28th July, 2023

To

The Manager - Listing,	The Manager - Listing,
BSE Limited,	National Stock Exchange of India Limited,
Rotunda Building,	Exchange Plaza,
Phiroze Jeejeebhoy Towers,	Bandra Kurla Complex ,
Dalal Street,	Bandra (East),
Mumbai - 400 001	Mumbai - 400 051
Scrip Code: 543276	Stock Code: CRAFTSMAN

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call on the Unaudited Financial Results for the quarter ended 30th June, 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 3rd July, 2023 and 24th July, 2023 respectively, we are enclosing herewith the transcript of the earnings conference call organized on Monday, the 24th July, 2023 at 4.00 P.M. (IST) on the Unaudited Financial Results for the quarter ended 30th June, 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 Digitally signed by Shainshad Aduvanni Date: 2023.07.28 16:41:11 +05'30'

Shainshad Aduvanni
Company Secretary and Compliance Officer

Encl: As above

CRAFTSMAN AUTOMATION LIMITED
Q1 & FY 2023-24 Earnings Conference Call
24th July, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY 2023-'24 Earnings Conference Call of Craftsman Automation Limited.

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 this conference call, please signal an operator by pressing star, then zero on a 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, Mr. Srinivasan Ravi.

Srinivasan Ravi: Good afternoon, everybody. It gives me immense pleasure in welcoming you all for the earnings call for the quarter ended 30th June, 2023. In Q1 FY '24, it was a mixed bag from the demand perspective with the signs of volume growth moderation in some segments, which has shown in the results. Demand largely was intact for two-wheelers and passenger vehicles, whereas volumes declined in the commercial vehicles because of the pre-buy, which happened to the OBD norms, which was pre-buy happened in Q4 of FY '23. And tractors also the volume was very muted and because of high inventory for the closing March '23.

We changed the format for today's discussion with -- we have brought the consolidated numbers upfront because it is a materialistic consolidation of the subsidiary. So, we will quickly run through the consolidated numbers, then we will elaborate on the stand-alone numbers.

Consolidated financial details. Sales is INR 1,038 crores and it is not comparable with Q1 FY 23 because the consolidation of DR Axion was not there. So, I will refrain from putting a percentage there. EBITDA also is INR 218 crores, EBIT of INR 150 crores, PBT of INR 107 crores and a PAT of INR 81 crores. I am not comparing with the previous year. For the simple reason, the subsidiary was not there.

Overall, I want to talk about the consolidated debt equity and other financial ratios, consolidated ratios. Debt equity is 0.88 times, debt-to-EBITDA is 1.51 times, EBITDA margin of 21%, EBIT of 14%, PBT 10%, PAT of 8%; current ratio of 1.17 times. ROC pre-tax annualized is 23%. ROE annualized is 22%, EPS is 35.25%.

Now I will move on to the stand-alone financial. Turnover was INR 756 crores, 12% over and above the Q1 FY 23, which was INR 676 crores. EBITDA has been INR 166 crores, which is almost same as last year, which was INR 165 crores. EBIT of INR 108 crores, which is a slightly lower EBIT compared to the previous year, there was INR 112 crores, mainly because of two reasons: The depreciation which is below the EBITDA line and I will explain that later going forward. PBT was INR 73 crores and last year PBT was INR 86 crores, PAT of INR 54 crores versus INR 56 crores.

The other significant points, where CRISIL has upgraded the ratings of the company to CRISIL AA-/Stable for long term from the previous rating of A+/positive and CRISIL A1+ for short-term from the previous rating CRISIL A1.

Capex for Q1 FY '24 stands at INR 81 crores to enhance technological upgradation as it is required for addressing the emerging opportunities apart from the regular maintenance.

The other financial ratios for the stand-alone debt-to-equity are 0.79 times for FY '23, it was 0.72 times. Debt-to-EBITDA was 1.66 times, FY '23 was 1.48 times, EBITDA margin 22%, compared to 23% earlier. EBIT margin, 14% to FY '23 of 15% and Q1 was 17% for FY ‘23, PBT, 10% comparable quarter, PBT was 13%. There is a difference year, which I will explain further. PAT of 7% for Q1, it was 8% earlier and for the full year, it was also 8%.

Now I will go to the segment-wise results. Automotive Powertrain segment turnover has grown by 10%. Aluminium segment has grown by 21% on the stand-alone. Industry Engineering segment turnover has grown by 6%. The Storage business generated a revenue of INR 78 crores for the quarter. Automotive powertrain segment EBIT was INR 84 crores. Aluminium segment EBIT, which has been the highest so far is INR 26 crores for the quarter. Industrial Engineering segment EBIT is INR 11 crores. To touch upon the subsidiary, some details of subsidiary, the turnover was INR 281 crores and EBITDA was INR 52 crores.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: First of all, congratulations to you and all the shareholders for crossing INR 10,000 crores market cap today. Great performance since listing. Sir, I have a couple of questions. Sir, first is, in the quarter gone by, which segment performed above to your expectations? And what outlook would you have for the next two quarters, given some sort of uncertainty is there in the export market and also CV sales, we are nearing expectations that we could be nearing the peak of the cycle. So yes, that's my first one.

Srinivasan Ravi: I will go segment-by-segment to answer your questions. On Q1, we knew earlier itself that it will be muted on the powertrain business. Of the four sub-segments in the powertrain, we are dominated by the commercial vehicle heavy-duty commercial vehicle business, which was muted because of the pre-buy, which happened in Q4 for the OBD norms, which was changing at that particular point of time. The next biggest segment is the farm sector also was muted because of the high inventory and construction equipment also was muted because the construction is not recovered fully. Only passenger vehicle was -- it held on its own for the Q1.

So, going forward, we see that commercial vehicle business will pick-up in Q3, not in Q2 and it will be quite strong in Q3 is the indication we get from our customers. And also, the additional point which I want to make is the heavy-duty commercial vehicle is in bigger demand than the upper medium-duty or the lower heavy-duty also. So, I think the tonnage is moving up because of the scale and efficiencies, which fleet owners are experiencing.

So, with that, we expect that the growth path will continue on the powertrain as I've been discussed earlier, we are expecting a 15% to 20% growth in the year for the entire powertrain business as a whole. We expect also construction equipment to pick-up in late Q3 or in Q4, at least on this matter. Tractors already is showing some signs of not growth, I would say, but coming back to normalcy on the powertrain business.

And the next segment of the aluminium business, as I mentioned in the opening remarks, the two-wheeler has been doing reasonably well. The shadow, which is glowing on the EV also. I think EV is somewhat stable now on the numbers. It is not growing in numbers. So, there is the confusion in the mind of the people to whether buy an EV or whether to buy an IC engine vehicle, I think that is more-clearer now for them. So, we see some stability going forward in Q2, actually some growth in Q2 also on the two-wheeler business in the aluminium segment.

In the passenger vehicle segment, both Craftsman as well as subsidiary DR Axion are accelerating on the increase in sales revenue and the order book is quite full. So, we will see quite a good traction in both the companies going forward in Q2. And then just continue to operate. Of course, Q3, there will be a small correction, but Q4 also, we expect very strong performance on the aluminium segment.

In the Industrial and Engineering segment, which will be more affected by this slowdown, which you have talked about or when you are asking the question. We don't see any big impact for us for our direct exports, but our indirect exports, I think there is a slowdown a little. And I would say, this inventory correction, which has mostly already happened now. And going forward, I think the new products are also kicking-in now on our sales. So, we expect that growth to continue.

Dhaval Shah: What were the breakup in industrial & Engineering between storage and high-end precision?

Srinivasan Ravi: Storage, out of the total sales for Q1, it has been 47%, high-end subassembly and precision components has been 53%. So, storage has been more affected because of the slowdown here everybody has held by capex. But now for the Q2, I think the orders are far better than Q1. So, we will expect industrial engineering to have some sort of a rebound for Q2 itself.

Dhaval Shah: Okay. And on the aluminium segment, if you can share the revenue mix and also your comments on the EBIT margin. We are at 13.7%, if I am not wrong, for the quarter. So how do you see I mean this should -- I assume this was a very normal quarter in terms of the underlying raw material prices. And after we are changing our terms with the customer on the pass on.

Srinivasan Ravi: So, I think raw material is a pass through. So now we are -- our operating leverage has improved. If you look at even the stand-alone revenue of the aluminium segment business, see, I think you are asking your question regards to aluminium segment business, right?

Dhaval Shah: Sorry?

Srinivasan Ravi: Your question is related to aluminium segment, right, only the aluminium segment, right?

Dhaval Shah: Aluminium. Yes.

Srinivasan Ravi: So, I will answer first on the stand-alone. On the stand-alone we had Q1 FY '23 that is up last year, we had an INR 171 crores revenue, whereas in Q1 of this year, it is have been INR 207 crores. And comparatively for just for your reference, for Q4 FY '23 it is been INR 197 crores. So, it is very rare that we will have Q1 higher than Q4 and this is still accelerating further going forward because new products have kicked in. And the passenger vehicle business also is growing in Craftsman stand-alone. Have I answered your question on the aluminium product to margins, it is nothing related to with aluminium pricing, but more on the operating leverage.

Dhaval Shah: And what is your revenue mix?

Srinivasan Ravi: Revenue mix for – you are looking at stand-alone or you are looking at...

Dhaval Shah: If you get both on the aluminium segment side, yes.

Srinivasan Ravi: The commercial vehicle is 7% and two-wheeler is close to 70%. Passenger vehicle is slightly above 3%. And the others, we have around 20% totally, which is a mixed bag. But on a consolidated basis, today, the passenger vehicle is the biggest. So, it is as a percentage, it is, I think, close to 60%. Close to 65% is just a rough-cut number, I don't calculate the number. But on a consolidated basis, that is the number for the passenger vehicle.

Dhaval Shah: Okay. And sir, lastly, on the capex, so you maintain the same guidance, which you gave in the last call of around INR 320 crores, INR 330 crores capex?

Srinivasan Ravi: Yes, that is the capex plan as of now. I don't expect any major change unless we come up with something new, which I don't expect. But the capex, there is a strategy behind the capex of Craftsman, I would like to elaborate this. Three types of capex is happening. One is the maintenance capex. Our depreciation for the quarter is the current run rate is overall INR 58 crores is the depreciation for the quarter on a stand-alone. So, I think the depreciation, we look at it at a run rate, we look at it around INR 220 crores or something like that for the year, the maintenance capex will be INR 150 crores it is quite clear on this matter.

The balance, I mean INR 170 crores, which we have planned is a mixture of not only growth capex, but there is also a little of automation we have considered there. To offset the productivity loss which is happening due to seasonality of the manpower -- a subject which we are -- every company is subject to. And this also will increase our efficiencies going forward and that means capex going forward will be more effectively used.

You might have seen the annual report last year and the previous years, I think more or less, we have been just having the inflationary cost on the manpower, but the numbers in manpower have not disproportionately increased. So, we want to keep the same trend going forward. So, we have always budgeted and earmarked some maintenance capex, sorry, some automation capex, which we are mostly manufacture in-house and some of it we are going from leaders in the market. We are taking their help to see that we use less people going forward for more efficient operations.

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

Jinesh Gandhi: Congrats on good numbers. Quickly, can you share the value-add for the -- each of the segments for the first quarter?

Srinivasan Ravi: Value-add for auto powertrain was INR 237 crores, aluminium was INR 86 crores and industry engineering was INR 63 crores.

Jinesh Gandhi: And INR 86 crores is stand-alone, right, for aluminium?

Srinivasan Ravi: Stand-alone.

Jinesh Gandhi: Yes. And for DRA, what would be the value-add?

Srinivasan Ravi: INR 104 crores.

Jinesh Gandhi: Okay. And if I look at the Industrial segment, you alluded that there were some slowdowns on the storage solutions. So, do you expect that business to see recovery in from second quarter afterwards, is that correct understanding?

Srinivasan Ravi: Yes, correct. Recovery is going to be a strong recovery in the second quarter.

Jinesh Gandhi: Okay. But what led to impact in 1Q? Was there any particular orders which got delayed or anything in particular?

Srinivasan Ravi: Normally, capex budget is normally over during the Q4 itself. And if the market is growing very well, I think Q1 will some trend would have continued, but this wait-and-watch policy in general. But I think that is over now. Again, there we are continuing to invest now. So, the orders got in a little late in the Q1. It is getting received at now. So, we are -- it is fair to say that we are still on the growth path in the -- whatever we committed earlier, that 15% to 20% growth path on the Storage Solutions also for the current year.

Jinesh Gandhi: Right. And how much of this 47% will be effectively automated storage?

Srinivasan Ravi: You're talking about the revenue of the automated storage for the quarter?

Jinesh Gandhi: Yes.

Srinivasan Ravi: I think, I mentioned that the absolute number of the storage is INR 78 crores, right?

Jinesh Gandhi: Right, that's INR 78 crores, yes.

Srinivasan Ravi: So Jinesh Gandhi, I have answered that INR 78 crores for storage solutions, it is quite clear that last year, the run rate, I think, even for Q1, we are almost equal to that run rate. So, we will be – having -- we are on the growth path.

Jinesh Gandhi: Okay. Would you be having breakup for automated storage in this?

Srinivasan Ravi: Okay. Automated was INR 19 crores and static was INR 59 crores.

Jinesh Gandhi: Got it. And if I look at the DR Axion performance primary consol minus standalone, we have seen a very, very sharp incremental margins obviously, last quarter may not be comparable just because it was first quarter of -- it is been under our control. But anything which you have changed, which is a structural, which would lead to structural improvement in margins?

Srinivasan Ravi: You are talking about the Q4, two months consolidated versus the Q1 now, totally?

Jinesh Gandhi: Right.

Srinivasan Ravi: 1st February, is when this subsidiary was -- the management change happened 1st February. So now I think, the synergy is playing out between two companies, these trends are playing out. There is better leverage on all operational costs, including the consumer and other aspects and there is support from our side also for technicality, which is also helping the efficiencies going forward. And we have also increased, improved our inventory from a very low inventory. So, it is also helping us to save on material costs overall. So that we will not be subject to very quick changes in the aluminium price fluctuations. It was very low inventory when we took over. So, we are having a reasonable three weeks to four weeks inventory currently.

Jinesh Gandhi: Right. And when we look at the margins in this quarter for DR Axion, we are almost close to 18%. Is that a sustainable number in your opinion? Or we will see some bit of moderation to back to about 15%, 16%?

Srinivasan Ravi: Everything will depend on the operating leverage, I would say. I think Q2, it is sustainable. Q3, normally, it is not sustainable, for the simple reason that some of the customers shut down their plants for maintenance to also correct their inventory also for maintenance also. So, but for Q4, I think this is sustainable.

Jinesh Gandhi: So, on a full year basis, what DR Axion should still be doing about 16%, 17% margins on a conservative basis?

Srinivasan Ravi: Yes, correct. On a conservative basis, yes.

Jinesh Gandhi: Okay. Got it. And lastly, if I look at the EBIT margins for powertrain business, there is a continuous decline on Y-o-Y basis. This quarter was about 21.9%. Is this largely to do with the mix of business, or are there something else there?

Srinivasan Ravi: I want to talk about value-addition. I think value-addition for Q1 of FY '23, it was INR 223 crores versus INR 237 for Q4. Sorry, sorry, I think I made a mistake. INR 223 crores it was for Q1 FY '23. But marginally, it has increased for Q1 of FY '24. So, it is hardly INR 14 crores increase year-on-year. I think this is the main reason for the lower value-addition increase. It has been for the EBIT margin to reduce. Plus, depreciation has increased by INR 5 crores because of the investment. We have higher capacity now. I think that will get absorbed in the coming quarters.

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

Nishit Jalan: Congratulations on the good set of numbers. Just wanted to ask a couple of points. Firstly, on the net debt level, where did we end in Q1? And how should we look at it from the next one year to two-year perspective?

Srinivasan Ravi: You are talking about EBIT level?

Nishit Jalan: No, net debt.

Srinivasan Ravi: Net debt, okay. I think, I will take your next question and then I will give this number within a minute or two.

Nishit Jalan: Sure. And secondly, I would assume that last year you had won quite of these new orders. I think your annual report also talked about that. Fair to assume that some of that will start or ramp-up in Q2, Q3. So, your revenue improvement irrespective of industry volumes should also improve quite meaningfully in Q2, Q3. If you can give some color on that in terms of segments and all that will be useful.

And number three, in industrial segment, there was some slowdown, but you did mention about some inventory correction at customer end. And if I look at the last two, three years' financials, Q1 seems to be a little subdued in terms of overall numbers. So, is there some sort of seasonality also involved in this business?

Srinivasan Ravi: Yes, there is seasonality as I mentioned earlier, the commercial vehicle segment, there was a pre-buy. I think that is the reason for...

Nishit Jalan: Ravi. I am asking about industrial engineering specifically.

Srinivasan Ravi: Okay. On the industrial engineering, I think we didn't have much growth on the storage solution for Q1. That is the main reason. Otherwise, I think it was, okay. Your earlier question of net debt as of 30th June was INR 1,054 crores.

Nishit Jalan: So, INR 1,054 crores, right?

Srinivasan Ravi: Yes. This is including the DR acquisition, which has happened the INR 375 crores, which we had a payout, this is a stand-alone debt. And so, if you're really looking at an apple-to-apple comparison to last year, we have to look at INR 1,054 crores minus INR 375 crores.

Nishit Jalan: Yes, I got that. And secondly, on the new order wins ramp-up. Any color on how should we see ramp-up of some of the new order wins that we had?

Srinivasan Ravi: See each customer has got his own timeline for ramp-up and some are going through SOP, some are in early component approval stage, some are starting to ramp-up. So, I think next year, as the full ramp-up will happen. But in quarter-on-quarter, we are seeing there will be growth in our sales. That is clear.

Nishit Jalan: Okay. And one last question more on the industry level. We keep hearing about this China Plus One, Euro Plus One and all. Have you started to see much more inquiries or progress in terms of overseas customers or anything that I believe should benefit you over the next two to three years?

Srinivasan Ravi: Yes, quite significantly. I would say that more-and-more in the powertrain business as well as in the industrial engineering segment, both are going to get benefit. On aluminium, still it is not visible as of today. Yes, the de-risking is happening. But we need large capacities to cater to these multinational companies, who are finalize the strategy, most of them to have China Plus One. But the point here is, I think it was summed-up very clearly by World Bank Chief. I think, I read it on the newspapers also last week that is one more location place because we are very small in manufacturing footprint as India itself when compared to China.

So, having said that, I think Craftsman by itself is too small to say that we will be able to get the bulk of the business or something like that. But I think even a small business increase will -- I mean the sales win will increase our sales quite dramatically. But I think, capacities are the key. Without capacities no customer is willing to venture out and place orders on Indian supplies. This is the feeling I get from the customers I interact.

Nishit Jalan: So, does that mean that we would need to start thinking about more greenfield or capacity addition ahead of time so that we are well placed to kind of benefit whenever those guys decide to give orders?

Srinivasan Ravi: At least the plant should be in place and the customer should have enough confidence that we have enough spare capacity currently to absorb the immediate requirement and we are willing to invest and grow further because they are also pitching their product sales will get affected, if we are unable to supply. And there is no point for any multinational OEM to have many small, small suppliers in India.

I think the consolidation of the supplier base in India also is a very important factor, which will play in the minds because the Chinese factories are of mega sites and what one supplier in China is catering to say, multinational customer in the US, I think even 10 suppliers in India will not be able to cater. So that is also playing in the mind of the customers.

So, I think scaling-up is important, but scaling up -- putting capacity much in upfront is not the right idea and not the right way also looking at it. It should be simultaneous as and when the orders come up and the capacities are put up, we need to be agile in the capacity building. I think the project management skills and the identifying the projects and bringing quickly up to production without too much preoperative costs or too much lag between the planning stage to the production stage or delivery to a customer. I think this is the most important factor to keep the customer and also keep the profitability for us.

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

Abhishek: Sir, the first question on the segment was mix in this powertrain business. How was the mix in first quarter FY '24?

Srinivasan Ravi: Okay. In just a minute, Mr. Abhishek, I will just read out on the powertrain mix. For this on the topline, it might be little misleading because still it is not value-addition portion, but I will read it out for you. For Q1 of FY '24, commercial vehicle was 58%, off-highway was 19%. Tractor was muted at 14% and the SUV business, which is the passenger vehicle was 9%.

Abhishek: Okay, sir. And in this quarter, margin has gone down. Is it because of only the lower value-addition or you are facing some supply side constraint for I mean to say that iron casting and other things?

Srinivasan Ravi: I will attribute to three factors. The last factor about iron casting. So, I will come back to that in a minute. So now coming to that, this was -- our margins were affected because both the tractor segment as for the commercial vehicle segment led to make the operating leverage lower and we had increased capacities investment last year. These are the two main reasons. And then we have the second point led to the increased depreciation also for INR 5 crores without any top-line growth on the value-addition.

Then the third point is the earlier question of Mr. Nishit Jalan answering that, on the powertrain business, securing new orders from multinational customers for their plants domestically as well as for their export requirement and also direct exports. I think the bottleneck is very, very clear that there are not enough large-scale foundries in the country. We are having only 10 foundries, which are medium to large scale for these larger critical parts of the powertrain, whereas in the smaller-sized foundries, there are many. I am talking about foundries having a turnover of more than INR 500 crores on only the casting business are very, very few. So, this is also a bottleneck for new orders currently.

Abhishek: So, you are looking to set up your own foundry the medium- to long-term?

Srinivasan Ravi: We are working with our esteemed foundry partners across the country and we are still dialoguing with them for increasing their capacities and what we can do with them. Meantime, I think there can be, as I mentioned in the earnings call, that if this is going to affect our growth going forward, we may set up some backward integration to some portion of our requirement. And we are not looking at large capex at that particular point. Yes, we are contemplating it. And I would say that this on the cards, see in general, but I think it is too early for me to comment in a public forum as of now.

Abhishek: Sir, you have won the many businesses in off-highway vehicles. You had mentioned in your last con call. So, if you can throw more light over there, what is the progress now?

Srinivasan Ravi: Yes, we have won quite some reasonable orders in the last quarter on off-highway vehicles. And we have quoted for many more projects, which are also likely to get finalized in the next quarter, and we are confident of getting the orders. For the global requirement of off-highway vehicles, which India by itself is very small exporter. We see large potential there going forward. And as I mentioned earlier, again, it comes to -- we are ready to expand our machine facility. We also have capacities available in the large machine segment also. But we are seeing, again, the bottleneck of the foundry casting capacity, which is making our customers hesitate to go forward. So, this is what we are trying to crack in the coming quarter how to resolve this and get the business.

Abhishek: And my last question regarding your export. So, what is the current export contribution? And what is your medium target -- medium-term target for the exports?

Srinivasan Ravi: Yes, just a minute, I'm just reading out the numbers. We had a direct export sale for June quarter around INR 63 crores. This is the parts what we export directly, but there are other parts like Daimler Brazil and other parts we sell, we give it to Nelcast Exports. Brakes India also is doing exports, but we are doing the machine -- we are the machine supplier for them. So, all that is not added to this direct export sales of INR 63 crores.

Abhishek: Okay, sir. And what is your medium-term target for the exports, sir?

Srinivasan Ravi: This is also growing phenomenally, as I mentioned earlier, itself, the order wins are going to be based on casting capacity. This is the major constraint we are facing now.

Abhishek: Okay. So, you have won the business for the PSA also. So...

Srinivasan Ravi: No. That is not the powertrain business. Now I was talking only about the powertrain business. On the aluminium segment, yes, as I mentioned earlier, powertrain now there is serious potential for export. Aluminium is coming now, but aluminium wise, still I am not very confident that exports will increase phenomenally because it is a fairly automated process on the high pressure die casting at least, where even Europe, they are continuing to have large production capacities. So that will follow.

Moderator: Thank you. Our next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Yes, sir, I was a bit confused on the DR Axion side, the number last year, which was given for full year was about INR 1,000 crores and 14% margin. And you mentioned that usually quarter 3 is lower because utilization is lower. And the quarter 1 margins looks like 18%. So, the reference should be the 14%, 15% margin which you reported last year was the number last year and that's the reference number, which should we take forward, or it is the 18% margin number?

Srinivasan Ravi: I think Mr. Jinesh Gandhi of Motilal Oswal asked the same question. I think we can moderate at 16%, 17% for the year.

Pritesh Chheda: Okay. And my second observation was in the reported consolidated, there is no minority reduction that I see in the P&L? Any reason? I think we have about 75% holding, right, in the Axion?

Srinivasan Ravi: It is 76%, but it is there. I just read out.

Pritesh Chheda: It is given as in controlling, non-controlling interest that was usually, there is less minority.

Srinivasan Ravi: Yes, it is non-controlling interest. That is where...

Pritesh Chheda: Okay. It is reported there.

Srinivasan Ravi: Yes.

Moderator: Thank you. Our next question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf: Just in continuation to your point on some shortage of capacities on the ferrous casting side. I mean, are you seeing, I mean, because of this, are you seeing OEMs trying to expand the capacity? Because obviously, the large CV OEMs have their own the casting and machining, I guess. So how are you seeing them react to this? Or do they expect you to kind of expand into these ferrous castings?

Srinivasan Ravi: Mr. Mukesh, I will answer that one is the size of the casting, whereas I am talking about the bigger castings, what is more today, we are getting more inquiries for their exports. Hardly 10 foundries are there.

Mukesh Saraf: Whether it is only for the export side?

Srinivasan Ravi: Yes. There are only 10 foundries and three of them are the OEMs themselves. So only seven foundries are above INR 500 crores level. That is why the shortage of capacity there in certain cases mainly for cylinder blocks and heads, I would say there is a shortage of capacity.

Mukesh Saraf: Okay. So, you are saying that even including the OEMs, there is that shortages, is what you are saying?

Srinivasan Ravi: Yes, it is sufficient enough for the domestic market, but for new orders for export. Yes.

Moderator: Thank you. Our next question is from the line of Hrishit Jhaveri from Pi Square Investments. Please go ahead.

Hrishit Jhaveri: Congratulations for the good set of numbers. So, can I know the capacity utilization stand-alone basis as well as for the subsidiary?

Srinivasan Ravi: For a stand-alone basis on the powertrain, we have increased capacity. So again, the -- still we are at now 70% level only in spite of the increased sales for the FY '23 numbers and Q1 was muted. So, I think Q1 capacity utilization was much lower than that also. I think we are just above 60% level for Q1. Aluminium, we are now crossing 70% as of Q1. I think there are some capacities capex planned and that's already happening. So, I think there also we will increase capacities and we will be -- that business is having higher traction now.

Hrishit Jhaveri: Okay. So and for the subsidiary?

Srinivasan Ravi: Subsidiary, we have only three key customers there and I think their capacities are sufficient to meet their demands. There is a minor capex, which is going on. That is not significant enough to discuss, but we are able to meet all their volume numbers starting from Q2.

Hrishit Jhaveri: Okay. And you mentioned that our raw material cost is generally pass through. So, what is your outlook for the next two quarters, the raw material cost outlook?

Srinivasan Ravi: I think the OEMs have factored in the cost increases last year and their prices is what I am given to understand from the news in the public domain. And we have passed on all the reduction of the aluminium prices to our customers, where it is to the customer's account totally. So, it is the commodities, generally the demand all over the world is looking muted, so we expect this to continue.

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

Pranay Chatterjee: My first question is around margins in general and specifically to powertrain, right? While in aluminium products and I&E, we have seen consistent improvement as -- exactly as you have guided for with increasing operating leverage. In powertrain, if I were to tabulate EBITDA margins, in FY 2022, it used to be around 35% to 40%, and now it is at around 31%, right?

The reason can be attributed to, again, if I look at value-added as a percentage of revenue, it used to be 65% to 70% and now it is 61%, right? So obviously, more pass-through and less value-add, so hence, okay. So, my question is, can we get back to that 65% to 70% value-add number? Or is it that since your PV or other segments are increasing in the mix, 60-plus-percent value-added is the new reality. So, I just want to understand powertrain, can we go back to the old 35%-plus margins?

Srinivasan Ravi: The margin, please do not look at the top line and the margins at all going forward because we were predominantly a job worker and we were supplied material from our customer foundries also. And now that is already saturated. So more-and-more business is now coming from we buying the castings from various foundries and supplying to our customers within India and outside India. So, the way we look at it is the EBITDA margin has to be as a percentage of the value-add percentage only. So, if you look at, it will be consistently okay, there can be a slight movement up or down, depending on the operating leverage.

Pranay Chatterjee: It is actually gone down. Even If I do EBITDA by value-added, last year, it was 55% plus. Now it is down to around 51%, 50%. So even as a percentage of value-added has gone down. So, is it -- again the question remains, is it because of our mix change or hence, this is a new model?

Srinivasan Ravi: That 55%, 51% is quarter-on-quarter you're talking about or...

Pranay Chatterjee: So, I'm speaking generally, if I look at the quarters from left to right, in 2022, the levels I can see is 55%-plus, all the numbers. But if I see the number in the latest quarter and even Q4 last quarter, it is at 50% or 50% to 51%. So around 500 bps, it has gone down over the last eight quarters on average. So hence, this tells me that probably the mix has changed. Is that the case?

Srinivasan Ravi: I would not attribute to mix change. I would attribute it to mostly the inflation and the increased capacity is what we have built-up, which is yet to be filled in because we had quite a good surge in the last two, three years. So, we have added supplementary plants adjacent to the existing plants, both at Sriperumbudur as well as in Pune as well as in Faridabad. So, these plants, where we are incurring expenses, or the capacity utilization is still low and we are sure that it will get filled in by Q4 of this year. So that is shaving-off some percentage points on the -- that 55% to 51% you are talking about.

The second point is all the costs -- operating costs, there is no chance for price increase on the existing products for the machining value what we are doing for our customers. So, the biggest is the inflation in wages and welfare. That is one. We are nullifying that to certain extent with better productivity, manpower productivity as well as some automation. But still, our wage bill is going up year-on-year. As a percentage also, it is -- we are trying to contain it.

The second point is all other consumables, whether it is the consumables products or also the power and everything is increased. So, the operating leverage, when it increases. It can inch back to 55%, as you said. That may happen for one or two quarters this year.

Pranay Chatterjee: Understood, sir. And my last question would be, you mentioned 16% to 17% as the steady state DR Axion margin. Can you give me a steady state number similarly? I understand top line margins don't make sense. But still, directionally if the value add were to remain the same. In the next three, four quarters, what could be steady level margins for the I&E segment and the stand-alone aluminium segment?

Srinivasan Ravi: On the powertrain business, this is the muted quarter, Q2 and as well as Q3 will be better and Q4 will be far better. So, I think you can draw a conclusion from that, with better operating level, the margins also will improve. Aluminium segment, I think we are still on the growth path. That growth path also will add -- not, I mean, and the powertrain also will be on the growth path, but if you look at the base and the growth overall and at a lower base, aluminium is growing so that the margins are getting better observed. That's what I would like to say.

Pranay Chatterjee: Okay. And in I&E?

Srinivasan Ravi: I&E, I think the Storage Solutions we will start looking up from Q2 onwards. We will end the year somewhat in similar margins as last year.

Moderator: Thank you. Our next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, my question is with regards to your next leg of capex whenever you plan to take it up, what would be the size of the capex required for you to grow on this higher base. And B, what will be the debt levels at which you will be comfortable to take this big expansion plant?

Srinivasan Ravi: I want to reiterate from the time of the IPO, I mean, that is FY '21. From that point onwards, we are committed to 15%, 20% CAGR growth. There can be some years, we will do more. Some years, we will do less, but we are going to grow, that is clear.

Now growth on a consolidation number is more realistic to look forward, not this year, but I think a year or two later, we have to look at that because cash has flowed out of the company overall. That is also curtailing our ability to invest in Craftsman itself on this matter. And the cash, if generated by the subsidiary will not be quickly, easily, yes. We cannot get it back quickly on this matter, unless it is by dividend route or something like that.

So, having said that, we may have to raise some capital next year if we see huge growth opportunities. As earlier mentioned by Nishit Jalan, that China Plus One policy is playing out. But otherwise, for a steady growth of 15%, 20%, I think we are self-sufficient. We approved it with even the DR Axion acquisition. Our debt-to-EBITDA stands at around 1.6 times we are comfortable at this level, but I think we will move towards 1 times again.

Again, we have some sort of extra investment organically or inorganically. We may again come to 1.6 times because 2 times is the upper limit for any rainy day. So, I think we may be operating between 1 times to 1.5 times in the normal course of the business. So, with that, I think we are still small in the global scale. So that is the reason for my bullish statement of the 15%, 20% CAGR growth, we can continue.

Dhaval Shah: Yes. Sir, before going public, I think we had done some sort of arrangement with Mitsubishi. Now given this entire China Plus One opportunity size, would you be open to doing some sort of a joint venture or a tie-up with a foreign company to get technology or some sort of partnership? Your thoughts on it?

Srinivasan Ravi: Historically, when you look at it, Craftsman, we have got engineering advantage. We have come from engineering background and then diversified into auto powertrain then also into auto aluminium. And now it is called aluminium products because we have merged it with other products. And even the storage solutions, we are competing with multinationals also with the indigenous products developed announced in-house with our design team. That has been the philosophy. So, we may engage a lot of consulting firms, or we may even technological partners only.

On the shareholding basis, we are not open to having joint ventures by say, because there are two things happened. One is our management gets diluted that we have to focus on the JV also. There is split of capital from the parent company to the JV on this matter. DR Axion is one exception, where it is a running unit where you've taken over and we have taken 76% stake and it is already a profitable business. And it is exactly in the line of the business and it is complementing our business where we are on predominant two-wheelers and they are only into the four-wheeler business.

We are predominantly in the high pressure die casting and they are only in the gravity and low pressure die casting. So, these are all synergies, which has helped us to shore up the aluminium segment. We are looking at further acquisitions in the power train and in the aluminium segment also. But we are not open for any sort of JV where we will be a minority, or the technological transfer is not complete.

Otherwise, the technology will be partially done for this particular requirement for the current customer requirement and the current product range. And when it comes to the next level of upgradation, we have to still depend on the joint venture partner for them transfer and at what royalty fees and what technological fees, how is it -- I mean, it is unknown. So, we don't want to venture out in unknown territory, which will lead to our dilution or erosion in EPS, I would say.

Dhaval Shah: Very helpful. And last question, sir, you always said about your EV strategy that at the right time, you will take a call of investing money. So where are you -- I mean you -- is that time near, or you are still evaluating any -- what are your thoughts on that?

Srinivasan Ravi: There has been a step back from at least the European market in a big way. They are not banning vehicle production beyond 2035 on IEC whatever they have taken decisions earlier, I think it was put to vote and the main three countries are backed out on this, putting this proposal to I think, to a firm law, so it is now not happened. So, taking a cue from that and also looking at a fine balance between the -- our Indian infrastructure as well as the other emerging markets, I think we have a lot of headroom to go still on the off-highway vehicles surely for a very, very long time. I think two decades or three decades more and construction equipment also in a similar manner. Even on the heavy-duty commercial vehicle now the focus is more towards hydrogen, H2 ICE engines. That is what is the focus.

So, when we have so much at room to grow on the particular -- our current strength itself, we are starting to focus on off-highway vehicles and construction equipment now. And today, it is very small portion of the powertrain itself. As a powertrain it is hardly contributing to 10%, 15% of our value-add or revenue on this picture.

Coming back to passenger vehicles, EV, we feel that by 2035, there will be quite some significant percentage in India. But still, the growth in the passenger vehicle segment will continue a little on the ICE also overall because the market is still on a growing stage. On the EV side, the aluminium content in the vehicle will surely has to increase to increase the battery range of the EV vehicle.

Because today, they are putting a heavier battery or costlier battery is a more difficult proportion for the OEM. I think the route will be to reduce the passenger vehicle car weight by a few hundred kilos so that the current battery itself will increase the range. So, when the new platforms, borne EV platforms come. We are looking at more-and-more opportunities on aluminium content -- the increased aluminium content there.

Moderator: Thank you. Our next question is from the line of Mr. Tejas Chipukula Bavani, who is an investor. Please go ahead.

Tejas Bavani: Thank you for the opportunity and congratulations on your Q1 FY '24 results. I have two questions. The first question is with respect to DR Axion, is it possible to get a perspective on what will be like the strategy for expansion? Would you be increasing the wallet share mostly within the three auto customers with the previously mentioned? Or will you start approaching other car makers like Maruti or Toyota or even Mercedes automated side BMW, if you want to expand their India business and are making strides in the SUV EV space?

Srinivasan Ravi: Geographically, we are located down the south is a single plant location. And the profit margins or EBITDA margins will be based on utilizing the current capacity. We still have a reasonable, I think, 20% capacity going forward. And for that, we are getting new inquiries from existing as well as new customers. We proposed plant of -- our current Korean customer, I think they are proposing to put a plant in Pune. We have got the inquiry. We are seriously working with them. And hopefully, we will get the order awarded to us. There are other players in the race. But I think we are still keeping the same plant in -- for this, the production. And we have started to quote for other customers also, whichever new engine programs are coming and we are hopeful that we will get the business.

Tejas Bavani: Okay. My second question is, like what are the things that Craftsman is doing in order to manage the culture fit between your core Craftsman Automation Limited and DR Axion?

Srinivasan Ravi: I never expected this question, but it is an excellent question. I would say, there, the Craftsman until 2004, we were 82% direct export to 34 customers in nine countries including Japan, we had of course, we had supply customers -- I mean capital goods suppliers from Korea, but Japan was a big export. We are exporting in China. Then a lot of countries in Europe and also North America.

So, looking at that, we are well used to the culture between Europe, US and Asia, rest of Asia. And this is standing us in good state to really merge with the new cultures, which you need, I mean, not new cultures. I think foreign cultures, I would say. We are very, very comfortable to work with. And when the -- our new partners or shareholders, or DR Axion and the -- our Korean friends, we are seamlessly able to communicate with them and we are able to manage well and hats off to them also for their 100% co-operation.

It doesn't look like a company which is a subsidiary. It looks like Craftsman as the day passes. And we are drawing from the Korean strength, which is great production culture and also very meticulous on certain aspects of the business and very aggressive approach towards both the delivery as well as to for the new product development. And never die -- say die spirit on the -- I would say, the delivering on time to the customer.

I think these are the traits, which has made Korea a great manufacturing nation and pushed Korea as the number three manufacturers in the world as a passenger car manufacturer and we are very happy to be associated with them. I think there is not -- never was a challenge to integrate with DR Axion. On the management front, I'm talking about, operation front is a different issue.

Tejas Bavani: Yes. That's wonderful, sir. And I just have one clarification, it is in the powertrain export business, you mentioned that direct export sales was INR 63 crores. And in direct exports also you export like through Nelcast, who take this forward and also from Brakes India, right? Because I couldn't hear that?

Srinivasan Ravi: Yes. See, INR 63 crores is the exports in all the segments put together. But predominantly, it is in the IND. And a smaller portion is also in the -- I'll just give you a breakup on that. Industrial engineering constitutes of 39% of the export. Aluminium is 13% and auto powertrain is only 11% of our export revenue, the breakup of the number you saw.

Tejas Bavani: Okay. So automotive powertrain, you mentioned 11%, I&E is 39% and aluminium is?

Srinivasan Ravi: 13%.

Tejas Bavani: 30?

Srinivasan Ravi: No, sorry. I mean I mixed up the number. INR 39 crores was the export for I&E by value, sorry, aluminium was INR 13 crores and auto powertrain was INR 11 crores. So, our auto powertrain business is negligible, so for export -- direct export. But we are tie-up to a listed company in Nelcast, which we are doing well on the export front and also to Brakes India, we have tie-up too. So, since Nelcast is a listed company, I would not like to comment for that numbers.

Moderator: Thank you. Our next question is from the line of Rajasekar MS, who is an investor. Please go ahead.

Rajasekar MS: I just want to know what is the cash in hand with you and with the debt of around INR 1,000 crores, how would you please explain how do you manage to repay these debts?

Srinivasan Ravi: Sir, I think it is a mixture of working capital, which is not going to be repaid. It is only on a rotation basis, around 30%, 35% is working capital. Balance is the term loan and the term loan is paid over a seven-year, eight years period, normally. And it is for example, for the FY '24, our outflow is around INR 90 crores only towards term loan repayment. And last year, our EBITDA was -- standalone EBITDA was INR 660 crores to INR 670 crores. This year, our EBITDA will increase by at least 10%, 15% overall. So, it is a fraction of the -- it is 15% of our EBITDA is the outflow towards loan repayment.

Rajasekar MS: Okay. And what is the cash in hand as on date?

Srinivasan Ravi: INR 52 crores is the cash on hand.

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

Pranay Chatterjee: Sir, in your aluminium division, would you be able to share how much comes from EV right now in Q1, for example?

Srinivasan Ravi: It is not even 1%, sir.

Pranay Chatterjee: Okay. So, then my question is, this is more out of curiosity. So, for example, in Hyundai, you have the new IONIQ model that has come out. There in Kia as well, we have EV6, right? And in parallel, we also know that the wallet share with Hyundai and Kia IC engines is pretty high, almost 100% for DR Axion, right? So, my question is, are we supplying anything to Kia EV6 or Hyundai IONIQ or any model in electric platform currently?

Srinivasan Ravi: That is to my limited knowledge, I think, I would say on that matter, we have not discussed this in detail, but it is supposed to be imported. I think it is continued to be imported. But there are India-specific models, which are under design and development, I think FY '25 will be the product launch of these companies. And this will be born EV vehicles, I would say, but they may be sharing few parts with their current siblings in the IC engine. When that comes, we will have a good chance to bid for the business, at least.

I think awarding the business will be on merit. There are other Korean companies also in the same region in Chennai region and there are also Indian companies were bidding for the project. So, we will see that. Today, the two-wheeler business, we are with the two of the top 4 EV manufacturers. But the numbers are very muted, and it is not adding any even 1% to our aluminium business currently.

Pranay Chatterjee: General question on the light weighting trend. I have been hearing this phrase for quite some time now. On ground, not only from an EV perspective, but also from a ICE PV perspective, do you actually see new parts being designed or new type of orders, which is directly a result of weight reduction of that part of the vehicle. Do you actually see that on the ground?

Srinivasan Ravi: Yes. I don't want to get into names of parts, but I am very confident now with the aluminium price stabilizing below INR 200 on the high-pressure die casting ADC 12 material and slightly above with the INR 200-odd per kilo for the aluminium silicon alloys. I would say and today, aluminium is quite competitive when compared to iron and also to forgings in certain cases, it makes a lot of sense for the new platforms to have more aluminium going forward, surely for the EV and also for ICE.

So, there was no change in the requirement, the platforms are continuing for decades together on the same platforms, only the model mix was changing and new vehicle launches are happening, but the new platforms are not developed by many of the OEMs because there is no necessity in the Indian market. But now that is happening. But that because there is a structural change in the way they need to build the car, when they have to build it with aluminium. So, it has to be ground some car the platform at least.

Moderator: Thank you. That was the last question of our question-and-answer session. I would now like to hand the conference over to Mr. Srinivasan Ravi, Chairman and Managing Director, for closing comments.

Srinivasan Ravi: Thank you everybody, for patiently listening to the call and thank you for all your support. We as Craftsman stand committed to our shareholders in our growth journey. Thank you very much once again.

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

(This document has been edited for readability purposes)