

Atul Auto Ltd.

4QFY18 Results: Estimate (↓), TP (↓), Rating (↔)

Regular Coverage

 Absolute: ADD
 Relative: Benchmark
 9% ATR in 14 Months

Limited pricing power due to competition in increasing RM scenario

Auto OEM

Rating Information	
Price (Rs)	427
Target Price (Rs)	463
Target Date	30th Jun'19
Target Set On	21st May'18
Implied yrs of growth (DCF)	20
Fair Value (DCF)	322
Fair Value (DDM)	101
Ind Benchmark	BSEAUTO
Model Portfolio Position	NA

Atul Auto (ATA) posted a disappointing 4Q led by higher other expenses and employee costs despite strong volume growth (off a low base). EBITDA at Rs 185mn (+80% yoy, +19% qoq) came in 13% below EE. Over the last two years, ATA's volumes have been hit by demonetization and the ongoing shift towards E-rickshaws. While the company has launched its E-rickshaw model, a huge price gap between unorganized and organized E-rickshaws is limiting volumes. We expect 10% yoy volume growth in FY19E (1% lower than our previous estimates) on higher exports growth. We cut our FY19/FY20E EBITDA by 4% but largely maintain FY19 EPS due to higher other income. We revise down our Jun'19 TP to Rs 463 (Mar'19 TP: Rs 479) as we lower our target TTM P/E multiple to 19x from 20x due to uncertainties in the key product segment driven by E-rickshaws.

Stock Information			
Market Cap (Rs Mn)	9,364		
Free Float (%)	47.30 %		
52 Wk H/L (Rs)	512/389.3		
Avg Daily Volume (1yr)	48,812		
Avg Daily Value (Rs Mn)	21		
Equity Cap (Rs Mn)	110		
Face Value (Rs)	5		
Bloomberg Code	ATA IN		

Ownership	Recent	3M	12M
Promoters	58.0 %	0.0 %	-0.3 %
DII	20.8 %	1.6 %	8.2 %
FII	7.5 %	-1.7 %	-0.1 %
Public	13.7 %	0.1 %	-7.9 %

Price %	1M	3M	12M
Absolute	-3.5 %	3.2 %	-0.1 %
Vs Industry	2.5 %	5.3 %	-3.3 %
Bajaj Auto	-4.6 %	-9.7 %	-8.5 %
TVS Motors	-15.5 %	-11.5 %	7.3 %

Standalone Quarterly EPS forecast

Rs/Share	1Q	2Q	3Q	4Q
EPS (18A)	3.5	7.6	4.3	5.4
EPS (19E)	4.6	6.8	5.7	6.6

E-rickshaws eating into diesel 3W share; unorganized players dominate market: E-rickshaws have gained huge traction in northern India and are slowly coming up in western and southern India as they provide a cheap mode of shared transport over short distances. About 90% of E-rickshaws plying in India run on Chinese motors and controllers, so the differentiation is very less. E-rickshaws from unorganized players are available between Rs 60-100k, while from organized players start from Rs 120k. This large price differential, a shorter pay-back period, and non-availability of organized sector financing have led unorganized players to dominate this segment. We believe while the organized sector will gain share eventually, this is still some time away and would happen when the pay-back period is extended and the focus shifts to vehicle longevity and service cost.

Margin expansion difficult amid rising RM prices, higher R&D costs: Gross margins expanded 280bps during FY15-FY17 on low RM prices; however, margin pressure is now increasing due to rising steel and aluminum prices. Increased competition from BJAUT also limits pricing power. ATA also needs to step up its R&D spends to make its petrol vehicle offerings BS-VI compliant. All this means that margin expansion would be difficult to come by. The company may hike prices in the current month as BJAUT has taken a hike from mid-May, however it had not followed April price hike by BJAUT.

EBITDA up 80% yoy but 13% below EE: Employee cost increased 25% qoq and other expenses (excluding product development charges) by 21%, leading to a below-expected EBITDA. However, as per management, these were normal expenses. Gross margins contracted 97bps qoq on increased RM prices, but were in line with EE.

Rs Mn	Current		Change from previous (%)	
	FY19E	FY20E	FY19E	FY20E
Sales	6,259	7,069	-0.6%	1.0%
EBITDA	824	945	-3.7%	-2.0%
PAT	532	616	-0.8%	3.1%
EPS	23.8	27.5	-0.8%	3.1%

Rs. Mn YE Mar	FY18A	FY19E	FY20E	FY21E
Sales	5,560	6,259	7,069	7,744
EBITDA	731	824	945	1,050
Depreciation	53	64	73	77
Interest Expense	4	0	0	0
Other Income	25	41	55	78
Reported PAT	469	532	616	699
Recurring PAT	467	532	616	699
Total Equity	2,099	2,460	2,878	3,379
Gross Debt	0	0	0	0
Cash	537	643	945	1,350
Rs. Mn YE Mar	FY18A	FY19E	FY20E	FY21E
Earnings	20.8	23.8	27.5	31.2
Book Value	94	110	128	151
Dividends	5.9	6.4	7.3	7.3
FCFF	7.0	12.4	22.4	26.9
P/E (x)	20.5	18.0	15.5	13.7
P/B (x)	4.6	3.9	3.3	2.8
EV/EBITDA (x)	12.1	10.7	9.0	7.7
ROE (%)	24 %	23 %	23 %	22 %
Core ROIC (%)	31 %	29 %	30 %	31 %
EBITDA Margin (%)	13 %	13 %	13 %	14 %
Net Margin (%)	8 %	9 %	9 %	9 %

Quarterly performance, standalone

(Rs mn)	4QFY18	4QFY18E	3QFY18	4QFY17	% Change			Comments
					4QFY18E	3QFY18	4QFY17	
Net Sales	1,506	1,520	1,290	1,041	-1%	17%	45%	
Raw material	1,100	1,110	930	786	-1%	18%	40%	
Employee Cost	109	102	87	85	7%	25%	28%	
Other Expenses	112	96	117	67	17%	-5%	68%	
Total Expenditures	1,321	1,307	1,134	938	1%	16%	41%	
EBITDA	185	213	156	103	-13%	19%	80%	
Depreciation	13	15	13	14	-15%	-1%	-8%	
EBIT	172	197	143	89	-13%	21%	94%	
Interest	1	0	1	1	NA	-8%	33%	
Other Income	10	6	4	1	75%	128%	880%	
PBT	181	203	146	89	-11%	24%	104%	
Tax	59	68	49	27	-13%	22%	121%	
Recurring PAT	122	135	97	62	-10%	25%	96%	
Extraordinaries	-4	0	0	0				
Reported PAT	125	135	97	62	-7%	29%	102%	
EPS (Rs)	5.4	6.0	4.3	2.8	-10%	25%	96%	
EBITDA Margin	12.3%	14.0%	12.1%	9.9%	-169 bps	22 bps	242 bps	
EBIT Margin	11.4%	13.0%	11.0%	8.5%	-155 bps	38 bps	291 bps	
PBT Margin	12.0%	13.3%	11.3%	8.5%	-135 bps	72 bps	348 bps	
PAT Margin	8.3%	8.9%	7.5%	6.0%	-56 bps	78 bps	236 bps	
Tax Rate	32.7%	33.5%	33.3%	30.1%	-85 bps	-68 bps	255 bps	
3W Sales	11,624	11,624	9,922	8,385	0%	17%	39%	
ASP (Rs/unit)	129,542	130,761	130,024	124,103	-1%	0%	4%	
EBITDA/unit (Rs)	15,528	18,307	15,713	12,272	-15%	-1%	27%	
Cost as % of Sales								
RM	73.1%	73.0%	72.1%	75.6%	6 bps	97 bps	-249 bps	
Employee Cost	7.2%	6.7%	6.7%	8.2%	52 bps	49 bps	-95 bps	
Other Expenses	7.4%	6.3%	9.1%	6.4%	111 bps	-168 bps	102 bps	

**Company Snapshot****How we differ from Consensus**

-	Equirus	Consensus	% Diff	Comment
EPS	FY19E	23.8	26.0	-9 %
	FY20E	27.5	-	-
Sales	FY19E	6,259	6,229	0 %
	FY20E	7,069	-	-
PAT	FY19E	532	576	-8 %
	FY20E	616	-	-

Key Estimates:

Particulars	FY18	FY19E	FY20E	FY21E
Domestic 3W Sales	39,333	42,741	46,588	48,917
yoY Change (%)	8%	9%	9%	5%
Domestic ASP (Rs/unit)	131,538	134,565	138,342	142,523
yoY Change (%)	7%	2%	3%	3%
Export 3W Sales	3,411	4,320	5,185	6,221
yoY Change (%)	49%	27%	20%	20%
Export ASP (Rs/unit)	114,589	117,437	120,423	124,063
yoY Change (%)	2.4%	2.5%	2.5%	3.0%
EBITDA Margin (%)	13.0%	13.2%	13.4%	13.6%

Key Triggers

- Launch of petrol/CNG variants in 3W domestic and export markets.

Sensitivity to Key Variables	% Change	% Impact on EPS
EBITDA Margin	1 %	7 %
-	-	-
-	-	-

DCF Valuations & Assumptions

Rf	Beta	Ke	Term. Growth	Debt/IC in Term. Yr
7.7 %	1.1	14.3 %	3.0 %	0.0 %

-	FY19E	FY20E	FY21-23E	FY24-28E	FY29-33E
Sales Growth	13 %	13 %	6 %	8 %	6 %
NOPAT Margin	8 %	8 %	8 %	8 %	8 %
IC Turnover	3.30	3.48	3.97	4.30	4.30
RoIC	28.7 %	29.5 %	33.5 %	37.6 %	37.3 %
Years of strong growth	1	2	5	10	15
Valuation as on date (Rs)	170	187	226	256	275
Valuation as of Mar'19	197	217	262	297	319

Based on DCF, assuming 20 years of 13% CAGR sales growth and 41% average ROIC, we derive our fair value of Rs 322 for 30th Jun'19.

Company Description:

Headquartered at Rajkot, Atul Auto is the leading manufacturer of 3-Wheeler 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. These vehicles are marketed under the brand name of KHUSHBU, which is well established and very popular. Atul Auto pioneered motorized rural transport in Gujarat, with multipurpose vehicle called the Chhakada.

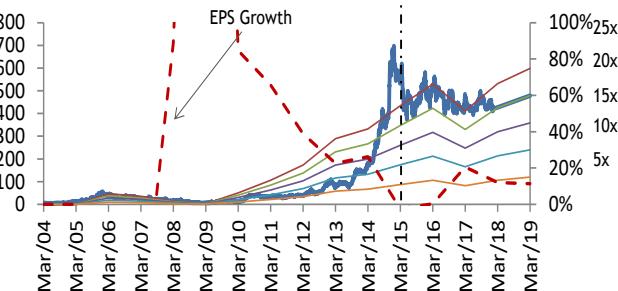
Comparable valuation			Mkt Cap	Price	Target	EPS			P/E		BPS	P/B		RoE		Div Yield		
Company	Reco.	CMP	Rs. Mn.	Target	Date	FY18A	FY19E	FY20E	FY18A	FY19E	FY20E	FY18A	FY19E	FY18A	FY19E	FY20E	FY18A	FY19E
Atul Auto	ADD	427	9,364	463	30th Jun'19	20.8	23.8	27.5	20.5	18.0	15.5	93.7	3.9	24 %	23 %	23 %	1.4 %	1.5 %
Bajaj Auto	ADD	2,722	787,657	3,038	30th Jun'19	146.9	163.5	182.9	18.5	16.6	14.9	705.9	3.4	22 %	22 %	22 %	2.2 %	2.4 %
TVS	NA	658	312,607	NA	NA	15.0	20.6	26.7	37.6	27.3	21.1	16.0	30.8	859 %	1,946 %	2,616 %	0.2 %	0.2 %

Standalone Quarterly Earnings Forecast and Key Drivers

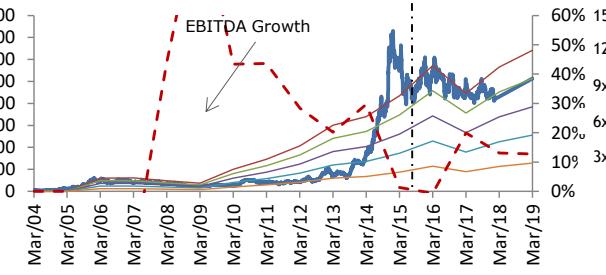
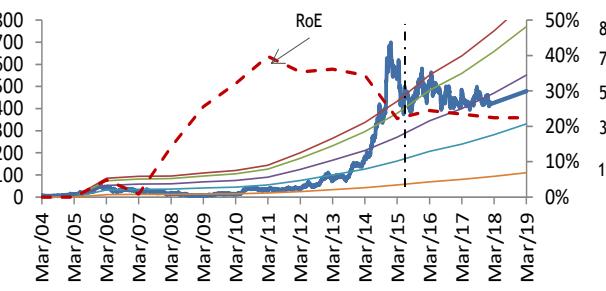
Rs in Mn	1Q18A	2Q18A	3Q18A	4Q18A	1Q19E	2Q19E	3Q19E	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E	FY18A	FY19E	FY20E	FY21E
Revenue	1,165	1,599	1,290	1,506	1,348	1,762	1,468	1,681	1,513	1,990	1,662	1,905	5,560	6,259	7,069	7,744
Raw material	838	1,139	989	1,056	988	1,291	1,076	1,232	1,109	1,459	1,218	1,396	4,022	4,588	5,182	5,676
Change in Inventory & FG	25	10	-59	45	0	0	0	0	0	0	0	0	20	0	0	0
Employee Cost	98	108	87	109	105	115	96	118	115	126	105	130	401	434	476	506
Other Expenses	84	72	117	112	97	120	95	101	109	135	108	114	385	413	467	511
User Defined Common Expense 5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EBITDA	121	269	156	185	158	235	201	230	180	270	231	264	731	824	945	1,050
Depreciation	13	13	13	13	15	16	17	17	18	18	18	19	53	64	73	77
EBIT	108	256	143	172	143	220	184	213	162	252	212	246	679	760	872	973
Interest	1	1	1	1	0	0	0	0	0	0	0	0	4	0	0	0
Other Income	5	6	4	10	10	10	9	11	12	14	13	16	25	41	55	78
PBT	112	261	146	181	153	230	193	224	174	265	226	262	699	800	927	1,051
Tax	34	91	49	59	51	77	65	75	58	89	76	88	233	268	310	352
Recurring PAT	78	170	97	122	102	153	128	149	116	177	150	174	467	532	616	699
Extraordinary	-2	4	0	-4	0	0	0	0	0	0	0	0	-2	0	0	0
Reported PAT	80	166	97	125	102	153	128	149	116	177	150	174	469	532	616	699
EPS (Rs)	3.49	7.59	4.33	5.43	4.55	6.83	5.73	6.65	5.17	7.88	6.70	7.76	20.84	23.76	27.51	31.20
Key Drivers																
3W Sales	7,606	11,761	11,043	8,385	8,974	12,224	9,922	11,624	10,236	13,247	11,071	12,507	38,795	42,744	47,062	51,772
ASP (Rs/unit)	122,272	122,005	122,032	124,103	129,853	130,767	130,024	129,542	131,699	132,978	132,633	134,386	122,518	130,072	132,993	136,547
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sequential Growth (%)																
Revenue	12 %	37 %	-19 %	17 %	-10 %	31 %	-17 %	14 %	-10 %	32 %	-17 %	15 %	-	-	-	-
Raw material	14 %	36 %	-13 %	7 %	-6 %	31 %	-17 %	14 %	-10 %	32 %	-17 %	15 %	-	-	-	-
EBITDA	17 %	123 %	-42 %	19 %	-15 %	49 %	-15 %	15 %	-22 %	50 %	-15 %	15 %	-	-	-	-
EBIT	22 %	137 %	-44 %	21 %	-17 %	53 %	-16 %	16 %	-24 %	55 %	-16 %	16 %	-	-	-	-
Recurring PAT	26 %	118 %	-43 %	25 %	-16 %	50 %	-16 %	16 %	-22 %	52 %	-15 %	16 %	-	-	-	-
EPS	26 %	118 %	-43 %	25 %	-16 %	50 %	-16 %	16 %	-22 %	52 %	-15 %	16 %	-	-	-	-
Yearly Growth (%)																
Revenue	25 %	11 %	-4 %	45 %	16 %	10 %	14 %	12 %	12 %	13 %	13 %	13 %	17 %	13 %	13 %	10 %
EBITDA	46 %	22 %	-17 %	80 %	30 %	-13 %	29 %	24 %	14 %	15 %	15 %	15 %	23 %	13 %	15 %	11 %
EBIT	54 %	24 %	-19 %	94 %	32 %	-14 %	29 %	24 %	13 %	15 %	15 %	15 %	25 %	12 %	15 %	12 %
Recurring PAT	62 %	23 %	-20 %	96 %	31 %	-10 %	32 %	22 %	14 %	15 %	17 %	17 %	26 %	14 %	16 %	13 %
EPS	62 %	23 %	-20 %	96 %	31 %	-10 %	32 %	22 %	14 %	15 %	17 %	17 %	26 %	14 %	16 %	13 %
Margin (%)																
EBITDA	10 %	17 %	12 %	12 %	12 %	13 %	14 %	14 %	12 %	14 %	14 %	14 %	13 %	13 %	13 %	14 %
EBIT	9 %	16 %	11 %	11 %	11 %	12 %	13 %	13 %	11 %	13 %	13 %	13 %	12 %	12 %	12 %	13 %
PBT	10 %	16 %	11 %	12 %	11 %	13 %	13 %	13 %	12 %	13 %	14 %	14 %	13 %	13 %	13 %	14 %
PAT	7 %	11 %	8 %	8 %	8 %	9 %	9 %	9 %	8 %	9 %	9 %	9 %	8 %	9 %	9 %	9 %

Consolidated Financials

P&L (Rs Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	5,560	6,259	7,069	7,744
Op. Expenditure	4,828	5,435	6,125	6,693
EBITDA	731	824	945	1,050
Depreciation	53	64	73	77
EBIT	679	760	872	973
Interest Expense	4	0	0	0
Other Income	25	41	55	78
PBT	699	800	927	1,051
Tax	233	268	310	352
PAT bef. MI & Assoc.	467	532	616	699
Minority Interest	0	0	0	0
Profit from Assoc.	0	0	0	0
Recurring PAT	467	532	616	699
Extraordinaires	-2	0	0	0
Reported PAT	469	532	616	699
FDEPS (Rs)	20.8	23.8	27.5	31.2
DPS (Rs)	5.9	6.4	7.3	7.3
CEPS (Rs)	23.2	26.6	30.8	34.6
FCFPS (Rs)	7.0	12.4	22.4	26.9
BVPS (Rs)	93.7	109.8	128.5	150.8
EBITDAM (%)	13 %	13 %	13 %	14 %
PATM (%)	8 %	9 %	9 %	9 %
Tax Rate (%)	33 %	34 %	34 %	34 %
Sales Growth (%)	17 %	13 %	13 %	10 %
FDEPS Growth (%)	26 %	14 %	16 %	13 %

TTM P/E vs. 2 yr forward EPS growth


Balance Sheet (Rs Mn)	FY18A	FY19E	FY20E	FY21E	Cash Flow (Rs Mn)	FY18A	FY19E	FY20E	FY21E
Equity Capital	112	112	112	112	PBT	699	800	927	1,051
Reserve	1,987	2,348	2,766	3,267	Depreciation	53	64	73	77
Networth	2,099	2,460	2,878	3,379	Others	2	0	0	0
Long Term Debt	0	0	0	0	Taxes Paid	233	268	310	352
Def Tax Liability	55	55	55	55	Change in WC	-248	-69	-88	-73
Minority Interest	0	0	0	0	Operating C/F	273	527	601	703
Account Payables	494	551	625	685	Capex	-65	-250	-100	-100
Other Curr Liabi	250	272	299	322	Change in Invest	-54	0	0	0
Total Liabilities & Equity	2,898	3,337	3,857	4,441	Others	0	0	0	0
Net Fixed Assets	866	1,104	1,131	1,154	Investing C/F	-120	-250	-100	-100
Capital WIP	53	0	0	0	Change in Debt	0	0	0	0
Others	170	170	170	170	Change in Equity	0	0	0	0
Inventory	460	514	582	639	Others	-169	-172	-198	-198
Account Receivables	782	873	989	1,085	Financing C/F	-169	-172	-198	-198
Other Current Assets	31	34	39	43	Net change in cash	-16	106	303	405
Cash	537	643	945	1,350	RoE (%)	24 %	23 %	23 %	22 %
Total Assets	2,898	3,337	3,857	4,441	RoIC (%)	23 %	23 %	23 %	22 %
Non-cash Working Capital	529	598	686	759	Core RoIC (%)	31 %	29 %	30 %	31 %
Cash Conv Cycle	34.7	34.9	35.4	35.8	Div Payout (%)	34 %	32 %	32 %	28 %
WC Turnover	10.5	10.5	10.3	10.2	P/E	20.5	18.0	15.5	13.7
FA Turnover	6.1	5.7	6.3	6.7	P/B	4.6	3.9	3.3	2.8
Net D/E	-0.3	-0.3	-0.3	-0.4	P/FCFF	61.2	34.5	19.1	15.9
Revenue/Capital Employed	3.2	3.1	3.0	2.8	EV/EBITDA	12.1	10.7	9.0	7.7
Capital Employed/Equity	1.0	1.0	1.0	1.0	EV/Sales	1.6	1.4	1.2	1.0
					Dividend Yield (%)	1.4 %	1.5 %	1.7 %	1.7 %

TTM EV/EBITDA vs. 2 yr forward EBITDA growth

TTM P/B vs. 2 yr forward RoE


Historical Consolidated Financials

P&L (Rs Mn)	FY15A	FY16A	FY17A	FY18A	Balance Sheet (Rs Mn)	FY15A	FY16A	FY17A	FY18A	Cash Flow (Rs Mn)	FY15A	FY16A	FY17A	FY18A
Revenue	4,928	5,310	4,753	5,560	Equity Capital	110	112	112	112	PBT	576	715	559	699
Op. Expenditure	4,349	4,548	4,159	4,828	Reserve	1,101	1,434	1,677	1,987	Depreciation	56	53	53	53
EBITDA	579	763	594	731	Networth	1,211	1,546	1,789	2,099	Others	-311	-507	2	2
Depreciation	56	53	53	53	Long Term Debt	0	0	0	0	Taxes Paid	-165	-254	190	233
EBIT	523	710	541	679	Def Tax Liability	57	55	66	55	Change in WC	-128	-406	260	-248
Interest Expense	6	8	6	4	Minority Interest	0	0	0	0	Operating C/F	358	109	684	273
Other Income	59	13	24	25	Account Payables	267	360	360	494	Capex	-363	-100	-74	-65
PBT	576	715	559	699	Other Curr Liabi	239	254	223	250	Change in Invest	0	0	-68	-54
Tax	187	241	190	233	Total Liabilities & Equity	1,774	2,215	2,437	2,898	Others	0	0	0	0
PAT bef. MI & Assoc.	389	474	369	467	Net Fixed Assets	795	846	903	866	Investing C/F	-363	-100	-143	-120
Minority Interest	0	0	0	0	Capital WIP	5	29	0	53	Change in Debt	0	0	0	0
Profit from Assoc.	0	0	0	0	Others	100	57	118	170	Change in Equity	0	0	0	0
Recurring PAT	389	474	369	467	Inventory	260	347	362	460	Others	-111	-139	-117	-169
Extraordinaires	-16	0	-2	-2	Account Receivables	322	763	478	782	Financing C/F	-111	-139	-117	-169
Reported PAT	406	474	371	469	Other Current Assets	35	44	23	31	Net change in cash	-116	-130	425	-16
EPS (Rs)	17.4	21.2	16.5	20.8	Cash	258	128	553	537	RoE (%)	36 %	34 %	22 %	24 %
DPS (Rs)	5.0	5.3	4.8	5.9	Total Assets	1,774	2,215	2,437	2,898	RoIC (%)	35 %	33 %	22 %	23 %
CEPS (Rs)	20.3	23.9	18.8	23.2	Non-cash Working Capital	111	541	281	529	Core RoIC (%)	40 %	35 %	24 %	31 %
FCFPS (Rs)	-0.1	0.6	24.4	7.0	Cash Conv Cycle	8.2	37.2	21.6	34.7	Div Payout (%)	24 %	21 %	35 %	34 %
BVPS (Rs)	54.0	69.0	79.9	93.7	WC Turnover	44.6	9.8	16.9	10.5	P/E	24.6	20.2	25.9	0.0
EBITDAM (%)	12 %	14 %	13 %	13 %	FA Turnover	6.2	6.1	5.3	6.1	P/B	7.9	6.2	5.3	0.0
PATM (%)	8 %	9 %	8 %	8 %	Net D/E	-0.2	-0.1	-0.3	-0.3	P/FCFF	-7,259.5	681.6	17.5	61.2
Tax Rate (%)	32 %	34 %	34 %	33 %	Revenue/Capital Employed	5.4	4.7	3.3	3.2	EV/EBITDA	15.9	12.2	15.0	0.0
Sales growth (%)	15 %	8 %	-10 %	17 %	Capital Employed/Equity	1.1	1.1	1.0	1.0	EV/Sales	1.9	1.8	1.9	0.0
FDEPS growth (%)	31 %	22 %	-22 %	26 %						Dividend Yield (%)	1.2 %	1.2 %	1.1 %	1.4 %



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