15th May, 2023

To

The Manager - Listing,
BSE Limited,
Rotunda Building,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001
Scrip Code: 543276

The Manager - Listing,
National Stock Exchange of India Limited,
Exchange Plaza,
Bandra Kurla Complex ,
Bandra (East),
Mumbai - 400 051
Stock Code: CRAFTSMAN

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call on the Audited Financial Results for the quarter and year ended 31st March, 2023;

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and our intimation and outcome letter dated 4th April, 2023 and 9th May, 2023 respectively, we are enclosing herewith the transcript of the earnings conference call organized on Tuesday, the 9th May, 2023 at 4.00 P.M. (IST) on the Audited Financial Results for the quarter and year ended 31st March, 2023.

The transcript of the earnings conference call will be uploaded on the website of the Company at www.craftsmanautomation.com.

We request you to kindly take the aforesaid information on record and disseminate the same on your respective websites.

Thanking you.

Yours faithfully,
for CRAFTSMAN AUTOMATION LIMITED

Shainshad Aduvanni
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Date: 2023.05.15 14:33:49 +05'30'

Shainshad Aduvanni
Company Secretary and Compliance Officer

Encl: As above

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CRAFTSMAN AUTOMATION LIMITED
Q4 & FY 22-23 Earnings Conference Call
9th May, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the Craftsman Automation Limited Investor Call to discuss the financial performance of the company for the quarter and year ended 31st March 2023. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Srinivasan Ravi, Chairman and Managing Director of Craftsman Automation Limited. Thank you, and over to you, Mr. Ravi.

Srinivasan Ravi: Good afternoon, everybody, and thanks for joining the earnings call. It gives me pleasure to welcome you all for the earnings call for the year ended March 2023. The auto sector has seen a storm of headwinds for the last 4, 5 years, either 1 turbulence or other, which has resulted in higher cost of ownership, lower affordability restrictions and vehicle supplies, chip shortages. Of course, pandemic, we all have seen a very turbulent 5 years.

However, most of the headwinds are now receding and now better absorption of the cost of the inflation is accepted by the end customer. There is a realization of pent-up demand and a lot of improvement taken place in the supply chain. The FY23 volumes were improving significantly has improved, given the improving narrative of demand, supply and margins, we expect the auto sector earnings to grow significantly on a flat base of 5 years.

The company has acquired 76% equity of DR Axiom India Private Limited for a cost of INR375 crores and this company is engaged in the manufacturer of about 12 auto aluminium parts and mainly cylinder heads and cylinder blocks. I think we have also put up a presentation earlier on this acquisition.

I would just walk you through the highlights for the FY23, the standalone highlights. The turnover has been the highest that is INR2,980 crores, 35% growth over the previous year, but in real value addition terms we have grown by 27% and it is reflected in the EBITDA growth of INR671 crores over INR539, that is a 25% growth inline with the value addition growth of 27%. So the EBITDA growth is 25%.

EBIT is 37% because the absolute depreciation amount has increased by only INR10 crores, so that has increased in the EBIT (growth) margin significantly raising to 37%. PBT has shown a 37% and PAT which has been aided by the shift to the new tax regime has shown a quantum jump by 48%.

The company is opted for a beneficial tax rate of 25.168% over FY23 compared to the normal rate of 34.944%. Capex stands at INR309 crores, mainly to enhance technological upgradation and also to address all the bottleneck areas and balancing areas and as we know that we have doubled the sales in the last two years.

The key ratios, one or two, three ratios I would like to mention, debt equity of course has moved from 0.63 to 0.72 mainly because of the acquisition finance, what we have taken, the acquisition has costed INR 375 crores, the debt to EBITDA is 1.48, it was earlier 1.33 and ROCE has improved from pre-tax annualised from 20% to 22.5%. EPS has increased from INR75.94 to INR112.53.

Segment wise results, auto-powertrain segment turnover has grown by 32%, that is INR1,154 crores was last year and this year has been INR1,527 crores. Aluminium has grown by 34% from INR552 crores to INR741 crores, industrial engineering has grown by 42% from INR500 crores to INR713 crores, storage business has increased to INR376 crores from INR253 crores, it is a 49% growth.

Out of powertrain EBIT has grown by 26%, INR304 crores to INR382 crores and aluminium EBIT has grown from INR41 crores to INR65 crores by 57%, industrial engineering segment EBIT has grown by 89%, that is INR33 crores to INR62 crores.

Just run through the DR Axion financials for 2 months, the sales has been INR196 crores, EBITDA has been INR22 crores, EBIT 16 crores, PBT 12 crores and part of INR11 crores and the company -- the net worth of the company is INR253 crores and it has got a term loan of INR161 crores.

So with this, I will leave the floor open for Q&A.

Moderator: The first question is from the line of Abhishek from Dolat Capital.

Abhishek: Sir, despite fast jump in the commercial vehicle volumes in 4Q, why your revenue was down quarter-on-quarter in powertrain business? And how is the outlook? I had in the powertrain business in the first quarter, given the weak outlook for the CVs and the tractor segment?

Srinivasan Ravi: On the powertrain on the Q4, there are 2 major pointer which I like to give. We have own segment, which is domestic one segment which is towards export that is deemed export and it's also growing in a big way. There have been some margin headwinds in Daimler in Brazil, yes, you may be aware of the economical situation in Brazil, number one.

Number two is that the supply chain, I think Q3 has been a good number. I think the product mix and the other things have not been favourable to Craftsman in Q4.

The other point is the -- where the passenger vehicle segment has done well. Construction machinery and farm sector was very much muted in Q4. There was some adjustment in the farm sector business because of the supply to sales mismatch. I think these are the reasons for some minor correction in Q4.

But I think that we are starting Q1 stronger, that means there is some minor adjustments which has taken place in Q4. Going forward, we see traction only in the third quarter or fourth quarter for farm sector and construction equipment. The first 2 quarters mainly will be driven by the growth in the commercial vehicle business and the passenger vehicle business. I hope I answered the question.

Abhishek: And sir, in fourth quarter, how much value addition in each segment?

Srinivasan Ravi: Fourth quarter, the value addition for Powertrain was INR241 crores for aluminium was INR79 crores and for industry engineering was INR73 crores.

Abhishek: And sir, my last question on the Industrial & Engineering business. How much -- in this quarter, there is a 20% growth quarter-on-quarter basis. So, what is the reason for the top revenue growth? And how much the export contribution in total industrial engineering business?

Srinivasan Ravi: No, the industry engineering business export number, I will just give it to you in a minute. And if you look at normally the capital goods sector, we'll see higher sales or I mean the turnover will happen in Q4, that's one of the reasons. The conditional mining export was for the year INR116 crores. This is a direct exports, yes.

Moderator: Thank you. The next question is from the line of Senthil Kumar from Joindre Capital Services Limited.

Senthil Kumar: Congrats for the great set of numbers. My first question is, can you give a breakup of exports and domestic revenue for Q4, as well as full year, sir?

Srinivasan Ravi: Yes. For the Q4, the exports, the total number has been 53 plus 51 plus 116, right?

Senthil Kumar: How much is that?

Srinivasan Ravi: INR60 crores has been for Q4. For the full year-- INR220 crores.

Senthil Kumar: INR220 crores. And sir in the last con call, you have mentioned about a slowdown in Brazil region. What is the status now sir?

Srinivasan Ravi: It is not still very clear. We have continued the supply, but I think the economic in the country is not doing internally well, but I don’t know whether there will be some correction going forward at a lower level, or it remain sustained. But as far as now, we don’t see new numbers.

Senthil Kumar: And my last question, sir, on the raw material side, in the last quarter, you mentioned that we don't have a high cost inventory. But if I see this quarter, raw material costs as a percentage of revenue is still higher on both the sequential as well as y-o-y basis? Can you say what is the reason for that sir?

Srinivasan Ravi: No, that is mainly because of the product mix, it is not because of high-cost inventory.

Moderator: Thank you. We have the next question from the line of Jinesh Gandhi: from Motilal Oswal Financial Services.

Jinesh Gandhi: A couple of questions from my side. One is if you look at the margins for, EBIT margins for aluminium and industrial, we have seen a good evolution on Q-o-Q basis with the third quarter. So are there any one-offs in the aluminium business, the margins have improved from 4% to 11.4% of the sales and now normalization of all the costs on the op cost, which is now reflected in the fourth quarter?

Srinivasan Ravi: No. I think what I would like to mention here is that, it is not based on one-off that is pretty clear. I would say that the – if you look at the capacity utilization. Utilization for aluminium has improved on the overall. I think I just speak to the numbers from the -- I think we look at the net block to -- yes, I have this number now. On FY 2022, for the full year, the value addition of aluminium business on the net block was 42%. For the year FY 2023, we ended up at 67%, so that is the value addition to gross net block on aluminium products. And Q4, value addition to net block has been 76%. Q3, it was 59%. So, I think the operating leverage is the main key for this improvement in margin in the aluminium segment.

Jinesh Gandhi: And if I look at the value add the numbers which you have given, so second quarter was similar value add slightly better in this quarter. But despite that, margins look substantially ahead. So -- but the key point is that this run rate should sustain, if not improve as value further goes up with utilizations improve?

Srinivasan Ravi: There are two aspects to it. We had a little problem about aluminium prices dropping month-on-month a little. So, I think there is a small correction which has happened in the previous segment now it has been pretty steady. So, we are not impacted by that, number one. Number two, the product mix also is passenger vehicle parts percentage has slightly improved and value add also improved, that is on two of the reasons. And the new products also have kicked in. I don't want to name customers, but we have started supplying to the EV also. These are currently coming at the normalize prices at the current levels.

Jinesh Gandhi: This is for EV for two-wheelers or for passenger vehicle?

Srinivasan Ravi: EV for two-wheelers. So, we are saying that we are getting new orders and new orders have been quoted in the last year or two or something like that at the current trend of the prices which is there on the current operating costs. So, I think product mix is improving, and we will continue to see further improvement also. You can see we see the lower end of the two-wheelers, again, I don't want to make names here. There are significantly going down even the 100 CC vehicles are going down.

So, new models are being introduced as 125CC. So there are-- the product pricing also of the two-wheeler segment, I think you have seen the 44% or 45% increase in the cost of the vehicle, some things are due to the new technology getting introduced. But I think there is an upgradation of the vehicle as a whole. So, I think the -- and the EV also has come into the picture. It's a combination of many things, but they are exports -- not exports, domestic business started.

Jinesh Gandhi: Okay, okay. And similarly for Industrial business, also, we have seen a good margin evolution. So, -- is that also linked to increased value add and increased utilization?

Srinivasan Ravi: There are two aspects to this area. Normally, we have one stop capital goods sales from -- to our customers wherever there is order because gestation period there is long, three months, four months, something like this. And also the high-end storage solution business, that is the automated storage solution business has seen some upswing and the exports also have done reasonably in 1Q.

Jinesh Gandhi: Got it. Okay. And what was the revenue for automated state solution for the full year.

Srinivasan Ravi: For the year, we have done INR376 crores in the storage solutions. In that automated has been 110 and the static storage like has been 265. So there's a significant change from year-on-year.

Jinesh Gandhi: And the sub INR110 crores in INR50 crores in FY 2022?

Srinivasan Ravi: On the automated storage, the previous year would have been, I think, has some half of this is what I guess, we will give the numbers. Totally itself, I think we were at INR 253 Crores and mostly towards static.

Moderator: So does that answer your question?

Srinivasan Ravi: Not fully, but I think the will trace the number. I think I'll get back to you during this call.

Jinesh Gandhi: Okay. Sure. I'll come back in queue.

Moderator: Thank you. The next question is from the line of Pranay Roop Chatterjee from BCMPL. Please go ahead.

Pranay Chatterjee: So my first question is with regards to overall revenue growth, and I'm seeking more -- so basically, last year, you had consistent maintained a guidance of 20% revenue growth across segments. And I think you have more or less met that, except probably powertrain over the last couple of years. Now when we look ahead in FY 2024, -- in terms of the auto end segments, market commentary suggest probably high single-digit or low double-digit growth especially in tractors and your primary MHCV segment, which has a high base effect right now. So I'm just wondering, across segments, can you just qualitatively comment on that 20% growth guidance would you like to adjust that? And what would drive growth in each of the segments individually. If you could just help us.

Srinivasan Ravi: I think -- thank you that's a very important question. I'll just try to read out the numbers now, first of all, we had grown on the top line, on the powertrain last year vis-a-vis FY '22 by 32% on the powertrain, 34% on the aluminium products and industrial engineering was 42%. Having said that, as a company, we have top line revenue has grown by 35%. But in my opening statement, I had mentioned the value addition has improved by only 27%. That is a real growth, what we see as a company. But all the segments have done more than the 20% to have an average of 27%. To put a number correctly, auto powertrain has grown by valuation addition by 24%, aluminium products by 27% and industrial engineering by 38% totalling to giving the exact weightage of each of the turnovers.

As a company, we have grown by 27% on the value. So the number, whatever we say, going forward also, we'll be growing 20% year-on-year on the value addition on each of these segments. What is driving the segment is the marginally, maybe the growth in the existing product ranges or existing customer volumes. Yes, it is also new product ranges and new customers which are getting added, which have been ordered have been secured long back. So these are the two key points, which will drive even in the FY24, the 20% value addition growth in each of these three segments.

Pranay Chatterjee: So regarding this, in your aluminium segment, regarding the large PV clients that you won, Stellantis, I think, any update on that order, when that would scale up? Because I think that would contribute to a significant growth if that scales up this year?

Srinivasan Ravi: Yes, it will be scaling up in Q3. Already it's production started, number one, and the other domestic SUV manufacturer, where we are also supplying some critical items that is also starting by July, the production. Already the engine parts are under validation. So it will, Q2 onwards, we will see upward trend. I think Q3 will be quite a high peak with all the passenger vehicle segment business also increasing.

Pranay Chatterjee: Got it. Got it. My next question was on DR Axion. So I remember in the last call regarding the acquisition, you had mentioned April to January 2023, the sales were around INR890 crores. And gross margin was averaging 32% and EBITDA margin was at 14%, but if I look at your two-month numbers, which you also called out, if I look at the delta between your standalone and consol numbers, the margins seem to have gone down a bit, 27% GM and about 11% EBITDA. Firstly, is this correct what I've calculated? And number two, what is the reason for this?

Srinivasan Ravi: What numbers you are stating is correct. The -- actually, it's correct. But there is an explanation to the pass-through on some of the die investments which has been done in March, quite significant portion, it's a pass-through, it is not part of the sales. If you remove that and then look at the -- also the migration into the new accounting system, totally overall a little, so I think the margins will normalize at the -- even in Q1 at the -- we are talking about whatever is the 10 month figure. There will be no change in that. So I would say that the dies what we received is exactly a pass-through to the customer. So that has only inflated the top line for February and March because we're looking at a smaller two-month period and trying to -- and that number has upset the ratios same.

Pranay Chatterjee: Got it. And a couple of very quick data-related questions. You mentioned the value-added number. I assume that the aluminium products value-add number does not include DR Axion for two months.

Srinivasan Ravi: No. Whatever I'm talking about is always standalone.

Pranay Chatterjee: Okay. And in Q4, can you please split out storage versus industrial? That's the last question.

Srinivasan Ravi: Yes. Total industrial for FY '23 has been INR713 crores. Out of that, the storage solutions has contributed INR376 crores.

Pranay Chatterjee: Got it. Okay. Great. Thanks a lot. I will get back into the queue.

Srinivasan Ravi: Thank you.

Moderator: Thank you. We have the next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, could you share the growth outlook for all the three segments for FY '24?

Srinivasan Ravi: Yes. We will do a 20% growth on value addition, maybe 22% to 25% on the top line on Auto powertrain. Aluminium will be slightly higher because there is norm on the value addition portion of course, more than 20%. But on the top line also, we will be growing at 25%. Industrial and engineering also in a similar range, the 20%, 25% growth will be there on the -- both on the top line and value addition.

Pritesh Chheda: Just on the aluminium side. So when you look at this quarter, there is this merger(acquisition) of this for two months, right?

Srinivasan Ravi: No, the consolidated standalone, it will not be there.

Pritesh Chheda: Consol, consol.

Srinivasan Ravi: Yes. Consol, there is a merger (acquisition), yes.

Pritesh Chheda: Consol, there is a merger (acquisition), right? So when I look at your top line for the -- yes, for 12 months, it is about INR935 crores, in which INR196 crores comes from consolidation, right?

Srinivasan Ravi: Yes, you're right.

Pritesh Chheda: Right. And then there is a 10-month consolidation, so there would be INR1,000 crores odd consolidation, which has to flow in next year?

Srinivasan Ravi: Yes, correct.

Pritesh Chheda: Right, so INR1,000 plus INR935 crores that itself gives you about INR1,900 crores type top line and whatever you grow on that? Is that…

Srinivasan Ravi: We will grow at least more than 20% in Craftsman and maybe 10%, 15% in DR Axion.

Pritesh Chheda: Okay, okay. Done sir. Thank you very much.

Srinivasan Ravi: Thank you.

Moderator: Thank you. The next question is from the line of Yash Agarwal from IIFL Securities. Please go ahead.

Yash Agarwal: Hi, sir. Could you just give some guidance on capex for FY '24 for the core business and for DR Axion separately?

Srinivasan Ravi: DR Axion, maybe it is too premature for me to tell. I think, but the numbers will be maybe around INR30-odd crores something like this is what we expect for DR Axion totally. And or maybe less sir, I'm not sure there not much change in that. It's not a significant number. On the Craftsman stand-alone, I think that we are having depreciation of around INR220-odd crores. I think we are looking at overhauling some of the old equipment for refurbishment and also making it semi-automated in certain cases of material handling.

So we'll be looking at -- we are preparing for FY '25, so we'll be looking at INR320 crores or INR330 crores capex, if we are growing at this percentage. So the actual delta capex, which is adding to the net block, I would say, net block will raise by, say, around INR100-odd crores overall. But whereas the -- our top line or value addition will be growing at above 20%. So we are getting -- improving ROCE as we move forward.

Yash Agarwal: Okay. That answers my question. Thank you.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: DR Axion, what would have been the value add for the reporting period?

Srinivasan Ravi: See, the value add is calculated differently because I don't want to now confuse the entire activity. There is -- it is a foundry-based business, while Craftsman is also foundry based, but we are not much in the sandcasting mostly in the HPDC of course, there is gravity. But this – DR Axion uses a lot of the cylinder head business, which is a little -- the consumables are also quite high, apart from the raw material aluminium. So we'll arrive at a level number how to state this going forward because cylinder head is a very critical part and a lot of very critical sand and chemicals are used there.

There are some imported sand also used there, which is also partly consumable, of course, recyclable, but chemical is there. So we need to come to the exact percentage. But you asked me on the basic raw material, we are on the aluminium front. We are in line with whatever the current operational level, slightly better than the operational level of Craftsman because it is a high-end product, if we look at it.

Jinesh Gandhi: Okay. Okay. And considering that in this quarter, we had some die related pass-through impact. Any sense just for that, how would have the margins -- EBITDA margins of DR Axion.

Srinivasan Ravi: I think it would have been closer to around 13% is my feel. After taking over, we may have done, I will not say use a word, which is strong, but I think some accounting practices and how they do the inventory calculation, everything, we have to be aligned with Craftsman because, we have gone or we have moved to ERP, Oracle ERP as of April 1st. So we have to aligned with that. So there can be some adjustments and the period is too small and very small things have taken an impact on. That is what I feel. It's a one-time operation.

Jinesh Gandhi: Right. And DR Axion for FY 2024 once we have full control, do you think we should be doing EBITDA margins upwards of 14%, 15% in FY 2024 or that will come little lag?

Srinivasan Ravi: No, in FY 2024, itself, will be in the region of 14% to 15%. Only in case of very adverse commodity movement because, there the prices are settled on a trailing quarter, so I think you understand that. So if there is any big adverse movement, we have a decent inventory after we have taken over. In ERP accounting, we have the average inventory value. So I don't think it will be abruptly changing just like one day to another, but I think even that we can withstand even then I say that it will be upward of 13%. And if the aluminium pass-through is more perfect, it will be in the region of 15 plus.

Jinesh Gandhi: Okay. And do you expect DR Axion to grow at above 15%, 20% in FY 2024? I admit that number.

Srinivasan Ravi: It is too early to say that the 10% to 15% is a given, given the product mix and the customer base, whatever is there. One of the customers is looking at setting up one more new plant in the Western region. There is a new plant because there are a lot of capacities in the Chennai plant. If that happens, and this is awarded to us, I think and when the production starts, if the production starts, in the financial year, we may see better growth. But we know that customers are limited by their own capacities and customers are also improving their capacities. And we are talking about only three customers for DR Axion. So that is a limitation, which is -- will now limit the growth directly in proportion with the customer growth.

Jinesh Gandhi: Right. Right. And what was the utilization for DR Axion for fourth quarter?

Srinivasan Ravi: We are operating at around 80% on the installed capacity as of December 2022, but some capacity, which has been invested by the earlier management has come into operation only in the late part of Q4 and some is coming into early part of Q1. But as some conscious step, we have already whatever I mentioned the capex of around INR35 crores, something like this for DR Axion, we factor in a capacity increase of another 10%. So we can have a headroom capacity in July by 20%.

Moderator: The line for the current participant in the queue seems to have disconnected, sir. We will proceed with the next question, which is from the line of Pranay Roop Chatterjee from BCMPL. Please go ahead.

Pranay Chatterjee: Hey Again, I just wanted to confirm something with respect to the last question I asked you had mentioned that the Stellantis order is scaling up in Q3. And you also mentioned a Domestic CV Manufacturer. I hear correct, Domestic Commercial Vehicle Manufacturers starting in July.

Srinivasan Ravi: No, no, no, domestic SUV manufacturer, we have come in as a second supplier for a critical part. That is under validation, the engines are under validation will be starting production in July.

Pranay Chatterjee: And so I just want to tie this to order win of 150 crores you had mentioned, couple of quarters back I think in aluminium. What is that for and when would that start?

Srinivasan Ravi: That is what I am now discussing in July, but everything is related to as a second supplier, we need to understand that if the volume growth is not as per the customer anticipation, we may not be able to deliver. But we are confident today the customer is bullish. So it will happen in Q2. It is the same order in which I am talking about.

Pranay Chatterjee: Got it. And one last question is, I understand your overall growth guidance of 20% plus across segments for the year. My question is more with regards to Q1 and Q2 up next year. So in April we already have seen MHCV volumes declining by 78% both for Tata and Ashok LeyLand because of the up-fronting of demand because of new fuel norms. So how do you see the remaining two months and even Q2 playing out in terms of volume? Do you see your growth in the MHCV portion at least flattening or maybe showing a decline on Y-o-Y basis? So how do you expect that to shape up in Q1 and Q2?

Srinivasan Ravi: The supply I mean the one good thing is about the product stock in the market or the retail is not much. So that way I don't see any drop in Q1 and Q2 but I am very bullish about Q3 and Q4. Q3 itself I am bullish on commercial vehicles.

Pranay Chatterjee: Got it. Thank you very much.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Just a follow up. Is there any change in or increase in the working capital cycle because of DR Axion or is it that naturally the working capital cycle for us has gone up because what I see is that the cash conversion cycle for your company between FY ‘23 and FY ‘24 has gone up by 20 days. Is this the new number that we have to take or there is anyone else?

Srinivasan Ravi: The cash conversion cycle has come down from 60 days to 56 days for standalone craftsman but I think you may be looking at the consolidated -- no, consol as I mentioned they were having few, three to four days of raw material inventory which we think it is not the right thing going forward given the fluctuation of aluminium trailing quarter correction of the alloy prices. So we have raised the inventory to close to a month now.

Pritesh Chheda: Sorry, we have erased?

Srinivasan Ravi: No, we have raised and improved. Increase the stock of raw material from three days to four days to now to 30 days.

Pritesh Chheda: So then your working capital, cash conversion cycle will go up further in FY '24?

Srinivasan Ravi: No, it is only for DR Axion it is not for Craftsman. Craftsman cycle has come down from 60 to 56.

Pritesh Chheda: I am looking at inclusive, I am looking at the consol.

Srinivasan Ravi: No, it is already done. Already inventory has, as of March the inventory has increased, no further inventory increase.

Pritesh Chheda: So which means this is the new increased Craftsman consol number. We will see a higher net working capital cycle?

Srinivasan Ravi: No, I think what is misunderstood is we have only two months we have calculated. The inventory is, we have taken only two months consolidation for DR Axion. So that is only upsetting the number.

Pritesh Chheda: Okay, okay sir.

Srinivasan Ravi: But if we look at one year number, it will be negligible. Even this number will further come down. I think on a consol basis, the 56 days we may come down because of DR Axion. DR Axion is holding lesser inventory than Craftsman.

Pritesh Chheda: So we will operate at 55 days and lesser as we see the next year's number.

Srinivasan Ravi: Yes, correct. Correct, sure. On a consolidated basis.

Pritesh Chheda: And how much debt repayment is possible next year after doing your INR300 crores capex?

Srinivasan Ravi: The financial cost I think will be on a consol basis. You are asking for a consol basis, right?

Pritesh Chheda: Consol, sir. Consol?

Srinivasan Ravi: Consol, I think all financial costs including lease rental, everything around INR175 crores, totally. No, no, 150 to 160, right?

Pritesh Chheda: That's the debt repayment you will do next year?

Srinivasan Ravi: No, no. I am talking about the financial cost outflow. So that is an outflow and tax outflow will be there. So depreciation is the day. EBITDA will grow in proportionate with the top line growth mostly. So yes, I think debt should come down by at least INR200 crores.

Pritesh Chheda: Perfect, sir.

Srinivasan Ravi: On a consolidated basis.

Pritesh Chheda: Perfect, sir. Thank you very much.

Moderator: Thank you. We have the next question from the line of Prolin Nandu from Goldfish Capital. Please go ahead. We have the next question from the line of Devang Patel from Sameeksha Capital. Please go ahead.

Devang Patel: Hi, sir. On DRAIPL, if you can repeat for FY '23, what was the normalized gross profit and EBITDA margin? And what is the peak revenue margin that we are looking at here and other than operating leverage, what do you need in this business?

Srinivasan Ravi: No operating leverage will -- is improving month on month. I don't think the capacity will also get utilized by September. Full capacity will come into operation. The orders are sufficient enough. And for the full year, I think we have closed it around 14% EBITDA. Yes.

Devang Patel: And the peak revenue we can do with the capacity?

Srinivasan Ravi: Capacity utilization has been... We look at December capacity, it has been 80% but some capacity has been already added in Q4. So looking at that, we have a headroom for growth by another 20%-25%.

Devang Patel: So the company was doing 17% EBITDA earlier if I am not wrong. So can we reach both levels in the next two years?

Srinivasan Ravi: Can you please repeat?

Devang Patel: Can we go back to 17%-18% margin in this business?

Srinivasan Ravi: There has never been 17%-18% margin in this business. It has been, I think, at a lower level. And I think, realistically, between 15%-17% is what we can look at it in a good year where capacity utilization is better. And of course, it depends on how we do cost management also. It can do better also. But I think 14% is the base what we are looking at and 15%-17% is normally achievable if there are no big end-way headwinds. And beyond that, it will be management and operational efficiency, I would say.

Devang Patel: Right, sir. And as you mentioned, EBITDA is one of the main agents for which you looked at this company. So how soon could we be looking at orders for passenger vehicle EV business?

Srinivasan Ravi: I cannot disclose anything, but we are already in discussion for parts for EV, for passenger vehicle from DR Axion, or through DR Axion.

Devang Patel: This will be for domestic market or for exports also?

Srinivasan Ravi: No, it is for domestic market, I think, yes.

Devang Patel: Okay. And you also mentioned for electric two-wheelers, you got some orders. What is the content per vehicle of these orders? What is the potential here?

Srinivasan Ravi: I will be upfront, open and little, sorry, I will be little blunt. Today, the numbers are small. Even you look at the leading players and the content on aluminium for the addressable market what we are in is also small and the value addition on machining is also small. So today is not contributing. What we are trying to say is that we are capturing the business. So we will continue to increase our trend. The conventional two-wheeler business is also coming back on certain segments because post subsidy there are some fears about the cost and the total cost of ownership, not the running cost alone. So we are confident that the aluminium business will continue to grow as of now. So I think it is too early to talk about two-wheeler EV. We have to see it only after the FAME subsidies are completed.

Devang Patel: Okay. Sir, there is some news today about a panel talking about banning diesel and LCVs in cities. Do we have any diesel, LCV exposure in our book across the two segments?

Srinivasan Ravi: Diesel, LCV or?

Devang Patel: Diesel vehicles, not the LCV, but other than the LCV in the light commercial vehicle?

Srinivasan Ravi: Light commercial vehicles are all diesel. There are CNG, there are LNG. CNG is there. Yes, many of them will move to CNG. But we are not worried about that because either way the engine is required, the axle is required, the gearbox is required. I think for us it doesn't make any difference.

Devang Patel: Fine, sir. That's all from my side. Thank you.

Srinivasan Ravi: Okay.

Moderator: Thank you. The next question is from the line of Sushrut Gokhale from Caprize Investments. Please go ahead.

Sushrut Gokhale: Hi, sir. Can I get the number of V-store in Q4 and the revenue from the same?

Srinivasan Ravi: No, I think that will be competitive data which I will not like to share. But we are by far the market leaders and the automated storage also. We are among the top two domestic players in the market. So this is very important in the emerging market. We will not like to, when it becomes a bit more mature in a couple of years, I would like to share data.

Sushrut Gokhale: Thank you, sir.

Moderator: Thank you. The next question is from the line of Prolin Nandu from Goldfish Capital. Please go ahead.

Prolin Nandu: Yes, thanks a lot, sir, for giving me this opportunity. So a couple of questions on DR Axion. Now you mentioned that DR Axion only has two to three customers, if I am not wrong right now. We have a lot larger customer base. So how will this growth selling happen between our company and the DR Axion? I mean, can you help us understand the pathway for the same?

Srinivasan Ravi: Yes, I will explain the first business. The craftsman business is predominantly high-pressure die casting, followed by gravity and very low presence in the low-pressure die casting. And industrial aluminium products which are there is also the aluminium products, is just sand casting. So whereas DR Axion is 80% on the gravity die casting and 20% on the low-pressure die casting is exactly complimenting or it is giving the benefit of scale on the low-pressure and gravity. So I think the high-pressure die casting, which DR Axion doesn't have any facility within India, but of course they have capacities and capabilities and facilities in Korea, that will be leveraged on in Craftsman's facility, whatever order comes in Craftsman's way or DR Axion way.

I think but technology will be used both from Craftsman's side and from DR Axion side to execute the orders, which gives a lot of comfort to the customer. One added point, which is a little hidden from the public view of the market, is that DR Axion Korea has been one of the key suppliers for the EV passenger car vehicles in all the segments of the technologies of the aluminium manufacturing, including high-pressure die casting and low-pressure die casting and gravity, so that confidence of the end customer is there whenever they need to ramp up in India. I think DR Axion and Craftsman's combination will have the benefit of the confidence of the customer, I would say.

Prolin Nandu: So what I understand is that some of these Korean customers are already using imported material in their EVs right now, which can be ultimately substituted with our combined entity. Is that the right way to look at it?

Srinivasan Ravi: No sir, I think we have to look at it differently. They have just done seeding with the models on the high-end models, which are totally made in Korea only. They are not made here, so there is not import of parts and assembly here. But there is a plan for, there is not a plan, it is a plan in action already under implementation for grounds-up EV designed for Indian market and to be manufactured in India, so that is where we are targeting.

Otherwise those numbers will be miniscule numbers which have been already marketed in India. The names, whatever you are thinking about, I think they are only in seeding numbers. Those products will remain high-end and too costly out of reach of the common man. But the product is on the existing platform vehicles, which are already being produced in India on the IC platforms. And these manufacturers are far, far ahead on the game, there have been many years I think on the EV game. So they have made assembly lines already compatible for EV, plug-in hybrid, hybrid and IC engines.

And these vehicles will be launched anywhere between from now onwards to '24, I think 18 to 24 months is realistic to look at it. So those are the products which are being, otherwise the import substitution on the current products with the customers will not do, the OEMs will not do because the numbers are miniscule and they will be continued to be imported. And those models are not cost-viable in India also.

Prolin Nandu: Sure sir, that is very clear. And in the previous question you mentioned that this opportunity of EV within DR Axion, right? So is that again for the low-pressure die-casting or is that something which the parent of the existing DR Axion was maybe manufacturing and that we have access to at whatever royalty rate of around 2.5% if I am not wrong?

Srinivasan Ravi: Yes sir, royalty will come into place with the technology, whatever is being done on the technology being used on this low-pressure die-casting or new products are being developed at DR Axion, it is a total of 2.5% which is the stated number. What I am trying to say is DR Axion in Korea is having high-pressure die-casting, low-pressure die-casting and gravity and they also have some squeeze technology which is patented totally, they have 4 technologies, totally. In India they are only in low-pressure and gravity whereas Craftsman is also in high-pressure. So we may do the parts according to the technology required to do the parts either in DR Axion or in Craftsman. How it plays and how we are going to manage the development process? We have to develop on part, we have to look at part on part and then we take a decision on this.

Prolin Nandu: Sure sir. So now sir, coming back to our core business, the standalone entity, you know, typically you do a capex of around INR250 crores to INR300 crores, that is our run rate. Could you break up this capex between how much would be maintenance and how much will it add to the actual capacity?

Srinivasan Ravi: I will answer that with first the financial numbers so that you get a better view of how efficiently we are doing the capex. I will just look at the value addition to net block which is the correct number to look at it because some of the equipment are more than 15, 20 years old. So we look at it for FY '22, we have reached a level of net block to value addition 78% totally.

Prolin Nandu: Is it value addition to net block or other way round? I am sorry sir.

Srinivasan Ravi: Value addition to net block as a company. 78% right. 78% and for FY '23 we have ended the year at value addition has been 92% of the net block. And going forward we will be going beyond the 100 number. To give one example is for FY '22 the auto powertrain value addition has been 106% of the net block.

For FY '23 it is 103% you have seen a dip but I think that will get corrected because depreciation is very high on the auto powertrain, which is the biggest and oldest segment of the capex related business, I would say. So we are creating some headroom there. So we will be moving as a company to above 125% in the time to come on the value addition to net block. So that answers the question of improving ROCEs as we move forward.

Proline Nandu: Great. So that clarifies the question. And sir, in basically again coming back to our core business, are there -- I mean, one of the large product is -- one of the large customer is Daimler in some time, which is like a deemed export for us, are there more such orders in the pipeline where the share of deemed export can increase going forward in the next three years to five years without leaving the customer, but are we working on those kind of RFQs, are we working on validation for those kind of orders?

Srinivasan Ravi: Yes it is happening or we have multinational within India who set up plants or just beginning to start their trial protections or in a stage of ramping-up. All those orders are with us. Both in the construction equipment, in the SUV segment, in the farm segment, is our multinational companies. And more-and-more companies are setting up base here. And this I would say, Make in India policy of the government is also helping us in a great way. The China Plus One policy is really playing out now and we are very small.

I mean, I will answer your question different way. It is simply we are as Craftsman, we are simply too small to grab any big opportunity. So we continue to increase our capacities keeping an eye on improved ROCEs. We are not going to make any rash big decision making. But I think, there is enough head room to scale up the company in all the three segments of the business.

Proline Nandu: Sure sir. That is very clear. Thanks a lot sir. I will come back in the queue some more questions. Thank you.

Moderator: Thank you. The next question is from the line of Joseph George from IIFL Securities. Please go ahead.

Joseph George: Thank you. Thank you for the opportunity. So just one question. You mentioned that you target growing 20% across categories, I mean across the three segments. So in the power train segment, when you look at the end market such as tractors, construction equipment etcetera, you mentioned that things are soft. And similarly, MHCV segment on a high base of a 50% growth last year. The expectation is that it might grow 10%, 12%. So if the underlying industry growth volumes are going to slow substantially compared to last year? How do you target getting towards 20% growth in the power train segment?

Srinivasan Ravi: Okay I will go on the power train segment, segment-by-segment. First I will talk about the simpler segments from the tractor. It will be flat or negative this year this is what is our opinion, but the contribution of farm sector to the entire power train will be around 20%. So I think, we have added some more new customers so still we will be growing marginally.

On the passenger vehicle segment which is insignificant looking at it for the power train, which is even if you look at the year FY '23, we are only at 10% of the power train business. There we are significantly growing with our key domestic customer who is scaling up their vehicles for selling well and they are in the second phase of increasing expansion.

Now off highway vehicles has been already muted in the last financial year. And we see some traction coming back from Q3 onwards, which we are pretty confident. So we will see growth on the off highway.

Commercial vehicle business, we have grown significantly in the last few years. There, the trucks which are getting sold now I think, we may be aware that a 15-ton trucks is gaining a lot of traction, overall. So the value addition per truck on the higher tonnage trucks is better for Craftsman so this is one of the key factors.

Second thing is about the deemed exports is also increasing there. And plus, the engine also has moved to higher horsepower. You might have noticed that 230 horsepower, 250 horsepower, 280 horsepower is now declining in sales and 280 horsepower onwards now up to 300 horsepower, 350 horsepower is gaining traction. There also these are 6.7 litres engine or 7- litres engines earlier it was 5.6 litres and 5.9 litres. So there also we are having higher value addition of the bigger engine capacities. This is also giving the growth in sales for us, revenue for us.

Joseph George: Understood, sir. Thank you for that.

Srinivasan Ravi: On top of it, sorry, I failed to mention on the off highway vehicles and also the diesel generating sets. The multinationals are setting up stronger export basis. We have one, two or three major orders which we will see production starting from Q3 onwards. Orders were one years around two years, 1.5 years ago and these are multinational American companies mainly. I think there, we will see traction from Q3 onwards. These are not for commercial vehicle, these are maybe for generators or for construction equipment for overseas markets.

Joseph George: Understood, sir. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Sir, in power train business, how was the mix in FY '23, in terms of the commercial vehicle, passenger vehicle, tractor and off highway vehicles?

Srinivasan Ravi: Yes, commercial vehicle was 55%, off highway 20%, tractor 15% and passenger vehicle, mainly the SUV is 10%.

Abhishek: Okay sir, I am sure you had one new business from the PSA. So will it be the part of the standalone or it will be under subsidiary?

Srinivasan Ravi: No, it will be standalone, it will be on the aluminium products business.

Abhishek: Okay. And when it will be reflected?

Srinivasan Ravi: It is started in a small way in Q3, it will start reflecting on numbers.

Abhishek: So what is the current mix in the standalone aluminium business in terms of the two wheelers and passenger vehicles?

Srinivasan Ravi: The aluminium business, the mixture of two wheelers. Yes. In aluminium business, the percentage of commercial vehicle is 10%, two wheeler is 56%, passenger vehicle is 2%, others 22%.

Abhishek: Thank you sir. And my last question is related with the tax, this quarter tax has gone down 12.4%. So have you got any benefits because of the consolidation of the DR Axion? And what would be the effective tax rate in FY '24, ahead?

Srinivasan Ravi: So, we have adopted permanently to the new tax rate and this will continue, we cannot go back to the old tax rate, we have done our calculations that we do very, very big capex only, we stand to lose from the tax, otherwise we stand to gain as a company. So I think, we have gone to the 26% tax rate, this is a permanent move.

Abhishek: Okay sir, thank you sir, that's all from my side.

Moderator: Thank you. The next question is from the line of Pranay Roop Chatterjee from BCMPL. Please go ahead.

Pranay Chatterjee: Hey, couple of data points, could you help me with the gross block numbers for Craftsman and DR Axion for FY '23 end?

Srinivasan Ravi: There we have to take it with a pinch of salt because when we moved to Ind AS, I think in 2016 or 2017, I'm not sure, that time the net block became the gross block.

So the real gross block is standalone for Craftsman, its more than INR3,000 crores, but what appears as gross block in our last three years, four years in our balance sheets, I will just read out the number of gross block.

The correct number is INR3,600, it will not appear in the gross block, but in Ind AS, what is showing as the gross block now? So that is the -- Craftsman standalone gross block, the actual number is INR3,135 crores, DR Axion is around INR500 crores, so the actual gross block is INR3,600 crores, but what will appear in the balance sheet for Craftsman will be lower than the INR3,130 crores, which will be 2800.

Pranay Chatterjee: Got. It. Next is on the employee costs. If I was looking Q-o-Q, last quarter, the employee cost was INR58 crores, after two months of DR Axion consolidation, it has increased to around INR61 crores. And as a percentage of revenue has gone down. So has the entire two months -- so is it that DR Axion operations are less employee intensive, is that the reason it has gone down as a percentage of revenue?

Srinivasan Ravi: See, it is a foundry business, so more of this, it is coming under the contract, and it is only two months which has been added. So we have more of permanent people and we are less of contract, so I think there it is more of the job contracts which are there, on the activities which are there. So that will be a distortion of the actual outflow towards manpower cost. As you know, the total manpower cost is between 4% and 5% of the top line, direct and indirect, both put together.

Pranay Chatterjee: Got it. And if I see, DR Axion's employee strength, I don't know which number is this, FY 2022, the number I got is 387, is that contract plus permanent, or only the permanent?

Srinivasan Ravi: No, that is only the permanent people, it is not the contract.

Pranay Chatterjee: Okay, and where would this 387 be in March end 2023?

Srinivasan Ravi: It has been around the same number, there is no significant change. There may be 5%-plus-minus, that's all.

Pranay Chatterjee: Perfect. Thanks a lot.

Srinivasan Ravi: We have to add to whatever questions you are asking, consciously Craftsman, standalone and in the future DR Axion also, which we will implement, is that to keep the headcount around the same level which you have succeeded for the last, at least in Craftsman, we have succeeded for the last two years, three years. Because of the judicious investment, because inflationary cost on the manpower cost is the most difficult, skill manpower is availability is a problem, and this is a fixed cost and in fluctuating markets, there is a big drain on the EBITDA margins.

So consciously, we don't want to increase the headcount, we are investing a little for automation, more modern machinery, better work practices to keep the headcount at the same and keep the growth. So what is the real increase in the outflow of Craftsman's salary is more related to the wage increases.

Pranay Chatterjee: Perfect. Understood, sir. Thank you.

Moderator: Thank you. The next question is from the line of Ruchit Shah, an Individual Investor. Please go ahead.

Ruchit Shah: How long would the growth runway of 20% be available to us before the growth kind of starts moderating or slows down?

Srinivasan Ravi: We have clear visibility for at least three years, that is very clear. And I am confident about six years for the simple reason is the geopolitical situation and the market in India is growing after many years of subdued growth, infrastructure is going to grow, the people's aspirations are growing and plus this, China Plus One is, we are still very, very small compared to the global footprint. And if I may say, my learned audience will know better, they are more glued towards the entire global, but I just want to throw a number, it might not be very accurate, but China contributes 45% of the global GDP -- for manufacturing GDP I would say, and India contributes 5% of the manufacturing GDP for the global.

So I think, we have a good headroom for 50% or 100% growth in manufacturing in the country. So as Craftsman, I think the opportunity is much more, not everybody will be trying to grow. I think we are still very, very small in the global size. So I would say that six years is very clear and 10 years is, we cannot, I am bullish on the 10 years also, but to investors, I would say, three years is firm and six years is surely achievable and we are working towards 10 year growth.

Ruchit Shah: Great, that's great to hear. Just on the safer side, what are the -- what would be the possible scenarios where that might see as a challenge?

Srinivasan Ravi: I think, thanks for asking the question, you touched upon a very touchy subject, but important subject since you asked the question, I think that is fair for me to answer it correctly. I think we are facing some headwinds on the raw material supply of castings. We are still working with our foundry partners, we are trying to leverage as much as possible relationships and grow.

Yes, we will continue to grow there, but we may be forced to a little backward integrate, but we do not have any impact on our P&L or ROCE or anything like that, but if it is going to hamper our auto-powertrain growth. Aluminium we are totally fully integrated, right, top to end to bottom, but on a cast iron it's impossible for us to be fully integrated. We will cooperate, we will work with our foundry, esteemed foundry partners to grow their business and grow our business together, but if we find that this is going to be a bottleneck in our growth of 20% CAGR in auto-powertrain in the years to come, we may do little backward integration which we are fully capable of.

Ruchit Shah: Okay, thank you.

Srinivasan Ravi: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was our last question for today. I would now like to hand the conference over to Mr. Ravi, Chairman and Managing Director, for closing comments. Over to you, sir.

Srinivasan Ravi: Thank you all for patiently attending the conference and patiently going through the Q&A. And thanks to all of you that I had very, very important questions being asked to me. I think, we are going to be growing very fast as well as in very interesting times. The wind is blowing in India's direction, that far I can tell you. There is normal hurdles, infrastructural issues, which are there, but the government is focused, the whole world is looking at us. This is the opportunity for India growth story to happen. This, I'm confident for the first time that the opportunity is open for everybody on a level playing platform. Thank you very much.

Moderator: Thank you. On behalf of Craftsman Automation Limited, that concludes this conference. Thank you for joining us, you may disconnect your lines.