

**CRAFTSMAN AUTOMATION LIMITED** | Auto Component**LKP**

Decent numbers in Q4, robust growth expectations going forward

CAL's Q4 numbers were strong despite challenging environment. Revenues grew by 22% yoy and 18% qoq to ₹6.6 bn. Power train business expanded 17.4% yoy as CV industry is growing at a strong pace. The segmental EBIT margins were reported at 25.5% v/s 27.3% yoy and 23.8% qoq. Automotive Aluminum products business has grown by 16.5% yoy and 12% qoq to ₹1.32 bn as the company gained new businesses in exports and also due to price hikes seen in aluminum. At EBIT levels the margins were at 1% v/s 4% qoq and 0.9% yoy. In the industrial Engineering segment, revenues moved up by 37.4% yoy and 38.4% qoq to ₹1.86bn as the storage business grew well, while the margins grew significantly high at 16.1% v/s 14.7% yoy and 8% qoq as storage business grew in a solid manner. Overall EBITDA margins came in at 23.6%, up by 50 bps yoy and down by 450 bps yoy on higher RM costs, and also led by margin fall at Aluminium division. PAT grew by 37.5% qoq and 9% yoy. In FY 22, Total topline grew by 42.7% to ₹22 bn, while EBITDA grew by 22%. Margins at EBITDA level were at 24%, down from 28.4% in FY21. PAT grew by 7% in FY22 to ₹1.6 bn.

**Power-train business growth target set at more than 20% in FY23E and FY24E**

The power-train business (52% of topline and 79% of EBIT margins in FY22) is driven mainly by the CV OEMs who are 54% at the end of Q4 v/s 51% qoq. With rise in CV industry and thereby sales of CV OEMs, CAL's Power-train business saw a healthy growth in the quarter at 17.4% yoy. Margins came in close to 26% v/s 27% yoy. However, there was some drop in Value Addition as it was impacted by machining revenues as FES business shrunk. The company has won an order for PV cylinder block from a big OEM as it intends to divert business from Europe to India under its localization plans. FY22 Power-train business has grown by 42.3% yoy on the back of solid surge in CV business especially HCV business which contributed 85% of the CV portfolio of CAL. Therefore we expect 25% growth in FY23E as against 20% expectations by management on the back of strong trends seen in the underlying CV industry in the current fiscal. We believe this to happen quite comfortably as we expect the CVs to grow at >20% this year. Also FY23 has started on a good note for the farm sector, due to which we expect tractor revenues to come back on track in the current fiscal, thus to assist growth in this division.

| Key Financials     | FY 21  | FY 22  | FY 23E | FY 24E |
|--------------------|--------|--------|--------|--------|
| Total Sales (₹ bn) | 15,463 | 22,065 | 28,374 | 34,665 |
| EBITDA margins (%) | 28.1%  | 24.0%  | 25.9%  | 27.5%  |
| PAT margins (%)    | 6.3%   | 7.3%   | 9.9%   | 12.3%  |
| EPS (₹)            | 48.0   | 76.0   | 133.5  | 202.3  |
| P/E (x)            | 46.8   | 29.6   | 16.8   | 11.1   |
| P/BV (x)           | 4.7    | 4.2    | 3.4    | 2.7    |
| EV/EBITDA (x)      | 11.7   | 9.9    | 7.0    | 5.2    |
| ROE (%)            | 10.0%  | 14.1%  | 20.3%  | 24.1%  |
| ROCE (%)           | 15.4%  | 19.1%  | 26.4%  | 31.6%  |
| Dividend yield (%) | 0.0%   | 0.0%   | 0.6%   | 0.9%   |

| Rating                   | BUY   |
|--------------------------|-------|
| Current Market Price (₹) | 2,247 |
| 12 M Price Target (₹)    | 2,832 |
| Potential upside (%)     | 26    |

**Stock Data**

|                                       |                    |
|---------------------------------------|--------------------|
| FV (₹) :                              | 5                  |
| Total Market Cap (₹ bn) :             | 47                 |
| Free Float Market Cap (₹ bn) :        | 12                 |
| 52-Week High / Low (₹) :              | 2,778 / 1,460      |
| 2-Year High / Low (₹) :               | 2,778 / 1,245      |
| 1 Yr Avg. Dly Traded Volume (in lakh) | 0.45               |
| BSE Code / NSE Symbol                 | 543276 / CRAFTSMAN |
| Bloomberg :                           | CRAFTSMA IN        |

**Shareholding Pattern**

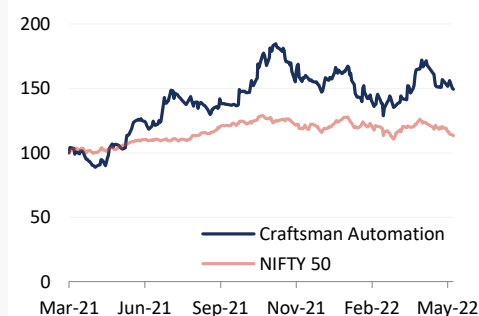
| (%)             | Mar-22 | Dec-21 | Sep-21 | Jun-21 |
|-----------------|--------|--------|--------|--------|
| Promoter        | 59.76  | 59.76  | 59.76  | 59.76  |
| FPIs            | 3.55   | 3.70   | 3.73   | 3.71   |
| MFs             | 8.69   | 8.64   | 8.24   | 7.64   |
| AIFs            | 5.38   | 5.32   | 5.26   | 5.26   |
| Insurance       | 0.75   | 0.55   | 0.85   | 1.20   |
| Marina III (SG) | 5.48   | 5.48   | 5.48   | 5.48   |
| IFC             | 4.79   | 4.79   | 4.79   | 4.79   |
| Others          | 11.60  | 11.76  | 11.89  | 12.16  |

Source: BSE

**Price Performance**

| (%)       | 1M    | 3M    | 6M    | 1YR   |
|-----------|-------|-------|-------|-------|
| Craftsman | -8.7% | 10.9% | -9.7% | 11.7% |
| Nifty 50  | -8.5% | -7.0% | -9.5% | 3.0%  |

\* To date / current date : May 11, 2022

**Craftsman vs Nifty 50**

### Automotive Aluminum products business to get a fillip from new business wins

Despite 2W industry facing challenging times, CAL's Aluminum products business performed well in the quarter as other clients like M&M, Daimler and foreign clients supported the business. After the company won a new client in Brazil in the form of Daimler Brazil, a Japanese manufacturer is expected to give a big order to CAL for aluminum gear boxes. Revenues coming from Daimler are now ₹800-900 mn which includes the Brazil business as well, however the dependence on Daimler is now reducing. Electrification in Europe is also leading to a good demand for the light-weighted Aluminum products of CAL. The company is also in talks with a North American company for long lasting business over there. The PSA opportunity at ₹2-2.5 bn is quite big and will pour revenues over the next 5 years achieving peak in FY24. In FY22, the segmental topline grew by 34%. Management targets ₹10 bn to come from this business in FY23 on the back of these new business wins and also a 10% margins in FY23 as well. We expect this business to grow at 40%/30% in FY 23E/FY 24E with margins expanding as business flows in.

### Quarterly Financial Snapshot

| YE Mar (₹ mn)      | Q4 FY22 | Q3 FY22 | % qoq  | Q4 FY21 | % yoy     |
|--------------------|---------|---------|--------|---------|-----------|
| Revenues           | 6,567   | 5,541   | 18.5%  | 5,372   | 22.2%     |
| Total RM costs     | 3,229   | 2,537   | 27.3%  | 2,326   | 38.8%     |
| Employee expenses  | 463     | 535     | -13.6% | 445     | 4.0%      |
| Other expenses     | 1,325   | 1,191   | 11.2%  | 1,093   | 21.3%     |
| EBITDA             | 1,550   | 1,278   | 21.3%  | 1,508   | 2.8%      |
| <i>Margins (%)</i> | 23.6%   | 23.1%   | 50 bps | 28.1%   | (450 bps) |
| Depreciation       | 545     | 521     | 4.6%   | 501     | 8.7%      |
| EBIT               | 1,005   | 757     | 32.9%  | 1,007   | -0.2%     |
| Other income       | 43      | 19      | 129.5% | 30      | 46.6%     |
| Interest costs     | 238     | 202     | 17.8%  | 300     | -20.7%    |
| PBT                | 811     | 574     | 41.4%  | 737     | 10.1%     |
| Tax                | 296     | 199     | 48.7%  | 264     | 12.1%     |
| <i>Net profits</i> | 514     | 374     | 37.5%  | 472     | 8.9%      |
| EPS (₹)            | 24      | 18      | 37.5%  | 22      | 8.8%      |

Source: Company, LKP Research

### Industrial & Engineering business margins expanded as storage business flourished

Revenues in this segment grew by 38.4% yoy on the back of strong surge in storage revenues which were at ₹2.53 bn in FY22 v/s ₹1.04 bn yoy in FY21. This expansion led to margin surge of the segment (16.1%) in Q4 as bulk of the storage revenues came in Q4. Q4 margins grew more than double sequentially. Management believes storage business will expand and assist margins at 12-15% at least in the coming years. Positivity in the FMCG, pharma and e-comm businesses should lead to strong profitable growth in this business in the ensuing years.

### Outlook and Valuation

We believe the Power train business will be driven by expected pick up in Replacement cycle for HCVs in the coming quarters and also fresh demand risen by movement in the investment capex cycle of the country. Dieselization demand from all over the world and localization of diesel vehicle demand should lead to strong demand of >25% for Power trains. Rising infrastructure growth, construction, mining, agri-commodities transportation, increasing freight rates etc will all lead to a very strong revival in the CV industry. Exports business (now 10% of topline supported by Africa) and electrification shall drive the Automotive Aluminum business. New orders from clients like PSA, Daimler and geographies like Brazil, North America, Europe shall diversify the business risks. Storage business shall lead to a strong growth in the Industrial Engg business.

We believe margin strength to come back in this business with the pandemic risk becoming lesser and lesser day by day. The company has also been winning orders in various business lines which will add to numbers in the following quarters. The company is expanding its business at a low capex of just ₹2.15-2.2 bn as the utilization rates are still low (60-70% for Powertrain business and 57% for Aluminium Products business). With such a low capex also the company expects strong growth across the board. Capex shall expand with new business wins if required. We also believe the valuation multiples shall expand from current levels on the back of improving ROE and the exciting story going forward. We therefore value CAL at 14x FY24E earnings as it currently trades at 11.1x. Maintain BUY with a target of ₹2,832.

## Income Statement

| (₹ mn)                  | FY 21         | FY 22         | FY 23E        | FY 24E        |
|-------------------------|---------------|---------------|---------------|---------------|
| <b>Total Revenues</b>   | <b>15,463</b> | <b>22,065</b> | <b>28,374</b> | <b>34,665</b> |
| Raw Material Cost       | 6,595         | 10,309        | 12,910        | 15,253        |
| Employee Cost           | 1,429         | 1,861         | 2,469         | 3,120         |
| Other Exp               | 3,098         | 4,603         | 5,646         | 6,760         |
| <b>EBITDA</b>           | <b>4,340</b>  | <b>5,293</b>  | <b>7,349</b>  | <b>9,533</b>  |
| <i>EBITDA Margin(%)</i> | <i>28.1%</i>  | <i>24.0%</i>  | <i>25.9%</i>  | <i>27.5%</i>  |
| Depreciation            | 1,924         | 2,060         | 2,304         | 2,368         |
| <b>EBIT</b>             | <b>2,416</b>  | <b>3,233</b>  | <b>5,045</b>  | <b>7,165</b>  |
| <i>EBIT Margin(%)</i>   | <i>15.6%</i>  | <i>14.7%</i>  | <i>17.8%</i>  | <i>20.7%</i>  |
| Other Income            | 132           | 93            | 90            | 100           |
| Interest                | 1073          | 842           | 801           | 699           |
| <b>PBT</b>              | <b>1,476</b>  | <b>2,483</b>  | <b>4,334</b>  | <b>6,566</b>  |
| <i>PBT Margin(%)</i>    | <i>9.5%</i>   | <i>11.3%</i>  | <i>15.3%</i>  | <i>18.9%</i>  |
| Tax                     | 508           | 880           | 1,517         | 2,298         |
| <b>Adjusted PAT</b>     | <b>968</b>    | <b>1,604</b>  | <b>2,817</b>  | <b>4,268</b>  |
| <i>APAT Margins (%)</i> | <i>6.3%</i>   | <i>7.3%</i>   | <i>9.9%</i>   | <i>12.3%</i>  |
| <b>PAT</b>              | <b>968</b>    | <b>1,604</b>  | <b>2,817</b>  | <b>4,268</b>  |
| <i>PAT Margins (%)</i>  | <i>6.3%</i>   | <i>7.3%</i>   | <i>9.9%</i>   | <i>12.3%</i>  |

## Key Ratios

| YE Mar                          | FY 21  | FY 22 | FY 23E | FY 24E |
|---------------------------------|--------|-------|--------|--------|
| <b>Per Share Data (₹)</b>       |        |       |        |        |
| Adj. EPS                        | 48.0   | 76.0  | 133.5  | 202.3  |
| CEPS                            | 143.5  | 173.6 | 242.7  | 314.5  |
| BVPS                            | 481.1  | 538.3 | 658.4  | 840.5  |
| DPS                             | 0.0    | 0.0   | 13.4   | 20.2   |
| <b>Growth Ratios(%)</b>         |        |       |        |        |
| Total revenues                  | 4.2%   | 42.7% | 28.6%  | 22.2%  |
| EBITDA                          | 11.0%  | 21.9% | 38.9%  | 29.7%  |
| EBIT                            | 24.1%  | 33.8% | 56.1%  | 42.0%  |
| PAT                             | 128.1% | 65.8% | 75.6%  | 51.5%  |
| <b>Valuation Ratios (X)</b>     |        |       |        |        |
| PE                              | 46.8   | 29.6  | 16.8   | 11.1   |
| P/CEPS                          | 15.7   | 12.9  | 9.3    | 7.1    |
| P/BV                            | 4.7    | 4.2   | 3.4    | 2.7    |
| EV/Sales                        | 3.3    | 2.4   | 1.8    | 1.4    |
| EV/EBITDA                       | 11.7   | 9.9   | 7.0    | 5.2    |
| <b>Operating Ratios (Days)</b>  |        |       |        |        |
| Inventory days                  | 95.7   | 103.6 | 92.0   | 92.0   |
| Receivable Days                 | 56.4   | 49.0  | 47.0   | 45.0   |
| Payables day                    | 67.5   | 59.4  | 57.0   | 53.0   |
| Net Debt/Equity (x)             | 0.60   | 0.46  | 0.34   | 0.25   |
| <b>Profitability Ratios (%)</b> |        |       |        |        |
| ROCE                            | 15.4%  | 19.1% | 26.4%  | 31.6%  |
| ROE                             | 10.0%  | 14.1% | 20.3%  | 24.1%  |
| Dividend payout ratio (%)       | 0.0%   | 0.0%  | 10.0%  | 10.0%  |
| Dividend yield(%)               | 0.0%   | 0.0%  | 0.6%   | 1.0%   |

## Balance Sheet

| (₹ mn)                                    | FY 21         | FY 22         | FY 23E        | FY 24E        |
|---|---------------|---------------|---------------|---------------|
| <b>Equity and Liabilities</b>             |               |               |               |               |
| Equity Share Capital                      | 106           | 106           | 106           | 106           |
| Reserves & Surplus                        | 9,589         | 11,252        | 13,787        | 17,628        |
| <b>Total Network</b>                      | <b>9,694</b>  | <b>11,357</b> | <b>13,893</b> | <b>17,734</b> |
| Total debt                                | 4,372         | 3,738         | 3,338         | 3,038         |
| Deferred tax assets/liabilities           | 684           | 1,168         | 1,168         | 1,168         |
| Other current liabilities                 | 923           | 704           | 704           | 704           |
| <b>Total non-current liab &amp; provs</b> | <b>5,979</b>  | <b>5,610</b>  | <b>5,210</b>  | <b>4,910</b>  |
| <b>Current Liabilities</b>                |               |               |               |               |
| Trade payables                            | 3,523         | 4,626         | 4,431         | 5,034         |
| Short term provis+ borrowings             | 1,465         | 1,566         | 1,566         | 1,566         |
| Other current liabilities                 | 2,858         | 3,589         | 3,589         | 3,589         |
| <b>Total current liab and provs</b>       | <b>7,846</b>  | <b>9,781</b>  | <b>9,586</b>  | <b>10,189</b> |
| <b>Total Equity &amp; Liabilities</b>     | <b>23,519</b> | <b>26,748</b> | <b>28,689</b> | <b>32,832</b> |
| <b>Assets</b>                             |               |               |               |               |
| Net block                                 | 14,203        | 14,537        | 14,734        | 14,865        |
| Capital WIP                               | 320           | 420           | 520           | 620           |
| Other non current assets                  | 1,244         | 1,495         | 1,495         | 1,495         |
| <b>Total fixed assets</b>                 | <b>15,789</b> | <b>16,453</b> | <b>16,749</b> | <b>16,981</b> |
| Cash and cash equivalents(i)              | 467           | 435           | 501           | 2,207         |
| Inventories                               | 4,056         | 6,264         | 7,152         | 8,737         |
| Trade receivables                         | 2,389         | 2,962         | 3,654         | 4,274         |
| Other current assets                      | 817           | 634           | 634           | 634           |
| <b>Total current Assets</b>               | <b>7,729</b>  | <b>10,295</b> | <b>11,940</b> | <b>15,852</b> |
| <b>Total Assets</b>                       | <b>23,519</b> | <b>26,748</b> | <b>28,689</b> | <b>32,833</b> |

## Cash Flow

| (₹ mn)                                     | FY 21         | FY 22         | FY 23E        | FY 24E        |
|--|---------------|---------------|---------------|---------------|
| PBT  | 1,476         | 2,484         | 4,334         | 6,566         |
| Depreciation                               | 1,924         | 2,060         | 2,304         | 2,368         |
| Interest                                   | 1,109         | 770           | 801           | 699           |
| Chng in working capital                    | -314          | -1,409        | -1,774        | -1,603        |
| Tax paid                                   | -227          | -368          | -1,517        | -2,298        |
| Other operating activities                 | -338          | 0             | 0             | 0             |
| <b>Cash flow from operations (a)</b>       | <b>3,624</b>  | <b>3,272</b>  | <b>4,289</b>  | <b>5,731</b>  |
| Capital expenditure                        | -993          | -2,129        | -2,600        | -2,600        |
| Chng in investments                        | 0             | 0             | 0             | 0             |
| Other investing activities                 | 44            | 40            | 0             | 0             |
| <b>Cash flow from investing (b)</b>        | <b>-949</b>   | <b>-2,089</b> | <b>-2,600</b> | <b>-2,600</b> |
| <b>Free cash flow (a+b)</b>                | <b>2,675</b>  | <b>1,183</b>  | <b>1,689</b>  | <b>3,131</b>  |
| Inc/dec in borrowings                      | -3,223        | 10            | -400          | -300          |
| Dividend paid (incl. tax)                  | 0             | 0             | -282          | -427          |
| Interest paid                              | -1,093        | -769          | -801          | -699          |
| Other financing activities                 | -100          | -423          | 0             | 0             |
| Proceeds from issue of equity shares       | 1,456         | -19           | 0             | 0             |
| <b>Cash flow from financing (c)</b>        | <b>-2,960</b> | <b>-1,200</b> | <b>-1,483</b> | <b>-1,425</b> |
| <b>Net chng in cash (a+b+c)</b>            | <b>-286</b>   | <b>-18</b>    | <b>206</b>    | <b>1,706</b>  |
| <b>Closing cash &amp; cash equivalents</b> | <b>312</b>    | <b>294</b>    | <b>501</b>    | <b>2,207</b>  |

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