

Light to emerge at end of tunnel, unlock beneficiary...

About the stock: Atul Auto (AAL) is a prominent 3-W manufacturer based out of Gujarat with broad-based presence across segments and fuel types.

- Fourth largest 3-W player with FY21 domestic market share at 7.1% (10.3% in cargo segment and 5.1% in passenger segment)
- History of healthy capital efficiency as well as positive cash flow generation

Q3FY22 Results: The company posted dismal Q3FY22 results.

- Revenues rose 14% QoQ to ₹ 91.3 crore amid 12.5% volume growth to 5,168 units and 2% ASP increase to ₹ 1.76 lakhs/unit
- Margins came in negative at -8%, down 235 bps QoQ
- Consequent loss was at ₹ 8.5 crore

What should investors do? AAL's share price has de-grown at ~18% CAGR from ~₹ 470 in April 2017, heavily underperforming the Nifty Auto index in that time.

- We retain our **BUY** rating on AAL tracking impending launch in the EV space and believe the company to benefit from reopening of schools and colleges

Target Price and Valuation: We value AAL at revised target price of ₹ 210 i.e. 20x P/E on FY24E core auto business and 1.3x P/B to investment in subsidiaries

Key triggers for future price performance:

- We build ~19%, ~22% volume, revenue CAGR, respectively, in FY21-24E on depleted base aided by economy re-opening, easing of 3-W financing worries
- Introduction of own lithium ion 3-W offering would be key to combat technological disruption in the space
- Post loss at PAT (FY21-22E), AAL is seen clocking ~₹ 19 crore PAT by FY24E
- Higher utilisation to spur margins, RoCE to ~8% levels by FY24E

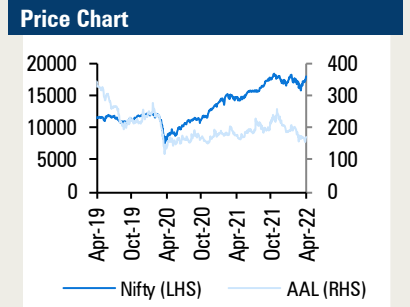
Alternate Stock Idea: Besides AAL, in our coverage we like Tata Motors

- Long term value drivers (EV transition, deleveraging & FCF focus) intact
- BUY with target price of ₹ 550



Particulars	
Particulars	Amount
Market capitalisation (₹ crore)	384.0
Total Debt (FY21, ₹ crore)	15.0
Cash & Inv. (FY21, ₹ crore)	19.0
EV (₹ crore)	379.9
52 week H/L (₹)	270 / 146
Equity capital (₹ crore)	11.0
Face value (₹)	5.0

Shareholding pattern				
	Mar'21	Jun'21	Sep'21	Dec'21
Promoter	52.7	52.7	52.7	52.7
DII	5.9	2.4	0.6	0.5
FII	1.4	-	0.0	0.2
Others	40.0	44.9	46.7	46.6



Recent event & key risks

- Posted muted Q3FY22 results
- **Key Risk:** (i) Softer than anticipated 3-W recovery over FY22E-24E, (ii) delay in own EV product launch in 3-W space

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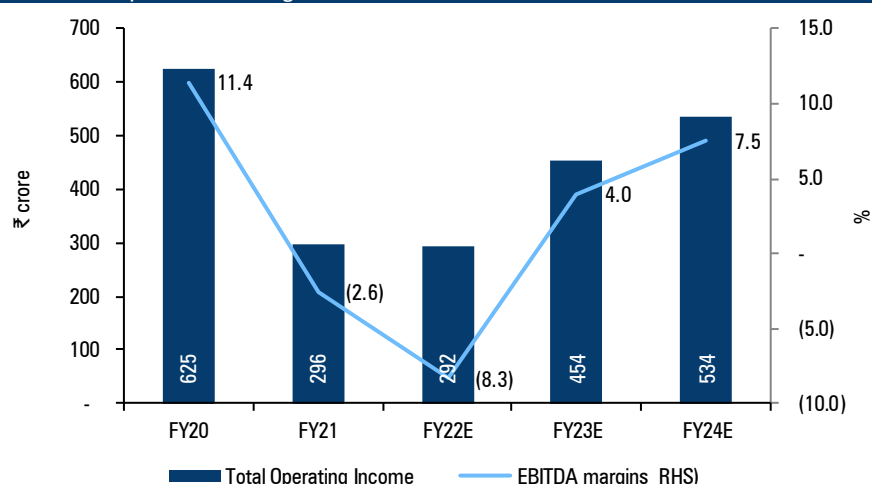
Key Financial Summary

Key Financials (₹ crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Total Operating Income	666.8	625.3	295.9	-11.0%	292.2	453.7	534.2	21.8%
EBITDA	81.5	71.3	(7.6)	PL	(24.4)	18.1	40.1	LP
EBITDA Margins (%)	12.2	11.4	(2.6)		(8.3)	4.0	7.5	
Net Profit	53.1	52.4	(10.2)	PL	(26.7)	1.3	18.5	LP
EPS (₹)	24.2	23.9	(4.6)		(12.2)	0.6	8.4	
P/E	7.2	7.3	NM		NM	NM	20.7	
RoNW (%)	20.5	17.3	(3.5)		(10.0)	0.5	6.5	
RoCE (%)	28.8	21.1	(4.6)		(9.8)	1.6	7.7	

Source: Company, ICICI Direct Research

Financial story in charts

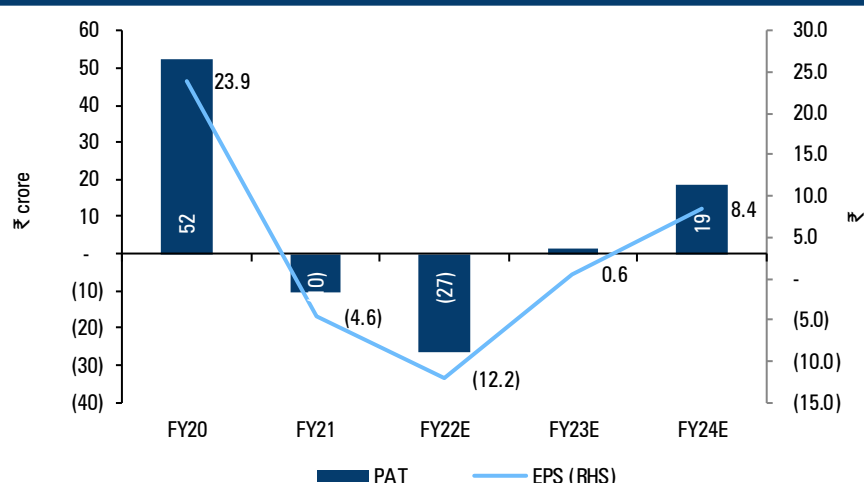
Exhibit 1: Topline and margin trend



We expect sales to grow at a CAGR of ~22% over FY21-24E backed by ~19.4% volume CAGR, albeit on low base. With operating leverage at play, EBITDA margins are seen improving to 7.5% by FY24

Source: Company, ICICI Direct Research

Exhibit 2: Trend in PAT and EPS



With loss expectation for FY22E, we expect the company to just breakeven at PAT level in FY23E and thereafter clock meaningful PAT in FY24E

Source: Company, ICICI Direct Research

Exhibit 3: Valuation Summary

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	625.3	(6.2)	23.9	(1.4)	7.3	5.4	17.3	21.1
FY21	295.9	(52.7)	(4.6)	NM	NM	-49.9	(3.5)	(4.6)
FY22E	292.2	(1.2)	(12.2)	NM	NM	-18.9	(10.0)	(9.8)
FY23E	453.7	55.3	0.6	NM	NM	25.4	0.5	1.6
FY24E	534.2	17.7	8.4	NM	20.7	10.9	6.5	7.7

Source: Company, ICICI Direct Research

Exhibit 4: SoTP (target price) table

Particulars	Amount
FY24E PAT (₹ crore)	18.5
PE Multiple (x)	20.0
Core Auto Business Equity Value (₹ crore)	370.5
Long Term Investments (WoS, ₹ crore)	68.9
P/B Multiple (x)	1.3
Subsidiaries Value (₹ crore)	89.6
Total Equity Value (₹ crore)	460.1
No of Share (crore)	2.2
Target Price (₹/share)	210

Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Net Sales	290.3	284.2	444.9	524.5	
Other Operating Income	5.6	8.1	8.9	9.7	
Total Operating Income	295.9	292.2	453.7	534.2	
Growth (%)	-55.6	-1.2	55.3	17.7	
Raw Material Expenses	239.2	240.3	353.9	411.3	
Employee Expenses	37.7	41.4	45.4	50.8	
Other Operating Expense	26.6	35.0	36.3	32.1	
Total Operating Expenditure	303.5	316.6	435.6	494.1	
EBITDA	-7.6	-24.4	18.1	40.1	
Growth (%)	-109.4	219.9	-174.4	120.7	
Depreciation	6.6	9.6	12.7	13.4	
Interest	0.9	4.0	6.4	4.8	
Other Income	1.9	2.6	2.7	2.9	
PBT	-13.2	-35.4	1.8	24.8	
Excep. charge & P/L from Asso.	0.0	0.0	0.0	0.0	
Total Tax	-3.0	-8.8	0.4	6.2	
PAT	-10.2	-26.7	1.3	18.5	
Growth (%)	-119.2	161.4	-105.0	1,299.8	
EPS (₹)	-4.6	-12.2	0.6	8.4	

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit after Tax	-10.2	-26.7	1.3	18.5	
Add: Depreciation	6.6	9.6	12.7	13.4	
(Inc)/dec in Current Assets	42.2	-1.0	-44.4	-24.1	
Inc/(dec) in CL and Provisions	3.1	2.6	40.8	20.3	
Others	-1.0	1.4	3.7	1.9	
CF from operating activities	40.6	-14.0	14.1	30.0	
(Inc)/dec in Investments	-14.9	-35.0	-5.0	0.0	
(Inc)/dec in Fixed Assets	-35.1	-20.0	-5.0	-5.0	
Others	1.1	2.2	2.7	2.9	
CF from investing activities	-48.8	-52.8	-7.3	-2.1	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	15.0	65.0	0.0	-20.0	
Interest and Dividend outgo	-0.9	-4.0	-6.4	-4.8	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-0.2	0.0	0.0	0.0	
CF from financing activities	13.9	61.0	-6.4	-24.8	
Net Cash flow	6.2	-5.8	0.4	3.1	
Opening Cash	2.4	8.5	2.7	3.2	
Closing Cash	8.5	2.7	3.2	6.3	

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Liabilities					
Equity Capital	11.0	11.0	11.0	11.0	
Reserve and Surplus	282.3	255.6	256.9	275.4	
Total Shareholders funds	293.2	266.6	267.9	286.4	
Total Debt	15.0	80.0	80.0	60.0	
Deferred Tax Liability	0.4	0.4	0.4	0.4	
Minority Interest / Others	0.7	0.3	0.3	0.3	
Total Liabilities	309.3	347.2	348.5	347.1	
Assets					
Gross Block	153.7	302.2	317.2	327.2	
Less: Acc Depreciation	64.4	74.0	86.7	100.1	
Net Block	89.4	228.2	230.5	227.2	
Capital WIP	148.5	20.0	10.0	5.0	
Total Fixed Assets	237.9	248.2	240.5	232.2	
Investments & Goodwill	29.8	64.8	69.8	69.8	
Inventory	51.1	52.0	62.2	73.2	
Debtors	23.7	24.0	49.7	58.5	
Loans and Advances	9.7	9.6	14.9	17.5	
Other Current Assets	6.0	5.9	9.2	10.8	
Cash	8.5	2.7	3.2	6.3	
Total Current Assets	99.1	94.3	139.1	166.3	
Current Liabilities	67.3	69.9	108.4	127.6	
Provisions	4.2	4.1	6.4	7.6	
Current Liabilities & Prov	71.4	74.1	114.9	135.2	
Net Current Assets	27.6	20.2	24.2	31.1	
Others Assets	14.0	14.0	14.0	14.0	
Application of Funds	309.3	347.2	348.5	347.1	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Per share data (₹)					
EPS	-4.6	-12.2	0.6	8.4	
Cash EPS	-1.7	-7.8	6.4	14.5	
BV	133.7	121.5	122.1	130.5	
DPS	0.0	0.0	0.0	0.0	
Cash Per Share (Incl Invst)	8.7	1.5	1.7	3.1	
Operating Ratios (%)					
EBITDA Margin	-2.6	-8.3	4.0	7.5	
PAT Margin	-3.4	-9.1	0.3	3.5	
Inventory days	63.1	65.0	50.0	50.0	
Debtor days	29.3	30.0	40.0	40.0	
Creditor days	59.3	60.0	60.0	60.0	
Return Ratios (%)					
RoE	-3.5	-10.0	0.5	6.5	
RoCE	-4.6	-9.8	1.6	7.7	
RoIC	-10.0	-10.5	1.6	8.0	
Valuation Ratios (x)					
P/E	-37.6	-14.4	290.1	20.7	
EV / EBITDA	-49.9	-18.9	25.4	10.9	
EV / Net Sales	1.3	1.6	1.0	0.8	
Market Cap / Sales	1.3	1.3	0.8	0.7	
Price to Book Value	1.3	1.4	1.4	1.3	
Solvency Ratios					
Debt/EBITDA	-2.0	-3.3	4.4	1.5	
Debt / Equity	0.1	0.3	0.3	0.2	
Current Ratio	1.7	1.7	1.7	1.7	
Quick Ratio	0.8	0.8	0.9	0.9	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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