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Stock Idea

Precision Camshafts Ltd

Criminally Misunderstood!

Date: 4th October, 2020

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Snapshot

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- **Total Weightage % in portfolio = 6%**
- **Best buying range = Buy 3% around CMP 33-35 and add 3% if it falls down to 20-25rs**
- **Price target = Double in next 12 months i.e. 65-70rs; 5 times in next 3 years i.e. Rs 160-175; Expect 10 times in next 5 years.**

Company is a pioneer and the largest manufacturer of camshafts in the country with exports to more than 20 countries. Over the past three years the company has transformed itself into a multiple product and client global auto component manufacturer with significant operations in electric mobility services through acquisitions.

Market Cap: INR 333.40 Cr.	Current Price: INR 35.10	52 weeks H/L: 45.00 /21.70
Book Value: 65.07	Stock P/E: 26.96	Dividend Yield: 2.71 %
ROCE: 5.76%	Debt to Equity: 0.32	Dividend Payout: 25.80%
Face Value: 10	Promoter Holding: 65.37%	Pledged Percentage: 0%
Sales Growth (3Y): 19.05%	Profit Growth (3Y): -26.76%	Cash Conversion Cycle: 210.28

Source: Screener.in, As on October 4, 2020

Technical Chart

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✓ Current stock price is around Rs 35, down 80% from IPO price of 180-186. Huge margin of safety in buying between 30-35 range.

✓Off late we have seen huge volume in this counter due to exit of some of the MF. This is in fact a good indicator, high volume when the prices are low indicates selling climax or end of downside.

✓Present numbers are not good, the reason why we are getting quality business at deep discount. One must have investment horizon of 3-5 years to get maximum out of this investment.

✓PCL is good value based on its PE Ratio (10.7x) compared to the Indian market (16.3x) and PB Ratio (0.5x) compared to the IN Auto Components industry average (1.3x).

Buy When There's Blood in the Streets

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Dear Investors,

Most people only want winners in their portfolios, but as Warren Buffett warned: **"You pay a very high price in the stock market for a cheery consensus."** In other words, if everyone agrees with your investment decision, then it's probably not a good one.

The world is facing unprecedented times. With no indication how soon a vaccine will arise or global economies will recover, investors must work out how best to deal with the uncertainty. Investors have two options: take a crystal ball out or take this approach. "Look at one company at a time, evaluate its strengths and weaknesses, and assess its intrinsic value,". This gives us a balanced portfolio, which is not dependent on one particular view of the future.

COVID-19 has devastated many sectors of the Indian stock market. The irony is that these sectors are precisely the ones that will make investors the greatest fortunes.

Long term investing basically means that you are not investing for today but for two or three years from now and beyond. A stock can fall out of favor because investors fear for its financial prospects, and often they are right to do so. If investors are angry with a firm, they'll shun it regardless of its financial outlook, which leaves an opening for those who are willing to look beyond the immediate outrage.

Our latest recommendation is one such company from the auto components manufacturing industry. **The thing that made us curious about this company was the fact that they are the market leaders in their particular business segment but the stock price of the company was telling a different story.**

When we dig deeper we understood that the management have been taking steps to de-risk their concentrated business. **Over the past 3 years, the management has taken strategic decisions to diversify its revenue streams.**

From further research we realized that the major business segment of the company will experience weakened demand in the next 10 years. However, like we mentioned before we should never judge a company with its current operations. We believe the management of the company is taking all the right decisions to meet the future needs of the industry.

In an era of risk and instability, adaptability has become the new competitive advantage.

Company Overview

Incorporated in 1992, Precisions Camshafts Ltd (PCL) (NSE: PRECAM, BSE: 539636) is **India's leading camshaft manufacturer using all manufacturing technologies for camshafts under one roof** – Chilled Cast Iron, Ductile Iron, Hybrid and Assembled camshafts.

PCL produces 150 variants of camshafts, majorly catering passenger vehicles (PVs) and commercial vehicles (CVs). The company offers the following products: Wide camshaft variants, Precision automotive components, Non-automotive components and Electric mobility solutions.

The company **has 8 facilities in all comprising four foundries and four machine shops**, located at two different locations of Solapur, Maharashtra.

They came out with an IPO in 2016. As on March 31, 2019, PCL had fully utilized money raised from IPO for setting-up a new machining facility Solapur (already commissioned) and for general corporate purposes.

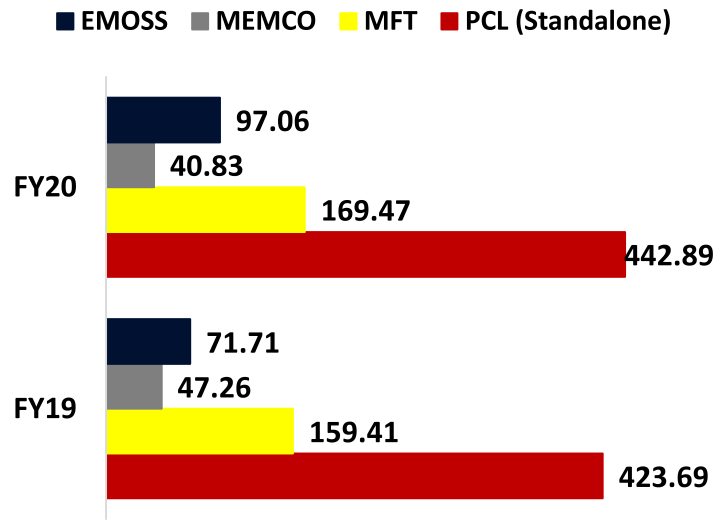
In order to exit loss making business in China, the company decided to shut down its wholly owned subsidiary in China and exit from the Chinese joint ventures as the auto industry is facing challenging times in China, making it unsustainable for the company to continue with its operations.

PCL has made three strategic acquisitions over the past 3 years. The management has also hinted of more similar acquisitions in the future.

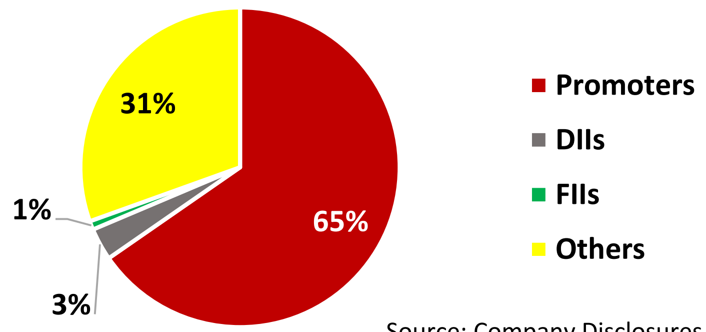
The major agenda behind these acquisitions is to become a multi-product solution provider of automotive components, systems and services to Original Equipment Manufacturers (OEM) with operations in Electric mobility services.

In the past 12 months, the company has declared an equity dividend amounting to INR 0.95 per share.

Revenue Breakup (INR Cr.)



Shareholding % as on June 30, 2020



Source: Company Disclosures

India's EV dream – Delayed?

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The unexpected spread of coronavirus infection has created an unprecedented situation for automotive manufacturing. The assembly lines are experiencing historical levels of supply chain disruption at the moment and it is likely that the current turmoil will change the business landscape of the overall industry as we know it. Many auto parts suppliers pointed out that almost all the OEMs have started reconfiguring their activities to focus more on existing processes.

Turns out, electric vehicles (EVs) got no place in their new normal, at least for the short term. There are certain electric vehicle development projects that have been deferred for at least one year due to coronavirus fallout.

What started off as one of the most ambitious venture of an all electric game plan is now slowly degenerating, brick by brick. We believe this is mainly due to the lack of a well defined policy and a deeply divided auto industry on the prospects of EV.

The latest announcement has been that ICE (internal combustion engine) vehicles will co-exist and will not be phased out. Clearly at this point in time it looks a bit cloudy. India won't be shifting gears fully to electric vehicles (EVs) anytime soon.

Only 6% of automobiles sold in the country by 2030 will be electric, according to the new global EV outlook by research firm BloombergNEF. Emerging economies such as India will adopt EVs much slower than not only China and the West, but also the rest of the world, "leading to a globally fragmented auto market," the report mentions.

It is also a fact that EVs have always been a tough sale with Indians. Albeit the government's aggressive push, the customer appetite for these battery-powered vehicles was weak even before the viral infection brought the world down to its knees.

Covid-19 has also brought another major problem in EV to the fore front – affordability. Put another way, the inclusion of battery, battery management, electronics and cooling add an extra layer of cost which makes electric vehicles equation untenable when compared with internal combustion (IC) engines. As per industry experts, electrification in India depends on the total cost of ownership benefits which is easy to achieve in two-wheelers and three-wheelers but not in cars. Furthermore, the dominance of IC engine vehicles is expected to continue for a long time in the country.

This gives auto component manufacturers in the country room to squeeze further growth in the near future.

Investment Thesis

The COVID-19 pandemic has had a swift and severe impact on the globally integrated automotive industry. The pandemic has also brought forth the problems of overdependence on China for auto parts. Investment ability of auto component industry has reduced significantly because of the downturn in the market and Covid-19.

Auto component manufacturers have been facing great deal of uncertainty over the transition to electric vehicles. Rise of EV means a weakening demand for engine related components and a hot market for constituents of EV powertrain in due course.

Focus should now be on meeting customers need, and to attain excellence in this direction, manufacturers in the auto components industry must strive for consolidated collaborations and joint ventures. The seeds of innovations must be sown urgently to reap the industry with increased competence and efficiency level. So, to ensure a healthy survival amidst prevailing threat, Indian manufacturers must think over raw material substitution, economies of scale, technological advancements, quality improvement and process re-engineering. Organizations which are receptive to adopt change and are innovative in delivering value for money solutions will always maintain sustainable growth.

The investment thesis on PCL is based on the following:

- Delayed transition to EV in India due to policy hindrances and lack of infrastructure, **provides ample room for auto component manufacturers like PCL to capture further growth from the sale of ICE vehicles.**
- With its recent acquisitions, PCL stands **to benefit from being a multiple product, client and geographic auto component manufacturer with focus on high margin products while still being the leader in camshafts industry.** The company has been able to insulate itself from the slowdown in the domestic auto sector due to its exposure to global markets and clients. **We believe the market is still looking at PCL as only as a camshaft manufacturer.**
- PCL also stands to benefit from its acquisition of EMOSS, a Dutch electric mobility service provider. While many major EV manufacturers are facing challenges due to inadequate technology and infrastructure, **PCL can leverage the expertise from its already established subsidiary.** This will also enable the company to localise the technology to meet Indian demands thereby giving a push to capture market share in the nascent industry.

A. Leadership position in the Camshafts Industry

A camshaft is a rotating object— usually made of metal— that contains pointed cams, which converts rotational motion to reciprocal motion. Camshafts are used in internal combustion engines (to operate the intake and exhaust valves), mechanically controlled ignition systems and early electric motor speed controllers.

As per management, 1 out of every 10 camshafts, required for global passenger vehicles, are supplied by PCL. The company has the capacity to produce 9 million casting camshafts and 3.29 million machined camshafts. The management plans to increase its capacity of machined camshafts to 4 million units by 2022.

While we know that the camshaft will soon find its end once EV segment picks up, camshafts are required in all internal combustion engines as it is a critical component for the functioning of an engine.

As setting up a new foundry is capital intensive, there is a growing trend of outsourcing manufacturing of camshafts. Inherent cost advantage compared to other major manufacturing destinations across the world has made India the preferred sourcing destination for OEMs and major Tier-1 suppliers.

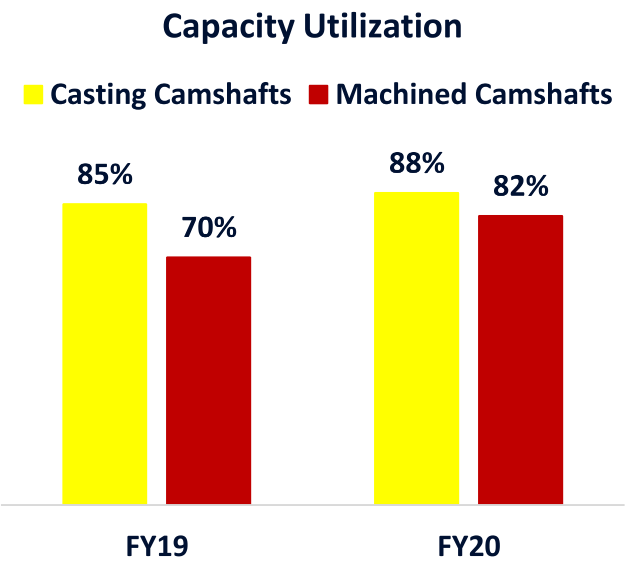
Global automotive camshafts market is expected to grow from $28 billion in 2018 to $44 billion in 2027. This is both new demand and replacement demand.

Given cost structures, we expect overseas capacities to close first. West is generally forward looking, ready to take action much earlier, in response to an emerging (or dying) trend. Indians, on the other hand, like to sweat an asset till the end. Once the closures start, the demand should get redistributed amongst the remaining players. PCL could gain in this scenario and could grow to 20% of global capacity (increasing demand in a reducing market size scenario).

PCL is set to benefit as it is the only Camshaft manufacturing company globally which provides all types of technologies for Camshafts under one roof.

~70%
Indian Market Share

~9%
Global Market Share



Source: Company Disclosures

B. Focus towards high margin Machined Camshafts

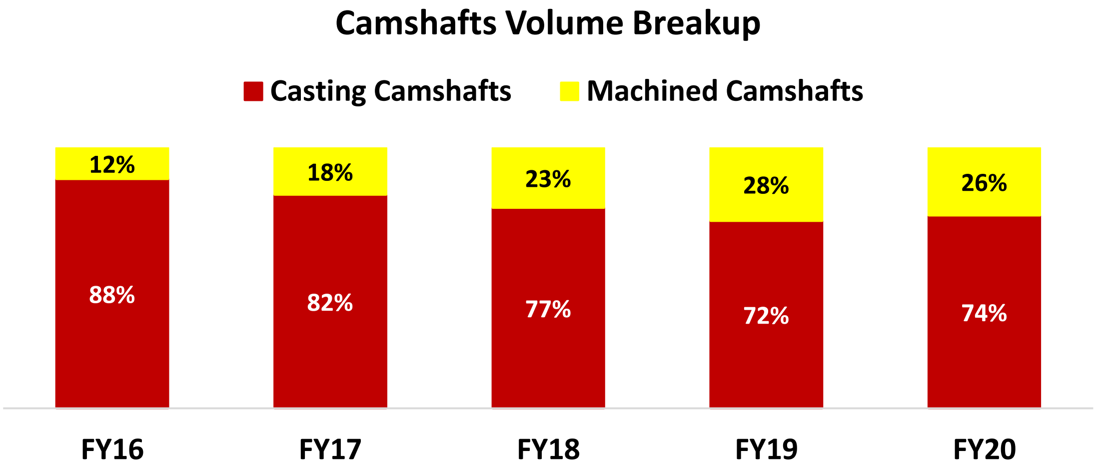
PCL has been gradually moving towards high margin machined camshafts as it offers better realization than camshaft castings.

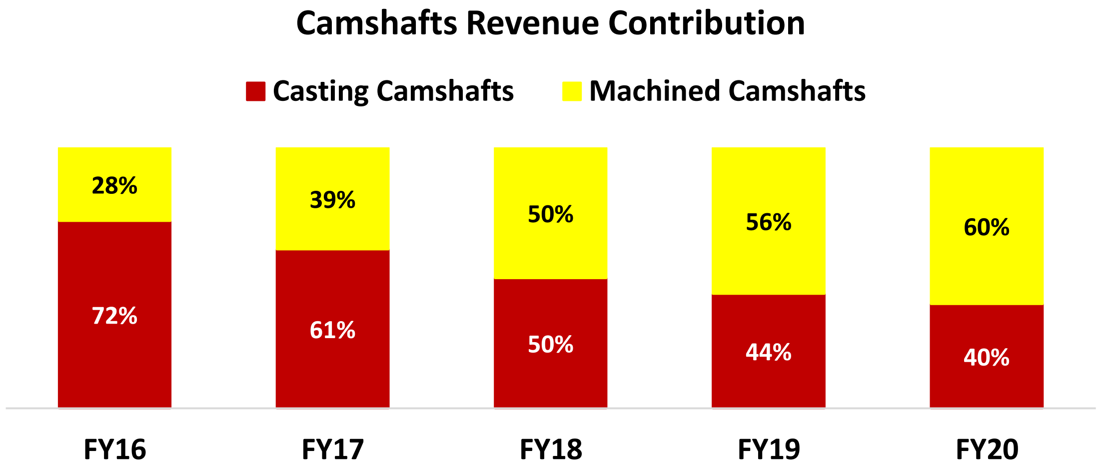
Further, with its exclusive agreement with EMAG (a German machining and tooling Process Company) for transfer of certain know-how and technology for manufacturing assembled camshafts and recent acquisitions of MEMCO and MFT, PCL is well placed to implement advanced machining which aids in lowering the cost per piece and command healthy prices.

The high margin machined camshaft business offers potential 2.5 times higher realization as compared to camshaft casting making.

As per management commentary, the average realization for casting camshafts is between INR 300 to INR 350, while for machining it is between INR 800 to INR 1,200. The margin difference is between INR 400 to INR 500.

While the contribution of casting camshafts is higher in terms of volume, machined camshafts contribute more to the total revenue of the company. We expect this trend to continue going forward, with significant increase in the volume of machined camshafts.





Source: 3C Research, Financial Statements

Acquisition – MEMCO Engineering Pvt Ltd

- **PCL acquired 100 % Stake in Nashik based MEMCO Engineering Pvt. Ltd. for INR. 40.6 Cr.**
- **The acquisition was funded majorly through the internal accruals.**
- The company acquired 95% of MEMCO in 2017 and the remaining 5% was bought out in 2019.
- MEMCO enjoys long term relationships with marquee global customers like Bosch, Delphi, Endress+Hauser and Giro.
- They have a capacity to produce 10.7 million precision components per annum.
- Products of MEMCO include Fuel injection components for conventional & CRDi diesel engines, brake components & high precision instrumentation components.
- We believe the acquisition will help PCL strengthen its niche machining capabilities & diversify into new product ranges. The management sees the acquisition as an opportunity to venture into non-automotive segments.
- Following the takeover, the global sales and technical network of PCL will complement MEMCO to export its products while the financial bandwidth of PCL will provide support for larger, capital-intensive programs of MEMCO.
- MEMCO's revenues decreased by 13.61% from INR 47.26 Cr. in FY 2018-19 to INR 40.83 Cr. in FY 2019-20.
- Going forward the management will focus on high margin components and cost rationalizations.

Source: 3C Research, Financial Blogs, Investor Presentations

Acquisition - MFT Motoren und Fahrzeugtechnik GmbH

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- **PCL acquired 76% Stake in Germany based MFT in March 2018 for INR. 25 Cr. through its WOS - "PCL (International) Holding B.V.".**
- **PCL bought out the remaining 24% stake of MFT on July 24, 2020 for INR 4.76 Cr.**
- MFT is a leading supplier of machined components to Volkswagen, Audi, Opel, Westfalia, Hatz Suzuki & several others in its client list.
- **This acquisition was funded partly through internal accruals and debt.**
- Products of MFT include Balancer Shafts, camshafts, bearing caps, engine brackets & several non engine prismatic components.
- As per recent management commentary, camshaft is actually a very small part of MFT's business at 5-10%. The other 90% comes from different components like balancing shafts, two-ball bars, bearing caps etc.
- We believe the partnership will help PCL scale its business in Germany owing to MFT's know-how in manufacturing and proximity to European customers & will help strengthen its niche machining capabilities & diversify into a new product ranges.
- MFT revenues increased by 6% from INR 159.41 Cr. in FY 2018-19 to 169.47 Cr. in FY 2019-20.

Source: 3C Research, Financial Blogs, Investor Presentations

C. Multi-product Global Auto Components Manufacturer

Over the years, PCL has grown from being a single product company to one that manufactures and supplies critical components such as camshafts, balancer shafts, injector components and other automotive and non-automotive components to OEMs around the world.

The management **expects to obtain significant synergies in terms of cost and cross selling opportunities.**

There has been an increased push for deep localization; it means localization of not just products and components, but also in terms of design and engineering content, including the processes and so on. **Both MEMCO and MFT will provide PCL the much needed technological push, often found lacking in Indian auto component players.** These steps are essential during these times to reduce the over dependence on Chinese imports and also to readjust the supply chain as a one-plus-one concept.

These acquisitions will also enable PCL to shift to newer products and reduce the concentration of revenues from camshafts.

Acquisition - EMOSS Mobile Systems Netherlands

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- **PCL acquired 51% Stake in Dutch based EMOSS in May 2018 for INR 58 Cr. through its WOS - "PCL (International) Holding B.V."**
- **They are one of the largest and most experienced players in the world of electric trucks.**
- **This acquisition was funded partly through internal accruals and debt.**
- **The remaining 49% stake was acquired in July 2020 for INR 5.19 Cr.**
- EMOSS is a one-of-a-kind business that designs, develops, produces and supplies complete electric and hybrid powertrains (the mechanism that transmits the drive from the engine of a vehicle to its axle) for trucks, buses, military vehicles and heavy equipment.
- EMOSS business model also includes conversion of diesel trucks into ready to use electric trucks.
- In 2009, EMOSS completed its first electric tuck conversion. Now it is focused on developing and supplying electric powertrain kits for trucks and passenger vehicles from 7 tonnes to 75 tonnes around the world.
- As per management, 15-25 kits can be delivered in a month. They have around 300 models in its portfolio.
- Major clients include DSV, Ferrovial, Geesink Norba, Heineken, Mellor & Waste Management New Zealand.
- The management expects to bring the e-mobility solution to India to strengthen its domestic market share.
- EMOSS revenues increased by 35% from INR 71.71 Cr. in FY 2018-19 to INR 97.06 Cr. in FY 2019-20.
- The acquisition marks the company's foray into EV space, which will allow them to hedge the risk of electrification in the long term.

Source: 3C Research, Financial Statements

D. Foray into Electric Mobility

The business of EMOSS can be divided into two major categories:

Retrofitting

- EMOSS can repower an older vehicle into a completely electric vehicle irrespective of the configuration.
- Its basically like a customer can walk away with a brand new electric vehicle for around half the cost of a comparable vehicle direct from a manufacturer.
- As per recent management commentary, the price for the highest model is between €50,000 to €60,000.

Ready-to-assemble modular kits

- Newer business and major focus of the management.
- EMOSS develops kits directly through OEMs.
- The company supplies the electric drive line to the OEM.
- The OEM then assembles it on their vehicles and sell it as an electric bus from the start.

The management plans to develop localized solutions of these technologies to meet the demand in India. EMOSS acquisition helps PCL make a foray into the electric mobility and paves way for the company to access mature electrical mobility markets such as Europe, North America and Australia. We also believe PCL's financial bandwidth will help EMOSS scale up business quickly, which the company has struggled to accomplish in the past.

We expect significant jump in revenue from this business over the next couple of years.

Electric Powertrains – Key trigger for PCL

Global CO_2 emissions from transport are 9000 billion tons, 18% of which are man-made emissions, and these are expected to grow by 60% until 2050. Freight transport currently accounts for slightly less than half of emissions from transport, but the share is expected to grow significantly as emissions from road freight transport are expected to grow by 56%−70% and emissions from international sea and air freight are expected to almost triple between 2015 and 2050. **Emissions are expected to grow despite large improvements in energy efficiency because of expected strong growth in demand. Hence, there is a growing need for electrification of transport, including heavy-duty road freight transport.**

Three drivers majorly support the electric truck market through 2030. First, based on total cost of ownership (TCO), these trucks could be on par with diesels and alternative powertrains in the relative near term. Second, robust electric-vehicle (EV) technology and infrastructure is becoming increasingly cost competitive and available. Third, adoption is being enabled by the regulatory environment, including country-level emission regulations and local access policies.

The global electric powertrain market size was valued at USD 19.08 billion in 2019 and is expected to grow at a compound annual growth rate (CAGR) of 13.6% from 2020 to 2027. Increasing sales of electric vehicles, such as hybrid and pure electric vehicles, is a prominent factor fueling market growth. Stringent emission standards by the government authorities, such as emission standards for greenhouse gas (GHG) emissions by the U.S. Environmental Protection Agency (EPA), China VI, and BS-VI in India, drive the market. Moreover, governments' attractive incentives for domestic production and mass adoption of electric vehicles are anticipated to proliferate the market for electric powertrain globally.

Europe is anticipated to be a significant market for electric vehicle powertrain as the region is characterized by the presence of numerous OEMs. Many European countries, such as Norway, the Netherlands, Sweden, and France, witness significant EV uptake rates. This, in turn, is expected to boost the market demand in the region. **North America has dominance and high adoption of electric vehicles. Moreover, U.S. has a developed infrastructure for electric vehicles, such as charging stations, also known as EVSE (electric vehicle supply equipment), which would further propel the demand for electric powertrain.**

Implementation of strict emission rules, such as BS VI and China VI, is expected to drive the market in Asia Pacific. Countries in Asia Pacific are focusing on the development of electric infrastructure.

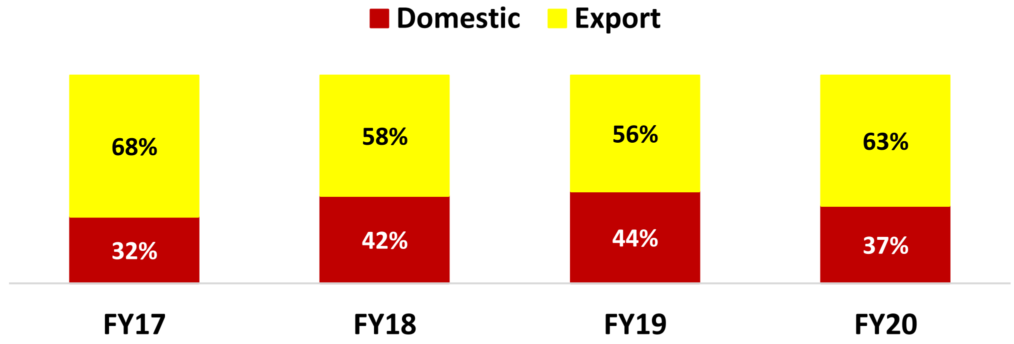
Clientele

PCL | Common | MFT | Common | MEMCO

- PCL is the preferred supplier to GM (14 regions worldwide) and Ford.
- The company has 10+ years relationships with most of its clients in over 20+ countries.
- In exports, Europe is the biggest market for the company.

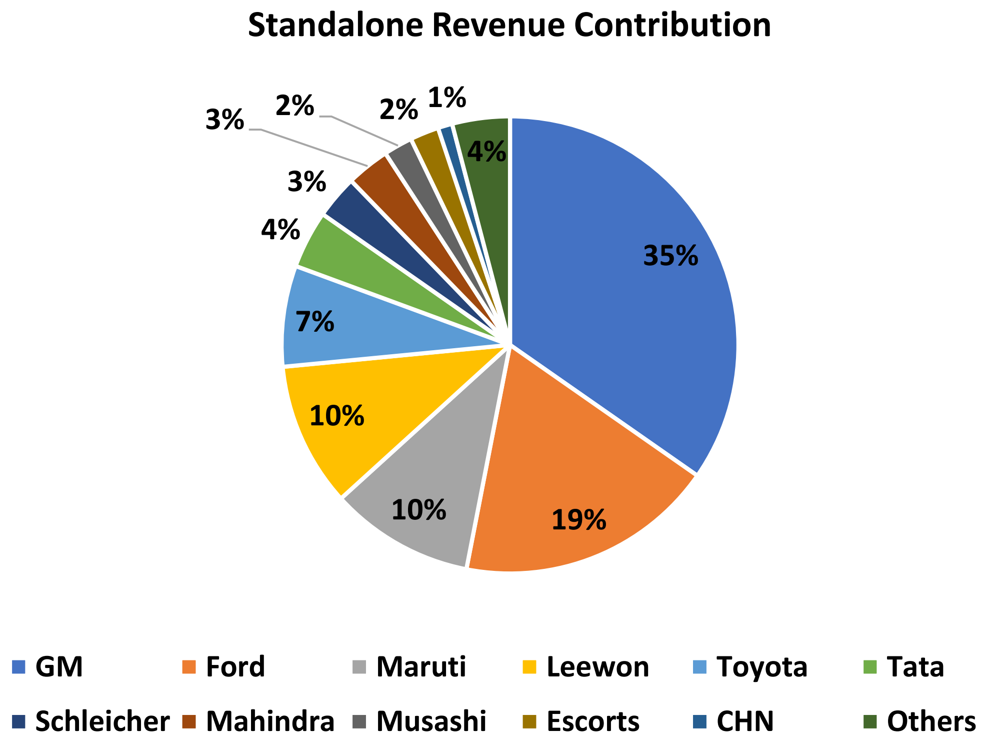
Source: Investor Presentation

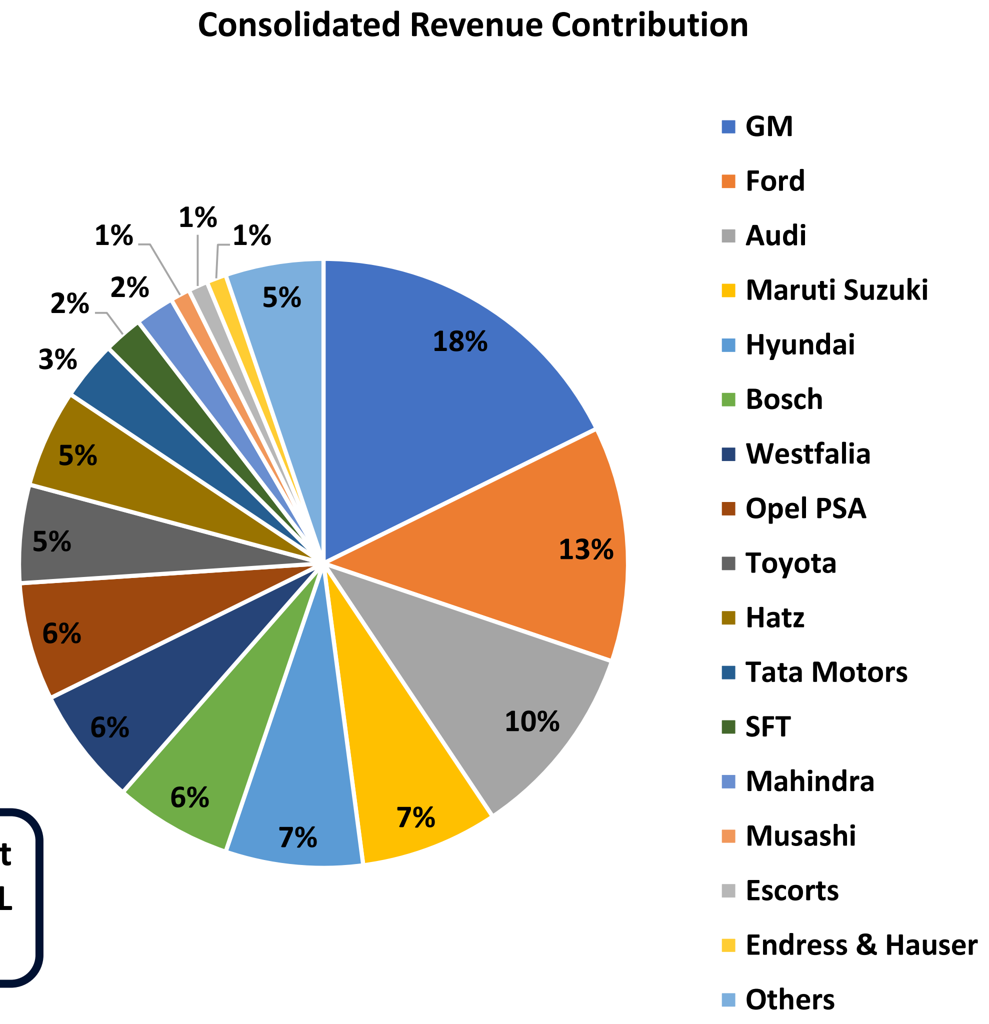
Region-wise Revenue Contribution (%)



EMOSS

Diversifying client base with acquisitions





With the acquisition of MEMCO and MFT, PCL has been able to reduce its client concentration risk. On a standalone basis both GM and Ford contribute to over 54% of PCL revenue. While on a consolidated basis this contribution comes down to 31%.

Source: Investor Presentation

Financial & Business Analysis

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	FY15	FY16	FY17	FY18	FY19	FY20	Q4 FY20	Q1 FY21
Consolidated Total Revenue (INR Cr.)	532.40	439.80	442.30	421.30	695.20	746.20	179.50	97.30
Consolidated Operating Profit (INR Cr.)	140.80	117.10	99.20	79.70	126.10	112.10	27.40	-0.40
Operating Profit Margins (%)	25.95	25.92	21.97	18.42	17.82	14.60	15.26	-
Consolidated Net Profit (INR Cr.)	46.40	55.80	55.60	31.00	15.30	25.60	-7.00	-0.60
Net Profit Margins (%)	8.71	12.69	12.56	7.36	2.19	3.43	-	-

- On a consolidated basis the company's performance has been lagging due to its loss making Chinese subsidiaries and subsequent exit of businesses, capex and debt ladened acquisitions over the years.
- With the exit of its businesses in China we expect the company's performance to improve going forward. We also expect the contribution of recent acquired subsidiaries and shift in product mix will help the company put up better margins.
- On a standalone basis PCL has been able to achieve operating margins and net margins above 15% and 8% respectively in each of the last 5 years.
- Cash flow from operations has also been positive in each of the last 5 years.
- We expect the working capital requirements of the company to increase as it scales its business in existing and newer markets.
- While long term borrowings have been increasing over the years, debt to equity of the company is under 1. **As on March 31st, 2020 long term borrowing stood at INR 151.71 Cr. and cash and cash equivalents stood at INR 27.48 Cr.**
- Both trade receivables and debtors as a % of sales have been showing an uptrend over the years.
- Camshafts continues to be biggest contributor to the revenues of the company. We believe this will change in the coming years as the other businesses grow in revenue and operations.

Management

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Mr. Yatin S Shah is the founder and Chairman and Managing Director of Precision Camshafts. He holds a B.Com from Bombay University and a MBA from Pune University. Mr. Shah possesses over 32 years of experience in the auto component manufacturing sector. He is also the **recipient of J.R.D. Tata Udyog Ratna Award and many others prestigious awards.**

He started the company in 1992 in Solapur, a small town in Maharashtra and was instrumental in growing the camshafts business to its current leadership position. He was successful in convincing Indian automobile manufacturers to outsource the manufacturing of a critical component like camshafts. Under his leadership, PCL grew into an amalgamation of tactical knowledge, domain expertise and technical capabilities. The company's oligopolistic nature in the domestic camshafts industry is testament to his sound management capabilities.

Mr. Karan Shah is the Whole Time Director of Precision Camshafts. He holds a Master's in Business Administration from Harvard Business School & also holds Bachelor's of Science in Mechanical Engineering from Purdue University, USA. Mr. Shah possesses over 2 years experience as a manufacturing engineer at Cummins, USA.

As a second-generation entrepreneur, he fueled the in-organic growth of the company. He turned the pandemic disaster into an opportunity for the company. The whole auto sector struggled due to the pandemic, reducing the valuations significantly and provided **an opportunity to own 100% of all subsidiaries.**

His addition to the management team is critical in the transformation of PCL from a global camshaft manufacturer to a global precision engineering company. While acquisition of MEMCO and MFT helped PCL to grow horizontally, addition of EMOSS helped the company to grow vertically. **Acquisition of EMOSS is an indicator that PCL is looking to enter the technology space.**

Risks & Concerns

- **Deterioration in the performance of the subsidiaries leading to weakening of business of the company:** Our investment thesis on PCL is based entirely on its ability to grow its businesses across its various subsidiaries and shift towards high margin products and services. Camshafts manufacturing continues to be the major contributor to the company's total revenue. The management has been vocal in its plans to diversify its business to other segments with focus on profitability and sustainability. The recent acquisitions also underlines this vision of the management. However, these businesses are also exposed to cyclicality related within the automobile segment.
- **Slowdown in the end user auto industry:** PCL is exposed to cyclicality associated within the automobile segment which has been witnessing some moderation on account ongoing slowdown, weak near term outlook and growth challenges remain for auto component industry. This is further aggravated by the ongoing outbreak of Covid-19 and resultant lockdowns, which are expected to have a significant impact on the overall industry in the short term. While new stringent emission norms, BS VI adoption means increased components per vehicle driving the demand for auto ancillaries, capex on technology advancement and product capabilities may continue to remain high exerting pressure on companies' cashflows. However the company has been diversifying its product portfolio through recent acquisitions and which is expected to reduce dependence on a single end user industry.
- **Susceptibility of profitability to volatility in raw material prices:** 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 exposes PCL to price risk. However, periodic negotiations with customers reduce the risk to a large extent.
- **Risk of foreign exchange rate fluctuations:** PCL derives significant portion of its revenues outside India (~70%), and its profitability is thus exposed to fluctuations in foreign exchange rates. However, the company has a hedging policy in place for covering foreign exchange exposure with respect to trade receivables through forward cover contracts, which minimizes the risk in times of adverse currency rate fluctuations.

Future Outlook

The auto ancillary sector's revenue is expected to shrink 16-20% in the current financial year, with both domestic market as well as exports likely to see contraction in demand, according to India Ratings and Research. The report also says that auto ancillaries with high exposure to the commercial vehicle segment are expected to continue to be the worst impacted, in relation to those with higher two-wheeler, passenger vehicle or tractor segment exposures.

Another report by McKinsey & Company also mentioned that the Covid-19 has darkened the outlook for the automotive industry, which already saw a sales slowdown in 2019. The report points out that strategizing to build locally to meet local and global demand, expanding to complementary sectors and optimizing costs could help regain growth momentum of auto component manufacturing.

Collaboration with non-automotive sectors is also seen as an opportunity to unlock potential for various parts and services. As supply chains shift, India could expand its share in the global auto component trade to 4-5% in six years, emphasizing a targeted export expansion and import substitution program for key components.

EV technology in India is highly dependent on innovation and government incentives. For EV to become affordable it has become apparent that Indian manufacturers find a solution to the inherent problems in the industry.

PCL is a niche auto ancillary company in a oligopolistic business with relatively high margins. The company has been able to reduce its client concentration over the years through addition of new clients and geographies. The management's plan is to squeeze out as much as growth possible from the traditional auto component business while making its foray into EV. **With the help of its already established EV subsidiary, we expect the company to exploit the voids in the emerging EV segment.**

The share price of the company has corrected around 80% from its IPO price of Rs 185 in last 4 years. The market seems to look at the company as a dying business. We believe the recent acquisitions and exit of loss making ventures from China are just short term sufferings the company has to experience in order to build a sustainable future. With the company capturing further orders and clients in camshafts and auto component business, we believe scaling up of EV business both in international and domestic markets will be a key trigger for re-rating in the future.

Statutory Disclosure

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