

8th September 2022

CMP – ₹2,647.7/-

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COMPANY BACKGROUND

Craftsman Automation Ltd (CAL) commenced operations in 1986 in Coimbatore, Tamil Nadu, India. It has 12 plants across 7 cities at proximity to customers. New facility at Pune commenced operation in Aug'22. Plans to commission new plant at Nagpur for which the company received approval in Sep'21; additional facilities at Faridabad & Sriperumbudur in FY23. Its capabilities include design, process engineering and manufacturing with foundry, heat treatment, fabrication, machining and assembly facilities. It was founded by Mr. Srinivasan Ravi (Promoter) who is a mechanical engineer and a first-generation entrepreneur with over 34 years of industry experience. He is currently the Chairman and Managing Director of the company. It is a diversified engineering company with vertically integrated manufacturing capabilities, engaged in three business segments. The business segments are: **1) Automotive - Powertrain & Others (Q1FY23 Revenue share – 51.4%)**– In which it makes powertrain and other products for the automotive industry **2) Automotive – Aluminium Products (Q1FY23 Revenue share – 25.3%)** that manufactures all kinds of castings such as high-pressure and low-pressure aluminum die-castings and gravity die-castings for the automotive industry and Al casting for power transmission. **3) Industrial & Engineering (Q1FY23 Revenue share – 23.3%)** - which is the company's non-auto business with key products like Storage solutions, Special products manufacturing (SPM), Material handling, Gear and gear boxes, Tool room, mould base and sheet metal. It is the largest player involved in machining of cylinder blocks and cylinder heads in the MHCV segment as well as the construction equipment industry in India. It is also among the top 3-4 players in machining of cylinder blocks for the tractors segment. **Revenue breakup (%) by customer segment within Automotive – Powertrain- CV: Off-Highway: Tractors: PV – 54:20:18:8.** Focus is mainly on the domestic market, which contributes more than 92% of the business. **Top-10 customers accounted for ~ 58% of its revenue in FY22. Revenue based on Customer relationship - more than 10 yrs: 5-10 yrs : less than 5 yrs – 59%:23%:16%**

Reasons to BUY:

The company is a diversified engineering company - a process expert with strong machining and casting capabilities catering to both automotive (presence across segments) and industrial OEMs. Flexible design of manufacturing lines, vertical integration, ability to handle complex and critical machining jobs in a cost-efficient manner are its key strengths, which provide significant value-add to customers. Lower capex intensity due to scope to improve capacity utilization will lead to de-leveraging of the balance sheet (debt free by FY25E) and return ratios will likely improve to 20-22% by FY24E. CAL likely to benefit from the cyclical recovery in auto industry especially in MHCVs and potential manufacturing resurgence in India – in particular, it will be a direct beneficiary of greater focus of OEMs to make India an export hub and import substitution/localisation by companies to reduce supply chain risks and over-dependence on China. This has already started to reflect in significant new order wins and the trend will likely accelerate over the next 3 years. Over the medium to long-term, aluminium content in vehicles is expected to increase due to light-weighting trend driven by (1) more stringent emission and fuel economy regulations, (2) premiumisation and addition of new features which add to vehicle weight and necessitate reduction in other areas and (3) rising penetration of electric vehicles where OEMs need to compensate for higher battery size and weights in order to extract maximum range.

Important Statistics

MCAP (₹ bn)	55.9
52 Week H/L (₹)	2899 / 1822
NSE Code	CRAFTSMAN
BSE Code	543276

Shareholding Pattern Jun'22 (%)

Promoters	59.5
DIIIs	3.9
FIIIs	15.4
Public	21.2

Financials

Particulars	FY19	FY20	FY21	FY22P
Revenue	18,181	14,925	15,600	22,170
EBITDA	4,426	3,980	4,382	5,342
EBITDA Margin (%)	24.3	26.7	28.1	24.1
Net Profit	974	400	974	1,631
EPS (₹)	46.1	18.9	46.1	77.2
RoE (%)	15.2	5.1	11.3	15.1
RoCE (%)	12.3	9	10.4	12.5
P/E (x)	57.4	139.8	57.4	34.3
EV/EBITDA (x)	14.8	16.4	14.5	11.9
P/BV (x)	8.2	7.7	5.8	4.9

Source – Company, Way2Wealth

Particulars	FY23E	FY24E
Revenue	27,410	33,218
EBITDA	7,031	7,987
EBITDA Margin (%)	25.7	24.0
Net Profit	3,019	3,853
EPS (₹)	142.9	182.4
RoE (%)	23.4	23.6
RoCE (%)	19.4	21.1
P/E (x)	18.5	14.5
EV/EBITDA (x)	8.3	7.1
P/BV (x)	3.9	3.1

Source – Company, Way2Wealth

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INVESTMENT RATIONALE

Recovery in Auto Industry especially MHCV segment

CAL is a diversified engineering company with strong manufacturing capabilities and presence within the auto industry. It has long standing relationships extending more than 10 years with key customers such as Daimler, M&M, Tata Motors, Cummins and several tractor OEMs, etc. and enjoys a very high share of business with them. **It manufactures powertrain and other products for the automotive industry.** In automobiles, a powertrain generates power and transmits it to the wheels. **It can be broadly classified into four component categories – engine & engine parts, transmission, driveshaft, and rear axle.** The powertrain industry was valued at ₹524bn in FY20. CVs, PVs and tractors accounted for about 30%, 42% and 21%, respectively, of the overall demand for powertrain components and is likely to witness 19% CAGR FY21-24E. Within powertrain components, cylinder blocks and cylinder heads together accounted for an industry size of ₹42bn in FY20. It is estimated that the Cylinder Block and Head is likely to witness CAGR of 8-10% FY20-24.

Key products – Engine parts such as cylinder block and cylinder head, camshafts, transmission parts, gear box housings, turbo charges and bearing caps.



CYLINDER BLOCK



CYLINDER HEAD



CAMSHAFTS



TRANSMISSION HOUSINGS



BEARING CAP



DIFFERENTIAL CARRIER HOUSING

Source – Company, Way2Wealth

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Key capabilities – Design and development, precision machining and assembly (including CNC machining, laser heat treatment, assembly, testing, etc), finishing and others.

Key Competitors in the Powertrain Segment; Craftsman caters to all automotive segments

Key Competitors	2w/3Ws	PVs	CVs	Construction Equipment	Tractor
Avtec Ltd	Y	Y	Y	Y	Y
Endurance Ltd	Y				
Jaya Hind Industries Ltd	Y	Y	Y	Y	
Sundaram Clayton	Y	Y	Y		
Alicon Cast Alloy	Y	Y			
Ashok iron works				Y	Y
Continental Engines	Y				Y
DCM Engineering Products		Y	Y	Y	Y
Hinduja Foundries		Y	Y	Y	Y
Nelcast			Y		Y
Kirloskar Ferrous Industries		Y	Y	Y	Y
Craftsman Automation Ltd	Y	Y	Y	Y	Y

Source – Company, CRISIL Research, Way2Wealth

Around 77% of FY22 and Q1FY23 consolidated revenue came from auto related business segments (Automotive – Powertrain and Automotive – Aluminium products) with CVs, Off Highways, PVs, & tractors segments accounting for 54% (90% skewed towards MHCV)/20%/18%/8% of overall revenue respectively. After an unprecedented slowdown across the auto industry with domestic volumes down 20-60% across segments (except tractors) over FY19-21, we expect strong cyclical recovery to play out over FY23-25 with improving macro outlook and kicking-in of replacement demand should feed into impending cyclical recovery in CVs.

MHCV	FY22	FY21	YoY (%)
Mahindra & Mahindra	6,435	3,905	64.8
Ashok Leyland	73,885	51,820	42.6
Eicher Motors (VECV)	6,641	4,957	34.0
Tata Motors	356,972	262,513	36.0

MHCV	Aug22	Aug21	YoY (%)	Jul22	QoQ (%)	YTD FY23	YTD FY22	YoY (%)
Mahindra & Mahindra	651	451	44.3	800	(18.6)	3,371	1,307	157.9
Ashok Leyland	8,379	4,632	80.9	8,148	2.8	41,514	17,504	137.2
Eicher Motors (VECV)	1,199	1,050	14.2	1,590	(24.6)	7,452	4,022	85.3
Tata Motors	12,833	10,467	22.6	12,997	(1.3)	65,654	37,770	73.8

Source – SIAM, Way2Wealth

Daimler India Commercial Vehicles (DICV) is a key customer for CAL in the powertrain segment. DICV is the only company that produces engines, transmissions, trucks and buses at the same site under four brands – Bharat Benz, FUSO, Mercedes-Benz, and Freightliner worldwide. It exports to more than 60 destinations globally including markets such as Africa, Asia, Latin America and the Middle East. CAL was earlier involved in machining of cylinder block and heads for engines for domestic requirement of Daimler (single source supplier). Given its capabilities and track record, in FY20 CAL won orders for machining of engine components to be exported primarily to Brazil (also to Japan and Germany); initially, CAL received order for machining of components for

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Daimler's heavy-duty engines and recently also got orders for medium-duty engine. **4 components with Daimler business account ~70% turnover. The 70% turnover coming from Daimler appraisal transition to EURO-6 and BS-6 is similar and will be going upto end of the decade. So, 70-80% of business will be protected till FY28-29.**

In Q1FY23 the Revenue grew ~50% YoY & 3% QoQ to ₹3,488mn with EBIT margin growing QoQ by 188 bps to ~27%.

Growth Drivers

The effect of BS-6, with respect to value addition, has yet to be reflected in revenues and is likely to come through with increase in realisation due to additional content ~25-40% in FY22, ongoing CV cycle recovery and the consequent demand for large sized trucks. Orders from American and a European OEM for power- train are expected to enter production in the near term. With respect to machining of powertrain components, OEMs derive several advantages by outsourcing to CAL vs. in-house operations such as better productivity, lower lead times, limited capex requirements, flexibility to scale up and scale down production within a short span, etc. (see below for more details). Until now, many OEMs chose to do machining in-house given dearth of quality suppliers with sufficient scale, capabilities and cost competitiveness. However, with significant changes happening in vehicles (necessitated by regulations such as BS-6 emission norms, Corporate Average Fuel Economy (CAFÉ) norms, and light-weighting), and emergence of suppliers like CAL, OEMs are likely to step up outsourcing of components especially as the cyclical recovery and new model launches gather pace. **Key products in this segment are mission critical and require a high degree of precision engineering. These include engine parts such as cylinder blocks and cylinder heads, camshafts, transmission parts, gear box housings, turbo chargers and bearing caps. Some of the business in this division is of 'job work' nature, whereby the company has lower bought out casting content from foundries and focuses on the machining task. Superior value-add opportunities and COGS absence leads to higher margins in the powertrain division. Pure machining business at 20% of powertrain segments, an indirect export, the management expects overall the business to grow +20% in the next 2-3 years.** European and North American foundries are not investing in fresh capex, given higher labour costs and emission norms. Also, China's labour costs have risen; thus, India is expected to benefit from likely outsourcing of foundry and machining operations. Pick-up in replacement demand, triggered by multi-decade high average fleet age provides an additional tailwind. On the exports side, the recently announced US Infra Bill is slated to be a strong positive for Indian suppliers, particularly in light of weakening China cost competitiveness. The industry is witnessing a shift towards heavy-duty vehicles, with attendant higher gearbox capabilities and greater number of axles being beneficial to Craftsman from value-added perspective. Operating leverage gains from CV revival-led higher utilisation levels should bolster the already superior margin profile in powertrain division

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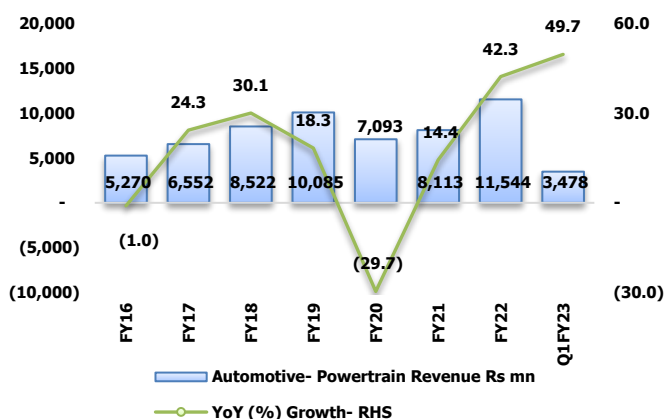
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Key order wins in Automotive Power train segment

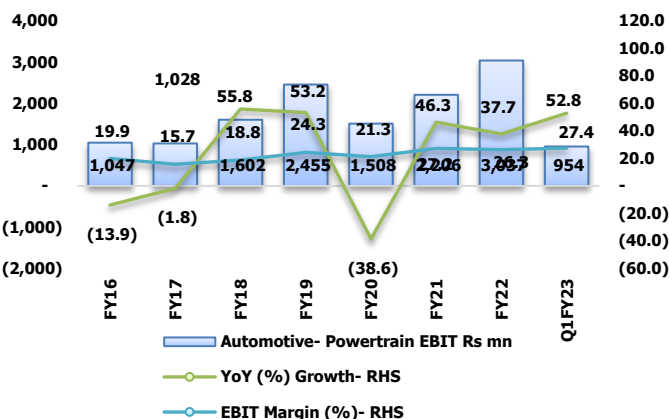
Customer	Key Order Details
DAIMLER	Machining of engine components (both heavy duty and medium duty engines) to be exported by Daimler to Brazil, Japan and Germany - peak revenue potential of ₹3bn (order supplies started in FY20)
M&M SUVs	Supply of fully machined cylinder block and heads (high share of business) for new SUV models, XUV700, Thar and next-generation Scorpio
M&M Tractors/other customers	Machining of engine and transmission components for tractors (earlier done in-house by M&M - company to set up new plant at Nagpur to cater to M&M (currently supplied from Pune).Pune capacity vacated to be utilised for other customers .This could lead to incremental revenues of ₹600mn over next 2 years
European PV OEM	Machining of cylinder block (import substitution)
Global off-highway equipment manufacturer	Machining of engine block (import substitution/localization)

Source – Company, Way2Wealth

Auto - Powertrain Revenue ~8% CAGR over FY16-22



Auto -Powertrain EBIT 19.4% CAGR over FY16-22



Source – Company, Way2Wealth

Auto Aluminium business segment to gain from automotive light weighting trend

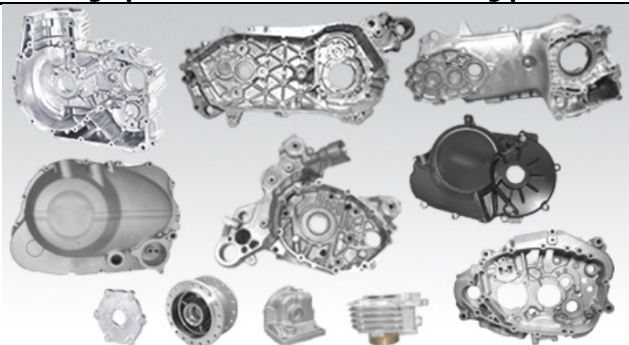
The aluminum products business was started in 2014 and is small in revenue terms compared to other aluminum die-casters, with capacity of 20,000 tonnes a year. Within this business vertical, the company undertakes product sales and machining services, and caters directly to the domestic and export markets. **It supplies high-pressure, low-pressure, gravity and sand aluminium die castings, precision machined in ready-for-assembly condition.** The Aluminium Casting industry was valued at ₹169bn in FY20, of which 2Ws accounted for 70% of the market. Automotive - Aluminum die-casting industry is estimated to grow by 13% CAGR in volumes terms and 17% CAGR in value terms over FY20-24E. **Key products include crank case and cylinder blocks for two wheelers, engine and structural parts for passenger vehicles, gear box housing for heavy commercial vehicles and manufacturing of Machined Aluminium Casting for Gas Insulated Switchgears (GIS) catering to power equipment manufacturers who in-turn supply to power transmission and distribution utilities.** The company undertakes direct domestic sales, and key customers include Siemens and others. **Also it manufactures wheel hubs & drums, headlamp housing, engine cradle, clutch covers, oil sump, cylinder head covers & steering column and chassis parts.**

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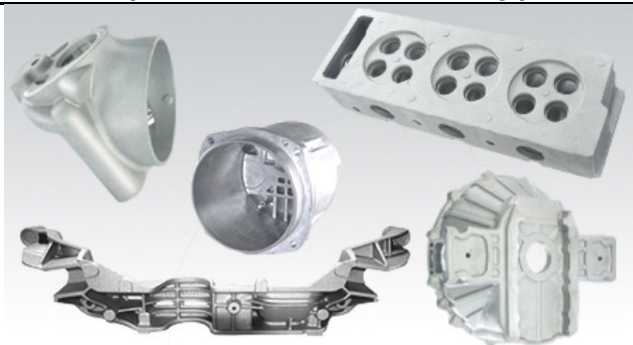
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High pressure aluminium die casting parts



Low pressure aluminium die casting parts



Castings for Power Transmission



Source – Company, Way2Wealth

Starting from 01 July 2021, the management stated that for both Powertrain and Aluminium products monthly pricing will be done rather than quarterly to reduce the impact of raw material price increase.

Company's decision to merge the auto aluminium & Industrial aluminum as the overlap was becoming larger and the company getting more business from gravity die-casting & low pressure die-casting in an auto which is more useful for industrial engineering. So, merging this business will generate more operating leverage, shared cost and flexibility to ramp up faster.

Highly competitive space, but Craftsman does have an edge - Aluminium die-casting is a highly competitive space with multiple players operating in the domestic market and catering to various segments and customers. **Endurance** (100,000 tonnes); **Sunbeam** (70,000); **Rico Auto** (50,000), **Sundaram Clayton**(50,000); **Rockmann Industries** (38,000); **Jay Hind** (25,000).With the growth drivers highlighted above, many players are increasingly looking to expand their presence across segments (for e.g. Endurance a leading 2W player is gradually expanding presence in PVs and non-auto etc.).

CAL's scale-up in this business is highly commendable given (1) business has scaled up quite rapidly in a short period of time and with orders from multiple PV and CV OEMs, we expect strong growth ahead, (2) company has made big in-roads with TVS despite the presence of TVS' group company Sundaram Clayton – one of the largest die-casting players in the country (this suggests CAL does have an edge when it comes to engineering capabilities) and (3) **despite operating at low utilization levels (50-60%), CAL is able to earn EBITDA margin similar to much larger players (avg. margin in 10-12% range).**

Initially, this segment primarily catered to 2W (TVS Motor, Royal Enfield). In recent years, Craftsman has been able to expand its customer set to CV (Daimler) and PV (M&M), thereby substantially expanding the addressable market - albeit present exposure remains skewed towards 2Ws. Currently 2W OEMs account for a majority of revenue for CAL (>90% of segment revenue. 75% of segment revenue from TVS) wherein it is involved in casting and machining of smaller parts (max weight of 4-5 kg) such as crankcase, cylinder blocks, clutch covers, etc.

However, CAL is now transitioning to manufacturing larger castings for PV and CV OEMs led by order wins from **(1)** Won orders to manufacture gearbox and flywheel housings for CVs (weight of 11-20 kg per part)for Daimler. DICV is transitioning from steel to aluminium for these components leading to reduction in weight of components by 50-60%; CAL is also working on a similar project for a domestic CV OEM as well, **(2)** CAL has won orders to manufacture gearbox and engine parts for PSA AVTECH Powertrain. PSA - AVTECH Powertrain Pvt Ltd, a 50:50 JV between Groupe PSA and AVTEC Ltd (part of CK Birla Group), has set up a greenfield plant in Hosur to manufacture gearboxes and engines for PSA's export requirements (and eventually for domestic use as well). The plant has an initial manufacturing capacity of about 300k gearboxes and 200k engines per year. CAL has won new orders to supply gearbox housings, oil pan and cam carriers for this operation with SoP in FY23 – annual revenue potential from the order (including supplies for domestic market) is around ₹2bn and **(3)** Won orders from a domestic PV OEM for manufacturing and machining of castings for aluminium cylinder block. Overall, share of non-2W customers (for ICEs) is expected to increase to around 43% of segment revenue in FY25E from less than 10% currently.

Key order wins in Automotive Aluminium segment

Customer	Key Order Details
Daimler, M&M and Tata Motors	Started Manufacturing of gearbox and flywheel housings (Daimler moving from cast iron to aluminium) for Daimler in FY21 . Also received orders from OEMs such as Tata and M&M (both PVs and tractors) for certain die-casting parts
Domestic PV OEM	Manufacturing and machining of aluminium castings for cylinder blocks for SUVs
PSA	Gearbox housings, oil pans and cam carriers for exports (and eventually domestic requirements)with revenue potential of ₹2bn with peak in FY24 and business visibility till 2027
2W EV OEMs	Fully machined, die-casting parts for electric 2Ws

Source – Company, Way2Wealth

Globally, OEMs are shifting from steel to aluminium castings to lower a vehicle's overall weight, in order to increase fuel efficiency and meet new tighter emission norms like World Harmonized Light-duty Vehicles Test Procedure (WLTP) and Real Driving Emissions (RDE). Europe's new regulations mandate <= 95g of CO2 emissions per km, and the penalty for missing this target is EUR 95 per g/km over 95g/km per vehicle sold. With greater certainty over future emission norms, platforms thus developed are

likely to have much longer lives (up to 20 years versus 7-10 years presently). OEMs are also harmonising their powertrains, so that they can use the same engine or transmission options across models and platforms.

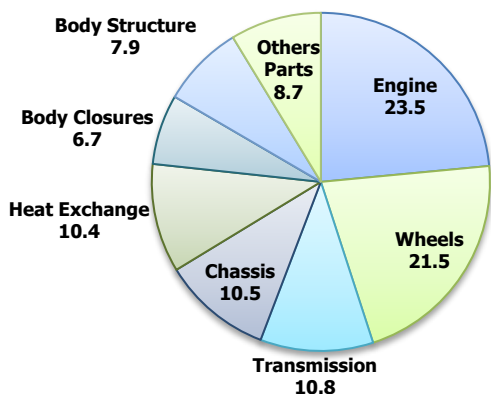
Though EVs require much lower number of parts than ICEs, the overall aluminium content required in EVs is much higher. Craftsman's capabilities here are evidenced by recent order win from Stellantis (peak revenues of ₹2bn annually; business secured till 2027) for aluminium parts related to gasoline and hybrid powertrains. Higher share of aluminium casting and greater lifecycle of platform/powertrain bodes well for Craftsman.

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Aluminium content (%) by component in PVs



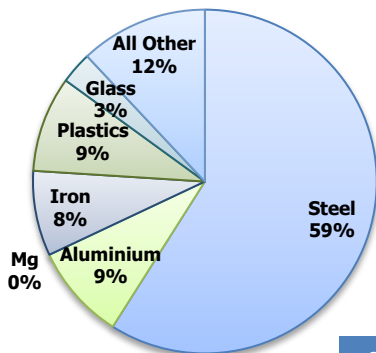
Source – Industry, Way2Wealth

Light weighting to aid shift to Aluminium



Sport Utility Vehicle

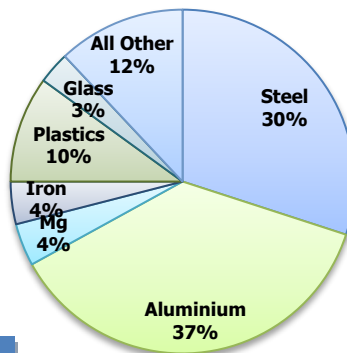
Today's SUV



Total Mass : 1,711Kg

**28% Mass Reduction
474kg**

Tomorrow's SUV



Total Mass : 1,237Kg

Source – Aluminium Insider, Way2Wealth

2W demand had been tepid over the past 1.5-2yrs, particularly at the bottom of the pyramid, due to a sharp spike in ownership costs (brought about by regulatory-led increases in upfront insurance premiums, ABS/CBS and BS6 implementation) and running costs (rise in fuel prices). Aug'22 2-wheelers monthly volume data, however, indicates that 2W demand is on an uptrend; boding well for legacy auto aluminium business. Incremental order wins for the segment should continue from CVs/PVs, enabling CAL to quickly de-risk from 2Ws. The company is also witnessing traction in requirement of aluminium parts for exports.

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2 Wheeler Sales	Aug22	Aug21	YoY (%)	Jul22	QoQ (%)	YTD FY23	YTD FY22	YoY (%)
Hero Motocorp	462,608	453,879	1.9	445,580	3.8	2,298,381	1,932,766	18.9
Bajaj Auto	355,625	338,310	5.1	315,054	12.9	1,517,837	1,568,184	(3.2)
TVS Motor	315,539	274,313	15.0	299,658	5.3	1,475,992	1,155,742	27.7
Royal Enfield	70,112	45,860	52.9	55,555	26.2	312,892	213,538	46.5
TOTAL	1,203,884	1,112,362	8.2	1,115,847	7.9	5,605,102	4,870,230	15.1

Source – Company, Way2Wealth

2 Wheeler Sales	FY22	FY21	YoY (%)
Hero Motocorp	4,944,132	5,792,935	(14.7)
Bajaj Auto	3,836,856	3,605,893	6.4
TVS Motor	3,309,578	3,051,863	8.4
Royal Enfield	602,268	612,060	(1.6)
TOTAL	12,692,834	13,062,751	(2.8)

Source – Company, Way2Wealth

In Q1FY23, the Revenue grew 69.1 % YoY & 3% QoQ to ₹1713.9mn with EBIT margin QoQ grew by 559bps to 11.9% as there was pass through in RM costs. **The management expects this business to reach peak level in FY23 with increment revenues of ₹2.4-2.5bn.** Over the medium to long-term, aluminium content in vehicles is expected to increase due to light-weighting trend driven by **(1)** more stringent emission and fuel economy regulations, **(2)** premiumisation and addition of new features which add to vehicle weight and necessitate reduction in other areas and **(3)** rising penetration of electric vehicles where OEMs need to compensate for higher battery size and weights in order to extract maximum range.

Growth Drivers

- **Orders from 2W EV OEMs to aid growth** – CAL has also won orders from two south-based 2W EV OEMs to supply die-casting parts for electric 2Ws. These include parts such as battery housings and other structural parts. Peak revenue potential could be ₹800mn over the next 2 years.
- **Aluminium content to increase significantly in EVs** – Rising EV penetration will provide a further fillip to aluminium as content in EVs is significantly higher than ICE vehicles – 300-320 kg vs. 140-210 kg in regions like Europe and North America. Transition from ICE to BEV leads to loss in aluminium content of engine related components (blocks, cylinder heads, cam cover, oil pans, pistons etc.) and some transmission and driveline components (such as valve body, clutch housing, transfer case, drive shaft, differential carriers, etc.). However, the loss is more than compensated by BEV powertrain related components (such as motor housings, reduction gearboxes, housings for some other components such as inverters/converters/BMS) and platform components (closures, body platforms, etc.). For India, 2W market is likely to see quicker transition towards to EV. Aluminium content in ICE 2Ws currently ranges 15-20 kg/vehicle. Industry experts suggest that aluminium content in electric scooters is 15-20 kg on average (this is higher in models of some OEMs like Ather which have also used aluminium chassis vs. steel by other OEMs), broadly in line with content in ICE scooters. However, given lower complexity of parts supplied in an EV, overall value addition for die-casting companies could be at par to marginally lower in EVs as compared to ICE vehicles.

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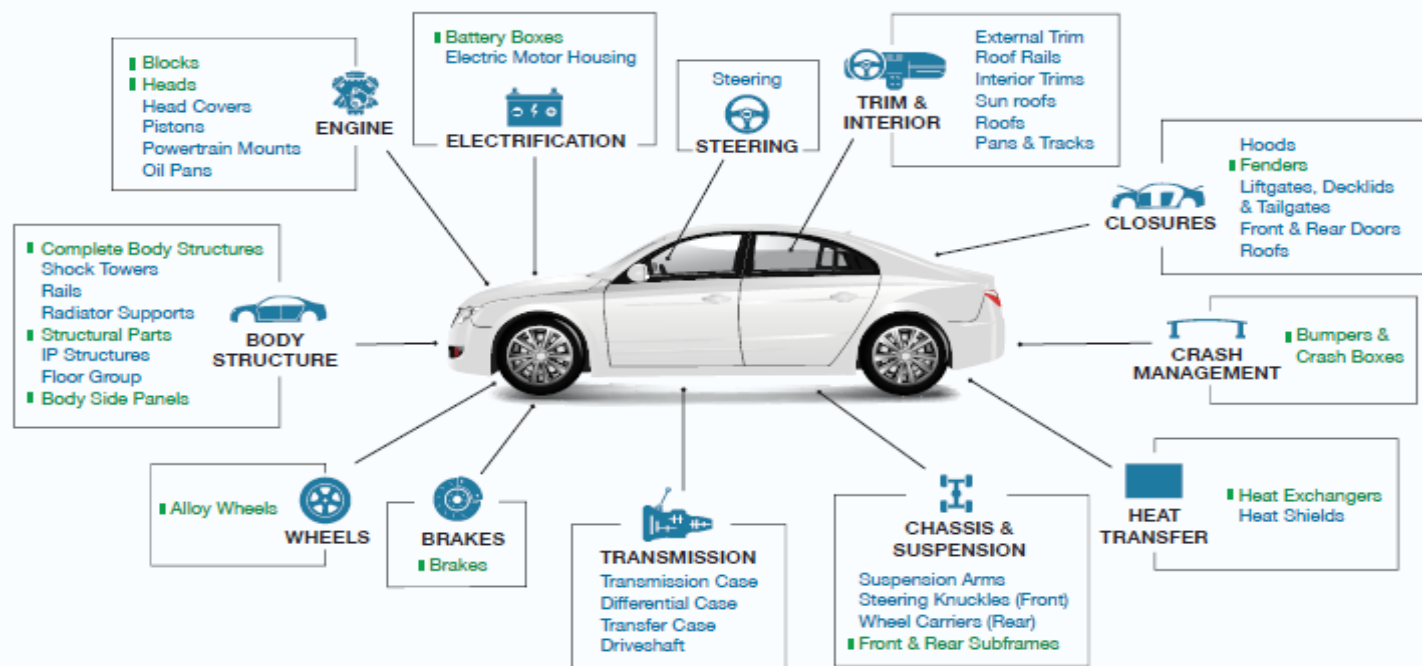
- **Aluminium content in PVs in India well below global levels**– Average aluminium content in a passenger vehicle in India is currently only 50-60 kg vs. 140-210 kg in other regions such as China, Europe and North America. India's average content is also lower than the aluminium content in A/B segment cars in these regions - 80-110 kg in Europe and 120-140 kg in North America. Thus, there is significant scope for aluminium content to increase in Indian PVs going ahead especially in products such as transmissions, chassis and suspension, steering parts, closures and trim & interiors
- **Significant scope for higher content even in CVs**– Scope for increased aluminium usage is even higher in CVs. Average aluminium content in trucks in China in 2020 is estimated to be 120-130 kg per vehicle with major usage in transmission housings, fuel tanks, gas tanks and heat exchangers. Going forward, usage will increase materially in body parts, structural parts and trailers. OEMs such as Daimler are ahead in terms of aluminium usage and have transitioned gearbox housings to aluminium (CAL is the supplier for these as highlighted above), while domestic OEMs such as Tata Motors are currently evaluating this shift.
- Other manufacturing abilities include **non-auto aluminum castings for the power-transmission sector, material handling, tool rooms, special-purpose machines, etc., which is expected to grow 4-5% over FY21-23 on the back of the increase in capital formation. Further leveraging its casting and machining capabilities, CAL will now start machining of large size iron castings for machine tool manufacturers (casting and machining of gearbox housings) and renewable energy companies (castings for wind mill parts such as adapter flanges, bearing flanges and torque reaction arms).** These parts weigh from 1-6 tons and are currently being imported from countries like China, Taiwan and Europe. CAL is also exploring the possibility of manufacturing the castings here and may set up an iron foundry if it decides to do so (will open up further new revenue opportunities).

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Usage of Aluminium in cars: India vs. Europe – Significant scope to see higher Aluminium usage in India



*The components of the car listed above encompasses all aluminium applications in a European passenger car and is based on the analysis of a car sample covering nearly 95% of total EU28 production.

*Components highlighted in "green" depicts components of a standard Indian car made from aluminium.

Source – Industry, Way2Wealth

Aluminium content in ICE 2W across key segments in India

Part description	MOPEDS	SCOOTERS	Entry vehicle Motorcycle	Executive Motorcycle	+350cc
Total Aluminium per vehicle(kgs)	9-11	12-16	12-14	14-16	25-28
Weight distribution by parts (%)					
Crankcase	28-30	40-42	30-35	40-42	40-42
Clutch Cover	8-10	8-10	8-10	7-9	8-10
Cover Magneto/ On way Cover		3	5-6	5-6	5-6
Block	7-8	12-14	5-6	10-12	7-9
Head	15-17	20-22	18-20	14-16	10-12
Hubs	13-14	NA	NA	NA	8-10
Others	25-27	18-20	25-30	22-24	18-20
CAL content (kg/vehicle)	4.4-4.6	7.5-8	4-5	7.5-8	13-14
CAL content (% of total content)	40-45%	50-55%	40-45%	50-55%	45-55%

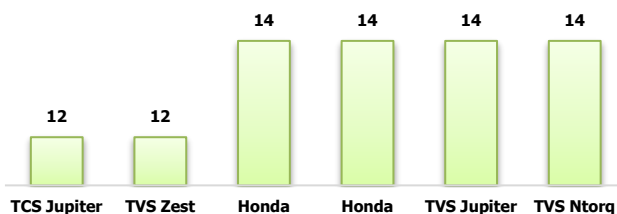
Source – Industry, Way2Wealth

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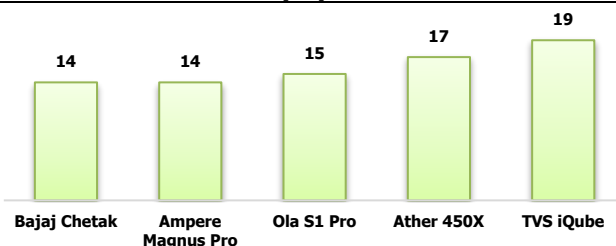
CMP – ₹2,647.7/-

View – BUY

Aluminium content (%) in ICE scooter models

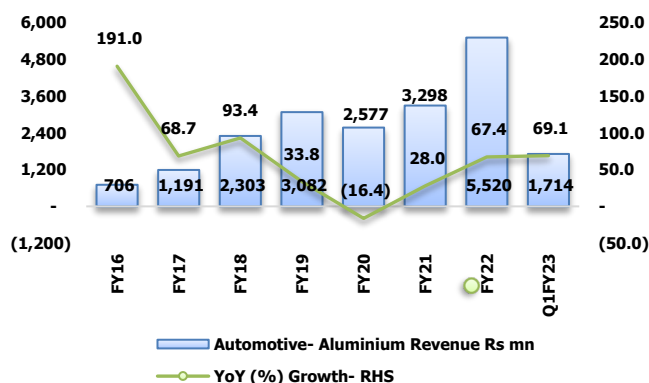


Aluminium content (%) in EV scooter models

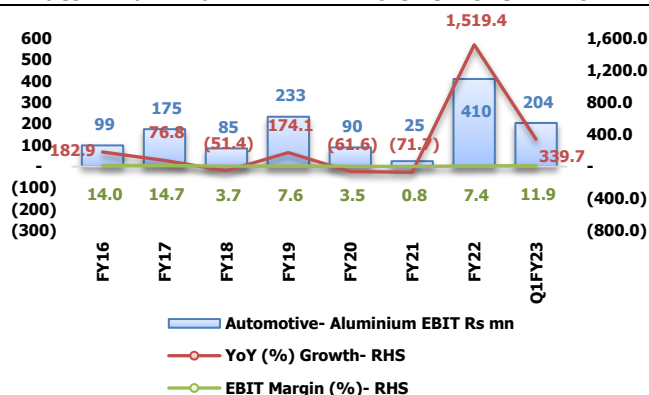


Source – Industry, Way2Wealth

Auto - Aluminium Revenue 29.3% CAGR over FY16-22



Auto - Aluminium EBIT ~27% CAGR over FY16-22



Source – Company, Way2Wealth

CAL's industrial and engineering business moving towards providing storage solutions

CAL started off as an Industrial and Engineering company and has focused on leveraging its in-house engineering and design capabilities along with process capabilities such as aluminium die-casting, machining, fabrication etc. to grow this segment. Over the years, it has developed a diverse product portfolio across two sub-segments **(1) Storage solutions** (50% of FY22 segment revenues), and **(2) high-end precision sub-assembly & contract manufacturing product services**.

Storage Solutions includes manufacturing of Pallets, racking, shelving & vertical storage solutions (V-Store), roll form products, etc. with applications in FMCG, E-Commerce, Food & beverages, Logistics, Pharmaceuticals, Electronics industries. Through this business, Craftsman caters to warehousing and industrial sectors. Its products include, stationary racking for warehouses, V-store, roll-form products and automated storage and retrieval systems (ASRS).

According to Knight Frank Research, Indian E-Commerce is to occupy most warehousing spaces in the next 5 years from FY 22- 26 at 9.1 mn sq.m. (98 mn sq.ft.), 165% more than the preceding period of FY17–21 while annual warehousing transactions will grow at a 19% CAGR to 7.08 mn sq m (76.2 mn sq ft) in FY 2026 from 2.95 mn sq m (31.7 mn sq ft) in FY21. Moreover, as space shortage kicks in, entrepreneurs will increasingly consider compact solutions that enhance Returns on their Investment. Industry sources estimate that the Automated Storage and Retrieval System (ASRS) globally valued at US\$7,351 mn in 2019, is expected to reach US\$12,928 mn by 2027 – at a 7.2% CAGR FY20-27 The Indian market is expected to outperform the global market – it is currently moving northward at a 12% CAGR.

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Despite a late entrant to this storage solution space, CAL has moved with speed to emerge as one among the top three storage solutions company in the country from sub-₹0.1bn to ₹2.5bn within only 4 year. The current size of this product segment is ₹1bn. **The company sold 100 V-stores to its customers for various industries. Also the company has received a large contract from a leading e-commerce customer for vertical reciprocating conveyor.** Setting up of large regional warehouses by e-commerce, organised retailing, consumer durables, auto components and pharmaceuticals as well as cold storage industries, are key growth drivers for storage solutions going forward.
























High-end precision products comprises of multiple categories: a) Special Purpose Machines (SPMs), b) Material handling equipments c) Gear and gear boxes and d) Tool room, mould base and sheet metal. **Key customers here are Siemens, Mitsubishi Heavy Industries, Flowserve, GE T&D, Ryobi, Rhein Gatriebe, etc.**

Special Purpose Machines (SPMs) includes Metal cutting, drilling and milling machines, among other SPMs mainly for Automotive industry

Manufacturing of Material handling equipments like Chain, wire rope & grab hoists, crane kits, pallet trucks and light crane systems for Process Industries, Automotive, and Foundries; Gear & Gear boxes for Elevators, Metro, Compressors & Printing Machines, Auto, Steel Mills.

The Tool Room, Mould base & Sheet metal focuses on design and manufacturing of Mould base, plastic moulding tools dies, sheet metal casing & housings for Automotive Industry.

Overview of Industrial and Engineering segment

	High end sub-assembly, contract manufacturing & others					Storage Solutions
	 SPM	 Material handling	 Gear & Gear boxes	 Tool room, mould base & Sheet metal	 Aluminium - Casting for power transmission	Pallets, racking, shelving and vertical storage solutions (V-Store), roll-form products and Automated Storage and Retrieval Systems
Products	Metal cutting, drilling and milling machines among other SPMs	Chain, wire rope & grab hoists, crane kits, pallet trucks and light crane systems	Transmission & housing components	Mould base, plastic moulding tools, dies, sheet metal casing and housings	Machined castings for GIS	
Applications	 Automotive	 Process Industries  Automotive  Foundries	 Elevators  Metro  Compressors & Printing Machines  Automotive  Steel Rolling Mills	 Engineering  Automotive	 Power Transmission & Distribution	 FMCG  E-commerce  Food & beverages  Logistics  Pharmaceuticals  Electronics

Source – Company, Way2Wealth

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View – **BUY**

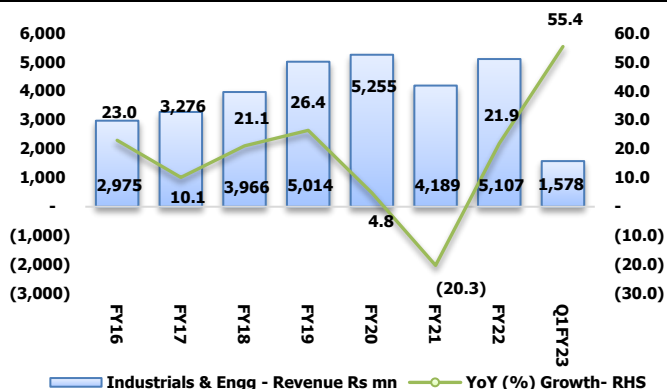
Industrial & Engg: Material handling & Gear products



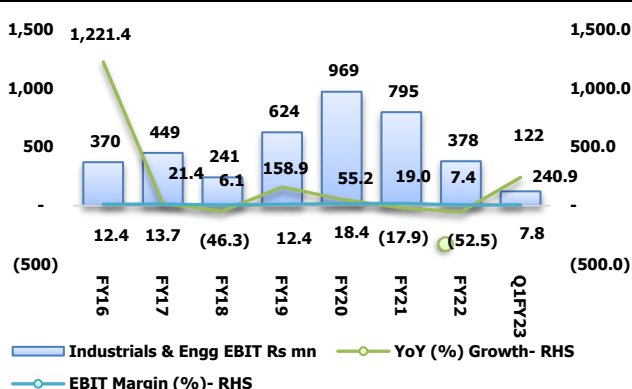
Source – Company, Way2Wealth

In Q1FY23 this segment witnessed revenue growth of 55% YoY & 3.4% QoQ to ₹1.6bn. Storage revenue was ₹2.5bn v/s ₹1.04bn in FY21. **Management expects at least 50% YoY growth in FY23. For Storage Solutions, it has a strong ~₹1.5bn order book and revenues are expected in subsequent quarters. The company's total exports in FY22 was at ₹1,773.6mn (8% of total sales) and 95% of exports is from Industrial & Engineering.**

Industrial & Engg Revenue ~6% CAGR over FY16-22



Industrial & Engg EBIT 0.4% CAGR over FY16-22



Source- Company, Way2Wealth

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View – BUY

Summary of Craftsman's three business segments

SEGMENT	Revenue (%)	EBIT Margin (%)	Industry Application	Key products	Key customers	Key Competitors
	FY22/ Q1FY23	FY22/ Q1FY23				
Automotive Powertrain	52.1/51.4	26.3/27.4	Commercial vehicles, SUV, Tractors and off-highway vehicles	Cylinder Block and heads, Camshafts, Transmission parts, Gear box housings, Turbo charges and Bearing caps.	Daimler India, Tata Motors, Tata Cummins, Mahindra & Mahindra, Simpson & Co. Limited, TAFE Motors and Tractors, Escorts, Ashok Leyland, Perkins, Nelcast, Mitsubishi Heavy Industries, John Deere and JCB India.	Avtec, Nelcast, Kirloskar Ferrous, Neosym, Ghatge Patil, Shriram Foundry, Sound Castings, Shriniwas Engg, Ashok Iron Works
Automotive Aluminium	24.9/25.3	7.4/11.9	Two-Wheelers, SUV and Commercial Vehicles	Aluminium Casting, Crank case and cylinder blocks (2W), Engine and Structural parts (PVs), Gear box housing (HCV)	Daimler India, Royal Enfield, Mahindra & Mahindra and TVS Motors.	Endurance Technologies, Sundaram Clayton, Rockman Industries, Rico Auto, Auranagabad Electricals, Alicon Castalloys, Jay Hind Industries
Industrial Engg Including Storage	23/23.3	7.4/7.8	Infrastructure, Power Transmission, Switchgear and Material handling,E-retail, Organised Retail, Third Party Logistics (3PL)	Gear Boxes, Tooling &Mould Base, Sheet Metal fabrication and SPM Manufacturing, Stationary racking, Warehousing and automated storage and retrieval system (AS/RS)	Siemens, Mitsubishi Heavy Industries, Rhein Getriebe, Ashok Leyland, ElgiEquipments, Voith Turbo, Pricol, Siemens, Daimler India, M&M, Tata Motors, TAFE Motors, Simpson & Co. JCB, RE, Elgi Equipment, Shapers India, Reliance Retail, Mahindra Retail, Tata Motors, John Deere, M&M	Hercules Hoists Ltd, Grip Engineers Pvt Ltd, Sparkline Equipment Pvt Ltd, MM Engineers Pvt Ltd, Alicon Castalloy Ltd, Vee J Pee Aluminum Foundry Pvt Ltd, Amar Founders Pvt. Ltd. Daichi overseas private limited, Alutech Foundry India (P) Ltd, Godrej Storage, Neelkamal Storage, Mangal industries, Armes Maini, Godrej Koerbor, Daifuku, Wipro Pari, Mangal industries, Mura Tech

Key Management Personnel

- **Mr. Srinivasan Ravi, Chairman and MD**– He holds a bachelor's degree in mechanical engineering from PSG College of Technology, Coimbatore. He is the Promoter of the Company and a first generation entrepreneur. He has experience of more than 34 years in the automotive industry.
- **Mr. Ravi Gauthamram, Whole-time Director** –He holds a bachelor's degree in mechanical engineering from PSG College of Technology, Coimbatore and a master's degree in mechanical engineering from RWTH Aachen University, Germany. He has been on the Board since Feb'14 and is engaged in building the product strategy in the industrial and engineering segment. Prior to joining the company, he was associated with Caterpillar India Private Limited.
- **Mr. Thiagaraj Damodharaswamy, COO- Automotive** – He joined the company on 01 January 2002 as quality system engineer. He holds a diploma in mechanical engineering from PSG College of Technology and Polytechnic where he was awarded the best outgoing student award. He also holds a bachelor's degree in mechanical engineering from Bharathiar University. He has experience in the manufacturing and automotive industries. Prior to joining the Company, he was associated with Rieter-LMW Machinery Limited.
- **Mr. C.B. Chandrasekar, CFO** – He was appointed on February 3, 2020 on contractual basis for a period of five years. He holds a bachelor's degree in commerce from the University of Madras. He is an associate of the Institute of Cost Accountants of India and Institute of Company Secretaries of India. He has overall experience of more than three decades in the fields of finance, secretarial and accounting. Prior to joining the company, he was associated with Lakshmi Machine Works Limited and Elgi Equipments Limited.
- **Mr Sampath Kumar Morri, Plant Director**– He is associated with Craftsman since Jul-19 where he is responsible for the overall operations of the flagship manufacturing plant of the company at Coimbatore. He also coordinates and implements all strategic initiatives across all 3 product segments. Prior to CAL, he was the Plant head at Tata Motors Jamshedpur facility for 2 years and CEO at TML Drivelines from 2012-2017. He started his career at HMT and Tata Motors in 1983 and has been associated with Tata Group till 2017. He holds a PGDBM from XLRI and is an M-Tech from IIT-Kharagpur
- **Mr. Paul Arikkat, Senior VP** – He is currently responsible for Manufacturing and Supply Chain operation of Automotive and General Engg. Division (part of Powertrain division) at Coimbatore facility. He leads the project management team to improve new product planning and introduction processes. Prior to CAL, he was with Daimler India as General Manager- Production from 2009-18 and then Senior Advisor for 2 years. He has also worked with Cummins India in the Automotive Engg. Division from 1994-2009 and as Deputy Manager Research at IOCL from 1986-94.

Key Risks

- **Slower-than-expected recovery in auto industry production** –CAL derives more than 75-77% of its business from the auto industry (larger dependence on CVs and 2Ws) – slower-than-expected pick-up in volumes here will impact CAL's financial performance and can pose downside risks to our estimates. In the near-term, key challenges that could weigh on volume recovery are chip shortages (larger impact on PV and CV production), weak demand due to high price increases and weak growth in income levels for consumers (impacting 2W volumes) and any new pandemic which could disrupt economic activity.
- **Delay in the capex cycle recovery** –CAL's revenue in Industrial & Engineering business is largely driven by the overall capex and investment cycle especially from the private players. The capex cycle has undergone a sharp downturn post FY19 impacted by negative sentiment around Covid and economic conditions. We are likely to witness uptick in a capex cycle recovery over the next 4-5 years which will drive growth in this segment. Any delay in recovery could have an impact on financial performance for this segment.
- **Elevated cost pressures could weigh on profitability in the near term**–Commodity prices have increased at a rapid pace during FY22, which impacted Craftsman's profitability especially in the Automotive – Aluminium and the Industrial business. Automotive – Powertrain business is not impacted as company is engaged in only machining (however margin gets impacted optically especially in the 'with material' business). In the die-casting business, company passes on the higher commodity costs but with a lag. Industrial and Engineering business is more project-based and hence there are no commodity pass-through clauses here and CAL has to bear the impact. Continued escalation in commodity costs will have a negative impact on profitability in these segments.
- **Impact of rising EV penetration:** CAL's Automotive – Powertrain business largely focuses on machining of cylinder block and cylinder heads which are engine components across multiple segments like CV, tractors, off-highway, SUVs etc. Additionally, it's Automotive – Aluminium segment focuses on manufacturing of die-casting parts such as crank cases, cylinder heads, block etc. which are again engine-related parts. These products do not find usage in an EV and as such CAL's revenue can be impacted by the impending EV disruption. However, within its Auto revenues, 63% of revenue comes from CVs, off-highway and tractors where the transition towards EVs will likely be much farther off (penetration to increase in 2Ws first followed by PVs), and 25% of auto revenue comes from ICE 2Ws (includes both motorcycles and scooters) – predominantly die-casting components for engines, which are most at risk given the rising penetration in EVs. However, CAL has received orders from PV/CV OEMs as well as 2W EV OEMs which will lead to further reduction in share of 2W – ICE to 17% of auto revenue by FY25E. Further, as highlighted above, aluminium content in electric scooters is similar or higher than ICE scooter so CAL's relevance as a supplier will remain intact. Faster than expected transition to EVs within the CV and tractor segments could be a risk to terminal value growth assumptions and hence the valuation multiples.
- **High competitive intensity in Aluminium casting and storage solutions business** –CAL is one of the leading players in the machining of cylinder heads and blocks for CVs and tractors and as such faces relatively less intense competition in its Automotive – Powertrain segment. However, competitive intensity is much higher in (1) Automotive – Aluminium Products business and (2) Storage solutions

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 View – **BUY**

business. There are multiple companies engaged in the aluminium die-casting business in India and increasingly more and more companies are focusing on PVs and non-auto business. For e.g. Endurance is one of the largest casting companies in the country which was predominantly focused on 2Ws but has now won multiple large orders on PVs as well as non-auto side. Similarly, in storage solutions, CAL is a late entrant but has grown very rapidly to emerge amongst the top 3 players. In a bid to win larger orders, CAL has had to quote aggressive prices for some of the projects. Given the high competitive intensity, revenue growth and/or profitability could come under pressures in both these segments.

VIEW

Craftsman Automation (CAL) is a diversified engineering company- a process expert with strong machining and casting capabilities catering to both automotive (presence across segments) and industrial OEMs. The company has a highly skilled and experienced in-house R&D team led by the promoter Mr. Srinivasan Ravi. Flexible design of manufacturing lines, vertical integration, ability to handle complex and critical machining jobs in a cost-efficient manner are its key strengths, which provide significant value-add to customers. We see CAL to benefit from the cyclical recovery in auto industry especially in MHCVs and potential manufacturing resurgence in India – in particular, it will be a direct beneficiary of greater focus of OEMs to make India an export hub and import substitution/localisation by companies to reduce supply chain risks and over-dependence on China. This has already started to reflect in significant new order wins and the trend will likely accelerate over the next 3 years. Over the medium to long-term, aluminium content in vehicles is expected to increase due to light-weighting trend driven by **(1)** more stringent emission and fuel economy regulations, **(2)** premiumisation and addition of new features which add to vehicle weight and necessitate reduction in other areas and **(3)** rising penetration of electric vehicles where OEMs need to compensate for higher battery size and weights in order to extract maximum range. Lower capex intensity due to scope to improve capacity utilization will lead to de-leveraging of the balance sheet (debt free by FY25E) and return ratios will likely improve to 20-22% by FY24E. **Hence we recommend it as a BUY stock trading at P/E 14.5x FY24E EPS ₹182.4.**

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View – BUY

FINANCIAL PERFORMANCE

(₹ mn)								
Particulars	Q1FY23	Q1FY22	YoY(%)	Q4FY22	QoQ(%)	FY22	FY21	YoY(%)
Revenue	6,769.6	4,351.9	55.6	6,566.7	3.1	22,170.2	15,599.5	42.1
Cost of Sales & services	3,301.5	1,913.1	72.6	3,257.3	1.4	10,654.9	6,727.5	58.4
Changes in inventories	(77.8)	27.5	(382.9)	(28.3)	174.9	(314.4)	(62.2)	405.5
Employee Exps	568.4	403.5	40.9	462.5	22.9	1,877.6	1,446.2	29.8
Other Exps	1,330.7	930.4	43.0	1,325.1	0.4	4,610.5	3,105.6	48.5
EBITDA	1,646.8	1,077.4	52.8	1,550.1	6.2	5,341.6	4,382.4	21.9
EBITDA Margin (%)	24.3	24.8	(43)	23.6	72	24.1	28.1	(400)
Depreciation	532.3	493.7	7.8	544.9	(2.3)	2,059.9	1,924.5	7.0
Finance Cost	254.1	224.9	13.0	237.8	6.9	842.2	1,072.8	(21.5)
Other Income	13.1	6.4	104.7	42.3	(69.0)	74.0	100.8	(26.6)
PBT	873.5	365.2	139.2	809.7	7.9	2,513.5	1,485.9	69.2
Tax	307.6	125.0	146.1	296.3	3.8	886.4	514.0	72.5
JV Profit/(Loss)	0.5	0.5	-	1.2	(58.3)	3.8	1.7	123.5
Net Profit	566.4	240.7	135.3	514.6	10.1	1,630.9	973.6	67.5
EPS (₹)	26.8	11.4	135.3	24.4	10.1	77.2	46.1	67.5

Source: Company, Way2Wealth

(₹ mn)								
Segment Revenue	Q1FY23	Q1FY22	YoY(%)	Q4FY22	QoQ(%)	FY22	FY21	YoY(%)
Automotive- Powertrain & Others	3,477.9	2,323.2	49.7	3,375.5	3.0	11,543.5	8,112.7	42.3
Automotive- Aluminium products	1,713.9	1,013.3	69.1	1,665.6	2.9	5,520.1	3,297.5	67.4
Industrials & Engg	1,577.8	1,015.4	55.4	1,525.6	3.4	5,106.6	4,189.3	21.9

EBIT	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
Automotive- Powertrain & Others	953.8	24.3	52.8	862.1	10.6	3,037.4	2,206.4	37.7
Automotive- Aluminium products	204.0	46.4	339.7	105.2	(93.9)	409.7	25.3	1,519.4
Industrials & Engg	122.4	35.9	240.9	208.6	(41.3)	378.0	795.2	(52.5)

EBIT Margin (%)	Q1FY23	Q1FY22	BPS	Q4FY22	BPS	FY22	FY21	BPS
Automotive- Powertrain & Others	27.4	26.9	55	25.5	188	26.3	27.2	(88)
Automotive- Aluminium products	11.9	4.6	732	6.3	559	7.4	0.8	665
Industrials & Engg	7.8	3.5	422	13.7	(592)	7.4	19.0	(1,158)

Source: Company, Way2Wealth

% Share of Revenue	Q1FY23	Q1FY22	BPS	Q1FY22	BPS	FY22	FY21	BPS
Automotive- Powertrain & Others	51.4	53.4	(201)	51.4	(3)	52.1	52.0	6
Automotive- Aluminium products	25.3	23.3	203	25.4	(5)	24.9	21.1	376
Industrials & Engg	23.3	23.3	(3)	23.2	7	23.0	26.9	(382)

Source: Company, Way2Wealth

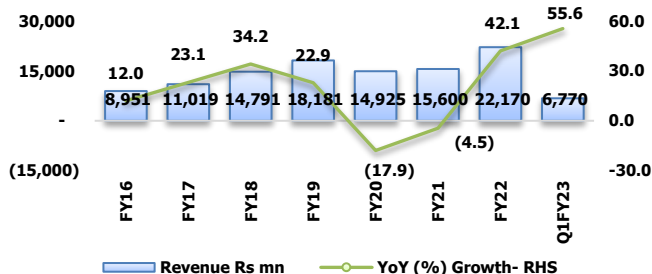
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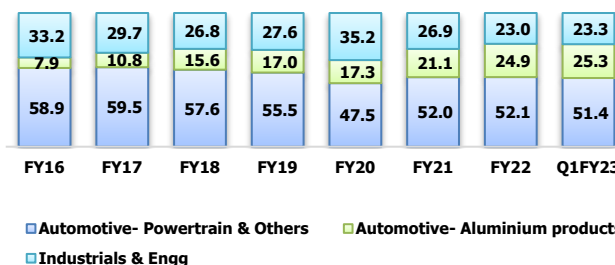
View – BUY

PERFORMANCE TREND

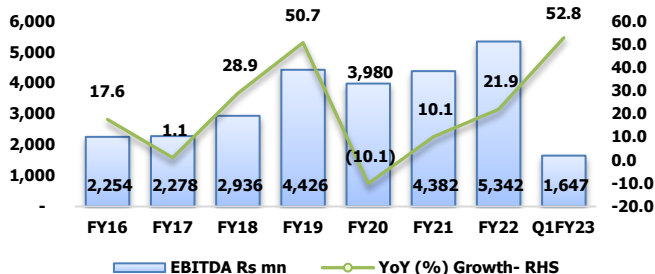
Revenue ~10% CAGR over FY16-22



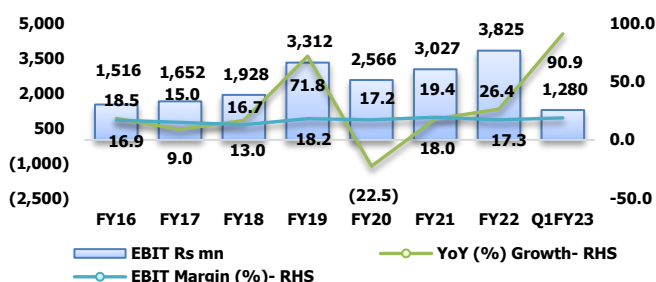
Revenue Mix (%) trend



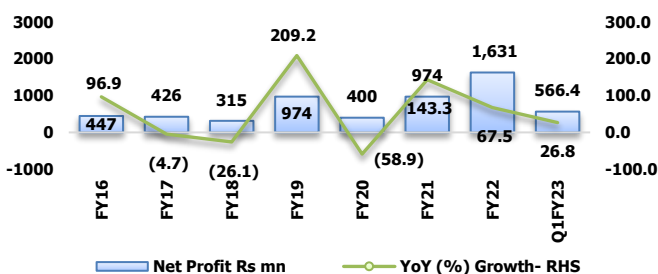
EBITDA 15.5% CAGR over FY16-22



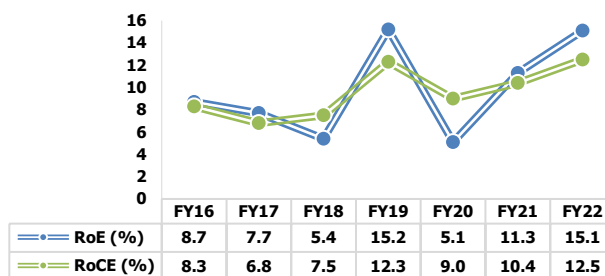
EBIT ~17% CAGR over FY16-22



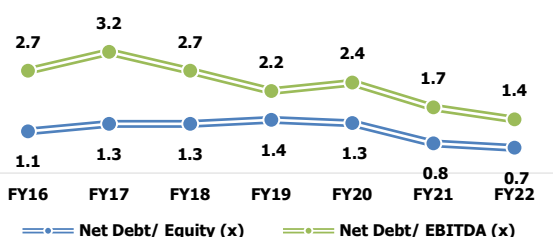
PAT 24.1% CAGR over FY16-22



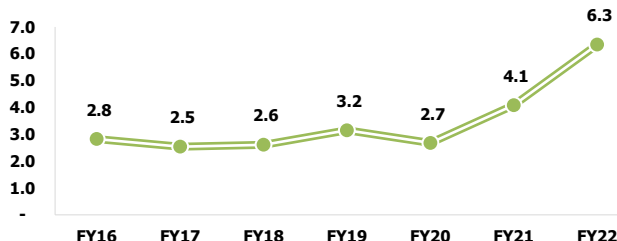
Return Ratios Trend



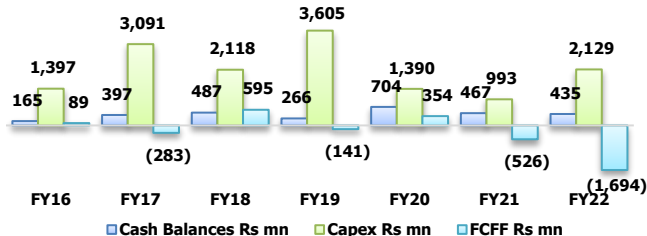
Focus remains on reduction of Debt



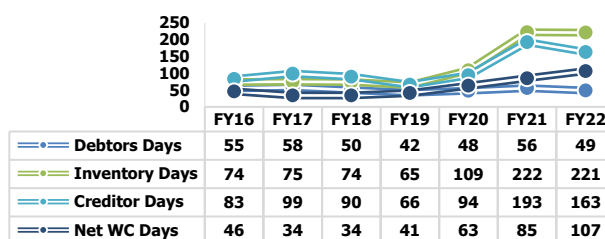
Sharp improvement in coverage ratio



Expected Improvement in FCFF in coming years



Likely improvement in WC in coming years



Source– Company, Way2Wealth

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 View – **BUY**
FINANCIALS & VALUATIONS

	(₹ mn)					
Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E
<i>Automotive- Powertrain & Others</i>	10,085	7,093	8,113	11,544	14,429	17,604
<i>Automotive- Aluminium products</i>	3,082	2,577	3,298	5,520	6,955	8,625
<i>Industrials & Engg</i>	5,014	5,255	4,189	5,107	6,026	6,990
Revenue	18,181	14,925	15,600	22,170	27,410	33,218
EBITDA	4,426	3,980	4,382	5,342	7,031	7,987
EBITDA Margin (%)	24.3	26.7	28.1	24.1	25.7	24.0
Net Profit	974	400	974	1,631	3,019	3,853
EPS ₹	46.1	18.9	46.1	77.2	142.9	182.4
DPS ₹	0.6	3.0	-	3.8	4.0	4.4
RoE (%)	15.2	5.1	11.3	15.1	23.4	23.6
RoCE (%)	12.3	9.0	10.4	12.5	19.4	21.1
P/E (x)	57.4	139.8	57.4	34.3	18.5	14.5
EV/ EBITDA (x)	14.8	16.4	14.5	11.9	8.3	7.1
P/BV (x)	8.2	7.7	5.8	4.9	3.9	3.1
Net Debt/ Equity (x)	1.4	1.3	0.8	0.7	0.6	0.5
Debtors Days	42	48	56	49	53	50
Inventory Days	65	109	222	221	210	200
Creditor Days	66	94	193	163	155	144
Cash Balances	266	704	467	435	698	819
FCFF	(141)	354	(526)	(1,694)	2,085	3,269

Source: Company, Way2Wealth

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View – BUY

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