Sector: Auto Parts & Equipments **RESULT REVIEW Q2FY25** **Declared On: 14 Nov 2024**

Alicon Castalloy Limited

RECOMMENDATION SNAPSHOT				
***CMP**	**MCap (Rsbn)**	**Recommendation**	**Target**	**Potential Upside**
Rs1133	**18.4**	**Buy**	**Rs1550**	**37%**

**as on 21st Nov, 2024*

About the Company:

Alicon Castalloy Limited (Alicon) is an established aluminium foundry involved in the manufacturing of very complex aluminium castings for automotive and non-automotive customers, in the domestic and international markets. It is a global company involved in design, engineering, casting, machining, painting and surface treatment of aluminium components. The company amalgamates the best of European engineering, Japanese quality and Indian ingenuity to produce exceptional and innovative aluminium casting products. Thus, is aptly placed to offer end-to-end solutions across the entire value chain to diverse industries.

Results: Quick Glance:

- The net sales for the quarter reported growth of 21.7% to Rs4637mn as compared to Rs3810mn in the same quarter last year
- The Ebitda margins for the quarter under review stood at 12.0% as compared to 12.1% in the comparative quarter last year
- The company reported profit of Rs168mn as compared to Rs145mn in the same quarter last year
- The EPS for the quarter stood at Rs10.34 as compared to Rs9.00 in the corresponding period of last year
- For H1FY25, the revenues came in at Rs9037mn as compared to Rs7351mn; growth of 22.9% while the PAT stood at Rs358mn as against Rs240mn. The EPS came in at Rs22.09

Conference Call Highlights:

- In Q2FY25, the global auto industry witnessed 4% y-o-y de-growth in volumes, in contrast to which the Indian auto industry reported a healthy performance with 9% volume growth, driven by the 2W segment. On the segmental front, there was 12% growth in 2W segment, 7% growth in tractor segment, flat growth in PV segment and a 10% de-growth in CV segment on a y-o-y basis. Gross margins for Q2FY25 stood at 47.5%, down by 253bps compared to Q2FY24 due to changes in product mix favouring lower-margin 2W components, despite scaling up new orders. Ebitda for the quarter under review stood at Rs568mn, reflecting a 21% y-o-y increase with Ebitda margins of ~12.0%. On a sequential basis, Ebitda margins moderated slightly due to temporary cost impacts from annual increments and adjustments at the EU operations. The Management's strategic focus on increasing the share of PV and CV in the overall portfolio remains intact; the contribution stood at ~51% of total sales in Q2FY25 as compared to ~49% in Q2FY24. Alicon remains optimistic about sustaining demand in the 2W market, driven by continued rural recovery and increased financing penetration. The company also maintains a positive outlook for PV demand in the upcoming quarters due to its established relationships with major OEMs
- Revenue mix for Q2FY25 stood as: ~94% for auto while ~6% was non-auto with 77% contribution from the domestic and 23% from the global markets. The contribution mix from 2W came in at ~43%, PV: ~38%, CV: ~12%, non-auto: ~6%
- Going forward, the Management anticipates a forecasted revenue of Rs1,800mn for FY25, representing a 15% growth
- The auto volumes would have been better in Q2 but the Shraddh period negatively affected sales, resulting in a y-o-y decline across various categories, with discounts and offers introduced to boost demand which are yet to show significant impact. This resulted in a weak performance in the month of September 2024. In India, the dealer volumes soared to a historically high mark of 80-85 days as of end of September. The outlook is optimistic as festive season sales and wedding season demand have created strong expectations for a surge in vehicle sales in Q3FY25
- On the global front, uncertainties pertaining to the ongoing Russia-Ukraine conflict, and escalating Middle East tensions, have affected the overall market sentiment which has led to increase in freight costs expenses. However, the domestic business remains resilient
- Despite a decline in the global market and moderate single-digit growth in India, Alicon achieved a 22% overall sales increase, including 59% y-o-y growth in the PV segment, 19% in 2W, and 28% in the non-automotive segment. Growth was driven by increased cylinder head supplies to Maruti Suzuki, including ramp-up to support new models and Gujarat plant deliveries. Alicon also initiated cylinder head supplies to Stellantis India in early 2024, with record high Q2 volumes following a successful Q1 ramp-up. Toyota maintained steady demand for its hybrid models, planning capacity expansion in January 2025, with a brief November shutdown for line modification. This strong demand, alongside European battery housing production for Samsung, supported Alicon's PV segment growth

Conference Call Highlights (contd.):

- In Q2FY25, the company has booked 13 new parts from 5 customers. This includes 5 parts from EV/CN, 7 parts from ICE and 1 part from the structural business. 6 parts are for domestic business and 7 parts are for global business
- The orders include significant wins from marquee customers like Jaguar Land Rover. The company has secured a significant win with a lifetime contract value of Rs850mn, aligning with its strategy to focus on higher-value 4W parts
- Alicon has made significant progress in the autonomous and electric vehicle market, notably with its development project for Volkswagen's ADAS technology initiative in Q1FY25. This collaboration has earned Volkswagen's R&D team's endorsement for future power development activities. Alicon supplies nearly 90 components to the EV sector, leveraging its European plant's advanced tech capabilities and expertise in thermal engineering. The company is in advanced discussions with a number of high profile client's which includes leading global OEMs and tier-one suppliers, leveraging expertise in low-pressure die casting and gravity die casting. In addition to this, the company is shifting its focus from supplying as-cast products to fully machined components, enhancing value addition and margins
- Alicon aims to increase renewable energy usage to ~50% by next year via solar panels at its India and Europe plants
- Alicon continues to diversify its customer base, reducing reliance on any single customer, with no customer contributing more than 15% of turnover. The capacity utilisation level stood at ~76-77%
- The Management expects further increase in volumes in FY26E. The company anticipates revenue growth of ~15% and ~20% ROCE in FY25. The company has incurred a capex of ~Rs540mn towards machinery and new product developments. For FY25, the Management anticipates capex to the tune of ~Rs1500mn

Financials:

Performance (Q2FY25)									
Q2FY25 Result (Rs mn)	**Sept-24**	**Sept-23**	**y-o-y**	**Jun-24**	**q-o-q**	**H1FY25**	**H1FY24**	**y-o-y**	**FY25E**
Total Revenue	4637	3810	21.7%	4400	5.4%	9037	7351	22.9%	17302
EBITDA	560	462	21.3%	575	(2.6%)	1136	855	32.8%	2180
Other Income	8	8	1.9%	7	3.1%	15	16	(2.5%)	40
Interest	113	101	11.3%	103	9.1%	216	196	10.4%	425
Depreciation	230	181	27.0%	224	2.5%	454	366	24.3%	846
Exceptional Items	0	0	-	0	-	0	0	-	0
Tax	57	42	36.5%	64	(11.4%)	121	69	76.3%	237
Net Profit	**168**	**145**	**15.9%**	**190**	**(11.7%)**	**358**	**240**	**49.4%**	**712**

Outlook and Recommendations:

In Q2FY25, Alicon delivered growth in revenues of ~21.7% on a y-o-y basis, highest ever quarterly revenues and ~5.4% on a q-o-q basis. There was compression witnessed in the gross margins due to higher share of 2W components in the product mix. This along with the set up cost for business which will scale up in Q3; led to Ebitda margins at 12.0% for the quarter under reference. The PAT came in higher by 15.9% on a y-o-y basis in Q2FY25. The strategic focus on capturing higher-value opportunities in the PV and CV segments, are paying well for the company. The domestic automotive market continued to exhibit strong demand, particularly within the 2W segment, which grew by 12% y-o-y, providing a significant boost to the overall revenue. Additionally, Alicon benefitted from a recovery in volumes from the 2W space and sustained business from its core PV segment, while commercial vehicles experienced a temporary softness due to macroeconomic factors. The generation of new customer inquiries from both existing and potential clients underscores Alicon's growth trajectory and market positioning. The company's strong order book provides clear visibility for the next few quarters, with expectations of ramped-up volumes from key customers and further incremental business wins in the near term. Going forward, the company is well aligned with the key megatrends of electrification, light weighting, hybridization, and automation which positions it well to effectively capitalize on the emerging opportunities. The main focus of the Management continues to be on enriching the product mix and driving improved volumes of higher margin products, collaboratively working with marquee customers, sustain cost reduction initiatives and driving higher operational efficiencies across business models. All the factors mentioned above indicate a stable and consistent growth of the company and we maintain our target price of Rs1550.

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