



# Precision Camshafts Limited

(100% EOU Division)

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**Sub: Transcript of Conference Call held with investors and analyst on Tuesday 27<sup>th</sup> March, 2018**

Dear Sir,

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015 please find enclosed transcript of conference call with analyst/investors held on Tuesday, 27<sup>th</sup> March, 2018 as received from the PR agency.

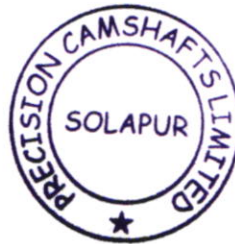
You are kindly requested to take the same on record.

Thanking you,

Yours Faithfully

For **Precision Camshafts Limited**

**Mahesh Kulkarni**  
Company Secretary





**Precision Camshafts Limited**  
**“Precision Camshafts Ltd. Conference Call on Announcement of**  
**Acquisition of MFT, Germany through its Wholly Owned Subsidiary PCL**  
**(International) Holding B.V.”**

Transcript  
March 27, 2018

Management: Mr. Yatin Shah – Chairman and Managing Director  
Mr. Karan Shah – Business Development & Growth Strategy  
Mr. Ravindra Joshi – Director and Chief Financial Officer



**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Precision Camshafts Limited Conference Call to discuss the announcement of acquisition of MFT, Germany. We have today with us on the call Mr. Yatin Shah, Chairman cum Managing Director; Mr. R. R. Joshi, Director and Chief Financial Officer; and Karan Shah, Business Development and Growth Strategy. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yatin Shah from PCL. Thank you and over to you, Sir.

**Yatin Shah:** Thank you very much. Welcome everybody to this conference call in regards to our recent acquisition of MFT in Germany. I would like to give a little update on this acquisition. MFT is engaged into Machining of critical niche components for the automotive industry. It is a healthy company and has extremely enviable customer track record such as Volkswagen, Audi, Daimler, etc. This company has a great potential to scale and grow business, so we look at this as a perfect opportunity to complement what we are looking for. PCL has inorganic growth kind of vital strategies which fits in just as much as the other company that we recently acquired- MEMCO. For PCL, this offers two things. First the manufacturing footprint in Germany, where we believe we can setup Machining for Camshafts for which the raw material will be coming from India and Machining to be done in this German acquired company thereby getting closer to our biggest customers in Europe. Number two, it offers an excellent opportunity to diversify our product portfolio in balancer shaft, prismatic parts etc., so both these acquisitions MEMCO and MFT are extremely good opportunities that we have seen as a move to scale business, so this is a little bit update on the recent acquisition of MFT. I will be happy to answer any questions that you have on this recent acquisition. Thank you very much.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Jinesh Gandhi from Motilal Oswal Limited. Please go ahead.

**Jinesh Gandhi:** Couple of questions, first, can you throw some light on the financials of MFT in terms of the indicated top line, as to what kind of EBITDA margins, returns and what is the debt on that?

**Yatin Shah:** The top line is about 160 odd crore. The company at this point of time has an EBITDA between 13-14%. We believe there is a chance and opportunities to improve the EBITDA margin using various management tools. The Debt on the company as on today is about €5 million.

**Jinesh Gandhi:** In terms of purchase consideration for this acquisition, what is the price we have paid?

**Yatin Shah:** We are bound by some confidentiality clauses, at this particular time and we are not able to state that unfortunately, so barring that I think we will be able to answer any questions that you would have.



- Jinesh Gandhi:** In terms of customer overlap, what kind of customer overlap do we see?
- Yatin Shah:** Barring one or two customers, they carry different set of customers all together, where we believe there are opportunities for both companies, for example, General Motors, Ford are our largest customers, we have Toyota and Fiat with us while they do not have them. Similarly, they have Volkswagen, Audi, Westfalia, so there are several other companies that they enjoy and we believe that this is a perfect opportunity for synergy.
- Jinesh Gandhi:** Okay, so is there a scope of cross selling the camshaft?
- Yatin Shah:** Absolutely.
- Jinesh Gandhi:** Could you name the top three customers of MFT?
- Yatin Shah:** The top customers are Volkswagen, Audi, Westfalia and Daimler. These four companies constitute almost 70% of the business.
- Moderator:** The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.
- Ritesh Poladia:** As I understand MFT is only into Machining, so they import the raw casting, is this understanding right?
- Yatin Shah:** No, they do not import any raw casting. They source their raw material from Europe itself, either it is directed by the customer or the customer tells them what price they can get it at, so it is in the form of metal, not necessarily all those components.
- Ritesh Poladia:** Have you supplied MFT any material in the past?
- Yatin Shah:** MFT has been a customer of ours, a few years ago so we have supplied some parts; that was the limited experience that we had, which got over in a year-and-a-half with the contract that we had..
- Ritesh Poladia:** Are the supplies from India and China able to meet the requirements of MFT?
- Yatin Shah:** Sourcing raw parts for MFT is a little long-drawn strategy because changing the source is not entirely in the hands of either MFT or PCL, it requires the approval of the end customer, so this cannot be done as easily as we would expect it to be, but obviously when we see some great benefits out of doing that, we will approach the customer to convince him on this financial gain.
- Ritesh Poladia:** If there is no customer objection, then is the plant capable to supply those set of materials?



- Yatin Shah:** We in India cannot supply because there is nothing that MFT does that PCL can do, for example, they do prismatic parts, which are sourced only in Europe. Let us assume that they do a balancer shaft, so, the balancer shaft castings can be done by PCL in India, but would require approval of end customer.
- Ritesh Poladia:** So assuming there is customer approval, can PCL supply to them?
- Yatin Shah:** Yes.
- Ritesh Poladia:** Is the plant capable enough?
- Yatin Shah:** Yes, we are capable. As I probably highlighted in the initial opening comment, PCL has a Foundry and a Machine shop. We Machine our own camshaft and supply to European customers. Most European customers would like a Machinist close to them. We see this acquisition as a perfect opportunity of setting up machine lines in MFT, so that the Castings can be sent from Solapur, Machined in MFT and then supplied to various companies in Europe.
- Ritesh Poladia:** To say incremental sales to MFT can be sourced from you to any new contracts from now on?
- Yatin Shah:** Yes.
- Ritesh Poladia:** So now your association with Audi and everything can be routed through the MFT?
- Yatin Shah:** Yes.
- Ritesh Poladia:** Right now you have about 76%, so how the balance would be acquired?
- Yatin Shah:** The current promoter still has 24% and that 24% is going to be with the promoter for two years from now, their exit is two years from now.
- Ritesh Poladia:** Any valuation in this regard has been decided, as in what manner you will acquire the remaining 24%?
- Yatin Shah:** It is almost similar to what typically we would do as in the EBITDA multiple.
- Ritesh Poladia:** Right now you are bound by the nondisclosure agreement, so when can we get to know the acquisition cost?
- R. R. Joshi:** In the Quarter-4 results, the figures will be announced.
- Moderator:** The next question is from the line of Anish Kalshalkar from CARE Ratings. Please go ahead.



**Anish Kalshalkar:** Is there going to be any financial support going forward to the acquired company in terms of their capital expenditure or working capital requirements from Precision Camshafts Limited?

**Yatin Shah:** Not necessarily entirely, but I think one of the reason that we see this opportunity is that we see potential to scale business and having acquired 76% of the company, PCL's responsibility would be to support those growth plans and the funding pattern obviously would be decided on a case-to-case basis and on how the balance sheet allows us to do, so yes, we are here to ensure that the company is able to scale business.

**Anish Kalshalkar:** So if required, there is going to be financial support from Precision Camshafts Limited to the acquired company?

**Yatin Shah:** Like I said, it could be a mixture of PCL support plus some loans that can be taken by the company.

**Anish Kalshalkar:** After the acquisition what would the product portfolio look like, say for example to what extent these acquisition will reduce the companies and Precision Camshafts Limited's dependence on camshaft as a product?

**Yatin Shah:** I would like to clearly state one thing, although it is considered to be a single product company, one must bear in mind that it is in the heart of the engine. You do not generally have people manufacturing Camshafts and other products, so we consider this to be a strong point of having one product company. However, looking from a business perspective, this company offers prismatic parts, balancer shafts, other components, and the other company that we have recently acquired, MEMCO does fuel injector parts, so these are all critical components, so if you look at the criteria for our acquisition, it is clearly seeing niche critical components, healthy company run by good professionals, have scalability as an opportunity, so it is not a distressed asset that we are looking at buying nor are we looking at saying, "can we turnaround a company?" I mean that is not something that we would like to get into..

**Moderator:** The next question is from the line of Arun Kejriwal from Kejriwal Research. Please go ahead.

**Arun Kejriwal:** Just to get a sense, what kind of capacities does MFT have and currently how are they employed?

**Yatin Shah:** It all depends on product to product, they have different line capacities for different products. If you look at what they are in today, they are almost utilizing 85% of their capacity on various lines, so if they have to look at expanding business, it would be in installing new capacities, adding new capacity to service the increased business.



**Arun Kejriwal:** You now have a foothold in Germany, you have an existing plant, ramping up capacity should not take you too long and probably we could as your press note said that in about a quarter's time from now come to know what kind of cross selling opportunity exists for the company?

**Yatin Shah:** Yes, like I said, we have done some basic study at MFT, where we see them doing business with some key customers, where their share of business is between 50-60% on some components. I think particularly that business can go to 100% if we put the right efforts and the right direction, so obviously there is a potential. Now, we have not met the end customers in that regard, but meeting the end customers and trying to convince them on this and increasing capacities would be our first singular effort in the next three months, so next three months would be to understand what we can attempt in the current product portfolio and the current customers, where there is a great scope.

**Arun Kejriwal:** We had seen some pictures of one of the large European companies visiting you in Solapur last year, so now that you are located in Germany, you have a foothold in Germany, could that project be on fast track?

**Yatin Shah:** That project has been put on fast track already where the company, which is namely BMW has given us an order for developing components prototype, which normally the company (BMW) does not engage because it is extremely high cost driven and now that BMW is willing to commit to these high costs, demonstrates its commitment to PCL. PCL had already said that it will be Machined in India, but given the opportunity of Machining this in MFT, would obviously be extremely advantageous to this project.

**Arun Kejriwal:** You spoke of two acquisitions being done, as they are done now, what next?

**Yatin Shah:** Well, our hunger is still not over, we are still looking and scanning for the markets and obviously driven by the laws and regulations, we are not able to divulge more, but we keep scanning and particularly in the EV space. I think that is something that we would like to look at as going forward because it is not an immediate threat or medium threat that we perceive, but being engaged in that line or being in the EV space, is something that will be planned for the future.

**Moderator:** The next question is from the line of Abhishek Anand from Centrum Broking. Please go ahead.

**Abhishek Anand:** One, on the margin side as mentioned that there is a scope of improvement, considering that Machining typically has a higher margin, which you have always mentioned and this particular company has 13-14% margin, so just wanted to understand a little better on what is the extent of scope here in terms of improvement in margin, and the second is on the working capital side, how different this company is vis-a-vis current working capital scenario which PCL has, and thirdly what is the CAPEX commitment you are looking at to expand capacity considering that, it is 85% utilization?



**Yatin Shah:**

We at PSL have an extremely lean management on inventory, manufacturing, equipment to be used and on optimum utilization of capacity. Now, during the process of understanding this company, we have seen opportunities of working on several fronts to improve margins and we believe there is huge scope, we believe for primarily, if you are able to source equipment from regions like India as opposed to Germany, it reduces the CAPEX cost significantly and I think this is where one of the areas that we would like to work on in the future with MFT, so there are multiple areas that we have identified which will be articulated in the next few months, these are the areas where we believe lie opportunities to improve the margins and having understood this and recognized this, we have taken the step, so it is not something that is going to come out as a surprise to us.

Number two, you asked about the CAPEX, now the next three to four months would be understanding this market scenario properly, going to each customer, trying to understand how, what, etc., it will then be giving us a plan on what we can do. For example, we have acquired MEMCO in Nasik which is a 30 crore company. Now, after we acquired MEMCO in next four to five months, we did an intense study with current and new customers. We believe in the next three to four years, this company has a potential or a plan put together for taking it to 100 crore, I mean these are with set of customers that we have which the promoters of MEMCO could not do because of shortage of capital. We are trying to attempt to do all of that, so an articulated plan can only come after we have made a thorough study in trying to understand the customer and their needs, so that is the second thing.

Mr. Joshi will tell you about the working capital in PCL, but as far as the working capital in MFT is concerned, what they do is either the customer gives them the raw components or they buy the raw component and it is turned around and given to the customer where I believe the credit is between about 45 to 60 days.

**R. R. Joshi:**

It is the same in India also, it is between 45 to 60 days and with the investing working capital, I think MFT can manage.

**Abhishek Anand:**

I wanted to understand in terms of days, is it too different from what we have currently?

**R. R. Joshi:**

No, only the days here in India is the transit period, but in Germany there is no transit period.

**Abhishek Anand:**

How has been the historical growth rate for MFT in terms of top line and bottom line?

**Yatin Shah:**

Historical growth of MFT has been about 6-7%, this company has gone through various phases. It has been acquired by the current promoter only four years ago. He is a young person, about 48 years in age, extremely dynamic, extremely aggressive and he is trying to put things together. I think he has realized one thing very clearly that in order to grow MFT, he would require capital and that if he is not able to service, the company will stagnate, so I believe the





company's growth largely hinges on new capital that is going to be infused for growing the company.

**Abhishek Anand:** If we have to further expand capacity, do we have enough land or do we need to do CAPEX by acquiring land and Machine both?

**Yatin Shah:** Machinery, we would have to acquire. Fortunately, in a place like Germany, in Cunewalde, MFT has 10 acres of land out of which they have hardly used two acres, so there they have plenty of land which is an extremely good opportunity for us to do several things. PCL expanding its manufacturing and footprint in Germany would also need space and this is a perfect opportunity.

**Moderator:** The next question is from the line of Anupam Palivar from ICICI Securities. Please go ahead.

**Anupam Palivar:** In terms of MFT does it supply to all the plants of Volkswagen and Audi or it is specific plants, and secondly, I understand it is a Tier-1, so it directly supplies or in some places it also acts as a Tier-2?

**Yatin Shah:** It is a Tier-1 supplier to these plants and it supplies to various plants of Audi and Volkswagen in Germany not outside Germany so far

**Anupam Palivar:** As a supplementary question, would it be correct to say that at least in Europe, MFT would be catering to a substantial portion of demand from Audi, Volkswagen and BMW or it will be a certain percentage only?

**Yatin Shah:** This is exactly the reason that we have looked at this opportunity, owing to their limitations of capital, they have accepted a share of business that they could do with a customer like VW. For example, on a product, they could not do beyond 60% share of business, 40% has gone elsewhere. Now, we believe convincing the customer to take 40% from MFT with increasing capacity, is the first thing that is in order, and customers will surely support us because they would like to make sure that for a component typically like balancer shaft, a customer does not always engage with two suppliers and this MFT had always been a primary and a key supplier owing to their costs and owing to their thing, only what they could not do has gone elsewhere.

**Moderator:** The next question is from the line of Ankit Merchant from SMC Global. Please go ahead.

**Ankit Merchant:** I would like to understand now with this acquisition, so for FY '20 what are the targets which the company is looking both on the topline and the bottom-line as well as if you could guide us on the EBITDA margin front?

**Yatin Shah:** It is hard to put things together, but if you look at it clearly, PCL as a company is roughly about Rs 430 to Rs 440 crore. What we believe is with the additions, we will add about 45% to the top line because of MEMCO, MFT etc. Obviously these two companies do not enjoy the EBITDA



levels that PCL enjoys in the market today, so therefore, there will be an extent to dilution and I would presume that the EBITDA margin would be at least, in the initial play and after consolidation would be in the range of 15-16% and with the efforts for improvements that we are planning, in both companies for growing the company, this will not necessarily go back to where we are, but certainly will improve by a few points.

**Ankit Merchant:** This will be just off the topic actually, but you have won various contracts from Ford and you were putting up a plant in Brazil, so how is the progress been there on that front?

**Yatin Shah:** For our own thing if you look at it on the organic front, in the last conference call we had clearly said that the company has got contracts which will increase our Machining from the current 1.8 million by 2 million in the next two to three years, I think that is going to be a sizeable growth organically. This is besides till the new contracts that we are in discussions with, this is purely contracted already, so we see a 100% increase in the Machining capacity in the next two to three years, so this is going to happen on the domestic side, and on the Brazil part, we see this going into production late December or early January, as per the plan, there is no change on that, capacities are being installed as I said in the last conference call, the construction of the plant is almost done, which will be ready for getting Machine in by early June, so we are on track as far as that is concerned.

**Ankit Merchant:** In the domestic Solapur plant, you had put up few lines, I suppose eight lines, so out of which how many lines have you put and how many of them are on stream and doing the production?

**Yatin Shah:** Four are already put and four are yet to come in, before I said the capacity would be increased more than double and that is already as per the customer's milestones. At this point of time, I am happy to inform that no customer has deferred the milestone of any project. We are on track on all the projects that have been contracted for in Solapur, so you would see some improvements as we go forward in this year and the foray. Actually, really speaking like I said in the last conference call, you will not see such a dramatic improvement in this year, that is, '18-'19 but you would see a sizeable improvement in the Machining capacity in '19-'20 which is what we have always been saying, that Camshaft is a product which takes roughly two-and-a-half years to develop. Once developed then the life is about 9 to 10 years, so you do not really have to do much about that afterwards.

**Ankit Merchant:** What is the mix right now of Machined as well as on the Casting Camshaft?

**Yatin Shah:** Today, we roughly do about 20-22% Machined Camshafts in our total thing. We expect that to go to a little over 50% in two years from now. This again I repeat, is with the contracts that we have on hand, not what we were discussing about sometime back with Mr. Kejriwal about people like BMW for newer contracts as that would change the entire dynamics altogether. We have received a prototype order from BMW. This actually is a commitment for long-term business relationship and that business generally is in the line of close to a million shafts.



- Moderator:** The next question is from the line of Farhan Alambe from NVS Brokerage. Please go ahead.
- Farhan Alambe:** What is the average realization per camshaft in Casting and Machining?
- R. R. Joshi:** For both it is Rs. 600, average.
- Farhan Alambe:** What is the percentage of US sales to the total sales?
- Yatin Shah:** We do not do much of US business.
- Farhan Alambe:** What challenges do you expect in terms of your competitors, basically who are your significant competitors?
- Yatin Shah:** If you look at the way we have grown in the last 10 years, there were at least 10 in the fraternity that did camshaft worldwide. Now, our growth has been so significant that this fraternity has now been reduced to less than five, so if you look at our global competition, we have Federal Mogul , MAHLE, Riken, and **Linamar**, I think these are our major competitors globally on products that we do. On assembled Camshafts, the largest producer is ThyssenKrupp in Germany.
- Moderator:** Thank you. The next question is from the line of Vatsal Gupta, an Individual Investor. Please go ahead.
- Vatsal Gupta:** Since 2013 you have delivered really good numbers on retail can we expect similar things going forward given that we are paying about eight times EBITDA on acquisition side?
- Yatin Shah:** Well, it is not going to be very similar, it is not going to be that kind of a return. In the initial period, there will be challenges and we are trying to meet that, purely because as I said these companies do not enjoy the same kind of returns, profits as what we have been doing, so there will be challenges but going forward I think with the acquisitions you said about what we can get to the table, the answer is very simple, that we have never looked at a stressed company, we have never looked at a company that requires great amount of attention from PCL's management bandwidth. We are looking at a company or we have acquired companies that have healthy managements, so one of the reasons that you see 24% still being retained by the current promoter is because we believe in him and his abilities to grow the business. He has the right customer connect, they do right kind of business, and their approach is perfect. We believe apart from capital, we can bring to the table some management techniques which you would be surprised are not in German companies, so I think we at PCL have great amount of lean management and probably tighter controls than lot many medium scale companies in Germany or in Europe.
- Moderator:** The next question is a follow up from the line of Abhishek Anand from Centrum Broking. Please go ahead.



- Abhishek Anand:** Is it possible to get the capital employed of MFT?
- Yatin Shah:** We will come back to you, Mr. Anand.
- Moderator:** The next question is from the line of Deepan Sankara from Trustline Portfolio Management Services. Please go ahead.
- Deepan Sankara:** Currently what is the cash level we hold and what is the amount of debt we are planning to do for this acquisition?
- Yatin Shah:** Unfortunately, we cannot reveal how much debt is being used, as that almost goes towards the valuation, so these are the fairly leading question, unfortunately we will not be able to answer that, however, Mr. Joshi can tell you what cash on hand is there in PCL?
- R. R. Joshi:** This is partly financed by bank loan and partly by internal generations. Right now, there is no debt, if you see our balance sheet and we have Rs 100+ crore cash in hand.
- Deepan Sankara:** Including this new company's product, so how much of the revenue could be contributed by Camshafts alone, if we could talk about consolidated numbers?
- Yatin Shah:** PCL as a company would be almost doing what we did last year or little less than that probably because of certain impact of foreign exchange, but a total increase in top line would be about 45-50%.
- Deepan Sankara:** My question is about contribution of Camshafts to the total consolidated revenues including MEMCO and MFT?
- Yatin Shah:** About 60%.
- Moderator:** The next question is from the line of Dhruv Bhat from NVS Brokerage. Please go ahead.
- Dhruv Bhat:** You said that we do not export a lot to US, but just wanted to understand from the management perspective that how do we see this current global scenario for our company, as we have huge amount of exports and we are majorly trading into it?
- Yatin Shah:** If you look at it, we export to several regions of the world, right from Brazil, Europe, Russia, Korea, China, etc., so if you look at the mix I think it has been little flattish. There is no significant growth if you see, but it is stable. It is enough to say that, there are no surprises in terms of what is happening. For example, Brazil has shown a little decline whereas somewhere, Korea has shown a slight increase, so overall if you look at it, it remains a flattish kind of a scenario for PCL given the global market and the way we operate in different regions of the world.



**Moderator:** Thank you that was the last question. I now hand the conference over to Yatin Shah for closing comments. Over to you, Sir.

**Yatin Shah:** Many thanks to all of you who are participating in this conference call, this is much appreciated. On the closing note, I would just like to say that we have some exciting times ahead of us for both the companies that we have acquired plus for the organic growth that we are largely putting in some CAPEX for. The next two years will be pretty fulfilling, pretty dynamic in the sense of what we want to do, however, having said that, our hunger does not stop here. We are still looking and exploring possibilities of getting into the EV space that remains our priority although it is not considered a threat, so I think largely whatever efforts have been put would soon be fructified in the coming two years is what we believe, so I would like to end on a positive note that although PCL has shown muted growth in the last two years of the top line, we believe the coming two years will show something completely different. Thank you very much.

**Moderator:** On behalf of Precision Camshafts Limited, that concludes this conference. Thank you for joining us, if you need any further information or clarification, please mail at [snighter@conceptpr.com](mailto:snighter@conceptpr.com) or [ruchi.bhadra@conceptpr.com](mailto:ruchi.bhadra@conceptpr.com).

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