

IPO Note: Precision Camshafts Ltd.

Industry: Auto Ancillaries

Recommendation: Neutral

Date: January 21, 2016

Issue Snapshot

Company Name	Precision Camshafts Ltd.
Issue Opens	January 27, 2016 to January 29, 2016
Price Band	Rs. 180 to Rs. 186
Bid Lot	80 Equity Shares and in multiples thereof.
The Offer	Public issue of 2,20,53,226 Equity shares of Face value Rs.10 each, (Comprising of fresh issue of 1.29 – 1.33 Crores Equity Shares (Rs. 240 cr) and Offer for Sale of 9,150,000 Equity Shares by Selling Shareholder).
Issue Size	Rs. 404.7 – 410.2 Crore
IPO Process	100% Book Building
Face Value	Rs. 10.00
Exchanges	NSE & BSE
BRLM	SBI Capital Markets Limited, HDFC Bank Limited and IIFL Holdings Limited.
Registrar	Link Intime India Private Limited

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling shareholder (Mr. Yatin Shah, Dr. Suhasini Shah, Mr. Jayant Aradhya and Cams Technology Limited).

Fresh Issue

- Establishment of a machine shop for ductile iron camshafts at the EOU unit; and
- General corporate purposes

Issue Break up

Issue Size	Allocation	Equity Shares*
QIB	50%	11,026,613
HNI	15%	3,307,984
RII	35%	7,718,629
Total	100%	22,053,226

* Based on higher price band @ Rs. 186

Company Highlights

Precision Camshafts Ltd (PCL), is a leading global manufacturer and supplier of camshafts, which is a critical engine component used in passenger vehicle segment. PCL manufactures 150 varieties of camshafts for passenger vehicles, tractors, light commercial vehicles and locomotive engine applications from its manufacturing facilities located at Solarpur, Maharashtra. Currently, company has two manufacturing units at Maharashtra, one unit is EOU (export oriented unit) which caters to overseas market and other unit supplies to domestic buyers. Company generates ~80% revenue from export market by supplying camshafts to various OEMs directly and indirectly. Over the years company has maintained cordial relationship with the marquee clients including General Motors, Ford Motors, Hyundai, Maruti Suzuki, Tata Motors and M&M. In the last 10 years, PCL has supplied over 58 million units of camshafts to different clients located in different geographies such as US, Brazil, the United Kingdom, Germany, Austria, Hungary, Russia, South Korea, Spain, Uzbekistan and China. Thus, a strong export market has been driving its business and earnings growth over the years. Despite of persistent slowdown in global auto market, company has been able to increase its global market share in passenger vehicle camshafts from 5%-6% in 2010 to an estimated 8%-9% in 2014, led by their continuous focus on value added products, increasing geographical penetration and improving operating efficiencies. PCL is also backed by strong promoter Mr. Yatin Shah and Dr. Suhasini Shah, who have over 20 years of experience in the critical engine component manufacturing and have established strong business relationships with marquee global OEMs.

Company Highlights Contd...

Financially the company is well placed with gearing ratio at lower level (0.67x) and consistently reporting positive operating cash flows in the past four years. Lower capex and improved operating efficiency aid company to report free cash flows for last two consecutive fiscal years. Financial performance has been more robust than balance sheet, with revenue growing at a CAGR of 21% during the period between FY12-FY15, while EBITDA grew at 50% CAGR followed by PAT CAGR of 45% during same period. PCL has also improved their efficiencies both in operating and net level, resulting in margin expansion in EBITDA and PAT front. However, RoNW at 13.2% (after annualizing FY16 net profit & post equity share issue) is not so attractive, given consistent growth in its topline.

The issue is comprised of both fresh equity share and offer for sale. PCL would raise Rs 240 crore from fresh equity share to fund its Rs 200 crore capex towards establishment of a machine shop for ductile iron camshafts in its EOU unit. Fresh equity share issue would trigger an equity dilution upto 35%. Nonetheless, company is quoting their shares at higher premium given its huge export market, leading camshaft manufacturer globally and strong client base. At higher price band, the issue is valued at P/E multiple of 26x (post equity dilution and annualizing its FY16 earnings), which looks little stretched at current juncture. As per our thinking, company might not get such premium valuation amid rout in global equity market, despite of its strong fundamentals. So, we assign a **NEUTRAL** stance towards the issue and advice our investors to wait for a better price discovery in secondary market post its listing.

Financial Statement

(In Rs. Cr)	FY12	FY13	FY14	FY15	H1FY16
Share Capital	3.1	3.1	4.1	81.8	81.8
Net Worth	86.9	110.5	174.0	233.7	269.2
Long Term Borrowings	142.2	131.3	130.5	122.3	114.8
Other Long Term Liabilities	6.7	12.6	14.9	11.6	12.0
Short-term borrowings	15.4	24.4	54.6	63.9	65.1
Other Current Liabilities	85.7	117.0	137.9	163.3	142.2
Fixed Assets	155.4	223.2	234.2	247.4	251.9
Non Current Assets	21.5	12.1	70.8	76.5	75.5
Current Assets	160.1	160.5	207.0	271.0	275.9
Total Assets	337.0	395.8	512.0	594.9	603.3
Revenue from Operations	302.6	358.8	467.4	532.4	253.4
Revenue Growth (%)		18.6	30.2	13.9	-52.4
EBITDA	41.9	57.6	62.4	140.8	72.4
EBITDA Margin (%)	13.8	16.0	13.4	26.5	28.6
Net Profit	20.3	23.9	13.1	62.4	34.1
Net Profit Margin (%)	6.7	6.7	2.8	11.7	13.5
Earnings Per Share (Rs.)	3.3	3.9	2.1	7.6	4.2
Return on Networth (%)	23.4	21.7	7.5	26.7	12.7
Net Asset Value per Share (Rs.)	14.1	17.9	21.3	28.6	32.9

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY12	FY13	FY14	FY15	H1FY16
Cash flow from Operations Activities	48.0	30.9	78.0	119.8	38.4
Cash flow from Investing Activities	(106.5)	(36.5)	(99.6)	(97.6)	(57.4)
Cash flow from Financing Activities	86.6	(11.4)	38.6	1.5	(17.4)
Net increase/(decrease) in cash and cash equivalents	28.1	(16.9)	17.1	23.7	(36.4)
Cash and cash equivalents at the beginning of the year	2.0	30.2	13.3	29.6	53.5
Cash and cash equivalents at the end of the year	30.2	13.3	29.6	53.5	17.7

Source: RHP

Comparison with listed industry peers

There are no listed companies in India that engage in the manufacturing of camshafts. Hence, it is not possible to provide an industry comparison in relation to the Company.

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