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13th March, 2021
IPO NOTE

RETAIL EQUITY RESEARCH

Craftsman Automation Ltd.

Diversified Engineering

SUBSCRIBE

Sensex: 50,792

Nifty: 15,031

Price Range Rs.1,488 - Rs.1,490

A diversified engineering business…

Craftsman Automation Ltd. (CAL) is a diversified engineering company with vertically integrated manufacturing capabilities, engaged in three business segments, (i) Automotive-powertrain and other products (ii) Automotive- Aluminium products and(iii) Industrial and engineering products segment. They are 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. They are present across the entire value chain in the Automotive-Aluminium products segment, providing diverse products and solutions.

- **In line with automotive demand, domestic sales for powertrain sector is expected to grow at 14% CAGR while the aluminium casting market is expected to record a CAGR of 8% by FY24.**
- **CAL exported products to over 20 countries, which represented about 10% of its revenue from operations.**
- **CAL owns and operates 12 strategically located manufacturing facilities across seven cities in India.**
- **The total revenue has increased by 23% in FY19 compared to FY18, while it de-grew by 18% in FY20 due to BS-VI norms and the COVID-19 pandemic.**
- **PAT grew at 15% CAGR in FY18-20 and improved the EBITDA margin from 19.9% in FY18 to 28.1% in 9MFY21 with strong process controls resulting in better operational efficiencies.**
- **Sales to the top four customers represented 43% of the revenue from operations for 9MFY21.**
- **The company had a capital expenditure of Rs.808cr in the last 3 years which equipped them to offer a diverse product mix, enhance operating efficiency and drive productivity.**
- **GoI's 'Make in India' initiative, impending scrappage policy, other regulatory & policy supports and strong relationships with domestic and global OEMs are positive for the company.**
- **At the upper price band of Rs.1,490, CAL is available at a PE of 46.6x (annualized basis on FY21E EPS of 31.9) which is aggressively priced. GoI's 'Make in India' initiative and other regulatory and policy supports with well established relationships with domestic and global OEMs are positive for the company. We assign a Subscribe rating, with a long term perspective, on the back of healthy growth in the OEM segment due to lower base and reduction in debt.**

Purpose of IPO

The Offer comprises of Fresh Issue and Offer for sale. The Company intends to utilize Rs.120cr of the Net Proceeds from fresh issue towards repayment of outstanding borrowings (total debt is Rs.890cr) and general corporate purposes.

Key Risks

- Higher capital expenditure arising due to technological changes like electrical vehicles.
- Regulatory and policy changes.

Issue Details	
Date of Opening	15th March, 2021
Date of Closing	17th March, 2021
Total no. of Shares offered(cr)	0.6
Post Issue No. of shares (cr)	2.01
Price Band	Rs. 1,488- 1,490
Face Value	Rs. 5
Bid Lot	10 shares
Minimum application for retail (upper price band for 1 lot)	Rs. 14,900
Maximum application for retail (upper price band for 13 lot)	Rs. 1,93,700
Listing	BSE & NSE
Lead Manager	Axis Capital Ltd, IIFL Holdings Ltd
Registrars	Link Intime India Pvt Ltd.

Issue size (upper price)	Rs. Cr
Fresh Issue	150.0
OFS	673.7
Total Issue	**823.7**

Shareholding (%)	Pre-Issue	Post Issue
Promoters	63.4	59.8
Public	36.6	40.2
Total	100	100

Issue structure	Allocation %	Size Rs.cr
Retail	35	288.3
Non -Institutional	15	123.5
QIB	50	411.9
Total	**100**	**823.7**

Y.E March (Rs cr)	FY19	FY20	9MFY21
Sales	**1,818**	**1,492**	**1,023**
Growth (%)	22.9	-17.9	-
EBITDA	443	398	287
Margin%	**24.3**	**26.7**	**28.1**
PAT Adj	97.0	41.1	50.6
Growth (%)	*210*	*-57.6*	-
EPS	46	19.5	31.9*
P/E (x)	32.4	76.5	46.6*
EV/EBITDA	9.6	10.6	14.2
RoE (%)	15.2	5.9	6.8

** Annualised*

Peer Valuation

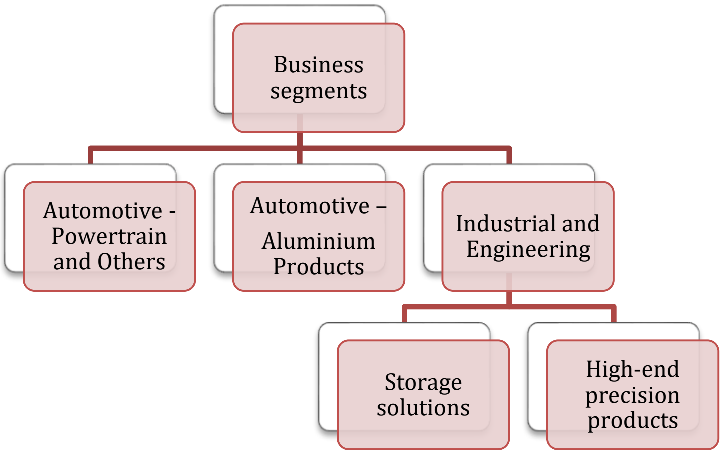
Company	MCap (Rs cr)	Revenue (Rs cr)	EBITDA margin (%)	EPS	RoE (%)	P/E
Craftsman Automation Ltd	**3,148**	**1,492**	**26.7**	**31.9***	**5.9**	**46.6***
Bharat Forge	28,977	8,055	13.9	6.1	6.6	102
Endurance Tech	19,707	6,775	17	39.6	20.3	35.4
Jamna Auto Ind	2,789	1,110	10.5	1.2	9.3	57.4
Mahindra CIE Automotive	6,830	6,050	8.3	1.4	2.2	122.1

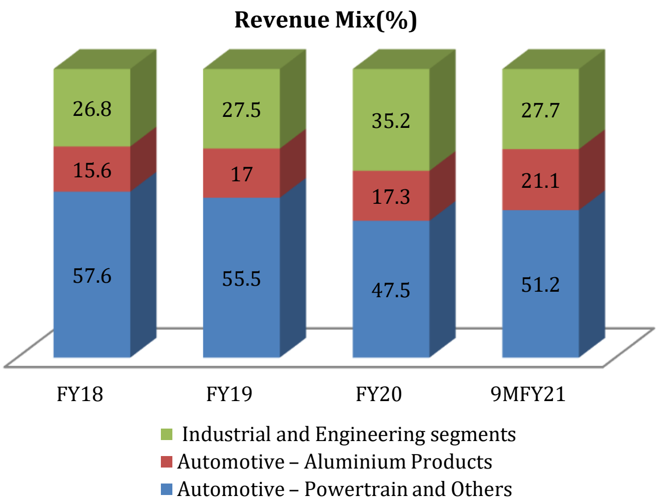
*Source: Geojit Research, Bloomberg; Valuations CAL are based on upper end of the price band, Financials as per FY20. * Annualised P/E for CAL*

Company Description

CRAFTSMAN AUTOMATION LIMITED(CAL) commenced operations in 1986 in Coimbatore, and owns and operates 12 strategically located manufacturing facilities across seven cities in India. CAL is engaged in three business segments, namely Automotive - Powertrain and Others, Automotive - Aluminium Products, and Industrial and Engineering. CAL's core competence is in machining and assembly of industrial and engineering products and is a significant player in the Automotive - Powertrain and Others segment. The key customers include Daimler India, Tata Motors, Tata Cummins, Mahindra & Mahindra, Simpson & Co. Limited, TAFE Motors and Tractors, Escorts, Ashok Leyland, Perkins, John Deere and JCB India, TVS Motors, Royal Enfield, Perkins, Siemens and Mitsubishi Heavy Industries. The Automotive – Powertrain and Others, Automotive – Aluminium Products and Industrial and Engineering segments accounting for 51.21%, 21.10% and 27.69% of the revenue from operations in the nine months ended December 31, 2020 and 47.52%, 17.27% and 35.21% of the revenue from operations in FY20, respectively.

Businesses





Source: RHP, Geojit Research

❖ Automotive – Powertrain and Others

- **End users**- Original Equipment Manufacturers (OEMs) producing commercial vehicles, special utility vehicle, tractors and off-highway vehicles.
- **Key products**-Engine parts such as cylinder block and cylinder head, camshafts, transmission parts, gear box housings, turbo charges and bearing caps.
- **Growth drivers**- The implementation of BS VI emission norms by the Government of India in April 2020, focus on infrastructure, commissioning of dedicated freight corridors, implementation of GST and market potential for automobile manufacturers.
- **Key customers-**Daimler India, Tata Motors, Tata Cummins, Mahindra & Mahindra, Simpson & Co. Limited, TAFE Motors and Tractors, Escorts, Ashok Leyland, Perkins, Nelcast, Mitsubishi Heavy Industries, John Deere and JCB India.
- **Segment revenue**-The revenue from this segment was Rs523.7cr, Rs.709.3cr, Rs.1008.5cr and Rs.870.9cr million for the nine months ended December 31, 2020 and FY20,19 and 18.

❖ Automotive – Aluminium Products

- **Key products**- Crank case and cylinder blocks for two wheelers, engine and structural parts for passenger vehicles and gear box housing for heavy commercial vehicle.
- **Growth drivers-** Usage of non-ferrous metals like aluminium to reduce the weight of vehicles, growth in automobile sales and cost competitiveness. In line with automotive demand, the aluminium castings market is estimated to grow at a CAGR of 3-5% to reach 0.45-0.55 million MT by FY24 in terms of tonnage. The aluminium casting market is expected to record a CAGR of 6-8% to reach Rs220-225 billion by Fiscal 2024 in terms of value.
- **Key customers-** Daimler India, Royal Enfield, Mahindra & Mahindra and TVS Motors.
- **Revenue-** The revenue from this segment has increased at a CAGR of 4.65%, from Rs235.3cr in FY18 to Rs.257.7cr in FY20.

❖ Industrial & Engineering Segment

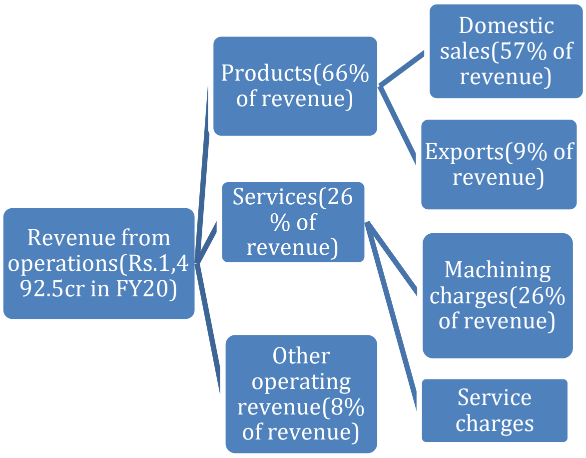
This segment develops, manufactures, sells its goods and services such as castings, gears, material handling equipment, railway products, special purpose machines, other general engineering products (together broadly termed as "High End Sub-assembly, Contract Manufacturing & Others")and storage products to various end user industries.

- **Revenue** - The revenue from this segment has increased at a CAGR of 13.86%, from Rs.405.3cr in FY18 to Rs. 525.5cr in FY20.

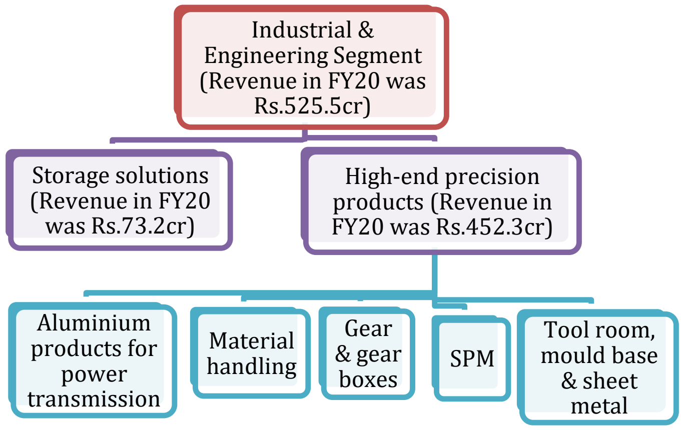
Manufacturing Facilities

CAL owns and operates 12 strategically located manufacturing facilities across seven cities in India. Two of the facilities, forming the flagship integrated facility, are located at the outskirts of Coimbatore in the State of Tamil Nadu. They also have two integrated facilities for aluminium pressure die casting, machining and SPM manufacturing at Bengaluru in the State of Karnataka. The other manufacturing facilities are satellite facilities located across automotive and engineering hubs in India and close to the key customers, including three manufacturing facilities located at Pune in the State of Maharashtra, two manufacturing facilities located at Ballabgarh near Faridabad in the State of Haryana, and one manufacturing facility each located at Sriperumbudur, near Chennai in the State of Tamil Nadu, Jamshedpur in the State of Jharkhand, and Pithampur near Indore in the State of Madhya Pradesh. They have recently set up a new unit in Pune with high end fully automated equipment from Italian and Swiss manufacturers. This facility, which commenced operations in 2019, enables them to service the storage solutions market, catering to customers across India.

Revenue from operations- Split up



Industrial & Engineering Segment



Source: RHP, Geojit Research

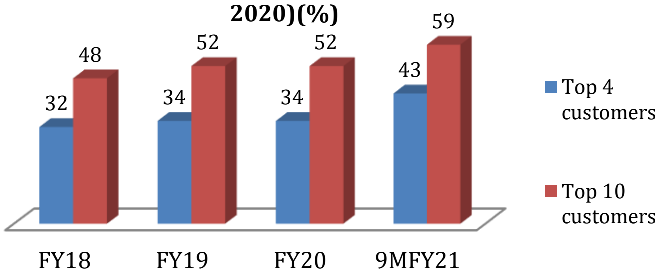
Impact of COVID-19 on the business operations

On account of the government imposed lockdown in India, operations at all of the manufacturing facilities were temporarily shut down with effect from March 24, 2020. Such disruptions in operations impacted the business performance during the first quarter of FY21 and had caused them to postpone the delivery terms for certain orders. Further, the automotive industry has been significantly impacted, which may have an impact on the revenues as a majority of the customers are from this sector. The pandemic may affect production, create supply chain and market disruption and may result in financial impact. Events beyond the control may unfold in the future, which makes it difficult for them to predict the impact that COVID-19 will have on them, the customers or suppliers in the future and this may affect the underlying assumptions and estimates with respect to demand for the products in future.

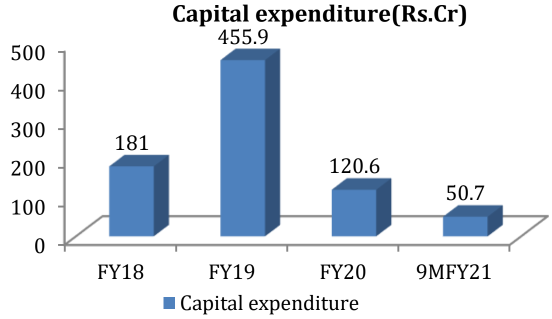
Customers

Sales to the top four customers (based on the revenue from operations as on December 31, 2020) represented 43.14%, 33.91%, 34.14% and 31.73% of the revenue from operations for the nine months ended December 31, 2020, FY20, 19 and 18, respectively, and sales to the top 10 customers (based on the revenue from operations as on December 31, 2020) represented 59.15%, 52.37%, 51.75% and 48.46% of the revenue from operations for the nine months ended December 31, 2020, FY20, 19 and 18, respectively.

Revenue from top customers(Based on the revenue from operations as on December 31, 2020)(%)



Capital expenditure(Rs.Cr)



Source: RHP, Geojit Research

Capital expenditure

The significant capital expenditure in the earlier years has positioned the Company well to take advantage of future growth opportunities. For the nine months ended December 31, 2020 and FY20,19 and 18, the capital expenditure aggregated to Rs50.7cr,Rs.120.6cr, Rs.455.9cr and Rs.181.1cr, respectively, used to modernize and upgrade the manufacturing facilities, infrastructure, machines, equipment and technology to allow them to offer a diverse product suite, reduce operating costs and drive productivity.

Exports

CAL generated RS.100.7cr, Rs.139.3cr, Rs.161.9cr and Rs.127.5cr export sales as on December 31, 2020 and in FY20,19 and 18, respectively, which represented 9.84%, 9.34%, 8.91% and 8.44% of the revenue from operations for the respective periods. During such periods, they exported the products to over 20 countries across North America, South America, Europe and Asia.

In the Automotive – Powertrain and Others segment and Industrial and Engineering segment, they undertake domestic sales as well as exports to various customers. The domestic sales in the Automotive – Powertrain and Others segment contributed 49.58%, 45.35%, 53.55% and 55.05% of the revenue from operations for the nine months ended December 31, 2020 and FY20, 19 and 18, respectively, while export sales contributed 1.63%, 2.18%, 1.93% and 2.56%, respectively, in the same periods. In the Industrial and Engineering segment, domestic sales contributed 17.63%, 26.14%, 18.88% and 19.46% of the revenue from operations for the nine months ended December 31, 2020 and FY20, 19 and 18, respectively, while export sales contributed 9.98%, 9.06%, 8.70% and 7.36%, respectively, in the same periods. They supply to various customers with global presence who export the products to demand their business demand abroad.

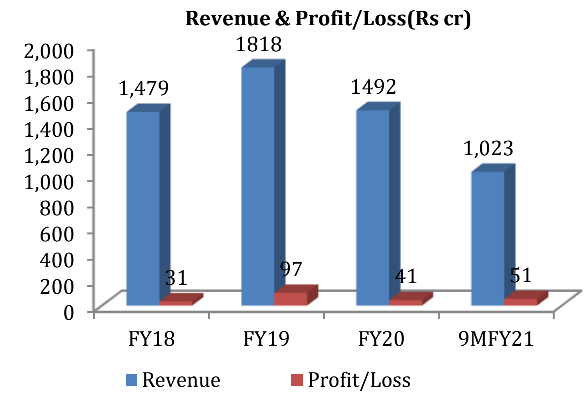
Debt

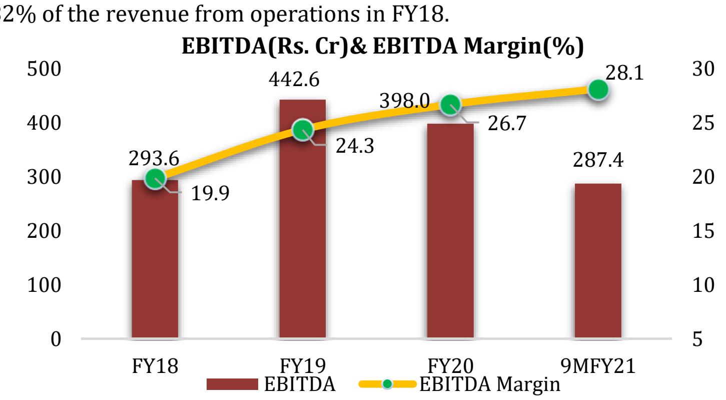
As of December 31, 2020, the aggregate outstanding borrowings was Rs.890.1cr. The borrowings increased by Rs.55.4cr, or 5.62%, from Rs.985.3cr in FY19 to Rs.1040.7cr in FY20, primarily as a result of additional borrowings availed of by them at the end of FY20 to mitigate any unforeseen requirements due to COVID-19 pandemic.

Financial Performance…

The total revenue was Rs.1022.8cr, Rs.1492.5cr, Rs.1818.0cr and Rs.1511.5cr in the nine months ended December 31, 2020 and FY20, 19 and 18, respectively. The net profit was Rs.50.7cr, Rs.41.1cr, Rs.97.4cr and Rs.31.5cr in the nine months ended December 31, 2020 and FY20, 19 and 18, respectively.

The share of the three business segments within the revenue from operations has remained relatively stable during this period, with the Automotive – Powertrain and Others, Automotive – Aluminium Products and Industrial and Engineering segments accounting for 51.21%, 21.10% and 27.69% of the revenue from operations in the nine months ended December 31, 2020 and 47.52%, 17.27% and 35.21% of the revenue from operations in FY20, compared to these three segments accounting for 55.47%, 16.95% and 27.58% of the revenue from operations in FY19, and 57.62%, 15.57% and 26.82% of the revenue from operations in FY18.

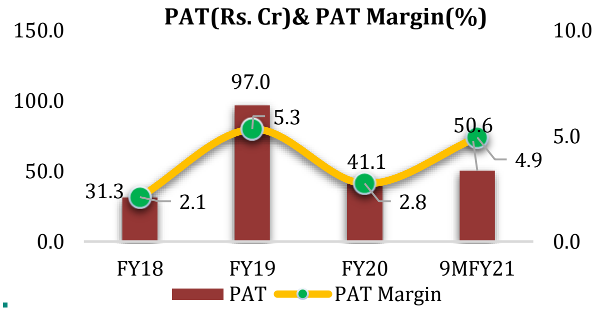


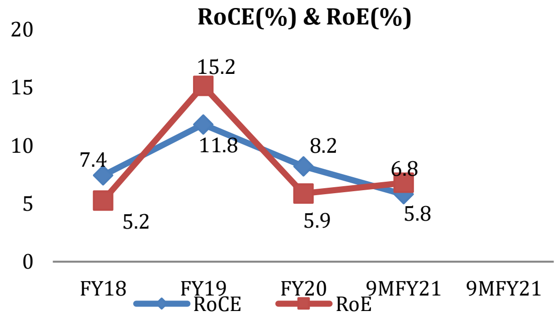


Source: RHP, Geojit Research

Even though the revenues declined by 17.90% from Rs.1818.0cr in FY19 to Rs.1492.5cr in FY20 due to the challenging business environment, they have improved the EBITDA margin from 25.12% in FY19 to 27.24% in FY20. They were able to achieve the margin improvement due to the strong process controls resulting in better operational efficiencies. According to CRISIL Report, they had the highest EBITDA margin for FY19 and FY20 across the peer group.

While the challenging business developments for them and the customers was impacted by slow-down in the overall economy, the scheduled adoption of BS-VI norms and COVID-19 pandemic has affected the auto sector and the revenues, they have maintained stable EBITDA and EBITDA margins.





Source: RHP, Geojit Research

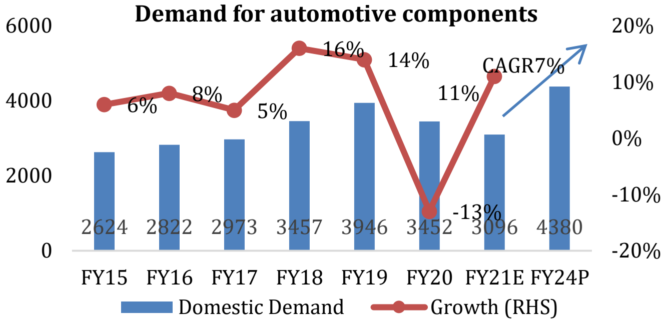
Industry Outlook

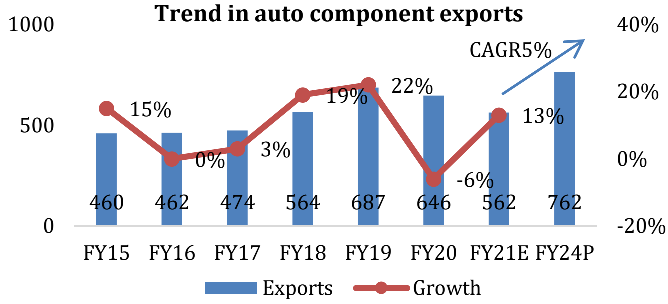
The Indian auto components industry clocked a CAGR of 6% in production over FY2015 to 2020, led by growth in replacement and exports demand. Domestic demand is forecast to log a CAGR of 6-8% driven by demand from OEM at 7-9%, whereas exports are set to grow at 3-5% over FY 2020 to 2024.

Imports are expected to grow at a 1-3% CAGR in the long term. However, greater focus on indigenization is expected to reduce imports in the long run. On the other hand, exports have a high correlation with the global economic scenario. The major exports are to North America and the EU. Exports declined by 56% on-year in the first quarter of FY21.

Aluminium Die Casting Market in India

During FY20, amidst a slowdown in economic growth, regulatory price hike, weak rural demand and a loss of March month's sale due to COVID-19 lockdowns, underlying growth in the automotive industry dropped nearly 15% YoY. This contraction trickled down to the automotive aluminium casting industry with 14% drop in value and 18% fall in value.

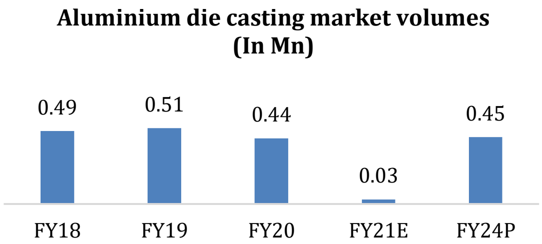


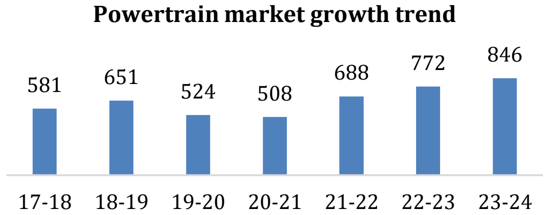


Source: RHP, Geojit Research

Indian Powertrain Market

The power train market is expected to clock 12-14% CAGR during FY20-24. FY 21, though, is expected to be affected by a drop in domestic demand as well as subdued exports owing to disruptions in the economies caused by the COVID-19 pandemic globally.





Source: RHP, Geojit Research

Promoter and promoter group

The promoter of the Company is Srinivasan Ravi. The Promoter holds 52.83% the paid-up Equity Share capital of the Company.

Brief Biographies of Directors

- **Srinivasan Ravi** is the Chairman and Managing Director of the Company and has been associated with the Company since its incorporation.
- **Ravi Gauthamram** is a Whole-time Director of the Company and has been on the Board since February 20, 2014.
- **Udai Dhawan** is a Nominee Director of the Company and has been on the Board since November 25, 2016.
- **Chandrashekhar Madhukar Bhide** is an Independent Director of the Company and has been on the Board since January 31, 2011.
- **Sundararaman Kalyanaraman** is an Independent Director of the Company and has been on the Board since June 30, 2017.
- **Vijaya Sampath** is an Independent Director of the Company and has been on the Board since April 30, 2018.

Financials

Profit & Loss Account

Y.E March (Rscr)	FY19	FY20	9MFY21
Sales	**1,818**	**1,492**	**1,023**
% change	*23*	*-18*	-
EBITDA	**443**	**398**	**287**
% change	*51*	*-10*	-
Depreciation	176.1	195	141.5
EBIT	266	203	146
Interest	140.5	148.4	77.2
Other Income	13.6	8.6	7.1
Exceptional Items	0	0	0
PBT	**140**	**57**	**75.8**
% change	*222*	*-59*	-
Tax	43	16.3	25
Tax Rate (%)	*30.5*	*28.4*	*33.3*
Reported PAT	**97.0**	**41.1**	**50.6**
Adj	-	-	-
Adj PAT	**97.0**	**41.1**	**50.6**
% change	*210*	*-57.6*	-
No. of shares (cr)	2.11	2.11	2.11
Adj EPS (Rs)	**46**	**19.5**	**31.9***

Balance Sheet

Y.E March (Rscr)	FY19	FY20	9MFY21
Cash	26.6	71.6	52.2
Accounts Receivable	210	194.3	214.2
Inventories	323	325.6	339.9
Other Cur. Assets	48	32.4	67.3
Investments	28	38.3	28.3
Net Fixed Assets	1,574.2	1,531	1,497.8
CWIP	90.6	88.8	27.4
Intangible Assets	14.3	10.6	7.9
Other Assets	11.0	9.3	11.3
Total Assets	**2,325**	**2,303**	**2,246**
Current Liabilities	412	345	376
Provisions	96	111	102
Debt Funds	1,093	1,092	944
Minority Interests	-	-	-
Def. Tax	41	37	53
Equity Capital	10	10	10
Reserves & Surplus	673	709	762
Shareholder's Fund	683	719	772
Total Liabilities	**2,325**	**2303**	**2246**
BVPS (Rs)	324	341	437*

Cash Flow

Y.E March (Rscr)	FY19	FY20	9MFY21
PBT	140	57.4	75.8
Non-cash adj.	278.0	315.7	195.8
Changes in W.C	-58	-67.7	-29.7
C.F.O	**359.6**	**305.4**	**241.9**
Capital exp.	-360.5	-139	-47
Change in inv.	-0.04	-	-
Sale of investment	-	-	.1
Other invest.CF	2.09	**2.2**	**1.5**
C.F - investing	**-358**	**-137**	**-45**
Issue of equity	-	-	-
Issue/repay debt	-17	-121.9	-225
Dividends paid	-	-	-
Other finance.CF	-1.2	-6.1	-
C.F - Financing	**-18.2**	**-127.9**	**-225.4**
Chg. in cash	-17	40.4	-28.9
Closing cash	19	59.7	30.9

Ratios

Y.E March	FY19	FY20	9MFY21
Profitab. & Return			
EBITDA margin (%)	24.3	26.7	28.1
EBIT margin (%)	14.7	13.6	14.3
Net profit mgn.(%)	5.3	2.8	4.9
ROE (%)	15.2	5.9	6.8
ROCE (%)	11.8	8.2	10.3*
W.C & Liquidity			
Receivables (days)	41.3	49.4	76.4
Inventory (days)	161.8	201.8	143
Payables (days)	69.7	75	104.1
Current ratio (x)	1.25	1.45	1.47
Quick ratio (x)	0.6	0.8	0.7
Turnover &Levg.			
Net asset T.O (x)	1.3	1.0	1.4
Total asset T.O (x)	0.8	0.6	0.4
Int. covge. ratio (x)	1.9	1.4	1.9
Adj. debt/equity (x)	1.6	1.5	1.2
Valuation ratios			
EV/Sales (x)	2.3	2.8	4.0
EV/EBITDA (x)	9.6	10.6	14.2
P/E (x)	32.4	76.5	46.6*
P/BV (x)	4.6	4.4	4.1

**Annualised*

General Disclosures and Disclaimers

CERTIFICATION

We, Mithun T Joseph and Rajeev T, author(s) of this Report, hereby certify that all the views expressed in this research report reflect my personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

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