Precision Camshafts Limited

January 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities – Cash Credit	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 (Reduced from 57.50)	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**67.00 (Rs. Sixty-Seven Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings on the bank loan facilities of Precision Camshafts Limited (PCL) continue to derive strength from promoters' long-standing experience 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. PCL continues to have healthy market position in the camshaft manufacturing which is partially offset by product concentration risk. Further, the company has healthy financial position significantly supported by large cash & cash equivalents. These strengths are partially tempered by moderate scale of operations, volatile profitability due to inefficient performances of recent brownfield acquisitions, modest Return on Capital Employed (ROCE) and; susceptibility of profitability to volatility in raw material prices and foreign exchange rate fluctuations. Further, the company is exposed to changing regulations in automotive industry and threat from electric vehicle mobility.

CARE Ratings has also taken cognizance 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 scale of operations.
- Improvement in the return metrics with ROCE in the range of 12% - 15% on a sustained basis
- 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.
- Overall gearing exceeding 0.70 times along with reduction in cash and liquid investments to below Rs.100 crore.
- Any significant adverse outcome in the investigation initiated by the Ministry of Corporate Affairs under Section 210.

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 manufacturing of critical engine components, particularly camshafts, and has established strong business relationships with marquee global OEMs. The promoter, Mr. 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 organization 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 longstanding relationships: The company's customer profile is fairly diversified considering it is operating in the auto component industry selling largely to OEMs. Top 5 customers of PCL at standalone level contributed about 31% of the net sales of consolidated turnover in FY21 (31% for FY20). However, as a percentage of standalone net sales, it is concentrated at 59% for FY21 (53% for FY20). Also, major camshaft clients of PCL have been associated with company for more than 10 years which suggests the company is able to fetch repeated orders. Client base exceeds 45 leading OEMs, and includes names such as Volkswagen, General Motors, Bosch, Ford Motor Company, Hyundai Motors, Maruti Suzuki India Limited, Suzuki Motor Gujarat Private Limited (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+), etc.

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

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. Presence in various international markets significantly reduces the exposure of the company towards any adverse economic slowdown in any single geography. Exports continue to generate ~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 PVs.

Healthy financial position supported by large cash and cash equivalents: PCL continues to have comfortable capital structure with healthy networth and overall gearing. As on March 31, 2021 (2020), the company's tangible networth was Rs.556.97 cr (Rs.551.55 cr) whereas overall gearing was 0.31x (0.36x) as on March 31, 2021 (2020). Debt is majorly utilized 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 capital structure is expected to remain comfortable.
Debt coverage metrics were adversely impacted by significant moderation in profitability in FY21. The PBILDT interest coverage moderated from 15.04x in FY20 to 8.99x in FY21 while PBIT interest coverage was negative in FY21. Similarly, total debt by gross cash accrual also moderated from 1.53x in FY20 to 2.54x FY21. However, with estimated improvement in profitability and no major incremental debt, the company's debt coverage metrics are expected to revert to historical levels.
Further, the financial position is significantly supported by large cash and cash equivalents which stood at Rs.263.45 crores as on March 31, 2021 and Rs.269.20 crores as on September 30, 2021.

Key Rating Weaknesses
Moderate scale of operations: With the global automotive production slowdown in the recent years, the company's standalone revenue has remained stagnated in the range of Rs.400-450 crore over the 5 fiscals through FY20 which was further exacerbated by COVID-19 in FY21. PCL's standalone net sales de-grew by 13.28% in FY21 year on year (Y-o-Y) to ~Rs.373 crore from ~Rs.430 crore in FY20. Similarly, its subsidiaries MEMCO Engineering Pvt. Ltd (MEMCO) & MFT Motoren Und Fahrzeughecnik GMBH (MFT), also witnessed de-growth in their revenue in FY21 Y-o-Y. However, EMOSS Mobile Systems B.V. (EMOSS), one of the step-down subsidiary of PCL, which is basically into converting internal combustion engine (ICE) based Commercial Vehicles to electric trucks, improved on its turnover by ~37% in FY21 Y-o-Y to about Rs.133 crore and has continued its growth trajectory even in H1FY22 registering total operating income of Rs.95.56 crores. EMOSS with presence majorly in Europe continues to benefit from the thrust on electric vehicles. With normalization of operations along with gaining traction in e-mobility space, the company has achieved consolidated revenue of ~Rs.435 crs in H1FY22 and estimated to grow its consolidated total operating income by around ~14% to 15% in FY22 y-o-y.

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 PCT to product concentration risk.

Volatile profitability and modest returns on capital employed: Despite increasing proportion of machined camshafts sales over the years, the company's operating profitability has deteriorated particularly on account of inefficient performance of foreign subsidiaries in terms of operating profitability. Also, in FY21, the standalone operating profitability were largely impacted by limited pass through of input price hikes due to delay in revision by OEMs with PBILDT margins moderating from 25.71% in FY20 to 21.70% in FY21, while MFT operated at single digit PBILDT margin of 6.32%. Also, company had written off research and development cost (R&D) of Rs.19.08 crore in EMOSS during FY21 i.e. 266 bps of consolidated TOI, which led to losses in EMOSS. In H1FY22, the company improved its PBILDT margin to 14.86% despite additional R&D write off in Q1FY22. Overall, PBILDT margin is estimated to be around 14.5%-15.5% in FY22 and further improvement is expected going forward supported by expected improvement in margins of its foreign subsidiaries.
As a result of deterioration in the operating margins, the company's ROCE has also moderated from 14.59% in FY17 & 12.11% in FY18 to 6.55% in FY19 and 3.06% in FY21. Though, RoCE is expected to improve, it may remain modest.

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. 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 (~70%), and its profitability is thus exposed to 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 minimizes 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 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 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
Liquidity of PCL is characterized by sufficient cushion in accruals vis-à-vis repayment obligations. Gross cash accrual (GCA) is expected to be in the range of Rs.110 crore-Rs.120 crore over the medium term against the maturing debt obligations of nearly Rs.37.50-40.10 crore for FY22 and FY3 respectively. With overall gearing below unity, PCL has sufficient headroom to raise additional debt for its capex plans. The company has liquid investments in mutual funds to the tune of Rs.216.7 crore as on Sept 30, 2021, as against Rs.196 crore as on March 31, 2021. Further, the company had free cash and bank balance of Rs.76.9 crore as on Sept 30, 2021. 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. Average of maximum utilization of working capital limits during a month over the last 12 months through August 2021 was 76.51%.

Analytical approach: Consolidated
CARE 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 has analyzed 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
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies

About the Company
Incorporated in 1992 as 'Precision Camshafts Private Limited' by Mr. 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 manufacturer and supplier 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 2 plants in Solapur (Maharashtra) and 2 plants in Nashik (Maharashtra). Further, it has 1 plant in Germany and 1 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 Rs.240 crore was infused in the company.

Brief Financials (Rs. crore) – Consolidated	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	764.05	716.26	435.50
PBILDT	130.67	68.73	64.70
PAT	26.02	-0.78	27.42
Overall gearing (times)	0.36	0.31	0.25
Interest coverage (times)	15.04	8.99	17.73

A: Audited; UA: Un-Audited

Brief Financials (Rs. crore) - Standalone	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	463.10	402.22	230.79
PBILDT	120.10	95.94	48.48
PAT	72.05	61.69	33.36
Overall gearing (times)	0.04	0.05	0.05
Interest coverage (times)	46.95	62.56	46.62

A: Audited; UA: Un-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	2.05	CARE A; Stable
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	27.45	CARE A1
Fund-based - ST-Bills discounting/ Bills purchasing		-	-	-	0.50	CARE A1
Non-fund-based - ST-BG/LC		-	-	-	15.00	CARE A1
Non-fund-based - ST-BG/LC		-	-	-	12.00	CARE A1
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	10.00	CARE A; Stable / CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
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-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-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (01-Apr-19)	-
4	Fund-based - ST-Bills discounting/ Bills purchasing	ST	0.50	CARE A1	1)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-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-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-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 covenants of the rated instrument / 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-Bills 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 instrument: CARE Ratings Ltd. 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.

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