

Q2FY23 Result Highlights

- **Strong Q2FY23 performance despite challenging environment** – Craftsman Automation Ltd (CAL) Q2FY23 revenue grew by 36% YoY and 14.7% QoQ to ₹7.76 bn. **Automotive Power Train** business expanded 29.5% YoY despite weakness observed in the farm segment. This growth was driven by the CV industry, which grew at a good pace during the quarter. The segmental EBIT margins were reported at 24.6% v/s 29.4% YoY and 27.4% QoQ. This drop can be attributed to salary & power inflation and lower capacity utilisation driven by weaker farm sector demand. **Automotive Aluminum products** business has grown by 39.5% YoY and 14.6% QoQ to ₹1.96 bn as the company gained new businesses. At EBIT levels the margins were at 7.6% v/s 11.9% QoQ and 6.6% YoY. Here the margins came down due to 10% drop seen in Aluminium prices globally on a QoQ basis. In the **Industrial Engineering segment**, revenue grew by 46% YoY and 27.8% QoQ to ₹2.02bn as both the storage business as well as the non-storage businesses grew well, while the margins grew significantly high at 12.8% v/s 7.4% YoY and 7.8% QoQ as on growth in the low capital intensive storage business was observed. Overall EBITDA margins came in at 22.2%, down 297 bps YoY and 214 bps QoQ on led by margin fall at Power train and Aluminium divisions. PAT grew by 25.1% YoY and 10.3% QoQ to ₹624.8mn.
- **Automotive Power train likely to witness further revival with further fall in commodity prices** – The power-train business (49% of topline and 79% of EBIT margins in Q2FY23) is driven mainly by the CV OEMs who are 53% at the end of Q2. With rise in CV industry and thereby sales of CV OEMs, CAL's Power-train business saw a healthy growth in the quarter at 29.5% YoY. Margins came in at 24.6% v/s 27.4% QoQ. There was an increase in Value Addition (Gross Profit) at ₹2.32 bn v/s ₹2.23 bn sequentially despite shrinkage observed in FES business (17.2% of segmental revenues). We are observing strong trends in the underlying CV industry in the current fiscal. We believe this to happen quite comfortably as we expect the CVs to grow at mid-to high teens this year. Also FY23 has not started on a good note for the farm sector, we expect tractor revenues to come back on track in the current fiscal on above normal monsoon in most of the states of the country, thus to assist growth in this division.
- **Automotive Aluminum products business witnessed new business wins** – With recovery seen in the 2W industry in Q2FY23, CAL's Aluminium products business performed well in the quarter as other clients like M&M, Daimler and foreign clients as well supported the business. In Apr'22, the company won a big order from a client for whom they had to urgently increase their capex to ₹2.75bn from earlier target of ₹2.25 bn. This business should ramp up in FY24 and further add ₹1.5 bn in FY25 according to the management. Electrification in Europe is also leading to a good demand for the light-weighted Aluminum products of CAL. The company is also in talks with a North American company for long lasting business over there. The PSA opportunity at ₹2-2.5 bn is quite big and will pour revenues over the medium to long term as its production should start by Q3 FY24. PSA is still in testing phase before giving green signal to CAL. Management expects 40% of the order to be done by FY24E. Management expects 20% growth in the Value Addition of this business which stood at ₹6.8 bn in Q2. We expect this business to grow at 60%/40% in FY23E/FY24E with margins expanding as business flows in.

Important Statistics

MCAP (₹ bn)	71.3
52 Week H/L (₹)	3,446/1,845
NSE Code	CRAFTSMAN
BSE Code	543276

Shareholding Pattern	Sep'22 (%)
Promoters	58.8
DIIs	16.3
FIIIs	4.3
Public	20.6

Financials

	(₹ mn)			
Particulars	FY19	FY20	FY21	FY22
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	9.0	10.4	12.5
P/E (x)	73.2	178.2	73.2	43.7
EV/EBITDA				
(x)	18.3	20.3	18.0	14.8
P/BV (x)	10.4	9.9	7.4	6.3

Particulars	FY23E	FY24E
Revenue	28,960	36,731
EBITDA	7,142	9,398
EBITDA Margin (%)	24.7	25.6
Net Profit	2,487	4,091
EPS (₹)	117.8	193.7
RoE (%)	18.1	23.4
RoCE (%)	20.1	22.2
P/E (x)	28.7	17.4
EV/EBITDA (x)	10.8	8.3
P/BV (x)	5.2	4.1

Source: Company, Way2Wealth

- **Storage business enabled Industrial & Engineering business margins expansion** – Revenues in this segment grew by 46% YoY and 27.8% QoQ on the back of strong surge in storage revenues (55% of segmental revenues) which were at ₹1.11 bn in Q2FY23 v/s ₹0.88 bn in Q1FY23. This expansion led to margin surge of the segment at 12.8% in Q2FY23. The Value Addition in the segment also expanded to ₹760 mn from ₹420 mn QoQ. Management believes storage business will expand and assist margins to reach at 12-15% in the coming years. Continuous positivity in the FMCG, Pharma and ECom businesses should lead to strong profitable growth in this business in the ensuing years. The non-storage business (exports to North America, Europe and Japan) revenues also expanded very well during the quarter from ₹698 mn to ₹906.2 mn QoQ despite slowdown in these geographies.

View

CAL's growth drivers are intact as the Power Train business will be driven by expected pick up in Replacement cycle for HCVs in the coming quarters and also fresh demand raised by movement in the investment capex cycle of the country. Dieselisation demand from all over the world and localisation of diesel vehicle demand should lead to strong demand of +20% for Power Trains. Rising infrastructure growth, construction, mining, agri-commodities transportation, increasing freight rates etc will all lead to a very strong growth in the CV industry. CAL being predominantly driven by CVs and Tractors makes for comfortable investment argument. Exports business (~10% of topline) and electrification shall drive the Automotive Aluminum business. New orders from the latest undisclosed one along with PSA, Daimler and geographies like Brazil, Japan etc shall diversify the business risks. Both Storage and non-storage businesses shall lead to a strong growth in the Industrial Engg business. We view the falling margins to come back in this business with the commodity prices falling, new businesses and utilisation rates moving up. The company is expanding its business at a manageable capex of just ₹2.75 bn maintaining its low D/E of just 0.58x. Hence, **we continue to maintain our BUY with the stock trading at P/E 17.4x FY24E EPS of ₹193.7.**

11th November 2022

CMP – ₹3,374.9/-

 View – **BUY**
FINANCIAL PERFORMANCE

(₹ mn)								
Particulars	Q2FY23	Q2FY22	YoY(%)	Q1FY23	QoQ(%)	1HFY23	1HFY22	YoY(%)
Revenue	7,762.4	5,710.1	35.9	6,769.6	14.7	14,532.0	10,062.0	44.4
Cost of Sales & services	4,056.5	2,737.3	48.2	3,301.5	22.9	7,358.0	4,650.4	58.2
Changes in inventories	(86.0)	(103.4)	(16.8)	(77.8)	10.5	(163.8)	(75.9)	115.8
Employee Exps	577.8	476.6	21.2	568.4	1.7	1,146.2	880.1	30.2
Other Exps	1,492.2	1,163.6	28.2	1,330.7	12.1	2,822.9	2,094.0	34.8
EBITDA	1,721.9	1,436.0	19.9	1,646.8	4.6	3,368.7	2,513.4	34.0
EBITDA Margin (%)	22.2	25.1	(297)	24.3	(214)	23.2	25.0	(180)
Depreciation	546.9	500.2	9.3	532.3	2.7	1079.2	993.9	8.6
Finance Cost	232.8	177.6	31.1	254.1	(8.4)	486.9	402.5	21.0
Other Income	17.4	6.4	171.9	13.1	32.8	30.5	12.8	138.3
PBT	959.6	764.6	25.5	873.5	9.9	1,833.1	1,129.8	62.2
Tax	335.8	265.8	26.3	307.6	9.2	643.4	390.8	64.6
JV Profit/(Loss)	1	0.8	(25.0)	0.5	100.0	1.5	1.3	(15.4)
Net Profit	624.8	499.6	25.1	566.4	10.3	1,191.2	740.3	60.9
EPS (₹)	29.6	23.7	25.1	26.8	10.3	56.4	35.1	60.9

Source: Company, Way2Wealth

(₹ mn)								
Segment Revenue	Q2FY23	Q2FY22	YoY(%)	Q1FY22	QoQ(%)	1HFY23	1HFY22	YoY(%)
Automotive- Powertrain & Others	3,781.8	2,921.3	29.5	3,477.9	8.7	7,259.7	5,244.5	38.4
Automotive- Aluminium products	1,963.4	1,407.2	39.5	1,713.9	14.6	3,677.3	2,420.5	51.9
Industrials & Engg	2,017.2	1,381.6	46.0	1,577.8	27.8	3,595.0	2,397.0	50.0

EBIT	Q2FY23	Q2FY22	YoY(%)	Q1FY22	QoQ(%)	1HFY23	1HFY22	YoY(%)
Automotive- Powertrain & Others	928.9	860.3	8.0	953.8	(2.6)	1,882.7	1,484.6	26.8
Automotive- Aluminium products	148.5	147.1	1.0	204.0	27.2	352.5	193.5	82.2
Industrials & Engg	258.7	50.7	410.3	122.4	111.4	381.1	86.6	340.1

EBIT Margin (%)	Q2FY23	Q2FY22	BPS	Q1FY23	BPS	1HFY23	1HFY22	BPS
Automotive- Powertrain & Others	24.6	29.4	(489)	27.4	(286)	25.9	28.3	(237)
Automotive- Aluminium products	7.6	10.5	(289)	11.9	(434)	9.6	8.0	159
Industrials & Engg	12.8	3.7	916	7.8	507	10.6	3.6	699

% Share of Revenue	Q2FY23	Q2FY22	BPS	Q1FY23	BPS	1HFY23	1HFY22	BPS
Automotive- Powertrain & Others	48.7	51.2	(244)	51.4	(266)	50.0	52.1	(217)
Automotive- Aluminium products	25.3	24.6	65	25.3	(2)	25.3	24.1	125
Industrials & Engg	26.0	24.2	179	23.3	268	24.7	23.8	92

Source: Company, Way2Wealth

11th November 2022

CMP – ₹3,374.9/-

 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	14,545	17,890
<i>Automotive- Aluminium products</i>	3,082	2,577	3,298	5,520	7,011	8,623
<i>Industrials & Engg</i>	5,014	5,255	4,189	5,107	7,405	10,218
Revenue	18,181	14,925	15,600	22,170	28,960	36,731
EBITDA	4,426	3,980	4,382	5,342	7,142	9,398
EBITDA Margin (%)	24.3	26.7	28.1	24.1	24.7	25.6
Net Profit	974	400	974	1,631	2,487	4,091
EPS ₹	46.1	18.9	46.1	77.2	117.8	193.7
DPS ₹	0.6	3.0	-	3.8	4.0	4.4
RoE (%)	15.2	5.1	11.3	15.1	18.1	23.4
RoCE (%)	12.3	9.0	10.4	12.5	20.1	22.2
P/E (x)	73.2	178.2	73.2	43.7	28.7	17.4
EV/ EBITDA (x)	18.3	20.3	18.0	14.8	10.8	8.3
P/BV (x)	10.4	9.9	7.4	6.3	5.2	4.1
Net Debt/ Equity (x)	1.4	1.3	0.8	0.7	0.6	0.5
Debtors Days	42	48	56	49	51	49
Inventory Days	65	109	222	221	200	185
Creditor Days	66	94	193	163	153	145
Cash Balances	266	704	467	435	674	1,091
FCFF	(141)	354	(526)	(1,694)	861	1,609

Source: Company, Way2Wealth

11th November 2022

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View – **BUY**

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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	No
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
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