

Atul Auto (ATUAUT)

₹ 162

WHAT'S CHANGED...

PRICE TARGET Changed from ₹ 160 to ₹ 205
 EPS (FY13E) Changed from ₹ 16.9 to ₹ 21.9
 EPS (FY14E) Changed from ₹ 22.5 to ₹ 29.4
 RATING Unchanged

Market rewards performance...

Atul Auto's Q2FY13 numbers were better than our expectations with EBITDA margins comfortably beating our conservative estimates. Atul has been steadily gaining domestic market share in both the three-wheeler passenger (~4%) and goods carrier segments (~15%). The company has plans to expand its reach pan-India and also in the export markets of Sri Lanka, Bangladesh and Africa for which capacity expansion is under way. The market has also noticed the outperformance of Atul and the stock has witnessed a smart run-up in price since we came out with our initial report. Atul has managed to surprise us with strong margin improvement. Going ahead, with increased capacity, we expect margins to further improve and sustain at ~11%. Considering the strong RoE profile and cheap valuation (~0.3x PEG FY14E) despite the run up in price, we continue to maintain our bullish stance and maintain BUY.

Decent volume growth/strong margins in historically weak quarter!

Atul Auto has posted decent volumes for Q2FY13E in historically its weakest quarter. The operating margin has been impressive, reaching 11% for the first time in eight quarters. Going ahead, the margins look sustainable at these levels as operating leverage kicks in.

Outlook positive; market share march ominous!!

The outlook for the three-wheeler space is positive as newer permits for three-wheeler passenger carriers are opening up in many parts of India. With Atul looking to enter the urban markets, we expect further market share improvement in the passenger carrier segment. In the goods carrier segment, Atul already has ~15% share. We expect the share to march ahead as other players look to focus on the SCV/LCV segment.

Valuation attractive despite stock rally...

With a strong margin performance, high RoE profile and strong volume outlook, the stock looks attractive despite the ~60% rally that it has witnessed in the past three months. Taking into consideration the strong start to H2FY13E and future growth and margin outlook, we have revised our estimates conservatively for FY13E and FY14E. We have valued Atul Auto at 7x FY14E EPS of ₹ 29.4 to arrive at a target price of ₹ 206. We recommend **BUY** and advise long-term investors to hold positions in view of the strong operational performance and positive growth outlook.

Exhibit 1: Financial Performance (Standalone)

(₹ Crore)	Q2FY13	Q2FY13E	Q2FY12	Q1FY13	QoQ (Chg %)	YoY (Chg %)
Total Operating Income	86.0	86.3	75.3	77.3	11.2	14.2
EBITDA	9.4	7.2	7.5	6.7	39.8	25.3
EBITDA Margin (%)	11.0	8.3	10.0	8.7	224 bps	97 bps
Depreciation	1.1	1.1	1.0	1.1	3.7	6.7
Interest	0.2	0.1	0.2	0.1	260.0	-5.3
Other Income	0.5	0.1	1.3	0.1	228.6	-65.7
Reported PAT	8.6	4.2	4.3	3.9	122.0	101.6
EPS (₹)	7.8	3.8	7.0	3.5	122.0	11.8

Source: Company, ICICIdirect.com Research

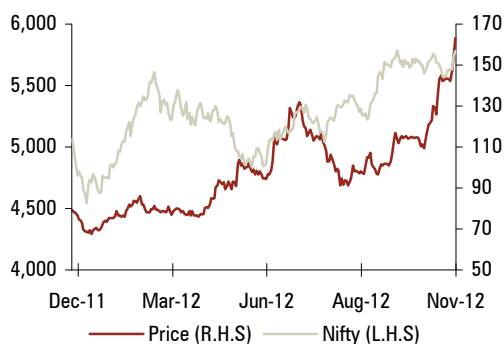
Rating matrix	
Rating	: Buy
Target	: 205
Target Period	: 12 months
Potential Upside	: 26%

Key Financials (Standalone)				
₹ Crore	FY11	FY12	FY13E	FY14E
Net Sales	202	298.3	360.7	456.7
EBITDA	19.4	27.5	38.4	51.1
Net Profit	9.4	15.6	24.1	32.2
EPS (₹)	15.5	20.6	21.9	29.4

Valuation summary(Standalone)				
	FY11	FY12	FY13E	FY14E
P/E(x)	10.5	7.9	7.4	5.5
Target P/E(x)	13.3	10.0	9.4	7.0
EV / EBITDA(x)	9.2	6.5	4.2	2.8
P/BV (x)	2.5	2.2	2.2	1.7
RoNW(%)	23.4	27.8	29.8	30.2
RoCE(%)	35.0	38.8	40.1	41.5

Stock data	
Market Capitalization	₹ 178.8 Crore
Total Debt (FY12)	₹ 3.9 Crore
Cash (FY12)	₹ 4.8 Crore
EV	₹ 177.9 Crore
52 week H/L	163 / 67
Equity capital	₹ 11 Crore
Face value	₹ 10
MF Holding (%)	-
FII Holding (%)	-

Price movement



Analyst's name

Nishant Vass
 nishant.vass@icicisecurities.com
 Venil Shah
 venil.shah@icicisecurities.com

Exhibit 2: Assumptions table

	FY11	FY12	FY13E	FY14E
Domestic Volumes	19,149	26,698	31,438	37,725
Export Volumes	257	302	295	455
Blended ASPs (₹)	114,391	121,847	127,730	134,396
RM/Vehicle (₹)	81,661	87,985	89,188	93,795
EBIDTA/Vehicle (₹)	10,153.5	10,316.3	12,200.7	13,540.5

Source: Company, ICICIdirect.com Research

Valuation

With a strong margin performance, high RoE profile and strong volume outlook, the stock looks attractive despite the ~60% rally that it has witnessed in the past three months. Taking into consideration the strong start to H2FY13E and future growth and margin outlook, we have revised our estimates conservatively for FY13E and FY14E. We have valued Atul Auto at 7x FY14E EPS of ₹ 29.4 to arrive at a target price of ₹ 206. We recommend **BUY** and advise long-term investors to hold positions in view of the strong operational performance and positive growth outlook.

Exhibit 3: Revised Financials

Particulars	FY13E			FY14E		
	Old	New	% Change	Old	New	% Change
Revenue	339.6	361.7	6.5	409.8	457.5	11.7
EBITDA	31.5	38.4	21.7	40.9	51.1	24.9
EBITDA Margin %	9.3	10.6	133 bps	10.0	11.2	118 bps
PAT	18.5	24.1	29.7	24.6	32.2	30.8
EPS	16.9	21.9	29.7	22.5	29.4	30.8

Source: Company, ICICIdirect.com Research

Exhibit 4: Valuation Table

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY11	201.6		15.5		10.5	9.2	23.4	35.0
FY12	298.3	48.0	20.6	32.7	7.9	6.5	27.8	38.8
FY13E	360.7	20.9	21.9	6.4	7.4	4.2	29.8	40.1
FY14E	456.7	26.6	29.4	34.0	5.5	2.8	30.2	41.5

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement (Standalone)

	(₹ Crore)			
(Year-end March)	FY11	FY12	FY13E	FY14E
Total Volumes (Units)	19,406	27,000	31,732	38,180
Total operating Income	202.0	298.8	361.7	457.5
Growth (%)	68.6	47.9	21.0	26.5
Raw Material Expenses	158.5	237.6	283.0	358.1
Employee Expenses	11.6	16.5	21.9	24.4
Other Expenses	12.5	17.2	18.4	23.9
Total Operating Expenditure	182.6	271.3	323.3	406.4
EBITDA	19.4	27.5	38.4	51.1
Growth (%)	50.0	41.7	39.3	33.2
Depreciation	4.3	4.3	4.4	5.1
Interest	1.8	0.8	0.3	0.2
Other Income	0.6	0.6	1.5	2.1
PBT	14.0	23.2	35.1	47.9
Others	0.0	0.0	0.0	0.0
Total Tax	4.5	7.7	11.1	15.7
PAT	9.4	15.6	24.1	32.2
Growth (%)	107.5	64.8	54.6	34.0
EPS (₹)	15.5	20.6	21.9	29.4
FDEPS (₹)	8.6	14.2	21.9	29.4

Source: Company, ICICIdirect.com Research

Balance sheet (Standalone)

	(₹ Crore)			
(Year-end March)	FY11	FY12	FY13E	FY14E
Liabilities				
Equity Capital	6.1	7.6	11.0	11.0
Reserve and Surplus	34.3	48.5	69.8	95.9
Total Shareholders funds	40.3	56.0	80.8	106.8
Total Debt	3.0	3.9	3.9	3.9
Deferred Tax Liability	5.4	4.7	4.7	4.7
Others	2.3	2.7	2.7	2.7
Total Liabilities	51.1	67.3	92.0	118.0
Assets				
Gross Block	63.1	61.1	69.1	79.1
Less: Acc Depreciation	20.7	21.2	25.6	30.8
Net Block	42.4	39.9	43.5	48.4
Capital WIP	0.0	1.6	1.6	1.6
Total Fixed Assets	42.4	41.5	45.1	49.9
Investments	2.3	7.7	10.7	15.7
Inventory	19.2	29.8	39.4	43.2
Debtors	5.4	6.1	8.4	10.0
Loans and Advances	2.2	6.5	5.5	7.0
Other current assets	0.2	0.1	0.3	0.2
Cash	2.8	4.8	22.1	40.2
Total Current Assets	29.9	47.4	75.7	100.6
Creditors	10.8	15.5	18.8	25.0
Provisions	4.2	7.5	9.1	12.1
Other current liability	8.6	6.3	11.7	11.1
Total Current Liabilities	23.6	29.3	39.6	48.3
Net Current Assets	6.3	18.0	36.2	52.3
Application of Funds	51.1	67.3	92.1	118.0

Source: Company, ICICIdirect.com Research

Cash flow statement (Standalone)

	(₹ Crore)			
(Year-end March)	FY11	FY12	FY13E	FY14E
Profit after Tax	9.4	15.6	24.1	32.2
Add: Depreciation	4.3	4.3	4.4	5.1
(Inc)/dec in Current Assets	3.5	-15.5	-11.0	-6.9
Inc/(dec) in CL and Provisions	8.5	5.8	10.2	8.7
CF from operating activities	25.7	10.1	27.6	39.2
(Inc)/dec in Investments	0.0	-6.5	-3.0	-5.0
(Inc)/dec in Fixed Assets	-3.9	-3.3	-8.0	-10.0
Others	2.2	0.7	0.0	0.0
CF from investing activities	-1.6	-9.1	-11.0	-15.0
Issue/(Buy back) of Equity	0.0	1.5	3.4	0.0
Inc/(dec) in loan funds	-20.2	0.9	0.0	0.0
Dividend paid & dividend tax	-2.7	-4.3	-6.2	-6.2
Others	-1.8	2.2	3.1	-0.2
CF from financing activities	-24.7	0.3	0.3	-6.4
Net Cash flow	1.2	2.0	17.3	18.0
Opening Cash	1.6	2.8	4.8	22.1
Closing Cash	2.8	4.8	22.1	40.2

Source: Company, ICICIdirect.com Research

Key ratios (Standalone)

(Year-end March)	FY11	FY12	FY13E	FY14E
Per share data (₹)				
EPS	15.5	20.6	21.9	29.4
Cash EPS	22.5	26.3	25.9	34.1
BV	66.4	74.2	73.6	97.4
DPS	3.8	4.8	4.8	4.8
Cash	4.7	6.4	20.2	36.6
Operating Ratios (%)				
EBITDA Margin	9.6	9.2	10.6	11.2
PBT / Net sales	6.9	7.8	9.7	10.5
PAT Margin	3.8	4.7	5.2	6.6
Inventory days	34.2	30.0	35.0	33.0
Debtor days	9.8	7.4	8.5	8.0
Creditor days	19.6	19.0	19.0	20.0
Return Ratios (%)				
RoE	23.4	27.8	29.8	30.2
RoCE	35.0	38.8	40.1	41.5
RoIC	31.5	37.3	48.6	59.0
Valuation Ratios (x)				
P/E	10.5	7.9	7.4	5.5
EV / EBITDA	9.2	6.5	4.2	2.8
EV / Net Sales	0.9	0.6	0.4	0.3
Market Cap / Sales	0.9	0.6	0.5	0.4
Price to Book Value	2.5	2.2	2.2	1.7
Solvency Ratios				
Debt/Equity	0.1	0.1	0.0	0.0
Current Ratio	1.3	1.6	1.9	2.1
Quick Ratio	0.5	0.6	0.9	1.2

Source: Company, ICICIdirect.com Research

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

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Amara Raja (AMARAJ)	254	295	Buy	2,167	12.6	16.3	21.0	20.2	15.6	12.1	12.0	8.3	6.5	34.3	38.7	38.8	26.1	27.2	28.0
Apollo Tyre (APOTYR)	84	88	Hold	4,212	7.8	13.0	12.5	10.8	6.4	6.7	6.8	5.0	3.7	15.2	19.4	16.6	13.9	19.1	15.1
Ashok Leyland (ASHLEY)	28	34	Buy	7,437	2.1	2.3	3.2	13.1	12.1	8.8	8.4	8.1	6.4	12.4	11.9	14.5	13.4	14.1	17.9
Automotive Axle (AUTAXL)*	355	373	Hold	537	38.1	42.7	63.4	9.3	8.3	5.6	25.6	4.9	3.6	30.5	31.5	35.7	23.6	22.2	26.0
Bajaj Auto (BAAUTO)	1,950	1,743	Hold	56,439	103.8	107.6	124.6	18.8	18.1	15.7	13.4	12.6	10.5	58.6	58.2	45.2	49.7	40.8	37.0
Balkrishna Ind. (BALIND)	255	356	Buy	2,464	27.8	35.8	39.7	9.2	7.1	6.4	7.7	6.2	5.7	15.4	15.6	15.1	24.9	15.4	15.6
Bharat Forge (BHAFOR)	261	307	Buy	6,089	17.7	18.2	23.6	14.7	14.4	11.1	8.2	7.5	6.1	13.4	13.0	15.3	18.9	16.7	18.3
Eicher Motors (EICMOT)	2,705	2,574	Hold	7,303	114.2	120.9	180.5	23.7	22.4	15.0	9.7	9.2	5.6	22.2	17.1	22.8	20.6	18.4	22.0
Escorts (ESCORT)*	66	57	Hold	680	5.8	8.6	10.9	10.7	7.2	5.7	6.1	5.0	2.9	6.4	7.8	8.5	4.4	6.2	7.2
Exide Industries (EXIIND)	143	153	Hold	12,185	5.4	6.9	9.1	26.4	20.7	15.7	16.1	12.2	8.9	19.1	22.2	24.9	15.1	16.8	18.9
Hero Motocorp (HERHON)	1,816	1,712	Hold	36,320	119.1	109.9	122.3	15.2	16.5	14.9	9.9	10.5	8.7	58.8	42.5	43.4	55.4	40.4	35.8
JK Tyre & Ind (JKIND)	114	180	Buy	469	2.7	32.7	44.9	42.6	3.5	2.5	8.0	5.4	4.6	7.3	12.1	13.9	1.6	16.9	19.1
M&M (MAHMAH)	934	980	Hold	57,248	43.9	49.5	60.8	21.3	18.9	15.4	10.6	8.1	6.3	20.3	21.9	23.2	23.7	22.3	22.6
Maruti Suzuki (MARUTI)	1,489	1,532	Hold	43,035	56.6	66.0	102.2	26.3	22.5	14.6	11.0	8.7	5.7	8.8	10.5	16.3	10.8	11.3	15.1
Motherson (MOTSUM)	177	173	Hold	5,161	6.6	9.2	13.7	26.6	19.3	12.9	13.0	7.8	5.7	9.2	14.6	18.5	13.8	24.4	28.4
Subros (SUBROS)	31	34	Hold	189	8.1	2.4	8.5	3.9	13.3	3.7	5.2	4.4	3.6	7.2	6.9	11.3	17.9	5.1	15.9
Tata Motors (TELCO)	278	304	Hold	71,118	42.6	40.0	46.9	5.6	6.0	5.1	4.4	4.0	3.2	22.4	21.2	22.6	40.8	28.7	25.8

Source: Company, ICICIdirect.com Research

Exhibit 5: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 6: Recent Releases

Date	Event	CMP	Target Price	Rating
14-Sep-12	Nano Nivesh	97	160	BUY

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
 ICICI Securities Limited,
 1st Floor, Akruti Trade Centre,
 Road No. 7, MIDC,
 Andheri (East)
 Mumbai – 400 093**

research@icicidirect.com

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