



**All geared Up...!**

23rd January 2009

**Exide Industries Limited**

**CMP Rs. 42.0 | BUY**

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## Exide Industries Limited

CMP Rs. 42.0

Initiating Coverage

**BUY**

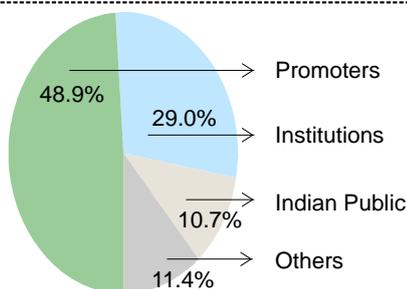
### Stock Data

Bloomberg	: CHLR.IN
Reuters	: EXID.BO
BSE Code	: 500086
NSE Code	: EXIDEIND
BSE Group	: A

### Stock Codes

Benchmark	: BSE Auto
52 Week H/L	: 87.70/37.00
Float	: 51.1 Mn
Mkt Cap	: Rs. 33,600 Mn
Face Value	: Rs. 1.0

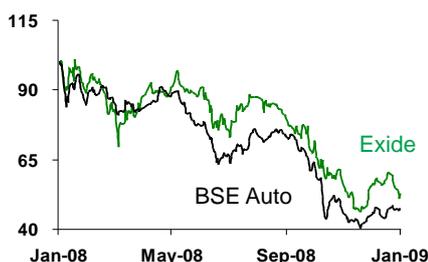
### Shareholding Pattern (as on Dec '08)



### Stock Returns

	1 Mth	3 Mths	6 Mths
Exide	-2.90	-26.35	-30.24
BSEAuto	7.27	-25.62	-28.50

### Price Comparison



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### Riding the Growth Wave

Exide Industries Ltd. (EIL), we believe, is one of the few domestic companies that are favorably positioned to ride the growth wave of both domestic consumption as well as investments. The company plays the consumption story through its exposure to the automotive batteries space where it is a runaway leader, commanding 75-80% market share in the original equipment manufacturers (OEM) space (all segments put together) and 55-60% market share in the branded replacement market.

### Multi sectoral exposure – a natural hedge

Unique position and spread over a large no. of sectors viz., auto (OEM + Replacement market) and industrial (submarine + telecom + power + railways) augurs well for EIL's future plan of action. This multi sectoral exposure provides the company a natural hedge against any contraction if any, in a few sectors of our economy. This gives the management, confidence to face the emerging challenges with cautious optimism.

### Investments (Life Insurance) – Value Accretive

Exide has a 50% equity stake in ING Vysya Life Insurance for little over Rs. 2.5Bn. Though ING Vysya is relatively a small player in India's private life insurance segment, (market share ~4%), business has been robust thanks to a buoyant sector. Life insurance typically takes about 6-8 years to break even. EIL has expressed that its stake in the company is purely an investment, which is expected to yield benefits to its shareholders at a later stage, as the company marches towards breaking even.

### Valuation

At CMP of Rs. 42/-, Exide currently trades at 11x FY09E earnings of Rs. 3.8/-. We have used SOTP method to arrive at the intrinsic value of the company from a FY10 perspective. We value EIL's core business at 11x our FY10E earnings of Rs. 4.7/- and the investment in ING Life Insurance at 13x NBAP (new business achieved profit) of FY10 giving us a target price of Rs. 57/share, (upside 36%). We recommend a BUY.

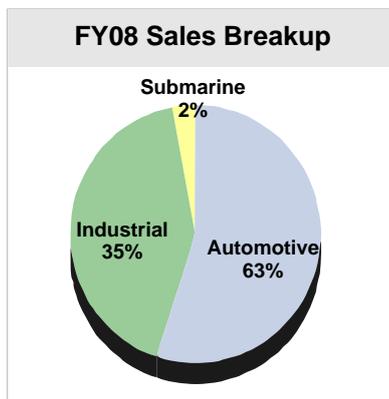
### Summary Financials

Particulars (Rs. Mn)	FY06	FY07	FY08	FY09E	FY10E	FY11E
Net Revenues	13,793.0	18,703.2	28,449.3	32,397.5	37,229.1	42,953.8
OPM (%)	16.1%	16.5%	16.5%	17.4%	17.8%	18.1%
EBITDA (%)	16.6%	17.0%	16.7%	17.6%	18.0%	18.3%
EPS (Rs.)	1.3	2.1	3.1	3.8	4.7	5.7
P/E (x)	31.3	20.3	13.4	11.0	9.0	7.4
ROCE (%)	20.6%	26.4%	29.9%	30.7%	31.4%	32.9%
RONW (%)	18.2%	23.1%	24.4%	23.9%	23.7%	23.4%
Dividend Payout (%)	22.3%	16.9%	12.8%	15.7%	17.2%	17.7%

Exide Industries Limited (EIL), India's flagship of the Lead Acid storage battery industry – is also the largest Power storage solutions company in South and South East Asia. It manufactures the widest range of storage batteries in the world from 2.5 Ah to 20,600 Ah (Amphere hour) capacity, to cover the broadest spectrum of applications. The company, formerly known as Chloride Industries, Ltd., was founded in 1916 and is based in Kolkata, India.

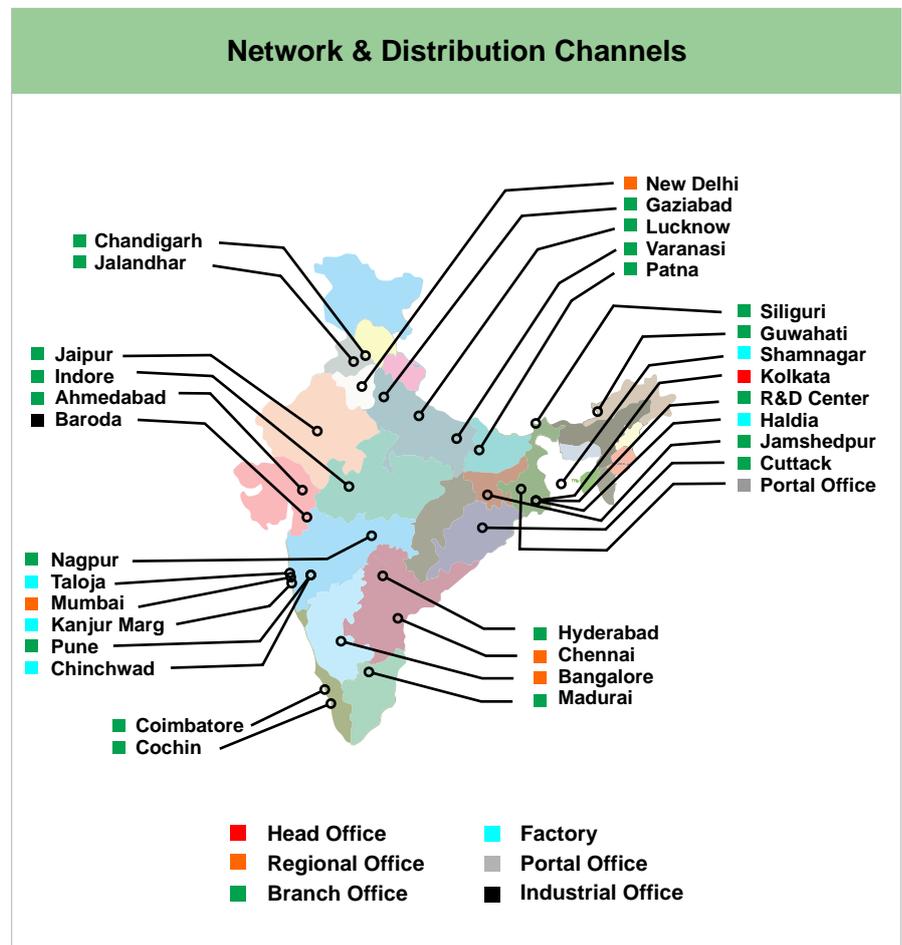
EIL broadly operates in two segments vis-à-vis Automotive and Industrial. Nearly 55-60% of the company's revenues accrue from automotive batteries and about 40-42% from Industrial batteries, and the balance from others like Submarine batteries.

Exide Industries Limited, together with its subsidiaries, manufactures and sells lead acid storage batteries primarily in India. It offers automotive and motorcycle batteries to car and two-wheeler manufacturers; industrial batteries, such as conventional lead acid batteries, valve regulated lead acid batteries, tubular batteries, miners' cap lamp batteries, and Tele tubular for railways, telecom, power plants, solar cells, power supply, inverter applications, and traction batteries; and submarine batteries. The company also offers solar lanterns, solar home lights, solar powered boats, and battery powered electric boats; industrial battery chargers, rectifiers, and parts; and recycled leads.



Source: Company

Exide's network spreads throughout India and its factories are geographically distributed at strategic locations around the country.



Source: Company

Exide Industries markets its automotive batteries under the EXIDE, CHLORIDE, INDEX, DYNEX, Standard Furukawa, SF SONIC, JUPITER, and CONREX brand names; and industrial batteries under the EXIDE, INDEX, SF, CEIL, POWER SAFE, CEIL, CHLORIDE, and INDEX brand names. The company exports its batteries to western Europe, the Middle East, Africa, South America, SAARC, Algeria, and South East Asian Countries. Exide Industries sells its products through a network of dealer outlets.

## Subsidiaries

Particulars	Stake (%)	Business	Total Income (Rs. Mn)	Profit (Rs. Mn)
Chloride International Ltd. (India)	100.0%	Non-conventional Energy Business	64.0	1.0
Caldyne Automatics Ltd. (India)	100.0%	Manufacture of high end chargers for industrial use	336.0	5.0
Tandon Metals Ltd. (India)	100.0%	Smelting and supply of re-cycled lead	744.0	14.0
Chloride Batteries S E Asia Pte Ltd. (Singapore)	100.0%	Production and Distribution of automotive and industrial batteries and chargers	1,186.0	42.0
Espex Batteries Ltd. (UK)	51.0%	Distribution of Industrial Batteries	252.0	10.0
Associated Battery Manufacturers (Ceylon) Ltd. (Sri Lanka)	61.5%	Manufacture of Automotive Batteries	555.0	34.0
Leadage Alloys India Ltd. (India)	51.0%	Smelting and supply of re-cycled lead	3,270.0	110.0

Source: Company

## Diversified Client Portfolio

Particulars	
<b>Auto</b>	
- Passenger Vehicles	Tata Motors, Maruti, Mahindra-Renault, Hyundai, Fiat, General Motors, Skoda, Mercedes Benz, Mitsubishi Motors
- Two-Wheeler	Bajaj Auto, Hero Honda, Honda Motors
- Commercial Vehicles	Ashok Leyland, Mahindra, Swaraj Enterprise, Hindustan Motors, Eicher Motors, Escorts, Force Motors
- Farm Equipment	Punjab Tractors, Mahindra, John Deere, Piaggio Vehicles Ltd., Sonalika International, New Holland
<b>Industrial</b>	
- Telecom	BSNL, VSNL, Tata Indicom, Motorola, Lucent Technologies, Ericsson
- Power	BHEL, Karnataka Power Corporation Lts., GAIL, BEL, ABB, MSEP, NTPC, Powerware
- Other Industrial	Indian Railways, L&T, Godrej, Emerson, Josts, Aplab, TVS Electronic, Numeric, Tata Honeywell, APC, Epoch Electronics Ltd., Tata Liebert, Dubas

Source: Company

## Enhanced Focus and Growth in the Branded Replacement Division

Despite the initiation of competition in the form of new players and competitive domestic scenario, the branded replacement division for Exide, showed a growth of over 19% in FY08. Taking cues from fluctuating inflation and interest rates, we expect the auto industry to exhibit a slowdown in the business, but EIL is insulated from the same to some extent as the market for branded replacement segment remains unaffected. Exide has about 55-60% market share in the organized replacement segment. Here, the company has witnessed a strong growth of 22% despite the competitive domestic scenario and continued import of cheaper batteries, from China and Thailand.

## Technological Expertise

Cutting edge technology and varied products for the diversified segments has helped in preserving its market share. Strong hold in the replacement segment also helps EIL to mitigate the cyclical risks and margin pressures coming from the OEM business. Leaving aside the last year – year and a half, the strong growth in automobile sector as a whole, will translate into buoyant replacement demand in the coming years.

## Recent Acquisitions to Fuel Growth

### Domestic

EIL has acquired 51% stake in Leadage Alloys India, a Bangalore-based lead smelting company, for Rs. 340Mn with the intention to be self-sufficient in lead, the most critical raw material constituting almost 75% of the raw material cost. The company has also acquired Pune-based Tandon Metals to mitigate lead price volatility by recycling the used batteries and eliminating dependence on imported lead. With these acquisitions the company aims to reduce its RM costs by upto 5-10% by producing 50% of the raw material requirement captively over the next 3-4 years.

Further, these acquisitions will help in meeting the government requisites under the Batteries Management and Handling Rules 2001 in which, the manufacturers have to ensure safe collection, recycle and disposal of the lead batteries.

### International

EIL has also entered into various alliances to position itself in untapped markets around the world. It has acquired 26% stake in an Australian based traction batteries distributing company. This will help in the growth of the traction battery sales to 1Mn units from current 0.4Mn units. To cater this market, the company has set up a plant at Haldia with a capacity to manufacture 1Mn traction batteries per annum.

## Main Pillars of Exide - Automotive and Industrial Division

Automotive batteries account for 55% of EIL's sales where it has a market share of 75-80% and 55-60% in the OE and replacement markets respectively. Nearly 60% of EIL's automotive batteries are sold in the replacement market where the margins are higher.

Industrial batteries account for about 40-42% of sales and EIL has a leadership position with a market share of about 40%. This segment

commands better margins than the automotive OEM segment. A small portion of EIL's revenues also accrues from the sale of submarine batteries, where EIL is amongst five companies in the world with the capability to make submarine batteries of both Russian and German types.

## Strategic Brand Positioning

Exide's strategic positioning of multiple brands across the entire price spectrum with established brand equity. The company has also got a high recall brand proposition, thus helping Exide in driving its pricing strategy. 'EXIDE', the brand name embodies the values of excellence, commitment, dependability and service, which has shaped its character and leadership with a continuing responsibility.

## Strong Distribution Channels

Exide has nine manufacturing facilities spread strategically across the country and is amply supported by distribution network with over 8,000 authorized dealers in the automotive batteries segment and 1,000 dealers in the industrial batteries segments. It also provide world-class after sales service solutions like, well equipped Mobile Service Vans for catering the customers more effectively.

## Capacity Utilization & Expansion Plans

The total capacity of EIL for FY08 was about 19.8Mn storage batteries. The company has been steadily increasing its capacities across its various manufacturing facilities. Despite the increase in capacities, the company has been maintaining its utilization levels at an average of 93%, which has helped in reaping good economies of scale in its operations.

Particulars	FY03	FY04	FY05	FY06	FY07	FY08
Capacity (Mn Units)	10.5	13.0	14.9	15.5	18.3	19.8
- Growth (%)	-	23.4%	14.7%	4.4%	18.0%	8.1%
Production (Mn Units)	9.6	12.2	14.1	14.5	17.0	17.8
- Utilisation (%)	91.9%	94.5%	95.1%	93.6%	93.1%	90.1%
- Growth (%)	-	26.9%	15.4%	2.7%	17.5%	4.5%
Sales Quantity (Mn Units)	9.3	12.3	14.1	14.5	17.7	18.2
- Growth (%)	-	32.7%	14.1%	2.8%	22.1%	3.1%

Exide has capitalized its story of investment by exposing itself to three major Industrial segments viz., telecom, railways, and power. Huge capex has been undergoing in these segments looking at the potential growth scenario.

Going by the current scenario for both automotive and industrial batteries along with export opportunities for industrial batteries, EIL has outlined capex plans of Rs. 3Bn over the next couple of years in order to expand capacities by 15-20% at all existing facilities. This would be fully financed through internal accruals. The company has already spent Rs. 1Bn in the first 9months of FY09. This expansion would take its current capacities from 20Mn to ~27Mn units by the end of FY10E.

## Automotive Division

### Original Equipment Market (OEM)

EIL is the market leader in automotive batteries supplying to nearly all the OEMs. Along with the OE market, EIL is also predominant in the after sale (replacement) market. The Automotive division, for the company, accounts for nearly 55% of sales and operates at about 16-18% margins. In the OE market EIL dominates the market with nearly 80% market share supplying to just about every OEM. The other large battery makers supplying to the OE segment are Amaron (Amara Raja Batteries), AMCO (TVS Group) and TACO (Tata Group).

### Replacement Market

EIL dominates the organised replacement market for batteries as well, where it commands over 40% of the market. The unorganised players meanwhile have a larger presence in the replacement market than the organised, branded battery manufacturers. The unorganised battery makers cater largely to the CV segment, which is less quality sensitive and more cost sensitive.

### Supply Focus

The automotive division supplies batteries to almost all the two and three wheelers, passenger vehicles and commercial vehicle OEMs. Out of the total automotive battery sales of about 10.5mn units (both OEM and after sale markets), two wheelers account for nearly 7mn units i.e. nearly 70% of sales. Passenger and Commercial vehicles account for the balance 30% of sales. Bajaj Auto and Tata motors are EIL's largest customers in this division.

### Our View

While there is a slow down in automobile sales, due to overall economic conditions, the replacement demand for batteries remains unaffected. Since, bulk of EIL's automotive battery sales accrues from the replacement market we feel the company may not be impacted to a large extent in case of any slowdown in the auto industry.

## Industrial Division

This division of Exide manufactures batteries, which find application in Telecom, Railways, Infrastructure and Power industries. For EIL Industrial batteries contribute about 40-42% to its revenues. EIL is the largest manufacturer of Valve Regulated Lead Acid (VRLA) batteries in the country, which unlike most industrial batteries are low maintenance batteries. VRLA batteries are more colloquially known as sealed lead acid battery and are largely used in inverters.

Unlike automotive batteries industrial batteries require regular maintenance. The frequency of maintenance nevertheless depends on the size and type of battery. Depending on customers' preference, the battery manufacturer gets a service fee for maintaining these batteries. For EIL though, service fee accounts for a small portion of revenues.

EIL manufactures a wide range of industrial batteries ranging from 2.5Ah to 10,000 Ah (Ampere Hour). Out of EIL's total industrial batteries sales, Telecom accounts for nearly 25-27% while Railways, Infrastructure and backup power supply equipments account for 20%, 25-30% and 15% respectively on an annual basis. EIL supplies 70% of these industrial batteries to OE manufacturers while only balance 30% accrues from the replacement market.

Apart from the domestic market, EIL is also eyeing export opportunities in South and East Asian countries. EIL has set up a marketing office, which is a fully owned subsidiary, in Singapore to tap the Asian market.

**Telecom**

Industrial batteries are used in Telecom towers, which are used for connectivity (largely for mobile operations). With rising income levels, mobile subscribers have been increasing at a rapid pace. With subscriber base increasing and lack of adequate infrastructure, congestion is a serious cause of worry for the service providers. Hence in order to reduce congestion and increase connectivity the Department of Telecommunications (DoT) is planning to install more towers and cover additional districts of the country. We expect these additional towers to drive demand for industrial batteries.

**Railways**

Railways require industrial batteries for signaling equipments and also to be used in Locomotives and coaches. Railways account for about 20% of industrial battery sales for EIL. The Railway Ministry in its budget for FY08 has announced increasing the wagon fleet by 10% and upgrading signalling equipments. Since EIL is already an approved supplier to the Indian Railways, we expect EIL to continue to service them and benefit from their initiatives.

**Power**

This segment supplies batteries to Power plants, Switchgear operations, Transmission & Distribution substations and Inverters manufacturers and accounts for about 18% of EIL's industrial battery sales. EIL supplies batteries to nearly all the OE inverter manufacturers and are used largely in the higher end inverters.

Despite several initiatives by the Ministry of Power, our country continues to be starved for power. Due to lower generation capacity and high Transmission and Distribution losses, the system peak power supply-demand gap continues to widen. As a result users resort to back-up power supply equipments like generators, uninterrupted power supply systems and inverters. With erratic power supply and regular power cuts, we expect inverter sales to pickup steadily.

**Infrastructure**

EIL classifies a part of batteries sold for UPS under this segment. This segment also includes forklift and miners cap lamp batteries, which are used in mines. EIL supplies the batteries to companies like Eastern Coalfields Ltd, Hindustan Zinc Ltd, and includes exports to South American countries.

**Submarine Batteries**

EIL is among the few companies in the world, which has the technology to manufacture submarine batteries of both Russian and German types and supplies to the Indian Navy. EIL manufactures these batteries at its plant in Kanjurmarg, Mumbai and has the capacity to manufacture 2-3 batteries a year since they are large in size.

## **Battery industry**

Automobiles and back up power supply equipments are some of the large users of wet lead acid batteries. Depending on the type of battery, it has to be replaced almost every 3-4 years. Hence the replacement market for batteries is bigger than the OE market. Apart from the organised, branded battery manufacturers, the industry also has a significantly large unorganised market. Although the OEMs prefer the branded batteries the unorganised players are predominant in the after sale market or replacement market.

The size of the battery industry is difficult to determine, since the size and type of the battery varies depending on its application, particularly for industrial batteries. Hence the number of units sold may not always be the correct measure. Besides the presence of unorganised players makes it even more difficult to determine the market size.

In case of automotive batteries, the number of automobiles sold can be correlated with the number of batteries sold. Industrial batteries meanwhile cannot be measured based on units sold since each battery differs based on its application, i.e. an inverter battery is different from a battery used in a power plant or UPS.

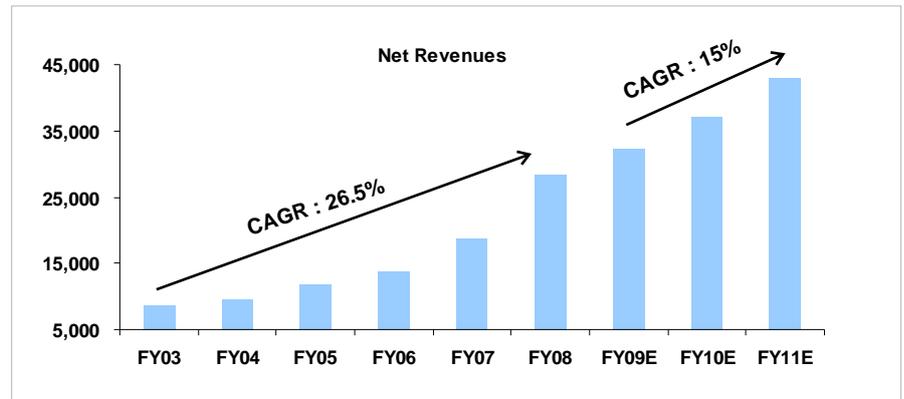
## **Modus operandi: Unorganised Sector**

Typically the unorganised players use the old discharged battery containers and recharge the cells inside them. Although the unorganised players are unable to recharge the battery to its full capacity, it is yet preferred over the branded batteries, since it is priced about 20-25% lower than a branded battery.

More than two-wheelers and passenger vehicles, commercial vehicles are bigger users of batteries from unorganised battery makers, as they are cost conscious rather than brand. Since the batteries made by these unorganised players are of inferior quality and they have high probability of failing.

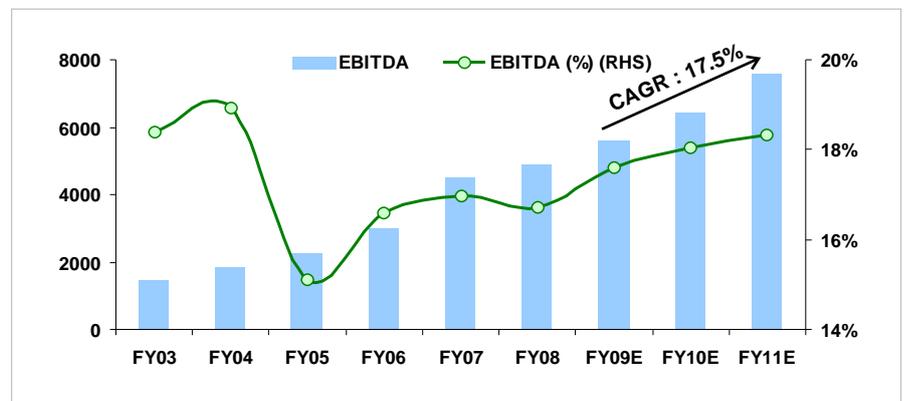
The share of the unorganised battery manufacturers is expected to reduce going forward with growing awareness among people over the use of inferior quality batteries, implementation of VAT across states and various initiatives taken up by the organised battery manufacturers.

EIL has displayed robust net sales growth over FY03-08 at a CAGR of 27% and an EBITDA growth of 24% over the same period. EIL's Profit After Tax nevertheless grew at a CAGR of nearly 37% during the period FY03-08. This performance has been despite steadily increasing raw material prices.



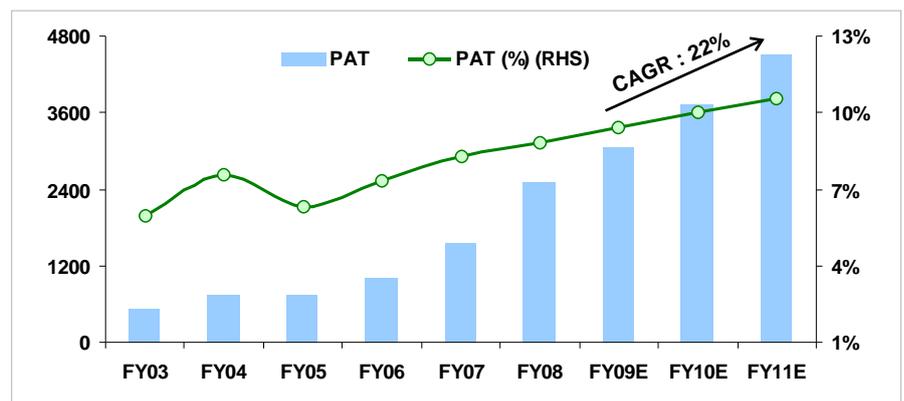
Source: PPFAS Research

EBITDA has grown at a CAGR of 24% over FY03-08 & we expect the margins to be in the range of 17-18%



Source: PPFAS Research

PAT growth of 36% CAGR over FY03-08 & the margins to be in the range of 8-10%



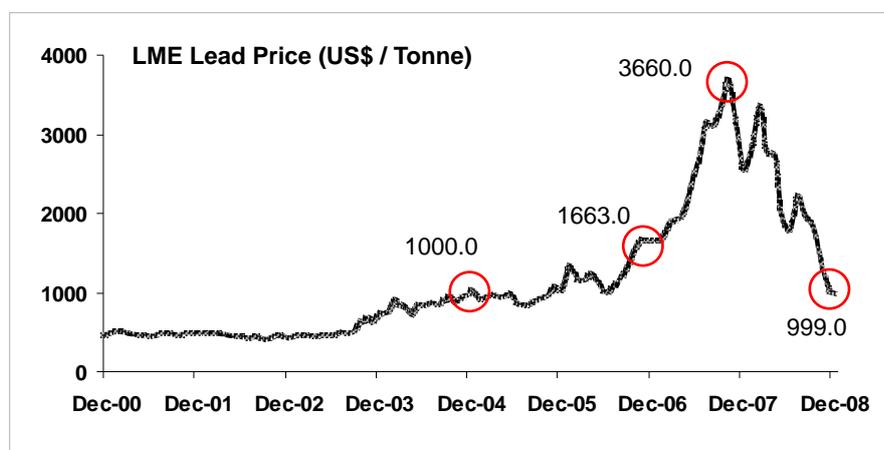
Source: PPFAS Research

Going forward, margins are expected to remain in the same range, as the company will continue to take measures to control costs. The company so far has mitigated the volatility in lead prices by passing it on to its customers (both OE and replacement). EIL is capable of passing on the increase in cost since it has a fair presence in the replacement market as well as the OE market, which has lower bargaining power compared to the latter. For the past few months lead prices have been coming down steadily and this has helped the company to maintain its margins.

## Raw Material

Exide's biggest raw material is Lead, which accounted for 84% of total raw material cost in FY08. Currently EIL imports nearly 75-80% of its lead requirement while the rest is catered by domestic supply. EIL does not have any fixed price contracts with its customers and hence exposed to the risk of rising metal prices. However the company so far has been managing to mitigate the volatility in prices by passing on its effects to its customers.

Over the last 3 years lead prices have moved up significantly from \$1000/tonne in Dec'04 to nearly \$3,700/tonne in Oct'07, on the London Metal Exchange (LME) and now have come down to \$1,000/tonne in Dec'08. Due to the volatility in lead prices the company has refrained from signing any long term fixed price contracts with its suppliers since; buying lead at spot rates itself acts as a hedge against any price volatility.



Source: Bloomberg, PPFAS Research

## Employee cost

Although most of the processes in battery manufacturing are done mechanically, human supervision is essential. Processes such as battery assembling require human labour. Besides that, battery designing requires technical skills. Like every other industry, the battery industry too witnesses' attrition and the company has been taking several steps on continuing basis to retain talent. As a result, going ahead, we do not expect employee cost to reduce as a percentage of sales, despite increasing in value terms.

## Selling & Distribution and other expenses

EIL has a large presence in the replacement market for batteries where a good brand recall is the key to success. Hence the company would have to spend a good sum of money consistently on television and print media for advertising, which has to be at the national level due to its pan-India presence. In view of this, we expect selling & distribution expense to remain high for EIL going ahead.

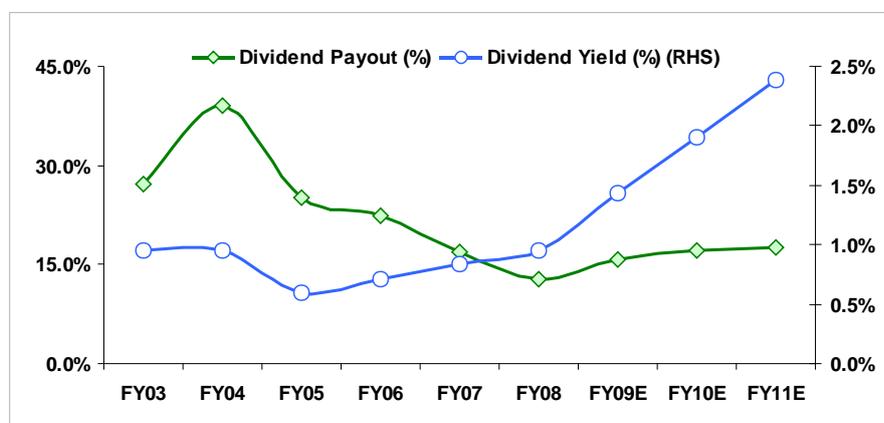
Battery manufacturing consumes a good amount of power, as the process of manufacturing the lead plate requires a lot of power. Besides, battery charging too consumes power. Since, EIL doesn't have a source for captive power, it hence has to depend on the electricity boards for its power requirements. EIL meanwhile, expects its freight cost to reduce marginally

going forward with Railways announcing reduction in freight rates during the Railway budget for FY08. Better rail and road connectivity too is expected to bring down costs.

EIL has constantly been focussing on Research & Development activities in order to improve quality, design and several initiatives to satisfy customer demands. R&D expenditure, which currently is less than a percent of net sales, is expected to increase though not to a large extent in percentage terms, but in value terms might witness an increase.

## Dividend Policy

EIL has been consistently rewarding its shareholders with dividends from many years. The company plans to maintain this policy; while attempting to increase the payout, keeping its capex plans intact.



Source: PPFAS Research

## Results

EIL's performance over the quarter ended Dec'08 has been below street expectations, with the company recording revenue growth of only 8.6% over the corresponding period of the previous year. This has been impacted by significant reduction in demand from automotive companies, which are struggling from domestic and global slowdown. The cost of raw material consumed dipped by 167bps to 66.6%. Since the company imports its important raw material Lead, the recent softening of lead prices in the international market to some extent has been neutralized by the sharp depreciation of rupee against the dollar.

EBIDTA and PAT too have increased marginally to 5% and 1.3% respectively during the same period. Margins for the company have taken a hit over the previous year with OPM and PATM margins dipping by 54.6bps and 55bps respectively. This decline has been on account of volume slow down and foreign exchange losses.

This was the slowest growth in the last 15 quarters driven by volume growth of only 11% and a foreign exchange loss of Rs. 200Mn, thereby reducing the profits considerably. Volumes growth for the company had missed the recent trend of over 15-16% due to slow down in automobile demand.

## Q309 lead price

At the London Metal Exchange (LME), average lead prices during Q309 cooled down significantly by 61% Y-Y to USD 1,245 per tonne against USD 3,215 per tonne Q308.

## Management View

Commenting on the Q3 performance, Exide's MD and CEO, T.V. Ramanathan said, 'stringent austerity measures introduced from October 2008 and reduced reliance on imported raw materials coupled with improved sales mix enabled the company to negate the adverse impact of significant reduction in off take from OE customers in the automotive segment.'

Commenting on lead prices, Mr Ramanathan said, 'the recent softening of lead prices in the international markets has not helped the company much due to depreciation of the rupee against dollar. Hopefully by the end of the next quarter the company will get some benefit provided lead prices do not become volatile again and the rupee somewhat strengthens.'

<b>Earnings Statement</b>								
Particulars (Rs. Mn)	Q309	Q209	Q-Q(%)	Q308	Y-Y(%)	9M09	9M08	Y-Y(%)
Gross Sales	9,883.5	11,347.5	-12.9%	9,099.1	8.6%	32,580.7	25,963.2	25.5%
Less: Excise Duty	2,006.4	2,343.1	-14.4%	1,879.9	6.7%	6,633.9	5,427.3	22.2%
Net Revenues	7,877.1	9,004.4	-12.5%	7,219.2	9.1%	25,946.8	20,535.9	26.3%
Other Operating Income	9.4	3.9	141.0%	2.7	248.1%	32.6	10.5	210.5%
Raw Material Cost	5,247.9	5,969.3	-12.1%	4,930.0	6.4%	17,401.4	13,317.9	30.7%
Gross Profit	2,638.6	3,039.0	-13.2%	2,291.9	15.1%	8,578.0	7,228.5	18.7%
Staff Cost	455.5	421.2	8.1%	395.8	15.1%	1,272.9	1,161.1	9.6%
Other Expenditure	1,034.4	1,133.9	-8.8%	803.9	28.7%	3,154.2	2,484.6	27.0%
Total Expenditure	1,489.9	1,555.1	-4.2%	1,199.7	24.2%	4,427.1	3,645.7	21.4%
Operating Profit	1,148.7	1,483.9	-22.6%	1,092.2	5.2%	4,150.9	3,582.8	15.9%
Other Income	0.0	0.0	-	2.7	-	4.3	3.8	13.2%
EBITDA	1,148.7	1,483.9	-22.6%	1,094.9	4.9%	4,155.2	3,586.6	15.9%
Depreciation	168.7	169.4	-0.4%	146.7	15.0%	500.5	486.2	2.9%
EBIT	980.0	1,314.5	-25.4%	948.2	3.4%	3,654.7	3,100.4	17.9%
Interest	123.5	133.6	-7.6%	116.9	5.6%	365.2	247.9	47.3%
PBT	856.5	1,180.9	-27.5%	831.3	3.0%	3,289.5	2,852.5	15.3%
Tax	295.0	402.5	-26.7%	277.0	6.5%	1,127.5	977.0	15.4%
PAT	561.5	778.4	-27.9%	554.3	1.3%	2,162.0	1,875.5	15.3%
Equity Capital	800.0	800.0	-	750.0	6.7%	800.0	750.0	6.7%
EPS	0.7	1.0	-27.9%	0.7	-5.0%	2.7	2.5	8.1%
<b>Ratio Analysis</b>								
<b>Profitability</b>								
Particulars	Q309	Q209	Q-Q(bps)	Q308	Y-Y(bps)	9M09	9M08	Y-Y(bps)
OPM (%)	14.6%	16.5%	(189.7)	15.1%	(54.6)	16.0%	17.4%	(144.9)
EBITDA (%)	14.6%	16.5%	(189.7)	15.2%	(58.4)	16.0%	17.5%	(145.1)
EBIT (%)	12.4%	14.6%	(215.7)	13.1%	(69.3)	14.1%	15.1%	(101.2)
PAT (%)	7.1%	8.6%	(151.6)	7.7%	(55.0)	8.3%	9.1%	(80.0)
<b>Operational Parameters</b>								
Particulars	Q309	Q209	Q-Q(bps)	Q308	Y-Y(bps)	9M09	9M08	Y-Y(bps)
Raw Material Cost	66.6%	66.3%	32.9	68.3%	(166.8)	67.1%	64.9%	221.4
Staff Cost	5.8%	4.7%	110.5	5.5%	30.0	4.9%	5.7%	(74.8)
Other Expenditure	13.1%	12.6%	53.9	11.1%	199.6	12.2%	12.1%	5.8
Effective Tax Rate	34.4%	34.1%	35.8	33.3%	112.1	34.3%	34.3%	2.5

## **New Entrants**

Although Exide has a very good distribution reach and strong technical expertise, the risk of new entrants cannot be denied. New players are entering the market with state of the art technology, thus the possibility of a loss in market share. EIL may have to resort to price discounts, aggressive marketing or both, eventually putting a pressure on profitability.

## **Fluctuating Lead Prices**

Higher than expected lead prices also pose a threat to our projections. Despite the fact that Exide has done well to protect its margins in face of rising lead prices, they continue to pose a significant threat to the company's cost structure.

## **Exchange rate fluctuations (Rupee Depreciation)**

Exide imports major part of its raw materials, so further depreciation in rupee may affect the profitability. The forex losses can be with respect to foreign debt and import of raw material.

## **Sector slowdown could impact volumes**

The battery sales growth depends on the growth of Automotive and Industrial sector. Any slowdown in these industries will have direct impact on the volume growth of the company.

We compare EIL with its peers Amara Raja batteries and HBL power systems, which are large players in Industrial batteries. Amara Raja meanwhile is making a slow entry into the automotive segment. Since EIL holds the leadership position in both automotive and industrial batteries, we feel its premium valuation over its peers is justified. Overall, the company looks well positioned to take advantage of the industry growth story in the long run.

## Comparative Financials

Company	Amara Raja Batteries	Exide Inds	HBL Power System
<b>TTM</b>	<b>200809</b>	<b>200812</b>	<b>200809</b>
P/E (x)	5.8	13.8	5.8
P/BV (x)	2.6	3.9	2.0
EV/EBIDTA (x)	4.5	7.9	4.1
<b>Year (Rs. Mn)</b>	<b>200803</b>	<b>200803</b>	<b>200803</b>
Net Sales	10,802.9	31,568.7	9,988.7
EBITDA	1,848.1	4,791.9	1,564.3
PAT	943.6	2,503.3	670.9
Mkt Cap	10,997.0	53,680.0	6,872.5
EPS	16.5	3.1	27.4
EBITDA (%)	11.9	11.5	12.5
PAT (%)	7.0	6.9	5.9
ROCE (%)	31.0	36.2	26.6
RONW (%)	32.7	31.0	24.7
Equity	113.9	800.0	242.8
Face Value	2.0	1.0	10.0

Source: CapitalLine

## Outlook

Continued growth in Automobile Replacement sales is expected to increase demand for automotive batteries. We expect EIL's automotive division to show good growth over the next couple of years. Industrial batteries division too is expected to grow at a healthy rate, driven by rapid growth in Telecom sector and inverters. We expect EIL's strong brand, recall value and huge manufacturing capacities will help the company weather competition in both OE and replacement markets. Exports meanwhile are expected to improve margins from the current levels.

## Valuations

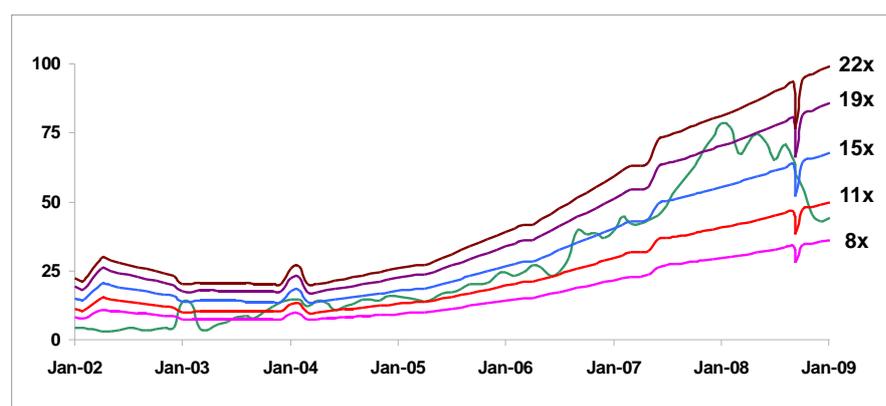
During FY06, EIL invested a little over Rs. 2.5Bn to purchase 50% stake in ING Vysya Life Insurance. We have arrived at a fair value of Rs. 5.8/share for EIL's stake in ING Vysya Life Insurance based on New Business Achieved Profit (NBAP) methodology. We have assumed an NBAP margin of 15% and 13x NBAP estimates for FY10 assuming 10% growth in premiums.

We have valued Exide's core business at 11x FY10E earnings giving a Net value of Rs. 51.2/share. Based on sum of parts valuation methodology we have arrived at a target price of Rs. 57/- (36% upside) for the company. We initiate coverage with a BUY recommendation.

## SOTP Method

Particulars	FY09E	FY10E	FY11E
NBAP %	15%	15%	15%
ANBAP (Rs. Mn)	651.7	716.9	788.6
Multiple (x)	15.0	13.0	11.0
Value of ING (Rs. Mn)	9,775.7	9,319.5	8,674.3
Exide's stake in ING	50%	50%	50%
Value of Exide's stake in ING (Rs. Mn)	4,887.8	4,659.7	4,337.1
No. of O/s of Exide (Mn)	800.0	800.0	800.0
Value of Invst in ING Vysya (Rs.)	6.1	5.8	5.4
Value of Core Business			
EPS (Rs.)	3.8	4.7	5.7
Forward P/E (x)	13.0	11.0	9.0
Net Value (Rs.)	49.5	51.2	50.9
SOTP Value (Rs.)	55.6	57.0	56.3
CMP (Rs.)	42.0	42.0	42.0
Difference (%)	32.5%	35.7%	34.0%

## PE Band



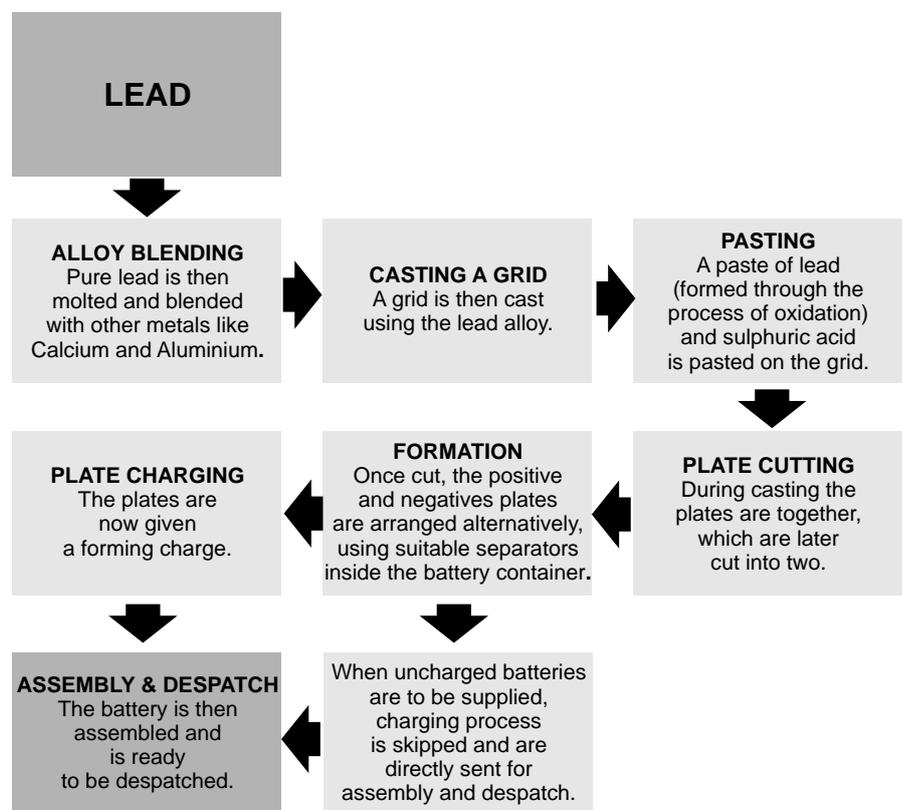
Earnings Statement									
Particulars (Rs. Mn)	FY03	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E	FY11E
Gross Sales	10,908.3	12,035.2	14,828.5	17,610.8	23,826.8	36,059.7	40,751.6	46,594.6	53,759.5
Less: Excise Duty	2,123.3	1,461.5	1,835.1	2,263.7	2,996.9	4,491.0	4,890.2	5,591.4	6,451.1
Less: VAT, ST, Octroi	0.0	954.1	1,151.6	1,554.1	2,126.6	3,119.3	3,463.9	3,774.2	4,354.5
Net Revenues	8,784.9	9,619.7	11,841.8	13,793.0	18,703.2	28,449.3	32,397.5	37,229.1	42,953.8
- Growth (%)	-	9.5%	23.1%	16.5%	35.6%	52.1%	13.9%	14.9%	15.4%
Total Expenditure	7,182.5	7,817.5	10,073.5	11,568.2	15,625.8	23,754.2	26,768.7	30,594.0	35,165.0
Operating Profit	1,602.4	1,802.2	1,768.4	2,224.8	3,077.4	4,695.1	5,628.8	6,635.1	7,788.8
Other Income	14.1	19.8	19.8	64.9	93.7	64.5	71.0	78.1	85.9
EBITDA	1,616.5	1,822.0	1,788.1	2,289.6	3,171.1	4,759.6	5,699.8	6,713.2	7,874.7
- Growth (%)	-	12.7%	-1.9%	28.0%	38.5%	50.1%	19.8%	17.8%	17.3%
Depreciation	461.4	544.8	538.6	548.0	542.0	642.4	699.7	756.7	808.5
EBIT	1,155.1	1,277.2	1,249.6	1,741.7	2,629.2	4,117.3	5,000.1	5,956.5	7,066.2
Interest	291.7	84.7	114.7	224.4	277.1	374.0	425.1	377.5	261.8
Exceptional Items	55.1	91.5	17.0	0.0	0.0	0.0	0.0	0.0	0.0
PBT	808.3	1,101.1	1,117.9	1,517.3	2,352.1	3,743.3	4,575.0	5,579.0	6,804.4
Tax	285.0	372.5	372.5	510.0	800.0	1,240.0	1,527.3	1,858.6	2,283.4
PAT	523.3	728.6	745.4	1,007.3	1,552.1	2,503.3	3,047.8	3,720.4	4,521.1
- Growth (%)	-	39.2%	2.3%	35.1%	54.1%	61.3%	21.8%	22.1%	21.5%
Ratio Analysis									
Particulars	FY03	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E	FY11E
OPM (%)	18.2%	18.7%	14.9%	16.1%	16.5%	16.5%	17.4%	17.8%	18.1%
EBITDA (%)	18.4%	18.9%	15.1%	16.6%	17.0%	16.7%	17.6%	18.0%	18.3%
PBIT (%)	13.1%	13.3%	10.6%	12.6%	14.1%	14.5%	15.4%	16.0%	16.5%
PAT (%)	6.0%	7.6%	6.3%	7.3%	8.3%	8.8%	9.4%	10.0%	10.5%
Interest Cover (x)	4.0	15.1	10.9	7.8	9.5	11.0	11.8	15.8	27.0
EBITDA per share (Rs.)	4.5	2.6	2.4	3.1	4.2	5.9	7.1	8.4	9.8
EPS (Rs.)	1.5	1.0	1.0	1.3	2.1	3.1	3.8	4.7	5.7
P/E (x)	28.6	41.1	42.3	31.3	20.3	13.4	11.0	9.0	7.4
P/BV (x)	4.1	7.5	6.5	5.7	4.7	3.3	2.6	2.1	1.7
BVPS (Rs.)	10.2	5.6	6.5	7.4	8.9	12.8	15.9	19.7	24.1
Market Cap (Rs. Mn.)	14,956.3	29,912.7	31,500.0	31,500.0	31,500.0	33,600.0	33,600.0	33,600.0	33,600.0
M Cap/Sales (x)	1.7	3.1	2.7	2.3	1.7	1.2	1.0	0.9	0.8
EV (Rs. Mn.)	17,556.2	31,691.1	32,923.9	31,439.5	30,952.7	31,898.6	31,855.8	31,425.3	29,857.9
EV/EBITDA (x)	10.9	17.4	18.4	13.7	9.8	6.7	5.6	4.7	3.8
EV/Sales (x)	2.0	3.3	2.8	2.3	1.7	1.1	1.0	0.8	0.7
ROCE (%)	17.9%	21.4%	16.1%	20.6%	26.4%	29.9%	30.7%	31.4%	32.9%
RONW (%)	14.4%	18.4%	15.4%	18.2%	23.1%	24.4%	23.9%	23.7%	23.4%
Debt/Equity Ratio (x)	0.77	0.50	0.60	0.52	0.48	0.34	0.28	0.21	0.11
Inventory T/o Days	75.0	80.6	70.1	64.0	77.4	73.2	75.0	77.0	80.0
Debtors T/o Days	57.0	50.2	50.7	40.4	29.0	33.3	35.0	37.0	39.0
Advances T/o Days	11.9	7.4	9.3	7.6	5.6	5.8	6.1	6.5	6.8
Creditors T/o Days	52.8	64.9	52.4	57.9	63.1	59.9	54.0	50.0	45.0
Working Cap T/o Days	85.6	59.1	73.4	42.1	32.2	39.0	53.4	68.9	85.1
Fixed Assets T/o (Gross)	1.2	1.2	1.4	1.6	2.0	2.6	2.6	2.8	3.2
DPS (Rs.)	0.4	0.4	0.3	0.3	0.4	0.4	0.6	0.8	1.0
Dividend Payout (%)	27.2%	39.1%	25.2%	22.3%	16.9%	12.8%	15.7%	17.2%	17.7%
Dividend Yield (%)	1.0%	1.0%	0.6%	0.7%	0.8%	1.0%	1.4%	1.9%	2.4%

<b>Balance Sheet</b>									
Particulars (Rs. Mn)	FY03	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E	FY11E
Equity Capital	356.1	712.2	750.0	750.0	750.0	800.0	800.0	800.0	800.0
Reserves	3,278.9	3,253.4	4,100.6	4,789.4	5,954.7	9,463.5	11,949.7	14,921.4	18,506.4
Shareholders Funds	3,635.0	3,965.6	4,850.6	5,539.4	6,704.7	10,263.5	12,749.7	15,721.4	19,306.4
Borrowed Funds	2,816.7	1,989.6	2,901.9	2,898.6	3,247.0	3,498.1	3,512.6	3,262.6	2,162.6
Deferred Tax Liability	616.0	575.0	587.0	511.0	446.5	479.0	481.5	484.0	486.5
<b>Total Liabilities</b>	<b>7,067.7</b>	<b>6,530.2</b>	<b>8,339.5</b>	<b>8,949.0</b>	<b>10,398.2</b>	<b>14,240.6</b>	<b>16,743.8</b>	<b>19,467.9</b>	<b>21,955.5</b>
Fixed Assets	4,817.9	4,775.0	4,842.5	4,574.5	4,968.4	6,017.7	6,818.1	7,261.4	6,752.9
Investments	190.3	198.7	1,116.2	2,785.3	3,780.1	5,182.8	5,182.8	5,182.8	5,182.8
<b>Current Assets</b>									
Inventory	1,804.0	2,123.3	2,275.8	2,417.2	3,966.1	5,707.4	6,657.0	7,853.8	9,414.5
Sundry Debtors	1,372.9	1,323.5	1,643.6	1,528.4	1,483.9	2,592.1	3,106.6	3,773.9	4,589.6
Loans & Advances	286.8	196.1	302.7	285.6	287.9	448.4	541.4	663.0	800.2
Cash & Bank Balance	26.6	12.6	361.9	173.7	14.2	16.8	74.1	254.5	721.9
<b>Current Liabilities</b>									
Sundry Creditors	1,270.0	1,711.6	1,701.1	2,186.3	3,231.2	4,670.7	4,793.1	5,099.9	5,295.7
Provisions	160.7	387.3	502.1	629.5	871.2	1,053.9	843.1	421.6	210.8
<b>Net Current Assets</b>	<b>2,059.6</b>	<b>1,556.6</b>	<b>2,380.9</b>	<b>1,589.1</b>	<b>1,649.7</b>	<b>3,040.2</b>	<b>4,743.0</b>	<b>7,023.8</b>	<b>10,019.8</b>
<b>Total Assets</b>	<b>7,067.7</b>	<b>6,530.2</b>	<b>8,339.5</b>	<b>8,949.0</b>	<b>10,398.2</b>	<b>14,240.6</b>	<b>16,743.8</b>	<b>19,467.9</b>	<b>21,955.5</b>
<b>Cash Flow</b>									
Particulars (Rs. Mn)	FY03	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E	FY11E
Opening Cash & Bank	84.1	26.6	12.6	361.9	173.7	14.2	16.8	74.1	254.5
Profit after Tax	523.3	728.6	745.4	1,007.3	1,552.1	2,503.3	3,047.8	3,720.4	4,521.1
Less: Investment Inc	(14.1)	(19.8)	(19.8)	(64.9)	(93.7)	(64.5)	(71.0)	(78.1)	(85.9)
Interest Paid	291.7	84.7	114.7	224.4	277.1	374.0	425.1	377.5	261.8
Depreciation	461.4	544.8	538.6	548.0	542.0	642.4	699.7	756.7	808.5
Others	(3.6)	(21.3)	(60.8)	(82.2)	(122.9)	10.5	2.5	2.5	2.5
Change in Working Cap	246.4	489.0	(475.0)	603.6	(220.1)	(1,387.9)	(1,645.5)	(2,100.4)	(2,528.6)
<b>CF - Operating Activities</b>	<b>1,505.1</b>	<b>1,805.9</b>	<b>843.1</b>	<b>2,236.1</b>	<b>1,934.4</b>	<b>2,077.8</b>	<b>2,458.5</b>	<b>2,678.6</b>	<b>2,979.3</b>
Change in Fixed Assets	(183.4)	(521.6)	(533.3)	(273.8)	(877.4)	(1,669.7)	(1,500.0)	(1,200.0)	(300.0)
Change in Investments	(116.7)	(8.4)	(917.5)	(1,669.2)	(994.8)	(1,402.7)	0.0	0.0	0.0
Investment Income	14.1	19.8	19.8	64.9	93.7	64.5	71.0	78.1	85.9
<b>CF - Investing Activities</b>	<b>(286.0)</b>	<b>(510.2)</b>	<b>(1,431.0)</b>	<b>(1,878.1)</b>	<b>(1,778.5)</b>	<b>(3,007.8)</b>	<b>(1,429.0)</b>	<b>(1,121.9)</b>	<b>(214.1)</b>
Increase in Equity	(176.8)	(76.6)	354.2	(61.9)	(79.7)	1,430.0	(0.0)	0.0	0.0
Changes in Borrowings	(647.5)	(827.0)	912.3	(3.4)	348.4	251.1	14.5	(250.0)	(1,100.0)
Interest Paid	(291.7)	(84.7)	(114.7)	(224.4)	(277.1)	(374.0)	(425.1)	(377.5)	(261.8)
Dividend Paid	(160.7)	(321.4)	(214.5)	(256.6)	(307.1)	(374.4)	(561.6)	(748.8)	(936.0)
<b>CF - Financing Activities</b>	<b>(1,276.6)</b>	<b>(1,309.7)</b>	<b>937.3</b>	<b>(546.2)</b>	<b>(315.5)</b>	<b>932.7</b>	<b>(972.2)</b>	<b>(1,376.3)</b>	<b>(2,297.8)</b>
<b>Net Change in Cash</b>	<b>(57.5)</b>	<b>(14.0)</b>	<b>349.4</b>	<b>(188.2)</b>	<b>(159.6)</b>	<b>2.6</b>	<b>57.3</b>	<b>180.4</b>	<b>467.4</b>
Closing Cash & Bank Bal	26.6	12.6	361.9	173.7	14.2	16.8	74.1	254.5	721.9

## Lead Battery Manufacturing process

A battery consists of rectangular lead plates with holes in it. A paste, which is a mixture of red lead and 33% dilute sulphuric acid, is pressed into these holes. These plates are slightly tapered on both sides to assist in retention of the paste. This paste remains porous and allows the acid to react with the lead inside the plate. (Some manufacturers use pastes in the plates made directly from Lead Dioxide and Lead, thus avoiding the necessity to form plates). At this stage the positive and negative plates are identical. The plates are then stacked together with suitable separators (typically polypropylene) and inserted into the battery container. An odd number of plates are always used, with one more negative plate than positive; each alternate plate is connected together. After the acid has been added to the cell, the cell is then given its first forming charge. The battery is then sealed, packaged and ready to be despatched.

### Lead Process Flow



A lead acid battery is a secondary battery and hence can be charged several times during its service life. One of the problems with the plates in a lead-acid battery is that they change size as the battery charges and discharges. The plates increase in size as the active material absorbs sulphate from the acid during discharge, and decrease as they give up the sulphate during charging. This causes the plates to gradually shed the paste during their life. Besides, during every charge cycle, the battery undergoes a process of corrosion of positive plate.



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## Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

## Exide Industries

NO  
NO  
NO

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