Atlas Battery Limited

OVERVIEW (January 02, 2013) : **Brief Introduction:** Atlas Battery Limited (ATBA) operates under the umbrella of Atlas Group, a well-diversified group with its stakes in varied industries such as engineering, power generation, financial services and trading. The group foundation was laid in 1962 as Shirazi Investments (Pvt) Limited with capital of half a million rupees. However, to-date, the group has spawned into 14 autonomous companies. ATBA was established in 1966 and pioneered the production of dry charged hard rubber batteries in Pakistan. In 1969, company obtained technical collaboration with Japan Storage battery Co Ltd with an aim of maintaining its lead in technology and innovation. Over the years, company expanded its production capacity to meet rising customer demands and to incorporate the production of new product lines. As of now, the company manufactures a wide range of polypropylene and hard rubber batteries suitable for the passenger cars of varied capacities, trucks, tractors, heavy vehicles, construction and road building equipment, as well as stationary and industrial applications. Motorcycle batteries have also been added to this range. ATBA has various other honours to its credit such as being the first one to introduce maintenance free batteries in Pakistan. The company also took the lead to introduce UPS, CNG, and Diesel & rickshaw batteries. ATBA's technological dominance and product variety is complemented by its well-knitted distribution network comprising over 60 dealers and retail outlets ensuring timely delivery of its products across the country. Besides catering to the needs of domestic market, the company also exports its products.

Financial Performance, FY12:

During FY12, company's net sales grew by 23 percent mainly on account of rebound in the sales of locally manufactured vehicles during the year. Although FY12 was a bitter year for automobile sector due to huge influx of imported cars, yet the sales of cars and LCVs improved by 23 percent and 18 percent respectively, during the period which proved to be the driving force spurring sales of automotive vending industries such as ATBA. Moreover, unrelenting electricity shortage has ignited the demand of heavy and medium sized batteries as a backup source of electricity. During the period under consideration, the company posted a gross profit of Rs 1.167 billion which is, thus-far the highest gross profit benchmark achieved by the company and signifies a YoY growth of 36 percent. Operating expenses soared by 43 percent during the period. One contributing reason could be company's significant strides during the year to bolster its brand presence via ATL and BTL activities. These include branding three CNG stations in the north zone, partnership with Total-Parco gasoline stations, conducting workshops to educate the electricians about battery safety handling measures, inviting dealers to visit company site etc. Yet the company was able to achieve a growth of 35 percent in its operating profit mainly due to better sales mix, lower sales incentives and a strict gaze at manufacturing overheads. Although financial cost surged by 86 percent YoY, but as a component of sales, it stands at a mere 0.9 percent, hence leaving unnoticeable impact on the bottom line which in the presence of so many upbeat factors recoiled by 37 percent. The superior performance allowed the company to announce a dividend with a total cash distribution of Rs 100.7 million, the highest amount ever disbursed by the company. Moreover, the company invested Rs 533.9 million in plant expansion and treasury operations and also Rs 19.5 million to trim down its short term borrowings. A glimpse of financial performance over the years: The top line of ATBA illustrates an inclining trend over the years, rebounding 1.29 times in the period ranging from FY09 to FY12. Further analysis reveals that FY11 was the pre-eminent year in terms of sales growth. The increased demand of locally assembled vehicles on account of improvement in car sales via consumer financing schemes, rise in rural buying in the wake of good cash flow and electricity shortage buttressed the sales of batteries. Thus, the top line touted YoY growth of 46 percent in 2011. However, the superior sales performance in FY11 couldn't hold its momentum as we move a step down the income statement. The gross margin almost remains constant in FY11 as substantial cost escalation coming on the heels of soaring cost of lead- a constituent that makes up 80 percent of the cost of materials, faded away the impact of sales growth. To counterbalance the negative impact of rising cost of sales, the company kept a stringent hold on its operating expenses which reduced from 5.2 percent of sales to 4.5 percent. Consequently, the company was able to garner an operating profit of Rs 562 million, up 56 percent from the previous year. The finance cost appears to surge momentously in FY11 but common size analysis reveals that it stands at a mere 0.6 percent of sales, leaving no significant impact on the bottom line which outperforms the previous year by 59 percent. Looking back at FY10, sales grew by 28 percent nevertheless; the 37 percent surge in cost of sales mainly coming on the heels of Pak Rupee depreciation irked the gross margin which fell from 16.8 percent in FY09 to 14.7 percent in FY10. Furthermore, operating expenses surged by 7.4 percent which makes fair sense given 28 percent rise in sales. Resultantly, operating margin dropped from 10 percent to nine percent however, in absolute terms it improves by 14 percent. During FY10, the company's superior working capital management combined with lower interest rates backdrop resulted in 54 percent duck of its financial cost enabling the company to post an after-tax profit of Rs 222.5 million, up from Rs 177.7 million in FY09.

Liquidity position:

The company touts a burgeoning liquidity position over the years with positive net working capital and current ratio exceeding one in all the years which illustrates company's sturdy position to meet its short-term obligations. Conversely, if we compare current ratio with quick ratio, there appears a significant gap epitomising company's huge inventory levels. Inventory comprises over 50 percent of company's current assets in all the years. Nevertheless, company's major inventory is lead and amid escalating cost of lead (lead prices rose by around 17 percent in July-November, 2012), company's decision to maintain huge inventory level appears to be a strategically cognisant decision.

Future landscape:

While continuous electricity shortage in the country appears as a menace, marring the performance of most of the industries operating in Pakistan, it appears as a blessing in disguise for ATBA and other players in the battery industry. Unabated power crisis has altered the demand pattern of batteries in Pakistan and has stimulated the demand of heavy and medium-sized batteries which are increasingly being used as an alternative energy source. Further growth is expected to come on the back of gradual improvement in the operating environment of automobile industry. The government has recently reduced the age limit of imported cars which is likely to buttress the demand of locally assembled cars. Moreover, the falling interest rates also signals expected rise in consumer financing which is another factor propping up the demand of local cars. On the murky side of the picture, price of major raw material lead is expected to rebound manifold on account of higher demand in the international market. This factor coupled with rupee devaluation is likely to pull company's gross margins in the red zone.

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		FY12	FY11	FY10	FY09
PROFITABILITY					
Gross profit margin	%	16.2%	14.7%	14.7%	16.8%
Operating profit Margin	%	10.5%	9.6%	9.0%	10.0%
Net profit margin	%	6.7%	6.0%	5.53%	5.6%
ROCE	%	28.7%	28.0%	23.0%	22.5%
ROA	%	18.5%	17.0%	14.7%	14.5%
ROE	%	36.3%	37.1%	32.5%	33.4%
LIQUIDITY					
D/E	times	0.83	1.00	0.96	0.98
Net Working capital	Rs In mm	557.77	359.19	212.06	153.23
Current ratio	times	1.59	1.44	1.39	1.35
Quick Ratio	times	0.73	0.56	0.41	0.35
ACTIVITY					
Total asset turnover	times	2.74	2.82	2.66	2.57
Fixed asset turnover	times	6.36	6.46	5.32	4.95