Craftsman
AUTOMATION

28th October, 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 half year ended 30th September, 2021.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and our intimation letter dated 12th October, 2021, we are enclosing herewith the transcript of the earnings conference call organized on Tuesday, the 19th October, 2021 at 04.00 P.M. (IST) on the unaudited Financial Results subject to Limited review for the quarter and half year ended 30th September, 2021.

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

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Shainshad Aduvanni
Company Secretary and Compliance Officer

Encl: As above

CRAFTSMAN AUTOMATION LIMITED

Q2 FY 21-22 Earnings Conference Call

19th October, 2021

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q2 FY ’22 Earnings Conference Call of Craftsman Automation Limited. 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 of Craftsman Automation Limited. Thank you and over to you, Mr. Srinivasan Ravi.

Srinivasan Ravi: Good Afternoon Ladies and Gentlemen, I am Srinivasan Ravi. It gives me immense pleasure to Welcome you all for the earnings call for the quarter and the half year ended 30th September of FY ’21-22. I will keep this introduction of the financials very, very brief because this Q2 is not strictly comparable with the Q2 of last year and even H1 is not comparable with H1 of last year, so I will just run briefly through the highlights, which will give us more time for the Q&A. The sales numbers are with you, so I will just put across. Yes, we have clocked ₹1000 crore vis-à-vis ₹526 crore in the same H1 last year. PBT has been ₹111 crore. I will straight away go to the financial ratios. Debt equity from last financial year, I am comparing last full financial year with current H1, the debt equity has improved from 0.72 to 0.69 times. The debt to EBITDA has improved from 1.57 to 1.45 times. The EBITDA margin has decreased from 29% last year to 25% in H1 of this year. This is mainly because of the raw material commodity price increase. EBIT margin has been 16% last full year and for the current H1, it has been 15%, more or less the same. The PBT was 10% in the last financial year and 11% for H1. PAT margins were 6% last year, for H1 it has been 7%. ROCE last year was 16% pre-tax of course and ROCE (annualized) for H1 has been 18%. ROE was 11% last year and for this half year, ROE annualized 14% again pre-tax. EPS last year was ₹48.02 and for the first half year, EPS annualized has been ₹68.32. The H1 has been somewhat a mixed bag, I would say. There are still lot of shortages in the industry, you may see chip shortage, you may see commodity problems such as price or shipping issues, so we did not have smooth sailing, so in fact we have clocked EBITDA which is slightly lower than Q4. In this Q2, we have clocked EBITDA of ₹144 crore vis-à-vis ₹156 crore in Q4, whereas our PAT has been ₹49 crore which is highest ever compared to last Q4 PAT of ₹47 crore so we have still not utilized our capacities, I think some segments have been doing better, some segments are still lagging, more of that will come in the Q&A. We can leave the floor open for questions, please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhaval Shah from Svan investment. Please go ahead.

Dhaval Shah: Sir, congratulations on good top line growth, Sir if you can throw some light on with regard to the margin reduction and which segment led to the margin reduction, so firstly if I recall correctly aluminium has seen a good come back as you added in the last interaction with regard to monthly pricing, I think that has helped us but confused on the powertrain side given we are more on a machining side and the raw material cost is not on us, so what happened on the powertrain side, and also industrial engineering we have lost a big margin, so if you can explain us and also guide for current year what do you see in terms of demand, profitability, that is my first question?

Srinivasan Ravi: On auto powertrain business, of course there are some products which we are buying the castings, so that commodity price is a straight pass through but that will only inflate our top line, so it will not add to our EBITDA margins. The EBITDA margins will practically look little depressed so the value addition portion will not be strictly comparable as we go ahead, and number two was, we had some repair and maintenance which we took up some activity post the pandemic when people were available. I think that is not going to be there throughout the year that increase of say ₹10-11 crore on the repair and maintenance. These two things have affected the margins

Dhaval Shah: Sir, what was the amount for repair and maintenance?

Srinivasan Ravi: I think around ₹10 crores.

Dhaval Shah: Okay, so ₹10 crores straight get added to our profitability in the current quarter?

Srinivasan Ravi: And the commodity price increase even though we are not affected on the profitability point of view, the top line we pass it through to our esteemed foundry partners. That time what happens is the price increase only inflate the top line, so it will not have any margin so that will look like a slightly depressed EBITDA.

Dhaval Shah: Correct, so our profit per unit remains the same, if I understand correctly, that is what you mean?

Srinivasan Ravi: Yes, the only thing that has changed internally has been the repair and maintenance, that is all nothing else, not much on the other operating expenditure.

Dhaval Shah: Okay, so with increase in steel prices our margins will look different?

Srinivasan Ravi: Yes, look different. The casting price has gone up by ₹ 20 – ₹ 30 a kilo, so what has happened is, the customer has given to us and we passed it on wherever we are buying the castings, I would say. So that would have inflated the top line, so strictly speaking our Q2 top line number is not comparable with Q4 number. We have to knock off ₹20-30 crore which is only the commodity price inflation, so our Q2 sales has been apple to apple, I think at least 7-8%, 9% lower than Q4.

Dhaval Shah: Okay, you mean to say the absolute volume?

Srinivasan Ravi: Sir, the Q4 top line number was at a different steel price, different cast iron price, different aluminum price. Today, we are operating at a different price in Q2, which is around 15% higher on the raw material prices, so the impact on the top line from Q4 to Q2 would have been around ₹20 odd crore, which has only inflated the top line.

Dhaval Shah: Got it and you said ₹10 crore of expansion we undertook, so ₹86 crore plus ₹10 crore, so we are almost at the same run rate as the fourth quarter in terms of EBIT?

Srinivasan Ravi: Yes.

Dhaval Shah: Would you like to give any volume, how much volume did we do in the powertrain business because that is more important to look at this?

Srinivasan Ravi: I can give the value addition for H1 on the powertrain investments. The value addition was for H1 on the powertrain was ₹361 crore vis-à-vis for the full year ₹542 crore last year.

Dhaval Shah: Sir, what was the utilization in the current quarter?

Srinivasan Ravi: I think overall utilization for the quarter would have been around 60 odd percent.

Dhaval Shah: Of the powertrain business?

Srinivasan Ravi: Yes.

Dhaval Shah: Okay, which was around 75%-80% in the fourth quarter?

Srinivasan Ravi: No, I would say that we have to look at it in a slightly different way. We have to say the value addition portion most of it came in Q4 last year and this year it has been spread over two quarters, I would say. There is not too much difference between Q1 and Q2, so that way I think utilization has been more or less at a lower level. In Q4 last year, I think February and March we had a good utilization level.

Dhaval Shah: Now, given the CV cycle is also now firming up as you had expected, so should we see a higher value addition going forward and why was the value addition not higher in the current quarter compared to the March quarter?

Srinivasan Ravi: I would say that whole of last year we did ₹542 crore and it is good that we have done ₹361 crore in H1, so normally H1 is weaker than H2 as a whole, so pro-rata we look at it ₹361 crore multiplied by 2, we will do ₹722 crore which will be at least 20% higher minimum. If the market picks up, yes, we will do more.

Dhaval Shah: In industrial engineering what happened, we lost lot of margin and also the difference between the storage solution and higher end precision product?

Srinivasan Ravi: If you look at in the I&E, bulk of the sales was driven by storage solutions. We did more than the whole of last year in H1 itself, if we look at it. And the steel prices impact and our entry pricing strategy with certain large corporate clients, I think this is one of the reasons. Site readiness or delay because of this pandemic and these issues added to our cost of operations.

Dhaval Shah: Sorry I did not hear you very clearly, can you repeat the last line, and also how much revenue did we do in the storage solution?

Srinivasan Ravi: We did ₹104 crore in last year and H1 we did ₹134 crore.

Dhaval Shah: Okay, ₹134 crore in storage solution?

Srinivasan Ravi: Yes. The last sentence you did not hear, I said because of the pandemic, certain States were having some restrictions of course for people to enter. Some erection delay was there because of controls. So I think our cost also ballooned there. Plus, the commodity price was not at all stable in the steel, this also has impacted our profitability. We also consciously did some entry level pricing for some corporate clients, so we had gained some orders that is reflecting in our top line of ₹134 crore in H1.

Dhaval Shah: What should we assume in terms of the margin for the rest of the year for this segment?

Srinivasan Ravi: Q3 will be again not so stable, I think Q4 we will be better so I do not want to comment on the margins today because there is very tough situation in the market place where everybody wants a bigger piece of the cake, so I would rather reserve my comments later on the storage solutions.

Dhaval Shah: Okay, on the aluminum side again we have seen a very steep increase in the aluminum prices, so will this monthly pricing take care or we will see some impact in the second?

Srinivasan Ravi: Sir, I would like to correct myself, it is not exactly monthly pricing, I would say weighted average calculation which is more reflecting the true nature of the pricing, I would say. So, it is more fair pricing method, not a monthly pricing method. Earlier it was on a trailing quarter, now it is on a live quarter which is more live to the situation about how much has been produced and what are the pricing, so there can be subtle differences here and there between each customers, but all of them are resigned to the fact it cannot be on a old number, that is all I would not say it is a monthly number, so having said that the commodity price correction is getting fairly passed through, maybe still there is some room for improvement, but we are not on the receiving side in a big way. So that way we are okay and that has improved our operations and we also cut down our operating cost in a big way adjusting to the new requirements of the capacity requirements of the customers. The top line may be because of the price increase but the capacity utilization is far, far below 50%, I would say 40%-45% only has been the capacity utilization. In spite of the capacity utilization, we turned EBIT positive at least look at the H1 itself and Q2 I think EBIT positive was slightly stronger. In the aluminum segment, because the bulk of it we are supplying to the two wheeler industry, 90% of our sales. And it has been very depressed period for the two wheeler sales. In spite of that, I think we had a positive EBIT in H1 and good number in Q2 if you look at it.

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

Nishit Jalan: Sir, congratulations on good set of numbers. My first question is on the aluminum segment. In this segment we are looking to get more customers. to diversify from the two-wheeler OEMs that we are supplying right now, so just wanted to check any progress in terms of new order from other customers that we had seen in the aluminum segment? My second question was on the export side, we have one of our big customers using our products on the CV side and exporting the final engines on the powertrain segment and we do have a fair bit of exports on the industrial engineering segment as well, so just wanted to check how is the export business shaping up because globally. At least what we hear is in Europe and US, the CV industry is doing very well, so just wanted to understand how are the exports in this quarter, and secondly in the aluminum segments, any new order wins that we can highlight or any plans you have?

Srinivasan Ravi: On the auto aluminum on the new customer, I would like to update the Stellantis requirement. We had good interaction & visit from the top level people and they have reiterated that this product is going to be live until 2027, the contract volumes are going to be intact, in fact they are preponing. But after 2027 it is a question mark. This is going for a gasoline engine and this is also going for a mild hybrid engine, so I think they may have reduced supplies elsewhere from another supplier in Europe, but our volumes are intact, so we are not whatever we have told, the order win of around ₹200 crore over the period of four-five years, in fact we are starting the supply mainly in FY ’23, little in some trial batches in FY ’22, but I think ’23 will be a good start and it will peak up in ’24 and it will go on at full blast in 2027, so I think that is okay, that is one good news. Second thing is we have received some enquiry from the North American market for aluminum die casting parts, I do not want to reveal the name of the customer until we win the order, it is not a big order, but I think some beginning is getting made there. But Europe is very, very fluid on aluminum exports and even the North America because of the EV and the transition into different parts. So things are not very, very clear, so we are waiting and watching. We have enquiries from North America again for the EV for the passenger buses, it is too early and the design is keeping changed, so they may not leave and the suppliers who will be selected will be again North American suppliers. The product has to stabilize or the design has to stabilize, so as we stand I think we are good to go on the passenger vehicle segment with the Stellantis order.

I will go to the next part of your question on the auto powertrain. The tier-2 exports are to Brazil for the cylinder block and cylinder head, that is going strong. One very good news is that already the customer has just moved into Euro 6 requirements and Euro 6 requirement will remain in the country Brazil until 2030, so our business is secure. Today with that customer, 75% of our revenue comes from the export business and 25% from the Indian operations I would say. Indian operations our business is secure until 2027 where they may not move to BS 7 requirement with the same engine platform, some changes may come, but the good news is our Brazil exports will continue. The second good thing of the auto powertrain business is that through our Indian customer who is the tier I supplier, we are supplying to North America and to Europe for axles for the Class 8 trucks and also these smaller trucks also there. There we have started getting enquiries for E axles and for heavy-duty trucks I think the business of axle parts is going strong. In fact, we have purchased land additionally almost adjacent to our current plant for a Brownfield expansion which may occur within a year or two, so we have fortified our operations in Chennai to look for huge growth at least if not in ’23 in ’24. as we see that China is becoming more expensive and there is a de-risking policy which all the global majors are taking forward, I think more enquiries are coming in that segment.

The third part of your question is exports on the I&E. We have a backlog of orders in I&E, which we are not able to fulfill for various reasons in H1, so we are little behind schedule. Also the shipping lines are also behind schedule. Some free supply parts or imported parts also reached us late, so we are on pro rata on the sales on I&E on the direct exports on H1, but we are looking towards a stronger H2 on the I&E exports.

Nishit Jalan: Sir, two follow-ups on the aluminum product segment, you mentioned that we have won some orders from the North America customer, can you highlight which products and which segment are we looking to supply, I am not asking for a client name, but commercial segment, CV segment, which products exactly are we looking to supply?

Srinivasan Ravi: It is under enquiry stage and it is going well, that is what I said. I did not say that we have won the order at all, and it is a small order also. Even though small order I think the very fact that we can export to North America now in the situation with increased shipping is a good sign that our products are competitive enough. We have not won any orders as of now.

Nishit Jalan: Thanks for the clarification, and secondly, you did mention that on the export side on exports to Brazil, your order is secured till FY '30 because they will not move to BS 7, so don't you think that when the customer moves to BS 7, ideally your supply will continue or there will be some technical issues, technological issues and all that you face because of which you may not be able to supply them when the customer needs to move towards BS 7 norms?

Srinivasan Ravi: It is not about our capability to supply, it is a question of the migration which is happening in Europe and North America, mainly in Europe, I would say. You know even the competitors are collaborating with each other, Daimler and Volvo have found a joint venture to do hydrogen fuel cells for the trucks. They are doing some R&D. And the global engine manufacturer and North American manufacturer has tied up with various OEMs for consolidation of engines. The sharing of engines or powertrain were not there in the truck segment earlier. Only in the passenger vehicle segment we have known companies like Daimler, Renault, Nissan, Fugo, all of them sharing engines. Even BMW sharing engines with other competitive manufacturers. But we have not seen that in the past in commercial vehicle segment, but we may see that, given the huge R&D cost moving towards new emission norms or also the technological change which is expected. So, we cannot comment anything beyond 2030. What we are trying to say is that, there are many countries, which are still at emission level 2 and 3.

We have some orders from that customers on pickup trucks like there is one Japanese major company, they want to consolidate their manufacturing in India and we are supplying the cylinder block and head for them, so we see more volume there. Today, bulk of their exports are not even BS IV it is more BS III, which is exported, so I think our powertrain business is more or less secure until 2027. Most of it is secure I think more than 90%, and at 2027, 5%-10% there will be change. I think 2030, I do not see any threat to our powertrain business because our dependence on passenger vehicle segment is bare minimum. It is more on the heavy duty commercial vehicles followed by farm sector and construction machinery and a small segment which is the passenger vehicles and we also do some industrial engines, that we do not see much change, so I would say we will be more stable till 2030.

Nishit Jalan: Sir, just one last from my side, you talked about export of some axle products to North America for the Class 8 truck of other segment, so you will be supplying these products directly to the OEMs or you will be supplying to the Tier-1 suppliers who will be assembling the final axles and all and then basically supplying to the OEMs?

Srinivasan Ravi: We will be Tier-2. We are working with an esteemed foundry partner here and they have got some North American operations and they are giving to the axle manufacturers, so I think the enquiries are quite strong. The auto powertrain depends on cast iron castings, and whatever is aluminum maybe classified as auto aluminum, so one good thing is no new capacity is coming up in a big way in North America or Europe, and with our Asian neighbor with global warming and power crisis and their labor cost going up and their shrinking workforce, India being a very big possibility. Everybody is looking at India for global supply now.

Moderator: Thank you. The next question is from the line of Vishal from Edelweiss Financial Services. Please go ahead.

Vishal: Good Evening Sir, thank you for taking my question, Sir I have one question on industrial and engineering business, Sir we have seen for last four-five quarters your EBIT margin has been consistently decreasing, Sir one question is regarding what is the sustainable level of EBIT margin you try to maintain going forward and given the scenario stabilizes both in terms of demand and pricing, what is the target EBIT margin, the target for this business going ahead?

Srinivasan Ravi: I will answer this question in two different ways. I would say that in this I&E we have one segment which is the traditional I&E where we are doing contract manufacturing, also we have some products for the casting for electrical industry. We also are doing contract manufacturing in a big way there and some hoist and other things. We have some automated storage solutions also in the I&E. We also have bare bone I&E business which is the racking business which is material intensive, so there unfortunately the steel price is more or less increased by 60%-70% in the last one-and-a-half years which is almost double. So they have put lot of pressure on us, and that was the business we are growing in the last few quarters I would say, so it looks like and we have given some entry prices strategy which I mentioned earlier to get a reasonable size of business and also have visibility in the market through our products with the various e-commerce players, 3PL and various segments, so we are today a force to reckon with in the storage business, that is one good sign. There is a price to pay when we are ramping up and we are entering into new market. Yes, the EBIT by itself today I think it is low on Q2 I think the EBIT on I&E has been around say ₹12 crore and April to September has been only ₹23 crore, it is quite less, but second half we will have more direct exports on the I&E which will boost our absolute EBIT numbers, I would say, more than EBIT margin because the top line is changing very often on the commodity prices, so I think what we see as ₹23 crore as H1, you will see a much higher number in H2 on EBIT.

Vishal: Sir, just a follow-up question on this, what kind of margins are you targeting perhaps when the demand and both pricing scenario stabilizes, will it return back to '20 levels or it will remain at around 10-15 odd levels?

Srinivasan Ravi: EBIT levels realistically because of the new commodity prices, the top line is getting inflated artificially, so I would say EBIT levels we can target 10%. If you look at it, we were at 7% EBIT for Q2, so I do not see 10% EBIT levels on I&E as a challenge, we can do better than that with the better product mix. Even our automated storage solutions is picking up that will add to our EBIT margins.

Vishal: Sir, my second question is regarding the working capital cycle for this quarter, Sir working capital cycle has been stretched a bit and this is mainly not because of the debt period or our inventory period, it is because of the creditor period, so creditor period has significantly lower, and if you consistently see last four-five years you try have to maintained a similar kind of creditor period which has decreased significantly this quarter, so what kind of, is this a sustainable level or you know what we have seen in two-three years in the past, you would like to maintain the same working capital cycle for this year and going forward as well, is it a aberration which happened in this quarter?

Srinivasan Ravi: What started as aberration last year due to increasing raw material prices that was month-on-month basis, it is now 18 months since this has happened, so I would not like to take any forward call whether it is going to be stable in the future and whether it is a steel mill or whether it is a trade, even the steel mills are not honoring long-term contracts. If they are given order for two months delivery, they are putting a clause saying that the price at the time of delivery will prevail, so we are forced to pay up and/or open LCs to secure our material, so this is the current trend and when material is scarce, I think everybody is trying to get their pound of flesh or get the profitability out. You have seen some steel companies having EBITDA of around 30%, I am not sure I am not a expert here but you know better on this, so that is the way it is going. Today, supply-demand there is a huge mismatch. Once it stabilizes, I think our working capitals will improve and today there is shortage of material also; shipping is uncertain and supply is uncertain and sometimes we will not be able to use our production or serve our customer in time and because of that we may lose opportunity, so we are also sometimes paying up in advance to secure the material, so this will continue at least for two-three quarters, but when it changes I think it is for everyone, it is not for Craftsman alone.

Vishal: Sir, my third question is regarding the value addition, answering to one of the earlier speaker you said that value addition for this quarter has been lower than what we have seen in Q4, so Sir going ahead for the full year do you expect the value addition for the business specifically powertrain business and aluminum product business, will it be improvement for the full year or it will remain on the same levels?

Srinivasan Ravi: I mentioned that in FY '21, the value addition on auto powertrain for the full year was ₹542 crore for the full year last year vis-à-vis H1 we already clocked at 361 so if we just multiply it by 2 it is ₹722. I think H2 will do better than H1.

Vishal: Sir, last question regarding the CAPEX, what kind of CAPEX you are planning for the full year?

Srinivasan Ravi: We have completed 93 crore CAPEX. Two things have changed since the last meeting. What has changed is we see that the CV cycle, we were forecasting that it will come back in FY '24, but we see that it may come back in FY '23 so we need to secure some capacities for certain equipment and as well as some space. We had earlier rented a space or taken a space in Jamshedpur and we are running operations which we vacated in the pandemic, and when we tried to secure the space again, we could not get a proper space so we had to buy another space for ₹12-13 crore, that has changed. Second thing I mentioned earlier in Chennai, our plant is more or less full because of the Tier-2 exports, which has grown very well, and we see that the plant will need to increase capacity during the next financial year. Instead of again going for plant 2 and going for Greenfield project, we opted that we buy land within walking distance. It is not exactly adjacent, but it is something like in the same operations, same office, same staff, same maintenance people can operate, so we have taken property of around 4-5 acres.

Last thing is we see lot of inflation in the manpower cost, which is very risky for us, so we are having a plan to somewhat semi-automate, automate, and change some machining processes to look at our wage bill not going up beyond a certain stage when the market comes back. We do not want to add people next year when we are growing, so there is, I would say, very minor CAPEX there that is ₹10-20 crore, but that will come back very, very quickly in the wage bill itself in the next financial year itself. We used three-pronged strategy. And one more thing on the machine prices, the steel prices for the whatever ongoing buildings which we have started in the Q4 of last year, steel prices have gone up, the building prices have gone up, so because of that we are now staring at an possibility that ₹180-190 crore will be the CAPEX, but we are not worried about it in a way because we are going to get a cash accrual of around ₹320 to ₹340 crore in this particular year.

Vishal: Approximately around ₹180 to ₹190 crore will be the CAPEX for this year?

Srinivasan Ravi: Yes, and earlier we wanted to reduce our debt by ₹200 crore, but today optimistically still it is possible but I will be more realistic and say that we will be reducing debt by ₹150 crore only. We will close our debt around ₹550 crore vis-à-vis ₹704 crore last year. Mainly one reason is the CAPEX of course, we overshot a little but we have also performed better than what we had thought in H1 compared to what it was earlier in spite of the pandemic, but the other problem is the commodity price has pushed the working capital cycle and also the working capital requirement higher. So because of that we have to trace back a little from ₹200 crore debt reduction to ₹550 crore, but one good thing is the debt to EBITDA I think will be 1.1-1.2 times, I think will be this year, as I mentioned we are now at 1.45 times.

Vishal: Thank you and all the best Sir.

Srinivasan Ravi: Thank you.

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

Joseph George: Thank you, congratulations on good results. I had two questions across the first one so that is in relation to the aluminum segment, if you recall in the last call you had mentioned that you expect the aluminum segment revenues to scale up to about ₹650-700 crore and about 18% EBITDA margin in FY ’23, just wanted to check whether you stick with that guidance, is there an update on that, and how is new business coming in there?

Srinivasan Ravi: I would look at the revenue of H1 in the auto aluminium, H1 has been very depressed at ₹189 crore. We are likely to do around ₹220 to ₹240 crore in H2, so it will be better than H1. With the more real time pricing strategy on the aluminium pass through and we have cut down our cost of operations in line with the lower demand from our customers, the Q2 results will be not an aberration, I think we are able to improve it further going forward also. Q2 I will just read out the numbers.

Joseph George: Sir, my question was actually in relation to the guidelines that you had given in last con call that in FY ’23 based on the new orders you would target reaching about ₹650 crore of revenue and about 18% margins, it has got nothing to do with the second quarter numbers?

Srinivasan Ravi: Yes, now we are looking at around approximately ₹220 crore in H2, it may go to ₹250 crore since two-wheeler has not picked, so we are looking at a run rate of almost ₹500 crore a year, but ₹500 crore is little misleading because of the aluminum prices, you have to take that into account.

Joseph George: In FY '23 that ₹650 crores that you have guided that is on, right?

Srinivasan Ravi: Yes, that is on and that is very clearly that it is surely on and the point is that capacity utilization the margins compared to even Q2, it will improve surely.

Joseph George: The second question that I had was in relation to the new CAPEX that you announced for Greenfield facility in Nagpur, so if you can give some color on what new business you expect from there, maybe without naming which customer wants to help you ramp up there because on one hand you mentioned that your overall capacity utilization is not very high in this point on earlier question and now since you are planning CAPEX if you can help us understand why you plan to do the CAPEX and what are the new orders that you ramp up that we expect in that new plant?

Srinivasan Ravi: I will offer a perspective first, I think every customer is now looking at cutting down costs. Logistics and other things have become very costly after the diesel price increase, so they are trying to secure supplies from very close to them totally and this particular customer has approached a foundry supplier as well as machine supplier and both of us are going to work strategically together. As things stand, we have secured our business very clearly and I think the business is on, but I would not like to comment on who is the other supplier and who is the other strategic partnership where you are having and what is the benefit we are going to derive. The benefit is securing business for a long time and incremental business is also there. Second thing is with having the leased premises in Pune, we have three premises plant 2, plant 3, and plant 4. Plant 1 of course was too small we vacated it. so we have between all the three plants we are totaling to paying ₹1.2 crore as rental charges which is appearing as depreciation and financial cost as per the Ind-AS accounting standards. The Pune I think capacity of the place is full, the capacity utilization of the auto lines some of the auto products where I think still product has been launched, but the production has not taken off because of chip shortage. The lines are practically very much underutilized, but those lines cannot be dismantled but next year we are expecting full capacity utilization of those auto lines.

We have also lines for the commercial vehicle for Tata Cummins that is also some we have downsized, but we are again putting it back to shape in anticipation of demand, so all that is happening but the space is full. We do not want to increase the rental cost there, so we thought logically this customer is we are catering to from Pune which will move there and there is some advantage of MIDC benefits which will bring back the building and land cost to us over a period of time. I do not want to elaborate on what is the benefit we are going to get out of there, it is in public domain and anybody can look at it. At the same time, it frees up the space for us within Pune because we have got another good enquiry for a very good powertrain business which is quite large in volume and we are very close to clinching the deal I would say. It will close means it will take six months, please do not ask me in the next quarter but when we have that we do not want to go for again a new plant, so we want to contain cost, so this is a very, very strategic decision in view of the point that the auto aluminum is more looking towards clarity going forward and I&E is waiting for the CAPEX cycle to come in and auto powertrain being the biggest segment and when we can leverage that and we can grow by 20%-30%. I guided for only low double digit growth I would say in the teens only, but now we are pushing for more than 20% growth on the auto powertrain which is quite good for us and we have lot of, I would say, depreciated assets which are available with us. Number one, all the CAPEX and the machinery cost has gone very, very high now and also the delivery periods have gone very high and we with our in-house SPM manufacturing and our relationship with the machinery manufacturers, entry barrier for anybody in this auto powertrain business for machining has become huge I would say, so we are going to continue to grow on this segment in the next two-three years.

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

Abhishek Jain: Thanks for opportunity Sir. Sir despite increase in contribution from the pure machining, powertrain business has gone down because of the extraordinary items, so can we expect it will come back to the 35% to 36% margin?

Srinivasan Ravi: Mr. Abhishek Jain I would like to say that the auto powertrain is not fully machining charges, it is a combination of machining charges and supply with material where we are buying a lot of castings from various reputed market leaders in the foundry. We are buying it, everything is not value addition there. It is a mixture of both, so the top line has somewhat gone up because the commodity price increase that the customer has passed on to us and we have passed onto our foundry partners, so this is one thing. Another thing is that, it is not an extraordinary item, but we took the time off during the COVID situation, post COVID a lot of maintenance was pending, we corrected that with some repair and maintenance, so we are ready for increase of volumes now. So, with the capacity utilization improving, our margins will improve.

Abhishek Jain: So can we expect that it will come back to 35% to 36% as that contribution from the pure machining is improving?

Srinivasan Ravi: If you look at the absolute number, it will grow at a very strong two digit that we have to see. Top line sometimes when what we do the job work is supposed converted with material, suddenly the top line will grow by ₹50 crore for nothing practically, so the top line percentage is not the right way to look at it. You can take away the COGS and look at the value addition. As a value addition percentage of the EBITDA, we will be able to grow with better capacity utilization, yes it will improve.

Abhishek Jain: Sir, what is the contribution of the Tier-2 export in the powertrain business mainly through the Daimler Brazil and the Nelcast and how much growth are we looking at ahead?

Srinivasan Ravi: Tier-2 exports are certain for Brazil we are at a stable level, but the market looks like next year it is going to improve in Brazil. If it improves, we will also improve because we are single supplier there. The advantage on Tier-2 with Nelcast, I think it is better for Nelcast to answer. Lot of projects are there in the pipeline which I am not allowed to speak on that because we are not dealing with the end customer.

Abhishek Jain: So how much is the contribution of the Tier-2 export in overall powertrain business?

Srinivasan Ravi: Currently it is almost same because on the passenger vehicle segment, we had little setback on the turbocharger parts which were going for the diesel engines, so that was compensated by increase in the other commercial vehicle segment, that is why we have shown growth in the H1 for Q2 at least.

Abhishek Jain: Sir, next question is related with this industrial segment, as you mentioned that RM cost has passed on the contract manufacturing and industrial casting segment, but it looks difficult for the storage solution segment, but storage solution segment is growing faster and this first half also it has gone up significantly, so can we come back to the earlier margin of 20% if this storage solution will contribute more?

Srinivasan Ravi: Totally, we look at Q2 which has been not a profitable on the industry engineering segment. We have a 12% EBIT, so I think 15% EBIT is realistic to look forward on the I&E segment.

Abhishek Jain: Sir, in industrial engineering segment, what sort of the opportunity you are looking from the gearbox housing, especially for the wind energy and both domestic and export front, and what is the contribution of it now?

Srinivasan Ravi: Sorry I stand to be corrected, EBIT has been ₹12 crore, so I am not saying, we will go to an EBIT level of 10% to 15% depending on which segment grows I would say.

Abhishek Jain: Sir, next question is I was talking about this opportunity in the gearbox housing in export and domestic front both, and what is the contributions right now from this business?

Srinivasan Ravi: Today, I think around 10%-15% is coming from Tier-2 exports and it is growing, at least the pie is growing, certain one or two as I said as a parts business on which is going to Europe has reduced, but it is growing on commercial vehicle area.

Abhishek Jain: My last question is related with that content per vehicle, as a demand of the heavy duty trucks is going to improve in the coming quarter, so how much will you benefit in terms of the content per vehicle and client additions, you are already supplied to Tata Motors and Daimler who are leader in the heavy duty trucks, so how much out performance do you see in terms of your powertrain business because of this?

Srinivasan Ravi: If you watch carefully I think you would have seen that even though the numbers in the market has come down, our revenue has not proportionately dropped on the powertrain on the commercial vehicle business. Because, today what is selling is the heavy-duty commercial vehicle which is the most viable to operate on the long-haul requirements. So today the medium duty is not selling much that far the numbers in the market is showing and with that I think it will be more proportional to the growth in the sales.

Abhishek Jain: How much increase in content per vehicle do you see?

Srinivasan Ravi: Mr. Abhishek it is already done. In the last year itself I think there is no much of medium duty sales and we are also not catering to medium duty sales, and only the heavy duty has been selling in the last year more so in this year also, so already the vehicle content has gone up and even the numbers are very low today, I think the number will grow. So, our revenue has not dropped much because of the content per vehicle has improved in the last two-three years and now it is at a very stable level and I think content per vehicle cannot go up from now because we are catering mostly to the heavy-duty segment only.

Moderator: Thank you. The next question is from the line of Navin Vijay from NS Capital. Please go ahead.

Navin Vijay: Good Evening Sir, my question is a general overview on the auto aluminum business, where do you see it going forward over the next five years and are we using smart outsourcing given the excess capacity that is available for die casting and foundry in and around Coimbatore?

Srinivasan Ravi: Thank you for the question, we have two operations for high-pressure die casting. We have one in Coimbatore and one is Bangalore, both are integrated facilities along with machining. Of course, we have die making in Coimbatore tool room which is quite unique and we have got a very good facility on par with the rest of the world I would say. So, the higher tonnage machines are situated in Coimbatore where we can cater to both domestic requirement and export requirement. Yes, those capacities are not fully utilized but there is some product which we had secured orders from the commercial vehicles. The dies are almost in place now and we are going to start production in the Q4, we are just making the samples and there is some product testing needs to be, so in Q4 we will start better utilization. EV, we are getting some enquiries from two-wheeler players and all, but nobody is giving any volume number projection very strongly and the design of the vehicle itself is undergoing lot of change because the cost structure of these vehicles are very, very high today and they seem to be redesigning very strongly. What was on certain parts on gravity die casting, they are trying to convert to high pressure die casting, so in this sort of situation, we will be spending lot of energy trying to develop these parts without volumes and again going through iteration of design change because many of them are startup companies and we will not know how they will be performing after a year or two, so we are reserving our capacities more towards the larger OEMs where we are familiar with and we are looking at more mature designs coming from. I understand the vehicle product cost even after subsidy is not able to breakeven, and there seems to be a huge gap between the selling price and the manufacturing cost which is unrealistic to continue even if FAME III comes in more subsidy is given, still I see that as a threat to anybody. They will be burning cash. So, we are waiting and watching there, but these capacities are generic capacities.

Today, we have one quite a decent order, I will not say is a big order, it is a good beginning I would say. For the farm sector on the transmission parts, we are the first one to get some orders in India and we are in the process of making the dies in-house, we will have the first samples ready in January. For us it is a breakthrough where one more segment, earlier only heavy duty commercial vehicle the transmission parts were of aluminum but now some of the smaller agriculture sector tractors also use aluminum, I think it is a very good sign for us. We see aluminum die casting as partly mostly auto, but I would say partly also non-auto. We can cater to the industry engineering segment also, but I think there we are on the lookout, but I think we are also waiting for the economy to come back for some demand to come back.

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

Chetan Gindodia: Sir, thank you for the opportunity and congratulations for a great set of numbers, Sir wanted to understand firstly what is our mix for the powertrain segment into CV, commercial vehicle, passenger vehicle and tractors?

Srinivasan Ravi: I did not understand the question, you talked about auto power train in the CV, commercial, passenger vehicle segment, farm sector, and what was the question.

Chetan Gindodia: What is the revenue mix for powertrain segment for this quarter?

Srinivasan Ravi: Revenue mix it is still always more than 50% of the powertrain business is coming from commercial vehicles only.

Chetan Gindodia: Percentage of revenue if it is possible?

Srinivasan Ravi: I will give you the absolute number and the total number, ₹266 crore vis-à-vis total of ₹524 crore, so it is slightly around 50%. In the total pie of the auto powertrain business, the commercial vehicle is 51%, the farm sector is 21%, of highway is 20%, passenger vehicle is 8%.

Chetan Gindodia: You said that we are not currently working with EV company, so what are the components that in the future we can do for electric vehicle companies both in the powertrain and in the aluminum forging business?

Srinivasan Ravi: Aluminum casting business, we are in the gravity die casting, we are in the low pressure die casting, and we are also in high pressure die casting on the aluminum business. I will now stick to the answering the what is the potential for EV in the auto powertrain business. In the auto powertrain business in the pickup trucks or you look at even the SUVs and things like that, it is not going to be linear mostly on heavier vehicles like motor which is directly onto the wheel. It will be more a centralized motor. And the motor RPM when it increases, the power consumption is disproportionately high. You might have also noticed in the passenger vehicle of the car when you are driving at 50 kilometers speed, there is a particular consumption. When you double the speed, the battery drains out very fast. It is not advisable to use the motor at a higher speed, so most of the light duty commercial vehicles for pickup trucks or something like that which is going to operate within the vicinity of the cities, maybe 100, 200, 300 kilometer radius or even the autorickshaw, they will also have a gearbox. They will have a gearbox of two speed or three speed, maybe mostly it will be high and low. These gearboxes if it is for autorickshaw it may be aluminum, and on a passenger vehicle it will also be aluminum. But for the trucks the aluminum will not withstand the torque. So we are getting enquires as Tier-2 from various customers for machining of these housings for export. Already these products have been designed in North America and products will be introduced in the market next year, so that business also will start coming in.

Chetan Gindodia: You are referring to driveline gears or you are referring to motor hybrids?

Srinivasan Ravi: No, I am talking about e-axle.

Chetan Gindodia: Any other non-engine component for which we can or we have the capability to do machining for which we can get order?

Srinivasan Ravi: Today, we have construction machinery not only like excavators or something like that, but also heavy duty commercial engines. We are supplying to North American market the leader there, we are supplying parts from India for quite a long time now, so I think we are generic. We are not related only to the automotive field. Mostly auto but we can also supply for stationary engines for industry applications, engines powered by gas also we are supplying parts or we are machining cylinder blocks for them. India is going to become global hub for these sorts of industrial engine manufacturing for the global market. These generators are not going to go away anywhere in the world because even North America there are hurricanes and every year there is huge sales for generator for the home application also, so this business is going to continue. We are sector agnostic in machining, we can machine anything in cast iron. We can also machine industrial parts. The same machines can be used. When we move machinery to the industrial engineering segment, we classify such machining revenue as I&E business, but I think it is a pure machining business.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Svan Investment. Please go ahead.

Dhaval Shah: Sir, in this industrial engineering, FY '20-21 we have done 18%-19% EBIT, then why are we guiding for a lower number?

Srinivasan Ravi: Main reason is the top line is getting bloated or inflated because of the raw material price, steel was ₹40 on the racking business, now it is around ₹75- ₹80, so when we were passing on the steel price to the customer, for that passing on we will not get a margin. We get margin only for the value addition we do. So the top line is looking bloated, that is the problem.

Dhaval Shah: So, this also our contribution is what we should be looking at?

Srinivasan Ravi: Yes, unfortunately in the past we used to have a small movement of material cost, 3%-5% per year or some adjustment, so if we look at percentages it will be more or less stable or moving in one line over the number of years. But today we had 100% increase in raw material, the percentages do not fit in anymore.

Dhaval Shah: Okay so in a conversion business basically your percentage will not matter now?

Srinivasan Ravi: Yes, when we are buying steel at ₹40, doing value addition of ₹20 earlier, now we are buying steel and doing a value addition of ₹20, so we will get the margin on the ₹20 only.

Dhaval Shah: Okay, so would you in such scenario in future share some per unit metrics for us to understand the business better because something of that sort if you can share?

Srinivasan Ravi: That is why we always talk about value addition as a company because the value addition this year we are looking at ₹1100-1200 crore as a value addition, that is what we get paid for. Other things are commodity whether we buy bearing or buy steel or buy ingots of aluminum or cast iron, I think we do not do value add. Our EBITDA margins come from the value add what we do, so I think when today commodity prices aluminum has gone from last year January it was ₹108 in 2020 and now it is ₹240 today, so these percentages are no longer fitting into the game now.

Dhaval Shah: This year you are looking for a ₹1200 crore contribution?

Srinivasan Ravi: What I am trying to say, we measure ourselves by contribution. We look at H1, we have done ₹545 crore as the value addition for H1 and we estimate that H2 will be better than H1 on the value addition.

Dhaval Shah: ₹543 crore at a company level, right?

Srinivasan Ravi: ₹545 is what we have done, that is how we measure.

Dhaval Shah: It is all cost except your fixed cost?

Srinivasan Ravi: No, it is all cost other than cost of goods sold.

Dhaval Shah: Now Sir, if you want to do around roughly ₹500 crore of EBIT in the powertrain business, what would be our fixed cost?

Srinivasan Ravi: ₹500 crore on the EBIT is not on the auto powertrain business. The value addition for the entire company is ₹545 crore.

Dhaval Shah: I am asking from an EBIT point, if you have to do a ₹500 crore EBIT in the powertrain business, what sort of fixed cost will we carry?

Srinivasan Ravi: ₹500 crore EBIT, no we are not doing that amount of ₹500 crore EBIT, it is a faraway number. I will just read out the EBIT. EBIT for the auto powertrain for H1 is ₹148 crore.

Dhaval Shah: Correct, I was just looking years down the line, just want to understand the fixed cost structure of the company?

Srinivasan Ravi: Fixed cost, the bulk of the fixed cost is coming from the manpower cost. Of course, the depreciation we have taken already out of the EBITDA and we are talking about EBIT. The costs that go into EBIT will be the manpower cost and other consumer like tools, coolant, oil and things like that, repair and maintenance and power. So, we are working very, very strongly to reduce all these costs.

Moderator: Thank you. Ladies and Gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Srinivasan Ravi for closing comments.

Srinivasan Ravi: Thank you for all attending the meeting, taking your valuable time off and with every question asked I think we also learn lot of things, where to focus and what we need to do for the coming quarters. For every situation where there is a chaos or there is a change, there is also an opportunity that is what we look at it in a way how we can manage the business better. We are a very versatile company that is the big advantage what we have and we can move from one segment to another segment very quickly, and we can capitalize on the opportunity going forward. We have made a good I would say wise decision on CAPEX for many years and today it will hold us in good state, but when the new CAPEX is going to be very, very expensive for many of the people. Good entry barrier will be there. India is going to become a global hub on the auto powertrain business on the heavy duty area because of the policies of our Asian neighbor where there is a workforce that is shrinking and there is one child policy and the cost of labor is going up and global warming, power shortage, and I think most of them are looking at exports out of India and the other Asian countries looks like only going to manufacture for their own needs. Their market is quite big now. So with this huge opportunity and our Government pushing for huge CAPEX plans in the near future will help our I&E. The last two three years were very difficult years, due to BS 6 and now the pandemic, we have sailed through that and we are looking for better opportunities in the near future. Thank you very much.

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.