December 11, 2015

CARE REVISES RATINGS ASSIGNED TO BANK FACILITIES OF PRECISION CAMSHAFT LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	128.63 [reduced from 154.15]	**CARE A- (Single A Minus)**	Revised from CARE BBB+ [Triple B Plus]
Long term / Short term Bank Facilities	47.50	**CARE A- / CARE A2 (Single A Minus / A Two)**	CARE BBB+/ CARE A3+ [Triple B Plus / A Three Plus]
Short term Bank Facilities	32.00	**CARE A2 (A Two)**	Revised from CARE A3+ [A Three Plus]
Total Facilities	**208.13 (Rupees Two Hundred eight crore and thirteen lakh only)**		

Rating Rationale

The revision in the ratings of the bank facilities of Precision Camshafts Limited (PCL) factors in increase in the scale of operations and improvement in the financial risk profile of the company marked by improved profitability during FY15 (refers to the period April 1 to March 31), capital structure and debt coverage indicators.

The ratings continue to derive strength from the experience and the long track record of the promoters in the field of manufacturing of camshafts, the long-standing relationship and reputed client base globally within the auto industry, wide and diversified geographic presence, technical tie ups enabling efficient manufacturing of camshafts and comfortable financial risk profile.

The ratings, however, continue to remain constrained by sector and product concentration risk, moderate customer concentration and susceptibility of margins to fluctuations in input prices and foreign exchange rates. The ratings further remain constrained on account of subdued outlook of auto sector globally.

The ability of the company to increase its capacity utilisation levels and reduce customer concentration in light of the subdued outlook of the domestic auto industry and further improvement in the capital structure are the key rating sensitivities.

To arrive at the current ratings, CARE has considered standalone view as against the combined view (combined financials of Precision Camshaft Limited and Cams Technology Limited; an associate company of PCL) considered at the time of last rating exercise as the proposed plan to raise Non Convertible Debentures via CTL for investment in PCL is not expected to be undertaken going forward.

Background

PCL is promoted by Mr Yatin S Shah for the manufacturing of camshafts. Established in 1992 at Solapur as Precision Camshafts Private Limited, PCL is one of the leading manufacturers of various types of camshaft, which is a key component in internal combustion engines of automobiles and locomotives to operate valves. It manufactures more than 150 ranges of camshafts for small and mid-sized car, tractor and locomotive engines with an engine capacity ranging from 1 to 2 litres. PCL has set up four manufacturing units located at Solapur, Maharashtra, out of which two units are 100%

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

export-oriented units. It has a set up of five foundry units (four under EOU division and one under domestic division) for the manufacturing of casting camshafts and three machine shops (two under the EOU division and one under the domestic division) for the manufacturing of machining camshafts.

PCL has a manufacturing capacity of 1.34 crore units per annum of casting camshafts and around 0.21 crore units per annum of machined camshafts. The products of PCL are supplied worldwide including North America, China, Russia, Europe, UK, Korea, etc. Exports contribute around 79.58% of the net sales in FY15 as against 77.43% of the net sales in FY14. PCL is expanding its presence in China and has a subsidiary named PCL Shanghai Co Limited which is engaged in the trading and distribution of camshafts, manufactured by PCL.

The promoters of PCL have formed an associate company named Cams Technology Limited (CTL) in June 2013. CTL is engaged in the business of designing and developing of camshafts, fabrication, buying and selling and distribution of various types of camshafts. During FY14, CTL purchased the stake of Tata Capital in PCL for Rs.62 crore. CTL currently holds 19.65% of stake in PCL.

PCL plans to raise funds through an IPO issue and has also filed the DRHP during March 2015 with SEBI. The company intends to raise about Rs.400 crore through the IPO and is planning to dilute around 20% of the promoter's stake.

During FY15, PCL's total operating income stood at Rs.524.18 crore and profit after tax (PAT) of Rs.47.63 crore, against a PAT of Rs.29.88 crore and a total operating income of Rs.471.17 crore during FY14. During H1FY16, the total operating income of the company stood at Rs.242.89 crore and a PBT of Rs. 47.93 crore against a total operating income of Rs.263.84 crore and a PBT of Rs.66.42 crore during H1FY15.

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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