January 12, 2022

Pricol Limited(erstwhile Pricol Pune Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	154.33	150.28	[ICRA]BBB (Stable); reaffirmed
Long-term fund-based	100.00	80.00	
Long-term unallocated	39.67	20.00	
Short-term non-fund based	21.00	0.00	-
Short-term non-fund based (sublimit)	(75.00)	(80.00)	[ICRA]A3+; reaffirmed
Total	**315.00**	**250.28**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation in ratings takes into account Pricol Limited's (erstwhile Pricol Pune Limited) (Pricol/the company) strong revenue and margin growth in FY2021 and H1 FY2022, anticipated healthy business prospects over the medium term and comfortable debt metrics. In FY2021 and H1 FY2022, Pricol's revenues benefitted from deeper penetration across various auto sub-segments following improved wallet share in Driver Information Systems (DIS), introduction of new products like the fuel pump module from April 2020 and re-entry into the PV segment in FY2021 following expiry of a non-compete clause with an erstwhile JV partner. Although Pricol's consolidated revenues witnessed an optical decline in FY2021 due to the sale of subsidiaries, the revenues grew by 14.0% YoY, adjusting for the same. For H1 FY2022, despite the volumes being curtailed by the ongoing semiconductor shortage, the revenues stood at Rs. 723.1 crore, 43% higher than the Rs. 504.7 crore reported in H1 FY2021, partly supported by the low base of Q1 FY2021. 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 11% in FY2021 and H1 FY2022 from 2.0% in FY2020, despite elevated commodity prices and supply-chain issues. The company also 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. Accordingly, in line with ICRA's expectations, Pricol's net debt/OPBDITA improved to 1.2 times in FY2021 from 12.5 times in FY2020 and its interest coverage improved to 4.1 times in FY2021 from 0.6 times in FY2020. With healthy net cash accruals of Rs. 57.7 crore and prepayment of certain high-cost debt in H1 FY2022, the consolidated debt reduced further to Rs. 199.4 crore as on September 30, 2021. Accordingly, Pricol's net debt/OPBDITA improved to 1.2 times in H1 FY2022 and its interest coverage improved to 5.0 times in H1 FY2022. Going forward, the debt metrics are likely to remain comfortable supported by healthy accruals and absence of debt-funded capex plans.

The company's revenues are exposed to segment concentration risks with majority of revenues from the 2W segment. However, increase in wallet share and new customer additions in the CV/PV segment both domestically and overseas, mitigates the risk to a large extent. Pricol also has an early-mover advantage in EVs, and this is likely to benefit the company both in terms of realizations and volumes, as EVs penetration increases. While there could be some headwinds because of the ongoing semiconductor shortage and commodity price inflation, ability to pass on price hike to the OEMs (albeit with a lag of three to six months) and structural cost reduction undertaken are likely to result in healthy margins. With anticipated healthy accruals and no debt-funded capex plans in FY2022 and FY2023, ICRA expects Pricol's consolidated coverage metrics to remain healthy over the medium term.

Key rating drivers and their description

Credit strengths

Diversified product profile comprising of driver information systems, pumps and mechanical products mitigates product-specific risks to a large extent – Pricol has a diversified product mix comprising of driver information systems (DIS), pumps and mechanical products, wiping systems, and sensors among others with no single product contributing to over 50% of revenues. Pricol has benefited from the digitization of instrument clusters following the implementation of the BS-VI norms in FY2021 and the introduction of new products like fuel pump modules. 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 Hero MotoCorp Limited, TVS Motor Company, Bajaj Auto Limited, Ashok Leyland Limited and Tata Motors Limited, 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 strengthened its already strong share of business with its key 2W customers in the last couple of years, aided its by larger wallet share in digital DIS and increasing content per vehicle. Further, the addition of new customers – both domestic and overseas, and the ending of a non-compete clause with an erstwhile JV partner has helped the company penetrate the CV and PV segments respectively. Pricol also has an early-mover advantage in EVs, and this is likely to benefit the company both in terms of realizations and volumes, as EV penetration increases.

Healthy margins and accruals in FY2021 and H1 FY2022; comfortable coverage metrics – The company's consolidated margins improved to 12.1% in FY2021 from 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 also improved significantly to Rs. 137.8 crore in FY2021 from Rs. 12.5 crore in FY2020. The company also 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. Accordingly, in line with ICRA's expectations, Pricol's net debt/OPBDITA improved to 1.2 times in FY2021 from 12.5 times in FY2020 and its interest coverage improved to 4.1 times in FY2021 from 0.6 times in FY2020. The margins moderated marginally in H1 FY2022 to 11.4%[1] owing to the pressure on input prices. However, Pricol's net cash accruals remained healthy at Rs. 57.7 crore in H1 FY2022 and with prepayment of certain high-cost debt, the consolidated debt reduced further to Rs. 199.4 crore as on September 30, 2021. Accordingly, Pricol's net debt/OPBDITA improved to 1.2 times in H1 FY2022 and its interest coverage improved to 5.0 times in H1 FY2022. Going forward, the debt metrics are likely to remain comfortable supported by healthy accruals and absence of debt-funded capex plans in FY2022 and FY2023.

Credit challenges

Earnings susceptible to headwinds such as supply-chain issues and commodity inflation, akin to other industry players – The ongoing global shortage of semiconductors has resulted in OEMs curtailing production volumes. Further, electronic components 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 price movements, which presently remain at elevated levels. Nevertheless, the company's ability to pass on raw material price increases to its customers (with a lag of three to six months), would mitigate the risk to a large extent.

[1] References to operating profits and related ratios in H1 FY2022 pertain to continuing operations post sale of loss-making subsidiaries in Czech, Spain, Mexico and Brazil

High segment concentration with 2W contributing to 68% of revenues – Pricol continues to derive 68% of its revenues from the 2W segment, and 54% 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 has been increasing its presence in the CV and PV segments and has been adding new customers in both domestic and export markets, although the ability to achieve material segment/customer/geographic diversification over the medium term remains to be seen.

Liquidity position: Adequate

Pricol's liquidity position is adequate with cash and liquid investments of Rs. 50.8 crore as on September 30, 2021, and average fund-based working capital utilisation of 38.3% of its sanctioned limits in the last one year (has reduced from 59.7% the previous year). As against these sources of cash, the company currently has capex plans of Rs. 40.0 crore p.a. in FY2022 and FY2023. Further, the company has term loan repayment obligations of Rs. 133.0 crore in FY2022 (out of which Rs. 104.7 crore has already been paid off as on September 30, 2021), Rs. 33.3 crore in FY2023 and Rs. 58.3 crore in FY2024 on existing loans. The company's anticipated accruals are expected to be adequate for the capex requirements and repayment obligations over the medium term.

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 2.5x 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 <3.0x on a sustained 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 rating, 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. Of these, DIS and pumps/mechanical products currently contribute to 57% and 25% of consolidated revenues respectively in H1 FY2022. 2W accounts for 68% of revenues and domestic sales constituted over 90% of its revenues in H1 FY2022.

The company earlier had four direct subsidiaries— one each in Spain (holding company for Brazil, Czech 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 (Czech, Mexico and India) was acquired in FY2018. The company has divested its 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. Currently, 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 Mr. Vikram Mohan (son of the promoters, Mr. Vijay Mohan and Ms. Vanitha Mohan), who has been on the company's Board since June 2013. 36.53% of Pricol's shares are held by the promoters, and related family members/family-owned entities.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	1,715.1	1,506.5
PAT (Rs. crore)	-98.8	41.5
OPBDIT/OI (%)	2.0%	12.1%
PAT/OI (%)	-5.8%	2.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	1.4
Total Debt/OPBDIT (times)	13.7	1.5
Interest Coverage (times)	0.6	4.1

Source: Company, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019		
					12-Jan-22	11-Mar-21	15-Sep-20	25-Jun-19	12-Apr-19	9-Nov-18	16-Aug-18	7-Jun-18
1	Term Loans	Long-term	150.28	150.28	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+&*	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A-&
2	Long-term fund based	Long-term	80.00	31.9	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+&*	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A-&
3	Long-term unallocated	Long-term	20.00		[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+&*	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A-&
4	Short-term non-fund based	Short Term	0.00		-	[ICRA]A3+	[ICRA]A4+	[ICRA]A4+&	[ICRA]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A2+&
5	Short-term non-fund based (sublimit)	Short Term	(80.00)		[ICRA]A3+	[ICRA]A3+	[ICRA]A4+	[ICRA]A4+&	[ICRA]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A2+&
6	Short-term fund-based (sublimit)	Short Term										[ICRA]A2+&

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	Simple
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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2019	11%	FY2025	150.28	[ICRA]BBB (Stable)
NA	Cash Credit		NA		80.00	[ICRA]BBB (Stable)
NA	Long-term unallocated		NA		20.00	[ICRA]BBB (Stable)
NA	Letter of credit		NA		(80.00)	[ICRA]A3+

Source: *Pricol Limited (erstwhile Pricol Pune Limited)*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Pricol 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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

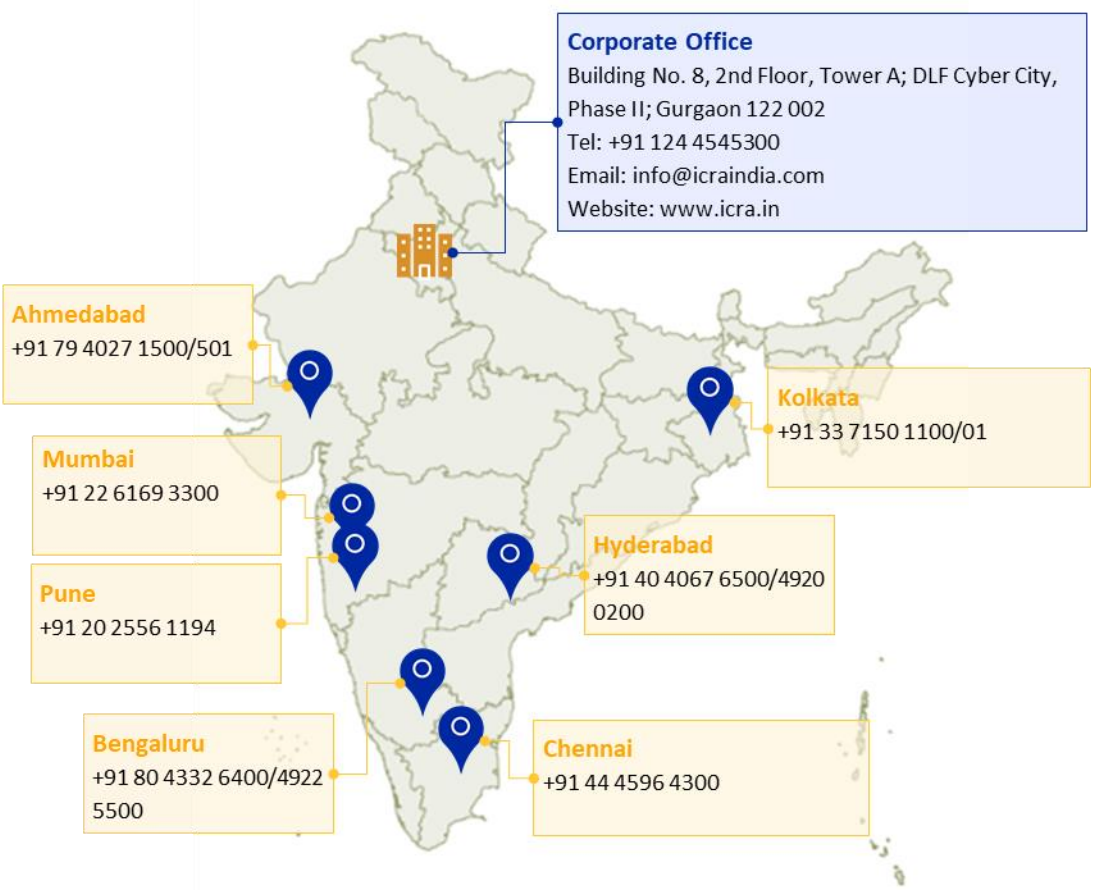
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.