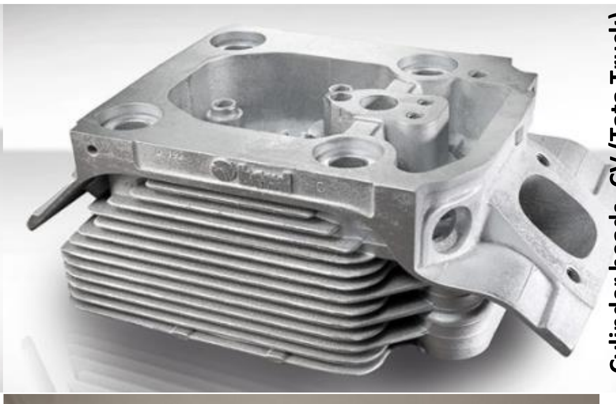
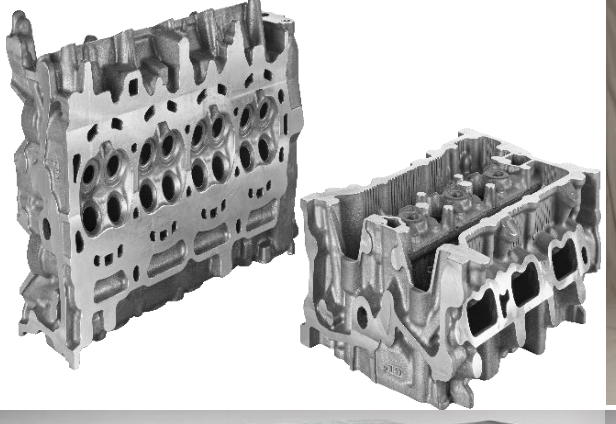
Alicon Castalloy Limited

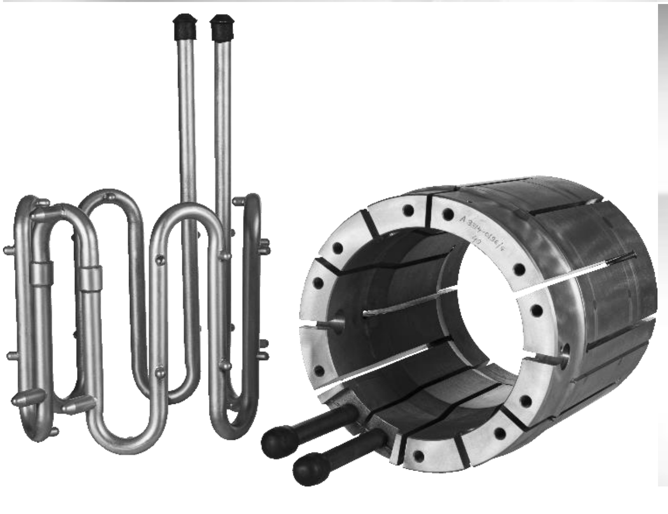

Cylinder heads-2W

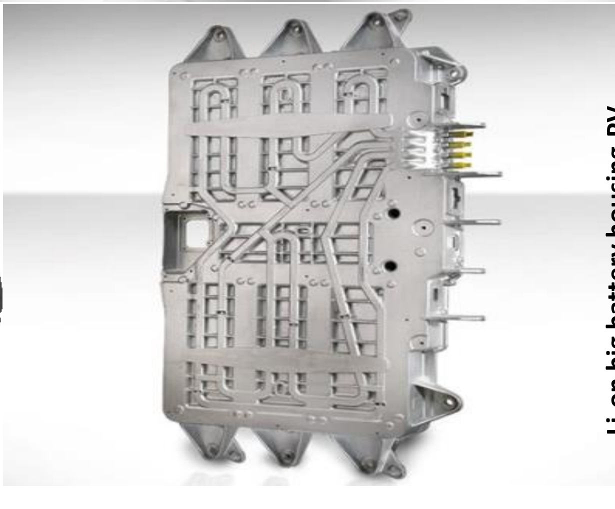

Cylinder heads- CV (Tata Truck)


Cylinder heads-PV (Toyota)


T-72 Bridge Layer Tanks for Defence (LPDC)


Critical braking systems- Locomotive




Li-on big battery housing-PV

Alicon Castalloy Limited

Targeting INR 22Bn revenue, surpassing 16% CAGR by FY25-26 with strategic initiatives.

CMP: INR 919

Rating: Buy

Target Price: 1,479

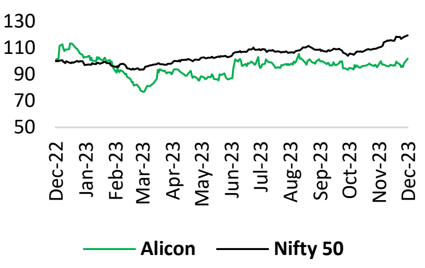
Stock Info	
BSE	531147
NSE	ALICON
Bloomberg	ALIC IN
Sector	Automobile & Ancillaries
Face Value (INR)	5
Equity Capital (INR Mn)	80.6
Mkt Cap (INR Mn)	13,923
52w H/L (INR)	1,068/645
Avg Yearly Vol (in 000')	24

Shareholding Pattern %
(As on Dec, 2023)

Promoters	55.71
Public & Others	44.29

Stock Performance (%)	1m	3m	12m
Alicon	10.7	13.8	-2.3
Nifty	2.6	11.4	22.6

Alicon Vs Nifty



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ALICON has strategized its growth on four pillars 1) to increase business in 4W segment, 2) increase EV presence, 3) increase focus on global markets and 4) focus on technology. Alicon Castalloy is progressing well on all key pillars.
The value addition mix has improved with the share of 1) carbon neutral business at 16%, 2) structural products at 10% and 3) non-auto business at 6%. In FY23, 4) dependence on 2W was reduced from 38% to 34% with increase in share of 5) 4W (PV+CV) business from 53% to 59%. We believe, growing contribution from the PV and CV segment is expected to outpace 2W, thereby enriching the product mix further.

Investment Rationale

Alicon is strategically emphasizing the high-margin 4W segment: Increasing its share from 53% to 59% in FY23, while the 2W share decreased from 38% to 34%. With a shift toward fully finished products, ALICON has secured contracts with two new major domestic 4W customers and developed a cylinder head for U.S. all-terrain vehicles. Actively collaborating with OEMs and Tier-1 suppliers, ALICON capitalizes on the structural change as OEMs outsource critical ICE components, presenting significant opportunities.

Company is poised for significant growth in the electric vehicle market: As the aluminum content in their products is set to surge from 18kg in ICE PVs to 100kg in EVs. With a robust track record of supplying 94 parts to 18 customers in the EV sector, including contributions from their European subsidiary Illichmann since 2017, ALICON is well-positioned to capitalize on the expanding addressable market. The company's strategic investments in advanced technologies, such as thermal cooling solutions and exploration of friction stir welding, align with their commitment to innovation, exemplified by securing their largest-ever multi-year order for e-mobility platforms, with anticipated revenue boosts from orders to esteemed customers like JLR starting in FY25.

Serving a diversified customer base: The Company supplies for two-wheelers like Honda Motorcycles & Scooters, Hero Motocorp, Bajaj, Royal Enfield, Suzuki, KTM, M&M, Triumph among others. Four-wheeler automotive like Maruti Suzuki, Toyota, Audi, Jaguar & Land Rover, Renault Nissan, M&M, Tata Motors, Daimler and Honda etc., and Non-Automotives like Siemens, Textron, M&M, GE T&D, Tafe, Trane Technologies, Rotax, among many others.

Strong order book: The company's total order book has reached INR 90 Bn which is executable over 6 year from 2023-24 up to 2028-29. This is net new orders for which Start of Production has not commenced. The running rate indicates significant future orders, targeting yearly execution of INR 5 Bn. New product focus driving all orders.

Outlook and valuation

We believe strong demand from OEMs has led the management to maintain its revenue growth guidance of 13%-14% revenue growth in FY24, while targeting revenue of over INR 22,000 Mn by FY25-26 (CAGR 16%), on transitioning from small to larger and critical parts. Alicon is expected to benefit from its established market position in the aluminium casting auto component sector, driven by established client relationships and operations in India and Slovakia. The company is expected to benefit from the strong growth prospects of its key clients such as JLR, Daimler, Toyota, Stellantis, Maruti Suzuki. **We have used a DCF Model to value ACL, it has healthy and consistent cash flow generation over the forecasted period and we value consolidated** business at EV/EBITDA multiple of 4.8x to FY26E EBITDA of INR 3,086 Mn to FY26E EPS of INR 89.6. We initiate coverage with a "BUY" rating at a Target Price of INR 1,479 per share based on DCF; an upside of 61%

Exhibit 2: Company Detail Background

Company Snapshot	
Company Background	Alicon Castalloy manufactures aluminium castings for segments of Auto - ICE, EV and Non Auto. Key parts include cylinder heads, intake manifolds, eAxle, Motor housing, Battery Housing, Controller housing. It has a presence in 18 countries and is a part of Alicon Group. The company was established as Enkei Castalloy Ltd, a joint venture between Pegasus Castalloy Ltd and Enkei Corporation (now Alicon Castalloy), in Japan; one of the largest manufacturers of alloy wheels in the world.
Promoter Background	Designated Partners of Nastic Trading LLP are Shailendrajit Charanjit Rai and Pamela Shailendrajit Rai.
Promoter Holdings	Shailendrajit Charanjit Rai- 6.88% Nastic Trading Llp – 41.97% Pamela Trading Llp – 1.78% Mithras Trading Llp – 0.76%
Fund holding (Sept-23)	Bandhan Emerging Businesses Fund-2.19% Axis Mutual Fund Trustee Limited A/C Axis Mutual Fund A/C Axis Small Cap Fund – 6.28%
Revenue Mix	Non Auto - 5% Auto - 95%
Revenue Mix segment wise	PV-32%, CV 20%, 2W -42% 3W-1% & Non Auto 5%
Geography revenue mix	International 23% and Domestic 77%
Key customers	2W- Honda Motorcycles, HeroMoto Corp, Bajaj Auto, Mahindra 2w, KTM, Royal Enfield, Maruti Suzuki, Triumph, BMW and Aike Motorcycle. 4W- Jaguar & Land Rover, Daimler,Honda,Renault Nissan, Toyota, Maruti Suzuki, Mahindra,Tata Motors etc. Non-Automotives like ABB, Honeywell, Siemens, Bosch, GE T&D, Tafe, Trane Technologies, Rotax, TACO among many others.
Order Book	Total order book has reached INR. 90 Bn from new business. This represents new programs that are set to commence in coming years and will contribute incremental revenue.
Manufacturing Units	4 modern plants (1 international) Slovakia - Europe Shikrapur-Pune Chinchwad-Pune Binola – near Manesar (Haryana)
Capex	~900 Mn in FY24 (already completed 840 Mn in 9M FY24)
MS	38% Market share in the 2W Cylinder Head against 40% earlier Company is targeting major players in 4W segment to supply Cylinder Heads

Source: Company, Arihant Research

Q3FY24 Concall KTAs

The company aims for a 13%-14% overall revenue growth in FY24, targeting revenue over INR 22,000 Mn by FY25-26 with a CAGR surpassing 16% over the next 3 years, transitioning from small to larger and critical parts.

The company continues to increase the share of passenger vehicle and commercial vehicles in the product mix.

Business shifting towards expertise in design, research, and value engineering
Scaling up production for new parts and logos, coupled with supplying critical components to new customers, has propelled revenue growth, elevating utilization levels at the European facility from 68% to 70% in Q2 to 70% to 71% in Q3.

The Q3FY24 gross margin of 51.2% surpassed Q3FY23 49.2%, marking a 198 bps YoY increase, attributed to a favorable product mix and the stabilizing alloy prices, offset by a 15% YoY rise in employee costs and the impact of ESOP costs around 3.7.

Depreciation increased by 24% YoY, rising from INR 160 Mn in Q3FY24 to INR 200 Mn in Q3FY24, attributed to leasing machines with a maximum useful life of five years, also re-evaluating and shortening the useful life of certain assets.

Capex INR 900 Mn for the FY24.

With a YoY revenue growth of 5% for the 9MFY24 and a strong momentum in the current performance, expecting a strong fourth quarter and aim to end the year with 13-14% Revenue Growth.

The company is closely monitor QCDD parameters, earning trust from global customers like Daimler, JLR, Toyota Atlantis and Maruti Suzuki for initial product development. The company has successfully launched initial products, company is now in active discussions for additional parts, aiming to scale up relationships, increase volumes, enhance revenues and improve margin profile.

The outlook remains promising with a steady order backlog, and this solid quarter reflects progress across key parameters, particularly in the ramp-up of volume for Toyota's hybrid model cylinder head supply, aligning with their expansion plans for a third plant in India near Bidadi at Bangalore

Order wins
Discussions to commence supply of a new cylinder head to Maruti Suzuki for an SUV platform. Added new business from Daimler with long-term commitments.
Ramping up cylinder head volume for Toyota and commencing supply to Stellantis for domestic and European markets.
Scaled up supply of cylinder heads to Maruti Suzuki further in Q3FY24.

Solar: The company has installed solar panels on the Indian and European plants, alongside acquiring a share in a 5.2 MW solar installation, upcoming solar power agreement will provide credit for units fed into the grid, crossing 50% solar contribution to the energy bill by August 2024. This initiative, coupled with the unique selling proposition of serving customers from both India and Europe, strengthens Alicon's global differentiation and negotiation advantages with international clients.

Business shifting towards expertise in design, research, and value engineering

Non-Auto: Alicon to gain more volume of business. The company also see some revival in momentum in the non auto with the increasing spend of the government infrastructure and defense and the renewed thrust for 'Make in India' campaign.

Order: In FY24, Alicon secured new orders totaling INR 15,000 Mn, bringing the total order book to INR 90,000 Mn, executable over six years from 2023-24 to 2028-29. Notably, this figure excludes ongoing products with commenced SOP. To bolster competitiveness, Alicon is initiating the initial phases of its automation journey.

RM: Attributed to the impact of aluminum prices, the estimated impact for the full year is ~500 Mn, equivalent to 3% of sales. Considering this impact, full-year growth target of 13% to 14% translates into a real growth rate of 16% to 17%.

Existing customer: The company aims to enhance penetration with existing domestic customers and explore opportunities with global clients, with ongoing discussions indicating potential conversions in the coming quarters.

2W: the Company's share in two-wheelers has decreased from 43% to 42%, in sales while 4W share is on the rise. The strategic goal is to achieve a significantly larger share of four-wheelers compared to two-wheelers in the next three to four years.

JLR: Two parts, each ideally weighing 28 kg, meant for EVs and anticipated to be used in the replacement of existing ICE Range Rovers with a potential global volume of 250k units annually. The parts are critical and complex, representing a significant opportunity as the automotive industry transitions to EV. JLR, including approval of a prototype part, which will now go into production supply. The supplies to JLR will begin soon, contributing to Alicon's growing international business revenue. Overall, the new business from JLR is a notable development for Alicon's international growth.

Supply Chain Development: Initial supplies initiated from Europe as soft tooling, with deliveries already started in the current quarter and expected volume growth in the next one or two quarters. Full-fledged execution plan underway to transition production to Indian locations, aiming to submit initial samples in the next couple of quarters, with mass volumes anticipated from FY25-26.

Sales Growth Expectations and Capacity Utilization: Addressing capacity utilization challenges, factors include fluctuating volumes requiring idle capacity, structural changes in business necessitating dedicated machines, and the time lag in achieving full utilization after adding new capacities.

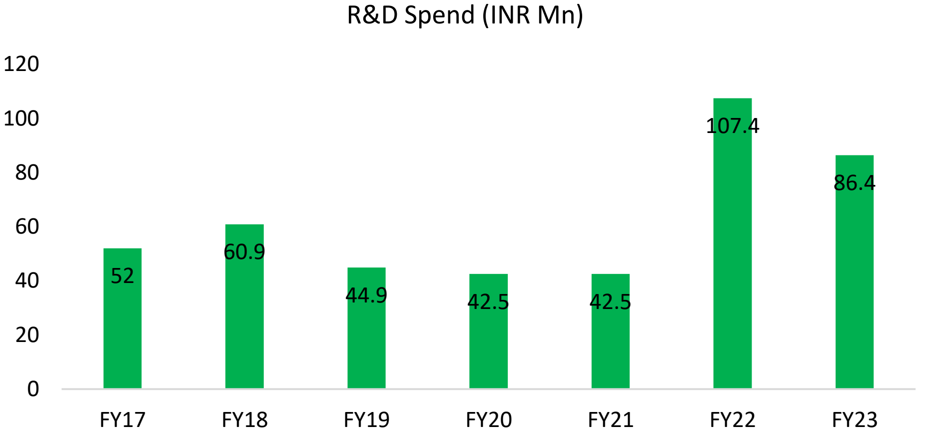
HPDC: The Company is venturing into HPDC, securing an order for a complex onboard charger assembly, and moving up the value chain with friction stir welding (FSW) to showcase the commitment to mastering new technologies for revenue and bottom-line growth.

Investment Rationale

The company main focus on improving on R&D capabilities

Alicon sets itself apart through its success in securing business opportunities driven by its prowess in innovation, technology, and design. This transformation highlights a shift towards being perceived as a comprehensive solution provider, with customers recognizing the company beyond merely a supplier of cost-effective components. The ongoing commitment to adaptation and innovation becomes a pivotal factor for investors, providing insight into the continuous evolution and strategic initiatives that the company is actively pursuing. Capacity utilization at 70-80%, with substantial investment for future growth. Maintenance cost management in the range of 30-50%.

Exhibit 1: R&D Spends to enhance the technology



Source: Company, Arihant Research

Strong order book piloted by new business and Carbon-neutral parts

The outlook for EVs in the company is promising, with an anticipated asset turn of 2-3 times, a significant improvement from the current level of less than 2 times. The company has secured a robust order book of INR 90bn from new business ventures, to be executed over the next six years, necessitating an investment ranging from approximately INR 4 bn to INR. 4.5 bn. The FY24 capex guidance stands at INR 900 mn. The overall order book for the next seven years amounts to INR 140 bn, with EVs constituting 21% of the total. Notably, 6% of the order book is tech-agnostic, 52% is global, 22% represents new clients, and a substantial 80% pertains to 4-wheelers, encompassing both PV and CV. The company's strategic positioning and diversified order book highlight its commitment to growth and innovation in the rapidly evolving EV landscape.

The Carbon-neutral segment has experienced a surge in motor housing volumes for TACO, driven by the heightened sales of Tata Motors Electric Vehicles. Supply of motor housing components to Dana TM4 for Switch Mobility Navistar and Tata Motors has also seen robust demand in Quarter 2. Notably, the production kick-off for HD-1 controller housing, destined for the USA market and supplied to Danfoss, marks a significant milestone in carbon-neutral offerings.

The company has diversified base of marquee customers

The diversity across markets and industries provides a natural hedge. None of the customers contribute >15% of turnover.

Exhibit 2: Client list segment wise

Source: Company, Arihant Research

ALICON has strategized its growth on four pillars 1) to increase business in 4W segment, 2) increase EV presence, 3) increase focus on global markets and 4) focus on technology.

Strategic Revenue Shift: Focused Growth in Passenger and Commercial Vehicles with Carbon-Neutral Technologies: The company has strategically communicated and showcased a noteworthy transformation in its revenue composition, emphasizing a larger proportion from Passenger Vehicles and Commercial Vehicles. This shift is a culmination of deliberate initiatives to amplify operations in these segments, coupled with a dedicated emphasis on Carbon-neutral technologies and technology-agnostic components. Anticipated to surpass contributions from Two-wheelers, the expanding share from Passenger Vehicles and Commercial Vehicles is set to enhance the overall product mix significantly.

EV segment to be the key growth driver

The aluminum content weight is set to rise significantly from 18kg in ICE PV to 100kg in EVs for ALICON's products, indicating a substantial expansion in the potential market. ALICON boasts considerable expertise and a proven track record, having supplied 94 parts to 17 customers in the EV sector. Their European subsidiary, Illichmann, has been actively involved in this domain since 2017. The company has made noteworthy investments in advanced technologies, particularly focusing on thermal cooling solutions for EV components such as motors and e-axles. Alicon is currently exploring the application of friction steer welding (FSW), a highly recommended technique for creating robust and high-quality joints in the EV sector. The company has gained a favorable reputation for its motor housing products, particularly with key players in the Indian electric vehicle market, and is experiencing growth in the commercial vehicle segment as well.

Investment Rationale

Alicon recently secured its largest-ever multi-year order from a global customer for their e-mobility platform. Orders from customers like JLR for e-axles are scheduled to commence in FY25, with a ramp-up expected in the second half of FY25, potentially contributing to a boost in revenues.
The focus on Carbon-neutral technologies and technology-agnostic parts. The growing contribution from the Passenger Vehicles and Commercial Vehicles segment is expected to outpace Two-wheelers, thereby enriching the product mix further.

In the Q2FY24, the company expanded its portfolio with 9 new parts, sourced from 5 customers, featuring a diverse range. Notably, they secured 3 parts in the EV and Carbon-neutral sector, 4 parts in ICE, and one each in non-auto and structural segments. Of these additions, 8 parts are earmarked for international markets, while 1 part is dedicated to the domestic market. In the Carbon-neutral domain, Strengthened the European presence by acquiring a new part from Danfoss, and concurrently, company secured a prototype order from JLR in support of the eAxle series business awarded in the previous year.

The company has strong global presence which help to enhanced cost optimization
In Q3FY24, the global business accounted for 21% of total revenue, increasing to 21% in H2FY24, surpassing the FY23 contribution. To augment this, the company has bolstered team with experienced personnel in project engineering and tool making, alongside acquiring a larger machine capable of manufacturing parts up to 2 meters in length, enhancing European operations. Despite initial expectations of de-growth in Q2FY23, there has been a 4% growth in global auto industry volumes, and the revised forecast for CY23 suggests a higher growth range of 4.5% to 5%.

Exhibit 3: Strong Geography presence

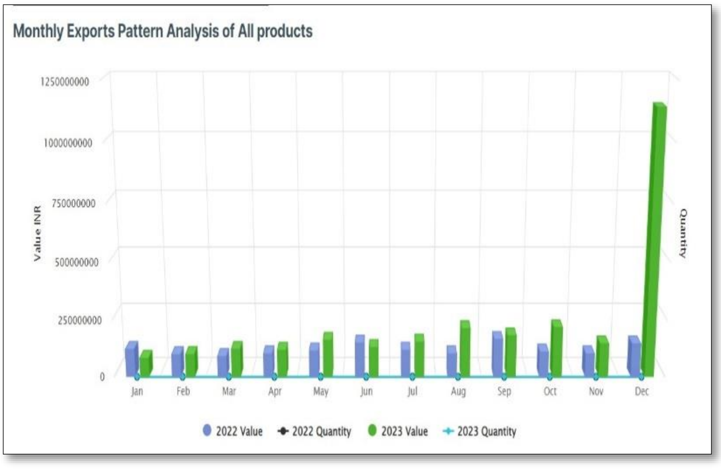
Source: Company, Arihant Research

Investment Rationale

Significant order wins in export to enhance topline growth: The global numbers were around 21%, the company's global share is increasing and this is increasing with the parts that they have added like Daimler, JLR, TACO for the Sweden market and so on., which is helping company to increase contribution. In global where they are aiming because they know if company see the trend of the market also, they understood the Indian automotive still is stagnant. The company just noticed the growth of 1%, but the global numbers, it was up by 5% especially if they talk about regions like Europe, regions like North America, the volumes are picking up, so these regions that want to materialize. So, these are some of the aspects where company is working with directions. For Toyota, where the company supply cylinder heads to their hybrid models, they have witnessed a ramp up in volume during the quarter and the production is running in full swing to meet the increased demand. The company also supply cylinder head to Stellantis, India which is assembled and exported to Europe. During the quarter, the volumes have picked up for India Market and it will further increase in Q3 and Q4 as they commence supplies for the European version.

In Carbon-neutral business, they added another part from Danfoss for the European market and have also fetched an order for proto business from JLR to support eAxle series business awarded last year.

Exhibit 4: Healthy monthly/Yearly export data



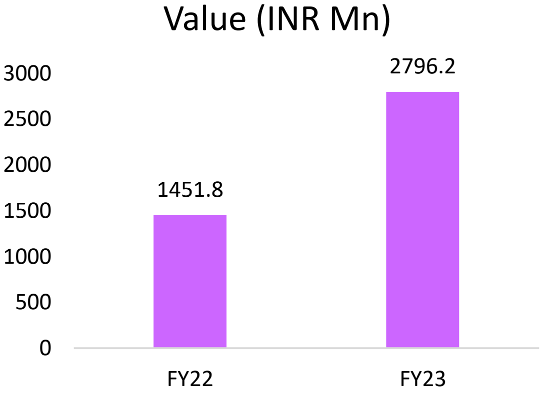
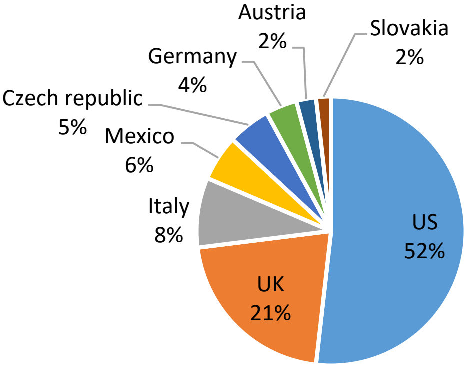


Exhibit 5: Port Analysis

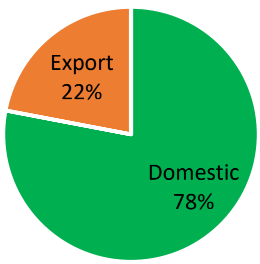


Source: Company, Arihant Research

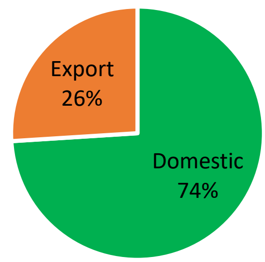
Investment Rationale

Exhibit 6: Geography revenue mix

FY23



FY21



Alicon Group is a worldwide consortium of companies that seamlessly integrates European engineering, Japanese quality, and Indian innovation to provide outstanding lightweight alloy solutions.

Enkei Corporation
- Leading Japanese motor cycle and passenger car wheel manufacturer
- 70+ years of experience

Alicon Castalloy
- Operating the largest foundry in India and offering frugal engineering solutions
- 49 years of track record

Ilichmann Castalloy
- European subsidiary improving Alicon's presence in US and European markets
- 89+ years of proven global track record

Atlas Castalloy
- Providing support in engineering, tool design and manufacturing
- 20+ years of experience

Source: Company, Arihant Research

Focus on technology agnostic parts: The fourth pillar of the strategy revolves around capturing opportunities in structural parts or technology-agnostic components, which remain essential regardless of the fuel technology used in vehicles. These components, such as suspension, chassis parts and brake parts, have crossfunctional applications across both internal combustion engines and electric vehicle platforms. They continue to hold relevance even in the event of emerging alternative technologies. Throughout the year, they maintained a strong focus on the development of these technology-agnostic products by leveraging the core competencies and increasing their revenue contribution. The company made significant strides in the global and domestic markets, expanding the offerings, winning new logos and securing new parts from the customer base. By actively pursuing these opportunities, we aim to strengthen the position and drive growth in the structural parts segment.

Healthy demand in non-automotive segment- Alicon will be single source in AatmaNirbhar Bharat project: Opportunities in sectors beyond automotive, such as Defence, Healthcare, Telecom, and more, where the expertise can be leveraged. This diversification not only drives growth from newer areas but also enhances business resilience. During the year, The company was proud to be awarded an order for a prestigious telecom project under the AatmaNirbhar Bharat initiative. This large-scale project involves the implementation of the 4G/5G network, and Alicon is proud to be the sole provider of the specific part required. The project aims to promote indigenous development of these technologies, aligning with the vision of AatmaNirbhar Bharat. Additionally, they secured a tender from the Department of Defence for the supply of wheels for battle tanks and cylinder heads for heavy-duty defence trucks. The despatch of these components will commence in the coming quarters, further reinforcing our presence in the defence sector.

Investment Rationale

Enhanced Customer Wallet Share: The final pillar of the strategy is focussed on enhancing the customer wallet share through machining, finishing and combining products to offer customers a one-stop solution. They strive to increase business with the existing customers by leveraging our core competencies and strong relationships. By following standardised operating procedures and delivering high-quality parts, they aim to establish ourselves as a trusted supplier within the existing customer base.

Established aluminium casting auto-component player : The company is expected to benefit from its established market position in the aluminium casting auto component sector, driven by established client relationships and operations in India, Austria, and Slovakia. The company is expected to benefit from robust growth prospects of its key clients such as Hero MotoCorp, and Maruti Suzuki. The company has diversified its customer concentration by garnering businesses from new customers and has improved its top-five customer concentration from 61% in FY2011 to less than 30% in FY2020.

Strong opportunity from critical parts: In the Auto business, the company is seeking critical parts like Cylinder Heads and to underline commitment, the company came up with the automation cell to drive the differentiation in offering. The company has automated one Cylinder Head line for a global customer. Since Cylinder Head is the critical part, and see a strong opportunity for some customers like Toyota Hybrid vehicle called 'Hyryder' and expect exciting volume growth from here and also working with Maruti for the Cylinder. Customer like PSA offer greater visibility in domestic and global markets alike. The company has supplying EV parts to Tata motors, which is fastest-growing OEM and dominating the EV market in India.

Increasing CAPEX to enhance capacity utilization

The company has deployed a total of INR 900 Mn for FY24, which includes maintenance CapEx of about 30-50% and new machining capacities. In Q2FY23, plants in India and Europe operated at utilization level of 70% to 80%, which is decent at the moment for the company.

Value addition to net block has significantly increased from 130% in FY 2020-21 to 160% in FY 2022-23.

Resilient Global Performance: Navigating Challenges, Expanding Customer Base, and Strengthening Capabilities for Sustained Growth: In the face of persistent inflationary pressures and geopolitical challenges, the international business has shown resilience, benefiting from stabilized energy prices and improved availability. European operations, rebounding from last year's challenges, reflect a mixed trend with some customers increasing production amid growing demand, while others face supply chain constraints. This situation is expected to ease in Q3 and Q4, leading to improved volumes. **Additionally, strategic additions of 8 new parts from 4 customers, including a significant logo from Hanon Systems, a prominent Tier-1 supplier to Ferrari contribute to the global business, which constituted 20% of total revenue in the Q2FY24 and 21% in the H2, surpassing the previous fiscal year**. Strengthening the team and enhancing capabilities, such as adding a larger machine for parts up to 2 meters in length, further positions them for sustained growth in the international market**. There has been around 4% growth in volumes in the global auto industry. Further against the growth forecast of 4 to 4.5% in the global auto industry in CY 2023, the revised forecast now indicates growth of 4.5% to 5%.**

Financial Analysis

Net Revenue

For the 9MFY24, revenue was INR 11420 Mn against INR 10,840 Mn in the corresponding period last year, growing by 5%. The gross margin during the 9M FY'24 stood at 50.6% against compared to 48.5% in the 9MFY23. Anticipating improved results for the second half, fueled by a robust pipeline of SOP from new products and customers. The company aims for a 13%-14% overall revenue growth in FY24, targeting revenue over INR 22,000 Mn by FY25-26 with a CAGR surpassing 16% over the next 3 years, transitioning from small to larger and critical parts. The company continues to increase the share of passenger vehicle and commercial vehicles in the product mix. While the company had delivered YoY revenue growth of 2% in the H1FY24, after the strong Q3FY24, the YoY revenue growth for the 9MFY24 period has increased to 5%.

Margin

EBITDA for the 9MFY24 stood at INR 1400 Mn against INR 1240 Mn in 9MFY23, higher by 13% YoY basis. Despite a significant rise in the employee cost, EBITDA margin for Q3 FY24 has improved to 13.1% in comparison to 11.7% in Q3FY23. The company has reported an improvement in the EBITDA margin by 136 bps on a YoY basis and by nearly 74 bps on QoQ basis. Importantly, if they adjust the non-cash charge for the ESOP cost, the adjusted EBITDA margin is 13.3% Q3FY24. This is an increase of over 180 bps on a YoY basis. The company had indicated that company will increase the EBITDA margin by 100 bps in FY24. The company has already achieved that in the first 9M itself and they will endeavour to build on this further. The company continue to remain confident about the general upward direction in margin, given the improving product mix.

Finance Cost was higher by 24% on a YoY basis from INR 80 Mn to INR 100 Mn, in line with the higher interest rates. They also witnessed increase in the depreciation, which was higher by 24% on a YoY basis from INR 160 Mn to in Q3FY23 to INR 200 Mn in the Q3FY24. The increase in depreciation has been driven by 2 factors. One, the company has taken some machines on lease and as per the accounting standards, the company has to factor a maximum useful life of 5 years, which resulted in a higher depreciation cost. Secondly, company reevaluated and shortened the useful life of some other assets, which has also contributed to the increase in depreciation. As a result of higher finance cost and depreciation, PAT for the Q3FY24 is INR 170 Mn as compared to INR 160 Mn in Q3FY23, higher by 5% YoY basis. On a sequential quarter, PAT was higher by 15% from INR 150 Mn to INR 170 Mn.

Raw Material

In terms of raw materials, aluminum prices have been less volatile than in the past. For diversifying the energy mix, installed solar panels on the rooftop of the manufacturing facility, and these have been running live since January enabling to reduce energy costs and enhance sustainability footprint. So, for the FY24, The company is estimating ~INR 500 Mn is the impact. That converts into ~3% of the sales. So that is the impact. So, when the company is talking about to reach the full year growth of 13% to 14%. So, easily can take 16% to 17% in real numbers.

Capex

In terms of capex, the company has spent around INR 840 Mn during the 9MFY24, which is in line with target capex deployment of around INR 900 Mn in FY24. As the company has indicated in the prior quarter, the H2FY25 will see an improvement in the revenue, given the healthy pipeline of SOP from new products and new customers.

Story in charts

Exhibit 7: Net sales expected to grow by 16% over FY23-26E (INR in Mn.)

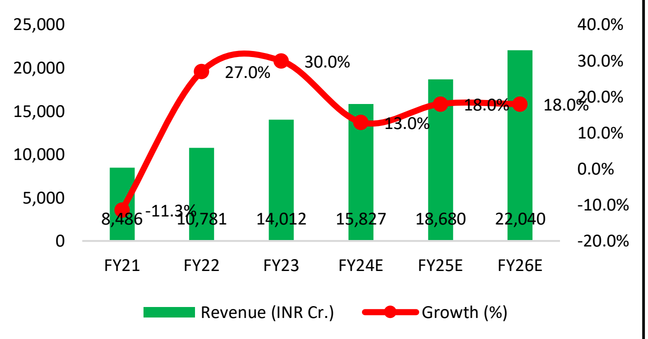


Exhibit 11: Revenue Mix geography wise

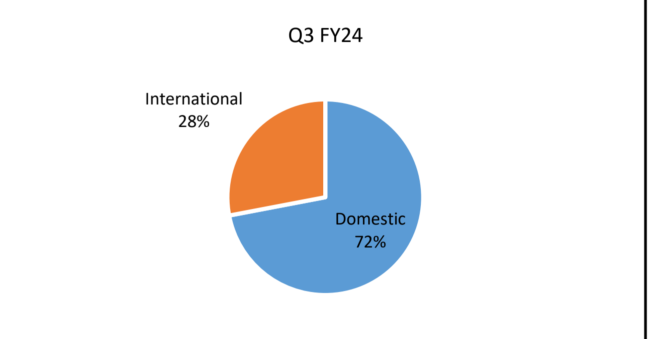


Exhibit 8: The company's focus is to improve EBITDA Margin from current levels led by focus on higher value parts, cost cutting measures.

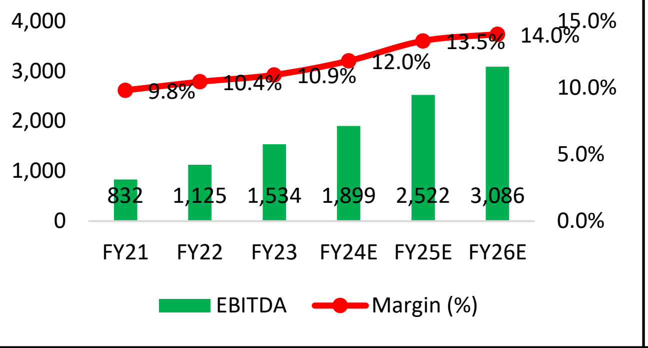


Exhibit 12: Revenue Mix segment wise

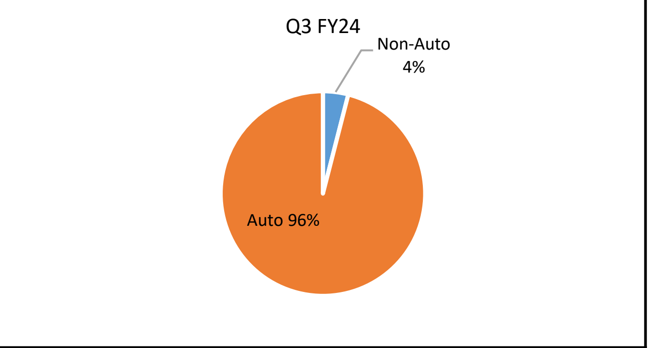


Exhibit 9: ROCE trend indicating growth led by increase of operating efficiency

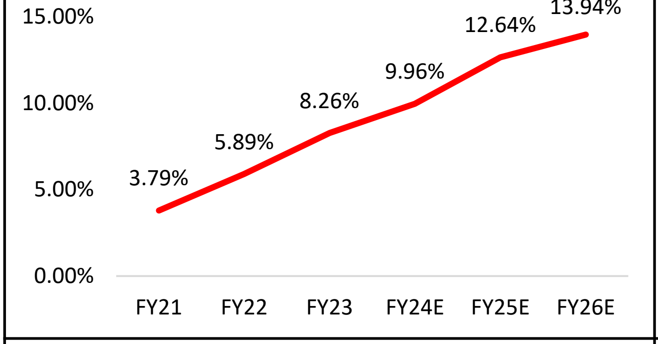


Exhibit 13: Debt to equity ratio expected to reduce drastically going forward.

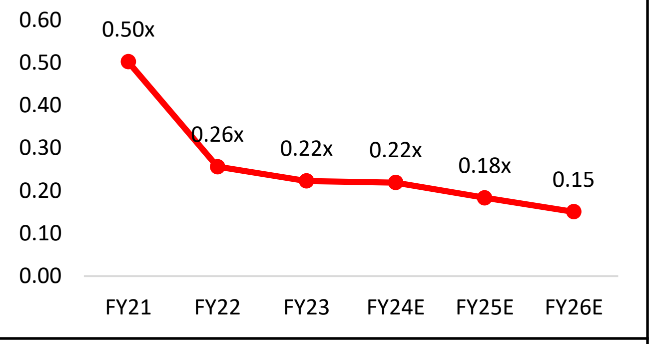


Exhibit 10: ROE trend upward driven by profitability growth has outpaced revenue growth

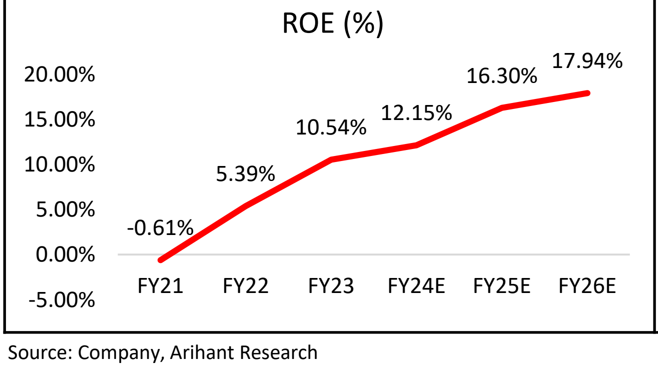
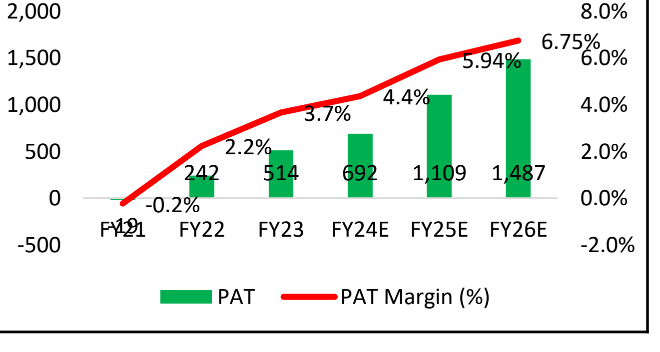


Exhibit 14: Improvement in PAT margin led by better top line



Source: Company, Arihant Research

Outlook and valuation

- We believe strong traction across the geography is driven by strong demand from the OEMs, Aims for a 13%-14% overall revenue growth in FY24, targeting revenue over INR 22,000 Mn by FY25-26 with a CAGR surpassing 16% over the next 3 years, transitioning from small to larger and critical parts.
- Alicon is expected to benefit from its established market position in the aluminium casting auto component sector, driven by established client relationships and operations in India, Austria, and Slovakia.
- The company is expected to benefit from the strong growth prospects of its key clients such as Hero MotoCorp, Bajaj Auto, and Maruti Suzuki.
- At CMP, the stock trades at 22x/13.8x/10.3x P/E and 7.1x/5.3x/4.9x EV/EBITDA based on FY24E/FY25E/FY26E earnings, respectively, Its trading on a discounted valuation compared to other industry players. We feel that Alicon has evolved from being a preferable brand to an all-out pan India and global player.
- Alicon has been performing continuously and upgraded guidance driven by good deal pipeline and sticky client.
- Good progress in the segment in terms of adding business, moving ahead total order booking INR 90 bn over 6 year from FY23-24 to up to 2028-29.
- The improving product mix 99% of the new business is for the global market in four-wheelers, which is aligned to the long term strategy.
- In Carbon-neutral segment, the company has witnessed ramp up in volumes of the motor housing for TACO given the increased sales of Tata Motors Electric Vehicles. The company also supply motor housing component to Dana TM4 for switch mobility Navistar, and Tata Motors, which also witnessed strong demand during Q3FY24. There has been start of production for HD-1 controller housing which is supplied to Danfoss for the USA market.
- We expect Alicon to post Revenue/EBITDA/PAT CAGR of 16%/26%/41%, respectively in FY23-FY26E.
- We have used a DCF Model to value Alicon castolly, it has healthy and consistent cash flow generation over the forecasted period. We initiate coverage with a "BUY" rating a Target Price of 1,479 INR per share based on DCF; an upside of 61%.

Exhibit 15: Alicon Castalloy EV/EBITDA Chart

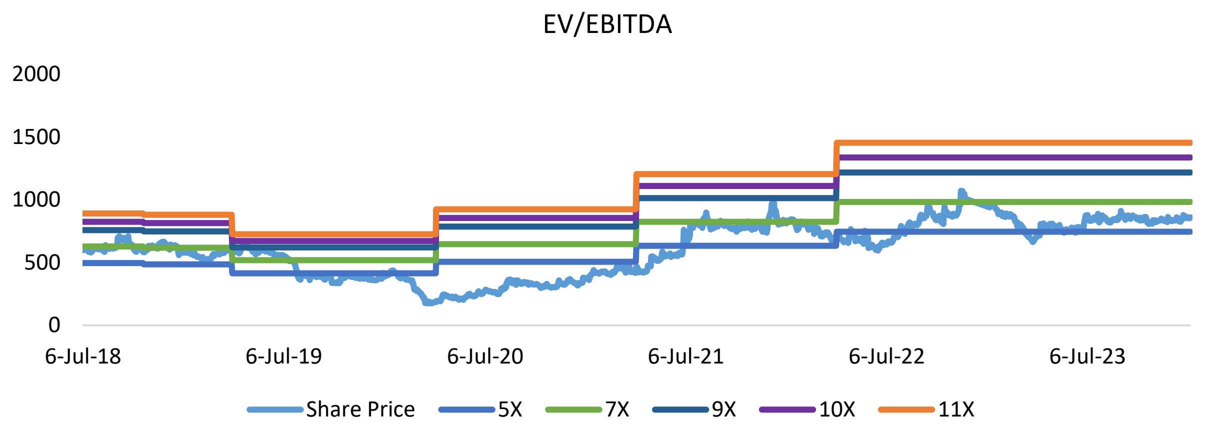
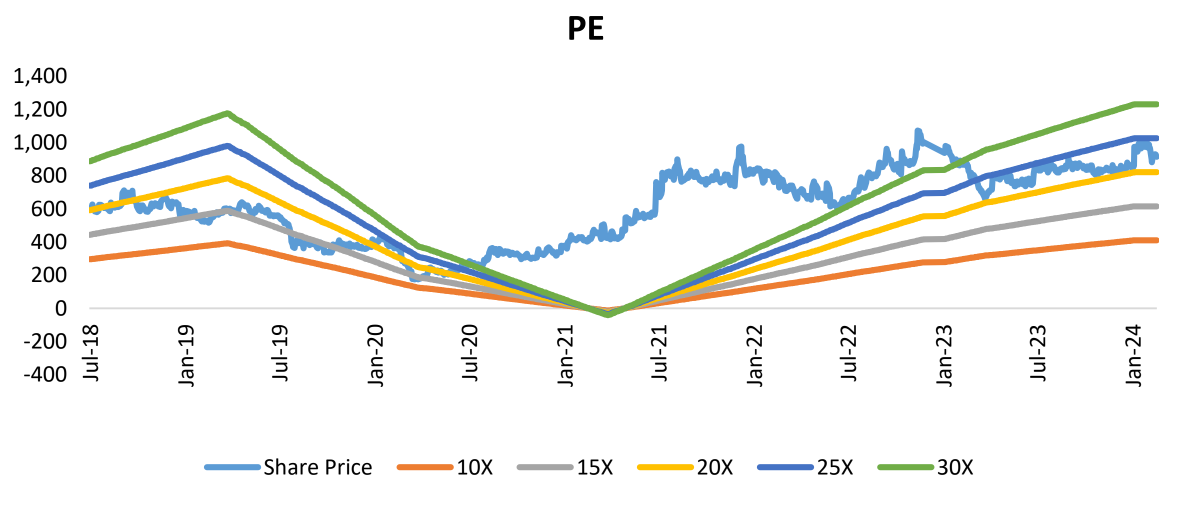


Exhibit 16: Alicon Castalloy PE Chart



Source: Company, Arihant Research

Exhibit 17: DCF Valuation

Valuation Assumptions	
g (World Economic Growth)	3%
Rf	7%
Rm	13%
Beta (2 Yr)	1.0
CMP (INR)	919
WACC	
We	93.2%
Wd	6.8%
Ke	13.0%
Kd	9.1%
WACC	**12.73%**

Valuation Data	
Total Debt (long term borrowings) (2023)	1,086
Cash & Cash Equivalents (2023)	119
Number of Diluted Shares (2023)	16
Tax Rate (2024)	4.17%
Interest Expense Rate (2024)	9.5%
MV of Equity	14,807
Total Debt	1,086
Total Capital	**15,892**

FCFF & Target Price

FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase					Terminal Yr
Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
EBIT * (1-Tax Rate)	834	1,209	1,540	1,762	1,949	2,179	2,370	2,533	2,659	2,742	2,775	2,861
Dep	701	785	874	967	1,066	1,173	1,299	1,388	1,457	1,503	1,521	1,568
Purchase of Assets	900	900	900	900	900	900	1,153	1,232	1,293	1,333	1,349	1,391
Changes in Working Capital	(178)	(620)	(761)	(587)	(545)	(599)	(726)	(776)	(815)	(840)	(851)	(877)
FCFF	813	1,714	2,275	2,416	2,661	3,051	3,243	3,466	3,638	3,751	3,797	3,914
% Growth in Post Tax EBIT		44.9%	27.4%	14.4%	12.5%	10.6%	8.8%	6.9%	5.0%	3.1%	1.2%	3.1%
As % of Post Tax EBIT												
Dep	84.1%	65.0%	56.7%	54.9%	54.7%	54.8%	54.8%	54.8%	54.8%	54.8%	54.8%	54.8%
Purchase of Assets	107.9%	74.5%	58.5%	51.1%	46.2%	48.6%	48.6%	48.6%	48.6%	48.6%	48.6%	48.6%
Changes in Working Capital	-21.4%	-51.3%	-49.4%	-33.3%	-28.0%	-30.7%	-30.7%	-30.7%	-30.7%	-30.7%	-30.7%	-30.7%
FCFF	813	1,714	2,275	2,416	2,661	3,051	3,243	3,466	3,638	3,751	3,797	3,914
Terminal Value												40,644
Total Cash Flow	**813**	**1,714**	**2,275**	**2,416**	**2,661**	**3,051**	**3,243**	**3,466**	**3,638**	**3,751**	**3,797**	**44,559**

Enterprise Value (EV)	**24,794**
Less: Debt	**1,086**
Add: Cash	**119**
Equity Value	**23,828**
Equity Value per share (INR)	**1,479**
% Returns	**60.92%**
Rating	**BUY**

Sensitivity Analysis

WACC (%) \ g(%)	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%
1,479									
12.08%	1485	1510	1536	1564	1593	1623	1656	1690	1726
12.23%	1459	1483	1509	1535	1563	1592	1623	1656	1691
12.38%	1434	1457	1482	1507	1534	1562	1592	1623	1657
12.53%	1410	1432	1456	**1480**	1506	1533	1562	1592	1624
12.68%	1386	1408	1430	1454	**1479**	1505	1532	1561	1592
12.83%	1364	1384	1406	1429	1452	**1478**	1504	1532	1561
12.98%	1341	1361	1382	1404	1427	1451	1476	1503	1531
13.13%	1320	1339	1359	1380	1402	1425	1450	1475	1502
13.28%	1299	1317	1337	1357	1378	1401	1424	1449	1475

Source: Arihant Research, Company Filings

Company Overview

Alicon Castalloy Limited is a one-stop shop for all engineering solutions for aluminium alloy casting needs across multiple user industries. The business transformation that the company see envisaged included a focus on multiple growth vectors which have been categorized as five pillars by them. This includes - Traditional ICE business; Opportunity from Carbon Neutral Technology including Batteries, Electric Vehicles, Hybrid Electric Vehicles, Plug-in Hybrid Vehicles, Fuel Cells and Hydrogen Cell Technologies; third is, Opportunity from Structural parts or Technology Agnostic parts, which remain consistent, no matter which fuel technology is used to power the vehicle; and fourth one is, Non-auto business encompassing opportunities from sectors such as Defense, Healthcare, Telecom, to name a few, where competencies can be leveraged; and fifth one is, Enhanced customer wallet shared through machining, finishing and combining products to offer customers one-stop solution.

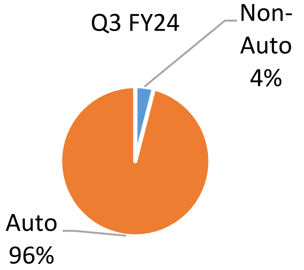
Exhibit 18: About Alicon

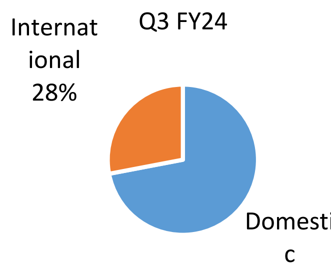
Source: Company, Arihant Research

Revenue Mix: The Company is progressing well on all key pillars. **The value addition mix has improved with the share of carbon neutral business at 7%, structural products at 7% and non-auto business at 8%.** The Company delivered balanced growth with improvement in all segments despite a volatile market environment. The Company continues to focus to increase the value addition mix from products for four wheeler and CV segments. In FY23, dependence on **2-Wheelers was reduced from 47% to 41% with increase in share of 4-Wheeler business from 28% to 31%.** In Carbon neutral technology, the focus is on Passenger Vehicles, Commercial Vehicles and export opportunities where there is a greater scope for value addition.

There is good traction with motor housing products with the dominant player in the Passenger EV market in India. Similarly, Commercial Vehicle segment is also witnessing robust growth as parts developed for a big client are facing promising demand with continuous government support to develop cleaner public transport options. The supply parts for 3-Wheeler products are again showing favourable demand trends. *We believe, going forward will see more shift toward Passenger Vehicles and Commercial Vehicles. The growing contribution from the Passenger Vehicles and Commercial Vehicles segment is expected to outpace Two-wheelers, thereby enriching the product mix further.*

Exhibit 18: Revenue Mix





Source: Company, Arihant Research

Company Overview

Exhibit 19:Versatile Product Basket

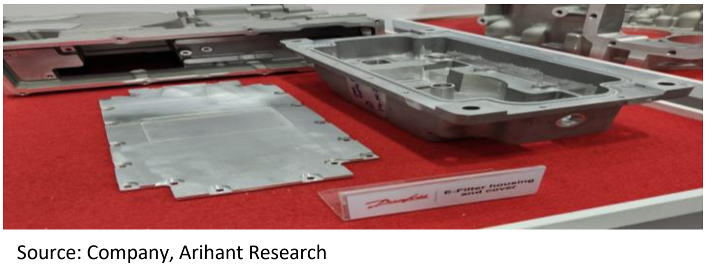
Exhibit 20: Plant Visit: Manufacturing parts

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: Company, Arihant Research

The Company is exploring friction stir welding which is a highly recommended application in the area of EV for strong and high-quality joints. This focus on technology based solutions aids in establishing differentiation across the global landscape. The Company is also actively working towards increasing sustainability footprint and has commissioned captive solar plant in India while installation of solar panels at the facility in Europe will be completed this year. These initiatives will meaningfully transform the energy mix.

Friction Stir Welding emerges as a robust process for new EVs, witnessing substantial investment from OEMs and Tier-1 suppliers amid the electrification trend. Anticipating increased order bookings and volume growth with existing customers in the coming quarter, the company is experiencing strong traction in this field.

Alicon's Growth Pillars

Auto Business: Continuing to scale strategic products in the ICE business.
Carbon Neutral: Addressing the opportunities from carbon-neutral technology, including battery electric vehicles, hybrid electric vehicles, fuel cell and hydrogen cell technologies .
Structural parts: Opportunities from structural parts or technology agnostic parts, demand for and application of which remains consistent, no matter which fuel technology is used to power the vehicle.
Non-auto business: Encompassing opportunities from sectors such as defence, energy, telecom, etc., where competencies can be leveraged.
Enhanced customer wallet share through value added and combining products to offer customers a one-stop solution.

In the EV space, strong client engagements, robust research & development, design excellence and value engineering, have demonstrated to customers the deep value that Alicon can provide them as a supplier of repute.

The Company continues to remain focussed on enhancing its technological prowess. The Company has automated certain processes of operations and has been highly proactive by working on advanced technologies especially for thermal cooling solutions for the EV segment. The Company strives to provide innovative solutions to customers in the area of complex parts pertaining to cooling solutions for motor and e-axle over traditional methods. Significant progress was achieved in developing a 3D printing solution for sand mould enabling customers the ability to quickly convert design into prototypes thereby compressing the product development lead time.

Exhibit 21: Shareholders >1%

Shareholder's Name	Category	23-Sep	23-Jun	23-Mar	22-Dec
Nastic Trading Llp	Promoter	41.97	41.97	41.97	41.97
Enkei Corporation	Public	13.82	13.82	13.82	13.82
Shailendrajit Charanjit Rai	Promoter	6.88	6.88	6.88	6.88
Rajeev Sikand	Public	3.47	3.47	3.47	3.47
U. C. Rai Holdings Private Limited	Promoter	2.12	2.12	2.12	2.12
Pamela Trading Llp	Promoter	1.78	1.78	1.78	1.78
Skyblue Trading And Investments P Ltd	Promoter	1.58	1.58	1.58	1.58

Fund Name	Dec-23	Dec-23	Dec-23	Nov-23	Oct-23	Sep-23
	AUM (in INR. Mn)	% of AUM	No. of Shares	No. of Shares	No. of Shares	No. of Shares
Axis Small Cap Fund	186157	0.47	1011983	1011983	1011983	1011983
Bandhan Small Cap Fund	38802	0.63	280552	280552	280552	280552
LIC MF Flexi Cap Fund	9381	0.77	83267	77504	69429	54713
Bandhan Transportation and Logistics Fund	3865	1.64	73000	73000	73000	73000

Who is Nastic Trading Llp?
Nastic Trading Llp is a Limited Liability Partnership firm incorporated on 25 March 2011. It is registered at Registrar of Companies, Mumbai. Its total obligation of contribution is INR. 100,000. Designated Partners of Nastic Trading Llp are Shailendrajit Charanjit Rai and Pamela Shaliendrajit Rai.

Exhibit 22: Management Remuneration (INR Mn)

Name of Director	Designation	FY22 (INR Mn)	FY23 (INR Mn)
Mr. S. Rai	Managing Director	5.3	6.5
Name of Director	**Designation**		
Mrs. Pamela Rai	Non-Executive Director	0.4	0.8
Mr. J. Suzuki	Non-Executive Director	0.2	0.4
Mr. A.D. Harolikar	Non-Executive Independent Director	0.6	0.9
Mr. Vinay Panjabi	Non-Executive Independent Director	0.8	1.2
Mr. Ajay Nanavati	Non-Executive Independent Director	0.5	1.2
Mrs. Veena Mankar	Non-Executive Independent Director	0.7	1.0

Source: Company, Arihant Research

Exhibit 23: Disclosure Of Capital Commitment & Contingent Liabilities

Particulars	FY22 (INR Mn)	FY23 (INR Mn)
Estimated amount of contracts remaining to be executed on capital account	126.251	123.7
% of Networth	2.8%	2.5%

Business Overview

Domestic Auto Market

The domestic business maintained its robust contribution, accounting for 78% of the overall business revenue, consistent with FY 2022 figures. Despite the Indian automotive sector witnessing a commendable volume growth of 13%, the latter half of the year exhibited some softness in overall growth. Notably, 2-Wheelers faced challenges due to OBD regulations and subdued rural demand. In contrast, the Passenger Vehicles segment surged by 25%, with the company's supplies to this sector experiencing even higher growth at 52%. Commercial Vehicles grew by 29%, with the company's supplies to this segment outpacing at an impressive 59%. In the auto ICE business, strategic efforts are underway to expand the critical parts portfolio, while the company is actively promoting the sale of its cylinder head businesses.

Domestic Non-auto Market: The prestigious telecom project under Atmanirbhar Bharat is doing well. The Company won a tender from the Department of Defence for supply of wheels for the battle tanks and cylinder heads for the heavy-duty defence truck, which will commence despatches in the coming quarters

International Market: The global business maintained a 22% contribution to total revenue, consistent with FY22. Despite challenges in CY22, the global sector, particularly in Europe, is gradually recovering. Alicon's European facility saw a 20% revenue growth, driven by improved utilization levels and moderation in input prices. Notably, a key customer has requested increased volumes. While semiconductor availability remains a challenge, improvements are expected for high-end cars. Demand is anticipated to rise with the onset of spring, especially in the 2-Wheeler segment. Easing energy costs and reduced aluminum prices are positively impacting consumer demand and product prices. Alicon is actively engaged in cost reduction initiatives and has secured approval for a solar panel investment, enhancing competitiveness and sustainability.

Outlook

Overall, demand and consumption trends are expected to strengthen in the medium term given normalizing macro conditions. Though pricing pressure will continue to persist in the market, it is expected to be largely restricted in the near term. The Company is undertaking all necessary steps to mitigate these inflationary challenges. Demand from rural segment is expected to be robust on the back of normal monsoon forecast and steady agri-indicator. Healthy pent-up demand and buoyant capex cycle should further augment recovery in the Indian economy boding well for business growth. There are some early signs of stabilization in supply-chains across markets emanating positive signal. The Company remains optimistic of delivering strong and sustainable growth in business operations as the broader macro-environment normalizes. From an operating standpoint, Alicon is solid and stable. The Company remains very excited about future growth prospects and opportunities in the medium to longer term.

Risks, Concerns And Mitigation

Though ample opportunities exist for business growth across segments and geographies, the organization is exposed to both internal and external risks. For business continuity and robust sustained growth, it is important to minimize/mitigate any negative impact from these risks.

	Mitigation
Geopolitical Risk Though India may not be directly involved in the ongoing geopolitical tensions, the conflict does impact domestic macro environment due to disruption of global supply chain. This may lead to increased cost of production, thus impacting earnings.	Vast geographical footprint spread across the globe enables the Company to overcome geopolitical risks. Also, the Company keeps a close watch on the impact of trade tensions on its business operations to be able to ensure uninterrupted inventory and business operations.
Demand Slowdown Risk In the event demand slows down due to adverse macro-economic environment, the earnings may get impacted adversely.	The Company has well diversified revenue sources in terms of geographical concentration, as well as sector exposure. This provides a natural hedge to demand slowdown in a particular geography or sector. The Company is constantly working on expanding its portfolio with modern innovative products. This further reduces risk to demand slowdown.
Commodity Risk Volatility in price and/or availability of key raw materials may increase cost burden impacting earnings growth.	Following standardisation of alloy policy, the use of alloy variants is highly restricted to minimal thereby requiring limited key raw materials. Since sales agreements incorporate fluctuation in raw material prices, margin risk is contained.
Competitive Risk Lucrative growth potential of the industry may attract significant competition thereby impacting growth.	Rich experience, established brand name, technical competence, expert in-house R&D team, robust business operations, and offering one-stop shop for all engineering solutions related to aluminium alloy castings enables the Company to establish a strong edge over competition. In addition, foreign competitive pressure is kept at bay led by strong government policies aiding domestic manufacturing industry.

Source: Company, Arihant Research

Exhibit 24: Board of Directors

Mr. Shailendrajit Rai	Managing Director
Mrs. Pamela Rai	Director
Mr. Junichi Suzuki	Director
Mr. Ajay Nanavati	Independent Director
Mrs. Veena Mankar	Independent Director
Mr. A.D. Harolikar	Independent Director
Mr. Vinay Panjabi	Independent Director

Source: Company, Arihant Research

Major events and milestones of the Company

1967 — Mr Charanjit Rai: Ground breaking ceremony of Atlas Automotive Components Pvt. Ltd.

1969 — Atlas Automotive Components Pvt. Ltd., production begins in Chinchwad.
Collaborates with Karl Schmidt (Germany) for India's first low pressure die casting technology transfer

1992 — Pegasus Castalloy Ltd. is established at Shikrapur.

1995 — July: Sifa SA France invests in Pegasus Castalloy
November: Listed in Stock Exchange.

1996 — Silicon Meadows Design Ltd. is set up for tool design and manufacturing support.

1998 — Pegasus Castalloy enters into Technical Collaboration with Enkei Corporation.

2002 — Sifa SA shares bought by Enkei Corporation. Name changed to Enkei Castalloy.

2005 — Started production of Aluminium Wheels.

2006 — A new plant is set up in Binola to cater to growing demand from automotive clients.

2009 — Enkei Castalloy demerges into Alicon Castalloy Ltd. & Enkei Wheels India Ltd.
Silicon Meadows Engineering Services is established to cater to engineering and design needs of internal and external clients.

2010 — Enkei Castalloy demerges into Alicon Castalloy Ltd. & Enkei Wheels India Ltd.
Silicon Meadows Engineering Services is established to cater to engineering and design needs of internal and external clients.

2011 — TS16949, ISO 9001, ISO 14001 & OHAS 18001 certifications earned. In-house R&D unit is recognised by the Government of India.

2017 — Atlas Castalloy merges into the Alicon Group.

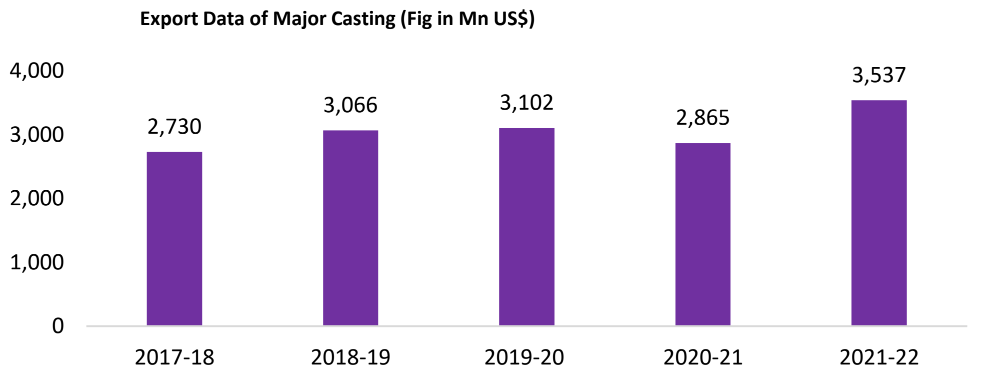
2018 — Group turnover crosses INR 10,000 Mn.

Source: Company, Arihant Research

Industry Overview

Business & Macro-demand: The overall volumes in the auto industry were stagnant during Q3FY24. While three-wheelers, PV, and CV showed growth, two-wheeler and tractor sales declined, resulting in an uneven performance across segments. 6% growth in PV segment on a yoy basis 9% growth in CV segment on a yoy basis 2% de-growth in 2W segment on a yoy basis . With festive season extending to November, there was lower YoY volume growth in Q2. Strong demand for UVs, but car demand has slowed down, contributing to a favorable mix for most OEMs in the PV segment. . Continued healthy momentum in CV demand during Q2. 2W demand has been mixed with premium motorcycles seeing good volumes, entry motorcycles declining and scooter volumes flat in Q3. As a result, industry is estimated to decline by 1% YoY. Although 2W exports appear to have reached a bottom, recovery is expected to be slow due to adverse geopolitical trends. Favorable commodity costs persist, supporting overall financial performance.

Exhibit 21: Export Data of Major Casting (Fig in Mn US$)

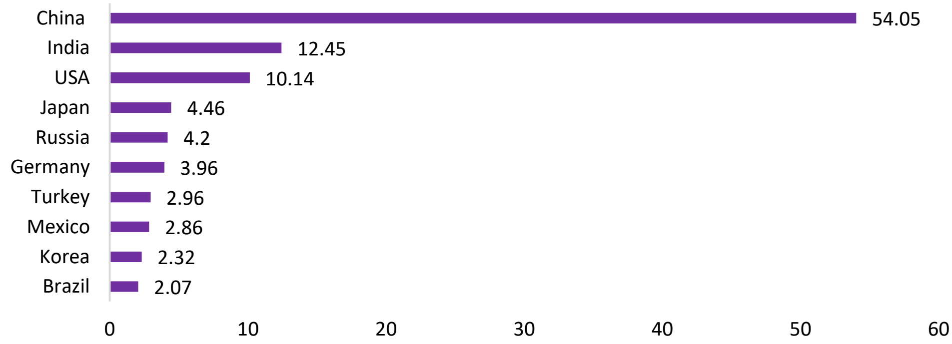


Source: Company, Arihant Research

According to the IMARC, the global metal casting market was valued at US$ 139 bn in CY 2021. The market is expected to grow at 7.8% CAGR to US$ 221.3 bn by 2027. The Indian foundry industry has a turnover of ~US$ 19 bn with export of US$ 3.1 bn.
Nearly 68% of the casting market is dominated by grey iron castings. The industry manufactures metal cast components for applications in auto, tractor, railways, machine tools, sanitary, pipe fittings, defence, aerospace, earth moving, textile, cement, electrical, power machinery, pumps / valves, wind turbine generators etc.

Country-wise Casting Production: The top three positions in terms of casting producers continue to be dominated by China, India and the US. China reported 54.05 mn metric tons of casting followed by India as the second largest producer at 12.49 mn metric tons.

Exhibit 22: Country wise Casting Production - Census FY22 (in Mn Tonnes)

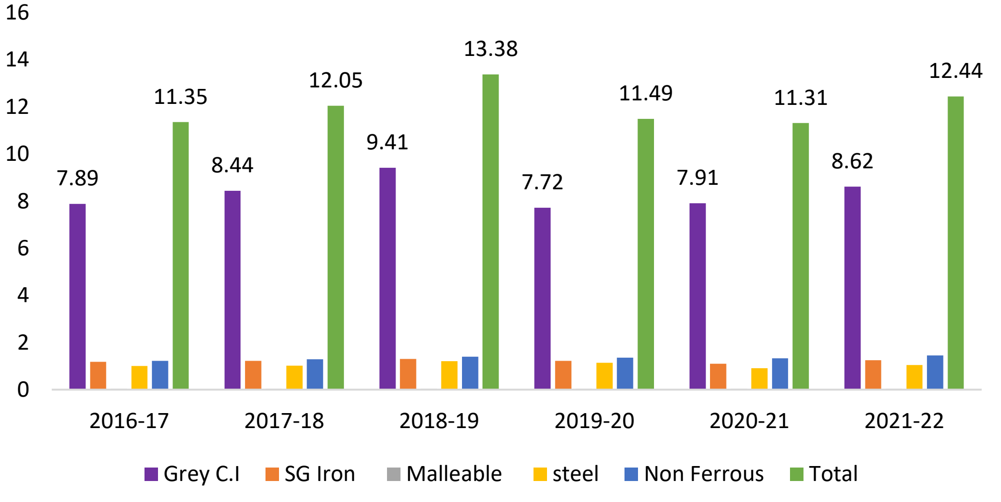


Source: Company, Arihant Research

Industry Overview

Production of Castings in India: India has nearly 4,500 units out of which 90% can be classified as MSMEs. One third of these units have International Quality Accreditation making them globally competitive. Many foundries use cupolas using LAM Coke. However, these are gradually shifting to induction melting / cokeless cupolas due to the growing awareness about environment protection. The foundries are focussing on upgrading and increasing the level of automation with various technologies like 3D printing, robotics / IT application, foundry simulation software, reclamation / recycling of waste raw material, common facility centre, etc.

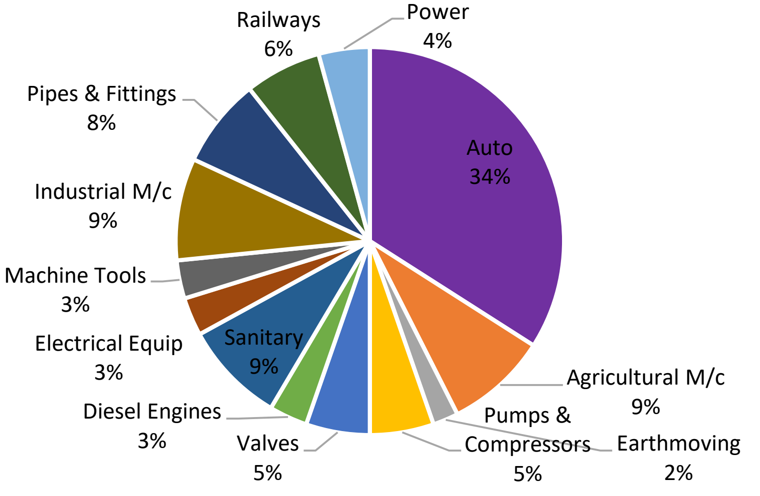
Exhibit 23: Production of Castings in India in Mn M.T. (FY22)



Source: Company, Arihant Research

Sector wise Major Consumers of Castings: The growth of the foundry sector is being driven by sectors like auto & auto components, tractors, construction equipment, machine tools, capital goods, defence and railways. However, the automobile sector continues to bethe dominant consumer of castings. Alicon primarily caters to the automobile sector while constantly endeavouring to increase supply of aluminium castings to non-automobile sectors. To meet the growing demand for metal castings in India, foundries are investing in new technology and equipment.

Exhibit 24: Consumers of casting



Source: Company, Arihant Research

Industry Overview

Auto ancillary sector to boost aluminium demand by 9% in FY23-25: ICRA has estimated the domestic aluminium demand growth to remain healthy at ~9% in the next two fiscal years, given the Government's thrust on infrastructure development. Domestic demand growth would sharply outpace the rate of global growth in aluminium demand. ICRA foresees a stable outlook for the domestic aluminium industry. According to ICRA, the automotive sector significantly influences India's aluminium consumption, with a steady demand expected in FY24-FY25. However, the average vehicle aluminium usage is lower than the global average. ICRA predicts higher usage and transition to EV.

Exhibit 25: Aluminium

Source: Company, Arihant Research

Sector wise Major Consumers of Castings: The automotive sector plays a pivotal role in the overall consumption of aluminium in India. After a stellar performance in FY23, automotive demand is expected to remain steady in **FY24 and FY25. In addition, the average quantity of aluminium used per vehicle in India remains significantly lower (~40-45kg) compared to global average of ~160-200 kg.**

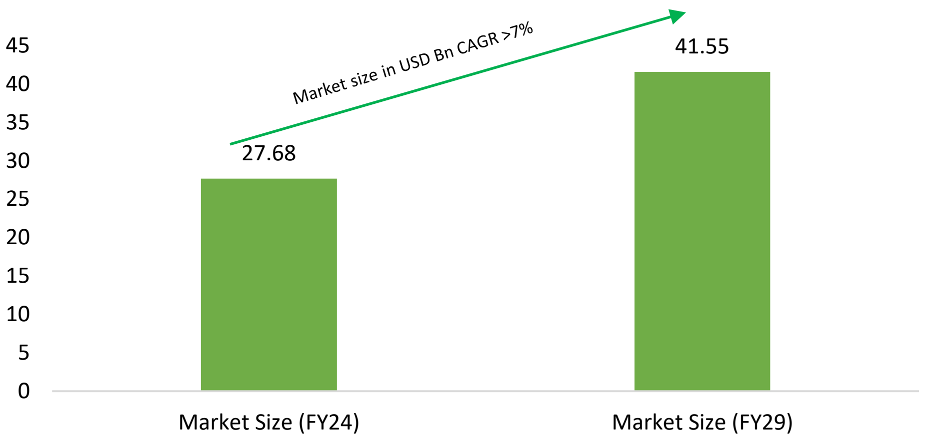
ICRA believes that focus on vehicle weight reduction to improve fuel efficiency would entail a higher per unit usage of aluminium, going forward. Further, a significant transition to electric vehicles in the coming decades would also aid domestic aluminium demand in the long term.

Weak macro-economic outlook is likely to curtail global aluminium demand in the near term. The global aluminium consumption is expected to grow by a feeble ~1% in CY2023. In addition, global metal supply shows signs of improvement, primarily in China, which is likely to result in a surplus metal balance in the current calendar year. Chinese consumption continues to face headwinds, primarily due to a weak demand in the building and construction segments. Consequently, aluminium prices are expected to remain under pressure in the near term at least, and any improvement would hinge on a stronger recovery in Chinese demand and improvement in global sentiments, ICRA predicted.

Industry Overview-Global

Automotive Parts Aluminum Die Casting Market Size & Share Analysis - Growth Trends & Forecasts (2024 - 2029): The Automotive Parts Aluminum Die Casting Market report has been segmented by production process (pressure die casting, vacuum die casting, squeeze die casting, and gravity die casting), application type (body parts, engine parts, transmission parts, battery and related components, and other application types), and geography (North America, Europe, Asia-Pacific, and Rest of the World). The report offers market size and forecasts for the Automotive Parts Aluminum Die Casting Market in Value (USD) for all the above segments.

Exhibit 26: Automotive Parts Aluminum Die Casting Market Size



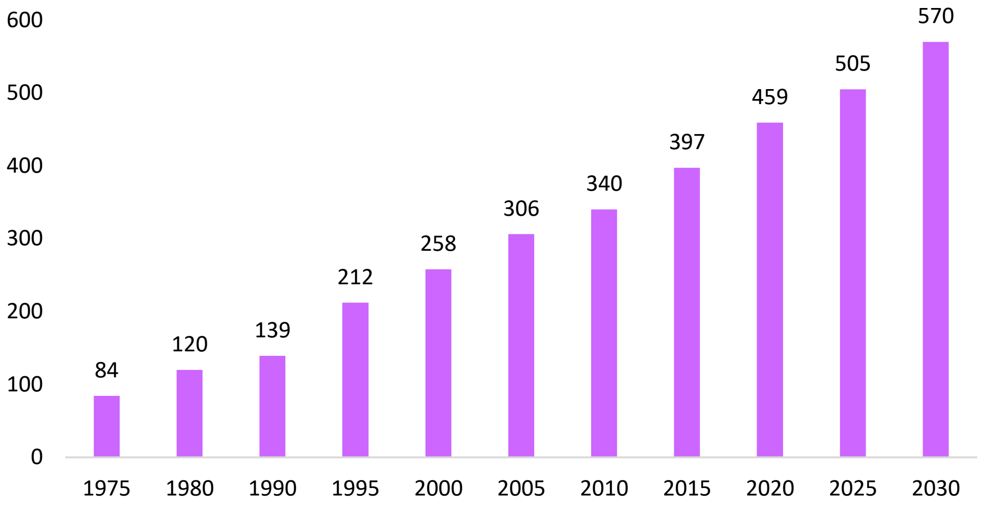
Source: Company, Arihant Research

Automotive Parts Aluminum Die Casting Market Analysis

The Automotive Parts Aluminum Die Casting Market size is estimated at USD 27.68 b in 2024, and is expected to reach USD 41.55 bn by 2029, growing at a CAGR of >7% during the FY24-29. Factors such as the rising demand for lightweight vehicles and the growing utilization of aluminum in die-casting auto parts are expected to fuel the market's growth during the forecast period. Stringent environmental regulations and CAFE standards were imposed across various regions to support the adoption of the die-casting process. In addition, increased demand for electric and hybrid vehicles turned automakers' focus to using lightweight materials like aluminum as a substitute for heavier steel and iron in all types of vehicles. Furthermore, the rising cost of fossil fuels and rising electric vehicle adoption are significant market drivers. Players operating in the market are focused on raising their production capacities to meet this rising demand.

Automotive Parts Aluminum Die Casting Market Trends: Within the automotive application, hybrid and electric vehicle technologies are on the rise. Taking North America as an example, since 2016, there was an increase in terms of aluminum content of 62 lbs (28 kg) per vehicle, with 2020 reaching a total vehicle content figure of 459 lbs (208 kg). It is expected to reach 570 lbs (258 kg) by the year 2030. The shift toward the light truck and battery electric vehicles primarily drives it. Further, it is expected that by 2026, 550 lbs (250 kg) of aluminum content per vehicle for light-duty trucks. This increase is seen primarily in three main areas of material usage: aluminum auto body sheets, castings, and extrusions. A good example of this is Tesla's Model-S BEV, which uses over 800 lbs (360 kg) of aluminum for structural components, castings, extrusions, and the whole body of the vehicle. On the other side, rising prices and risks associated with raw material sourcing are expected to hinder market growth during the longer-term forecast period. Base metal prices are under pressure in recent weeks due to the looming trade war between the US and the rest of the world. The imposition of tariffs on imports from the US allies (including the European Union, Mexico, and Canada) on aluminum (10%) and steel (25%) by the President-elect is expected to increase the domestic aluminum prices. Moreover, the increasing production and sales of PV in several emerging economies, such as India, Thailand, Indonesia, Egypt, and other Middle East & African countries, are anticipated to drive the automotive parts aluminum die casting market during the forecast period.

Exhibit 27: Aluminium Consumption in Light Vehicles in North America from 1975 to 2030, in net pound per vehicle



In January 2022, a Chinese part supplier ordered super die-casting machines from a Tesla partner, hinting at potential adoption by NIO and XPeng. The machines enable one-piece manufacturing, reducing production time and costs, and align with Tesla's goal of improving efficiency in its supply chain.

Exhibit 28: Aluminium Parts Aluminum Parts Die Casting Market- Growth Rate by Region (FY23-28)

According to the India Brand Equity Foundation, the Indian passenger car market was valued at USD 32.70 bn in 2021. It is expected to reach USD 54.84 bn by 2027, registering a CAGR of over 9% between FY22-FY27. The electric vehicle (EV) market is estimated to reach USD 7.09 bn in India by 2025. India is projected to be the world's third-largest automotive market in terms of volume by FY26. The Index of Industrial Production of Manufacturing Motor Vehicles, Trailers, and Semi- trailers (weight: 4.86%) was valued at 109.5, up 7.1% in April 2022 over April 2021, which was valued at 102.2.
Moreover, the automobile and electrical industry in India consumes 70% of die-cast aluminum parts. Automobile manufacturers are always looking for ways to make vehicle components more efficient to improve the fuel efficiency of vehicles and reduce carbon emissions. Lightweight construction, using efficient and cost optimized aluminum die-cast parts, plays a key role in achieving this goal.

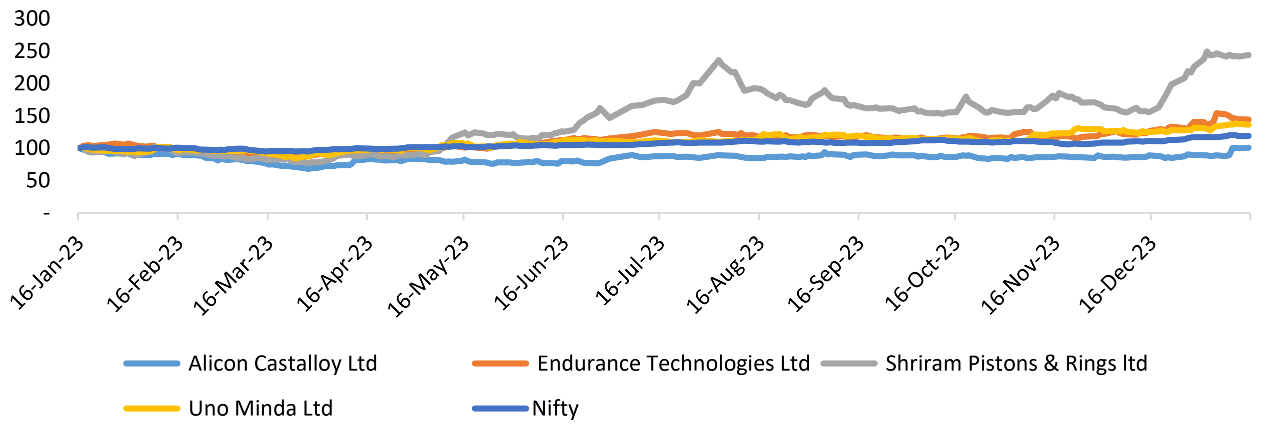
Thus, with the increasing number of vehicles, die-casting providers for automotive carts will be able to generate more revenue, facilitating a full market expansion.

Exhibit 29: Peer Comparison

	Alicon Castolly	Endurance Technologies Ltd.	Shriram Pistons & Rings ltd.	Uno Minda Ltd.	Rockman Industries (Unlisted player)
Market Leader	Market leader in Low pressure die casting (LPDC) and Gravity die casting (GDC) and Pro cast and Magma space	Market leader in Aluminium Die casting	Market leader in Pistons, Piston pins, Piston rings, Engine valves and Cylinder Liners	Market leader in proprietary automotive solutions and systems supplying to OEMs as Tier - 1.	Market leader in 2W and 4W alloy wheels, Aluminium die casting, machined and painted assemblies supplier
Marquee Customers	Honda Motorcycles, Hero Motorcorp, Ather, Bajaj, Suzuki Triumph, Audi, Fiat, Jaguar, Mahindra, ABB Honeywell, Siemens, Bosch, BMW, Royal Enfield, KTM, Diamler, Renault, Tata, Volvo, Toyota, Scania, Marelli, Samsung	Bajaj Auto, BMW, Daimler, Royal Enfield, Honda Motorcycle and Scooter, Hero Motorcop, Hyundai, Kia, Yamaha.	Maruti, Mahindra, Honda, Ford, Nissan, Tata, Bajaj, Hero, TVS, Yamaha, Ashok Leyland, Daimler, VE Commercial, Swaraj, Jaguar, Land Rover, JCB, BMW Motorrad, Volkswagen, Rotax, ZF Wabco, Yanmar.	Bajaj, Honda Motorcycles, Hero Motocorp, Royal Enfield, Yamaha Motors and Piaggio	Hero, TVS, Revolt, Ather, Hyundai, Kia, Tata, Royal Enfield, Mahindra, Honda, Ford, Ola Electric, Jawa
Manufacturing Facilities	3 manufacturing plants in India, 1 in Slovakia	31 manufacturing facilities strategically located providing support to OEMs	3 manufacturing plants and 5 assembly units across India	73 manufacturing plants globally.	8 manufacturing plants in India
Segment Mix	Auto 94%, Non Auto 6%	2W 77%, 3W 1%, CV 4%, PV 18%		2W 50%, 4W 42%, CV 5%, 3W 1%, OR 2%	

Company Name (In Mn FY23)	Net sales	EBITDA	PAT	ROCE(%)	EBITDA Margin (%)	PAT Margin (%)	P/BV (x)	EPS (INR)	ROE (%)	D/E (x)	PE (X)	CMP
Alicon Castalloy Ltd.	14012	1534	514	8.3%	10.9%	3.7%	3.04	31.92	10.5%	0.22	28.8	919
Endurance Technologies Ltd.	88040	10360	4800	13.8%	11.8%	5.5%	6.09	34.09	11.3%	0.15	53.5	1824
Shriram Pistons & Rings ltd.	26090	4600	2940	24.7%	17.6%	11.3%	3.95	66.70	20.8%	0.19	25.5	1699
Uno Minda Ltd.	11236	1242	700	18.3%	11.1%	6.2%	9.26	11.41	18.1%	0.37	58.1	663

Exhibit 30: Peer Performance



Source: Company, Arihant Research

In comparison to its peers, Alicon has experienced a temporary performance dip due to the business restructuring. However, the company is strategically shifting its focus towards the PV sector, anticipating improved profit margins in contrast to the two-wheeler segment. This shift is expected to catalyze a positive reevaluation of the company's stock.

Furthermore, Alicon boasts a robust order book amounting to 90 bn over a six-year period. Notably, the company has secured substantial orders from esteemed clients such as Maruti and Ferrari, further contributing to the enhancement of its overall business revenue. On the valuation front, Alicon trading is at a lower level comparison to the peers like Endurance technologies and Uno Minda.

Income Statement (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Revenues	10,781	14,012	15,827	18,680	22,040
Change (%)	27.0%	30.0%	13.0%	18.0%	18.0%
Cost of Goods Sold (COGS)	5,439	7,119	7,122	8,275	9,764
Gross Profit	**5,342**	**6,893**	**8,705**	**10,405**	**12,276**
Employee costs	1,381	1,649	1,899	2,335	2,755
Other expenses	2,836	3,710	4,906	5,548	6,436
Total Expenses	**9,656**	**12,477**	**13,928**	**16,158**	**18,955**
EBITDA	**1,125**	**1,534**	**1,899**	**2,522**	**3,086**
EBITDA Margin	**10.43%**	**10.95%**	**12.00%**	**13.50%**	**14.00%**
Depreciation	531	636	701	785	874
EBIT	**594**	**899**	**1198**	**1736**	**2212**
Interest	301	312	342	342	342
Other Income	33	35	36	54	81
PBT	**326**	**621**	**892**	**1,449**	**1,951**
Exceptional Items	0	0	0	0	0
PBT after exceptional Items	**326**	**621**	**892**	**1,449**	**1,951**
Tax	84	107	232	377	507
Rate (%)	*2.2%*	*3.7%*	*4.2%*	*5.7%*	*6.6%*
PAT	**241.81**	**514.21**	**660.24**	**1,071.94**	**1,443.80**
PAT Margin (%)	2.2%	3.7%	4.2%	5.7%	6.6%

Balance Sheet (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Share Capital	80.6	80.6	80.6	80.6	80.6
Reserves & Surplus	4,409	4,798	5,584	6,656	8,099
Net Worth	**4,490**	**4,879**	**5,664**	**6,736**	**8,180**
Loan Funds	**2,615**	**3,009**	**3,109**	**3,109**	**3,109**
MI, Deferred Tax & other Liabilities	304	196	304	304	304
Capital Employed	**10,082**	**10,876**	**12,432**	**14,066**	**16,173**
Application of Funds					
Gross Block	**7,652**	**7,573**	**8,473**	**9,373**	**10,273**
Less: Depreciation	**4,088**	**3,912**	**4,519**	**5,191**	**5,927**
Net Block	**3,564**	**3,661**	**3,954**	**4,182**	**4,346**
CWIP	**195**	**164**	**195**	**195**	**195**
Other Non-current Assets	**112**	**106**	**111**	**111**	**111**
Other Current Assets	**174.0**	**226.0**	**170.5**	**170.5**	**170.5**
Net Fixed Assets	**4,045**	**4,157**	**4,430**	**4,658**	**4,822**
Investments	**0.07**	**27.57**	**0.07**	**0.07**	**0.07**
Debtors	**4,025**	**4,409**	**5,056**	**5,967**	**7,041**
Inventories	**1,310**	**1,528**	**1,678**	**1,950**	**2,301**
Cash & Bank Balance	**108**	**118**	**378**	**552**	**1,010**
Loans & Advances & other CA	1	1	64	64	64
Total Current Assets	**5,620**	**6,284**	**7,331**	**8,688**	**10,571**
Current Liabilities	4,069	4,655	5,209	5,772	6,435
Provisions	94	87	91	91	91
Net Current Assets	**1,551**	**1,629**	**2,122**	**2,916**	**4,136**
Total Assets	**10,082**	**10,876**	**12,432**	**14,066**	**16,173**

Cash Flow Statement (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
PBT	**326**	**621**	**892**	**1,449**	**1,951**
Cash From Operating Activities	849	959	1,757	1,956	2,405
Tax	(78)	(90)	(232)	(377)	(507)
Net Cash From Operations	772	869	1,525	1,579	1,898
Capex	**(596)**	**(630)**	**(900)**	**(900)**	**(900)**
Cash From Investing	(717)	(817)	(1,159)	(1,063)	(1,097)
Borrowings	2,615	3,009	3,109	3,109	3,109
Finance cost paid	**(3.33)**	**(8.45)**	-	-	-
Cash From Financing	(90)	(42)	(106)	(342)	(342)
Net Increase/ Decrease in Cash	**-35**	**10**	**260**	**174**	**459**
Cash at the beginning of the year	**146**	**108**	**118**	**378**	**552**
Cash at the end of the year	108	118	378	552	1,010

Key Ratios					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Per share (INR)					
EPS	15.7	31.9	41.0	66.5	89.6
BVPS	279	303	352	418	508
Valuation (x)					
P/E	58.6	28.8	22.4	13.8	10.3
P/BV	3.3	3.0	2.6	2.2	1.8
EV/EBITDA	12.2	8.9	7.1	5.3	4.9
Return ratio (%)					
EBIDTA Margin	10.43%	10.95%	12.00%	13.50%	14.00%
PAT Margin	2.24%	3.67%	4.17%	5.74%	6.55%
ROE	5.39%	10.54%	11.66%	15.91%	17.65%
ROCE	5.89%	8.26%	9.64%	12.34%	13.68%
Leverage Ratio (%)					
Total D/E	0.3	0.2	0.2	0.2	0.2
Turnover Ratios					
Asset Turnover (x)	1.9	2.2	2.2	2.2	2.1
Inventory Days	1310	1677	1678	1950	2301
Receivable Days	136	115	115	115	115
Payable days	73	72	72	72	72

Source: Company, Arihant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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