Stock Update

Rico Auto Ltd.

September 12, 2022

RETAILRESEARCH

Rico Auto Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 56.6	Buy in Rs 55.5-57.5 band & add on dips to Rs 50-51 band	Rs 62.5	Rs 68.5	2-3 quarters

HDFC Scrip Code	RICAUTEQNR
BSE Code	520008
NSE Code	RICOAUTO
Bloomberg	RAI IN
CMP Sep 9, 2022	56.6
Equity Capital (Rs cr)	13.5
Face Value (Rs)	1
Equity Share O/S (cr)	13.5
Market Cap (Rs cr)	768
Book Value (Rs)	46.8
Avg. 52 Wk Volumes	655,700
52 Week High (Rs)	59.2
52 Week Low (Rs)	31.3

Share holding Pattern % (Jun, 2022)	
Promoters	50.3
Institutions	0.7
Non Institutions	49.0
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Rico Auto Ltd (Rico) is an established player in the auto ancillaries industry, with a track record of over three decades. It enjoys a strong market position in its key product segments: high-pressure aluminium and ferrous die cast components. The company is receiving strong orders from the domestic as well as export markets driving its topline growth. Monsoons have been good and the company expects strong revival in 2W sales. Also the new hybrid SUV launches from Toyota and Maruti have received good response. Toyota has already indicated higher offtake. On the export front, faster adoption of EV is leading to higher sales of aluminium casted components. Since 2018, Rico has been focusing on the emerging Electric Vehicles and Hybrid Vehicle Components and have started supplying to BMW, TOYOTA, STELLANTIS (PSA) and RENAULT. Rico has been gradually expanding its capacities on back-to-back order basis. Commissioning of Chennai plant expansion (for Toyota) and likely orders from BMW for its new launches could drive strong bottomline growth in the coming years. Implementation of scrappage policy could lift CV demand which accounts for ~12% of the company's revenue.

On June 27, 2022, we had initiated coverage on the stock (Link) with a recommendation to 'Buy in Rs 41-43 band & add more on dips in Rs 37-38 band' for base case fair value of Rs 45.5 and bull case fair value of Rs 48.5 over the next 2 quarters. The base case target was achieved on July 4 and bull case target on July 19, 2022.

Valuation & Recommendation:

Going forward the visibility of revenues for Rico has improved and it is expected to benefit out of this along with margin expansion. Despite the recent increase in its stock price, the valuations remain undemanding. We expect RICO's Revenue/EBITDA/PAT to grow at 19/24/96% CAGR over FY22-FY24E, led by increased demand from end user industries. We believe investors can buy the stock in Rs 55.5-57.5 band and add on dips to Rs 50-51 band (8.5x FY24E EPS) for a base case fair value of Rs 62.5 (10.5x FY24E EPS) and bull case fair value of Rs 68.5 (11.5x FY24E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY21	FY22	FY23E	FY24E
Revenues	563	395	42.5	513	9.8	1,470	1,860	2,242	2,617
EBITDA	47	25	88.4	44	5.6	89	152	194	233
APAT	9	-1	-843.8	9	-2.1	-10	21	53	81
Diluted EPS (Rs)	0.6	-0.1	-843.8	0.6	-2.1	-0.8	1.5	3.9	6.0
RoE (%)						-1.7	3.4	8.1	11.1
P/E (x)						-74.1	36.6	14.4	9.5
EV/EBITDA (x)						13.4	8.7	6.4	5.1

(Source: Company, HDFC sec)

Q1FY23 Result Update

Revenues of the company grew by 42.5/9.8% YoY/QoQ in Q1FY23 to Rs 563cr driven by strong growth in the domestic segment. Domestic revenue grew 45% to Rs 438cr while exports were up by 31.3% to Rs 130cr. EBITDA increased by 88.4%% YoY to Rs 47cr on low base of last year whereas EBITDA margin expanded by ~200bps to 8.3% as increased volumes led to better recovery of fixed costs. On a sequential basis EBITDA margin declined ~30bps. PAT came in at Rs 8.6cr as compared to a loss of Rs 1.2cr in Q1FY22 and profit of Rs 8.7cr in Q4FY22. Total loans decreased to Rs 475cr as compared to Rs 575cr at the end of FY22.

Rico has been nominated for new business of program value of Rs 514cr in Q1FY23 with annualized peak value of Rs 106cr. Discussions are also going on with existing clients for more business. Commodity prices have started stabilizing and the company expects to recover the losses incurred in some contracts because of the lag in the pricing of the raw materials in the next 1-2 quarters. The management has guided for Rs 70-75cr of capex for FY23 comprising of Rs 50cr for the Chennai plant expansion and Rs 20-25cr maintenance capex.

Supplies to Toyota commenced

Rico is awaiting installation of die casting machines for Toyota project at its Chennai plant. In the meantime, it has started supplies to Toyota from its Bawal plant. There has been positive response to the new hybrid SUVs launched by Toyota and Maruti. Rico is looking to enhance its capacity due to the increased demand, which wouldn't require any major capex.

2W segment sales improving

Rico has grown by ~34% QoQ in the two-wheeler industry from Rs 119cr in Q1FY22 to ~Rs 192cr in Q1FY23. Monsoons have been good so far in India and management expects strong pick up in 2W sales from rural India.

EBITDA to reach double-digits

Rico reported EBITDA margins of 8.3% in Q1FY23 and 8.2% for FY22. However, with the stabilizing of material cost and pass through of past raw material inflation, increase in volumes driving higher capacity utilization and improving efficiency, the management is confident of achieving double-digit operating margins from Q2FY23 onwards. It has guided for revenue of Rs 2400cr in FY23.

Risks & Concerns

Slowdown in automobile industry

Rico supplies to automobile manufacturers and any slowdown in the automobile industry could impact its growth.

Concentration risk

Although the company is diversifying its customer base, almost 20-25% of its revenues came from supplies to Hero Motocorp, which exposes RAL to concentration risk.

Currency fluctuation

RAL derives ~25 of its revenues from supplies to overseas clients mainly in Europe and North America. Any changes in the exchange rate could impact earnings of the company.

Delays in merger of subsidiaries

RICO is looking to merge its subsidiaries with itself to have a better control over costs. Delays in merging the subsidiaries could result in higher expenses as well as take management time.

High Leverage

Rico is undertaking largely debt-funded capex of Rs 135cr over FY22-FY23 for a unit in Chennai catering to the Toyota Group, along with maintenance and certain other capex. Its debt to equity ratio has risen from 0.53:1 to 0.91:1 between FY19 and FY22 due to capex and insufficient profits. This situation needs to be remedied.

Low Return ratios

Rico has low return ratios due to low fixed asset turnover and low PAT margins. It is making efforts to improve both.

Company Background:

RICO is a world-class engineering company supplying a wide range of high precision fully machined aluminum and ferrous components and assemblies to automotive OEMs across the globe for electric vehicles, electrified vehicles and ICE engine. It has strong in-house R&D capabilities. RICO's multiple, flexible, fully integrated production facilities are equipped to offer complete spectrum of services from designing to development of tools, casting and precision machining and assembly of components making RICO a preferred supplier to the EV & Hybrid vehicle market.

RICO has earned a reputation of being a reliable source for the most complex components and assemblies. It is committed to manufacture products of uncompromising quality with highest standards of excellence backed by its ability to engineer the most demanding products as well as deliver global volumes across the world to cater the increasing demand of electrification.

Rico has its manufacturing plants at 15 locations and nearby major auto manufacturing hubs. For aluminium it has over 100 High Pressure Die Casting machines (up to 2700 Tns locking force). Its Die Casting capacity in India is among the most modern including GDC and LPDC. For ferrous products it has the 4 molding lines - 2 DISA & 2 Horizontal (SINTO & DISA). It has one of the largest machining facility in India with over 2500 machines for CNCs and SPMs. The strong manufacturing capabilities provides an edge to the company over some of its peers.

Subsidiaries & JVs

Rico Fluidtronics Ltd

Rico Fluidtronics is involved in the business of manufacturing oil & water pumps. It has won Maruti Suzuki Oil Pump & Water Pump (K15C) business, supplies of which have started in FY22. In FY22 it recorded a turnover of Rs 68.0cr and PAT of Rs 5.9cr. The company has enough orders from Maurti Suzuki and others in hand to cross Rs 130cr turnover in FY23. RICO owns 100% in the company.

Rico Jinfei Wheels Ltd.

Rico Jinfei is involved in the manufacture of Aluminum Alloy Wheels for two wheelers with a capacity of 1mn wheels. It has started supply of alloy wheels to Hero MotoCorp Limited which would help it to increase its turnover and improve margins. It recorded a turnover of Rs 221.1cr in FY22 and PAT of Rs 2.1cr. RICO has 94.8% stake in the company.

AAN Engineering

AAN Engineering is a Wholly Owned Subsidiary of RICO. It is a Defence venture/Business arm and it is 100% Indian Company and a world class Engineering Group supplying a wide range of High Precision Fully Machined Aluminium, Ferrous & certain Non-Ferrous and Assemblies to the Automotive OEM's across the Globe. AAN currently manufactures machined metal components for Mechanical and Electronic Fuse Assembly having installed capacity of 25,000 units per month. AAN reported revenue of Rs 11.7cr and loss of Rs 0.6cr in FY22.

Consolidated revenue trend

Particulars	2021-22	2020-21	2019-20	2018-19	2017-18
Total Revenue	**1,878.9**	**1,488.4**	**1,423.8**	**1,412.1**	**1,225.5**
Rico Auto Industries Limited	1,623.2	1,304.7	1,226.3	1,224.5	1,100.8
Rico Auto Industries Inc. USA	168.9	133.6	138.5	140.5	140.7
Rico Auto Industries (UK) Limited, UK	5.2	5.9	5.9	97.3	83.9
Rico Fluidtronics Limited**	68.0	53.9	80.9	–	–
Rico Jinfei Wheels Limited#	221.1	149.7	119.7	136.5	111.3
Rasa Autocom Limited		55.3	72.5	53.1	32.9
Rico Aluminium and Ferrous Auto Components Limited	188.1	171.6	193.6	253.5	241.6
Rico Investments Limited	4.3	4.7	5.9	5.9	4.9
AAN Engineering Industries Limited	11.7	9.1	2.0	4.2	4.1
Rico Friction Technologies Limited$	3.0	1.3	–	–	–
Less : Inter Company Sales	(414.6)	(401.3)	(421.5)	(503.4)	(494.7)

(Source: Company, HDFC Sec)

Financials

Income Statement

(Rs cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues	**1401**	**1470**	**1860**	**2242**	**2617**
Growth (%)	***0.6***	***4.9***	***26.5***	***20.6***	***16.7***
Operating Expenses	1287	1381	1708	2048	2384
EBITDA	**114**	**89**	**152**	**194**	**233**
Growth (%)	***-20.8***	***-22.1***	***71.1***	***27.9***	***20.1***
EBITDA Margin (%)	***8.1***	***6.0***	***8.2***	***8.6***	***8.9***
Depreciation	80	80	91	101	107
Other Income	23	19	19	25	29
EBIT	**57**	**27**	**80**	**117**	**155**
Interest expenses	31	39	42	46	47
PBT	**19**	**-16**	**32**	**71**	**108**
Tax	2	-2	14	18	27
PAT	**17**	**-14**	**18**	**53**	**81**
Share of Asso./Minority Int.	0	0	0	0	0
Adj. PAT	**23**	**-10**	**21**	**53**	**81**
Growth (%)	***-58.2***	***-145.7***	***-302.6***	***154.0***	***51.7***
EPS	1.7	-0.8	1.5	3.9	6.0

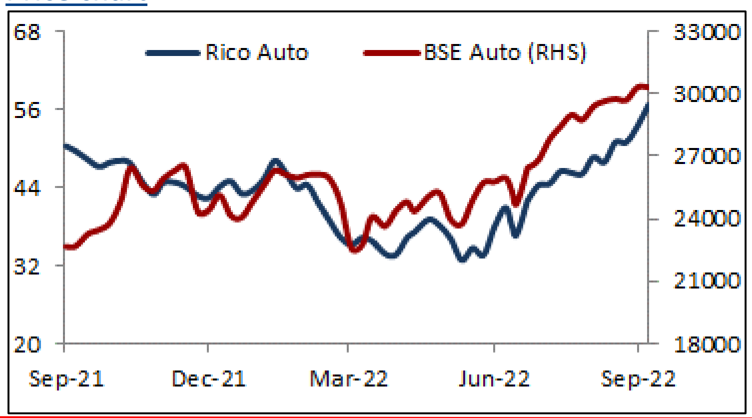
Balance Sheet

As at March (Rs cr)	FY20	FY21	FY22	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	14	14	14	14	14
Reserves	607	592	620	672	750
Shareholders' Funds	**621**	**606**	**634**	**685**	**763**
Minority Interest	3	3	0	0	0
Total Debt	373	448	575	555	525
Net Deferred Taxes	-1	-3	2	2	2
Other Non-curr. Liab.	14	13	26	24	29
Total Sources of Funds	**1010**	**1066**	**1237**	**1267**	**1320**
APPLICATION OF FUNDS					
Net Block & Goodwill	692	733	825	876	832
CWIP	63	63	88	26	13
Investments	0	0	2	2	2
Other Non-Curr. Assets	104	102	99	118	136
Total Non Current Assets	**859**	**899**	**1015**	**1023**	**983**
Inventories	185	264	290	356	430
Debtors	266	352	360	448	538
Cash & Equivalents	17	21	26	80	108
Other Current Assets	92	96	89	95	97
Total Current Assets	**560**	**734**	**765**	**980**	**1173**
Creditors	253	362	445	510	581
Other Current Liab & Provisions	155	205	99	227	256
Total Current Liabilities	**409**	**567**	**544**	**736**	**837**
Net Current Assets	151	167	222	244	337
Total Application of Funds	**1010**	**1066**	**1237**	**1267**	**1320**

Cash Flow Statement

(Rs cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	19	-16	38	71	108
Non-operating & EO items	-7	1	-6	-21	-12
Interest Expenses	21	30	42	46	47
Depreciation	80	80	91	101	107
Working Capital Change	13	-67	30	32	-65
Tax Paid	-10	-5	-5	-18	-27
OPERATING CASH FLOW (a)	**117**	**23**	**189**	**212**	**158**
Capex	-134	-118	-190	-90	-50
Free Cash Flow	-17	-95	-1	122	108
Investments	0	0	-2	0	0
Non-operating income	2	17	9	0	0
INVESTING CASH FLOW (b)	**-132**	**-100**	**-184**	**-90**	**-50**
Debt Issuance / (Repaid)	39	124	-1	-20	-30
Interest Expenses	-29	-38	0	-46	-47
FCFE	-5	8	4	56	31
Share Capital Issuance	0	0	0	0	0
Dividend	-7	-4	-3	-1	-3
Others	0	0	-8	0	0
FINANCING CASH FLOW (c)	**3**	**81**	**-4**	**-68**	**-80**
NET CASH FLOW (a+b+c)	**-13**	**3**	**2**	**54**	**28**

Price chart



Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
Profitability Ratios (%)					
EBITDA Margin	8.1	6.0	8.2	8.6	8.9
EBIT Margin	4.1	1.8	4.3	5.2	5.9
APAT Margin	1.6	-0.7	1.1	2.4	3.1
RoE	3.7	-1.7	3.4	8.1	11.1
RoCE	5.9	2.6	7.1	9.6	12.2
Solvency Ratio (x)					
Net Debt/EBITDA	3.1	4.8	3.6	2.4	1.8
Net D/E	0.6	0.7	0.9	0.7	0.5
PER SHARE DATA (Rs)					
EPS	1.7	-0.8	1.5	3.9	6.0
CEPS	7.6	5.2	8.2	11.4	13.9
BV	45.9	44.8	46.8	50.7	56.4
Dividend	0.3	0.2	0.4	0.1	0.2
Turnover Ratios (days)					
Inventory days	70	77	70	66	69
Debtor days	45	56	54	53	55
Creditors days	58	76	79	78	76
VALUATION (x)					
P/E	33.9	NA	36.6	14.4	9.5
P/BV	1.2	1.3	1.2	1.1	1.0
EV/EBITDA	9.9	13.4	8.7	6.4	5.1
EV/Revenues	0.8	0.8	0.7	0.6	0.5
Dividend Yield (%)	0.5	0.4	0.7	0.2	0.4
Dividend Payout (%)	18.0	-26.2	25.9	2.5	3.4

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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