

Background & Business

Over past 140 years, Exide underwent several management / name changes. It was acquired by Rajan Raheja Group in 1993 who gave Exide its present name & is largest player in Indian organized battery market, manufactures one of the widest range of storage batteries globally from 2.5 Ah to 20,000+ Ah across automotive & industrial batteries. It has 9 manufacturing plants & through subsidiaries, has lead smelting units which supply ~60% of its lead requirements. Presently, revenue mix across automotive & industrial batteries is ~60:40, 4W OEM: aftermarket ratio is 1.5:1 & for 2W 0.5:1. It has market share of 60% in 4W OEMs, 65% in 2W OEMs & 80% in inverters. Current annual capacity in 4W, 2W & industrial batteries is at 12.2mn units (vs 8.4mn for AMRJ) , 22mn units (vs 11mn) & 2.8mn Ah respectively. Exide recently increased stake in ING Vysya Life Ins to 100%.

Investment Thesis

After dominating the batteries market in India for several decades, Exide lost considerable market share to AMRJ which emerged as a strong No. 2 owing to technology focus, pricing advantage, swift network expansion and comparable product quality. However, over past couple of years, Exide is aggressively focusing on regaining its past glory. While it still remains No. 1 player, **the story, going ahead, for Exide is expected to unfold by way of market share gains and creation of new categories, if any.** Some arguments in favor of Exide are:

- Direct beneficiary of economic recovery** (despite losing market share to AMRJ, Exide is still market leader in Automotive OEM and replacement space, hence it would be direct beneficiary of recovery in India's GDP growth & ensuing growth in Automobiles segment. While current demonetization drive has pushed back economic recovery by 1 – 2 quarters, long term drivers remain intact),
- Exide has invested heavily in technology up-gradation** (Rs. 4bn capex in FY16 vs avg Rs. 1.6bn over FY07-15) & **has outlined Rs. 14bn capex over FY17-18,**
- Expansion in addressable market size post implementation of GST** (as unorganized players lose pricing advantage over organized ones),
- Margins expected to expand as Exide undertakes cost-cutting exercises, focuses on more profitable OEMs** (even weeding out less profitable ones, operating leverage expected to improve as capacity utilization picks up with increase in demand).

Outlook

We strongly value Exide's huge brand franchise value, deep relationships that it shares with OEMs across auto / industrial segments. Going forward, our outlook is very positive & we are of the opinion that with various steps taken across channel, capacity & marketing reach, Exide should be able to steadily improve performance. Given steps taken by management to ramp up capacity (from internal accruals), improve profitability & increase in asset utilization, we feel that street would soon start valuing Exide at multiples similar to those enjoyed by AMRJ. This is because the franchise, brand value & management pedigree of Exide remains unchanged despite volatile performance over past few years. The insurance business is not yet fully valued & we feel that there is deep value embedded in the same which would ultimately reflect in the stock price. Exide stock would be a strong wealth creator over next 2 – 3 years on the back of valuation play & financial growth rates catching up with that of AMRJ.

From : 25-03-2014
 To : 28-02-2017
 Performance : 80%
 Recommendation : OPEN

