6th November, 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: Transcript of the Earnings Conference Call on the Unaudited Financial Results for the quarter and half year ended 30th September, 2023;

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and our intimation and outcome letter dated 3rd October, 2023 and 31st October, 2023 respectively, we are enclosing herewith the transcript of the earnings conference call organized on Tuesday, the 31st October, 2023 at 4.00 P.M. (IST) on the Unaudited Financial Results for the quarter and half year ended 30th September, 2023.

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

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

Thanking you.

Yours faithfully,
for CRAFTSMAN AUTOMATION LIMITED

Shainshad Aduvanni
Digitally signed by Shainshad Aduvanni
Date: 2023.11.06 11:09:43 +05'30'

Shainshad Aduvanni
Company Secretary and Compliance Officer

Encl: As above

CRAFTSMAN AUTOMATION LIMITED
Earnings Conference Call held on 31st October, 2023 for the quarter and half year ended 30th September, 2023

Moderator: Ladies and gentlemen, good day and welcome to Earnings Conference Call to discuss financial performance of Craftsman Automation Limited for the Quarter and Half year ended 30th September 2023.

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 this 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. Thank you and over to you, Sir.

Srinivasan Ravi: Good afternoon everybody. It gives me immense pleasure in welcoming you all for the Earnings call for the Half year ended 30th September 2023.

While Q2 has been a mixed bag as far the economy is concerned and each of the markets are concerned across all the 3 segments the Powertrain, Aluminum and Industrial Engineering segment. We have done well as a company on the consolidated basis.

I just wanted to touch upon the key numbers on the consolidated sales Rs. 2,217 crores has been consolidated, the break up for that on the Powertrain has been Rs. 776 crores, Aluminum products Rs. 1,077 crores and Industrial Engineering Rs. 364 crores. This means the company is getting more balanced on the segment-wise diversification what we have done in the recent past.

EBIT has been Rs. 325 crores against last year's EBIT of Rs. 232crores. The breakup for the EBIT has been Rs. 161 crores for the Powertrain, Rs. 157 crores for the Aluminum products and for the Industrial Engineering Rs. 31 crores and unallocated is Rs. 24 crores. The consolidated ratio on the financial performance has been very strong. Debt equity has been 0.86 on the consolidation balance sheet, debt to EBITDA is 1.49, EBIT margin is 15% and PAT of 8% with the ROCE pre-tax annualized has been 24%.

Now going to the standalone, the standalone turnover has been Rs. 1,580 crores for H1 against Rs. 1,447 crores in the previous year, compromising Automotive Powertrain and others Rs. 776 crores Aluminum products Rs. 443

crores and Industrial Engineering Rs. 361 crores. EBIT margin has been Rs. 230 crores. It is along the same line of last year not much change there. The breakup for that is the Automotive Powertrain as Rs. 161 crores, Aluminum is Rs. 61 crores and Industrial Engineering is Rs. 31 crores respectively, unallocated is Rs. 24 crores. Net CAPEX done for H1 is Rs. 258 crores. It is a mixture of expansion of each of the segments and also technology upgradation, organization and also automation.

The key financial ratio for the standalone debt equity is 0.81, debt to EBITDA is 1.72, this is inclusive of the Rs. 375 crores outflow towards the acquisition of DR Axion. The EBIT margin has been 15%. ROCE pre-tax annualized has been 19%. The major subsidiary DR Axion, the turnover is Rs. 635 crores and EBIT has been Rs. 95 crores for the first half of this year.

The new important information is we are going ahead with the Greenfield project very close to the mother plant in Coimbatore, which is 40 kilometers away. We have a land Bank of 48 acres there and we are going to create one more premises for all the 3 segments of the business going forward for future expansion which is a mixture of the similar set of business and also possibly backward integration in some of the segments.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Karan Gupta from Varanium Capital. Please go ahead.

Karan Gupta: So, my first question is related to the value chain part which you mentioned couple of times in your speech. So, just try to focus on that, in the entire value chain from designing to production, so I just wanted to know what the key differentiating activities is we are performing to differentiate our value chain than our peer companies?

Srinivasan Ravi: I understand where the question is coming from, what differentiates us from our competitors in the value chain have I understood you right?

Karan Gupta: Yes.

Srinivasan Ravi: I will touch on each of the segments. On the Powertrain segment while we are doing the machining activity, we don't have a foundry or we are not fully integrated on that side of the business, but we are owning the process knowledge of the machining with the in-house captive manufacturing for all these special purpose machines and when you talk about special purpose machineries are quite complicated equipment starting from metal cutting, non-metal cutting machines like leak testing, washing, assembly stations and things like that. Then also the design of the process, the breakup of the process, how we are doing from operation 10 to operation 100 or operation 120, how we design the process for quality as well as productivity, and we are able to adjust and accommodate the increase or decrease in volumes according to the customer requirement and we are able to break up the small sub processes for any incremental volume requirement of the customer.

Then comes the quality front, on the quality front the critical processes we are able to manage the quality processes better because we control the tooling, we control the design, we control the process fine tuning at our end. We are not dependent on any outside source on that, and we are one of the largest machine shops in the country and because of our vast experience, we are also able to work very well with our foundry partners to improve the raw material or the casting front also for a mutual benefit.

Now the next situation is that when the prototyping needs to be done, we have such a large General purpose machine availability at our end that we are able to participate in the prototyping for the customer. The second important point is our vast experience in the cylinder block and head we are doing around more than a million-cylinder blocks now. Our capacity is 1.2 million-to-1.3-million-cylinder blocks and also, I think close to around **800,000 cylinder heads.** We have come across various designs and various process related issues. We are able to give input to our customers during the design of a new product or point out improvements which can be done. Also, improvements which can be done for the better castability of the castings. So, this explains the Powertrain and the last bit is that whenever the project is end of life, we are able to reallocate the machines to new projects, even we are able to convert the special purpose machines suppose we own the special purpose machines we are able to convert it and if the customer wants it, we are able to convince the customer that the next project may certain equipment can be modified to be using. So, we are very effective on the CAPEX front also. The last point will be on the General-Purpose Capital Equipment and the General-Purpose Tooling, we are one of the largest consumers of these sort of machines in the country, so this gives us a large advantage on the scale and flexibility to quickly implement the project and move it forward.

So, in the next segment of the business on the Aluminum segment, our aluminum history goes more than 20 years ago when we started the aluminum gravity and the sand-casting foundry for our export requirement. And now in the last 8-9 years, we have also been diversified in high pressure Die-Casting. Our tool room was making plastic dies, very critical plastic dies as well as aluminum pressure Die-Casting dies. Now we have stopped making plastic dies, so this told we are integrated that we are able to make the mould, we are able to do the casting. In the casting process we are across most of the technology I would say on the casting and there is green sand, no bake sand, gravity Die-Casting, low pressure Die-Casting and high pressure Die-Casting. Now we are also getting into counter pressure casting on aluminum. And on the machining front, we are also similarly integrated on the machining front on the aluminum business which we are able to capture the value stream across there, all the small sub segments there. In industrial engineering which has been the backbone of the company which is also supporting the Powertrain business and Aluminum business. We are having contract manufacturing where we are able to customize products for our customers for different end segment use across a wide range of industries within the country and outside the country. So, we are highly flexible and highly capable, so we are manufacturing very precision small parts to also we are machining parts up to weighing 10 tons or 15 tons for highly complicated induced applications. And for Industrial Engineering, we have got a in-house design facility for our products, which is a design strength of almost 100 people which is there. I hope this differentiates us.

Karan Gupta: So, being in the entire value chain, it gives the premium pricing or reducing the relative cost? Anything over being in the value chain what extra cost we are bearing? Because from designing, prototyping we are into the production, so being in the entire value chain do we have any relative cost higher than the peer or we are reducing this relative cost as compared to the peers?

Srinivasan Ravi: When we want to have all these facilities inside the campus, definitely our fixed cost will be higher, but that is distributed among higher manufacturing capacities, so we are having the operating leverage there and these capabilities and facilities are also mutually beneficial for the customer, so we get the first preference. As far as the production order is concerned, the pricing is not premium pricing, we are competitive in the market, and it is a competitive pricing. I think our scale and our efficiency and operations and our in house knowledge to manage the process is only leading to profitability with the larger operating leverage.

Karan Gupta: And for the raw material, if you are buying this aluminum raw material, so we are getting any benefit from the supplier side?

Srinivasan Ravi: No, there is a market free pricing market strategy and what we control is only the rejection percentage and our efficiency of operations inside and we are carefully selecting the material tool, so that we don't have much wastage of the dross and things like that, that is where it is. And our dies maintenance will lead to lower machining allowances and the lower rejection percentage also means that the consumption of material will be lesser and the continuous running efficiently on the Die-Casting machines or on gravity is also leading to energy efficiency and the manpower productivity with some automation is also leading to lower cost and higher efficiency of output.

Moderator: Thank you. Next question is from the line of Senthilkumar from Joindre Capital. Please go ahead.

Senthilkumar: For the Powertrain business, I could see a decline in EBIT on sequential basis over the last 4 quarters from Rs. 101 crores to Rs. 77 crores in the Q2 FY24, what is the reason for this, sir?

Srinivasan Ravi: The main reason for this is we have expanded capacity on the Powertrain to a large extent. The new capacities are kicking in production on certain new segments of the business it is still under startup production or in the beta stage there are some things. Some businesses have started to mature while this has happened the existing capacities mainly in the farm segment as well as to certain extent also in the commercial vehicle segment has been underutilized because of the present market condition I think that is the reason the fixed cost has increased. So, the fixed cost has a higher impact there, but our margins will come back to normal once the operating leverage improves. Our percentage of usage of the capacity is much lower as of now because we have increased capacities. The second point is on the other most important factor is that we have also used this period of time to refurbish some of the equipment which are 8 years and 10 years old, so we are also seeing some impact on the repair and maintenance for the last two quarters, which is a good thing for the future where we will be ready for full level of usage of these equipment when the market requires.

Senthilkumar: And my second question is can you give a breakup for domestic and export revenue for this quarter?

Srinivasan Ravi: Export for Q2 FY24 has been totally Rs. 57 crores, in the automotive Powertrain Rs. 9 crores, Aluminum products around Rs. 13 crores, Industrial Engineering has been Rs. 35 crores. This is the breakup. This is the direct exports what we have done where we are earning in foreign currency, but our deemed exports are much higher than this.

Senthilkumar: And lastly, sir what is the status of the Brazil business, sir? Even in the last concall you said like, no, we don't have a visibility on that, what is the status of that Brazil?

Srinivasan Ravi: Brazil business, I think FY28 to FY29, we are well protected. Of course, there are headwinds in the market. There the economy is not doing well I think that is also reflected in the Q2 sales. Actually, H1 sales is around 30% lesser for our deemed exports for Brazil for Daimler. I think that should pick up from Q4 of this year, that is their calendar year Q1 which is they have got additional requirements, but it is going to be depressed in Q3 also as far as our Q3 is concerned, but the business I think is quite well set until FY28.

Moderator: Thank you. Next question is from the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: Sir I just wanted to know the breakup of our sales in terms of MHCV tractor, two-wheeler, four-wheeler and so on?

Srinivasan Ravi: I will just give it to you. I will talk about H1, and I will not talk about quarter-on-quarter because it may be misleading. I think on the Powertrain the breakup is 57% on the commercial vehicle, off-highway 18%, the tractor 14% and the SUV segment is 11% for the Powertrain.

Mahesh Bendre: And Aluminum casting?

Srinivasan Ravi: Aluminum casting for commercial vehicles is 7%. It is the standalone because you know DR Axion is 100% on the passenger vehicle segment. The commercial vehicle is 7% and two-wheeler is 66%, passenger vehicle is 7% and we have other aluminum.

Mahesh Bendre: Sir in terms of business outlook both on domestic and export if I had look for next maybe 18 months, what kind of growth trajectory we see both on domestic and export?

Srinivasan Ravi: I will go segment by segment on this to answer your question please. On the Powertrain segment, we will be growing at low double digit or high single digit because the base is high number one. Number two, we are revamping our facilities to attack one new segment of the market which is off-highway, which is a lot of potential is there for export requirement as you know our off-highway business is very small overall. While we continue to increase our exposure to the commercial vehicle business for overseas markets, directly or indirectly, this is a segment which has got a lot of potential in view of the geopolitical situation and also the reduction of dependence on China. This is one major point.

The last point is on the Powertrain there has been a lot of support from the government also for localizing the products which are getting imported, so this is throwing new opportunities, new enquiries we are getting at pretty fast and rapid pace now. All this will translate into business within 2 years' time because the gestation period for approvals and the testing and the validation is a little long and we are close to getting some very important businesses which I cannot disclose now until we get the businesses and that will be coming into production in FY26 is what we look at in a big way. So, this Powertrain business will continue to grow at a rapid pace from FY26 onwards until then, it will be low double digit or high single digit.

On Aluminum business as I had committed, I think, 2 years ago on this matter we are now on the ramp up stage. You will see a quarter-on-quarter increase in topline and the still the base is small and the aluminum usage across the country is increasing and whatever order wins we had 2 years ago all that is translating now currently in sales revenue.

In the Industrial Engineering segment, there has been a pause on the storage solution business, especially on this H1, it means H1 has been lower than last year H1, but I think H2 is looking very strong, and I think there is a lot of consolidation happening in the marketplace. So, we are also bullish on that and one good thing about the storage solutions is we are more and more getting bigger value orders on the automated storage solutions overall and today, our order book is very close to Rs. 100 crores on the automated storage solution itself i.e. pending order book and this is quite a complicated business and we have got 2 orders which are more than Rs. 20 crores and one is close to Rs. 50 crores. So, this means that the market is maturing and we as a manufacturer are also well accepted, and we are able to bid and get for the projects. In the rest of the Industrial Engineering segment, we are highly capable as a contract manufacturer across all the 3 segments of the business, I think the CAPEX cycle as and when it sets in India, Craftsman will be able to capitalize because we are not having many peers in this sort of business in India where we are flexible manufacturing of parts or subassemblies or products which are for many end use segments of the market.

Moderator: Thank you very much. Next question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf: First question is if you could provide us the outlook on CV's and tractors, given that you are working closely in that industry, you could give us some sense on how much CV industry is looking in the next one-year end especially tractor wise also?

Srinivasan Ravi: Sorry Mukesh I was not able to hear clearly. Can I repeat the question myself, so that I am understood properly? You are asking about the potential business in the commercial vehicle segment and in the farm segment going forward, is that the question?

Mukesh Saraf: Yes, from the customer point of view, how that industry is looking basically?

Srinivasan Ravi: I will give a broad outlook on the commercial vehicle just like the developed market, whether it is North America, whether it is Europe or even China, I think the bulk of the commercial vehicles sold are the real heavy duty commercial vehicles. These are 11 liters and above even 9 liter it is the crossover between a medium duty and a heavy duty. 7 liters is a medium duty across these markets. In India, what is 7-liter engine within say 250-300 horsepower is actually mentioned as heavy duty, which is not the case in the developed markets and the gearboxes are 1,300 newton meter whereas we are operating at much lower level in India, but our with the highways improvement and with the GST in place there is no check post. We are evolving as a country that they want to have the freights to be more faster and the tonnage of the vehicles is increasing. The mid segment all over the world is actually on vanishing breed I would say. It is either small LVS or it is big heavy-duty trucks, so value added per truck will keep increasing, but the truck segment is cyclical is agreed, but the cycles will not be as vicious as in the past because the replacement is now between 5 years, it is unlike 10 years or 15 years. The average amount of vehicles run per day and the annual total of 125,000 to 150,000 kilometers they cover every year. So, I think with the 600,000 Kilometer life, with practical overloading which is happening for medium duty to heavy duty trucks I would say, so that will lead to continuous buying, but yes, the segment will continue to grow, but I think next year it will be little soft I would say. It will not be growing at a big pace, but I think that the growth will come back in FY26.

Mukesh Saraf: And tractors, how do you think that is going to be, sir?

Srinivasan Ravi: So, tractor, we as a country for both for Agri and non-Agri purpose the tractor which is getting used for the transport of material. I think we are very near the peak what we can sell and sustain, but India is becoming a global hub for manufacturing of diesel engines as well as for tractors. Multinationals are setting up shop here that will lead to growth for Craftsman.

Mukesh Saraf: The other question is on the export business within the Aluminum segment. You mentioned that in the second-half this year we will start seeing some of those lumpy orders ramping up, so how are we placed? especially to Europe, the exports to Europe?

Srinivasan Ravi: You are talking about Aluminum segment?

Mukesh Saraf: Yes, within the standalone Aluminum business.

Srinivasan Ravi: Standalone aluminum business, our direct exports are negligible I would say. As of now it is only our customers who are exporting the products in a big way totally not the end product, but the intermediary product I would say that is increasing.

Mukesh Saraf: But we had some direct exports that we were expecting that some of the orders will start ramping up?

Srinivasan Ravi: That is for next year.

Mukesh Saraf: And just lastly, you mentioned about this backward integration will that in any way help in the Powertrain segment export orders because the annual report was talking about a lot of opportunity on the Powertrain segment exports, so how would that backward integration help?

Srinivasan Ravi: The backward integration will be only say 5% to 10% of our total requirement because we are very large in the machining segment. We are working with our foundry partners in a very big way. Whatever they can give we are absorbing, and we are working together for both domestic as well as exports also either as Tier-1 exports or Tier-2 exports both we are doing, we are open to working with them. We are augmenting that with the background integration surely there is more choice now on this matter because the market is so big on the potential side and we with a very big base on the Powertrain business, we are still going to have a high double-digit growth from FY26 onwards on the Powertrain with a combination of working with our foundry partners as well as some decent amount of background integration happening there.

Mukesh Saraf: So, the question was largely looking at export opportunity on the Powertrain segment, sir, is there something there that we can expect?

Srinivasan Ravi: Yes, you can expect that. I don't want to name customers without their approval, but I think one of the biggest customers in all over the world, I think we are working together for that exports for their requirement in the Powertrain business I don't want to again classify in which.

Mukesh Saraf: No, we don't need any name, sir, but any timelines now are we looking at say FY25 or is it going to be something beyond that FY25?

Srinivasan Ravi: No, it will be FY26 because these are bigger orders, and these are a higher validation cycle which has to go through. We are on the right path for the Powertrain business. Powertrain business has got the potential to double or even triple in the coming decade.

Moderator: Thank you. Next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Can you first share a couple of data points; one is the value add for standalone businesses as well as the DR Axion for the 2nd Quarter?

Srinivasan Ravi: You want for Q2, value added?

Jinesh Gandhi: Yes.

Srinivasan Ravi: Value added as a percentage has been approximately around 15%, sir total. On a consolidation basis, it has been 47% value add.

Jinesh Gandhi: You said that data on business wise primarily Rupees-crores value add for Powertrain, Aluminum Industrial which used to share earlier?

Srinivasan Ravi: For H1, I think on the Powertrain it is around 62% because it is a mixture of job work and with the machining and then Aluminum, we have the Industrial Aluminum and we have the auto aluminum all as aluminum products, which is around 42%. Our Industrial Engineering is 40%.

Jinesh Gandhi: And for the storage solution, what was the revenue for 2nd Quarter and within that, how did automated storage do?

Srinivasan Ravi: On the storage solutions we have done Rs. 164 crores for H1.

Jinesh Gandhi: Automated would be?

Srinivasan Ravi: The breakup for the automated, automated has been 27% if I am right, 27% automated.

Jinesh Gandhi: Now coming on the export orders, particularly in aluminum Die-Casting side, where are we in terms of a ramp up for this Stellantis order which we have got, how far are we from full ramp up?

Srinivasan Ravi: We have seen some numbers in Q2 is still on the ramp up, I think the ramp up will be complete every quarter I think is ramping up until the next 3 quarters. We expect that to peak only in the September quarter of next year. This is now mostly domestic, and export has started, indirect export has started, direct export to the parts is not started yet, so that will be in the next financial year as I answered the earlier question from the earlier participant. So, we are on the ramp up side on the Aluminum.

Jinesh Gandhi: So, this year we should be able to attain 50% of our peak revenue potential of this order or it will take a little longer than that or it will be lower than 50%?

Srinivasan Ravi: The number what the customer has indicated is very high, but we have discounted that number saying that, okay, the market conditions in Europe are not favorable, but what we see is currently we are at a run rate and H2 the run rate is approximately Rs. 500 crores upon the standalone aluminum business, total.

Moderator: Thank you. Next question is from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.

Mumuksh Mandlesha: Happy festive season to the management. Sir this quarter other expenses have notably increased Q-on-Q, any reason for the large increase, Sir?

Srinivasan Ravi: What expenses?

Mumuksh Mandlesha: Other expenses.

Srinivasan Ravi: A repair and maintenance, I think. We have taken a conscious decision to do repair and maintenance because some things were pending immediately, something was not done during COVID and post COVID we had a ramp up. I think we had a little slow Q1, Q2 I think that is the time we have done the repair and maintenance. And other things are power expenses

Mumuksh Mandlesha: That should normalize next quarter onwards, other expenses?

Srinivasan Ravi: Yes, it will normalize.

Mumuksh Mandlesha: DR Axion had a very strong growth Q-o-Q about 40%, can you indicate what led to such a strong growth in DR Axion, sir?

Srinivasan Ravi: I think the passenger vehicle market in India has done well and DR Axion has also almost finalized the new order for Hyundai for their new Talegaon plant, which is going to be operational in FY25, the same parts what we are supplying to their Chennai plant. So, I think that will add another 10% or 5% topline growth for DR Axion and 10% of Hyundai-Kia business. Yes, Mahindra is also on the ramp up, so all of this has helped DR Axion for its growth.

Mumuksh Mandlesha: Just a last question on the CAPEX side, we have done about Rs. 260 crores in the first half and the full year we expect about Rs. 330 crores, so should you see any higher CAPEX than what you expected earlier?

Srinivasan Ravi: See CAPEX, whatever is planned, the Rs. 330 crores is the similar CAPEX what we have envisaged for the existing plants. Now we have filed also on the Stock Exchange that we are going for a new plant and there we are going for additionally, I think Rs. 150 crores or Rs. 160 crores CAPEX this year and maybe in FY26, we will go for another Rs. 100 crores we have disclosed that. So, we have filed for Rs. 102 crores CAPEX for the year. So, with this number we will be close to Rs. 480 crores with that of capacity on for this Greenfield project which we are looking at housing all the 3 segments of the business, but mainly in the Powertrain and Aluminum business.

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

Abhishek: Sir, congratulations for a strong set of performance in tough times. Sir, the first question on the Powertrain, do you still intact guidance of 15% to 20% growth in the Powertrain business in FY24 despite the higher inventory in the tractor segment? And you take growth in the first half around 7% only?

Srinivasan Ravi: From the time of the IPO, I always said that we will have CAGR growth of 15%-20% total. So, we may have grown more per in certain years. We may grow less for certain years, but I think the next bigger growth will come in FY26 is what I feel, but if we look at from FY21 to FY26 still we will be in the 15%-20% CAGR growth on the Powertrain.

Abhishek: So, you have won the new business in OHV segment in Powertrain segment, so when it will start to reflect in the numbers?

Srinivasan Ravi: FY26.

Abhishek: And my last question on this RM supplies issues as you are facing some issues of the iron casting site, so are you looking for the set up some foundries to sort out these issues?

Srinivasan Ravi: We are not having any issue on the RM side, I think we are working very well with the foundry partners, but I think all of you know that the capacities of India in the cast and foundries is hardly 10% of China. China is serving 50% of the global requirements. India is serving only 5% of the global requirements that is very small and the large foundry segment wherever relevant capacities are required we are not even 5% of the global requirement. We have only 10 leading foundries in India. I think there is headroom for lot. We don't have enough capacities to capture the global market requirement this is the fact.

Moderator: Thank you. Next question is from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.

Basudeb Banerjee: Most of the questions were answered. Couple of things, sir what is the current utilization in both Powertrain and Aluminum segment?

Srinivasan Ravi: Aluminum, I think we are just touching around 80% now. I think that is a good thing and that is also leading to better profitability and the Powertrain business we are back to in mid 70s or early 70s, because of the capacity increase, what has done. The new capacities have commenced operation or started production. But I think the existing capacities are not being fully utilized in H1 the way it is. So, the average operating capacity is only around 70% on the Powertrain now.

Basudeb Banerjee: And Aluminum does it include DR?

Srinivasan Ravi: Standalone is around 80, But DR is slightly much higher. It is very close to 90%, but they will keep tweaking some capacity to take it 5%-10% higher than what it has. So, we will have headroom with marginal CAPEX for another 20% growth.

Basudeb Banerjee: And under this background you are planning a fresh CAPEX which you mentioned where PT Powertrain utilization is already impacting margin to some extent, and where domestic PV's have done exceedingly well. This will be the third year, FY25 will be the 4^{th} year, so high probability typical mean reversal happens after 4 good years. Do you see expanding towards CV dedicated Powertrain business at current juncture?

Srinivasan Ravi: As I mentioned earlier, our segment on the Powertrain is not at all having much exposure on the passenger vehicle because it is mostly on the heavier segments what we are talking about. So, now the exposure is very minimum on the off-highway and industrial engines totally on this segment, which has got huge potential within the country and for export. So, that is where we are investing these capacities are slightly higher size of equipment not exactly equal into the medium duty or heavy-duty commercial vehicle and this I think these are heavier equipment overall. We were talking about large engines for power generation or for off-highway vehicles, these are different parts.

Basudeb Banerjee: And typically, what will be the fixed asset term of this project?

Srinivasan Ravi: It will be the same I think we are looking at value addition portion of it around 0.6 - 0.7 or 60% to 70% of the averaging 60%-70% gross block because the turnover will depend on the commodity price and we are doing the preference in 2 ways. We are sometimes buying the casting, sometimes we are doing the job work. So, we cannot put on the turnover in that segment, only the value addition we can look at it.

Basudeb Banerjee: Last small question, if I can put in how much was the value addition for DRA separately this quarter or first half what you were saying?

Srinivasan Ravi: Value addition has been in the range of 35%.

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

Pranay Roop Chatterjee: First question is regarding the Aluminum segment which saw a pretty good growth, the growth on DR Axion was slightly stronger, so first part to the Aluminum segment question is, was there any one-off in the Q-o-Q growth like for example it is possible that the OEM has more inventory piled up because I was seeing the wholesale numbers for Hyundai and Kia, it was not as strong as the growth that DR Axion has seen and is the margin sustainable at 15% EBIT which would imply let us say 18% to 20% EBITDA, is that sustainable? And the second part is, do you still maintain the 20% CAGR guidance that you had given originally on the Aluminum segment on the FY24 base?

Srinivasan Ravi: I will answer the two parts, so it is actually two questions you asked me. One is Hyundai-Kia yes, the growth has been not corresponding to what DR Axion has grown. DR Axion has grown on also on Mahindra and DR Axion next year will grow on again Hyundai and Kia when FY25 in new Telangana plant is going to come into operation. This will also lead to growth which is around another

10% increased capacity is what is going to happen. Coming to your second part of the question on whether the margins are sustainable with these sorts of operating higher operating leverage and single plant operation, yes, we can sustain the margins. The growth until FY26 is very clear. And on Aluminum, it is going to continue even beyond that particular point.

Pranay Roop Chatterjee: I have one more clarification, it is not a question before I am interrupted. So, you had mentioned, sir in answer to 1 participant's question that regarding the Stellantis order you said Rs. 500 crores run rate in H2. Can you just clarify that because I thought the order was Rs. 200 crores.

Srinivasan Ravi: I didn't say Stellantis 500 crores I said to the standalone Aluminum business of Craftsman for H2, has got a run rate of Rs. 500 crores for H2.

Moderator: Thank you. Next question is from the line of Vaishnavi Deshmukh from Yashwi Securities. Please go ahead.

Vaishnavi Deshmukh: I have a question in relation to the debt side, so in the July concall you have mentioned that debt should be coming down by at least Rs. 200 crores, now I see there is a slight addition in the debt and also with the CAPEX that we have already aligned, so what is the outlook for that?

Srinivasan Ravi: There are two things which had changed, one is the Rs. 375 crores outflow towards the acquisition of DR Axion and I think that we have shown the results because of that debt is sitting on the Craftsman books and we have not raised any equity on this matter, that is the reason for the debt increase currently. So, we had guided for around Rs. 320 crores, CAPEX for this financial year, but now we see huge opportunity for the Powertrain as well as Aluminum business going forward because of the geopolitical situation and also the Make in India policy. There are various policies the government is bringing up to reduce the amount of imports and they are even bringing up BI standards and other standards. I think for qualification, so there will be no dumping from other countries which are happening, so the capacities will not be sufficient. We started to prepare for that, so debt portion, I think I had mentioned in my opening statement, I always maintained that we would hover around 1.5 times debt to EBITDA on this matter and at the current level I will just read out the ratios to you. On a consolidated basis, debt to EBITDA is at 1.49 in total overall. See the absolute debt, yes, when you are going for a Greenfield project which we announced now there will be some portion debt as an absolute number may slightly increase or come down, but I think the debt to EBITDA will continually come down.

Vaishnavi Deshmukh: On your second question, I have this on EV in the last concall, you have also mentioned that it is very low right now. So, are we seeing any improvement? Have we got any order in that front in the Aluminum segment?

Srinivasan Ravi: I think for the two-wheeler EV, we are a major supplier at least for the market is concerned, but you know the size of the EV market itself is very small today. So, we having a major chunk doesn't change anything for us is not a significant percentage of our new business currently.

Vaishnavi Deshmukh: Just with the continuation of the last question, one analyst has asked about the Rs. 150 crores that you say the CAPEX would be done, it would come around in FY25, right?

Srinivasan Ravi: No, it will be done in FY24.

Vaishnavi Deshmukh: It will be done, but the capacities will come around and commence from FY25 or it would be commencing in FY24 only?

Srinivasan Ravi: It will come in start trial production in Q2, Q3 of next year trial production. Actually, revenue see you are right, it will come in FY26.

Moderator: Thank you. Next question is from the line of Karan Gupta from Varanium Capital. Please go ahead.

Karan Gupta: My question is related to the pricing term, so how we are competing on the pricing term? As we mentioned in the last concall as well that the China and from Thailand there is a dumping of the products of aluminum products?

Srinivasan Ravi: Not from Thailand, I said must be from China only because China is the biggest manufacturer in the world. Thailand is negligible.

Karan Gupta: So, now what is the situation now? And how we are competing on the pricing term? Or we have anything related to the working capital side we are managing presently, so we can compete better?

Srinivasan Ravi: So, there are 3 aspects. No, I will just put across first of all technology wise there is needs to be CAPEX investment done to compete with China. We are very small when compared to China. If we look at the foundry capacity, they are 10 times bigger and relevant capacities if we look at it, they are 15 times bigger total. So, we are no comparison to China. Again, the economies of scale when we are having 10 different manufacturing plants in India. One manufacturing plant of China is able to have more capacity than these 10 manufacturing plants. So, this means scale of operations advantage we are not having currently. So, whenever we build up on the machining side, Craftsman has got the scale of operations. Now on the Aluminum side, we are building up scale of operations and whenever we are looking at the global market, we have to be on global size of the manufacturing, otherwise we cannot even cater to 1 customer on this matter. So, it would not be viable to our any customer to source from us. So, this is whether capacity comes first or whether order comes first is a chicken and egg story which will continue. So, we are bent upon trying to capitalize on this new situation, there is our 3 situations which has developed one is the over dependence on China. The second thing is the geopolitical situation. The third thing is of course our GDP growth will sustain for a longer period of time. Growth will be because of the inherent economy and the average age of our economy people here. The last point is that within Europe and North America, the appetite for industry work is coming down, I think the skilled workforce is coming down. Even semi-skilled workforce people are not available because these are developed economies. So, there will be more outsourcing in India. I think getting an order here after only if we have the capacity, capability and the competitive pricing getting an order will not be a challenge at all.

Karan Gupta: So, when you say the scale of operation which means providing various and variety of products to the customers? Is that we can compete with China obviously on the pricing terms, we can compete as the foundries and the skill?

Srinivasan Ravi: Somebody was telling me that from a consultant in Germany that all the 10 top foundries put together I think one foundry in China will be bigger than that and they have 100 such foundries. This is what is the comment coming from there, so this is on public domain. On the global requirement we are 5% of the casting supply and I think China is 50%, but the 50% is relevant capacity and our 5% is somewhat some of the capacities have become obsolete on the lower end products. So, I think there is a lot of headroom to grow.

Karan Gupta: So, that is what I am asking on the scale side, or the pricing side, we can compete, that is okay, but anything we can do with the working capital or on the credit terms or the payment terms? No, apart from pricing, what we can do to compete in the domestic market and for export as well?

Srinivasan Ravi: I think your payment what we get from our customers, from the exporters is perfect. We are not giving any long credit, or we are not giving external credit. That is very clear on this matter.

Moderator: Thank you. Next question is from line of Bharat Seth from Quest Investment Advisors. Please go ahead.

Bharat Seth: On taking this casting side opportunity, so you say we are working with the partners, are our partners are also expanding the capacity the way you are projecting demand?

Srinivasan Ravi: Yes, they are also expanding capacity and there is complementing capacity required. Some of the product segments and the foundry offering is very big. It is from a tiny product say one kilo and two kilos up to 10,000 kilos as everything is foundry totally. So, I think wherever there is a gap in the capacity available, Craftsman is willing to invest and take advantage of the opportunity and grow.

Bharat Seth: which sector, I mean smaller casting or a larger casting?

Srinivasan Ravi: Sir, I think we are working with various foundries within the country. I think more than a dozen foundries and 3 of our foundries are really working very close with them on their capacities. We are aware of their plans, and we are in close touch with them. Wherever our foundry partners can supply the material for us as a Tier-1 or Tier-2 for export we are not really getting into the business wherever there is no availability of this material only we are thinking of getting into backward integration.

Bharat Seth: And talking of this backward integration, what size of capacity are we putting and what size of the foundry that we would like casting size will be like 200 kg, 300 kg or a smaller casting?

Srinivasan Ravi: Sir, we were not present in the Aluminum business 8 years ago. Today standalone Aluminum business is close to Rs. 900 crores this financial year in total. And what I wish to say is we will make in steps only we will not make one big leap. And what we have mentioned now is for foundry and machining at the stage one investment only we have done. We will see how it goes. We will have our order book full before we make the next step. We have 50 acres of land available and site #2 where machining Aluminum and Industrial segment all of it can grow. So, we will make this capital allocation as and when required only. We will not make one plan and just build it. So, we have got a bigger plan, but we are doing modular integration or investments.

Bharat Seth: So, is that clear **s**ir if my understanding on the foundry side, we are expanding on the Aluminum, sir correct?

Srinivasan Ravi: Sir, we are expanding on Aluminum side, we are looking at backward integration on the casting side, which I have been articulating in the last two earnings call totally. So, we are looking at wherever we can buy castings from the foundry partners, whereas we can work with the foundry partners as Tier-2. We are not investing for capacity. Wherever we see, there is a gap in capacity available and there is an opportunity available for end use for customers within the country or for export we are willing to invest for the foundry capacity.

Moderator: Thank you. Next follow up question is from line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Just quickly to clarify on CAPEX of Rs. 480 crores which you mentioned for FY24, Rs. 320 crores for the existing CAPEX which we have announced and Rs. 150 crores, Rs. 160 crores is for the Phase-1 of new Greenfield plant, is that correct?

Srinivasan Ravi: Yes, correct.

Jinesh Gandhi: Because in the press release you mentioned phase 1 to cost about Rs. 102 crores, what I am missing over here, Rs**.** 102 crores versus Rs. 106 crores?

Srinivasan Ravi: No, what we are looking at is that we are investing at our balance facility to complement that with the existing facility at our existing plant because we don't want to start all the different segments of the business in separate operation. Wherever we can house it in the current plant that the Rs. 50 crores, Rs. 60 crores we are housing in the current plant, but after that the plant, it cannot house anything more, the flagship plant.

Moderator: Thank you. Next follow up question is from the line of Vaishnavi Deshmukh from Yashwi Securities. Please go ahead.

Vaishnavi Deshmukh: I have just one question left. As you mentioned in this concall only that major growth will be coming in FY26 on the new orders and the capacities that will be coming on stream. So, want to know what would be the guidance for you in topline and both consolidated EBITA for FY24 and FY25?

Srinivasan Ravi: We never give any guidance on this matter. I think we will be growing at a double digit this year, but it will be lower double digit.

Vaishnavi Deshmukh: For this year it would be a lower double digit and for FY25 are you expecting of something slightly flat?

Srinivasan Ravi: No, we will be growing at a high single digit or double digit surely. What I am saying is the new opportunity, I think suddenly we may go beyond the 20% at some particular point of time. We have seen from the past from it is like that, we grow at 20%, 25%, 30%, then drop to 10% again come back to 15%-20%, but CAGR has been between 15%-20% if you look at it for a longer period of time.

Vaishnavi Deshmukh: And would we be able to see any improvement in the EBITDA?

Srinivasan Ravi: I think there are two things, one is inflation, and the second thing is the growth. If you are just growing at 5%-10%, I think the EBITDA margins to sustain itself is very difficult because of inflation. The second thing is again, the EBITDA margin is the mixture of how much value addition we do, so we have to measure the EBITDA on the value addition not on the topline which will be misleading totally. So, when we are saying that we are having an value addition of around say 50 odd percent and then on that we are having a 40% EBITDA something like that we need to take that into account, not on the topline please.

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

Srinivasan Ravi: Thank you very much for joining. I think there were many questions. I hope I have answered them to your satisfaction, but I thought I would give a brief summary of whatever the questions have asked for the benefit of everybody on this call.

I would say that on the Powertrain, as I mentioned in the last 2 earnings call that we may hit some sort of speed breaker where we cannot grow at 20%-30% and that is true and because of that we have taken this action of strengthening our relationship with our foundry partners as well as putting the foundation for backward integration where and when it is necessary and the scale in modules not in one big jump where it may affect our return ratios we will be very cognizant to the fact that we need the ROCE, we need the return of equity, we need the EPS, that is why we have not raised any capital also. Our capital allocation will be very prudent, but what I wish to say is the Powertrain business can double or even triple from the current level provided we make the right moves at the right time, and we will do it in the steps. So, we will see the growth trajectory on the Powertrain going there will be a lull ie., low double digit or high single digit growth for this year and next year after that again it will pick up in a bigger way.

Whereas when we are doing for the Powertrain business, we are sharing the facilities for the larger partitioning when I talk about 1 ton, 2-ton, 3-ton parts these are parts which are having a complementary action with the Industrial Engineering segment. So, we are not putting all the eggs in one basket. We have two baskets, the equipment and the foundry capacity is and as when needed. When you put it up, we will be serving the industrial engineering as well as the Powertrain business.

In the Aluminum segment as mentioned earlier now as an overall segment, we are more than 50% on the passenger vehicle. So, our dependence on 2-Wheeler has come down quite dramatically totally as a company.

And now the third aspect which I wish to say is the EBITDA numbers or EBIT numbers, all of them are pointing towards a 45, 45, 10 sort of mix between Powertrain, Aluminum and Industrial Engineering roughly. What I am trying to say is that the product mix has been now very good on the consolidated basis. We achieved that portion of it. Now on the Powertrain business by itself, our reliance on the commercial vehicle business will be coming down while we continue to grow on the commercial vehicle business, you will see in the next, not quarters next few years it will be a smaller percentage overall, we see that.

Coming to the last important segment of the business on the storage solution, we see that the on the automated solutions, our business will be growing much faster than the static racking. But both are complementing each other without the static racking automation cannot sustain on its own, so that will lead to better opportunity going forward, so all the three segments were well poised to continue to grow. Thank you very much and have a nice day.

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

(This document has been edited for readability purposes)