profitability adversely.

The Company has entered into lead-linked contracts with customers who contribute to the lion's share to the overall revenue. It implements periodic price corrections to factor in the lead price fluctuations

Electrification of two/ three wheelers

Government is pushing for electrification of 3Ws/2Ws from 2023/2025. Unlike e-car, e-2Ws/e-3Ws do not require lead acid battery as auxiliary battery. This in turn would impact revenues of the lead acid battery players. Any concrete steps in this direction could potentially lead to de-rating of P/E multiple

Historical price chart

1 Year chart

Stock has generated around 23% returns to investors in the past one year.



Conclusion

The battery market in India is a duopoly where ARBL stands as the strong number two (after Exide). ARBL is already the market leader in telecom and UPS segments and is fast gaining market share in autos. Aided by a combination of factors, including strong focus on innovation, witty marketing, innovative distribution, ARBL is gearing up to be the overall leader.

In terms of profitability and returns, ARBL is arguably the best business in the auto-ancillary space. Company has been able to sustain double digit margins through the ups and downs, generate strong cash flow, and maintain a virtually debt free balance sheet despite strong capex intensity.

While past 3-4 years has been difficult for the industry, and the pain continuous to remain, ARBL has returned to growth in FY20 with strong demand in the after-market segment. As the post-pandemic economy returns to normalcy, ARBL is expected to see stronger growth momentum.

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