CRAFTSMAN AUTOMATION LIMITED

Recovery expected from Q1, subdued Q4

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Craftsman Automation Ltd (CAL) reported consol revenues of ₹11 bn v/s ₹9.8 bn, a growth of 13% yoy and a fall of 2.2% qoq. The results were subdued due to weak performance by the Powertrain business. EBITDA increased by 10% yoy and fell by 6% qoq. Margins declined by 80 bps qoq and 50 bps yoy on weak margins at Powertrain business and Industrial segment. PAT declined by 12%/13.6% yoy and qoq respectively due to underperformance at the operating level. In FY24, revenues/EBITDA/PAT grew by 40%/29%/34% respectively.

Power-train business to see gradual recovery from FY25

The auto powertrain business declined 1% yoy due to slower-than-expected demand in CVs and tractors as well as inventory corrections from key OEMs. EBIT margin in the powertrain segment contracted 300bps qoq to 15.2%. Apart from weak demand, margins were impacted as the company has invested in new capacities, which are yet to ramp-up on expected lines. As per the management, two of its key segments, viz., CVs and tractors, are likely to see weak demand in FY25. Conversely, exports are likely to pick up in Q1 sequentially, from one of its key customers (Daimler). Overall, management expects this segment to deliver high-single-digit or low-double-digit growth in FY25. On margin front, in FY24, this segment saw pressure due to: 1) investments done in capacity and technology, but the OEM demand did not pick-up in line with expectation; 2) refurbishment costs undertaken, bulk of which are behind now; and 3) key segments like CV and tractors that are seeing weak demand. Q4 FY24 saw an added margin impact due to higher-than-expected inventory correction seen from CV and PV OEMs. Given a better revenue traction in FY25E, and the impact of refurbishment costs behind, we expect margins in this segment to improve in FY25. Further, in the long run, management expects the domestic CV segment to upgrade towards higher HP engines that would in turn drive up content supplied to this segment.

Management is seeing an extremely strong traction in off-highway and stationary engine segments and has received healthy orders, which are expected to commence production from FY26 onwards. Such is the strong traction in order book that the management expects this segment (off highway + Industrial Engineering) to scale up to USD 100 mn in revenue over the next 4-5 years. The company has been investing in this segment for the past two years and is now reaping the fruits of the same.

Key Financials	FY 23	FY 24	FY 25E	FY 26E
Total sales(₹ mn)	31,826	44,517	49,854	56,495
EBITDA margins (%)	21.5%	19.7%	20.6%	21.3%
PAT margins (%)	7.9%	7.6%	7.9%	8.6%
EPS (₹)	118.9	159.5	185.7	229.8
P/E (x)	37.0	27.6	23.7	19.2
P/BV (x)	6.5	5.3	4.4	3.7
EV/EBITDA (x)	15.2	12.1	10.4	8.9
ROE (%)	17.5%	19.3%	18.6%	19.1%
ROCE (%)	18.0%	18.9%	19.8%	20.8%
Dividend yield (%)	0.09	0.26	0.42	0.52

Rating	BUY
Current Market Price (₹)	4,426
12M Price Target (₹)	5,082
Potential upside (%)	15

Stock Data	
Sector	Auto Components
FV (₹)	5
Total Market Cap (₹ bn) :	94
Free Float Market Cap (₹ bn) :	42
52-Week High / Low (₹) :	5,514 / 3,110
BSE Code / NSE Symbol	543276 / CRAFTSMAN
Bloomberg :	CRAFTSMAN: IN

Shareholding Pattern

(%)	Mar-24	Dec-23	Sep-23	Jun-23
Promoter	54.99	54.99	54.99	54.99
FPIs	12.55	12.52	12.68	12.10
MFs	11.94	13.04	13.29	13.20
AIFs	3.82	4.06	3.99	4.00
Bodies Corporate	1.69	1.75	1.68	1.85
IFC	4.79	4.79	4.79	4.79
Others	10.22	8.85	8.58	9.07

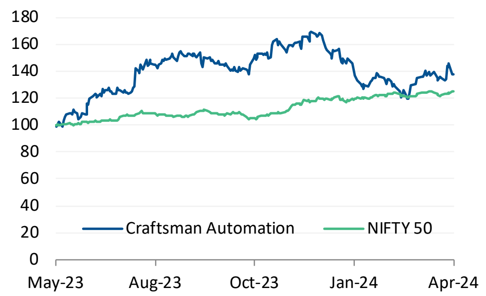
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Craftsman	2.6%	-2.0%	-7.6%	9.9%
Nifty 50	1.2%	5.0%	18.1%	17.8%

** To date / current date : April 30, 2024*

Craftsman vs Nifty 50



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DRA Axion (DRA) sees strong opportunities of growth

DRA's derived revenues came in at ₹2.8 bn, while margins were at 20.7% (up 130 bps qoq), while PAT was reported at ₹349 mn. Going forward, the numbers are 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 FY25, once the plant commissions. Also exports to Korea should add to the topline from Q4 FY25. We believe DRA to be an important growth driver for CAL going forward and add a substantial amount of revenues and assist margin performance of the Aluminium products business and in turn to the consolidated numbers. We believe that the margins should further increase on operating leverage as volumes in the SUV industry increase with intensifying competition and new model launches.

Aluminum products standalone business to excel further

Auto Aluminium business division posted a strong performance in Q4 as it posted 28% growth, while the margins grew by 150 bps to 14.9% on positive operating leverage. This was led mainly by the 2W industry growth on the domestic side. Further, it is likely to grow due to start of orders from Stellantis in Q3 FY25 as stated in the previous calls. The segment is in ramp up stage to fullfill various other order as well. All order wins over last two years are translating now. Therefore we saw a strong expansion in margins as well in Q3. In this business, CAL sees huge opportunities for growth from the Northern region OEMs, and hence it is now setting up a capacity in Bhiwadi. This plant is likely to start trial production in FY25 and expected to ramp-up from FY26 onwards Exports are also expected to ramp up from Q2 FY25 onwards. Management expects >15% growth for this business in FY25E led by growth in both standalone and DRA businesses.

Industrial & Engineering business grew despite subdued storage business

The industrial segment's revenue also declined 8% yoy. Further, its margin slipped 400bps qoq to 2.2% due to continued competitive pressure in the storage solution business. The storage business (50% of industrial business) has been flat yoy due to low investments in segments like e-commerce. However, management expects the same to pick-up in FY25 driven by a very strong opening order backlog (which is about 50% of FY24 revenue). On the back of this order backlog, it expects its storage solutions business to post 25-30% growth in FY25. With a better revenue visibility, management expects better margin performance going forward. Management foresses huge long-term growth opportunity coming up from outsourcing of heavy machined parts (1-20 T) in Capital Goods from India, as India evolves as an alternate sourcing destination for global Industrial segment players. The Greenfield facility at Kothavadi is being set up to cater to these orders in the coming years.

Capex

CAL has invested ₹5.8bn in capex in FY24 and it is expected to invest another ₹5bn+ in FY25 as well. Bulk of the investments is likely to go for completion of two Greenfield facilities at Bhiwadi (catering to Aluminium business) and Kothavadi (catering to industrial business and powertrain business) plants. Given that the company would need funds for future growth, the Board has approved an enabling resolution for fund raise through either debt or equity in FY25.

Quarterly Consolidated

YE Mar (₹ mn)	Q4 FY24	Q3 FY24	% QoQ	Q4 FY23	% YoY
Revenues	11,054	11,297	-2.2%	9,804	12.7%
Total RM costs	5,984	6,010	-0.4%	5,322	12.5%
Employee expenses	730	763	-4.4%	606	20.3%
Other expenses	2,271	2,322	-2.2%	1,991	14.0%
EBITDA	2,069	2,202	-6.0%	1,884	9.8%
Margins (%)	*0.19*	*0.19*	*(80 bps)*	*19.2%*	*(50 bps)*
Depreciation	723	703	2.9%	599	20.6%
EBIT	1,346	1,499	-10.2%	1,285	4.8%
Other income	53	35	51.7%	49	8.8%
Interest costs	464	442	5.0%	419	10.7%
PBT	936	1,094	-14.4%	915	2.4%
Tax	233	279	-16.5%	114	104.8%
Net profits	704	815	-13.6%	801	-12.2%
EPS (₹)	33.3	38.5	-13.6%	37.9	-12.2%

Source: Company, LKP Research

Outlook and Valuation

We believe the Power train business shall remain subdued in FY25, but 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 by second half of FY25 and more in FY26. 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 post the near to mid-term lull. We therefore believe that the real demand growth may come in FY26 only as FY25 may see soft growth. Exports business (now 10% of topline) and electrification shall drive the Automotive Aluminum business. New orders from Stelantis shall provide the required fillip from H2 of FY25.

Robust growth in 2Ws and EVs should augur well for Aluminium business which is currently in top gear. Both Storage and non-storage businesses shall lead to a strong growth in the Industrial Engg business in FY25. DR Axion will be driven by client capacity ramp-up and exports. The increased capex guidance would surely add to the topline by FY26 but that along with the debt raised during 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 21%/21%/25% in the period between FY23-26E. We therefore reiterate a BUY on the stock its attractive valuations (19.2x FY 26E earnings). We value the stock at 22x with a target price of ₹5,055.

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Total Revenues	**31,826**	**44,517**	**49,854**	**56,495**
Raw Material Cost	16,294	23,713	26,391	29,893
Employee Cost	2,335	2,885	3,161	3,490
Other Exp	6,361	9,132	10,056	11,071
EBITDA	**6,836**	**8,788**	**10,246**	**12,041**
EBITDA Margin(%)	*21.5%*	*19.7%*	*20.6%*	*21.3%*
Depreciation	2,216	2,776	3,092	3,437
EBIT	**4,620**	**6,012**	**7,154**	**8,603**
EBIT Margin(%)	*14.5%*	*13.5%*	*14.3%*	*15.2%*
Other Income	125	172	195	215
Interest	1202	1745	2239	2491
PBT	**3,548**	**4,439**	**5,110**	**6,327**
PBT Margin(%)	*11.1%*	*10.0%*	*10.2%*	*11.2%*
Tax	1,038	1,074	1,191	1,479
Adjusted PAT	**2,510**	**3,365**	**3,919**	**4,848**
APAT Margins (%)	*7.9%*	*7.6%*	*7.9%*	*8.6%*
Exceptional items	0	0	0	0
PAT	**2,510**	**3,374**	**3,919**	**4,848**
PAT Margins (%)	*7.9%*	*7.6%*	*7.9%*	*8.6%*

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	118.9	159.5	185.7	229.8
CEPS	224.0	291.5	332.3	392.7
BVPS	681.5	830.2	997.3	1204.1
DPS	3.8	11.3	18.6	23.0
Growth Ratios(%)				
Total revenues	43.6%	39.9%	12.0%	13.3%
EBITDA	28.0%	28.6%	16.6%	17.5%
EBIT	40.8%	30.1%	19.0%	20.3%
PAT	52.9%	34.1%	16.4%	23.7%
Valuation Ratios (X)				
PE	37.0	27.6	23.7	19.2
P/CEPS	19.6	15.1	13.2	11.2
P/BV	6.5	5.3	4.4	3.7
EV/Sales	3.3	2.4	2.1	1.9
EV/EBITDA	15.2	12.1	10.4	8.9
Operating Ratios (Days)				
Inventory days	95.9	85.3	90.0	100.0
Recievable Days	61.4	47.3	50.0	53.0
Payables day	29.7	38.1	40.0	43.0
Net Debt/Equity (x)	0.79	0.78	0.68	0.59
Profitability Ratios (%)				
ROCE	18.0%	18.9%	19.8%	20.8%
ROE	17.5%	19.3%	18.6%	19.1%
Dividend payout ratio (%)	3.2%	7.0%	10.0%	10.0%
Dividend yield(%)	0.1	0.3	0.4	0.5

Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Equity and Liabilities				
Equity Share Capital	106	106	106	106
Reserves & Surplus	13,663	16,474	20,001	24,364
Total Networth	**14,379**	**17,517**	**21,044**	**25,407**
Total debt	9,062	11,248	11,848	12,448
Deferred tax assets/liabilities	1,411	1,315	1,615	1,915
Other curent liabilities	792	1,670	1,670	1,670
Total non-current liab & provs	**11,265**	**14,233**	**15,133**	**16,033**
Current Liabilities				
Trade payables	7,116	8,006	5,463	6,656
Short term provs+ borrowings	2,721	2,650	2,650	2,650
Other current liabilities	2,587	4,651	4,651	4,651
Total current liab and provs	**12,424**	**15,308**	**12,765**	**13,957**
Total Equity & Liabilities	**38,067**	**47,057**	**48,942**	**55,397**
Assets				
Net block	18,388	21,334	19,742	20,805
Capital WIP	966	1,786	2,286	2,786
Other non current assets	3,833	6,107	6,107	6,107
Total fixed assets	**23,187**	**29,228**	**28,135**	**29,698**
Cash and cash equivalents	273	635	664	997
Other bank balance	200	195	195	195
Inventories	8,360	10,408	12,293	15,478
Trade receivables	5,353	5,766	6,829	8,203
Other current assets	693	825	825	825
Total current Assets	**14,879**	**17,830**	**20,806**	**25,699**
Total Assets	**38,067**	**47,057**	**48,942**	**55,397**

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	3,548	4,447	5,110	6,327
Depreciation	2,216	2,777	3,092	3,437
Interest	1,062	1,735	2,239	2,491
Chng in working capital	105	-1,932	-5,190	-3,067
Tax paid	-727	-1,476	-1,191	-1,479
Other operating activities	0	-418	0	0
Cash flow from operations (a)	**6,081**	**5,133**	**4,060**	**7,709**
Capital expenditure	-3,453	-6,310	-2,000	-5,000
Chng in investments	2	-2	0	0
Other investing activities	-3,628	53	0	0
Cash flow from investing (b)	**-7,079**	**-6,259**	**-2,000**	**-5,000**
Free cash flow (a+b)	**-998**	**-1,126**	**2,060**	**2,709**
Inc/dec in borrowings	2,042	3,938	600	600
Dividend paid (incl. tax)	-79	-238	-392	-485
Interest paid	-1,027	-1,718	-2,239	-2,491
Other financing activities	-205	-500	0	0
Proceeds from issue of equity shares	0	0	0	0
Cash flow from financing (c)	**730**	**1,482**	**-2,031**	**-2,376**
Net chng in cash (a+b+c)	**-268**	**356**	**29**	**333**
Closing cash & cash equivalents	**273**	**635**	**664**	**997**

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