

NOT RATED

PRICOL

| Auto Components

| 28 March 2024

Management meet note: Balancing margins and growth

- PRICOL is a global-level manufacturer of instrument clusters and fuel-level sensors for 2/3W with ~70% of its revenue from cluster segment
- Management targets ~Rs 40bn revenue by FY26, guides for EBITDA margin of 12-13% with limited room for swings
- New product launches E-cockpit, Disc Brakes and Battery Management System to further support revenue targets

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Meeting with PRICOL’s management: We recently met with PRICOL’s (Not Rated) senior management (Priyadarsi Bastia, Chief Financial Officer; Siddharth Manoharan, Director – Strategy), to understand its business dynamics and near-term outlook. The key takeaways from our meeting are as follows.

Second-largest cluster manufacturer: PRICOL is the second-largest manufacturer in the world for instrument cluster and fuel-level sensors for 2/3-wheeler applications and derives ~70% of its revenue from the cluster segment.

Export revenue down: The contribution of exports in the current revenue mix is at ~10% (against target of ~20% by FY25) due to the slowdown in the US and European markets. However, management expects a recovery in FY25.

FY26 roadmap: PRICOL is aiming for ~Rs 40bn revenue by FY26 (of which organic revenue targeted is at ~Rs 36bn). It expects EBITDA margins to be ~12-13% with limited room for further margin expansion as it can affect business growth.

Capex outlook internally funded: PRICOL announced an internally-funded capex outlook of ~Rs 6bn for FY23-25. Of the capex outlook, ~Rs 1.5bn was spent in FY23, ~Rs 2bn was utilised in FY24 and ~Rs 2bn is earmarked for FY25.

E-cockpit prototype ready, Disc Brakes and BMS segment underway: Prototype of E-cockpit (premium offering in Connected Vehicle Solution segment) is ready and the installation of the E-cockpit with one of the largest auto OEMs is in progress (Auto OEM to commence production from FY26). According to management, Disc Brakes and Battery Management System (BMS) is currently under development and will be launched in the next 18-24 months across the 2W segment where new age EVs will be the primary focus.

Valuation: As per Bloomberg Consensus estimates, PRICOL trades at P/E of 35.6x/25.6x/18.7x for FY24/FY25/FY26 EPS. We do not have a rating on the stock.

Ticker/Price	PRICOL IN/Rs 389
Market cap	US\$ 569.1mn
Free float	57%
52wk high/low	Rs 444/Rs 193
Promoter/FPI/DII	39%/7%/7%

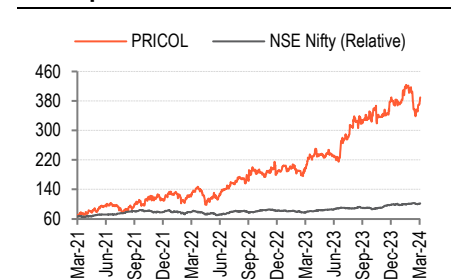
Source: NSE | Price as of 28 Mar 2024

Key financials

Y/E 31 Mar	FY21A	FY22A	FY23A
Total revenue (Rs mn)	14,131	15,447	19,586
EBITDA (Rs mn)	1,526	1,825	2,481
Adj. net profit (Rs mn)	415	510	1,247
Adj. EPS (Rs)	3.8	4.2	10.2
Consensus EPS (Rs)	3.8	4.2	10.2
Adj. ROAE (%)	9.0	9.3	19.5
Adj. P/E (x)	48.3	31.1	20.3
EV/EBITDA (x)	5.7	9.3	10.3
Adj. EPS growth (%)	-	10.0	144.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



The key takeaways from our meeting with PRICOL are:

- **Revenue segment dominated from cluster segment:** PRICOL is the second largest manufacturer in the world for instrument cluster and fuel-level sensors for 2- and 3-wheeler applications. The instrument cluster segment contributes ~70% of total revenue and the residual ~30% comes from the non-instrument segment. In the segment-wise revenue mix, two-thirds of PRICOL's revenue is from the 2W segment, ~15% from the CV segment, 5-7% from the PV segment and the balance from the tractor and off-highway segment.
- **Export business growth down:** The exports mix in total revenue currently is at ~10% (against target of reaching ~20% by FY25) due to the slowdown in both the US and European markets, and management expects a recovery in FY25.
- **RM imports duration rises marginally due to geo-political crisis:** The imports part of raw material cost is currently at ~35-40%. Logistics duration has increased by ~2 weeks due to rerouting as a result of the ongoing crisis in West Asia. Management stated that it does not expect any concerns related to chip availability in the near term.
- **Margin guidance at 12-13%:** Management has guided for revenue to reach ~Rs 40bn by FY26 (from ~Rs 19bn revenue in FY23) out of which organic revenue is ~Rs 36bn. EBITDA margin is expected to remain at 12-13% till FY26 and any further margin expansion would be at the cost of business growth.
- **Internally-funded capex outlook:** PRICOL has announced a planned capex of ~Rs 6bn for FY23-25 for capacity enhancement, productivity improvement and modernisation of older plants. Of the above capex ~Rs 1.5bn was spent in FY23, ~Rs 2bn utilised in FY24 and ~Rs 2bn earmarked for FY25. Management indicated that the entire capex was being funded through internal accruals.
- **E-cockpit prototype ready:** In Oct 2023 PRICOL announced it had entered into a co-operation agreement for technology and the supply of parts and systems with Heilongjiang Tianyouwei Electronics Co (headquartered at China) for advanced technologies in Driver Information System (DIS) Solutions including E-cockpits. The E-cockpit prototype is ready and management said it is working on the installation of the E-cockpit at one of the largest auto OEMs which will commence production from FY26.
- **Disc Brakes and BMS segment underway:** According to management, Disc Brakes and Battery Management System (BMS) are currently being developed and will be launched in the next 18-24 months across the 2W segment where new-age EVs will be the primary focus of PRICOL. These segments will begin to generate revenues from FY26.
- **Minda Corp has offloaded its stake:** Management informed that Minda Corporation sold its entire 15.07% stake in PRICOL in Jan 2024 (acquired in Feb 2023).

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Note: Recommendation structure changed with effect from 21 June 2021

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