



Precision Camshafts Limited

(100% EOU Division)

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30th August, 2018

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Sub: Transcript of Conference Call held on Monday, 27th August, 2018

Dear Sir/Madam,

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 Monday, 27th August, 2018 as received from the PR agency.

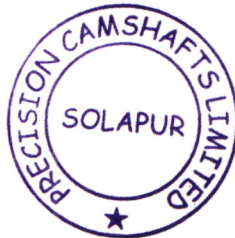
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Thanking you,

Yours Faithfully

For **Precision Camshafts Limited**


Mahesh Kulkarni
Company Secretary





Precision Camshafts Limited Q1 FY19 Results Conference Call

**Transcript
August 27, 2018**

**MANAGEMENT: Mr. Yatin Shah – Chairman and Managing Director
Mr. Ravindra Joshi – Director and Chief Financial Officer**



Moderator: Good evening ladies and gentlemen. I am Ali, the moderator for this conference call. Welcome to the Conference Call of Precision Camshafts Limited arranged by Concept Investor Relations to discuss the Q1 FY'19 Results. We have with us today on the call Mr. Yatin Shah – Chairman and Managing Director and Mr. Ravindra Joshi – Director and Chief Financial Officer. At this moment, all participants are in the listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question, please press '*' and '1' on your telephone keypad. Please note that this conference is being recorded. I now hand the conference over to Mr. Snighter Albuquerque from Concept IR. Thank you and over to you, sir.

Snighter: Thanks, Ali. Good evening, everyone and thank you for joining us on the Precision Camshafts Limited Q1 FY'19 Earnings Conference Call. We will begin the call with the opening remarks from Mr. Yatin Shah, followed with the forum of question-and-answer session

Before we start, I would like to point out that certain statements made in today's call maybe forward-looking in nature and a disclaimer to this effect has been uploaded in the 'Earnings Presentation' shared with you earlier.

I would like to invite Mr. Shah to make his opening remarks. Over to you, sir.

Yatin Shah: Good Evening to everybody. Thank you very much for joining us on this conference call. While we have circulated a 'Presentation' to you detailing out what the company has done in the first quarter plus what its future looks like, I would like to take you through some of the more interesting slides that I think need to be considered for Precision.

I think first and foremost, these results that have been announced for Q1 do not have any of the financials of the companies that we have acquired in the last nine months, namely MEMCO in Nasik which last year posted a turnover of Rs.32 crore, then we have also an acquisition in Germany, MFT which last year posted a turnover of Rs.160 crore and EMOSS in Netherlands which does electric drivelines completely which had a turnover of Rs.50 crore. So these financials have not been added to the Q1 financials. We would be joining these financials on Q1 of next year on a quarterly basis. Having said that, I think with these acquisitions what PCL can present today one of the more important things is that it has magnified product portfolio as well as customers portfolio. Up until the time we acquired these companies, PCL was extremely GM and Ford-centric. As we now see in Slide #9, our product portfolio has increased substantially from Camshafts to Balancer Shafts to Prismatic Parts to Injector Bodies for Porsche, etc., Therefore, if you look at the customers pie charts, today, General Motors occupies 18% while Volkswagen occupies 15% which up until now was not a customer of PCL. So we have now onboard a whole lot of new customers like



VW, Audi, WESTFALIA, BOSCH, etc., as our customers of the group. Within this, more important thing is that we see although PCL has posted a similar EBITDA as last year, EBITDA margins have increased a few notches. Going forward, we see very exciting times of three companies that we have acquired, they are all promising companies with healthy background and also with future that looks pretty exciting.

On PCL part, like I have always been maintaining in my earlier conference calls, we are looking at increasing our Machined camshafts sales from this year to next year and the following year, taking us into the last figure that I said in '21-22 to about 4 million per year.

So, in short, in the next two or three years we will see a substantial increase in machined camshafts sale at PCL for the contracts that it has been awarded from various customers worldwide which obviously will also translate into an increase in castings sale, thereby optimizing our castings facilities in PCL in addition to showing fairly, promising times for the companies that we have acquired. All these companies that we have acquired, have the potential to scale business substantially.

Having said that, I think one of the most important financial indicators of the company that I would like to highlight in this presentation today is that the company as of 30th June stands at a Net Worth of Rs.577.7 crore with the debt of only Rs.24.2 crore with cash on hand of about Rs.111 crore and debt-to-equity translating to 0.042x. So, I think today company is pretty well placed to take on some of the ambitious plans that it has set out to meet in the next few years.

So having said that, I would like to open the floor to any questions you may have.

Moderator:

Sure, sir, thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Kaushal Shah from Dolat Capital. Please go ahead.

Kaushal Shah:

Any reason for the drop in production in this quarter?

Yatin Shah:

There have been some programs that have shown some decline as well as some programs, for example, some of the programs that we have taken on from Ford, General Motors, etc., there was a phase-in/phase-out, so some programs are phasing out, the new programs that were supposed to replace them are slightly deferred, so therefore you would see a slight lull for the moment till such time new programs come into full force.

Kaushal Shah:

So this is just a temporary phase?



- Yatin Shah:** Just to give you an example, we had a running program with Ford, which they have stopped, the new introduction has begun, but the new introduction which was supposed to be ramped up, will ramp up in the next three months, therefore such programs that are new are taking a little longer to come into full force as opposed to what we had predicted, but it is just a temporary phase.
- Kaushal Shah:** Sir, would you provide any guidance like how do you see panning out for FY'19 & '20?
- Yatin Shah:** Let us put it like this; in short, PCL for the '18-19 would post almost a very similar result, hopefully with some improvement in bottom line; however, what you will see is a major addition to the future consolidation which would be of the three companies that we have acquired plus the results of the two joint ventures in China. As I said I have given you the three companies last year's top line. Even if you extrapolate, they remain same, if not growing, they will add at least about 50% of the top line of the company.
- Kaushal Shah:** How about the margins sir?
- Yatin Shah:** Very difficult to say at this point of time. We have posted on a standalone basis 26% EBITDA for this quarter. With the consolidation figures it is likely to drop a bit for sometime because these companies in Europe do not generally enjoy the same EBITDA margin that we are enjoying in India.
- Moderator:** Thank you. We will take the next question from the line of Supriya Madye from East India Securities. Please go ahead.
- Supriya Madye:** Just wanted to understand what is our domestic market share?
- Yatin Shah:** In the domestic market, I think we are about 75-80%; we supply Tata Motors single source to almost every platform, Hyundai single source to almost every platform, Toyota, we are a single source, Maruti, we are a single source for the new engines that they have launched, so therefore if you look at it, we would be looking at about 70-75% of the market share in India.
- Supriya Madye:** Maruti, you said for the new engines?
- Yatin Shah:** I am talking about new engines, I would not know the cars, but if you look at engine platforms such as K-10, K-12, E-15, all these are single source to PCL. So if you look at Maruti, we were supplying last year something like 60,000, 70,000 shafts a month, today to Maruti we are supplying close to 1,40,000.



- Supriya Madye:** I also missed the numbers which you said on the opening remarks. Volkswagen is contributing about 15%. Who is contributing around 18% you said?
- Yatin Shah:** General Motors contributes 18%, Ford contributes 11%, Volkswagen and Audi contributes 15%, originally General Motors and Ford contributed almost about 55% of the total revenue, so the new pie chart has Audi, Volkswagen, WESTFALIA and BOSCH, etc.,
- Supriya Madye:** Sir, these new companies which are coming in, we can say they are both machining camshafts?
- Yatin Shah:** No, these companies have nothing to do with camshafts, MEMCO in Nasik manufactures injector bodies, very close machine tolerance components for BOSCH, MFT in Germany manufactures things like balancer shafts, prismatic parts for Westfalia, for Audi and Volkswagen and EMOSS in Netherlands has got nothing to do with auto components, they are a complete electric truck manufacturing company.
- Supriya Madye:** Anything we need to spend on these three acquired companies with the cash in hand, any plans for that?
- Yatin Shah:** At this point in time there is no money to be spent in this year. Just to give you an idea, we own 76% of MFT in Netherlands, we have 95% ownership in MEMCO in Nasik and we have 51% ownership in EMOSS in Netherlands. The next tranches are two years from now for these other companies, namely MFT and EMOSS, I think 100% ownership of MEMCO is soon on the card, that will be completed in this year.
- Supriya Madye:** In one of your releases, there was a mention that we need to borrow some around Rs.20 crore of debt for the MEMCO. So can you just help me understand that?
- Yatin Shah:** That is for the additional CAPEX for the growth of MEMCO; MEMCO is planning an aggressive growth strategy. So MEMCO will leverage its own balance sheet for its growth, it is not PCL who is going to borrow, MEMCO's balance sheet is strong enough to borrow for its own growth, we are looking at actually quadrupling the business of MEMCO in the next three to four years, we see great potential to increase this business with current customers like BOSCH and therefore there will be a need to spend some money in the next two years.
- Moderator:** Thank you. We will take the next question from the line of Sunny Agarwal from BNP Paribas. Please go ahead.
- Sunny Agarwal:** Sir, my question pertains to EMOSS. That seems to be a very exciting story for us. When do we plan to take this company globally in other countries and what is the opportunity we see here in next three to five years?



- Yatin Shah:** EMOSS basically converts internal combustion engines into a complete electric vehicle. So now this company has a great order book. At this point of time, quite honestly, the challenge is to convert these orders into reality. They have orders from different parts of the world beginning from Canada, Europe, Gulf into Indonesia and into countries like Australia and New Zealand. So, I think the company has a great potential to scale, we see expanding that operations significantly, taking it globally, I think it is too early to say for the simple reason, we want to actually draw the entire potential of the orders that we have on hand and then take it really to a larger scale. But we have orders as I said we are facing challenge to meet today.
- Sunny Agarwal:** So the cost of conversion of indication of IC engine into an electric one, is it very cheap, is very akin to wherein India we see vehicle being getting converted from petrol to gas, so is it some like that kind of technology?
- Yatin Shah:** No, I think this is a far more improved patented technology. This has qualified the government's regulations worldwide. So it was not local in operation. In order to get this regulatory authorities' approvals it takes long time, so I think EMOSS is very ahead in the race of having got approvals by different governments in different parts of the world. Homologation is a very important process, yes, developing electric vehicle is one but getting homologation and getting it approved from the local authority is a big challenge which EMOSS has already got. That is what I said. We are now in a situation, we have got the right technology, we have got the right design, we have got the government's clearances, now it is a matter of translating this business into reality.
- Moderator:** Thank you. We will take the next question from the line of Shashikant Singh from Dalal Street. Please go ahead.
- Shashikant Singh:** I just wanted to understand that you are increasing your global footprint. How the depreciation in rupee is going to impact you financially and actually the cross-currency fluctuation if it is at all going to impact you?
- Yatin Shah:** Let us put it like this; on the foreign exchange, most of the customers that we deal with do not have this factored in, in a sense that our prices do not have to be altered depending on the ups and downs of foreign exchange, so, if there is a depreciation we tend to benefit. If the dollar goes to 70, we stand to benefit, if it goes below, we obviously will have negative effect, so fortunately for us in the last six months, the currency has been in our favor and that is never factored in the price discussion.
- Shashikant Singh:** So what is your consolidated order book and can you give me the segregation on the basis of your different subsidiaries that you have acquired, MFT, EMOSS and MEMCO?



- Yatin Shah:** If you look at it typically Rs.450 crore, would be PCL, as of now posted for the last year MFT is Rs.160 crore, Rs.50 crore is EMOSS and about Rs.32 crore is MEMCO. So this is the distribution of four companies. For the joint venture in China we do not take that because we are a minority stakeholder, any benefits out of that gets added to the PAT level.
- Shashikant Singh:** By what time these new order book will get executed?
- Yatin Shah:** What we have said, we have listed every new order that PCL has got from new business, currently machine camshafts we are doing about 1.8 million, in the year '21-22 this will go over 4 million. So what is the objective of the company is to increase the sale of machined camshafts which gives us higher profitability which is what you see in the first quarter of this year despite the fact that the turnover has been pretty much static, our profits have gone up because the machine camshafts sale has gone up a bit.
- Moderator:** Thank you. We will take the next question from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.
- Vaibhav Badjatya:** I have two questions: One on the exports front, if you can provide more details why the projects from Ford and GM are getting delayed in terms of revenue... is it geographic specific issue or any other issue? Secondly, if you can help me with EMOSS and MFT, EBIT numbers and the capital employed for the last year, meaning net worth of the company plus the debt, that were there in the books of those companies?
- Yatin Shah:** On the first part on the revenue, we have taken on hand a lot of new projects from the customers like Ford, General Motors, Toyota, etc., All these are committed contracts from all the customers from different geographies of the world from Europe going into North America, going into South America as well. It is not related to anything else besides the initial hiccups that most new programs have because they are global in nature. So let us put it like this; I am just giving you an example, we started the new program called Dragon for Ford. This is a replacement program for a current engine called "Sigma." So Sigma has been phased out, Dragon has been introduced, Dragon should have been doing roughly about 24,000 shafts a month, today with respect to 24,000 we are doing something like about 16,000 shafts a month. So, it is not that they are completely off-track but I think every supplier in the world for a new program faces some hiccup. So which part of the world is giving which program a hiccup is very hard to say but I think this has generally seen in a new program launch where customers face this and eventually ramp up takes place in about six to eight months which makes it 6-8 months of delay. So we do not see a much concern in ramping up in due



course of time according to projections that we receive from customers. So, this is on the first part.

Ravindra R. Joshi: On the second part, we do not have the numbers right now. We will provide you whenever we will get the number directly.

Moderator: Thank you. We will take the next question from the line of Nikhil Vaishnav from VD Investments. Please go ahead.

Nikhil Vaishnav: My first question is what kind of revenue you are looking with your JV in FY'19 as well as FY'20?

Yatin Shah: As I have given you, one has to probably look at extrapolating the orders that we have given and released on the exchange. So at this point of time, I can only tell you that you have to look at roughly Rs.430-440 crore turnover of PCL plus the other three companies. '19 and '20 would be future guidance which I would not propose to give at this point of time.

Nikhil Vaishnav: Second question is how much growth do you see in the MEMCO Engineering in FY'19 in terms of revenue?

Yatin Shah: As I said again, these companies have extreme potential to grow. So long-term plan is to grow MEMCO 4x in three years but '19-20 is again giving you a very sharp indication of future which would be inappropriate at this forum. To just put things in the right perspective so that I think most participants including you can appreciate our approach, all these companies that we have acquired are financially healthy, has great potential to grow with current and new customers and that is why PCL has looked at them as an opportunity for acquisition. The only difficult part is to tell you what is going to happen in '19-20, '20-21, that is something that I would not be able to share at this point of time.

Nikhil Vaishnav: My question is currently we have Rs.240 crore to Rs.250 crore cash and cash investments. So I would like to know how do you use this cash investment in FY'19 and FY'20?

Ravindra R. Joshi: Part of the money is from IPO that we are going to utilize by the end of this year and part of the money we are going to keep in our mutual fund account because this money is required for future acquisition.

Yatin Shah: We had raised Rs.230 crore through the IPO. We have spent I think 55% or 60% of that, right, Mr. Joshi on the...?

Ravindra R. Joshi: Rs.100 crore remaining there that we are going to spend during this year end for our projects and Rs.120-125 crore that is what we have kept in mutual fund, that we will keep as it is for our future requirement.



- Yatin Shah:** So to address your question, we have the war chest to look at further acquisitions which the company will constantly count and look for opportunities for growth.
- Nikhil Vaishnav:** Next question is how do you see top line in FY'19 and what kind of EBITDA margin you are looking?
- Yatin Shah:** Again, we are going to the future guidance, I wish I could give you this and I would sincerely wish I could give you some kind of answer on this but this is something that I would be held against and not the forum to declare. All I can say is we will be consistent with what we are doing right now in terms of the margins.
- Moderator:** Thank you. We will take the next question from the line of Supriya Madye from East India Securities. Please go ahead.
- Supriya Madye:** Could you explain help me understand your EMAG, the technical collaboration which you have, how the things is working with us?
- Yatin Shah:** EMAG is a company that provides technology to various automobile component manufacturers plus automobile manufacturers around the world. So EMAG has patented a technology for assemble camshafts which is being acknowledged, approved and used by companies like BMW, Mercedes Benz and Volkswagen, everybody. Now, instead of trying to develop the technology in-house in PCL for assemble camshafts, we have acquired this technology from EMAG, not only acquired this technology but we have an agreement with them that this technology will be exclusive to PCL for five years out of which almost 2.5-years are over right now. So, this is the EMAG technology part. They are not a component manufacturer, they basically do technologies and we are engaged not only on assemble camshafts but with some new kind of technologies that the future of the vehicles or automobiles will require. So, it is not a one-time association with EMAG, it is a long-term understanding.
- Supriya Madye:** So basically within the five year period, like 2.5-years is there, whatever the technology we may need for developing more developed camshafts, we can acquire the technology from that, am I understanding it right?
- Yatin Shah:** Once you acquire the assemble camshafts technology which takes place in the first six months, I do not think there is anything left for them. The only thing what we are trying to do is once you have acquired a technology, we are trying to prevent them from selling this to anybody in the world for the next five years.
- Supriya Madye:** Can you just help me understand how we make the payments for them – is it already lump sum payment made or it is kind of royalty we need to pay them?



- Yatin Shah:** There is no payment made, there is no royalty, the agreement is only to buy a specific number of machines from them for this technology which the company has already met.
- Moderator:** Thank you. We will take the next question from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul Shah:** My question is although the number of machine camshafts in exports have increased, why the realization has dipped?
- Yatin Shah:** If you look at the overall sale of the company, 50% is now coming out of domestic market as opposed to 75% much earlier. Domestic market realization is lower than export realization. So although machine camshaft sale has increased, the sale of camshaft in the domestic market namely to Maruti and namely to Hyundai has increased significantly and therefore the realization has come down.
- Vipul Shah:** No, I am talking about in export it is mainly machined only no?
- Yatin Shah:** Both, you have domestic as well as exports.
- Vipul Shah:** So in export casting and machine both?
- Yatin Shah:** Both.
- Vipul Shah:** What is the synergy between this German acquisition and Netherlands acquisition with our current business of camshafts, can you explain briefly?
- Yatin Shah:** Although MFT does different components, the synergy is that what is going to be required for them as raw parts in future, would be looked at from PCL. So that is the synergy that we see, not in the immediate future, but as we move forward, because that is one of the reasons that we decided to get together. #2, we see MFT as a platform for increasing our manufacturing footprint into Europe for servicing European customers. So if the European customers wants a base of PCL close to its locations, we see MFT as a good location for presenting ourselves as a local footprint manufacturer. So synergies are from both sides and this is what the customer sees as a friendly, exciting association of these two companies. On the EMOSS side, there is no such synergy. Precision Camshafts wanted a footprint into the EV world instead of trying to manufacture products for the EV world an opportunity like this come rarely where you can acquire a company that actually manufactures the complete EV vehicle. So we wanted to be both in the conventional engines as well as in the EV world. So that is the reason that we acquired EMOSS.
- Vipul Shah:** So EMOSS is mainly for passenger car or it is on commercial side?



- Yatin Shah:** Only for trucks, ranging from 3.5 tons truck to 50 tons.
- Vipul Shah:** So this can convert IC engine into electric engine?
- Yatin Shah:** They have been converting for a long period of time, they are a very mature company...perhaps you were not in the call earlier, let me explain to you that it's one thing to manufacture electric vehicles, the more challenging part is to have the electric vehicle being approved by the local authorities which is called the homologation process. Now this you could do an electric vehicle in India but to sell that in Europe, it is impossible unless you have the government agencies approving that vehicle. The good part about EMOSS is their technology has been homologated or been approved by different parts of the world namely South America, North America, Europe, Indonesia, Gulf, New Zealand, Australia. So all these countries with their local authorities who approve this technology has been done. The challenge is now to translate the business that they have on hand into actual reality.
- Moderator:** Thank you. We will take the next question from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.
- Vaibhav Badjatya:** Sir, gross margin on the exports part of the business, has it improved during the quarter or it has not improved...gross margin I mean to say revenue minus raw material cost?
- Ravindra R. Joshi:** On the exports, there was increase in gross margin, but if you compare overall there is decrease because of increase in the raw material cost.
- Vaibhav Badjatya:** Secondly, our contracts with our customers are concerned, are these contracts specific to a delivery point like whether camshafts to US or the London glass plant or something like that or we have a contract for delivery of cutting the number of camshafts and they tell us afterwards that we should pay or which part of the world we should ship to?
- Yatin Shah:** The thing is contract is typically issued for a period lasting up to 7-8-years. Now what happens post the contract is issued, the contract is issued with the destination where the camshafts are to be delivered in the contract itself, so there is a fixed destination. You cannot change destination unless and until there is a change in the contract. So the destinations are fixed and we have given plant locations where these camshafts need to go right in the beginning of the contract. If in the middle of the contract there is a change of location, then the commercials are revisited.
- Moderator:** Thank you. That was the last question. I now hand the conference over to the management for their closing comments.



Yatin Shah:

Thank you, all for joining in this conference call. It was a pleasure having all of you. I think we at PCL are in a strong foothold of some trajectory in the growth in the next two years, trying to exploit not only potential of PCL in Solapur, but also the potential of the companies that we have acquired in different parts. In nine months we have acquired three companies, so consolidation will take some time and the company is into putting plans for growing each of these companies. We look at some exciting times on hand and thank you very much for joining us in this conference call.

Moderator:

Thank you all for being a part of this conference call. If you need any further information or clarification, please e-mail at snighter@conceptpr.com or pratik@conceptpr.com. Ladies and gentlemen, that concludes your conference call for today. Thank you for using Chorus Call Conferencing Service. You may now disconnect your lines.

- Ends -

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