CRISIL Ratings

Rating Rationale

October 12, 2022 | Mumbai

Pricol Limited

'CRISIL A-/Stable' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.145 Crore**
Long Term Rating	**CRISIL A-/Stable (Assigned)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL A-/Stable**' rating to the bank facilities of Pricol Limited (Pricol).

The ratings reflect the established business risk profile of Pricol supported by healthy relationship with domestic original equipment manufacturers (OEMs), leadership position in two-wheeler (2W) instrument clusters, improving product diversity and above average operating efficiencies. The ratings also reflect the company's adequate financial risk profile. These strengths are offset by Pricol's revenue dependence on 2W OEMs and high dependence on imported raw materials, which renders its profitability vulnerable to adverse foreign exchange movements.

Pricol derives over 80% of its revenues from OEMs, and 2W OEMs in particular. It enjoys strong relationship with OEMs and has a dominant share of over 50% in 2W instrument clusters. Between FY20-22, Pricol's revenues remained muted in line with sluggish 2W demand; besides it also sold off loss making subsidiaries overseas in FY20, which also impacted revenues. On the other hand, the hive off these subsidiaries along with improved focus on enhancing cost efficiencies, including through automation, operating profitability improved to ~11-12% in FY21 and FY22, from 5.6% in FY20. Over the near to medium term, Pricol is expected to register revenue growth of ~5-10% supported by healthy demand from OEMs, while its operating profitability is expected to remain rangebound at current levels, with gradual pass on of the rise in input costs to OEMs.

The company's financial profile has improved over the past two fiscals driven by equity infusion of Rs.81 crores through rights issue and healthy annual accruals of ~Rs.130 crores leading to prepayment of debt, taken for acquisitions and for supporting subsidiaries. Earlier, the company exited loss making subsidiaries in Brazil and also sold its investments in its Mexican and Czechoslovakian subsidiaries, and incurred a loss of ~Rs.400-420 crores on the same, which impacted its financial position in FY20. With the correction in debt levels, debt metrics such as gearing and ratio of total debt to earnings before depreciation , interest and tax (EBITDA) improved to 0.32 times and 0.7 times from 2.75 times and 4.8 times respectively in FY20.

The company has capital spending plans of Rs.400-450 crores over the next 3-4 years to enhance capacity, mainly of new products, which are part of the productivity linked incentive (PLI) scheme, announced by the government of India, and also for routine modernization and refurbishment of lines. With steady accruals and control over working capital, debt levels are expected to rise modestly, leading to debt metrics remaining at adequate levels over the medium term.

Analytical Approach

CRISIL Ratings has consolidated Pricol's financials with its wholly owned subsidiaries PT Pricol Surya – Indonesia, Pricol Wiping Systems India Limited, Pricol Asia Pte Limited since these are wholly owned subsidiaries in the same line of business with significant business and financial linkages. CRISIL Ratings has also consolidated PT Sripri Wiring Systems which is the wholly owned subsidiary of PT Pricol Surya- Indonesia.

Please refer Annexure - List of a Consolidated, which captures the list of entities considered and their analytical treatment of consolidation

Key Rating Drivers & Detailed Description

Strengths

Leading position in 2W instrument clusters, and improving product diversity, supported by healthy relationships with OEMs: Pricol has healthy market position in dashboard instruments and driver information systems (~52% of the revenues) with track record of about 50 years in supplying to leading domestic OEMs. Pumps and mechanical products contribute 23% of revenues while switches and sensors contribute 11% of the revenues. Presence in different segments, adds to the product diversity of Pricol. The company has its own inhouse R&D which develops the new products and has a track record of launching new products quickly. The company plans to add new products to its portfolio such as sensors and battery management systems, which will further enhance its product basket.

The company is the market leader in 2W instrument clusters (dashboard instruments), with over 50% market share.

Pricol derives majority of its revenues from domestic OEMs (~82% in FY22) with relatively modest aftermarket and exports presence. 2Ws OEMs contribute ~70% of the revenues and the company has healthy relationship with key OEMs including 2W OEMs - TVS Motor Company Ltd, Hero MotoCorp Ltd (rated 'CRISIL AAA/Stable/CRISIL A1+'), Bajaj Auto Ltd (rated 'CRISIL AAA/Stable/CRISIL A1+') and Eicher Motors Ltd (Royal Enfield 2Ws), CV OEMs - Tata Motors Ltd (rated 'CRISIL AA-/Stable/CRISIL A1+') and Ashok Leyland. The company earlier had a non-compete agreement with its erstwhile joint venture partner, Denso Corporation, Japan, which recently expired, following which Pricol is in discussions to supply components to passenger vehicle (PV) OEMs.

A sizeable portion of Pricol' s products are electric vehicle (EV) agnostic; hence the impact on revenues due to a gradual shift towards EV will not be material, and revenue loss will be more than offset by new product launches expected over the medium term.

Good operating efficiencies: Pricol has strong R&D capabilities and has of late started manufacturing more critical components in-house, which ensures better quality and less wastage. Also, its focus on automation which allowed for material pruning of workforce, and on enhancing share of wallet with existing customers, and moving up the value chain has enabled it to maintain above average profitability of ~11-12% since FY21. The hive off of the loss making overseas subsidiaries and change in product mix in favour of better premium price complex products, has also contributed to the profitability improvement.

The company's operations were impacted by labour issues a nd strikes in the past; however there have been cordial relations in recent years.

Adequate financial risk profile: The company's financial risk profile has benefitted from health cash accruals generated since FY21 and a rights issue of Rs. 81 crores in FY21, which enabled debt reduction, strengthening of the balance sheet, and debt metrics. Pricol's financial risk profile was constrained in the past due to losses and write-offs taken due to hive off of overseas subsidiaries, primarily in Brazil (~Rs.400-420 crores), which eroded net worth. Besides, the debt taken for acquisition and later to support losses of subsidiaries led to moderation in the company's financial profile between FY18-FY20.

Pricol acquired three companies from Ashok Piramal group (PMP Czech, PMP Mexico & PMP India) in FY18 for a consideration of Rs.100 crores. Pricol already had one subsidiary in Brazil (Pricol do Brasil Componentes Automotivos Ltd), acquired in FY15, which had been making losses due to high employee costs and stagnating economy. Due to inability to turn around operations at Brazil, Pricol also decided to exit the Mexican and Czech subsidiaries, and all three subsidiaries were sold at a marginal price, compared with their acquisition cost, resulting in huge losses and write-offs. Pricol was merged with PMP India, which was later renamed as Pricol.

With a sizeable portion of the debt being paid down and only moderate capital spending, debt metrics such as gearing and ratio of debt/EBITDA improved to 0.32 times and 0.7 times from 2.75 times and 4.8 times respectively in FY20. The company has capital spending plans of Rs.400-450 crores over the next 3-4 years to enhance capacity, mainly of new products, for routine modernization and refurbishment of lines. With steady accruals and control over working capital, debt levels are expected to rise only modestly, leading to debt metrics remaining at adequate levels over the medium term.

Weaknesses

Revenue concentration in 2W segment: Domestic OEMs contribute over 80% of the re venues of Pricol, with exports contributing ~8% of the revenues in FY22. The company has no significant share in the aftermarket due to long life-cycle of products. High exposure to OEMs therefore makes Pricol vulnerable to automobile demand and the consequent offtake by its customers. Further, Pricol derives ~65-70% of its revenues from the 2W segment. Any prolonged slowdown in 2W demand, as was witnessed between FY20-22 impacts off-take for components.

The revenue dependence on the 2W segment, is gradually expected to reduce over time, as Pricol can now re-enter the PV segment, where it is already in discussions with PV OEMs in this regard. Besides, improved demand from commercial vehicles (CVs) since FY22 will also help reduce revenue dependence on the 2W segment. Albeit, given its strong relationship with OEMs and leading position in the 2W instrument cluster segment, revenue concentration on OEMs and the 2W segment in particular, will continue over the medium term.

High import dependence rendering profitability vulnerable to adverse forex movements: Pricol imports about 40-45% of its raw materials, and ~65-70% of the same are from China. Other import destinations include South Korea and Taiwan. All imports are routed through its subsidiary, Singapore based Pricol Asia Pte Ltd. The high import content in its raw material mix and limited hedges taken exposes the company's profitability to foreign currency fluctuations, especially during volatile periods globally.

Liquidity: Adequate

The company's liquidity position is adequate, and supported by healthy accruals of over Rs.120-130 crores per annum expected over the medium term and largely unutilized bank lines (utilization was ~21% over 12 months ended June 2022, compared with drawing power ranging from Rs.50-70 crores). The company has prepaid long term debt in FY22, The company had long term debt of Rs.125 crores at March 31, 2022, and had repaid Rs.78 crores (including pre-payment) in the first half of FY23, and is expected to repay around Rs.10 crores by March 2023. Working capital borrowings are expected to remain under control, while capex spending is estimated at Rs.400-450 crores over the next 3-4 years, and will be met largely from accruals, and moderate debt. Repayment post FY23 will pertain to residual loans as well as loans which will be raised for capex, and are expected to be well spread out, ensuring adequate cushion against accruals.

Outlook: Stable

Pricol is expected to register steady business performance, due to healthy demand for its products from OEMs and export customers and sustain its operating profitability at current levels. The financial risk profile is expected to remain adequate supported by good cashflows from operations and prudent working capital management, and notwithstanding large capex requirements.

Rating Sensitivity factors

Upward factors

- Stronger than anticipated revenue growth, including from new products, and sustained steady operating profitability (11-12%), resulting in better than expected cash generation
- Steady improvement in financial risk profile, supported by steady cash generation, prudent funding of capex, and good working capital management

Downward factors

- Sluggish business performance due to weak demand from OEMs, impacting operating profitability (below 7-8%), and cash generation
- Material labour related issues impacting operations
- Larger than expected debt funded capex or acquisitions, and increase in working capital needs, impacting key debt metrics

About the Company

Pricol commenced its operations in the year 1975 in Coimbatore, South India. Pricol is one of India's leading dashboard manufacturers head quartered in Coimbatore. The company carries out its business and operations in Driver Information Systems and Sensors, Pumps and Allied Products, Telematics and Wiping Systems catering to leading automotive OEMs in Two / Three Wheeler, Passenger Vehicles, Commercial Vehicles, Farm Equipment and Offroad Vehicles across India and in International Markets (45+countries) with 2000+ product variants. The company has 7 manufacturing facilities across Coimbatore, Manesar, Pantnagar, Pune and Sri city in India, 1 manufacturing plant in Jakarta, Indonesia and 1 subsidiary in Satara in India, with 2 international offices in Tokyo, Japan and in Singapore.

The company reported profit after tax (PAT) of Rs.20.59 crores (Rs.5.94 crores in the corresponding quarter of FY22) on revenues of Rs.448.16 crores (Rs.319.91 crores) during the first quarter of FY23.

Key Financial Indicators

As on/for the period ended March 31		2022	2021
Revenue	Rs Crore	1545	1414
Profit After Tax (PAT)	Rs Crore	55	41
PAT Margins	%	3.6	2.9
Adjusted Debt/Adjusted Networth	Times	0.32	0.78
Interest Coverage	Times	6.68	4.37

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity Levels	Rating Assigned with Outlook
NA	Proposed Term Loan	NA	NA	NA	17.43	NA	CRISIL A-/Stable
NA	Term loan	NA	NA	May-2026	25.96	NA	CRISIL A-/Stable
NA	Term loan	NA	NA	Jun-2026	21.61	NA	CRISIL A-/Stable
NA	Cash Credit*	NA	NA	NA	80	NA	CRISIL A-/Stable

**Includes sublimit of Letter of Credit & Bank Guarantee*

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
PT Pricol Surya – Indonesia	Full	Wholly owned subsidiary, same line of business
PT Sripri Wiring Systems	Full	Wholly owned subsidiary of PT Pricol Surya-Indonesia and stepdown subsidiary of Pricol, same line of business.
Pricol Asia Pte Limited	Full	Wholly owned subsidiary, same line of business
Pricol Wiping Systems India Limited	Full	Wholly owned subsidiary, same line of business

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	145.0	CRISIL A-/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit*	50	ICICI Bank Limited	CRISIL A-/Stable
Cash Credit*	30	IndusInd Bank Limited	CRISIL A-/Stable
Proposed Term Loan	17.43	Not Applicable	CRISIL A-/Stable
Term Loan	25.96	ICICI Bank Limited	CRISIL A-/Stable
Term Loan	21.61	IndusInd Bank Limited	CRISIL A-/Stable

This Annexure has been updated on 12-Oct-2022 in line with the lender-wise facility details as on 12-Oct-2022 received from the rated entity

**Includes sublimit of Letter of Credit & Bank Guarantee*

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Auto Component Suppliers
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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