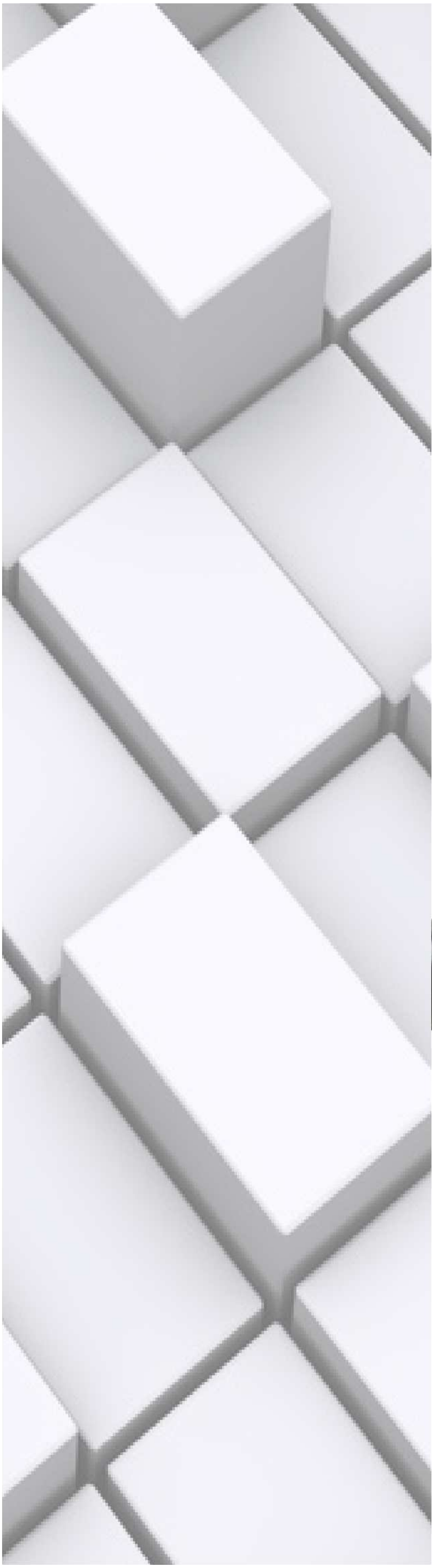
ICICI direct
Research



Direct Instinct

Key risks to investing in I-direct Instinct

- It is a quick pitch note, which captures the essence of an idea in brief

- Instinct idea may be based on management interaction or some immediate triggers that may have a positive impact on the future of the company

- Target price is based on forward estimates, which will be published along with Detailed Coverage Report or Nano Nivesh report as the case may be

- The intent is to capture price action by coming out with a gist, which may or may not be an interim report between management interaction and publication of the final report

- The fair value of I-direct Instinct stocks is subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it. Customers are advised to allocate a small proportion of their investible income to these stocks and diversify well

Pricol Ltd (PRILI)

ICICI direct Research

CMP: ₹ 70	Target: ₹ 95 (36%)	Target Period: 12 months	BUY

April 1, 2021

Loss making entities sold, clean slate growth ahead…

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. In Q3FY21, the company derived ~65% sales from 2-W, 3-W segment, ~4% from PV, ~8% from CV space, ~9% from off road vehicles & tractors and ~13% from aftermarket & exports. It also has subsidiaries in India for wiping systems, in Indonesia for instrument clusters and in Singapore for procurement of electronics for its manufacturing requirement.

Triggers

Profitability drags, B/S weakness getting addressed

Pricol with an ambition to diversify and attain a global footprint acquired businesses outside India, which had been draggers on its profitability & B/S. The company had a subsidiary in Spain that was the holding arm for step-down subsidiaries in Brazil (acquired in FY15), Mexico and Czech Republic (both for wiping business; acquired in FY18). The companies were loss-making with combined losses across three step-down subsidiaries at ~₹ 105 crore in FY19 and ~₹ 89 crore in FY20, respectively. The three companies along with Spanish holding company have now been hived off with all liabilities addressed and investment of ~₹ 400 crore in these companies written off. Consequently, consolidated debt on books has reduced sharply from ~₹ 431 crore in FY20 to ~₹ 283 crore as of February 2021. With no more cash support towards erstwhile loss making entities & heavy capex cycle behind it (invested ~₹ 300 crore in FY18-20), we expect B/S deleveraging exercise to gather pace. We build further reduction in debt by ~₹ 115 crore in FY21E-23E, with associated debt: equity at 0.3x by FY23E.

BS-VI led opportunities, new client wins to benefit topline

Instrument clusters, pumps & mechanical products and switches & sensors formed ~50%, ~25%, ~11% of standalone FY20 sales, respectively. The company is a leading supplier of instrument clusters for large 2-W players domestically and enjoys significant wallet share with them. Move towards increasing digitisation of instrument clusters post introduction of BS-VI emission norms is slated to be a large growth opportunity in coming times. BS-VI switchover has also benefited the fuel pumps vertical. Sales from these margin accretive new products formed 40% of 9MFY21 revenues, with further increase in contribution expected in coming years. Pricol serves most major OEMs such as Hero MotoCorp, TVS Motors and Bajaj Auto in 2-W, Tata Motors, Ashok Leyland and VECV in 4-W and M&M, Swaraj Tractors and TAFE in tractors. Expiry of non-compete clause with erstwhile partner post closure of JV has enabled the company to re-enter the PV segment over the past year. Importantly, it has emerged as the sole supplier to Tata Motors for its PV (most models) and CV divisions. Thus with new age electronic clusters in the offering, content increase in BS-VI transition and impressive client profile, Pricol is well poised to grow ahead of industry, going forward.

Valuation & Outlook

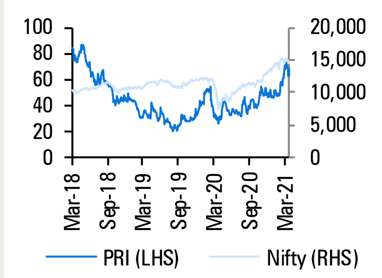
We build 16%, 33% sales, PAT CAGR at consolidated level for Pricol over FY21E-23E with margins seen clocking 12% by FY23E on higher contribution from technology intensive value added products, process automation, cost control measures and operating leverage benefits. We are enthused by the sale of loss-making subsidiaries and prospects of substantial deleveraging, going forward. We believe Pricol offers a turnaround play. With favourable risk-reward at hand, we ascribe a **BUY** rating to the stock with a target price of ₹ 95 i.e. 6x EV/EBITDA on FY23E basis.

pricol

Particulars

Particulars	Amount
Market capitalisation (₹ crore)	853
Debt (FY20, ₹ crore)	431
Cash & Inv. (FY20, ₹ crore)	44
EV (₹ crore)	1,241
52 Week High/Low (₹)	77/ 29
Equity capital (₹ crore)	12.2
Face value (₹)	1.0

Price Performance



Key Highlights

- Supplier of diversified auto components benefitting from BS-VI opportunities and new client additions
- Sale of loss making subsidiaries and deleveraging prospects set to improve overall profitability and B/S

Risks to our call

- Fresh slip up in capital allocation
- Ongoing semiconductor shortage could delay pickup in margins

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Key Financial Summary				
P&L Account (₹ crore)	**FY20**	**FY21E**	**FY22E**	**FY23E**
Sales	1,599.8	1,350.0	1,650.0	1,800.0
EBITDA	33.4	160.0	189.7	216.0
EBITDA margin (%)	2.1	11.9	11.5	12.0
PAT	(98.8)	38.4	48.7	67.9
EPS (₹)	NM	3.1	4.0	5.6
Balance Sheet (₹ crore)				
Equity	9.5	12.2	12.2	12.2
Net Worth	397.4	516.8	565.5	633.4
Gross Debt	431.4	275.0	220.0	160.0
Gross Debt: Equity (x)	1.1	0.5	0.4	0.3
Return Ratios (%)				
RoE	(24.8)	7.4	8.6	10.7
RoCE	(6.9)	8.2	11.4	14.0
RoIC	(7.6)	8.4	11.6	14.3
Valuations (x)				
P/E	NM	22.3	17.5	12.6
EV/EBITDA	37.1	7.0	5.6	4.6
P/B	2.1	1.7	1.5	1.3

Source: Capitaline, ICICI Direct Research

Financial story in charts

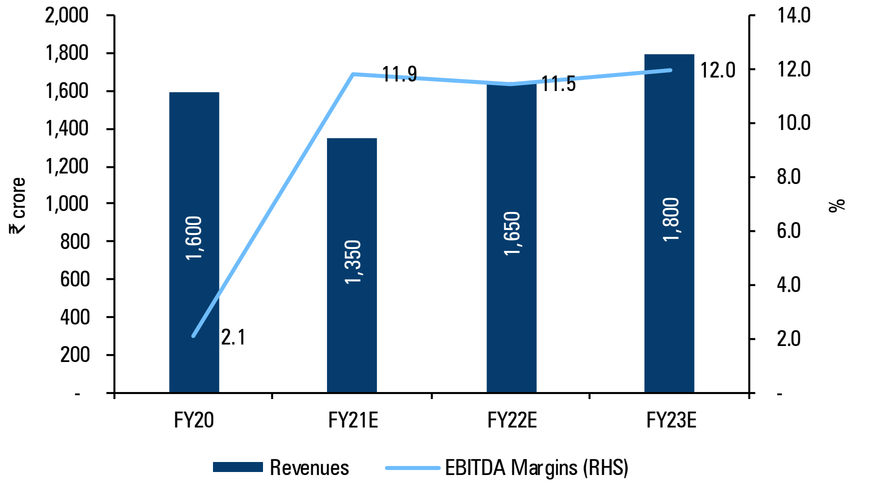
Exhibit 1: Product offerings at Pricol

Source: Company, ICICI Direct Research

Exhibit 2: New products (connected clusters, BS-VI fuel pumps)

Source: Company, ICICI Direct Research

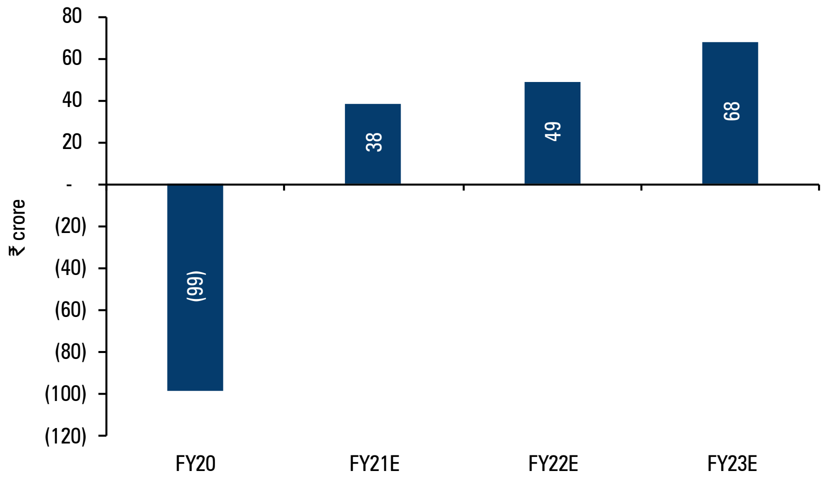
Exhibit 3: Revenue, EBITDA margin trend



Source: Capitaline, ICICI Direct Research

We expect revenues to grow at a CAGR of 15.5% over FY21-23E with EBITDA margins seen improving to 12% in that timeframe on the back of higher contribution from technology intensive value added products, process automation, cost control measures and operating leverage benefits.

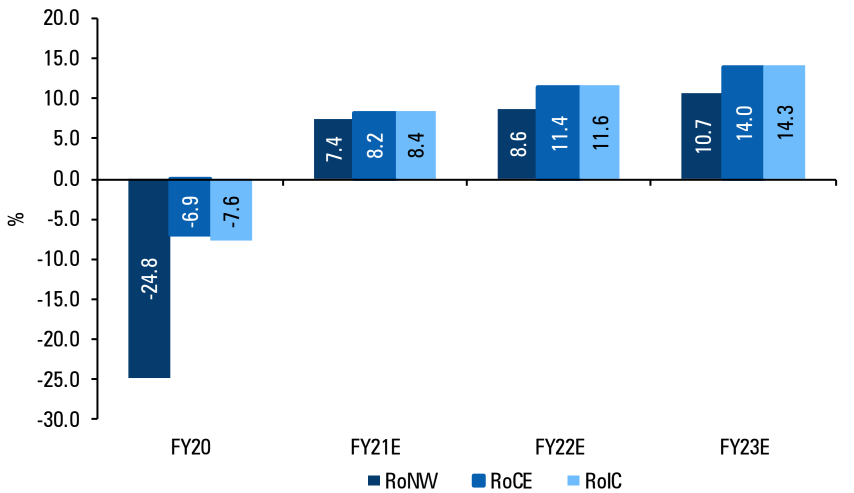
Exhibit 4: Profitability (PAT) trend



Source: Capitaline, ICICI Direct Research

Post re-structuring and first positive PAT in last three years i.e. FY21E, PAT CAGR is expected to be at ~33% CAGR over FY21E-23E.

Exhibit 5: Return ratios trend



Source: Capitaline, ICICI Direct Research

Return ratios are seen turning investment grade starting FY22E with ~9% RoE & ~11% RoCE. These are further expected to improve to ~11% & ~14%, respectively, by FY23E

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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