September 20, 2012

Pricol Limited
"Regaining old glory"

Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)
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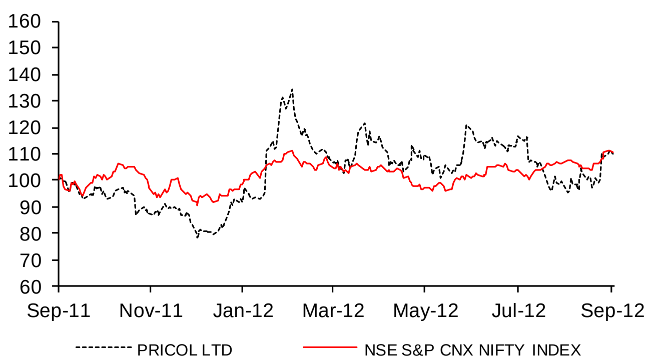
Initiating Coverage — Pricol Ltd.

Recommendation	BUY
CMP (Rs.)	Rs.17
Sector	Auto-ancillary

Stock Details

BSE Code	526109
Bloomberg Code	PRIC IN
Market Cap (Rs. cr)	161
Free Float (%)	65
52- wk HI/Lo (Rs)	23/12
Avg. Volume BSE (Monthly)	25,765
Face Value (Rs)	1
Dividend (FY 12)	80%
Shares o/s (Crs)	9

Relative Performance	1Mth	6Mth	1Yr
Pricol(%)	10.6	6.1	11.6
NIFTY(%)	3.9	6.1	10.8



Shareholding Pattern as of 30 June 2012

Promoters Holding	35.6%
Institutional (Incl. FII)	17.7%
Corporate Bodies	6.3%
Public & others	40.4%

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Snapshot

Incorporated as Premium Instrumentation & Controls Limited, Pricol is a renowned name in the auto-ancillary segment. The company is well-known amongst OEMs for the superior quality of its products.

Investment Rationale

- **Labour issues resolved**: Pricol lost a significant portion of its market share to competitors on account of significant labour issues during FY'09. With the agreement with labour in place, the company is geared to not only regain the lost market share but also emerge as a dominant auto-ancillary player across the globe.

- **Association with renowed international names to put the company on a global map**: The company is associating with renowned international names which should help not only get access to large multi-national OEMs but also help in procuring electronic components at the most competitive rates.

- **Professional touch to spearhead the operations**: Since the promoters have other business interests also, the company has roped in a professional CEO to manage the day-to-day affairs of the company. This is in sync with the company's aspiration to emerge as a global auto-ancillary player.

- **Decent dividend yield**: The company has a history of continuous dividend pay-out except for FY'09, considering the record loss on account of labour issues. We expect the company to continue with this trend going forward also and with a high probability of rewarding shareholders with a special dividend (like FY'12) on the back of one-time income, in addition to the normal profits from the core business.

Valuation & Recommendation

We expect Pricol to post a net profit of Rs.30 crore on net sales of Rs.1030 crore in FY'13. At the present price, the share is available at 0.5x book value and a multiple of 5.4x earnings. On the back of various global tie-ups, cost-cutting initiatives and efforts to regain the lost market share, we value the company at 7.5x FY'13E earnings to arrive at a price target of Rs.24 over the next 9 to 12 months.

Particulars (Rs Cr)	Net Sales	Growth	EBITDA	PAT	EPS	P/E
FY'10	798.7	26.6%	99.0	23.4	2.6	6.5
FY'11	889.1	11.3%	85.5	19.7	2.2	7.8
FY'12	1082.5	21.8%	137.8	14.9	1.7	10.3
FY'13E	1030.0	-4.8%	110.0	30.0	3.2	5.4

(*Source: Company, Nirmal Bang Research*)

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INVESTMENT RATIONALE

Labour issues resolved; a major hurdle out of the way

With the company facing one of the most severe labour problems in FY'09, the company has taken a number of initiatives as far as human resource management goes. The management has entered into wage agreements with labourers, in addition to other initiatives for smooth functioning of the manufacturing operations.

However, during this period of labour unrest and the process of bringing the same back on track, Pricol, which is a renowned name in the auto-ancillary sector, had lost a significant portion of market-share. This resulted in the company posting a record loss of more than Rs.36 crore in FY'09. As a result, the company did not pay any dividend to its shareholders for the first time in its more than 30-year history.

Labour issues resolved; company's efforts to regain market share to yield benefits from this financial year onwards

The management's efforts to revive the fortunes of the company should start yielding benefits from this financial year onwards.

On the back of the company gradually regaining back the lost market share, coupled with the management's conservative nature getting reflected in a number of cost-cutting initiatives, we expect Pricol to end the year with net sales of Rs.1030 crore and PAT of Rs.30 crore.

Association with renowned international names should pay-off

The company is geared up to emerge as a large auto-ancillary player not only in India but also globally. The contribution of exports to the total sales of the company stood at less than 20 per cent in FY'12.

The association with foreign partners should not only help the company get access to higher revenues but also help it procure electronic components at the most competitive rates, leading to improvement in margins. A few association have been enumerated below:

1. **Denso Corporation** – Japan-based Denso Corporation is not only an equity partner but also technical partner with Pricol (~12 per cent stake). As per industry norms, automobile companies based out of Japan would prefer to have auto-component suppliers with a Japanese base. Therefore, Denso Corporation's association with the company would help it cater to the south-east Asian markets.

   Pricol operates in the south-east Asian markets through its wholly-owned subsidiary, PT Pricol Surya Indonesia. We believe that this should enable the company to cater to the automobile manufacturers in a big way in the south-east Asian markets.

   The process has already begun with Japanese-major Honda Motor Cycles becoming a customer from January 2011. With supplies to Honda Motor Cycles for the whole year in FY'12, the company's sales increased almost three-fold from Rs.31.7 crore in FY'11 to Rs.111 crore in

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FY'12. As a result, the company swung to a PBT of Rs.8.3 crore in FY'12 compared to a loss of Rs.1.1 crore during FY'11.

Yamaha Motor Indonesia has increased the order for electronic instrument cluster with effect from January 2012. Yamaha is also showing interest in procuring mechanical instrument cluster. Suzuki Motor cycles has awarded new cluster business for their forthcoming model.

As far as the Indian markets go, the share of japanese vehicle manufacturers is expected to continue to be substantially over 50 per cent. In order to maintain and increase the share with these manufacturers, the company needs to have a close partnership with a global vehicle instrument manufacturing company having close association with Japanese vehicle manufacturers. Therefore, the company is proposing to transfer the present Denso Technology instrument business undertaking for Japanese cars made in India to a wholly-owned subsidiary and thereafter, form a JV with a global vehicle instrument supplier. This should also help the company in adding new products to the JV for supplying to Japanese car manufacturers in India.

The company is expected to generate a ten-fold return by this slump sale, considering the fact that the book value of these assets is recorded at Rs.5 crore and the transfer value should fetch the company approximately Rs.50 crore.

2. **PHI Capital Solutions LLP(PHI)** – Pricol allotted 45 lakh warrants to PHI Capital Solutions, LLP in December 2011 at a price of Rs.18 per warrant. In addition to equity infusion, PHI shall also help the company in other technical areas also.

3. **Johnson Controls**– This is the first JV for electronics across the world for Johnson Controls. Through this joint venture, Johnson Controls gets technical support, customer access and customer relations, while Pricol's facility in Pirangut, near Pune, will be the base for manufacturing.

   From Pricol's perspective, the association with Johnson Controls will not only help the company reduce the procurement cost of electronic components leading to an improvement in margins but also provide access to global customer base.

With all these initiatives, the company should not only be able to generate higher revenues but also register an improvement in margins, which should lead to significant improvement in profits.

Premium positioning in the market

Pricol commands a premium position among automobile suppliers. The company is one of the oldest names in the auto-ancillary segment and therefore, it is easy for the company to regain the lost market share considering the fact that the automobile players are very well acquainted with the quality of products which the company manufactures and supplies.

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Professional touch to spearhead the operations

The promoters of the company are engaged in other business segments as well. Therefore, to run the operations of the company in a professional manner. The company has roped in a professional CEO, Mr. K.U. Subbiah from Tyco Electronics to spearhead the operations of the company going forward.

The existing promoters of the company would continue to monitor the performance but not on a daily basis.

Strong performance of the Indonesian subsidiary

The contribution of the Indonesian subsidiary has improved significantly over the last few years. The process has begun with Honda Motor Cycles becoming a customer from January 2011. With supplies to Honda Motor Cycles for the whole year in FY'12, the company's sales increased almost three-fold to Rs.111 crore in FY'12.

In terms of topline, this subsidiary contributed 10 per cent to the total turnover but in terms of bottomline it contributed almost 1/3rd to the PBT figures. We expect significant traction from this subsidiary with important developments like Yamaha Motor Indonesia increasing the order for electronic instrument cluster with effect from January 2012.

Various cost-cutting initiatives to lead to improvement in margins

Pricol has initiated a number of cost-control measures which should help the company not only tide the present slowdown but also help in improvement of margins. The various steps intitiated by the company in this direction are:

- Focus on value-engineering. Higher focus on reducing raw material as a percentage of sales (raw material contributed to more than 65 per cent of net sales in FY'11 and FY'12 respectively)
- Increasing the utilization ratio (in technical terms) by reducing the number of working days from six to five per week
- Tie-up with global players should help the company in procuring electronic components at the most competitive rates

On the back of these initiatives, we expect the company to post a PAT margin of ~3 per cent for FY'13E at Rs.30 crore.

Deleveraged Balance Sheets

While on one hand Pricol has aggressive plans to improve the sales and profits over the next few years, the company has deleveraged the Balance Sheet over the last few years by reducing a significant portion of its debt. The company has sold off a division in Pune to a JV and generated a PBT of Rs.49 crore. The company has utilized the proceeds of the same to repay a portion of its debt. The long term debt stood at Rs.78 crore and short term debt is Rs.48 crore.

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The company's recent initiative of hiving-off Denso technology instrument cluster Undertaking should not only lead to a one-time gain of Rs.45 crore but also generate cashflow to the tune of Rs.50 crore.

Decent dividend-yield

Pricol has a good dividend-payment track record. The company has paid dividend every year since listing except for FY'09. Pricol paid 60 per cent dividend during FY'11 and 80 per cent in FY'12 including 40 per cent special dividend on account of sale proceeds generated from the slump sale of automotive division to JV with Johnson Controls. Considering the improvement in profitability of the company on the back of various initiatives undertaken, we expect significant improvement in margins leading to a surge in overall PAT figure. Moreover, the one-off gain accruing this year also on the back of slump sale of Denso Technology instrument cluster undertaking, the prospects of the company announcing a special dividend for FY'13E is not ruled out.

COMPANY BACKGROUND

Incorporated in the year 1972, Pricol is engaged in manufacturing of instrument clusters, speedo cables, sensors, accessories & sub-assembly components, oil pumps, speed control valve Assembly, vehicle security systems and other auto components. The components manufactured by Pricol are supplied to almost all the vehicle manufacturers in personal passenger vehicles (scooters, motorcycles, cars and multi-purpose vehicles), utility vehicles, medium and heavy commercial vehicles, light commercial vehicles and three wheelers.

RISKS & CONCERNS

Prolonged slowdown in the automobile industry

The company derives its revenues from the OEM segment. Prolonged slowdown in the automobile segment does not augur well for the company.

New initiatives need to work out well to generate expected returns

The number of new initiatives, especially tie-up with foreign players, should generate returns as per expectation going forward.

VALUATION AND RECOMMENDATION

Pricol registered net sales of Rs.1050.2 crore in FY'12, registering an increase of 21.7 per cent y-o-y. The Other Income for the year stood at Rs.51.4 crore compared to Rs.6.1 crore on the back of extra-ordinary income generated due to transfer of undertaking to a JV on slump sale basis. The PAT for the year stood at Rs.62.9 crore against Rs.21.5 crore in FY'11.

During Q1FY'13, the company registered net sales of Rs.218.9 crore compared to Rs.213.8 crore

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during the same period last year. Due to the slump sale (as mentioned above), the net sales have registered a growth in excess of 18 per cent on a y-o-y basis. EBITDA stood at Rs.15.2 crore compared to Rs.20.1 crore last year. PAT for the quarter stood at Rs.3.4 crore compared to Rs.4.2 crore during the same quarter last year.

We expect Pricol to post a net core profit of Rs.30 crore on net sales of Rs.1030 crore in FY'13E. This should translate into an EPS of Rs.3.17.

At the present price, the share is available at 0.5x current book value and a P/E multiple of 5.4x it's FY'13E earnings. On the back of various global tie-ups, cost-cutting initiatives and efforts to regain the lost market share, we value the company at 7.5x FY'13E earnings to arrive at a price target of Rs.24 over the next 9 to 12 months. This translates into a return of 41 per cent.

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Profit & Loss Account	FY'10	FY'11	FY'12	FY'13E
Net Sales	798.7	889.1	1082.5	1030.0
Other Income	3.4	6.0	51.4	6.0
Total Income	802.1	895.1	1133.9	1036.0
Raw material expenses	489.7	596.37	734.9	670.0
Employee Expenses	96.2	118.9	143.8	140.0
Other expenses	117.2	94.3	117.4	116.0
Total Expenses	703.1	809.6	996.1	926.0
PBIDT	99.0	85.5	137.8	110.0
Depreciation	37.7	36.4	32.6	33.0
Interest	35.2	29.1	33.1	28.0
Profit before tax	26.1	20.1	72.2	49.0
Taxes	2.7	-1.7	11.7	19.0
Extra-ordinary item	0.0	2.1	45.6	0.0
Net Profit	23.4	19.7	14.9	30.0

Balance Sheet (Rs. Cr.)	FY'10	FY'11	FY'12	FY'13E
Equity Capital	9.0	9.0	9.0	9.5
Reserves & Surplus	157.5	171.7	258.0	280.8
Networth	166.5	180.7	267.0	290.3
Secured loans	21.4	115.0	62.0	56.0
Unsecured loans	278.6	8.5	3.7	6.0
Total loan funds	300.0	123.5	65.8	62.0
Total Liabilities	**466.5**	**308.4**	**332.8**	**352.3**
Net Block	256.9	243.2	258.6	275.0
Inventories	133.4	146.2	155.3	130.0
Sundry Debtors	184.6	170.3	180.8	180.0
Cash & Bank	12.7	11.5	76.8	86.8
Loans & Advances	69.5	22.3	19.5	24
Current Assets	400.1	350.2	432.4	420.8
Less: Provisions & liabilities	224.9	346.3	414.3	342.0
	175.3	4.0	18.1	78.8
Total Assets	**466.5**	**308.4**	**332.8**	**353.8**

Quarterly results (Standalone)	Sep.11	Dec.11	Mar.12	Jun.12
Net Sales	315.7	328.8	242.0	230.1
Other Income	2.1	3.9	10.3	0.5
Total Income	317.8	332.7	252.3	230.6
Total Expenses	251.0	268.0	243.6	215.4
PBIDT	66.8	64.7	8.7	15.2
Interest	0.0	0.0	7.4	4.3
Depreciation	9.2	7.8	7.2	7.1
Taxes	7.6	15.7	0.0	0.5
Minority Interest	0.0	0.0	0.0	0.0
PAT	50.0	41.2	-5.9	3.4

Cash flow (Rs. Cr.)	FY'10	FY'11	FY'12	FY'13E
Profit before tax	26.1	20.1	72.2	49.0
Net cash from operations	111.0	71.5	86.5	92.5
Net cash from investments	(15.2)	(16.9)	44.7	(16.9)
Net cash from financing activities	(88.6)	(55.8)	(65.8)	(66.0)
Net change in cash	7.2	(1.2)	65.3	9.6

Profitability Ratios	FY'10	FY'11	FY'12	FY'13E
EBITDA margin	12.4%	9.6%	12.7%	10.7%
PAT margin	2.9%	2.2%	1.4%	2.9%

Growth Ratios	FY'10	FY'11	FY'12E	FY'13E
Net Sales growth	26.6%	11.3%	21.8%	-4.8%
EBITDA growth	189.5%	-13.6%	61.2%	-20.2%
PAT growth	-163.4%	-15.7%	-24.7%	102.0%

Valuation Ratios	FY'10	FY'11	FY'12	FY'13E
Marketcap/Sales	0.2	0.2	0.1	0.2
EPS	2.6	2.2	1.7	3.2
P/E	6.5	7.8	10.3	5.4

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