# Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

# Alicon Castalloy Ltd

## Good quarterly performance: Reiterate Buy

| Automobiles | | Sharekhan code: ALICON | |
|---|---|---|---|
| **Reco/View: Buy** | ↔ | CMP: **Rs. 988** | Price Target: **Rs. 1,159** ↑ |

↑ Upgrade ↔ Maintain ↓ Downgrade

| 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 | | ↔ | |

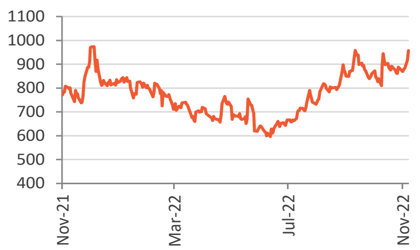
**Company details**

| | |
|---|---|
| Market cap: | Rs. 1,592 cr |
| 52-week high/low: | Rs. 1,024 / 579 |
| NSE volume: (No of shares) | 21,508 |
| BSE code: | 531147 |
| NSE code: | ALICON |
| Free float: (No of shares) | 0.7 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 55.7 |
| FII | 0.1 |
| DII | 8.3 |
| Others | 35.9 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 13.8 | 27.3 | 32.4 | 24.1 |
| Relative to Sensex | 6.4 | 22.1 | 18.8 | 21.7 |

*Sharekhan Research, Bloomberg*


**Summary**

- We maintain our Buy rating on Alicon Castalloy Limited (Alicon) with a revised PT of Rs. 1,159, led by rolling forward target multiple to December 2024E EPS.
- Q2FY23 results were slightly above expectations, with revenue, EBITDA and PAT beating estimates by 1.7%, 3% and 12%, respectively.
- We remain positive on the company's growth prospects, led by a robust order book, multi-year order wins, increased share of high-margin machined components, and higher share of the e-mobility business.
- Earnings to report a robust 118% CAGR during FY2022-FY2024E, led by a 27% revenue CAGR and a 300-bps improvement in EBITDA margin. The stock trades attractively at P/E multiple of 13.9x and EV/EBITDA multiple of 6.2x its FY2024E estimates.


**Alicon Castalloy Limited's (Alicon's) Q2FY23 results were slightly above expectations, with revenue, EBITDA and PAT beating estimates by 1.7%, 3% and 12%, respectively. The company's performance in Q2 was strong, with EBITDA and PAT growing by 14.7% q-o-q and 42.5% q-o-q respectively. We maintain our positive view on Alicon Castalloy Limited's (Alicon's) growth prospects, led by a robust order book, multi-year order wins, increased share of high-margin machined components, and higher share of the e-mobility business. The company is also focusing on value-added products and international markets. As of FY22-end, the company's order book (since FY19) stood at a robust Rs. 3,000 crores. Overall, the company's long-term target is to bring wallet share in the EV business to 12% in FY23E and 36% of overall revenue by FY26. We believe the company continues to gain new businesses because of its strong research and development (R&D) capabilities, its expertise in aluminium alloy castings, and its long-established relationship with leading OEMs. We reiterate our Buy recommendation on the stock with a 12-month price target (PT) of Rs. 1,159.**

**Key positives**

- Q2FY23 results were slightly above expectations, with revenue, EBITDA and PAT beating estimates by 1.7%, 3% and 12%, respectively. The company's performance in Q2 was strong with EBITDA and PAT growing by 14.7% q-o-q and 42.5% q-o-q, respectively.
- EBITDA margin expanded 40bps q-o-q to 11.3% in Q2FY23, led by improved product mix, cost reductions and operating leverage benefits.
- In Q2FY23, the Company booked ten new parts from four customers. Out of 10 unique parts, nine were from the PV segment, while one was from the 2W segment.

**Key negatives**

- The company highlighted geopolitical tension between Russia and Ukraine, which may affect revenue growth if the situation aggravates.

**Management Commentary**

- Management witnessed a demand uptrend across domestic markets, driven by increased spending and consumption 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, despite recessionary pressures.
- During the quarter, the company's performance surpassed the pre-COVID levels. The management expects to deploy a Capex of Rs90 crore in FY23E, of which the company has deployed Rs36 crore in H1FY23. The capex is planned for maintenance and a new machining capacity.
- The company aims to grow revenue by over 20% CAGR for the next few years with EBITDA margins sustainable at 13-14%. In FY23E, the company expects to increase by 30-35%.

**Our Call**

**Valuation – Maintain Buy with a revised PT of Rs. 1,159:** Alicon is likely to benefit from multi-year order wins, which are expected to contribute significantly. We remain optimistic 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. We have revised our PT upwards to Rs. 1,159, led by rolling forward our target multiple to September 2024E EPS. The stock is trading at an attractive P/E multiple of 13.9x and EV/EBITDA multiples of 6.2x its FY24E estimates.

**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 it is business and profitability.

**Valuation (Consolidated)** Rs cr

| Particulars | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Revenues | 848.6 | 1078.1 | 1401.5 | 1751.8 | 2014.6 |
| Growth (%) | -11.3 | 27.0 | 30.0 | 25.0 | 15.0 |
| EBIDTA | 83.2 | 112.5 | 176.6 | 234.7 | 274.0 |
| OPM (%) | 9.8 | 10.4 | 12.6 | 13.4 | 13.6 |
| Net Profit | -1.9 | 24.2 | 72.9 | 114.6 | 142.2 |
| Growth (%) | NA | NA | 201.8 | 57.0 | 24.1 |
| EPS | -1.4 | 15.0 | 45.3 | 71.1 | 88.3 |
| P/E | NA | 65.8 | 21.8 | 13.9 | 11.2 |
| P/BV | 4.4 | 4.8 | 4.1 | 3.3 | 2.7 |
| EV/EBIDTA | 19.2 | 13.4 | 8.4 | 6.2 | 5.1 |
| ROE (%) | -0.6 | 7.3 | 18.7 | 21.8 | 21.9 |
| ROCE (%) | 5.9 | 10.9 | 19.8 | 23.6 | 25.0 |

*Source: Company; Sharekhan estimates*

## Key highlights of Q2FY23 conference call

**Q2FY23 results beat estimates:** Alicon Castalloy Limited's (Alicon's) Q2FY23 results were slightly above expectations, with revenue, EBITDA and PAT beating estimates by 1.7%, 3% and 12%, respectively. The company's performance in Q2 was strong, with EBITDA and PAT growing by 14.7% q-o-q and 42.5% q-o-q, respectively. Net revenues were up 40.9% y-o-y and 9.9% q-o-q to Rs377 crore in Q2. The robust growth was led by normalising customer production schedules and the commencement of orders won in the recent quarter. During the quarter, the company booked ten new parts from four customers. Out of 10 unique parts, nine parts were from the PV segment, while one part was from 2W segment. Of these 10 parts, 7 parts are added in the EV / Carbon Neutral segment and 2 in ICE with 1 part in Tech Agnostic. 8 parts are for international business and 2 parts are for domestic business. EBITDA margin expanded 40bps q-o-q to 11.3% in Q2FY23, led by improved product mix, cost reductions and operating leverage benefits.

**Management confident on delivering performance:** Management witnessed a demand uptrend across domestic markets, driven by increased spending and consumption, 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, despite recessionary pressures. During the quarter, the company's performance surpassed the pre-COVID levels. The management expects to deploy a Capex of Rs90 crore in FY23E, of which the company has deployed Rs36 crore in H1FY23. 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 13-14%. In FY23E, the company expects to grow by 30-35%. Capacity utilization was 70-75% during Q2FY23.

**Prime focus on continuously improving on R&D capabilities**

The company has made timely investments in developing new products for carbon-neutral technology and focus on technology agnostic components, making it future-ready for changing trends in the automobile sector. The company, being a leading player in aluminium alloy castings, has focused on lightweighting of its products in auto ICE and EV space to benefit from changing preferences of OEMs.

**Strong MNC with best of global attributes**

The Alicon Group amalgamates European engineering, Japanese quality, and Indian innovation to deliver iconic lightweight alloy solutions. The company has expertise in Low-Pressure Die Casting (LPDC) and Gravity Die Casting (GDC). The company has four manufacturing facilities with over 90 customers and is exporting to more than 18 countries. The company has three facilities in India (one in Haryana and two in Pune) and one international facility in Slovakia. The company runs 795 live parts and has done 131 innovations in the past two years.

**A beneficiary of improved business outlook:** We expect Alicon to benefit from enhanced 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 Alicon's multi-year order wins is expected to contribute significantly from FY2022, which provides strong growth visibility going forward. Alicon expects new orders to add Rs. 600 crore-700 crores yearly and gradually ramp up in the subsequent years. The share of value-added machined parts is likely to increase with the execution of new orders, which would improve the overall product mix. Alicon expects the 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 the EV segment, Alicon is working with OEMs and Tier 1 suppliers, which have been working extensively with Dana Corporation, Scania, Tata AutoComp, Eaton on both domestic and international orders. 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%. The company would be supplying battery and transmission housings to its existing EV customers and plans to increase new customers. Alicon is targeting customers in the US and Europe for increased EV business. Also, the company is witnessing a strong response from customers for the light weighting of products in the auto and EV space. There are increased inquiries in both domestic as well as export markets.

**Expect strong earnings growth:** Besides its focus on light-weighting technology and EV segment components, the company has been strengthening its export and international business. Earnings are likely 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** Rs cr

| Particulars | Q2FY23 | Q2FY22 | YoY % | Q1FY23 | QoQ % |
|---|---|---|---|---|---|
| Net Sales | 377.3 | 267.8 | 40.9 | 343.3 | 9.9 |
| Total operating costs | 334.5 | 243.5 | 37.4 | 306.0 | 9.3 |
| EBIDTA | 42.8 | 24.3 | 75.7 | 37.3 | 14.7 |
| Depreciation | 15.6 | 13.1 | 19.1 | 15.0 | 4.5 |
| Interest | 7.3 | 7.5 | (2.1) | 7.1 | 3.4 |
| Other Income | 0.7 | 0.9 | (25.0) | 0.7 | 5.2 |
| PBT | 20.5 | 4.7 | 340.2 | 15.9 | 28.9 |
| Tax | 5.2 | 1.6 | 214.4 | 5.1 | 0.3 |
| Reported net profit | 15.3 | 3.0 | 408.5 | 10.8 | 42.5 |
| Adjusted net profit | 15.3 | 3.0 | 408.5 | 10.8 | 42.5 |
| Adjusted EPS | 9.5 | 1.9 | 408.5 | 6.7 | 42.5 |

*Source: Company, Sharekhan Research*

**Key ratios (Consolidated)**

| Particulars | Q2FY23 | Q2FY22 | YoY (bps) | Q1FY23 | QoQ (bps) |
|---|---|---|---|---|---|
| Gross margin (%) | 48.6 | 47.4 | 120 | 47.5 | 120 |
| EBIDTA margin (%) | 11.3 | 9.1 | 220 | 10.9 | 40 |
| EBIT margin (%) | 7.2 | 4.2 | 300 | 6.5 | 70 |
| Net profit margin (%) | 4.1 | 1.1 | 290 | 3.1 | 90 |
| Effective tax rate (%) | 25.2 | 35.2 | (1,010) | 32.3 | (720) |

*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 will likely augur well for the industry. We expect the most robust recovery in CV 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, likely to be positive for Alicon. We retain our Positive view of the sector.

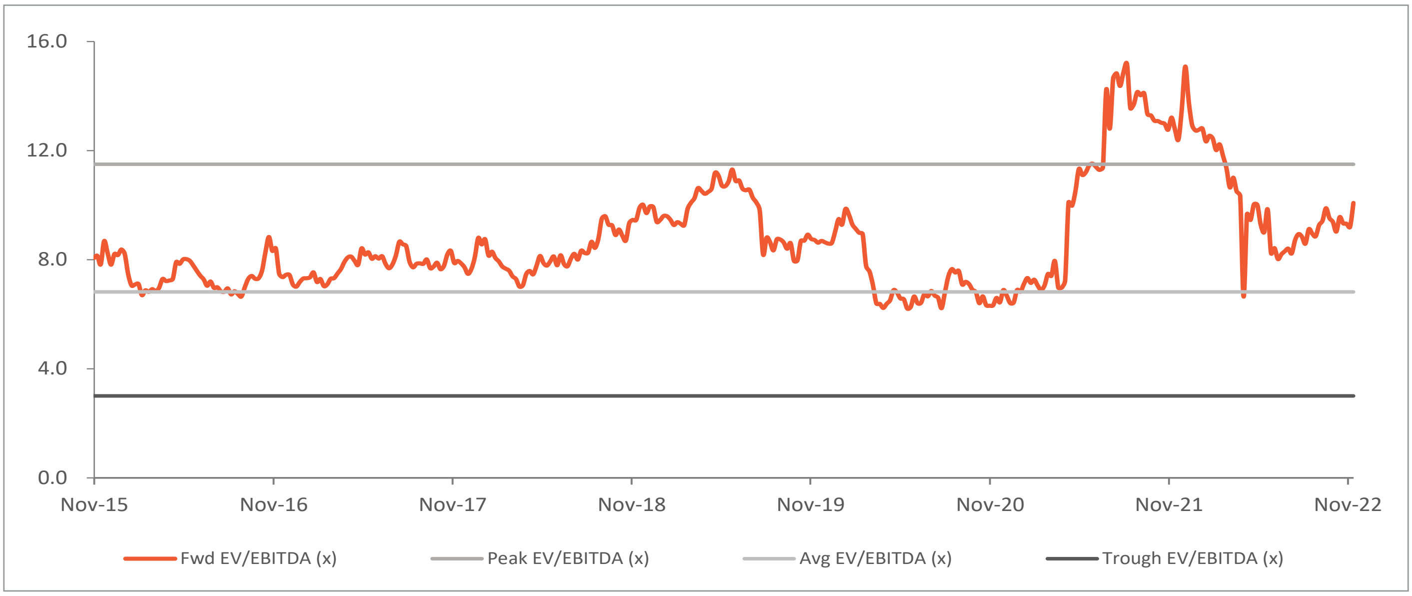
### Company outlook - Strong earnings growth

We expect Alicon to benefit from 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 in the future. 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 Rs1,159

Alicon is likely to benefit from multi-year order wins, which are expected to contribute significantly. We remain optimistic 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 features. 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. We have revised our PT upwards to Rs. 1,159, led by rolling forward our target multiple to September 2024E EPS. The stock is trading at an attractive P/E multiple of 13.9x and EV/EBITDA multiples of 6.2x its FY24E estimates.

**One-Year Forward EV/EBITDA (x) Band**




*Source: Sharekhan Research*

**Peer Comparison**

| Companies | CMP (Rs/ Share) | P/E (x) | | | EV/EBITDA (x) | | | ROCE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | FY22 | FY23E | FY24E | FY22 | FY23E | FY24E | FY22 | FY23E | FY24E |
| Alicon Castalloy | 988 | 65.8 | 21.8 | 13.9 | 13.4 | 8.4 | 6.2 | 10.9 | 19.8 | 23.6 |
| Gabriel India | 177 | 28.4 | 18.1 | 13.9 | 16.3 | 10.9 | 8.3 | 16.8 | 22.3 | 25.2 |
| GNA Axles | 671 | 16.2 | 12.2 | 10.1 | 8.8 | 7.0 | 5.7 | 17.4 | 20.3 | 21.0 |

*Source: Company; Sharekhan Research*

## About company

Alicon is a pioneer in low-pressure die casting (LPDC) and gravity die-casting (GDC). The company caters to the requirements of domestic as well as overseas clients and has a well-diversified base of marquee clients. The 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, crankcases, head covers, manifolds, 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 about 80% of its revenue from domestic operations, while 20% is comprised by exports, which include overseas business.

## Investment theme

Alicon is expected to benefit from an improved business outlook from the 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*

**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 Pvt. Ltd. | 1.8 |
| 8 | Vimal Gupta | 1.8 |
| 9 | Nirav Mahendra Sheth | 1.0 |
| 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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