RESULT UPDATE

Pricol

Maintain Market Performer

Price: Rs. 30 | **BSE Index: 14131** | **13th June 2007**

Share Data

Reuters code	PRIC.BO
Bloomberg code	PRIC IN
Market cap. (US$ mn)	66
6m avg. daily turnover (US$ mn)	0.1
Issued shares (mn)	90

Performance (%)	1m	3m	12m
Absolute	(7)	(12)	(15)
Relative	(9)	(20)	(43)

Valuation Ratios

Year to 31 Mar.	2008E	2009E
EPS (Rs.)	3.8	4.7
+/- (%)	(6.6)	26.5
PER (x)	7.9	6.3
PBV (x)	1.4	1.2
Dividend/Yield (%)	3.4	3.4
EV/Sales (x)	0.8	0.7
EV/EBITDA (x)	5.0	4.2

Major shareholders (%)	
Promoters	36
FIIs	0
MFs	12
BFSI's	1
Public & Others	51

4QFY07 Results – Industrial unrest

The revenues have grown in line with our expectation to Rs. 1,526 mn during 4QFY07 taking the tally to Rs. 5,834 mn in FY07, in spite of cut down in production. The strike has effected production in the month of April and will take its toll on the revenues for FY08. The company also had to cancel some key orders on account of the worker problems. While the stock trades at low valuations of 8x FY08E and 6x FY09E, we maintain our Market Performer rating on the stock in the light of various issues stunting the growth of the company at the topline and the bottomline.

Highlights

- The revenues for 4QFY07 stood at Rs. 1,526 mn, posting a growth of 14.5% y-o-y. This quarter was affected due to strike at all its plant in Coimbatore. The revenues for FY07 stood at Rs. 5,834 mn, growing at the back of healthy growth of 67% in the exports which grossed revenues of Rs. 1,000 mn as against Rs. 600 mn in FY06.
- The EBITDA for 4QFY07 stood at Rs. 244 mn, the margin declining to 16% from 17.5% in 4QFY06. The decline has come mainly on account of increase in raw material cost. EBITDA for FY07 stood at Rs. 956 mn, the margins increasing to 16.1% against 15.9% in FY06. In spite of increase in raw material costs, the significant decline in employee expense and marginal drop in other expenses has improved the margins in FY07.
- The PAT for 4QFY07 stood at Rs. 82 mn against Rs. 99 mn in 4QFY06 (excluding extraordinary item pertaining to sale of Terra-Agro). The de-growth has happened mainly on account of increase of interest cost by 65% this quarter. On a yearly basis, however, the margins remain stable due to decline in tax rate following relief under R&D expenditure.

Financial highlights

(Rs. mn)	4QFY06	4QFY07	YoY (%)	FY06	FY07	YoY (%)	FY08E	YoY (%)	FY09E	YoY (%)
Net Sales	1,333	1,526	14.5	4,817	5,834	21.1	6,537	12.1	7,531	15.2
EBITDA	233	244	5.0	778	956	22.9	1,042	9.0	1,222	17.2
EBITDA Margin (%)	17.5	16.0	–	15.9	16.1	–	15.7	–	16.0	–
Other Income	15	9	(42.9)	29	28	(2.9)	40	42.1	45	12.1
Interest	38	62	65.5	122	180	48.1	238	32.0	250	4.9
Depreciation	68	72	6.4	257	296	15.3	379	27.9	427	12.7
PBT	143	119	(16.7)	429	508	18.5	466	(8.3)	591	26.7
Extraordinary income	4	0	–	30	0	–	0	–	0	–
Tax	44	36	(16.6)	126	146	16.0	128	(12.3)	163	27.4
Net Profit	103	82	(20.2)	333	362	8.8	338	(6.7)	427	26.5
Adjusted PAT	99	82	(16.8)	303	362	19.5	338	(6.7)	427	26.5
Adjusted PAT margin (%)	7.4	5.4	–	6.2	6.2	–	5.2	–	5.7	–
EPS (Rs.)	1.1	0.9	–	3.4	4.0	–	3.8	–	4.7	–
P/E (x)	–	–	–	8.8	7.4	–	7.9	–	6.3	–

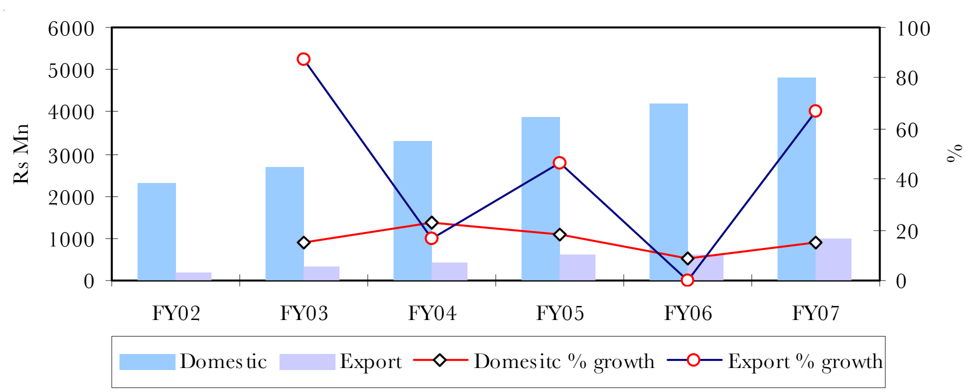
Employee – Let down

The company had witnessed an illegal strike of about 3,700 of its 5,000 workers at all its facilities in Coimbatore from the month of March 2007. This affected the company's production, though normalcy has been restored in May with the company employing temporary workers, who are now trained and productive. Currently, the company employs 5,000 workers including temporary workers. Some of the old workers have joined back as of this week and the balance workers are expected to join back over the next few weeks.

Revenue growth

The revenues for FY07 have grown by 21%, driven by strong growth of 67% in the export market. The export revenues stood at Rs. 1,000 mn for FY07. The domestic revenues have grown at ~15% in line with the industry, increasing its wallet share in major auto players' requirements. The company has also witnessed marginal improvement in contribution from its new products such as Road speed limiters, Vehicle tracking System and Security System (marketed through – Xenos Technologies) which added Rs. 144 mn (2% of revenues) to the topline in FY07. The revenues from the low-volume high-margin defense segment was Rs. 75 mn in FY07. The company had expanded into the business of aluminium die casting parts by acquiring M/s. English Tools and Castings Pvt. Ltd. during the year 2005-06 catering to Ashok Leyland. This division was loss-making and has turned around as of this year, with a turnover of Rs. 231 mn as against Rs. 147 last year and a profit of Rs. 5 mn in FY07.

Revenues – Domestic vs. Export



Planting new capacities

The company had set up new plants in Uttarakhand and Indonesia. The Uttarakhand unit located at Pantnagar itself will be split into two units, catering to Bajaj Auto, Hero Honda, Tata Motors and Mahindra & Mahindra. The company will produce speedometers, oil pumps, fail sensors and gear systems for Bajaj Auto and Hero Honda in the two-wheeler category, and sets of instruments and field sensors also for Tata Motors and Mahindra & Mahindra in the cars and multi-utility vehicle segment. The company proposes to invest ~Rs. 100-150 mn in FY08 towards these facilities, which will be fully operational during FY08.

The facility in Indonesia at Karawang (PT Pricol Surya, 100% subsidiary) will supply to TVS Motor and Bajaj Auto to meet the requirement of their Indonesian unit, and Denso Corporation's Philippines and Thailand units, which in turn exports to Suzuki's units in these countries. The company has commenced production from the Indonesian set up as of April 2007.

Iran Joint Venture

The company has entered into a 50:50 joint venture with Nava Khodro Plastic Company, which currently markets Pricol's instrument clusters and speed sensors in Iran. The company is supplying about 20,000 instrument clusters and 30,000 speed sensors every month to Iran. Under the joint venture, the company plans to set up an assembly plant in Iran with critical components supplied from India, the peripheral plastic and sheet metal components sourced from Iran. This would result in reduction of import duty from ~25% to ~10% as the import duty on components is much lower in Iran.

The total project cost is US$ 8 mn, to be invested in two years. The share capital towards the project cost would be US$ 2.5 mn and the balance would come through bank loan. Pricol currently clocks ~US$ 10 mn annually from Iran and is expected to grow by 30-40% by FY09. The company faces competition from Kia Motors, Korea.

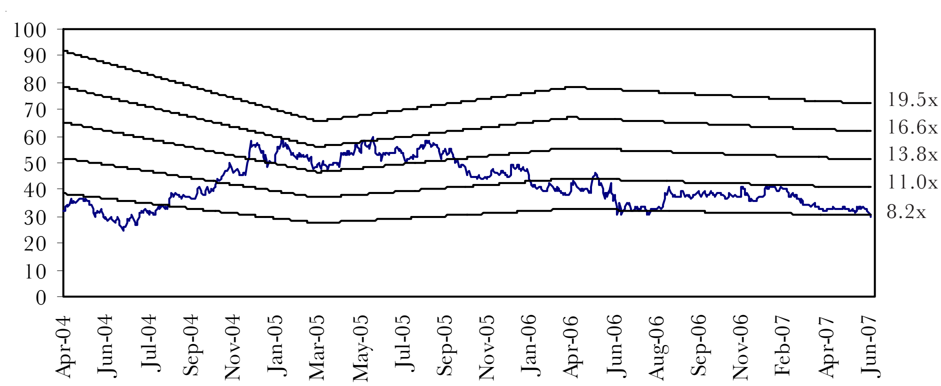
The company proposes to fund its debt requirement of US$ 2 mn through an overseas loan.

Outlook

Pricol witnessed cut back in production on account of prolonged strike at its Coimbatore facilities. Various counter measures like employing and training temporary workers and outsourcing requirement, has helped the company to sail through the last quarter with minimal damage. But the real impact of this would be witnessed in FY08, with the company having lost out on few orders which they were unable to take from OEMs. This, coupled with slowdown in the domestic automotive market in general, is expected to dampen the revenue growth. On the exports front, however, the company has grown significantly and we expect the company to maintain the momentum with its new plant in Indonesia commencing operations this year. On the new products front, the revenues are expected to witness upside at the back of wider usage of products like road speed limiters, vehicle tracking system and security systems, etc.

The company currently clocks revenue of US$ 10 mn from Iran, which will get routed through the Joint Venture as of FY09. At the same time, with rising overheads in the new plants, we may see a dip in the margins though the same will tend to normalise with increasing volumes and optimum utilisation of capacities over the next two years. Also, the total capex of Rs. 750 mn earmarked for the year being leveraged, will further increase the interest cost, thus bearing down on the net margins.

PER Band



Source: B&K Research

Valuations

We are revising our EPS estimate of Rs. 4.7 and Rs. 5.8 for FY08E and FY09E, respectively, to Rs. 3.8 and Rs. 4.7, respectively. The stock is trading at 8x FY08E 6.3x FY09E earnings. We maintain our Market Performer rating on the stock.

Income Statement

Yr. ended 31 Mar. (Rs. m)	FY06	FY07	FY08E	FY09E
Net sales	4,817	5,834	6,537	7,531
Growth (%)	7.3	21.1	12.1	15.2
Operating expenses	(4,146)	(4,988)	(5,605)	(6,419)
Operating profit	671	846	932	1,112
Other operating income	112	110	110	110
EBITDA	**783**	**956**	**1,042**	**1,222**
Growth (%)	(10.5)	22.1	9.0	17.2
Depreciation	(257)	(296)	(379)	(427)
Other income	25	28	40	45
EBIT	**551**	**688**	**704**	**840**
Interest paid	(122)	(180)	(238)	(250)
Pre-tax profit	429	508	466	591
(before non-recurring items)				
Non-recurring items	30	0	0	0
Pre-tax profit	459	508	466	591
(after non-recurring items)				
Tax (current + deferred)	(126)	(146)	(128)	(163)
Net profit	**333**	**362**	**338**	**427**
Adjusted net profit	303	362	338	427
Growth (%)	(26.5)	19.4	(6.6)	26.5
Net income	**333**	**362**	**338**	**427**

Balance Sheet

Yr. ended 31 Mar. (Rs. m)	FY06	FY07E	FY08E	FY09E
Current assets	2,494	3,153	3,622	3,911
Investments	278	350	460	570
Net fixed assets	2,003	2,479	2,770	2,743
Other non-current assets	10	10	10	10
Total assets	**4,784**	**5,991**	**6,862**	**7,233**
Current liabilities	869	1,095	1,216	1,372
Total debt	2,334	3,077	3,600	3,500
Other non-current liabilities	97	77	68	59
Total liabilities	**3,300**	**4,248**	**4,883**	**4,930**
Share capital	90	90	90	90
Reserves & surplus	1,394	1,653	1,888	2,213
Shareholders' funds	**1,484**	**1,743**	**1,978**	**2,303**
Total equity & liabilities	**4,784**	**5,991**	**6,862**	**7,233**

Cash Flow Statement

Yr. ended 31 Mar. (Rs. m)	FY06	FY07E	FY08E	FY09E
Pre-tax profit	459	508	466	591
Depreciation	176	296	379	427
Chg in working capital	(395)	(90)	(121)	(87)
Total tax paid	(144)	(152)	(136)	(172)
Cash flow from oper. (a)	**95**	**563**	**588**	**758**
Capital expenditure	(375)	(772)	(670)	(400)
Chg in investments	(228)	(72)	(110)	(110)
Cash flow from inv. (b)	**(603)**	**(844)**	**(780)**	**(510)**
Free cash flow (a+b)	**(508)**	**(281)**	**(192)**	**248**
Debt raised/(repaid)	775	742	523	(100)
Dividend (incl. tax)	(103)	(103)	(103)	(103)
Cash flow from fin. (c)	**673**	**640**	**421**	**(203)**
Net chg in cash (a+b+c)	**165**	**358**	**229**	**45**

Key Ratios

Yr. ended 31 Mar. (%)	FY06	FY07E	FY08E	FY09E
EPS (Rs.)	3.4	4.0	3.8	4.7
EPS growth	(26.5)	19.4	-6.6	26.5
EBITDA margin	15.9	16.1	15.7	16.0
EBIT margin	11.4	11.8	10.8	11.2
ROCE	16.1	15.6	13.4	14.6
Net debt/Equity	142.0	143.0	140.9	114.7

Valuations

Yr. ended 31 Mar. (x)	FY06	FY07E	FY08E	FY09E
PER	8.8	7.4	7.9	6.3
PCE	4.8	4.1	3.7	3.1
Price/Book	1.8	1.5	1.4	1.2
Yield (%)	3.4	3.4	3.4	3.4
EV/Net sales	1.1	0.9	0.8	0.7
EV/EBITDA	6.6	5.4	5.0	4.2

Du Pont Analysis – ROE

Yr. ended 31 Mar. (x)	FY06	FY07E	FY08E	FY09E
Net margin (%)	6.3	6.2	5.2	5.7
Asset turnover	1.1	1.1	1.0	1.1
Leverage factor	3.1	3.3	3.5	3.3
Return on equity (%)	22.1	22.4	18.2	20.0

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Analysts Declaration: I, Radhika Merwin, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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