

Amara Raja Batteries Ltd.

INR 157

*Take Your Charge***ACCUMULATE**

Nov 13, 2009

Company Background

Amara Raja Batteries Ltd (ARBL) incorporated in 1985, had designed & implemented the most advanced battery manufacturing facility in India. ARBL is the largest manufacturer of Standby Valve Regulated Lead Acid (VRLA) batteries in the Indian Ocean Rim, comprising the areas ranging from Africa & the Middle East to South East Asia. The company is into the business of Industrial Battery, Automobile Battery & Power System & its manufacturing facility is located in AP. It is the largest supplier of stand-by power systems, catering to Indian utilities such as, DoT, Indian Railways, Power Generation Stations, MTNL, VSNL, ITI & HTL. Their clientele in the Automotive OEM segment includes Maruti Suzuki, Tata Motors, Honda & Mahindra & Mahindra.

Investment Rationale**➔ Financial performance**

ARBL reported better results during the Sep ended 2009, where its Net Profit zoomed by 154% to INR 479 mn as against INR 188 mn, with its Net Sales increased by mere 6.5% to INR 3606 mn as against INR 3386 mn. This was widely supported by increase in Other Income along with decrease in Tax payment along with total Expenditure, which declined by 7.50%. During the quarter Industrial Battery business shown a steady growth while its UPS battery market continue to remain robust. The company has even completed Medium VLRA battery capacity expansion from 1.20 mn units to 1.80 mn units on schedule which would provide it for further growth & to grab more market share in the same segment. Its Net Profit Margin was at 13.14% vs 5.28%, with EBITDA Margin at 23.8% vs 11.98%.

➔ Diversified portfolio

ARBL earns around 55% of its revenues from Industrial batteries segment while around 45% is been contributed from Automotive segment. It caters to a wide range of clients included in sectors like Telecom, Power, Railways, Auto etc. This segments are believed to be of high growth & high margin business & have grown at a CAGR of around 50% in last 5 years.

➔ High capex for further expansion

The Company is planning to incur capex of INR ~1 bn in the current year to expand its two-wheeler battery capacity from 1.8 mn units to 2.4 mn units & UPS batteries from 1.2 mn units to 1.8 mn units. Two wheeler batteries commands higher margins & will help improve overall operating margins of the company.

➔ More opportunities to come up

ARBL batteries are used to power air-conditioning in AC coaches of Indian Railways, which already has added 45350 new age coaches & further plans to add 22869 more, which is expected to be a ready market for the ARBL batteries. ARBL batteries support the transmission & distribution networks of Power stations. Increased spending by the government in the power sector will boost demand as government plans a 48% growth in transmission grid growth in the eleventh plan. With the revival in the Auto sector, there seems to be great opportunities coming up, along with replacement markets are expected to boom as the industry had witnessed double digit growth in last five years.

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Info Codes

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Bloomberg	: AMRJ@IN
NSE	: AMARAJABAT
BSE	: 500008

Market Data

52 Wk Range (INR)	: 164 / 30
Shares in Issue (mn)	: 87.5
Mkt. Cap (INR bn)	: 13.69
BSE 2 Wk Avg Vol	: 60453

Share Holding Pattern (%)

Promoters	: 52.06
MFs, FIs & Banks	: 14.02
FIIIs	: 3.16
Others	: 30.76

Investment Theme

ARBL is the largest manufacturer of Standby VRLA in the India, with areas ranging from Africa & the Middle East to South Asia & having a total market share of 30% in Industrial & Automotive battery segment. The company's portfolio comprises of different products catering to various sectors. It is about to incur INR ~1 bn as capex for its 2 Wheeler Battery & UPS segment capacity expansion. The company's Industrial battery segment has shown some robust performance along with Automotive segments on its track too of recovery. The management expects its automotive segment to grow at a double digit figure with the recovery in Global economy.

Larger in Capacity

➔ Favourable Business Model

The battery industry is divided into two major segments Industrial & Automotive, Where there are only a few organized players. A large chunk of the market is with the unorganized players in both the segments. ARBL is one of the leading players in the industry with around 30% market share in both the segments. The company has a JV with Johnson Controls Inc. which holds 26% stake in the company & also provides technical collaboration to the company.

Amara Raja Batteries Ltd.

Industrial

- Telecom
- IT
- Banking
- Indian Railways
- Power

Automotive

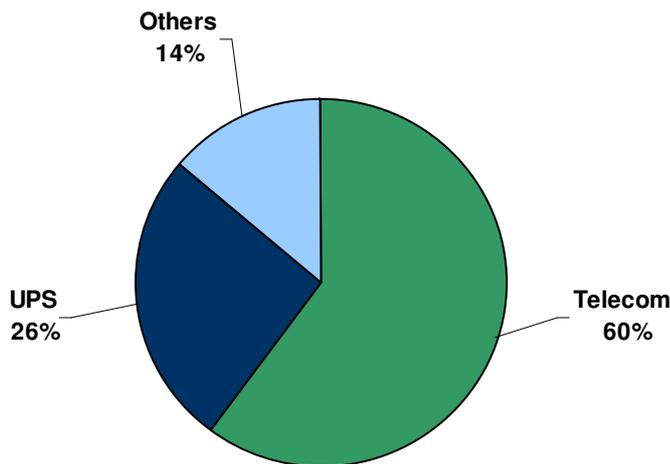
- OEM
- Replacement
- Motor Cycle
- Exports

In FY08, Industrial segment contributed around 48% of the total revenues while it changed to 55% in FY09, whereas in FY08 Automotive segment contributed around 52% which further decreased to 45% in FY09. However decrease in contribution from Automotive segment was mainly due to slowdown in economy which affected the global auto sector as a whole. The company expects to increase its revenues from Automotive segment in the coming quarter due to recovery in demands from the domestic market.

Contribution from its Industrial segments

This segment contributed around 55% of the total revenues in FY09, catering to different industries like telecom, power, banking, railways & the UPS segment. The company's production increased to 900 mn Ah of VRLA batteries in FY09 from 450 mn Ah produced in FY08, which ranges from 4.5 Ah to 5000 Ah. In the UPS segment, the company produced 1.2 mn units in FY09 & the company is expecting to increase to 1.8 mn units in the near terms.

Break up of its Segments



(Source:- Company)

➔ Telecom

In the Telecom segment, company's major clients include BSNL, MTNL, BHEL, BEL etc to name a few. Of the total revenues, telecom segment contributed the highest with around 60%. India is the world's fastest growing telecom markets & is expected to emerge as the second largest global telecom market by 2010, where its subscribers base would touch to 700 mn by 2012.

Industry Snapshot

The Indian storage battery industry has witnessed ~ 28% CAGR between FY05-09. The industry can be broadly segmented under Automotive & Industrial type of batteries. Around 80% of the organised Automobile market is dominated by three leading players. However, the segment is plagued by the presence of a massive un-organised sector with ~ 45% share. The market is estimated to be around INR 90 bn, where Industrial batteries segment accounts for INR 37 bn & Automotive with INR 53 bn, while Un Organised is estimated to be around INR 68 bn. The Industrial segment comprises around 40% sales by value of the total market. In the past, the market grew at a CARG of 25% over last four years. The Industrial battery segment is highly fragmented with Telecom, IT & ITES, BFSI & corporate being major consumers. In the automotive segment, the commercial vehicles accounts 29% share & the cars & utility vehicles account for 38%. The OEMs account for only 34% of the automotive battery industry while the rest of the market is dominated by the replacement market which attracts higher margins & has great growth potential in the future. In India, collection of spent battery is relatively low ~ 25% compared to 80% in developed nations. However, increasing sophistication of Indian automobiles with higher usage of electrical applications coupled with growing environmental concerns would marginalize the un-organised sector over a period of time. This shift towards the organised sector would itself provide growth impetus to the players in the organised market.

ARBL

Further moving, semi urban & rural customers represented by Circle B & C are projected to grow fast, accounting for 60% of India's mobile subscribers. This growth will necessitate large rural infrastructure investments. It is estimated that 350,000 telecom towers will be added by the mobile segment during the next three years, increasing the total number of BTSs installed in India to 750,000 by March 2012.

➔UPS

This segment has an overall contribution of 26% of the total revenues. The demand for back up power is expected to grow manifold across sectors on the whole & IT/ITES, Banking, Power & Railways sector in particular. The Indian IT/BPO sector expects to export USD 60 bn while the software & service sector expects to export USD 73-75 bn by 2010. With the rural India progressing, there is immense growth witnessed in rural banking & postal services too. The growing demand for UPS batteries, across multiple applications, necessitated the introduction of new variants from 100 Ah capacity to 200 Ah capacity for the company. During the year, the manufacturing capacity of large VRLA doubled to 900 mn units Ah in comparison to previous year units. The company is also poised to increase its UPS segment share, as 50% capacity enhancement of medium VRLA battery is under it way.

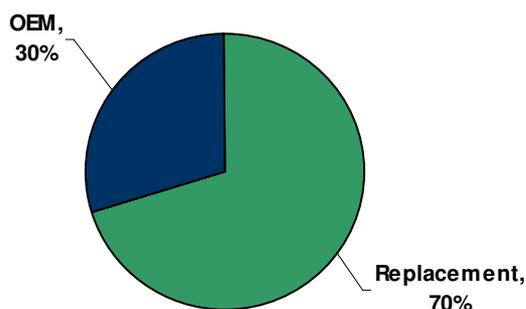
➔Others

The Indian Railways & the Power sector are a big & ready market for ARBL, as nearly 14% of revenues are generated from this segments. Indian Railways are likely to upgrade its infrastructure by investing INR 375 bn in 2009-10 & has plans to add new wheel factory, diesel locomotive factory, an electric locomotive factory & a coach factory with a capital outlay of around USD 974 mn. In the Power sector, India is expected to add over 113025 MW power generating capacity across the 11th & 12th plans. The industry plans to create 95283 ckm & augmenting energy carrying capacity to 37150 MW by 2012. To meet these project deadlines, the CEA has sanctioned INR 210 bn for equipment purchase for the upcoming projects. It is expected that with the various upcoming opportunities on its way, the company is likely to grab this opportunities & further increase its revenues.

Contribution from its Industrial segments

This segment contributed around 45% of the total revenue. The company produces batteries in the OEMs & Replacement market with warranties ranging from 12-60 months. The company has recently forayed in to the two wheeler battery segment during the last year with a capacity of 1.8 mn units.

Break up of its Segments



(Source:- Company)

Key Drivers

Growth of the automobiles industry:-

Domestic players in the automotive OEMs are adding capacities to meet future demand, driven by both buoyant domestic market and growing vehicle export market, particularly for small cars, two wheelers & light commercial vehicles. New Global players are also entering the market & setting up huge capacities which will increase the breadth of the domestic market & boost vehicle exports from India.

Recovery in battery demand:-

Following a period of sharp downturn in auto sales & freeze on industry capex in FY09, the battery industry has shown a strong recovery trend since the beginning of FY10. Increase in monthly auto numbers coupled with high growth in the UPS & Inverter applications has enabled the battery industry to post strong month on month growth over the last six months.

Passenger car segment-on fast lane:-

In the Passenger car segment, the growth is mainly led by the growing middle class and the higher disposable income for them. New entrants in the market like Renault, Volkswagen & BMW will aid in increasing the depth of the passenger car market & further the story of India as a large automotive market & an alternative low-cost manufacturing base. The exports in this sector are led by players like Hyundai & Maruti.

Low Price with better quality:-

The preceding two years saw substantial increase in battery prices on the back of lead price increase. The domestic battery manufacturers are also working on creating enhanced value proposition by introducing good quality products at lower price points & reliable after sales service support.

ARBL

➔OEM & Aftermarket Segment

The company has tie ups with Maruti Suzuki, Tata Motors, Honda, Hyundai & almost all major players in the Indian Auto industry for their various products. The company prefers to cap its supplies to OEM's ~ 30% of its total Auto battery business, as margins are relatively low. The company is better placed as a supplier to domestic & multinational automobile OEMs for diverse platforms. It enjoyed a sizeable presence in the aftermarket segment (25% market share in the organised sector), both through its own brands as well as private label programs like BOSCH & Lucas. The Company also exported its Amaron batteries to various countries in Southeast Asia, Middle East & Africa.

➔Two Wheeler Segment- A new entry

The company last year forayed in to the two wheeler battery segment with a production capacity of 1.8 mn units in the motor cycle/ small VLRA segment. ARBL plans to increase the capacity to 2.4 mn units by the end of FY10. The company has launched motor cycle battery with a 60 month warranty in the aftermarket in FY09. However, the company is in talks with Honda, Japan for a tie up for sales under the OEM arrangement.

➔Exports

The company's export revenues in FY09 constituted 15% of revenues in the automotive sector. The countries to which ARBL exports its batteries are- Singapore, Malaysia, Hongkong, Thailand, Indonesia, Vietnam, Taiwan, Philippines, China, Japan, Greece, Sri Lanka, Mauritius, Australia, Kuwait, Dubai, Iran, Yemen, Oman, Bahrain, Qatar, UAE, Kenya, Tanzania and South Africa. The company has entered into an agreement with Tata International for exports in the brand name of 'Amaron' in the Aftermarket segment.

➔Cost to key play a role

Lead & Lead Alloys together account for more than 75% of the raw material cost for batteries. Lead prices have corrected sharply from its peak of USD 4000 per ton in FY08 to a low of USD 982 per ton at the end of FY09. The company has used this opportunity to build its raw material inventory to reduce its average lead cost for the year.

➔Recent strategic alliances to enhance replacement market presence

ARBL has entered in to a tie up with Maruti Suzuki India Limited for retailing its Amaron brand of batteries labeled as "Maruti Genuine Batteries".ARBL has also tied up with Tata International for exporting automobile batteries to select African countries. Based on the response in those markets, Tata International would progressively increase offtake.

Key Financials

Year Ended Mar 31 st	FY 07	FY 08	FY 09
Revenue (INR mn)	6041.5	11056.3	13448.9
Rev. growth (%)	63.07	83.01	21.64
EBITDA (INR mn)	908.7	1844.7	1768.1
Net profit (INR mn)	470.4	943.6	804.8
Shares outstanding (mn)	11.81	59.05	87.5
EPS (INR)	39.8	16.0	9.2
EPS growth (%)	97.23	(59.88)	(42.44)
P/E	1.1	8.1	4.0
EV/EBITDA	7.2	42.6	19.5
ROCE (%)	16.28	19.92	12.76

(contd..)

2&3 wheeler segment to go strong:-

The two wheeler market is likely to grow strongly over the medium to long term. With incremental capacities being set up at greenfield locations, it is expected that the domestic 2 & 3 wheeler market to grow by ~13% over the next 4-5 years. Furthermore, exports of two and three wheelers are also likely to grow significantly and are likely to grow at 25% CAGR over the same period.

Automotive Components Industry:-

Rising competition, increasing cost pressures lead Global players to outsource certain portion of components to low cost countries which in result offers immense outsourcing opportunities to Indian auto component manufacturers.

Moreover, India provides trained manpower at competitive costs making India a favored global manufacturing hub. The attractiveness of the Indian markets on one hand and the stagnation of the auto sector in markets such as Europe, US and Japan on the other have resulted in shifting of new capacities and flow of capital to the Indian automobile industry.

Telecom sector:-

In India, the telecommunication sector is one of the fastest growing sectors growing at a CAGR of around 50% over the past three years. While the wireless users increased to 391.76 mn, the number of wire line subscribers stood at 37.96 mn as on 2009. The COAI has predicted that India will have over 800 mn mobile phone users in 2012. This growth will necessitate large rural infrastructure investments, of about 350000 telecom towers in the mobile segment during the next three years. Thus the total number of BTS sites installed in India will increase to 750000 in 2012. The investment in wire line segment is estimated to be about USD 3.2 bn in 2012.

Financial Statements

Income Statement

(INR mn)

Year end Mar 31 st	FY 07	FY 08	% Chg	FY 09	% Chg
Operating Income	7532.0	13670.3	81.50	16037.4	17.32
Other Income	16.7	68.5	310.18	91.6	33.72
Change in Stocks	181.9	582.1	220.01	(153.5)	(126.37)
Raw Material Con.	4011.6	7892.7	96.75	8838.0	11.98
Employee Exp.	332.7	541.3	62.70	634.4	17.20
Excise	1507.2	2682.5	77.98	2680.1	(0.09)
Other Exp.	970.4	1359.7	40.12	2054.9	51.13
Operating Exp.	6640.0	11894.1	79.13	14360.9	20.74
Operating Profit	892.0	1776.2	99.13	1676.5	(5.61)
Total Interest	31.2	137.1	339.42	195.9	42.89
Gross Profit	877.5	1707.6	94.60	1572.2	(7.93)
Net Dep.	170.0	244.5	43.82	345.6	41.35
Total Taxation	237.1	519.5	119.11	421.8	(18.81)
Net Profit/Loss	470.4	943.6	100.60	804.8	(14.71)

4 Years Balance Sheets

(INR mn)

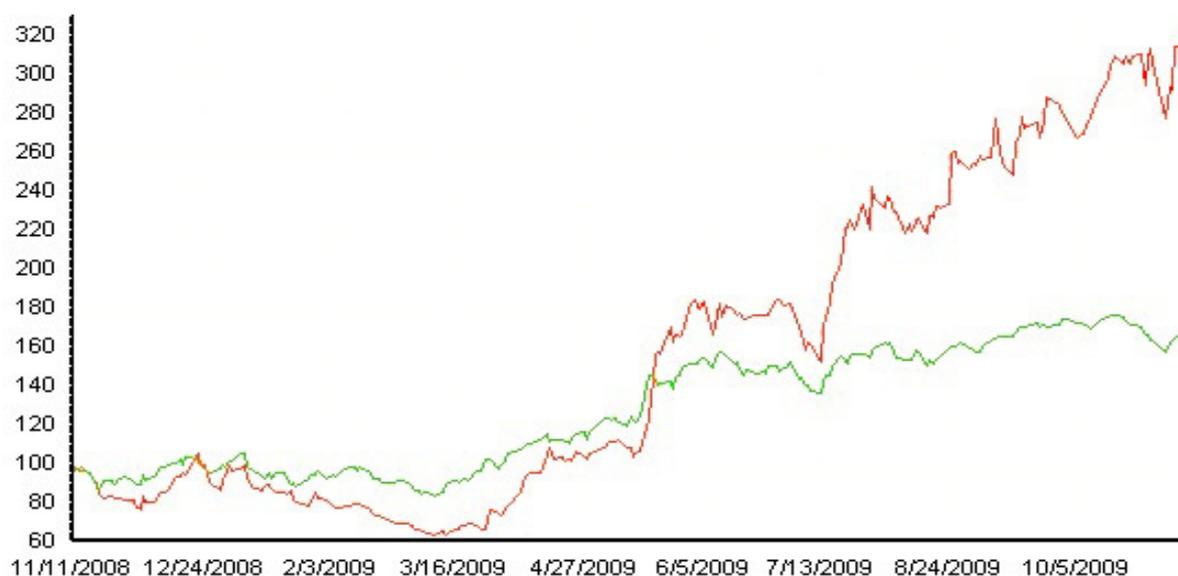
Balance Sheet as on 31 st	Mar 2006	Mar 2007	Mar 2008	Mar 2009
SOURCES OF FUNDS	2418.3	3843.8	6493.6	6914.6
Equity Share capital	113.9	113.9	113.9	170.8
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1899.0	2322.8	3217.1	3885.1
Loan Funds	189.0	1074.9	2266.5	2078.3
Unsecured Loans	216.4	332.2	896.1	780.4
USES OF FUNDS	2418.3	3843.8	6493.6	6914.6
Gross Block	1907.1	2577.9	3105.8	4271.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	863.5	1009.6	1217.3	1457.6
Net Block	1043.6	1568.3	1888.5	2813.4
Capital Work in Progress	48.1	61.7	778.0	448.5
Investments	320.1	161.9	162.0	471.0
Current Assets	2280.5	3500.5	5674.5	5297.9
Less : Current Liabilities	1274.0	1448.6	2009.4	2116.2
Net Current Assets	1006.5	2051.9	3665.1	3181.7
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	157.2	157.2	157.2	157.2
Mkt Val. Quoted Investments	206.4	43.4	53.2	331.8
Contingent Liabilities	217.6	249.5	564.4	400.4
Dividend (%)	25	35	35	40

Quarterly Income Sheets

(INR mn)

Quarter Ended	Dec 08	Mar 09	Jun 09	Sep 09
Net Sales	3330.2	3330.3	3065.4	3611.7
Cost Of Sales	2351.6	2173.1	1877.1	2177.5
Operating Profit	978.6	1157.2	1188.3	1434.2
Recurring Income	59.8	5.6	55.4	12.2
Adjusted PBDIT	1038.4	1162.8	1243.7	1446.4
Financial Expenses	51.2	48.7	29.8	25.7
Depreciation	91.0	99.7	102.0	106.6
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	896.2	1014.4	1111.9	1314.1
Tax Charges	100.2	141.3	215.1	252.2
Adjusted PAT	796.0	873.1	896.8	1061.9
Non Recurring Items	(18.7)	0.0	0.0	0.0
Other Non Cash Adjust	590.1	592.6	471.1	582.9
Net Profit	187.2	280.5	425.7	479.0

52 Week Index Relative Percentage Appreciation



ARBL vs BSE

Risks Associated

Industry risk

Most of the sectors are linked with the growing economy & so any down turn would have an impact on the growth of the sectors. So dependence on one sector for revenues is usually a concern for the company.

Raw material prices

Lead constitutes around 73% as a raw material for the companies engaged in manufacturing batteries. Increase in the prices of lead is been pass on to cutomers, in turn the sales volumes turns dark for the companies. So any volatility in the prices of the raw materials would impact companies revenues & bottom line.

Better distribution systems

Companies need to have a wide distribution networks, in order to reach its valuable consumer. Inability to have such a system would have an impact on the volumes of the companies. Even branding plays an important role here, as most of the consumers in passenger vehicles segments totally depend on the brand of the companies, in the form of honesty.

In a Nutshell

Amara Raja Batteries Ltd is one of the leading storage battery manufacturers in India. The company commenced operation with technical collaboration with GNB Inc USA, power division of Exide Technologies USA to manufacture maintenance free lead acid batteries for the Industrial segment. In 1997, the company forayed into Automobile batteries with Johnson Control Inc (JCI) acquiring 26% stake in the company. Over the years the company has enhanced its range of offering in the Industrial as well as the Automobile battery segment. The industrial segment comprises of the Large & the Medium VRLA batteries with installed capacities of 900 mn Ah & 1.2 mn units respectively. In the Automobile segment, the company has capacities of 4.2 mn & 1.35 mn batteries in the four & two wheeler space respectively. ARBL's strategy of restricting its Industrial segment offering to VRLA type batteries has been rewarding in the context of VRLA battery contribution in total Industrial segment increasing to 60%. Through its flagship brands – Power Stack & Quanta, the company has grown faster than the market, especially in the Telecom & UPS battery segments.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate up to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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