

Stock Update

Strong order book improves earnings visibility

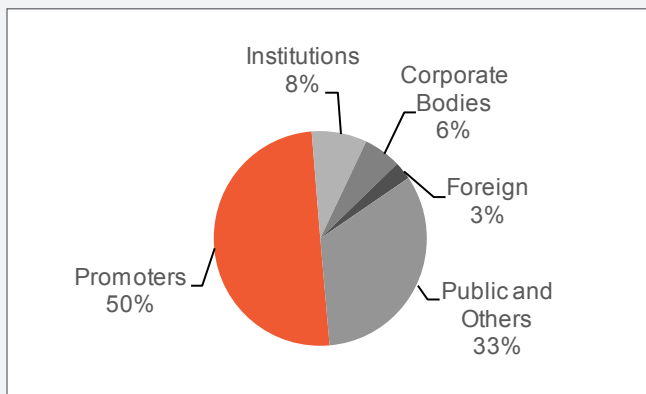
Rico Auto Industries

Reco: Buy | CMP: Rs95

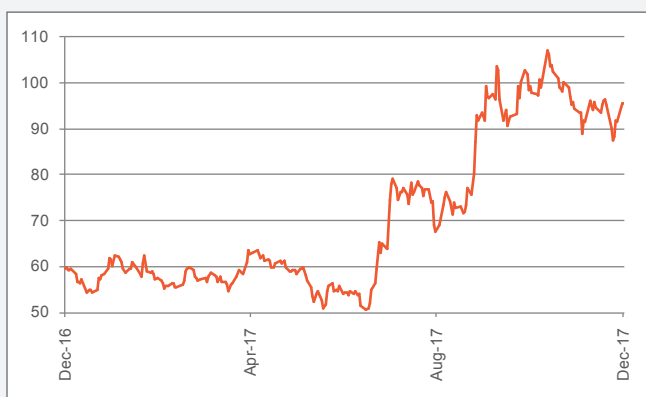
Company details

Price target:	Rs130
Market cap:	Rs1,282 cr
52-week high/low:	Rs111/44
NSE volume: (No of shares)	15.65 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	1.3	2.7	71.9	60.4
Relative to Sensex	0.8	-2.3	59.4	26.6

Key points

- ♦ **Order wins of Rs. 1,900 crore to bolster topline; Traction in aftermarket and defence to further aid growth:** Rico Auto Industries Ltd (RAI) has secured project orders worth Rs. 1,900 crore. These orders are executable over a project life of about 5-6 years. The order book implies execution of orders worth Rs. 350 crore on an annual basis, thus strongly improving topline visibility. Apart from traditional components, the order book consists of supply for electric vehicles from global original equipment manufacturers (OEMs). Securing orders for supply for electric vehicles enhances visibility in the event of electrification gaining momentum and substantially improves the confidence in topline growth. Further, management is witnessing strong traction in the defence (expects revenue to grow from Rs. 10 crore to Rs. 70 crore by FY2019) and aftermarket space (expects revenue to grow from Rs. 10 crore to Rs. 30 crore by FY2019). Given the robust order book and new growth avenues, management expects topline to report over a 20% CAGR during FY2018-FY2020.
- ♦ **Better product mix to augment margins; Management targets to reach 15% mark in the next 3-4 years:** RAI would be introducing new products, which are the part of the recent order wins. RAI is likely to introduce products such as transmission housings, flywheel housings, bearing caps and differential cases. As per management, the new products command better margins (these products have margins in excess of 15% as against the current margin level of 10-11%). Further, increased contribution from the high-margin defence and aftermarket segments would aid in margin expansion. Management is aiming at 100-150 bps annual margin expansion and aims to reach 15% margin level in the next 3-4 years as against 10.7% margin in FY2017.
- ♦ **Outlook - Strong order book boosts confidence; Expect robust 39% PAT CAGR over FY2018-FY2020:** Given the recent project order wins of Rs. 1,900 crore, RAI is poised to outpace the auto industry and expects to report about 20% topline growth over the next four to five years. We have factored topline CAGR of 19% over FY2018-FY2020. Further, given the margin improvement on account of a better product mix, we expect RAI to report robust 39% earnings growth over FY2018-FY2020.

- ♦ **Valuation - Raise estimates; Maintain Buy with a revised PT of Rs.130:** We have raised our earnings estimates for FY2019 and FY2020 by 7% and 14%, respectively, given the new order

wins. Considering improved earnings visibility, we raise our price target (PT) to Rs. 130 (earlier PT of Rs. 117) and maintain our Buy rating on the stock.

Valuation (Consolidated)

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Net sales (Rs cr)	1,007.0	1,079.2	1,191.9	1,407.9	1,675.6
Growth (%)	-25.2	7.2	10.4	18.1	19.0
EBITDA (Rs cr)	98.6	115.0	131.5	165.1	207.6
OPM (%)	9.8	10.7	11.0	11.7	12.4
Adjusted PAT (Rs cr)	34.0	49.5	60.9	85.5	117.4
Growth (%)	-570.4	45.5	23.0	40.5	37.3
Adjusted EPS (Rs)	2.5	3.7	4.5	6.3	8.7
P/E (x)	37.8	26.0	21.1	15.0	10.9
P/B (x)	2.7	2.5	2.3	2.0	1.8
EV/EBITDA (x)	14.7	12.6	11.1	8.8	6.8
RoE (%)	7.2	9.5	10.8	13.5	16.2
RoCE (%)	9.0	10.7	12.3	15.1	18.1

Source: Sharekhan Research

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licencing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he nor his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; For any queries or grievances kindly email
igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE: INB/INF011073351 / BSE-CD; NSE: INB/INF/INE231073330 ; MSEI: INB/INF/INE261073333 / INE261073330 ; DP: NSDL-IN-DP-NSDL-233-2003 ; CDSL-IN-DP-CDSL-271-2004; PMS-INP000005786 ; Mutual Fund-ARN 20669 ; Research Analyst: INH000000370; For any complaints email at igc@sharekhan.com ; Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T & C on www.sharekhan.com ; Investment in securities market are subject to market risks, read all the related documents carefully before investing.