Craftsman
AUTOMATION

30th July, 2022

To

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

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

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call on the Unaudited Financial Results for the quarter ended 30th June, 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 6th July, 2022 and 26th July, 2022, we are enclosing herewith the transcript of the earnings conference call organized on Tuesday, the 26th July, 2022 at 03.30 P.M. (IST) on the Unaudited Financial Results for the quarter ended 30th June, 2022.

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

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

Thanking you.

Yours faithfully,
for CRAFTSMAN AUTOMATION LIMITED

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Shainshad Aduvanni
Company Secretary and Compliance Officer

Encl: As above

CRAFTSMAN AUTOMATION LIMITED

Q1 FY 22-23 Earnings Conference Call

26th July, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Investor Call to Discuss the Financial Performance of Craftsman Automation Limited for the Quarter-ended 30th June 2022. 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 operate by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srinivasan Ravi, Chairman and Managing Director of Craftsman Automation Limited. Thank you. And over to you Mr. Ravi.

Srinivasan Ravi: Good afternoon, everyone. It gives me immense pleasure in welcoming you all for the Earnings Call for Q1 FY'23.

We are happy to announce that recently the credit rating of our company got upgraded with "A+" (A Plus) with stable outlook; it was improved from A with stable outlook.

We would like to also bring the attention of all the shareholders and all the people on the call that we have integrated the industrial aluminium business with the auto aluminum and now we call this segment as "Aluminum Product Segment." This gives better focus on the aluminum business as a whole. It also gives a lot of synergy and operating leverage on the business and the marketing and other resources within the company and outside also, I think, it's a coordinated effect. I think this will improve the profitability of the division going forward. It is already implemented now.

I just want to touch upon the industry situation now. Last year Q1 is strictly not comparable with this year Q1 because of the pandemic. So, I will refrain from comparing year-on-year Q1 rather than that I will do the Q4 FY22 with Q1 FY23 comparison in my talk today.

Yes, there are a lot of headwinds across the world; the geopolitical situation, the Ukraine situation, the inflation, all that is known to you. But fairly I think we had a decent first quarter as a company.

So, I'll just run you through the headlines of the Q1. The auto powertrain business in Q1 was Rs.348 crores in comparison of Q4 it was Rs.338 crores, a 3% growth. And in the aluminum products, we had Rs.171 crores and the Q4 was Rs.167 crores, again a 3% growth. On the industrial and engineering front, we had Rs.157 crores vis-à-vis Rs.150 crores, a 4% growth. So, as a whole, we are at Rs.676 crores comparably on Q4 we were at Rs.654 crores, a 3% growth.

The segment wise EBIT on Q1 was Rs.95 crores on the auto powertrain vis-à-vis Rs.86 crores in Q4 and aluminum products was Rs.20 crores vis-à-vis Rs.11 crores. Industrial engineering was Rs.11 crores, of course lower than

Q4, was Rs.20 crores. So, totally, our EBIT stands at Rs.112 crores vis-à-vis Q4 of Rs.105 crores.

So, thank you very much and I will just leave the floor open for questions.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: First of all, can you share the value add numbers for auto powertrain and aluminum business?

Srinivasan Ravi: Yes, I can share with you. The value add for the auto powertrain has been Rs.223 crores, the aluminum products has been Rs.71 crores and industrial and engineering was Rs.58 crores.

Jinesh Gandhi: Secondly, when I look at the blended RM cost, it has seen a reduction on QoQ basis as percentage of sales. So, is that a reflection of stability in commodity prices and the cost pass-through coming through and hence, that's the reduction or there is something more to that?

Srinivasan Ravi: No, it is a combination of many factors: One is the raw material price has been steadily coming down… even as we speak, it is coming down. So, it is a weighted average which is happening and the pass-through is also more or less in line with the current situation which is we don't have too much spice on that. And the product mix also we are conscious to make more products with more value add as we speak. That is another important point. All three have contributed towards the reduction of cost of material.

Jinesh Gandhi: That is also reflecting in the margin improvement for powertrain business on QoQ basis.

Srinivasan Ravi: There's only very marginal improvement from Q4 to Q1. That is also slightly due to the better operating leverage. The top line has also gone up a little.

Jinesh Gandhi: So, the powertrain business seem to have seen almost 200 basis points increase on EBIT margins. So, that would be predominantly reflection of the drivers, which led to RM cost reduction. Is that correct?

Srinivasan Ravi: No, I would say that in a different way that we have a mixture on the auto powertrain of commercial vehicles, farm sector, construction machinery, industrial engines and also some passenger vehicles and others. So, there is some shift you know that the farm sector was still not picking up in Q1 overall. So, we had higher value add on certain of the machining products in the commercial vehicles segment. So, I think the product mix has slightly changed in Q1. That is always a seasonal effect, I would say.

Jinesh Gandhi: Lastly, we have seen increase on the staff cost side. What we've seen in this quarter is a sustainable number or were there any one-offs?

Srinivasan Ravi: No, we have been consciously adjusting upwards the cost of the employees because you know very well there's an inflation totally. So, you're talking about that or -?

Jinesh Gandhi: Yes, I'm talking of the staff cost, QoQ increase which has happened.

Srinivasan Ravi: I think bonus adjustment would have been there in the last year and also in the Q1.

CB Chandrasekar: Bonus provision we have made this time in Q1 itself. Normally, it will be in the Q3.

Srinivasan Ravi: Yes, two things are contributing as clarified by Mr. CB Chandrasekar, CFO, that we are confident about the profitability. So, we started providing on bonus in Q1 itself now. On top of it, we have given some salary increase to the employees.

Jinesh Gandhi: Lastly, can you indicate the net debt as of June '22?

Srinivasan Ravi: There has been overall debt increase of Rs.50 crores, but I would say that there has been a reduction of Rs.30 crores in the long-term loans and Rs.80 crores increase in the short-term loans.

Moderator: Next question is from the line of Chetan Gindodia from AlfAccurate. Please go ahead.

Chetan Gindodia: Sir, wanted to understand on the margins of our powertrain business. So, during Q3, Q4, from what I understand is that due to the fall in tractor volumes, we had seen a reduction in our margin also for the segment. Given that now this quarter tractor has seen a very sharp rebound at least on a quarter-on-quarter basis, so the reflection in margin improvement is not there in the powertrain segment. So, am I missing something or can you explain about this?

Srinivasan Ravi: Overall, if you look at it, the farm sector in the last two months it has been doing well. But it's not in April, there was no rebound. Commercial vehicles wise, some of the our customers have not increased sales in Q1 which is normally a weak quarter. We also have had to export on the commercial segment in a big way totally. So, it is a blended average. I think plant wise capacity utilization, each of the plants, not one single plant we're looking at better operating leverage, we have seven, eight plants located across the country closer to the customer. So, some of the plants have been suboptimal, some of the plants have been optimal. So, that was one of the reasons for the change. That will constantly fluctuate. Even among the product mix also, there are sub-segments in the product, we have high value added products and normal value added products

Chetan Gindodia: Within the storage and engineering segment, can you give what is the breakup between storage and engineering?

Srinivasan Ravi: For the Q1, the sales has been Rs.157 crores as a whole. The sub segment sales of storage solutions has been Rs.88 crores out of the Rs.157 crores.

Chetan Gindodia: And this storage solution would be earning lower margin right now?

Srinivasan Ravi: No, we cannot say lower margin. Material content is normally lower. It has got a very good ROCE. But the point will be that since it is material-intensive, the EBITDA number will be lower, but EBIT numbers I think it's reasonable overall. But I think if we look at percentage of EBITDA, yes, it is lower.

Moderator: Next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.

Nishit Jalan: My first question is more on the industry, especially in Europe, there is a power crisis that we are all seeing. Have you started to see more enquiries from some of the OEMs or customers in Europe to source more casting products from India, anything on that front, can India be a beneficiary of some shift in casting business from the developed markets to India?

Srinivasan Ravi: I have to say yes and no. Not from the auto sector. I have a very clear explanation for that. There is a lot of support from the OEMs to their tier-1 suppliers within Europe. They're showing I think really an united front in fighting this problem. So, the OEMs are giving compensation for the power or the gas or fuel, whatever is the prices which is happening there, so the key tier-1 suppliers are fully compensated. So, they are not shifting business at all and it's not easy to shift business also. Shifting business will be shooting on their own foot, because then the tier-1 suppliers in Europe will collapse and shifting business takes years to happen. So, I don't see that happening. But whereas in other pockets not in the auto sector, the auto OEMs are quite big, large and also they are coated with the cash, I would say. But I would say that the normal segment of the engineering business and all, there is a thought process to shift some of the production to other countries. There is also a de-risking policy for the geopolitical situation which everybody is aware. For our Asian neighbor, who is also very key supplier to Europe. They are looking at sourcing from India as an additional source I would say. That is coming up, that is not for the automotive sector as of now.

Nishit Jalan: I understand that typically takes a long time and it's a strategic decision to change your sourcing in terms of geography, but do you think over a period of time, it can pick up and we as a company can benefit out of it either by exporting directly or some of the tier-1 companies setting up a plant or starting to source more from India in that sense, do you think it is something which can play out in the next three, four years or do you think that it might not play out but in the non-auto segment it will still play out?

Srinivasan Ravi: It will play out in the auto segment as well as non-auto segment. We are still too small in the manufacturing capacity when compared to our Asian neighbor; they are I think 12 times more or 10 times more, I will not exactly say that number, but even a small shift, I think India's to gear up. So, we will benefit, as a country I think we will see a growing trend towards exports, that is very sure.

Nishit Jalan: And within the industrial segment, will it be possible for you to give some color as to which kind of industrial businesses you are seeing more traction or this is in general a more generic phenomena, which is starting to play out?

Srinivasan Ravi: The other Asian giant was the manufacturing hub for the entire world. But now, the policy of the multinational seems to be that the market there is sufficient or very big enough to absorb the capacity. So, for rest of the world, they are looking at other sources like India to also reduce the geopolitical risk. So, there we are seeing a lot of opportunity.

Nishit Jalan: A couple of housekeeping questions. One, what was the overall Daimler revenues that we saw in this quarter? And based on the order wins and company's plans how much can it ramp up further going ahead? And secondly, obviously, you're showing a better top line growth. Does that bring any changes to the CAPEX assumptions, or the CAPEX guidance that you had given previously?

Srinivasan Ravi: Pardon me, but I don't want to give exact customer wise sales. But for Brazil, Daimler, we have got the cylinder head order, we just started last month to starting to supply, that we'll be adding to our Daimler business, which is currently only in the cylinder block for Brazil. So, that is going to grow. What was your second question, please?

Nishit Jalan: My second question was on CAPEX. You are growing at a faster pace. Does that require any change in your CAPEX guidance? I think last quarter you had talked about 220, 230 crores.

Srinivasan Ravi: We have guided for I think 20% growth on the top line as well as an absolute EBITDA number growth. For that Rs.225 crores CAPEX is good enough. If we go beyond that and maybe marginally CAPEX may go up, maybe for capacity balancing or debottlenecking.

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

Abhishek Jain: My first question is related with powertrain business where that this quarter tractor volume was very strong, and that's reflected in the top line and the margin both. So, going ahead, as inventory is quite high in the tractor segment now, so production will be reached. So, how's the outlook ahead for this powertrain business?

Srinivasan Ravi: Q2, we don't see big upsurge, but it is going on similar lines for Q1 as far as Craftsman is concerned. We are only three weeks into the month. So, we may get more traction in the coming months. But as of now, I think Q2 looks on similar lines to Q1.

Abhishek Jain: For the second half of FY'23, sir?

Srinivasan Ravi: Q4 is normally very strong across all segments. Q3 depends on various factors.

Abhishek Jain: How is the outlook for the margin side? Most of the time you just pass on all cost to the client. So, has the RM price gone down, so most probably you will pass on the cost to the clients from the next quarter onwards? So, how will be the impact on both the top line and the margin side?

Srinivasan Ravi: I think we are having a very decent fair pass-through on the RM across all the segments of the business. I don't see any issue and RM is also stabilizing or even coming down now. So, I don't see that being an spoiler for any profitability going forward. When you ask about demand, yes, if the demand increases, our operating leverage will improve and that may improve our margins. But at this level, I think we are at a stable level.

Abhishek Jain: In the non-auto segment, we have seen a sharp correction in the metal prices, sharp correction in the margin, despite the correction in the metal prices basically the steel and aluminum both. So, what is the reason of such sharp fall in the margin side and how is the outlook ahead?

Srinivasan Ravi: If you look at the storage solution, we have grown from Rs.65 crores in Q4 to Rs.88 crores whereas the total segment of the business has grown from Rs.150 crores to Rs.157 crores because the aluminum portion has been removed and added to the aluminum products. On sub-assemblies there has been a little drop in the sales, 15% drop. So, this is one of the reasons the product mix changing has led to more raw material consumption in the storage solution. So, it looks artificially that the margin has come down. The margin is stable across the sub-segment of the products, but as a segment, yes, I agree that the margin has come down.

Abhishek Jain: Storage solutions business will also benefit from the fall in the prices of steel. So, how is the outlook ahead and what kind of the volume and the margin guidance for the non-automotive segment?

Srinivasan Ravi: For the industrial and engineering, better operating leverage will improve our margins going forward and in storage solutions, the automated solutions is increasing in the coming quarters, that will also yield better margins compared to the static racking business.

Abhishek Jain: And my last question is on the aluminum casting side. So, how is the contribution from two wheelers versus the four wheelers in the first quarter and how about going ahead for FY'23?

Srinivasan Ravi: Our basic purpose of merging the auto aluminum and industry aluminum also because the overlap was becoming larger. We are getting more business from the gravity die casting, low pressure die casting from the auto which was predominantly more used for the industrial and engineering segment. So, by merging the segments, we are having very good operating leverage, shared costs and also flexibility to ramp up faster. So, with these two segments now, the new businesses, everything coming mainly from the passenger vehicles segment. Our dependence on two wheelers is already started coming down, but in the next few quarters I think it will be significantly down.

Abhishek Jain: How was the mix in first quarter, two wheeler versus the four wheeler?

Srinivasan Ravi: I don't want to state those numbers exactly. We are in a transition stage. At least last month I can tell you that the passenger vehicle segment and the commercial vehicle segment that the numbers have increased. Please wait for one more quarter things will be more transparent to give the correct number because we are in a transition stage now.

Abhishek Jain: How much impact do you see in revenue from Daimler India in a powertrain business for the near term due to the fact with that coming, I mean to say for FY'23 and '24?

Srinivasan Ravi: For us if we take Daimler business as a whole, there are three components to the Daimler business or you can even say four components to the Daimler business. The biggest component which is around 75% of our turnover is coming from Daimler Brazil. There the transition from say Euro-VI or BS-VI equivalent to the next level of norms is going to take place at the end of the decade only. Still they are at BS-V stage. They have not implemented BS-VI at all. So, only next year, they're implementing BS-VI. From BS-V to BS-VI, they have taken I think seven, eight years for a transition. So, what is expected is 2028 or '29 they will move to the next level possibly, that time they will adopt the Cummins engine. So, 80% of our business or 70% of our business is fully protected until 2028. Daimler India has got three components I would say what we're talking about. Two components; one is the medium duty vehicle or the upper fuso range of vehicles, which they have got a good share of the export market also. There, the Cummins engine is not planned to be implemented as of now. The heavy duty truck, yes, by 2024, 2025. around that range, they will introduce the Cummins engine. For the rest of the world where again, they're using the Daimler engine for the other emission countries, I think they will continue to use the Daimler engine. So, in the Daimler portfolio, we will lose around 15% of the Daimler portfolio by 2024.

Abhishek Jain: 15% of the value addition or total value addition?

Srinivasan Ravi: Value addition of the Daimler portfolio.

Abhishek Jain: In terms of the revenue, how much it would be?

Srinivasan Ravi: I would not like to speak about customer revenue, but it will be in very low single digit as far as powertrain is concerned itself whatever we're going to miss, because we are growing on the powertrain as a whole. We will continue to grow even after 2024 on the powertrain business, because the new businesses are kicking in. Because heavy duty segment of Daimler, the numbers are in public domain. So, only that will get affected in 2024.

Moderator: Next question is from the line of Vishal from Svan Investments. Please go ahead.

Vishal: My first question is regarding the new reorganization scheme which you have stated. Your industrial and engineering business has seen sharp drop in the EBIT margin. So, as you said, there was some mix change also. But on a sustainable basis, what kind of margins you're targeting?

Srinivasan Ravi: To your first question, it will be somewhere in between the Q4 margins and the Q1 margins is what is sustainable going forward. And when the operating leverage improves, I think we can do better than the Q4 margins. Now, what you see is that there is a disproportionate increase in the storage solutions business as a composition of the industrial and engineering business. That will set to change in the coming quarters, because we have got new businesses in the machining area, also in the industrial and engineering business, plus the automated solutions business is growing now with the new order inflow. So, we'll be very close to restoring the I&E margins in similar lines with Q4 by this year Q4.

Vishal: Last quarter was somewhere around 13.7% and this quarter was around 7.8%. So, you are targeting somewhere around 10%, 11% margins going forward on a sustainable basis for the year?

Srinivasan Ravi: Yes, by Q4, I think we will be restoring the margins equivalent to the last year Q4 with the product mix.

Vishal: In terms of auto aluminum business as per the new organization scheme, the PV casting business will also fall in this business which I presume is high margin business and plus as the demand in the two wheeler industry in this, what kind of scope you are expecting for margin improvement for this business?

Srinivasan Ravi: Now, I would first answer this very important question holistically, then I will drill down to details. We have high pressure die casting, we have low pressure die casting, we have gravity casting, we have sand casting. In sand casting, we have green sand casting and also chemically bonded two part sand. I will start with the high pressure die casting. High pressure die casting with the most of the products are of course the automotive parts only, industrial and engineering parts we have a few. We have the biggest of course as of today is the two wheeler, but followed by now the passenger vehicle segment will kick in next year with the Stellantis business, then we're also having the commercial vehicle business for the high pressure die casting and we also started to get farm sector business on the high pressure due casting. Now, on the low pressure die casting, it is both automotive and non-automotive, industrial and engineering business also there in the low pressure die casting. Gravity today predominantly we are having mostly almost a 50:50 split between industrial and engineering and auto. There we are getting more and more business from the auto in the gravity die casting for two reasons; one reason is because of the move towards EV, these alloys are structural parts and more aligned with the industrial and engineering aluminum portion of our business what we see, because these are not traditionally high pressure die casting part, alloy cannot be high pressure die casting also. So, with this sort of growth happening on the gravity die casting, our margins will improve as a whole apart from the operating leverage by merging these divisions totally.

Vishal: Any ballpark expectation if you can share, that will be great sir?

Srinivasan Ravi: Of course, there can be small changes quarter-to-quarter. I cannot say because of the product mix which is changing. But by this operating leverage -

Vishal: On a yearly basis, what kind of margin would you like to complete the year?

Srinivasan Ravi: We will be on the similar lines of Q1 for the year, but if the operating leverage further improves with more order position, I think it may improve also.

Vishal: Just one more small question in terms of data. What would be the capacity utilization levels across the businesses?

Srinivasan Ravi: It has slightly improved. We are closing to 70%., Up to 90% we can go, beyond 85% I think we need to be very careful because some segments we will run out of capacity. It cannot be uniformly across all the plants and across all the lines of business, we can be uniformly 85%. So, that means today we are comfortable I would say. There's still a lot of headroom and we may end up if not in Q2 at least one month in Q3 utilizing capacity up to 80% is what we see going forward. So, our performance in Q1 is I would say that is a realistic situation today of the company's performance.

Vishal: Sir, what is the kind of CAPEX you are expecting for the year?

Srinivasan Ravi: For this year growth we have guided for 20% growth on top line and 20% absolute value of the EBITDA number, for that maintenance CAPEX and growth CAPEX or new lines of CAPEX, all put together we estimate at Rs.225 crores. You know that our depreciation is around Rs.205, 208 crores. Out of the Rs.225 Crore CAPEX, around Rs.150 crores is actually maintenance CAPEX only. So, if we see any opportunity which is going beyond the 20-25% growth which we have planned, then we may look at revising marginally the number in Q4 which I don't foresee as of today.

Vishal: Any plans of debt reduction because with this increase in the debt for this quarter that our overall debt will be closely touching to Rs.800-odd crores?

Srinivasan Ravi: Overall debt is Rs.760 crores. Overall our debt has increased by Rs.50 crores, yes, but Rs.80 crores debt has increased in short term for working capital. Long term debt has already reduced by Rs.30 crores. There are two reasons for the short-term debt. We are holding more inventory days, but our turnover has also increased, plus the raw material prices was high and now it is coming down. With all these things, we expect to reduce debt from this particular point of around Rs.100 crores in Q4.

Vishal: So, total debt you are expecting around Rs.100 crores reduction from these levels?

Srinivasan Ravi: Yes. To put the record straight… I will not talk about debt-equity, but I'll talk debt-to-EBITDA. The Q1 number if you are extrapolating for the full year, debt-to-EBITDA is 1.17:1 which is an improvement from 1.33 for the last year totally. So, I think that is a good matrix. And another good matrix for the performance whether the debt is yielding result or not, we have reduced the creditor number of days and we have taken cash discounts. That is also reflecting in the ROCE. The ROCE is showing annualized basis of 26% pre-tax vis-à-vis 20% for the full year last year. So, I think the number of days of inventory has slightly increased only, but I think the turnover by itself has increased totally. The second point is of course the raw material cost portion. A substantial reduction of Rs.70-odd crores I think so in creditors. Because our credit rating has improved, our borrowing percentage cost is much lower now compared to some of our suppliers. So, we are getting some discounts which is adding to our margins.

Moderator: Next question is from the line of TS Vijay Sarathy from Anand Rathi. Please go ahead.

TS Vijay Sarathy: Just wanted to understand sir, you said gravity die casting is more preferred. So, do you expect that proportion of business to be higher than that of HPDC, LPDC, number one? Does it mean that profitability is higher because there is lesser tooling cost and how should one look at this? I'm given to understand even the CAPEX is also very less when you do more gravity die casting than LPDC?

Srinivasan Ravi: On your last question, there is CAPEX on gravity also but is substantially lesser than high pressure die casting, yes. The value addition of gravity when compared to the high pressure die casting which is an automated process is much higher on gravity. The complexity some of the parts on the alloy chemistry is much higher, yes, and we are used to using sand cores on our industry engineering business which is helping us in the new scheme of things in the auto powertrain because auto powertrain business has changed dramatically now. Aluminum products means it is high pressure die casting normally. But now the trend is changing. Also, gravity is growing at much faster rate than high pressure die casting the way it is.

TS Vijay Sarathy: So, tooling cost, all of that will come down, am I right?

Srinivasan Ravi: Tooling cost is part of customer cost, it's not part of our cost.

TS Vijay Sarathy: You said that some of the aluminum business in the industrial side has moved to aluminum. I'm sorry I missed that point. Are those high margin products and that's the reason we see sequential margin expansion in aluminum, is that the understanding right?

Srinivasan Ravi: Partially there is some high margin, but I think we have more increased our margin because of the operating leverage by merging these two divisions.

TS Vijay Sarathy: Could you tell me what proportion of aluminum which got transferred to that segment sir, what is that number?

Srinivasan Ravi: I think the percentage is quite small…I don't have the numbers readily here. We'll take it up later.

Moderator: Next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Just one clarification on this Daimler engine which will be done by Cummins going forward. You said the impact for us is about high single digit. First question is you're talking about high single digit when the engine gets phased out completely by FY'28 because my understanding was though you don't share the client revenue but it's quite high percentage, so for '24 is that the number quite higher and that number which you are saying is high single digit is more towards ending the program?

Srinivasan Ravi: In FY'24, I think it will be single digit only for us the impact overall. So, yes, it will be double digit by '28. But I think it will not be high double digit, but it will be double digit, that's clear, it will be not in the teens also, because our overall pie is growing faster now on the auto powertrain.

Nitin Arora: Because what Daimler is saying globally on their mission is to start rolling out the program itself from FY'26, I was wondering why FY'28 came, so.

Srinivasan Ravi: FY'28 is when Brazil is likely to move to Cummins engine.

Moderator: Thank you, next question is from the line of Jay Shah from Jay Shah PMS. Please go ahead.

Jay Shah: Can you throw some light on how the storage solutions and equipments business is picking up and in terms of are the incumbents also going for the automation or is this the new warehouses/logistics setups that are coming up, are they going further automated is the reason that you offer?

Srinivasan Ravi: The warehouses are still going by the conventional method, not automated as of now, but the manufacturing fraternity is going for automated solutions. Both are our customers.

Jay Shah: There is a shift right now from the incumbent in the logistics to the automation.

Srinivasan Ravi: Today, our order book is quite healthy. On automated solutions, we are fully booked for next six months the way it is.

Moderator: Next question is from the line of Shyam Garg from Niveshaay. Please go ahead.

Shyam Garg: My first question is are we in machine casting and if we are, then what basically is machine casting, can you give throw lights on that?

Srinivasan Ravi: This is a little difficult for me to explain very quickly, but the casting is a process where molten metal is poured into a mold and that is near net shape profile is brought over, then after that it has to be finished in machining and further process like including honing a cylinder block. I would in generic terms put it across the casting is like, say cloth, we are doing the tailoring to finish it, if we put in very simple terms. So, the we do value addition and finish the product by machining.

Shyam Garg: When we say that we customize casting with respect to the particular needs of the customer, that we can do machine casting according to the shape and size?

Srinivasan Ravi: Foundries-made castings in the auto powertrain business, we do not have any foundry at Craftsman. So, we are doing only the higher value added stream which is we're doing. In the aluminum business, we're doing the entire process of dye making, casting making and also the machining.

Moderator: Next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, just wanted to reconfirm, you mentioned about Rs.100 crores debt reduction in FY'23?

Srinivasan Ravi: Yes, from the current levels

Deepak Poddar: Regarding your 20% growth in top line and absolute EBITDA, isn't that little conservative given the low base of first quarter last year? So, automatically, the growth in this year is quite exorbitant, right. So, on an annual basis 20% growth looks a little conservative.

Srinivasan Ravi: I agree, it is conservative. Hopefully, we will do much, much better.

Deepak Poddar: What's the vision for us for next two to three years in terms of maybe our growth CAGR or anything on those lines?

Srinivasan Ravi: Growth CAGR for the next three, four years, we'll have 20%. From year-to-year, it may change a little, yes, agreed, But we are very confident about a 20% CAGR.

Deepak Poddar: Ideally, because you're speaking about operating leverage advantage. So, ideally, your bottom line should grow faster than your top line, right?

Srinivasan Ravi: No, all of it will grow on similar lines. We are also seeing some inflation, right. So, some of the operating leverage portion, we may lose out a little of it to the inflation. So, in spite of that, I think, you are right, when the growth is faster, the bottom line may grow faster, yes.

Moderator: Next question is from the line of Pranay Roop Chatterjee from Burman Capital Management. Please go ahead.

Pranay R Chatterjee: My question is more business related. So, if we think about seasonality from Q1, Q2, Q3 and then Q4 and then back to Q1 of next year, in normalized situation, right, in terms of macro factors remaining normal, what kind of a trend can we see seasonally? And given the seasonality and the new orders that would kick in over the next two to three quarters, What kind of QoQ growth on the top line can we expect across the divisions till Q4 essentially?

Srinivasan Ravi: The past is any indicator of what it is, is a 40% split between H1 and 60% to H2, that is normal. But we have seen slight changes are happening. But surely, Q4 will be the strongest, that is we're very confident about that. So, Q3 normally there is a correction if the market is having some headwinds. So, we saw that last time when we had a good run in Q2, we anticipated that there may be a drop in Q3, it happened like that. But this year, the Q2 is not going on a runaway sort of system. So, it is accelerating, but it is accelerating moderately. So, we are confident that Q3 also will be quite steady.

Pranay R Chatterjee: Just to confirm then you had mentioned a 3% QoQ growth from Q4 last year and you have said that Q4 is the strongest usually. So, despite the seasonal impact, it's a 3% growth QoQ. Because if we look at the historical last two years, most of the Q1s are actually impacted. So, it's difficult to understand the usual Q4 to Q1 performance. So, is this a normalized number or have you performed over and above the seasonal impact?

Srinivasan Ravi: I would first make a disclaimer; first, how our customers perform, and what products we supply to the customer, and those products are doing well in the market, I think we will be growing faster. You know on the passenger vehicle segment, we have negligible exposure on the auto powertrain, hardly a 10%, our auto powertrain business itself is passenger vehicles totally and passenger vehicles we are doing for two customers mainly; one is a major customer and you know the product launches which has happened in the recent past. So, that was not there in that significant portion earlier and we are seeing continuous product launches happening. So, that segment is growing for us. So, when you ask about Q4 of this financial year, definitely it will be better than this Q1 what we have closed. And if I may say so this Q2 also is looking in a similar line like Q1, it's a very good sign.

Pranay R Chatterjee: More from a tracking perspective, we know that in your powertrain segment, roughly half is from MHCV and over there Tata Cummins and Daimler are the main clients. So, again, I'm not looking for exact data points, but the sense we have is that you have major wallet share with Tata Cummins, who in turn have a major share with Tata Motors. Would that be a fair statement?

Srinivasan Ravi: I'll answer it holistically. You mentioned two customers names. Yes, Tata Cummins also supplies their products outside India which we are supplying machining for them. The second point is Daimler is both domestic as well as export, that I already have clarified earlier. We are also tier-2 supplier to two customers in India who are exporting to North America and to Europe on the commercial vehicles business. So, that way we are well diversified on the commercial vehicles business itself. So, we are growing on the tier-2 exports on the commercial vehicles business also.

Pranay R Chatterjee: Largely on the farm sector which contributes roughly 20% again and Escorts and John Deere are some of your clients there. Again, not looking for exact numbers, but would Escorts be a material portion of that revenue, roughly 50:50 or is it different?

Srinivasan Ravi: We supply to almost all the tractor manufacturers except ITL. So, it is fairly distributed I would say. We don't have too much customer concentration in any single customer including the market data. So, it is fairly spread. I will name the customers because it's already mentioned at DRHP. Top three or top four customers are very close to each other, I would say, totally. We have of course Mahindra, we have the Tafe and Simpson group, Simpson is the engine manufacturer, then we have John Deere, we have CNH. All of that we are substantial. The smaller customers are of course for us are Escorts and now we have started supplying to Indian arm of Japanese heavy engine manufacturer, who is supplying also to the other tractor manufacturers, but I think except ITL, we are supplying to everybody.

Pranay R Chatterjee: Lastly, a data-related question. You gave the value added numbers for Q1 this time. The numbers you gave for the auto aluminum segment, I understand that would be including the industrial aluminum portion also, right?

Srinivasan Ravi: Yes.

Pranay R Chatterjee: So, could you please give the comparable number value added for aluminum products and I&E based on the new classification for the Q4 as well?

Srinivasan Ravi: For Q4 FY'22, the aluminum products in the new classification value add was Rs.57.5 crores and for Q1 FY'23 it was Rs.71 crores.

Pranay R Chatterjee: What would it be for the I&E segment?

Srinivasan Ravi: For the I&E segment, the value add for Q4 was Rs.63 crores and for Q1 now it has been Rs.58 crores.

Moderator: Next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Why the numbers got restated in segmental and what goes in and goes out between aluminum and industrial?

Srinivasan Ravi: We are doing aluminum castings for the industrial sector for electrical switchgear and other gearboxes, medical equipments, everything we are doing in the industrial aluminum. The new scheme of things especially in the EV sector most of the parts fit into the industrial aluminum segment of our business, the new parts coming in. So, we thought then classifying that and mixing this is a problem. Anyway, both the divisions have started to work together. So, we just merged the divisions.

Pritesh Chheda: So, part of the aluminum casting which are sitting in industrial and engineering moved to aluminum products, that's how it is right?

Srinivasan Ravi: Yes, that is a smaller portion, it has moved to.

Pritesh Chheda: Now industrial and engineering will only consist of engineering and storage solutions products?

Srinivasan Ravi: Yes.

Pritesh Chheda: There is no auto?

Srinivasan Ravi: There will be no auto or aluminum products. Non-auto, non-aluminum will be in our industrial and engineering business.

Pritesh Chheda: Aluminum products will be all auto and aluminum?

Srinivasan Ravi: These aluminum predominantly it was auto aluminum and industrial and engineering aluminum, but we are also getting other commodity aluminums (which are also critical, I would say) in consumer durables, everything, enquiries are coming. So, there's no point in trying to say this industrial aluminum, auto aluminum, the facilities are same. So, we are also processing that. Still it's not coming to our kitty, but it's going to come.

Pritesh Chheda: The second division for us if you could just give some idea how much would be passenger cars for aluminum what would be business coming from passenger cars and two wheelers and other area?

Srinivasan Ravi: I would just give an approximate number for this financial year when we close this year. The two wheeler segment will be around 50% Next year two wheeler segment will be only 30% 40% is what we see.

Pritesh Chheda: And the other is passenger cars, right?

Srinivasan Ravi: Balance will be mostly passenger cars… of course industrial aluminum is already there and we'll be adding some even white goods durables there.

Pritesh Chheda: So, then white goods also be part of aluminum products?

Srinivasan Ravi: In aluminum, we'll be adding it there only. So, far we are not doing it, but we are seeing potential there.

Pritesh Chheda: As of now, it's not there. As of now, it is two wheeler and passenger car?

Srinivasan Ravi: Just to clarify, today, we don't have anything in the white goods area, but we are seeing possibilities in the future which will come up in the aluminum products.

Moderator: Next question is from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead.

Jyoti Singh: I just wanted to know what are the margin levers that we have going forward? And second question is on the EV segment. As we are seeing more transition from the ICE to EV, so, what kind of benefit we are seeing in the Europe region and overall what are the benefits for the company?

Srinivasan Ravi: First, I will talk about auto powertrain. Our exposure to passenger vehicle segment is negligible in the auto powertrain; it is hardly 10% of our auto powertrain as a segment, and as a company it's only 5% totally. So, there we are having very strong product launches from our key customer and we see a lot of traction in the auto powertrain, in the passenger vehicle segment which is of course not EV, it is the IC engine. We feel that the business will go on for five, seven years in that segment. But I again wish to repeat, 10% of our auto powertrain and 5% of our Craftsman Automation as a company is exposed to passenger vehicle segment totally. So, with EV coming into the picture, there are structural parts, there are battery related parts which we are getting enquiries both from the four wheeler segment and as well as the two wheeler segment. We are working on that.

Jyoti Singh: Sir on the margin lever side what we have going forward, if you can throw some light?

Srinivasan Ravi: The operating leverage with better capacity utilization, still as mentioned, we are around 70%, and hopefully capacity utilization in this Q2 or Q3, we will see some good traction going forward. And when that happens, our margins will improve surely. The last point is the new products, which our customers are launching, where we are one of the key suppliers there. I think that also will add to the margins, because there are new products and new pricing.

Moderator: Next question is from the line of Jeetendra Khatri from Tata Mutual Fund. Please go ahead.

Jeetendra Khatri: Sir, have you seen Rhino 5536? It's an electric truck from IPLTECH.

Srinivasan Ravi: I think it is from the Delhi region, right.

Jeetendra Khatri: My question is, do you see this as an opportunity or a threat? I mean, I don't know. We'll see aluminum intensity in electric goes up. It might be a big opportunity. Not particularly this product, but this product is just an example of a heavy duty electric.

Srinivasan Ravi: No, we see that there is a small segment of the market where there are shuttle runs around 200, 250 kilometer radius, where there are milk run slides happening on the heavy duty commercial vehicle itself, which will move to EV which is a very small segment of the market. But I will come from the three wheeler, three wheeler is most likely to move to EV, most of it, that is very sure. And sub-1 ton vehicle also will move to EV, most of it again. The above 1-ton is a trade-off between CNG and EV, because I think today, CNG will be winning for the next few years. I do not know after that. Coming to the next higher segment, I think still it will be predominantly IC engine. Now, the whole world is working on hydrogen also. And hydrogen is very difficult to transport. But there's a lot of work going on in international market with mixing up with ammonia and they call it green ammonia. But there is a lot of work to be done like terminals have to be built, barges, tankers have to be built to handle this green ammonia. Once that happens, we will also see that hydrogen also will be coming into the commercial vehicle segment, but yes, it is going to happen.

Jeetendra Khatri: The segments which are electrifying, so, do you see opportunity of aluminum out there for you guys?

Srinivasan Ravi: Aluminum content on even electrical buses or electrical trucks if it happens is very less. And that by itself is a smaller segment. Today, we see CNG as the way going forward on this matter because of the battery weight, battery cost. Let us look at the hierarchy. I'll just give one example. What the mobile phone manufacturers, whether it is iPhone or anybody else, what they can pay for a chip and what passenger car manufacturer can pay for a chip, what they can pay for a battery what can they pay for a truck, I think the mobile phone manufacturer can pay more for a battery because the product is sold at a premium cost, whereas a truck cannot pay so much for premium, these are all rarer, so there can be price pressures when coming for larger battery subjects. I think we have to wait for a solid state batteries, then only we could be able to take a decision how much penetration will be there in the commercial vehicle segment.

Jeetendra Khatri: Lastly, sir in the industrial business, so I see it as a whole, non-automotive powertrain, so it will have aluminum casting plus your industrial and engineering. So, what is the long term growth that you see there? I know it's a deep cycle business, but the growth rate will not be comparable to automotive powertrain, but what is one long term growth you keep in mind and which sector will have a largest exposure there?

Srinivasan Ravi: In the industrial and engineering sector, after we removed the aluminum portion and merge it with the aluminum products as a whole, we will still see a CAGR of 20% going forward across all, including the critical sub-assemblies what we are doing or critical components machining we are doing in the industrial and engineering segment along with our storage solutions, mainly the automated storage solutions products. So, we are seeing traction all over.

Jeetendra Khatri: So, this is because you're providing import substitution to your clients?

Srinivasan Ravi: Yes, even one of our clients has put something in LinkedIn where we are doing for green power. We are going to machine sub-gearbox housing for them for wind turbines. So, yes, the customers themselves have disclosed. We just received the token orders I would say, but we've got some agreements there in place, we will be developing those parts for them. So, we see that as GDP grows, we will grow there.

Moderator: The next question is from the line of Jinesh Gandhi from Motilal Financial Services. Please go ahead.

Jinesh Gandhi: Can you share the value adds for 1Q FY'22 including the revised classification?

Srinivasan Ravi: Can you rephrase the question please or repeat the question if you don't mind?

Jinesh Gandhi: The value add for one 1Q FY'22.

Srinivasan Ravi: For which division?

Jinesh Gandhi: All the three.

Srinivasan Ravi: Auto powertrain Rs.157 crores, aluminum products Rs.42 crores and industrial and engineering Rs.39 crores.

Moderator: As there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to Mr. Srinivasan Ravi for closing comments.

Srinivasan Ravi: Thank you very much all of you to join this meeting today and thank you for asking very interesting questions which will also help the company to think on the way forward. At the same time, I would like to reiterate that our order position is quite strong and we are looking at a strong performance in this year. Thank you very much.

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

(This document has been edited for readability purposes)