



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. 1,218 cr
52-week high/low:	Rs. 1,111 / 579
NSE volume: (No of shares)	22,324
BSE code:	531147
NSE code:	ALICON
Free float: (No of shares)	0.7 cr

Shareholding (%)

Promoters	55.7
FII	0.1
DII	8.5
Others	35.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.7	-13.4	-13.7	10.0
Relative to Sensex	-9.3	-14.5	-14.1	-6.1

Sharekhan Research, Bloomberg

Alicon Castalloy Ltd

Eyeing on margin expansion

Automobiles

Sharekhan code: ALICON

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 756

Price Target: Rs. 895



Summary

- We maintain our Buy rating on Alicon Castalloy Limited (Alicon) with a target price of Rs. 895 on healthy revenue visibility due to robust order book, expectation of improvement in operating margin led by better product mix and focus on EV projects.
- The current order book position stands at Rs. 7,800 crore and management targets revenue of Rs. 2,000 crore by FY2026.
- Management is strategically focusing on improvement in the product mix via rising revenue from the PV and CV space.
- The stock trades at a P/E multiple of 11.4x and EV/EBITDA multiple of 6.0x its FY2025E.

In Q4FY2023, Alicon Castalloy Limited (Alicon) reported lower-than-expected operating margin owing to lower-than-expected topline performance. On the other hand, APAT came in line with estimates on account of reversal of deferred tax. During the quarter, Alicon lost revenue opportunity of Rs. 30-35 crore due to introduction of BSVI phase-2 norms and observes slow ramp-up in new projects. Hence, the company reported an 11.6% q-o-q decline in revenue (16% below estimates). With 230-bps gross margin expansion, AEBITDA contracted by 60 bps q-o-q to 10.9% on account of lack of operating leverage. However, APAT came in line with our estimates due to accounting of reversal of deferred tax of Rs. 6.8 crore. APAT declined by 18.6% q-o-q to Rs. 12.7 crore (against our estimate of Rs. 12.6 crore). Going forward, management has guided for a topline of Rs. 2,000 crore and EBITDA margin of 14% by FY2026E and has been strategically focussing on EV projects and overseas markets. The current order book position of Rs. 7,800 crore offers healthy revenue visibility. New orders are assumed to be high-margin orders and the share of alternative fuel has been increasing in the overall order book. We maintain our Buy rating on the stock with a revised target price (TP) of Rs. 895.

Key positives

- Gross margin expanded by 230 bps q-o-q to 51.6%.
- The overseas market contributed 21% to the total revenue similar to Q3FY2023 levels.
- The non-auto segment registered ~1% q-o-q growth in revenue.

Key negatives

- The topline declined by 11.6% q-o-q and missed estimates by 16% as it lost revenue opportunity of Rs. 30-35 crore due to the introduction of BSVI phase-2 norms and slow ramp-up in new orders.
- The company provided Rs. 3 crore for one-time settlement cost with a customer for earlier years.
- AEBITDA margin contracted by 60 bps q-o-q to 10.9% against our estimate of 11.6%.

Management Commentary

- Management is targeting revenue of Rs. 2,000 crore and EBITDA margin at 14% for FY2026E.
- The focus would continue to be on EBITDA margin expansion than plain vanilla volume growth as management is looking for improvement in the product mix in coming years.
- The current order book stands at Rs. 7,800 crore and 33% of the order book is constituted by EV projects.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 895: Alicon's Q4FY2023 performance was impacted due to implementation of BSVI phase-2 norms and slow ramp-up in new orders. However, going forward, management has shared an optimistic outlook for the next three years, led by a strong order book position. The current order book position stands at Rs. 7,800 crore (5.6x its FY2023 revenue). Management is targeting 15% revenue growth in FY2024 and revenue of Rs. 2,000 crore by FY2026, implying a revenue CAGR of 12.6% over FY2023-FY2026E. Management assumes that new orders would offer higher margins compared with existing orders. With the expectation of soft raw-material cost trend and improvement in product mix, management is expecting 100-bps expansion in EBITDA margin in FY2024 and 14% EBITDA margin by FY2026. Alicon has been continuously endeavoring to gain new business and to add new customers on account of its expertise in aluminum alloy castings and long association with leading OEMs. Management has indicated it is continuing to gain healthy orders from overseas clients and negotiates with the customers to pass on higher input cost to clear out under-recoveries. We maintain our Buy rating on the stock with a target price (TP) of Rs. 895 on healthy revenue visibility due to robust order book, expectation of improvement in operating margin led by better product mix and focus on EV projects.

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)

Valuation table	FY21	FY22	FY23P	FY24E	FY25E
Revenues (Rs cr)	823	1,039	1,401	1,605	1,864
Growth (%)		26.3	34.8	14.5	16.2
AEBITDA (Rs cr)	83	112	153	191	246
OPM (%)	10.1	10.8	10.9	11.9	13.2
Adj Net Profit (Rs cr)	-2	24	51	70	107
Growth (%)			112.7	36.2	52.4
AEPS	-1.2	15.0	31.9	43.5	66.3
P/E (x)		50.4	23.7	17.4	11.4
P/BV (x)	3.9	2.7	2.5	2.2	1.9
EV/EBITDA (x)	18.2	13.0	9.8	7.8	6.0
ROE (%)	-0.6	6.4	11.0	13.5	17.7
ROCE (%)	-10.5	7.0	10.3	11.5	14.5

Source: Company; Sharekhan estimates

Key result highlights

AEBIDTA margin was below estimates, while APAT came in line with estimates

- ◆ During the quarter, the two-wheeler segment reported lacklustre volume performance due to change in emission norms and, thereby impacting Aicon's Q4FY2023 performance.
- ◆ Revenue declined by 11.6% q-o-q to Rs. 319.3 crore (against our estimate of Rs. 380 crore) on account of a ~11.6% q-o-q decline in revenue from both domestic as well as overseas market.
- ◆ Further, the non-auto segment registered marginal (~1%) uptick on a q-o-q basis, while the auto segment witnessed a 12.6% q-o-q decline in revenue.
- ◆ The company has provided Rs. 3 crore for one-time settlement cost with clients pertaining to earlier years.
- ◆ On excluding the one-time cost, adjusted EBITDA margin works out to be 10.9%.
- ◆ Despite a 230bps q-o-q expansion in gross margin to 51.6%, EBITDA margin contracted by 60 bps q-o-q to 10.9% (against estimate of 11.6%) due to lack of operating leverage.
- ◆ With this operating performance and reversal of deferred tax, APAT stood at Rs. 12.7 crore against our estimate of Rs. 12.6 crore.

Strong order book position

- ◆ The order book position is strong at Rs. 7,800 crore.
- ◆ 33% of the order book is constituted by EV projects, as the company has been continuously looking to expand its fuel agnostic business.
- ◆ It is assumed that value addition in the new business is high compared to past orders and new orders would offer higher profitability on execution.

Looking for EBITDA margin expansion

- ◆ Aicon is gradually looking to improve its product mix via reducing its dependence on the two-wheeler segment and increasing its presence in the PV and CV segments.
- ◆ Revenue contribution from the two-wheeler segment has come down from 53% in FY2022 to 46% in FY2023 and management is targeting the two-wheeler segment to contribute 32% to its total revenue in FY2026E.
- ◆ Similarly, revenue contribution from the PV segment has increased to 35% in FY2023 from 23% in FY22 and revenue contribution from the CV segment has increased to 21% in FY2023 from 15% in FY2022.
- ◆ The company has already eliminated around 175 low-margin products from its portfolio to expand its EBITDA margin.

Outlook: Targeting topline of Rs. 2,000 crore for FY2026

- ◆ Management targets Rs. 2,000 crore revenue with 14% EBITDA margin in FY2026 on account of strong orders as the company has already secured an order book to achieve its targeted revenue.
- ◆ Further, the company is looking to deliver 15% revenue growth with 100bps expansion in EBITDA margin in FY2024E, as it has added few new customers and has been receiving orders for new parts.
- ◆ Management is strategically focusing on the overseas market, EV projects, and improvement in overall products.

Results (Consolidated)

Particulars	Q4FY23	Q4FY22	% yoy	Q3FY23	% qoq
Net Sales	319.3	320.6	(0.4)	361.3	(11.6)
Total operating costs	284.5	282.7	0.7	319.7	(11.0)
AEBIDTA	34.7	37.9	(8.4)	41.6	(16.6)
Depreciation	16.7	13.9	20.3	16.3	2.5
Interest	8.6	7.1	19.8	8.3	3.6
Other Income	1.4	0.8	75.8	0.7	97.7
PBT	10.9	17.7	(38.5)	17.8	(38.8)
Tax	(1.8)	4.5		2.2	
Reported net profit	9.7	13.2	(26.6)	15.6	(37.8)
Adjusted net profit	12.7	13.2	(3.8)	15.6	(18.6)
Adjusted EPS	7.9	8.2	(3.8)	9.7	(18.6)

Source: Company, Sharekhan Research

Key ratios (Consolidated)

Particulars	Q4FY23	Q4FY22	YoY (bps)	Q3FY23	QoQ (bps)
Gross margin (%)	51.6	50.4	120	49.3	230
EBIDTA margin (%)	10.9	11.8	(100)	11.5	(60)
Net profit margin (%)	4.0	4.1	(10)	4.3	(30)

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Beneficiary of recovery in automobile sales

The auto sector is expected to maintain steady growth in FY2024, though volume growth may moderate due to a high base. Further, rise in premiumisation would augur well for profitability. Rise in demand for high-end products results in an opportunity of value addition for ancillary players. The introduction of new technologies, continuous launch of new products, implementation of new emission norms, and safety norms are helping ancillary players to revitalise their revenue streams. Moreover, EV adoption is the fastest in Europe, likely to be positive for Alicon. We retain our Positive view on 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 provides strong growth visibility in the future. Alicon expects the execution of new orders would further increase in revenue run rate in the subsequent years. The company 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 revised PT of Rs. 895

Alicon's Q4FY2023 performance was impacted due to implementation of BSVI phase-2 norms and slow ramp-up in new orders. However, going forward, management has shared an optimistic outlook for the next three years, led by a strong order book position. The current order book position stands at Rs. 7,800 crore (5.6x its FY2023 revenue). Management is targeting 15% revenue growth in FY2024 and revenue of Rs. 2,000 crore by FY2026, implying a revenue CAGR of 12.6% over FY2023-FY2026E. Management assumes that new orders would offer higher margins compared with existing orders. With the expectation of soft raw-material cost trend and improvement in product mix, management is expecting 100-bps expansion in EBITDA margin in FY2024 and 14% EBITDA margin by FY2026. Alicon has been continuously endeavoring to gain new business and to add new customers on account of its expertise in aluminum alloy castings and long association with leading OEMs. Management has indicated it is continuing to gain healthy orders from overseas clients and negotiates with the customers to pass on higher input cost to clear out under-recoveries. We maintain our Buy rating on the stock with a TP of Rs. 895 on healthy revenue visibility due to robust order book, expectation of improvement in operating margin led by better product mix, and focus on EV projects.

Peer Comparison

Companies	CMP (Rs/ Share)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Alicon Castalloy	756	50.4	23.7	17.4	13.0	9.8	7.8	7.0	10.3	11.5
Gabriel India	169	27.1	18.5	13.3	15.5	10.5	7.6	12.1	15.6	18.8

Source: Company; Sharekhan Research

About the 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's share of its revenue. Other products manufactured include brackets, crankcases, head covers, manifolds, and brackets. Around 93% of Alicon's revenue comes from the auto segment, while the non-auto segment constitutes the remaining 10%. The company derives about 79% of its revenue from domestic operations, while 21% comes from 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 provides strong growth visibility going forward. Alicon expects new order execution to 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. We maintain our Positive stance on Alicon's business outlook.

Key Risks

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Additional Data

Key management personnel

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 P Ltd	42.0
2	Enkei Corp	13.8
3	Rai Shailendrajit Charanjit	6.9
4	Axis Asset Management Co Ltd/India	6.3
5	Sikhand Rajeev	3.5
6	IDFC Mutual Fund/India	2.2
7	U C Rai Holdings Pvt Ltd	2.1
8	Pamela Trading Pvt Ltd	1.8
9	Skyblue Trading & Investment Pvt Ltd	1.6
10	Gupta Vimal	1.0

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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