

CRAFTSMAN AUTOMATION LIMITED | Auto Components

Weak sequentially, acquisition and standalone business both to work in tandem

LKP
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Craftsman Automation Ltd (CAL)'s Q3 FY23 numbers were weak overall in the challenging demand environment especially on the 2W side. Revenues grew by 35% yoy and fell by 3.5% qoq to ₹7.49 bn on weak festive season. Power train business expanded 39% yoy riding on CV excellence. The segmental EBIT margins were reported at 24.7% v/s 23.8% yoy and 24.6% qoq. Margins were stable as capacity utilisation rate was high in the range of 75-80% thus offering operating leverage. Automotive Aluminum products business was the laggard as its revenues witnessed a sharp fall of 10.5% qoq to ₹1.76 bn as the company faced lower offtake on account of weaker 2W demand. At EBIT levels the margins which have always been volatile came in at 3.9%, down 370 bps qoq and 50 bps up from 3.4% yoy. This was mainly due to drop seen in Aluminium prices globally on a qoq basis leading to accumulation of high priced inventories, and lower level of utilization rates (much below normal levels of 60%) stemming from weak 2W demand (70% of segmental revenues). In the industrial Engineering segment, revenues moved down by 18.3% qoq to ₹1.65bn as the storage business shrunk as the underlying e-com and retail businesses reduced their spending on challenging demand environment. Therefore, even the margins were subdued at 5.8% v/s 12.8% qoq and 8% yoy. Overall EBITDA margins came in at 21.2%, down 110 bps qoq and 200 bps yoy led by margin fall at Aluminium and Industrial Engg business. PAT grew by 37% yoy but declined 17.6% qoq.

Power-train business to remain buoyant on CV growth

With rise in CV industry and thereby sales of CV OEMs, CAL's Power-train business saw a healthy growth in the quarter at 39% yoy. Margins came in at 24.7% v/s 23.8% yoy and 24.6% qoq. However, there was in fact a very strong growth in Value Addition (Gross Profit) at ₹2.49 bn v/s ₹2.32 bn sequentially and ₹1.9bn yoy. We are observing strong trends in the underlying CV industry in the current fiscal. We believe this to happen quite comfortably as we expect the CVs to grow at mid-to high teens this year. Also FY23 has been good for the farm sector despite high base, thus we expect FES business also to support the segmental performance. Management expects some pre-buying in Q4 on the back of real time emission norms to be applicable from April 2023. This may lead to some impact on sales in Q1 FY24, but shall regain its momentum shortly. The business has been performing at ~80% utilization rate, owing to which management is planning to expand its overall capex in more than ₹3 bn - 3.25 bn range for FY24. We bake in 35%/23%/20% growth for this segment in FY 23E/FY 24E/FY25E respectively.

Key Financials	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Total sales (₹ mn)	15,463	22,065	30,098	37,269	45,198
EBITDA margins (%)	28.1%	24.0%	23.5%	23.8%	24.4%
PAT margins (%)	6.3%	7.3%	7.6%	9.1%	10.5%
EPS (₹)	48.0	76.0	108.6	161.3	225.3
P/E (x)	69.8	44.1	30.8	20.8	14.9
P/BV (x)	6.9	6.2	5.2	4.3	3.4
EV/EBITDA (x)	16.8	14.3	10.8	8.7	7.0
ROE	9.9%	14.0%	17.0%	20.6%	22.8%
ROCE	15.3%	19.0%	22.1%	24.5%	26.0%
Dividend yield (%)	0.0	0.0	0.3	0.5	0.7

Rating	BUY
Current Market Price (₹)	3,352
12 M Price Target (₹)	3,883
Potential upside (%)	16

Stock Data

FV (₹) :	5
Total Market Cap (₹ bn) :	71
Free Float Market Cap (₹ bn) :	29
52-Week High / Low (₹) :	3,711 / 1,840
2-Year High / Low (₹) :	3,711 / 1,245
1 Yr Avg. Dly Traded Volume (in lakh)	0.49
BSE Code / NSE Symbol	543276 / CRAFTSMAN
Bloomberg :	CRAFTSMA IN

Shareholding Pattern

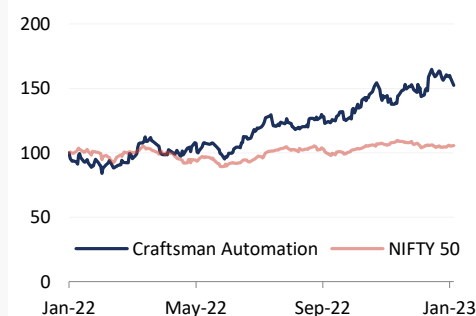
(%)	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	58.77	58.77	59.48	59.76
FPIs	9.33	4.26	3.91	3.55
MFs	11.09	11.56	9.67	8.69
AIFs	4.23	4.16	4.77	5.38
Insurance	0.52	0.62	0.98	0.75
Marina III (SG)	-	5.48	5.48	5.48
IFC	4.79	4.79	4.79	4.79
Others	11.27	10.36	10.92	11.60

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
Craftsman	6.1%	16.3%	28.3%	53.7%
Nifty 50	1.8%	3.1%	8.4%	5.1%

* To date / current date : January 23, 2023

Craftsman vs Nifty 50

Automotive Aluminum products business posts dismal performance, expect better times ahead

CAL's Aluminium products business reported subdued numbers in Q3 as 2Ws faced demand slack on lacklustre festive season, weak exports and some clients going slow on their orders. Demand slump along with dip in aluminium prices led to accumulation of high priced inventories of previous quarter leading to weaker margin performance. Also weak demand led to very low utilization rates which fell drastically below 60%. This led to margins falling below significantly at 3.9%. In April 2022, the company won a big order from a client for whom they had to urgently increase their capex to ₹2.75bn from earlier target of ₹2.25 bn. This business should ramp up in FY24 and add ₹1.5 bn in FY25E according to the management. Electrification in Europe is also leading to a good demand for the light-weighted Aluminum products of CAL. However, the economic turmoil in Europe may have a bearing on this business. The PSA opportunity at ₹2-2.5 bn is quite big and will pour revenues over the medium to long term as its production should start by Q3 FY24. PSA is still in testing phase before giving green signal to CAL. Management expects this business to start by H2 of FY24. Management targets 20% growth in the Value Addition of this business which stood at ₹6.1 bn in Q3 v/s ₹6 bn yoy and ₹6.8 bn qoq. We expect this business to be on track soon and to grow at 60%/35%/25% in FY 23E/FY 24E/FY 25E with margins expanding as business flows in.

Industrial & Engineering business also was not at its best, expect come back in Q4

Revenues in this segment de-grew by 18.3% qoq on the back of weak storage revenues which were at ₹0.8 bn in Q3 v/s ₹1.11 bn yoy in Q2. This led to margin contraction of the segment at 5.8% in the quarter. The Value Addition in the segment also fell to ₹583 mn from ₹760 mn qoq. On yoy basis, the segment reported strong growth on overall basis. This fall was due to seasonal and temporary slowdown seen at retail and e-com clients' ends. Management believes storage business will expand and assist margins at 12-15% at least in the coming years. Continuous positivity in the FMCG, pharma and auto businesses should lead to strong profitable growth in this business in the ensuing years. The precision segment performance is also expected to do well as industry capex increases. We anticipate ~20% growth over the next three years for this business.

Acquisition of DR Axion - A synergic fit!

By the end of Q3, CAL acquired majority stake in the Chennai based Indian arm of South Korea based auto ancillary firm DR Axion for a consideration of ₹3.75 bn, out of which ₹3 bn will be raised through debt and rest through internal accruals, the payment of which should happen over net 7-8 years. DR Axion is a supplier of aluminium cylinder heads to PVs like Hyundai, Kia, M&M, Toyota, Tesla etc. Through this acquisition, CAL should get a very good entry into PV segment where they lack presence. Also apart from India and Korea, CAL can enhance its global footprint as DR Axion is #3 supplier in US markets. The topline of Dr Axion was ₹7.16 bn in FY22 v/s ₹4.6 bn in FY21 and ₹3.2 bn in FY20. EBITDA margins have been in the range of 11-13% which are better than the Aluminium products business in which this company shall get merged. More details shall be disclosed once the acquisition gets completed after FY23.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q3 FY23	Q2 FY23	% qoq	Q3 FY22	% yoy
Revenues	7,490	7,762	-3.5%	5,541	35%
Total RM costs	3,779	3,971	-4.8%	2,537	49%
Employee expenses	582	578	0.8%	535	9%
Other expenses	1,546	1,492	3.6%	1,191	30%
EBITDA	1,583	1,722	-8.1%	1,278	24%
% margins	21.1%	22.2%	(110 bps)	23.1%	(200 bps)
Depreciation	538	547	-1.7%	521	3%
EBIT	1,045	1,175	-11.0%	757	38%
Other income	46	17	164.9%	19	144%
Interest costs	296	233	27.3%	202	47%
PBT	795	960	-17.1%	574	39%
Tax	281	336	-16.3%	199	41%
Net profits	514	624	-17.6%	374	37%
EPS	24	29	-17.6%	18	37%

Source: Company, LKP Research

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 >20% for Power trains. Rising infrastructure growth, construction, mining, agri-commodities transportation, increasing freight rates etc will all lead to a very strong growth in the CV industry. CAL being predominantly driven by CVs followed by tractors shall lead to a very comfortable investment argument. Exports business (now 10% of topline) and electrification shall drive the Automotive Aluminum business. New orders from the latest undisclosed one along with PSA, Daimler and geographies like Brazil, Japan etc shall diversify the business risks. Both Storage and non-storage businesses shall lead to a strong growth in the Industrial Engg business. We believe margin strength to come back in this business with the commodity prices falling, new businesses and utilisation rates moving up. DR Axion acquisition seems to be a strategic/synergic fit which shall start yielding results from FY24. We have not yet factored in their numbers since they are not yet disclosed. The company has increased its capex guidance of ₹2.75 bn to ₹3-3.25 bn in FY24 on the back of higher investment in the high demand Powertrain business. Robust cash generation stemming from strong operational performance shall lead to comfortable Debt/EBITDA of targeted 1.3x from 1.6x including acquisition debt. We have rolled over the estimates from FY24E to FY25E. We therefore value CAL at 17x FY 25E earnings as it currently trades at 14.7x. Maintain BUY with an increased roll over target of ₹3,883.

Income Statement

(₹ mn)	FY21	FY22	FY23E	FY24E	FY25E
Total Revenues	15,463	22,065	30,098	37,269	45,198
Raw Material Cost	6,595	10,309	14,808	18,075	21,560
Employee Cost	1,429	1,861	2,408	3,056	3,706
Other Exp	3,098	4,603	5,809	7,267	8,904
EBITDA	4,340	5,293	7,073	8,870	11,028
<i>EBITDA Margin(%)</i>	<i>28.1%</i>	<i>24.0%</i>	<i>23.5%</i>	<i>23.8%</i>	<i>24.4%</i>
Depreciation	1,924	2,060	2,502	2,880	3,330
EBIT	2,416	3,233	4,571	5,990	7,698
<i>EBIT Margin(%)</i>	<i>15.6%</i>	<i>14.7%</i>	<i>15.2%</i>	<i>16.1%</i>	<i>17.0%</i>
Other Income	132	93	90	100	120
Interest	1073	842	1136	1228	1306
PBT	1,476	2,483	3,525	4,862	6,512
<i>PBT Margin(%)</i>	<i>9.5%</i>	<i>11.3%</i>	<i>11.7%</i>	<i>13.0%</i>	<i>14.4%</i>
Tax	508	880	1,234	1,459	1,758
Adjusted PAT	968	1,604	2,291	3,403	4,754
<i>APAT Margins (%)</i>	<i>6.3%</i>	<i>7.3%</i>	<i>7.6%</i>	<i>9.1%</i>	<i>10.5%</i>
<i>Exceptional items</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
PAT	968	1,604	2,291	3,403	4,754
<i>PAT Margins (%)</i>	<i>6.3%</i>	<i>7.3%</i>	<i>7.6%</i>	<i>9.1%</i>	<i>10.5%</i>

Key Ratios

YE Mar	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data (₹)					
Adj. EPS	48.0	76.0	108.6	161.3	225.3
CEPS	143.5	173.6	227.2	297.8	383.1
BVPS	485.5	541.3	639.0	784.2	987.0
DPS	0.0	0.0	10.9	16.1	22.5
Growth Ratios(%)					
Total revenues	4.2%	42.7%	36.4%	23.8%	21.3%
EBITDA	11.0%	21.9%	33.6%	25.4%	24.3%
EBIT	24.1%	33.8%	41.4%	31.0%	28.5%
PAT	128.1%	65.8%	42.9%	48.5%	39.7%
Valuation Ratios (X)					
PE	69.8	44.1	30.8	20.8	14.9
P/CEPS	23.3	19.3	14.7	11.2	8.7
P/BV	6.9	6.2	5.2	4.3	3.4
EV/Sales	4.7	3.4	2.5	2.1	1.7
EV/EBITDA	16.8	14.3	10.8	8.7	7.0
Operating Ratios (Days)					
Inventory days	93.9	102.7	92.0	93.0	95.0
Receivable Days	55.6	48.7	47.0	47.0	50.0
Payables day	67.5	59.4	55.0	53.0	49.0
Net Debt/Equity (x)	0.59	0.45	0.47	0.41	0.35
Profitability Ratios (%)					
ROCE	15.3%	19.0%	22.1%	24.5%	26.0%
ROE	9.9%	14.0%	17.0%	20.6%	22.8%
Dividend payout ratio	0.0%	0.0%	10.0%	10.0%	10.0%
Dividend yield (%)	0.0	0.0	0.3	0.5	0.7

Balance Sheet

(₹ mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity and Liabilities					
Equity Share Capital	106	106	106	106	106
Reserves & Surplus	9,678	11,316	13,378	16,441	20,720
Total Network	9,784	11,422	13,484	16,547	20,826
Total debt	4,372	3,738	4,938	5,338	5,938
Deferred tax assets/liabilities	684	1,168	1,568	1,868	2,168
Other current liabilities	923	706	706	706	706
Total non-current liab & provs	5,979	5,611	7,211	7,911	8,811
Current Liabilities					
Trade payables	3,523	4,653	4,535	5,412	6,068
Short term provis+ borrowings	1,472	1,565	1,566	1,566	1,566
Other current liabilities	2,858	3,589	3,589	3,589	3,589
Total current liab and provs	7,853	9,807	9,690	10,567	11,223
Total Equity & Liabilities	23,615	26,840	30,385	35,025	40,860
Assets					
Net block	14,203	14,537	15,235	16,555	18,225
Capital WIP	320	420	820	1,220	1,520
Other non current assets	1,515	1,750	1,750	1,750	1,750
Total fixed assets	16,060	16,708	17,805	19,525	21,495
Cash and cash equivalents	263	227	360	446	650
Other bank balance	154	141	141	141	141
Inventories	3,976	6,206	7,586	9,496	11,764
Trade receivables	2,355	2,942	3,876	4,799	6,192
Other current assets	806	616	616	616	616
Total current Assets	7,555	10,132	12,579	15,498	19,363
Total Assets	23,615	26,840	30,385	35,025	40,860

Cash Flow

(₹ mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT	1,476	2,484	3,525	4,862	6,512
Depreciation	1,924	2,060	2,502	2,880	3,330
Interest	1,109	770	1,136	1,228	1,306
Chng in working capital	-377	-1,409	-2,032	-1,657	-2,705
Tax paid	-227	-368	-1,234	-1,459	-1,758
Other operating activities	-338	0	0	0	0
Cash flow from operations (a)	3,560	3,224	3,897	5,855	6,686
Capital expenditure	-985	-2,129	-3,600	-4,600	-5,300
Chng in investments	0	0	0	0	0
Other investing activities	63	69	0	0	0
Cash flow from investing (b)	-922	-2,060	-3,600	-4,600	-5,300
Free cash flow (a+b)	2,638	1,164	297	1,255	1,386
Inc/dec in borrowings	-3,223	10	1,200	400	600
Dividend paid (incl. tax)	0	0	-229	-340	-475
Interest paid	-1,093	-769	-1,136	-1,228	-1,306
Other financing activities	-100	-423	0	0	0
Proceeds from issue of equity shares	1,456	-17	0	0	0
Cash flow from financing (c)	-2,960	-1,198	-165	-1,168	-1,182
Net chng in cash (a+b+c)	-323	-35	132	87	204
Closing cash & cash equivalents	262	227	360	446	650

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