alicon

Casting the Future

August 20, 2022

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 August 2022, after announcement of the unaudited Financial Results for quarter ended June 30, 2022. 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**

Vaidya

Veena Vaidya
Company Secretary
(M.No. F8951)

ALICON CASTALLOY LTD.

Alicon Castalloy Limited, Gat No. 1426, Shikrapur,
Tal. Shirur, District Pune - 412208, Maharashtra - INDIA.

T: +91 21 3767 7100
F: +91 21 3767 7130

www.alicongroup.co.in
CIN No. : L99999PN1990PLC059487

Alicon Castalloy Limited

Q1 FY23 Earnings Conference Call

August 12, 2022

Moderator: Ladies and gentlemen good day and welcome to the Q1 FY'23 Earnings Conference Call of Alicon Castalloy Limited. 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 '*' 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 FY'23 Earnings Conference Call.

We have with us on the call today Mr. Rajeev Sikand -- Group CEO; Mr. Vimal Gupta -- Group CFO; Mr. Shekhar Dravid -- Chief Operating Officer of Alicon Castalloy Limited; 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. Dravid will walk us through the operating highlights. In order to share a more granular view of the initiatives towards both the Global and Domestic Markets, we also have Mr. Andreas Heim and Mr. Rajiv Gupta to provide Insights on these areas. Following the comments from the team, our group CEO, Mr. Rajeev Sikand, will give us a brief summary of the quarter gone by and encapsulate the strategic imperatives. Thereafter, we shall open the forum 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 documents shared with all of you earlier.

I would now like to hand over the flow to Mr. Vimal Gupta for his Opening Remarks. Over to you, sir.

Vimal Gupta: Good morning to all our investors. I hope that all of you and your near and dear ones are safe and well. Thank you for taking the time out to join our earning call.

We have started the new Fiscal Year 2023 on a positive note despite multiple challenges on the macroeconomic front, such as a volatile economic backdrop, lingering supply chain issues, ongoing COVID dynamics and the continuation of the Russia-Ukraine war. For the Mobility Customers, the sharp rise in input prices has led to price hikes by OEMs while increase in fuel costs has contributed to higher cost of ownership of vehicle. Further, there has been a backdrop of high inflation impacting discretionary income even as increasing interest rates are further contributing to the pressures. Despite this potent mix of challenges, the demand environment across domestic and international markets has remained resilient and is turning favorable. We have witnessed higher than expected volumes across the global and domestic industry. S&P Global has recently revised upwards their projections for Global Light vehicle production for Calendar Year 2022 from 4.1% to 4.7%.

In India, we have witnessed increased traction in auto sales especially in the PV and MHCV categories in the industry. On a year-on-year basis, we have seen sharp increase in volume performance due to the low base of the prior quarter combined with the improved availability of semiconductors in Q1 FY'23. Based on our assessment, the domestic industry has now revived to around 80% of the performance benchmark set in Financial Year 2018-19, which was the best year in the last five years.

Overall, our total income stood at Rs.344 crore, higher by 63% year-on-year basis which significantly outpaces industry growth which was around 39% year-on-year. More importantly, in 2018-19 which was the best year for the industry in the last five years we reported revenue of Rs.298 crore in the first quarter. Even with the industry at around 80% of the level of FY '18-19 at present, we have significantly outpaced the benchmark and our revenues of Rs.344 crore in Q1 FY'23 are 15%

higher than the previous highest Q1 indicating the different trajectory of performance.

We are also pleased to make progress on our strategic objectives this quarter. Our focus on opportunities from the EV technologies is being widened in scope to a focus on Carbon Neutral technologies. This wider ambit encompasses opportunities from Battery Electric Vehicles, Hybrid Electric Vehicles, Plug-in Hybrid as well as Fuel Cells and Hydrogen Cell Technologies, which are also emerging as viable options across the Mobility landscape.

Secondly, we had talked about a focus on shifting towards higher value addition across all of our business activities. This quarter, there is a visible shift away from two-wheeler business which has limited Value Addition towards Passenger Vehicles, Commercial Vehicles, Export and the EVs on the Carbon Neutral opportunities, where the scope of value addition is larger. If you were to observe our last three years trend which we have included in the Q4 earning presentation, you would see how our product mix has evolved.

Input prices continued to move higher in Q1 FY’23. As we have spoken last quarter, we have been constantly collaborating with our customers to undertake price revisions and have successfully passed on some part of increased cost in the quarter. Apart from repricing, the enhanced product and revenue mix have enabled us to deliver stable margins in the face of a challenging environment. We have recorded incremental sales from value-added components which has supported improved margin performance. Our gross margin for the quarter stood at 47.5% in Q1 FY'23 against 50.2% in Q1 of FY'22. We witnessed raw material prices peaking out in Q1 and at present RM prices are around 10% lower than Q1 level.

Coming to the cost metrics, we continue to face challenges related to the 5C framework that we had discussed earlier. The COVID impact, chip shortages issue, cost of new product development, the conflict between Russia and Ukraine and global cost-based inflation together are serving up a highly dynamic operating environment.

One of the key challenges last quarter was the reduction in gas supply to Europe which is resulting in domino effect on energy cost across the globe as Europe seeks alternate energy supplies. This means that global prices of gas, coal and that of crude oil, continue to remain at elevated levels. Industries with intensive power requirements such as industrial, metal, foundries, etc., have been hit the hardest. In Q4 and in the quarter under review, we have witnessed a significant increase in power cost across our operations. Anticipating this, we have moved to set up a captive solar power project, which will serve around one-third of our annual requirement.

Overheads across our business continue to move higher in Q1. The cost optimization initiatives implemented earlier has enabled us to substantially mitigate this impact on our operational performance.

The Kaizen principle-based initiatives that we have adopted have helped us bring in optimization across all methods of our business model, right from inventory management, employee expenses to power cost optimization, among others. We have seen a notable reduction in fixed expenses, overheads and interest expenses as a result of these initiatives.

The EBITDA margins stood at 11%, higher by 251 bps year-on-year basis. In a normalized environment, our medium-term target is to improve our EBITDA margin to a level of 14%-15% on the back of our cost efficiency measures. In absolute terms, our EBITDA during the quarter came at Rs.37.95 crore higher by 110% year-on-year. Profit after tax during the quarter stood at Rs.10.77 crore. I am happy to share that we have delivered a performance surpassing the pre-COVID level.

On the CAPEX front, we plan to deploy around Rs.90 crore in FY'23 which includes maintenance CAPEX and new machining capacities, for which in the quarter we have already undertaken Rs.24 crore Capex. Currently, our manufacturing plants in India and Europe continue to operate at normalized utilization level with a tune of 65% to 67% in the quarter.

To summarize, we have seen an encouraging start to the Fiscal Year 2023. We continue to focus towards augmenting and maintaining our financial fitness. Our focus continues to be on improving margins, return ratios and streamlining our working capital cycle. In a normalized environment, we look forward to delivering a strong and sustainable growth.

On that note, I would like now to hand over to Mr. Shekhar Dravid who will talk about Operating Highlights for the Quarter.

Shekhar Dravid: Thank you, Vimal. Greetings to all. I trust all of you are well and staying safe.

The domestic auto sector saw a significant demand improvement in the quarter with most categories witnessing encouraging traction. Passenger Vehicles, Commercial Vehicles and 3Wheeler segments registered an improved performance on year-on-year basis backed by the pent-up demand, improved availability of semiconductor, festive push, new product development and in case of Commercial Vehicles and Heavy Vehicles, factors such as increased infra spend, mining activities logistic growth and resumption of schools aided the demand.

On the production front, we saw steady levels across OEM which augur well. On the raw material front, we have seen cooling off in aluminum and related alloy prices recently. This is mitigating cost to a large extent. Higher chip availability and unfurling supply chain issues further supported this traction. On the domestic front, we had projected industry growth of around 5% in 2022, but the expectation is now being raised to 7% growth for the full year.

Internationally, trade continues to be favorable as global customers have adapted to the challenges like constraint in availability of semiconductors as well as realignment of the supply chain. We are seeing healthy leads and enquiries from our international business segment and remain optimistic of delivering growth going forward.

On a consolidated basis, we have reported a strong growth. Our volumes marked healthy double-digit growth translating to 63% increase in revenues on a year-on-year basis. At the start of the financial year, we have budgeted for the growth of around 18% to 20% on a year-on-year basis on the back of new parts to commence production, new customers added and the business mix shifting towards higher Value Addition.

Our assumption was the market environment would be largely benign. However, we are now seeing improved market conditions also contributing and have raised our internal budget for a growth to 25% to 28% on year-on-year basis.

Let me take you through the highlights of our performance across each Domain:

The first being our Auto business. The domestic Auto sector has seen many headwinds in last four years adversely impacting due to COVID, demand, regulatory changes, input pressures among the others. However, we are now seeing emerging positive bytes with uptick in demand. Despite higher fuel prices, there is increasing traction in ICE vehicles too.

We delivered strong volume growth across verticals in the quarter. This is due to the increased volume on account of the start of production of a key program for a global customer. We have two programs set to go live in the current quarter which will lead to a further ramp in volumes.

Coming now to the second of our growth pillar, which is the Carbon Neutral technologies opportunities. While we anticipated stronger demand in Electric 2W segment in India, there has been a lot of negative news in the domestic market regarding battery explosions, which seems to have impacted customer sentiment. However, the Passenger Vehicle ecosystem is progressing well in India, leading to impressive volume growth and rapid approach towards critical mark.

In 2021, 3,30,000 units of EVs were registered in India, clocking a growth of 168% as compared to 2020. The increase was on the back of performance towards higher personal mobility, environment friendliness and spiking fuel prices. The second phase of Faster Adaptation and Manufacturing of Hybrid and Electric Vehicles (FAME II) has further accelerated the adoption of Electric 2Ws which has witnessed close to 1,10,000 units in Q1 2022.

As per a report by Indian Venture and Alternate Capital Association in collaboration with EY and IndusLaw, electric vehicles are expected to account for 39% of total automotive sales in India by CY27 growing at a ~68% CAGR over the next 5 years. For this segment, we are working with OEMs as well as the parallel suppliers which have been working extensively with DANA Corporation, SCANIA, Tata AutoComp, Eaton on both the domestic and international orders. During this quarter, we added two parts as well as two new logos of Rimac and Ducati. After some gap, we are pleased to add new logos to our customer list.

Another area where we are seeing strong response from customers is the light weighing of products in the Auto and EV space. We are getting increased enquiries from the OEMs, both in domestic and export markets, and we are actively developing new parts to focus on this segment.

We have already built up a portfolio of over 103 parts, catering to EV and are progressing well on our target for scaling up revenues from Carbon Neutral technologies.

While we have shared that on initial target, which is to bring to the wallet share from Carbon Neutral technologies to 25% of overall revenue by FY 2025-26. Our existing order book already comprises share of business of 25%. As these convert from orders into start of production (SOP), we will achieve our target for the share of revenue from Carbon Neutral technologies in an accelerated manner. Based on this high visibility, we had shared an accelerated target of 26% from carbon-neutral technologies by FY 2025-26.

Now, on to our third growth pillar, the Technology-Agnostic Platform. We are steadily adding value-added products to our basket. Various aspects of our vehicles are cross-functional across both ICE and carbon-neutral platform and would remain relevant should there be emergence of a new alternative technology too. Our aim is to ensure that we gain relevance in interesting and accretive niche around these products by leveraging our core competencies. In this regard, we are working on diversifying and expanding our portfolio to include several niche and value enhancing offerings. During the quarter, we added one part to this portfolio.

Coming to our fourth segment, which is a Non-Auto business, in this we are witnessing healthy growth in demand from the diverse sectors we serve. During the quarter, we received an order win for one part. This is under the Atmanirbhar Bharat, where we quickly developed a complex and critical part for a reputed domestic customer.

Our fifth growth lever is our focus on improving customer wallet share. This will be by leveraging our R&D and competencies and our relationship. Our R&D facilities are core to our operations and enable us to keep pace with upcoming opportunities.

Overall, we are well placed to enhance contribution from repeat customers and demonstrate customers stickiness. Our long-term approach is towards building wallet share and positioning ourselves as a trusted supplier for an existing customer base.

On that note, I would like to now hand it over to Mr. Andreas Heim to throw light on our global business.

Andreas Heim: Thank you, Mr. Dravid. A warm welcome to all of you, I will briefly cover the developments on our international business.

We have delivered a healthy performance in Illichman during the quarter on the back of steady demand environment in our key global markets of US, Europe and China. While we were seeing initial signs of supply chain issues easing across markets, the ongoing conflict has deepened inflationary pressures of some key inputs. So, we witnessed aluminum prices and steel prices at elevated levels in Q4 FY22 and Q1 FY23 and this was accompanied by the unprecedented rise in gas prices elevating power costs in Europe.

The rising prices of inputs are a pass through to customers and we are working with them to arrive at a formula for higher energy costs too. Further, we are evaluating installation of solar power to diversify our energy mix. An important point to share here is that our manufacturing facility is located in Slovakia which is the second most assured nation in Europe in terms of gas availability. Slovakia already has assured stock of gas upto April 2023 and will further augment its stocks in the coming weeks and months.

Against this backdrop, we have reported a rising performance in the international business. Exports including overseas revenues contributed to 23% of the total revenue in Q1 FY23. We added 2 new parts from 2 global customers in the quarter.

We developed a motor housing product for Rimac, an Associate Company of Porsche, which holds 45% ownership. Rimac is perceived as the Tesla of Europe and we commenced supplies to Rimac Auto in this quarter. For them, we leveraged learnings from customers served in the past enabling us to drive solutions in shorter time frame. We were able to develop a motor housing in 3 months against normal cycle of 5-6 months.

Further, Rimac also has an engineering division which supplies to large, global OEMs including its parent company Porsche. We undertook a thermal engineering project for Rimac Engineering, which is working on developing EV parts for other OEMs. There is huge potential to build on these new supply arrangements. This development will help us to grab more such business from global and domestic OEMs.

We also added Ducati to our customers in this quarter. Ducati is the third largest two-wheeler manufacturer in Europe. The largest is KTM followed by BMW, both of which have been customers for over two decades now. With the addition of Ducati, all 3 of the largest European 2W OEMs are part of our customer list. For Ducati, we developed a swing arm through our gravity die-casting process which offered a solution with greater efficiency at more competitive cost.

As we look ahead, we are monitoring the evolving landscape across the global markets. The demand for traditional technologies remains resilient even as demand for Carbon Neutral technologies continues to accelerate. In the medium to long term, there are many growth opportunities in our key targeted markets in Europe, Middle East and the US. Illichman is actively building its presence in these regions and we are confident of an improved performance as the environment normalises.

On this note, I would like now to hand over to Mr. Rajiv Gupta who will cover the development in the domestic business for the quarter.

Rajiv Gupta: Thank you, Andreas. Good day, everyone. The Indian automotive industry has posted robust growth in the quarter gone by with Passenger and Commercial Vehicle segments logging growth, with 2Ws witnessing steady resumption in demand. We are also seeing encouraging indicators such as improved production levels from OEMs, strong build up in enquiries and increasing trends in order books. These positive trends bode well for the industry and in turn for Alicon.

In the quarter, we have delivered a strong performance. Total contribution from our domestic segment stood at 77%. On the whole, we have reported encouraging growth in the domestic auto segment during the quarter led by improving trends, festive push, higher preference towards Personal Mobility. We continue to witness good level of enquiries and bookings in the market and are hopeful that improving macros will further support this momentum.

In the Non-Auto business, we received an order win from one part from a reputed industrial house in India. This complex and critical part will support the rollout of a cutting-edge technology for a customer and falls under the prestigious Atmanirbhar Bharat Program.

On this note, I would like to now request Group CEO, Mr. Rajeev Sikand to share with you in perspective on Alicon performance.

Rajeev Sikand: Thank you. Good day, everyone. We have reported a healthy set of results during the first quarter of fiscal 2023. Our growth has been driven across businesses of auto, non-auto, structural and technology-agnostic products across domestic and international markets. We have marked strong client engagements and have demonstrated healthy progress against new customer leads. We added a total of two new logos across markets and verticals and our wallet share has been on an improving trend.

We have chalked out a focus on global customers and invested significantly into human resources and R&D in order to enhance our global competitiveness. We challenge ourselves to develop a greater proportion of critical and complex parts. We have pushed our teams to think of providing solutions to customers rather than focusing on parts or components enabling us to transform the business model.

The logos that we have added and our presence with the top 3 European 2W OEMs validates our progress along this enhanced approach.

Another element of our strategy that I've shared was to increase the footprint of Passenger Vehicles and CVs in our value addition mix from 50% in FY'22 to 70% in five years while reducing 2W dependency from 40% in FY'22 to under 20% in next five years or earlier. Further, we are increasing the share of global business from 37% in FY'22 to over 45% in next five years.

The focus is clearly on a higher Value Addition, and as a team, we are obsessively monitoring the VA per Kg. We also aim to increase our sales per machine by enhancing the proportion of machined parts in comparison to ‘as cast’ at present.

I am pleased to share that this is starting to reflect in our performance. With the industry growing 39% on a year-to-year basis, we have outperformed in a meaningful way, reported a revenue growth of 63% year-on-year in Q1 FY23.

Further, we have rebranded our focus from EV into Carbon Neutral technologies which mirrors the wider focus by our team. This is reflective of the potential technology mix that we foresee in the mobility sector over the rest of the decade and beyond. We also seek to build out our contribution from structural parts which are technology-agnostic. Currently, the contribution from Carbon Neutral and structural part is 17% and we aim to take this to over 45% in five years’ time.

On operational efficiencies, we have optimized costs across our business model and brought in higher efficiencies that enable us to restrict the impact of cost on our margin profile during the quarter. We are actively working towards increasing our sustainability footprint and ensuring commissioning of our captive solar plant, will significantly transform our energy earning.

I would once again reiterate that we are future ready. As an organization, we enjoy a favorable outlook on back of global recovery, we see a strong demand trends; however, we see some challenges which may emerge from US and these we have to take into account.

And already as my colleagues have shared the five challenges which are ongoing Corona pandemic, chip shortage, cost-based inflation, the conflict in Russia and Ukraine, higher cost of new product development, we are well placed to deliver on our targets and aspirations through our Commitment, Courage, Confidence and Capability, supported by the right behaviors of foreseeing issues and providing support proactively.

Our total order booking for Auto business now stands at around Rs.3,115 crore for a period of five years with the average annual value of Rs.620 crore. We look to build on this further with deepening engagement with existing and potential customers.

On that note, I would now request the moderator to open the forum for any questions or suggestions that you may have. Thank you.

Moderator: We have our first question from the line of Dhruvin Upadhyay from Sushil Finance. Please go ahead

Dhruvin Upadhyay: My first question is towards the guidance. There is some clarity on it; are we revising our guidance from 18%, 20% to 25%, 28% for the overall business or for a particular segment of ours?

Vimal Gupta: This upward revision is for the overall business for the year of Financial Year '23 because in the last call we had given the guidance of 18% to 20% growth, but now we have revised and increased from this to 25% to 28% level.

Dhruvin Upadhyay: For FY'24, is it too early to say or do you have some guidance for that year as well?

Vimal Gupta: At this moment, it is too early, but as explained in our earlier calls in the next four years we have planned a CAGR of more than 20%.

Dhruvin Upadhyay: What kind of contribution are we looking at from these new product additions and what is the order intake that we had in Q1 FY'23?

Rajiv Gupta: In Q1 FY'22 -23, we have added four parts from three customers, and this is yearly average sale of Rs.24 crore, around Rs. 100 crore over five years of time. And the good thing is that we have added two new logos that is Rimac which Andreas also explained very clearly, the high opportunity with this particular account, because we call it as a Tesla for Europe and 45% of Porsche stake is in with Rimac. So, good opportunities we have. Also, Ducati which we've added, again the third largest 2W maker in Europe. And the good thing what we have grabbed is a Non-Auto business, a highly complex and critical part with a high value addition. So, that is what we have added in last quarter.

If you talk about the overall mix what we have added from FY'18-19, the good thing to note is we have booked 71% from a 4W where I get a good margin as per our strategy, and 21% was with 2W, with a strategic move. So, this will help us further to get good value addition and in turn good sales going forward.

Dhruvin Upadhyay: My last question is towards the European facility that we have. The voice was a little unclear. So, have we secured power through gas-based power plants till April FY'23 and post that we're moving to solar, is my understanding correct?

Vimal Gupta: No, it is not like that. So, there is the availability, but definitely Europe will have the other sources and we will be able to supply the gas there. But we are looking for some other alternatives like solar to reduce our cost. In India, we already have explained in the speech that we have already got this opportunity and maybe from Q3 FY23 we will be able to see the impact in our financial results.

Moderator: We have a next question from the line of Karthi Keyan from Suyash Advisors. Please go ahead.

Karthi Keyan: A couple of questions. One is in terms of contracting, can you talk about what specific terms have you put in place to protect yourself from the volatility that's been seen in the past? I think these are relatively longer-term contracts, one. And two, can you share some perspective on the kind of opportunities that are emerging in the European manufacturing space due to the turbulent scene over there, if at all any are emerging, are these tactical in nature or more structural is there?

Rajiv Gupta: Talking about the second point on the opportunities in Europe, we're not adding logos in European entry, but we have noted with the change in the market conditions, we need to look for new customers which we have delivered in last quarter. And also, we are in a strong discussion with our existing customers to add value. And the way we started from FY'16-17 with the early mover in EV, now even the European OEM have noticed the capacity and capability of delivering such a critical part is there in Europe as well as India. So, with that move, now, we are planning to increase our portfolio with existing and the new accounts.

Karthi Keyan: Sure. I was asking you about these longer-term contracts. How are you able to protect your profitability given the volatility in costs, are there terms that will help you preserve a certain level of profitability either on a per Kg basis or a percentage basis?

Vimal Gupta: So, we have long-term contracts with all OEMs because generally these are technology parts, and they have to spend a lot of money and time for the development. So, generally they don't go to another supplier. So, maximum we are the single source or maybe somewhere when the volumes are higher like such type of risks are there with the OEM, so they go for the second source. So, for the protection of the profitability, one is the aluminum, because that is the more volatile commodity. So, there is a complete pass-through to the customers. So, whatever the variation is there, so we offer to the customer. And on the other side for other commodities costs, so we have the agreement with the customers, periodically we have to discuss with them and take the corrections in the pricing.

Karthi Keyan: But can you specify periodicity of changes, that will help? I understand people talk about pass-through with the lag and the time intervals tend to be fairly longest.

Vimal Gupta: It is with maximum customers on a quarterly basis and some customers are directly involved with the suppliers. So, there is no impact of any variation in the prices.

Karthi Keyan: So, just one question to understand this better from Rupees per kg perspective, what would have been the shift that you've seen, and going ahead how can one think about in terms of metal processed, any input should be interesting there?

Rajeev Sikand: The key is what happens in the back end of our processes are same, which we have communized, of course, some are very typical and need the investment. But over a period of time, as we will go for a complex part, weight of the part changes, and as the weight changes, per minute of the cycle time, we are able to harness a higher value addition. That's what we are aiming at.

Moderator: We have our next question from the line of Vishal Patel, an individual investor. Please go ahead.

Vishal Patel: I just want to get details on the contracts with PSA and the Toyota which was there for the engines for the first time which we got, how is that progressing?

Rajiv Gupta: I think with PSA and Toyota, the good thing is we have submitted samples and the samples are approved and now we are ready for the mass production. And also, the good news what we are noticing is the launch like Toyota has announced one of the parts will go to the high riders and this vehicle is receiving a good booking in the Indian market. So, we are also hoping that our numbers would definitely reach immediately, and we look for opportunities which is across expectations. But the good thing is we are ready now and the SOP is there in the next quarter, which will be also noticed in our results in this quarter.

Vishal Patel: So, it will be a mass regular supplies which will start as per the contract from this current quarter?

Rajiv Gupta: Yes.

Vishal Patel: I have been invested with Alicon for almost 15 years. I just have one suggestion. I think the equity is too small and the volumes are not there. Probably if you can split it say into a Rs.1 and increase the number of shares, might help the investors probably.

Vimal Gupta: Thank you. Well noted your suggestion.

Moderator: We have a next question from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Just a couple of questions. One is there has been no accretion in order book since Q3 FY'22. Any thoughts as to why that has happened?

Rajeev Sikand: In fact, we have been a little bit more prudent in accepting the orders. So, our own way has been now to balance what we have and go for a higher value add rather do the same and it's a horses for courses something like that. So, we want to play in a higher field and higher value addition. So, that's where we are a little bit checking out what is good for Alicon in the long term and does it meet the Carbon Neutral products which are coming up.

Prateek Poddar: So, how should I think about order book accretion from here on?

Rajeev Sikand: When you think about order book, you should see what we have done in the last quarter. By having a very large order and the year-on-year changes should be very significant. How does the change happen? When we change from 2W to 4W. It does not mean that we will leave the 2W when we say we will have it below 20%. It is our bread and butter. It is something which our people have honed the skill. We are the leaders in this business. And as the order book keeps coming, we will keep updating. But that is something which we are not worried as of now.

Prateek Poddar: What you're trying to say is that irrespective of order book the mix shift or the value-added component within the order book is very high. So, from that perspective it is margin-accretive and absolutely EBITDA-accretive, right?

Rajeev Sikand: Yes.

Prateek Poddar: Second question was on the under-recovery of RM. I think you mentioned that there has been a 10% price reduction from Q1 exit. So, are you done with under-recovery of RMs after this 10% price reduction and will we see benefits going into the next quarter on the margin side?

Vimal Gupta: There will be little impact. As in the calls I was explaining, when we see that our margin as a percentage to sale. So, definitely we are looking for the higher margins. So, when there is a recovery, maybe 10% we are seeing, but it may be stagnant… because the major impact on the prices of the RM is due to the energy cost, and still energy is a issue. So, we feel there was a significant increase in the last one year. So, that is the reason supplies have little bit gone down. But we feel that maybe after 10% or maybe 4%, 5% further, they will go down, but we will stabilize at that level.

Prateek Poddar: So, has your under-recovery stopped or you have passed down all the RM increase to the customer?

Vimal Gupta: That has been pass through. It is complete recovery.

Prateek Poddar: So, the recovery is complete. So, from here on, if there is a price reduction, the final selling prices will also be reduced, the customer will ask for price reductions?

Vimal Gupta: Yes, plus finance we have to do in the pricing.

Prateek Poddar: Just wanted to check with you, adjusted for price inflation in the last couple of years, have you really outperformed industry growth in this quarter? You talked about industry growth being 39% versus your growth which is far higher. But I was just thinking about if we were to adjust for RM price increase which would be also reflected in your top line, from a volume perspective, has your volume grown higher than the industry growth?

Vimal Gupta: Yes.

Rajeev Sikand: We count the RM, we do that internally when I remove the RM fluctuation from our base budget, we see even everything. Otherwise, our marketing people will always like to show higher as that is a natural tendency.

Prateek Poddar: This revenue guidance which you gave, if we were to adjust for last year's low base which was there in June '21 because of the delta wave, and if I were to then look at now the growth you are guiding for, it looks like that for the next couple of quarters, the growth will be single digit or high single digit, is that a fair understanding, because the bulk of the revenue growth has come this quarter, right, if you're guiding for a 25% revenue growth, the next three quarters, the growth looks slightly muted?

Rajeev Sikand: Next quarter as per our internal estimate looks nearly the same. The last two quarters which we have factored, it all depends on where the USA is heading. See, we all cannot be escaping that as of today. So, that is what the team has factored. If it pans out, that will be smaller. In fact, so be it, but we should be ready for it.

Prateek Poddar: Sorry, I'm just harping on this again, if I were to look at your trailing 12-month growth number which comes and then I were to calculate the guidance which you have given, that differential is such that that mathematically, it seems that the growth for the next three quarters is 10%, 11%.

Vimal Gupta: That same thing Mr. Sikand is explaining because many things we have factored in this, while making the forecast for the next three quarters. So, maybe we see that how the things move and we keep our fingers crossed and maybe in the next con call again we will revise on the upward side.

Moderator: We have a next question from the line of Apurva Mehta from A M Investments. Please go ahead.

Apurva Mehta: I just wanted your view on this margin thing, because we had guided about 14%, 15% margin going ahead as our volume goes up, but we are still struggling with this kind of 11% of a margin. Can you throw some light when we can see improvement in margin going ahead because that was what we had projected that all our new orders which will be executed with much higher margin close to more than 15%. So, just on that, can you just review and let us know what is your thought?

Vimal Gupta: If you remember in the last con call, as I explained that this year we are targeting the improvement by 0.7% to around 1% against the last year of margins, that was around 10.7% or 10.8%. But now we are revising that also and increasing our target increase that approximately 1.2% to 1.5% for this year. So, it is not like that in just one quarter we will see a big jump in the margins because a lot of challenges that we have explained in our commentary like the cost-based inflation, there is a huge cost increases in the energy especially and we have to mitigate that and we have to face and we have to absorb some cost and maybe fight with the customer for some increases and they have to absorb. But definitely that maybe when volumes are growing up and when you are talking about the impact of the new businesses. So, new business impact is that the higher margins that have started coming from this year, but suddenly after year-on-year the things will improve. In one year, we can't see a big jump in the margins.

Apurva Mehta: Because our traditional margins also were around 12%, 13%, 14% and last December quarter and the March quarter also we were at 12% on lower turnover. But if we are improving, then it will be 12% plus 1% margin?

Vimal Gupta: Yes, for the full year, we are expecting to cross 12%.

Apurva Mehta: On an average, you will cross 12%?

Vimal Gupta: Yes. You see this in this quarter also, when we have explained the impact of the energy, there is a huge impact, and again there is an increase in the cost of the logistics, the freight cost of the container. So, those costs also we have to absorb and definitely increase in the manpower cost, because we have to take care of the people.

Apurva Mehta: This year we will be close to Rs.1,400 crore turnover. So, on that, on that we should assume around 12.5% kind of a margin?

Vimal Gupta: It is a forward looking statement you are asking me, but I have given the idea.

Apurva Mehta: Going forward, this will gradually improve only, it will not have some big impact coming in maybe next year or going forward.

Vimal Gupta: First important thing was the improvement in the top line. That we are confident that we are seeing the trend and like we explained how we are moving and how the things are going in the right direction. So, definitely now our focus is to reduce the cost and we are also seeing maybe in the coming times, there will be some ease out in the inflation also.

Apurva Mehta: On the availability of high-quality labor or the trained labor, are you seeing any challenges on that?

Vimal Gupta: So, at this point we don't see any big challenge for the availability of the skilled people.

Apurva Mehta: On the expansion front, have you started working on that, any further expansion where we want to go ahead?

Vimal Gupta: It's a continuous process like every year we are doing the investments in the range of maybe Rs.70 crore to Rs.80 crore or this year maybe little on the higher side. Because it is not like that we have to put in one new plant at the automotive and make a huge investment, because all our investments are linked with the order book from the customers. So, when we go for the new orders, so definitely based on the requirement of their processes and the capacity, we have to invest.

Apurva Mehta: Any Greenfield projects will come in next two, three years' time or so?

Vimal Gupta: Totally depends how the market moves, because at this moment we are trying to postpone that Greenfield project.

Rajeev Sikand: Your question is very valid. We are trying a number of factors. Firstly, trying to improve internally, looking at some small value add in machining which we can outsource so that we don't take that headache of machining. We have our criteria which is not complex and which are very low value add. And we are looking at small rather than going for fully our own location, maybe we need to take a small place and rent and put some machines there. So, these are our measures which is all in our mind. Obviously, we keep looking at new technologies and new areas of growth.

Apurva Mehta: So, current capacity whatever we have, at peak level what can our revenue be, roughly Rs.2,000 crore or Rs.2,500 crore?

Rajeev Sikand: What happens in capacity is a very interesting topic as you must be dealing with so many other companies in your con call. So, you invest in capacity for a particular customer. And then the customer gives you x-volume, you also know a little bit about market, you adjust. So, our capacities are tied with the customer volume. This is the automotive business as you must be dealing. So, something which you can't say, some plants may be running at 80%, some may be at 40%, there's a cyclical trend in the industry and things like that. So, generally we are running still at 65%. We have a scope. We keep increasing that base. We keep creating that capacity.

Moderator: As there are no further questions, I would now like to hand the conference over to the management team 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 clarifications or would like to know more about the company, please feel free to contact our team of CDR India. Thank you once again for taking the time to join us on this call and we look forward to interacting in next quarter. Thank you very much.

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