Long Term Recommendation: Rico Auto Industries Ltd

Renewed focus on clientele and product diversification to drive growth

CMP INR: 78
Rating: BUY
Target Price INR: 125
Upside: 60%

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Rico Auto Industries Ltd (RAIL) is a key manufacturer of ferrous and aluminium casting and machining components used in the automotive space. RAIL manufactures over 400 components and is the sole supplier of these for the various models across leading automobile OEMs in the Indian and international markets. Currently, BMW, Renault, Maruti Suzuki, Hero Moto Corp and Cummins are RAIL's marquee clients. During FY15, the company fell on rough times, mainly due to the split of the Honda-Hero Group tie-up that impacted both top line and profitability. Hence in the past few years, RAIL transformed from a two-wheeler (2W) component manufacturer into a diversified casting and machining component provider across different sectors. It also underwent significant process restructuring that improved its profitability.

Diversifying product offerings, expanding clientele – Steps in the right direction

Over the past two fiscals, RAIL focussed on diversifying across segments in the automobile industry. Until 4-5 years ago, the Indian 2W industry supported little less than two third of company's business and Hero Honda was its main customer. However, the Hero and Honda split prompted RAIL to diversify its offerings and clientele. Currently, passenger vehicle (PV) OEMs, such as Renault, BMW and Maruti Suzuki, contribute ~55% to RAIL's overall revenue. Also, during the past few years, the company significantly increased its exports business, from 22% of its revenue in FY13 to ~28% in FY17. Going forward, RAIL would continue its diversification into new products like aluminium and non-engine components that would place it on the right side of technology curve.

Adoption of lighter material in vehicle manufacturing to drive aluminium business

Many automobile OEMs have recently started increasing the aluminium content in their vehicles. This is mainly due to the introduction of stricter CO_2 and fuel-efficiency norms in several countries over the past 2–3 years. RAIL's is focusing on developing structural aluminium parts complex in near future as a drive to scale up in value chain. RAIL's aluminium business share in overall revenue has increased from 55-60% in FY13 to 71% in FY17.

Outlook, valuations: Healthy growth in order book, cost reduction to strengthen financial performance, valuation

Key drivers that could spur RAIL's financial performance are: 1) Product diversification in the PV segment; 2) cost reduction measures; 3) plans to enter the high-realisation complex aluminium products business; 4) annual orders of more than INR 500 cr and bids for orders worth more than INR 700 cr, which ensure healthy growth. We initiate coverage on the stock with a BUY recommendation and a target price (TP) of INR 140, based on 16x FY20E earnings. The stock currently trades at 19x, 15x and 10x of the FY18E, FY19E and FY20E earnings, respectively.

Bloomberg:	RAI:IN
52-week range (INR):	110.90 / 47.70
Share in issue (cr):	14
M cap (INR cr):	1,096
Avg. Daily Vol. BSE/NSE :('000):	1352
Promoter Holding (%)	50.10

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Revenues (INR cr)	1007	1079	1190	1393	1688
Rev growth (%)	-25.2	7.2	10.3	17.0	21.2
EBITDA (INR cr)	99	115	125	158	209
Net Profit (INR cr)	29	48	55	71	105
EPS (INR)	2.2	3.6	4.0	5.3	7.8
EPS Growth (%)	-80.9	64.2	13.4	30.5	47.1
P/E (x)	35.9	21.9	19.3	14.8	10.1
EV/EBITDA (x)	12.4	10.7	9.8	7.3	5.3
RoACE (%)	10.2	13.1	12.9	16.0	20.0
RoAE (%)	6.4	9.7	10.2	12.3	16.2

Date: 8th May 2018

Diversification in both client and product in near to medium term period to drive growth for RAI. Focusing on higher value PV and exports business combined with continued focus on improving efficiency is expected to spur growth not only in topline but also profitability. At a valuation of 15x FY19E and 10x FY20E, increasing ROCE from 13% in FY17 to 20-21% in FY20E. is comforting.

Diversifying to PV and exports to drive growth in topline

	FY16	FY17	FY18E	FY19E	FY20E
Revenue	1007	1079	1190	1393	1688
EBITDA	93	112	125	158	209
EBITDA margins	9.8%	10.6%	10.5%	11.4%	12.4%
PAT margins	2.9%	4.5%	4.6%	5.1%	6.2%

Significant value addition by increase share of aluminium casting business to fuel margin increase

	FY16	FY17	FY18E	FY19E	FY20E
RoCE	10.2%	13.1%	12.9%	16.0%	20.0%
Debt Equity	0.4	0.4	0.3	0.3	0.2

Improving margins, ROCE and declining debt equity to aid better valuation

	FY20E EPS	CMP / Target
16x (CMP)	7.8	125
18x (CMP)	7.8	140

At CMP, FY20E P/E is 10x + **FY19E-20E RoCE of 16%-20%** + **At Target Price, FY20E PE is 16x**

Upside of 60%

Risk-reward extremely favourable

Price Target	**INR 125**	We value the stock at a 2-year forward PE multiple of 15x based on a healthy 20-21% RoCE and ~12.4% EBIDTA margin on FY20E. We recommend **BUY** with a TP of INR 125.
Bull	**INR 140**	In a bull case scenario, we value the company at a 2-year forward PE multiple of 18x, which yields a TP of INR 145, an upside of more than 80% from the CMP.
Base	**INR 125**	We value the stock at a 2-year forward PE multiple of 16x, based on a healthy 20-21% RoCE and 12.4% EBIDTA margin on FY20E. We recommend **BUY** with a TP of INR 125.
Bear	**INR 70**	In a bear case scenario, we value the company at a 2-year forward PE multiple of 9x, which yields a TP of INR 71, which is 9% down side from CMP.

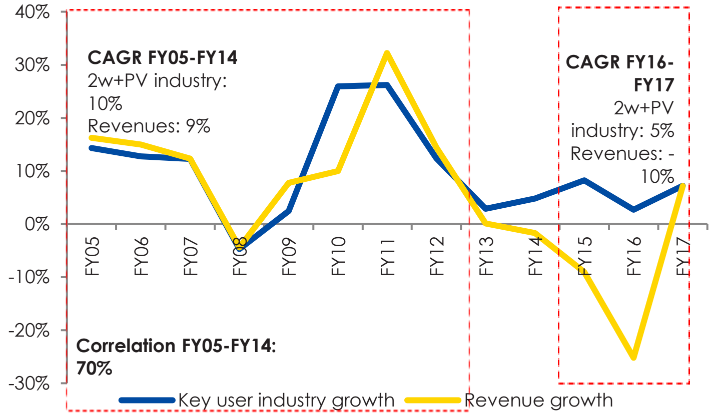
Average Daily Turnover (INR cr)			Stock Price (CAGR)				Relativity to Sensex CAGR (%)			
3 months	6 months	1 year	1 year	3 years	5 years	10 years	1 year	3 years	5 years	10 years
7.4	15.1	19.2	50%	21%	65%	12%	13%	8%	12%	8%

Business Value Drivers

Nature of Industry	The industry deals with ferrous and aluminium casting for PV, 2Ws and CVs; these components are used in engines, transmission, chassis and braking components (also used in the non-automotive segment).
Opportunity Size	RAIL is a leading player in the domestic aluminium and ferrous casting space. Over the past few years, it increased its presence in the export market and also bagged orders from industrial-equipment OEMs, thus opening up huge opportunities not only in the domestic automotive space, but also in global automotive and non-automotive spaces.
Capital Allocation	RAIL is funding the ongoing capex of INR 250 cr from internal accruals. Some of this capex going towards the automation and refinement of old machinery while the major portion has been exhausted in setting up a manufacturing unit at Pathredi, Bhiwadi (Rajasthan).
Predictability	The PV and 2W segments form around 90% of the business. RAIL's overall growth thus depends on growth in the domestic and international automotive industry. Growth also depends to an extent on the success of the auto models that RAIL supplies components to.
Sustainability	Pre-qualifications criteria are tough to achieve; thus repeat orders are high. Also, RAIL is among the few manufacturers in the domestic market with capability to supply complex aluminium casting products.
Disproportionate Future	A healthy demand scenario in all key user industries in the near to medium term, owing to economic buoyancy, would benefit RAIL in growth terms in domestic and export markets. Also, a rising demand for the high-realisation aluminium casting business would drive growth in its top line as well as profitability.
Business Strategy & Planned Initiatives	RAIL is currently focussing on significantly scaling up its high-realisation, high-margin aluminium casting in PV space. This is evident from the fact that PV forms ~ 60% of the current yearly order book.
Near-Term Visibility	Healthy user industry tailwinds, coupled with the rising demand for aluminium casting business, would drive growth for RAIL.
Long-Term Visibility	An increase in the aluminium business share, along with process improvements and a cost reduction drive, would to fuel growth in both RAIL's top line as well as profitability, going forward.

Focus Charts – Story in a Nutshell

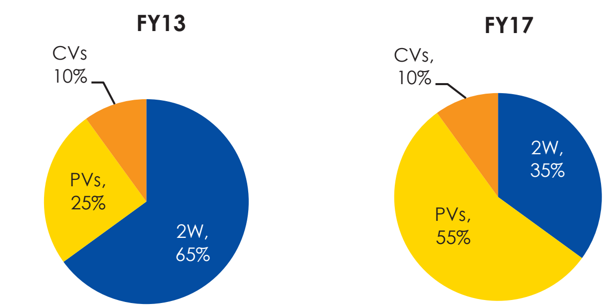
Top line was highly correlated to 2W, PV sales trend before disruption during FY14-FY16 period



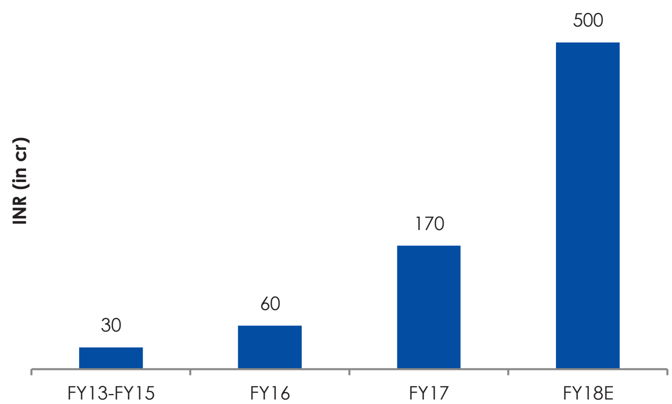
High concentration to 2W industry affected topline, when JV of FCC Rico went off with demerger of Hero Honda

(INR cr)	FY13	FY14	FY15	FY16	FY17
Rico Auto Inds	1090	963	872	926	970
Rico Aluminium and Ferrous Auto Comp Ltd	0	0	6	261	249
Rico Auto Inds USA	79	85	91	145	152
Rico Jinfei Wheels Ltd	51	52	98	74	78
Rico Auto Inds UK	51	56	37	41	52
Magna Rico Powertrain	18	23	31	34	44
Rasa Autocom Ltd	9	15	15	40	26
FCC Rico Ltd	**431**	**480**	**410**	**0**	**0**
Rico Investments Ltd	0	0	0	6	5
AAN Eng Inds Ltd	0	0	0	0	4
Uttarakhand Automotives Ltd	0	0	11	9	0
(Intercompany)	-183	-169	-193	-515	-487

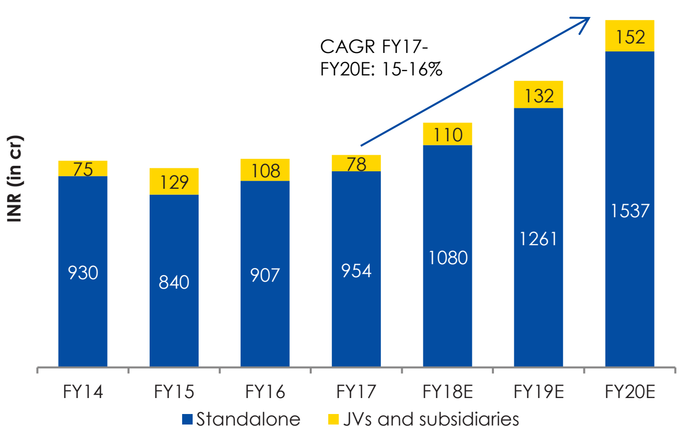
RAIL taking sincere efforts to diversify to PV and other sectors in passt few years



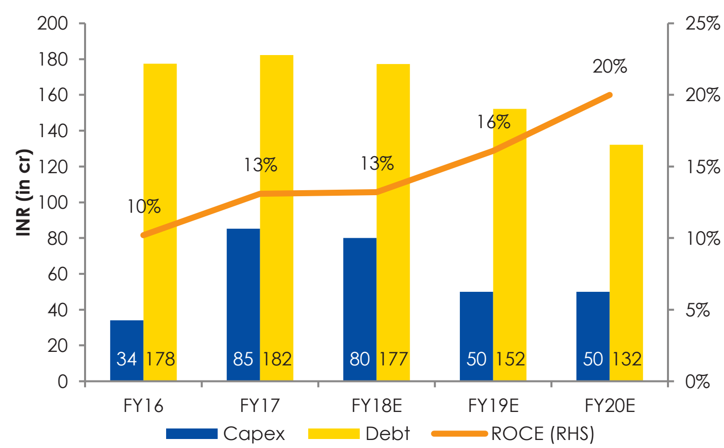
Strong annual order book enforces comfort on turnaround efforts



Rise in order book to fuel healthy growth in top line over next 2–3 years



Improvement in profitability, limited capex to be ROCE-accretive



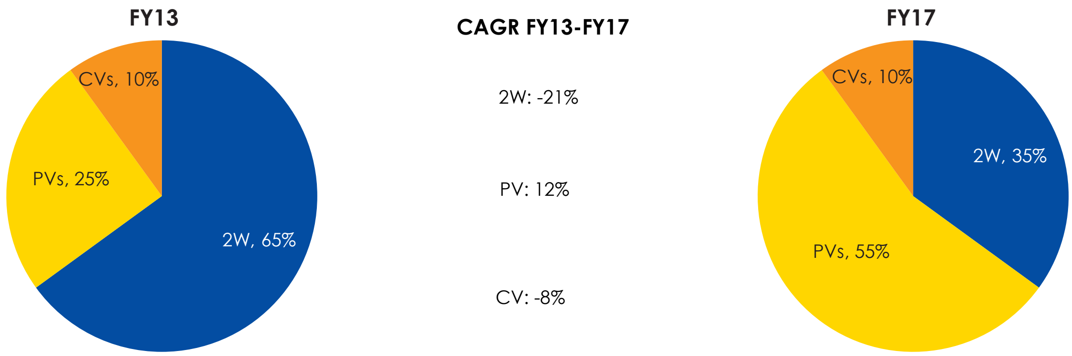
Source: Edelweiss Investment Research

I. Diversifying product offerings in PV, other equipment – A step in the right direction

Over the past few years, RAIL has increased focus on transforming from a 2W casting and machining component supplier into a more diversified casting solutions supplier across different sectors. This diversification cushions the business from the volatility of the 2W market. It also helps to dilute the client concentration risk to an extent, to which RAIL was vulnerable 3 years ago.

Diversifcation aids in scaling up on the value chain, which is evident from the fact that the higher-value-added PV business contributed 55% to revenue in FY17 (from 25% in FY13). An increase in the PV business has in turn raised the share of aluminium casting products, which consequently improved value addition.

Rising share of PV business to drive diversification, value addition

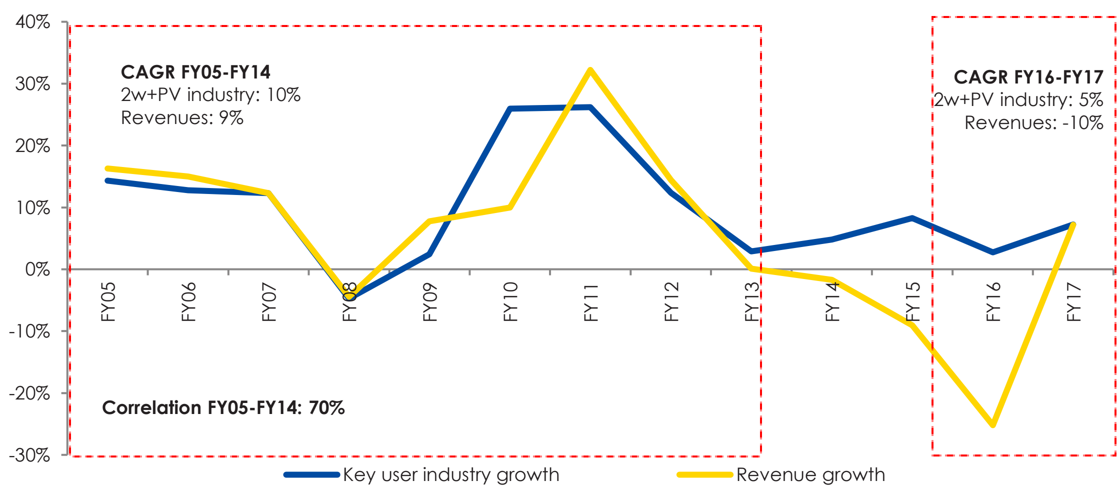


Source: Company reports and Edelweiss Investment Research

RAIL's revenue performance mirrored key industry trends until FY13

The domestic 2W industry was RAIL's major revenue earner, followed by PVs, until FY14. RAIL's top-line performance showed significant correlation to the 2W industry's sales trend up to FY13. However, a disruption due to a reduction in FCC Rico's business during FY14, FY15 and finally split in FY16 affected the company's performance vis-à-vis the industry during the period.

Top line highly correlated to 2W, PV sales trend before disruption in FY14, FY15



Source: Edelweiss Investment Research and SIAM

Client concentration impacted RAIL significantly in FY15 and FY16

Since inception, RAIL had been supplying casting and machining components to Hero Honda. This business contributed ~55% to its top line in FY13. RAIL paid a heavy price for being dependent on a single-customer so significantly in FY15, when FCC Rico – a joint venture (JV) between Honda's Japanese supplier and RAIL set up to supply complex components to Hero Honda – was called off after the Hero Honda demerger. The split vapourised around 25% of RAIL's business by FY16 vis-à-vis FY15.

Other than casting RAIL manufactures oil and water pumps under JV Magna Rico Powertrain, aluminium alloy wheels under Rico Jinfei Wheels Ltd and defence equipments under subsidiary AAN Engineering Inds Ltd.

FCC Rico split significantly impacted RAIL's top line in FY15, FY16

(INR cr)	FY13	FY14	FY15	FY16	FY17
Rico Auto Inds	1090	963	872	926	970
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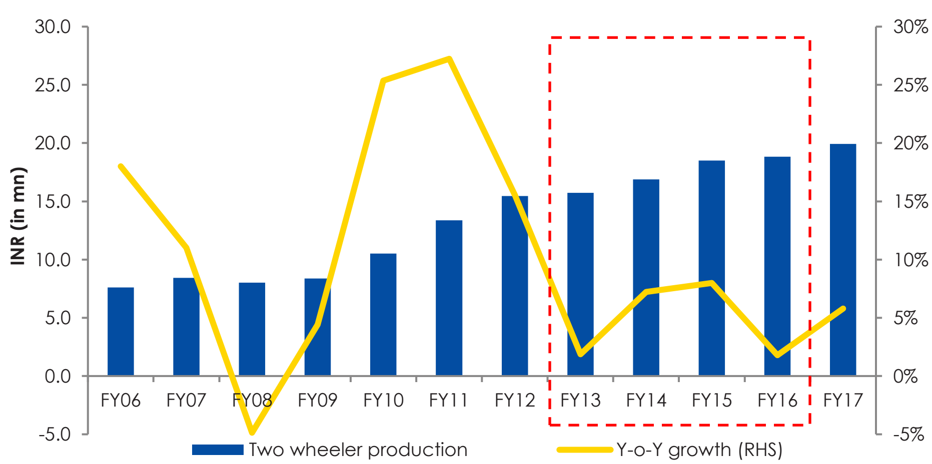
Magna Rico Powertrain	18	23	31	34	44
Rasa Autocom Ltd	9	15	15	40	26
FCC Rico Ltd	**431**	**480**	**410**	**0**	**0**
Rico Investments Ltd	0	0	0	6	5
AAN Engineering Inds Ltd	0	0	0	0	4
Uttarakhand Automotives Ltd	0	0	11	9	0
(Intercompany)	-183	-169	-193	-515	-487

Source: Edelweiss Investment Research

2W demand growth slowed down post FY12 added salt to the wound



Source: SIAM and Edelweiss Investment Research

Series of incidences crippled RAIL's revenue, financial strength

	UOM	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Income from operations	**INR cr**	**1315**	**1505**	**1506**	**1480**	**1346**	**1007**	**1079**
YoY growth	%	32%	14%	0%	-2%	-9%	-25%	7%
Gross margins	%	32%	30%	28%	33%	33%	41%	41%
EBITDA	**INR cr**	**124**	**127**	**117**	**148**	**86**	**99**	**115**
EBITDA margin	%	9%	8%	8%	10%	6%	10%	11%
Profit after tax	**INR cr**	**13.3**	**22.5**	**5.4**	**2.7**	**153.6**	**28.7**	**46.6**
PAT margins	%	1%	2%	0.4%	0.1%	11%	3%	4%
ROCE	%	13%	15%	8%	17%	0.3%	10%	13%
Debt equity	times	1.3	1.2	1.2	0.8	0.3	0.4	0.4
Cash conversion cycle	days	19	42	26	-2	24	39	42

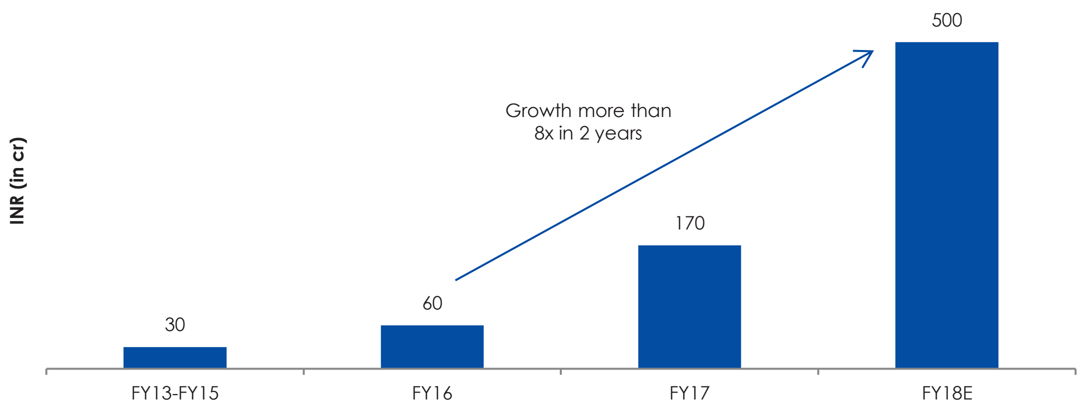
Source: Edelweiss Investment Research

Strong order book growth offers comfort of healthy revenue visibility, going forward

Not too long ago, RAIL was struggling to arrest the sharp slide in revenue after the Hero Honda demerger during FY13-FY15. New orders during the period were scarce.

With its new focus on value addition and diversification, RAIL's yearly order book clocked a staggering growth rate over the past 2 years; the annual order book as of March 2018 stood at more than INR 500 cr. Further RAIL has bid for more than INR 700 cr incremental orders out of which ~INR 300 cr order is at a very advance stages of negotiation.

Impressive growth in order book to ensure turnaround



Source: Edelweiss Investment Research

II. PV business leads turnaround, contributes ~60% of new orders

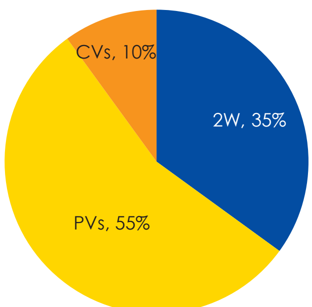
Over the past two fiscals, RAIL diversified its offerings, especially focussing on the PV industry. Increased access to PV OEMs has helped it diversify its client base and grab the opportunity to scale up in the value-added aluminium casting business.

RAIL's increased capability in manufacturing products for PVs and heavy equipment throws open a much bigger market. The company can now serve the domestic as well as export markets.

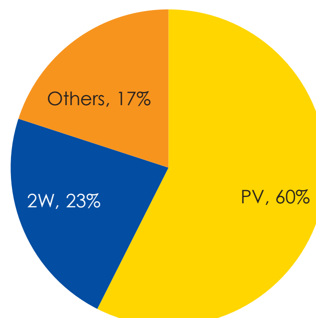
Identifying this significant opportunity, RAIL has focused on aggressively enhancing its footprint in the global PV industry. This can be deduced from the fact that ~60% of the upcoming yearly order book of more than INR 500 cr comprises orders from PV OEMs.

Whopping order book from PV OEMs alters RAIL's business model from 2W casting supplier to diversified casting company

Revenue break-up in FY17



Annual INR 500 cr current order book break-up



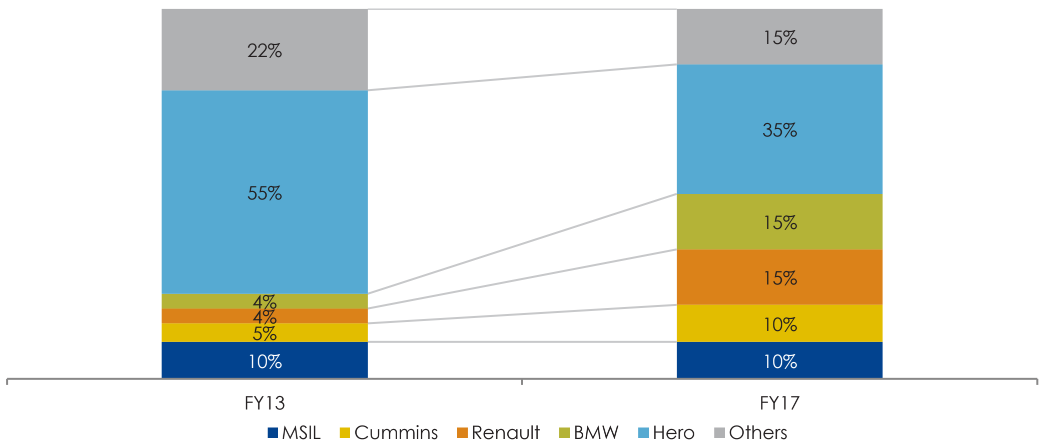
Source: Edelweiss Investment Research

Ability to maintain quality standards attracts orders from global OEMs over past 3 years

Over the past 2–3 years, RAIL was able to attract the attention of global OEMs like BMW and Renault through constant improvement in product quality and ability to scale up in the value chain.

RAIL's success with global OEMs can be gauged from the fact that business from BMW and Renault, which formed 3–4% of the overall revenue pie in FY13, rose to over 15% in FY17. Also, RAIL's content share in its product category across all BMW models is close to 30%; in fact, for some BMW models, RAIL is the sole components supplier.

Increase in share of global OEMs in business indicates consistent performance of RAIL's products



Source: Edelweiss Investment Research

Addition of new global OEMs, growing presence with existing ones inspires confidence in RAIL's capabilities

In addition to BMW and Renault, brands in which RAIL was able to make significant inroads over the past 2–3 years, RAIL's presence in other global OEMs has been increasing. This can be inferred from the fact that new orders from PSA contributed ~20% and those from Toyota Motor Corporation formed ~5-6% of the annual order book.

Growing orders from global OEMs are helping RAIL consolidate its foothold in the international arena. This opens up significant market opportunities in the automotive as well as non-automotive space. Further, increasing access to global OEMs and growing exports are highly margin-accretive for RAIL.

Further RAIL has also bidded from orders worth more than INR 700 cr, out of which close to INR 300 cr orders company is very close in sealing the deal. Strong annual order book and even better pipeline of orders bidded ensures healthy revenue visibility for the company.

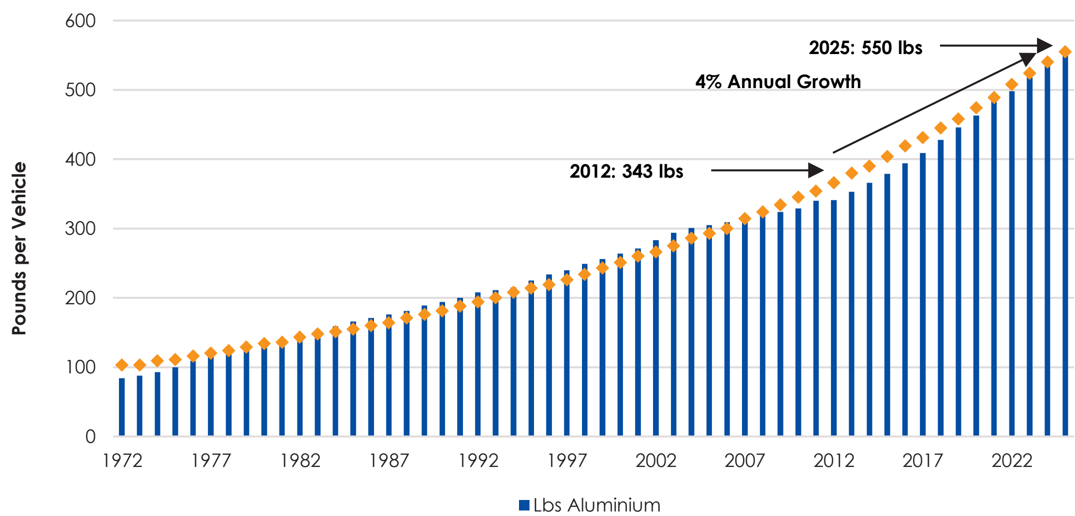
III. Regulatory compulsion hastens adoption of energy-conserving lighter materials such as aluminium

Aluminium casting players worldwide are expected to grow at a healthy pace, mainly driven by the increased focus on manufacturing lightweight, fuel-efficient vehicles.

An increasing number of automobile OEMs have started raising the aluminium content in their vehicles. This is mainly due to the introduction of stricter CO_2 and fuel-efficiency norms in several countries over the past 2–3 years. Thus, aluminium content per vehicle rose from ~250 pounds in 2002 to ~380 pounds in 2015.

We expect this trend to continue, mainly driven by stricter regulation norms and the growing popularity of lightweight electric vehicles (EVs).

Increase in aluminium content per vehicle



Source: Edelweiss Investment Research

Increasing aluminium casting business places RAIL on right side of technology curve

During the past few years, RAIL has focussed on developing capabilities in manufacturing complex aluminium casting products, mainly used in transmissions. The share of aluminium casting in RAIL's overall business was 55-60% in FY13, which rose to 71% in FY17.

Developing aluminium casting capability helped RAIL increase its presence with global majors such as BMW and Renault. The aluminium casting business also enables it to be on the right side of the global technological evolution.

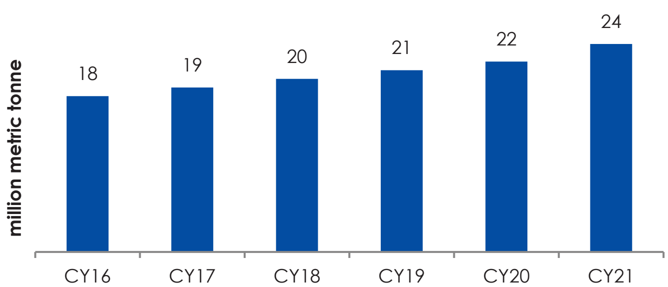
Ability to increase share in revenue pie depicts increased focus on aluminium business

Source: Edelweiss Investment Research

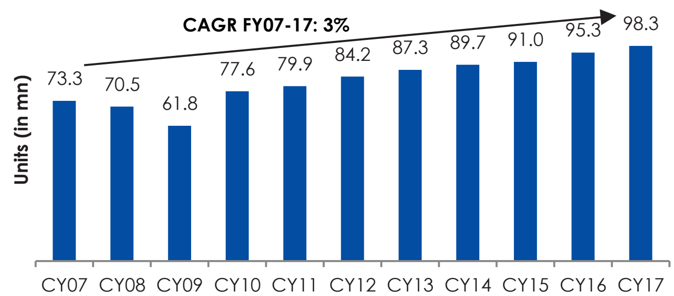
Scaling up in value opens huge market opportunity in automotive, non-automotive spaces

Developing capabilities in complex aluminium casting products opens up significant market opportunities for RAIL on a global scale in both the automotive and non-automotive spaces.

Market size of aluminium casting market



Global automobile production growth trend



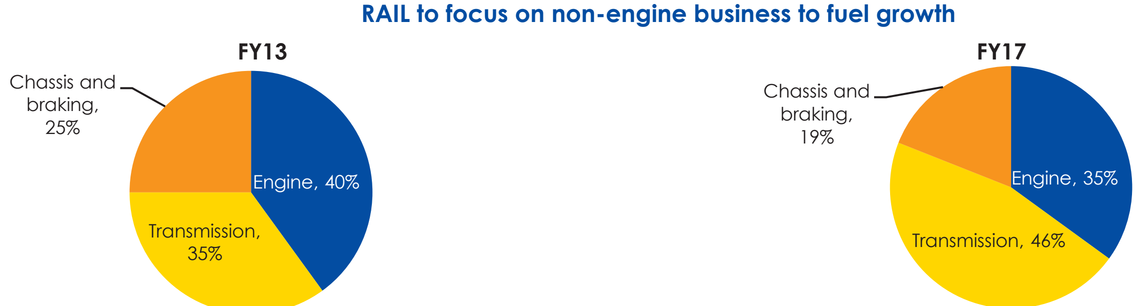
Source: Edelweiss Investment Research

Increasing contribution from non-engine component helps RAIL become future-ready

RAIL is gradually diversifying its business mix towards non-engine components, especially in the transmission space, which now comprises ~46% of the overall revenue (~35% in FY13). Developing capability in manufacturing complex aluminium casting products has opened up avenues for RAIL in the non-engine casting market.

RAIL recently bid for orders in electric power-train transmission components, gradually moving on to develop capabilities in complex aluminium casting products used for transmission. This know-how would not only bring new business opportunities, but also make RAIL ready to supply components for the next generation of vehicles.

RAIL to focus on non-engine business to fuel growth



Source: Edelweiss Investment Research

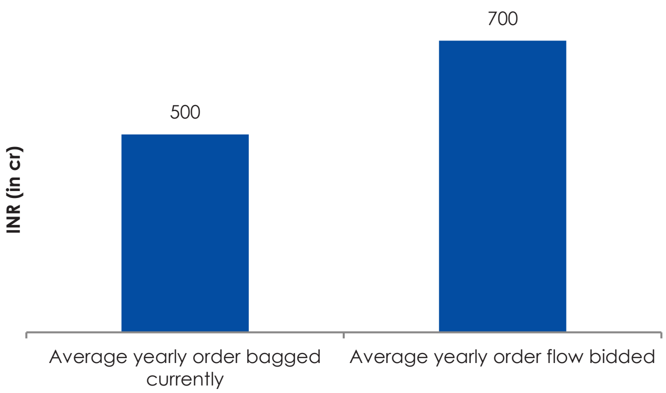
IV.Strong growth in order book over past few months to ensure healthy outlook

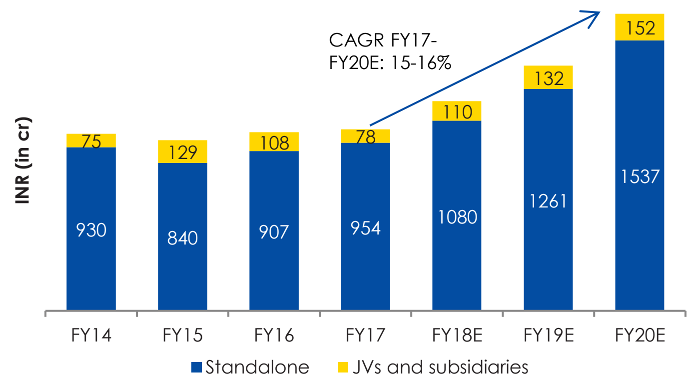
RAIL's average yearly order book was over INR 500 cr as of April 2018. Further, it has bid for orders over INR 700 cr, indicating a continued strong flow of enquiries from domestic as well as global OEMs.

We estimate the impressive order inflow to drive 15–16% of RAIL's top-line CAGR during FY17-FY20E. We believe that volume growth driven by order pickup, combined with a healthy rise in realisation due to value addition, would power this rise.

For subsidiary/JVs businesses, we expect topline to grow in the range of around 23-25% CAGR during FY17-FY20E period. This growth is primarily driven by healthy rise expected in Rico Jenfei Wheel business. Company plans to increase the capacity of aluminium alloy wheels from 1.5mn units currently to 3 mn units in next 2-3 years.

Rise in order book to fuel healthy growth in top line over next 2–3 years





Source: Edelweiss Investment Research

Focus on cost reduction, value addition drives turnaround in financial performance

During the past 2 years, RAIL has been reducing costs and improving processes, such as rationalising labour force, enhancing automation in the production process and reducing wastages. The changes boosted the EBITDA margin, raising it from 6% in FY15 to 10.3% in FY17. Concentrating on the high-margin PV and exports businesses also pushed up margins over the past 2 years.

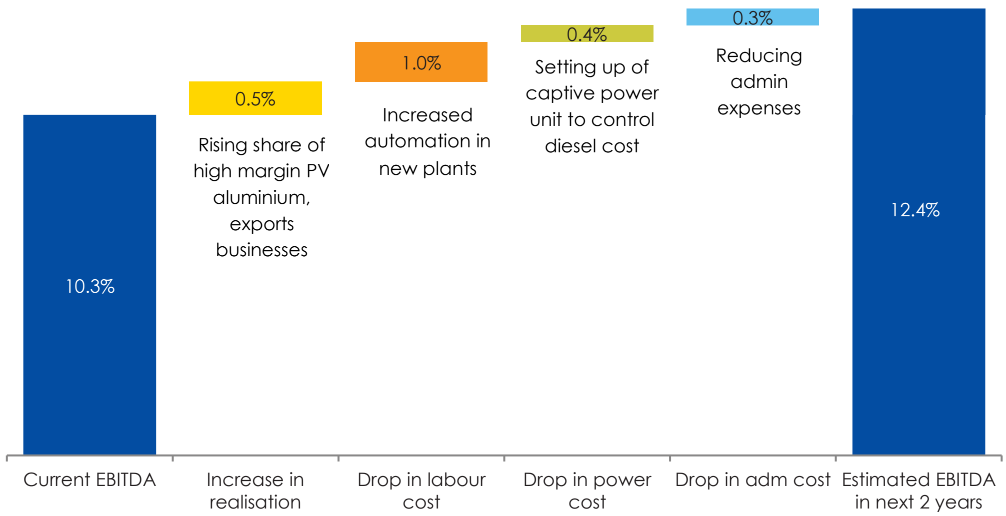
Steady cost-reduction drive, increased share of high-realisation business helped turnaround

	UOM	FY16	FY17	FY18E	FY19E	FY20E
Income from operations	**INR cr**	**1007**	**1079**	**1190**	**1393**	**1688**
YoY Growth (%)	%	-25%	7%	11%	17%	21%
Gross margins	%	41%	41%	40%	40%	40%
EBITDA	**INR cr**	**99**	**115**	**125**	**158**	**209**
EBITDA Margin (%)	%	10%	11%	11%	11%	12%
Profit after tax	**INR cr**	**29**	**48**	**55**	**71**	**105**
PAT margins	%	3%	4%	5%	5%	6%
ROCE	%	10%	13%	13%	16%	20%
Debt Equity	times	0.5	0.5	0.3	0.3	0.3
Working capital cycle	days	39	42	46	50	52

Source: Edelweiss Investment Research

Even as RAIL focuses on increasing the share of its high-margin export business and continues its efforts towards cost reduction, we believe there is further scope for improvement in its EBITDA margin by atleast 200–300 basis points (bps).

Cost-reduction drive, high-realisation business to help scale up margin by 200–300 bps from current level



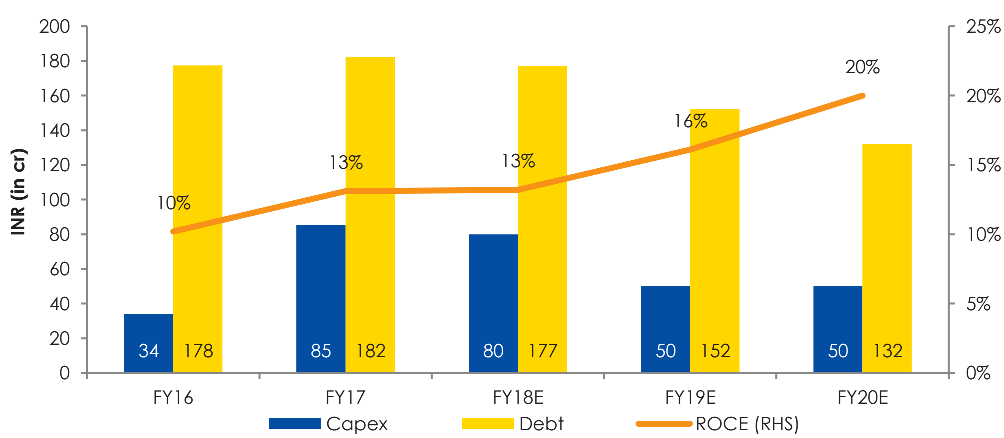
Source: Edelweiss Investment Research

Limited capex, reduced debt to improve ROCE, debt equity in future

RAIL anticipates incurring a limited capex of INR 80-100 cr in FY18 and INR 50-60 cr each for subsequent two years i.e. FY19-FY20E. This capex would mainly fund new foundry and machine shop in Pathredi, new machine shop at Bawal and new aluminium casting and machine shop at Chennai, while some portion of capex will also go in automation of the existing facility and process improvements.

The healthy increase in cash accruals and limited capex from current fiscal would bring down RAIL's debt levels and thereby boost its ROCE.

Healthy profitability, limited capex to be ROCE-accretive



Source: Edelweiss Investment Research

Healthy results in Q3FY18 were comforting

RAIL's Q3FY18 results proved it the best quarter of this fiscal; the top line grew ~21% YoY while the EBITDA margin improved by 80 bps to 10.2% YoY. The benefit of the higher EBITDA percolated to the bottom line too, as the PAT margin rose 70 bps to 4.4% during the period.

Growth in the top line indicates some execution of the expanding order book position, an encouraging scenario. Also, we believe RAIL's efforts in cutting costs and improving efficiencies have started showing results, especially seeing the improved profitability in Q3FY18.

Q3FY18 Results

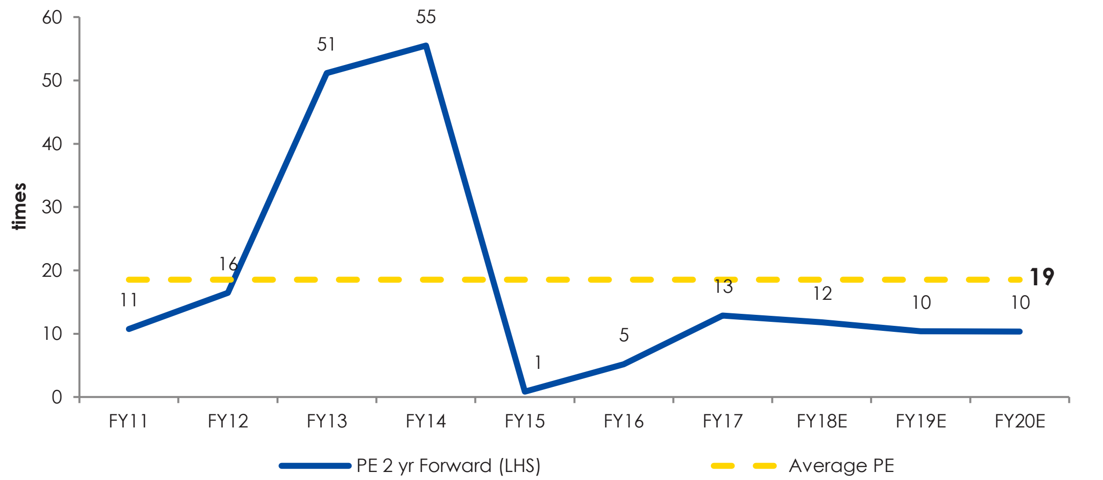
INR crores	Q3 FY17	Q3 FY18	YoY growth	Q2 FY18	QoQ growth	9MFY18	9MFY17	YoY growth
Net Sales	**251**	**303**	**21%**	**300**	**1%**	**877**	**784**	**12%**
Material cost	*126*	*160*	*27%*	*155*	*3%*	*452*	*384*	*18%*
Employee exp	35	38	7%	36	4%	108	103	5%
Misc exp	66	75	12%	78	-4%	227	206	10%
Loss on foreign exchange								
Expenditure	228	272	20%	269	1%	787	693	14%
Core EBITDA	**24**	**31**	**31%**	**31**	**1%**	**90**	**90**	**-1%**
Depreciation	13	13	3%	13	1%	40	36	11%
Core EBIT	11	18	66%	17	1%	50	55	-9%
Other income	5	5	9%	4	21%	17	14	20%
Interest	6	4	-26%	5	-11%	13	15	-12%
Share of JV and associates	0	1	-	(0)	-	2	0	-
Extraordinary	0	3	-	2	61%	5	(0)	-
PBT	10	16	69%	15	9%	50	55	-8%
Tax	0	3	-	5	-40%	12	10	21%
Reported PAT	**9**	**13**	**45%**	**10**	**33%**	**39**	**45**	**-14%**
Gross margins	49.8%	47.2%		48.2%		48.5%	51.0%	
EBITDA margins	9.4%	10.2%		10.2%		10.2%	11.5%	
PAT margins	3.7%	4.4%		3.3%		4.4%	5.7%	

Source: Edelweiss Investment Research

V. Healthy earnings growth anticipated over next 3 years strengthens valuation

RAIL anticipates healthy growth in earnings in the next 2–3 years, driven by improvement in both top line and margins. This growth is expected to push up valuation from these current levels as well as in the near-to-medium term. We estimate EPS to grow by 2.2x, a near-30% increase in CAGR during FY17–FY20E.

Though stock price rallied lately, current 1-year, 2-year average PE is below 8-year average; indicates significant upside still intacted



Source: Edelweiss Investment Research

Financials

Income statement (Consolidated)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Income from operations	1007	1079	1190	1393	1688
Direct costs	595	642	713	837	1015
Employee costs	132	141	156	174	203
Other expenses	182	182	197	223	262
Total operating expenses	909	964	1066	1234	1479
EBITDA	99	115	125	158	209
Depreciation and amortisation	47	48	53	56	59
EBIT	52	67	72	102	150
Interest expenses	20	17	17	15	13
Other income	14	13	16	16	16
Profit before tax	46	63	71	103	153
Provision for tax	12	14	18	34	51
Core profit	34	50	53	69	103
Extraordinary items	-5	-1	0	0	0
Profit after tax	30	49	53	69	103
Minority Interest	0	0	0	0	0
Share from associates	0	0	2	2	2
Adjusted net profit (incl share of asso.)	29	48	55	71	105
Equity shares outstanding (mn)	13.5	13.5	13.5	13.5	13.5
EPS (INR) basic	2.2	3.6	4.0	5.3	7.8
Diluted shares (Cr)	13.5	13.5	13.5	13.5	13.5
EPS (INR) fully diluted	2.2	3.6	4.0	5.3	7.8
Dividend per share	1.5	1.5	1.5	1.5	1.5
Dividend payout (%)	69.1	42.1	37.1	28.4	19.3

Common size metrics- as % of net revenues

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Operating expenses	90.2	89.4	89.5	88.6	87.6
Depreciation	4.6	4.4	4.4	4.0	3.5
Interest expenditure	2.0	1.6	1.4	1.1	0.8
EBITDA margins	9.8	10.6	10.5	11.4	12.4
Net profit margins	2.9	4.5	4.6	5.1	6.2

Growth metrics (%)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Revenues	(25.2)	7.2	10.3	17.0	21.2
EBITDA	14.4	16.6	8.5	27.0	31.9
PBT	(664.2)	38.7	12.0	45.4	48.4
Net profit	(183.4)	45.9	5.3	31.6	48.4
EPS	(80.9)	64.2	13.4	30.5	47.1

Ratios

Year to March	FY16	FY17	FY18E	FY19E	FY20E
ROAE (%)	6.4	9.7	10.2	12.3	16.2
ROACE (%)	10.2	13.1	12.9	16.0	20.0
ROACE (%) (ex -cash)	10.6	13.9	13.6	17.9	22.9
Debtors (days)	44	61	64	66	68
Current ratio	0.9	0.8	0.9	1.1	1.4
Debt/Equity	0.4	0.4	0.3	0.3	0.2
Inventory (days)	68	79	80	86	89
Payable (days)	74	97	100	105	105
Cash conversion cycle (days)	39	42	44	47	52
Debt/EBITDA	1.8	1.6	1.4	1.0	0.6
Adjusted debt/Equity	0.4	0.3	0.3	0.2	0.1

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Diluted EPS (INR)	2.2	3.6	4.0	5.3	7.8
Y-o-Y growth (%)	*(80.9)*	*64.2*	*13.4*	*30.5*	*47.1*
CEPS (INR)	6.0	7.2	8.0	9.4	12.1
Diluted P/E (x)	35.9	21.9	19.3	14.8	10.1
Price/BV (x)	2.2	2.0	1.9	1.7	1.5
EV/Sales (x)	1.2	1.1	1.0	0.8	0.7
EV/EBITDA (x)	12.4	10.7	9.8	7.3	5.3
Diluted shares O/S	13.5	13.5	13.5	13.5	13.5
Basic EPS	2.2	3.6	4.0	5.3	7.8
Basic PE (x)	35.9	21.9	19.3	14.8	10.1
Dividend yield (%)	1.9	1.9	1.9	1.9	1.9

Balance sheet **(INR cr)**

As on 31st March	FY16	FY17	FY18E	FY19E	FY20E
Share capital	13.5	13.5	13.5	13.5	13.5
Equity Share Warrants	-	-	-	-	-
Reserves & surplus	457	505	539	590	675
Shareholders funds	**471**	**519**	**553**	**604**	**688**
Long term borrowings	92	68	68	68	68
Short term borrowings	86	115	110	85	65
Total Borrowings	178	182	177	152	132
Minority Interest	4	4	4	4	4
Other Long Term Liabilities	1	2	1	1	2
Deferred Tax Liabilities	12	13	13	13	13
Sources of funds	**665**	**720**	**749**	**775**	**840**
Gross block	997	1,082	1,162	1,222	1,272
Depreciation	609	648	701	757	815
Net block	388	434	461	465	456
Capital work in progress	70	45	40	10	10
Total fixed assets	458	479	501	475	466
Other non current assets	1	0	0	0	0
Investments	6	6	6	26	46
Inventories	120	112	127	158	195
Sundry debtors	143	174	199	233	287
Cash and equivalents	7	9	11	25	29
Loans and advances	161	186	180	170	175
Other current assets	7	14	15	18	21
Total current assets	444	501	537	629	753
Sundry creditors and others	219	227	247	280	318
Provisions	18	34	43	49	62
Total CL & provisions	237	260	290	329	380
Net current assets	207	241	247	300	373
Net Deferred tax					
Misc expenditure	-	-	-	-	-
Uses of funds	**665**	**720**	**749**	**775**	**840**
Book value per share (INR)	35	38	41	45	51

Cash flow statement

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Net profit	34	50	53	69	103
Add: Depreciation	47	48	53	56	59
Add: Misc expenses written off	0	0	0	0	0
Add: Deferred tax	-0	-1	0	0	0
Gross cash flow	81	96	105	125	161
Less: Changes in W. C.	-63	-33	-14	-24	-62
Operating cash flow	144	130	120	150	223
Less: Capex	-65	-75	-75	-30	-50
Free cash flow	**78**	**54**	**44**	**120**	**173**

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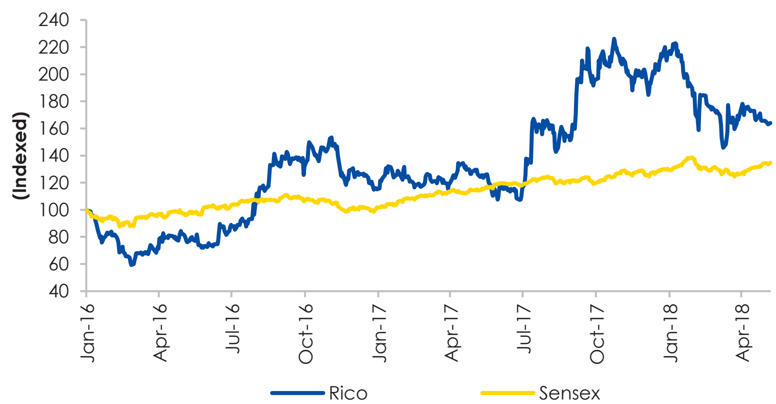
Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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