

Competitor buys stake from open market, reaffirms our thesis of healthy capabilities, asset proposition of Pricol

About the stock: Pricol Ltd (Pricol), established in 1974, is a Coimbatore based supplier of diversified auto components like instrument clusters, sensors & switches, pumps & 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

Key Highlights:

- Minda Corporation on Friday, February 17, 2023 acquired 1.91 crore shares of Pricol representing 15.7% of total paid-up capital for ~₹ 400 crore (~₹ 209 per share) from open market saying it was a financial investment
- View:** We believe this transaction by Minda Corporation in the secondary market has some strategic intent, which the acquirer has not yet clearly spelled out. Promoters at Pricol, however, have time and again conveyed their full support to the company with no intention to cede control or sell a stake. Further developments in this space are awaited. However, it does clearly demonstrate the future content rise potential in digital instrument cluster space of which Pricol is a prominent player with proven technological capabilities, new tie-ups as well as customer relationships. Hence, we retain our positive view on the company with a BUY rating

What should investors do? The company's share price has grown at ~18% CAGR over past five years (from ~₹ 86 in February, 2018), outperforming Nifty Auto index.

- We retain our **BUY** rating on Pricol amid a wider opportunity play with new TLA partnerships and management walking the talk over b/s repair and industry leading growth with ambitious Vision 2026 of ~₹ 4,000 crore sales

Target Price and Valuation: Introducing FY25E, we now value Pricol at ₹ 250 i.e. 20x P/E on average FY24-25E EPS of ~₹ 12.5/share (earlier target price ₹ 200).

Key triggers for future price performance:

- Consistent focus on de-leveraging of b/s amid calibrated capex spends
- Growing presence in PV space with healthy wallet share at Tata Motors
- With innovative product launches, customer wins and tech tie-ups; sales, PAT are expected to grow at 18.8%, 44.5% CAGR, respectively, over FY22-25E. Margins are seen improving to 12.2% by FY25E

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 a target price of ₹ 390



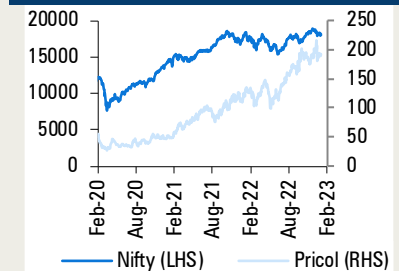
Particulars

Particular	₹ crore
Market Capitalization	2,498.6
Total Debt (FY22)	128.1
Cash & Investments (FY22)	52.8
EV (FY22)	2,573.8
Equity capital	12.2
52 week H/L (₹)	219 / 89
Face value	₹ 1

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	36.5	36.5	36.5	36.5
FII	11.3	11.9	12.4	12.5
DII	2	3.0	3.0	4.4
Other	50.5	48.6	48.1	46.6

Price Chart



Recent event & key risks

- Minda Corporation buys 15.7% stake in Pricol from open market
- Key Risk:** (i) Prolonged supply side issues impacting sales, (ii) control tussle taking promoter, management bandwidth

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Key Financial Summary

Key Financials	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Total Operating Income	1,239.4	1,413.1	1,544.7	3.3%	1,930.9	2,314.3	2,590.7	18.8%
EBITDA	85.4	177.9	180.6	24.5%	222.0	277.7	316.1	20.5%
EBITDA Margins (%)	6.9	12.6	11.7		11.5	12.0	12.2	
Net Profit	(98.8)	41.5	55.1	LP	117.5	138.1	166.1	44.5%
EPS (₹)	(10.4)	3.4	4.5		9.6	11.3	13.6	
P/E	(19.7)	60.2	45.4		21.3	18.1	15.0	
RoNW (%)	(24.9)	7.9	9.5		15.6	16.6	16.9	
RoCE (%)	(1.2)	9.7	12.6		15.9	19.2	19.4	

Source: Company, ICICI Direct Research

Quarterly results & key conference call highlights...

Q3FY23 Results: Pricol reported muted Q3FY23 results.

- Total operating income came in at ₹ 474 crore, down 8.1% QoQ
- EBITDA for the quarter came in at ₹ 51 crore with corresponding margin at 10.8%, down 135 bps QoQ
- PAT was down 44% QoQ at ₹ 26.8 crore (base quarter had exceptional gains as well as lower effective tax rate)

Q3FY23 Earnings Conference Call highlights

- The management informed about integrated circuit (IC) shortage, due to one of its key IC suppliers, impacting overall performance during the quarter. The management believes the worst is behind and expects healthy growth, going ahead
- On Sibros front, the company said value addition would be in the form of cloud solution as the company has already been supplier of telematics in the last 10 years and more than 300,000 units of telematics are already successfully operating in the field
- On the BMS front, the company is evaluating conditions in Indian markets and has already received a number of inquiries from customers

The company said 2-W, PV contribution during the quarter remained at ~65:35 & DIS/Fluid systems contributed ~65:35. Export was at ~12% of overall topline

The management informed about starting mass production of water pumps for Caterpillar

The management said DIS ranging from ~₹ 300-10,000 per unit with telematics and other software driven functionalities to be the key driver for increase in content/vehicle. Currently ~ <5% of topline is from EV OEMs

Exhibit 1: Recent tech tie-ups



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 showcased in Auto Expo 2023



E-cockpit & IHI Smart Clusters



Battery Management Solution (BMS)



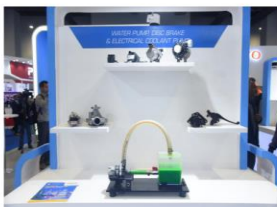
Heads Up Display (HUD)



Telematics



Cabin Tilt Systems & Fuel Pump Module

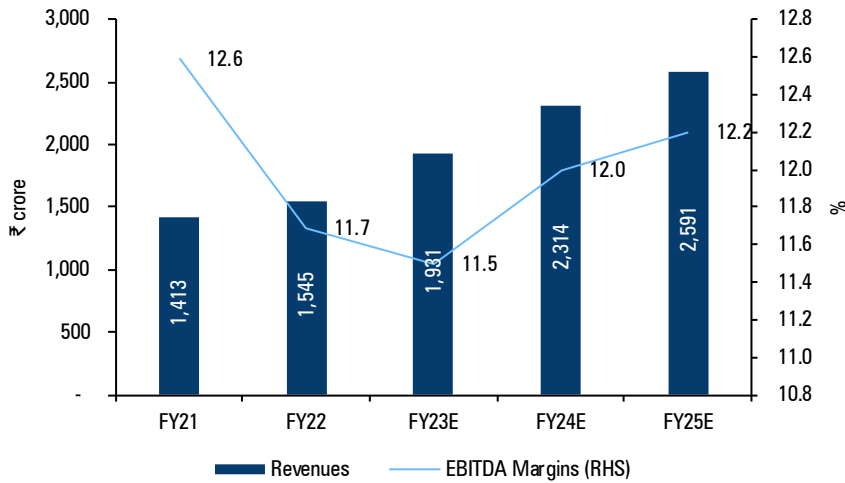


Disc Brake, Electrical Oil and Coolant Pumps

Source: Company, ICICI Direct Research

Financial story in charts

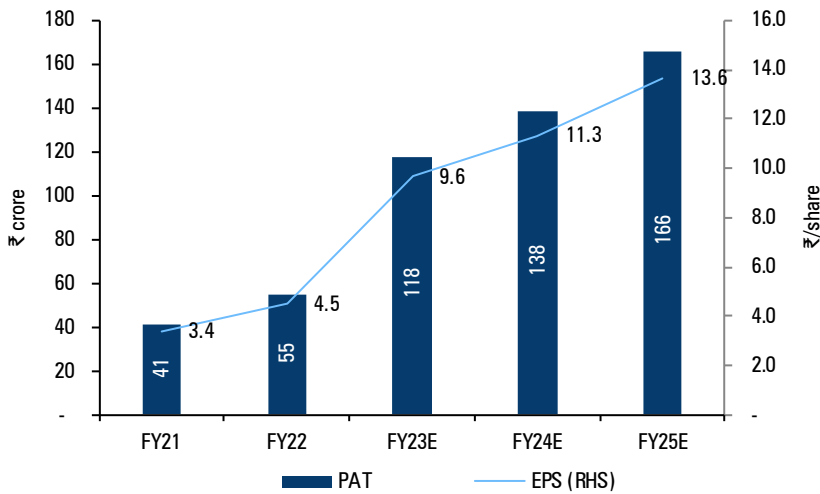
Exhibit 3: Trend in topline & EBITDA margins



Source: Company, ICICI Direct Research

Net sales are expected to grow at 18.8% CAGR over FY22-25E to ₹ 2,591 crore whereas margins to inch up to 12.2% in FY25E

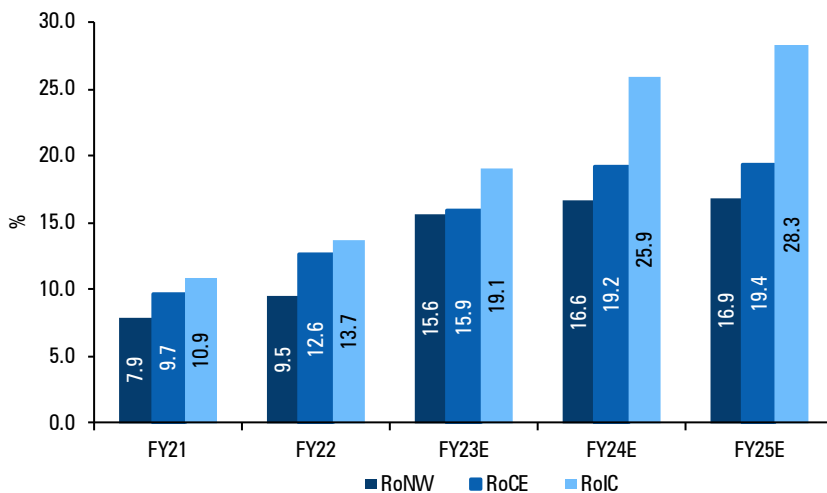
Exhibit 4: Trend in PAT & EPS



Source: Company, ICICI Direct Research

PAT is expected to grow at 44.5% CAGR over FY22-25E, albeit on a low base and improvement in margin profile

Exhibit 5: Trend in margins and profitability



Source: Company, ICICI Direct Research

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

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	1,544.7	1,930.9	2,314.3	2,590.7
Growth (%)	9.3	25.0	19.9	11.9
Raw Material Expenses	1,069.6	1,346.8	1,620.0	1,813.5
Employee Expenses	191.8	236.5	266.1	292.7
Other Expenses	102.7	125.5	150.4	168.4
Total Operating Expenditure	1,364.1	1,708.8	2,036.5	2,274.6
EBITDA	180.6	222.0	277.7	316.1
Growth (%)	1.5	23.0	25.1	13.8
Depreciation	81.8	86.9	98.4	108.8
Interest	27.3	19.5	7.0	2.0
Other Income	8.8	10.5	14.3	19.2
PBT	80.3	126.1	186.7	224.5
Total Tax	25.2	18.3	48.5	58.4
Reported PAT	55.1	117.5	138.1	166.1
Growth (%)	32.7	113.4	17.6	20.2
EPS (₹)	4.5	9.6	11.3	13.6

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	55.1	117.5	138.1	166.1
Add: Depreciation & Interest	109.1	106.4	105.4	110.8
(Inc)/dec in Current Assets	-22.2	-147.8	-130.9	-95.8
Inc/(dec) in CL and Provisions	36.6	132.2	105.1	75.8
CF from operating activities	179.2	207.3	216.6	255.9
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-63.5	-60.0	-100.0	-100.0
Others	5.4	-50.0	-50.0	-105.0
CF from investing activities	(58.0)	(110.0)	(150.0)	(205.0)
Inc/(dec) in loan funds	-119.9	-50.0	-50.0	-20.0
Dividend paid & dividend tax	0.0	0.0	-6.1	-12.2
Interest Expense & Others	-25.4	-19.5	-7.0	-2.0
CF from financing activities	(145.3)	(69.5)	(63.1)	(34.2)
Net Cash flow	-24.1	27.8	3.5	16.7
Opening Cash	74.8	50.7	78.5	82.1
Closing Cash	50.7	78.5	82.1	98.8

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	12.2	12.2	12.2	12.2
Reserve and Surplus	569.6	687.1	819.2	973.1
Total Shareholders funds	581.8	699.3	831.4	985.3
Total Debt	128.1	78.1	28.1	8.1
Deferred Tax Liability	50.7	50.7	50.7	50.7
Minority Interest / Others	23.9	23.9	23.9	23.9
Total Liabilities	796.8	864.3	946.4	1,080.3
Assets				
Gross Block	790.8	845.8	895.8	1,020.8
Less: Acc Depreciation	377.3	464.2	562.5	671.3
Net Block	413.5	381.6	333.3	349.5
Capital WIP	8.4	13.4	63.4	38.4
Total Fixed Assets	422.0	395.1	396.7	387.9
Investments	362.9	276.4	254.7	222.1
Inventory	236.5	291.0	348.7	390.4
Debtors	234.3	317.4	380.4	425.9
Loans and Advances	0.0	0.0	0.0	0.0
Cash	50.7	78.5	82.1	98.8
Other current assets	58.6	21.3	26.9	23.7
Total Current Assets	580.1	708.2	838.1	938.7
Creditors	270.4	370.3	443.8	496.8
Provisions	5.8	8.0	9.6	10.7
Other current liabilities	0.0	0.0	0.0	0.0
Total Current Liabilities	276.2	378.3	453.4	507.5
Net Current Assets	303.9	329.9	384.7	431.2
Others	430.3	70.3	44.4	29.2
Application of Funds	796.8	864.3	946.4	1,080.3

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	4.5	9.6	11.3	13.6
Cash EPS	11.2	16.8	19.4	22.6
BV	47.7	57.4	68.2	80.8
DPS	0.0	0.0	0.5	1.0
Cash Per Share	4.2	6.4	6.7	8.1
Operating Ratios (%)				
EBITDA Margin	11.7	11.5	12.0	12.2
PBT / Net sales	6.4	7.0	7.8	8.0
PAT Margin	3.6	6.1	6.0	6.4
Inventory days	55.9	55.0	55.0	55.0
Debtor days	55.4	60.0	60.0	60.0
Creditor days	63.9	70.0	70.0	70.0
Return Ratios (%)				
RoE	9.5	15.6	16.6	16.9
RoCE	12.6	15.9	19.2	19.4
RoIC	13.7	19.1	25.9	28.3
Valuation Ratios (x)				
P/E	45.4	22.9	18.1	15.0
EV / EBITDA	14.3	11.0	8.5	7.0
EV / Net Sales	1.7	1.3	1.0	0.9
Market Cap / Sales	1.6	1.3	1.1	1.0
Price to Book Value	4.3	3.6	3.0	2.5
Solvency Ratios				
Debt/EBITDA	0.7	0.4	0.1	0.0
Debt / Equity	0.2	0.1	0.0	0.0
Current Ratio	1.8	1.7	1.7	1.7
Quick Ratio	0.9	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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