02nd February, 2022

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 nine months ended 31st December, 2021.

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and our intimation letter dated 22nd January, 2022, we are enclosing herewith the transcript of the earnings conference call organized on Tuesday, the 25th January, 2022 at 11.00 A.M. (IST) on the unaudited Financial Results subject to Limited review for the quarter and nine months ended 31st December, 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

CRAFTSMAN AUTOMATION LIMITED SENTHEL TOWERS 4th FLOOR 1078 AVANASHI ROAD COIMBATORE-18

Shainshad Aduvanni
Company Secretary and Compliance Officer

Encl: As above

CRAFTSMAN AUTOMATION LIMITED

Q3 FY 21-22 Earnings Conference Call

25th January, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Craftsman Automation Limited Investor Call to Discuss the Financial Performance of the Company for the Quarter and Nine Months-ended 31st December, 2021. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' 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 from Craftsman Automation. Thank you and over to you, Mr. Ravi.

Srinivasan Ravi: Folks, good morning, everybody. It gives me immense pleasure in welcoming all for the earnings call for the quarter and nine months-ended December FY'21-22. We all know the challenging environment both on the business, on the pandemic as well as on the commodity prices, supply chain issues including the chip shortages. So, in spite of all the dynamic and challenging business environment, your company has made a reasonable performance and I like to take you through the highlights of Q3 and the nine months ended FY'21-22.

The standalone financial highlights I will just brief you; turnover has grown 54%, but strictly speaking the nine months are not comparable with the previous nine months because of the lockdown last year, but the turnover has increased to Rs.1,552 crores against Rs.1,011 crores. PBT was Rs.168 crores versus Rs.75 crores in the previous year. Crossed Rs.100 crores PAT i.e., Rs 109 crores highest ever so far. Last year full year, we had Rs.97 crores PAT. EBITDA has grown by 29% from Rs.294 crores to Rs.380 crores. CAPEX for the 9 months including maintenance CAPEX has been Rs.143 crores and this was for technological upgradation, maintenance CAPEX and emerging opportunities.

I will just run through the key financial ratios compared to last full year. Debt-to-equity is almost same; 0.70 from 0.72. I think we are not able to make quick inroads because of the working capital requirements which I will explain later. Debt-to-EBITDA has improved to 1.51 from 1.57. EBITDA margin, because of the commodity price increase and top line corresponding growth, stands at 24% vis-à-vis 29%. EBIT margin is almost same; 15% compared to the previous full year of 16%. PBT is 11% for this 9 months vis-a-vis 10% for the full last year. PAT is 7% for 9 months versus March '21 6%. ROCE annualized is 19% pre-tax and for March 21 we had a 16%. ROE is 14% versus 11%. EPS (annualized) is 69 versus 48.

I will run through the segment wise revenue. The nine months figure for the Auto Powertrain is Rs.817 crores vis-à-vis Rs. 524 crores, growth of 56%. The Auto Aluminum was Rs.308 crores, comparable nine months was Rs.216 crores last year, 43% growth. Industrial & Engineering was Rs.427 crores vis-à-vis last year was Rs.271 crores, 58% growth. Overall, Rs.1,552 crores versus 1,011 crores.

Segment wise EBIT nine month figure on the Auto Powertrain is Rs.218 crores at 27% and nine months for 2021 was Rs.125 crores at 24% EBIT. This is mainly because of the commodity price increase and also change in the machining charges versus the sales charges.

In the Auto Aluminum, we had an EBIT of Rs.8 crores at 3%, last year for 9 months it was Rs.2 crores at 1%.

Industrial & Engineering was Rs. 36 crores at 8% EBIT, last year nine months was Rs.56 crores at 21% EBIT. This is mainly the growth of storage business which I can take it in the Q&A. Unallocated expenses was Rs.34 crores this year, last year it was 31 crores, a marginal increase.

The Auto Powertrain segment has grown 56% from Rs.524 crores to Rs.817 crores. Auto aluminum has grown from Rs.216 crores to Rs.308 crores. Some of it is because of the commodity price increase.

Industrial & Engineering segment has grown by 58% to Rs.271 crores to 427 crores. Storage business has clocked a very healthy top line of Rs.188 crores in 9 months when compared to the last whole year sales of Rs.104 crores.

The Automotive Powertrain EBIT has been Rs.218 crores as compared to last year was Rs.125 crores. Auto Aluminum EBIT has been Rs.8 crores versus Rs.2 crores. Industrial & Engineering EBIT has been Rs.36 crores against 56 crores.

I will make a comparison on Q3 compared to last year Q3 because I think last year Q3 the business brought back to almost some sort of a normalcy. Powertrain segment achieved highest ever quarterly turnover of Rs.292 crores in Q3, PBT was Rs.57 crores against Rs.63 crores against Q3 mainly due to higher raw material prices, lower machining value, tractor business was down and also construction machinery was down on a corresponding period on year-on-year basis. The raw material price has also inflated the top line which is leading to a lower margin.

Segment wise results for Q3 versus Q3. Auto Powertrain was Rs.292 crores for '21-22 vis-à-vis Rs.267 crores, we had a growth of 9%. Auto Aluminum was Rs.118 crores for Q3 versus Rs.111 crores for Q3 2021, 6% growth. Industrial & Engineering was Rs.141 crores versus Rs.108 crores, a 31% growth. So, overall we have growth of 14%.

EBIT for Q3 Auto Powertrain was Rs.69 crores, last year it was higher for Q3, it was Rs.79 crores. Auto Aluminum was 5 crores and same Rs.5 crores last year. Industrial & Engineering was Rs.13 crores versus Rs.21 crores last year. Overall we had an EBIT of 77 crores for Q3 this year, last year it was Rs.89 crores.

What was different is that, in last year Q3, we were ramping up and this year Q3 inventory pipeline was full and we had a good Q2 and our customers had a pipeline inventory and they were rationalizing their inventory, maybe the retail sales was okay, but their procurement from suppliers and others was lesser.

So with this, I think I will open the floor to Q&A.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: I had three questions. One is in the preceding concall you had talked about new business in automotive aluminum segment and as a result revenue and margin improving substantially over the next couple of years. Just wanted to check whether there is any change in that narrative or what you communicated say in 2Q still holds?

Srinivasan Ravi: What I communicated in Q2 fully holds and I think there was communication from our customer that they may take it up little earlier. The volume may peak up in early CY'24 itself instead of late CY'24. So this is one advantage what we have. One more new inquiry which is at the final stages of concluding is for a multinational tier-1 supplier over gear boxes for the passenger car. They have audited us and almost we are waiting for the final results for awarding the business to us. I will share that as and when the business is awarded. This is another breakthrough. But whatever I shared in Q2 FY'22, it still holds good and the business is intact.

Joseph George: Next question I had was in relation to a couple of segments which is auto aluminum plus storage solutions. Both these segments in the past have seen margin pressure because of late pass-through of the rise in commodity cost. So are we anywhere close to stabilization on that front either in the form of better pass-through or better pricing, so do we expect margins in these two segments to get to what you believe would be normal in the next one or two quarters?

Srinivasan Ravi: In the auto aluminum, the pass-through is more or less now I will not say perfect, but it is near the real-time status because the volume fluctuation is there on month-on-month and whatever is as per projections they are not able to honor it and we are predominantly still dependent on the two wheeler business more than 80%-odd. So, there is a start-stop situation about the domestic business. The two wheeler business is doing well. Also, the margin pressure is not coming now from commodity, but is coming from the operating leverage which we are having on the auto aluminum business. The two wheeler business which is down. On the storage business, we were hit on the pass-through. One thing is our biggest competitor I think was holding some inventory and they were able to give a better pricing in the market wherever we are competing strongly, but still we wanted to gain market share on the storage business and by the time we used to get an order and go back to the market to buy the steel, there was a situation about the price increase. So, on storage business, we did not get the pass-through this year, but hopefully in the coming year with stabilization of the prices we will get the pass-through.

Joseph George: Last question that I had was what is the outlook for the MHCV industry say in Q4 compared to Q3? I know you cannot take customer names. Based on what you are hearing from the customers if you can extrapolate that to the industry, how do you think industry volume in Q4 looks compared to Q3, is there any softness because of COVID, etc., that you are hearing from your customers?

Srinivasan Ravi: The biggest industry player and was our customer and also a leading multinational player, at least the industry leader in the country, they are having in model mix what I see is around 85% heavy duty and only 15% medium duty. This is a good sign for us, that means the economics of scale that is the bigger tonnage trucks which are more economical for the fleet owners are selling more. So, the modernization of the trucks are continuing. We are having more value add per truck on the heavy duty segment and more and more we see the next level of heavy duty engines and also the gear boxes are getting developed by most of the major players. This is a very healthy sign which we see, it will lead to better growth prospects for our business as far as Craftsman is concerned. The CRISIL report which came out last quarter also indicated some growth in the freight rates in their index which was reported and this is translating into better order portion. We see currently lot of signs on the ground for increased volumes. So, we are very hopeful this quarter we will have a good growth in sales.

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

Nishit Jalan: Sir, my first question is on the powertrain business. Can you highlight basically what was the machining revenue mix and what was the revenues that came from RM plus machining because the margins in the powertrain segment has come up a bit last quarter?

Srinivasan Ravi: I will first read out the numbers, then I will go to the specifics about customer and why it has happened. The auto powertrain I will just compare Q2 to Q3 because you may be very much aware of Q2, the top line is more or less same; Q2 we had Rs.292 crores and the same Rs.292 crores we have reported for Q3, but the value addition portion for Q2 was Rs.203 crores, but for Q3 it has been Rs.190 crores. Why is because we had more of the South American business more going and also the material business going, but whereas there is a reduction of the machining business mainly in the farm sector, that has impacted us on the value addition portion. So, this reduction of value addition from Rs.203 crores to Rs.190 crores has Rs. 13 crores drop, has resulted in EBITDA drop around the same level of Rs.13 crores and an increased depreciation of Rs.4 crores has led to an EBIT drop from Rs.86 crores to Rs.69 crores, but we had better operating leverage. The top line even though it is showing the same number, the absolute amount of capacity utilization of the plant has dropped in Q3 when compared to Q2 FY'22. There was inventory pile up on the farm sector because they were producing 30% more than what they are selling. Normally in Q3 we see this situation, there is inventory correction which happens, maybe retail sales may be different, but what we see on the ground level is every year we faced the same phenomena in Q3.

Nishit Jalan: Sir, just a follow up on the previous question asked by the last participant. On the MHCV side, typically Q4 is a seasonally strong quarter Jan to March versus October to December. So whatever pickup you are seeing in the MHCV industry, is it more because of seasonality in Q4 or even on a YoY growth, you are seeing some strong traction in the overall MHCV industry? What would be your outlook for the industry for the year to come in FY'23, FY'24?

Srinivasan Ravi: In tonnage terms, we are seeing one of the highest numbers reported because the vehicle numbers reported in FY'19 are not strictly comparable with the current FY'22 or going forward for FY'23 because the average tonnage has changed. As I mentioned little earlier, 84% to 86% is the sale of heavy duty versus 14% to 16% on the medium duty by the industry leader and we see this trend more and more going forward. So, we cannot compare the numbers, but on the tonnage front, the replacement cycle will sit in next year, that is in FY'23 for the trucks which has crossed around 450,000 kilometers which is due for modernization. So, we are very confident that in the second half of the next financial year, we will buck the trend of this cyclicity and seasonality of the business and more uniform sales will happen. I think the trend will be set from this month onwards itself on the heavy-duty segment. That is what we see on the ground.

Nishit Jalan: Sir, in your opening remarks you talked about working requirements being higher. Even last quarter we saw our inventory levels are high because of strategic purchase of certain raw material. So we are seeing a continuation of that even now, and if you can share some numbers as to what is the scope of working capital requirement going ahead and how it can help us leverage further our balance sheet?

Srinivasan Ravi: Wherever we are procuring material or maybe some time this is a straight pass-through, sometimes it may be an indirect pass-through. We have seen not only the basic commodity, but also the elements which is going into the basic commodity like silicon and all going through a big troublesome phase of shortage and it leads to quality issues, it leads to delivery issues. There are shipment delays also which is causing lot of anxiety directly to us sometimes, directly to our suppliers sometimes, sometimes a mismatch between the lead times which was planned and which was there. And the uncertainty of customer volumes also was hampering us. So, we took little strategic decisions on steel on the storage business to increase inventory. Based on schedules of the other customers, we had procured material, but that did not fructify into actual business. For certain reason, the customers' schedules drop. So, there is a temporary increase in working capital requirement. We will see that in the next two quarters it will drop; we expect around Rs.80 crores drop in the current quarter on the working capital requirements and another Rs.50 crores in the Q1, this is what we expect. But what we need to remember is the commodity price, there is a reset of around 20% to 30% both on steel as well as aluminum. That portion we have to factor in our working capital requirements. Otherwise, the other correction will happen.

Nishit Jalan: So what do you mean is over the next couple of quarters we should see more than 100 crores reduction in working capital and that should lower our debt levels as well, right?

Srinivasan Ravi: Yes, we are expecting Rs.60 crores to Rs.80 crores surely in this quarter itself.

Nishit Jalan: And sir my last question would be if you can share some details on the new order wins that you have seen over the last three months to six months across segments, especially in the aluminum product segment where we are looking to significantly scale up our revenues going ahead?

Srinivasan Ravi: For the auto powertrain, the small order wins I will not add now, but there are many, many small order wins which we have got. We have got increased market share across the segments. There is also move from the customers to reduce amount of suppliers and things like that. We are benefitting out of that. There is consolidation in the supply chain. The other order win we got was from a construction machinery manufacturer, the American big name and we have got an industrial engine for international business, the order has been secured by us. So, the next order win is likely to be expected this month, very close to finalization is for localization of the passenger vehicle cylinder block which is getting currently imported from Europe by a leading European manufacturer who is supplying engines to leading SUV manufacturer in the country. So, this is a readymade market which you are expecting. I am not in liberty to spell out the names, but the localization win which will be a big feather in our cap as and when we get that order, but we are very close to concluding the deal, but I would not like to say more than that now, on the auto powertrain. Auto aluminum, development is going on and meanwhile the leading multinational Japanese tier-1 gear box manufacturer has approached us, audited our Bangalore facility, has approved us and the audit is going on in our Coimbatore facility. We are likely to get some good business on the automatic gear box housing as well as the e-axle aluminum parts. What is more interesting is this is for the higher tonnage machines including the 3,200 tons which is under discussion. But the result will be known within two, three weeks of this business. These are the major order wins from the auto aluminum. In the industrial segment the traction on the storage business is very tight. We will close this year at around Rs.275 crores vis-à-vis Rs.104 crores last year and this growth will continue, we are expecting 20%, 30% growth going forward in the next year. One good thing in the growth is it is a mixture of the conventional storage solutions and also the automated storage solutions and we have got a pending order of more than Rs.50 crores on the automated storage solutions which we have only one Indian player, all others are multinational players. So this is a good trend what we are seeing in the storage solutions. In the other area, India is yet to see the CAPEX cycle, but hopefully that will kick in, in the next coming quarters which will see more demand from us, but our export business is doing well and we are going to have at least 10% to 20% growth this year over the last year on the direct export business. We are also looking at very critical machining opportunities in the capital goods. The capital goods are across different end use segments which I will not like to elaborate at this stage, but we have won some orders already and we are also under discussion for the renewable energy capital good sector where there are not many players in India and lot of import is happening from our main competitor in the Far East. So, I think the localization trend is increasing and we are looking after a long time an opportunity in the renewable energy sector, in the industrial and engineering business.

Nishit Jalan: Just one clarification, this tier-1 gear box manufacturer of Stellantis, if we happen to win the order, will it be on top of the order that we already have from the Stellant**is** group to supply some of the castings and machinings?

Srinivasan Ravi: The gearbox manufacturer is not Stellantis, not the Stellantis supplier also. This is Japanese supplier who supplies to the top two names of the Japanese manufacturers in India and this is an established player. They are also supplying to both the Indian OEMs also. It is a world-renowned automatic gearbox Japanese manufacturer and they supply to Japanese and Indian players.

Nishit Jalan: And sir, the order will be to supply in the domestic market or it will be from an export perspective?

Srinivasan Ravi: No, it is for the domestic market and I think it is only the beginning, we expect that we may also get opportunity in the future for export.

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

Jinesh Gandhi: We have seen a reasonable QoQ increase in staff cost. So is there any one-off or this is a normalized level now?

Srinivasan Ravi: I think we have released the bonus of around Rs.7 crores for the quarter, this is one-off.

Jinesh Gandhi: Secondly, with respect to the revenue growth which we have seen, would you be able to take out the RM cost benefit in that and can you talk of more organic growth there vis-a-vis the reported number?

Srinivasan Ravi: I think that is a very good question. I will go by segment wise; the top line on the auto powertrain for Q3 is Rs.292 crores and value addition has been Rs.190 crores; and on the auto aluminum Rs.118 crores was the top line and the value addition has been Rs.43 crores. So that is a very healthy value addition. So the healthy value addition has not translated into EBIT for the simple reason, operating leverage is not enough. And on the industrial engineering, we had Rs.140 crores top line and the value addition has been Rs.65 crores.

Jinesh Gandhi: And similar value addition number for Q3 last year?

Srinivasan Ravi: Q3 last year auto powertrain top line was Rs.267 crores, value addition was Rs.177. And auto aluminum was Rs.111 crores and value addition was Rs.42 crores. Industrial & Engineering was Rs.108 crores and value addition was Rs.63 crores.

Jinesh Gandhi: And lastly, with respect to the CAPEX, so in 9 months we have invested about Rs.143 crores. For full year FY'22 and '23 what kind of CAPEX are we looking at?

Srinivasan Ravi: What we are looking at is we are seeing lot of opportunity on the auto powertrain portion of the machining business as well as machining business in the industrial engineering. We are having a depreciation of Rs.200 crores. So, the maintenance CAPEX unfortunately I think quarter-on-quarter the CAPEX cost is going up. The machinery price has been increasing. So we do not want to delay some of the purchases because same machinery if we purchase next year maybe another 20% more. So we had taken some proactive measure to book some machinery at the older price and we are having them delivered now. So, I think we need Rs.100 crores maintenance CAPEX because the Rs.200 crores depreciation today 1:1 if we want to replace, we have to pay Rs.300 crores, but we are able to continue at Rs.100 crores maintenance CAPEX, and any new opportunities or any specific equipments which we need, I think we will operate as and when needed.

Jinesh Gandhi: Full year will be Rs.100 crores maintenance and another Rs.100 crores growth CAPEX, will that be a reasonable assumption?

Srinivasan Ravi: Yes, reasonable assumption and any expansion in absolute EBITDA number will healthily flow to the -EBIT level. I think that is what we are thinking of.

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

Chirag Jain: Just a clarification on the auto powertrain business. You mentioned that obviously there has been some product mix impact as well as some rationalization of channel inventory in the farm sector. So, is it largely behind because more from the perspective of M&HCV, we have seen almost 25%-plus production increase compared to September quarter versus December quarter, but the overall revenues have largely remained stagnant, so maybe some more perspective in terms of the revenue mix that we have in terms of exposure towards farm and the other segments, and what would have actually driven more or less flattish revenues in this quarter versus last quarter?

Srinivasan Ravi: For our major CV customer alone, there has been increase of around 20 crores in Q2 versus Q3. This 25% is substantial increase because we have ramped up for their requirement for Brazil. So that is the increase, but whereas the machining business has dropped by Rs.13 crores because of rationalization of inventory in the farm sector and the construction machinery has been still pretty low. So, both of that will get corrected in the current quarter.

Chirag Jain: Any number that you can share in terms of capacity utilization for the auto powertrain business in third quarter? You mentioned that there has been a dip sequentially.

Srinivasan Ravi: Auto powertrain business has been very poor in Q3, I would say, it is less than 60%.

Chirag Jain: And that should get corrected in fourth quarter as most of the end user segments should revive?

Srinivasan Ravi: Normally, for us Q4 is highest even last year if would have seen that we had performed very well and we expect similar lines in this year also.

Chirag Jain: And just last thing on the aluminum business, since bulk of our current revenues especially the two wheelers, TVS and Enfield, are we seeing any green shoots over there say in terms of production schedule improving?

Srinivasan Ravi: It is in the public domain. I will not like to repeat myself. I think two wheeler market is very much down because of the affordability and the financing of the two wheeler, but I think our customers are doing pretty well with the exports. At least one of the customers is doing very well for exports. So they have managed to offset some of the degrowth in the domestic industry with exports. So, now it is reasonably stable. Hopefully, with the economy picking up the domestic market also has to come back, but there is also a lot of opportunity for Craftsman because we are very close; our major die castings plant is in Coimbatore and Bangalore and we have been approached by the many EV startups in Bangalore who have made products, but now looking at productionizing them or looking at cost rationalization what they have done by different methodologies, they are trying to do the automotive method now. So, we have got very solid enquiries. So this will improve going forward quarter-on-quarter. And the passenger vehicle business which will kick in end of '23 and FY'24, will lead to better capacity utilization on automobile for us.

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

Abhishek Jain: Sir, my question is related with the powertrain segment. Despite high value additions and lower pure machining value, top line remain muted. Is it because of the high inventory at the customer level?

Srinivasan Ravi: Yes, I think tractors production was happening continuously at 100,000 units a month whereas sales were around 70,000 units. So, there has been relative inventory increase, so correction is happening.

Abhishek Jain: And sir what is the revenue and margin outlook for the Q4 for powertrain business given the slowdown in the Class-8 truck orders and muted outlook for the tractor segment?

Srinivasan Ravi: We are not dependent too much on the Class-8 truck order for North America. Yes, we are doing tier-2 exports. But I think our domestic customers have given a very, very strong projection and even the tier-2 exports to South America is also having very strong numbers for the year. So we see that we will be performing well in Q4. I do not see any reason for muted performance in Q4.

Abhishek Jain: You are also tier-2 supplier for the Nelcast and these companies supplies mostly in the North American market. So is there…?

Srinivasan Ravi: You are right. The point is we have got new order wins which are yet to be productionized and that will carry us through for the next two, three quarters.

Abhishek Jain: So how much growth you are looking in this powertrain business for the Q4?

Srinivasan Ravi: With the correction of some inventory, I think still we will be growing at a healthy double-digit in Q4.

Abhishek Jain: And what about the margin, it will come back to the normal level?

Srinivasan Ravi: Yes, normal level margins will be there for Q4.

Abhishek Jain: And sir, how much export contribution in overall revenue? I am talking about the direct and indirect.

Srinivasan Ravi: Direct and indirect both put together maybe 20% to 23% something like this.

Abhishek Jain: And how was the performance in Q3 FY'22 versus Q3 FY'21 in export front?

Srinivasan Ravi: In direct export front for the nine months figure itself we are very close to the last year number, and tier-2 export also we are very close to that number. We will be surpassing those last year numbers by January end itself.

Abhishek Jain: My next question is from the aluminum segment. This quarter total asset size has gone up from the Rs.545 crores to Rs.700 crores. Is there any capacity expansion in aluminum segment?

Srinivasan Ravi: Not really on the capacity. I think one is the lead time procurement of aluminum and the opening of LC and the prepayment of the material for shipment to secure the material. I think the working capital portion only has a majority, I would say, 80% would have been working capital portion which will get corrected because shipping delays are there. Sometimes, on FOB basis we are taking material , because of the container issue and things like that. This will get corrected in the coming two quarters.

Abhishek Jain: And sir, industrial segment, how much revenue was from the storage solutions business in Q3?

Srinivasan Ravi: Rs.54 crores for Q3.

Abhishek Jain: Last quarter you had mentioned that storage solution revenue was Rs.134 crores?

Srinivasan Ravi: Rs.188 crores is the cumulative number for this 9 month period versus last year it was Rs.104 crores.

Abhishek Jain: Sir, despite the lower storage solutions business we are not able to see the margin expansion. As you have mentioned that the company is able to pass on contract manufacturing and castings segment, but it is difficult to pass on the storage solutions business?

Srinivasan Ravi: Storage solutions we are looking for referral orders. I am happy to share one point with you is that we are at 30% level compared to the industry leader in the storage business. I think there is a remarkable point. They are there for last three decades in the business. I think in a short period of time we are very close to being number two if not being number two in this year.

Abhishek Jain: So despite this lower revenue from this storage solutions business, our margin is just 9%, which is much lower versus the earlier margin of 15% to 22%. So what are the figures for the margin expansion going ahead in this segment?

Srinivasan Ravi: Earlier, we had little more stable steel prices and we are not I think in the cross wire or the competition. We were operating under the radar, but today, we have topped about in the market and wherever we are present, the number one and number two players are very aggressive on not letting the order go. So we have to fight for the order and in the case as a new entrant, we have to forego margins to win the order. And we have succeeded to have good names where we are able to satisfy them on quality and technology of the product. So this is I would say seeding for the future. We are just getting our feet into this business which is a big growth area. And surely when we grow, we are also able to plan our steel purchase in a better way based on the past consumption and sometimes lead times for the steel suppliers to supply directly was the problem and we had to resort to buying from traders. But I think this is short term phenomena where next 5-6 months, I think we will be more stable on the margins.

Abhishek Jain: As the commodity price is moderating, so what is the outlook for the margin for the industrial segment for FY'23 given that this inflation and pick up in the industrial activities, so can we go back to the 15%, 20% kind of the margin in this segment?

Srinivasan Ravi: I think the model mix has changed and we were only in the contract manufacturing. The storage business by itself is material-intensive. So necessarily we have to change the ratios, but the top line growth will be higher. So the absolute EBITDA number growth will be in good two digits going forward at least in Q3, Q4 next year we are confident about that. I think EBITDA percentage we have to reset based on the new product mix.

Moderator: The next question is from the line of T S Vijay Sarthy from Anand Rathi. Please go ahead.

T S Vijay Sarthy: Couple of questions. One, could you share the indirect exports for the quarter in the powertrain business? Number two, has there been any increase in the share in aluminum business with your existing customers? Third is I know it is difficult, if possible could you share the opportunity size that you would probably envisage in the localization of the blocks that you have highlighted?

Srinivasan Ravi: I will answer your second question first. I think there are two things which are happening. One is whatever we are getting imported is getting localized, we are getting opportunity. One thing it is no-no for diesel engine manufacturing in Europe, that is throwing lot of opportunities that India is going to become the hub for diesel engine manufacturing for other countries which are still not going to adopt EV quickly. The third and the most important point on the same thing is that the Asian auto majors mainly from Japan and Korea are looking at India as a global hub for manufacturing for the diesel engines and we see that they are setting up a facility where we are having an edge over other countries like Thailand, Vietnam or Indonesia where the manufacturing infrastructure is not so great for the engine manufacturing. So, we see that this opportunity will continue to help us to grow on the powertrain segment on this matter. And when you talk about powertrain, we are not exposed to passenger vehicle in any big way. Overall, in the entire powertrain business for us, around 10% only is on the passenger vehicle and more than 55% is coming from the commercial vehicles and 20% is coming from farm sector and construction machinery. So, even in the passenger vehicles, we do not see that degrowing, because there is still exposure left. Another important point is from the commercial vehicle segment we see on the medium duty trucks there is a move towards using the same internal combustion engine for CNG and this is gaining momentum and we will see that even on the heavy duty commercial vehicle new engine platforms getting evolved which maybe common for the conventional fossil type fuel like diesel and maybe more cleaner fuel like CNG and hydrogen and I think these sort of engines will be almost zero emission which will be able to compete with other technologies. So, as our powertrain business by itself we are quite confident that it will continue to grow because of the segment where we sit in. As I mentioned earlier that we have won an industrial engine order for export from American big company where they make industrial engines. And another engine supplier which is present in India is supplying to trucks, they also serve by the one norm that they will make clean diesel engines. So I think this is where we are also saying that what we invested in will continue to grow. We are not worried about that particular point. You asked about aluminum whether we will increase market share. I cannot comment on the market share because every month it is changing because which product is selling, sometimes it is only exports which are happening and sometimes domestic, it may be changing. But what I can say is that we are very competitive and we have got the right product mix with us. New developments are continuously given by existing customers. That far I can share with you. You talked about what is the indirect exports absolute revenue. In indirect exports, there are certain cases where we are owning responsibility for the material, that maybe to the tune of maybe around 15 crores, 20 crores a month I think that is happening. Apart from that the pure machining charges where it is indirect exports maybe another 6, 7 crores per month, so around 20 crores a month is happening there.

T S Vijay Sarthy: Has that number reduced YoY?

Srinivasan Ravi: No, it has not reduced, actually it has increased.

T S Vijay Sarthy: And when do you expect this proportion of passenger car in your powertrain to move to a sizable revenue, should we see that happening from the FY'23 or it is still sometime away?

Srinivasan Ravi: This will depend on our government decisions way forward, whether they are going to offer subsidy for hybrid or not. If they offer for subsidy for hybrids, I think the passenger vehicle business has to develop new smaller engines. We see currently there are hardly no platforms which are pure EV platform or I think only our domestic major player has developed common platform which they are utilizing to that benefit. You can see they are launching EVs continuously. So, every vehicle manufacturer has to move to platforms which are common and you know that on EV the platform is different because it has to accommodate the battery weight at the bottom. So, we see lot of aluminum parts which has also been utilized there. I can share little candidly because I shall not suppose to speak on this, we are only tier-1, tier-2 supplier. I think the fuel efficiency matters a lot going forward and the Corporate Average Fuel Efficiency, (CAFÉ) norms will be very important, the carbon footprint has to be reduced. So, light weighting will be the norm going forward. Already, a big delay which is there. There has to be some revolutions. What we see today is heavy duty trucks because more than 80% of trucks are heavy duty and only 14%, 15% are medium duty. Similarly, we will see that light weighting will start in a big way on the aluminum business.

T S Vijay Sarthy: Finally, sir, is it very difficult to have an automatic pass-through for an industrial business with respect to RM cost, what is the nature of this, why is it so difficult? Number two, if this is the case do we see a situation where we grow very strong on a top line while profitability could come down, is that the way one should look at industrial business?

Srinivasan Ravi: I would say that steel price increasing 50%, 60% within a year, it has never happened and the shortage of steel also which was leading to high market prices, this is a one-time, and by the time we have taken the order and time to procure, everything has changed. This is not going to continue surely. Now we are factoring contracts also saying that steel price applicable at the time of the delivery point, something like that, wherever possible we are trying to do that. I think the entire industry will adjust.

T S Vijay Sarthy: The entire industrial business with respect to RM cost, is it negotiation or some are automatic pass through like the other segment here?

Srinivasan Ravi: In the industrial segment, the industrial aluminum business is auto pass through. It is on quarterly basis based on LME prices, there is a surcharge invoice, but on the other products what we are making assembly, sub-assembly, fully finished products there we have to reset the prices. We do not want to reset the prices every month. We are going to execute big price increases in the coming quarter because now that we know what is the current raw material. This correction was not possible after getting an order and then seeing the raw material price going up.

T S Vijay Sarthy: What is the value addition in the industrial business this year?

Srinivasan Ravi: The industrial engineering business for the Q3 the top line was Rs.141 crores and the value addition was Rs.65 crores.

Moderator: Thank you. The next question is from the line of Jeetendra Khatri from Tata Mutual Fund. Please go ahead.

Jeetendra Khatri: In your powertrain business what will be the petrol-diesel mix?

Srinivasan Ravi: If you take powertrain business, 90% is not related to passenger vehicles, this is a 100% diesel or alternate fuel like CNG and things like that. In the 10% passenger vehicles business what we have, it is again 80% diesel and 20% petrol.

Jeetendra Khatri: And sir in your exports how much will be powertrain?

Srinivasan Ravi: We do not do any powertrain exports at all directly.

Jeetendra Khatri: And lastly, in your powertrain wanted to know if you do something for the Japanese as well like Toyota, Honda in India?

Srinivasan Ravi: We are now very close to getting awarded some business from tier-1 supplier to a Japanese major who is making gear boxes. So we got good enquiries for automotive gearbox as well as e-axle, both.

Jeetendra Khatri: So will it be substantially more difficult to get onboard with Japanese manufacturer in India compared to Volkswagen or compared to Maruti?

Srinivasan Ravi: The very fact is that we are being considered, Bangalore plant audit is completed by Japanese and this Coimbatore plant is getting audited today practically. The very fact that they are spending energy, they are very serious about doing it. Japanese supplier by themselves are having a presence. I think they are waiting to expand or maybe more entrenched Indian suppliers maybe given a chance that is what I feel.

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

Dhaval Shah: Sir, first, what is the capacity utilization in the aluminum component business for the December quarter?

Srinivasan Ravi: It has been around 40% to 45% range.

Dhaval Shah: So in our previous interaction we had guided for around 18% kind of EBITDA margin in this aluminum business. So now how do we see this margin trajectory going forward over next two to three years? In FY'23 we have PSA order which will start contributing. So how do you see the growth rate of the aluminum component business and the margin?

Srinivasan Ravi: I will take out the Q2 and Q3 numbers for this year for auto aluminum. In Q2 FY'22, we have done Rs.113 crores top line and we had an EBITDA of Rs.17 crores and for Q3 we had Rs.118 crores topline and Rs.17 crores again EBITDA. So, it has been 15 % in spite of very low capacity utilization. So, we are not lagging on EBITDA in spite of operating leverage not kicking in, but the point is the capacity utilization being so low, we are hit on the depreciation and EBIT is a problem.

Dhaval Shah: The next two years should be quite high in terms of the growth rate given PSA order is contributing and plus lot of other enquiries which are coming to you?

Srinivasan Ravi: Yes, in auto aluminum when capacity utilization improves, surely the margins will improve, number one. Number two, when passenger vehicles and more complicated parts which have a higher tonnage machines come in, there is better value addition, so there also margins will improve. We are operating at around 15% EBITDA with such a low capacity utilization. I think we are very efficient. That is why we are also winning business.

Dhaval Shah: So next year should we look at around 30%, 35% kind of growth on the aluminum side?

Srinivasan Ravi: Yes, next year we can look at 30%, 35% growth.

Dhaval Shah: And then that would certainly give us close to our guided EBITDA margin as well?

Srinivasan Ravi: Yes.

Dhaval Shah: Now coming to powertrain, as you said, the tractor segment has led to the drop in the margins. Now in the September quarter also we had around negative 5% industry growth for the tractor and now December was negative 10% and we also see some pressure on the farm economy as well. So how do you see this segment doing in terms of again the margin, the growth rate, because last couple of quarters we have never had such low margin given tractor was doing well, but while on the other side, we are expecting MHCV higher tonnage to do well, so need some understanding on that side?

Srinivasan Ravi: We have to look at the margin on the value addition rather than on the top line because one thing has happened is there is a commodity pass-through in the case of where we buy cylinder block and supply to our customers. There has been a 15%, 20% increase. So it is a straight pass through. So the margin may get depressed. But I think the value addition is what we need to look at it for the margin.

Dhaval Shah: The tractor industry might be soft, but MHCV is better. So your value addition will go back to which quarter if you had to take a lead from the previous quarters?

Srinivasan Ravi: I will more look at it last year Q4 and this year Q4 in spite of farm sector still lagging behind, we should be on similar performance on the powertrain business in terms of the value addition.

Dhaval Shah: And sir now coming on to the industrial and engineering business, see we are currently in market share gain mode and even the private CAPEX has currently not yet picked up the way we were discussing in last three, four quarters. So again on this side, any margin guidance would you like to share because I believe potential is there to do around 20% kind of EBIT in this segment, but we are much lower than that number?

Srinivasan Ravi: Nobody is investing in the industrial engineering manufacturing activity. That is positive for us. And when there is an increase, anybody will require a few years to put up capacity and get their act together because it is not easily scalable. So, I would rather wait and watch and give a more concrete answer going forward in the next quarter on the margin front.

Dhaval Shah: Currently, on the storage solutions side, any specific market share figure in mind which will help us focus on the margin?

Srinivasan Ravi: We want to be number two in the coming year, that is what we are striving.

Dhaval Shah: And sir, now on the accounting side what is the absolute debt number and our debt reduction strategy?

Srinivasan Ravi: Debt reduction I think we will not be able to do as planned because of the commodity price increase. For the current year, we are looking at around Rs.50 crores to Rs.80 crores debt reduction when compared to last financial year.

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

Chetan Gindodia: Sir, I have three questions. Firstly on the powertrain segment, if the MHCV has seen growth of 20% on a quarter-on-quarter basis, then could we say that our tractor segment revenue from last quarter to current quarter must have seen a severe decline of 50%-plus?

Srinivasan Ravi: Market retail sales I think you will know better, but I think 25% is reduction. So, when inventory for a three-month pipeline is built in for a higher sale number, they have to procure at 50% level for at least three months to bring down to realistic inventory.

Chetan Gindodia: And secondly, you said about two new orders that we are about to receive. One on the aluminum product side from the gearbox manufacturer and one on the powertrain side from the European manufacturer. So, can you quantify what kind of order we might be receiving?

Srinivasan Ravi: They seem to be having a bigger plan which they have not shared. So I would not comment on that until we get the order I think.

Chetan Gindodia: And sir lastly, on our aluminum business. Since TVS is one of our major clients, so are we supplying die castings components for their electric vehicle?

Srinivasan Ravi: So far no, but I think we are a neutral supplier. Yes, TVS is a very esteemed customer of us. We are trying to align whatever they need for their future growth whenever we are given an opportunity. TVS, I understand, also invested in some startups. So we are waiting to watch where the volumes are coming up. The other lower volume EV players we are treating as almost on par with industrial engineering aluminum and looking at lower volume and higher value addition. They cannot be clubbed with automotive because volumes are low. So, we are waiting and watching to emerge what is the premium space, what is the volume space and things like that. It is too early now still.

Chetan Gindodia: And just lastly, within our aluminum segment so what would be the contribution of engine component parts within this aluminum die castings business?

Srinivasan Ravi: It is more than 80%.

Chetan Gindodia: And which are the components then on the electric side we might be looking to manufacture in the aluminum segment?

Srinivasan Ravi: There will be structural parts which will be coming in; there can be high pressure die casting, gravity die casting, low pressure die casting, all of them will be coming in, and we are present across all the segments. When you ask me about the question on what is the percentage of IC engine parts on the current manufacturing, I said 80%. But today our esteemed customers are doing a lot of export, their export percentage is growing by leaps and bounds. So, we hope this number will continue to increase.

Moderator: The next question is from the line of Priyank Chheda from Standard Chartered Securities. Please go ahead.

Priyank Chheda: On the CAPEX guidance, you had alluded towards Rs.225 crores of CAPEX that you plan to increase on powertrain capacity by 8% to 10%. Any update on that?

Srinivasan Ravi: You are talking about Nagpur plant. It will be done in phases. It is not about that. Since our depreciation is around Rs.225 crores a year, we need a maintenance CAPEX of around Rs.100 crores minimum. Because the new equipment to replace 1:1 it is 30%, 40% more costlier, but I think we are prolonging the equipment and managing it. And with the new opportunities coming up, both put together only we are capping our CAPEX to around Rs.200 crores a year.

Priyank Chheda: So Rs.100 crores is for FY'22 and then would be Rs. 200 or Rs. 225, crores for FY'23, is that understanding correct?

Srinivasan Ravi: No, we are looking at both 200 crores a year. The maintenance CAPEX itself is coming to around 100 crores and we see opportunities where we should not miss out.

Priyank Chheda: So maintenance CAPEX would be Rs.100 crores and the additional capacity expansion CAPEX would be another Rs.100 crores?

Srinivasan Ravi: Yes, correct.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.

Viraj Kacharia: I just have three broader questions. First is on the domestic MHVC. The point which you made that you are seeing a strong recovery. In the past 12 months or so we have been seeing positives also, freight rates going up and talks of replacement demand kicking in, but not really coming in a big way. So what kind of feedback or indications we are getting from OEs, which gives us more confidence CY'2022 should be a year where we see strong recovery in MHCV?

Srinivasan Ravi: I think excellent question. 11 years back we had set up a cylinder block manufacturing for a German major where at that time 10% was heavy duty trucks and 90% was medium duty trucks in India. And the question was asked by many people was that where is the market for heavy duty trucks in India. Today, we see in the last quarter itself 85% has been the so-called heavy duty and 14%, 15% is the medium duty. The so-called heavy duty is not really heavy duty. These heavy duty trucks in whatever being sold in India are still classified as medium duty in developed Western Europe and North American market because the haulage is different, the horsepower of the trucks are different. So, we see a gradual evolution of our commercial vehicles segment to higher horsepower, higher gear box torque and number of axles more from an average six-wheel truck, we are now averaging around 12 to 16 wheel truck. Today, the government has been, I would say, proactive in helping the fleet owners to reduce their cost of operations. The axle load has been revised upwards, I think which was practical because the cost of the trucks are high in India. And because of that the truck life might not be a million kilometers like what is happening in Europe or North America, we see more 400,000 to 500,000 kilometers as the useful life of a truck totally. So, the scrappage policy may not be imposed by the government. By itself the powertrain wear out will be there overall. When we consider this fundamental aspect of the business, today the average coverage for a truck is now increased from 200 kilometers, 250 kilometers from pre-GST situation to 500 kilometers, 600 kilometers a day currently. So in this sort of situation 4 years or 5 years is the life of the truck so the replacement cycle will kick in totally and we will move to a market where there will be growth requirement for trucks and also there will be replacement cycle. With that the demand will be more steady is my opinion.

Viraj Kacharia: Second is you talked about us potentially looking to close export order for the powertrain. You also talked about us not having any direct export in powertrain yet. So, the export order is to a tier-1 supplier in India and hence shipping through them to the export or a direct export order we will be catering to?

Srinivasan Ravi: What we supply to South America is we supply to the consolidation center of the same multinational in India who is consolidating it and exporting it. So, the customer name is the same there. So they will be handling the export. So we treat it as domestic business because we will be selling in rupees, that is the way it is.

Viraj Kacharia: So the new order which we are talking about from a European player and potential also…?

Srinivasan Ravi: That is for Indian market, that is an import replacement of powertrain.

Viraj Kacharia: You also made a point where OE say Europe or Japan they are looking at India is a consolidated base for clean diesel kind of engine and powertrain solutions manufacturing base. One was to get a perspective in terms of the opportunity scale because lot of these countries say in Europe are very aggressively pushing towards electrification and more stringent regulations say for a diesel fuel tech. So just wanted to understand what is the opportunity space where are we seeing these accelerations in terms of more orders being moved to India, which market they maybe from, any perspective you can share?

Srinivasan Ravi: We see Japanese manufacturers like Isuzu setting a base in India for export to Asian markets which are maybe one level or two level emission levels below India and also looking at the other African and other countries where emission levels are still at tier-1 or tier-2, we are a tier-6 level. So, they are feeling that it will take almost a decade for them to come to a level of electrification or even tier-6 they say they may take 5 years, 7 years. For example, Brazil today at tier-5, we are at tier-6, we are even one step ahead of Brazil. So, it is a cost of the product and the availability of fuel and the entire environmental change. So, I would not like to speak too much on this because I am not an OEM nor very closely associated, but I see that somewhere in the world these products will be needed and India is a logical choice for manufacturing.

Viraj Kacharia: Just two follow ups on this. So if one were to just get a perspective on the opportunity scale, is it in multiples of the current say FY'20 or FY'19 diesel market in India, any perspective? Second is are we seeing an acceleration even from the European players because there also the market is also quite shrinking rapidly for diesel, but they would have a requirement to cater to the market especially in aftermarket for next 5 years, 7 years, 10 years or so?

Srinivasan Ravi: See, the European players are mostly higher end players and luxury players. So their strategy will be different, but some of the European players make products starting from $10,000 also. So, we have to look at their product where they are selling and which market they are catering to other than China of course and where is the manufacturing base currently which is there and is there any opportunity going forward. We see lot of opportunities there.

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 very much for being with us today and hopefully we will meet again next quarter with far better results.

Moderator: On behalf of Craftsman 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)