Craftsman AUTOMATION

7th November, 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 under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Credit Ratings reaffirmed to Sunbeam Lightweighting Solutions Private Limited (Subsidiary of Craftsman Automation Limited);

Pursuant to Regulation 30 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 5th November, 2024 which was received by the Company on 6th November, 2024 have assigned Credit Ratings for the Long term and Short term bank facilities of Sunbeam Lightweighting Solutions Private Limited, Subsidiary of the Company as below:

Rating Action:

Sr.No.	Loan Facilities Rated	Existing Assigned	Rating Action
1.	Long Term Rating	CRISIL BBB-/Stable	Assigned
2.	Short Term Rating	CRISIL A3	Assigned

CRISIL Rating rationale of the Subsidiary is enclosed for your reference.

Kindly take the same into your records.

Thanking you.

Yours faithfully,
for CRAFTSMAN AUTOMATION LIMITED

Shainshad Aduvanni
Company Secretary & Compliance Officer

Encl: As above

Craftsman Automation Limited

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CIN NO: L28991TZ1986PLC001816
GST NO: 33AABCC2461K1ZW

CRISIL Ratings

Rating Rationale

November 05, 2024 | Mumbai

Sunbeam Lightweighting Solutions Private Limited

'CRISIL BBB-/Stable/CRISIL A3' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.450 Crore**
Long Term Rating	**CRISIL BBB-/Stable (Assigned)**
Short Term Rating	**CRISIL A3 (Assigned)**

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 assigned its '**CRISIL BBB-/Stable/CRISIL A3**' ratings to the bank loan facilities of Sunbeam Lightweighting Solutions Pvt Ltd (SLSPL).

The rating reflects the benefit of change in ownership of SLSPL, post-acquisition by Craftsman Automation Ltd (CAL, rated 'CRISIL AA-/Stable/CRISIL A1+') from its erstwhile parent, Kedaara Capital Fund II LLP (Kedaara). CAL is also an established player in the aluminium die casting component (ADCC) segment, with strong technical abilities and a healthy financial risk profile. Further, the rating reflects the established business risk profile of SLSPL, with supplier commitments for ADCCs with leading automobile original equipment manufacturers (OEMs), healthy export prospects and expected improvement in operating capabilities with ongoing cost optimisation initiatives. These strengths are offset by high revenue dependence on select OEMs and currently sub-par financial risk profile of SLSPL. Besides, operations are also vulnerable to the cyclicality in demand from OEMs.

CAL acquired SLSPL from Kedaara in October 2024. CAL is one of the leading players in the domestic ADCC business with presence across OEMs in the passenger vehicle (PV) and commercial vehicle segments. CAL reported revenues and net profits of Rs.4452 crore and Rs. 337 crore respectively in fiscal 2024. The acquisition of SLSPL by CAL further strengthens CAL's presence in the ADCC business, enhances its client base, adding India's leading two-wheeler and PV manufacturers as its customers, as also new export customers. CAL is expected to use its healthy and established operating capabilities to turn around operations at SLSPL, which will lead to gradual improvement in the latter's profitability over the medium term. Besides managerial and financial support is also expected to be forthcoming.

SLSPL's business risk profile will continue to be under pressure in fiscal 2025, due to moderate revenue and operating losses in the first half, through the situation is expected to improve gradually in the second half. During the first half of fiscal 2025, revenue fell 5.6% Rs 623 crore from Rs 663 crore in the corresponding period of the previous fiscal. Although the company had firm orders, they could not be executed due to weak liquidity and insufficient working capital. However, to maintain client relationships and improve profitability, SLSPL has rationed supplies to its key customers. Operating margin turned negative and were at (7)% (operating losses of Rs 44 crore) in the first half of fiscal 2025, as compared to (1)% in the first half of fiscal 2024, owing to higher cost of operations, one-time expenses and provisioning of Rs 10 crore towards air freight cost for an overseas customer. Fall in operating profitability was partly offset by share of higher-margin exports, which formed 17% of the turnover, compared with 13-14% earlier. SLSPL is expected to register revenue of Rs 1,300-1,350 crore in fiscal 2025 (excluding run-riser income which gets generated as residues during the production), compared with Rs 1,294 crore in fiscal 2024, and revenue is likely to grow by 7-10% from fiscal 2026 onwards, with operations stabilising and better working capital management.

CAL and SLSPL plan to implement a series of initiatives such as voluntary settlement programme (VSP) for employees at the Gurugram facility, replacement of old dies, currently resulting higher runriser output, and modernisation of few lines to improve the operating efficiency of plants. Besides, expected increase in exports and successful price negotiation with key domestic clients should contribute to higher profitability. Operating margin is expected to improve to 7-8% in fiscal 2026 and above 10%, thereafter.

During fiscal 2024, operating income fell to Rs 1,294 crore (excluding runriser revenue of Rs 355 crore), from Rs 1,372 crore (excluding runriser revenue of Rs 207 crore) in fiscal 2023, due to increase in operating cost, which led to funding issues. Operating losses were around 5.6% in fiscal 2024, as compared to 2.3% in fiscal 2023, driven by continued increase in employee cost and other operating expenses.

Financial risk profile remains sub-par due to losses incurred during the past 4-5 fiscals, which have led to erosion in networth despite equity infusions by Kedaara (Rs 140 crore in fiscal 2022 and Rs 160 crore in fiscal 2025). In the last fiscal, SLSPL was in process of raising material equity to retire its high cost debt, but the plan did not materialize, and continuing liquidity pressures led to delays in debt servicing obligations in June 2024. However, post-acquisition by CAL, SLSPL had cleared its entire debt obligation using proceeds of optionally convertible debentures (OCDs) worth Rs 376 crore and earnest deposit (EMD) of Rs 50 crore infused by CAL. SLSPL is currently debt-free and in the process of obtaining fresh bank lines – both short-term and long-term.

CAL is expected to infuse a further Rs 280 crore via OCDs for VSP of employees at SLSPL's Gurgaon plant aggregating Rs 160 crore and to settle part of outstanding creditors, which will enable sufficient drawing power availability for working capital lines

which are in the process of being sanctioned. Besides this, SLSPL is expected to raise debt of over Rs 350 crore, of which Rs 200 crore will be to fund working capital and around Rs 150 crore to cover the capex over fiscals 2025 and 2026.

CAL proposes to sell the surplus land at SLSPL's Gurugram unit post VSP and closure of plant, which is expected in early fiscal 2026. Proceeds will be used to pay back part of the OCDs and bank deposit from CAL. Initial OCDs of Rs 376 crore are likely to be converted into equity over the medium term. Upon completion of sale and implementation of cost optimisation measures, the operating margin should improve, leading to healthy cash accrual. This should suffice to cover the bank debt obligation of around Rs 25 crore in fiscal 2026 and Rs 75 crore in fiscal 2027, respectively. Debt protection metrics such as interest cover, net cash accrual to adjusted debt, and adjusted debt to earnings before interest tax depreciation and amortisation (EBITDA) are set to improve from next fiscal onwards.

SLSPL will temporarily depend on funds from CAL to fund its operating losses and working capital requirements in the current and next quarters; however, post sanctioning of working capital lines and long-term loans, and implementation of VSP and sale of non-core assets, SLSPL should start using its own cash accrual.

Analytical Approach

CRISIL Ratings has followed a standalone approach for credit risk assessment of SLSPL, and applied its parent notch-up framework, factoring in strong operational linkages, financial and managerial support to be provided by CAL.

Also, CRISIL Ratings has considered OCDs for Rs 376 crore issued to CAL as part of equity; an additional Rs 330 crore (including bank deposit) of OCDs from CAL is considered as part of debt, since the same is expected to be repaid back in the next fiscal.

Key Rating Drivers & Detailed Description

Strengths:

- **SLSPL to benefit from strong parentage of CAL:** SLSPL has become a wholly-owned subsidiary of CAL from October 9, 2024. While the initial acquisition was completed for Re 1, CAL had already infused Rs 376 crore via OCDs (Rs 136 crore on October 7, 2024 and Rs 240 crore on October 9, 2024), excluding the initial earnest money deposit (EMD) of Rs 50 crore. Besides, it has announced the next round of investment of Rs 280 crore via OCDs. With its vast industry expertise spanning three decades in the automotive components industry, CAL is expected to provide strong managerial, operational and financial support (if required) to SLSPL.

  SLSPL is expected to optimise operations in few manufacturing facilities with the help of CAL. For instance, it is expected to shift some of its machineries from the Gurugram facility to a leased location owned by CAL in Tapukara, Rajasthan. CAL also benefits from access to SLSPL's domestic and overseas clients in the ADCC market. Also, the parent is expected to benefit from technological diversification, as it primarily operates in the higher-tonnage high-pressure die-casting (HPDC) segment, while SLSPL operates in the lower-tonnage HPDC segment.

  CAL has also deputed several personnel to oversee different aspects of operations at SLSPL and also oversees the treasury and financial operations. CAL has ordered key machineries worth nearly Rs 30 crore on behalf of SLSPL, but the amount will be reimbursed upon tie-up of bank limits in the next few months. Besides, four of the directors of CAL are expected to take board positions in SLSPL as well. Given the common businesses and diversified customer base with acquisition of SLSPL, CAL is expected to provide necessary support in the event of financial exigencies.

  Furthermore, CAL has also demonstrated its ability to substantially improve operations and operating capabilites at another company that it acquired in February 2023, namely DR Axion India Pvt Ltd (DRAIPL; rated 'CRISIL AA-/Stable/CRISIL A1+'). Post takeover by CAL, the operating margin of DRAIPL improved to 19% in fiscal 2024 as compared to 13.4% in fiscal 2023 and 7.8% in fiscal 2022, respectively.

- **Established market position in the domestic ADCC market and strong business linkages with leading OEMs:** SLSPL is one of the prominent ADCC manufacturers in India. It is the principal supplier of ADCC and pistons to few leading OEMs in the two-wheeler and four-wheeler segments. The manufacturing units in Gurgaon, Tapukara, Bawal and Halol are located in proximity to customers.

  The company has strong business linkages with India's leading automotive OEMs such as Hero MotoCorp Ltd (HMCL, rated 'CRISIL AAA/Stable/CRISIL A1+') and Maruti Suzuki India Ltd (MSIL, rated ' CRISIL AAA/Stable/CRISIL A1+').

  Apart from having a diverse customer base, improved volume from the domestic two-wheeler (2W) industry led to an increase in its revenue share to 64% in fiscal 2024, as compared to 60% in fiscal 2023, majorly driven by better demand. Conversely, share of the PV segment has declined to 33%, as compared to 36% over the same period. During fiscal 2025, 59% of sales are from the 2W segment, 37% from PVs and around 2% from the commercial vehicle (CV) and non-automotive segments. This is majorly because of SLSPL's initiative to increase the share of exports, which are margin accretive in nature. Revenue share of exports has risen to 16% in the first half of fiscal 2025, as compared to 13-14% in earlier fiscals, with bulk of revenue coming from North America and Mexico. SLSPL plans to increase its export revenue share to 20% over the medium term. Overall revenue should remain flattish in fiscal 2025, but could improve by 7-10% going further. Revenue will primarily be driven by continued demand from HMCL and MSIL, increase in exports and steady rise in orders from other domestic players.

- **Moderate cost structure; to improve in near to medium term:** SLSPL continues to have a huge workforce at its Gurgaon facility and hence, incurs a high employee cost. This, along with low-margin orders, has been impacting operations over the last few fiscals. Implementation of VSP for certain employees from October 2024, should come into effect for the remaining employees by March-April 2025, with funding support from CAL and thereafter, the margin should substantially improve. It may be noted that employee cost formed nearly 22% of sales in fiscal 2024, much higher compared to that of peers. SLSPL also plans to increase the share of high-margin exports and has shifted some of its domestic operations to low-cost production centres in Halol and Bawal from Gurugram. Operating margin is expected to improve to over 10% over the medium term, due to lower employee cost and improved productivity, including automation of machine lines.

Weaknesses:

- **Exposure to customer and segment concentration risk:** HMCL and MSIL accounted for 70-75% of domestic sales of SLSPL in the past. However, during the first half of fiscal 2025, the share has dropped to around 60% of overall revenue, with a conscious effort by SLSPL to retain the relationship with other customers, as it was witnessing large working capital requirement due to increase in cost of operations. Nevertheless, limited segmental diversification and large dependence on key clients make the company's performance highly dependent on performance of OEMs. Slowdown in production volume of HMCL had affected demand for SLSPL during the pandemic. In an attempt to diversify its customer base, the company has been adding clients actively and focusing on exports. Nevertheless, it remains susceptible to any significant decline in demand from key vehicle segments/customers. Like SLSPL, its peers too have been impacted by weak demand for motorcycles between fiscals 2021-23; though peers were better positioned due to customer and segmental diversity and presence in export markets.

- **Vulnerability to offtake from automotive OEMs, especially during cyclical downturns:** Intense competition in the domestic automobile industry limits the pricing power for automotive component suppliers. SLSPL has the flexibility to pass on the hike in input cost (aluminium) with a lag of 3-4 months, but not the increase in other manufacturing overheads. However, with CAL taking over SLSPL, renegotiation of prices with key customers should lead to better profitability over the medium term.

  In case of a prolonged slowdown and declining demand, OEMs may not be able to pass on any hike in cost to end-users. In this scenario, the hike is absorbed jointly by component manufacturers and OEMs. Profitability, thus, remains exposed to pricing pressures from OEMs. Besides, during business downturns, OEMs frequently alter their production schedules due to market uncertainties, thereby impacting offtake of supplies and leading to increased vulnerability of component suppliers, especially those such as SLSPL.

- **Sub-par financial risk profile:** Subdued performance over the past 4-5 years and net losses have weakened debt protection metrics, despite continued equity infusion by Kedaara. Total debt was high at Rs 591 crore as on March 31, 2024, compared to Rs 559 crore as of March 31, 2023. Networth post adjusting for goodwill remained negative around Rs 429 crore as on March 31, 2024, and may remain negative in fiscal 2025 as well, on account of extraordinary expense of around Rs 160 crore towards VSP.

  Prior to the acquisition, SLSPL was considering a material equity raise to deleverage its balance sheet and curb interest expenses. However, the same did not materialise and the company defaulted on its debt obligations in June 2024. Subsequently, with equity infusion of Rs 160 crore from Kedaara and post-acquisition support of Rs 426 crore (including EMD) from CAL, SLSPL retired its entire debt and remains debt-free at present.

  CAL plans to undertake modernisation and debottlenecking measures at SLSPL's facilities to optimise operations. This would entail capex of Rs 70-80 crore in fiscal 2025 and around Rs 100 crore in the next fiscal, which will be partly debt-funded. While CAL has already placed orders worth Rs 30 crore on behalf of SLSPL, the amount is expected to be reimbursed upon tie-up of bank limits. Besides, SLSPL is also expected to avail debt of Rs 200 crore to optimise its working capital levels.

  Furthermore, the company is expected to receive support via OCDs worth around Rs 280 crore (out of which CAL has announced Rs 230 crore on October 27, 2024) in the current fiscal, primarily to support VSP settlements worth Rs 160 crore and part payment of creditors. However, SLSPL is likely to repay this amount in the next fiscal, upon completion of sale of non-core assets. Towards end of fiscal 2025, debt level is expected to be around Rs 650 crore (including Rs 330 crore from CAL),but should gradually improve with better profitability and sale proceeds from non-core assets. Other debt protection measures such as interest cover and net cash accrual to adjusted debt ratios are set to improve from the next fiscal.

Liquidity: Adequate
Liquidity in fiscal 2025 depends on support provided by CAL, as demonstrated via fund infusions in the past 3-4 months. Net cash accrual is likely to remain negative during the current fiscal, on account of continued losses, but expected to improve substantially from the next fiscal, driven by better profitability and sale proceeds from non-core assets. Cash surplus stood at Rs 36 crore as of March 2024, but had fallen to around Rs 1 crore as of September 2024, as most of it was used to fund operations and retire debt. Planned capex of around Rs 70 crore in fiscal 2025 and around Rs 100 crore in fiscal 2026, will be partly debt-funded. While company does not have any debt obligation in fiscal 2025, cash accrual from next fiscal will be used to service obligations of around Rs 25 crore. Need-based support from CAL may also be forthcoming.

Outlook: Stable
Business risk profile of SLSPL is expected to gradually improve, supported by steady demand and healthy relationship with key OEMs, ramp-up of production from facilities other than the one at Gurugram and rise in exports. Cost rationalisation measures planned by CAL, better productivity and capex towards modernisation should also enhance fixed cost absorption and operating profitability significantly from the next fiscal. Financial risk profile is expected to improve upon completion of sale of non-core assets, leading to lower debt levels. In addition, CAL would take measures to support working capital management and undertake capex on select machineries in certain plants. Debt metrics may remain sub-par in the near term on account of low networth, amidst operating losses incurred over the years. Nevertheless, any need based support from CAL is likely to be forthcoming.

Rating sensitivity factors
Upward factors:
- Better-than anticipated recovery in revenue and operating margin of >7%, benefitting cash generation.
- Improvement in financial risk profile and debt metrics, supported by sale of non-core assets and debt reduction.
- Sustenance of healthy credit profile of CAL.

Downward factors:
- Slower-than anticipated business recovery, leading to continued sluggish revenue growth and modest operating profit (1-2%)
- Increase in debt higher than expected levels due to large capex, or elongation of working capital cycle, or inadequate timely support from CAL leading to continued sub-par debt metrics.
- Downward revision in the credit risk profile of CAL or change in stance of support.

About the Company

SLSPL was incorporated in December 2017, as Novy Mir Lightweighting Solutions Pvt Ltd, and was renamed on September 04, 2018, after the complete acquisition of Sunbeam Auto Pvt Ltd (SAPL). Until recently, it was a wholly owned subsidiary of Kedaara, a Mumbai-based private equity fund. SLSPL was formed for acquisition of SAPL, which manufactured automotive and automotive components. After the acquisition, SAPL and SLSPL were merged into a single entity, SLSPL.

CAL entered into securities and subscription and purchase agreement with SLSPL and Kedaara for purchase of the entire shareholding held by Kedaara for Re.1 per share. Subsequently, the transaction was completed on October 9, 2024 and since then, SLSPL had become a wholly owned subsidiary of CAL.

About the parent
Incorporated by Mr S Ravi, at Coimbatore, Tamil Nadu, in 1986, CAL manufactures several components and sub-assemblies on supply and job-work basis, as per 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 die for injection moulding and mould base. Moreover, it manufactures special-purpose machines for metal and non-metal cutting.

The company has raised Rs 1,200 crore through qualified institutional placement (QIP) in June 2024. Post which, shareholding of promoters reduced to 48.70%, from 54.99% at the end of March 2024.

The company reported a net profit of Rs 121.18 crore in the first half of fiscal 2025 (Rs 185.33 crore in the corresponding half of fiscal 2024) on net revenues of Rs 2,365.1 crore (Rs 2,216.69 crore).

Key Financial Indicators - SLSPL

As on/for the period ended March 31*		2024	2023
Operating income*	Rs crore	1649	1579
Profit after tax (PAT) with goodwill amortisation	Rs crore	(315)	(259)
PAT without goodwill amortisation	Rs crore	(684)	(181)
PAT margin (with goodwill amortisation)	%	(24.23)	(18.26)
PAT margin (without goodwill amortisation)	%	(52.61)	(13.29)
Adjusted debt/adjusted net worth	Times	(1.18)	(3.29)
Interest coverage	Times	(0.61)	0.51

**CRISIL Ratings adjusted numbers*
Note: Operating income during fiscal 2024 and fiscal 2023 includes runriser income of Rs.355 crore and Rs.207 crore respectively.

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 Outstanding with Outlook
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	300.00	NA	CRISIL BBB-/Stable
NA	Proposed Short Term Bank Loan Facility	NA	NA	NA	150.00	NA	CRISIL A3

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	450.0	CRISIL BBB-/Stable / CRISIL A3	16-10-24	Withdrawn	12-10-23	CRISIL A-/Negative	26-07-22	CRISIL A-/Negative	28-09-21	CRISIL A/Stable	CRISIL A+/Stable
			--	05-06-24	CRISIL D		--		--	08-01-21	CRISIL A+/Negative	--
			--	30-05-24	CRISIL B-/Negative		--		--		--	--
			--	22-03-24	CRISIL BBB+/Negative		--		--		--	--

Commercial Paper	ST		--		--		--	26-07-22	Withdrawn	28-09-21	CRISIL A1	CRISIL A1
			--		--		--		--	08-01-21	CRISIL A1	--
Non Convertible Debentures	LT		--		--		--		--		--	Withdrawn

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	**300**	**Not Applicable**	**CRISIL BBB-/Stable**
Proposed Short Term Bank Loan Facility	**150**	**Not Applicable**	**CRISIL A3**

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
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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For more information, visit www.crisilratings.com

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