

Play on 2-W volume recovery and premiumisation...

About stock: Pricol Ltd (Pricol), is a Coimbatore based supplier of diversified auto components primary across two verticals: (i) Driver Information & Connected Vehicle Sols (instrument clusters), (ii) Actuation, Control & Fluid mgmt. systems (pumps etc.).

- Sales mix: - ~65% from 2-W, 3-W, ~15% from CV, ~10% from PV, ~10% from off-road & tractors

Investment Rationale

- Best placed to play premiumisation trend in instrument cluster domain:** Instrument Cluster is a critical component of an automobile showcasing various real time information with respect to vehicle running parameters. Pricol is one of the industry leaders in this space with ~50% market share in the 2-W category, ~80% in CV's, ~50% in tractor space, ~90% in off-highway segment and ~<10% in PV space (limited to Tata Motors). **Pricol realises ~70% of its sales from this segment.** Interestingly, this space is undergoing a drastic shift in terms of digitalisation, parameters/optionality available to vehicle drivers including navigation, communication & more vibrant display thereby driving the premiumisation trend. In 2W space for example, the content/vehicle in the Analog to digital to TFT is pegged at x-3-4x-10-15x i.e. a cluster costing Rs x in the Analog format, costs ~3-4x in digital format and ~10-15x in TFT format. It's also a key differentiator and unique selling proposition for OEM's these days. The share of Analog clusters is on decline (~30% currently) with digital clusters on the up-move at ~65% and rest being constituted by TFT clusters i.e. ~5%. Going forward we expect the trend to accelerate further towards digital and TFT clusters domain benefitting Pricol. It is best placed to capture both the 2-W volume recovery (amid low growth envisaged for other auto segments) and premiumisation trend domestically.
- Fluid control segment to grow at steady place, new products avert risk:** Pricol realises healthy ~30% of its topline from actuation and fluid control space including fuel pumps which have both automotive as well as industrial usage. Fuel pumps run the EV risk at Pricol and constitute ~5-6% of its sales, the company however is mitigating this risk by introduction of new products such as electric coolant pumps (used in Electric Vehicles) which coupled with its proven capabilities in industrial side bodes well for Pricol in the long run.
- Healthy return ratios profile, growth trajectory warrants a re-rating** Riding on 2-W volume recovery & rise in content/vehicle in instrument cluster space we expect Pricol to deliver healthy 18% Sales & 22% PAT growth over FY23-26E, one of the best in auto ancillary space. This coupled with its 20%+ RoCE & net debt free B/S makes PE multiple re-rating imminent in our view.

Rating and Target Price

- We assign **BUY** rating on Pricol amid levers to grow ahead of industry (targeting sales of ~₹ 3,600-4,000 crore with margins at 13-14% by FY26E), volume and content rise led growth in topline, healthy RoCE and B/S profile.
- We value Pricol at **₹ 450 i.e. 24x P/E on FY24E EPS**

Key Financial Summary

Key Financials	FY20	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
Total Operating Income	1,239	1,413	1,545	1,959	7.6%	2,269	2,716	3,200	17.8%
EBITDA	85	178	181	228	6.7%	268	340	416	22.1%
EBITDA Margins (%)	6.9	12.6	11.7	11.7		11.8	12.5	13.0	
Net Profit	(99)	41	55	125	LP	128	175	228	22.4%
EPS (₹)	(10.4)	3.4	4.5	10.2		10.5	14.3	18.7	
P/E	(36.0)	110.1	83.0	36.6		35.8	26.2	20.0	
RoNW (%)	(24.9)	7.9	9.5	16.5		15.4	17.7	19.1	
RoCE (%)	(1.2)	9.7	12.6	17.7		19.1	21.9	23.3	

Source: Company, ICICI Direct Research



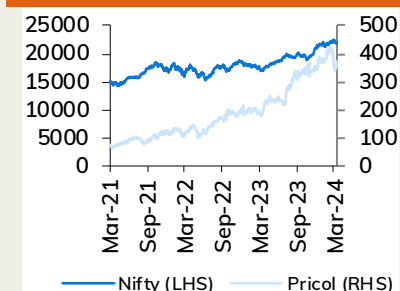
Particulars

Particular	₹ crore
Market Capitalization	4,570.5
Total Debt (FY23)	89.2
Cash & Investments	87.7
EV (FY23)	4,572.1
Equity capital	12.2
52 week H/L (₹)	444 / 186
Face value	₹ 1

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	36.5	38.5	38.5	38.5
FII	3.7	2.9	4.0	6.5
DII	6.6	5.6	5.6	6.9
Other	53.2	53.0	51.9	48.1

Price Chart



Recent Event & Key risks

- Reports steady performance in Q3FY24. Margins were broadly steady at 11.8%
- Key Risk: (i) slower than anticipated recovery in 2-W volumes for domestic OEM's (ii) slower than expected shift towards premium products ("TFT"-instrument clusters)

Research Analyst

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Key slides from recent PPT

Exhibit 1: Key product verticals at Pricol


Product Vertical

A. Driver Information and Connected Vehicle Solutions

Connected Vehicle Solutions



B. Actuation, Control and Fluid Management Systems



Source: Company, ICICI Direct Research

Exhibit 2: Pricol Customers – across product categories

Our Major Customers

TWO / THREE WHEELERS



FOUR WHEELERS



COMMERCIAL WHEELERS



TRACTORS



INDUSTRIAL & OTHERS



OFF ROAD VEHICLE



Source: Company, ICICI Direct Research

Company currently supplies TFT instrument cluster to TVS's-Electric Scooter i.e. iQube and Hero's Electric Scooter i.e. Vida. It is also present in electric vehicle profile at Tata Motors

Exhibit 3: Pricol – new age tech partnerships

Key Partnerships



Sibros' connected all-in-one platform will complement Pricol's suite of products on **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



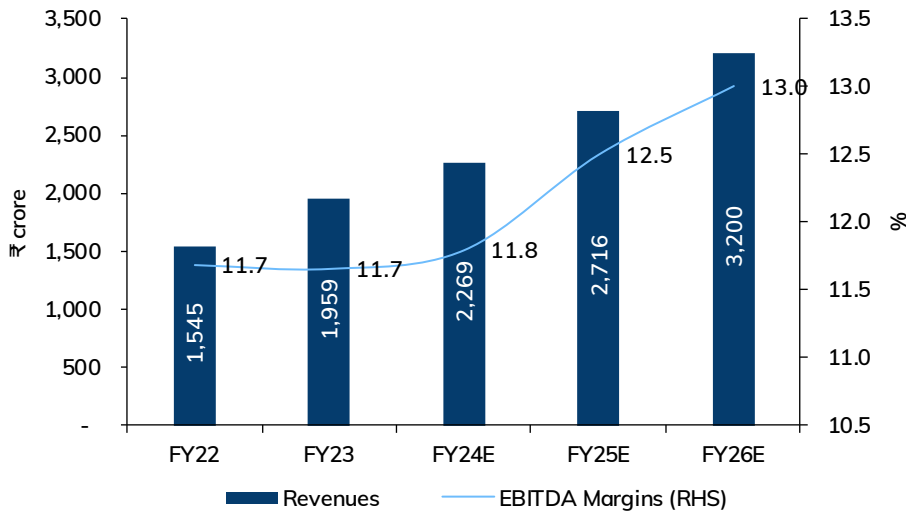
Pricol is partnered with CGI studio for **Human Machine Interface (HMI) Solutions** Candera will, help in HMI solutions with shorter lead time, cost effective solutions – all made possible by having a single HMI tool to support Next Generation Display Systems to be built on various Product Platforms which is indigenously developed by Pricol.



Source: Company, ICICI Direct Research

Financial Story in Charts

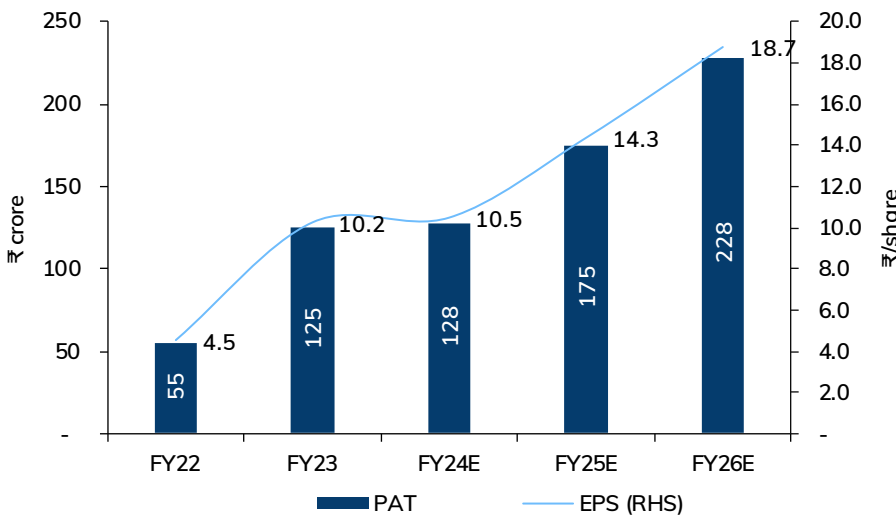
Exhibit 4: Trend in topline & EBITDA margins



Net sales are expected to grow at 18% CAGR over FY23-26E to ₹3,200 crore whereas margins are expected to inch to 13% levels in FY26E

Source: Company, ICICI Direct Research

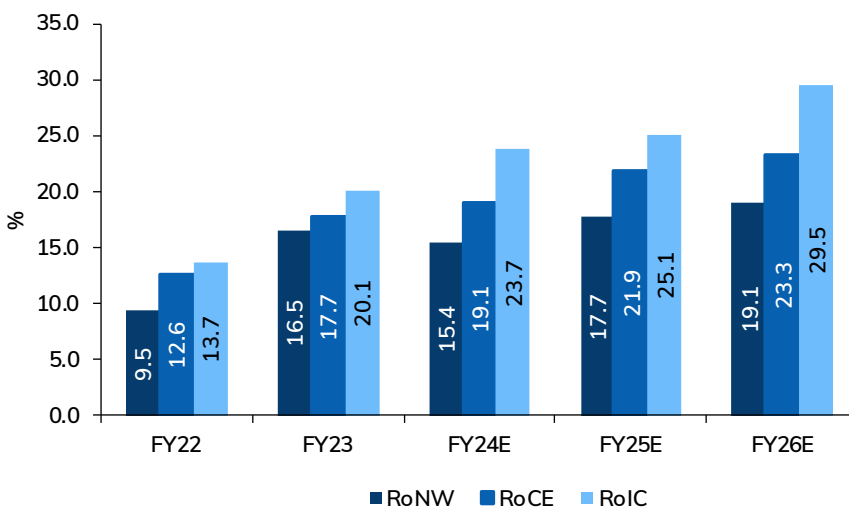
Exhibit 5: Trend in PAT & EPS



PAT is expected to grow at 22% CAGR over FY23-26E

Source: Company, ICICI Direct Research

Exhibit 6: Trend in Return ratios



RoCE is seen surpassing 20% mark starting FY25E

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Total operating Income	1,958.6	2,268.6	2,716.2	3,199.7	
Growth (%)	26.8	15.8	19.7	17.8	
Raw Material Expenses	1,373.3	1,548.3	1,860.6	2,191.8	
Employee Expenses	227.5	266.6	298.8	336.0	
Other Expenses	129.3	186.0	217.3	256.0	
Total Operating Expendit	1,730.1	2,000.9	2,376.6	2,783.7	
EBITDA	228.4	267.7	339.5	416.0	
Growth (%)	26.5	17.2	26.8	22.5	
Depreciation	77.9	87.3	103.2	121.6	
Interest	18.3	19.3	13.7	9.2	
Other Income	4.6	9.4	11.0	20.2	
PBT	136.8	170.5	233.6	305.4	
Total Tax	21.8	43.0	58.9	77.0	
Reported PAT	124.7	127.5	174.7	228.5	
Growth (%)	126.5	2.3	37.0	30.7	
EPS (₹)	10.2	10.5	14.3	18.7	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Profit after Tax	124.7	127.5	174.7	228.5	
Add: Depreciation & Interest	96.2	106.6	116.9	130.8	
(Inc)/dec in Current Assets	-65.8	-89.6	-131.3	-141.4	
Inc/(dec) in CL and Provisions	37.5	83.8	102.3	110.5	
CF from operating activities	180.1	240.2	261.6	327.3	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	(100.2)	(200.0)	(200.0)	(90.0)	
Others	12.8	-3.0	-5.0	-180.0	
CF from investing activities	(87.4)	(203.0)	(205.0)	(270.0)	
Inc/(dec) in loan funds	-38.9	-25.0	-30.0	-25.0	
Dividend paid & dividend tax	0.0	-6.1	-12.2	-18.3	
Interest Expense & Others	-20.5	-19.3	-13.7	-9.2	
CF from financing activities	(59.3)	(50.4)	(55.9)	(52.5)	
Net Cash flow	33.4	(13.2)	0.8	4.8	
Opening Cash	50.7	84.0	70.9	71.6	
Closing Cash	84.0	70.9	71.6	76.5	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Liabilities					
Equity Capital	12.2	12.2	12.2	12.2	
Reserve and Surplus	692.1	813.5	976.1	1,186.3	
Total Shareholders funds	704.3	825.7	988.3	1,198.5	
Total Debt	89.2	64.2	34.2	9.2	
Deferred Tax Liability	41.1	41.1	41.1	41.1	
Minority Interest / Others	15.7	15.7	15.7	15.7	
Total Liabilities	865.1	961.5	1,094.1	1,279.3	
Assets					
Gross Block	830.4	930.4	1,180.4	1,320.4	
Less: Acc Depreciation	400.1	487.4	590.6	712.2	
Net Block	430.3	443.0	589.8	608.2	
Capital WIP	14.0	114.0	64.0	14.0	
Total Fixed Assets	444.3	557.0	653.8	622.2	
Investments	276.4	254.7	222.1	200.4	
Inventory	271.7	310.8	372.1	438.3	
Debtors	267.7	310.8	372.1	438.3	
Loans and Advances	0.0	0.0	0.0	0.0	
Cash	84.0	70.9	71.6	76.5	
Other current assets	21.3	26.9	23.7	20.7	
Total Current Assets	644.7	719.3	839.5	973.8	
Creditors	282.6	341.8	409.3	482.1	
Provisions	11.1	13.4	16.1	19.0	
Other current liabilities	0.0	0.0	0.0	0.0	
Total Current Liabilities	293.7	355.3	425.4	501.1	
Net Current Assets	351.0	364.0	414.1	472.7	
Others	70.3	44.4	29.2	43.7	
Application of Funds	865.1	961.5	1,094.1	1,279.3	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Per share data (₹)					
EPS	10.2	10.5	14.3	18.7	
Cash EPS	16.6	17.6	22.8	28.7	
BV	57.8	67.7	81.1	98.3	
DPS	0.0	0.5	1.0	1.5	
Cash Per Share	6.9	5.8	5.9	6.3	
Operating Ratios (%)					
EBITDA Margin	11.7	11.8	12.5	13.0	
PBT / Net sales	7.7	8.0	8.7	9.2	
PAT Margin	6.4	5.6	6.4	0.0	
Inventory days	50.6	50.0	50.0	50.0	
Debtor days	49.9	50.0	50.0	50.0	
Creditor days	52.7	55.0	55.0	55.0	
Return Ratios (%)					
RoE	16.5	15.4	17.7	19.1	
RoCE	17.7	19.1	21.9	23.3	
RoIC	20.1	23.7	25.1	29.5	
Valuation Ratios (x)					
P/E	39.3	35.8	26.2	20.0	
EV / EBITDA	20.0	17.0	13.3	10.4	
EV / Net Sales	2.3	2.0	1.7	1.4	
Market Cap / Sales	2.3	2.0	1.7	1.4	
Price to Book Value	6.5	5.5	4.6	3.8	
Solvency Ratios					
Debt/EBITDA	0.4	0.2	0.1	0.0	
Debt / Equity	0.1	0.1	0.0	0.0	
Current Ratio	1.9	1.8	1.8	1.8	
Quick Ratio	1.0	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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