

Atul Auto (ATUAUT)

₹ 115

Attractive story awaiting discovery...

We met the management of Atul Auto Ltd (AAL) to get a deeper understanding of the company's business and strategy in the three-wheeler segment. AAL is driven by a first generation promoter headed by Mr J.J Chandra. AAL is a niche and growing three-wheeler manufacturer. Its USP lies in the fact that products are primarily catering towards the rural and Tier-III towns with specialised designs to aid customer requirements. The company has recently expanded to more regions of India. AAL currently covers ~14 states with 120 dealers. The company has kicked on from FY09, a weak year of operations, and improved its operating margin profile from ~2% in FY09 to ~10% in FY12. This is coupled with RoE expansion to ~33%. On the leverage side, with zero debt, operational cash flows have been supporting capex for AAL (1.4x gross block growth in the last four years). Strong revenue and profit growth of 2.6x and 33x, respectively, in four years made us take a stronger look at the business and we are not disappointed.

Decent product portfolio, capacity expansion to supplement

On the product side, the company has products like Atul GEM and Atul Smart with the former contributing ~60% to revenues. The erstwhile Chakda or the popular rural auto has been transformed and maintained its niche in the business. The acceptance of its products against competitors like Piaggio in recently entered markets like Andhra Pradesh is a positive for future growth prospects.

New expansion across states, geographies to add growth levers

AAL is working towards increasing its footprint throughout India. It has recently expanded to 14 states with 120 dealerships. The aim seems to be to increase its eastern segment presence and increase the dealer network to 150 by FY14-15E. AAL had left export markets as the strong domestic market was outstripping supply but with new capacity coming in place by FY13E it is also looking at starting exports to Bangladesh, Middle East and Africa. It has recently signed an agreement to assemble three-wheelers in Sri Lanka, which would help bypass high import duty rates.

Clean balance sheet, decent financial performance a lure

The company has not gone aggressive in expansion and has grown in a phased manner through internal cash flows, a fact that we admire. Hence, the B/S has not been levered, thus also helping gain attractive RoEs.

Poor small cap valuations undeserved

Considering the above reasons, which clearly differentiate the stock with other small cap stock, one would feel valuations would differ. However, this is not the case and the stock is still trading at ~5x PE and 3x EV/EBIDTA on a trailing FY12 basis even with RoEs of ~33%.

Exhibit 1: Financial Performance

(₹ Crore)	FY08	FY09	FY10	FY11	FY12
Total Operating Income	80.5	117.5	119.9	202.0	299.4
EBITDA	5.5	1.8	13.0	19.5	28.1
EBITDA Margin (%)	6.8	1.5	10.8	9.7	9.4
Depreciation	2.3	2.5	3.9	4.3	4.3
Interest	2.8	2.4	3.2	1.8	0.8
Other Income	1.5	3.7	1.2	0.6	1.8
Reported PAT	1.3	0.4	4.6	9.5	17.1
EPS (₹)	2.3	0.7	7.5	15.6	22.6

Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Unrated
Target	: NA
Target Period	: NA
Potential Upside	: NA

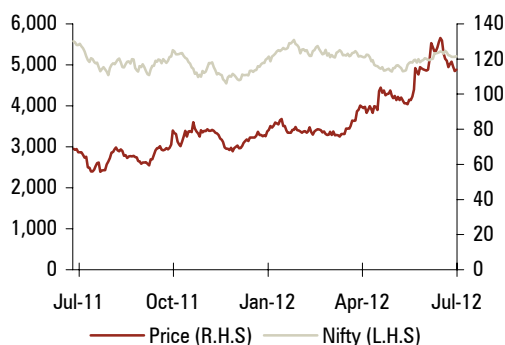
Key Financials				
₹ Crore	FY09	FY10	FY11	FY12
Net Sales	117	119.2	201.6	298.8
EBITDA	1.8	13.0	19.5	28.1
Net Profit	0.4	4.6	9.5	17.1
EPS (₹)	0.7	7.5	15.6	22.6

Valuation summary				
	FY09	FY10	FY11	FY12
P/E(x)	163.6	15.0	7.2	5.0
EV / EBITDA(x)	65.9	8.5	4.6	2.9
P/BV (x)	2.5	2.2	1.8	1.6
RoNW(%)	1.5	14.7	25.2	32.9
RoCE(%)	(1.1)	16.8	37.5	45.8

Stock data	
Market Capitalization	₹ 85.9 Crore
Total Debt (FY12)	₹ 0 Crore
Cash (FY12)	₹ 5.3 Crore
EV	₹ 80.6 Crore
52 week H/L	132 / 56
Equity capital	₹ 7.6 Crore
Face value	₹ 10
MF Holding (%)	-
FII Holding (%)	-

Return matrix				
Return %	1M	3M	6M	12M
Atul Auto Ltd	(1.8)	33.5	47.7	63.2
Bajaj Auto	(5.4)	(13.6)	(0.5)	1.6

Price movement

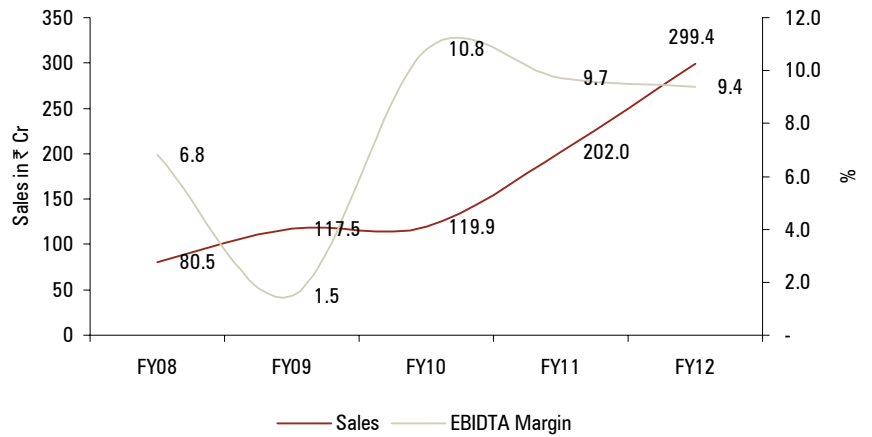


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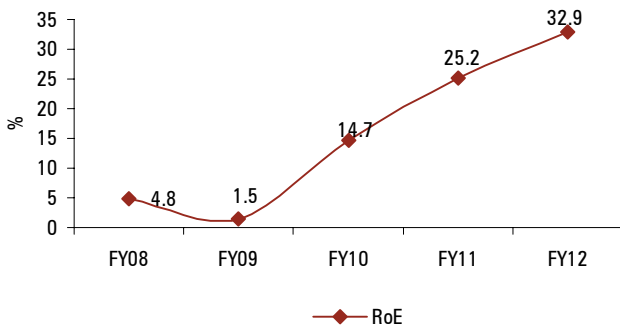
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Exhibit 2: Improving operational performance



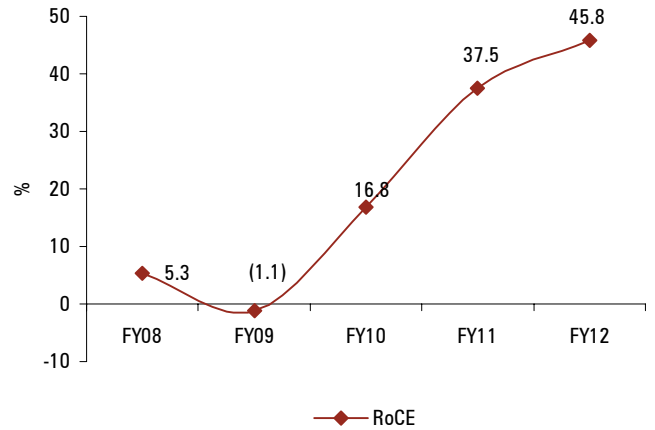
Source: Company, ICICIdirect.com Research

Exhibit 3: Strong return on equity...



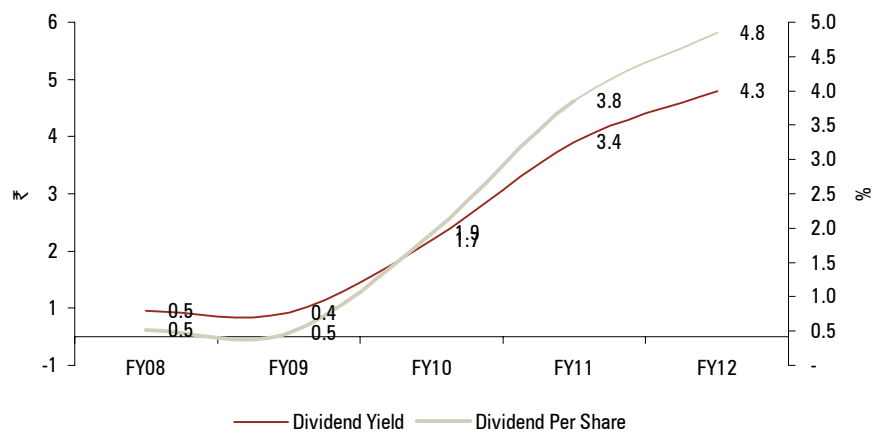
Source: Company, ICICIdirect.com Research

Exhibit 4: ...and return on capital employed



Source: Company, ICICIdirect.com Research

Exhibit 5: Improving dividend yield for investors



Source: Company, ICICIdirect.com Research

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

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