

New tie-ups to bolster revenue growth, going ahead...

About the stock: Pricol Ltd (Pricol), established in 1974, is a Coimbatore based supplier of diversified auto components like instrument clusters, sensors & switches, pumps and mechanical products, telematics solutions and wiping systems.

- Product mix: - ~65% from 2-W, 3-W, ~15% from CV, ~10% from PV, ~10% from off-road & tractors
- Segment mix: - ~55% from driver information system (instrument cluster), ~30% from actuation & fluid control system, ~15% sensors and others

Q1FY23 Results: Pricol reported steady Q1FY23 results.

- Total operating income came in at ₹ 445 crore, up 7% QoQ
- EBITDA margin came in at 11.7%, down 63 bps QoQ
- PAT was up 20% QoQ at ₹ 20.6 crore, supported by lower effective tax rate

What should investors do? The stock is up 2x+ since our initiating dated April 2021, outperforming the broader Nifty Auto index in that timeframe.

- We retain our **BUY** rating on Pricol amid management walking the talk over debt reduction plans, new tie-ups as well as ambitious Vision 2025

Target Price and Valuation: Upgrading our estimates, we now value Pricol at ₹ 200 i.e. 20x P/E on FY24E EPS of ~₹ 10.0/share (earlier target price ₹ 140).

Key triggers for future price performance:

- De-leveraging of b/s along with target of being debt free by FY24E. Sweating of assets, healthy cash flow generation and calibrated capex spends
- Growing presence in PV space with clients like Tata Motors, Citroen, etc
- New product pipeline and confirmed Lol from customers (including new age EV OEMs) to help boost sales, PAT to grow at 17.5%, 48.6% CAGR, respectively, in FY21-24E. Margins seen improving to 12.5% by FY24E
- Recent technology tie-ups for battery management system (BMS) with BMS Powersafe and foray into connected clusters (incl. Telematics) with SIBROS

Alternate Stock Idea: In our auto- ancillary coverage we like Apollo Tyres.

- Focus on b/s deleveraging, sweating of assets and capital efficiency
- BUY with target price of ₹ 290



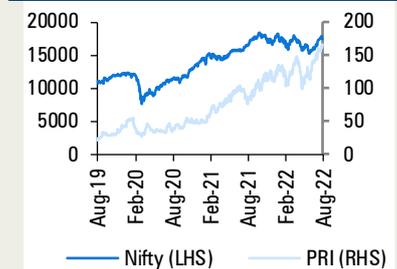
Particulars

Particular	₹ crore
Market Capitalization	2,072.0
Total Debt (FY22)	128.1
Cash & Investments (FY22)	52.8
EV (FY21)	2,147.2
Equity capital	12.2
52 week H/L (₹)	170 / 74
Face value	₹ 1

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	36.5	36.5	36.5	36.5
FII	10.5	11.0	11.3	11.9
DII	-	-	1.7	3.0
Other	53.0	52.4	50.5	48.6

Price Chart



Recent event & key risks

- Posted steady Q1FY23 results
- Key Risk:** (i) Elongated supply side issues & consequent slower than anticipated growth prospect (ii) delay in margin recovery amidst o/p leverage gains

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Key Financial Summary

Key Financials	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Total Operating Income	1,239.4	1,413.1	1,544.7	3.3%	1,853.6	2,131.7	17.5%
EBITDA	85.4	177.9	180.6	24.5%	222.4	266.5	21.5%
EBITDA Margins (%)	6.9	12.6	11.7		12.0	12.5	
Net Profit	(98.8)	41.5	55.1	LP	89.0	121.6	48.6%
EPS (₹)	(10.4)	3.4	4.5		7.3	10.0	
P/E	(16.3)	49.9	37.6		23.3	17.0	
RoNW (%)	(24.9)	7.9	9.5		13.3	15.5	
RoCE (%)	(1.2)	9.7	12.6		16.4	19.2	

Source: Company, ICICI Direct Research

Key conference call highlights...

Q1FY23 Earnings Conference Call highlights

- The management informed about the company’s foray into BMS (an integral part in an EV) and change in the company to tech driven global company. The management also informed about Lols from large OEMs for its connected cluster and would be in production within 12 months with BMS being part of revenue from FY24E onwards
- The company remains committed towards achieving ~14-14.5% margins in the long run vs. ~11% now with the coming nine months to be suppressed due to unprecedented hike in commodity & shortage of ICs. Capex would be ~₹ 350-400 crore over the next two to three years with revenue potential increasing from ₹ 2,200 crore to ₹ 3,500 crore
- Near term two-wheeler domestic demand is contingent on improvement in rural sentiment led by realisation of Rabi crop and marriage-related sales. Sequential increase in freight rates since July 2021 has supported the profitability of CV operators. Large fleet operators have entered the market while retail purchases are yet to take off

The company has won many new businesses across various segments including the next generation products like Connected Vehicle Solution and around 10 % of the revenue of FY22 was contributed by new business

Exhibit 1: Recent tech tie-ups

Key Partnerships



Sibros’ connected all-in-one platform will complement Pricol’s suite of products on Driver Information Systems (DIS) and Telematics to offer **end-to-end solutions** to the OEMs. The cloud-based platform of Sibros, combined with the next generation products of Pricol, will enable features such as OTA software and firmware updates, vehicle data insights for analytics, diagnostics and troubleshooting for the OEMs to make the best use of the connected solutions.



Entered into an International licensing agreement with BMS PowerSafe, a part of Startec Group to manufacture and sell **Battery Management System (BMS)** for Indian Market. In this partnership, Pricol will be licensing the product and process technology of BMS from Partner and will be manufacturing complete BMS in-house. This partnership has opened up a new arena for Pricol to add a pure play EV product in our portfolio. The company is recognized as the top 3 pure players of BMS suppliers in Europe.



Pricol in partnership with PSG Institutions has launched a **Center of Excellence (CoE)** to develop high efficiency **micro motors and Robotics and artificial intelligence** based processes and equipment. With Pricol’s strong foot print in product domain and customer connect and PSG Institutions’ expertise in first principle fundamentals, the CoE will certainly benefit the community at large to come out with world class new technology products and processes



Pricol is partnered with CGI studio for **Human Machine Interface (HMI) Solutions** Candera will, help in HMI solutions with shorter lead time, cost effective solutions – all made possible by having a single HMI tool to support Next Generation Display Systems to be built on various Product Platforms which is indigenously developed by Pricol.



Source: Company, ICICI Direct Research

Exhibit 2: New product launches in FY23

FY23 Product Launch

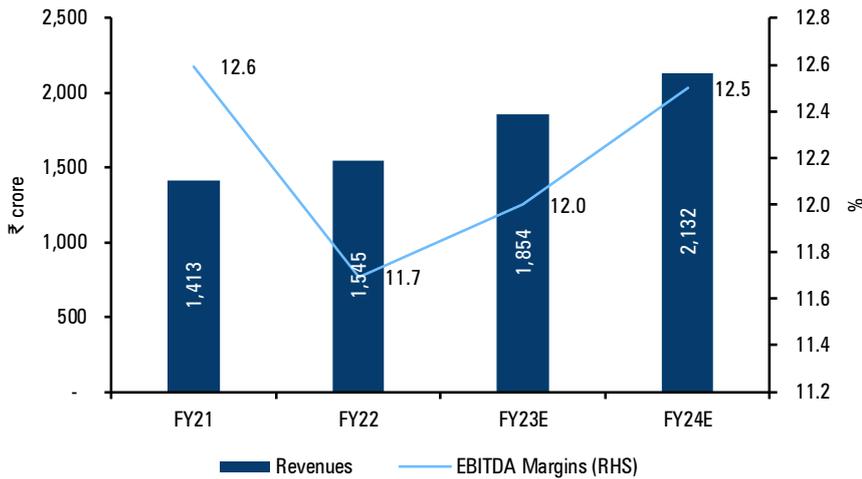
<p>2W - Clusters</p>  <p>TVS (iquebe – EV 7”TFT)</p>	 <p>TVS (Ronin)</p>
<p>LCV - Cluster</p>  <p>TATA Motors (TATA Ace) EV</p>	<p>Industrial - Exports</p>  <p>GENERAC - USA (Skyfall Oil Pump)</p>



Source: Company, ICICI Direct Research

Financial story in charts

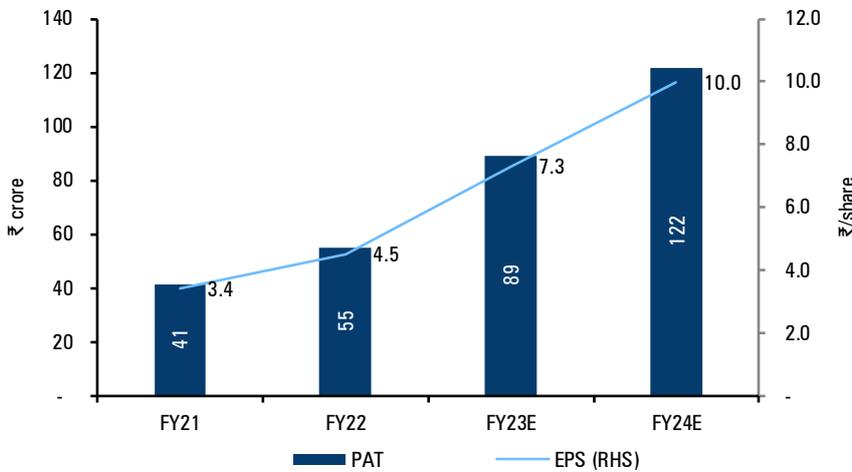
Exhibit 3: Trend in topline & EBITDA margins



Net sales are expected to grow at 17.5% CAGR over FY21-24E to ₹ 2,132 crore whereas margins to inch to 12.5% in FY23-24E

Source: Company, ICICI Direct Research

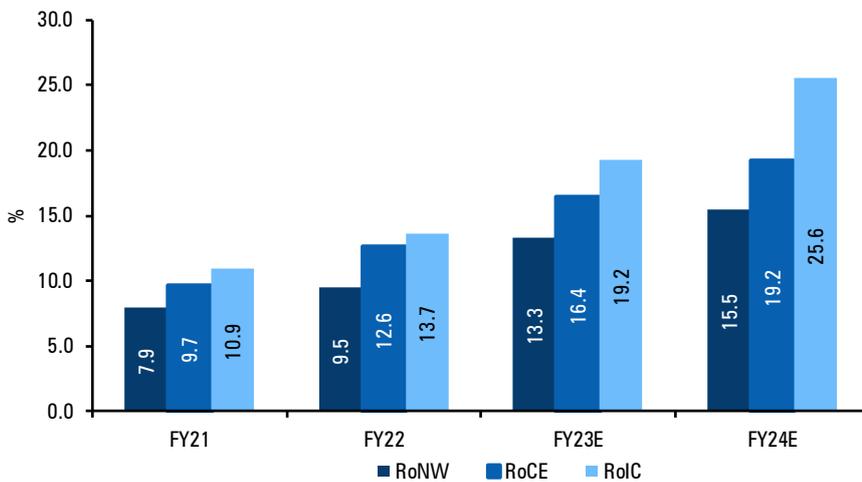
Exhibit 4: Trend in PAT & EPS



PAT is expected to grow at 48.6% CAGR over FY21-24E, albeit on a low base

Source: Company, ICICI Direct Research

Exhibit 5: Trend in margins and profitability



Return ratios are expected to be in mid double digit starting FY23E

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	1,413.1	1,544.7	1,853.6	2,131.7
Growth (%)	14.0	9.3	20.0	15.0
Raw Material Expenses	964.8	1,069.6	1,297.5	1,492.2
Employee Expenses	166.5	191.8	208.5	234.5
Other Expenses	103.9	102.7	125.1	138.6
Total Operating Expenditure	1,235.2	1,364.1	1,631.2	1,865.2
EBITDA	177.9	180.6	222.4	266.5
Growth (%)	108.4	1.5	23.2	19.8
Depreciation	94.2	81.8	87.1	95.9
Interest	43.1	27.3	17.2	7.0
Other Income	7.8	8.8	12.8	15.2
PBT	48.5	80.3	130.9	178.8
Total Tax	32.7	25.2	41.9	57.2
Reported PAT	41.5	55.1	89.0	121.6
Growth (%)	-142.0	32.7	61.7	36.5
EPS (₹)	3.4	4.5	7.3	10.0

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	12.2	12.2	12.2	12.2
Reserve and Surplus	512.6	569.6	658.7	774.1
Total Shareholders funds	524.8	581.8	670.9	786.3
Total Debt	248.0	128.1	78.1	28.1
Deferred Tax Liability	57.4	50.7	50.7	50.7
Minority Interest / Others	34.0	23.9	23.9	23.9
Total Liabilities	875.9	796.8	835.9	901.3
Assets				
Gross Block	716.0	790.8	845.8	879.2
Less: Acc Depreciation	295.4	377.3	464.4	560.3
Net Block	420.6	413.5	381.4	318.9
Capital WIP	19.8	8.4	13.4	100.0
Total Fixed Assets	440.3	422.0	394.8	418.9
Investments	0.0	362.9	276.4	254.7
Inventory	243.2	236.5	304.7	350.4
Debtors	187.9	234.3	279.3	321.2
Loans and Advances	0.0	0.0	0.0	0.0
Cash	74.8	50.7	54.5	64.7
Other current assets	0.0	58.6	21.3	26.9
Total Current Assets	505.8	580.1	659.8	763.3
Creditors	281.8	270.4	355.5	408.8
Provisions	5.6	5.8	7.7	8.8
Other current liabilities	0.0	0.0	0.0	0.0
Total Current Liabilities	287.4	276.2	363.1	417.6
Net Current Assets	218.4	303.9	296.7	345.7
Others	112.5	430.3	70.3	44.4
Application of Funds	875.9	796.8	835.9	901.3

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	41.5	55.1	89.0	121.6
Add: Depreciation & Interest	137.3	109.1	104.3	102.9
(Inc)/dec in Current Assets	31.2	-22.2	-122.4	-96.3
Inc/(dec) in CL and Provisions	-49.5	36.6	111.0	76.2
CF from operating activities	128.6	179.2	181.0	203.4
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-30.8	-63.5	-60.0	-120.0
Others	9.8	5.4	-50.0	-10.0
CF from investing activities	(21.0)	(58.0)	(110.0)	(130.0)
Inc/(dec) in loan funds	-183.4	-119.9	-50.0	-50.0
Dividend paid & dividend tax	0.0	0.0	0.0	-6.1
Interest Expense	113.0	-27.3	-17.2	-7.0
CF from financing activities	(70.5)	(147.2)	(67.2)	(63.1)
Net Cash flow	32.3	-26.0	3.8	10.3
Opening Cash	42.4	74.8	50.7	54.5
Closing Cash	74.8	48.8	54.5	64.7

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	3.4	4.5	7.3	10.0
Cash EPS	11.1	11.2	14.5	17.8
BV	43.1	47.7	55.0	64.5
DPS	0.0	0.0	0.0	0.5
Cash Per Share	6.1	4.2	4.5	5.3
Operating Ratios (%)				
EBITDA Margin	12.6	11.7	12.0	12.5
PBT / Net sales	5.9	6.4	7.3	8.0
PAT Margin	2.9	3.6	4.8	5.7
Inventory days	62.8	55.9	60.0	60.0
Debtor days	48.5	55.4	55.0	55.0
Creditor days	72.8	63.9	70.0	70.0
Return Ratios (%)				
RoE	7.9	9.5	13.3	15.5
RoCE	9.7	12.6	16.4	19.2
RoIC	10.9	13.7	19.2	25.6
Valuation Ratios (x)				
P/E	49.9	37.6	23.3	17.0
EV / EBITDA	12.6	11.9	9.2	7.4
EV / Net Sales	1.6	1.4	1.1	0.9
Market Cap / Sales	1.5	1.3	1.1	1.0
Price to Book Value	3.9	3.6	3.1	2.6
Solvency Ratios				
Debt/EBITDA	1.4	0.7	0.4	0.1
Debt / Equity	0.5	0.2	0.1	0.0
Current Ratio	1.6	1.8	1.7	1.7
Quick Ratio	0.7	0.9	0.8	0.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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