alicon

Casting the Future

. Ref No.: Alicon/Stock Exch/Letter/2023-16 February 19, 2024

To
The Manager
The Department of Corporate Services
BSE Limited
Floor 25, P. J. Towers,
Dalai Street, Mumbai — 400 001

Scrip Code: 531147

To
The Manager
The Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai — 400 051

Scrip Symbol: ALICON

Dear Sir/ Madam,

Sub: Transcript of Analysts Conference Call

We are enclosing herewith the transcript of conference call with analysts, which took place on 12th February 2024, after announcement of the unaudited Financial Results for quarter and nine months ended December 31, 2023. The said transcript is also uploaded on website of the Company.

We request you to kindly take the above information on your record.

Thanking you,

Yours faithfully,
For **Alicon Castalloy Ltd**

AMRUTA JEEVAN JOSHI
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Alicon Castalloy Limited
Q3 FY24 Earnings Conference Call Transcript
February 12, 2024

Moderator: Ladies and gentlemen, good day, and welcome to the Alicon Castalloy Limited's Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mayank Vaswani from CDR, India. Thank you, and over to you, Mr. Vaswani.

Mayank Vaswani: Thank you, Michelle. Good day, everyone, and thank you for joining us on Alicon Castalloy Limited's Q3 FY'24 Earnings Call.

We have with us on the call today, Mr. Vimal Gupta, Group CFO; Mr. Shyam Agarwal, Chief Marketing Officer; Mr. Andreas Heim, Managing Director of Illichmann Castalloy and Mr. Rajiv Gupta, Head of Domestic Business of Alicon Castalloy Limited.

Mr. Vimal Gupta will cover the financial performance for the quarter, following which Mr. Agarwal will walk us through the operating highlights. Mr. Andreas Heim and Mr. Rajiv Gupta will then provide insights on global and domestic markets, respectively. Thereafter, we shall open the call for the Q&A session.

Before we begin, I would like to point out that some of the statements made in today's call may be forward-looking in nature, and a disclaimer to this effect has been included in the earnings documents that have been shared with all of you earlier.

I would now like to turn the call over to Mr. Vimal Gupta for his opening remarks. Thank you, and over to you, sir.

Vimal Gupta: Good morning to all our investors. Thank you for taking the time out to join our earnings call. I trust that all of you have had a chance to review our earnings documents, which was shared over the weekend.

We are delighted to report our highest ever revenue this quarter. As we have shared earlier, in recent years, there has been a strategic emphasis on serving new technology platforms in the auto industry, expansion into new geographies, the addition of capabilities and renewed focus on value engineering. This has enabled us to surpass the milestone of Rs. 400 crores in revenue during the quarter for the first time ever. And we believe this is a positive sign of things to come.

Our business transformation strategy is guided by five pillars, reflecting our commitment to diversify and solidify our growth levers to enable sustainable progress.

- Scaling strategic products in the ICE business.
- Addressing opportunities in carbon-neutral technology, including battery electric vehicles, hybrid electric vehicles, fuel cell and hydrogen cell technologies.
- Exploring opportunities from structural parts or technology-agnostic components.
- Expanding into non-auto business; leveraging our competencies in sectors such as defense, energy and telecom.
- Enhancing customer wallet share through value-added products and comprehensive solutions.

Investors should closely track the following key themes that underscore Alicon's business transformation or impact into our progress and evolving business model.

- So first is, we continue to increase the share of Passenger Vehicle, the Commercial Vehicle (CV) in our product mix. This has reached 51% in 9M FY'24 compared to 48% in 9M FY'23.

- Secondly, our customers profile is evolving with the addition of prestigious global names, including leading global OEMs and Tier 1 companies, highlighting Alicon's growing stature in the industry.

- Thirdly, our business composition is shifting towards expertise in design, research and development and value engineering. Alicon now distinguishes itself by winning businesses based on innovation, technology and design, positioning us as a solution provider rather than just a source of low-cost components.

As we continue to adapt and innovate, these themes serve as key indicators for investors to assess our ongoing transformation and strategic direction.

Now turning to the financial performance for the quarter under review. In Q3 FY'24, total income reached to Rs. 406 crores, that is a 12% increase compared to Rs. 362 crores in Q3 FY'23. When we compare with the total income of Rs. 382 crores in Q2, this indicates sequential quarter growth of 6%.

Revenue growth has been driven by scaling up the production for the new parts and the new logos added recently including many critical parts being supplied to marquee customers.

As a result, we have witnessed an increase in utilization levels, especially at the European subsidiary. Total capacity utilization, which was 68% to 70% in Q2 has moved to 70% to 71% in Q3.

The gross margin for the quarter was 51.2% in Q3 FY'24 compared to 49.2% in Q3 FY'23, higher by 198 basis points on a year-on-year basis. This is primarily due to a more favourable product mix accompanied by positive impact of the stabilizing alloy prices at lower levels.

There has been a sharp rise in employee cost, which is higher by 15% on a year-on-year. Apart from the differences due to increment, there is the impact of ESOP cost of around Rs. 3.7 crores for the quarter and Rs. 10.7 crores for the 9-month period, which is a non-cash charge.

Shifting to our focus to profitability. EBITDA for Q3 FY’24 is Rs. 53 crores, a notable increase from Rs. 42 crores in the same quarter of the last year, so increase of 26.2% on a year-on-year basis. Despite a significant rise in the employee cost, EBITDA margin for Q3 FY'24 has improved to 13.1% in comparison to 11.7% in Q3 FY'23. I'm pleased to share that we have reported an improvement in our EBITDA margin by 136 basis points on a year-on-year basis and by nearly 74 basis points on quarter-on-quarter basis.

Importantly, if we adjust the non-cash charge for the ESOP cost, the adjusted EBITDA margin is 13.3% this quarter. This is an increase of over 180 basis points on a year-on-year basis. Some of you would recall our prior earnings call, where we had indicated that we will increase our EBITDA margin by 100 basis points in FY'24. We have already achieved that in the first 9 months itself and we'll endeavour to build on this further. We continue to remain confident about the general upward direction in margin, given the improving product mix.

Finance Cost was higher by 24% on a year-on-year basis from Rs. 8 crores to Rs. 10 crores, in line with the higher interest rates. We also witnessed increase in the depreciation, which was higher by 24% on a year-on-year basis from Rs. 16 crores to in quarter 3 last year to Rs. 20 crores in the Q3 FY'24.

The increase in depreciation has been driven by 2 factors. One, we have taken some machines on lease and as per the accounting standards, we have to factor a maximum useful life of 5 years, which resulted in a higher depreciation cost.

Secondly, we reevaluated and shortened the useful life of some other assets, which has also contributed to the increase in depreciation.

As a result of higher finance cost and depreciation, profit after tax for the Q3 FY'24 is Rs. 17 crores as compared to Rs. 16 crores in Q3 FY'23, higher by 5% year-on-year basis. On a sequential quarter, profit after tax was higher by 15% from Rs. 15 crores to Rs. 17 crores.

For the 9 months ending December '23, revenue was Rs. 1,142 crores against Rs. 1,084 crores in the corresponding period last year, growing by 5%. The gross margin during the 9M FY’24 stood at 50.6% against compared to 48.5% in the 9M FY'23.

EBITDA for the 9M FY'24 stood at Rs. 140 crores against Rs. 124 crores in 9M FY'23, higher by 13% year-on-year basis. Profit after tax 9M FY'24 stood at Rs. 41 crores against Rs. 42 crores in 9 months of the last year. In terms of capex, we have spent around Rs. 84 crores during the 9-month period, which is in line with our target capex deployment of around Rs. 90 crores in Financial Year '24.

Coming to the outlook. As we have indicated in the prior quarter, the second half of the year will see an improvement in the revenue, given the healthy pipeline of SOP from new products and new customers. While we had delivered year-on-year revenue growth of 2% in the first half, after the strong third quarter, the year-on-year revenue growth for the 9 months period has increased to 5%.

Given the muted base of the fourth quarter last year and the strong momentum in current performance, we continue to believe that we will end Financial Year '24 with a revenue growth of 13% to 14% for the full year. Thereafter, we are poised to take our business to newer heights as we aim to deliver a revenue of over Rs. 2,200 crores by FY'2025-26. So, this equates to a CAGR of over 16% over a period of 3 years. Our confidence stems from the new orders, which we have received and the discussions with the customers of new technologies and solutions.

If we look into our track record with our customers, including some marquee global names. You will notice that these customers initiated the relationship with Alicon with 1 or 2 parts. They monitor our approach and carefully observe the QCDD parameters or the Quality, Cost, timeliness and completeness of the Delivery and gauge our overall Development capabilities. Once they are confident about the comprehensive approach towards these initial parts, they proceed to expand the scope of the business relationship to offer both critical parts with the higher value addition.

We are now past the stage of development of initial products with Daimler, JLR, Toyota, Stellantis and Maruti Suzuki. Our initial products are already into or will shortly commence SOP. Having garnered their trust and confidence, we are now in active discussion on additional parts and currently working on solutions and seeking value addition. This will help us scale up relationship and each of these global customers and position us to win a larger share of our business from each of them.

As we scale our volumes and consequently revenue, we expect this will be accompanied by an improved margin profile. We have talked about aspiring to take the EBITDA margin to around 14%. In Q3 FY'24, the reported EBITDA margin of 13.1%, adjusting the one-time expense of ESOP costs, which is a noncash charge brings the adjusted margin to 14%. We are looking to drive efficiencies across our balance sheet and working capital which will contribute to enhanced return ratios too.

On that note, I would like to hand over to Mr. Shyam Agarwal:, who will talk about operating highlights of the business.

Shyam Agarwal: Thank you, Vimalji. Greetings to all of you.

We have steadily enhanced the performance in each quarter of the financial year and the initiative to strengthen and grow the business have helped us to post our best ever quarterly revenue.

In addition to strong double-digit growth in revenue, we have witnessed improvement in margins. Further, the outlook remains promising with steady assertion to the order backlog. Overall, it has been a solid quarter with progress demonstrated across all key parameters.

Coming to some of the key business programs this quarter. For Toyota, where we supply cylinder head to their hybrid models, we have witnessed a ramp-up in volumes during the quarter, and our production is running in full swing to meet the increased demand.

Toyota is coming up with their third plant in India. They have already signed a MoU with government of Karnataka for setting up the plant near Bidadi at Bengaluru. This will provide them incremental production capacity of about 1 lakh vehicles per annum. As we are an approved supplier, we will aim to capitalize on the opportunity to increase volume with this enhanced capacity.

In quarter 3, we commenced supply of cylinder heads to Stellantis India, which is for domestic market and will also be assembled and exported to Europe. Stellantis is seeking to create an engine manufacturing hub in Hosur in India and Alicon is a single source supplier of cylinder head for those engines. During the third quarter, volumes have picked up, and it will further increase in quarter 4 and onwards. With this business, Alicon has developed a model plant imbibing cutting edge technology and automation for this product, which will add in the development of the product. This will also serve as a demonstration plant to other global customers of the capabilities and the global standards they can expect when partnering with Alicon.

As anticipated, supplies of cylinder head to Maruti Suzuki scaled further during the quarter. The sales and production will increase further in quarter 4 with the start of supply to Gujarat plant to Suzuki. In addition to this, one more cylinder head supply will commence from quarter 4. The volume of both cylinder heads combined will provide significant volume increase in financial year 2025 from Maruti Suzuki.

We expect better level of activities in quarter 4 and into the next financial year, given the visibility provided by the commencement of supplies, for these parts expected increase in volume for active parts and SOP, for few parts under development, all of which will contribute to enhanced revenue momentum.

The other aspect to highlight is improving product mix. Alongside the increasing share of products for ICE, being supplied to Passenger Vehicles and Commercial Vehicles is the increasing share of business catering to the EV and carbon-neutral segment. The share of business from EVs is into double digits at 11% for 9M FY'24, and has nearly doubled from 6% share in the 9-month period last year.

We expect product mix to be further enriched as all of the new business that we have won this quarter is for supplying parts for 4-wheeler and to global customers, which is aligned to our strategy of focusing on higher value parts.

Moving beyond the lever of product mix and customer set, we have also implemented initiatives aimed at providing operational excellence and elevating our competitiveness. We have enhanced the machining capacity at Shikrapur facility with installation of advanced equipment. Enriching the competencies will aid in enhancing customer wallet share while raising the proportion of value addition. Further, we have added a machine of larger size, which can manufacture parts up to 2 meters in length, enhancing the capability of the European operation.

We have also augmented our team by adding personnel with rich experience in project engineering, toolmaking and single components to add their know-how to our operation. To this end, we are also actively recruiting experts in casting and machining, strengthening our global team.

To further sharpen manufacturing prowess and process expertise, we are proactively deploying digital process controls. This involves incorporating machine intelligence to add an extra layer of supervision to our production process, ensuring elevated precision and efficiency. The implementation of these controls will not only empower us with real-time data, but will also play a pivotal role in actively managing operations and furnishing valuable insights for informed decision-making moving forward.

In the area of cost competitiveness, our efforts towards diversifying the energy mix are bearing fruit. As we have shared earlier, solar panels have been installed on the rooftop of our plant in India and in Europe. Further, we have acquired share in solar installation and initiated a solar power agreement of 5.2 megawatts, which will enable us to achieve equivalent credit for the units, which are fed into national grid. This will be operational in August 2024. And units fed into the grid will adjust against the units we consume at our manufacturing plant. With these initiatives, the percentage of solar in our energy mix will cross 50%.

These factors are serving to enhance the differentiation of Alicon in the global marketplace. In addition is our USP of being able to serve our customers, both in India as well as from our plant in Europe. The simultaneous presence in domestic and international locations helps as a key differentiator and prove advantageous in negotiations with global customers.

On this note, I would like to hand over to Mr. Andreas Heim, who will cover the development in the international business for the quarter. Andreas, over to you.

Andreas Heim: Thank you, Shyam. Good afternoon, everyone.

The international business has delivered a strong performance with scale up by customers and improved visibility of performance due to the increased pace of additions.

One of the key developments was the approval of the prototype of the e-Axle for JLR with schedule for commencement of supplies also being concluded. During quarter 3, we commenced the initial product supplies of this e-Axle housing. Further, we've seen an increase in the volume by 3x in the auto business.

A couple of important perspectives to share about the JLR order. Given the criticality of the order and the stature of the customer as a leading manufacturing, we extended ourselves in order to win the business. We involved partners from Europe for mould-making, part development, and machining to ensure that we derisk the project. We were very keen to ensure the specifications were met, that we got it right the first time and to shorten lead time for the customer. The degree of involvement extended by us was highly appreciated by JLR and their teams significantly improved the engagement and coordination at the development stage, which was a key factor in achieving the degree of success that we are sharing with all of you today. JLR has recognized that Alicon is not merely offering a product, but it's equally invested in offering solutions.

Secondly, we have highly diversified product range, which allows the customers to view us as a single source supplier. Customers realize that they can produce their requirements for ICE, hybrid and EV vehicles from a single supplier and hence, they do seek out one-stop solutions.

During the quarter, we are also won an order from Oberaigner. This is for an electric drive unit, or EDU, which Oberaigner requires for developing all-wheel drives for light commercial vehicles. This will result in overall supply to the prominent LCV manufacturers in Europe, such as Daimler and Volkswagen.

Other prominent customers such as Dana, Danfoss, TACO and Mahle, which we have started with small projects, is now in discussions to add more sustainable business. We anticipate better growth from these global names in the coming years. In addition, for direct supplies to OEMs, we were equally engaged with Tier 1 suppliers where we provide solutions. As we continue to observe strong growth potential for several Tier 1 suppliers in their chosen niches, we believe there will be a cascading effect to Alicon for supply of product.

With these developments, the global business contributed to 28% of the total revenue during the quarter and 23% during the 9 months compared to 20% in quarter 2 and 21% in the 6 months period, indicating accretion in international business in a single quarter.

The share of international business can improve further as during the quarter, we added 13 new parts from 4 customers. This includes 2 parts from EV or carbon neutral and 11 parts from ICE. All 13 parts pertain to international business. In carbon-neutral business, we added another part from Scania for the European market, and we have also added 1 part from Danfoss. In the ICE segment, we further added 8 new parts from Daimler Europe and 3 parts from Oberaigner.

In terms of operating landscape, we see normalcy returning in Europe. Electricity and gas prices are stable. And availability has also improved. In terms of raw materials, aluminum prices have been less volatile than in the past. For diversifying our energy mix, we installed solar panels on the rooftop of the manufacturing facility, and these have been running live since January enabling us to reduce energy costs and enhance our sustainability footprint.

With that, I will hand over the call now to Mr. Rajiv Gupta, who will take you through the developments in the domestic business.

Rajiv Gupta: Thank you, Andreas. Good day, everyone.

In Q3 FY'24, auto dispatches by industry showed an improved performance, especially the 2-wheeler segment, which witnessed healthy double-digit Y-o-Y growth. This includes 5% growth in Passenger Vehicle segment on a year-on-year basis, 6% growth in the Commercial Vehicle segment on a Y-o-Y basis and 19% growth in 2-wheeler segment on Y-o-Y basis.

Within the Passenger Segment, there is clearly dominance of UVs with both customer interest and market share steadily rising. Other categories within PV segment still face mixed demand. The domestic Commercial Vehicle industry volumes continued to do well, and there was an increase of 6% Y-o-Y in the segment despite seasonality on account of good momentum in the infrastructure and construction segment as well as steady growth and economic activity, as indicated by GST collections.

The domestic 2-wheeler industry was expected to benefit from higher volumes on account of festive season while there has been improved momentum and base quarter last year was impacted due to drop in demand on account of OBD regulations. Further, we believe the electric 2-wheeler players are yet to regain lost ground. However, there are signs of stabilization and impending launch of new models is likely to kick start the demand cycle.

Compared to this, at Alicon we saw the following trends:

- 31% growth in sales to Passenger Vehicle segment on Y-o-Y basis
- 9% growth in sales to Commercial segment on a Y-o-Y basis;
- 8% growth in sales to 2-wheeler segment on Y-o-Y basis.

In terms of new business, we commenced the supply of one cylinder head to Maruti Suzuki. We are also working on development of one more cylinder head, which is for an SUV platform. As the demand of SUVs is robust and market share continues to rise, we expect this product to provide significant volumes once it enters production phase.

From Daimler, we added new business comprising a large package with commitment for long-term supplies. The product that we have added envisages supplies commencing from 2026 with expected delivery up to 2035. With the increasing engagement, we are in discussion for further businesses and to offer further solutions in upcoming models.

Even the 2-wheeler customers such as Honda, Hero, Royal Enfield, are projecting strong set of numbers for the coming quarters, which will help Alicon to gain more volume of business. We also see some revival in momentum in the non-auto with the increasing spend of the government infrastructure and defense and the renewed vigor for Make in India campaign.

As you may be aware, for the last several years, we have been supplying aluminum wheels to enable light-weighting of battle tanks. With a healthy level of demand witnessing for our products, catering to the defense sector, we are now in discussion on a new tender in this quarter for supplies of products comprising road wheels as well as cylinder head, which is to be commenced on an immediate basis. Further, we are in discussion to add products for the larger size battle tanks.

During Q3 FY'24, Alicon has booked new orders aggregating Rs. 682 crores. With this, our total new order booking has reached to Rs. 9,000 crores, which is executable over a period of 6 years from 2023-'24 up to 2028-'29. Please note that this is a net new business and the products for which SOP has already commenced and expected to continue and are not a part of this number.

Some steps being taken to enhance our competitiveness include the initial phases of our automation journey. Our roadmap has been devised to access areas ripe for automation within our processes. We are diligently evaluating the advantages and efficiencies that this paradigm shift can bring, segmenting components of our processes into different stages as -- one ready for fully automation; second, ready for partial automation; and third, not suitable for automation.

We believe the benefits are manifold and expect automation to not only yield cost efficiencies, but also evaluate process excellence and product already throughout our operational landscape.

On this note, we can open the floor for questions.

Moderator: We'll take the first question from the line of Yash Dalal from Sushil Financial Services. Please go ahead.

Yash Dalal: Firstly, congratulations for the management for achieving record revenues this quarter. So, I had a few questions. First was, what is the volume growth in Q3?

And what is the fall in realization this quarter due to raw material price fall? Could you please guide us on the same?

Rajiv Gupta: Yes, in the case of quarter 3, we have noted an increase of 12% over the last year quarter 3

Vimal Gupta: And 5% on a quarter-on-quarter basis. What is your second question?

Yash Dalal: Yes. So, what was the fall in realization this quarter due to raw material price fall?

Vimal Gupta: Yes. For the quarter, actually, when we worked out this due to the impact of aluminum prices. So, for the full year, we are estimating approximately Rs. 50 crores is the impact. That converts into about 3% of the sales. So that is the impact. So, when we are talking about to reach our full year growth of approximately 13% to 14%. So, you can add up, so easily we can take 16% to 17% in real numbers.

Yash Dalal: Okay. And so, we were focusing on the reduction of noise parts. What has been the contribution this quarter?

Shyam Agarwal: Yes, Yash. I will take this question. So, for the noise part, as you know, it's part of our strategy and the customer also because when they place the order, they place the order in a bunch that we have to take the small volume part as well as the high-volume part also. So, we cannot deny our customers to give us the low volume part.

However, in isolation, if some low volume parts are coming, so we generally deny those parts. And the earlier prevailing part, which were in the production is now going out with the life of those products are pending. So, we are reducing significantly the noise parts.

Yash Dalal: Okay. Okay. And so, another question is, you have mentioned previously ROCE to be at 25% when we reach our guided revenue of Rs. 2,200 crores. Are we on track for that?

Vimal Gupta: ROCE, 25%. So, we have not given the guidance. For 25% ROCE guidance, that is our aim. That is the goal. But by 2025-26, so that is a difficult target what we are talking about. So, because year-on-year, there will be growth. And we have a good target for maybe we can say on at least 2% year-on-year basis every year, some improvement we can see in the ROCE.

Yash Dalal: Okay. Okay. And any capacity additions needed for FY'25 and FY'26?

Vimal Gupta: Yes, in fact, we are talking about the continuous growth, and we have given the guidance for FY'25, FY'26 for Rs. 2,200 crores plus, and we are moving from small parts to bigger and critical parts. So, we need some of the new equipment all this. So, in this year, we have guided approximately more than Rs. 80 crores, we have already invested in the 9 months. And for the full year, maybe 100 plus, we will be there. And next year, now we are adding more capacities to be ready for FY'25, FY'26. So maybe Rs. 120 crores to Rs. 130 crores at this moment, the expectation is for the investment in the next year.

Yash Dalal: Okay. Okay. All right. And just a final question. So, the ESOP impact, what will be the impact continuing in the next financial year?

Vimal Gupta: Next year, a very small impact because this year, approximately around Rs. 15 crores impact will be there. But next year, maybe Rs. 3 crores to Rs. 4 crores, not more than that.

Moderator: We'll take the next question from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead.

Jyoti Singh: Sir, congratulations on the good execution and better set of order books. Sir, my question is on the export side first. Is there any seasonality pattern in H2?

Rajiv Gupta: Our global numbers, yes, we noted have increased in quarter 3 also, and that was led with an opportunity of delivering a critical part to Jaguar. So, talking of global market numbers, we're in discussion with existing customers where the anticipated volumes will be muted, not that aggressive. But Alicon is able to grow more against those numbers as we are penetrating with more of such parts with existing and also tapping new customers.

So yes, going forward, we see volume might be on lower side of the auto industry in global terms, but we see we are going to overpass those numbers with the additions what we have done in the past and also being aggressive going forward.

Vimal Gupta: So, Jyoti for this quarter, we have reached the global sales of 28%. And you made a comparison for the last year, it was, I think, 20%, 21%. So, there is a big jump in the numbers. And continuously, as we are explaining that our focus is on the global business. So, we are expecting to grow year-on-year in this global business.

Jyoti Singh: Okay. Sir, we have done very good on the year-on-year basis, but if we see on a month-on-month basis, so that's not that great. So, any reason for that, sir?

Vimal Gupta: We have not achieved on quarter-on-quarter basis which numbers.

Jyoti Singh: No, no. I'm asking a month-on-month basis. So, like, if I compare December to January, so like it's not that great.

Rajeev Sikand: Where you are coming from those numbers are not clear because we have not declared any month-on-month numbers.

Jyoti Singh: Yes. Fine, sir, we can discuss on that later. So like my next question is on the Maruti side. Like we're going to get the order from Maruti Gujarat plant. So, are there any product besides cylinder head or only will be doing the cylinder head part?

Rajiv Gupta: Cylinder is an 'A-class' part where we try to gather or participate with our customers. There are other opportunities also when we talk about a low pressure and GDC what we are into. But our main focus is cylinder heads because it's 'A-class' part and gives you good recognition and value addition to customers.

Vimal Gupta: Jyoti, mainly that we need to understand like from Maruti Suzuki. You know the volumes, what kind of volume we are having and first of all, this entry into cylinder head. And at present, we are having very low volumes, approximately 40,000 to 50,000 this year on that basis. But now we are increasing that wallet and giving the opportunity to enter into their models.

So, like when we are talking about, it was 1.2 liter, so 1 liter, 1.5 liters. So, all these new models are coming up. And in the coming period, we are expecting to deliver good numbers for the FY2024-25. So that is the first big opportunity we are having. And maybe we'll see that based on the performance. So, the opportunities are there for the other new parts.

Shyam Agarwal: Yes, Jyoti, I would like to add. You already know that the relationship between Maruti Suzuki and Toyota. And we are already supplying the hybrid cylinder head to Toyota, which is a very, very complex part. And first time in the history of Toyota, they have outsourced the cylinder head. And Toyota will assemble the engines for the hybrid in their plant to supply to Maruti Suzuki.

So that way, Maruti Suzuki is also very confident about the capacity and the capability of Alicon. And that is also helping us to increase the turnover and the business relationship with Maruti. And as Vimal sir explained, Maruti owns almost 45% share of business for the Indian market. So those will be a huge number for Alicon.

Jyoti Singh: Yes. And sir, another like we are doing in 2-wheeler, almost 50% market share in the 2-wheeler cylinder head. So similarly, we are targeting in the 4-wheeler?

Rajiv Gupta: Yes. That's what we were trying to explain. So ideally, this 4-wheeler cylinder head, if you go back, see traditional way, it was being manufactured at customer end before it was ‘A-class’ critical part, which customers were not willing to offer or share the know-how to others. But we got this traditionally the cylinder head for 4-wheelers they're doing in-house, or they were offloading to a technical partner who has expertise in this domain.

But we got this entry into the cylinder head way back in 2018 when Renault came to India and were very aggressive on price and we're looking for suppliers who can match that price and deliver such a critical part. So, we've got renowned with Renault for India eventually after a year. We got this opportunity to supply to their Brazil location. This gave a lot of visibility to existing and upcoming customers.

Secondly, then we got this opportunity with Toyota when they're recognized our successful deliveries. And as Mr. Shyam explained, first time in history of Toyota they outsourced, and they were comfortable with Alicon. And this is a history of 70 years.

Thereafter, we got again a breakthrough with Stellantis. So Stellantis, they came up in India again 2 years ago, and they are aiming to make engines of 300,000 a year. It's a big volume for India as well as for global market. So, there are also we got an entry supplying cylinder heads for 100% volumes.

And even for that cylinder head, we made our modern plant with a lot of automations, like auto boring, the core extraction, casting extraction. So, we made our moder sale to explain our customers and prospective customers. So basically, these steps again, the customers understood that even Alicon, there's a company who can deliver such critical part and can participate in the upcoming developments and also like Maruti now started offloading the cylinder.

So going forward, we are aiming to increase penetration with our existing domestic customers and also to explore the global customers, which in coming quarters, you might see because strong discussions have already started with few global customers, which we see an opportunity to convert in coming quarters.

Vimal Gupta: So Jyoti, we conclude your question, so 2-wheeler, we are already down from 50% to 42%. So that share is going down, and the 4-wheeler has started increasing. And hopefully, next 3 to 4 years, we will have a much, much bigger share of 4-wheeler compared with the 2-wheelers. So, 2-wheelers being on the lower side in comparison to the 4-wheeler.

Jyoti Singh: Okay. And sir, my next question is on the JLR orders. So, like could you offer insight into the JLR orders, specifically expected quarterly delivery volumes, if we can disclose please?

Rajiv Gupta: Yes. So, this order, we bagged almost 1.5 years ago. And this is a big order. These are 2 parts ideally of 28 kg. So ideally 2 parts to 1 vehicle with a volume of 250,000 a year. And this is one of the critical and complex part for the EV vehicle. And this is for the existing ICE Range Rover and Land Rovers, which you see on the roads, so ideally, they're going to replace those models with EV. So, this will go to that platform. It's a huge opportunity where they're anticipating covering global volumes.

Talking about our supplies, we started this development, initial supplies from Europe as a soft tooling, which you have noted that we have already started supplies in this quarter. Eventually, we see volumes in coming 1 or 2 quarters. And we are now already in full fledge execution plan to deliver this part from our Indian locations. So, we are planning to submit the initial samples in next couple of quarters and thereafter to start supplies in the coming years.

Vimal Gupta: We have already started supplies in the year of FY2023-24. So, we have seen the impact in quarter 3 of the current year as well as it will continue because quarter 4 and then quarter 1 of the next year, quarter 2. But these are the proto businesses and because it is in development stage. And March volume will start from FY2025-26. So, in the FY2025-26, hopefully, they will have the volume of around 150,000 to 170,000 numbers. So that is the expectation. So maybe Rs. 100 crores to Rs. 200 crores addition in the sales we can see from there.

Jyoti Singh: Okay. Sir, my last question on the growth side. So, like what are the expectations for the FY'25 and FY'26?

Vimal Gupta: So, sales for FY'25-26 our target is INR2,200 crores. And hopefully, we should be able to achieve that, and we are in the right direction.

Moderator: We'll take the next question from the line of Faisal Zubair Hawa from H.G. Hawa and Company. Please go ahead.

Faisal Zubair Hawa: What are the chances that we move our capacity utilization up to like at least above 80% levels because only that will improve our ROCE and ROE quite well. And what does it need as far as shop floor changes? Or is it that the orders that we have received are having some time gaps, due to which we are not able to reach the capacity utilization?

Vimal Gupta: So I'll just explain this. So first one, you are talking about that how to improve our capacity utilization. So mainly, we have to understand the processes here because there are fluctuating volumes, and we have to keep our capacities idle for the customers' volume fluctuation because it is not constant and there is a consistency in the volumes. So that takes around 15% to 20% that capacity, we have to keep idle.

And secondly is that every time we are talking about, what are the structural changes coming in the Alicon business. So, all machines we are using, they are not 100% convertible from one part to another part. So somewhere we have to use a dedicated machine for the particular parts.

So when business shifting is happening from a smaller part from 2-wheeler to when we are moving to the critical parts. So, 100% utilization and conversion will not happen. So, some capacities of some machines, we will have to keep idle for this and add new machines. And when we are talking about the utilization, when we are going for the new businesses also, so like when we are adding the machines here in this year or maybe '23, '24.

So we have to put the capacities, but the utilization and maybe 70% or 80% will happen maybe after 6 months and 9 months after putting up the capacities. And during that period, we have to put another capacity, so this is a continuous process. So that makes our capacity idle for maybe 25% to 30%.

Faisal Zubair Hawa: So, then what is the second method of improving the ROC, ROE? Because whatever you may say about product mix and all, the ROC and ROE doesn't come that means it's not a very capital efficient business.

Vimal Gupta: So, we need capital, but you see that in the last 4, 5 years, the continuous improvement in the ROC, ROE, you will find. And this year also, we are going to improve more than 2%. And that I'm explaining so maybe next 2 to 3 years, we should be able to cross 20%. So that is the first target we are having.

Moderator: The next question is from the line of Manas Jain from Jus Enterprises. Please go ahead.

Manas Jain: Just one bookkeeping question. So, the incremental sales, what we have delivered from quarter-on-quarter, I believe this is more pertaining to Maruti and Toyota.

So is this being recorded from the European entity or because I thought that incremental change was in the consolidated numbers. So, I just wanted to clarify that.

Vimal Gupta: This Maruti, what we are seeing that now is there is a structural change happening in Alicon Group sales. So, like when we are explaining the growth in the sales of Maruti and Toyota. So, on the other side, we are also seeing that the 2-wheeler sales is not up to that level of that industry is performing. So, the main growth this quarter has come from the Europe because earlier this JLR development prototype business, everything was planned in India.

But now seeing the criticality, so it was decided by the management and the Board to do all these developments in Europe due to the availability of the machines, availability of the technology, the technical people, the tooling. So, it is not like that in Europe, it is happening, but Indian sales is happening in Europe. That was supposed to happen earlier in India.

Manas Jain: Okay. And second question is, I mean, what is the anticipated growth rate we are seeing for next year? I believe I understand you said 16% CAGR. But just next year, what is your guidance?

Vimal Gupta: So, it is a very rough idea because we are also in discussion with our customers. But our expectation is between 16% to 18% growth at least.

Moderator: We'll take the next question from the line of Prolin, an individual investor. Please go ahead.

Prolin: I have one suggestion, right? I mean can you be kind enough to improve your order book quarter-on-quarter in your presentation so that we can see a clear trend of what is happening in the last 8 to 10 quarters? So that is on the suggestion side.

Just coming to the larger question of your order book, right? I mean you mentioned a number, right? I mean can you give me some construct in terms of what does this order book constitutes, right? I mean, in terms of 2-wheeler, 4-

wheeler, EV, non-EV, defense, non-auto? Can you give some picture on what is the order book looking like?

Rajiv Gupta: Yes. So, this order of what we have booked till now, if we see from the outlook of sales from 2023-24 to 2028-29...

Vimal Gupta: Just to give a little background and then Rajiv give the complete structure of the sale. So first of all, the order book, what we are talking about is around Rs. 9,000 crores. That will start base year of FY2023-24. In the current year 2023-24, out of this, maybe approximately Rs. 700-plus crores, already we are going to execute it. So he is going to give this breakup because we are not considering the old stuff that has already happened till FY2022-23.

Prolin: Sure.

Rajiv Gupta: To talk about the contribution of this order book, around 32% goes with the EV part. So, this is again where we wanted to enter and we are very happy and pleased to share that we have done quite well in this area where a lot of companies still in India are just starting up to end up.

Second, even on technology agnostic where we are aiming to leave a good mark that we have touched around 6%.

Vimal Gupta: Technology agnostic is that where it doesn't matter whether we are manufacturing, it is going for ICE or EV.

Rajiv Gupta: If we see further exports are around 55% to 56%.

Vimal Gupta: So that is the major thing is going to happen when we are targeting to export, to contribute, export means this global business, including our European facilities. So, 50% of the total revenues that we are targeting.

Rajiv Gupta: And if you see segment-wise, this contributes around 80% to 84%, the 4-wheelers where we were aiming to increase our share. So just around 10% to 12% is to 2-wheeler, the rest is to the 4-wheelers where we were aiming to increase our penetration. So, there we also have done well as per our strategy.

Vimal Gupta: So, this is another answer to the Jyoti Singh: from, I think, Arihant. So it is the structural change in 2-wheeler and 4-wheeler. So major contribution will come from the 4-wheeler and going to replace the 2-wheeler for major contribution.

Prolin: And non-auto would be what part of order book, sir?

Rajiv Gupta: Non-auto looks to be around 4% to 5%.

Prolin: Okay. And in case if some of these discussions that we are having on defense side, in case if they fructify, I assume that the thing that you mentioned, right, I mean, on the defense, the comment that you made, that is not part of your Rs. 9,000 crores order book. So can we see that in case if some of these discussion on defense turnout to be in our favor, the share of non-auto will go up. Is that a fair way to look at it?

Shyam Agarwal: Prolin, just to update, like those numbers, what we are in discussion with the defense team is not included in Rs. 9,000 crores, that is true. So that will be over and above the Rs. 9,000 crores. But secondly, what is happening, our order book is so high with the automotive businesses that if you see the percentage down, although we are in the non-auto in the absolute value, but in percentage term, it always looks low because we are playing a much bigger role in the automotive.

Prolin: Sure. Sure. Correct. And one more question on my side. I have been tracking your company for quite some time now, right? What I find a bit difficult to understand is that we have such a large order book, right? I mean, such marquee customers. The transformation here that you talk about from 2-wheeler to 4-wheeler is happening in order book is very visible. But that is yet to see its true colors in the form of revenue.

So, what I understand is that let's say, for example, this year, we will end up somewhere between Rs. 1,450 crores to Rs. 1,550-odd crores. So, there is a part of that revenue which, in a way, is a drag, which in a way is reducing, which in a way you consciously also want to reduce, right, because you want to move away from that. Because if I look at your this year's revenue of Rs. 1,400, I mean, let's say, Rs. 1,550 crores, INR700 crores is coming from incremental order book, which means that there is a part of the business, which is dragging our overall numbers, right?

Could you quantify what part of our business is declining, right? I mean for whatsoever reason, conscious or market-related reasons, right, in some sense? And in which year do we see that this incremental order book will probably be more than enough to take care of this drag that you're talking about? So, can you just philosophically help me understand this question?

Vimal Gupta: Well, in this, actually, what is happening, we are already explaining that we are reducing the business side of this noise businesses. We have stopped this. And there is a life cycle of products. So maybe 5 years, 7 years. So, some parts are already going down, the volumes are going down, and maybe when they are contributing maybe Rs. 50 crores. Now the contribution is gone to Rs. 5 crores or Rs. 10 crores. So that is a continuous process that is going to happen. And it will continue. And as well as when we are going for the new businesses, earlier maybe the life cycle of the part was 10 years or 12 years and maybe I've seen 15 years. But now it is reducing to 6 to 7 years.

So that is happening, and that is the reason if you add from the existing business and the new businesses, so that will not end up in the total sales. So definitely, that is definitely the decline in the regular already running businesses.

This is our management strategic decision because if we want to increase our top line, it is very easy for us. There are reduced prices or something realization due to the customers. Immediately, I will be flooded with the order book.

But our aim is to improve the bottom line, now you're seeing that people are asking for the ROCE improvement, the EBITDA margin improvement, PAT improvement. So, all this happens when we see that I have to somewhere -- I have to compromise on the low-margin businesses.

Prolin: Yes. So how do we quantify, sir? I mean, let's say, for example, this year, we do close to Rs. 1,550 crores of turnover. Out of that, you are saying that Rs. 700 crores is coming from that order book that you have always been talking about. So, let's say, 50% of your FY'24 sales is coming from the incremental order book.

Out of that remaining 50% of INR700 crores, INR750 crores, that's your core business, what is the kind of decline that we are anticipating?

Vimal Gupta: So decline easily we can calculate suppose like when we are talking about, because in the last year, maybe I say that Rs. 450 crores addition has come from the new businesses and this year, I'm talking over that Rs. 750 crores, so around Rs. 300 crores increase from the new order book. But the overall increase has happened approximately or it will happen approximately Rs. 200 crores. So Rs. 100 crores itself has gone down. Maybe out of the Rs. 100 crores, Rs. 50 crores I have explained, due to the impact of the aluminum prices. So, this is a combination because it's very difficult to quantify due to this declining because so many combinations are there to work out this. This is just a rough idea I have given to you.

Prolin: No, that's fair. But I mean, let's say, for example, if you can't quantify in rupees crores, is it fair to say that let's say, in FY'25 on a whole year basis, your new order book or incremental order book will be substantial? Or will in FY'26 where we won't be talking about this noise equipment, so to say, right, in some sense, or noise supply, which year, that would be where this drag is, I mean, very low that we don't discuss at all right? When do you think that year will arise? Will it be next year, or will it be '26?

Rajiv Gupta: Around 70% to 80%, you will see in the next year. And yes, in FY2025-26, you will see around 90% to 95%.

Prolin: So FY2025-26 is when all these efforts that you're making since past 2 to 3 years will finally show results in terms of pure sale and margins and ROCE in our numbers, right? I mean is that a fair summarization?

Vimal Gupta: That is take of the year. We can say that '25, '26.

Moderator: The next question is from the line of Kumar Saurabh from Scientific Investing. Please go ahead.

Kumar Saurabh: So first, congratulations for beating the market industry in the last 3, 4 years and having an aspiration to do that for the next 2, 3 years.

I have 3 broad question areas. The first is an aspirational growth rate. And to achieve that growth rate, we are, of course, dependent on industry to do well. And if we look at the auto cycle, of course, depending on whether it's Commercial or PV or 2-wheeler, the cycles are different, but 2 to 4 years, the cycles stop out. And we have an experience from 2018-19. And though we have beaten the market the kind of aspiration we had that time we couldn't achieve.

So, from a risk perspective, we are doing well. We have good order book. But how do you see from an industry cycle perspective? Are we confident that we will achieve this number? We have a good order book, but do you see, based on your learnings from past cycles, do you see if the industry cycle tops out, the order book can also reduce. So, my broad question is given the industry context and the cyclicity of industry, how confident we are to achieve this aspirational growth?

My second question is around our technical capabilities. So, in a layman's term, we have invested a lot in the last 2, 3 years to build the technical capabilities and it is getting reflected in terms of the 4-wheeler order book, in terms of the growth and all of that. But if in layman terms, you can explain how we are technologically better than our competitors? And in all these new kinds of businesses who are our 2 close competitors and how we are better than them, what we have done in layman terms, that will be good.

And the third question is more around financials. So of course, I think in last 3, 4 years, from a 10% ROCE, we have gone to 14% ROCE. We have aspiration to go to 19% to 20%. So how that will happen? Will that happen because a 4-wheeler business will be a higher margin business compared to a 2-wheeler business? Or whether it will lead because of better asset utilization? I also see your cash flow conversions have also improved.

Like if I look at 8 years versus 5 years versus 3-year trajectory, your EBITDA to cash flow conversion is improving. Is it because of working capital improvement? I just wanted to understand the drivers of how the better ROCE will be achieved. So, these are my 3 broad question areas.

Rajiv Gupta: Lot of points you have covered. Talking first on the first point, yes, even we have noticed volumes are moderate, unlike 2018-19, where the industry was noticing a double-digit growth. A lot of changes were noted like traditionally, a development by any OEM. The products were live for maybe 10 years, 15 years, in some case, Maruti we have noticed, 20 years to 25 years. But now we are noticing the life span of product is very low. And that's the reason after FY2018-19, we understood the urgency to enter in different portfolios like penetrating with existing customers and enhance our portfolio, add new parts from existing customers and also look for new customers in domestic as well as global regions.

So, we have done predominantly very good in these areas. Also, we were aiming to shift our focus from 2-wheelers to Passenger and Commercial Vehicles. And also, we were aiming to drive further and increase value addition. Like if you see traditionally, we were 50% with 2-wheeler where the option to supply machine part was very rare. But as the shift is going, the customers are looking for ready-to-use component in the assembly, which includes some value addition. On that front also, we see good momentum.

And as the industry has just also noticing a changeover from ICE to EV. The majority of 4-wheeler OEMs are looking to see partners, not supplier, but partners who are capable of giving such critical solutions. Like the example of Maruti, they have I mean 50% of the volume of the market share is a big volume, and they are coming up and giving opportunity to Alicon. Toyota, you have seen an example. So, these developments we see as a good opportunity to overpass the traditional numbers of growth to leave a good mark in the growth numbers.

Vimal Gupta: Mainly we are not totally dependent on the growth of the industry. So always looking for the new parts, new customers and expanding ourselves in that area. So that is giving the major support for the growth because you see that cycle is there always. But at this moment, looks like that chances are less for this downfall because the government see the policies, the infrastructure investment done by the government and development of lot of new highways, roads are coming up.

So, the demand is growing in the automobile. Clearly we can see maybe somewhere a little bit to improve on the lower cost vehicle. But on the midsize and the larger luxurious size, the growth is phenomenal. So that is the area. And like that and when we are talking about the technology like Rajiv has explained, so maybe Shyam would like to explain on that.

Shyam Agarwal: Yes. On the technology front, if you see, like we are supplying almost 90 parts for the EV industry. And this journey we started in 2016 and 2017 in Europe. We have an advantage that we have a plant in Europe. So, whatever the European requirement, which come in advance of 5 to 6 years of India. So that we develop and already mastered those capabilities.

So, when these products like motor housing now coming to India, so we were the first choice for the OEM and also the supplier Tier 1. So now we have developed good competencies on very critical parts where we have a thermal engineering solutions, which we are providing.

So those solutions are very liked by the EV customers. And especially, if you see the motor housing and now the e-Axle part, which is also very, very complex part and even JLR appreciated the efforts of Alicon to develop such a critical part at first time right. So, if you see in this area, we have developed lots of competencies with the help of our European hub. And now we have mastered those technologies in India.

So, if you see our customer base, we have all the marquee customers in our customer base. And in the EV, we have developed most of the critical parts, which comes out from the aluminum casting from the LPDC and GDC. So, this gives us a good base to develop further competencies and increase our share with the customers.

Now secondly, we are also working on the HPDC part. We have already got the order of onboard chargers, which is a very complex part. It is in HPDC, the assembly of 3 parts. So, we will also be moving up the value chain by supplying the assembled part with the friction steer welding. So, our management is very, very focused on working on the new technology and master those technology so that we can increase our revenues and also the bottom line. I hope, Kumar, we were able to answer your questions.

Kumar Saurabh: Yes, sir. Thanks for the elaborate answer and if you can, one, discuss on the financial side and who are the close competitors in all these emerging areas of business?

Rajiv Gupta: Talking about competition for Alicon, we have got competition segment based. And also, it's the customer in-house OEMs. I mean, in all OEMs, like Maruti, Toyota, the in-house foundry, we are competing.

Talking about 2-wheelers, yes, there are various players. But yes, we pioneer in terms of solutions, in terms of delivery, in terms of volumes because we being a big player in this region and service since long.

And in 4-wheelers, yes, we competing, one is the OEM and second is several domestic as well as global players like to name some, it's MIMAC, it's Craftsman, it's Linamar, where we are aiming to grab those shares and thereafter cater to our customers.

Vimal Gupta: Actually, these big players are not our competitors, but we have to become their competitors. Now we have to enter in the area.

Kumar Saurabh: And on the financial side, like what will drive the ROCE to a higher number?

Vimal Gupta: Definitely, you know that the structural change in the business when we are moving from this low margin business to the higher margin. So that is the major driver. And we are more focused on the cost downs as well as now we have seen that the improvement. But definitely, again, we are more focused on how to control our working capital, maybe in discussions with the various customers for their terms also.

And another side is that the investment is how to control and maybe to reduce our investments. So definitely, based on this, maybe for our capital employed, control will be there. So that is the hand to hand. It is linked with each other. But there is definitely a road map we are having to improve the margins as well as the ROCE.

Kumar Saurabh: Sure, sure, sir. And one last question. I don't know if you looked at the business from this angle. So, when we look at auto industry and when we look at the low-cost auto versus the premium, whether you look at 2-wheelers, the low-cost 2-wheelers have suffered the premiums relatively better when it comes to 4-wheeler we know in Maruti also the low-cost segment is not doing well.

So, when we supply the ancillary player, we supply parts to the various 2-wheeler, 4-wheeler EV companies, if we talk in terms of revenue distribution, how much is there in low cost versus high cost? And is there an intent to move our more and more revenue from low-cost OEM products to higher cost OEM products? Any views on that?

Shyam Agarwal: Yes, Kumar, like if you see in 2-wheelers, we are supplying the part to low-cost 2-wheelers as well as to the high cost. If you see the Royal Enfield. So there also, we are supplying. And in most of the models, we are the single source. And if you see the 4-wheeler also, so we are supplying to Toyota HyCross. And if you see the cost of that vehicle is more than INR30 lakhs, almost INR40 lakhs, you can consider, and you see the waiting period. So, we are across the segment. And our endeavor, of course, will be to supply the high-value parts to all OEMs, but to generate revenue across all segments, we cater all segments. However, the focus will remain always on the high-value segment part.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Vimal Gupta: Thank you. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarification or would like to know more about the company, please feel free to contact our team or CDR India. Thank you once again for taking the time to join us on the call, and we look forward to interacting next quarter. Thank you very much.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Alicon Castalloy Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.