ATUL AUTO LTD.

Atul Auto Ltd (NSE Code: ATULAUTO) – Alpha/Alpha + stock recommendation for Jul'13

Content Index

Company Snapshot (As on 24th Jul'13)

Current Market Price – Rs 190

Dividend yield – 3.15%

BSE Code – 531795

NSE Code – ATULAUTO

Market capitalization – Rs 210 cr.

Total Equity shares – 1.097 cr.

Face Value – Rs 10.00

52 Weeks High/Low – Rs 226.90/ Rs 89.95

Promoter's holding – 56.62%

Particulars (in cr.)	FY 09	FY 10	FY 11	FY 12	FY 13
No. of Vehicles sold	11488	12329	19404	27000	32040
Income from operations	117.48	119.85	202.03	298.82	363.84
Operating Profit	2.23	12.97	19.44	27.55	40.09
Operating Profit margin (%)	1.90%	10.82%	9.62%	9.22%	11.02%
Profit Before tax	0.36	7.15	14.06	23.11	37.22
Profit Before tax margin (%)	0.30%	5.91%	6.94%	7.72%	10.17%
Net Profit	0.23	4.54	9.43	15.59	25.92
Net Profit margin (%)	0.19%	3.75%	4.65%	5.21%	7.09%
Cash flows from operations	3.85	6.42	15.26	18.98	40.49
Return on Avg. equity	0.80%	14.16%	25.48%	32.33%	39.76%

Atul Auto – Basic Details

Atul Auto Ltd is a leading manufacturer of 3-wheeler commercial vehicles in the state of Gujarat and now gradually spreading its wings across India.

The Company manufactures 3-wheelers in the sub 1 tonne category targeting the passenger and cargo segments. In passenger segment, the Company manufactures the Diesel & CNG powered carriers for carrying 3 to 6 passengers. In the cargo segment, the Company manufactures vehicles with a rated carrying capacity of 0.50 tonnes. Both these vehicles have been approved by the Automotive Research Association of India under the Bharat Stage-III norms. It also provides customized vehicles like tippers, hydraulic hoppers, vegetable vending vans etc. and these vehicles find wide application in courier services, industrial products, laundry, construction, dairies, caterers, FMCG distribution, LPG distribution etc.

Company manufactures 3-wheelers under Atul Shakti, Atul Smart, Atul Gem and Atul Gemini-DZ product names.

The Company has its plant at Village Shapar at a distance of 18 kms from Rajkot. The plant commenced its commercial production from July 1992 and the present installed capacity is 48000 vehicles (from April 2013) per annum.

In the last few years the company has improved its market position in the domestic 3-wheeler industry with incremental market share in the 0.5 tonnes goods as well as passenger carrier segment (third largest player in 0.5 T three wheeler industry) by expanding its distribution network beyond Gujarat, increasing its capacity and by launching new products.

The company has 150 exclusive dealers, more than 100 sub-dealers, 14 regional offices and 3 training centers in 16 states of India.

Brief history of Atul Auto – In Gujarat, Atul's autos are known as Chhakado. Chhakado is an open rickshaw, an open buggy and can accommodate 8-10 people, sometimes more. In rural Gujarat Chhakado has been an affordable means of transport for years, thanks largely to Atul Auto and the Chandra family.

Jagubhai Chandra (father of Mr. JJ Chandra, CMD of Atul Auto) had a small shop in Jamnagar where the three wings of army had their units posted. He would buy vehicles disposed off by the army, recycle them and sell off the spare parts. Jagubhai had excellent terms with Jamsaheb, who would give him his foreign cars for repair. Passionate about golf, Jamsaheb built his own golf course and sent for golf carts from overseas. He gave one such cart to Jagubhai to move around the golf course and from the same Jagubhai got the idea of a three-wheeler auto-rickshaw.

What he did was assemble some parts of this cart with some parts of other vehicles and made a rickshaw. In 1975 he showed his innovation to the chief minister of Gujarat, Uchhangrai Dhebarbhai, and the latter gave his sanction and encouraged Jagubhai to go ahead, kick starting Jagubhai's rickshaw.

As per Mr. Jayantibhai Chandra (CMD, Atul Auto), those days petrol was cheap, but prices suddenly shot up. So his father thought: why not diesel model? They converted their shop into a workshop, started their operations from a 6000 sq ft area on market borrowings and made their first diesel rickshaw in 1982 which was priced at Rs 19000.

Those days rickshaw was synonymous with Bajaj so it was tough to penetrate and get a foothold in the market. So, they set up a master sale service for rickshaw and created a network for easy availability of its spare parts. They persuaded cycle repairers to buy their spare parts and gave them training in their garage. Initially, hardly 8-10 rickshaws were made every month in Atul workshop, however as it was easily repairable and its spare parts were readily available everywhere, the company started recording good sales first in Saurashtra and later in Gujarat.

Later, the company bought land in Shapar near Rajkot and started commercial production in 1992. At the end of Apr'13 the plant at Shapar had an installed capacity of 48,000 units per annum and the company recorded sales of 32,000 units for FY 13.

3 wheeler industry in India

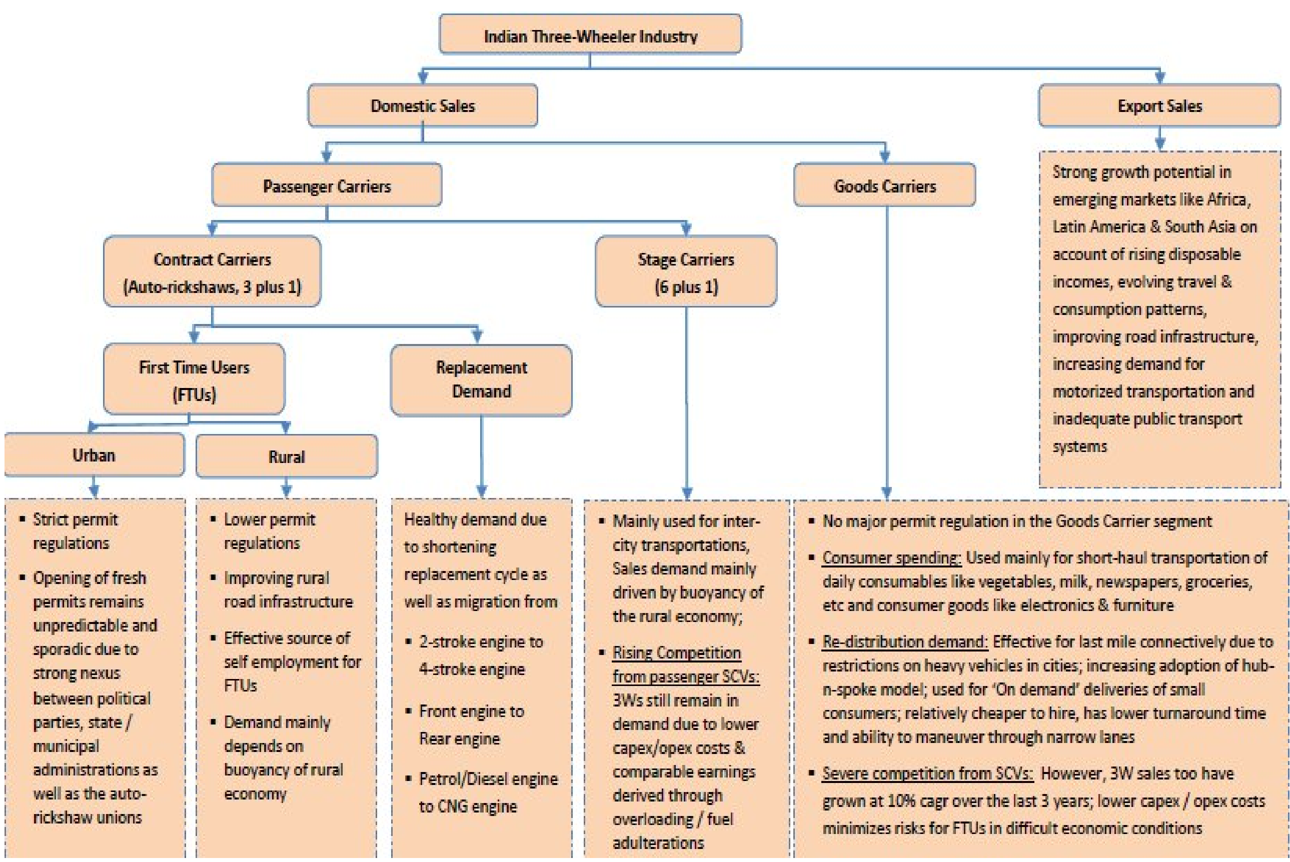
The 3 wheeler market in India is over four decades old. Initially, only 3 seater passenger autos were introduced. In eighties, lower capacity cargo carriers were introduced – 0.5 tonnes open body pick-up vans. Till late eighties, 3-Wheeler market was virtually ruled by Bajaj Auto Ltd (the only manufacturer). In early nineties, new manufacturers developed higher capacity category by introducing 6 seaters & 0.75 tonnes cargo carriers and late nineties saw a renewed interest in the 3-Wheeler market. Optimism about growing need of free mobility as well as the need for remote and efficient distribution of the goods and services were the key factors for the same.

India is now the world's foremost producer, consumer and exporter of three-wheelers (3Ws) with domestic sales of ~5.38 lakh units and exports of ~3.03 lakh units in the financial year ending March 31, 2013 (Source: SIAM). 3Ws are widely used in India as an affordable means of short-to-medium distance public transportation and last mile connectivity for goods transportation. Apart from the domestic demand, India has also emerged as important export hub for 3Ws with presence in some of the South Asian, African and Latin American markets that are replicating Indian 3W story with rising disposable incomes but inadequate public transport systems. Overall, the 3W industry has witnessed relatively healthy **15% CAGR volume growth** over the last decade driven by moderate domestic growth (~10% CAGR) and robust exports growth (~38% CAGR).

	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
Domestic: 3W Passenger	**236788**	**234774**	**268489**	**349868**	**425358**	**406236**	**441118**
Growth (YOY)		-0.9%	14.4%	30.3%	21.6%	-4.5%	8.6%
Domestic: 3W Goods	**167122**	**130007**	**81238**	**90524**	**100666**	**107015**	**97173**
Growth (YOY)		-22.2%	-37.5%	11.4%	11.2%	6.3%	-9.2%
Exports: 3W Passenger	**142944**	**140406**	**146914**	**172468**	**268435**	**360736**	**300473**
Growth (YOY)		-1.8%	4.6%	17.4%	55.6%	34.4%	-16.7%
Exports: 3W Goods	**952**	**819**	**1152**	**746**	**1533**	**2140**	**2615**
Growth (YOY)		-14.0%	40.7%	-35.2%	105.5%	39.6%	22.2%
Total 3W sales	**547806**	**506006**	**497793**	**613606**	**795992**	**876127**	**841379**
Growth (YOY)		-7.6%	-1.6%	23.3%	29.7%	10.1%	-4.0%

Despite near-term headwinds, as per ICRA research the 3W industry is expected to report a moderate volume CAGR of 7-8% over the next five years. The domestic 3W passenger segment is expected to benefit from product up-gradation (2-stroke to 4-stroke, Petrol/Diesel to CNG) and opening of fresh permits by the state governments. The domestic 3W goods segment, despite stiff competition from 4W Small Commercial Vehicles (SCVs) continues to benefit from its favorable operating economics for First Time Users (FTUs). Lastly, 3W exports are expected to remain the main growth driver for the industry due to rapid economic growth, rising disposable incomes, evolving travel & consumption patterns, improving road infrastructure, increasing demand for motorized transportation and inadequate public transport systems in target emerging markets. Overall, the long-term sales growth is expected to be the highest in the exports segment, followed by that in the passenger carrier segment and the lowest in the goods carrier segment due to intense competition from the SCV segment.

Classification of 3W industry



Three wheeler industry – classification and demand drivers *(Source: ICRA Research)*

The 3W industry is characterized by two segments: **Passenger carrier** and **Goods carrier**. These can be further classified according to mass of the vehicles, seating capacity (3+1/ 4+1/6+1), payload capacity (0.35T/0.50T/0.75T/>0.75T), engine type (2-stroke/4-stroke, 150cc/175cc/200cc/400cc,front-engine/rear-engine) and fuel consumption (Diesel/Petrol/CNG/LPG).

The domestic 3W passenger vehicle segment has recorded healthy 10% CAGR volume growth over the last decade as it has emerged as a vital link for last mile connectivity in urban markets where public transport is regulated through issue of permits by the state governments/local RTOs and the entry of large commercial vehicles are increasingly restricted to avoid traffic congestion.

Besides, with improving road infrastructure and increasing proliferation of the hub-n-spoke model of goods transportation, the demand for 3W goods vehicles surged during the first half (~32% CAGR) of the last decade; although the same got severely impacted during FY07-09 (~50% de-growth) due to economic slowdown and successful entry of 4W SCVs such as Tata Ace.

While the growth rate in the domestic market has been moderate, Indian 3W manufacturers with strong brands & established product portfolios in the passenger segment (>99% of exports are for 3W passenger vehicles) have been witnessing robust demand from South Asian, South-East Asian, African and Latin American markets. With these markets having demographics broadly similar to that of India, the key demand is being driven by rising disposable incomes, and the need for last-mile connectivity. As a result, the contribution from exports has increased immensely from ~16% in FY03 to ~36% of total industry sales in FY13. Overall, the Indian 3W industry is increasingly transforming into an exports driven industry, mainly catering to the passenger transport segment wherever public transport systems are inadequate.

3W Passenger carrier – Over the years, **contract carriers** [auto rickshaws (0.35T, 3+1 carriers) that provide any point access] have remained the most affordable & convenient means for short-to-medium distance intra-city public transportation because of their easy availability, reasonable and regulated fares. Besides, they provide quick and effective means of self-employment with relatively low capital investment & adequate availability of finance from the unorganized segment.

On the other hand, the **stage carriers** [large passenger carriers (0.5T-0.75T, 6+1 carriers)] are commonly used for inter-city and intra-city transportations to ply passengers between common pick-up points up to 20-35 Km apart.

While the contract carriers segment is still immune from competitive pressures, the stage carriers segment is facing some competition from passenger variants of four-wheeler SCVs like Tata Magic, Iris, Maxximo mini-van, etc.

The key growth drivers for the domestic 3W passenger industry have been:

- First Time Users (FTUs) through opening up of fresh permits by the state governments/Road Transport offices (RTOs) and
- Replacement demand due to technological advancement, increased availability of alternative fuels and stricter environmental emission norms.

	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
Domestic: 3W Passenger	**236788**	**234774**	**268489**	**349868**	**425358**	**406236**	**441118**
Growth (YOY)		-0.9%	14.4%	30.3%	21.6%	-4.5%	8.6%

The semi-urban and rural areas are driving domestic demand as public transportation is either absent or inadequate in these areas. Besides, the demand from metropolitan areas and major urban cities too remain steady due to traffic congestion and parking problems faced during driving larger personal vehicles.

Also, healthy replacement demand (2-stroke to 4-stroke engine vehicles, front engine to rear-engine vehicles and petrol/diesel to CNG engine vehicles) is expected to support growth for the 3W passenger carrier segment over the foreseeable future.

As per the management of Bajaj Auto, replacement segment currently accounts for about 80% of the sales with new auto-rickshaw permits generating 20% of sales.

3W Goods carrier – The domestic goods carrier market is relatively more dynamic than passenger carriers as no permit regulation is imposed on the segment. Restrictions on entry of heavy commercial vehicles in major cities has lead to increased acceptance of the hub-n-spoke model wherein heavy trucks transport goods to outskirts of the city and light trucks (three/four-wheelers) redistribute these goods within the city.

Besides, booming modern trade and rising consumer goods consumption has increased demand of quick and door-step deliveries, boosting demand of low tonnage (0.5T) 3Ws that serve as one of the most suitable means of last mile connectivity as they are relatively cheaper to purchase/hire and have lower turnaround time as they can be easily maneuvered across narrow by-lanes to the final destination.

Rapid economic growth, improving road infrastructure and strong growth in the user industries (like FMCG, Consumer Durables, Modern Retail) had resulted in robust 3W goods carrier demand during FY02-07 with sales surging at ~32% CAGR during the period. However, the industry witnessed a massive 50% de-growth from 1.67 lakh units in FY07 to 0.81 lakh units in FY09 due to the impact of global financial crisis, steep slowdown in domestic economy and intense competition from four-wheeler SCVs (Sub 1 Ton SCVs, a new segment created with the launch and run-away success of 'TATA ACE').

The higher tonnage (0.75T and above) 3W goods segment, then dominated by diesel based offerings from Piaggio and Force Motors seems to have literally vanished from the market place. The competition is further spicing up with a host of new launches by larger automobile OEMs with strong brands, established product portfolios and wider distribution reach.

	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
Domestic: 3W Goods	**167122**	**130007**	**81238**	**90524**	**100666**	**107015**	**97173**
Growth (YOY)		-22.2%	-37.5%	11.4%	11.2%	6.3%	-9.2%

Post the steep correction and market re-alignment during FY07-09, demand for domestic 3W goods segment revived again and grew at ~10% CAGR during FY10-12 owing to increasing proliferation of hub-n-spoke model of goods transport and continued rural demand for 3W goods carriers due to substantial initial price differential between 3Ws and

4Ws. However, macroeconomic headwinds like slowing economic growth, sluggish industrial production, moderating consumer goods consumption, increase in financing costs, rising fuel expenses and intense competition from SCVs once again impacted demand conditions for FY 13 with sales falling by 9%.

3W exports – 3Ws have the largest exports contribution among all major segments of the Indian Automobiles Industry. 3W exports have grown at robust 38% CAGR over the last decade, thereby increasing its contribution from ~16% in FY03 to ~36% of total 3W sales in FY13. The key demand drivers include rising disposable incomes, improving road infrastructure and increasing demand for motorized transportation across South Asian, South-East Asian, African and Latin American markets. Indian 3W manufacturers with strong brands & established product portfolios in the passenger segment have been witnessing robust demand from these emerging economies.

	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
Exports: 3W Passenger	**142944**	**140406**	**146914**	**172468**	**268435**	**360736**	**300473**
Growth (YOY)		-1.8%	4.6%	17.4%	55.6%	34.4%	-16.7%
Exports: 3W Goods	**952**	**819**	**1152**	**746**	**1533**	**2140**	**2615**
Growth (YOY)		-14.0%	40.7%	-35.2%	105.5%	39.6%	22.2%

After a moderate 6% export growth during FY08-FY10, the 3W exports surged at 55% in FY11 and 34% in FY12. Exports got impacted again in FY 13 as Sri Lanka raised import duty while in Middle-east the political situation was bad.

Overall, with the end of ethnic conflicts, Sri Lanka has been in rapid development mode and 3W sales have surged due to strong pent-up demand. Besides, Bangladesh, Indonesia and Philippines are migrating from two-stroke petrol to four-stroke vehicles due to increasing environmental awareness. Africa (which contributes 45-50% of total 3W exports) continues to be a key growth driven for Indian 3W industry due to rising population and complete lack of public transportation systems (motorcycles are often used as taxis due to dearth of affordable alternatives). Overall, African markets provide a promising long-term opportunity as they replicate the same 3W growth trajectory witnessed in India over the past few decades.

Atul Auto – Performance Snapshot

Particulars (in cr.)	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
No. of vehicles sold (in no.)	**16165**	**14485**	**8857**	**11488**	**12329**	**19404**	**27000**	**32040**
Total Income	**131.23**	**124.53**	**82.04**	**120.94**	**121.08**	**202.66**	**299.42**	**365.82**
Income from Operations	129.02	121.77	80.39	117.48	119.85	202.03	298.82	363.84
Operating Profit	**6.93**	**5.97**	**5.21**	**2.23**	**12.97**	**19.44**	**27.55**	**40.09**
Operating Profit margin (%)	5.37%	4.90%	6.48%	1.90%	10.82%	9.62%	9.22%	11.02%
Profit Before tax	6.51	4.86	1.91	0.36	7.15	14.06	23.11	37.22
Profit before tax margin (%)	4.96%	3.90%	2.33%	0.30%	5.91%	6.94%	7.72%	10.17%
Net Profit	**4.2**	**3.15**	**1.27**	**0.23**	**4.54**	**9.43**	**15.59**	**25.92**
Net profit margin (%)	3.20%	2.53%	1.55%	0.19%	3.75%	4.65%	5.21%	7.09%
Cash flows from operations	**7.26**	**-5.81**	**3.53**	**3.85**	**6.42**	**15.26**	**18.98**	**40.49**
Return on Avg. equity (%)	**19.27%**	**12.68%**	**4.81%**	**0.80%**	**14.16%**	**25.48%**	**32.33%**	**39.76%**

Atul Auto's performance for the last 10-12 years can be divided into 3 phases. The first phase was from FY 01 to FY 06 during which the turnover of the company increased from 16 crores to 130 crores. The company did extremely well during that period.

The second phase was an extremely bad phase for the company and lasted for 3 years from FY 07 to FY 09. Except for FY 09, when all the industries (including 3W) suffered a major setback, the problems faced by Atul Auto in FY 07 and FY 08 were entirely its own and not an industry phenomenon.

In the words of the management, in 2006 they had entered into collaboration with Lombardi, but the vehicles with those engines were not up to the mark. It was a total failure as they received lots of complaints from the market for every vehicle they sold. It proved to be a great setback for the company as they had to recall ~8,500 vehicles and replace engines in each vehicle to keep their reputation intact, but it resulted in heavy losses for the company.

We believe, in businesses problems are bound to occur, sometimes major, sometimes minor, however what is important is how does one deal with the same and in the case of Atul Auto they did well in not just dealing with the problem but retained their good will which helped them bounce back in the subsequent years.

As the company surmounted the crisis while keeping its reputation intact, there's been significant improvement in the performance of the company since FY 10. In the last 4 years the sales of the company have grown by ~200% and on the back of economies of scale the operating margins have expanded from 4-6% to around 9-11% leading to much higher growth in profitability.

The company has further transformed from a regional player with a strong foothold in the states of Gujarat and Rajasthan to a pan-India player, though it still has a long way to go as its base in other states is still very small.

Growth levers with Atul Auto

We believe if the slowdown sustains for much longer or if there's a major de-growth in 3W segment, it will have an impact on the growth of Atul Auto, however if the industry chugs along 2-4% growth rate then maintaining 10-12% volume growth and 2-3% value growth may not be a big task for the company especially in the light of new product launches in the petrol, LPG and CNG segments, a new product in 0.35 tonnes segment catering the needs of export market and deeper penetration in states other than Gujarat and Rajasthan.

New product launches – Atul Auto gets 85-90% of its sales from diesel engine based vehicles while for the 3W industry as whole diesel segment accounts for approximately 35% of the market, while petrol, CNG and LPG account for the remaining 65%. Therefore, new product launches in CNG and LPG segments will open up new markets (cities, metros, etc) for the company and help sustain the growth rate.

Focus on exports – As per ICRA research exports will be the fastest growing segment for the Indian 3W industry and in order to cater to the same Atul Auto has developed a 0.35 tonnes passenger carrier.

Further, in the wake of the recent import duty hike in Sri Lanka on three-wheelers from 51% to 100% the company is in the process of setting up a completely knocked down (CKD) unit in the country for assembling the passenger vehicles. As per the management, once the Sri Lankan unit gets operational, they may consider setting up a similar CKD assemble facility in African market.

Atul Auto is already present in Bangladesh since 2011 through a tie-up with Bangladesh Machine Tools Factory for assembling the passenger vehicles.

Expansion of distributor network – The Company has 150 exclusive dealers, more than 100 sub-dealers, 14 regional offices and 3 training centers in 16 states of India. As on Mar'13, they had not penetrated the eastern states such as West Bengal, Assam, etc, however, as per the management they will now focus on expanding their distribution network in eastern India as the market is growing at a good pace.

Even in other states (except for Gujarat and Rajasthan) their base is small and in a way the small base and expanding dealer network has helped the company grow at a much faster pace (65% growth in volumes) in the last 2 years in comparison to the overall industry which has grown by just 5.70%

Domestic 3W sales in Q1 FY 14 – In the quarter ending Jun'13 the domestic 3W sales have **de-grown** by 2.38% to 108,603. For the same period Atul Auto has registered 10.96% growth in domestic 3W sales volume over Jun'12. We have not accounted for export sales as the contribution of exports is less than 2% for Atul Auto.

Similarly, in the month of July 2013 the domestic 3W sales have **de-grown** by 6.14% in comparison to July 2012, while Atul Auto has registered 16.74% growth in domestic 3W sales volume.

Thus, as mentioned above we believe there are enough growth levers (ample capacity at least for the next 2 years, new product launches, expansion and penetration into existing and new states, good demand from other countries) for the company to sustain ~15% growth rate even in a slowing market.

Operating efficiency

As can be noticed from the below table, the good point about Atul Auto's performance has been an overall improvement in operating and asset utilization efficiency in the last few years.

Particulars (in cr.)	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
Debt	27.8	33.82	31.73	23.17	6.00	0	0
Surplus Cash after accounting for debt						2.75	35.05
Security deposits from dealers	1.01	0.96	0.59	0.88	1.68	2.05	2.58
Working capital (Inventory + Sundry Debtors - Current liabilities & Dealer's deposits)	19.67	16.16	11.11	10.72	6.28	12.06	-1.06
Working capital to Sales (%)	16.15%	20.10%	9.46%	8.94%	3.11%	4.04%	-0.29%
3W Market share (%)	2.64%	1.75%	2.31%	2.01%	2.44%	3.08%	3.81%
Sales to fixed assets ratio	3.94	2.72	3.91	2.87	4.76	7.48	8.45
Operating Profit margin (%)	4.90%	6.48%	1.90%	10.82%	9.62%	9.22%	11.02%
Return on Avg. Equity (ROAE)	12.68%	4.81%	0.80%	14.16%	25.48%	32.33%	39.76%

On the back of strong operating cash flows, the company is now debt free and is rather cash surplus with 35 crores at the end of Mar'13.

With every passing year the company has been generating more revenue for every single rupee employed in the fixed assets of the company and at the same time there's been a gradual reduction in working capital as a % of sales from 8-9% to (0.3%) at the end of Mar'13.

As mentioned above, Atul Auto has been expanding its distribution network for the past few years and the same is clearly evident from the value of security deposits from the dealers of the company. Expansion in dealer network in new states has also enabled the company to grow above industry rate with an increase in market share from 2.64% at the end of Mar'07 to 3.81% at the end of Mar'13.

Shareholding pattern

	Jun'13	Mar'12	Dec'12	Sep'12	Jun'12
Promoter and Promoter Group	**56.62%**	**56.62%**	**56.62%**	**56.62%**	**60.81%**
India	56.62%	56.62%	56.62%	56.62%	60.81%
Foreign					
Public	**43.38%**	**43.38%**	**43.38%**	**43.38%**	**39.19%**
Institutions	0.04%	0.11%	-	-	-
FII	0.04%	0.11%	-	-	-
DII	-	-	-	-	-
Non-Institutions	43.34%	43.27%	43.38%	43.38%	39.19%
Bodies Corporate	10.90%	10.81%	10.84%	11.19%	11.80%
Custodians					
Total	**1,09,71,600**	**1,09,71,600**	**1,09,71,600**	**1,09,71,600**	**73,14,400**

Jayanthibhai Chandra and his family and Mr. Mahendra Kumar Patel and his family are the promoters of Atul Auto. Jointly they hold 56.62% stake in the company and therefore have high ownership in the business which is good from the perspective of minority shareholders.

As on 30th Jun'13, the Promoters had not pledged a single share in the company.

Besides, Mr. Vijay Kedia, non-executive and non-independent director of Atul Auto holds 18.86% stake in the company. We believe his inclusion as the director of the company has resulted in much better transparency and management being more forthcoming in sharing operational details and future plans.

Dividend Policy

Dividend Payout ratio						
	Mar'08	**Mar'09**	**Mar'10**	**Mar'11**	**Mar'12**	**Mar'13**
Dividend Payout ratio	46.46%	63.04%	25.77%	24.81%	23.48%	25.39%

For the last 4 years Atul Auto has consistently been distributing 25% of its net profits in the form of dividends.

During the same period the company repaid its debt and is now cash surplus with 35 crores which is equal to 18% of its current market cap.

As Atul Auto is a young company and needs capital for new product development and capacity expansion, we believe 25% dividend payout is an apt policy as it helps the company reward the shareholders adequately and at the same time retain surplus cash for carrying out development and expansion work.

At current stock price, the stock offers tax free dividend yield of 3.15%.

Valuations

In the above sections we observed that barring a period of 3 years from FY 07 to FY 09 the performance of Atul Auto has in general been good. Even the problems faced by the company during FY 07-FY 09 were of exceptional nature and do not get repeated on cyclical basis.

Except in case of major de-growth in the three wheeler industry, we believe there are enough growth levers with the company to sustain 12-15% growth rate (10-12% volume growth and 2-3% value growth) for the next 2-3 years while in case of mid single digit growth for the industry, the company's growth rate may improve to 17-20%.

Further, at this point of time the company is much better placed to combat a slowdown as it has already carried out requisite capacity expansion, is debt free with surplus cash and has much better control over its operating expenses.

Overall, at around current price of 180-190, we are getting a debt free cash surplus company with excellent operational metrics and expected growth of 12-15% at 8 times trailing twelve months earnings, 4 times EV/EBITDA and dividend yield of 3.15%

Risks & Concerns

In any business the risks are many; however the major cause of concern for Atul Auto is the slowing growth rate of three-wheeler industry in India. Till now the company has done well on account of its small base and expansion into other states, however if the slowdown sustains for very long or there's a major de-growth, Atul Auto will also get impacted.

The other concern is the growing share of small commercial vehicles (like Tata ACE) in the goods carrier segment. Though the impact of SCVs is mainly in 0.75 tonnes and higher segment and Atul Auto manufactures 0.5 tonnes goods carrier, as the affordability and purchasing power increases, even the first time users are likely to migrate to SCVs.

Last but not the least, changes in import duty policy of the countries such as the one imposed by Sri Lanka can hurt the export sales and thereby affect the overall growth rate of Atul Auto.

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