

17 October 2022

Craftsman Automation

Strong top-line performance, margin pressures; maintaining a Buy

Rating: **Buy**

Target Price: Rs.3,539

Share Price: Rs.2,822

For Craftsman Automation, growth across segments were the highlights for the quarter. It continued to improve value-addition across divisions. Improving CV off-take, driven by M&HCVs and the off highway segments augur well for long-term growth. Similarly, demand for PVs and 2Ws is expected to be strong during the festival season as supply-side constraints have started to normalise. We maintain a Buy, at a revised TP of Rs.3,539 (19x FY25e)

Strong performance in all divisions. Q1 revenues grew 36% y/y, 14% q/q, to Rs7.7bn, on greater offtake in automobiles. The powertrain/aluminium/industrial engineering divisions grew 9%/15%/26% sequentially to Rs3.8bn/Rs2bn/Rs2bn. It continues to win orders from OEMs across regions. For the aluminium business, the large order it won in Apr, would be entering production by Q4 FY23, while the order from Peugeot would enter the production phase by Q3 FY24. For storage solutions, it has a strong, ~Rs1.5bn, order book and revenues are expected in subsequent quarters. We expect strong growth across CVs, PVs and 2Ws as supply-side constraints have improved and pent-up demand is strong. Hence, we expect 23% growth in FY23, and 10% in FY24.

Margin improvement in the next two years. The Q2 FY23 EBITDA margin contracted 213bps to 22.1% on high inventory from previous quarters and raw material prices. Value additions in power-train were Rs2.3bn (Rs2.2bn last quarter), in aluminium products Rs680m (Rs710m) and in industrial engineering Rs750m (Rs580m). We expect an operating leverage-led margin expansion in subsequent quarters due to better capacity utilisation and off-take across the automobile industry. Hence, we expect margins of 24% in FY23 and 24.8% in FY24.

Introducing FY25e. We expect FY25 revenue to grow 10% y/y, margins to expand to 24.8% and earnings to grow 25% y/y to Rs4bn.

Valuations. We expect a 15% revenue CAGR over FY22-25, and 35% earnings growth, leading to an EPS of Rs186.2. We maintain a Buy rating, with a revised target price of Rs.3,539 (19x FY25e).

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	15,463	22,064	27,226	29,948	33,476
Net profit (Rs m)	968	1,605	2,575	3,278	3,934
EPS (Rs)	45.8	76.0	121.9	155.2	186.2
P/E (x)	61.6	37.1	23.1	18.2	15.1
EV / EBITDA (x)	14.4	12.0	9.5	8.1	7.1
P/BV (x)	5.8	5.0	4.1	3.3	2.7
RoE (%)	11.3	15.1	20.4	21.2	20.8
RoCE (%)	10.4	12.5	17.1	18.8	19.3
Dividend yield (%)	-	-	0.1	0.2	0.2
Net debt / equity (x)	0.6	-0.4	-0.6	-0.7	-0.7

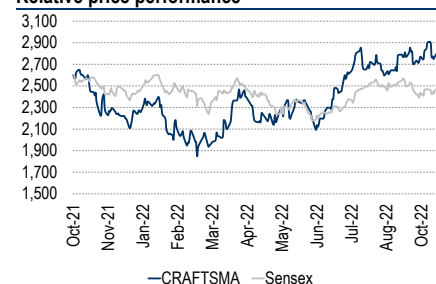
Source: Company, Anand Rathi Research

Key data	CRAFTSMA IN
52-week high / low	Rs.3005 / 1840
Sensex / Nifty	58411 / 17312
3-m average volume	\$1.7m
Market cap	Rs.59bn / \$721.8m
Shares outstanding	21m

Shareholding pattern (%)	Sep'22	Jun'22	Mar'22
Promoters	58.8	59.5	59.8
- of which, Pledged	-	-	-
Free float	41.2	40.5	40.2
- Foreign institutions	4.3	3.9	3.6
- Domestic institutions	16.3	15.4	14.8
- Public	20.6	21.2	21.9

Estimates revision (%)	FY23	FY24
Sales	0.0	0.0
EBITDA	-3.9	-5.8
PAT	-7.4	-11.1

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net revenues	15,463	22,064	27,226	29,948	33,476
Growth (%)	4.2	42.7	23.4	10.0	11.8
Raw material cost	6,595	10,308	13,341	14,435	16,135
Employee, other expenses	4,528	6,463	7,351	8,086	9,039
EBITDA	4,340	5,293	6,534	7,427	8,302
EBITDA margins (%)	28.1	24.0	24.0	24.8	24.8
- Depreciation	1,924	2,060	2,271	2,479	2,675
Other income	132	93	90	90	90
Interest expenses	1,073	842	912	657	460
Extraordinary items	-	-	-	-	-
PBT	1,476	2,484	3,442	4,381	5,257
Effective tax rates (%)	34	35	25	25	25
+ Associates / (Minorities)	-	-	-	-	-
Net income	968	1,605	2,575	3,278	3,934
Adjusted income	968	1,605	2,575	3,278	3,934
WANS	21	21	21	21	21
FDEPS (Rs / sh)	45.8	76.0	121.9	155.2	186.2

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT	1,476	2,484	3,442	4,381	5,257
+ Non-cash items	1,924	2,060	2,271	2,479	2,675
Oper. prof. before WC	3,400	4,544	5,713	6,860	7,932
- Incr. / (decr.) in WC	519	2,958	652	1,367	2,874
Others incl. taxes	539	880	866	1,103	1,323
Operating cash-flow	2,341	706	4,195	4,390	3,734
- Capex (tang. + intang.)	1,254	2,469	2,750	2,000	2,500
Free cash-flow	1,088	-1,763	1,445	2,390	1,234
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	-	-	86	109	131
+ Equity raised	-	-	-	-	-
+ Debt raised	-3,172	1,203	-1,500	-2,072	-700
- Financial investments	26	-	30	30	30
- Misc. (CFI + CFF)	(1,824)	(510)	33	-	-
Net cash-flow	-287	-50	-204	179	374

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

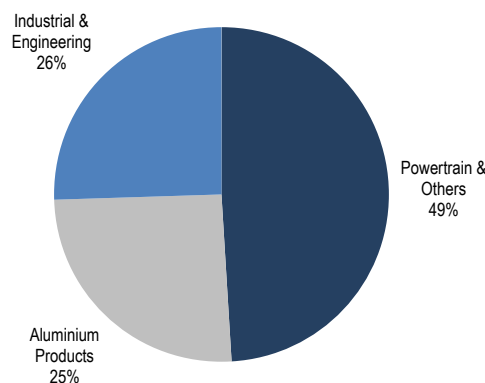
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	106	106	106	106	106
Net worth	9,785	11,422	13,879	17,048	20,851
Debt	5,953	7,156	5,656	3,584	2,884
Minority interest	-	-	-	-	-
DTL / (Assets)	691	1,168	1,168	1,168	1,168
Capital employed	16,429	19,746	20,703	21,800	24,903
Net tangible assets	14,203	14,537	15,016	14,538	14,362
Net intangible assets	68	43	43	43	43
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	320	420	420	420	420
Investments (strategic)	282	282	312	342	372
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	8,326	11,191	13,499	14,465	17,271
Cash	417	367	163	343	716
Current liabilities	7,187	7,094	8,750	8,350	8,281
Working capital	1,139	4,098	4,749	6,116	8,990
Capital deployed	16,429	19,746	20,703	21,800	24,903

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	61.6	37.1	23.1	18.2	15.1
EV / EBITDA (x)	14.4	12.0	9.5	8.1	7.1
EV / Sales (x)	4.0	2.9	2.3	2.0	1.8
P/B (x)	5.8	5.0	4.1	3.3	2.7
RoE (%)	11.3	15.1	20.4	21.2	20.8
RoCE (%) - after tax	10.4	12.5	17.1	18.8	19.3
RoIC (%) - after tax	10.8	12.8	17.3	19.0	19.8
DPS (Rs / sh)	-	-	4.1	5.2	6.2
Dividend yield (%)	-	-	0.1	0.2	0.2
Dividend payout (%) - incl. DDT	-	-	3.3	3.3	3.3
Net debt / equity (x)	0.6	-0.4	-0.6	-0.7	-0.7
Receivables (days)	56	49	56	55	60
Inventory (days)	220	220	200	200	220
Payables (days)	195	165	200	200	200
CFO : PAT %	242.0	44.0	162.9	133.9	94.9

Source: Company, Anand Rathi Research

Fig 6 – Q2 FY23 revenue mix



Source: Company

Result highlights

Fig 7 – Quarterly performance

	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
Net sales	5,688	5,516	6,544	6,758	7,713
Y/Y (%)	55.1	13.7	22.3	56.6	35.6
Q/Q (%)	31.8	(3.0)	18.6	3.3	14.1
Other operating income	-	-	-	-	-
Income	5,688	5,516	6,544	6,758	7,713
Y/Y (%)	55.1	13.7	22.3	56.6	35.6
Q/Q (%)	31.8	(3.0)	18.6	3.3	14.1
Expenditure					
(Incr.) / decr. in stock-in-trade	(190)	(136)	(26)	(70)	(104)
Materials	2,816	2,663	3,251	3,302	4,054
% of sales	46.2	45.8	49.3	47.8	51.2
Y/Y (%)	69.7	24.3	39.0	67.5	50.4
Q/Q (%)	36.1	(3.8)	27.6	0.2	22.2
Gross margins (%)	53.8	54.2	50.7	52.2	48.8
Gross profit	3,062	2,988	3,319	3,527	3,763
Staff cost	473	530	459	565	573
% of sales	8.3	9.6	7.0	8.4	7.4
Y/Y (%)	30.9	12.6	4.0	41.5	21.3
Q/Q (%)	18.4	15.6	(13.5)	23.1	1.5
Other expenditure	1,162	1,189	1,323	1,328	1,489
% of sales	20.4	21.6	20.2	19.6	19.3
Y/Y (%)	53.9	25.4	(0.8)	42.9	28.1
Q/Q (%)	25.1	5.5	11.2	0.4	12.1
Total expenses	4,261	4,247	5,006	5,124	6,012
EBITDA	1,428	1,269	1,538	1,634	1,701
Y/Y (%)	42.2	23.0	2.5	54.4	19.2
Q/Q (%)	34.8	(11.1)	21.1	6.3	4.1
OPM (%)	25.1	23.0	23.5	24.2	22.1
Other income	9	20	53	13	17
Interest	178	202	238	254	233
Depreciation	500	521	545	532	547
Exceptional items		-			
Profit before tax	759	566	808	861	939
Provision for taxation	265	198	294	305	333
Tax rate (%)	34.9	35.0	36.4	35.5	35.4
Profit after tax before prior period expenses	494	368	514	556	606
PAT	494	368	514	556	606
Y/Y (%)	97.8	(12.3)	9.8	143.3	22.6
Q/Q (%)	116.3	(25.5)	39.5	8.2	9.0
PAT margin %	8.7	6.7	7.9	8.2	7.9
Adj. PAT	494	368	514	556	606
Y/Y (%)	97.8	(12.3)	9.8	143.3	22.6
Q/Q (%)	116.3	(25.5)	39.5	8.2	9.0
No. of shares	105.60	105.60	105.60	105.60	105.60
O/S shares	21.12	21.12	21.12	21.12	21.12
Basic EPS Rs	23.39	17.43	24.3	26.32	28.69
Adj. EPS Rs	23.39	17.43	24.3	26.32	28.69

Source: Company

Valuations

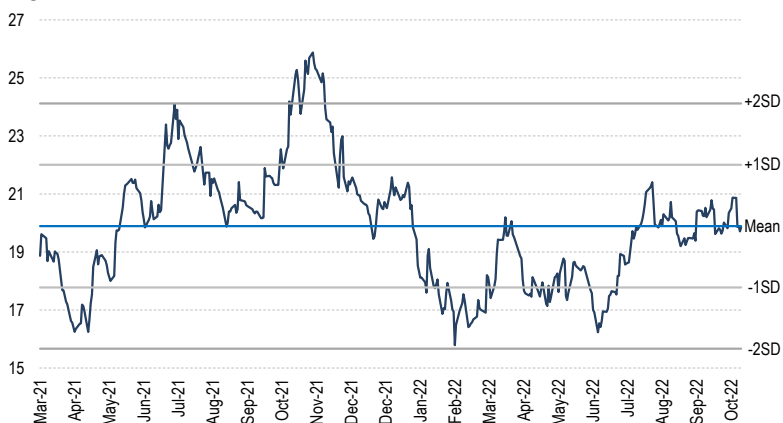
We expect a 15% revenue CAGR over FY22-25, and 35% earnings growth, leading to an EPS of Rs186.2. We maintain a Buy rating, with a revised target price of Rs,3,539 (19x FY25e).

Fig 8 – Change in estimates

(Rs m)	Old		New		% Var	
	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Income	27,226	29,948	27,226	29,948	0.0	0.0
EBITDA	6,943	7,787	6,670	7,337	-3.9	-5.8
Adj. PAT	2,891	3,633	2,677	3,231	-7.4	-11.1
EPS (Rs)	137	172	127	153	-7.4	-11.1

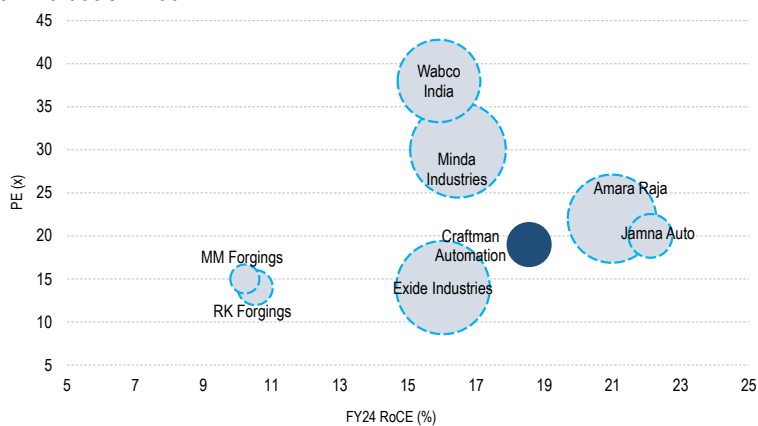
Source: Anand Rathi Research

Fig 9 – SD



Source: Bloomberg, Anand Rathi Research

Fig 10 – Valuation matrix



Source: Bloomberg, Anand Rathi Research

Risk

- Less-than-expected volume growth in FY24 and FY25.

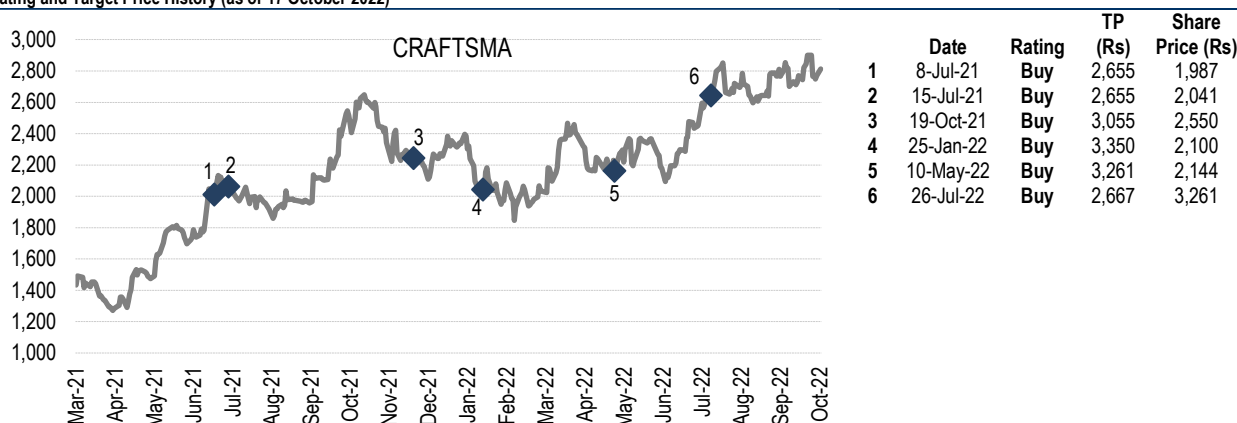
Appendix

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