INITIATING COVERAGE

PRICOL LIMITED

March 2024

ANALYSTS

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Pricol Ltd I **BUY** I Target Price: Rs 465 | Upside: 38%

"Instrumentally" progressive

MONARCH NETWORTH CAPITAL

Initiating Coverage

We initiate coverage on Pricol Ltd. (Pricol) with a BUY and TP of Rs.465 (38% upside). Pricol, with a towering market share for cluster instruments in multiple sub-segments of the auto industry, is at a transformational stage after an extended period of uncertainty created by several endogenous and exogenous factors. All stars appear to be aligned: it should grow faster than industry on the back of a premiumization trend - clusters moving from mechanical to digital, underlying 2W demand rebounding after a lull, ACFMS (Actuation Control & Fluid Management Systems) segment facing tailwinds in exports and introduction of new products. Even excluding any impact of new products and acquisitions, we expect margin expansion, a net cash balance sheet and very strong growth together elevating return ratios, buttressing a possible re-rating.

- **Can outstrip industry and has been growing faster than parent auto:** Pricol's substantial market share in instrument clusters for 2w/CV/tractors/off-road vehicle and long-standing customer relations should propel faster growth than the industry, largely due to a premiumization trend - the transition from mechanical to LCD and TFT instrument clusters, which have 3x/10-15x higher content per vehicle compared to mechanical clusters. This was discernible in FY23 itself. The transition will be accelerated by new model launches, EV penetration and increase in share of scooters and premium bikes. As 2W contributes 65% to Pricol's overall revenues, the already perceptible demand rebound in 2W after a subdued period bodes well for the company.

- **ACFMS segment to drive exports and improve EV exposure:** Pricol's strategy to counter EV penetration risk is to focus more on value-added offerings for off-road vehicles, construction equipment, heavy duty engines, and foray into EV-specific products like electric coolant pumps (commercial production started) & electric oil pumps. Also, the ACFMS segment contributes 90% of total exports. While the company targets 20% exports as against ~8% currently, the current traction from customers such as Caterpillar, Polaris, KTM, Ducati, Harley Davidson, and BMW, should maintain export at 10-12% of total revenues in the near term.

- **New products pipeline & robust financials strengthens conviction:** Integrated solutions such as advanced telematics and e-cockpit are likely to enhance the content per vehicle in the DIS (Driver Information System) segment. Additionally, efforts on electric coolant pumps, electric oil pumps, disc brakes and BMS (Battery Management Systems) aim to enhance Pricol's offerings in the EV segment, expecting a notable uptick in revenue contribution from EV products. A potential acquisition in the margin-accretive industrial instrumentation space would help Pricol to partially de-risk the automotive cyclicity. Excluding any impact from new products and acquisitions, which at present are optionalities, we expect margin expansion, a net cash balance sheet and very strong growth coming together to elevate return ratios and making a case for re-rating.

- **Valuation & Risks:** We expect the company to post Revenue/ EBITDA/ PAT CAGR of 22.0/25.3%/30.9% over FY23-26E. **We value Pricol at 22x FY26E PE ratio (higher than its historical valuations but still at discount to large peers) to arrive at a target price of Rs465. At CMP of Rs338, Pricol trades at 16x FY26E PE ratio.** Uncertainties caused by some miscued investments and a possible hostile takeover are now past. Risks: lower than expected 2W growth and IC shortages.

Target Price	465
CMP*	338
Upside	38%

Price Performance (%)	1M	6M	1Yr
PRICOL	-18.2	7.3	82.1
Nifty	1.2	9.6	28.2

Key Data	
Bloomberg Code	PRICOL:IN
Curr Shares O/S (mn)	121.9
Diluted Shares O/S(mn)	121.9
Mkt Cap (Rsbn/USDmn)	41.3/498.5
52 Wk H / L (Rs)	444/175
3M Average Vol.	793207.6

Source: Bloomberg, ACE Equity, MNCL Research

Shareholding pattern (%)

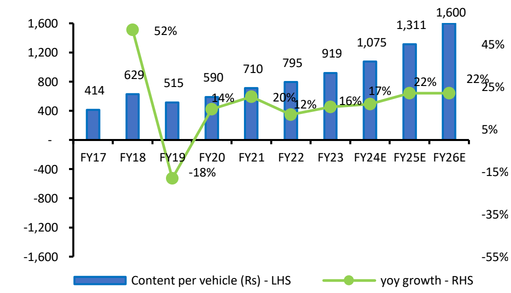
	Dec-23	Sept-23	Jun-23	Mar-23
Promoter	38.5	38.5	38.5	36.5
FIIs	6.5	3.9	2.9	3.7
DIIs	6.9	5.6	5.6	6.6
Others	48.1	52.0	53.0	53.2

Source: BSE

Why should you read this report?

- *Since the implementation of the BS-VI standards, there has been a gradual noticeable shift in the instrument clusters industry with a transition from mechanical to digital.*
- *Introduction of EV specific products like BMS, electric coolant pumps and electric oil pumps to adapt the shift from ICE to EV. Further, foraying into new products like advanced telematics, ecockpit, headsup display and disc brakes represents a massive opportunity.*
- *Comitment to R&D (3.9% of standalone revenue in FY23) and strategic partnerships display Pricol's technical prowess.*
- *With several overhangs now past, Pricol is set for re-rating.*

Content per vehicle for 2w clusters has risen sharply due to shift to digital clusters, expect the momemtum to continue



Source: MNCL Research Estimates

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Y/E Mar (Rs mn)	Revenue	*YoY (%)*	EBITDA	*EBITDA (%)*	Adj PAT	*YoY (%)*	Adj EPS	RoE (%)	*RoCE (%)*	P/E (x)	EV/EBITDA (x)
FY21	14,131	*14.0*	1,779	*12.6*	158	*NM*	1.3	3.4	*3.9*	35.3	4.1
FY22	15,447	*9.3*	1,806	*11.7*	511	*222.8*	4.2	9.3	*9.3*	24.4	7.3
FY23	19,586	*26.8*	2,285	*11.7*	1,149	*125.0*	9.4	18.0	*17.6*	17.7	8.9
FY24E	23,031	*17.6*	2,728	*11.8*	1,372	*19.4*	11.3	17.8	*17.7*	30.0	15.2
FY25E	28,321	*23.0*	3,518	*12.4*	1,879	*36.9*	15.4	20.1	*20.0*	21.9	11.7
FY26E	35,521	*25.4*	4,493	*12.7*	2,579	*37.2*	21.2	22.3	*22.1*	16.0	8.7

Source: Company, MNCL Research estimates, Consolidated Financials.

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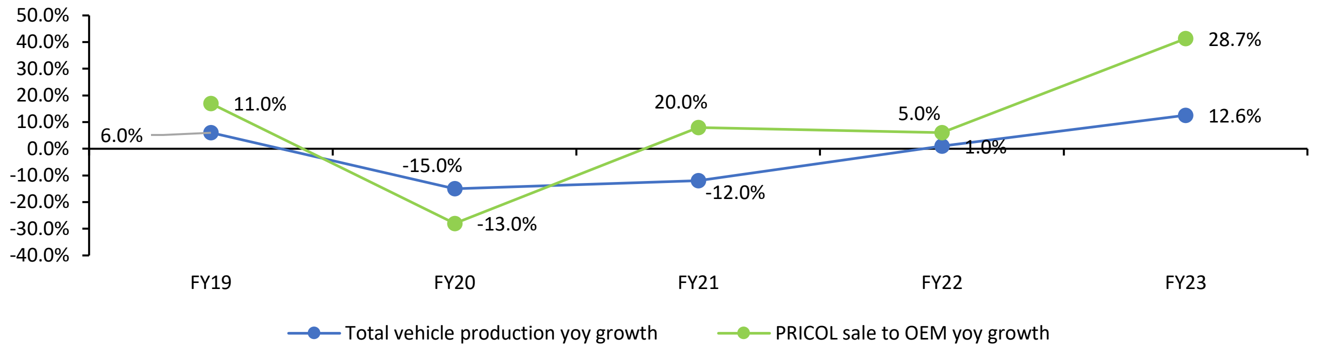
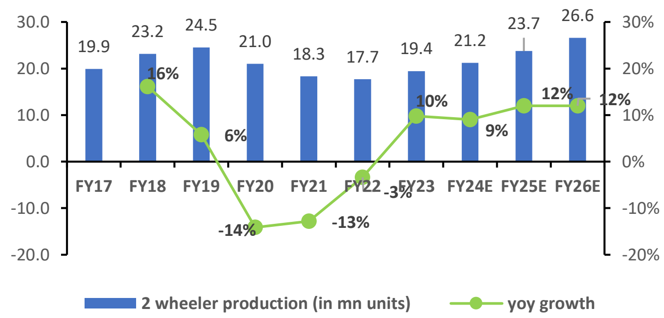
Investment Thesis in Charts

Exhibit 1: Consistently outperforms the industry growth (2/3 wheeler + CV + PV + Tractors)



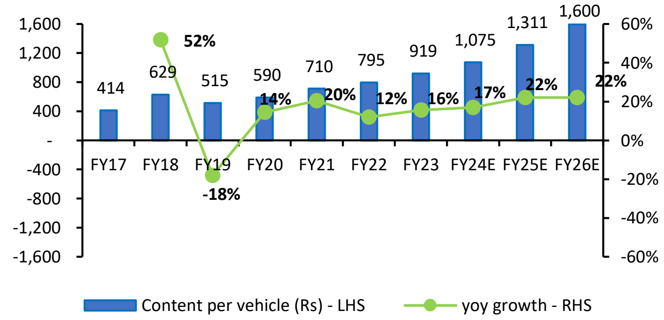
Source: Company, MNCL Research

Exhibit 2: 2W production yet to rebound to pre covid levels, project a double digit CAGR of 11% over FY23-26E



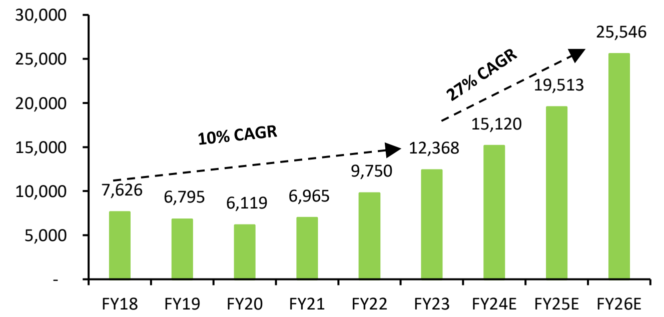
Source: SIAM, MNCL Research estimates

Exhibit 3: Content per vehicle for 2W clusters risen sharply due to shift to digital clusters, momentum expected to continue



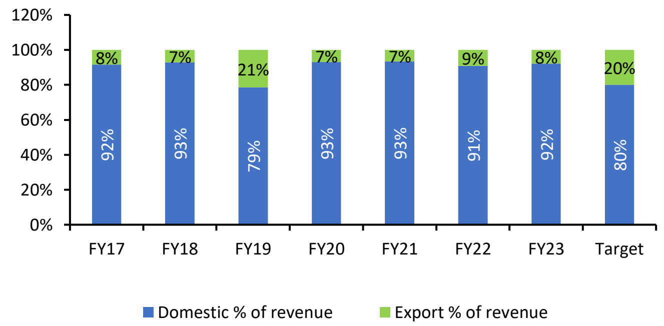
Source: MNCL Research Estimates

Exhibit 4: DIS Segment Revenue (Rs mn) growth expected to be robust at CAGR of 27% over FY23-26e



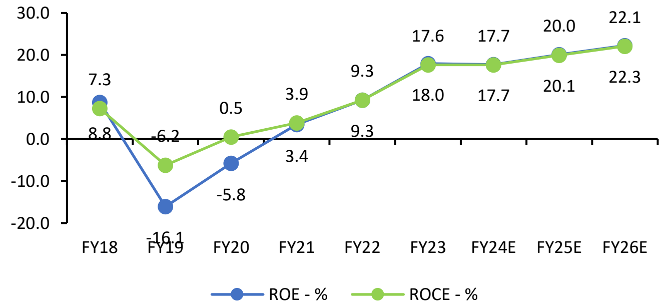
Source: Company, MNCL Research estimates

Exhibit 5: Management targets exports (incl. indirect exports) to touch 20%



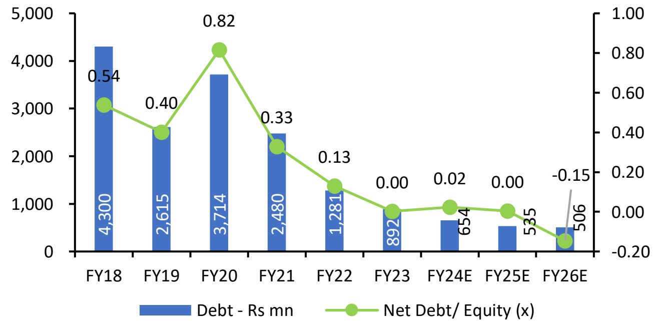
Source: Company, MNCL Research

Exhibit 6: Return Ratios to cross 20% mark in FY26E



Source: Company, MNCL Research estimates; ROCE is post-tax

Exhibit 7: Debt levels to stay low due to stable cash flow generation from operations



Source: Company, MNCL Research estimates

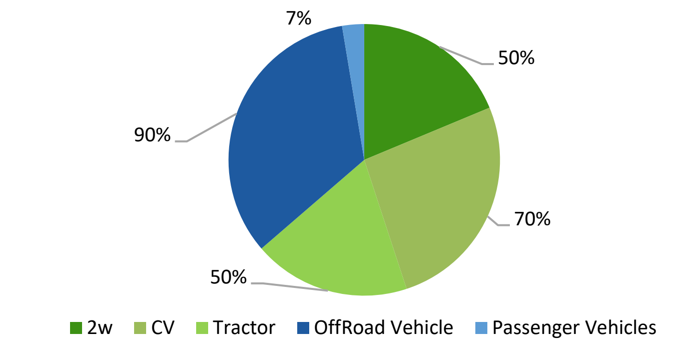
DIS segment undergoing major makeover

Clusters turning premium

Trend for shift to digital clusters started since the inception of BS-VI standards.

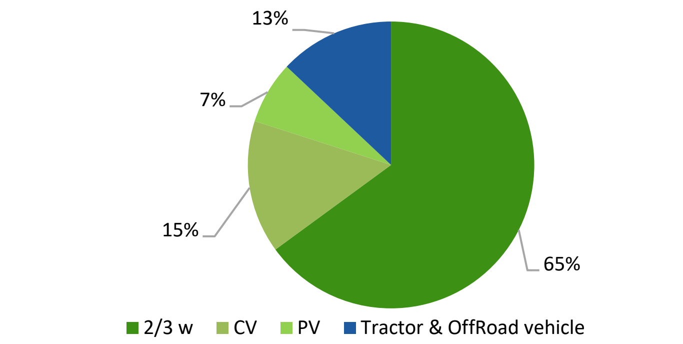
Driver Information System (DIS) is used to indicate the instantaneous changing parameters in the vehicle such as speed, engine RPM, engine temperature, fuel level, fuel economy, service reminder, phone connect, navigation assist and various warning indicators at vehicle level. **Pricol ranks as the second-largest manufacturer (after Nippon Seiki) globally for instrument clusters designed for 2/3 wheeler applications. It holds a substantial market share of 50%/70%/50%/90%/7% in 2 wheeler/commercial vehicles/tractors/off-road vehicle segments/passenger vehicles respectively, establishing itself as a key player in the industry.** The introduction of BS-VI emission standards starting April 2020 spurred the trend from mechanical to digital instrument clusters, which are technologically advanced and command a higher content per vehicle. Pricol was quick to embrace BS-VI standards and secured numerous new business across various segments, leading to ~40% of the overall revenue for FY2020-21 contributed by these new business acquisitions. Currently, OEMs are integrating digital consoles as a key feature, expanding their implementation to include mass-market two-wheelers and entry-level cars. Currently, Pricol has manufacturing capabilities for producing ~30,000-40,000 clusters per day on an average. It stands as a major supplier of telematics solutions within the Off-Road Vehicle (ORV) and tractor segments. It has successfully designed and manufactured more than 3,00,000 telematics till date. The DIS segment stands out as a significant revenue contributor, constituting 65% of the total consolidated revenue in FY23. Within the DIS segment, the revenue breakdown is as follows: 65% from 2/3 wheelers, 15% from commercial vehicles, 7% from passenger vehicles, and 13% from the tractors & ORV.

Exhibit 8: Market Share of instrument cluster across vehicle segments



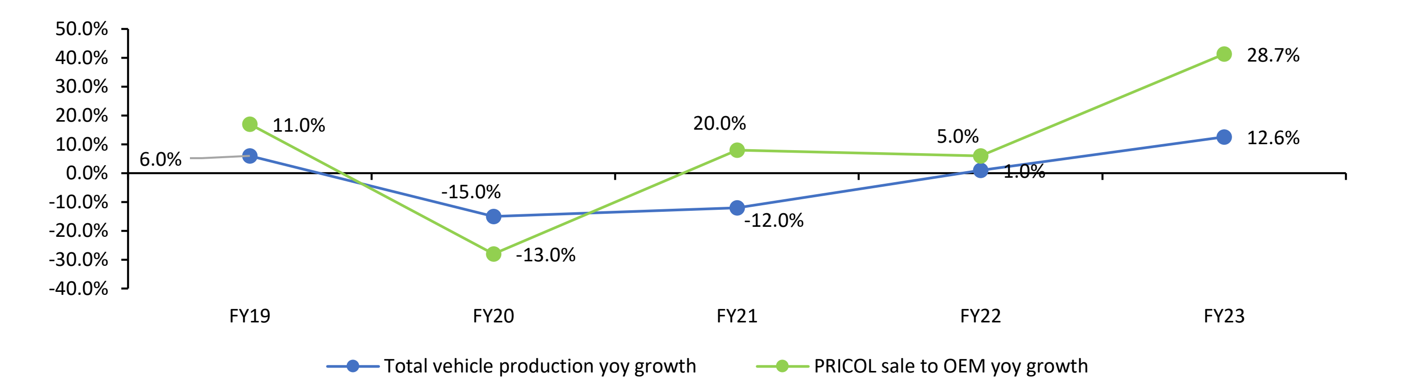
Source: MNCL Research

Exhibit 9: Revenue contribution by vehicle segment in DIS segment as of FY23



Source: MNCL Research

Exhibit 10: Consistently outperformed underlying industry growth (2/3 wheeler + CV + PV + Tractors)



Source: Company, MNCL Research

As seen in the exhibit above, in the midst of the challenges posed by the BS-VI standards, COVID-19 pandemic and semiconductor shortages, Pricol has managed to outperform the industry growth primarily on the back of faster adoption to BS-VI compliant products in the portfolio, introduction of new products, new business wins, increase in market share and rise in the content per vehicle due to switch from mechanical to digital clusters. **Going forward, we expect the outperformance to continue due to increase in wallet share among customers, introduction of new products and shift to premium TFT clusters.**

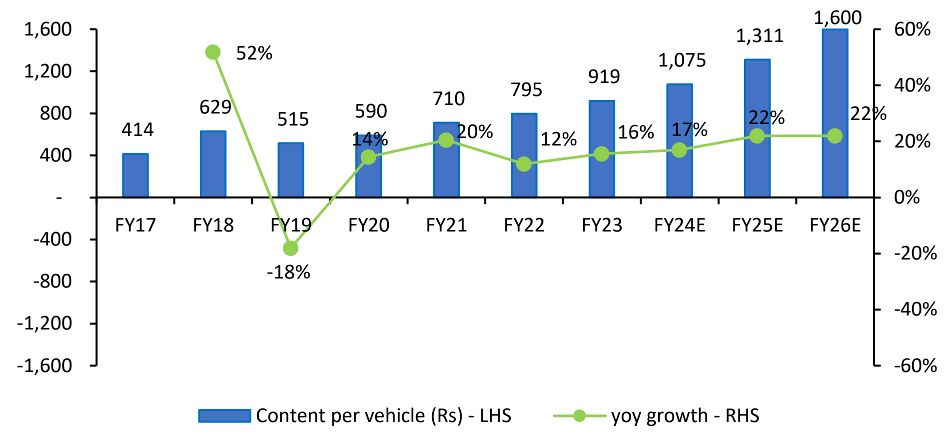
A. 2 wheeler instrument clusters

Content per vehicle to grow at impressive CAGR of 20% over FY23-26E, courtesy premiumization

The content per vehicle of a 2w LCD/ TFT cluster is 3x/10-15x higher respectively than that of a mechanical cluster.

The introduction of BS VI norms marked a significant shift from traditional mechanical systems to advanced LCD digital technology clusters. The industry's current trend involves a shift towards TFT (Thin-Film Transistor) clusters that are an advanced form compared to the LCD technology, offering improved image quality, faster response times, and enhanced viewing angles.

Exhibit 11: Content per vehicle for 2W clusters risen sharply due to shift to digital clusters, momentum expected to continue



Source: MNCL Research Estimates

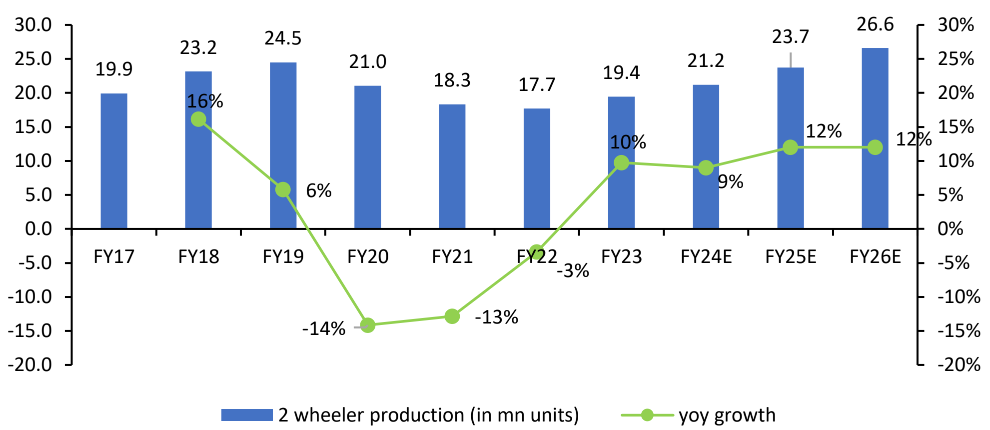
The share of scooters / premium-bikes is expected to rise from 31 % /13 % to 38 % /15 %. Source: FY23 Annual Report)

As seen in the above exhibit, Pricol has seen a noteworthy rise in content per vehicle, surging from around Rs414 in FY17 to Rs920 in FY23. This marks a strong CAGR of 14.2%, primarily driven by the transition towards digital LCD and TFT clusters. **The proportion of mechanical to digital clusters has favorably evolved to from 70%:30% in FY19 to 30%:70% (including TFT 7%) in FY23. We expect a persistent transition to 15% mechanical and 85% digital by FY26, with TFT clusters share expected to double to 14% on the back of new model launches, EV penetration and increase in share of scooters and premium bikes.**

We expect growth momentum in content per vehicle to continue on the back of impending model launches, including electric vehicles that favor LCD and TFT clusters and project a robust CAGR of 20.3% over FY23-26E.

2W production: Riding the Recovery Road, Yet to Hit Pre-COVID Speeds

Exhibit 12: 2W production yet to rebound to pre covid levels, project a double digit CAGR of 11% over FY23-26E



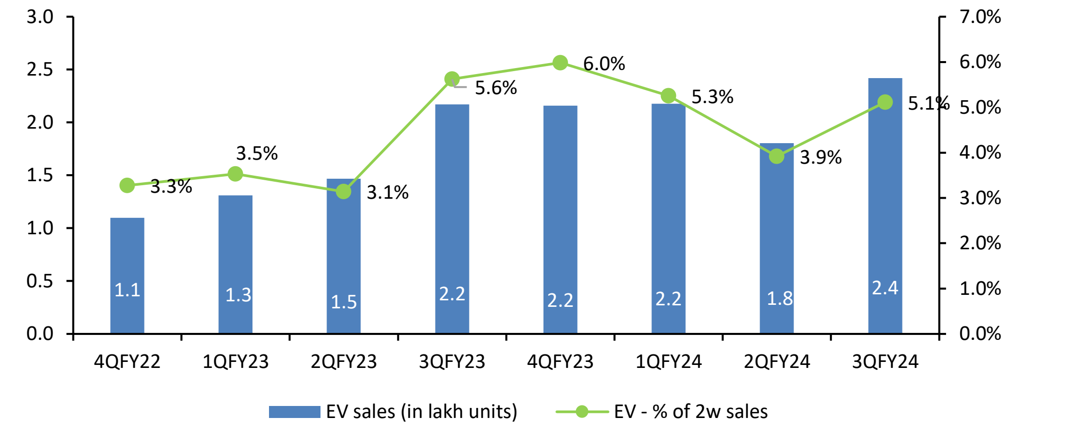
Source: SIAM, MNCL Research Estimates

2W production clocked a negative CAGR of -0.4% over FY17-23 due to regulation-induced price hikes and the impact of COVID. Post the pandemic, the 2W industry has weakened due to high interest rates, rising inflation and low rural demand. 2W production still remains below the pre-covid levels. The two-wheeler industry is set for strong expansion, fueled by a resurgence in motorcycle demand and a rising adoption of electric two-wheelers. **With the likely reversal of interest rate cycle leading to substantial moderation in rates, stable monsoon, surge in replacement demand and increase in rural demand, we expect 2W industry to grow at a CAGR of 11% over FY23-26E. With a market share of 50% in 2W instrument clusters, Pricol is positioned to be a major beneficiary of the robust growth in 2W production.**

Electrifying Ahead: Anticipating a Rise in 2W Electric Vehicle Adoption

2w EV sales as a percent of total 2w sales in India is at just ~5-6% currently due to issues over high capital cost to own an EV, absence of a robust charging infrastructure, range anxiety, charging time, etc. We expect this to change in the coming years as new technologies and mass production ease costs and expand charging facilities.

Exhibit 13: EV 2W penetration in India still low

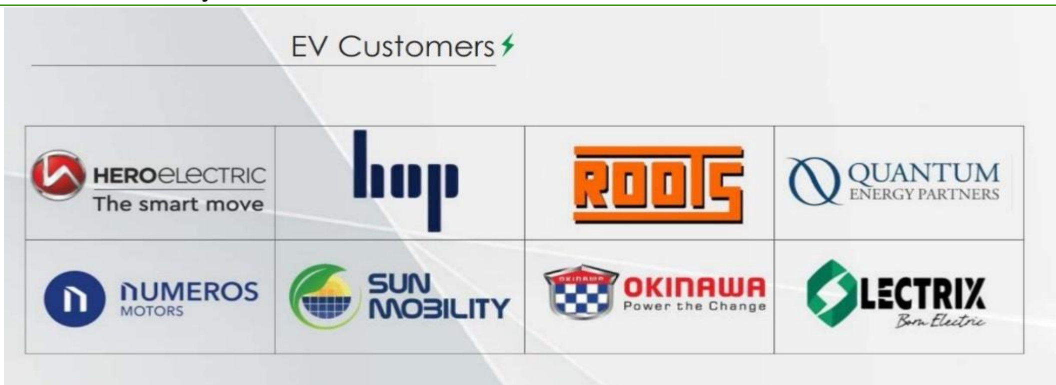


Source: Vahan database, MNCL Research

As seen in the above exhibit, 2W EV as a % of total 2W sales had dipped to 4% in 2QFY24 (vs. peak of 6% in 4QFY23) post the reduction in incentives to Rs10,000/kWh from Rs15,000/kWh (incentives capped to 15% of ex-factory price of vehicle from 40% before). This metric saw a rebound to 5.1% in 3QFY24 which implies the gradual acceptance of reduced incentives by 2W EV buyers.

Extension of FAME II subsidy and new FAME-III scheme to keep EV flame illuminated: Government has extended the FAME II subsidies on 2W EV and 3W EV by another four months until July'24 with an approved outlay of Rs5bn. This scheme was supposed to expire on Mar'24. Expenditure Finance panel has recommended Rs100bn support for FAME III scheme which is likely to be approved post elections. We expect this additional package to ensure that the shift to EV continues until the new incentive scheme is approved. **We expect EV penetration to reach ~10% by FY26 on account of governmental incentives, new model launches, favourable cost of ownership and faster progress in the development of EV infrastructure,** even if not propped by incentives**.**

Exhibit 14: List of major EV customers



Source: Company

Pricol supplies to 80% of the 2W EV OEMs. EVs constitute ~7-8% of the total volumes sold and the share is expected to increase with the increase in EV penetration.

Pricol has already made inroads into manufacturing clusters for electric vehicles in the 2 wheeler, PV, CV and bus segments. Majority of the new age EVs endorse digital clusters, providing a distinct advantage for Pricol. It has collaborated with more than 25 innovative new-age EV players and expects to grow with them. We believe this business has significant potential upside, which will evolve in the years to come as EV becomes more economical and technologies like battery swapping are commercialized.

Outperformed the 2W industry growth, momentum to continue

Exhibit 15: Comparison of 2w industry growth vs 2w DIS revenue growth

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	CAGR FY18-23
2w production (in mn units)	23.2	24.5	21.0	18.3	17.7	19.4	-3%
yoy growth %	16%	6%	-14%	-13%	-3%	10%	
2w DIS revenue share for Pricol (in Rs mn)	4,804	4,416	4,589	5,015	6,338	8,039	11%
yoy growth %	94%	-8%	4%	9%	26%	27%	
Conclusion	outperformance	underperformance	outperformance	outperformance	outperformance	outperformance	

Source: MNCL Research Estimates

As seen in the above exhibit, Pricol has outperformed the 2 wheeler industry growth comfortably in 5 of the last 6 years. **Going forward, we expect the outperformance to continue largely due to premiumization on account of rising share of digital clusters (including TFT clusters). OEMs are currently showing a preference for digital clusters over traditional alternatives, which is currently reflected in the order book as well as LOI that is dominated by digital clusters**. Pricol stands to gain from its long association with marquee clients and an impressive pipeline of upcoming model launches, in turn helping outperformance. Top 3 clients in the 2W space are Bajaj, TVS Motor and Hero MotoCorp.

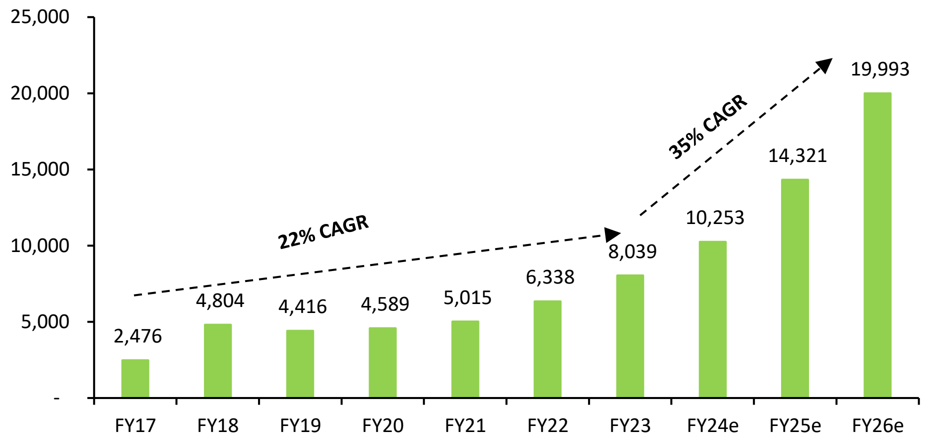
Exhibit 16: List of 2W marquee clients

Source: Company

2W DIS revenues to grow at impressive CAGR of 35% over FY23-26E

On account of reasons cited in the above sections like premiumization, rebound in 2W production to pre-covid levels, outperformance over the industry, higher EV penetration coupled with a robust market share, **we expect Pricol's DIS segment to grow at 35% CAGR over FY23-FY26E vs. 22% CAGR for the period FY17-FY23.**

Exhibit 17: 2W DIS Segment Revenue (Rs mn) to grow at CAGR of 35% over FY23-26E



Source: MNCL Research estimates

B. Commercial vehicle instrument clusters

Market leader with 70% domestic market share

With a market share of ~45% in FY19 to 70% in FY23, Pricol has garnered a substantial share of the domestic commercial market. Notably, 15% of Pricol's revenue is derived from the commercial vehicle segment, wherein it maintains a significant presence across micro-LCVs, medium and heavy-duty trucks, as well as light commercial vehicles. List of major clients include Ashok Leyland, Daimler, Force, Mahindra Rise, Swaraj Mazda, Tata and VE commercial vehicles.

List of major commercial vehicle customers

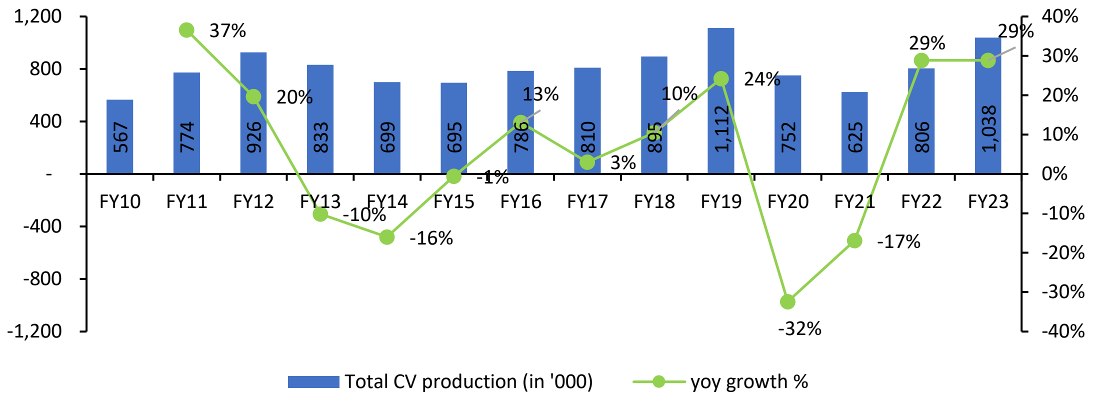
Source: Company

Anticipating moderation in CV upcycle

CV dispactches to dealers in the month of Jan'24/Feb'24 have started showing signs of sluggishness as it recorded -1.1/-0.74% yoy growth over Jan'23/Feb'23.

The CV domestic production has grown at an impressive CAGR of 29% over FY21-23 on account of pent-up demand as the economy recovered from the Covid-19 pandemic. In FY24E, domestic production of commercial vehicles is expected to grow at 4% yoy over the elevated base of FY23. This growth is driven by improved fleet usage, increased profits for transporters, growing demand for replacements, and positive expectations for a strong economic upturn. **Going forward, we remain cautious and expect the CV upcycle to moderate on the back of normalization of pent-up demand, inflationary concerns and global uncertainties hindering export outlook.**

Exhibit 18: CV Domestic production CAGR of 29% over FY21-23, moderation expected ahead

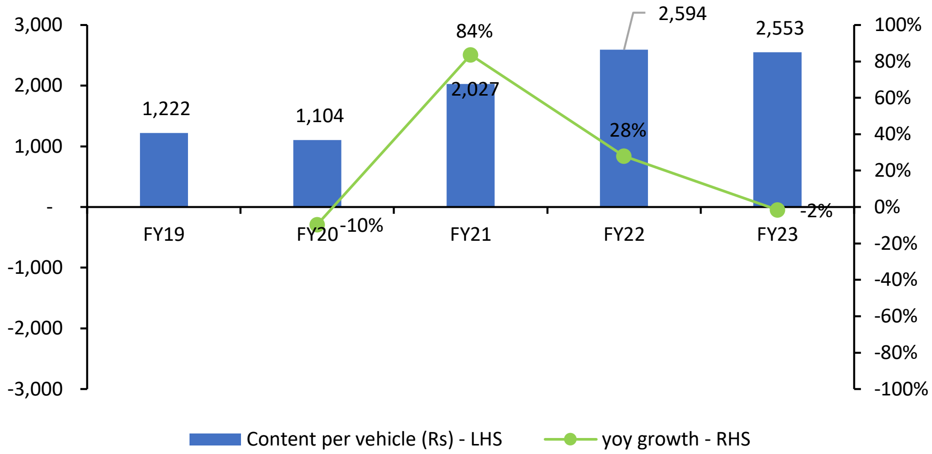


Source: SIAM, MNCL Research

However, remain positive on rise in content per vehicle

As seen in the exhibit below, the content per vehicle in commercial vehicle instrument clusters has risen sharply at a CAGR of 29% over FY19-21 to ~Rs2,000 levels, clearly indicating the transition to advanced digital clusters that provide drivers with enhanced information and incorporating additional safety measures as outlined by the BS-VI standards. The trend of shifting to digital clusters kept momemtum as it clocked a CAGR of 12% over FY21-23 and touched Rs2,550. **Although we foresee a moderation in CV production growth from FY23-26E, we continue to remain positive on the transition to technologically advanced instrument clusters and project CAGR growth of 5% in content per vehicle over the FY23-26E.**

Exhibit 19: Implementation of BS VI norms brings noteworthy surge in CV content per vehicle



Source: MNCL Research

C. Passenger vehicle instrument clusters: Gradually seizing a massive opportunity

After the expiry of the five-year non compete clause, Pricol staged a resurgence by leveraging its expertise, supported by substantial investments in engineering and technology to maintain cost competitiveness.

The global 4W instrument cluster realm is swiftly advancing to premiumization, propelled by the rapid digitization surge and intricacy of display screens. Pricol entered into joint ventures with Denso and Johnson Controls, focusing primarily on catering to the four-wheeler market and specializing in the instrument cluster space. Due to the dissolution of the joint venutes with Johnson and Denso, Pricol was obligated to observe a 5 year non-compete clause until 2020. Following the conclusion of the non-compete clause, Pricol successfully re-established partnerships with Tata Motors and PSA. **At present, Pricol commands a 7% market share in the PV segment, primarily due to its partnership with Tata Motors and is poised for continued growth in collaboration with them in their ICE and EV offerings.**

Pricol's strategic vision does not include aspiring to be a market leader in the passenger vehicle segment, recognizing that Japanese, Korean, and European players often prefer collaborations with domestic brands in their respective regions. Pricol has been supplying instrument clusters to Mahindra, Citroen, Peugeot, and Force, demonstrating their techological expertise in the 4W segment and has a lot of scope to increase wallet share with them. As electric passenger cars remain largely underrepresented in the Indian market, we foresee a significant rise in content per vehicle within the passenger vehicle segment, as they are expected to be equipped with advanced digital clusters. Pricol is presently engaged in the production of instrument clusters for Tata Motors electric vehicle offerings, positioning itself to seize market share as additional OEMs introduce their electric vehicles.

PV segment currently contributes 7% of the DIS segment revenue and we believe that any breakthrough in new OEM would be a positive for Pricol. The 4Ws unveil a wide landscape, presenting a substantial opportunity for domestic contenders like Pricol to establish supremacy in a sector currently under the sway of MNCs.

Exhibit 20: Continuously growing segment post the completion of non compete clause period

Particulars	FY21	FY22	FY23	FY24E	CAGR FY21-24E
PV DIS revenue (Rs mn)	330	683	866	1,068	48%
yoy growth %		107%	27%	23%	

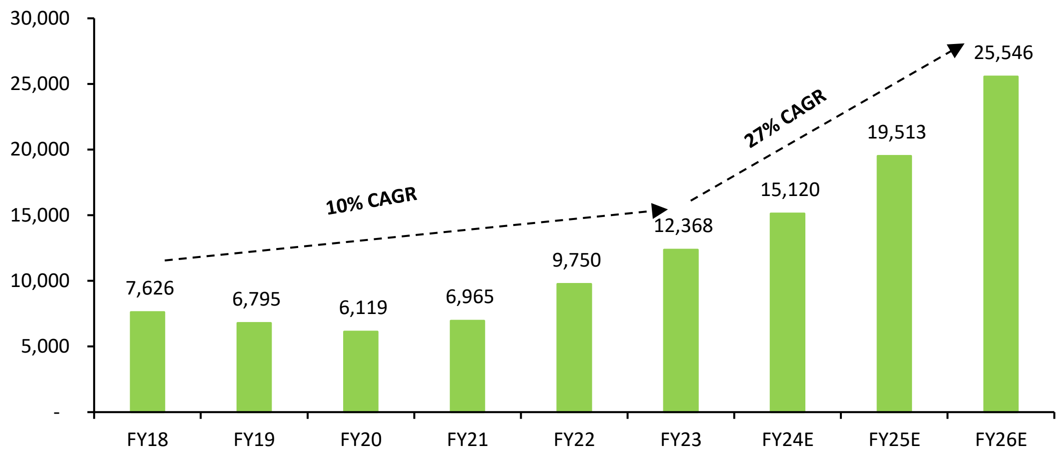
Source: MNCL Research estimates

D. DIS segment to grow at a CAGR of 27% over FY23-26E

The DIS segment is poised for a robust 27% CAGR over FY23-26E period, propelled by the following key drivers:

- Premiumization: Transition from mechanical to digital clusters. Further, the share of TFT clusters in the digital clusters to improve from 10% now to 20% by FY26E.
- 2W production surpassing the pre-covid levels and growing at CAGR of 11% over FY23-26E.
- Faster electric vehicles penetration in 2 wheeler and passanger vehicles segment.
- Growing presence in the passenger vehicles space.

Exhibit 21: DIS Segment Revenue (Rs mn) growth expected to be robust at CAGR of 27% over FY23-26E



Source: Company, MNCL Research estimates

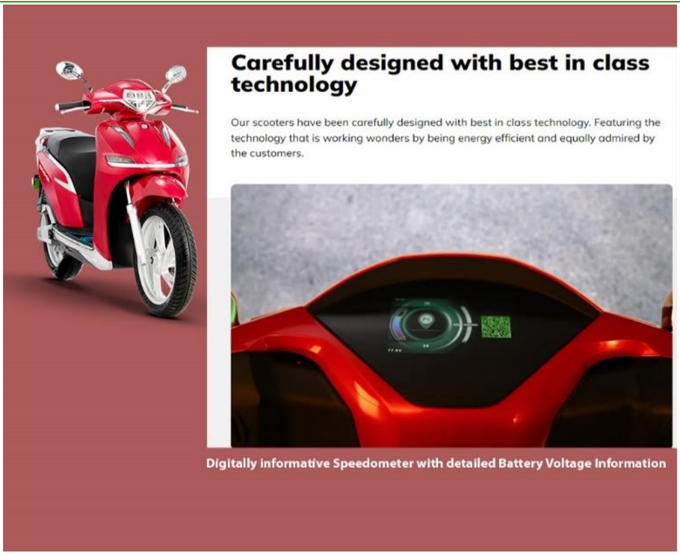
E. Industry Insights: Digitization buzz is real

OEMs are highlighting digital clusters as key selling features in their offerings. From a customer standpoint, digital clusters have become the preferred choice as technology continues to advance rapidly. The exhibits 22 to 25 below illustrate the growing utilization of digital clusters in marketing materials and key features section across various Pricol's customers.

Exhibit 22: TVS Ntorq 125 XT

Source: TVS Motors

Exhibit 23: Okinawa OKHI-90 Electric Scooter



Source: Okinawa

Exhibit 24: Bajaj Pulsar F250

Source: Bajaj

Exhibit 25: Hero Spendor Xtec 125cc

Source: Hero Motocorp

Key Takeaways from a discussion with an Auto Journalist

- *The concept of hybrid clusters is gradually phasing out, with OEMs preferring digital clusters.*
- *~70% new model launches support digital clusters.*
- *TFT clusters are usually provided in premium motorcycles, whereas LCD clusters are gaining popularity in the mass market segment.*
- *2W EVs are primarily coupled with TFT and LCD offerings.*

Exhibit 26: Model launches in the last 12 months by Pricol's major customers dominated by digital clusters

Model name	Type	Engine capacity (cc)	Cluster Type	Cost (ex-showroom)
TVS				
TVS Apache RTR 160 4V Dual Channel ABS	Motorcycle	160	Digital	Rs.1.38 Lakh
TVS Ronin TD Special Edition	Motorcycle	226	Digital	Rs.1.73 Lakh
TVS Jupiter 125 SmartXonnect	Scooter	125	Digital	Rs.96,855
TVS Apache RTR 310	Motorcycle	310	TFT	Rs.2.43 - 2.64 Lakh
TVS X	Scooter	Electric	TFT	Rs.2.50 Lakh
TVS Raider Super Squad Edition	Motorcycle	125	Digital	Rs.99,319
TVS Jupiter ZX Drum SmartXonnect	Scooter	110	Digital	Rs.84,568
TVS iCube	Scooter	Electric	TFT	Rs.1.17 - 1.23 Lakh
Bajaj				
Bajaj Chetak Premium - Standard	Scooter	Electric	TFT	Rs.1.35 Lakh
Bajaj Pulsar N150	Motorcycle	150	Digital	Rs.1.18 Lakh
Bajaj Avenger 220 Street	Motorcycle	220	Digital	Rs.1.43 Lakh
Bajaj Pulsar 220 F	Motorcycle	220	Digital	Rs.1.38 Lakh
2023 Bajaj Pulsar NS160 STD	Motorcycle	160	Digital	Rs.1.46 Lakh
2023 Bajaj Pulsar NS200 STD	Motorcycle	200	Digital	Rs.1.57 Lakh
Hero				
Hero Mavrick 440	Motorcycle	440	LCD Cluster With Bluetooth Connectivity	Rs.1.99 - 2.24 Lakh
Hero Xtreme 125R	Motorcycle	125	Digital	Rs.95,000 - 99,500
Hero Pleasure Plus XTEC Sports	Scooter	110.9	Digi-Analog Meter	Rs.79,738
Hero Destini Prime	Scooter	124.6	Digi-Analog Meter	Rs.71,499
Hero Karizma XMR	Motorcycle	210	LCD instrument cluster with 35+ features	Rs.1.80 Lakh
Hero Xtreme 200S 4V	Motorcycle	199.6	Full LCD Display with smartphone connectivity	Rs.1.41 Lakh
Hero Xtreme 160R 4V	Motorcycle	163.2	Inverted LCD Console	Rs.1.27 - 1.37 Lakh
Hero Passion Plus	Motorcycle	97.2	Digi-Analog Meter	Rs.77,951
Hero XPulse 200 4V Pro	Motorcycle	199.6	Full Digital LCD with Bluetooth & Turn by Turn Navigation	Rs.1.53 Lakh
Hero Vida V1 Plus & Pro	Scooter	Electric	TFT	Rs 97800 - Rs1.2 Lakh

Source: TVS, Bajaj, Hero, MNCL Research

As seen in the exhibit above, no model has been launched in the last 12 months featuring mechanical clusters, indicating their gradual phase out in the coming years. TFT clusters have predominantly gained traction in electric vehicles and motorcycles priced over Rs 200,000, while LCD clusters have taken center stage in the mass-market segment as well.

Actuation Control & Fluid Management Systems (ACFMS) segment: Illuminating Export Opportunities

The ACFMS segment contributed 35% to total consolidated revenue in FY23. **Currently, water pumps, oil pumps, and fuel pumps collectively contribute ~60-70% to revenue of the ACFMS segment.** Pricol manufactures fuel pump modules to guarantee precise fuel delivery with specified pressure to injectors, and manufactures oil pumps to deliver optimal lubrication to engine components at the required pressure with sufficient flow. **As of November 2020, Pricol's market share for oil pumps in the Indian two-wheeler segment stood at a robust 37.90%.** Pricol also manufactures fuel level sensors to ensure accurate and precise fuel level measurement. **As of November 2020, Pricol's market share for fuel sensors in the Indian two-wheeler segment stood at 25.90%.** The ACFMS product portfolio includes a mixture of ICE-specific, EV-specific and hybrid products as seen in the exhibit below.

Exhibit 27: ACFMS product mix – mix of ICE, EV and hybrid products

Product	2w	3w	PV	CV	Tractors	ORV	Industrial	EV Ready?
Fuel Level Sensor Reed Type	-	-	-	✓	✓	✓	-	
Fuel Level Sensor TFR Type	✓	✓	✓	-	-	-	-	
Cabin Tilting System	-	-	-	✓	-	-	-	**Yes**
Wiping System	-	-	✓	✓	-	-	-	
Disc Brake	✓	-	-	-	-	-	-	**Yes**
Fuel Pump	✓	✓	-	-	✓	-	✓	
Electrical Oil Pump	-	-	-	-	-	✓		**Yes**
Oil Pump	✓	✓	✓	✓	✓	✓	✓	
Electrical Coolant Pump	✓	✓	✓	✓	✓	✓	✓	**Yes**
Coolant Pump	✓	✓	✓	✓	✓	✓	✓	
Electronic Purge Valve	✓	-	-	-	-	-	-	**Yes**

Source: Company, MNCL Research

The management alluded to the fact that ACFMS segment includes an exposure of Rs1300mn (~6.5% of FY23 revenues) to 2W ICE engines offerings that is at a risk of being obsolete due to the increasing penetration of EVs over the next 5-7 years. The management's strategy to counter risk presented by EV penetration is:

- To focus more on supply of value-added offerings to off-road vehicles, construction equipment, heavy-duty engines which are not expected to be disrupted by EVs.
- Foray into EV-specific products like electric coolant pumps, electric oil pumps and BMS. Further, Pricol is working towards the development of disc brakes for EV 2 wheelers. Electric coolant pumps are currently under disptach for customers like Tata Motors and Ashok Leyland.

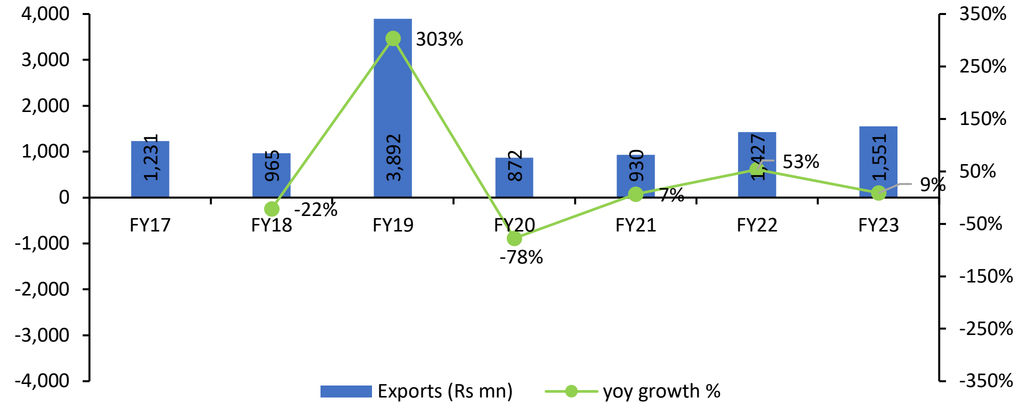
The blended realization of ACFMS segment stood at Rs182 in FY20. Pricol anticipates a rise in realization as the industry undergoes a shift from internal combustion engines to electric vehicles. Transition from lower margin and lower realization products like oil pumps and chain tensioners to higher value-added products is expected to move the blended realization upwards from Rs180-250 levels towards Rs800-1000 per unit.

F. Outlook for exports remains buoyant

Key export customers include Caterpillar, Polaris, KTM, Ducati, Harley Davidson and BMW.

The ACFMS segment constitutes a significant portion of exports, accounting for ~90% of the total exports in FY23. **Exports constituted 8% of the total consolidated revenues in FY23 and the company aims to scale up this to 20%.** Foreign players prefer India because it is a cost-effective location for manufacturing, which bodes well for the auto ancillary market. The China+1 strategy adapted by several OEMs is a blessing for Pricol's export business. Pricol has set up overseas offices for marketing and converting export opportunities. **One of the major benefits on improvement in exports is that exports generate higher margins than that of domestic sales** and the margins can touch 20% levels.

Exhibit 28: Exports dominated by ACFMS segment, registered growth of 9% yoy in FY23



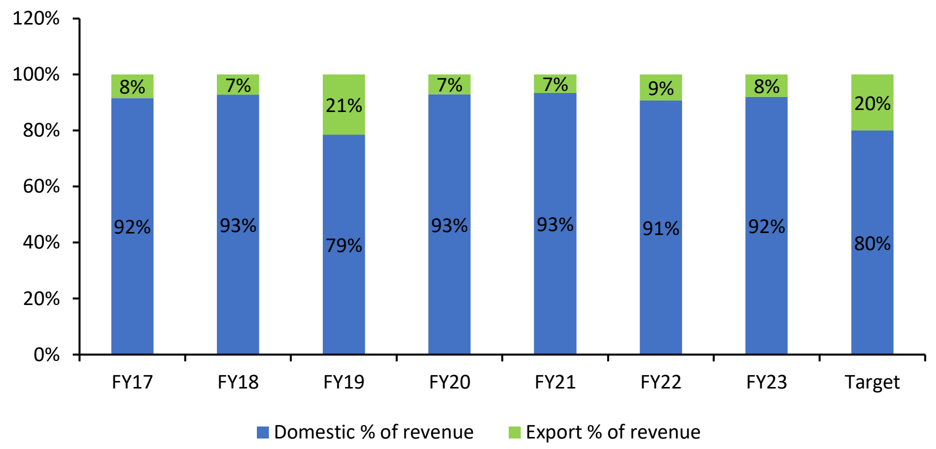
Source: Company, MNCL Research

Pricol has begun the mass production of large water pumps, each weighing more than 80 kilograms for Caterpillar.

Pricol is currently involved in export projects and remains on course with its progress. Caterpillar is a key export account for Pricol, and we anticipate substantial growth in the next 2 to 3 years. Management's focus is directed towards the production of the large pumps, catering specifically to niche markets such as recreation vehicles, off-road vehicles, tractors, and higher cc motorcycles. Pricol forsees significant growth opportunities with higher cc motorcycle brands such as KTM, Ducati, and Harley Davidson. Pricol has ventured into the personal passenger vehicle segment to facilitate significant exports for the next generation of oil pumps to one of the largest manufacturers in Europe.

While the 20% exports target should be realized in the longer term, we believe that the traction received by Pricol on exports, especially from customers like Caterpillar, Polaris, KTM, Ducati, Harley Davidson, BMW should ensure that export revenues sustain at 10-12% of the total consolidated revenues in the near term.

Exhibit 29: Management targets exports (incl. indirect exports) to touch 20%

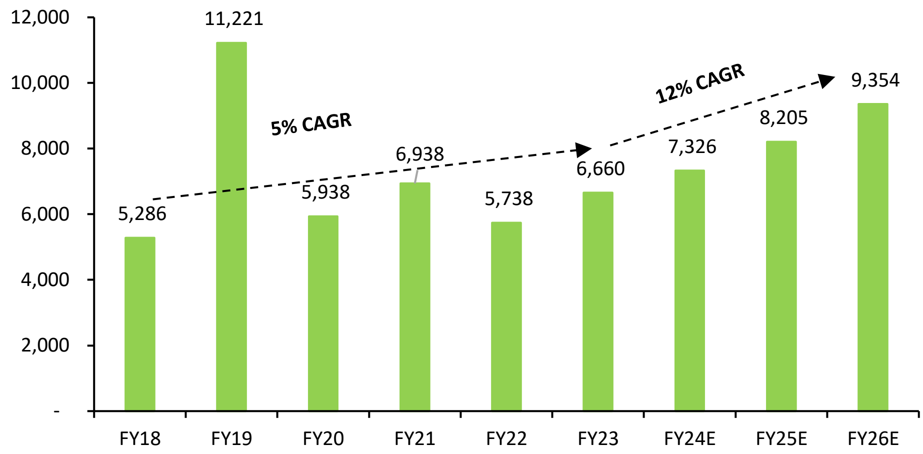


Source: Company, MNCL Research

G. ACFMS segment to grow at a CAGR of 12% over FY23-26E

The ACFMS segment grew at a CAGR of 5% over FY18-23. Select business wins in FY23 include electric coolant pump assembly for Tata Motors Ebus, Fuel Pump Module Assembly for Bajaj, Oil pump assembly from HMSI, GENERAC and HMCL. Further, electric coolant pumps have been launched during Q3FY24 with Tata Motors and Ashok Leyland. **Going forward, we expect the ACFMS segment to growth at a CAGR of 12% over FY23-26E on the back of improved offtake of water pumps in export geographies, electric coolant pump and oil pump supply in the domestic market as well as supply of next generation oil pumps to a European manufacturer in the passenger vehicle segment.**

Exhibit 30: ACFMS segment to grow at a CAGR of 12% over FY23-26E



Source: MNCL Research estimates

Partnerships & New products in pipeline: Massive Opportunity

1. Joint venture with Sibros for Telematics

The telematics market in India is estimated to be USD 1.3 billion in 2023 and is projected to reach USD 2.7 billion by 2028, with a CAGR of 15.5%. Sibros, a Silicon Valley-based company, is set to bolster Pricol's position in the driver information system and telematics. Through comprehensive end-to-end solutions, Sibros will aid in expanding Pricol's software presence in the driver information system space. 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. All integration activities and proofs-of-concept (POCs) have been successfully completed. **In this collaboration, Pricol will provide the hardware component, while Sibros will contribute the software piece, creating a synergistic partnership. Telematics is currently undergoing testing with various OEMs, and the management expects start up production to commence by the Q4FY25.**

2. Partnership with BMS PowerSafe for Battery Management Systems (BMS)

Pricol expected to unveil proof of concept for BMS in July 2024, followed by subsequent trials.

Pricol has entered into a partnership with BMS PowerSafe, a part of Startec Group, to manufacture and sell BMS for the Indian market. BMS PowerSafe is recognized as the top 3 pure players of BMS suppliers in Europe. **In this partnership, Pricol will be licensing the product and process technology of BMS from partner company and will be manufacturing complete BMS in-house locally in India.** This partnership has opened up a new arena for Pricol to add a pure play EV product in our portfolio. A royalty will be incorporated in this partnership. Pricol will handle the complete manufacturing and localization process in India, taking on the role of front-end engagement with the customers. As of now, **no orders have been secured for BMS. Foray into BMS is an effort to strengthen EV-related offerings.**

3. Heilongjiang Tianyouwei Electronics for e-cockpit and Heads-up displays

Pricol has partnered with Heilongjiang Tianyouwei Electronics (TYW) for advanced technologies in Driver Information System Solutions across various vehicle segments. This partnership is set to redefine the driving experience by **introducing cutting-edge Driver Information System Solutions such as e-cockpit and Heads-up Displays.** The E-cockpit refers to the integrated digital display system in modern cars. It features the driver information system on one side and infotainment on the other, seamlessly blending both for a cohesive user experience in the latest generation of vehicles. The collaboration is a pivotal moment and will add value by combining Pricol's domain expertise in Driver Information System with TYW's technological prowess. **Pricol is currently involved in the development of an E-Cockpit in collaboration with a major customer. The start of production (SOP) is anticipated in FY26. Due to a non-disclosure agreement (NDA), the name of the OEM has not been disclosed.**

4. Introduction of new products like disc brakes, electric coolant pumps and electric oil pumps

Disc brake is a hydraulic type of brake that is used for slowing or stopping of vehicles using frictional force between pads and the disc. **Start up production for disc brakes is expected by Q4FY25.** The purpose of Electric Coolant Pump is to cool the components where thermal management is required. Electrical coolant pump is used to dissipate temperature from Battery, Traction motor & Controller unit on Electrical vehicles.This Electrical oil pump is a Solenoid operated type pump which is used in an automotive application to supply the oil to engine parts for lubrication purpose. **Electric coolant pumps have been launched during Q3FY24 with Tata Motors and Ashok Leyland and we expect gradual ramp up from the same.**

5. Partnership with Candera CGI Studios

Pricol has 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 are indigenously developed by Pricol.

6. **Partnership with PSG College of Technology**

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 footprint 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

Going forward, we believe that new products will play a crucial role in strengthening Pricol's product portfolio. Integrated solutions such as telematics and E-cockpit are anticipated to increase the content per vehicle in the DIS segment. Additionally, efforts in electric coolant pumps, electric oil pumps, disc brakes and BMS aim to enhance Pricol's offerings in the electric vehicle (EV) segment, expecting a notable uptick in revenue contribution from EV products. ***Note: We have not factored in revenue from new products in our analysis and expect them to contribute meaningfully to revenue from FY26E onwards and represents an upside possibility to our projections.***

Exhibit 31: New products in pipeline

Source: Company

Pricol approved for PLI Scheme

The PLI scheme, with an earmarked budget of $3.5 billion (or Rs 25,938 crore) for the automotive sector, is designed to offer financial incentives of up to 18%, fostering the growth of domestic manufacturing in Advanced Automotive Technology (AAT) products and encouraging investments throughout the automotive manufacturing value chain. Pricol has been approved by the Ministry of Heavy Industries (MHI) for participation in the Component Champion Incentive scheme. Within the ambit of this PLI initiative, a total of 95 applicants have received approval, with 20 recognized as Champion OEM and 75 as Component Champion. Incentives under the scheme are eligible for determined sales of Advanced Automotive Technology (AAT) products manufactured in India, commencing from April 1, 2022, and extending for a consecutive period of 5 years. We await further clarification regarding qualifying products, capex and timeline for the same.

Note: Our margin assumptions do not account for the PLI incentives, introducing an upside to our estimates

Evaluating acquistion on non-automotive side

As part of a strategic move to reduce reliance on the cyclical automotive sector, Pricol is actively exploring entry into the industrial instrumentation segment. Considering inorganic growth avenues, the company is evaluating potential acquisitions to de-risk its business model and capitalize on the better-margin opportunities offered by the industrial market. The rationale behind venturing into the industrial sector is driven by the recognition that technology in this domain lags behind that of the automotive space. Pricol believes it possesses the requisite expertise to leverage this technological gap and capitalize on opportunities in the industrial segment. **The management has indicated an estimated capital allocation of Rs 2bn for a potential acquisition, signaling the company's readiness to invest in strategic targets if identified. While the management has not announced any acquisition yet, we believe that any break through on the industrial side would reduce the dependence on the cyclical automotive sector and bring uptick to the margins along with robust revenues, considering the strong technological expertise and R&D capabilities that Pricol possesses.**

Several overhangs now a thing of the past

Navigating Through Past Challenges of Capital Allocation Decisions

Timeline of Events: Snapshot

- **1974:** Initially named Premier Instruments Coimbatore Ltd at its inception, the company commenced operations by manufacturing components specifically designed for speedometers.
- **1980s:** Pricol signed up with Nippon Seiki for technology collaboration to manufacture instrument clusters for two-wheelers.
- **1981-1983:** Pricol partnered with Denso Corporation to start manufacturing instrument clusters for cars. Several years later, Denso partnership was spun into a joint venture.
- **2004:** the company was renamed to Pricol.
- **2005:** Pricol began incurring losses, its debt began to rise and labour issues intensified.
- **September 2009:** Workers complained about low wages,tough working conditions.
- **March 2012:** formed a Joint Venture with Johnson Controls for instrument clusters.
- **January 2014:** Johnson Controls sold automotive division to Visteon who was competing with Pricol in India and eventually, Pricol bought out Johnson Control's share.
- **December 2014:** Dana Corporation of the US wanted to sell the auto pump business in Brazil which was acquired by Pricol. Within seven months, Brazil's economy nosedived, shrinking 3.5% in 2015 and 3.3% in 2016.The asset began to incur losses.
- **March 2015:** Pricol exited Denso Joint Venture and were bound by non-compete clause for 5 years.
- **2015-16:** Pricol set up 2 technology centres. Started investing heavily in production process & development. However, continuous losses at the Brazilian unit began to impact Pricol negatively. In June 2019, it sold the business to a private equity firm.
- **July 2017:** Pricol Limited signed a licensing agreement with Kerdea Technologies for the Oxygen (O2) Sensor in July 2017, which was terminated later.
- **2018:** Pricol decided to buy PMP Auto Components, which made wipers and had operations in the Czech Republic, Mexico and India. The financial challenges stemming from the Brazilian venture took a toll on the balance sheet (the debt load became unbearable and the company's credit rating fell) and COVID added to the woes, leading to Pricol selling off Czech unit in May 2020 to generate cash and deleverage the balance sheet.
- **June 2019:** Management sold off its investment in its wholly owned subsidiary, Pricol Espana S.L., Spain, primarily to hive off the step down subsidiary unit at Brazil which required continuous investments for its operations. The Board also hived off its other step-down subsidiaries , Pricol Wiping Systems Czech s.r.o and Pricol Wiping Systems Mexico S.A. de C.V. along with the Investment in Pricol Wiping Systems India.

Attempt of hostile takeover or financial investment by Minda Corporation? It's history now…

What happened

- **Feb'2023:** Minda Corporation acquired 15.7% stake in Pricol Ltd, terming it a financial investment.
- **May'2023:** Minda wrote to the Competition Commission of India (CCI) for increasing its stake in Pricol to 24.5%. Pricol challenged Minda's CCI application in the Madras High Court. The Madras High Court passed an interim order restraining CCI from taking the file or adjudicating Minda Corporation's application for acquiring a 24.5% stake in Pricol.
- **July'2023:** Madras High Court lifts the interim order, allowing the CCI to address the Minda-Pricol stake dispute.
- **Jan'2024:** CCI concluded that proposed arrangement by Minda may have adverse on competition and that it intends to conduct further inquiry into the process.

Finally, Minda sold off the entire 15.7% stake through the open market in Jan'24. As of today, Minda holds no shares in Pricol.

Our View

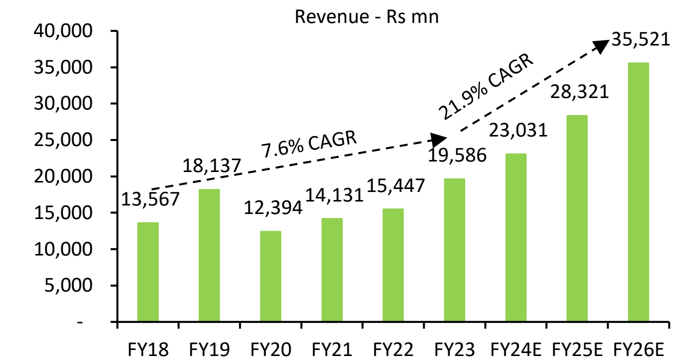
Minda's investment in its competitor Pricol serves as a testament to Pricol's leadership and technological prowess in the industry. Furthermore, the complete buyout of the Minda's stake sale by institutional funds represents an additional positive factor for Pricol. We believe that the lingering overhangs in the form of poor capital allocation decisions and possibility for hostile takeover are now resolved, positioning Pricol for significant value creation for its stakeholders.

To grow faster than industry, Return Ratios to become healthier, scope for margin improvement

A. Pricol to grow faster than OEM industry and its historical growth: We expect Pricol's revenue and earnings to not only grow faster than the underlying OEM industry but also faster than its own growth in the last business cycle (highlighted in the first section and in the exhibits below). Pricol's growth in the last business cycle was impacted due to semiconductor shortage and the pandemic. However, the main reasons for buoyant growth ahead are:

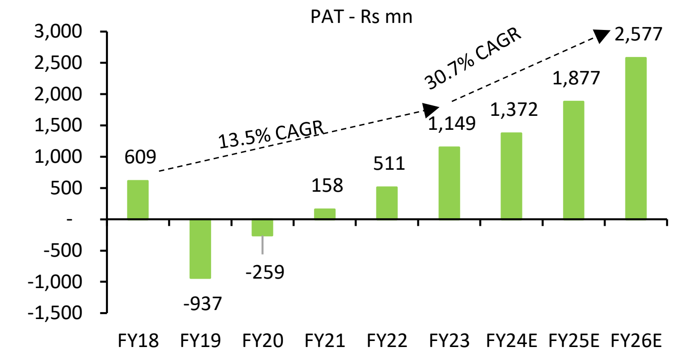
- Premiumization – Rising content per vehicle, more in 2W and PV industry.
- Rebound in 2W production to continue in FY25 and FY26 due to several reasons explained in the first section.
- Addition of customers and products – diversification to non-automotive business.
- Pickup of exports once the overseas demand improves.

Exhibit 32: Total revenues to grow by ~22% CAGR over FY23-26E – higher than historical growth



Source: MNCL Research estimates

Exhibit 33: PAT to grow at 30.7% CAGR over FY23-26E, higher than historical 5-year CAGR



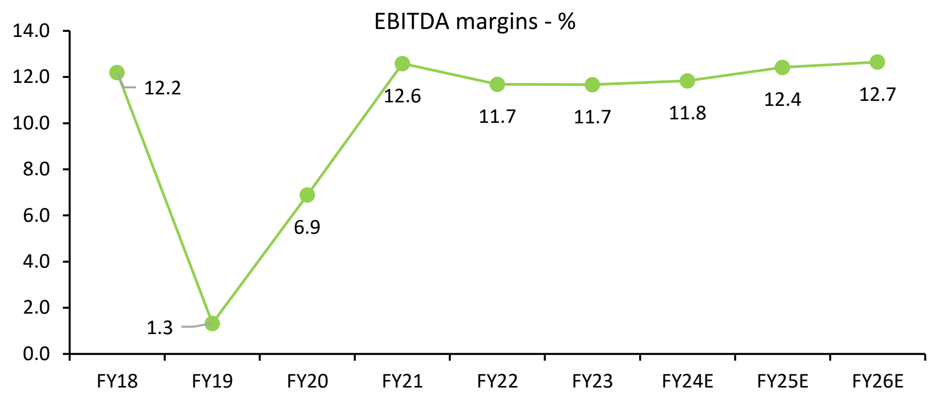
Source: MNCL Research estimates

B. Several headwinds expected to ease in near term: Pricol's business is facing multiple headwinds in the form of increase in freight cost due to the Red Sea issue and integrated circuit (IC) shortages. Due to the Red Sea issue, logistics has experienced delays of a couple of weeks and Pricol is actively working to reroute shipments and mitigate the impact of disruptions. The semiconductor industry has faced disruptions since COVID-19, with global supply chain challenges leading to shortages and the situation has not yet returned to full normalcy. Pricol's topline has been impacted due to IC shortages and EBITDA has been impacted due to premium prices paid for IC purchases. Amidst a gradual improvement in the supply situation, IC prices continue to remain high. Pricol has supply arrangements in place with multiple IC suppliers. Pricol is actively engaged in negotiations with suppliers for price reduction, while ongoing discussions with customers are being conducted regarding compensation of the premium prices. Pricol has RM pass on mechanism in place with a lag of 1-2 quarters.

Sustainable margins at least 100bps higher: We expect margins to improve due to the following reasons:

- Easing freight cost and semiconductor availability over next 2-years.
- Ramp up of exports from current levels of 10% to the target level of 20%.
- Any inorganic expansion in the Industrial segment which has better margins than automotive industry.
- Start of benefits from PLI scheme.

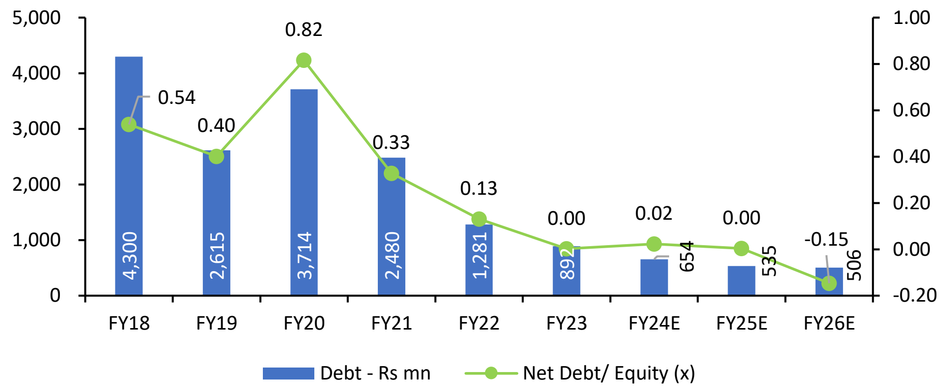
Exhibit 34: We expect ~100bps improvement in EBITDA margins from FY23



Source: Company, MNCL Research estimates

C. Debt levels to stay low: Pricol's net debt/equity level has always stayed low - below 1x - due to its efficient cash flow generation and timely repayment of debt. The rise in debt in FY20 was mainly due to high capex in the previous 2 years followed by low cash flow generation (semiconductor shortage issues). However, this was repaid quickly starting next year. We expect the balance capex from Rs6bn to be largely financed by internal accruals, thereby keeping debt at manageable levels.

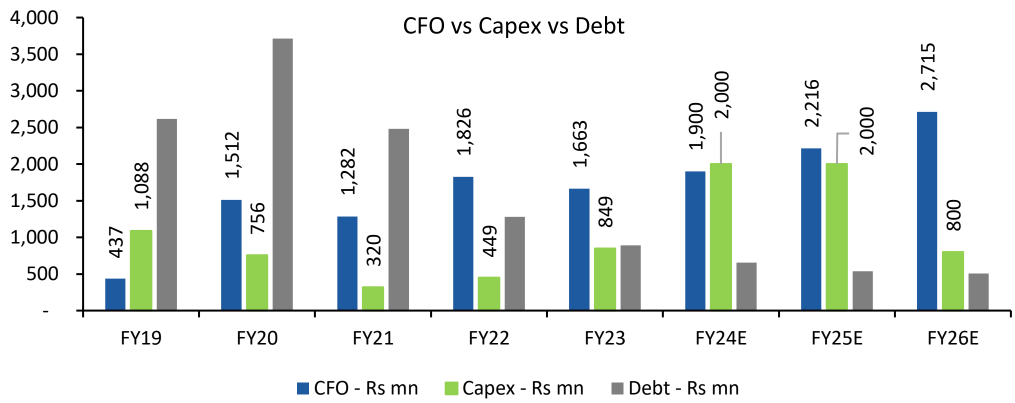
Exhibit 35: Debt levels to stay low due to stable cash flow generation from operations



Source: Company, MNCL Research estimates

The exhibit below shows that the cash flow generation from internal accruals largely takes care of the capex, keeping debt levels low. The exception to this will be when Pricol announces an acquisition on the industrial side of business. This will lead to a rise in debt. However, the size of acquisition as guided by the management should not burden the balance sheet.

Exhibit 36: Capex to be largely funded by internal accruals unless there is an acquisition

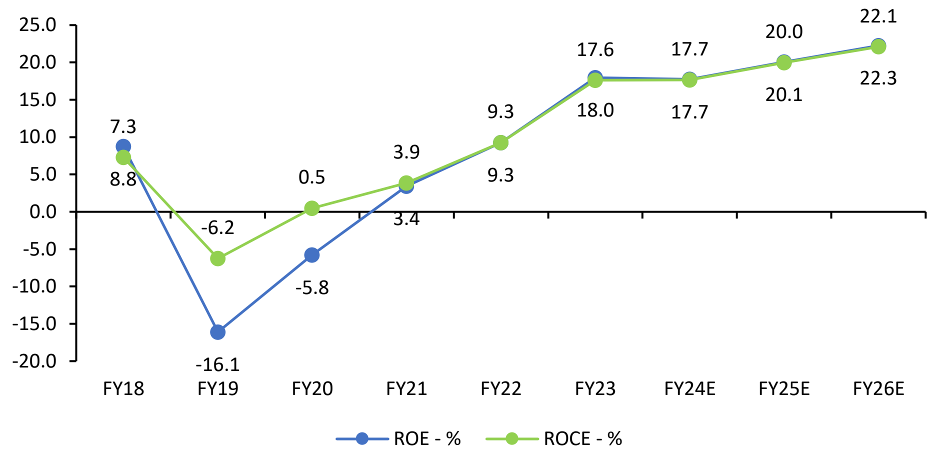


Source: Company, MNCL Research estimates

D. Return Ratios – to cross 20% mark in FY26E:

- Pricol has raised equity through rights issue of Rs810mn (@Rs30/share) in FY21 post which there was no further dilution.
- ROE and ROCE were both at low levels in FY18-FY21 due to poor operating profit.
- However, post FY20, there was substantial debt reduction and robust jump in operating profits due to exponential growth in content per vehicle and addition of new products. This has led to return ratios rising to sustainable 18% levels.
- **We expect return ratios to eventually cross the 20% levels once margins improve, capex program ends and revenue from new products starts accruing.**

Exhibit 37: We expect return ratios to cross 20% levels on increase in margins, end of capex cycle and revenue from new products

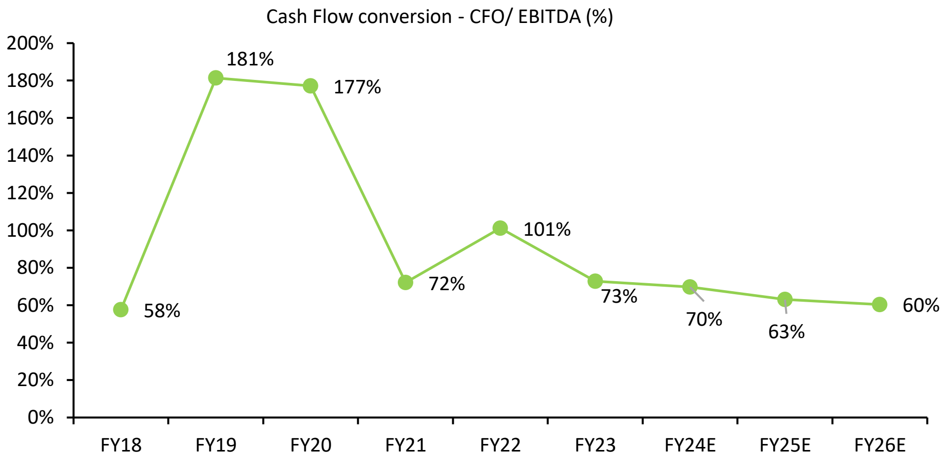


Source: Company, MNCL Research estimates; ROCE is post-tax

E. Robust cash flow conversion:

Pricol has historically shown efficient cash flow conversion due to low working capital requirement on a low revenue base. We expect the CFO/ EBITDA ratio to stabilize at 60-65% range, as working capital requirements increase with scale and addition of new products also raise working capital until optimally scaled up.

Exhibit 38: Cash flow conversion (CFO/EBITDA) to stabilize in 60-65% range

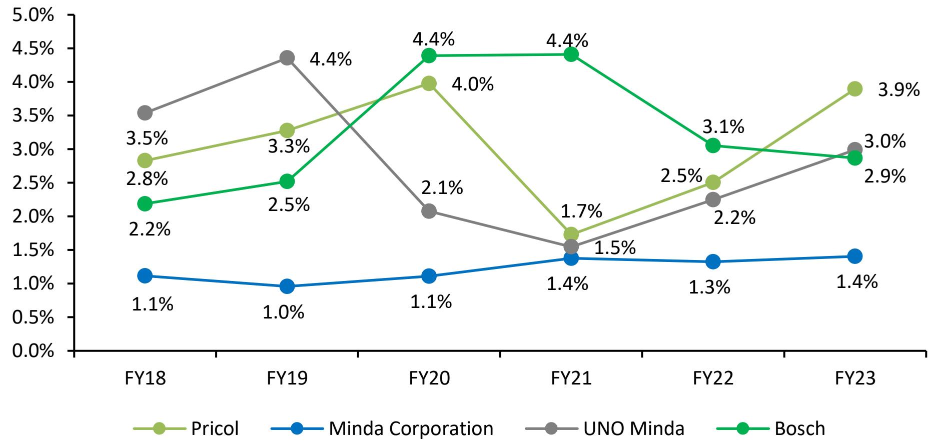


Source: Company, MNCL Research estimates

F. Innovation at the Core: Firm commitment to Research and Development

Pricol has two Research and Development (R&D) centers, both approved by the Department of Scientific and Industrial Research (DSIR), Ministry of Science and Technology, Government of India, New Delhi. All new technologies, including the Integrated Connected Driver Information System with Thin Film Transistor (TFT) display, Wi-Fi, Bluetooth, Body Control Module & Telematics, and Intelligent Sensors, are developed in-house. Pricol has 13 inventions, with 18 patents filed in various jurisdictions in India and abroad. Currently, 14 patents have been granted, while the remaining are under review. **Pricol's R&D expense as a % of standalone revenues stands tall versus competitors like Minda Corporation & UNO Minda, and is comparable with Bosch. Going forward, we expect R&D as a % of sales to remain in the range of 4-4.5%, showcasing Pricol's commitment to fostering innovation for growth across all product development functions.**

Exhibit 39: R&D expense as a % of standalone revenue stands at 3.9% as on FY23



Source: Company, MNCL Research

Valuation - Well-placed for re-rating

Pricol has a history of sailing through several issues, be it some failed joint ventures, overhang of hostile acquisition by Minda Corp, poor financial and operational performance due to pandemic led disruption and the semiconductor availability issue. This has led to muted valuations for very long periods and only recently after the favourable order by CCI, the valuation has truly appreciated.

Further, we believe that Pricol is well set for robust growth due to the sectoral tailwinds from 2W industry, accelerated by the rising content per vehicle due to the premiumization shift. Additionally, venture into new products will only augment this growth starting FY26. While currently we have not assumed any revenues for new products, we account for it in our target multiple. Pricol is also very actively contemplating inorganic growth in the industrial side of business which will provide de-risking from the 2W cyclicality and lead to addition of high margin product line. We account for this possibility in our target multiple.

Exhibit 40: Financial comparison with peers – Pricol better on growth and return ratios but quite undervalued

Company	Mkt Cap (Rs mn)	CAGR (FY23-FY26E)			EBITDA Margins - %				ROE				PE Ratio			
		Revenue	EBITDA	PAT	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
UNO Minda Ltd	3,72,965	18.3	20.1	24.4	11.1	11.0	11.4	11.6	17.2	18.2	19.2	19.3	57.0	44.4	35.4	29.6
Minda Corp Ltd	99,373	14.0	18.8	14.0	10.7	11.1	11.7	12.1	19.5	21.4	16.1	17.3	34.4	40.6	29.7	23.6
Varroc Engineering Ltd	75,072	11.9	22.2	NM	8.4	9.8	10.6	10.9	-55.3	33.3	20.1	22.1	-9.2	17.9	19.6	13.7
Lumax Auto Technologies Ltd	30,743	18.7	21.6	24.1	11.2	13.0	13.4	14.0	15.4	17.5	20.7	21.0	33.1	25.0	16.9	14.1
ZF Commercial Vehicle Control Systems India	2,71,690	14.4	19.9	25.2	13.9	14.9	15.6	16.0	14.0	15.4	15.6	16.1	85.5	65.0	54.0	43.6
Pricol Ltd.	**42,658**	**22.0**	**25.3**	**30.9**	**11.7**	**11.8**	**12.4**	**12.7**	**18.0**	**17.7**	**20.1**	**22.3**	**17.7**	**31.1**	**22.7**	**16.6**

Source: Company, Bloomberg, MNCL Research estimates, Ratios calculated on last closing as on 7th Mar'24

In comparison with its peers as shown in the above table, we find that Pricol is well-placed to grow much better on Rev/EBITDA/PAT. While the EBITDA margin should be on par with the large peers, Pricol's return ratios will be much better than the large peers UNO Minda and Minda Corp. Despite expectation of superior financials, industry tailwinds and operational triggers, Pricol is trading at a 15-20% discount to its peers UNO MINDA and Minda Corp. We expect this gap to narrow as the company delivers on the key points and triggers explained in this report, thereby making a case for re-rating.

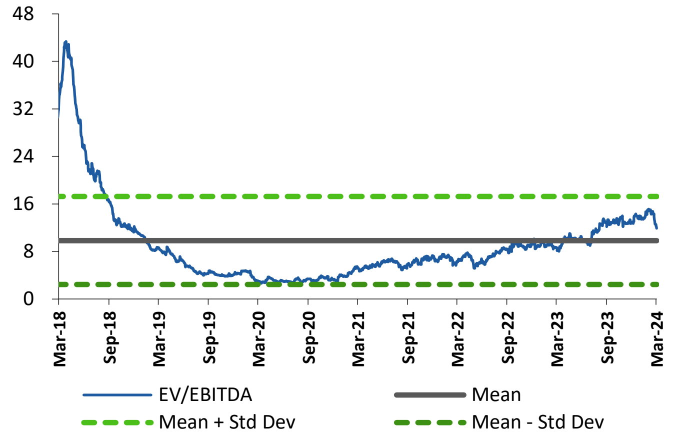
Therefore, we value Pricol at 22x FY26E PE ratio (higher than its historical valuations but still at discount to large peers) to arrive at a target price of Rs465/share and initiate with a Buy rating. At CMP of Rs338, Pricol trades at 16x FY26E PE ratio.

Exhibit 41: Valuation

Valuation	FY26E
PER Valuation	
EPS - Rs/sh	21.2
Attributed PE Ratio - x	22
TP - Rs/sh	465
CMP	**338**
Upside	**38%**

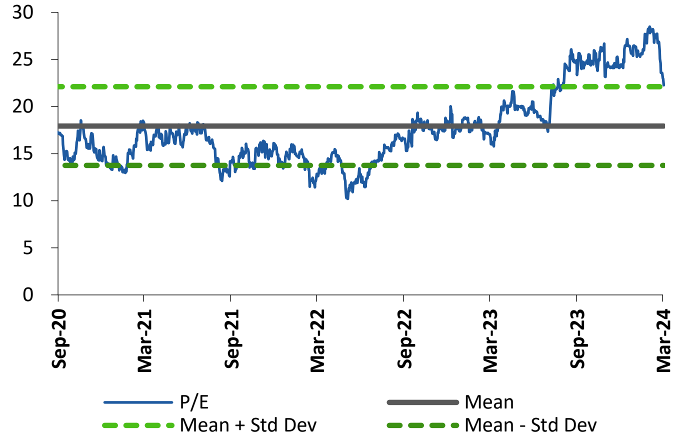
Source: Company, MNCL Research estimates

Exhibit 42: 1-year forward EV/EBITDA chart



Source: Company, Bloomberg, MNCL Research estimates

Exhibit 43: 1-year forward P/E chart



Source: Company, Bloomberg, MNCL Research estimates

Key risks to our thesis

- **Slow adoption of EV:** Further delay in ramp-up of charging infrastructure, high capital cost and dwindling incentives for EV adoption may slow down domestic growth.
- **Delay in spending the committed capex and ramping up the capacities commissioned:** Delay in spending of the Rs6bn capex and ramping up the capacities represents a key risk to the topline and bottomline.
- **Disruption in supply chain and semiconductor issue:** Disruption of supply chain represents a risk to the topline. Continuance of premium pricing of IC chips and elevated freight costs are a risk to margins.
- **Delay in new product launches and discontinuation of models by the OEMs:** Delay in new product launches like electric coolant pumps, electrical oil pumps, BMS, disc brakes, ecockpit, heads up display and telematics represents a key risk. Further, discontinuation of models by OEMs will hamper the business.
- **Slowdown in premiumization:** Slowdown in premiumisation would mean downside risk to our content per vehicle estimates, in turn slowing down the overall revenue growth.

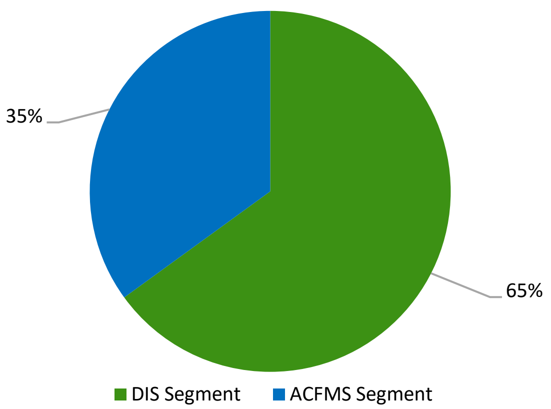
About The Company

Pricol began its operations in 1975 at Coimbatore in South India. Pricol is a prominent manufacturer of automotive components catering to both the Indian and international markets. The company specializes in manufacturing auto components for two-wheelers, three-wheelers, four-wheelers, commercial vehicles, tractors, off-road vehicles, and industrial segments.It primarily operates under 2 segments: a. Driver Information and Connected Vehicle Solutions and b. Actuation Control and Fluid Management System. **Pricol ranks as the second-largest manufacturer globally for instrument clusters designed for 2/3 wheeler applications. It holds a substantial market share of 50%/ 70%/ 50%/ 90%/7% in the 2 wheeler/ commercial vehicles/ tractors/ off-road vehicle segments/ passenger vehicles respectively, establishing itself as a key player in the industry.**

The DIS is a comprehensive tool utilized to display real-time dynamic parameters within a vehicle, including Speed, Engine RPM, Engine Temperature, Fuel Level, Fuel Economy, Service Reminder, Phone Connectivity, Navigation Assistance, and various warning indicators at the vehicle level. Products engineered and developed within the Fluid Management System play a crucial role in supplying fluids at specified pressure and flow rates to various sub-systems of an automotive vehicle. Products designed and developed within the Actuation and Control system play a pivotal role in moving or regulating specific dynamics within an automotive vehicle.

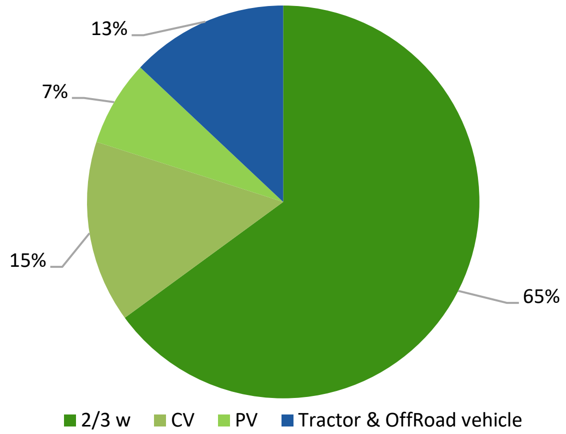
Pricol has 9 manufacturing plants and 2 technology centers. It has entered into 5 strategic partnerships. Major customers include Bajaj, TVS Motor Company and Hero MotoCorp, Tata Motors, JCB, Caterpillar etc.

Exhibit 44: FY23 Consolidated Revenue Split



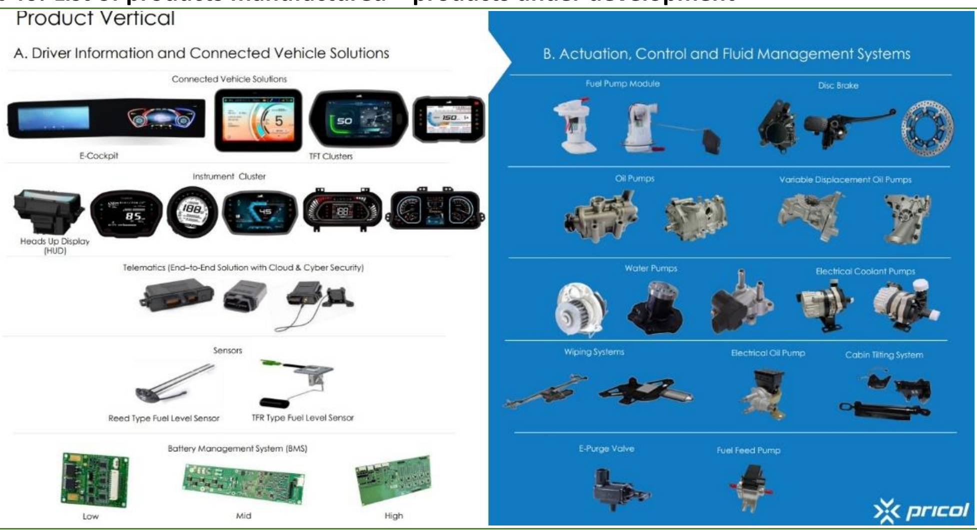
Source: Company, MNCL Research

Exhibit 45: Revenue contribution by vehicle segment in DIS segment as of FY23



Source: Company, MNCL Research

Exhibit 46: List of products manufactured + products under development



Source: Company

Exhibit 47: List of marquee clients

Source: Company

Financials (Consolidated)

Exhibit 48: Income Statement

P&L - Y/E March (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenues	**13,567**	**18,137**	**12,394**	**14,131**	**15,447**	**19,586**	**23,031**	**28,321**	**35,521**
Materials cost	8,549	12,691	8,585	9,648	10,696	13,733	15,799	19,343	24,225
% of revenues	***63.0***	***70.0***	***69.3***	***68.3***	***69.2***	***70.1***	***68.6***	***68.3***	***68.2***
Employee cost	1,693	2,509	1,594	1,665	1,918	2,275	2,662	3,194	3,961
% of revenues	***12.5***	***13.8***	***12.9***	***11.8***	***12.4***	***11.6***	***11.6***	***11.3***	***11.1***
Others	1,670	2,697	1,361	1,039	1,027	1,293	1,842	2,266	2,842
% of revenues	***12.3***	***14.9***	***11.0***	***7.4***	***6.6***	***6.6***	***8.0***	***8.0***	***8.0***
EBITDA	**1,654**	**241**	**854**	**1,779**	**1,806**	**2,285**	**2,728**	**3,518**	**4,493**
EBITDA margin (%)	***12.2***	***1.3***	***6.9***	***12.6***	***11.7***	***11.7***	***11.8***	***12.4***	***12.7***
Depreciation & Amortisation	740	940	959	942	818	779	823	955	1,058
EBIT	**915**	**-699**	**-105**	**837**	**987**	**1,506**	**1,904**	**2,563**	**3,435**
Interest expenses	133	353	338	431	273	183	173	146	129
PBT from operations	781	-1,052	-444	407	715	1,323	1,731	2,416	3,306
Other income	53	125	149	78	88	46	99	89	132
Exceptional items	0	0	0	0	0	98	0	0	0
PBT	**835**	**-927**	**-295**	**485**	**803**	**1,466**	**1,830**	**2,505**	**3,438**
Taxes	225	10	-36	327	292	219	457	626	860
Effective tax rate (%)	***27.0%***	***-1.1%***	***12.1%***	***67.4%***	***36.4%***	***15.0%***	***25.0%***	***25.0%***	***25.0%***
PAT from continuing operations	**609**	**-937**	**-259**	**158**	**511**	**1,247**	**1,372**	**1,879**	**2,579**
Profit/ (loss) from discontinued operations	**-1,099**	**-801**	**-728**	**257**	**-**	**-**	**-**	**-**	**-**
Total PAT	**-489**	**-1,739**	**-988**	**415**	**511**	**1,247**	**1,372**	**1,879**	**2,579**
Adjusted PAT	**609**	**-937**	**-259**	**158**	**511**	**1,149**	**1,372**	**1,879**	**2,579**

Exhibit 49: Key Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth Ratio (%)									
Revenue	*(7.9)*	*33.7*	*(31.7)*	*14.0*	*9.3*	*26.8*	*17.6*	*23.0*	*25.4*
EBITDA	*54.1*	*(85.4)*	*254.7*	*108.4*	*1.5*	*26.5*	*19.4*	*29.0*	*27.7*
Adjusted PAT	*561.8*	*(253.9)*	*(72.3)*	*(161.0)*	*222.8*	*125.0*	*19.4*	*36.9*	*37.2*
Margin Ratios (%)									
EBITDA	*12.2*	*1.3*	*6.9*	*12.6*	*11.7*	*11.7*	*11.8*	*12.4*	*12.7*
PBT from operations	*5.8*	*(5.8)*	*(3.6)*	*2.9*	*4.6*	*6.8*	*7.5*	*8.5*	*9.3*
Adjusted PAT	*4.5*	*(5.2)*	*(2.1)*	*1.1*	*3.3*	*5.9*	*6.0*	*6.6*	*7.3*
Return Ratios (%)									
ROE	*8.8*	*-16.1*	*-5.8*	*3.4*	*9.3*	*18.0*	*17.8*	*20.1*	*22.3*
ROCE	*7.3*	*-6.2*	*0.5*	*3.9*	*9.3*	*17.6*	*17.7*	*20.0*	*22.1*
ROIC	*7.2*	*-8.2*	*-1.3*	*3.8*	*9.3*	*18.8*	*18.1*	*20.2*	*24.1*
Turnover Ratios (days)									
Gross block turnover ratio (x)	2.1	2.8	1.9	2.1	2.3	2.6	2.7	2.7	3.0
Debtors	80	39	58	49	56	50	50	50	50
Inventory	123	52	100	92	81	72	75	75	75
Creditors	173	63	135	107	92	75	80	80	80
Cash conversion cycle	30	29	23	34	45	47	45	45	45
Solvency Ratio (x)									
Net debt-equity	0.5	0.4	0.8	0.3	0.1	0.0	0.0	0.0	(0.1)
Debt-equity	0.6	0.5	0.9	0.5	0.2	0.1	0.1	0.1	0.0
Interest coverage ratio	6.9	(2.0)	(0.3)	1.9	3.6	8.2	11.0	17.5	26.5
Gross debt/EBITDA	2.6	10.9	4.3	1.4	0.7	0.4	0.2	0.2	0.1
Current Ratio	0.9	1.0	0.8	1.3	1.3	1.3	1.3	1.4	1.7
Per share Ratios (Rs)									
Adjusted EPS	6.4	-9.9	-2.7	1.3	4.2	9.4	11.3	15.4	21.2
BVPS	70.2	52.7	41.9	43.1	47.3	57.8	69.0	84.5	105.6
CEPS	14.2	0.0	7.4	9.0	10.9	15.8	18.0	23.3	29.8
DPS	1.2	0.0	-	-	-	-	-	-	-
Dividend payout %	*18.5*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Valuation (x)*									
P/E (adjusted)	13.0	-5.5	-12.4	35.3	24.4	17.7	30.0	21.9	16.0
P/BV	1.2	1.0	0.8	1.1	2.2	2.9	4.9	4.0	3.2
EV/EBITDA	6.9	29.5	7.6	4.1	7.3	8.9	15.2	11.7	8.7
Dividend yield %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, MNCL Research Estimates

Exhibit 50: Balance Sheet

Y/E March (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds									
Equity Share Capital	95	95	95	122	122	122	122	122	122
Reserves & surplus	6,561	4,899	3,879	5,126	5,640	6,921	8,293	10,172	12,751
Shareholders' fund	**6,656**	**4,994**	**3,974**	**5,248**	**5,762**	**7,043**	**8,415**	**10,294**	**12,873**
Total Debt	4,300	2,615	3,714	2,480	1,281	892	654	535	506
Lease Liabilities (current + non current)	0	0	0	306	254	211	211	211	211
Def tax liab. (net)	603	544	519	574	563	411	411	411	411
Other non current liabilities	90	14	280	90	49	88	88	88	88
Total Liabilities	**11,649**	**8,167**	**8,487**	**8,697**	**7,908**	**8,645**	**9,779**	**11,539**	**14,088**
Gross Block	6,892	6,073	7,083	6,611	7,077	7,738	9,550	11,512	12,485
Less: Acc. Depreciation	2,082	1,824	2,687	2,864	3,334	3,779	4,385	5,122	5,962
Net Block	4,810	4,249	4,396	3,747	3,744	3,959	5,165	6,391	6,523
Capital WIP	622	136	219	198	84	140	328	366	193
Investment Property	104	99	95	150	154	69	69	69	69
ROU Assets - Net	0	0	423	459	392	345	345	345	345
Intangible Assets	1,742	1,545	1,411	1,168	1,034	909	787	665	543
Goodwill	1,765	1,093	993	894	795	695	599	503	407
Net Fixed Assets	**9,043**	**7,121**	**7,537**	**6,616**	**6,203**	**6,117**	**7,294**	**8,339**	**8,081**
Investments - Non current	0	0	0	0	0	12	12	12	12
Other non current assets	875	787	703	444	292	309	309	309	309
Inventories	2,881	1,825	2,361	2,432	2,365	2,717	3,246	3,975	4,978
Sundry debtors	2,963	1,948	1,960	1,879	2,389	2,677	3,155	3,880	4,866
Cash	696	585	425	747	507	839	427	466	2,353
Other current assets	854	3,756	316	245	232	391	391	391	391
Total Current Asset	**7,394**	**8,114**	**5,062**	**5,303**	**5,493**	**6,625**	**7,219**	**8,711**	**12,588**
Trade payables	4,048	2,186	3,186	2,818	2,699	2,826	3,463	4,240	5,310
Other current Liab.	1,371	5,493	1,445	669	1,152	1,332	1,332	1,332	1,332
Provisions (current + non current)	245	176	183	178	228	260	260	260	260
Net Current Assets	**1,731**	**258**	**248**	**1,638**	**1,413**	**2,207**	**2,165**	**2,880**	**5,687**
Total Assets	**11,649**	**8,167**	**8,487**	**8,697**	**7,908**	**8,645**	**9,779**	**11,539**	**14,088**

Source: Company, MNCL Research Estimates

Exhibit 51: Cash Flow

Y/E March (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Operating profit bef working capital changes	1,040	554	449	1,953	1,832	2,325	2,728	3,518	4,493
Changes in working capital	141	(155)	1,073	(660)	122	(295)	(371)	(676)	(919)
Cash flow from operations	**954**	**437**	**1,512**	**1,282**	**1,826**	**1,663**	**1,899**	**2,216**	**2,714**
Net Capex	(1,464)	(1,088)	(756)	(320)	(449)	(849)	(2,000)	(2,000)	(800)
FCF	(510)	(651)	756	962	1,378	814	(101)	216	1,914
Cash flow from investments	**(2,463)**	**(1,071)**	**(274)**	**(210)**	**(447)**	**(690)**	**(1,901)**	**(1,911)**	**(668)**
Cash flow from financing	**1,836**	**566**	**(1,689)**	**(701)**	**(1,536)**	**(638)**	**(411)**	**(265)**	**(159)**
Net change in cash	**327**	**(68)**	**(450)**	**372**	**(156)**	**334**	**(413)**	**39**	**1,887**

Source: Company, MNCL Research Estimates

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A graph of daily closing prices of the securities is also available at www.nseindia.com

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Registration granted by SEBI, and certification from NISM for our Research Analysts in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Analyst holding in stock: **NO**

Key to MNCL Investment Rankings

Buy: Upside by >15%, Accumulate: Upside by 5% to 15%, Hold: Downside/Upside by -5% to +5%, Reduce: Downside by 5% to 15%, Sell: Downside by >15%

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