

10<sup>th</sup> January, 2023

To

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

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

Dear Sir/Madam,

**Sub: Intimation of revision 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 9<sup>th</sup> January, 2023 has revised its outlook on the long-term bank facilities of the Company to 'Positive' from 'Stable', while reaffirming the rating at 'CRISIL A+' and reaffirmed the short-term rating at 'CRISILA1' as below:

**Rating Action:**

Sr.No.	Loan Facilities Rated	Existing Rating	Upgraded/ Reaffirmed Rating
1.	Long Term Rating	CRISIL A+/Stable	CRISIL A+/Positive ( <i>Outlook revised from 'Stable'; Rating reaffirmed</i> )
2.	Short Term Rating	CRISIL A1	CRISIL A1 ( <i>Reaffirmed</i> )

CRISIL Rating rationale is enclosed for your reference.

Kindly take the same into your records.

Thanking you.

Yours faithfully,  
for CRAFTSMAN AUTOMATION LIMITED

  


Shainshad Aduvanni  
Company Secretary & Compliance Officer

Encl: As above

Craftsman Automation Limited

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123/4, Sangothipalayam Road  
Arasur Post, Coimbatore - 641 407  
Tamil Nadu, India

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CIN No : L28991TZ1986PLC001816  
GST No : 33AABCC2461K1ZW

## Rating Rationale

January 09, 2023 | Mumbai

### Craftsman Automation Limited

Rating outlook revised to 'Positive'; Ratings Reaffirmed

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.1325 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL A+/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A1 (Reaffirmed)</b>

*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities of Craftsman Automation Ltd (CAL) to '**Positive**' from '**Stable**', while reaffirming the rating at '**CRISIL A+**'; further, the short-term rating has been reaffirmed at '**CRISIL A1**'.

On December 29, 2022, CAL announced that it has signed definitive agreements to acquire 76% stake in DR Axiom India Pvt Ltd (DRAIPL) for a consideration of Rs 375 crore. The acquisition is expected to be completed by the fourth quarter of fiscal 2023 subject to fulfilment of conditions precedent agreed in the definitive agreement. DRAIPL is the major supplier of cylinder blocks and heads for leading passenger vehicle (PV) original equipment manufacturers (OEMs) such as Hyundai Motor India Ltd (rated 'CRISIL AAA/Stable/CRISIL A1+') and Kia Motors India Pvt Ltd, as well as Mahindra Heavy Engines Ltd.

The acquisition is in line with CAL's strategy to increase the share of revenue from the PV segment, and gradually lower revenue dependence on commercial vehicle (CV) segment, thereby diversifying the overall revenue stream. CAL and DRAIPL both operate in the automotive (auto) components space and have strengths in complementary areas. The acquisition will help both entities leverage their strengths and build better synergies. The acquisition is expected to enable CAL to enhance its client base, by including Korean auto OEMs, and also explore additional export opportunities. CRISIL Ratings will continue to monitor the progress on the transaction, which is subject to customary closing conditions, and synergy benefits arising out of the same.

The revision in outlook reflects the sustained strong improvement in CAL's business performance in fiscal 2023, which is expected to continue in the next fiscal as well, due to healthy demand for components from the CV and passenger vehicle OEMs, and also supported by the proposed acquisition of DRAIPL. Besides, demand from export customers has also remained steady.

CAL's revenue rose 45% on-year in the first half of fiscal 2023, supported by healthy demand from CVs aided by uptick in economic growth, pick-up in private capital expenditure (capex) cycle, higher freight demand, revival in construction, infrastructure and mining activities. The company is expected to clock revenues of ~Rs.2900-3000 crores in fiscal 2023, almost doubling from ~Rs.1500 crores in fiscal 2021. Healthy double digit growth is expected to continue in fiscal 2024 as well. Operating profitability remained healthy, though it dipped marginally to 23.05% in the first half of fiscal 2023, from 24.85% during the similar period a year ago, owing to aluminium inventory related losses. Post-acquisition, operating margin is expected to further moderate with integration of DRAIPL, which has lower profitability, but still sustain at ~20% over the medium term.

The ratings also factor in the healthy financial risk profile of CAL, supported by improvement in the debt protection metrics in first half of fiscal 2023 due to healthy cash accrual (annualized over Rs.400 crore). Despite increase in debt due to proposed acquisition, debt protection metrics are to remain comfortable with gearing less than 0.9 times as on March 31, 2023 and interest coverage ratio above 6 times for fiscal 2023. The Debt to Earnings before interest, depreciation, tax and amortization (EBITDA) ratio though is expected to rise to ~1.8-2 times in fiscal 2023, from 1.4 times in fiscal 2022, as full benefit of EBITDA of DRAIPL will not be available in the current fiscal. Continued steady business performance, resulting in healthy cash accrual, moderate capex spend and prudent working capital management, should enable debt protection metrics to improve to comfortable levels over the medium term; for instance the debt to EBITDA ratio is expected at ~1.5 times by fiscal 2024.

The ratings continue to reflect the strong position of CAL in the engineering contract-manufacturing sector, established customer relationships, healthy operating margin and improving financial risk profile. These strengths are partially offset by sizeable capex, large working capital requirement, and vulnerability to slowdown in the automotive sector.

#### 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. DRAIPL will also be consolidated on acquisition.

Please refer Annexure - List of a 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: auto-power train (~50% of revenues), aluminium products (~25% of revenues), and industrial and engineering (balance revenues). The auto-power train segment caters to CVs, farm equipment, construction and mining equipment and passenger car segments of the auto industry. The aluminium products division supplies aluminium components to two-and-four-wheeler and power transmission manufacturers. The industrial and engineering segment offers goods and services such as gears, material handling equipment, storage products, special purpose machines and other general engineering products to various industries.

The addition of capacity, products and customers, and healthy customer relationships led to revenue growth of 45% in the first half of fiscal 2023. Besides addition of new PV OEM customers post acquisition of DRAIPL, steady offtake by key customers and increase in business share with leading medium and heavy CV players should aid the maintenance of CAL's market position over the medium term. The company is expected to clock revenues of ~Rs.2900-3000 crores in fiscal 2023, almost doubling from ~Rs.1500 crores in fiscal 2021. Healthy double digit growth is expected to continue in fiscal 2024 as well.

- **Healthy operating efficiency**

Focus on niche products and better technical capabilities, supported by cost-optimisation measures, have supported operating efficiency. Higher margin from machining operations led to a better-than-industry operating margin of over 20% on sustained basis since fiscal 2020. In the first half of fiscal 2023, however, the share of the higher-margin machining business reduced, which along with inventory losses due to reduction in aluminium prices resulted in the operating margin moderating to 23.05% in the first half of fiscal 2023 from 24.85% during the similar period of the previous fiscal.

CAL is continuously undertaking cost-control initiatives through automation, employee base optimisation and wastage reduction; this coupled with improved capacity utilisation post acquisition of DRAIPL should aid in sustaining the operating margin at above 20% over the medium term.

- **Improving financial risk profile**

Financial risk profile continues to be supported by strong cash accrual. Gearing improved to 0.65 time as on September 30, 2022, from 0.78 time a year ago; interest coverage ratio increased to 6.90 time from 6.22 times during this period.

Debt metrics are expected to moderate temporarily in fiscal 2023, but still remain comfortable, due to part debt funding of the proposed acquisition and consolidation of debt from books of DRAIPL. Annual cash accrual is estimated at over Rs.400 crores, adequate to meet repayment obligation and progressive repayment of term loans of Rs 353 crore in fiscal 2023, and Rs 100 crore in fiscal 2024. Capex going forward is expected to range between Rs.200-300 crore annually, and will be partly debt funded. The management has planned to gradually lower debt levels through progressive repayment of term loans and prudent working capital management. With continued healthy cash generation, moderate annual capex spend, and controlled working capital management, debt metrics are expected to witness a gradual improvement in fiscal 2024; for instance the ratio of debt to EBITDA is expected at ~1.5-1.6 times.

### **Weakness:**

- **Capital-intensive business and large 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. In case of higher uptick in end-market demand.

The company has to maintain large inventory, given its customer and product portfolios. Also, with a large clientele and strong export presence, receivables are sizeable and could get stretched during a slowdown; however, receivables marginally reduced in fiscal 2022. Given the nature of operations, creditors are also high. Yet, the company reduced payables to 137 days as on March 31, 2022 (162 days a year ago) to gain discount on cash purchases, resulting in marginal improvement in the total outside liabilities to tangible network (TOL/TNW) ratio. Given multiple strategic business units and clients, operations will continue to be working capital intensive, and hence its prudent management remains 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 the economic activity. It is diversifying into non-auto 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 revenue. Any sharp downturn in the economy or industrial activity will also impact the company.

### **Liquidity: Adequate**

Cash accrual is projected at more than Rs 400 crore in fiscal 2023 and expected to rise thereafter, being adequate to meet term debt repayment obligation of Rs 353 crore in fiscal 2023, and Rs 130 crore in fiscal 2024. Further, the company has adequate headroom in the form of unutilised bank limit of 60% through 12 months ended November 2022, and cash surpluses of Rs. 260 crore. Annual capex needs ranging from Rs.200-300 crore will be partly debt funded.

### **Outlook Positive**

CAL will continue to benefit from its established market position, strong customer relationships and healthy operating efficiency. The financial risk profile will continue to remain healthy, supported by improving cash accrual, moderate capex needs and prudent working capital management.

### **Rating Sensitivity factors**

#### **Upward factors**

- Steady business performance, supported by diversification of revenue streams, resulting in healthy cash accrual
- Prudent capital spending and working capital management, leading to continued improvement in the debt metrics; for instance debt to EBIDTA ratio of ~ 1.50-1.60 times by fiscal 2024

#### **Downward factors**

- Significantly weak operating performance, resulting in lower-than-expected cash accrual
- Large, debt-funded capex or acquisition or significant stretch in the working capital cycle, with debt to EBIDTA ratio in excess of 2.25-2.50 times

### **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 auto, industrial and engineering segments. Key products in the auto 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. Its industrial and engineering segment has 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 initial public offering (IPO), the promoter and promoter group continue to hold majority stake of 58.77% in CAL, while 5.48% is held by Marina III Singapore Pte Ltd and 4.79% by International Finance Corporation (IFC) as on Dec 2022. Pre-IPO, Marina III and IFC held 15.5% and 14.1% stakes, respectively, in CAL.

For the first six months of fiscal 2023, CAL reported profit after tax (PAT) of Rs 116 crore on operating income of Rs 1,447 crore compared with PAT of Rs 73 crore on operating income of Rs 1,000 crore, respectively, during the corresponding period of the previous fiscal.

### **Key Financial Indicators**

As on / for the period ended March 31		2022	2021
Revenue	Rs crore	2206	1546
PAT	Rs crore	160	97
PAT margin	%	7.3	6.3
Adjusted debt/adjusted networkth	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 and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit [www.crisilratings.com](http://www.crisilratings.com). 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 level	Rating assigned with outlook
NA	Cash credit*	NA	NA	NA	390.00	NA	CRISIL A+/Positive
NA	Packing credit	NA	NA	NA	60.0	NA	CRISIL A1
NA	Bank guarantee	NA	NA	NA	25.00	NA	CRISIL A1
NA	Letter of credit	NA	NA	NA	127.00	NA	CRISIL A1
NA	Long-term loan	NA	NA	Oct-2023	5.00	NA	CRISIL A+/Positive
NA	Long-term loan	NA	NA	Mar-2025	69.00	NA	CRISIL A+/Positive
NA	Long-term loan	NA	NA	May 2026	54.00	NA	CRISIL A+/Positive

NA	Long-term loan	NA	NA	Aug-2026	98.00	NA	CRISIL A+/Positive
NA	Long-term loan	NA	NA	Jan-2026	123.00	NA	CRISIL A+/Positive
NA	Long-term loan	NA	NA	Mar-2023	11.00	NA	CRISIL A+/Positive
NA	Long-term loan	NA	NA	Jul-2024	25.00	NA	CRISIL A+/Positive
NA	Long-term loan	NA	NA	Dec-2026	175.00	NA	CRISIL A+/Positive
NA	Long-term loan	NA	NA	Sep-2023	13.00	NA	CRISIL A+/Positive
NA	Proposed long-term bank loan facility	NA	NA	NA	150.00	NA	CRISIL A+/Positive

\*Interchangeable with working capital demand loan

#### Annexure – List of entities consolidated

CAL	Full	Common management and financial linkages
Craftsman Europe B V Netherlands	Full	Common management and financial linkages

Note: DRAIPL will also be fully consolidated post acquisition.

#### Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	1173.0	CRISIL A+/Positive / CRISIL A1	--	06-07-22	CRISIL A+/Stable / CRISIL A1	18-06-21	CRISIL A1 / CRISIL A/Stable	21-05-20	CRISIL BBB+/Stable / CRISIL A2	CRISIL BBB+/Stable / CRISIL A2	
			--	--	--	--	19-02-20	CRISIL BBB+/Stable / CRISIL A2	--			
Non-Fund Based Facilities	ST	152.0	CRISIL A1	--	06-07-22	CRISIL A1	18-06-21	CRISIL A1	21-05-20	CRISIL A2	CRISIL A2	
			--	--	--	--	19-02-20	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 <sup>&amp;</sup>	45	Indian Bank	CRISIL A+/Positive
Cash Credit <sup>&amp;</sup>	60	Axis Bank Limited	CRISIL A+/Positive
Cash Credit <sup>&amp;</sup>	125	State Bank of India	CRISIL A+/Positive
Cash Credit <sup>&amp;</sup>	50	HDFC Bank Limited	CRISIL A+/Positive
Cash Credit <sup>&amp;</sup>	60	RBL Bank Limited	CRISIL A+/Positive
Cash Credit <sup>&amp;</sup>	50	Bank of Baroda	CRISIL A+/Positive
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
Letter of Credit	15	Standard Chartered Bank Limited	CRISIL A1
Letter of Credit	52	State Bank of India	CRISIL A1
Long Term Loan	5	Exim Bank	CRISIL A+/Positive
Long Term Loan	69	Indian Bank	CRISIL A+/Positive
Long Term Loan	54	Standard Chartered Bank Limited	CRISIL A+/Positive
Long Term Loan	98	HDFC Bank Limited	CRISIL A+/Positive
Long Term Loan	123	Bajaj Finance Limited	CRISIL A+/Positive
Long Term Loan	11	RBL Bank Limited	CRISIL A+/Positive
Long Term Loan	25	IndusInd Bank Limited	CRISIL A+/Positive
Long Term Loan	13	IDFC FIRST Bank Limited	CRISIL A+/Positive
Long Term Loan	175	International Finance Corporation	CRISIL A+/Positive
Packing Credit	60	Standard Chartered Bank Limited	CRISIL A1
Proposed Long Term Bank Loan Facility	5.34	Not Applicable	CRISIL A+/Positive

<b>Proposed Long Term Bank Loan Facility</b>	<b>144.66</b>	<b>Not Applicable</b>	<b>CRISIL A+/Positive</b>
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*This Annexure has been updated on 09-Jan-2023 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

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating Criteria for Auto Component Suppliers</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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