

August 06, 2020

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 July 31, 2020 after announcement of the audited Financial Results for quarter ended June 30, 2020. 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**

A handwritten signature in blue ink, appearing to read 'Swapnal Patane', with a stylized flourish at the end.

Swapnal Patane
Company Secretary



Alicon Castalloy Limited

Q1 FY21 Earnings Conference Call Transcript July 31, 2020

Moderator Ladies and Gentlemen, Good day and Welcome to the Alicon Castalloy Limited's Q1 FY21 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 '*' and then '0' 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, Sir.

Mayank Vaswani Thank you. Good Day everyone and thank you for joining us on Alicon Castalloy Limited's Q1 FY21 Earnings Conference Call. We have with us on the call today Mr. Rajeev Sikand – Group CEO; Mr. Shekhar Dravid – Group COO, and Mr. Vimal Gupta – Group CFO of the Company.

Mr. Vimal Gupta will start and cover the financial performance following which Mr. Shekhar Dravid will walk us through operating highlights of the quarter. Mr. Sikand will then cover business developments following which we will have the forum open for a 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 presentation shared with all of you earlier. I would now like to hand over the floor to Mr. Vimal Gupta for his opening remarks.

Vimal Gupta Good Afternoon everyone. On behalf of the entire management team of Alicon Castalloy, I would like to extend a warm welcome to all of you on the earnings conference call for the Q1 FY2020-21. I hope that you and your communities are safe and well.

The quarter gone by, was extremely challenging with an unprecedented level of disruption. Due to the nationwide lockdown from March 24th, we began the quarter with complete shutdown of all of our manufacturing units. This was accompanied by challenges in logistics, constricted movement of material and manpower as well as high uncertainty of demand from OEM customers. This has negatively impacted business operations, as anticipated, leading to compression in volumes and revenues during the quarter.

As the first set of relaxations to the lockdown were announced at the beginning of May, we restarted our manufacturing units at Binola in Haryana and at Shikrapur in Pune on 11th May, losing roughly 41 out of 91 days during the quarter. Since our Chinchwad plant was located in a containment zone, we were able to resume production at this facility only around 8th June, thereby losing 69 days out of 91 days during the quarter. So, on account of this, effectively, in April and for a large part of May, we recorded negligible volumes and sales.

Soon after, as our plants restarted production, we have been stringently adhering to the regulatory guidelines and are continuing operations with only 33% of the manpower as permitted. Since, we are implementing distancing norms at these facilities, the productivity levels, during the quarter, were at 60% of the pre-COVID levels.

Against this backdrop, we reported consolidated revenues of Rs. 53.66 crores in Q1FY21. For the quarter, exports including overseas revenues contributed to 40% of the total revenue, while domestic contribution was at 60%. Across verticals, the Auto division contributed to 86% of the total revenues in Q1 FY21 and Non-Auto division was at 14%. There has also been a concerted focus on cost management – we have instituted cost-optimization initiatives and efforts towards improving process efficiencies, which resulted in an improvement in gross margins at 51.4% in Q1 FY21 compared to 48.1% in Q1FY20. This has also slightly improved by 56 bps from the gross margin reported in Q4FY20, just a quarter ago.

However, due to the lower revenue base, operating deleverage resulted in negative EBITDA of Rs. 23.4 crore. Further, with largely stable depreciation and interest cost and negligible taxes, Loss After Tax during the quarter stood at Rs. 44.0 crore.

On the whole, our business fundamentals remain intact and we are actively engaged with customers in order to be aligned to their requirements. The near-term outlook is uncertain, but we are confident that our offerings are highly relevant to BS-VI and Electric Mobility requirements.

On that note, I would like now to hand it over to Mr. Shekhar Dravid who will talk about operating highlights for the quarter.

Shekhar Dravid

Thank you, Vimal. Greetings to all our investors, I trust all of you are well and staying safe. Across the globe, economies and enterprises alike are facing disruption and volatility on account of the COVID pandemic and resultant actions. In India, even before COVID-19 hit, the domestic auto industry, as you all are aware, was facing a slowdown as a result of weakened consumer sentiment, sluggish demand, liquidity issues in the market and the one-time transition impact to BS-VI norms. This was then further magnified due to the adverse impact of COVID-19 on manufacturing operations, supply chain and transport. Basis this, for the first time ever in April 2020 there were zero auto sales registered in an entire month in India. Although manufacturing operations and business activities for most auto companies partially resumed in May and June, the demand and sales only picked up from mid-June onwards. These unprecedented circumstances in Q1 FY21 severely impacted our business performance and those of our customers too. As Vimalji discussed, we lost several operational days across all our plants and even when production was restarted, it was at reduced scale. In addition to this, supply chain issues also derailed performance in Q1 FY21.

In such times of extreme ambiguity, as a company, we deployed a set of focused agendas to be able to efficiently navigate through some of these operating constraints. Let me share a brief synopsis of what we have done in the course of the quarter.

First and foremost, employee safety and wellness continues to be our utmost priority and accordingly, we have deployed stringent safety norms and hygiene protocols across all our plants and offices. Currently, our units at Binola, Shikrapur and Chinchwad in Pune are operating roughly at 50% utilization levels and we are gradually ramping up production across these plants. Secondly, from a supply-chain standpoint, we have undertaken quite a few strategic initiatives to restore and maintain movement of goods through dealership networks and

vendors, in an otherwise tough environment. In July, the supply chain has marked a slight improvement and we are currently at about 60-65% of a normal level. Our inventory levels also continue to remain stable.

On the international business front, we saw a slight revival in demand from May onwards as soon as international markets started reopening. So, we supplied components and parts from our Illichman facility in Europe to many global clients during this period. Further, as the ports reopened in India, we also reported resumption of export sales from the month of June onwards.

Across domestic and international markets, our client engagements remain solid and our customers are committed to continuing with the development programs, once the broader macro-situation stabilizes. During the quarter, we have continued to engage with all our customers through frequent virtual interactions and have therefore been able to maintain continuity in deliveries to existing customers and make progress against new leads, even in this challenging environment.

Overall, we have made ourselves agile as an organization to efficiently adapt to any change in the operating environment and ordering patterns in these uncertain times. I am also happy to share that in Auto, we have bagged two prestigious orders in this quarter, mainly from Toyota – Globally and from PSA – Globally. For Toyota, I would like to mention one thing, since the inception of Toyota, this is the first time ever that Toyota has thought of going for outsourcing of cylinder heads and Alicon has got this opportunity in India. Also, during last quarter amidst the pandemic, we have constantly worked with our customers and I am glad to inform all that we further increased our share of business with the customers as compared to our share of business during BS-IV regime. This will help us in the coming quarters as well as for the years to come.

On the e-mobility and non-auto business front, we are seeing an uptick coming in from international markets and we will continue to monitor these developments closely through the course of Q2 FY21. Here I would like to mention that Alicon has added three new logos in E-mobility like DANFOSS, Dana Group, Garrett, previously Honeywell. So, these are the three new logos have been added along with the existing customers such as Ather, from there also we have bagged the orders for E-Mobility. In case of Non-Auto, we have already shared that few components we added from ABB and the existing customers like Siemens and GE Energy, we were able to bag further orders into our kitty.

Operationally as well, we have optimised costs across our business model and brought in higher efficiencies that enabled us to report improvement in the gross margin profile during the quarter.

Looking ahead, we are hopeful that the demand scenario across the country will stabilize in the months ahead. In the month of July itself, we have seen a good amount of uptick in demand and consumption in the domestic market, with improved response emanating from rural and semi-urban regions. There is a positive sign that this momentum will only strengthen in the coming months and we are hopeful of a solid revival in sales on a Q-o-Q basis, in the quarters ahead. In addition, a gradual recovery in economy led by normal monsoons in India, a good rabi season and Kharif crop sowing should further aid growth in the domestic market, going forward.

As far as international business is concerned, we are now seeing some initial levels of activity returning, especially across the international division, with US and Europe economies making efforts to reopen and restart with heightened precautions in place. Our discussions with several domestic and global customers

are at advanced stages and we believe that once the macro-situation normalizes, we should be able to deliver healthy growth from the international division in the quarters and years ahead.

I would now request our Group CEO, Mr. Rajeev Sikand, to share with you the perspectives on the way forward.

Rajeev Sikand

Thank you Shekhar. I welcome all our investors - thank you for joining the call.

I hope you and your family members are well and safe. My colleagues have shared with you the details of our performance and covered few pointers on the steps that we have taken to counter the impact of COVID-19. I would just like to add here that we are very confident of our growth potential and the opportunities across the Auto, Non-Auto and E-mobility space in the medium term. In the near term, against the current challenging context, our business fundamentals remain intact and we are engaging with customers to ensure we revive economic activity as fast as possible. We have undertaken several measures to make our manufacturing and value-chain more resilient in these times and our teams have done a fantastic job in quickly adapting to the 'New Normal'. We have also directed improved focus towards cost-efficiencies to boost our financial strength. Overall, our financial position and cashflows remain robust.

Three themes that are likely to emerge as a result of this pandemic that would be of immense benefit are

1. We foresee a shift towards personal mobility. Even as interactions have shifted to virtual mode – we expect that when movement of individuals resumes there will be a clear shift towards personal mobility
2. Cost cutting and a focus on higher efficiency will be a big agenda for Global OEMs. They will need to protect margins due to increase in costs elsewhere throughout their operations and in order to enhance value proposition in the post COVID world, which is likely to witness down trading by customers.
3. Lastly, a focus on light-weighting of components which will enable reduction in input costs as well as fuel efficiency is a trend that we expect to accelerate. Die-casting as a process will stand out due to inherent strengths and becoming an increasing viable and relevant solution not just to automobiles but across multiple sectors.

I would like to reiterate that we are FUTURE READY, as an organization and as domestic and international operating environment gradually improves, we are positive that our product segments will record a strong recovery in the months ahead.

We would be happy to take your questions now.

Moderator:

We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Saurabh Jain from Sushil Finance. Please go ahead.

Saurabh Jain:

Good afternoon everyone. Hope all of you are doing well and safe. I have a couple of questions. First is, things here in the domestic market seem to be somewhat improving, looking at the latest numbers, but I would like to know how the scenario

is in the international market. Is the momentum resuming? Which are the top 4-5 countries to which we export?

Shekhar Dravid: Basically, yes, international market started opening in the month of May itself but in US, as you know, the COVID cases are going up but they are going with stringent norms and productions are coming to normal levels now. We are looking for that and also the schedules have become stable. In domestic market, the volumes what we are looking at right now which are really increasing, and we are keeping our watch on that going forward.

Saurabh Jain: Sir if you can mention which are the few countries where we export?

Shekhar Dravid: We are exporting to US, Brazil, then we are exporting it to Austria, we are exporting it to Germany.

Saurabh Jain: My second question is about the receivables. Of course, you have mentioned in the previous calls that with the rising share of exports, our working capital requirement will keep on rising because of our higher number of debtors in the export orders. How do we plan to tackle that situation, and do you see any risk to receivables in that case?

Vimal Gupta: Yes, Saurabh. We are mainly focused on it. The payment terms with the overseas customers is really a challenge for us also, but we are negotiating with the customers when we are making the settlements that how we can recover the money early. Hopefully, in the coming time, you will see the improvement on that side also.

Saurabh Jain: Sir, what would be the peak level of debt that we can expect towards the next 2 to 3 years considering the rise in share of exports which will stretch our working capital requirement as well? And although for the time being, we have kept our CAPEX plan on the back burner, I assume that over the next 1 or 2 years, we are not looking at expanding. Considering these 2 things, what would be the peak debt level that we can expect?

Vimal Gupta: First, I think we should divide it into 2 parts. One is the working capital side and other is the CAPEX side. When we go for the working capital side, we are more focused to bring it down because maybe that we are going to meet the exports, then that will be a challenge for us, as I explained earlier also. But now we are in negotiations with the customers as well as some other solutions we are trying to find out with the customers as to how to reduce this credit period. Hopefully, you will find in the coming period that the number of days is going down instead of increasing in spite of the increasing share of exports.

Second is the CAPEX. So, CAPEX, yes, when Mr. Dravid explained to you that we have new projects. So, CAPEX requirement will be there, and this year is challenging that you know that we will not be able to generate cash flows for funding the CAPEX side. So, now we are in discussion that how to fund that part. So, maybe a little increase you can find on the long-term debt for a short period to overcome the critical situation of this year.

Saurabh Jain: Sir, what would be the CAPEX amount that you have budgeted for the next 1 to 1-1/2 years?

Vimal Gupta: This year, we are estimating approximately Rs. 40 to 45 crore.

Saurabh Jain: So, that has not changed. This you had mentioned in the last con-call also.

Vimal Gupta: These are for the new projects.

- Saurabh Jain:** So, that does not include the maintenance CAPEX?
- Vimal Gupta:** Yes, everything. Maintenance CAPEX is included and the big orders that Mr. David explained about Toyota and PSA, those are the very big orders. For that, we need to build up the capacity for those particular projects.
- Saurabh Jain:** Can you just quantify the order size of Toyota global approximately?
- Shekhar David:** This is roughly around Rs. 80 crore per annum.
- Moderator:** The next question is from the line of Saurabh Shroff from QRC Investments. Please go ahead.
- Saurabh Shroff:** Sir, just a couple of questions. First, on the cost front. What measures have we taken and what is the cost level that you will be comfortable with. I am just trying to get a sense of when the business breaks even and what measures that we are taking?
- Vimal Gupta:** On the cost side, you know that is a very big challenge because when we go on the cost, one is variable and the other is fixed cost. Major challenge comes for the fixed cost side. So, we are taking many measures to control, especially big challenge in the fixed cost is the foundry's manpower and energy. So, we have taken many measures to reduce the manpower cost, especially by improving the efficiency, the output so that we are more focused on. That is the main criteria to reduce our cost of manpower as well as if we improve output from each machine, then we can save manpower as well as on the energy side. And many other things commercial side negotiations are going on, like some captive powers or some power trading, many areas we are finding out the solutions to reduce our cost.
- On the operational side, when we come to the variable cost side, then we have to reimagine our thinking. So, like major cost when we talk about is the raw material - aluminum. What are the different options or some other solutions? Even you know that if even we improve by 1%, it has a major impact. Those things we are doing and then process cost, process efficiencies. In every area, we are focused to improve.
- Now, coming to the price what you are talking about. Our major focus is how to maintain our cost as a percentage to sales for this year particularly even after having a reduction in the top line. This is the way we are working.
- Saurabh Shroff:** If I may probe a little bit more, this quarter you have an employee cost of about Rs. 30 crore, which is down from some Rs. 37-38 crore previous year and previous quarter. Is this a base that we should work with or is there room for this to go down further? Similarly, on Other Expenses side, I guess a lot of the variables are down, but what I want to understand is that what is your per quarter let us say minimum fixed cost or what is your target to reduce fixed costs so that the business bounces back faster as and when the recovery comes from the external environment?
- Vimal Gupta:** On the fixed cost, you are talking about manpower, about Rs. 30 crore for the consolidated basis. Because there was no lockdown in our European facilities, that cost will remain for the European facilities and for India, our fixed cost for the employees is around Rs. 22.5 crore. Earlier, we used to have approximately Rs. 28-29 crore for this on a standalone basis. When we go for the manpower cost, there are 2 challenges. One is, you know that in India, always minimum wage is increased every year from the government side, and second is, some increments or other things we have to take care, the current year is a challenging year. So, maybe we will not go for this increment, but going forward, we have to take care of all these things. But when we improve on the operations and the productivity improvements

are there, then we can see the effect on this and we are targeting at least to not to cross whatever manpower cost we had in the previous quarters in spite of increase in the volumes. For example, when we take the March quarter, we had a sale of around Rs. 169 crore and we had a cost of Rs. 28 crore of manpower. So, even when we cross this top line, we are targeting manpower costs to remain up to Rs. 28 crore or below that. That is our target.

Saurabh Shroff: I have 2 parts in this question. How much near-term visibility do you have? Like you mentioned this Toyota order, if you could also quantify the PSA order and the regular business because I think in the presentation, you have mentioned the Jaguar and the other orders which will sort of kick in 2023 but between FY21-22, how much visibility do you have on the current order book as it stands?

Shekhar David: Specifically on PSA, the start of production will be in FY21-22 last quarter and for Toyota, the start of production will be 2nd quarter of FY22. So, these are the business what we are talking about which will be ramped up in FY22-23 where the value as I already said for PSA, it will be around Rs. 120 crore per annum and for Toyota, it is around Rs. 80 crore per annum with the peak volumes what have been shared by the customers with us. Definitely, we are looking for gradual growth next year for these businesses. Jaguar has already been acquired and the sample submission and everything has been completed and the ramp-up will start from end of FY 20-21, i.e, the 4th quarter. It will give us the ramp-up business for the next year as far as Jaguar is concerned which is already initiated in FY18-19.

Saurabh Shroff: For FY21, if we were to assume 75% utilization let's say for the entire industry, I am just trying to understand that do we have any additional kick-up that we could outperform the domestic auto industry growth or degrowth? If the industry was down 25, could we be down maybe 15 or 18? Do we have some visibility either from some orders which are starting or some export opportunity or whatever maybe the case? And I think linked to that is also you mentioned that in BS-VI, we have a bigger role to play. So, I just wanted to understand how much does the content per car increase for us in the new BS-VI environment and regime?

Rajeev Sikand: We are seeing a very good market in the 2-wheeler and in the small car and small LCV where we also have a share. There are 2 factors to this. I think right now, the supply side factors are working, let's say till September and the demand side incentive should hopefully kick in from October. Otherwise, you may actually see a downtrend after the festival season. Because a lot of current purchase by the OEMs is also one is going towards their direct sales and slowly building for the festival season which they normally build much earlier. These are the 2 factors on one side.

The other side is the story of COVID itself. How does it play? How does the lockdown play? What happens on the other side? And we have made internally our projections and we see that we are in that line with our projections for the year or for at least this quarter going forward and what we had projected in May and for this quarter, we are in line and I think a lot is going to evolve. So, this is going to be a very challenging and evolving year. Nobody projected demand to come back so quickly. So, there is a shortage of as to say in all companies and every effort is being made to get them back. Also, you are right; we are taking all these opportunities which we can grab from the other sources, who are not able to supply. That's what we are doing at this moment.

Saurabh Shroff: On the BS-VI part, how much is the increase of content per vehicle for us because of this?

Shekhar David: It will be around 18% to 20% per vehicle because if you see this increase is some of the components which were not there in BS-IV they are added into our kitty. And,

also existing share of business has been increased with very strategic and specific customers.

Moderator: The next question is from the line of Bharat Gianani from ShareKhan. Please go ahead.

Bharat Gianani: Just continuing on the earlier question, in the Q4 call, you highlighted that in FY21, we might see a decline of about 20% in the overall revenues. What is the feedback that you are getting on ground from the customers both in the domestic and the export market? Are you still maintaining that projection, or do you feel that the revenue potential drop could be higher than what we had guided for in the earlier call?

Rajeev Sikand: If you see the performance from June onwards, as the ramp-up has started, we are seeing a very bullish sales in the rural and small town. It is not only agriculture, it's the whole rural industry which seems to have picked up and is a grace for everybody in this business. On the other side, the COVID cases are going up and you are seeing the whole story on that side too.

As we are seeing now in this quarter, going forward, we still stick to our original what we had answered in the last meeting and hopefully we can try to maintain that. Things are looking positive as of today, but as I said, this quarter also a lot of supply side incentives are working as we see it and hopefully demand side incentives should come in from October onwards because there is a festival season of course and hopefully that can also see through and get us some additional sales.

Bharat Gianani: Rs. 800 crore order book that you pointed out earlier that we had secured, the export order book that we had from the major automotive that would start execution from FY23 or what is the exact timeline when that orders will start getting reflected in our revenues?

Shekhar Dravid: This will come into the production from FY22 and ramp-up will be in FY23. It is already as per the target and is online. There was some disruption due to this pandemic but we are catching up with that and there will be no change in the final timeline for that.

Bharat Gianani: If I may ask this Rs. 800 crore order book is executable over what time frame?

Shekhar Dravid: 5 years.

Moderator: The next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: This Toyota order is for how many years?

Shekhar Dravid: This is for 5 years but per year, it will be Rs. 80 crore.

Dhiral Shah: And same for the PSA order, sir?

Shekhar Dravid: This order is also for 5 years and that is amounting to Rs. 120 crore per year.

Dhiral Shah: Sir, you just mentioned that in BS-VI, your content per vehicle will go up by 18% to 20%. Don't you think this will drive the overall growth in FY21 itself?

Shekhar Dravid: No, it will come in FY22 because these are new developments and basically these are suspension parts, where we were not in domestic business initially. Now, with BS-VI, we have started entering into that. This increase will come in year 2022.

- Dhiral Shah:** This BS-VI content which will be supplied, are these products high margin in nature or the margins would remain the same?
- Shekhar David:** It will be slightly, but it will average out to the other business in other sectors.
- Dhiral Shah:** In FY22, we have a good visibility of Toyota plus PSA, right?
- Shekhar David:** Yes.
- Dhiral Shah:** So, in FY21, there could be a decline but again FY22, we have a good order book for that?
- Shekhar David:** Yes.
- Dhiral Shah:** Lastly, on the non-auto business, how is the current scenario?
- Rajeev Sikand:** You must understand that Toyota order which David has explained, this is one time in the history it has been done. Toyota never outsources its cylinder heads. This is the first time a very small foundry in India got this order and this is because we had supplied one part for 4 years, they were of very high quality, and the entire technical team has been working with us from August last year. When I met them initially on 6th of August in Japan, they said the possibility was virtually zero and then we convinced them with the samples and visits. More than 80 people from Toyota have visited us. This is not an opportunity which happens every time. This is a leapfrogging. You can understand when you had a batch of Toyota, it's a lot of responsibility also on us and our partners Enkei have supported us. All this culminates into this kind of thing and if we do well, it does not stop us to get more business from Toyota in future or their other localization programs.
- Also, I like to explain that PSA normally they follow their global source. They have their global source in India - two of them. But because earlier of our work with Renault and our exports to Renault Brazil, these guys have seen us and as you know, in automotive industry, people shift from one company to the other. The technology and the frugal engineering solution which we have given to PSA has made us breakthrough plus we had appointed a French marketing office last year. These all factors put together have brought us the PSA.
- The other part of the story maybe was missed, the EV components, for especially the companies like Dana in various branches of theirs, Danfoss. There is another huge development of more than 30 parts in EV which we are now going ahead. That is something which Mr. David has not dwelt very deeply but it's something which is also very exciting with the time as it may come.
- Dhiral Shah:** Good to hear that. Sir, in your opening statement, you were talking about Honeywell. I missed that. What was that?
- Shekhar David:** Honeywell has got now taken over by Garrett worldwide and Garrett has got their E-mobility division separately. From them, we have just now got 1 component and we are working on that to expand our business and basket with Garrett.
- Dhiral Shah:** What would be the size if we won that order?
- Shekhar David:** This is under development right now and will start in FY22.
- Moderator:** The next question is from the line of Sharan Sadarangani from Longview Finance. Please go ahead.

Sharan Sadarangani: If you could just talk a little bit about your raw material cost? How do you see that and where do you procure the aluminum from? If you could just comment a little bit on that environment.

Vimal Gupta: Most of our Aluminum purchases are domestic. So, many suppliers are there. They import the scrap and produce the ingots and supply it to us. Very little amount of import is there, it is of a very specific type of alloy that is not available in India. Critical chemistry is there. So, for maximum percentage, it is the local buying and mainly because customers control the raw material. So, maximum customers they finalize the suppliers and we have to buy from them.

Sharan Sadarangani: Secondly, in terms of this EV vertical, what percent of sales do you think in the future it could contribute going down?

Shekhar Dravid: Basically, by FY24-25, the share of business from our EV vertical will be around 6% of our total turnover.

Moderator: The next question is from the line of Divyesh Shah, an individual investor. Please go ahead.

Divyesh Shah: Sir, my question is regarding our partner Enkei Corporation who is holding roughly 15% stake in our company and they are aluminum giants of the world. Sir, can you explain what is the role of Enkei Japan to our company?

Vimal Gupta: Enkei, you know that they are the worldwide leader in aluminum alloy wheels. They are very good in technology and the technical support that they are giving. Whenever we need, they send their Japanese people to support us on the development side or the owner of the Enkei, Mr. J Suzuki, he always visits minimum 2 times a year to Alicon and spends at least 2 to 3 days every visit and he audits our plant and gives many ideas for the process improvement and cost reduction because you know that Japanese people are more focused on the cost side and Mr. Suzuki is well known in Japan for cost control. We get a lot of ideas from the cost side or the technology side and they also have given the opportunity for Alicon team to visit their plants. Our technical people, our other managers, many of them they visit their plants in Japan, Thailand, Indonesia, US and many other locations and understand the processes whenever we have issues or some other operations we need on the technology side, they provide. We have a very good partnership and understanding with Enkei.

Rajeev Sikand: The other critical element is that the relationship with the Japanese OEMs continuously gets enhanced with us. Lastly, we get to see the global plants how they are benchmarking, what is happening in the US, what is happening in China, how they are dealing besides Asia and Japan, and our people are continuously provided with the knowledge and the wherewithal. It is an excellent relationship which we are harnessing all the while and it has helped us with the Toyota order also.

Divyesh Shah: I am closely watching this company and I am a very long-term investor and my only purpose to invest in your company was because of the technology provided by Enkei, Japan, but looking at the last 14 years, looking at the potential of your management and Japanese technology and the potential of Indian market and export market, I think somewhere we are missing that we have not performed as per the expectations of the shareholders. I thought by 2020 this company can be a Rs. 2,000 crore company, but we are missing this target by big margins. I just wanted to convey my concern that as far as our capacity is concerned, we have no doubt about your management but there is some missing link between the potential of Japanese technology, Indian production facility, and the market.

Sir, my second question, regarding our European manufacturing, this is a strategic question. Is it economically viable to have a manufacturing facility in Europe? Does it make a profitable sense at the bottom line?

Rajeev Sikand: Thank you so much for both your questions and I do understand your concern. You rightly said, you have to see the market as it evolves on the Japanese end. Japanese are doing inhouse foundry. Maruti Suzuki has inhouse foundry. Honda car has inhouse foundry. Except the 2-wheeler, the Toyota has worldwide in-house foundries. They do not do overnight things. As the first time we have told you that Toyota has given an order. So, it must be a big change. It is now 1 order, and then multiplication happens in the automotive market. Traditionally, the Germans have outsourced over the years, the French have outsourced, but the Japanese do inhouse, and this is a key component for them. In the real world, we can challenge all those components which they do inhouse from the cost side and technology-wise, and hopefully we will have some news on the other OEMs because with Toyota, we can now look at knocking the door of Maruti Suzuki also. It helps us there.

Coming to the European plant, as far as European plant goes, we use this as a technology center. We have not pumped in anything from India to the European plant from a cash-out perspective. It is completely like a technology center where we develop the parts for all the big OEMs and then create that opportunity for us in India. Our Daimler order came because of that. JLR orders have come because they have seen that facility which we have and that type of casting. This would have never happened. So, that Rs. 800 crore order, is something which has happened because of this technology center which we have, and our pure play is technology center because we want to bring the things to India as soon as they develop and also the technology is evolving. Today, I am not at liberty, but one 2-wheeler maker in India who has got offices in Europe, he has gone straight to our plant there and he has seen what we are doing, and in the next 2 years, they want to come with that kind of a motorcycle, with those kinds of parts. We are way ahead of the curve. This helps us in the second way. I hope this answers your question.

Divyesh Shah: Is the European plant self-sufficient to take care of its own? We are not burning cash. Because it happens to many auto ancillaries' companies in India that they burn money for their external plant outside India.

Rajeev Sikand: You are absolutely correct. We have not pumped in anything. We make that plant earn, run, and get the orders for us. And I understand where you are coming from. It happens in some cases. Earlier only we had made sure that when the plant was running in Austria, we moved from high cost to Slovakia and we changed the strategy over a period of time. The EV components which Mr. David has spoken about purely happened because of our office in Vienna and our Slovakian plant where we have developed parts for Bosch and for Samsung and another bus maker. It is not that suddenly you go to OEM because he wants to see what is behind you. That is helping our EV journey in India. And of course, a lot of these EV components which we are going to be producing here is for global exports.

Divyesh Shah: Mr. Rajeev, one simple suggestion is that when Enkei took investment in our company up to 14%, at that time, the rule was that you can buy only up to 14% or 15%. Otherwise, you have to give an open offer buyout. Now that limit has gone to 25%. This is my simple suggestion; can we make an effort for Enkei to increase their stake from 15% to 25%? That can be a win-win position for you as a promoter or you as a company and we as a minority shareholder.

Rajeev Sikand: You are absolutely right. Right now, they have already invested around 2 years back if you are aware, they have already done that.

- Divyesh Shah:** It is more than 2 years. I think it is 4-5 years when they have invested.
- Rajeev Sikand:** No, for 2 years they have done at a peak and they have come in with a long-term intention. So, it goes step by step and it moves to that direction.
- Divyesh Shah:** Only my intention is it gives a commitment to the management that Enkei is behind us. It gives more confidence to the investors as a whole.
- Rajeev Sikand:** Again, they have invested 2 years ago and they are very much a part of us. This is a step-by-step process.
- Moderator:** The next question is from the line of Ankit Jain, an individual shareholder. Please go ahead.
- Ankit Jain:** I have 2-3 questions. One is, you have mentioned about those Rs. 800 odd crore of order which is there for the next 5 years which is on track, but during Q3 FY20 con-call, it was mentioned that we have orders of new projects to the tune of Rs. 163 crore for FY21 and then it was supposed to be Rs. 207 crore for next year and Rs. 285 crore for the 3rd year. What I just wanted to know was instead of pointing out particularly to that Rs. 800 crore, in totality, all these new orders which were won during the last year, are they all on track? So, are we on track to make at least Rs.150 crore or something during this current year from the new projects?
- Shekhar Dravid:** Basically, for the first question, yes we are on track for this project, as I told you. Some projects what we got, during this COVID pandemic; our engineers are working from home, making those facilities available to them. From our side, we have taken this opportunity and engineering work for these projects were done but as for customers, for whom we were making these, that period we have utilized for this period, but it has been shifted as far as the customer is concerned. The total span is shifted by 3 months. So, basically, we are on track and we will fasten this process as customer is also interested and we will try to cope up with whatever is needed as per the market.
- Rajeev Sikand:** Just to add that there are a lot of things to be done in the testing facility. So, from our side, we ensure that we are working throughout and our engineers worked throughout this lockdown. However, in their case, it is not so easy to assess their testing facility. That has put in some cases 50 days, 60 days, some 70 days, to that kind of extent delay, but overall the direction is the same.
- Ankit Jain:** Is it fair to assume that whatever Rs.163 crore we had estimated, there, there may be some spill over to next year?
- Rajeev Sikand:** Yes, it is by a quarter. It is only a quarterly shift because of the lockdown. As of now, we can only say maybe maximum 50-60 days in the next financial year.
- Ankit Jain:** It means whatever the estimate for FY22 and FY23 will remain good as on date?
- Rajeev Sikand:** Yes.
- Ankit Jain:** Who are our major competitors for aluminum casting in India?
- Rajeev Sikand:** Firstly, the foundries in-house of Maruti Suzuki. Their in-house foundries and then there is a group company of OEMs, you will have Sunbeam which was also referred to us, Rockman from Hero, and then you will have companies like Endurance. And then TVS has their own company in-house. This would be the biggest competition but if you look at, let us say for a low pressure die-casting, we would have around 100 machines and our nearest competitor would have a maximum of 24-25 machines.

- Ankit Jain:** What is the difference between aluminum casting and casting of other metals like steel and other things?
- Shekhar Dravid:** If you see basically aluminum, the raw material cost is between around 60% to 65% as compared to ferrous. So, in topline if you see, the value added is to the tune of around 30% to 35% which is exactly different in the case of ferrous material. That is the biggest difference as far as the industry is concerned.
- Ankit Jain:** You mean to say that in ferrous, i.e., steel casting, the cost of the material would be only 30% to 35% whereas in aluminum, it is 60% to 65%?
- Shekhar Dravid:** Yes, that's right.
- Rajeev Sikand:** Also, it is the application where the world is moving. So, on this, we have very little to value add because it is a global decision of the OEMs keeping the environmental norms because the weight of aluminum is much lower, but certain applications do require like in tractors and other industries, it may require iron castings, ferrous castings, but slowly the world has moved into aluminum. In India also, the movement is coming to a very large extent.
- Ankit Jain:** Sir, for a nontechnical person I am asking, is it possible for the steel or ferrous casting companies to convert into aluminum casting companies?
- Shekhar Dravid:** No. Basically, the infrastructure requirement for steel and ferrous components is totally different than the aluminum.
- Rajeev Sikand:** Anybody can convert. You are right. In the last 15 years, we have not seen anybody converting into that. We have seen very small incremental growth as the customer is growing and they want to keep the share of business of their in-house companies, that kind of growth is coming.
- Ankit Jain:** We are in the electric vehicle segment because of the increase in their weight of that vehicle due to battery, they are shifting to a lot of aluminum components. But in the existing vehicle types, is there any initiative or any companies have taken any measures to convert their existing components to aluminum components?
- Shekhar Dravid:** Yes, there are lot many. Basically, the suspension components which were traditionally in ferrous or forged parts which have been converted to aluminum. As you know that whatever the JLR component what we bagged, which we call as a technology-agnostic part, parts such as the chassis or suspension or the building of a vehicle for other things, these are the components basically which have traditionally been used in forged or the casting in steel have been converted to aluminum now for the reduction of the weight of the vehicle.
- Ankit Jain:** Now, for example, in an existing vehicle, what is the composition of aluminum components?
- Shekhar Dravid:** At present if you see the ICE vehicle or normal vehicle, around 1,442 kg is the weight of the vehicle. Today, around 127 kg is the weight of aluminum all parts together in this.
- Ankit Jain:** This, the way you are saying, so many different parts getting converted into aluminum, going ahead, maybe we don't know 5 years or 10 years down the line, this quantity can go up. That is what your assessment?
- Shekhar Dravid:** Yes, absolutely.

Moderator: We will have to take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Shekhar Dravid: I hope we have all 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 this call.

Moderator: On behalf of Alicon Castalloy Limited, that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.