



AMARA RAJA
Gotta be a better way

Background & Business

AMRJ is 2nd largest automotive battery manufacturer & largest supplier of industrial storage batteries in India. It is a JV between Galla family and global battery major – Johnson Controls (JCI) with both owning 26% each. The partnership with JCI lends the business with critical technology advantage. It has many firsts to its credit - having introduced VRLA (valve-regulated lead acid) batteries for the 1st time for industrial applications and 2Ws. In the automotive segment too, it was first to introduce batteries with 5-year warranties and zero maintenance fully charged batteries. These initiatives, along with witty advertising, unique franchisee based distribution model and operational efficiency leading to competitive pricing propelled its market share across segments bridging the gap at frenzied pace with market leader – Exide.

Investment Thesis

Over past decade, AMRJ has established itself as a strong No. 2 in Indian organized automotive/industrial battery segment and has broken the hegemony of larger peer Exide in telecom segment grabbing 42% market share. However, AMRJ's growth story is yet to unfold completely. It has several factors going for itself such as:

- Continuous market share gains in Automotive space** (led by double-digit growth in OEM & replacement segments),
- Pricing discount vis-à-vis Exide** (AMRJ's products are priced 8-9% lower than those of Exide) leaving space for price hikes going ahead,
- Company is less affected by lead price increases** (since agreement with OEMs allows it to pass on input costs) thereby protecting margins,
- Margin boost from commissioning of new tubular plant at Chittoor** (which would reduce proportion of trading, outsourcing in inverter segment),
- Expansion in addressable market size post implementation of GST** (as unorganized players lose pricing advantage over organized ones),
- Strong balance sheet which can be leveraged, if needed, to fund higher growth** (D/E of 0.05xs as on 30-Sep-16 and cumulative FCFF of ~INR 4bn over past 5 years).

Outlook

Over FY11-16, AMRJ has seen Revenues, EBITDA & PAT grow at 22%, 26% and 27% CaGR respectively, surpassing Exide's growth by a huge measure (8%, 3%, flattish respectively). The growth has been led by market share gains across segments, optimised cost structures and strong pricing power across segments. EBITDA and PAT margins have expanded ~300bps and 200bps. Working capital has remained rangebound at 9-13% of sales while the balance sheet is almost debt free. Despite funding cumulative capex of Rs. 15bn over FY11-16, AMRJ generated cumulative FCFF of Rs. 4bn. AMRJ is led by dynamic and professional management (Galla family) and technologically superior JV partner (JCI). *We believe, foundation for next leg of growth is already laid and are PAT should deliver approx. 20% CaGR over next 5 years.*



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