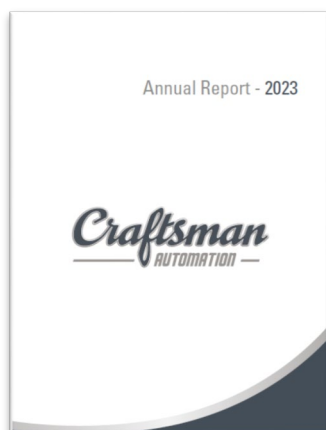


# Craftsman Automation

**CMP: INR4,099**

**TP: INR4,750 (+16%)**

**Buy**



Motilal Oswal values your support in the Asiamoney Brokers Poll 2023 for India Research, Sales, Corporate Access and Trading team. We [request your ballot](#).



Bloomberg	CRAFTSMA IN
Equity Shares (m)	21
M.Cap.(INRb)/(USDb)	86.6 / 1.1
52-Week Range (INR)	4139 / 2145
1, 6, 12 Rel. Per (%)	16/22/68
12M Avg Val (INR M)	194
Free float (%)	41.2

## Financials & Valuations (INR b)

INR b	FY23	FY24E	FY25E
Sales	31.8	46.0	51.6
EBITDA	6.8	9.6	11.2
Adj. PAT	2.5	3.7	4.8
EPS (INR)	117.6	174.6	226.5
EPS Gr. (%)	54.8	48.5	29.7
BV/Sh. (INR)	652	813	1,021

## Ratios

RoE (%)	19.7	23.8	24.7
RoCE (%)	14.3	17.8	18.8
Payout (%)	9.6	8.0	7.9

## Valuations

P/E (x)	34.9	23.5	18.1
P/BV (x)	6.3	5.0	4.0
Div. Yield (%)	0.3	0.3	0.4
FCF Yield (%)	3.1	2.8	5.3

## Intense focus on promoting diversity in business

**Making inroads in the EV segment | Healthy order wins across businesses**

CRAFTSMAN AUTOMATION (CRATFSMA)'s FY23 annual report highlights its initiatives to promote diversity in its business and reduce dependence on certain segments, which have started to reflect in further revenue diversification. The recent acquisition of DR Axion (DRA) has substantially enhanced the salience of PVs (to 30% from 7%) and reduced dependence on CVs (to 22% from 29%). More importantly, this has been achieved despite growing and winning orders in legacy businesses of CV powertrain. Further, CRAFTSMA started making inroads in the EV segment in both powertrain as well as aluminum divisions in FY23. With most of the order wins having started production (SoP) in late-FY23 or in FY24, the sustenance of growth visibility is high. We marginally raise our earnings estimates by ~1%/3% for FY24/25 to factor in the ramp-up in aluminum business. We also increase our target multiple to 20x from 18x to factor in the continued strong growth momentum as well as capital efficiencies. Reiterate BUY with a TP of INR4,750 (based on 20x Jun'25E consolidated EPS).

## Prime focus on promoting diversity in business model

- CRAFTSMA's focus on diversity has continued to evolve as a key organizational priority. It is constantly seeking opportunities to widen its sectoral footprint. The company is retooling its operations and processes to embed diversity within each of its businesses. It has entrenched diversity as a goal within business verticals and team objectives as well as performance reviews, with a meaningful accountability for driving change.
- In Powertrain business, it strengthened its presence in the farm, off-highway equipment and PVs to reduce its dependence on CVs. Further, it made inroads into the nascent electric CV segment.
- The recent acquisition of DR Axion (DRA) has helped the company diversify its aluminum business in favor of the PV segment.
- In Storage Solutions business, it de-risked its strong presence in the e-commerce space by expanding into new sectors such as cold storage, multi-commodity storage, record management and the private sector.

## Making inroads in the EV segment

- In Powertrain business, CRAFTSMA widened its footprint in the electric CV segment with two engagement wins through its foundry partner.
- In the Aluminum business, it received an order from a global OEM to machine bracket housing for a pick-up truck.
- In the Aluminum business, it received an order from a global OEM to machine an e-axle housing for an EV.
- In the Aluminum business, it won business engagements with two domestic e-2W manufacturers. The parts have been developed and approved and commercial production is scheduled post-FY24.

**Jinesh Gandhi – Research Analyst** (Jinesh@MotilalOswal.com)

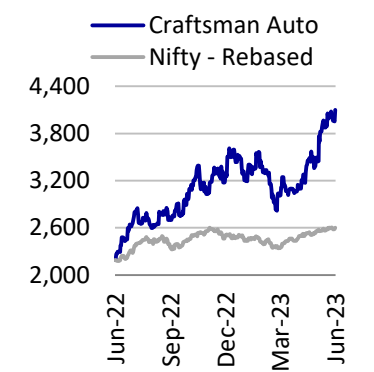
**Research Analyst: Amber Shukla** (Amber.Shukla@MotilalOswal.com) | **Aniket Desai** (Aniket.Desai@MotilalOswal.com)

**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Shareholding pattern (%)**

As On	Mar-23	Dec-22	Mar-22
Promoter	58.8	58.8	59.8
DII	16.6	15.8	14.8
FII	8.8	9.3	3.6
Others	15.9	16.1	21.9

**Stock Performance (1-year)****Auto Powertrain – Diversification beyond CVs through new orders...**

- To reduce its dependence on the CV sector, the company is actively engaging with players in other automotive segments, namely tractors, construction equipment, and PVs. It has been successful in securing order wins from all three segments.
- In tractors, the company further gained traction due to: a) engagement with a tier-1 supplier of a global OEM for three engine programs (SoP during end-FY23), b) development of (casting and machining) the engine head, block, and bed plate for compliance with new emission norms for a leading domestic tractor OEM (validation ongoing), and c) increase in content led by the TREM-4/5 norms.
- In the off-highway segment, it received: a) a sizeable order from a leading global player for machining the cylinder block & head, as well as for machining the fully-finished crankcases for an industrial engine that was being imported into India earlier (SoP in FY24), and b) an order for machining the cylinder block of an air-cooled engine for industrial application for a prominent Indian player.
- In PVs, the company has won orders for: a) fully-machined cylinder blocks for a domestic OEM for its SUV model, b) machined engine components for a European PV OEM in India, and c) machining and localizing the previously imported engine block for a global PV player operating in India (SoP in FY24).

**...while ICE CV order wins continue for India as well as exports**

- For a large domestic OEM, CRAFTSMA re-imagined one of its engines for its commercial vehicle (pick-up truck). This program has been approved and commercial production started towards end-FY23.
- For a large CV player, the company scaled up a new powerful engine for which it secured 100% business. It also developed castings for the gearbox of the new engine.
- Through its foundry partner, CRAFTSMA received multiple machining programs for automotive parts; batch production of the same started towards end-FY23.
- The company also won new orders for 4-cylinder and 6-cylinder heads for a German OEM.
- CRAFTSMA received an order from a Japanese player for machining four variants for Block and Head. This work is in progress currently.
- It has setup a cylinder block machining line for the BSVI program for a Japanese OEM. Besides, it also won orders for the BSIII and BSIV engines for exports to Africa.
- Through its strategic foundry tie-up with a leading player, CRAFTSMA received orders for machining the bogie suspension bracket for multiple domestic OEMs.
- It received an order from a global OEM to machine an engine block for a 6-cylinder engine to be used during the next emission norms.

**Aluminum: Ramp-up along with order wins continues**

- The Aluminum segment grew 34% YoY in FY23 driven by increasing wallet share with existing clients and improving the proportion of value-added products in the sales mix.
- CRAFTSMA received large orders, especially from CV players, to be developed using the Gravity Casting and Sand Casting routes.
- In the PV segment, it received an order to ramp-up production of an engine part for a global multi-branded OEM. The company is also developing newer parts for this customer. The parts are currently under validation. It has installed a dedicated line for the new parts with commercial production to commence in FY24E.
- CRAFTSMA developed a niche product for the farm segment, which was earlier made from iron casting, with commercial production expected in FY24.
- Industrial segment: To de-risk its over-dependence on the Power Transmission segment, the company established a foothold in Marine Transmission and Compressor components business via recent order wins.
- CRAFTSMA entered into interesting engagements via: a) an order from a domestic power transmission customer with a product basket where more than 75% of the products are qualified for exports (to start in FY24), and b) development of the three parts of marine transmission housing for a reputed US customer.
- It is also developing parts for diverse sectors, namely furniture, elevator, escalator and white goods, which are exported to global customers. The company has received interesting RFQs from the EU and North America, which could translate into growth opportunities in the medium term.

**Industrial & Engineering: Benefitting from a capex recovery and localization opportunities**

- In addition to benefitting from a capex recovery, the high-end sub-assembly business is eyeing for emerging opportunities driven by: a) localization and import substitution – especially in gears and gearboxes – where imports constitute 35% of demand, b) increasing machining opportunities in renewables and capital goods, and c) establishment of a precision heavy parts manufacturing facility and ongoing production for wind mill components, machine beds, machine columns and other heavy machine components.
- In Gears & Gearboxes business, CRAFTSMA utilized the vacant capacity to manufacture value-added gearboxes, which were earlier outsourced. It manufactured mid-size windmill precision gearbox assembly.
- In Material Handling Equipment business, the company expanded its product offerings as well as capacities in both categories, viz., Rope Hoists and Chain Hoists. The Rope Hoist range was expanded from 10-12 ton lifting capacity to 10-15 ton, 20-25 ton and 50-ton capacities. In the Chain Hoist category, it provided products that can lift up to 3,000 kgs (v/s up to 1,000 kgs earlier).
- In Tool Room & Mould Base business, CRAFTSMA successfully manufactured the biggest die ever, which goes into 3,200 ton high- pressure die-casting machines. These large dies were manufactured to cater to the requirements of one of the largest CV OEMs in the world and one of the largest farm equipment

manufacturers in India. This achievement has marked a new beginning in manufacturing of 3,200 tonnage high-pressure machine dies in-house.

- The Storage Solutions business reconfigured its marketing strategy, to adapt to the changing trends in the warehousing industry, helping it to widen its territory and sectoral presence. In addition to strengthening its presence in the e-commerce segment, CRAFTSMA has secured business from sectors such as Pharma, Auto, 3PL logistics and cold storage, thereby expanding its addressable market. The company launched multiple new products in its automated storage solutions segment aligned to customer requirements.

#### Valuation & view

- We marginally raise our earnings estimates by ~1%/3% for FY24/25 to factor in the ramp-up in the aluminum business.
- CRAFTSMA's track-record of creating and gaining market leadership organically is uncommon in the Auto Component industry. This has enabled it to deliver a healthy balance of strong growth and superior capital efficiencies.
- However, the same is yet to fully reflect in its valuations of 23.5x/18.1x FY24E/FY25E consolidated EPS.
- We estimate a consolidated revenue/EBITDA/PAT CAGR of 27%/28%/ 39% over FY23-25 (partly due to the full-year consolidation of DRA).
- We increase our target multiple to 20x from 18x to factor in the continued strong growth momentum as well as capital efficiencies. **Reiterate BUY with a TP of INR4,750 (based on 20x Jun'25E consolidated EPS).**

Exhibit 1: DRA acquisition will make PV segment the biggest for CRAFTSMA

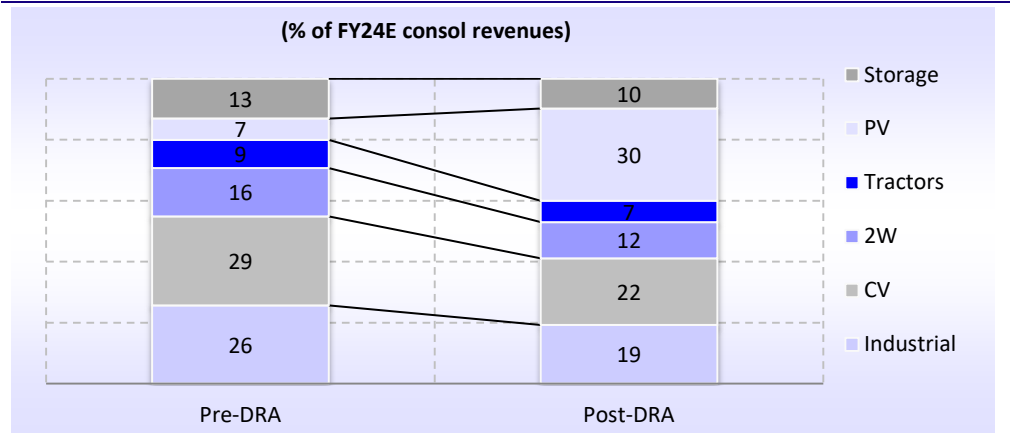


Exhibit 2: FY24E product wise mix % (pre-acquisition)

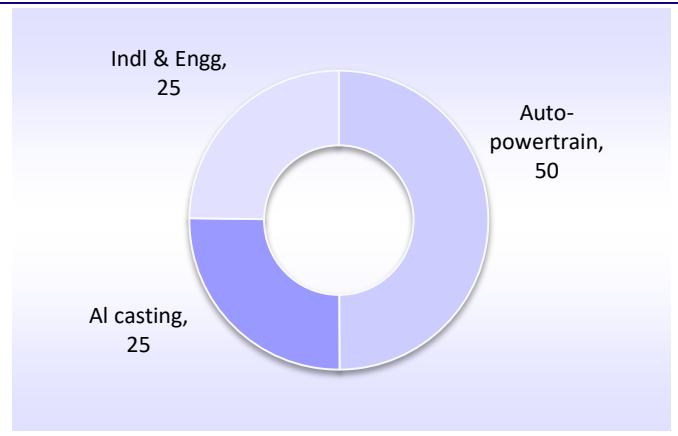


Exhibit 3: FY24E product wise mix % (post-acquisition)

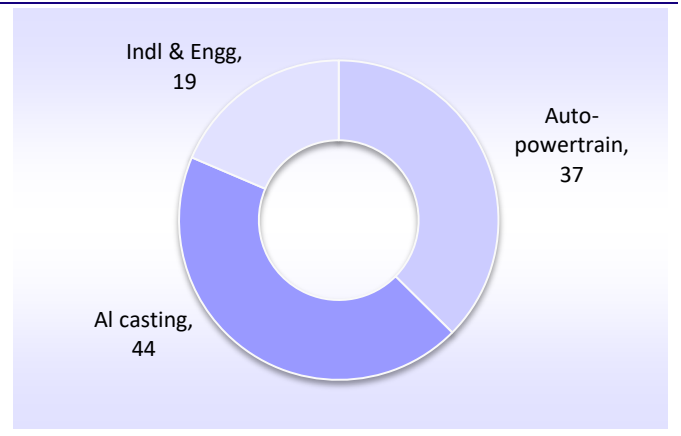


Exhibit 4: FY24E aluminum segment mix % (pre-DRA)

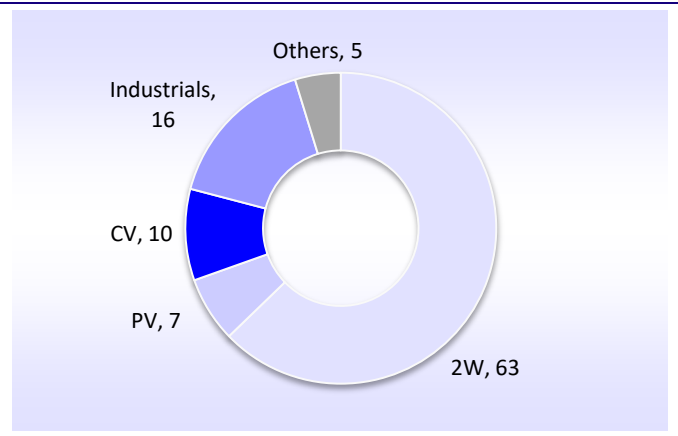
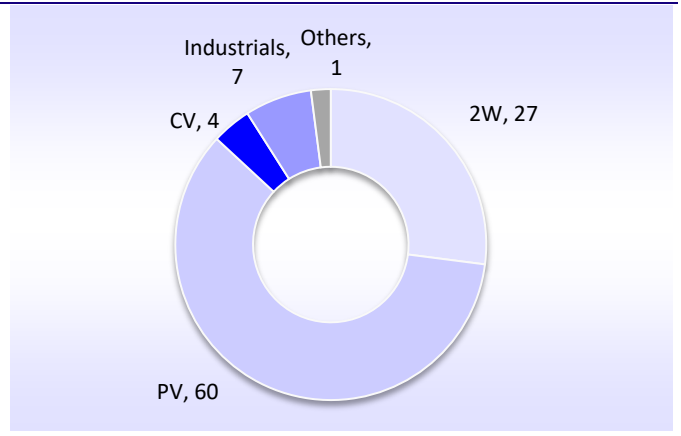
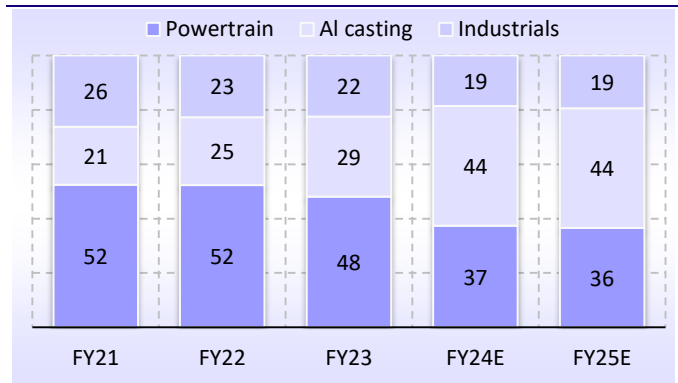


Exhibit 5: FY24E aluminum segment mix % (post-DRA)

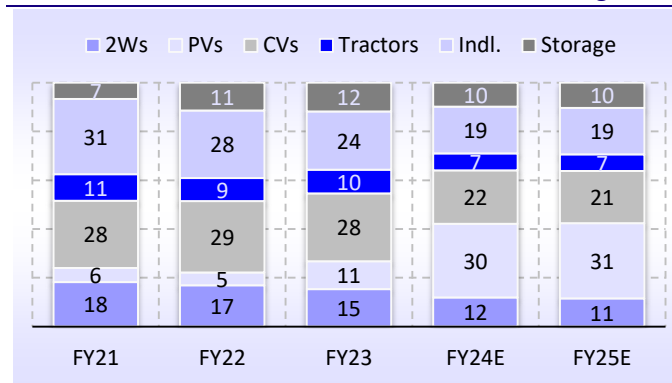


## Key operating indicators

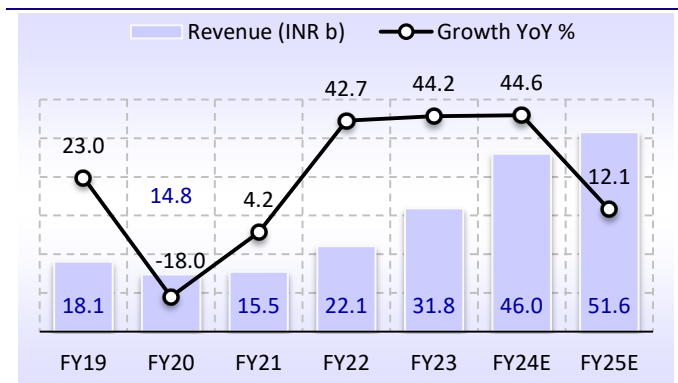
**Exhibit 6: Consolidated sales mix trend across business division**



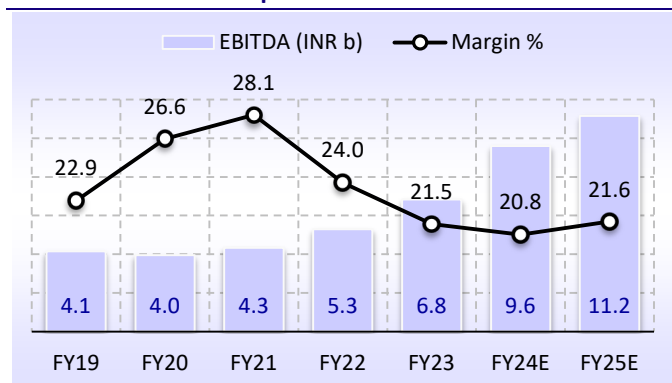
**Exhibit 7: Consolidated sales mix trend across end-segments**



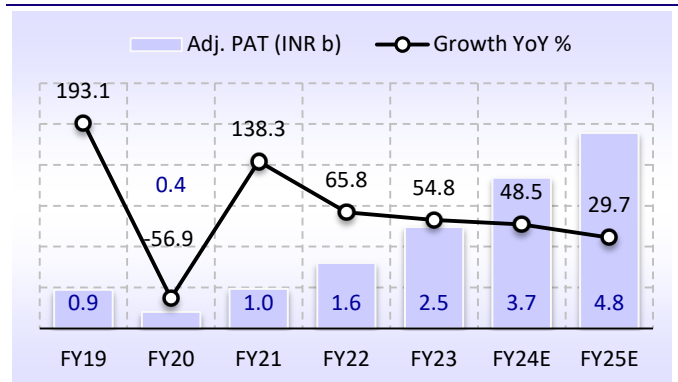
**Exhibit 8: Consolidated revenue to post ~27% CAGR over FY23-25E**



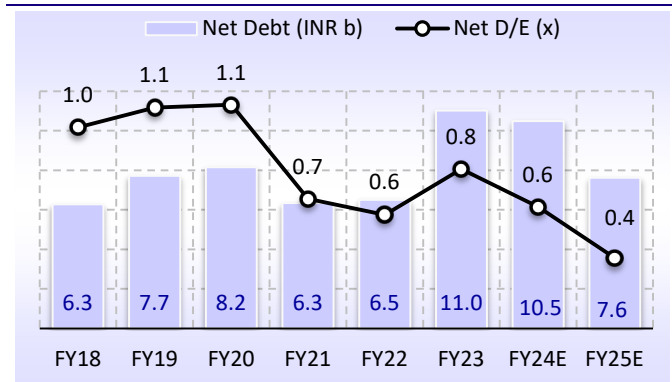
**Exhibit 9: EBITDA to post ~28% CAGR over FY23-25E**



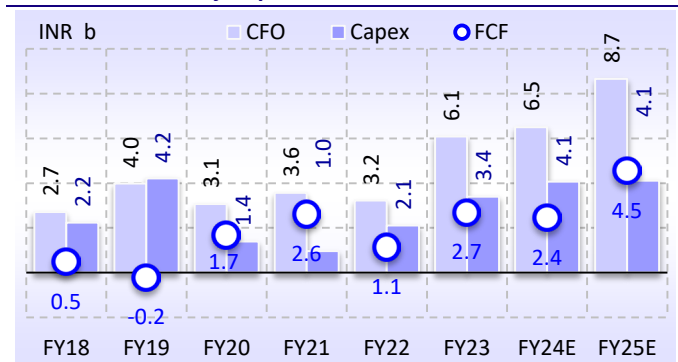
**Exhibit 10: PAT expected to clock 39% CAGR over FY23-25E**



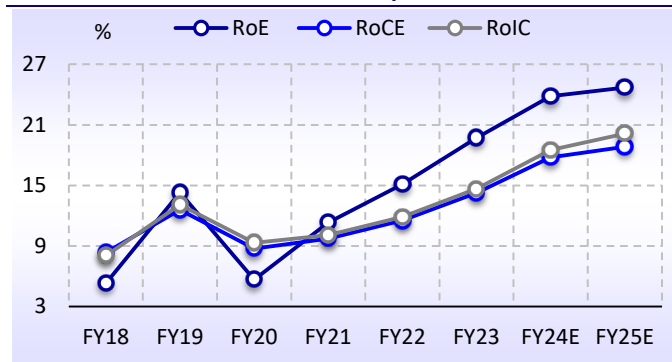
**Exhibit 11: The company likely to reduce its debt level**



**Exhibit 12: CFO to jump ~1.4x over FY23-25E...**



**Exhibit 13: ...that should result in improvement in return ratios**



Source: Company, MOFSL

Source: Company, MOFSL

## Financials and valuations

Income Statement (Consol)								(INR Million)	
Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
<b>Net Revenues</b>	<b>10,927</b>	<b>14,709</b>	<b>18,096</b>	<b>14,834</b>	<b>15,463</b>	<b>22,064</b>	<b>31,826</b>	<b>46,020</b>	<b>51,568</b>
Change (%)		34.6	23.0	-18.0	4.2	42.7	44.2	44.6	12.1
<b>EBITDA</b>	<b>2,226</b>	<b>2,750</b>	<b>4,145</b>	<b>3,951</b>	<b>4,340</b>	<b>5,293</b>	<b>6,836</b>	<b>9,595</b>	<b>11,155</b>
EBITDA Margin (%)	20.4	18.7	22.9	26.6	28.1	24.0	21.5	20.8	21.6
Change (%)		23.5	50.7	-4.7	9.9	22.0	29.2	40.4	16.3
Depreciation	1,122	1,361	1,583	1,963	1,924	2,060	2,216	2,774	3,084
<b>EBIT</b>	<b>1,105</b>	<b>1,390</b>	<b>2,562</b>	<b>1,988</b>	<b>2,416</b>	<b>3,233</b>	<b>4,620</b>	<b>6,821</b>	<b>8,072</b>
EBIT Margins (%)	10.1	9.4	14.2	13.4	15.6	14.7	14.5	14.8	15.7
Interest cost	896	1,091	1,309	1,486	1,073	842	1,202	1,740	1,527
Other Income	114	151	127	92	132	93	125	149	226
Non-recurring Expense	0	0	0	58	0	0	0	0	0
<b>PBT</b>	<b>323</b>	<b>450</b>	<b>1,380</b>	<b>536</b>	<b>1,476</b>	<b>2,484</b>	<b>3,543</b>	<b>5,230</b>	<b>6,771</b>
Tax	-431	129	438	169	508	880	1,038	1,348	1,744
Eff. Tax Rate (%)	-133.3	28.6	31.7	31.6	34.4	35.4	29.3	25.8	25.8
<b>PAT</b>	<b>754</b>	<b>321</b>	<b>942</b>	<b>367</b>	<b>968</b>	<b>1,605</b>	<b>2,505</b>	<b>3,882</b>	<b>5,028</b>
Change (%)		-57.4	193.1	-61.1	164.0	65.8	56.1	55.0	29.5
% of Net Sales	6.9	2.2	5.2	2.5	6.3	7.3	7.9	8.4	9.7
Minority Interest		-	-	-	-	-	20.9	193.6	243.1
<b>Adj. PAT</b>	<b>754</b>	<b>321</b>	<b>942</b>	<b>406</b>	<b>968</b>	<b>1,605</b>	<b>2,484</b>	<b>3,688</b>	<b>4,784</b>
Change (%)		-57.4	193.1	-56.9	138.3	65.8	54.8	48.5	29.7

Balance Sheet (Consol)								(INR Million)	
Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
<b>Sources of Funds</b>									
Share Capital	58	101	101	101	106	106	106	106	106
Reserves	5,845	6,070	6,909	7,216	9,679	11,316	13,663	17,056	21,460
<b>Net Worth</b>	<b>5,902</b>	<b>6,170</b>	<b>7,010</b>	<b>7,317</b>	<b>9,785</b>	<b>11,422</b>	<b>13,769</b>	<b>17,162</b>	<b>21,566</b>
Minority interest	0	0	0	0	0	0	610	804	1,047
Deferred Tax	341	328	375	398	691	1,168	1,411	1,397	1,397
Loans	6,577	7,024	8,282	9,126	7,035	7,156	11,527	11,540	10,490
<b>Capital Employed</b>	<b>12,820</b>	<b>13,523</b>	<b>15,667</b>	<b>16,840</b>	<b>17,511</b>	<b>19,746</b>	<b>27,317</b>	<b>30,902</b>	<b>34,500</b>
<b>Application of Funds</b>									
Gross Fixed Assets	14,267	15,910	19,614	22,072	23,360	25,464	31,256	35,249	38,974
Less: Depreciation	1,989	3,316	4,708	6,615	8,255	10,026	11,917	14,619	17,322
<b>Net Fixed Assets</b>	<b>12,278</b>	<b>12,594</b>	<b>14,907</b>	<b>15,457</b>	<b>15,105</b>	<b>15,438</b>	<b>19,339</b>	<b>20,630</b>	<b>21,652</b>
Capital WIP	112	243	906	888	320	420	966	967	967
Investments	108	110	91	256	282	282	34	284	284
Goodwill							1,900	1,900	1,900
<b>Curr.Assets, L &amp; Adv.</b>	<b>5,866</b>	<b>6,683</b>	<b>6,589</b>	<b>6,599</b>	<b>7,909</b>	<b>10,700</b>	<b>15,828</b>	<b>18,235</b>	<b>22,095</b>
Inventory	2,180	2,907	3,120	3,142	3,976	6,206	8,360	9,612	10,771
Sundry Debtors	1,755	2,045	2,109	1,937	2,355	2,942	5,353	6,304	7,064
Cash & Bank Balances	511	642	477	711	417	367	473	772	2,589
Loans & Advances	1,420	1,090	883	809	1,161	1,185	1,641	1,547	1,671
<b>Current Liab. &amp; Prov.</b>	<b>5,544</b>	<b>6,107</b>	<b>6,825</b>	<b>6,360</b>	<b>6,105</b>	<b>7,094</b>	<b>10,750</b>	<b>11,113</b>	<b>12,399</b>
Sundry Creditors	3,005	3,626	3,307	2,833	3,523	4,654	7,116	7,721	8,652
Other Liabilities	2,520	2,437	3,464	3,501	2,544	2,393	3,566	3,281	3,624
Provisions	19	43	54	26	38	47	68	112	123
<b>Net Current Assets</b>	<b>322</b>	<b>576</b>	<b>-237</b>	<b>239</b>	<b>1,804</b>	<b>3,606</b>	<b>5,078</b>	<b>7,121</b>	<b>9,696</b>
<b>Application of Funds</b>	<b>12,820</b>	<b>13,523</b>	<b>15,667</b>	<b>16,840</b>	<b>17,511</b>	<b>19,746</b>	<b>27,317</b>	<b>30,903</b>	<b>34,500</b>
E: MOSL Estimates	0								



## Financials and valuations

### Ratios

Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
<b>Basic (INR)</b>									
<b>EPS</b>	<b>65.6</b>	<b>16.0</b>	<b>46.8</b>	<b>20.2</b>	<b>45.8</b>	<b>76.0</b>	<b>117.6</b>	<b>174.6</b>	<b>226.5</b>
EPS Growth (%)		-75.6	193.1	-56.9	127.0	65.8	54.8	48.5	29.7
Cash EPS	163.1	83.6	125.5	115.8	136.9	173.5	223.5	315.2	384.1
Book Value per Share	513.2	306.7	348.4	363.7	463.3	540.8	651.9	812.6	1,021.1
DPS	0.0	0.0	0.0	0.0	0.0	3.8	11.3	14.0	18.0
Payout (Incl. Div. Tax) %	0.0	0.0	0.0	0.0	0.0	4.9	9.6	8.0	7.9
FCF per share		23.8	-11.4	83.0	123.1	53.1	126.9	115.4	215.3
<b>Valuation (x)</b>									
P/E	62.5	256.7	87.6	203.1	89.5	54.0	34.9	23.5	18.1
Cash P/E	25.1	49.0	32.7	35.4	29.9	23.6	18.3	13.0	10.7
EV/EBITDA	23.9	32.3	21.8	22.9	21.4	17.6	14.3	10.1	8.4
EV/Sales	4.9	6.0	5.0	6.1	6.0	4.2	3.1	2.1	1.8
Price to Book Value	8.0	13.4	11.8	11.3	8.8	7.6	6.3	5.0	4.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.3	0.4
<b>Profitability Ratios (%)</b>									
RoE	12.8	5.3	14.3	5.7	11.3	15.1	19.7	23.8	24.7
RoCE (post tax)	22.2	8.4	12.6	8.8	9.7	11.5	14.3	17.8	18.8
RoIC	42.6	8.1	13.1	9.3	10.1	11.9	14.7	18.5	20.1
<b>Turnover Ratios</b>									
Debtors (Days)	59	51	43	48	56	49	61	50	50
Inventory (Days)	73	72	63	77	94	103	96	76	76
Creditors (Days)	100	90	67	70	83	77	82	61	61
Working Capital (Days)	11	14	-5	6	43	60	58	56	69
Asset Turnover (x)	0.9	1.1	1.2	0.9	0.9	1.1	1.2	1.5	1.5
Fixed Asset Turnover	1.5	1.0	1.0	0.7	0.7	0.9	1.1	1.4	1.4
<b>Leverage Ratio</b>									
Net Debt/Equity (x)		1.0	1.1	1.1	0.6	0.6	0.8	0.6	0.4

### Cash Flow Statement

(INR Million)

Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Profit before Tax	323	450	1,380	536	1,476	2,484	3,548	5,230	6,771
Depreciation & Amort.	1,122	1,361	1,583	1,962	1,924	2,060	2,216	2,774	3,084
Direct Taxes Paid	-26	-146	-249	-215	-226	-368	-726	-1,348	-1,744
(Inc)/Dec in Working Capital	-298	74	2	-433	-352	-1,519	105	-1,745	-757
Interest/Div. Received	-26	-18	-15	-27	-52	-39	-73	-149	-226
Other Items	1,455	992	1,278	1,238	792	606	1,007	1,740	1,527
<b>CF from Oper. Activity</b>	<b>2,549</b>	<b>2,713</b>	<b>3,979</b>	<b>3,061</b>	<b>3,561</b>	<b>3,224</b>	<b>6,077</b>	<b>6,502</b>	<b>8,654</b>
Extra-ordinary Items	0	0	0	0	0	0	0	0	0
<b>CF after EO Items</b>	<b>2,549</b>	<b>2,713</b>	<b>3,979</b>	<b>3,061</b>	<b>3,561</b>	<b>3,224</b>	<b>6,077</b>	<b>6,502</b>	<b>8,654</b>
(Inc)/Dec in FA+CWIP	-3,222	-2,233	-4,209	-1,390	-961	-2,103	-3,396	-4,065	-4,106
<b>Free Cash Flow</b>	<b>-673</b>	<b>479</b>	<b>-230</b>	<b>1,671</b>	<b>2,600</b>	<b>1,121</b>	<b>2,681</b>	<b>2,437</b>	<b>4,548</b>
Interest/dividend received	26	18	15	13	12	14	65	149	226
(Pur)/Sale of Invest.	11	7	37	1	27	28	2	250	0
Others							-3,746		
<b>CF from Inv. Activity</b>	<b>-3,185</b>	<b>-2,208</b>	<b>-4,157</b>	<b>-1,376</b>	<b>-922</b>	<b>-2,061</b>	<b>-7,075</b>	<b>-3,666</b>	<b>-3,880</b>
Issue of Shares	0	0	0	0	1,456	-19	0	0	0
Inc/(Dec) in Debt	1,422	211	2,676	-771	-2,387	10	2,042	13	-1,050
Interest Paid	-893	-1,075	-1,224	-1,377	-1,093	-769	-1,027	-1,740	-1,527
Dividends Paid	-7	-7	-12	-61	0	0	-79	-296	-380
Others	260	479	-1,412	929	-936	-423	0	0	0
<b>CF from Fin. Activity</b>	<b>782</b>	<b>-392</b>	<b>28</b>	<b>-1,280</b>	<b>-2,960</b>	<b>-1,200</b>	<b>936</b>	<b>-2,023</b>	<b>-2,957</b>
<b>Inc/(Dec) in Cash</b>	<b>146</b>	<b>113</b>	<b>-150</b>	<b>405</b>	<b>-322</b>	<b>-37</b>	<b>-63</b>	<b>814</b>	<b>1,817</b>
Add: Beginning Balance	72	217	330	181	585	263	227	164	978
<b>Closing Balance</b>	<b>217</b>	<b>330</b>	<b>180</b>	<b>585</b>	<b>263</b>	<b>227</b>	<b>164</b>	<b>978</b>	<b>2,795</b>
E: MOFSL Estimates									

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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