July 01, 2022 | PICK OF THE MONTH | VOL-8, NO-10

Industry: Auto Components & Equip. | **Automobile Corporation of Goa Limited** | **BUY**

CMP: Rs.825 | **TARGET PRICE: Rs.1150** | **TIME : 12 months**

About the Industry: The automotive industry is regarded as one of the core sectors for driving the growth of the Indian economy, while contributing ~7.1% to the overall GDP (expected to reach to ~12%) and 46% of the manufacturing GDP. According to the Automotive Mission Plan 2016-26 (AMP 2026), the Indian auto industry is expected to be in the global top three for engineering, manufacturing and export of vehicles, auto components by 2026. As per Confederation of Indian Industry (CII), the industry is likely to grow from ~USD80bn to ~USD270bn by 2026 and generate an additional 65 million jobs.

Over the years, the sector has adapted to quite a lot of changes in the policies and regulations. Despite the challenges faced in the past related to manufacturing shutdowns, fewer vehicle sales, layoffs, disrupted supply chain, liquidity, changes in consumer behavior, impact of lockdowns etc., FY23 is regarded as the first year of recovery. In March 2022, the Indian auto industry tried its best to get back to pre-pandemic levels, but on a y-o-y basis fell short by 3% while it was ~30% when compared to March'20 (the month which saw BS4 to BS6 transitions). The 2W segment which was already a non-performer due to rural distress has seen further dampening due to rise in vehicle ownership cost coupled with rising fuel cost. Overall, while the cost concerns, price hikes, reverberations of the war; remain a cause of worry, however, governments thrust on capex in FY23 could be an enabler for enhancing the production capacity thereby strengthening the overall demand. The Federation of Automobile Dealers Association (FADA) anticipates that the Indian auto industry would be in a position to reach the pre-pandemic levels only by FY24E.

Exhibit 01: Types of Commercial Vehicles (CVs)

Weight Class			Light Duty	Light Duty	Light Medium Duty	Medium Duty	Medium Duty	Heavy Duty
Categories	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8
From (lbs)	-	6,001	10,001	14,001	16,001	19,501	26,001	33,001
To (lbs)	6,000	10,000	14,000	16,000	19,500	26,000	33,000	-

Source: actresearch.net/types-of-commercial-vehicles, Progressive Research

Commercial Vehicles may include a bus, truck, tractor, van or Recreational Vehicles (RVs) and are divided into 8 classes based on the parameter of Gross Vehicle Weight (GVW). Classes are further categorised as:

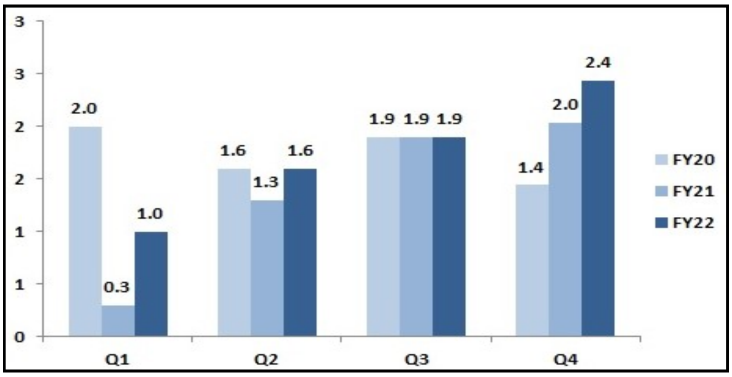
(i) Light Duty: GVW class 3-4 includes trucks, buses and RVs

(ii) Light Medium Duty: GVW class 5 includes trucks, shuttle buses and RVs

(iii) Medium Duty: GVW classes 6-7 includes all fuel types and applications including class 6-7 school buses

(iv) Heavy Duty/Class 8 Vehicles: defined as a straight truck or tractor over 33,001 lbs

Exhibit 02: CV Quarterly Sales (in lakhs)



Source: auto.economictimes.indiatimes.com/news/CV, Progressive Research

SNAPSHOT	
52 week H / L	Mcap (INR mn)
993/662	5,023
Face value: 10	
BSE Code	NSE CODE
505036	NA

Annual Performance

(Rs mn)	FY20	FY21	FY22	FY23E
Total Revenue	3,332	1,157	2,818	3,895
EBITDA	97	(215)	71	253
EBITDA (%)	2.9	(18.6)	2.5	6.5
Other Income	104	104	73	76
Interest	2	1	1	1
Depreciation	52	51	50	51
PBT	147	(163)	93	276
PAT	100	(125)	34	204
Equity (Rs mn)	61	61	61	61
EPS (INR)	15.8	(20.5)	5.7	33.6

Quarterly Performance

Parameters (Rs mn)	Jun-21	Sept-21	Dec-21	Mar-22
Sales (Net)	382	527	761	1,149
EBITDA	(53)	(31)	47	108
EBITDA (%)	(14.0)	(5.9)	6.2	9.4
Other Income	21	24	12	16
Interest	0	0	0	0
Depreciation	13	13	13	12
PAT	(36)	(17)	33	37
Equity (Rs mn)	61	61	61	61

Ratio Analysis

Parameters (Rs mn)	FY20	FY21	FY22	FY23E
EV/EBITDA (x)	50.7	(24.1)	76.3	21.3
EV/Net Sales (x)	1.5	4.5	1.9	1.4
M Cap/Sales (x)	1.5	4.3	1.8	1.3
M Cap/EBITDA (x)	51.7	(23.4)	71.1	19.8
Debt/Equity (x)	0.02	0.1	0.3	0.3
ROCE (%)	7.2	(8.9)	5.4	14.9
Price/Book Value (x)	2.8	3.0	3.0	2.7
P/E (x) (TTM)	9.9	-	-	24.8

Shareholding Pattern as on 31st March, 2022

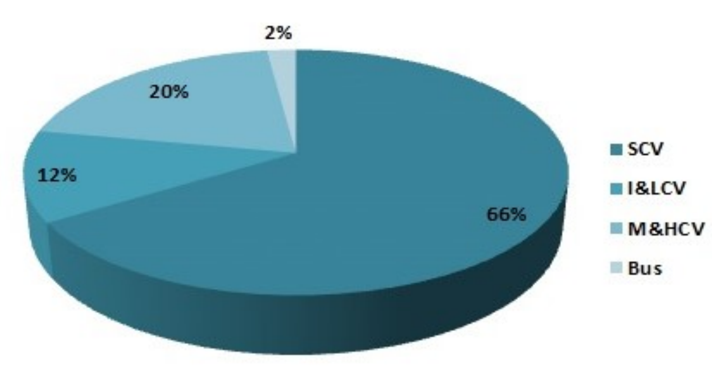
Parameters	No of Shares	%
Promoters	34,35,831	56.43
Institutions	800	0.01
Public	26,51,991	43.56
TOTAL	6,088,622	100.00

Source: Annual Report, Progressive Research

Note: Data is calculated as on 30th June, 2022

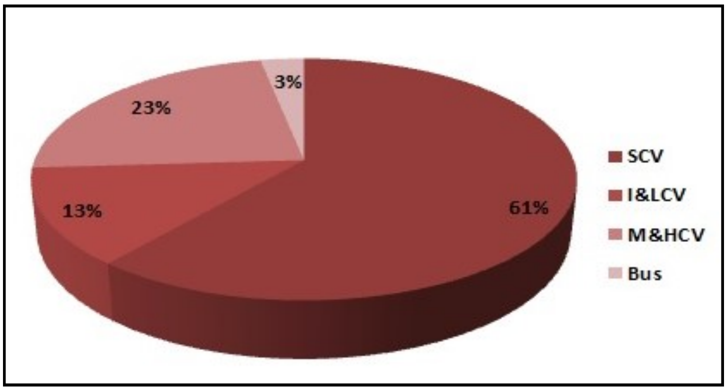
About the Industry (contd.):

Exhibit 03: Segmental Mix-FY21 (industry-wise)



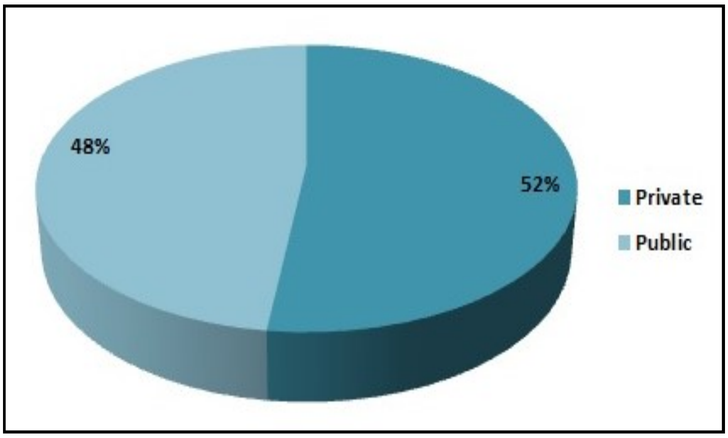
Source: auto.economictimes.indiatimes.com/news/CV, Progressive Research

Exhibit 04: Segmental Mix-FY22 (industry-wise)



Source: auto.economictimes.indiatimes.com/news/CV, Progressive Research

Exhibit 05: Share of STU and Private Operators (industry-wise)



Source: Statistics Brief India 2020 Report, Progressive Research

Bus Industry Overview: Public road transport involves the services provided by the State Transport Undertakings (STUs). This sector has the presence of many agencies such as bus operators, metro operators, regional transport authorities etc. (governed by different regulatory authorities). In a well-connected society, ease of travel is the need of the hour. For an intercity travel, many travellers prefer roadways over rail where the cost of travelling as well as flexibility are the factors considered. Different STUs, private bus operators, travel agencies etc. provide operating buses on a permit basis. Thus, buses gain the needed popularity for intercity travel destinations and the role of many organised and unorganised bus manufacturers and bus body builders comes into play. In addition to this, many international players and manufacturers are also present in this domain. During the pandemic, the total industry volume of buses shrunk by ~80%. However, with the recovery seen in the exports market, revival of the school & office segment, revival of tours & travel and return of demand from various STUs in the domestic market are hinting towards an overall recovery of the industry volumes. The bus business in India is highly cyclical and alongwith this the entry of many global manufacturers is seen altering the market dynamics, making it a highly challenging business. Some of the major companies involved in this business include Daimler, VDL Bus and Coach, Scania, Volvo, Marcopolo, Eicher Motors Limited, TATA Motors, Ashok Leyland, Solaris Bus and Coach SA, IVECO, Hyundai Motor Company, VanHool, Zhengzhou Yutong Bus, Alexander Dennis, Xiamen King Long United Automotive, Zhengzhou Yutong Bus Co. Ltd etc.

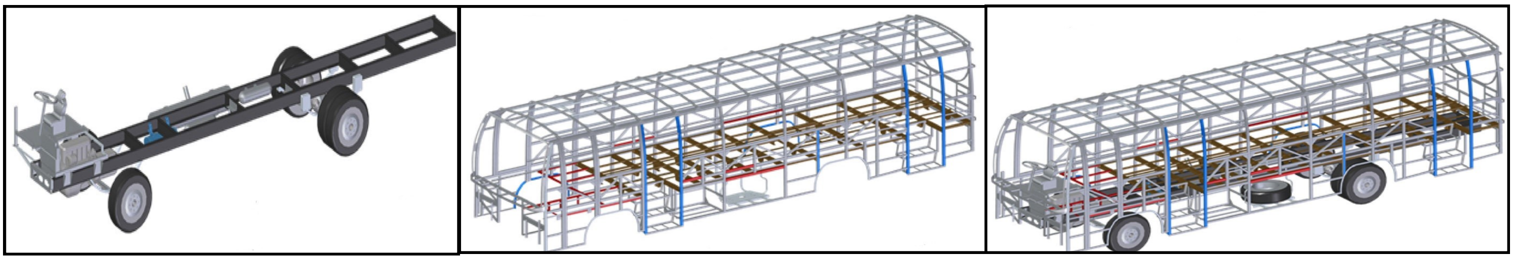
Bus Body Building: *involves (automobile) manufacturing where the chassis are supplied by automobile manufacturers and body is built by automobile body builders as per the requirements of the customer and specifications of the different STUs.*

Bus body can be categorised into three parts: (i) the chassis and engine, (ii) structural body and (iii) interior and exterior parts. An important parameter in bus body manufacturing is the **strength** and the **stiffness** of the bus frame. The bus body manufacturers are expected to comply and must pass the standard test put up by the domestic as well as the international organizations. The structure of the bus body must be balanced in order to ensure safety and comfort. The two main types of **chassis** include**; the single piece** (used for the medium bus size with one floor) and the **three joint combination** parts (used for the long bus size or two floor bus). The structural body has 6 main components i.e. the left and right frame side, the front and back frame side, the top and bottom frame side; the frame sides are installed by mirrors and welded with clean and de-rusted sheet metals. The metals sheets are cut-to-size in order to form different parts of the bus body, fabricated and assembled as per specifications for design (and size) to make a complete bus body and painted as per the requirements of the customers.

About the Industry (contd.):

The Bus Body Code: The Indian bus body building industry can be categorized into two segments i.e. the corporate or the organized sector and the unorganized sector (which is currently dominating the industry). The small scale body builders have been involved in bus body building and designing with poor design, poor quality products, spurious materials and parts, with no uniformity in the construction, resulting in large amounts of fatal accidents. Till recently, there were no regulations governing the design and building of bus bodies, but with the implementation of the Automotive Industrial Standard (AIS-052) for Bus Body Building, (also known as the Bus Code), bus body builders will not be allowed to produce or sell any bus body style that has not been rigorously tested by Automotive Research Association of India (ARAI) for conformance to AIS-052. Under this code, specific standards outlined are related to features such as dimensions, locations, designs of the entry and exit doors, emergency exits, seats layouts, to mention a few. This procedure would allow flexibility of operations and further have sufficient check points for compliance as per the prescribed standards and would also eliminate non-compliant small players.

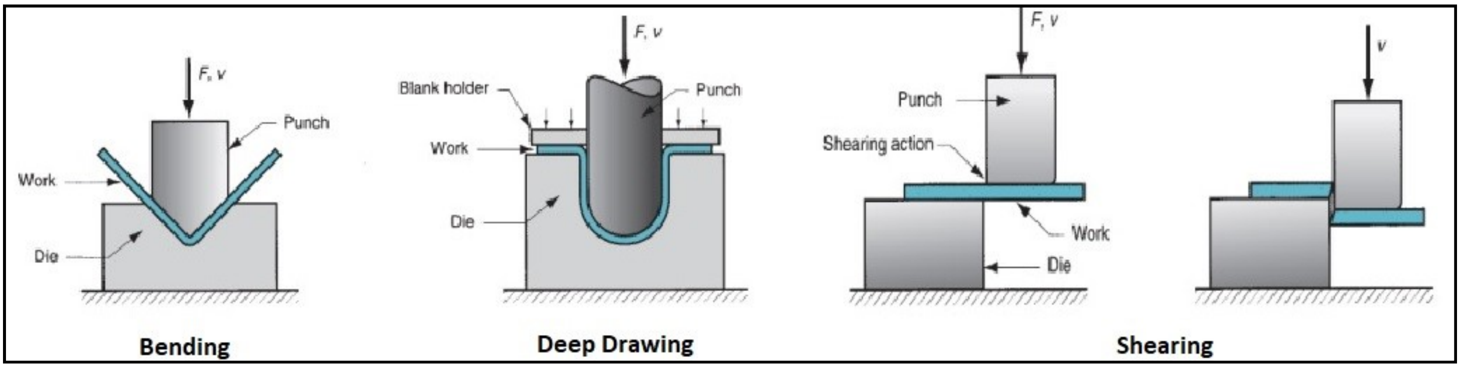
Exhibit 06: Bus Body Structuring



Source: abledesigneering.in/services/bus-body-certification/, Progressive Research

Sheet Metal Pressing: or *Metal stamping aims to convert flat metal sheets into specific shapes either by pressing the metal with a pressing tool or using a stamping die (an implement which is pushed into the sheet metal) which forces the sheet metal to take the shape of the die.* The sheet forming process involves a number of techniques where the most commonly used ones include,
Bending: the sheet material is strained by punch to give a bend shape (angle shape) usually in a straight axis,
Deep Drawing: where a flat metal sheet is converted to a hollow or concave shape and
Shearing: where sheet metals are cut by simple shearing action

Exhibit 07: Basic Sheet Forming Process

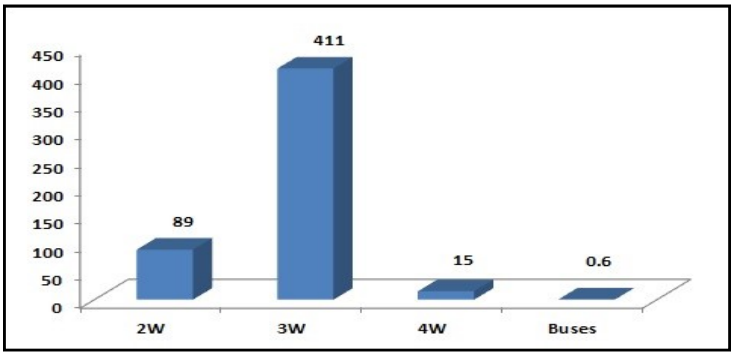


Source: Market Reports, Progressive Research

Automotive stamping is a type of metal stamping process wherein high volume metal sheet parts are processed for automotive OEMs to make plate holders, roofs, fenders, brake shoes, fuel delivery systems, etc. The Indian automotive stamping market accounted for USD4519mn in 2018 and is anticipated to grow at a CAGR of 10.8% during the forecast period 2019-2027. This growth is anticipated to be driven by increased production sales, high growth in exports of automotive components and growing collaborations amongst OEMs and stamped component suppliers. Some of the key players operating in the Indian automotive stamping market are Automotive Stampings and Assemblies Ltd., JBM Group, Klt Automotive And Tubular Products Limited, Autocomp Corporation Panse Pvt. Ltd., Omax Auto Ltd., Mahindra CIE Automotive Ltd, Sona Koyo Steering Systems Ltd, Harsha Engineers Ltd, Tata Autocomp Systems Ltd, Cosma International (India) Pvt Ltd etc.

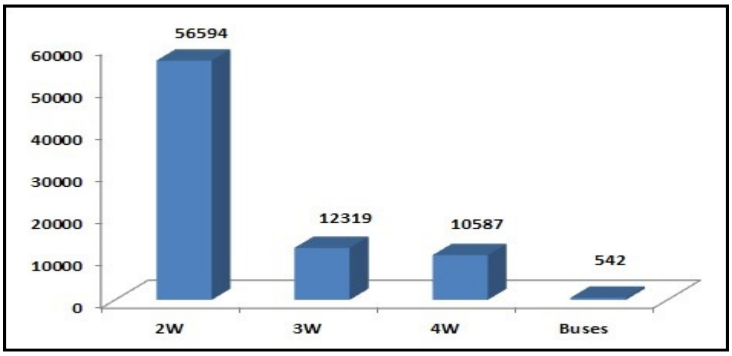
About the Industry (contd.):

Exhibit 08: Actual 2020 EV Sales (units in '000s)



Source: Status Quo Analysis Niti Aayog Report, Progressive Research

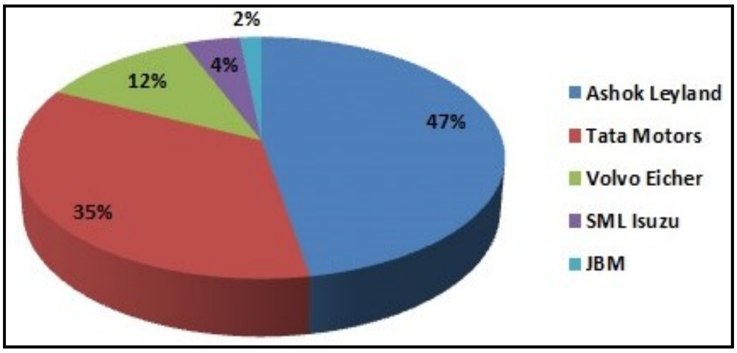
Exhibit 09: Projected 2030 EV Sales (units in '000s)



Source: Status Quo Analysis Niti Aayog Report, Progressive Research

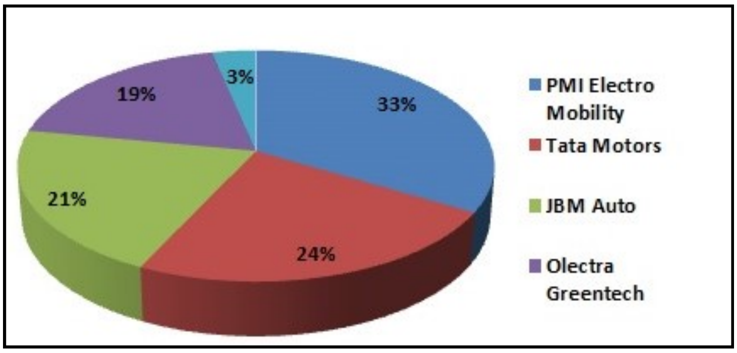
Adopting Changes: Transporting and movement of people and goods is seeing an ever increasing demand in India. Given the need to reduce the dependence on imported oil, growing concerns over climate change and the motto to achieve mass scale electrification of public transport and achieve net zero emissions by 2070, the need for future mobility and the **Electric Vehicles (EVs)** market is seeing a major uptick. As per market reports, around 5,15,600 EVs were sold in India (in 2020) which included only 600 e-buses. As per Society of Manufacturers of Electric Vehicles (SMEV), sales of 2Ws, 3Ws, buses, cars and other vehicles almost doubled from 78,903 units in Jan-May 2021 to 3,17,890 units in FY22. The GOI has targeted 30% EV penetration by 2030. However, the momentum required to achieve the target would require transformational and radical measures to be adopted by the policy makers in this space. Niti Aayog and RMI has projected EV sales penetration of 80% for 2W and 3Ws, 50% for 4Ws, and 40% for buses by 2030. Over the recent years, major players have been keenly involved in the development and introduction of electric buses in India. Some of the key players operating in the e-bus markets include Ashok Leyland, JBM Auto, Solaris Bus & Coach S.A., Deccan Auto, Olectra Greentech, Tata Motors, Zhongtong Bus & Holding Company, BYD Company and Eicher Motors Ltd.

Exhibit 10: Q1FY22 Indian Bus Sales Market Share



Source: statistics/1094600/india-bus-market-share-by-manufacturer/, Progressive Research

Exhibit 11: EV Bus Sales Market Share-FY22



Source: JMK Research & Analysis EV Annual Report-2022, Progressive Research

About the Company: Automobile Corporation of Goa Ltd. (ACGL), the first major engineering unit set up in Goa in 1980 was jointly promoted by Tata Motors Ltd (formerly known as Tata Engineering & Locomotive Co. Ltd.) and EDC Ltd (formerly known as Economic Development Corporation of Goa, Daman & Diu Ltd). ACGL has a long and established track record of over three decades in manufacturing bus body and pressing components. The company has strong association and synergies linked with the TATA Group as well as significant operational, financial and management linkages with Tata Motors Limited (TML). ACGL is an associate company of TML, which is one of the leading automotive manufacturers in India and having presence across various geographies like Europe, US, China, Russia and Brazil. The company manufactures sheet metal components, assemblies and bus coaches at its factories situated at villages Honda & Bhuimpal, Goa. ACGL is a major supplier of pressings and assemblies to TML (Pune factory). To meet the just-in-time (JIT) supplies to the customers, the company has set up a press shop at Jejuri, Pune. Mr. Shrinivas Dempo is the Chairman of the company supported by a professional management team.

Exhibit 12: Manufacturing Locations

Locations	Manufacturing Activities
Plant I-Honda, Sattari, Goa	Bus Bodies and component parts thereof
*Plant II-Bhuimpal, Sattari, Goa	Bus Bodies and component parts thereof
Plant IV-Jejuri Pressing Unit	Pressed sheet metal parts/Components/ Sub-assemblies and assemblies
Plant V, Dharwad, Karnataka	Door and Cowl Assembling
**Plant III has been merged with Plant II*	

Source: ACGL AR2022, Progressive Research

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Industry: Auto Components & Equip. | **Automobile Corporation of Goa Limited** | **BUY**

CMP: Rs.825 | **TARGET PRICE: Rs.1150** | **TIME : 12 months**

Investment Rationale:

(A) Business Divisions: ACGL mainly caters to the businesses of **bus segment** and **sheet assemblies** in the auto industry. Both these divisions of ACGL cater to the highly specialised requirements with a wide range of products under its gamut.

(i) Bus Segment: The bus industry revenue generation is driven by chassis requirements wherein the bus body gets fabricated at organized coach builders like ACGL. Over the past few years, the company has traversed from a bus count of merely 35 buses in the year of inception (1990) to reach a cumulative bus sale level of 78,251 as on FY22. This business division has been the **top revenue contributor** for ACGL with revenues at Rs2,174mn in FY22 as against Rs774mn in FY21. During FY22, ACGL was in a position to sell 1,952 buses (~84% of the total contribution came in from the export destinations) as against 987 buses in FY21. ACGL has improved its product portfolio during BSVI transition, by introducing new models in the domestic market, as well as for the Middle East countries, complying with the GSO norms. ACGL being an associate of TML, the latter allocates a large number of bus orders to be manufactured by ACGL (~30-35% orders of TML are fulfilled by ACGL). The delivery of such large orders (higher volumes) is the key for growth of bus body builders like ACGL. In general, once the order is placed and the chassis requirement is being met; the delivery cycle for standard products for school buses is ~20-25 days, while that for customised products is ~45-60 days.

Exhibit 13: ACGL's Bus Models

Product	Models
Staff Transport Application Buses	Comfort EX Standard, Pleazur Semi-Luxury, Classic LCV, Classic ICV, Comfort, Comfort EX Executive AC Coach
Luxury Application Buses	Classic MCV, Classic MCV Luxury, Classic ICV Luxury, Comfort EX Intercity and Pleazur Trips
City Application Buses	JNNURM FESLF, CNF Bus with BRTS, LE DIESEL CITY, Mass Rapid Transit Bus, S.T.U Buses
Defence Application Buses	Police Van, Dog Squad, Army Bus, Light Armoured Bullet Proof Troop Carrier, Police Van-LCV
Airport Buses	Ultra Low Floor CNG
School Application Buses	MCV School Bus Comfort, LCV School Bus Classic, MCV School Bus 6HD
Sleeper Buses	Sleeper Coach
Special Application Vehicles	Tipper Body, Mobile Dental Clinic, Ambulance, Tourism Bus, Mobile Library, Mobile Blood Bank

Source: ACGL Website, Progressive Research

The company continues to offer products like staff transport application buses, luxury application buses, city application buses, defence application buses, airport application buses, school application buses, sleeper bus, and special application vehicles. Under the bus segment, the company product range includes Neo ICV, Agile MCV, BRTS bus, Comfort-Ex, ICV school-Kidz, ICV school-Zeal. The bus industry has been witnessing significant changes on grounds of technology, comfort and safety parameters. As per the **BCG matrix** and the commentary of the Management, the products primarily catering to the school segment are regarded as **Stars** i.e. **Agile and Neo** school buses (export based orders). On an average, the products offered by ACGL have a life span of 3-5 years. As a strategy, in order to keep up with the upgradation and demand, the company keeps coming up with newer models while replacing the older ones for e.g., the Joy model was replaced by Neo, Comfort was replaced by Agile, the Zeal model was replaced by Neo. It is projected that by FY24E, Neo would be phased out and thus be replaced by a new one. Currently, the company has ~5-7 buses under the development phase. **Comfort** (being phased out by Agile) and **Jupiter** (adored by intra-city operators) form the **Cash Cows** for ACGL. The EV business being a niche market, ACGL is foraying its presence in the **EV buses** segment and the right strategies can enable the company grow to serve the requirement of the future and thus this niche area forms a part of **Question Mark.** As a part of the BCG matrix, **Dogs** are the company's product i.e. **Nova** (which is based on specifications in terms of orders, customers and features).

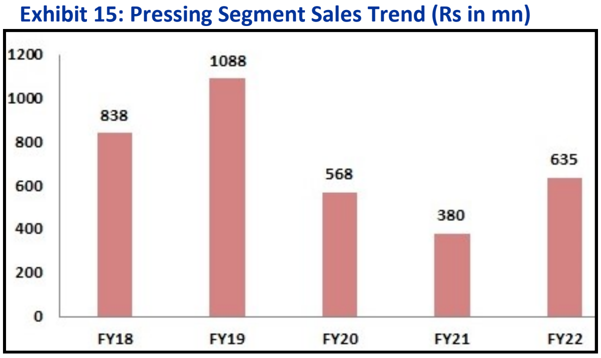
Exhibit 14: Trend for ACGL (FY16-FY22)

Buses Sold Trend	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Buses Sold	4960	5925	5734	5775	5221	987	1952
Domestic Share (%)	46.6	97.4	67.3	66.2	79.9	31.8	15.6
Exports Share (%)	53.4	2.6	32.7	33.8	20.1	68.2	84.4

Source: ACGL Annual Reports, Progressive Research

(ii) Pressing Segment: The products under the pressing segment cater to engine parts, cylinder plate, cab doors, front panel assembly, and axle basis chassis to mention a few. ACGL has reported revenues of Rs635mn for FY22 as against Rs380mn in FY21; with a revenue contribution of 22.5% for FY22. Since, the sheet metal business is highly **capital intensive** and requires **high volumes to break even**, the company does not indulge in any contract related orders (unless there is some prototype building work). As per the Management, ~95% of the capacity pertaining to the pressing segment is catered to TML and Tata Cummins Pvt. Ltd (TCPL) requirements. Moreover, on the industry dynamics, the pressing segment has immense overcapacity, thus for a company like ACGL, arriving at a revenue contribution of ~17-22% is in itself a challenge and the company envisions better growth targets in the near term.

Exhibit 15: Pressing Segment Sales Trend (Rs in mn)



Source: ACGL Annual Reports, Progressive Research

Investment Rationale (contd.):

(B) New Segment Entry: Keeping in mind the growing stringencies of the emission norms and GOI guidance on energy efficient vehicles, ACGL is focusing on manufacturing bus bodies in electric powered vehicles and intends to do so in the next fiscal. The advent of EV buses particularly for passenger mobility is seen as a welcome change by the industry as well as the company. Although the technology deployed is not very different from the traditional mode, a lot of technical input goes into the manufacturing of EV buses. The manufacturing operations for the same are underway and been worked upon by ACGL to serve the future requirements. The real essence of a successful JV is the management of the supply chain which involves complex inputs in the bus body building process and the development of an ecosystem by the bus manufacturer, which is not that easily obtained. In such a situation, the integration of ACGL along with TML is a **good blend** of Management, technology and cultures.

The auto sector is cyclical as the performance is largely dependent on the growth of the Indian economy and the degree of cyclicality within the various segments that also varies a lot. In FY22, TML which is the largest customer and shareholder of ACGL dominated the domestic CV market with a share of ~42% (in India) and had a sales volume of around ~2,75,000 units. ACGL has upgraded its existing models in school and staff segment to meet the market expectations and also to diversify its product offerings. ACGL intends to introduce **new models** under the existing segments. The vehicle **scrappage policy** is an important trigger for the growth of the industry and the company as well. The company is looking at product upgradation while enhancing its design capability using 3D design methodology, while continuously benchmarking its product with competition and calibrating to provide the best value proposition to the customers. ACGL has been adopting modern engineering practices for development of new BSVI models coupled with aggressive cost management while setting-up **new benchmarks** for itself. The company has undertaken initiatives for technology absorption during FY22 for the development of New BSVI Bus Body Model-Neo for staff and school application (LCV & ILCV) and development of New BSVI Bus Body Model-HIRA for staff application (ILCV) on new Tata Motor's chassis. The company is focused on value engineering and cost reduction to mitigate the effect of commodity increase.

(C) Robust Operations: ACGL has been growing slowly and has been reacting to the market situations in an apt manner, be it the logistic issues, large bus orders, integration of the processes with TML or on the export front while being a **cash rich** and more or less a **debt free** entity.

ACGL is accredited with TS-16949 and is an “A” and “B” category bus body builder certified by Central Institute of Road Transport (CIRT). The company has an in-house R&D facility for prototype and new technology development recognized by DSIR for buses and sheet metal components. Additionally, the company is accredited with IATF 16949 QMS Certification for its Goa, Jejuri and Dharwad plants.

If one looks at the **location advantage** from the logistic perspective, it involves 2 factors to be considered i.e. inbound and outbound advantages. ACGL has geographical benefit with strategic inbound advantage as most of the chassis used or required come from Dharwad, which is ~150kms away from Goa; this gives both ACGL and TML inbound logistic advantages. In terms of the outbound logistics, i.e. the buses which the company makes and delivers to its customers, ACGL tries to reap the volume advantage to offset the outbound logistics costs. The company is also open to opportunities in other markets with significant advantages, if they blend well with the ACGL philosophy.

ACGL intends to **stick closely** to its largest customer i.e. TML with transactions at arm's length basis and as per industry standards. TML allocates large orders of buses to be manufactured to ACGL and hence ACGL gets the necessary volumes and can focus on the core business which it knows very well i.e. building bus bodies; and so dependence on TML is not a negative factor, but is an advantage for the company. ACGL is regularly trying to increase its market share with TML, while introducing new buses. Together as a group, they are able to synchronise very well with mutual advantages to both the organization.

The general timeline for **accreditation process** of bus body is 3-4 months after the necessary submission of documents to the agencies. The overall cycle time is significant as it involves body design as well as complying with the necessary standards. The cost involved is ~Rs3.5-5.0mn per bus with a validity period of ~3 years post which renewal has a nominal charge.

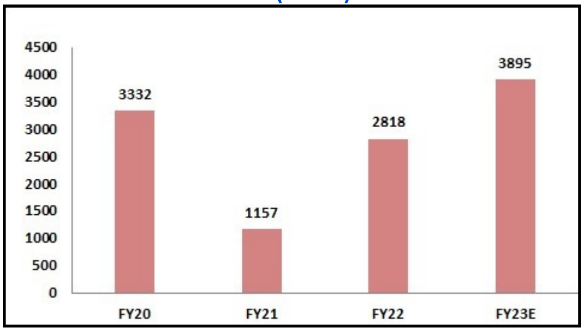
In the current world, Tata Group is going through consolidation of like-minded businesses and thus one must not rule out the consolidation of bus body activities also. Based on this one can expect **consolidation** of ACGL and Marcopolo (into 100% subsidiary of Tata Motors) in distant future.

ACGL has seen the share of **exports** increase over the last two years and is currently on a higher end considering the compression in domestic market demand. Going ahead, the company intends to outpace the domestic share and maintain ~65-70% on the domestic side. TML exports buses manufactured by ACGL and the billing is done in rupee terms. The two major export destinations include the Middle East (~81% share bifurcated as Dubai: 40%, Saudi: 30%, Abu Dhabi: 9%, Qatar: 1% and Oman: 1%) and Africa (~15% share bifurcated as Zambia: 2%, Nigeria: 3%, Congo: ~10%). In June 2022, the blend of exports and domestic orders appear to be good as per the Management commentary in the recent AGM.

Financials:

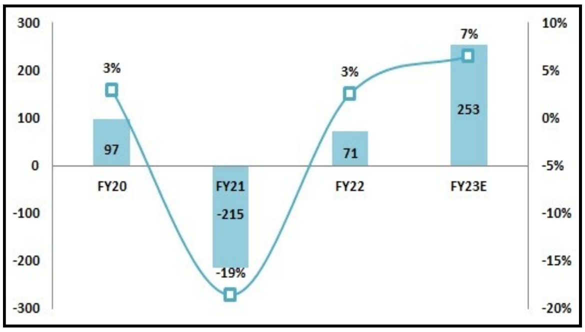
The bus industry dynamics had taken a major hit of about **80% shrinkage** on the volumes front which impacted the volumes of ACGL as well. However, in FY22 the volumes for ACGL (under the bus segment) increased nearly by 100% considering the recovery seen in the export markets and a revival via re-opening of schools. The normal industry growth in the bus body is anticipated at ~6-10% going forward. Being related to the automobile industry, the company is exposed to the **volatility in the commodities** market to a large extent. Moreover, any disproportionate increase in the commodity or input costs, changes in customer preferences, competition from new entrants would pose challenges for the company. The company however has undertaken various **cost reduction measures** in the past (e.g. VRS schemes to further streamline of employee costs) which are anticipated to deliver results eventually. Such strategic efforts would enable ACGL to optimize operations. The depreciating Indian Rupee is beneficial for the export oriented companies, however the benefits of the same will flow into the P&L of **TML** rather than ACGL (as ACGL only deals in Indian Rupees as a currency for exchange); this acts as a **shield** for ACGL in terms of de-risking itself from any forex fluctuations.

Exhibit 16: Revenue Trend (Rs mn)



Source: ACGL AR, Progressive Research

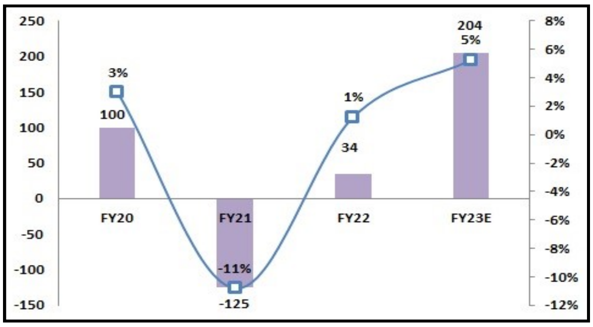
Exhibit 17: Ebitda (Rs mn) v/s Ebitda Margins



Source: ACGL AR, Progressive Research

With all the hassles hovering around the organized and the unorganised players, the implementation of the **Bus Body Code**/certification norms have brought in some sort of discipline majorly for the OEMs and the local bus body builders; however some discrepancy still prevails in terms of the GST being charged at 28% to the OEMs whereas the unorganised players enjoy the same at ~18%; rationalization of which is a matter of time.

Exhibit 18: PAT (Rs mn) v/s PAT Margins



Source: ACGL AR, Progressive Research

ACGL's major revenues related to bus body sales are being derived from TML; leading to concentration risk as high contribution from a single customer ideally restricts the bargaining power of a company; but for ACGL which considers this as an opportunity to cater to **significant volumes** demanded by TML and thereby try and enhance its overall market share. The ideal working structure between ACGL and TML is positioned on a predefined monthly schedule laid by TML (~2-3 months in advance) which doesn't pose any risk in terms of **order backlogs** for the company. As on June 2022, ACGL has a **tender pipeline** of ~600 buses that is being quoted by TML. The Management is aggressively working on **cost management** initiatives for creating value for its business partners, shareholders and the community.

With comfortable **gearing ratios** and **better ICR** generations, the company is in a suitable position to cater to any incremental working capital/capex requirements. The company has **minimal capex** requirements that are directed more towards the plant upgradation which would be funded by internal accruals. In FY22, the total capex spent stood at ~Rs5.5mn; and the company does not envisage any immediate/near term capex plans. The approximate annualized capacity utilization for the bus segment is ~55-60% and ~55% for the pressing division.

As far as the fire incidence that took place in February 2022 at Plant I (in Goa) is concerned; the Management has indicated of **not having faced any production loss** owing to the same. The company coped-up quickly and well in time to deliver the products to its customers in a defined time period.

The company had a good record of **rewarding the shareholders** via **consistent dividends** (there was a pause in FY22 due to pandemic). There was a buyback of shares in September 2019, as a result of which the promoter's shareholding increased from 53.50% to 56.43%. *In October, 2021 a resolution was passed for approving reclassification of 403,502 equity shares belonging to Promoter and Promoter group category (EDC Ltd, Goa) to Public Category. Accordingly an application seeking reclassification was submitted to BSE Limited in November, 2021 and on requisite approvals from the shareholders and the exchange, the revised Promoter holding stands at 49.77% (shares held 30,30,529).*

Risk and Concerns: TML is the **single largest customer** contributing around 82% to 90% of the total turnover of the company (over the last three financial years) and this has ensured continuity of business for ACGL. *In addition to this,* ***RPT*** *between TML, TCPL, TMML involves business of ~Rs6250mn (including ICDs). The estimated value of transaction with TCPL for FY23 is ~Rs500mn which would breach the materiality threshold of 10% of the annual turnover of the company i.e. Rs280.9mn as per the last audited financial statements of the company for FY22 or Rs10bn (whichever is lower).*

Some of the current challenges faced by ACGL include increase in **commodity prices** and other input costs, constantly changing customer preferences, competition from new entrants and maintaining operational efficiencies. The **global health** related issues like Covid-19 can impact mass transportation and in turn affect the sales of the company i.e. bus body building. Global **supply chain** issues can adversely affect the commodity prices which in turn affect the operational profits of the company.

The company has substantial **exposure to exports** (FY22 it was 84.40%), this overdependence on the exports market makes the company vulnerable to the changes in the global markets. ACGL is largely dependent on the ability of TML to successfully procure orders; the high contribution from a single customer **restricts the bargaining power** of ACGL; thus any weakening of parent's credit profile/ weakening of linkages with TML can impact the fortunes of ACGL.

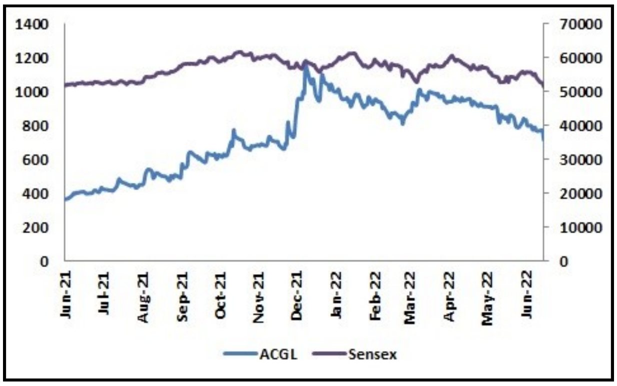
The presence of many MNCs in the EV space and various tie-ups between local bus body builders and foreign collaborators can have an impact especially in the EV buses segment from the domestic OEMs point of view. There exist several large players in the bus building segment and thus there is **high competition** impacting the overall market share. Most of the OEMs have their own bus body builders which include players in India like PMI, Audi, MG Auto etc. In addition to this, there a number of **unorganised players** who primarily cater to retail customers with influence in an area spread of ~4-5 districts.

The difference in **GST** between fully built vehicle and bus body supplied separately is posing hurdles to the growth of OEM Bus Body suppliers. The company has a moderate scale of operations, low bargaining power, and **inherent cyclicality** which is further amplified with the company operating in only two segments within the automobile industry. The company is facing challenges related to high **manpower cost** when compared to the industry benchmarks and is constantly working to stream line the same.

The stock is **highly illiquid** and very thinly traded **only on BSE**; which is despite the holdings of the promoters of the company currently being at 56.43%; and considerable quantity of shares held by marquee long term investors.

Outlook and Recommendations: The bus industry outlook is turning positive, paving way for revival to pre-covid levels and is committed to growth that lies ahead. The recovery in the CV segment in India is evident and truly underway. The company seems to be seeing a **U-turn** in terms of the volume uptick due to re-opening of schools, workplaces and relaxation of norms for passenger transportation. The system has already begun to accelerate steadily with the start of FY23; however one cannot ignore the fears of further lockdowns if any; as such events can delay the revival process. One also needs to understand, the business in which ACGL is involved in is **highly cyclical** in nature, which implies, there can be influx of orders for 3-6 quarters in a row, and then there could be a lull period, till new orders are accepted or tenders are signed. There are quite a lot of triggers which can support the growth of the company including, the policy on the emission norms, road & infrastructure, thrust on the EV segment, the bus-body code, urbanization & city developments plans, electrification as well as gasification (CNG & LNG) of city bus transit, PPP model of urban & sub-urban bus operations and the scrappage policy. Since ACGL is associated with the Tata Group, it draws strength from the experience of its Management team and resourcefulness of the group. The company does not see customer concentration with TML as a risk where significant volumes of TML are catered by ACGL and they are trying to improve the market share further (pricing with TML is on arm's length basis and as per industry standards). The company is currently seeing good demand for school busses, employee transportation coupled with good demand from STUs (which was more or less muted in the last 2 years) and international business too is anticipated to come back on track. ACGL has a long and established track record of more than three decades in manufacturing bus bodies and pressing components coupled with comfortable capital structure with **no long-term debt obligations** and **strong liquidity** position. The Management is aggressively working on **cost management initiatives** for creating value for its business partners, shareholders and the community. All these triggers mentioned indicate at good times ahead for ACGL which has a comfortable order book visibility, strong customers, comfortable debt position, robust cash generation and the vision to cater to profitable volume growth; thus we initiate a **BUY** on this cyclical business entity with a target of **Rs1150** with a horizon of 12 months.

Exhibit 19: Price v/s Sensex



Source: Ace Equity, Progressive Research

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