31st July, 2024

To

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

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

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call on the Unaudited Financial Results for the quarter ended 30th June, 2024;

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 3rd July, 2024 and 25th July, 2024 respectively, we are enclosing herewith the transcript of the earnings conference call organized on Thursday, the 25th July, 2024 at 4.00 P.M. (IST) on the Unaudited Financial Results for the quarter ended 30th June, 2024.

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

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

Thanking you.

Yours faithfully,
for CRAFTSMAN AUTOMATION LIMITED

Shainshad Aduvanni Digitally signed by Shainshad Aduvanni Date: 2024.07.31 17:10:27 +05'30'

Shainshad Aduvanni
Company Secretary and Compliance Officer

Encl: As above

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CRAFTSMAN AUTOMATION LIMITED

Earnings Conference Call held on 25th July, 2024 for the quarter ended 30th June, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Earnings 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 opening remarks are concluded. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touch-tone 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. Thank you, and over to you, Mr. Ravi.

Srinivasan Ravi: Thank you. Good afternoon, everybody. It gives me immense pleasure in welcoming you all for the earnings call for the quarter ended 30th June, 2024. Note on the market, it has been quite a challenging quarter in view of the elections, the summer, and it's been a mixed bag as far as the market is concerned. M&HCV is still not showing any respite. It's still on a declining trend, whereas there have been green shoots in the tractor industry at the end of the 1st Quarter. Two-wheeler has been very robust. Passenger vehicle has slowed down after a good one-year growth period.

The key commodity prices, something like aluminum, has increased quite a significant number. It is upward of double digit. So, strictly quarter-on-quarter or year-on-year, it's not comparable on these sales numbers. There has been a lot of optimism in the market now and there is an expectation of private CAPEX and growth going forward. So, this we look forward to in the coming year.

The consolidated financials, I just want to give the top line numbers:

Turnover has been INR 1,151 Crore. The breakup of that is Powertrain INR 416 Crore, aluminum is INR 518 Crore, industrial engineering is INR 217 Crore.

EBITDA has been INR 202 Crore. Powertrain has contributed INR 107 Crore. Aluminum products is INR 92 Crore. Industrial engineering is INR 14 Crore. Now it is more or less balanced, I would say, between Powertrain and aluminum, and aluminum has been slightly growing faster, more of that later.

EBIT has been INR 130 Crore. EBIT has been lower compared to the previous year by INR 20 Crore because of increased depreciation, increased operational cost and we would say that Q1 of last year was a little robust. Q1 of this year has been a little weaker than the entire market situation.

Standalone highlights:

The turnover has been INR 862 Crore. The turnover has increased from INR 756 Crore, but Powertrain is INR 416 Crore, aluminum is INR 242 Crore and industrial engineering INR 203 Crore. EBITDA has been INR 152 Crore and EBIT has been INR 90 Crore. There also we have done lot of investments for the future, which has increased the depreciation.

Storage business has shown good growth, but I think the margins are still elusive. More of that in the Q&A session later.

CAPEX for FY '25 stands at INR 201 Crore. We are putting up two plants, one in Kothavadi and one in Bhiwadi. And I will make a separate note of that at the end of this statement.

Acquisitions, DR Axion, we have acquired 100% and now I would say the streamlining of the operations are still continuing and we are now 15-16 months into the first investment, and we are on the right track. We have won a little more orders, additional orders within India, also for export requirements. So, the operations are looking robust even going forward.

Now a note on the strategic acquisition which we have been planning:

We have signed a definitive agreement to acquire high technology foundry, the assets of high technology foundry in Germany in Fronberg and this has got marquee customers for the engine blocks for industrial engines. This is in line with our growth plan even within India and this has got high technology, highly trained manpower and has been always on the forefront of casting technology.

We have earmarked totally INR 120 Crore, out of that around INR 60 Crore for the acquisition plan and another INR 60 Crore to further put into investment for working capital, and this is an approximate number because considering the exchange rates which are prevailing at that particular time.

So, the breakup of that is share purchase agreement for land and building is around EUR 3.5 million and around EUR 2 million is for the assets and the liquid assets of the work-in-progress and inventory which is there. So, overall, it has been EUR 5.5 million and we have planned to invest another INR 60 Crore into that over a period of time to make it more robust and try to make it a strong business, which will also help us to build up our stronger base within India.

The second acquisition target, still it is under work in progress. There is no definite agreement signed. There is an MoU signed. Due diligence is close to be completed. So, we will be in the coming weeks, we will be talking about that later. This is the aluminium business, which is also, it's not a profit-making business currently, but we are very hopeful just like it's complementing our strength there, and plus it is giving access to overseas markets. This company has got a history of 20 years exports to mainly North American market.

Now I will also give a small update on the two Greenfield facilities, that is one is Kothavadi, which we announced on 30th October 2023. The Phase-1 is in very good progress as we have been made. Even though we estimated 24 to 30 months for implementation, I think within 12 months we will be able to complete the Phase-1.

We will be able to start some little trial production in Q4 and next year in the second half, we will see a robust revenue coming in from that. This foundry will first cater to the wind sector for the windmill castings for gearbox housings and the critical planetary carrier housings and things like that. So, this is initially targeted for industrial engineering segment of our business.

In Phase 2, we will be targeting the heavy engines, which we are planning to make for industrial engines for the backup generators globally, which is showing huge growth potential in view of the artificial intelligence data centers coming up all over the world. So, this is on track.

Now, the second project, Greenfield project which we announced in 27th January this year, that is 2024 and we have said 18 to 24 months, but I think we will be able to complete the Phase-1 project in 15 months, and we are likely to start the trial production in Q4 of this year. So, this will be fully available for next financial year.

We are starting with structural parts of the two-wheeler including the alloy wheel and then moving to the IC engine parts and then to the passenger vehicle parts in stages. Initially, we will put up the gravity die casting and later on in the second phase we look at low pressure as well as high pressure castings. That will also depend on how much investment will go into that will depend on the second target to which we have signed an MoU, how we are going to collaborate with that and tap the market.

With this, I will leave the floor open for a Q&A.

Moderator: Thank you. We will now begin the question and answer session. The next question is from Shagun Beria from Anand Rathi.

Shagun Beria: I just wanted to ask, can you provide an update on both the acquisitions Sunbeam and Fronberg in terms of financials, likely cost of acquisitions and the opportunity from these acquisitions?

Srinivasan Ravi: Yes, I had mentioned that the deal has been EUR 5.5 million and that is plus EUR 0.5 million of debt. So, that would be totally a EUR 6 million acquisition. In that, the breakup is EUR 3.5 million is for the share purchase for the land and building, which is the fixed asset. And the other fixed assets, including the movable assets like working capital, which is around EUR 2 million is the acquisition. So, we can say that INR 60 Crore is the acquisition, and we plan to invest another INR 60 Crore over a period of 15 months into the company.

Shagun Beria: And can you provide, the margins have been weak this quarter, including the aluminum segment. What is really impacting the margins?

Srinivasan Ravi: Aluminum, there is actually, as I mentioned, some market research shows that 15% of commodity prices have gone up even quarter-on-quarter. Some say, it is 12-13%. Let us take the lower number 12-13%. So, artificially, the top line is inflated by 12-13%. That is maybe the EBITDA optically looks 1% to 1.5% lower.

We are on track on the aluminum business and Q1 always is a weak quarter for various reasons. One of the leading passenger vehicle manufacturers, they have a plant shut down, annual shut down during that period in the middle of May and there is always inventory correction.

So, we are on track on the aluminum. I think the growth number of the 15% to 20% of aluminum in the standalone should be really looked at only as 14%-15% growth. So, when you look at that and then look at the margins, I think the margins are intact.

Shagun Beria: Can you please update on the CAPEX and the investment guidance for FY '25?

Srinivasan Ravi: CAPEX approximately has been around INR 200 Crore for the quarter and it is ongoing. So, we will do it on the basis of actual requirement of customers. We are negotiating with various customers. It looks very robust and the export market is also opening up, but there is a question of chicken and egg story, whether we have the capacity to produce for this market or not. So, we are taking some… Yes, so we will do the CAPEX as and when required on this matter. You know very well that two plants are under construction now and under commissioning now.

So, that is how the CAPEX looks. We see potential growth for next financial year to be much bigger. Then we may increase the CAPEX. But now with this acquisition, we are looking at how to distribute the cash flow and acquisition targets, how to ramp it up. So, it is a work in progress as of now.

Moderator: The next question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf: So, my first question is just looking at the various initiatives you have taken, in the sense you are doing two large CAPEXs. You have just acquired DR Axion just about a year and obviously now the German acquisition. So, just trying to understand, is there too much that you are taking on right now? How is the bandwidth at the top management level to kind of execute all these projects? Obviously, your business also is slightly cyclical. So, we might encounter some kind of a weak cycle say in commercial vehicles. So, just trying to understand how are you looking at all of these actions that you are taking?

Srinivasan Ravi: I will answer the first part of DR Axion. DR Axion is now practically 17 months; it has been completed. I think it is not a capital intensive. We are not looking at CAPEX there. It is only maintenance CAPEX and a very marginal CAPEX. The cash flow is excellent, and the management is intact.

All the eight Korean expatriates are continuing their job and there has been no change. They are only supporting that activity in various forms. It has nothing to do with the day-to-day management of the company, nor any new customers. All three customers have been acquired by the company much earlier to our acquisition. So, any customer we add will be now what is added is export to DR Axion Korea which is added and the other HMI's new plant in Pune region is coming up where all the business has been already awarded to DR Axion.

Apart from that, these are the similar products already being made. So, there is the technical team in place and doing it. So, as I mentioned there is no CAPEX and there is no increase in management strength which is required, and they are fully capable of handling it.

Second thing is about the one thing about the Kothavadi plant.

Mukesh Saraf: With the two CAPEXes, yes.

Srinivasan Ravi: The Kothavadi plant is a very strategic investment. Yes, there has been new recruitment, and that is also hitting our P&L for the last two quarters, I would say. Yes, that is already factored in the cost run-up which is going to happen in the next few quarters. So, there we are working in this industry indirectly for the last 20 years and we are well on track for the on timely start of production and first time right prove out of the products and we have engaged multinational consulting firms in Germany to support us on this activity. And for what we hear from our customers that we are on track to break this barrier about the cast iron foundry.

Coming to the facility at Bhiwadi, this is the processes what we follow in Craftsman and DR Axion for gravity die casting, the parts what we do are equally complex and in certain cases more complex also. We look at the cylinder heads and cylinder blocks. And now we are looking at other structural parts like alloy wheel and other structural parts of the two-wheeler going ahead.

So, this type of alloy we have been managing this heat treatment or the composition of these alloys and how to melt, the process parameters, how to control them for the last 22 years in Craftsman and the DR Axion also in India, it's almost 18 years old now totally. So, this expertise is already available with us. It's only the product is slightly different, and the product is of high volume, and we don't see a challenge and to be frank, we are using the synergy of Craftsman as well as DR Axion for setting up the facility at Bhiwadi. So, we have not put-up high pressure die casting, nor low pressure die casting at Bhiwadi to start with unless we are successful on the phase one of the project, which we are very close to cracking that. So, once we do that, then we engage on that. We take a step-by-step approach on this matter.

Mukesh Saraf: And then obviously, you have Sunbeam and the German acquisition as well in the cards.

Srinivasan Ravi: The German acquisition has been running. This has been a self-contained foundry for a long, long time. So, we don't intend to meddle with the management or interfere with the management there. It was part of a bigger Gienanth Group and the Gienanth Group had not been paying attention to this particular foundry because they had larger foundries in their fold and they had acquired new foundries, which they lost some money. And that is the reason I think they were insolvent, which is on any way public domain, and we are not supposed to talk too much about that. A lot of this news of Gienanth is on public domain in the newspapers itself, in German newspapers.

So, this is an asset which is been producing and continuously satisfying the customer. We were in touch with the customers and some of the customers also asked us to acquire this with the promise of continuing the business and they have participated in the meetings also, and this is I think the great way to go with. And this size of the acquisition, as I mentioned, it is the outflow is EUR 5.5 Million including half a million debt what we are acquiring there. So, it is EUR 6 Million. So, it is an INR 60 Crore acquisition. That is it. So, we have planned some backup for further working capital and minor CAPEX just to be factor in what is needed for next 18 to 24 months and just factored in another INR 60 Crore to look at it.

This foundry has been most of its history if you look at the last decade, it has been EBIT positive except for a few years, maybe during the Lehman crisis and during the COVID and things like that. Otherwise, this has been always positive, and the customers are very, very supportive for this, because most of the products what they make, supply is single source.

And when we are buying an insolvent company, it doesn't come with the baggage of old liability of the worker liability. Of course, the worker agreements survive, but we are not saddled with the past liability of the pension and things like that, which is part of the insurance, which has been already paid off, because we are buying the asset from the insolvency administration totally.

So, that way it is coming as a clean. We are not taking over the foundry as a company. We are buying the liquid assets of the foundry that is the movable and immovable assets of the foundry and the land and building, we are doing a share purchase agreement, which is part of the Fronberg Immobilien, which is a separate company, which is only doing the real estate. So, really speaking, we are not acquiring any past liabilities there and as we visited the foundry, it is running well, doing well. Even in the first six months, they have declared a very good positive EBIT on this and we are confident about that.

Coming to Sunbeam, I will be restricted to answer. If I completed the answer on Fronberg, I will limit my discussion on Sunbeam because it is still an MoU. It is not a definite aggrement we have.

Mukesh Saraf: So, the question actually, sir, I get your point on all these things you mentioned. Just understanding in terms of managing all of these at the same time, are you looking at certain top level additions to your team? Are you looking at any of these things? Because to actually turn around or run these foundries, you will need expertise to bring in your processes in place in those plants.

Srinivasan Ravi: The Fronberg facility whoever sitting in the Fronberg facility and managing 100% of the people are we are taking in our roles. That is including the two main people who are employed by the head office and placed there. That is including them it is 140 or 141 people.

So, we are still for certain system, we only need to put somebody for IT which they themselves will recruit and put it because that was in centralized system. Apart from the IT and accounts which was centralized, everything was in self-contained ecosystem, which is running even today under insolvency administration for the last few months. Seamlessly it has been running. So, we do not require administration there.

We need a strategic direction of what to go and how to go and which direction to take it and how we can also support each other, the Indian operations and their operations supporting only. So, we are not going to put any management in Europe. We are not going to recruit any management in Europe. We may recruit somebody here on a visit basis, not even permanently putting up there.

Mukesh Saraf: Thank you for that detailed answer. Just one last bit, on your Powertrain segment, in the standalone business, could you just give the break-ups between CVs, tractors and off highway?

Srinivasan Ravi: Before that, I will just touch on Sunbeam in general. Sunbeam is coming with lot of experienced people, lot of experienced management, good marketing team and good development team which will actually not only help Sunbeam, it will also help Craftsman to acquire new businesses. So, actually, it is strengthening Craftsman Aluminum division to do it. There is no need for Craftsman to add any top-level management for aluminum because there is enough capacity in Sunbeam's administration and we have excellent people there.

On the powertrain, the break-up is, top line is 54% on the commercial vehicle break-up, off highway is 16% and tractor is 14% and in the passenger segment mainly SUV is 16%. So, passenger vehicle has seen growth and all other things have stagnated or de-grown.

Moderator: The next question is from the line of Dev Agarwal from FICOM Family Office. Please go ahead.

Dev Agarwal: So, in the annual report of 2024, FY '24, you have mentioned that the aluminum usage in India is around 40, 50 Kgs, whereas in other countries it is around 150 to 180 Kgs. So, what is it, like, why is it in India that we are using so much less aluminum in the commercial vehicles or any other vehicles? And if we want to increase the usage of aluminum in products, what other products would be there in which we can use the aluminum usage? So, that's my first question, sir.

Srinivasan Ravi: I think the question is more pertinent to passenger vehicles, because it's not commercial vehicles. That is the benchmark we have taken, I think, in the annual report. I think the aluminum content maybe in Europe as well as in North America has started to increase more than 1.5 decades ago. And now, in India, when new platforms are getting introduced, we are seeing more and more aluminum content.

Because earlier the platforms which were there, which were two generations old, they had less aluminum content, only the engines and the transmission area. And the powertrain area was tweaked, and the other body and other interiors were tweaked and new models were coming out. Now, everybody is going for new platforms in the near future. We will see aluminum content surely growing there.

Also, in Europe, it surely will always be higher, because there are high performance passenger vehicles. The average engine power and capacities are much higher. They travel at much higher speeds in Europe. So, we are not strictly comparable, but I think the gap will still continue. But we are at a very low level and surely aluminum content per vehicle on the passenger car will surely increase.

Aluminum, we are at quite a decent level on the two-wheeler segment on the aluminum. There, one trend we see, all the spokes and hubs have gone, which were earlier in steel. Mostly, it is gone. Now, it is all alloy wheel. The alloy wheel was the premium, whether it is a passenger vehicle or even a two-wheeler. Now, it is almost everything is coming in the alloy wheel. That is also part of the aluminum content.

But the other structural parts of the passenger car, including shock towers or knuckles and all things, it will take some more time to become use aluminum. But I would say aluminum is a growing segment, in general.

Dev Agarwal: And my second question would be on our capacity regarding the aluminum casting. So, what is the total capacity in aluminum casting as a whole?

Srinivasan Ravi: See, I have been saying this at least in almost every call, aluminum unfortunately even after DR acquisition as Craftsman Group, on the consolidated basis, we are subscale. We are not able to even attract any multinational customer to look at us because the number which we are talking about today is very, very small. Our consolidated number is hardly INR 2,100 Crore, whereas the global companies are anywhere between say INR 10,000 to 20,000 Crore in that region. So, we are talking about China plus One. We are talking about growth opportunity. We are talking about export opportunity.

But unfortunately, sadly, we do not have the capacity to fill it. So, this is the reason of our little, I will not say aggressive, but I will say strategic steps which we are taking that we are not trying to build up everything on the Greenfield because the Greenfield to acquire a customer, to develop a product, to get it approved, and then ramp up the production, it takes five years, and there is a huge drain on the investment which is done because of the startup cost and the preoperative cost, and not only that, the losses incurred in the first two, three years of operations.

So, we are doing acquisitions where we can turn it around quickly, that we have already proved out one. The second one is still at an MoU stage, but we are confident that we can work with that management, which is very excellent management. The technical management I mean. And also, the administration is also good. So, we can leverage that. The global clients are there for you to see on their website because signing in the MoU, we are not able to talk too much about it today.

So, that far we are clear and our own strategic initiative on aluminum, we have taken the volume runner from the structural parts, which so far we are not present. EV or not EV, the structural parts will remain on the two-wheeler business and future we are also going into structural parts of the passenger vehicle. So, that way, we are having the balanced aluminum portfolio.

Before we acquired DR Axion, we remember right, our dependency on two-wheeler market was close to 70% and then even though we added Stellantis as a customer and Stellantis is ramping up in this financial year after a two-year delay and we are seeing good growth traction in the next year. Even then Craftsman is still dependent on two-wheeler to a great extent, but after DR Axion acquisition, now the passenger vehicle segment on the consolidated basis much, much higher than the two-wheeler business.

Now, there is an export which is hardly 10% even on a consolidated basis, not even 10%, 5% to 10% on the aluminum segment of the business currently. With possibly Sunbeam, I think Sunbeam has got a good exposure to export. It is almost 15%, 20% direct export and the orders which is acquired is also, which I cannot openly talk about it because we are in the due diligence stage. So, it is showing a lot of promise going forward. So, the global market is already available. So, this means that we will be spread not only within India on the passenger and two-wheeler business but also for the passenger vehicles outside India.

Dev Agarwal: Sorry to interrupt, sir. But I did not get your but I did not get your number of units. I mean, the capacity you said, I was not able to hear. Can you repeat that, sir?

Srinivasan Ravi: Sir, capacity, you are talking about tons or something because it is misleading as I mentioned because if you are talking about tons, we can sell 1 ton at 2 lakhs, we can sell 1 ton at 3 lakhs, we can sell 1 ton at 4 lakhs. So, this is a little misleading number, because the structural parts, simpler parts are at some pricing, there are very, very simple parts on ADC 12 aluminum, with aluminum price itself is lower, and the tonnage.

So, overall, when you look at the tonnage currently, we are having, it is close to around 60,000-70,000 tons. Depending on product mix, we are at that range currently. So, if that is giving you an answer for the INR 2000-2200 Crore turnover, currently you can understand that the simpler two-wheeler parts like the covers, they are only 2 lakhs per ton, whereas if you look at the higher commodity, the passenger vehicles, cylinder heads and all, they are more than 3 lakh a ton. So, it will not be apple-to-apple, I would say.

Moderator: Thank you. The next question is from the line of Senthilkumar from Joindre Capital Services Limited. Please go ahead. Yes, we move to the next question from Varma Danish from Varma Associates. Please go ahead.

Varma Danish: My question is on the Sunbeam transaction. I understand that we have signed the MoU and it's still in the initial stages. But as per the MoU, it says that we have excluded Gurgaon. But the credit reports are that it says that it houses a lot of export business. Is it outside the scope of the transaction?

Srinivasan Ravi: The scope of the transaction is the entire business. So, the MoU because of there is a labor issue which is going on and the land is a little prime land, so the decision has not been taken how to handle all that. I think the current management is working out all that. Even we are not exactly participating in that situation because we are an outsider. So, we didn't want to take any past associated risks which are there.

But the business by itself, the Gurgaon plant, most of the business has been transferred to other plants. I think 60% has been transferred. I think 40% of Gurgaon is there. Today, as we speak in the entire revenue stream, it's only 15% to 20%. But you are right about the some of the critical revenue streams are coming from there for export market which customer consent is required to shift it.

But there are new customer orders which are there, which under development or has to be coming into production in the coming few quarters. So, that anyway has to go to a new site, which the current management has already taken permission from customers because they declared that they are not willing to expand Gurgaon facility or add any machinery there. So, that is a call which will be taken at appropriate time.

But to answer your first question, it is the business in total, machinery in total, and the land and building in the initial discussion was excluded. And the plant was supposed to be managed by them until they find a resolution with the labor also. So, this is what is the question and the debt, they have to settle the debt also. That was the part of the discussion. So, I am not supposed to talk anything more than this. Sorry, I cannot answer any more questions on this.

Moderator: The next question is from the line of Neel from ValueQuest. Please go ahead.

Neel: So, I broadly had two questions. Firstly, on Sunbeam, we are acquiring an asset which is quite stressed over the last five years. If we look at the numbers after the Kedaara acquisition, they have been making huge losses and the debt on books is also quite high. So, just wanted to understand what your rationale behind this is. Obviously, I know the customer profile, and all is there. But besides that, anything that you are missing out on? And what is the kind of projection that we have done in terms of the turnaround we can do in this short-term?

And secondly is on the acquisition process. So, once you are done with Sunbeam, how many acquisitions can we expect more from this QIP money and in which segment slash geography can we expect?

Srinivasan Ravi: You are right about your assessment of Sunbeam. FY '24 numbers are not finalized or not in public domain. FY '23 numbers are there. It is for everybody to see there what is really happening. Top line has been around 1,200, in the range of 1,200. I think you can see also in FY '22 or FY '23 number whichever has been published, you can see a high manpower cost which is there, which is not proportional to the turnover of 1,200 crores totally.

So, you can also understand that they have been trying to shift the plant and they created one more plant in that aspect. There has been shifting cost. There have been duplicate investments which are there. So, definitely it has been stretched.

So, I want to put it a matter of fact, very, very clearly, we are not taking over any debt of the company. That is clear on this matter. So, that is 100% very clear from day one on this matter. So, whatever is the finalization, which is going to happen, it will be for the business and assets somewhat on the theme of Fronberg, but whether we are taking over the assets or whether we are taking over the company, only time will tell. So, I don't want to comment on that. But we are not really paying for the company for our taking over the debt is what you need to bear in mind.

So, I think beyond that, I will not be able to say anything because still it is, and we are very, very prudent to use the money of the company. You see how we have used DR Axion and suddenly, you have also seen the German acquisition is, the acquisition cost is only INR 60 crore, but we are putting in another INR 60 crore as a precautionary method for the future requirements and we are sure that it is already EBIT positive. So, we are sure about the returns and return of capital. So, we are very careful about using the money.

The third point about how many more acquisitions? Yes, this acquisition of DR Axion has been aluminum and Sunbeam is ongoing. I think it is finalized yet. It is again on aluminum. The Fronberg is on the Powertrain portion of the business, and we will be looking at further within India only, not outside India for possibly industrial engineering and also Powertrain, which is a composite or it may be a composite unit also. We will be looking at that particular portion.

Everything depends on our financial matrix, how we are able to take it up and as one question that has come from Mr. Mukesh that our bandwidth and energy, we always consolidate on whatever we take over and once we are sure about it, then only we move to the next step. There is a lot of dialog happening for last 2, 3 years of an M&A, which we cannot disclose, but whatever works for us and whatever we are capable of managing and turning it around, we will touch upon it.

Moderator: The next question is from the line of Vinay Nadkarni from Hathway Investments Private Limited. Please go ahead.

Vinay Nadkarni: Yes, just one question. On the German acquisition, what is the revenue expected and when will it flow in and what kind of EBITDA are we looking at?

Srinivasan Ravi: I would say that the past three years of revenue, which is, sorry, calendar year '24 is not published yet, but I know an approximate number. But whatever '21, '22 and '23 we already put on our website. Yes, it's already been put. Calendar year '21 was EUR 23 Million. So, we will just take a number of Rs. 100. So, to convert it was INR 232 Crore in '21 calendar year, '22 was INR 255 Crore and calendar year '23 was INR 257 Crore and calendar year '24, as I understand from the management, it is around a similar number. So, it's around INR 250 Crore is the top line. And they have been having high single-digit EBITDA.

Moderator: The next question is from the line of Senthilkumar from Joindre Capital Services Limited. Please go ahead, sir.

Senthilkumar: I have two questions. First one is, sir, this quarter we have repaid around of 900 crores of debt, right? So, how much we can save in terms of interest costs in the forthcoming quarter of FY '25?

Srinivasan Ravi: Sir, the stated objective, whatever we have done is very clear. One is INR 250 Crore was for the acquisition of DR Axion and it is very clear in the stated proceeds. And 25% was for general corporate, which is around INR 300 Crore. So, only INR 650 Crore was going to debt reduction.

Senthilkumar: So, what will be the gross debt at the end of FY '25?

Srinivasan Ravi: No, I will not be able to comment on that because whether if Sunbeam goes through or doesn't go through and the CAPEX, how we are seeing FY '26 to unfold. If the real China plus One unfolds, we want to be ready. If the China plus One doesn't unfold, we should not be overexposed is the stand what we are taking. There is a lot of rationale behind what we are doing of detailed study about all the manufacturing countries in North America as well as in Europe and we see a tipping point that the winds may blow in India direction provided the suppliers are ready to deliver the global requirements. So, that to our investments will depend on the customer confidence and the orders for which we are going to get in the future.

Senthilkumar: And my second question, sir. Now, actually, last few quarters, I could see that Powertrain business, we are reporting a negative growth on EBIT level, EBIT level on year-on-year basis. So, when can we expect a positive growth on this business, particularly?

Srinivasan Ravi: There are two tailwinds, which has to happen. One tailwind is, of course, the commercial vehicle pick up, which is in common public domain. Everybody knows that the customers, what they are doing and what is the commercial vehicle sales, how it has been behaving post FY '19. And literally, they had some uptrend post COVID and after that it is subdued, but I think it is all related to the GDP growth of the country.

Surely, there is a replacement market. I don't see that this trend can continue, negative trend on the commercial vehicle, it can continue for long, maybe for a year more and then afterwards it should pick up. Tractor has already seen some come back to a decent level, what we are seeing in the month of, this particular month of July and the tractor manufacturers seems to be upbeat for the coming year. So, both are related to the Powertrain.

On the passenger vehicle segment, we are doing decently well already and there is nothing which will improve from that particular point. Yes, we have got some more business on the passenger vehicle segment on the Powertrain, which will have some financial result coming from next financial year. This is the total headline.

But I want to now highlight that last three years we have been working on one particular segment, the industrial engineering segment. First, we have set up the machine shop for that. The machine shop is mostly ready. In the last two, three years, we have diligently invested. Now, for the foundry, we have not gone for the engine blocks. We have gone for a general-purpose Industrial engineering foundry, because there is a lot of development cycle time with two, three years for a large engine block weighing 10 tons or 6 tons because engine block will cost anywhere INR 10 lakhs, INR 20 lakhs per part, totally. It is not about a simple part and the development cost is running into INR 20 Crore, something like this, which customer has to bear even more, including the testing.

So, the gestation period being very, very long, we have been very careful about committing, but I can confidently say one thing that we are very, very secure for future growth in the Powertrain in the industrial engine segment. That is when we are very confident, we renamed the Auto Powertrain division to Powertrain division totally. And all our customers are in the range of maybe USD 40 billion, USD 60 billion sort of revenue customers, which are only making engines, I would say, totally or mostly, 90% of their, 80% of their revenue are coming from engine and Powertrain related activity. And this is the tip of the iceberg and this, the forging companies have been very, very good at exploiting this for decades together, but on the cast iron foundry segment, nobody was able to do this activity, nor the machining capability for this high level of machining was there.

So, we are entering into a new segment of the market, which we have very high growth potential. So, when will the potential happen? It will happen from FY '27 onwards. FY '26, from Q4 onwards it will start seeing, but after that we will see, I think, many years of good growth on the Powertrain, regardless of the commercial vehicle business. But we also see headwinds in Europe and U.S. for tier 1 companies, which more and more outsourcing is coming to India. That is also will be another tailwind. So, Powertrain by itself, it is a lull now, but the long-term prospects are very, very strong.

And I want to answer one previous question about aluminum from, I think, 10 minutes back, on a per ton basis. See, I think we are not valuing whether the Powertrain business per ton, nor aluminum on per ton. So, aluminum has also got very, very critical machining.

Now what we are targeting for exports is not only aluminum casting by itself, it is the machining strength also which we portray in that. So, calculating capacity by tonnage will not be the right thing on this matter. And we have proved over a period of many, many years that on high-end machining we have proved very well, both on the Powertrain as well as on aluminum.

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

Joseph George: I just have one question that is in relation to the German acquisition. So, you will be investing, say, approximately INR 120 Crore and if I look at the current revenue run rate of about EUR 25 Million, for next year it will add maybe 3% or 4% to your consolidated revenues.

Now, when I think about it, for 3% or 4% addition to revenue, you are going to a complete new geography. INR 120 Crore is not a big number, but completely new geography, new challenges etc. So, I wanted to understand what really is the grand plan behind all of this? I am sure you are not making this acquisition for 3% or 4% addition to revenue.

So, is it that the EUR 25 Million revenue can go up 2x, 3x based on the current capacity that they have or is it that you can use that technology to maybe introduce new products in India for Indian customers or whether you can get orders from European or American customers for manufacturing these products at a lower cost in India with some color on all these things, please?

Srinivasan Ravi: Thanks so much, Joseph, for this question. I want to say that the engine manufacturing itself, the larger engines, we are talking about 12-cylinder, 16-cylinder, 80-liter, 120-liter, 150-liter sort of engines, is an exclusive club of less than six players globally, totally, overall. And if you look at the largest players, their revenues are in the upward of $50 billion and the smaller players are operating between $10 billion to $15 billion.

Hardly there are six players in the world, and they are exclusive. And some of them have got their own foundries which is catering to their own requirement. Most of them have got their own machine shops and the costing is not a very critical situation for them because of the product which is highly sensitive and should be highly durable and this has never come out of the North American and the Western Europe market. And in Western Europe, Germany has got the bigger say and we have a few players in the UK and that is it, totally.

So, now when we are acquiring a small portion of a larger foundry group, we are getting into that exclusive club with a small entry fee, I would say. On our own to develop all these products, it is going to take 5 to 8 years' time and to get the confidence of customer. And this is growing business.

Now the order book for these customers are totally full for many, many years because of the data centers, especially for artificial intelligence which is coming up. So, we are seeing a double-digit growth for many years for this sort of industrial engines and new engine development also is taking place in a big way because of the emission norms and now it's all flexi-fuel. The same engines are being used for hydrogen, vegetable oil and I would say LNG, CNG, diesel, gasoline, all these, now everybody is making universal engines.

So, power density is increasing, and it has set up a revolution in the entire engine world totally for a backup power generation. So, this means there has to be capacity build-up somewhere in the world. We see North America, there is no capacity build-up. In Brazil, there is no capacity build up. That is the one of the largest foundries also is in Brazil. Then in Europe, you know the headwinds, what is happening.

So, the other dominant factor is China, which already has got a lot of share of this business, and the end customers are not willing to increase their share of business again to the same country, which is having some geopolitical situation. In their mind, they would rather like to do it in India, but there is no Indian supplier. This is the problem.

The second most important point is the manufacturing base in Germany is a little declining because of, again, political situations and other change in the workforce attitudes in the younger workforce, the new workforce which is coming. So, you might have read in Bloomberg that manufacturing has declined even in countries in Germany, which is well published news.

So, we see that the China plus One strategy to be a replacement for Europe or replacement for American manufacturing for these large engine blocks in India is a very good, we stand a very good chance. So, for that chance, we need to leapfrog over our competition, rest of the world. I think we are making the right move at the right time. So, the business is much, much larger in scale than the acquisition plan that we have put in Germany.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf: In one of your comments, you had mentioned that you are actually not looking to put the foundry capacity for those stationary engine blocks. So, would you kind of, you know, where would you be able to source those raw castings from then for the business that you are looking beyond say FY '26?

Srinivasan Ravi: I think I should rephrase my earlier statement. I think I have been misunderstood. Sorry about it. I said that the development cycle for these engines are the blocks are two years, three years, and no foundry can afford to put up, nobody can put up an offer to put up and wait for four years for the product to click. And no customer is going to place an order on a Greenfield foundry for those engine blocks, which is highly risky for them. For the product lifecycle, they have to invest INR 20, 30 Crore per part per engine from their site investment for the tooling and the, I would say, the engine testing procedures.

So, we have put a general engineering foundry in phase one, which is catering to general engineering parts, including the wind turbine gearbox housing, which is a ready market for us. We are already machining those parts and already we have started the development of these parts. These cycle times for development are between 6 months to 9 months and we have secured order for engine block and that will already is under development, but the invoicing or the sales will come in only in FY '27 Q4 onwards. That is the gestation period.

So, that is the reason the foundry will be initially called an industrial engineering foundry. Then it will become a composite foundry for industrial engineering as well as for Powertrain. So, for that to reduce the learning and to also to give more confidence to the customer and to have a footprint in Europe, I think the Fronberg acquisition is the key factor and we are well known to work very, very closely with Germans with full trust. We have seen that our association with the leading truck manufacturer has already completed now 15 years and going stronger than ever.

Mukesh Saraf: And the other question that I was having is on your standalone aluminum business. I think previous quarter you had mentioned that around this 1st Quarter we would start seeing the export orders for the passenger vehicle side of it start kicking in. So, have we started seeing any of those orders getting commercialized in this 1st Quarter?

Srinivasan Ravi: We have done two trial shipments already completed. Third trial shipment is going next week and production is slated to start from Q4 onwards. Next year we are looking at an upward revenue of around INR 125 Crore from the export of this particular product to Korea.

Mukesh Saraf: So, while your trial is started, now you are saying that only Q4 onwards the major supplies will start?

Srinivasan Ravi: Yes, we started supplying. It is already under testing and things like that and Q4 means from December onwards we will start shipment. For them they always do the calendar year subject. So, I think we will see Q4 revenue and next year full year revenue will be there.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Srinivasan Ravi for closing comments.

Srinivasan Ravi: Thank you very much for patiently listening through the Earnings Call and participating in the Earnings Call. I think I wish to reiterate that we are subscale in the Powertrain as well as aluminum division and when we look at the growth opportunities for the global requirement, we need to change our mindset from small scale to at least medium scale, I would say, in the global context.

So, this is what the journey Craftsman wants to undertake, and we want to be a global player in the Powertrain as well as aluminum business. And I thank all the investors for their kind support for all these years and also for a successful raising from the QIP. 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)