

Rating: Subscribe for long term

Issue Offer

Issue size: INR 823-824 Cr
No. of shares: 5,529,514 – 5,528,161

Issue Summary

Price Band (INR)	1488-1490
Face Value (INR)	5
Implied Market Cap (INR Cr)	3,144-3,148 cr
Market Lot	10
Issue Opens on	March,15, 2021
Issue Close on	March 17, 2021
No. of share pre-issue	20,121,600
No. of share post issue	21,129,664~ 21,128,311^
Listing	NSE / BSE

~Lower price Band ^ Upper Price Band

Issue Break-up (%)

QIB Portion	50
NIB Portion	15
Retail Portion	35

Book Running Lead Managers

Axis Capital
IIFL Securities

Registrar

Link In Time India Pvt Ltd.

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	63.40%	59.76%
Public & Others	36.60%	40.24%

Objects of the issue

To make repayment/pre-payment of company's borrowing fully or partially.
To meet general corporate purposes.

Craftsman Automation Limited ("Craftsman") Incorporated in 1986, Craftsman Automation Ltd is a leading engineering organization that is engaged in manufacturing precision components. The company designs, develops, and manufactures a range of engineering products. It is one of the leading players in the machining of cylinder blocks for the tractor segment.

The business operates 3 key segments namely Automotive-Powertrain and others, Automotive-Aluminium Products, and Industrial and Engineering division that is engaged in manufacturing material handling equipment i.e. hoists, industrial gears, marine engines, crane kits, gearboxes, locomotive equipment, storage solutions, etc. The company owns 12 state-of-the-art manufacturing facilities across 7 cities of India. Its customer base includes Tata Motors, Daimler India, Tata Cummins, Mahindra & Mahindra, Royal Enfield, Siemens, Escorts, Ashok Leyland, VE Commercial Vehicles, TAFE Motors & Tractors, etc. **Key Highlights**

- Within the Industrial and Engineering segment, Craftsman has developed a diverse product portfolio across 2 sub-segments, namely, (i) the storage solutions sub-segment - the complete solution for conventional/automated storage; and (ii) the high end precision products sub-segment – the aluminium products for power transmission, high-end precision products.
- Diversified across product and end user industries: Cylinder, Cylinder head, Camshafts, Transmission Parts Bearing caps and Turbo charges. Highly engineered products and solutions: High pressure die casting; low pressure die casting and Gravity die casting.
- End User Industries: 2W: Crank case and Cylinder, Passenger Vehicles: Engines & Structural parts. Commercial Vehicles: Gear box housing.
- Key Customers: Daimler India Commercial Vehicles, Royal Enfield, Mahindra and TVS.
- Export: Total export is 19%
- Strategy: Management stated that craftsman business is highly skillful and has a lot of capacities.
- Craftsman has strong and well established relationships with several marquee domestic and global OEMs as well as component manufacturers
- The company has received funding from reputed global investors, International Finance Corporation ("IFC") in 2010 and 2012, and Standard Chartered Private Equity (Mauritius) II Ltd ("SCPE") in 2012 (which transferred its stake to its Affiliate, Marina III Singapore Pte Ltd ("Marina") in 2017. IFC and Marina presently have 14.06% and 15.50% shareholding, respectively, in the company.

Valuation and View:

We believe Craftsman has multiple lever going forward with Tractors/ MHCV industry (both doing well) is in uptrend, capex cycle is almost over with benefits to be seen going forward, Strong margins despite lower revenues in FY20, likely debt reduction with improved free cash flow and diversified client base across segments. Valuations look higher on a trailing basis At the upper price band of INR 1490, issue has been offered at a PE of 73 (x) to its FY20 EPS of INR 20.41, but outlooks remain strong for long term. **We recommend "subscribe" for a long term portfolio.**

Business Operation of the Company

Craftsman has been consistently recognized by customers for the high-quality of the products supplied by them. They are certified for international quality management systems such as ISO 9001:2008, ISO/TS 16949:2009, SO 14001 2004 by TUV Nord, and have implemented environmental management system ISO 14001:2004. As on December 31, 2020, they had a large workforce of 259 management staff, 1,372 permanent workmen, 755 apprentices and 1,214 contract workmen. For their Industrial and Engineering segment, which is a customer oriented business, Craftsman has a marketing and business development team, comprising 30 full time employees as of December 31, 2020, who is responsible for selling their industrial and engineering products.

Details of Revenue from Operations – Business Segment-wise

Particulars	9 Months ended							
	Dec'31		Year Ended March 31					
	2020		2020		2019		2018	
	Revenue (INR in Cr)	% to Total	Revenue (INR in Cr)	% to Total	Revenue (INR in Cr)	% to Total	Revenue (INR in Cr)	% to Total
Automotive - Powertrain & Others	523.74	51.21%	709.29	47.52%	1008.5	55.47%	870.88	57.62%
Automotive - Aluminium Products	215.82	21.10%	257.69	17.27%	308.15	16.95%	235.32	15.57%
Industrial & Engineering	283.22	27.69%	525.49	35.21%	501.36	27.58%	405.33	26.81%
- Storage solutions	57.36	-	73.21	-	26.33	-	7.91	-
- High-end precision products	225.86	-	452.28	-	475.03	-	397.42	-
Total revenue from operations	1022.79	100%	1492.47	100%	1818.01	100%	1511.53	100%

Revenue from operations – Category-wise:

Particulars	9 Months ended			
	Dec'31		Year Ended March 31	
	2020	2020	2019	2018
Sale of products	694.99	986.86	1110.32	926.15
Domestic Sales	594.3	847.54	948.36	798.64
Export Sales	100.69	139.32	161.96	127.51
Sale of services	247.9	385.5	533.68	452.86
Machining Charges	245.2	383.14	532.34	451.78
Service Charges	2.69	2.36	1.33	1.08
Other operating revenues	79.91	120.1	174.01	132.53
Sale of swarf & others	61.1	91.66	142.85	107.78
Duty Drawback	1.65	2.55	3.25	2.58
EPCG income on fulfilling obligation	14.91	22.49	24.06	19.54
Export Incentive under MEIS	2.24	3.4	3.85	2.64
Total Revenue from Operations	1023	1492.47	1818.01	1511.53

Review And Outlook Of India's Powertrain Market

Key players in powertrain and transmission manufacturing and machining across segments

Key Players	Two wheelers/ Three wheelers	Passenger vehicles	Commercial Vehicle	Construction Equipment	Tractor
Avtec Ltd.	✓	✓	✓	✓	✓
Endurance Ltd	✓				
Jaya Hind industries Ltd.	✓	✓	✓	✓	
Sundaram Clayton	✓	✓	✓		
Alicon cast Alloy	✓	✓			
Ashok Iron works				✓	✓
Continental Engines	✓				✓
DCM engineering Products		✓	✓	✓	✓
Hinduja Foundaries		✓	✓	✓	✓
Nelcast			✓		✓
Kirloskar Ferrous Industries		✓	✓	✓	✓
Craftsman Automation Ltd	✓	✓	✓	✓	✓

Peer Comparison

Company FY20	EBITDA		Net income-		ROCE	PAT Margin	CMP	NAV	EPS	PE
	Revenue	EBITDA	Margin	PAT						
Bharat Forge Ltd	8,109.20	1,190.30	15%	341.2	6%	4%	626	112.80	7.51	83
Craftsman Automation Ltd.	1,492.47	406.55	27%	41.07	13.80%	3%	1490	329.73	20.41	73
Endurance Technologies Ltd.	6,926.60	1,145.10	17%	565.5	20%	8%	1397	213.71	40.20	35
Jamna Auto Industries Ltd.	1,134.00	120.7	11%	47.9	11%	4%	70	12.97	1.20	58
Mahindra CIE Automotive Ltd.	7,916.90	976.9	12%	353.8	21%	4%	172	122.26	9.34	18
Minda Industries Ltd.	5,465.40	626.3	11%	187.7	10%	3%	540	80.03	5.91	91
Sundram Fasteners Ltd.	3,723.20	604.4	16%	326.5	14%	9%	730	95.39	2.97	246
Ramkrishna Forgings Ltd.	1,194.50	208.7	17%	9.7	4%	1%	549	268.28	15.46	36

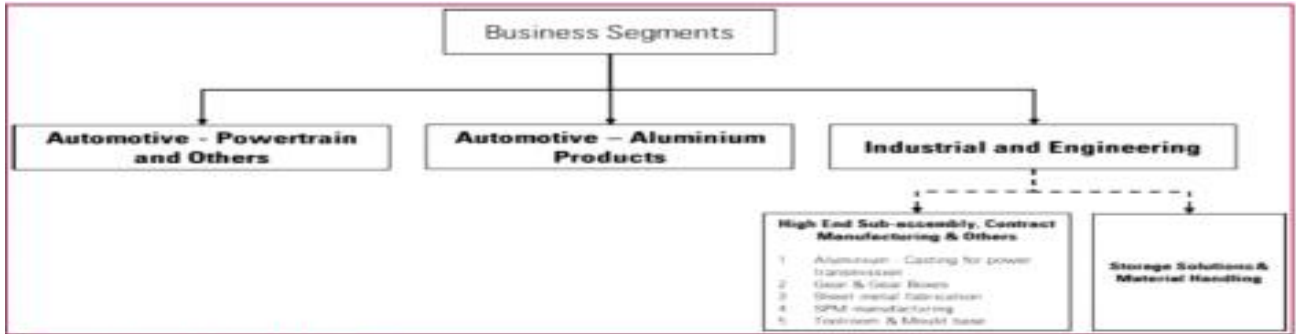
Financial Performance

Particulars (in Cr.)	As at Dec' 31	As at Mar' 31		
	2020(09)	2020(12)	2019(12)	2018(12)
Share Capital	10.06	10.06	10.06	10.06
Reserves#	706.13	653.42	617.78	531.17
Net worth as stated	716.19	663.48	627.48	541.23
Long Term Borrowings	535.08	668.28	693.20	430.33
Short Term Borrowings	156.69	244.27	135.01	272.09
Revenue from Operations	1022.79	1492.47	1818.01	1511.53
Revenue Growth (%)	-	-17.91%	20.28%	-
EBITDA as stated	294.64	406.55	456.68	305.18
EBITDA Margin (%)	28.81%	27.24%	25.12%	20.19%
Net Profit for the period	50.66	41.07	97.37	31.53
Net Profit (%) as stated	4.95%	2.75%	5.36%	2.09%
EPS (INR)	25.18	20.41	48.39	15.67
RONW(%)	7.07%	6.19%	15.15%	5.83%
Net Asset value (INR)	355.93	329.73	312.02	268.98
ROE(%)	7.07%	6.19%	15.51%	5.83%
ROCE (%)	10.55%	13.80%	18.66%	14.00%

Source: RHP *Restated Consolidated, #Reserve excluding Revaluation Reserve. Ratios calculated for Dec'31, 2020 are not annualized

Company Product Portfolio

Company's Business Segments:

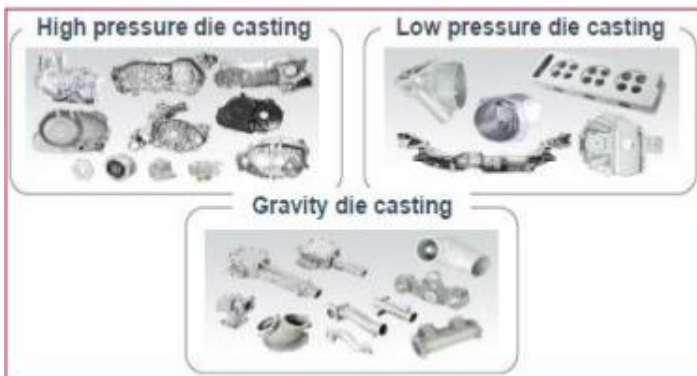


Company product and usage

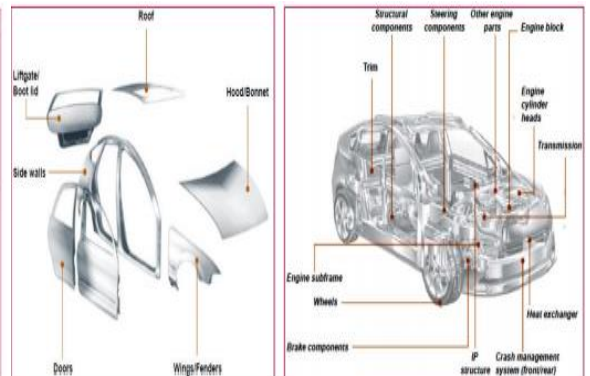
Automotive – Powertrain and Others



Automotive – Aluminium Products: Highly engineered Products and Solutions



Automotive – Aluminium Products: Potential Applications for Aluminium



Industrial and Engineering Segment:



Management

Board of Directors	Description
Srinivasan Ravi	Srinivasan Ravi is the Promoter, Chairman and Managing Director of the company. He has experience of more than 34 years in the automotive industry.
Ravi Gauthamram	Ravi Gauthamram is the Whole-time Director of the company and has been on the Board since February 20, 2014. He has experience in automotive industry. He is engaged in building the product strategy in the industrial and engineering segment of the company. Prior to joining the company, he was associated with Caterpillar India Pvt. Ltd.
Udai Dhawan	Udai Dhawan is the Nominee Director of Marina and has been on the Board since November 25, 2016. He has experience in financial services. He was associated with Standard Chartered Private Equity Advisory (I) Pvt. Ltd., SkyWorks Capital LLC, Kotak Mahindra Capital Company Ltd., Sabre Inc., J.P. Morgan, and Arthur Andersen & Co. in the past.

Covid-19 Impact on Company's Business

On account of the government imposed lockdown in India, operations at all of their manufacturing facilities were temporarily shut down with effect from March 24, 2020 and resumed operations in accordance with permissions from the local authorities. Such disruptions in operations impacted company's business performance during the first quarter of Fiscal 2021 and had caused them to postpone the delivery terms for certain orders. Further, the automotive industry has been significantly impacted, which may have an impact on their revenues as a majority of their customers are from this sector. The pandemic may affect production, create supply chain and market disruption and may result in financial impact. Events beyond their control may unfold in the future, which makes it difficult for them to predict the impact that COVID-19 will have on them, their customers or suppliers in the future.

Competitive Strengths

- **Diversified engineering company with a focus on providing comprehensive solutions and manufacturing high quality, intricate and critical products, components and parts** : Craftsman is the largest player involved in the machining of cylinder blocks and cylinder heads in the intermediate, medium and heavy commercial vehicles segment as well as the construction equipment industry and is also among the top 3-4 players in machining of cylinder blocks for tractor segment in India.
- **Strong in-house process & product design capabilities with the ability to interchange capacity and product mix** : Craftsman is present across various levels of the component value chain, providing products and services that range from product design, prototyping, tool development, manufacturing, assembly and production of integrated components, reducing or minimizing their use of, or reliance on, externally sourced components
- **Their manufacturing automation teams integrate robots and gantry systems, thereby assuring consistent quality and dependability**: Their manufacturing automation teams integrate robots and gantry systems, thereby assuring consistent quality and dependability.
- **Long term and well established relationships with marquee domestic and global OEMs** : Craftsman has strong and well established relationships with several marquee domestic and global OEMs as well as component manufacturers, including certain of their key customers, to which they have been supplying their products and solutions for over 10 years, such as Tata Motors and Tata Cummins.

The details of the sales to the key customers of the revenue from operations are as follows:

Key customers relationship	9 Months ended			
	Dec'31 2020	Fiscal 2020	Fiscal 2019	Fiscal 2018
5 years and less	166.26	241.08	237.47	137.98
More than 5 years but less than 10 years	69.22	109.8	111.79	107.73
10 years and more	560.5	790.95	1024.87	887.24

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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