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5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

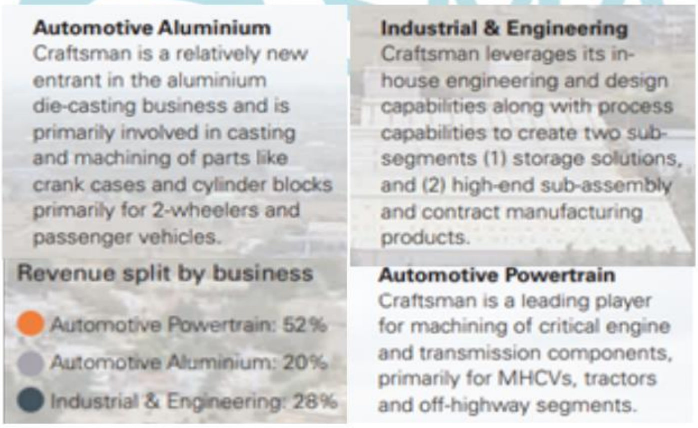
CRAFTSMAN AUTOMATION

WHAT WE LIKE

LONG TRACK RECORD & VAST PROMOTER EXPERIENCE

At the age of 21, in 1984, S Ravi started on this path. Founded Craftsman Automation in 1986. Started out as an export focused company, S Ravi kept on pivoting as the industry demanded.
The biggest pivot was in 2002 when Ravi handed over the businesses of plastic parts, pressure dye casting & textile to his colleagues and focused solely on Craftsman Automation since then. Due to that focus, Craftsman has grown into a leader in precision manufacturing in diverse fields.

DIVERSIFIED REVENUE MIX



HIGH CAPEX & GOOD GROWTH IN DOWNTURN & LOW INFLATIONARY TIMES

Being a leading player in the auto manufacturing segment **(No 1 in the machining of critical engine and transmission components for MHCV & among the top 4 in the tractors segment), CA made a substantial upfront investment in setting up machining infrastructure and aluminium pressure-die-casting facilities in an attempt to diversify its customer and product base.**
About Rs 1300 Cr capex is already done in the last 5 years (most of which is pre-pandemic when inflation was low), **due to which they are now uniquely positioned in the industry for the next few years.**

WHAT WE DON'T LIKE

HIGHLY CAPITAL INTENSIVE BUSINESS

The business is extremely capital intensive and that is evident in the 1300 Cr Capex the business has done in the last 5 years.
Also, the Working Capital cycle is very stretched. In order to cater to different OEMs with a variety of offerings & combat rising RM costs, **inventory days have been close to 200 days in the last 4 years.**

CUSTOMER OEMS ARE CYCLICAL BUSINESSES

Craftsman is still predominantly into the auto sector (2W, PV, & CV) which is prone to cyclicality. **In the recent past, it has not only been plagued by demand side problems but also by supply side issues in the name of semi-conductor shortages.**
However, in the last few years management has made in-roads into the non-auto sector. Also, they have become far more granular and diversified in the auto sector. **We, at SSS, believe that it remains a key monitorable aspect for Craftsman.**

HIGHLY COMPETITIVE MARKET

Auto ancillary space is very fragmented and lots of players compete with each other. Under these circumstances, it is difficult for a company like Craftsman to balance market share and margin profile. **The Company however claims that its ability to develop and deliver products with speed, scale-up and scale down volumes as and when required helps in positioning itself as a preferred partner for leading auto sector OEMs.**

INFLATION CONCERNS

The company claims that in the auto power train vertical, there is a 100% pass-through thereby immune to RM fluctuations. **In the auto aluminium segment, there is a lag with which the rise in RM cost is passed on to the customer.**
The biggest concern though would be the rise in interest cost on loans due to the RBI rate hike in the attempt to control inflation.

STRETCHED VALUATION

At 29 times earnings, 2 times Sales & 10 times EV/EBITDA, the stock doesn't look very attractive. **Any lapse in the performance going forward or any external shock can easily de-rate the stock. Valuation may also moderate due to superior performance in the next few quarters.**
But given the strong track record of the company and decent Balance Sheet strength, one can keep this stock in the watchlist for sure.