

2nd November 2023

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Q2FY24 Result Highlights

- **Q2FY24 Revenue growth driven by 10%/~3x YoY growth in Auto Powertrain/Aluminium products segments after DR Axion consolidation** – CAL's Q2FY24 Revenue/EBITDA/PAT grew ~52%/~38%/51.3% YoY to ₹11.8bn/₹2.4bn/₹945.4mn driven by 5.9%/~3x YoY growth in Auto Powertrain/Aluminium products segments. EBIT margins for Auto Powertrain/Aluminium products/Industrials & storage were at 19.6%/15.2%/10.3% in Q2FY24 compared to ~22%/~14%/~7% in Q2FY23. Gross margin declined 203bps YoY and 66bps QoQ to 46.8%. The weakness in Powertrain business was attributed to underutilised capacities and repair expenses for the refurbishment of old machines.DR Axion revenue for Q2FY24 was at ₹3.55bn (Q1FY24 was at ₹2.8bn) with EBITDA at ₹648mn (Q1FY24 was at ₹509mn) giving a margin of 18.3%.The management expects EBITDA margins to recover to+21% in coming quarters led by improvement in utilisation levels across business and reduction in other costs 16-17% range. Value add across segments- Powertrain/Aluminium /DRAIPL/Industrials- 62%/42%/40%/35%.
- **Auto-Powertrain business** – Expects the segment to grow in high single digits to low double digits over the next two years due to a high base of FY23. It should start growing at a rapid pace in FY26. It is working with one of the largest customers globally for an export order, which is expected to start in FY26. Value addition for new orders would be 60-70% of the gross block. Utilisation improved to 70% in Q2 (v/s 60% in Q1). Also, the company is building in more capacities to cater to demand for the off-highway segment. Revenue Mix(%) – CV/OHV/Tractors/PV – 57%/18%/14%/11%.
- **Auto-Aluminium products businesslikely to see ramp-up in phases with order wins over the last two years are translating now.** Utilisation stood at 80% for SA business and ~85-90% for DRAIPL. Revenue Mix (%) -CV/2Ws/PV/Others-7%/66%/7%/20%.
- **DR Axion** – Finalised a new order for Hyundai for its new Talegaon plant, which is going to be operational by FY25. This will add another 5-10% to revenue growth for DRAIPL as per the management.
- **The company reported Q2FY24 export revenue of ₹570mn, mainly contributed by Powertrain/Aluminium/Industrialsat ₹90mn/130mn/350mn.** Brazil business is protected until FY28-29. The country's economy is not doing well. 1HFY24 sales are ~30% lower for deemed exports to Brazil. The management views pick up in Q4FY24.
- **Industrial & Engineering business declined ~3% YoY to ₹1.97bn** – There was a pause in the storage solution business in 1HFY24, but 2HFY24 is looking strong. It has an order book of 11b in automated storage. Revenue from the storage division in 1HFY24 was 1.64b, of which 27% came from automated storage. EBIT margin was at 10.3% (-252 bps YoY and +370 bps QoQ).
- **Capex in 1HFY24 stood at ₹2.6bn. It has guided for full – year capex of ₹4.8bn, including ₹1.5-1.6bn for greenfield.** Incremental greenfield capex would be 1b in FY26. It is looking to house all the segments, mainly powertrain, aluminium and some backward integration.The new green field plant location is very close to the mother

Important Statistics

| | |
|-----------------|-------------|
| Nifty | 19,114 |
| Sensex | 64,000 |
| MCAP (₹ bn) | 100.7 |
| 52 Week H/L (₹) | 5,045/2,699 |
| NSE Code | CRAFTSMAN |
| BSE Code | 543276 |
| Bloomberg Code | CRAFTSMA:IN |

| Shareholding Pattern | Sep'23 (%) |
|----------------------|------------|
| Promoters | 55.0 |
| DII's | 17.3 |
| FII's | 12.7 |
| Public | 15.1 |

Financials

| Particulars | FY20 | FY21 | FY22 |
|-------------------|--------|--------|--------|
| Revenue | 14,925 | 15,600 | 22,170 |
| EBITDA | 3,980 | 4,382 | 5,342 |
| EBITDA Margin (%) | 26.7 | 28.1 | 24.1 |
| Net Profit | 400 | 974 | 1,631 |
| EPS (₹) | 18.9 | 46.1 | 77.2 |
| RoE (%) | 5.1 | 11.3 | 15.1 |
| RoCE (%) | 13.1 | 15.7 | 19.3 |
| P/E (x) | 251.6 | 103.4 | 61.7 |
| EV/EBITDA(x) | 27.7 | 24.7 | 20.3 |
| P/BV (x) | 13.9 | 10.4 | 8.9 |

| Particulars | FY23 | FY24E | FY25E |
|-------------------|--------|--------|--------|
| Revenue | 31,826 | 44,834 | 49,562 |
| EBITDA | 6,836 | 9,654 | 11,305 |
| EBITDA Margin (%) | 21.5 | 21.5 | 22.8 |
| Net Profit | 2,484 | 3,638 | 4,993 |
| EPS (₹) | 117.6 | 172.3 | 236.4 |
| RoE (%) | 17.3 | 23.7 | 24.6 |
| RoCE (%) | 18.0 | 17.6 | 18.5 |
| P/E (x) | 40.5 | 27.7 | 20.2 |
| EV/EBITDA(x) | 16.7 | 11.4 | 9.3 |
| P/BV (x) | 7.0 | 5.8 | 4.7 |

Source: Company, Way2Wealth Research

Relative Performance

| Return (%) | 1 Yr | 3Yr | 5 Yr |
|------------|------|------|------|
| CAL | 51.5 | NA | NA |
| Nifty 50 | 5.7 | 63.9 | 81.2 |
| Sensex | 5.1 | 61.0 | 82.8 |

Jayakanth Kasthuri

jayakanthk@way2wealth.com

Ph:022-4019 2914

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plant in Coimbatore, which is 40km away. The company has 48-acre land there and it will create one premise for each of the three segments for future expansion, which is a mixture of the similar business and possibly backward integration (5-10% of total requirement).

- Debt has increased because of cash outflow of ₹3.75bn towards DR Axion and might further increase because of greenfield capex. However, the company aims to maintain it at 1.5x of EBITDA.

View

CAL's Revenue is now well-balanced, with not a single end-user industry constituting over 30% of revenue. The same should further reduce going forward. With a cyclical recovery in CVs and 2Ws, and visible drivers in other segments in the form of new order wins, we expect linearity in revenue and earnings over the next few years. The integration of DRAIPL which was acquired is shaping out well and we believe that synergy benefits will further enhance the overall consolidated performance. The company has maintained its track record of creating and gaining market leadership organically enabled by capital efficiency and product mix. **Hence, we recommend it as an ACCUMULATE stock trading at P/E 20.2x FY25E EPS of ₹236.4.**

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FINANCIAL PERFORMANCE

(₹ mn)

| Particulars | Q2FY24 | Q2FY23 | YoY(%) | Q1FY24 | QoQ(%) | 1HFY24 | 1HFY23 | YoY(%) |
|-----------------------------------|-----------------|----------------|--------------|-----------------|-------------|-----------------|-----------------|--------------|
| Revenue | 11,790.6 | 7,762.4 | 51.9 | 10,376.3 | 13.6 | 22,166.9 | 14,532.0 | 52.5 |
| Cost of Sales & services | 6,426.5 | 4,056.5 | 58.4 | 5,703.8 | 12.7 | 12,130.3 | 7,358.0 | 64.9 |
| Changes in inventories | (156.4) | (86.0) | 81.9 | (254.8) | (38.6) | (411.2) | (163.8) | 151.0 |
| Employee Exps | 722.3 | 577.8 | 25.0 | 669.7 | 7.9 | 1,392.0 | 1,146.2 | 21.4 |
| Other Exps | 2,423.2 | 1,492.2 | 62.4 | 2,115.3 | 14.6 | 4,538.5 | 2,822.9 | 60.8 |
| EBITDA | 2,375.0 | 1,721.9 | 37.9 | 2,142.3 | 10.9 | 4,517.3 | 3,368.7 | 34.1 |
| EBITDA Margin (%) | 20.1 | 22.2 | (204) | 20.6 | (50) | 20.4 | 23.2 | (280) |
| Depreciation | 668.3 | 546.9 | 22.2 | 682.9 | (2.1) | 1,351.2 | 1,079.2 | 25.2 |
| Finance Cost | 415.8 | 232.8 | 78.6 | 423.9 | (1.9) | 839.7 | 486.9 | 72.5 |
| Other Income | 47.2 | 17.4 | 171.3 | 37.1 | 27.2 | 84.3 | 30.5 | 176.4 |
| PBT | 1,338.1 | 959.6 | 39.4 | 1,072.6 | 24.8 | 2,410.7 | 1,833.1 | 31.5 |
| Tax | 295.6 | 335.8 | (12.0) | 266.1 | 11.1 | 561.7 | 643.4 | (12.7) |
| JV Profit/(Loss) | 2.4 | 1 | 140.0 | 1.9 | 26.3 | 4.3 | 1.5 | 186.7 |
| Minority Interest – (Profit)/Loss | 99.5 | - | NM | 63.6 | 56.4 | 163.1 | - | NM |
| Net Profit | 945.4 | 624.8 | 51.3 | 744.8 | 26.9 | 1,690.2 | 1,191.2 | 41.9 |
| EPS (₹) | 44.8 | 29.6 | 51.3 | 35.3 | 26.9 | 80.0 | 56.4 | 41.9 |

Source: Company, Way2Wealth Research

(₹ mn)

| Segment Revenue | Q2FY24 | Q2FY23 | YoY(%) | Q1FY24 | QoQ(%) | 1HFY24 | 1HFY23 | YoY(%) |
|----------------------------------|---------|---------|--------|---------|--------|----------|---------|--------|
| Automotive – Powertrain & Others | 3,937.9 | 3,718.8 | 5.9 | 3,824.0 | 3.0 | 7,761.9 | 7,259.7 | 6.9 |
| Automotive – Aluminium products | 5,885.8 | 1,963.4 | 199.8 | 4,879.2 | 20.6 | 10,765.0 | 3,677.3 | 192.7 |
| Industrials & Engg | 1,966.9 | 2,017.2 | (2.5) | 1,673.1 | 17.6 | 3,640.0 | 3,595.0 | 1.3 |

| EBIT | Q2FY24 | Q2FY23 | YoY(%) | Q1FY24 | QoQ(%) | 1HFY24 | 1HFY23 | YoY(%) |
|----------------------------------|--------|--------|--------|--------|--------|---------|---------|--------|
| Automotive – Powertrain & Others | 773.2 | 928.9 | (16.8) | 838.1 | (7.7) | 1,611.3 | 1,882.7 | (14.4) |
| Automotive – Aluminium products | 896.7 | 148.5 | 503.8 | 666.8 | 34.5 | 1,563.5 | 352.5 | 343.5 |
| Industrials & Engg | 202.7 | 258.7 | (21.6) | 110.6 | 83.3 | 313.3 | 381.1 | (17.8) |

| EBIT Margin (%) | Q2FY24 | Q2FY23 | BPS | Q1FY24 | BPS | 1HFY24 | 1HFY23 | BPS |
|----------------------------------|--------|--------|-------|--------|-------|--------|--------|-------|
| Automotive – Powertrain & Others | 19.6 | 25.0 | (534) | 21.9 | (228) | 20.8 | 25.9 | (517) |
| Automotive – Aluminium products | 15.2 | 7.6 | 767 | 13.7 | 157 | 14.5 | 9.6 | 494 |
| Industrials & Engg | 10.3 | 12.8 | (252) | 6.6 | 370 | 8.6 | 10.6 | (199) |

| % Share of Revenue | Q2FY24 | Q2FY23 | BPS | Q1FY24 | BPS | 1HFY24 | 1HFY23 | BPS |
|----------------------------------|--------|--------|---------|--------|-------|--------|--------|---------|
| Automotive – Powertrain & Others | 33.4 | 47.9 | (1,451) | 36.9 | (345) | 35.0 | 50.0 | (1,494) |
| Automotive – Aluminium products | 49.9 | 25.3 | 2,463 | 47.0 | 290 | 48.6 | 25.3 | 2,326 |
| Industrials & Engg | 16.7 | 26.0 | (930) | 16.1 | 56 | 16.4 | 24.7 | (832) |

Source: Company, Way2Wealth Research

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FINANCIALS & VALUATIONS

(₹ mn)

| Particulars | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <i>Automotive- Powertrain & Others</i> | 10,085 | 7,093 | 8,113 | 11,544 | 15,271 | 15,916 | 17,592 |
| <i>Automotive- Aluminium products</i> | 3,082 | 2,577 | 3,298 | 5,520 | 9,346 | 21,537 | 23,524 |
| <i>Industrials & Engg</i> | 5,014 | 5,255 | 4,189 | 5,107 | 7,209 | 7,381 | 8,446 |
| Revenue | 18,181 | 14,925 | 15,600 | 22,170 | 31,826 | 44,834 | 49,562 |
| EBITDA | 4,426 | 3,980 | 4,382 | 5,342 | 6,836 | 9,654 | 11,305 |
| EBITDA Margin (%) | 24.3 | 26.7 | 28.1 | 24.1 | 21.5 | 21.5 | 22.8 |
| Net Profit | 974 | 400 | 974 | 1,631 | 2,484 | 3,638 | 4,993 |
| EPS(₹) | 46.1 | 18.9 | 46.1 | 77.2 | 117.6 | 172.3 | 236.4 |
| DPS (₹) | 0.6 | 3.0 | - | 3.8 | 11.3 | 12.0 | 13.0 |
| RoE (%) | 15.2 | 5.1 | 11.3 | 15.1 | 17.3 | 23.7 | 24.6 |
| RoCE (%) | 17.3 | 13.1 | 15.7 | 19.3 | 18.0 | 17.6 | 18.5 |
| P/E (x) | 103.3 | 251.6 | 103.4 | 61.7 | 40.5 | 27.7 | 20.2 |
| EV/ EBITDA (x) | 24.9 | 27.7 | 24.7 | 20.3 | 16.7 | 11.4 | 9.3 |
| P/BV (x) | 14.8 | 13.9 | 10.4 | 8.9 | 7.0 | 5.8 | 4.7 |
| Net Debt/ Equity (x) | 1.4 | 1.3 | 0.8 | 0.7 | 0.9 | 0.6 | 0.4 |
| Debtors Days | 42 | 48 | 56 | 49 | 61 | 55 | 56 |
| Inventory Days | 65 | 109 | 222 | 221 | 187 | 186 | 180 |
| Creditor Days | 66 | 94 | 193 | 163 | 159 | 143 | 131 |
| Cash Balances | 266 | 704 | 467 | 435 | 473 | 816 | 2,778 |
| FCFF | 374 | 1,613 | 2,568 | 1,095 | 2,625 | 2,372 | 4,913 |

Source: Company, Way2Wealth Research

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Disclosure of Interest Statement CRAFTSMAN AUTOMATION LTD. as on 02 November 2023

| | |
|--|---------------------------|
| Name of the Security | CRAFTSMAN AUTOMATION LTD. |
| Name of the analyst | Jayakanth Kasthuri |
| Analysts' ownership of any stock related to the information contained | |
| Financial Interest | |
| Analyst : | No |
| Analyst's Relative : Yes / No | No |
| Analyst's Associate/Firm : Yes/No | No |
| Conflict of Interest | No |
| Receipt of Compensation | No |
| Way2Wealth ownership of any stock related to the information contained | NIL |
| Broking relationship with company covered | NIL |
| Investment Banking relationship with company covered | NIL |

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