Stock Update

Racing ahead

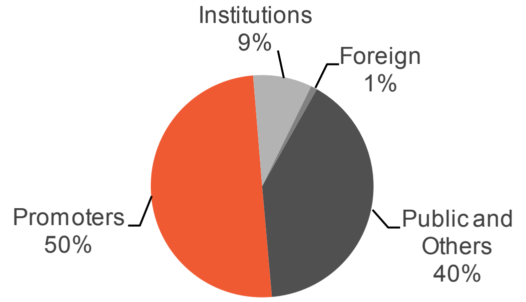
Rico Auto Industries

Reco: Buy | CMP: Rs68

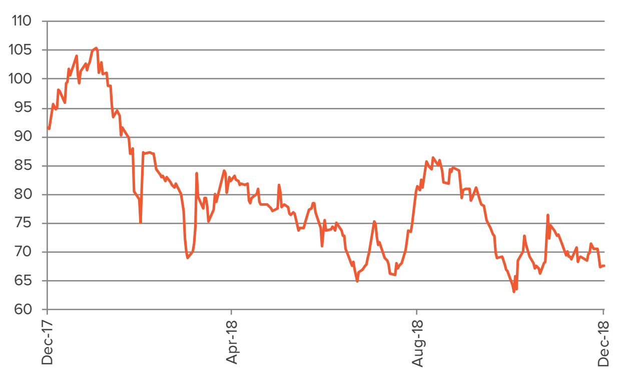
Company details

Price target:	Rs95
Market cap:	Rs919 cr
52-week high/low:	Rs108/62
NSE volume: (No of shares)	3.2 lakh
BSE code:	520008
NSE code:	RICOAUTO
Sharekhan code:	RICOAUTO
Free float: (No of shares)	6.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.2	-16.7	-10.3	-25.6
Relative to Sensex	-9.3	-10.6	-11.5	-32.1

Key points

We met the management of Rico Auto Industries (RAI). Following are the key takeaways:

- **Robust order book provides strong growth visibility; Strong growth in the aftermarket space to further bolster growth:** Rico Auto Industries (RAI) has a robust order book (valued at Rs. 4,800 crore) currently, which is executable over the next five to seven years. The size of the order book is substantial (FY2018 turnover was about Rs. 1,200 crore). As per management, RAI has also received new business (new orders in the order book amount to Rs. 1,200 crore). RAI has added new marquee clients such as PSA Groupe, Daimler, KIA and Punch Powertrain. Further, RAI has tapped the fast-growing electric vehicle segment and has orders worth Rs. 1,100 crore, which further boosts confidence. RAI has also seen strong traction in the aftermarket space with the launch of new products (levers, chain sprockets, clutch and hub centres) and entry into the 4W aftermarket space in Q2FY2019. RAI is expecting aftermarket revenue to be four-fold to Rs. 100 crore by FY2020. RAI is poised to significantly outpace the domestic automotive industry and we expect a 19% revenue CAGR over FY2018-FY2020.

- **Margin improvement on cards; Better product mix, reduction in employee costs and operating efficiency to drive expansion:** RAI is targeting significant margin improvement and is aiming to improve EBIDTA margin by about 100 BPS every year over the next two to three years. RAI aims to reach EBIDTA margin level of about 15% as against 12.3% in FY2018. As per management, the company enjoys better margins (products are high tonnage and mostly aluminium) in the recent order wins, which would improve gross margins. RAI is also focusing on reduction in employee expenses. Recently, RAI announced VRS scheme (VRS expenses incurred Rs. 9 crore) and increased automation levels, which would bring down employee costs. Moreover, improving capacity utilisation at Daruhera plant post restructuring exercise would drive margin expansion. We have factored 130 BPS margin improvement for RAI over the next two years.

- **Outlook: Growth trajectory strong; Expect 20% earnings CAGR over the next two years; Return ratios to improve:** RAI's growth momentum is expected to remain strong given robust order book and new client wins. With margin improvement due to better mix and operational efficiencies, we expect RAI to generate a robust 20% earnings CAGR over the next two years. Moreover, RAI's ROE is expected to improve from 11.5% levels in FY2018 to about 14% in FY2020.

- **Valuation - Retain estimates and Buy rating; Recent correction provides good entry point:** We have retained our earnings estimates for both FY2019 and FY2020. RAI's stock has corrected by about 12% in the past six weeks, which provides a good entry point for investors. We retain our Buy rating on the stock with an unchanged price target (PT) of Rs. 95.

Valuations (Consolidated) **Rs cr**

Particulars	FY16	FY17	FY18	FY19E	FY20E
Net sales (Rs cr)	1,007.0	1,037.9	1,209.3	1,447.6	1,724.3
Growth (%)	-25.2	3.1	16.5	19.7	19.1
EBITDA (Rs cr)	98.6	111.4	131.1	167.5	208.7
OPM (%)	9.8	10.7	10.8	11.6	12.1
Adjusted PAT (Rs cr)	34.0	53.0	65.4	76.8	94.5
Growth (%)	-570.4	55.8	23.4	17.3	23.1
Adjusted EPS (Rs)	2.5	3.9	4.8	5.7	7.0
P/E (x)	27.0	17.4	14.1	12.0	9.7
P/B (x)	2.0	1.8	1.6	1.5	1.3
EV/EBITDA (x)	11.0	9.6	8.2	7.0	5.9
RoE (%)	7.2	10.1	11.6	12.5	13.8
RoCE (%)	9.0	10.8	11.2	13.2	14.8

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