May 25, 2023

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

To
The Manager
The Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
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 18th May 2023, after announcement of the unaudited Financial Results for quarter and financial year ended March 31, 2023. 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**

VEENA VAIDYA
Digitally signed by VEENA VAIDYA
Date: 2023.05.25 22:49:52 +05'30'

Veena Vaidya
Company Secretary

Alicon Castalloy Limited

Q4 FY '23 Earnings Conference Call Transcript
May 18, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the Alicon Castalloy Limited's Q4 FY '23 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 star then zero 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.

Mayank Vaswani: Thank you, Tanvi. Good day, everyone, and thank you for joining us on Alicon Castalloy Limited's Q4 and FY '23 earnings conference call. We have with us on the call today, Mr. Vimal Gupta, Group CFO, Mr. Veera Babu, Group COO, Mr. Shyam Agarwal, Chief Marketing Officer at Alicon Castalloy, Mr. Andreas Heim, Managing Director of Illichmann Castalloy, and Mr. Rajiv Gupta, Head of Domestic Business of Alicon Castalloy Limited.

Mr. Vimal Gupta will cover the financial performance for the quarter, following which Mr. Shyam Agarwal will walk us through the operating highlights. In order to share the developments in both the global and domestic markets, Mr. Andreas Heim and Mr. Rajiv Gupta will provide insights on these areas. Following the comments from the team, our Group COO, Mr. Veera Babu will give us a brief summary of the quarter gone by and cover the strategic imperatives. Thereafter, we shall open the call for the Q&A session.

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

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

Vimal Gupta: Good afternoon to all our investors. Thank you for taking the time out to join our earnings call. I trust that all of you have had a chance to review our earnings documents, which was shared on 16th May.

As we have indicated earlier, 2018-'19 was the best year in the last few years for the global Auto industry. Our assessment is that the domestic industry has reached a performance level of approximately 84% in the Financial Year 2023 of the level set in 2018-'19, while the international auto industry is at about 88% level in Calendar Year 2022 of the base achieved.

At Alicon, our revenue performance in the Financial Year 2023 is around 130% of the benchmark that we had set in 2018-'19, clearly showcasing a different trajectory of performance when compared to global and domestic auto industry. This has been driven by the addition of new parts as well as new customers. Our growth and transformation strategy of the last five years has been validated as we have reported our highest-ever annual revenue INR1,405 crores in FY '23, even in the backdrop of significant volatility over this period.

The envisioned business transformation involves a strategic focus on multiple avenues for growth, which we have categorized into five pillars.

These pillars are,

- Continue to scale strategic products in the ICE business
- Addressing the opportunities from Carbon-neutral technology, including Battery Electric Vehicles, Hybrid Electric Vehicles, fuel cell and hydrogen cell technologies
- Opportunities from structural parts or technology-agnostic parts, which remains consistent, no matter which fuel technology is used to power the vehicle

- Non-auto business encompassing opportunities from sectors such as defense, energy, telecom, to name a few, where our competencies can be leveraged,

- Enhanced customer wallet share through value-add and combining products to offer our customers a one-stop solution.

The progress we are experiencing can be attributed to the execution of our growth strategy. We have dedicated substantial resources to reshape our business model, becoming a more flexible and diversified organization that capitalizes on our key sales trends. Our international team have been actively engaging with customers, fostering deeper discussions to leverage our expertise in design, research and development and value engineering. Our proven track record validates the effectiveness of our processes and our reliability as a supplier. This is supported by the continuous increase in our order book and the acquisition of new and renowned clients.

Moving on to the highlights of our financial performance for the fiscal year ending 31, March 2023. Alicon's best-ever annual revenues of INR1,405 crores in FY '23 were higher by 30% year-on-year basis, significantly surpassing the industry growth. The revenue growth was driven by enhanced volumes compared to the previous year and start of production in certain new products. This positive trend was further supported by the improved contribution from our international subsidiary, Illichmann. We also posted higher-ever EBITDA of INR157 crores, higher by 36% year-on-year basis.

The EBITDA margin for FY '23 stood at 11.2% against 10.7% in FY '22, an increase of 46 basis points. New parts added with higher value addition have contributed to structurally improved EBITDA margin. Profit after tax of INR51 crores is higher by 113% on a year-on-year basis. I'm pleased to share that our Board of Directors have approved an interim dividend of 50%, equating to INR2.5 per share. This year, we have witnessed an improvement in ROCE to 12.7% for the financial year '23 from 9.1% in FY '22. Our long-term rating by credit rating agency, CRISIL, has improved a notch from A stable to A positive.

I will now run through the financial performance for the fourth quarter.

Total income of INR321 crores was flat on a year-on-year basis compared to quarter 4 of FY 2022. Further, this was lower by 12% on a quarter-on-quarter basis from INR361 crores in quarter 3. In quarter 4 FY '23, our plant in India and Europe operated at a utilization level of around 65%. In the quarter, we witnessed a decline in two-wheeler volumes as OEMs reduced production schedules in order to transition products in line with On-Board Diagnostics (OBD) norms. This onetime regulatory implementation had an impact on our performance during this quarter.

Further, the volatility witnessed in last two years to three years drove customers to increase the inventory as they moved away from 'just-in-time strategy'. With the normalization of global supply chain, customers have moved back towards leaner inventory levels and this readjustment towards lower inventory levels has resulted in onetime softness in volume this quarter. We also noticed that issues with semiconductors are yet to be completely resolved while availability has improved significantly since this challenge first emerged a couple of years ago. There are still constraints in sourcing of semiconductors by global and domestic OEMs.

However, our gross margin has improved, and this was supported by a decrease in prices of major raw materials and a more favorable product mix. We believe that input prices have passed their peak and are likely to decline moving forward. Despite some delays, we have observed a pass-through effect of previous input price increases and a better product mix leading to improved results. This has positively influenced our gross margins for the quarter, which was 51.6% in Q4 FY '23, compared to 50.4% in Q4 FY '22, higher by 118 basis points. In Q3 FY '23, gross margin was 49.3%, and the quarter-on-quarter improvement in gross margin is 230 basis points or over 2%.

The improvement in gross margin did not flow through the EBITDA margins due to increase in power and fuel cost as well as other overheads, which have increased in line with the inflationary trends due to the initial stabilization requirement of new products have incurred certain costs upfront for new products in this quarter. As the product throughput is stabilized and volumes are enhanced, the unit contribution from these new products will improve in the coming quarters.

There was also a settlement of one old claim from a customer, which resulted in onetime expense in the Q4. As a result, EBITDA was at INR33 crores in Q4 FY '23 with a EBITDA margin of 10.3% as compared to INR39 crores with a margin of 12.1% in Q4 of FY '22.

On the capex front, we have deployed INR16 crores during the quarter and have deployed a total of INR82 crores during FY '23. Our value addition to net block has significantly increased from 130% in FY 2021 to 160% in FY 2023. In FY 2024, we envisage a capex deployment of around INR90 crores.

Coming to the outlook:

Following our highest-ever revenue of INR1,405 crores in FY '23, we are poised to take the business to newer height and aspiring to deliver a revenue of over INR2,000 crores by FY 2025-26, that is over a period of three years. Our confidence stems from the new orders which we have received and the discussions with the customers on new technologies and solutions. Notwithstanding the EBITDA margin performance in this quarter, we are confident for an improved margin outlook despite the **'7C Framework'** of challenges identified by us, including the post-**C**OVID impact, the **C**hip shortage issue, **C**ost of new product development, the **C**onflict between the Russia and Ukraine, global **C**ost-based inflation, supply Chain challenges as well as the **C**hallenge from the recessionary environment, we have improved EBITDA margin for the full year.

The increase in EBITDA level in FY '23 over FY '22 demonstrate the positive impact of enhanced value addition and the richer product mix. As previously mentioned, our target over the next three years to four years is to raise EBITDA margin to 14% through a combination of growth initiatives and cost efficiency measures.

In summary, we are focused on sustaining the momentum and endeavour to improve the financial and operational performance in the coming financial years. Our primary focus remains on enhancing margins, return ratios and optimizing our working capital cycle. We are confident of delivering healthy revenue growth with strong profitability growth in the upcoming fiscal year.

On that note, I would now like to hand over to Mr. Shyam Agarwal, who will talk about operating highlights for the business.

Shyam Agarwal: Thank you, Mr. Vimal. Greetings to all of you.

During the quarter, domestic auto industry witnessed moderate growth of 0.6% on Y-o-Y basis due to the OBD issues as well as the constrained chip availability. Within this, the bright spots were Passenger Vehicles, which grew 13% and Commercial Vehicle, which grew 7% on Y-o-Y basis. The improved growth in PV was driven by increase in high-end segment, greater tourism activity, as well as new launches.

In the case of Commercial Vehicles and Heavy Vehicles, factors such as increased infrastructure strength, mining activity and logistics growth helped to drive volumes. In FY 2022-23, Alicon has booked new orders aggregating INR1,700 crores. With this, our total order booking has reached to INR7,800 crores, which is executable over a period of seven years from 2022-'23, up to 2028-'29. In last quarter, we have received further new orders from some of our global customers like Jaguar and Land Rover and Danfoss, pertaining to products in the Carbon-neutral business.

The commencement of supply for these orders, along with the start of production across our aggregated orders booking will contribute to an increase in the revenue momentum. All of you would recall that we had announced one of our largest order wins for JLR e-axle housing in August 2022. I am pleased to share that innovative solutions provided by Alicon in co-ordination with our European arm in close association with JLR R&D team has enabled project to progress on schedule with the Start of Production planned in the next year.

From the strategy perspective, we are progressing well on all our key pillars. Our value addition mix in key pillars did well in the fourth quarter as the share of Carbon-neutral business stood at 9%, Structural products stood at 8%, and Non-Auto business stood at 8%. We were able to deliver balanced growth with improvement in all segments despite a volatile market environment.

Another focus area for our value creation approach is to increase the value addition mix from our products for four-wheeler and CV segments. In FY '23, we were able to reduce dependence on 2-Wheelers from 41% to 38% and increasing the share of 4-Wheeler business from 49% to 53%. In Carbon-neutral technology, our focus is on Passenger Vehicles, Commercial Vehicles, and export opportunities as we see a greater scope for value addition in these areas. We see good traction with motor housing products for Tata Motors as they are dominating the Passenger EV market in India.

We are also seeing encouraging numbers in Commercial Vehicle segment as parts we had developed for DANA are facing promising demand with continuous government support to develop cleaner public transport options. We also supply parts for 3-Wheeler products to DANA, which is again showing favorable demand trends. The export business is doing well as we are focused on increasing wallet share on the back of development of parts for customers such as Danfoss, Eaton and Scania. We are in discussion on new projects and nominations in coming quarters.

Our major customers, JLR in structural part business witnessed fluctuation in production due to availability of chips, but with their initiative to diversify supplies, we expect improved volumes from them in the current fiscal year.

My colleague, Andreas will walk you through the further development in the structural part, while Rajiv will cover developments in the ICE and the Non-Auto business.

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

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

We are gradually emerging from the challenging situation witnessed in the Calendar Year 2022. Businesses in Europe are stably adapting on the challenging circumstances and with some moderation in input prices, including gas, customs are now starting to operate plants at higher utilization levels. This has led to firmer indications for products being supplied by us with revenues from our European facility growing 20% on a year-on-year basis. One of our key customers, JLR has requested an increase in volumes for key part supplies. While the semiconductor availability remains a bit of a challenge, we see better availability for high-end cars, which has reflected an improvement in demand momentum from JLR for Samsung Battery Housing.

Bosch, which is a Tier 1 supplier, has also done well and added new customers for their offerings. One of their end customers has introduced a new larger model, which has requirement of two housing per vehicle resulting in firmer demand. In Europe, as the winter subsides, we see resumed demand for 2-Wheelers. This typically in volumes during the spring season leads to improved demand for structural parts from 2-Wheeler customers like KTM and BMW. We anticipate this to continue through the summer months.

Further, with the easing energy costs there is some relief for households from the sharp inflationary pressures, which can lead to better consumer demand. Aluminum prices have also softened, and the reduced cost baskets should help our customers in reducing prices of the final products.

Apart from the increased activity from customers which we had anticipated and indicated last quarter, we have also actively increased our customer interactions and are seeking to work with customers on products as well as various solutions for adjacent products as several of our customers across OEMs and Tier 1 are working aggressively on new technology developments.

The global business contributed to 21% of the total revenue during the quarter and 22% for the Fiscal Year, respectively.

Apart from the improved customer sentiment which we are sensing, we are also moving ahead with initiatives to reduce costs. We have received approval for the investment in solar panel which will help us to reduce energy costs and remain more competitive.

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

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

The Indian automotive sector experienced volume growth of 13% in FY '23 on a year-on-year basis. However, this growth was largely front-ended and in the latter half of the year. There was some softness in growth, especially in case of 2-Wheelers as it was affected by the regulations related to On-Board Diagnostics (OBD).

Fortunately, there was better traction of 25% year-on-year in Passenger Vehicles and 29% year-on-year in Commercial Vehicles due to reasons mentioned by my colleagues. For Alicon, the sales growth from Passenger Vehicle increased 52% year-on-year and Commercial increased 59% year-on-year. The contribution from our Domestic business stood at 78% during the year.

Going forward, in the Auto ICE business, we are seeking to increase the portfolio of the critical parts. In case of Toyota, we anticipate volumes to increase towards the end of the current financial year with a strong market response to new launches of Hyryder and Innova Hycross. We are further in discussions with the market leader, Maruti Suzuki on addition of further cylinder head businesses. Progress on these fronts will enable us to deliver on our strategy to enhance the Passenger Vehicle parts in our revenue mix.

In the Non-Auto business, we have further supplied towards our order of the prestigious telecom project under Atmanirbhar Bharat. During the quarter, we were awarded a tender from the Department of Defense for supply of wheels for the battle tanks and cylinder heads for the heavy-duty defense truck, for which we will commence despatch in the coming quarters.

On this note, I would like to now to request our Group COO, Mr. Veera Babu to share his perspective on the performance for the year.

Veera Babu: Thank you, Rajiv. Good day, everyone.

Our FY '23 performance represents a consolidation from the disruption of the last two years to three years. We have stabilized our operations and will look to build on the momentum. One of the key achievements in FY '23 has been the significant level of order booking, which will feed our growth in the upcoming years. As shared by Vimal ji, our performance in FY 2022-23 is about 130% of the level of Financial Year '18-'19, which was the previous high for the global and domestic industry. We will build on these further with the balance growth in the business across our 5 pillars.

Our confidence is built upon deepening of client engagements. By leveraging on research & development, design excellence and value engineering, we have demonstrated to customers of our deep value that we can provide them as a supplier of repute.

Another important element that we are focused on is the deeper footprint on technology. We have worked to automate certain processes of our operations. We have been highly proactive by working on advanced technologies especially for thermal cooling solutions for the EV segment. Another area of focus is to provide innovative solutions to our customers in the area of complex parts pertaining to cooling solutions for motor and e-axle over traditional methods. We have also made progress in developing a 3D printing solution for sand mould enabling our customers the ability to quickly convert design into prototypes thereby compressing the product development lead time. We are also exploring friction stir welding which is a highly recommended application in the area of EV for strong and high-quality joints.

This focus on technology-based solutions has helped us to differentiate ourselves across the global landscape.

We are also actively working towards increasing our sustainability footprint and have commissioned our captive solar plant in India while installation of solar panels at our facility in Europe will be completed this year. These initiatives will meaningfully transform our energy mix.

On this note, I would now request to moderator to open the forum for any questions or suggestions that you may have. Thank you.

Moderator: Thank you very much. The first question is from the line of Yash Dalal from Sushil Financial Services. Please go ahead.

Yash Dalal: Yes. Firstly, thank you to the management for this detailed breakdown of the quarter and year gone by. So just a few questions. Your vision was of INR2,000 crores revenue and EBITDA margin of 14% to 15%. Are we on track to achieve the same? And when could we see this happen?

Vimal Gupta: Yes, Yash. So, for INR2,000 crores of revenues, we are targeting by FY25-'26, so next three years to achieve that level. And definitely, as we were explaining in our previous con calls also about the improvement in the margins. So, we are expecting to reach around 14% in that year of '25-'26.

Rajiv Gupta: And to add on basically to achieve the sales of INR2,000 crores, we are quite confident because if you see the portfolio for '25-'26, we have noticed around 84% business that we have already secured. That is from the regular and the new parts what we have added. So, for achieving that, we don't think there's any worries. Further, we are trying how we can materialize.

Vimal Gupta: So only 15%, 16% is the balance, so that we are receiving a lot of new inquiries, RFQs are there, and a lot of new businesses are under negotiation with the customers. So, we are fully confident that we will be able to deliver these numbers.

Rajiv Gupta: And second point here is, we are planning to increase as per the strategy where we get good margins. One is to reduce our dependency on 2-Wheelers and enhance our contribution with Passenger and Commercial. Second is to increase our portfolio in the Carbon-neutral, structural, and also, to some extent, the Non-Auto parts where we have higher margins. And third is to increase our portfolio in the global market, where we can offer solutions and we can leverage over a competitor are basically of high good margin prices.

Yash Dalal: Okay. And so, for this INR2,000 crores revenue numbers, what would be like the revenue mix for 2-wheelers, 4-wheelers or new technologies like our EV hydrogen export and non-auto?

Rajiv Gupta: Yes. If I talk in terms of our segment buckets, so 2-Wheelers would be around 31%, Passenger would be around 36% to 40%, Commercial would be around 20% to 25%, Non-Auto, yes, it would be around 6% to 8%, something of that sort. And yes, a little chunk we have kept with 3-Wheelers also because we see a good momentum picking up, especially 3-Wheelers in the EV space. And the good thing is Alicon has also entered in the space and is now materializing through development what we did with DANA.

Coming to the different portfolio mix, which we categorize, that is the five strategic segments. At this moment, the visibility we see, we've already confirmed with our planning roughly around 20% to 24% with Carbon-neutral parts. ICE would play around 60% to 65%, Non-Auto, I've already explained. Structural also is an area where we are aiming, and that is where we have added a part with the Jaguar in the Passenger Vehicle. These solutions are really appreciated now with other players also in this space. And yes, we are doing quite good in the 2-Wheeler high-end bikes.

So, the good thing is, yes, we have the test with our European base with plant developments through KTM, BMW, Ducati, which we have added last year. But now even in India, we are noticing the trend of high-end bikes are coming up. And that's the reason we are noticing the OEMs like REML, Classic legend, that's Mahindra and also Honda, they are coming up with a structural portfolio. This also will further enhance our portfolio. But yes, we are planning to keep this portion from 5% to 7%, because this is an area where I'm going to mitigate any risk, because be a 2-Wheeler, I mean be a Hybrid, be ICE or be an electric, these parts will remain common. So that also is an area where I aim to increase my portfolio.

Vimal Gupta: So, Yash, important is that if you have heard that with the change in the sales mix, how it is moving. So earlier Alicon used to be having more than 50% contribution coming from the two-wheeler industry. So now this year, we have gone down from 53% that was in last year, in '21-'22. So that has gone down to 46% in the last year of '22-'23. And now as per our planning by '25-'26 will be in the range of 30% to 32%.So contribution from other sides like Passenger and Commercial that is increasing that bucket.

Rajiv Gupta: Thanks, Mr. Vimal, for your explanation. Basically, we are aiming to increase our sales content per machine, because I believe you see a two-wheeler component ranges from, say, 1 kg to say 3 kg or 4 kg depending upon the CC of the vehicle.

But we have more opportunity when to explore a Passenger Vehicle or even a more opportunity when we explore a Commercial. So that is what we are aiming to increase the sales per machine.

Yash Dalal: Okay. Just a couple of more questions. Could you throw some light on the revenue loss caused in Q4 due to these new OBD/RDE norms? And what will be the impact of this in the next few quarters this year?

Rajiv Gupta: Yes. We noticed an impact. And this time, we noticed the OEMs are very cautious. They didn't want to repeat the issues what they faced when there was a transition from a BS4 to BS6. And that's the reason we noticed this very early in quarter 4 when they started. They have reduced their numbers. So, our impact was roughly around INR30 crores to INR35 crores with effect, and this is onetime what we know very well. This is just a onetime hit. Now from April, we have noted impact from the last two weeks of the March, we noted the volumes have picked-up, and now the OEMs are planning to build this inventory and further grab the market share.

Yash Dalal: Okay. And also what is the volume growth in FY '23 and the impact on realization due to the fall in commodity prices?

Rajiv Gupta: The revenue growth, which you have noticed, which we have mentioned in the script also, we noted it was around 30%. But yes, we noted the commodity prices also has fallen down. And with that, we noted there was a hit of roughly around INR50 crores to INR55 crores. So, this would be roughly around 4% to 5%.

Yash Dalal: Okay. And also could you provide like a guidance on the growth expectation for FY '24 volumes and revenue going forward?

Vimal Gupta: That I think in the last meeting also -- we have been approximately now -- at this moment, we are expecting to grow by 15%, the top line.

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

Raghunandhan NL : Thank you, sir for the opportunity. Congratulations on a strong FY '23. First question was on the demand side. So, there are 2 factors which are likely to positively support growth for FY '24. First one, you have a strong pending order book. Can you indicate roughly, how much new orders can contribute to FY '24 revenues?

And secondly, one of the segments, which I'm hoping that should contribute to the growth is exports because semiconductor supplies seem to be gradually improving and companies globally like Volkswagen, Audi, they are talking about growth up to 15% in CY '23, even JLR has guided for 24% volume growth in FY '24. So, if you can throw some light on both these factors, new orders, and exports outlook?

Rajiv Gupta: So yes, first, there's a new order booking, if you see. This year, we are planning to book roughly around INR700 crores from the new part what we have added. This will basically contribute from the Passenger Vehicle and Commercial Vehicle segments. So, major that will be from the passenger and commercial vehicles and also from the structural parts and the EV parts what we have added. Talking about the global OEMs, how they're going to support, yes, the new businesses what we have added, especially from Jaguar, one is the order win which we have declared in August 2022 in last year.

So, this we are working very closely to materialize this effect. Further is last quarter, we added one more part with Jaguar. And this we have explored one more opportunity. Ideally, we were focusing on a motor housing, battery housing, inverter housing, and eAxle what we added. So, these what we were targeting, but we noticed, especially for the high-end cars, there are some structural parts also as opportunity which we can materialize, which calls for process what we are into. So, this is a good business what we added in last quarter with a heavy weight of roughly around 13 kg a part and also with the good volumes of roughly around 80,000 a year.

So, this is also with our strategy which we are aiming. So, Jaguar Land Rover is one, with whom we are planning to increase our portfolio. Second is Daimler Trucks in Europe, USA and also, we now have started in Japan. And good thing also we noted in last quarter, we entered to even China of Daimler with this portfolio. Apart from this, there are other players in Europe, with whom where the products are in development right now. One is Scania, this is again on electrification. We have developed seven parts up till now, which will go in the SOP in this year, then we have got MAN Trucks. These are into big parts, which talks about capability and criticality what Alicon is able to deliver.

So, these are big flywheel housings weighing from 10 kg to 30 kg. So, with this, even we have opportunity to touch these other European, US and Indian customers. We're also talking with, if we come down to US, it's Danfoss. So we have developed one part that was in two years ago. Now with the successful development, we, and the trust what we're able to deliver, we're in discussion of big orders. One order, yes, in last quarter, which you have noted in our script which we have booked.

Further, we have strong discussions of materializing other portfolio in EV space with Danfoss. So, with this, we feel we have got a good opportunity to materialize the developments what we added, particularly from the global businesses. Apart from, yes, domestic, that's already there, which you have noticed with examples like Toyota, which is now picking up, then is TACO motor housings for Tata, then is PSA also is picking up. We are working on various other orders and so on.

Vimal Gupta: So, Raghu, if we conclude all this, so what we are talking about for the numbers of the next year, this means current year of FY23-'24. So, this 15% is what we worked out based on the earlier schedules shared by the customers, especially the global customers where we are more focused. So now hopefully, because just now they are in the process of revising their schedules, whatever you are saying that they are now revising on the upward side, all the schedules like either we talk about Volkswagen or JLR. So hopefully, maybe in the next con call or very shortly, we will be able to revise our numbers also based on their revised numbers we receive in the coming months.

Raghunandhan NL: Thank you. Thank you, sir, for the comprehensive answer. In other words, assuming underlying industry grows anywhere between 5% to 10% and with the new orders coming in and revision of schedules happening, can we expect an upside risk to our current expectations?

Vimal Gupta: We hope so. Unless and until we get some information in writing or some confirmed news from the customers. So, it is for us also difficult to revise the numbers.

Raghunandhan NL: And sir, just wanted to check with you, just clarifying what you said, 2-Wheeler FY '23, the share was 46%. Is that correct? Can you also share how much was it for PV-CV?

Vimal Gupta: Yes, yes. It was correct, 46%, the two-wheeler and '21-'22, it was 53% on the sales side, I'm talking about the sales.

Raghunandhan NL: Correct. And can you share for the other segments also, sir, PV-CV?

Vimal Gupta: Yes, yes, definitely. Rajiv, can you please share?

Rajiv Gupta: If we see for the PV, so it was 31% last year what we ended up and the previous year, it was around 28%. Even in the Commercial also, we got an increase of roughly around 3% and touching around 18% to 19%. Carbon-neutral also, we noted an increase. It was roughly around 7%, and more we have added with the value-addition portion. So, I believe we are more observing towards the value-addition what we are able to generate from these segments. So, on value-addition, even the contribution was on the higher side. If we see Non-auto, it was around 7% and technology-agnostic is, it was around 7%.

Vimal Gupta: So here clearly, you can understand that how the sales mix is changing from the year-on-year basis, and that is as per our strategy that we have planned earlier.

Raghunandhan NL: Absolutely, sir. And in terms of the investment in FY '23, that was mainly relating to the captive solar plant, right, some INR27 crores kind of investment?

Vimal Gupta: Not for that, in fact, it is on a partnership basis. So, our investment was INR5 crores for the equity there. That investment is for our maintenance capex, then new projects of PSA, where we have made a huge investment and the machining side as well because now new customers are adding up like Toyota or Maruti Suzuki or some other new customers are coming up. So, their testing requirements, their quality requirements are very high, so we have to invest on that side.

Raghunandhan NL: Got it, sir. Just the last question before I fall back to the queue. Q4, you said that there is a onetime expense, which was relating to one was with reference to a customer, their claim settlement was done. And how much was the onetime impact in Q4?

Vimal Gupta: That is around INR3 crores. So that comes to around 1% of the sales. So, one issue was going over the last three years, four years, so onetime settlement. So still not concluded, but we have made a provision for that cost.

Raghunandhan NL : Got it. So ideally, this should not continue in the coming quarters?

Vimal Gupta: Yes, yes, yes, it is a onetime settlement.

Moderator: Thank you. The next question is from the line of Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah: Hello, sir. Good afternoon. My question is on the global business. You said you are looking to increase the portfolio, correct? So currently, it is at 22%. Now first, I want to ask, is this global business? Is it, in general, a better business compared to domestic, let's say, for margins and profitability?

Rajiv Gupta: Yes. Because if you see now, domestic business has become more a commodity. There are a lot of other players also, right? And now with so much of competition in domestic market, the buyers are very price sensitive. So, they are like the players who are able to give a lower rate, they will immediately shift to that supplier. So that we have noted unlike previously where we noted OEMs were looking for a long-term partnership. And also, as we are moving ahead with new technologies with new spend on R&D, we have also noted this not be more in this space, particularly a segment like 2-Wheeler and so on. And that's the reason now we are shifting to more complex and critical and bigger and bolder parts.

And that also we see a big opportunity when we touch global market. Ideally if you see the Commercial and Passenger in global, it's a huge number compared to India also. So that's the reason we are trying to add more with the global businesses. And with that, we are now increasing our progress also for our global customers to bring this to increase our effort and thereafter convert it into opportunity because we know very well. This is a time where be OEMs, be our Tier 1s, they're aggressively working on new developments, be EV or be any advanced technology when we talk about timing. And we know from a supplier who is regular or very close in discussions can definitely grab this opportunity rather who is just trying to have a exploring opportunity I think from a customer range.

Vimal Gupta: Just to conclude your question, one is that in India, Alicon's presence is on the higher side. So what we can conclude that maybe the business in India had saturation for the market may be based on the industry growth. So, on that basis, we can see the growth of some new parts are coming up or maybe some more opportunities in the EV segment. But on the global side, the market is huge, and our presence was very small. So everywhere we have the opportunity. So based on this, so we see the big opportunity on the revenue side as well as definitely, the margins are better when we made a comparison with the domestic market.

Rahil Shah: What can this number be of the split from 22%, how much you're targeting the split of revenue between global and domestic? It's currently 22% of total revenues on a yearly basis?

Vimal Gupta: Yes.

Rahil Shah: So how much you think we can scale up?

Rajiv Gupta: We are aiming to increase it to around 40% to 42% by FY '25-'26.

Rahil Shah: By '25-'26. Okay. And this FY '24 top line, you said 15% growth. But what about the EBITDA margins then, currently at 11%, how much, what is you're feeling about that?

Vimal Gupta: At least a minimum 1% growth we can see in the coming years.

Moderator: Thank you. The next question is from the line of Aditya Chheda from InCred Asset Management. Please go ahead.

Aditya Chheda: So sir, what is the right way to look at this order book of INR7,800 crores. I'm assuming most of the execution is in FY 2025-26. So, if you can explain how the order book would translate into revenues? And how is this divided into the recurring order book or new order with, etcetera? And the other question on the margin expansion, is that with this structural change in the business/revenue mix for you, is it the right inference that most of the margin expansion would be from the gross margins?

And third question is on the capacity utilization with us being close to INR2,000 crores, and most of the current capex being in maintenance and machining. Is it right inference that we would be operating close to 80% capacity utilization? And if yes, how are we thinking about adding more production or manufacturing capacity going better?

Rajiv Gupta: First, the order book, yes, with the great success is now on new orders, we see there is an opportunity to book around INR7,800 crores sales over seven years. And if you talk about contribution, roughly around 33% would be from the EV parts where we were aiming, so that's a good sign. And again, with the recent parts what we added, especially the big orders from JLR, around 6% to 7% would be from structural. If we see this in terms of the segment buckets, around 50% to 54% will be from Passenger Vehicles.

And that is which you have noted like Toyota, the new launches what they have done, Hyryder and Hycross. I mean the acceptance is far better than anticipated, and even Toyota is now asking us to increase the capacity at the end of this financial year. So that's a good sign which we want to materialize. Also PSA, if you have noticed they have launched a vehicle, a good one with good competitive price. So, this also we are trying to materialize, and this will even be for domestic as well as the global business followed by Jaguar, the businesses what we have discussed, a good chunk will be there and export into retail.

And yes, on commercial, if we talk about Daimler, still now roughly around 20-plus parts what we have developed with them, and one we think being very complex and complicated, this well help us now to look at this opportunity, and this is roughly around 18% to 22% of our total order book what we have done on this area. And also, if you see what we have booked roughly around 50% is from the global business. So that is also a factor which will help us to increase our portfolio.

Vimal Gupta: What was your next question?

Aditya Chheda: So, with this structural change in the business mix, is it right to inference that most of the margin expansion, which we are alluding to that is from 11% to 14% would be from gross margins?

Vimal Gupta: Yes, well, we can see that at times it will come from the gross margins.

Aditya Chheda: Got it. And third was on the capacity utilization where we are close to 60-65%, would we reach 80% to meet our target of Rs. 2,000 crore revenues?

Vimal Gupta: Capacity utilization, no, we can't calculate theoretically like this, the way you are calculating, because the individual part depends on the size, criticality, so we need some different type of machines, maybe for some bigger size of the casting machine or some different process requirements from the customer. So, on that basis, we have to invest. And from where we have to do the automations. And as we are explaining that now, all every 100% business we are getting the machine parts. So, we have to invest for the CNC machines also.

So, on that basis the utilization of 80% definitely, but we are expecting because overall the utilization when we are even at peak, that cannot go beyond 80% to 85%, because 15% to 20%, we have to keep for the business registrations. So, we can expect that utilization of maybe around 75% that we can assume.

Aditya Chheda: Got it. And sir, on the execution of this order book, so what is the right way to think about it, whether most of it will be executed in FY '2025-26 or how should we think about revenues flowing from this order book on the execution side?

Vimal Gupta: So, the important is that what Rajiv has explained that out of INR2,000 crores, 85% business is already we are having the orders, okay? So only now 15% that we can convert into around INR300 crores. So, a lot of new businesses are under discussion with the various OEMs, especially on the global side. So, I think there should not be any issue to deliver INR2,000 crores by FY2025-26. And definitely, like earlier this Raghunandhan, he was talking about the additional, maybe surpass our the projections. So, they may also happen, but we can't say at this moment, it totally depends on the schedules and how the market behaves in the future.

Rajiv Gupta: And if you see that's the reason, we don't want to be dependent on a single customer. And that's the reason we are with several customers with diversified portfolio among different segments, different regions. When we talk about exports also, whether with US, whether with Europe, UK, we added a major chunk. And now just we are exploring further to increase in Japan and a few opportunities which we explored in last quarter with China.

Vimal Gupta: And the one important more point I would like to add to it about we are more focused on are having the higher margin size. Because when we are talking about INR2,000 crores, and it is easy for us to even deliver more. Maybe we can talk about maybe INR2,200 crores also. But we are focused on the parts, what kind of parts we are doing. So just for your information, in the one year, last one year, the number of parts we have reduced from, I think by 150 parts, from 490 to 315. So approximately 175 number of parts we have reduced from our bucket.

Rajiv Gupta: Yes. So, we're just trying to materialize and capitalize our resources on an efficient way, where even we can please our customers and we can increase our portfolio with focused customers and getting upward margins thereafter with the service what we provide. So that is what again which we are aiming to support our customer best with because if we are going to touch upon various alternatives, definitely, we wouldn't be able to support equally to all our customers. That's the reason we have come up with these strategies, and we have noted this has worked quite well in this year, and we are very sure to materialize even a global effect in coming years.

Aditya Chheda: Yes. Sir, my last question is on the working capital. This year also, we've seen close to INR60 crores being stuck in working capital. And with INR90 crores of capex for FY '24, how is the cash flow position considering we are looking at high double-digit growth for the next couple of years? So, this INR40 crores increase in debt, how do you think about the funding position going ahead?

Vimal Gupta: So, for this year like based as per our budgeted cash flow planning, so hopefully, we'll be able to reduce our debt by end of the year. And on the other side, when we are talking about the increase in the working capital. So one part is that there is increased growth in the top line by 30%, that has also impact, as well as there are some issues like when we're talking about some inventory correction by the customers. So, we build up the inventory. So, you could see that some increase in the inventory has happened. So that will be utilized in the coming months, as well as like some capital debtors are there.

So, because a lot of new products we have developed, and the investing was done for the tooling. So that maybe they have started making the payment. So hopefully, next six months to eight months, we will be able to realize that amount also, that is approximately around, I think INR40 crores to INR45 crores from the customers. So, we are expecting by end of the year by, means March 2024, we should be able to improve vertically on the working capital cycle as well on the debt side.

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

Dixit Doshi: Thanks for the opportunity. Yes. First question is regarding the revenue target what we are having, let's say, 15% growth and 1 percentage increase in the margins. If I see our last three quarters' performance, the revenue is going down, let's say, INR377 crores in September, then INR360 crores and INR320 crores. Some of that may be also because of the reduction in the aluminium prices. So, when you are factoring in 15% growth from FY '23 revenue, I mean, are you factoring in, let's say, if the aluminium prices go down further or this kind of growth you are anticipating due to the visibility of the order book. So how do we read this?

Vimal Gupta: First of all, we have already factored this commodity prices. So we are not banking on that around the higher commodity prices. And like Rajiv has explained is the new order book. So, in this year, there is a further increase in the delivery side of what new orders we have secured in the last 2 years to 3 years. So, those are the main growth drivers for us.

Dixit Doshi: Okay. So, you are confident of growth because last 3 quarters, we have been seeing the revenue coming down?

Rajiv Gupta: Yes. So even we have touch based what the researchers are talking on the growth of the market for global as well as the Indian automotive. What we have understood is almost all the regions globally are talking about an increase. The good sign for us is Europe, as the energy cost has come down and also the Russia-Ukraine war is about to come down. So, we are hoping for a good opportunity from our European location. This will support our exposure to Europe and also a good opportunity to materialize for a plant in Illichmann. So that is one. And, second is on the new parts what we added, new parts and the new business also, what we added will grow in SOP and this will materialize our sales thereafter.

Dixit Doshi: Okay. And the second question is regarding this order book, what we give. So, let's say, so this order book from a client must be some rough estimates of, let's say, in FY '26, they must be having some rough estimate that this much will be their volume. But it does impact sometimes due to the recession or any slowdown in the economy. So, what kind of max deviation from the order that clients give one can expect?

Rajiv Gupta: If you see for this, I mean, last year, we anticipated roughly to book around INR500 crores from the new order wins. And we just said the hit, we have closed roughly around INR440 crores to INR450 crores. So, this was roughly around 85% to 90%. I mean it all depends upon how volatile the market is. And, yes, which we noted because of the OBD because some of the launches were affected with the regulation from the government. And for some instance, we see even the SOPs, what initially, the OEMs have targeted in some area, we noted it was shifting by a quarter and so. But yes, the good thing is we are able to at least get 85% to 90%. But going forward, we anticipate this will be more than 90% of hit rate to achieve that.

Shyam Agarwal: And secondly, on the customer projection versus reality, so we also see which all customers gave us what schedule in the past and how much is the actual pickup by those customers. So, whenever we make our business plan, we factor those numbers and then only we make our business plan. So, we generally go more real estate when we make our business plan.

Dixit Doshi: Okay. Okay. And just last one question. You mentioned that we are seeing the 3-Wheeler EV also picking up. Sir, in three-wheeler EV, is it the ICE guys are aggressive, or do you see even the new players are also coming just like the 2-wheeler?

Shyam Agarwal: It is both the cases. If you see the current ICE player who has also developed the EV, so that are doing good and also new players are coming. So it's a mix. But still our thinking is whatever was the earlier ICE player, they will do good in the EV place.

Moderator: Thank you. The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: Sir, two or three questions. The first one being related to the EBITDA margins. If we see that over the last 9 years-10 years, we've been at an average of 10.5% EBITDA margins or so. So, what are these factors that give us this confidence that going forward we will try to reach around 14% or maybe that kind of range of EBITDA margin in the next two years to three years or so?

Vimal Gupta: And this as I explained that major impact is coming from the change in the sales mix. So, always is very difficult to negotiate or to work with the 2-Wheelers because the commodity prices are going up. So now we are shifting the main shift of the business from 2-Wheeler to the Passenger as well as the Commercial vehicles. That is one.

And on the other side, we are moving towards the global business. So, where we are negotiating the good prices from the customers when we made a comparison by getting customers in India. So, there is a major opportunity to improve our margins as well as the second is that the growth trend. So definitely, the economy of scale that benefit we should get.

Rohit Ohri: Okay. So, then my next question is that if you consider the customer order book anticipation versus the real world and the ability as to what we work with our capacity. What exactly is the conversion ratio, assuming that if the order book is INR100, then what sort of conversion can we do over like a year's time?

Vimal Gupta: Not understood. This conversion converting into the sales you're talking.

Rohit Ohri: Yes, converting into sales revenue, yes.

Vimal Gupta: No, this what we are talking about the order book, it depends on what we are giving based on the schedules, yearly schedules they have given because we have already received the orders from them. Customers have already given the purchase orders. So only the lead time depends on the part and when there is a launch of the vehicle. So, it may be one year or maybe some customers like JLR, so they generally go for the two years lead time. And there is an increase in the volumes, year-on-year they grow. So, in that session, all our order book what we are discussing, or we are declaring in this con call, so it'll be based on the schedules what we receive from the customers.

Rohit Ohri: Okay. So, is it fair to assume that going forward, you can grow at around 18%,-20% kind of CAGR growth over the next five years or so?

Vimal Gupta: Hope so with your blessing.

Rohit Ohri: I mean like of course, but then do we have the capacity?

Vimal Gupta: As I explained, capacity, we cannot directly correlate with the order book and the existing capacity, because it depends on the requirement of the capacity means the kind of machine depends on the requirement of the product. So, we are maybe 50%, 60% of the common things, so we can utilize like the melting or casting, but some different requirements for individual products. So that there we have to invest.

Shyam Agarwal: And Rohit, also as a part of the operational improvement, we also go for more capacity utilization by increasing the number of cavities, by putting more load on the machine, going for the higher weight part. So those improvements also we do, so that we can generate more revenues with the same capacity.

Rohit Ohri: So, I understand the part where we are reducing certain parts but getting newer parts every year. But then the thing is that do you think that going forward, you will be making use of the property, which is at care because the greenfield project which was there in the past, it was delayed, and it was a blessing in disguise that it got delayed. But then going forward, do you think that you will be investing into this greenfield capex?

Vimal Gupta: Rohit, at this moment, we have not planned this because you know that when we go for the greenfield project, so we have to start with the huge investment as well as on the fixed cost side, and then to find out that location, I don't know maybe need 3 years to 4 years. So, we are always more focus on how to increase our output or improve our capacities from the existing facilities. So that even for the INR2,000 crores what we are talking for FY 2025-'26, our plan is to deliver from the existing facilities.

Rohit Ohri: Correct. You're still shutting the assets which we have right now.

Vimal Gupta: Yes.

Rohit Ohri: Okay, sir, that helps, that helps a lot.

Moderator: Thank you. This was the last question for today. I would now like to 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 satisfactorily. 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 next quarter. Thank you very much.

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