

31<sup>st</sup> January, 2023

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 31<sup>st</sup> December, 2022.**

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 3<sup>rd</sup> January, 2023 and 23<sup>rd</sup> January, 2023, we are enclosing herewith the transcript of the earnings conference call organized on Monday, the 23<sup>rd</sup> January, 2023 at 4.00 P.M. (IST) on the Unaudited Financial Results for the quarter and nine months ended 31<sup>st</sup> December, 2022.

The transcript of the earnings conference call will be uploaded on the website of the Company at [www.craftsmanautomation.com](http://www.craftsmanautomation.com).

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

Thanking you.

Yours faithfully,  
**for CRAFTSMAN AUTOMATION LIMITED**

Shainshad Aduvanni  
**Company Secretary and Compliance Officer**

Encl: As above



**CRAFTSMAN AUTOMATION LIMITED**  
**Q3 FY 22-23 Earnings Conference Call**  
**23<sup>st</sup> January, 2023**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY '23 Conference Call of Craftsman Automation Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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 thank you very much for joining this earnings call. I'll just give a brief introduction on the last quarter performance. The Q3 volumes on the powertrain were good, on the aluminum segment were poor. And because of that, I think we have seen overall growth, but not so much, not a good quarter for the aluminum business. The demand for automotive, automobiles, has been quite stable. And I just want to give a comparison nine-month figure on year-to-year.

The turnover was INR 2,195 crores, vis-à-vis last year, full year we did INR 2,206 crore. And nine months PBT is INR 259 crore, which is more than last year's full year PBT. Nine months PAT has been INR 167 crores which is higher than the INR 160 crores PAT of the full year. EBITDA for the nine months has been INR 499 crore.

It is slightly lower than the full year figure of INR 537 crores but much higher than the INR 380 crores for the corresponding last period for the nine months. Capex is at INR 249 crores, mainly the maintenance capex and technological improvement. And all the key financial parameters improved overall, while we consider the DR acquisition, borrowing separately. If it is added to that and then we look at the correct numbers, I would say.

Debt-to-equity is 0.82. Debt-to-EBITDA is 1.6, but if you are removing the acquisition finance, the debt-to-EBITDA will be also around 1.3. EBITDA margin is 23% overall, for the nine months period. Last year, full year, it was 24%. EBIT margin has been 15%, for the last full year have been 15% also. PBT is 12% for nine-month period, comparably 11% for the full last year. PAT margin has been 8% for the nine months. And in the comparable full year, it's been 7%. The ROCE pretax annualized has improved to 23% in comparison for the 20% last year, for

the full year. ROE annualized was 18% and last year is 15%. EPS not annualised is INR 79.24. For last year it has been INR 75.94.

The nine months segment for the auto powertrain, it has grown by 39%. It has grown from INR 817 crores to INR 1,134 crores. Aluminum segment has grown from INR 385 crore to INR 544 crore. But on a quarter-to-quarter, there is some decline, on the aluminum segment. Industrial engineering segment has grown 48% year-on year, INR 350 crore to INR 517 crore. Storage business has achieved a turnover of INR 279 crore. Previous year, year-to-date December was INR 188 crore, so we had a 48% growth.

Automotive powertrain segment EBITDA has grown by 33%, INR 218 crore to INR 289 crore. Aluminum segment EBIT has grown for the nine-month period from INR 30 crores to INR 42 crores that is 38%. Industrial engineering EBIT has grown from INR 13 crores to INR 44 crores that is quite significant absolute in percentage.

So I leave the floor open for question-and-answers, please.

**Moderator:** The first question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services.

**Jinesh Gandhi:** Can you share value-add for each of the segments?

**Srinivasan Ravi:** For the quarter?

**Jinesh Gandhi:** For the quarter, yes.

**Srinivasan Ravi:** For the auto powertrain, it has been INR 249 crore. Aluminum has been INR 61.5 crore. And industrial engineering has been INR 58.3 crore.

**Jinesh Gandhi:** And what is the reason for such a sharp drop in margins for the aluminum business? I mean, this is second quarter in a row, where we are seeing drop despite aluminum prices also being soft?

**Srinivasan Ravi:** Yes. I will answer that logically and what is the actual situation. We had a first good quarter Q1 has been very good on the aluminum business, extraordinary quarter. On Q2, we had a declining aluminum prices and normally the pipeline inventory will be there a little so that adjustment happens in real time but should be the stock cannot adjusted for the lower value, so we had some drop of the Q2. And the aluminum prices continued to soften from Q3, so we couldn't rebound. If the price had been stable, we would have rebounded or if price had increased, we would've got some benefit, but still it didn't happen there also.

The operating leverage has come down quite substantially in Q3. We had a topline reduction of INR 20 crores even though our gross margin or value addition has been as a percentage has been more or less same, the topline reduction of INR 20 crores resulted in INR 8 crores, INR 9 crores of, practically, the value-addition reduction, which is actually reflected in the EBITDA absolute number and such a low base on the topline, the INR 8 crores has got a big impact to look at when we look at as a percentage. But absolutely it's only INR 8 crores. And we are now seeing stable aluminum prices or increasing aluminum prices. So I'm not worried about that particular factor for Q4. On a near basis, I think we'll be far, far better on this.

**Jinesh Gandhi:** What would be the utilization rate for the aluminum business in the quarter and for nine months?

**Srinivasan Ravi:** I think, the topline is showing that already we were operating around 60%-odd. I think it has come down below that. In Q4, there are two aspects which are unique to that quarter. One is the festive season, so we'll have a October, very steep ramp-up. I mean September, October, in hope that festive season will pick up, but in October end, I think the call will be taken by the customers to either slow down production or continue the production at that rate, depending on the actual sale.

So and we saw that the sale didn't pick up and then we have the festival holidays. So there is also a disruption. There is a cost there also. And the inventory was still available for the OEMs. Especially, we are heavily dependent on two-wheeler, you may understand that we're around 70% still dependent on two-wheeler, close to 70% on the aluminum product segment. Their plant shutdowns and also annual shutdowns have happened. So this has put on pressure. Normally in Q3, even last year Q3 has not been great for us. We have always been performing in Q4 far, far better. This is the fundamental.

**Jinesh Gandhi:** So 60% is for the nine months utilization or for third quarter.

**Srinivasan Ravi:** Yes, if you look at it, it is average for nine months, it's 60%, but for the Q3, it would have been much lesser.

**Jinesh Gandhi:** Lastly, can you talk about DR Axion acquisition? What was your thought process behind acquiring an aluminum business? What do you expect out of it? Throw more light on that?

**Srinivasan Ravi:** As you may know that whatever is in public domain, only those numbers I can give, because everything else will come post the actual takeover which is going to happen shortly. It is only the legal formality is going on, everything is going smoothly. That is the good news.

**Jinesh Gandhi:** More than number more so about your thought process on...

**Srinivasan Ravi:** I will speak more broadly because the DR Axion management in Korea and we will come out with a joint statement and we are going to jointly cooperate also in the future so I will not like to make futuristic statements without, I would say the continued shareholder, It is going to be a subsidiary of Craftsman vehicle, but they'll be continuing shareholders, there'll be strategic cooperation between us.

Having said that, consolidated basis, if you look at the next financial year, if you look at it, more than 60% will come from the passenger vehicle segment. So that is a major strategy behind this move on a consolidated basis, number one.

Number two is we are looking at the OEM. We have Indian OEMs we are supplying on the auto powertrain and some of the major Indian OEMs also on the aluminum segment also. And we've got some new businesses there also.

But on the Japanese and the Korean majors, we don't have any exposure or we didn't get any breakthrough. With this, we are a key supplier, and I think strategically it's very important, so that we are looking at a customer who is today Number 3 in the world. They've overtaken the earlier Number 3 as a passenger vehicle manufacturer globally. And more importantly, this particular manufacturer, of course, is very-very strong on EV, even in North America, totally. So this is the idea behind our acquisition.

**Moderator:** The next question is from the line of Dhaval from Girik Capital.

**Dhaval:** Couple of questions from my side. Sir first would be so you said the fourth quarter visibility for aluminum components, if you can comment on that. And also, overall, what visibility you have for FY '24 across each of the segment? This is my first question.

**Srinivasan Ravi:** We don't give forward-looking statement as number for a guidance, but what I can say is the Q4 will be much better than Q3 and it will be better much better than Q4 of last year, that far, I can say, across all the three segments of the business. I think that's what I can comment and commit.

**Dhaval:** And on the industrial and engineering side, if you can give the breakup between storage solution and precision products?

**Srinivasan Ravi:** I can give it to you, Storage, quarterly turnover has been INR 80 crores in Q3, before this, INR 111 crores on Q2. So we had a decline of around INR 30 crores on storage business for Q3.

**Dhaval:** And this decline would be because overall the industrial activity has been good, what has led to this decline?

**Srinivasan Ravi:** Some of the major consumers, including the retail as well as e-commerce players, the major two players in the country, one is multinational, one is Indian, yes, they held back investments and they're going to start doing it again only from January. And this is the main reason. These are big-ticket customers where big value was there. We are a supplier to one of the customer, one of these two. So that is the major impact. I think the whole market turn has seen some contraction in Q3 when compared to Q2, but we'll see that coming back Q4 onwards, it will be more or less stable. One good thing is our percentage of automated solutions as a percentage to overall storage solutions has been increasing.

**Dhaval:** And even high-end solution...

**Srinivasan Ravi:** I'll give you a number on this. The overall INR 277 crores on the storage solutions for the nine months, the automated solutions have been INR 80 crores versus the static solutions have been INR 197 crores. So that is very healthy way forward. On the automated storage, the gestation periods are little longer. The site readiness and the project finalization and implementation takes more time. So we will gather momentum as we move on.

**Dhaval:** And sir, how much would be the debt on the books and how do you see the debt moving for the next three financial years post the acquisition? So if you can just give some rough visibility, how do you see your debt moving?

**Srinivasan Ravi:** So I will now mention the numbers. If you look at March '22, our debt was, INR 716 crores, overall, as a company. And when we look at it net of cash for December '22, it is INR 650 crores. And when you look at the equal year-on-year on last December to this December, it is last December was INR 679 crores and, this, INR 650 crores, so net of cash. So overall, debt has sorry, I have to read the numbers differently, I'm sorry. Net of cash, the debt is INR 650 crores in December compared to INR 679 crores in March '22.

So we have come down by INR 29 crores on debt net of cash. But now we have taken some borrowing for the I would not like to reveal numbers now, on the acquisition. But in spite of that, I think the operating leverage or the financial ratios are not getting adverse. I would say, it is within line of slightly above last year. There is no need to raise any equity in the current situation and the way we are going it, by September itself, on an annualized basis, it will be improved further in spite of the acquisition of DR Axion.

**Dhaval:** So, right now your gross debt would be roughly around INR 700 crores.

**Srinivasan Ravi:** Gross debt has been higher. Because we have one FD which is a large amount. So, net of cash, INR 650 crores is of December end.

- Dhaval Shah:** So your gross will be how much, if you can give it?
- Srinivasan Ravi:** See, the problem is, I don't want to we have talked that acquisition cost of something and we have taken some loans. So that FD is sitting there, that FD either will be used to close loans or it will be used to pay for the DR Axion acquisition. So this is real cash, not cash which is sitting as FD.
- Dhaval Shah:** And sir, over next two-year to three-year period, how do you plan to repayment of the debt or how will it move?
- Srinivasan Ravi:** So the acquisition finance that has just been taken is over a period of seven, eight years. So we are seeing a repayment of only around INR 30 crores, INR 40 crores. And usually, there'll be an interest also of INR 20 crores, INR 30 crores. We don't see that as some big subject, and also that will put less pressure on Craftsman aluminum division through increased capacity on gravity die casting and low pressure die casting, which is the only segment which DR Axion is there. So I think being a capex cycle on aluminum will be much lower for Craftsman.
- So in that way, you look at it, it is front end of the capex which is there. So the borrowing, if any, will be for maintenance capex and opportunities in the powertrain business mostly and some in the industrial engineering segment.
- Moderator:** The next question is from the line of Abhishek from Dolat Capital.
- Abhishek Jain:** Sir, as you mentioned that in debt, total debt has gone down to INR 6.5 billion, but if we see this quarter number, there's a sharp jump on interest costs. So, one reason is that there's an increase in the interest costs. What is the other reason, sir?
- Srinivasan Ravi:** There are three reasons for it, Mr. Abhishek. One reason is, as I mentioned, 200 basis points, the interest has gone up, number one point. Number two is, we have drawn down loan and put it as FD, that has it's quite a huge money. I'm talking about upward of INR 300 crores. So the point is that is driving in this arbitrage, which has affected a little or for a few months at least couple of months.
- The third thing is the forex one-time loss because of the exchange rate which may get partially corrected in Q4, because it's a notional one which can go up and down. Already, we are seeing rupee gaining a little now. So that is around to the tune of INR 5 crores. So that is an impact. These are the three major points which has affected the financial cost.

**Abhishek Jain:** And as you are saying, sir, in the coming years, you'd like to repay your debt of INR 40 crores to INR 50 crores. But the acquisition of DR Axion, that would be cost would be around INR 375 crores to INR 400 crores. In that case, don't you think that your debt will increase to INR 800 crores, INR 900 crores or INR 1,000 crores kind of a number?

**Srinivasan Ravi:** As I mentioned that, our debt is around INR 625 crores -- INR 650 crores as of now, there will be cash generation in Q4 and there will be outflow towards acquisition of DR finance. And I've mentioned a number, which is in line with the EBITDA to debt on that number. I think that number will be we want to bring it down to one, but we may remain at it was 1.33 last year. We will be maintaining same 1.33 for this financial year also. We thought, without that question, if you look at it, it would have been at on one I think so 1:1.

**Abhishek Jain:** And, sir, what is the capex plan for the quarter four or FY '23 and FY '24?

**Srinivasan Ravi:** So FY '24, the estimate will be between INR 325 crores - INR 350 crores is the estimate, overall. Its maintenance capex as well as capex. And Q4, I will not be able to say correctly. In the region of INR 30 crores, INR 35 crores will be the capex because some shipments of capex deliveries may come in March or may come in April, that may change the equation a little, so just an estimation.

**Abhishek Jain:** So you are talking about the INR 300-plus crores as capex for the FY '24, is it because of the acquisition first or is it excluding.

**Srinivasan Ravi:** No, it's not the acquisition. Now look at standalone Craftsman, we were INR 1,500 crores two years ago. Now, we have grown at least in the topline by 30%, 40% and on the value-addition, maybe around 30-odd-percent year-on-year for two years. So the topline of around INR 3,000 crores is the topline has doubled, so there has to be -- there has capacity utilization is improving quarter-on-quarter, I mean, in a year-on-year average. So we may run out of capacity if the market picks up in the next few quarters, totally.

So there may be some capex requirement apart from the maintenance capex, apart from capacity balancing. So the two years of capex, I mean, if you look at the numbers of the two years of capex, which is around INR 550 crores for FY '22 and FY '23 combined, but the turnover has gone from INR 1,500 to maybe close to INR 3,000, I would say.

**Abhishek Jain:** And this capacity addition would be mainly in the powertrain business, right, sir?



**Srinivasan Ravi:** Yes, aluminum, with only one or two equipment, which on high pressure die casting, which we still need to do, it is there, but mostly it will be on the powertrain business. Powertrain business, by the size of the business, is larger, number one.

Number two is, it's an older business where maintenance capex are also slightly higher as a percentage of the total capex of the company. The third thing is capacity addition for the new order, something we need to add at that particular situation, bulk of it will go to powertrain.

And as you know, the powertrain business, the gestation period is not too much from the time of investment to the returns, which will be better for the shareholders. In that when the earlier question, some the earlier questioner asked me one particular question, why DR Axion? There is no time gap between the times of investment to the returns coming in. This is very, very important in this market condition where going for Greenfield projects may be little more futuristic. And we want to create a base price, not only on turnover, on EBITDA numbers also to have a better momentum in the future.

**Abhishek Jain:** Sir, despite fall in the RM cost and better mix, EBITDA of aluminum, industrial & Engineering segment continue to be under pressure. You had already done inventory correction in the last quarter as well. So what kind of the EBIT margin visibility from quarter four or for FY '24 from these two segments?

**Srinivasan Ravi:** The aluminum segment is today still very, very small segment on the topline and there what happens is the INR 8 crores value-addition reduction because of turnover reduction or demand reduction is changing the percentage very, very adversely. But you look at absolute amount, it's earning only INR 8 crores.

**Abhishek Jain:** And that means the capacity utilization is quite low. It is not.

**Srinivasan Ravi:** It is for Q3, it's been very low.

**Abhishek Jain:** So we don't see better margin visibility until and unless we get a better operating leverage than this.

**Srinivasan Ravi:** No, for the full year, the margin will be far, far better than the whole of last year. So that is very, very sure because we have worked out our numbers. I don't want to give an estimate today, but I think we are growing on absolute value-addition apart from topline and also on EBITDA as a percentage, when compared to last year and absolute EBITDA number also, which will be quite substantial growth over last year.

**Abhishek Jain:** And what is the issue with the...

- Srinivasan Ravi:** Also, more importantly, ROCE will be better compared to last year, for this year.
- Abhishek Jain:** And what is the issue with the industrial engineering segment? This quarter, the revenue from the storage segment was lower, despite the company is not able to make EBITDA margin?
- Srinivasan Ravi:** I mean, sorry, the line is not clear, please, Mr. Abhishek.
- Abhishek Jain:** So what is the reason of industrial engineering segment's lower EBIT margin? Despite the lower revenue from the storage segment, the company is not able to make a good EBIT margin. What are the challenges actually?
- Srinivasan Ravi:** Actually, there's no challenges. Actually, there's the I mean, bunched up capex capital goods, what we have manufactured for our own powertrain business which customer has paid for and also our aluminum machines that customers have paid for, so there strategically, we have not added any margin at all, it'll benefit the powertrain business as well as the aluminum product division.
- So that has bunched up in Q3, but otherwise, for annual basis overall, for the nine-month period, we are looking at the pre-tax ROCE for industrial engineering has improved from the whole of last year it was 10%, now, it's 15% and for nine-month period, last year it was 5%, it has increased to 15%. And the absolute EBITDA number also for the nine-month period is high. So full year, we will be doing better, Q4 will be having a reversal of these bunch-up.
- Actually, there is no challenge. Because the base is small, the product segment is wide, any shift in the segment of the product sales will have an impact that is the reason. So once we reach double or triple the size, we'll not have this big variation on a quarter-to-quarter, but now, there will be big variation, same 5 crores, 10 crores can change a lot.,
- Abhishek Jain:** Thank you sir, for your detailed insight.
- Moderator:** The next question is from the line of Senthilkumar from Joindre Capital Services Limited.
- Senthilkumar:** Good evening, sir. Am I audible?
- Srinivasan Ravi:** Yes, good evening.
- Senthilkumar:** So congratulations first of all, congratulations for the good set of numbers despite raw material cost pressure. I just want to understand what is the percentage of contract entails pass-through of raw material costs in our business, sir?

**Srinivasan Ravi:** All powertrain business and aluminum business is pass-through. There can be a little delay, one, due to the quarterly or monthly, whatever, contracts we have with the customer. There can be a delay because of the inventory, which can be adverse effect or the positively effect. So we have seen the positive effect also coming in Q1 and we've got an adverse in the little of the adverse in Q2, Q3, and we'll see some positive in the Q4. We're not having any problem about a pass-through on an annual basis. But you look on quarter-on-quarter, there can be little mismatch between the buying time and the price correction time with the customer.

**Senthilkumar:** I understand, sir. So do we have any high-cost inventory in our books as on December 2022?

**Srinivasan Ravi:** No.

**Senthilkumar:** Sir, I just want to understand, what is the order book as on December 2022?

**Srinivasan Ravi:** On powertrain and on the aluminum product, we never have an order book. It is on a monthly schedule basis, it's some quarterly forecast. Actually, there's no purchase order as such. We have to see the portal and supply that is it. But the annual numbers or whatever our customers are there in the commercial vehicle, farm sector, construction equipment and the industrial engines as well as passenger vehicle and two-wheeler, I think, the top 10 customers are very, very clear for us.

And the segment is we have got the prime products, so there is the newer products also. I think whatever growth or contraction happens; it will directly have a bearing on us. But on the powertrain business, we are adding new businesses. So contraction might not be effected fully, but growth will come in total for us. So even in the powertrain business on a nine-month period, we have grown, overall, 39% compared to last year for a nine-month period, but the industry has not grown that much. But why we have grown is of the new products, which are also contributing.

**Senthilkumar:** And last question is, what is the working capital cycle in terms of days?

**Srinivasan Ravi:** Cash conversion cycle is around 60 days.

**Senthilkumar:** 60 days, increased from 52 days, sir, from as on March 2022. Am I right, sir?

**Srinivasan Ravi:** No, it has been for FY '22, it has been also 62 days, now, it is 59 days.

**Senthilkumar:** So 59 days decreased from 62 days. And lastly, can you give a breakup of revenue

**Srinivasan Ravi:** The overall sales for the export, INR 162 crores has been the nine-month direct export.

**Senthilkumar:** Your thoughts on your visibility on Europe region, market.

**Srinivasan Ravi:** We are little affected now for the exports to Brazil, there's political turmoil. So we have seen some contraction of 20% for Q4. But overall, on the powertrain business we are growing quite strongly in Q4. So this small contraction is not going to affect us.

**Senthilkumar:** Sir, for FY '24? For the next to full year?

**Srinivasan Ravi:** FY '24, we see powertrain business, aluminum business, industrial engineering business, all growing in the range of 15% to 20% compared to this year.

**Senthilkumar:** Thanks, sir. That's it from my side.

**Srinivasan Ravi:** I mean, I'd like to make one statement. We've been always saying that we are going to grow at 20% CAGR from the time of IPO on this matter. I think we'll stick to that number, some years we may grow more, some years we may grow less. But we will ensure I mean, not ensure, we are working towards our promise about 20% CAGR.

**Moderator:** The next question is from the line of Akshat Mehta from Sameeksha Capital.

**Akshat Mehta:** I think majority of my questions are already answered. So if I have any question, I'll get back and do it. Thank you.

**Moderator:** The next question is from the line of Disha Sheth from Anvil Wealth Management Private Limited.

**Disha Sheth:** Wanted to check what is your view on CV demand, two-wheeler and PCR since we supply lot of things to all the categories? How is the demand on the ground?

**Srinivasan Ravi:** I will just like to make generic statement without going into any specifics. I will also look at talking about only Q4 and the next financial year, not dwelling too much on the future, because I think the OEMs are in a better situation to clarify all their plans. Going into Q4, the powertrain demand will be very high well, not very high, means much higher than the Q3 demand also on the aluminum segment on the two-wheeler. The reason being there is pent-up demand, both on the commercial vehicle segment as well as on the two-wheeler segment, where predominantly we supply.

On the commercial vehicle segment, there is a real-time emission norms test, which is applicable from April and, hopefully, the government's regulations which are yet to be out may come out with saying that you could manufacture until the last working day of this financial year, that is March 31st and sell it any time during

the next year. This may lead to some not inventory no one wants to keep inventory, but they might not abruptly stop production in early March and then affect the quarter sales. So we will have a smooth transition, which is happening. There can be a little pre-buy and a little push in the market because of the real-time emission standards which are there on the commercial vehicle.

On the two-wheeler segment, it cannot go lower than this. Yes, we have seen EV coming in, we have also got business for EV, which is not substantial in numbers, not substantial in the products what we have. Our contribution towards EV as an aluminum segment is not that great. I mean aluminum requirement itself is not so high on critical parts I mean. We are waiting and watching because still it is in fragmented segment.

We are with the at least one of the Top three players in this segment. But still we find that the subsidy has got a very big role to play in the sales of these vehicles number growing. At these numbers, yes, they will be able to sustain and grow, but I'm not very confident or sure that this growth can be exponential growth can happen without government extending the subsidies for a few more years. And so I will not like to comment anything beyond that. My knowledge is limited to this.

**Disha Sheth:** And sir, one more thing, you mentioned at the start that INR 20 crores, there were some loss of sale on aluminum products. Can you repeat that? I just missed that.

**Srinivasan Ravi:** So there's no loss and all. Reduction in sales INR 20 crores topline reduction means that the value addition portion is INR 8 crores is the hit which we take. That INR 8 crores hit on a small topline, the percentage it goes topsy-turvy is what I tried to explain.

**Disha Sheth:** And sir, next year, we have a INR 350 crores, capex plan, plus the higher debt which we took for acquisition. So sir, our cash flow would be affected, which would again lead us to take more debt. So how are we managing that? Any views on that?

**Srinivasan Ravi:** I will wish to clarify that the EBITDA numbers for the nine-month figure is INR 499 crores totally. So you could annualize it or maybe it is slightly more than normal because Q4 is always a better number, then we can apply some percentage which we'll do better than next year. So overall, I think the company will debt will reduce next year.

Now when you look at the absolute debt, if you are minusing the DR Axion acquisition payout, which will happen, then debt would have in real terms itself would have reduced quite by 15%, 20% is what is my estimate compared to last year in spite of the capex what we have done this year.

So the overall cash generation, going forward, if any growth in absolute EBITDA number, the cash generation will be there. So we have we do not measure ourselves by debt to equity, because that is not the right metrics. That will be looking very, very rosy, but I would say that next year, we will end up at around 1.3 to EBITDA-to-debt, which is our target is one, but because of the acquisition I think even this year, we could again one without acquisition. So next year, we will be at 1.3 or better.

**Disha Sheth:** And sir, when we are riding on 15% to 20% CAGR growth, so what margins do you think for FY '24 we are working on the range with?

**Srinivasan Ravi:** I don't see any margin expansion happening. There can be possibly the advantage or the tailwind of operating leverage. There is also headwind of upward inflation overall at the product mix. So I think if we grow at 20%, we can nullify the inflation and we'll still manage the keep the margins intact is what we are hoping for.

**Disha Sheth:** 23% is what we think it's intact?

**Srinivasan Ravi:** No this 23% and product mix changing is many things. Some are in the powertrain are job work so which is not an apple-to-apple comparison, the margin will come only on our value-addition.

If there's any commodity price increase, it will be only the topline getting inflated but our re-value-addition will remain the absolute number may remain the same. So we measure ourselves from the value-addition of the gross margin or material margin, various terms are there for accounting, that is what we measure on our margin side.

**Disha Sheth:** And sir, last question, when you gave the numbers out of powertrain value-added is INR 249 crores versus what was it last year? Value-added product was INR 249 crores.

**Srinivasan Ravi** INR 190 crores and.

**Disha Sheth:** And for aluminum, it was.

**Srinivasan Ravi** Last year was Q3 was INR 190 crores on value-addition for powertrain and this year it has been for the powertrain has been INR 249 crores.

**Disha Sheth:** Yes. And aluminum same, it was INR 61 crores for this quarter. So last year, how much it was?

**Srinivasan Ravi** Aluminum this year has been INR 61 crores for this quarter. Last year, it has been INR 60 crores.

**Disha Sheth:** And Industrial, again INR 58 crores this year, last year has been?

- Srinivasan Ravi**                    INR 48 crores.
- Moderator:**                        The next question is from the line of Pranay Roop Chatterjee from BCMPL.
- Pranay Chatterjee**                 Firstly on the powertrain business, I think we had a slight margin contraction last quarter itself, and you had mentioned quite a few reasons like inflation etcetera this quarter, despite strong volumes, the margin is still sort of lagged. So should we take number one, why is this margin not improving, basis volumes in powertrain? And is this like the new normal in terms of strategic months?
- Srinivasan Ravi**                    No, there is a we are looking at the topline and looking at the product mix, we have to look at again the value-addition there. So if, say, a Daimler business increases or some more area where we're doing some tractor parts where you're buying the casting, the percentage may look different. So what we have to see is the absolute growth in the EBITDA number when you compare to last year and then if you look at nine month to nine month. Let us look at nine-month number. It is INR 302 crores, has grown to INR 380 crores.
- Pranay Chatterjee**                 So you're saying the quarter-on-quarter, month-on-month, there will be a difference because you're doing different kinds of work so margin might not make sense, you're saying we should look at the absolute number.
- Srinivasan Ravi**                    Yes, please look at the absolute number of value addition, COGS you have to remove. There will be inflation, there will be operating leverage to our advantage, the inflation to our disadvantage. With the growth happening, we'll be hopefully nullifying, but the product mix change, that will have an impact positively and negatively depending on the if we look at as a total as a percentage.
- Pranay Chatterjee**                 Then secondly, on aluminum products division, I think you mentioned a few points on why the margin has moved how it has? My question is, what can we expect the steady-state margins to be over here, after things sort of normalize? We can speak ex the DR Axion, just your segment of the business, what is the sort of normalized level? And also on aluminum products, so you had two large order wins. One was a INR 200 crores order and one was a INR 150 crores order. Any update on when we can expect which quarter revenues would start coming in?
- Srinivasan Ravi**                    Already one of the parts has started, it is ramping up. And the other product will come in Q2 of next year, that is before the festive season on the passenger vehicle for the domestic customer. So both of it will have a good benefit in H2, not in H1, a portion of Q2 and full of H2 is what we look at. When you said stability will come, the absolute EBITDA number or it has to grow.

And when I look at the INR 100 crores EBITDA number is too small for aluminum division, which will be there in and around that particular number this year. And when you look at when we cross that INR 175 crores, INR 200 crores level that is the topline also has to grow. It will grow in a couple of years, at that level we'll not have this bigger fluctuation for INR 5 crores, INR 10 crores. It may be that 1% may or 2% may go up and-down, but not as much, the base being bigger.

**Pranay Chatterjee**

Then on the I&E margins, you mentioned sorry, if I got it wrong, you mentioned something around supplying some something to your aluminum and powertrain divisions at 0% margin because of which the numbers were affected. If you can explain to me what the quantum of that was, let me understand better?

**Srinivasan Ravi**

No, I would like to clarify. It is we didn't supply it to the division, we supplied to our customers who were paying for that equipment. That equipment is being placed in our auto parts division as well as our auto, things for aluminum product division for the production of those parts for them. So the option is that we are one of the key suppliers in the country for such sort of equipment.

So we had some repeat orders coming in which the orders were first placed in '18, '19 and the same product volumes have increased for this domestic passenger vehicle manufacturer. I don't want to refer names, but you may guess on this matter, where we were obliged to take it up at the same old price where there is no margin at all, totally. It is almost like COGS to COGS, but there is a INR 30 crores number, which has come for this particular quarter.

Everything has come this quarter. So if we knock off the INR 30 crores, then look at the EBITDA numbers, I think it is reasonable. So next quarter itself, we will see that change happening on that. On an annual basis, it will get more or less average out or for a higher level of better performance.

**Pranay Chatterjee**

And last question was on capex. You already have given some color, if I'm not wrong, you mentioned INR 350 crores for the next year, and do correct me if I'm wrong. That is one. And the larger question is, how can I think about the peak asset turns in your individual segments? And this, I'm speaking more from a medium-term perspective. So, let's say, we assume a 20% CAGR in each of your segments, theoretically, over the next four to five years. How can we build in capex accordingly so I would meet up the.

**Srinivasan Ravi**

For you to build a model, then I have to give you certain raw numbers for you to understand just ballpark numbers. Our gross block is roughly around INR 3,071 crores, which might not be appearing in our annual reports, it may be reported lower because when we moved to Ind AS, the net block became the gross block.



But our actual investment in plant and machinery is INR 3,000 crores approximately. So, now with the net block of now, you can say that this number has given this year a topline of INR 3,000 crores that means with this product mix. I will not and maybe value-addition of around overall of 45% or something like that. I don't know primarily just speaking through whatever I vaguely remember. I don't want you to hold me against this, but what I'm saying is, it is giving you 0.5 on the value-addition totally, overall.

So any incremental when you have a depreciation of around INR 225 crores, on the depreciation, then normally, maintenance capex itself is equal to the depreciation. So when we are saying INR 350 crores, theoretically, we are saying INR 100 crores to INR 150 crores is the capacity expansion. I think it is happening somewhere, which is actually leading to 5% of the increase in gross block overall totally.

But we shouldn't look at the gross block alone, we should also look at the net block. Net block is currently INR 1,675 crores. So we do INR 100 crores, it isn't practically on a INR 1,675 crores net block, it is, say, 6%, 7% increase in investment. So with that, we are able to manage to use capex effectively to our 15% to 20% growth.

**Pranay Chatterjee** And you mentioned next year, INR 350 crores, right, that was the number?

**Srinivasan Ravi** Yes.

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

**Joseph George:** Sir, just one question. So when I look at the aluminum business, if I recall correctly, about three or four quarters back, once revenues scale up to about maybe INR *\*inaudible\** crores or so, there is a potential for this business to generate about 17% to 18% EBITDA margin. Right now, when I look at this quarter, obviously, it's about 10% and you gave the explanation in terms of fluctuations in aluminium prices and all of that. But when all those things, those cost lines, RM, aluminum, etcetera, normalize, do you stand by what you had said three or four quarters back that this can be a 17%, 18%, kind of EBITDA margin business?

**Srinivasan Ravi:** Yes, I stand by, but before that, I'll clarify the first detail because you're not so audible. On the nine-month year-to-date figure, the aluminum revenue has been INR 543 crores, which has yielded an EBITDA of INR 76 crores. So as a percentage, if you look at it in that way, INR 76 crores divided by we're at 14% for the nine-month period. So this 14% will improve with Q4, which is normally a good quarter for us. Yes, the scale is not sufficient, operating leverage also is not sufficient. So with better operating leverage, stick to the statement of 18% EBITDA once we cross the INR 1,200 crores topline on aluminum product division.

**Moderator:** The next question is from the line of Darshil from Sapphire Capital.

**Darshil:** I think most of my questions have been answered. So I would just like to know if you could just share something more about our new acquisition in terms of our synergies or something that is expected. That would be very helpful?

**Srinivasan Ravi:** Again on the broader technical and strategy point, I will mention. Today, our aluminum business in Craftsman this year will be approximately around INR 800 crores, just for a ballpark number for you to understand. And in that ballpark number, it is predominantly 65% or something like that is coming from two-wheeler business, balance is coming from some passenger vehicle, commercial vehicle and other industrial segment, everything put together, I think, around 30%-odd, which is coming.

So approximately, again I'm talking, in the interest of time, not to give correct numbers. But we look at it, the next the process what we're using, for now, specifically coming to the auto aluminum, in auto aluminum, 90%, 80% or 90% of our sales revenue is coming from high pressure die casting and balance is coming from low pressure die casting and gravity die casting. So predominantly they're on the high pressure die casting.

Now the acquisition, DR Axion doesn't have high pressure die casting in India. Of course, they have it in the parent company. Strategically, we may do that there also, but there is a joint statement, which will need to come out in the future. The synergy is that 100% of DR Axion is today gravity die casting, which is 80% of that, and 20% is coming from low pressure die casting, again approximately.

So it and 100% of the products are going for passenger vehicle segment. So this gives a very good equilibrium and the half year sales has been INR 500 crores for this year. So hopefully, they do better, and next year, hopefully they grow. Yes, and we are also growing here. So this gives some exact synergy for attracting more customers and Craftsman need not invest further in gravity or low pressure in a big way.

**Darshil:** And I just wanted to ask about our capex plans. So with our 60% capacity utilization, what level would it reach maybe next year or something that we are targeting so that sorry, I would like to reframe the question? So when do at what kind of capacity utilization could we reach our previous EBITDA of above 25%?

**Srinivasan Ravi:** Please don't measure EBITDA as a percentage of the topline, again on the value-addition only, because the product mix changes, raw material costs, for example, the value-addition of certain customers, key automotive customers where you're doing cylinder blocks, the value-addition is only 20%. So our EBITDA when we look

at it may be around 6% on the topline, but on the value-addition it may be 25% or 30%. So, I think, better we look at from the value-addition portion only.

The second point what I will when you said about 60% capacity utilization, that is on the aluminum segment, what we talked about. On the auto powertrain, it's very obvious that we have grown significantly in this particular year, and we cannot go beyond 80%, 85% because of the seasonality of some businesses and the line balancing which has to be done and customer peak demand, we have to meet the customer peak demand. So 80%, 85%, it's realistic.

On a very-very good year, we may reach that level, but 75% to 80% is the nominal operation, which will happen. And there in auto powertrain, we are almost reaching that level very soon. So with the maintenance capex, which is almost equal to depreciation of INR 225 crores, INR 250 crores, the overall capex, what we're saying is, INR 350 crores if the actual capex will be INR 100 to INR 120 crores, again spread over all the three segments of the business, but mainly in auto powertrain.

**Moderator:** The next question is from the line of TS Vijay Sarthy from Anand Rathi.

**TS Vijay Sarthy:** Just one question. Sir, if I look at the value-addition figure that you had given, on the percentage terms, I think sequentially both powertrain and aluminum has maintained, but more so in aluminum space. Now if the inventory cost is not factored in, then there is some impact in EBIT margin, but is there any other impact other than the inventory cost, because.

**Srinivasan Ravi:** The operating leverage is the major portion.

**TS Vijay Sarthy:** So which means the EBIT margins for Q4 should move up for aluminum because the leverage will come.

**Srinivasan Ravi:** Yes, correct.

**TS Vijay Sarthy:** And I mean, this is pertaining to Q1 versus Q2, sir, sorry for this. So powertrain business, value-addition had come down, percentage terms. What was it about, sir? Could you help me understand?

**Srinivasan Ravi:** Q1 to Q2 on auto powertrain?

**TS Vijay Sarthy:** Yes, sir.

**Srinivasan Ravi:** Yes, there's the product mix change, Mr. Vijay Sarthy.

**TS Vijay Sarthy:** No, is it because we had higher with material business.

- Srinivasan Ravi:** No. We had a different customer which is a material consumer taking more supply from us in that quarter.
- TS Vijay Sarthy:** So that is unlikely to change? Is the proportion changed for?
- Srinivasan Ravi:** No, quarter-to-quarter, we might not be able to predict, but on an annual basis, there cannot be much change from one year to another year. There'll be a gradual shift because of the new orders coming in.
- TS Vijay Sarthy:** And the other thing which you talked about that some of the products that were sold without margin, is it relating to any development project?
- Srinivasan Ravi:** There's capital goods where it is not related to the auto powertrain nor to the aluminum product division. It is due to the machines what we manufacture where our customers buy and then we also get to use of machines for their production. There, in the interest of the entire activity, we have foregone the margin and supply to them more or less at a marginal cost.
- TS Vijay Sarthy:** Is it related to a development project or is it a proper commercial operation?
- Srinivasan Ravi:** It is in capital goods sale to the customer, where they give a purchase order and we supply the equipment to them. Yes, but there is some strategic advantage because this equipment is yet to be used by Craftsman itself during the life of the product.
- TS Vijay Sarthy:** But this is unlikely to I mean, this is likely to change in Q4 or how should we understand?
- Srinivasan Ravi:** That volume or value is very less. It was bunched up in Q3, so it seems to be an aberration, especially with storage division not performing to the expected levels in Q3. So it looks lopsided, that's not going to continue. The division itself is not a very big division, so it is.
- Moderator:** The next question is from the line of Khush Nahar from Electrum PMS.
- Khush Nahar:** So my question is regarding the DR Axion acquisition. So basically the cost structure would remain the same with respect to the employee cost and the gross profit margins?
- Srinivasan Ravi:** You have seen the numbers in public domain for FY '22 or you're talking about something in for the first half of the current year? Which is the number you are considering?
- Khush Nahar:** For FY '22.

**Srinivasan Ravi:** FY '22 number?

**Khush Nahar:** Yes.

**Srinivasan Ravi:** FY '22 number, the operating leverage was not there. The new products have gone into heavy capex in FY '21 and FY '22. So the operating margins has improved in H1 totally. So that is not representative, that was an impact it has impacted a year, I would say.

**Moderator:** The next question is from the line of Mukesh Saraf from Spark Capital.

**Mukesh Saraf:** Firstly, in some of the comments relating to DR Axion, you had mentioned about some EV components. So just wanted to check, are these the inverter housings etcetera, that we're talking about, sir? The aluminum casting.

**Srinivasan Ravi:** Mr. Mukesh, I would first clarify one thing. Today, In South Korea, 30% of the passenger vehicle segment being manufactured in Korea are EV, currently. And today the customers for DR Axion in Korea as well as India, they are Number 3 in the world as a passenger vehicle manufacturer as a whole. After Toyota and Volkswagen, they're Number 3 for the last calendar year, which is a published number.

The most important factor is, in North American market, they are Number 2, behind Tesla, totally. They're the highest selling EV products and well-respected EV products. So ever if the EV to comes to India or any other place, we stand -- our continuing shareholder in this case, where we have a strategic alliance, are making components for EV vehicles back in Korea. So it is I have not visited them yet. So we plan to visit them in February.

So we are it's still at nascent stage, the demand is still not there and even whatever EV product is going to be manufactured in India, maybe the products or the assemblies may come from different countries. I'm not sure where it's going to come from. So when it matures, we will have an opportunity to have the early bird advantage because the knowledge is already available with our.

**Mukesh Saraf:** And probably, royalties, etcetera, might change based on these new products. But the current royalties that DR Axion is paying, does it include these EV products or is there like a product agreement there, sir? And anything that you can share on that?

**Srinivasan Ravi:** No, I cannot reveal beyond a certain point, but for the existing products, whatever we are doing, there is no royalty to be paid. For the new products, it's a different story.

**Mukesh Saraf:** And just one last one is on the tax rate. We still see that you are on the full tax, the earlier tax regime. So when are we moving to the new tax regime, sir?

**Srinivasan Ravi:** We are at the crossroads now. It is the gaps are narrowed down to a single-digit number in crores probably. So, as we see it, most likely we may move to the new tax regime. And we have to restate to the.

**Mukesh Saraf:** So 4Q itself it might happen?

**Srinivasan Ravi:** Yes, fourth quarter, it's likely to happen because it has narrowed down and if we see a little advantage also, we will shift over.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Srinivasan Ravi for his closing comments.

**Srinivasan Ravi:** Thank you very much for the engaging conversation and thank you for all the confidence in the past few quarters and we're going to a very good, exciting next year, I would say. Fourth quarter will be reasonably okay. Yes, surely we'll do good. But the point is, we are poised for a better year, next year. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Craftsman Automation Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.

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*(This document has been edited for readability purposes)*