



ACCUMULATE

Price	Rs28
Target Price	Rs31
Investment Period	12 Months

Stock Info

Sector	Auto Ancillary
Market Cap (Rs cr)	353
Beta	0.6
52 WK High / Low	32 / 7
Avg Daily Volume	71,850
Face Value (Rs)	1

BSE Sensex	15,388
Nifty	4,571

BSE Code	520008
NSE Code	RICOAUTO
Reuters Code	RAUT.BO
Bloomberg Code	RAI@IN

Shareholding Pattern (%)

Promoters	46.3
MF/Banks/Indian FIs	13.3
FII/ NRIs/ OCBs	7.1
Indian Public	33.3

Abs.	3m	1yr	3yr
Sensex (%)	34.9	7.7	44.1
Rico Auto (%)	108.5	56.5	(59.4)

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Performance Highlights

- Flattish Performance of the Consolidated Top-line:** For 1QFY2009, Rico Auto clocked a marginal decline of 1.6% at a consolidated sales level to Rs232cr (Rs235.7cr), which was marginally above our expectation of around Rs227.2cr. The company reported a Net Profit of Rs1.6cr (Rs5.3cr), which beat our expectation of a loss of Rs5.5cr. The management has given positive signals on the company's performance in the domestic as well as the export markets, with their key customers such as Maruti and Hero Honda showing exceptional performance this quarter. These factors, coupled with a dip in key raw material prices, have led to the auto ancillary major beating street estimates.
- High Raw Material costs impact yoy Margins:** During 1QFY2009, Rico Auto witnessed a 186bp yoy fall in its EBITDA Margins, owing to higher accumulated inventory stocked at higher valuations, which rose by 368.8% despite raw material prices falling in the economy. Raw Material costs spiked 110bp yoy and accounted for around 61.2% of the Sales (60.1%). However, the stock has shown a positive trend on a qoq basis, where the OPM jumped by almost 352bps, on account of saving at the Other Expenditure and the Staff cost fronts. We believe that the margins will improve going forward, as the high cost inventory comes down and as the Raw Material cost declines.
- Higher Other Income arrests a dip in the Bottom-line:** A higher component of Other Income for Rico Auto arrested a dip in the bottom-line during the quarter. This dip was caused because of the higher Interest costs on a higher level of capex incurred in the previous quarter. Overall, the company reported a Net Profit of Rs1.6cr (Rs5.3cr), a fall of 68.8%.
- Standalone Performance:** On a standalone basis, Rico reported a 6.5% yoy decrease in its Top-line to Rs180.8cr (Rs193.3cr), and a Net Profit of Rs2.7cr (Rs0.6cr). The OPM increased by 132bp to 11.9% (10.5%), primarily due to a 224bp decline in Raw Material costs. However, higher employee costs and other expenditure punctured some of the advantage of a dip in raw material costs, at the EBITDA level.
- Tata 'Nano' effect:** Rico Auto has invested Rs9cr in setting up a plant for supplying high-pressure aluminum die-cast cylinder blocks and heads for the Nano. To manufacture these components, Rico has also entered into a technical collaboration with Teksid Aluminum, for a consideration of Euro 5,00,000.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	844.7	919.7	1,007.4	1,150.7
% chg	(3.8)	8.9	9.5	14.2
Net Profits	23.3	(5.4)	22.3	38.6
% chg	(38.3)	-	-	72.7
OPM (%)	13.0	9.6	12.1	12.3
EPS (Rs)	1.8	(0.4)	1.8	3.1
P/E (x)	15.1	(65.6)	15.8	9.1
P/BV (x)	1.2	1.2	1.2	1.1
RoE (%)	7.7	(1.8)	7.4	12.0
RoCE (%)	8.4	4.3	8.3	10.3
EV/Sales (x)	0.7	0.6	0.6	0.5
EV/EBITDA (x)	6.1	7.5	5.5	4.7

Source: Company, Angel Research

Management Guidance

For FY2010E, on a consolidated basis, the Rico Auto management expects to clock a Rs1,000cr turnover, composing of 20% exports (Rs200cr). The management sounded extremely positive on the demand from the domestic as well as the export markets, with affluent customers such as Maruti, Hero Honda, General Motors (GM), JACO and Ford. The company expects revenues from Maruti to grow at the rate of 15-20%, and it expects incremental growth from the other major customers. With benefits from the capex incurred previously flowing through in the current fiscal, the company has set target OPM margins at 15%, with a positive view on effective revenue and market share expansion strategies.

Outlook and Valuation

The Rico stock witnessed a substantial fall in the last two years. We maintain that FY2010E will be a year of recovery for the company. Rico's investments in joint ventures (JVs) and its exposure to Export markets like the USA and the UK, which are experiencing a recessionary trend, have been impacting its performance. However, we believe that these markets are also showing early signs of recovery. Additionally, high capex exerted pressure on the company's Bottom-line, as both Depreciation and Interest costs have gone up significantly. Nonetheless, the effect of this is expected to dilute with an improving business scenario.

Going forward, with a diversification of its client base and provided that the Export scenario improves, the stock could fetch better valuations. We have revised our earnings estimates upwards for FY2010E to Rs1.8 (Rs1.3 earlier), and for FY2011E to Rs3.1 (Rs2.1 earlier,) on the better-than-expected performance reported in 1QFY2010. **At the CMP, the stock is trading at 9.1x FY2011E Earnings. We have assigned a Target multiple of 5x FY2011E EV/EBITDA and 10x FY2010E consolidated Earnings, and, thus, we upgrade the stock to Accumulate from Neutral, with a Target Price of Rs31.**

Exhibit 1: 1QFY2010 Performance (Consolidated)

Y/E Mar (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Net Sales	232.0	235.7	(1.6)	919.7	844.7	8.9
Other Income	2.6	1.7	50.6	9.7	4.8	104.6
Total Income	234.6	237.4	(1.2)	929.5	849.4	9.4
EBITDA	24.2	28.9	(16.2)	73.0	104.6	(30.2)
OPM (%)	10.4	12.3		7.9	12.4	
Interest	10.7	9.6	11.3	46.5	26.0	78.9
Depreciation	13.3	13.3	-	54.1	49.9	8.4
PBT	2.8	7.7		(2.5)	38.8	
Tax	1.1	2.2		2.7	15.6	
PAT and EOI	1.6	5.3	(68.8)	(5.4)	23.3	(123.0)
EPS (Rs)	0.1	0.4		(0.4)	1.8	

Source: Company, Angel Research

Exhibit 2: 1QFY2010 Performance (Standalone)

Y/E Mar (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Net Sales	180.8	193.3	(6.5)	743.3	714.1	4.1
Other Income	3.3	2.5	29.9	22.6	21.2	6.5
Total Income	184.1	195.9	(6.0)	765.9	735.3	4.2
EBITDA	21.5	20.4	5.2	77.0	79.8	(3.5)
OPM (%)	11.9	10.5		10.4	11.2	
Interest	10.8	9.6	13.0	45.5	25.9	75.6
Depreciation	11.7	12.7	(7.7)	50.0	47.3	5.7
PBT	2.2	0.7	223.2	4.1	27.8	(85.2)
Tax	(0.4)	(0.1)		(1.9)	5.8	
PAT and EOI	2.7	0.6	337.7	4.8	22.3	(78.7)
EPS (Rs)	0.2	0.0		0.4	1.8	

Source: Company, Angel Research



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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)