

Capital efficient player at inexpensive valuations...

Atul Auto (AAL), in over three decades of existence, is a prominent 3-W OEM based out of Gujarat with a presence across passenger, cargo segments (60%, 40% as of FY20, respectively). Domestically, it commands ~6% overall market share (4% in passenger, 16% in cargo). It offers 3-Ws across the fuel range viz. diesel (~80% of sales) and alternative fuels (petrol, CNG, LPG; ~20% of sales) including e-rickshaws; with in-house lithium ion offering slated to be introduced in the next two to three quarters.

Triggers

Sound financials merit mean reversal in valuations

Over the years AAL has shown strong financial prudence (net debt free since FY12), including during years of rapid volume growth (FY12-16 volume CAGR at 13%). The company has been CFO positive in each of the past 10 years and been FCF positive in seven of the last 10 years. Return ratio profile has remained impressive (> 20% RoE, ~40-60% RoIC till FY19) despite slowing growth in volumes, revenues, profitability post FY16. Notwithstanding fall in volumes, however, AAL continued to command healthy mid/high teen P/E multiples till FY20. At CMP, AAL trades at ~7.4x FY20 earnings i.e. near bottom of valuation cycle. We believe there is room for valuation catch up in AAL in view of continued strong B/S and financial performance, which remain superior to several sector peers.

Capex largely over, volume outlook reasonably positive

AAL would soon be commissioning a greenfield plant at Ahmedabad (60,000 capacity per annum). With FY21E to be a near washout due to Covid-19 (~40-50% volume decline), healthy recovery in sales volume is expected from FY22E onwards with AAL aiming for ~ 1 lakh unit sales in the next four to five years. Interventions like scrappage policy & GST cut could certainly hasten recovery prospects, with AAL being a key beneficiary.

Valuation & Outlook

We value AAL at ₹ 215 i.e. 9x P/E on FY20 EPS of ₹ 24 and assign **BUY** rating. Although the 3-W segment is one of the hardest hit due to social distancing norms amid Covid-19, it is also difficult to catch the bottom of the cycle. Hence, at the CMP, AAL provides an attractive risk-reward opportunity with inexpensive valuations, healthy balance sheet and sound capital efficiency. Slower than expected ramp up in future offtake remains a risk to our call.

Key Financial Summary

P&L Account (₹ crore)	FY17	FY18	FY19	FY20
Sales	475.3	556.0	666.8	625.3
EBITDA	59.5	72.5	81.5	71.2
EBITDA margin (%)	12.5	13.0	12.2	11.4
PAT	37.1	46.2	53.1	52.3
EPS (₹)	16.9	21.1	24.2	23.9
Balance Sheet (₹ crore)				
Equity	11.0	11.0	11.0	11.0
Net Worth	184.0	220.8	262.0	303.0
Debt	-	-	-	1.0
Return Ratios (%)				
RoE	20.0	21.7	21.0	17.2
RoCE	30.8	31.6	31.6	21.3
Valuations (x)				
P/E	10.4	8.3	7.2	7.3
EV/EBITDA	6.4	5.3	4.7	5.4
P/B	2.1	1.7	1.5	1.3

Source: Company, ICICI Direct Research

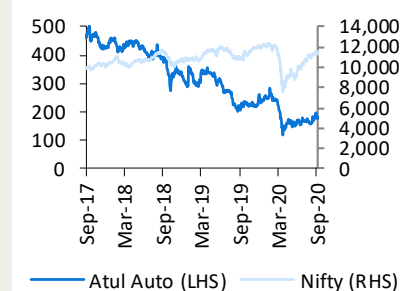


Particulars	
Particulars	Amount
Market capitalisation (₹ crore)	385.0
Debt (FY20, ₹ crore)	1.0
Cash & Inv. (FY20, ₹ crore)	2.4
EV (₹ crore)	383.6
52 Week High/Low (₹)	299/117
Equity capital (₹ crore)	11.0
Face value (₹)	5.0

Key Highlights

- AAL is the fourth largest domestic 3-W OEM with 16% market share in cargo segment with overall share pegged at 6%
- Debt free B/S, strong return ratio profile and cash generation track record merit mean reversion in valuations
- AAL offers smart risk reward prospect. Assign BUY with target price of ₹ 215

Price chart



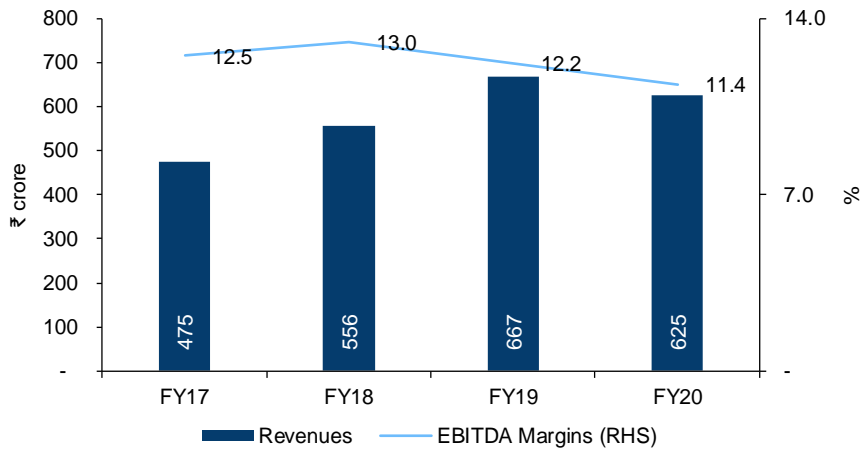
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Financial story in charts

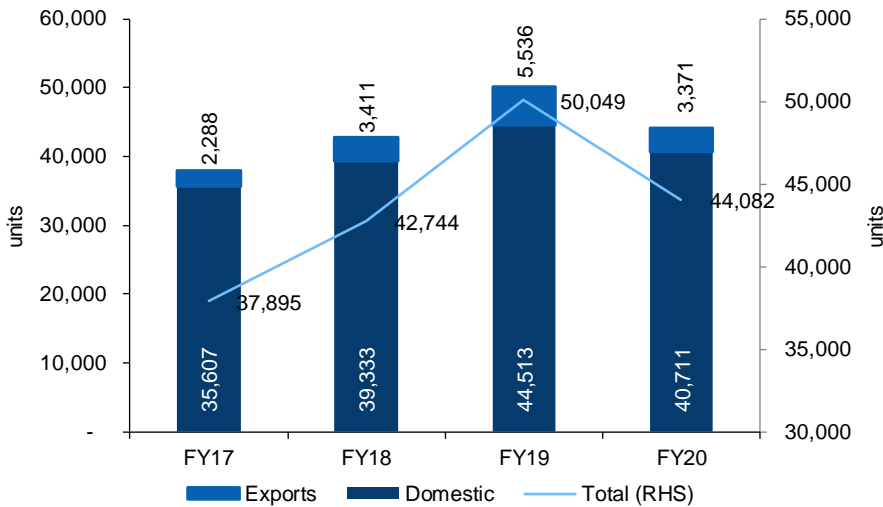
Exhibit 1: Trend in revenues and margins



Revenues have grown at 9.6% CAGR over FY17-20. AAL has largely maintained margins around 12% mark during this time

Source: Company, ICICI Direct Research

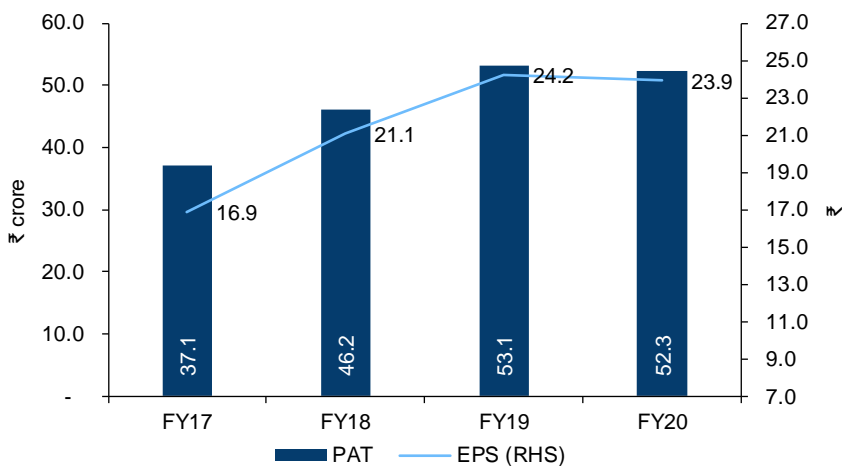
Exhibit 2: Total volumes



Domestic dispatches form ~92% of total volumes. While it has a pan-India presence, western and eastern markets are stronger geographies for AAL with Gujarat, Rajasthan and Madhya Pradesh being some major states. The company exports to Latin America, Africa, Bangladesh and Nepal

Source: Company, ICICI Direct Research

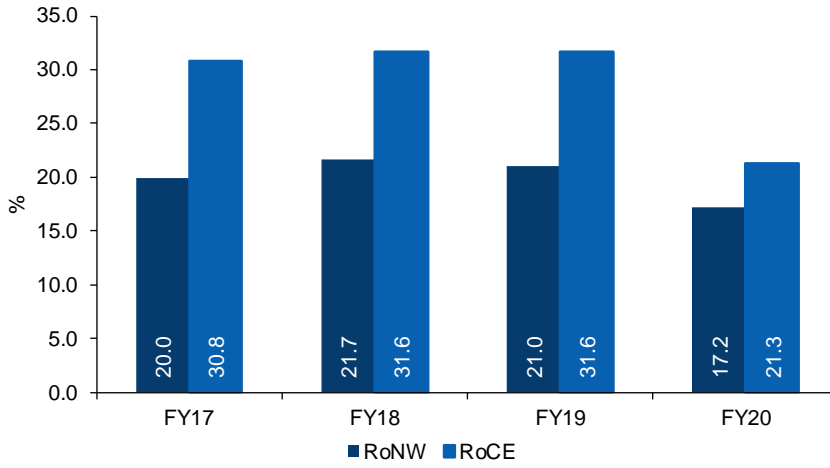
Exhibit 3: Trend in profitability



PAT has grown at ~12.1% CAGR over FY17-20

Source: Company, ICICI Direct Research

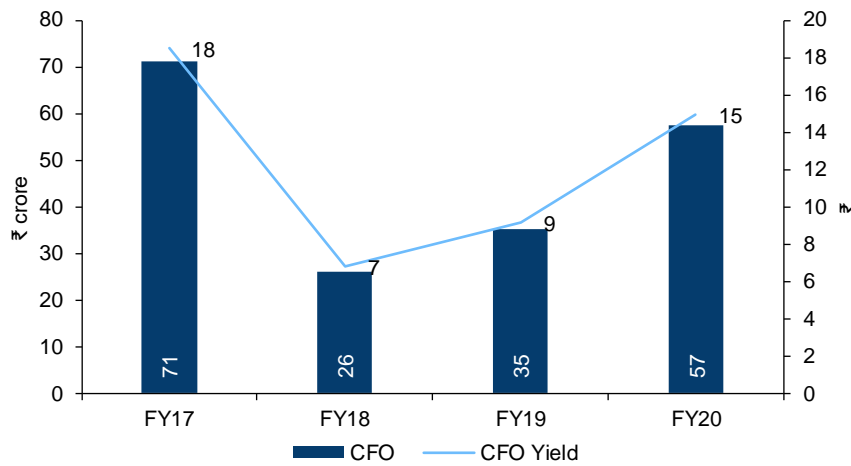
Exhibit 4: Trend in return ratios



ALL has consistently clocked strong double-digit return ratios thereby implying the strength of the business model

Source: Company, ICICI Direct Research

Exhibit 5: Cash generation trend



AAL has been CFO positive in each of the past 10 years and FCF positive in seven of the last 10 years. As of FY20, it trades at attractive CFO yield of ~15%

Source: Company, ICICI Direct Research

Annexure I: 3-W Industry Overview

Exhibit 6: Total 3-W industry size and AAL's cross-segment volumes for FY19 & FY20

Segment	Industry				AAL				AAL market share	
	FY19	FY20	YoY%	% of total	FY19	FY20	YoY%	% of total	FY19	FY20
Domestic	7,01,005	6,36,569	-9%	56%	44,513	40,711	-9%	92%	6%	6%
Passenger	5,72,386	5,25,015	-8%	46%	24,812	23,275	-6%	53%	4%	4%
Cargo	1,28,619	1,11,554	-13%	10%	19,701	17,436	-11%	40%	15%	16%
Exports	5,67,683	5,02,169	-12%	44%	5,536	3,371	-39%	8%	1%	1%
Passenger	5,61,510	4,95,850	-12%	44%	4,944	3,182	-36%	7%	1%	1%
Cargo	6,173	6,319	2%	1%	592	189	-68%	0%	10%	3%
Grand Total	12,68,688	11,38,738	-10%	100%	50,049	44,082	-12%	100%	4%	4%
Total Passenger	11,33,896	10,20,865	-10%	90%	29,756	26,457	-11%	60%	3%	3%
Total Cargo	1,34,792	1,17,873	-13%	10%	20,293	17,625	-13%	40%	15%	15%

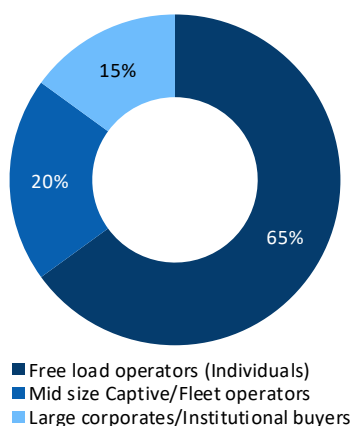
Source: SIAM, ICICI Direct Research

Exhibit 7: Market share movement in domestic 3-W industry over the years

Company	FY16		FY17		FY18		FY19		FY20	
	Rank	MS%	Rank	MS%	Rank	MS%	Rank	MS%	Rank	MS%
3-W										
Bajaj Auto	1	47.4	1	49.5	1	58.1	1	56.9	1	57.3
Piaggio Vehicles	2	29.9	2	29.5	2	24.0	2	24.2	2	23.9
M&M	3	10.2	3	10.2	3	8.6	3	9.4	3	9.1
Atul Auto	4	7.9	4	7.1	4	6.2	4	6.3	4	6.4
TVS Motor	5	2.9	5	2.4	5	2.6	5	2.4	5	1.9
3-W - passenger										
Bajaj Auto	1	57.5	1	59.7	1	67.0	1	64.3	1	63.8
Piaggio Vehicles	2	24.8	2	24.0	2	18.6	2	19.6	2	20.1
M&M	3	8.1	3	7.9	3	7.1	3	8.4	3	8.4
Atul Auto	4	5.1	4	4.6	4	3.8	4	4.3	4	4.4
TVS Motor	5	3.5	5	3.1	5	3.2	5	2.9	5	2.3
3-W - cargo										
Piaggio Vehicles	1	53.4	1	49.8	1	47.9	1	44.8	1	42.0
Bajaj Auto	5	1.4	4	12.0	2	19.3	2	23.8	2	27.0
Atul Auto	2	20.6	3	16.5	3	16.4	3	15.3	3	15.6
M&M	3	19.9	2	18.7	4	15.2	4	14.1	4	13.4
Scooters India	4	4.8	5	3.0	5	1.2	5	1.9	5	2.0

Source: SIAM, ICICI Direct Research; Note – MS% is market share percentage

Exhibit 8: Break-up of domestic 3-W demand by user profile



Source: Company, ICICI Direct Research

AAL has remained the fourth largest player domestically. However, overall market share has dipped ~1.5% over FY16-20 largely led by ~5% loss in the cargo i.e. goods segment

Annexure II: AAL product profile

Exhibit 9: Atul Gem series



Source: Company, ICICI Direct Research

Exhibit 10: Atul Gemini series



Source: Company, ICICI Direct Research

Exhibit 11: Atul Shakti and Atul Smart series



Source: Company, ICICI Direct Research

Exhibit 12: Atul Elite e-rickshaw series



Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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