

23 January 2023

Craftsman Automation

Adding gravity & low pressure die casting to its strength; maintain Buy

Rating: Buy

Target Price: Rs.3,891

Share Price: Rs.3,351

For Craftsman Automation, strong y/y growth across divisions was the highlight of the quarter. Value addition across the powertrain and aluminium business has sustained in percentage terms; we expect the pace to continue in the near term. Demand for M&HCVs is robust, PVs were good while 2Ws were tepid after the festival season, but are expected to return to normalcy in the long term. We maintain a Buy, at a revised TP of Rs3,891 (19x FY25e).

Foraying into gravity and low-pressure die castings. During Q3 FY23, Craftsman automation acquired DR Axion India, which manufactures aluminium cylinder heads through gravity and low-pressure die castings (Craftsman primarily does high-pressure die castings) for passenger vehicles. The cost of acquisition was Rs3.75bn for a ~76% stake. The consolidation is expected to be completed by Mar'23. Post consolidation, the revenue mix for the Auto Aluminium segment would be ~60% PVs, ~40% 2Ws and other segments from the current levels of ~80% 2Ws and ~20% other segments. We expect three types of synergies to play out in the near future 1) operational synergies with respect to the casting process, 2) diversified customer mix (entry of PVs in the aluminium segment), and 3) supply of new products to existing customers and existing products to new customers. Domestic demand remains robust for CVs while exports witnessed some demand contraction in Brazil, but management said this was a one-off and would return to normal in the next few months. Accordingly, we expect 10% growth in FY24 and 12% in FY25.

Better margins in the next two years. The Q3 FY23 EBITDA margin contracted 91bps sequentially due to high inventory costs in the aluminium business. RM prices have declined and management expects some benefit in subsequent quarters. Value addition in powertrain and aluminium has sustained, Rs2.4bn (Rs2.3bn) and Rs615m (Rs680m) respectively, and we believe absolute value addition would increase going forward. Hence, we expect margins of 23.5% in FY24 and 24.5% in FY25.

Valuations. We expect an 18% revenue CAGR over FY22-25, and 39% earnings growth, leading to an EPS of Rs204.8. We maintain a Buy rating, with a revised target price of Rs.3,891 (19x FY25e).

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	15,463	22,064	29,722	32,695	36,562
Net profit (Rs m)	968	1,605	2,508	3,379	4,326
EPS (Rs)	45.8	76.0	118.7	160.0	204.8
P/E (x)	73.1	44.1	28.2	20.9	16.4
EV / EBITDA (x)	16.8	14.0	10.8	9.2	7.8
P/BV (x)	6.9	5.9	4.9	3.9	3.2
RoE (%)	11.3	15.1	19.9	21.9	22.6
RoCE (%)	10.4	12.5	17.7	19.6	21.0
Dividend yield (%)	-	-	0.1	0.2	0.2
Net debt / equity (x)	0.6	-0.4	-0.7	-0.7	-0.7

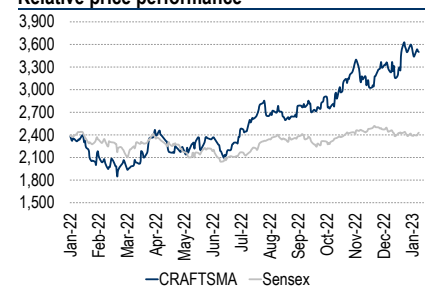
Source: Company, Anand Rathi Research

Key data	CRAFTSMA IN
52-week high / low	Rs.3711 / 1840
Sensex / Nifty	60942 / 18119
3-m average volume	\$3.3m
Market cap	Rs.71bn / \$870.1m
Shares outstanding	21m

Shareholding pattern (%)	Dec'22	Sep'22	Jun'22
Promoters	58.8	58.8	59.5
- of which, Pledged	0	0	0
Free float	41.2	41.2	40.5
- Foreign institutions	9.3	4.3	3.9
- Domestic institutions	15.8	16.3	15.4
- Public	16.1	20.6	21.2

Estimates revision (%)	FY23e	FY24e
Sales	9.2	9.2
EBITDA	-3.7	-1.3
EPS	-13.2	-7.0

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	29,722	32,695	36,562
Growth (%)	4.2	42.7	34.7	10.0	11.8
Raw material cost	6,595	10,308	15,010	16,184	17,733
Employee, other expenses	4,528	6,463	8,025	8,828	9,872
EBITDA	4,340	5,293	6,688	7,683	8,958
EBITDA margins (%)	28.1	24.0	22.5	23.5	24.5
- Depreciation	1,924	2,060	2,273	2,518	2,750
Other income	132	93	90	90	90
Interest expenses	1,073	842	1,153	739	517
Extraordinary items	-	-	-	-	-
PBT	1,476	2,484	3,351	4,516	5,781
Effective tax rates (%)	34	35	25	25	25
+ Associates / (Minorities)	-	-	-	-	-
Net income	968	1,605	2,508	3,379	4,326
Adjusted income	968	1,605	2,508	3,379	4,326
WANS	21	21	21	21	21
FDEPS (Rs / sh)	45.8	76.0	118.7	160.0	204.8

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT	1,476	2,484	3,351	4,516	5,781
+ Non-cash items	1,924	2,060	2,273	2,518	2,750
Oper. prof. before WC	3,400	4,544	5,624	7,034	8,530
- Incr. / (decr.) in WC	519	2,958	166	927	3,423
Others incl. taxes	539	880	844	1,137	1,455
Operating cash-flow	2,341	706	4,615	4,970	3,653
- Capex (tang. + intang.)	1,254	2,469	2,800	2,800	2,500
Free cash-flow	1,088	-1,763	1,815	2,170	1,153
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	-	-	84	113	144
+ 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	169	-44	278

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

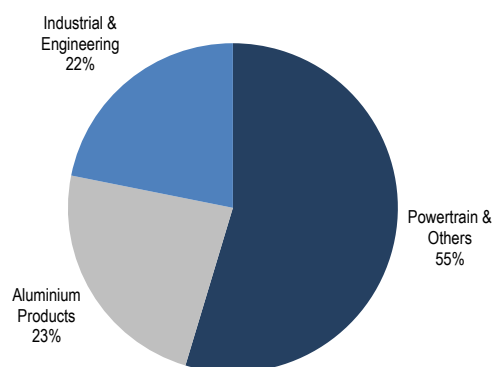
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	106	106	106	106	106
Net worth	9,785	11,422	13,814	17,081	21,262
Debt	5,953	7,156	5,656	3,584	2,884
Minority interest	-	-	-	-	-
DTL / (Assets)	691	1,168	1,168	1,168	1,168
Capital employed	16,429	19,746	20,637	21,832	25,314
Net tangible assets	14,203	14,537	15,064	15,346	15,097
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 (ex cash)	8,326	11,191	14,339	14,942	17,770
Cash	417	367	536	492	770
Current liabilities	7,187	7,094	10,076	9,751	9,156
Working capital	1,139	4,098	4,264	5,191	8,613
Capital deployed	16,429	19,746	20,637	21,832	25,314

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	73.1	44.1	28.2	20.9	16.4
EV / EBITDA (x)	16.8	14.0	10.8	9.2	7.8
EV / Sales (x)	4.7	3.4	2.4	2.2	1.9
P/B (x)	6.9	5.9	4.9	3.9	3.2
RoE (%)	11.3	15.1	19.9	21.9	22.6
RoCE (%) - after tax	10.4	12.5	17.7	19.6	21.0
RoIC (%) - after tax	10.8	12.8	18.1	20.1	21.6
DPS (Rs / sh)	-	-	4.0	5.3	6.8
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	-0.7	-0.7	-0.7
Receivables (days)	56	49	50	45	60
Inventory (days)	220	220	200	200	200
Payables (days)	195	165	210	210	200
CFO : PAT %	242.0	44.0	184.0	147.1	84.4

Source: Company, Anand Rathi Research

Fig 6 – Q3 FY23 revenue mix



Source: Company

Result highlights

Fig 7 – Quarterly performance

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net sales	5,516	6,544	6,758	7,713	7,476
YY (%)	13.7	22.3	56.6	35.6	35.5
Q/Q (%)	(3.0)	18.6	3.3	14.1	(3.1)
Other operating income	-	-	-	-	-
Income	5,516	6,544	6,758	7,713	7,476
YY (%)	13.7	22.3	56.6	35.6	35.5
Q/Q (%)	(3.0)	18.6	3.3	14.1	(3.1)
Expenditure					
(Incr.) / decr. in stock-in-trade	(136)	(26)	(70)	(104)	(216)
Materials	2,663	3,251	3,302	4,054	3,994
% of sales	45.8	49.3	47.8	51.2	50.5
YY (%)	24.3	39.0	67.5	50.4	49.5
Q/Q (%)	(3.8)	27.6	0.2	22.2	(4.3)
Gross margins (%)	54.2	50.7	52.2	48.8	49.5
Gross profit	2,988	3,319	3,527	3,763	3,698
Staff cost	530	459	565	573	574
% of sales	9.6	7.0	8.4	7.4	7.7
YY (%)	12.6	4.0	41.5	21.3	8.3
Q/Q (%)	15.6	(13.5)	23.1	1.5	3.3
Other expenditure	1,189	1,323	1,328	1,489	1,543
% of sales	21.6	20.2	19.6	19.3	20.6
YY (%)	25.4	(0.8)	42.9	28.1	29.7
Q/Q (%)	5.5	11.2	0.4	12.1	6.9
Total expenses	4,247	5,006	5,124	6,012	5,895
EBITDA	1,269	1,538	1,634	1,701	1,581
YY (%)	23.0	2.5	54.4	19.2	38.8
Q/Q (%)	(11.1)	21.1	6.3	4.1	(7.0)
OPM (%)	23.0	23.5	24.2	22.1	21.2
Other income	20	53	13	17	46
Interest	202	238	254	233	296
Depreciation	521	545	532	547	538
Exceptional items	566	808	861	939	794
Profit before tax	566	808	861	939	794
Provision for taxation	198	294	305	333	281
Tax rate (%)	35.0	36.4	35.5	35.4	35.4
Profit after tax before prior period expenses	368	514	556	606	512
PAT	368	514	556	606	512
YY (%)	(12.3)	9.8	143.3	22.6	39.1
Q/Q (%)	(25.5)	39.5	8.2	9.0	(15.5)
PAT margin %	6.7	7.9	8.2	7.9	6.9
Adj. PAT	368	514	556	606	512
YY (%)	(12.3)	9.8	143.3	22.6	39.1
Q/Q (%)	(25.5)	39.5	8.2	9.0	(15.5)
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	17.43	24.3	26.32	28.69	24.26
Adj. EPS Rs	17.43	24.3	26.32	28.69	24.26

Source: Company

Valuations

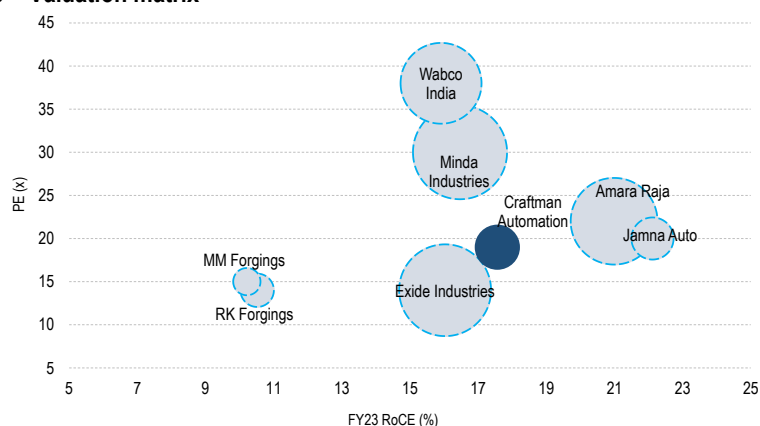
We expect an 18% revenue CAGR over FY22-25, and 39% earnings growth, leading to an EPS of Rs204.8. We maintain a Buy rating, with a revised target price of Rs.3,891 (19x FY25e).

Fig 8 – Change in estimates

(Rsm)	Old estimates		Revised Estimates		Change (%)	
	FY23	FY24	FY23	FY24	FY23	FY24
Revenue	27,226	29,948	29,722	32,695	9.2	9.2
EBITDA	6,943	7,787	6,688	7,683	-3.7	-1.3
Adj. PAT	2,891	3,633	2,508	3,379	-13.2	-7.0
EPS (Rs)	137	172	119	160	-13.2	-7.0

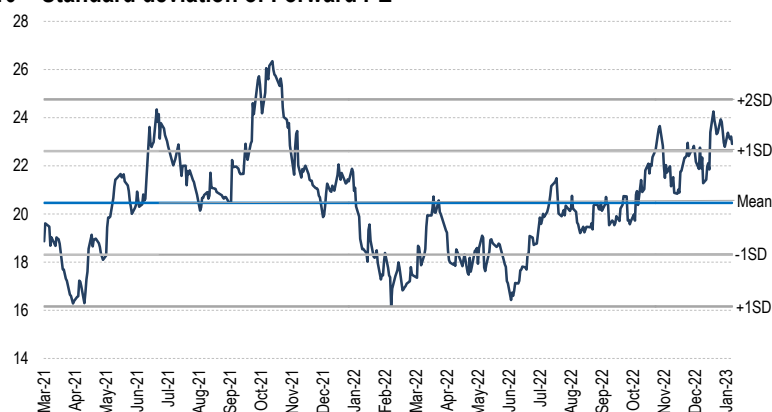
Source: Anand Rathi Research

Fig 9 – Valuation matrix



Source: Bloomberg, Anand Rathi Research

Fig 10 – Standard deviation of Forward PE



Source: Bloomberg, Anand Rathi Research

Risk

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

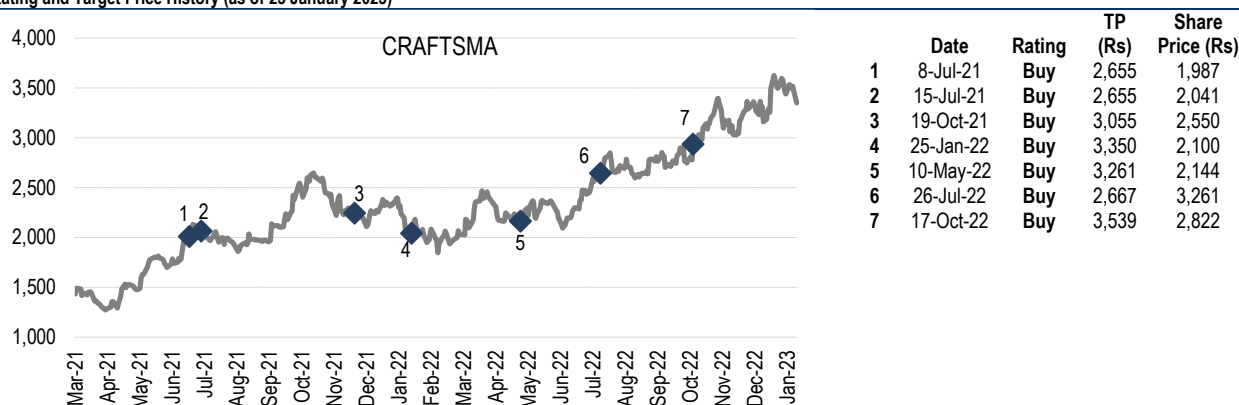
Appendix

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