

### Looking out for margin and distribution expansion

Atul Auto (ATA) top line growth was in-line with our estimates at ₹ 1,765 mn but margins were lower due to higher other expenditure. ATA reported volume growth of 9.5% at 12,224 units which were largely driven by higher exports. Domestic volumes grew by 4.4% YoY whereas the exports reported a growth of 76% YoY in Q2FY19. ATA also declared an interim dividend of ₹ 2.75.

Going forward, we believe that ATA volume growth can improve only if distribution reach is further expanded. Existing areas will offer limited growth despite addition of new products. ATA has been investing in electric autos, but a meaningful scale will depend on evolution of whole ecosystem – mainly charging points and battery cost. We retain our Accumulate rating with a target price of ₹ 396.

### Passenger Carrier performance remains strong

Total volume for the quarter increased by 9.4% YoY. Passenger carrier forms ~64% of the total volume sales for the quarter and grew by 22.4% YoY as compared to de-growth of 7.8% YoY in goods carrier segment. We believe that a major chunk of this growth was due to ongoing distribution channel expansion. ATA has applied for approvals for selling its passenger carrier in various states and volumes will expand as and when this approval comes. Revival in the goods segment will depend on product launches as competition is ahead with continuous addition of new products.

### Valuation

With pending approvals from few states in India and expansion in export business, volume growth should sustain in low double digits. ATA gained volume growth of 13% YoY in 1HFY19. However, higher raw material cost has been weighing heavily on the gross margin. Realizations for ATA have been almost flat for 1HFY19 (0.5% increase). Further price increase and better operating mix will be the key thing to watch going forward. Underperformance to the industry weighs down on valuations. Maintain Accumulate with a target price of ₹ 396.

### Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	1,765	1,599	10.4	1,373	28.5
Total Expense	1,536	1,329	15.5	1,225	25.4
EBITDA	229	269	(14.9)	148	54.4
Depreciation	14	13	5.3	13	3.0
EBIT	215	256	(15.9)	135	59.6
Other Income	22	5	313.5	24	(11.5)
Interest	4	1	457.1	2	116.7
EBT	233	261	(15.9)	158	47.9
Tax	84	91	(7.9)	54	54.0
RPAT	149	170	(12.1)	103	44.7
APAT	149	170	(12.1)	103	44.7
			(bps)		(bps)
Gross Margin (%)	25.2	28.1	(287)	25.9	(68)
EBITDA Margin (%)	13.0	16.8	(386)	10.8	218
NPM (%)	8.5	10.6	(216)	7.5	95
Tax Rate (%)	36.0	34.9	106	34.5	143
EBIT Margin (%)	12.2	16.0	(382)	9.8	237

CMP	₹ 359
Target / Upside	₹ 396 / 10%
BSE Sensex	35,012
NSE Nifty	10,553

### Scrip Details

Equity / FV	₹ 110mn / ₹ 5
Market Cap	₹ 8bn
	US\$ 109mn
52-week High/Low	₹ 476/₹ 269
Avg. Volume (no)	20,056
NSE Symbol	ATULAUTO
Bloomberg Code	ATA IN

### Shareholding Pattern Sep'18(%)

Promoters	52.7
MF/Banks/FIs	18.4
FII	0.2
Public / Others	28.7

### Valuation (x)

	FY18A	FY19E	FY20E
P/E	17.1	15.0	12.7
EV/EBITDA	10.0	8.4	7.0
ROE (%)	22.9	22.2	22.7
RoACE (%)	21.6	20.5	20.8

### Estimates (₹ mn)

	FY18A	FY19E	FY20E
Revenue	5,560	6,339	7,204
EBITDA	725	822	959
PAT	462	526	621
EPS (₹)	21.1	24.0	28.3

VP Research: Priyank Chandra

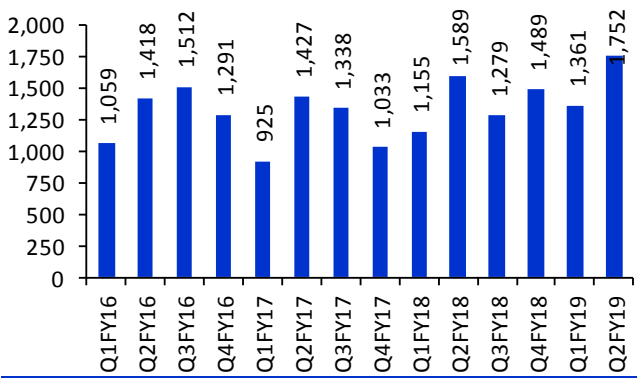
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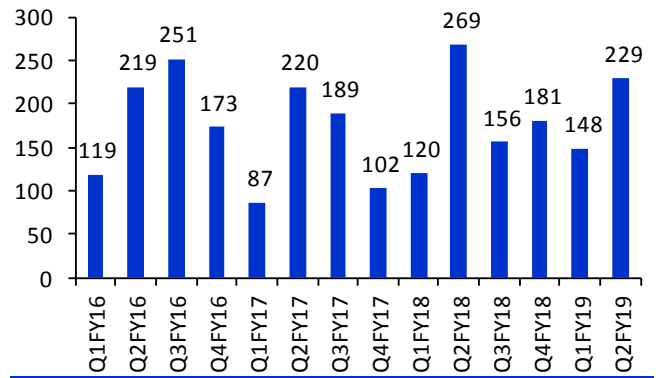
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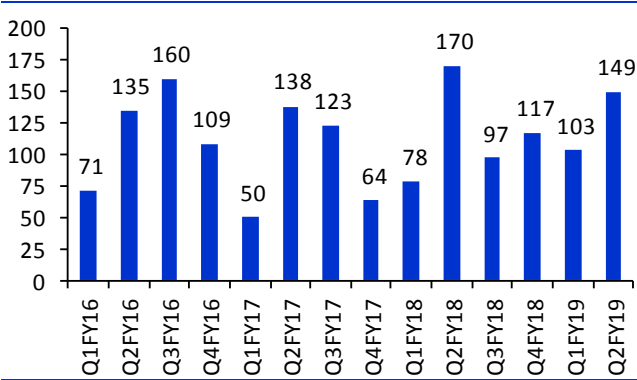
E-mail: kushals@dolatcapital.com

**Exhibit 1: Net Sales (₹ in Mn)**


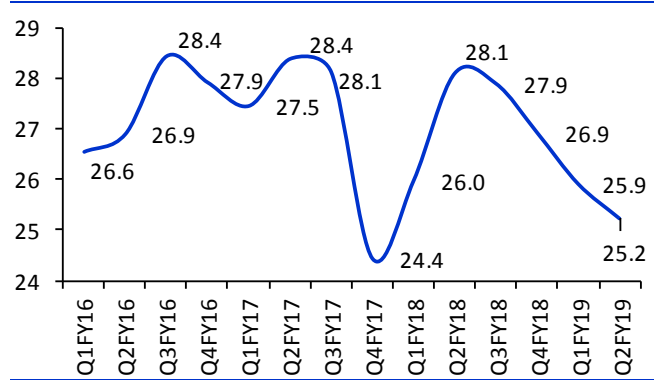
Source: DART, Company

**Exhibit 2: EBITDA (₹ in Mn)**


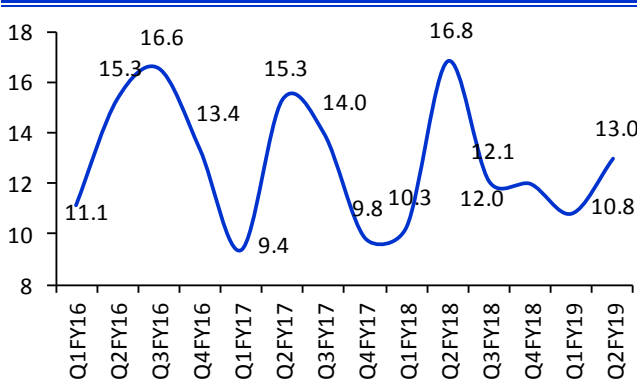
Source: DART, Company

**Exhibit 3: Net profit (₹ in Mn)**


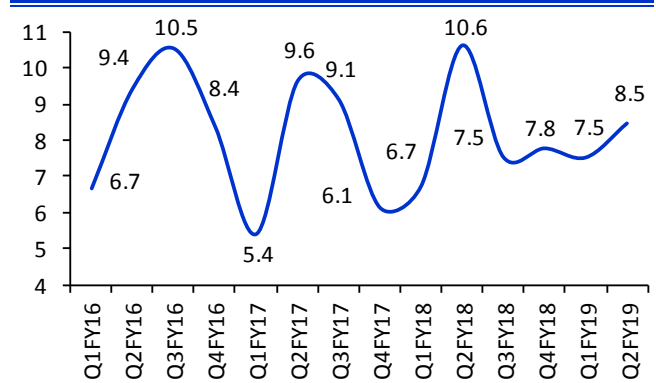
Source: DART, Company

**Exhibit 4: Gross Margin %**


Source: DART, Company

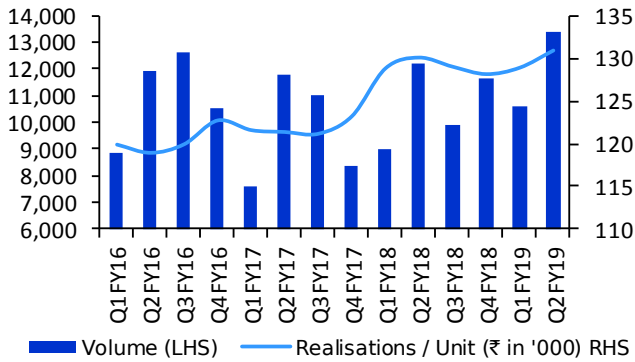
**Exhibit 5: OPM %**


Source: DART, Company

**Exhibit 6: Net Profit Margin (%)**


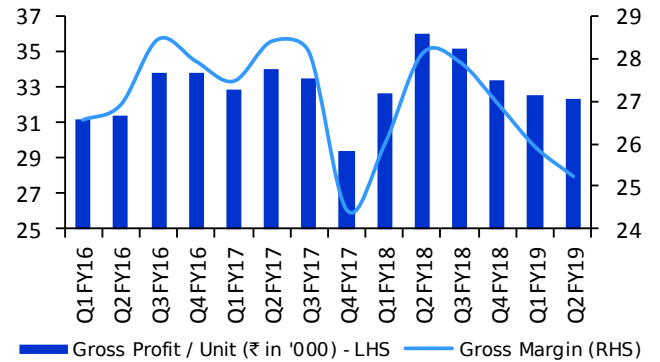
Source: DART, Company

**Exhibit 7: Volumes and Realisations**



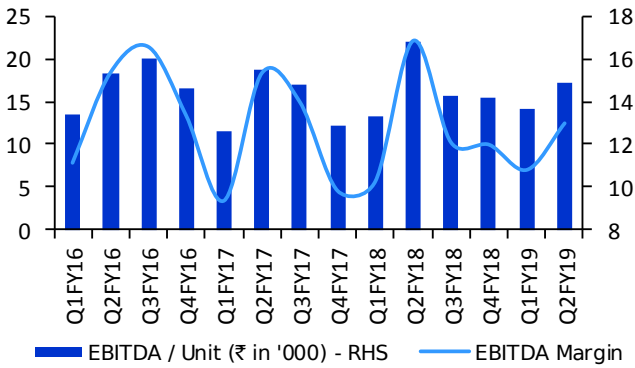
Source: DART, Company

**Exhibit 8: Gross Spread and Gross Margin**



Source: DART, Company

**Exhibit 9: EBITDA Spread and EBITDA Margin**



Source: DART, Company

**Profit and Loss Account**

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
<b>Revenue</b>	<b>4,753</b>	<b>5,560</b>	<b>6,339</b>	<b>7,204</b>
<b>Total Expense</b>	<b>4,158</b>	<b>4,834</b>	<b>5,517</b>	<b>6,244</b>
COGS	3,457	4,042	4,645	5,272
Employees Cost	392	401	441	494
Other expenses	309	391	430	477
<b>EBIDTA</b>	<b>595</b>	<b>725</b>	<b>822</b>	<b>959</b>
Depreciation	53	53	57	65
<b>EBIT</b>	<b>542</b>	<b>673</b>	<b>765</b>	<b>894</b>
Interest	6	4	6	6
Other Income	25	26	51	67
<b>EBT</b>	<b>561</b>	<b>694</b>	<b>810</b>	<b>955</b>
Tax	191	232	283	334
RPAT	370	462	526	621
<b>APAT</b>	<b>370</b>	<b>462</b>	<b>526</b>	<b>621</b>

**Balance Sheet**

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
<b>Sources of Funds</b>				
Equity Capital	110	110	110	110
Reserves & Surplus	1,733	2,084	2,431	2,821
<b>Net Worth</b>	<b>1,842</b>	<b>2,194</b>	<b>2,541</b>	<b>2,931</b>
Net Deferred Tax Liability	52	53	61	71
<b>Total Capital Employed</b>	<b>1,894</b>	<b>2,247</b>	<b>2,602</b>	<b>3,001</b>

**Applications of Funds**

Net Block	<b>862</b>	<b>860</b>	<b>953</b>	<b>1,038</b>
CWIP	32	53	54	55
Investments	88	137	191	171
<b>Current Assets, Loans &amp; Advances</b>	<b>1,472</b>	<b>1,943</b>	<b>2,240</b>	<b>2,673</b>
Inventories	362	460	516	589
Receivables	472	782	706	824
Cash and Bank Balances	425	179	556	784
Loans and Advances	1	1	1	1
Other Current Assets	53	67	60	55
<b>Less: Current Liabilities &amp; Provisions</b>	<b>559</b>	<b>746</b>	<b>835</b>	<b>936</b>
Payables	360	494	590	691
Other Current Liabilities	199	252	245	245
Net Current Assets	913	1,197	1,404	1,737
<b>Total Assets</b>	<b>1,894</b>	<b>2,247</b>	<b>2,602</b>	<b>3,001</b>

E – Estimates

**Important Ratios**

Particulars	FY17A	FY18A	FY19E	FY20E
<b>(A) Margins (%)</b>				
Gross Profit Margin	27.3	27.3	26.7	26.8
EBIDTA Margin	12.5	13.0	13.0	13.3
EBIT Margin	11.4	12.1	12.1	12.4
Tax rate	34.0	33.5	35.0	35.0
Net Profit Margin	7.8	8.3	8.3	8.6
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	72.7	72.7	73.3	73.2
Employee	8.2	7.2	7.0	6.9
Other	6.5	7.0	6.8	6.6
<b>(C) Measure of Financial Status</b>				
Interest Coverage	93.5	159.6	123.4	151.6
Inventory days	28	30	30	30
Debtors days	36	51	41	42
Payable days	28	32	34	35
Working Capital days	70	79	81	88
FA T/O	5.5	6.5	6.6	6.9
<b>(D) Measures of Investment</b>				
AEPS (₹)	16.9	21.1	24.0	28.3
CEPS (₹)	19.3	23.4	26.6	31.3
DPS (₹)	4.3	5.3	7.0	9.0
Dividend Payout (%)	25.2	24.9	29.2	31.8
BVPS (₹)	84.0	100.0	115.8	133.6
RoANW (%)	21.9	22.9	22.2	22.7
RoACE (%)	20.5	21.6	20.5	20.8
RoAIC (%)	36.9	38.0	37.2	42.0
<b>(E) Valuation Ratios</b>				
CMP (₹)	359	359	359	359
P/E	21.3	17.1	15.0	12.7
Mcap (₹ Mn)	7,884	7,884	7,884	7,884
MCap/ Sales	1.7	1.4	1.3	1.1
EV	7,300	7,252	6,928	6,681
EV/Sales	1.5	1.3	1.1	0.9
EV/EBITDA	12.3	10.0	8.4	7.0
P/BV	4.3	3.6	3.1	2.7
Dividend Yield (%)	1.2	1.5	1.9	2.5
<b>(F) Growth Rate (%)</b>				
Revenue	(10.5)	17.0	14.0	13.6
EBITDA	(22.0)	21.9	13.3	16.7
EBIT	(23.6)	24.1	13.7	16.9
PBT	(21.6)	23.8	16.7	17.9
APAT	(21.8)	24.7	14.0	17.9
EPS	(21.8)	24.7	14.0	17.9

**Cash Flow**

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
CFO	711	261	715	615
CFI	(290)	(392)	(151)	(151)
CFF	(139)	(112)	(186)	(237)
FCFF	637	189	564	464
Opening Cash	128	425	179	556
Closing Cash	425	179	556	784

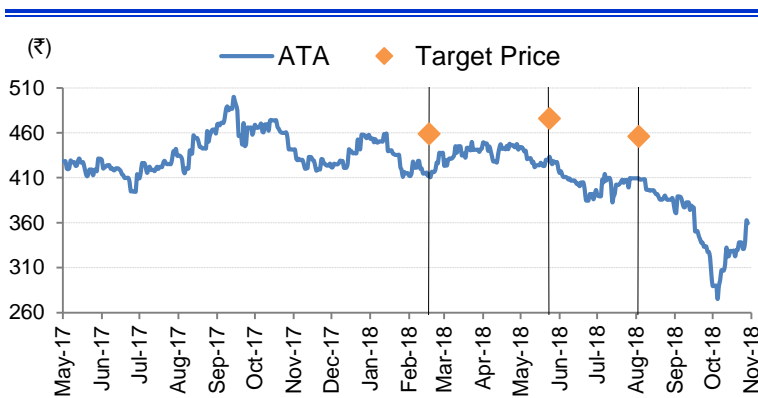
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Feb-18	Accumulate	459	413
May-18	Accumulate	476	433
Aug-18	Accumulate	456	409

\*Price as on Recommendation Date

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