

# Initiating Coverage Precision Camshafts Ltd.

November 26, 2021





# Precision Camshafts Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 144	Buy in Rs 143-146 band & add more on dips to Rs 125-128 band	Rs 157	Rs 168	2 quarters

HDFC Scrip Code	PRECAMEQNR
BSE Code	539636
NSE Code	PRECAM
Bloomberg	PRECAM IN
CMP Nov 25, 2021	143.9
Equity Capital (Rs cr)	95.0
Face Value (Rs)	10
Equity Share O/S (cr)	9.5
Market Cap (Rs cr)	1367
Book Value (Rs)	67.7
Avg. 52 Wk Volumes	450,000
52 Week High (Rs)	112.0
52 Week Low (Rs)	32.0

Share holding Pattern % (Sep, 2021)	
Promoters	65.4
Institutions	0.1
Non Institutions	34.5
Total	100.0



**HDFCsec Retail research  
stock rating meter**

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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### Our Take:

The performance of Precision Camshaft Ltd (PCL) was impacted over the last few years due to a global slowdown in the automobile industry which was further complicated by Covid related disruption. The company also had to incur losses in its Chinese JV. The global recovery in automobile demand and improving performance of its subsidiary companies augur well for future growth. Although the adoption of EV could put a dent in the camshaft market, we believe mass adoption of EVs is still some time away and PCL would benefit from the rising demand of ICE vehicles till then. Nevertheless, the company has made strides towards participating in the EV opportunity by acquiring Emoss (its 100% owned European subsidiary), which produces and supplies electric drivetrains and has successfully demonstrated capabilities to retrofit in ICE based buses and other heavy vehicles. Apart from this, it also offers high-end battery systems, fuel cells, range extenders, generators, power electronics and control systems suitable for different industries. Acquisition of MFT, a specialist in machined components has resulted in broadening PCL's product portfolio and has given access to developed markets of Europe and North America.

The group's automotive component business is now well diversified in terms of product as well as customer base where no single customer contributes to more than 23% of revenues. The company is debt free on a net basis with strong free cash flow generation which it can utilize for any inorganic growth opportunities.

### Financial Summary

(Rs cr)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Operating Income	215	184	16.9	207	3.4	709	836	959	1,099
EBITDA	29	19	55.6	22	34.7	61	100	118	138
APAT	20	10	111.2	7	185.3	3	31	45	62
Diluted EPS (Rs)	2.1	1.0	111.2	0.8	185.3	0.3	3.2	4.7	6.5
RoE (%)						0.5	4.7	6.6	8.6
P/E (x)						448.8	44.3	30.6	22.1
EV/EBITDA (x)						20.2	11.7	9.4	7.5

(Source: Company, HDFC sec)



### Valuation & Recommendation:

We expect PCL's revenue/EBITDA/PAT to grow at 16/31/173% CAGR over FY21-FY24, led by the increased demand from the domestic automobile industry and strong growth in the European business. We expect RoE to improve from 0.5% in FY21 to 8.6% in FY24. We believe investors can buy the stock in the band of Rs 143-146 and add on dips to Rs 125-128 band (22.5x Sep-23E EPS) for a base case fair value of Rs 157 (28x Sep-23E EPS) and bull case fair value of Rs 168 (30x Sep-23E EPS) over the next 2 quarters.

### Q2FY22 Result Update

Consolidated revenue grew by 17% yoy to Rs 215cr driven by higher realisation. However, on a sequential basis revenue growth was muted at 3.4% due to underperformance of the domestic market on account of staggered lockdowns. Company-wise Standalone (Precision Camshaft) revenue stood at Rs 120cr while subsidiary companies revenue for MEMCO/MFT/EMOSS stood at Rs 14/43/46cr respectively. EBITDA increased 56% yoy on account of lower raw material expenses. EBITDA margins expanded ~340bps to 13.7%. PCL reported a PAT of Rs 20cr against Rs 10cr in Q2FY21. Adjusting for exceptional items, PAT increased by 89% to Rs 8cr. PCL received compensation for the cancellation of the order and sunk cost from a customer amounting to Rs 24.9cr offset partly by Impairment of property, plant & equipment amounting to Rs 11.8cr during the quarter. Company-wise Standalone (Precision Camshaft) EBITDA stood at Rs 21cr while subsidiary companies EBITDA for MEMCO/MFT/EMOSS stood at Rs 3.0/5.2/4.6cr respectively.

Revenue from European operation increased 11% yoy to Rs 117cr and accounted for 55% of total revenue, down from 57% in Q2FY21. Domestic revenue grew 37/22% yoy/qoq to Rs 70cr.

### Key Triggers

#### **Market leader in domestic camshafts space**

PCL has emerged as a major passenger vehicle (PV) camshaft supplier not only in domestic, but global markets as well. Camshaft is one of the five critical components of an engine application in an automobile along with the cylinder block, crankshaft, cylinder head and connecting rod. Camshaft manufacturing entails significant focus on technology knowhow, precision and quality standards. Focus on technology (product and process) has enabled the company to gain a strong foothold in the domestic and global markets. PCL has a ~70% share in the domestic camshaft market and ~9% globally. The company has a total of 5 manufacturing plants. It has a capacity to cast 12mn camshafts per year and machines about 4mn camshafts per year. Its four foundries and four machine shops, produce more than 150 types of camshafts. Value addition in Machined camshafts is much higher and PCL is working to increase the share of machined camshafts going forward. The capacity utilisation has been ~65% in H1FY22, due to Covid issues and chip shortage. Once these concerns subside, the utilisation could rise further.



### **Robust growth in global camshaft market**

The global automotive camshaft market reached a value of US\$3.1bn in 2020. According to a report by Technavio the automotive camshaft market is set to post an incremental growth of 38.81mn units, accelerating at a CAGR of over 5% over FY21-FY25. 64% of the market growth will originate from APAC during the forecast period. Rising automobile production globally, strictly implemented emission standard norms, alteration of old and outdated engines, and the requirements for modern and advanced engines are the key drivers for this increasing demand.

Moreover, crankshaft being a critical component was manufactured in-house by most of the OEMs. However, focus on cost competitiveness and efficiency improvement has led to considerable rise in the product's outsourcing. Camshaft manufacturers like PCL with manufacturing abilities across technologies, and with machining set-ups are expected to benefit from the trend of manufacturing operations being outsourced by OEMs along with optimization of vendor network. Internationally Thyssen Krupp is a competitor for PCL but it is not a speciality player in camshafts and has many other businesses / products.

### **Reduction in chip shortage to play a key role**

After two years of slowdown, the Indian automobile industry registered strong growth across passenger and commercial vehicles and two-wheeler segments so far in FY22. With good monsoon rains and improved macro-economic conditions buoying consumer sentiments, there is strong demand for vehicles. However, due to the chip shortage OEMs are not able to meet the demand, elongating the waiting period. Most OEM commentaries indicate chip shortage to abate gradually and expect H2FY22 to be better than H1FY22. According to SIAM data PV sales increased by 36% Apr-Oct 2021 over the corresponding period last year.

Given the chip shortage ICRA has revised vehicle sales estimates downwards. It now expects 2W/3W volumes to contract by 1-4% Y-o-Y in FY2022, following a weak festive season performance for the industry from 10-12% growth expected earlier. Similarly Crisil has reduced PV growth estimates to 11-13% for FY22 from its earlier estimate of 14-16% growth.

### **Retrofitting can be a big opportunity**

PCL's subsidiary Emoss has the experience of retrofitting more than 600 Commercial vehicles right from 5 ton all the way to 55 tons of gross weight and converting them to electric vehicle. It is tying up with several OEMs across Europe to provide them with modular kit which they can use into their own vehicles. Revenues of Emoss has grown from ~Rs 40cr three years ago to ~Rs 133cr in FY21, indicating a strong demand for the product. It has developed several partnerships with niche OEMs across the world to design, develop and supply modular electric driveline kits which are fitted onto the vehicle by the OEM. Emoss vehicles have approvals for most parts of the world, including North America, bulk of Europe, Australia and New Zealand.



The company intends to replicate the business in India and it has recently retrofitted a mid-size passenger AC Bus into 100% electric Bus which is being tested at Automotive Research Association of India (ARAI). PCL has localized more than 60% of the electric driveline in the first vehicle itself with a target to further indigenize in the upcoming vehicles. Although it would take ~2.5 years to generate any meaningful revenue from this, it would open up a huge opportunity for PCL over the long term in India as cost conscious owners would prefer to retrofit their vehicles and extend their life instead of going for a fresh purchase.

Solapur Municipal Corporation (SMC) has a fleet of approximately 250 diesel engine operated LCVs (“Ghanta Gaadi”) for waste collection throughout the city of Solapur. SMC intends to convert such type of intra city vehicles into 100% electric vehicles and is desirous of working with PCL to convert these vehicles into electric. PCL has entered into a Memorandum of Understanding (MoU) with SMC on the 3rd November 2021. PCL will provide SMC with three (3) fully homologated Electric Light Commercial Vehicles for SMC on a “free of cost” returnable basis by the end of calendar year 2022. Based on successful outcome and final validation of trial vehicles, SMC would float E-Tender on G.E.M. as per this pilot vehicle technical specifications for additional vehicles.

### **Technical collaborations with overseas players coupled with diversified product portfolio**

Over the years, the company 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 and has also built in capabilities to provide end-to-end solutions for electrification of heavy vehicles. 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, PCL is well placed to implement advanced machining which aids in lowering the cost per piece and command healthy prices.

### **Broadened product portfolio through acquisitions**

PCL acquired a total of three entities in the last 2-3 years and these acquisitions have helped the company to broaden the product portfolio, geographical diversification and to mitigate the customer concentration risk. Additionally, the synergy derived from these acquisitions is expected to boost the revenue going forward aided by new customer associations especially in the European market. In Mar-18, PCL had acquired 76% in MFT Motoren und Fahrzeugtechnik GmbH, Germany and acquired the balance 24% for a consideration of ~Rs 4.8cr in FY21. Similarly, it had acquired a 51% stake in Netherlands based Emiss Mobile Systems B.V. in May-18 and the balance in 49% in FY21 for a consideration of ~Rs 5.2cr. The moves now make both units wholly-owned step-down subsidiaries of Precision Camshafts.

With these inorganic acquisitions, PCL has expanded its manufacturing base in the European market and broadened product portfolio to include balancer shafts and prismatic components. It has also paved the path for its foray into electric mobility and provided access to mature markets in the space of electric mobility like North America, Australia and Europe.



PCL has made changes in the management of the acquired companies and their cost structure and is on path to turning around their financials.

### **Strong liquidity position**

PCL has a strong liquidity position with significant free cash generation in the coming years. The company is not looking at any major capex plans except for induction hardening of camshaft, which is required for all the new platforms for Maruti in India. Its maturing debt obligation amounts to Rs 20-30cr for the next three years. It is looking for inorganic opportunities and has liquid investments invested in Mutual funds to the tune of Rs 217cr as of FY21. PCL is debt free on a net basis and Incremental working capital requirement is expected to be managed comfortably with internal accruals, bank limits, unsecured loans.

### **Risk & Concern**

#### **Rapid adoption of EVs could severely impact camshaft business**

A camshaft is used to operate the intake and exhaust valves for proper air-fuel mixture. As EVs do not require such product, rapid adoption of EVs could significantly dent the demand for camshafts. Shift to EVs will happen gradually across the globe, especially in the developing nations. Post the recent acquisitions, PCL is aiming at 25% of revenues coming from non engine components by 2025.

#### **Vulnerable to cyclical demand from automobile OEMs**

PCL primarily manufactures camshafts which are used in automobiles and is exposed to cyclical demand for automobiles. Inability to grow organically in the core camshaft business over last 5 years has been a matter of concern.

#### **Losses in subsidiary**

The Netherlands subsidiary of the company, EMOSS, is incurring losses at the EBITDA level which is pulling down the overall performance of the company. The management has indicated that it was due to some exceptional write offs which has been done and no further write offs would be needed going forward. Inability to turnaround EMOSS and have a profitable growth will be the key downside risk for the company.

#### **Customer and product concentration**

Historically, PCL has been dependent on a single product, i.e. camshafts and limited number of customers for significant portion of its turnover. GM and Ford are the company's primary customers, which together accounts for nearly 30% - 40% of total income during the last two years ended FY20. PCL thus faces the risk of fluctuations in production levels as well the phase in/out stages of its key OEM customers' product models. However, PCL is expected to benefit in the near term on account of its latest acquisitions and new product inclusions to its portfolio.



### **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.

### **Covid related disruptions**

The pandemic is a hanging sword and looking at developed countries where third-fourth waves are happening, there are chances of a third-wave in India as well which could slowdown economic activity.

### **Forex volatility risk**

PCL derives ~71% of its consolidated revenues from outside India and is exposed to the volatility in forex rates.

### **Return ratios continue to be low**

Due to low Sales to Fixed Assets ratio and low PAT margins, the return ratio of PCL has been in low to mid-single digits so far. The equity capital at Rs 95cr is also large to support the current business topline and margins. However post the recent acquisitions, things are turning around.

### **Company Background:**

Precision Camshafts Limited (PCL) is one of the largest camshaft manufacturer and supplier of camshafts, a critical engine component, in the world. Incorporated in 1992, it is the only supplier in the world to offer all camshafts technologies under one roof - cast iron, ductile iron, hybrid and assembled. PCL has a capacity to cast 11mn camshafts per year and machine about 4mn camshafts per year. Across its four foundries and four machine shops, PCL produces more than 150 types of camshafts for a range of automobile segments - from passenger cars, tractors, light commercial vehicles to locomotive engine applications.

PCL has set a global benchmark in manufacturing quality camshafts through its robust systems, technology and processes. Today PCL is one of the world's leading camshaft manufacturers with a ~9% global market share in the passenger vehicle segment and ~70% share in the domestic market, supplying to marquee customers like GM, Ford, Maruti Suzuki, Hyundai, Porsche and Toyota, to name - a few, across different geographies including Brazil, Mexico, USA, Europe, Uzbekistan, India, Korea and China.



Over the years, PCL has not only expanded geographical customer footprint to over 17 countries but also diversified its product range, customer list and manufacturing locations. It now has 2 plants situated in Solapur, India, 2 plants situated in Nashik, India, 1 plant in Cunewalde, Germany and 1 situated in Oosterhout, the Netherlands. In addition to being a global leader in camshafts, it is now a key supplier of critical injector components, balancer shafts and other niche prismatic parts, along with complete electric drive lines, to all leading Original Equipment Manufacturers (OEMs) and end customers worldwide.

	Units Capacity (PA)	Units Capacity (PA)	Annual Production	Utilisation (%)
Camshafts castings	Four foundries	11 million	6.57 million	59.74
Machined camshafts	Four machine shops	4.00 million	2.38 million	59.74

### Subsidiaries

#### Memco Engineering Private Limited (MEMCO)

MEMCO is a WOS of the Company based in Nashik, Maharashtra, India. It is engaged in the business of manufacturing fuel injection components for conventional CRDi diesel engines, brake components, high pressure diesel injector connectors for naval ships and high precision instrumentation components. MEMCO enjoys long term relationships with marquee global customers like Bosch, Delphi, Endress Hauser and Giro. It reported revenues of Rs 36.8cr (-10%) in FY21 and PAT of Rs 1.1cr (-28%)

#### MFT Motoren und Fahrzeugtechnik GmbH (MFT)

MFT is engaged in the business of manufacturing Balancer Shafts (i.e. fully machined, hardened and balanced vertical and horizontal Balancer shafts), Camshafts, Bearing Caps, Engine Brackets and Prismatic Components (i.e. brake and chassis components, machining of all casting materials). MFT enjoys long term relationship with marquee global customers like Volkswagen, Audi, Opel, Westphalia, Hatz, Suzuki etc. It reported revenues of Rs 158.4cr (-7%) in FY21

#### Emoss Mobile Systems B.V. (EMOSS)

EMOSS is a one-of-a-kind business that designs, develops, produces and supplies complete electric powertrains for trucks, busses, military vehicles and heavy equipment. EMOSS business model includes conversion of diesel trucks into ready to use electric trucks. The trucks powered with Electric Drivelines can carry a maximum payload of 50 tons with a mobility of up to 350 km which may be extended beyond 500 km with long range extenders developed by EMOSS. Acquisition has paved access to electrical mobility markets such as Europe, North America, Australia and New Zealand. EMOSS enjoys customer base of Heineken, Meyer & Meyer, TEDI, etc. It reported revenues of Rs 133.3cr (+37%) in FY21

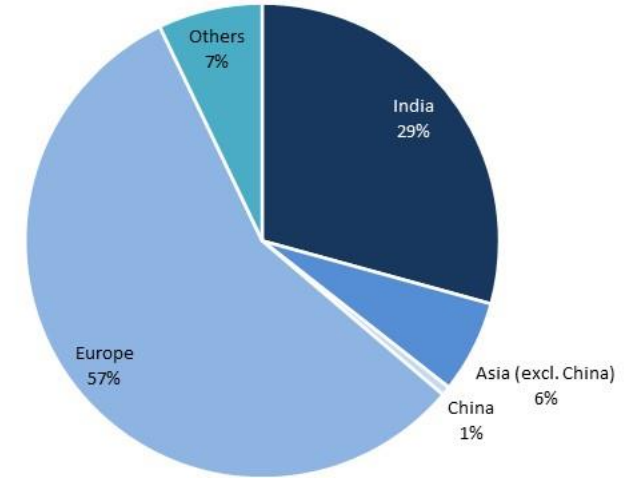
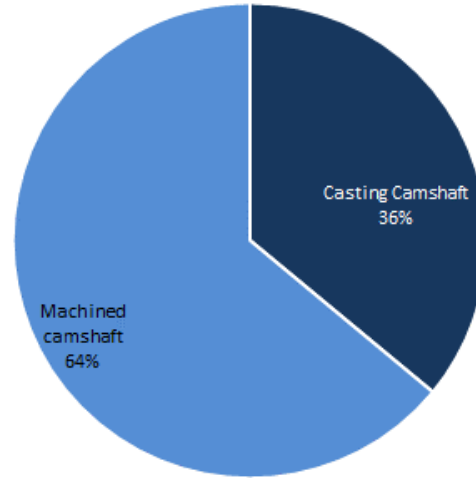




Sales breakup (FY21)

Productwise (standalone)

Geography wise



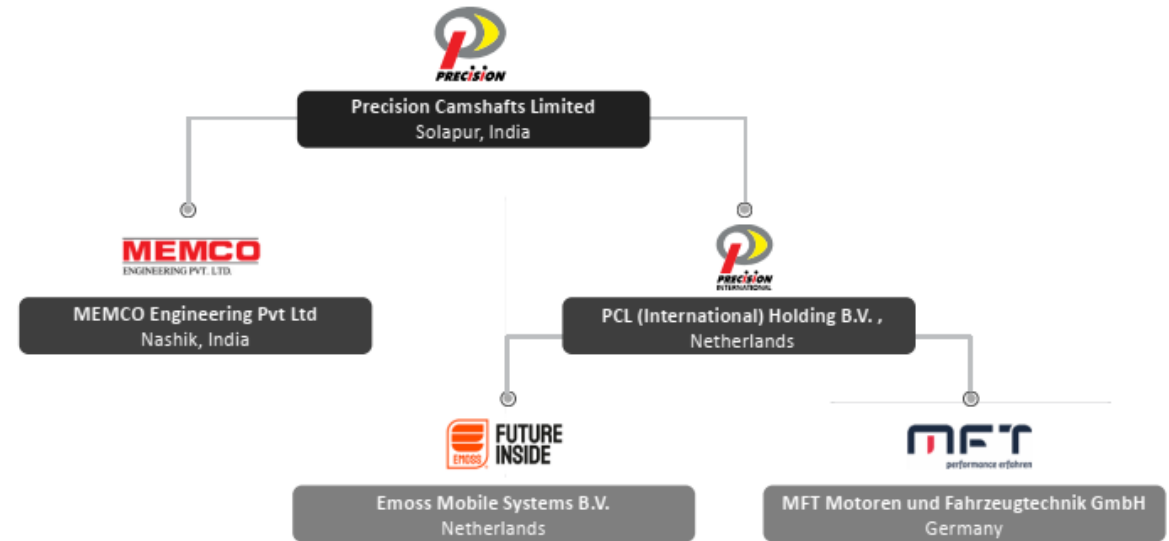
(Source: Company, HDFC sec)

## Global Outreach of the Group

### Global Outreach of the Group



## Company Structure



(Source: Company, HDFC Sec)



# Precision Camshafts Ltd.

## Financials

### Income Statement

(Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>746</b>	<b>709</b>	<b>836</b>	<b>959</b>	<b>1099</b>
<b>Growth (%)</b>	<b>7.3</b>	<b>-5.0</b>	<b>17.9</b>	<b>14.7</b>	<b>14.6</b>
Operating Expenses	634	648	736	841	961
<b>EBITDA</b>	<b>112</b>	<b>61</b>	<b>100</b>	<b>118</b>	<b>138</b>
<b>Growth (%)</b>	<b>-11.1</b>	<b>-45.2</b>	<b>63.3</b>	<b>17.6</b>	<b>17.4</b>
<b>EBITDA Margin (%)</b>	<b>15.0</b>	<b>8.7</b>	<b>12.0</b>	<b>12.3</b>	<b>12.6</b>
Depreciation	86	79	80	82	85
Other Income	21	26	27	30	33
<b>EBIT</b>	<b>47</b>	<b>8</b>	<b>48</b>	<b>66</b>	<b>86</b>
Interest expenses	9	8	8	6	4
<b>PBT</b>	<b>36</b>	<b>15</b>	<b>53</b>	<b>60</b>	<b>83</b>
Tax	10	16	12	15	21
<b>PAT</b>	<b>26</b>	<b>-1</b>	<b>41</b>	<b>45</b>	<b>62</b>
Share of Asso./Minority Int.	9	3	0	0	0
<b>Adj. PAT</b>	<b>37</b>	<b>3</b>	<b>31</b>	<b>45</b>	<b>62</b>
<b>Growth (%)</b>	<b>88.5</b>	<b>-91.7</b>	<b>912.7</b>	<b>45.0</b>	<b>38.5</b>
EPS	3.8	0.3	3.2	4.7	6.5

### Balance Sheet

As at March (Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>SOURCE OF FUNDS</b>					
Share Capital	95	95	95	95	95
Reserves	523	548	569	602	648
<b>Shareholders' Funds</b>	<b>618</b>	<b>643</b>	<b>664</b>	<b>697</b>	<b>743</b>
Minority Interest	32	0	0	0	0
Borrowings	188	140	105	65	25
Net Deferred Taxes	20	18	18	18	18
<b>Total Source of Funds</b>	<b>858</b>	<b>801</b>	<b>787</b>	<b>780</b>	<b>786</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	444	426	367	322	275
CWIP	34	9	13	7	3
Investments	130	196	226	256	286
Other Non-Curr. Assets	13	11	13	16	17
<b>Total Non-Current Assets</b>	<b>621</b>	<b>643</b>	<b>620</b>	<b>601</b>	<b>582</b>
Inventories	141	124	137	147	169
Trade Receivables	172	154	182	213	241
Cash & Equivalent	56	67	74	64	72
Other Current Assets	41	31	34	39	45
<b>Total Current Assets</b>	<b>410</b>	<b>377</b>	<b>427</b>	<b>463</b>	<b>526</b>
Trade Payables	102	112	126	139	160
Other Current Liab & Provisions	71	108	124	134	153
<b>Total Current Liabilities</b>	<b>173</b>	<b>219</b>	<b>250</b>	<b>273</b>	<b>312</b>
Net Current Assets	237	158	177	190	214
<b>Total Application of Funds</b>	<b>858</b>	<b>801</b>	<b>787</b>	<b>780</b>	<b>786</b>

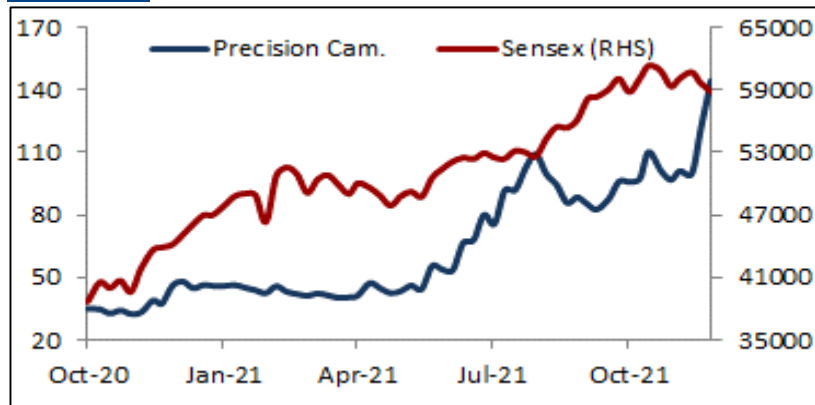


# Precision Camshafts Ltd.

## Cash Flow Statement

(Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
PBT	36	16	53	60	83
Non-operating & EO items	15	-18	-1	-1	0
Interest Expenses	4	5	8	6	4
Depreciation	86	79	80	82	85
Working Capital Change	-56	59	-14	-23	-17
Tax Paid	-27	-21	-12	-15	-21
<b>OPERATING CASH FLOW ( a )</b>	<b>57</b>	<b>120</b>	<b>114</b>	<b>108</b>	<b>133</b>
Capex	-72	-30	-25	-30	-35
Free Cash Flow	-14	90	89	78	98
Investments	9	-61	-30	-30	-30
Non-operating income	6	5	0	0	0
<b>INVESTING CASH FLOW ( b )</b>	<b>-57</b>	<b>-86</b>	<b>-55</b>	<b>-60</b>	<b>-65</b>
Debt Issuance / (Repaid)	31	-25	-35	-40	-40
Interest Expenses	-5	-10	-8	-6	-4
FCFE	26	-2	16	2	24
Share Capital Issuance	0	0	0	0	0
Dividend	-19	0	-9	-12	-16
<b>FINANCING CASH FLOW ( c )</b>	<b>7</b>	<b>-35</b>	<b>-52</b>	<b>-58</b>	<b>-60</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>8</b>	<b>-2</b>	<b>6</b>	<b>-10</b>	<b>8</b>

## Price chart



## Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
<b>Profitability Ratios (%)</b>					
EBITDA Margin	15.0	8.7	12.0	12.3	12.6
EBIT Margin	6.3	1.1	5.7	6.9	7.9
APAT Margin	4.9	0.4	3.7	4.7	5.6
RoE	6.0	0.5	4.7	6.6	8.6
RoCE	6.0	1.0	6.1	8.6	11.3
<b>Solvency Ratio (x)</b>					
Net Debt/EBITDA	1.2	1.2	0.3	0.0	-0.3
Net D/E	0.2	0.1	0.0	0.0	-0.1
<b>PER SHARE DATA (Rs)</b>					
EPS	3.8	0.3	3.2	4.7	6.5
CEPS	12.9	8.7	11.6	13.3	15.5
BV	65.1	67.7	69.9	73.4	78.2
Dividend	1.0	1.0	1.0	1.3	1.7
<b>Turnover Ratios (days)</b>					
Inventory days	76.7	84.0	73.3	75.0	75.3
Debtor days	60.3	68.2	57.1	54.2	52.4
Creditors days	48.4	55.1	51.8	50.5	49.6
<b>VALUATION (x)</b>					
P/E	37.4	448.8	44.3	30.6	22.1
P/BV	2.2	2.1	2.1	2.0	1.8
EV/EBITDA	12.2	20.2	11.7	9.4	7.5
EV/Revenues	1.8	1.8	1.4	1.2	0.9
Dividend Yield (%)	0.7	0.7	0.7	0.9	1.2
Dividend Payout (%)	24.7	311.9	30.8	26.6	26.1

(Source: Company, HDFC sec)



## HDFC Sec Retail Research Rating description

### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

### Disclosure:

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