Precision Camshafts Limited

January 05, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2.05	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long-term / Short-term bank facilities	10.00	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Reaffirmed
Short-term bank facilities	54.95	CARE A1 (A One)	Reaffirmed
Total bank facilities	**67.00 (₹ Sixty-seven crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings on the bank loan facilities of Precision Camshafts Limited (PCL) continues to reflect extensive experience of the promoters and PCL's established track record in manufacturing of camshafts leading to long association with leading global and domestic automobile original equipment manufacturers (OEMs) with wide geographic reach. The ratings also factor in PCL's healthy market position in the camshaft manufacturing, which is partially offset by product concentration risk. The financial risk profile is healthy marked by large cash and cash equivalents. These strengths are partially offset by modest return on capital employed (ROCE), moderate PBILDT margins and susceptibility of the same to volatility in raw material prices and foreign exchange rate fluctuations. Furthermore, the company is exposed to changing regulations in the automotive industry and threat from electric vehicle mobility.

CARE Ratings Limited (CARE Ratings) has also taken cognisance of the investigation initiated on PCL by the Ministry of Corporate Affairs under Section 210 of Companies Act 2013. The company is in the process of collating and presenting the required documents/information (accounts of earlier years, statutory registers, etc.) to the relevant authorities. Till date no adverse remark or order has been passed, which could lead to quantification of the implication of such inquiry on the company. This event and its unfolding observations will be among key monitorables by CARE Ratings.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in profitability with operating margin in the range of 20%-22% with sustained increase in the scale of operations.
- Diversification in the customer base as well as developing diversified product portfolio without adversely impacting profitability.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any major deterioration in the performance of the subsidiaries leading to weakening of overall financial risk profile of the company.
- Any significant debt-funded capex resulting in overall gearing exceeding 0.70x and reduction in cash and liquid investments to below ₹100 crore.
- Any significant adverse outcome in the investigation initiated by the Ministry of Corporate Affairs under Section 210.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key rating strengths

Long track record and experienced top management: PCL has a long track record of more than 25 years in the manufacturing of critical engine components, particularly camshafts, and has established strong business relationships with marquee global OEMs. The promoter, Yatin Shah (Chairman & Managing Director), a first-generation entrepreneur, has vast experience in the field of engineering and has played a vital role in transforming the organisation into one of the leading manufacturers of camshafts in India. The promoters of the company are assisted by a qualified and experienced management team, many of whom have been associated with PCL for more than 15 years.

Fairly diversified customer profile, further supported by long-standing relationships: The company's customer profile is fairly diversified considering it is operating in the auto component industry selling largely to OEMs. The top five customers of PCL contributed about 38% of the net sales of consolidated turnover in FY22 (refers to the period April 1 to March 31) (37% for FY21). However, as a percentage of standalone net sales, it is concentrated at 55% for FY22 (59% for FY21). Furthermore, majority of the clients are associated with PCL for more than 10 years, which suggests the company can fetch repeated orders. Some of the key customers includes Ford Motors Company, Volkswagen, General Motors, Bosch, Hyundai Motors, Maruti Suzuki India Limited, Suzuki Motor Gujarat Private Limited (rated 'CARE AAA; Stable/ CARE A1+'), Tata Motors Limited (TML; rated 'CARE AA-; Stable/ CARE A1+'), Mahindra & Mahindra Limited (M&M; rated 'CARE AAA; Stable/ CARE A1+').

Wide geographic reach: PCL has its presence in over 17 countries supplying to various global OEMs covering regions, such as Europe, UK, China, Brazil, Russia and North America, etc. Along with PCL's camshaft penetration in the global market with customers like Ford, General Motors, etc., the company has further expanded its geographic presence through inorganic growth by acquisitions. The presence in various international markets significantly reduces the exposure of the company towards any adverse economic slowdown in any single geography. The exports continue to generate around 70% of its consolidated net sales.

Healthy market position in passenger vehicle camshafts: PCL continues to be among the leading manufacturers of passenger vehicle camshafts in domestic and global market. The company is among the few companies globally to manufacture all the four types of camshafts, i.e. cast iron, ductile iron, hybrid and assembled. Camshaft is one of the critical components of an engine application in an automobile. PCL produces 150+ variants of camshafts, majorly used in passenger vehicles (PVs).

Healthy financial risk profile: The debt profile of the company includes working capital borrowings and foreign currency term debt. The overall gearing (including term loan and working capital borrowings) remained below unity at 0.23x as on March 31, 2022 (0.31x as on March 31, 2021) and is expected to remain comfortable over the medium term. The healthy accretions to reserves resulted in robust tangible net worth (TNW) of ₹630.27 crore as on March 31, 2022 (₹556.97 crore as on March 31, 2021). The debt is majorly utilised for working capital borrowings at standalone level, while term loans are contracted in subsidiaries. Going forward, no major debt-funded capex plans are expected, and hence, the capital structure is expected to remain comfortable with gearing ratio below 0.10x over the medium term.
The debt protection metrics remained healthy as indicated by interest coverage ratio of 20x in FY22 (10.64x in FY21) and is expected to remain healthy over the medium term. The total debt to gross cash accruals (TDGCA) improved to 1.12x in FY22 from 2.33x in FY21. With significant debt-funded capex planned coupled with reduction in debt level in subsidiaries, the TDGCA is expected to improve further over the medium term.

Key rating weaknesses

Moderate scale of operations: The consolidated revenue improved to ₹926.66 crore in FY22 from ₹728.88 crore in FY21, however, PCL's standalone sales remained moderate at ₹531.65 crore in FY22 (₹385.69 crore in FY21) and restricted due to limited product diversification and cyclicality in the end-user industry. Furthermore, the operations at overseas subsidiaries, though growing, need to stabilise amidst frequent disruptions in the European region. The company has booked revenue of ₹518 crore in H1FY23. CARE expects the scale to grow over the medium term on the back of better demand and remains key monitorable.

Product concentration risk: Despite adding new products in its portfolio through acquisitions including its venture in e-mobility space, the company's significant portion of turnover and profits are derived from camshaft business, which exposes PCL to product concentration risk.

Moderate profitability and modest return metrics: PCL's PBILDT margins improved to 15.73% in FY22 from 11.16% in the previous fiscal year supported by better cost absorption coupled with improved PBILDT margins of subsidiaries, which were earlier loss making. The company has reported PBILDT margins of 12% in H1FY23 (refers to the period April to September, 2022) having declined from 15% in H1FY22 on account of higher employee cost. The profitability is likely to show gradual improvement supported by growing scale of operations and cost reduction initiatives such as installation of solar power generation unit. Nevertheless, it remains moderate despite large proportion of machined camshafts in topline.

While the ROCE improved to 8.44% as on March 31, 2022 from 3.06% as on March 31, 2021, it remains modest. CARE expects the ROCE to remain modest between 4% and 7% over the medium term and the improvement in the same remains key monitorable.

Susceptibility of profitability to volatility in raw material prices and foreign exchange rate fluctuations: Major raw materials include resin-coated sand, melting steel (M.S) scrap and pig iron. PCL primarily procures them from domestic markets from reputed manufactures. The volatility in commodity prices can significantly affect PCL's raw material costs and in turn, profitability. The company usually has price pass through mechanism with its clients, which considers the fluctuations in the input prices, though the same occurs with a lag of 3 to 6 months depending upon respective customer. Also, the extent of the pass through is dependent on negotiations. Hence, the time lag and the quantum of pass through may partially impact operating profitability. PCL derives significant portion of its revenues outside India (around 70%), and its profitability is thus exposed to the fluctuations in foreign exchange rates. However, the company has a partial hedging policy in place for covering foreign exchange exposure with respect to trade receivables through forward cover contracts, which partly minimises the risk in times of adverse currency rate fluctuations.

Changing regulations in automotive industry and threat from electric vehicle mobility and substitutes: Owing to the increasing focus on electric vehicle, there are expectations of diminishing demand of parts of internal combustion engine (ICE) over the longer term particularly in passenger vehicle and two-wheeler segments. At global level, the adoption of e-mobility is expected to be more dominant in the passenger vehicle segment. Governments in India and foreign countries have been continuously evolving its policies towards lower emission norms, safety norms or supporting offtake in electric vehicles through subsidies, incentives, or regulations. This impacts the investment cycle of the automobile and auto ancillary companies. Though the company has diversified its product profile to e-mobility as well, majority portion of revenue and profits are still generated from ICE parts.

Liquidity: Strong

The liquidity of PCL is characterised by sufficient cushion in accruals vis-à-vis repayment obligations. Annual gross cash accruals (GCA) are expected to be in the range of ₹117 crore-₹150 crore over the medium term against the maturing debt obligations of nearly ₹32-36 crore for FY23 and FY24, respectively. The company has liquid investments in mutual funds to the tune of ₹182 crore as on September 30, 2022, as against ₹194 crore as on March 31, 2021. Furthermore, the company had free cash and bank balance of ₹87 crore as on September 30, 2022. Therefore, additional capex plans, if any, are expected to be done through internal accruals and surplus cash available. Incremental working capital requirement is expected to be managed comfortably with internal accruals and working capital limits. Furthermore, timely enhancement in working capital limits cushions liquidity. Average of maximum utilisation of working capital limits during a month over the last 12 months through August 2022 was 90%.

Analytical approach: Consolidated

CARE Ratings has considered consolidated financials of PCL consisting of PCL (Standalone) and its wholly-owned subsidiaries and step-down subsidiaries as mentioned in Annexure - 6. CARE Rating has analysed PCL's credit profile by considering the consolidated financial statements owing to financial, business, operational and management linkages between the parent and subsidiaries, in addition to extended corporate guarantees to the loans availed by its subsidiaries and step-down subsidiaries.

Applicable criteria

Policy on default recognition

Consolidation

Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Credit Watch

Short Term Instruments

Auto Ancillary Companies

Manufacturing Companies

Policy on Withdrawal of Ratings

About the company

Incorporated in 1992 as 'Precision Camshafts Private Limited' by Yatin S. Shah, the company was later converted into public limited company and renamed as Precision Camshafts Limited. PCL is one of the world's leading manufacturers and suppliers of camshafts, a critical engine component, in the passenger vehicle segment. The company supplies over 150 varieties of camshafts majorly for passenger vehicles. The company has two plants in Solapur (Maharashtra) and two plants in Nashik (Maharashtra). Furthermore, it has one plant in Germany and one plant in Netherlands. Currently, it has camshaft castings capacity of 11 million units per annum and machined camshafts capacity of 4 million units per annum. In FY16, PCL went public and was listed on the BSE Limited ("BSE") and National Stock Exchange of India Limited ("NSE") with effect from February 08, 2016. Consequently, an equity capital of ₹240 crore was infused in the company.

Brief Financials (₹ crore) - Standalone	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	385.69	531.65	312.15
PBILDT	79.41	113.06	51.73
PAT	61.69	66.08	24.14
Overall gearing (times)	0.05	0.06	0.10
Interest coverage (times)	51.78	37.60	17.73

A: Audited; UA: Unaudited

Brief Financials (₹ crore) - consolidated	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	728.88	926.66	518.05
PBILDT	81.35	145.79	60.73
PAT	15.92	60.94	20.42
Overall gearing (times)	0.31	0.23	0.16
Interest coverage (times)	10.64	19.99	19.16

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	2.05	CARE A; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	0.50	CARE A1
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	27.45	CARE A1
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	10.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC		-	-	-	15.00	CARE A1
Non-fund-based - ST-BG/LC		-	-	-	12.00	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	0.00	CARE A; Stable	-	-	-	1)CARE A; Stable (01-Apr-19)
2	Fund-based - LT-Cash credit	LT	2.05	CARE A; Stable	-	1)CARE A; Stable (07-Jan-22) 2)CARE A; Stable (07-Apr-21)	1)CARE A; Stable (06-Apr-20)	1)CARE A; Stable (01-Apr-19)
3	Fund-based - ST-Packing Credit in Foreign Currency	ST	27.45	CARE A1	-	1)CARE A1 (07-Jan-22) 2)CARE A1 (07-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (01-Apr-19)
4	Fund-based - ST-Bill Discounting/ Bills purchasing	ST	0.50	CARE A1	-	1)CARE A1 (07-Jan-22) 2)CARE A1 (07-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (01-Apr-19)
5	Non-fund-based - ST-BG/LC	ST	15.00	CARE A1	-	1)CARE A1 (07-Jan-22) 2)CARE A1 (07-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (01-Apr-19)

6	Non-fund-based - ST-BG/LC	ST	12.00	CARE A1	-	1)CARE A1 (07-Jan-22) 2)CARE A1 (07-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (01-Apr-19)
7	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	10.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (07-Jan-22) 2)CARE A; Stable / CARE A1 (07-Apr-21)	1)CARE A; Stable / CARE A1 (06-Apr-20)	1)CARE A; Stable / CARE A1 (01-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities:

Name of the Instrument	Detailed explanation
A. Non financial covenants	
I. Shareholding – Bank of India	Borrowers shall not effect any change in the borrower's capital structure where the shareholding of the existing promoter(s) gets diluted below current level or 51% of the controlling stake (whichever is lower), without prior permission of the Bank – for which 60 days' prior notice shall be required.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - ST-Bill discounting/ Bills purchasing	Simple
3	Fund-based - ST-Packing Credit in Foreign Currency	Simple
4	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
5	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Annexure - 6: List of Subsidiaries consolidated

Name of the subsidiary	Remarks
PCL (International) Holdings B.V., Netherlands	Wholly-owned Subsidiary
MFT Motoren Und Fahrzeughecnik GMBH, Germany	Wholly-owned step-down Subsidiary
EMOSS Mobile Systems B.V., Netherlands	Wholly-owned step-down Subsidiary
Memco Engineering Pvt. Ltd., Nashik	Wholly-owned Subsidiary

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Ashish Kashalkar
Phone: 9890615061
E-mail: Ashish.Kashalkar@careedge.in

Relationship contact
Name: Aakash Jain
Phone: +91-20-4000 9090
E-mail: aakash.jain@careedge.in

About us:
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