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Visit Note | Atul Auto Ltd.

Recently we visited Atul Auto Ltd, Rajkot to meet with the senior management and discussed current situation as well as future course of the company. The key takeaways are as follows:

- Atul Auto is the 3W manufacturer in India. With ~17.5% share in the goods carrier segment and 5% share in the passenger carrier segment, the key brands of the Company are Shakti, Smart, Gem and Gemini.
- Despite challenging macro environment the company has performed well in last couple of years (29% CAGR growth in revenue from FY11 – FY14). Volume have been improving on the back of added dealerships and increasing geographic presence (especially in Semi Rural and Rural area) along with market share gains in existing markets. The management has maintained the guidance for 20% revenue growth for the next couple of years.
- The Company has focused on improving productivity and increasing operational efficiency at its plant, with a remarkable expansion of capacity from 36,000 units in FY13 to 48,000 units in FY14. This increase in capacity was achieved through local level innovations and process re-engineering, and did not involve any major capital expenditure. Further, current facility can be expanded from 48,000 units to ~60,000 units.
- The company is also expanding capacity through Greenfield expansion in Ahmadabad with capacity of 60000 units. For the new plant in, 75 acres of land has been acquired and the project is expected to start soon. The facility is likely to be fully operational by FY17E. Capex requirement for the project is likely to be ~ Rs 1.5 bn, to be funded through internal sources without resorting to debt.
- One of the major shortcomings of Atul has been the lack of petrol engine products, which is more in use in urban areas. With the management guiding that the new petrol engine product will be launched in the next 3 to 6 months, which would lead to Atul's entry in urban as well as export markets. Management has guided 6000 petrol unit production for FY16.
- The dealer network comprises 190 primary dealers and ~110 sub-dealers across the country. The management has guided that the number of primary dealerships will rise to ~300 by the end of FY16E.

Valuation

We expect volumes to remain on the uptrend as the market share increases in newly launched markets. Also, the new petrol engine variant to be launched is likely to add incremental volumes as Atul targets urban and export markets for growth. At CMP of Rs. 554, stock is trading 20x FY16e Bloomberg estimates.