

Impressive background..

The group commenced operations in 1986 in Coimbatore, Tamil Nadu and led by Mr. Srinivasan Ravi a first generation entrepreneur with over 34 years of industry experience. Craftsman Automation is a diversified engineering Company primarily engaged in Automotive Powertrain, Automotive Aluminum and Industrial Engineering. The Company's products caters to various segments -Commercial vehicles, passenger vehicles, two wheelers, tractors and industrial sectors. The Company 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 in the construction equipment category. It is amongst the top three-four component players in machining of cylinder block for tractor segment in India. The Company has presence across the entire value chain in the Automotive, Aluminium Products segment, providing diverse products and solutions.

Strategically located manufacturing facilities

The Company has 12 vertically integrated manufacturing facilities across 7 cities in India, strategically located close to key customers having a total built up area of over 1.5 million sq.ft. The Company has upgraded and continue to modernize, their manufacturing. It has recently set up a new unit in Pune with high end fully automated equipment from Italian and Swiss manufacturers.

Comprehensive solution provider

The Company has strong manufacturing capabilities spanning across design, process engineering and manufacturing including foundry, heat treatment, fabrication, machining and assembly facilities.

Marquee customer base with long term relationship and diversified client base ..

Craftsman is considered as a strategic and preferred supplier by many of their OEM customers and is also the single source supplier in certain product categories, for some of their key customers. Most of their business comprises direct supply to their OEM customers, under long term agreements, which are renewed from time to time. With their track record and wide product portfolio, they have been able to retain their existing customers and also been able to attract new customers. The Company has strong and well established relationships with several marquee domestic and global OEMs as well as component manufacturers.

The Company has clients like Daimler India, Cummins, Tata Motors, Mahindra & Mahindra, Royal Enfield, Ashok Leyland, Escorts, Nelcast, Mitsubishi Heavy Industries, Simpsons, Perkins India, JCB India, John Deere, Siemens.

The Company has a diversified client base with top 10 customers accounting for 59.15 percent, 53.41 percent, 56.25 percent and 52.59 percent of revenue from operations, in the nine months ended December 2020 and FY20, FY19 and FY18, respectively.

Backed by good investors

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

Strong financial performance..

Strong financial performance in FY20 with revenue from operations of Rs. 1,492 crores and EBITDA margin of 27.24%. Major CAPEX was undertaken in FY19 with a declining Capex to Revenue of 7.62% in FY20.

Investment recommendation and rationale

At the upper end of the price band of Rs. 1490, the Company's IPO is valued at P/E of 46x on 9MFY21 annualised EPS and at a P/E of 77x on post IPO FY20 EPS which according to us is very expensive considering its fortunes are linked to cyclical auto industry which is still uncertain considering COVID-19

Issue date	March 15 - March 17, 2021
Listing date	March 25, 2021
Price Band	Rs. 1,488 - Rs. 1,490 (FV: Rs. 5)
Bid lot	10 equity shares and in multiples thereof
Issue size & type	Issue size: Rs. 824 crores Fresh issue: Rs. 150 crores Offer for sale: 674 crores
Issue structure	OIB – 50 %, NIB – 15%, Retail – 35%
Post issue shares	2.11 crore equity shares
Promoter holding	Pre issue: 63.4%/Post issue: 59.76%
Post issue market cap	Rs. 3,144 crores
BRLM	Axis Capital, IIFL Securities
Registrar to the issue	Link Intime India Pvt. Ltd.

Particulars (Rs. crores)	9MFY21	FY20	FY19	FY18
Topline	1,023	1,492	1,818	1,512
EBITDA	295	407	457	305
EBITDA (%)	28.81	27.24	25.12	20.19
Profit after tax	51	41	97	32
PAT margin (%)	4.98	2.75	5.33	2.12
Equity share cap.	10.06	10.06	10.06	10.06
Networth	716	663	628	541
Long term debt	535	668	693	430
Short term debt	157	244	135	272
Debt/Equity (x)	1.15	1.44	1.43	1.42
Post IPO EPS (Rs.)	24.17	19.43	45.97	15.16
P/E (x)	#64	77	31	95
RoNW (%)	6.6	6.3	14.3	5.3
RoCE (%)	8.5	11.3	15.6	9.8

Source: RHP, # denotes P/E and ROE on annualised 9MFY21 numbers

crisis. No doubt, the Company's product portfolio can cater to the needs of electric vehicles industry and is a major beneficiary from the transition of BSIV to BSVI. However, the issue looks aggressively priced considering single digit return profile. The Company enjoys the following strengths: a) largest player involved in the machining of cylinder blocks and cylinder heads in the intermediate, medium and heavy commercial vehicles segment as well as in the construction equipment category, b) amongst the top three-four component players in machining of cylinder block for tractor segment in India, c) presence across the entire value chain in the Automotive Aluminium Products segment, providing diverse products and solutions, d) de-risked business model by diversifying across its business segments over the years, e) GOI initiatives – implementation of BS-VI norms and usage of non-ferrous materials for light-weighting of vehicles will drive growth for Company in future, f) usage of its products in electric vehicles will fuel growth, g) major capex completed which will yield good growth in coming years, h) strong financial performance in challenging business environment with significant improvement in EBITDA margin with stable ROCEs over the years. We recommend "SUBSCRIBE to the issue for listing gains". The investors fancy for companies catering to electric vehicles industry and good primary market conditions can surprise on post listing despite expensive valuations.

Background

The group commenced their operations in 1986 in Coimbatore, in the State of Tamil Nadu. The Company owns and operates 12 strategically located manufacturing facilities across 7 cities in India, with a total built up area of over 1.5 million sq. ft. (“msf”), close to some of their key customers to enable meeting their customers’ just-in-time delivery schedules, allow economies of scale and logistical advantages for their customers, and to insulate them from local supply or other disruptions. Their manufacturing facilities include state of the art equipment, engineered layout with process controls and necessary automations for quality and productivity.

The company do not have any subsidiaries or joint ventures within or outside India manufacturing any of their products. This allows them to keep their core competencies within the company, allowing them to ensure strict quality control and safety at each step of their manufacturing process. They have a wholly-owned overseas subsidiary, Craftsman Europe B.V. (formerly known as Craftsman Marine B.V.), set up in 2008 in Netherlands, through which they are engaged in marketing, sales and servicing of marine engines and other associated equipment used in yachts. These products are manufactured and assembled by them in India and exported under the name “Craftsman Marine” and will help them expand their footprint in Europe. They have a track record of growing through joint ventures and strategic alliances, including by gaining access to new customers, business segments, geographies, knowhow and technologies.

Craftsman has a joint venture in India, Carl Stahl Craftsman Enterprises Pvt. Ltd., engaged in marketing, installation, commissioning and rendering after-sales services of material handling equipment, such as chain hoists, rope hoists and cranes kits, manufactured by them under the name “Carl Stahl Craftsman”. They also have a strategic investment in MC Craftsman Machinery Pvt. Ltd., which is majority held by the Mitsubishi group, strengthening their 2 decades of business relationship with the Mitsubishi group and allowing them recognition and access to customers based in or headquartered out of Japan and the East Asia region.

Beneficiary of transition from BS1V to BS VI

Under the GoI directives, the passenger, commercial vehicles and the two wheeler segments of the automotive industry in India have migrated to BS-VI emission norms from April 2020. Similarly, the farm equipment and construction equipment manufacturers are required to upgrade their products to BS-IV emission norms from April 2021. In order to comply with these norms, the automobile manufacturers are, amongst other things, exploring various possibilities of light-weighting their vehicles by using non-ferrous metals like aluminium to reduce carbon emission. As the company has an entire range of aluminium casting and product capabilities, they are poised to offer various aluminium cast components in lieu of iron components. They have already successfully developed aluminium cast components for an OEM. They have also developed an integral aluminium welding technology, which would enable them to offer comprehensive solutions to manufacture structural parts for their Automotive - Powertrain and Others and Automotive – Aluminium Products segments.

Promoter and management background..

Mr. Srinivasan Ravi is the Promoter, Chairman and Managing Director of the company. He has experience of more than 34 years in the automotive industry.

Mr. 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.

Arrangement or understanding with major shareholders, customers, suppliers or others for appointment of Directors

Udai Dhawan has been appointed as a director of the company pursuant to Marina’s right to appoint a nominee director under the shareholders’ agreement dated July 3, 2012 and deed of adherence dated March 17, 2017. In terms of the shareholders’ agreement dated July 3, 2012, IFC also has the right to nominate a director on Board. Such right to nominate a director shall fall away in the event IFC and Marina fail to hold at least 30% of their respective equity shares subscribed to and held by each of IFC and Marina (originally subscribed by SCPE) on a fully diluted basis taking into account equity shares arising from bonus, split or sub-division of the equity shares (excluding any acquisition of equity shares by the Investors post listing of the Equity Shares on the Stock Exchanges).

Mr. 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.

Mr. Chandrashekhar Madhukar Bhide is an Independent Director of the Company and has been on the Board since January 31, 2011. He has experience in automotive industry. He was associated with Mahindra & Mahindra Ltd. in the past.

Mr. Sundararaman Kalyanaraman is an Independent Director of the company and has been on the Board since June 30, 2017. He has experience in automotive industry. He was associated with TG Kirloskar Automotive Pvt. Ltd., Kirloskar Systems Ltd., BPL Ltd. and Widia (India) Ltd. in the past.

Mr. Vijaya Sampath is an Independent Director of the company and has been on the Board since April 30, 2018. She was associated with Lakshmikumaran & Sridharan Attorneys as a senior partner and with the Bharti Airtel Ltd. as group general counsel and company secretary in the past. Key Managerial Personnel C.B. Chandrasekar is the Chief Financial Officer of the company. He was appointed on February 3, 2020 for a period of 5 years. He has overall experience of more than 3 decades in the fields of finance, secretarial and accounting. Shainshad Aduvanni is the Company Secretary and Compliance Officer, appointed on November 16, 2017 and the Compliance Officer on April 30, 2018. He has experience in secretarial and legal affairs. Thiyagaraj Damodharaswamy is the Chief Operating Officer - Automotive, appointed on August 1, 2017. He has experience in the manufacturing and automotive industries.

Objects of the issue

The offer comprises of a Fresh Issue of Rs. 150 crores and an Offer for Sale of Rs. 674 crores at upper end of the price band) aggregating to Rs. 824 crores (at upper end of the price band). Of the proceeds from the fresh issue, Rs. 120 cr is proposed to be utilized towards repayment/prepayment, in full or part, of certain borrowings availed by the Company.

Selling shareholders:

Marina III (Singapore) Pte Limited (~1.56 MN equity shares), International Finance Corporation (~1.41 MN equity shares), K Gomatheswaran (~1.42 MN equity shares) and Srinivasan Ravi (~0.13 MN equity shares)

Key concerns

- 1) **Aggressively priced issue:** The issue is aggressively priced at a P/E of 46x on 9MFY21 annualised EPS and at a P/E of 77x on post IPO FY20 EPS considering single digit ROE and ROCE. In addition, the Company's business prospects are linked to cyclical auto industry which is still uncertain considering the COVID-19 era.
- 2) **Inconsistency in past financial performance:** The Company's topline stood at Rs. 1,512 crores in FY18 and registered a growth of 20 percent on yoy basis to touch Rs. 1,818 crores in FY19 and then witnessed **de-growth** in 17.9 percent FY20 to touch Rs. 1,492 crores. Similarly, PAT stood at Rs. 32 crores in FY18 which saw a massive increase FY19 to Rs. 97 crores in FY19 **but declined significantly** in FY20 to Rs. 41 crores.

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