

# Stock Update

## Strong order book improves earnings visibility

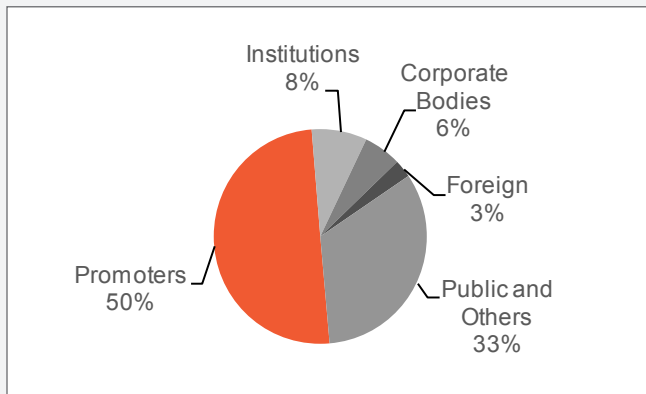
### Rico Auto Industries

Reco: Buy | CMP: Rs95

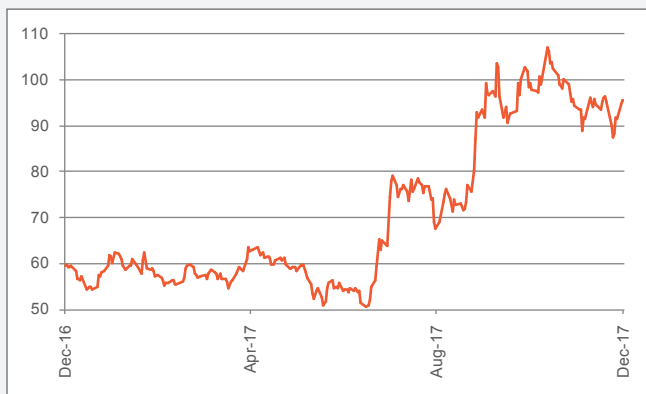
#### Company details

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	Rs cr				
	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

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by BNP PARIBAS

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