

Company Report

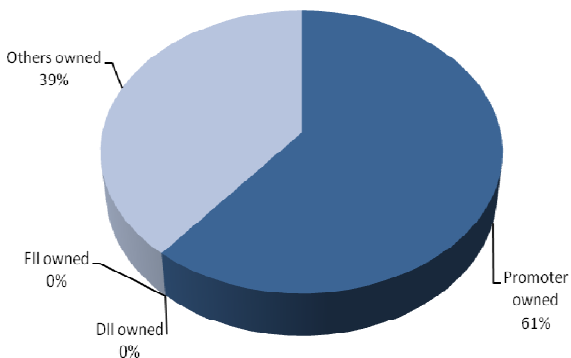
Atul Auto Ltd

25th June, 2012
CMP(As on 23/6/2012) **Rs.170.85**
Target Price **Rs.220.00**

BSE Code	531795
NSE Code	N/A
Market Cap (Rs. Cr.)	124.91
52 Week High/Low	179.00/76.64
Industry	Automobile-Three-wheelers
Face Value	Rs.10.00
Shares O/S	7314400

EPS	20.48
Book Value	74.29
P/E	8.34
P/B	2.30

Shareholding Pattern



Research Analyst: Vineeta Mahnot
 research@hemonline.com

- Atul Auto is a leading manufacturer of 3-Wheeler Commercial Vehicles in the state of Gujarat. It is one of the fastest growing automobile companies in India, with increasing dealer's network.
- The company has achieved highest sales for the financial year 2011-12 in the history of Atul auto. Its yearly sales number stood at 27,000 units in FY2011-12 as against 19,400 units during FY2010-11; implicating a robust growth of about 40%. Whereas sales for January-March 2012 quarter recorded at 7457 vehicles as compared to 5927 vehicles during January-March 2011 quarter.
- The company has registered sharp numbers for the quarter ending March 2012. Revenues from operations moved up 30.10% to Rs. 82.91 crore compared to Rs.63.73 crore during corresponding quarter of the last year. Operating profit rose strongly by about 78% in Q4FY12 at Rs.7.07 crore from Rs.3.98 crore in the like quarter last year. The Net Profit of the company reported a remarkable increase of 109.05% to Rs. 4.16 crore from Rs.1.99 crore in previous same quarter. Adjusted EPS stood at Rs.5.51 compared to Rs.2.64 (adjusted for current equity capital) in the same quarter last year. Operating profit margin expanded by 228bps from 6.25% to 8.53% and net profit jumped 190bps to stay at 5.02 as compared to 3.12% clocked in Q4FY11.
- The Company's Board has recommended, subject to approval of Members in the ensuing Annual General Meeting, the issue & allotment of bonus shares in ratio of one equity share for every Two shares held in the Company.

Valuation

With gaining market share, strong distribution network and capacity expansion plans; Atul Auto Ltd. future earnings scenario looks strong. We believe AAL is trading at an attractive valuation at 7.03x and 5.93x of FY13EPS of Rs.24.28 and FY14EPS of Rs.28.79. We initiate a 'BUY' on the stock with a target price of Rs.220 (appreciation of about 29%) with the medium to long term investment horizon.

Business Details

Atul Auto, an Atul group company was originally incorporated as Atul Auto (Jamnagar) Pvt. Ltd on June 18, 1986 under the Companies Act, 1956, in the State of Maharashtra. Late Mr. Jagjivanbhai Karsanbhai Chandra was the founder of the company, having started the company with a small capital of only Two thousand Rupees in 1986. The Company was subsequently converted into Public Limited Company and fresh certificate of incorporation was obtained on August 12, 1994 from the Registrar of the Companies, Gujarat. The Company is the leading manufacturers of 3-Wheeled Commercial Vehicles in the state of Gujarat, presently engaged in the manufacture of Three Wheelers like 6-seater Auto Rickshaws, Pick-Up Vans and Chassis of Passenger Vehicles.

Atul Auto pioneered motorized rural transport in Gujarat, with multipurpose vehicle called the Khushbu. The Khushbu has been instrumental in transforming the economy of Gujarat by bridging the rural-urban divide. For more than two decades, ATUL GROUP is renowned as leading manufacturer of three-wheeled commercial vehicles in the state of Gujarat. From common people's favorite vehicle CHHAKADA to today's SHAKTI Atul Group had come a long way. The company has a dealership network of 120 dealers across India.

Products of the company includes:

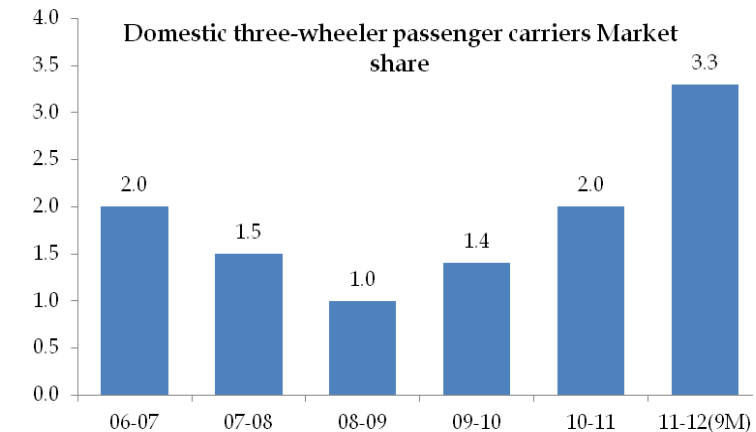
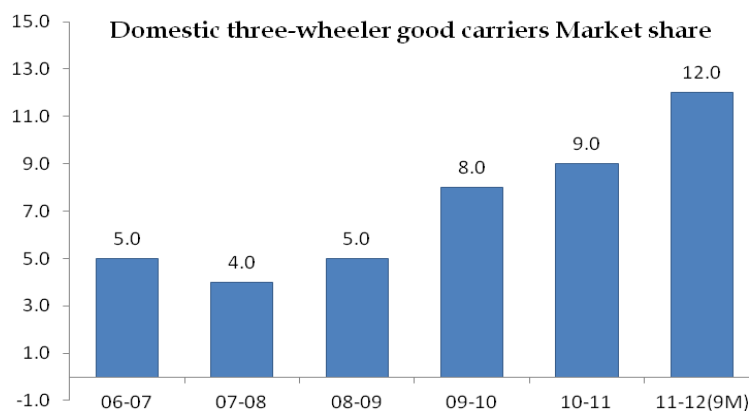
Goods Carriers

- Pickup Van Standard
- Delivery Van
- Pickup Van Highdeck
- Pickup Van Standard CNG
- Delivery Van CNG
- Pickup Van Highdeck CNG
- GEM Cargo / Cargo XL

Passenger Carriers

- 3+1 Passenger Carriers
- 4+1 Passenger Carriers
- 6+1 Passenger Carriers
- CNG Passenger
- LPG Passenger
- Rear Engine Passenger
- GEM Paxx

Special Purpose Vehicle includes-Chicken Carrier, Tipper, Water Tank Carrier, Soft Drink Carrier, Mobile Shop, Hopper, Bio Hazard, Vegetable Vending.



Strong Industry growth prospects

The automobile sector of any country reflects the health of its economy. By this virtue, the Indian economy is very much in a good shape as the country's automobile industry has marked impressive growth in the last few years. According to the Society of Indian Automobile Manufacturers (SIAM), domestic vehicle market is dominated by two-wheelers segment with 76 per cent of the pie. Passenger vehicles, commercial vehicles and three-wheelers account for 16.25 per cent, 4.36 per cent and 3.39 per cent of the market, respectively.

The two & three-wheeler industry recorded a modest 10.9 per cent growth in sales revenues during the March 2012 quarter. The industry's sales revenue growth was volume-driven. An around four per cent rise in average realisations owing to price hikes undertaken during the year also supported the growth in sales revenues. Prices of major raw materials including steel and aluminium remained more or less stable during the quarter. This helped limit the rise in raw material costs to 10.4 per cent. The industry's other expenses also rose at slower pace of 10.5 per cent as compared to the growth in sales revenues. The industry's salary expenses rose at a slightly faster pace of 11.7 per cent as compared to the growth in sales revenues during the March 2012 quarter. However, this was more than offset by a slower rise in raw material costs and other expenses. Hence, the industry was able to record a 11.9 per cent growth in operating profits. Consequently, the industry's net profits grew by a healthy 18.2 per cent during the March 2012 quarter.

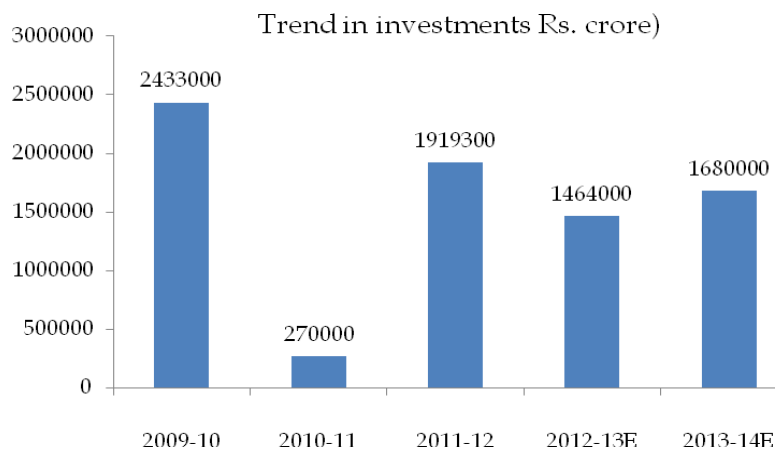
Atul Auto sales growth strong among all in April 2012

	Sales (Nos.)	Growth (%)	Share (%)
Bajaj Auto Ltd.	39,266	-12.9	63.6
Piaggio Vehicles Pvt Ltd.	11,898	-20.6	19.3
Mahindra & Mahindra Ltd.	4,681	-1.4	7.6
TVS Motor Co. Ltd.	2,904	-18.4	4.7
Atul Auto Ltd.	2,232	28.1	3.6
Scooter India Ltd.	691	-32.7	1.1
Total	61,714	-13.3	100.0

Three-wheelers sales declined by 13.3 per cent in April 2012. The fall in sales was across both the three wheeler segments. Passenger carrier sales in the domestic market were impacted by no new issuance of permits. Further, exports of three-wheeler passenger carriers declined by 20.7 per cent during the month owing to a fall in demand from Sri Lanka (accounts for 25-30 per cent of total exports) where, reportedly, import duty on three-wheelers has been raised to 100 per cent from the earlier 51-61 per cent. Sales of three-wheeler goods carriers also declined by 19.4 per cent owing to strong competition from the sub-one tonne LCV segment. Exports to Sri Lanka are likely to normalise in the coming months and demand for passenger carriers in the domestic market may also improve due to likely issuance of new permits by states. Hence, for the year 2012-13, three-wheeler sales are likely to rise by 9.3 per cent.

Of the five projects expected to be completed during the year 2012-13, the two & three-wheeler industry witnessed completion of two projects in April 2012 itself. Of the two projects, one belonged to Hero Motocorp and the other belonged to Piaggio Vehicles. CMIE expects the industry to witness commissioning of an incremental capacity of 4.6 lakh units during the remaining three quarters of the year. This is expected to involve an investment outlay of Rs.975 crores and will increase the industry's total production capacity to 20.4 million units by March 2013 as compared to 18.9 million units in March 2012.

Owing to a robust domestic demand, backed by low penetration levels and a likely healthy growth in income levels, the two & three-wheeler industry is expected to witness steady investments in 2013-14 as well. The industry is expected to witness commissioning of new capacities worth Rs.2,004 crores during 2013-14. This will generate an incremental production capacity of 16.8 lakh units and will take the industry's total outstanding production capacity to 22.1 million units by March 2014.



Market size of three-wheelers to cross Rs.11,000 crore mark in 2013-14

	Units	2008-09	2009-10	2010-11	2011-12(E)	2012-13(E)	2013-14(E)
Production	Numbers	4,97,020	6,19,194	7,99,553	8,77,711	9,67,884	10,86,999
	Sales	4,97,793	6,13,606	7,95,992	8,76,127	9,57,869	10,80,285
Export	Numbers	1,48,066	1,73,214	2,69,968	3,62,876	4,17,369	4,99,883
Realisation	Rs./number	85,552.2	87,263.4	90,754.0	94,837.9	1,00,717.9	1,04,746.6
Sales	Rs. crore	4,258.7	5,354.5	7,223.9	8,309.0	9,647.5	11,315.6

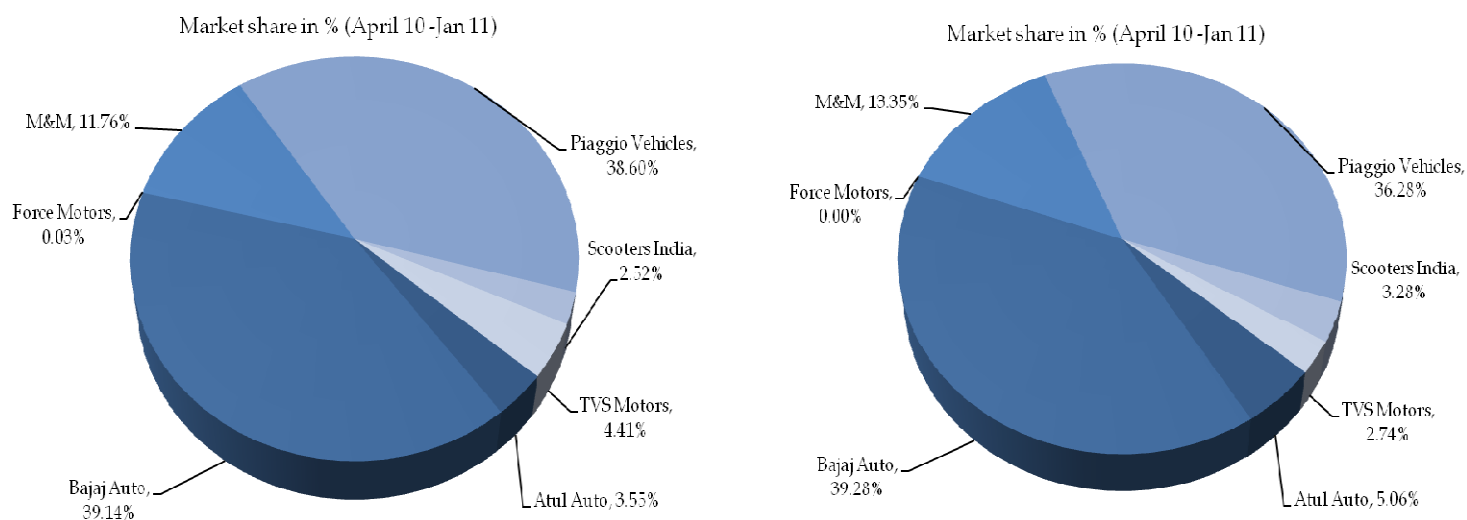
Source: CMIE

For the year 2012-13 as a whole, net profit are expected to grow by a healthy 15.6 per cent, aided by a 15.8 per cent growth in sales revenues. With two-wheeler sales likely to rise by 10.7 per cent and three-wheeler offtake expected to grow by 9.3 per cent, the industry's sales revenue growth for the year will be volume-driven. For the year 2012-13 as a whole, CMIE expects net profit margins to remain stable at 10.8 per cent. The ability of companies to fund their capacity expansion plans from internal accruals will also help the industry maintain its profitability during the year.

Increased market share

Atul auto has witnessed a gain in its market share in the three-wheeler segment in the automobile space. As per data released by Society of Indian Automobile Manufacturer (SIAM), Atul auto's market share increased to 5.06% for April11'-Jan12' period as against 3.55% for the like period previous year as against the intense competition present in the industry. Sales for the same period jumped to 21,673 units for 15,628 units. The company continues to target Tier II and Tier III cities but not leaving its base in rural areas.

Atul Auto's market share went up from 3.55% to 5.06% in fiscal 2011-12.

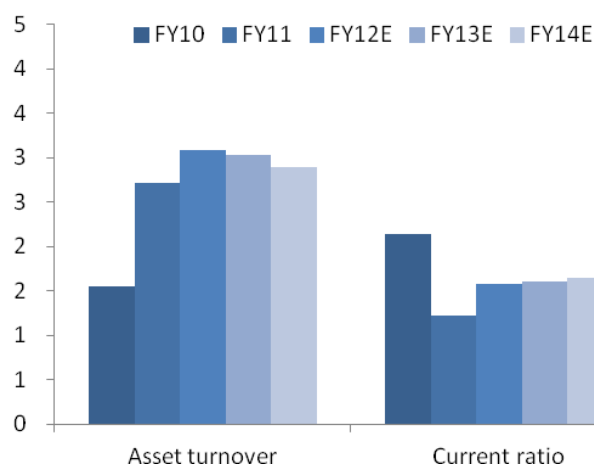
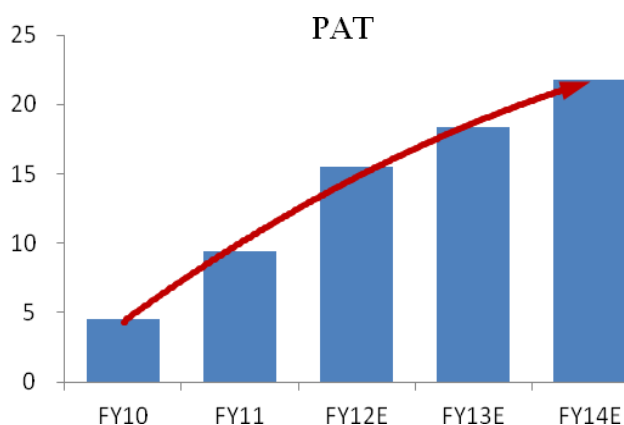
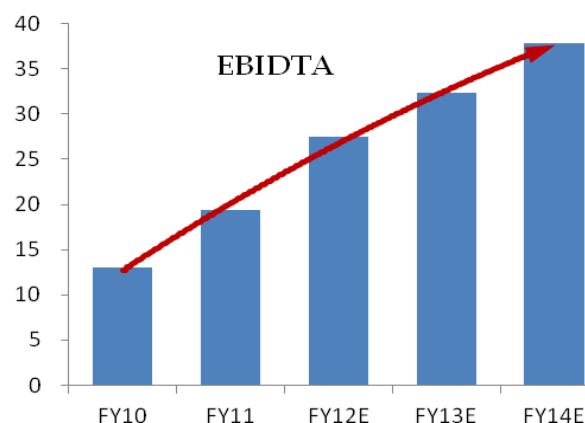
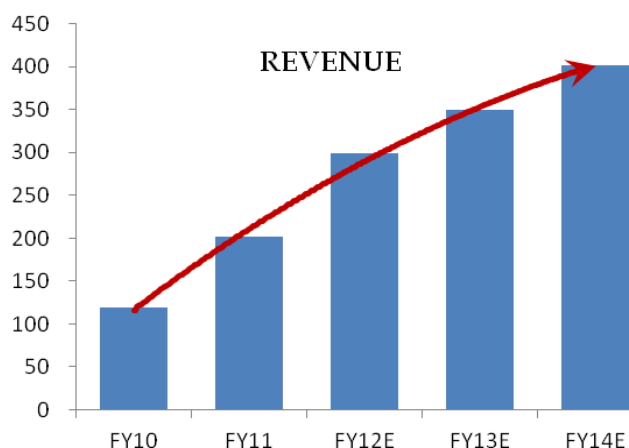


Key growth triggers

Atul auto has been growing faster than the industry and is outperforming the industry and intends to outperform too in coming years. The company looks forward to enhance its position in the auto sector in next five years. It plans to achieve annual turnover of Rs.1000 crore by 2015-16. With increasing its strong foothold in three-wheeler segment, it plans to step up in other automobile segment in coming years. The company plans to double its capacity to 48,000 units per year. It has been achieving its targets consecutively since past few years and is confident to achieve the same in future as well. The company through its tie-up in Bangladesh is increasing its overseas presence. It plans to focus on this tie-up as Bangladesh has great scope for three-wheeler industry and then will look up for more such tie-ups.

Excellent financial performance

Atul Auto has registered excellent financials for the year ended March 2012. Revenues from operations climbed sharply by 48% at Rs.298.82 crore from Rs.202.04 crore last year. Operating profit jumped about 42% from Rs.182.60 crore to Rs.271.28 crore. The company attributed its performance to increased sale of vehicles in rural and semi-urban markets. The company has reported adjusted net profit of Rs.15.46 crore for FY11-12 as against Rs.9.44 crore; a 65 percent surge on the back of higher sales. The company's sales increased by a robust 40% at 27,000 units in FY11-12 as compared to 19,400 units in the last fiscal year; despite worries of inflation, rising interest rates and input costs. Atul Auto has substantially outperformed industry as the industry has witnessed de-growth of five per cent. Adjusted EPS for the financial year ended March 2012 stood at Rs.20.48.



Standalone Profit & Loss Account

Rs. Crore

Particulars	FY10	FY11	FY12	FY13E	FY14E
Net sales	119.85	202.04	298.82	349.62	402.06
Growth		68.58%	47.90%	17.00%	15.00%
Expenditure	106.87	182.60	271.28	317.28	364.27
EBITDA	12.98	19.44	27.54	32.34	37.79
Growth		49.77%	41.67%	17.43%	16.86%
EBITDA margin	10.83%	9.62%	9.22%	9.25%	9.40%
Other income	1.23	0.62	0.59	0.70	1.01
Depreciation & Amortisation	3.89	4.25	4.26	5.05	5.81
EBIT	10.32	15.81	23.87	27.99	32.99
EBIT margin	8.61%	7.83%	7.99%	8.01%	8.21%
Interest	3.16	1.83	0.76	0.63	0.55
PBT	7.16	13.98	23.11	27.36	32.44
Tax	2.61	4.54	7.65	9.03	10.71
PAT	4.55	9.44	15.46	18.33	21.74
Minority interest/Share of JV/ Associates	0.00	0.00	0.00	0.00	0.00
Adjusted PAT	4.55	9.44	15.46	18.33	21.74
Growth		107.47	63.77	18.57	18.58
Net Profit margins	3.80	4.67	5.17	5.24	5.41
Extraordinary item	0.00	0.00	0.13	0.00	0.00
Reported PAT	4.55	9.44	15.59	18.33	21.74
Equity Capital	6.08	6.08	7.55	7.55	7.55
Res. & Surplus	27.56	34.27	48.54	62.85	80.20
Equity Shares	0.61	0.61	0.76	0.76	0.76
EPS	7.46	15.48	20.48	24.28	28.79
Adjusted EPS	6.03	12.50	20.48	24.28	28.79

Balance Sheet

Rs. Crore

Particulars	FY10	FY11	FY12	FY13E	FY14E
Share Capital	6.08	6.08	7.55	7.55	7.55
Reserves & Surplus	27.56	34.27	48.54	62.85	80.20
Shareholders funds	33.65	40.35	56.09	70.40	87.75
Borrowings	23.17	4.68	5.94	5.22	5.03
Deferred tax Liability	5.45	5.41	4.66	4.66	4.66
Sources of funds	62.27	50.44	66.69	80.28	97.44
Gross block	58.23	63.11	66.45	77.69	89.35
Accumulated Depreciation	16.46	20.65	24.91	29.96	35.77
Net block	41.77	42.46	41.54	47.73	53.58
Capital work in progress	1.05	0.24	0.13	2.25	6.04
Goodwill	0.00	0.00	0.00	0.00	0.00
Investments	2.30	2.30	7.75	9.32	10.72
Projects in progress	0.00	0.00	0.00	0.00	0.00
Inventories	18.57	19.17	29.82	34.68	41.97
Sundry debtors	4.52	5.41	6.08	7.27	9.63
Cash and bank balance	1.65	2.83	4.79	6.15	8.26
Other current assets	0.00	0.00	0.00	0.00	0.00
Loans and advances	7.51	2.24	6.53	7.83	8.94
Total current assets	32.24	29.65	47.22	55.94	68.80
Deferred tax asset	0.00	0.00	0.00	0.00	0.00
Current liabilities & provisions	15.09	24.21	29.95	34.96	41.70
Net current assets	17.15	5.44	17.27	20.98	27.10
Misc exp	0.00	0.00	0.00	0.00	0.00
Uses of funds	62.27	50.44	66.69	80.28	97.44

Ratios

Particulars	FY10	FY11	FY12	FY13E	FY14E
Return on Equity	13.52	23.40	27.56	26.04	24.77
Asset turnover	1.55	2.71	3.09	3.03	2.89
Current Ratio	2.14	1.22	1.58	1.60	1.65
Book value per share	55.16	66.15	74.29	93.25	116.23

Cash Flow Statement

Rs. Crore

Particulars	2011	2012	2013E	2014E
PAT	9.44	15.59	18.33	21.74
Depreciation	4.19	4.26	5.05	5.81
Interest	1.83	0.76	0.63	0.55
Direct Taxes Paid	4.54	7.65	9.03	10.71
Change in WC	12.89	(9.87)	(2.34)	(4.02)
Other Operating Activities	0.00	0.00	0.00	0.00
CF from Operations (a)	28.36	10.74	21.67	24.07
Capital expenditure	(4.07)	(3.23)	(13.35)	(15.44)
Chg in investments	(0.00)	(5.45)	(1.57)	(1.40)
Other investing activities	0.00	0.00	0.00	0.00
CF from investing (b)	(4.08)	(8.68)	(14.93)	(16.84)
Free Cash flow (a+b)	24.28	2.06	6.74	7.23
Equity raised/(repaid)	0.00	1.47	0.00	0.00
Debt raised/(repaid)	(18.53)	0.51	(0.72)	(0.19)
Interest paid	(1.83)	(0.76)	(0.63)	(0.55)
Dividend(inctax)	(2.34)	(3.66)	(4.02)	(4.39)
other financing activities	(0.39)	2.34	(0.00)	0.00
CF from financing ©	(23.10)	(0.10)	(5.37)	(5.13)
Net chg in cash (a+b+c)	1.18	1.96	1.37	2.10

Quarterly Financial Highlights

Rs. Crore

Particulars	Q4FY12	Q4FY11	Q3FY12	YoY%	QoQ%
Revenues	82.91	63.73	79.67	30.10	4.07
Expenditures	75.84	59.75	72.81	26.93	4.16
Operating Profit	7.07	3.98	6.86	77.64	3.06
Adjusted Net Profit	4.16	1.99	4.17	109.05	(0.24)
OPM%	8.53	6.25	8.61	228bps	(8bps)
NPM %	5.02	3.12	5.23	190bps	(21bps)
Adjusted EPS*	5.51	2.64	5.52	108.71	(0.18)

*Adjusted for current equity capital

Past Price movement of the stock



www.hemonline.com

research@hemonline.com

HEM SECURITIES LIMITED

MEMBER-BSE,CDSL, SEBI REGISTERED CATEGORY I MERCHANT BANKER

MUMBAI OFFICE: 14/15, KHATAU BLDG., IST FLOOR, 40, BANK STREET, FORT, MUMBAI-400001

PHONE- 0091 22 2267 1000

FAX- 0091 22 2262 5991

JAIPUR OFFICE: 203-204, JAIPUR TOWERS, M I ROAD, JAIPUR-302001

PHONE- 0091 141 405 1000

FAX- 0091 141 510 1757

GROUP COMPANIES

HEM FINLEASE PRIVATE LIMITED

MEMBER-NSE

HEM MULTI COMMODITIES PRIVATE LIMITED

MEMBER-NCDEX, MCX

HEM FINANCIAL SERVICES LIMITED

NBFC REGISTERED WITH RBI

Disclaimer & Disclosure: This document is prepared for our clients only, on the basis of publicly available information and other sources believed to be reliable. Whilst we are not soliciting any action based on this information, all care has been taken to ensure that the facts are accurate, fair and reasonable. This information is not intended as an offer or solicitation for the purchase or sell of any financial instrument and at any point should not be considered as an investment advise. Reader is requested to rely on his own decision and may take independent professional advise before investing. Hem Securities Limited, Hem Finlease Private Limited, Hem Multi Commodities Pvt. Limited, Directors and any of its employees shall not be responsible for the content. The person accessing this information specifically agrees to exempt Hem Securities Limited, Hem Finlease Private Limited, Hem Multi Commodities Pvt. Limited or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and further agrees to hold Hem Securities Limited, Hem Finlease Private Limited, Hem Multi Commodities Pvt. Limited or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The companies and its affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material may from time to time, have long or short positions in, and buy or sell the securities there of, company (ies) mentioned here in and the same have acted upon or used the information prior to, or immediately following the publication.

<i>Disclosure of Interest Statement</i>	<i>Company Name</i>
1. Analyst Ownership of the Stock	No
2. Hem & its Group Company Ownership of the Stock	No
3. Hem & its Group Companies' Director Ownership of the Stock	No
4. Broking relationship with company covered	No

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.