



**SUBLIME FINANCIAL ADVISORY**  
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**Exide Industries Ltd (Exide)**

**-Demand recovery & product mix to drive growth**

**Multibagger Report**

<b>Recommendation</b>	:	<b>Buy</b>
<b>CMP</b>	:	Rs 259.00
<b>Target</b>	:	NA
<b>% Allocation</b>	:	5%

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<b>Sector</b>	:	<b>Auto Ancillary</b>
<b>Sensex</b>	:	35423
<b>NSE code</b>	:	EXIDEIND
<b>BSE Code</b>	:	500086

**AT A GLANCE**

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<b>52 Week High Low</b>	:	:270.50/192.40
<b>Mkt. Cap (Rs. in Crs)</b>	:	:21947
<b>Major Shareholders</b>		
<b>Promoters (%)</b>	:	:45.99%
<b>Others (%)</b>	:	:54.01%

**Background:** Exide is the largest manufacturer of lead-acid batteries in India and is the market leader in the automotive battery industry with market share of >60%. In the OEMs the company has a formidable market share of close to 45% on the replacement side. Exide is a dominant player in the industrial battery space mainly in the inverters, traction and power domains. With an automotive capacity of 39.9 mn and industrial battery capacity of 3,336 MAh used across Power, Telecom, railways, defence etc. the company is a proxy to the automotive and industrial segments within the country.

**Demand Recovery**

Exide is well placed to benefit from the automotive demand recovery mainly due to increasing demand from OEMs, growing replacement demand that is less cyclical in nature and its focus on capturing market share of the unorganized players in segments like CV & tractors. Its industrial battery segment is gradually picking up in line with an overall economic improvement.

**Technological Collaboration**

Exide has consistently focused on innovation and new product launches. The company has implemented 'Punched Grid Technology' under technical assistance of East Penn Inc (US), which not only improves plant efficiencies but also has a longer battery life. It has developed advanced tubular gel based products to address various solar and telecom application requirement.

**Extensive distribution network**

Exide has a very wide network of over 35,000 outlets, including about 1,500 Exide Care outlets that the company plans to increase to 2,500 outlets within 12 months. Exide Care outlets are designed to provide a standardized, positive experience for the customer. Exide also has over 19,000 Humsafar partners pan-India, which are multibrand dealers, including garages that source batteries from Exide. In its industrial segment, Exide has over 2,500 exclusive dealers and over 325 sales and marketing executives. It also operates over 30 Exide Power Care shops in India.

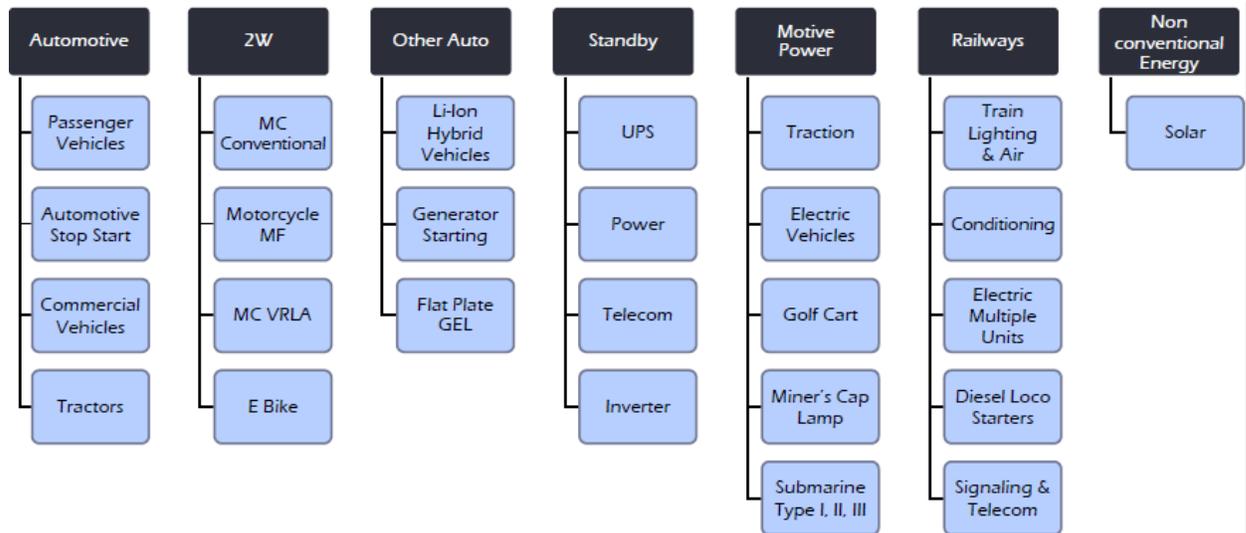
**Outlook & Valuation**

We Initiate coverage of Exide Industries with a **BUY** rating. Given the technological collaboration, Improving product portfolio, Extensive distribution network, Improving capacity utilization and Increase in market share are key positives for the stock. At the CMP of INR 259.00, the stock trades at 26.16x EPS of FY19. **Key Risks** to our recommendation include Intense competition from competitor, Steep increase in lead cost and any slowdown in the Automobile Industry are factors which can adversely impact the company.

## Investment Arguments

### Company Profile:

Exide is the largest manufacturer of lead-acid batteries in India and is the market leader in the automotive battery industry with market share of >60%. In the OEMs the company has a formidable market share of close to 45% on the replacement side. Exide is a dominant player in the industrial battery space mainly in the inverters, traction and power domains. With an automotive capacity of 39.9 mn and industrial battery capacity of 3,336 MAh used across Power, Telecom, railways, defence etc. the company is a proxy to the automotive and industrial segments within the country. Exide enjoys a competitive advantage over its rivals thanks to its scale, the strength of its brand, its technology tie-ups with global battery producers, and its extensive domestic distribution network.



### Poised to benefit from demand recovery

Exide is well placed to benefit from the automotive demand recovery mainly due to increasing demand from OEMs, growing replacement demand that is less cyclical in nature and its focus on capturing market share of the unorganized players in segments like CV & tractors. Its industrial battery segment is gradually picking up in line with an overall economic improvement. Exide is also expanding its product portfolio for emerging requirements like EVs and is also developing advanced solutions like idle-stop-start (ISS) & enhanced flooded batteries (EFB) for hybrid cars & other segments.

Exide is well poised for cyclical uptick in OEM within automotives and inverters and telecom segment 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.

Exide's growth in the automotive and industrial segment has been impressive and further gains in the unorganized and replacement market post GST implementation has helped Exide's lower dependence on the declining inverter/UPS segment, Introduction of the cheaper brand Dynex has helped increase market share in the LCV and Tractor segment. Increased traction in the e-

Rickshaw and solar batteries will further aid revenues in the near to medium term. Currently the management's focus is on cost control and technology upgradation to improve performance has impacted margins positively coupled with softening lead prices will boost margins in the near term.

### **Technological Collaborations**

Exide has consistently focused on innovation and new product launches. The company has implemented 'Punched Grid Technology' under technical assistance of East Penn Inc (US), which not only improves plant efficiencies but also has a longer battery life. It has developed advanced tubular gel based products to address various solar and telecom application requirement. The company also launched a range of batteries for Rickshaws in the past and is now aiming to offer e-mobility solutions for a wide range of applications such as E-vans and E-buses. The company has consistently remained at the forefront of international battery technology with the help of its collaborators.

### **Extensive distribution network**

Exide has the most extensive distribution network in the battery industry in India, both for the automotive and the industrial segments. It is the only company in the sector that follows a dealer-led distribution model in contrast with the distributor-led model employed by Amara Raja and the other battery makers. On the dealers' front, Exide has started to reward its dealers for meeting sales targets.

This has prompted dealers to stock and sell more Exide batteries at the expense of other brands. In its auto segment, Exide has a very wide network of over 35,000 outlets, including about 1,500 Exide Care outlets that the company plans to increase to 2,500 outlets within 12 months. Exide Care outlets are designed to provide a standardized, positive experience for the customer. Exide also has over 19,000 Humsafar partners pan-India, which are multibrand dealers, including garages that source batteries from Exide. In its industrial segment, Exide has over 2,500 exclusive dealers and over 325 sales and marketing executives. It also operates over 30 Exide Power Care shops in India.

Furthermore, Exide has recently introduced its Exide Care App, which is a digital comprehensive battery management ecosystem for the customer right from purchase and warranty, registration to service and emergency help. Through this app, a customer can get a battery delivered to his home from Exide's wide dealer network, enjoy a paperless warranty, receive service alerts and reminders and also have use of on-road free battery emergency assistance. In addition, Exide has set up some customized initiatives to help extend its reach in the auto segment.

### **Improving capacity Utilization**

While the industry structure remains largely duopoly, EXIDE is the largest lead acid battery manufacturer in India, with leadership in the auto OEM and replacement segments. Over FY14-17, EXIDE clocked a CAGR of 10.5% and 13.8% in net sales and PAT, respectively. The company's growth over the last few years has remained subdued compared to its competitor AMRJ due to the latter's technological innovations and unique distribution model supported with operational efficiency-led competitive pricing.

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Exide is expected to improve its market share, given the prospects of economic recovery-led demand from auto OEMs and the industrial segment. Early signs of improvement are visible in the 4W replacement segment, driven by a sharp improvement in sales and service processes. Moreover, the pickup in two-wheeler sales on the back of normal monsoon is likely to aid OEM demand as well as replacement sales. This should lead to better capacity utilization, and thus, better margins.

### **Decreasing battery cost to boost demand**

High cost of lithium-ion batteries was considered earlier as one of the principal difficulties for the implementation of India's ambitious all-electric vehicle target by 2030. However, boosted by the growing demand for electric vehicles across the globe, coupled with favorable government policies, is expected to reduce the costs of lithium-ion batteries in India, significantly. The costs of lithium-ion batteries have fallen drastically, from approximately USD 1000 per kWh in 2010 to USD 273 in 2016, and is expected to decrease further. Furthermore, the domestic production of lithium-ion batteries in the country is expected to increase during the forecast period, 2018-2023, supported by the planned establishment of domestic lithium-ion battery manufacturing units by various companies and government. Similar combined initiatives of the government and companies are expected to reduce the lithium-ion battery prices, and thus, in turn, increasing orders from the end-users during the forecast period.

### **Cost Efficiency – Focus Area**

Exide has been focusing more on cost efficiency now has spent over 7 Bn at Haldia for manufacturing of 1 million PV batteries using Punch grid technology. East Penn is providing technical assistance and support for this plant. This advanced technology for manufacturing batteries would lead to better consistency and durability as this process involves higher degree of automation. Technological upgrades at other plants can enable Exide to have faster turnaround and output. These measures can aid in sizeable material savings for Exide. The company has also now controlled its advertising spend and other overheads which is adding in better margins for the company. These initiatives are expected to improve margins by close to 200bps according to the management.

### **Narrowing pricing gap**

The pricing gap between Amaron and Exide was close to 15% till 2013 but this gap has narrowed down significantly and the gap is only about 5% while some batteries of Amaron are priced at premium. The difference was one of the key reasons for Amara Raja gaining market share in aftermarket segment. With difference narrowing and Exide still having highest brand recall due to brand strength it can arrest and also gain higher market share in aftermarket segment. The wider dealer network of Exide is an added advantage for the company. The customers generally prefer to replace same battery which is installed by OEM and Exide with highest OEM market share (60% and 66%) is having natural advantage.

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## **Indian Lead Energy Battery Sector**

Lead acid battery market in India can be broadly divided into two categories: SLI lead acid batteries and stationary lead acid batteries. Lead acid batteries are used in a large number of products and equipment such as automobiles, telecommunication towers, railway traction etc. As of 2016, the market size of India lead acid battery was pegged at \$ 4.47 billion and is expected to grow at a CAGR of 8.36%, in value terms, during 2017-2022.

The battery business in India has undergone a shift from monopoly to duopoly nature as Amara Raja emerging as a successful challenger to Exide's monopoly. The battery business has certain entry barriers like technological competence, OEM approval & relationship, brand and distribution network. Exide and Amara Raja are only two companies who have been able to overcome these barriers successfully and these barriers themselves have created strong entry barriers in the battery business. The existing companies have built both an aftermarket network and OEM business which are very difficult for new comers to replicate due to below mentioned results.

The major factors fueling the demand for lead acid batteries in the country include: growing automotive market, new solar projects, smart city projects and expansion of telecommunication infrastructure. As of 2016, around 20.47 million vehicles were sold in India, and the number is anticipated to reach 30.92 million by 2022. SLI batteries, which are made up of lead acid, are primarily used in such vehicles. There are mainly three major types of lead acid batteries - SLI lead acid batteries, stationary lead acid batteries and motive/traction batteries.

### **Auto sector driving demand for SLI lead acid batteries**

SLI lead acid batteries are primarily used in automobiles such as passenger vehicles, commercial vehicles, tractors, two wheelers, etc. Expanding automobile sales have aided the growth of SLI lead acid batteries. Two wheelers are among the largest users of SLI batteries. As per the Society of India Automobile Manufacturers, the domestic sales of two wheelers in the country stood at around 16.46 million units, which is expected to grow at a rapid pace over the forecast period. This is expected to spur the growth of SLI batteries during 2017-2022. Also, a significant demand for SLI lead acid batteries would come from replacement of lead acid batteries from existing vehicles.

Over the past few years, India has witnessed a tremendous growth in per capita income thereby resulting in more disposable income in the hands of its citizens. As a result, there has been a sharp increase in the sales of automobiles, particularly of the two and four-wheeler variety. During 2015-2016, around 20.47 million automobiles were sold in India. The growing sales of automobiles in the country would boost the demand for SLI lead acid batteries over the forecast period.

### **Telecom fostering demand for stationary lead acid batteries**

Stationary lead acid batteries are being used primarily in the telecommunication industry, UPS backups, railway traction (substations), solar projects etc. Increasing foreign direct investments, implementation of supportive norms by the government aimed at strengthening telecom infrastructure and increasing 4G penetration are intensifying demand for telecom towers and hence also boosting sales of batteries in the telecom sector in India.

The Indian government is also aiming to transform the Indian railways by constructing new railway lines and developing dedicated freight corridors across the nation in a bid to further facilitate the movement of goods. The development of new railway networks would surge the demand for stationary lead acid batteries used in railway traction. India, under its National Solar

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Mission, is leading one of the largest solar capacity addition programs in the world. The country aims to have a installed solar power capacity of 100GW by the end of 2022, This would pave the way for the growth of lead acid battery market used in solar power projects.

Traction batteries are mainly used in electric vehicles such electric cars, electric rickshaws, electric bikes, golf carts, etc. Electric rickshaws are the leading demand generators for traction batteries in India. The Indian government initiated the National Electric Mobility Mission which aims to bring 6 million electric vehicles on Indian roads by 2020. The program requires an outlay of \$ 2,577.79 million for the promotion of electric vehicles in India.

### **Commercial UPS Segment**

The commercial UPS segment is estimated at Rs.24 Billion and is expected to increase to Rs.29 Billion by 2020(E). The two major players in the segment are Exide & Amara Raja who together control 80% of the market. The share of imports which stood at 25% in FY16 fell to about 10% at present due to higher tax incidence making it unviable for other players resulting in shifting of preference to organized players due to better after sales service.

The growth in commercial UPS segment is traditionally driven by IT hardware business growth, e-commerce, Power back-ups apart from ATM network of Banks.

### **GST: Positive for organized Players**

Aftermarket segment shifting more towards organized segment with introduction of GST this market is expected to move from unorganized to organize as the price differential will narrow down by 5-10% and customers becoming more brand conscious. The stricter regulation on scarping and processing of old batteries will act as beneficiary as unorganized sector is thriving because of less cost they incur in taxes and compliance. The organized market in the personal mobility space has up to 90% controlled by organized players while the CV and tractor market has around 70-80% of aftermarket covered by unorganized players. The increasing electronic content on CVs should improve the electric power needed which only technically sound batteries, in which organized players have edge over unorganized players. The replacement cycle of these batteries is shorter than PV batteries hence it provides profitable aftermarket opportunity, the industry expects gradual shift towards organized players after GST implementation.

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## Financials

### Profit & Loss

Particulars	FY17	FY18	FY19E
Net Sales	7637.8	9148.8	10515.8
EBITDA	1091.9	1214.3	1449.7
PBT	972.5	975.1	1235.2
PAT	690.4	653.3	839.9
EPS	8.1	8.0	9.9

### Balance Sheet

Particulars	FY17	FY18	FY19E
Share Capital	85.00	85.00	85.00
Reserves & Surplus	4878.60	5313.10	5934.20
Total Debt	170.20	170.20	170.20
Deferred Tax Liability	155.30	184.60	221.60
<b>Total Liabilities</b>	<b>5289.10</b>	<b>5752.90</b>	<b>6411.00</b>
Net Fixed Assets	1546.00	1792.10	1717.40
Capital Work in Progress	141.40	100.00	100.00
Investments	2675.50	2925.50	3175.50
Net Current Assets	926.20	935.30	1418.10
<b>Total Assets</b>	<b>5289.10</b>	<b>5752.90</b>	<b>6411.00</b>

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