Rico Auto Industries (RICAUT)

CMP: ₹ 82 | Target: NA | Target Period: NA | UNRATED

January 10, 2023

Robust order wins, strong engineering capabilities to ensure double digit growth in near term…

About stock: Rico Auto (Rico), established in 1983, is an auto ancillary with core competencies in aluminium, ferrous casting auto components. It is an engineering led organisation with 15 manufacturing plants and counts all major domestic, global OEMs as its clients. It also manufactures EV components like electric motor housing & proprietary design parts like engine oil pumps, engine water pumps, etc.

- **Segment mix: PV:** ~50%; **2-W:** ~35%; **CV:** ~15%
- **Product mix:** Engine: 38%; transmission: 22%; chassis: 33%; EV: 7%
- **Casting Mix:** Aluminium ~88%; ferrous: ~12%
- **Export turnover** amounts to ~25% of total revenue as of FY22

Key Highlights:

- We recently interacted with the management of Rico and were impressed by the new order wins at the company by marquee OEM names like BMW and Toyota largely driven by its strong **engineering capabilities**
- Rico started as a 100% ancillary to Hero MotoCorp & gradually expanded into PV space with Maruti. It is now serving >30 domestic, global customers across all categories. Hero MotoCorp, however, is its largest client. Also, Rico has developed paper based friction material for 2-W clutch applications
- Content/vehicle in 2-W typically ranges from **~₹ 2,000-2,500**/vehicle, which has increased to ~₹ 4,500 primarily including a pair of alloy wheels. Currently, alloy wheel capacity is pegged at **~3.5 million units** that is being expanded to **~4.5 million units** with peak revenue potential at **~₹ 500 crore**
- The management said it was single source supplier for a set of products to most foreign OEMs for its domestic as well as export demand
- Order book as on H1FY23 was at **~₹ 1,350 crore** of lifetime order wins with annual peak sales of **~₹ 260 crore** with majority of this order-book pertaining to EV components (largest order from BMW for E-drivetrain parts)
- **Key financial targets:** (i) **Margin:** Q4FY23E double digit; FY24E: ~11-12%; (ii) **Revenue growth:** FY23E ~29% YoY; FY24E ~25% YoY

Key triggers for future price performance:

- Ramp up in sales in the EV segment - the sunrise sector with aspirations to increase its share in topline to 12% as of FY23 vs. ~7% in FY22
- We expect sales to grow in healthy double digits, which coupled with a margin recovery to lead to high double digit PAT growth over FY22-24E
- Healthy double digit returns ratios and decline in debt levels in FY24E
- Increasing trend of light weighting to boost aluminium casting business
- Potential candidate for electronic fuses tender in the defence domain
- Consistent cash flow from operation at ~>₹ 100 crore

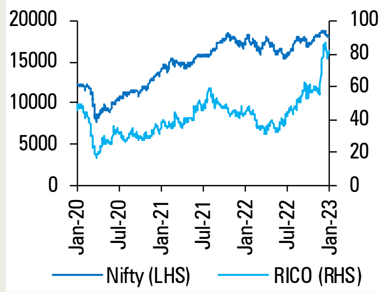
Particulars

Particular	(₹ Crores)
Market Cap	1,109
Debt (FY22)	568
Cash & Investments (FY22)	26
EV (FY22)	1,651
52 Week H/L	₹ 89.5/31.2
Equity Capital	13.5
Face Value (₹/share)	1.0
No. of shares	13.5

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	50.3	50.3	50.3	50.3
FII	0.5	0.7	0.7	1.0
DII	1.0	1.0	0.0	0.0
Others	48.3	48.0	49.0	48.6

Price Chart



Recent event & key risks

- Focus on strong topline growth amid expanding wallet share with existing OEMs & new order wins
- Aiming at double digit margin and consequent healthy return ratios in FY24E

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Key Financial Summary

Particular	FY17	FY18	FY19	FY20	FY21	FY22
Sales	1038	1209	1393	1401	1470	1860
EBITDA	111	131	144	114	89	158
EBITDA Margin (in %)	10.7	10.8	10.3	8.1	6.0	8.5
Net Profit	51.7	58.0	51.0	16.7	-14.1	23.8
EPS (₹)	3.8	4.3	3.7	1.2	-1.0	1.7
RoE (in %)	9.9	10.3	8.2	2.7	-2.3	3.7
RoCE (in %)	10.5	10.6	9.9	4.8	2.0	6.5

Source: Company, ICICI Direct Research

Key meeting takeaways…

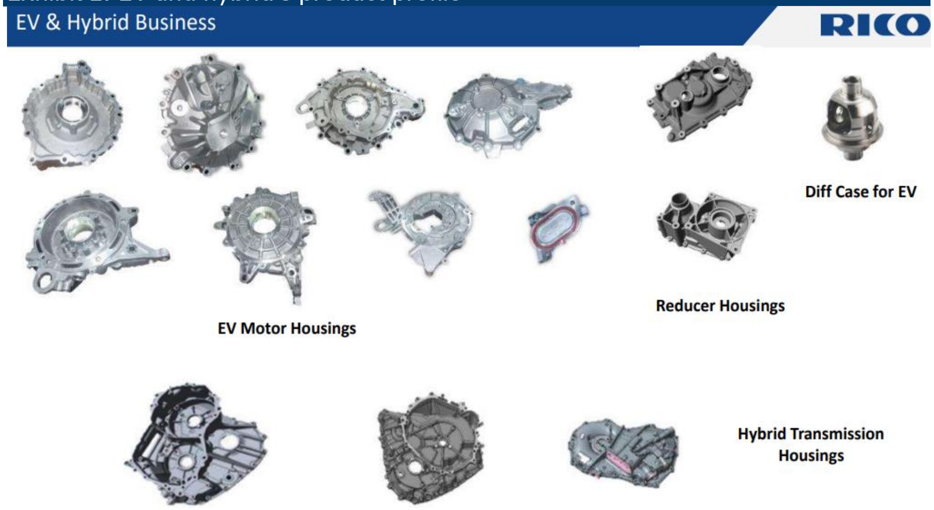
- The management informed about end product mix (aluminium casting: ferrous casting) significantly improving from **70:30** two to three years back to **88:12** due to increased light weighting requirement in ICE powered vehicles as well as EVs. Aluminium casting are a tad premium in terms of margin vs. ferrous
- **Customer mix was:** Hero MotoCorp: ~30%; BMW: ~17%; Nissan: ~10%; Kia, Maruti Suzuki, Tata, Mahindra, Toyota: ~7-8% each. The company has five foreign OEMs as its **EV clients** with prominent names being BMW, PSA among others
- The company is single source supplier for a set of components in Toyota Hybrid, which has been outsourced for the first time by Toyota. Also, the company is single source supplier for oil pumps at Maruti Suzuki
- Aftermarket business of the company forms a small portion of overall topline and generated ~₹ 29 crore in FY22. Rico is largely an OEM supplier
- Design and development cycle for a product by foreign OEM is ~1-1.5 years whereas same for domestic OEM is about six to nine months. Product lifecycle is at about five to seven years. However, with approaching end of lifecycle, margins shrink as escalation clause is for raw material only not for other expenses incurred to make that particular product. Margins are more accretive for new components/EV components/exports
- The management expects demand for ICE vehicle to remain strong and double by 2030 even after 20-25% penetrating of EVs and hybrids to be a success
- Majority of the machines at Rico are fungible and can be used for making a variety of components resulting into limited capex requirement. The company also manufacturers its own machines. Also, before incurring any capex it secures sufficient order to cover that capex for a particular project
- Topline growth is based on past trend in increasing share of business with OEMs like Hero to push overall topline growth. Rico is targeting a topline of ~₹ 3,000 crore for FY24E. Revenue potential out of the existing gross block is pegged at ~₹ 3,200 crore
- **Rico Fluidtronics topline targets:** FY23E: ~₹ 100 crore; FY24E ~₹ 150-170 crore+. FY25E ~₹ 250-300 crore
- Capex for FY24E is expected to be ~₹ 50-60 crore, largely maintenance capex. Reported tax rate is at ~34% vs. actual tax outgo is at MAT rate

Important points from company's presentation

Exhibit 1: Existing product profile

Source: Company, ICICI Direct Research

Exhibit 2: EV and hybrid's product profile



Source: Company, ICICI Direct Research

Exhibit 3: Key customers

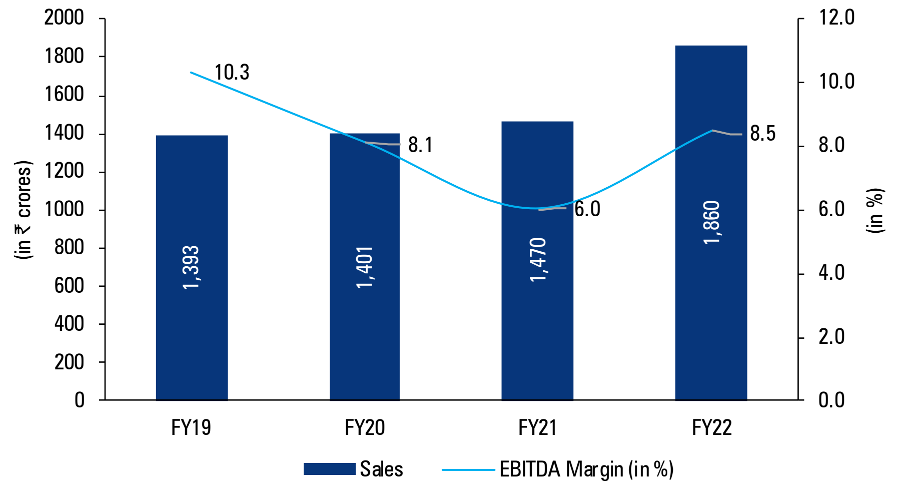
Source: Company, ICICI Direct Research

Exhibit 4: Capabilities at Rico Auto Industries

Source: Company, ICICI Direct Research

Financial story in charts

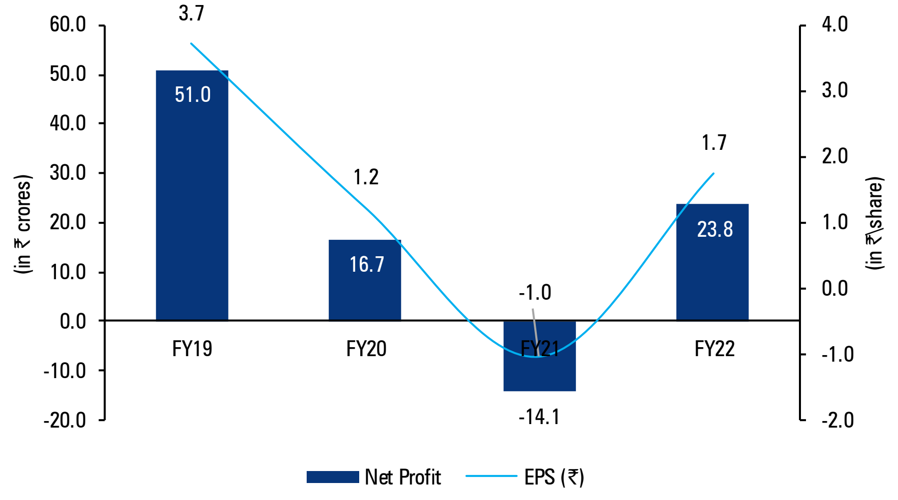
Exhibit 5: Trend in topline and EBITDA margins



Source: Company, ICICI Direct Research

Sales have grown at 10.0% CAGR over FY19-22 with margin profile declining from ~10.3% to 8.5% in a similar timeframe

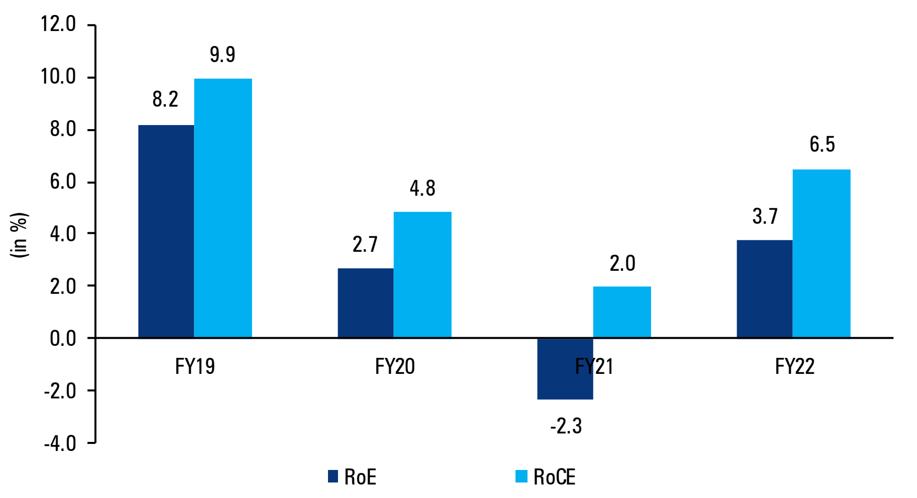
Exhibit 6: Trend in PAT & EPS



Source: Company, ICICI Direct Research

PAT has de-grown at a CAGR of 22.3% over FY19-22 to~ ₹ 24 crore by FY22, largely a function of decline in margins

Exhibit 7: Return ratios trend



Source: Company, ICICI Direct Research

Return ratios have been less than 10% in recent times

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