

Craftsman Automation Limited



Craftsman Automation Ltd.

Issue Opens On
March 15, 2021

Issue Closes On
March 17, 2021

Price Band (INR)
1488-1490

Issue Size (INR Cr.)
823.6

Rating
SUBSCRIBE

Craftsman Automation Ltd. is a diversified engineering company with vertically integrated manufacturing capabilities, engaged in three business segments, namely powertrain and other products for the automotive segment, aluminium products for the automotive segment, and industrial and engineering products segment. It is the largest player involved in the machining of cylinder blocks and cylinder heads in the intermediate, medium and heavy commercial vehicles segment as well as in the construction equipment industry in India and is among the top three-four component players with respect to machining of cylinder block for the tractor segment in India. It is present across the entire value chain in the Automotive-Aluminium Products segment, providing diverse products and solutions. It offers comprehensive solutions and products to its long standing domestic and international customers in each of the segments in which the company operates with strong in-house engineering and design capabilities .

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	55,28,161
Fresh offer (# shares)	10,06,711
Price band (INR)	1488-1490
Post issue MCAP (INR Cr)	3,155-3159

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	March 17, 2021
Finalization of Basis of Allotment with Stock Exchange	March 22, 2021
Initiation of Refunds	March 23, 2021
Credit of Equity Shares to Demat accounts	March 24, 2021
Commencement of Trading of Eq.shares on NSE	March 25, 2021

Source: IPO Prospectus

Issue break-up	No. of shares (#)
QIB	Up to 50% of the Net Offer
Non-Institutional	15% of the Net Offer
Retail	35% of the Net Offer
Net Offer	55,28,161

Source: IPO Prospectus

Shareholding Pattern		
Name of the Shareholder	Prior Holding (%)	Post IPO Holding (%)
Promoters and members of Promoter Group	63.40	59.76
Others	36.60	40.24

Source: IPO Prospectus

Particulars (In INR Mn)*	FY18	FY19	FY20	Dec-20
Revenue	15,115	18,180	14,925	10,228
EBITDA	3,260	4,426	3,980	2,874
EBITDA Margin	21.6%	24.3%	26.7%	28.1%
PAT	640	974	411	507
PAT Margin	4.2%	5.4%	2.8%	5.0%
ROE	21.4%	15.2%	5.9%	6.8%
ROCE	29.6%	39.0%	28.2%	18.9%

Source: IPO Presentation, * Restated Consolidated, # Proforma Ind AS

Craftsman Automation Ltd.

INVESTMENT RATIONALE:

Diversified engineering company with presence across the entire value chain:

The company is the largest player in the machining of cylinder blocks and cylinder heads in the intermediate, medium and heavy commercial vehicles segment and the construction equipment industry. It is also among the top 3-4 players in the machining of cylinder blocks for tractor segment in India. It is present across the entire value chain in the Automotive – Aluminium Products segment, providing diverse products and solutions. It is diversified across end-user industries and cater to commercial vehicles, two-wheeler, tractor and other segments. The company leverages cross selling opportunities across segments to derive value for its existing and prospective customers. This facilitates the company in solving complex customer problems that require multi-domain expertise and helps it in penetrating the customers' different business segments and enhance its capabilities to collaborate with OEMs for the designing of their new products. Thus, the diversified presence across various segments and design capability provides the company with the flexibility to operate successfully across business cycles and mitigate any fluctuations in the industry.

Strong product design capabilities and flexible production lines to cater to changing requirement:

The company provides products and services that range from product design, prototyping, tool development, manufacturing, assembly and production of integrated components. It has constantly partnered its customers in developing extensive process and product design capabilities and domain knowledge, particularly for niche, intricate, complex and highly critical automotive and non-automotive components, such as powertrain cylinder blocks and heads and camshafts, enabling the company to respond to customer specifications and provide quality products and services in a timely and cost-effective manner. Craftsman Automation has a strong focus on research and development with an emphasis on continuous improvement in product performance, cost and reliability, to enhance the product range. It has utilized its in-house engineering and design capabilities to develop a diverse product portfolio including material handling equipment such as hoists, crane kits, industrial gears/gear boxes, storage solutions, marine engines and accessories, tool room, mould base products and SPM (which includes metal cutting and non-metal applications such as washing/leak testing solutions), which are available for captive use and support the company's contract manufacturing operations. Its plant configurations are flexible, allowing the company to move its machinery from one location to another to interchange capacity, product mix, including the ability to shift production lines between the various segments, based on customer and operational requirements from time to time.

Established relationship with marquee domestic and international clients:

The company has strong and well-established relationships with several marquee domestic and global OEMs (Original Equipment Manufacturers) as well as component manufacturers, including certain of its key customers, to which the company has been supplying its products and solutions for over 10 years, such as Tata Motors and Tata Cummins. Key customers include Daimler India, Tata Motors, Tata Cummins, Mahindra & Mahindra, Royal Enfield, Mitsubishi Heavy Industries, Siemens India, Escorts, Ashok Leyland, Simpson & Company, TAFE Motors and Tractors, Perkins India, John Deere and JCB India. The company has significant presence and customer relationships in each of its business segments and are considered as a strategic and preferred supplier by many of its OEM customers. Craftsman Automation is also the single source supplier in certain product categories, for some of its key customers. With strong track record and wide product portfolio, the company has been able to retain its existing customers and have also been able to attract new customers. The customer base is diversified with top 10 customers accounting for 59.15%, 53.41%, 56.25% and 52.59% of revenue from operations in the nine months ended December 31, 2020 and Fiscals 2020, 2019 and 2018, respectively.

Reducing operational cost and debt and improving efficiencies:

The company is focusing on improving capacity utilization at its production facilities, through increase in the overall production volumes. To meet the growing demand from customers, the company has invested in its manufacturing facilities, infrastructure, machines, equipment and technology to allow to offer a diverse product suite, reduce operating costs and drive productivity and scale of its business without incurring significant incremental costs in the future. The capital expenditure was INR 507 million, INR 1,206 million, INR 4,560 million and INR 1,811 million for the nine months ended December 31, 2020 and Fiscals 2020, 2019 and 2018, respectively. The company is targeting to leverage its large size and scale to produce greater volumes of products from each of its plants and spread its fixed costs. This relates primarily to the machinery and equipment required to produce components and to fixed labour costs, more widely to reduce the production costs on a per unit basis, allowing the company to reduce its unit sales price and increase competitiveness. The company avails a majority of its fund-based and non-fund-based facilities in the ordinary course of business from various banks and financial institutions. As part of its strategy, the company targets to prepay/ repay, in full or part, of certain outstanding indebtedness. This will help reduce debt servicing costs, lower interest payments, maintain a favourable debt to equity ratio and enable utilization of internal accruals for further investment in business growth and expansion.

Craftsman Automation Ltd.

Company Overview:

Craftsman Automation is a well-established engineering company with vertically integrated manufacturing capabilities, engaged in three business segments, namely powertrain and other products for the automotive segment (“Automotive - Powertrain and Others”), aluminium products for the automotive segment (“Automotive – Aluminium Products”), and industrial and engineering products segment (“Industrial and Engineering”). It is the largest player in the machining of cylinder blocks and cylinder heads in the intermediate, medium and heavy commercial vehicles segment as well as in the construction equipment industry in India.

The company’s comprehensive solutions include design, process engineering and manufacturing including foundry, heat treatment, fabrication, machining and assembly facilities. Its core competency in machining and assembly of industrial and engineering products has facilitated it to first establish itself as a significant player in the Automotive - Powertrain and Others segment. Its key products in this segment are highly engineered and include engine parts such as cylinder blocks and cylinder heads, camshafts, transmission parts, gear box housings, turbo chargers and bearing caps. The end users for these products include OEMs producing commercial vehicles, special utility vehicle, tractors and off-highway vehicles. Additionally, the company also provides machining services within our Automotive – Powertrain and Others segment. Over the years, it has been instrumental in import substitution for critical powertrain parts.

Within the Automotive – Aluminium Products segment, the company is equipped with an array of processes including the high pressure die casting, low pressure die casting and gravity die casting machines to manufacture components, machining tools for machining and 169 assembly lines. Its key products are highly engineered and include crank case and cylinder blocks for two wheelers, engine and structural parts for passenger vehicles and gear box housing for heavy commercial vehicle. The sales volume, in terms of tonnage, from the Automotive - Aluminium Products segment was 9,339.32 tonnes, 12,596.22 tonnes, 18,863.83 tonnes and 11,819.04 tonnes for the nine months ended December 31, 2020 and Fiscals 2020, 2019 and 2018, respectively.

Within the Industrial and Engineering segment, the company has utilized its in-house engineering and design capabilities and developed a diverse product portfolio across two sub-segments, namely, (i) the storage solutions sub-segment under which it has the complete solution for conventional/automated storage; and (ii) the high end precision products sub-segment under which it manufactures aluminium products for power transmission, high-end precision products and undertake sub-assembly, material handling equipment such as hoists, crane kits and industrial gears, manufacture gear and gear boxes, marine engines and accessories, special purpose machines (“SPM”), which includes metal cutting and non-metal applications such as washing and leak testing solutions and tool room, mould base and sheet metal. In the storage solutions business, the company provides diverse products and solutions such as pallets, racking, shelving, vertical storage solutions to several sectors such as FMCG, Ecommerce, food and beverages, logistics, pharmaceutical and electronics. Its storage solutions business has grown at a CAGR of 204.22% from Fiscal 2018 to Fiscal 2020 and has contributed 5.61%, 4.91%, 1.45% and 0.52% of its revenues from operations in the nine months ended December 31, 2020 and Fiscals 2020, 2019 and 2018, respectively. The company has commissioned new strategically located unit in Pune in 2019 for manufacturing storage solutions products which enables it to service the storage solutions market, catering to customers across India.

Management:

Key Managerial Personnel	Position	Experience
Srinivasan Ravi	Chairman and Managing Director	He is the promoter of the company and is associated with the entity since its incorporation. He has experience of more than 34 years in the automotive industry.
Thiyagaraj Damodharaswamy	Chief Operating Officer	He was appointed the Chief Operating Officer - Automotive, on August 1, 2017. He joined the Company on 1 st January 2002. He has experience in the manufacturing and automotive industries. Prior to joining the Company, he was associated with Rieter-LMW Machinery Limited.
C.B. Chandrashekar	Chief Financial Officer	He was appointed the Chief Financial Officer on 3 rd February 2020 for a period of 5 years. Prior to joining the company, he was associated with Lakshmi Machine Works Ltd. And Elgi Equipments Ltd. He has overall experience of more than three decades in the fields of finance, secretarial and accounting.

Source: IPO Prospectus

Craftsman Automation Ltd.

VALUATION & VIEW:

The company has a strong and diversified presence in the auto ancillary industry and is a leader in most of its product offerings. It has robust long-term client relationship with domestic and international Original Equipment Manufacturers (OEMs). The client list includes Daimler India, Tata Motors, Tata Cummins, Mahindra & Mahindra, Simpson & Co. Ltd., TAFE Motors and Tractors, Escorts, Ashok Leyland, Perkins, Mitsubishi Heavy Industries, John Deere and JCB India. The company will utilize part of the IPO proceeds to lower its outstanding debt and therefore reduce interest payments, thus facilitating the bottom line going forward.

At the upper band of issue price, Craftsman Automation Ltd. will trade at a Price/EPS multiple of 59x of its annualized 9MFY21 financials, which is below its peers. We believe that the current price band is undervalued, looking at the growth potential in the company and anticipate listing gains and give a 'SUBSCRIBE' rating to Craftsman Automation IPO.

Peer Comparison (FY20)

Company	Revenue (INR Mn)	EPS (INR)	NAV	PE	RoNW
Bharat Forge Limited	80,558.44	7.51	112.8	82.28	6.65%
Endurance Technologies Limited	69,177.07	40.2	213.71	36.54	18.81%
Jamna Auto Industries Limited	11,289.51	1.2	12.97	58.75	9.27%
Mahindra CIE Automotive Limited	79,078	9.33	122.26	17.4	7.64%
Minda Industries Limited	54,651.40	5.91	80.03	93.38	8.94%
Sundram Fasteners Limited	37,232.30	2.97	95.39	39.1	16.29%
Ramkrishna Forgings Limited	12,164.72	15.46	268.28	181.89	1.11%

Source: Company, KR Choksey Research

KEY RISKS & CONCERNS

- **Raw material price fluctuation:** The company does not have long term contracts and or exclusive arrangements with its suppliers. Thus, the company is at risk of fluctuating raw material prices and its availability which can affect the operations of the company.
- **High dependence on the auto sector:** Of the three businesses i.e., the automotive powertrain, the Automotive - Aluminium Products segment, material handling systems in the Material handling sub-segment and storage systems in the Storage solutions subsegment in the former segment. The former constitutes ~48% of revenues, implying high dependence on the auto sector.

Craftsman Automation Ltd.

Financials:

Ratio Analysis (%)	FY18	FY19	FY20	Dec-20
EBITDA Margin (%)	21.6%	24.3%	26.7%	28.1%
Net Profit Margin (%)	4.2%	5.4%	2.8%	5.0%
RoE (%)	21.4%	15.2%	5.9%	6.8%
RoCE (%)	29.6%	39.0%	28.2%	18.9%
EPS (INR per share)	15.7	48.4	20.4	25.2

Source: IPO Presentation, * Restated Consolidated, # Proforma Ind AS

Income Statement (INR Mn)	FY18	FY19	FY20	Dec-20
Revenues	15,115	18,180	14,925	10,228
Other operating revenue	0	0	0	0
Revenue from operations	15,115	18,180	14,925	10,228
Cost of sales	5,758	7,035	5,868	4,339
Gross profit	9,358	11,145	9,057	5,889
Excise duty	0	0	0	0
Employee benefit expense	1,986	2,168	1,710	1,106
Finance cost	1,125	1,405	1,484	772
Depreciation	1,492	1,761	1,950	1,415
Other expenses	4,111	4,551	3,367	1,908
Total expenses	14,471	16,921	14,379	9,541
EBITDA	3,260	4,426	3,980	2,874
EBIT	1,769	2,665	2,030	1,460
Share of profit by associates	2	4	0	1
PBT before exp	760	1,400	632	759
Exceptional items	0	0	58	0
PBT	760	1,400	574	759
Income tax expense	120	426	163	253
Non controlling interests	0.00	0.00	0.00	0.00
Net profit	640	974	411	507
EPS (INR)	15.7	48.4	20.4	25.2

Cashflow Statement (INR Mn)	FY18	FY19	FY20	Dec-20
Net cash flow from operating activities	2,827	3,600	3,054	2,421
Net cash flow used in investing activities	-2,107	-3,584	-1,371	-455
Net cash flow generated from / (used in) in financing activities	-603	-182	-1,279	-2,254
Net increase / (decrease) in cash and cash equivalents (A+B+C)	116	-166	404	-288
Opening Cash and cash equivalents	240	360	193	598
Closing Cash and cash equivalents	360	193	598	310

Source: RHP

Craftsman Automation Ltd.

Financials:

Balance Sheet (INR Mn)	FY18	FY19	FY20	Dec-20
PPE	12,447	14,765	14,267	14,131
Capital WIP	243	906	888	274
Investment property	14	18	18	19
Intangible assets	150	143	106	79
Intangible assets under development	638	978	1,043	847
Financial assets	531	357	443	335
Total non current assets	14,023	17,167	16,766	15,685
Inventories	3,005	3,233	3,256	3,399
Investments	0	0	0	0
Trade receivables	2,017	2,100	1,943	2,142
Cash and cash eq	367	195	598	310
Other bank balances	120	71	119	211
Other financial assets	463	488	350	715
Total current assets	5,972	6,087	6,266	6,778
Total Assets	19,994	23,254	23,031	22,463
Equity share capital	101	101	101	101
Other equity	5,866	6,732	7,088	7,616
Non-controlling interests	0	0	0	0
Total Equity	5,967	6,833	7,189	7,716
Other non current liabilities	5,180	8,200	8,144	6,806
Total non current liabilities	5,180	8,200	8,144	6,806
Trade payables	3,627	3,312	2,818	3,016
Other financial liabilities	2,721	1,350	2,443	1,567
Current tax liabilities	2,500	3,559	2,438	3,358
Total current liabilities	8,848	8,222	7,698	7,941
Total liabilities	19,994	23,254	23,031	22,463

Source: RHP

Craftsman Automation Ltd.

ANALYST CERTIFICATION:

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