11th May, 2021

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 Financial Results for the quarter and financial year ended 31st March, 2021

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and our intimation letter dated 3rd May, 2021, we are enclosing herewith the transcript of the earnings conference call organized on Thursday, the 6th May, 2021 at 03.00 PM (IST) on the Audited Financial Results for the quarter and financial year ended 31st March, 2021.

The same 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
Company Secretary & Compliance Officer

Encl: As above

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Craftsman Automation Limited
Q4 and FY 2021 Earnings Conference Call
6th May, 2021

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Craftsman Automation Limited Earnings Conference Call for Q4 and Financial Year ended March 31, 2021. As a reminder, all participants' 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Srinivasan Ravi – Chairman and Managing Director. Thank you and over to you, Sir.

Srinivasan Ravi: Thank you. Good Afternoon Ladies and Gentlemen, I Welcome you all to the first Earnings Call. Since this is the first call, I would like to take a few minutes to introduce Craftsman as a company because many of you may be new to the company. We at Craftsman are a well-diversified engineering company who commenced operations in 1986. We are a comprehensive solution provider. We are present across three segments of the business mainly the auto powertrain, auto aluminum, and the industrial engineering sector, the industrial engineering sector being the oldest in our portfolio. We have 12 strategically located and manufacturing plants across the country, well integrated. We have long-standing customer relationships and always it has been a habit that we outperform the industry because of our leverage which we are presenting across all three segments of the business.

I will just run you through the brief highlights of the last year, the company performance.

The first and most important I think we have reduced the debt of 1040 crores to 704 crores from March '20 to March '21. Out of the reduction of 336 crores, 140 crores has come from the IPO money proceeds, almost 200 crores has been from internal accruals and that too during the pandemic year, we have our internal accrual of 200 crore to reduce the debt, so debt stands at 704 crore vis-à-vis 1040 a year back. EBITDA we have logged the highest EBITDA number that is 447 crores so far in the history of the company, this in spite of the small maintenance CAPEX and some capacity balancing CAPEX of 106 crore. We have managed this EBITDA and results are in spite of the historically very difficult commodity price increase mainly aluminium for us which is affecting Craftsman and also in steel and we have performed well even during this pandemic period and also the commodity storm which we had. The operating cash flow to EBITDA stands at 80% when compared to 77% a year back. We have completed the IPO, we have raised 150 crore and we got the shares listed on March 25, 2021, thanks to you all shareholders and stakeholders who have given overwhelming response in the difficult period.

The highlights of standalone financials for FY '20-21, the sales stands at 1546 crore, PBT has grown by 149% to 148 crores. Turnover has grown by 4.2% and stands at 1546 crore. The PBT growth from 59 crores to 148 crores at 149% is better management of cost, better management of finance cost also, and all our expenses like the maintenance cost, the travelling cost and the other expenses. PAT has growth by 164% from 37 crores to 97 crores. EBITDA has grown by 10% from 404 crores to 447 crores from 27% to 29%. We have registered highest ever EBITDA in terms of both value and percentage of sales during the year FY '20-21. CAPEX for the year was 106 crores, mainly used for maintenance CAPEX and some technological upgradation and some capacity balancing and debottlenecking CAPEX. Total long-term borrowing was reduced by 251 crores, short-term borrowings were reduced by 85 crores, overall reduction in debt during the year was 336 crores. Now the debt stands at 704 vis-à-vis 1040 crores. I will just put across the financial ratios which may be interesting for the shareholders and also for the lending banks and institutions. The debt-equity has improved from 1.42 to 0.72. Debt to EBITDA has improved from 2.57 to 1.57. EBITDA margin has improved from 27% to 29%. EBIT from 14% to 16%, PBT from 4% to 10%, PAT from 2% to 6%, ROCE from 13% to 16%, ROE from 5% to 11%. The current ratio has improved from 0.79 to 0.96, earnings per share has improved from 18.21 to 48.02. Operating cash flow now stands at 356 crores and the operating cash flow is 80% of the EBITDA.

Now, we will move onto the segment wise results:

The auto powertrain has grown by 14%, the top line has grown from 709 to 811. The auto aluminium has grown by 28% from 258 crore to 330 crore. The industrial engineering has degrown by 22% from 516 to 405 crore, however, storage solution division which is going to be very important for the company in the future had a growth of 42% from 73 crores to 104 crores. The automotive powertrain EBIT has grown from 151 crore to 221 crore, this is because of the operating leverage we had at least in one quarter, the growth is 46%. The automotive aluminium EBIT has degrown from 9 crore to 3 crore mainly due to the increase of raw material price increase and the price variation clause which we have with the customers, which is always on a trailing basis, the upcoming quarter the prices are calculated on the previous quarter's commodity prices. Unfortunately, this is one year where we had the aluminium price increase of almost 50% starting from last year March till this year March and this has been a steady increase in prices quarter-on-quarter by 10% approximately, the price increase could not be passed onto our customer very easily, so the trailing quarter price fixing has given this impact of the degrowth in the EBIT.

In the industrial engineering segment, EBIT has degrown from 94 crore to 75 crore but this is mostly because of the top line reduction a little plus in industrial engineering segment, we have longstanding customers mainly and we do not change prices very soon, so we just watched for the two-three quarters, now we are negotiating with the customer and all these price increases will come into effect in the coming financial year. The standalone financials for Q4 year-on-year turnover was highest at 535 crore, we had demonstrated that at 535 crore still we are not fully utilized on the capacities, but I think the operating leverages are kicked in at 535 crores for Q4 and EBITDA stood at 153 crores for Q4 which has been highest so far. The standalone financials for Q3 versus Q4, the automotive powertrain segment turnover has grown by 8% and EBIT by 22%. The automotive aluminium segment turnover has grown by 3% but EBIT has degrown by 3 crores. The industrial engineering segment turnover has grown by 24% and the EBIT has degrown by 2 crores. With this, I will leave the floor open for any questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nishit Jalan from Axis Capital. Please go ahead.

Nishit Jalan: Congratulations on good set of numbers, Sir my first question is on the revenue performance like you highlighted that in this tough year specially your powertrain segment, we have seen a revenue growth despite weakness in the CV industry, so just wanted to get your thoughts which customers or which new order wins have driven the revenue out performance for us in this year and how should we look at it in the coming two years as well?

Srinivasan Ravi: In the auto powertrain, you may recall that the FY '20 has not been a great year at all coming from a lower base, because of the BS6 implementation across mainly the commercial vehicle sector and the passenger vehicle sector where we are present and we are not so on the tractor segment and the construction machinery, but still I think the inventories had to be cleared out there, so there was a big slow down in that particular year. On a lower base, still the base last year has been still lower, in spite of that we have grown for the simple reason value add per vehicle, value add per the higher end of the products what we are manufacturing after the BS6 implementation, the product mix has changed for us, this has helped us pave for the revenue growth. Going forward, we all know that FY '19 was a good year, FY '20 was a bad year, FY '21 was even more bad year, so from this base we expect to only to grow. Post this pandemic, we do not know how this pandemic is going to pan out in this year, once the pandemic is totally over from a lower base surely we will be set to grow.

Nishit Jalan: Sir, any specific customers you would want to highlight where you are doing better and secondly you talked about a higher content per vehicle, can you give some numbers as to how is the content per vehicle changed between BS4 and BS6?

Srinivasan Ravi: First of all because we supply to almost two of the three leading players in the commercial vehicle sector, medium and heavy duty and for the farming sector almost everybody expect one or two we are supplying, so I would not like to use customer names, but very well we have seen the migration of medium duty trucks to heavy duty, so the bulk of the sales has been heavy duty, so this means it requires higher gear box capabilities and capacities plus the number of axles per truck is higher. The duty load per axle is more, so the vehicle content is more. Even the engine I think when we move to BS6, there are more stricter tolerances in certain cases when we are doing the finishing of the cylinder block I thinks it calls for more critical operations and honing and the prices are different, so this has led to better value add for us in the powertrain business.

Nishit Jalan: Sir, my second question is on the lines on the CAPEX side, like you highlighted that we have still not reached full capacity utilization, so in that context how should we look at CAPEX in the next one to two years and what does it mean for our cash flow generation and debt reduction plan?

Srinivasan Ravi: You would have noticed that in the last two financial years, we have been averaging of CAPEX around 100 crores, we will be around that range because you know that our gross block, the real gross block that means after Ind-AS adoption the net block became the gross block, so whatever you see on our balance sheet will be slightly different, but we have gross block of more than 2500 crores, so the maintenance CAPEX will be around 2% to 3% will be there. Apart from that, there will be some small pockets and segments what will be there, so we will be managing this CAPEX around this region going forward and I am confident that the debt reduction has happened of 200 crores from internal resources in the last Financial Year. Even as the pandemic is still continuing, we are still focusing and we are targeting a debt reduction of 200 crores in the coming year also.

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

Abhishek Jain: First of all congrats for strong set of performance, Sir how was the segment wise revenue mix for the powertrain business in FY ’21 as we know that around 50% revenue comes from the MHCV segment and MHCV production was down 22% in FY ’21, despite that your powertrain business grew by 14%, as you are saying that there is an increase in content per vehicle in the MHCV, so just wanted to understand how is the generally content per vehicle and how much increase in FY ’21? Second question how is the segment wise revenue mix for powertrain business?

Srinivasan Ravi: More or less it has been the same the segment wise mix between commercial vehicle, the farm equipment, the construction machinery, and the passenger vehicles, you know that on the passenger vehicles we are exposed very less and mainly to the little more heavy duty engines which are for the SUVs, we are not on the lower end of the passenger vehicles. Your question about how we have grown is because the engines have become more powerful now for the average truck I think it is more than 37 tons now from an earlier four years back it was 16 tons, then it moved to 25 tons, now it is 37-ton, and the biggest seller is the real heavy-duty segment which is 49-ton trucks. Main reason is they are more fuel efficient, they are more powerful. The cost of ownership or the cost of operations are much lesser, you can say the driver cost they cover more kilometers per day and the cost per ton for transport is far better, so I think the fleet owners are modernizing their trucks post GST because the hurdles of check post have been removed, the highways are better, and the customer also expects the goods be delivered faster so with all that I think these trucks have become far bigger so with that the gear boxes have bigger, the engines have become bigger plus number of axles per truck has increased.

Abhishek Jain: Can you give some numbers regarding the segment wise revenue mix because in the last con call at the time of IPO you had told that around 50% revenue comes from this MHCV, 10% from the passenger vehicle and the rest is from construction and tractor business, so in FY ’21 how is that?

Srinivasan Ravi: For the powertrain business, from FY '20 the commercial vehicle mix is 54%, off-highway is 19%, tractor is 19%, and passenger vehicle is 7%.

Abhishek Jain: In commercial vehicle, how is the mix for the LCVs versus MHCVs?

Srinivasan Ravi: I think 90% is heavy duty.

Abhishek Jain: Sir, next question related to the margin of powertrain business that has seen a sharp jump around 600 BPS YOY, can you give a color on the key factors which drive the margin performance apart from this uplift?

Srinivasan Ravi: Fundamentally, the operating leverage in most of the powertrain business, we are not buying raw material also and if there is a material there is a straight passthrough that is there is no time of lead or lag between the raw material purchasing price to passing on to the customer, so we are affected by the commodity number one. Number two is the operating leverage, the fixed cost about people and plant cost have been better distributed with the higher revenue. We had only one quarter of good revenue really speaking that is Q4.

Abhishek Jain: So just how is the outlook again given the sharp increase in the commodity inflation, so what is your outlook for the FY '22, we know that in first quarter will be quite big, so might be that there will be sharp fall in the margin and revenue both, but I am talking about from Quarter-2 what kind of the outlook for the fleet front in the powertrain business?

Srinivasan Ravi: I cannot really predict about how the pandemic will grow, but it is very clear it is the need of the hour to modernize the trucks for many of the fleet owners, when they will do it is the question mark here, but I think on a very, very low base we have demonstrated our profitability and this year surely will be a better year than last year.

Abhishek Jain: Sir, in powertrain business you book your revenue only from machining part and other players are also ramping up machining capacity and having a strong backward integrations, so how do you see revenue and the margin visibility in this business, are you also looking for some backward integration kind of things in powertrain business?

Srinivasan Ravi: No, we are not doing any backward integration because our capacity from the machining are very, very high and it does not make any sense for trying any backward integration and wherever we are doing business with the customer, there is a technological superiority, there is quality requirement, there is also customer sort of stickiness which is there because of the product, I do not see any big threat coming from the higher end of the machining business

Abhishek Jain: Sir powertrain business what is your capacity utilization right now?

Srinivasan Ravi: We were around 75%-80% in the region for Q4 we gave an indication to you.

Abhishek Jain: So that is that there is a requirement of the CAPEX going ahead, so what is your capacity addition plan for this segment?

Srinivasan Ravi: We are not planning for any major capacity addition here, I think there maybe debottlenecking for example tweaking some lines by 5%-10% if those models or that customer is doing better and we may also reducing some capacity in certain customer lines when they are not doing better, so we have the ability to move capacities across. This is very important when compared to the forward integration of some of our competitors who are doing, we cannot tweak it, so we have got plants across the country and this is unique advantage what we have.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: Thank you for the opportunity, I have one question on the production realignment from our customer side, how do you see the impact of our volumes in the near term?

Srinivasan Ravi: The customer realignment is taking place on a continuous basis, sometimes we move capital equipment across the country even sometimes quarter-on-quarter to meet such demands or to look at phase-in/phase-out of some orders, we do all that on a continuous basis. On commercial vehicle, it is more or less steady because the number of players are lesser but on the farm equipment our exposure is far lesser and we are catering to almost everybody there, so we are tweaking this capacity I would say, so I do not see any change for us going forward, we have been doing this for many years now.

Manish Ostwal: Just to confirm you said on the call that we will be reducing our debt 200 crores in FY ’22, that is right Sir?

Srinivasan Ravi: Yes, we have reduced debt in FY ’21 by 200 crores and we are confident about reducing debt of 200 crores going forward in FY ’22 from our internal resources, we have reduced debt by 340 odd crore last year, out of that 200 crore was from internal accruals and you know CAPEX for last year was 106 crore, so this year also we are confident about reducing debt of 200 crore.

Moderator: Thank you. The next question is from the line of Chetan Gindodia from AlfAccurate Advisors. Please go ahead.

Chetan Gindodia: Sir, thank you for the opportunity, wanted to ask what is our average content per commercial vehicle for MHCV or if you can share what is our market share in CV powertrain? Second question is are we expecting any major content addition or customer addition in FY ’22?

Srinivasan Ravi: We are not expecting any major customer addition in the powertrain, yes there are two or three customers but I think it will not be substantial say 20%-30%, it may be double digit, yes surely but not significant enough, we are more banking on from every low based market to come back soon. The model wise I think it will be different, whatever we contribute, the heavy duty segments we contribute more to the product and less on the medium duty, so that is all I can, it is also reflected in our revenues, the products are many so I do not want to get into specific of the parts.

Chetan Gindodia: So broadly our growth to mirror the industry volume growth is what you are saying?

Srinivasan Ravi: We have up to two digit growth from new customers, which are not in this geography, yes apart from that we will be banking on more new products from the existing customers where our share of the business maybe 100% and more value per product, number one. Number two even market coming back improving from this low base.

Chetan Gindodia: What exactly is the reason for the low margin in aluminium product business, so even historically the segment ROCE for aluminium product is low, so is there some kind of turnaround that we are waiting for in this business or how do you see this segment doing well?

Srinivasan Ravi: This is relatively younger business and we have been ramping up capacity there and unfortunately I think this slowdown in the industry plus also the higher raw material prices that the passthrough on the raw material prices are not done instantly, it is on a trailing quarter so that we had quarter-on-quarter for the last four quarters we had an unprecedented total 50% price increase, so this is the reason for the lower performance on the EBIT as well as ROCE.

Chetan Gindodia: So on your medium term basis how do you see this low segment margin going to 10%-15%, will it take more than five-seven years kind of thing or do you think will be able turn this around sooner?

Srinivasan Ravi: Now this year I think the aluminium prices will not again increase 50% , we do not expect that. Sales year-on-year we will have increase of 50% so with this stability and better capacity utilization, the EBIT margins will improve.

Chetan Gindodia: Lastly, I wanted to ask what kind of customers do we cater to in the industrial and engineering segment and what is your outlook on that segment?

Srinivasan Ravi: The industrial segment we are well diversified. The major portion is coming from high end products and subassemblies for contract manufacturing for our customers, mainly overseas. This we have been doing for close to three decades now. Apart from that we have the electrical castings for the transmission industry, we have also the storage business which is now fast growing segment in the logistics area, so we feel that this segment will when the CAPEX cycle comes back to India, it will grow very fast.

Chetan Gindodia: What exactly would be the contribution of the storage segment out of the total industry segment?

Srinivasan Ravi: The total industrial segment, you want to know what is the storage segment on sales?

Chetan Gindodia: Yes.

Srinivasan Ravi: Last year we did 104 crores which I had mentioned in my opening statement and industrial engineering segment was around 400 crore totally it is a 25% of the sales.

Moderator: Thank you. The next question is from the line of Akshay Bhor from Premji Invest. Please go ahead.

Akshay Bhor: Sir, my first question is on aluminium business side, so given the opportunity on creating aluminum side, so what is your expectation in three to five years out how large can this aluminium business be for you and what are you going to take actions or the steps for this?

Srinivasan Ravi: Line is not clear, the aluminium content per vehicle on the passenger vehicle is set to increase whether it is going to be EV or whether it is going to be IC engine on the passenger vehicles plus also on the two wheelers whether it is EV or IC engines, the aluminium content is here to stay, so we will see more aluminium content for better efficiency of these vehicles going forward. Today, India is the beginning of the cycle to improve go on the light weighting mode and one more thing the heavier passenger vehicles will need to be complying with the CAFÉ norms, Corporate Average Fuel Efficiency, I think everybody is looking at reducing the vehicle weight and every successful new platform coming out is having a reduced weight, this means more light weighting is happening so this segment is here to grow. This segment is still nascent in the country. The capacities are more centered around the two wheeler market, I think it will start moving towards the passenger vehicle market also.

Moderator: Thank you. The next question is from the line of Viral Shah from Enam Holding. Please go ahead.

Viral Shah: Thank you for the opportunity Sir and congratulations on a good set of numbers, so firstly I just want to get your sense on the demand side and how is the current environment is looking like in all the three lines of businesses?

Srinivasan Ravi: You are talking about all the three segments or specifically any segment?

Viral Shah: All the three segments if you could share?

Srinivasan Ravi: The powertrain business we are coming from a very, very low base and that is to our advantage and post the pandemic I think there will be lot of demand for the manufacturing at least because we know that the models have become more, the powertrains have become more modern and today we are present in most of the segments of the with our customers wherever we are in and there is a slight improvement in demand when compared to last year, I think there will be quite a bit surge for us for the manufacturing to fill in the pipeline. On the two wheeler business and the auto aluminium which is we are more predominantly present, we are also present on the passenger vehicles as well as the commercial vehicles. We see that one good sign is lot of exports are happening from the leading two wheeler manufacturers in the country and this is a Welcome sign, so this will help to stabilize the two wheeler business in the country and post the pandemic we feel that there will be demand. On the industrial segment, the CAPEX cycle it remains low, I am not an expert on this but I would say that the CAPEX cycle has been subdued for a very, very long time and there have not been much capacities which have been put on the manufacturing side and we have been very strong on the manufacturing for two decades mainly predominantly on exports and when the CAPEX cycle comes back to India, we will be in a position to leverage our presence there.

Viral Shah: Sir just your thoughts on the current environment, how are you seeing in your interaction with OEMs, what are you kind of sensing in their current mode, how long will this downturn remain?

Srinivasan Ravi: You are talking about the current economic environment in the market?

Viral Shah: Sir for the powertrain and the auto aluminium business.

Srinivasan Ravi: The powertrain business anyway the commercial vehicles as I mentioned earlier, the base is very, very low. Definitely, the modernization is to happen and there will be replacement market also sitting in and the modernization from medium tonnage to high tonnage is not complete yet in the country, so when we see demand coming in we will see the modernization to happen, so on the farm sector I think we had a very good year last year, there will be maybe some minor correction, but I think this is a very strong segment and India is also proving to be one of the leaders in the lower horsepower tractors for the entire world, so this is also a good sign, lot of exports are also happening, so it will stabilize. On construction equipment, once the infrastructure spending happens on the powertrain we will also be set to gain on that.

Viral Shah: Sir one last question from my side I think in past you did allude to the fact that the auto aluminium business suffered this year because of sharp rise in aluminium prices, but if I have to take a two or three years of longer term view, so what is our strategy to turn around this business and what is the potential opportunity here?

Srinivasan Ravi: The potential opportunity is light weighting of the vehicles plus more aluminium content per vehicle, number second will be more new products coming into the market at new pricing. The third thing will be for Craftsman as a whole the capacity utilization operating leverage, these are the three things which will fall into place because we also invested for high tonnage presses which once it gets going, I think we will be much more profitable.

Viral Shah: Sir what is the potential peak revenue from our current capacity in this business?

Srinivasan Ravi: I think it can double.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.

Nishit Jalan: Sir, I have two questions firstly on the powertrain segment if you can share some numbers on the machining mix which was this year and also if possible in Q3 and Q4 as well?

Srinivasan Ravi: The machining mix for the auto powertrain for Q3 and Q4 plus the segment breakup, we will give the breakup for the machining separately and sales separately, Q3 is 121 crore and Q4 is 140 crore on the machining portion alone and apart from that we have the sales, the sales is 112 crore on Q3 that is with material and for Q4 it is 105 crores.

Nishit Jalan: So basically this is a sale to one customer where you book both casting and machining revenues right?

Srinivasan Ravi: Yes.

Nishit Jalan: Sir full year machining revenues you said 121 crores for Q3 and 140 crores for Q4, what would it be for the full year?

Srinivasan Ravi: 374.

Nishit Jalan: Sir higher machining mix in powertrain segment would also have helped our margins on a sequential basis right?

Srinivasan Ravi: Any better operating leverage will improve because we get our margins on the machining value whether we do it here and there, top line may be different because it is more linked to commodity price and whatever you price, I think the more capacity utilization in the plant will lead to better margins.

Nishit Jalan: Sir, my second and last question is on the aluminium segment, an extension of the question asked by previous participant, you did mention that we are at the start of the cycle where aluminium content, the light weighting focus will increase significantly in passenger vehicle, so currently these segment is dominated more by two wheeler OEMs, so are we looking at or have we got some orders on the passenger vehicle side as well and what are your thoughts on the commercial vehicle segment, have you started to see some usage or increase in aluminium content on the commercial vehicle side as well?

Srinivasan Ravi: On the heavy duty commercial vehicle, there are only few parts in aluminium, we do not see much change in the philosophy there. On the passenger vehicles, we have got for the conventional powertrain, we have got some orders for multinational companies for both domestic and export requirements, this is yet to start, I think FY '23 will be start of production for that which has got orders recently, so the passenger vehicles by itself I think the engines and all other products will become smaller and smaller, the platforms will become more compact or more light weighted, so we are yet to see that move because the pandemic has slowed down many of the developments which are happening in the field for the new models coming in, we have to wait for that.

Nishit Jalan: So essentially in the aluminium segment, over the next two-three, four years our mix will shift more towards passenger vehicle and CV compared to the higher dependence on two wheeler that we have today?

Srinivasan Ravi: Yes, we already have got a big order for passenger vehicles which is start of production is '23, of course '22 will be the PPAP and other things, so with that I think that segment will change.

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

Abhishek Jain: Sir, your margin aluminium products business is much lower than peers while in the other segment like in powertrain business it is much higher than your peers, so just wanted to understand is there any intersegmental revenue between both?

Srinivasan Ravi: No, there is no intersegmental revenue between both, both are very, very clearly marked, one is fully integrated plant, the point is on the aluminium business, we were making the casting, we are making the machining, so it is fully integrated , it is a totally different, we have got very clear distinction from there. Material content maybe around more than 50 odd percent on the sale value and when we have an impact of 10% to 15% quarter-on-quarter for the aluminium content that almost wipes out the bulk of the portion of the EBITDA.

Abhishek Jain: Sir, my last question is related with the revenue mix in terms of the replacement and OEMs, how is the mix?

Srinivasan Ravi: You said replacement?

Abhishek Jain: Yes, how much contribution from the replacement market in overall revenue?

Srinivasan Ravi: I would put it in different way because I will just put in a broad number, currently two wheeler market is more mature, as I understand 65% is going for replacement, more than 70% of the current sales itself are going for replacement because the life cycle of the product also is not very long, the user age group and the migration towards different models or different vehicles or even four wheelers are happening, so it is quite mature on the two wheeler. On the passenger vehicle I think the replacement market has not fully set in because of the longer lifecycle of the product and bulk of it is still first time user, resell and it is not as like mature markets that is what I know. On the commercial vehicle maximum we can go for million kilometers very efficiently for the trucks to operate beyond that they may need to move it towards lesser haulage and shorter distances that is how historically we have been operating, so it depends on the usage, the replacement cycle.

Abhishek Jain: So overall replacement is around in all revenue?

Srinivasan Ravi: Replacement I will not like to get into this discussion in detail because that is for the OEMs to give these details, but I think the replacement cycle for the heavy duty has not set in because heavy duty, the sales have started only recently in the last three-four years, so that replacement cycle has not set in yet.

Abhishek Jain: Okay Sir, and how is the mix for the domestic versus export in FY ’21?

Srinivasan Ravi: The direct export has been very close to 10% and the Tier-2 export which is deemed export is another 16 %.

Moderator: Thank you. The next question is from the line of Gaurav Khandelwal from Mirae Asset. Please go ahead.

Gaurav Khandelwal: Thank you Mr. Ravi for the opportunity, I hope and you and your team members are keeping safe. Sir just few questions from my side, you indicated that in the aluminium products division and industrial product division there were some impact of lag passthrough of aluminum prices, so can you just let us know the steady state EBITDA margin of these two?

Srinivasan Ravi: We have demonstrated in the past 12% EBITDA with the lesser capacity utilization on a steady state of aluminium content, with a higher capacity utilization that EBITDA will go up beyond 14 % and maybe very close to 20% I would say going forward but it depends on the operating leverage.

Gaurav Khandelwal: So at let us say 80% capacity utilization in both these segments you can do 20% EBITDA margin?

Srinivasan Ravi: We will be around 18% EBITDA margin on the auto aluminium business. We have 1% at lower capacity utilization without the commodity impact, with the commodity impact we have come down, but without commodity impact we have in the past itself shown a 12% EBITDA margin.

Gaurav Khandelwal: Sir, in the industrial product division what will be our capacity utilization, you have indicated about both the aluminium segments, but in the industrial side?

Srinivasan Ravi: In the industrial segment I think from the last year we have utilization has been less than 50%.

Moderator: Thank you. The next question is from the line of Akshay Bhor from Premji Invest. Please go ahead.

Akshay Bhor: Sir just continuing on the aluminium business side, given currently at 110 crores of quarterly run rate, assuming that you are working on some of the contracts which will materialize in FY ’23 what kind of run rate revenue should we assume on an annual basis let us say FY ’23 to some of these contracts?

Srinivasan Ravi: We are talking about FY ’23 right?

Akshay Bhor: Right.

Srinivasan Ravi: FY ’23 I think the run rate will be minimum double.

Akshay Bhor: Minimum double as in you are saying 220 crore kind of run rate or what?

Srinivasan Ravi: Yes, double.

Akshay Bhor: Sir, just to clarify you are talking about 800 crore kind of run rate or you are saying annual?

Srinivasan Ravi: Of course it depends on the product mix sometimes the weight of the part maybe lesser but the value addition maybe higher, so I would rather say that we will be upward of 650 crore for FY ’23.

Akshay Bhor: Got it and this should come in at whatever 18% kind of margin that you have?

Srinivasan Ravi: Yes, correct.

Akshay Bhor: Trying to understand the near term numbers a little better, Q1 whatever run rate you are doing in April and May, would you be let us say similar to what you did in Q3 of about 490-500 crores or should we expect some moderation in revenue trajectory?

Srinivasan Ravi: I would answer the question in different way because we will not know how Q1 is behaving, Q2 is behaving, it depends on Government, it depends on the pandemic, it depends on the OEM's policies and things like that, but the inherent latent demand is still available. When it bounces back we will not know and we are still at a very low base last year and we have demonstrated close to 100 crore PAT on that and with the EBITDA of 440 crore. We are very confident that last year we reduced debt by 200 crore from our internal resources apart from the 130 crore, with no more capital infusion, we are very confident about continuing with the CAPEX cycle of around 100 crore approximately with the capacity balancing and maintenance CAPEX and still going ahead and reducing the debt by 200 crore in the current year, that means the cash flow situation has to be very strong and our EBITDA and EBIT margins will be strong to demonstrate that, so I will not like to get into Q1, Q2 numbers because it is not within our control as of now.

Akshay Bhor: Just couple of bookkeeping questions, in terms of interest expense for next year, what kind of numbers is it 7% kind of interest rate on let us say 700 crores is something that we should go with?

Srinivasan Ravi: I think last year itself our overall actual financial cost itself was around only 90 crore, balance was lease rental, like building rental and things like that including some equipment rental all put together was classified under Ind-AS as depreciation and financial cost that was amounting to close to 10crore. This is a broadline number, so this 90 crore actual financial cost for FY '21 will come down by further at least 25 crore in this particular year, so some of the financial cost as we see in the P&L maybe around 80 including lease rental.

Akshay Bhor: Sir the depreciation expense for the next two years what kind of run rate should we assume?

Srinivasan Ravi: We peaked on the depreciation, you might have noticed that depreciation is hovering around 200 crore, this is the peak. We have done the extrapolation, some things are going out of the period of service so it is getting obsolete, so all put together I think with the lower CAPEX which we are doing now and normally the CAPEX is equivalent to the depreciation to sustain that is what is called maintenance CAPEX, but we have succeeded in extending the capital life and we are doing a lower CAPEX in the last two years and also this year also, so depreciation will not increase further than whatever is, it will be hovering around the 208-210 crore range is what we see. MAT credit is still available, we will be still under the same tax structure, last year we were under MAT, this year also we will continue to be under MAT. MAT utilization we had utilized 26 crore last year, around 68 crore is still available for us.

Moderator: Thank you. The next question is from the line of Kirti Doshi from Antique Stock Broking. Please go ahead.

Kirti Doshi: First of all congratulations Sir for your listing in the capital market and I am sure the listing is not only the criteria which you must be looking, you must be looking at the shareholders creating value also, I have a different question then whatever my other all colleagues have asked, so most of the question they asked on the business side and I am sure that you have given them the confidence and you will do well. I want to know three-four things, what was total fees paid for the ratio to the investor banker and to all other agencies, I want to know that despite the best of the time in the IPO market and best of the time after the listing, why our stock is still trading lower than the value where the IPO is offered and despite the best of the investor come onto the IPO in the investment list, plus I wanted to know whether the issue was overvalued by the investor banker or they have been under sold by them, the issue response also was very, very low and after that also the work of the issue is over, the listing has happened, whether any handholding of those people earlier are still on and whether the shareholder is creating value is the agenda of the Management or not and for that what you all are doing to do?

Srinivasan Ravi: Thank you for this deep and probing question, what is within my I would say field of answering I will answer. I am a first generation entrepreneur, private equity has entered the company in 2010. We worked diligently hard, yes, we have grown the company almost to 10X in the period of this 10 years period of the private equity investors. You might have noticed unlike many other companies, the primary fundraise has been very low, very, very clearly we see as Management of the company and as also a key shareholder, lot of value in the company going forward and we are not aligned to any business family. I am coming from a family of doctors, we see that the business is standing on its own feet, I see that whoever has invested in the company, they see value over a longer period of time, it is not for the short term, it is a short term means there can be ups and downs and there is no handholding any where. I would say that it is going on merit on its own steam, beyond that I am not entitled to answer and coming back to the IPO expenses, we have done our best whatever we can do to control the IPO expenses. You would have seen that we have not splashed any big advertisements anywhere and this will be on public domain on the expenses which you can always get it from the domain which is available for all shareholders.

Kirti Doshi: Why cannot you officially say also, if in public domain then it must be under your knowledge also, so better to specify?

C. B. Chandrasekar: It is not yet over because IPO expenses are still there to complete, so we cannot explicitly say at this particular of time.

Kirti Doshi: It is a simple question, it is not a complicated question Sir?

Srinivasan Ravi: As CFO answered still the invoices are coming in for the retail and all, once it is settled, it will be approved by the Board and it will come on public domain, surely you will be able to see it.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Thank you Sir for providing an opportunity, I have only two questions, the first question is if I look at asset turn of your company, it has been always below 1 roughly hovering between 0.75 to 0.9 and probably in the current year roughly 0.95, so my first question is how do you see the asset turn of the company, can it increase beyond 1 or because of the kind of a business in which you are, probably it will remain around 1, that is my first question? My second question is if I look at the retail on networth of the company generally there has been very, very low single digit kind of thing except probably one year, so how do you see ROE trajectory over next two-three years?

Srinivasan Ravi: Coming to the asset turn, the business model about the machining charges and the big material sales, we will be always lower than our peers because of our business model, but surely the capacity utilization as you would have seen, we have done a 535 odd crore in Q4 approximately, so you know that on that we calculate that and multiply it by 4, the assets terms will be better and we have also told that the capacity utilization has been around 75 odd percent for Q4 so with that there is more headroom to go higher and coming back to ROCE I think we have demonstrated that in the last year 16% ROCE.

Rajesh Kothari: I am talking about the ROE first of all?

Srinivasan Ravi: ROE is 11% for ’21.

Rajesh Kothari: That is what I am saying so ROE is basically very low am I right and if you look at last six years also except probably FY ’19 your ROE was below 10% so my question is how do you see the ROE trajectory over next two-three years and on the first question you said that in the business model, pardon for my ignorance but I am attending this call for the first time and I have not met you pre IPO, so can you please explain what is the business model, and therefore, why is it always below 1?

Srinivasan Ravi: You could see that the EBITDA is much, much higher than the peers that means our value addition to the sales, the percentage of value addition is much higher that is the material content in our top line sales is lower that is because of that you will see the top line which is looking depressed, but the value addition when you remove take the gross margin and compare then you will find that we are inline with the group. Second point on ROE, ROE is last year was not a good year from the pandemic, we had demonstrated 11%, yes in the previous year it was BS6 that was one year of aberration you know for the entire auto industry, year before that we have demonstrated good ROE.

Rajesh Kothari: Okay, so basically you are saying because of the value addition is high and therefore that leads to probably lesser asset turn but higher profitability but when you do the contracts with the customers, do you follow kind of a cost plus things or do you follow ROCE based pricing and in whichever method you are doing it, what are the typical benchmarks what you follow?

Srinivasan Ravi: Surely it will be ROCE, at the same time sustainability of the business we have to see. We have to see the longevity of the business. We have to see also the risk, which is involved in the business. All other these three other factors along with ROCE will be factored.

Rajesh Kothari: Therefore what is your benchmark ROCE?

Srinivasan Ravi: The minimum ROCE we are looking at is around 16%, that is what we are looking at.

Rajesh Kothari: This is basically what ROCE is like EBIT upon average capital employed?

Srinivasan Ravi: Yes.

Rajesh Kothari: Last question from my side, this aluminum business the price hike, do you think it is like one quarter like, so in first quarter you will get the price increase or it is normally beyond one quarter?

Srinivasan Ravi: The trailing quarter's commodity price will be the price for the next quarter.

Rajesh Kothari: So every quarter basically last three months trailing that is how it works?

Srinivasan Ravi: Yes, that is unfortunately we had close to 48% increase in one financial year.

Rajesh Kothari: That is fine, so that you will get in the first quarter am I right, whatever is the increase whether it is 40% or 5%, I mean whatever the increase you get it, am I right?

Srinivasan Ravi: We got the 10% quarter-on-quarter but every quarter again it was increasing, we are buying at a new price and we got corrected for the last quarter, so it has to be stable, now it is getting stable, hopefully it will remain.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Srinivasan Ravi for closing comments.

Srinivasan Ravi: Thank you very much for joining this first earnings call in spite of the pandemic and your other commitments. Thank you for taking the time and attending, and I also gained a lot of insight how you look at the results of the company and we will continue to get this inputs from you, we will continue to take this inputs in our business planning and try to handle the company going forward in a better, better way. Yes, we are in for challenging times that has to be recognized by everybody, it is beyond our control and we look forward for the next earnings call.

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