

BUY

Cruising into growth trajectory

Craftsman Automation Limited (Craftsman) is the largest player involved in the machining of critical parts like cylinder blocks and cylinder heads for the M&HCV segment. Craftsman's business can be categorized in three segments 1) Powertrain and other products for the automotive segment; 2) Aluminum products for the automotive segment and 3) Industrial and engineering products segment- Non Automotive. We see sharp earning growth ahead at 51% CAGR over FY21-23E led by 1) sharp recovery in the M&HCV segment, 2) increased shift towards the use of casting parts of lightweight aluminum and 3) fall in interest cost due to deleveraging BS. We forecast the Revenue/EBITDA/APAT to grow at 20/27/51% CAGR over FY21-23E. At CMP stock is trading at 23/15x for FY22/23E EPS. We recommend to buy the stock with TP Rs. 2110 (20x FY23E EPS).

Powertrain business: - Play on CV demand recovery

Craftsman is an ideal play on the ongoing revival in CV demand given it is the largest player in the machining of cylinder blocks and cylinder heads. Revenues in the powertrain business majorly comes from M&HCV segment (~50%) followed by farm equipment, construction and PVs. The key products are highly engineered and critical engine parts such as cylinder blocks and heads, camshafts, transmission parts, gear box housings, turbo chargers and bearing caps, supplied to customers like Tata motors, Daimler, M&M, Nelcast, Brakes India and JCB etc. Although 1Q CV sales to be weak due to covid induced lockdown, sharp recovery is expected from 2Q onward led by pickup in economic activity. We believe that a fresh MHCV cycle has begun which is poised for 3-5 years of upcycle.

Increasing Traction for aluminum casting

Post implementation of BS-VI, most OEMs explore various possibilities to light-weight their vehicles by using non-ferrous metals like aluminum to reduce carbon emission. With OEMs seeking to further reduce the weight of their vehicles, increased use of aluminum offers attractive growth prospects for companies like Craftsman. 80% revenue from the 2 wheeler segment with major contributors being TVS motors and Royal Enfield. Although EBIT margin is low in this business as capacity utilization is low (50% utilization in Q4FY21) and sharp increase in RM prices, going ahead margin to improve significantly (+400-500 bps) led by operating leverage and price hike.

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	18,180	14,925	15,600	19,073	22,563
Growth(%)	22.9	(17.9)	4.5	22.3	18.3
EBITDA	4,187	3,980	4,382	4,959	6,092
OPM(%)	23.0	26.7	28.1	26.0	27.0
PAT	995	459	974	1,469	2,226
Growth(%)	200.3	(53.9)	112.1	50.9	51.5
EPS(Rs.)	47.1	21.7	46.1	69.5	105.3
Growth(%)	200.3	(53.9)	112.1	50.9	51.5
PER(x)	34.0	73.6	34.7	23.0	15.2
ROANW(%)	15.6	5.7	11.5	14.1	18.4
ROACE(%)	14.5	11.1	11.2	12.3	15.4

CMP	Rs 1,600
Target / Upside	Rs 2,110 / 32%
NIFTY	15,302

Script Details

Equity / FV	Rs 106mn / Rs 10
Market Cap	Rs 34bn
	USD 465mn
52-week High/Low	Rs 1,648/ 1,245
Avg. Volume (no)	207,564
Bloom Code	CRAFTSMA IN

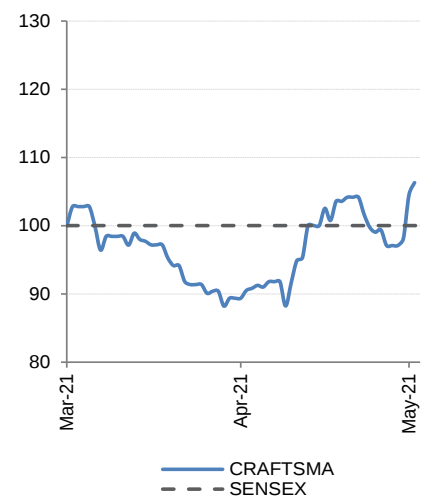
Price Performance 1M 3M 12M

Absolute (%)	23
Rel to NIFTY (%)	16

Shareholding Pattern

	Sep'20	Dec'20	Mar'21
Promoters	0.0	63.4	59.8
MF/Banks/FIs	0.0	36.6	12.5
FIIIs	0.0	0.0	3.8
Public /	0.0	0.0	23.9

Company Relative to SENSEX



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Strong order book in Industrial and Engineering segment

The company has a strong order book in the Industrial and Engineering segment. This segment is non-Automotive parts and can be divided into two sub-segments, namely, 1) High-End Sub-Assembly, Contract Manufacturing & Others and 2) Storage Solution & Material Handling. The High-End Sub-Assembly, Contract Manufacturing & Others broadly further divided into five Sub-segment aluminium products for power transmission, gear and gear boxes, Sheet metal fabrication, SPM Manufacturing (which includes metal cutting and non-metal applications such as washing and leak testing solutions) and tool room & mold base.

Healthy operating margin profile

Craftsman boasts of a healthy EBITDA margin (In the range of 25-28%) because of its strong in-house engineering and design capabilities for Machining of critical parts like cylinder blocks and cylinder heads. Powertrain business is a high margin business (~36%) as mainly involved in machining and value addition. We expect margin to continue to be strong on the back of a better revenue mix (high proportion of powertrain business) and improvement in margin of.

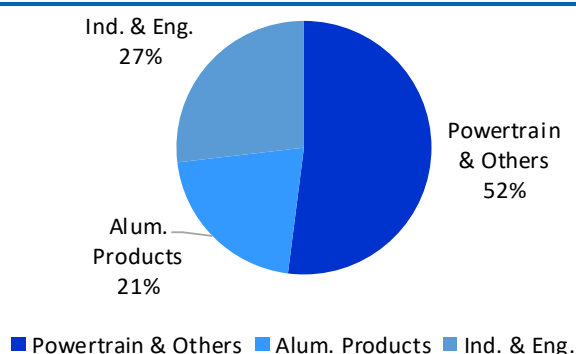
Deleveraging BS and improvement in ROE

The company is focused on deleverage its balance sheet and improvement in ROE. Debt has reduced from Rs 10.4bn to Rs 7.04bn at the end of FY21 (Out of the reduction of 3.36bn, Rs. 1.40 bn came from the IPO money proceeds, almost Rs. 2bn has been from internal accruals). The company is confident reducing debt of Rs. 2bn crores going forward in FY'22 from internal accruals

About the company

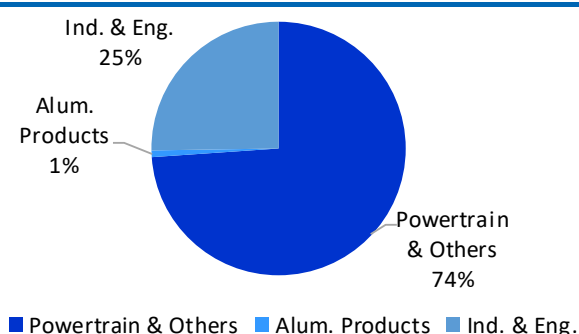
The company offer comprehensive one-stop solutions to their customers including designing, process engineering and manufacturing including foundry, heat treatment, fabrication, machining and assembly facilities. **Business can be categorized in three segments 1) Powertrain and other products for the automotive segment 2) Aluminium products for the automotive segment and 3) Industrial and engineering products segment.**

Exhibit 1: Segment-Wise revenue FY21



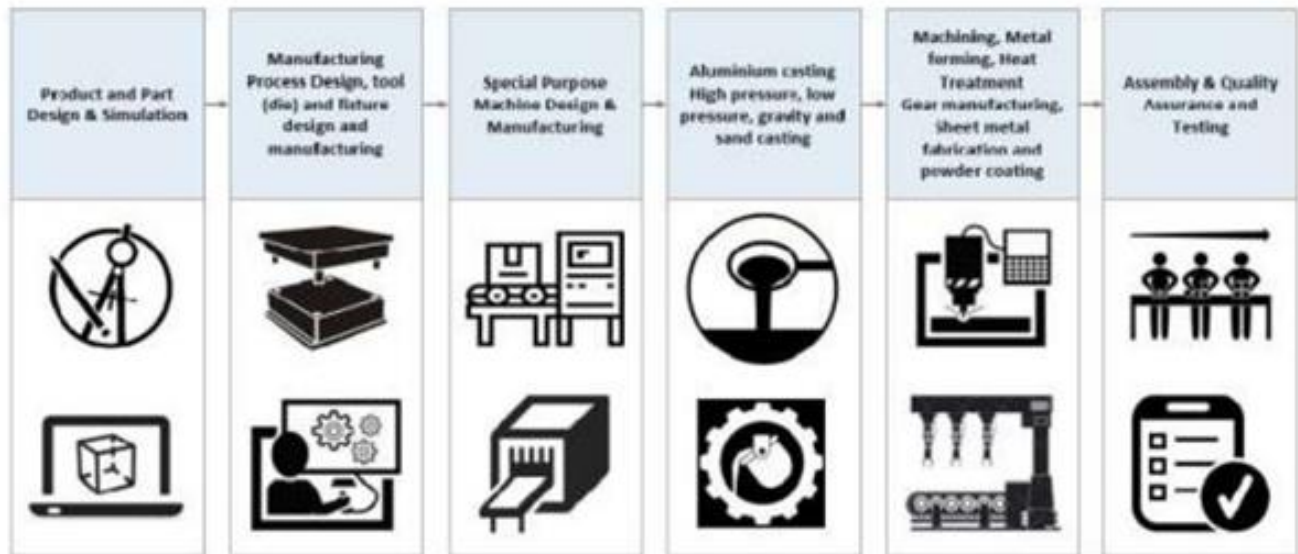
Source: DART, RHP

Exhibit 2: Segment Wise- EBIT FY21



Source: DART, RHP

Exhibit 3: One stop solution Provider

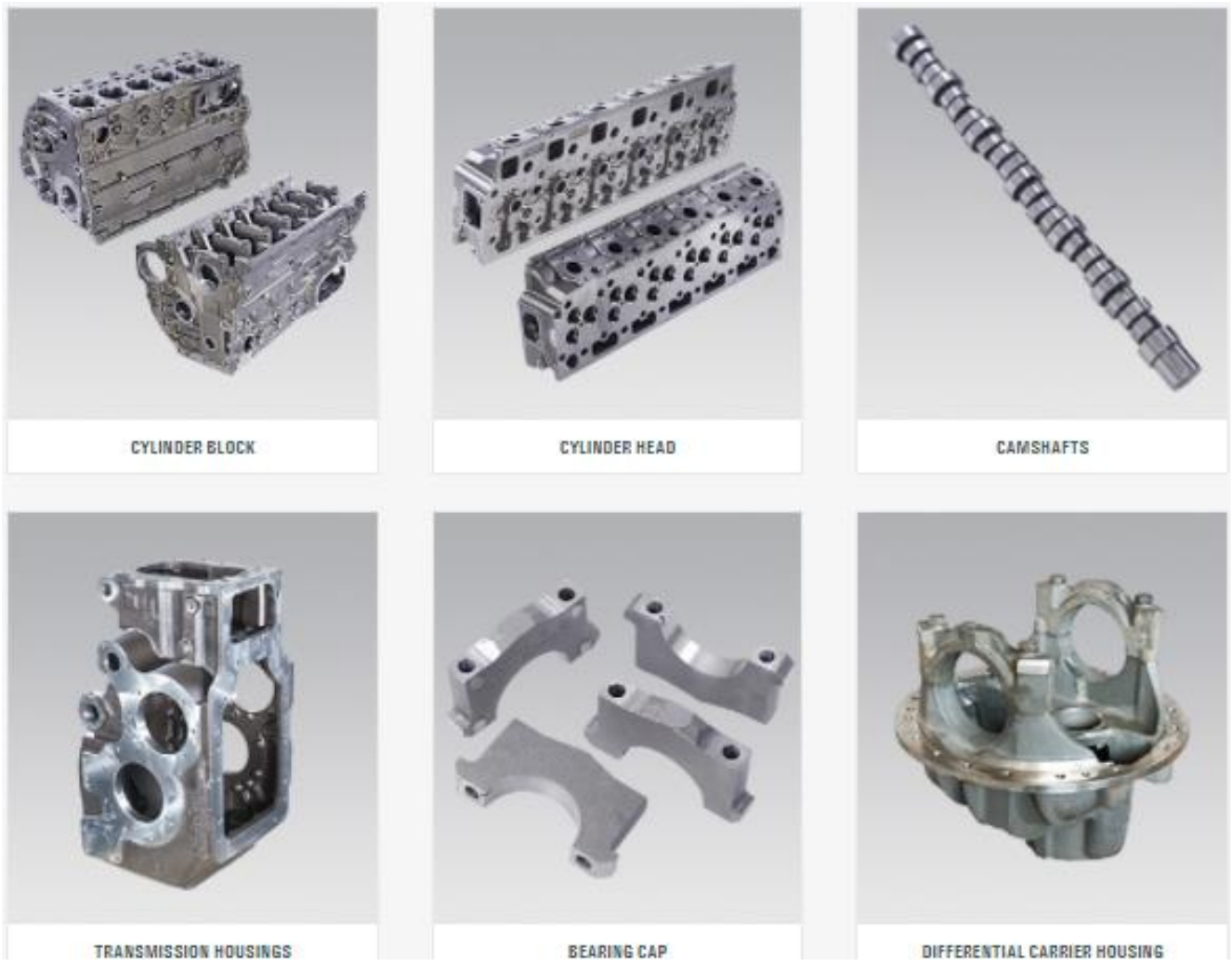


Source: DART, RHP

Automotive - Powertrain segment

The company 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. Powertrain business is a **high margin business (~36%)** as mainly involved in machining and value addition, this division procures RM (casted products) either from suppliers or from OEMs.

Few Competitors in this business are Avtec Ltd. Endurance Ltd., Sundaram Clayton, Kirloskar Ferrous Industries, Alicon cast Alloy.

Exhibit 4: Key products of Powertrain vertical

Source: DART, RHP

Aluminium Products segment:

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. Key customers are RE, M&M, TVS, PSA and Daimler.

Exhibit 5: Key products in Aluminum segment

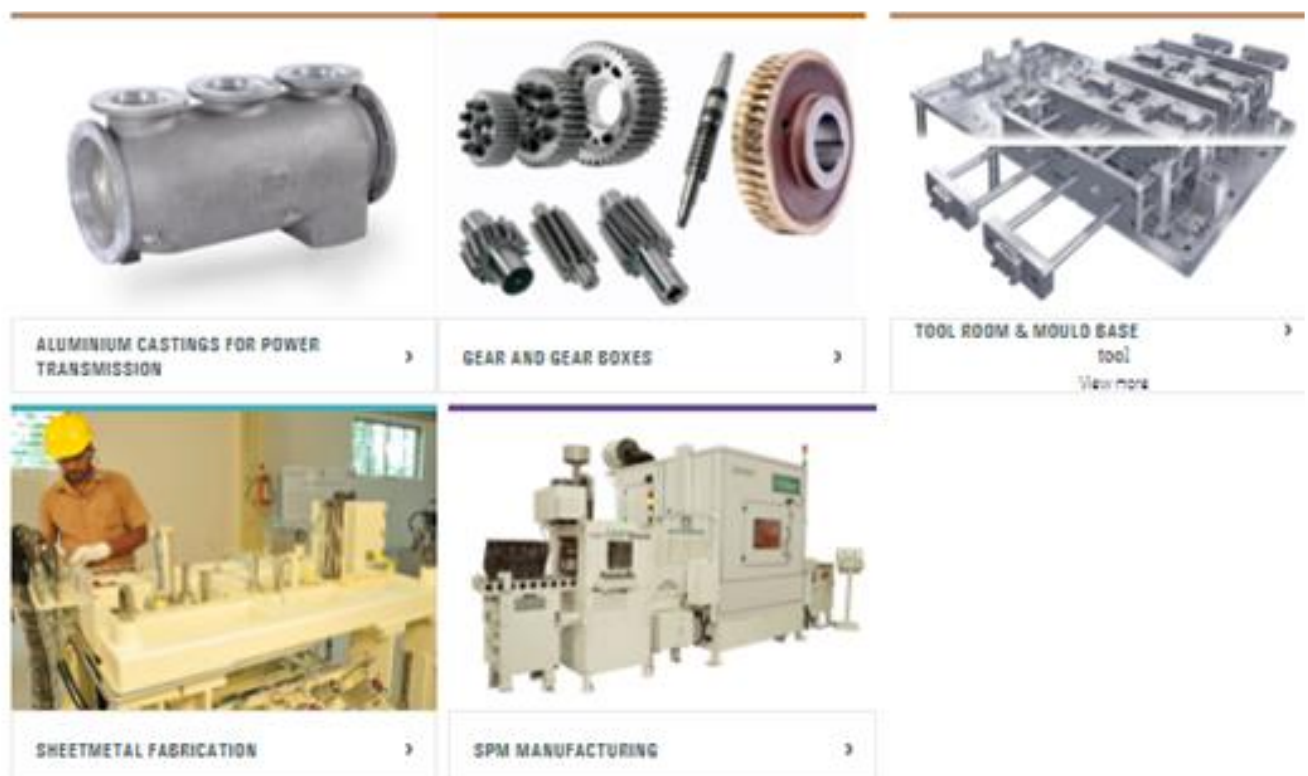


Source: DART, RHP

Industrial and Engineering segment

This segment can be divided into two sub-segments, namely, 1) High-End Sub-Assembly, Contract Manufacturing & Others and 2) Storage Solution & Material Handling.

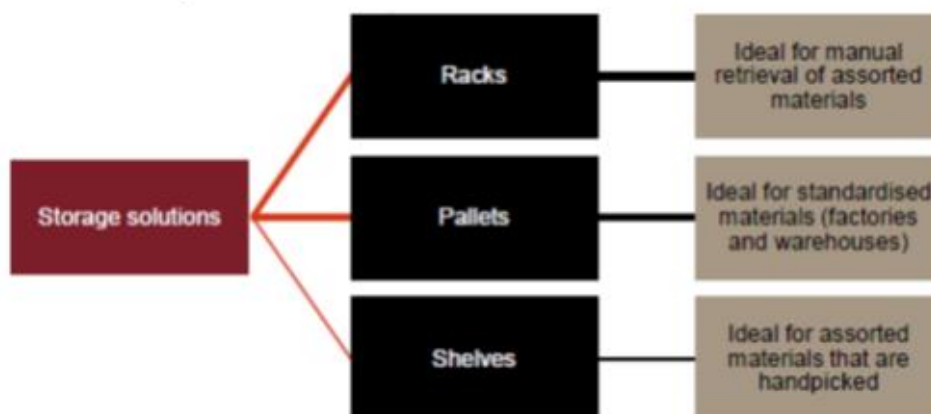
Exhibit 6: Industrial and Engineering segment



Source: DART, RHP

Storage solutions business: 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.

Exhibit 7: Storage solution



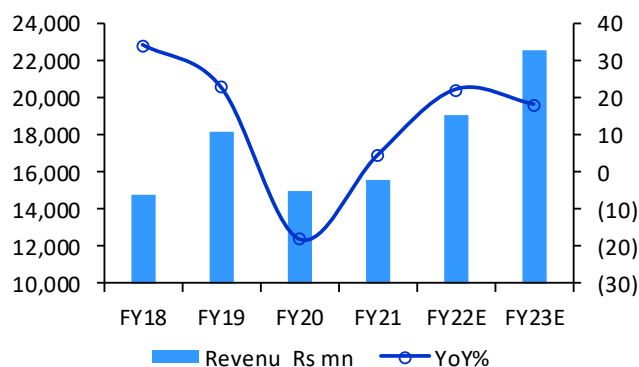
Source: DART, RHP

Exhibit 8: Assumption table

Assumption table	FY18	FY19	FY20	FY21	FY22E	FY23E
Powertrain and Others segment	8,709	10,085	7,093	8,113	10,141	12,169
YoY (%)		15.8	(29.7)	14.4	25.0	20.0
Aluminum Products	2,353	3,082	2,577	3,298	3,792	4,740
YoY (%)		31.0	(16.4)	28.0	15.0	25.0
Ind & Eng. segment	4,053	5,014	5,255	4,189	5,140	5,654
YoY (%)		23.7	4.8	(20.3)	22.7	10.0
Storage solutions	79	263	732	966	1,111	1,222
YoY (%)		232.9	178.0	32.0	15.0	10.0
High-end precision products	3,974	4,750	4,523	3,223	4,029	4,432
YoY (%)		19.5	(4.8)	(28.7)	25.0	10.0
Total	15,115	18,180	14,925	15,600	19,073	22,563

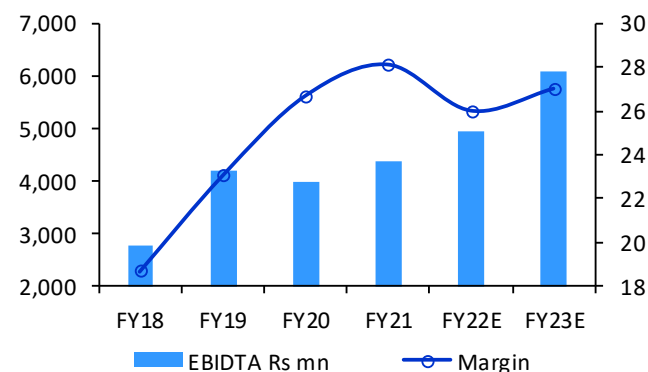
Source: DART

Exhibit 9: Revenue and Revenue growth trend



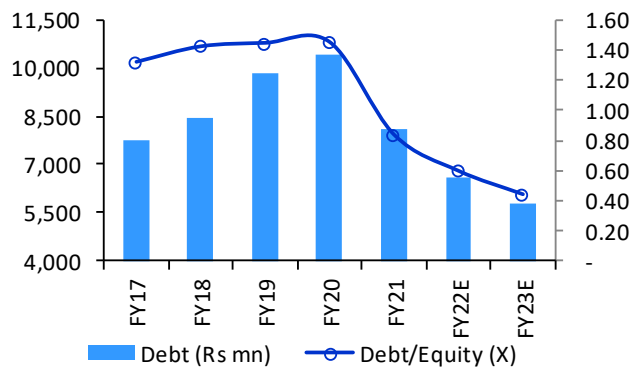
Source: DART, RHP

Exhibit 10: EBIDTA and Margin (%) trend



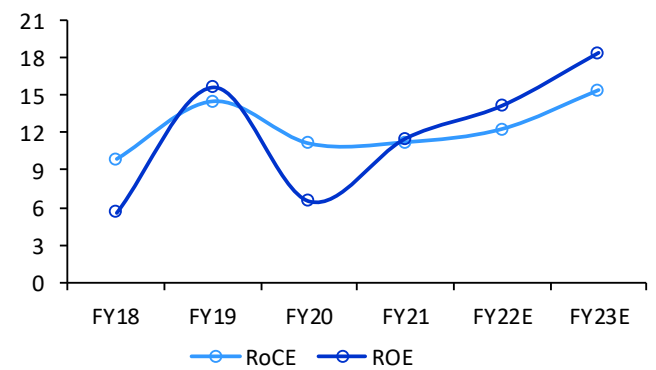
Source: DART, RHP

Exhibit 11: Reducing debt level



Source: DART, RHP

Exhibit 12: RoE & RoCE trend



Source: DART, RHP

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	14,925	15,600	19,073	22,563
Total Expense	10,945	11,217	14,114	16,471
COGS	5,868	6,665	8,201	9,702
Employees Cost	1,553	1,446	1,907	2,256
Other expenses	3,524	3,106	4,005	4,513
EBIDTA	3,980	4,382	4,959	6,092
Depreciation	1,963	1,925	2,045	2,130
EBIT	2,017	2,458	2,914	3,962
Interest	1,486	1,073	791	695
Other Income	86	101	103	105
Exc. / E.O. items	(58)	0	0	0
EBT	559	1,486	2,226	3,372
Tax	158	514	757	1,147
RPAT	401	974	1,469	2,226
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	2	0	0
APAT	459	974	1,469	2,226

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	101	106	106	106
Minority Interest	0	0	0	0
Reserves & Surplus	7,088	9,589	10,970	13,062
Net Worth	7,189	9,694	11,075	13,168
Total Debt	10,407	8,090	6,590	5,790
Net Deferred Tax Liability	371	684	684	684
Total Capital Employed	17,966	18,468	18,349	19,641

Applications of Funds

Net Block	15,416	15,037	13,992	12,863
CWIP	888	320	320	320
Investments	32	429	241	241
Current Assets, Loans & Advances	6,695	7,733	8,830	11,998
Inventories	3,256	4,056	4,442	4,636
Receivables	1,943	2,390	2,717	3,214
Cash and Bank Balances	716	467	805	3,234
Loans and Advances	0	0	0	0
Other Current Assets	779	821	866	913
Less: Current Liabilities & Provisions	5,065	5,051	5,034	5,780
Payables	3,956	3,338	4,076	4,822
Other Current Liabilities	1,109	1,714	958	958
<i>sub total</i>				
Net Current Assets	1,630	2,682	3,796	6,218
Total Assets	17,967	18,468	18,349	19,641

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	60.7	57.3	57.0	57.0
EBIDTA Margin	26.7	28.1	26.0	27.0
EBIT Margin	13.5	15.8	15.3	17.6
Tax rate	28.2	34.6	34.0	34.0
Net Profit Margin	2.7	6.2	7.7	9.9
(B) As Percentage of Net Sales (%)				
COGS	39.3	42.7	43.0	43.0
Employee	10.4	9.3	10.0	10.0
Other	23.6	19.9	21.0	20.0
(C) Measure of Financial Status				
Gross Debt / Equity	1.4	0.8	0.6	0.4
Interest Coverage	1.4	2.3	3.7	5.7
Inventory days	80	95	85	75
Debtors days	48	56	52	52
Average Cost of Debt	14.7	11.6	10.8	11.2
Payable days	97	78	78	78
Working Capital days	40	63	73	101
FA T/O	1.0	1.0	1.4	1.8
(D) Measures of Investment				
AEPS (Rs)	21.7	46.1	69.5	105.3
CEPS (Rs)	114.6	137.2	166.3	206.1
DPS (Rs)	0.0	2.3	3.5	5.3
Dividend Payout (%)	0.0	5.0	5.0	5.0
BVPS (Rs)	340.3	458.8	524.2	623.2
RoANW (%)	5.7	11.5	14.1	18.4
RoACE (%)	11.1	11.2	12.3	15.4
RoAIC (%)	11.9	13.9	16.4	23.3
(E) Valuation Ratios				
CMP (Rs)	1600	1600	1600	1600
P/E	73.6	34.7	23.0	15.2
Mcap (Rs Mn)	33,805	33,805	33,805	33,805
MCap/ Sales	2.3	2.2	1.8	1.5
EV	43,495	41,428	39,589	36,361
EV/Sales	2.9	2.7	2.1	1.6
EV/EBITDA	10.9	9.5	8.0	6.0
P/BV	4.7	3.5	3.1	2.6
Dividend Yield (%)	0.0	0.1	0.2	0.3
(F) Growth Rate (%)				
Revenue	(17.9)	4.5	22.3	18.3
EBITDA	(5.0)	10.1	13.2	22.8
EBIT	(22.5)	21.9	18.6	36.0
PBT	(61.0)	165.8	49.8	51.5
APAT	(53.9)	112.1	50.9	51.5
EPS	(53.9)	112.1	50.9	51.5

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	3,383	3,624	3,427	4,952
CFI	(1,228)	(949)	(1,000)	(1,000)
CFF	(1,222)	(2,960)	(2,379)	(1,628)
FCFF	1,993	2,647	2,427	3,952
Opening Cash	266	716	467	805
Closing Cash	716	467	805	3,234

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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