March 13, 2021

IPO Note

IPO Fact Sheet

Opening Date:	March 15, 2021
Closing Date:	March 17, 2021
BRLMs:	Axis Capital and IIFL Securities
Issue Size:	Rs8.23bn to Rs8.24bn
Numbers of Shares:	~5.5mn
Face value:	Rs5
Bid lot:	10 shares

Indicative Timetable

Activity	Date
Finalisation of Basis of Allotment:	22/03/2021
Refunds/Unblocking ASBA Fund	23/03/2021
Credit of equity shares to DP A/c	24/03/2021
Trading commences	25/03/2021

Issue Structure

QIB	50%
NIB	15%
Retail	35%

Issue Details

Pre-issue equity shares	20,121,600
Post-issue equity shares*	21,128,311
Post-issue Market Cap (Rs Crs)*	Rs3,148
Post-issue Market Cap (Rs Crs)#	Rs3,144

** Upper Band / # Lower Band*

Object of the Issue

Repayment/pre-payment, in full or part, of certain borrowings and General corporate purposes

Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	63.40	59.76
Public	36.60	40.24

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Craftsman Automation

Rating: Subscribe-long term | Price Band: Rs1,488-1,490

A play on deep cyclical CV and tractor segments

We recommend SUBSCRIBE for long term on Craftsman Auto Ltd.'s (Craftsman) IPO given i) positive demand outlook on MHCV/tractor industry (that contributes >70% of revenue pie), ii) healthy financial performance in tough times, iii) robust growth potential in Auto Aluminum as well as storage divisions and iv) expansion in ROCE led by lean capex and debt reduction plans. Despite ~18% revenue decline in FY20, company posted margins of ~27% (highest across Auto Ancillary space). While large part of the capex cycle is now behind, we expect ROCE (currently at ~11%) to improve going forward coupled with anticipated debt reduction (target D/E of ~1x by FY21 end v/s 1.15x currently).

Due to revival of business cycle as it has high dependence on MHCV/tractors, we believe mid-term growth drivers will remain intact. However, challenges such as i) limited product offering in 2W/3W/PVs ii) D/E ratio of ~1.15x (one of the highest across auto ancillary space) and iii) company's inability to de-risk its Automotive powertrain division, stands as clear deterrents in the long run. Against these headwinds, an anticipated post IPO valuation (27-30x of FY23e EPS) on upper band of Rs1,490 issue price, looks iniquitous. This we believe is not cheap as compared to other ancillary companies such as Endu (~21x), MSS (~22x) and BHFC (~26x). While listing gains in our view looks obscure, we recommend Subscribe for long term.

- **Mid-term growth drivers intact-** MHCVs and tractor contributes >70% of the total revenue. Consequently, higher dependency on MHCVs (already in upcycle phase) and tractors (healthy demand outlook in near term) should result in healthy growth prospects in the near to mid-term.

- **Auto aluminium and Storage solution divisions at nascent stage-** Both the divisions have huge growth potential and contributes ~21% and ~6% of the total revenue pie respectively. Given robust growth opportunities, we believe these business divisions are at nascent stage in India as compared to global industries and the company can harness the opportunities in both segments.

- **Healthy financial performance in challenging times-** Despite ~18% YoY decline in revenue in FY20, Craftsman managed to post EBITDA margin of ~27% in FY20 and ~28% in 9MFY21. With large part of capex cycle now behind coupled with focus on debt reduction, ROCE (which is currently at ~11%) would expand going forward.

- **Needs to focus on diversification-** The company does not have any strong product offerings for other segments such as 2W/3W/PVs which make business deep cyclical. Similarly, company had failed to de-risk its Automotive powertrain division. In fact, the powertrain business mix in total revenue increased to 51% in 9MFY21 from 48% in FY20.

- **Elevated debt levels v/s key peers-** Craftsman has total borrowings of Rs8.9bn as on 9MFY21 with D/E ratio of 1.15x. The company intends to reduce D/E level to ~1x which we believe would still be higher as compared to key peers like BHFC (~0.6x), MSS (~0.5x) Endu (Net cash).

Company Overview

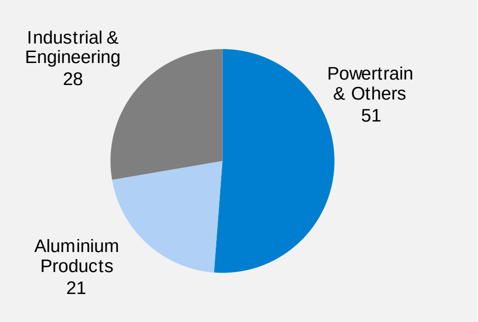
Craftsman Automotive Ltd is a diversified engineering company with vertically integrated manufacturing capabilities. The company commenced its operations in 1986 and is mainly engaged in 3 business verticals- i) Automotive- Powertrain and others ii) Automotive- Aluminium products iii) Industrial & Engineering.

Subsidiaries and JVs:

- **Craftsman Europe B.V**.- A wholly owned overseas subsidiary set up in 2008 in Netherlands engaged in marketing, sales and servicing of marine engines and equipment used in yachts. The products are manufactured in India and exported under the brand name of "Craftsman Marine".
- **Carl Stahl Craftsman Enterprises Pvt. Ltd**.- A JV in India engaged in marketing, installation, commissioning and rendering after-sales services of material handling equipment such as chain hoist, rope hoists and crane kits manufactured under the brand name of "Carl Stahl Craftsman".
- **MC Craftsman Machinery Pvt Ltd.-** A strategic investment where majority holding is with Mitsubishi group which allows access to customers based in Japan and East Asia region.

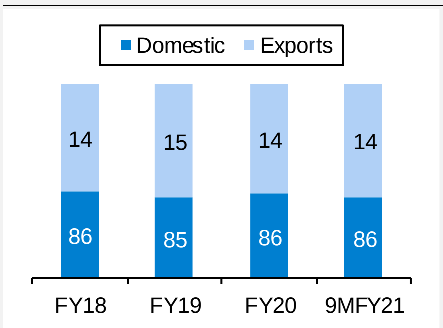
Strategically located manufacturing facilities- It operates through 12 strategically located manufacturing facilities across 7 cities in India. 2 flagship integrated facilities are located at Coimbatore while 2 integrated facilities for aluminium die casting, machining and SPM are located in Bangalore. Other manufacturing facilities are satellite facilities, including 3 facilities in Pune, 2 in Ballabgarh and 1 facility each in Sriperumbudur, Jamshedpur and Pithampur.

Exhibit 1: 9MFY21 Revenue split- Segment wise



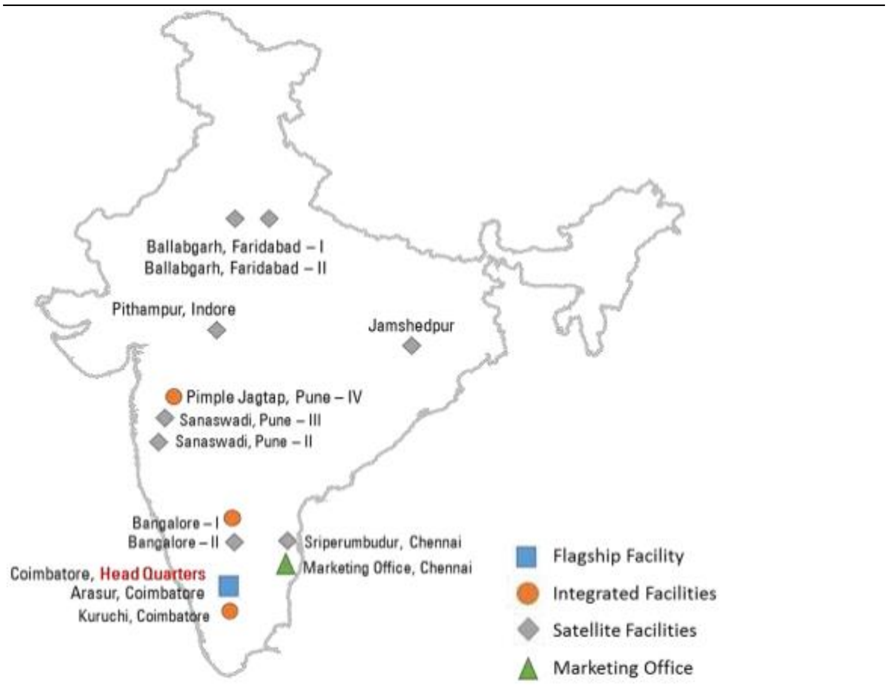
Source: Company, PL

Exhibit 2: FY18-9MFY21 revenue split- Geography wise



Source: Company, PL

Exhibit 3: Manufacturing facilities



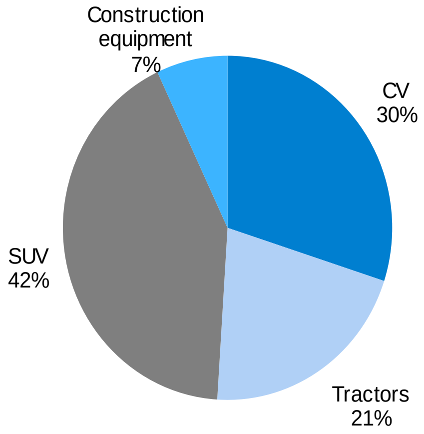
Source: Company, PL

Investment Thesis

Mid-term growth drivers intact:

- MHCVs and tractors have dominant share in overall revenue pie of the company (>70% of the total revenue). Both the segments together contribute around ~51% of the total share of domestic automotive powertrain industry.
- Post lockdown, these segments saw sharp revival. MHCV industry has just entered the upcycle phase and is expected to report healthy double digit growth over next 2 years driven by uptick in economic activities.
- On the other hand, tractor sales recorded 9 consecutive months of YoY growth so far and we believe the momentum should at least continue till Q1FY22. This will be led by positive farm sentiments on account of better crop yield, better government support through higher MSPs and higher procurements.
- With strong growth expectations from underlying sectors, we believe Craftsman can be a pure play for uptick in cyclical industry and hence growth drivers would remain intact in mid-term.

Exhibit 4: CV/Tractor have major revenue share (~51%) in Powertrain industry

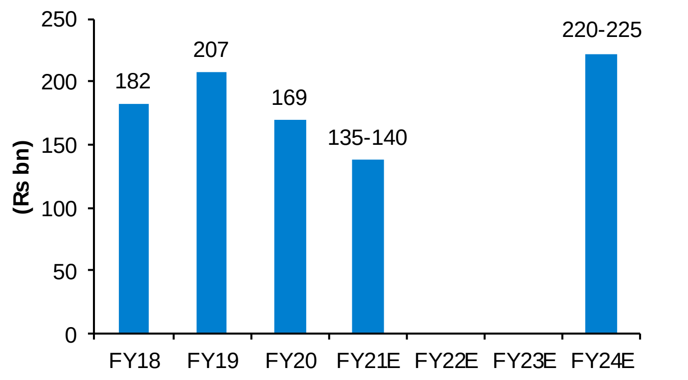


Source: Company, PL

Auto Aluminium and Storage solution at nascent stage:

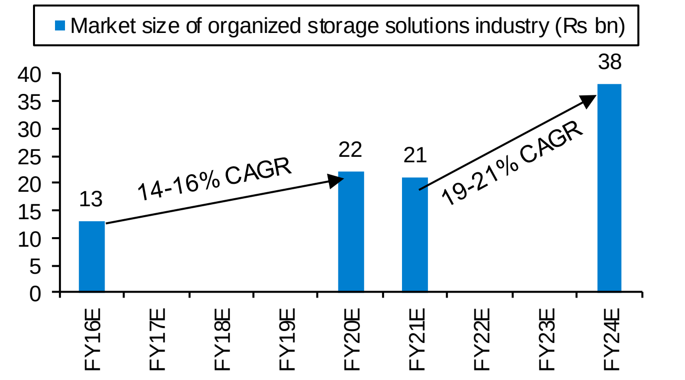
- Craftsman's vertically integrated manufacturing capabilities and high end machining technologies enables it to capitalize on growing opportunities. Automotive Aluminium and Storage solution divisions have huge growth potential and both contributes ~21% and ~6% of the total revenue.
- Advent of more stringent norms such as BS6, upcoming CAFÉ norms and increasing EV penetration will require OEMs to explore various possibilities in light weighting vehicles by using non-ferrous metals like aluminium to reduce carbon emissions. The company has already developed aluminium welding technology which would enable them to offer comprehensive solutions to manufacture structural auto components.
- On the other hand, Craftsman expects storage industry to continue its growth momentum and become an independent business segment over next few years. This will be driven by economic recovery and growth across segments such as FMCG, E-commerce, food and beverages, third party logistics, pharmaceuticals and electronics.

Exhibit 5: Aluminium die casting market to grow 6-8% CAGR



Source: Company, PL

Exhibit 6: Organized storage solution market to grow 19-21%

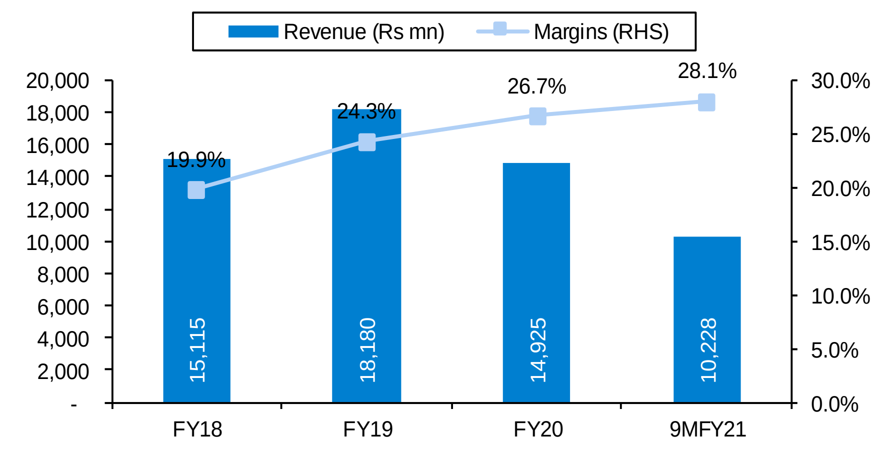


Source: Company, PL

Healthy financial performance in challenging times:

- Despite ~18% YoY revenue decline in FY20 (due to subdued industry demand and COVID-19 impact), Craftsman managed to report almost flattish revenue grow of -0.6% CAGR over FY18-20. Conversely, it reported EBITDA/PAT CAGR of ~16%/14% respectively over FY18-20.
- Amidst the challenging business development due to overall economic slowdown, scheduled BS6 adoption and COVID-19 pandemic, the company maintained an EBITDA margin of ~27% in FY20 (highest across the peer group) and ~28% in 9MFY21. This was due to their strong process controls resulting in better operating efficiencies.
- ROCE on the other hand remained comparatively lower. In FY20, the company reported ROCE of ~10% lower than key auto ancillary players such as Endu (~20%) and MCIE (~21%). However, with large part of capex cycle now behind coupled with focus on debt reduction, ROCE would expand going forward.

Exhibit 7: Reported ~24%/27% margins in FY19/20 (highest across auto ancs)

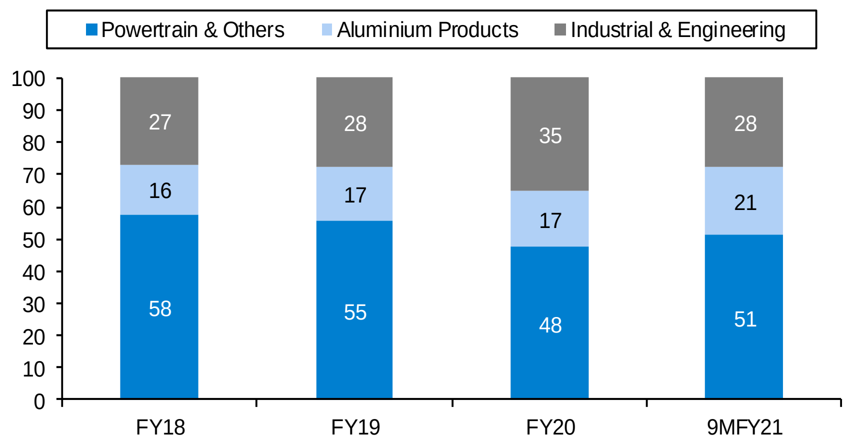


Source: Company, PL

Needs to focus on diversification:

- Craftsman doesn't have any strong product offerings for other segments like 2W/3W/PVs, which generally makes any business deep cyclical. Though this might benefit the company in near to mid-term (considering strong demand outlook), but lack of diversification might haunt company's operations in the long run.
- Craftsman had also failed to de-risk its Automotive powertrain division. In fact, the powertrain business mix in total revenue increased to 51% in 9MFY21 from 48% in FY20. As this division is highly prone to EVs, company financials might take a hit in the long run.
- Under Industrial division too, company doesn't have any strong offerings except for storage solution division which contributes merely <6% of the total revenue.
- We believe company should consider diversification into new segments such as 2W/3W/PVs to expand their product mix. Also, focusing on strategy of desrisking Automotive powertrain business will reduce the overdependence on the cyclical segments in the long run.

Exhibit 8: Segmental share of revenue (%) over FY18-9MFY21

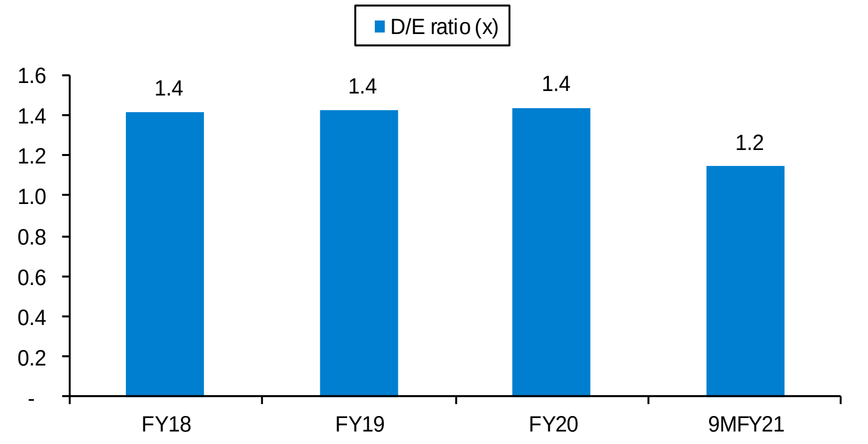


Source: Company, PL

Elevated debt levels v/s key peers:

- Craftsman has total borrowings of Rs8.9bn as on 9MFY21 with D/E ratio of 1.15x. The company has so far managed to bring down the borrowings from Rs10.4bn in FY20 (D/E 1.44x).
- It intends to utilize an aggregated Rs1.2bn from the net proceeds for repayment of debt. This should result in decrease of D/E level to ~1x which we believe would still be higher as compared to key peers such as BHFC (~0.6x), MSS (0.5x) Endu (Net cash).

Exhibit 9: Despite debt reduction in FY21, D/E ratio still remain high v/s peers



Source: Company, PL

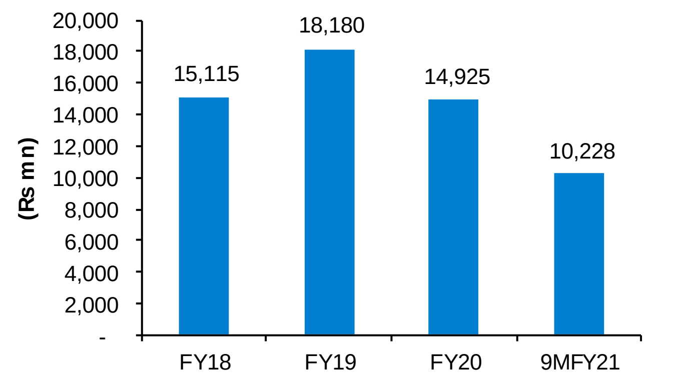
Valuation and View

- We like Craftsman Auto Ltd.'s (Craftsman) IPO given,
  - positive demand outlook on MHCV/tractor industry (that contributes >70% of revenue pie)
  - healthy financial performance in tough times
  - robust growth potential in Auto Aluminum as well as storage divisions
  - expansion in ROCE led by lean capex and debt reduction plans.
- While, we do appreciate the company's performance but its high debt level, limited product pipeline and lower return profile don't justify current valuations. New product addition and improvement in return ratios should prove as key catalysts.
- The issue at an upper band of Rs1,490 is anticipated to be price at 27-30x of FY23e EPS, which looks iniquitous. This we believe is not cheap as compared to other auto component companies such as ENDU (~21x), MSS (~22x) and BHFC (~26x).
- While we don't expect any listing gain, we recommend Subscribe for Long run with post issue price correction.

Key highlights from Financial Statement

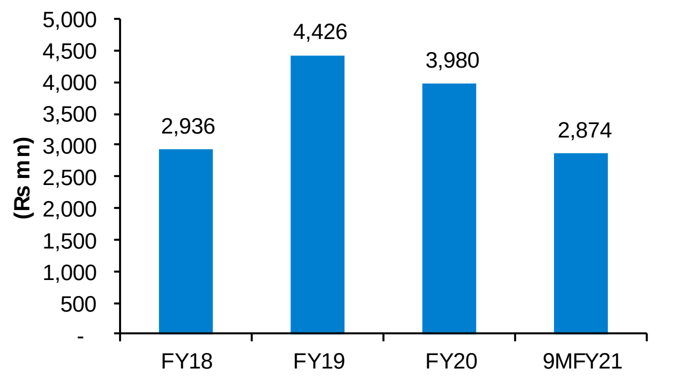
- Revenues declined marginally by 0.6% CAGR over FY18-20 from Rs15.1bn in FY18 to Rs14.9bn in FY20.
- FY20 Segmental revenue- Revenue for Powertrain and Aluminium product divisions declined by 30%/16% YoY respectively while revenue from industrial division grew ~5% YoY.
- Gross margins continue to remain healthy between range of 60-61% over last 3 years. Despite decline in revenue, EBITDA reported CAGR of ~16% over FY18-20 from Rs2.9bn to Rs4bn.
- Consequently, margins increased from ~20% in FY18 to ~27% in FY20. This was led by strong process controls resulting in better operational efficiencies.
- ROCE over last 3 years largely remained stable at 13.8% in FY20 (v/s 14% in FY18) while ROE grew from 5.8% in FY18 to 6.2% in FY20.
- 9MFY21 Revenue/EBITDA/PAT stood at Rs10.2bn/Rs2.9bn/Rs0.5bn respectively.

Exhibit 10: Revenues declined ~0.6% CAGR over FY18-20



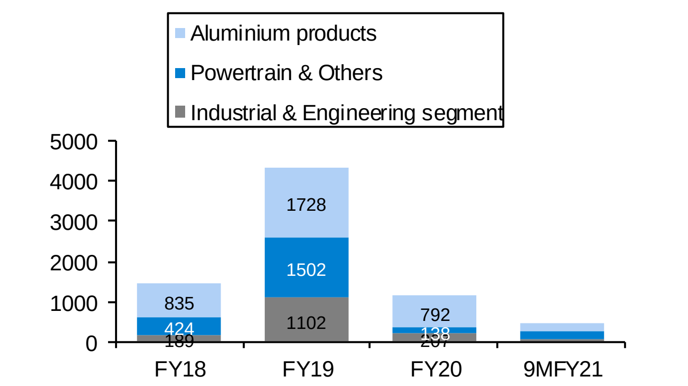
Source: Company, PL

Exhibit 11: EBITDA reported CAGR of ~16% over FY18-20



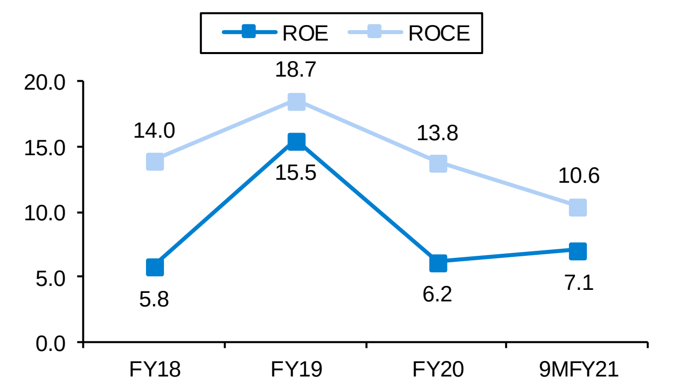
Source: Company, PL

Exhibit 12: Capex spent over FY18-9MFY21 (INR mn)



Source: Company, PL

Exhibit 13: ROCE remained stable, ROE grew over FY18-20

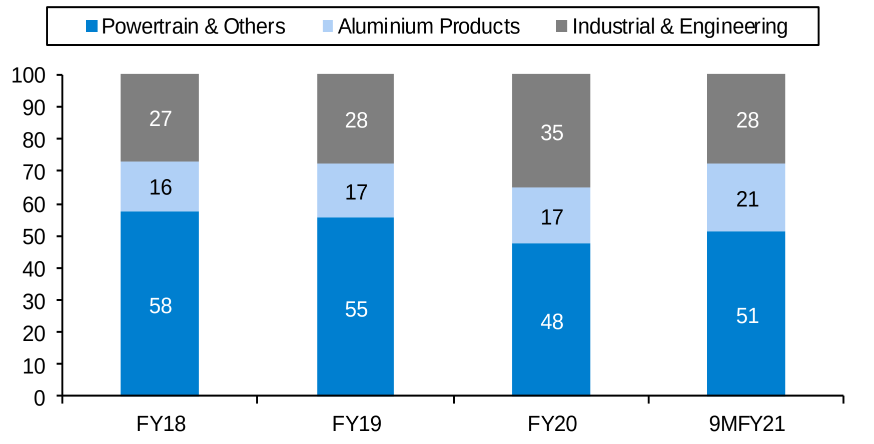


Source: Company, PL

Business Overview

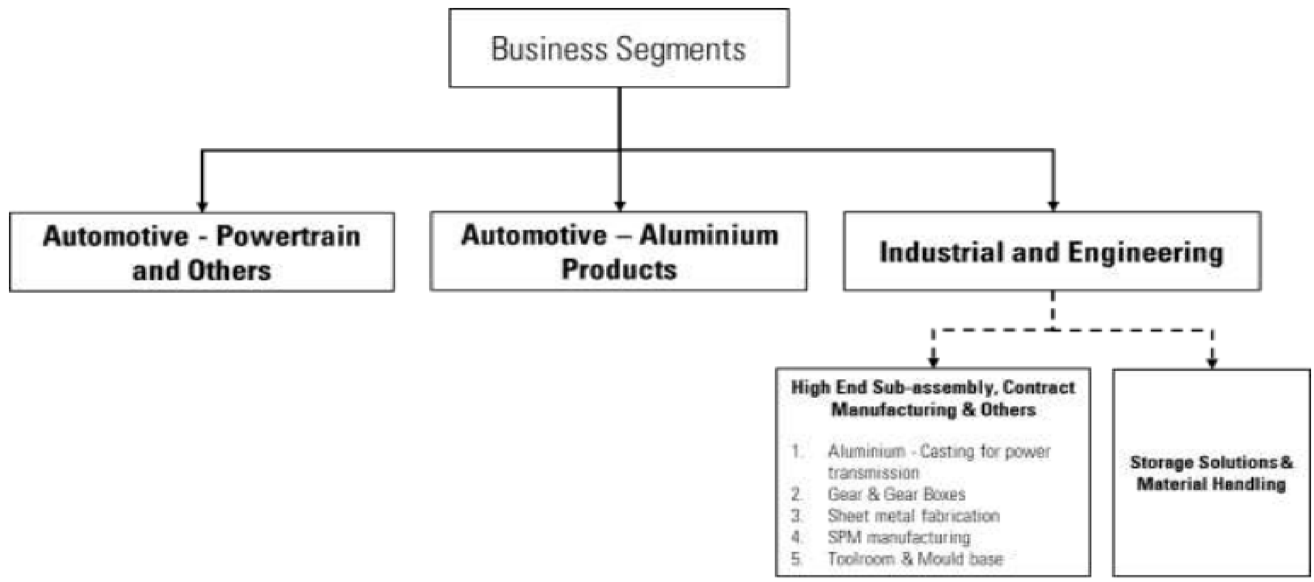
- **Craftsman is a diversified engineering company with vertically integrated manufacturing capabilities. It is engaged in 3 business activities- i) Automotive- powertrain and others, ii) Automotive- Aluminium products and iii) Industrial and Engineering.**
- **Automotive Powertrain and others-** The key products are highly engineered and include engine parts like cylinder blocks, cylinder heads, camshafts, transmission parts, gear box housings, turbo chargers and bearing caps.
- **Automotive Aluminium products-** The company is equipped with an array of processes including the high pressure die casting, low pressure die casting and gravity die casting machines to manufacture components, machining tools for machining and assembly lines.
- **Industrial and Engineering Solutions-** The company has utilized their in-house engineering and design capabilities to developed a diverse product portfolio across two sub-segments- i) High end precision sub segment and ii) Storage solutions sub segment.
- **Diversified client base-** The company has long term relationships with many marquee domestic and global OEMs and component manufacturers across all the business segments. It has a diversified client base with Top 10 customers accounting for ~59% of the total revenue in 9MFY21.
- **The company received funding from several global investors such as International Finance Corporation (IFC) in 2010 and 2012,** Standard Chartered Private Equity (Mauritius) II Ltd. in 2012 (which transferred its stake to Marina III Singapore Pte Ltd. in 2017). Both of them have ~14.1% and ~15.5% shareholding respectively in the company.

Exhibit 14: Segmental revenue mix (%) over FY18 to 9MFY21



Source: Company, PL

Exhibit 15: Company is mainly engaged in business divisions



Source: PL, Company

Exhibit 16: Peer comparison- FY20 key financials

Peer Companies (Rs mn)	Revenue	EBITDA	Margin (%)	PAT	ROCE (%)
Craftsman Automation Ltd	**14,925**	**3,979**	**27**	**400**	**10**
Bharat Forge Ltd	81,092	11,903	15	3,412	6
Endurance Technologies Ltd	69,266	11,451	17	5,655	20
Jamna Auto Industries Ltd	11,340	1,207	11	479	11
Mahindra CIE Automotive Ltd	79,169	9,769	12	3,538	21
Minda Industries Ltd	54,654	6,263	11	1,877	10
MM Forgings Ltd	7,715	1,345	17	417	7
Ramkrishna Forgings Ltd	11,945	2,087	17	97	4
Sandhar Technologies Ltd	19,434	1,956	10	570	9
Sundaram Clayton Ltd	13,243	1,417	11	687	3
Sundaram Fasteners Ltd	37,232	6,044	16	3,265	14

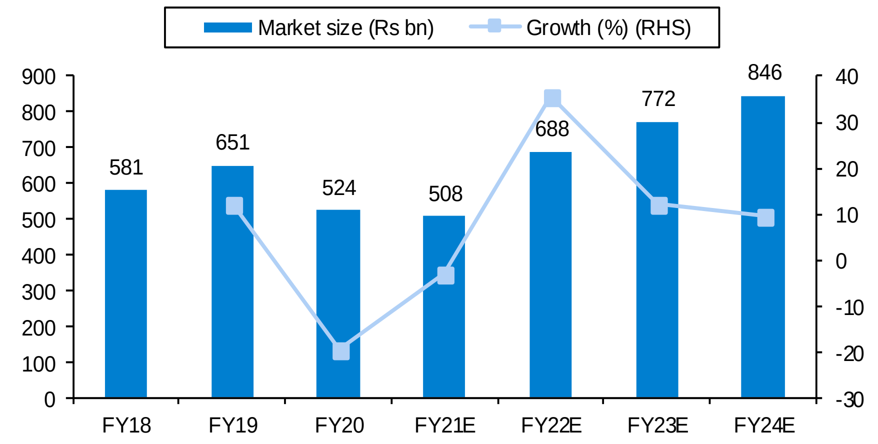
Source: Company, PL

Automotive- Powertrain and Others

In terms of production volume, Craftsman is the largest component manufacturer engaged in machining of cylinder heads and cylinder blocks in the construction equipment industry as well as IMHCVs.

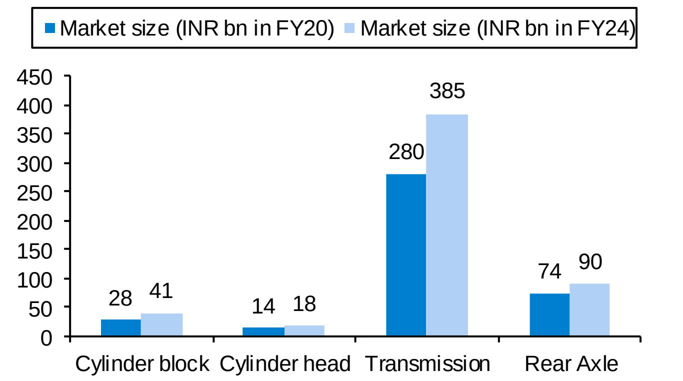
- The segment contributes ~51% of the revenue wherein end user of the products include OEMs across CVs, SUVs, tractors and off-highway vehicles. MHCVs and tractors together contributes >70% of revenue.
- Key products in the segments are highly engineered and include engine parts such as cylinder blocks, cylinder heads, camshafts, transmission parts, gear box housings, turbo charges and bearing caps. The capabilities include design and development, precision machining and assembly (including CNC machining, laser heat treatment, assembly, testing, etc.), finishing and others.
- ~50% of the total revenue from this division is contributed by machining of cylinder blocks and cylinder heads. Due to the nature of business, where company is only involved in machining and is not into the casting activity, margins for this division are significantly higher (30-35%) than other divisions and peers as well.
- It has installed capacity of 7.1mn units as of FY20 including all 7 locations. However, the capacity utilization was ~71% in FY20 (v/s 89% in FY19) due to subdued automobile demand and COVID impact during later part.
- The company is the largest player involved in machining of cylinder blocks and cylinder heads in the IMHCVs as well as in the construction equipment industry in India. It is also among the top 3-4 component players with respect to machining of cylinder block for the tractors.
- **The powertrain segment is expected to grow by 12-14% CAGR over FY20-24. Consequently, market size is expected to be ~Rs846bn by FY24 (v/s Rs524bn in FY20).**
- The growth will be driven by healthy demand outlook for automotive segments-
  - CVs- Expected growth of 5-7% CAGR till 2025
  - Tractors- Expected to grow by 3-5% till 2025
  - SUVs- Expected to grow 13-15% CAGR between FY2021-25

Exhibit 17: Market size of powertrain to grow 12-14% CAGR over FY20-24



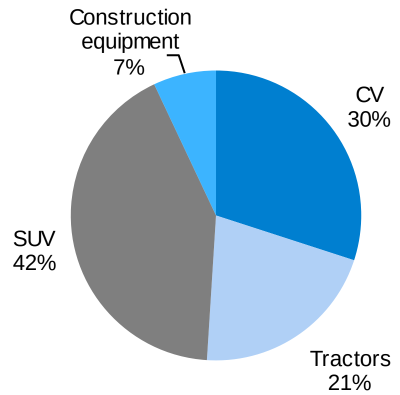
Source: Company, PL

Exhibit 18: Product range to grow by 5-10% CAGR by FY24



Source: Company, PL

Exhibit 19: Segment mix for industry in FY20



Source: Company, PL

Exhibit 20: Presence of key peers in powertrain division across segments

Key players	2W/3W	PV	CV	Construction	Tractors
Craftsman Auto Ltd.	✓	✓	✓	✓	✓
Avtec Limited	✓	✓	✓	✓	✓
Endurance Ltd.	✓				
Jay Hind Industries	✓	✓	✓	✓	
Sundaram Clayton	✓	✓	✓		
Alicon Cast Alloy	✓	✓			
Ashok Iron Works				✓	✓
Continental Engines	✓				✓
DCM Engineering Products		✓	✓	✓	✓
Hinduja Foundries		✓	✓	✓	✓
Nelcast			✓		
Kirloskar Ferrous Industries		✓	✓	✓	✓

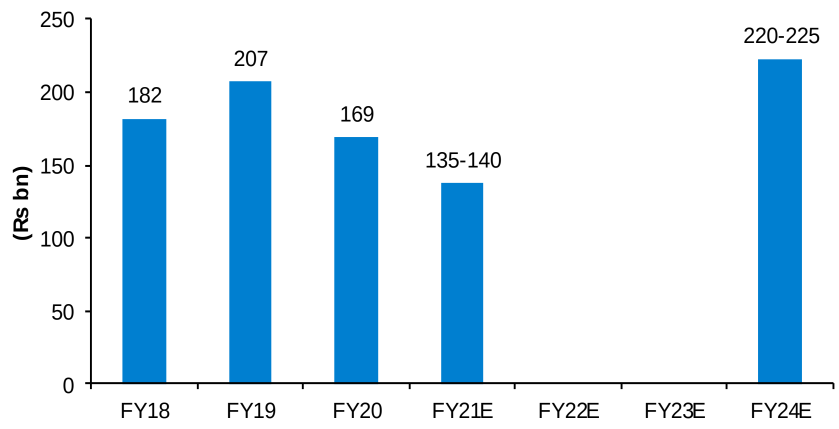
Source: Company, PL

Automotive- Aluminium product

Non-ferrous/ aluminium casting forms nearly 70% of the overall casting market in value terms. Out of the total demand, OEMs account for 75-80%, exports contribute 15-20% while aftermarket comprises the remainder.

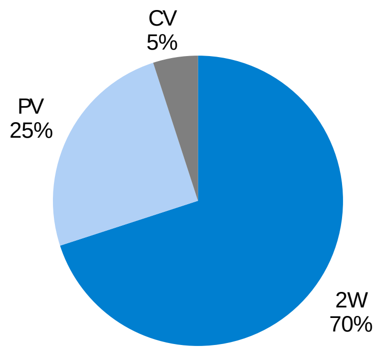
- The segment contributes ~21% of the consol revenue and end user of the products include OEMs producing 2Ws, PVs, HCVs.
- The capabilities include high pressure die casting, low pressure die casting, gravity die casting machines to manufacture components, machining tools for machining and assembly lines.
- It has installed capacity of 18.9k tons as of FY20 with utilization at ~70% (v/s 87% in FY19) amidst slowdown in economic activity, regulatory price hike, weak rural demand and COVID impact during the month of March.
- Key products in the segment are highly engineered and include i) crank case and cylinder block (for 2Ws), ii) engine and structural parts (for PVs) and iii) gear box housing (for CVs).
- **Size of aluminium die casted products stood at 0.44mn MT in FY20 (v/s 0.51MT in FY19) and volumes are expected to grow 3-5% CAGR over FY20-24. In value term it stood at Rs169bn (v/s Rs207bn in FY19) which is expected to grow by 6-8% CAGR over FY20-24.**
- **40% of metal castings in the automobile industry use aluminium** while majority of cast components are used in 2Ws (~70%) and PVs (~25%). Since past 3-5 years' aluminum content in 2W segment rapidly increased to ~30%, while for 3W and PV it still remains at ~18-20%.
- Globally the **automobile industry has largest share of aluminum consumption i.e. ~35%**. While share of automobile industry in domestic aluminum consumption has steadily increased from ~16% in FY09 to ~25% in FY18, the same is still lower than global average.
- **The aluminium die casting industry in India is extremely fragmented.** With large players in 4W die casting segment and recent entry of formidable players like Bharat Forge, Rockman Industries, ENDU etc. Craftsman is set to face intense competition, hereafter.
- In India, PV OEMs too are increasingly adopting aluminium die cast components to lighten weight of vehicles a trend that would accelerate with adoption of more stringent emission norms like CAFÉ (corporate average fuel efficiency) and RDE (real drive emissions) from 2022/2023.

Exhibit 21: Aluminium die casting industry to grow 6-8% CAGR over FY20-24



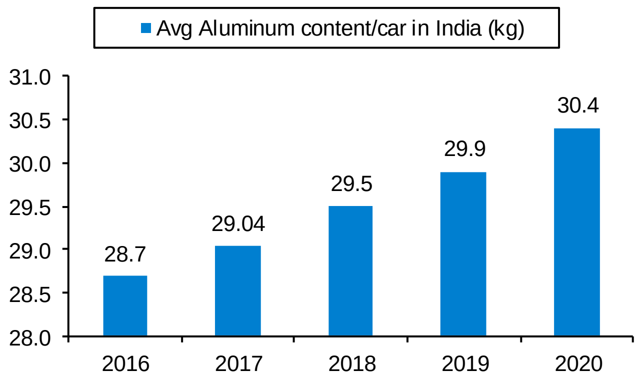
Source: Company, PL

Exhibit 22: Industry mix of aluminum die casting business



Source: Company, PL

Exhibit 23: Avg aluminium content/car in India to grow



Source: Company, PL

Exhibit 24: Key competitive landscape

	Segment Presence	Key Customers	Remarks
Endurance Technologies	2W,3W and PV	BJAUT, RE, Yamaha	Have market share of 30-31% in domestic market
Aurangabad Electricals*	2W	BJAUT	Acquired by MACA in FY19
Rockman (Hero group)	2W	HMCL	~90% revenue from HMCL
Sundaram Clayton	2W and PV	TVSL, Hyundai	TVS group Company
Rico Auto	2W and PV	MSIL, HMCL	Key player in 2W alloy wheel with capacity of ~4mn units
Sun-Beam Auto**	2W and PV	MSIL, HMCL	Key presence in PV die-casting
Jaya Hind*	2W and PV	MSIL, HMCL	Key presence in PV die-casting
Nemak	PV	Local subs of global PV OEMs	Key presence in PV die-casting

Source: Industry, PL

With the industrial division, the company is involved into 2 business segments- i) High end precision products (~26% of revenue) and ii) Material handling and Storage solutions (~6% of revenue).

Industrial and Engineering Segment

Products manufactured within high end precision division

- **Aluminium casting for power division**- Leading player in India for precision machined sand castings, gravity and low pressure die castings for various industries ranging from locomotive, power transmissions and fluid control industries. The industry is expected to grow by 4-6% CAGR during FY20-24 (v/s 2-4% CAGR over FY16-20) to reach Rs18-20bn.

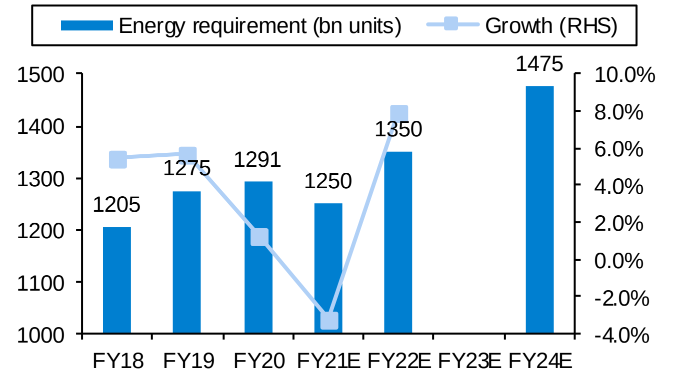
- **Increasing preference for GIS and preference for aluminium casting**- Currently 20-25% of the transmission substation switchgears are gas insulated (GIS) expected to increase to 30% by FY24. Considering the overall life cycle costs including running and maintenance, GIS equipment's are less expensive than the AIS (Air insulated Switchgears) and offer much superior performance. Although transformer core, circuit breakers of switchgear, casing of GIS substations are casted using ferrous and non-ferrous materials, aluminium casting is preferred due to its non-corrosive and light weight properties.

- **Gear and gear boxes-** Sub segments include design and development of gear boxes, heat treatment, hobbing, precision machining and assembly, testing and others. The industry is estimated to record 5-6% CAGR over FY20-24 to reach Rs62-64bn. This should be driven by growth in steel products, material handling equipment's, elevators and wind power capacity addition. Also, substitution of imports by locally customized gears and gearboxes (20-25% industry share) will continue to drive the demand. The market is fairly organized with top 15 players together contributing ~75% market share while the share of unorganized players is restricted to 8-10% only.

- **Tool room, Mould base and sheet metal- Healthy growth outlook for underlying industry-** Sub segment includes designing, manufacturing and supplies of i) high end plastic injected moulds, ii) aluminium die casting dies for high and low pressure casting iii) sheet metal press tools and iv) die bases for leading tool rooms. The industry is expected to grow 4-6% CAGR over FY20-24 at Rs185-190bn (v/s Rs150-55bn in FY20). This will be led by growth in automotive industry (2-4% CAGR both domestic and exports) and plastic processing (5-7% CAGR) over FY20-24 which together contributes ~74% of the total industry share in FY20.

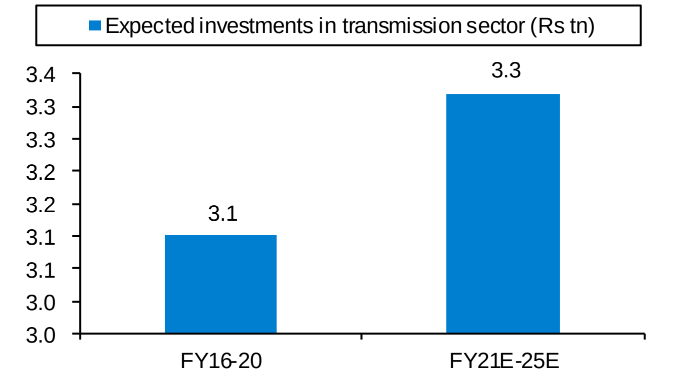
- **SPM Manufacturing- Contraction in replacement cycle to aid demand**- It includes design and development of machines, vendor development of castings, bought out components and electronic sub-assemblies, sheet metal fabrication, heavy duty and precision machining assembly, testing and on site installation. In recent years' automotive industry witnessed several changes to meet increasing customer expectations in terms of model design, features, etc. This has resulted in contraction of replacement cycle of SPM to 2-3 years (v/s 5 years earlier).

Exhibit 25: Power demand to grow 3-4% CAGR over FY20-24



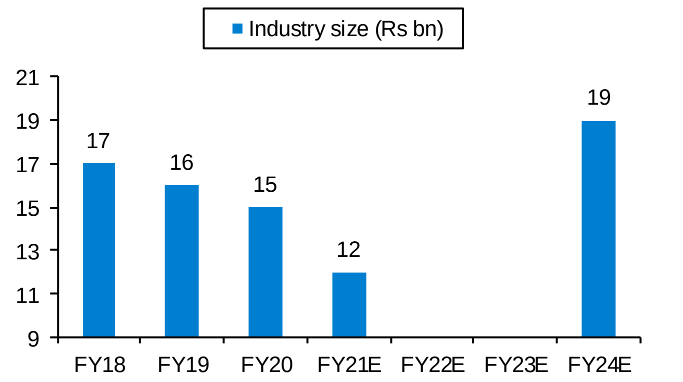
Source: Company, PL

Exhibit 26: Expected investment in transmission to increase



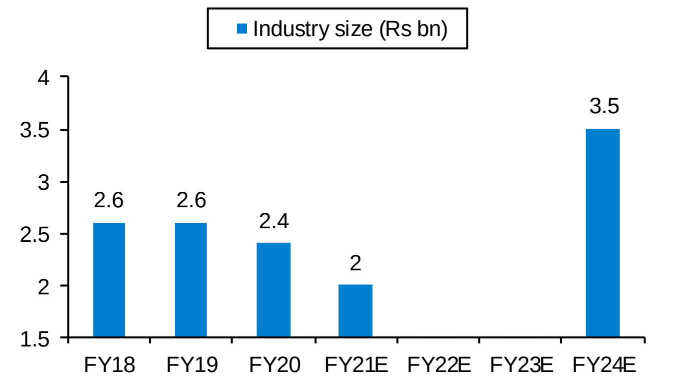
Source: Company, PL

Exhibit 27: Casting in power transmission to grow 4-6% CAGR over FY20-24 (v/s 2-4% over FY16-20)



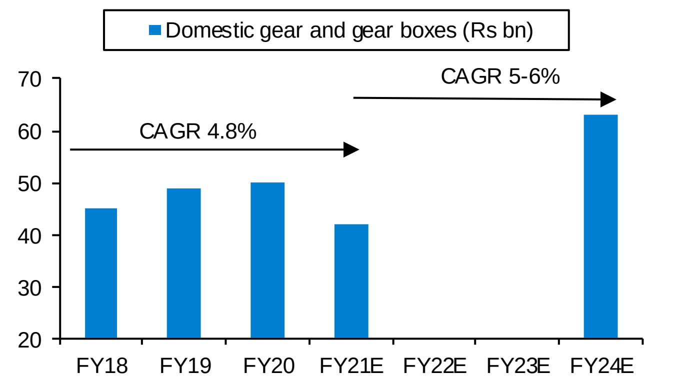
Source: Company, PL

Exhibit 28: Casting for GIS to grow 10-12% CAGR in FY20-24 (v/s 6-8% in FY16-20)



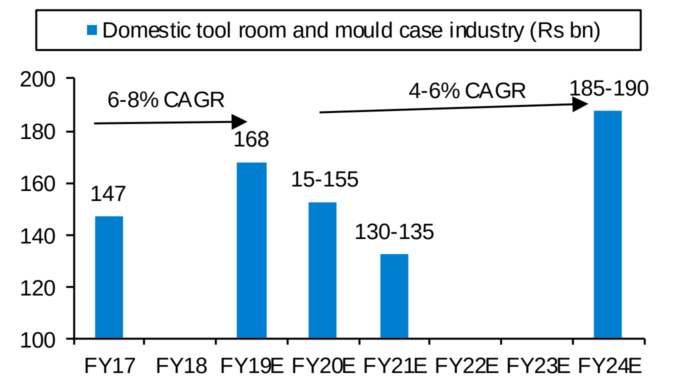
Source: Company, PL

Exhibit 29: Gear and gear box industry to grow 5-6% CAGR



Source: Company, PL

Exhibit 30: Tool room and mould base demand trend



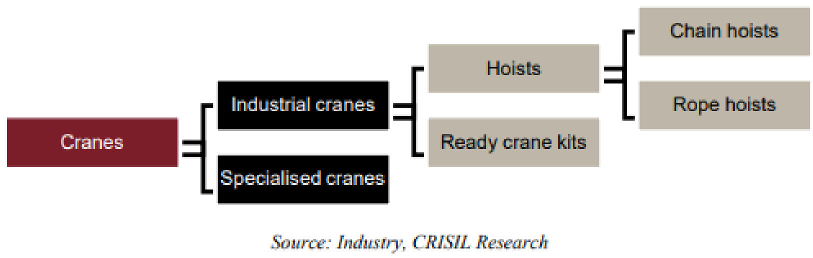
Source: Company, PL

Hoist accounts for 30-40% of the ***overall crane pricing****. ~30-35% of annual sales of hoists is on account of replacement demand while the rest is for manufacturing of new cranes.*

Material handing- Capacity expansion in underlying industry to drive growth

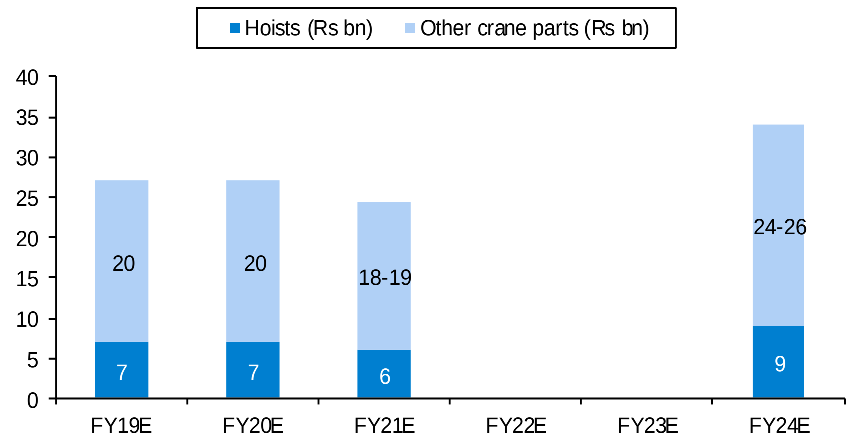
- **Underlying products**- Comprehensive range of i) chain hoists, ii) wire rope hoists, iii) grab hoists, iv) pallet trucks v) crane kits and light crane systems, are made in-house using the machining centres, aluminum casting, sheet metal, gear manufacturing and toolroom facilities.
- **The crane industry is expected to grow 5-7% CAGR** between FY20-24 to reach industry size of Rs24-26bn. This will be led by higher investments in the end user segments resulting in capacity expansion in the underlying industries such as automobiles, metal and power industries.
- **The market size of hoist market in India was Rs6-8bn as of FY20** wherein rope hoist account for Rs5-6bn and chain hoist accounts for Rs1-2bn. Within the segment, unit wise requirement of chain hoist is higher as they have lower replacement (3-5 years' v/s 5-7 years for rope hoists).
- **JV with Carl Stahl Hebetechnik GmbH-** The company through its JV (Carl Stahl Craftsman Enterprises) is engaged in marketing, installation, commissioning and rendering after-sales services for the products.
- **Key peers-** Hercules Hoists Ltd, Grip Engineers Pvt Ltd, Sparkline Equipment Pvt Ltd, and MM Engineers Pvt Ltd.

Exhibit 31: Classification of cranes (and hoists) industry



Source: Company, PL

Exhibit 32: Industry for cranes (and hoists) to grow 5-7% CAGR over FY20-24

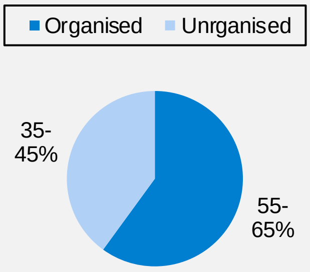


Source: Company, PL

Storage solutions- Higher customization to drive share for organized players

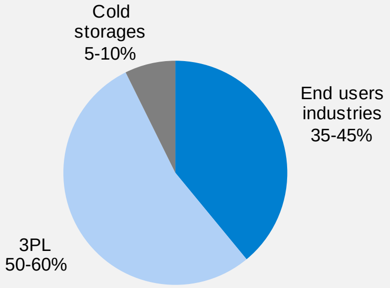
- **Underlying product and services-** Key product include stationery racking for industries, warehouses and Automated Storage Retrieval Systems (ATRS). These products cater to warehousing and industrial sectors.
- **The market size of storage industry is expected to grow 19-21% CAGR over next 3 years** (v/s 14-16% over FY16-20) at Rs38bn by FY24 (v/s Rs21bn in FY21) led by incremental warehouse addition and rise in share of organized players due to GST implementation.
- **Higher customization to benefit organized players**- Organized players have the capability to customize solutions according to client requirements, which unorganized players are not capable of. This coupled with higher realizations, better product mix, and larger volumes will benefit organized industry.
- **Palletised racking to lead growth-** As of FY20, Shelving accounts for 45-55% of total storage industry while Palletised racking accounts for another 40-45%. Although the mix is largely going to remain the same, Palletised racking is expected to lead led by strong demand from 3PL warehouses and regional distribution centers due to GST.
- **Key peers-** Nilkamal BITO Storage Systems, Godrej and Boyce Manufacturing Co, Maximaa Systems, Mangal Industries and Armes Maini Storage Systems.

Exhibit 33: Share of organized players



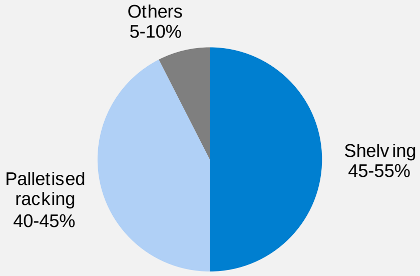
Source: Company, PL

Exhibit 34: Share across end users



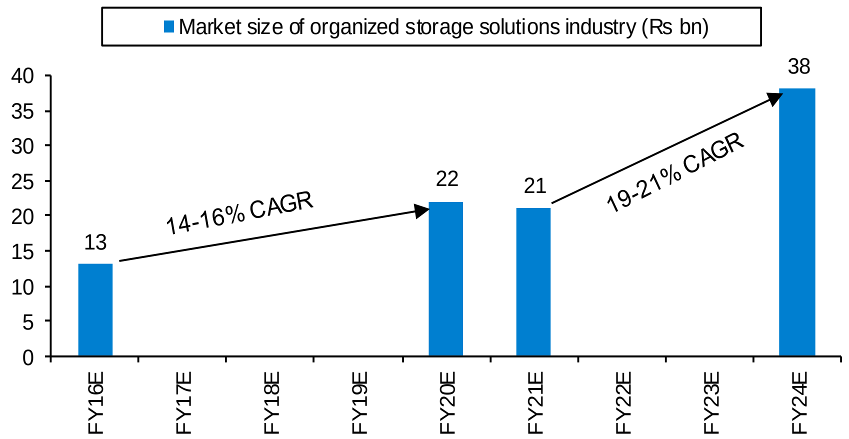
Source: Company, PL

Exhibit 35: Share across product segments



Source: Company, PL

Exhibit 36: Market size of organized storage industry to grow 19-21% CAGR



Source: Company, PL

Exhibit 37: Growth outlook of end user industries and

End users Industry	FY17-20	Outlook	Growth drivers
E-retail	~30%	17-22% CAGR over FY20-23	i) New store roll outs; ii) increased penetration in tier2/3 cities; iii) increasing disposable income; iv) increased share of organized players due to GST implementation
Organised retail (physical)	~19%	8-10% CAGR over FY20-24	
3PL	12-14%	to grow by double digit in the near to mid term	

Source: Company, PL

Key Management Personnel

Exhibit 38: Key Management Personnel

Name	Designation	Profile
Srinivasan Ravi	Chairman and Managin Director	He is the Promoter of the company and has been associated with Craftsman since its incorporation. He holds a bachelor's degree in mechanical engineering from PSG College of Technology, Coimbatore. He has an experience of more than 34 years in the automotive industry. Promoter currently holds 52.83% of issued equity capital. Out of total 4.52mn shares held for sale, promoter is offering 0.13mn shares.
Ravi Gautham Ram	Whole Time Director	He holds a bachelor's degree in mechanical engineering from PSG College of Technology, Coimbatore and a master's degree in mechanical engineering from RWTH Aachen University, Germany. He is engaged in building the product strategy in the industrial and engineering segment of the company. He is also the vice president of the Coimbatore Industrial Infrastructure Association. Prior to joining Craftsman, he was associated with Caterpillar India Pvt. Ltd.
Thiyagaraj Damodharaswamy	Chief Operating Officer	He holds a diploma in mechanical engineering from PSG College of Technology and Polytechnic. He also holds a bachelor's degree in mechanical engineering from Bharathiar University. He has experience in the manufacturing and automotive industries. Earlier, he was associated with Rieter-LMW Machinery Limited. He joined Craftsman on January 1, 2002 as quality system engineer.
CB Chandrasekar	Chief Financial Officer	He holds a bachelor's degree in commerce from the University of Madras. He is an associate of the Institute of Cost Accountants of India and Institute of Company Secretaries of India. He has overall experience of more than 3 decades in the fields of finance, secretarial and accounting. Prior to joining Craftsman, he was associated with Lakshmi Machine Works Limited and Elgi Equipments Ltd.

Source: Company, PL

Financials

Exhibit 39: Income Statement (Rs mn)

Y/E Mar	FY18	FY19	FY20	9MFY21
Revenues	**15,115**	**18,180**	**14,925**	**10,228**
YoY gr (%)		*20.3*	*-17.9*	*-31.5*
Cost of RM	5,917	7,105	5,717	4,387
Change in inventory of stock in trade	-159	-70	151	-48
Excise duty	324	-	-	-
Employee benefit expenses	1,986	2,168	1,710	1,106
Other expenses	4,111	4,551	3,367	1,908
EBITDA	**2,936**	**4,426**	**3,980**	**2,874**
YoY gr (%)		*50.8*	*-10.1*	*-27.8*
Margin (%)	*19.9*	*24.3*	*26.7*	*28.1*
Depreciation and Amortization	1,492	1,761	1,950	1,415
EBIT	**1,445**	**2,665**	**2,030**	**1,460**
Margin (%)	*9.8*	*14.7*	*13.6*	*14.3*
Net Interest	1,125	1,405	1,484	772
Other Income	113	136	86	71
Profit Before Tax	**433**	**1,396**	**632**	**758**
Margin (%)	*2.9*	*7.7*	*4.2*	*7.4*
Total Tax	120	426	163	253
Effective tax rate (%)	*27.7*	*30.5*	*25.8*	*33.3*
Profit After tax	**313**	**970**	**469**	**506**
Minority Interest	-	-	-	-
Share of profit from Associates	2	4	-0	1
Adjusted PAT	**315**	**974**	**468**	**507**
YoY gr (%)		*209*	*-52*	*8*
Margin (%)	*2.1*	*5.4*	*3.1*	*5.0*
Extra Ord. Income/ (Exp)	-	-	-58	-
Reported PAT	**315**	**974**	**411**	**507**
YoY gr (%)		*209*	*-58*	*23*
Margin (%)	*2.1*	*5.4*	*2.8*	*5.0*
Other comprehensive income	-59	-96	6	21
Total comprehensive income	256	878	417	527
Equity shares O/s (m)	20.1	20.1	20.1	20.1
EPS (Rs)	**15.7**	**48.4**	**20.4**	**25.2**

Source: Company, PL

Exhibit 40: Balance Sheet (Rs mn)

Y/E Mar	FY18	FY19	FY20	9MFY21
Non-Current Assets				
Gross Block	16,041	19,794	20,967	22,003
Tangibles	15,809	19,516	20,672	21,700
Intangibles	233	278.29	295.72	302.38
Acc Dep/Amortization	**3,444**	**4,886**	**6,594**	**7,793**
Tangibles	3,361	4751.47	6404.67	7569.33
Intangibles	83	134.87	189.47	223.72
Net fixed Assets	**12,597**	**14,908**	**14,373**	**14,210**
Tangibles	12,447	14,765	14,267	14,131
Intangibles	150	143	106	79
Capital Work in Progress	243	906	888	274
Goodwill	-	-	-	-
Non Current Investments	53	47	138	39
Net Deferred tax assets	-275	-355	-360	-465
Other Non-Current Assets	1,085	1,305	1,356	1,162
Current Assets				
Investments	-	-	-	-
Inventories	3,005	3,233	3,256	3,399
Trade Receivables	2,017	2,101	1,943	2,142
Cash & Bank balance	367	195	598	310
Other Current Assets	583	559	469	926
Total Assets	**19,675**	**22,899**	**22,661**	**21,998**
Equity				
Equity Share Capital	101	101	101	101
Other Equity	5,866	6,732	7,088	7,616
Total Networth	5,967	6,833	7,189	7,716
Non Current Liabilities				
Long term borrowings	4,303	6,932	6,683	5,351
Provisions	41	52	25	31
Other non current assets	557	913	1,084	988
Minority Interest	-	-	-	-
Current Liabilities				
ST Debt/ Current of LT Debt	2,721	1,350	2,443	1,567
Trade payables	3,627	3,312	2,818	3,016
Other current liabilities	2,459	3,508	2,419	3,329
Total Equity & Liabilities	**19,675**	**22,899**	**22,661**	**21,998**

Source: Company, PL

Exhibit 41: Cash Flow (Rs mn)

Y/E Mar	FY18	FY19	FY20	9MFY21
PBT	435	1,400	574	759
Add. Depreciation	1,492	1,761	1,950	1,415
Add. Interest	1,146	1,369	1,396	820
Less. Other income	-326	-370	-272	-297
Add. Others	0	20	83	21
Op. profit before WC changes	**2,748**	**4,180**	**3,731**	**2,717**
Net changes- WC	199	-331	-461	-208
Direct Tax	-120	-248	-216	-88
Net cash from Op. activities	**2,827**	**3,600**	**3,054**	**2,421**
Capital Expenditure	-2,121	-3,611	-1,404	-502
Interest/Dividend Income	23	21	22	15
Others	-9	6	12	32
Net cash from Inv. Activities	**-2,107**	**-3,584**	**-1,371**	**-455**
Issue of share cap./ premium	-	-	-	-
Debt changes	623	1,249	335	-1,356
Dividend paid	-7	-12	-61	-
Interest paid	-1,133	-1,298	-1,386	-841
Others	-86	-122	-167	-58
Net cash from Fin activities	**-603**	**-182**	**-1,279**	**-2,254**
Net change in cash	116	-166	404	-288
Free Cash Flow	**706**	**-11**	**1,649**	**1,919**

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	155	128
2	Bajaj Auto	Hold	3,489	3,727
3	Bharat Forge	Hold	581	640
4	CEAT	Accumulate	1,434	1,310
5	Eicher Motors	Accumulate	3,129	2,901
6	Endurance Technologies	BUY	1,662	1,483
7	Exide Industries	BUY	238	194
8	Hero Motocorp	Accumulate	3,753	3,429
9	Mahindra & Mahindra	BUY	1,011	866
10	Maruti Suzuki	BUY	8,428	7,589
11	Motherson Sumi Systems	BUY	247	197
12	Tata Motors	Reduce	255	323
13	TVS Motors	Sell	437	529

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Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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