

Stock Update

Earnings pressures to sustain in FY20; retain Hold

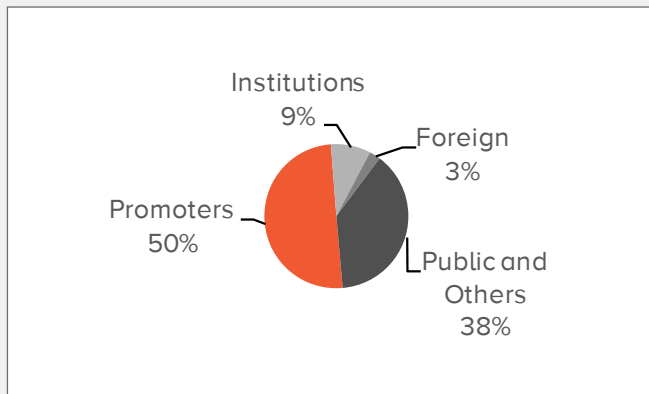
Rico Auto Industries

Reco: Hold | CMP: Rs66

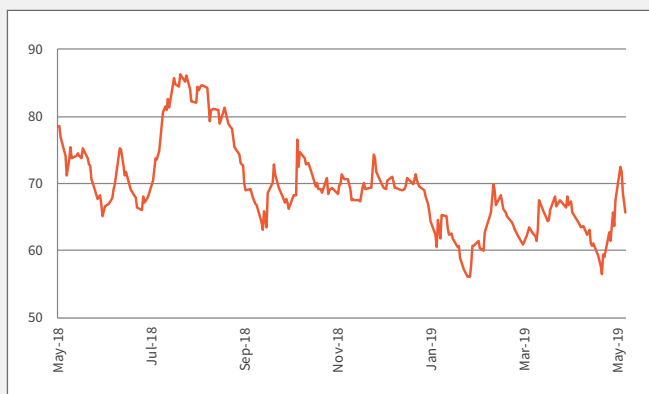
Company details

Price target:	Rs70
Market cap:	Rs888 cr
52-week high/low:	Rs87/56
NSE volume: (No of shares)	2.3 lakh
BSE code:	520008
NSE code:	RICOAUTO
Sharekhan code:	RICOAUTO
Free float: (No of shares)	6.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.3	14.3	-4.1	-11.4
Relative to Sensex	2.1	3.5	-12.5	-22.6

Key points

- Results significantly miss estimates:** Rico Auto Industries (RAI) results missed estimates due to a sharp margin contraction. Revenues at Rs 348 cr grew 5% y-o-y and were in line with our estimates. Topline growth moderated from double-digits earlier due to production cuts taken by domestic OEM's owing to weak demand. The operating margins at 7.2% contracted sharply by 440 bps y-o-y and 370 bps sequentially and significantly missed our estimates of 10.7%. Higher commodity costs, pricing pressure by OEM's, operating deleverage due to moderation in topline impacted the margins. Further as per RAI, increased minimum wages by Haryana government and increased power tariffs also impacted the margins. The EBITDA at Rs 25 cr declined steeply by 35% y-o-y and is below our estimates of Rs 37 cr. The tax rate for the quarter was high at 36% as compared to a 1% tax rate in Q4FY18. This coupled with a weak operating performance resulted in the adjusted PAT at Rs 7 crore declining sharply by 66% y-o-y. The adjusted PAT was significantly below our estimates of Rs 13.5 cr. RAI reported an exceptional expense of Rs 0.5 crore towards VRS expenses. Reported PAT at Rs 6.6 cr was down 65% y-o-y.
- Slowdown in the domestic OEM demand; rising capex and interest expenses to dent FY20 earnings:** The domestic OEM segment (forming about 60% of revenues) have slowed down considerably over the past two quarters. The topline growth of RAI moderated sharply to 5% in Q4FY2019. Automotive OEM's have taken production cuts in Q4FY2019 and have continued production rationalization in Q1FY2020. Slowing economic growth, NBFC crisis and increased insurance costs dented the demand. Domestic OEM challenges are expected to persist in the near term which would impact RAI earnings. Also, pricing pressures in wake of weak OEM demand would impact RAI'S margins. Moreover, RAI depreciation is expected to increase given the company's investment on new products launches and investments related to BS6 emission compliant products. Further, RAI's debt has also increased which would augment the finance costs.
- Earnings pressures to sustain in near term; return ratios unlikely to improve:** With sharp

moderation in OEM demand and increased depreciation and interest expenses, we expect RAI earnings growth to remain under pressure. We expect meager 2% earnings growth for RAI in FY2020. RAI's return ratios are unlikely to improve and we expect ROE to remain in 10-11% range which rules out any scope of multiple re-rating.

- ♦ **Valuations: Sharply cut estimates; retain Hold:** RAI's Q4FY2019 results significantly missed estimates. Weak OEM demand and pricing pressures from OEM would impact earnings. We have cut our earnings estimates for FY2020 by ~20% to factor in the same. We have also introduced FY2021 earnings estimates in this note and roll over our multiple on FY2021 earnings. We retain Hold rating on the stock with revised PT of Rs 70.

Results (Consolidated)

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Revenues	347.8	332.4	4.6	334.5	4.0
EBITDA	25.1	38.6	-35.1	36.5	-31.3
EBITDA Margins (%)	7.2	11.6	(440) bps	10.9	(370) bps
Depreciation	14.6	14.1	3.5	14.5	0.7
Interest	8.8	5.8	52.7	5.7	54.8
Other income	8.3	1.4	487.2	4.3	93.0
Share of Profit / Loss of JV	1.0	0.7	38.9	0.6	72.4
PBT	9.9	20.1	-50.7	20.6	-51.7
Tax	3.6	0.2	1604.8	6.3	-42.8
Adjusted PAT	7.1	20.6	-65.7	14.8	-52.3
Minority interest	0.3	0.1	262.5	0.1	222.2
Extraordinary Item	(0.5)	(2.0)	-74.7	(4.0)	-87.5
Reported PAT	6.6	18.6	-64.7	10.8	-39.3
Adjusted EPS	0.5	1.5	-65.7	1.1	-52.3

Valuation (Consolidated)

Particulars	Rs cr				
	FY17	FY18	FY19	FY20E*	FY21E*
Net sales (Rs cr)	1,037.9	1,209.3	1,392.7	1,629.4	1,792.3
Growth (%)	3.1	16.5	15.2	17.0	10.0
EBITDA (Rs cr)	111.4	131.1	143.7	169.6	191.9
OPM (%)	10.7	10.8	10.3	10.4	10.7
Adjusted PAT (Rs cr)	53.0	65.4	60.6	62.0	69.4
Growth (%)	55.8	23.4	-7.3	2.2	12.0
Adjusted EPS (Rs)	3.9	4.8	4.5	4.6	5.1
P/E (x)	16.8	13.6	14.7	14.4	12.9
P/B (x)	1.7	1.6	1.5	1.4	1.3
EV/EBITDA (x)	9.4	8.0	8.3	7.6	6.9
RoE (%)	10.1	11.6	10.3	9.9	10.5
RoCE (%)	10.8	11.2	10.5	11.5	12.0

* Numbers not comparable due to acquisition of JV

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