

15 August 2024

## Craftsman Automation

Acquisition, new segment opportunities to drive value; retaining a Hold

Rating: **Hold**

Target Price: Rs.6,000

Share Price: Rs.5,352

On less than-expected aluminium product margins, Craftsman's Q1 FY25 EBITDA fell 8% y/y to Rs1.97bn, missing our Rs2.12bn expectation. We are positive about the medium to long term due to fresh opportunities in import substitution, lightweighting and industrials (heavy engines, off-highway, wind, capital goods; annual potential of over \$100m in the next 4-5 years), reasonably priced acquisitions (Sunbeam, Frongberg and more ahead) and capacity expansion (a 25% increase), which would drive robust growth in powertrain and aluminium products. Industrial & engineering growth would be boosted by storage solutions and renewables. Given the 20% stock run-up and limited potential, we retain our Hold at a higher Rs6,000 TP, 25x FY26e P/E (earlier Rs4,450, 20x FY26e) and acquisitions at Rs1,050 (3x BV).

**EBITDA miss.** Q1 FY25 consolidated revenue grew 11% y/y to Rs11.5bn, above our Rs11bn estimate, mainly on the pass-through of aluminium prices. EBITDA fell 8% to Rs1.97bn, below our Rs2.12bn estimate due to lower-than-expected aluminium product margins. Powertrain sales grew 9% to Rs4.2bn. The EBIT margin fell 490bps y/y to 17%, but q/q was up 180bps. Aluminium product sales grew 8% to Rs5.3bn. The EBIT margin fell 50bps y/y, 290bps q/q, to 13.2%. DR Axion sales grew 13% to Rs2.9bn. Its EBIT margin fell 280bps y/y, 390bps q/q, to 13.2%. Industrial & engineering sales grew 24% to Rs2.1bn. the EBIT margin fell 450bps y/y, 50bps q/q, to 2.1%. Overall, PAT fell 29% to Rs532m (ARe Rs685m), below estimate on lower operating profit.

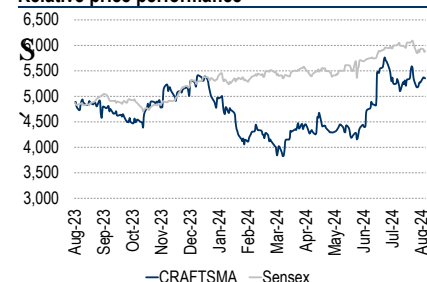
**Valuation.** We expect 13%/25% revenue/PAT CAGRs over FY24-26 (excl. acquisitions). We lower our FY25e EPS ~12%, due to the cut in revenue/margins. FY26e EPS is broadly intact. With limited potential, we retain our Hold at a higher Rs6,000 TP, 25x P/E FY26e (earlier Rs4,450, 20x FY26e) and acquisitions at Rs1,050 (3x Rs8.5bn BV). The multiple higher on new segments opportunities and revenue de-risk (less EV exposure). **Risks:** Slower orders, less-than-expected industry volume growth and acquisition-turnaround delays.

Key data	CRAFTSMA IN
52-week high / low	Rs.5,840 / 3,782
Sensex / Nifty	79,106 / 24,144
3-m average volume	\$6.3m
Market cap	Rs.128bn / \$1,520.9m
Shares outstanding	24m

Shareholding pattern (%)	Jun'24	Mar'24	Dec'23
Promoters	48.7	55.0	55.0
- of which, Pledged	-	-	-
Free float	51.3	45.0	45.0
- Foreign institutions	15.8	12.6	12.5
- Domestic institutions	21.5	16.0	17.2
- Public	14.1	16.5	15.3

Estimates revision (%)	FY25e	FY26e
Sales	-2.8	-2.1
EBITDA	-10.3	-4.4
EPS	-12.0	1.2

### Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	22,170	31,826	44,517	48,962	56,988
Net profit (Rs m)	1,631	2,484	3,045	3,204	4,728
EPS (Rs)	77.2	117.6	144.2	134.3	198.2
Growth (%)	68	52	23	-7	48
P/E (x)	69.3	45.5	37.1	39.8	27.0
EV / EBITDA (x)	22.4	18.2	14.5	13.8	11.0
P/BV (x)	10.0	8.2	6.8	3.7	3.2
RoE (%)	15.5	19.8	20.1	13.6	14.5
RoCE (%)	11.8	14.6	15.3	11.2	12.0
Dividend yield (%)	-	0.1	0.2	0.2	0.3
Net debt / equity (x)	0.6	0.8	0.9	0.4	0.3

Source: Company, Anand Rathi Research

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## Quick Glance – Financials and Valuations (consol.)

**Fig 1 – Income statement (Rs m)**

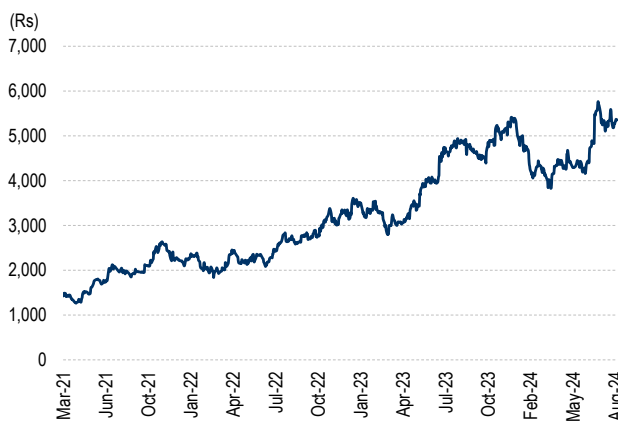
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net revenues (Rs m)	22,170	31,826	44,517	48,962	56,988
Growth (%)	42.1	43.6	39.9	10.0	16.4
Raw material	10,341	16,294	23,713	25,983	30,242
Employee & other expenses	6,488	8,696	12,016	13,901	15,341
<b>EBITDA</b>	<b>5,342</b>	<b>6,836</b>	<b>8,788</b>	<b>9,079</b>	<b>11,405</b>
EBITDA margins (%)	24.1	21.5	19.7	18.5	20.0
- Depreciation	2,060	2,216	2,777	3,094	3,501
Other income	74	125	172	216	248
Interest expenses	842	1,202	1,745	1,845	1,845
PBT	2,514	3,543	4,438	4,354	6,307
Effective tax rates (%)	35	29	24	25	25
+ Associates / (Minorities)	4	-21	-320	-55	9
Adjusted income	1,631	2,484	3,045	3,204	4,728
Extraordinary items	-	-	-	-	-
Net income	1,631	2,484	3,045	3,204	4,728
WANS	21	21	21	24	24
FDEPS (Rs)	77.2	117.6	144.2	134.3	198.2

**Fig 3 – Cash-flow statement (Rs m)**

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT	2,517	3,548	4,447	4,354	6,307
+ Non-cash items	2,830	3,278	4,512	4,940	5,346
Oper. prof. before WC	5,347	6,826	8,959	9,294	11,653
- Incr. / (decr.) in WC	1,517	-105	1,924	791	2,297
Others incl. taxes	558	855	1,902	1,150	1,579
Operating cash-flow	3,272	6,077	5,133	7,353	7,777
- Capex (tang. + intang.)	2,103	7,146	6,281	5,000	5,000
Free cash-flow	1,169	-1,069	-1,148	2,353	2,777
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	-	79	238	250	369
+ Equity raised	-19	-	-	12,000	-
+ Debt raised	10	2,042	3,938	-	-
- Financial investments	-14	-67	-22	9,000	-
- Misc. (CFI + CFF)	1,206	921	2,217	2,927	1,845
Net cash-flow	-32	39	357	2,175	562

\*Note: Acquisitions numbers are not included, but is routed through investments. Acquisitions numbers to be factored post data availability. Source: Company, Anand Rathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (Rs m)**

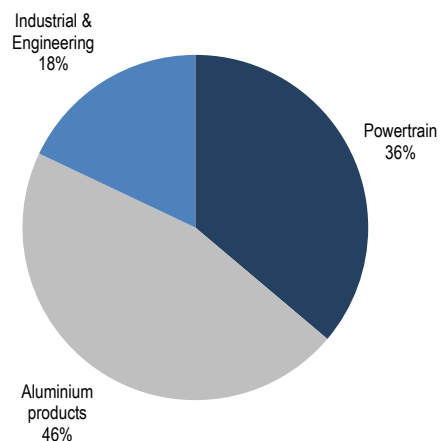
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	106	106	106	119	119
Net worth	11,357	13,769	16,580	30,452	34,810
Debt	7,156	11,527	15,464	15,464	15,464
Minority interest	-	610	937	937	937
DTL / (Assets)	1,168	1,411	1,315	1,315	1,315
<b>Capital employed</b>	<b>19,681</b>	<b>27,317</b>	<b>34,296</b>	<b>48,168</b>	<b>52,526</b>
Net tangible assets	15,395	19,307	23,724	25,630	27,129
Net intangible assets	42	32	43	43	43
Goodwill	-	1,900	1,900	1,900	1,900
CWIP (tang. & intang.)	420	966	1,786	1,786	1,786
Investments (strategic)	27	34	45	9,045	9,045
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	10,429	15,354	18,729	20,286	24,022
Cash	435	473	830	3,006	3,568
Current liabilities	7,067	10,750	12,762	13,528	14,966
Working capital	3,362	4,605	5,968	6,758	9,056
<b>Capital deployed</b>	<b>19,681</b>	<b>27,317</b>	<b>34,296</b>	<b>48,168</b>	<b>52,526</b>

**Fig 4 – Ratio analysis**

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	69.3	45.5	37.1	39.8	27.0
EV / EBITDA (x)	22.4	18.2	14.5	13.8	11.0
EV / Sales (x)	5.4	3.9	2.9	2.6	2.2
P/B (x)	10.0	8.2	6.8	3.7	3.2
RoE (%)	15.5	19.8	20.1	13.6	14.5
RoCE (%) - after tax	11.8	14.6	15.3	11.2	12.0
RoIC (%) - after tax	11.8	14.6	15.3	11.2	12.0
DPS (Rs)	-	3.8	11.3	10.5	15.5
Dividend yield (%)	-	0.1	0.2	0.2	0.3
Dividend payout (%)	-	3.2	7.8	7.8	7.8
Net debt / equity (x)	0.6	0.8	0.9	0.4	0.3
Receivables (days)	49	61	47	47	47
Inventory (days)	221	187	160	160	170
Payables (days)	163	159	123	123	123
CFO : PAT (%)	201	245	169	229	164

Source: Company, Anand Rathi Research

**Fig 6 – Q1 FY25 revenue mix (consolidated)**



Source: Company

## Earnings call takeaways

- Prices of the key raw material, aluminium increased ~12-13% in Q1 FY25, which makes sales not comparable y/y and q/q. Hence revenue is ostensibly higher and led to the ~100bp lower margin. Also PV manufacturers annual shutdown and inventory declines impacted margins. Capacity is ~60,000-70,000 tons for aluminium products.
- **DR Axion.** Won further orders for exports and domestically. Only maintenance and marginal capex required ahead. Eight Korean expatriates are continuing to support the operations. DR Axion Korea customer has been added in recent times with Rs1.25bn revenue expected in FY25. Hyundai's new plant (Pune) businesses have been awarded to company.
- **Storage** segment has grown well, but margins remain muted.
- **Fronberg,** Germany is a high-technology foundry, with marquee customers for industrial engine blocks. This is in-line with the company's growth plan in India. About Rs1bn (€10m) cost of acquisition and Rs600m required for working capital. Part of the bigger Gienanth group, which turned insolvent as it had acquired new foundries and lost money, while this is self-contained foundry with high single-digit EBITDA margin. Some customers also attended the meetings and promised business continuing. Customers are supportive as most products it makes is single source. No past liabilities such as pension as this is an asset purchase. Revenue is ~Rs2.5bn.
- **Sunbeam** is not profit-making now but complements its strength and give its access to overseas markets. It has been exporting to North America for the last 20 years with a 15-20% revenue share. It would strengthen the aluminium business. Revenue is ~Rs16bn and manpower cost is high as it is trying to shift to the new plant, which involved cost duplication.
- **Kothavadi, Coimbatore plant.** Expects phase 1 trial production to start from Q4 FY25. Would cater to the wind sector: machining of gearbox housings and critical planet carrier housings. In phase 2, the target would be heavy industrial engines for backup generators. AI data centres driving demand for generators.
- **Bhiwadi, Rajasthan plant.** Expects phase 1 trial production to start from Q4 FY25. Starting with 2W structural parts incl. alloy wheels with GDC (gravity die-casting) technology. Engaged with multinational consulting firm in Germany to support operations. Phase 2 would include ICE engines and other parts with LPDC (low-pressure die-casting) and HPDC (high-pressure die-casting) technology.
- **Industrial engines** (over 12 cylinders, 80 litre engines). Confident of growth with revenues from FY27. Large potential business from engine manufacturers, who are big as €10bn-60bn. Six such customers globally some with their own foundry/machining. Costing is not critical and manufacturing has been based mainly in North America and West Europe. Fronberg would provide access to such customers. Otherwise, to secure such customers can take 5-8 years. Order-book of such a customer is full for many years due to data centres (particularly for AI). Considering the kind of demand, with not much addition of foundry capacity in the USA, Brazil and Europe and less willingness to source from China, any Indian manufacturer can capture opportunities. Has secured an order for engine blocks; development has started, but invoicing would start from FY27.

- Headwinds seen for tier 1 US and Europe companies, which could lead to more outsourcing opportunities to India.
- Company would further look at acquisitions in India, focusing on industrials and powertrain.
- **Q1 FY25 powertrain revenue breakup.** CV 54%, off-highway 16%, tractors 14%, SUVs 16%.
- QIP (Rs12bn) – Rs2.5bn for DR Axion acquisition, Rs3bn for general corporate purposes and Rs6.5bn to reduce debt. Debt reduction would lead to lower interest cost ahead.
- Q1 FY25 capex Rs2bn.

## Result highlights

Fig 7 – Quarterly performance

(Rs m)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Y/Y (%)	Q/Q (%)	FY25e	FY24	Y/Y (%)
<b>Revenue</b>	<b>10,376</b>	<b>11,791</b>	<b>11,297</b>	<b>11,053</b>	<b>11,512</b>	<b>10.9</b>	<b>4.1</b>	<b>48,962</b>	<b>44,517</b>	<b>10.0</b>
<b>Expenditure</b>	<b>8,234</b>	<b>9,416</b>	<b>9,095</b>	<b>8,984</b>	<b>9,539</b>	<b>15.8</b>	<b>6.2</b>	<b>39,883</b>	<b>35,729</b>	<b>11.6</b>
as % of sales	79.4	79.9	82.3	81.3	82.9			81.5	80.3	
Consumption of RM	5,449	6,270	6,010	5,984	6,484	19.0	8.4	25,983	23,713	9.6
as % of sales	52.5	53.2	54.4	54.1	56.3			53.1	53.3	
Employee cost	670	722	763	730	738	10.2	1.2	3,026	2,885	4.9
as % of sales	6.5	6.1	6.9	6.6	6.4			6.2	6.5	
Other expenditure	2,115	2,423	2,322	2,271	2,316	9.5	2.0	10,875	9,131	19.1
as % of sales	20.4	20.6	21.0	20.5	20.1			22.2	20.5	
<b>EBITDA</b>	<b>2,142</b>	<b>2,375</b>	<b>2,202</b>	<b>2,069</b>	<b>1,973</b>	<b>(7.9)</b>	<b>(4.6)</b>	<b>9,079</b>	<b>8,788</b>	<b>3.3</b>
Depreciation	683	668	703	723	725	6.2	0.3	3,094	2,777	11.4
<b>EBIT</b>	<b>1,459</b>	<b>1,707</b>	<b>1,499</b>	<b>1,346</b>	<b>1,248</b>	<b>(14.5)</b>	<b>(7.3)</b>	<b>5,984</b>	<b>6,011</b>	<b>(0.5)</b>
Other income	37	47	35	53	48	30.5	(8.9)	216	172	25.0
Interest	424	416	442	464	492	15.9	5.9	1,845	1,745	5.7
<b>PBT</b>	<b>1,073</b>	<b>1,338</b>	<b>1,093</b>	<b>935</b>	<b>805</b>	<b>(24.9)</b>	<b>(13.9)</b>	<b>4,354</b>	<b>4,438</b>	<b>(1.9)</b>
Total tax	266	296	279	233	212	(20.3)	(8.9)	1,096	1,074	2.1
Minority interest	-64	-100	-84	-82	-63	(0.9)	(23.2)	-63	-329	
Share of profit from JV	2	2	1	3	2	(5.3)	(40.0)	9	9	
<b>Adj. PAT</b>	<b>745</b>	<b>945</b>	<b>731</b>	<b>623</b>	<b>532</b>	<b>(28.6)</b>	<b>(14.7)</b>	<b>3,204</b>	<b>3,045</b>	<b>5.2</b>
Extraordinary items: Loss / (Gain)	0	0	0	0	0			0	0	
<b>Reported PAT</b>	<b>745</b>	<b>945</b>	<b>731</b>	<b>623</b>	<b>532</b>	<b>(28.6)</b>	<b>(14.7)</b>	<b>3,204</b>	<b>3,045</b>	<b>5.2</b>
<b>Adj. EPS</b>	<b>35.3</b>	<b>44.8</b>	<b>34.6</b>	<b>29.5</b>	<b>22.3</b>	<b>(36.7)</b>	<b>(24.4)</b>	<b>134.3</b>	<b>144.2</b>	<b>(6.8)</b>
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>			<b>(bps)</b>
Gross	47.5	46.8	45.6	45.9	43.7	(381)	(219)	46.9	46.7	20
EBIDTA	20.6	20.1	19.9	18.7	17.1	(350)	(158)	18.5	19.7	(120)
EBIT	14.1	14.5	13.6	12.2	10.8	(322)	(133)	12.2	13.5	(128)
PAT	7.2	8.0	6.6	5.6	4.6	(256)	(102)	6.5	6.8	(30)
Effective tax rates	24.8	22.1	29.8	24.9	26.4	154	145	25.2	24.2	98

Source: Company

## Valuations

We are positive over medium-long term due to fresh opportunities in import substitution, lightweighting and industrial segments (heavy engines, off-highway, wind, capital goods; annual potential of over \$100m in next 4-5 years), reasonable priced acquisitions (Sunbeam, Frongberg and more ahead) and new capacity expansion (Increase by 25%) would drive robust growth in powertrain and aluminum products segments. Industrial & Engineering growth would be boosted by storage solutions and renewables.

We expect consolidated revenue (excl. acquisitions) to grow by 13% CAGR over FY24-25, led by powertrain (a 10% CAGR), aluminium (15%) and industrial engineering (15%). The EBIT margin would improve to 14.3% in FY26 (from 13.9% in FY24), due to operating leverage.

**New opportunitites.** Heavy engines expected to reach over \$ 100m annual revenues for Craftsman in next 4-5 years due to strong end-demand (AI data center driving generator engines demand; OEM engine manufacturers order-book is full and double digit revenue growth expected for them) and casting supply constraints in USA/Europe/Brazil and de-risk from China is expected to be major opportunity ahead.

**Revenue diversification (less EV exposure).** With entry new product categories/end segments (industrial engines, body casting parts) driven by acquisitions, revenue share towards EV related segments would reduce, hence improve terminal growth for the company and drive better valuation multiples.

**Valuation.** We expect 13%/25% revenue/PAT CAGRs over FY24-26 (excl. acquisitions). We recommend a Hold at a Rs6,000 TP, 25x P/E on FY26e (earlier Rs4,450, 20x FY26e) and acquisitions at Rs1,050 (3x BV of Rs8.5bn).

**Fig 8 – Change in estimates**

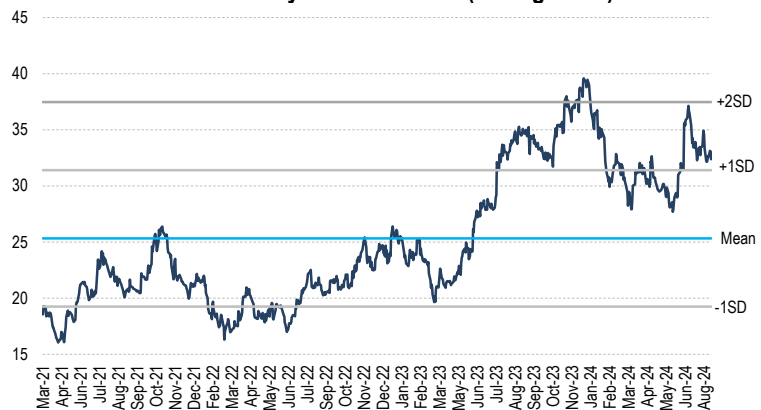
(Rs m)	Old		Revised		Change (%)	
	FY25e	FY26e	FY25e	FY26e	FY25	FY26
Revenue	50,380	58,195	48,962	56,988	-2.8	-2.1
EBITDA	10,118	11,926	9,079	11,405	-10.3	-4.4
%	20.1	20.5	18.5	20.0		
Adj. PAT	3,642	4,673	3,204	4,728	-12.0	1.2
EPS (Rs)	152.7	196.0	134.3	198.2	-12.0	1.2

Source: Anand Rathi Research

**Fig 9 – Segment revenue**

(Rs m)	FY22	FY23	FY24	FY25e	FY26e	CAGR FY24-26e (%)
Powertrain	11,544	15,271	15,584	16,765	18,777	10
y/y %	42	32	2	8	12	
Aluminium products	5,520	9,346	21,536	23,690	28,428	15
y/y %	67	69	130	10	20	
Industrial & Engineering	5,107	7,209	7,398	8,507	9,783	15
y/y %	26	41	3	15	15	
<b>Total revenues</b>	<b>22,170</b>	<b>31,826</b>	<b>44,517</b>	<b>48,962</b>	<b>56,988</b>	<b>13</b>
y/y %	43	44	40	10	16	
<b>EBIT (Rs m) – includes other income</b>						
Powertrain	3,037	3,820	2,916	2,934	3,568	11
y/y %	38	26	(24)	1	22	
Aluminium products	95	773	3,220	3,553	4,548	19
y/y %	277	710	316	10	28	
Industrial & Engineering	644	672	494	312	636	14
y/y %	(19)	4	(27)	(37)	104	
<b>Total EBIT</b>	<b>3,777</b>	<b>5,266</b>	<b>6,630</b>	<b>6,800</b>	<b>8,752</b>	<b>15</b>
y/y %	25	39	26	3	29	
<b>EBIT %</b>						
Powertrain	26.3	25.0	18.7	17.5	19.0	
Aluminium Products	1.7	8.3	15.0	15.0	16.0	
Industrial & Engineering	12.6	9.3	6.7	3.7	6.5	
<b>Total</b>	<b>17.0</b>	<b>16.5</b>	<b>14.9</b>	<b>13.9</b>	<b>15.4</b>	

Source: Company, Anand Rathi Research

**Fig 10 – Standard deviation of 1-year-forward P/E (average: 25x)**

Source: Bloomberg, Anand Rathi Research

**Risks**

- Slower order wins
- Less-than-expected industry volume growth
- Acquisition-turnaround delays.

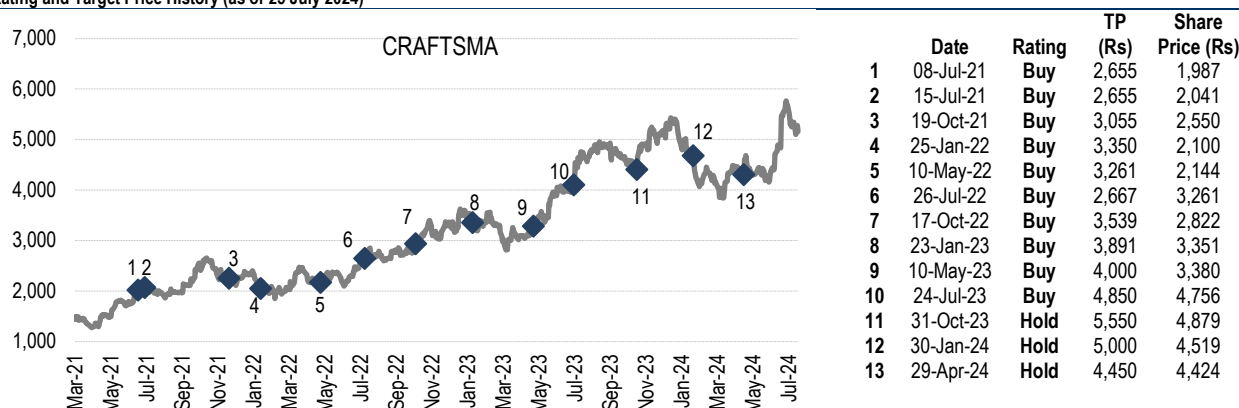
## Appendix

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	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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