Pricol Limited(erstwhile Pricol Pune Limited)

April 12, 2019

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	31.66	148.26	[ICRA]BBB(Negative); revised from [ICRA]BBB+ (Stable)
Long-term fund-based	145.00	145.00	
Long-term unallocated	77.34	0.74	
Short-term non-fund based	21.00	21.00	[ICRA]A3+; revised from [ICRA]A2
Short-term non-fund based (sublimit)	(105.00)	(105.00)	
Total	**275.00**	**315.00**	

*Instrument details in Annexure – I

Rationale

The revision in ratings considers the deterioration in Pricol's consolidated financial profile during 9M FY2019 because of weak performance of the Brazil subsidiary, the recently acquired wiping systems business and the standalone entity in India. The company's consolidated operating margins stood at 1.2% for 9M FY2019 (1.7% for FY2018), significantly weaker than the company's and ICRA's earlier estimates. At the net level, Pricol's consolidated losses widened to 5.5% during 9M FY2019 from 3.0% in FY2018, as against a net turnaround expected earlier for FY2019. The margins were predominantly impacted by a) increase in input/raw material costs in the standalone business due to higher commodity prices, surge in prices of electronic components with global shortage, and adverse forex movement; b) lower-than-anticipated revenues in the Brazil subsidiary and consequent weak absorption of fixed costs; and c) weak performance of the Czech wiping systems business with slowdown in European PV sales in the recent months and Pricol's inability to improve the entity's cost structure, among others. Pricol's consolidated debt levels continue to remain high at Rs. 546.3 crore as on December 31, 2018, due to the debt-funding of losses, despite the lower-than-expected capex incurred in FY2019. Pricol's consolidated coverage metrics remained stretched during 9M FY2019 due to the high debt levels and relatively weak accruals: the company's 9M FY2019 Total Debt/OPBDITA stood at 21.7 times (17.1 times for FY2018) and its interest coverage ratio stood at 0.9 for 9M FY2019 (0.9 times for FY2018), both significantly weaker than ICRA's earlier expectations. ICRA expects Pricol to report net losses for full year FY2019, and the debt levels are expected to remain high in the near term.

The ratings continue to positively factor in the company's diversified product portfolio, its global manufacturing base and established market position across products. While the former mitigates product-specific risks and provides stability to an extent, the multiple-country manufacturing footprint aids in improved access to overseas markets and proximity to customers. The company continues to have segment concentration with 2W (51% of consolidated revenues in FY2018) and relatively high customer concentration (45% from top four customers in FY2018), despite some diversification because of the Pricol Wiping System (PWS) acquisition in FY2018.

Outlook: Negative

The 'negative' outlook indicates ICRA's expectation that Pricol's consolidated margins are likely to remain subdued and that its debt levels are expected to remain at current levels in the next 3-6 months. However, improvement in profit margins and reduction in debt levels either through accruals from the business or divestments of loss-making ventures, or a combination of both, could support the credit profile. The outlook may be revised to 'stable' if there is material improvement in Pricol's consolidated margins, profitability and debt levels; and its liquidity position improves.

Key rating drivers

Credit strengths

- **Diversified product portfolio** – 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 contributed to about 37% of revenues while pumps and mechanical products added about 30% to the topline during FY2018. The diversity mitigates product-specific risks and provides stability to revenues to a large extent.

- **Established presence in various products; improvement in market share in FY2018** – Pricol is a reputed player in the Indian auto component industry with presence for over five decades. The company supplies its products predominantly to established Original Equipment Manufacturers (OEMs) across industry segments and enjoys healthy share of business. Pricol has increased its market share in some products/with some customers in FY2018 aided by new order wins and presence in high-selling models**.**

- **Healthy order book position over the medium term** – The company has new orders of over Rs. 800 crore for FY2020-21; the orders are spread across products and geographies. The new orders provide revenue visibility and are expected to increase Pricol's market share with some customers going forward.

- **Global manufacturing footprint** – Pricol had manufacturing facilities in India, Indonesia and Brazil earlier. With the acquisition of PWS, the company has expanded its base to Czech Republic and Mexico. The global manufacturing footprint would augur well for the company in securing orders from overseas automobile OEMs and in cost savings through improved supply chain management. Also, the Czech facility is expected to provide Pricol with access to the European market.

Credit weaknesses

- **Deterioration in consolidated profit margins in 9M FY2019 –** Pricol had consolidated revenues of Rs. 1,543.7 crore for 9M FY2019 (unaudited), and this was broadly in line with ICRA's estimates. However, the company's consolidated operating margins stood at 1.2% for 9M FY2019 (1.7% for FY2018), significantly weaker than the company's and ICRA's earlier estimates. At the net level, Pricol's consolidated losses widened to 5.5% during 9M FY2019 from 3.0% in FY2018, as against a net turnaround expected earlier for FY2019. Margins were impacted because of weak performance across entities.

- **High debt levels as on Dec 31, 2018; stretched coverage metrics** – Pricol's consolidated debt levels continue to remain high at Rs. 546.3 crore as on December 31, 2018, due to the debt-funding of losses, despite the lower-than-expected capex incurred in FY2019. Pricol's consolidated coverage metrics remained stretched during 9M FY2019 due to the high debt levels and relatively weak accruals. The company's 9M FY2019 Total Debt/OPBDITA stood at 21.7 times (17.1 times for FY2018) and its interest coverage ratio stood at 0.9 for 9M FY2019 (0.9 times for FY2018). However, the capital structure continued to remain comfortable at a conservative 0.9 times as on Dec 31, 2018.

- **Net losses likely in FY2019; debt to continue at current high levels** – Pricol is expected to report net losses at the consolidated level in FY2019, impacted by the domestic auto slowdown in Q4 FY2019, in addition to the reasons mentioned above. Also, the debt levels are likely to remain high at over Rs. 550 crore for March 31, 2019 owing to debt-funding of losses, despite reduction in capex from the earlier anticipated Rs. 250 crore to Rs. 100 crore in FY2019.

- **Significant capex over the next two years likely to cap profitability metrics** – The company has proposed a cumulative capex of Rs. 200.0 crore (at the consolidated level) for FY2020 and FY2021 for capacity enhancements and new projects. About Rs. 50.0 crore of this capex is likely to be debt-funded. With this capex, Pricol's consolidated Return on Capital Employed (RoCE) is likely to remain subdued over the medium term.

- **High segment and customer concentration** – The company derived about 51% of its consolidated revenues from the 2W segment during FY2018. Also, the company's top four customers – Volkswagen AG, TVS Motor Company Limited, Hero MotoCorp Limited and Bajaj Auto Limited – accounted for about 45% of Pricol's consolidated turnover during the same year. The high segment and customer concentration expose the company to risks arising from the industry downturns, underperformance of the customer, or loss of customers to competition. However, demonstrated history of repeat orders and the current healthy new business pipeline mitigates the risk to a large extent.

Liquidity Position:

Pricol's liquidity position has remained adequate in the last one year. The company reported moderate utilization of 62.8% of sanctioned limited (standalone) for the period June 2018 to March 2019. Pricol has total consolidated capex of ~Rs. 200 crore over the next two years, for capacity enhancements and new projects, and part of it is likely to be debt-funded. Also, the company has consolidated repayment obligations of about Rs. 121.3 crore on aggregate basis for FY2020-FY2021. Despite this, the Pricol's consolidated liquidity position is expected to remain adequate over the medium term.

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 and manufactures various products such as Driver Information Systems, oil/water pumps, chain tensioners, cab tilts, auto fuel cocks, fuel sensors, temperature/pressure sensors, speed limiting devices, wiping systems and sintered products to name a few. Of these, DIS and pumps/mechanical products contributed to 67% of revenues in FY2018. In terms of segments, 2W and passenger vehicles contributed to about 78% of Pricol's FY2018 revenues. The company has manufacturing bases across India, Indonesia, Czech, Mexico and Brazil and caters to various markets including India, USA, Europe, Brazil, Mexico and ASEAN countries.

Pricol has grown its business organically and inorganically over the past three years. The company acquired a Brazilian oil/water pump manufacturer, Melling Do Brasil, in Jan 2015. The wiping business was acquired from PMP Auto Components of the Ashok Piramal Group in FY2018. The company operates through 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 holding company.

Key Financial Indicators (audited)

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	,473.2	,626.5
PAT (Rs. crore)	.2	48.9
OPBDIT/OI (%)	.4%	.7%
RoCE (%)	.1%	.5%
Total Debt/ TNW (times)	.2	.7
Total Debt/ OPBDIT (times)	.5	7.1
Interest coverage (times)	.9	.8

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes;
PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Apr 2019	Date & Rating in FY2019 Aug 2018	Date & Rating in FY2018 Jun 2017	Date & Rating in FY2017 Dec 2016
1	Term loans	Long Term	148.26	117.16				
2	Long-term fund based	Long Term	145.00		[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A-&	[ICRA]A- (Stable)
3	Long-term unallocated	Long Term	0.74					
4	Short-term non-fund based	Short Term	21.00	NA				
5	Short-term non-fund based (sublimit)	Short Term	(105.00)		[ICRA]A3+	[ICRA]A2	[ICRA]A2+&	[ICRA]A2+
6	Short-term fund- based (sublimit)	Short Term	-	-	-			

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	FY2018	9.8%	FY2025	148.26	[ICRA]BBB (Negative)
Cash Credit				145.00	[ICRA]BBB (Negative)
Long-term unallocated	NA			0.74	[ICRA]BBB (Negative)
Standby line of credit				21.00	[ICRA]A3+
Letter of credit				(105.00)	[ICRA]A3+

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%	Full consolidation
PT Srirpi Wiring Systems Indonesia	100%	Full consolidation
Pricol Asia Pte Limited, Singapore	100%	Full consolidation
Pricol Espana S. L. Spain	100%	Full consolidation
Pricol Do Brasil Componentes Automotivos Ltda Brasil (Step down subsidiary)	100%	Full consolidation
Pricol Wiping Systems Czech s. r. o, Czech Republic (Step down subsidiary)	100%	Full consolidation
Pricol Wiping Systems Mexico S. A. de C. V Mexico (Step down subsidiary)	100%	Full consolidation
Pricol Wiping Systems India Limited	100%	Full consolidation

Source: Pricol Limited (erstwhile Pricol Pune Limited)

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About ICRA Limited:

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