



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Pricol Ltd Q3 FY22 consolidated revenues came in at ₹394.73 Cr, down 11.62% YoY and down 0.2% QoQ.
- Op Profit for Q3FY22 stood at ₹47.27 Cr, down 31.98% YoY and down 3.08% QoQ.
- Op margins for Q3FY22 came at 11.84%, -328 bps YoY and -72 bps QoQ.
- PAT for Q3FY22 stood at ₹17.34 Cr, down 19.04% YoY and up 18.28% QoQ.

2. MANAGEMENT COMMENTARY:

- Indian markets are on the MOVE towards Electric Vehicles manufacturing, Pricol has already switched its gear to be EV ready across its product verticals and started its supplies to OEMs.
- By FY25-26 around to 20% of revenue will come from the export market.
- Capital intensity typically is about 1:3. For every crore of investment, we get about 3 crores of turnover.
- 4.5%-5% of revenue is spent on R&D.

3. SEGMENTAL ANALYSIS:

- 49.3% of revenue was generated from digital instrument and accessories, 30.8% from oil pumps, 8.4% from chain tensioners and rest 11% from other items in product portfolio as of FY21.
- 93.2% of revenue is generated from India and 6.8% of the revenue is generated from rest of the world as of FY21.

4. CONCALL SUMMARY

- Company significantly reduced its long term borrowing from 230 Cr to 100 Cr as of 31st December and will repay entire debt by the end of FY23.
- Company recently launched two-wheeler digital cluster for customers like Hero Moto Corp and TVS Motors. Passenger vehicle and commercial vehicle clusters for Force Motors and Tata Motors.
- Company has strong order book for next few years and addition of few new products in product pipeline.
- The next few quarters will continue to be under stress till the world comes back to normal and supply lines come back to normal. Industry experts believe some degree of normalcy will start coming back from September 2022 and by September 2023 complete normalization especially with regard to IC supply chains and TFT and electronic components will happen.

5. OTHER DEVELOPMENTS:

- Company is building product portfolio for EV segment.
- Company was able to garner new export customer base especially for heavy duty pumps.

6. VALUATION AND OUTLOOK:

We expect company's revenue will grow by 12% in FY23 and a significant improvement in company's net profit in FY23 majorly due to sale of loss making subsidiaries, deleveraging measures, cost control measures and addition of technology intensive products in company's product portfolio. We believe Pricol can be a turnaround story in medium to long term and it can be a good investment bet in auto ancillary space.

We initiate a "BUY" rating on the stock and value the stock at 12.6x FY23E earnings to arrive at the target of ₹165.

RECOMMENDATION - BUY

CMP – 109

TARGET – 165 (51%)

Industry	Auto Ancillary
NSE CODE	PRICOLLTD
BSE CODE	540293
Market Cap (₹ Cr)	1248.07
Shares Outstanding (in Cr)	12.19
52 wk High/Low (₹)	139.5 / 60
P/E	32.00
P/BV	2.24
Face Value (₹)	1.00
Book Value (₹)	46.20
EPS (FY21) (₹)	3.40
Dividend Yield (%)	0.00
Debt / Equity	0.47
Interest Coverage	2.68

SHAREHOLDING PATTERN

	Dec 21	Sep 21	Jun 21
Promoters	36.53	36.53	36.53
MF/ DII	0.00	0.00	0.00
FII/FPI	11.04	10.51	10.64
Retail & Others	52.43	52.96	52.83
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022E	2023E
Crore			
Sales	1506.51	1524.79	1715.09
Sales Gr. (%)	-12.16	0.01	12.48
EBITDA	182.76	176.88	214.39
EBITDA %	14.33	11.60	12.5
PAT	41.50	50.22	167.59
EPS (₹)	3.40	4.12	13.09
EPS Gr. (%)	136.77	21.17	217.71
BV/Sh. (₹)	43.06		
Ratios			
RoE (%)	9.00	8.6	10.7
RoCE (%)	14.78	11.4	14
Valuation			
P/E (x)		17.5	12.6
P/BV (x)	20.57	5.6	4.6
EV/EBITDA	1.63	5.6	4.6

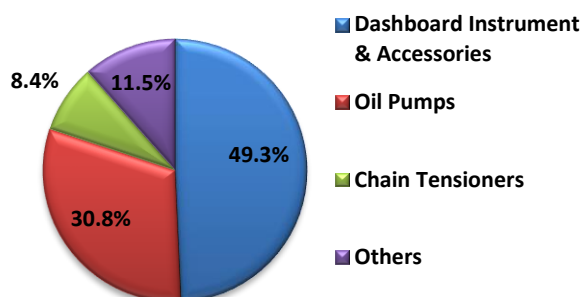
Historical & Industrial Val Ratios

Historical P/E	32.00
Industry P/E	38.60
Historical P/B	2.24
Industry P/B	3.56

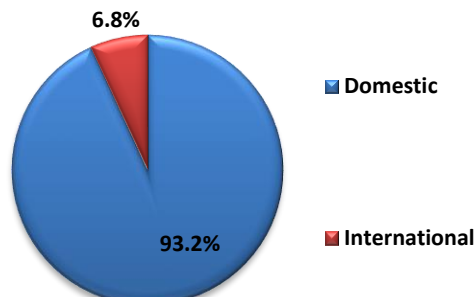


REVENUE SPLIT (Q3 FY22)

Segmental Mix (FY21)



Geography Mix (FY21)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21				FY22				FY21	FY22E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4E*		
Net sales	115	390	462	446	316	407	407	395	1,413	1524
YoY change (%)	-64.38%	18.27%	56.80%	57.66%	175.21%	4.42%	-11.88%	-12%	14.01%	0.01
Total Expenditures	119	334	393	391	282	358	360	347	1,235	1347
EBITDA	-4	55	70	55	34	49	47	47	178	177
Margins (%)	-3%	14%	15%	12%	11%	12%	12%	12	13%	11.6
Depreciation	24	24	24	23	22	202	20	20	94	82
Interest	10	11	12	9	8	9	6	6	43	29
Other income	5	28	0	1	4	2	1	1	33	8
PBT	-33	49	34	24	8	23	23	22	74	74
Rate (%)	6%	-1%	37%	94%	23%	35%	23%	23%	44%	32
Adjusted PAT	-31	50	21	1	6	15	17	17	42	50
EPS in Rs	-2.53	4.06	1.76	0.11	0.49	1.20	1.42	1.4	3.40	4.12
Key Performance Indicators										
Material Cost (%)	70	67	68	70	67	69	69		68%	
Employee Cost (%)	20	12	11	11	15	13	12		12%	
PAT Margin	-27%	13%	5%	0.2%	2%	4%	4%		3.72	

Source: Company, Hem Securities Research.

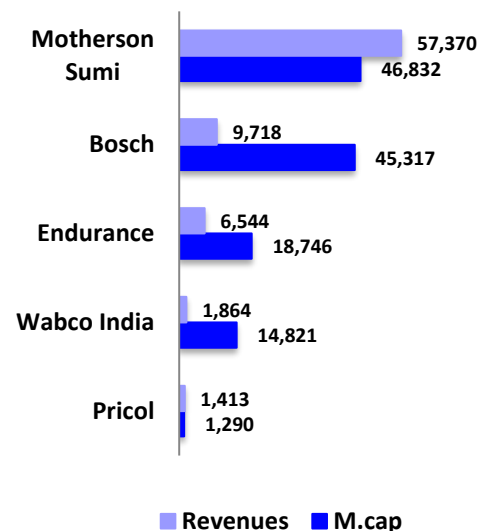
*Insights into the assumptions:

- We expect revenues to decrease by 4% on QoQ basis due to seasonality.
- We also believe that operating margins would sustain at these levels and might also improve due to cost cutting measures and improvement in semiconductor situation in India.

INDUSTRY OVERVIEW

- The Indian auto ancillary industry is one of the crucial industries in India and contributes 2.3% to the total GDP.
- Auto components industry's revenue to recover by 21-23% in fiscal 2022 backed by improved demand sentiments.
- The auto-components industry expanded by a CAGR of 3.28% and is expected to reach US\$ 200 billion by FY26.
- Automobile component export from India is expected to reach US\$ 80 billion by 2026. With shift in global supply chains, the Indian global automotive component trade is likely to expand at ~4-5% by 2026.
- The Indian auto-components industry is set to become the third largest in the world by 2025. Indian auto-component makers are well positioned to benefit from the globalisation of the sector.
- The government has formulated various policies to boost the growth of the market. Auto Policy 2002, Automotive Mission Plan 2016-2026, National Automotive Testing and R&D Infrastructure Project (NATRIP), and National Electric Mobility Mission Plan 2020 (NEMMP), are a few significant programs launched by the government.

KEY PLAYERS in Auto Ancillary Space



PEER PERFORMANCE

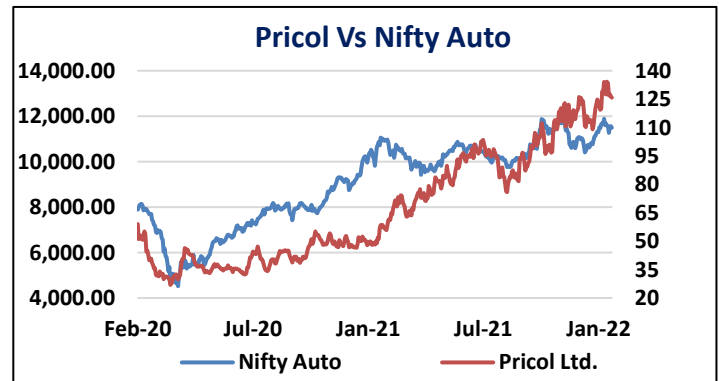
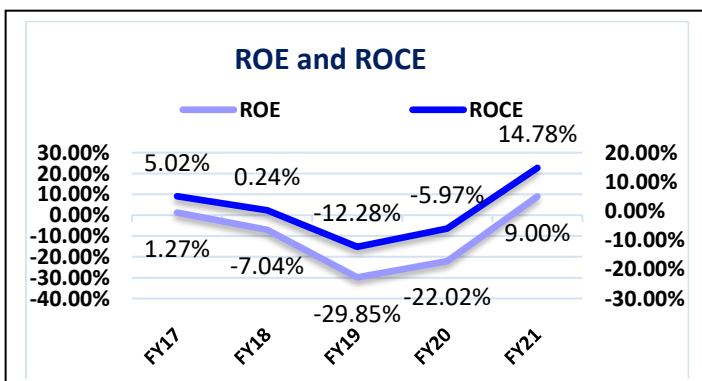
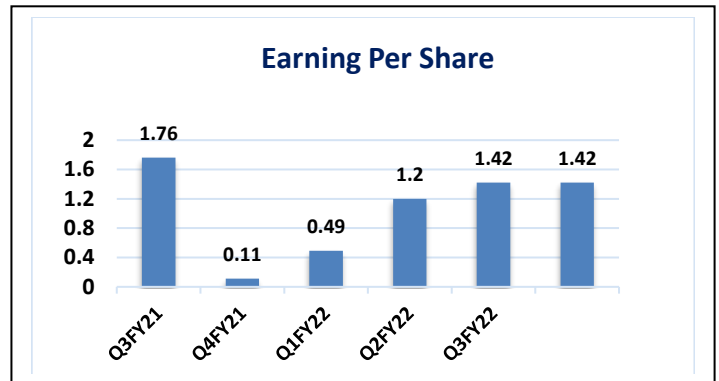
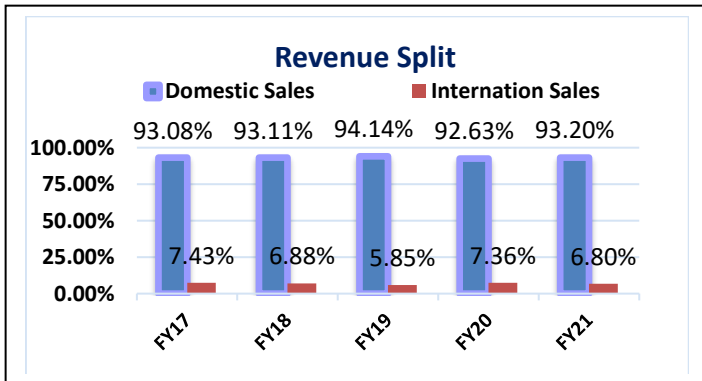
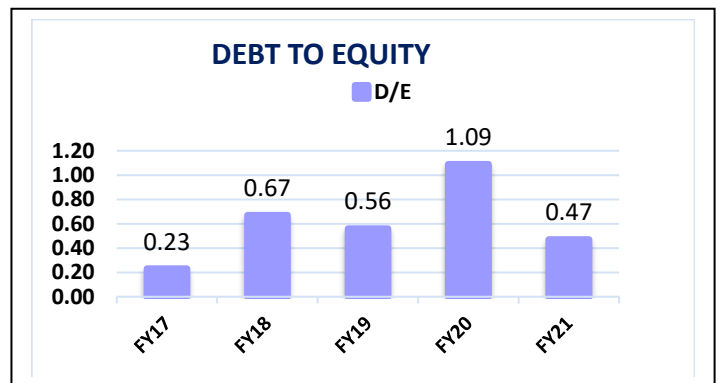
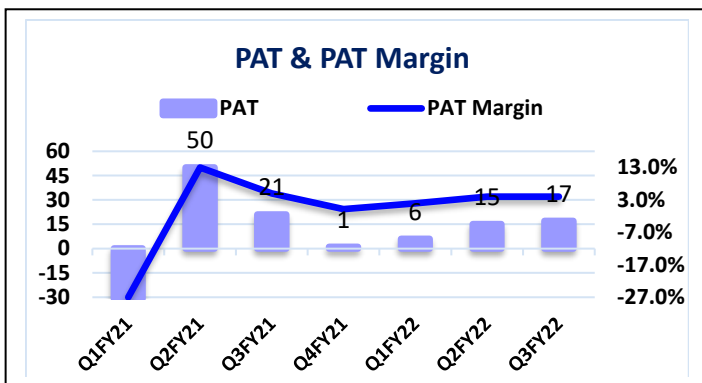
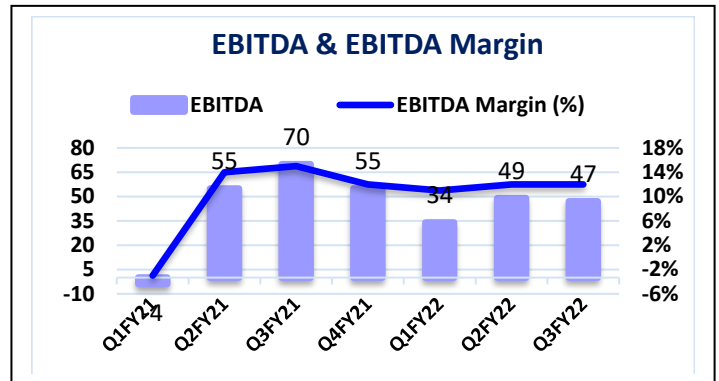
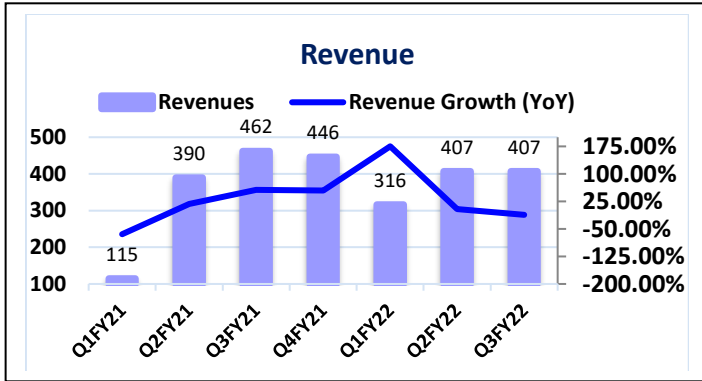
(₹ Cr)

Particulars					
	Pricol Ltd.	Wabco India	Endurance Tech	Bosch Ltd	Motherson Sumi Systems Ltd
Market Cap	1,248.1	14,251.9	19,003.6	44,326.3	65,256.9
Net Sales	1,506.5	1,863.5	6,547.0	9,716.2	61,508.1
EBITDA	182.8	205.8	1,040.2	1,112.2	4,771.0
PAT	41.5	103.8	519.7	482.0	1,039.2
EPS(₹)	3.4	54.7	36.9	163.4	3.3
EBITDA MARGIN %	14.3	13.1	16.3	17.1	8.2
PAT MARGIN %	2.7	5.6	7.9	4.9	2.4
ROCE %	14.8	7.9	16.6	6.1	9.2
ROE %	9.0	5.3	15.8	5.0	13.5
P/E TTM	32.0	107.1	36.5	33.1	45.2
P/B TTM	2.2	6.9	4.9	4.3	5.5
Dividend Yield %	-	0.1	0.4	0.8	1.0
MCap/ Sales TTM	0.8	5.8	2.5	3.8	1.0

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- Pricol in recent years has acquired businesses outside India in order to mark its international presence, which are going to be the draggers on its profitability & Balance sheet.
- Instrument clusters, pumps & mechanical products and switches & sensors formed ~49.3%, ~30.8%, ~8.4% of consolidated FY21 sales, respectively.
- The company is a leading supplier of instrument clusters for large 2-W and 3-W and 4-W and commercial vehicle players domestically and internationally and enjoys significant wallet share with them.
- Increase in digitization of instrument clusters post introduction of BS-VI emission norms is a big growth opportunity for the company. BS-VI switchover has also benefited the fuel pumps vertical significantly.
- Pricol serves most major OEMs such as Hero MotoCorp, TVS Motors, Bajaj Auto, Honda, KTM, Royal Enfield in 2- W, Tata Motors, Ashok Leyland, VECV, M&M and Volkswagen in 4-W, M&M, Swaraj Tractors, TAFE, and Escorts in tractors and Volvo, Nissan, Force Motors, Tata and Piaggio in commercial vehicles.
- Company 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.

RISK / NEGATIVE FACTORS:

- Geographical Concentration Risk: Around 90% of revenues comes from India. So any political risk related to India or slowdown in the economic growth is a key concern.
- Disruption in supply chain and semiconductor issue may impact the margins of the company.
- Dependency on Korea, Taiwan, Japan and China for electronic raw materials. Any fluctuation in raw material price may impact company's topline and bottom line.
- Pricol derives 68% of its revenue from 2-Wheeler segment and derives 54% of its revenue from its top 3 clients. Any change may impact company's revenue.

COMPANY RECAP

- Pricol Limited (erstwhile Pricol Pune Limited) is an auto component supplier headquartered in Coimbatore, Tamil Nadu that manufactures various products such as driver information systems, oil/water pumps, chain tensioners, cab tilts, fuel sensors, temperature/pressure sensors, speed limiting devices, and wiping systems.
- Company has 7 manufacturing plants across Coimbatore, Manesar, Pantnagar, Pune and Sricity in India, 1 manufacturing plant in Indonesia and 1 subsidiary in Satara in India, with 2 international ofces in Tokyo and in Singapore.
- Earlier company was majorly into 2-wheeler segment but recently entered into commercial vehicle and passenger vehicle segment as well.
- Pricol is a reputed player in the Indian auto component industry with presence for over five decades and supplies to original equipment manufacturers (OEMs) like Hero MotoCorp Limited, TVS Motor Company, Bajaj Auto Limited, Ashok Leyland Limited and Tata Motors Limited, to name a few.

ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Revenue from operations	1,473.24	1,710.91	1,920.59	1,715.09	1,506.51	1524.79	1715.09
Growth YoY (%)	0.00	16.13	12.26	-10.70	-12.16	0.01	12.48
Total Expenditure	1,365.12	1,628.05	1,950.48	1,681.64	1,323.75	1347.91	1500.70
(%) of sales	92.66	95.16	101.56	98.05	87.87	88.40	87.5
EBITDA	108.11	82.86	-29.88	33.45	182.76	176.88	214.39
EBITDA Growth (%)	0.00	-25.36	-118.45	513.64	221.84	-3.32	21.20
EBITDA Margin (%)	7.37	5.07	-0.85	3.89	14.33	11.60	12.50
Depreciation	73.49	85.83	99.95	115.31	98.30	82	21.5
EBIT	44.67	2.36	-116.22	-47.99	118.38	94.88	192.89
EBIT Growth (%)	0.00	-94.72	-5023.67	58.71	346.68	6.22	11.25
Net Interest Expenses	18.65	30.80	56.60	54.33	44.22	29	9.14
Other Income	10.04	5.33	13.61	33.87	33.92	8	7.5
Earnings before Taxes	26.02	28.44	-172.83	-102.32	74.16	73.88	191.25
EBT Margin (%)	1.62	-1.63	-9.00	-5.91	4.91	4.84	11.15
Tax-Total	16.81	20.51	1.03	-3.56	32.67	23.66	23.66
Rate of tax (%)	64.61	-72.12	0.60	3.48	44.05	32	32
Net Profit	9.21	-48.95	-173.86	-98.75	41.50	50.22	167.59
PAT Growth (%)	0.00	-631.62	-255.21	43.20	142.02	21.01	233.71
PAT Margin (%)	0.57	-2.81	-9.05	-5.70	2.75	3.72	11.16
EPS	0.86	-4.59	-16.30	-9.26	3.40	4.12	13.09

Balance Sheet

Y/E March	2017	2018	2019	2020	2021
Share Capital	9	9	9	9	12
Reserves	716	656	490	388	513
Net Worth	725	665	499	397	525
Borrowings	164	448	279	431	248
Other Liabilities	406	617	824	501	462
Total Liabilities & Equity	1295	1731	1602	1330	1235
Fixed Assets	739	834	699	731	642
CWIP	27	70	14	22	20
Investments	0	2	3	5	1
Other Assets	529	825	887	571	573
Total Assets	1295	1731	1602	1330	1235

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2017	2018	2019	2020	2021
Profitability and return ratios					
Net profit margin (%)	0.57	-2.81	-9.05	-5.70	2.75
EBITDA margin (%)	7.37	5.07	-0.85	3.89	14.33
EBIT margin (%)	2.79	0.14	-6.05	-2.77	7.83
ROE (%)	1.27	-7.04	-29.85	-22.02	9.00
ROCE (%)	5.02	0.24	-12.28	-5.97	14.78
Working Capital & liquidity ratios					
Payables (Days)	66.66	75.97	63.01	60.60	79.92
Inventory (Days)	39.40	48.33	44.71	44.13	57.86
Receivables (Days)	48.68	53.47	46.67	41.20	46.35
Current Ratio (x)	0.97	0.97	0.87	0.84	1.30
Valuations Ratios					
EV/sales (x)	0.60	0.70	0.29	0.43	0.68
EV/EBITDA (x)	7.52	13.54	-34.49	10.94	4.74
P/E (x)	81.63	0.00	0.00	0.00	20.57
P/BV (x)	1.04	1.22	0.68	0.87	1.63
Dividend Yield (%)	1.26	1.16	0.00	0.00	0.00
Leverage Ratio					
Debt/Equity (x)	0.23	0.67	0.56	1.09	0.47

Cash Flow Statement					
Y/E March	2017	2018	2019	2020	2021
CF from Operating activities (A)	58	95	44	151	129
CF from Investing Activities (B)	-83	-246	-107	-27	-20.9788
CF from Financing Activities (C)	23	184	57	-169	-70
Net Cash Flow	-2.34	32.71	-6.84	-45.01	37
Add: Opening Bal.	1	24	46	57	9
Closing Balance	24	64	39	9	38

Source: Company, Hem Securities Research.

RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
28 Feb 2022	Buy	165

DISCLAIMER

HEM Securities Limited (“Research Entity or HSL”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.



HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

ANALYST CERTIFICATION/ DISCLOSURE OF INTEREST

Name of the Research Analyst: CHINMAY BHANDARI

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

SN	Particulars	Yes/No
1.	Research Analyst or his/her relative's or HSL's financial interest in the subject company(ies)	No
2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

Since HSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months. Associates of HSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.