

CRAFTSMAN AUTOMATION LIMITED

Powertrain business pulls down overall numbers, prospects for consolidated growth remain strong

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Craftsman Automation Ltd (CAL)'s Q2 FY24 numbers were slightly below our expectations driven by softer Powertrain business performance. Standalone revenues grew by just 6% yoy and 9% qoq to ₹8.24 bn. Power train business moved up by 4% yoy on high base and softer CV & tractor growth. The segmental EBIT margins were down at 19.6% v/s 24.6% yoy and 21.9% qoq. Automotive Aluminum products business revenues witnessed a sharp rise of 19.7% yoy and 13% qoq to ₹2.35 bn as the segment encountered recovery in 2W demand. At EBIT levels the margins which have always been volatile showed a solid jump at 15.1%, up from 12.6% qoq and 7.6% yoy. In the Industrial Engineering segment, revenues grew by just 1% yoy and 18% qoq to ₹1.96 bn as the storage business witnessed a pause. Overall EBITDA margins came in at 20.1%, down 50 bps qoq and 210 bps yoy. Consolidated PAT grew by 29% qoq and 68% yoy at ₹1.05 bn.

DRA Axion (DRA) numbers strong, to excel further

DRA's revenues came in at ₹3.5bn (~30% of consolidated revenue) during the quarter. EBITDA was at ₹647 mn with margin at 18.3%. EBIT margin came in at 15.4% during the quarter. Management expects 10-15% yoy growth in this business going forward. It is expected to be driven by product mix and growth in customer base. DRA's key client M&M (40% of revenue) is anticipated to outperform the underlying industry, led by robust order backlog and its dominance in the growing SUV market. DRA's another client Hyundai-Kia's Talegaon plant facility capacity expansion should add 5-10% to DRA's topline by FY 25 once the plant commissions. We believe DRA to be an important growth driver for CAL going forward and add a substantial amount of revenues and assist margin performance.

Power-train business to slow down in FY24-25E, but may grow thereafter

PT business witnessed a soft growth in Q2. Management expects the segment to grow at high single digits to low double digit over the next two years due to high base of FY 23. They expect it to start growing at a rapid pace from FY 26 as they are working with a large global customer for exports order which should start by FY 26. CAL is building up new capacities near its main plant at Coimbatore to cater to the demand for OTH segment.

Aluminum products post strong performance, expect continuity

Auto Aluminium business division posted a strong performance in Q2 as the 2W industry saw a strong recovery on the domestic side. Further, it is likely to grow due to start of orders from Stellantis in Q3 FY 25. The segment is in ramp up stage to fulfill various other order as well.

Key Financials	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Total Sales (₹ mn)	22,170	31,826	45,808	51,920	58,959
EBITDA Margins (%)	24.1%	21.5%	20.6%	21.3%	22.3%
PAT Margins (%)	7.4%	7.9%	8.4%	9.2%	10.4%
EPS (₹)	77.8	118.9	182.6	225.2	290.4
P/E (x)	62.3	40.8	26.6	21.5	16.7
P/BV (x)	9.0	7.1	5.7	4.6	3.7
EV/EBITDA (x)	20.1	16.6	12.1	10.2	8.5
ROE (%)	14.4%	17.5%	21.6%	21.5%	22.2%
ROCE (%)	19.3%	18.0%	21.7%	22.2%	23.4%

Rating	BUY
Current Market Price (₹)	4,765
12M Price Target (₹)	5,808
Potential upside (%)	22

Stock Data

Sector	Auto Components
FV (₹)	5
Total Market Cap (₹ bn) :	101
Free Float Market Cap (₹ bn) :	45
52-Week High / Low (₹) :	5,066 / 2,735
12M Avg. Dly Traded Volume (in lakh)	0.60
BSE Code / NSE Symbol	543276 / CRAFTSMAN
Bloomberg :	CRAFTSMAN: IN

Shareholding Pattern

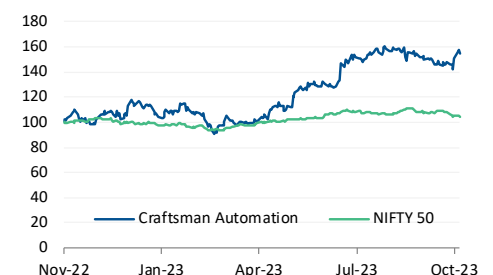
(%)	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	54.99	54.99	58.77	58.77
FPIs	12.68	12.10	8.79	9.33
MFs	13.29	13.20	12.37	11.09
AIFs	3.99	4.00	4.18	4.23
Bodies Corporate	1.68	1.85	1.96	1.90
IFC	4.79	4.79	4.79	4.79
Others	8.58	9.07	9.14	9.89

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Craftsman	2.8%	2.5%	53.7%	31.4%
Nifty 50	-3.3%	-3.8%	5.1%	4.4%

* To date / current date : November 1, 2023

Craftsman vs Nifty 50

All order wins over last two years are translating now. Therefore we saw a strong expansion in margins as well in Q2. We expect the strong numbers to continue going forward and to grow at 20%/17% in FY 24E/FY 25E with margins expanding as business flows in.

Industrial & Engineering business robust

Management mentioned that there was a pause in storage business in Q2, but expect a strong H2. It has an order book of ₹1 bn in automated storage business. Revenue from storage business in H1 was ₹1.64 bn (46% of segmental business revenues), out of which 27% came from automated storage. Management expects the automated storage business to grow faster than static/manual storage.

Capex

Capex Guidance for FY24 at ₹4.8 bn (out of which ₹2.6 bn was spend in H1) includes capex of ₹1.5-1.6 bn towards a Greenfield plant at Coimbatore which would commence from FY 26. Incremental Greenfield capex will be ₹1 bn in FY 26. The company is expecting to house all the segments – mainly powertrain and aluminium products and some backward integration.

Outlook and valuation

We believe the Power train business will be driven by expected pick up in Replacement cycle for HCVs in the medium term and also fresh demand rising by movement in the investment capex cycle of the country. Dieselization demand from all over the world and localization of diesel vehicle demand should lead to strong demand 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. However, the real demand growth may come in FY 26 only as FY 24 and FY 25 may see soft growth on high base of FY 23. New order from a global CV player also should aid growth in FY 26. Exports business (now 10% of topline) and electrification shall drive the Automotive Aluminum business. New orders from Stellantis shall provide the required fillip from H2 of FY25. Pick up in 2Ws and EVs should augur well for Aluminium business which is currently in ramp up stage. Both Storage and non-storage businesses shall lead to a strong growth in the Industrial Engg business in H2. DR Axion acquisition seems to be a strategic/synergic fit which is 30% of topline and is giving boost to the consolidated business.

The increased capex guidance and debt raised for acquisition may result into some pressure on the financials in the short term. However, robust cash generation stemming from strong operational performance shall lead to comfortable financial leverage. Improvement in FCF and return ratios in line with strong operational efficiencies along with track record of creating and gaining market leadership organically is uncommon in the auto component industry. We estimate the consolidated revenues/EBITDA/PAT to grow at a CAGR of 23%/24%/35% in the period between FY23-26E. We therefore value CAL at 20x rolled over earnings of FY 26E (currently trades at 16.7x). Maintain BUY with a target of ₹5,808.

Quarterly Standalone

YE Mar (₹ mn)	Q2 FY24	Q1 FY24	% QoQ	Q2 FY23	% YoY
Revenues	8,245	7,557	9.1%	7,762	6.2%
Total RM costs	3,981	3,684	8.1%	3,971	0.3%
Employee expenses	624	565	10.4%	578	8.0%
Other expenses	1,911	1,675	14.1%	1,492	28.1%
EBITDA	1,727	1,633	5.8%	1,722	0.3%
Margins (%)	21.0%	21.6%	(50 bps)	22.2%	(240 bps)
Depreciation	565	581	-2.7%	547	3.3%
EBIT	1,162	1,052	10.5%	1,175	-1.1%
Other income	53	29	80.6%	17	205.2%
Interest costs	373	356	4.7%	233	60.1%
PBT	843	726	16.1%	960	-12.2%
Tax	216	185	16.6%	336	-35.8%
Net profits	627	541	15.9%	624	0.5%
EPS (₹)	29.7	25.6	15.9%	29.5	0.5%

Source: Company, LKP Research

Quarterly Consolidated

YE Mar (₹ mn)	Q2 FY24	Q1 FY24	% QoQ	Q2 FY23	% YoY
Revenues	11,791	10,376	13.6%	7,762	51.9%
Total RM costs	6,270	5,449	15.1%	3,971	57.9%
Employee expenses	722	670	7.9%	578	25.0%
Other expenses	2,423	2,115	14.6%	1,492	62.4%
EBITDA	2,375	2,142	10.9%	1,722	37.9%
Margins (%)	20.1%	20.6%	(50 bps)	22.2%	(210 bps)
Depreciation	668	683	-2.1%	547	22.2%
EBIT	1,707	1,460	16.9%	1,175	45.3%
Other income	47	37	27.2%	17	171.3%
Interest costs	416	424	-1.9%	233	78.6%
PBT	1,341	1,075	24.7%	960	39.7%
Tax	296	266	11.1%	336	-12.0%
Net profits	1,045	809	29.2%	624	67.5%
EPS (₹)	49.4	38.2	29.2%	29.5	67.5%

Source: Company, LKP Research

Income Statement

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Total Revenues	22,170	31,826	45,808	51,920	58,959
Raw Material Cost	10,341	16,294	24,453	27,620	30,847
Employee Cost	1,878	2,335	3,010	3,248	3,675
Other Exp	4,611	6,361	8,908	9,994	11,278
EBITDA	5,342	6,836	9,436	11,058	13,159
EBITDA Margin(%)	24.1%	21.5%	20.6%	21.3%	22.3%
Depreciation	2,060	2,216	2,933	3,278	3,440
EBIT	3,282	4,620	6,503	7,780	9,720
EBIT Margin(%)	14.8%	14.5%	14.2%	15.0%	16.5%
Other Income	74	125	165	200	225
Interest	842	1202	1634	1851	2036
PBT	2,517	3,548	5,034	6,129	7,909
PBT Margin(%)	11.4%	11.1%	11.0%	11.8%	13.4%
Tax	877	1,038	1,182	1,377	1,781
Adjusted PAT	1,641	2,510	3,852	4,752	6,127
APAT Margins (%)	7.4%	7.9%	8.4%	9.2%	10.4%
Exceptional items	0	0	0	0	0
PAT	1,641	2,510	3,852	4,752	6,127
PAT Margins (%)	7.4%	7.9%	8.4%	9.2%	10.4%

Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Equity and Liabilities					
Equity Share Capital	106	106	106	106	106
Reserves & Surplus	11,252	13,663	17,130	21,407	26,922
Total Networth	11,357	14,379	17,846	22,123	27,638
Total debt	3,738	9,062	9,562	10,162	10,762
Deferred tax assets/liabilities	1,168	1,411	1,711	2,011	2,311
Other current liabilities	704	792	792	792	792
Total non-current liab and provs	5,610	11,265	12,065	12,965	13,865
Current Liabilities					
Trade payables	4,626	7,116	7,530	7,824	8,077
Short term provisions+ borrowings	1,566	2,721	2,721	2,721	2,721
Other current liabilities	3,589	2,587	2,587	2,587	2,587
Total current liab and provs	9,781	12,424	12,837	13,131	13,384
Total Equity & Liabilities	26,748	38,067	42,748	48,219	54,886
Assets					
Net block	14,537	18,388	20,255	20,477	18,537
Capital WIP	420	966	1,066	1,566	2,066
Other non current assets	1,497	3,833	3,833	3,833	3,833
Total fixed assets	16,454	23,187	25,154	25,877	24,437
Cash and cash equivalents	294	273	384	1,533	3,709
Other bank balance	141	200	200	200	200
Inventories	6,264	8,360	10,668	12,802	16,153
Trade receivables	2,962	5,353	5,648	7,112	9,692
Other current assets	633	693	693	693	693
Total current Assets	10,294	14,879	17,591	22,340	30,447
Total Assets	26,748	38,067	42,748	48,219	54,886

Cash Flow

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E	FY 26E
PBT	2,517	3,548	5,034	6,129	7,909
Depreciation	2,060	2,216	2,933	3,278	3,440
Interest	770	1,062	1,634	1,851	2,036
Chng in working capital	-1,506	100	-1,888	-3,006	-5,378
Tax paid	-368	-727	-1,182	-1,377	-1,781
Other operating activities	0	0	0	0	0
Cash flow from operations (a)	3,272	6,076	6,531	6,875	6,225
Capital expenditure	-2,129	-3,453	-4,900	-4,000	-2,000
Chng in investments	0	2	0	0	0
Other investing activities	40	-3,628	0	0	0
Cash flow from investing (b)	-2,089	-7,079	-4,900	-4,000	-2,000
Free cash flow (a+b)	1,183	-1,003	1,631	2,875	4,225
Inc/dec in borrowings	10	2,042	500	600	600
Dividend paid (incl. tax)	0	-79	-385	-475	-613
Interest paid	-769	-1,027	-1,634	-1,851	-2,036
Other financing activities	-423	-205	0	0	0
Proceeds from issue of equity shares	-19	0	0	0	0
Cash flow from financing (c)	-1,200	730	-1,519	-1,726	-2,049
Net chng in cash (a+b+c)	-17	-273	111	1,149	2,177
Closing cash & cash equivalents	294	272	384	1,533	3,709

Key Ratios

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Per Share Data (Rs)					
Adj. EPS	77.8	118.9	182.6	225.2	290.4
CEPS	175.4	224.0	321.6	380.6	453.4
BVPS	538.3	681.5	845.8	1048.5	1309.8
DPS	0.0	3.8	18.3	22.5	29.0
Growth Ratios(%)					
Total revenues	43.4%	43.6%	43.9%	13.3%	13.6%
EBITDA	23.1%	28.0%	38.0%	17.2%	19.0%
EBIT	35.8%	40.8%	40.8%	19.6%	24.9%
PAT	80.4%	52.9%	53.5%	23.4%	28.9%
Valuation Ratios (X)					
PE	62.3	40.8	26.6	21.5	16.7
P/CEPS	27.6	21.6	15.1	12.7	10.7
P/BV	9.0	7.1	5.7	4.6	3.7
EV/Sales	4.8	3.6	2.5	2.2	1.9
EV/EBITDA	20.1	16.6	12.1	10.2	8.5
Operating Ratios (Days)					
Inventory days	103.1	95.9	85.0	90.0	100.0
Receivable Days	48.8	61.4	45.0	50.0	60.0
Payables day	59.1	29.7	60.0	55.0	50.0
Net Debt/Equity (x)	0.46	0.79	0.67	0.56	0.47
Profitability Ratios (%)					
ROCE	19.3%	18.0%	21.7%	22.2%	23.4%
ROE	14.4%	17.5%	21.6%	21.5%	22.2%
Dividend payout ratio (%)	0.0%	3.2%	10.0%	10.0%	10.0%
Dividend yield(%)	0.0	0.1	0.4	0.5	0.6

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