



## Alicon Castalloy Limited

### Q3 FY19 Earnings Conference Call Transcript

#### February 08, 2019

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**Moderator:** Ladies and gentlemen good day and welcome to Alicon Castalloy Q3 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mayank Vaswani of CDR India. Thank you and over to you, sir.

**Mayank Vaswani:** Thank you, Janis. Good afternoon, everyone and thank you for joining us on Alicon Castalloy Limited's Q3 & 9M FY2019 Earnings Conference Call. We have with us today Mr. Shekhar Dravid, – Chief Operating Officer and Mr. Vimal Gupta – Group CFO of the Company.

We will begin the call with opening remarks from the management, following which we will have the forum open for a question-and-answer session. Before we start, I would like mention 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 that have been shared with all of you earlier.

I would now like to handover the floor to Mr. Shekhar Dravid to make his opening remarks. Over to you, sir.

**Shekhar Dravid:** Thanks, Mayank. Good afternoon, everyone. On behalf of the Management Team of Alicon Castalloy, I would like to extend a warm welcome to all of you on the Earnings Conference Call. I trust all of you have received the results table and the results presentation. I will cover some industry developments and quarterly business updates following which, Mr. Vimal Gupta will run you through the key financial highlights.

We have reported a steady set of results during the third quarter, despite facing a challenging macro-environment, especially in the domestic market. As most of you may be aware that auto-industry faced challenging demand conditions. The Kerala floods impacted the sales in South India for all major OEMs. In addition to this, the festival season sales have not lived up to expectations and factors like upfront insurance payments, fuel prices and weak liquidity conditions in the banking and finance sectors have contributed to the sluggishness in the demand for two-wheelers and four-wheelers.

In spite of these market conditions on the consolidated basis, we reported the top-line growth of 3% YoY in Q3 FY19. EBITDA grew by 19% and PAT improved by 8%. Revenue growth was supported by the momentum in exports as well as in the non-auto demand. More importantly, our efforts to drive increased efficiencies in manufacturing processes, enhancing of the design and technology imprint in our product to enhance the value of customers and cost-containment initiatives have helped us to drive a robust 19% growth in EBITDA. While the sales of Q3 were sluggish owing to the temporary headwinds, our performance for the 9M period remained robust on year-on-year basis with 21% growth in revenues, 34% growth in EBITDA and 43% growth in PAT.

Coming to the segmental breakup:

In Auto segment, we are pleased to share that ordering started to pick up from customers, both in the domestic and export markets. We are focusing towards the strengthening of our product pipelines in Auto segment and are being continuously introducing a series of new innovative parts that helps to boost efficiencies for our customers in two wheelers, four wheelers and truck categories. As you all may be aware in a bid to bring down the pollution levels and having cleaner automobiles on the road, the government has decided to progress directly from BS-IV norms implemented in April 2018 to Bharat-VI norms by April 2020. Even as the automobile industry prepares its response and upgrades products in order to comply with the implementation, we believe Alicon is very well poised to provide customers a smooth transition to products of revised standards. For example, we have already developed Cylinder Heads with an internal oil cooling systems for requirement of our overseas customers. These types of Cylinder Heads help to reduce emission and we believe domestic customers are now ready for such products. Similarly, we have other products to cater to the emerging needs and the significant R&D efforts of the recent years will now act as a platform to address the huge business potential that the revived initial norms would provide.

In the non-auto sector, we continue to witness the healthy growth momentum. During the nine-month period, we launched a range of technologically advanced products in sectors like Defense, Healthcare and Power. For these segments, we have developed Aluminum parts that have enabled considerable weight reduction of traditionally used products thereby resulting in improved efficiencies, optimal performance and significant cost savings at the customer end.

On the whole, we believe our technology prowess, design capabilities and the focus on transformative solutions over the last few years have enabled us to emerge as a one stop shop providing solutions for design, economics, raw material composition to manufacture and delivery of components at any global locations. We are further continually expanding our product suite to align our product offerings in line with changing technologies and emerging trends. As demand conditions improve, our endeavor is to substantially outperform the industry growth rate through our product portfolio, diverse customer base and focus on innovation and R&D. We are also pursuing opportunities from emerging e-mobility focus in order to be at the forefront of the industry trend as we strive to firmly establish Alicon Castalloy as a globally preferred supplier for Alloy Casting solutions.

On this note, I would now like to invite Mr. Vimal Gupta to run you through the key financial highlights of the quarter and nine-month ended December 31<sup>st</sup>, 2018.

**Vimal Gupta**

Thank you Mr. Dravid. Good afternoon everyone. I will begin by taking you through the key financial highlights of the period under review and we will then look forward to taking your questions and suggestions.

We have delivered a healthy performance during 9M FY19, led by a stable demand environment and increasing contribution from our non-auto and export segments. Our revenues from operations, on a consolidated basis, stood at Rs. 868 crore in 9M FY19 as against Rs. 716 crore in 9M FY18, registering a growth of 21% year-on-year. Domestic revenue during 9M FY19 grew by 21% while exports including overseas revenue delivered a strong growth of 27%. Exports including overseas revenue contributed to 19% of the total revenue in 9M FY19. While domestic contributions stood healthy at 81% during the quarter, we reported a steady performance despite the cyclical slowdown in the domestic auto industry. Revenues came in at Rs. 266 crore, higher by 4%.

Coming to our segmental performance:

The Auto division maintained a stable business momentum. During 9MFY19 Auto revenues contributed to 91% of the total revenues in Q3 and 9M FY19. In our non-auto division, the revenues contribution stood at 8% in Q3 and 9% in 9M FY19. Our focus remains on improving contribution from the non-auto segment while simultaneously increasing momentum in core Auto segment.

On the profitability front, operating EBITDA during 9M FY19 stood at Rs. 108.5 crore with margin at 12%, higher by 122 basis points, after including other income total EBITDA margins were even higher at 13% for the 9M period. Profit after tax during 9M FY19 stood strong at Rs. 37.7 crore, higher by 43% and PAT margins were stable at 4%. During the quarter, operating EBITDA stood at Rs. 35.2 crore with margins at 13%. PAT was at Rs. 11 crore, higher by 8% with margins at 4%.

On the order book front, we are happy to share that we are receiving a healthy pipeline of order enquiries and leads. The demand has already started to pick up from second week of January and we look forward to a strong performance in the fourth quarter and next fiscal.

With this I now conclude my remarks and would now be happy to discuss any questions, comments or suggestions you may have.

**Moderator:** We take the first question from the line of Saurabh Jain from Sushil Finance. Please go ahead.

**Saurabh Jain:** Referring to the opening remarks, amidst such a slowdown we were able to maintain stable top-line, so could you please highlight the factors like what was the contribution from the new products or the new customers that helped us?

**Shekhar Dravid:** Basically, the stable growth what we have seen in Q3, it is basically coming from two ends. One is that there is a shortfall coming in to the schedules from the customer end. We started in early stage to discuss with the customer to get the products that are going on. Those products we can increase our share of business with that customer. I'm happy to tell that around 4%-4.5% of share of business we got it increased in last quarter from the existing customers. Secondly, while discussing this we found out that some of the models in Quarter 1 and Quarter 2 or previously, if we were not doing any business with that customer, we requested to compensate for whatever the business loss is there from such customers; we requested them to get our entry into that where we got a ready-made business from customers like Bajaj and Hero. So, these have contributed to have our business from the existing business partners and customers, we got additional business from them. Over and above that if you see even if there was some shortfall in business in domestic market, but the customers like Daimler, we have got support from them because their requirement has gone up as compared to the

first two quarters and they started picking up more material than what was expected initially. So, that has also supported our stable numbers in Q3.

**Saurabh Jain:** Any new customer we added during the new quarter?

**Shekhar Dravid:** Basically, the two customers we added during this, one is the TitanX and one is UQM which is an export customer. TitanX is also export customer but at present Tata Autocomphas taken over TitanX all over the globe. And first container of this, we were able to supply by end of December and we are expecting few more business opportunities with this customer. For Quarter 4, we are expecting the growth from these two customers.

**Saurabh Jain:** Which was the second one?

**Shekhar Dravid:** It is UQM; this is from e-mobility. Now, we are exclusively working on this sector because that could be the next future for our industry, which will get compensated for our losses in business in the regular engines. So, for this, so far globally we have identified 141 probable customers, who are at present working on e-mobility components and those will require in Aluminum Castings. Out of these 141 identified customers, Alicon has got in touch with 45 customers so far and out of 45 customers, we have received valid RFQs of 25 numbers. And one of the RFQ is from UQM, which they are manufacturing the motor controllers for which the housing is required, which is varying around 6 kg in weight, which we have developed first on the proto-route and then from 2020, we will start supplying this component as an SOP. So, these are the new customers from the new sector.

**Saurabh Jain:** On the EBITDA level, like 25% kind of EBITDA growth with over 200 basis points of margin improvement, so what were the factors, it's visible that we reduced the employee cost and there was some good breather on the raw material costs as well. So, beyond that if you can highlight anything and where do we see this number stabilizing going forward on an annual basis?

**Shekhar Dravid:** First of all, I will explain you the efforts that we have taken. So, what we have done actually, when we found that there is a down-trade coming in the market first of all we have started with a Shrink Balance at our end in operations, where we have started reducing our cost, whatever the investments going on, how we can prolong those, buy back whatever cost benefit we can get it because in a short time you may not get a definite benefit from the customers and we cannot,—when the lean period is going on, go back to the customer and ask for any price increase or any correction in the prices. So, it was necessary for us to have a Shrink Balance technique, which we have implemented on our shop floor and bottom line growth is one of the outcome of that. So, I will ask Vimal now to explain more on these figures.

**Vimal Gupta:** If you see that especially in the employee cost and our operational cost, there is a remarkable cost reduction that has happened. So, this is the concept we have learnt from our Japanese partners Enkei, the concept of Shrink Balance. So, how there are two ways of cost reduction and cost avoidance. So, both the techniques we have applied and we were able to do this work and maintain our margins.

**Saurabh Jain:** Where do we see these numbers, going forward? Is there any further scope of improvement on the EBITDA front over the next 2 to 3 years?

**Vimal Gupta:** Definitely there will be improvement because the new business that we are adding, we are adding with higher margins so definitely every year you will see the improvements in the margins.

- Saurabh Jain:** So, would it be a fair assumption that by the time we will be reaching the Rs. 2,000 crore revenue mark, we can expect an EBITDA of around 15%?
- Vimal Gupta:** It is difficult to commit like this.
- Shekhar Dravid:** Basically there will be a definite improvement that we will see. It will be premature to comment on the figures at this moment and it will be misleading if based on assumptions. So, there will be a growth.
- Saurabh Jain:** In the last concall we had discussed this Rs. 2,000 crores vision that translates roughly into a growth of 20% CAGR. Since we have passed one quarter, so if you can highlight what would be the roadmap to achieve that kind of growth on consistent basis especially when we are selling through these tough times on the industry level?
- Shekhar Dravid:** Whatever we are seeing in Q3 or Q4, that is a temporary headwind. It is not a permanent one. Number one, if you see our strategy which we were discussing in detailed last time also, whatever the CAGR we kept it, we are sure that 2,000 crore is not a problem. We can definitely achieve 2,000 crore. Now your question from where will it come, specifically I will tell you that 66% of 2000 crore, will come from my existing business with existing customer with some model changes BS-IV to BS-VI, overlap of BS-IV to BS-VI. So, this will come. Now there is one more point to it, even if BS-IV we are saying that it will be out, some of the countries where BS-IV is still applicable and all my OEMs are going to export these vehicles in BS-IV to these export countries. So, basically there also there will be some addition to the volumes. So, 66% of my total turnover will come from existing customers with existing business. About 24% of business is going to come from whatever the developments that we have done in last two years and developments which will happen in next two years. So, that will bring me around 24% of the business. So, if you see roughly, 66% when I say, it is between 62% to 66% so don't touch to those figures. But almost 85% of 86% of my business at this moment is assured and balance 14-15% will come from the proposed business. The proposed business is the business from the e-mobility and export businesses that we are planning. We had discussed that by 2021-22, an aspirational goal what we have kept is that 33% business of Alicon should come from the global business. And for that, we have already taken our actions. As I told you last time also, one more agency in Europe, specifically in France, we have inducted two months back for the marketing of Alicon within that space. Also one of the key account manager—he has been specially assigned for this global business, who was there in our European facility for last 5 years—to assist our existing team available there. From there we have around €200 million business opportunities that have been generated and those things are working on that for this aspirational goal of 33% of our global business by FY21-22 and that will get my 15%. So, at this moment Alicon team has to work on balance 15% as 85%-86% business is an assured business.
- Saurabh Jain:** I would like to ask about non-auto because this quarter our share of non-auto has come down from 14% to 9%. I understand it would be a lumpy business but what would be the strategy for non-auto as in over the next 2 to 3 years?
- Shekhar Dravid:** 14% is our goal to achieve in non-auto sector business by FY21-22. Against this, in 9M FY19, against 8% as per my business plan, we achieved 9%. So, in the non-auto sector, growth is there of 1%. Percentage wise growth is 1% and we are in line with this because last time also I said whatever we have developed in non-auto sector right now that is for the domestic market and now the avenues are being opened for the same customer globally for the same component, so there will be some volume increment. You take the case of GE Energy; they have taken over Alstom Energy. So, Alstom has got global requirement of these components what

we have developed in last three years in India and right now we are supplying it to only the Indian facilities. The same is the case with Siemens. The components what we have developed for Siemens in India, those are also globally required. So, the global market will get opened for us with these components and achieving 14% should not be a challenging one by FY21-22.

- Saurabh Jain:** What is the revenue breakup between two wheelers and four wheelers?
- Shekhar Dravid:** The revenue breakup right now is 45% from two wheelers and around 22% from passenger vehicles and around 20% from the CV and LCV and commercial vehicles, 9% is non-auto sector.
- Moderator:** Thank you. Next question is from the line of Nirav Sheth from SBICAP Securities. Please go ahead.
- Nirav Sheth:** Part of the vision that you have talked about that is about Rs. 2,000 crore turnover for the next 4 years, so you are implicitly assuming a level of growth in the two-wheeler market, right? Where we believe that it would be a challenge because that is close to saturation and therefore how much of that depends upon the natural organic growth rate of two wheelers? And secondly, we will also look at IRR because finally that is what determines the price of the share, what are the aspirational ROEs that we should look forward to in the vision timeframe?
- Shekhar Dravid:** Basically, you are absolutely right. We are not anticipating a very good growth in two wheeler sector. We are anticipating that there will be a fair growth of 7% to 8% every year in two wheeler industry, not more than that and that is a flat growth what we are saying. What we are seeing at it in next two years is the changeover from the BS-IV to BS-VI and the overlap of that BS-IV to BS-VI will give one or two surges for us to grab that so to increase our contribution in two wheeler industry for that particular time limit, not on permanent basis. That is one of the part what we are looking at. As I shared again this is overlap. Second part is that while discussing with all these customers, I have found that they are exporting lot many vehicles to the countries like Africa, Sri Lanka, where still the advance norms are not applicable and in the next three years they will be able to export BS-IV vehicles to these countries and they are expanding their wings into that. Even Bajaj, they have declared that they are going to concentrate on export in the African countries. So, all these things will give us an additional volume because all these OEMs have asked us not to scrap any line or any tooling for BS-IV at this moment for at least next three years. So, that is the additional business what we are talking of other than the normal growth of 8% to 9% in the domestic market so that is a first answer to your question.
- Vimal Gupta:** On the other side, one is that we are clear that we are not expecting a very good double-digit growth in the two wheeler market. But on the other side you'll see our focus is mainly on the global business. We are talking about global business share to be one-third in the next coming four years. So, we are more focused on the export side and we are at advanced stage with many big players at global level and maybe in the next six months to one-year, you will see lot of news from Alicon on this side.
- Nirav Sheth:** Any aspirational ROEs because there is a natural evolution of margin expectations and when you bid for new projects and stuff like that, where do you think that you can take this company forward?
- Vimal Gupta:** If you see at present, we are moving in the range of around 18% ROCE. Definitely, we are targeting on the higher side and in the next 4 to 5 years, we can say 5% to 6% growth in these numbers you can see.

**Moderator:** Thank you. Next question is from the line of Nikhil Oswal from Stallion Asset. Please go ahead.

**Nikhil Oswal:** Since I am bit new to the company, I just had a few basic questions - can you just explain me how our company is going to get benefited with EV coming in? What kind of demand do we see since you told that a lot of 141 companies are working on this new sector and 45 had come to us so far?

**Shekhar Dravid:** Basically, we are looking at this disruption from different angle. For Alicon, we are specialized in making aluminum castings, so whether it goes into an IC engine or whether it goes into EV. So, basically once the EV is introduced, the three parts majority will be replaced for the engine. One, the engine will be taken out; the battery housing will be introduced. Second, is the motor housing will be introduced and third is the transmission housing will be introduced. So, these are the three main parts that will be introduced in case of replacement as an engine. The weight of the vehicle at this moment is weighing that around 1450 kg which will go up by 257 kg by the introduction of e-mobility into the picture. There are challenges which will be posed to all OEMs to reduce this weight to the normal one. So, lot many components which at present are in cast iron or steel fabrication or some composite material will get converted into aluminum or a low density material like aluminum magnesium alloys. And this is an opportunity that we are seeing through this disruption. So, based on this we are seeing that there will be a definite growth on this. Now Alicon has prepared itself for this - we anticipated in year FY14-15 that this is what the disruption is coming in and everybody started talking in Europe so all these three components for EV, so those components we have already targeted in Europe and developed at very early stage for three big manufacturers in Europe and already developed and those components are on a mass production basis. We are supplying it from our European facility to the global suppliers. So, it is for the battery housing we have got associated with Samsung and Samsung is supplying these batteries to JLR. We also got associated with Bosch for manufacturing of the motor housing in turn this is going to the Fiat 500 vehicle in mass production. And for the transmission housing, we have developed for one of the companies, manufacturer of transmission in Europe who is exporting this component to China. So, knowhow for development of these components Alicon has acquired long back in a proactive way and have become ready for these requirements for the Indian market. So, these requirements started coming up and as I explained that we already have scavenged the global market and we have found out that there are 141 probable customers, who are working in e-mobility globally who will be needing the aluminum components for them and out of that Alicon has already been in touch with 45 customers and established 25 valid RFQs, out of which, one has been converted into sales activity. So, we are already proactively going into that and are ready for the market for e-mobility for any conversion that comes.

**Nikhil Oswal:** About the Enkei Corporation, what kind of partnership do you have with them and how were they helping us with the opportunity which is ahead?

**Shekhar Dravid:** Enkei Corporation Japan is our partners in all aspects. As you know that on 10<sup>th</sup> of May, 2018, the Enkei Corporation has increased their equity in Alicon from 7% to 8% to 14.9% right now and this itself shows what the bonding between two companies is like. All the facilities of Enkei are freely available for Alicon to go and visit and have the knowledge gained from those visits which can be implemented at our end. Such type of frequent visits of our teams to Enkei are happening every year and different teams visit for 3 or 4 days to capture the knowledge and get it implemented at India. That openness and freeness has been offered by Enkei Corporation to Alicon. We are in discussion with them, already one of the Japanese associate on the long-term basis is stationed in India to improve our processes and productivity and quality level to sustain the global business that we are trying to

bring and support that. And many more will be coming into to support if requirement is there and that support is freely available from Enkei Corporation, so in single sentence statement, I can say that the total openness and the available knowledge bank for Alicon is available through Enkei Corporation.

**Nikhil Oswal:** Another question was based on the numbers, even after the slowdown we have very much been able to give good set of numbers of around Rs. 11 crore PAT. In last two years, we were doing around Rs. 5 to 6 crore of PAT and now we have shifted to new base of 10-12 crore of PAT so do you think this is the new base and over this base, we will be able to grow 20%-25%, achieve our target of Rs. 2000 crore of revenue?

**Shekhar Dravid:** Basically, we started working with a Shrink Balance technology. Here we have curtailed all our expenses, looking at whatever the business what we are getting into, the cost at each level we are trying to now optimize it, increasing our production level and reducing our scrap rate, which in turn will help our bottom line.

**Vimal Gupta:** If you see in this case, the business we are having that was a base and now the new business that we are acquiring is with the higher margin. In 9M FY19, there is a change in the sales mix because of increase in the exports and that has contributed to more share of margins in the bottom line. So, what we are planning for the future and that I have explained that our major focus is on the export side and we are targeting one third share of our turnover coming from the global business. So, definitely there will be a further improvement you will see in the future.

**Nikhil Oswal:** One last question regarding the capacity utilization.

**Shekhar Dravid:** At present, the capacity utilization is between 85% to 90%.

**Nikhil Oswal:** And new capex that you would be announcing?

**Vimal Gupta:** New capex is generally a continuous process that we are having, because when we go for new business or new parts, we have to put some small amount of capex, maybe from Rs. 4 crore to 10 crore. That is a continuous process. So, in this year also you will see maybe Rs. 60 to 65 crore capex.

**Nikhil Oswal:** What is our asset turnover - maximum?

**Vimal Gupta:** I'm not talking of net basis because we are old company then net basis is on the higher side—but on the gross basis, it is in the range of 1.8 to 1.9.

**Moderator:** Thank you. Next question is from the line of Arya Sen from Jefferies. Please go ahead.

**Arya Sen:** What's the near-term demand outlook across the different auto segments in which you operate? Is there any pickup that you have started seeing in terms of the production schedule that you are getting?

**Shekhar Dravid:** We started seeing the growth in the auto sector from the second week of January. Basically because of the low festive sales for all the OEMs, the stocks at the dealers has got piled up from normal case of 35 to 40 days to around 60 to 65 days. And with the normalization of the situation in the market, the stocks have got liquidated by first week and second week of January and all the OEMs have started picking up the volumes again for Q4. So, we are seeing that there should be normalcy into the volumes for Q4 and there should not be any problem for the Q4.



- Arya Sen:** But our annual target is getting cut or is it now stable?
- Shekhar Dravid:** Our annual target what we have set those will be maintained and those will be achieved.
- Arya Sen:** Any specific problem with HMSI because their volume seems to be more impacted than others on the two-wheeler side. Is there anything outside of normal demand issues going on there?
- Shekhar Dravid:** I don't think there is lot of reduction in volumes. Seeing at the market condition in Q3 and the situation in the festive season, so the same is applicable to HMSI also. The huge stocks got built up with the dealers which is to the tune of around 60 to 65 days and they took their time to liquidate that and eventually reduced their yearly target from original from 6.65 million to now 6.16 million so around 4.5 million vehicles they have reduced it for the year. So, as such there is no such huge downfall in the volume as far as we are concerned for HMSI.
- Arya Sen:** But no plant-related issues for them?
- Shekhar Dravid:** No.
- Moderator:** The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.
- Agastya Dave:** So, you said Rs. 60 to 65 crore capex this year. Could you also guide towards how much capex would you require to reach Rs. 2,000 crore revenue number?
- Vimal Gupta:** For the next 3 to 4 years, we are targeting this number so our capex will be in the range of Rs. 250 to 300 crore.
- Agastya Dave:** Starting next year?
- Vimal Gupta:** Yes, next year.
- Agastya Dave:** On the export business that incrementally we will be getting, can you tell us what the working capital cycle will be like in terms of receivables as well as inventory days especially the transit time as well as the finished goods inventory time?
- Vimal Gupta:** For the exports generally the transit time is 30 to 40 days for US and 15 days less for Europe and we have to keep the inventory there based on the individual customer but generally it goes from 2 weeks to 4 weeks.
- Agastya Dave:** Would we be required to set up any warehousing offshore?
- Vimal Gupta:** At present, there is no plan because all the carriers who are handling the logistics can control all this.
- Agastya Dave:** Will we be selling directly to the OEMs or will we be selling to the supply chain operators?
- Vimal Gupta:** One customer is there who is working as a Tier 1 and we are doing business with him for the last 10 years, but now all the new additions are directly OEMs because a major jump in export has come from Daimler directly to US.

- Moderator:** The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.
- Pritesh Chheda:** What was the capacity utilization of your plants in 9M FY19? I think the aluminum die-casting capacity that we had was about 36,000 tonnes?
- Shekhar Dravid:** Yes.
- Pritesh Chheda:** What is capacity utilization for it?
- Shekhar Dravid:** In Q3, our capacity utilization was between 72% to 75%.
- Pritesh Chheda:** 9M FY19?
- Shekhar Dravid:** It is roughly between 75% to 80%.
- Pritesh Chheda:** How does it stack versus last year so just wanted to understand the volume growth aspect?
- Shekhar Dravid:** Basically, the growth will be in Q4, so Q4, we will be at around 90% utilization of the present capacity but to compensate for that, we already working on the productivity improvement, multi-cavity tools to be inducted so with the existing capacity we can enhance and with the additional capacity that we added, we will remain between 85% to 90% utilization of the capacity.
- Pritesh Chheda:** You said in Q3, 72 to 75%, 9M was 85% and Q4 will be 90%. I wanted to know what was your volume growth in 9MFY19?
- Shekhar Dravid:** We are monitoring, not on the volume basis, but on value and the tonnage basis and if you ask me the tonnage basis, we are working with few grams to few kgs.
- Pritesh Chheda:** What was the tonnage in 9MFY19 and tonnage in 9MFY18?
- Shekhar Dravid:** There is a growth of around 18% in tonnage.
- Pritesh Chheda:** In your comments for BS-IV to BS-VI and there will be push up in business and you commented that a lot of material, which was earlier made in cast iron would move to low-density material and one of it could be Aluminum. So just wanted to know what will be the content per vehicle rise, let's say in case of two-wheeler and in case of four-wheeler for Aluminum Castings?
- Shekhar Dravid:** In two-wheeler you will not find much; but in four-wheeler definitely there will be an increase of around 15% to 17% of Aluminum content increase to the present one. If the four-wheeler weighed today is around 1450 kg which will go to around 1,700 kg that's 257 kg increase, so all OEMs will look to reduce it to 1,450 kg. So, all this content will increase into aluminum or the low-density material.
- Pritesh Chheda:** So, then in your comment on two-wheelers someone asked you that hypothetically if the two-wheeler volumes don't grow next year, then how would you be able to grow at 20% CAGR so your response was; in two-wheeler, if there is no content per vehicle rise then that two-wheeler business cannot grow?
- Shekhar Dravid:** Two-wheeler business there is a steady growth of 8% to 9% which we are seeing it for the last two years and what we are anticipating also, because that is the market left and there will be a steady growth of 8% to 9% average.

- Pritesh Chheda:** Hypothetically in absence of that volume growth in two-wheeler, at least two-wheeler portfolio cannot grow?
- Shekhar Dravid:** That is also we are not planning as a business strategy. For global business, we are planning in 33% of our total turnover by FY21-22.
- Pritesh Chheda:** What is your capex plan for FY19 and FY20?
- Shekhar Dravid:** Around Rs. 65 to 70 crore in FY19, Rs. 100 crore is in FY20 and around Rs. 125 crore in FY21.
- Pritesh Chheda:** On the export side, is it possible to start ramping up on the business, next year itself?
- Shekhar Dravid:** Normally this decision period is of 8 to 9 months and it will get ramped up. So, lot many things are under development right now which will get ramped up in next year. So, there is a steady stage ramp up of all the components that has been planned and that has been covered in our business plan.
- Pritesh Chheda:** So, you have the visibility for at least export growth to achieve 20% revenue growth next year and year after that?
- Shekhar Dravid:** If you take today's figures; by the end of December, we are touching 27% of our growth in export with the export from India as well as my global business from my European facility, so achieving 33% is not a challenge posed at this moment.
- Pritesh Chheda:** 19% of your total business is exports?
- Shekhar Dravid:** Global business, yes.
- Moderator:** The next question is from the line of Srinivas Seshadri from Mirabilis Investment. Please go ahead.
- Srinivas Seshadri:** Just referring to the previous answer you gave on this BS-VI related changes, how it affects your business, did you mention that there will be 16% to 17% increase in the aluminum content per car because of that?
- Shekhar Dravid:** No, this will be the increase due to EV because with EV the weight of the vehicle is going to grow. This is for EV not for BS-VI.
- Srinivas Seshadri:** For BS-VI, what kind of opportunity does it present directly or indirectly for your business?
- Shekhar Dravid:** The opportunities that whatever the models which are presently in BS-IV, those will be converted into BS-VI. But for at least one year, BS-IV volumes will ramp down and BS-VI volumes will ramp up. So, as a manufacturer of the auto components, we will have the opportunity for that hike; one time hike that we will get as an opportunity to increase our business.
- Srinivas Seshadri:** How does the transition help you? Is it like BS-VI you are using more aluminum castings or is there any issue in the transition?
- Shekhar Dravid:** No. If suppose there is volume of X is available for the total industry as a two-wheeler. At a particular time 2 or 3 quarters, it will remain like that, that you will produce BS-IV components also and you will produce BS-VI components also

because BS-IV components are going to be wiped out, so you have to produce those components and BS-VI components we have to fill in the pipeline from the manufacturer-end to the dealers-end so that will give an additional business for first 3 or 4 quarters which will give us an advantage for the two-wheeler business.

**Srinivas Seshadri:** To understand it correctly the BS-IV you will see some kind of a pre-buy? Is that what you are referring to from customers?

**Shekhar Dravid:** Absolutely.

**Srinivas Seshadri:** It's not that you are manufacturing some extra spare parts or something like that?

**Shekhar Dravid:** This is basically we see that BS-VI definitely going to come with the additional value and it will not be at the same cost of BS-IV and people will try to buy more BS- IV vehicles before 31<sup>st</sup> of March 2020.

**Srinivas Seshadri:** What content per value you realize on two-wheeler and four-wheeler on an average and CV also and how that can change under BS-VI condition, if there is change at all?

**Shekhar Dravid:** It will be very difficult to answer because with all the aluminum parts required in the car or CV or in a two-wheeler, we are not supplying all the parts; we are supplying few parts of it. So, it's really difficult to give that bifurcation but if it is necessary for your analysis, we can work it and we will be able to give that figure to you.

**Srinivas Seshadri:** Qualitatively BS-VI, what kind of opportunity does that present in terms of some extra value addition in the vehicle?

**Shekhar Dravid:** Basically going to BS-VI, all the stringent norms will be followed on the components which we are going to use. so the tolerance band will be reduced, tolerance band will become narrower so the manufacturing processes will require a better control over it and the companies who have the got that better control, digitalization, IR, VR, the IoT, the new technologies inducted into its people will not able to make those components to the specification of what OEMs require and that will definitely call for an additional cost, which will increase the VA percentage or the value added for the suppliers like us with the OEMs.

**Srinivas Seshadri:** Just one question on the leverage position of the company, in September 2018, roughly debt to equity reported was about 1:1. As you kind of ramp up your capital expenditure and also the working capital cycle will also grow along with the size of the business. What kind of peak debt to equity you are comfortable with? How do you trade off the growth potential with the financial constraints or discipline that you need to?

**Vimal Gupta:** Our main target is to maintain or to go below this target but target is 1:1 it should not go beyond that

**Srinivas Seshadri:** You are saying roughly now debt should grow in line with the equity?

**Vimal Gupta:** Yes.

**Srinivas Seshadri:** What is your dividend policy?

**Vimal Gupta:** Dividend policy is, if you have seen that we had 24% to 25% distribution in the last year so maybe some small variation will be there but I think we will try to maintain that.

- Moderator:** The next question is from the line of Vijay Gour from First Global. Please go ahead.
- Vijay Gour:** What is the consolidated export number?
- Shekhar Dravid:** For 9M FY19, Rs. 90 crore from India so approximately it comes to 11% or 12% and balance is from Europe - Rs. 76 crore.
- Vijay Gour:** As we see the global automobile industry, which is growing around 5% to 8% and we are reflecting a very strong growth because we have very marquee clients so on this rate, you will be able to achieve such a high rate?
- Vimal Gupta:** We stand almost at zero level. We should be at par then we can say we have to grow as per the industry norm. We are starting from zero and we are targeting something so this will be new business for us. At this moment, comparison doesn't prevail.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over the management for their closing comments.
- Shekhar Dravid:** Thank you very much for joining the call and getting the update from our management team. I hope we have able to answer all your questions satisfactorily. Should you need any further clarification or you would like to know more about the company please feel free to contact our team or CDR team. Thank you once again for taking the time to join us in this call.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Alicon Castalloy we conclude today's conference. Thank you all for joining. You may disconnect your lines now.

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*Disclaimer - The following transcript has been edited for language and grammar and may not be a verbatim representation of the call.*