CARE Research

ATUL AUTO LTD

AUTOMOBILES INDUSTRY

BSE Scrip Code: 531795

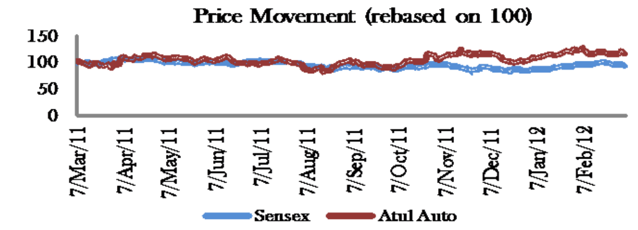
CMP Rs. 118 [1] March 6, 2012

KEY EQUISTATS

Market Capitalisation	Rs. Crores	86
Enterprise Value	Rs. Crores	89
52 Week High / Low	Rs.	131.9/76.7
Diluted EPS (Consolidated, FY11)	Rs.	12.7
P/E (FY11)	times	9.3
Regression Beta	times	0.4
Average Daily Volumes*	Lakhs	0.1

* BSE + NSE for last 52 weeks

STOCK PERFORMANCE



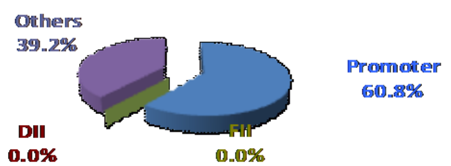
Returns	1M	3M	6M	I Yr
Absolute	-9%	0%	16%	14%
Rel. to Sensex	-6%	-4%	15%	21%

FINANCIAL SNAPSHOT

Rs. Crores	FY09	FY10	FY11
Net operating income	116	122	202
EBITDA	6	14	20
EBITDA margins	5.0%	11.6%	9.9%
PAT	0	5	9
PAT margins	0.3%	3.7%	4.7%
Gearing (times)	1.0	0.7	0.1
RoCE	5.2%	16.0%	27.7%
RoE	1.2%	14.2%	25.5%
P/E (times)			9.3
EV/EBITDA (times)			4.4

Financial Year: (April, 1 - March, 31)

SHARE HOLDING PATTERN



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[1] CMP: Current Market Price

Plans to double its existing capacities

Atul Auto Ltd (AAL) is an three wheeler automobile manufacturer based in Gujarat. AAL has its manufacturing facility with an existing capacity of 24,000 units per annum. The company aims to become a substantially large player in the auto-component field. AAL's market share in the overall three wheeler at present is 4%, Load carrier market share is 9%, passenger market share is 2.5 %. The company also has a dealership network of 120 dealers across India.

Bright outlook due to buoyancy in auto sector

The Society of Indian Automobile Manufacturers (SIAM) has forecasted a 18–21 per cent growth for Light Commercial Vehicles and a 16–18 per cent growth for Passenger Cars in FY12 over the previous year. This robust demand will help the company to register robust volume growth.

Key concerns

Raw material cost forms a significant portion in the cost structure of the Commercial Vehicles (CV) industry. Any significant increase in raw material costs will adversely impact the margins of the company. Demand for commercial vehicles is also directly linked to the economic growth of the country. A general slowdown in the GDP growth will adversely impact the growth in CV volumes sold.

Valuations

AAL is currently trading at trailing P/E and EV/EBITDA multiples of 9.3x and 4.4x, respectively.

HISTORY AND BACKGROUND

Background

Atul Auto Ltd, a Gujarat-based company is a manufacturer of Three Wheeler Auto Rickshaw (Passenger /Loading) and its spare parts. The company which has production facilities (installed capacity of 24,000 units) in Gujarat was promoted by the late Mr Jagjivanbhai Karsanbhai Chandra. AAL produces Auto Rickshaw under Atul Shakti & Atul Gem brand names. The company also has 1.25 MW power plants in Rajasthan and 0.6 MW power plants in Gujarat. AAL's market share in the overall three-wheeler at present is 4%, load carrier market share is 9% and passenger market share is 2.5%. The company also has a dealership network of 120 dealers across India.

Operations

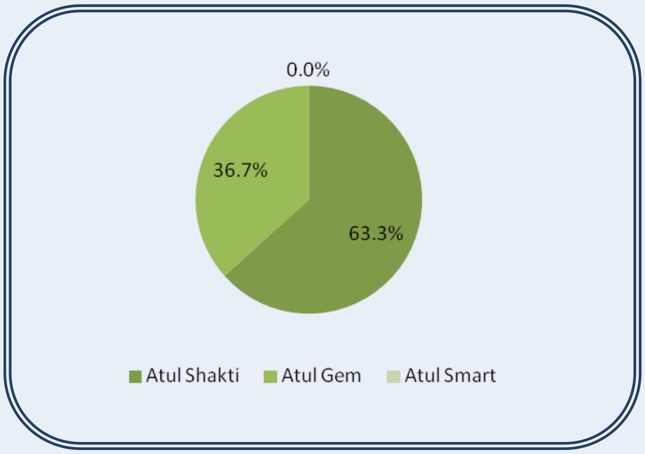
AAL's manufacturing facility is located in Gujarat. The company is engaged in manufacturing of three-wheeler automobiles. The company operates under three brands namely; Atul Shakti, Atul GEM and Atul Shakti Smart.

Industry segments

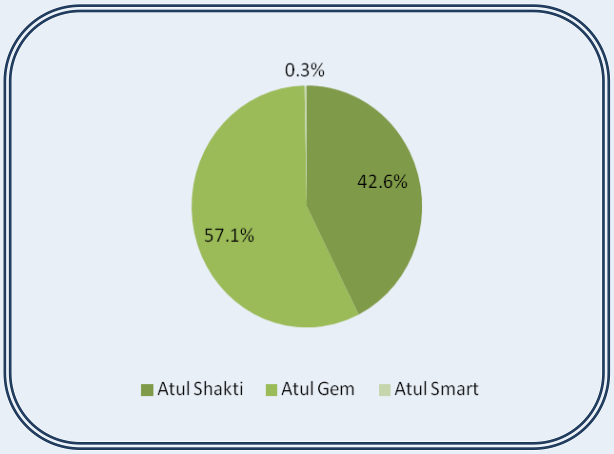
AAL is present primarily in one segment; that is manufacturing of two-wheelers.

AAL: Product-wise Volume Break up

(FY10)



(FY11)



Source: Company and CARE Research

AAL: Peer comparison

(FY11)	Units	Atul Auto	Bharat Forge	Clutch Auto	Kinetic Engineering
Net operating income	Rs. Crores	202	5,227	254	92
EBITDA	Rs. Crores	20	844	43	(8)
PAT	Rs. Crores	9	291	9	(11)
Growth in net operating income	%	65.7%	57.5%	7.6%	84.1%
EBITDA Margin	%	9.9%	16.2%	17.1%	NM
PAT Margin	%	4.7%	5.6%	3.5%	NM
RoCE	%	27.7%	14.8%	7.8%	NM
RoE	%	25.5%	16.2%	5.4%	NM
Price/Earnings (P/E) Ratio	times	9.3	25.8	6.1	NM
Price/Book Value(P/BV)	times	2.1	3.5	0.3	1.6
Enterprise Value (EV)/EBITDA	times	4.4	10.3	5.6	NM

Source: Capitaline and CARE Research

FINANCIAL PERFORMANCE AND ANALYSIS

Top line grew by 66 per cent in FY11

The top line of AAL grew by 66 per cent y-o-y. This growth was led by vehicles (three-wheelers, which was up 70 per cent y-o-y) and spare sales (up 42 per cent y-o-y). The growth in vehicles revenue was further aided by 57 per cent y-o-y growth in volumes and realization growth of 8 per cent y-o-y. FY11 revenues stood at Rs.202 crore as compared to Rs.122 crore in FY10.

Higher raw material costs led to EBITDA margin decline

AAL's FY11 EBITDA margin stood at 9.9 per cent, down 170 bps y-o-y mainly on account of higher raw material costs. Raw material costs (as a percentage of total revenues) stood at 77.4 per cent as compared to 75.2 per cent in FY10. Absolute EBITDA for FY11 stood at Rs.20.1 crore down up 41.5 per cent mainly on account of higher revenue growth of 66 per cent.

Lower interest costs led to PAT margin expansion; FY11 PAT (up 108 per cent y-o-y)

Though the company reported decline in EBITDA margin, its FY11 PAT margin increased by 95 bps y-o-y to 4.7 per cent. This PAT margin expansion was mainly on account of lower interest expenses (down 45 per cent y-o-y). FY11 PAT stood at Rs.9.4 crore, up 108 per cent y-o-y. FY11 EPS stood at Rs.12.7 per share

AAL: Consolidated Financial Performance (FY07-11)

	FY07	FY08	FY09	FY10	FY11
Net operating income	129	82	116	122	202
EBITDA	9	7	6	14	20
PAT	3	1	0	5	9
Fully Diluted EPS* (Rs.)	4.7	1.8	0.6	6.1	12.7
EBITDA margins	6.8%	8.6%	5.0%	11.6%	9.9%
PAT margins	2.5%	1.6%	0.3%	3.7%	4.7%

Source: Capitaline and CARE Research

EXPANSIONS, NEW INITIATIVES AND CONCERNS

Expansion plans and initiatives

- The company has plans to double its existing capacity at its Gujarat plant from the current 24,000 units to 48,000 units over the next five years.
- The company has bidded with the Government of India to buy out government's stake in the Scooters India Ltd (which is a loss making entity) the bids currently are in the evaluation stage.
- The company is also exploring options to venture into a) Micro commercial vehicles b) Range of electric commercial vehicles and c) 4-wheeler one-tonne LCV

Key concerns

- Any significant slowdown in economic growth, rising inflation resulting in lower purchasing power, withdrawal of stimulus measures by Government, continuous rise in raw material costs & crude oil prices and fluctuation in the value of US dollar may have an adverse impact on the company.

SECTOR OUTLOOK

The Indian Commercial Vehicle (CV) industry has undergone significant structural changes since the late 1980's when the industry was majorly driven by regulatory policies, till the present stage where demand is the major driving factor for the industry. Prior to 1985, the automobile industry including the CV segment was highly regulated and licensed. The manufacturers had license to produce only specific products and the capacity too was restricted. In 1985 there were two major policy initiatives a.) Broad banding policy b.) Limited inflow of technology. The de-licensing of the industry in 1991 and removal of quantitative restriction in 1993 opened the industry completely to free market forces. The current modernization phase has witnessed the entry of many global players in the Indian market (most of them in the form of JV) like Volvo – Eicher, Swaraj Mazada and Mahindra Navistar etc.

The CV industry can be classified into Goods Carriers (GCs) and Passenger Carriers (PCs). On the basis of the load-carrying capacity, the CV industry can be classified into Light Commercial Vehicles (LCVs) and Medium and Heavy Commercial Vehicles (MHCVs). The Indian CV industry is dominated by GCs (approximate 88 per cent of domestic CV sales) and hence, the domestic sales are dependent largely upon the main economic activities like industrial and agricultural production to a greater extent. The LCVs and MHCVs can be further sub-classified on the basis of their load-carrying capacity. Vehicles with a capacity of less than 5 tonnes (LCVs) are used primarily for short distance, for the transportation of small quantities of goods and local commutation of passengers. Similarly, vehicles with a load-carrying capacity from 5 to 16.2 tonnes (MCVs) are primarily used for intra-state transport of goods and passengers. Likewise, vehicles with a load-carrying capacity of above 16.2 tonnes and up to 25 tonnes (HCVs) are primarily used for inter-state transport of goods and passengers. MHCV GCs, carrying a load above 26.4 tonnes, are termed trailers. These are primarily used for the transport of cargo to and from ports in the course of international trade.

The industry is dominated by Tata Motors followed by Mahindra & Mahindra and Ashok Leyland. Wide ranges of products combined with large distribution network are key success factors of the industry.

Raw material cost forms a significant portion in the cost structure of the CV industry. Steel, pig iron, rubber and plastics constitute a major portion of the raw material cost. Hence, any change in the prices of these materials affects the overall industry's profitability as intense competition prevents players from completely passing through the input cost rise to the customers. Components like engine parts, drive transmission, steering, etc are technologically-intensive products. Manufacturers have to constantly upgrade their product technology suiting ever-changing requirements of OEMs. For example, with the rising emphasis of emission norms and increasing awareness of the buyers, OEMs are required to continuously upgrade their products and auto component manufacturers have to keep pace with the changes in technology.

Current State of the industry

The Indian CV sales grew by 32.6 per cent in 2010-11. The domestic sales increased by 29.4 per cent from 0.52 million units in 2009-10 to 0.67 million units in 2010-11. Similarly, exports grew by staggering 70 per cent from 0.05 million units in 2009-10 to 0.08 million units in 2010-11. Growth in the industrial output, rise in the freight demand on the back of growth in personal disposable income combined with increase in infrastructure and construction activity and ease in liquidity position led to this growth.

Tata Motors leads the market, followed by M&M and Ashok Leyland who dominate around 86 per cent of the market. M&M has gained market share mainly due to product offerings across major segments combined with the JV of Navistar being beneficial for the company as it helped to raise its product offering significantly in HCV segment.

Market Share of key players in domestic sales (in %)

Player	2007-08	2008-09	2009-10	2010-11
Tata Motors	60	60	59	57
M&M	11	15	17	17
Ashok Leyland	16	12	11	13
Others	13	13	13	15

Source: SIAM and CARE Research

CONSOLIDATED FINANCIAL SUMMARY

Rs. Crores	FY07	FY08	FY09	FY10	FY11
Income Statement					
Net operating income	128.9	82.0	116.1	121.8	201.8
EBITDA	8.8	7.0	5.9	14.2	20.1
Depreciation and amortisation	2.0	2.3	2.5	3.9	4.3
EBIT	6.8	4.7	3.4	10.3	15.8
Interest	2.0	2.8	2.8	3.2	1.7
PBT	4.9	1.9	0.6	7.2	14.1
Ordinary PAT (After minority interest)	3.2	1.3	0.4	4.5	9.4
PAT (After minority interest)	3.2	1.3	0.4	4.5	9.4
Fully Diluted Earnings Per Share* (Rs.)	4.7	1.8	0.6	6.1	12.7
Dividend, including tax	0.5	0.6	0.3	1.2	2.3
* Calculated based on ordinary PAT on Current Face Value of Rs. 10/- per share					
Balance sheet					
Net worth (incl. Minority Interest)	26.1	26.7	30.5	33.6	40.4
Debt	27.8	33.8	31.7	23.2	6.0
Deferred Liabilities / (Assets)	4.4	4.8	4.4	5.5	5.4
Capital Employed	**58.3**	**65.3**	**66.6**	**62.3**	**51.8**
Net Fixed Assets (incl. Capital WIP)	32.3	39.8	44.8	42.8	42.7
Investments	2.3	2.3	2.3	2.3	2.3
Loans and Advances	5.3	7.6	7.7	7.5	2.3
Inventory	20.8	19.4	17.7	18.6	19.2
Receivables	8.2	4.0	3.5	4.5	5.4
Cash and Cash Equivalents	0.2	0.4	1.9	1.7	2.8
Current Assets, Loans and Advances	34.5	31.3	30.8	32.2	29.7
Less: Current Liabilities and Provisions	10.8	8.2	11.2	15.1	22.9
Total Assets	**58.3**	**65.3**	**66.6**	**62.3**	**51.8**
Ratios					
Growth in Operating Income		-36.4%	41.6%	4.9%	65.7%
Growth in EBITDA		-19.9%	-16.5%	142.0%	41.5%
Growth in PAT		-59.3%	-72.9%	1197.1%	107.7%
Growth in EPS		-61.6%	-68.2%	964.9%	108.6%
EBITDA Margin		8.6%	5.0%	11.6%	9.9%
PAT Margin		1.6%	0.3%	3.7%	4.7%
RoCE		7.7%	5.2%	16.0%	27.7%
RoE		4.9%	1.2%	14.2%	25.5%
Debt-Equity (times)		1.3	1.0	0.7	0.1
Interest Coverage (times)		2.5	2.1	4.5	11.5
Current Ratio (times)		3.8	2.7	2.1	1.3
Inventory Days		86	56	56	35
Receivable Days		18	11	14	10
Price / Earnings (P/E) Ratio					9.3
Price / Book Value(P/BV) Ratio					2.1
Enterprise Value (EV)/EBITDA					4.4

Source: Capitaline, CARE Equity Research

DISCLAIMER

DISCLOSURES

- Each member of the team involved in the preparation report, hereby affirms that there exists no conflict of interest.
- This report has been sponsored by the Bombay Stock Exchange (BSE).

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