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Stock Update

Alicon Castalloy

Strong traction in business outlook

Automobiles	Sharekhan code: ALICON	Result Update

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral - Negative

Reco/View

Reco: **Buy**

CMP: **Rs. 424**

Price Target: **Rs. 500**

↑ Upgrade ↔ Maintain ↓ Downgrade

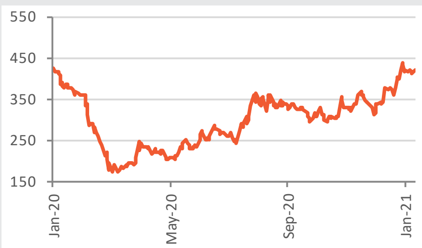
Company details

Market cap:	Rs. 590 cr
52-week high/low:	Rs. 449 / 169
NSE volume: (No of shares)	8,295 lakh
BSE code:	531147
NSE code:	ALICON
Free float: (No of shares)	0.8 cr

Shareholding (%)

Promoters	62.6
FII	0.0
DII	0.7
Others	36.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.9	40.7	70.0	-0.6
Relative to Sensex	7.6	14.9	40.6	-21.7

Sharekhan Research, Bloomberg

Summary

- We recommend Buy rating on Alicon Castalloy Limited (Alicon) with a PT of Rs. 500, factoring its long-term average multiple on a strong traction in business outlook and an upgrade in earnings estimates.
- Alicon reported better-than-expected Q3FY2021 results consolidated net profit growing by 35.7% y-o-y and 116.8% q-o-q driven by solid demand growth.
- We expect Alicon's business to turnaround in FY2022E by registering PAT of Rs 24 crore versus a loss of Rs 8 crore in FY2021E. We expect a solid growth of 114% in FY23E, driven by revenue CAGR of 29% during FY2021E-23E and a 370 bps EBITDA margin expansion.
- The stock trades attractively at P/E multiple of 10.9x and EV/EBITDA multiple of 5.5x its FY2023E estimates.

Alicon Castalloy Limited (Alicon) reported better-than-expected Q3FY2021 results with consolidated net profit growing by 35.7% y-o-y and 116.8% q-o-q driven by solid demand growth in the automobile sector. Net revenue of the consolidated business grew by 18.3% y-o-y at Rs 268 crore, led by recovery in domestic as well as exports markets. The operating profit margin for the Q3FY2021 stood at 12.1% showing a decline of 190 bps y-o-y and 66 bps q-o-q due to a rise in commodity prices, partially offset by cost control measures. The other expenditure as a percentage of sales declined 160 bps y-o-y at 24.1% in Q3, while the gross margins declined 40 bps y-o-y at 50%. The employee costs went up 13.7% y-o-y to 36.8 crores. Consolidated net profit grew by 35.7% y-o-y to Rs 11.5 crores. We expect Alicon to benefit from its established market position in the aluminium casting auto component sector, driven by established client relationship 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. Alicon has diversified its customer concentration by garnering businesses from new customers and has improved its top 5 customer concentration from 61% in FY2011 to lea than 30% in FY20. We expect Alicon to benefit from the improved business outlook from automotive and non-automotive segments, given its strong recovery in demand due to normalcy of economic activities. Also, the execution of Alicon's multi-year order wins would commence from FY22 which provides strong growth visibility going forward. We expect Alicon's business to turnaround in FY2022E by registering PAT of Rs 24 crore versus a loss of Rs 8 crore in FY2021E. We expect a solid growth of 114% in FY23E, driven by revenue CAGR of 29% during FY2021E-23E and a 370 bps EBITDA margin expansion. We maintain our positive stance on Alicon's business outlook and recommend Buy on the stock with target price of Rs. 500.

Our Call

Valuation - Recommend Buy with a PT of Rs. 500: Q3FY2021 results were better-than-expectation on solid demand growth. With a strong recovery in the automotive volumes coupled with execution of new orders, we expect Alicon to register revenue CAGR of 29% from FY2021E-23E. The EBITDA margin is expected to improve aided by operating leverage benefits, better product mix and cost control measures. We have increased our earnings estimates by 6%/4% for FY2022E/FY2023E to reflect the improved business outlook. The return ratios are expected to improve significantly with ROE expected to improve from 5.4% in FY20 to 14,3% in FY2023 while ROCE is expected to improve from 8.7% in FY2020 to 15.2% in FY2023. The stock is trading at an attractive P/E multiple of 10.9x and EV/EBITDA multiple of 5.5x its FY2023E estimates. We recommend a Buy rating on the stock with the PT of Rs 500.

Key Risks

Alicon has significant exposure to international markets. Any slowdown or cyclical downturn in any of the locations, where it has a strong presence, can impact its business and profitability.

Valuations (Consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenues	1,189	957	791	1,018	1,312
Growth (%)	17.3	(19.5)	(17.3)	28.6	28.9
EBIDTA	146	106	71	124	167
OPM (%)	12.3	11.1	9.0	12.2	12.7
Net Profit	53	17	(8)	24	52
Growth (%)	36.9	(67.8)	NA	NA	113.8
EPS	39.6	12.7	(5.9)	18.1	38.8
P/E	10.7	33.3	NA	23.4	10.9
P/BV	1.8	1.8	1.8	1.8	1.6
EV/EBIDTA	5.7	8.4	11.1	7.0	5.5
ROE (%)	17.2	5.4	-2.6	7.5	14.3
ROCE (%)	16.5	8.7	4.3	10.6	15.2

Source: Company; Sharekhan estimates

Note: We now convert Alicon Castalloy Limited into a stock update; it was earlier a 'Viewpoint' under our coverage.

Q3FY2021 results better-than-expected on demand recovery: Alicon Castalloy Limited (Alicon) reported better-than-expected Q3FY2021 results consolidated net profit growing by 35.7% y-o-y and 116.8% q-o-q driven by solid demand growth in the automobile sector. Net revenue of the consolidated business grew by 18.3% y-o-y at Rs 268 crore, led by a recovery in domestic as well as exports markets. The operating profit margin for the Q3FY2021 stood at 12.1% showing a decline of 190 bps y-o-y and 66 bps q-o-q due to rise in commodity prices, partially offset by cost control measures. The other expenditure as a percentage of sales declined 160 bps y-o-y at 24.1% in Q3, while the gross margins declined 40 bps y-o-y at 50%. The employee costs went up 13.7% y-o-y to 36.8 crores. Consolidated net profit grew by 35.7% y-o-y to Rs 11.5 crores.

Beneficiary of improved business outlook: We expect Alicon Castalloy (Alicon) to benefit from the improved business outlook from automotive and non-automotive segments, given a strong recovery in demand due to the normalcy of economic activities. Also, the execution of Alicon's multi-year order wins would commence from FY22 which provides strong growth visibility going forward. Alicon expects new orders to commence from FY2022 and gradually ramped up in subsequent years. Alicon sales from new orders is expected to be to the tune of Rs 328 cr in FY2022 and would further increase to Rs 520 cr in FY2023. The share of value-added machined parts is expected to increase with the execution of new orders which would improve the overall product mix. Alicon expects the share of four-wheeler business segment to increase from 36% currently to 51% over the next four to five years. The company is also working to increase the share of electric vehicle business from 5% currently to 10% over the next four to five years. It would be supplying battery and transmission housings to its existing electric vehicle customers and plans to increase new customers. Alicon is targeting customers in the USA and Europe for the increased electric vehicle business.

Established aluminium casting auto-component player: 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. Alicon has diversified its customer concentration by garnering businesses from new customers and has improved its top 5 customer concentration from 61% in FY2011 to lea than 30% in FY2020.

Share of non-automotive business to increase: Alicon aims to increase the share of non-automotive business from 9% currently to about 14% over the next three to four years. Alicon is targeting an increased share of business with existing customers such as Siemens, TAFE, John Deere. For the defence segment, the company is working on new product introductions such as tank wheel hubs and ventilator parts used in tank missiles.

Robust earnings growth in medium term: Q3FY2021 results were better-than-expected on solid demand growth. With a strong recovery in the automotive volumes coupled with execution of new orders, we expect Alicon to register revenue CAGR of 29% from FY2021E-23E. The EBITDA margin is expected to improve aided by operating leverage benefits, better product mix and cost control measures. We have increased our earnings estimates by 6%/4% for FY2022E/FY2023E to reflect the improved business outlook. The return ratios are expected to improve significantly with ROE expected to improve from 5.4% in FY20 to 14,3% in FY2023 while ROCE is expected to improve from 8.7% in FY2020 to 15.2% in FY2023.

Q3FY2021 results Rs cr

Particulars	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %
Net Sales	**268.4**	**226.9**	**18.3**	**204.6**	**31.2**
EBIDTA	32.5	31.8	2.3	26.2	24.4
EBITDA Margin %	12.1	14.0	(190 bps)	12.8	(66 bps)
Depreciation	12.2	10.9	11.9	11.9	2.6
Interest	8.8	9.6	(8.1)	9.2	(3.9)
Other Income	1.1	0.9	25.9	0.6	97.9
PBT	12.6	12.1	3.7	5.6	124.4
Tax	1.1	3.7	(69.1)	0.3	246.7
Adjusted Net Profit	11.5	8.4	35.7	5.3	116.8
EPS	8.2	6.1	34.4	3.8	116.8

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook - Strong recovery from FY2022

Automotive demand declined in FY2020 due to slowing economic growth, higher cost of ownership due to mandatory insurance and safety regulations and the implementation of BS-VI emission norms. Growth in FY2021 would be affected by an economic slowdown on account of COVID-19. After two consecutive years of decline, we expect a strong recovery from FY22E, expecting a strong bounce back in automobile demand. Agri-based policies proposed in the budget are likely to augur well for the industry. We expect the strongest recovery in commercial vehicles in FY2022 and FY2023, driven by an improvement in economic activities. Low interest rates and an improvement in financing availability to augur well for the industry. We remain positive in tractors, four-wheeler and two-wheeler segments. Strong volume growth would drive up earnings as well as valuation multiples. We retain our Positive view on the sector.

■ Company outlook - outlook – Strong earnings growth; Upgraded earnings estimates.

We expect Alicon Castalloy (Alicon) to benefit from the improved business outlook from automotive and non-automotive segments, given the strong recovery in demand due to normalcy of economic activities. Also, the execution of Alicon's multi-year order wins would commence from FY22 which provides strong growth visibility going forward. Alicon expects new orders to commence from FY2022 and gradually ramp up in subsequent years. Alicon is expected to benefit from its established market position in the aluminium casting auto component sector, driven by established client relationship 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. We expect Alicon's business to turnaround in FY2022E by registering PAT of Rs 24 crore versus a loss of Rs 8 crore in FY2021E. We expect a solid growth of 114% in FY23E, driven by revenue CAGR of 29% during FY2021E-23E and a 370 bps EBITDA margin expansion. We maintain our position stance on Alicon's business outlook.

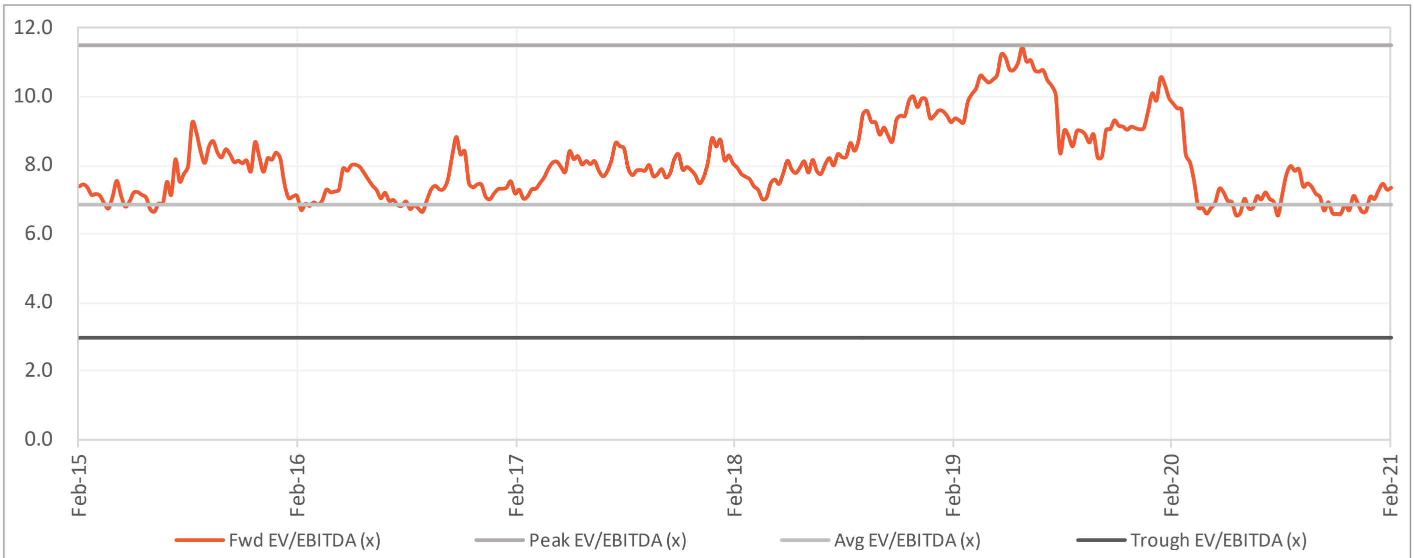
■ Valuation - Recommend Buy with a PT of Rs. 500:

Q3FY2021 results were better-than-expected on solid demand growth. With a strong recovery in the automotive volumes coupled with the execution of new orders, we expect Alicon to register revenue CAGR of 29% from FY2021E-23E. The EBITDA margin is expected to improve aided by operating leverage benefits, better product mix and cost control measures. We have increased our earnings estimates by 6%/4% for FY2022E/FY2023E to reflect the improved business outlook. The return ratios are expected to improve significantly with ROE expected to improve from 5.4% in FY20 to 14,3% in FY2023 while ROCE is expected to improve from 8.7% in FY2020 to 15.2% in FY2023. The stock is trading at attractive P/E multiple of 10.9x and EV/EBITDA multiple of 5.5x its FY2023E estimates. We recommend a Buy on the stock with the PT of Rs. 500.

Target Price Calculation	Rs/ Share
FY23E EPS (Rs per share)	**38.8**
Target P/E Multiple (x)	13
Target Price	500
Current Price	424
Upside (%)	18

Source: Company Data; Sharekhan Research

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

About company

Alicon Castalloy Limited (Alicon) is a pioneer in low pressure die casting (LPDC) and gravity die casting (GDC). Alicon caters to the requirements of the domestic as well as overseas clients and has a well-diversified base of marquee clients. Cylinder head is one of the key products manufactured by the company and accounts for a lion's share of its revenue. Other products manufactured include brackets, crank case, head cover, manifold and brackets. Around 90% of Alicon's revenue comes from the auto segment, while the balance 10% is constituted by the non-auto segment. The company derives around 80% of its revenue from domestic operations, while 20% is constituted by exports, which includes overseas business.

Investment theme

Alicon Castalloy (Alicon) is expected to benefit from the improved business outlook from automotive and non-automotive segments, given strong recovery in demand due to normalcy of economic activities. Also, the execution of Alicon's multi-year order wins would commence from FY22 which provides strong growth visibility going forward. Alicon expects new orders to commence from FY2022 and gradually ramped up in subsequent years. Alicon is expected to benefit from its established market position in the aluminium casting auto component sector, driven by established client relationship 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. We expect Alicon's business to turnaround in FY2022E by registering PAT of Rs 24 crore versus a loss of Rs 8 crore in FY2021E. We expect a solid growth of 114% in FY23E, driven by revenue CAGR of 29% during FY2021E-23E and a 370 bps EBITDA margin expansion. We maintain our position stance on Alicon's business outlook.

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Additional Data

Key management personnel

Shailendrajit Rai	Managing Director
Rajeev Sikand	Group CEO
Vimal Gupta	Group CFO
Mr P S Rao	Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nastic Trading P Ltd	49.1
2	Enkei Corp	14.2
3	Rai Shailendrajit Charanjit	6.1
4	SIKAND RAJEEV	2.7
5	U C RAI HOLDINGS PVT LTD	2.5
6	Pamela Trading Pvt Ltd	2.1
7	Skyblue Trading & Investment Pvt L	1.9
8	VIMAL GUPTA	1.3
9	SHETH NIRAV MAHENDRA	1.1
10	MITHRAS TRADING LLP	0.9

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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