Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Alicon Castalloy Ltd

Robust order book, optimism continue

Automobiles	Sharekhan code: ALICON

Reco/View: Buy	↔	CMP: Rs. 899	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		↔	

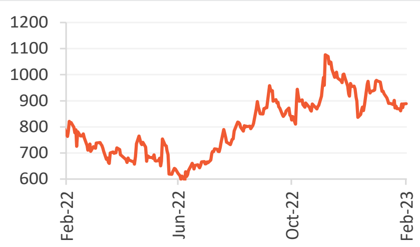
Company details

Market cap:	Rs. 1,448 cr
52-week high/low:	Rs. 1,024 / 579
NSE volume: (No of shares)	29,730
BSE code:	531147
NSE code:	ALICON
Free float: (No of shares)	0.7 cr

Shareholding (%)

Promoters	55.7
FII	0.0
DII	8.5
Others	35.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.8	-3.1	20.0	9.5
Relative to Sensex	-9.4	-1.2	16.3	4.9

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on Alicon Castalloy Limited (Alicon) with an unchanged PT of Rs. 1,159, led by strong order book and margin expansion plans. The stock trades at a P/E multiple of 10.1x and EV/EBITDA multiple of 4.5x its FY25 E estimates.
- Backed by its diversified business portfolio, the company aims to outperform the domestic automobile industry growth.
- Despite macro headwinds, the management has shared optimistic outlook for export revenue for FY24E backed by order inflow visibility.
- The management is looking for a gradual improvement in EBITDA margin and targets EBITDA margin at 14-15% level in next 3-4 years, as new orders is expected to deliver better EBITDA margin.

While reported revenue and PAT were 8.8% and 9.5% below estimates the EBITDA margin came inline with estimates on account of gross margin expansion. Revenue declined by 4.2% q-o-q to Rs 361.3 cr on account of a q-o-q decline in vehicle production. Though exports contributed 21% to the topline in Q3FY23, going forward the management has indicated that the revenue contribution from exports would increase in coming years on account of continuous gain of new orders from overseas client. EBITDA margin expanded by 20 bps q-o-q to 11.5% (vs our estimate of 11.6%) on account of 60 bps q-o-q expansion in gross margin. Though EBITDA declined by 2.6% q-o-q the PAT increased by 1.7% q-o-q to Rs 15.6 cr on account of lower tax provisions on q-o-q basis. The effective tax rate stood at 12.4% in Q3FY23 compared to 25.2% in Q2FY23. Going forward, the management shared an optimistic outlook on domestic as well as export business and indicated for a continued increase in order inflow. Currently, the order book stood Rs 7,000 cr to Rs 7,400 cr for FY28. The new orders are assumed to be of high margin orders, and the share of alternative fuel has been increasing in the overall orderbook. The management is looking for a 36% of its topline to come from alternative fuel (including EVs) by FY26.

Key positives

- Gross margin expanded by 60 bps q-o-q to 49.3% and translated into 20 bps q-o-q improvement in EBITDA margin to 11.5%
- While the q-o-q performance was impacted due to decline in OEM's production the company has registered healthy growth on y-o-y basis as Revenue, EBITDA and PAT increased by 29.5%, 25.6% and 28.5% respectively. The sharp improvement in performance on y-o-y basis is attributed to the execution on new orders.
- In Q3FY23, the company has received orders for four new parts (1 for PVs and 3 for 2ws)
- Capacity utilization stood at 65-70%.

Key negatives

- The EBITDA margin contracted by 40 bps y-o-y due to 90 bps y-o-y contraction in gross margin.
- The company has yet to receive full reimbursement from clients for higher raw material costs.

Management Commentary

- The management is optimistic on the growth prospects in the export business in FY24 backed by the positive feedback from the customers
- EBITDA margin is likely to improve by 100 bps in Fy24 and would gradually reach to 14-15% level in next 3-4 years.
- The company is regularly receiving, new orders and the new orders are expected to deliver higher margins compared to exiting EBITDA margins
- Auto business and non-auto business contributed 93% and 7% to the topline in Q3FY23.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 1,159: Post Q3FY23 results, the management has shared an optimistic outlook on both domestic as well as the export business as it has been continuously receiving new orders. The order book size for FY28 stood at Rs 7,000 cr to Rs 7,400 cr and new orders are assumed to deliver better margins than existing margins. The company is confident about achieving its target of 14-15% EBITDA margin over the next 3-4 years backed by improvement in product mix. Along with long cycle orders the company is also looking for short cycle orders for fast execution and delivery. The stock is trading at an attractive P/E multiple of 10.1x and EV/EBITDA multiples of 4.5x its FY25E estimates. We believe the company continues to gain new businesses because of its strong research and development (R&D) capabilities, its expertise in aluminum 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 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 Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenues	848.6	1078.1	1461.9	1754.3	2105.1
Growth (%)	-11.3	27.0	35.6	20.0	20.0
EBIDTA	83.2	112.5	168.1	226.3	285.9
OPM (%)	9.8	10.4	11.5	12.9	13.6
Net Profit	-1.9	24.2	55.7	96.1	142.3
Growth (%)	NA	NA	130.6	72.5	48.0
EPS	-1.4	15.0	34.6	59.7	88.3
P/E	NA	59.2	25.7	14.9	10.1
P/BV	3.9	4.3	3.8	3.2	2.5
EV/EBIDTA	17.6	12.2	8.1	5.9	4.5
ROE (%)	-0.6	7.3	14.8	19.2	23.1
ROCE (%)	5.9	10.9	17.5	22.1	26.3

Source: Company; Sharekhan estimates

Promising growth in exports: Currently export is contributing 21% to the total revenue and the management is endeavouring to increase the revenue contribution from export markets in coming years. The management has shared a positive outlook for the export business for FY24 backed by the feedback from its customers. Given global OEMs are building up EV platforms and hence Alicon foresees a robust business opportunity in light weighting side. The management has indicated that they are continuing to gain healthy orders from overseas clients and negotiating to pass on higher input cost to clear out under recoveries.

Robust order book: Alicon is continuously gaining new orders from its existing as well as new clients. While the company has been building up long term order book, it is also focusing on receiving short cycle readymade orders to deliver healthy operating performance in near terms. The total order book size stood at Rs 7000 cr to Rs 7400 cr till 2028. The new order execution rate would likely to go up from Rs 500-Rs 530 cr in FY23 to Rs 750 cr in Fy24. The management assumes that new orders would offer higher margin than the margins in the existing orders.

EBITDA margin to reach 13-14% in next 3-4 years: The management is looking for a 15% plus growth in its top line and 100 bps expansion in EBITDA margin in FY24 backed by execution of new orders and improvement in product mix. EBITDA margin is expected to improve gradually from current levels on diversified product mix and execution of high-margin new orders. The management targets for 14-15% EBITDA margin in next 3-4 years.

Prime focus on continuously improving R&D capabilities

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

Others

- The management is looking to improve working capital management in Q4FY24 as reducing export shipment time and raw material prices would reduce pressure on working capital.
- The business from PV and CV business would continue to improve in Q4 but the business from two wheeler segment may improve from Q4 as 2W OEMS are reducing dealer inventory before introduction of OBD2 norms from April 2023.
- Currently the share of alternative business (including EV business) in overall order book stands at 22% and likely to reach a 36% level by FY26.

Results Rs cr

Particulars	Q3FY23	Q3FY22	YoY %	Q2FY23	QoQ %
Net Sales	361.3	278.9	29.5	377.3	(4.2)
Total operating costs	319.7	245.8	30.1	334.5	(4.4)
EBIDTA	41.6	33.1	25.6	42.8	(2.6)
Depreciation	16.3	13.4	21.4	15.6	4.1
Interest	8.3	6.9	19.3	7.3	12.8
Other Income	0.7	0.6	11.8	0.7	2.6
PBT	17.8	13.4	32.5	20.5	(13.1)
Tax	2.2	1.3	69.3	5.2	(57.3)
Reported net profit	15.6	12.1	28.5	15.3	1.7
Adjusted net profit	15.6	12.1	28.5	15.3	1.7
Adjusted EPS	9.7	7.5	28.5	9.5	1.7

Source: Company, Sharekhan Research

Key ratios (Consolidated)

Particulars	Q3FY23	Q3FY22	YoY (bps)	Q2FY23	QoQ (bps)
Gross margin (%)	49.3	50.1	(90)	48.6	60
EBIDTA margin (%)	11.5	11.9	(40)	11.3	20
Net profit margin (%)	4.3	4.4	-	4.1	30
Effective tax rate (%)	12.4	9.7	270	25.2	-

Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Beneficiary of recovery in automobile sales

After three challenging years, we expect volumes to recover steadily from FY23 onwards. 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.

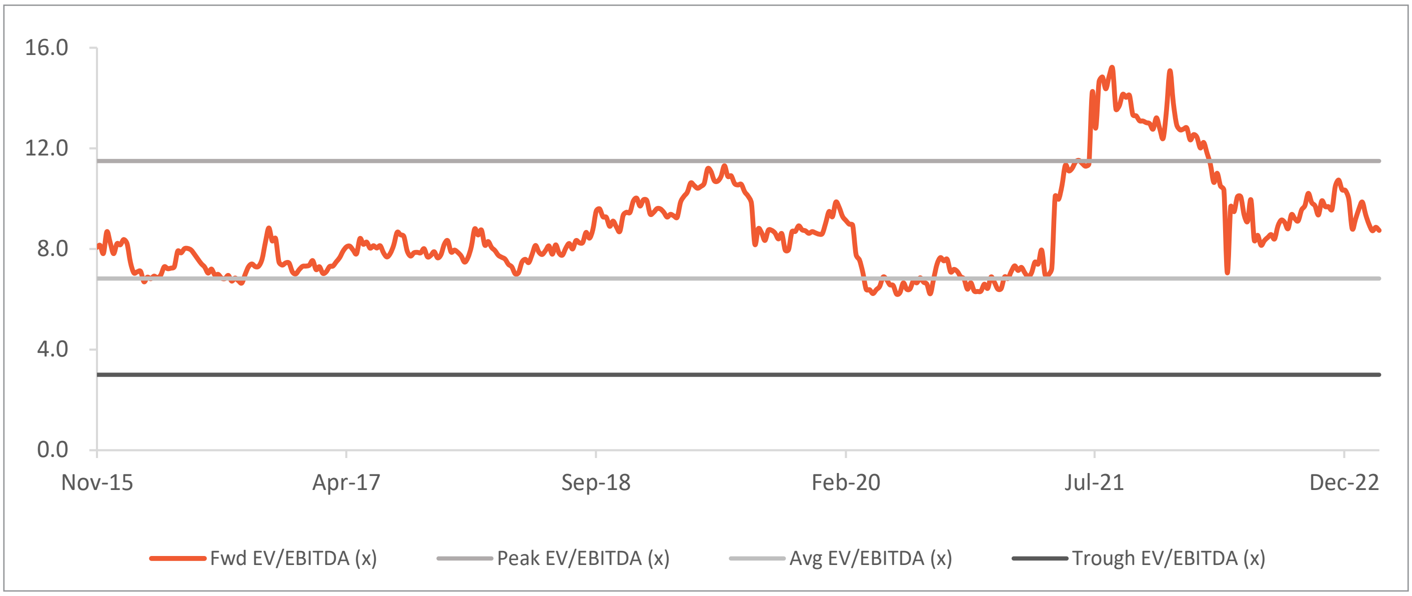
Company outlook - Strong earnings growth

We expect Alicon to benefit from an improved business outlook from 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 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 an unchanged PT of Rs. 1,159

Post Q3FY23 results, the management has shared an optimistic outlook on both domestic as well as export business as it has been continuously receiving new orders. The order book size for FY28 stood at Rs 7,000 cr to Rs 7,400 cr and new orders are assumed to deliver better margins than existing margins. The company is confident on achieving its target of 14-15% EBITDA margin in next 3-4 years backed by improvement in product mix. Along with long cycle orders the company is also looking for short cycle orders for fast execution and delivery. The stock is trading at an attractive P/E multiple of 10.1x and EV/EBITDA multiples of 4.5x its FY25E estimates. We believe the company continues to gain new businesses because of its strong research and development (R&D) capabilities, its expertise in aluminum 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.

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	889	59.2	25.7	14.9	12.2	8.1	5.9	10.9	17.5	22.1
Gabriel India	160	25.7	17.5	12.6	14.6	9.9	7.2	16.8	21.1	25.4
GNA Axles	872	21.1	14.7	12.3	11.2	8.7	7.1	17.4	21.5	22.0

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 the 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

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	6.9
4	Axis AMC	6.3
5	Rajeev Sikand	3.5
6	U. C. Rai Holdings Private Limited	2.1
7	IDFC MF	1.9
8	Pamela Trading Llp	1.8
9	Skyblue Trading And Investments P Ltd	1.6
10	Vimal Gupta	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 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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