



MORNING FARSIGHT

Wednesday, August 01, 2018

RICO AUTO

CMP:RS 72

TRGT:RS 90

TIME HORIZON: 1 YEAR

Rico Auto, supplying aluminum & ferrous component to the automotive industry, with Engine Component accounting for 35% of its revenue (sells cylinder cover, engine block, brackets, bearing cap, etc), Transmission Component 46% of revenue (sells differential case & housing, transmission case, clutch plate & housing etc) & balance 19% coming Chassis suspension and braking system. With 14 manufacturing facilities locations, has posted good Q4FY18 numbers, with Revenue of Rs 333 cr against Rs 303 cr QoQ and Rs 282 cr YoY. This has resulted in an EBITDA of Rs 41cr against Rs 37 cr QoQ and Rs 22 cr YoY (+11% QoQ, 86% YoY), with EBITDA margin of 12.2%(+ 25 bps QoQ, 440bps YoY). PAT is placed at Rs 18.7 crores, leading to an EPS of Rs 1.37 for Q4FY18 and Rs 4.27 for FY18. The growth is coming from completion of multiple capex, as company in recent past has commissioned new facilities at Bawal & Chennai, coupled with customer diversification and strong demand environment. Bawal Plant has been set up for High Tonnage High Pressure Die Casting work with state of art facility with full automation, control, and High Precision Machining for Auto Parts & Assembly. Company is now gearing up higher volumes for its esteemed customers namely BMW, GKN, Renault, Audi, PSA and Volkswagen & Eaton. Built of 12 acres of land, Chennai Plant has been established for supply of Machined Aluminum Auto components to RENAULT-NISSAN, with an installed capacity of 150,000 sets per annum for making engine parts Fully Automatic Cylinder. Going ahead, company is in the process of augmenting these facilities and adding new products at Pathredi (near Bhiwadi), which will be a Iron Foundry & Machine Shop (to be commissioned from Q1FY19), Bawal (Aluminium Casting Shop Expansion by June 2018), Chennai (Aluminium Casting & Machine Shop Expansion Phase 2 Completed and Phase 3 expansion to be completed by Dec 18). Besides this, company also has a WoS subsidiary viz. AAN ENGINEERING INDUSTRIES, which is already enlisted and registered with DGS&D, Hindustan Aeronautics (HAL), The Heavy Vehicles Factory (HVF) and Electronics Corporation of India (ECIL). Management has guided that revenue of this subsidiary will grow from just Rs 3.7 crores in FY17 to Rs 70+ crores in FY19. Company also has 2 JVs viz. Magna Rico Powertrain (which sells oil & water pump systems) & Rico Jinfei Wheels (sells alloy wheels). At Rico Jinfei Wheels, company is undertaking Aluminum Alloy Wheels Two Wheelers Capacity Expansion of 2.5 million units and from January 2018, it has also commenced supplies of 4W range of alloy wheels, after successful 2W range. Company has already 31 Dealers appointed Pan India to accelerate aftermarket sales, and will take this count to 70 dealers by March 18. Moving on to next trigger, in Dec 2017, company has signed the Joint Venture Agreement with Ultra Faliwood PTE Limited (Singapore), to manufacture PODs (Autonomous Electric Vehicles to be run on dedicated track) for PRT (Personal Rapid Transport), GRT (Group Rapid Transport) or any variant thereof. Company is also foraying into newer products thereby addressing the electric vehicle segment and the emission norms mandate. Company is having M Cap of Rs975 cr, EV of Rs 1,030 cr and FY18 reported Income of Rs 1,245 cr, EV/Sales of 0.8 x. Also, FY18 EBITDA of Rs 150cr, gives EV/EBITDA of 6.8x only, which can expand to 9x in the coming quarters. Share having corrected in this weakness and now ruling at Rs 72 can move to 90 in 1 year timeframe.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.