

CMP: INR 972

View: Positive

Stock Info

BSE	531147
NSE	ALICON
Bloomberg	ALIC IN
Reuters	ALIO.NS
Sector	Auto & Truck Parts
Face Value (INR)	5
Equity Capital (INR Cr)	6.95
Mkt Cap (INR Cr)	1,536
52w H/L (INR)	999 /305
Avg Yearly Vol (in 000')	29

Shareholding Pattern %

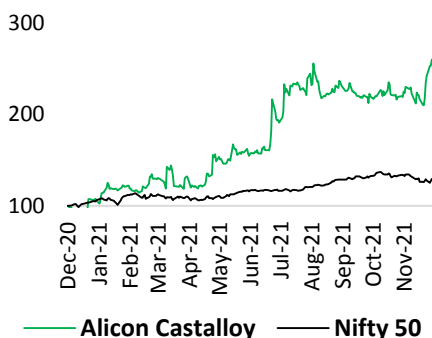
(As on Dec, 2021)

Promoters & Promoter Group	55.71
Public & Others	44.29

Stock Performance (%) 1m 3m 12m

Alicon Castalloy	20.8	17.5	171.7
Nifty	-2.9	0.7	29.8

Alicon Castalloy Vs Nifty



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We visited the manufacturing facility of Alicon Castalloy Ltd at Pimpri-Chinchwad, Pune. Alicon Castalloy Ltd formerly Enkei Castalloy Limited is engaged in the business of manufacturing automotive castings. The Company is engaged in manufacturing cylinder heads for 2W and 4W. Alicon Castalloy is a leading provider of end-to-end aluminium casting solutions across multiple user industries. Alicon operate one of the largest aluminium foundries in India. The company is also credited for pioneering the processes of Low-Pressure Die Casting (LPDC) and Gravity Die Casting (GDC) in India.

Investment Rationale:

- The company is continually expanding its portfolio to include value add categories to serve the needs of the customers. With the adoption of electric vehicles in international and domestic markets, the company's target is to increase the share of business from EVs.
- Order:** The company has received orders from several leading OEMs for their EV platforms, reaffirming and growing capabilities in this area. Armed with the technical know-how and significant exposure in the European markets, the company looks forward to adding new customers for thermal engineering solutions in the electric vehicle space.
- Electric vehicles:** The company is also adding more technology-agnostic, i.e. used both in conventional and EV vehicle components, to portfolio continually expand the portfolio to include value-add categories to serve the needs of customers. With the adoption of electric vehicles in international and domestic markets, the target is to increase the share of business from EVs.
- Serving a diversified customer:** The Company provides two-wheelers like Hero Motocorp, Ather, Bajaj, Suzuki, Triumph among others. Four-wheeler automotive like Audi, Fiat, Jaguar, Mahindra, etc., and Non-Automotives like ABB, Honeywell, Siemens, Bosch, among many others.

Outlook and valuation

Looks interesting at lower levels. The company is likely to benefit from the multi-year order wins, which are expected to contribute significantly going forward. Further, we believe the company has good growth in the EV business. Revenue share from EVs is expected to go up to 36% in FY26; optimistically it can also go to 45% in FY26. The Company has got orders for refurbishing 129 battle tanks which correspond to 3870+ wheels and the tender will be closed by December 2021. The stock is trading at a P/E of 44x on a TTM basis.

INR Cr (consolidated)	FY18	FY19	FY20	FY21
Net Revenue	1,038	1,182	957	849
EBITDA	108	139	106	83
EBITDAM %	10.42%	11.78%	11.06%	9.80%
PAT	39	53	17	-2
PATM %	3.73%	4.48%	1.78%	-0.23%
EPS	28.5	38.1	12.2	-1.4
PE	34.1	25.5	79.4	NA

Source: Arihant Research, Company Filings

Plant Visit & Management key takeaways

- Alicon is aiming partnership with OEMs by providing lightweight solutions, HPDC to LPDC conversion by giving customers the advantage of lower CAPEX, thermal solutions for the components like battery housing and motor housing, the future technology, and further solutions for a structural relevant EV part.
- Turnover can easily double to INR 2600 Cr in the next 4 years.
- Margins to be higher with larger pie from EV segment.
- The company is working on 6 parts in ICE division- breakthrough order win from Renault in France. Another opportunity from CAC tanks as a resourcing project.
- **Key EV Projects:** Alicon is working with Tata Motors in EV sector through TACO who are developing and supplying battery packs and motors for EV platform to Tata Motors. TACO is sourcing these parts from China but due to FAME 4 regulations they plan to shift to India by end of FY22. TACO has sent a RFQ for 15 parts to Alicon DANA corporation has been working with them on 48 parts.
- **Ather Energy :** The company says has parts weighting 17kgs (with decent volumes) in Ather 2W as compared to 3 kgs in ICE 2W. The Company has total 65 product portfolio catering to EVs. The Company is already doing INR 1000 crs of revenues this year.
- Exports to touch 40%. The Company has booked 17 parts from 8 customers. 4 parts from domestic customers HMSI, Piaggio and Dana. 13 parts from export customers - JLR, MAHLE, Renault, Tata Autocomp, Dana, with new logo addition – Scania.
- **Revenue Mix:** Exports including overseas revenues contributed to 25% of the total revenue while domestic contribution was 75%. Across verticals, the Auto Division contributed to 94% of the total revenue in Q2 FY22 and Non-auto Division was at 6%.
- **EV Business:** The company is already on the track for 20% of revenue share from EV and expected to go up to 36% in FY26 ; optimistically it can also go to 45% in FY26. Company has got order for refurbishing 129 battle tanks which corresponds to 3870+ wheels and tender will be closed by December 2021.
- Plants operating at utilization levels of 65-70% ; anticipate that utilization levels will reach 70-75% in H2FY22. In Europe its 80-85%. From a business standpoint, The company continues to institute cost-rationalisation initiatives and has undertaken optimum working capital measures to conserve cash flows and ensure steady profitability. Management expects to benefit from the shift to personal mobility catalyzed by the pandemic, preference for green vehicles (hybrid and EV), staggered introduction of vehicle scrappage policy, thrust on higher fuel efficiency, costoptimisation, and light-weight of products
- **Manufacturing units:** The company has 4 plants, 3 in India and 1 in Slovakia. ACL has 2 manufacturing units in Pune (Maharashtra) and 1 in Binola (Haryana). The operations of the Company are supported by a state-of-the-art technology centre developed in Slovakia which largely cater to European clients.
- **Margin:** The company is expected to 12.5%-13.0% in the near term and for the long term range of 14-15%.
- **Capex:** INR 350 Cr for FY25-26 and for the maintenances of INR ~15 Cr.
- **3W:** The company serves Bajaj Auto & Atul auto.
- **Equipment's:** The company provides 15 components to Ather.They also provide components for buses to Samsung (Danfos).

- **Product Mix:** Castings made from aluminium alloys 91%, Casting alloys are mostly used for intake manifolds, cylinder heads, transmission housings, engine blocks, wheel Rims, etc. Dies (6%)
- **QIP:** The conclusion of equity raised through QIP and the preferential issue has helped to enhance liquidity and reduce debt.
- **Machinery:** Total 30 machines available in the Chinchwad, Pune plant.
- Alicon has provided parts for Mahindra XUV700 also.
- **Cylinder:** The company is focusing on high value add with critical and complex parts like cylinder heads from a customer's track store.
- **PLI Scheme:** As per the company understanding, some of the components from the EV will qualify for this scheme, and the company is discussing the same with their consultant.
- **Non-Auto:** The company is witnessing healthy growth in demand across the sectors such as Defense, Aerospace, Agriculture, and Energy and the company expects this momentum to strengthen going ahead. The company is getting adequate orders in the defense sector.
- **Order Book:** The Company has an order book of 3150 Cr for next 5 years. This translates to average sales of 625 cr additionally. Company expects additional sales of 480 Cr in FY23 which will go up 780 Cr in FY26.
- First mover advantage in EV Segment.

Plant Visit: Manufacturing parts



Bus: EV High voltas parts



Ather 2W parts



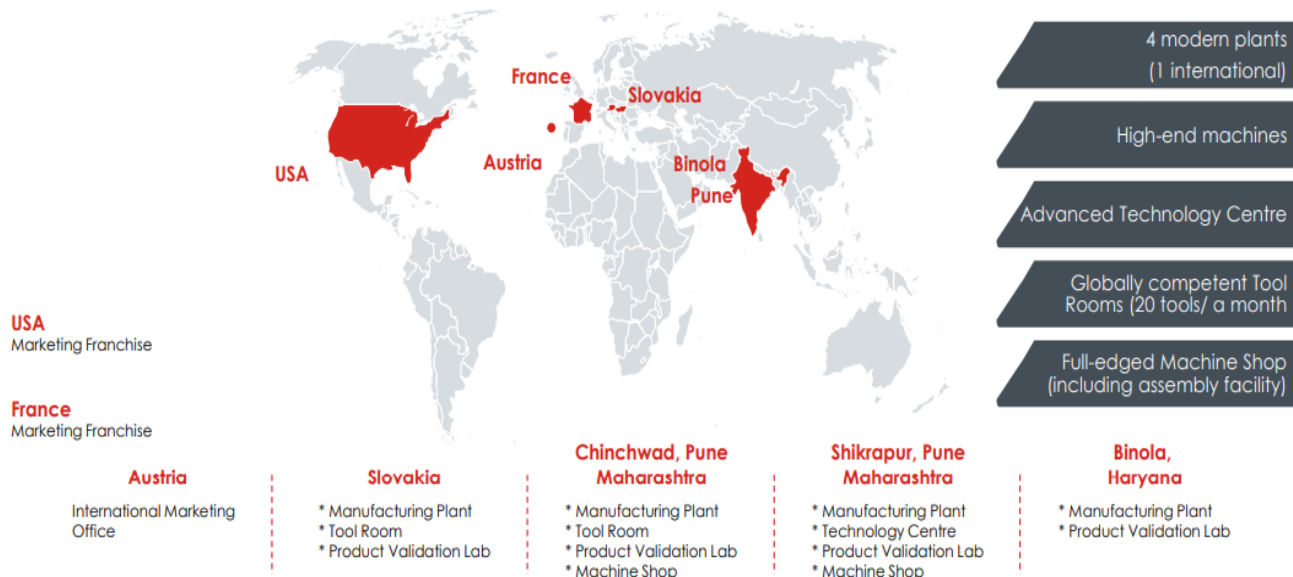
**Adapter plate SAE 5 LPDC 2.11 Kgs
ALLOY: AC 4B**



Toyota kirloskar 2.0 liter 4 cylinder head

Source: Arianth Research, Company Filings

Global Presence: Strategic locations enable shorter time-to-market and enhanced cost optimization



Source: Arihant Research, Company Filings

Quarterly result summary

INR Cr (consolidated)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Net Revenue	268	211	205	27.07%	30.90%
Raw Material Costs	141	105	98	34.12%	43.39%
Gross Profit	127	106	106	20.07%	19.36%
Gross Margin	47%	50%	52%	-276bps	-458bps
Employee costs	32	32	29	-0.44%	8.59%
Other Expenses	71	57	51	24.96%	39.10%
EBITDA	24	17	26	42.30%	-6.96%
EBITDA margin %	9.1%	8.1%	12.8%	97bps	-370bps
Other Income	1	1	1	-0.41%	66.55%
Depreciation	13	13	12	3.44%	10.20%
EBIT	12	5	15	126.98%	-17.98%
Finance costs	7	9	9	-12.66%	-19%
PBT	5	-3	6	-244.67%	-17.02%
Tax Expense	2	1	0		
Effective tax rate %	35.1%	-30.3%	5.9%	6546bps	2921bps
Consolidated PAT	3	-4	5	-172.02%	-42.78%
PAT margin %	1.1%	-2.0%	2.6%	312bps	-145bps
Basic EPS (Rs)	1.90	-3.0	3.8	-163.33%	-50.26%

Source: Arihant Research, Company Filings

-In Q2FY22, EBITDA margin at 9.4% against 13% in Q2FY21 has been impacted by a higher base due to a sharp increase in RM prices this has led to optical compression in the margin. The company is expected to 12.5%-13.0% in the near term and for the long term range of 14-15%.

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return

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