Ajcon's Xpress idea: Atul Auto Ltd. - "BUY", **3rd March, 2015**

CMP: 591| Target: Rs. 720| Upside: 22%| Market Cap: Rs. 13.39 bn|Face Value: Rs. 10

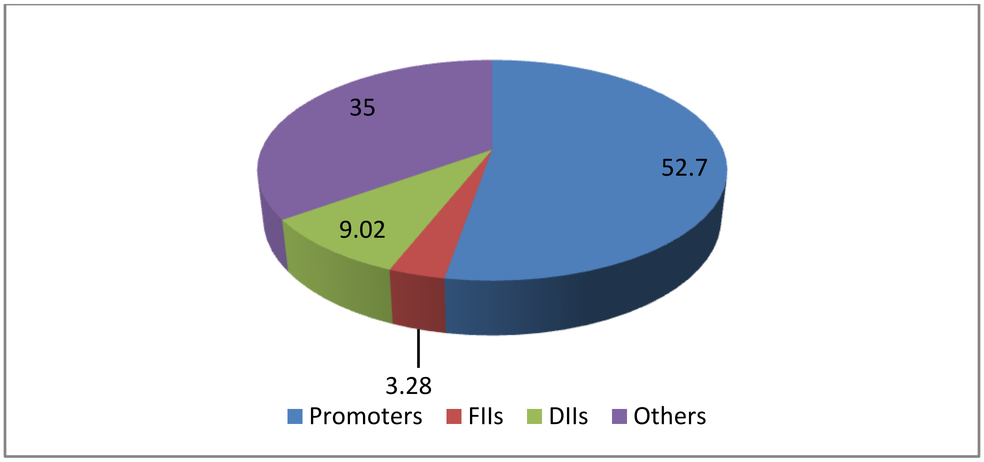
About the Company

Atul Auto is one of the youngest players in the 3 wheeler business with humble beginning in 1992 that started with manufacturing of Chhakaras (Rural Transportation Vehicle - RTV) – customised multi-purpose vehicles typical to the Saurashtra region in Gujarat, which over a period of time became the identity of Saurashtra. The Company has been promoted by the Chandra and Patel families and has emerged as one of the fastest growing 3 wheeler companies in the country. The comany's product portfolio comprises of 45 models catering to both passenger and goods carrier segments with variants available to suit every need of customers. The key brands of the Company are Shakti, Smart, Gem and Gemini.

The Company has one state-of-art manufacturing plant at Shapar with a recently expanded capacity of 48,000 units per year and consists of integrated manufacturing facilities like assembly, end-of-line testing, machining of components and fabrication of chassis

PAT for FY14 stood at Rs. 298.0 million (an increase 14.97% over FY13) and EBITDA increased by 14.8% on yoy basis to touch Rs. 483.1 milion. PAT margin and EBITDA margin stood at 6.94% and 11.25% respectively.

Shareholding Pattern as on Dec. 2014 (%)



Outlook Investment Rationale

Atul Auto's growth trajectory has been impressive with volumes growing at ~40% CAGR in FY09-14 even as the domestic three-wheeler segment has grown at ~7% CAGR over the same period.

Volumes have been improving on the back of added dealerships and increasing geographic presence along with market share gains in existing markets. Atul's volumes have grown in both the passenger and goods carrier segments where Atul has benefited from the launch of its rear-engine vehicle Atul

Gem in 2009, helping to serve a wider audience. Currently, Atul is present in nearly all states barring Tamil Nadu and West Bengal. Also, 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. This is likely to help meet the management's target of 20% volume growth.

We feel Atul's specialised focus has clearly paid rich dividends as evidenced by market share gains. We believe that with further capacity addition and new petrol product launch, Atul can efficiently tap export markets along with urban markets in India and, thereby, continue the strong growth momentum. The sharp rally in stock price over the past two years has reflected the same. However, looking at the strong growth potential coupled with a strong balance sheet and robust return ratios (>40% RoCE), we believe valuations at 18x FY17E EPS remains fair over a medium to long term.

At CMP, the stock is trading at a P/E of 22x FY14 EPS of Rs. 27.16. We recommend a "BUY" on the stock with a price target of Rs. 720 (22x at street estimated FY17 EPS of Rs. 33) an upside of 22%, over a period of 3 months.

Stock Holding Disclosure under SEBI regulations:

a) **Analyst holding: No**
b) **Company holding: No**
c) **Directors holding: No**
d) **Group/Associates Position: No**
e) **Relationship with management: No**

Disclaimer

The content in this research report has been prepared by Ajcon Global Services Ltd. and is meant for the recipient for use as intended and not for circulation. The content in the research report should not be research reported or copied or made available to others. The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as decision such. Ajcon Global Services Ltd. would not be responsible for any loss to the investors; they should verify all the fundamentals before investing. Investors should not soley rely on the information contained in this research report and must make investment decisions based on their own investment objectives, goals, risk profile, financial position and based on their own analysis.. The securities discussed in this research report may not be suitable for all investors. The recepients of this material should take their own professional advice before acting on this information. Ajcon Global Services Ltd., its directors and employees, will not in any way be responsible for the contents of this research report. This is not an offer to sell or a solicitation to buy any securities.

Ajcon Global Services Ltd. proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in Futures and Options Segment, and buy or sell the securities in Cash market thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The analyst for this research report certifies that all of the views expressed in this research report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this research report. Ajcon Global Services Ltd., may be considered as interested party in view of its relationship as the financial advisors and consultants to some of the companies discussed in the research report.

For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160443 (D)

CIN: L74140MH1986PLC041941

Website: www.ajcononline.com

Corporate and Broking Division

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Malad (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

Registered Office:

101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40