Precision Camshafts Limited

April 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	2.05	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long/Short Term Bank Facilities	10.00	CARE A; Stable / CARE A1 (Single A; Outlook: Stable / A One)	Reaffirmed
Short Term Bank Facilities	57.50	CARE A1 (A One)	Reaffirmed
Total Facilities	69.55 (Rs. Sixty-Nine Crore and Fifty-Five Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the long-term and short-term bank facilities of Precision Camshafts Limited (PCL) continues to derive strength from promoters' long-standing experience and PCL's established track record in manufacturing of camshafts and other critical precision components, established relationship with globally renowned client base, wide and diversified geographical presence, and PCL's strategic and technology tie-ups with world's leading precision machining manufactures.

The ratings further continue to derive strength from PCL's comfortable capital structure coupled with debt coverage indicators as on March 31, 2020 (Audited, refers to the period Apr 01 to Mar 31) and strong liquidity position with free cash and liquid investments of approximately Rs.130 crore as on March 31, 2020.

The rating strengths, however, continue to remain constrained by current slowdown in end user auto industry and overall economy, customer and product concentration risk, susceptibility of operating margins to volatility in input prices and foreign exchange rates.

CARE also takes note of the subdued 9MFY21 (Unaudited: refers to a period from April 1 to March 31) performance marked by a decline in total operating income, profitability and cash accruals during the period. However, the company has been witnessing a quarter-on-quarter improvement during the current fiscal. Further, despite the 9MFY21 performance the liquidity position of the company remains strong.

CARE Ratings also take a note of acquisitions made by PCL in the recent past and will continue to monitor the impact of these acquisitions on the consolidated financial and operational performance of PCL from a credit perspective. Furthermore, the impact of any further inorganic growth, on PCL's overall operations, capital structure and other financial parameters is a key rating monitorable.

Rating Sensitivities

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

- Ability of the company to scale up operations as envisaged while improving its profitability with operating margin in the range of 20% - 22% from current levels going forward on a sustained basis.
- Improvement in the return matrices with an ROCE in the range of 12% - 15% on a sustained basis
- Diversification in the customer base

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.

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 and has established strong business relationships with marquee global OEMs. The promoter, Mr. Yatin Shah (Chairman & Managing Director), a first generation entrepreneur, has a 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. He is accompanied by his wife, Dr. Suhasini Shah (whole time director) who heads the legal department of PCL and is also one of the founding directors of PCL along with Mr. Karan Shah (Son of Mr. Yatin Shah and Whole Time Director), an MBA from Harvard Business School, Boston USA, looks after the Business Development. The promoters of the company are assisted by a qualified and experienced management team which has been associated with PCL for more than 15 years.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Long association with leading global and domestic OEMs with wide geographic reach

Customer relationships built over a span of more than two decades with major OEMs, both within domestic and international markets results in ease of acceptance and repeat orders. Total client base exceeds 50 leading OEMs, and includes names such as Volkswagen, General Motors, Bosch, Ford Motor Company, Hyundai Motors, Maruti Suzuki India Limited, Tata Motors Limited, Toyota Motor Corporation, Mahindra & Mahindra Limited, Escorts Limited etc. PCL continues to be the preferred supplier of camshafts to General Motors (GM) and Ford Motor Company globally. PCL has been constantly expanding its geographic presence though inorganically through subsidiaries and has a reach to over 20 countries spread across Europe, UK, China, Brazil, Russia and North America etc. Approximately 70% of the revenue comes from outside India and presence in various international markets significantly reduces the exposure of the company towards any adverse economic slowdown in any single geography, especially the one observed in the domestic market.

Technical collaborations with overseas players coupled with diversified product portfolio

Over the years, the company has grown from being a single product company to one that manufactures and supplies critical components such as camshafts, balancer shafts, injector components and other automotive and non-automotive components to OEMs around the world and has also built in capabilities to provide end-to-end solutions for electrification of heavy vehicles. Further, with its exclusive agreement with EMAG (a German machining and tooling Process Company) for transfer of certain know-how and technology for manufacturing assembled camshafts, PCL is well placed to implement advanced machining which aids in lowering the cost per piece and command healthy prices.

Growth in operating income and stable profitability

On consolidated basis, PCL registered a y-o-y growth of 8.35% in total operating income (TOI) to Rs.764.79 crore in FY20 as against Rs.705.88 crore in FY19. The same was mainly on account of better operating performance of its Machined camshaft business, with sales in the division posting a 13.74% increase to Rs.261.43 crore in FY20 (as against 229.86 crore in FY19). Furthermore, the subsidiaries too posted a decent performance with MFT posting a growth of 6.31% to Rs. 169.47 (P.Y: Rs.159.41 crore), EMOSS of 35.35% to Rs. 97.06 crore (P.Y: Rs.71.71 crore). However, MEMCO registered a decline of 13.61% to Rs.40.83 crore during FY20 (P.Y: Rs.47.26 crore). Export business contributed ~63% (P.Y: 55%) towards the total revenue, while the domestic business contributed the to the balance. However, despite the higher exports, increase capacity utilization and favorable changes in the product mix, the PBILDT margin was lower by 230 bps at 17.18% in FY20 as compared to 19.48% in FY19. The same was mainly on account of the increase in cost of raw material during the year coupled with decline in PBILDT at the subsidiary levels. Furthermore, PAT was seen at Rs.26.02 crore (margin of 3.4%) in FY20 as against Rs.16.05 crore (margin of 2.27%) in FY19. However, interest costs remained low and stood at Rs. 8.69 crore during FY20 as against Rs.8.96 crore in FY19. The depreciation expense increased from Rs.66.73 crore to Rs. 86.42 crore during FY20, mainly due to the expansion of Machine shop at its subsidiary level and amortization of intangibles.

During FY20, the company reported exceptional gain related to the compensation amount received from customers to the tune of Rs.18.67 crore and an exception loss related to impairment of goodwill arising on consolidation of step-down subsidiary i.e. EMOSS Mobile Systems B.V of Rs.20.83 crore.

During 9MFY21 (Unaudited) the company reported a TOI of Rs. 516.52 crore, PBILDT of Rs.92.9 crore and PAT of Rs. 14.68 crore, as compared to Rs. 584.53 crore, Rs. 102.46 crore and Rs.32.63 crore respectively during 9MFY20. The performance during the period was impacted mainly due to the Covid-19 pandemic.

Comfortable capital structure and debt coverage indicators

The total debt profile on a consolidated bases consists of term loans, unsecured loans from related parties and working capital borrowings, as against a tangible net-worth base of Rs. 551.55 crore. Debt profile of PCL comprises a large portion of foreign currency term loans on the books of its European subsidiaries as a result of acquisitions. The debt to equity stood at 0.30x (as compared to 0.22x) and overall gearing stood at 0.36x as on March 31, 2020 (as compared to 0.4x). The debt protection matrices remained healthy with a Total debt to GCA stood at 2.09x in FY20 (as compared to 2.42x) and PBILDT Interest coverage stood at 15.13x (as compared to 15.34x) for FY20.

Inorganic growth

PCL acquired a total of three entities in the last 2-3 years and these acquisitions have helped the company to broaden the product portfolio, geographical diversification and to mitigate the customer concentration risk. Additionally, the synergy derived from these acquisitions is expected to boost the revenue going forward aided by new customer associations in the European market; however, improvement in the operational performance of these acquired entities is to be seen in the near term without hampering the overall profitability margins of PCL on a consolidated level. Further, in order to exit loss making business in China, the company decided to shut down its wholly owned subsidiary in China and exit from the Chinese joint ventures as the auto industry is facing challenging times in China, making it unsustainable for the company to continue with its operations.

Key Rating Weaknesses

Slowdown in the end user auto industry

PCL is exposed to cyclicality associated within the automobile segment which has been witnessing some moderation on account ongoing slowdown, weak near-term outlook and growth challenges remain for auto component industry. This is further exacerbated by the ongoing outbreak of Covid-19 and resultant lockdowns, which are expected to have a significant impact on the overall industry in the short term. While new stringent emission norms, BS VI adoption means increased components per vehicle driving the demand for auto ancillaries, capex on technology advancement and product capabilities may continue to remain high exerting pressure on companies' cashflows. However, the company has been diversifying its product portfolio through recent acquisitions and which is expected to reduce dependence on a single end user industry.

Customer and product concentration

Historically, PCL has been dependent on a single product, i.e. camshafts and limited number of customers for significant portion of its turnover. GM and Ford are the company's primary customers, which together accounts for nearly 30% - 40% of total income during the last two years ended FY20. PCL thus faces the risk of fluctuations in production levels as well the phase in/out stages of its key OEM customers' product models. However, PCL is expected to benefit in the near term on account of its latest acquisitions and new product inclusions to its portfolio.

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. Inability to compensate for or pass on increased costs to customers exposes PCL to price risk. However, periodic negotiations with customers reduce the risk to a large extent. Also, 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 hedging policy in place for covering foreign exchange exposure with respect to trade receivables through forward cover contracts, which minimizes the risk in times of adverse currency rate fluctuations.

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.100 crore-Rs.120 crore against the maturing debt obligations of nearly Rs.10 – 12 crore for FY21 and Rs.20 crore-Rs.30 crore for the next three years. With overall gearing below unity, PCL has sufficient headroom to raise additional debt for its capex plans. The company has liquid investments invested in Mutual funds to the tune of Rs.188.86 crore as on December 31, 2020 as against Rs 130 crore as on March 31, 2020). Cash in hand of Rs.55.14 crore and liquid investments in MF of Rs.130 crore as on March 31, 2020. 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, bank limits, unsecured loans. As indicated by the management and confirmed by the bankers average working capital utilization for the past 12 months ended February 2021 was at 70-80%.

Analytical approach: Consolidated

CARE has considered consolidated financials of PCL consisting of PCL (Standalone) and below mentioned direct and indirect subsidiary companies and joint ventures. 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.

Applicable Criteria:

[Criteria on assigning 'Outlook' and 'Credit Watch' to credit ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology - Manufacturing Companies]
[Rating Methodology - Auto Ancillary Companies]
[Financial ratios – Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Criteria for Short Term Instruments]
[Rating Methodology: Consolidation]

About the Company

Incorporated in 1992 as 'Precision Camshafts Private Limited' by Mr. Yatin S. Shah, the company was later renamed as Precision Camshafts Limited (PCL) and was subsequently converted into a public limited company. 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 for passenger vehicles, tractors, light commercial vehicles and locomotive engine applications. PCL has set up four manufacturing units at Solapur, Maharashtra out of which two units are 100% Export Oriented Units (EOU). 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	FY19 (A)	FY20 (A)	9MFY20 (UA)	9MFY21 (UA)
Total operating income	705.88	764.79	584.53	516.52
PBILDT	137.49	131.40	102.46	92.9
PAT	14.92	25.63	32.63	14.68
Overall gearing (times)*	0.40	0.36	NA	NA
Interest coverage (times)	15.34	15.13	14.65	13.50

Brief Financials (Rs. crore) –Standalone	FY19 (A)	FY20 (A)	9MFY20 (UA)	9MFY21 (UA)
Total operating income	434.38	463.1	351.11	277.6
PBILDT	112.54	120.1	91.78	83.44
PAT	42.91	72.05	50.59	44.34
Overall gearing (times)*	0.05	0.04	NA	NA
Interest coverage (times)	43.50	46.95	45.44	115.18

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	30.00	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

nnexure-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 (06-Apr-20)	1)CARE A; Stable (01-Apr-19)	-
3.	Fund-based - ST-Packing Credit in Foreign Currency	ST	30.00	CARE A1	-	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 (06-Apr-20)	1)CARE A1 (01-Apr-19)	-
5.	Non-fund-based - ST-BG/LC	ST	15.00	CARE A1	-	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 (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 (06-Apr-20)	1)CARE A; Stable / CARE A1 (01-Apr-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable

Annexure - 4: List of Subsidiaries consolidated

Sr. No.	Subsidiary	Remarks	% shareholding
1	PCL (International) Holdings B.V. (Netherlands)	Wholly owned Subsidiary	100.00%
2	Memco Engineering Pvt. Ltd. (Nashik)	Wholly owned Subsidiary	100.00%
3	MFT Motoren Und Fahrzeughecnik GMBH (Germany)	Step down Subsidiary	76.00%
4	EMOSS Mobile Systems B.V., Netherlands (EMOSS)	Step down Subsidiary	51.00%

Annexure 5: Complexity level of various instruments rated for this company

Sr. No.	Name of the 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

***Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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