Craftsman
AUTOMATION

7th July, 2022

To

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

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

Dear Sir/Madam,

Sub: Intimation of upgradation and reaffirmation in Credit Ratings under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015;

Pursuant to Regulation 30(6) read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that the credit rating agency i.e. CRISIL Ratings Limited vide their letter dated 6th July, 2022 has upgraded its rating assigned to long-term bank facilities and reaffirmed its rating on the short-term bank facilities of the Company as follows:

Rating Action:

Sr.No.	Loan Facilities Rated	Existing Rating	Upgraded/ Reaffirmed Rating
1.	Long Term Rating	CRISIL A/Stable	CRISIL A+/Stable
2.	Short Term Rating	CRISIL A1	CRISIL A1 (Reaffirmed)

CRISIL Rating rationale is enclosed for your reference.

Kindly take the same into your records.

Thanking you.

Yours faithfully,
for CRAFTSMAN AUTOMATION LIMITED

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

Shainshad Aduvanni
Company Secretary & Compliance Officer

Encl: As above

Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

July 06, 2022 | Mumbai

Craftsman Automation Limited

Long-term rating upgraded to 'CRISIL A+/Stable'; Short-term rating reaffirmed; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.1325 Crore (Enhanced from Rs.1053.34 Crore)**
Long Term Rating	**CRISIL A+/Stable (Upgraded from 'CRISIL A/Stable')**
Short Term Rating	**CRISIL A1 (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL Ratings has upgraded its rating on the long-term bank facilities of Craftsman Automation Limited (CAL) to **'CRISIL A+/Stable'** from 'CRISIL A/Stable' and reaffirmed its rating on the short-term bank facilities 'CRISIL A1'.

The upgrade reflects the expected sustained improvement in business performance over the medium term driven by the recovery in offtake from automobile sector, especially the commercial vehicle (CV) segment, and the recovery in industrial sector supported by improving economic activity and private investment. The company is well positioned to capitalise on the uptick in demand scenario given its established clientele, diversified segment exposure and healthy operating capabilities including enhanced production capacities.

In fiscal 2022, CAL's revenue has grown by 43% on-year despite challenging conditions in the first half of the fiscal, supported by higher demand from medium and heavy commercial vehicle (MHCV) segment. Although the operating margin declined by 440 basis points to 24% in fiscal 2022 on account of increase in share of lower-margin manufacturing activity Vs machining(job work) income in auto power train segment, and steep increase in raw material prices which could not be fully passed on.

Revenue is expected to grow at 10-15% per annum over the medium term backed by steady medium-term prospects for automobile sector as well as other industrial activities including infrastructure, mining and construction. Continued modernisation of trucks from medium tonnage to high tonnage post revised axle norms in FY 2019, will continue to increase requirement for higher number of axles per truck, gearboxes and other critical components. This along with increased outsourcing by original equipment manufacturers (OEMs) will strengthen CAL's market position further. Furthermore, expected increase in the aluminium content in vehicles owing to the light-weighting trend driven by emission and efficiency norms and EV transition should augur well for the company. Demand for storage solutions is also expected to improve with increase in demand from warehousing and retail sectors. Operating margins are expected to improve over the medium term with benefits of higher volumes and cost reduction initiatives such as automation in overall operations of the company.

The rating also factors in the healthy financial risk profile of CAL supported by improvement in the debt protection metrics due to healthy cash accruals. Despite increase in debt, the debt metrics improved in fiscal 2022 and will likely improve further over the medium term. Gearing improved to 0.65 time as on March 31, 2022, from 0.72 time a year earlier, while the ratio of debt to earnings before interest, tax, depreciation and amortization (EBIDTA) was 1.4 times in fiscal 2022 (1.6 times in fiscal 2021). Continued steady business performance resulting in healthy cash accruals of above Rs 400 crore per annum, moderate capex spend and prudent working capital management, are likely to strengthen the debt metrics over the medium term; the debt to EBIDTA ratio is expected to improve to 1-1.2 times over the medium term.

The rating continues to reflect the strong position of the company in the engineering contract-manufacturing sector, established customer relationships, healthy operating margin and improving financial risk profile. These strengths are partially offset by large capex and working capital requirement, and vulnerability to slowdown in the automobile (auto) industry.

Analytical Approach
CRISIL Ratings has consolidated the business and financial risk profiles of CAL and its wholly-owned subsidiary, Craftsman Europe B.V.Netherlands due to operational and financial linkages between them.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description
Strengths:
Strong market position backed by established relationships with customers

CAL is a leading player in the engineering contract-manufacturing sector, with a diversified clientele across industries. It has three business segments: automotive - power train, automotive - aluminium products, and industrial and engineering. The automotive - power train segment caters to CVs, farm equipment, construction and mining equipment and passenger car segments of the auto industry. The automotive - aluminium products division supplies aluminium components to two and four-wheeler manufacturers. The industrial and engineering segment offers goods and services such as castings, gears, material handling equipment, railway products, storage products, special purpose machines and other general engineering products to various end-user industries. The addition of capacity, products and customers, and healthy customer relationships led to revenue growth of 43% in fiscal 2022. Steady offtake by key customers and increase in business share with leading MHCV players is likely to aid the maintenance of CAL's market position over the medium term.

Healthy operating efficiency
CAL's focus on niche products and better technical capabilities, supported by cost optimisation measures, have supported its operating efficiency. Higher margin from machining operations led to a better-than-industry operating margin of over 20% on sustained basis since 2020. In fiscal 2022, however the share of the higher-margin machining business reduced, which along with steep rise in raw material costs resulted in moderation in the operating margin to 24% from an average of 26% in previous three fiscals.

The setting up of a non-ferrous foundry and aluminium die-casting facilities has helped broaden the product range. Furthermore, general-purpose machines used by the company have the operational flexibility to be deployed across various products and locations depending on the customer and operational requirements. CAL is continuously undertaking cost-control initiatives through automation, employee base optimisation and wastage reduction; this should aid CAL in sustaining the operating margin at 24-25% over the medium term.

Improving financial risk profile
The financial risk profile is improving and got a fillip in fiscal 2021 driven by fresh infusion of funds from the initial public offer (IPO) in March 2021. Despite increase in debt, the debt metrics improved in fiscal 2022 and are expected to improve further with steady cash accrual over the medium term. Gearing improved to 0.65 time as on March 31, 2022, from 0.72 time a year earlier, while the debt to EBIDTA ratio was 1.4 times in fiscal 2022 (1.6 times in fiscal 2021). Net cash accrual is expected to sustain over Rs 400 crore per annum owing to steady business performance. Therefore, the debt metrics will continue to improve over the medium term.

Weaknesses:
Capital Intensive business and higher working capital requirement
Operations are intrinsically capex and working capital intensive. CAL incurred sizeable capex of Rs ~1,500 crore during fiscals 2017-2022, and in some cases, has set up capex ahead of demand. As a leading player in the contract manufacturing sector, the company incurred substantial upfront investment in setting up machining infrastructure and aluminium pressure-die-casting facilities to diversify its customer and product base, and accordingly CAL will strive to monetise the current asset base over the medium term. In case of higher uptick in end-market demand, CAL may require higher capex and therefore effective monetization of the same will remain a monitorable.

The company has to maintain large inventory given its customer and product portfolio. Also, with a large clientele and strong export presence, receivables are sizeable and could get stretched during a slowdown. leading to high working capital requirements. However, receivables marginally reduced in fiscal 2022. Given the nature of operations, creditors are also high. However, the company reduced payables to 137 days as on March 31, 2022 (162 days as on March 31, 2021) to gain discount on cash purchases, resulting in marginal improvement in the total outside liabilities to tangible networth (TOL/TNW) ratio. Given multiple Strategic Business Units and clients, the company's operations will continue to remain working capital intensive, and hence prudent management of the same will remain critical.

Vulnerability to cyclical demand in end-user industries
The company caters to the auto, farm equipment, construction and earthmoving equipment, and locomotive industries, demand from which is typically linked to economic activity. It is diversifying into non-automotive industries, such as aluminium casting for power transmission and storage solutions, to mitigate the concentration risk. However, the business risk profile is likely to remain susceptible to sharp slowdown in the auto industry over the medium term, given that the segment accounts for over 50% of revenues. Any sharp downturn in the economy or industrial activity will also impact the company.

Liquidity: Adequate
Expected cash accrual above Rs 400 crore per annum over the medium term, will sufficiently cover debt obligation of Rs 149 crore and Rs 144 crore in fiscals 2023 and 2024, respectively. Moreover, the company is expected to incur capex of Rs ~200-270 crore per annum in the next two fiscals. Further the company has adequate headroom in the form of unutilised bank limit of 40% through May 2022.

Outlook: Stable
CRISIL Ratings believes CAL will benefit from its established market position, strong customer relationships and healthy operating efficiency. The financial risk profile will continue to benefit from higher cash accrual driven by steady business performance, moderate capex plans and progressive debt repayment.

Rating Sensitivity factors
Upward factors
- Steady business performance resulting in sustained healthy cash accrual
- Prudent capital spending and working capital management, leading to continued improvement in the financial risk profile, with debt to EBIDTA ratio at 1-1.2 times

Downward factors

- Significantly weak operating performance leading to lower cash accrual
- Large, debt-funded capex or acquisition or significant stretch in the working capital requirement, with debt to EBIDTA ratio in excess of 2 times and weakening in the TOL/TNW ratio

About the Company

Incorporated in 1986 in Coimbatore, Tamil Nadu, by Mr S Ravi, CAL manufactures several components and sub-assemblies on supply and job-work basis according to client specifications in the automotive, industrial and engineering segments. Key products in the automotive segment include power train products, cylinder blocks, cylinder heads, cam shafts and crank cases for CVs, sports utility vehicles, two-wheelers, farm equipment and earthmoving and construction equipment.

The company also has a non-ferrous sand foundry catering to power transmission equipment manufacturers, and its industrial and engineering segments have a wide range of products, including industrial gears, storage solutions, material handling and locomotive engine components. CAL has a tool room that supplies dies for injection moulding and mould base. Moreover, it manufactures special-purpose machines for metal and non-metal cutting.

Post the IPO, the promoters & promoter group continue to hold majority stake of 59.76% in CAL, while 5.5% is held by Marina III Singapore Pte Ltd and 4.8% is held by International Finance Corporation (IFC). Pre-IPO, Marina III and IFC held 15.5% and 14.1% stakes, respectively, in CAL.

Key Financial Indicators

As on / for the period ended March 31		2022	2021
Revenue	Rs crore	2206	1546
Profit after tax (PAT)	Rs crore	160	97
PAT margin	%	7.3	6.3
Adjusted debt / adjusted networth	Times	0.65	0.72
Interest coverage	Times	6.3	4.2

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Cash Credit*	NA	NA	NA	390	NA	CRISIL A+/Stable
NA	Packing Credit	NA	NA	NA	60	NA	CRISIL A1
NA	Bank Guarantee	NA	NA	NA	25	NA	CRISIL A1
NA	Letter of Credit	NA	NA	NA	127	NA	CRISIL A1
NA	Long Term Loan	NA	NA	Oct-23	5	NA	CRISIL A+/Stable
NA	Long Term Loan	NA	NA	Mar-25	69	NA	CRISIL A+/Stable
NA	Long Term Loan	NA	NA	May-26	54	NA	CRISIL A+/Stable
NA	Long Term Loan	NA	NA	Aug-26	98	NA	CRISIL A+/Stable
NA	Long Term Loan	NA	NA	Jan-26	123	NA	CRISIL A+/Stable
NA	Long Term Loan	NA	NA	Mar-23	11	NA	CRISIL A+/Stable
NA	Long Term Loan	NA	NA	Jul-24	25	NA	CRISIL A+/Stable
NA	Long Term Loan	NA	NA	Dec-26	175	NA	CRISIL A+/Stable
NA	Long Term Loan	NA	NA	Sep-23	13	NA	CRISIL A+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	150	NA	CRISIL A+/Stable

**Interchangeable with working capital demand loan*

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Craftsman Automation Limited	Full	Common management and financial linkages
Craftsman Europe B.V.Netherlands	Full	Common management and financial linkages

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	1173.0	CRISIL A+/Stable / CRISIL A1		--	18-06-21	CRISIL A1 / CRISIL A/Stable	21-05-20	CRISIL BBB+/Stable / CRISIL A2	11-03-19	CRISIL BBB+/Stable / CRISIL A2	CRISIL BBB+/Stable / CRISIL A2

			--		--		--	19-02-20	CRISIL BBB+/Stable / CRISIL A2	08-01-19	CRISIL BBB+/Stable / CRISIL A2	--
Non-Fund Based Facilities	ST	152.0	CRISIL A1		--	18-06-21	CRISIL A1	21-05-20	CRISIL A2	11-03-19	CRISIL A2	CRISIL A2
			--		--		--	19-02-20	CRISIL A2	08-01-19	CRISIL A2	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	25	State Bank of India	CRISIL A1
Cash Credit&	45	Indian Bank	CRISIL A+/Stable
Cash Credit&	60	Axis Bank Limited	CRISIL A+/Stable
Cash Credit&	125	State Bank of India	CRISIL A+/Stable
Cash Credit&	50	HDFC Bank Limited	CRISIL A+/Stable
Cash Credit&	60	RBL Bank Limited	CRISIL A+/Stable
Cash Credit&	50	Bank of Baroda	CRISIL A+/Stable
Letter of Credit	15	Standard Chartered Bank Limited	CRISIL A1
Letter of Credit	52	State Bank of India	CRISIL A1
Letter of Credit	15	RBL Bank Limited	CRISIL A1
Letter of Credit	25	Indian Bank	CRISIL A1
Letter of Credit	20	Axis Bank Limited	CRISIL A1
Long Term Loan	5	Exim Bank	CRISIL A+/Stable
Long Term Loan	69	Indian Bank	CRISIL A+/Stable
Long Term Loan	54	Standard Chartered Bank Limited	CRISIL A+/Stable
Long Term Loan	98	HDFC Bank Limited	CRISIL A+/Stable
Long Term Loan	123	Bajaj Finance Limited	CRISIL A+/Stable
Long Term Loan	11	RBL Bank Limited	CRISIL A+/Stable
Long Term Loan	25	IndusInd Bank Limited	CRISIL A+/Stable
Long Term Loan	13	IDFC FIRST Bank Limited	CRISIL A+/Stable
Long Term Loan	175	International Finance Corporation	CRISIL A+/Stable
Packing Credit	60	Standard Chartered Bank Limited	CRISIL A1
Proposed Long Term Bank Loan Facility	144.66	Not Applicable	CRISIL A+/Stable
Proposed Long Term Bank Loan Facility	5.34	Not Applicable	CRISIL A+/Stable

This Annexure has been updated on 06-Jul-2022 in line with the updated lender-wise facility details as on 04-Aug-2021 received from the rated entity.

& - Interchangeable with working capital demand loan

Criteria Details

Links to related criteria
[CRISILs Approach to Financial Ratios]
[Rating criteria for manufaturing and service sector companies]
[CRISILs Bank Loan Ratings - process, scale and default recognition]
[Rating Criteria for Auto Component Suppliers]
[CRISILs Criteria for rating short term debt]
[CRISILs Criteria for Consolidation]

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Note for Media:

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For more information, visit www.crisilratings.com

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