Contraire

BONANZA WEALTH MANAGEMENT RESEARCH

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17 September 2024

Pricol Ltd – BUY

CMP : Rs.483.0
Target Price : Rs.610.0
Upside : 26.2%+
Stop Loss : Rs.438.0 (Closing basis)

Investment Thesis

- The Driver Information System (DIS) displays real-time changes in the vehicle, such as speed, engine RPM, fuel level, navigation support, and warning indicators. Globally, Pricol is the 2nd largest instrument cluster manufacturer globally for 2/3-wheeler application. It has strong foothold in various segments: 50% in 2Ws, 70% in CVs, 50% in tractors, 90% in off-road vehicle (ORV), and 7% in PVs. Pricol is a key supplier of telematics in tractors and ORV. Migration to digital instrument clusters from mechanical cluster, driven by BS-VI emission standards, has increased the vehicle content. Digital consoles are now being fitted even in mass-market 2Ws and entry-level cars by OEMs. The DIS segment constitutes ~70% of total consolidated revenue.
- The Actuation Control & Fluid Management Systems (ACFMS) segment contributes ~30% to the total consolidated revenue in FY24. The water, oil, and fuel pumps contribute to around 60-70% of the total revenues of the segment. Pricol manufactures fuel pump modules for precise fuel delivery and oil pumps for ideal lubrication. Pricol is mitigating the risk faced by 2Ws ICE engines (~6% of sales) due to EV adoption by focusing on value-added offerings for ORV and construction equipment and components specific to EVs. ACFMS has a contribution of about 90% to the exports in FY23, owing to China +1 strategy by OEMs. Management has revised its export target from 20% to 10% Exports (currently at 8%) due to the weak economic conditions in USA and Europe but management expects a recovery by FY26.
- Pricol currently has five major strategic partnerships: 1) Pricol and Sibros have partnered to strengthen Pricol's position in DIS and telematics using Sibros' cloud platform for OTA updates, vehicle data analytics, and diagnostics for OEMs 2) Pricol has partnered with BMS PowerSafe to manufacture and sell Battery Management Systems (BMS), reinforcing its EV offerings by licensing the technology and manufacturing the complete BMS units in-house locally in India 3) Pricol has partnered with Heilongjiang Tianyouwei Electronics (TYW) for advanced technologies such as e-cockpit and Heads-up Displays in DIS Solutions 4) Pricol has partnered with CGI studio for Human Machine Interface (HMI) Solutions, enabling shorter lead times and cost-effective solutions 5) Pricol and PSG Institutions launched a Center of Excellence for micro motors, robotics, and AI-based technology.
- New products to be launched include disc brakes, electric coolant pumps, and electric oil pumps. Disc brake production will start in Q4FY25. Electric coolant pumps were launched in Q3FY24 with Tata Motors and Ashok Leyland.

Financials

- Pricol's consolidated revenue from operations for Q1FY25 grew at 6% QoQ / 15% YoY to Rs.619.93Crs, primarily driven on the back of strong 2Ws industry growth which was topped up by premiumization which is attributed primarily to the DIS segment. FY24 consolidated revenue stood at Rs.2,272Crs grew by 16% YoY.

Particulars	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue (Rs. in Crs.)	1,413	1,545	1,959	2,272	2,658	3,176
EBITDA (Rs. in Crs.)	189	183	229	273	348	424
PAT (Rs. in Crs.)	42	51	125	141	194	246
Adj. EPS (Rs.)	3.4	4.2	10.2	11.6	15.6	20.73
RoE (%)	3.4	9.3	18.0	18.9	20.6	21.1
PE (x)	142.1	115.0	47.4	41.6	31.0	23.3

Stock Data

Market Cap (Rs. Mn)	58,868.8
Market Cap ($ Mn)	702.20
Shares O/S (in Mn)	121.88
Avg. Volume (3 month)	5,23,157
52-Week Range (Rs.)	542.50 / 310.90

Shareholding Pattern

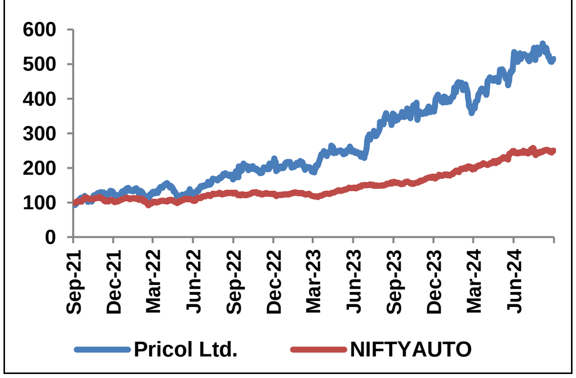
Promoters	38.51%
FIIs	15.01%
Institutions	16.45%
Others (incl. body corporate)	30.03%

Key Ratios

Div Yield	0.0%
TTM PE	38.2x
ROE	18.9%
TTM EPS (Rs.)	12.7/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	(4.9%)	36.6%	44.1%
NIFTY 500	(5.8%)	8.7%	(13.2%)



- In Q1FY25, EBITDA grew by 8.6% QoQ / 24.5% YoY basis, reaching to Rs.80.48Crs. EBITDA margin witnessed an uptick of 29bps QoQ / 95bps YoY to 13.0%. The growth in margins could be attributed to gross margin expansion and strong control over other manufacturing expenses.
- Pricol aims to continue margins at the same levels as Q1FY25 at 13%.
- Adjusted PAT grew by 9.8% QoQ / 42.6% YoY to Rs.46Crs in Q1FY25, supported by reduction in finance costs YoY.
- The company has not reported any developments regarding inorganic expansion; however, they are currently reviewing several prospects.

Key Business Highlights

- Pricol is engaged in the business of manufacturing and selling of instrument clusters and other allied automotive components to OEMs and replacement. Pricol operates mainly in two segments Driver Information System (DIS) and Acutation, Control and Fluid management Systems (ACFMS). Pricol has 8 manufacturing facilities across India, 1 manufacturing plant in Jakarta, Indonesia, with 2 international offices in Tokyo and Singapore.
- Pricol is the 2nd largest instrument cluster maker globally for 2Ws in terms of volumes next to Nippo Seiki and Co. Ltd., Japan. Pricol also holds ~50% market share in the domestic 2Ws instrument cluster business.
- Pricol had announced a capex of Rs.~600Crs for FY23 to FY25 wherein ~Rs.150Crs spent in FY23, ~Rs.200Crs utilised in FY24 and ~Rs.200Crs is earmarked for FY25. Pricol's current capacity utilization is currently at ~85% and they are currently expanding their capacity in their Pune plant.
- Post FY20, Pricol significantly reduced debt and a robust jump in operating profits through exponential growth in content per vehicle and addition of new products. This has led to the return ratios rising to sustainable 18% levels.
- Management is confident of expanding its EBITDA margins to 13.5% in FY25 (currently at 12%) through ongoing cost optimization, productivity improvement, and a shift toward higher-margin products.
- Pricol's net D/E is at 0.06x level and has always remained low - below 1x - due to its efficient cash flow generation and timely repayment of debt. Pricol has been generating robust free cash flow for the past 5 years, which will largely take care of capex, keeping debt levels low.
- Due to weakness in the US market, the management has cut the organic revenue guidance to Rs.3,200Crs (vs. Rs.3,600Crs earlier) and also lowered its exports contribution to 8-10% (vs. 20% earlier) due to weak economic conditions in the US & Europe.
- The PLI scheme has allocated Rs.25,938Crs for the automotive sector, incentivizing domestic manufacturing of Advanced Automotive Technology (AAT) products. Pricol is approved for the scheme, along with 94 other applicants. Incentives are available for AAT product sales in India from April 1, 2022, for 5 years.

Valuation

Pricol is all set for strong growth based on favorable industry trends in the two-wheeler sector, besides increasing vehicle content with a shift towards premiumization. The firm is also evaluating inorganic growth opportunities to overcome cyclicality in the industrial business segment, aside from the two-wheeler business segment, which could add high-margin products to its portfolio. **Hence, we assign a BUY rating to Pricol Ltd. (Pricol) and value at 29.4x FY26E EPS of Rs. 20.73 to arrive at a target price of Rs. 610, an upside of 26.2%.**

Risk & Concern

- Pricol's revenue heavily depends on domestic OEMs, especially in the 2Ws segment, making it vulnerable to cyclical shifts in automotive demand.
- Pricol's high import dependence exposes it to forex risk and increased costs during volatile periods.
- Delay in new product launches.

Graphs & Charts

Figure 1: Net Sales Trend

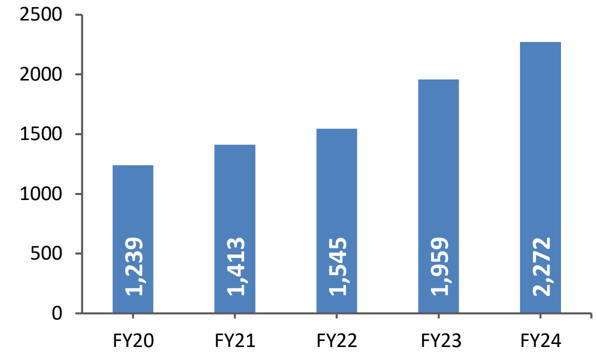


Figure 2: EBITDA & EBITDA Margin Trend

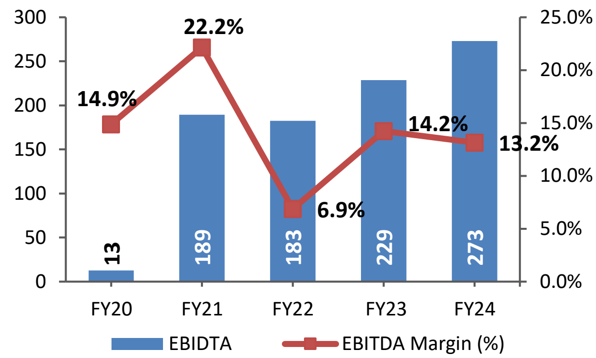


Figure 3: Revenue Mix (Q1FY25)

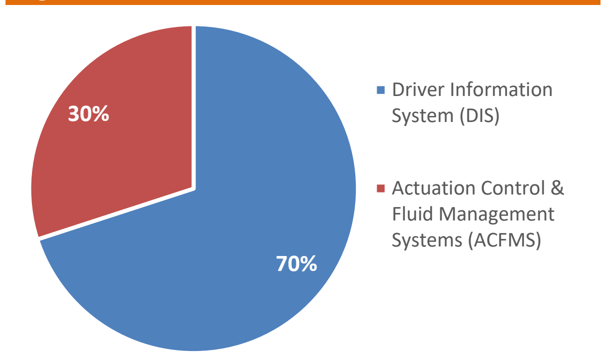
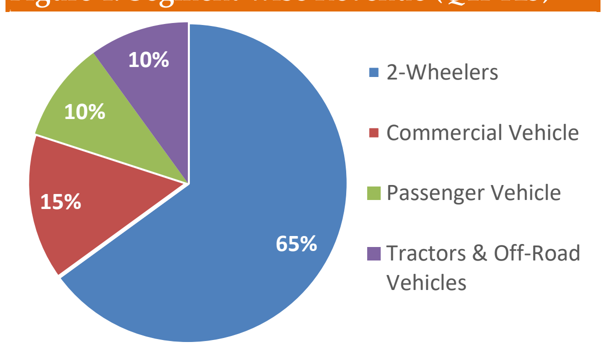


Figure 4: Segment-wise Revenue (Q1FY25)



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