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Passion to Excel

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Listing Department National Stock Exchange of India Limited "Exchange Plaza', C-1, Block G Bandra-Kurla Complex, Bandra (E), Mumbai - 400051	Corporate Relationship Department BSE Limited 1 st Floor, New Trading Ring Rotunda Building, P J Towers, Dalal Street, Fort, Mumbai 400 001
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Dear Sir,

Sub: Con-call Transcript

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we herewith submit the Transcript for the Con-call held on 10th February 2022 on the unaudited financial results for the quarter and nine months ended 31st December 2021.

This is for you information and records.

Thanking you

Yours faithfully,
For Pricol Limited

T.G.Thamizhanban
Company Secretary
ICSI M.No: F7897



Encl: as above





Pricol Limited
Q3 & 9M FY22 Results Conference Call
February 10, 2022

Management

1. Mr. Vikram Mohan, Managing Director
2. Mr. Krishnamoorthy Pattabiraman, Chief Financial Officer
3. Mr. P M Ganesh, Chief Executive Officer and Executive Director
4. Mr. Siddharth Manoharan, Chief Strategy Officer



Pricol Limited
Q3 & 9M FY22 Results Conference Call
February 10, 2022

Moderator: Good afternoon, Ladies & Gentlemen. I am Rutuja, the moderator for this conference. Welcome to the Conference Call of Pricol Limited arranged by Concept Investor Relations to discuss its Q3 & 9MFY22 Results. We have with us today Mr. Vikram Mohan, Managing Director, Mr. Krishnamoorthy Pattabiraman, Chief Financial Officer, Mr. P M Ganesh, Chief Executive Officer and Executive Director and Mr. Siddharth Manoharan, Chief Strategy Officer. At this moment, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. At that time if you have a question, please press '*' and '1' on your telephone keypad. Please note that this conference is being recorded. I now would like to hand over the floor to Mr. Vikram Mohan – Managing Director. Thank you and over to you sir.

Vikram Mohan: A very good afternoon to all of you and welcome to our third quarter of financial year FY22 Earnings Call. As mentioned by me on many occasions in recent times, in the press and other communication, and with one-on-one investors, we are perhaps going through the most difficult time in our company's operations in this quarter, Quarter 3 and Quarter 4 of this financial year is perhaps the most difficult time for us, mainly due to external factors and no internal factors. We have seen huge disruptions with our supply chain, acute shortages of our key raw material which is ICs, semiconductors, LCDs, TFTs are key raw material. Lead times for our raw material has gone up to 54 to 58 weeks. Freight costs have quadrupled and quintupled in many cases, inbound freight, and schedule from customers have been extremely dynamic with changing schedules literally every day. Compared to many other companies in the automotive component space, your company Pricol has had a far higher impact being reliant on electronic raw material being imported from Taiwan, Korea, Malaysia, China and Japan. The impact on Pricol has been far higher and this has had an impact on both the top line and the percentage EBITDA of the company. On a normal basis, we should have comfortably delivered another 3% or about 14% EBITDA whereas we have had a suboptimal EBITDA because of increasing raw material costs, freight costs and constantly erratic production schedules. We have also lost at least about 20% sales per month because of these acute raw material shortages and in many of our raw material we are working with literally eight hours of raw material in stock on a hand to mouth basis. Under these conditions, I must congratulate our operating team for delivering the best possible results within these difficult operating conditions. The same operating conditions are continuing for Q4 as well and we expect some breathing room to come in in the coming quarters. The revenue from operations stands at Rs. 379 crores for this quarter, on a quarter-to-quarter basis this has seen a reduction compared to the previous financial year by about 13.55%. There has been no loss of market share of the



company. This is a reflection of the industry itself going down because of the semiconductor shortage. Total Revenue for this quarter has been about Rs.392.84 crores. Next slide please. The profit from operations for this quarter has been about Rs.18 crores, amortization of intangibles is about fire than Rs.70 lakhs which is a non-cash item. Profit and loss from operations has been about Rs.23 crores for this quarter, which is again lower significantly compared to the same quarter last year because of the increased material costs as the surged prices that we are paying for such material. We have had an EBITDA percentage of about 11.16% and if not for these temporary price pressures and surge pricing, we should have enjoyed closer to about 14.5% of EBITDA this quarter. We have made a cash profit of about 32 crores this quarter and after CAPEX we have had a free cash flow of about Rs.20 crores this quarter. This is an interesting slide to note as of 31st March in FY21, our long term borrowing was about Rs.230 crores. We are at a healthy amount of cash generation in spite of all these difficult external factors and we have been able to substantially reduce our long term borrowing and we have been able to bring it down to about Rs.100 crores as of 31st December and this number has further reduced as we speak and as mentioned to you in the next financial year this entire long term borrowing will be repaid even with constrained market conditions and weak automotive market. Our revenue from operations was about on a consolidated basis about Rs.395 crores. Here again we have de-grown slightly lower than the market de-growth which means our market share has increased and our total revenue times at around Rs.408 crores for this quarter. All of our subsidiaries are debt free, all our subsidiaries have zero borrowing, and all of our subsidiaries have cash accruing at this point of time. Profit and Loss from all the continuing operations for this quarter is about Rs.27.80 crores with a cash profit from continuing operations being far in excess of this. EBITDA overall including the subsidiaries stands at around 12.11% which would have been ideally about 15% if not for these price hikes that we have faced in this quarter and will continue to face in the next quarter or two. The cash profit for the company as a whole including subsidiaries stands at Rs.37 crores as against Rs.32 crores for the standalone. Consolidated borrowings as well has seen a significant reduction with no long-term borrowings at any of the subsidiaries. Some of our recent product launches are the two-wheeler digital cluster for some of our marquee customers like Hero Motors and TVS. Passenger vehicle and commercial vehicle clusters for Gurkha of Force Motors, the new Gurkha and for Tata Motors commercial vehicle. Some tractor and off-road vehicle clusters, a new customer entry into Tata Hitachi for their off road vehicles and a new oil pump for Polaris for an ATV. Our new product pipeline continues to be very robust. Our LOI pipeline continues to be robust. We have a strong business order pipeline for the next few years. The next few quarters will continue to be under stress till the world comes back to normal and supply lines come back to normal. Industry experts believe some degree of normalcy will start coming back from September 2022 and by September 2023 complete normalization especially with regard to IC supply chains and TFT and electronic components will happen. Thank you very much for your patient hearing. We would like to now entertain questions from our shareholders and participants in the call. May I request you to restrict yourself to one question and go back into the question queue to give everyone an opportunity to ask questions, Thank you.



- Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi:** My question pertains on the P&L side, we have seen a substantial increase in other expenses on Q-o-Q basis. So is this a reflection of higher freight costs because our revenues have been more or less flat? I am talking about standalone numbers.
- Vikram Mohan:** Yes, as mentioned Jinesh. We are being paying a huge amount of premium freight to get materials inward. Freight cost have almost quintupled and quadruple import freight, and freight costs increase is primarily the reason for cost increase.
- Jinesh Gandhi:** Okay, okay and we are not seeing any signs of that moderating, at least for fourth quarter.
- Vikram Mohan:** I don't think there will be any net-off for the fourth quarter, Q3 and Q4 are going to be the most difficult quarters and we do not see freight rates softening or at least supply chain for electronic components and we are still bringing in everything in by air freight as against sea freight, which not just for Q4, even for Q1 of next year, it is going to be continued to be on air freight basis, even as of last week, one of our key TSP suppliers has announced shutdown of their plant in China on account of COVID for three weeks, and this was going to result in premium freight for the coming many months. So, I do not expect the premium freight to soften for the next 5 to 6 months, still supply chain normalcy happens.
- Moderator:** Thank you. The next question is from the line of Hiren Trivedi from Axis Securities. Please go ahead.
- Hiren Trivedi:** Thanks for the opportunity. So, I just wanted to understand on your plans to increase your exports are going forward. So, could you give some more color on the plans to increase your exports going forward in the medium term?
- Vikram Mohan:** I will request our CEO and Executive Director to comment about the export business increase plan for the next coming years.
- P M Ganesh:** Good afternoon. Our exports have been growing at a fair pace. In fact, barring Q3 we have grown by 40% in the first half of this year when compared to the previous year. Because of semiconductor shortage during Q3, we have shown a growth of only 7% in the exports, but as the semiconductor softens up I think we will go back to the growth in terms of exports where exactly our growth is going to come on the pumps and mechanical products. As explained in the previous investor call also that our focus is going to be on the largest pumps addressing to the niche market, primarily the recreation vehicle, off road vehicles, tractors and higher CC motorcycles. This is going to be the area of focus. So we are going to confirm the business in our exports for the next three years and also we have entered into the personal passenger vehicle segment for large exports of our next generation of oil pumps to our personal passenger



vehicle manufacturer, one of the largest in Europe. So, our growth momentum in export is going to continue in the same pace what is happening currently for the next 2 to 3 years. Also, our vision is that by FY25-26 close to 20% of our revenue will come from the export market.

Vikram Mohan: Export and deemed exports.

Moderator: Thank you. The next question is from the line of Nitin from Augmen Catalyst. Please go ahead.

Nitin: Sir I just had one question. How do we see a production schedule from the OEM going forward? Could you shed some light on it?

Vikram Mohan: The production schedule seems still vary erratic for this quarter Nitin. We expect some degree of normalization to happen from Q1, but really speaking we expect stability only from September of this year and this is the industry feedback. We have not lost any business share. Our share of business and market share continues to be good and growing but stabilization I think we are at least about 6 to 7 months away.

Moderator: Thank you. Next question is from the line of Jinal Fofalia from Turtle Star Portfolio. Please go ahead.

Jinal Fofalia: Sir I have few questions. What is our utilization rate as on Q3 and nine months?

Vikram Mohan: Actually, our capacity today we can do quite easily a Rs.200 crores per month. Anywhere between Rs.180-200 crores based on the production mix. So, we have done about Rs.400 crores against the capacity of between Rs.550 to 600 crores.

Jinal Fofalia: Rs.400 crore against the capacity of Rs.500 to 600 crores right?

Vikram Mohan: Rs.550 to 600 crores based on the product mix.

Jinal Fofalia: Okay. Okay understood and secondly, what are our plans to expand in different geographies in the coming quarters.

Vikram Mohan: We do not have plan to expand beyond our existing geographies in the coming quarters. We have a healthy pipeline of new business our NPD pipeline our new product development pipeline is very strong, our LOI pipeline is very-very strong. We are not planning for any Greenfield plants in the coming quarters towards the fag end of the coming financial year we will be adding capacity in the western region to cater to the increase business we have one and we are also not looking at any expansions whatsoever. Two of my articles have been covered recently by Autocar professional Mr. Murali Gopalan a very senior editor which you may go through to understand what are the growth prospects of the company, which are the segments we are planning to go into and which are the new segments and how is our technology roadmap, makes it quite elaborate for reading.



- Moderator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Good afternoon sir. So, can you elaborate upon your plans of being a JV party in each of the divisions and probably you know dividing the business between the three segments, but some of the media articles also point of view going into a big CAPEX of Rs.600 odd crores and targeting some Rs.4000 total revenue over the next 3-4 years so any plans on that.
- Vikram Mohan:** Yes our plan is to hit a turnover of Rs.4000 crores in calendar year 25 or FY26, which our current capacity will take us to about Rs.2400 crores. So, we will be adding capacity both in terms of technology spend as well as building the machinery to the tune of about Rs.600 crores in three product verticals to take us to that Rs.4000 crores of turnover. We are working out the granular details into each of the business divisions. This is more of a top level picture because our capital intensity typically is about 1:3. For every crore of investment, we get about 3 crores of turnover. So, with about Rs.500 crores of investment we should be able to garner another Rs.1500 crores of turnover and with about Rs.100 crore investment on technology and as we speak we have just commenced work on World Class Technology Center and laboratory in Coimbatore at a total cost of about Rs.60 crores which will get commissioned in the next 18 to 24 months.
- Shashank Kanodia:** Sir what would the line of businesses for this incremented Rs.600 crores of CAPEX?
- Vikram Mohan:** If I may just again request you sir to read that Autocar Professional article which is available and has been widely circulated, I have gone into granular detail into the new business verticals and the technologies and what is the market share that we are planning to garner in each of these segments because that will take for a very long explanation if you do not mind.
- Shashank Kanodia:** Sir, since the same article mentions you going for the expansion the ratio of 50% debt and 50% equity, right.
- Vikram Mohan:** In the Rs.600 crores we are looking at around 50% debt and 50% equity. We will be completely debt free in the next couple of months with our current cash generation and then we will go for a new round of debt raising not in this financial year but in the subsequent financial year.
- Shashank Kanodia:** Sir, this is a quite divergent from the initial remarks rate from two quarters we wanted to pick the optimum utilization levels of the existing plant and then go for a CAPEX, which was beyond FY23 or maybe 24.
- Vikram Mohan:** Yes, that is exactly I said I will be not doing anything CAPEX. We will be very CAPEX light till FY 23 and we will be CAPEX light till FY23 and we open the taps on CAPEX only in FY24 and 25 resulting in Rs.4000 crore top line in FY26. It is exactly in line with my statements that we will be on sustenance CAPEX for two to three years.



- Moderator:** The next question is from the line of Geeta Kapoor from Mehta Investment, please go ahead.
- Geeta Kapoor:** Sir. I have this one question. What does the new client edition we see during this quarter? Client edition we did during the quarter?
- Vikram Mohan:** We have added a lot of new platforms for our existing clients. Our focus continues to be on our 16 clients and are not adding any new customers. We are adding more business with our customers' mam.
- Moderator:** Thank you so much. The next question is from the line of Vipul Shah from Shubhmangal Investment. Please go ahead.
- Vipul Shah:** Congratulations sir for reasonably good performance under trying circumstances. My question is regarding the pass through of commodity prices, and credit cost. We have seen substantial inflation on both these front. So, are we able to perform these increases to the customer or we are absorbing it in short term through our own P&L?
- Vikram Mohan:** About 60 to 65%, we are passing out to the customer albeit to the time lag which you are seeing an impact about 35-40% we are absorbing based on customer goodwill because the customer is not able to pass on the entire thing to his end customer. So, about 65% is being passed on to the customer 60-65%, about 35-40% we are absorbing which is what is having 2, 2.5 to 3% EBITDA impact for us.
- Vipul Shah:** And sir your CAPEX of Rs.600 crores. So, it will be broadly distributed through which verticals instrumentation cluster or fuel pump?
- Vikram Mohan:** DIS vertical, sensor vertical, connected vehicle solutions vertical and our mechanical products vertical or now what we call it actuation and control systems vertical. It will be spread over all the three to add about a revenue of about Rs.1500 to 1600 crores and the investments will start in the fag-end of this year, but really in the coming year and a lot of it is going to be in FY24 and FY25.
- Vipul Shah:** And shall we assume same EBITDA of around 14 to 15%.
- Vikram Mohan:** Yes and our steady state EBITDA of about 14-15% is what we are expecting.
- Moderator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Sir, just one query on the margins front. Sir you alluded to the fact that for the next two quarters going to be in the same as what we put in this quarter. So, starting from Q2 of next year to be see 14% to 15% margin profile retain back for us?



- Vikram Mohan:** It is very VUCA time Shashank. We are not able to predict. We did not look for example, we never expected a key supplier of raw material to shut down for three weeks in February for a government directive in China. I think till the world is able to bring this Corona under check. Now they are talking about a new variant emerging in Wuhan, so it is going to be very big, in a steady state we can deliver a 14 to 15% margin comfortably that steady state God alone knows when the steady state is going to come. I really wish I knew.
- Shashank Kanodia:** And sir lastly are we present in any of the new-age EV OEM supplying any of our products.
- Vikram Mohan:** Almost we are engaging with every single EV player big or small in the country barring Ola who we are engaged with but with everyone else we are in advanced stages of discussion or LOI.
- Shashank Kanodia:** Simply we are not presently the top five maybe Hero, Inava all these kind of players will not presently.
- Vikram Mohan:** Barring Ola we are working with everyone.
- Shashank Kanodia:** Engaged with everyone. We have already started supplying apparatus to them or we are engaging with them?
- Vikram Mohan:** We are under development where we have received LOI and in some cases it is between the RFQ and LOI stage
- Moderator:** Thank you. The next question is from the line of Chirag Jain, an individual investor. Please go ahead.
- Chirag Jain:** I would just like, there is a news in the market with regards to Pricol being merged with another listed entity. So, will you clarify on the same?
- Vikram Mohan:** This is news to me, to the best of my knowledge I have no, we have no plans to merge with any other listed entity. In fact, we are on a growth path as of now and we are planning to separate the company into three under one listed entity. So, there is no question of merging under any listed entities. In fact, we are on the verge of signing multiple partnership agreements and JV agreements at this point of time.
- Chirag Jain:** So going forward, would it be the Pricol would be separated into three different entities so three different entities will be listed?
- Vikram Mohan:** Three business verticals under one listed entity.
- Chirag Jain:** Okay, one listed entity three separate verticals and if there is no, I mean you are clarifying that there will be nothing of merger with any other big entity in the market currently.



- Vikram Mohan:** No, this is a surprise to me also.
- Chirag Jain:** Not because it was out in the media, let me ask you only so it is better to ask from the horse's mouth so that is when I asked. Thank you sir, for the clarification.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Shubhmangal Investment. Please go ahead.
- Vipul Shah:** Our spend on research which is 4 to 5% of our revenue, it is directed towards mainly electric vehicle business components or IC engine components. So, if you can clarify it would be helpful.
- Vikram Mohan:** See, we are going to be least disrupted by electric vehicles Vipul, because our primary business is Sensors and Driver Information Systems, which is common to an electric vehicle or a non-electric vehicle. So, we are not an engine component company, so all our competence are relevant to whatever form of propulsion. So, our spend of about 4.5 to 4.8% of our spent on both product and process, development or engineering is going to all facets of the business. In fact, over the next few years, I see ourselves more as a technology company and less of a component manufacturer because technology is changing at a very fast pace. In fact, out of our 850 staff 370 staff are in product and process development and we are one of the highest in the Indian automotive industry and as I mentioned earlier in the call, we are building a new World Class Technology Center and test lab also at an investment of about Rs.60 crores which will be commissioned in the next 18 months. So this is not specific to EVs or it is for technology, it is for software, for hardware, for all categories of vehicle and our product categories, our products will apply to all categories of vehicle and it is not EV agnostic.
- Vipul Shah:** Okay, that that is really helpful and this R&D spend is really to be on an upward trajectory. Are you going to increase it to 7 to 8% of our revenue once we have this technology sector, center becomes operational.
- Vikram Mohan:** This will continue to be at 4.5 to 5% as our revenue keeps growing, so the rupee spend will go up but the percentage of spend will remain at 4.5 to 5%
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.
- Dhiral:** So just wanted to know how we have performed as compared to two-wheeler, four-wheeler and commercial vehicle.
- Vikram Mohan:** I request our CEO to answer that question, sectoral performance versus the PRICOL's performance? Our CEO will answer that question



P M Ganesh: Actually, we have been better than the market. The market had to be regrown by 19% on the Q3 comparisons and we have de-grown by about 14%. So, we are better in the market. In all segments of the market we have been better than the market be it for three wheelers. We are better by about 2%. Personal passenger vehicle we continue to grow with the new entry with a personal passenger vehicle like TATA Motors and Peugeot and commercial vehicle is where we have significantly grown because of our entry into the medium and heavy-duty commercial vehicle into all the four key players which is including TATA MOTORS, Volvo, Eicher, Ashok Leyland and also SML. So, overall, on a Q3 basis, we have bettered the market.

Dhiral: And in two-wheeler?

P M Ganesh: Yeah, two stroke three-wheeler we are better than about 2%, four wheeler we have also bettered and under commercial vehicle is where our maximum growth has come and compared to the market growth. Overall, the industry has de-grown by 19% of all segments put together and we have de-grown by 15%.

Dhiral: Sir second thing, what are we doing differently in the export market, you know, which is helping us to grow, you said 40% in first half, and if this will continue also.

P M Ganesh: The export growth is primarily coming from the new product, primarily onto the pumps and mechanical products into the niche segment which I explained like the recreation vehicle, off highway vehicle and also into the higher cc motorcycle where our growth is being there and extra three years also going forward we expect this growth momentum to continue. That is what we explained that by FY25-26 our total percentage of export over the total revenue would be about 20% which is export and deemed export.

Dhiral: And sir our margins are higher in the exports as compared to domestic markets?

Vikram Mohan: Marginally higher.

Moderator: The next question is from the line of Sharad Sharma, an individual investor. Please go ahead.

Sharad Sharma: Sir you had mentioned 350 people out of 850 and approximately 4.5 % of spend is R&D. What proportion of this is capitalized? Is everything capitalized or penalized. How is it be analyzed?

Vikram Mohan: It is all revenue expenditure. There is nothing capitalized here.

I think in the absence of any questions, we would like to thank all of you for participating in this call and for all the questions which we enjoyed answering and we look forward to meeting you after the completion of this quarter at our next earnings call. Thank you very much. Stay safe and Jay Hind.



Moderator:

On behalf of Concept Investor Relations, that concludes this conference. Thank you for joining this conference call. If you have any further queries, please send us an email to cs@pricol.com or garuav.g@conceptpr.com. Ladies and gentlemen, you may now disconnect your lines. Thank you.