

CRAFTSMAN AUTOMATION LIMITED

Muted Q1, acquisition and new business opportunities to drive growth

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Craftsman Automation Ltd (CAL) reported consolidated revenue growth of 3% yoy to ₹12.1bn in Q2 FY25. EBITDA fell 19% yoy to ₹1.92bn, due to lower-than-expected powertrain & industrial product margins. Powertrain sales grew 9% to ₹4.3bn. The EBIT margin fell 490 bps yoy, 230bps qoq, to 14.7%. Aluminium product sales declined 1% yoy to ₹5.8bn. The EBIT margin fell 120bps yoy to 14%, but expanded 80bps qoq. DR Axion sales fell 13% to ₹3.1bn. Its EBIT margin expanded 70 bps yoy, 280 bps qoq, to 16%. Industrial & engineering sales grew 2% to ₹2bn. Its EBIT margin contracted notably to 0.3%. Overall, PAT fell 35% to ₹617m due to lower operating profit.

Sunbeam acquisition to provide a solid lift to the consol numbers from FY26

Sunbeam acquisition was completed by 9th October 24. Cost - ~₹7bn. Sale of 16 acres of Gurgaon land (~₹3bn-4bn realization expected) would recover additional payment. Labour settlement cost was ₹1.6bn and would be done by Mar'25. CAL expects slightly positive EBITDA in Q4 FY25 for Sunbeam. Also CAL expects FY26 Sunbeam revenues to be flat at ₹12bn and the EBITDA margin in high single digits. Margin improvement to be driven by lower employee cost (labour settlement; employee costs are at a high of ~₹2.8bn) and closure of the Gurgaon plant (shift to the Bhivadi plant). Management expects large business potential in exports due to reduced casting capacities in Europe. Sunbeam will bring new customers in domestic/exports and add capability in lower tonnage HPDC technology (Craftsman - high tonnage HPDC and DR Axion – LPDC and GDC capabilities present). Unabsorbed depreciation to save ₹1bn in taxes.

Commencement of Bhivadi plant production to aid Aluminium products business well

Bhivadi plant production started from Aug'24 with 30,000-tonne capacity (4m alloy wheels a year). The plant will be functioning at 20% utilisation at the start, which is expected to reach 50-70% by Q4 FY25. Bhivadi plant is expected to add revenues of ~₹1bn in Q4 FY25. Management mentioned that at high utilisation it can generate ₹4bn-5bn revenues. Capex planned is at ₹2.8bn (₹800m in H1 FY25) including land (₹1.3bn) till now. This would surely add to the Aluminium products business in addition to the existing DR Axion and newly added Sunbeam and Frongsberg businesses. We can see an unusual jump in this business from the current fiscal.

Key Financials	FY 23	FY 24	FY 25E	FY 26E
Total sales(₹ bn)	31,826	44,517	53,845	73,330
EBITDA margins(%)	21.5%	19.7%	14.3%	15.1%
PAT margins(%)	7.9%	7.6%	4.1%	6.0%
EPS	118.9	159.5	104.6	209.8
P/E	43.5	32.4	49.4	24.6
P/BV	7.6	6.2	5.6	4.6
EV/EBITDA	17.6	13.9	16.3	11.5
ROE%	17.5%	19.3%	11.3%	18.8%
ROCE%	18.0%	18.9%	13.1%	18.6%
Dividend yield (%)	0.07	0.22	0.20	0.41

BUY

Current Market Price (₹)	5,231
12M Price Target (₹)	6,084
Potential upside (%)	16

Stock Data

Sector	Auto Components
FV (₹)	5
Total Market Cap (₹ bn) :	124
Free Float Market Cap (₹ bn) :	64
52-Week High / Low (₹) :	7,121 / 3,782
BSE Code / NSE Symbol	543276 / CRAFTSMAN
Bloomberg :	CRAFTSMAN: IN

Shareholding Pattern

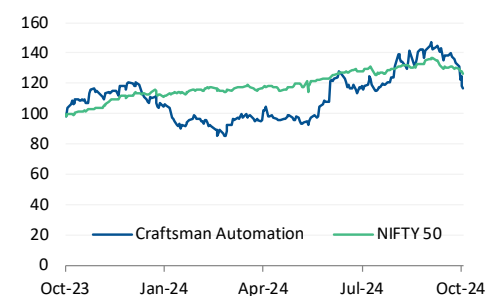
(%)	Sep-24	Jun-24	Mar-24	Dec-23
Promoter	48.70	48.70	54.99	54.99
FPIs	16.61	15.76	12.55	12.52
MFs	16.61	16.23	11.94	13.04
AIFs	4.29	4.42	3.82	4.06
Bodies Corporate	1.50	1.47	1.69	1.75
IFC	4.24	4.24	4.79	4.79
Others	8.05	9.18	10.22	8.85

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Craftsman	-20.8%	0.5%	13.9%	-2.8%
Nifty 50	-7.0%	-0.9%	7.1%	12.8%

* To date / current date : October 25, 2024

Craftsman vs Nifty 50

Kothavadi plant expansion to bring in new stream of business on the Powertrain segment

The Kothavadi plant is under trial production. Phase 1 of this plant is dedicated to sectors like wind/tool castings and has orders of >₹1bn annually. Phase 2 will be for heavy engine cylinder blocks used for backup power generators and has orders from two customers of more than ₹1bn (execution from FY27; some machining orders would start from FY26). The Frongberg plant would complement this plant to serve customers globally. Capex was ₹1.26bn and would be ₹1.78bn for phase 1. MNCs from neighbouring countries are receiving approval for FDI in India, which would intensify competition ahead in this business.

Industrial and Engg business to see improvement in margins from H2 FY25

Industrial margins were lower due to weak profitability in old orders. The company expects improvement from H2 FY25 with better profits in new orders. Automated storage new order book stands at ₹2.5bn (about two years of timeline) with much better profitability. H1FY25 storage revenue was recorded at ₹2.62bn with automated revenue share at 33%. The margins were very low at 0.2%.

Outlook and Valuation

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

We expect consolidated revenue to clock a 32% CAGR over FY23-26, led by powertrain (9% of CAGR), aluminium (10%), Sunbeam (₹12.6bn), Frongberg (₹2.6bn) and industrial engineering (8%). Powertrain growth would be driven by a ramp-up of the Kothavadi plant (phase 1 general industry castings). The aluminium segment would be boosted by supply of 2W alloy wheels from the Bhiwadi plant (4m wheel capacity with ₹4bn-5bn revenue potential). We shall see improvement in profitability in FY 26 due to the ramp-up of the new plants, operating leverage and lower losses for Sunbeam.

CAL foresees new opportunities will be in the form of Heavy engines expected to reach >\$100m annual revenues for CAL in the next 4-5 years due to strong end-demand (AI data centres driving generator demand; OEM engine manufacturers order-books are full and double-digit revenue growth expected for them) and casting-supply constraints in the USA/Europe/Brazil and de-risk from China expected to be major opportunities ahead. We therefore retain our BUY at a higher target price of ₹6,084, valued at 29x FY26E earnings.

Quarterly Consolidated

YE Mar (₹ mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Revenues	12,140	11,512	5.5%	11,791	3%
Total RM costs	6,752	6,484	4.1%	6,270	8%
Employee expenses	832	738	12.7%	722	15%
Other expenses	2,628	2,316	13.4%	2,423	8%
EBITDA	1,928	1,973	-2.3%	2,375	-19%
% margins	15.9%	17.1%	(120 bps)	20.1%	(420 bps)
Depreciation	762	725	5.0%	668	14%
EBIT	1,166	1,248	-6.6%	1,707	-32%
Other income	64	48	33.1%	47	36%
Interest costs	413	492	-15.9%	416	-1%
PBT	822	807	1.8%	1,341	-39%
Tax	205	212	-3.6%	296	-31%
Net profits	617	595	3.7%	1,045	-41%
EPS	25.85	28.13	-8.1%	49.40	-48%

Source: Company, LKP Research

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Total Revenues	31,826	44,517	53,845	73,330
Raw Material Cost	16,294	23,713	31,478	43,631
Employee Cost	2,335	2,885	3,542	4,220
Other Exp	6,361	9,132	11,102	14,375
EBITDA	6,836	8,788	7,723	11,105
<i>EBITDA Margin(%)</i>	<i>21.5%</i>	<i>19.7%</i>	<i>14.3%</i>	<i>15.1%</i>
Depreciation	2,216	2,776	2,865	3,055
EBIT	4,620	6,012	4,858	8,049
<i>EBIT Margin(%)</i>	<i>14.5%</i>	<i>13.5%</i>	<i>9.0%</i>	<i>11.0%</i>
Other Income	125	172	305	340
Interest	1202	1745	2210	2469
PBT	3,548	4,439	2,963	5,933
<i>PBT Margin(%)</i>	<i>11.1%</i>	<i>10.0%</i>	<i>5.5%</i>	<i>8.1%</i>
Tax	1,038	1,074	757	1,506
Adjusted PAT	2,510	3,365	2,206	4,427
<i>APAT Margins (%)</i>	<i>7.9%</i>	<i>7.6%</i>	<i>4.1%</i>	<i>6.0%</i>
Exceptional items	0	0	0	0
PAT	2,510	3,374	2,206	4,427
<i>PAT Margins (%)</i>	<i>7.9%</i>	<i>7.6%</i>	<i>4.1%</i>	<i>6.0%</i>

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	118.9	159.5	104.6	209.8
CEPS	224.0	291.5	240.3	354.6
BVPS	681.5	830.2	924.3	1113.1
DPS	3.8	11.3	10.5	21.0
Growth Ratios(%)				
Total revenues	43.6%	39.9%	21.0%	36.2%
EBITDA	28.0%	28.6%	-12.1%	43.8%
EBIT	40.8%	30.1%	-19.2%	65.7%
PAT	52.9%	34.1%	-34.4%	100.7%
Valuation Ratios (X)				
PE	43.5	32.4	49.4	24.6
P/CEPS	23.1	17.7	21.5	14.6
P/BV	7.6	6.2	5.6	4.6
EV/Sales	3.8	2.7	2.3	1.7
EV/EBITDA	17.6	13.9	16.3	11.5
Operating Ratios (Days)				
Inventory days	95.9	85.3	80.0	78.0
Receivable Days	61.4	47.3	40.0	39.0
Payables day	29.7	38.1	44.0	45.0
Net Debt/Equity (x)	0.79	0.78	0.91	0.86
Profitability Ratios (%)				
ROCE	18.0%	18.9%	13.1%	18.6%
ROE	17.5%	19.3%	11.3%	18.8%
Dividend payout ratio (%)	3.2%	7.0%	10.0%	10.0%
Dividend yield(%)	0.1	0.2	0.2	0.4

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	18,460	22,444
Total Networth	14,379	17,517	19,502	23,486
Total debt	9,062	11,248	14,248	16,248
Deferred tax assets/liabilities	1,411	1,315	1,615	1,915
Other current liabilities	792	1,670	1,670	1,670
Total non-current liab & provs	11,265	14,233	17,533	19,833
Current Liabilities				
Trade payables	7,116	8,006	6,491	9,041
Short term provisions+ borrow.	2,721	2,650	3,650	4,150
Other current liabilities	2,587	4,651	4,651	4,651
Total current liab and provs	12,424	15,308	14,792	17,842
Total Equity & Liabilities	38,067	47,057	51,828	61,161
Assets				
Net block	18,388	21,334	19,969	19,414
Capital WIP	966	1,786	1,986	2,186
Other non current assets	3,833	6,107	10,615	13,615
Total fixed assets	23,187	29,228	32,571	35,216
Cash and cash equivalents	273	635	534	1,419
Other bank balance	200	195	195	195
Inventories	8,360	10,408	11,802	15,671
Trade receivables	5,353	5,766	5,901	7,835
Other current assets	693	825	825	825
Total current Assets	14,879	17,830	19,257	25,945
Total Assets	38,066	47,057	51,827	61,161

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	3,548	4,447	2,963	5,933
Depreciation	2,216	2,777	2,865	3,055
Interest	1,062	1,735	2,210	2,469
Chng in working capital	105	-1,932	-2,743	-2,954
Tax paid	-727	-1,476	-757	-1,506
Other operating activities	-	-418	-	-
Cash flow from operations (a)	6,081	5,133	4,538	6,996
Capital expenditure	-3,453	-6,310	-1,700	-2,700
Chng in investments	2	-2	-	-
Other investing activities	-3,628	53	-4,508	-3,000
Cash flow from investing (b)	-7,079	-6,259	-6,208	-5,700
Free cash flow (a+b)	-998	-1,126	-1,671	1,296
Inc/dec in borrowings	2,042	3,938	4,000	2,500
Dividend paid (incl. tax)	-79	-238	-221	-443
Interest paid	-1,027	-1,718	-2,210	-2,469
Other financing activities	-205	-500	-	-
Proceeds from issue of equity shares	-	-	-	-
Cash flow from financing (c)	730	1,482	1,570	-411
Net chng in cash (a+b+c)	-268	356	-101	885
Closing cash & cash equivalents	273	635	534	1,419

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