

September 20, 2023

Visit Update

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22	FY23
Sales (Rs. m)	9,572	8,232	10,394	13,326
EBITDA (Rs. m)	1,050	800	1,094	1,502
Margin (%)	11.0	9.7	10.5	11.3
PAT (Rs. m)	170	-19	242	514
EPS (Rs.)	12.4	-1.4	15.7	31.9
Gr. (%)	-68.4	NA	NA	103.6
DPS (Rs.)	1.3	0.0	2.3	6.3
Yield (%)	0.1	0.0	0.3	0.7
RoE (%)	5.5	NA	6.3	11.0
RoCE (%)	10.2	NA	9.1	14.2
EV/Sales (x)	1.7	2.0	1.6	1.3
EV/EBITDA (x)	15.9	20.8	15.2	11.1
PE (x)	68.9	NA	54.5	26.8
P/BV (x)	3.7	3.8	3.1	2.8

Key Data

ALIO.BO | ALIC IN

52-W High / Low	Rs. 645 / Rs. 1,111
Sensex / Nifty	66,801 / 19,901
Market Cap	Rs. 13.8bn / \$ 165.8m
Shares Outstanding	16.1m
3M Avg. Daily Value	Rs. 34.6m

Shareholding Pattern (%)

Promoter's	55.71
Foreign	0.09
Domestic Institution	8.51
Public & Others	35.68
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.4	24.0	(8.0)
Relative	0.6	6.3	(21.6)

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Working on a multi-pronged strategy

Quick Pointers:

- Reducing mix of 2W segment; Higher focus on 4Ws, EVs and exports.
- Strong order book of Rs.140bn to be executed over next 7 years.

We visited Alicon Castalloy's (ALICON) plants in Chinchwad, Pune. The company highlighted clear strategy for reducing mix of highly competitive and lower margin 2W business by 1) increasing share of 4Ws, 2) increasing presence in EVs, 3) scaling up revenue from global markets, and 4) focusing on technology products and solutions. ALICON aims to ramp-up new business segments for strong revenue growth, while its existing business is expected to decline over the medium term. The company has received big orders from JLR for e-axle, cylinder heads from Toyota, PSA, Maruti Suzuki, Daimler, etc. which will increase 4Ws mix. Also, substantial jump in content per vehicle from ICE to EVs can provide much higher revenue potential. The company expects 2W volume to grow at low single digit, with higher growth in 2W EV and premium segment and thus is reducing focus on the segment.

We believe ramp-up of new businesses and change in mix will help expand revenue and margins for medium term. ALICON aims to reach revenue of Rs. 16bn in FY24 and Rs. 22bn in FY25 with EBITDA margin of 14% over next 3-4 years. A strong and expanding order book gives confidence in the company's ability to achieve its targets of revenue and mix. The stock trades at 20.2x PE FY24 bloomberg consensus. Not Rated.

Focus on expanding high margin 4W segment: ALICON's share in 4W business increased from 49% to 53% in FY23, while 2W share reduced from 41% to 38%. The company is more focused on 4W segment, as it is higher margin and less competitive. ALICON is shifting its value proposition from supplying partially finished cylinder heads to proving fully finished products. The company has secured contracts with two new major domestic customers for 4W cylinder heads. Additionally, they have developed a cylinder head for leading manufacturer of all-terrain vehicles, which will be supplied to the U.S. market. ALICON is actively collaborating with customers, including OEMs and Tier-1 suppliers, in product development and adjacent solutions. ALICON has seen structural change in behavior of OEMs who have started outsourcing critical ICE components to suppliers (eg. Toyota has for the first time in its history sourced cylinder heads from outside) and this presents big opportunity for suppliers like ALICON.

EVs present a substantial wallet share expansion opportunity: Weight of aluminum content will increase from 10kg in ICE PVs to 100kg in an EV for ALICON's products, representing a substantial jump in addressable market. The company has extensive experience and a proven track record with 94 parts supplied to 17 customers in the EV domain and their European subsidiary, Illichmann, has been contributing in this space since 2017. ALICON has made significant investments in advanced technologies, particularly in thermal cooling

solutions for the EV segment for motors and e-axles. ALICON is exploring friction stir welding, a highly recommended application in the area of EV for strong and high-quality joints. It has created a good reputation for motor housing products with dominant players in the PV EV market of India and is also witnessing growth in CV segment. ALICON secured its largest-ever multi-year order from a global customer for their e-mobility platform. Orders to customers like JLR for e-axel will start in FY25, with ramp-up in 2HFY25 which could provide boost to revenues.

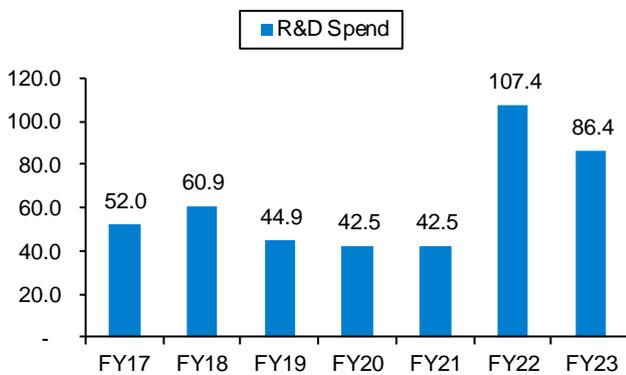
Other key takeaways from the visit:

- Product life cycle has come down over the years, due to technological advancements and customer preference.
- Revenue from various plants are as below:
 - Europe, Slovakia - 10% of total revenue
 - Chinchwad, Pune Maharashtra – 20-30% of total revenue
 - Shikrapur, Pune Maharashtra – 40-50% of total revenue
 - Binola, Haryana - 20% of total revenue
- A 2W cylinder is 1.5kg and PV cylinder is around 10kg
 - 2W is largely casting and not machining
 - Others are majorly casting and machining
 - Machining component out of the total could be more than 50%
- Current annual production of 50MT of aluminum products at 70-72% utilization.
- Asset turn for EVs could be 2-3x (currently less than 2x) and order book from new business is Rs. 85bn to be executed over next six years. This requires an investment of approx.Rs.4bn-Rs.4.5bn. FY24 capex guidance is Rs. 900mn.
- Total order book of Rs140bn over the next 7 years
 - EV order book of 21%
 - New order book of Rs. 85bn over next 6 years
 - 6% Tech-agnostic
 - 52% is global
 - 25% is new logo
 - 80% is 4Ws (PV and CV)

Brief about the company & primary products:

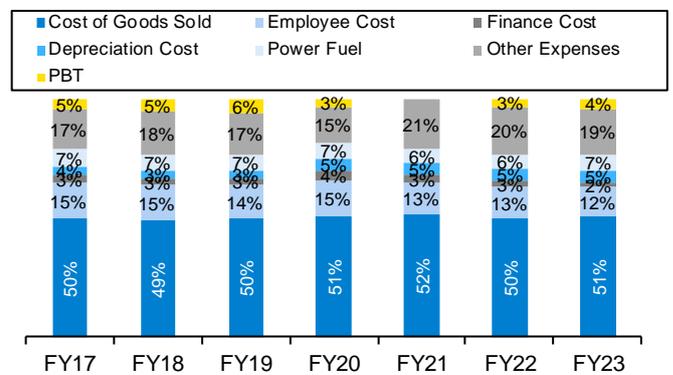
Alicon Castalloy offers end-to-end solutions spanning the entire spectrum of aluminum casting needs across multiple user industries. Company offers design and engineering solutions along with casting, machining, assembly, painting, and surface treatment of aluminum components. They are pioneers in India for low-pressure die casting and gravity die casting and operate one of the largest aluminum foundries in the country. With a diversified marquee customer base across core sectors in India and steady rise in international presence, they boast a robust track record of 49 years, further enriched by the 89-year legacy of Illichmann Castalloy. ALICON 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.

Exhibit 1: R&D spend for technology absorption



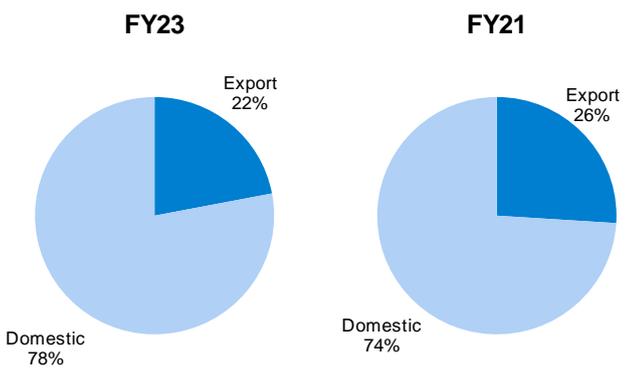
Source: Company, PL

Exhibit 2: Cost and Profit as a Percentage of Total Revenue



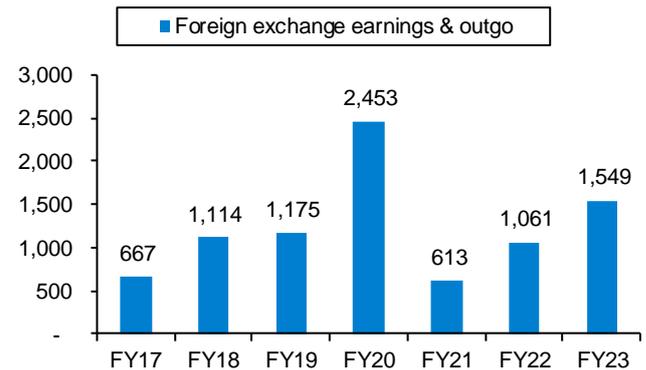
Source: Company, PL

Exhibit 3: Domestic contribution to revenue at 78% in FY23



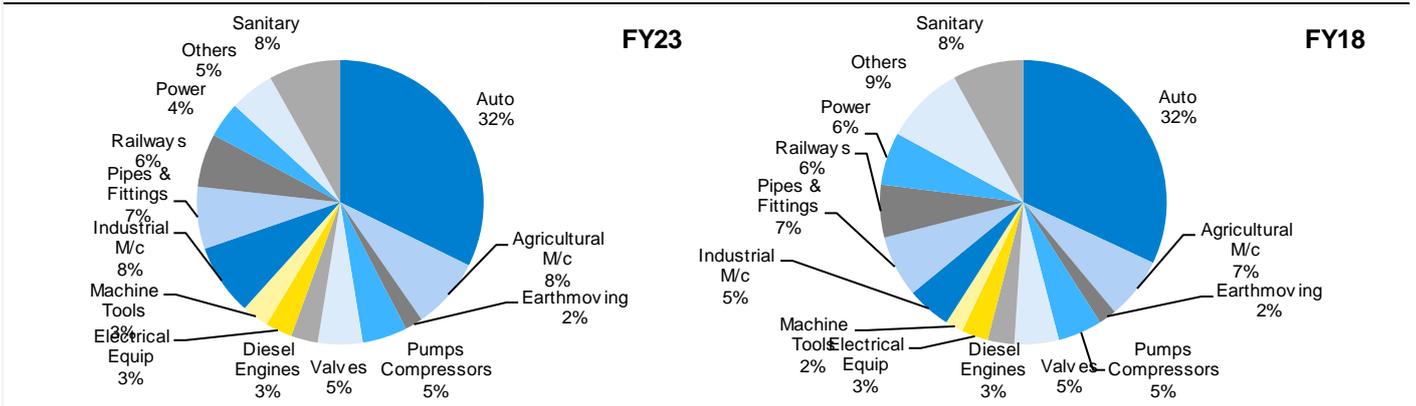
Source: Company, PL

Exhibit 4: Foreign exchange earnings & outgo recovering



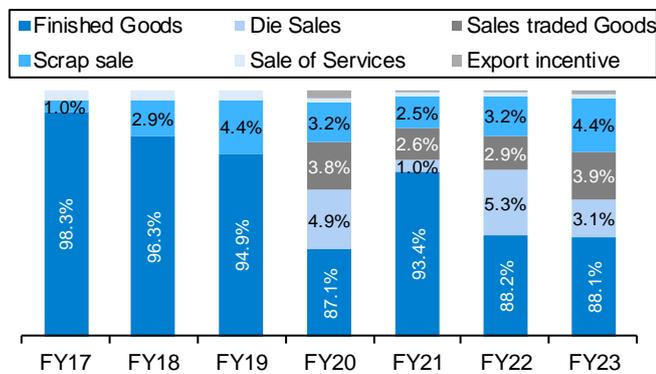
Source: Company, PL

Exhibit 5: Sector wise major consumers of Castings



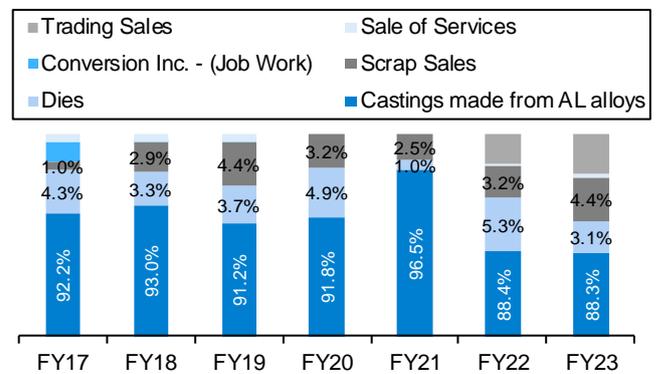
Source: Company, PL

Exhibit 6: Revenue mix from diversified operations



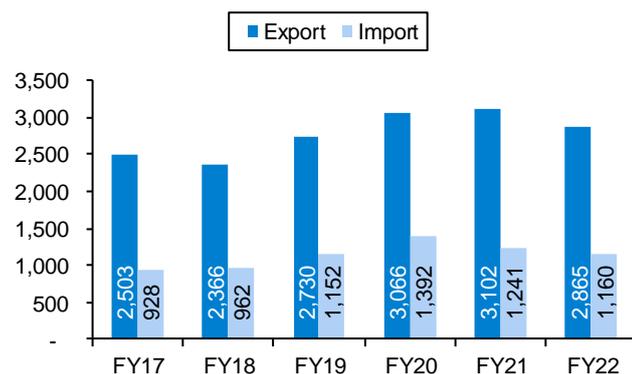
Source: Company, PL

Exhibit 7: Diversified product portfolio, Mitigating risk



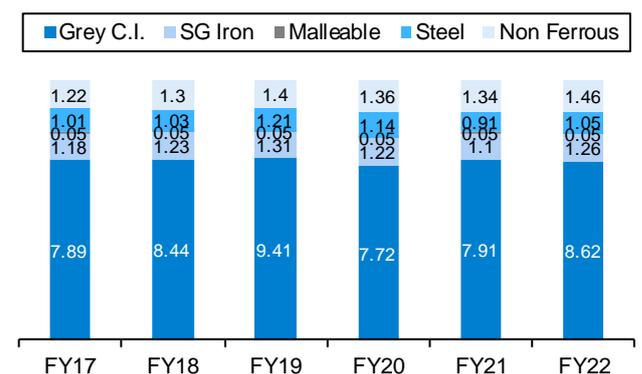
Source: Company, PL

Exhibit 8: Industry Export Data Major Casting (mn US\$)



Source: Company, PL

Exhibit 9: Production of castings in India (mn MT)



Source: Company, PL

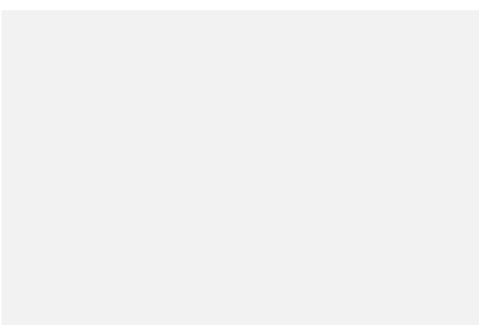
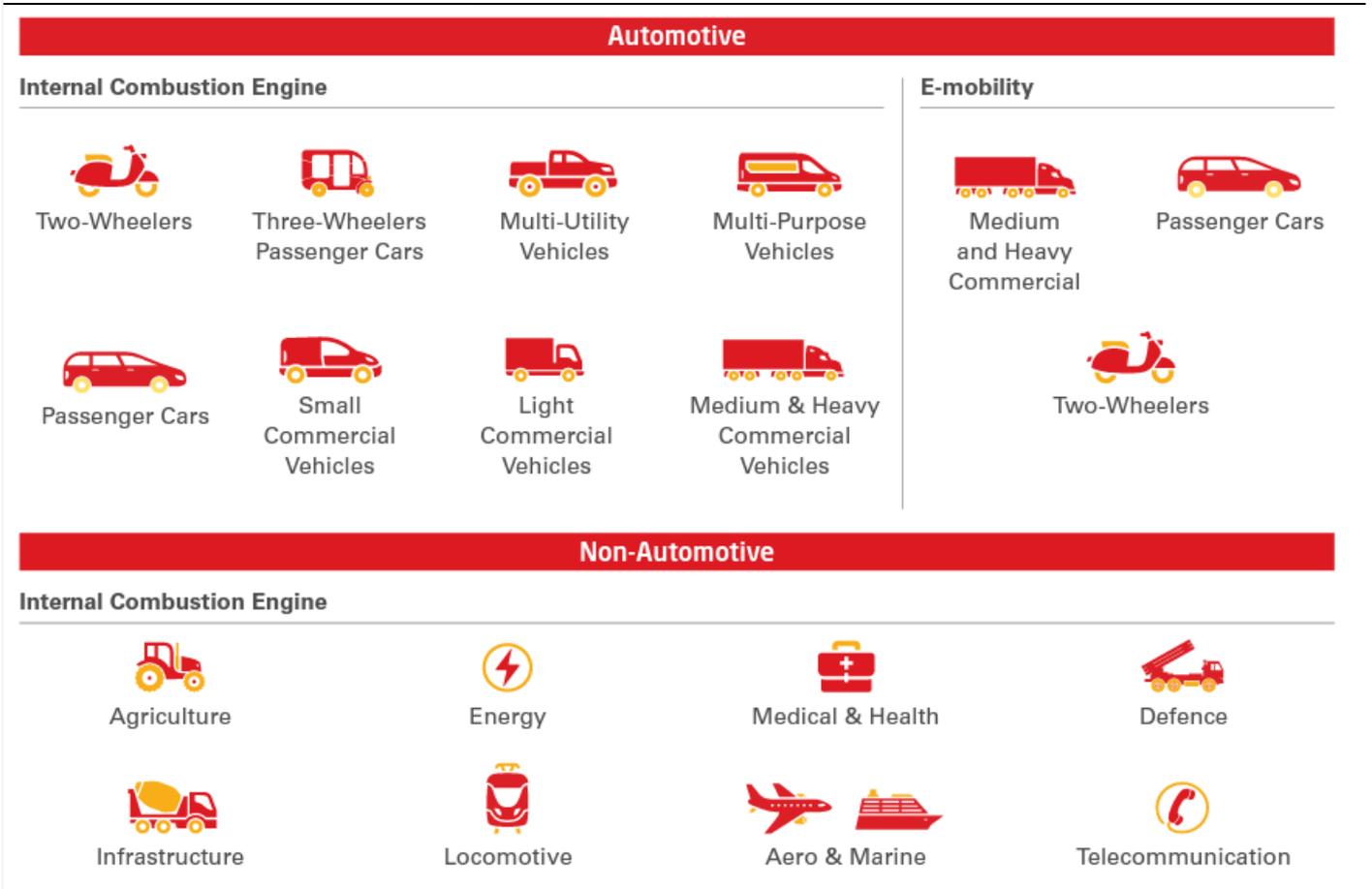


Exhibit 10: Diversified and Technology driven product portfolio



Source: Company, PL

Exhibit 11: Portfolio segregation as Automotive & Non-Automotive segment

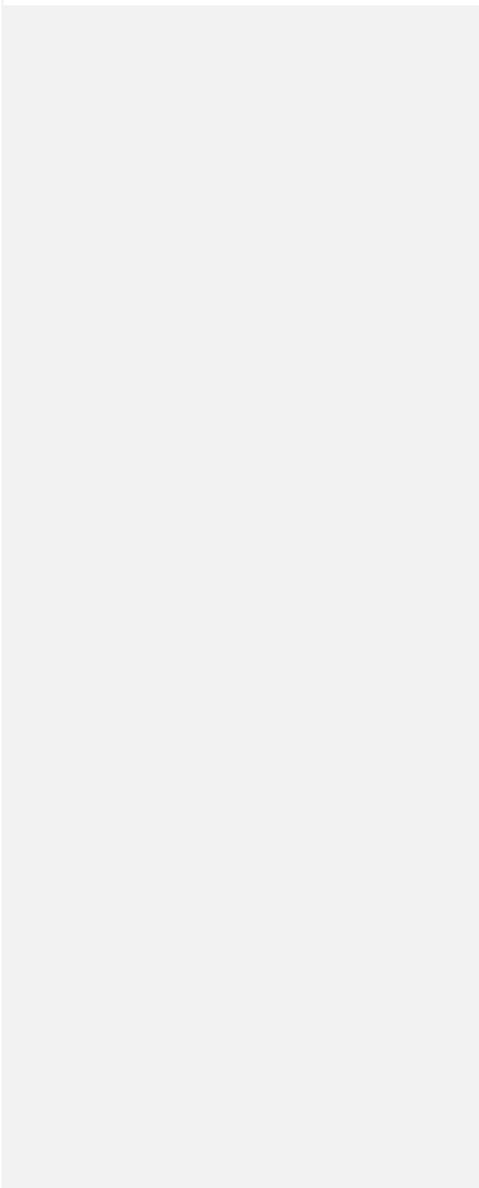


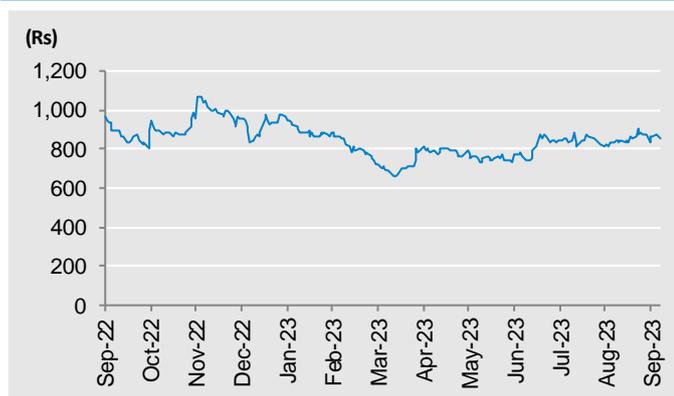
Source: Company, PL

Exhibit 12: Wide range of customer base



Source: Company, PL



Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
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Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	225	182
2	Bajaj Auto	Reduce	4,575	4,839
3	Bharat Forge	BUY	1,070	963
4	CEAT	Hold	2,430	2,496
5	Eicher Motors	Accumulate	3,520	3,380
6	Endurance Technologies	Accumulate	1,725	1,636
7	Exide Industries	Accumulate	295	274
8	Hero Motocorp	Accumulate	3,535	2,995
9	Mahindra & Mahindra	BUY	1,760	1,465
10	Maruti Suzuki	BUY	11,100	9,821
11	Tata Motors	BUY	760	639
12	TVS Motor Company	Accumulate	1,400	1,364

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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