

Alicon Castalloy

Rs 560
Leader in aluminium castings

BSE Sensex: 32,273

Nifty-50: 10,085

FINANCIALS

	SALES	OPM (%)	OP	OTHER INC.	PBIDT	INTEREST	PBDT	DEP.	PBT	TAX	PAT	EPS (Rs) *
1403 (12)	536.58	10.7	57.45	0.01	57.46	11.17	46.29	21.12	25.17	6.01	19.16	15.6
1503 (12)	713.56	9.9	70.94	2.23	73.17	18.02	55.15	26.14	29.01	9.17	19.84	16.2
1603 (12)	748.91	10.4	78.09	3.16	81.24	22.35	58.9	26.66	32.24	9.82	22.42	18.3
1703 (12)	772.78	11.2	86.84	3.75	90.58	26.52	64.06	27.3	36.76	10.59	26.17	21.3
1803 (12P)&	841.72	11.5	96.72	5.56	102.28	30.04	72.24	28.83	43.41	12.83	30.59	24.9

Consolidated financials. *Annualised on current equity of Rs 6.13 crore: Face value of Rs 5 each. &: Projections are as per new Indian Accounting Standard. Past year figures and old projections were as per earlier accounting standard and not comparable. (P): Projections. Figures in crore.

Source: Capitaline Databases

Alicon Castalloy is an industry leader in Low Pressure Die Casting (LPDC) and Gravity Die Casting (GDC) in India – in terms of volume, infrastructure and technical capabilities. The Company offers single point engineering solutions in various industrial pockets including automotives, locomotives, medicals, energy and agriculture segments. It offers its clients, end-to-end system solutions, including prototype designing and manufacturing, tool designing and simulation, tool manufacturing, fixture designing and manufacturing, casting manufacturing, VA/VE suggestions, machining as well as painting.

It is also pioneers of the unique Pie system for low pressure die casting – a system which enhances productivity with minimum utilization of resources like machines, space and manpower.

It has amalgamated the best of European engineering, Japanese quality and Indian ingenuity

Alicon Group, one of the largest aluminium foundries in India, is a global consortium of companies that amalgamates the best of European Engineering, Japanese Quality and Indian Ingenuity to produce exceptional and innovative aluminium casting products. Over the years, it has grown to become one of the largest aluminium foundries, with operations spread across in India, Austria and Slovakia. The Company comprises 4 manufacturing plants (1 international), a technology centre, globally competent tool rooms, quality and testing laboratories and a full-fledged machine shop (including a sub-assembly facility).

While Alicon enjoys a track record that goes back 26 years, it is further backed by the experience of Illichmann, a Slovakian entity that it has acquired. The Company offers its clients a wide range of products and services, including design, engineering, casting, machining and assembly, painting and surface treatment of aluminum components. With innovation at its core, Alicon constantly endeavours to create more effective products, processes, services and technologies to ensure better application of solutions that meet the recurring or customised needs of the market. In effect, the Alicon Group is a one-stop shop for all engineering solutions related to aluminium alloy castings and provides its clients with turnkey solutions under one roof.

Today, the Alicon Group is a union of Alicon Castalloy Ltd (formerly known as Enkei Castalloy), Atlas Castalloy Ltd., Silicon Meadows Engineering Services Ltd & Illichmann Castalloy, GmbH & s.r.o., all grouped under one umbrella.



STOCK DATA

BSE Code	:	531147
BSE Group	:	B
NSE Code	:	ALICON
Bloomberg	:	ALIC IN
Reuters	:	ALIO.BO
Par Value	:	Rs 5
52-week High/Low	:	Rs 652 / Rs 306
Sector	:	Auto Ancillaries

SHAREHOLDING PATTERN *

Category	% of equity
Foreign	: 0
Institutions	: 0
Govt Holding	: 0
Corporate Holding	: 0
Promoters	: 71
Public & Others	: 29
Total	: 100

* as on 30/06/2017.

Source: Capitaline Databases

The company has diverse presence across auto sectors

Alicon has the distinction of being a single source supplier of many critical engine parts including cylinder heads for some of India's largest OEM's of two and four wheelers. The company also caters to the non auto sector.

In Auto Sector it caters to Two Wheeler, Passenger Vehicle/Utility Vehicle and Trucks and 3Wheeler, SCV, LCV, M&HCV.

In Automotive sector, the company caters to prestigious clients like BMW, Audi, Honda, Volkswagen, Volvow, Wabco, Honda (4 wheelers), Bajaj, Hero, Honda (2 wheelers), KTM Sportmotorcycle AG, Royal Enfield, Suzuki, Triumph, Ashok Leyland, Eicher, Fiat, Hyundai, Maruti Suzuki, Mahindra & Mahindra, Renault-Nissan, Piaggio, Tata, among others.

In the non-auto sector it caters to companies like Alstom, Atlas Copco, Philips, Siemens, General Electric, Ingersoll Rand, New Holland, Honeywell, Enercon, BEHR, Bosch, JCB, John Deere, Modine, ZF, TAFE, TBK, Rotax, Liebherr, Kirloskar, Greaves, Sonar Group and many others.

Its sales to non auto sectors comprises highly specialised and customised products. Non auto sales currently accounts for 9% of sales.

Acquisition of Illichmann Castalloy – Europe, enabled Alicon to diversify into non-auto segments as part of its diversification and derisking strategy.

While the non-auto and others component at 10% is relatively small, it comprises highly specialised and customised products for a range of sectors, including agriculture, energy, medical, defence, infrastructure, locomotives, aero and marine.

Aims to increase international and non-auto sales significantly

The company is constantly developing new products for its client industries. During FY 2016-17, 91% of the revenues came from the automotive sector (including 24% from niche products and 67% from standard products from 2-wheelers and 4-wheelers), whereas the nonautomotive sector contributed 9%. The company is looking forward to strategically increase the contribution from the non-automotive sector as a part of its diversification strategy. So far, revenue from the International market accounts for 16%, but Alicon aims to raise this proportion to around one-third by FY 2020-21.

Developing parts for electric vehicles and new platforms

The company is concurrently working on sustaining its auto business through investments in technological development and innovation to match the new trends, especially in electric vehicles. Though still in its nascent stage in the Indian market, the management expects this trend to catch up significantly on the domestic front by FY 2019-20 and the company is moving proactively to prepare itself to make the most of the impending opportunity.

Having provided prototypes for eight products to an Indian auto major during FY 2016-17, the company is fast developing expertise in this niche area, which it expects to scale up significantly in the year ahead. Its thrust remains on increasing the market share of its products and meeting the diverse needs of its varied customers through continuous technological developments and innovations.

The Indian Government has decided to put its weight behind the development of electric vehicles. To support this, a tripartite alliance has been formed, between Maruti Suzuki, Tata Motors and Mahindra & Mahindra. This open-ended technical

Alicon Castalloy is well-positioned to capitalise on the growing business potential in auto and non auto segments

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cooperation will be for developing parts for electric-hybrid cars. Further Nitin Gadkari, Road transport and highways minister, has invited Tesla Motors to invest in setting up a manufacturing plant in India. To be in line with these policy changes, Alicon is proactively involved with the domestic as well as global OEM's, right from the concept and design stage, in the development of parts for electric vehicles.

Its European team is taking a lead in this initiative and is in discussions with leading manufacturers for aluminum parts that are quite intricate, like battery housing, stater housing and structural parts.

The company shall also further ramp up the new projects kick-started during FY 2016-17, and it expects higher revenues from the new product sectors and segments, including e-mobility, going forward. With capacities installed and consolidation in full gear, and with the opening up of the Indian market, the stage for future growth is getting bigger and the company expects its investments of the past few years to translate into new growth avenues.

Has rightly utilized the lean period to formulate strategies for future

The die-casting industry forms the basis of various manufacturing, infrastructure and engineering projects. In view of the sluggish scenario in the past couple of years, Alicon had utilized the lean period to formulate business plans and strategies for future. Due to the culmination of a number of factors, Alicon is in a very good position to maintain its leadership in the aluminium casting industry, both in terms of size and quality of the output. These factors include access to technological inputs from European and Japanese entities, an ability to provide technically competent products with higher accuracy and value, a large potential market, the ability to deliver across industries and the existence of a certified R&D Centre.

Is working aggressively to be among the top five foundries across the globe

With the aim to be among the top five foundries across the globe by FY 2020-21, the company is focused on several new areas of growth, for which it has embarked on strengthening its capabilities.

Besides working on prototypes to enable customers to assess the product quality, the company is also closely studying conversion trends as a step towards further augmenting its value proposition. In addition, it is in talks with international OEMs to harness the opportunity in these areas.

Emboldened by the trust reposed by Enkei Investments, and having consolidated considerably across business value chain over the past year, the company shall continue to diversify further to de-risk the company from the cyclical nature of any single segment. Energy, aeronautical engineering, defence and locomotive are the key areas where it sees huge growth potential emerging in the coming years.

Its highly advanced, state-of-the-art foundries, which it is continually expanding to create expertise in a few niche areas, are a core pillar of its future-led growth model. The company is moving aggressively to pursue its agenda for FY 2020-21.

The company is focusing on strengthening its manufacturing prowess to deliver quality products in the 16 product segments it has identified for growth.

New Technologically advanced and innovative products

Being in a business that demands constant improvising and upgrading of products, as user industries offer their clients better and more efficient variants, Alicon has to constantly innovate. Finding new solutions requires technical expertise and facilities that support innovation. Alicon has both the human resource capabilities and state-

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of-the-art in-house R&D and tool improvement facilities to keep up with these requirements.

With several of its innovations finding their way from the drawing board to manufacturing facilities, the company successfully delivered pioneering solutions to its customers across the globe in FY 2017.

Among its path-breaking solutions were:

Successful development of crankcases for Polaris adventures bike: The company exported 2650 Polaris crankcases to the United States.

Exports to Daimler Coolant Collector Germany: It helped the client successfully eliminate defects in casting due to core gas by using foam filter to prevent oxide from entering the casting and also to avoid turbulence during metal fillings in cavities.

Special components for Mahindra: Alicon developed W205 gasoline engine parts and Durante CNG cylinder head to replace diesel engine parts. It also developed Borg Warner Mixing Unit for export version of Mahindra vehicles.

Exports to US Hyster Yale Material Handling: The company provided them with 24 components, including hose guides, tiller handle, steer tiller assembly, dash machining, among others, all of which were developed in a very short time.

Other innovative solutions: Gate freezing concept through air cooling in LPDC dies, power unit bracket twin die, with its challenge of 8 pulling directions, PP Box for Outsource Machining Use.

Some technology and design innovations in FY 2016-17 include developing and producing:

- Cylinder head for Renault Nissan
- Coolant Collector for Daimler USA
- Eeco manifold for Maruti Suzuki
- Oil Sump for Jaguar Land Rover UK
- Engine parts for Honda Cars
- Cylinder Heads for Aftermarket
- Intake manifold for Toyota
- CAC tank for Modine Scania Trucks
- Crankcase for Polaris Hi-end Motorbike Indian

Going forward, a strong domestic recovery is expected to drive OEM sales

A strong domestic recovery is expected to drive OEM sales, especially in the M&HCV segment, in the mid-term. The improvement in global automobile sales will be led by the recovery in the western markets that will, in turn, fuel growth for component exports.

Strategies for the future

The company is currently undertaking several initiatives that will help it build a healthier future

These include

- Institutionalising the ability to add new products and target new OEMs
- Developing new offerings that promote fuel efficiency and has immense demand potential

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- Entering into specialised segments which are expected to generate consistent future demand and are less competitive, leading to premium pricing
- Reinforcing the focus on de-risking and entering into the non-auto segments
- Continual investment in infrastructure to remain ahead of the requirement of the market. The company is making additional investments in increasing its production capacity at Pune and Gurgaon.

Another wave of opportunity for the company is the shift from fossil fuel based automobiles to electric and hybrid ones. Using a combination of technology that is already available in the market and in-house customised innovations, the Company sees itself in a position to benefit from this development

June 2017 quarter results are encouraging

On consolidated basis, in June 2017 quarter, sales grew 8% to Rs 221.63 crore. OPM grew 20 basis points to 9.4% which saw OP grow 9% to Rs 20.82 crore.

Other income jumped 156% to Rs 2.43 crore and interest cost rose 17% to Rs 7.42 crore. As depreciation rose 7% to Rs 7.36 crore, PBT went up 25% to Rs 8.44 crore. Provision for tax jumped 40% to Rs 2.33 crore after which PAT grew 20% to Rs 6.11 crore.

On consolidated basis, in FY 2017 quarter, sales had grown 3% to Rs 772.78 crore. OPM had improved 80 basis points to 11.2% which saw OP grow 11% to Rs 86.84 crore. PBT had gone up 14% to Rs 36.76 crore. PAT had grown 17% to Rs 26.17 crore.

Valuation

In FY 2018 we expect the company to register sales and net profit of Rs 841.72 crore and Rs 30.59 crore respectively. On a small equity of Rs 6.13 crore (of which 71% is held by the promoters), EPS works out to Rs 24.9. The scrip trades at Rs 560. P/E works out to 22.4.

A strong domestic recovery is expected to drive OEM sales, especially in the M&HCV segment, in the mid-term. The improvement in global automobile sales will be led by the recovery in the western markets that will, in turn, fuel growth for component exports

ALICON CASTALLOY: CONSOLIDATED RESULTS

	1706 (3)&	1606 (3)&	VAR. (%)	1703 (12)	1603 (12)	VAR. (%)
Sales	221.63	205.97	8	772.78	748.91	3
OPM (%)	9.4	9.2		11.2	10.4	
OP	20.82	19.02	9	86.84	78.09	11
Other inc.	2.43	0.95	156	3.75	3.16	19
PBIDT	23.25	19.97	16	90.58	81.24	11
Interest	7.42	6.32	17	26.52	22.35	19
PBDT	15.83	13.65	16	64.06	58.90	9
Dep.	7.39	6.88	7	27.30	26.66	2
PBT	8.44	6.77	25	36.76	32.24	14
Total Tax	2.33	1.66	40	10.59	9.82	8
PAT	6.11	5.11	20	26.17	22.42	17
EPS (Rs) *	#	#		21.3	18.3	

* Annualised on current equity of Rs 6.13 crore: Face value of Rs 5 each. # EPS can not be annualized due to seasonality in business. Figures in crore. & Quarterly results are as per new Indian Accounting Standard, Full year results are as per old accounting standard. Source: Capitaline Databases