HDFC securities
Click. Invest. Grow.
20 YEARS

Initiating Coverage

Alicon Castalloy Ltd.

24-May-2021

RETAIL RESEARCH

Alicon Castalloy Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 525	Buy at LTP and add on dips to Rs 445-450 band	Rs 584	Rs 629	2 quarters

HDFC Scrip Code	ALICAS
BSE Code	531147
NSE Code	ALICON
Bloomberg	ALIC IN
CMP May 21, 2021 (Rs)	524.9
Equity Capital (cr)	7.0
Face Value (Rs)	5.0
Eq. Share O/S (cr)	1.4
Market Cap (Rs cr)	730.1
Book Value (Rs)	227.7
Avg.52 Wk Volume	12,100
52 Week High (Rs)	575.0
52 Week Low (Rs)	198.0

Share holding Pattern % (Mar, 2021)	
Promoters	62.6
Institutions	0.2
Non Institutions	37.2
Total	100.0

Fundamental Research Analyst
Atul Karwa
atul.karwa@hdfcsec.com

Our Take:

Alicon Castalloy Ltd. (ACL) operates one of the largest aluminium foundries in India supplying frugal engineering solutions mainly to the automobile space. It is a leading manufacturer of aluminium castings supplying its products to the Indian and European markets. Increase in use of electric vehicles is likely to drive higher use of aluminium parts to reduce the weight of vehicles. The company has received strong orders over the last few quarters which would result in annual revenues from new products of ~Rs 580cr from FY23 onwards. Industry experts believe that the share of e-mobility in the domestic market could reach 30% by 2030 which would drive domestic consumption as well. ACL also has strong financial and technological support of Enkei, Japan (leading 2W/PV wheel manufacturer with 7 decades of experience). Diversification in the non-auto segment would de-risk the company from high dependence on the auto sector. With increasing share of business from new customers, contribution from new products, readiness of products for electric vehicles segment and improving exports, revenue is likely to witness higher than industry growth.

Valuation & Recommendation:

We expect ACL's business to turn around in FY22E supported by strong order wins over the last 4-6 quarters. Revenue/EBITDA of the company is expected to grow at CAGR of 27/44% over FY21 to FY23E as the company ramps up the production of recent orders. Investors can buy the stock at LTP and add on dips to Rs 445-450 band (10x FY23E EPS) for a base case fair value of Rs 584 (13x FY23E EPS) and bull case fair value is Rs 629 (14x FY23E EPS) in the next two quarters.

Financial Summary

Particulars (Rs cr)	Q4FY21	Q4FY20	YoY-%	Q3FY21	QoQ-%	FY20	FY21P	FY22E	FY23E
Operating Income	323	198	63.1	268	20.2	957	849	1,110	1,376
EBITDA	49	12	297.4	33	49.2	106	83	135	172
APAT	25	-6	-535.2	11	121.0	17	-2	37	63
Diluted EPS (Rs)	18.2	-4.2	-530.8	8.2	121.0	12.4	-1.4	26.8	44.9
RoE (%)						5.5	-0.6	11.1	16.4
P/E (x)						42.5	NA	19.6	11.7
EV/EBITDA (x)						10.0	12.4	7.7	6.2

(Source: Company, HDFC sec)

Recent triggers

Q4FY21 financials

ACL reported a strong set of numbers for Q4FY21 driven by a robust uptick in performance in-line with strong momentum seen in volume offtake across both the domestic and export markets. Net sales increased by 63% YoY to Rs 323cr which is the highest for a single quarter. EBITDA came in at Rs 49cr, a growth of 297% YoY with EBITDA margins at 15.1% led by operating leverage and supported by cost-optimization measures. The company reported PAT of Rs 25cr against a loss of Rs 6cr in Q4FY20.

Working capital reduced by Rs 29cr YoY resulting in lower borrowings while cash balance increased from Rs 9cr in FY20 to Rs 20cr in FY21. In FY21, ACL has booked 81 parts which includes 39 domestic and 42 from the export business. In Q4FY21 92% of sales was contributed by the auto segment, while the remaining 8% was contributed by Non-auto. Domestic sales stood at 77% while the exports stood at 23%. Capacity utilisation was ~70% in Q4.

Long-term triggers

Established market position in aluminium casting auto-component sector

ACL has a diversified product profile in the aluminium casting business, including cylinder heads, intake manifolds, engine support brackets, and compressor housings. It is a pioneer in India for processes like Low Pressure Die Casting (LPDC) and Gravity Die Casting (GDC). ACL has a strong market position in the aluminium casting auto component sector, driven by established client relationship and operations in India, Austria, and Slovakia. It has 4 manufacturing facilities at strategic locations close to OEMs which enables just in time delivery. Exports contribute ~23% of its overall revenues. Its client base is highly diversified and includes all major auto OEMs in India. ACL's overall OEM customer base has grown from ~40 in FY10 to 88 in FY21.Increase in business from new customers in the auto and non-auto segments over the past three years has further improved customer diversity, with none of the clients contributing to more than 15% of sales. Contribution from the new business may also increase in the coming years.

Diversified client base

(Source: Company, HDFCsec)

Move towards electrification of automobile in favour of ACL

With the growth in electric vehicles (EV) and the thrust of Government towards faster adoption of EVs, ACL is focusing on technology agnostic parts, which would be used in both i.e. internal combustion engines (ICE) and EVs like chassis, suspension body part of the vehicle. The addition of batteries increases the total weight of the electric vehicle which drains the batteries faster. So OEMs are going for low weighting of vehicles to extract more mileage from a single charge. There will be a lot of opportunities for the company to convert cast iron and steel based parts into aluminium and aluminium-based alloys. In 2W ACL expects aluminium content per vehicle to increase from 3.1 Kg to an average of 17-18 Kg and in 4W from 30-35 Kg to 100 Kg. This would entail 2-2.5 fold increase in aluminium requirement in converting from ICE to EV. ACL has been experiencing heightened interest from both incumbents and challengers across the automotive space, as they have been aggressively pursuing their plans for the rollout of electric vehicles. The company aims to proactively pursue these growth opportunities and targets a contribution of over 25% from the EV division on a growing revenue base by FY2025-26.

Diversifying to reduce dependence on auto sector

ACL is looking to aggressively expand its portfolio to serve adjacent industries like infrastructure, defence, agricultural machinery, oil & gas and aerospace. This strategy would help to reduce dependence on the automotive sector and open up new growth possibilities. Several non-auto sectors are moving from steel to aluminium casted products in a bid to reduce product weight. ACL is actively identifying these opportunities and developing improved products by using better processes such as LPDC and GDC to seize the inherent potential.

Recent order wins provide strong visibility

Over the last 4-6 quarters ACL has won strong orders which include that Rs 810cr from JLR Daimler, Samsung and MAHLE, Rs 1,100cr from PSA, Toyota and Renault and ~Rs 900cr from Mahindra, Dana, Reml, Eaton. These are multi-year orders to be executed over 5-6 years. The management expects incremental revenues of Rs 320cr in FY22 which will ramp up to Rs 520cr from FY23 onwards. These order wins indicate the quality of products manufactured by the company and provide a strong visibility for the next few years.

Strong support from Enkei, Japan

ACL has been associated with Enkei, Japan since the beginning. The association helps in improving the face value of the company in global markets. Enkei provides strong support in the form of continuous upgradation of foundry technology which helps ACL in securing business from key clients. Enkei also provided financial support by infusing Rs 40cr @ Rs 474 per share in FY18 thereby increasing its stake to 14.7% from 10% earlier.

What could go wrong?

High dependence on automobile industry

ACL derives ~90% of its revenues from the automobile industry and thus is highly dependent on it. Although it is looking to diversify by launching new products in the non-auto space, this will take time.

Raw material price volatility

The key raw material for the company is aluminium. The prices of aluminium have been very volatile in recent months. Inability of the company to pass on any increase in raw material prices could impact its profitability. In Q4, the gross margin of ACL rose less than the revenue.

Working capital intensive operations

The operations of the company require huge working capital. Inventory and receivable days have been rising over the last five years. Although current ratio has improved somewhat in FY21, working capital needs would need to be monitored closely. Exports sales involve higher debtor days.

Constantly operating at low asset turns and inability to improve margins has resulted in lower return ratios

ACL has been constantly operating an asset heavy business with heavy fixed cost at a low utilisation and has been unable to improve realisations and product mix where margins are higher. Inability of the company to get into high margin niche categories or newer technologies like High pressure die-casting (HPDC) for heavy tonnage products would lead to stagnation in its margin profile.

New products might take time to scale up

A significant part of the growth is expected to come from new product development. Failure to scale up the new products could slow down the growth momentum.

Technological disruption

Technology is changing very fast and the products of the company could become obsolete if any competitor comes up with a superior product.

Covid related disruptions

The intensity of second wave and consequent local lockdowns around India has impacted footfalls at vehicle showrooms which in turn would impact revenues of the company.

About the company

Alicon Castalloy Ltd. (ACL) is a leading manufacturer of aluminium castings. It manufactures cylinder heads, support brackets, intake manifolds, crankshafts, and engine brackets, for use in the auto industry. The company was established as a JV between Pegasus Castalloy and Enkei Corporation, Japan (one of the largest manufacturers of alloy wheels in the world). Owing to sustained losses the wheels division was hived off as a separate entity i.e. Enkei Wheels in 2009 and the castings business was renamed to ACL in Dec 2010.

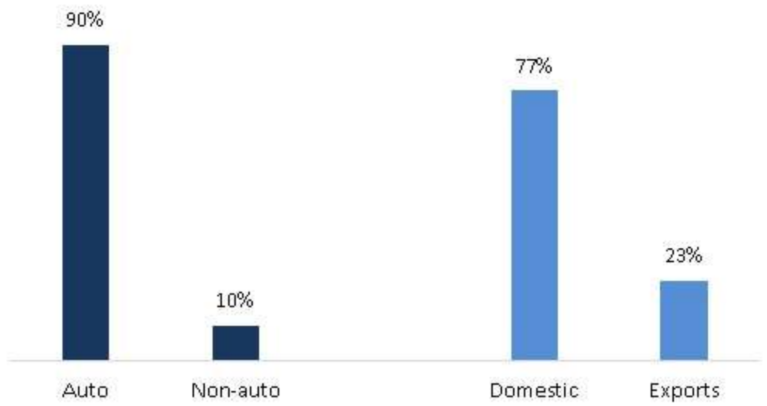
Alicon Castalloy Ltd.

Clients include key Indian auto OEMs as well as auto and engineering OEMs in the European market through its subsidiaries. ACL serves clients in Europe and the US through its European subsidiary Illichmann Castalloy. It has 3 manufacturing units in India at Pune and Binola and one manufacturing plant at Slovakia.

ACL is part of the Alicon Group, a global consortium of companies engaged in Rapid Prototyping, Designing, In-house Tool Manufacturing, Engineering, Die Casting, Machining and Assembly, Painting and Surface Treatment of Aluminium Components. Leveraging its core competencies, the Group is one of the largest integrated aluminium casting manufacturers globally.

In FY21, 77% of the revenues were from the domestic market and exports accounted for 23% of sales. Besides automotive ACL has a presence in infrastructure, defence agricultural machinery, oil & gas and aerospace. Automobile industry contributed to 90% of sales in FY21.

Revenue trend and breakup (FY21)



(Source: Company, HDFCsec)

Alicon Castalloy Ltd.

Financials

Income Statement

(Rs cr)	FY19	FY20	FY21P	FY22E	FY23E
Net Revenues	**1189**	**957**	**849**	**1110**	**1376**
Growth (%)	***17.3***	***-19.5***	***-11.3***	***30.8***	***24.0***
Operating Expenses	1042	851	765	975	1204
EBITDA	**146**	**106**	**83**	**135**	**172**
Growth (%)	***35.4***	***-27.7***	***-21.5***	***62.9***	***27.0***
EBITDA Margin (%)	***12.3***	***11.1***	***9.8***	***12.2***	***12.5***
Depreciation	38	44	49	52	56
Other Income	3	3	3	3	4
EBIT	**112**	**65**	**37**	**86**	**120**
Interest expenses	35	39	36	36	37
PBT	**76**	**25**	**1**	**51**	**84**
Tax	23	8	3	13	21
PAT	**53**	**17**	**-2**	**37**	**63**
Growth (%)	***36.9***	***-67.8***	***-111.3***	***NA***	***67.9***
EPS	38.8	12.4	-1.4	26.8	44.9

Balance Sheet

As at March (Rs cr)	FY19	FY20	FY21P	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	7	7	7	7	7
Reserves	301	308	310	344	402
Shareholders' Funds	**308**	**315**	**317**	**351**	**409**
Borrowings	281	336	317	347	350
Net Deferred Taxes	23	27	28	28	28
Total Source of Funds	**612**	**678**	**661**	**726**	**786**
APPLICATION OF FUNDS					
Net Block & Goodwill	334	368	363	381	416
CWIP	21	23	28	18	37
Investments	25	26	29	35	42
Other Non-Curr. Assets	23	23	27	32	40
Total Non Current Assets	**381**	**417**	**420**	**434**	**495**
Inventories	120	106	126	146	162
Trade Receivables	340	338	323	380	434
Cash & Equivalents	12	9	20	34	6
Other Current Assets	22	31	18	27	36
Total Current Assets	**493**	**484**	**487**	**586**	**637**
Trade Payables	185	152	156	192	234
Other Current Liab & Provisions	77	72	89	103	113
Total Current Liabilities	**262**	**224**	**246**	**294**	**347**
Net Current Assets	231	261	241	292	291
Total Application of Funds	**612**	**678**	**661**	**726**	**786**

Alicon Castalloy Ltd.

Cash Flow Statement

(Rs cr)	FY19	FY20	FY21P	FY22E	FY23E
Reported PBT	76	25	1	51	84
Non-operating & EO items	-6	-8	2	-4	-7
Interest Expenses	35	38	35	36	37
Depreciation	38	43	46	52	56
Working Capital Change	-27	-31	29	-38	-28
Tax Paid	-15	-11	-2	-13	-21
OPERATING CASH FLOW (a)	**102**	**57**	**112**	**83**	**121**
Capex	-98	-70	-49	-60	-110
Free Cash Flow	4	-13	63	23	11
Investments	0	0	0	0	0
Non-operating income	2	2	2	0	0
INVESTING CASH FLOW (b)	**-96**	**-68**	**-47**	**-60**	**-110**
Debt Issuance / (Repaid)	38	55	-19	30	3
Interest Expenses	-35	-38	-35	-36	-37
FCFE	9	6	11	17	-23
Share Capital Issuance	0	0	0	0	0
Dividend	-8	-9	0	-3	-5
Others	-2	-2	1	0	0
FINANCING CASH FLOW (c)	**-7**	**6**	**-54**	**-9**	**-39**
NET CASH FLOW (a+b+c)	**-1**	**-4**	**12**	**14**	**-28**

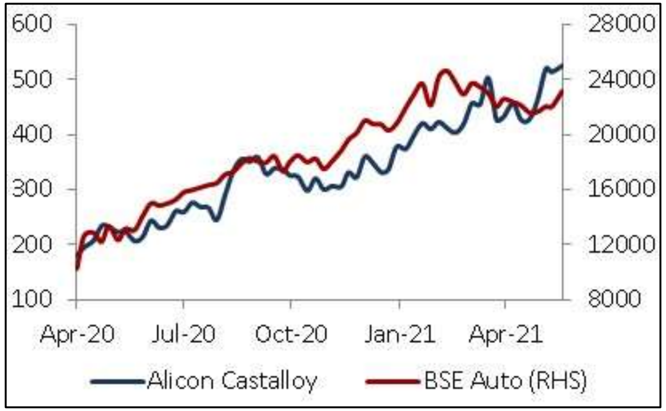
Key Ratios

	FY19	FY20	FY21P	FY22E	FY23E
Profitability Ratios (%)					
EBITDA Margin	12.3	11.1	9.8	12.2	12.5
EBIT Margin	9.4	6.8	4.4	7.8	8.7
APAT Margin	4.5	1.8	-0.2	3.4	4.5
RoE	18.9	5.5	-0.6	11.1	16.4
RoCE	20.6	10.4	5.8	13.0	16.5
Solvency Ratio (x)					
Net Debt/EBITDA	1.8	3.1	3.6	2.3	2.0
Net D/E	0.9	1.0	0.9	0.9	0.8
PER SHARE DATA (Rs)					
EPS	38.8	12.4	-1.4	26.8	44.9
CEPS	66.7	44.3	33.7	64.3	85.2
BV	226.0	228.5	227.7	252.5	293.8
Dividend	7.0	1.3	0.0	2.0	5.0
Turnover Ratios (days)					
Inventory days	102	129	142	116	108
Debtor days	32	43	50	45	41
Creditors days	57	64	66	57	56
VALUATION (x)					
P/E	13.5	42.5	NA	19.6	11.7
P/BV	2.3	2.3	2.3	2.1	1.8
EV/EBITDA	6.8	10.0	12.4	7.7	6.2
EV/Revenues	0.8	1.1	1.2	0.9	0.8
Dividend Yield (%)	1.3	0.2	0.0	0.4	1.0

(Source: Company, HDFC sec Research)

Alicon Castalloy Ltd.

Price chart



RETAIL RESEARCH

Disclosure:

I, Atul Karwa, MMS authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does not have any material conflict of interest.

Any holding in stock – No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.