

**Issue Details**

Listing	BSE & NSE
Open Date	15 Mar 2021
Close Date	17 Mar 2021
Price Band	Rs.1,488-1,490
Market Lot	10 shares
Minimum Lot	1 Lot

**Craftsman Automation Ltd (CAL), established in 1986, is a diversified engineering company primarily engaged in three segments, namely Automotive Powertrain, Automotive Aluminum and Industrial Engineering. They are 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. They are also among the top 3-4 players in machining of cylinder blocks for the tractor segment in India. They have a diversified client base which reduces portfolio concentration risk.**

**Issue Structure**

Offer for sale	82%
Fresh Issue	18%
Issue Size	Rs.823 cr
Total no of shares	55,26,711
QIB share (%)	≤ 50%
Non Inst share (%)	≥ 15%
Retail share (%)	≥ 35%

**We recommend a subscribe on the IPO at the price band of Rs. 1488-1490 per share. Our optimism stems from the following:**

- ❖ **Total revenue is expected to grow at a CAGR of 14.6% over FY20-23 to Rs. 2243 cr. EBITDA over the same period is expected to grow at 12.7% CAGR to Rs 570 cr with margin contraction of 130bps to 25.4% in FY23 and PAT is expected to grow at 76.0% to Rs 224 cr with margin expansion of 720bps to 10.0% over FY20-23. ROE in FY23 is forecasted to be 17.0% and ROCE to be 16.7%.**
- ❖ **At Rs 709 cr the automotive – powertrain segment contributed 47.5% of FY20 revenue although it degrew 10% over FY18-20 to Rs 786 cr citing the financial crisis and overall slowdown in the economy. However, the EBITDA margins have grown by a handsome 772 bps to 35.7% in FY20. At the same time this segment has incurred a substantial capex of Rs 206 cr and given the strong economic rebound, we forecast revenues to grow at a CAGR of 20% to Rs 1225 cr over FY20-23.**
- ❖ **At Rs 258 cr the automotive – aluminum products segment had a 17.3% revenue share in FY20. Although the revenue growth was tepid at 5% CAGR over the last 3 years to Rs 258 cr, EBITDA margins expansion of 644 bps to 16.7% have more than made up for the slower revenue growth. Going forward this segment is expected to grow at 18.8% CAGR to Rs 432 cr by FY23 given:**

**Shareholding Pattern**

	Pre (%)	Post(%)
Promoters	63.4	59.76
Public	36.6	40.24

**Key Financials (in ₹ crores)**

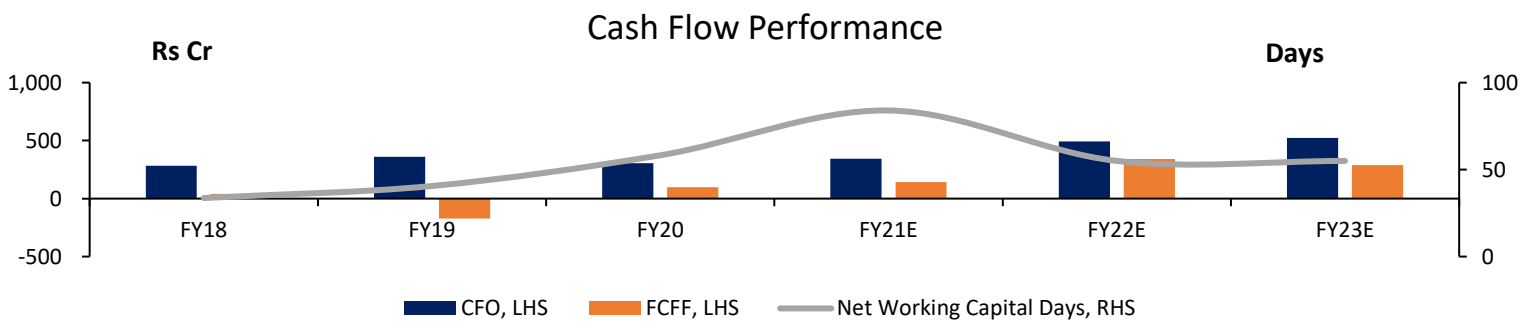
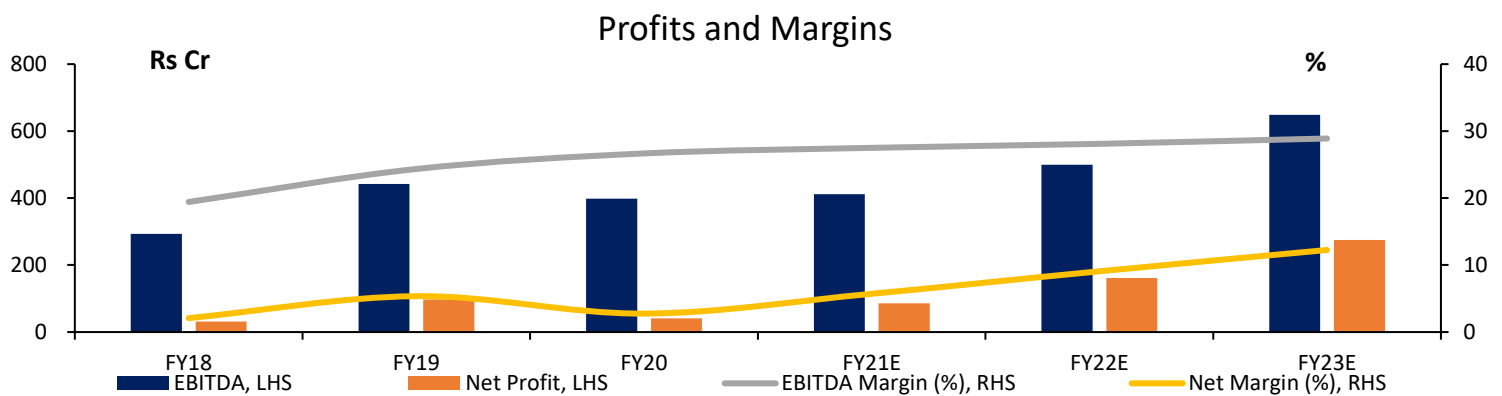
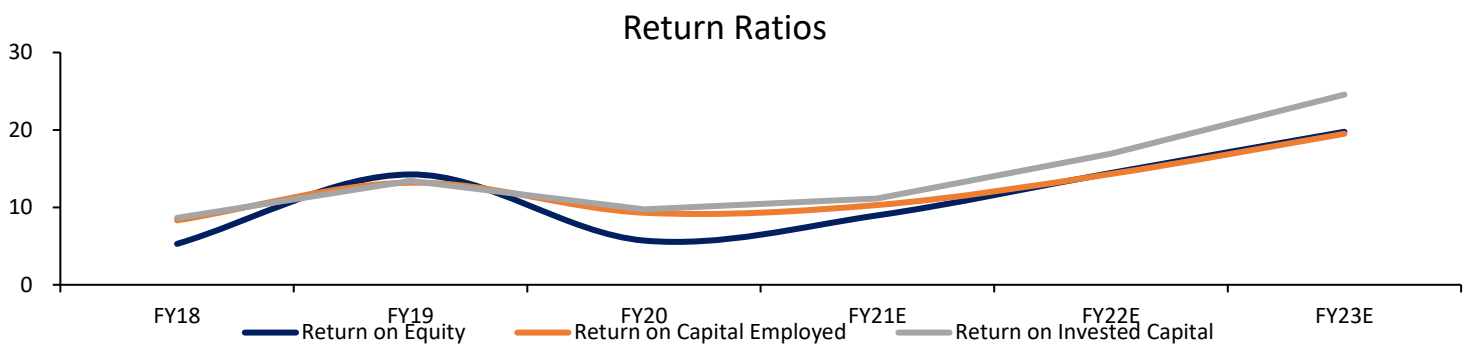
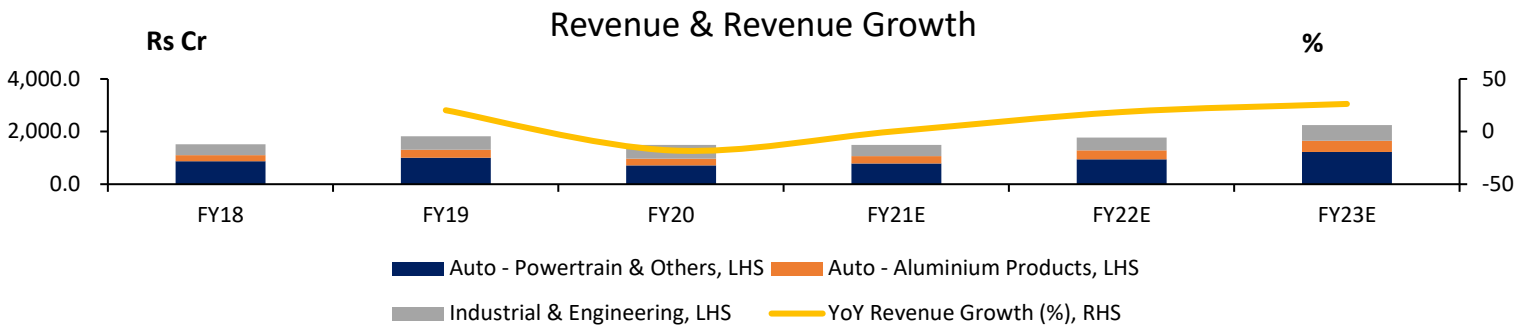
	Sales	EBITDA	Net Profit	EBITDA Margin (%)	Net Margin (%)	Adj EPS* ₹	Adj BV* ₹	RoE (%)	RoCE (%)	P/E* (X)	P/B* (X)	EV/EBITDA (x)
<b>FY19</b>	1,818	443	97	24.3	5.4	46.1	323.4	14.3	13.2	32.3	4.6	8.9
<b>FY20</b>	1,492	398	41	26.7	2.8	19.4	340.3	5.7	9.3	76.6	4.4	10.0
<b>FY21E</b>	1,498	412	86	27.5	5.7	40.5	452.0	9.0	10.3	36.8	3.3	8.8
<b>FY22E</b>	1,777	467	140	26.3	7.9	66.4	518.5	12.8	12.9	22.4	2.9	7.1
<b>FY23E</b>	2,243	570	224	25.4	10.0	105.9	624.4	17.0	16.7	14.1	2.4	5.3

\*Post issue number of shares considered

- Rs 335 cr capex incurred over FY18-20, and
  - Plans to leverage the vertically integrated manufacturing and engineering capabilities to tap the growing opportunities for aluminum usage with focus on multi utility vehicles, commercial vehicles and two wheelers.
- ❖ At Rs 525 cr the industrial and engineering segment contributed 35.2% to FY20 revenue (14% CAGR over FY18-20). Similar to other segments, its EBITDA margins too have expanded by 1815 bps to 25%. This segment has witnessed a capex of Rs 160 cr over the period FY18-20. Revenues are expected to grow at 3.7% to Rs 586 cr in FY23.
- ❖ CAL has strong and well-established relationships with many marquee domestic and global OEMs. Some of their key customers include Daimler India, Tata Motors, Mahindra & Mahindra, Royal Enfield, Mitsubishi Heavy Industries, Ashok Leyland among several others.
- ❖ The company has 12 vertically integrated manufacturing facilities that are strategically located close to key customers
- enabling them to adhere to just in time delivery schedules,
  - allowing them economies of scales, and
  - providing logistical advantages to customers.

### Valuation

At the higher price band of Rs 1490 per share, Craftsman Automation Ltd is valued at 11.5X FY23 earnings. We recommend a subscribe.



Source: Company Reports and Ventura Research

### Issue Structure and Offer Details

The proposed issue size of Craftsman Automation IPO is Rs.823 cr. Of this, Rs 673 cr is OFS and Rs 150 cr is fresh issue. The fresh issue comprises of 10,06,711 shares at the upper price band of Rs 1490. The offer for sale of upto 130,640 shares is by promoter Srinivasan Ravi, upto 1,559,260 shares is by promoter Marina, upto 1,414,050 shares is by investor IFC and 1,417,500 shares is by individual K Gomatheswaran. The price band for the issue is in the range of Rs.1488-1490 and the bid lot is 10 shares and multiples thereof.

Issue Structure		
Category	No. of shares offered	No of shares Offered
QIB	Not more than 27,63,356	Not more than 50% of Issue
Non-Institutional Bidders	Not less than 8,29,007	Not less than 15% of Issue
Retail	Not less than 19,34,349	Not less than 35% of Issue
Total		

\* No of shares based on higher price band of Rs.1490

Source: Company Reports & SEBI

Objects of the offer	
Purpose	Amount (in Rs. cr)
Repayment/prepayment of, in full or part, of certain borrowings availed by the company	120.00
General corporate purposes	30.00
Net Proceeds	150

Source: Company Reports & SEBI

Shareholding Pattern		
Category	Pre-issue	Post-issue
Promoter & Promoter Group	63.4%	59.76%
Public	36.6%	40.24%

Source: Company Reports and SEBI

## Financial Projections

Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E	Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E
<b>Income Statement</b>						<b>Per Share Data &amp; Yields</b>					
Net Revenue	1,818.0	1,492.5	1,498.2	1,776.6	2,243.5	Adjusted EPS	46.1	19.4	40.5	66.4	105.9
YoY Growth (%)	20.3	-17.9	0.4	18.6	26.3	Adjusted BVPS	323.4	340.3	452.0	518.5	624.4
Cost of Materials	703.5	586.8	599.3	705.3	881.7	CFO per share	170.4	144.5	162.4	223.0	223.6
YoY Growth (%)	22.2	-16.6	2.1	17.7	25.0	CFO Yield (%)	11.4	9.7	10.9	15.0	15.0
Employee Benefit Expenses	216.8	171.0	172.3	213.2	275.9	FCF per share	-81.4	46.3	67.4	151.4	112.7
YoY Growth (%)	9.2	-21.1	0.8	23.7	29.4	FCF Yield (%)	-5.5	3.1	4.5	10.2	7.6
Other Operating Expenses	455.1	336.7	314.6	390.9	516.0	<b>Solvency Ratio (X)</b>					
YoY Growth (%)	2.6	-26.0	-6.6	24.2	32.0	Net Debt to Equity	1.2	1.2	0.5	0.2	-0.1
<b>EBITDA</b>	<b>442.6</b>	<b>398.0</b>	<b>412.0</b>	<b>467.2</b>	<b>569.8</b>	Net Debt to EBITDA	1.8	2.1	1.1	0.4	-0.2
YoY Growth (%)	50.8	10.1	3.5	13.4	22.0	Interest Coverage Ratio	1.9	1.4	2.1	3.7	9.1
Margin (%)	24.3	26.7	27.5	26.3	25.4	<b>Working Capital Ratios</b>					
Depreciation & Amortization	176.1	195.0	201.6	208.8	217.4	Payable Days	66	69	108	105	105
<b>EBIT</b>	<b>266.5</b>	<b>203.0</b>	<b>210.4</b>	<b>258.4</b>	<b>352.4</b>	Receivable Days	42	48	74	60	60
YoY Growth (%)	84.5	23.8	3.6	22.8	36.4	Inventory Days	65	80	118	100	100
Margin (%)	14.7	13.6	14.0	14.5	15.7	Net Working Capital Days	41	58	84	55	55
Other Income	13.6	8.6	9.0	12.0	15.0	<b>Return Ratios (%)</b>					
Exceptional Items	-	5.8	-	-	-	Return on Equity	14.3	5.7	9.0	12.8	17.0
Finance Cost	140.5	148.4	100.0	70.0	38.7	Return on Capital Employed	13.2	9.3	10.3	12.9	16.7
<b>PBT</b>	<b>139.6</b>	<b>57.4</b>	<b>119.4</b>	<b>200.4</b>	<b>328.7</b>	Return on Invested Capital	13.4	9.7	11.1	15.1	20.3
YoY Growth (%)	222.4	-58.9	107.9	67.9	64.0	<b>Valuation (X)</b>					
Margin (%)	7.7	3.8	8.0	11.3	14.7	P/E	32.3	76.6	36.8	22.4	14.1
Tax	42.6	16.3	33.7	60.0	104.9	P/BV	4.6	4.4	3.3	2.9	2.4
Tax Rate (%)	30.5	28.4	28.2	30.0	31.9	EV/EBITDA	8.9	10.0	8.8	7.1	5.3
<b>PAT</b>	<b>97.0</b>	<b>41.1</b>	<b>85.6</b>	<b>140.4</b>	<b>223.8</b>	<b>Cash Flow Statement</b>					
Share of Profit from JV	0.4	-0.0	-	-	-	Profit Before Tax	139.6	57.4	119.4	200.4	328.7
<b>Net Profit</b>	<b>97.4</b>	<b>41.1</b>	<b>85.6</b>	<b>140.4</b>	<b>223.8</b>	Add: Depreciation	176.1	195.0	201.6	208.8	217.4
YoY Growth (%)	208.8	-57.8	108.5	63.9	59.4	Add: Finance Cost	140.5	148.4	100.0	70.0	38.7
Margin (%)	5.4	2.8	5.7	7.9	10.0	Change in other assets & liabilities	101.3	29.7	62.5	-25.2	62.8
<b>Balance Sheet</b>						Change in working capital	-172.7	-103.5	-106.6	77.1	-70.3
Share Capital	10.1	10.1	10.6	10.6	10.6	Less: Tax Paid	-24.8	-21.6	-33.7	-60.0	-104.9
Total Reserves	673.2	708.8	944.5	1,084.9	1,308.7	<b>Cash Flow from Operations</b>	<b>360.0</b>	<b>305.4</b>	<b>343.2</b>	<b>471.1</b>	<b>472.4</b>
<b>Shareholders' Fund</b>	<b>683.3</b>	<b>718.9</b>	<b>955.1</b>	<b>1,095.4</b>	<b>1,319.3</b>	Net Capital Expenditure	-360.5	-139.0	-103.5	-147.0	-149.0
Financial Liabilities	784.5	776.6	533.9	383.9	263.9	Change in other investments	-0.0	-0.2	83.8	18.6	36.4
Deferred Tax Liabilities	35.5	37.1	46.5	50.0	54.0	Add: Dividend & Interest Income	2.1	2.2	-	-	-
Long Term Provisions	0.0	0.7	0.7	0.7	0.7	<b>Cash Flow from Investing</b>	<b>-358.4</b>	<b>-137.1</b>	<b>-19.7</b>	<b>-128.4</b>	<b>-112.6</b>
<b>Total Liabilities</b>	<b>1,503.2</b>	<b>1,533.3</b>	<b>1,536.1</b>	<b>1,530.0</b>	<b>1,637.8</b>	Change in Share Capital	-	-	0.5	-	-
Gross Block	1,951.6	2,067.2	2,170.0	2,310.0	2,450.0	Proceeds from Equity	-	-	150.0	-	-
Less: Accumulated Depreciation	475.1	640.5	817.9	1,006.8	1,207.1	Change in Short Term Borrowings	-153.3	92.7	-107.6	-20.0	-20.0
<b>Net Block</b>	<b>1,476.5</b>	<b>1,426.7</b>	<b>1,352.1</b>	<b>1,303.2</b>	<b>1,242.9</b>	Change in Long Term Borrowing	264.8	-82.0	-233.2	-150.0	-120.0
Right of Use Assets	97.8	104.3	69.1	42.7	4.8	Less: Interest Paid	-129.8	-138.6	-100.0	-70.0	-38.7
Intangible Assets	14.3	10.6	5.7	5.8	6.3	<b>Cash Flow from Financing</b>	<b>-18.2</b>	<b>-127.9</b>	<b>-290.3</b>	<b>-240.0</b>	<b>-178.7</b>
Capital WIP	90.6	88.8	27.4	21.6	13.6	Net Cash Flow	-16.6	40.4	33.2	102.7	181.0
Investments using Equity Method	1.8	1.8	1.8	1.8	1.8	Net foreign exchange difference	-0.1	0.1	-	-	-
Security Deposits	21.7	21.9	20.2	23.1	26.9	Opening Balance of Cash	36.0	19.3	59.8	93.0	195.7
Other Non Current Financial Assets	2.9	12.0	1.9	4.6	4.3	<b>Closing Balance of Cash</b>	<b>19.3</b>	<b>59.8</b>	<b>93.0</b>	<b>195.7</b>	<b>376.7</b>
Current Tax Assets (net)	0.0	1.1	1.1	1.1	1.1						
Other Non Current Assets	11.0	9.3	9.4	11.2	14.1						
Net Current Assets	-213.4	-143.3	47.2	114.8	322.0						
<b>Total Assets</b>	<b>1,503.2</b>	<b>1,533.3</b>	<b>1,536.1</b>	<b>1,530.0</b>	<b>1,637.8</b>						

Source: Company Reports & Ventura Research

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*Corporate Office: I-Think Techno Campus, 8<sup>th</sup> Floor, 'B' Wing, Off Pokhran Road No 2, Eastern Express Highway, Thane (W) – 400608*