Precision Camshafts Limited

April 24, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating action
Long-term Bank Facilities	73.36 (reduced from 128.63)	**CARE A; Stable [Single A; Outlook: Stable]**	Revised from CARE A- [Single A Minus]
Long-term/ Short-term Bank Facilities	66.50	**CARE A; Stable / CARE A1 [Single A; Outlook: Stable/ A One]**	Revised from CARE A-/ CARE A2 [Single A Minus/A Two]
Short-term Bank Facilities	44.00 (enhanced from 32.00)	**CARE A1 [A One]**	Revised from CARE A2 [A Two]
Total	**183.86 (Rupees One Hundred Eighty Three crore and Eighty Six lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Precision Camshafts Limited (PCL) takes into account improvement in the company's capital structure and debt coverage indicators and liquidity position.

The ratings continue to derive strength from promoters experience, PCL's established track record of manufacturing of camshafts, long-standing relationship with globally reputed client base, wide and diversified geographic presence and PCL's strategic and technology tie-ups with world's leading camshafts manufacturers.

The ratings continue to remain constrained by product and customer concentration risk, susceptibility of margins to fluctuations in input prices and foreign exchange rates and cyclical nature of automobile industry. The ratings also factor in decline in the total operating income during FY16 (refers to the period April 1 to March 31) and moderation in profitability during 9MFY17 (refers to the period April 1 to December 31).

CARE has also taken note of ongoing capital expenditure (capex) without much reliance on debt.

The ability of the company to increase its scale of operations while reducing customer concentration and maintain capital structure and liquidity position is the key rating sensitivity. Any significant deterioration in the capital structure due to capex is critical from the credit perspective.

Furthermore, impact of management's plan to grow inorganically, subject to a suitable opportunity, on PCL's overall operations, capital structure and other financial parameters is a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record and experienced top management

PCL has a long track record of about 25 years in manufacturing of critical engine components and has established strong business relationships with global OEMs.

The promoter, Mr Yatin Shah (Managing Director (MD), a first-generation entrepreneur, has a vast experience in the field of engineering and has grown the organization over the years into one of the leading manufacturers of camshafts in India. 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

PCL has developed strong long-term relationships of more than a decade with large OEMs, both within domestic and international markets. Total client base exceeds 40 leading OEMs, and includes reputed names such as General Motors, Tata Motors Limited, Ford Motors, Hyundai, Maruti Suzuki India Limited, Chevrolet Sales India Private Limited, Mahindra

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

& Mahindra Limited, New Holland Fiat India Private Limited, etc. PCL is the preferred supplier of camshafts to General Motors Company Inc. (GM) and Ford Motor Company worldwide.

PCL exports camshafts to various global OEMs covering Europe, UK, China, Brazil, Russia and North America. PCL has been constantly expanding its geographic presence and has been increasing the market share at a global level. Exports form a major portion of the total sales and accounted for ~75% of the total sales in FY16.

PCL has tie ups with various international marketing agencies. In order to strengthen the business operations in Asia, the Company has promoted two joint ventures in China.

Highly advanced manufacturing facilities, technical collaborations with overseas players

PCL has developed strong quality systems and its facilities are certified with ISO TS 16949:2009, ISO 14001:2009 and ISO18001:2007. PCL has also entered into an exclusive agreement with EMAG, a German machining and tooling process company, for transfer of certain know-how and technology for manufacturing assembled camshafts. The technical collaboration with the European and Chinese players has enabled PCL implement advanced machinery which aids in lowering the cost per piece.

Improvement in capital structure and debt coverage indicators, improvement in profitability and strong liquidity position

During FY16, the capital structure of the company improved with overall gearing of 0.33x as on March 31, 2016, as compared with 0.83x as on March 31, 2015. Total Debt to GCA (TDGCA) ratio improved to 1.87x during FY16 while Interest coverage remained high at 15.69x during FY16. PCL's liquidity position improved on the back of proceeds received from the IPO. Current ratio as on March 31, 2016, improved to 2.49x as compared with 1.21x as on March 31, 2015. PCL had a free cash balance of Rs.312.46 crore as on March 31, 2016 (Rs.88.93 crore as on March 31, 2015).

Since the capex in near future will be funded using the IPO proceeds, internal accruals will be available for managing the working capital.

Furthermore, on January 13, 2017, Rs.62 crore of preference shares held by PCL in CTPL have been fully redeemed, improving PCL's liquidity profile significantly.

During 9MFY17 (unaudited) (refers to the period April 1 to December 31), PCL's revenue remained flat with TOI of Rs.345.57 crore as compared with TOI of Rs.344.45 crore during 9MFY16. Its PBILDT margin declined to 23.64% for 9MFY17 as compared with 26.29% during 9MFY16 mainly due to higher employee cost. The company reported Profit After Tax (PAT) of Rs.45.24 crore during 9MFY17 as compared with PAT of Rs.48.21 crore during 9MFY16.

Key Rating Weaknesses

Customer and product concentration

Historically, PCL has been dependent on a single product, i.e. camshaft and limited number of customers for significant portion of its turnover.

GM (as a group) and Ford Motors (as a group) are PCL's primary customers, which together accounted for around ~69% of total income in FY16 across various geographies. PCL thus faces the risk of fluctuations in production levels of its key OEM customers.

Susceptibility of profitability to exchange rate fluctuations

PCL derives significant portion of its revenues (~75% and ~79% during FY16 and FY15 respectively) from exports, and its profitability is thus exposed to fluctuations in foreign exchange rates.

Susceptibility of profitability to fluctuations in raw material prices

PCL's 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, such price increases could have a material adverse impact on PCL's financial profile.

Cyclical nature of auto industry

The auto components industry is ancillary to the automobile industry. Demand swings in any of the auto segments have an impact on the auto ancillary demand. The demand scenario is impacted by general economic or industry conditions, including seasonal trends in the automobile manufacturing sector, volatile fuel prices, rising employee expenses and challenges in maintaining amicable labour relations as well as evolving regulatory requirements, government initiatives, trade agreements and other factors.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology - Auto Ancillary Companies
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

About the Company

Originally established by in 1992 as 'Precision Camshafts Pvt. Ltd' by Mr Yatin S. Shah, the company was later renamed as Precision Camshafts Limited (PCL) and was 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).

The equity shares of the company were listed on the BSE Limited ("BSE") and National Stock Exchange of India Limited ("NSE") with effect from February 08, 2016.

During FY16, PCL achieved total operating income of Rs.454.73 crore and PAT of Rs.54.91 crore as against total operating income of Rs.524.19 crore and PAT of Rs.47.63 crore during FY15.

During 9MFY17 (Unaudited) (refers to the period April 1 to December 31), PCL achieved total operating income of Rs.345.57 crore and PAT of Rs.45.24 crore as against total operating income of Rs.344.45 crore and PAT of Rs.48.21 crore during 9MFY16.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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 - LT-Term Loan	-	-	November 2018	71.31	CARE A; Stable
Non-fund-based - ST-Forward Contract	-	-	-	2.00	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	42.00	CARE A1
Fund-based - LT/ ST-	-	-	-	0.50	CARE A; Stable /

Bills discounting/ Bills purchasing					CARE A1
Fund-based - LT/ ST-EPC/PSC	-	-	-	66.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	71.31	CARE A; Stable	-	-	1)CARE A- (11-Dec-15)	1)CARE BBB+ (22-Dec-14)
2.	Fund-based - LT-Cash Credit	LT	2.05	CARE A; Stable	-	-	1)CARE A- (11-Dec-15)	1)CARE BBB+ (22-Dec-14)
3.	Fund-based - LT/ ST-EPC/PSC	LT/ST	66.00	CARE A; Stable / CARE A1	-	-	1)CARE A- / CARE A2 (11-Dec-15)	1)CARE BBB+ / CARE A3+ (22-Dec-14)
4.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	0.50	CARE A; Stable / CARE A1	-	-	1)CARE A- / CARE A2 (11-Dec-15)	1)CARE BBB+ / CARE A3+ (22-Dec-14)
5.	Non-fund-based - ST-BG/LC	ST	42.00	CARE A1	-	-	1)CARE A2 (11-Dec-15)	1)CARE A3+ (22-Dec-14)
6.	Non-fund-based - ST-Forward Contract	ST	2.00	CARE A1	-	-	-	-

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CIN - L67190MH1993PLC071691