

## Atul Auto (ATUAUT)

₹ 189

### WHAT'S CHANGED...

PRICE TARGET .....	Changed from ₹ 205 to ₹ 235
EPS (FY14E) .....	Changed from ₹ 22.5 to ₹ 28.8
EPS (FY15E) .....	Introduced at ₹ 33.5
RATING .....	Unchanged

### Continues to surprise positively...

Atul Auto's Q4FY13 numbers came in slightly lower than our estimates as volumes came slightly lower in the goods carrier segment. Realisations improved 2% QoQ due to higher export contribution as overall volumes declined. Atul has been steadily gaining domestic market share in both the three-wheeler passenger (~4%) and goods carrier segments (~15%). The company's plans to expand pan-India are coming to fruition as volumes have grown ~25% YoY for FY13 in the passenger carrier segment and 12% in the goods carrier segment. Going forward, a good volumes boost is to come in from the export markets of Africa mainly Nigeria and Tanzania. Atul's margin profile is likely to improve, going ahead, as new capacity starts to kick in with higher utilisations coupled with new product launches in the passenger space. We feel it is making the right moves forward in terms of both the product, new market side. On the B/S side the debt free business, strong return ratios provide support to earnings growth. We feel with ~18% of market cap in cash the continued re-rating of the stock is not ruled out in future. We reiterate **BUY** with an upgraded target price of ₹ 235.

#### Volume growth, strong margin performance!!!

Atul Auto has posted decent volumes at 8,448 units (13% YoY increase) leading to operating margins sustaining ~12% level. RM costs have been stable as engine contracts were negotiated at lower rates while other new contracts have remained stable in pricing.

#### New product launches to aid in tapping urban, export markets

FY14E is expected to witness launches across categories like passenger 3-W (diesel/petrol/CNG) along with possibilities of 4-W LCV product. In line with this, it has started commercial production of 0.35 tonne passenger carrier Atul "GeminiDZ" in diesel variant and traction looks promising in both in the domestic as well as export markets. Setting up of dedicated new dealers in Nigeria, Tanzania would give volumes a boost.

#### Valuation remains lucrative as market starts to value business!

We feel with 18% of market cap in cash and EPS CAGR (FY13-15E) at ~19% the stock remains attractive. We continue to value it at 7x multiple on FY15E EPS to arrive at a target price of ₹ 235. We maintain **BUY**.

#### Exhibit 1: Financial Performance (Standalone)

(₹ Crore)	Q4FY13	Q4FY13E	Q4FY12	Q3FY13	QoQ (Chg %)	YoY (Chg %)
Total Operating Income	97.1	100.0	82.9	103.6	-6.2	17.1
EBITDA	11.5	12.2	7.1	12.4	-7.4	62.4
EBITDA Margin (%)	11.8	12.2	8.5	12.0	-15 bps	330 bps
Depreciation	1.1	1.1	1.1	1.1	1.8	4.6
Interest	0.1	0.1	0.1	0.1	-11.1	0.0
Other Income	0.7	0.7	0.2	0.7	-9.5	346.7
Reported PAT	7.6	7.9	4.2	8.3	-8.6	81.7
EPS (₹)	6.9	7.2	5.5	7.5	-8.6	25.1

Source: Company, ICICIdirect.com Research

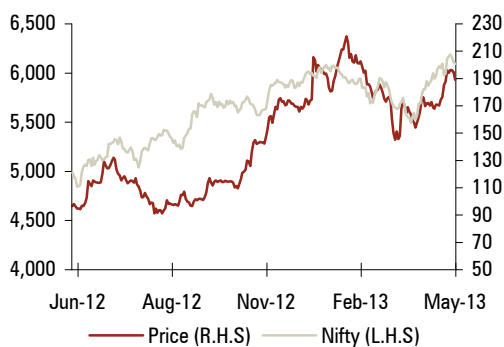
Rating matrix	
Rating	: <b>Buy</b>
Target	: ₹ 235
Target Period	: 12 months
Potential Upside	: 24%

Key Financials (Standalone)				
₹ Crore	FY12	FY13E	FY14E	FY15E
Net Sales	298	362.9	430.1	509.9
EBITDA	27.5	40.0	49.2	58.9
Net Profit	15.6	25.9	31.5	36.8
EPS (₹)	20.6	23.6	28.8	33.5

Valuation summary(Standalone)				
	FY12	FY13E	FY14E	FY15E
P/E(x)	9.2	8.0	6.6	5.6
Target P/E(x)	11.4	9.9	8.2	7.0
EV / EBITDA(x)	7.3	4.2	3.6	2.4
P/BV (x)	2.5	2.8	2.0	1.5
RoNW(%)	27.8	34.9	30.0	27.4
RoCE(%)	38.8	47.9	41.7	38.2

Stock data	
Market Capitalization	₹ 207.2 Crore
Total Debt (FY13E)	₹ 0 Crore
Cash (FY13E)	₹ 38 Crore
EV	₹ 169.2 Crore
52 week H/L	221 / 91
Equity capital	₹ 11 Crore
Face value	₹ 10
MF Holding (%)	-
FII Holding (%)	0.1

#### Price movement



#### Analyst's name

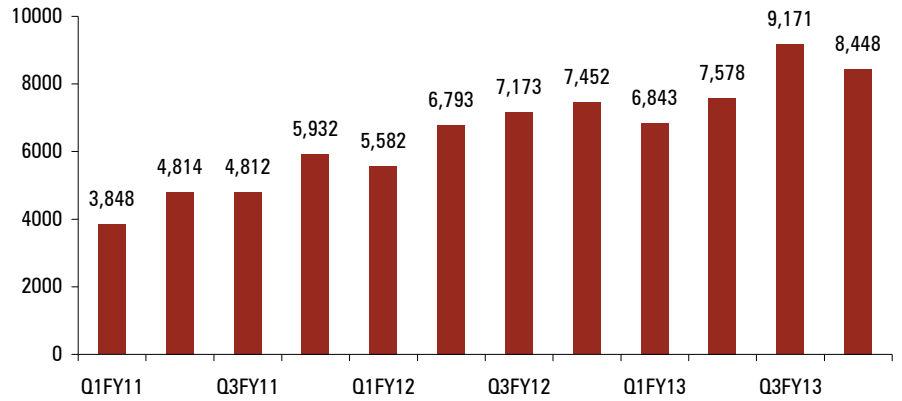
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### Exhibit 2: Assumptions

	FY11	FY12	FY13E	FY14E	FY15E
Domestic Volumes	19,149	26,698	31,788	36,760	42,770
Export Volumes	257	302	252	340	374
Blended Net ASPs (₹)	103,872	110,480	113,249	115,927	118,189
RM/Vehicle (₹)	81,661	87,985	88,614	90,056	91,462
EBIDTA/Vehicle (₹)	10,153.5	10,316.3	12,595.9	13,373.0	13,761.4

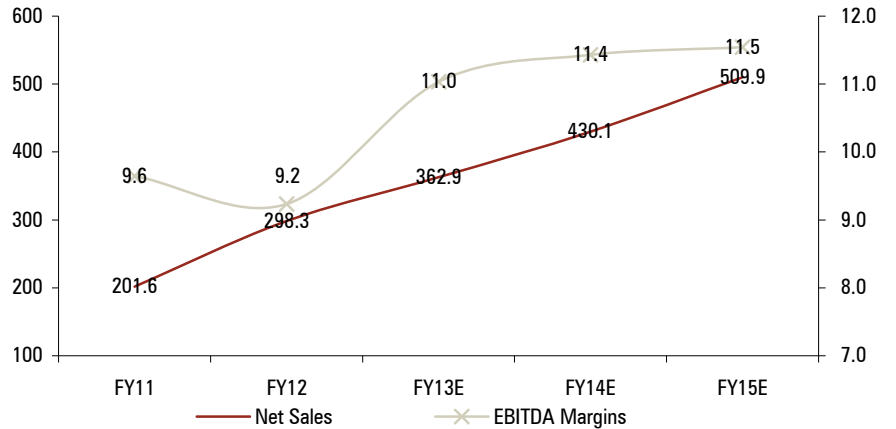
Source: Company, ICICIdirect.com Research

### Exhibit 3: Two-wheeler volume growth trend



Source: Company, ICICIdirect.com Research

### Exhibit 4: Sales/margin trend



Source: Company, ICICIdirect.com Research

## Valuation

With a strong margin performance, high RoE profile and strong volume outlook, the stock looks attractive. Considering the export market opportunity, we have revised our estimates and FY15E. We feel with 18% of market cap in cash and EPS CAGR (FY13-15E) at ~19% the stock remains attractive. We have valued Atul Auto at 7x FY15E EPS of ₹ 33.5 to arrive at a target price of ₹ 235. We recommend **BUY** and advise long-term investors to hold positions in view of the strong operational performance and positive growth outlook.

### Exhibit 5: Revised Financials

Particulars	FY14E			FY15E
	Old	New	% Change	Introduced
Revenue	457.5	430.9	(5.8)	510.8
EBITDA	51.1	49.2	(3.8)	58.9
EBITDA Margin %	11.2	11.4	24 bps	11.5
PAT	32.2	31.5	(2.1)	36.8
EPS	29.4	28.8	(2.1)	33.5

Source: Company, ICICIdirect.com Research

### Exhibit 6: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY12	298.3		20.6		9.2	7.3	27.8	38.8
FY13E	362.9	21.6	23.6	14.6	8.0	4.2	34.9	47.9
FY14E	430.1	18.5	28.8	21.7	6.6	3.6	30.0	41.7
FY15E	509.9	18.6	33.5	16.6	5.6	2.4	27.4	38.2

Source: Company, ICICIdirect.com Research

## Financial summary

### Profit and loss statement (Standalone)

	(₹ Crore)			
(Year-end March)	FY12	FY13E	FY14E	FY15E
Total Volumes (Units)	27,000	32,040	37,100	43,145
Total operating Income	298.8	363.9	430.9	510.8
Growth (%)	149.3	21.8	18.4	18.6
Raw Material Expenses	237.6	283.9	334.1	394.6
Employee Expenses	16.5	21.0	21.6	24.6
Other Expenses	17.2	19.0	26.0	32.8
Total Operating Expenditure	271.3	323.8	381.7	452.0
<b>EBITDA</b>	<b>27.5</b>	<b>40.0</b>	<b>49.2</b>	<b>58.9</b>
Growth (%)	112.6	45.4	22.8	19.7
Depreciation	4.3	4.4	5.3	7.6
Interest	0.8	0.4	0.0	0.0
Other Income	0.6	2.0	3.0	3.4
PBT	23.2	37.2	46.9	54.7
Others	0.0	0.0	0.0	0.0
Total Tax	7.7	11.3	15.3	17.9
<b>PAT</b>	<b>15.6</b>	<b>25.9</b>	<b>31.5</b>	<b>36.8</b>
Growth (%)	242.1	66.6	21.7	16.6
EPS (₹)	20.6	23.6	28.8	33.5
<b>FDEPS (₹)</b>	<b>14.2</b>	<b>23.6</b>	<b>28.8</b>	<b>33.5</b>

Source: Company, ICICIdirect.com Research

### Balance sheet (Standalone)

	(₹ Crore)			
(Year-end March)	FY12	FY13E	FY14E	FY15E
<b>Liabilities</b>				
Equity Capital	7.6	11.2	11.2	11.2
Reserve and Surplus	48.5	63.1	94.1	123.2
Total Shareholders funds	56.0	74.3	105.3	134.4
Total Debt	3.9	0.0	0.0	0.0
Deferred Tax Liability	4.7	4.5	4.5	4.5
Others	2.3	2.1	2.8	2.8
<b>Total Liabilities</b>	<b>66.7</b>	<b>81.6</b>	<b>112.6</b>	<b>141.7</b>
<b>Assets</b>				
Gross Block	61.1	72.2	82.2	107.2
Less: Acc Depreciation	21.2	25.7	31.0	38.5
Net Block	39.9	46.5	51.2	68.7
Capital WIP	1.6	1.6	1.6	1.6
Total Fixed Assets	41.5	48.1	52.8	70.2
Investments	1.2	1.2	1.2	1.2
Inventory	29.8	23.0	54.8	37.4
Debtors	6.1	7.2	9.4	11.2
Loans and Advances	6.5	5.4	6.1	4.4
Other current assets	0.1	0.1	0.1	0.1
Cash	11.4	38.0	32.5	67.3
Total Current Assets	53.9	73.6	103.0	120.5
Creditors	15.7	23.7	23.6	27.9
Provisions	8.1	12.8	12.7	15.1
Other current liability	6.1	4.8	8.2	7.2
Total Current Liabilities	29.9	41.4	44.4	50.2
Net Current Assets	24.0	32.2	58.5	70.2
<b>Application of Funds</b>	<b>66.8</b>	<b>81.6</b>	<b>112.6</b>	<b>141.7</b>

Source: Company, ICICIdirect.com Research

### Cash flow statement (Standalone)

	(₹ Crore)			
(Year-end March)	FY12	FY13E	FY14E	FY15E
Profit after Tax	15.6	25.9	31.5	36.8
Add: Depreciation	4.3	4.4	5.3	7.6
(Inc)/dec in Current Assets	-15.4	6.9	-34.9	17.3
Inc/(dec) in CL and Provisions	6.3	11.5	3.1	5.8
<b>CF from operating activities</b>	<b>10.7</b>	<b>48.7</b>	<b>5.0</b>	<b>67.5</b>
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-3.3	-11.1	-10.0	-25.0
Others	0.1	0.5	0.0	0.0
<b>CF from investing activities</b>	<b>-3.2</b>	<b>-10.5</b>	<b>-10.0</b>	<b>-25.0</b>
Issue/(Buy back) of Equity	1.5	3.6	0.0	0.0
Inc/(dec) in loan funds	0.9	-3.9	0.0	0.0
Dividend paid & dividend tax	-4.3	-7.6	-7.6	-7.6
Others	2.2	-4.1	7.1	0.0
<b>CF from financing activities</b>	<b>0.3</b>	<b>-12.0</b>	<b>-0.5</b>	<b>-7.6</b>
Net Cash flow	8.6	26.6	-5.5	34.8
Opening Cash	2.8	11.4	38.0	32.5
<b>Closing Cash</b>	<b>11.4</b>	<b>38.0</b>	<b>32.5</b>	<b>67.3</b>

Source: Company, ICICIdirect.com Research

### Key ratios (Standalone)

(Year-end March)	FY12	FY13E	FY14E	FY15E
<b>Per share data (₹)</b>				
EPS	20.6	23.6	28.8	33.5
Cash EPS	26.3	27.7	33.6	40.4
BV	74.2	67.7	96.0	122.5
DPS	4.8	6.0	6.0	6.0
Cash	15.1	34.7	29.6	61.4
<b>Operating Ratios (%)</b>				
EBITDA Margin	9.2	11.0	11.4	11.5
PBT / Net sales	7.8	10.3	10.9	10.7
PAT Margin	3.8	4.7	5.2	7.1
Inventory days	30.0	26.6	33.0	33.0
Debtor days	7.4	7.2	8.0	8.0
Creditor days	19.2	23.9	20.0	20.0
<b>Return Ratios (%)</b>				
RoE	27.8	34.9	30.0	27.4
RoCE	38.8	47.9	41.7	38.2
RoIC	42.1	81.8	54.8	69.0
<b>Valuation Ratios (x)</b>				
P/E	9.2	8.0	6.6	5.6
EV / EBITDA	7.3	4.2	3.6	2.4
EV / Net Sales	0.7	0.5	0.4	0.3
Market Cap / Sales	0.7	0.6	0.5	0.4
Price to Book Value	2.5	2.8	2.0	1.5
<b>Solvency Ratios</b>				
Debt/Equity	0.1	0.0	0.0	0.0
Current Ratio	1.8	1.8	2.3	2.4
Quick Ratio	0.8	1.2	1.1	1.7

Source: Company, ICICIdirect.com Research

## Company Description

Atul Auto is a Rajkot-based three-wheeler manufacturer primarily catering to the non-urban market providing mobility and logistic solutions. The company differentiates itself with customised product offerings, low maintenance, and strong after-sales service to buyers in the form of service warranties of 24-months. The company has grown its domestic market share in the goods carrier segment from 5% in FY09 to 12% in FY12 while growing at a CAGR of 44%.

### Exhibit 7: Recommendation History



Source: Company, ICICIdirect.com Research

### Exhibit 8: Recent Releases

Date	Event	CMP	Target Price	Rating
14-Sep-12	Nano Nivesh	97	160	BUY
29-Nov-12	Company Update	162	205	BUY

Source: Company, ICICIdirect.com Research

### ICICIdirect.com Research coverage universe (Auto & auto ancillaries)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E
Amara Raja (AMARAJ)	244	300	Buy	4,170	16.8	17.7	21.5	14.6	13.8	11.4	8.7	8.3	6.7	35.3	32.6	33.2	27.0	23.5	23.4
Apollo Tyre (APOTYR)	89	112	Buy	4,502	12.2	13.0	16.0	7.3	6.9	5.6	4.6	4.1	3.5	18.7	18.5	19.7	18.0	16.2	16.8
Ashok Leyland (ASHLEY)	23	27	Buy	6,147	1.6	1.9	2.2	14.2	12.3	10.4	11.7	9.8	7.2	5.8	7.3	10.8	9.7	10.6	11.8
Automotive Axle (AUTAXL)*	260	323	Buy	393	29.8	16.4	43.1	9.1	16.6	6.3	4.6	6.6	3.4	22.6	12.1	25.7	16.6	8.9	20.0
Bajaj Auto (BAAUTO)	1,849	2,038	Buy	53,515	105.2	126.3	145.6	17.6	14.6	12.7	13.4	13.4	10.9	43.6	43.6	40.2	38.5	37.0	34.9
Balkrishna Ind. (BALIND)	272	356	Buy	2,625	35.8	41.0	41.0	7.8	6.8	6.8	6.4	5.6	4.7	15.6	15.6	16.6	24.6	15.6	15.6
Bharat Forge (BHAFOR)	230	259	Buy	5,352	17.7	12.9	16.9	13.0	17.8	13.6	6.9	7.4	6.0	13.4	10.1	13.2	18.9	12.4	14.5
Eicher Motors (EICMOT)	3,510	3,450	Hold	9,474	120.2	158.3	223.8	29.2	22.2	15.7	22.2	15.8	7.3	17.0	19.8	22.6	18.5	20.2	22.7
Escorts (ESCORT)*	63	59	Hold	754	5.8	10.5	14.7	11.4	6.3	4.5	6.2	4.5	3.2	6.5	8.3	11.2	4.3	7.3	9.3
Exide Industries (EXIIND)	140	147	Hold	11,904	5.4	6.1	8.5	25.8	22.8	16.5	12.1	8.6	6.7	19.7	23.9	25.4	15.3	18.1	19.0
Hero Mototcorp (HERHON)	1,650	1,810	Hold	32,957	106.0	112.4	150.9	15.6	14.7	10.9	9.1	10.0	8.5	42.8	46.6	53.4	42.3	39.2	43.8
JK Tyre & Ind (JKIND)	115	180	Buy	472	2.7	33.8	44.9	42.9	3.4	2.6	7.8	5.3	4.3	7.3	12.3	13.9	1.6	17.4	19.0
M&M (MAHMAH)	990	980	Hold	58,351	49.4	61.6	72.5	20.0	16.1	13.7	10.8	8.8	7.1	21.4	22.7	23.0	22.3	22.7	21.9
Maruti Suzuki (MARUTI)	1,688	1,784	Hold	48,772	79.2	104.5	142.7	21.3	16.1	11.8	10.4	7.9	5.7	11.8	15.3	18.8	12.9	15.1	17.3
Motherson (MOTSUM)	218	243	Buy	12,677	7.6	12.0	18.8	28.6	18.1	11.6	9.3	7.2	5.1	13.3	19.3	26.6	19.4	26.9	32.6
Subros (SUBROS)	27	35	Buy	159	8.1	3.0	8.6	3.3	8.9	3.1	5.1	4.1	3.4	7.2	7.7	12.0	17.9	6.3	15.9
Tata Motors (TELCO)	291	360	Buy	86,626	25.5	42.3	54.8	11.6	7.0	5.4	4.5	3.8	3.2	22.4	24.0	25.1	21.1	27.5	27.5

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

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**Strong Buy:** > 15%/20% for large caps/midcaps, respectively, with high conviction;

**Buy:** > 10%/ 15% for large caps/midcaps, respectively;

**Hold:** Up to +/-10%;

**Sell:** -10% or more;



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