MONARCH NETWORTH CAPITAL

Company Update

Pricol I ACCUMULATE I TP: 500 | Upside: 11%

Margins glitter, Growth triggers intact

We move to ACCUMULATE rating and revise our TP to Rs500 (previously Rs465), mainly due to an increase in multiple to 24x (previously 22x) and upward revision in margins, partially offset by reduction in revenue estimates, and the outstanding recent stock performance. Pricol missed on our revenue growth expectation primarily due to a delay in start of production by its OEM customers. However, adj. EBITDA margins came in as a positive surprise at 13.7% due to production efficiencies, which we expect to sustain at 13-13.5%. With 2W contributing 65% to Pricol's total revenues, the evident resurgence in demand for 2W presents a favorable outlook for the company to capitalize on volume growth as well as premiumization, due to shift to digital clusters (incl. TFT). Progress in the disc brakes business, the addition of new customer and inorganic expansion will provide further upside.

- **Revenue below expectations, yet buoyant:** Pricol reported a revenue growth of 12% yoy at Rs5.8bn on the back of growth in the 2W segment, partially offset by decline in CV and tractor industry. Despite the strong growth reported by the 2w industry, revenue missed our estimates due to delays in production initiation from four clients within the 2w and CV segments. However, the management has claimed that there was no loss in market share during the quarter. FY24 revenue stood at Rs22.7bn; +16% yoy. The revenue split between the DIS & ACFMS segment stood at 69%/ 31% resp. for FY24 vs 65%/35% in FY23.
- **Margins shine, courtesy process improvements:** Pricol reported 13.7% adj. EBITDA margins, +200bps yoy; mainly due to gross margins expansion (31.6% vs 29% yoy) and strong control over other expenses, partially offset by increase in employee cost yoy. Control over other expenses was achieved on the back of process and productivity improvements along with operational efficiencies. FY24 EBITDA margins stood at 12.3% vs 11.7% yoy. Pricol reported adj. PAT at Rs475bn, +59% yoy, supported by rise in other income and reduction in finance costs. FY24 adj. PAT stood at Rs1.46bn; +28% yoy.
- **Outlook positive, multiple catalysts ahead:** We anticipate normalization of production delays at OEMs and product launches starting 1QFY25, with margins to sustain in the range of 13-13.5%. Pricol has commenced the commercial production of disc brakes, servicing 7 customers and aims to reach a revenue milestone of Rs3bn in the next 3 years. New products like e-cockpit and telematics (collaboration with SIBROS) are being showcased to several OEMs. Pricol is actively reviewing potential assets for acquisition (at due diligence stage) as it aims to mitigate automotive cycle risks and spur company growth. With the 2w industry displaying robust growth indicators (Apr'24 production grew +22% yoy), we anticipate Pricol to capitalize on both volume and premiumization opportunities. We adjust the revenue est. by -5.6%/-9% (accounting for weak export outlook) and earnings est. by +5.5%/-2% (due to improved margins) in FY25E/FY26E respectively. We have increased our target multiple to 24x (previously 22x) to account for margin expansion, positive development on disc brakes, possibility of inorganic expansion and robust return ratios.
- **Valuation and risks:** We forecast a revenue/EBITDA/PAT CAGR of 19%/22%/28% over FY24-27E. We value Pricol at 24x (previously 22x) FY26 P/E multiple to arrive at TP of Rs500 (previously Rs465) and move to ACCUMULATE rating. The increase in TP is mainly due to an increase in multiple and margins, partially offset by a reduction in revenue estimates. Risks: Slowdown in ICE/ EV 2W sales. We remain positive, though the recent stock price performance has reduced some of the upside.

Y/E Mar (Rs mn)	Q4FY24	Q4FY23	*YoY (%)*	Q3FY24	*QoQ (%)*
Net sales	**5837**	**5235**	***11.5***	**5726**	***1.9***
Raw materials total	3995	3715	*7.5*	3893	*2.6*
Employee costs	663	554	*19.7*	694	*(4.4)*
Other expenses	378	352	*7.5*	461	*(18.0)*
EBITDA	**801**	**614**	***30.5***	**678**	***18.2***
EBITDA margin	***13.7***	***11.7***	***200 bps***	***11.8***	***188 bps***
Depreciation	201	172	*16.6*	210	*(4.2)*
Finance cost	38	49	*(22.1)*	47	*(19.5)*
Other income	44	19	*130.8*	19	*125.0*
Exceptional item	-60	0		0	
PBT	**546**	**412**	***32.6***	**441**	***23.9***
Tax	131	114	*15.0*	100	*30.4*
Adjusted PAT	**475**	**298**	***59.4***	**340**	***39.6***

Source: Company, MNCL Research; consolidated numbers

Y/E Mar (Rs mn)	Revenue	*YoY (%)*	EBITDA	*EBITDA (%)*	Adj PAT	*YoY (%)*	Adj EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x
FY23	19,586	*26.8*	2,285	*11.7*	1,149	*125.0*	9.4	18.0	17.6	17.7	8.9
FY24	22,718	*16.0*	2,795	*12.3*	1,466	*27.6*	12.0	18.9	18.9	26.1	13.4
FY25E	26,724	*17.6*	3,555	*13.3*	1,983	*35.2*	16.3	21.0	21.1	27.7	15.1
FY26E	32,360	*21.1*	4,370	*13.5*	2,529	*27.5*	20.7	21.6	21.7	21.7	11.9
FY27E	38,093	*17.7*	5,097	*13.4*	3,067	*21.3*	25.2	21.2	21.3	17.9	9.6

Source: Company, MNCL Research Estimates

Target Price	500
Last Close	451
Upside	11%

Price Performance (%)

	1M	6M	1Yr
PRICOL IN	14.7	31.9	91.4
NIFTY	1.2	13.3	22.5

Key Data	
Bloomberg Code	PRICOL IN
Curr Shares O/S (mn)	121.8
Diluted Shares O/S(mn)	121.8
Mkt Cap (Rsbn/USDmn)	55.1/659.3
52 Wk H / L (Rs)	464/211
5 Year H / L (Rs)	464/19.5
Daily Vol. (3M Avg.)	579922

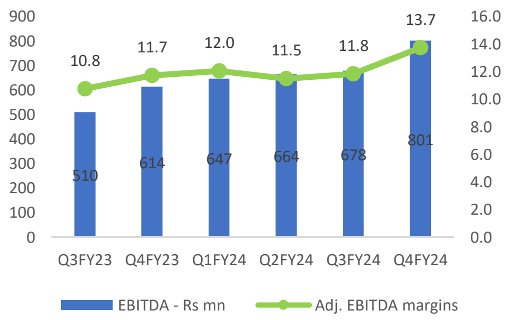
Source: Bloomberg, MNCL Research

Shareholding pattern (%)

	Mar-24	Dec-23	Sept-23	Jun-23
Promoter	38.5	38.5	38.5	38.5
FII/FPIs	14.4	6.5	4.0	2.9
DIIs	16.6	7.0	5.5	5.5
Others	30.5	48.0	52.0	53.1

Source: BSE

Quarterly EBITDA margins remain healthy at 13.7%, to sustain in the range of 13-13.5%



Source: Company, MNCL Research

Earning Revision

(Rs bn)	FY25E			FY26E		
	New	Old	*Chg(%)*	New	Old	*Chg(%)*
Sales	26.7	28.3	-5.6%	32.4	35.5	-8.9%
EBITDA	3.6	3.5	1.1%	4.4	4.5	-2.7%
Margin	13.3%	12.4%	90 bps	13.5%	12.7%	80 bps
PAT	2.0	1.9	5.5%	2.5	2.6	-2.0%

Source: MNCL Research Estimates

Link to our detailed Initiating Coverage report:
https://bit.ly/ICpricol

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4QFY24 Conference Call Key Takeaways

Industry:

1. From 2020 onwards, most of the mechanical clusters were switched to digital clusters.
2. Pricol's exports are at 8% due to weak demand conditions in foreign geographies, especially US and UK and now aim is to reach exports at 10% of revenue by FY26.

Operations:

1. Revenue growth is lower than expected as there was a delay in the start of production from their 4 customers in the 2W and CV segment. Now these models have been launched and revenue catchup has started happening from April'24.
2. FY24 Revenue: 69% DIS and 31% ACFMS. Going ahead ACFMS will increase to 35% in FY25 as and when adoption and sales in disc brakes increases.
3. Aiming to increase share to 10% of the revenues contributed by the PV segment. PV contributed 6.8% in FY24. 2W, PV, CV and OHV contributed 52%, 6.8%, 25% 16% of the revenues.
4. Capacity utilization was 85% and therefore the capacity is being expanded at Pune, Coimbatore and one more plant.
5. New customers added - Honda motorcycles and scooters – will go into production in 18-24 months from now.
6. Pricol is engaged with 18 EV customers now and Pricol's products are propulsion agnostic.
7. Productivity and process improvements have led to high margins and Pricol aims to reach 13.5% on a sustainable basis. In FY24, legal expenses were high which led to low margins for the full year.
8. There is no loss of share in the 2W DIS market. Infact, Pricol has gained share in the 2W market.

Expansion and inorganic acquisition:

1. Disc brake: Started production and ramping up LOI. Disc brakes selling at Rs1100/ unit. Currently Pricol is selling to 7 customers (Rs70-100mn per month right now) and targets to achieve a revenue of Rs3bn in 3years.
2. E-cockpit: Developed prototype and showcased to several OEM. Connected vehicle solution in partnership with Sibros – showcased product to domestic and international customers. In FY25, there should be an update on connected vehicle products.
3. New product revenue is hovering between 20-25% and Pricol will try to maintain it.

Financials and Guidance:

1. Long term Borrowings are nil as of Mar'24.
2. Revised guidance on Revenue: Rs32bn by organic means and Rs4bn by inorganic in FY26.
3. Margins expected to largely sustain at current levels and management will strive to further improve this going ahead as per guidance.
4. Long-term provision is related to the employee benefits.
5. FY25 Capex: Rs2-2.2bn – a part of Rs6bn capex across 3years and this will be spent mainly on DIS. Asset turnover: 4-4.5x
6. Exploring inorganic assets at due diligence stage and the company will update on this in the next quarter.

Valuation - ACCUMULATE with a TP of Rs500

Pricol has a history of sailing through several issues, be it some failed joint ventures, overhang of hostile acquisition by Minda Corp, poor financial and operational performance due to pandemic led disruption and the semiconductor availability issue. This has led to muted valuations for very long periods and only recently after the favourable order by CCI, the valuation has truly appreciated.

Further, we believe that Pricol is well set for robust growth due to the sectoral tailwinds from 2W industry, accelerated by the rising content per vehicle due to the premiumization shift. Additionally, venture into new products will only augment this growth starting FY26. Pricol is also very actively contemplating inorganic growth in the industrial side of business which will provide de-risking from the 2W cyclicality and lead to addition of high margin product line.

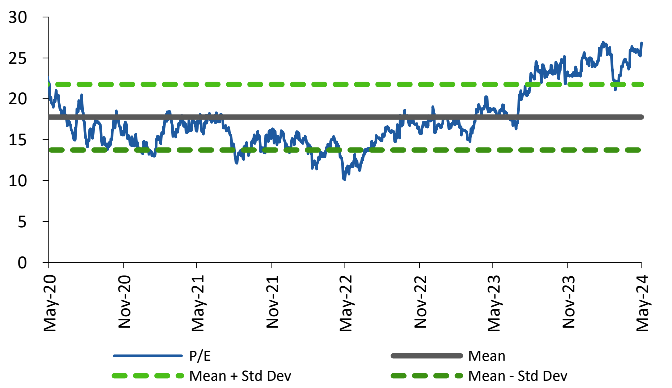
Therefore, we value Pricol at 24x (previously 22x) FY26E PE ratio to arrive at a target price of Rs500/share and move to ACCUMULATE rating. The increase in target multiple is to account for superior margins, positive development on disc brakes and robust return ratios with a net cash balance sheet. At CMP of Rs451, Pricol trades at 21.7x FY26E PE ratio.

Exhibit 1: PE Valuation

PE Valuation	FY26E
EPS - Rs/sh	20.7
Attributed multiple	24.0
TP - Rs/sh	500
CMP - Rs/sh	451
Upside	**11%**

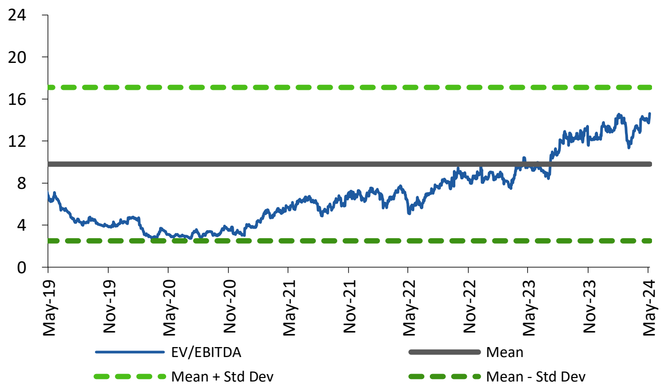
Source: MNCL Research Estimates

Exhibit 2: 1-year forward P/E chart



Source: Bloomberg, MNCL Research Estimates

Exhibit 3: 1-year forward EV/EBITDA chart



Source: Bloomberg, MNCL Research Estimates

Quarterly Financials & Key Performance Indicators

Exhibit 4: Quarterly Financials

Y/E March (Rs Mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Sales	**4,452**	**5,158**	**4,741**	**5,235**	**5,372**	**5,778**	**5,726**	**5,837**
Raw Materials	3,116	3,614	3,288	3,715	3,679	3,985	3,893	3,995
% of sales	***70%***	***70%***	***69%***	***71%***	***68%***	***69%***	***68%***	***68%***
Employee Costs	519	581	621	554	611	659	694	663
Other Expenditure	280	339	322	352	436	469	461	378
EBITDA	**536**	**624**	**510**	**614**	**647**	**664**	**678**	**801**
EBITDA Margin %	***12.1***	***12.1***	***10.8***	***11.7***	***12.0***	***11.5***	***11.8***	***13.7***
Depreciation	202	204	201	172	198	211	210	201
Interest	45	46	43	49	46	51	47	38
Other Income	13	6	8	19	28	40	19	44
Exceptional Items	-	98	-	-	-	-	-	(60)
PBT	**302**	**479**	**273**	**412**	**430**	**442**	**441**	**546**
Tax	96	3	6	114	111	110	100	131
Tax rate (%)	*31.9*	*0.7*	*2.1*	*27.6*	*25.8*	*25.0*	*22.8*	*24.0*
Reported PAT	**206**	**475**	**268**	**298**	**319**	**332**	**340**	**415**
Adjusted PAT	**206**	**378**	**268**	**298**	**319**	**332**	**340**	**475**
YoY Growth (%)								
Revenue YoY Growth	*40.9*	*26.7*	*16.4*	*26.4*	*20.7*	*12.0*	*20.8*	*11.5*
Adj. EBITDA	*59.6*	*28.0*	*7.8*	*20.6*	*20.5*	*6.4*	*33.0*	*30.5*
Adj. PAT	*246.6*	*157.6*	*54.3*	*126.9*	*55.1*	*-12.2*	*27.1*	*59.4*
QoQ Growth (%)								
Revenue	*7.4*	*15.9*	*-8.1*	*10.4*	*2.6*	*7.6*	*-0.9*	*1.9*
Adj. EBITDA	*5.4*	*16.4*	*-18.4*	*20.5*	*5.3*	*2.8*	*2.1*	*18.2*
Adj. PAT	*56.8*	*83.4*	*-29.2*	*11.4*	*7.2*	*3.8*	*2.6*	*39.6*
Margin (%)								
Adj. EBITDA Margin (%)	*12.1*	*12.1*	*10.8*	*11.7*	*12.0*	*11.5*	*11.8*	*13.7*
Adj. PAT Margin (%)	*4.6*	*7.3*	*5.6*	*5.7*	*5.9*	*5.7*	*5.9*	*8.1*

Source: Company, MNCL Research – consolidated numbers

Financials

Exhibit 5: Income Statement

P&L - Y/E March (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	**18,137**	**12,394**	**14,131**	**15,447**	**19,586**	**22,718**	**26,724**	**32,360**	**38,093**
Materials cost	12,691	8,585	9,648	10,696	13,733	15,552	18,279	22,102	26,018
% of revenues	***70.0***	***69.3***	***68.3***	***69.2***	***70.1***	***68.5***	***68.4***	***68.3***	***68.3***
Employee cost	2,509	1,594	1,665	1,918	2,275	2,626	3,099	3,688	4,389
% of revenues	***13.8***	***12.9***	***11.8***	***12.4***	***11.6***	***11.6***	***11.6***	***11.4***	***11.5***
Others	2,697	1,361	1,039	1,027	1,293	1,744	1,791	2,200	2,590
% of revenues	***14.9***	***11.0***	***7.4***	***6.6***	***6.6***	***7.7***	***6.7***	***6.8***	***6.8***
EBITDA	**241**	**854**	**1,779**	**1,806**	**2,285**	**2,795**	**3,555**	**4,370**	**5,097**
EBITDA margin (%)	***1.3***	***6.9***	***12.6***	***11.7***	***11.7***	***12.3***	***13.3***	***13.5***	***13.4***
Depreciation & Amortization	940	959	942	818	779	821	938	1,070	1,149
EBIT	**-699**	**-105**	**837**	**987**	**1,506**	**1,974**	**2,618**	**3,300**	**3,947**
Interest expenses	353	338	431	273	183	183	130	110	91
PBT from operations	-1,052	-444	407	715	1,323	1,792	2,488	3,190	3,857
Other income	125	149	78	88	46	127	156	182	232
Exceptional items	0	0	0	0	98	-60	0	0	0
PBT	**-927**	**-295**	**485**	**803**	**1,466**	**1,859**	**2,644**	**3,371**	**4,089**
Taxes	10	-36	327	292	219	453	661	843	1,022
Effective tax rate (%)	***-1.1%***	***12.1%***	***67.4%***	***36.4%***	***15.0%***	***24.4%***	***25.0%***	***25.0%***	***25.0%***
PAT from continuing operations	**-937**	**-259**	**158**	**511**	**1,247**	**1,406**	**1,983**	**2,529**	**3,067**
Profit/ (loss) from discontinued operations	**-801**	**-728**	**257**	**-**	**-**	**-**	**-**	**-**	**-**
Total PAT	**-1,739**	**-988**	**415**	**511**	**1,247**	**1,406**	**1,983**	**2,529**	**3,067**
Adjusted PAT	**-937**	**-259**	**158**	**511**	**1,149**	**1,466**	**1,983**	**2,529**	**3,067**

Exhibit 6: Key Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratio (%)									
Revenue	*33.7*	*(31.7)*	*14.0*	*9.3*	*26.8*	*16.0*	*17.6*	*21.1*	*17.7*
EBITDA	*(85.4)*	*254.7*	*108.4*	*1.5*	*26.5*	*22.3*	*27.2*	*22.9*	*16.6*
Adjusted PAT	*(253.9)*	*(72.3)*	*(161.0)*	*222.8*	*125.0*	*27.6*	*35.2*	*27.5*	*21.3*
Margin Ratios (%)									
EBITDA	*1.3*	*6.9*	*12.6*	*11.7*	*11.7*	*12.3*	*13.3*	*13.5*	*13.4*
PBT from operations	*(5.8)*	*(3.6)*	*2.9*	*4.6*	*6.8*	*7.9*	*9.3*	*9.9*	*10.1*
Adjusted PAT	*(5.2)*	*(2.1)*	*1.1*	*3.3*	*5.9*	*6.5*	*7.4*	*7.8*	*8.1*
Return Ratios (%)									
ROE	*-16.1*	*-5.8*	*3.4*	*9.3*	*18.0*	*18.9*	*21.0*	*21.6*	*21.2*
ROCE	*-6.2*	*0.5*	*3.9*	*9.3*	*17.6*	*18.9*	*21.1*	*21.7*	*21.3*
ROIC	*-8.2*	*-1.3*	*3.8*	*9.3*	*18.8*	*20.1*	*23.2*	*25.7*	*29.2*
Turnover Ratios (days)									
Gross block turnover ratio (x)	2.8	1.9	2.1	2.3	2.6	2.7	2.6	2.7	2.9
Debtors	39	58	49	56	50	46	45	45	45
Inventory	52	100	92	81	72	75	72	72	72
Creditors	63	135	107	92	75	76	80	80	80
Cash conversion cycle	29	23	34	45	47	45	37	37	37
Solvency Ratio (x)									
Net debt-equity	0.4	0.8	0.3	0.1	0.0	(0.1)	(0.1)	(0.2)	(0.4)
Debt-equity	0.5	0.9	0.5	0.2	0.1	0.1	0.0	0.0	0.0
Interest coverage ratio	(2.0)	(0.3)	1.9	3.6	8.2	10.8	20.2	30.0	43.6
Gross debt/EBITDA	10.9	4.3	1.4	0.7	0.4	0.2	0.1	0.1	0.0
Current Ratio	1.0	0.8	1.3	1.3	1.3	1.4	1.5	1.8	2.2
Per share Ratios (Rs)									
Adjusted EPS	-9.9	-2.7	1.3	4.2	9.4	12.0	16.3	20.7	25.2
BVPS	52.7	41.9	43.1	47.3	57.8	69.4	85.6	106.4	131.5
CEPS	0.0	7.4	9.0	10.9	15.8	18.8	24.0	29.5	34.6
DPS	0.0	-	-	-	-	-	-	-	-
Dividend payout %	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Valuation (x)*									
P/E (adjusted)	-5.5	-12.4	35.3	24.4	17.7	26.1	27.7	21.7	17.9
P/BV	1.0	0.8	1.1	2.2	2.9	4.5	5.3	4.2	3.4
EV/EBITDA	29.5	7.6	4.1	7.3	8.9	13.4	15.1	11.9	9.6
Dividend yield %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, MNCL Research Estimates

Exhibit 7: Balance Sheet

Y/E March (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds									
Equity Share Capital	95	95	122	122	122	122	122	122	122
Reserves & surplus	4,899	3,879	5,126	5,640	6,921	8,331	10,314	12,842	15,909
Shareholders' fund	**4,994**	**3,974**	**5,248**	**5,762**	**7,043**	**8,453**	**10,436**	**12,964**	**16,031**
Total Debt	2,615	3,714	2,480	1,281	892	466	366	266	166
Lease Liabilities (current + non current)	0	0	306	254	211	143	143	143	143
Def tax liab. (net)	544	519	574	563	411	348	348	348	348
Other non current liabilities	14	280	90	49	88	29	29	29	29
Total Liabilities	**8,167**	**8,487**	**8,697**	**7,908**	**8,645**	**9,439**	**11,322**	**13,750**	**16,717**
Gross Block	6,073	7,083	6,611	7,077	7,738	9,192	11,365	12,965	13,635
Less: Acc. Depreciation	1,824	2,687	2,864	3,334	3,779	4,600	5,320	6,171	7,102
Net Block	4,249	4,396	3,747	3,744	3,959	4,592	6,046	6,794	6,533
Capital WIP	136	219	198	84	140	379	406	306	136
Investment Property	99	95	150	154	69	67	67	67	67
ROU Assets - Net	0	423	459	392	345	277	277	277	277
Intangible Assets	1,545	1,411	1,168	1,034	909	788	663	541	419
Goodwill	1,093	993	894	795	695	596	503	407	310
Net Fixed Assets	**7,121**	**7,537**	**6,616**	**6,203**	**6,117**	**6,699**	**7,961**	**8,392**	**7,743**
Investments - Non current	0	0	0	0	12	12	12	12	12
Other non current assets	787	703	444	292	309	216	216	216	216
Inventories	1,825	2,361	2,432	2,365	2,717	3,203	3,606	4,360	5,132
Sundry debtors	1,948	1,960	1,879	2,389	2,677	2,870	3,295	3,990	4,696
Cash	585	425	747	507	839	1,136	1,678	3,065	6,060
Other current assets	3,756	316	245	232	391	220	220	220	220
Total Current Asset	**8,114**	**5,062**	**5,303**	**5,493**	**6,625**	**7,430**	**8,798**	**11,634**	**16,109**
Trade payables	2,186	3,186	2,818	2,699	2,826	3,258	4,006	4,844	5,703
Other current Liab.	5,493	1,445	669	1,152	1,332	1,200	1,200	1,200	1,200
Provisions (current + non current)	176	183	178	228	260	459	459	459	459
Net Current Assets	**258**	**248**	**1,638**	**1,413**	**2,207**	**2,512**	**3,132**	**5,131**	**8,747**
Total Assets	**8,167**	**8,487**	**8,697**	**7,908**	**8,645**	**9,439**	**11,322**	**13,750**	**16,717**

Source: Company, MNCL Research Estimates

Exhibit 8: Cash Flow

Y/E March (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Operating profit bef working capital changes	554	449	1,953	1,832	2,325	2,886	3,555	4,370	5,097
Changes in working capital	(155)	1,073	(660)	122	(295)	43	(79)	(611)	(621)
Cash flow from operations	**437**	**1,512**	**1,282**	**1,826**	**1,663**	**2,548**	**2,815**	**2,916**	**3,453**
Net Capex	(1,088)	(756)	(320)	(449)	(849)	(1,433)	(2,200)	(1,500)	(500)
FCF	(651)	756	962	1,378	814	1,115	615	1,416	2,953
Cash flow from investments	**(1,071)**	**(274)**	**(210)**	**(447)**	**(690)**	**(1,293)**	**(2,044)**	**(1,318)**	**(268)**
Cash flow from financing	**566**	**(1,689)**	**(701)**	**(1,536)**	**(638)**	**(689)**	**(230)**	**(210)**	**(191)**
Net change in cash	**(68)**	**(450)**	**372**	**(156)**	**334**	**565**	**541**	**1,387**	**2,995**

Source: Company, MNCL Research Estimates

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