MOTILAL OSWAL

31 March 2014

Atul Auto

spotlight
The Idea Junction

India's fastest growing three-wheeler company

Drivers: Geographical expansion, widening product portfolio, exports

- **Gujarat-based Atul Auto (ATA) is India's fastest growing three-wheeler (3W) company. Over FY08-13, its revenue, EBITDA and PAT grew at a CAGR of 35%, 43% and 82%, respectively, with average RoCE at 26% and consistent dividend payout of over 25%.**
- **The company is plugging gaps in its product portfolio, expanding further geographically within India and plans to enter export markets to sustain strong growth.**
- **Valuations at 13.4x/11.1x/8.8x FY14E/15E/16E earnings appear interesting, considering 23% EPS CAGR, robust return ratios, healthy dividend payout and debt free status. Key risks include delay in expected launch of gasoline 3W. Not Rated.**

Introduction of rear-engine diesel 3W in 2009 - key inflection point

Having gained dominance in the front-engine three-wheeler (3W) markets of Gujarat and Rajasthan, ATA expanded its geographical presence, with the introduction of its rear-engine diesel 3W (Atul Gem series) in 2009. New products coupled with geographical expansion helped ATA to register a volume CAGR of 29.3% over FY08-13. Its market share has improved significantly from 2.4% in FY08 to 7.7% in FY14 YTD.

Gasoline/alternate fuel 3W launch to triple addressable market

Over the near term, ATA plans to enter the gasoline/alternate fuel segment, which constitutes 1/3rd of the domestic 3W industry. Moreover, this will help to enter a large export market (almost equal to the domestic market size). The 3W markets in Africa, Latin America and neighboring countries are predominantly gasoline-based.

Plans to significantly increase capacity, largely through internal accruals

ATA plans to significantly increase capacity from current 48,000 units to 120,000 units per year in phases, largely through internal accruals . Recently, it doubled capacity at its existing Rajkot plant to 48k units through brownfield expansion, which can be scaled up further to 60k units at minimal capex. To add capacity of another 60k units, ATA is evaluating options near Ahmedabad (Gujarat). Capex for the new plant is likely to be INR1b-1.5b, largely funded by internal accruals.

Stock Info

Bloomberg	ATA IN
CMP (INR)	360
Equity Shares (m)	11.2
M.Cap. (INR b)/(USD b)	4/0.1
52-Week Range (INR)	370/145
1,6,12 Rel. Perf. (%)	21/74/124

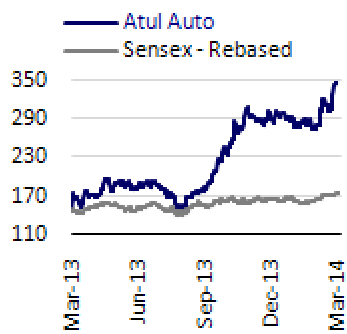
Financials & Valuation (INR m)

Y/E March	2014E	2015E	2016E
Sales	4,385	5,269	6,386
EBITDA	503.2	616.9	808.8
NP	301.7	363.5	456.1
Adj. EPS (INR)	26.9	32.5	40.7
EPS Gr. (%)	16.5	20.5	25.4
BV/Sh. (INR)	87.3	112.5	144.1
RoE (%)	35.1	32.5	31.7
RoCE (%)	52.4	48.5	47.4
Payout (%)	25.0	25.0	25.0
Valuation			
P/E (x)	13.4	11.1	8.8
P/BV (x)	4.1	3.2	2.5
EV/EBITDA (x)	6.9	5.8	5.0
Div. Yield (%)	1.9	2.3	2.8

Shareholding pattern (%)

As on	Dec-13	Sep-13	Dec-12
Promoter	55.1	56.6	56.6
Dom. Inst.	0.0	0.0	0.0
Foreign	6.1	4.6	4.6
Others	38.8	38.8	38.8

Stock performance (1 year)



Spotlight is a new offering from the Research team at Motilal Oswal. While our Coverage Universe is a wide representation of investment opportunities in India, there are many emerging names in the Mid Cap Universe that are not under coverage. Spotlight is an attempt to feature such mid cap stocks by visiting such companies. We are not including these stocks under our active coverage at this point in time. Motilal Oswal Research may or may not follow up on stocks under Spotlight.

RED: Caution
AMBER: In transition
GREEN: Interesting

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Offers strong EPS growth, and high return and payout ratios

We expect revenue CAGR of 20.7% over FY14-16, driven by volume CAGR of 20%. Higher volumes, coupled with entry into the relatively high margin export segment, should help drive up margins further from 11.5% in FY14 to 12.7% in FY16. We expect earnings CAGR of 23% over FY14-16, supported by strong operational performance.

Given the asset-light business model, negative working capital and high EBITDA margins, the business offers high return ratios (average 26% over FY08-13). This coupled with strong earnings growth and high dividend payout (over 25% over FY08-13) makes ATA interesting. The stock trades at 13.4x/11.1x/8.8x FY14E/15E/16E earnings. **Not Rated**.

Background

One of India's leading 3W companies

Consistently gaining market share in the last 4-5 years

- **Promoted by the Chandra and Patel families, Atul Auto (ATA) is a leading three-wheeler (3W) company, with a production capacity of 48k units per year in Gujarat.**
- **The company has been in operation since 1992, but the introduction of its rear-engine 3W in 2009 was the real inflection point. Today, it has presence in 16 states, with 176 dealerships and 102 sub-dealerships, totalling to 278 touch points.**
- **ATA offers cargo and passenger variants (diesel engine powered) on 350kg and 500kg platforms. It plans to introduce gasoline/alternate fuel 3Ws and small CVs (4W).**

Promoted by the Chandra and Patel families, Atul Auto (Bloomberg: ATA) is a leading 3W company based in Gujarat. It has an annual production capacity of 48k units and we expect sales volume of 38k units in FY14. ATA has a history of over two decades.

Originally incorporated as a private limited company in 1986 in Maharashtra, its registered office was shifted to Jamnagar (Gujarat) in 1992 and then to Rajkot (Gujarat) in 1994. While the company has been in operation since 1992, the introduction of its rear-engine 3W in 2009 was the real inflection point.

Today, ATA manufactures 3Ws in the sub-1 ton category, targeting the passenger and cargo segments. In the passenger segment, ATA's offerings include diesel and CNG powered 3Ws for carrying 3-6 passengers. In the cargo segment, ATA manufactures vehicles with a rated carrying capacity of 0.5tons.

Product launch history

Source: Company

In less than a year, ATA plans to introduce gasoline/alternate fuel-powered 3Ws. Gasoline/alternate fuel constitutes 1/3rd of the domestic 3W market. Moreover, 3W exports, which constitute nearly 46% of industry volumes, are largely gasoline based.

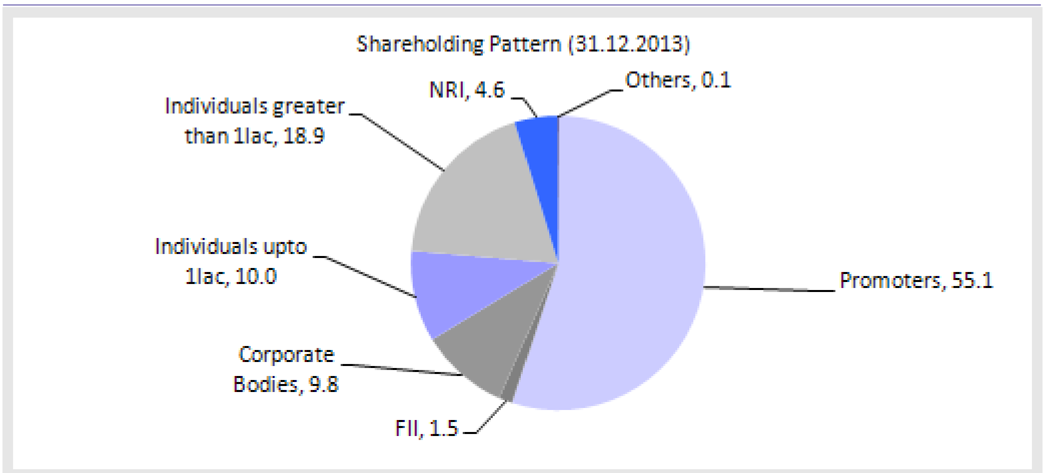
ATA's market share has risen from 2.4% in FY08 to 7.7% in FY14 (YTD), driven by established distribution network, increase in capacity, and launch of new products.

Today, ATA has presence in 16 states, with 176 dealerships and 102 sub-dealerships, totalling to 278 touch points.

Management: Board of Directors

Photo	Key personnel	Designation	Comments
	JJ Chandra	Chairman and Managing Director	Mr Jayantibhai J Chandra, aged 59 years, is one of ATA's Founder Promoters. He is currently the company's Chairman and Managing Director (CMD). He has over 38 years of rich experience in the Automobile industry. Mr Chandra began his career as an entrepreneur, manufacturing three-wheelers under the brand name, *Khushbu*.
	Niraj J Chandra	Whole Time Director	Mr Niraj J Chandra, aged 35 years, has been one of ATA's Whole-time Directors since March 2012. Before being elevated to this position, he worked in various capacities in the company's Marketing, Production and General Administration departments. He is a Mechanical Engineer.
	MJ Patel	Whole Time Director	Mr Mahendra J Patel, aged 51 years, is a Whole-time Director. He is one of ATA's promoters and has over 21 years of experience in Automobile Manufacturing and Assembling. Currently, he is in charge of the company's production department.
	Vijay K Kedia	Non-Independent and Non-Executive Director	Mr Vijay K Kedia, aged 53 years, is a Director. A Commerce Graduate, he has been working with the company since 2009. He has over 25 years of experience in Finance and Securities Markets.

Shareholding pattern (%)



Source: Company, MOSL

Business Insights

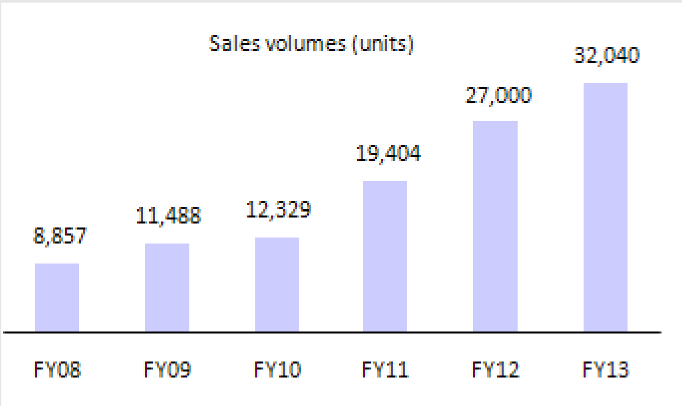
Over FY08-13, revenue, EBITDA and PAT have registered a CAGR of 35%, 43% and 82%, respectively, with average RoCE at 26% and consistent dividend payout of over 25%

Strong volume growth driving robust performance

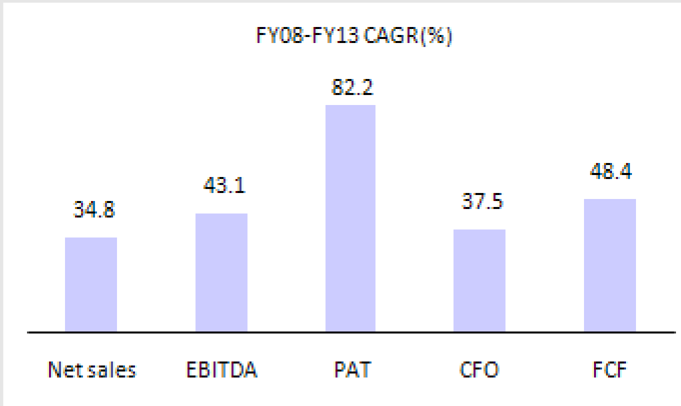
Healthy margins, strong RoCE, consistent payout, net cash company

- **Over FY08-13, ATA's volumes have registered an impressive CAGR of 29.3% v/s domestic industry CAGR of 12.2%.**
- **Its market share has improved significantly from 2.4% in FY08 to 7.7% in FY14 YTD.**
- **Strong volume growth has led to robust revenue CAGR of 35.2% over FY08-13.**
- **EBITDA margins have improved from 8.6% in FY08 to 11.5% in FY13, driven by increase in volumes and consequent operating leverage.**

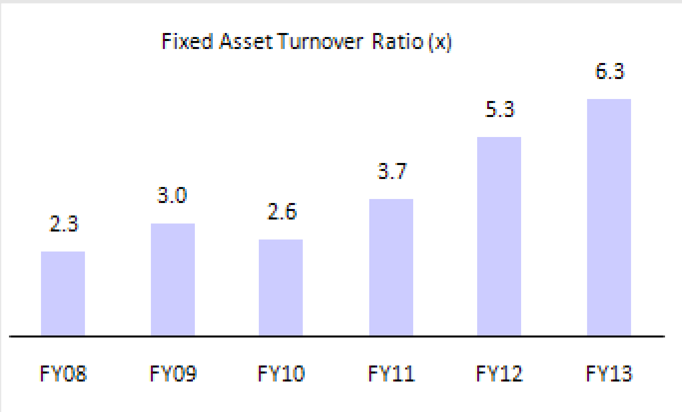
Robust 29.3% volume CAGR over FY08-13...



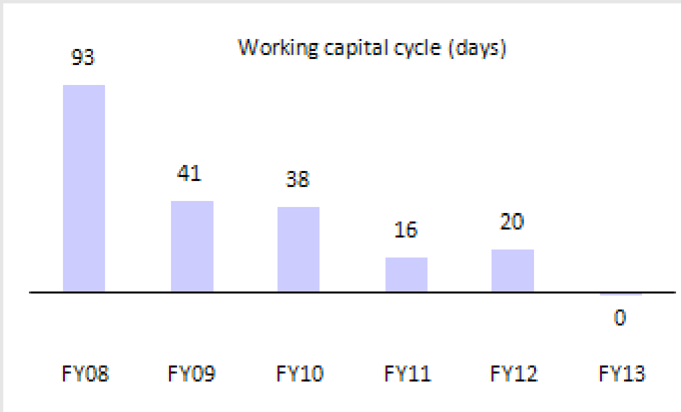
...driving impressive financial performance



Asset-light business model...

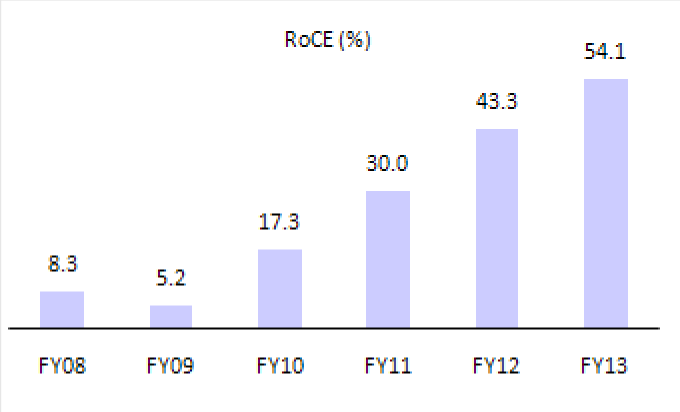


...together with negative working capital cycle...

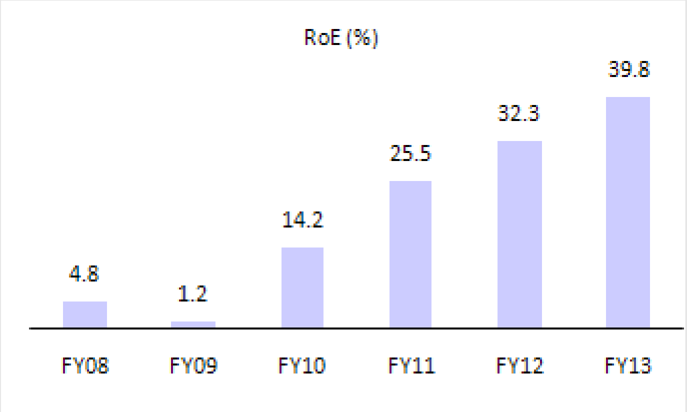


Source: Company, MOSL

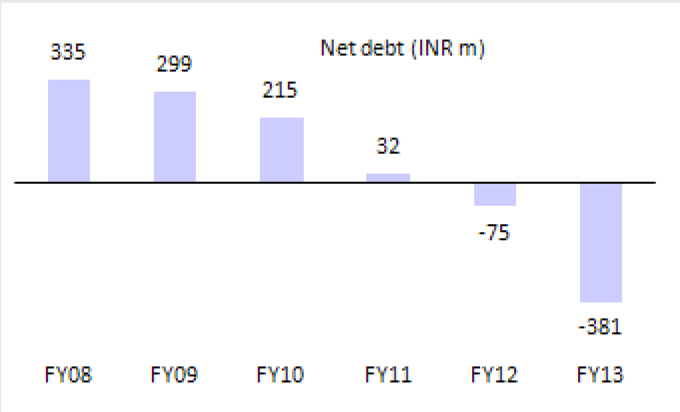
...driving robust return ratios



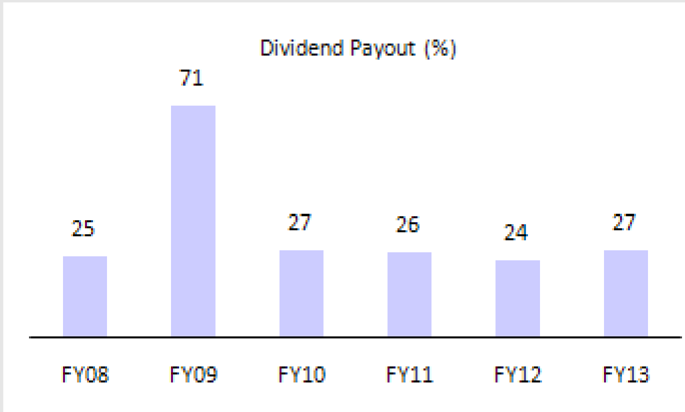
RoE marginally lower due to net cash



Strong cash flows + lower capex needs = net cash



Consistent and healthy dividend payout



Source: Company, MOSL

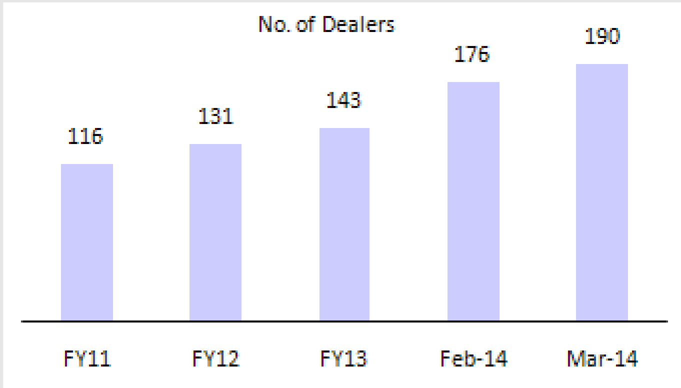
Launch of rear-engine 3W in 2009 - key inflection point

Reliance on Gujarat and Rajasthan declining, with geographic expansion

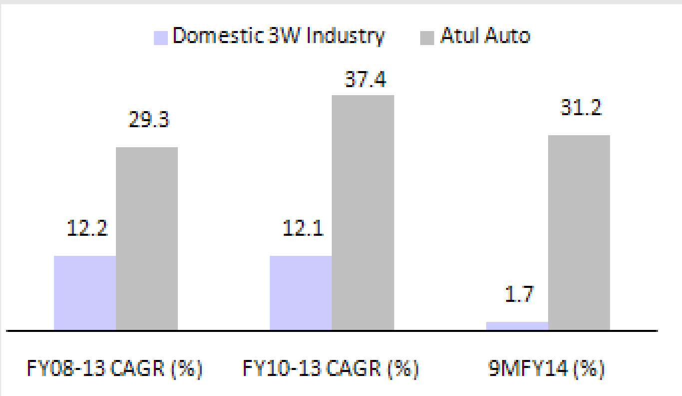
- **Until 2009, ATA had products catering to only a small part of the overall 3W market. Its portfolio included only front-engine diesel powered 3Ws.**
- **Also, virtually ~100% of its volumes came from Gujarat and Rajasthan, which were predominantly front-engine markets.**
- **To expand beyond Gujarat and Rajasthan, ATA introduced rear-engine diesel 3Ws (Atul Gem series) in 2009 and rapidly expanded its dealer network in other states.**
- **New product introduction coupled with geographical expansion helped ATA to register 29.3% volume CAGR over FY08-13.**

Introduction of Atul Gem (rear-engine diesel 3W) in 2009…

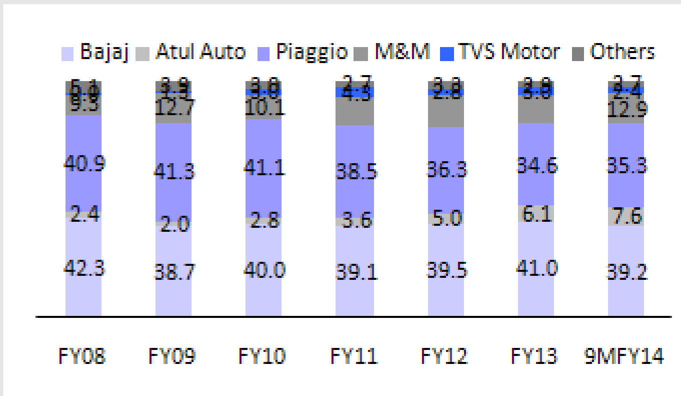
…coupled with rapid expansion of dealer network beyond traditional markets of Gujarat and Rajasthan…



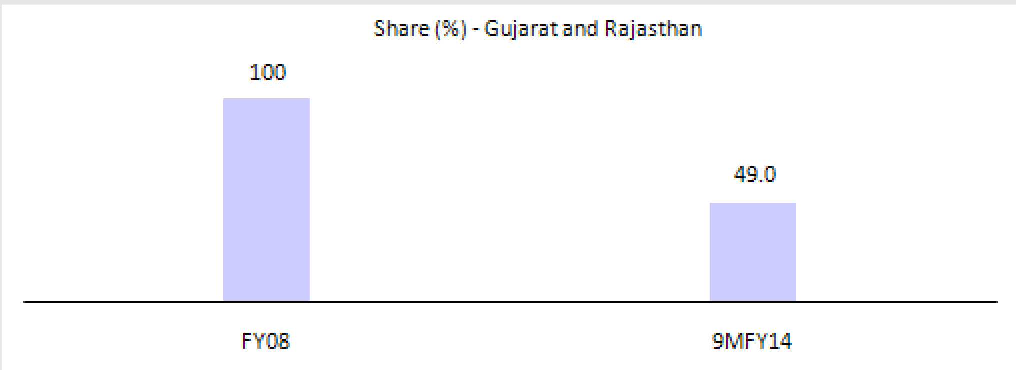
…led to strong volume outperformance v/s industry…



….driving steady improvement in market share (dom. 3W, %)



Successful expansion to other regions driving down share of Gujarat and Rajasthan



Source: Company, MOSL

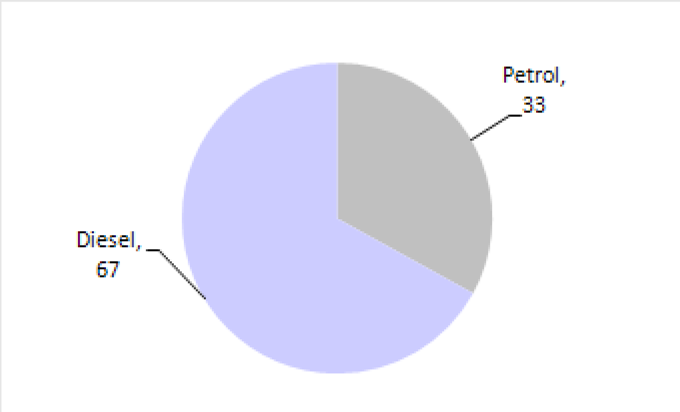
Gasoline 3W launch to triple addressable market

Export markets (~50% of industry volumes) predominantly gasoline

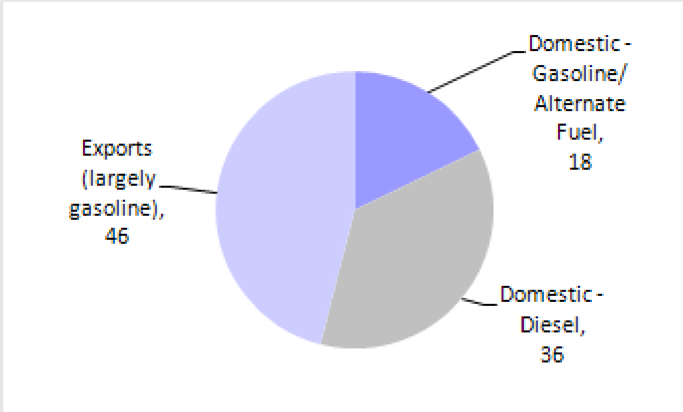
Bajaj Auto exports ~60% of its 3W production, primarily to Africa, Sri Lanka and Egypt

- **So far, ATA has been focusing on semi-urban and rural markets, where diesel-powered 3Ws are preferred.**
- **It now plans to launch a gasoline/alternate fuel product. This will mark ATA's entry into the large urban market. Our industry interaction suggests that gasoline-powered 3Ws constitute 1/3rd of total 3W domestic sales.**
- **With the launch of a gasoline/alternate fuel 3W, a huge export opportunity will also open up for ATA. The 3W markets in Africa, Latin America and neighboring countries, estimated at ~1m units per year, are predominantly gasoline-based.**

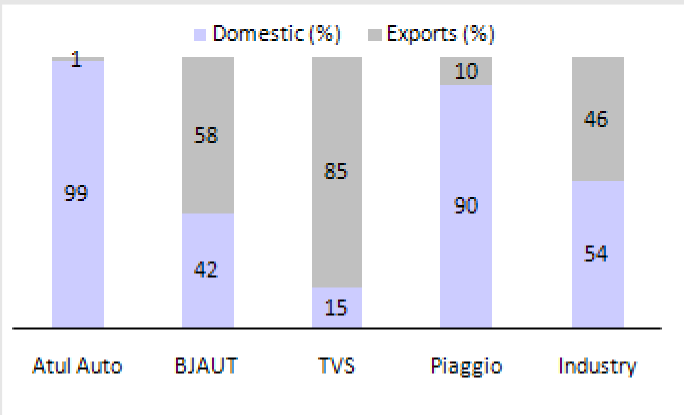
Around 1/3rd of domestic 3Ws are gasoline/alternate fuel driven (%)



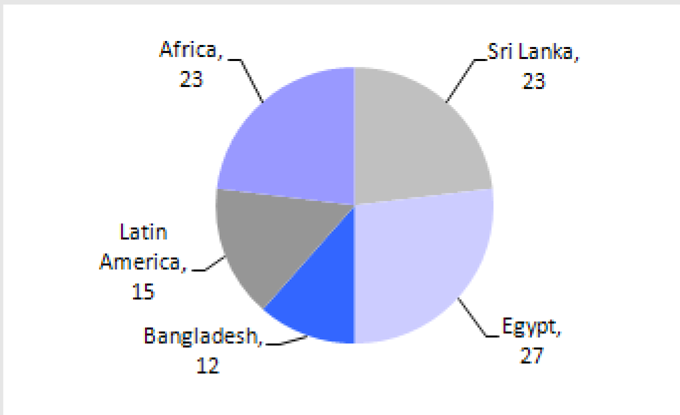
ATA operates in only ~35% of the total 3W market (including exports, %)



ATA has minimal share in exports due to lack of gasoline 3W



Africa, Sri Lanka and Egypt are the key export markets for Bajaj Auto (%)



Source: Company, MOSL

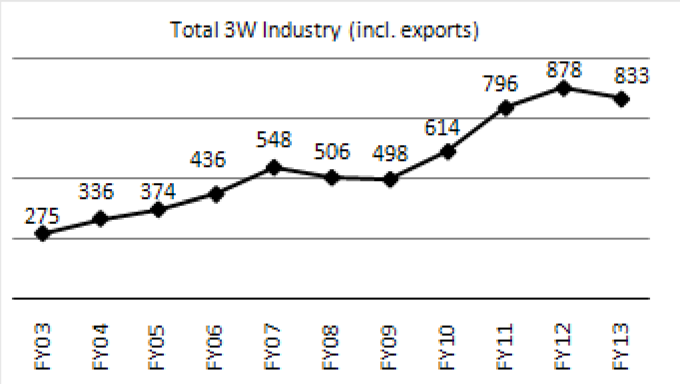
3W cost economics superior in passenger segment

Shift towards 4Ws seen largely in cargo segment

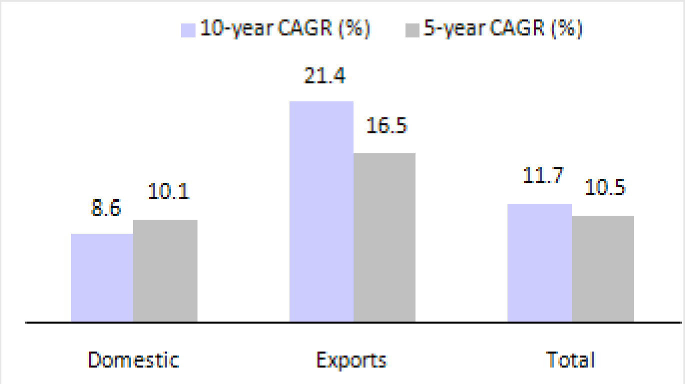
Despite shift towards 4Ws, the domestic 3W industry has registered a 10-year/5-year CAGR of 8.6%/10.1%, driven by passenger 3Ws

- **Small 4Ws have emerged as a new category of vehicles over the last decade largely at the cost of large cargo 3Ws (primarily above one ton).**
- **In the cargo segment, small 4Ws offer better cost economics (higher overloading capabilities with better power), coupled with higher aspirational value.**
- **However, in the passenger segment, 3Ws continue to dominate. Passenger 3Ws are largely bought by first-time buyers, who rarely have credible financial history. For them, arranging the additional down payment (since 4Ws are expensive) becomes an issue.**

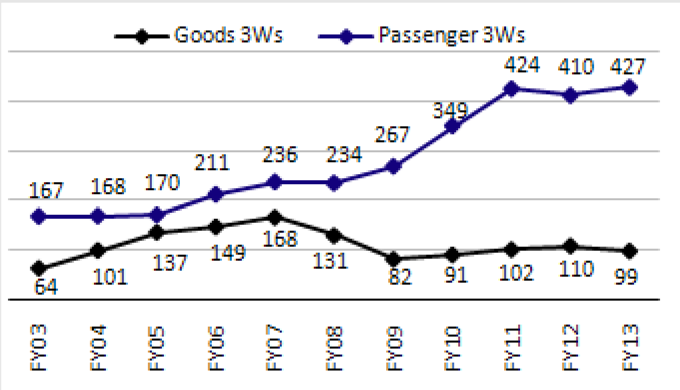
Despite shift towards 4Ws, 3Ws registered a healthy 11.7% CAGR over FY03-13



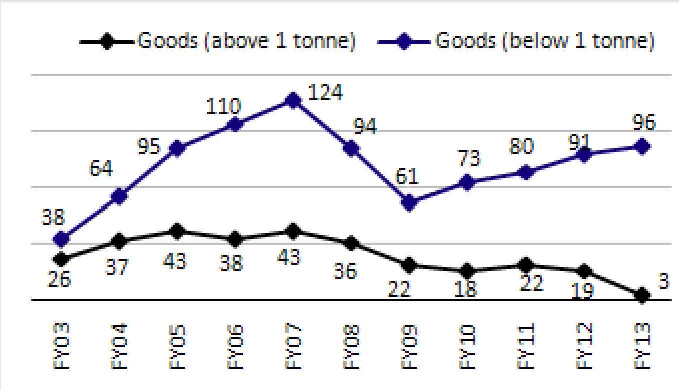
Export growth has outperformed domestic growth, largely driven by African markets



Shift towards 4Ws only in case of goods segment...



....that too largely in the above one ton category



Demand for large 3Ws (above one ton) shifted in favor of 4Ws...

...due to better cost economics, aspirational value

Source: Company, MOSL

However in the passenger segment, 3Ws remain an attractive proposition

Particulars	(Passenger/Cargo)		
	Atul Gem	4 Wheeler(ULCV)	4 Wheeler (SCV)
Average On Road Price (INR m)	0.2	0.3	0.5
Initial Investment (INR m)	0.03	0.04	0.07
Mileage per litre of fuel (kms)	32-35	23-25	18-20
Fuel Cost per km	1.76	2.47	3.09
Spares parts pricing	Economical than 4 Wheeler	Higher than 3 Wheeler	Higher than 3 Wheeler
Ease of Maintenance	Easier, Built on simple technology	More complicated, sophisticated workshops required	

Source: Company, MOSL

Small passenger 4Ws have not been able to make a big dent, given similar earning potential but higher cost than as 3Ws

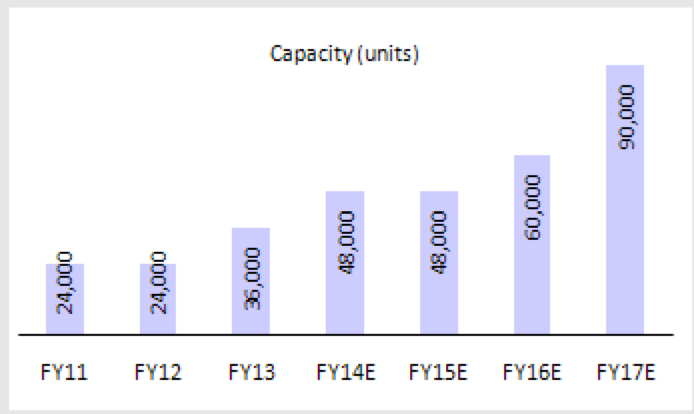
Source: Company, MOSL

Plans to increase capacity significantly

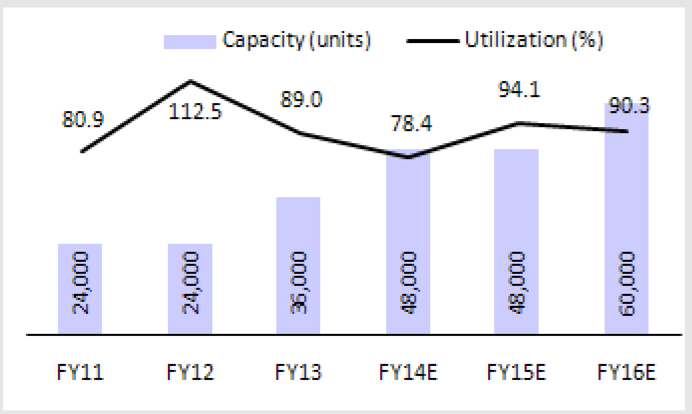
Capex to be funded largely through internal accruals

- **Recently, ATA spent INR100m to double capacity at its existing Rajkot plant to 48k units through brownfield expansion. The plant, which is currently operating at ~80% utilization, can be scaled up further to 60k units at similar capex.**
- **To support growth over the medium term, ATA plans to more than double its capacity in two years to 120k units per year. It is evaluating options near Ahmedabad (Gujarat) to put up a new plant.**
- **Capex for the new plant is likely to be INR1b-1.5b, largely funded by internal accruals. The capacity is expected to come in two phases of 30,000 units each.**
- **Given its high cash surplus and internal accruals, ATA is likely to remain debt-free, despite high capex.**

Phase-1 of new plant to become operational by 1QFY17

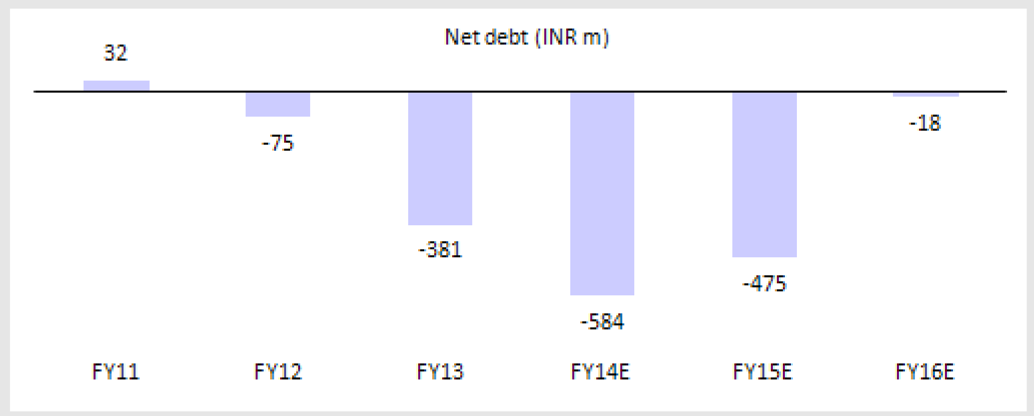


Utilization to remain high, led by robust volume growth



Source: Company, MOSL

Despite high capex plans, ATA expected to remain debt free



Source: Company, MOSL

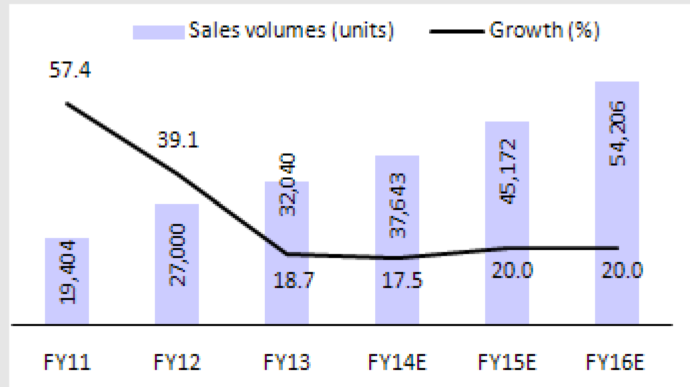
Financials and Valuations

Expect strong 23% EPS CAGR over FY14-16

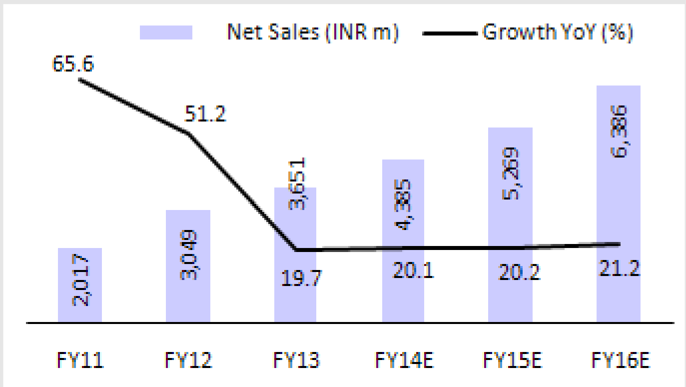
High return ratios, healthy payout, reasonable valuations

- **We expect revenue CAGR of 20.7% over FY14-16, driven by volume CAGR of 20%. Volume growth would be driven by introduction of gasoline 3W, continued expansion in domestic market and entry into export markets.**
- **With higher volumes and entry into relatively high margin export segment, EBITDA margin should improve further from 11.5% in FY14 to 12.7% in FY16.**
- **We expect earnings CAGR of 23% over FY14-16, supported by strong revenue growth, though margin expansion would be partially offset by higher depreciation.**
- **The stock appears interesting at 13.4x/11.1x/8.8x FY14E/15E/16E earnings, considering 23% EPS CAGR, robust return ratios and healthy dividend payout.**
- **Key risks: Delay in launch of gasoline 3W, higher than expected shift towards 4Ws.**

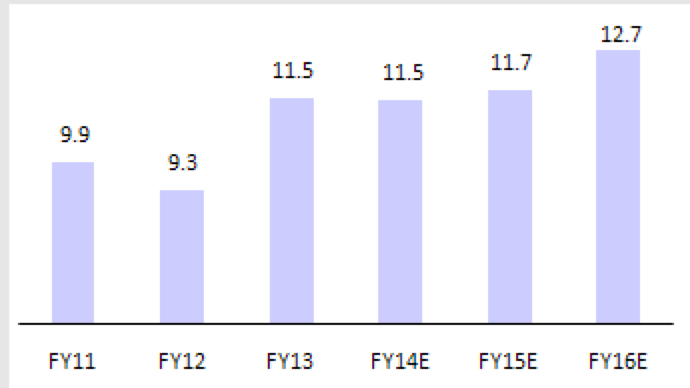
Expect healthy volume growth of 20% over FY14-16...



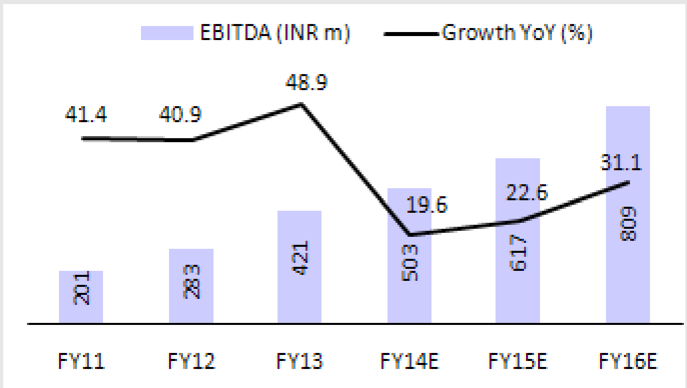
...driving revenue CAGR of 20.7%



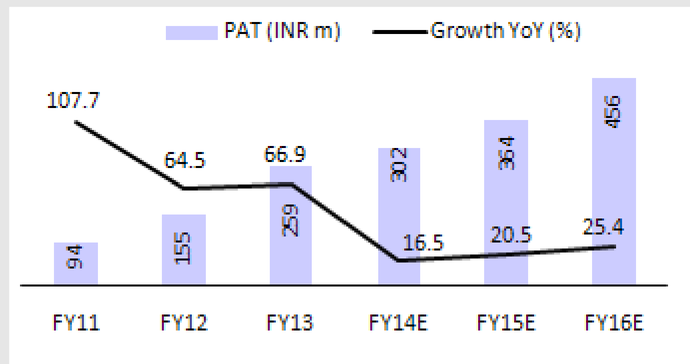
EBITDA margin to expand further on operating leverage...



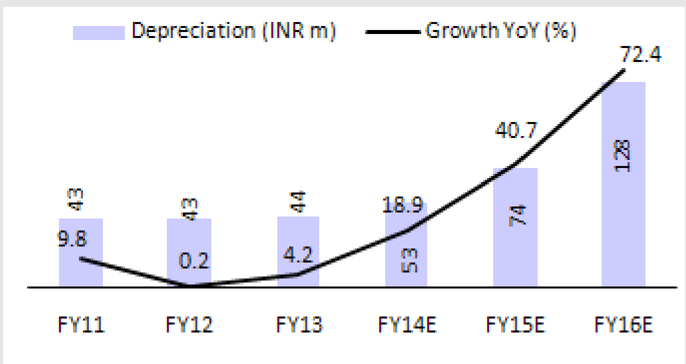
...driving healthy EBITDA CAGR of 26.8%



PAT CAGR of 23% to be marginally lower than EBITDA CAGR...



...due to rise in depreciation



Source: Company, MOSL

Financials and Valuations

Income Statement

(INR Million)

Y/E March	FY12	FY13	FY14E	FY15E	FY16E
Volumes	**26,698**	**31,788**	**37,643**	**45,172**	**54,206**
Growth (%)	39.4	19.1	18.0	20.0	20.0
Avg. realization (INR/unit)	**114,207**	**114,848**	**115,484**	**116,639**	**117,805**
Growth (%)	8.4	0.6	0.6	1.0	1.0
Total Income	**3,049**	**3,651**	**4,385**	**5,269**	**6,386**
Growth (%)	51.2	19.7	20.1	20.2	21.2
EBITDA	**283**	**421**	**503**	**617**	**809**
EBITDA margin (%)	9.3	11.5	11.5	11.7	12.7
Interest	8	4	4	0	0
Depreciation	43	44	53	74	128
Profit before Tax	**232**	**372**	**447**	**543**	**681**
Current Tax	84	115	145	179	225
Deferred Tax	-8	-2			
Tax rate (%)	32.9	30.4	32.4	33.0	33.0
Reported Net Profit	**156**	**259**	**302**	**364**	**456**
Extraordinary Items	1	0			
Adjusted Net Profit	**155**	**259**	**302**	**364**	**456**
Growth (%)	64.5	66.9	16.5	20.5	25.4

Balance Sheet

(INR Million)

Y/E March	FY12	FY13	FY14E	FY15E	FY16E
Share Capital	76	112	112	112	112
Reserves Total	485	631	865	1,148	1,502
Net Worth	**561**	**743**	**977**	**1,260**	**1,614**
Loans	39	0	0	0	0
Other Liabilities	21	28	33	40	48
Total Liabilities	**621**	**771**	**1,010**	**1,299**	**1,662**
Net Block	**400**	**431**	**478**	**904**	**1,775**
Capital Work in Progress	16	50	50	50	50
Investments	12	12	12	12	12
Curr.Assets, Loans	**493**	**698**	**961**	**914**	**515**
Inventories	298	230	272	304	340
Sundry Debtors	61	72	85	103	124
Cash and Bank	114	381	584	483	22
Loans and Advances	20	16	20	24	29
Current Liab. & Prov.	**299**	**414**	**492**	**590**	**713**
Sundry Creditors	218	286	339	407	490
Provisions	81	128	153	184	223
Net Current Assets	**194**	**284**	**469**	**323**	**-198**
Net Deferred Tax	-47	-45	-45	-45	-45
Other Assets	46	38	46	55	67
Total Assets	**621**	**771**	**1,010**	**1,299**	**1,662**

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY12	FY13	FY14E	FY15E	FY16E
Basic (INR)					
EPS	**20.5**	**23.1**	**26.9**	**32.5**	**40.7**
EPS Growth (%)	32.5	12.5	16.5	20.5	25.4
Cash EPS	26.2	27.1	31.7	39.1	52.2
Book Value per Share	74.3	66.3	87.3	112.5	144.1
DPS	4.8	5.9	6.7	8.1	10.2
Div. payout (%)	23.6	25.4	25.0	25.0	25.0
Valuation (x)					
P/E		15.6	13.4	11.1	8.8
Cash P/E		13.3	11.4	9.2	6.9
EV/EBITDA		8.7	6.9	5.8	5.0
EV/Sales		1.0	0.8	0.7	0.6
Price to Book Value		5.4	4.1	3.2	2.5
Dividend Yield (%)		1.6	1.9	2.3	2.8
Profitability Ratios (%)					
EBITDA Margins	9.3	11.5	11.5	11.7	12.7
Net Profit Margins	5.1	7.1	6.9	6.9	7.1
RoE	32.2	39.7	35.1	32.5	31.7
RoCE	45.1	56.0	52.4	48.5	47.4
Turnover Ratios					
Debtors (Days)	7.4	7.2	7.2	7.2	7.2
Inventory (Days)	45.0	29.6	29.6	27.6	25.6
Creditors (Days)	32.9	36.9	36.9	36.9	36.9
Asset Turnover (x)	5.5	5.2	4.9	4.6	4.3
Leverage Ratio					
Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0

Cash Flow Statement (INR Million)

Y/E March	FY12	FY13	FY14E	FY15E	FY16E
OP/(Loss) before Tax	232	372	447	543	681
Int./Div. Received	8	4	4	0	0
Depreciation	43	44	53	74	128
Direct Taxes Paid	-84	-115	-145	-179	-225
(Inc)/Dec in WC	-15	110	26	54	72
Others	-12	10	0	0	0
CF from Oper.Activity	**196**	**407**	**384**	**492**	**656**
(Inc)/Dec in FA	4	-95	-100	-500	-1,000
(Pur)/Sale of Invest.	-6	0	0	0	0
Others	60	0	0	0	0
CF from Inv. Activity	**-61**	**-95**	**-100**	**-500**	**-1,000**
Inc/(Dec) in Debt	-60	0	0	0	0
Interest Paid	-8	-4	-4	0	0
Dividends Paid	-37	-66	-67	-81	-102
Others	55	26	-10	-12	-15
CF from Fin. Activity	**-49**	**-44**	**-81**	**-93**	**-117**
Inc/(Dec) in Cash	**85**	**267**	**203**	**-101**	**-461**
Add: Op. Balance	28	114	381	584	483
Closing Balance	**114**	**381**	**584**	**483**	**22**

E: MOSL Estimates

N O T E S

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