Sharekhan by BNP PARIBAS

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Amara Raja Energy & Mobility Ltd

Reviving replacement demand

Automobiles	Sharekhan code: ARE&M
Reco/View: Buy ↔	CMP: **Rs. 1,331** / Price Target: **Rs. 1,638** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Summary

- Amara Raja missed bottom-line estimates on weak performance in the telecom and 4W OEM fronts, though EBITDA margin matched estimates.
- Amara Raja targets a 15% volume CAGR in export markets in the next three years.
- We maintain BUY on the stock with a revised PT of Rs.1,638 on account of expectation of healthy traction in the replacement segment and an opportunity to play in the Li-ion cell business.
- The stock trades at a P/E multiple of 19.5x and EV/EBITDA multiple of 8.9x its FY2027 estimates.

In Q2FY2025, Amara Raja's 4W OEM segment and telecom segment witnessed a decline in volumes, which impacted its revenue growth trajectory, while most of its segments registered healthy volume growth. Further, higher trading mix and additional provisions pertaining to levy on fuels for earlier years (Rs. 15 crore) impacted its EBITDA margin in Q2FY2025. The company undertook an average 1.5% price hike in the aftermarket segment ahead of Q2FY2025. Amara Raja's Q2FY2025 results were below estimates, as it missed revenue estimates by 4.7% and AEBITDA estimates by 5.2%. AEBITDA margin at 14.1% came in line with estimates as the negative operating leverage impact was offset by an 80bps y-o-y gross margin expansion. Revenue increased by 11.6% y-o-y to Rs. 3,136 crore (against our estimate of Rs. 3,291 crore). AEBITDA increased by 11% y-o-y to Rs. 441 crore (against our estimate of Rs. 465 crore). AEBITDA margin remained flat on a y-o-y basis at 14.1% (against our estimate of 14.1%). APAT increased by 7.3% y-o-y to Rs. 241 crore (against our estimate of Rs. 268 crore).

Key positives

- Both 2W and 4W divisions have witnessed healthy volume growth in the replacement segment on a y-o-y basis.
- In the OEM segment, the two-wheeler division reported robust volume growth on a y-o-y basis in sync with the increase in two-wheeler production.
- UPS and exports segment registered decent growth during the quarter.

Key negatives

- In the OEM segment, the 4W division witnessed a decline in volumes, as 4W production was relatively weak.
- The lead acid business in the telecom industry has faced headwinds due to the transition to Li-ion batteries from lead acid batteries.
- Despite the 80bps y-o-y expansion in gross margin, AEBITDA margin remained flat y-o-y due to negative operating leverage.

Management Commentary

- The commencement of tubular plant from Q4FY2025 would reduce the trading mix and, hence, would be margin accretive.
- Management aims for a 15% volume CAGR for the next three years in exports.
- Li-ion business can deliver an EBITDA margin of 11-12% on reaching optimum utilisation.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 1,638: While Amara Raja has reported AEBITDA margin in line with estimates, the bottom line missed estimates in Q2FY2025, given the higher trading mix, additional provision of Rs. 15 crore, and muted performance in the telecom and 4W OEM segments, which impacted its performance in Q2FY2025. Management has indicated that it would commission its lead recycling plant by Q3FY2025, and the tubular battery plant would be commissioned by Q4FY2025, which we believe would be EBITDA margin accretive for the company. Beyond the domestic market, the company aims to expand its overseas business and targets a 15% volume CAGR in export volumes in the next three years, as it is now planning to expand its presence in European markets. Post factoring Q2FY2025 performance in our estimates, we maintain BUY on the stock with a revised PT of Rs. 1,638 on account of the expectation of healthy traction in the replacement segment and an opportunity to play in the Li-ion cell business.

Key Risks

Volatile raw-material cost trend, correction in replacement demand, and rise in competition are key risks. Along with this, the company is investing heavily in the Li-ion project and, hence, carries a project execution risk with demand uncertainty.

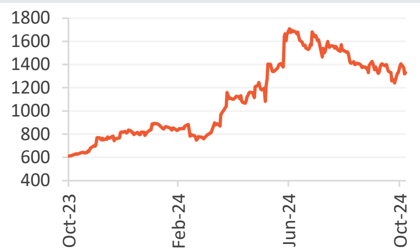
Company details

Market cap:	Rs. 24,361 cr
52-week high/low:	Rs. 1774/625
NSE volume: (No of shares)	7.8 lakh
BSE code:	500008
NSE code:	ARE&M
Free float: (No of shares)	12.3 cr

Shareholding (%)

Promoters	32.9
FII	22.3
DII	15.4
Others	29.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.5	-9.2	19.5	117.5
Relative to Sensex	1.3	-11.5	11.7	91.6

Sharekhan Research, Bloomberg

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenues (Rs cr)	10,390	11,260	12,492	13,693	14,928
Growth (%)	19.5	8.4	10.9	9.6	9.0
AEBIDTA (Rs cr)	1,435	1,621	1,786	1,985	2,194
OPM (%)	13.8	14.4	14.3	14.5	14.7
Adj Net Profit (Rs cr)	778	906	997	1,121	1,250
Growth (%)	52.2	16.4	10.1	12.4	11.5
AEPS (Rs)	42.5	49.5	54.5	61.2	68.3
P/E (x)	31.3	26.9	24.4	21.7	19.5
P/BV (x)	4.1	3.6	3.2	2.8	2.5
EV/EBITDA (x)	16.6	14.1	12.2	10.4	8.9
ROE (%)	14.7	14.2	13.9	13.9	13.7
ROCE (%)	15.0	14.4	14.2	14.1	13.9

Source: Company; Sharekhan estimates