

# Influential Factors of Fundamental Analysis: A Case Study at Amara Raja Batteries Ltd., Tirupati, Andhra Pradesh

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## Abstract

Investment in an organization is a major decision that an Investor invests in a business on long term basis need to understand the business from various perspectives. Fundamental Analysis is a method used for evaluating a security's intrinsic value by examining related economic, financial and other qualitative and quantitative factors. This paper identifies research at regional/industry analysis of total sales, price levels, the effects of competing products, foreign competition, and entry or exit from the industry. Present study aims to explore the practical aspects of Fundamental Analysis.

**Keywords:** Fundamental Analysis, Economic Analysis, Financial Analysis, Qualitative & Quantitative

## Introduction

Investment in an organization is a major decision. An Investor who is willing to invest in a business on long term basis need to understand the business from various perspectives. The selection of stocks for investment purposes requires financial analysis in order to determine the most profitable stocks. The methods used to analyze securities and make investment decisions fall into two broad categories- Fundamental Analysis and Technical Analysis. Fundamental Analysis is a method used for evaluating a security's intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Technical Analysis uses charts and other tools to identify the patterns that can suggest future activity. Fundamental Analysis is a holistic approach to study a business that involves analyzing the characteristics of a company in order to estimate its value The present study focuses on Fundamental Analysis which could support investments decision for future investors. Fundamental analysts assesses a security's intrinsic value.

Fundamental analysts study the balance sheet, income statement and cash flow statement to gain insight into the company's future performance. The two fundamental factors of quantitative are related to information that can be shown in numbers and amounts; qualitative are related to the nature or standard revenue, profit and assets that can be measured with great precision. Similarly, the two approaches of fundamental analysis are top-down and bottom-down. Top-down in Fundamental analysis analyses the global economics, including both international and national economic indicators. Bottom to top approach includes GDP growth rates, inflation, interest rates, exchange rates, unemployment rates, productivity etc where as the bottom-up investor starts with specific businesses, regardless of their industry/region, and proceeds in reverse of the top-down approach The present study subsequently narrowed its research to regional/industry analysis of total sales, price levels, the

effects of competing products, foreign competition, and entry or exit from the industry.

Thus, the origin of Fundamental analysis for the share price valuation can be dated back to Graham and Dodd (1934) in which the previous researchers have argued the importance of the fundamental factors in share price valuation. Considering the above concept of present study aims to explore the practical aspects of Fundamental Analysis further.

### **Review of Literature**

Present study aims to identify and predict long-term economic, demographic, technological or consumer trends that can benefit the investors to pick the right company. Sound Fundamental Analysis will help in identifying the companies that represent a good value. It is a traditional method in which analysis is done by finding out the Fair market value of the investment, and by that, the investor decides whether to buy the stock of the company or not.

**J. Mounika Reddy, Dr. K. Sowmya, (2016)** have researched the fundamental analysis of the Cement Sector and found that the inflation rate has been declined which results minimum increase on the cost of raw material and other expenses. It is found that the prices of selected companies are more than the intrinsic value which is not benefited for long term investment but one may purchase it for short term as to get profit from speculation.

**Gould, (2016)** Fundamental analysis was more about finding the reasons for changes in stock price movement. Fundamental analysis mainly depended on the power of compounding as over a period of time, the value of the investment increased but provided the returns were reinvested into the investment. Mostly long term investors who were more concerned about the basics of the company investing in employed fundamental analysis. Their strategies would mainly involve buy and hold and other long term investment strategies.

**Ahmed S Wafi, Hassan and Abel Mabrouk, (2015)** in their learning headed, “Fundamental analysis models in financial markets” presented in third economic and finance conference in Rome. This paper aims to find the better stock valuation model using the fundamental analysis approach.

**J. Kartasova& D. Venclauskiene, (2014)** states, analysts and investors mainly use two alternative fundamental analysis methods: “top-down approach” and “bottom-up approach.”

**Baresa, Suzana, Sinisa Bogdan, and Zoran Ivanovic (2013)** had concluded that the Fundamental analysis and historical data are base to predict the future prices of a particular task. It determines the future prices by analyzing the economy, studying the financial statements of the company and also making sector analysis. They have also stated that the fundamental analysis did not provide any guarantee of profit in future but it assesses the risk possibility prior to taking any decisions.

**Mr. Suresh A.S., (2013)** found that the investment may be in Physical Asset or in Financial Asset. Both the types of investments are associated with Risk and Return. It also considers safety & liquidity. The person having high income possesses high risk bearing capacity & vice versa. Speculation is different than investment because we can predict future risk and return while making investment. The fundamental analysis and technical analysis are equally important for taking decision.

Thus, the study made by previous researchers help in understanding what Fundamental Analysis is still needs and focuses on markets investigations that would help in estimating the future stock trends and to select the best suitable stock for the investors.

### Statement of the Problems

Investment in an organization is a major decision because it involves financial input and there is a certain return expected out of it. The Stock meeting the expectations of the investor depends on the investment pattern the investor is using.

### Objectives of the Study

- To study the concepts and techniques of Fundamental Analysis.
- To analyze the intrinsic value of Amara Raja Batteries Limited.
- To assess and evaluate the performance of Amara Raja Batteries Limited.

### Scope of the Study

The scope of the present study is restricted to understand the Fundamental Analysis at Amara Raja Batteries Ltd. Tirupati, Andhra Pradesh only. The study basically tried to identify the intrinsic value of the company by using the published financial details of the company. The study is restricted to one particular company in the sector. The time period of study was approximately 3-4 weeks.

### Research Methodology

Research methodology is a way to systematically solve the research problem. The present study is descriptive as well as analytical in nature and focuses on addressing the state of affairs as it exists in the current scenario. Secondary data is collected from company's website i.e, [www.amararaja.com](http://www.amararaja.com) (<https://www.amararajabatteries.com/Investors/>), past annual reports, periodicals, research reports, magazines, company journals, newspapers, financial text books on investment (Zvi Bodie, Alex Kane, Alan J. Marcus, Pitabas Mohanty) and also from other websites like [www.moneycontrol.com](http://www.moneycontrol.com), [www.nseindia.com](http://www.nseindia.com).

Techniques used in the analysis of the company would be excel sheets, graphs and tables of financial statements such as Profit & Loss a/c, Balance sheet, Cash flow statements, Ratio analysis, Dividend per share value, valuation ratio etc. Ratios would be calculated and compared for previous financial years which provide a basis for valuation of securities.

### Research Design

The study includes the analysis of price of the share with the help of Fundamental Analysis.

- Study of literature and research work on Fundamental Analysis of equity prices.
- To closely study the financial and annual reports of the company.
- Macro-economic analysis, which involves considering currencies, commodities & indices and Industrial sector analysis, which involves the analysis of companies that are a part of the sector.
- Interpretation of the analyzed information, drawing inferences, investment decisions, findings and limitations, if any.

### Sample and Sampling Method with Rationale

The performance of One company from manufacturing sector is compared with seven peer companies. The ratios of Amara Raja Batteries Ltd. are compared with seven of its peer companies which include Sundaram Clayton, WABCO India Ltd, Minda Industries Ltd, Exide Industries Ltd, Endurance Technologies Ltd, Bosch Ltd and Mothers on Sumi Systems Ltd. To fulfill the objectives of the study, purposive sampling was taken into consideration.

### Tools/Techniques used in the Study

Comparative financial statements are used to study Fundamental Analysis. The statistical tools used for data analysis of the company are MS Excel sheets, graphs, charts, tables etc. of the financial statements such as Profit & Loss a/c, Balance sheet, Cash flow statements and Ratio analysis.

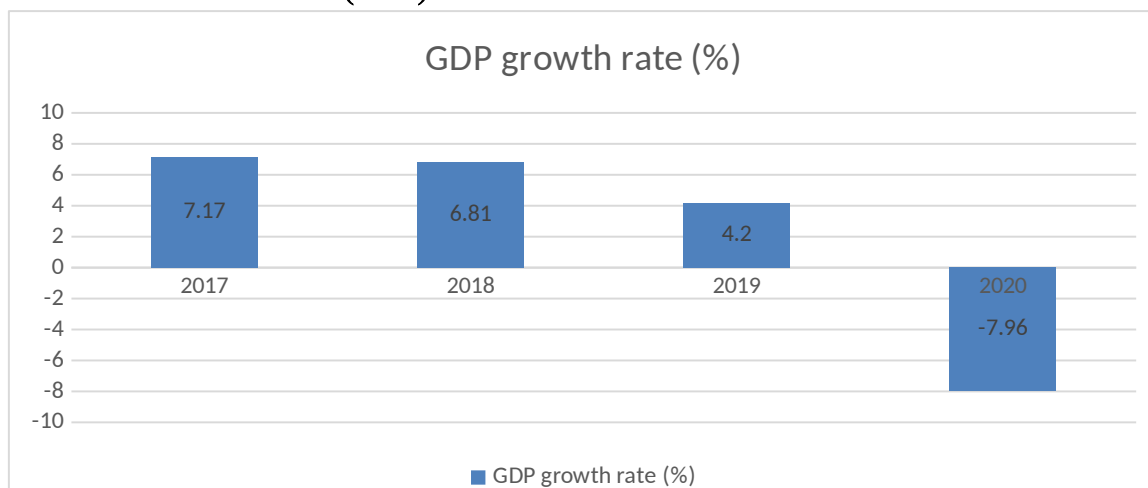
Limitations of the study: present study is confined to secondary data and assumes no changes in the tax rates in the country. The study is limited to Amara Raja Batteries Ltd, Tirupati only.

### Data interpretation and Analysis

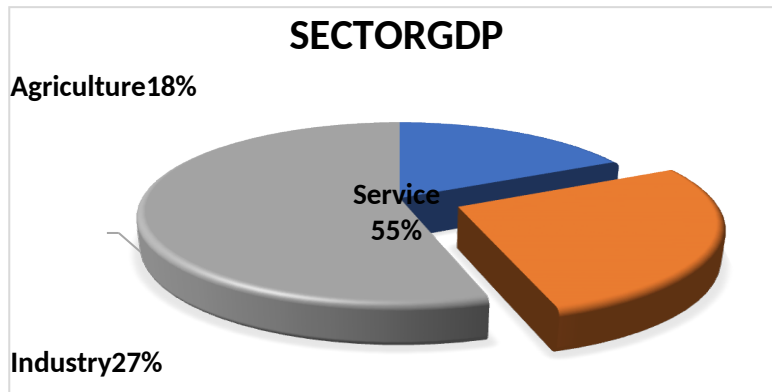
#### Economic Analysis

The economy of India is characterized as a middle income developing market economy. It is the world's sixth-largest economy by nominal GDP and the third-largest by purchasing power parity (PPP). According to the International Monetary Fund (IMF), on a per capita income basis, India ranked 145th by GDP (nominal) and 122th by GDP (PPP). Economic analysis is a process whereby the strengths and weaknesses of economy are analyzed. Economic analysis is important in order to understand the exact condition of an economy.

#### ➤ Gross Domestic Product (GDP) Growth Rate



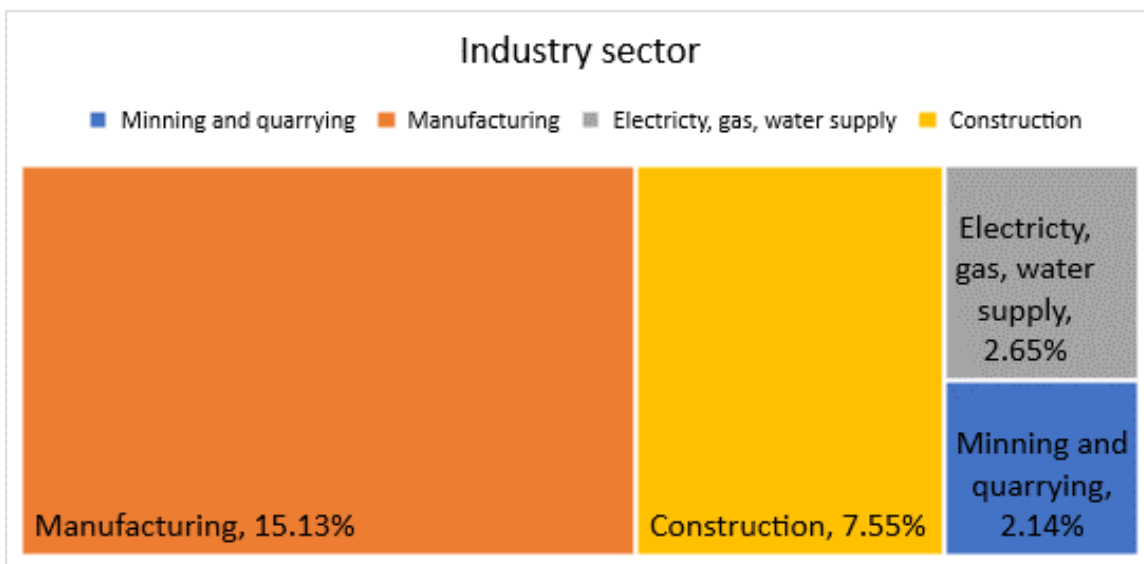
**Interpretation:** The above data shows the GDP growth rate of India from 2017 to 2020. In 2020 the GDP growth rate is -7.96% which is -12.16% lower, compared to the growth rate of 2019. The Compound Annual Growth Rate (CAGR) shows the negative values, which indicates the decrease in the economic growth.



The pie chart shows the sector division of GDP in India for 2020.

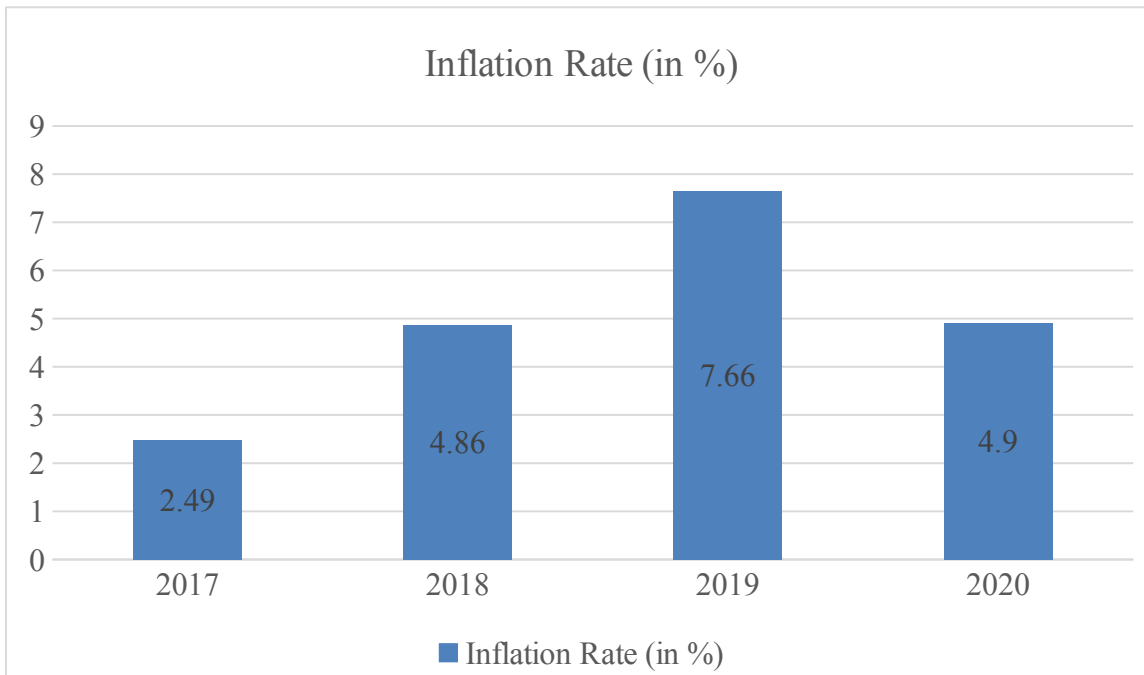
- Nearly 27% of GDP is contributed by Industrial sector

The chart shows the Industrial sector division



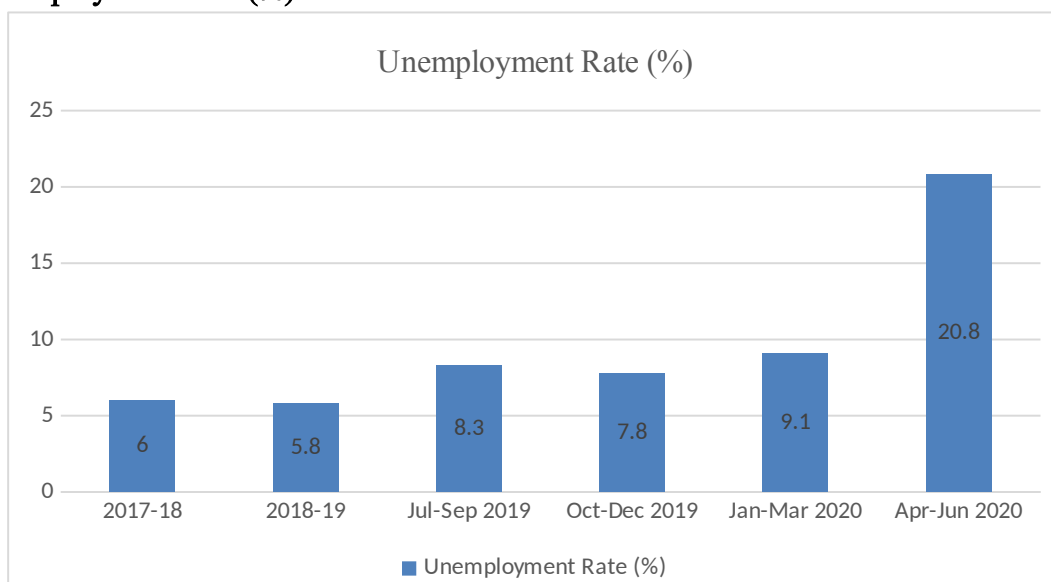
The chart shows that the manufacturing sector is contributing 15.13% which is a major contribution in Industrial sector.

➤ **Inflation Rate (in%):**



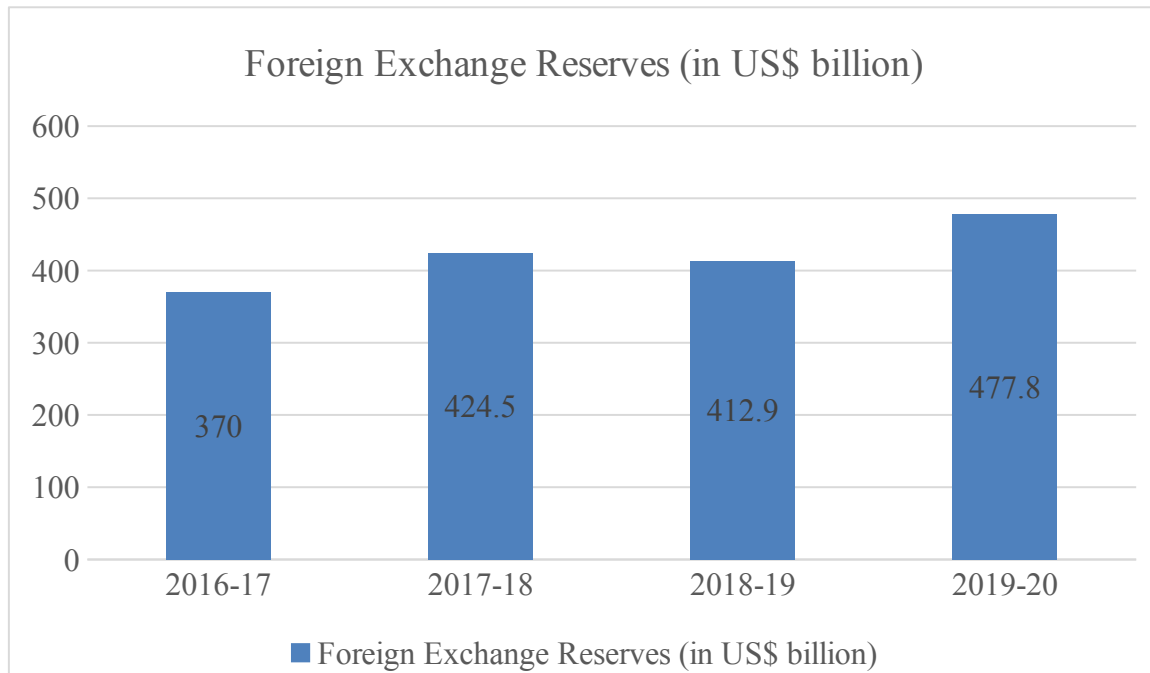
**Interpretation:** The above data and chart represent the inflation rate of India from 2017 to 2020. The inflation rate in the year 2020 is 4.9% which decreased by 2.76% compared to the inflation rate in the year 2019. When the inflation rate is high, it is not good for the economy as well as for the individuals. Inflation rate reduces the value of money until the interest rates are higher than the inflation rate. From the year 2019 to 2020 the chart shows decreasing trend which is favorable to the economic growth.

➤ **Unemployment Rate (%)**



**Interpretation:** The above data and chart represent the unemployment rate of India from 2017 to 2020. The unemployment rate for April-June 2020 is 20.8 which is at the highest level when compared to previous years. When the economy is in poor shape and jobs are scarce, the unemployment rate can be expected to rise. ([www.pib.gov.in](http://www.pib.gov.in))

➤ **India’s Foreign Exchange Reserve:**



**Interpretation:** The above chart represents the Foreign Exchange Reserve of India. In the above chart we can observe that there is an increasing trend from 2018-19 to 2019-20. By the end of 9<sup>th</sup> July 9, 2021 the foreign exchange reserve of India touches an all-time high of \$611.9 billion. ([www.pib.gov.in](http://www.pib.gov.in))

### Industry Analysis

#### ➤ Michael Porter's five forces model

**1. Potential threat of new entrant:** The industry in which the company Amara Raja Batteries operates is a manufacturing sector. This sector requires huge one-time capital expenses but the profits there after are quite sufficient to cover the expenses incurred. New companies can be easily formed in this industry but the chances of success are very low. Since the product has to be reliable and due to the huge cost of the product, many buyers do not feel comfortable buying products from unreliable or new companies. Thus, the first mover's advantage is quite beneficial and the threat from new entrants will only arise if they come out with any new technology for cost effective and better products.

**2. Bargaining power of buyers:** The buyers of the Company/Industry want quality product, since the product cost is huge, they would want to spend the money only once. There are many players in the market like Exide, Bosch, Mother son Sumi, etc. Even though the company is not a market leader in all its variants, its products are quite reliable and can be bought at a cheaper price than its competitors.

**3. Bargaining power of suppliers:** The product that Amara Raja Batteries produces requires raw material of hazardous and rare in nature. The production of these raw materials is done by few players and the product needs to be of the highest grade or else it is non-usable. These raw materials need to be produced in a plant with special government approval since they are a major safety hazard and is a great environmental concern. Transportation and distribution of these material needs to be done by a careful and trained crew.

**4. Threat of substitute products:** There are no immediate substitutes for batteries since they are the most portable, efficient and safe way of using electricity. The closest substitute is an individual

electric power generator which requires constant care and attention. They are also not feasible in nature nor are they safe. The future substitute for these products can be a new technology which uses more powerful raw material which is cost affective.

**5. Industry competitors:** The competition in this industry is fierce. There are many huge players with much better products and much more advanced technology. Their bargaining power is higher than the company and has most of the market share. Competition from these companies will only keep growing due to their advanced expertise and product knowledge. Some of these companies are MNC's and have support from foreign entities.

### Company Analysis

\* **Comparative Standalone Profit and Loss A/c of Amara Raja Batteries Ltd**  
Amount in 'Crores'

Particulars	Mar-2017	Mar-2018	Mar-2019	Mar-2020
<b>INCOME</b>				
Revenue From Operations [Gross]	5,966.49	6,214.75	6,769.50	6,813.08
Less: Excise/Service Tax/Other Levies	664.24	173.83	0	0
Revenue From Operations [Net]	5,302.25	6,040.92	6,769.50	6,813.08
Other Operating Revenues	14.9	18.23	23.61	26.38
<b>Total Operating Revenues</b>	<b>5,317.15</b>	<b>6,059.15</b>	<b>6,793.11</b>	<b>6,839.46</b>
Other Income	49.24	66.37	46.77	55.05
<b>Total Revenue</b>	<b>5,366.39</b>	<b>6,125.52</b>	<b>6,839.88</b>	<b>6,894.51</b>
<b>Total Revenue Growth (%)</b>	<b>13.30 %</b>	<b>14.15 %</b>	<b>11.66 %</b>	<b>0.80 %</b>
<b>EXPENSES</b>				
Cost Of Materials Consumed	3,452.16	3,921.71	4,603.06	4,219.07
Purchase Of Stock-In Trade	207.43	221.71	170.18	175.89
Changes In Inventories of FG, WIP And Stock-In Trade	-171.10	-27.17	-129.14	52.17
Employee Benefit Expenses	277.75	308.99	345.23	385.18
Finance Costs	5.77	5.06	6.95	12.19
Depreciation And Amortisation Expenses	191.17	230.34	261.2	300.74
Other Expenses	701.00	750.68	852.03	908.59
<b>Total Expenses</b>	<b>4,664.18</b>	<b>5,411.32</b>	<b>6,109.51</b>	<b>6,053.83</b>
<b>Total Expenses Growth (%)</b>	<b>16.19 %</b>	<b>16.02 %</b>	<b>12.90 %</b>	<b>-0.91 %</b>
<b>Profit/Loss Before Exceptional, Extra Ordinary Items And Tax</b>	<b>702.21</b>	<b>714.20</b>	<b>730.37</b>	<b>840.68</b>
<b>Profit/Loss Before Tax</b>	<b>702.21</b>	<b>714.20</b>	<b>730.37</b>	<b>840.68</b>

<b>Tax Expenses-Continued Operations</b>				
Current Tax	195.64	236.58	238.78	231.64
Deferred Tax	28.08	6.30	8.1	-51.78
Tax For Earlier Years	0	0	0	0
<b>Total Tax Expenses</b>	<b>223.72</b>	<b>242.88</b>	<b>246.88</b>	<b>179.86</b>
<b>Profit/Loss After Tax And Before Extra</b>	<b>478.49</b>	<b>471.32</b>	<b>483.49</b>	<b>660.82</b>



<b>Ordinary Items (PAT)</b>				
<b>PAT Growth (%)</b>	<b>-2.24 %</b>	<b>-1.50 %</b>	<b>2.58 %</b>	<b>36.68%</b>
<b>Profit/Loss From Continuing Operations</b>	<b>478.49</b>	<b>471.32</b>	<b>483.49</b>	<b>660.82</b>
<b>OTHER ADDITIONAL INFORMATION</b>				
<b>EARNINGS PER SHARE</b>				
Basic EPS (Rs.)	28.01	27.59	28.31	38.69
Diluted EPS (Rs.)	28.01	27.59	28.31	38.69
<b>VALUE OF IMPORTED AND INDIGENOUS RAW MATERIALS</b>				
Imported Raw Materials	0	0	0	0
Indigenous Raw Materials	0	0	0	0

<b>STORES, SPARES AND LOOSE TOOLS</b>				
Imported Stores and Spares	0	0	0	0
Indigenous Stores and Spares	0	0	0	0
<b>DIVIDEND AND DIVIDEND PERCENTAGE</b>				
Equity Share Dividend	0	106.76	70.88	274.66
Tax On Dividend	0	21.76	14.58	56.47
Equity Dividend Rate(%)	425.00	415.00	708	1,100.00

### Interpretation

- Company's revenue from operations for the year 2020 grew to Rs. 6,839.46 crores from Rs. 6,793.11 crores for 2019 registering a marginal growth. Revenue from Operations grew to Rs. 6,059.15 crores during 2018 as against Rs. 5317.15 crores in 2017 owing to increase in business volumes in both Automotive and Industrial Batteries. There was continuous increase in operating revenue year after year due to upward trend in sales (as per Annexure). Healthy increase in business volumes due to an increase in demand from key user sectors, resulted in healthy growth in revenue.
- Operating revenue has increased year on year till 2020. Operating revenue for 2020 in comparison to 2019 increased by 0.68%, but the percentage of growth rate has decreased from 12.11% to 0.68% (as per annexure) from 2018-19 to 2019-2020, which is due to decrease in growth of automobile sector.
- Profit before tax increased to Rs. 840.68 crores in 2020 from Rs. 730.37 crores in 2019 registering a growth of 15.10%. It was Rs. 714.20 crores for 2018 and Rs. 702.21 crores for 2017. The increasing trend of PAT year on year is a good sign.
- The net profit for the year 2020 grew to Rs. 660.82 crores from Rs. 483.49 crores in 2019, registering a growth of 36.68%. For 2018 and 2017 the net profits were Rs.471.32 crores & Rs. 478.49 crores. It may be due to continuous decrease in expenses.
- The Earnings per share (EPS) for the year 2020 stood at Rs. 38.69 per share, with an increase of 36.67% compared to Rs. 28.31 per share for the year 2019. For 2018, EPS was Rs. 27.59 per share and Rs. 28.01 for the year 2017. It indicates company's profitability.
- Other income increased from Rs. 49.24 crores in 2017 to Rs. 66.37 crores in 2018. It decreased from Rs. 66.37 crores to Rs. 46.77 in 2019 crores due to lower Interest Income and decrease in net foreign exchange gains. From 2019 to 2020 there was an increase to Rs. 55.05 crores i.e, it grew

by 17.70%.

- There is continuous increase in depreciation charges from 2017 to 2020. The percentage of increase in depreciation charges is by 15.1% and finance costs increased by 75.4% for 2020.
- Company had maintained to reduce the expenses by 0.91% for 2020.
- Expenses on Tax had reduced by 27.1% for 2020.

### Findings and Conclusion

➤ The first objective of the study is to study the concepts and techniques of Fundamental Analysis.

In fundamental analysis, the past annual reports of the company were studied to estimate the fate and the future development of the company. For the economic analysis the GDP, inflation rate, unemployment rate etc. were analyzed. The industry analysis was done on the basis of porter's five force model and for the company analysis the annual reports of the company were taken to calculate the important ratios like net profit margin, PE ratio, dividend yield and also EPS and DPS to have the understanding about the performance of the companies. The biggest part of fundamental analysis is delving into the financial statements. Also known as the quantitative analysis.

GDP growth rate shows a downward trend. It has fallen to negative value which indicates the decrease in economic growth. Inflation rate shows an increasing trend but it decreased by 2.76% in 2020 which is favorable to the economic growth. Unemployment rate shows a fluctuating trend but for Apr-Jun 2020 its at the highest level which indicates the economy is in poor shape and there is scarcity in jobs. The concepts of fundamental analysis which includes Economic analysis, Industry analysis & Company analysis were studied. Hence, the first objective of the study is fulfilled.

➤ The second object of the study is to analyze the intrinsic value of the company. The intrinsic value is calculated using discounted cash flow method and compared with the share price of the company. The share price of the company is more than the intrinsic value which indicates that the stock is overvalued. Hence, the second objective of the study is fulfilled by analyzing the intrinsic value of Amara Raja Batteries Ltd.

➤ The third objective of the study is to assess and evaluate the performance of Amara Raja Batteries Ltd

The company's financial performance is increasing year by year. Revenue from Operations has an increasing trend which indicates that the company is well managed and there is an increase in number of customers year on year which automatically increased the sales revenue. There is no liquidity risk as the net worth of the company shows an upward trend. Profit before tax has increased year on year. In comparison to the financial ratios of peer companies the company's ratios are good. It is almost a debt free company. Debt-free indicates that the company is self-reliant. It is in a better position to generate returns. It can redirect its profits into the company itself or offer dividend. It will have more cash at its disposal.

The auto mobile sector is stepping forward to produce Go Green Vehicles where the company's growth can be increased due to demand for the batteries.

### Conclusions

- Considering the intrinsic value, the purchasing of the stock is not advised, because it is over valued according to it. But, the company's financial performance and the management is good.
- The investor has to see the company in every aspect, as the company has good history, strong fundamentals, best management, best leaders and soon, the long-term investment in the company will give good returns. So, it is suggested to invest in the stock in long-term.

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### Annexures

The Balance sheets and Income statements and Cash Flow statements of Amara Raja Batteries Limited.

<b>Profit &amp; Loss</b>			
	2017-18	2018-19	2019-20
Sales Growth	6,051	6,793	6,839
Sales Growth%	13.95%	12.11%	0.68%
Expenses	5,176	5,841	5,741
Material Cost%	68%	68%	65%
Manufacturing Cost %	4%	5%	5%
Employee Cost %	5%	5%	6%
Other Cost %	8%	7%	8%
Operating Profit	883	952	1,099
OPM %	15%	14%	16%
Other Income	66	47	55
Interest	5	7	12
Depreciation	230	261	301
Profit before tax	714	730	841
Tax%	34%	34%	21%
Net Profit	471	483	661
EPS in Rs	27.59	28.31	38.69
Dividend Payout %	15%	25%	28%

### Balance Sheet

	2017-18	2018-19	2019-20
Share Capital	17	17	17
Equity Capital	17.08	17.08	17.08
Reserves	2,920	3,318	3,639
Borrowings	64	58	68
Other Liabilities	1,168	1,102	1,277
Trade Payables	592	510	615
Advance from Customers	9	7	20
Other liability items	566	585	642
Total Liabilities	4,169	4,496	5,001
Fixed Assets	1,703	1,813	1,829
Gross Block	2,253	2,616	2,729
Accumulated Depreciation	550	804	1,098
CWIP	226	315	827
Investments	35	20	156
Other assets	2,204	2,348	2,188
Inventories	1,050	1,061	1,143
Trade receivables	782	769	636
Cash Equivalent	111	72	85
Loans in Advance	207	316	236
Other asset items	53	130	89
Total Assets	4,169	4,496	5,001
Share price as of 31 <sup>st</sup> March- Rs.	797.50	718.95	478.05

<b>Cash Flows</b>			
	2017-18	2018-19	2019-20
Cash from operating activities	322	541	1,177
Profit from operations	913	967	1,124
Receivables	-215	12	113
Inventory	-233	-12	-81
Payables	178	-77	102
Loans Advances	0	0	0
Other WC items	-78	-108	155
Working capital changes	-347	-184	289
Direct taxes	-244	-242	-236
Advance tax	0	0	0
Other operating items	0	0	0
Cash from Investing activities	-236	-448	-831
Fixed assets purchased	-387	-528	-701

Fixed assets sold	1	0	2
Capital WIP	0	0	0
Investments purchased	-1,771	-1,025	-1,480
Investments sold	1,898	1,045	1,357
Interest received	6	4	3
Dividends received	0	0	0
Invest in subsidiaries	0	0	0
Other investing items	16	56	-10

Cash from Financing activities	-138	-92	-364
Proceeds from borrowings	0	0	0
Repayment of borrowings	0	-5	-12
Interest paid fin	-1	-1	-5
Dividends paid	-129	-85	-331
Financial liabilities	0	0	-16
Other financing items	-9	0	0
Net Cash Flow	-52	1	-18