Precision Camshafts Limited

October 28, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2.05	CARE A; Stable	Reaffirmed
Long-term / Short-term bank facilities	10.00	CARE A; Stable / CARE A1	Reaffirmed
Short-term bank facilities	74.95	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Precision Camshafts Limited (PCL) continue to factor in its established track record, long association with leading global and domestic automobile original equipment manufacturers (OEMs), wide geographical reach and comfortable solvency with strong liquidity. Ratings also factor in PCL's leading market position in camshaft manufacturing, which is partially offset by product concentration risk.

However, ratings strengths are tempered by moderate profitability and modest return ratios, susceptibility of this to the raw material price volatility and foreign exchange rate fluctuations and risk associated with regulated automotive industry and threat from growing electric vehicle (EV) market.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- 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.

Analytical approach: Consolidated

CARE Ratings has considered the consolidated financials of PCL, consisting of PCL and its wholly owned subsidiaries and step-down subsidiaries as mentioned in Annexure-6. CARE Ratings has analysed PCL's credit profile by considering the consolidated

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

financial statements owing to the financial, business, operational, and management linkages between the parent and subsidiaries, in addition to the corporate guarantees (CGs) extended by PCL to the loans availed by its subsidiaries and step-down subsidiaries.

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings expectation of the company's ability to maintain its financial risk profile, considering its leading market position in camshaft manufacturing and established relationship with key customers and absence of large debt-funded capital expenditure (capex).

Detailed description of key rating drivers:

Key strengths

Long track record and experienced top management

PCL has a long track record of around three decades in manufacturing critical engine components, particularly camshafts, and has established strong business relationships with marquee global OEMs. PCL has its presence in over 17 countries, supplying to global OEMs covering Europe, the UK, China, Brazil, Russia, and North America, among others. Along with PCL's camshaft penetration in the global market with customers like Ford, and General Motors, among others, the company has further expanded its geographical presence through acquisitions. The presence in international markets significantly reduce the company's exposure to adverse economic slowdowns in single geography. Exports continue to generate over 60% of its consolidated net sales.

The promoter, Yatin Shah (Chairman and 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 company's promoters are assisted by a qualified and experienced management team. CARE Ratings believes that the company will continue to benefit from long track record and experienced top management.

Leading market position in passenger vehicle camshafts

PCL continues to be among the leading manufacturers of passenger vehicle camshafts in domestic and global markets. The company is among the few companies globally to manufacture all four types of camshafts, including cast iron, ductile iron, hybrid, and assembled. Camshaft is one of the critical components of an engine application in an automobile. PCL manufactures over 150 variants of camshafts, mainly used in passenger vehicles.

Fairly diversified customer profile, further supported by long-standing relationships

The company's customer profile is fairly diversified, with the top five customers accounting for ~33% of the FY24 consolidated revenue (30% for FY23). Furthermore, most clients are associated with PCL for over a decade, indicating the company's ability to secure repeat orders. Some key customers include Ford Motors Company, 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+'), and Mahindra & Mahindra Limited (M&M; rated 'CARE AAA; Stable/CARE A1+').

Healthy scale of operations albeit moderation in FY24

PCL reported consolidated total operating income (TOI) of ₹1,038.40 crore as against ₹1,100.34 crore in FY23, indicating y-o-y decline of ~6%. Standalone TOI improved ~5.5% from ₹646.19 crore to ₹681.47 crore, supported by a volume growth of ~11%. However, the growth was more than offset by subdued performance by EMOSS Mobile Systems B.V., Netherlands (EMOSS; step down subsidiary of PCL), where TOI declined to ₹147.69 crore in FY24 from ₹231.54 crore in FY23 due to overall recessionary trends in Europe.

PCL reported a consolidated TOI of ₹263.13 crore in Q1FY25 (refers to April 01 to June 30) as against ₹270.25 crore in Q1FY24. CARE Ratings expects the revenue to grow at a modest rate over the medium term.

Comfortable solvency position

PCL's debt profile includes working capital borrowings and term debt availed by subsidiaries. Overall gearing remained low at 0.15x as on March 31, 2024, (0.15x as on March 31, 2023) and is expected to remain comfortable over the medium term, as no major debt funded capital expenditure (capex) is planned. Tangible net worth (TNW) improved to ₹729.52 crore as on March 31, 2024 (₹680.43 crore as on March 31, 2023). Debt protection metrics remained healthy, as indicated by interest coverage ratio (ICR) of 13.76x in FY24 (16.65x in FY23) and total debt to gross cash accruals (TD/GCA) of 0.91x in FY24 (0.97x in FY23). With no significant debt-funded capex and the scheduled repayment of debt in subsidiaries, CARE Ratings expects debt coverage indicators to remain healthy over the medium term.

Key weaknesses

Moderate profitability and modest return metrics

PCL's profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin moderated to 10.43% in FY24 from 11.89% in FY23 due to lower export sales and a change in product mix. This, coupled with losses in the subsidiary company impacted profitability. Similarly, profit after tax (PAT) margin declined to 3.89% in FY24 compared to 4.21% in FY23.

The company reported PBILDT margin of 12.18% in Q1FY25 as against 11.12% in Q1FY24. Profitability is likely to remain rangebound in the near term. Further, PAT margin stood at 4.42% in Q1FY25 as against 1.52% in Q1FY24.

Also, return on capital employed (ROCE) remained modest at 8.28% in FY24 (8.15% in FY23) owing to moderate profitability. This is expected to improve gradually, aligned with profitability.

Susceptibility of profitability to raw material price volatility and foreign exchange rate fluctuations

Main raw materials include resin-coated sand, mild steel (MS) scrap, and pig iron whose prices are volatile. The company usually has price a pass-through mechanism with its clients, which considers fluctuations in input prices, although this occurs with a lag of three months to six months depending on the respective customer. Also, the extent of pass-through depends on negotiations. Hence, the time lag and quantum of passthrough may partially impact the operating profitability. PCL derives a significant portion of its revenues outside India (~60%); 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.

Product and segment concentration risk

Despite adding new products in its portfolio through acquisitions, including its venture in e-mobility space, a significant portion of the company's turnover and profits are derived from the camshaft business, which exposes PCL to product concentration risk. Furthermore, the company derives majority revenue from the passenger vehicle segment, thus resulting in exposure to segment concentration risk.

Exposure to risks associated with regulations in the automotive industry and threat from EV mobility and substitutes

Owing to the increasing focus on EVs, there are expectations of diminishing demand of parts of internal combustion engine (ICE) over the longer term, particularly in the passenger vehicle and two-wheeler segments. At the global level, 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 the off-take in EVs through subsidies, incentives, or regulations. This impacts investment cycle of automobile and auto ancillary companies. Although the company diversified its product profile to e-mobility as well, majority portion of the revenue and profits are still generated from ICE parts.

Liquidity: Strong

PCL's liquidity is characterised by sufficient cushion in accruals against repayment obligations. Annual GCAs are expected to be in the range of ₹105 -125 crore over the medium term against maturing debt obligations of ~₹12 crore for FY25. The company has liquid investments in mutual funds of ₹225.03 crore and free cash and bank balance of ₹88.84 crore as on March 31, 2024. The company generated cash flow from operations (CFO) of ₹97.65 crore in FY24. Incremental working capital and capex requirements are expected to be managed comfortably with available liquidity, internal accruals and unutilised working capital limits. Average of maximum utilisation of working capital limits, over the 12 months through August 31, 2024, was 85%.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks:

Environment	The company has focused on improving productivity, energy efficiency and maximising sustainability at its manufacturing facilities. As a part of strategy, the company is working on replacing fossil fuel with Renewable Solar energy. In FY24, the company has installed a solar plant.
Social	The company has successfully implemented an Occupational Health and Safety Management system attaining certification in accordance with the ISO: 45001:2018 Standard. Further, the company has provided skill upgradation training to over 80% employees and workers in FY24.
Governance	~60% of the board comprises of non-executive and independent directors.

Applicable criteria

[Consolidation]
[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Auto Components & Equipments]
[Short Term Instruments]

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Automobile and auto components	Auto components	Auto components and equipments

Incorporated in 1992 as Precision Camshafts Private Limited by Yatin S Shah, the company was later converted into a 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, mainly for passenger vehicles. The company has two plants in Solapur (Maharashtra) and two plants in Nashik (Maharashtra). Furthermore, it has one plant each in Germany and Netherlands. Currently, it has a camshaft castings capacity of 11 million units per annum and a machined camshafts capacity of 4 million units per annum. In FY16, PCL went public and was listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange of India Limited (NSE) on February 08, 2016. Consequently, an equity capital of ₹240 crore was infused in the company. PCL acquired MFT Motoren Und Fahrzeughecnik GMBH, Germany and EMOSS Mobile Systems B.V., Netherlands in August 2020 and July 2020, respectively.

Brief Financials (₹ crore) Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1,100.34	1,038.40	263.13
PBILDT	130.83	108.29	32.06
PAT	46.29	40.35	11.62
Overall gearing (times)	0.15	0.15	-
Interest coverage (times)	16.65	13.76	16.70

A: Audited UA: Unaudited; Note: these are latest available financial results

Brief Financials (₹ crore) Standalone	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	646.19	681.47	170.80
PBILDT	109.86	121.67	33.30
PAT	60.95	78.41	18.00
Overall gearing (times)	0.05	0.07	-
Interest coverage (times)	32.83	29.43	32.64

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and 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		-	-	-	47.45	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 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	2.05	CARE A; Stable	-	1)CARE A; Stable (03-Oct-23)	1)CARE A; Stable (05-Jan-23)	1)CARE A; Stable (07-Jan-22) 2)CARE A; Stable (07-Apr-21)
2	Fund-based - ST-Packing Credit in Foreign Currency	ST	47.45	CARE A1	-	1)CARE A1 (03-Oct-23)	1)CARE A1 (05-Jan-23)	1)CARE A1 (07-Jan-22) 2)CARE A1 (07-Apr-21)
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	0.50	CARE A1	-	1)CARE A1 (03-Oct-23)	1)CARE A1 (05-Jan-23)	1)CARE A1 (07-Jan-22) 2)CARE A1 (07-Apr-21)
4	Non-fund-based - ST-BG/LC	ST	15.00	CARE A1	-	1)CARE A1 (03-Oct-23)	1)CARE A1 (05-Jan-23)	1)CARE A1 (07-Jan-22) 2)CARE A1 (07-Apr-21)
5	Non-fund-based - ST-BG/LC	ST	12.00	CARE A1	-	1)CARE A1 (03-Oct-23)	1)CARE A1 (05-Jan-23)	1)CARE A1 (07-Jan-22) 2)CARE A1 (07-Apr-21)
6	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 (03-Oct-23)	1)CARE A; Stable / CARE A1 (05-Jan-23)	1)CARE A; Stable / CARE A1 (07-Jan-22) 2)CARE A; Stable / CARE A1 (07-Apr-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the 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: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	PCL (International) Holdings B.V., Netherlands	Full	Wholly-owned Subsidiary
2	MFT Motoren Und Fahrzeughecnik GMBH, Germany	Full	Wholly-owned step-down Subsidiary
3	EMOSS Mobile Systems B.V., Netherlands	Full	Wholly-owned step-down Subsidiary
4	MEMCO Engineering Pvt. Ltd., Nashik	Full	Wholly-owned Subsidiary

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

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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