

Craftsman Automation Ltd

Craftsman Automation Limited (CAL) was incorporated on July 18, 1986. The company is led by Srinivasan Ravi a first generation entrepreneur with over 34 years of Industry experience. The company is a diversified engineering company with vertically integrated manufacturing capabilities, engaged in 3 business segments, namely Automotive - Powertrain and Others, Automotive – Aluminium Products, and Industrial and Engineering. It is one of the leading players in the machining of cylinder blocks for the tractor segment. 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.

Positives: (a) Diversified engineering company with a focus on providing comprehensive solutions and manufacturing high quality, intricate and critical products, components and parts; (b) Long term and well established relationships with marquee domestic and global OEMs; (c) Experienced promoters and management team with strong domain expertise.

Investment concerns: (a) CAL reported poor consolidated top-line (CAGR of ~0.5% over FY2018-20), hence growth concerns remain; (b) The company's more than ~70% revenue comes from the Automotive segment (Slowdown in automobile industries could impact the overall sales volume of the company).

Outlook & Valuation: In terms of valuations, the pre-issue P/E works out to 73x FY2020 earnings (at the upper end of the issue price band), which is high considering CAL's historical two year CAGR top-line & bottom-line growth. Further, the company's return ratios are also low compared to its other peers. **Thus, we recommend NEUTRAL rating on the issue.**

Key Financials

Y/E March (Rs cr)	FY2018	FY2019	FY2020	9MFY21
Net Sales	1,479	1,818	1,492	1,023
% chg	-	22.9	(17.9)	
Net Profit	32	97	41	51
% chg	-	195.8	(58.1)	
OPM (%)	19.8	24.3	26.3	28.1
EPS (Rs)	15.7	48.4	20.4	25.2
P/E (x)	95.1	30.8	73.0	-
P/BV (x)	5.0	4.4	4.2	-
RoE (%)	5.6	14.4	5.7	-
RoCE (%)	10.0	16.0	11.2	-
EV/Sales (x)	2.6	2.2	2.7	-
EV/EBITDA (x)	12.9	8.9	10.1	-

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Neutral

Issue Open: March 15, 2021

Issue Close: March 17, 2021

Issue Details

Face Value: `5

Present Eq. Paid up Capital: `10.06cr

Offer for Sale: 45,21,450 shares

Fresh issue: `150cr

Post Eq. Paid up Capital: `10.56cr

Issue size (amount): `823cr - **`824cr

Price Band: `1,488-1,490

Lot Size: 10 shares and in multiple thereafter

Post-issue mkt.cap: **`3,144-***`3,148cr

Promoters holding Pre-Issue: 63.4%

Promoters holding Post-Issue: 59.8%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50%
Non-Institutional	15%
Retail	35%

Post Issue Shareholding Pattern

Promoters	59.8%
Others	40.2%

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Company background

The promoter of the company is Srinivasan Ravi. Incorporated in 1986, Craftsman Automation Ltd is a leading engineering organization that is engaged in manufacturing precision components. The company designs, develop, 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.

Issue details

CAL is raising ₹ 150cr through fresh issue and Promoter & Individual investors are selling ~45.2 lakhs equity shares through offer for sale in the price band of ₹ 1,488-1,490.

Exhibit 1: Pre and post IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoters	1,27,57,500	63.4	1,26,26,860	59.8
Others	73,64,100	36.6	85,01,451	40.2
Total	2,01,21,600	100.0	2,11,28,311	100.0

Source: Source: RHP, Note: Calculated on upper price band

Objectives of the Offer

- Repayment/pre-payment, in full or part, of certain borrowings availed of by the company (~ ₹ 120cr).
- General corporate purposes.

Exhibit 2: Consolidated Income Statement

Y/E March (` cr)	FY2018	FY2019	FY2020
Net Sales	1,479	1,818	1,492
% chg		22.9	(17.9)
Total Expenditure	1,186	1,375	1,100
Raw Material	576	703	587
Personnel	199	217	171
Others Expenses	411	455	343
EBITDA	294	443	392
% chg		50.8	(11.4)
(% of Net Sales)	19.8	24.3	26.3
Depreciation & Amortisation	149	176	195
EBIT	144	267	197
% chg		84.5	(26.0)
(% of Net Sales)	9.8	14.7	13.2
Interest & other Charges	112	141	148
Other Income	12	14	9
(% of PBT)	26.6	10.0	15.0
Recurring PBT	44	140	57
% chg		221.5	(59.0)
Tax	12	43	16
(% of PBT)	27.6	30.4	28.4
PAT (reported)	32	97	41
% chg		195.8	(58.1)
(% of Net Sales)	2.2	5.4	2.8
Basic EPS (`)	15.7	48.4	20.4
Fully Diluted EPS (`)	15.7	48.4	20.4
% chg		195.8	(58.1)

Source: Company, Angel Research

Consolidated Balance Sheet

Y/E March (` cr)	FY2018	FY2019	FY2020
SOURCES OF FUNDS			
Equity Share Capital	10	10	10
Reserves& Surplus	587	673	709
Shareholders Funds	597	683	719
Total Loans	847	985	1,041
Deferred Tax Liability	145	154	166
Total Liabilities	1,589	1,822	1,926
APPLICATION OF FUNDS			
Gross Block	1,668	2,077	2,201
Less: Acc. Depreciation	344	489	659
Net Block	1,323	1,589	1,542
Capital Work-in-Progress	24	91	89
Investments	4	4	3
Current Assets	648	642	670
Inventories	300	323	326
Sundry Debtors	202	210	194
Cash	49	27	72
Loans & Advances	46	49	35
Other Assets	51	33	43
Current liabilities	524	621	506
Net Current Assets	124	21	163
Deferred Tax Asset	113	118	129
Mis. Exp. not written off	-	-	-
Total Assets	1,589	1,822	1,926

Source: Company, Angel Research

Consolidated Cash Flow Statement

Y/E March (Rs cr)	FY2018	FY2019	FY2020
Profit before tax	44	140	57
Depreciation	149	176	195
Change in Working Capital	20	(33)	(46)
Interest / Dividend (Net)	112	135	137
Direct taxes paid	(12)	(25)	(22)
Others	(30)	(33)	(17)
Cash Flow from Operations	283	360	305
(Inc.)/ Dec. in Fixed Assets	(212)	(361)	(140)
(Inc.)/ Dec. in Investments	2	3	3
Cash Flow from Investing	(210)	(359)	(137)
Issue of Equity	0	0	0
Inc./(Dec.) in loans	54	113	17
Dividend Paid (Incl. Tax)	(1)	(1)	(6)
Interest / Dividend (Net)	(113)	(130)	(139)
Cash Flow from Financing	(60)	(18)	(128)
Inc./(Dec.) in Cash	12	(17)	40
Opening Cash balances	24	36	19
Closing Cash balances	36	19	60

Source: Company, Angel Research

Key Ratios

Y/E March	FY2018	FY2019	FY2020
Valuation Ratio (x)			
P/E (on FDEPS)	95.1	30.8	73.0
P/CEPS	16.6	11.0	12.7
P/BV	5.0	4.4	4.2
EV/Sales	2.6	2.2	2.7
EV/EBITDA	12.9	8.9	10.1
EV / Total Assets	2.4	2.2	2.1
Per Share Data (Rs)			
EPS (Basic)	15.7	48.4	20.4
EPS (fully diluted)	15.7	48.4	20.4
Cash EPS	89.8	135.9	117.3
DPS	72.6	187.4	112.0
Book Value	296.5	339.6	357.3
Returns (%)			
ROCE	10.0	16.0	11.2
Angel ROIC (Pre-tax)	10.4	16.3	11.7
ROE	5.6	14.4	5.7
Turnover ratios (x)			
Asset Turnover (Gross Block)	0.9	0.9	0.7
Inventory / Sales (days)	74	65	1
Receivables (days)	50	42	84
Payables (days)	96	75	82
Working capital cycle (ex-cash) (days)	28	32	3

Source: Company, Angel Research

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