Business Overview:

- Alicon Castalloy is in the business of aluminium castings through low pressure die-casting(LPDC). In this proess, molten aluminium flows into a mould to get the desired shape.
    - 92% revenues come from the Auto industry
        - ~50% from 2W
        - 21% from 4W
        - 21% from CV
    - 8% revenues come from the non-auto segment

Business Outlook(Negative):

- **65% of revenues come from cylinder heads. The Co. has 45% market share in 2W cylinder heads.**
- While Al is an essential metal for light weighting purpose, the 2W industry has already achieved high penetration of aluminium components and it is difficult to increase content per vehicle at this stage.
- Alicon is competing with companies related to incumbent 2W players such as Rockman Industries(Hero) Sundram Clayton(TVS) and Endurance Tech(Bajaj) for supply of casting products. Thus, bargaining power of Alicon with its customers its low
- Alicon benefits from tightening pollution norms in Europe for Aluminium casting. Alicon serves as a low-cost producer for overseas OEMs. The mgmt. wants to increase export contribution from current 20% to 30%. However, the mgmt. has indicated that its export contribution will decrease in the near term due to technological disruption happening at a faster pace in overseas markets. Some of the new products developed for exports are in the testing stage while some have just finished development. With gestation periods between 12-18 months, export contribution is likely to remain subdued in the medium term.

The International business, including exports has been a key propeller of our growth strategy. Facilitated by our European subsidiary, Illichmann Castalloy, we have increased significant foothold in the Europe and the US markets over the last few years. Today, exports, including sales from Illichman, contribute to about 20% of our total revenue contribution and while we aim to increase this to over 30% over the next 3 years, however we believe that FY21 is likely to witness a drop in our contribution of export business owing to technical disruption happening much faster in overseas market. In FY20, we got orders from JLR, Daimler, Samsung, Mahle, these products are under testing. Based on new product developed like Knuckles, etc, we are in the process of targeting new customers like FCA, TITANX, Eaton, Danfoss & ZF etc.

- Mgmt. expects future growth to be driven by 4W, CVs and non-auto biz. Mgmt. expects 2W contribution to come down from current 50% to 25% by FY25.

Rajeev Sikand: We have already factored that in our plan, two-wheeler will come down to around 25% by year 25.

Rohit Balakrishnan: By 25, you are saying two-wheeler will be down from?

Vimal Gupta: Whatever the growth we are expecting that will happen till 25, that will happen in the four-wheeler side, not in the two-wheeler side.

Year --->	FY19A	FY25E	5yr CAGR
Total Revenues	1,181	2,000	
2W revenue%	50%	25%	
Non 2W revenue%	50%	**75%**	
2W revenue(INR cr)	590.5	500	-3%
Non 2W revenue(INR cr)	590.5	**1,500**	20%

The mgmt.'s guidance implies that 2W revenues in FY25 will actually be lower than FY19 revenues. (Assuming mgmt's target of 2,000cr revenues in FY25). Which means non 2W business will have to grow at 20% CAGR to achieve Revenue target of 2,000cr. This growth in the non 2W areas is also from new product developments.

- The products of Alicon are not high precision components and hence there is little scope for margin improvement through price increases of products.
- Cylinder heads are not required for EVs. While 4W and CV EVs are yet to have meaningful advances, India has 15+ 2W EV models from Indian incumbents, foreign players(Hero, Suzuki) and startups(Aether energy). The government push for electric vehicles will accelerate the shift towards EV. 50% of Alicon's revenue comes from 2W.
  Other 2W EV components are either being developed in-house by the OEMs, or being sourced from related companies.
- The co.'s casting process is LPDC while high precision components require HPDC. Alicon has restricted itself to low-margin LPDC castings.
- The co. is focusing on increasing revenue contribution from non-auto segment to reduce exposure to the highly cyclical Auto industry. These are higher margin customized products with longer customer engagements. The co. is yet to scale up its non-auto business. Currently it accounts for 8% of revenues. The growth in this segment will have to driven by new products some of which are still in the development stage. The Co. has added ABB and Honeywell to its clientele but the revenue opportunity is a meagre 24cr per annum **(5% incremental addition to revenues)**

Dhiral Shah	Sir, lastly, we have done a tie up with ABB and Honeywell, so what we are going to supply and how big is that opportunity?
Shekhar Dravid	Right now whatever for ABB we have done that, that is in the energy sector and it contributes yearly around 14 crore business and for the Honeywell automation this is a totally new product line for different enclosure and different types of requirement in automation, which predominantly was developed in high pressure die casting that is because of the low volumes, this opportunity we have grabbed it under our business portfolio.
Dhiral Shah	How big is that opportunity?
Shekhar Dravid	It is again approximately around Rs.10 crore per annum.

<u>Positives:</u>

- Alicon received 4 orders totalling 810cr(including JLR and Samsung) to be executed over 5 years starting March 2020. This was expected add 162cr to the topline every year for 5 years starting FY21.(~15% incremental addition to topline).
- The Co. is focusing on tech agnostic products and has slew of new products in the pipeline. Some of the new products have already been approved by the customers (eg. JLR and Samsung)
- With the help of Enkei Corporation, Alicon has made slight changes to its manufacturing process(optimum batch sizes, reusing machine tools,outsorucing) and implementing cost control measures. EBITDA margin for FY20Q3 reached a record of 14% with 55-60% capacity utilisation. The mgmt. believes 13-14% are sustainable margins
  - This has reduced the requirement of contract labour which is evident from the continuous reduction in Employee Cost over the past 5 quarters. Employee cost has steadily decreased from 43.9cr in FY19Q2 to 33.2cr in FY20Q3.
  - Mgmt. has indicated that change in manufacturing processes will result in decrease in fuel costs(not quantified) will cause a permanent improvement in margins.
- The Co.'s s focused on increasing the higher-margin and less cyclical non-auto biz. It plans to develop several new products in this space. The Co. has already added several Tier-1 suppliers to its clientele
- There is an opportunity to grow in the 4W space because of low penetration of aluminium content in 4W and CVs. Stricter Emission norms will force OEMs to be more efficient which necessitate light-weighting of vehicles thereby increasing Al content per vehicle.
- Started supplying to Defence segment. Have supplied 1,400 aluminium wheels out of a total order of 2,900 wheels

Summary:

- The Co.’s core product ie cylinder heads(65% of revenues) is under threat of EV disruption. To counter this, the Co. has developed 3 new products: Motor Housing, Battery Housing and Transmission housing. Growth will depend on the speed of scaling up new products as well as the speed of technological disruption.
- The Co. has low scope to grow in its key segment of 2W which contribute ~50% of revenues. Competition from related companies of incumbents, and low scope for increasing content per vehicle in 2Ws has forced the company to look for other growth avenues.
  Alicon was supplying 14 components for Aether Energy’s 3 models of 2W EV. Aether has now discontinued with its most basic model.
  The co. is restricted to low-margin LPDC components. Increasing demands for efficiency coupled with performance have led to requirement of more complex components which are manufactured through HPDC.
- Alicon
- All of the co.’s future seems to be dependent on the development of new products. In all its segments, the management is betting on new products to deliver growth. In a management meet(14th March, 2019), the mgmt. **expected a success rate of only 50% from its new product proposals.**
- To reach 2,000cr of CAPEX the co. needed CAPEX of 500cr out of which ~250cr is spent. Due to the slowdown in the Auto industry, the Co. decided to delay their greenfield expansion project for its new products. This will cause a delay in development of new products.