



## Exide Industries Ltd. Q2 FY18 Quarterly Update

### MARKET DATA

NSE TICKER	EXIDE
Networth FY17 (Rs in Crs)	5,032
P/BV Ratio (FY17) (x)	3.5X
EPS (FY17)(Rs.)	9.5
Market Price (Rs.)	205
P/E Ratio (FY18E) (x)	25.0X
52 Week High(Rs)	249.7
52 Week Low (Rs)	166.7
Market Capitalisation (rs. Cr)	17,577

### AVERAGE MONTHLY VOLUME ('000)

BSE	160
NSE	1,560

### SHARE HOLDING PATTERN

Promoter	46.0
FII	9.5
DII	12.0
Public	32.5

### RETURN (%)

	3M	6M	YTD
Exide	-3.5	-11.2	16.1
Nifty	3.3	10.6	25.8

**Harsh Shah (Research Analyst)**

[harsh.shah@dimensional.in](mailto:harsh.shah@dimensional.in)

+91-22-66545231

Exide Industries Ltd. reported a sharp jump of 23.1% in revenues to Rs. 2371.3 cr during Q2FY18. The growth in revenues was underpinned by both Automotive and Industrial segment due to pick up in fresh demand and higher restocking by dealers. In the Automotive Battery segment, higher growth in underlying industry especially Two-Wheelers (up 12.6%) and Commercial Vehicles (up 12.0%) led the OEM growth while replacement sales were aided by improving demand and restocking by dealers. Pick up in industrial activities supported growth of industrial battery segment. In particular, higher growth was seen in telecom and UPS batteries. However, continuously escalating lead prices is putting pressure on company's gross margins which have fallen from 38.7% in Q2FY17 to 33% during current quarter. On sequential basis, the margins have fallen 400bps. Exide's Gross Margin dropped 50 bps YoY to 36.1% while sequentially it was down 30 bps on the back of increase in lead prices.

Various cost control measures adopted by the management helped them to contain other operating overheads which capped the impact on EBITDA margin to -250bps YoY and -290bps QoQ. Exide's EBITDA stood at Rs. 296.0 cr, up 2.3% YoY. During the quarter company had to incur a one off expense to the tune Rs. 41 cr towards settlement of dispute with a US based company Exide Technologies Inc, for usage of the name Exide in India. Adjusting for that, Exide reported PAT of Rs. 191.1 cr, implying growth of 5.1% YoY and 1.1% QoQ

### Outlook for Lead Prices and impact on Exide:

The outlook for lead prices continues to remain positive as demand is consistently outgrowing supply. Nearly 60 percent of lead-zinc mines in China have been shut-down due to environmental inspections in Sichuan province while exports from North Korea, China's second-largest lead ore and concentrate supplier, have been halted due to sanctions put in place by the UN. On demand side, there is a sharp rise of ~23% in net imports by the US. There is also a strong rise in Chinese usage of 16.4%. European demand increased by a modest 1.5% and overall global demand for current CY is up by 11.5%.



### Quarterly Performance:

Particulars (Rs in crs)	Q2 FY18	Q2 FY17	YoY (%)	Q1 FY18	QoQ (%)	FY17	FY16	y-o-y
Net Sales	2371.3	1926.4	23.1	2103.4	12.7	11206.2	9479.4	18.2
RM Cost	1588.5	1179.1	--	1323.2	--	4750.6	4428.8	--
RM Cost as % of Sales	67.0%	61.2%	--	62.9%	--	42.4%	46.7%	-410 bps
EBITDA	295.9	289.1	2.3	324.3	-8.8	1215.5	957.9	26.9
EBITDA Margin	12.5%	15.0%	--	15.4%	--	10.8%	10.1%	-70 bps
Interest	2.1	0.6	--	1.6	--	12.5	7.1	--
PBT	247.9	261.1	-5.0	279.6	-11.3	1097.1	1008.6	8.8
Tax	56.8	79.3	--	90.6	--	293.1	292.2	--
PAT	191.1	181.8	5.1	189.0	1.1	804.0	716.4	12.2
EPS	1.0	1.0	0.0	1.0	0.0	9.5	8.4	13.1



Lead forms around 48-52% of Sales for Exide forming bulk of its costs Nearly 40% of company's business with OEM's and institutional customers have pass through clause and they are protected from increase in lead prices in that respect. However, in case of aftermarket sales (60% of business) they are exposed to price volatility.

Average price of lead (per kg) was ~Rs. 125 during Q2FY17 which rose to Rs. 140 during Q3 and further to Rs. 150 during Q4FY17. During the same period, INR appreciated 6-7% which lowered the pain for Exide as nearly 70% of its RM is imported. Our channel checks suggests that Exide took price hikes of 8-12% across products to pass on the increase in RM price and also in anticipation of GST. Post GST implementation, there were price cuts to the extent of 4-7% on 2W and 4W batteries due to lower rate on 2W and passing on of Input Tax Credit benefits.

Since September, lead prices have increases another 8-10% to Rs. 165 levels. On doing channel checks it was learnt that the company has not taken any price hike as of yet. The new pricing catalogue is expected in next 10-15 days and they mentioned that company waits for a quarter before they hike prices. Only if lead prices settle higher for a considerable period, they take a hike

### Valuation & View:

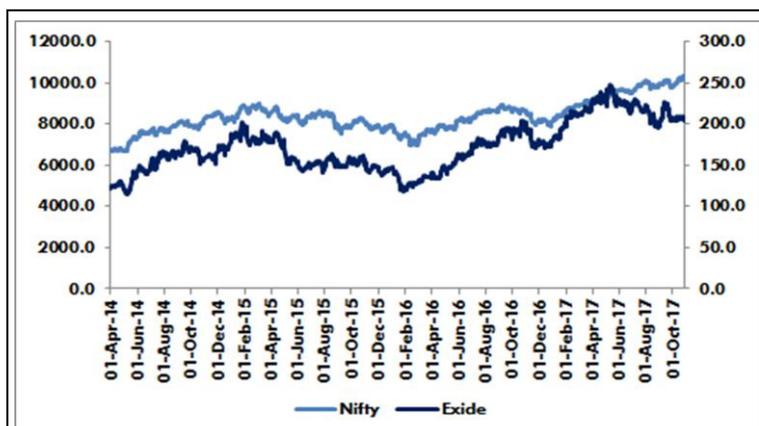
Exide has planned a capex of Rs. 1400 crore which would be used for technical upgradation, rolling out of new products and capacity expansion. Out of Rs. 1,400 crore, Rs. 700 crore has been spent at Haldia plant for manufacturing new technology punch grid batteries and expanding capacity. Rest would be spread across all the other plants during current fiscal. The company will also be introducing robotics technology across its plants which will increase automation and rationalize manpower costs. Entire funding would be done from internal accruals.

Exide has implemented 'Punched Grid Technology' for the manufacture of batteries at its plant in Haldia. Battery grids produced using the 'Punched Grid Technology' are highly corrosion resistant and exhibit structural rigidity, which results in longer battery life It is a next generation technology and according to the management the life of batteries would improve by about 20%. These batteries would be primarily for after-market and company as of yet have not tied up with any OEMs for this battery. The company has entered into technological tie up with US based East Penn Manufacturing Company.

Owing to consistent increase in lead prices, which is putting pressure on company's margins, and impending structural change in industry in terms of higher expected usage of Lithium Ion batteries and electrification of vehicles, we are cutting our earnings multiple on battery business from 20X to 18X. We are valuing the insurance business at 2.5X Embedded value which is 30% discount to market leader ICICI Prudential Accordingly we are valuing Exide Ind at Rs. 237 based on our SoTP valuation, which represents an upside of 15% from CMP and recommend a BUY on the stock.

	<b>FY19E</b>
Exide Standalone EPS	9.7
P/E Assigned	18X
Value per Share (I)	Rs. 175
Embedded Value per share of Insurance Business	24.7
Multiple Assigned	2.5X
Value per Share (II)	Rs. 62
<b>Total Value per Share</b>	<b>237</b>

### 3-Yr Price comparison





## Exide Industries Ltd.- Profit/Loss Statement

DESCRIPTION	FY16	FY17	FY18E	FY19E
Net Sales	6853.7	7642.4	8701.5	9836.8
<b>EXPENDITURE :</b>				
Raw Material Consumed	4241.3	4707.7	5555.6	6348.6
Employee Cost	467.1	519.6	550.8	583.8
Other Operating Exp.	1127.7	1318.6	1416.6	1509.9
Total Expenditure	5836.1	6545.9	7523.0	8442.2
EBITDA	1017.6	1096.5	1178.5	1394.6
Depreciation	160.2	206.3	227.6	259.3
EBIT	857.5	890.2	950.9	1135.3
Other Income	56.2	89.8	68.4	75.6
Interest	3.8	4.3	3.8	0.0
Exceptional Item	-	-	-	-
PBT	909.8	975.7	1015.6	1210.9
Provision for Tax	283.5	282.1	325.0	387.5
Profit After Tax	626.3	693.6	690.6	823.4
EPS	7.3	8.2	8.1	9.7

## Exide Industries Ltd.- Cash Flow

DESCRIPTION	FY16	FY17	FY18E	FY19E
Profit Before Tax	908.2			
Adjustment	121.7			
Changes In Working Capital	579.0	-384.0	3.6	-227.0
Trade & Other receivables	-52.0	-18.9	-103.2	-94.6
Inventories	389.3	-393.9	-11.8	-196.8
Loans & Advances	-17.1	1.9	-3.0	-60.4
Trade & Other payables	258.7	26.8	121.5	124.8
Cash Flow after changes in W/C	1608.1	712.5	1220.5	1213.1
Tax Paid	-268.4	-282.1	-325.0	-387.5
Cash From Operating Activities	1339.7	430.4	895.5	825.6
Cash Flow from Investing Activities	-1146.0	-307.2	-720.0	-165.0
Free Cash Flow	193.7	123.2	175.5	660.6
Cash Flow from Financing Activities	-149.74	-177.31	-175.5	-484.71
Net Changes in Cash	44.0	-54.1	0.0	175.9
Opening Cash	29.8	73.8	19.7	19.7
Closing Cash	73.8	19.7	19.7	195.6

## Exide Industries Ltd.- Balance Sheet

DESCRIPTION	FY16	FY17	FY18E	FY19E
Share Capital	85.0	85.0	85.0	85.0
Total Reserves	4349.1	4878.6	5324.2	5902.6
Shareholder's Funds	4434.1	4963.6	5409.2	5987.6
Long-Term Borrowings	0.0	0.0	0.0	0.0
Deferred Tax Assets / Liabilities	124.9	155.2	168.9	180.5
Other Non-Current Liabilities	39.5	48.3	55.1	62.3
Total Non-Current Liabilities	164.4	203.5	224.0	242.8
Trade Payables	744.9	767.9	884.9	1005.2
Short Term Borrowings	102.5	170.2	239.7	0.0
Other Current Liabilities	682.9	670.4	683.8	688.3
Total Current Liabilities	1530.3	1608.5	1808.5	1693.6
Total Liabilities	6128.7	6775.6	7441.6	7924.0
<b>ASSETS</b>				
Net Block	1448.8	1687.4	2260.7	2142.4
Long Term Loans & Advances	69.2	13.3	146.9	183.6
Other Non Current Assets	1764.2	1896.6	1772.4	1772.9
Total Non-Current Assets	3282.1	3597.3	4180.0	4098.9
Current Investments	926.3	905.5	805.5	1084.0
Inventories	1133.5	1527.3	1529.2	1716.0
Sundry Debtors	607.5	623.5	724.8	819.4
Cash and Equivalents	45.0	19.6	19.7	19.7
Short Term Loans and Advances	134.3	102.4	182.4	185.9
Total Current Assets	2846.6	3178.3	3261.6	3825.1
Total Assets	6128.7	6775.6	7441.6	7924.0

## Exide Industries Ltd.- Key Ratios

DESCRIPTION	FY16	FY17	FY18E	FY19E
RoE	14.8	14.8	13.3	14.4
RoCE	21.2	20.3	18.9	20.8
Inventory Days	83	74	74	74
Debtor Days	31	29	30	30
Creditor Days	54	52	52	52
Debt/Equity	0.0	0.0	0.0	0.0
Interest Coverage	225.7	207.0	250.2	NA
Fixed Asset Turnover	3.6	3.2	3.2	3.4
Adj. P/E	28.0	25.1	25.2	21.2
Adj. P/BV	3.9	3.5	3.2	2.9



## ANALYST CERTIFICATION

I (Harsh Shah), Research Analyst, author and the name subscribed to this report; hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

### Terms & conditions and other disclosures:

Dimensional Securities Private Limited (DSPL) is engaged in the business of stock broking and distribution of financial products. This Report has been prepared by Dimensional Securities Private Limited (DSPL) in the capacity of a Research Analyst having SEBI Registration No. INH000001444 and distributed as per SEBI (Research Analysts) Regulations 2014.

The information and opinions in this report have been prepared by DSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of DSPL. While we would endeavour to update the information herein on a reasonable basis, DSPL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent DSPL from doing so.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. DSPL or its associates accept no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

DSPL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. DSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither DSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that (Harsh Shah), Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. DSPL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of DSPL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that (Harsh Shah), Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

DSPL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

We submit that no material disciplinary action has been taken on DSPL by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject DSPL and associates to any registration or licensing requirement within such jurisdiction.

The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DSPL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of DSPL to present the data. In no event shall DSPL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by DSPL through this report.