Craftsman Automation

Operator: Ladies and gentlemen, good day and welcome to the earnings conference call of Craftsman Automation Ltd. As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the opening remarks are concluded. Should you require any assistance during the conference call, please signal the operator by pressing star, followed by zero, on your touch-tone telephone. I now hand the conference over to Mr. Srinivasan Ravi, Chairman & Managing Director of Craftsman Automation Ltd. Thank you, and over to you, sir.

Srinivasan Ravi – Chairman & Managing Director: Good afternoon, everybody, and thank you very much for joining the earnings call today. I just want to briefly touch upon the last two quarters and the opportunity for Craftsman, as well as the headwinds we faced from the war and commodity prices, which spiked very sharply and are now on a lower trajectory.

We weathered all these situations. We have put up a lot of capacity. Capacity is still being created as we speak; not all capacities have come into production, and some of the pipelines have not yet been filled. We are on a growth path, and we will continue on this growth path into H2 as well as the next two financial years.

Some of the orders we are executing relate to our short-term, medium-term, and long-term prospects. For the long-term prospects, the bulk of the capex has been undertaken on the stationary engine side, as you are all aware. Revenues will start from FY29 and go into FY30, when we will peak at around $100 million.

At the next level of peak, we expect the inquiries and order position to remain quite strong. Aluminium is facing a strong headwind, and we are adding more capacity across our plants and outside the city as well.

DR Axion Plant 2 has started trial production, and the order book is also strong there. SunBeam has undergone a very good transformation, and we are in close contact with customers regarding the way forward. Q3 and Q4 will look better for SunBeam, and next financial year, I think we will also receive new orders from new customers while leveraging the capacities for newer products, which will provide better benefits.

Across all customers and product lines, especially the legacy products, we are in contact with customers for price rationalization or a price reset in the case of legacy products. We feel that this has to be done for almost all suppliers because of the sharp rise in manpower costs, energy costs, and all other associated costs.

Capital goods costs have been steadily rising. This means that new projects cannot be undertaken at old prices. We are also being very careful. One good thing about Craftsman is that we have been continuously undertaking capex, and the bulk of the capex was incurred even before the significant rise in capital goods costs.

It is now not easy to undertake capex because of the long gestation period. There is a huge bottleneck in the supply of capital goods across the world. Therefore, we are in a strong position to win more orders, and we are winning more orders as we speak.

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We are more selective with customers as well as products, considering their life cycle and profitability. Since we now have a stronger base, our ability to attract slightly larger customers and more profitable products for supply within India or outside India is better because of our larger size.

Growth in powertrain is expected to continue, along with strong growth in aluminium. We have seen some correction in margins in aluminium. That is not a permanent correction; it is a temporary correction. We had an increase in inventory because of the shortage of raw material, and the prices that had been increasing dropped suddenly. Therefore, we were impacted.

We are negotiating a price increase with customers, or correction or compensation, for the aluminium price crash. This will play out over the coming two quarters. I think most customers are open to that discussion. We will see the benefits coming into the next few quarters.

I will now leave the floor open for the Q&A.

Operator: Thank you very much. We will now begin the question-and-answer session. Participants who wish to ask a question may please press star and one on their touch-tone telephone. If you wish to withdraw from the question queue, you may press star and two. Participants are requested to use handsets while asking a question.

Please note that some of the statements made during this earnings conference call may constitute forward-looking statements, which are subject to risks and uncertainties and are not guarantees of future performance. We encourage you to refer to the disclaimer section in the company's investor presentation.

Further, the management will not be addressing any customer-specific queries due to confidentiality obligations. Participants are requested to avoid mentioning customer names while asking questions. We also request participants to limit themselves to a maximum of two questions at a time so that all participants have an opportunity to ask their questions.

Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah – Goldman Sachs: Hi, good evening, and thank you for taking my questions. My first question is around the gross profit line. I think that is an easier line for you to manage growth on. First-half growth has been about 30% year-on-year on gross profit. Q2 has also been around that range.

Related to a lot of the business that you have been winning and the capacity that you have been adding, I want to understand over the next 12 to 18 months when you expect the inflection in gross profit growth, in relation to all this capacity coming on board and the business being won.

Srinivasan Ravi – Chairman & Managing Director: Thank you for the question. I would say that this sort of growth will continue on a year-on-year basis for the next 2-3 quarters. We are quite confident about the growth because of past investments and past product development, as well as the pipeline that is already there, products being approved, and plants coming on stream.

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Other than the headwinds we faced from energy costs, mainly gas, and the aluminium spike, which has left a small ripple in this quarter and the last quarter, we feel that overall growth will continue in all segments and in powertrain.

Not all powertrain segments will grow, of course. In tractors, we will see some contraction over the next two quarters. Apart from that, we will see growth in powertrain. Overall, we are quite confident about growth in powertrain.

Similarly, in aluminium, the pipeline is quite long for the order wins we have. There are some headwinds in the new plants, where we have to put in working capital and start up the plants, which is also happening at a suboptimal level as of now.

The operating leverage at those plants will take another two quarters to reach a profitable, or more profitable, situation. This is dragging us down slightly, but it is temporary, I would say. The mature plants, on the other hand, are benefiting from operating leverage.

As I said earlier, a substantial portion of the margins will also come from the price correction that has to happen across almost all the OEMs.

Chandramouli Muthiah – Goldman Sachs: Got it. That is helpful. As a follow-up on the price correction, roughly what magnitude of price hikes do you think you need to take for the factors you mentioned, such as manpower, energy costs, and so on?

Srinivasan Ravi – Chairman & Managing Director: It depends on the customer, the product, and also the time when the order was first placed. If the orders were placed in the last few quarters, I do not think it is feasible for any customer to provide that.

However, if there are legacy products that have not been corrected and the volume has also contracted in some of the legacy products where there is a drag, then it requires a big reset, I would say, in that case.

In certain cases, it is more related to manpower, power, and other regular inflation, which is greater. It may vary, but it will be anywhere between 6%–7% and 15%–20%, depending on the commodity, the product, and the time when the order was won.

I am talking about this not on the top line, but on the gross margin or value-addition portion. Therefore, it might not impact the OEMs too much on their top line, as far as they are concerned. The top line may be affected by commodity prices, but we cannot really put a number on what the percentage would be there.

Chandramouli Muthiah – Goldman Sachs: Got it. Got it. That is helpful. My second question is around the recent news flow concerning one of the large domestic passenger vehicle manufacturers and its partnership now expanding with one of the global passenger vehicle manufacturers. I want to understand how that situation is evolving and what the opportunity size could be for a company like Craftsman? There are some news reports that there might be a local engine of the local passenger vehicle maker, [cut off]

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Chandramouli Muthiah – Goldman Sachs: becoming an expanded scope in the global platform in this partnership. I want to understand your thoughts on how that situation is evolving and what the opportunity size could be for a company like Craftsman.

Management: Not only the customer or the OEM we are discussing, but this applies across all OEMs that are present in India, whether multinational or Indian OEMs. Whatever products are suitable in India for the Indian passenger vehicle consumer are very competitive, and these are the same products required in some underdeveloped markets, as well as South American, African, and some Asian markets.

Logically, India will become a manufacturing hub, if not for the vehicles themselves, then at least for the powertrain, which is logical.

The second point is that there is proof of this in tractors. In small tractors of up to 120 horsepower, India has become a global power for tractor manufacturing. All OEMs across the world have invested in India for capacity to export from India as well.

We have seen the same trend on the two-wheeler side, with two-wheeler exports from India increasing. We have also seen this in construction equipment. Not in high-end construction equipment, but in the construction equipment for which India has a large requirement, we are seeing exports as well.

Therefore, exports from India, whether as a product or an aggregate, will continue to grow. This provides an opportunity for all Tier 1 and Tier 2 suppliers such as Craftsman as part of their growth strategy.

Chandramouli Muthiah – Goldman Sachs: Got it. That is very helpful. Thank you very much, and all the best.

Management: Thank you.

Operator: Thank you. The next question is from the line of Senthil Kumar from Joindre Capital Services. Please go ahead.

Senthil Kumar – Joindre Capital Services: Good evening. Am I audible, sir?

Management: Yes, please.

Senthil Kumar – Joindre Capital Services: I want to know about gross debt. Gross debt increased from approximately 3,340 crore in March 2026 to 3,618 crore in September 2026 on a consolidated basis. This is despite debt repayment using the QIP proceeds. Can you elaborate on the reason for this increase?

Management: Net debt is only around 3,000 crore because we have a lot of cash available, and we have also paid some capital advances.

Working capital has increased significantly as our top-line growth is quite substantial. GST credit has also increased, and we have added more lines or plants to the pipeline. That pipeline inventory has yet to materialize into revenue. We are also carrying some safety stock of material, which will

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now be diluted in the coming quarter.

Overall, we have undertaken significant capex in the first half. I think we will be at 1.7–1.8 times net debt to EBITDA on a consolidated basis for the year.

I mentioned that our inflection point is around 1,850 crore of EBITDA, which we will reach next year. After that, we will be able to fund our capex and remaining capex through internal accruals.

We have undertaken a significant capex surge to cater to our larger customer base and {? in segment ?} base. This is a one-time investment. We have decided that we want to maintain a growth path of more than 15%, and we have committed to a 15% CAGR. Of course, in some years we will grow much more than that. In real terms, not adjusted for inflation, we expect to grow at 15%.

Our base is quite strong and large. Considering all of this, we have taken land for setting up new plants. The land is partially utilized, but it will serve our expansion needs for the next 3, 4, and 5 years. Basic infrastructure has also been put in place, so additional equipment will not require too much capex.

It is like building a new airport. We have taken this decision to expand our manufacturing footprint.

Senthil Kumar – Joindre Capital Services: Okay, sir. What could be the gross debt level by the end of FY27, given this challenge in internal accruals?

Management: I would rather say that overall, on a consolidated basis, net debt to EBITDA will be 1.7–1.8 times. I do not want to give a forward-looking statement on EBITDA, but you know the EBITDA and can reverse-calculate it for H1. H2 revenue will definitely be higher, and normally H2 EBITDA is also better. I will leave it at that.

Senthil Kumar – Joindre Capital Services: Okay, sir. Thank you.

Management: Thank you.

Operator: Thank you. The next question is from the line of {? Vignesh from Sema Wealth ?}. Please go ahead.

{? Vignesh from Sema Wealth ?}: Hi, sir. Congratulations on a good set of numbers. I want to understand the medium-term outlook. Are we looking to enter any other new segments apart from high-horsepower engines?

Management: Practically, there is no new segment, but we are vigorously expanding our powertrain capacity, aluminium casting capacity, and machining capacity, and we have undertaken the bulk of this expansion.

We expect this to yield better results in the coming quarters. We are also broadening our new product offerings in aluminium components, not only legacy parts. I think more opportunities are emerging, not only in EVs but also in general, as OEM product offerings have become broader. We are seeing opportunities there.

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{? Vignesh from Sema Wealth ?}: Okay, sir. Regarding the second phase of these high-horsepower engines, how is it progressing? What revenue targets are we planning, and when will commissioning take place?

Management: As we speak, we are receiving inquiries for the next level of capacity. Most of it is for the same products that we are already developing. That is welcome because it means the gestation period to market will be shorter. We are discussing whether to add capacity there.

The second point is that we are looking at broadening the value-added subject. Going forward, we are trying to build facilities that are somewhat more flexible in nature to cater to various customers, considering the global market outlook.

All of this will make us more attractive to customers who want to approach us to get their products developed or ramped up quickly.

I would not like to reveal how many inquiries we have received, but I think the momentum is still strong. Today, AI is here to stay, and the backup power generators or mainstream generators required for it will continue to grow over the next 5-7 years.

{? Vignesh from Sema Wealth ?}: Okay, sir. Once the first phase reaches peak revenue in FY30, can we assume that we will start the second phase after that?

Management: Yes, you can assume that. The second phase will not be capital-intensive because our infrastructure is already in place for the foundry as well as the 100-meter machine shop.

After that, incremental capex and incremental revenue growth will become more attractive.

{? Vignesh from Sema Wealth ?}: Okay, sir. Thank you. That is all from my side.

Management: Thank you.

Operator: Thank you. The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George – IIFL: Thank you. I had a couple of topics to discuss. One was cash flows. This year, you have raised 2,000 crores through a QIP, and if I look at the capex run rate in the first half of the year, it was more than 1,100 crores, in addition to a significant cash drain on working capital.

Considering all of that, how do you see the net debt position at the end of FY27 compared with the end of FY26?

Management: I said today that our growth in absolute terms has been around 50%, but I would adjust that for the commodity component. On an overall basis, if you look at it on a standalone basis, in real terms we have grown 34%-35% on a larger base. That means our capacities are much larger than that in total.

This means that the capex and working capital cycle are yet to reflect in the number of days. We will see more of this, I think, in Q4. The exit rate will give a very clear indication of what is to come next year.

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We are in the build-up stage now, so I do not think we need to calculate the position merely to provide a precise picture of what is happening at our end.

Joseph George – IIFL: Okay, sir. Fair enough. In terms of capex for the full year, should we expect a similar run rate in H2 to what we saw in H1?

Management: No. We are quite clear about Q3 to a reasonable extent, but in Q4 we may not undertake much capex because our other capex projects are somewhat longer-term, and they will be pushed into subsequent years in a phased manner.

It will not be as large as this because we have crossed the level at which we have established greenfield facilities across India, on both the powertrain and aluminium segments.

In general, to answer your question, Q3 capex at the consolidated level will be between 500 and 600 crore.

Joseph George – IIFL: Okay, sir. Understood. The second question or topic I wanted to touch upon was the SunBeam business. I remember that a couple of quarters ago, you mentioned that you would give up low-margin business and low-margin revenue, improve the mix, and reach an early-teens or mid-teens margin in perhaps a year or two.

I want to understand where we stand on that journey. Have you started giving up low-margin businesses, or what is the path from here?

Management: Our customers requested that we support them until the festive season, which we have done for this festive season. Those products will go away in the next couple of months. The handover is taking place, as they are developing alternatives or whatever may be required.

Overall, the exit from certain smaller customers is mostly complete, but we are handholding the larger customers.

Our top line may reduce, but our absolute margins will improve because some of those businesses are negative at the EBITDA level. In general, there is no point in trying to reset those prices. With that, the P&L will be very healthy.

Joseph George – IIFL: Understood, sir. Thank you.

Management: Thank you.

Operator: Thank you. The next question is from the line of Sagar Shetty from Wealthyvia. Please go ahead.

Sagar Shetty – Wealthyvia: Hi, congratulations on a good set of numbers. My question is regarding the fact that, first of all, we have recorded good top-line growth. At the same time, we have seen margins decline somewhat.

Is it correct to assume that we saw some aluminium pass-through during this quarter? If you could shed some light on that and explain why the margin was lagging somewhat.

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Management: We are still discussing some of the aluminium corrections with the customer. Until we reach a conclusion, we cannot book the differences. That is the first point.

The second point is the steep rise in prices and the panic in the market regarding material availability. Added to that is the Middle East crisis.

We wanted to protect our customers' product lines, so we took the extreme step of ordering more material without knowing which material would be supplied and which material would not be supplied. We went somewhat overboard, but I think that will benefit us in the long run.

To be frank, some customers asked us to provide the aluminium to them so that they could supply it to other suppliers. That was the situation.

As a result, we took some of the impact when prices dropped. It is a one-time impact, and it will not affect us over the longer term. There will be an impact particularly in Q2, a very marginal impact in Q3, and nothing in Q4.

Sagar Shetty – Wealthyvia: Okay. My next question is regarding the Q2 presentation, where there was a new German subsidiary. Could you shed some light on its purpose and the investment planned in it? Also, what is the growth rate of the German subsidiary currently, and what revenue and EBITDA should we expect going forward?

Management: I will explain the German subsidiary. Even though it appears to consist of a number of companies, fundamentally there is one holding company that holds a real estate company, and then the [trails off]

Management: The holding company holds a foundry. That is it. The foundry is the only manufacturing company at present.

That company has reported healthy revenue growth, and its profitability is also quite decent. It supplies products to a large engine family, and this business is sustainable going forward. All expenses are indexed to the customer, including, in the case of power, all raw materials and labour costs.

Therefore, we do not see any risk in the business. It is a steady and profitable business.

Coming to the new company that we have established, only the formation has been completed so far. The machining portion is currently outsourced to some smaller companies in Germany.

Since our growth is substantial, we believe that Craftsman has machining capabilities, so we want to establish a small machine shop there. This will help us receive more orders from our customers there.

In this case, we have not decided on the quantum of investment; it will be very small. We know that we invested around {? 120, 130 crores ?}, or something like that, in the German subsidiary, but the machine shop will be a much smaller percentage compared with that.

Chandramouli Muthiah – Goldman Sachs: Will we be open to undertaking any capex in the foreign subsidiary going forward?

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Management: [line issue] Sorry, I think the line is not clear. Can you repeat the question?

Chandramouli Muthiah – Goldman Sachs: Will you be open to undertaking any capex going [crosstalk]

Operator: [crosstalk] The line is not clear, sir. Sir, the line is not clear.

Chandramouli Muthiah – Goldman Sachs: Hello, is it a little better now?

Management: Yes, please.

Chandramouli Muthiah – Goldman Sachs: I wanted to know whether we are planning any future capex in the foreign subsidiary going forward. Apart from the 1,500 crore outlay, is there anything additional planned for the foreign subsidiary?

Management: No, not in the foreign subsidiary. As I mentioned, it will be a small machine shop. We are considering only a very small investment, perhaps 20–30 crore, in a couple of machines there so that we can support the foundry and reduce the working capital drain.

We are currently sourcing machining from outside, and there is a delay. We will continue to outsource machining to our machine shops there, but we may undertake the incremental work internally.

This is only an optional initiative; it is not a capex-intensive business for us.

Chandramouli Muthiah – Goldman Sachs: Okay, okay. Thank you, and all the best for the future.

Management: I want to make one statement very clear: we are not in favour of investing outside India on a large scale because we understand the associated risks. This is a very strategic investment, and we will keep it that way.

Chandramouli Muthiah – Goldman Sachs: Adding one question, sir: does this also rule out the possibility of any foreign acquisition?

Management: Yes. If you look at our history, we have always been very averse to that for many decades. In fact, after examining such opportunities many times, we consider the remaining life cycle of the businesses available for acquisition.

We believe that when a company comes up for sale, the good companies may get merged with larger companies in Europe itself. There are other companies there as well. Therefore, we feel that we would be more exposed and it would be riskier for us, unless there is a technological advantage or the acquisition is very small compared with the parent.

Look at the size of our revenue outside India. It is how much, 1%?

Management: No, no, 3%–4%, right? Top line of the subsidiary, the German subsidiary.

Management: 4% of our revenue comes from the subsidiary. If you look at the gross net block of the investment as well, it may hardly be 2%–3%.

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Chandramouli Muthiah – Goldman Sachs: Okay. Okay. Okay. Thank you so much, sir, and all the best.

Operator: Thank you. The next question is from the line of Akshay Karwa from Aviva India. Please go ahead.

Akshay Karwa – Aviva India: Hi, sir. Good evening, and thank you for the opportunity. Firstly, congratulations on a good set of numbers.

My first question pertains to the stationary engine segment and the capex. In the opening remarks, you mentioned the current order book of around $100 million. When do we expect to book revenues from this, what could be the target by FY29, and what could be the approximate monthly run rate for the stationary engine segment?

Management: By FY30, we will reach a run rate of at least $100 million by Q3 or Q4. We expect 30% by FY28 and 50% by FY29.

Akshay Karwa – Aviva India: Okay. Thank you, sir. Lastly, on the margin guidance, the margin in the aluminium segment declined by almost 1.5% this quarter. You mentioned that you would speak to customers. When do we see the margin returning to 13% for FY27 and FY28?

Management: [line issue] I think I lost you. The clarity of the call was not there in the last few seconds.

Akshay Karwa – Aviva India: I was asking about the margin guidance for the aluminium segment for FY27 and FY28.

Management: It will return to normal after our discussions with customers take place. We are still in discussion with customers. Some discussions relate to the past impacts they have absorbed, and some relate to future corrections. Both need to be finalized first.

This will not be limited to Craftsman; it will apply to the entire aluminium supplier community. The OEMs are also aware of this. There has been a great deal of dialogue. Beyond that, because of the sensitivity of the information, I cannot share more.

Akshay Karwa – Aviva India: Is normalized EBITDA around 12%–13% for the aluminium business, or what is the normalized level?

Management: Again, commodity prices have increased. If we equate for the same commodity price, the margins should return to normal after the discussions with customers.

Commodity price is a factor for which we cannot obtain an increase in the aluminium price and also obtain a margin on that aluminium. We have to look at it that way. There will be some moderation.

Akshay Karwa – Aviva India: Understood, sir. That is all from my side. I wish you all the best.

Management: Thank you.

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Operator: Thank you. The next question is from the line of Chirag Jain from MK Global. Please go ahead.

Chirag Jain – MK Global: Good afternoon, sir. Post the GST cut, we have seen very strong growth across the auto industry, and this year's growth also appears to be surprising.

What are your thoughts on overall auto industry growth over the next 1-2 years? In particular, regarding the 15% growth guidance you provided, how much is dependent on the underlying automotive industry, and how much will be driven by the bottom-up order wins across various customers and platforms?

Management: We are not factoring in too much auto growth, but I feel that auto growth will continue in a fairly strong manner, especially in passenger vehicles and two-wheelers.

This is because of the inflection point in per-capita GDP, and the value per product is also increasing. In two-wheelers, products above 150 cc are also going to grow in the near future, which will provide more opportunities for us.

Similarly, in passenger vehicles, newer models with new pricing will be introduced, and there will be a realignment of the supplier base. We will get more opportunities.

We will have a combination of new products replacing old products, and we may become a supplier for the new products. That is one advantage.

The second point is that exports from India are also continuously increasing.

The third point is value. For example, if hybrid vehicles become more prevalent, there will be more transmission parts available. If Euro 7 comes in, or BS-VII, then new engines will also be introduced. All of this provides an opportunity for us.

Last but not least, the trend from in-house manufacturing to outsourcing will increase in the future. Many OEMs are still manufacturing a significant number of aluminium components in-house, but we are seeing that trend starting to shift.

Chirag Jain – MK Global: At this point, do you have any sense of how much would be manufactured in-house and how much would be outsourced from an OEM perspective on the aluminium side?

Management: I think the major market player manufactures almost all the key parts in-house. The second-largest player also manufactures a significant percentage internally. I do not want to name them here.

The same trend applies to two-wheelers. Some companies are almost entirely outsourcing, while others are still almost entirely in-house, at least on the machining side of two-wheelers. Some of the largest two-wheeler manufacturers are still making the castings as well. I will not name them.

Chirag Jain – MK Global: What is driving the shift towards greater outsourcing?

Management: Earlier, supplier capabilities were not available. Therefore, OEMs had to bring in suppliers from their own group companies or from overseas and invest heavily.

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The technology was highly protected, and it was very difficult to enter that area. Today, I think confidence levels are increasing. In an open market, why would you invest inside the plant when the same quality is available at a reasonable price, or even at a better price?

Chirag Jain – MK Global: Understood, sir. On the export side, since you touched upon it, while we are doing reasonable exports in powertrain, when do you see a major inflection point from an export opportunity standpoint on the aluminium side?

Management: We have received orders from some multinational companies that are going to undertake aggregate exports from India. Aggregate exports, perhaps of engines and gearboxes, are already taking place for some multinational OEMs that have established a base in India.

We see this trend continuing to increase going forward. Initially, products suitable for India were manufactured in India and sold in India, and those powertrains were then exported. Now we also see that whatever can be manufactured in India is being shifted to India, with India being used as an export hub for aggregates as well.

For passenger vehicles, particularly on the gasoline side, 1.5 L and below makes a lot of sense for any OEM to source the powertrain from India. It is a significant advantage, whether the products are exported to Europe or anywhere else in the world.

Similarly, on the two-wheeler side, below 150 cc, India has become a very large manufacturing country overall. India's capacity is significantly higher than that of other Asian countries, in general.

Perhaps the largest Asian country has shifted more towards passenger vehicles, which may be one reason. However, we are still growing on the two-wheeler side. All of this provides an advantage for the growth cycle over the next 3–4 years.

We also see consumers preferring more premium products, even on the two-wheeler side. This will also increase our share of business going forward.

Chirag Jain – MK Global: Understood, sir. On profitability, would you like to share whether there is any particular segment of customers where we are seeing a major challenge in pass-through? Is the challenge only with conversion costs such as manpower and energy, or is passing through commodity costs also becoming difficult?

Management: I have to be candid here. Wherever there is fairness, we will get it done. If there is no fairness, it is very difficult to accommodate a customer who is not allowing pass-through, especially on commodities.

It is very risky for a supplier to continue serving such customers in the way we served them in the past. We have to be very careful there.

The second point is that legacy products also require a reset. Our margins have improved because of operating leverage, but some of the margins have been absorbed by all these issues. This will be corrected.

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What we believe is that new products will come at new prices. This allows us to be selective in new developments, which is very important for profitability.

At the same time, we have to wait and watch how negotiations progress on existing products with existing customers. We will take some logical decisions, and some of the capacities are fungible.

Chirag Jain – MK Global: Lastly, as you said, we should generally target 15% growth. Profit growth should be much higher because of the basic infrastructure you have established and the capex undertaken over the past few years, apart from the price increases you will receive from OEMs as compensation.

Management: In powertrain as well, there are many challenges because all consumables have increased in cost. Cutting-tool consumables, oil consumables, power, labour, and everything else have become more expensive.

However, our operating leverage was able to, and the new product [trails off]

Srinivasan Ravi: develop. The {? steel prices ?} were able to offset some of these challenges.

These plants are also not suboptimal—the powertrain plants—because they have {? entered cycles ?} over a period of time.

In aluminium, the opposite is true. Not all plants are at an optimum level. A significant amount of capacity still has to be added to bring them to an optimum level, and we are in the ramp-up phase. This also involves pre-operative costs, which are affecting our margins.

The second and third points on the aluminium front are commodity prices and fuel costs. Aluminium is more energy-intensive for us, particularly in relation to gas and similar inputs. That has also affected us.

If not for these two factors, our margins would have been at least equal, if not better. They should improve over time as operating leverage improves at each plant.

We have grown significantly in the aluminium business over the last 2 years. This accelerated growth has also taken a toll on profitability.

Chirag Jain – MK Global: Understood, sir. Sure. Thank you so much. All the best.

Srinivasan Ravi: Thank you.

Operator: Thank you. The next question is from the line of Vinay Nadkarni from Hathway Investments Private Limited. Please go ahead.

Vinay Nadkarni – Hathway Investments Private Limited: Thank you for the opportunity. Most of my questions have been answered. I have one question on the aluminium mark-to-market loss that you said had to be booked in Q2 because of the drop in aluminium prices. Can you quantify the impact in this quarter?

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Srinivasan Ravi: We will not be able to quantify it exactly because the material was purchased at different times, and some of the material takes time to arrive. We also have to secure some contracts, so I do not want to go into that detail.

What I can say is that the effect in Q3 will be very minimal. We will almost have no impact, and there will be nothing in Q4.

Vinay Nadkarni – Hathway Investments Private Limited: The drop in price, or the mark-to-market impact, in this quarter—will it help margins in Q3 because you have already booked that loss in Q2?

Srinivasan Ravi: No, it is not a loss. We are continuously buying material and continuously selling products. When we book more raw material at a particular price, it is not a mark-to-market loss; it is the consumption cost that is increasing for us. Our COGS has improved. It is not a mark-to-market loss.

Vinay Nadkarni – Hathway Investments Private Limited: Okay. That is all. Thank you, and all the best.

Srinivasan Ravi: Thank you.

Operator: Thank you. The next question is from the line of Shubham Batra from Ambit AMC. Please go ahead.

Shubham Batra – Ambit AMC: Hi, sir. Thank you for taking my question. In the aluminium business, we have grown by roughly 45% in H1. I wanted to understand how much of this growth was driven by commodity inflation and pass-throughs received from customers, and how much was underlying volume or real growth for us.

Srinivasan Ravi: Between Q1 and Q2, there was no significant commodity impact. It was very marginal. Therefore, between Q1 and Q2, we should consider all other factors as mostly real growth.

Shubham Batra – Ambit AMC: Got it, sir. Secondly, regarding the alloy wheels business that we were ramping up, could you provide an update on how it is progressing?

Srinivasan Ravi: We have been at around 70% current utilization over the past couple of months.

Shubham Batra – Ambit AMC: Got it, sir. Thank you.

Operator: Thank you. The next question is from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.

Mumuksh Mandlesha – Anand Rathi: Thank you, sir, for the opportunity. I want to understand how we see EV penetration developing. It is progressing steadily and is already strong in the two-wheeler and four-wheeler segments.

How are we positioned in the EV-related segment? What types of products do we supply to that segment, and what would be the revenue mix from EV-related products?

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Srinivasan Ravi: In two-wheelers, penetration is significant in scooters, very clearly, and it will continue. In motorcycles, based on the public data, I think the transition will be slower in general.

We also see motorcycles moving towards premium, if not super-premium, at least premium products. This means that the requirement for higher power in an EV will be more difficult because of battery size, battery weight, and battery packaging in the motorcycle.

Therefore, we feel that scooters will be the first area of transition, with some transition in basic motorcycles and perhaps some very high-performance motorcycles. However, those are not in the range used by a normal user.

I would rather leave it to the OEMs to make an estimated assessment here because I do not want to make a second guess about the market now.

In passenger vehicles, there will be a steady increase in EVs. At the same time, the resale value of the car will also play an important role in the decision-making of a normal consumer.

For a second car, third car, or city car, EV penetration in passenger cars will be very high. Beyond this, I will again leave the commentary to the OEMs for you to decide which way it is going to go.

Regarding the products we offer for two-wheeler EVs, our presence is negligible currently. It is limited to alloy wheels.

However, when aluminium structures become more relevant, greater lightweighting of two-wheelers and cost economics will drive adoption. If it is favourable, more aluminium content will be used.

In passenger cars, aluminium content is set to grow across all passenger cars, and even more so in EVs.

Mumuksh Mandlesha – Anand Rathi: On passenger vehicles, how are we positioned in terms of the products we supply for passenger vehicle EVs?

Srinivasan Ravi: We are present in structural parts other than alloy wheels and aluminium forgings. We are not present in aluminium extrusions, but in castings—low-pressure, high-pressure, and gravity castings—which constitute the bulk of the structural parts, we are present.

Mumuksh Mandlesha – Anand Rathi: To get a sense of this, in the passenger vehicle segment, if you compare an ICE passenger vehicle with an EV passenger vehicle, how would the content be different for us?

Srinivasan Ravi: [pause] For us, engine parts will not be present in total. For a hybrid, however, the aluminium content actually increases.

Mumuksh Mandlesha – Anand Rathi: Okay.

Srinivasan Ravi: The addressable market for EVs will depend on structural parts and the adoption of structural parts, which will become more common in both EVs and ICE vehicles. Penetration will increase over the next 2-3 years.

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Mumuksh Mandlesha – Anand Rathi: Broadly, can we say that in a vehicle, approximately 50% of an ICE vehicle would be engine-related and 50% would be structural parts? That would give us a better sense of the mix between structural and engine parts.

Srinivasan Ravi: There are many reports in the public domain on aluminium content per vehicle. India has one of the lowest levels of aluminium content per vehicle in ICE vehicles as well as EVs.

As a percentage of vehicle weight, India's aluminium content in ICE vehicles is less than half that of developed markets, and perhaps only one-third. Therefore, there is significant scope to increase aluminium usage in ICE vehicles as well.

Similarly, in EVs, new platforms have to be developed. Current platforms were not designed to adopt aluminium. That is why we see more OEMs investing in new assembly lines so that they can lightweight the vehicle.

Mumuksh Mandlesha – Anand Rathi: Understood. On passenger vehicle EVs, or EVs generally, how are we positioned among some of the key customers? Are we currently present in the passenger vehicle space?

Srinivasan Ravi: The bulk of our business is with passenger vehicles, and you have also seen the volume growth in the last few quarters.

Our commentary is that our aluminium business will continue to grow very strongly in the coming quarters. This means our order books are quite strong, and we are selective in accepting new customers and new orders that are more sustainable and profitable going forward.

We were very reluctant to take EV parts even a few quarters ago because EVs were going through an evolution. If we had taken those parts orders, we would have seen early changes to product designs, and products might have been discontinued or modified. We could have become a victim of that.

Now, the market and product designs are maturing, and new platforms are emerging. Therefore, we will extend our services in high-pressure die casting, low-pressure and gravity casting, and sand casting wherever applicable.

Our technology is fungible. It is not limited to ICE; it is also applicable to EVs. The same machines do not distinguish between EV and ICE, but lightweighting of passenger cars is here to stay.

Mumuksh Mandlesha – Anand Rathi: Got it, sir. Thank you very much for the answer.

Srinivasan Ravi: Thank you.

Operator: As there are no further questions, I now hand the conference back to Mr. Srinivasan Ravi for his closing remarks.

Srinivasan Ravi: Thank you very much for staying with us for this full meeting. What we see now is that size matters in catering to larger OEMs, including multinational OEMs.

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I think Craftsman will reach critical mass or critical size in this financial year. This will help us over the next 5-10 years in being a very stable and growing company. Thank you very much.

Operator: On behalf of Craftsman Automation Ltd., that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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