

# BATTERIES

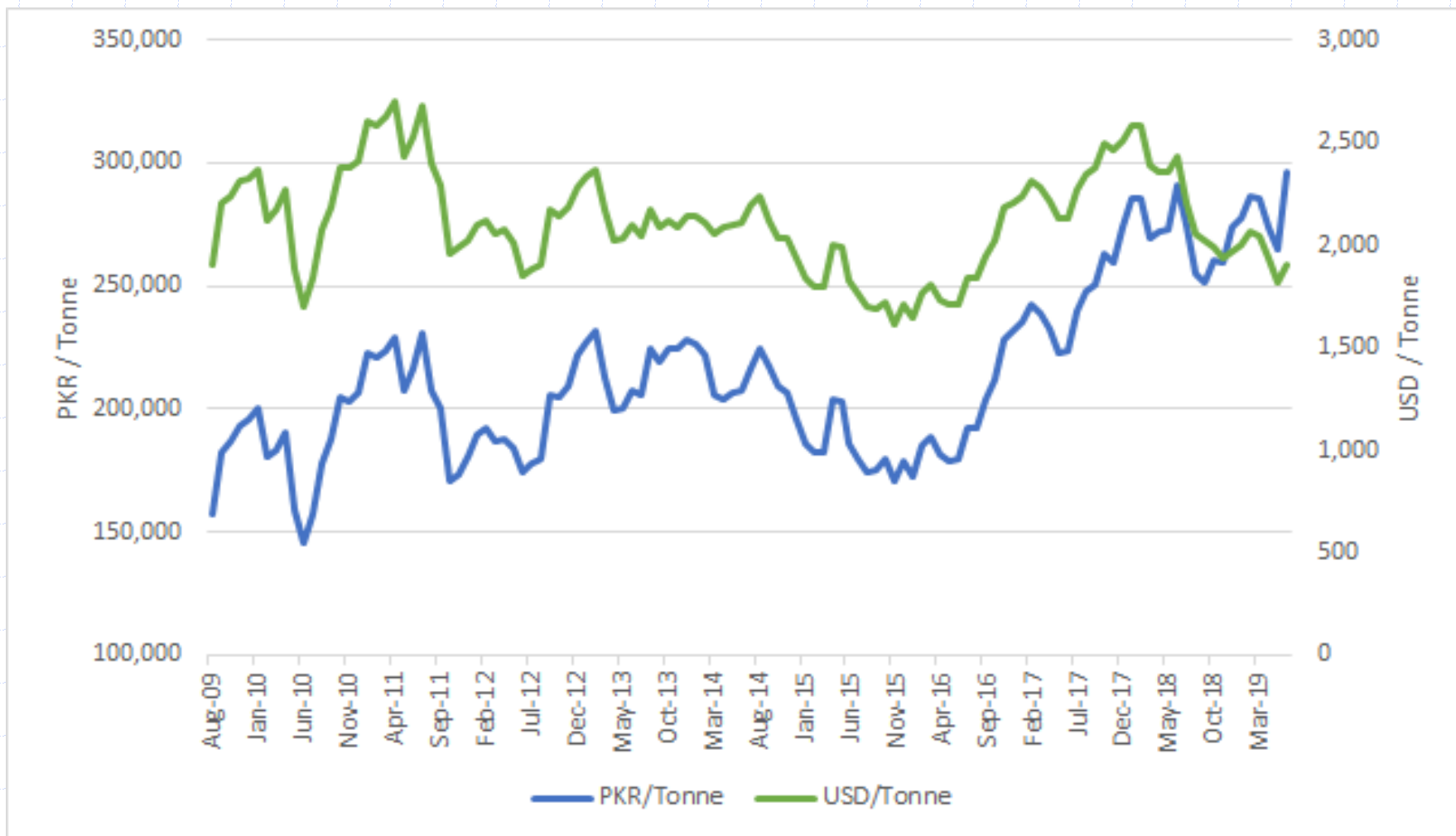
## SECTOR OVERVIEW

July 2019

## INTRODUCTION

- Dominated by a few large players and some have very deep rooted penetration in the market e.g. EXIDE and Atlas.
- Lately interest has been shown by some of the relatively newer players who have invested a sizeable amount of equity in to the battery industry e.g. Treet Corp (Daewoo).
- Major demand drivers for batteries are Automobiles and UPS backup.
- Major derivative of profitability is the cost of raw material –lead – which is predominantly imported from the international market having a direct linkage to the exchange rate.
- Since 2016 price of lead had been increasing and peaked in 2018. It is now hovering at the \$1900 mark. However given the exchange rate scenario cost pressures are expected to persist for local industry. However since 2018 price trend has started to fall.

# INTERNATIONAL PRICES OF LEAD



- We have created a mirror of international price of lead denominated in USD, in terms of PKR/ tonne prices. This was done to show the impact of depreciation of local currency against the USD. We can see from latest trend that there is more of an inverse relationship due to PKR depreciation.
- Our conclusion is that the benefit of lower prices of lead denominated in USD had been diluted by currency depreciation so industry has been neutral to this.

# MAJOR PLAYERS IN THE BATTERY INDUSTRY

## ❑ Players

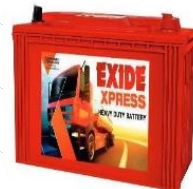
- Atlas Batteries Ltd.
- Exide Battery Ltd.
- Osaka Batteries / Volta Batteries
- Daewoo Batteries
- Phoenix Batteries
- Bridge Power Batteries
- Millat Batteries

## ❑ Bigger Players Production

- Estimated 250,000-220,000 per month

## ❑ Smaller Players Production

- Estimated 100,000 per month





# BATTERIES | PEER COMPARISON

Financial Indicators	Exide Battery (Annual March)			Atlas Battery (Annual June)		
	(PKR mln)	FY19	FY18	FY17	FY18	FY17
Revenue		9,507	12,301	12,910	18,333	17,170
Gross Profit		972	1357	2,568	2002	2,964
GP Margin (%)		10.2%	11%	20%	11%	17.3%
Selling, Distribution and Admin		1,060	977	1,332	966	911
Profit/ (loss) before Tax		-411	194	1,061	832	2,065
Net Profit (before tax) Margin (%)		-4.3%	1.6%	8.2%	4.5%	12%
Borrowing		3,505	3,156	3,117	2,460	883

- For FY 19 Exide Battery had a gross profit of PKR 972 mln but due to distribution cost and finance cost, its net loss was PKR 505 mln.
- Decline in OEM market would further impact the profitability of Atlas Battery as the auto industry is going through a challenging phase.



# BATTERIES | PEER COMPARISON

Financial Indicators	Exide Battery (Annual March)		Atlas Battery (Annual June)	
	FY20 Q 1	FY19	FY19 Q 3	FY19-9M
(PKR mln)				
Revenue	2,681	9,507	3,131	8,837
Gross Profit	204	972	110	-82
GP Margin (%)	7.6%	10.2%	3.5%	-1%
Selling, Distribution and Admin	304	1060	203	603
Profit/ (loss) before Tax	-187	-411	-157	-529
Net Profit (before tax) Margin (%)	7%	-4.32%	-5%	-6%
Borrowing	4,117	3,505	2,787	2,787

- First Treet Manufacturing Modaraba (FTMM) has started commercial production of lead acid batteries since February 2018. In the initial period, profitability is in Red due to various factors such as slow production pace, learning curve effect and fixed cost. It would take considerable time to capture a sizeable portion of the market and to become profitable.

- Atlas Battery booked gross profit in 3<sup>rd</sup> quarter FY 19 but there was significant dip from PKR 440 mln recorded in 3<sup>rd</sup> quarter FY 18 to PKR 110 mln in 3<sup>rd</sup> quarter FY 19. On accumulated basis, Atlas Battery reported PKR 82 mln gross loss which means that company's last 2 quarters were in losses of PKR 190 mln approx.
- In 1<sup>st</sup> quarter of FY 20 Exide had a gross profit of PKR 204 mln which is approx. 7.6% (FY 19 10.2%). Due to distribution cost, operating loss was PKR 100 mln for Exide Battery in this quarter and loss before tax was PKR 187 mln as against the breakeven in the same quarter of FY 19.

Financial Indicators	FTMM (Daewoo Battery) (Annual June)	
	FY19 - 9M	FY19 Q3
(PKR mln)		
Revenue	1,063	465
Cost of sales	1,873	693
Gross Loss	-810	-228
GP Margin (%)	-76%	-49%

# USES OF BATTERIES

- Automobile (directly linked with the level of economic activity and interest rate environment)
- UPS (Inversely linked to the energy supply situation)
- Solar panel



# TYPES OF BATTERIES

## B A T T E R Y

- ◆ Lead-acid battery
- ◆ Lithium-ion battery
- ◆ Nickel-metal hydride battery



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# OPPORTUNITIES AND THREATS

- Decline of power outages
- Currency devaluation
- Increased competition given new capacities
- Decrease in demand of automobiles
- + China–Pakistan Economic Corridor(CPEC)
- + Rise in power demand
- + Falling cost of lead
- + Usage of solar energy



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