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To	To
The Manager	The Manager
The Department of Corporate Services	The Listing Department
BSE Limited	National Stock Exchange of India Limited
Floor 25, P. J. Towers,	Exchange Plaza, Bandra Kurla Complex,
Dalai Street, Mumbai — 400 001	Bandra (East), Mumbai — 400 051
Scrip Code: 531147	**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 8th November 2023, after announcement of the unaudited Financial Results for quarter and half year ended September 30, 2023. The said transcript is also uploaded on the website of the Company.

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

Thanking you,

Yours faithfully,

For **Alicon Castalloy Ltd**

Joshi

Amruta Joshi
Company Secretary

Alicon Castalloy Limited

Q2 FY24 Earnings Conference Call Transcript

November 08, 2023

Moderator: Ladies and gentlemen, good day and welcome to Alicon Castalloy Limited 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 this 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. Mit Shah from CDR India. Thank you and over to you, Mr. Shah.

Mit Shah: Thank you, Neerav. Good day, everyone and thank you for joining us on Alicon Castalloy Limited's Q2 FY24 Earnings Conference Call.

We have with us on the call today, Mr. Vimal Gupta - Group CFO; Mr. Shyam Agarwal - Chief Marketing Officer at Alicon Castalloy, and Mr. Rajiv Gupta – Head, 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 and give a granular view on Illichmann's performance while Mr. Rajiv Gupta will provide insights on the India business. Thereafter, we shall open the call for a Q&A session.

Before we begin, I would like to point out that certain statements made on today's call could be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would like to invite Mr. Vimal Gupta for his opening remarks. Thank you and over to you, sir.

Vimal Gupta: Good afternoon 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 document which was shared yesterday.

As we have indicated earlier in 2018-19, marked the peak year for the global auto industry and we continue to evaluate the performance of the auto industry against the watermark set in 2018-19. At present, the domestic industry performance in Quarter 2 of Financial Year '24 has reached approximately 84% of the base set in Quarter 2 of 2018-19. For the international industry, the performance achieved in July to September of 2023 stands at a similar level of 85% of the production level recorded during the same period in 2018-19.

At Alicon, we continue to track ahead of our performance in 2018-19 with our revenue in the second quarter of Financial Year '24 reaching around 122% of the benchmark during the corresponding period in Financial Year 2018-19. This outperformance relative to the global and domestic auto industry has been achieved by a focus on new technologies, new geographies, addition of capabilities and value engineering. At Alicon, this is part of the strategic plan to take the company into a higher orbit. Our business transformation strategy is guided by focus on multiple avenues for growth organized into 5 pillars. This approach reflects our commitment to adapt and thrive in the dynamic automotive landscape ensuring success for Alicon in the years to come.

These pillars are:

1. Continue to scale strategic products in the ICE business.
2. Addressing the opportunities from Carbon-neutral technology including Battery Electric Vehicles, Hybrid Electric Vehicles, fuel cell and hydrogen cell technologies.

3. Opportunities from structural parts or technology-agnostic parts, which remain consistent, no matter which fuel technology is used to power the vehicle.
4. Non-auto business encompassing opportunities from sectors such as defense, energy, telecom to name a few, where our competencies can be leveraged.
5. Enhanced customer wallet shares through value-add and combining products to offer our customers a one-stop solution.

Investors should closely monitor several key themes that underscore our business transformation at Alicon, providing valuable insights into our progress and the evolving nature of our business model.

Firstly, the end-use product mix is an important aspect that reflects our strategic focus. We have communicated and demonstrated a shift in our revenue mix to include a higher share from Passenger Vehicles and Commercial Vehicles. This is a result of our concentrated effort to scale up business in these segments along with the focus on Carbon-neutral technologies and technology-agnostic parts. The growing contribution from the Passenger Vehicles and Commercial Vehicles segment is expected to outpace Two-wheelers, thereby enriching the product mix further.

Secondly, our customer profile is also undergoing a transformation marked by the addition of prestigious global names to our customer list. We have successfully expanded our reach to include leading global OEM's and Tier-1, reflecting the growing stages of Alicon in the industry.

Thirdly, the composition of our business is increasingly influenced by our expertise in design, research and development and value engineering. In the past, business wins were primarily driven by reliability and cost competitiveness. Today, Alicon distinguishes itself by winning businesses based on its capabilities in innovation, technology and design. This shift underscores our evaluation into a solution provider with customers viewing us as more than just a source of low-cost components. As we continue to adapt and innovate, these things serve as a key indicator for investors to assess our ongoing transformation and strategic directions we are pursuing.

In that backdrop, I will now run through the financial performance for the quarter under review. In Quarter 2 of Financial Year '24, total income stood at Rs. 382 crore as compared to Rs. 378 crore in Quarter 2 of Financial Year 23, higher by 1% on a year-on-year basis. On a sequential quarter basis, we have delivered revenue growth of 8% which has been driven by the addition of new parts and new logos. The volumes in our traditional business of two-wheelers have been moderating and the revenues from the new product have offset the decline to post a growth of 1% on a net basis.

As a result, we have witnessed a slight increase in the utilization level of plants in India and Europe, which operated at a utilization level of around 68% to 70% in Quarter 2.

The gross margin for the quarter, which was 50.1% in Quarter 2 of FY24 compared to 48.6% in Quarter 2 of FY23 is higher by 143 basis points on a year-on-year basis, largely due to more favorable product mix. There has been also slight contribution from the stabilizing of alloy prices at lower level.

There has been a sharp rise in employee cost which are higher by 18% year-on-year basis and 4% over the immediately preceding quarter. This is due to the increase in minimum wage as well as the effect of the increments which have kicked in from April onwards. We have made investments in automation and process improvements for more efficient manufacturing, and this will enable us to mitigate the impact of rising manpower cost. While the absolute numbers will continue to increase, we will see a reduction as a proportion to sale. Further, there is an impact on the ESOP cost of around Rs. 3.7 crore for the quarter and Rs. 7.05 crore for the half year which is a non-cash charge. The most substantial part of the ESOP cost is being charged through the P&L this year and in largely equal installments over all four quarters. From the next Financial Year onwards, there will be a negligible cost on account of ESOP scheme, it will be largely provided for. Other expenses were lower on a quarter-on-quarter basis as we have focused on cost cutting initiatives at all levels of the organization.

Moving on the profitability front:

EBITDA for the quarter stood at Rs. 47 crore against Rs. 43 crore in the corresponding quarter last year. Despite the sharp increase in employee cost, EBITDA margin for Quarter 2 of Financial Year ‘24 has improved to 12.3% as compared to 11.5% in Quarter 2 of FY23. I am pleased to share that we have reported an improvement in the EBITDA margin by 80 basis points on a year-on-year basis and by nearly 104 basis points on quarter-on-quarter basis.

Importantly, if we adjust the non-cash charges 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 calls where we have indicated that we will increase the EBITDA margins by 100 basis points in FY24. We have done more than that in the first half itself and are poised to build on this through the year. We remain confident about the general upward direction in margin given the improving product mix.

Finance costs were higher by 39% on year-on-year basis from Rs. 7 crore to Rs. 10 crore. In line with the higher interest rate, some part of this rise is due to higher interest rates, which are now expected to peak and gradually reduce from the next year. In terms of quantum of debt, we have repaid some debt this year quarter from the operational cash flow and the endeavor will be to continue to repay that each quarter to reduce the overall debt on quarter-on-quarter basis which will help us to reduce the finance cost. We also witnessed an increase in the depreciation, which was higher by 16% on year-on-year basis from the Rs. 16 crore in the Quarter 2 last year to Rs. 18 crore in the Quarter 2 of Financial Year ‘24. The increase in depreciation has been driven by two factors, one was, we have taken some machines on lease and based on the accounting standards, we have to capture the maximum useful life of 5 years, which results in a higher depreciation cost.

As a result of higher finance cost and depreciation, profit after tax for Quarter 2 FY24 stood at Rs. 14.51 crore as compared to Rs. 15.34 crore in Quarter 2 FY23 lower by 5% on a year-on-year basis. On a sequential quarter, profit after tax was higher by 53% from Rs. 9.5 crore to Rs. 14.5 crore.

For the half year ending September 23, revenue was Rs. 737 crore as against Rs. 722 crore in the corresponding period last year, growing by 2%. The gross margin during the first half of 24 stood at 50.2% as compared to 48.1% in first half of 23. So EBITDA for the first half of 24 stood at Rs. 87 crore against Rs. 85 crore in the first half of 23. So that is higher by 7% year-on-year basis. Profit after tax for the first half of 24 stood at Rs. 24 crore against Rs. 26 crore in the first half of the last year.

We have had a strong performance from the perspective of cash flows, operating cash flow increased to Rs. 80 crore for the half year ended September 23 compared to Rs. 34 crore in the prior period. We have utilized this towards prepayment of borrowing, payment of dividends and the CAPEX front. We have deployed around Rs. 50 crore during the first half which is in line with our current CAPEX deployed for around Rs. 90 crore in 24.

Coming to the outlook:

We delivered a steady performance in the first half of the Financial Year with revenues higher by 2% on a year-on-year basis. However, for the second half, we see improvement in the revenues given the healthy pipeline of SOP from the new product and the new customers. As the second half of the prior year was muted, the growth rates are also set to improve enabling us to end the year with revenue growth of 10% to 12% for the full year.

Thereafter, we are poised to take the business to new heights as we aim to deliver a revenue of over Rs. 2,200 crore by '25-26 which equates to CAGR of over 16% for a period of 3 years. Our confidence stems from the new orders which we have received and the discussion with the customer on the new technologies and solutions.

This will be accompanied by an improved margin profile, and we aspire to take the EBITDA margin to around 14%. Of this, we have already reported an EBITDA margin of 12.3% in Quarter 2 of FY24 and adjusting for the one-time expense of ESOP cost which is 13.3%.

Lastly, we are looking to drive the efficiencies across the balance sheet and in working capital which will contribute towards enhanced return ratios too.

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

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

We have sustained the positive momentum from the 1st Quarter, performing well in both new markets and with the introduction of new products. Despite a mix industry backdrop characterized by segments experiencing both positive momentum and challenges, we are pleased to report encouraging revenue growth particularly on a sequential quarter basis.

For Toyota, where we supply cylinder heads to their hybrid models, we have witnessed a ramp up in volume during the quarter and our production is running in full swing to meet the increased demand. We also supply cylinder head to Stellantis, India which is assembled and exported to Europe. During the quarter, the volumes have picked up for India Market and it will further increase in Q3 and Q4 as we commence supplies for the European version.

Supplies of Cylinder Heads to Maruti Suzuki has also increased during the quarter. The sales and production will increase further in Quarter 3, Quarter 4 with the start of supplies to Gujarat plant of Suzuki.

During the quarter, we added 9 new parts from 5 customers, including 1 new logo. This includes 3 parts from EV or Carbon-neutral, 4 parts from ICE, and one part from non-auto and one part from structural segment. Of the 9 parts, 8 parts are for international business and 1 part is for domestic business.

In Carbon-neutral business, we added another part from Danfoss for the European market and have also fetched an order for proto business from JLR to support eAxle series business awarded last year.

In the ICE segment, we further added new parts for the European markets through Tata Autocomp. We have also had a significant breakthrough in the European market with Hanon System, a Tier-1 supplier to Ferrari.

In the non-auto business, we have added business in the existing portfolio and are in active discussion with the existing customers for further additional parts. In technology-agnostic business, we added one more structural part for JLR, which will be supplied to their plant in UK.

During Quarter 2 FY24, Alicon has booked new orders aggregating Rs. 187 crore. With this, our total order book has reached Rs. 8,687 crore which is executable over 6 year from 2023-24 up to 2028-29.

The other aspect to highlight is the improving product mix. 99% of our new business is for the global market in four-wheelers, which is aligned to our long-term strategy.

With the prospects for global auto industry improving during the quarter, we are expecting better level of activity through the remainder of the Financial Year. The commencement of supply for these orders, along with the start of production across our aggregated order booking will contribute to enhanced revenue momentum.

Our commitment to value creation extends to increase the value addition mix for our products in the four-wheeler and the commercial vehicle segments. In Carbon-neutral technology, we are actively exploring opportunities to expand the scope and portfolio with existing customers. Our primary focus continues to be on Passenger Vehicles, Commercial vehicles and export opportunities where we see significant potential for value addition.

Further, we are actively engaged in strategic initiative aimed at further enhancing our operational excellence. We have partnered with painting vendors at Delhi and Pune to provide more comprehensive solutions and assured quality to our customers. We have enhanced our machining capability at our Shikrapur facility with installation of advanced equipment enriching the competencies which enable us to enhance customer wallet share and grow the proportion of value addition. To this end, we are also actively recruiting experts in casting machining, strengthening our global team.

On that note, I have completed the operating highlights. As Andreas Heim has had sudden emergency, I will now cover developments on our international business.

The international business has delivered an increasing performance in the backdrop of continued inflationary pressure and deteriorating geopolitical scenario. Energy prices have stabilized at slightly lower levels and energy availability has also improved along with minor improvement in alloy prices which is encouraging to our customers.

European operations are gradually emerging from the challenging situation witnessed last year. There has been a mixed trend with some of our customers ramping up production due to improving demand, while other customers are facing challenges to ramp up the activity level due to constraints in supply chain with some other vendors. This is expected to ease in Quarter 3 and Quarter 4 leading to improved volumes.

As explained earlier in the global business, we have added 8 new parts from 4 customers this quarter, including one new logo. We have added a part of Hanon Systems, a prominent Tier-1 supplier to Ferrari. This is a landmark logo addition and enriches our customer profile further which will carry significant weightage with prospective customer of the international business.

The global business contributed to 20% of the total revenue during the quarter and 21% during the half year. This is higher than the contribution during the prior fiscal year. To further enhance the contribution, we have strengthened our team with involvement of personnel with rich experience in project engineering, tool making and single components to add their knowhow to our operations.

Further, we have added a machine of a larger size which can manufacture parts up to 2 m in length, enhancing the capability of the European operations.

The outlook has improved as against the initial expectation of degrowth in Quarter 2 FY23. There has been around 4% growth in volumes in the global auto industry. Further against the growth forecast of 4 to 4.5% in the global auto industry in calendar year 2023, the revised forecast now indicates growth of 4.5% to 5%.

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

Rajiv Gupta: Thank you, Mr. Shyam. Good afternoon, everyone.

In Quarter 2 FY24, the domestic automobile market was stagnant, that was 1% growth year-on-year on overall basis and witnessed mixed trends categorized by 6% growth in the Passenger Vehicle segment, 9% growth in the Commercial Vehicle Segment and 2% degrowth in the Two-wheeler segment. Within the passenger vehicle segment, we are witnessing highlighted interest in UVs with the market share steadily rising. Other categories within the PV segment continue to face sluggish demand.

The domestic two-wheeler industry was expected to benefit from higher volumes on account of festive season. FAME-II withdrawal in June 23 has impacted the volumes of the Electric two-wheelers, which has supported volumes of ICE. The entry level motorcycles continue to see pressure and there has been growth in the premium end of the motorcycle segment, however, Scooter segment has been flat. The domestic Commercial Vehicle industry volumes continued to do well and there was increase of 9% year-on-year in the segment on the account of good momentum in the infrastructure and construction segment as well as steady growth in the economic activity as indicated by GST collections.

In Carbon-neutral segment, we have witnessed ramp up in volumes of the motor housing for TACO given the increased sales of Tata Motors Electric Vehicles. We also supply motor housing component to Dana TM4 for switch mobility Navistar**,** and Tata Motors, which also witnessed strong demand during Quarter 2. There has been start of production for HD-1 controller housing which is supplied to Danfoss for the USA market.

As explained by Mr. Shyam, earlier on new business we have added one part from existing customer in the domestic business. This is for the supply of cylinders for the heavy-duty defense truck, which commenced sales during the quarter. Further, the supply of wheels for the battle tanks is ongoing. We also are working on tenders for the next year sales for these products.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Saurabh Jain from Sunidhi Securities. Please go ahead.

Saurabh Jain: My first question is, which are the major SOP's that are scheduled to start contributing during the second half, particularly in Q3 and Q4? And if you would be able to quantify, that would really be helpful. Last quarter you had mentioned that Maruti, we are expecting a good jump from Q3 onwards and Toyota was also supposed to relook at the capacities following the launch of Hyryder and HyCross, similarly PSA also following the commencement of their new facility at Bangalore, so everything looks on track?

Rajiv Gupta: Yes, as rightly highlighted by you for the domestic market, we saw a lot of momentum in the last quarter, like for Maruti which we highlighted, the cylinder what we developed, so in the end of last quarter, we got the entry to the Gujarat plant which was planned. So, this will not materialize in Quarter 3, and you will notice Maruti cylinder volumes will increase.

Second good thing happened was on PSA, the cylinder what we backed 1-1/2 years ago, so initially we started for the Indian market and now we got an entry to the Europe – French market. So, this is also a good point what we notice, the sales are going to trigger in Quarter 3 and Quarter 4.

So, these were two major aspects. Again, yes, Toyota, we know, the models are doing quite well, a long waiting period is there and also thereafter these platforms going to Maruti with Invicto and also Grand Vitara, volumes are picking up. So, yes, in Quarter 3 and Quarter 4, we see good volumes for Toyota.

On the global front, yes, we see volumes are ramping up for Tata Autocomp for the Europe market what we added and also volumes are picking up for customers like Jaguar and Daimler which we developed. And yes. Dana also, we see the volumes are picking up as the numbers are increasing and they are also trying to add new OEMs for the existing part. So, here we see a good momentum.

Vimal Gupta: So, mainly in this like Toyota, there is increase in the numbers, but definitely for Maruti as well as for PSA that was almost nil till Quarter 2. So, that will give you a big jump in the numbers for the coming quarter of Quarter 3 and Quarter 4 in the top line.

Saurabh Jain: Sir, would it be possible to quantify the contribution which is already scheduled for Q3-Q4 from new SOP?

Rajiv Gupta: So, basically the total new parts what we added will contribute to roughly around 40 to 45% of our total sales in Quarter 3.

VImal Gupta: When we talk about the contributions that like we take example of Maruti, so in this hopefully.

Rajiv Gupta: So, the major jump, what we are noticing from Quarter 2 to Quarter 3 is, one is Maruti from roughly around Rs. 3 crore to Rs. 4 crore, it is jumping now to around Rs. 10 to Rs. 12 crore. Also, we are noticing a good jump in Dana and PSA. Toyota at this moment, yes, they have touched around 80% to 90% of the numbers. So, we are eventually waiting for the other suppliers to cope up with the capacity and thereafter the volumes further might increase.

Saurabh Jain: So, majorly would be in Q4, would it be fair assumption?

Vimal Gupta: Yes, because quarter to quarter basis we will see a good jump in Q3 as well as in the Q4 because when for the full year like first half it is almost flat, maybe around 2% growth against the Quarter 2 of the last year, but we are expecting around 10% to 12% growth on year-on-year basis on full year basis. So, in spite of taking the impact of this because you see that at this moment the aluminum prices are also down, so that has also given impact of around 4% on the overall growth. So, in spite of taking that impact, so we are expecting to grow by 10% to 12% for the full year.

Rajiv Gupta: And also in Quarter 3, we know there are planned shutdowns, so because of the festive seasons, the major OEM's will not be operating 5 to 7 days. So, there, yes, there is a dent to sales, but as we have added new parts, this will help us to cover this gap.

Saurabh Jain: What was the mix of two-wheelers and four-wheelers during the quarter and if you could comment about the status of our CAPEX plan?

Rajiv Gupta: Two-wheelers contributed 43% of the total sales in Quarter 2, Passenger contributed 29, Commercial contributed 20. That was the momentum, so we did well compared to previous numbers. Eventually, we noticed we are increasing in our four-wheeler contribution, so if I club Passenger and Commercial, we noted we touched near about 49% which is a good sign.

Saurabh Jain: And sir, if you could comment about the status of our CAPEX plan?

Vimal Gupta: So, on the CAPEX side for the full year, we had a plan approximately Rs. 90 crore. So, 50% is already done in the first half and the second half, we have to complete this CAPEX because it is related, you have to install the capacities for the new businesses. So, for the full year, in the range of Rs. 85 to Rs. 90 crore will be the CAPEX further.

Moderator: Thank you. Next question is from the line of Raghunandhan NL from Nuvama. Please go ahead.

Raghunandhan NL: Sir, firstly taking 10% to 12% growth for FY24, the revenue number comes to Rs. 1,540 to Rs. 1,570 crore roughly, how would the breakup be between regular business and SOP?

Rajiv Gupta: So, the new business will contribute to around 45% and 55% will be from the regular business

Vimal Gupta: The contribution from the new business started going up, so year-on-year basis, you will see a big jump in the number.

Raghunandhan NL: So, in terms of the export performance in the first half, the performance is broadly in line with the overall revenue performance?

Rajiv Gupta: Yes, we just highlighted in the speech also, the global numbers were around 21%, but if you see, because at this moment a lot of OEMs have started consolidation center where they are taking material from India, and they are exporting outside to their other locations. So, if I club those avenues also, those sales also, it will jump to around 31%, like for example, Daimler which we are exporting to US, it is going directly, but which we are exporting to Europe, it is going through the logistics center in Chennai. So, if I club those avenues also, my global is increasing and this is increasing with the parts what we added like Daimler, JLR, TACO for the Sweden market and so on. So, these are some of the pushes, which is helping us to increase our contribution. In global where we are aiming because we know if you see the trend of the market also, we understood the Indian automotive still is stagnant. We just noticed the growth of 1%, but if we see the global numbers, it was up by 5% especially if we talk about regions like Europe, regions like North America, the volumes are picking up, so these regions we want to materialize. So, these are some of the aspects where we are working with directions.

Raghunandhan NL: And this 31% this year, approximately how would the same number be last year?

Rajiv Gupta: Last year, it was 27%.

Raghunandhan NL: And in terms of share of EV's, how does that stand currently within the revenue and also within the order book?

Rajiv Gupta: I was talking about the Indian context for the EV market. There, we noted a good jump with Tata Motors, the volumes are picking up, Dana which we highlighted and also the new part is going into now sales, but still if you talk about contribution, we touched 7% this quarter, which we compared with the last year Quarter 2, it was around 3.5%. So, we got a good jump in Quarter 2.

Vimal Gupta: And Raghu, important thing that I just would like to highlight, when we are talking about the EV. So, like in the last one year back, we have announced that we have got the eAxle business from the JLR. So, this is the most complicated part in the EV. So, for that in this quarter, we have already started the development and prototype castings already done and we are happy to inform you that in the first shot we have developed a very good casting and all team members of the JLR team, they were surprised how this has happened. So, we have used the best technologies from Europe, the designers, the tool manufacturers, so all whatever the best possible resources were there at the global level, so those were being used to develop those parts. So, such kind of new technologies we are bringing into Alicon Group.

Rajiv Gupta: One is bringing and second is now proving. So, they were really amazed to see how the first initial samples quite came so impressive. So, even on trials, JLR team were there, and now they are getting more confidence and also these developments are being spread to other customers across global and domestic customers. So, we know very well these developments will further attract a lot of customers like we started in another round of discussions with some other customers which may be in the coming quarters, we would like to share with you, but yes, a promising development which is now materialized and people are noticing. So, that is a good sign for Alicon Group and for the team members.

Raghunandhan: Just continuing the point which you said, given that this eAxle Housing actually reduces the weight, if you go for separate housing, the weight will be higher and this eAxle Housing would reduce the weight by 7 kilos, if I remember correctly, so if you can talk about opportunities with other customer?

Vimal Gupta: So, actually Raghu, at this moment we cannot disclose the names, but I just tell you that all big global players are in discussion with us and themselves they are approaching us for these parts. So, maybe after having the final order or LOI our hand, then only we can disclose the names.

Raghunandhan NL: Sir, in terms of the full year margin, first half, if I look at it, adjusted EBITDA margin is about 12.8%, so if I take the adjusted margin which is at 12.8% how do you see the outlook for the full year?

Vimal Gupta: So, for the like first half year explained, so second-half also we see further improvement in the margins. So, overall, I think because you see that there big cost is coming up that is the noncash item of the ESOP cost because that is going to be big cost in this year and after next year, it will not be there even we remove this impact. So, in Quarter 2, we have seen approximately 13.3% EBITDA margin if we remove the impact of the ESOP. So, definitely for the second half, we are looking at least the same level or much better than this and like we have promised in earlier earnings calls, for this, the journey has already started further improvement in the margin as well as change in the sales mix. So, the impact of the new businesses has started coming from the Quarter 2 and we believe that on a quarter-on-quarter basis, you will see the improvement in the margins as well as the impact of the sales mix.

Rahunandhan NL: After taking this Rs. 14 crore full year impact of ESOP, how much ESOP cost is expected for next year?

Vimal Gupta: Very nominal amount, I think Rs. 2 or Rs. 3 crore, not more.

Raghunandhan NL: My last question, what would be the total debt reduction target for the current year?

Vimal Gupta: So, you know that we are also having the CAPEX and for the new businesses, we will require the CAPEX, but we are expecting at least in first 6 months there is a small reduction, but around Rs. 4-Rs. 5 crore, but for the full year basis at least we are expecting between Rs. 25 and Rs. 35 crore reduction on full year basis.

Moderator: Thank you. Next question is from the line of Yash Dalal from Sushil Financial. Please go ahead.

Yash Dalal: I have a couple of questions, first to begin with, what is the fall in realization this quarter due to the raw material price fall and correspondingly the revenues have gone up, so there must be very strong volume growth, so if you just guide us on the same?

Vimal Gupta: So, the just like spend for the half year, so maybe overall we don't see any improvement in the numbers because there is definitely you understand that the impact of the aluminum prices, so it is impacting approximately 4% overall impact, so when we take for the full year and convert it into that. So, around 10 to 12%, we are talking about improvement in the numbers means the revenue number as well as we take around 4% impact of the aluminum prices. So, approximately 15% to 16% growth in the numbers, in the volume, we can say. So, I think in our earlier calls that when we discussed about the forecast for the financial year of 23-24, so same thing we are also expecting the growth of around 15%. So, these numbers are in line with that.

Yash Dalal: Sir, you mentioned about EBITDA margins pre the ESOP adjustment Rs. 13.3 Cr for the quarter, can this be sustained and what are the factors contributing to it? Are we on track for EBITDA of 15% by FY26?

Vimal Gupta: So, that is, I think will be a giving, what you are asking me to give me all this forecast, so that I think you are the good people. As the investor you can understand and you can work it out, but definitely we are focused on this and what we were talking about for the improvement in the margins. So, as I was explaining to Raghunandhan, this journey has started over improvement in the margins as well as the improvement in the topline based on the new orders and the change in the sales mix where we are focused. So, we are totally on track on our strategy.

Yash Dalal: I just want to understand recently approved, you approved a new ESOP scheme, so what kind of cost would be incurred going forward for the same?

Vimal Gupta: So, actually I tell you that about the new ESOP scheme. It is a small scheme around 300,000 shares we have taken the approval, but it is not to be granted because this we have kept for the future because now we are growing, bringing new technologies, so we have to hire some good technical people in the company or maybe some senior level people and maybe, we are having young generation in the company who are going to perform in the coming years. So, for them, we have kept these shares and still not granted, so grant will happen maybe in next 6 months, but will not be for the full quantity, maybe 25%, 30% of this and the pricing is also maximum limit is the discount of 25% against the market. So, cost, I don't believe that there will be a big cost of this in the P&L.

Yash Dalal: And just last question was regarding the traction with new products, any scale ups or developments? Also last time you mentioned the new Friction Stir Welding technology, is there any kind of traction you are seeing there?

Shyam Agarwal: So, for the friction stir welding, as we mentioned, it is very robust process for new EV and as we all are seeing that all the OEMs, Tier-1, they are investing heavily on the electrification, and we are also getting lots of inquiries from new Tier-1 on this process. So, in the coming quarter, you will see lots of further order booking with the Friction Stir Welding and even we have got further volume increase with the existing customer. So, we are seeing good traction with this.

Vimal Gupta: And Yash, the main important thing to understand in this FSW, this is a patented technology and we have discussed, I will not disclose the name of some OEM's, but I had a personal discussion with big global players and they were shocked to see that oh, such kind of technology you are having and they are so much interested to start the partnership with us for the development of their new parts with the FSW technology and it is only for Alicon that how far we move in this technology as well as with the new opportunities. It is another vertical for Alicon for high pressure die casting as we have discussed about this HPDC process, so that was also a challenge for us, but now we have started as a contract manufacturing, maybe in the coming period, we will go and install some capacities in-house for the production of high pressure. So, that is another avenue for growth and lot of demand is there, so that another opportunity we have opened up and FSW is the main supporter for this.

Moderator: Thank you. Next question is from the line of Aditya Chheda from InCred Asset Management. Please go ahead.

Aditya Chheda: Sir, my first question is on the revenue guidance for FY26, so my question is what are the key macro assumptions that we are making when we are thinking about this revenue guidance which you mentioned earlier in the call today? That is my first question and if any key risks you would like to highlight in potentially under achieving this target?

Rajiv Gupta: So, here basically our drivers would be the shift what we are talking, reducing our dependence in two-wheeler because we also know with the EV introduction and the other avenues available in the market, definitely the volumes of ICE will come down in two-wheeler or may be the four-wheeler segment. So, basically here what we are going to do is, we are going to increase our portfolio in Passenger and Commercial and also we are increasing our portfolio into critical A class parts like, for example, Cylinder Heads. I believe cylinder head is being manufactured at OEM's in-house, for example, Maruti, Toyota, Honda cars and so on, but at this moment, now OEM's are starting offloading this capacity and they are associated with some technical experts who are manufacturing this A class part, but like Toyota, they came to us. So, the developments and the major trend or addition in Cylinders is now supporting Alicon to communicate other existing or prospective customers of an avenue which Alicon can support.

So, we have considered those avenues like, for example, Maruti were doing cylinders in-house and now they are comfortable to offload, so you can imagine market leader Maruti, 40% to 45% of the share they are holding in India and if they are being comfortable offloading the capacities to Alicon, so this talks about the trust, faith and the relationship what we have with these customers.

So, these are some parts which we are banging, yes, which will support us as a sales driver for the domestic market and also for global as I explained, the avenues what we have done in the EV market particularly like the eAxle. So, ideally if you see, we know very well, our customers are keeping an eye on our developments, for example, Friction Stir Welding, they are keeping an eye, they dialing up, they are visiting our facility, they are interested to understand where we are on this facility, so that once it is proven, they will immediately go back to their management and they can revert back with their opportunities.

So, we know very well these are some avenues and that is the reason we have listed very clearly the customers, the products, the region, the opportunities and so on. So, if you see on the marketing side, regular visits to customer, regular travels overseas is being done explaining the knowhow, explaining the advanced development and explaining how we can support our customers. So, the actions will definitely fetch us to an incremental benefit going forward in the long run.

Vimal Gupta: So, overall, to sum up that when we are talking about on what basis, what are the assumptions on this, so main assumption is that whatever the new businesses we have introduced, we have got the orders, so that should happen because the numbers should happen there and second is the delivery, the development of those parts. So, those are the main things, but secondly on the other side because generally we play very conservative number. So, on the other side is that these numbers are totally based on the orders we have received, so nothing is based on any business which is under discussion. So, that is the part of safety, we can say that will add up.

Second is on the existing business. If you remove the new businesses, new parts from the existing business, so in our planning we have taken the decline. This business will go down especially on the two-wheeler side. If that will perform at even flat, so that will support us as the plan B, we can say to deliver the numbers. So, in this fashion we have developed these plans, so hopefully that we should be able to deliver these numbers what we are talking.

Aditya Chheda: So, fair inference would be how fast the EV is going to grow and how much of the portfolios these OEM's will be willing to outsource to players like us, right?

Rajiv Gupta: Right.

Aditya Chheda: On the interest cost, it has risen marginally despite the marginal reduction in debt, so has the interest cost been higher for us recently?

Vimal Gupta: So, in the future, we are expecting to go down because when this debt reduction will happen because now the improvement in the cash flow we have seen from the month of September because again there was a little bit more utilization and CAPEX are happening. So, that the main CAPEX are happening, so we have to invest and we have to grow, but on the other side, we are taking lot of actions to control our interest cost, especially some because benefit is also there, so some increase in that debtors where we are finding more opportunity and renegotiate some terms with the customers. So, definitely in the coming quarters, we will see the reduction in the debt cost. So, because we have identified the two major areas of the cost increase in this quarter or we can say in the 6 months, one was the manpower cost as well as on the interest cost. So, management is fully focused on how to control and reduce this cost. So, on the manpower side, one part so already explained about the ESOP cost and second is about the minimum wage increase given by the Maharashtra government. So, we are taking a lot of actions to control this and to reduce this and the second is on the interest side, so interest how to renegotiate some terms with the customers as well as focus how to reduce our debts.

Aditya Chheda: So, the average cost of debt is 12% of fair assumption for us in line with what you said?

Vimal Gupta: Between 10% and 10.5% because all interest cost you are taking based on the debt, but it depends on day-to-day basis utilization.

Aditya Chheda: My last question is on; how much is the machining work in-house versus outsourced?

Vimal Gupta: In-house is approximately 70% and outsource is 30%.

Aditya Chheda: And for the growth we are envisaging, fair inference is that we will have to do more outsourcing over the next 2-3 years, right?

Vimal Gupta: Yes because I think we are also adding some machines in our kitty as well as because 100% we should not do in-house, so we are doing that balancing between in-house and outsource.

Moderator: Thank you. As there are no further questions, I will now hand the conference over to the management for closing comments.

Vimal Gupta: So, 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. I would take this opportunity to wish all of you a very Happy Diwali and a

Prosperous New year. Thank you once again for taking the time to join us on this call and we will look forward to interacting next quarter. Thank you very much.

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

Disclaimer: ***This is a transcript and may contain transcription errors. Certain statements made or discussed on this call may be forward looking in nature and must be viewed in conjunction with the risks and uncertainties that the company faces. The company does not undertake to update these forward-looking statements publicly. Please also note that this document has been edited without changing much of the content, to enhance the clarity of the discussion. No unpublished price sensitive information was shared/discussed on the call.***