

13<sup>th</sup> May, 2024

To

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

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

Dear Sir/Madam,

**Sub: Intimation of 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 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 10<sup>th</sup> May, 2024 which was received by Company on 13<sup>th</sup> May, 2024 have reaffirmed the Credit Ratings for the long term and short term bank facilities of the Company as below:

**Rating Action:**

Sr.No.	Loan Facilities Rated	Existing Rating	Rating action
1.	Long Term Rating	CRISIL AA-/Stable	Reaffirmed
2.	Short Term Rating	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**

Shainshad Aduvanni  
**Company Secretary & Compliance Officer**

Encl: As above

## Rating Rationale

May 10, 2024 | Mumbai

### Craftsman Automation Limited

Ratings reaffirmed at 'CRISIL AA-/Stable/CRISIL A1+'

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.1640 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL AA-/Stable (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 reaffirmed its 'CRISIL AA-/Stable/CRISIL A1+' ratings on the bank facilities of Craftsman Automation Ltd (CAL).

On May 4, 2024, CAL announced that it has signed a definitive agreement with Daerim International Co Limited, South Korea (Daerim) to acquire the residual 24% shareholding held by Daerim in DRAIPL for a cash consideration of Rs.250 crore. The acquisition is expected to be completed by June 2024, post which DRAIPL will become a wholly owned subsidiary of CAL. Earlier in February 2023, CAL had acquired 76% stake in DRAIPL from its erstwhile parent, Daerim for Rs.375 crore. Besides, CAL has also notified the stock exchanges that it is in process of raising funds from the market upto an extent of Rs.1200 crore which is expected to be completed shortly. The equity proceeds shall be utilized towards acquisition of residual stake in DRAIPL, general corporate and debt reduction purposes-

CAL's business performance continued to see sustained improvement in fiscal 2024, with revenues increasing by 40% on-year, benefitting also from full year contribution from DRAIPL, steady demand for components, mainly from original equipment manufacturers (OEMs), and increase in share of business with customers. DRAIPL which is the major supplier of cylinder blocks and heads for leading passenger vehicle (PV) OEMs such as Hyundai Motor India Ltd (rated 'CRISIL AAA/Stable/CRISIL A1+'), Kia Motors, and Mahindra & Mahindra Ltd (rated 'CRISIL AAA/Stable/CRISIL A1+'). The acquisition of DRAIPL has helped CAL increase the share of revenue from the PV segment, thereby diversifying the revenue stream among the auto business. CAL and DR Axion both operate in the automotive (auto) components space and have strengths in complementary areas. CRISIL Ratings expects CAL to register steady double digit revenue growth over the medium term, supported by increase in share of business with existing and new customers, besides new component addition.

Besides, the company, by way of its established and superior operating efficiencies and expertise in the machined components and die-cast component space continues to register healthy operating profitability. In fiscal 2024, operating profitability dipped to ~20.0% but still remained healthy (21.6% in fiscal 2023), owing to change in product mix, reduced offtake from high margin segment, higher inflation and marginally lower profitability at DR Axion as compared to profitability of CAL on standalone basis. Operating profitability is expected to stabilise at ~19-20% over the medium term, which along with steady revenue growth, will ensure healthy annual cash generation.

CAL's financial risk profile has also strengthened over time, driven by strong annual cash generation, equity proceeds received from its initial public offering which helped lower debt, and prudent funding of its capital expenditure. Consequently, the company's debt metrics are at comfortable levels, despite sizeable capex of over Rs.600 crores being undertaken in fiscal 2024, which was partly debt funded. Gearing was at ~0.91 times at March 31, 2024 (0.82 times at March 31, 2023). Interest coverage ratio was ~5.1 times in fiscal 2024 as compared with ~5.8 times in previous fiscal. However, the ratio of debt to earnings before interest, depreciation, tax and amortization (EBITDA) ratio though remained at ~1.7 times in the last two fiscals. Given the company's equity raising plans, debt metrics are likely to further improve, should debt be pre-paid. The same will be a monitorable.

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

#### Analytical Approach

CRISIL Ratings has consolidated the business and financial risk profiles of CAL and its subsidiaries, (Craftsman Europe B V Netherlands and DR Axion) due to operational and financial linkages between them.

Goodwill on the acquisition of DR Axion is amortized over a period of 5 years commencing from the date of acquisition in fiscal 2023. Consequently, reported PAT, net worth and ratio computations are adjusted.

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:**

- **Diversified revenue stream from Auto segment:** CAL is a leading player in the auto-engineering contract-manufacturing sector, with a diversified clientele across industries. It has three business segments: -power train (~35% of revenues), aluminium products (~48% of revenues), and industrial and engineering (balance revenues) during fiscal 2024. The power train segment caters to CVs, PVs, farm equipment, construction and mining equipment 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 40% in fiscal 2024 on account of full year revenue contribution from DRAIPL and growth in business segments of CAL. Besides addition of PV OEM customers arising from DR Axion, 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. At consolidated level, the company is expected to achieve steady double digit revenue growth over the medium term.

- **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 over the past years. In fiscal 2024, however, the share of the higher-margin machining business reduced, which along with stable material costs resulted in the operating margin moderating to 19.9% in fiscal 2024 from 21.6% in the previous fiscal. CAL is continuously undertaking cost-control initiatives through automation, employee base optimization and wastage reduction; this coupled with improved capacity utilisation post acquisition of DR Axion (which has lower operating margins compared to CAL on standalone basis) should still aid in sustaining the operating margin at 19-20% over the medium term.
- **Healthy and improving financial risk profile:** Financial risk profile continues to be healthy and supported by steady cash accrual generating ability. Hence, despite mainly debt funded acquisition of DR Axion, debt protection metrics remain comfortable. Debt, however, increased to Rs.1593 crore at the end of fiscal 2024 as compared with Rs 1172 crore at the end of previous fiscal, primarily for funding the capex of Rs 630 crore during the fiscal; Increase in debt levels has led to gearing rising to ~0.91 times as on March 31, 2024 and interest coverage ratio of ~5.1 times for fiscal 2024. However, the Debt to EBITDA ratio remained at ~1.70 times in fiscal 2024, on account of full revenue consolidation of DRAIPL. Also, CAL is in process of raising funds of up to of Rs 1200 crore, which will be utilized towards funding the acquisition cost of Rs 250 crore while the remaining surplus be utilized towards debt reduction and general corporate purposes. While CRISIL Ratings expects CAL's debt metrics to gradually improve supported by healthy cash generation (~Rs. 600 crore per annum), and prudently funded capex (expected at ~Rs.500-600 crore per annum). However, should equity raise be used to partly prepay debt, improvement in debt metrics would be faster.

#### **Weaknesses:**

- **Capital-intensive business and large working capital requirement:** Operations are intrinsically capex and working capital intensive. CAL incurred sizeable capex of Rs ~2,800 crore during fiscals 2017-2024 including the fixed asset addition arising out of the acquisition, and in some cases, has set up capex ahead of 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; Given the nature of operations, inventory and payable days are also high. 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 trends in automotive sector:** 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 performance is likely to remain susceptible to sharp slowdown in demand from the auto industry over the medium term, given that the segment will account for over 75-80% of revenues.

#### **Liquidity: Strong**

CAL's liquidity position is strong, and benefits from its healthy annual cash generating ability. The company is expected to generate cash accruals of atleast ~Rs.600 crore annually, which will more than suffice to to meet term debt repayment obligation of ~Rs. 105 crore in fiscal 2025, and Rs. 259 crore in fiscal 2026, and part fund proposed capex. Further, the company has adequate headroom in the form of unutilised bank limit of Rs.- 600crore with average utilization levels of ~70% for 9 months ended March 2024.

#### **Outlook: Stable**

CAL will continue to benefit from its established market position, strong customer relationships, healthy operating efficiency and also from the acquisition of DR Axion. The financial risk profile will continue to remain healthy, supported by improving cash accrual, prudently funded capex and good working capital management.

#### **Rating Sensitivity factors**

##### **Upward factors**

- Sustained healthy business performance resulting in steady cash generation.

- Prudent capital spending and working capital management, and faster than expected reduction in debt levels, including from equity proceeds raised, leading to improvement in financial risk profile and debt metrics – for instance Debt/EBITDA sustaining at below 1-1.2 times.

#### Downward factors

- Significantly weak operating performance impacting annual cash generation
- Large, debt-funded capex or acquisition or significant stretch in working capital requirement, impacting debt metrics; for instance Debt/EBITDA in excess of 2-2.25 times

#### ESG Profile of CAL

CRISIL Ratings believes that Environment, Social, and Governance (ESG) profile of CAL supports its existing strong credit risk profile.

The auto component sector has a moderate impact on the environment owing to moderate emissions, water consumption and waste generation. The sector's social impact is also moderate considering the impact of operational activities on the company's own employees. The company is actively focusing on mitigating environmental and social risks.

#### Key ESG highlights

- The company has a continuous focus on improving its contribution towards the ESG journey among the industry. CAL has undertaken variety of initiatives to reduce the carbon emissions by not only following it, but also monitor among its suppliers through monitoring systems that are in place.
- Share of energy from renewal sources has improved to 23.57% as compared to 5.36% in fiscal 2021. Further, the usage of renewable energy as part of its facilities is better compared to its peers.
- The company has a higher water recycling rate of 60.30% as compared to the industry average.
- The company encourages local sourcing wherever possible and procures ~92% of the raw materials domestically. While the same is marginally compared to its peers, the same has been increasing since fiscal 2021 from 70% to ~92% in fiscal 2023.
- The governance structure is characterized by 70% of its board comprising of independent directors. It has a committee at the Board level to address investor grievances and had also put out extensive disclosures.

While there is growing importance of ESG among investors and lenders, the commitment of CAL to ESG principles will play a key role in enhancing stakeholder confidence, given high share of market borrowing in its overall debt and access to both domestic and foreign funds / capital markets.

#### 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) in 2022, the promoter and promoter group, comprising Mr. S Ravi and his family, continue to hold majority stake of 54.99% in CAL. Other stakeholders include mutual funds with 13.20% stake, alternate investment funds 4%, foreign portfolio investors 12% and public the balance.

#### Key Financial Indicators - Consolidated

As on/for the period ended March 31*	Unit	2024	2023
Revenue	Rs.Crore	4452	3182
PAT	Rs.Crore	299	241
PAT margin	%	6.72	7.59
Adjusted debt/adjusted net worth	Times	0.91	0.82
Interest coverage	Times	5.13	5.79

\*CRISIL Ratings adjusted numbers

**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 levels	Rating assigned with outlook
NA	Working Capital Demand Loan	NA	NA	NA	390	NA	CRISIL AA-/Stable
NA	Packing credit	NA	NA	NA	60	NA	CRISIL A1+
NA	Bank guarantee	NA	NA	NA	50	NA	CRISIL A1+
NA	Letter of credit	NA	NA	NA	152	NA	CRISIL A1+
NA	Long-term loan	NA	8.80%	31-Jul-2029	130.00	NA	CRISIL AA-/Stable
NA	Long-term loan	NA	10.05%	31-Oct-2024	24.00	NA	CRISIL AA-/Stable
NA	Long-term loan	NA	13.13%	31-May-2026	27.00	NA	CRISIL AA-/Stable
NA	Long-term loan	NA	8.30%	31-Jan-2030	100.00	NA	CRISIL AA-/Stable
NA	Long-term loan	NA	9.50%	31-Oct-2027	38.00	NA	CRISIL AA-/Stable
NA	Long-term loan	NA	8.68%	31-Dec-2026	151.00	NA	CRISIL AA-/Stable
NA	Long-term loan	NA	9.40%	31-Aug-2026	35.00	NA	CRISIL AA-/Stable
NA	Long-term loan	NA	8.20%	30-Nov-2029	125.00	NA	CRISIL AA-/Stable
NA	Long-term loan	NA	9.50%	31-Dec-2027	58.00	NA	CRISIL AA-/Stable
NA	Long-term loan	NA	9.50%	31-Jan-2030	150.00	NA	CRISIL AA-/Stable
NA	Proposed long-term bank loan facility	NA	NA	NA	150.00	NA	CRISIL AA-/Stable

**Annexure - List of Entities Consolidated**

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Craftsman Europe B V Netherlands	Full	Common management and financial linkages
DR Axion India Private Limited	Full	Common management and financial linkages

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

Instrument	Type	Current		2024 (History)		2023		2022		2021		Start of 2021
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	1438.0	CRISIL A1+ / CRISIL AA-/Stable	--	20-07-23	CRISIL A1+ / CRISIL AA-/Stable	06-07-22	CRISIL A+/Stable / CRISIL A1	18-06-21	CRISIL A1 / CRISIL A/Stable	CRISIL BBB+/Stable / CRISIL A2	
			--	--	09-01-23	CRISIL A+/Positive / CRISIL A1	--	--	--			
Non-Fund Based Facilities	ST	202.0	CRISIL A1+	--	20-07-23	CRISIL A1+	06-07-22	CRISIL A1	18-06-21	CRISIL A1	CRISIL A2	
			--	--	09-01-23	CRISIL A1	--	--	Withdrawn			

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	50	State Bank of India	CRISIL A1+
Letter of Credit	15	RBL Bank Limited	CRISIL A1+
Letter of Credit	15	Standard Chartered Bank Limited	CRISIL A1+
Letter of Credit	77	State Bank of India	CRISIL A1+

Letter of Credit	25	Indian Bank	CRISIL A1+
Letter of Credit	20	Axis Bank Limited	CRISIL A1+
Long Term Loan	35	HDFC Bank Limited	CRISIL AA-/Stable
Long Term Loan	100	Bajaj Finance Limited	CRISIL AA-/Stable
Long Term Loan	151	International Finance Corporation	CRISIL AA-/Stable
Long Term Loan	38	Bajaj Finance Limited	CRISIL AA-/Stable
Long Term Loan	150	Aditya Birla Finance Limited	CRISIL AA-/Stable
Long Term Loan	125	Exim Bank	CRISIL AA-/Stable
Long Term Loan	5	Exim Bank	CRISIL AA-/Stable
Long Term Loan	24	Indian Bank	CRISIL AA-/Stable
Long Term Loan	27	Standard Chartered Bank Limited	CRISIL AA-/Stable
Long Term Loan	125	The Federal Bank Limited	CRISIL AA-/Stable
Long Term Loan	58	Tata Capital Financial Services Limited	CRISIL AA-/Stable
Packing Credit	60	Standard Chartered Bank Limited	CRISIL A1+
Proposed Long Term Bank Loan Facility	110	Not Applicable	CRISIL AA-/Stable
Proposed Long Term Bank Loan Facility	40	Not Applicable	CRISIL AA-/Stable
Working Capital Demand Loan	45	Indian Bank	CRISIL AA-/Stable
Working Capital Demand Loan	60	Axis Bank Limited	CRISIL AA-/Stable
Working Capital Demand Loan	125	State Bank of India	CRISIL AA-/Stable
Working Capital Demand Loan	50	HDFC Bank Limited	CRISIL AA-/Stable
Working Capital Demand Loan	60	RBL Bank Limited	CRISIL AA-/Stable
Working Capital Demand Loan	50	YES Bank Limited	CRISIL AA-/Stable

## Criteria Details

### Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing 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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