1st February, 2024

To

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

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

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call on the Unaudited Financial Results for the quarter and nine months ended 31st December, 2023;

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and our intimation and outcome letter dated 2nd January, 2024 and 29th January, 2024 respectively, we are enclosing herewith the transcript of the earnings conference call organized on Monday, the 29th January, 2024 at 4.00 P.M. (IST) on the Unaudited Financial Results for the quarter and nine months ended 31st December, 2023.

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

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

Thanking you.

Yours faithfully,
for CRAFTSMAN AUTOMATION LIMITED

Shainshad Aduvanni
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Shainshad Aduvanni
Company Secretary and Compliance Officer

Encl: As above

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CRAFTSMAN AUTOMATION LIMITED

Earnings Conference Call held on 29th January, 2024 for the quarter and nine months ended 31st December, 2023

Moderator: Ladies and gentlemen, good day, and welcome to Earnings Conference Call to discuss the financial performance of the Craftsman Automation Limited for the quarter and 9 months ended December 31, 2023. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the opening remarks is concluded. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Srinivasan Ravi: Good afternoon, everybody, and welcome to the investor call today. Thank you very much for joining. I'll just give a brief note on the addressable market of Craftsman Automation.

In the Powertrain business, we had only a marginal increase in the demand because of the adjustments that are happening, which I'll explain later during the Q&A. Whereas on the Aluminum segment, we had a good growth on the two-wheeler side, in spite of our passenger vehicle business not reaching to their level with certain customers where we had orders and even from orders not picking up material. But still, we have had an healthy growth in the Aluminum Products segment standalone as well as in the consolidated. The tractor market has declined. And I think the Red Sea conflict is posing a lot of challenges going forward.

I'll just put some numbers here on the consolidated financials and then go with the standalone. On a 9-month comparison, the turnover has been INR3,346 crores. Previous year is not strictly comparable because the DR Axion consolidation has not happened. It was INR2,202 crores. So, EBITDA also will not be comparable, the INR684 crores versus INR503 crores. EBIT also not comparable, INR479 crores versus INR342 crores.

The financial ratios, Debt to equity has been 0.86 times; debt-to-EBITDA 1.59 times because we are always saying that 1.5 to 1.6 times is a comfortable level; EBITDA margins has been around 20%. EBIT margin is 14%. For the 9 months numbers, PAT has been 8%. ROCE pre-tax has been 23%. ROE annualized is 23%. EPS not annualized is INR.114 per share.

Standalone financial highlights. Nothing great to speak of, but I think there is we have done reasonably very well with the headwinds. The turnover has been increased to INR2,385 crores from INR2,195 crores. The breakup for this has been the Powertrain business has been INR1,169 crores, Aluminum INR666 crores and Industrial & Engineering INR551 crores. EBITDA has been INR503 crores, a marginal increase over the previous year of INR499 crores. And the breakup of the EBITDA has been, Powertrain has been INR333 crores, Aluminum Products INR127 crores and Industrial & Engineering has been INR68 crores.

The storage division had a turnover of INR261 crores versus INR271 crores the previous year, a marginal decrease. There has been a lot of headwinds there on the shrinking market this year. The market has shrunk. In spite of that, we were able to almost retain the top line in spite of stiff competition.

Capex up so far until December '23 has been INR395 crores. This is all round capacity balancing expansion, marginal capability increase to address the revenue opportunities, which we expect in the near future.

Now I want to touch upon the 2 new plants. One is the Kothavadi plant, which we had informed you in the last meeting. In the plant, we've started the construction activity, and it is in line with our time line what we have planned. We have declared 24 to 30 months for the startup production, but we are trying to fast-track it in a slightly better pace. This will host all the 3 segments of the business. And even the proposed cast iron foundry, which we are putting up will be for Industrial & Engineering to start with, and it will also move into the Powertrain segment on the heavier castings, which are coming forward.

So, the other segments will follow into this location because our current land availability and space availability in the current plant is quite limited. The second major shift towards the growth opportunities we're taking is we have identified that the NCR region is a way to go forward with a lot of potential being there in the market for all the 3 segments of the business. So again, we are making a composite unit in the vicinity of the NCR region, which is within 100 kilometers of the major customers in the auto sector as well as the Storage Solutions also will see a reduction in freight and logistics cost, which is good when we are running out of capacity at our Pune plant in the near future.

So also, on the Powertrain segment, we are only on lease facility at our Faridabad plant. Any new opportunity which comes up also this new location will address too. So, to start with, we are looking at Aluminum as the first space of the business and we proposed to invest INR150 crores in land building and machinery in case #1. We are looking at mature sales in the first financial year after commissioning of the plant to be around INR200 crores in this.

Now with this, I will leave the floor open for Q&A. Thank you.

Moderator: Thank you very much. The first question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.

Jinesh Gandhi: Ravi sir, can you share the value-add details for the quarter or for the 9 months like you share normally?

Srinivasan Ravi: Yes, for the value-add, the number for the Powertrain for the December -- and you are talking about the -- you want the Q3 or you want the 9 months number?

Jinesh Gandhi: Third quarter.

Srinivasan Ravi: Okay. Third quarter, INR237 crores on the Powertrain, INR97 crores on the Aluminum and INR73 crores on the Industrial & Engineering.

Jinesh Gandhi: Okay. And secondly, you are referring to the issues which we are facing in the Powertrain business, where volumes or other revenue growth was quite weak. So what are those issues, which you're referring to? And how do you see growth in the Powertrain business going forward?

Srinivasan Ravi: First, I would like to say that there are no issues in the Powertrain business. We have grown from a smaller base to a very high base at a very high trajectory going forward. You know that in the passenger vehicle segment, there has been a run in new development of products. It's the completion of EV, which is there. Farm sector has been muted for a long time. And the BS6 transition on the commercial vehicle segment has just taken place, and we won't see any new development or new production line coming in.

The other challenge I would say has been only on the TRIM5, which is the equivalent of the emission norms for the construction equipment and tractor, which was supposed to come in from April this year. We already invested for those lines because some of the parts are very new. It is not the existing engine getting upgraded. But I think as expected, the government has deferred this time line because of the huge cost impact, especially on the farm segment and also the construction equipment.

So, we do not know when it is coming up on this matter. Being a single supplier for many customers, we already have invested in line with our agreements because this business is not going to go anywhere, but we have already concluded with the customer and we are ready for production as and when we think.

So, it is something like a transitionary phase. Today on the commercial vehicle segment, we had a reasonable growth, but I think there is some correction in the market. And looking forward to the election year, there will be a reduction in volume, especially in the construction equipment side. And there will be maybe a flat situation in the commercial vehicle segment in the -- going forward in the next year.

So, having sensed that little time back, we have improved our capability. We have increased our capacity by 10%. We also have refurbished our old equipment, which are more than 15 years old to bring it into order, even though they're fully depreciated. So we have spent quite some amount of money. And even the machines, which are 10, 11 years old, we have brought it to full speed. So, with the sort of capability we have and capacity which is now latent capacity, which is unutilized is quite high totally.

With that, we do not need any further big investments going forward while we continue to focus on the other 2 segments of the business, mainly the Aluminum segment in the beginning. And we are moving to the Industrial segment, which I will explain later. With the opportunity, which is coming up with the geopolitical situation and also the government push towards manufacturing within India for all the multinationals, our inquiry and footfall within the company has been quite high going forward. So we know what is coming, so we are getting prepared for it.

Jinesh Gandhi: Got it. And secondly, on the Brazil order of Daimler, how are things there now? Have you seen impact of inventory correction being largely behind us now or the continued pressure on that business?

Srinivasan Ravi: Inventory correction is still in the process. But I think there is nothing much on the inventory correction further. But the market itself is -- they are also shifting to heavy duty just like in India. So, the medium duty segment where we are addressing is not going to grow. That is clear. Even if the economy of Brazil comes back, we have factored that in.

So the way we are looking at powertrain is, as I mentioned in the last earnings call, we are looking out at off highway and industrial engines. India will become a big hub in the near future because apart from China, there is no other manufacturing country in a big way this casting - machining business. So there, we are part of the investment is going for that particular segment of the business in our Kothavadi plant.

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

Abhishek: Sir, you are setting plant in Delhi NCR. So, can you please throw some light on who are the key clients in that particular -- for that particular plant?

Srinivasan Ravi: As of today, the clients whom we are discussing are -- I think we have progressed quite a bit. There are at least 2 clients we have progressed with and the other 2 clients we are in the initial stage of discussion. The question comes up, have you got a plant in NCR? They have also connected us for some of the critical parts, which are of a little more complex nature, which they asked the supply from the Coimbatore plant as well as our Bangalore plant.

But having said that, only doing niche projects -- products and things like that will not help us to grow our business nor improve our profitability in the long run. So we have asked them that why don't they give us bread and butter business also. So that is under discussion, but there is chicken or egg story now, whether the plant is available or not.

So as part of our commitment, we already have one bid in the auction in the Rajasthan industrial land and we have got the land allocated. Allocation letter is expected anytime in this week. With that, I think we will be able to conclude business in the near future with customers because there are no new capacities which have come up in the NCR region. And one more important point is NCR region has been one of the oldest industrial area for a long time.

So whatever investments have been made by our peer companies in that region are also pretty old and some of them have moved on to higher technologies and things like that. So, there is a good possibility for Craftsman being as an agile manufacturer with quick development, good machining strength. So the outsourcing in some of the regions are still -- it's insourced. I am talking about still casting, aluminum castings are being procured and machined in-house. We have seen that change in the southern region, where outsourcing of the machining also has happened.

This trend will also be quite visible in 2, 3 years' time in the NCR region. I think the confidence has to be in the supplier, where they can meet the exacting standards of quality as well as consistent delivery and also meet the cost targets.

In fact, at our earlier foray into two-wheeler business was the niche area, of course, one of our customers. Another customer was importing the crankcases from China, where we replaced them. So we have proved that we are able to manage this business quite well. And with capacity utilization coming up, we are able to get a decent return of ROCE in spite of being only 8 to 9 years in the business.

Abhishek: So the new plant mainly be utilized for the passenger vehicle, 2-wheeler Aluminum business or in the Powertrain business?

Srinivasan Ravi: In Aluminum, we are not restricting ourselves to any customer base in that way. We are now talking about with our acquisition DR Axion, it is quite clear that our passenger vehicle business is higher than the two wheeler business as of today totally.

And earlier, it was predominantly high pressure die casting before the acquisition. Now it is more towards gravity and low pressure, which is predominant now. It's a bigger percentage followed by high-pressure die casting customer. So we are a well-balanced company, and we are looking at all the 3 processes across both the passenger vehicle as well as the two wheeler segment.

Abhishek: Okay, sir. And this quarter, sir, there's a sharp contraction in the EBIT margin of Industrial segment. So this happened despite the lower steel prices. So what is the reason, sir?

Srinivasan Ravi: The storage solution business has shrunk in the first 9 months. And for the whole year also, it will be lesser than the market size I'm talking about compared to last year. The investment in the warehouses has taken a pause, I would say.

In spite of that, we are -- we have made the absolute sales almost same. I think 98% of the 9-months figure year-on-year or 95% is what we achieved. Our peers in the business have performed lower than that, and there is also some consolidation, which is happening in the market. So in the declining market segment, there has been tremendous price pressure for the -- getting the available orders. So that is the reason for the contraction in volume.

When the market comes back in FY '26, which we are very sure, I think when everybody has got their pie of business, I think the margins will improve sharply because of the -- both because of the capacity utilization and better price realization.

Abhishek: Okay, sir. And this new off-highway business, revenue will also kick in from FY '26 only?

Srinivasan Ravi: Yes. FY '26 onwards, it will -- FY '26 also will be a small portion. The development time is, I mean, the facility to come in 12 months, 14 months, 20 months, it is from the time of the installation of the equipment. We have informed the stock exchange 18 months to 24 months. So we are trying to cut down in spite of the challenges what we have.

Apart from this, we have to say that the development of the parts, we are taking a thorough action where it is also 12 months for the tooling and everything to be developed. Then it comes to the validation of these projects because of the high cost nature of the end product running into a few crores of rupees per product.

The testing costs also runs into millions of dollars per product, and on the test bed, it works 6 months to 1 year before the validation happens. So these are difficult to get business, not easy to get and also very, very sticky business going forward because of the huge investment, which is being made by the customer also in terms of validation, testing and the tooling cost.

So we are on the right track from that matter. We already have secured, in some cases, machining orders for these particular parts. And these castings are coming from outside India today. So we are very clear on that particular business aspect.

The second we are not looking at only the powertrain business in our new facilities in Kothavadi. We are also looking at the new government regulations, which is related to BIS and also the trend towards manufacturing within India totally going forward. So the -- it is a very clear sign that we have been machining also the windmill parts. In windmills, I am not talking about the structural parts of the windmill, but more critical parts for the gearbox housing.

We have been in the machining field, we invested heavily in the Industrial & Engineering segment over a period of 3, 4 years in phases, of course. So nothing significant per year, but now we are ready, and we have grown the parts. And now we are looking at backward integration into the casting front, our customers are open, and we are very close to negotiating and getting an LOI in the next few months, I think. It is also quite a sizable order.

So that will be the new facility we will be doing, both the Industrial & Engineering segment for the end segment of windmill and other capital goods also are requiring castings, which is also part of the Industrial & Engineering. In the Powertrain business for the I think anywhere starting from a 15-liter engine all the way to, say, 90 liter-engine, all these particular engines have to be developed in India because there is not enough facilities or casting within India.

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

Pranay Chatterjee: My first question was with regard to the powertrain revenues. So a couple of questions have already been answered on that. So I'm asking slightly differently. So your key segments like Daimler, as you said, is down 40%, 50%. It's still not recovered. And MHCV volumes will probably grow low to mid-single digit, I think, next year. Ashok Leyland has already declined in the last couple of months. And tractor also, it's probably like around 0%, right? Along with that, you are getting new orders in off-highway segment, which is, like I said, expected to kick in, in FY '26 and onwards, right?

In this context of slowing end segment over the last 3 quarters and new revenue kicking in, in FY '26, is it fair to say that FY '25, which is the next 4 to 5 quarters, should be pretty much flat for Powertrain, like probably flat, flattish to mid single-digit growth?

Srinivasan Ravi: We'll be able to always, as usual, little out do the market. But I would say that the customer case will be flat. We have already got for the other SUV manufacturer who was importing from Italy for the leading models of the Indian SUV manufacturer and also the Italian manufacturer, they share engines. The cylinder block were imported, and now Craftsman has started the supplies in the last month onwards, which was getting imported products at least as far as we know, 6 to 7 years now.

So there is an import substitution. It's not a market growth that is there. And as I mentioned, on the industrial engine side, it's not only about the casting, which is to be developed at Craftsman on this matter. It is the machining side, which already we got orders. The castings are coming anywhere from -- even from South America. These are being shipped to India.

We have already started the samples. That will start kicking revenues in H2 of next year. The top line revenue because it's only machining value might not be significant, but I think the traction is on. By the time the confidence level at our own facility coming in. I think there is a lot of confidence of a customer to move, not move, at least to look at stocking imports in view of the BIS standards and requirements. And also to look at the opportunity to derisk themselves from the China market overall.

Pranay Chatterjee: So it's also end market remaining flat and historical also, you have outperformed the end market because of various initiatives. So that should probably result in by 5%, 6%, 7% probably at most for the next 4 quarters. Can you take a kick into a higher growth after that?

Srinivasan Ravi: After that, we are expecting a very high double -- surely a double-digit growth, and it will go to the old growth rate by '27 is what we have predicted because there will be a step change. This is some movement from industrial engines we are slightly less than 10% of our total portfolio.

Just like in the Aluminium business, passenger vehicle was negligible, suddenly the passenger vehicle has taken a bigger role in spite of our -- one of our European customer Stellantis given the order book, which I had mentioned initially after the IPO, which is now almost 3 years old, which has not really taken off. The INR200 crores orders, then we downsized to INR100 crores, now we are just INR30 crores, INR40 crores because of the headwinds faced by the customer regarding other things, not regarding the supply of Craftsman, which we will not like to elaborate in this earnings call.

So in spite of all that, I think we've grown. So we will be looking at using our industrial engineering knowledge, where we have grown our industrial knowledge to power the automotive business. So that is helping us in the small volume, medium volume industrial engineering sort of activity in the powertrain business for the off-highway vehicles as well as for the stationary engines.

Pranay Chatterjee: Got it, sir. My second question is on your Aluminum Products business, which combined with DR Axion, obviously, is a very well-balanced business mix today with a INR2,200 crores annual run rate, right? On this base -- and I'm recalling all the past calls and pretty DR Axion when this excluded from the segment and you consistently maintained 20% growth as of today, right? So now on this INR2,200 crores basis, do you think there is enough fuel in the tank to sustain that high level of growth of 20%? What are your thoughts on this over the next 3 years?

Srinivasan Ravi: If you look at it, it will be high teens in the financial year FY '25, if not 20%. But I think with the new facility coming up in the north and for FY '26, surely, we will be at 20% on the higher base.

Pranay Chatterjee: As, sir, the revenue of INR200 crores is set for the plant. Is that the peak revenue or just the first year revenue, which would ramp up with the peak?

Srinivasan Ravi: It is the first full year of revenue provided the plant starts operation 6 months in advance because there is a validation and things like that. But it's not a long validation like the other parts, yes.

Pranay Chatterjee: Got it. So what will be the peak in asset terms?

Srinivasan Ravi: Peak, we can look at INR300 crores.

Moderator: The next question is from the line of Senthilkumar from Joindre Capital Services Limited.

Senthilkumar: In lieu of the expansion of plants, the greenfield and brownfield expansion, the growing debt on books, are there any plans to raise equity to pay up high cost debt?

Srinivasan Ravi: The thing is we are comfortable, very comfortable at 1time level, and we are at 1.6 times level overall on the debt-to-EBITDA because we don't look at debt to equity at all because it is the cash generations versus the debt.

So really speaking, if we slow down capex or we are looking at any activity, automatically, it will come to debt 1:1. Raising equity will be an dilution of the EPS, which we are not very keen, but we will have an enabling resolution surely in the near future where we are looking at further M&As within the country. Now there is a small -- little change in our attitude towards M&A outside the country. You may ask why for 2 decades, you have resisted from that, suddenly, what is the change?

Now we see the winds of change coming in, where the multinationals are going to set a plant here. So it may help that we are getting the actual supplier who is supplying in Europe to service them within India. First it will be from imports from there, and then we may be setting up here. So that will ensure that we have the technology, we have lesser risk going forward.

We are not putting the both eggs in one basket. That is European subject. So for that -- these reasons, we may have to raise capital. But for small acquisitions, no. Our idea is not to raise capital. And I think debt servicing is a cheaper option for -- in taking the interest of our shareholders.

Senthilkumar: Okay. I understand that. And my second question is again considering the expansion plan, is it the conscious decision of the management to concentrate more on aluminum products than the traditional automotive powertrain segment? If so, why?

Srinivasan Ravi: You have asked quite -- a very interesting question, I would say. Now when we look at the Powertrain business, the headroom for growing on the industrial engine side is pretty high. So we have already set foot there. We are watching this for 10 years and we made the move last year totally.

Now on the Aluminum segment, looking at it, the -- so far, light weighting or the aluminum content per vehicle increasing has really not happened so far because of the huge confusion, which has been there on new platforms, how to go. But as expected, after a long dwell time, the OEMs are looking at having a platform, which has been -- will be common for IC engines, hybrid engines, then plug-in hybrid as well as total EVs. So this is the way going forward so that they have the scale, which is there.

Only then it's worthwhile for them to invest for our aluminum platform. So unless we have the technologies in place in size. I may have mentioned in my earlier earnings call that we are looking at the global scale of operations on aluminum. The minimum size of the top 10 people has been $1 billion to anywhere between $1 billion to $3 billion, $4 billion. So at least we are spending to at least the $500 million in a place of 2, 3 years' time, at least. Then only we will have the required R&D and we will have required the development interesting scale for the customer.

And in -- also in view of some projects taking off or some projects failing in the market from the customer point of view, still, we will be able to sustain the growth as well as the -- will protect our margins because we'll not -- per customer or per segment, our exposure will be lesser. So this is the way we are looking at aluminum. Aluminum is still the growing segment as far as it's concerned. Earlier, aluminum, I may have mentioned that it is predominantly two-wheeler. Still, it's predominant two-wheeler. But I think in 2, 3 years' time, it is set to change.

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

Joseph George: So my question is in relation to the expectations that you have in terms of growth for FY '25. So for Powertrain, you said that the end industries are likely to be flattish in terms of volume. So should we be looking at a single-digit kind of a growth for yourself, including the benefit of the new orders, etcetera?

Srinivasan Ravi: Yes, you should be looking at high single digit, I would say. But yes, single digit. On the Aluminum, I will answer your question -- I will answer you before you ask the question, on a consolidated basis, we are looking at anywhere high teens to 20%.

Joseph George: Understood, sir. And on Industrial & Engineering, you mentioned that Storage Solutions is unlikely to see much of a growth in FY '25 because of the industry situation. So that would mean that even on an overall basis, Industrial & Engineering wouldn't see much of a growth, I'm guessing.

Srinivasan Ravi: It will be because the base is very small, we can still expect 15% growth.

Joseph George: Understood. And lastly, sir, for Industrial & Engineering. Within Industrial & Engineering, can you give us the Storage Solutions revenue for the quarter, please, third quarter?

Srinivasan Ravi: I think, the number range is INR260 crores versus INR270 crores in the 9-month figure. Yes. I will talk about the Storage Solutions now. It has been -- for Q3 of FY '23 was INR80 crores and for Q3 of FY '24 was INR97 crores.

Moderator: The next question is from the line of Rajesh Kothari from Alpha Squared Financial Advisors.

Rajesh Kothari: This is Rajesh Kothari here from AlfAccurate Advisors. Just one question from my side. In terms of the profitability, particularly on the aluminum side, the core without the consolidation, excluding DR Axion, how should you -- how we should look at it from this year and the next year onwards?

Srinivasan Ravi: As long as we keep growing, so that we are going to keep growing, we are growing at 15%, 20%, I think we can be preserving these margins. There is some increase in all operational costs. That is what has impacted our Powertrain, and drawing your attention back to Powertrain.

When the salaries are increasing, when the operational costs are increasing, and when the top line doesn't grow, I think there will be -- the cost reduction possibilities are quite limited because we are already a well-run organization. But an acquired company, we have a better chance for cost reduction I will come back to that a bit later. So in the --

yes, in the Aluminum segment, with this growth trajectory, I think we should be able to preserve the margins.

Rajesh Kothari: Current quarter margins were not good, am I right? I mean, if I look at even current quarter again it is declined. I'm looking at core standalone Aluminum business. That margins have again reduced. So...

Srinivasan Ravi: It's always a quarter post the festive season where the products have been stopped, and we have increased our capacity to that level. So overall, it will be in that situation. Year-on-year, it will be in the same situation. So for the -- I'm looking at the year-on-year.

Rajesh Kothari: So next year -- are you saying that next year, we should look at about, what, 16%, 17% kind of a margin, excluding the DR Axion?

Srinivasan Ravi: I think we are operating between 16% to 18% EBITDA margin, as I mentioned earlier, and we'll continue to operate at that level going forward.

Rajesh Kothari: And in power train, you mentioned that the industrial side of the -- which is a new driver, what you are looking for. So can you just give some more insight into this because this basically may drive your growth in the future. But by this opportunity, how big this can be the -- this can be over next 2, 3 years?

Srinivasan Ravi: I will draw your attention to the top 3, 4, 5 companies in the world just for an idea. Their presence in India is not so big in the terms of industrial engines. They are big players there in the construction equipment. The multinational companies in North America as well as in Japan, who are into huge construction equipment without naming names. They are anywhere between $40 billion, $50 billion in revenue, but their Indian operations are only $2 billion and their China operations are very big. So now they have started to focus on India. And we will see that it will be their plants, which will be beefed up or even new plants coming up in the near future, which will serve the -- not only the growth in the Indian market, but in the neighboring regions as well. Because the Chinese joint venture companies or even surrounding companies will be -- at a given point will be restricted to within China itself because of the other geopolitical dynamics.

Rajesh Kothari: I see. I see. So for this, do you need to make any fresh investment, the CapEx?

Srinivasan Ravi: That is what we had mentioned in the machining side. We have been very carefully investing for the last 3, 4 years in small portions in the Industrial & Engineering segment on the large parts machining. That is -- large parts, I mean, parts weighing 10 tons, which are the some the engines and some of the industrial engineering equipment also are weighing that big. Very critical machining.

Then we are also are setting up the Kothavadi facility to target those sort of businesses because we need the castings for that. As mentioned earlier, without the castings the machining alone cannot grow. And this segment, there are no suppliers in the country. I think 1 or 2 are there, but I think they are also not scaling up to the global level. Yes.

Rajesh Kothari: Suppliers for what, they are not -- sorry, I did not get it.

Srinivasan Ravi: For the larger parts, I mean, larger parts on the industrial engines, there are only a few suppliers in India and nowhere in relation with China. So I'm talking about, as I mentioned, I don't know if you joined late. But I said the engines from 15-liter to, say, even 100 to 120 liters have been manufactured in India for various reasons. It may be for the backup power generation, it may be for -- also for construction equipment, which are large in nature. So this is for domestic market as well as export market.

So this opportunity is still unexplored by the Indian suppliers. That is where we are looking at. It is the same casting machining of the powertrain, which is being extended with the industrial engineering machining knowledge. Because in the current Powertrain, our parts are weighing 150 kilos, 200 kilos, 250 kilos, I think more than that. Now we are talking about real heavy parts.

Rajesh Kothari: So these value addition possibility can be higher?

Srinivasan Ravi: Sir, I think this is a very difficult question to answer. Because if the large part is there, the value addition as a percentage of the material cost may be smaller, but the valuation compared to the work done may be very high. So I will not be able to exactly correlate that. It's not an apple-to-apple comparison.

Rajesh Kothari: Understood. Just last question from my side. What is the full year capex for FY '24 and FY '25?

Srinivasan Ravi: FY '24, we are looking at the region of around INR500 crores.

Rajesh Kothari: And FY '25?

Srinivasan Ravi: FY '25 will depend on how we are going to look at the north plant if they are able to conclude any orders before June and big level, we may fast-track the project, which we have declared 18 to 24 months. Only the land investment has been -- again is partial. It is on the installments we have to pay the land. It's over 12 quarters we have to pay for the land. So there's no big cash outflow. But when we start the construction and we start installing equipment, there will be capex. But that will be decided by the Board at the time when we have some evidence on the particular investment.

Rajesh Kothari: And for Industrial Engineering, how do you see the margins? For Industry & Engineering segment, how do you see the margins?

Srinivasan Ravi: Sir, I think -- I will request you to come back in the queue because we mentioned that we had...

Moderator: The next question is from the line of Basudeb Banerjee from ICICI Securities.

Basudeb Banerjee: Yes. In last quarter call, I remember you mentioned that because of some machinery refurbishment in your factory for Powertrain business, the margin was coming down and it came to 20%. And the work is more or less done, so it should recover back sooner.

So this quarter, we see Powertrain segment margin further down. So what is the status from that machinery refurbishment angle? And when should we see Powertrain segment margin recovering back on the ground what you said last time?

Srinivasan Ravi: I will answer the question holistically, first the specific question and then the holistic answer. Our gross block in the Powertrain is very high. And we have been investing from 2004 onwards in the -- when we look at the gross block of INR2,169 crores, so we took this opportunity to refurbish to higher capability or to look at enhancing the productivity of the machine by some changes of the equipment in order to avoid too much further capex.

I would say 70% of it is done and balance 25%, 30% will be done in Q4 and partially in Q1, but that will not be significant going forward. I think then it will be normalized to a level of actually the repair and maintenance.

So second point, which if you look at holistically on the entire investments and the [inaudible] margins are affected by fundamentally 3 to 4 major points. I will list them all. One is surely capacity utilization, number one, because of the fixed cost, which is sitting there and the machining is not done. It is something like airline seats going empty. This is one aspect.

Second aspect, we are having inflation of the manpower cost, which is -- cannot be passed on. So that means we need to also invest for some automation or productivity improvement to nullify the manpower cost. The third thing is about the existing products coming out in the market and needing some changes. We need to be agile to manage the capacity utilization overall. These are the 3 major drivers for the profitability.

You may notice that for the quarter, the depreciation has increased by around INR11 crores.

See, it may not be available in your domain, but I would say that the bulk of the depreciation increase has come from the powertrain area totally. That means we are ready for the next phase of growth. So it is very difficult to manage growth when the opportunity arises, then we are not ready. So this is a small price to pay at this stage when we have the time and energy to do it, and we will be able to address the growing market from FY '26 onwards.

Moderator The next question is from the line of Jinesh Gandhi from Ambit Capital.

Jinesh Gandhi: A couple of questions. One is on the cast iron foundry. So have we finalized specification for that? And what kind of investment that could be required?

Srinivasan Ravi: It has been announced that the Kothavadi project will be a composite plant for Aluminum, for the Industrial & Engineering as well as for the Powertrain. So this is a total 50-acre campus, which is equivalent to the current campus totally. Our current campus in Coimbatore houses all the 3 divisions of that. Similarly, that will house this foundry also.

Jinesh Gandhi: So this would be what, a 5,000-ton foundry?

Srinivasan Ravi: Pardon? I didn't hear you properly.

Jinesh Gandhi: What would be the size of foundry?

Srinivasan Ravi: It is around 2,000-ton capacity, but this is not the greensand foundry, what you may be looking at. This is the parts weighing from tons onwards only. It will be multiple of tons, 1 ton, 5 tons, 10 tons, something like that, each part.

Jinesh Gandhi: Okay. Okay.

Srinivasan Ravi: Typically, in the Powertrain business, it will be INR150 crores, INR200 crores, which I mentioned earlier. So we are not only looking at the Powertrain, we are looking at the wind energy, we are looking at capital goods. This is a foundry, which will address the 2 segments of the business that's the Powertrain as well as the Industrial & Engineering segments.

Jinesh Gandhi: Got it. Got it. And secondly, when we look at the exports, so what would have been the exports in this quarter?

Srinivasan Ravi: I think we will wait for it offline because in the interest of time, so nothing much has changed on the exports.

Jinesh Gandhi: Okay. But broadly speaking, the exports have been relatively under pressure for last couple of quarters or so, like for other industry?

Srinivasan Ravi: I'm right on that. I think there is some INR161 crores to INR165 crores or INR4 crores, which is mostly driven by the EBITDA. I am talking about direct exports. This is mainly like exchange rate. So actually, there's been no growth for that. That's very clear because some of the countries are going through recession now. They're going through election phase this year. I think there's a lot of stock correction is happening. So we also have the Israel conflict happening. Now the Ukraine conflict is not over. Now we have the Red Sea problem. So, I don't expect, but I think tier II exports other than the Brazil Daimler export, all other tier II exports have improved.

Moderator: The next question is from the line of Vaishnavi Deshmukh from Yashwi Securities Private Limited.

Vaishnavi Deshmukh: So I wanted to ask a question regarding the margins of Industrial & Engineering division. So last quarter, we have seen that it has improved. But in this quarter, again, it plunged down to around 6.9% EBIT levels. Why is the -- what is the reason behind this decline?

Srinivasan Ravi: The margins are not declining directly. If you look at it, I think the capacity utilization has come down. There has been headwinds on the Storage Solutions business where it has been really competitive. Because of the shrinking market, we have kept the numbers flat. I would say we have achieved 95% of the Storage Solutions business in spite of the big contraction, double-digit contraction in the more than double digit, I would say, high-teen contraction in that particular segment of the business.

So to keep our market share going up, I think we have sacrificed the margins. I think this is a temporary phase what we are strategically looking at to improve our position in the market.

Vaishnavi Deshmukh: Okay. So when are we expecting this margin to improve, like next year or in FY '26? And what are the margin targets that we can achieve?

Srinivasan Ravi: Holistically, let me answer for FY '26. In between, there can be an election year, there can be other possibilities. Looking at capital goods, it is required in the country. No choice.

Coming to Government policies, very conducive for manufacturing, very, very conducive going for setting up plants. All the states are competing for setting up the new plants, attracting investment. So this is indeed focused employment generation and domestic -- reduction of import and increase of export.

So having this in mind, we are hardly manufacturing 10% of what China is manufacturing totally. This means they're too small in the global context. So when we are going for a small base and we are making bigger investments, it is something like a small boat rocking. So the CapEx, which you are doing on Industrial & Engineering will immediately depress the margins because of the depreciation hit. So once we raise on Aluminum, the same problem we had 4 years ago when our base was small. Quarter-on-quarter, there were big changes.

But now since we have reached at least a small economic size, we have not reached an economic size at around INR2,500 crores. So I think it is still okay to manage investment. So I think this is the investment phase for the next 2 years. After that, I think our margins will creep up just like the aluminum margins improved.

Vaishnavi Deshmukh: Okay. So just last question. Which of these particular divisions, like Storage Solutions and other divisions and Industrial & Engineering, which is generating more margins, like competitively, which have better margins?

Srinivasan Ravi: No, if the margins means I would shift ROCE and the Storage Solutions is not capex-oriented, whereas our contract manufacturing is capex-oriented totally. So we look at -- similar ROCEs will be there across the segments. And the entire business model is slightly different from all these 3. We expect multinationals, we are driving a lot of footfalls of multinationals for contract manufacturing of their products for the Indian market as well as for the export market. This after a lull of practically 20 years, we were 80% export company Craftsman, direct exporters, I'm talking about, not tier II exports.

In 2004, we had 83% of our revenues, to be exact, from direct exports, 17% revenue is coming from India. We are supplying to 34 customers in 9 countries. After that, it was a China story. But now it is starting to come back that is a footfall.

For example, you have seen the -- some of the Taiwan manufacturers with very big companies setting up facility for manufacturing phones in Hosur region, which was imported. So these will have -- these are their own plants. But in the question of capital goods, I don't expect the multinationals to have an end-to-end solution for manufacturing in the country. They need suppliers like Craftsman to supply.

Vaishnavi Deshmukh: Okay. So that will give us the growth that we are targeting, like 15%?

Srinivasan Ravi: I think in the back of the mind, we need to understand still that we are at 10% of China's manufacturing.

Moderator: Thank you. Ladies and gentlemen, that will be 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 the interesting session. That's why I close the opening remarks within 7, 8 minutes to leave more time for the Q&A. And today, the winds of change are blowing in India's direction. All the global manufacturing companies are looking at India to scale up. There's a lot of confidence in Indian manufacturing, which after a long time is being looked into. And there is the confidence that the government policies will be continued for -- enable a conducive environment for manufacturing.

So, this requires the change, the only complaint we keep hearing from customers. There is no scale in the country. They're disappointed. We still have to go back to China. So that is what we at Craftsman also wanted to change. We want to be part of the growth story, but we are not trying to take any one major step, which will -- and maybe they could lead to the risk situation.

So, we are monitoring the situation very clearly and moving in some small steps in the right direction. And as I mentioned earlier, for the first time, we are not only looking at M&A within the country, maybe small or medium size, not large size, of course, within the country and even outside the country, where it makes strategic sense, where the risk is very, very small or negligible to even bother about it, where it gives us a strategic advantage to have a foothold in the global market.

So, with these remarks, I would thank all the investors who have been on the call and look forward to meeting you again soon. Thank you much.

Moderator: On behalf of Craftsman Automation Limited, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

(This document has been edited for readability purposes)