

Company Overview

Craftsman Automation Limited ("Craftsman") is a diversified engineering company with vertically integrated manufacturing capabilities, engaged in 3 business segments, namely powertrain and other products for the automotive segment ("Automotive - Powertrain and Others"), aluminium products for the automotive segment ("Automotive - Aluminium Products"), and industrial and engineering products segment ("Industrial and Engineering"). 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 in the construction equipment industry in India. They are among the top 3-4 component players with respect to machining of cylinder block for the tractor segment in India. Craftsman is present across the entire value chain in the Automotive-Aluminium Products segment, providing diverse products and solutions. Their strong in-house engineering and design capabilities help them offer comprehensive solutions and products to their long standing domestic and international customers in each of the segments in which they operate. 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.

Objects of the issue

The issue consist of Offer for sale (INR 6.73 bn) and Fresh issue (INR 1.5 bn). Company proposes to utilize the net proceeds from fresh issue for:

- A) Repayment/pre-payment, in full or part, of certain borrowings availed of by the company (INR 1.2 bn)
- B) General Corporate Purposes (INR 0.3 bn)

Investment Rationale

Diversified engineering company with a focus on providing comprehensive solutions and manufacturing high quality, intricate and critical products, components and part

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. They are present across the entire value chain in the Automotive- Aluminium Products segment, providing diverse products and solutions. They offers comprehensive one-stop solutions to their customers including design, process engineering and manufacturing including foundry, heat treatment, fabrication, machining and assembly facilities. They are diversified across end-user industries and cater to commercial vehicles, two-wheeler, tractor and other segments. They actively pursue cross-selling opportunities across segments to derive value for their existing and prospective customers. This not only helps them in solving complex customer problems that require multi-domain expertise but also helps them in penetrating customers' different business segments and enhance their capabilities to collaborate with OEMs right from the designing of their new products. Their diversified presence across various segments and design capability provides them with the flexibility to operate successfully across business cycles and mitigate any fluctuations in the industry

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

Valuation and Outlook

Craftsman Automation is a diversified engineering company in India with vertically integrated manufacturing capabilities. Moreover, they are 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. On the valuation front, at the upper price band, the company is valued at 77x P/E based on FY20 numbers considering its diluted equity shares. Considering the expensive valuation, declining revenues, weak operating profit and cyclical nature of business. We assign an 'AVOID' rating to this IPO issue

Issue Details

Offer Period	Mar 15th - 17th Mar 2021
Price Band	INR.1488 to INR.1490
Bid Lot	10
Listing	BSE&NSE
Issue Size (no. of shares in mn)	5.5
Issue Size (INR. in bn)	8.2
Face Value (INR)	5

Issue Structure

QIB	50%
Retail	35%
HNI	15%

BRLM Axis Capital, IIFL Securities

Registrar Link Intime India Pvt. Ltd

Particulars Pre Issue % Post Issue %

Promoter	63.40	59.76
Public	36.60	40.24
Total	100	100

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Revenue				
Revenue from operations	15,115	18,180	14,925	10,228
Total revenue	15,115	18,180	14,925	10,228
Expenses				
Raw Materials Consumed	5,917	7,105	5,717	4,387
Changes in Inventories	(159)	(70)	151	(48)
Employee benefit expenses	1,986	2,168	1,710	1,106
Other expenses	4,111	4,551	3,367	1,908
Excise Duty	324	-	-	-
Total Operating expenses	12,179	13,754	10,945	7,354
EBITDA	2,936	4,426	3,980	2,874
Depreciation and amortisation expense	1,492	1,761	1,950	1,415
Other income	113	136	86	71
EBIT	1,558	2,801	2,116	1,531
Finance costs	1,125	1,405	1,484	772
Exceptional Item	-	-	(58)	-
Share in Profit/(Loss) of Joint Ventures	2	4	(0)	1
PBT	435	1,400	574	759
Current tax	-	78	168	321
Deferred Tax charge	120	348	(5)	(68)
Total tax	120	426	163	253
PAT	315	974	411	507
Diluted EPS	14.9	46.1	19.4	24.0

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Cash Flow from operating activities	2,827	3,600	3,054	2,421
Cash flow from investing activities	(2,107)	(3,584)	(1,371)	(455)
Cash flow from financing activities	(603)	(182)	(1,279)	(2,254)
Net increase/(decrease) in cash and cash equivalents	116	(166)	404	(288)
Cash and cash equivalents at the beginning of the period	240	360	193	598
Effect of exchange rate changes on cash and cash equivalents	4	(1)	1	1
Cash and cash equivalents at the end of the period	360	193	598	310

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Equity				
Share Capital	101	101	101	101
Other Equity	5,866	7,088	6,732	7,616
Net worth	5,967	7,189	6,833	7,716
Long-Term Borrowings	4,303	6,683	6,932	5,351
Other Financial Liabilities	557	1,084	913	988
Long-Term Provisions	-	7	-	2
Deferred tax Liabilities	320	371	355	465
Total Non Current Liabilities	5,180	8,144	8,200	6,806
Short Term Borrowings	2,721	2,443	1,350	1,567
Trade payables	3,627	2,818	3,312	3,016
current tax liability	-	-	50	69
Other current liabilities	290	627	811	742
Short Term Provisions	41	18	52	29
Other Financial Liabilities	2,168	1,792	2,647	2,519
Total Current Liabilities	8,848	7,698	8,222	7,941
Total liabilities	19,994	23,031	23,254	22,463
Assets				
Tangible Assets	12,447	14,267	14,765	14,131
Capital work in Progress	243	888	906	274
Intangible Assets	150	106	143	79
Right Use of Assets	638	1,043	978	847
Investments accounted for using equity method	14	18	18	19
Other Financial Assets	14	106	6	18
Investments	25	14	24	3
Security Deposits	181	219	217	202
Current Tax Assets	44	11	-	-
Other non-current assets	267	93	110	113
Total Non current assets	14,023	16,766	17,167	15,685
Other Financial Assets	1	19	3	35
Trade Receivables	2,017	1,943	2,100	2,142
Cash and cash equivalents	367	598	195	310
Bank Balances	120	119	71	211
Security Deposits	6	7	8	7
Inventories	3,005	3,256	3,233	3,399
Other current assets	457	324	477	673
Total Current Asset	5,972	6,266	6,087	6,778
Net Current Assets	(2,876)	(1,433)	(2,134)	(1,163)
Total Assets	19,994	23,031	23,254	22,463

Source: RHP, BP Equities Research

Key Risks.

- ⇒ There is a significant decline in automobile sales prior to Covid-19 and post covid-19 lockdowns, hence one cannot say when it would recover completely.
- ⇒ 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.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

General Disclaimer

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392