

## Precision Camshafts Limited

April 01, 2019

### Ratings

| Facilities  | Amount<br>(Rs. crore)   | Rating <sup>1</sup>  | Rating action |
|---|---|--|---------------|
| Long term bank facilities<br>(Term loan) <sup>#</sup> | -   | -  | Withdrawn     |
| Long term bank facilities                             | 2.05  | <b>CARE A; Stable</b><br>[Single A; Outlook: Stable]                   | Reaffirmed    |
| Short term bank facilities                            | 79.50<br>(enhanced* from 44.00)   | <b>CARE A1 [A One]</b>   | Reaffirmed    |
| Long- term/ Short term bank<br>facilities             | 10.00<br>(reduced* from 66.50)  | <b>CARE A; Stable / CARE A1</b><br>[Single A; Outlook: Stable / A One] | Reaffirmed    |
| <b>Total</b>  | <b>91.55</b><br><b>(Rupees Ninety One crore<br/>and Fifty Five lakh only)</b> |  |               |

Details of instruments/facilities in Annexure-1

\*change in nature of bank facilities

<sup>#</sup>Withdrawn with immediate effect as the company has fully repaid the rated term loans

### Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of Precision Camshafts Limited (PCL) continues 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 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, debt coverage indicators and strong liquidity profile.

The ratings continue to remain constrained by product and customer concentration risk, susceptibility of operating margins to volatility in input prices and foreign exchange rates and cyclical nature of automobile industry. The ratings also factor in decline in total operating income during FY18 (refers to April 1 to March 31) and moderation in profitability during 9MFY19 (Unaudited; refers to April 1 to December 31).

CARE also takes a note of near completion status of on-going capital expenditure (capex), without much reliance on term 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 credit perspective. Ability to derive envisaged benefits from the capex programme is a key rating monitorable.

CARE also takes a note of acquisitions made by PCL in recent past and the impact of these acquisitions on financial and operational performance on a consolidated level is critical 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.

### 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 major 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 & Mahindra Limited, Toyota Motor Corporation, New Holland Fiat India Private Limited etc. PCL is the preferred supplier

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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 total sales and accounted for ~62% of the total sales in FY18. In order to strengthen the business operations in Asia, the Company has promoted two joint ventures in China. Apart from this, PCL has tie ups with various international marketing agencies to expand its presence.

#### ***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.

#### ***Comfortable capital structure and debt coverage indicators***

As on March 31, 2018, tangible net worth stood at Rs.561.71 crore against total debt of Rs.107.43 crore. The capital structure as on March 31, 2018 improved and remained comfortable as a result of accretion to reserves and scheduled repayment of term loans. Long term debt to equity stood at 0.15x as on March 31, 2018 as against 0.12x as on March 31, 2017. Overall gearing improved to 0.19x as on March 31, 2018 as against 0.22x as on March 31, 2017. TDGCA and interest coverage improved during FY18 to 1.15x and 22.21x as against 1.23x and 18.63x respectively during FY17. As of September 30, 2018, PCL's (standalone) term debt has been fully repaid.

#### ***Acquisitions***

During FY18, PCL acquired 95% stake in MEMCO Engineering Private Limited for a consideration of ~Rs.38 crore. Also, as part of the future plans to grow inorganically, PCL through its a wholly owned subsidiary company, PCL(International) Holdings B.V., Netherlands (PCL Netherlands), acquired 76% stake in Motoren und Fahrzeugtechnik GmbH, Germany (MFT) by a combination of equity & debt through PCL Netherlands for a consideration of Rs.20.45 crore in March 2018. During FY19, PCL acquired 51% stake in EMOSS Mobile Systems B.V., Netherlands for (EMOSS).

#### ***Liquidity***

Average utilization of the fund based limits by PCL was ~40% for last 12 months ended December 2018. PCL (on standalone basis) had a cash and bank balance of ~Rs.127 crore (including unutilized IPO funds) and investments of ~Rs.90 crore in mutual funds as on September 30, 2018. Current ratio was seen at 2.62x as on March 31, 2018.

#### **Key Rating Weaknesses**

##### ***Flat scale of operations and decline in profitability during FY18 and 9MFY19***

On consolidated basis, PCL registered a total operating income of Rs.455.72 crore during FY18 (Rs.475.92 crore during FY17). Profitability was impacted as a result of lower export sales which garner higher realization and higher job work expenses. PBILDT margin stood at 25.06% during FY18 as against 27.90% during FY17. Scheduled repayment of term loans led to lower interest costs for the year. PAT margin was seen at 10.39 % during FY18 as against 13.99% during FY17. During 9MFY19 (Unaudited: Standalone), PCL achieved a total income of Rs.314.70 crore (Rs.318.23 crore during 9MFY18) and PBILDT margin of 23.49% (23.25% during 9MFY18).

##### ***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 ~40% of total income in 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.

##### ***Susceptibility of profitability to volatility in raw material prices and foreign exchange rate fluctuations***

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. PCL derives significant portion of its revenues (~62% and ~65% during FY18 and FY17 respectively) from exports, and its profitability is thus exposed to fluctuations in foreign exchange rates.

### **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 labor relations as well as evolving regulatory requirements, government initiatives, trade agreements and other factors.

### **Analytical approach: Consolidated**

CARE has considered consolidated financials of PCL consisting of PCL 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 and operational linkages between the entities. Further, PCL has extended corporate guarantees to the loans availed by its subsidiaries.

Financials of below mentioned companies have been consolidated:

|   |                      |
|---|----------------------|
| Precision Camshafts Limited (PCL)                                   |                      |
| PCL (International) Holdings B.V. (Netherlands) (W.e.f. 06-05-2017) | Subsidiary           |
| PCL (Shanghai) Co. Ltd (China)                                      | Subsidiary           |
| MFT Motoren Und Fahrzeugtechnik GMBH ( Germany) (W.e.f. 23-03-2018) | Step down Subsidiary |
| Memco Engineering Pvt. Ltd. (Nashik) (W.e.f. 10-10-2017)            | Subsidiary           |
| Ningbo Shenglong PCL Camshaft Co Ltd, China.                        | Joint venture        |
| PCL Shenglong (Huzhou) Specialized Casting Co Ltd, China.           | Joint venture        |

\* During FY19, PCL acquired 51% stake in EMOSS Mobile Systems B.V., Netherlands (EMOSS)

### **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](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[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.

| Brief Financials (Rs. crore) | FY17 (A)<br>(Consolidated) | FY18 (A)<br>(Consolidated) | 9MFY18 (UA)*<br>(PCL Standalone) | 9MFY19 (UA)*<br>(PCL Standalone) |
|------------------------------|----------------------------|----------------------------|----------------------------------|----------------------------------|
| Total operating income       | 475.93                     | 455.72                     | 318.23                           | 314.70                           |
| PBILDT                       | 132.78                     | 114.21                     | 73.99                            | 73.93                            |
| PAT                          | 66.59                      | 47.33                      | 25.28                            | 22.37                            |
| Overall gearing (times)      | 0.22                       | 0.19                       | NA                               | NA                               |
| Interest coverage (times)    | 18.63                      | 22.21                      | NA                               | NA                               |

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

\* Consolidated financials are not available

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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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  | -                | -           | -             | 0.00                          | Withdrawn                                 |
| 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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018  | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1.      | Fund-based - LT-Term Loan  | LT              | -                              | -                        | -   | 1)CARE A; Stable (02-Feb-18)<br>2)CARE A; Stable (24-Apr-17)                     | -   | 1)CARE A- (11-Dec-15)                     |
| 2.      | Fund-based - LT-Cash Credit  | LT              | 2.05                           | CARE A; Stable           | -   | 1)CARE A; Stable (02-Feb-18)<br>2)CARE A; Stable (24-Apr-17)                     | -   | 1)CARE A- (11-Dec-15)                     |
| 3.      | Fund-based - ST-Packing Credit in Foreign Currency                             | ST              | 50.00                          | CARE A1                  | -   | 1)CARE A; Stable / CARE A1 (02-Feb-18)<br>2)CARE A; Stable / CARE A1 (24-Apr-17) | -   | 1)CARE A- / CARE A2 (11-Dec-15)           |
| 4.      | Fund-based - ST-Bills discounting/ Bills purchasing                            | ST              | 0.50                           | CARE A1                  | -   | 1)CARE A; Stable / CARE A1 (02-Feb-18)<br>2)CARE A; Stable / CARE A1 (24-Apr-17) | -   | 1)CARE A- / CARE A2 (11-Dec-15)           |
| 5.      | Non-fund-based - ST-BG/LC  | ST              | 27.00                          | CARE A1                  | -   | 1)CARE A1 (02-Feb-18)<br>2)CARE A1 (24-Apr-17)                                   | -   | 1)CARE A2 (11-Dec-15)                     |
| 6.      | Non-fund-based - ST-Forward Contract   | ST              | 2.00                           | CARE A1                  | -   | 1)CARE A1 (02-Feb-18)<br>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 | -   | -  | -   | -   |

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