21st July, 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 20th July, 2023 has revised the Credit Ratings for the long-term bank facilities of the Company from 'CRISIL A+/Positive' to **'CRISIL AA-/Stable'**, and for the short-term bank facilities of the Company from 'CRISIL A1' to **'CRISIL A1+'** as below:

Rating Action:

Sr.No.	Loan Facilities Rated	Existing Rating	Upgraded Rating
1.	Long Term Rating	CRISIL A+/Positive	**CRISIL AA-/Stable**
2.	Short Term Rating	CRISIL A1	**CRISIL A1+**

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
Digitally signed by Shainshad Aduvanni
Date: 2023.07.21 10:30:06 +05'30'

Shainshad Aduvanni
Company Secretary & Compliance Officer

Encl: As above

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Tamil Nadu, India

Corporate Office:
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Tel + 91 422 71 610 00
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www.craftsmanautomation.com

CIN NO: L28991TZ1986PLC001816
GST NO: 33AABCC2461K1ZW

Rating Rationale

July 20, 2023 | Mumbai

Craftsman Automation Limited

Ratings upgraded to 'CRISIL AA-/Stable/CRISIL A1+'; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.1640 Crore (Enhanced from Rs.1325 Crore)**
Long Term Rating	**CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Positive')**
Short Term Rating	**CRISIL A1+ (Upgraded from 'CRISIL A1')**

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 upgraded its ratings on the bank facilities of Craftsman Automation Limited (CAL) to **'CRISIL AA-/Stable/CRISIL A1+'** from 'CRISIL A+/Positive/CRISIL A1'

The rating upgrade follows the healthy and sustained improvement in CAL's business performance in fiscal 2023, which is expected to continue in the near to medium term, due to steady demand for components, mainly from the commercial vehicle (CV) and passenger vehicle (PV) original equipment manufacturers (OEMs). 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 operating profitability of atleast 20%, which along with healthy growth in revenues, is leading to strong annual cash accruals. 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 have strengthened over time, and are expected to remain at comfortable levels over the medium term as well.

CAL's consolidated revenue rose 44% on-year in 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. Healthy growth is expected to continue in the near to medium term, as well with full year revenue contribution coming from DR Axion India Pvt Ltd (DR Axion, acquired in February 2023). Operating profitability remained healthy, though it dipped marginally to 21.6% in fiscal 2023 from 24.2% in the previous fiscal, owing to change in product mix, higher inflation and lower profitability at DR Axion. Operating margin is expected to further moderate with complete integration of DR Axion, but still sustain at ~20% over the medium term.

In February 2023, CAL acquired 76% stake in DR Axion for a consideration of Rs 375 crore. DR Axion is the major supplier of cylinder blocks and heads for leading 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 has helped CAL increase the share of revenue from the PV segment and gradually lower revenue dependence on CVs, 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.

CAL's financial risk profile is healthy and improving, supported by strong annual cash generation. Despite availing the acquisition debt of Rs. 307 crore, debt protection metrics remain comfortable with gearing of 0.82 times as on March 31, 2023 and interest coverage ratio of ~5.8 times for fiscal 2023. The Debt to Earnings before interest, depreciation, tax and amortization (EBITDA) ratio though rose to ~1.70 times in fiscal 2023, from 1.4 times in fiscal 2022, as only two months of operating profits of DR Axion were consolidated. Continued steady business performance, resulting in healthy cash accrual, well managed capex spend and prudent working capital management, will enable debt protection metrics remain at comfortable levels over the medium term; for instance the debt to EBIDTA ratio is expected at under 1.30 times by fiscal 2024.

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 wholly-owned 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: auto-power train (~52% of revenues), aluminium products (~25% of revenues), and industrial and engineering (balance revenues) as on March 31, 2023. The auto-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 44% in fiscal 2023. Besides addition of new 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 a healthy double digit revenue growth over the medium term, including due to improving contribution from DR Axion.

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 2023, however, the share of the higher-margin machining business reduced, which along with rise in material costs resulted in the operating margin moderating to 21.6% in fiscal 2023 from 24.2% in 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 DR Axion (which has lower operating margins) should still aid in sustaining the operating margin at atleast 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; gearing was ~0.82 times as on March 31, 2023 and interest coverage ratio of ~5.8 times for fiscal 2023. The Debt to EBITDA EBITDA ratio though rose to ~1.70 times in fiscal 2023, from 1.4 times in fiscal 2022, as only two months of operating profits of DR Axion were considered.

Annual cash accrual for fiscal 2024 is estimated at over Rs.730 crores, which will help part fund capex and incremental working capital. Capex going forward is expected to range between Rs.350-380 crore annually, and will be partly debt funded. The management has planned to gradually lower debt levels through progressive term loan repayment of term loans, and may also consider pre-payment, if possible. With continued healthy cash generation, prudent 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 under 1.3 times.

Weaknesses:

Capital-intensive business and large working capital requirement

Operations are intrinsically capex and working capital intensive. CAL incurred sizeable capex of Rs ~2,200 crore during fiscals 2017-2023 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's cash accrual is projected at more than Rs 730 crore for fiscal 2024 and expected to rise thereafter, being more than adequate to meet term debt repayment obligation of ~Rs. 116 crore in fiscal 2024, and ~Rs. 240 crore in fiscal 2025, and part fund capex. Further, the company has adequate headroom in the form of unutilised bank limit of Rs. 450 crore with modest average utilization levels of ~48%.

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, and 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, leading to continued 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

As on / for the period ended March 31 (Consolidated)		2023	2022
Revenue	Rs crore	3182	2217
PAT	Rs crore	251	163
PAT margin	%	7.89	7.36
Adjusted debt/adjusted net worth	Times	0.82	0.63
Interest coverage	Times	5.79	6.43

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. 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	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-29	130	NA	CRISIL AA-/Stable
NA	Long Term Loan	NA	10.05%	31-Oct-24	24	NA	CRISIL AA-/Stable
NA	Long Term Loan	NA	13.13%	31-May-26	27	NA	CRISIL AA-/Stable
NA	Long Term Loan	NA	8.30%	31-Jan-30	100	NA	CRISIL AA-/Stable
NA	Long Term Loan	NA	9.50%	31-Oct-27	38	NA	CRISIL AA-/Stable
NA	Long Term Loan	NA	8.68%	31-Dec-26	151	NA	CRISIL AA-/Stable
NA	Long Term Loan	NA	9.40%	31-Aug-26	35	NA	CRISIL AA-/Stable
NA	Long Term Loan	NA	8.20%	30-Nov-29	125	NA	CRISIL AA-/Stable
NA	Long Term Loan	NA	9.50%	31-Dec-27	58	NA	CRISIL AA-/Stable
NA	Long Term Loan	NA	9.50%	31-Jan-30	150	NA	CRISIL AA-/Stable
NA	Packing Credit	NA	NA	NA	60	NA	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	150	NA	CRISIL AA-/Stable
NA	Working Capital Demand Loan	NA	NA	NA	390	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

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	1438.0	CRISIL A1+ / CRISIL AA-/Stable	09-01-23	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	202.0	CRISIL A1+	09-01-23	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	**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	**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
Long Term Loan	35	HDFC Bank Limited	CRISIL AA-/Stable
Packing Credit	60	Standard Chartered Bank Limited	CRISIL A1+
Proposed Long Term Bank Loan Facility	40	Not Applicable	CRISIL AA-/Stable
Proposed Long Term Bank Loan Facility	110	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 manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Auto Component Suppliers
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

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CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html