

Rico Auto

Rs25
UNDERPERFORMER

RESULT NOTE

Mkt Cap: Rs3.2bn; US\$72mn

Analyst: Bhushan Gajaria (91-22-6622 2562; bhushan.gajaria@idfc.com)

Result: Q2FY11

Comment: Interest cost – a drag

Key valuation metrics

| Year to March (Rs m) | Net sales | yoy chg (%) | Net profit | EPS (Rs) | yoy chg (%) | PER (x) | EV/E (x) |
|----------------------|-----------|-------------|------------|----------|-------------|---------|----------|
| 2007 | 8,782 | 11.6 | 396 | 3.2 | (11.9) | 7.9 | 4.6 |
| 2008 | 8,393 | (4.4) | 252 | 2.0 | (36.4) | 12.5 | 5.8 |
| 2009 | 9,044 | 7.8 | (52) | (0.4) | NM | n/a | 9.4 |
| 2010 | 9,594 | 6.1 | (49) | (0.4) | NM | n/a | 8.6 |
| 2011E | 11,487 | 19.7 | 125 | 0.9 | NM | 27.1 | 7.3 |
| 2012E | 13,662 | 18.9 | 267 | 2.0 | 63.6 | 12.7 | 6.2 |

Highlights of Q2FY11 results

Consolidated Performance

- ♦ Rico Auto's Q2FY11 consolidated numbers have come in lower than estimates with revenue growth of 21%yoy and 3% qoq to Rs3.09bn (estimates of Rs3.2bn), EBITDA of Rs303m (estimates of Rs309m) and net loss of Rs6m as against estimated PAT of Rs37m
- ♦ The growth has come in slower on account of slower than expected growth in the domestic business as also continued concern in the US market
- ♦ Rico, like most other auto component players, has witnessed pressure on input costs. Material cost to sales ratio has increased sharply to 63% in Q2FY11 as against 61.9% in Q2FY10 and 60.3% in Q1FY11
- ♦ However, large part of material cost pressure is offset by substantial savings in other expenditure and power and fuel – down from Rs581m in Q1FY11 to Rs498m in Q2FY11. This has helped Rico report 60bp of qoq improvement in EBITDA margins to 9.8% (estimates of 9.5%)
- ♦ While operating profits have come in line with our estimates, interest cost has risen sharply to Rs144m (from Rs112m in Q1FY11). Debt in the consolidated books stood at Rs4.65bn as on Sept 2010 (Rs4.4bn in FY10).
- ♦ Board has approved conversion of 6.4m pending warrants at Rs17.5 per share

Standalone Performance

- ♦ On a standalone basis, Rico Auto has reported revenue growth of 18.5% to Rs2.3bn. While domestic business has reported revenues of Rs1.8bn (10% yoy growth and 4% qoq), exports revenues have grown by 66% yoy and decline 10%qoq to Rs491m
- ♦ Raw material costs (as a % to net sales) has remained flat yoy at 58%, however, employee costs have increased sharply by 35%yoy
- ♦ Overall EBITDA margins have contracted by 72bp yoy to 9.67% and reported EBITDA has come in at Rs224m
- ♦ Interest cost has increased from Rs106.2m to Rs137.7m in Q2FY11. Net debt currently stands at Rs4.4bn
- ♦ Reported PAT has come in at Rs42.7m

IDFC Securities Ltd.

Naman Chambers, C-32, G- Block, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051 Tel: 91-22-6622 2500 Fax: 91-22-6622 2501

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Outlook

Rico Auto is expected to witness strong growth momentum with domestic auto industry on a high growth path (sustained high growth in 2 Wheeler as well as passenger car segment and scale up of Tata Nano) and expected recovery in the international market. However, margins would continue to remain subdued in the wake of increasing input prices and only partial pass through of the inflationary pressure. This coupled with higher interest cost; we have downgraded our FY11E earnings by 20%. Stock trading at 13x FY12E earnings, we maintain our Underperformer call on the stock.

Quarterly results

| Year to March 31 (Rs m) | Q2FY10 | Q3FY10 | Q4FY10 | FY10 | Q1FY11 | Q2FY11 | Comments |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--|
| Sales | 2,545 | 2,265 | 2,465 | 9,594 | 2,997 | 3,089 | Slower than expected domestic business performance |
| <i>yoy chg (%)</i> | 4.3 | 8.8 | 13.2 | 6.1 | 29.2 | 21.4 | |
| Operating profit | 259 | 115 | 259 | 875 | 277 | 303 | |
| <i>yoy chg (%)</i> | 33.7 | (26.5) | 166.2 | 19.8 | 14.4 | 17.0 | |
| Other income | 16.2 | 30.1 | 43.6 | 116 | 27.8 | 10.5 | |
| Interest | 105 | 99 | 98 | 409 | 112 | 144 | |
| Depreciation | 142 | 140 | 153 | 568 | 154 | 158 | |
| PBT | 27 | (94) | 53 | 13 | 39 | 11 | |
| Tax | 39 | (23) | 35 | 62 | 12 | 17 | |
| Net profit before extra-ordinary items | (12) | (71) | 17 | (49) | 27 | (6) | |
| <i>yoy chg (%)</i> | NM | NM | NM | (6.2) | NM | NM | |
| Net profit | (12) | (71) | 17 | (49) | 27 | (6) | |
| <i>yoy chg (%)</i> | (130.7) | 178.4 | NM | NM | NM | NM | |
| Cash profit | 131 | 69 | 170 | 519 | 180 | 152 | |
| EBIDTA Margin (%) | 10.2 | 5.1 | 10.5 | 9.1 | 9.2 | 9.8 | Lower other expenditure offsets the impact of gross margin erosion |
| NPM (%) | (0.5) | (3.1) | 0.7 | (0.5) | 0.9 | (0.2) | |
| Other income/PBT | 60.0 | (31.9) | 83.0 | 904.7 | 71.5 | 95.5 | |
| EPS (Rs) | (0.1) | (0.6) | 0.1 | (0.4) | 0.2 | (0.0) | |
| Cash EPS (Rs) | 1.0 | 0.5 | 1.3 | 4.0 | 1.4 | 1.2 | |

IDFC Securities

| Analyst | Sector/Industry/Coverage | E-mail | Tel. +91-22-6622 2600 |
|-----------------------|---|--------------------------|------------------------------|
| Pathik Gandotra | Head of Research; Financials, Strategy | pathik.gandotra@idfc.com | 91-22-662 22525 |
| Shirish Rane | Construction, Power, Cement | shirish.rane@idfc.com | 91-22-662 22575 |
| Nikhil Vora | FMCG, Media, Mid Caps, Education, Exchanges | nikhil.vora@idfc.com | 91-22-662 22567 |
| Nitin Agarwal | Pharmaceuticals | nitin.agarwal@idfc.com | 91-22-662 22568 |
| Chirag Shah | Metals & Mining, Telecom, Pipes, Textiles | chirag.shah@idfc.com | 91-22-662 22564 |
| Bhoomika Nair | Logistics, Engineering | bhoomika.nair@idfc.com | 91-22-662 22561 |
| Hitesh Shah, CFA | IT Services | hitesh.shah@idfc.com | 91-22-662 22565 |
| Bhushan Gajaria | Automobiles, Auto ancillaries, Retailing | bhushan.gajaria@idfc.com | 91-22-662 22562 |
| Salil Desai | Construction, Power, Cement | salil.desai@idfc.com | 91-22-662 22573 |
| Ashish Shah | Construction, Power, Cement | ashish.shah@idfc.com | 91-22-662 22560 |
| Probal Sen | Oil & Gas | probal.sen@idfc.com | 91-22-662 22569 |
| Chinmaya Garg | Financials | chinmaya.garg@idfc.com | 91-22-662 22563 |
| Abhishek Gupta | Telecom, Metals & Mining | abhishek.gupta@idfc.com | 91-22-662 22661 |
| Ritesh Shah | Pharmaceuticals | ritesh.shah@idfc.com | 91-22-662 22571 |
| Saumil Mehta | Metals, Pipes | saumil.mehta@idfc.com | 91-22-662 22578 |
| Vineet Chandak | Real Estate | vineet.chandak@idfc.com | 91-22-662 22579 |
| Kavita Kejriwal | Strategy, Financials | kavita.kejriwal@idfc.com | 91-22-662 22558 |
| Anamika Sharma | IT Services | anamika.sharma@idfc.com | 91-22-662 22680 |
| Varun Kejriwal | FMCG, Mid Caps | varun.kejriwal@idfc.com | 91-22-662 22685 |
| Swati Nangalia | Media, Education, Exchanges, Midcaps | swati.nangalia@idfc.com | 91-22-662 22576 |
| Sameer Bhise | Strategy, Financials | sameer.bhise@idfc.com | 91-22-662 22574 |
| Nikhil Salvi | Construction, Power, Cement | nikhil.salvi@idfc.com | 91-22-662 22566 |
| Dharmendra Sahu | Database Analyst | dharmendra.sahu@idfc.com | 91-22-662 22580 |
| Rupesh Sonawale | Database Analyst | rupesh.sonawale@idfc.com | 91-22-662 22572 |
| Dharmesh R Bhatt, CMT | Technical Analyst | dharmesh.bhatt@idfc.com | 91-22-662 22534 |

| Equity Sales/Dealing | Designation | E-mail | Tel. +91-22-6622 2500 |
|-----------------------------|-------------------------|-------------------------------|------------------------------|
| Naishadh Paleja | MD, CEO | naishadh.paleja@idfc.com | 91-22-6622 2522 |
| Paresh Shah | MD, Dealing | paresh.shah@idfc.com | 91-22-6622 2508 |
| Vishal Purohit | MD, Sales | vishal.purohit@idfc.com | 91-22-6622 2533 |
| Nikhil Gholani | MD, Sales | nikhil.gholani@idfc.com | 91-22-6622 2529 |
| Sanjay Panicker | Director, Sales | sanjay.panicker@idfc.com | 91-22-6622 2530 |
| Rajesh Makharria | Director, Sales | rajesh.makharria@idfc.com | 91-22-6622 2528 |
| Nirbhay Singh | SVP, Sales | nirbhay.singh@idfc.com | 91-22-6622 2595 |
| Suchit Sehgal | AVP, Sales | suchit.sehgal@idfc.com | 91-22-6622 2532 |
| Pawan Sharma | MD, Derivatives | pawan.sharma@idfc.com | 91-22-6622 2539 |
| Jignesh Shah | AVP, Derivatives | jignesh.shah@idfc.com | 91-22-6622 2536 |
| Sunil Pandit | Director, Sales trading | sunil.pandit@idfc.com | 91-22-6622 2524 |
| Mukesh Chaturvedi | SVP, Sales trading | mukesh.chaturvedi@idfc.com | 91-22-6622 2512 |
| Viren Sompura | SVP, Sales trading | viren.sompura@idfc.com | 91-22-6622 2527 |
| Rajashekhar Hiremath | VP, Sales trading | rajashekhar.hiremath@idfc.com | 91-22-6622 2516 |

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2. Neutral: Within 0-5% to Index (upside or downside)
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