Precision Camshafts Limited

April 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating action
Long term bank facilities	2.05	**CARE A; Stable (Single A; Outlook: Stable)**	Reaffirmed
Short term bank facilities	79.50	**CARE A1 (A One)**	Reaffirmed
Long- term/ Short term bank facilities	10.00	**CARE A; Stable / CARE A1 (Single A; Outlook: Stable / A One)**	Reaffirmed
Total Facilities	**91.55 (Rupees Ninety One crore and Fifty Five lakh 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 derive strength from PCL's comfortable capital structure coupled with debt coverage indicators as on March 31, 2019 (Audited, refers to the period Apr 01 to Mar 31), stable performance in 9MFY20 (Un-audited, refers to the period April 01 to Dec 31) and strong liquidity position.

CARE Ratings also take a note of the already commissioned machining capacity expansion which was funded through the IPO funds; however, the same is expected ramp up fully in medium term.

The ratings also take a note of company's prudent decision of exiting from China through liquidation of its subsidiary and investments sell off in JVs.

The rating strengths, however, 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 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 credit rating perspective. Further, impact of management's future plans to grow inorganically, subject to a suitable opportunity, on PCL's overall operations, capital structure and other financial parameters is a key rating monitorable.

Rating Sensitivities

Positive factors

- 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.
- Ability to ramp up the newly commissioned machining plant and guide the revenue going forward along with improvement in ROCE in the range of 15%-20% on a sustained basis
- Diversification in the customer base

Negative factors

- Prolonged slowdown in the end user auto sector
- 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

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

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.

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. As on March 31, 2019, PCL had fully utilized money raised from IPO (around Rs.240 crore) for setting-up a new machining facility Solapur (already commissioned) and for general corporate purposes.

Growth in operating income and stable profitability in FY19

On consolidated basis, PCL registered a total operating income (TOI) of Rs.705.88 crore in FY19 as against Rs.455.72 crore in FY18. This substantial increase in income is on account of consolidation in FY19 of all the acquired entities. PBILDT margin continued to remain stable at 19.48% in FY19 declined from 25.06% in FY18. Below average PBILDT margins in the foreign subsidiaries resulted in lower operating margins in FY19. Interest costs increased in FY19 to Rs.8.96 crore from Rs.5.14 crore on account of increase in borrowings in MFT (Germany) for expansion of Machine shop. Further, exceptional onetime loss of Rs.27.34 crore booked by the company because of exit from the Chinese joint ventures resulted in lower PAT which stood at Rs.16.05 crore for FY19 as against Rs.47.33 crore. Consequently, RoCE and RoNW were seen lower. ROCE declined to 6.49% in FY19 from 12.11% in FY18.

On a standalone level, PCL achieved a growth of around 3% in TOI to Rs.434.38 crore in FY19 as against Rs.419.76 crore in FY18. Increased contribution from machined camshafts on account of machining capacity expansion during FY19, favorable currency rate and increased realization aided in TOI growth. Normally, machined camshafts fetch nearly 3 times higher realization when compared to raw camshafts. As a result, PBILDT margin was seen at 25.91% during FY19 as against 22.85% during FY18. PCL continues to be a term debt free company and the minimal finance costs pertain to the working capital utilization which normally remain low. As a result, PAT margin was seen at 9.88% in FY19 as against 8.28% during FY18.

On a consolidated level, PCL achieved a TOI of Rs.584.53 crore in 9MFY20 (Unaudited) with a PBILDT margin of 17.53% as against Rs.510.48 crore in 9MFY19 (Unaudited) with a PBILDT margin of 17.44%. The company reported a PAT of Rs.32.63 crore for 9MFY20 as against Rs.8.49 crore for 9MFY19. Overall the company reported stable performance in 9MFY20 in spite of sluggish auto sector globally.

Comfortable capital structure and debt coverage indicators

The consolidated tangible net worth of the company stood at Rs.516.51 crore as on March 31, 2019 as against Rs.561.71 crore as on March 31, 2018. Reduction in net worth is on account of recognized goodwill of around Rs.57 crore on provisional basis for the acquisitions of Emoss (Netherlands). 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. Despite that, debt to equity continued to remain stable at 0.22x as on March 31, 2019 as against 0.15x as on March 31, 2018. Overall gearing stood at 0.40x as on March 31, 2019 as against 0.19x as on March 31, 2018. Total debt to GCA marginally weakened and stood at 2.42x as at March 31, 2019 as against 1.15x as at March 31, 2018. Interest coverage ratio weakened and was seen at 15.34x for FY19 as against 22.21x during FY18, albeit remained higher.

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 ~40%-50% of total income (both in FY19 and FY18) across various geographies. 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.6 crore for FY20 and Rs.20 crore-Rs.30 crore for the next three years. The company had free cash and cash equivalent to the tune of around Rs.123 crore as on March 31, 2019 as against Rs.136.62 crore as on March 31, 2018. Average working capital utilization for the past 12 months ended March 30, 2020 stood in the range of 50-80%. With overall gearing below unity, PCL has sufficient headroom to raise additional debt for its future capex plans. However, company expects to completely deleverage its balance sheet in the near term given that the company has a surplus cash and liquid investments available to the tune of Rs.140-150 crore as on March 30, 2020. Therefore additional capex plans and new acquisitions, if any, are expected to be funded through internal accruals and surplus cash available. Moreover, incremental working capital requirement is expected to be managed comfortably with internal accruals, available bank limits, and unsecured loans.

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.

Company	Subsidiary /JV	% of shareholding
PCL (International) Holdings B.V. (Netherlands) (W.e.f. 06-05-2017)	Wholly owned Subsidiary	100.00%
PCL (Shanghai) Co. Ltd (China)^	Wholly owned Subsidiary	100.00%
Memco Engineering Pvt. Ltd. (Nashik) (W.e.f. 10-10-2017)	Wholly owned Subsidiary	100.00%
MFT Motoren Und Fahrzeughecnik GMBH (Germany) (W.e.f. 23-03-2018)	Step down Subsidiary	76.00%
EMOSS Mobile Systems B.V., Netherlands (EMOSS) (W.e.f. 17-05-2018)	Step down Subsidiary	51.00%
PCL Brasil Automotive LT DA^	Step down Subsidiary	100.00%
Ningbo Shenglong PCL Camshaft Co Ltd, China.*	Joint venture	22.50%
PCL Shenglong (Huzhou) Specialized Casting Co Ltd, China.*	Joint venture	40.00%

^ Under liquidation
*Under divestment plan

Applicable Criteria:
[CARE's Criteria on assigning outlook and credit watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Rating Methodology - Auto Ancillary Companies]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]

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. The proceeds from the IPO have to be utilized for the establishment of machine shop for ductile / assembled / chilled cast iron camshafts at EOU division in Solapur. Installed capacity of the Machined camshafts (Machine Shop) stood at around 3.01 million units per annum.

Brief Financials (Rs. crore) -Consolidated	FY18 (A)	FY19 (A)*	9MFY19 (UA)	9MFY20 (UA)
Total operating income	455.72	705.88	510.48	584.53
PBILDT	114.21	137.49	89.02	102.46
PAT	47.33	16.05	8.49	32.63
Overall gearing (times)*	0.19	0.40	NA	NA
Interest coverage (times)	22.21	15.34	12.08	14.65

A: Audited; UA: Unaudited; NA: Not available
**with effect of consolidation of subsidiaries*

Brief Financials (Rs. crore) –Standalone	FY18 (A)	FY19 (A)	9MFY19 (UA)	9MFY20 (UA)
Total operating income	419.76	434.38	314.70	351.11
PBILDT	95.90	112.54	73.94	91.78
PAT	34.76	42.91	22.37	50.59
Overall gearing (times)*	0.08	0.05	NA	NA
Interest coverage (times)	20.55	43.50	36.60	45.44

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

Status of non-cooperation with previous CRA: None
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	-	-	-	50.00	CARE A1
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	0.50	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	27.00	CARE A1
Non-fund-based - ST-Forward Contract	-	-	-	2.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	0.00	CARE A; Stable	1)CARE A; Stable (01-Apr-19)	-	1)CARE A; Stable (02-Feb-18) 2)CARE A; Stable (24-Apr-17)	-
2.	Fund-based - LT-Cash Credit	LT	2.05	CARE A; Stable	1)CARE A; Stable (01-Apr-19)	-	1)CARE A; Stable (02-Feb-18) 2)CARE A; Stable (24-Apr-17)	-
3.	Fund-based - ST-Packing Credit in Foreign Currency	ST	50.00	CARE A1	1)CARE A1 (01-Apr-19)	-	1)CARE A; Stable / CARE A1 (02-Feb-18) 2)CARE A; Stable / CARE A1 (24-Apr-17)	-
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	0.50	CARE A1	1)CARE A1 (01-Apr-19)	-	1)CARE A; Stable / CARE A1 (02-Feb-18) 2)CARE A; Stable / CARE A1 (24-Apr-17)	-
5.	Non-fund-based - ST-BG/LC	ST	27.00	CARE A1	1)CARE A1 (01-Apr-19)	-	1)CARE A1 (02-Feb-18)	-

							2)CARE A1 (24-Apr-17)	
6.	Non-fund-based - ST-Forward Contract	ST	2.00	CARE A1	1)CARE A1 (01-Apr-19)	-	1)CARE A1 (02-Feb-18) 2)CARE A1 (24-Apr-17)	-
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 (01-Apr-19)	-	-	-

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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