

Stock Update

Growth drivers in place, Retain Buy with unchanged PT of Rs.94

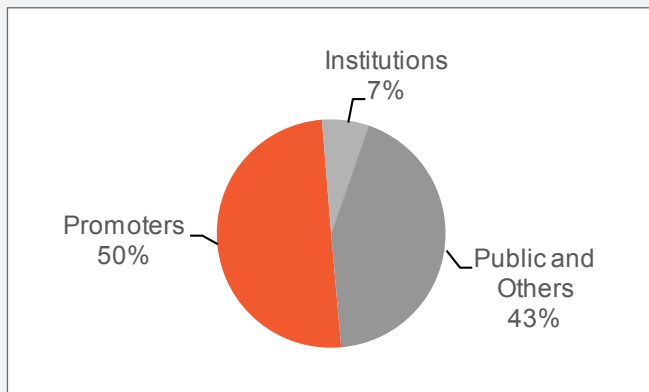
Rico Auto Industries

Reco: Buy | CMP: Rs77

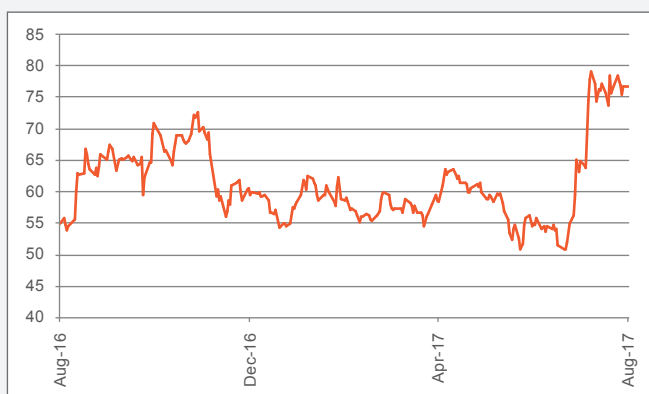
Company details

Price target:	Rs94
Market cap:	Rs1,038 cr
52-week high/low:	Rs84/44
NSE volume: (No of shares)	8.2 lakh
BSE code:	520008
NSE code:	RICOAUTO
Sharekhan code:	RICOAUTO
Free float: (No of shares)	6.75 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	28.9	24.9	30.3	43.9
Relative to Sensex	24.1	15.5	12.8	21.8

Key points

- Operationally in-line results for Q1FY2018; higher other income leads to profit beat:** Rico Auto Industries (Rico) reported operationally in-line results for the quarter. The company's revenue at Rs.274 crore increased by 5% YoY, which can be attributed to improved OEM demand. Operating profit margin at 10.6% (as against estimated 9.7%) declined by 160BPS YoY due to hardening raw-material cost. Consequently, EBITDA at Rs.29 crore was down 10% YoY, in line with estimates. Tracking the weak operating performance. However, buoyed by higher-than-expected other income, PAT at Rs14.9 crore was ahead of our estimates.
- Margin expansion levers in place:** Rico has charted out an aggressive growth plan, wherein it would foray into high-margin aftermarkets for the two-wheeler and four-wheeler segments (targets revenue of Rs.100 crore over 2-3 years), focus on the defence business and re-enter the clutch segment. Along with improvement in product mix towards the high-margin new business, the company's ongoing exercise to curtail cost and improve operational efficiencies would support continued margin expansion going forward.
- Outlook – Safety regulations and GST are structural growth drivers:** The outlook for the domestic passenger segment is encouraging, given the successful roll out of GST and the upcoming safety regulations, which are expected to open up huge opportunities for ancillary players, including Rico. In addition, successful restructuring of the subsidiary's operations and higher margins from the company's foray into the new business are likely to boost OPM. Given the positive triggers, Rico's earnings are expected to report a 34% CAGR over the next two years, making it amongst the fastest-growing ancillary companies.
- Valuation: Maintain Buy with an unchanged PT of Rs.94:** We have broadly retained our earnings estimates for Rico, given its in-line operating results reported for the quarter. Based on the improved margin trajectory, return ratios are also expected to improve to around 14% levels from the earlier 9.5% levels. We retain our Buy recommendation on the stock with an unchanged price target (PT) of Rs.94.

Result (Consolidated)

Particulars	Rs cr				
	Q1FY18	Q1FY17	YoY %	Q4FY17	QoQ %
Revenue	273.5	261.8	4.5	274.7	-0.4
EBITDA	28.9	32.0	-9.9	21.9	32.1
EBITDA Margins (%)	10.6	12.2	(160) BPS	8.0	260 BPS
Depreciation	13.1	11.5	14.5	11.1	17.8
Interest	3.7	5.4	-31.7	1.9	95.2
Other income	4.8	4.4	10.1	1.7	176.4
PBT	16.9	19.6	-13.7	10.6	59.7
Tax	4.0	4.3	-8.3	3.4	17.9
Adjusted PAT	14.9	16.3	-8.9	7.2	107.8
Reported PAT	14.1	15.9	-11.4	6.4	118.5

Valuation (Consolidated)

Particulars	Rs cr				
	FY15	FY16	FY17	FY18E	FY19E
Net sales (Rs cr)	1,346.3	1,007.0	1,079.2	1,192.1	1,372.0
Growth (%)	-9.0	-25.2	7.2	10.5	15.1
EBITDA (Rs cr)	86.1	98.6	115.0	134.1	165.6
OPM (%)	6.4	9.8	10.7	11.2	12.1
Adjusted PAT (Rs cr)	(7.2)	34.0	49.5	64.5	88.9
Growth (%)	-379.7	-570.4	45.5	30.3	37.8
Adjusted EPS (Rs)	(0.5)	2.5	3.7	4.8	6.6
P/E (x)	n/a	30.2	20.8	15.9	11.6
P/B (x)	2.3	2.2	2.0	1.8	1.6
EV/EBITDA (x)	13.5	12.1	10.4	9.0	7.1
RoE (%)	(1.6)	7.2	9.5	11.3	13.9
RoCE (%)	29.2	9.0	10.7	12.6	15.4

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