



## IDEA2ACT : Amara Raja Batteries

Reco Price	12-months Target Price
BUY @ ₹ 760-780	₹ 898

Amara Raja Batteries is the second-largest manufacturer in India, of lead-acid batteries for industrial and automotive applications. The company owns the brands “Amaron” and “PowerZone”. Its erstwhile association with Johnson Controls enhanced Amara Raja’s technological capabilities and enabled it to steadily increase market share.

**Faster than expected pick-up in demand**

AMRJ’s 2Q revenue grew 14% YoY vs. our estimate of flattish revenue. As per management, the auto OE segment witnessed strong pick-up vs. 1Q. Robust YoY growth was seen in replacement demand, post-opening of lockdowns. Within the industrial segment, demand from the telecom and commercial UPS sectors was healthy.

Gross margin (GM) expanded 120bps QoQ to 34.7% (est. 35.4%), aided by moderation in lead prices (down 5% QoQ in 1Q; 1-quarter lag) and better mix (higher share of replacement sales). Ebitda margin improved sharply, by 430bps QoQ to 17.6% (140bps beat), driven by operating leverage (sales up 68% QoQ) and control on operating costs.

Absolute Ebitda (+16% YoY) came in 23% above estimate, owing to strong operating performance (top-line and margin). As a result, both PBT and PAT came in ~28% above our expectations.

**We raise our FY21 EPS by 15%, driven by an upgrade in revenue growth assumptions. Upgrade in FY22-FY23ii EPS is moderate, at 4%. We like the sector for its secular growth and low competitive intensity.**

**Technically**, the stock is trading in a strong higher top higher bottom chart structure and has given a consolidation breakout on the daily chart. It has also given a bullish Golden crossover (89DEMA/200DEMA) & is showing good strength on the MACD Histogram. If the current impulse move accentuate the way it should, we expect Amara Raja Batteries to test our immediate target price of Rs898 in 12 months.

**Previous Recommendations:**

Date	Stock Name	Reco Price	Target Price	P & L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
2-Jul-20	ITC	201	235	-13%	Open (Dividend Rs10.15 exdate 6th Jul 2020)
2-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	16%	Target Achieved
13-Aug-20	UPL	480	555	-9%	Open
18-Aug-20	Crompton Consumer	256	299	17%	Target Achieved
28-Aug-20	Sudarshan Chemical	474	557	-3%	Open
14-Sep-20	Apollo Tyres	114.5	138	21%	Target Achieved
1-Oct-20	Manappuram Finance Ltd	155.5	186	3%	Open
16-Oct-20	Cyient Ltd	370	440	19%	Target Achieved

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