March 11, 2021

Pricol Limited(erstwhile Pricol Pune Limited): Ratings upgraded to [ICRA]BBB(Stable)/[ICRA]A3+ from [ICRA]BB+(Stable)/ [ICRA]A4+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	179.50	154.33	Rating upgraded to [ICRA]BBB (Stable) from [ICRA]BB+ (Stable)
Long-term fund-based	110.00	100.00	
Long-term unallocated	4.50	39.67	
Short-term non-fund based	21.00	21.00	Rating upgraded to [ICRA]A3+ from [ICRA]A4+
Short-term non-fund based (sublimit)	(75.00)	(75.00)	
Total	**315.00**	**315.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in ratings takes into account Pricol Limited's (erstwhile Pricol Pune Limited) (Pricol/the company) strong performance in 9M FY2021, improvement in its liquidity position following the improvement in accruals and fund raising via a rights issue and anticipated healthy business prospects and margins over the medium term. For 9M FY2021, 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 following expiry of a non-compete clause with an erstwhile JV partner in FY2020. While Pricol's consolidated revenues witnessed sharp optical decline in 9M FY2021 due to the sale of subsidiaries, the revenues grew by 1.1% YoY, adjusting for the same. While Q1 FY2021 was a washout following the lockdown following the Covid-19 pandemic, the revenues from continuing operations witnessed a 18% and 57% YoY growth respectively in Q2 FY2021 and Q3 FY2021. Further, 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 12.7% [1] in 9M FY2021 from 1.9% in FY2020. Pricol has also reduced its net debt levels significantly to ~Rs. 228 crore as on December 31, 2020 from Rs. 412.6 crore as on March 31, 2020 with the sale of subsidiaries and the rights issue proceeds of Rs. 81.3 crore in December 2020. The debt reduction and improvement in accruals have resulted in improvement in coverage metrics with net debt/OPBIDTA improving to 1.9 times in 9M FY2021 from 12.4 times in FY2020 and the interest coverage improving to 3.6 times in 9M FY2021 from 0.6 times in FY2020.

ICRA expects Pricol's revenue momentum to sustain over the medium term given the favourable outlook for the domestic 2W industry, increase in content per vehicle and the company's healthy order book position. Also, while there could be some headwinds from the ongoing semiconductor shortage, fundamental changes brought about in the company's cost structure are likely to result in healthy margins. The company expects some increase in debt levels going forward from the Dec 2020 levels because of incremental working capital requirements following reduction in creditors in Q4 FY2021. Nevertheless, it is expected to be significantly lower than March 31, 2020 levels. With anticipated healthy accruals, and

1 All references to operating profits and related ratios in 9M FY2021 pertain to that from continuing operations.

absence of debt-funded capex, 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 switches and sensors among others with no single product contributing to over 50% of the 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.

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 strengthened its already strong share of business with its key 2W customers in the recent past, 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. These are likely to support revenues going forward.

Healthy margins and accruals in 9M FY2021 and reduction in working capital borrowings through rights issue proceeds have resulted in improvement in coverage metrics– The company's consolidated margins improved to 12.7%[2] in 9M FY2021 from 1.9% in FY2020 following the sale of loss-making subsidiaries, addition of margin-accretive products and fixed cost saving initiatives undertaken by the management. As a result of this, Pricol net cash accruals also improved significantly in 9M FY2021. Pricol also reduced its consolidated net debt to ~Rs. 228 crore as on December 31, 2020 from Rs. 412.6 crore as on March 31, 2020 with the sale of subsidiaries in H1 FY2021 and the rights issue proceeds in December 2020. The healthy accruals and lower debt have improved Pricol's coverage metrics significantly from FY2020 levels in 9M FY2021, with Pricol's consolidated net debt/OPBDITA improving to 1.9 times in 9M FY2021 from 12.4 times in FY2020 and its interest coverage improving to 3.6 times in 9M FY2021 from 0.6 times in FY2020. ICRA expects Pricol's net debt to increase from Dec 31, 2020 levels going forward, due to incremental working capital requirements following reduction in creditors in Q4 FY2021. Nevertheless, it is expected to remain significantly lower than March 31, 2020 levels.

Credit challenges

High segment concentration with 2W contributing to over 70% revenues– Pricol continues to derive 70% of its revenues from the 2W segment, and 57% 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, ICRA notes that the company has been increasing its presence in the CV and PV segments and has been adding new

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2 All references to operating profits and related ratios in 9M FY2021 pertain to continuing operations post sale of loss-making subsidiaries in Czech, Spain, Mexico and Brazil

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.

Production headwinds due to supply chain constraints (primarily resulting from shortage of electronic components) could play spoil sport over the next few months – Semiconductors and electronic components account of ~20% of Pricol's raw material requirements. While the ongoing global shortage for electronic components and unavailability of the same could result in product disruption for Pricol over the next few months till the situation is better, adequate inventory stocking (Pricol has inventory for the next two months currently) and evaluation of alternative suppliers mitigate the risk to an extent. Also, while the potential increase in prices of electronic components following the shortage could increase Pricol's raw material costs to an extent, the margins are likely to remain healthy despite this going forward.

Liquidity position: Adequate

Pricol's liquidity position is adequate with average fund-based working capital utilisation of 59.7% of its sanctioned limits and ~41% of drawing power in the last one year. Pricol had cash and liquid investments of over Rs. 100 crore as on December 31, 2020, following a rights issue subscription of Rs. 81.3 crore in December 2020 and healthy accruals in 9M FY2021; however, this is likely to reduce going forward owing to the anticipated reduction in creditor levels in Q4 FY2021. As against these sources of cash, the company has minimal maintenance capex plans of Rs. 40.0 crore in FY2021, Rs.55.0 crore in FY2022 and Rs.50.0 crore in FY2023 (to be funded through internal accruals) and term loan repayment obligations of Rs. 28.8 crore for FY2021, Rs. 63.1 crore for FY2022 and Rs. 53.4 crore for FY2023 on existing loans. The company's anticipated accruals are 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 material 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. 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	Consolidation

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 50% and 33% of consolidated revenues respectively in 9M FY2021. 2W accounts for 70% of revenues and domestic sales constituted over 90% of its revenues in 9M FY2021.

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. Currently, Pricol has only three direct subsidiaries in Indonesia (produces and markets instrument clusters, oil pumps and fuel sensors), India (caters to wiping systems) and Singapore (procurement arm).

Key financial indicators (audited)

Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	1,920.2	1718.0
PAT (Rs. crore)	-173.9	-98.8
OPBDIT/OI (%)	1.4%	1.9%
PAT/OI (%)	-9.1%	-5.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	2.3
Total Debt/OPBDIT (times)	19.8	13.7
Interest Coverage (times)	0.5	0.6

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 (FY2021)					Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in		Date & Rating in FY2020		Date & Rating in FY2019			Date & Rating in FY2018
					11-Mar-21	15-Sep-20	25-Jun-19	12-Apr-19	9-Nov-18	16-Aug-18	7-Jun-18	14-Jun-17
1	Term Loans	Long-term	154.33	154.33	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+&*	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A-&	[ICRA]A-&
2	Long-term fund based	Long-term	100.00	NA	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+&*	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A-&	[ICRA]A-&
3	Long-term unallocated	Long-term	39.67	NA	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+&*	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A-&	[ICRA]A-&
4	Short-term non-fund based	Short Term	21.00	NA	[ICRA]A3+	[ICRA]A4+	[ICRA]A4+&	[ICRA]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A2+&	[ICRA]A2+&
5	Short-term non-fund based (sublimit)	Short Term	(75.00)	NA	[ICRA]A3+	[ICRA]A4+	[ICRA]A4+&	[ICRA]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A2+&	[ICRA]A2+&
6	Short-term fund-based (sublimit)	Short Term	-	-	-	-	-	-	-	-	[ICRA]A2+&	[ICRA]A2+&

Amount in Rs. crore, &= Under watch with developing implications

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loans	FY2019	11%	FY2025	154.33	[ICRA]BBB (Stable)
NA	Cash Credit		NA		100.00	[ICRA]BBB (Stable)
NA	Long-term unallocated		NA		39.67	[ICRA]BBB (Stable)
NA	Standby line of credit		NA		21.00	[ICRA]A3+
NA	Letter of credit		NA		(75.00)	[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
Pricol Wiping Systems India Limited	100.00%	Full consolidation

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

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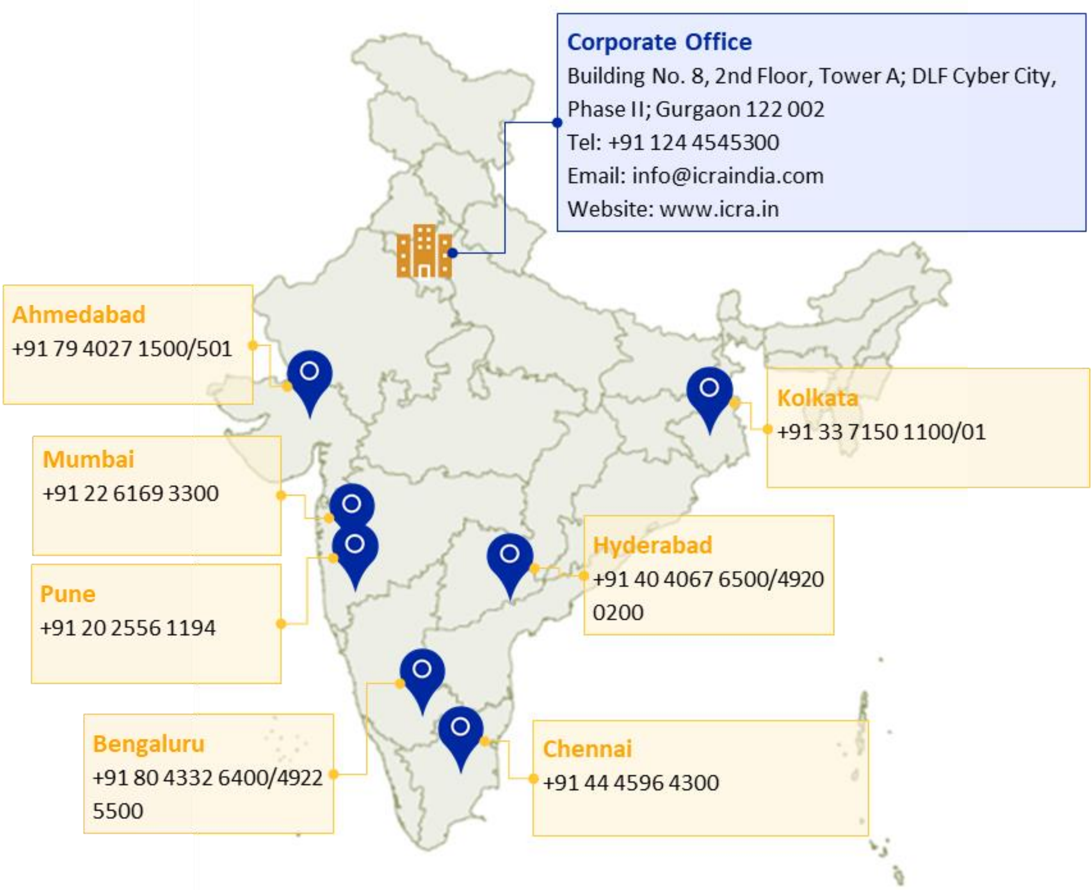

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