

CMP: ₹ 1,670

Target: ₹ 2,000 (20%)

Target Period: 12 months

BUY

July 3, 2024

Stepping up play in sunrise Lithium-Ion Battery space...

About the stock: Amara Raja Energy & Mobility (AREM) is a part of the duopolistic organised Indian lead acid battery market with a strong presence across Automotive (OEM & aftermarket) and Industrial battery space (UPS, Telecom, etc.).

Announces technology tie-up in Li-On cell manufacturing: Amara Raja's wholly owned subsidiary i.e. Amara Raja Advanced Cell Technologies Pvt. Ltd (ARACT) has signed a technical licensing agreement with GIB EnergyX Slovakia, a subsidiary of Gotion High-Tech Co Ltd. As part of agreement GIB EnergyX will license Gotion's world class LFP technology for lithium-ion cells to ARACT. This comprehensive agreement enables Amara Raja to manufacture world class LFP cells in both cylindrical & prismatic form factors. The scope of licensing provides access to cell technology IP, support in establishing Gigafactory facilities conforming to latest generation process technologies, integration with Gotion's global supply chain network for critical battery materials, and technical support for solution deployment. **This is positive development for the company and such technology tie-up was keenly awaited.** It shall help Amara Raja developed its envisaged Gigafactory. GIB is a credible player in this space with Volkswagen China as one its large shareholder & planned cell capacity of ~300 GWh by 2025.

Investment Rationale

- Commitment gets firmer in Li-On space:** The company has in the past has entered into MoU with Govt. of Telangana for setting up of Li-Ion Battery Gigafactory. The said facility is expected to have cell manufacturing capacity of up-to 16GWh & assembly capacity of up to 5 GWh with overall investment pegged at ~₹9,500 crores over next 10 years. In the first phase, it is setting up a Li-On cell plant of 2GWh capacity at capex outlay of ~₹ 1,200 crore with likely commissioning by FY26E. The management in the recent call also shared interesting facts about its new technology tie-up: (i) Gotion Hi-Tech is among the top 5 battery players in China and counts itself in top 10 players globally (ii) it will look at 4-6 GWh capacity in LFP space to start with and capex for the same is pegged at ~₹ 600-650 crore per GWh (iii) it expects to clock ~11-12% margins at 10-12 GWh scale with corresponding RoCE expected at lower double digit at battery prices of US\$ 70-75/kWh (iv) it is looking at NMC chemistry for 2-W EV battery space and LFP chemistry for rest of the segments (v) it has applied for PLI scheme and is awaiting results of the same.

Rating and Target Price

- With much awaited technology tie-up in place in the Li-On cell domain, steady state base lead acid business, we retain our positive view on the stock. We assign **BUY** rating on Amara Raja and value it at ₹ **2,000** on SoTP basis wherein we have valued its base business at 25x PE on FY26E and assigned 4x CWIP to estimated capex in Li-On cell domain in FY26E.

Key Financial Summary

Key Financials	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY19-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	6,839.5	7,149.7	8,695.8	10,389.7	11,260.3	10.6%	11,715.8	12,660.2	6.0%
EBITDA	1,098.6	1,115.6	1,022.6	1,435.0	1,621.4	11.2%	1,738.2	1,904.7	8.4%
EBITDA Margins (%)	16.1	15.6	11.8	13.8	14.4		14.8	15.0	
Net Profit	660.8	646.8	511.2	730.7	905.9	13.4%	979.9	1,087.4	9.6%
EPS (₹)	38.7	37.9	29.9	39.9	49.5		53.5	59.4	
P/E	43.2	44.1	55.8	41.8	33.7		31.2	28.1	
RoNW (%)	18.1	15.4	11.2	12.7	13.4		13.0	12.9	
RoCE (%)	21.3	18.6	13.6	15.8	16.5		16.0	15.9	

Source: Company, ICICI Direct Research


AMARA RAJA
Gotta be a better way

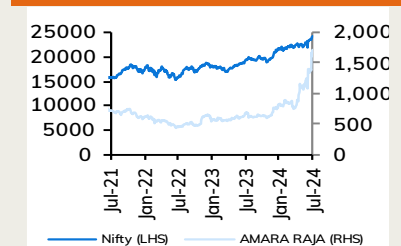
Particulars

Particular	₹ crore
Market Capitalization	30,561
Total Debt (FY24P)	53
Cash & Invt. (FY24P)	369
Enterprise Value	30,245
52 week H/L (₹)	1,776 / 599
Equity capital	18.3
Face value (₹)	1.0

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	28.1	28.1	28.1	32.9
FII	35.2	24.6	24.0	24.5
DII	10.5	16.8	17.9	15.4
Other	26.3	30.5	30.0	27.3

Price Chart



Recent event & key risks

- Announced Technology tie-up with Gotion group in Li-On cell domain, aimed at LFP chemistry
- Built in Sales/PAT CAGR of 6%/10% over FY24-26E
- Key Risk: (i) lower than built in margin recovery in the base business (ii) delay in capex execution in the new energy business (Li-On battery space)

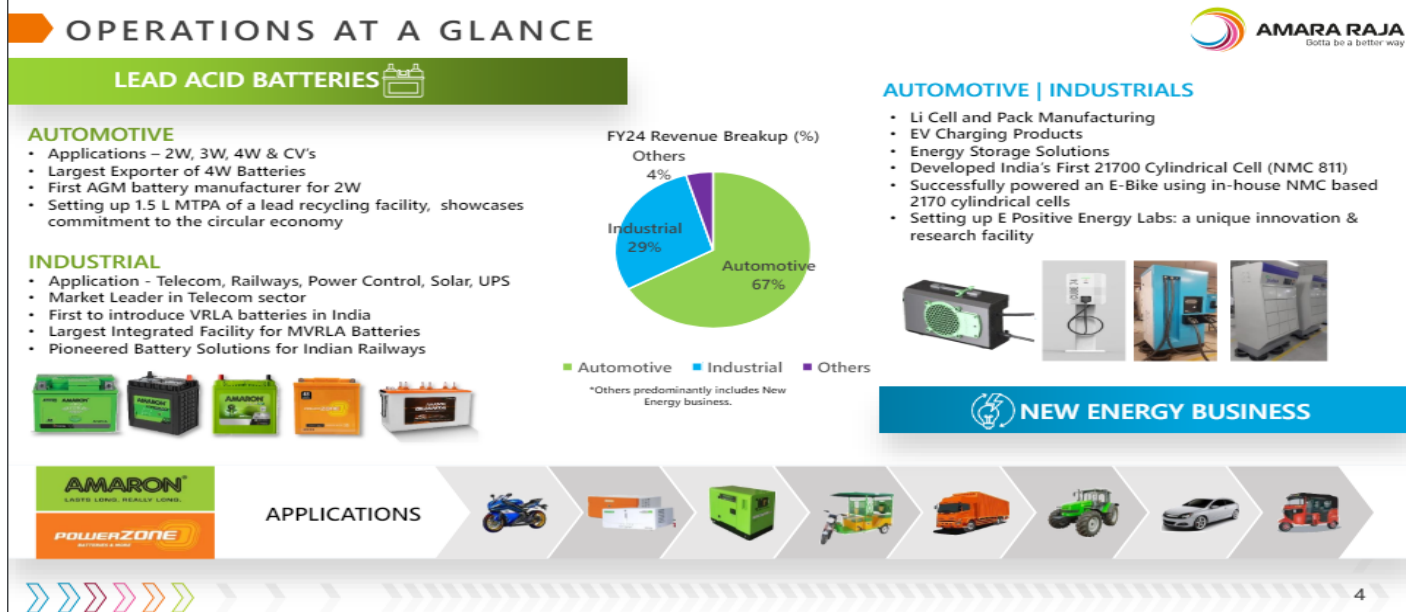
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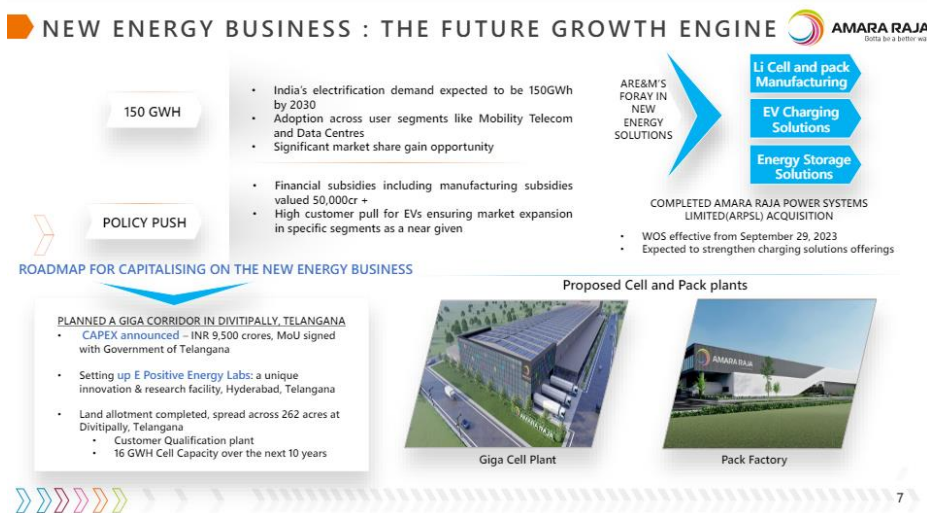
Key slides and tables

Exhibit 1: Business Overview



Source: Company, ICICI Direct Research

Exhibit 2: New Energy Business overview



Source: Company, ICICI Direct Research

Exhibit 3: SoTP - target price calculation

Particulars	Units	Amount
FY26E PAT of Base Business (Lead Acid Battery)	₹ crore	1,087
FY26E PAT of EV Chargers and others	₹ crore	50
Total FY26E PAT (A)	₹ crore	1,138
Total No of Shares (B)	crore	18.3
FY26E EPS (A/B)	₹/share	62
PE Multiple Assigned	x	25
per share value (A)	₹/share	1,560
Our Estimates of CWIP in Li-On Cell business, as of FY26E	₹ crore	2,000
Multiple Assigned	x	4
Value to EV Business	₹ crore	8,000
per share value	₹/share	440
Total Target Price	₹/share	2,000

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Total operating Income	10,390	11,260	11,716	12,660	
Growth (%)	19.5	8.4	4.0	8.1	
Raw Material Expenses	6,998	7,534	7,752	8,337	
Employee Expenses	651	699	762	836	
Other Expenses	1,306	1,405	1,464	1,583	
Total Operating Expenditure	8,955	9,639	9,978	10,756	
EBITDA	1,435	1,621	1,738	1,905	
Growth (%)	40.3	13.0	7.2	9.6	
Depreciation	450	479	504	538	
Interest	30	33	30	27	
Other Income	90	102	105	114	
PBT	1,045	1,211	1,310	1,454	
Total Tax	266	305	330	366	
PAT	731	906	980	1,087	
Growth (%)	42.9	24.0	8.2	11.0	
EPS (₹)	39.9	49.5	53.5	59.4	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Profit after Tax	731	906	980	1,087	
Add: Depreciation	450	479	504	538	
(Inc)/dec in Current Assets	(244)	(199)	(237)	(275)	
Inc/(dec) in CL and Provisions	(64)	174	169	145	
CF from operating activities	873	1,359	1,416	1,495	
(Inc)/dec in Investments	(408)	(993)	(200)	100	
(Inc)/dec in Fixed Assets	(623)	(428)	(1,000)	(1,400)	
Others	(598)	(485)	(96)	(93)	
CF from investing activities	(1,638)	(1,154)	(1,196)	(1,293)	
Issue/(Buy back) of Equity	-	-	-	-	
Inc/(dec) in loan funds	-	-	-	-	
Dividend paid & dividend tax	(104)	(169)	(183)	(192)	
CF from financing activities	811	(201)	(183)	(192)	
Net Cash flow	46	5	36	10	
Opening Cash	54	100	104	141	
Closing Cash	100	104	141	151	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Liabilities					
Equity Capital	17.1	18.3	18.3	18.3	
Reserve and Surplus	5,989	6,750	7,547	8,442	
Total Shareholders funds	6,006	6,769	7,566	8,461	
Total Debt	111	53	53	53	
Deferred Tax Liability	104	88	92	99	
Total Liabilities	6,481	7,204	8,004	8,907	
Assets					
Gross Block	5,472	5,830	6,230	6,580	
Less: Acc Depreciation	2,278	2,757	3,261	3,799	
Net Block	3,193	3,073	2,969	2,781	
Capital WIP	234	322	922	1,972	
Total Fixed Assets	3,494	3,444	3,940	4,802	
Investments	486	1,479	1,679	1,579	
Inventory	1,675	1,810	1,926	2,081	
Debtors	780	1,017	1,123	1,214	
Loans and Advances	411	192	200	216	
Other Current Assets	115	161	167	181	
Cash	100	104	141	151	
Total Current Assets	3,080	3,284	3,557	3,843	
Creditors	751	840	963	1,041	
Provisions	141	131	151	163	
Other current liabilities	564	659	686	741	
Total Current Liabilities	1,456	1,631	1,800	1,945	
Net Current Assets	1,624	1,653	1,758	1,898	
Other Non-Current Assets	449	199	199	199	
Application of Funds	6,481	7,204	8,004	8,907	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Per share data (₹)					
EPS	39.9	49.5	53.5	59.4	
Cash EPS	64.5	75.7	81.1	88.8	
BV	328.2	369.9	413.4	462.3	
DPS	6.1	9.9	10.0	10.5	
Cash Per Share	6.8	20.2	27.6	17.3	
Operating Ratios (%)					
EBITDA Margin	13.8	14.4	14.8	15.0	
PBT / Net sales	9.5	10.1	10.5	10.8	
PAT Margin	7.0	8.0	8.4	8.6	
Inventory days	58.9	58.7	60.0	60.0	
Debtor days	27.4	33.0	35.0	35.0	
Creditor days	26.4	27.2	30.0	30.0	
Return Ratios (%)					
RoE	12.7	13.4	13.0	12.9	
RoCE	15.8	16.5	16.0	15.9	
RoC	16.8	18.4	19.6	21.6	
Valuation Ratios (x)					
P/E	39.9	33.7	31.2	28.1	
EV / EBITDA	21.3	18.7	17.3	15.9	
EV / Net Sales	2.9	2.7	2.6	2.4	
Market Cap / Sales	2.9	2.7	2.6	2.4	
Price to Book Value	5.1	4.5	4.0	3.6	
Solvency Ratios					
Debt/Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.0	1.9	1.9	1.9	
Quick Ratio	0.9	0.8	0.8	0.8	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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