July 07, 2022

Pricol Limited(erstwhile Pricol Pune Limited): Ratings upgraded; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	150.28	125.40	[ICRA]BBB+; upgraded from [ICRA]BBB; outlook revised to Positive from Stable
Long-term fund based	80.00	80.00	
Long-term unallocated	20.00	44.88	
Short-term non-fund based (sublimit)	(80.00)	(80.00)	[ICRA]A2; upgraded from [ICRA]A3+
Total	**250.28**	**250.28**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in ratings follows the improvement in Pricol Limited's (erstwhile Pricol Pune Limited) (Pricol/the company) financial risk profile in FY2021 and FY2022, characterised by healthy margins and accruals, significant reduction in debt levels and better liquidity position. In FY2021 and FY2022, Pricol's revenues benefitted from deeper penetration across various auto sub-segments following improved digitisation in the Driver Information Systems (DIS), introduction of new products and re-entry into the PV segment, following the expiry of a non-compete clause with an erstwhile JV partner, among others. The divestment of loss-making subsidiaries, a margin-accretive product mix and implementation of cost-saving initiatives have significantly improved the company's consolidated operating margins to over 12% in FY2021 and FY2022 from 2.0% in FY2020, despite elevated commodity prices and supply-chain issues. Pricol also reduced its consolidated net debt to Rs. 212.9 crore as of March 31, 2021, and further to Rs. 101.1 crore as of March 31, 2022, from Rs. 418.7 crore as on March 31, 2020. The sale of subsidiaries in 2020, proceeds from the rights issue in December 2020, reduction in the working capital requirements through factoring arrangements and healthy accruals aided in the reduction in debt levels. Accordingly, the company's net debt/OPBDITA improved to 0.5 times as on March 31, 2022 (PY: 1.1 times) and its interest coverage improved to 6.8 times in FY2022 from 4.6 times in FY2021.

Pricol's revenues are likely to be supported by sustenance of its improved wallet share with customers across segments and higher content per vehicle, despite headwinds from the ongoing global semiconductor shortage. It also has an early-mover advantage in EVs, and this is likely to benefit the company both in terms of realisations and volumes, as EV penetration increases. While Pricol's revenues are exposed to segment concentration risks with majority of revenues from the 2W segment, the concentration has reduced from the past levels supported by customer additions in the CV/PV segments, both domestic and overseas. Overall, ICRA expects Pricol's operational profile to strengthen, going forward. On the margin front, the company's healthy value addition and cost-optimisation measures are likely to aid accruals, despite cost inflation pressures and unfavourable forex movements. The company has significant capex plans of Rs. 420 crore in total during FY2023-FY2025, part of which is likely to be debt funded. Despite this, ICRA expects Pricol's consolidated coverage metrics to remain comfortable over the medium term. While the company is not looking at any acquisitions over the medium term, impact of the same, if any, would be evaluated on a case-by-case basis.

Key rating drivers and their description

Credit strengths

Diversified product profile comprising driver information systems, pumps and mechanical products mitigates product-specific risks to a large extent – Pricol has a diversified product mix comprising driver information systems (DIS), pumps and mechanical products, wiping systems, and sensors, among others. Pricol has benefited from the digitisation of instrument clusters and the introduction of new products. The diversity mitigates product-specific risks to a large extent. Going forward, the company's revenues are expected to benefit from further increase in electronic content per vehicle and the consequent improvement in realisations.

Established relationships with OEMs with healthy share of business to support revenues, going forward – Pricol is a reputed player in the Indian auto component industry, with presence for over five decades and supplies to original equipment manufacturers (OEMs) like Ashok Leyland Limited, Bajaj Auto Limited, Hero MotoCorp Limited, Tata Motors Limited and TVS Motor Company, to name a few. The company has seven manufacturing plants across India located in proximity to the OEMs which aids in seamless supply-chain management. Pricol has healthy share of business with its key 2W customers. Further, the addition of new customers, both domestic and overseas, and the ending of a non-compete clause with an erstwhile JV partner have helped the company penetrate the CV and PV segments. Pricol also has an early-mover advantage in EVs, and this is likely to benefit the company both in terms of realisations and volumes, as EV penetration increases.

Healthy margins and accruals in FY2021 and FY2022; comfortable coverage metrics – The company's consolidated operating profit margins remained comfortable at over 12% in FY2021 and FY2022, significantly higher than the 2.0% in FY2020, following the sale of loss-making subsidiaries, addition of margin-accretive products and structural cost reduction measures undertaken by the management. As a result, Pricol's net cash accruals improved significantly to over Rs. 130 crore per year in FY2021 and FY2022. The company reduced its consolidated net debt to Rs. 212.9 crore as of March 31, 2021, from Rs. 418.7 crore as on March 31, 2020, with the sale of subsidiaries in 2020 and the rights issue proceeds in December 2020, and further to Rs. 101.1 crore as of March 31, 2022, crore aided by its healthy accruals and lower working capital requirements because of factoring arrangements entered with some customers. Accordingly, Pricol's net debt/OPBDITA improved to 0.5 times as on March 31, 2022 (PY:1.1 times) and its interest coverage improved to 6.8 times in FY2022 (PY: 4.6 times). Going forward, the debt metrics are likely to remain comfortable, supported by healthy accruals and relatively comfortable net debt levels.

Credit challenges

Earnings susceptible to headwinds such as semiconductor shortage and cost inflation – The ongoing global shortage of semiconductors has resulted in OEMs curtailing production volumes. Further, electronic components and semiconductors account for over 60% Pricol's raw materials. However, evaluation of alternative suppliers by Pricol, increase in content per vehicle and wallet share gains with key OEMs have mitigated the risk to a large extent. Pricol's margins are vulnerable to unfavourable commodity and forex movements[1]. Nevertheless, the company's ability to pass on the raw material price increases to its customers and reduction in lag time in the last few months, mitigate the risk to an extent.

High segment concentration with 2W – Pricol derived 61% of its FY2022 revenues from the 2W segment, and 52% of its revenues from its top-three customers. Further, over 90% of the revenues are from the domestic market. This exposes the company to risks arising from downturns in the Indian 2W segment and to underperformance of the top customers or loss of customers to competition. However, the company's proportion of revenues from the 2W segment has reduced from 75% in FY2020, and it has increased its presence in the CV and PV segments with addition of new customers, in both the domestic and export markets. The ability to achieve material segment/customer/geographic diversification over the medium term remains a monitorable.

[1] Pricol is a net importer

Liquidity position: Adequate

Pricol's liquidity position is adequate, with cash and liquid investments of Rs. 52.3 crore as on March 31, 2022, and average fund-based working capital utilisation of 30.3% of its sanctioned limits in the 12 months ended April 2022. As a percentage of drawing power, its fund-based utilisation stood at 14.0% in the 12 months ended April 2022. The company has term loan repayment obligations of Rs. 32.3 crore in FY2023, Rs. 36.9 crore in FY2024 and Rs. 41.9 crore in FY2025 on the existing loans. The company has capex plans of Rs. 160 crore each in FY2023 and FY2024, and Rs. 100 crore in FY2025, part of which is expected to be debt funded. The capex is likely to be capacity/capability enhancements of advanced technology products and maintenance. Pricol has also qualified under the production-linked incentive (PLI) scheme approved by the Ministry of Heavy Industries and part of the above-mentioned investments are likely to be benefit from the scheme. Overall, the company's liquidity position is expected to remain adequate over the medium term, supported by its strong operational profile.

Rating sensitivities

Positive factors – ICRA could upgrade Pricol's ratings if it achieves sustained improvement in its profitability and coverage metrics. Specific metrics that could lead to an upgrade of Pricol's rating include total debt/ OPBITDA below 1.8 times on sustained basis.

Negative factors – Negative pressure on Pricol's rating could emerge with sharp deterioration in the earnings or significant rise in net debt, leading to deterioration in liquidity position. Specific metrics include interest coverage below 4.0 times on a sustained basis. Impact of acquisitions, if any, would be evaluated on a case-by-case basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Pricol Limited (erstwhile Pricol Pune Limited). Details provided in Annexure 2.

About the company

Pricol Limited (erstwhile Pricol Pune Limited) is an auto component supplier headquartered in Coimbatore, Tamil Nadu that manufactures various products such as driver information systems, oil/water pumps, chain tensioners, cab tilts, fuel sensors, temperature/pressure sensors, speed limiting devices, and wiping systems, to name a few. Two-wheelers accounted for 61% of revenues and domestic sales constituted over 90% of its revenues in FY2022.

The company earlier had four direct subsidiaries— one each in Spain (holding company for Brazil, the Czech Republic and Mexico), Indonesia, India (wiping systems) and Singapore (procurement arm); and three step-down subsidiaries through the Spain-based holding company. The Brazil-based entity was acquired in FY2015, and the wiping business (the Czech Republic, Mexico and India) was acquired in FY2018. Pricol divested its stake in the step-down subsidiaries in Brazil and Mexico in February 2020 and its Spain-based subsidiary and Czech-based step-down subsidiary in August 2020. With effect from April 1, 2021, the wiping systems subsidiary in India has been amalgamated with the company. At present, Pricol has only two direct subsidiaries in Indonesia (produces and markets instrument clusters, oil pumps and fuel sensors), and Singapore (procurement arm). Pricol's management team is headed by promoter, Mr. Vikram Mohan, who has been on the company's Board since June 2013. The promoters, and related family members/family-owned entities hold a 36.53% stake in Pricol.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	1,413.1	1,544.7
PAT	41.5	55.1
OPBDIT/OI	14.0%	12.1%
PAT/OI	2.9%	3.6%
Total outside liabilities/Tangible net worth (times)	1.4	1.1
Total debt/OPBDIT (times)	1.4	0.8
Interest coverage (times)	4.6	6.8

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)			Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
					July 07, 2022	Jan 12, 2022	Mar 11, 2021	Sep 15, 2020	June 25, 2019	Apr 12, 2019
1	Term loans	Long-term	125.40	125.40	[ICRA]BBB+ (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+&*	[ICRA]BBB (Negative)
2	Long term fund based	Long-term	80.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+&*	[ICRA]BBB (Negative)
3	Long term unallocated	Long-term	44.88	-	[ICRA]BBB+ (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+&*	[ICRA]BBB (Negative)
4	Short term non-fund based (sublimit)	Short-term	(80.00)	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A4+	[ICRA]A4+&	[ICRA]A3+

&= Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Long-term fund based	Simple
Long-term unallocated	Not Applicable
Short-term non-fund based (sublimit)	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	2019	10.3%	2027	125.40	[ICRA]BBB+ (Positive)
NA	Cash Credit	NA	9.40-9.65%	NA	80.00	[ICRA]BBB+ (Positive)
NA	Long-term unallocated	NA	NA	NA	44.88	[ICRA]BBB+ (Positive)
NA	Letter of credit	NA	NA	NA	(80.00)	[ICRA]A2

Source: *Company*

Annexure II: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
PT Pricol Surya Indonesia	100.00%	Full Consolidation
PT Sripri Wiring Systems Indonesia (Step down subsidiary)	100.00%	Full Consolidation
Pricol Asia Pte Limited, Singapore	100.00%	Full Consolidation

Source: *Company*

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