alicon Casting the Future

February 24, 2022

To
The Manager
The Department of Corporate Services
BSE Limited
Floor 25, P. J. Towers,
Dalai Street, Mumbai — 400 001

Scrip Code: 531147

To
The Manager
The Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai — 400 051

Scrip Symbol: ALICON

Dear Sir/ Madam,

Sub: Transcript of Investor Conference Call

We are enclosing herewith the transcript of conference call with analysts, which took place on February 16, 2022. The said transcript is also uploaded on website of the Company.

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

Thanking you,
Yours faithfully,
For **Alicon Castalloy Ltd**

Swapnal Patane
Company Secretary

Alicon Castalloy Limited

Q3-FY22 Earnings Conference Call Transcript
February 16, 2022

Moderator: Ladies and Gentlemen, Good day and Welcome to the Q3 FY22 Earnings Conference Call of Alicon Castalloy Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mayank Vaswani from CDR India. Thank you and over to you, Sir.

Mayank Vaswani: Thank you, Margaret. Good day, everyone and thank you for joining us on Alicon Castalloy Limited Q3 FY22 earnings conference call. We have with us on the call today Mr. Rajeev Sikand – Group CEO; Mr. Vimal Gupta – Group CFO; Mr. Shekhar Dravid – Chief Operating Officer of Alicon Castalloy Limited; Mr. Andreas Heim, Managing Director of Illichmann Castalloy; and Rajiv Gupta, Head of Domestic Business of Alicon Castalloy Limited.

Mr. Vimal Gupta will cover the financial performance for the quarter, following which

Mr. Dravid will walk us through the operating highlights. In order to share a more granular view of the initiatives towards both the global and domestic markets, we also have Mr. Andreas Haim and Mr. Rajiv Gupta to provide insights on these areas. Following which our Group CEO Mr. Rajeev Sikand will give us a brief summary of the quarter gone by. Thereafter, we shall open the forum for a Q&A session.

Before we begin, I would like to point out some of the statements made in today's call, maybe forward looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with all of you earlier.

I would now like to hand over the floor to Mr. Vimal Gupta for his opening remarks. Over to you, sir.

Vimal Gupta: Good morning to all our investors. I hope that all of you and your near and dear ones are safe and well. Thank you for taking the time out to join our earnings call. We have reported a steady performance in Q3FY22 and delivered continued improvement each quarter through the year-to-date period this fiscal. This quarter witnesses several macro challenges coming together and intensifying. Alicon faced and combated four such key challenges, which we have termed as 4 '**C**'s. The first '**C'** is **C**orona being the impact on our operations on account of the third wave of the COVID-19 pandemic, which impacted overseas operations from mid-September and resulted in muted demand in domestic markets, especially in the later half of December.

The second '**C**' is Semi-**C**onductor as the chip shortages and supply chain constraints, which persisted during the period impacting volumes for the Automotive industry across the globe, especially in high end vehicles, and high value addition parts. This in turn, moderated our sales performance during the quarter.

The third 'C' was a **C**ost based inflation, wherein we saw higher input material costs on account of the inflationary trends and even increased freight and logistic costs, led by supply chain issues. And the fourth '**C**' was the **Cost** of new product development. However, with rapid change underway due to EV evolution and light weighting, which has come with only a short gap from the switch from BS4 to BS6, the product life cycles are shortened.

Overall the quarter was marked by these four key challenges and despite this non-linearity, we delivered steady top line in the quarter with consolidated revenues from operations at Rs. 278.9 crore, higher by 4.2% over the immediately preceding quarter.

Four Cs impacted profitability too, especially the continuous increase in commodity prices, along with inflated freight costs and costs towards new product development, which resulted in higher expenses during the quarter. However, our sustained cost reduction initiatives using Kaizen principle enabled cost reduction at micro level across our operations. This was supported by slightly enriched product mix as we were able to increase the volume of higher margin products.

Like we had indicated last quarter, we have been working collaboratively with our customers to undertake price corrections and have successfully passed on some part of increased costs. The combination of these above factors have helped us to support margin performance This has been building results with our margins coming in stable at 12.1% in Q3FY22. Another aspect to keep in mind is that the alloy prices are passed through for us but higher prices elevate the denominator. So even when absolute EBITDA remains intact, EBITDA margins will naturally reduce due to higher denominator.

In Q3FY22, the impact of higher denominator has led to EBITDA margin reducing by over a percent and had alloy prices been stable, we would have reported an EBITDA margin in excess of 13% this quarter.

While the margins were lower by 40 BPS year-on-year, on a quarter-on-quarter basis they are higher by 268 bps, compared to quarter three last year. So overall, the impact of our margins has been largely contained despite the combination of challenges we faced this quarter.

Another highlight to note here is that all our operating costs are directly controlled and optimized across our business model. Even when the operating environment normalizes, we do not anticipate significant increase in the cost model going forward.

Overall, the gross margin stood at 50.1% in Q3 FY 22. Our EBITDA stood at Rs. 33.8 crore. Profit after tax during the quarter stood at Rs. 12.1 crore, with our continuous focus, as cost pressure stabilizes we expect our EBITDA margins to return to pre-COVID a level of 14% to 15%.

On the operational front, in Q3FY22, our factories in India and Europe did not face any mandated lockdown, despite the disruptions due to third wave. We continue to do our best to ensure we create and maintain a strict workplace for our people. Despite the cost pressures and supply chain disruption, we are focused on ongoing improvements. We witnessed a sharp increase in alloy prices, which had a resultant impact on cost of inventory and on debtors. However, we were able to drive greater efficiencies, which had enabled us to actually improve the working capital days despite these pressures. We expect this to stabilize going forward.

During the quarter, we have reported steady cash flow from operation. The conclusion of equity raised through QIP and preferential issue as further help enhance our liquidity and balance sheet of position. On the balance sheet front our net debt has been maintained around Rs. 200 crore to Rs. 250 crore and the net debt to equity ratio remains comfortable at 0.55x.

As you would recollect, last quarter we had discussed that we have deferred our CapEx for FY'22 to due to the uncertain macro environment led by COVID-19 disruption. So, we had Rs. 90 Crore at the start of the FY'22, but we mostly would be closing this fiscal year around Rs. 55 crore to Rs. 60 crore. More importantly, this CapEx has been utilized towards upgrading capabilities and elevating end of process capabilities, such as finishing and machining. Thus, we have leveraged our unutilized capacity at the backend and deployed capital towards value addition in the front end of the process enabling us to deliver greater value creation for customers enabling margin addition.

The balance of Rs. 30 crore to Rs. 35 crore which is deferred CapEx for the FY '22 along with fresh capex to the tune of Rs. 60 crore, will be invested towards growth in FY23. Resulting in cumulative CapEx of Rs. 90 crore next year. We anticipate a normalized operating environment in FY '23 and expect faster recovery.

To summarize, we have reported resilient performance during the quarter despite the disruptions in the automobile industry. We continue to operate a healthy financial profile and strong balance sheet. In a normalized environment we look forward to building on this further.

On that note, I would like now to hand over to Mr. Shekhar Dravid, who will talk about operating highlights for the quarter.

Shekhar Dravid: Thank you, Vimal. Greetings to all. I trust all of you are well and staying safe. The trends in the domestic auto industry continued to be a mixed bag. While we saw strong demand and higher consumptions in the market led by festive and holiday season. Inflationary trends in the global markets and a touch of a third wave during the latter part of December, impacted sales performance for the industry as a whole. The Auto and Auto ancillary space continued to witness bottlenecks in the raw material supply chain. As a result, during the quarter, the industry has experienced an extremely challenging and volatile input pricing environment. In some cases, we have seen aluminium and related alloy breach new highs. The new wave of a pandemic in certain Asian countries has resulted in aluminum prices reaching a fresh 14 year high. In addition, logistical problems and inflation in shipping and freight costs, further downplayed the momentum in sales.

Across the domestic industry, CV volumes saw improvements during the period supported by the healthy demand for both passenger and cargo segments. Two-Wheeler volumes, however, saw a notable impact due to lower consumer sentiment affected by the third way of the pandemic. Similarly, the PV industry sales continued to be impacted by the supply chain constraints and the semi-conductor shortages.

Besides weak rural sentiments, delayed harvest season, floods in the southern states as well as higher fuel costs restricted the pace of recovery in the quarter. On the international front, most of our key export geographies in U.S. and Europe reported strong Auto sales, led by festival holiday demand and stable currency. So, against this backdrop, we have reported a stable performance during the quarter.

The four C framework that was discussed by Vimal impacted our overall growth in the quarter. This is one of the rare times wherein we have seen all these operating challenges acting together in the industry. However, it is noteworthy how over team has been able to navigate through these difficult situations well, and we have been able to seamlessly manage supplies to all our customers on time.

In the quarter we have added 30 parts from 9 customers. Let me talk about the highlights of our performance across each of our five key strategic growth pillars.

The first being our auto business:

This industry in the past two years has been adversely impacted due to COVID. Mobility restrictions across geographies, supply chain issues and raw material inflation. However, as environment is normalizing, we are seeing the mobility sector on a whole bouncing back with a staggered recovery in sales. The consumption across vehicle segments, be it passenger vehicle, commercial vehicle or even the two wheelers segment is on the increasing trend. So, what we're seeing is that while supply chain issues moderated production across the industry, the end consumer demand has been on the uptrend. There are tell-tale, signs that suggest semi-conductor supply shortages could begin to ease in the latter half of 2022, albeit in a phased manner. This will further boost sales in the industry. Another data point here is that if you were to look at the penetration levels of the cars across the globe, India is one of the lowest with around 225 registered vehicles for every 1000 people. Encouragingly, there has been a constant increase in this number in the past decade and as micro environmental recovers, the car consumption and the penetration level will keep growing.

The pandemic for instance has accelerated the consumption for consumers preferring personal transportation modes. We have been seeing sharp rise in first time auto buyer across urban, semi urban and rural markets, with improving traction in vehicle registrations. So overall, the outlook for this segment remains solid and this in turn bodes well for Alicon.

The global industry witnessed a downfall of 13% in last quarter over last year Q3, Alicon witnessed a growth of 22%. New order wins SOP helped to performed predominantly better than the market. In ICE segment, we are seeing strong inquiry levels across domestic and export markets. We also are also seeing repeat orders coming in from customers such as Eaton, Garrett and Maruti Suzuki. I'm happy to share that in the quarter, we have won orders for 7 new parts from these customers.

Coming now to the second of our growth pillars, which is the electric vehicle division.

The division continues to register exponential growth, not just in India, but also on the global level. According to the reports by the International Agency, roughly 1,30,000 EVs were sold every week in 2021. As against 1,30,000 EVs sold worldwide in the year 2012, suggesting an explosive growth. In the year 2021, while we saw the auto industry reporting moderate growth across traditional and hybrid segments, EV sales marked a healthy growth. Closer home, the total registered electric vehicle sales in India more than doubled in 2021 as compared to 2020, and crossed the 3 lakh mark in 2021, the highest ever annual volumes.

December in fact, was the first time when electric vehicle registration crossed the mark of 50,000 in a month. 90% of the sales in India were in two wheeler and three wheeler segment. The market has seen strong collaborations of exciting EV models by established and new players. This along with increased preference for personal mobility, reducing price parity between EVs and ICE vehicles and growing awareness about the global warming continues to fuel growth in the EV sector in India.

In the union budget as well the government has announced support you policy for electric vehicle. The announcement of a new batteries swapping policy will improve the country's EV infrastructure and create an impetus on faster adaptation of environment friendly public transportation and three wheelers. Auto manufacturers will also be encouraged to develop sustainable processes for batteries which will help in increasing the EV ecosystem efficiency. For this segment we are working with OEMs as well as the Tire 1 suppliers. We have been working extensively with Dana Corporation, Scania, Tata Autocomp, Arrival, Eaton on both domestic and international orders.

During this quarter we won -- we have won orders from existing customers, such as Tata Autocomp, and Scania. We have also added a new logo win in this quarter. We are received an order win from a customer called Arrival for 17 new parts. We are the first Indian supplier to be empaneled with Arrival which manufactures electric buses and vans and belongs to a niche segment. They currently have the plants in UK and USA and are coming up with a plant in Spain and India.

In addition to the 17 parts already booked. We are in closed discussions for other opportunities related to our frugal engineering and thermal solutions. We introduced light weighting solutions, high pressure die casting to low pressure die casting conversion by giving customer advantage of lower CapEx, thermal solutions for the components like battery housings and motor housing and other such technological advancements.

One such area where we are seeing strong response from customers is the light-weighting of products in the auto and EV space. We are getting increased inquiries from the OEMs both in domestic and export markets, and the development of various product categories such as motor housing, battery housing and controller housings.

In December 2021, for the first time ever, Tata motor was the second highest seller of vehicles in the passenger vehicle segment. JLR, a Tata Group company, has already announced 100% EV by 2025.

We are already supplying EV parts from our European subsidiary to them and now we are in active discussions for the opportunities from India. Another exciting development for us has been the breakthrough order wins with Tata Motors. We have been observing the progress being made by Tata Motors, which has emerged as a leader in electric four-wheeler as well as passenger vehicle category in India and we're very keen to be empaneled as a supplier given the prospects for the strong volumes. We are delighted to share that we have been empaneled for two critical and complex motor housing with them in the last quarter with good volumes. With the industry on the cusp of next phase of growth, Alicon is one of the frontrunners in the EV space to capitalize on these growth prospects.

We have already built up a portfolio of over 101 parts, catering to EV and other revenues from EV business stands at 9% in Q3 FY'22. Our target is to bring the wallet share of EV business to 36% of overall revenues by FY2025- '26. Clearly, we are progressing well with our strategy as 57% of our new orders during the quarter were from EV segment.

Now on to our third growth pillar, being a technology agnostic platform. This segment is where we are directing a focus bringing value addition to all our product categories. Alicon's philosophy has always been towards manufacturing innovative and differentiated products. Having a European hub at an early stage of our growth journey gave us a first mover advantage in the domestic markets. During the quarter, we have received orders from KTM.

Coming to our fourth growth pillar which is a Non-Auto business. In this we are witnessing healthy growth in demand, especially from the different sectors. During the quarter we are received an order win from existing customers like JCB and a new win from Textron, USA.

In the non-auto business, we have been seeking to add critical and complex parts in this segment with sustainable volumes with the empanelment with the Textron, USA. For fully machined cylinder head supplied to the U.S. market, we will be able to showcase our capability of manufacturing such parts to other OEMs which will open up more opportunities going ahead.

Our previously announced orders are progressing as per the schedule, and we expect strong order being in the quarters ahead. As discussed last quarter, we have submitted a tender of 4,000 wheels for defense and we are expecting the finalization of the same shortly. We are penetrating with the existing customers like Siemens, GE and IR in this segment.

The fifth growth pillar is our focus on improving customer wallet share and the customer stickiness. With several parts moving towards SOP, we are well placed to enhance contribution from repeat customers and demonstrate customer stickiness and belief in our brand. Our long-term approach is towards building wallet share and positioning ourselves as a trusted supplier for an existing customer base.

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

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

We have delivered a steady performance in Illichman during the quarter on the back of improving demand environment in our key global markets of US, Europe and China. However, the chip shortage issue across the globe resulted in a significant impact on international vehicle sales in the third quarter. For the quarter, exports including overseas revenues contributed to 22% of the total revenue and for 9MFY22 its 24% I am happy to share our exports, including sales from Illichman subsidiary stood strong during the quarter and was higher even on a sequential basis.

We are also seeing increased costs on account of inflationary trends in aluminum and other alloys. In addition, greater freight costs have further resulted in higher expenses during the period. While this impacted margins during the quarter, we have been passing over the price hike, which has resulted in steady profitability on an absolute basis.

Overall, we have delivered an encouraging performance during Q3 & 9M FY22. While there are ongoing concerns about the pandemic in some of the key global markets, we expect minimal and short-term impact. Overall, we remain very excited about our future growth prospects and opportunities in the medium to longer term across markets of Europe, US, Middle East, and Brazil.

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

Rajiv Gupta: Thank you, Andreas. Good day everyone.

We have seen mixed trends in the domestic auto segment during the quarter. While the demand has been upheld issues on account of persistent raw material pressures and shortages have significantly impacted production levels for automotive players in the domestic industry. Lower production levels due to chip shortages have resulted in unusual waiting period ranging from six to nine months. We're also seeing a dip in inventory levels across dealerships. Passenger car sales are seeing a continuous decline on account of chips shortage. Even entry level segment is facing challenges due to increasing fuel prices and weak rural sentiments. The sentiment was further weakened by Omicron related concerns in December and January. However, we are seeing steady recovery from mid-

January onwards as concerns around the third wave have eased. Also, the chip shortage situation is easing out slowly and gradually, which we believe will elevate sentiments in the industry.

Now coming to the performance given the macro-economic backdrop. Alicon was able to report steady sales in Q3 FY22. We have booked an average yearly sale of around Rs. 40 crore with projected sale of around Rs. 155 crore over a period of five years in quarter three. In nine months, cumulative this year we have added 60 parts of which 32 were in the EV segment with average yearly sale around Rs. 30 crore with a project sale of around Rs. 130 Crore over a period of five years. Our total order booking now stands at around Rs. 3,250 Crore over a period of five years, with a yearly average sale of around Rs. 650 crore till now.

Overall, we are witnessing a good level of enquiries and bookings in the market and are hopeful that improving macros will further support this momentum.

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

Rajeev Sikand: Thank you. I welcome all our investors. Thank you for joining the call. I hope you and your family members are well and safe. I would like to add that the way Alicon team has overcome the challenges thrown at us in the last two years gives me every reason to be optimistic that we will negotiate further challenges that will be thrown at us, in the ever changing and dynamic scenario, the automotive sector is facing. My confidence in the long-term potential for Alicon and the opportunities across the Auto, Non-Auto and E-mobility space remains unshaken. While we are seeing headwinds in light of persistent raw material challenges, the chip shortages across the globe, there are signs of the situation easing out with the resumption of chip manufacturing across Asia. But my view is it will take another two quarters for it to really stabilize.

We are hopeful that with the parts of the world moving away from lockdowns to learning to live with the virus, we should see the pre-pandemic sense of normalcy return soon across domestic and global markets. Educational institutions, corporate and private offices are now slowly opening throughout India. This along with the augmented consumer sentiments, improvement in finance availability and gradual pickup in economic activities will translate to a higher demand, especially towards personal mobility. In addition, better macros will further support in commercial vehicles in the longer term.

As discussed by my colleagues, in the nine-month period, we have announced significant order wins with multiple OEMs. Our current order book stands at Rs. 3,250 crore and this provides us with strong growth visibility for years to come. Our business fundamentals are strong, and we are proactively engaging with the existing and new customer groups to accelerate this growth further.

We are focusing towards improving our product portfolio and have added a range of high potential, SKUs across Auto, Non-Auto and EV segments to bring in differentiation and value addition in our model. Sustainability is one of the cornerstones of our business framework and we are pursuing many initiatives by way of business processes, manufacturing capabilities and product development.

Looking ahead we believe that demand conditions in the market will continue to improve, and we are optimistic on the medium-term outlook of the Auto industry. Also, Alicon diverse product suite will enable us to capitalize on demand reversal.

The recently announced Union budget also announced growth boosting reforms which will further create and maintain demand in the market. The battery swapping policies scrappage policy, PLI link scheme, fame scheme and improve CapEx towards road infrastructure augurs well for the sector and will help those consumption. On the whole, we look forward to a promising future.

On this note, we would be happy to take your question now. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Saurabh Jain from Sushil Finance. Please go ahead.

Saurabh Jain: Good afternoon, everyone. So first of all, congratulations on yet another wonderful set of numbers. And thank you for the opportunity. I have a few questions, my first one in your opening remarks you mentioned about new logos added and some ordered wins from Arrival, probably for 17 new products you mentioned and some products for Textron as well. So would be helpful if we could quantify the orders and execution timeline. Some highlight on that and also the orders on hand for Rs. 3,650 crore plus. So, what would be the execution timeline for the same?

Rajiv Gupta: Yes, we have mentioned we have added two new logos in last quarter, one was with Arrival in the EV space, we have added 17 parts and these are very critical structure parts. And the good thing with Arrival is the concept with setting up plants across regions. So as currently this opportunity is for the UK market, but there are chances of multiplying this opportunity once they come up with future plans in Spain and India. So, if you talk about order opportunity, this order the yearly average sale is around Rs. 10 crore for these 17 parts and on a project basis this will be around Rs. 40 crore in total. So, this was a great achievement because Alicon was a first supplier from India, who is awarded with Arrival.

Second is Textron, yes we were eyeing this particular segment, because this belongs to a niche segment. Also, these are very critical paths with give us a chance to showcase to our existing OEMs also. So, this order is for the US market for a very critical complex cylinder head and this also we bagged in last quarter.

Also we added his Tata Autocomp with motor housing, we were eyeing this segment, as mentioned in the last quarter, because we noticed Tata Motors in the domestic market were picking up quite well. And with that, we've added two critical parts. So with that scenario in last quarter, we've added the confirm yearly average sale of roughly around Rs. 40 crore with our total project value of around Rs. 150 Crore over a span of five years.

With this, my order booking now have touched to on a yearly average of Rs. 650 plus crore and total to Rs. 3,250 crore. The good thing over here is we are focusing on EV, and in last quarter also, the order booking 57% comes from the EV segment. So that was a good sign what we have noted. And if we talk about nine months, the EV contribution is 33%. So we are moving ahead with what we have strategized.

Saurabh Jain: Okay, so one follow-up on that out of this Rs. 3,250 crore of order book, how much would be from EV overall?

Rajiv Gupta: 17% is from the EV have total, the INR 3,250 crore, what we are talking at this moment is 17%.

Saurabh Jain: And this is also executable over five years, right?

Rajiv Gupta: Yes.

Saurabh Jain: Okay, so, coming to my next question, it's amazing to see gross margins being maintained, especially during these tough times, which is currently prevailing across the industry and this showcases our strength, despite lower margins on the standalone, we did substantial improvement in our European subsidiary, we have managed to maintain our overall profitability on YoY basis. So, the subsidiary continues to do exceptionally well with the almost I guess 21% EBITDA margins. So, how is the trend looking going forward? I'm talking about a European subsidiary.

Vimal Gupta: So Saurabh for the European subsidiary the major margins are coming up from the EV segment, because the Autos are increasing the volumes there and we have negotiated because this is the development stage in the EV segment. So, these margins now, this is a pattern when the volumes will grow. So, hopefully, we will be able to maintain, because we can see that in Q4FY22 also that we will be able to even perform much better if we compare with Q3FY22. That are our expectation for this and hopefully we will be able to maintain the same momentum in the coming year.

Saurabh Jain: Okay. Sir, one follow-up on that. This quarter we did turnover of around Rs. 28 crore in the European subsidiary, how is the scalability here of the top-line.

Vimal Gupta: So, for this approximately this year, we will be able to do Rs. 120 crore to Rs. 125 crore, but as for our strategy, we have not planned to scale it up to a large level. The reason being it is our development center, we want to use that location to deliver our critical parts and also as knowledge center. Because whatever the developments we are doing in India, so those are being supported by the European team, because you know that the cost of production in Europe is so high, maybe you are seeing these volumes, the margins are high in Europe maybe on that basis you are feeling that the we should grow more there, but at the end when the volumes goes up, so they also look for some alternate sources from low cost countries. So, our concept is that we will maintain maybe Rs. 120 crore to maybe maximum go to Rs. 200 crore in the coming three four years. But the idea is to win the orders, bring the volume to India. So that is strategy we are working on.

Saurabh Jain: Okay. Got it. And sir my last question, what was the contribution from new orders during the quarter and if I believe in previous con calls, you had mentioned that new orders for the FY '23 contribution would be around in the range of Rs. 350 Odd crore. So, are we on track or the headwinds which global auto industry has been facing for some time, we'll deviate our goal?

Rajiv Gupta: For this with the new orders, we are noticing we will be booking around Rs. 260 crore to Rs. 280 crore for this year.

Saurabh Jain: For the coming fiscal?

Rajiv Gupta: For the coming fiscal this would be at a range of Rs. 450 crore to Rs. 500 crore.

Saurabh Jain: Okay. So, you're expecting a very big growth in the overall top line for next fiscal, right. Or there would be some major phase out from this current year?

Rajiv Gupta: Yes. Talking about the current business we are noticing the ICE segment particularly the two wheelers might get a hit with the acceptance of customers to the EV. So, we are noticing that. And also, with other factors like increasing fuel prices and cost of production. So, with that, we are expecting the current sales with existing number of customers and parts might come down, but the good thing is we have added these parts and this will help me to cushion up and further increases going forward.

Saurabh Jain: Would you be able to quantify a bit? The phasing out products or the contribution?

Vimal Gupta: That we will come back, but the phasing out will be less, only that because due to the challenging market so we are not anticipating that there will be growth in the running business. So that is a factor that we are now factoring in our plans.

Saurabh Jain: Got it. One last question if I may squeeze in, just a short one, how is the revival seeing in two wheelers, do we get some fillers from the OEMs.

Shekhar Dravid: At this moment, we don't see any of the enthusiasm from these OEMs and we are keeping close watch and connect with our existing OEMs to get a feel on this. So that is the situation at this moment because of the dynamics of the market.

Moderator: Thank you. The next question is from the line of Raghunandhan NL from Emkay Global. Please go ahead.

Raghunandhan NL: Congratulations Sir, for good results under challenging circumstances. And many thanks for the detailed opening remarks. So, my first question was being early mover companies gaining market share in the EV space across segments, would you be targeting higher market share and EVs compared to that of ICEs? And can you talk a bit about company's strengths or competitive advantage, which will support you in getting the market share on the EV space both in domestic and export markets?

Rajeev Sikand: Our playbook here is very simple. We are developing thermal technology. And this is very, very unique. And this has been done because of our European plan, this was developed from 2016. And we've been supplying to Bosch, we supply to all the OEMs then to JLR to Samsung. So, this technology is our playbook. And so, we have divided our parts thermal and other. So, our focus is thermal, and yes, at the same time we have to focus on other parts in the EV segment. So, this is where we are coming in. I hope that answers your question.

Raghunandhan NL: Thank you Rajeev Sir. So, basically just extending on the same question. In terms of competition, would you say that this work which you have done on the thermal side has put you ahead of the competition, and that will continue to remain a competitive edge for us?

Rajeev Sikand: See when you come as a first mover and because of our advantage, because of Illichmann, where we invested, and we took this up in 2016. So, this will remain for our time being, I don't see this competition going, but sooner or later people do copy, do acquire. So, but it is going to give us one or two years of headwind or free space to take this on, because it's not so easy, you may even get that technology, but how to manufacture, how to handle on the shop floor. So, we have paid that price in building up in Illichmann and that kind of thought process is now available with us.

Raghunandhan NL: Thank you Rajeev Sir, that is very helpful. My second question was on the order book side. So, you know, like management did make a statement Rs. 260 crore to Rs. 280 Crore order for FY '22 and Rs. 450 crore to Rs. 500 crore order in FY '23. The clarification I wanted is, is it the amount of new order executions or is it the new order bookings which was referred?

Rajiv Gupta: These are executions, this will be the realization from these accounts what we have booked in the past.

Raghunandhan NL: Thank you so, much and another clarification was on TACO the order book which we have, is that lifetime order book of Rs. 150 crore or that yearly order of Rs. 40 crore. This is the overall notebook with TACO or is it a new order win?

Rajeev Sikand: This is actually a new order win and what is happening with TACO we are doing two things. One is we are supplying the global facilities which they have acquired. And secondly, you know Tata Motors have gone in with a concept where other OEMs are doing born EV Tata Motors have adjusted their EV. So, like they have taken Nexon and other current car which is an ICE and made an EV. So, they're gone head on in this. So, what we have proposed there, when importing these parts from China, these critical parts and assembling them. So, we are going to come in in their phase 1 of localization to develop this very strategic thermal solutions for them. And we have bagged those two orders as of now, in the two very critical models.

Raghunandhan NL: Understood, thank you. Thank you for that. Next, I had a question in terms of the underlying domestic industry is there any improvement which you are seeing in the production schedules for the underlying two-wheeler segment for February or March, now that the COVID wave intensity is waning.

Rajeev Sikand: As my colleagues have said, we are seeing this demand is muted. And you are much aware that how much OEMs have put up the capacity and what are the numbers. So, the reading is it's both – it's a couple of issues which they're facing and as my colleagues have already highlighted, both on the demand side and the supply side and the consumer is facing in the entry level motorcycles, their own value in terms of purchasing power. And then there is also -- let us not run away that there is a demand disruption to extend with all this COVID on and off. A lot of service industry has got impacted, small restaurants, small businesses like that. So there is an impact which we are seeing.

Raghunandhan NL: Understood Sir. Thank you. To Vimal Sir, Sir on the input cost inflation pass through. You know now that the focus is on the monthly adjustments given the further pass throughs that are happening look Q4 to better gross margin compared to the Q3 levels?

Vimal Gupta: Yes, definitely because in the last quarter, when I explained that there was the impact of the cost inflation on the margins and we have started negotiations with the OEM. And we have seen the impact in the quarter three and that still not settled with all OEMs and that is also in process. So, definitely we are seeing further improvement in the margins in Q4.

Raghunandhan NL: And sir like on Europe operations, can you help us understand the key factors helping profitability, the management highlighted that now that the EV businesses are ramping up and initial phase the margins are on the higher side? Would that be the main reason, or would there be any tooling revenue, which is also helping the budget?

Rajeev Sikand: It is all composite is not only one is tooling revenues, operations getting streamlined on those parts. If you make the same part every day, all the other costs, which were there in terms of building those parts, plus, of course, the margin. So, our team in Europe has done very good. We have a general manager from India, one of our best guys is running their Mr. Satyapal. So we are very happy to see the progress our European team has done.

Raghunandhan NL: Thank you Rajeev. Sir. Sir, my last question on the site of your technology partner. So, just wanted to understand from you how the support is continuing, given the COVID times and travel is restricted. I mean, how is to support continuing on new product development, plant upgradation, or they helping in terms, I mean Enkei Corporation helping in terms of getting new orders?

Rajeev Sikand: Good question. Sorry, we have also missed out that Enkei is our teacher. And just to give you, you know, before I answer that question, I give you answer is, we have a new project with Toyota. And with the COVID times these people are not able to come from Japan. But every day they are able to visit the shop floor virtually they're able to discuss this development. So, every day, there's a call at 2:30 in our Indian teams Toyota India, Toyota Thailand, Toyota Japan is joining. And there is a value addition for both sides. Discussions, same thing is happening with Enkei. That meeting is fixed. One is on a need based, which is typical, and one is on a quarterly basis. So, both the things continue, and Mr. Suzuki is very, very active personally, in getting his updates. Every quarter, we have two meetings with them. So, which is even more than what we were having when he was coming physically. Of course, we were having a virtual meeting. But so, you know, this is a way I think the world has evolved, not only Alicon, every other supplier has also evolved in the same way.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors, please go ahead.

Dixit Doshi: My question is, you know, you mentioned about the EBITDA margin this quarter, it was around 12%. And as a percentage of sales, it will look lesser because of the increase in the alloy prices. Since the denominator has increased. At the same time, you also mentioned that margins will be 14% to 15% very soon. So, even at these high alloy prices, you're expecting margins can come back to 14% - 15%.

Vimal Gupta: Yes.

Moderator: Thank you. The next question is from the line of Karthi Keyan from Suyash Advisors. Please go ahead.

Karthi Keyan: Yes. Good morning to everyone. I had a couple of questions. One is the order book that you spoke about the Rs. 3,250 crore of new orders, this is not adjusted for inflation, I assume is that correct?

Rajeev Sikand: Yes.

Karthi Keyan: Right. So as in when your actuals come through that is when the adjustments will be done.

Rajeev Sikand: Yes.

Karthi Keyan: The second part is that of the order backlog, you said an incremental Rs. 200 crore roughly would be executed next year over the current year's base, is that correct? I am just making sure that I understood it correctly?

Rajiv Gupta: Right. Yes.

Karthi Keyan: Right. And the third thing is what would be the current two-wheeler contribution to your revenues? Because you give a fairly, or shall I say, not a very optimistic commentary on the two-wheeler segment. So, can I know, the current contribution of two wheelers to 9MFY22 revenue basis?

Rajiv Gupta: It's 50% Currently.

Karthi Keyan: Currently 50%. Last question will be this you spoke about Illichmann revenues being limited to a certain level and a lot of the production being transferred to India. So, in that context, I'm asking you this question. So, when a customer places an order does he identifies the location or does he identify the entity how exactly does that work? So, can you split the order backlog between Illichmann ordered separately and you know, parent entity separately.

Rajeev Sikand: So, basically, what Vimal was trying to explain is that Illichmann is our European entity having European cost center and certain parts cannot be delivered from India, keeping you know, sometimes when you start in the EV they're low volumes or there are special requirements. So, Illichmann plays that role of easing some business out and acquiring these new parts into his portfolio which is a playbook. But basically, second point is, it’s our technology center to bring all these new two segments, EV and the structural agnostic parts, or technology agnostic parts. Knowledge, their capability to us in India. So that is the role Illichmann plays. And it is not that there is some part which is shifted from there. We offer those parts only from India, that is why the customer comes to us.

Moderator: Thank you. The next question is from the line of Aveek Mitra from Aveksat Financial Advisory, please go ahead.

Aveek Mitra: Hi, thanks for taking the question. I more than a question. I think I need your view on the long-term staff of the company. So the first question is basically you have at present 70% domestic revenue, and I think mostly it is coming from your legacy business. And as you have already said, that legacy business part -- mainly the two wheeler part will have some kind of a headwind ahead. So how would you plan to execute your long-term projection of reaching Rs. 2,000 crore revenue by the next three, four years? So if you can give me a view, I think I'll appreciate that more, rather than questions.

Rajeev Sikand: This we will divide into two parts. Over the last three years, we have been reducing our two-wheeler share of business. So, it's more than a three or four years strategy. We've been using this our share. Secondly, what we are going is, we are going for higher machining. So whereas there is a more value add which we are providing. And of course, two wheeler is by volume, it does not mean it is by the value additional also. So just to give you context on the whole thing, and now I let Rajiv answer you on the numbers.

Rajiv Gupta: Over here, as Mr. Sikand has explained we are focusing on increasing the share of business. Also we are trying to penetrate to the existing accounts where we were not there, like earlier we are supplying a cylinder head, now we have added a pipe or we have added a headlamp where we were not there which will increase my content per vehicle. And also, we are now focusing to add new logos where we are not there. So, with this mix definitely we are going to increase our sales in this particular segment.

Aveek Mitra: Okay, but on EBITDA margin actually is almost the same or plus minus a few percentage points over a quite some time now, if I look into the trend, so, if you can give a comment on what is your roadmap on this basically going ahead?

Vimal Gupta: First is that when you see the EBITDA margins, so, there is a structural change in the business that is explained by Mr. Sikand and the Rajiv Gupta, that reducing our exposure in the two-wheeler market, but moving towards the other segments, either CV or passenger vehicles, where we are having the complete machine parts. So, increasing our value addiction. So, we can see the improvement in the EBITDA margin, but that as explained, there is a major impact has comes in due to the cost inflation in the last two quarters. Otherwise, if you take that impact and remove, so, definitely we are on the employment side. And but now, we have taken the two ways to counter this. One is that to deal with the customers going to the customers and asking for the absorbed cost and participate in this and second is we have taken a lot of actions in house to reduce our cost. So how to improvement in our operation then like the operational cost, we have to reduce and where we have seen the cost engaged in the logistics, so negotiating with the customers and output from the people. So, every area we are focusing, so from both directions from customer as well as from in house, so that will help us to further improve our margins in the coming years.

Aveek Mitra: So I don't hold you on this, but I just wanted to understand that what is your wish list of EBITDA margins when you reach Rs. 2,000 crore of revenue.

Vimal Gupta: Definitely maybe 2% to 3% increase.

Rajeev Sikand: Sorry one more dynamic which has happened, where you are all seeing FY'18-'19 the first half was where the industry was doing phenomenally well, then started the ILFS issue and the decline, whereas fundamentally, structurally the things were same. So this fiscal this was a changing period. And I think not only us, everybody has faced this challenge and is evolving from here. From this FY'18-'19 the base, or the first half was a base where we were growing also at 30%. This is something structurally which we have worked at and it is not something which has happened it is started from there. And where we have come today and thereafter subsequently, we got hit by these, last, I thought last year Corona was very tough year, having worked in this industry for more than 30 years, directly but I think this year has been even more enjoyable, let's put it this way for everybody. You know, all the things coming at the same time, including the EV overhang in the mind of the consumer, plus the fuel prices plus the other things which is affecting the purchasing power. So, it's also gives you insight that what the team can perform under these challenging circumstances.

Aveek Mitra: Yes, absolutely. I really appreciate your effort of maintaining at least the bottom line and top line in spite of the perfect storm which has been faced by the industry for last two years. My last question actually is on, again a view which actually I am looking for, that you are writing as a key point in your presentation, that not align to a single anchor customer and we have got many customers with small per customer kind of revenue of Rs. 15 crore, Rs. 20 crore, if I understood correctly. So, as you know over a period of time this EV market will also get consolidated and there will be five, six or 10 players who will be in the market. Like any other industry like in internet we have seen 1000s of companies, but ultimately it has boiled down to few. So, how are you placed to really scale up to somebody when suppose that guy is actually stabilized and becomes a leader throwing out others. Like the Arrival, you said that that is a startup, right? A new player. We don't know whether what will happen to this company two, three years down the line.

Rajeev Sikand: Let me give you, a lot of EV companies where we are giving, we also know, maybe there is a 30% to 40% down, but some more will come. So, this should not be forgotten by everybody. Because today somebody saying I want to be the Tesla in the bus. So, Arrival is coming here. And we have a policy, wherein what we want from each customer that turnover must not go beyond a point. So, we have our own norm. And these norms we review very clearly each quarter. And we are in fact, when we started five years back, we were on a higher end each year we keep on bringing this norm down for a customer. So that our risk is we are de-risked to extend. And of course, as we will go globally, which is also what we want to do, our global business, so that is also another way of de risking ourselves. Besides the four-wheeler and the other industry, which we have said.

Aveek Mitra: Suppose somebody scales up really fast, will you be able to scale up with them? That is my question.

Rajeev Sikand: Scale up and down is part of the industry. See this is a value chain and if there's no value chain, and the chain is the weakest, will break the link. So, if he has to scale up there is also testing costs, there is also testing times because homologation times whether it is India or anywhere in the world, so in automotive, it does not mean scale up means it suddenly changes, even if they were very, very fast. The fastest we saw the scale up was in FY'18-'19, the first half, where you know everybody went to the peak number those kinds of things you are able to manage.

Moderator: Thank you. Ladies and gentlemen. That was the last question for today. I now hand the conference over to the management for closing comments.

Vimal Gupta: Thank you. I hope we have been able to answer all your questions satisfactory. Should you need any further clarifications or would like to know more about the company please feel free to contact our team of CDR India. Thank you once again for taking the time to join us on this call and we look forward to interacting in the next quarter. Thank you very much.

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