

Q3FY23 Result Highlights

- **Q3FY23 impacted sequentially due to weak festive season** – CAL Q3 FY23 numbers were weak in the challenging demand environment especially on the 2W side. Revenues grew by 35% YoY and fell by 3.5% QoQ to ₹7.49 bn on weak festive season. **Automotive Power-train** business expanded 39% YoY on CV growth numbers. The segmental EBIT margins were reported at 24.7% v/s 23.6% YoY and 24.6% QoQ. Margins were stable as capacity utilisation rate was high in the range of 75-80% thus offering operating leverage. **Automotive Aluminum** products business was the laggard as its revenues witnessed a sharp fall of 10.5% QoQ to ₹1.76 bn as the company faced lower offtake on account of weaker 2W demand. At EBIT levels the margins which have always been volatile came in at 3.9%, down 370 bps QoQ and 50 bps up from 3.4% YoY. This was mainly due to drop seen in Aluminium prices globally on a QoQ basis leading to accumulation of high priced inventories, and lower level of utilization rates (much below normal levels of 60%) stemming from weak 2W demand (70% of segmental revenues). In the **Industrial Engineering** segment, revenues declined by 18.3% QoQ to ₹1.65bn as the storage business shrunk with the underlying E-Com and retail businesses reduced their spending on challenging demand environment. Therefore, even the margins were subdued at 5.8% v/s 12.8% QoQ and 7% YoY. Overall EBITDA margins came in at 21.1%, down 105 bps QoQ and 193 bps YoY led by margin fall at Aluminium and Industrial Engg business. PAT grew by 37.3% YoY but declined 17.4% QoQ.
- **Automotive Power-train business is likely to maintain its growth story** – With rise in CV industry and thereby sales of CV OEMs, CAL's Power-train business saw a healthy growth in the quarter at 39% yoy. Margins came in at 24.7% v/s 23.6% YoY and 24.6% QoQ. However, there was in fact a very strong growth in Value Addition (Gross Profit) at ₹2.49 bn v/s ₹2.32 bn sequentially and ₹1.9bn YoY. We are witnessing strong trends in the underlying CV industry in the current fiscal and it's expected the CVs to grow at mid-to high teens in the next financial year. Also FY23 has been good for the farm sector despite high base, thus the FES business also to support the segmental performance. The management expects some pre-buying in Q4FY23 on the back of real time emission norms to be applicable from Apr'23. This may lead to some impact on sales in Q1FY24, but shall regain its momentum shortly. The business has been performing at ~80% utilisation rate, owing to which management is planning to expand its overall capex in more than ₹3-3.25bn range for FY24.
- **Automotive Aluminum products business posted weak performance** – CAL's Aluminium products business reported weak numbers in Q3FY23 as 2Ws faced demand slack on lackluster festive season, weak exports and some clients going slow on their orders. Demand slump along with dip in aluminium prices led to accumulation of high priced inventories of previous quarter leading to weaker margin performance. Also weak demand led to very low utilization rates which fell drastically below 60%. This led to margins falling sharply to 3.9%. 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 ₹2.25bn. This business should ramp up in FY24 and add ₹1.5 bn in FY25 as per the management. Electrification in Europe is also leading to a good demand for the light-weighted Aluminium

Important Statistics

MCAP (₹ bn)	69.4
52 Week H/L (₹)	3,710/1,845
NSE Code	CRAFTSMAN
BSE Code	543276

Shareholding Pattern	Dec'22 (%)
Promoters	58.8
DIIs	15.8
FIIIs	9.3
Public	16.1

Financials

Particulars	(₹ mn)			
	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)	71.2	173.4	71.3	42.5
EV/EBITDA (x)	17.8	19.8	17.6	14.4
P/BV (x)	10.2	9.6	7.2	6.1

Particulars	FY23E	FY24E	FY25E
Revenue	29,122	37,238	46,804
EBITDA	6,827	8,907	11,318
EBITDA Margin (%)	23.4	23.9	24.2
Net Profit	2,217	3,467	4,812
EPS (₹)	105.0	164.2	227.8
RoE (%)	17.6	21.6	23.6
RoCE (%)	19.7	23.4	27.1
P/E (x)	31.3	20.0	14.4
EV/EBITDA (x)	10.5	8.5	6.9
P/BV (x)	5.2	4.2	3.3

Source: Company, Way2Wealth

products of CAL. However, the economic turmoil in Europe may have a bearing on this business. 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 Q3FY24. PSA is still in testing phase before giving green signal for the company. Management expects this business to start by 2HFY24. Management targets 20% growth in the Value addition of this business which stood at ₹6.1bn in Q3FY23 v/s ₹6bn YoY and ₹6.8bn QoQ.

- **Industrial & Engineering business likely to revive in Q4FY23 as per the management** – Revenues in this segment de-grew by 18.3% QoQ on the back of weak storage revenues which were at ₹0.8 bn in Q3FY23 v/s ₹1.11 bn YoY in Q2FY23. This led to margin contraction of the segment at 5.8% in the quarter. The Value Addition in the segment also fell to ₹583mn from ₹760mn QoQ. On YoY basis, the segment reported strong growth on overall basis. This fall was due to seasonal and temporary slowdown seen at retail and E-Com clients' ends. Management believes storage business will expand and with likely margins at 12-15% at least in the coming years. Continuous positivity in the FMCG, pharma and auto businesses should lead to strong profitable growth in this business in the ensuing years. The precision segment performance is also expected to do well as industry cape increases. The business is likely witness ~20% growth over the next three years.
- **Acquisition of DR Axion more of a synergic fit** – In Dec'22, CAL acquired majority stake in the Chennai based Indian arm of South Korea based auto ancillary firm DR Axion for a consideration of ₹3.75 bn, out of which ₹3bn will be raised through debt and rest through internal accruals, the payment of which should happen over net 7-8 years. DR Axion is a supplier of aluminium cylinder heads to PVs like Hyundai, Kia, M&M, Toyota, Tesla etc. Through this acquisition, the company gets a very good entry into PV segment where they lack presence. Also apart from India and Korea, CAL can enhance its global footprint as DR Axion is #3 supplier in the US market. The topline of Dr Axion was ₹7.16 bn in FY22 v/s ₹4.6 bn in FY21 and ₹3.2 bn in FY20. EBITDA margins have been in the range of 11-13% which is better than the Aluminium products business in which this company shall get merged. More details shall be disclosed once the acquisition gets completed after FY23 as per the management.

View

CAL's Power train business will be driven by expected pick up in Replacement cycle for HCVs in the coming quarters and also fresh demand risen by movement in the investment capex cycle of the country. Diesalisation 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. The company being predominantly driven by CVs followed by tractors shall lead to a very comfortable investment argument. Exports business (currently 10% of topline) and electrification shall drive the Automotive Aluminium 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 believe margin strength to come back in this business with the commodity prices falling, new businesses and utilisation

25th January 2023

CMP – ₹3,285/-

View – **BUY**

rates moving up. DR Axion acquisition seems to be a strategic/synergic fit which shall start yielding results from FY24. The company has increased its capex guidance of ₹2.75 bn to ₹3-3.25 bn in FY24 on the back of higher investment in the high demand Powertrain business. Robust cash generation stemming from strong operational performance shall lead to comfortable Debt/EBITDA of targeted 1.3x from 1.6x including acquisition debt. **With growth drivers intact, we continue to maintain our BUY with the stock trading at P/E 14.4x FY25E EPS of ₹227.8.**

25th January 2023

CMP – ₹3,285/-

View – BUY

FINANCIAL PERFORMANCE

(₹ mn)								
Particulars	Q3FY23	Q3FY22	YoY(%)	Q2FY23	QoQ(%)	9MFY23	9MFY22	YoY(%)
Revenue	7,490.3	5,541.5	35.2	7,762.4	(3.5)	22,022.3	15,603.5	41.1
Cost of Sales & services	4,006.5	2,747.2	45.8	4,056.5	(1.2)	11,364.5	7,397.6	53.6
Changes in inventories	(227.9)	(210.2)	8.4	(86.0)	165.0	(391.7)	(286.1)	36.9
Employee Exps	582.4	535.0	8.9	577.8	0.8	1,728.6	1,415.1	22.2
Other Exps	1,546.3	1,191.4	29.8	1,492.2	3.6	4,369.2	3,285.4	33.0
EBITDA	1,583.0	1,278.1	23.9	1,721.9	(8.1)	4,951.7	3,791.5	30.6
EBITDA Margin (%)	21.1	23.1	(193)	22.2	(105)	22.5	24.3	(181)
Depreciation	537.6	521.1	3.2	546.9	(1.7)	1,616.8	1,515.0	6.7
Finance Cost	296.3	201.9	46.8	232.8	27.3	783.2	604.4	29.6
Other Income	46.1	18.9	143.9	17.4	164.9	76.6	31.7	141.6
PBT	795.2	574.0	38.5	959.6	(17.1)	2,628.3	1,703.8	54.3
Tax	281.2	199.3	41.1	335.8	(16.3)	924.6	590.1	56.7
JV Profit/(Loss)	2.1	1.3	(61.5)	1	110.0	3.6	2.6	(38.5)
Net Profit	516.1	376.0	37.3	624.8	(17.4)	1,707.3	1,116.3	52.9
EPS (₹)	24.4	17.8	37.3	29.6	(17.4)	80.8	52.9	52.9

Source: Company, Way2Wealth

(₹ mn)								
Segment Revenue	Q3FY23	Q3FY22	YoY(%)	Q1FY22	QoQ(%)	9MFY23	9MFY22	YoY(%)
Automotive- Powertrain & Others	4,084.4	2,923.5	39.7	3,781.8	8.0	11,344.1	8,168.0	38.9
Automotive- Aluminium products	1,758.5	1,434.0	22.6	1,963.4	(10.4)	5,435.8	3,854.5	41.0
Industrials & Engg	1,647.4	1,184.0	39.1	2,017.2	(18.3)	5,242.4	3,581.0	46.4

EBIT	Q3FY23	Q3FY22	YoY(%)	Q1FY22	QoQ(%)	9MFY23	9MFY22	YoY(%)
Automotive- Powertrain & Others	1,010.2	690.7	46.3	928.9	8.8	2,892.9	2,175.3	33.0
Automotive- Aluminium products	68.9	110.9	(37.9)	148.5	53.6	421.4	304.4	38.4
Industrials & Engg	94.9	82.7	14.8	258.7	(63.3)	476.0	189.5	151.2

EBIT Margin (%)	Q3FY23	Q3FY22	BPS	Q1FY23	BPS	9MFY23	9MFY22	BPS
Automotive- Powertrain & Others	24.7	23.6	111	24.6	17	25.5	26.6	(113)
Automotive- Aluminium products	3.9	7.7	(382)	7.6	(365)	7.8	7.9	(14)
Industrials & Engg	5.8	7.0	(122)	12.8	(706)	9.1	5.3	379

% Share of Revenue	Q3FY23	Q3FY22	BPS	Q1FY23	BPS	9MFY23	9MFY22	BPS
Automotive- Powertrain & Others	54.5	52.8	177	48.7	581	51.5	52.3	(84)
Automotive- Aluminium products	23.5	25.9	(240)	25.3	(182)	24.7	24.7	(2)
Industrials & Engg	22.0	21.4	63	26.0	(399)	23.8	22.9	85

Source: Company, Way2Wealth

25th January 2023

CMP – ₹3,285/-

 View – **BUY**
FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<i>Automotive- Powertrain & Others</i>	10,085	7,093	8,113	11,544	14,660	18,179	22,178
<i>Automotive- Aluminium products</i>	3,082	2,577	3,298	5,520	6,955	8,625	10,436
<i>Industrials & Engg</i>	5,014	5,255	4,189	5,107	7,507	10,434	14,191
Revenue	18,181	14,925	15,600	22,170	29,122	37,238	46,804
EBITDA	4,426	3,980	4,382	5,342	6,827	8,907	11,318
EBITDA Margin (%)	24.3	26.7	28.1	24.1	23.4	23.9	24.2
Net Profit	974	400	974	1,631	2,217	3,467	4,812
EPS(₹)	46.1	18.9	46.1	77.2	105.0	164.2	227.8
DPS (₹)	0.6	3.0	-	3.8	4.0	4.4	4.8
RoE (%)	15.2	5.1	11.3	15.1	17.6	21.6	23.6
RoCE (%)	12.3	9.0	10.4	12.5	19.7	23.4	27.1
P/E (x)	71.2	173.4	71.3	42.5	31.3	20.0	14.4
EV/ EBITDA (x)	17.8	19.8	17.6	14.4	10.5	8.5	6.9
P/BV (x)	10.2	9.6	7.2	6.1	5.2	4.2	3.3
Net Debt/ Equity (x)	1.4	1.3	0.8	0.7	0.5	0.5	0.4
Debtors Days	42	48	56	49	50	48	47
Inventory Days	65	109	222	221	198	186	180
Creditor Days	66	94	193	163	151	148	141
Cash Balances	266	704	467	435	568	981	1,124
FCFF	(141)	354	(526)	(1,694)	726	1,302	1,466

Source: Company, Way2Wealth

25th January 2023

CMP – ₹3,285/-

 View – **BUY**
Disclaimer

Analyst Certification: I, Jayakanth Kasthuri, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Jayakanth Kasthuri, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement CRAFTSMAN AUTOMATION LTD. as on 25th January 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

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.