



3R MATRIX

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

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

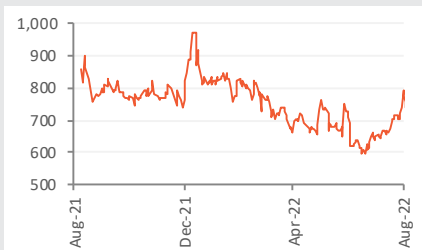
Company details

Market cap:	Rs. 1,320 cr
52-week high/low:	Rs. 999 / 579
NSE volume: (No of shares)	19,907
BSE code:	531147
NSE code:	ALICON
Free float: (No of shares)	0.7 cr

Shareholding (%) as on Mar 31, 2022

Promoters	55.7
FII	0.0
DII	9.4
Others	34.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	19.3	14.9	-2.3	-8.3
Relative to Sensex	9.0	2.3	-3.5	-17.6

Sharekhan Research, Bloomberg

Alicon Castalloy Ltd

E-mobility business to drive growth

Automobiles

Sharekhan code: ALICON

Reco/View: Buy



CMP: Rs. 819

Price Target: Rs. 940



Upgrade



Maintain



Downgrade

Summary

- We maintain our Buy rating on Alicon Castalloy Limited (Alicon) with a revised PT of Rs940, factoring in long-term revenue visibility, given its robust strong order book.
- Alicon's Q1FY23 results were below expectations, marred by 60bps higher-than-expected contraction in EBITDA margin at 10.8%, leading to EBITDA and PAT miss of 6.5% and 26.8% respectively.
- We remain positive on the company's growth prospects, robust order book, multi-year order wins, increased share of high-margin machined components, and higher share of e-mobility business.
- The stock trades attractively at P/E multiple of 11.5x and EV/EBITDA multiple of 5.2x its FY2024E estimates.

Alicon Castalloy Limited's (Alicon's) Q1FY23 results were below expectations, marred by 60bps higher-than-expected contraction in EBITDA margin at 10.8%, leading to EBITDA and a PAT miss of 6.5% and 26.8% respectively. Net revenue grew 7.1% q-o-q to Rs. 343.3 crore, led by a strong pick-up in demand, especially in passenger vehicle (PV) and medium & heavy commercial segment (MHCV) segments. EBITDA margin for Q1FY23 stood at 10.9%, down 100 bps q-o-q, mainly due to a 290bps increase in raw material costs, partially mitigated by operating leverage benefits and cost savings. Management witnessed a demand uptrend across domestic markets, especially in M&HCV and PV segments. On the international front, most key export geographies in the US and Europe reported healthy auto sales, led by steady demand. We expect Alicon to benefit from an improved business outlook in automotive and non-automotive segments, given its multi-year order wins and recovery expected in demand. Management expects the e-mobility business to be the key growth driver going forward, with its aspiration to have ~45% contribution from e-mobility business. The company's new order book stands at Rs. 3,000 crore, which will be executed over the next 4-5 years and has a 25% share of the e-mobility business. Given the size of the current order book and Alicon's established client relationships, we believe the company has a high degree of revenue visibility in the medium term. We maintain Buy on the stock.

Key positives

- The domestic EV industry has recorded solid growth in Q1FY23 across all four segments, viz, 2-Ws, 3-Ws, PVs, and CVs. Cumulative EV sales were up 7x y-o-y in Q1FY23.
- In Q1FY23, the Company booked 4 parts, including new logo wins added in EV and tech agnostic segments.
- The company has a robust new order book size of Rs. 3,000 crore to be executed over the next five years with Rs. 600 crore-700 crore incremental revenue every year. During the year, the company won several contracts from multiple existing and new original equipment manufacturers (OEMs) for e-mobility, leading its share of e-mobility business to ~25% of the order book.

Key negatives

- EBITDA margin for Q1FY23 stood at 10.9%, down 100 bps q-o-q, mainly due to 290bps increase in raw material costs, partially mitigated by operating leverage benefits and cost savings.
- Chips shortage and volatile input prices impacted growth and restricted EBITDA margin improvement during Q1FY23. The restricted growth was further adversely impacted by cost-based inflation, cost of new product development, and geopolitical tension between Russia and Ukraine.

Management Commentary

- Management witnessed a demand uptrend across domestic markets, driven by increased spending and consumption, especially post the lockdowns and a shift towards new high-tech vehicles, and personal mobility preference among other factors.
- On the international front, most key export geographies in the US and Europe reported healthy auto sales, led by steady demand.
- During the quarter the company's performance surpassed the pre-COVID levels. The management expects to deploy Capex of Rs90 crore in FY23E, of which the company has deployed Rs24 crore in Q1FY23. The capex is planned for maintenance and a new capacity for machining.
- The company maintains its aims to grow revenue by over 20% CAGR for the next few years with EBITDA margins sustainable at 14-16%.

Our Call

Valuation – Maintain Buy with a revised PT of Rs.940: Alicon is likely to benefit from multi-year order wins, which are expected to contribute significantly going forward. We remain positive about the company's growth prospects, given the company's multi-year order wins, increased share of high-margin machined components, and enhanced share of e-mobility components. We expect Alicon's earnings to report a robust 118% CAGR during FY2022-FY2024E, led by a 27% revenue CAGR and a 300-bps improvement in EBITDA margin to 13.4% in FY2024E from 10.4% in FY2022. The stock is trading at an attractive P/E multiple of 11.5x and EV/EBITDA multiple of 5.2x. Given strong revenue visibility, we maintain Buy on the stock with a revised price target (PT) of Rs940.

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.

Valuation (Consolidated)

Particulars	FY21	FY22	FY23E	FY24E
Revenues	849	1,078	1,401	1,752
Growth (%)	(11.3)	27.0	30.0	25.0
EBITDA	83	112	177	235
OPM (%)	9.8	10.4	12.6	13.4
Net Profit	(2)	24	73	115
Growth (%)	NA	NA	201.8	57.0
EPS	(1.4)	15.0	45.3	71.1
P/E	NA	54.6	18.1	11.5
P/BV	3.6	4.0	3.4	2.7
EV/EBITDA	16.5	11.3	7.1	5.2
ROE (%)	-	7.3	18.7	23.8
ROCE (%)	5.9	10.9	19.8	25.6

Source: Company; Sharekhan estimates

Q1FY23 results below expectations: Aicon Castalloy Limited's (Aicon's) Q1FY23 results were below expectations, marred by 60bps higher-than-expected contraction in EBITDA margin at 10.8%, leading to EBITDA and PAT miss of 6.5% and 26.8% respectively. Net revenue grew 7.1% q-o-q to Rs. 343.3 crores, led by a strong pick-up in demand, especially in the passenger vehicle (PV) and medium & heavy commercial segment (MHCV) segments. EBITDA margin for Q1FY23 stood at 10.9%, down 100 bps q-o-q, mainly due to a 290bps increase in raw material costs, partially mitigated by operating leverage benefits and cost savings. Further, the EBITDA margins were positively impacted by price hikes taken by the company and improved product mix with an increased share of value-added products. As a result, EBITDA and PAT for the Q1FY23, declined 1.6% q-o-q and 18.5% q-o-q to Rs37.3 crore and Rs.10.8 crore, respectively.

Positive commentary from management: Management has an optimistic outlook on revenue growth over the next couple of years, given robust new order wins. The company's new order book stands at Rs. 3,000 crores, which will be executed over the next five years. New order book comprises 60% domestic and 40% export business. The Management witnessed a demand uptrend across domestic markets, driven by increased spending and consumption, especially post the lockdowns and a shift towards new high-tech vehicles, and personal mobility preference among other factors. On the international front, most key export geographies in the US and Europe reported healthy auto sales, led by steady demand and stable currency in key markets. Management is witnessing early signs of stabilization in supply-chains across markets. The company expects to report over 20% CAGR for the next few years with an EBITDA margin sustainable at 14-16%. Capacity utilization was 65-70% during Q1FY23. Management expects to improve its capacity utilization to 75-80% in FY2023E. From a business standpoint, Aicon continues to institute cost-rationalization initiatives and has undertaken optimum working capital measures to conserve cash flows and ensure steady profitability. Management expects to benefit from the shift to personal mobility catalyzed by the pandemic, preference for green vehicles (hybrid and EV), staggered introduction of vehicle scrappage policy, thrust on higher fuel efficiency, cost-optimization, and light weight of products. Aicon has been approved as one of the beneficiaries of the PLI scheme under the component champion incentive scheme.

A beneficiary of improved business outlook: We expect Aicon to benefit from improved business outlook from automotive and non-automotive segments, given the strong pent-up demand in the domestic business likely to span across the business post normalization of the second wave. Moreover, the execution of Aicon's multi-year order wins is expected to contribute significantly from FY2022, which provides strong growth visibility going forward. Aicon expects new orders to add Rs. 600 crore-700 crores every year and gradually ramp up in the subsequent years. The share of value-added machined parts is expected to increase with the execution of new orders, which would improve the overall product mix. Aicon expects share of the four-wheeler business segment to increase from 36% currently to 51% over the next four to five years.

Strong portfolio in EV segment: For EV segment, Aicon is working with OEMs and the Tier 1 suppliers, which have been working extensively with Dana Corporation, Scania, Tata AutoComp, Eaton on both the domestic and international orders. During Q1FY23, the company added two parts as well as two new logos of Rimac and Ducati. The company has built a portfolio of over 103 live parts in the EV business, which the company expects would contribute 26% to overall revenue by FY2025E from ~10% currently. The company would be supplying battery and transmission housings to its existing EV customers and plans to increase new customers. Aicon is targeting customers in the US and Europe for increased EV business. Also, the company is witnessing a strong response from customers for the lightweighting of products in the auto and EV space. There are increased inquiries in both domestic as well as export markets.

Established aluminum casting auto-component player: Aicon is expected to benefit from its established market position in the aluminum 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. Aicon 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.

Share of non-automotive business to increase: Aicon aims to increase the share of non-automotive business from 9% currently to about 14% over the next three to four years. The company is also targeting an increased share of business with existing customers such as Siemens, TAFE, and John Deere. For the defense segment, the company is working on new product introductions such as tank wheel hubs and ventilator parts used in tank missiles. During Q1FY23, the company received an order win for one part, under Atmanirbhar Bharat.

Robust earnings growth outlook: Aicon is likely to benefit from multi-year order wins, which are expected to contribute significantly going forward. We have maintained our estimates given the company's multi-year order wins and increased share of high-margin machined components. We expect Aicon's earnings to report a robust 118% CAGR during FY2022-FY2024E, led by a 27% revenue CAGR and a 300-bps improvement in EBITDA margin to 13.4% in FY2024E from 10.4% in FY2022.

Results (Consolidated)

Particulars	Q1FY23	Q1FY22	% yoy	Q4FY22	% qoq
Net Sales	343.3	210.7	62.9	320.6	7.1
Total operating costs	306.0	193.6	58.0	282.7	8.3
EBIDTA	37.3	17.1	118.1	37.9	(1.6)
Depreciation	15.0	12.7	17.9	13.9	7.8
Interest	7.1	8.6	(17.3)	7.1	(0.8)
Other Income	0.7	0.9	(29.0)	0.8	(17.6)
PBT	15.9	(3.2)	NA	17.7	(10.1)
Tax	5.1	1.0	426.5	4.5	14.5
Reported net profit	10.8	(4.2)	NA	13.2	(18.5)
Adjusted net profit	10.8	(4.2)	NA	13.2	(18.5)
Adjusted EPS	6.7	(3.0)	NA	8.2	(18.5)

Source: Company; Sharekhan Research

Key ratios (Consolidated)

Particulars	Q1FY23	Q1FY22	YoY (bps)	Q4FY22	QoQ (bps)
Gross margin (%)	47.5	50.2	(270)	50.4	(290)
EBIDTA margin (%)	10.9	8.1	270	11.8	(100)
EBIT margin (%)	6.5	2.1	440	7.5	(100)
Net profit margin (%)	3.1	(2.0)	NA	4.1	(100)
Effective tax rate (%)	32.3	(30.3)	NA	25.4	700

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Beneficiary of recovery in automobile sales

After three years of a challenging environment, we expect volumes to recover to pre-COVID levels in FY2023E, across segments. Agri-based policies proposed in the budget are likely to augur well for the industry. We expect the strongest recovery in commercial vehicles over the next few years, driven by improvement in economic activities. We remain positive in the tractor, four-wheeler, and two-wheeler segments. Strong volume growth would drive up earnings as well as valuation multiples. Moreover, EV adoption is the fastest in Europe, which is likely to be positive for Alicon. We retain our Positive view of the sector.

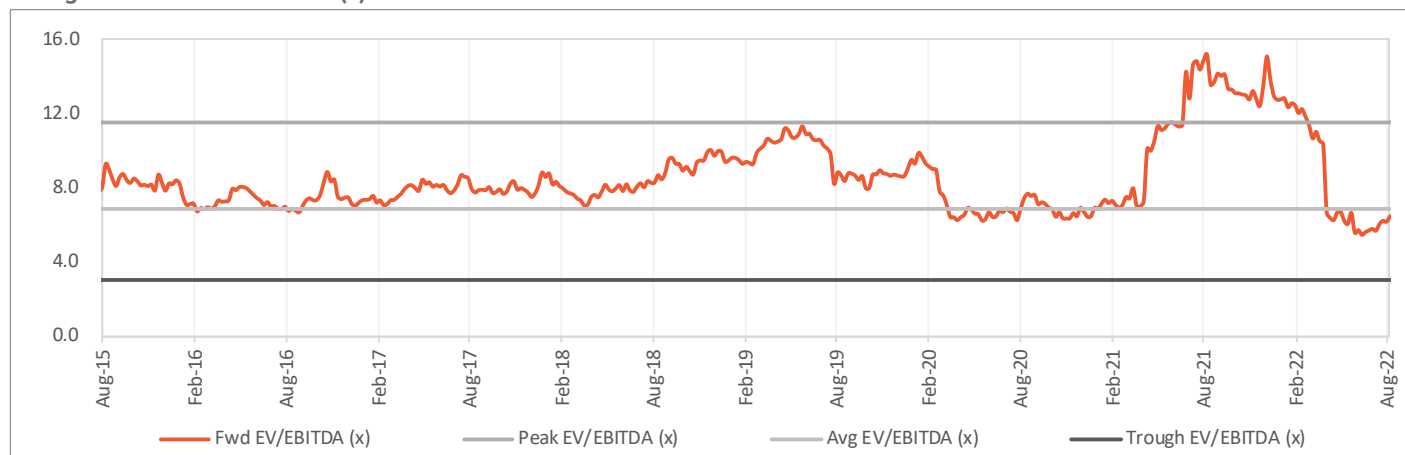
■ Company Outlook – Strong earnings growth

We expect Alicon to benefit from improved business outlook from automotive and non-automotive segments, given demand recovery due to the normalcy of economic activities. In addition, the execution of Alicon's multi-year order wins would commence from FY2022, which provides strong growth visibility going forward. Alicon expects new orders to commence from FY2022 and gradually ramp up in the subsequent years. 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.

■ Valuation – Maintain Buy with a revised PT of Rs940

Alicon is likely to benefit from multi-year order wins, which are expected to contribute significantly going forward. We remain positive on the company's growth prospects, given the company's multi-year order wins, increased share of high-margin machined components, and enhanced share of e-mobility components. We expect Alicon's earning to report a robust 118% CAGR during FY2022-FY2024E, led by a 27% revenue CAGR and a 300-bps improvement in EBITDA margin to 13.4% in FY2024E from 10.4% in FY2022. The stock is trading at an attractive P/E multiple of 11.5x and EV/EBITDA multiple of 5.2x. Given strong revenue visibility, we maintain Buy on the stock with a revised price target (PT) of Rs940.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	Rs/Share	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Alicon Castalloy	819	54.6	18.1	11.5	11.3	7.1	5.2	10.9	19.8	25.6
Gabriel India	142	22.8	15.3	11.7	12.9	8.8	6.6	16.8	22.0	25.0
GNA Axles	631	15.3	11.7	9.7	8.3	6.7	5.4	17.4	19.9	20.7

Source: Company, Sharekhan estimates

About company

Alicon is a pioneer in low-pressure die casting (LPDC) and gravity die-casting (GDC). The company caters to 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 share of its revenue. Other products manufactured include brackets, crankcase, head cover, manifold, and brackets. Around 90% of Alicon's revenue comes from the auto segment, while the non-auto segment constitutes the remaining 10%. The company derives around 80% of its revenue from domestic operations, while 20% is constituted by exports, which include overseas business.

Investment theme

Alicon is expected to benefit from an improved business outlook from automotive and non-automotive segments, given demand recovery due to the normalcy of economic activities. In addition, the execution of Alicon's multi-year order wins would commence from FY2022, 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 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. We expect Alicon's business to turn around in FY2022E and benefit from its multi-year order wins. We maintain our positive stance on Alicon's business outlook.

Key Risks

Alicon has a 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.

Additional Data

Key management personnel

Shailendrajit Rai	Managing Director
Rajeev Sikand	Group CEO
Vimal Gupta	Group CFO
Andreas Heim	Managing Director – ILLICHMANN

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nastic Trading Llp	42.0
2	Enkei Corporation	13.8
3	Shailendrajit Charnjit Rai	6.0
4	Rajeev Sikand	4.0
5	U. C. Rai Holdings Private Limited	2.5
6	Pamela Trading Llp	2.1
7	Skyblue Trading And Investments P Ltd	1.8
8	Vimal Gupta	1.8
9	Nirav Mahendra Sheth	1.0
10	Mithras Trading Llp	0.9

Source: Bloomberg

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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 deteriorating 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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