



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	✗	↔	✓

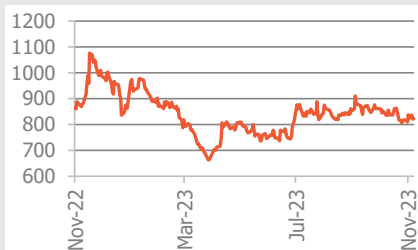
Company details

Market cap:	Rs. 1,326 cr
52-week high/low:	Rs. 1,111 / 645
NSE volume: (No of shares)	26,039
BSE code:	531147
NSE code:	ALICON
Free float: (No of shares)	0.7 cr

Shareholding (%)

Promoters	55.7
FII	0.1
DII	8.8
Others	35.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.1	-4.4	1.8	-4.7
Relative to Sensex	-1.5	-3.3	-4.4	-11.4

Sharekhan Research, Bloomberg

Alicon Castalloy Ltd

Robust order book

Automobiles	Sharekhan code: ALICON			
Reco/View: Buy	↔	CMP: Rs. 823	Price Target: Rs. 999	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

Summary

- We maintain our Buy rating on Alicon Castalloy Limited (ACL) with a target price of Rs. 999 on the robust order book, expecting improvement in operating margin led by better product mix and its focus on EV projects.
- Reported APAT at Rs 18.2cr in Q2FY24 against estimate of Rs 17.1cr.
- Order book continues to be strong and reached to Rs 8687 cr for FY23 – 29E.
- Stock trades at P/E multiple of 10.8x and EV/EBITDA multiple of 5.5x its FY26 estimates.

With the the commencement of new components' supply and the decline in the legacy business along with the improvement in product mix, Alicon has reported broadly inline performance in Q2FY24. Revenue increased by 7.6% q-o-q to Rs 381 cr (against an estimate of Rs 385.4cr) on the back of a 11.8% q-o-q increase in domestic revenue and a 6.4% q-o-q decline in export revenue. With 30 bps q-o-q contraction in gross margin and excluding the impact of ESOP cost (Rs 3.66 cr), the Adjusted EBITDA increased by 9% q-o-q to Rs 49.9 cr (against an estimate of Rs 50.6 cr) and adjusted EBITDA margin expanded by 20 bps q-o-q to 13.1% (against an estimate of 13.1%). With this operating performance adjusted, APAT increased by 12.9% q-o-q to Rs 18.2 cr (against estimate of Rs 17.1 cr). In the future the management has guided for a 10-12 % increase in revenue in FY24 on commencement of new programs in H2FY24 and aims for a income of Rs 2200 cr by FY26.

Key positives

- Adjusted EBITDA margin expanded by 20 bps q-o-q to 13.1%; hence, the management is on track in achieving its target of 100 bps expansion in EBITDA margin in FY24.
- Added eight new products in the export market and one new product in the domestic market
- Product mix is shifting towards CV and PV segments.

Key negatives

- Correction in aluminium price is impacting topline growth.
- International business registered 6.4% q-o-q decline in revenue.

Management Commentary

- On track to achieve 100 bps expansion in EBITDA margin in FY24.
- H2FY24 would be better than that of H1FY24 on introduction of new components.
- Continue to focus on technology-agnostic solutions.

Our Call

Valuation – Maintained Buy with unchanged PT of Rs 999: Post reporting inline performance in Q2FY24 the management has guided for an optimism in the business from H2FY24 as it targets a 10-12% revenue growth in FY24 and aims for revenue of Rs 2200 cr by FY26. Alicon has been continuously endeavouring to gain new business and add new customers because of its expertise in aluminium alloy castings and long association with leading OEMs. Management assumes that new orders would offer higher margins compared with existing orders. ACL is continuously shifting its focus on 4W business to improve its revenue mix and, hence profitability. Post incorporating Q2FY24 performance and introducing earning estimates for FY26 E, We maintain our Buy rating on the stock with a target price (TP) of Rs. 999 on healthy revenue visibility due to robust order book, the expectation of improved 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	FY26E
Revenues (Rs cr)	849	1,078	1,401	1,575	1,817	2,111
Growth (%)		27.0	30.0	12.4	15.3	16.2
AEBIDTA (Rs cr)	83	112	153	192	240	279
OPM (%)	9.8	10.4	10.9	12.2	13.2	13.2
Adj Net Profit (Rs cr)	-2	24	51	67	98	122
Growth (%)		-	112.7	30.9	45.8	24.6
AEPS	-1.2	15.0	31.9	41.8	60.9	75.9
P/E (x)		54.8	25.8	19.7	13.5	10.8
P/BV (x)	4.3	3.0	2.7	2.4	2.1	1.7
EV/EBIDTA (x)	19.5	14.0	10.5	8.3	6.6	5.5
ROE (%)		6.4	11.0	13.0	16.4	17.4
ROCE (%)	-10.5	7.0	10.3	11.2	13.7	14.7

Source: Company; Sharekhan estimates

Q2Fy24 performance

- ♦ Revenue break up in Q2Fy24 : Auto segment : 94%, Non auto segment : 6%.
- ♦ Focus on engine-agnostic technology and value addition is supporting the transformation in the company.
- ♦ Product mix is shifting towards CV and PV segments.
- ♦ Received new order 170 cr in Q2Fy24 and hence, the order book stands at Rs 8687 cr with an execution period of 6 years from FY23 to FY29.
- ♦ Added one part from an existing customer for heavy-duty truck in the domestic market.
- ♦ Revenue growth was impacted due to corrections in aluminium prices.
- ♦ Revenue mix: Two wheelers: 43%, PVs: 29% and CVs: 20%.

Export

- ♦ Energy prices have stabilized and availability of natural gas is improving in European markets, hence European business is showing improvement.
- ♦ Added 8 new parts in Q2FY24.
- ♦ 20 % of revenue came from exports in Q2FY24.
- ♦ Outlook for exports has been improving.
- ♦ The management indicates that overall exports would contribute 31% to the topline in FY24 (including indirect exports) compared to 27% in FY23.

Evs

- ♦ EV segment contributed 7% to the topline in Q2FY24 compared to 3.5% in Q2FY23.
- ♦ The company has started developing a prototype for JLR.
- ♦ # Has been in discussion with big global players for EV parts.

Outlook

- ♦ The management expects an improvement in revenue in H2 FY24 compared to H1 FY24 due to the introduction of new products.
- ♦ Management targets 10-12% growth in revenue in FY24 and revenue of Rs 2200 cr by FY26.
- ♦ Continuously focussing on new products and new customers.
- ♦ Focussing on enriching the revenue mix via increasing revenue share from the PV and CV segment and reducing dependence on the wheeler segment.
- ♦ Expecting an addition of a prestigious global customer in the EV segment.
- ♦ No significant Esop charges are expected from FY25 onwards.
- ♦ Guided for a capex of Rs 90 cr in FY24.

Results (Consolidated)

					Rs cr
Particulars	Q2FY24	Q1FY23	% yoy	Q1FY24	% qoq
Net Sales	381.0	377.3	1.0	354.1	7.6
Total operating costs	331.1	334.5	(1.0)	308.2	7.4
AEBIDTA	49.9	42.8	16.8	45.8	9.0
Depreciation	18.2	15.6	16.4	18.4	(1.0)
Interest	10.1	7.3	38.5	9.5	7.3
Other Income	0.8	0.7	7.7	0.8	(5.6)
PBT	22.3	20.5	9.0	18.8	18.9
Tax	4.2	5.2	(19.0)	2.7	54.3
Reported net profit	14.5	15.3	(5.5)	12.8	13.4
Adjusted net profit	18.2	15.3	18.4	16.1	12.9
Adjusted EPS	11.3	9.5	18.4	10.0	12.9

Source: Company, Sharekhan Research

Key ratios (Consolidated)

Particulars	Q2FY24	Q1FY23	YoY (bps)	Q1FY24	QoQ (bps)
Gross margin (%)	50.1	48.6	140	50.4	(30)
EBIDTA margin (%)	13.1	11.3	180	12.9	20
Net profit margin (%)	4.8	4.1	70	4.5	20

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – 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, a rise in premiumisation would augur well for profitability. The rise in demand for high-end products results in an opportunity for value addition for ancillary players. Introducing new technologies, ongoing launch of new products, implementation of new emission norms, and safety norms are assisting ancillary players to revitalise their revenue streams. Moreover, EV adoption is the fastest in Europe, which is likely to be positive for Aicon. We retain our positive view of the sector.

■ Company Outlook – Strong earnings growth

We expect Aicon 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 Aicon's multi-year order wins provides strong growth visibility in the future. Aicon expects the execution of new orders will further increase the revenue run rate in the subsequent years. The company is likely 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 – Maintained Buy with unchanged PT of Rs 999

Post reporting inline performance in Q2FY24 the management has guided for an optimism in the business from H2FY24 as it targets a 10-12% revenue growth in FY24 and aims for revenue of Rs 2200 cr by FY26. Aicon has been continuously endeavouring to gain new business and add new customers because of its expertise in aluminium alloy castings and long association with leading OEMs. Management assumes that new orders would offer higher margins compared with existing orders. ACL is continuously shifting its focus on 4W business to improve its revenue mix and, profitability. Post incorporating Q2FY24 performance and introducing earning estimates for FY26 E, We maintain our Buy rating on the stock with a target price (TP) of Rs. 999 on healthy revenue visibility due to robust order book, the expectation of improved operating margin led by better product mix and focus on EV projects.

Change in earning estimates (Rs cr)

Particulars	New		Earlier		% change		Introduction
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY26E
Revenue	1,575	1,817	1,605	1,864	(1.8)	(2.5)	2,111
EBITDA	192	240	191	246	0.6	(2.5)	279
EBITDA margin (%)	12.2	13.2	11.9	13.2			13.2
PAT	67	98	70	107	(3.9)	(8.1)	122
EPS	41.8	60.9	43.5	66.3	(3.9)	(8.1)	75.9

Source: Company; Sharekhan Research

About the company

Alicon pioneered 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 essential products manufactured by the company and accounts for the 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 in the future. Alicon expects new order execution to ramp up in the subsequent years. Alicon is likely 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

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.

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	Mithras Trading LLP	0.8

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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