

Strong multi-year earnings growth visibility

Auto & Auto Ancillaries ▶ Company Update ▶ September 10, 2024

TARGET PRICE (Rs): 600

Pricol offers strong multi-year earnings growth visibility (29% FY24-27E EPS CAGR) with attractive valuation relative to other 2W ancillaries amid: i) sustained premiumization trend on shift toward digital clusters; ii) ramp up in newer clients such as Honda 2Ws over the next 18-24 months (backed by order wins); iii) new products currently under the testing/validation stage potentially moving into revenue from FY26 (eg guides for ~Rs3bn from disc brakes in 3 years); iv) improving mix and operating leverage-led margin uptick to ~13.5-14%; and v) strategic inorganic acquisitions expanding the addressable market size. We continue to like Pricol as a structural premiumization play that is also transforming into a multi-product company. Our estimates and TP are largely unchanged; we retain BUY with TP of Rs600/share at 27.5x Jun-26E PER.

Pricol: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	19,586	22,718	26,720	32,181	37,000
EBITDA	2,285	2,731	3,479	4,441	5,254
Adj. PAT	1,150	1,406	1,916	2,559	3,046
Adj. EPS (Rs)	9.4	11.5	15.7	21.0	25.0
EBITDA margin (%)	11.7	12.0	13.0	13.8	14.2
EBITDA growth (%)	26.5	19.5	27.4	27.7	18.3
Adj. EPS growth (%)	125.0	22.3	36.3	33.5	19.0
RoE (%)	18.0	18.1	20.5	22.5	22.1
RoIC (%)	17.1	18.8	23.1	25.8	24.3
P/E (x)	51.2	41.8	30.7	23.0	19.3
EV/EBITDA (x)	25.8	21.3	16.5	12.9	10.9
P/B (x)	8.4	7.0	5.7	4.7	3.9
FCFF yield (%)	1.4	2.0	2.0	0.5	0.3

Source: Company, Emkay Research

Premiumization and higher wallet share to drive outperformance vs industry

We believe Pricol’s growth prospects remain strong, driven by: i) the intact premiumization tailwind through rising penetration of digital clusters including touchscreens (TFT; TFT penetration is currently limited at ~5%); instrument cluster ASPs are now 3x that of 5 years ago, and seen rising another 50-60% in the next 2-3 years; and ii) ramp up in newer clients like Honda and Suzuki in 2Ws over the coming 18-24 months, leading to wallet share gains. This is expected to drive continued outperformance vs the underlying industry. Pricol continues to invest toward expansion and modernization of facilities where necessary to support growth.

Newer business verticals to contribute meaningfully from FY26 onwards

Pricol continues to invest in R&D (~4% of sales, among the highest in the auto ancillary space; half of white collar work force is employed in engineering) as well as partnerships (eg TYW for E-cockpits and Heads-Up Displays, Sibros for telematics, etc) to accelerate development of new product lines. The company sees a strong growth runway in disc brakes (highly concentrated market with Brembo currently commanding 50% market share and OEMs looking to de-risk supplies); here, it has received orders from clients (incl. a major 2W OEM and some EV startups) with production to commence soon; potential revenue base is of Rs3bnpa in 3 years (current capacity is of Rs1.2bnpa).

Multiple tailwinds in place for further margin improvement toward 13.5-14%

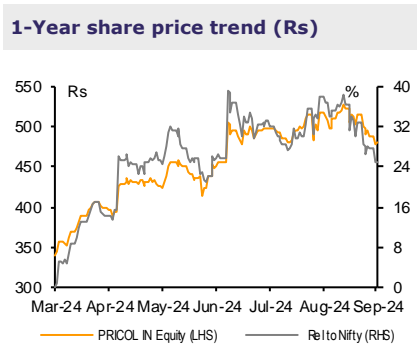
Profitability has improved structurally over the past 5 years (EBITDAM: 13% in Q1FY25 vs 6.9% in FY20); Pricol targets further margin improvement going ahead toward the 13.5-14% range, driven by: i) improved mix (eg digital clusters now form 80% of cluster revenue vs 20% earlier) and higher value additive content, ii) high vertical integration and automation (eg 90% of PCBA assembly is done in-house), and iii) further efficiency improvements incl. in-sourcing (eg getting into longer term sourcing arrangements for semiconductor chips).

We believe Pricol is attractively valued compared to other 2W ancillaries given its strong growth prospects and return ratios and transformation into a multi-product company.

Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	24.4
CMP (10-Sep-24) (Rs)	482.5

Stock Data	Ticker
52-week High (Rs)	543
52-week Low (Rs)	288
Shares outstanding (mn)	121.9
Market-cap (Rs bn)	59
Market-cap (USD mn)	700
Net-debt, FY25E (Rs mn)	-1,578
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	264.7
ADTV-3M (USD mn)	3.2
Free float (%)	61.5
Nifty-50	25,052
INR/USD	84.0
Shareholding, Jun-24	
Promoters (%)	38.5
FPIs/MFs (%)	15.0/16.5

Price Performance			
(%)	1M	3M	12M
Absolute	(6.9)	6.5	49.4
Rel. to Nifty	(9.4)	(1.1)	18.2



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Exhibit 1: Pricol's product profile – DIS (instrument clusters) and Actuation as well as Control and Fuel Management Systems (ACFMS)

A. Driver Information and Connected Vehicle Solutions



B. Actuation, Control and Fluid Management Systems





Source: Company, Emkay Research

Exhibit 2: TFT penetration in the Indian 2W market is currently at ~5%; pricing over 10x/4x of analog/digital clusters

2W instrument cluster	Analog	Digital and semi-digital incl. LCD	TFT (touchscreen)
Product			
Price (Rs/unit)	300-400	1,000-1,500	5,000
Current penetration	~30%	~65%	~5%
Cluster as % of 2W ASP	~0.5%	1-2%	~4% (EV), up to 6-7% (ICE)

Source: Company, Emkay Research

Exhibit 3: Digital clusters are increasingly being introduced in mass-market ICE motorcycles

	TVS Raider SmartXconnect	TVS Raider Standard
Display	 5-inch TFT	 Digital (LCD)
Mobile App	Yes	No
App features	Calls & Messaging, Navigation Assist	Low battery alert
Service Due Indicator	Yes	Yes
Speedometer	Digital	Digital
Odometer	Digital	Digital
Tripmeter	Digital	Digital
Fuel Gauge	Digital	Digital
Clock	Yes	Yes
Riding Modes	Yes	Yes
Additional Features	TVS SmartXconnect, Voice Assist, Ride Report, ETFI Technology, IntelliGo, Ambient Sensor, Human Machine Interface Operation, Weather Updates, Sports Updates	IntelliGo, Engine inhibitor, Helmet reminder, Side-stand engine cut-off
Price (Rs; Ex-showroom, Delhi)	1,02,770	96,219
Instrument cluster as % of ex-factory cost	6.7%	2.2%

Source: Online portals, Emkay Research

Exhibit 4: Connectivity is being positioned as a key differentiator, even in commuter 2Ws



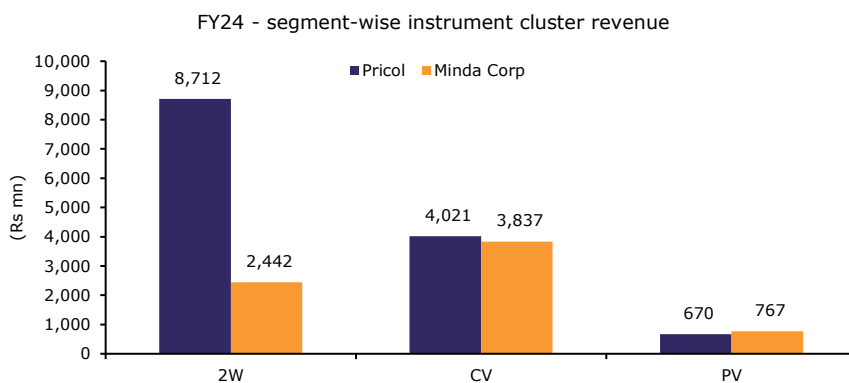
Source: Company, Emkay Research

Exhibit 5: Digital console now being offered as a differentiating feature, even in entry-level 100cc motorcycles like Hero Splendor Plus Xtec (Xtec versions comprise ~1/3rd of HMCL sales)



Source: Company, Emkay Research

Exhibit 6: Based on our workings, Pricol is larger than the competition – particularly in 2Ws (~3.5x the size of Minda Corp.)



Source: Company, Emkay Research

Exhibit 7: Pricol has won several digital cluster orders in approximately the past 2 years

OEM	Model	Category	Screen
TVSL	Raider	Premium motorcycle	Digital cluster
TVSL	Jupiter 125	125cc scooter	Digital cluster
TVSL	iQube	Premium E-scooter	TFT cluster
TVSL	Ntorq	Premium scooter	TFT + LCD hybrid cluster
TVSL	Apache RTR	Premium motorcycle	TFT cluster
HMCL	Maestro 125	125cc scooter	Digital cluster
HMCL	Pleasure Plus	110cc scooter	Digital cluster
HMCL	Xtreme 125R	Premium motorcycle	Digital cluster
HMCL	Mavrick 440	Premium motorcycle	Digital cluster
HMCL	Vida	Premium E-scooter	TFT cluster
BJAUT	Pulsar NS200	Premium motorcycle	LCD cluster
BJAUT	Pulsar N250	Premium motorcycle	LCD cluster
BJAUT	Pulsar 400	Premium motorcycle	LCD cluster

Source: Company, Emkay Research

Exhibit 8: Pricol leads other auto ancillary companies in terms of R&D exp. as a % of sales

R&D expenditure as a % of sales	FY19	FY20	FY21	FY22	FY23	FY24
Pricol	2.5	3.9	1.7	2.5	3.8	3.3
Minda Corp	0.9	1.1	1.3	1.2	1.1	2.4
Uno Minda	1.5	1.2	0.9	1.3	1.8	1.6
Sona BLW	0.2	2.8	5.8	2.1	2.7	2.5
Bosch	2.6	4.4	4.4	3.1	2.9	3.0

Source: Company, Emkay Research

Exhibit 9: Revenue model – We expect 18%/29% revenue/EPS CAGR over FY24-27E

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	18,137	12,394	14,131	15,447	19,586	22,718	26,720	32,181	37,000
Growth YoY (%)	33.7	-31.7	14.0	9.3	26.8	16.0	17.6	20.4	15.0
EBITDA	241	854	1,779	1,806	2,285	2,731	3,479	4,441	5,254
Growth YoY (%)	-85.4	254.7	108.4	1.5	26.5	19.5	27.4	27.7	18.3
EBITDA margin (%)	1.3	6.9	12.6	11.7	11.7	12.0	13.0	13.8	14.2
EBIT	(699)	(106)	837	987	1,506	1,910	2,514	3,320	3,892
EBIT margin (%)	-3.9	-0.9	5.9	6.4	7.7	8.4	9.4	10.3	10.5
PAT	(937)	(259)	158	511	1,150	1,406	1,916	2,559	3,016
PAT margin (%)	-5.2	-2.1	1.1	3.3	5.9	6.2	7.2	8.0	8.2
EPS (Rs)	(9.9)	(2.7)	1.3	4.2	9.4	11.5	15.7	21.0	24.7
Capex	(1,400)	1,631	(624)	420	612	1,502	2,000	2,500	3,500
% of sales	(7.7)	13.2	(4.4)	2.7	3.1	6.6	7.5	7.8	9.5
Net debt	2,178	3,842	2,030	1,006	228	(579)	(1,578)	(1,629)	(1,414)
Net D/E (x)	0.4	1.0	0.4	0.2	0.0	(0.1)	(0.2)	(0.1)	(0.1)
Post-tax ROCE (%)	(6.6)	0.5	12.1	14.8	21.5	20.3	19.4	21.5	21.3
ROE (%)	-16.1	-5.8	3.4	9.3	18.0	18.1	20.5	22.5	22.1

Source: Company, Emkay Research

Exhibit 10: Our estimates are largely unchanged

(Rs mn)	FY25E				FY26E				FY27E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Net Sales	26,806	26,720	(0.3)	17.6	32,169	32,181	0.0	20.4	37,058	37,000	(0.2)	15.0
EBITDA	3,490	3,479	(0.3)	27.4	4,439	4,441	0.0	27.7	5,262	5,254	(0.2)	18.3
Margin (%)	13.0	13.0	0 bps	100 bps	13.8	13.8	0 bps	78 bps	14.2	14.2	0 bps	40 bps
APAT	1,925	1,916	(0.5)	36.3	2,558	2,559	0.0	33.5	3,052	3,046	(0.2)	19.0
EPS (Rs)	15.8	15.7	(0.5)	36.3	21.0	21.0	(0.0)	33.5	25.0	25.0	(0.1)	19.0

Source: Emkay Research

Exhibit 11: Valuations are attractive for Pricol given strong growth prospects and return ratios, positive linkage to EVs (due to TFTs), and transformation into a multi-product company

	EPS Growth (%)			ROE (%)			P/E (x)			EV/EBITDA (x)			PEG Ratio		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Uno Minda (Consol.)	23.4	22.0	26.7	19.5	20.1	21.4	56.8	46.6	36.7	31.4	26.4	21.4	2.4	2.1	1.4
Suprajit (Consol.)	47.8	52.0	27.9	17.4	23.3	24.6	30.9	20.3	15.9	17.6	12.3	9.7	0.6	0.4	0.6
Pricol (Consol.)	36.3	33.5	19.0	20.5	22.5	22.1	30.7	23.0	19.3	16.5	12.9	10.9	0.8	0.7	1.0
Sansera (Consol.)*	40.0	32.5	31.6	16.7	19.7	21.5	30.0	22.6	17.2	14.6	11.4	9.8	0.8	0.7	0.5
Endurance Tech (Consol.)*	31.9	25.6	15.4	16.8	18.3	18.4	39.0	31.0	26.9	20.9	17.4	15.5	1.2	1.2	1.7
Gabriel (Parent)*	34.1	24.2	3.5	21.5	21.9	21.6	30.4	24.5	23.6	19.7	16.2	16.0	0.9	1.0	6.8
Minda Corp (Consol.)*	39.7	26.7	19.8	15.0	16.5	17.2	41.0	32.3	27.0	21.1	17.7	15.2	1.0	1.2	1.4
Average (2W Ancillaries)	31.7	27.2	21.2				24.5	19.3	15.9	22.3	18.2	15.5	0.8	0.7	0.7

Source: Company, Bloomberg, Emkay Research; *Note - pertains to Bloomberg consensus estimates

Pricol: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	19,586	22,718	26,720	32,181	37,000
Revenue growth (%)	26.8	16.0	17.6	20.4	15.0
EBITDA	2,285	2,731	3,479	4,441	5,254
EBITDA growth (%)	26.5	19.5	27.4	27.7	18.3
Depreciation & Amortization	779	821	964	1,120	1,327
EBIT	1,506	1,910	2,514	3,320	3,927
EBIT growth (%)	52.5	26.8	31.6	32.1	18.3
Other operating income	0	0	0	0	0
Other income	46	132	138	152	160
Financial expense	183	183	119	89	59
PBT	1,369	1,859	2,533	3,383	4,027
Extraordinary items	(98)	0	0	0	0
Taxes	219	453	617	824	981
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,247	1,406	1,916	2,559	3,046
PAT growth (%)	144.1	12.8	36.3	33.5	19.0
Adjusted PAT	1,150	1,406	1,916	2,559	3,046
Diluted EPS (Rs)	9.4	11.5	15.7	21.0	25.0
Diluted EPS growth (%)	125.0	22.3	36.3	33.5	19.0
DPS (Rs)	0.0	0.0	1.0	2.5	4.0
Dividend payout (%)	0.0	0.0	6.4	11.9	16.0
EBITDA margin (%)	11.7	12.0	13.0	13.8	14.2
EBIT margin (%)	7.7	8.4	9.4	10.3	10.6
Effective tax rate (%)	16.0	24.4	24.4	24.4	24.4
NOPLAT (pre-IndAS)	1,265	1,445	1,902	2,512	2,970
Shares outstanding (mn)	121.9	121.9	121.9	121.9	121.9

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	1,369	1,859	2,533	3,383	4,027
Others (non-cash items)	859	1,027	1,084	1,210	1,387
Taxes paid	(368)	(382)	(617)	(824)	(981)
Change in NWC	(295)	43	118	(1,006)	(784)
Operating cash flow	1,663	2,547	3,118	2,763	3,648
Capital expenditure	(842)	(1,376)	(2,000)	(2,500)	(3,500)
Acquisition of business	142	62	0	0	0
Interest & dividend income	9	0	0	0	0
Investing cash flow	(691)	(1,293)	(2,000)	(2,500)	(3,500)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(457)	(428)	(100)	(180)	(100)
Payment of lease liabilities	68	211	0	0	0
Interest paid	(181)	(182)	(119)	(89)	(59)
Dividend paid (incl tax)	0	0	0	(122)	(305)
Others	(2)	(346)	0	0	0
Financing cash flow	(640)	(957)	(219)	(391)	(464)
Net chg in Cash	333	297	899	(129)	(316)
OCF	1,663	2,547	3,118	2,763	3,648
Adj. OCF (w/o NWC chg.)	1,958	2,504	3,000	3,769	4,433
FCFF	821	1,171	1,118	263	148
FCFE	648	989	999	173	89
OCF/EBITDA (%)	72.8	93.3	89.6	62.2	69.4
FCFE/PAT (%)	51.9	70.3	52.1	6.8	2.9
FCFF/NOPLAT (%)	64.9	81.1	58.8	10.5	5.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	122	122	122	122	122
Reserves & Surplus	6,921	8,331	10,125	12,379	14,938
Net worth	7,043	8,453	10,247	12,501	15,059
Minority interests	0	0	0	0	0
Deferred tax liability (net)	407	348	348	348	348
Total debt	1,103	609	509	329	229
Total liabilities & equity	8,553	9,410	11,104	13,178	15,636
Net tangible fixed assets	2,678	3,122	4,158	5,537	7,710
Net intangible assets	2,032	2,032	2,032	2,032	2,032
Net ROU assets	566	566	566	566	566
Capital WIP	146	383	383	383	383
Goodwill	695	596	596	596	596
Investments [JV/Associates]	12	12	12	12	12
Cash & equivalents	876	1,188	2,087	1,958	1,642
Current assets (ex-cash)	6,054	6,457	7,527	9,506	11,074
Current Liab. & Prov.	4,506	4,947	6,256	7,412	8,379
NWC (ex-cash)	1,548	1,511	1,271	2,094	2,695
Total assets	8,553	9,410	11,104	13,178	15,636
Net debt	228	(579)	(1,578)	(1,629)	(1,414)
Capital employed	8,553	9,410	11,104	13,178	15,636
Invested capital	7,519	7,827	8,622	10,825	13,599
BVPS (Rs)	57.8	69.3	84.1	102.6	123.5
Net Debt/Equity (x)	0.0	(0.1)	(0.2)	(0.1)	(0.1)
Net Debt/EBITDA (x)	0.1	(0.2)	(0.5)	(0.4)	(0.3)
Interest coverage (x)	0.1	0.1	0.0	0.0	0.0
RoCE (%)	21.5	20.3	19.4	21.5	21.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	51.2	41.8	30.7	23.0	19.3
P/CE(x)	30.5	26.4	20.4	16.0	13.4
P/B (x)	8.4	7.0	5.7	4.7	3.9
EV/Sales (x)	3.0	2.6	2.1	1.8	1.6
EV/EBITDA (x)	25.8	21.3	16.5	12.9	10.9
EV/EBIT(x)	39.2	30.5	22.8	17.2	14.6
EV/IC (x)	7.9	7.4	6.6	5.3	4.2
FCFF yield (%)	1.4	2.0	2.0	0.5	0.3
FCFE yield (%)	1.1	1.7	1.7	0.3	0.2
Dividend yield (%)	0.0	0.0	0.2	0.5	0.8
DuPont-RoE split					
Net profit margin (%)	5.9	6.2	7.2	8.0	8.2
Total asset turnover (x)	2.4	2.5	2.6	2.7	2.6
Assets/Equity (x)	1.3	1.2	1.1	1.1	1.0
RoE (%)	18.0	18.1	20.5	22.5	22.1
DuPont-RoIC					
NOPLAT margin (%)	6.5	6.4	7.1	7.8	8.0
IC turnover (x)	2.6	2.9	3.1	3.0	2.7
RoIC (%)	17.1	18.8	23.1	25.8	24.3
Operating metrics					
Core NWC days	28.9	24.3	17.4	23.8	26.6
Total NWC days	28.9	24.3	17.4	23.8	26.6
Fixed asset turnover	1.8	1.9	2.0	2.1	2.0
Opex-to-revenue (%)	18.2	19.5	18.6	18.2	17.8

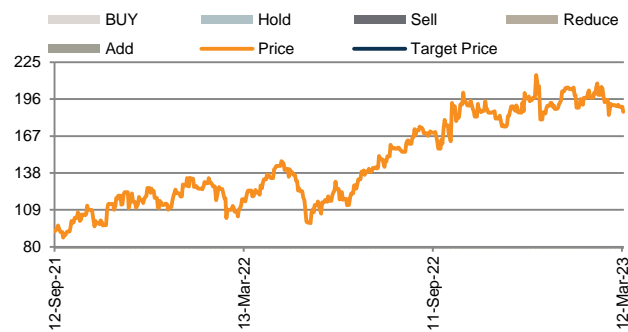
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
02-Aug-24	517	600	Buy	Chirag Jain
02-Aug-24	517	600	Buy	Chirag Jain
16-May-24	452	525	Buy	Chirag Jain
16-May-24	452	525	Buy	Chirag Jain
06-Feb-24	396	525	Buy	Chirag Jain
06-Feb-24	396	525	Buy	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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