

Soft quarter; healthy outlook

Auto & Auto Ancillaries ▶ Result Update ▶ November 8, 2024

TARGET PRICE (Rs): 600

Pricol reported a strong, 16% sales growth in Q2, with continued outperformance vs underlying 2W industry production, though margins were hit by the adverse mix (lower exports contribution). While near-term auto outlook is soft, the company guides to 19% revenue CAGR over FY24-26, with efforts around acquisitions intensifying; the 13-13.5% margin guidance is also intact. We like Pricol, on i) structural premiumization trend (shift toward digital clusters), ii) ramp up in newer clients such as Honda 2Ws over the next 18-24 months (backed by order wins), iii) expansion into new products with revenue ramp-up in disc brakes, from FY26E. We believe Pricol's transformation into a multi-product company could be a potential re-rating trigger. We trim FY25E/26E/27E EPS by 5%/3.5%/3.3% on the Q2 margin miss; **maintain BUY** with unchanged TP of Rs600 at 27.5x Sep-26E PER.

Pricol: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	19,586	22,718	26,337	32,051	36,857
EBITDA	2,285	2,731	3,297	4,295	5,086
Adj. PAT	1,150	1,406	1,817	2,471	2,946
Adj. EPS (Rs)	9.4	11.5	14.9	20.3	24.2
EBITDA margin (%)	11.7	12.0	12.5	13.4	13.8
EBITDA growth (%)	26.5	19.5	20.8	30.3	18.4
Adj. EPS growth (%)	125.0	22.3	29.2	36.0	19.2
RoE (%)	18.0	18.1	19.5	22.0	21.8
RoIC (%)	20.1	24.1	27.6	31.5	29.9
P/E (x)	50.7	41.4	32.0	23.6	19.8
EV/EBITDA (x)	25.6	21.1	17.2	13.2	11.2
P/B (x)	8.3	6.9	5.7	4.7	3.9
FCFF yield (%)	1.4	2.0	1.7	0.2	0.0

Source: Company, Emkay Research

Outperformance vs industry accelerates; EBITDA performance muted

Consolidated revenue at Rs6.7bn was up ~16% YoY (~8% QoQ) and 2% above our estimate of ~Rs6.6bn. Company revenue outperformed the underlying 2W industry production by 3% YoY (vs underperformance of 15%/4% in Q4FY24/Q1FY25). Consolidated EBITDA grew 16% YoY to Rs772mn, coming ~11% below our estimate, with EBITDA margin down by 143bps QoQ at 11.5% due to gross margin decline of 135bps amid an adverse mix (lower exports contribution). Consolidated PAT was up ~36% YoY to Rs451mn; the PAT miss was lower than the EBITDA miss on lower-than-expected depreciation.

Earnings Call KTAs

1) The management guided to a muted Q3 for the domestic auto industry, in line with the historical trend; exports are seen improving over the next couple of quarters after a subdued Q2 (exports to the US were impacted by elections there), and the improved contribution from exports would provide ~50bps benefit in margins. 2) The management retained its guidance of achieving Rs32bn in revenue by FY26, driven by organic growth and intensifying efforts toward acquisitions; the company also retained its margin guidance of 13-13.5%. 3) Pricol is in the early stages of exploring inorganic growth opportunities, in Rail, Defence, and Auto; the company could potentially raise up to Rs3bn in debt for acquisitions (depending on the size). 4) Pricol's ASPs have improved, from Rs100 (10 years ago) to Rs1.2K, and could potentially double to Rs2.5K over the next 2-3 years driven by bulk of DIS segment offerings being digital/semi-digital (~40%) coupled with the ongoing transition from mechanical clusters (~30% share) to LCD clusters and from LCD clusters to TFT clusters (~30% share). 5) Company has commenced commercial production of disc brakes, which are now being supplied to 6 manufacturers with production ramp-up anticipated next year. The company is seeing strong traction in the smart cockpit and connected vehicle solutions space, and views this as a significant growth opportunity ahead. 6) Revenue from new products is 18-24M away; BMS is currently in the testing phase with customers, and has not yet reached commercial production; Pricol is currently taking a cautious approach and does not expect much revenue from this segment. 7) Pricol would not be affected by EV adoption, which it believes would be gradual; it currently supplies to 20 EV players. 7) Capex of Rs6bn (Rs2bn in FY25 and balance over FY26-27) has been chalked up across avenues.

Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	25.6
CMP (07-Nov-24) (Rs)	477.7

Stock Data	Ticker
52-week High (Rs)	543
52-week Low (Rs)	316
Shares outstanding (mn)	121.9
Market-cap (Rs bn)	58
Market-cap (USD mn)	690
Net-debt, FY25E (Rs mn)	-1,450
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	156.1
ADTV-3M (USD mn)	1.8
Free float (%)	61.5
Nifty-50	24,199
INR/USD	84.4
Shareholding, Sep-24	
Promoters (%)	38.5
FPIs/MFs (%)	15.7/15.7

Price Performance

(%)	1M	3M	12M
Absolute	3.0	(5.1)	34.1
Rel. to Nifty	5.5	(4.7)	7.5

1-Year share price trend (Rs)



Chirag Jain

chirag.jain@emkayglobal.com
+91 22 6624 2428

Jaimin Desai

jaimin.desai@emkayglobal.com
+91 22 6612 1334

Nandan Pradhan

nandan.pradhan@emkayglobal.com
+91 22 6612 1238

Omkar Rane

omkar.rane@emkayglobal.com
+91 22 6624 2414

Exhibit 1: Consolidated result snapshot – Revenue up ~16% YoY; EBITDA margin down by ~140bps sequentially

(Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Revenue	5,372	5,778	5,726	5,842	6,199	6,688	15.7	7.9
Expenditure	4,726	5,114	5,048	5,100	5,394	5,916	15.7	9.7
as % of sales	88.0	88.5	88.2	87.3	87.0	88.5		
Consumption of RM	3,679	3,985	3,893	3,995	4,253	4,679	17.4	10.0
as % of sales	68.5	69.0	68.0	68.4	68.6	70.0		
Employee costs	611	659	694	663	694	750	13.8	8.1
as % of sales	11.4	11.4	12.1	11.4	11.2	11.2		
Other expenditure	436	469	461	442	447	487	3.7	8.9
as % of sales	8.1	8.1	8.1	7.6	7.2	7.3		
EBITDA	647	664	678	741	805	772	16.3	(4.0)
EBITDA margin (%)	12.0	11.5	11.8	12.7	13.0	11.5		
Depreciation	198	211	210	201	203	207	(2.2)	1.7
EBIT	448	453	468	540	602	566	24.9	(6.0)
Other Income	28	40	19	44	22	61	52.3	182.3
Interest	47	51	47	38	30	27	(47.2)	(10.3)
PBT	430	442	441	546	593	600	35.7	1.1
Total Tax	111	110	100	131	138	149	35.1	8.5
Adjusted PAT	319	332	340	415	456	451	35.9	(1.1)
Extra ordinary items Loss/(Gain)	0	0	0	0	0	0		
Reported PAT	319	332	340	415	456	451	35.9	(1.1)
Adjusted EPS (Rs)	2.6	2.7	2.8	3.4	3.7	3.7	35.9	(1.1)
(%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (bps)	QoQ (bps)
EBITDAM	12.0	11.5	11.8	12.7	13.0	11.5	5	(143)
EBITM	8.3	7.8	8.2	9.2	9.7	8.5	62	(125)
EBTM	8.0	7.7	7.7	9.3	9.6	9.0	132	(60)
PATM	5.9	5.7	5.9	7.1	7.3	6.7	100	(61)
Effective Tax rate	25.8	25.0	22.8	24.0	23.2	24.9	(11)	168

Source: Company, Emkay Research

Exhibit 2: Margin Analysis – Sequential margin contraction was on account of adverse mix

(%)	Q2FY25	Q2FY24	YoY (bps)	Q1FY25	QoQ (bps)
Raw material costs	70.0	69.0	98.7	68.6	134.9
Staff costs	11.2	11.4	(19.2)	11.2	1.8
Other expenses	7.3	8.1	(84.6)	7.2	6.6
EBITDA	11.5	11.5	5.1	13.0	(143.3)
Adjusted net profit	6.7	5.7	100.1	7.3	(61.1)
Effective Tax rate	24.9	25.0	(11.1)	23.2	168.5

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Actual vs. Estimates – 2% beat on revenue; 5% miss on PAT

(Rs mn)	Actual	Emkay estimate	Variance (%)
Net sales	6,688	6,561	1.9
EBITDA	772	866	(10.8)
EBITDA Margin (%)	11.5	13.2	(165) bps
Adj net income	451	476	(5.3)
FDEPS (Rs)	3.7	3.9	(5.3)

Source: Company, Bloomberg, Emkay Research

Exhibit 4: Pricol has further advanced its footprint into clients like TVSL, with entry into two new models (TVS Raider and Jupiter 110cc)



Source: Company, Emkay Research

Exhibit 5: Pricol's product profile – DIS, and Actuation, Control and Fuel Management Systems (ACFMS)

A. Driver Information and Connected Vehicle Solutions



B. Actuation, Control and Fluid Management Systems



Source: Company, Emkay Research

Exhibit 6: TFT penetration in the Indian 2W market currently at ~4%; pricing over 10x/4x of analog/digital clusters, respectively

2W instrument cluster	Analog	Digital and semi-digital, including LCD	TFT (touchscreen)
Product			
Price (Rs/unit)	300-400	1,000-1,500	5,000
Current penetration	30%	67%	4%
Cluster as a % of 2W ASP	~0.5%	1-2%	~4% (EV), up to 6-7% (ICE)

Source: Company, Emkay Research

Exhibit 7: Digital clusters increasingly being introduced in mass-market ICE motorcycles

	TVS Raider - SmartXconnect	TVS Raider - Standard
Display	 5-inch TFT	 Digital (LCD)
Mobile App	Yes	No
App features	Calls and Messaging; Navigation Assist	Low battery alert
Service Due Indicator	Yes	Yes
Speedometer	Digital	Digital
Odometer	Digital	Digital
Tripmeter	Digital	Digital
Fuel Gauge	Digital	Digital
Clock	Yes	Yes
Riding Modes	Yes	Yes
Additional Features	TVS SmartXconnect, Voice Assist, Ride Report, ETfi Technology, intelliGo, Ambient Sensor, Human Machine Interface Operation, Weather Updates, Sports Updates	intelliGo, Engine inhibitor, Helmet reminder, Side-stand engine cut-off
Price (Rs; Ex-showroom, Delhi)	102,770	96,219
Instrument cluster as a % of ex-factory cost	6.7%	2.2%

Source: Online portals, Emkay Research

Exhibit 8: Valuations are attractive for Pricol, given its strong growth prospects and return ratios, positive linkage to EVs (due to TFTs), and transformation into a multi-product company

Player	Basis	EPS growth (%)			PER (x)			ROE (%)			EV/EBITDA (x)		
		FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Suprajit Engineering*	Consol	47.8	52.0	27.9	29.4	19.3	15.1	17.4	23.3	24.6	22.5	16.8	11.7
Uno Minda*	Consol	23.4	22.0	26.7	51.8	42.4	33.5	19.5	20.1	21.4	35.2	28.7	24.1
Pricol*	Consol	29.2	36.0	19.2	32.0	23.6	19.8	19.6	22.0	21.7	17.2	13.2	11.3
Sansera Engineering	Consol	39.5	33.1	31.7	32.8	24.6	18.7	17.1	19.1	21.2	17.8	14.4	12.1
Endurance Technologies	Consol	28.8	26.1	15.4	39.1	31.0	26.9	16.4	17.8	17.3	20.6	17.1	15.2
Gabriel	Standalone	33.4	26.0	2.4	26.9	21.3	20.8	22.1	22.2	22.4	16.7	13.6	13.0
Minda Corp	Consol	36.5	28.2	15.7	40.1	31.3	27.1	14.6	16.3	16.5	20.4	17.0	14.7

Source: Company, Bloomberg, Emkay Research; Note: * = Emkay estimates

Exhibit 9: Revenue model – We expect 18%/28% revenue/EPS CAGR over FY24-27E

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	18,137	12,394	14,131	15,447	19,586	22,718	26,337	32,051	36,857
Growth YoY (%)	33.7	-31.7	14.0	9.3	26.8	16.0	15.9	21.7	15.0
EBITDA	241	854	1,779	1,806	2,285	2,731	3,297	4,295	5,086
Growth YoY (%)	-85.4	254.7	108.4	1.5	26.5	19.5	20.8	30.3	18.4
EBITDA margin (%)	1.3	6.9	12.6	11.7	11.7	12.0	12.5	13.4	13.8
EBIT	(699)	(106)	837	987	1,506	1,910	2,384	3,204	3,795
EBIT margin (%)	-3.9	-0.9	5.9	6.4	7.7	8.4	9.1	10.0	10.3
PAT	(937)	(259)	158	511	1,150	1,406	1,817	2,471	2,946
PAT margin (%)	-5.2	-2.1	1.1	3.3	5.9	6.2	6.9	7.7	8.0
EPS (Rs)	(9.9)	(2.7)	1.3	4.2	9.4	11.5	14.9	20.3	24.2
Capex	(1,400)	1,631	(624)	420	612	1,502	2,000	2,500	3,500
% of sales	(7.7)	13.2	(4.4)	2.7	3.1	6.6	7.6	7.8	9.5
Net debt	-	-	-	-	-	(0)	(0)	(0)	(0)
Net D/E (x)	0.4	1.0	0.4	0.2	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Post-tax ROCE (%)	(8.3)	0.7	16.1	19.7	28.7	27.1	24.7	28.0	27.9
ROE (%)	-16.1	-5.8	3.4	9.3	18.0	18.1	19.5	22.0	21.8

Source: Company, Emkay Research

Exhibit 10: We trim FY25E EPS, on margin miss in Q2; also, we cut FY26E/27E EPS by ~4%/3.5%, respectively, on lower margin estimates

(Rs mn)	FY25E				FY26E				FY27E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Net Sales	26,720	26,337	(1.4)	15.9	32,181	32,051	(0.4)	21.7	37,000	36,857	(0.4)	15.0
EBITDA	3,479	3,297	(5.2)	20.8	4,441	4,295	(3.3)	30.3	5,254	5,086	(3.2)	18.4
- Margin (%)	13.0	12.5	(50)bps	50bps	13.8	13.4	(40)bps	88bps	14.2	13.8	(40)bps	40bps
APAT	1,916	1,817	(5.2)	29.2	2,559	2,471	(3.4)	36.0	3,046	2,946	(3.3)	19.2
EPS (Rs)	15.7	14.9	(5.0)	29.2	21.0	20.3	(3.5)	36.0	25.0	24.2	(3.3)	19.2

Source: Emkay Research

Pricol: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	19,586	22,718	26,337	32,051	36,857
Revenue growth (%)	26.8	16.0	15.9	21.7	15.0
EBITDA	2,285	2,731	3,297	4,295	5,086
EBITDA growth (%)	26.5	19.5	20.8	30.3	18.4
Depreciation & Amortization	779	821	914	1,091	1,292
EBIT	1,506	1,910	2,384	3,204	3,795
EBIT growth (%)	52.5	26.8	24.8	34.4	18.4
Other operating income	0	0	0	0	0
Other income	46	132	138	152	160
Financial expense	183	183	119	89	59
PBT	1,369	1,859	2,403	3,267	3,895
Extraordinary items	(98)	0	0	0	0
Taxes	219	453	585	796	949
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,247	1,406	1,817	2,471	2,946
PAT growth (%)	144.1	12.8	29.2	36.0	19.2
Adjusted PAT	1,150	1,406	1,817	2,471	2,946
Diluted EPS (Rs)	9.4	11.5	14.9	20.3	24.2
Diluted EPS growth (%)	125.0	22.3	29.2	36.0	19.2
DPS (Rs)	0.0	0.0	1.0	2.5	4.0
Dividend payout (%)	0.0	0.0	6.7	12.3	16.6
EBITDA margin (%)	11.7	12.0	12.5	13.4	13.8
EBIT margin (%)	7.7	8.4	9.1	10.0	10.3
Effective tax rate (%)	16.0	24.4	24.4	24.4	24.4
NOPLAT (pre-IndAS)	1,265	1,445	1,803	2,424	2,870
Shares outstanding (mn)	121.9	121.9	121.9	121.9	121.9

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	1,369	1,859	2,403	3,267	3,895
Others (non-cash items)	859	1,027	1,033	1,180	1,351
Taxes paid	(368)	(381)	(585)	(796)	(949)
Change in NWC	(295)	43	140	(1,018)	(782)
Operating cash flow	1,663	2,548	2,990	2,633	3,515
Capital expenditure	(842)	(1,376)	(2,000)	(2,500)	(3,500)
Acquisition of business	142	62	0	0	0
Interest & dividend income	9	0	0	0	0
Investing cash flow	(691)	(1,293)	(2,000)	(2,500)	(3,500)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(457)	(428)	(100)	(180)	(100)
Payment of lease liabilities	68	211	0	0	0
Interest paid	(181)	(182)	(119)	(89)	(59)
Dividend paid (incl tax)	0	0	0	(122)	(305)
Others	0	(78)	0	0	0
Financing cash flow	(638)	(689)	(219)	(391)	(464)
Net chg in Cash	334	565	771	(258)	(449)
OCF	1,663	2,548	2,990	2,633	3,515
Adj. OCF (w/o NWC chg.)	1,958	2,505	2,850	3,651	4,297
FCFF	821	1,172	990	133	15
FCFE	648	989	871	44	(44)
OCF/EBITDA (%)	72.8	93.3	90.7	61.3	69.1
FCFE/PAT (%)	51.9	70.4	47.9	1.8	(1.5)
FCFF/NOPLAT (%)	64.9	81.1	54.9	5.5	0.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	122	122	122	122	122
Reserves & Surplus	6,921	8,331	10,026	12,193	14,651
Net worth	7,043	8,453	10,148	12,314	14,773
Minority interests	0	0	0	0	0
Deferred tax liability (net)	407	348	348	348	348
Total debt	1,103	609	509	329	229
Total liabilities & equity	8,553	9,410	11,005	12,991	15,350
Net tangible fixed assets	2,678	3,122	4,209	5,618	7,826
Net intangible assets	2,032	2,032	2,032	2,032	2,032
Net ROU assets	566	566	566	566	566
Capital WIP	146	383	383	383	383
Goodwill	695	596	596	596	596
Investments [JV/Associates]	12	12	12	12	12
Cash & equivalents	876	1,188	1,959	1,701	1,252
Current assets (ex-cash)	6,054	6,457	7,425	9,469	11,033
Current Liab. & Prov.	4,506	4,947	6,176	7,385	8,350
NWC (ex-cash)	1,548	1,511	1,249	2,084	2,683
Total assets	8,553	9,410	11,005	12,991	15,350
Net debt	228	(579)	(1,450)	(1,372)	(1,023)
Capital employed	8,553	9,410	11,005	12,991	15,350
Invested capital	7,519	7,827	8,651	10,896	13,703
BVPS (Rs)	57.8	69.3	83.2	101.0	121.2
Net Debt/Equity (x)	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Net Debt/EBITDA (x)	0.1	(0.2)	(0.4)	(0.3)	(0.2)
Interest coverage (x)	0.1	0.1	0.0	0.0	0.0
RoCE (%)	28.7	27.1	24.7	28.0	27.9

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	50.7	41.4	32.0	23.6	19.8
P/CE(x)	30.2	26.1	21.3	16.3	13.7
P/B (x)	8.3	6.9	5.7	4.7	3.9
EV/Sales (x)	3.0	2.5	2.2	1.8	1.6
EV/EBITDA (x)	25.6	21.1	17.2	13.2	11.2
EV/EBIT(x)	38.8	30.2	23.8	17.7	15.1
EV/IC (x)	7.8	7.4	6.6	5.2	4.2
FCFF yield (%)	1.4	2.0	1.7	0.2	0.0
FCFE yield (%)	1.1	1.7	1.5	0.1	(0.1)
Dividend yield (%)	0.0	0.0	0.2	0.5	0.8
DuPont-RoE split					
Net profit margin (%)	5.9	6.2	6.9	7.7	8.0
Total asset turnover (x)	2.4	2.5	2.6	2.7	2.6
Assets/Equity (x)	1.3	1.2	1.1	1.1	1.0
RoE (%)	18.0	18.1	19.5	22.0	21.8
DuPont-RoIC					
NOPLAT margin (%)	6.5	6.4	6.8	7.6	7.8
IC turnover (x)	2.6	2.9	3.0	2.9	2.7
RoIC (%)	20.1	24.1	27.6	31.5	29.9
Operating metrics					
Core NWC days	28.9	24.3	17.3	23.7	26.6
Total NWC days	28.9	24.3	17.3	23.7	26.6
Fixed asset turnover	1.8	1.9	2.0	2.1	2.0
Opex-to-revenue (%)	18.2	19.5	18.6	18.2	17.8

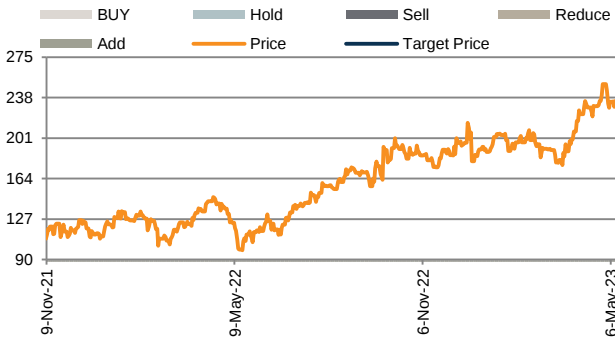
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
10-Sep-24	482	600	Buy	Chirag Jain
10-Sep-24	482	600	Buy	Chirag Jain
02-Aug-24	517	600	Buy	Chirag Jain
02-Aug-24	517	600	Buy	Chirag Jain
16-May-24	452	525	Buy	Chirag Jain
16-May-24	452	525	Buy	Chirag Jain
06-Feb-24	396	525	Buy	Chirag Jain
06-Feb-24	396	525	Buy	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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