

Strong demand for 2W; Near-term concerns on the global front.

CMP: INR 1,208

Rating: Buy

Target Price: INR 1,451

Stock Info

BSE 531147

NSE ALICON

Bloomberg ALIC IN

Sector Automobile & Ancillaries

Face Value (INR) 5

Equity Capital (INR Mn) 80.6

Mkt Cap (INR Mn) 21,546

52w H/L (INR) 1,543/779

Avg Yearly Vol (in 000') 2.63

Shareholding Pattern %

(As on Sept, 2024)

Promoters 54.18

DIs 11.38

FIs 0.89

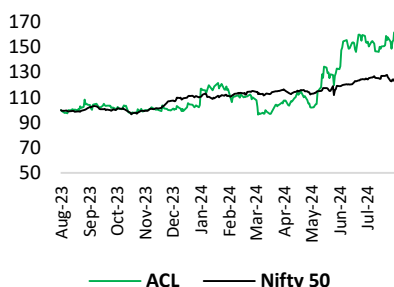
Others 33.55

Stock Performance (%) 1m 3m 12m

ACL -7.6 -5.56 44.3

Nifty -7.7 -5.5 45.2

ACL Vs Nifty



Alicon Castalloy Ltd (ACL) reported Good top line; Margin down due to other expenses and product mix. Standalone revenue stood at INR 4,637 Mn, against our estimate of INR 4,430 Mn registering a growth of 21.7% YoY/ 5.4% QoQ led by a strong pipeline of SOPs from new products and customers. EBITDA stood at INR 560 Mn, against our estimate of INR 585 Mn, growing 21.1% YoY and down 2.6% QoQ. On the margins front, the EBITDA margin has been down to 6bps YoY/ down 99bps QoQ to 12.08%, below our estimate of a 13.2% decline in margin led by an increase of other expenses. Standalone PAT down 11.7%QoQ/ +15.9% YoY to INR 168 Mn above our estimate of INR 195 Mn. EPS stood at INR 10.3 in Q2FY25 against INR 11.8 in Q1FY25.

Investment Rationale

Decline in Margin led by shift in product mix: Q2 FY25 gross margin declined by 253 bps, driven by a shift in the product mix. The moderation in higher-margin commercial vehicle sales, combined with a rise in volumes of lower-margin two-wheelers, led to a squeeze in overall profitability. The EBITDA margin stood at 12.08%, down by 99 bps. The shift in the product mix had a direct influence on both gross and EBITDA margins, but the company remains confident in its ability to manage these changes. The company is maintaining its target of a 15% EBITDA margin and 20% ROC in the medium term.

Strong order book led to achieve Medium term target: The company secured new orders worth INR 370 Mn, bringing its total order book to over INR 90,000 Mn, with execution planned through FY29. The company added 13 new parts from existing customers, including components for both carbon-neutral and ICE segments. A key win was a structural part order for Jaguar worth INR 850 Mn over its lifetime. While demand softness in export markets like the US and Europe may impact near-term execution, Alicon expects a recovery in the next 1-2 quarters and remains confident in achieving its medium-term goals.

Outlook and valuation

We believe there is softness in demand in export markets, but rural demand continues to be strong, and the company has a solid order book driven by robust demand from the hybrid and 2w segments. Alicon expects a recovery in the next 1-2 quarters and remains confident in achieving its medium-term goals. The company continues to maintain a target of INR 18,000 Mn and INR 22,000 Mn for FY25/FY26, with more clarity expected in Q3FY25 due to the near-term macroeconomic conditions. Alicon is poised to benefit from its established market position in the aluminum casting auto component sector, supported by strong client relationships and operations in India and Slovakia. The company is expected to capitalize on the growth prospects of key clients such as JLR, Daimler, Toyota, Stellantis, and Maruti Suzuki. **We have used a DCF Model to value ACL, it has healthy and consistent cash flow generation over the forecasted period and we value consolidated business at EV/EBITDA multiple of 5.4x to FY27E EBITDA of INR 3,621 Mn to FY27E EPS of INR 98.7. We maintain our "BUY" rating on the stock with the TP INR 1,451 per share based on DCF; an upside of 20%.**

Exhibit 1 : Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoCE (%)	P/E (x)
FY24	15,594	1,953	613	37.7	12.53%	9.57%	32.0
FY25E	18,000	2,430	900	55.9	13.50%	11.89%	21.6
FY26E	22,000	3,036	1,268	78.7	13.80%	13.38%	15.3
FY27E	25,323	3,621	1,590	98.7	14.30%	13.78%	12.2

Source: Arihant Research, Company Filings

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Exhibit 2 : Q2FY25 - Quarterly Performance (Consolidated)

Quarterly Results					
Consolidated (INRm)	Q2FY25	Q1FY25	Q2FY24	QoQ%	YoY%
Net Sales	4,637	4,400	3,810	5.4%	21.7%
Cost of material consumed	2,500	2,324	1,929	7.6%	29.6%
Changes in inventories	(67)	(131)	(26)	0.0%	0.0%
COGS	2,432	2,193	1,902	10.9%	27.9%
GP	2,205	2,207	1,908	-0.1%	15.6%
Employees benefits expense	517	541	493	-4.5%	4.8%
Other expenditure	1,128	1,091	952	3.4%	18.4%
EBITDA	560	575	463	-2.6%	21.1%
Depreciation	230	224	182	2.5%	26.4%
EBIT	330	351	281	-5.8%	17.7%
Other Income	7.7	7.4	7.5	-	-
Finance costs	113	103	101	9.1%	11.3%
PBT	225	255	187	-11.6%	20.5%
Current Tax	74	80	59	-7.4%	24.7%
Deferred tax	(17)	(15)	(17)	-	-
Tax	57	64	42	-11.4%	36.5%
Adjusted PAT	168	190	145	-11.7%	15.9%
Non-controlling interests	-	-	-		
Reported PAT	168.2	190.4	145.1	-11.7%	15.9%
EPS	10.3	11.8	9.0	-12.1%	14.9%
Margins	Q2FY25	Q1FY25	Q2FY24	QoQ%	YoY%
Gross margins	52.5%	49.8%	49.9%	262Bps	252Bps
EBITDA	12.08%	13.07%	12.14%	-99Bps	-6Bps
Adjusted PAT	3.63%	4.33%	3.81%	-70Bps	-18Bps
Tax Rate	25.33%	25.29%	22.37%	4Bps	296Bps
Effective Tax Rate	25.33%	25.29%	22.37%	4Bps	296Bps
Cost Analysis					
RM/Net Sales	53.90%	52.81%	50.62%	109Bps	328Bps
Other Exp/Net Sales	24.33%	24.81%	25.00%	-48Bps	-67Bps
Staff cost/Net sales	11.14%	12.29%	12.93%	-115Bps	-179Bps

Source: Arihant Research, Company Filings

Exhibit 3: DCF Valuation

Valuation Assumptions

g (World Economic Growth)	3%
Rf	7%
Rm	13%
Beta (2 Yr)	1.0
CMP (INR)	1208

WACC

We	94.1%
Wd	5.9%
Ke	12.9%
Kd	21.1%
WACC	13.42%

Valuation Data

Total Debt (long term borrowings) (2024)	1,209
Cash & Cash Equivalents (2024)	112
Number of Diluted Shares (2024)	16
Tax Rate (2025)	5.00%
Interest Expense Rate (2025)	22.2%

MV of Equity	19,460
Total Debt	1,209
Total Capital	20,669

FCFF & Target Price												
FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase					Terminal Yr
Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
EBIT * (1-Tax Rate)	820	1,131	1,466	1,758	2,215	2,648	2,954	3,211	3,401	3,507	3,517	3,626
Dep	775	805	930	1,095	1,258	1,424	2,009	2,184	2,313	2,384	2,391	2,466
Purchase of Assets	900	1,500	1,500	2,000	2,000	2,000	738	803	850	877	879	906
Changes in Working Capital	(404)	(81)	(73)	(72)	(70)	(1,127)	74	80	85	88	88	91
FCFF	1,099	517	969	925	1,543	3,199	4,150	4,512	4,779	4,927	4,941	5,094
% Growth in Post Tax EBIT		38.0%	29.6%	20.0%	17.1%	14.3%	11.5%	8.7%	5.9%	3.1%	0.3%	3.1%
As % of Post Tax EBIT												
Dep	94.6%	71.1%	63.5%	62.3%	56.8%	59.5%	68.0%	68.0%	68.0%	68.0%	68.0%	68.0%
Purchase of Assets	109.8%	132.6%	102.3%	113.7%	90.3%	102.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Changes in Working Capital	-49.2%	-7.1%	-5.0%	-4.1%	-3.2%	-3.6%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
FCFF	1,099	517	969	925	1,543	3,199	4,150	4,512	4,779	4,927	4,941	5,094
Terminal Value												49,368
Total Cash Flow	1,099	517	969	925	1,543	3,199	4,150	4,512	4,779	4,927	4,941	54,462

Enterprise Value (EV)	24,476
Less: Debt	1,209
Add: Cash	112
Equity Value	23,379
Equity Value per share (INR)	1,451
% Returns	20.14%
Rating	Accumulate

Sensitivity Analysis

		g(%)								
WACC (%)	1,451	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%
	12.78%	1452	1479	1508	1538	1569	1602	1637	1673	1712
	12.93%	1425	1451	1478	1507	1537	1569	1602	1637	1674
	13.08%	1398	1423	1450	1477	1506	1537	1569	1602	1638
	13.23%	1372	1396	1422	1449	1476	1506	1537	1569	1603
	13.36%	1350	1374	1398	1424	1451	1480	1509	1541	1574
	13.48%	1330	1353	1377	1402	1429	1456	1485	1515	1547
	13.63%	1306	1328	1352	1376	1401	1428	1456	1485	1515
	13.78%	1283	1304	1327	1350	1374	1400	1427	1455	1484
	13.93%	1260	1281	1302	1325	1349	1373	1399	1426	1454

Source: Arihant Research, Company Filings

Alicon Castalloy Ltd-Q2FY25 Concall KTAs

The company is maintaining its target of 15% EBITDA margin and 20% ROC in the medium term. The company is closely monitoring global market softness, particularly in Europe and the US. The contribution mix showed that PV accounted for 38%, 2w 43%, and CV 12%, with PV sales growing 59% YoY, while 2w increased by 19%. Despite a 21% decline in CV sales, company strategy remains focused on enhancing share in PV and exports, while maintaining INR 22000 Mn target by FY26, despite short-term market challenges.

Order: The company secured new orders worth INR 370 Mn in Q2FY25, raising its total order book to over INR 90,000 Mn executable over the next 6 years, while remaining cautious about short-term market softness in exports (Revenue mix 23%) and commercial vehicles (Revenue mix 12%).

Alicon secured a significant new order for a structural part for Jaguar, valued at approximately INR 850 mn over its lifetime, following the successful development of a high-volume part with a shot weight of 30 kg for Jaguar Land Rover. JLR and Land Rover have raised concerns about charging infrastructure for resale vehicles regarding interest generation.

Commercial vehicle segment sales declined, aligning with overall industry volume reduction.

New order bookings in Q2 FY25 totaled 370 Mn, aligned with the strategy of higher value four-wheeler part supplies.

Traction in Hybrid: Alicon is focusing on hybrid vehicle technology, supplying components to companies like Toyota and Maruti Suzuki, as hybrid vehicles are gaining traction in key markets. Hybrid vehicles are gaining traction due to practical advantages over fully electric vehicles. Toyota maintained steady demand for cylinder heads for hybrid models, with planned capacity expansion from January 2025. Stellantis India cylinder head supplies scaled up significantly in Q2, reaching highest ever supply volumes. Maruti Suzuki volumes increased due to ramp-up in cylinder head supplies for an additional model and deliveries to their Gujarat plant.

Gross margins: Declined by 253 bps YoY due to changes in product mix, with lower CV sales and higher 2w sales impacting margins.

Machined Components: The company is diversifying its portfolio, with PV and CV now accounting for 51% of sales, up from 49% last year. They are also transitioning from supplying as-cast products to fully machined components. The company is transitioning some products from high pressure to low pressure die casting for improved structural integrity and sustainability. The company is pursuing more contracts for end-to-end fully machined parts to increase value addition.

Capex guidance: Capex for Q2 was ~540 Mn, with H1FY25 capex 1000 Mn. for FY25 is around 1500 Mn, with FY26 expected to be between 900-1000 Mn, focused on automation and handling larger, more critical parts. The company is managing capex mostly through internal accruals.

Interest expense: Interest costs increased 11% YoY to 110 Mn, driven by higher borrowings. The blended interest rate on Alicon's total borrowings is around 9.5%.

New Parts : In Q2 FY25, Alicon added 13 new parts from 5 existing customers, including 5 parts from the carbon neutral segment. European operations saw growth in battery housing products for hybrid vehicles supplied to Samsung.

Solar panels at India and Europe plants now generate 1/3 of energy needs, with plans to increase to over 50% by next year.

Technology: Alicon has integrated robotic arms, advanced digital process control, AI, and IoT into operations to enhance productivity and reduce rejection rates.

EV: Alicon now supplies nearly 90 components to the EV industry.

Volkswagen praised Alicon's precision in designing components for autonomous driving initiatives.

Strategy: Alicon remains committed to its strategy of focusing on four-wheelers and higher value-added parts despite short-term market fluctuations.

Industry Global auto industry witnessed 4% YoY de-growth in volumes in Q2. Indian auto industry reported 9% volume growth, driven by the 2w segment.

European Operations: The company observed softness in the European market, particularly for CV however, its European plant offers a strategic advantage with advanced technology capabilities. Additionally, it is supplying battery housing products for hybrid vehicles to Samsung for three different vehicle models. The upcoming Euro emissions norms, effective in 2026-27, may trigger pre-buying of CV in Europe.

Alicon's capacity for volume delivery has generated increased inquiries and opportunities to expand business with existing and new customers in critical niche parts. A notable success includes the delivery of an 18 kg automation part for Volkswagen, which garnered significant appreciation for its impressive wall thickness achieved through HPDC.

Story in charts (INR in Mn)

Exhibit 4: Revenue growth led by healthy growth in domestic and international business

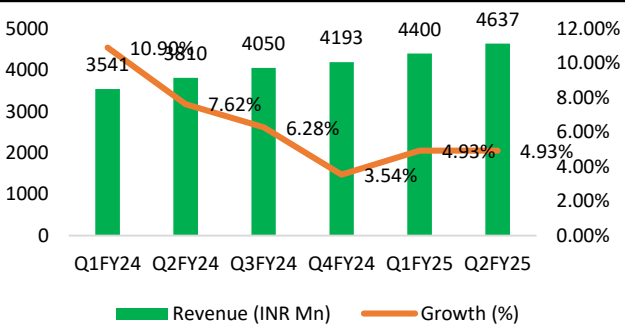


Exhibit 5: Debt/Equity at stable level

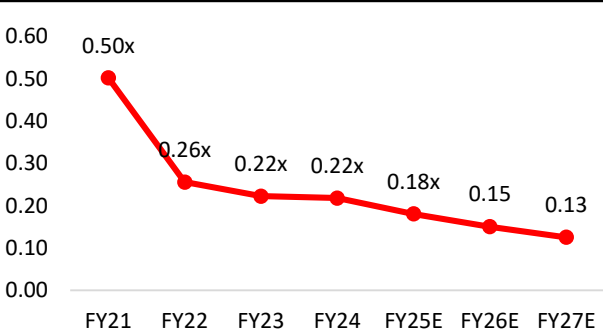


Exhibit 6: Strong profit growth to be seen on back of strong order book

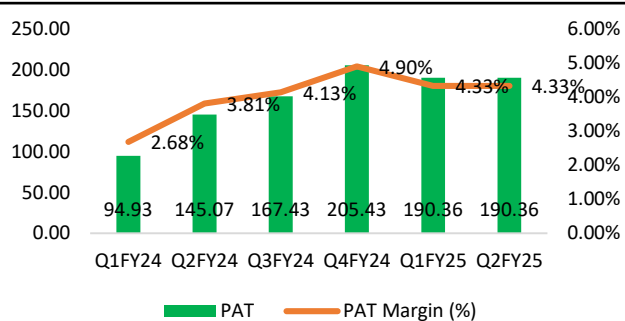


Exhibit 6: Continue expansion in margin YoY

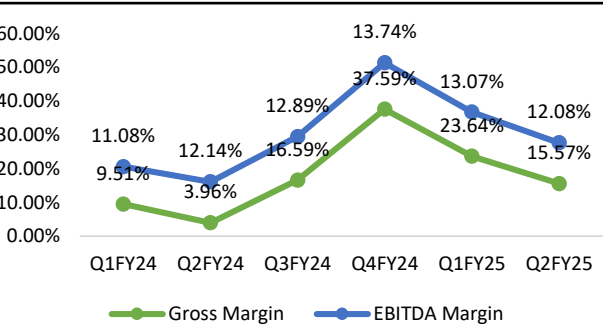


Exhibit 7: ROCE & ROE trends

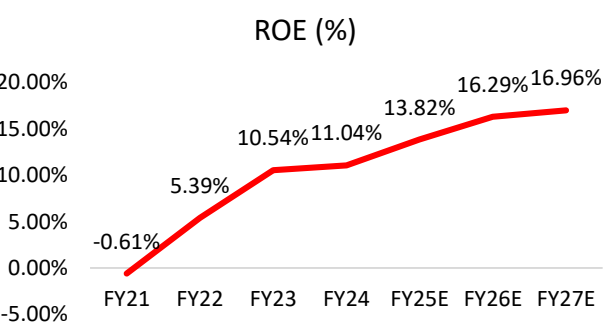
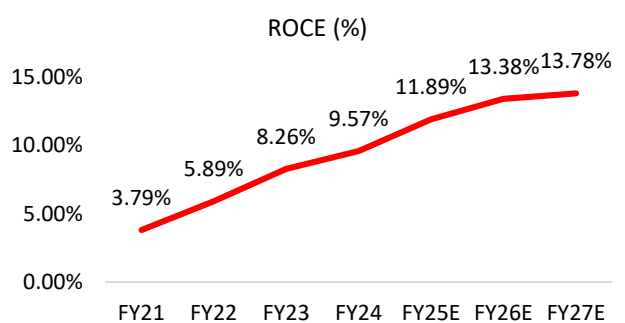


Exhibit 8: Revenue Mix

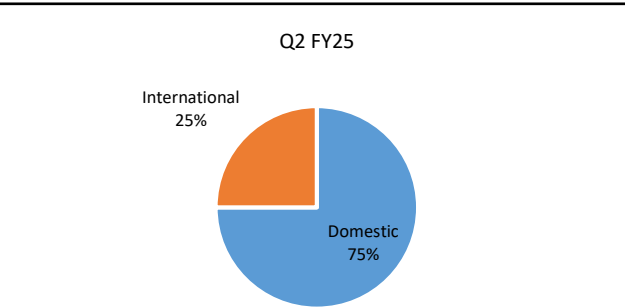
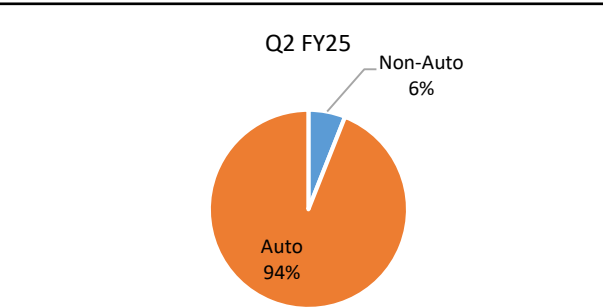


Exhibit 9: Good Growth in 2W in Q2FY25



Source: Company, Arianth Research

Exhibit 10: Diversified base of marquee customers



Exhibit 11: Global Presence : Close-to-Demand

Strategic locations enable shorter time-to-market and enhanced cost optimization



Source: Company, Arihant Research

Key Financials

Income Statement (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
Revenues	15,594	18,000	22,000	25,323
<i>Change (%)</i>	11.3%	15.4%	22.2%	15.1%
Cost of Goods Sold (COGS)	7,559	7,974	9,746	11,218
Gross Profit	8,035	10,026	12,254	14,105
Employee costs	2,000	2,250	2,750	3,165
Other expenses	4,082	5,346	6,468	7,318
Total Expenses	13,641	15,570	18,964	21,702
EBITDA	1,953	2,430	3,036	3,621
EBITDA Margin	12.53%	13.50%	13.80%	14.30%
Depreciation	775	805	930	1,095
EBIT	1178	1625	2106	2526
Interest	407	497	497	497
Other Income	38	57	60	64
PBT	809	1,185	1,669	2,092
Exceptional Items	-	-	-	-
PBT after exceptional Items	809	1,185	1,669	2,092
Tax	196	284	400	502
<i>Rate (%)</i>	3.9%	5.0%	5.8%	6.3%
PAT	613	900	1,268	1,590
PAT Margin (%)	3.9%	5.0%	5.8%	6.3%

Balance Sheet (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	80.6	80.6	80.6	80.6
Reserves & Surplus	5,471	6,437	7,705	9,295
Net Worth	5,552	6,517	7,785	9,376
Loan Funds	3,062	3,109	3,109	3,109
MI, Deferred Tax & other Liabilities	139	139	139	139
Capital Employed	12,302	13,666	15,734	18,335
Application of Funds				
Gross Block	8,473	9,973	11,473	13,473
Less: Depreciation	4,519	5,234	6,056	7,021
Net Block	3,954	4,739	5,417	6,451
CWIP	117	117	117	117
Other Non-current Assets	221	221	221	221
Other Current Assets	186.6	186.6	186.6	186.6
Net Fixed Assets	4,479	5,264	5,942	6,977
Investments	27.62	27.62	27.62	27.62
Debtors	5,231	5,700	6,233	7,034
Inventories	1,359	1,529	1,869	2,151
Cash & Bank Balance	111	94	571	1,005
Loans & Advances & other CA	78	78	78	78
Total Current Assets	6,968	7,591	8,940	10,458
Current Liabilities	5,148	5,635	6,434	7,446
Provisions	91	27	27	27
Net Current Assets	1,820	1,957	2,506	3,012
Total Assets	12,302	13,666	15,734	18,335

Source: Arihant Research, Company Filings

Key Financials

Cash Flow Statement (INR Mn)

Year End-March	FY24	FY25E	FY26E	FY27E
PBT	809	1,185	1,669	2,092
Cash From Operating Activities	1,827	2,406	3,023	3,613
Tax	-254	-284	-400	-502
Net Cash From Operations	1,574	2,122	2,623	3,111
Capex	-925	-1,500	-1,500	-2,000
Cash From Investing	-1,070	-1,624	-1,649	-2,179
Borrowings	3,062	3,109	3,109	3,109
Interest Income	(3.85)	-	-	-
Cash From Financing	-511	-514	-497	-497
Net Increase/ Decrease in Cash	-7	-17	476	435
Cash at the beginning of the year	118	111	94	571
Cash at the end of the year	111	94	571	1,005

Key Ratios

Year End-March	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	37.7	55.9	78.7	98.7
BVPS	345	405	483	582
Valuation (x)				
P/E	32.0	21.6	15.3	12.2
P/BV	3.5	3.0	2.5	2.1
EV/EBITDA	9.1	7.4	6.6	5.4
Return ratio (%)				
EBIDTA Margin	12.53%	13.50%	13.80%	14.30%
PAT Margin	3.93%	5.00%	5.76%	6.28%
ROE	11.04%	13.82%	16.29%	16.96%
ROCE	9.57%	11.89%	13.38%	13.78%
Leverage Ratio (%)				
Total D/E	0.2	0.2	0.2	0.1
Turnover Ratios				
Asset Turnover (x)	2.2	2.4	2.5	2.4
Inventory Days	1359	1529	1869	2151
Receivable Days	122	114	102	100
Payable days	65	73	73	78

Source: Arihant Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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