

Past claims pulled off, bigger plans lie ahead...

About the stock: 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.

- FY21 product mix: - ~66% from 2-W, 3-W, ~8% from CV, ~4% from PV, ~9% from off-road & tractors & ~12% from aftermarket sales and exports
- FY21 segment mix: - ~60% from instrument clusters, ~30% from pumps & mechanical products, ~10% from sensors and others

Q3FY22 Results: Pricol reported muted Q3FY22 results.

- Total operating income came in at ₹ 407 crore, flat QoQ
- EBITDA margin came in at 11.6%, down 40 bps QoQ
- PAT was up 18.5% QoQ at ₹ 17.3 crore tracking lower finance cost & tax rate

What should investors do? The stock appreciated at ~8.3% CAGR from ~₹ 75 in March 2017 over the past five years, outperforming the broader Nifty Auto index.

- We retain our **BUY** rating on Pricol amid management discipline over capex spends & debt reduction as well as ambitious long term growth plans.

Target Price and Valuation: Introducing FY24E, we now value Pricol at ₹ 140 i.e. 16x P/E on FY24E EPS of ~₹ 8.7/share (earlier target price ₹ 95).

Key triggers for future price performance:

- De-leveraging of b/s along with debt free subsidiaries. Sweating of assets, healthy cash flow generation and low capex spend till FY23E
- Supplier to leading OEMs with revived presence at Tata Motors
- Sales, PAT to grow at 13.8%, 36.9% CAGR, respectively, over FY21-24E
- Lols and active discussion from new age OEMs in the electric 2-W space, expects to gain traction in coming years. Focus on augmenting exports

Alternate Stock Idea: In our auto- ancillary coverage we like JK Tyre.

- Walking the talk on b/s deleveraging, sweating of assets & capital efficiency
- BUY with target price of ₹ 170



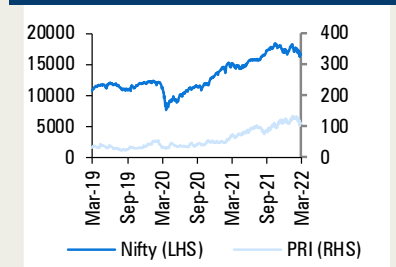
Particulars

Particular	₹ crore
Market Capitalization	1,401.6
Total Debt (FY21)	248.0
Cash & Investments (FY21)	75.6
EV (FY21)	1,574.0
Equity capital	12.2
52 week H/L (₹)	140 / 60
Face value	₹ 1

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	36.5	36.5	36.5	36.5
FII	10.5	10.6	10.5	11.0
DII	0.2	-	-	-
Other	52.7	52.8	53.0	52.4

Price Chart



Recent event & key risks

- Tech partnership with Candera, Sibros Tech, for connected clusters
- Key Risk:** (i) Elongated supply side issues impacting sales and profitability (ii) Loss of volumes on ICE powered 2-Ws

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Raghvendra Goyal
raghvendra.goyal@icicisecurities.com

Key Financial Summary

Key Financials	FY20	FY21	2 year CAGR (FY19-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	1,239.4	1,413.1	0.5%	1,576.2	1,891.4	2,080.6	13.8%
EBITDA	85.4	177.9	37.9%	183.6	236.4	260.1	13.5%
EBITDA Margins (%)	6.9	12.6		11.7	12.5	12.5	
Net Profit	(98.8)	41.5	LP	58.4	90.0	106.5	36.9%
EPS (₹)	(10.4)	3.4		4.8	7.4	8.7	
P/E	(11.0)	33.8		24.0	15.6	13.2	
RoNW (%)	(24.9)	7.9		10.0	13.4	13.7	
RoCE (%)	(1.2)	9.7		11.9	17.5	18.0	

Source: Company, ICICI Direct Research

Buoyancy for future...

Key highlights from recent media publishes

- To strengthen its cluster segment (~60% of sales) it has entered into a technology tie-up with **Candera & Sibros Technologies, Inc.** for development & integration of connected technology into existing clusters & development of new clusters to meet requirement of new age auto OEMs
- With peak revenue potential of ~₹ 2,200-2,400 crore annually that is largely achievable in the next two to three years, Pricol plans to augment its capacities, capabilities and is targeting revenues of ~₹ 4,000 crore by FY26. Capex envisaged for the same is ~₹ 600 crore, which the management expects to fund through an equal mix of debt and equity starting FY24E

Exhibit 1: Product offerings of Pricol

Product Verticals



Source: Company, ICICI Direct Research

Exhibit 2: New product launches (a glimpse)

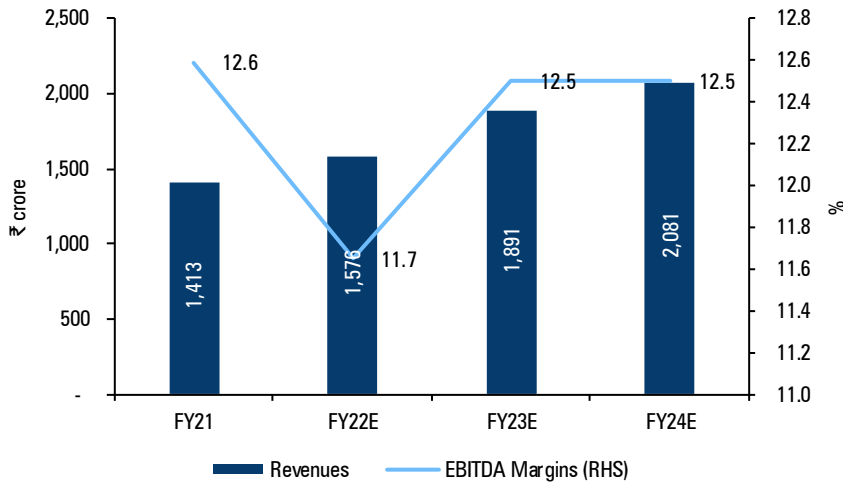
2W: Digital Clusters



Source: Company, ICICI Direct Research

Financial story in charts

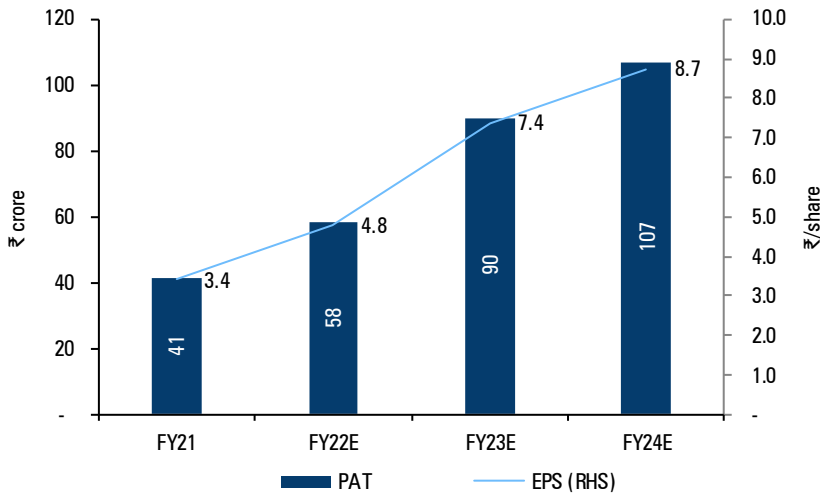
Exhibit 3: Trend in topline & EBITDA margins



Net sales are expected to grow at 13.8% CAGR over FY21-24E to ₹ 2,081 crore, whereas margins to inch to 12.5% in FY23-24E.

Source: Company, ICICI Direct Research

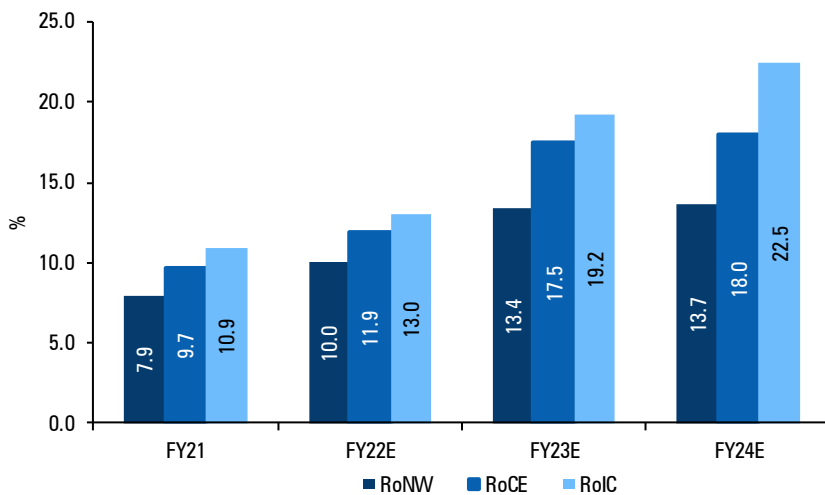
Exhibit 4: Trend in PAT & EPS



PAT is expected to grow at 36.9% CAGR over FY21-24E, albeit on a low base

Source: Company, ICICI Direct Research

Exhibit 5: Trend in margins and profitability



Return ratios are expected to be in healthy double digit starting FY23E

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	1,413.1	1,576.2	1,891.4	2,080.6
Growth (%)	14.0	11.5	20.0	10.0
Raw Material Expenses	964.8	1,083.6	1,305.1	1,435.6
Employee Expenses	166.5	200.2	217.5	239.3
Other Expenses	103.9	108.8	132.4	145.6
Total Operating Expenditure	1,235.2	1,392.6	1,655.0	1,820.5
EBITDA	177.9	183.6	236.4	260.1
Growth (%)	108.4	3.2	28.8	10.0
Depreciation	94.2	82.7	89.8	98.8
Interest	43.1	25.9	16.1	5.7
Other Income	7.8	8.5	7.9	8.4
PBT	48.5	83.4	138.4	163.9
Total Tax	32.7	25.0	48.5	57.4
Reported PAT	41.5	58.4	90.0	106.5
Growth (%)	-142.0	40.7	54.1	18.4
EPS (₹)	3.4	4.8	7.4	8.7

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	41.5	58.4	90.0	106.5
Add: Depreciation & Interest	137.3	108.7	105.9	104.6
(Inc)/dec in Current Assets	31.2	-63.5	-97.3	-65.6
Inc/(dec) in CL and Provisions	-49.5	29.3	77.9	46.8
CF from operating activities	128.6	131.9	175.5	191.3
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-30.8	-50.0	-50.0	-120.0
Others	9.8	-5.0	0.0	-10.0
CF from investing activities	(21.0)	(55.0)	(50.0)	(130.0)
Inc/(dec) in loan funds	-183.4	-75.0	-100.0	-50.0
Dividend paid & dividend tax	0.0	0.0	0.0	0.0
Interest Expense & Others	113.0	-25.9	-16.1	-5.7
CF from financing activities	(70.5)	(100.9)	(116.1)	(55.7)
Net Cash flow	32.3	-24.1	9.5	5.6
Opening Cash	42.4	74.8	50.7	60.2
Closing Cash	74.8	50.7	60.2	65.7

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	12.2	12.2	12.2	12.2
Reserve and Surplus	512.6	571.0	661.0	767.5
Total Shareholders funds	524.8	583.2	673.2	779.7
Total Debt	248.0	173.0	73.0	23.0
Deferred Tax Liability	57.4	57.4	57.4	57.4
Minority Interest / Others	34.0	34.0	34.0	34.0
Total Liabilities	875.9	859.3	849.3	905.8
Assets				
Gross Block	716.0	771.0	826.0	855.8
Less: Acc Depreciation	295.4	378.2	468.0	566.8
Net Block	420.6	392.8	358.0	288.9
Capital WIP	19.8	14.8	9.8	100.0
Total Fixed Assets	440.3	407.6	367.7	388.9
Investments	0.0	362.9	276.4	254.7
Inventory	243.2	259.1	310.9	342.0
Debtors	187.9	224.6	259.1	285.0
Loans and Advances	0.0	0.0	0.0	0.0
Cash	74.8	50.7	60.2	65.7
Other current assets	0.0	58.6	21.3	26.9
Total Current Assets	505.8	593.0	651.5	719.7
Creditors	281.8	302.3	362.7	399.0
Provisions	5.6	6.0	7.2	7.9
Other current liabilities	0.0	0.0	0.0	0.0
Total Current Liabilities	287.4	308.3	369.9	406.9
Net Current Assets	218.4	284.7	281.5	312.7
Others	112.5	430.3	70.3	44.4
Application of Funds	875.9	859.3	849.3	905.8

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	3.4	4.8	7.4	8.7
Cash EPS	11.1	11.6	14.8	16.9
BV	43.1	47.8	55.2	64.0
DPS	0.0	0.0	0.0	0.0
Cash Per Share	6.1	4.2	4.9	5.4
Operating Ratios (%)				
EBITDA Margin	12.6	11.7	12.5	12.5
PBT / Net sales	5.9	6.4	7.8	7.8
PAT Margin	2.9	3.7	4.8	5.1
Inventory days	62.8	60.0	60.0	60.0
Debtor days	48.5	52.0	50.0	50.0
Creditor days	72.8	70.0	70.0	70.0
Return Ratios (%)				
RoE	7.9	10.0	13.4	13.7
RoCE	9.7	11.9	17.5	18.0
RoIC	10.9	13.0	19.2	22.5
Valuation Ratios (x)				
P/E	33.8	24.0	15.6	13.2
EV / EBITDA	8.8	8.3	6.0	5.2
EV / Net Sales	1.1	1.0	0.7	0.6
Market Cap / Sales	1.0	0.9	0.7	0.7
Price to Book Value	2.7	2.4	2.1	1.8
Solvency Ratios				
Debt/EBITDA	1.4	0.9	0.3	0.1
Debt / Equity	0.5	0.3	0.1	0.0
Current Ratio	1.6	1.7	1.6	1.6
Quick Ratio	0.7	0.8	0.8	0.8

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets) and Raghvendra Goyal, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc. as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

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 ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.