



SMC Ranking

★ ★ ★ ☆ ☆ (2.5/5)

Issue Highlights

Industry	Engineering
Offer for sale (Shares)	4,521,450
Fresh Issue (Shares)	1,006,711
Total Offer	5,528,161
Issue Size (Rs. Cr.)	822-824
Price Band (Rs.)	1488-1490
Offer Date	15-Mar-21
Close Date	17-Mar-21
Face Value	5
Lot Size	10

Issue Composition

	In shares
Total Issue for Sale	5,528,161
QIB	2,764,081
NIB	829,224
Retail	1,934,856

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	63.40%	59.76%
QIB	22.54%	13.77%
NIB	14.06%	17.31%
Retail	0	9.16%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company purposes to utilize funds towards the following objectives;

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

Book Running Lead Manager

- Axis Capital Limited
- IIFL Securities Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 1986, Craftsman Automation Ltd is a leading engineering organization that is engaged in manufacturing precision components. The company designs, develop, and manufacture 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 and operates 12 strategically located manufacturing facilities across 7 cities in India, with a total built up area of over 1.5 msf. 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.

Strength

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. It offers comprehensive one-stop solutions to their customers including design, process engineering and manufacturing including foundry, heat treatment, fabrication, machining and assembly facilities. Its diversification of revenue across multiple customers allows it to prevent any possible customer concentration in any of its business segments. With its track record and wide product portfolio, it has been able to retain its existing customers and has also been able to attract new customers.

Strong in-house process and product design capabilities with the ability to interchange capacity and product mix: Its diversified presence across various levels of the component value chain and design capability is unique across the competitive landscape. The company places a strong focus on research and development, with an emphasis on continuous improvement in product performance, cost and reliability, to enhance their product range. Its manufacturing automation teams integrate robots and gantry systems, thereby assuring consistent quality and dependability. It has utilized their in-house engineering and design capabilities to develop a diverse product portfolio including material handling equipment.

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. It has significant presence and customer relationships in each of its business segments and is considered as a strategic and preferred supplier by many of their OEM customers. It is also the single source supplier in certain product categories, for some of their key customers. With its track record and wide product portfolio, Craftsman has been able to retain its existing customers and has also been able to attract new customers.

Extensive manufacturing footprint, with strategically located manufacturing facilities: It owns and operates 12 strategically located manufacturing facilities across seven cities in India, with a total built up area of over 1.5 million sq. ft. Two of its facilities,

forming its flagship integrated facility, are located at the outskirts of Coimbatore in the State of Tamil Nadu. It has upgraded and continues to modernize, its manufacturing facilities, infrastructure, machines, equipment and technology to allow it to offer a diverse product suite, reduce operating costs and drive productivity. It has recently set up a new unit in Pune with high end fully automated equipment from Italian and Swiss manufacturers. This facility, which commenced operations in 2019, enables it to service the storage solutions market, catering to customers across India.

Robust financial performance in challenging business environment: Company's robust financial performance positions it for future growth and diversification. Even though its revenues declined by 17.90% from ₹ 1,818.01 crore in Fiscal 2019 to ₹ 1,492.47 crore in Fiscal 2020 due to the challenging business environment, it has improved their EBITDA margin from 25.12% in Fiscal 2019 to 27.24% in Fiscal 2020. It was able to achieve the margin improvement due to its strong process controls resulting in better operational efficiencies. The company has already incurred significant capital expenditure in the past few years, including setting up an entire range of facilities such as no-bake sand foundry, high pressure, low pressure and gravity die casting capabilities for production of various types of aluminium castings for different applications for its customers, allowing them to offer a diverse product suite, reduce operating costs and drive their productivity.

Strategies

Leverage vertically integrated manufacturing and engineering capabilities: Its vertically integrated manufacturing and engineering capabilities enables it to capitalize on the growing opportunities and emerging trends in its industry, particularly in its Automotive – Aluminium Products segment, where it focus is on multi utility vehicles, commercial vehicles and two wheelers, and in its Industrial and Engineering segment, where its focus is on manufacturing certain critical power transmission components, including, among others, castings for gas insulated switchgear. Under the Government of India 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. 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

Increase its wallet share and acquire new business by leveraging existing OEM relationships and adding new customers: The company intends to strengthen its relationships with its existing customers and explore opportunities to grow along the value chain by expanding the array of its existing products and solutions that it supply to its customers across geographies, and to win new customer contracts by developing products and solutions aligned with its needs. It has been able to discern emerging trends and proactively identify new segments of business over the past few years, enabling it to capitalize on an early mover advantage in certain segments, and also to harness synergies through knowledge sharing between its cross-functional teams and horizontal and vertical integration across its operations. Its engineering expertise and domain knowledge have enabled it to foray into certain niche areas with high margin, high growth potential, including high-quality, intricate, complex and critical components required by the customers.

Growing opportunities in storage solutions: As a part of the growth strategy, Craftsman seeks to pursue emerging opportunities, including storage solutions and material handling, which are growing market opportunities. It sees opportunities in increasing its market share in the storage solutions business, where it intends to leverage its strong product development, designing, engineering and manufacturing capabilities along with its strong relationships with its existing customers. The company has commenced the storage solutions business in 2012 and has rolled out storage solutions for its customers in the FMCG, E-commerce, food and beverages, third party logistics, pharmaceutical and electronics sectors.

Continue to reduce operating costs and improve operational efficiencies: The company intends to continue enhancing its operational efficiencies, to increase economies of scale, better absorb its fixed costs, reduce its other operating costs and strengthen its competitive position. It would focus on improving capacity utilization at its production facilities, through increase in its overall production volumes. It intends to leverage its large size and scale to produce greater volumes of

products from each of its plants and spread its fixed costs, which relate primarily to the machinery and equipment required to produce components and to fixed labour costs, more widely to reduce its production costs on a per unit basis, allowing it to reduce its unit sales price and increase its competitiveness.

Risk factors

- The company operates in a competitive business environment.
- The loss of any of its key customers or significant reduction in production and sales of, or demand for its production from its significant customers may adversely affect its business, results of operations and financial condition.
- The company does not have long term contracts or exclusive arrangements with any of its suppliers, and any major disruption to the timely and adequate supplies of its raw materials for any of its segments could adversely affect its business, results of operations and financial condition.

Peer comparison

Co_Name	Net Sales	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Bharat Forge	5995.33	-407.09	0.00	0.00	5.45	113.61	2	619.20	28829.25
Sundram Fasten.	3113.25	272.97	12.99	54.59	7.17	98.86	1	709.10	14900.20
Jamna Auto Inds.	832.57	36.50	0.92	75.98	5.44	12.85	1	69.90	2785.26
Minda Industries	5022.74	78.20	2.97	187.29	7.47	74.47	2	556.25	15126.03
Ramkrishna Forg.	1008.05	-20.80	0.00	0.00	2.19	261.06	10	570.95	1825.90
Mahindra CIE	6050.12	106.38	2.81	64.04	1.39	129.49	10	179.95	6820.68
Endurance Tech.	6010.87	439.14	31.84	43.48	6.10	227.10	10	1384.40	19473.36
Craftsman Automation Ltd	1363.72	67.55	31.97	46.61	3.35	444.19	5	1490.00	3148.12

** Estimated Annualised FY21

Valuation

Considering the P/E valuation of expected annualised FY21, on the upper end of the price band of Rs. 1490, the stock is priced at pre issue P/E of 44.39x on its FY21 EPS of Rs. 33.57. Post issue, the stock is priced at a P/E of 46.61x on its EPS of Rs. 31.97. on the upper end of the price band of Rs. 1490, the stock is priced at pre issue P/Bv of 3.89x on its FY21 BVPS of Rs. 383.47. Post issue, the stock is priced at a P/Bv of 3.35x on its BVPS of Rs. 444.19.

Considering the P/E valuation of expected annualised FY21, on the lower end of the price band of Rs. 1488, the stock is priced at pre issue P/E of 44.33x on its FY21 EPS of Rs. 33.57. Post issue, the stock is priced at a P/E of 46.57x on its EPS of Rs. 31.97. on the lower end of the price band of Rs. 1488, the stock is priced at pre issue P/Bv of 3.88x on its FY21 BVPS of Rs. 383.47. Post issue, the stock is priced at a P/Bv of 3.35x on its BVPS of Rs. 444.19.

Industry overview

The Indian auto components industry clocked a CAGR of 6% in production over fiscals 2015 to 2020, led by growth in replacement and exports demand. Domestic demand is forecast to log a CAGR of 6-8%, driven by demand from OEM at 7-9%, whereas exports are set to grow at 3-5% over fiscals 2020 to 2024. CRISIL Research projects domestic auto component consumption to decline by 9-11% in fiscal 2021 on account of subdued demand across all automobile asset classes amid continued weakness in the economy and lower demand from the replacement market owing to less movement of vehicles. However, higher component intensity due to the BS-VI norm is expected to aid average realisations. In long term, CRISIL Research expects the domestic consumption to grow at a pace of 5-7% CAGR between fiscals 2020-2024. In fiscal 2021, imports are expected to decline by 10-12% owing to subdued demand from OEMs and the aftermarket. Besides, domestic auto component manufacturers have also been operating at below-normal utilization levels owing to weak demand. Imports declined by 33% on-year during the first quarter. Going ahead, with improving domestic production, demand for imports is expected to pick up on a sequential basis. In the long term, i.e.

between fiscals 2020 and 2024, CRISIL Research expects domestic auto component production to log a CAGR of 6-8% to ~₹ 4,225 billion. OEM demand is expected to clock a CAGR of 7-9% between fiscals 2020 and 2024 to reach ~Rs 2,772 billion, on the back of healthy growth in the OEM segment on a low base of fiscal 2020 and 2021 due to BS-VI norms and the Covid-19 pandemic, respectively.

Outlook

Craftsman Automation is a diversified engineering company in India with vertically integrated manufacturing capabilities. It is the largest player involved in the machining of cylinder blocks and cylinder heads in the intermediate, medium and heavy commercial vehicle segment as well as in the construction equipment industry in India. However, a substantial portion of the company assets are hypothecated / mortgaged in favor of lenders as security of company borrowings. If the company fails to service its debt obligations, its lenders may enforce the security which can impact company business. Moreover, the Company revenues are on declining mode in the last 3.5 years. Besides, on the valuation front, the issue looks expensive. A long term investor with high risk appetite may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	March 15, 2021
Bid/Offer Closing Date	March 17, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about March 22, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about March 23, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about March 24, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about March 25, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	31-Dec-20 (9 Months)	31-Mar-20 (12 Months)	31-Mar-19 (12 Months)
Revenue from operations	1022.79	1492.47	1818.01
Total expenditure	735.35	1094.49	1375.37
Operating Profit	287.44	397.98	442.64
OPM%	28.10	26.67	24.35
Other Income	7.12	8.59	13.64
PBDIT	294.56	406.57	456.28
Depreciation	141.47	194.99	176.15
PBIT	153.08	211.58	280.13
Interest	77.2	148.4	140.5
Profit before share of profit from JV & exceptional items	75.84	63.18	139.58
Share of profit from JV	0.08	-0.02	0.40
Profit before exceptional items	75.93	63.16	139.98
Exceptional items	0.00	-5.77	0.00
PBT	75.93	57.39	139.98
Tax	25.27	16.31	42.62
Profit After Tax	50.66	41.08	97.37

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-20	As on 31-Mar-20	As on 31-Mar-19
Non-current assets			
Property, plant and equipment	1,413.07	1,426.70	1,476.45
Capital Work in progress	27.43	88.82	90.61
Intangible assets	7.87	10.63	14.34
Right-of-use Asset	84.72	104.31	97.79
Investments accounted for using equity method	1.88	1.79	1.81
Financial assets	0.00	0.00	0.00
Investments	0.30	1.40	2.35
Security Deposits	20.17	21.93	21.70
Other Financial assets	1.76	10.57	0.59
Current tax assets (Net)	0.00	1.10	0.00
Other non-current assets	11.29	9.33	11.03
Total non-current assets	1568.49	1676.57	1716.68
Current assets			
Inventories	339.92	325.62	323.31
Trade receivables	214.20	194.32	210.03
Cash and cash equivalents	31.05	59.76	19.50
Other bank balances	21.12	11.88	7.08
Security Deposits	0.67	0.69	0.82
Other Financial assets	3.50	1.92	0.33
Other Current assets	67.34	32.38	47.65
Total current assets	677.81	626.57	608.72
Total Assets	2246.29	2303.14	2325.40
Non-current liabilities			
Borrowings	535.08	668.28	693.20
Other Financial Liabilities	98.77	108.36	91.25
Provisions	0.21	0.68	0.00
Deferred tax liabilities (Net)	46.51	37.09	35.53
Total Non-Current Liabilities	680.57	814.41	819.98
Current liabilities			
Financial Liabilities			
Borrowings	156.69	244.27	135.01
Trade payables	0.00	0.00	0.00
Total outstanding dues of micro enterprises and small enterprises	13.32	20.76	24.19
Total outstanding dues of creditors other than micro enterprises and small enterprises	288.30	261.02	307.02
Other Financial Liabilities	251.86	179.20	264.71
Contract Liability	6.93	0.00	5.01
Provisions	74.16	62.74	81.06
Other Current tax liabilities (net)	2.87	1.83	5.15
Total current liabilities	794.12	769.83	822.16
Total Liabilities	1474.68	1584.24	1642.14
Networth	771.61	718.90	683.26
Net worth represented by:			
Equity Share capital	10.06	10.06	10.06
Other equity	761.55	708.84	673.20
NET Worth	771.61	718.90	683.26

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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