September 15, 2020

Pricol Limited(erstwhile Pricol Pune Limited): Ratings reaffirmed; removed from watch with developing implications and Stable outlook assigned on long-term rating

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	148.26	179.50	[ICRA]BB+ reaffirmed; removed from watch with developing implications and Stable outlook assigned
Long-term fund-based	145.00	110.00	
Long-term unallocated	0.74	4.50	
Short-term non-fund based	21.00	21.00	[ICRA]A4+ reaffirmed; removed from watch with developing implications
Short-term non-fund based (sublimit)	(105.00)	(75.00)	
Total	**315.00**	**315.00**	

**Instrument details are provided in Annexure-1*

Rationale

The removal of the rating watch (which was placed in June 2019 following the news of the impending divestment of the loss-making subsidiaries) factors in the successful completion of the same in two tranches—in February 2020 and August 2020. The company sold its step-down subsidiaries in Brazil and Mexico in February 2020 for a consideration of $2,000 (~Rs. 1.4 lakh) over and above the takeover of its debt and other liabilities, and its subsidiary in Spain and step-down subsidiary in Czech in August 2020 for a consideration of EUR 50,000 (~Rs. 0.44 crore) net of takeover of all debt and other liabilities. The company's debt level has reduced post this sale to Rs. 392.8 crore as on August 31, 2020 from Rs. 550.3 crore as on March 31, 2019 and its profitability is expected to improve going forward with sale of sub-par return yielding investments. Also, Pricol does not expect exceptional loss arising from the sold subsidiary/step-down subsidiaries, in FY2021.

The company's revenues are predominantly correlated to the domestic auto industry (with 65% of revenues derived from the domestic 2W segment). As a result, ICRA expects Pricol's revenues to witness a YoY decline in FY2021, akin to other auto component players impacted by the lockdown during Q1 FY2021 and the pandemic, although the company will benefit from increasing content per vehicle and higher average realisations post the BS-VI transition from April 01, 2020. The 2W wholesale sales have also witnessed some recovery in the last two months, although sustenance of the same remains to be seen. Further, while the company has undertaken significant cost-pruning measures and will benefit from addition of margin-accretive products to its portfolio, the extent of margin improvement in FY2021 remains to be seen. Pricol availed moratorium relief on its term loans for the period of March–Aug 2020. While the company has repayment obligations of Rs. 25 crore for FY2021 (after taking into account the moratorium) and its average working capital utilisation is at 90% of the drawing power, its cash and liquid investments of Rs. 20 crore (as on July 31, 2020) and proposed rights issue of up to Rs. 100 crore will provide some respite to immediate-term liquidity. Non-materialisation of the rights issue would be a key rating sensitivity.

The ratings continue to positively factor in the company's diversified product portfolio and established market position across products. However, Pricol continues to have segment concentration with 2W (65% of consolidated revenues currently) and relatively high customer concentration (62% from top four customers).

Key rating drivers and their description

Credit strengths

Diversified product portfolio comprising driver information systems, pumps and mechanical products – Pricol has a diversified product mix comprising of driver information systems (DIS), pumps and mechanical products, wiping systems, and switches and sensors among others. DIS is the highest revenue contributor, adding to about 55% of the company's top line currently, while pumps and mechanical products account for about 25% of the top line. The diversity mitigates product-specific risks to a large extent. The company is also likely to benefit from increasing content per vehicle following the BS-VI emission norm changes from April 1, 2020.

Established relationships with OEMs with healthy share of business – Pricol is a reputed player in the Indian auto component industry with a track record of over five decades. The company supplies its products predominantly to established original equipment manufacturers (OEMs) like TVS Motor Company, Bajaj Auto Limited and Hero MotoCorp Limited to name a few, and enjoys a healthy share of business.

Reduction in debt levels post sales of subsidiaries; to be reduced further post rights issue – The company's consolidated net debt reduced to Rs. 412.6 crore as on March 31, 2020 from Rs. 473.3 crore as on March 31, 2019 due to sales of subsidiaries in Brazil and Mexico in February 2020. It has further reduced to Rs. 372.8 crore as on August 31, 2020 with the sales of the Spain- and Czech-based subsidiaries in August 2020. In its meeting dated September 4, 2020, the company's board of directors have approved a rights issue with an issue size of up to Rs. 100 crore. Funds from the rights issue will support the company's proposed deleveraging plans and are critical for correction in its capital structure.

Credit challenges

Impact of pandemic likely to result in revenue decline in FY2021 – The company's revenues are predominantly correlated to the domestic auto industry and hence, would be impacted by the ongoing slowdown, aggravated by the impact of the pandemic. The strength of the eventual recovery will be contingent on the duration and breadth of the pandemic before an eventual containment. ICRA expects Pricol's revenues to witness a YoY decline in FY2021, although the improved realizations and increased content per vehicle are likely to cap the decline to an extent.

Stretched coverage metrics – Pricol's consolidated coverage metrics remained stretched in FY2020 due to the high debt levels and weak accruals. The company's FY2020 debt/OPBDITA stood at 13.7 times (against 19.8 times for FY2019) and its interest coverage ratio stood at 0.6 times for FY2020 (against 0.5 times for FY2019). The sale of the Czech entity (which has been completed in August 2020) and the proposed rights issue are expected to aid in debt reduction. Further, the company is also likely to benefit from addition of margin-accretive products to its portfolio from April 1, 2020. The extent of improvement in the capitalisation and coverage metrics, however, remain to be seen.

High segment concentration with 2W contributing to over 65% revenues at present –The company has increased its sale to the domestic CV and PV segments and also to overseas destinations recently, reducing its concentration on 2W from ~75% earlier to 65% currently. Nevertheless, its concentration with the 2W segment remains, exposing it to risks arising from downturns in the segment. In terms of customer concentration, Pricol's top three clients contribute to 57% of revenues, resulting in the vulnerability of its revenues to underperformance of the customer or loss of customers to competition. However, the company's established presence and healthy share of business mitigates this risk to an extent.

Liquidity position: Stretched

Pricol's liquidity position is **stretched** with cash flow from operations of Rs. 12.3 crore for FY2020 and average working capital utilisation of 90% of its drawing power in the last one year. The company had cash and liquid investments of ~Rs. 20 crore as on July 31, 2020. In its meeting dated September 4, 2020, the company's board of directors have approved a rights issue with an issue size of up to Rs. 100 crore. Funds from the rights issue will support the company's proposed deleveraging plans and are critical for correction in its capital structure. As against these sources of cash, the company has capex plans of Rs. 30 crore per year for FY2021–23 and term loan repayment obligations of Rs. 25 crore for FY2021, Rs. 55.7 crore for FY2022 and Rs. 57.1 crore for FY2023. The repayments factor in the moratorium relief availed on its term loans for the period of March–August 2020. As on date, the company is yet to evaluate restructuring of loans post moratorium.

Rating sensitivities

Positive triggers – ICRA could upgrade Pricol's rating if the company achieves material improvement in its financial profile from current levels. Specific metrics that could lead to an upgrade of Pricol's rating include net debt/OPBITDA below 3.0x on a sustained basis.

Negative triggers – Negative pressure on Pricol's rating could arise if the proposed rights issue does not materialse and significant reduction in debt levels is not achieved; or if the company witnesses continued net losses at a consolidated level. Specific metrics include interest coverage <2.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Auto Component Suppliers
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 83% of the revenues. 2Ws account for 65% of revenues and in terms of geographies, India constitutes 92% of its revenues currently.

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- Consolidated (audited)

	FY2019*	FY2020
Operating Income (Rs. crore)	1,920.2	1,718.0
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

* Based on best available information

Source: Company, ICRA research; OI: Operating Income, OPBDIT: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019			FY2018
					15 September 2020	25 June 2019	12 April 2019	9 Nov 2018	16 August 2018	7 June 2018	14 June 2017
1	Term loans	Long Term	179.50	179.50	[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	110.00	NA	[ICRA]BB+ (Stable)	[ICRA]BB+&	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A-&	[ICRA]A-&
3	Long-term unallocated	Long Term	4.50	NA	[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]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]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 rating 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

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term loans	FY2019	10%	FY2025	179.50	[ICRA]BB+ (Stable)
Cash Credit		NA		110.00	[ICRA]BB+ (Stable)
Long-term unallocated		NA		4.50	[ICRA]BB+ (Stable)
Standby line of credit		NA		21.00	[ICRA]A4+
Letter of credit		NA		(75.00)	[ICRA]A4+

Source: Pricol Limited (erstwhile Pricol Pune Limited)

Annexure-2: List of entities considered for consolidated analysis

Company Name	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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About ICRA Limited:

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