

Precision Camshafts Limited

February 02, 2018

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating action |
|--|---|---|-------------------|
| Long term bank facilities | 50.03 (reduced from 73.36) | CARE A; Stable [Single A; Outlook: Stable] | Reaffirmed |
| Short term bank facilities | 44.00 | CARE A1 [A One] | Reaffirmed |
| Long- term/ Short term bank facilities | 66.50 | CARE A; Stable / CARE A1 [Single A; Outlook: Stable / A One] | Reaffirmed |
| Total | 160.53 (Rupees One hundred sixty crore and fifty three lakh only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to derive strength from promoters' experience, PCL's established track record in 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 further derive strength from PCL's comfortable capital structure, debt coverage indicators and strong liquidity profile.

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 total operating income and moderation in profitability during FY17 (refers to April 1 to March 31) and during H1FY18 (refers to April 1 to September 31).

CARE also takes a note of ongoing capital expenditure (capex), although without much reliance on debt.

However, impact of PCL's increasing exposure towards the debt availed by subsidiaries as a part of the management's strategy to grow inorganically will be monitorable.

The ability of the company to increase its scale of operations and profitability while reducing customer concentration and maintain capital structure and liquidity position is the key rating sensitivity. Deriving envisaged benefits from ongoing and planned capex backed by assured offtake arrangements with customers is critical from credit perspective.

Further, 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 (GM), Tata Motors Limited, Ford Motors, Hyundai, Maruti Suzuki India Limited, Chevrolet Sales India Private Limited, Mahindra & 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.

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

PCL exports camshafts to various global OEMs covering Europe, UK, China, Brazil, Russia and North America. In order to strengthen the business operations in Asia, the Company has promoted two joint ventures in China.

Well-equipped 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 ISO 18001:2007. 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.

Comfortable capital structure and debt coverage indicators, strong liquidity position

As on March 31, 2017, tangible net worth stood at Rs.551.64 crore against total debt of Rs.122.11 crore. The capital structure as on March 31, 2017 improved and remained comfortable as a result of accretion to reserves and scheduled repayment of term loans. Long term debt to equity improved to 0.12x as on March 31, 2017 as against 0.22x as on March 31, 2016. Overall gearing improved to 0.22x as on March 31, 2017 as against 0.35x as on March 31, 2016.

TDGCA and interest coverage improved during FY17 to 1.33x and 17.45x as against 1.79x and 15.60x respectively during FY16.

PCL's liquidity position remained comfortable as on March 31, 2017 and September 30, 2017. Current ratio as on March 31, 2017 improved to 2.79x as compared to 2.29x as on March 31, 2016. As on March 31, 2017, PCL had a free cash balance of ~Rs.244 crore and investments of ~Rs.89 crore in mutual funds. As on September 30, 2017, PCL had a free cash balance of ~Rs.256 crore and investments of Rs.93.31.

Key Rating Weaknesses

Flat scale of operations and decline in profitability during FY17 and H1FY18

Total operating income increased marginally to Rs.465.51 crore during FY17 (Rs.452.33 crore during FY16). Total units sold increased by ~3%, while average sales realization was seen flat. PBILDT margin was seen lower by ~300 bps at 26.66% during FY17 as against 29.64% during FY16. Profitability was impacted as a result of lower export sales, higher labour and employee costs, increased Excise Duty burden on account of increase in domestic sales from EOU Division and higher power cost.

Scheduled repayment of term loans led to lower interest costs for the year. PAT margin remained at 13.10% during FY17 as against 13.04% during FY16.

During H1FY18, PCL achieved total income of Rs.210.12 crore (Rs.237.76 crore during H1FY17) and PBILDT margin of 24.46% (27.88% during H1FY17).

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 ~65% of total income in FY17 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 (~72% and ~64% during FY16 and FY17 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.

Capex and inorganic growth plans

PCL has been incurring capital expenditure towards setting up of new machine shop at Solapur. The same is being funded by the proceeds received from IPO issue.

PCL also has plans to setup a plant in Brazil for machining of camshafts to General Motors to supply 6 million over the life of the program. However, the plan is at a nascent stage.

In October 2017, PCL acquired MEMCO Engineering Private Limited (MEPL) (acquisition of 95% shareholding), a Nashik based company) for Rs.38.04 crore. The same was funded using internal accruals and cash balances.

PCL is to issue Corporate Guarantee in favour of Bank of Baroda (BoB) in respect of term loan availed by PCL (International) Holdings B.V. Netherlands (PCL Netherlands), a wholly owned subsidiary company of PCL. The said term loan of EUR 19.60 million (~Rs.149 crore) will be backed by a corporate guarantee of equivalent amount. Further PCL is to

invest in 1,00,00,000 equity shares of EUR 1 each (~Rs.76 crore) in PCL Netherlands in tranches. Although the acquisition activity is not completed, going further the impact of the same on PCL's overall financial profile will be a key rating monitorable.

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.

Industry Outlook

In FY18, CARE Ratings expects the auto industry to witness gradual pickup in demand on back of release of pent up demand post the disruptions led by the effect of demonetization, ban on BS-III vehicles and GST implementation begins to moderate starting Q3 FY18 expected to continue in Q4 FY18. Going forward, considering the electrification of vehicles, impact on overall operations of auto component manufacturers, especially engine components manufacturers, remains to be seen.

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 manufactures camshafts, a critical engine component and 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.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|-------------------------------------|-----------------|-----------------|
| Total operating income | 452.33 | 465.51 |
| PBILDT | 134.08 | 124.10 |
| PAT | 58.96 | 61.00 |
| Overall gearing (times) | 0.35 | 0.22 |
| Interest coverage (times) | 15.60 | 17.45 |

A: Audited

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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About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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.

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-Term Loan | - | - | August 2018 | 47.98 | CARE A; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 2.05 | CARE A; Stable |
| Fund-based - LT/ ST-EPC/PSC | - | - | - | 66.00 | CARE A; Stable / CARE A1 |
| Fund-based - LT/ ST-Bills discounting/ Bills purchasing | - | - | - | 0.50 | CARE A; Stable / CARE A1 |
| Non-fund-based - ST-BG/LC | - | - | - | 42.00 | CARE A1 |
| Non-fund-based - ST-Forward Contract | - | - | - | 2.00 | 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 | 47.98 | CARE A; Stable | 1)CARE A; Stable (24-Apr-17) | - | 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; Stable (24-Apr-17) | - | 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; Stable / CARE A1 (24-Apr-17) | - | 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; Stable / CARE A1 (24-Apr-17) | - | 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 A1 (24-Apr-17) | - | 1)CARE A2 (11-Dec-15) | 1)CARE A3+ (22-Dec-14) |
| 6. | Non-fund-based - ST-Forward Contract | ST | 2.00 | CARE A1 | 1)CARE A1 (24-Apr-17) | - | - | - |

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