alicon

Casting the Future

July 07, 2020

To	To
The Manager	The Manager
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Dalai Street, Mumbai — 400 001	Bandra (East), Mumbai — 400 051
Scrip Code: 531147	**Scrip Symbol: ALICON**

Dear Sir/ Madam,

Sub: Transcript of Analysts Conference Call

We are enclosing herewith the transcript of conference call with analysts, which took place on June 29, 2020, after announcement of the audited Financial Results for quarter and full year ended on March 31, 2020. The said transcript is also uploaded on website of the Company.

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

For **ALICON CASTALLOY LIMITED**

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COMPANY SECRETARY

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Alicon Castalloy Limited

Q4 & FY20 Earnings Conference Call Transcript
June 29, 2020

Moderator Ladies and Gentlemen, Good day and Welcome to the Alicon Castalloy Limited Q4 and FY '20 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 '*' 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, Stanford. Good Day everyone and thank you for joining us on Alicon Castalloy Limited's Q4 and FY 2020 Earnings Conference Call. We have with us on the call today Mr. Rajeev Sikand – Group CEO; Mr. Vimal Gupta – Group CFO; Mr. Shekhar Dravid – Group COO; and Mr. Rajiv Gupta – Head of Domestic Business of the company.

We will begin the call with Mr. Vimal Gupta who will cover the financial performance following which Mr. Dravid will walk us through operating highlights for the quarter, the COVID-19 impact on business operations as well as the impact on exports. Mr. Rajiv Gupta will share a more granular view of initiatives towards the domestic markets and we will close with Mr. Sikand – our Group CEO, who will then cover business developments, following which we will have the forum open for a Q&A session.

Before we begin, I would like to point out that 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 documents that have been shared with all of you earlier. I would now like to hand over the floor to Mr. Vimal Gupta for his opening remarks.

Vimal Gupta Thank you, Mayank. Good Afternoon everyone, on behalf of the entire Management team of Alicon Castalloy, I would like to extend a warm welcome to all of you on the earnings conference call. I hope that you and your loved ones are safe. I will be covering the financial highlights for the quarter and the year ending March 31, 2020. We began Q4 FY20 with the expectation that the quarter would see increase in demand and volumes as auto manufacturers in the domestic market had by and large, balanced their retail inventory of BS-IV vehicles. So, we were anticipating a pickup in demand for supplies of BS-VI components. However, on the international front, demand started showing contraction as the impact of COVID-19 started affecting supply chain globally. This trend coupled with the nationwide lockdown imposed in March seriously impacted our volumes in Q4FY20. As per the directives of the Central Government, we temporarily closed operations across our manufacturing plants from March 22, 2020, to May 11, 2020. This affected production and sales in the domestic market also due to restrictions imposed on movement of vehicles and closure of port operations, even export sales were impacted from April 2020 onwards. A weak demand environment for the auto industry both in the domestic and global markets combined with the unprecedented situation due to COVID-19, resulted in subdued performance in Q4FY20. As per our assessment, the revenue impact owing to COVID-19 roughly translated to around Rs. 59 crore and on account of the transition from BS-IV to BS-VI was about Rs. 17 crore. This had an adverse impact on our Q4 performance, which as you would have noted resulted in us reporting a loss for the quarter amounting to Rs. 5.8 crore. This is the first time that we have had such a dismal outcome.

Coming to the performance for FY20, the fiscal as a whole was a challenging one for the auto industry. The slowdown witnessed in the second half of FY2019 continued and was further complicated with the transition to BS-VI norms. In addition, the outbreak of pandemic and subsequent lockdown caused disruption in the operating environment and affected sales for auto and auto component companies. As to the current scenario, we have started supplies to our customers but with a continuous scenario of increasing COVID-19 cases in India, we expect the recovery to show a START-STOP pattern in India. Despite this, we are highly committed to ensure continuous supplies to our customers.

I will now turn to the numbers:

On a consolidated basis, we reported a total revenue of Rs.197.7 crore in Q4FY20. For the quarter, exports including overseas revenues contributing 26% of the total revenue while domestic contribution was at 74%. In FY20, revenues from operations stood at Rs. 957.2 crore against Rs. 1,188.9 crore in FY19. Export including overseas revenue contributed to 21% of total revenues in FY20 while contribution from the domestic market was 79%.

Adjusted to the impact of the pandemic, we believe we would have largely been on track to deliver performance as per our internal business expectations for the quarter.

Across verticals, the auto division contributed to 90% of the total revenue in Q4FY20 and non-auto division was at 10%. For FY20, our auto segment contributed to 92% of the total revenues while non-auto stood at 8%. Gross margins stood healthy at 51% in Q4FY20 and EBITDA stood at Rs. 12.8 crore while EBITDA margins were at 6.5% in Q4FY20. In FY20, EBITDA stood at Rs. 108.7 crore with margins at 11.3%, PAT stood at Rs. 17.0 crore in FY20.

Let me share some of our improvements in our cost line. We were aware that we need to adopt cost-optimization strategies across our business model and improve resource utilization to ensure steady cash flows. Given these current challenging conditions, we have pursued such initiatives with greater emphasis. In one such step, we created a “Business Excellence” division for continuous process and operational excellence to drive savings in direct and indirect administrative cost. A lean cost structure we believe will further enable steady margins, going forward.

On the balance sheet front, our Net Debt as on March 31, 2020, was Rs. 326.5 crore with a net debt to equity ratio of 1.0x. On the capex front, as indicated earlier, we have deferred our expansion plan and are instead focusing on sweating all our existing capacity and for FY2021, we expect regular maintenance spends.

On the whole, we are encouraged with a healthy balance sheet and cash flow position, which we believe will help us tide over these extraordinary circumstances.

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

Shekhar Dravid Thank you, Vimal. Greetings to all our investors, hope all of you are well and staying safe. From mid-March onwards, the economy and the sectors across the globe have been severely affected due to the disruption caused by the COVID-19 pandemic. In the domestic market, the nationwide lockdown from March 22nd onwards impacted our business activities, affected sales and disrupted production and supply chain systems. Our priority during this challenging situation was to maintain and secure our business operations, while also ensuring safety and well-being of our employees and the business partners. In line with this approach, the Company found an “ECOSYSTEM” strategy consisting of Apex and Execution teams. We set up SOPs through manuals and training to ensure safety and health of all our employees and implementation of all these procedures and protocols at all plants and facilities. In addition, we also formed a “GUARDIAN” system where each designated guardian was a caretaker for 15 to 20 associates during the lockdown period ensuring the basic needs of ration or supporting in case of medical needs, thereby strengthening the bond between the organization and the employees. As a responsible corporate citizen, the Alicon team took the decisive action to support individuals and the families by distributing food ration kits which includes essential food items to sustain affected people for two to four weeks. Over last three months, we have distributed roughly 4,250 food ration kits in our Binola, Chinchwad, Shikrapur, Ratnagiri, and a part of Pune city to the families and the individuals.

Coming to the operational front, we took all recommended precautionary measures across our business model and temporarily closed operations in our offices in India and Austria and implemented Work From Home. Further in compliance with the directives of the Central Government, we temporarily shut down our manufacturing plants in Shikrapur and Binola in India from March 22, 2020, for roughly 50 days. Pursuant to requisite Government approval, we have resumed operations at our facilities from May 11th onwards. The manufacturing plant at Chinchwad, Pune, was under the containment zone and resumed operations only on June 8, 2020. While all these units are currently operating at a low utilization level at 33%, we are undertaking all precautionary measures and ensuring higher safety standards across all the manufacturing locations through the “ECOSYSTEM” initiative that we discussed earlier.

We also have undertaken a few strategic steps to maintain and strengthen the client engagements during this period. The Company deployed teams to work alongside existing and potential client base to help them navigate through this challenging situation. We also had a separate team focusing on RFQs, so that once the situation normalizes, we are geared up to hit the ground running. A combination of these initiatives has enabled us to maintain wallet share across accounts amid an otherwise tough operating environment.

All our key customers remaining committed to the development programs and the work on product design and technical evaluation is continuing in full swing. I am also happy to share that our recent contracts win with JLR, Mahle, Behr, and Daimler USA aggregating to Rs. 810 crore over the likes of the contract announced in October 2019 are tracking a steady progress. While the company has submitted the samples to the customer due to the present situation, there would be certain delays in receiving the customer approval. However, we remain confident of commencing the production in FY2023 as per the targeted schedules.

Export including the sales from Illichmann subsidiary contributed to about 26% of our total revenue in Q4FY2020. In FY2020, the contribution stood healthy at 21% as against the 20% in FY2019. However, lockdowns and movement restriction in many of our international key geographies from mid-February onwards, moderated our international business performance during the quarter, which otherwise could have been better.

While we faced severe supply chain disruption and production issues during the lockdown from mid-February to May, the situation on ground especially in the international market is slowly recovering now. In most markets of Europe, we are witnessing a rebound in production, consumption and sales especially in June.

On the e-mobility and non-auto business front, given the increasing demand that we were witnessing for our products prior to lockdown, we are confident that once the situation stabilizes, we will once again see encouraging growth and we will further strengthen our position in this segment.

I am happy to share that during this quarter, we bagged an order for 42 new parts with two new logos added to our kitty. One is ABB in non-auto and Dana Corporation in EV sector. So, for the full year, we added the total number of 120 new parts with the sales value of around Rs. 269 crore per annum, effectively entering start of production from second quarter of FY2021-2022.

While we are currently witnessing curtailed demand both in India and our export markets as a result of the ongoing macro situation, we believe in the near-term, there will be a gradual and steady bounce back in the demand condition. These are unchartered times and while we do foresee some impact on revenues and profitability until the circumstances normalize, we are undertaking all measures to secure our business operations to the best possible extent. Our efforts to deepen our engagement with customers, align our objective more so with theirs and to invest early in pursuing opportunities in electric mobility have made us more resilient and we expect to recover rapidly as economic activity revives.

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

Rajiv Gupta Thank you Mr. Dravid, and Good Afternoon everyone. Taking into account the impact of COVID-19 on the auto industry and on the business operations, we believe we have delivered a steady performance in the domestic market during Q4 and FY20. From the domestic auto and auto component industry perspective, the last three months have been quite challenging. For the first time in India, not a single passenger vehicle was sold in the month of April due to the nationwide lockdown to fight Corona virus. On an industry wide basis in Q4FY20, we have witnessed volumes decline by 20% on year-on-year basis. Within this, Two Wheelers are lower by 19%, Passenger vehicles by 18%, Commercial vehicles by 48%, and Three wheelers by 24%. Against this backdrop, our business delivered steady sales.

Looking ahead, the domestic automotive value chain continues to be disrupted due to lower utilization across manufacturing units, supply chain issues and labor unavailability. However, we believe in the near-term, there should be a gradual restoration in the value chain. With the unlock 1.0 phase, we have started to see an initial recovery in sentiments. We are steadily increasing production across our facilities; our teams are also actively on track with all our distributors in order to ensure streamlined deliveries and supplies. In Q4FY20, we added 21 new parts from five domestic customers with one logo addition. In total, we have added 89 new parts with 15 domestic customers and five new logo additions.

I would now request our group CEO, Mr. Rajeev Sikand to share with you, a perspective on Alicon performance.

Rajeev Sikand Thank you, Rajiv. I welcome all our investors, thank you for joining the call. My colleagues have shared with you the details of our last year's performance and some details of the impact of pandemic on our performance and the steps we have taken to counter the impact of COVID-19. At the onset, I would like to assure our investors that in these uncertain times, we are not daunted by the task that lies ahead of us. In fact, it has only strengthened our resolve. Despite severe disruptions caused by this pandemic, we remain in a stable position and our teams are doing the best to ensure continuity and operations with minimum disruption. We are collaborating more closely with all our customers. We are confident of our industry's resilience and its growth prospects and it would be our endeavour to sustainably outperform the industry growth on the back of our fundamentally strong business model and stronger alliances across our ecosystem of customers, partners, suppliers, and vendors. We are presenting ourselves as a reliable partner to all our customers and continue to work with them to ensure smooth deliveries and supplies even in these challenging operating environment. We are further encouraged that despite this challenging operating environment, our teams are in the process of winning large prestigious orders with global and domestic OEMs and official nominations from these customers are currently awaited and will be shared in due course.

The silver lining for the Indian economy is that the rural segment seems to be well-placed and resilient. The combination of bumper crops, favorable monsoon, and water availability combined with Government incentives are enabling rural and semi-rural areas to outpace metro and Tier-1 centres in terms of the recovery. The Tractor and Two Wheeler sales have been somewhat resilient and we look forward to this percolating to other areas of the economy.

We believe we are future ready and are actively seeking opportunities of which we see several encouraging signs. The one-time transition to BS-VI standard is largely complete and we expect to witness a steady recovery in volumes for OEMs in the months ahead. The global pandemic is likely to accelerate megatrends such as electrification, automation, and personalized mobility, all of which are focus areas for Alicon.

On the whole, we remain confident of our growth prospects and believe that with a normalizing operating environment, we should be able to deliver healthy performance going forward. We would like to take your questions now. Thank you.

Moderator Thank you very much, Sir. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani Sir, I joined the call a bit late, so can you just highlight what is the order book currently and executable over what period of time? Given that the production utilization is currently low, so would you like to place any guidance on FY21 revenues?

Shekhar Dravid Basically, you see the situation is dynamic right now and what we are seeing, taking into consideration the lockdown period of this quarter being lost and STOP START pattern that we are anticipating because of this pandemic situation, so we are anticipating the revenue degrowth of around 20% for FY21.

Bharat Gianani Sir, any sense you can give on what currently is the order book for the business and executable over a period of time? Are you seeing any increased business because of BS-VI, do you have any such products that could increase our content under the BS-VI norms?

Shekhar Dravid I will answer your first question for the order book position, basically as we already said that Rs. 810 crore of business, which we had declared in October '19, that will come into the picture. Also we have already shared that in the last year during this lean period, we could engage with our customers and the new areas, we could get the order booking for 120 new parts, adding business of Rs. 269 crore, which will start from the Q2 FY22. Looking at these and for FY21, what we are talking recently, we are covered up for all the things needed for these years, so there is no worry in front of order booking as far as concerned and we are well placed as far as the orders are concerned

Bharat Gianani Rs. 269 crore order book would start from, we start delivery from September FY22, is it?

Shekhar Dravid Yes.

Bharat Gianani This would be in what area?

Shekhar Dravid These are in all areas, but basically we are concentrating on the non-auto sector business, where we have had a new logo of ABB and we have received an order for 11 good components and sizeable business for the year, the development is underway right now. One is from the EV sector, and that is from Dana Corporation we have received the order and the other sectors are like IC engine and the regular customers with new products

Bharat Gianani Do we see any content increase because of the change from BS-IV to BS-VI norms, any content increase for our product range or broadly BS-IV to BS-VI transition does not bring any addition to our kitty?

Shekhar Dravid Definitely, if the situation could have been normal and not this situation what we are going through right now, there could have been a better position, but for the normal condition whatever the customers what we have worked with for the BS-VI parts, we have got an increased share of business from those customers. These technologies are very specific technologies and customer would like to remain with Alicon, so share of business for those parts has been increased. We may not see that increase in this year because of this situation, but there is definite increase of the share of business from these customers. Also doing this with the same customers, the other products other than the cylinder head, which was our prime supply to all these customers, we added the other product range like the structural parts, the parts for the suspension, other parts, which are required in the automotive sector, so that will add to further share of business with these customers along with the share of business increase for the particular component, which was already present. So, definitely there is increase but we may not see it, this year.

Moderator Thank you. The next question is from the line of Rahul Talwar from DSK Capital. Please go ahead.

Rahul Talwar Sir, I wanted to ask that given the situation all the companies are in, are there any steps taken by Alicon Group with regards to innovation or to get any competitive advantage over peers?

Shekhar Dravid In raw materials, basically we are working on the specifications, it is a very technical question, but we are working on that to reduce the raw material pricing from point of view of the additions of all the variants which are getting added. Over and above that Alicon is presently working on one of the specific Alicon alloy, which will reduce the processes in totality and we have already initiated that process with renowned institutes and are working on that and we expect to have the results within next three years in order to introduce this alloy. It is a long-term process, but this will be the alloy which we will develop that will be an Alicon identity for the customer and it will be a competitive edge over all other suppliers in this field.

Rahul Talwar My second question is that is there any structured medium to long-term plan, which is made by Alicon Group for the repayment of debt?

Vimal Gupta First of all plan is there to reduce our debts, but at this challenging moment because you know in FY21 there will be pressure on the cash flows, so maybe the drastic way it will not happen but as per the expectation that Q3 and Q4 will have improved performance, so during that period you can see some reduction, but immediately next four to five months, this will not happen.

Rahul Talwar My last question would be that the news which is going on in market that people want to boycott Chinese products and I know that is not very much relevant to our company, but are there any steps taken to increase the market share of the company, reducing the dependence of companies on China, is there anything which we are doing?

Shekhar Dravid Yes, definitely this is to our advantage as far as Alicon is concerned. The customers with whom we are already working and they were getting dual sourcing from China as well as India, so already these customers we are in discussions with them and they are also keen on transferring and reducing their dependability on China, so definitely there will be lot of improvement we are seeing it from that sector as well as we are looking for the customers who are interested to come down to India for this business, we will definitely have an advantage in that.

Moderator Thank you. The next question is from the line of Saurabh Jain from Sushil Finance. Please go ahead.

Saurabh Jain Sir, it is very visible that we are facing challenging times and I appreciate that you could assign a number to this current fiscal that we are expecting a revenue loss of around 20%. At the same time, I was also thinking about the profitability, our EBITDA margins have shrunk to 6.2% as against 11% plus in the similar quarter. So, if you can throw some light what steps are being taken at Alicon and how are we going to safeguard our margins?

Vimal Gupta On the margin side, I think you have heard my speech and this I have explained about Q4, maybe the EBITDA margin has gone down, but the major impact has come from the sales which did not happen due to COVID-19, so due to this only we lost sales of Rs. 59 crore and if I convert it to the margin, so around Rs. 20 crore EBITDA we have lost so if you can add up that also, we were on track. And you also know that as per the Government directives and norms, we have paid full salary and wages to contract people everywhere and that has also costed more on that side. So that is the reason but otherwise we were on the track to maintain our margins and going forward, if you see that we are taking lots of efforts to reduce the cost and to maintain our margins. So, Q1 you know what has happened and Q2 is also challenging, but after that we are hoping that things will improve and we will maintain our margins.

Saurabh Jain Sir, one more thing, do you think FY22, will we be able to scale back to our FY19 revenues of Rs. 1,180 crore?

Vimal Gupta Yes, in FY22, we will be at the normal level and we will be back on our track, but FY20 and FY21 will be challenging for Alicon.

Saurabh Jain Okay, so just to clarify that approximately 20% fall to around Rs. 760-780 crore for FY21 and FY22, we will rebound in a very handsome way to around Rs. 1,180-1,200 crore, if that is what you meant, approximately?

Vimal Gupta The idea is that we will be able to reach around Rs. 1,200 crore in FY22.

Moderator Thank you. The next question is from the line of Sahil Jain, an Individual Investor. Please go ahead.

Sahil Jain Sir, I have been reading this company for the first time and I have been plotting numbers, so I just wanted to understand that our receivable days have substantially gone up from FY11, which used to be in the 60-70 days range to 100 plus range, especially it has happened from FY17, where we are at 87 days, which has now gone to 105 days and I think this quarter, we are 144 days, so can you explain exactly what has happened, is the new business which is coming, at high receivable days or something?

Vimal Gupta Mainly, the increase was in the exports as well as there was, at the end of the year, due to the lockdown of last 10 days, the recoveries were also slow and customers have not paid during that period that has also resulted in an increase in our receivables.

Sahil Jain Sir, let us say this year was an exceptional year, but if you look at FY17 where our receivables used to be in the range of 80 days, it has come short of 105 days and what are the export receivable days, what is your standard credit term for exports and for the domestic market?

Vimal Gupta Generally, the exports come between 120 to 150 days.

Sahil Jain For any incremental export, we will have little higher receivable days, am I right?

Vimal Gupta Yes.

Moderator Thank you. The next question is from the line of Apoorva Mehta from AM Invest. Please go ahead.

Apoorva Mehta Can you just let us know like what cost cutting measures we are doing currently to bring down our expenses, for the long-term and for the short-term?

Vimal Gupta On the cost reduction side, we are taking action from all angles. As I explained that we have made the model of “Business Excellence”, so in this we are working mainly on the technical side that how to improve the efficiency, the productivity and as well as where are the areas we can go for cost reduction either on the variable side or to improve the margins as well as on the fixed cost side. Like one example was for the material costs, we are doing many activities to improve the material side, so the cost can be reduced as well as like energy cost or on the manpower cost, you will find in the coming quarter that costs are on the downward trend. For administration costs, we have taken lot of actions to reduce those costs. So, these are the main areas to bring down the costs as well as because new projects are coming, we have to invest but we are more focused how to control the capex side also.

Apoorva Mehta On the presentation, one line is there currently the units are operating at 33% capacity utilization with 60% efficiency rate so what does that mean?

Shekhar Dravid Yes, if you go through the Government referendum, they allowed us initially to start with only 33% of our manpower to adhere to the social distancing and we did 30% manpower in that phase and the social distancing norms is followed. So, efficiency of operations is coming down to 60% that is what we mentioned, so with whatever capacity that is available that is getting utilized with 33% manpower with 60% of efficiency.

Apoorva Mehta We have 26% of export last year or so, so, what is the traction in export and we are getting orders or getting any cancellation of orders and what type of visibility you have on exports?

Shekhar Dravid There is no order cancellation as such, but certain orders for which products are completing their life and the new products are getting introduced, those products will be eliminated by next year and we will not have those. At the same time, for those particular products, the new products have been inducted from the same customer, which are going to be the replacements of this whole product. Coming down to the revenue of exports exactly at this moment, I have already said that 26% is export revenue, and our target is that how we can increase this and right now as I already explained that our journey towards getting the new businesses is more focused on the global business.

Apoorva Mehta We see domestic side traction is very poor, but from the export side, are we seeing visibility of getting more orders or normalization towards that?

Shekhar Dravid Yes, we are seeing the enthusiasm as far as aluminum castings are concerned in a global arena and we are getting good response from that area. It will be too early to comment on this because we are working with too many customers and the new arenas that we are dealing with. Basically if you see I would like to add one point here that we have sharpened our focus on e-mobility, where we have now started providing thermal engineering solutions to our customers for e-mobility sector. I will explain what the thermal engineering solution is. Basically this battery housing and the motor housing, which are getting used in e-mobility, during the operation, there is a heat generation into this component and these components needs an online cooling of this parts to have better performance and efficient performance. While doing this, we have to incorporate the cooling systems into the particular component. Unfortunately till date, the designers are working with a jacket, which will be attached to this component to do cooling of that particular component, which is not very efficient. So, we have provided the solution working with the customer and offered an inbuilt cooling system, which we call as thermal engineering solution, to the customers like Bosch and Samsung and right now we are in discussions with customers like Danfoss, Dana Corporation, Hitachi, and Panasonic by offering this solution to them, ensuring that with this technology, the customer will remain with us, so this is as far as the global business is concerned, we are seeing a good opportunity and good response from the global customers.

Apoorva Mehta Are these some kind of patented solution that we are giving to ensure that somebody does not copy or replicate it, so is it something which is unique for us?

Shekhar Dravid I will just tell you that renowned foundries in Europe have failed initially to develop these components with this integrated cooling system, but Alicon was able to successfully develop this with Bosch in Europe and then incorporate this with customers like Samsung and giving solutions to these new customers as I explained already. So this is the technology, but making this component with this technology requires a specific technology, with critical care in production and manufacturing of these products, so there Alicon will have an edge over other competitors to have these proactively available and giving solutions to the customers.

Apoorva Mehta For this product, when will we start producing, which year you will start producing it, which year you are planning to start the product?

Shekhar Dravid Two of the products already are on the production line. Samsung has it already because Samsung is supplying these battery parts to JLR.

Moderator Thank you. The next question is from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani Sir, my question was that the order book that you pointed out earlier Rs. 269 crore that you received last quarter and Rs. 810 crore that you announced six to eight months back, so these are executable over what timeframe?

Shekhar Dravid Rs. 810 crore, what we have declared in October 2019, the development is already started and that will come into the mass production from FY2022-23 and the order that I had just declared of 120 components, this Rs. 269 crore of business will be starting from Q2 of FY2022.

Bharat Gianani What is the timeframe for these orders to get executed?

Shekhar Dravid Sir, this will be five years, the life of this product is five years and customers share with us the total five years volume for this particular order.

Bharat Gianani Okay, so both of these is five years duration?

Shekhar Dravid Yes, it will be having a life span of five years.

Bharat Gianani Sir, my another question was that you pointed out that maintenance capex will be very minimal in FY 2021 capex, so can you give the quantum?

Shekhar Dravid It is normally between Rs.25 to 30 crore of maintenance capex plus there will be certain small capex we will have because all these new orders what we are getting it and undergoing development, we need to have some adjustment of the capacity. Even though we have got the capacity available for the casting, but post casting whatever machining and other specific requirements component-wise varies for that we have to make certain investment, so our budget for FY2021 is roughly around Rs.45 crore, so around Rs. 15 to 20 crore will come for this new products that are under development.

Bharat Gianani In the quarters previous to this, we had delivered on the margin which was like consistent for the last two to three quarters which was like in the range of about 13% or so. So, do you believe that in FY 22, we would be kind of getting that margin or our margins will be in that 11% to 12% range, obviously for FY21 we will have a toll on the margins because the revenue will be down, but for FY22 what is your targeted level of margin and what would be your drivers for that?

Vimal Gupta Mainly we are also targeting to improve the margins, so we are expecting it should be 12% plus during FY22 because a lot of our cost reduction measures that we are taking that will also continue in the next year, so definitely we can see that improvement.

Moderator Thank you. The next question is from the line of Rahul Talwar from DSK Capital. Please go ahead.

Rahul Talwar Sir, in previous question you were mentioning about some technology being developed in Europe with Bosch. So, if I am not wrong that was Bosch right, is that technology so unique that we would be having a patent on that?

Shekhar Dravid No, it is not patented, but it is very typical and only few foundries can work on this because it requires dedicated infrastructure with specific technology, which Alicon has got today and with horizontal deployment from India also, we started supplying this technology part to USA now.

Moderator Thank you. The next question is from the line of Jitender Agarwal from Relax Capital. Please go ahead.

Jitender Agarwal Regarding your EV business where you are now getting approvals for parts, can you give a broad sense what is the market opportunity or the potential for the existing part that have already got cleared. So, maybe that gets realized over three or five years, could you give us some broad sense in terms of numbers?

Shekhar Dravid The part that we have developed and which are going to be in SOP in next two years' time, we will have the revenue of around Rs. 150 crore from these parts what we have to take.

Jitender Agarwal Sir, is there an overlap between this Rs. 150 odd crore and Rs. 269 crore and the Rs. 810 crore orders that you have already discussed earlier or this is separate from those two orders?

Shekhar Dravid No, this is Rs. 810 core plus Rs. 269 crore, so it is a part of that.

Jitender Agarwal So, out of approximately Rs. 1,100 crore, this is about Rs. 150 crore approximately.

Shekhar Dravid Yes. Just to add, as a strategy we decided to have our strategic goal towards e-mobility because that is the disruption we are anticipating and our last two meetings also we have said that our concentration will be on e-mobility as a technology disruption. So, we are going through that and we are getting good response from the customers in that area.

Jitender Agarwal My second question is again a follow up to what was discussed earlier with regard to your debtors, so if I look at last four years, sales have grown at about point to point maybe about 25 odd percent and inventory has actually doubled and so have debtors. So, debtors you already answered, can you throw some light with respect to the inventory?

Vimal Gupta For the inventory first of all that if you see that as a number of days it has not gone up, but only thing is that now we are taking the actions how to reduce it further, but you know that, for all customers we have to maintain the minimum inventories for their location because all this OEMs go for just-in-time system, so that we have to maintain, but definitely we are focused on how to control the inventory and it is already under control, it has not gone up suddenly like that.

Jitender Agarwal Which is good obviously that you are focusing on it, but if I look at the last four years' track records, payables have not really increased that much while debtors and inventory have increased. So, is this because of the new products that are getting developed on which approvals are coming across, is there any correlation to that?

Vimal Gupta One is that we have to maintain inventory for the different locations after the implementation of GST as well as the new products are developed and now the number of products have increased, so lot of variety we have to maintain for each product.

Shekhar Dravid I would like to add one more thing to it, already last time, we had discussed out of this 686 live parts that we are working with, for 139 parts we were a single source to the customer and keeping the requirements of the lockdown and the surges of the production coming into picture, we have to keep minimal stock which has been agreed with the customer. So this may come because of we have kept the stock, but it is not required that much because of the fluctuation in the manufacturing, so there is a fluctuation in the inventory sometimes it is higher, normally it is on the higher side, it does not come to the negative side because we always are sensitive being a single source to these customers and we want to maintain our singularity for that.

Moderator Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the Management for closing comments.

Shekhar Dravid Thank you. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarifications or would like to know more about our Company, please feel free to contact our team of CDR India. Thank you once again for taking out your time to join us and showing interest in our company on this call.

Moderator Thank you very much, Sir. Ladies and Gentlemen, on behalf of Alicon Castalloy Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.