Craftsman AUTOMATION

16th May, 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 Audited Financial Results for the quarter and year ended 31st March, 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 19th April, 2022 and 10th May, 2022, we are enclosing herewith the transcript of the earnings conference call organized on Tuesday, the 10th May,2022 at 03.30 P.M. (IST) on the Audited Financial Results for the quarter and year ended 31st March, 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

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

Shainshad Aduvanni
Company Secretary and Compliance Officer

Encl: As above

Craftsman Automation Limited

Registered Office:
Senthel Towers, 4th Floor
1078, Avanashi Road
Coimbatore - 641 018
Tamilnadu, India

tel : +91 422 71 650 00
fax : +91 422 71 650 56
info@craftsmanautomation.com
www.craftsmanautomation.com

CIN No : L28991TZ1986PLC001816
GST No : 33AABCC2461K1ZW

CRAFTSMAN AUTOMATION LIMITED

Earnings Conference Call on the
Audited Financial Results for the quarter and year ended 31st March, 2022
10th May, 2022

Moderator: Ladies and gentlemen good day and welcome to Craftsman Automation Limited Investor Call to discuss the Financial Performance of the Company for the quarter and year ended 31st March 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 operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srinivasan Ravi – Chairman and Managing Director of Craftsman Automation Limited. Thank you and over to you sir.

Srinivasan Ravi: Good afternoon, everybody. Thank you very much for joining. It gives me immense pleasure in welcoming all for earnings call for the quarter as well as the year ended March '22, FY22.

Craftsman Automation has successfully completed one year of listing of the shares and I thank you for your overwhelming support. I will just give a brief note about the industry situation now. In FY21-22 the passenger vehicles and commercial vehicles witnessed growth whereas we were quite disappointed with the two-wheeler segment which has declined by 11% due to obvious reasons. There is an overall decline in the automotive industry sales by 6%. The recent Ukraine war also has some impact on the global economy and also commodity prices, availability of materials and also leading to some inflation. Moreover, recent lockdowns in key manufacturing and trade-hubs in China has impacted supplies of first of all our customers and this has also led to some little muted demand in the Q4. The prices of major raw material and fuel have been increasing continuously, steel prices are up 23% and aluminium prices are up by 35% compared to March '21.

In spite of the dynamic and challenging environment Craftsman has made a better performance and I would like to take you through the highlights of Q4 and FY21-22. Standalone financials; highest ever sales ₹2,200 Crores, which is 43% over last year in gross terms on the top line and I would say it is 32% in real terms for the value addition, the PBT of ₹248 Crores growth of 68% over previous year. Turnover has grown 43% and stands at ₹2,206 Crores as against ₹1,546 Crores. PBT ₹248 Crores as against PBT ₹148 Crores in the previous year. Consolidated PBT has crossed ₹250 Crores that is ₹252 Crores. Highest ever PAT ₹160 Crores; last year was ₹97 Crores. EBITDA has grown 20% from ₹448 Crores this year has been ₹539 Crores. CAPEX is more or less in line with our depreciation, that is ₹ 227 Crores to enhance technological upgradation wherever is required and for addressing the emerging opportunities.

The company has performed decently well in major key financial areas despite of some headwinds. The earlier guidance on the debt reduction has happened little on the term loan front but not on the working capital. It is hugely driven by increased commodity prices and availability of material on time. Your company had to increase the inventory and that led to increased borrowing and working capital. The term loan we were able to reduce a little, so overall debt has more or less remained same. That is the only guidance which we had given earlier we could not meet that. Debt to equity has been improved from 0.72 times last year to 0.63 times this year. Debt to EBITDA which was 1.57 times now stands at 1.33 times. EBITDA percentage 29% has dropped to 24% but that is in line with the commodity price increase which had a pass through and it will be also in the future. These EBITDA numbers will get recalibrated and I would request therefore to look at the value addition portion. EBIT from FY21 was 16% and FY22 was 15%. PBT increased from 10% to 11%. PAT has increased from 6% to 7%. The current ratio improved from 0.96 times to 1.03 times, ROCE pre-tax which was 16% last year now it is 20%, ROE which was 11% last year is now 15%. EPS has improved from ₹48 now to ₹76.

Segment wise results:

The automotive powertrain has grown the top line by 42%. That is the number standard ₹1154 Crores for the year, last year was ₹811 Crores. Auto aluminium was ₹440 Crores, last year was ₹330 Crores but this is mostly due to aluminium commodity price increase, industrial engineering was ₹612 Crores compared to ₹405 Crores last year.

Segment EBIT:

The powertrain segment EBIT stands at ₹304 Crores compared to ₹221 Crores last year. Auto aluminium EBIT was ₹10 Crores, last year was ₹3 Crores, industry engineering is ₹64 Crores, last year was ₹75 Crores. Unallocated stands around the same level of ₹45 Crores. The total EBIT has been ₹333 Crores for the year compared to last year of ₹248 Crores. I will know open the floor for any questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is in the line of Nishit Jalan from Axis Capital.

Nishit Jalan: The first question is on the overall industry growth across segments; since we deal in multiple segments how are you seeing industry growth especially given the fact that crude has gone up and commodity prices have gone up. Have you started to see any cut in production schedule by OEMs? And related to that how has been order inflows for you, any meaningful order wins since last quarter that you would want to highlight? That is the first question I'll come back for the remaining two to questions after you answer.

Srinivasan Ravi: The industry has been, as far as the trend goes in the current quarter, we are seeing strong demand in comparison with the last year first quarter I would say, that is on comparison. It is almost in line with the Q4 numbers is what we feel currently. Q4, we had muted Q4 for the farm sector which Q1 looks better on the farm sector, commercial vehicle there are headwinds because of the fuel price increase but the headwinds are also helping the real heavy-duty segment to sell because they are more fuel efficient and the fleet owners needs to modernize to keep their costs down. It is helping but now with the RBI announcing some interest rate hike I don't know how it will affect but still I think the numbers are quite strong in Q1 also. The two-wheeler segment has declined but I don't think it'll slide further the numbers because it also has been factored in the Q4 itself where we saw an industry number of hardly 1.2 million, approximately. There are some exports which are there. We feel that the current year Q1 will be almost a 90% of Q4 which is not normal. The order wins, we have some of our customers, they're commentable production for the passenger vehicle segment and the SUV segment. We are seeing good traction on the continuously increasing numbers there. They seem to also work on shortage. We are seeing good numbers there. We also won some orders for the auto aluminium which I will not like to elaborate but it is quite sizeable, further going down. Once we are ready with the CAPEX then the CAPEX is minor but when we're ready with the project plan and when it's going to be launched it will be in the next financial year. We will come up in the next earnings call with more details about the order win in the auto aluminium. In the auto powertrain there have been continuous small wins and we are quite confident that all the three segments the auto power train, auto aluminium and the industrial engineering all will see a real growth of 20% for commodities already been factored in. I hope I answered your question Nishit, anything specific to elaborate.

Nishit Jalan: It's pretty good to hear the kind of growth targets you have. My second question is on profitability; industrial segment we have seen good improvement in margins, last three quarters have been tough. Just wanted to understand what has changed there, how much of it is because of product mix or you were looking to get price hikes from your customer. Have these price hikes come through or the impact of price hikes will come into coming quarters? And secondly in the aluminium business we understand that there's a lead lag impact of higher aluminium costs. Just wanted to understand how should we look at profitability in the aluminium segment, both from a near term perspective and from a medium-term perspective in terms of EBITDA margin or EBIT margin whatever you want to guide?

Srinivasan Ravi: I'll answer the second part of your question first; in the auto power train we are immune to any commodity price which is 100% straight pass through. There is actually no advantage / disadvantage there at all, in auto aluminium it was a trailing quarter but now it is more real time. I would say it is more realistic average has been taken and almost all the companies are following this now. That means there will be not any leakage of revenue because of the commodity prices even if the commodity prices continue to increase going forward. We are well insulated going forward. There are two segments of industrial engineering business. One is the high-end sub-assemblies and contract manufacturing which we have been doing for more than 2.5 to 3 decades now. There we are recalibrating all the costs and we are going to approach the customer in the current quarter because frequent term corrections we don't engage because there are also overseas customers where we are directly exporting and they are also seeing huge inflation in their own areas, especially in Europe. Our exports are more or less equal with Europe, US, and Japan, it is quite well. The advantage what we have is we have a large longstanding relationship with our customers. We don't see any issue of getting the, I would say, genuine price protection going forward into Q2, totally. Whereas as I mentioned that only problem will be on the interest portion on the working capital which we need to now take a safety stock of some of the products what we are doing due to the huge fluctuation. If this moderates I think our working capital requirements will come down but also will improve the ROCE. So, I hope I answered your question, Nishit.

Nishit Jalan: So, what I can gather from your answer is that in the industrial segment the price hike benefit is yet to come. There could be further margin improvement in the segment going ahead, is that correct understanding?

Srinivasan Ravi: That is correct. The other segment on the I&E which is a storage solution business, we have made our inroads and we have marked our presence in the market. We're a very strong player now. In the static racking we are getting right prices now and commodity also we are having a good leverage. We have reached the optimum size. We are looking at growing more than 50% in the current year in the storage solution. Last year also we grew and last year we have crossed around ₹250 Crores., (₹104 Crores in the last year has become ₹253 Crores) on the storage solution business. This year we expect to grow by another minimum of 50%. The automated storage solution business is also taking off. Future margins are surely better. The margin on the industrial engineering segment as far as the influence or the negative influence of the storage solution business which we had last year will get nullified in this coming quarter itself.

Nishit Jalan: Would you would you like to give any guidance on the profitability in aluminium business segment because that has been quite volatile because of external factors and lower capacity utilization as well? Any guidance you would want to give from a medium-term perspective and should we expect that a current level of margins to sustain in the next couple of quarters or do we expect an improvement or further decline here?

Srinivasan Ravi: No, I will go by annual guidance because today everybody's giving monthly schedules and I don't want to just rush numbers. We had a negative ROCE in FY21 if you remember and this has turned positive in this year at least on the ROCE front, EBIT also was very low, pre-tax ROCE was (-3%) last year. Now it has become 2%. We will be at two-digit ROCE in the current financial year. We are quite confident about that number on ROCE and EBIT number if you look at EBIT percentage, EBIT margin was (-3.8%) in FY21 for auto aluminium, now it is 1.9%. I think the worst is behind us. Here also the EBIT margin we will be in two digits going forward.

Moderator: We'll move on to the next question. That is from the line of Sagar Parekh from Deep Financial Consultants.

Sagar Parekh: I have two questions. First, I want the capacity utilization number for all the three divisions if you can give us, please.

Srinivasan Ravi: Whole year we were around ranging between 60% to 70% on auto powertrain for the full year and some months we had higher percentage. Auto aluminium for the full year has been around 40% odd.

Sagar Parekh: 40%?

Srinivasan Ravi: For the full year 57% on the auto aluminium.

Sagar Parekh: How much 57%?

Srinivasan Ravi: 57%.

Sagar Parekh: So, 40% is what then?

Srinivasan Ravi: No sorry, I was looking at some quarter.

Sagar Parekh: And industrial engineering?

Srinivasan Ravi: Industrial engineering our capacity utilization cannot be exactly calculated because it depends on too many products. There is a lot of headroom there because it is not CAPEX intensive, it's product intensive. I think we have headroom to increase 20%.

Sagar Parekh: Then this 34% rise in the sales in aluminium products for FY22 which from 330 to 440 that is largely driven by aluminium price increases or it's volume driven growth as well?

Srinivasan Ravi: Only marginally on the volume driven growth, that is more driven by the price increase in the top line.

Sagar Parekh: With some order wins that you mentioned at the start of the call, then can we expect some volume growth as well for FY23?

Srinivasan Ravi: Yes, volume growth is surely there on the cards for FY23 and I would rather give a 3-year number. What was ₹440 Crores for FY22 if I fast forward to ‘26 I think we'll reach ₹1000 Crores number and we'll be very close to the ₹1000 Crores number in the previous year itself, the way it is going, the order wins what we're having. But I would not like to elaborate on these order wins currently.

Sagar Parekh: This growth will be driven by passenger vehicle or will it be mix….

Srinivasan Ravi: It is from passenger vehicles. A little on the two-wheeler EV also but mainly it's on the passenger vehicles. It is a combination of conventional IC engines, passenger vehicles and as well as EV also.

Sagar Parekh: My second question was more on the medium-term outlook, actually on the automotive powertrain division. I believe that Daimler has decided to stop its medium duty engines and they have signed a pack with Cummins to provide this medium duty engine for their trucks and buses. How does that impact us and what are your thoughts on this?

Srinivasan Ravi: Daimler the topline is quite high because we are supplying along with material and around more than 70% is raw material cost which is in top line. The value addition portion for Daimler is not a significant number as far as the auto powertrain value addition goes as a whole. What we see is even for Daimler, 80% of the value addition comes from our exports through Daimler to Brazil and only 20% comes from Daimler India. What is medium duty trucks in Europe is called heavy duty trucks here. The engines that is going to be getting changed as you mentioned, is on the 15,000 trucks which they produce in India. So that around 10,000 trucks we'll stop, 5,000 will continue because these are for other countries, they are still at the old emission level. Brazil the volume is around 60,000. So, when you look at the overall number of 75,000 what will get impacted in FY25 will be 10,000. And again, a portion of that in the FY28 there's a chance that Daimler Brazil also may shift to Cummins if the emission norm changes, that is still not on the plan at all as of now. I don't see that as today a big challenge because our dependency on Daimler itself is reducing as even in the current year I would say if you look at the value addition.

Sagar Parekh: Is it possible to quantify our total exposure to Daimler or overall revenues to Daimler?

Srinivasan Ravi: No, I don't want to talk about revenue. I'll talk about the value addition. Value addition on the auto powertrain. Last year we had done around ₹760 Crores totally on the auto powertrain on the value addition. I think around 80-90 Crores for the heavy-duty segment for Daimler will be there. Rest is medium duty which is they're going to continue for that. 10% will be the impact in FY27.

Sagar Parekh: FY25, right or FY27?

Srinivasan Ravi: No FY25 will be very small because Brazil is going to continue. Brazil is not yet moved to be BSVI, so when they move to BSVII only it will happen. That maybe on the card for FY28.

Sagar Parekh: This 80 to 90 Crores includes Brazil shipments also from here?

Srinivasan Ravi: Yes correct, Brazil shipments and the FUSO range will continue as we know.

Sagar Parekh: What will continue?

Srinivasan Ravi: The FUSO, the medium duty range, Daimler that supplies FUSO that will continue. So, we will see that there will be an 8%-9% impact in FY27-28. By the time our other auto powertrain business will grow and maybe the percentage will still come down. We see it growing in the auto powertrain because nobody's investing further there and consolidation is happening in India. I see that we will continue to grow in good double digit, 20% maybe for the next 2-3 years shortly, after that also I think the double-digit growth in spite of loss of Daimler in FY28 I think we'll continue.

Sagar Parekh: Just wanted to check this Daimler has given a target of like by 2030 they want to completely move away from ICE engines. Then the medium duty everything will be impacted then?

Srinivasan Ravi: Medium duty in India is more moving towards CNG and other things. It depends on government subsidy and regulations, I'm not the right person to say it. We're watching it very carefully but there's a lot of export also happening on the powertrain area to other countries especially African countries. I don't see that we are going to stop or reduce. Maybe the growth may be muted I would say.

Sagar Parekh: My last question for this aluminium business you said, you are targeting double digit EBIT margin for FY23, right?

Srinivasan Ravi: Yes.

Sagar Parekh: Because we were at about 2% for FY22. That will go to 10% or let's say 10% to 11%, so that'll be a massive jump in aluminium margin.

Srinivasan Ravi: Yes, correct, we are caught on the wrong side of the trailing quarter which we were buying aluminium at a price and selling it lower. Apart from the lower capacity utilization this was the reason. Now we've added some products which are having higher value and in steps I think our dependency on two-wheeler will come down in the next 2-3 years.

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

Joseph George: You mentioned that in FY22 there was a working capital hit because you have to increase inventory. What I want to understand was next year do you expect that to normalize and as a result from a cashflow perspective do you expect working capital to release cash in FY23?

Srinivasan Ravi: We are at least going to grow by 20% as I would say the guidance and taking into consideration current market condition, the war, whatever environment higher interest rates. So hopefully we'll do more than 20%.

Even at 20% level I don't see increase in working capital requirement. The number of days will come down and the commodity prices remain such as we will see a reduction in the working capital requirement.

Joseph George: Basically, it can either release or stay at the same level as FY22 and it will not hurt in FY23?

Srinivasan Ravi: No, it will not absorb money. I would say that even for 25% growth the working capital will not grow going forward.

Joseph George: The next question that I had was in relation to capacity utilization, you've already answered that question segment wise. But you would have a capacity increasing through the course of the year. I just wanted to rephrase that question. If all the plants that you had at the end of FY22 were to operate at 100% level or if for instance 90% of the optimum levels, if they were to operate at 90% levels what will be the annual revenue that we'll be able to generate? Of course, there is seasonality and all of that. But just to understand with respect to the revenue generating capacity of all the assets at the end of the FY22.

Srinivasan Ravi: I would confidently say that today our capacity to produce is—with the current product mix is—around ₹300 Crores a month.

Joseph George: So that comes over 3,500-3,600 understood. The last question that I had was could you give the storage solutions revenue for the fourth quarter? I mean you gave the number for the full year, I thought you mentioned ₹253 Crores. Could you give it for the fourth quarter as well?

Srinivasan Ravi: Yes, we will give it. You can shoot next question while CFO is taking the number out.

Joseph George: I am done with the questions.

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

Abhishek Jain: My first question was related with the powertrain margin. What is the revenue and margin outlook for the first quarter for powertrain business given recovery in the tractor segment volume and resentment which is more concentrated toward the assembly only?

Srinivasan Ravi: The guidance which we can safely assume is ₹600 Crores odd for Q1 with the same percentage for the auto powertrain, auto aluminium, industrial engineering.

Abhishek Jain: How much impact do you see in the revenue from the Daimler India in the powertrain business for the near term? I mean to say for FY23 and 24.

Srinivasan Ravi: Specifically, from a customer it's not right for me to answer so much in detail because it's a very strategic and also the point. Daimler, I think bulk of business comes from Daimler Brazil, I would say 70%-80%. So, I will not answer that question. To answer Mr. Joseph's earlier question about storage solution; we have ₹65 Crores revenue for Q4 last year. Abhishek, please pardon me for that. Because we need all our customers and I don't want to take any controversial questions here.

Abhishek Jain: What is your CAPEX and the debt repayment plan for FY23?

Srinivasan Ravi: FY23 our guidance for CAPEX as it stands today it may change going forward. As we mentioned that we are going for minimum growth of 20% but in case something changes quite dramatically to an upward growth then we may revise the CAPEX. But as of now it is almost in line with our depreciation portion, it is around ₹215 to ₹220 Crores is what we have planned for.

Abhishek Jain: Including maintenance CAPEX?

Srinivasan Ravi: Results coming contrary to the guidance. If it is much more than 20% then we may have to look at it.

Abhishek Jain: What is your repayment plan for FY23?

Srinivasan Ravi: I didn't get the question please, sorry Abhishek.

Abhishek Jain: What is your debt repayment plan for FY23?

Srinivasan Ravi: I think debt will reduce by around 100 Crores is what we expect, a combination of term loan as well as working capital loan. Our debt as of March '22 stands at ₹713 Crores, long-term debt has reduced from ₹546 Crores last year to ₹522 Crores. Working capital has increased from ₹150 Crores to ₹193 Crores. We don't expect working capital to increase further. We expect long-term debt to come down.

Abhishek Jain: And my next question is related with the industrial segment. This quarter we have seen improvement in the margin. Is it because of price hike which was due in the assemblies, sub-assemblies and the fully finished products or is it because of the some….

Srinivasan Ravi: I have lost your last sentence; you were not clear.

Abhishek Jain: There are two segments in the industrial, one is that storage solution system and another is the assemblies. In this quarter we have seen improvement in the margin. Is it because of the price hike which was due in the assemblies and sub-assembly side?

Srinivasan Ravi: No, we have not even requested for the price hike in the sub-assembly. We need to make the request. We'll be making the request shortly and we'll maybe getting it in Q2-Q3 period. It is more due to the pass through of the commodity prices for the storage solution which give the better returns.

Abhishek Jain: What is the current margin for storage solution business and the revenue in FY22?

Srinivasan Ravi: It will change from project-to-project Mr. Abhishek. But we are seeing good improvement there that's what I can tell you. Today our order book on the storage solution, as of date if we look at it, we have close to 150 Crores pending order.

Abhishek Jain: Most probably that this business will grow with a CAGR of 30%-35% going ahead?

Srinivasan Ravi: No, I think it will grow at 50% to 60%.

Abhishek Jain: What margin we can assume for this storage solution business?

Srinivasan Ravi: The EBITDA margin may be at a low double-digit for the storage solution but ROCE will be in line with the company's overall ROCE which is around 20% because this is not a high CAPEX business.

Abhishek Jain: Overall margin of the industrial side?

Srinivasan Ravi: It is now low, it has dropped from 17% to 16% EBITDA, but earlier we used to be 19% EBITDA. With these actions in place Mr. Abhishek whatever you had mentioned about price correction in the high-end assemblies and also better pricing for our storage solutions, we will go back to 17%-18% EBITDA margins.

Abhishek Jain: My last question is from the aluminium business. You won the new business for the automatic gearbox housing and the e-axle side. Can you throw some more light like the quantum of the business and the kind of the margin you will get there?

Srinivasan Ravi: For strategy reasons I would not like to name any customer because you know very well that some orders have been secured, some orders are about to be secured. I would like to discuss in in the next earnings call on this matter please.

Abhishek Jain: What was the contribution for the two-wheelers versus four-wheeler in aluminium business in this year and how would be the mix going ahead on FY23?

Srinivasan Ravi: FY23 we'll see a change 5%-10% from the current level of—I think it must be closer to 80%--it is 87% we will see it going below 80% in the current year. What we see is FY25 we will be at 50-50.

Abhishek Jain: Most probably the business from the PSA will come in FY24 end…

Srinivasan Ravi: It's not only PSA. We have got other orders from OEMs or Tier-1 suppliers which I would not like to elaborate now. Yes, it's quite sizable the orders. PSA or Stellantis is already mentioned in the last 1 year, so is it yet to start production. But these new order wins which we were expecting or just taken are going to come into production quickly because we see more speed of implementation by the OEMs themselves for these changes.

Moderator: The next question is in the line of Pranay Roop Chatterjee from Burman Capital.

Pranay Roop Chatterjee: Could you please share the value-added segment wise for Q4 2022 versus Q4 2021?

Srinivasan Ravi: You want the comparison, right?

Pranay Roop Chatterjee: Yes. Comparison of value-added segment wise, quarterly.

Srinivasan Ravi: For the year I will just quickly read through while we also read for the quarter also. The value add for auto powertrain for FY21 was ₹542 Crores and FY22 was ₹762 Crores, auto aluminium in FY21 was ₹121 Crores and in FY22 was ₹147 Crores, industrial engineering was ₹223 Crores in FY21 and ₹267 Crores in FY22. Now I am reading the numbers for you for the quarter; for the power train, the value addition for Q4 last year was ₹201 Crores versus ₹210 Crores in the Q4 of FY22. This is mainly because of the farm sector now coming back. Then for the aluminium segment, Q4 last year the value add was ₹39.62 Crores and this time it is also ₹36.5 Crores. More or less it's the same the drop into two-wheeler sales was quite significant in Q4 and the value addition for the industrial engineering segment last year was ₹62 Crores and this year has been ₹84 Crores.

Pranay Roop Chatterjee: Now in your industrial and engineering segment, you generated a revenue of ₹186 Crores approximately in Q4, out of which you said ₹65 Crores is storage which would mean that the other industrial segment is around ₹121 Crores. If I'm not wrong this ₹121 Crores last quarter was around ₹90 Crores, the non-storage portion. Is it true that it has actually registered 36% quarter-on-quarter growth, the other industrial segment?

Srinivasan Ravi: It may be right there but I would say that these are…the industrial engineering segment itself on the other high-end subassemblies we have to look at for the year because the one shipment the bigger subassembly product which doesn't go through in that particular quarter. It may reflect in the next quarter. These is not a daily sale figure or a monthly sales figure. That is what is my take on that.

Pranay Roop Chatterjee: If I look at your EBIT margins for industrial and engineering, it was around 16% if I'm not wrong, 30 Crores was the absolute number and percentage will be 16% which is significantly higher than what we've seen in past quarter. My question is are there any one-offs in the 16%?

Srinivasan Ravi: No, one offs. I think the automated storage solution, there was some supply where there's a better pass through is there and also in the static racking also our pricing was right. You're talking about Q4 or you're talking for the full year?

Pranay Roop Chatterjee: Q4. So Q4 has 16% EBIT margin?

Srinivasan Ravi: No, I am very sure. No, one offs.

Pranay Roop Chatterjee: My last question would be in the power train segment, has there been a broad change in the mix between M&HCV, construction equipment, PV and the other segments that you have? Do you see a broad change as of today versus let's say a couple of years back?

Srinivasan Ravi: We see some change going forward but otherwise there is no change as of now. Farm sector as usual is a little cyclic in nature and then depends on the monsoon plus also depends on the inventory which we are carrying. The CV for FY22 has been around 54%, the farm sector has been around 18%, off-highway around 20%, passenger vehicle has been 8%. So, I see the same way going forward also.

Pranay Roop Chatterjee: Last question and I am just back tracking a bit to the I&E margins. Since you said there no one-off; can we expect such similar margins in the next two-three quarters as well assuming more further price hikes in commodities?

Srinivasan Ravi: Yes, I think it is realistic to expect that, yes.

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

T. S. Vijay Sarthy: Just wanted to check, we hear from the market that there is some non-availability of raw materials with respect to aluminium forging side. Because of the pricing there are many export opportunities and supplies are not in a position to supply? Is that the case and is it continuing, that's one? Second last quarter, you had indicated about the 2-liter diesel engine were one of the components that would get localized and that will be a big opportunity. You said it will kickstart in '23. Is that on and could you give us more information on that?

Srinivasan Ravi: Yes, that orders have been received by us. It is already under development. There is also one very good factor and there is lot of customer participation in the CAPEX. So, our CAPEX is very much limited and there is very good visibility for the next 5 years forward with the customer and it is a very popular powertrain product with one of the world leading powertrain manufacturers. That is a very good line for us. That would be very sizable but I see that production here will continue and may be this may be used for the global hub and the future, we hope so at least is only a wishful thinking but we see other manufacturers from Japan who are making India as a global hub for the diesel engines especially for pickup trucks, small pickup trucks for the African market which is still at an emission level 1-2-3. And even also tractor manufacturers are increasing their exports from India to African countries because they are still basic at the emission level 1 and 2 totally or zero emission I would say. So, the manufacturing on the powertrain business will continue. Your first part of the question aluminium there is no problem about aluminium availability. It is only the fluctuating price and uncertainty in shipment, delay and for whatever may be raw materials coming in. Earlier it was also some commodities like, surprisingly silicon, which went three times more for a short period just like some of the other manganese say for the casting business. Of course, we are not impacted by the manganese. We don't see any issue there on the availability but now one point we need to take into consideration is the FOREX. Rupee has been depreciating a little now and that will have an impact on the import of the basic raw material or the ingots either way so we will see some inflation but I think aluminium has been decently steady in the last 2-3 months. The overall consumption of aluminium has not been great all over the world so we feel it will be quite stable going forward. We don't see it inflationary.

T. S. Vijay Sarthy: Another follow-up question on this 2-liter diesel. Does that spread your wings to some of these commercial vehicles also given that it could be a key component across the segments within the truck, that is one? Second is there any way that you could help us understand the number, quantification in terms of the size and all that?

Srinivasan Ravi: We are talking to for various orders for the trucks also for the engines for fully finished blocks and heads totally. The reason being that the variety is becoming more in the market here. You will see the trucks are having now 16-18 wheels, 24 wheels, something like this so the number of axles are also more. So, we see that migration and the volume, the number of powertrain requirements variety is also increasing. So, we are getting good enquiries as we are the only manufacturer who can machine these powertrain products to the required precision for BS-VI. We see good opportunity.

T. S. Vijay Sarthy: This is over and above the peak revenue of Rs. 1,500 Crores that you would do in automotives trucks were to grow. Am I right or this order is part of the Rs. 1,500 Crores?

Srinivasan Ravi: No, we have been the top line of Rs. 1,150 Crores in the last year and we expect to grow a minimum of 20% this year and as things stand, we also expect that to continue that 20% level for at least the next 2-3 years then it should moderate. There will be some loss of some business but there is some additional business so it should moderate at around 10% growth.

T. S. Vijay Sarthy: What is the under recovery in the cost that you had to take up now and given that the raw the material price have just gone up in the last 2 months, that we will see an impact while there not be still part of the consumption basket but whatever is the under recovery that we have till now could you help us quantify and therefore the impact that we will see in the first half?

Srinivasan Ravi: No, auto powertrain we don't have under recovery or over recovery because it's a straight pass through so it is in contract with the customer and in this case our esteemed supply partner, very clearly and in some of the cases only job work where we don't even buy the material. So, we are not exposed there at all. Aluminium it is more on the real terms now. All the manufacturers have moved into this method where it doesn't hurt the supplier.

T. S. Vijay Sarthy: So is under recovery expected in the industrial business and therefore these current margins may not sustain in the medium-term. Is that a fair assumption or?

Srinivasan Ravi: No, there is no under recovery as of today. We had under recovery for the auto aluminium business last year but we don't have any under recovery for the auto aluminium business. Industrial engineering business we are yet to pass through the increases for the high-end product supposedly manufacturing and storage it is, at least on Q4 it is real time now more or less. So, I don't see any under recovery going forward.

Moderator: The next question is from the line of Amyn Pirani from J. P. Morgan.

Amyn Pirani: First of all, just wanted to re-visit some commentary you made in tractors. I think I was not able to fully follow. You said that farm equipment or tractors is around 8% of your revenues?

Srinivasan Ravi: no, passenger vehicles. Passenger vehicles is 8%, farm will be 18% I think so. Construction equipment is around 20%.

Amyn Pirani: 18% to 20%?

Srinivasan Ravi: I will read out the numbers for FY22. The commercial vehicle top line was ₹620 Crores, off-highway was to ₹232 Crores , passenger vehicles ₹97 Crores, farm equipment was ₹206 Crores.

Amyn Pirani: You were also mentioning that while 4Q was a weak quarter in terms of the OEM requirements from the farm side but you have seen a sequential recovery in 1Q? Is that correct?

Srinivasan Ravi: Yes, everybody's numbers for the month of May projections are quite high.

Amyn Pirani: Isn't a seasonal thing or you are seeing over and above that, you are seeing a strength in the ordering?

Srinivasan Ravi: It is seasonal, agreed. I don't see anything apart from the seasonal but exports are little steady. As I mentioned almost everybody is getting into exports to Africa. The baseline is improving. 10% of the revenue now is coming from exports and this is likely to increase going forward. Once the construction sector sees some rebound the tractors sale will increase. So that is also going to be used for non-agri segment also.

Amyn Pirani: Just on the cost side, obviously there has been a lot of discussion around commodity prices and pass through but just wanted to get a sense from you; are you seeing a high inflation in non-commodity related expenses for you and especially on the power side? And the second part of the question is given the kind of noise that we are hearing on coal availability and power shortage and power cuts; as a company have you faced any issues on that front or do you anticipate any issues either on power availability or power cost going forward?

Srinivasan Ravi: I will answer that in two parts. First, I will answer the power and second, I will answer the other inflationary cost which we already have faced in the past year itself, that is one of the reasons some of the performance, we are not happy with the performance because we had these impacts. There is power outages in the North wherever we are having the plants as well as in the West. And these outages are little disturbing because it is stopping the production also in a way. It is not the planned outage so this is a problem. And today power cost per unit which is around Rs. 7-8 a unit when we are getting it from the state utilities or we are buying from the exchange or we have some contracts with the private power producers. When we generate power with our generating engines, the power cost is coming to around Rs. 35 because it is 2.8 units per liter of diesel. Then we talk about diesel cost more than Rs. 100 then gas means not all the plants are connected to the gas pipeline so we are now changing to gas. But overall, our power cost for the company as a whole, on the top line, it's around 5% and on the value addition portion of it, it may be close to around 9%-10% is what my rough estimate is. The 9%-10% I think on the value addition will increase surely going forward. So, it may shave-off to 1 or 2 EBITDA level and percentage points but better capacity utilization and topline growth will have led to better overheads absorption and that should more than nullify that. I will come to the elephant in the room. Elephant in the room is not the power for us, it is not the commodity for us. The commodity is anyway level playing segment for everybody in the market whether it is delayed or something, everything will fall in place. I think the elephant in the room for every company, most of the companies like us will be on the manufacturing cost related to manpower which they are seeing for 20%-30% inflation once the annual report is published you will see the numbers would have gone up by 20% on the manpower related expenses. This is one of the reasons which was I was little guarded or reserved while talking about CAPEXs. We are reserving some of the CAPEX as in the last year and the current year also for modernization as well as semi automation or automation which we build such products ourselves. So, we are keeping a keen eye on the cost of people. We need to give them the proper salary increase. So, we have to compensate not only for inflation, but also, we have to see them growing. So, we cannot have increased headcount. The means the 20%-30% growth what we are planning has to come from with the same amount of people. This means that we have to rethink a little, which we've been always conscious about. Today on our value addition, the manpower costs are quite significant. It is around close to 18%-20%, I would say on the value addition. No point in talking about the top line to manpower cost because top line can be anything because of the commodity price. We are cognizant of the fact that we have to work on this.

Moderator: We'll move on to the next question that is from the line of Vishal Srivastav from Swan Investments.

Vishal Srivastav: Most of the questions have got answered. I have one question regarding CAPEX you said that it will be around Rs. 215-220 Crores odd for FY23?

Srinivasan Ravi: Yes, I will. If you're looking at a 20%-25% growth, it will be at that level. Suppose we are revising the growth number then we may come back to you at or after in during the Q2 earnings call. If there is anything dramatically changing.

Vishal Srivastav: My second question is regarding the most sustainable run rate for the aluminium product business. Are we anywhere targeting, our earlier targets were around 10% to 12%? Are you seeing that sort of achievable in the near future?

Srinivasan Ravi: Yes, we are getting orders for higher tonnage presses what we have which are a non-two-wheeler business, which is a better revenue and also a little intricate machining, number two and also another segments of the auto-powertrain like gravity die-casting and low-pressure die-casting we are also getting some new businesses which are not CAPEX intensive but there is also our skill level there is and we have a more than 20-year history in there. We will continue to do well on the auto aluminium. I think this with the EV opening up, it's becoming more important I would say.

Vishal Srivastav: Going forward, from a 2-year perspective what is your target for auto aluminium product business in terms of margin?

Srinivasan Ravi: See we are talking about the operating leverage to set in. When you're talking about FY26, I can very confidently say the top line should be in the region of Rs. 1,000 Crores, that is very clear. The FY25 depends on how the economy moves, what happens in rest of the world. We are seeing frequent headwinds coming in. Whenever the operating leverage when you cross the 70% level of the utilization level, I think the margins are said to improve. I will just take one more sentence added to that. We are the last entrant, major entrant in the auto aluminium business. That has to be taken. In spite of that we have performed. Now with the turbulence in the market for the new products coming in from almost all the PVs, this will change the game going forward as we may get new customers in our fold. That is what we expect.

Vishal Srivastav: At Rs. 1,000 Crores revenue by FY26 which you are expecting. Can we be near the EBITDA margin of close to around 15%-16% odd?

Srinivasan Ravi: The aluminium prices may even change the top line to say Rs. 1,100 or 1,200 or 900 if the aluminium prices drops. I would rather talk about the return of capital employed which will be very close to 15%, above 15% and more close to 20% is what I would look at. And EBIT margins also at a good two-digit. The EBITDA is a little risky for me to talk about than compared to the top line.

Vishal Srivastav: My last question is regarding there has been increasing trend of other expenditure in your P&L. This quarter also Rs. 133 Crores odd compared to last quarter Rs. 119 Crores odd and it has been sequentially rising. Any important highlights you want to share?

Srinivasan Ravi: It's still proportional to the sales

Vishal Srivastav: I wanted to know is there any one-offs here or this is the sustainable run rate as a percentage to net sales?

Srinivasan Ravi: You're looking net sales right? If you're looking net sales, yes there is inflation on the manpower cost which is going to be there very clearly. You compared to the value addition, the net sales, then I think it'll be in line. There's no one off there.

Moderator: The next question is from the line of Disha Sheth from Anvil Investments.

Disha Sheth: I wanted to ask that if we are concentrating on auto aluminium business. That will not reduce the overall margins of the company as powertrain has a very high margin and the growth in powertrain is lesser than growth in auto aluminium. I would just want your view on that?

Srinivasan Ravi: Auto powertrain if we look at it, we have invested long back or from we started the investment in 2004. So, we have net assets, the amount of depreciation level is quite low. Whereas the auto aluminium is quite young. That is why you see that as the margins are lower but with better operating leverage auto aluminium also will pick up the margins and that is very clear and more segments will grow. I don't see one segment are not growing at all.

Disha Sheth: Auto aluminium margins once the business grows margins are same as auto powertrain?

Srinivasan Ravi: On the value addition. You have to knock off the material cost then look at the value addition. I think the margins will be same.

Disha Sheth: Just a repeat question. You mentioned that Daimler there was some Rs. 760 Crores of revenue in FY22, right? Did I get it right?

Srinivasan Ravi: No.

Disha Sheth: I had just missed that. You mentioned something.

Srinivasan Ravi: I don't want to talk about numbers of customer revenue which as I mentioned. I talked about ₹760 Crores for the company as a value addition post of it and I said that Daimler constitutes to around slightly above two-digit on that revenue, on the value addition.

Disha Sheth: What is your view on CV going forward and the CV replacement both OE & replacement and your view from powertrain?

Srinivasan Ravi: See the scrappage policy is a natural phenomenon which is already happening. We don't see a 15-year-old truck running on the highway because it is sub-economical to run it, that is also unreliable. The powertrain life is, with the increased axle load norms of the government to make it more efficient. I think the powertrain life is only around 6,00,000 kilometers and today good fleet operators are operating an average of around 500-600 kilometers a day. Within 4 years I think the vehicle needs replacement and the vehicle needs to go for secondary use where it will take bulk cargo but not the heavy cargo. So, this modernization will continue.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investments.

Pritesh Chheda: Two clarification. The mix that you mentioned PV, farm, construction that was for powertrain, right?

Srinivasan Ravi: Yes, for powertrain. We didn't talk about EV at all. We talked about commercial vehicles.

Pritesh Chheda: You mentioned that, you said commercial vehicles, construction equipment, farm equipment and passenger cars you mentioned 95 Crores?

Srinivasan Ravi: Yes, passenger car we would have mentioned Rs. 95 Crores, yes.

Pritesh Chheda: My second question is when you were mentioning the capacity and the utilization, you mentioned that we can do Rs. 300 Crores per month. That's about Rs. 3,600 Crores. On the contrary, the aluminium die-cast business you can do about Rs. 1,000 Crores which you are any case running at about 440. That's how we should look at your capacity construct?

Srinivasan Ravi: No that requires a little investment. I think our current capacity utilization for the year is 55%-60% I would say.

Pritesh Chheda: So, which means that bulk of your extra capacity is in aluminium diecast only and the margin expansion in aluminium diecast is a function of the operating leverage?

Srinivasan Ravi: Yes, operating leverage and the new products from the powertrain segment. We have to move away from the two-wheeler segment.

Pritesh Chheda: If you have to grow at 20% in which obviously powertrain must also be growing at that rate; do you need any capacity creation in powertrain or you have that for the growth?

Srinivasan Ravi: See the capacity creation on powertrain maybe marginal but the bulk of the assets going out of end of use life, book value becoming zero, I think as a company itself we are having Rs. 150 Crores-Rs. 200 Crores going forward from the next year. In the overall depreciation of around Rs. 200-220 Crores in FY23, which is what we estimated. FY24 is also the depreciation same but around Rs. 130 Crores or Rs. 150 Crores our assets are more than coming at the 15 years old. We will continue to use assets but at a 20-year-old point we have to look at the effectiveness of utilization whether to replace them. So, the modernization will continue. I would say capacity expansion will be smaller.

Pritesh Chheda: So that Rs. 250 Crores of CAPEX will support your growth or you need some extra money to be invested in powertrain over and above the depreciation number which you are mentioning of Rs. 220-250 Crores?

Srinivasan Ravi: The minute we cross in any quarter the Rs. 750 Crores number then we have to plan for CAPEX only at down the line because our capacity utilization as a company itself will come to around 75%-80% then in that growth trajectory we have to see where is the bottlenecks on capacity. That is why I mentioned that we have to see are we touching any particular month closer to the Rs. 300 Crores capacity what we have. Even when we may be touching a lower number, one segment maybe touching the capacity level at some particular point of time. Mainly I'm talking about the auto powertrain or auto aluminium, industrial engineering doesn't require much of CAPEX.

Pritesh Chheda: That CAPEX will be over and above the 220-250 which you're mentioning as of now in the call?

Srinivasan Ravi: No, we are looking at a 20%-25% growth with the CAPEX of around the same as the depreciation level. So, from a 2,200 we are talking about the Rs. 2,700 Crores-2,600 Crores with these CAPEX. Suppose in Q4 or something like that we do much more, we may require CAPEX. I'm not sure about it as of today. We'll try to manage but I would say I don't want to lose any orders because of some capacity constraint in some particular area but that will, it will be an outlier I would say. Let us see the how the market goes.

Pritesh Chheda: So just to be very clear at 20% growth, including the end of life of your machine, including the depreciated machine; if you have to grow 20% at the total business level you need Rs. 220 to 250 Crores of CAPEX. If for any reason you have more business flowing in and your capacity utilization hits above 75% that Rs. 750 Crores of revenues, then you need a more CAPEX over and above 220-250. Is that interpretation, correct?

Srinivasan Ravi: Perfect, right. I will add one more variable to that matter. There may be new segments where we are not present that also may entail CAPEX if it is so lucrative, that's all.

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

Priyank Chheda: I just wanted to again clarify on the capital allocation part. This year we are planning to grow in the northward of 20%-25%. Our cash flows, we will be generating more than Rs. 400 Crores. And of that we just require Rs. 200 Crores in CAPEX and maybe Rs. 100 Crores around that. What would we the capital allocation part?

Srinivasan Ravi: The capital allocation will be across all the three segments in the same proportion as the revenue. That far more or less balanced with maybe from one quarter to another quarter maybe little change; for the full year it will be the same. Maybe it'll be in proportion with the revenue. Second point is our gross block which was restated after Ind-As is actually around Rs. 2,700 Crores something like this, Rs. 2,800 Crores because when we moved to Ind-As the net block became the gross block. That is way you see a lower number. Rs. 2,800 Crores means just for look at depreciation portion, that's why our depreciation is very high Rs. 220 Crores. We just need Rs. 200 Crores to keep the equipment going in a way but we are using part of that for replacing the assets and part of it we are using for growth capacity and part of it we are using for new avenues for business. That is how we are allocating the capital.

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

Srinivasan Ravi: Thank you everybody for participating. It was a very lively discussion and as usual I have a lot of inputs from your side and as a company, we will be very transparent going forward and look forward to meeting you all again after the Q1 results. Thank you very much.

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

(This document has been edited for readability purposes)